19
Fading News

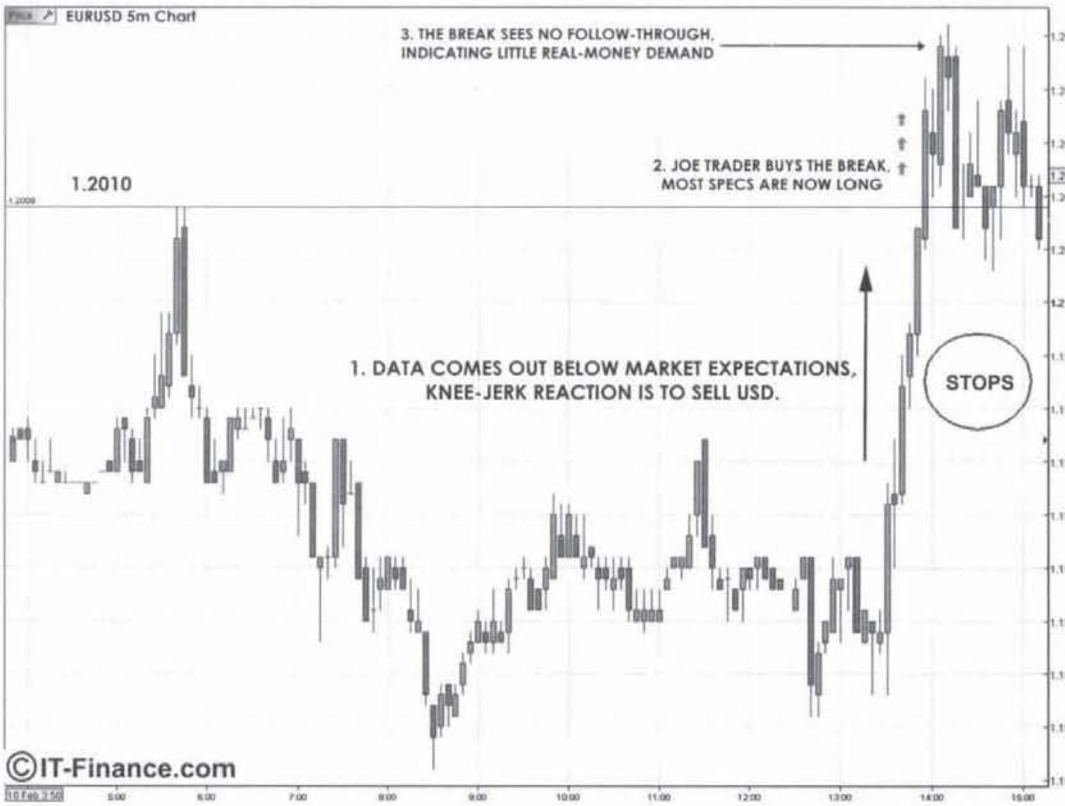
In the same vein as the FED trade, dealers often like to fade "headline" news numbers if they feel that the market is still in a clear trend. Depending on what the market is focusing (growth, inflation, etc.) some news releases tend to take on greater importance than others. In times of growth concerns, an always anticipated number is the non-farms payroll data, released on the first Friday of every month.

Whenever possible, trade in the prevailing market direction.

NFP days are known for their volatility, and traders routinely get chopped up trading the headline number. It is important to note that one piece of data is generally not enough to reverse a clear trend, so even though the number may come in worse than expected, it is still preferable to fade the release and trade in the prevailing trend. Only a monumentally bad piece of data or a series of bad releases can shake a currency from a clear trend, so take a clue from the dealers and fade the moves once the knee-jerk reaction is over.

In this case the setup is typical. The EURUSD comes into the all-important payroll numbers in a clear downtrend, which will only be reversed by some fundamental shift in expectations. The following price action can usually be seen before/after all eagerly awaited economic releases and should be traded accordingly.

Before the NFP number EURUSD settles into a range as traders limit their exposure. The range limits should be seen as obvious stop levels.



Bad data (but not that bad) and the immediate knee-jerk reaction is to sell USD. Dealers are happy to fade the move higher and are soon gunning for the intra-day stops.

Since news releases and other important events are "open season" on traders, you should always be on your toes. If you find that you are at your trading best during normal trading hours, then you should think about skipping data days altogether since the initial flurry of activity is often impossible to trade, especially because retail brokers tend to shut down their systems altogether to limit their exposure.

If you are coming into an important news event with a position, it is best to lighten up and remove or place stops far enough away so that dealers will not get to them. If you are eager to trade, then wait for the initial knee-jerk reaction to be completely reversed (on 3 min charts) and then enter your desired position. Use 15 min charts to trade the market, which will smooth out the market noise and make the market's intentions more evident.

After a flurry of activity, the euro returns to its established downward trend.

Always trade in the direction of the trend. Do not assume that one piece of news is enough to reverse an established trend (or range).