How to trade the Non-Farm Payrolls report

Your guide on how to take advantage of important events and make the best trading strategy

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How economic strength impacts currency price

Before we explore the Non-Farm Payrolls report in detail, it's important to understand how the strength of an economy can impact a currency's price.

Economic strength is a major factor in determining the value of a currency. It can influence the value of a currency through a variety of different mechanisms, such as the balance of payments, inflation, and interest rates.

The balance of payments refers to a country's total payments to and from other countries. When a country has a strong economy, it usually has a positive balance, which means it is exporting more goods and services than it is importing. This increases the demand for its currency, making it stronger. On the other hand, when a country has a weak economy, it usually has a negative balance of payments, which means it is importing more than it is exporting. This decreases the demand for its currency, making it weaker.

Inflation is another important factor that can affect the value of a currency. When a country has a strong economy, it usually has a low rate of inflation, which is beneficial for its currency. Low inflation indicates that prices are stable and that the currency is not being devalued by inflation. On the other hand, when a country has a weak economy, it usually has a high rate of inflation, which is detrimental for its currency. High inflation indicates that prices are rising rapidly, which will cause the currency to decrease in value.

Interest rates can affect currencies in a few ways. When a central bank raises its interest rate, it is generally seen as a sign of economic strength, which can cause the value of the currency to increase. Lower interest rates, on the other hand, can cause the value of the currency to decrease. Interest rates also affect capital flows, which can lead to currency appreciation or depreciation. Additionally, higher interest rates can lead to increases in inflation, which can also have an effect on currency values.

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What is the Non-Farm Payrolls report?

Published monthly by the US Bureau of Labor Statistics, this report measures monthly employment changes in the United States, excluding agriculture, government, and non-profit sectors jobs data. Employment is an essential indicator of the economic health of the country. This is why the NFP report can affect the value of USD.

The report is released on the first Friday of each month at 08:30 EST, containing three specific employment data points for traders to monitor: the Unemployment Rate, Average Earnings, and Headline Non-Farm Payrolls. When the published report shows large deviations from the forecasts, USD price moves usually occur.

Let's explore each of these data points in further detail.

The Unemployment Rate

The Unemployment Rate, though significant, is the least important of the three data points. It is a lagging indicator which can provide clues as to the state of the economic cycle in the United States. It can be used to monitor the overall economic health of the country, though large deviations from forecasts can still shock the markets and influence the USD.

If the United States is in the later stages of an economic cycle (growth), then lower levels of unemployment would be expected. On the other hand, if the country is entering a period of recession, higher levels of unemployment would be anticipated.

Average Earnings

Traders pay close attention to Average Earnings data in Non-Farm Payrolls reports, as it can trigger USD price movements if there is a significant deviation away from forecasts. This is because sustained growth in wages is seen as a sign of economic health, which could lead to the Federal Reserve tightening its monetary policy and increasing interest rates. On the other hand, if wage growth is poor, it may require monetary easing to kickstart growth and prevent deflation.

Headline Non-Farm Payrolls

When a Non-Farm Payrolls report is released, the number of new jobs created in the past month is the data point that dominates the financial markets. This allows us to gauge the health of the US economy by tracking it month-on-month. Traders usually examine whether the headline forecast has been exceeded or not; a large reading above the forecast will generally strengthen the USD, while a low reading will weaken it. It is also important to note that Forex traders and institutions often place orders before and after the release of the report, leading to volatile market reactions and price fluctuations.

When to trade Non-Farm Payrolls

When all three data points from the Non-Farm Payrolls report deviate in the same direction, it is usually a good time to trade. The greater the deviation, the more movement there will be in the US Dollar. If the three data points are lower than the forecasts, it is likely that the US Dollar will weaken. On the other hand, if

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the data points are higher than the forecasts, it is probable that the US Dollar will strengthen. If the data points are in line with the forecasts or are mixed, the effects on the US Dollar will be more subtle.

Conclusion

If you're interested in trading the next Non-Farm Payrolls report, you should consider opening a Live or Demo Account with Finveo. You can easily trade CFDs (FX, Indices, Commodities and Cryptos) and Fractional Shares - and also benefit from 30+ years of expertise. Just click here to start your journey.

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