NFP Trading Strategy

The foreign exchange markets are among the largest and most liquid markets in the world.

Due to the increased availability provided by their 24/5 access and the large amounts of leverage available on trading platforms, the forex markets are a favorite of retail traders across the globe.

With regular economic data releases and news reports from over 8 countries, there is no shortage of trading opportunities in forex.

The value of currencies is constantly changing in response to many factors ranging from interest rates to terrorist attacks.

This post discusses the impact of a specific economic data released known as the NFP report. We explore how this report can influence the forex markets and examine some of the strategies and indicators that you can use to successfully trade after these reports are released.

What is the NFP?

The acronym NFP stands for Non-Farm Payroll. This is a key piece of economic data released by the U.S Bureau of Labor Statistics that indicates the overall health of the U.S economy.

These reports detail the change in the number of employed people over the previous month with the exclusion of those employed in the farming industry or non-profit organizations.

How Does the NFP Affect Forex?

Forex traders keep a watchful eye on the NFP reports, and for a good reason.

NFP reports can have a significant impact on the forex markets, but why? Interest rates.

Interest rates have a large impact on the forex markets because they are directly related to a nation’s currency value. If interest rates go up, the value of that nation’s currency goes up as well. If interest rates go down, the value of that nation’s currency decreases. This happens because of inflation.

As interest rates are decreased, individuals and corporations will begin to increase their borrowing. This in turn, results in increased spending that ultimately grows the economy.

A growing economy may seem like a good thing, and it generally is. However, as an economy grows, so does the rate of inflation. This is because the more money that is in an economy, the less that money is worth. It is a universal truth that scarcity increases value, and abundance decreases it.

This is why gold is valuable whilst water is not. Even though you would die without one and don’t really need the other. Therefore, the more money in an economy, the less that money is worth.

Forex traders are therefore very interested in anything that may influence a nation's interest rates, but why does a report on employment statistics have any bearing on interest rates?

In the United States, interest rates are set by the Federal Reserve. The Federal Open Market Committee members periodically meet to discuss and determine what changes, if any, should be made to the current interest rate policy.

To make this decision, they consult several different sources of information. One of these sources is the NFP report released by the Bureau of Labor Statistics.

Imagine that the Committee members discuss the latest report, which details a sharp increase in unemployment within the United States. This would be wholly unacceptable, and the Federal Reserve would make immediate moves to counteract this increase in unemployment.

One tool at their disposal to help them accomplish this is their ability to vary interest rates. In this situation, the Federal Reserve is likely to cut interest rates to stimulate employment in the economy.

If you were trading in the forex market and the NFP report details a sharp increase in unemployment, you may understandably conclude that interest rates may be cut as a result.

Since you are aware that interest rates being cut does not bode well for the strength of the US dollar, you may decide to short the US dollar in anticipation of a decline in its value. This is how NFP reports can affect the forex markets.

Therefore, understanding this key piece of information is crucial to anyone who wishes to trade in the forex markets and take advantage of unexpected changes in the values of currencies.

What Pairs Move the Most After the NFP?

The United States is the world's largest economy. Since the NFP is such a key economic data point used to measure the health of the U.S economy, its broader market implications are far-reaching and capable of having a ripple effect that spreads across the globe.

The most affected currency pairs affected by the NFP report are typically the major currency pairs that are traded against the U.S dollar. These are:

- EUR/USD
- GBP/USD
- NZD/USD
- AUD/USD
- USD/CAD
- USD/CHF
- USD/JPY

The GBP/USD, EUR/USD, and USD/JPF pairs tend to be the most heavily traded currency pairs. This means the largest price fluctuations will occur in these currency pairs.

Is it Safe to Trade the NFP?

In every aspect of life, there is always some element of risk that people must take on to function in society.

Whether it's in their professional endeavors or perhaps doing something as mundane as crossing the street, there is always an element of risk.

The key to successful trading has always been and will always be proper risk management. When determining whether it is safe to trade after the NFP release, you should examine the risks involved and how to manage these risks best.

The forex markets can be especially volatile after news releases, especially the NFP report.

While trading these reports can prove very profitable, trading them is certainly not for the risk-averse. Speculating on the direction of a currency after release can be especially high-risk due to the volatility it can cause in the markets.

NFP reports have been known to cause wild swings in the forex markets. While it is possible for traders to capitalize on these and make significant profits, it is just as easily possible to sustain catastrophic losses if you do not manage your risk sufficiently well.

These wild swings in the value of the U.S dollar after the NFP report are typically short-lived.

You would be well advised to wait up to half an hour after a report is released so that you are not exposed to the irrational price movements of the market.

Is it safe to trade the NFP report? Yes, traders can successfully profit from trading the NFP, and with proper risk management and planning, there is no reason it should not be any less safe than trading in any other asset class.

However, this does not mean that it is risk-free.

The main risks involved in trading the NFP report will be the volatility detailed above, and the widening spreads accompanying this volatility.

There is no fool-proof strategy in trading that is guaranteed to work every time. Even the most experienced traders can lose money in the short term, and you should be prepared to set strict stop-losses if a trade begins to run in the wrong direction.

When trading the NFP release specifically, you should carefully monitor the amount of leverage that you are using.

If this is your first time trading an NFP release, then it is recommended that you use no leverage at all until you have sufficient experience in trading in these releases.

NFP Dates

The Bureau of Labor Statistics releases the Non-Farm Payroll reports on the first Friday of every month at approximately 8:30 am EST.

There are various economic calendars available online to find access to information regarding the exact dates of this and other relevant releases.

Below you will find the link for a well-regarded economic calendar that you can use to plan your trading.

DailyFx Ecomonic Calendar

United States	HIGH	Non Farm Payrolls (JUN)	Actual: 850K	Forecast: 700K	Revised: 583K
	HIGH	Unemployment Rate (JUN)	Actual: 5.9%	Forecast: 5.7%	Previous: 5.8%
	MEDIUM	Average Hourly Earnings MoM (JUN)	Actual: 0.3%	Forecast: 0.4%	Revised: 0.4%
	MEDIUM	Average Hourly Earnings YoY (JUN)	Actual: 3.6%	Forecast: 3.7%	Revised: 1.9%
	MEDIUM	Average Weekly Hours (JUN)	Actual: 34.7	Forecast: 34.9	Revised: 34.8
	MEDIUM	Balance of Trade (MAY)	Actual: $-71.2B	Forecast: $-71.4B	Revised: $-69.1B
	MEDIUM	Nonfarm Payrolls Private (JUN)	Actual: 662K	Forecast: 600K	Revised: 516K
	MEDIUM	Participation Rate (JUN)	Actual: 61.6%		Previous: 61.6%

How Far Does Price Normally Move After the NFP

Trying to answer this question definitively is like trying to answer the question “how long is a piece of string”? It depends on the string, right? The volatility that you can expect after an NFP release varies from month to month and is dependent on wider market sentiment and global events.

There will be months where you will see the price move a meager 20 pips several hours after release, and other months where the price may move 400 pips within an hour of the release.

It is not possible to provide generalized information on how much the price of the U.S dollar will fluctuate after the NFP release. That said, you can expect the most erratic movements in price to occur within the first hour of release. Generally, the price will experience less volatility as time passes.

If the NFP report is positive and details low unemployment numbers, the market will operate under the assumption that the Federal Reserve will leave interest rates as they are or perhaps even raise them. This will strengthen the U.S dollar, and so it is likely that it will increase in value. However, if the NFP report proves to be more negative than expected, the opposite will be true.

The market does not like to be surprised and so understanding market expectations will be key to estimating how far the price will move after the report is released.

For example, if the markets expect an NFP report to be poor, there will be less volatility than if it was released and the market was expecting it to be positive. The more surprised the market is by the details of the NFP report, the more volatility you can expect to see in the markets.

There are several indicators that you can use to help you determine volatility. One that is especially useful is the Average True Range (ATR) indicator. This indicator will help you determine how much the market moves on average and can help achieve consistency in your trading.

NFP Trading Strategy

There are generally two types of strategy when it comes to trading the NFP release.

The first type focuses on entering positions before the NFP release, and the second type on after.

The strategy below will be based on entering a position after the first few minutes of trading the news release has concluded.

The first step to trading the NFP release is to identify which currency pair you wish to trade.

The EUR/USD is a fantastic option for traders of any level. It typically offers the lowest spreads and enjoys enough trading volume and volatility to provide plenty of opportunities to trade.

Alternatively, the GBP/USD currency pair is also a brilliant option and a favorite among retail traders.

Once a currency pair has been identified, you should begin examining the chart to identify a potential entry point and stop-loss.

Your stop-loss should not exceed 30 pips; if it does, then you should not open a position. The difference between your planned entry point and your stop-loss is your risk exposure for the trade. After an entry point and stop-loss have been decided on, you should also decide your profit target.

As a general rule, your profit target should be at least 2x your risk exposure for the trade. In other words, you should stand to gain twice as much as you could lose from the trade.

After the NFP report has been released, you will notice high levels of volatility, especially in the first few minutes. It would help if you refrained from entering a position during this time. The price movements in the first few minutes are known to be extremely erratic and, unless you are an experienced trader, you should avoid being exposed to the market at this point.

This early volatility in the first few minutes after release will be crucial in determining how you will trade the release.

If the price drops significantly (at least 40 pips in the first 2-4 minutes), then you should consider entering a short position. You should only do this if the right technicals are present and support entering a short position. Never rely solely on a single piece of data when trying to inform your trading.

If the price rises significantly (at least 40 pips in the first 2-4 minutes), then you should consider entering a long position. Again, confirm this by examining other indicators and the price chart to determine whether or not the trade has a high probability of success.

There are many technical set-ups you should keep an eye out for to determine whether or not to open a trade.

For example, if the initial move after release is positive and the price moves up by 40 pips, you should wait for a short retracement in the price before entering a position. The pullback should make a substantial downward price movement without falling below the price at the release time. To view this in the most accurate way possible, make sure you are using the 1-minute chart.

The opposite is true if the initial move after the release is negative and the price moves down by 40 pips. In this situation, you should wait for the price to move back up before entering a position.

Knowing when to exit a trade is as vital as knowing when to enter one.

The momentum caused by the NFP report being released is not long-lived. You should not hold your position for longer than 4-5 hours.

Once you have hit your profit target or the trade has been opened for several hours, you should strongly consider closing your trade.

This is one of the most basic NFP trading strategies available and is most suited to an inexperienced trader.

Although the strategy can be useful, it is a general strategy, and you may find that the trading environment required to implement it is not present after every release. The basic premise of this strategy is based on waiting for the initial volatility to subside and for the market to decide on a price direction before entering a trade.

Before you attempt this strategy with real capital, you recommend implementing it on a demo account first.

NFP Trading Indicators

Several indicators will be useful to you when trading the NFP.

Moving averages and trend lines will be especially helpful when trying to determine entry and exit points or assess where you should set your stop-losses, as they can be used to help gauge possible future price patterns.

To assist with this, you may consider analyzing Bollinger Bands to help you plot the trend lines. These indicators will also help you to determine when the currency is either overbought or oversold.

Due to the strategy above relying on a pullback in the price direction for traders to enter a position, the Fibonacci retracement tool will also be useful in pinpointing the degree to which the market will move against the current trend.

The Fibonacci retracement tool will assist you in determining possible levels of support and resistance that could indicate an upward or downward trend. This can also be useful in determining where to set your stop-loss or when to open or close your position.

Lastly

I regularly mention that risk management is the key to successful trading. You should not be risking more than 1% of your account value on any one trade.

Proper risk management is not solely concerned with calculating how much you are willing to lose on a trade and how much you are expecting to profit.

Many traders lose far more in lost profits than they ever do in principal losses because they allow themselves to be overcome with unsustainable optimism. Identify your profit targets and manage your emotions. Do not let greed get the better of your trading psychology.

You must know when to take profits. No one ever became poor by making money.