

by Henry liu

# News Profiteer

DEFINITIVE GUIDE TO  
FUNDAMENTAL NEWS TRADING

POWERED BY: **newsprofiteer.com**

# News Profiteer's Definitive Guide to Fundamental News Trading

---

## What Other People Are Saying About Us:



**I have experienced much more consistent profits since using this information**

**Raymond Smith**

Hi Henry.....This is just a note to thank you for the daily Forex market performance report and trading news outlook....

This information is very valuable to me and I have experienced much more consistent profits since using this information...

Many thanks



**Your service has been a powerful source to my Forex knowledge and understanding**

**Peter Olasemi**

People that offer a great and faithful service like this are very scarce. Instead of providing a fruitful service like your, they turn it to internet fraud.

Your service has been a powerful source of elevator to my Forex knowledge and understanding. In fact I don't know what I would have been without this type of service. I was improved in profit, knowledge and practice.

Thank so much.

**I have not really had any major successes until I read Henry's eBook**

**Bola Taylor, UK - Oct. 2008**

I have been trading the Forex for the last three years and i have not really had any major successes until I read Henry's eBook which was very detailed and had lots of information and explanations on why the market moves in any particular direction. I was actually baffled by his analysis of the GBP/JPY movement on Wednesdays which I have seen happened a few times and in the past. A few times when he told us to stay out of the market if not sure proved to be correct as a lot of volatility occurred last week. Thanks Henry and keep up the good work.



**I can plan my trades with minimal time and confidence**

**Trevor Degraaf**

Henry!

Your news reports are awesome. The detail and accuracy is invaluable. I can plan my trades with minimal time and confidence. Based on your research, I can expect what should happen with uncanny consistency.

Know what to trade, when and how!

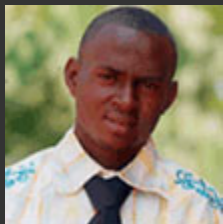
This is a must have for any FX news trader.

Thanks.

**It completely opened my eyes to how Forex trading is truly done.**

**MPP, Florida USA - Dec. 2008**

Henry Liu's NewsProfiteer is absolutely fantastic! It completely opened my eyes to how forex trading is truly done. I can't praise the guy enough! If you're a newbie to forex trading do not waste your time with anything else out there. Get the NewsProfiteer today and join Henry's trade room. You'll never look back I will promise you that!



**This is exactly the best system for any person that want to make consistent profit in the Forex market trading fundamental analysis.**

**Omavowan Eferire**

This is exactly what I was looking for, it is perfect and extremely wonderful. since I started using this your information I have watched my account grow gradually but progressively .In fact I think that this is exactly the best system for any person that want to make consistent profit in the Forex market trading fundamental analysis.

It is highly recommended for all Forex traders all over the world. your system is the very best. Thank so much.

## **Newsprofiteer ebook [In my opinion] is a real revelation to the Forex trader**

**Lee, Australia - Sept. 2008**

I've read a lot of Forex trading ebooks and the ebooks I've studied have been very informative, although they have not been as informative and straight to the point as the Newsprofiteer ebook I have recently purchased, the whole concept of trading revealed in Newsprofiteer ebook [In my opinion] is a real revelation to the Forex trader, ie. the concept of [Sentiment news trading] being if the conditions are right for the news trade you can be in a trade some days before hand, with a positive trade, to be perfectly honest you guys out there you won't look back, the email support from Newsprofiteer is been prompt and straight to the point.

Ok God bless you Henry for your honesty.

Yours thankfully,

...after reading Henry's ebook I was confident enough to start trading the EUR/USD currency pair and have made over 100 pips profit in a week!

**Phil McAthey**

## **My trading has improved \*a lot\***

NewsProfiteer may be the most profound FX educational service I've ever studied under. Their Weekly Outlook is without question the most helpful fundamentals roundup I've ever read. Before I started with NewsProfiteer there were a number of ways that I couldn't see the forest for the trees. Since I signed up and really started to digest their tools and educational materials my trading has improved \*a lot\*. I'm grateful to NewsProfiteer, and they've got my allegiance in 2009!

**CP, California USA - Dec. 2008**

## **Henry is almost always on the money**

I've been reading Henry's daily email for about 6 months. I find it to be invaluable. Henry is almost always on the money. His foresight as good as my hindsight - 20/20, which is why I bought his book on news trading, and subscribe to his Newsprofiteer service. Thank you and Merry Christmas Henry!

**Tim Challenor London, UK - Dec. 2008**

## Preface:

While some beginning concepts in this book may seem basic, they are keys to understanding the market as a whole. By having these basic ideas (or foundations) established early on, you can avoid many costly mistakes in the future.

This book is written for intermediate and advanced traders. If you are an absolute beginner, I strongly recommend that you take some beginner's course first to take full advantage of this book.

One important fact that I must mention now is that this book is not about "News Spike Trading". Although I do explain how to spike trade, but this book covers far more methodologies, and I believe you'll benefit from it, no matter if you're planning to trade news releases, or not.

This book will help you see the market in a complete new light. If you are strictly a technical trader, this book will benefit you and possibly increase your profitability by means beyond your current methods. If you are already a fundamental news trader, the latter part of this book will help you see and understand the longer term trade of the market.

One of the most important requirements to take advantage of this book fully is to have an open mind. One analogy that often reminds me goes like this: "Your mind is like a parachute, it only works when it's open", therefore it is my sincerest hope that you keep your minds open.

## Truth in a simpler way of trading (by Henry Liu):

One of the biggest mistakes in Forex trading is ironically spending way too much time trading. There is absolutely no one who could predict with certainty where the market is going to do next, and by spending too much time trading, your chances of getting in a losing trade increases, not mentioning the stress associated with trading, which may very well lead to a lapse in your trading decision.

My ideal way of Forex trading is **knowing ahead when the market is going to move, get in the market during that window of opportunity, enter a trade, and then cash out once in decent profit.** Rinse and repeat while spending usually no more than a couple of hours a trade, and no more than 4 to 5 trades a week.

The only system that fits this bill is Forex News Trading. Let's examine some of the benefits in news trading:

1. **Scheduled Trading Time:** You trade only the high impact news during their scheduled release time, which are available through various news calendars up to few weeks ahead of time, and you are in the market during a time where volatility is almost insured, with ample liquidity, so you don't waste your time or your money chasing the noises or fake trends during low liquidity hours.
2. **Reduce Losses:** Trading Forex is about having the odds stacked with you, *not against you!* By limiting the amount of trades you take in a month, you are cutting down your potential losses while picking the crème of the crop.

3. **Managed Risk:** News trading generally gives you a manageable risk. You can always put your stop order at pre-release level, because it is a golden rule that once the market travels back to the point before the news release, then the effect of the news is presumably over...
4. **High Profit:** Since the market is likely to overreact to news releases, volatility becomes our friend. By getting in the right direction after the release, you can cash out on most of the movements.
5. **Less Time Trading:** There are only about 35 tradable news releases a month, and out of these 35 releases, you'll probably get 50% giving you a tradable release figure. So the tradable ones could take up to 2 hours per trade, but the untradeable ones should only take 15 minutes of your time. Therefore, you are averaging less than 40 hours of trading a month, or about 10 hours a week. While making probably the same amount of money you'd be making trading 16 hours a day.

At the end of the day, it is not about the amount of time you spend trading, or if you used technical analysis or fundamental analysis. It is about what's left in your account. By concentrating only on news trading, you are looking at the simplest way and probably the most profitable way that I know of, in Forex trading.

Henry Liu  
Oct. 2009

## Legal Notice(s) and Requirement(s):

**RISK DISCLAIMER:** Trading the foreign exchange on margin carries a high level of risk, and may not be suitable for all investors. Before deciding to trade the foreign exchange, you should carefully consider your investment objectives, level of experience, and risk appetite. *Past performances are not indicative of future results, which can vary due to market volatility.* The possibility exists that you could sustain a loss of some or all of your initial investment and therefore you should not invest money that you cannot afford to lose. You should be aware of all the risks associated with foreign exchange trading, and seek advice from an independent financial advisor if you have any doubts.

**COPYRIGHT AND OTHER RELEVANT DISCLAIMERS:** This E-Book and its contents are copyrighted property of Henry Liu. Any copying or redistribution of this E-book, in whole or in part, without express written permission from Henry Liu, is strictly prohibited and violation of this copyright. Any websites, resources, and products mentioned in this e-book belong to their respective owners.

**Legal Disclaimer:** While all attempts have been made to verify information provided in this E-book, neither the Author(s) nor the Publisher assume any responsibility for errors, omissions, or contrary interpretation of the subject matter herein. This E-book is not intended for use as a source of legal or accounting advice. The Author(s) and Publisher want to stress that the information contained herein may be subject to varying state and/or local laws or regulations. All users are advised to retain competent counsel to determine what state and/or local laws or regulations may apply to the user's particular business. The purchaser or reader of this publication assumes the responsibility for the use of these materials and information and/or its application. Adherence to all applicable laws and regulations, federal, state, and local, governing professional licensing, business practices, advertising, and all other aspects of doing business in the United States or any jurisdiction is the sole responsibility of the purchaser or reader. The Author(s) and Publisher assume no responsibility or liability whatsoever on the behalf of any purchaser or reader of these materials. Any perceived slights of specific people or organizations are unintentional.



## Index

How, Why, and When? -----	Page 10
Why Does the Forex Market Move? -----	Page 13
How Does the Forex Market Move? -----	Page 15
When Does the Forex Market Move? -----	Page 22
What Kind of News Do We Trade? -----	Page 24
Fundamental News 101 -----	Page 27
Basic Trading Methods -----	Page 42
Currency Analysis -----	Page 49
Money Management -----	Page 64
Sentiment Trading (Long Term Trading) -----	Page 68
Risk to Reward Ratio -----	Page 73
Putting it all together-----	Page 76
Million Dollar Tips -----	Page 102
Market Cycle -----	Page 107
Special Resource Section -----	Page 110
News Trading Afterthought -----	Page 126

## Chapter 1 - How, Why, and When?

When I first started trading Forex, it had never occurred to me to ask these questions. I mean, why would I? The whole Forex educational world (as I understood at the time) was focused primarily on Technical Analysis; some were based on Fibonacci, some on MACD and/or Slow Stochastic, or a combination of technical indicators with different proprietary settings. Seems like the answer to the holy grail of trading lies in the right combination of indicators (at least that was what I thought.)

I still remember the few beginning months of trading; I must have spent over 16 hours a day, 5 days a week, doing an average of 24 trades per day. It was more exciting than profitable, as I quickly went through my live accounts one by one, margining them out and re-funding them, falling in this vicious cycle that many beginner traders seem to find themselves eventually in, unable to get away...

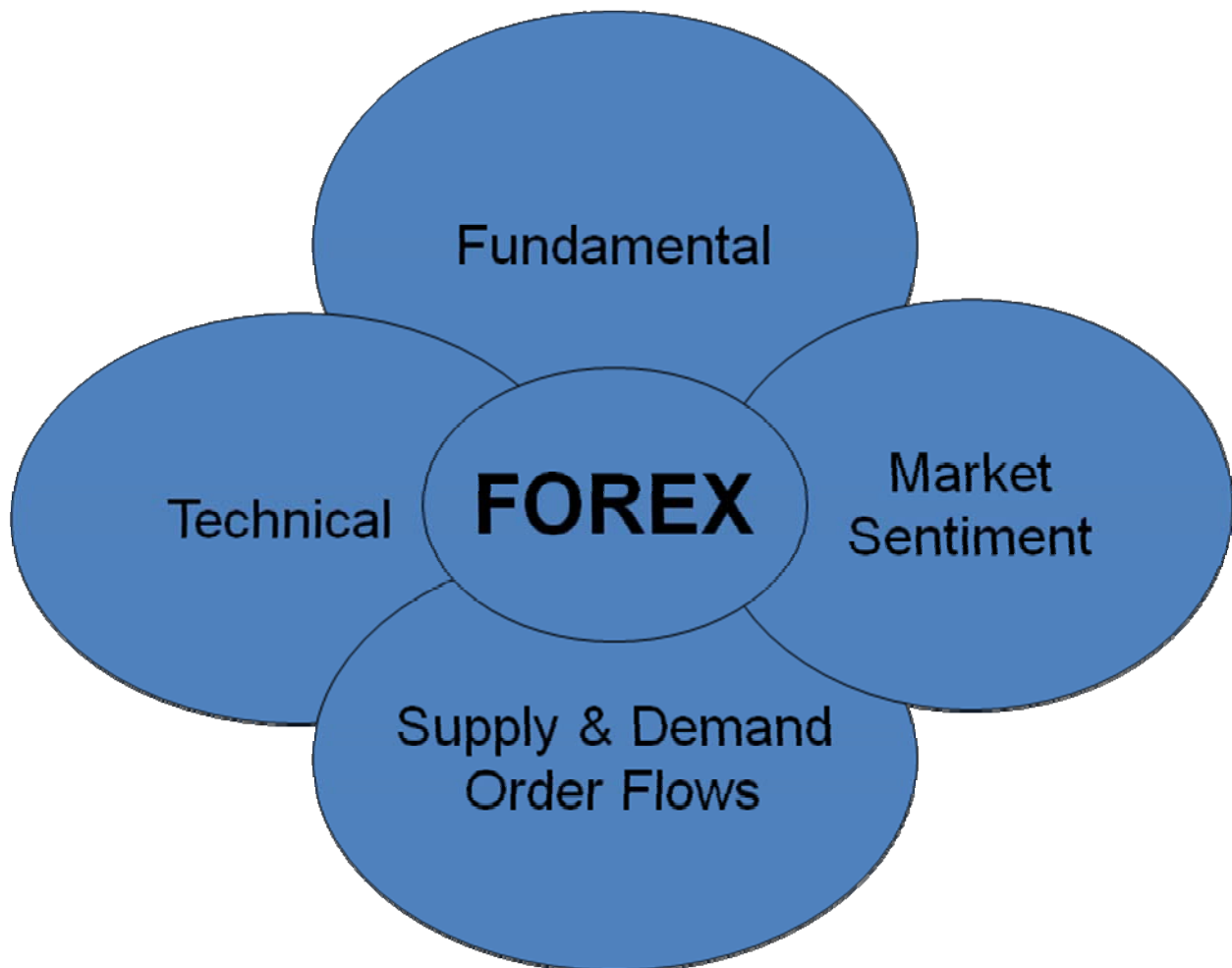
Then, it must've been the fourth or fifth time that I re-funded my account, I began to lose faith in my trading methods; I started to question whether or not these strategies were even supposed to work? I went to my mentor, and despite of spending even more time and energy in learning and re-learning the same methods, I realized that everything I have learned up to this point is completely, for lack of a better word, ambiguous. What I have learned was practically based on discretion, (which was designed like that on purpose,) so that anyone who teaches it could interpret either or both ways. In other words, there is no wrong answer...

## News Profiteer's Definitive Guide to Fundamental News Trading

---

Then almost by luck, I stumbled onto someone who trades fundamentals, which at the time seemed sort of “taboo” for technical analysts. You might have heard this: “You show me an economic news release, and I will show you a chart pattern”, which was the mentality of many technical traders at the time, and it was generally believed whether or not one pays attention to the news releases, the results were going to be the same. That was the same half-truth I was fed with learning Forex...

When I say half-truth, I don't mean it as a lie. Forex trading is such a difficult art (not science) to master, one can never say definitively without a doubt that this is it or that is that. Forex Market is actually made up of many parts and **the sums of all of its parts are greater than the whole**, as illustrated in the diagram below:



You see in this diagram, Technical trading has its place in Forex Trading. But it is just preposterous to assume that was all there is to trading. In order to trade Forex successfully, you need to learn Technical, Fundamentals, Order Flow and Supply & Demand, and of course, Market Sentiment.

Before you get intimidated, let me just say that you don't need a degree in economics or spend hours per day perusing through news releases. All you need to know are some basic principles and what news releases to watch out for, then prepare for a couple hours a week looking at the market, preferably on Sunday afternoon before the market opens, and then you are pretty much set for the entire week.

Now, let's go back to the beginning and try to answer these questions, although they may seem basic, they are **keys to successful Forex trading**...

- 1. Why does the Forex Market move?**
- 2. How does the Forex Market move?**
- 3. When does the Forex Market move?**

Let's try to answer each question individually in the next chapters. Although they might not be related directly with Fundamental trading, but without having proper understanding of the big picture, fundamental trading would just be another piece of the puzzle that we can't put together.

## Chapter 2 - Why does the Forex Market move?

This is not a trick question. For instance, has it ever occurred to you after watching the price action on EUR/USD for days, seeing it go from 1.5300 to 1.5550, and ask yourself that question?



Well, I have and the simple answer is that **there are more orders BUYING EUR/USD than SELLING**, so the price went up from 1.5300 to 1.5550 based on more demand and less supply.

Then, it dawned on me that for every price action, a tick, or a pip, there are orders being filled. The market is traveling to the direction where it gets more orders. **Now think of this like taxi cabs instead of subway or a train.** The orders are dictating where the market goes, not the market making stops at every pip

## News Profiteer's Definitive Guide to Fundamental News Trading

---

and see if there are orders. If there aren't any orders, market will not even travel there in the first place.

The real question is why the orders are piling up one way? The answer, of this supply & demand symptom that we are seeing of more demands on the EUR/USD is the key to understanding Forex Market.

Take a moment and think about it. The reason why EUR/USD is moving up is because the market thinks (perceives) that EUR is more valuable than USD. That is why it is getting bid up. The real underlying question is: Why does the market think EUR is more valuable than USD?

Here is the real answer: **Forex Market moves because of fundamental news.** If there are no news releases, there would be practically no movements in the Forex market because the value of every currency pair would be fixed, with no expectation of better or worse, the market will stay at a standstill.

So, we've come to a full circle now illustrating WHY the market moves. To put it in a different perspective, **Forex Market moves because it is constantly trying to reach equilibrium with news events**, pricing in surprises in fundamental news and sentiments. In other words **"The Price EUR/USD (or any currency pair) is trading at is NOT its real value, but a perceived future value, an estimated value that the market has placed on it, as results of past, present, and future (estimated) events.**

That's why it's so important to understand Fundamental news. Every high impact news release changes the perceived value of the currency, understanding these fundamentals will give you a bird's eye view of the market and allow you to place trades and stay on the right side of the market...

### Important Concepts

- Fundamental news moves the market.
- Market constantly adjusts to reach equilibrium.
- Current Price is a reflection of market perception of what the future price is going to be.

### Chapter 3 - How does the Forex Market move?

I wish there is an easy answer that we can come up with. Like a special report titled “the 20 attributes of EUR/USD” or something alike. But the matter of the fact is there isn't a simple answer for this question. But then the key to understanding the market lies within the principles, not the actual answer itself.

Let me explain...

Every currency pair moves differently. Every single pair has its own personality, or in this case, their own daily ranges, support/resistance levels, and/or market shares. The key to become a successful trader is to understand and trade only a few currency pairs that you feel comfortable with.

When we look at the chart of a currency pair, we can see the *history* of **HOW** does the particular currency pair moves, and when we start to look at the same chart in a longer time compressions, such as the 4H to the Weekly charts, we can see **HOW it moves in a longer term**. However, this still does not answer HOW it moves, but only shows you how it moved in the past.

The best exercise to understand how a particular currency pair moves is to do a scalping exercise. Get out a sheet of paper and start looking at only one currency pair, EUR/USD for example, and use only a simple candlestick chart or just by looking at the prices, then try to enter 100 trades going for 30 pips of profit with

## News Profiteer's Definitive Guide to Fundamental News Trading

---

30 pips of stop loss. In about a week's time, you should have developed some kind of understanding to EUR/USD. You'll learn to see that:

- **Usually a bullish day will be followed by a bearish day. (If you have an extreme bullish day, then the next day you might see extreme retracement or continuation of bullish momentum, vice versa)**
- **Movements are usually retraced around 7:30am and 11:30am NY Time.**
- **EUR/USD usually moves within a range of about 1% its current value.**
- **Certain price points, such as 50 and 00, tend to support or resist market continuation.**

Every currency pair differs from the other; for example, GBP/USD tends to make major moves then retraces up to 70% of its move, whereas EUR/USD might only retrace a small portion in comparison. The key to become a successful Forex trader is to learn your currency, learn to spot its characteristics and use them to your advantage. This "feeling" that you develop will give you an edge in trading.

Some of the best traders that I know only trade one currency pair. **As a matter of fact, professional bank traders generally only concentrate on one currency pair, with different traders focusing on different pairs.** There must be a reason why they do what they do; it is only wise that we learn to do the same.

Learn to identify the daily movement ranges, key support and resistance areas, and **correlation** to other currencies...

*Correlation is defined as the degree to which economic variables are observed to move together. If they move in the same direction, then there is positive correlation; if they move in opposite directions, then there is negative correlation.*

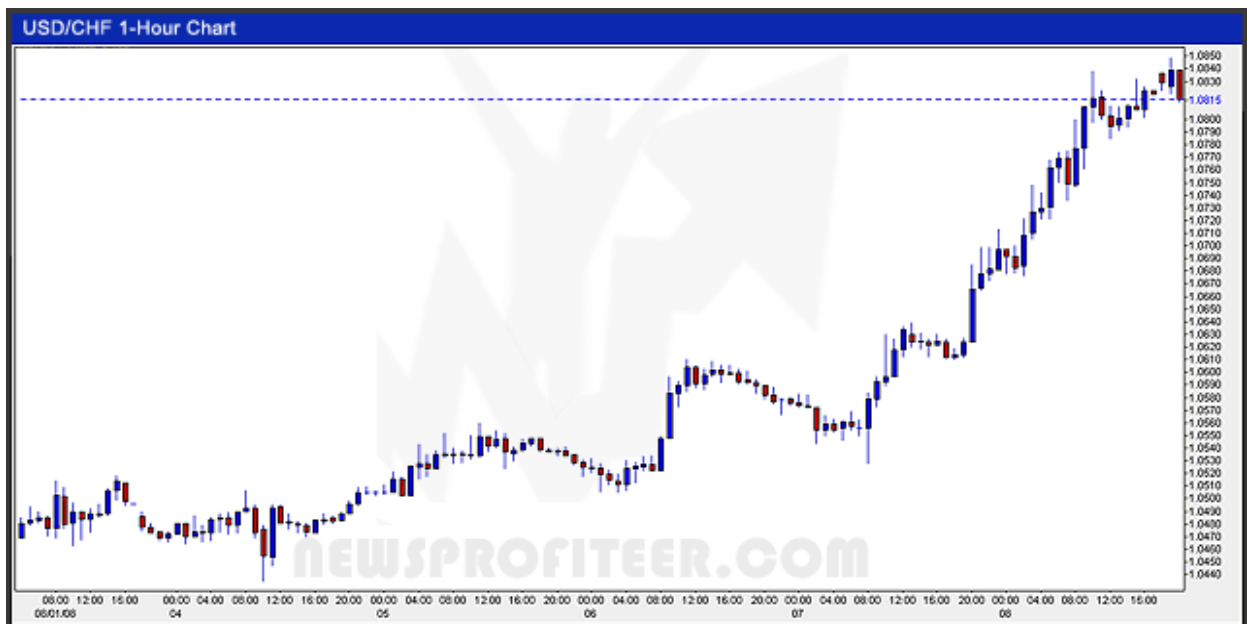
---

For example, let's say that EUR/USD has a negative correlation of -93.0 with USD/CHF. Basically it means that if EUR/USD moves up about 100 pips, USD/CHF



## News Profiteer's Definitive Guide to Fundamental News Trading

will move down 93 pips. Below is a side-by-side 1-hour chart of EUR/USD and USD/CHF showing that both pairs are highly correlated... Although these 2 currency pairs do not move alongside of each other pip by pip, the final results in a given time period are very similar. **And most of the times you will see USD/CHF (in real-time) making a major move first, then EUR/USD will follow.** You won't see it in the chart below, or on a 1-minute chart, but you may see it if you compare a TICK by TICK chart.



Again, understanding how the Forex market moves is also to understand the correlation of each other. There is an excellent website, <http://www.mataf.net/> that displays real-time Correlations between currencies in its Trading Tools area, and I strongly suggest that you visit.

Correlation Relationships can be used to confirm movements of currencies. In the previous example of USD/CHF making the first movement before EUR/USD follows suit, is not based just on a feeling or past history, but rooted in a strong fundamental principle. *EURO makes up about 58% of the US Dollar Index and EUR/USD is responsible for about 50% of all activities in the Forex Market. USD/CHF, on the other hand, only covers 4% of all activities of the market. Since USD is the dominant currency, about 90% of the exchanges involve USD, when USD loses value (USD Index Drops), EUR/USD goes up. Since it takes much more to move EUR/USD (50%), we see USD/CHF (4%) making the move first on a general USD weakness.*

## News Profiteer's Definitive Guide to Fundamental News Trading

Correlation 1 H									
	EURUSD	GBPUSD	USDCHF	USDJPY	EURGBP	EURCHF	EURJPY	GBPCHF	GBPJPY
EURUSD	100.0	17.7	-43.2	-62.7	4.6	-50.7	-49.5	-59.7	-57.1
GBPUSD	17.7	100.0	-90.7	-69.2	-79.3	-84.5	-75.9	-64.9	-57.2
USDCHF	-43.2	-90.7	100.0	80.1	66.5	93.5	88.6	80.6	75.8
USDJPY	-62.7	-69.2	80.1	100.0	38.4	84.9	79.7	81.8	75.3
EURGBP	4.6	-79.3	66.5	38.4	100.0	52.2	46.2	19.4	17.7
EURCHF	-50.7	-84.5	93.5	84.9	52.2	100.0	96.0	93.7	88.8
EURJPY	-49.5	-75.9	88.6	79.7	46.2	96.0	100.0	91.8	95.4
GBPCHF	-59.7	-64.9	80.6	81.8	19.4	93.7	91.8	100.0	95.3
GBPJPY	-57.1	-57.2	75.8	75.3	17.7	88.8	95.4	95.3	100.0
(c) www.Mataf.net - Forex Trading									

Correlation Daily									
	EURUSD	GBPUSD	USDCHF	USDJPY	EURGBP	EURCHF	EURJPY	GBPCHF	GBPJPY
EURUSD	100.0	73.3	-89.9	-35.7	59.4	-19.7	17.8	-51.4	-7.1
GBPUSD	73.3	100.0	-65.1	-22.0	14.0	-10.5	22.0	-15.1	15.3
USDCHF	-89.9	-65.1	100.0	18.9	-53.3	48.5	-32.4	63.6	-9.1
USDJPY	-35.7	-22.0	18.9	100.0	-20.7	-28.1	80.0	-2.0	83.9
EURGBP	59.4	14.0	-53.3	-20.7	100.0	-26.9	7.3	-83.7	-33.5
EURCHF	-19.7	-10.5	48.5	-28.1	-26.9	100.0	-33.3	75.2	-20.5
EURJPY	17.8	22.0	-32.4	80.0	7.3	-33.3	100.0	-23.8	91.5
GBPCHF	-51.4	-15.1	63.6	-2.0	-83.7	75.2	-23.8	100.0	11.4
GBPJPY	-7.1	15.3	-9.1	83.9	-33.5	-20.5	91.5	11.4	100.0
(c) www.Mataf.net - Forex Trading									

Another important correlation relationship is EUR/USD, GBP/USD, and EUR/GBP. It is vital to watch the movements between these 3 currency pairs if you plan to trade any one of them. It is important to identify what is moving the market at the time, is it USD, EUR, or GBP? By keeping an eye on the EUR/GBP pair, you can validate or eliminate either currencies, and concentrate on the one that is making the most movement.

It would take a complete new book to fully cover the subject of correlation. But for the purpose of fundamental trading, just understand this fact that one currency cannot move far without affecting the other. Look at this simple calculation and see if you can notice the big picture.

$$(211.73 / 1.9945) = 106.15$$

---

Now do these numbers seem familiar?

GBP/JPY = 211.73 (BID)

Divided by GBP/USD at its current price of 1.9945 (BID)

You get the current price of USD/JPY at 106.15 (BID)

**In essence, you can take any price you have on the GBP/JPY and divided in with USD/JPY, and you'll get GBP/USD price at the time or multiply USD/JPY with GBP/USD and get GBP/JPY current quote.**

Market is not perfect. Sometimes we will see slight discrepancies in pricing quotes, but one will not move far from the other. Therefore, when we see related pairs making strong moves one way or the other, it just gives us more confirmation of the direction.

Another interesting point, since GBP/JPY is about twice the value of USD/JPY, a single pip change of value in USD/JPY usually becomes 2 pips of change in GBP/JPY. If both USD/JPY and GBP/JPY are hitting support/resistance areas, then these support/resistance areas might just be stronger.

### Important Concepts

- Every currency pairs moves differently.
- Learn about daily ranges, support & resistance areas, and correlation to other currency pairs is key to understanding HOW they move.
- Use correlation as confirmation to your existing trades or the planning of your future entries.
- Limit your trading only to a few currency pairs, generally don't trade more than 4 currency pairs.
- It is better to be focused on a few and know that you can catch most of the movements than to be focused on all and worry about missing out.

## Chapter 4 – When Does The Forex Market Move?

Another valid question, but often ignored. The quick answer is Currency Market moves when the people of that country or countries are up and starting their day, that's when you will see movement, liquidity, and pure price action.

Try to trade GBP/USD around Asian Session or Late US Session. Not only you won't see much action, but because of the lack of liquidity, market may move in ranges, not enough to give you a decent profit, nor enough to stop you out.

One of the most important factors that I have discovered and enhanced my trading is to realize the importance of time. As a matter of fact, I have a theory that seemed to work very well for me, and I named it the “**Lunchtime Reversal**”. Simply put, every lunch time hour for each of the major markets, namely the London, Tokyo, and New York, you will see signs of market reversal, because these professional traders who have the ability to influence market, need to square their positions so that they can go out for lunch. Therefore, there are two immediate applications for it:

1. Close your trades around lunch time knowing that the market is about to reverse its gains.
2. Stay in the trade (longer term) and know that lunchtime reversal is only temporary. Long term trend will resume in a few hours.

This simple knowledge has helped me time and time again. When I am on a longer term trade and all the sudden market reverses without a valid reason, but if it coincides with one of the lunchtimes, I would still keep my original position and ride it out knowing what was going on. On the other hand, when I see market hitting a strong resistance/support area around lunchtime, usually by looking at other confirmations such as the daily ranges, fundamental news, and market sentiment, I would enter a reversal trade. But without the time factor in the first place, I would NEVER have entered the trade, as we don't usually know how far the market is going to go; it's hard to predict a top or bottom, but it's not that difficult to predict WHEN.

## News Profiteer's Definitive Guide to Fundamental News Trading

---

Other important time filters to be aware of, aside from the obvious news releases, are the **EQUITY MARKET OPEN/CLOSE**, or "Stock Market Jitters" as I called it, which may move the market drastically one way or the other for 5~10 minutes before and after the opening bell. Knowing what to expect during this time can help you hold on to a profitable trade or adjust your stop to not get stopped out due to a fluke in the market.

Another important concept is to become familiar with what kind of movement to expect during each major trading session. For instance, most European currencies will move in a range during Asian Session, by identifying the range, you can enter trades at top/bottom of the range going with the longer term trend. The principle behind why these currency pairs move in a range is based on liquidity. When there isn't enough liquidity to move a currency pair, such as during the Asian session, movements of the European pairs are confined in a range with most of their gains reversed just around London open during most regular trading days, with some exceptions.

### Important Concepts

- Trade currency pairs at the time when the people in that country are starting their day.
- Always use time filters when entering a trade. It is difficult to predict a top or a bottom, but it is easier to predict **WHEN** a top or bottom will be formed (Intraday).
- Aside from fundamental news releases, always be aware of Equity Market Open/Closes when trading.

## Chapter 5 – What Kind of News Do We Trade?

There is literally hundreds of financial news released around the clock from all over the world. The key is to concentrate on news releases that have an immediate impact on the market. **There are about 5 to 10 important news from U.S., and about 3~5 each from UK, EURO Zone, Australia, Canada, and New Zealand. These news releases are usually scheduled monthly or quarterly; they will repeat every month around the same day of the week or day of the month.**

We only trade news releases that are currently considered as “hot”, meaning that the market is particularly interested in it. For example, a few years ago during the real estate boom, U.S. Housing Start, Existing Home Sales, and New Home Sales were constantly ignored and no one was paying attention to it. Why? Because at the time economy was doing good, home sales were always better than expected, and market just assumed the best and basically ignored the numbers. Look at the same news releases today in mid 2008, Housing news releases were particularly important because the economy is suffering, any signs of rebound from the housing sector signals improvement in the economy, as many market analysts pointed out; therefore, housing data is currently “hot”. Similarly, the weekly **Jobless Claims** just became “hot” recently because of former Fed. Chairman Greenspan talked about it in his book...

Other news releases such as consumer confidence, current account, and even the TIC Net Long-Term Securities are currently being ignored. But they will eventually become hot again, as **many of these news releases and market focus work in cycles, just as the fashion industry.**

The key to trading economic news successfully is to be selective with news releases to trade. As stated before, with hundreds of news released monthly, why risk with less important news releases and gamble your hard earned money when you can trade with news that have a higher probability of success? Therefore, I have compiled a list of news releases that have a high probability of success (at least 70%) backed by solid track record.



## News Profiteer's Definitive Guide to Fundamental News Trading

---

Another important “hot” factor in today’s market is RISK. There are basically two different reactions to Risk, one being “**Risk Aversion**” and the other “**Risk Appetite**”.

**Risk Aversion** basically means to avoid risk. Market will react go with the safest route, selling high yielding currencies and buying low yielding currencies, such as BUYING CHF and JPY while SELLING GBP and AUD. Few instances recently of extreme market risk aversion, GBP/JPY pair have been documented losing up to 1000 pips in a 24 hour period.

This is an extreme example but not an isolated case, we have seen risk aversion taking over market sentiment and dropping USD/CHF, GBP/JPY, AUD/JPY 200 to 500 pips a day.

What kind of news sparks Risk Aversion? The answer: Any news that creates risk (or rumor of risk) in the market, for example:

1. Geopolitical uncertainty – Rumors of war or actual terrorist attack.
2. Subprime Mortgage Write-down – Bear Stearns, Fannie Mae, Freddie Mac, etc...
3. Major industry sector negative earning/forecast report. Such as AIG (insurance), Bank of America (finance), GM (Auto), etc...
4. Or any huge surprise in fundamental news that reminds the market of the condition our economy is currently in. Such as a worse than expected Housing Data, a worse than expected employment data or unemployment rate, etc...

What to do in a Risk Aversion situation? The best answer is to stay out of the market!



**Risk Appetite** means market willing to take on risk. What is considered risk? When the market is buying high-yielding currencies such as GBP, and selling low-yielding currencies, such as JPY, it is considered as Risk Appetite. Therefore, when carry trades (JPY based trades) are winding, or going up, it is a sign of Risk Appetite.

What kind of news sparks Risk Appetite? Basically any news that promotes:

1. Geo-Political Stability – Peace Treaty, peace talks, etc...
2. Good Earnings Report from major sectors.
3. Good Surprises in fundamental news, such as better than expected housing, employment, or economy data.

Risk Appetite is different from Risk Aversion whereas Risk Aversion will be followed with strength in both JPY and CHF currencies, while Risk Appetite will not only promote carry trades, but all high-yielding currencies in general. Risk Appetite will likely to promote stable market condition and normal daily volatility.

## Chapter 6 – Fundamental News 101

Scheduled economic news releases can generally be classified into 4 different categories.

- 1. Inflation**
- 2. Economy**
- 3. Infrastructure**
- 4. Others**

As stated earlier in this book, you don't need to be an economist or have a degree in economics in order to trade the news, all you need to know are what news releases are tradable and what to do during the release times. Is like a little story that I have heard: A business owner purchased a new commercial machine for his business. One day the machine broke down, and he had to call in a specialist. The specialist showed up and took out a hammer, hit the machine once in the back, and like a miracle, the machine started running again. Happiness soon faded as the specialist handed over his bill. The owner was shocked and protest at the \$500 bill, he said "You only spent less than 1 minute and you only used a hammer", the specialist answered: "Well sir, you are not getting charged for the 1 minute of my time, that's on the house... nor that tap with the hammer, that's also on the house... I am only billing you for knowing where to tap and how hard..."

That's exactly what I am going to show you at the end of this section. You may find the following a little boring, but please bear with me and try to use it as references in the future. I strongly suggest that you memorize the reports and their relationships into memory, because if you do, you'll start to see market setups beyond just news trading, you'll become aware of market sentiment, and eventually be able to take advantage of it.

Let's get started:

### It's all about the Interest rate!

This is probably the most important tip in this section! All major currencies' Interest rates are controlled by the government or an independent organization that answers to the government. The mandate of the government is to maintain and control inflation. If Inflation is high, interest rate will be raised to slow down the economy. Higher rates mean higher cost to borrow money, higher cost on the monthly credit card bills, higher cost to buy a home, etc... The economy will slow down, growth will be controlled, and thus inflation will be controlled. If inflation is low, the opposite is done, rates are lowered, borrowing will be encouraged, economy will be stimulated, therefore inflation will be higher.

Every government's mandate on controlling inflation is to have what we called **"Low Stable Inflation"**, also known as **"Price Stability"** by some other central banks. A low stable inflation of 2~3 percent per year is the ideal inflation result that most major central banks want.

Another important concept to understand is that currencies are assets and their returns are earned in the form of interest rate. By increasing the interest rate, the values of the currencies also increase.

**HIGHER  
INTEREST  
RATE**    **=**    **HIGHER  
INFLATION**    **=**    **HIGHER  
CURRENCY  
VALUE**

OR

**LOWER  
INTEREST  
RATE**    **=**    **LOWER  
INFLATION**    **=**    **LOWER  
CURRENCY  
VALUE**

# NEWS - INFLATION

---

Since **Inflation** is the single most important factor that affects Interest rates. News releases that measure inflation are particularly important for the Forex Market.

Let me refresh your memory, Fundamental trading is speculative trading. Traders place their trades based on what they think the currency is going to be, not where the currency is right now. Therefore, when we get a higher reading on inflation news releases, market will tend to trade up the currency pair based on the release number.

The single most important news release for inflation is:

**CPI – Consumer Price Index** - *is defined as a statistical estimate of the government of the prices of goods and services bought for consumption purposes by households. Its computation uses price data collected for a sample of goods and services from a sample of sales outlets in a sample of locations for a sample of times and estimates of the shares of the different expenditures in the total covered by the index which are usually based upon expenditure data obtained for sampled periods from a sample of households (wikipedia). It is also known as the "True Cost of Living".*

In short, CPI is what the economists call the Inflation number. CPI usually has a Core number and a Headline number. The headline CPI number, or just CPI, is a complete inflation number that includes everything. The Core CPI number is the inflation number that excludes food and energy (gas) cost, which shows a clearer view on inflation, since energy and food cost may vary depending on season.

Another important Inflation news release is:

**PPI – Producer Price Index – (we are interested in the Input component)** *measures the rate of inflation (i.e., the rate of price changes) experienced by manufacturers when purchasing goods and services. A rising trend has a positive effect on the nation's currency. When manufactures pay more for goods and*

## News Profiteer's Definitive Guide to Fundamental News Trading

---

*services, they are likely to pass the higher costs to the consumer, so PPI is thought to be a leading indicator of consumer inflation. PPI is highly regarded, and at extremes will have a market impact equal to that of its CPI counterpart.*

Most PPI news releases aren't classified as high-impact news. But as stated above, in extreme cases, a high PPI input will affect CPI as a whole, since if it costs more to produce a particular product or service, the provider will have no choice but to eventually pass on the cost to the consumer. PPI numbers are usually released before the monthly CPI numbers, therefore if we get a particularly high PPI input; it makes sense to expect a higher CPI release numbers as well.

**HIGHER PPI = HIGHER CPI = HIGHER INFLATION = HIGHER INTEREST RATE**

OR

**LOWER PPI = LOWER CPI = LOWER INFLATION = LOWER INTEREST RATE**

## NEWS – ECONOMY

---

The economy is another driver for inflation. In short, if we have a better economy, we will have a higher inflation, a higher interest rate will follow, and higher currency value will be perceived.

On the other hand, if we have a dreadful economy, inflation will be lower, interest cuts will be considered, and lower currency value will be perceived by the market.

News releases related to the economy are:

1. News that directly measures the growth of the Economy.
2. News that directly measures the growth of the Job Market.
3. News that directly measures the Housing Market.

News that measures the growth of the economy is:

**GDP - Gross Domestic Product** – *the sum of value added at every stage of production of all final goods and services produced within a country in a given period of time. GDP is the primary measure for the economy's health.*

In summary, if we were to reduce the entire economy into a single number, it would be the GDP number.

GDP also comes in as Core GDP and Headline GDP. Core GDP is GDP without the transportation component, which varies from month to month. It is also known as GDP ex. Transportation.

GDP is also related to Retail Sales figures:

**Retail Sales** - *Measures the value of sales at the retail level. A rising trend has a positive effect on the nation's currency because Retail Sales make up a large portion of consumer spending, which is a major driver of the economy and has a sizable impact on GDP. Traders pay close attention to Retail Sales because it is usually the first significant indicator of the month that relates to consumer behavior and is susceptible to surprises.*

## News Profiteer's Definitive Guide to Fundamental News Trading

---

Retail Sales is a very important leading indicator for GDP, especially in the United States, a country that consumes majority of its own production. Retail Sales makes up about 2/3 of U.S. GDP.

**HIGHER  
RETAIL  
SALES = HIGHER  
GDP = HIGHER  
INFLATION = HIGHER  
CURRENCY  
VALUE**

OR

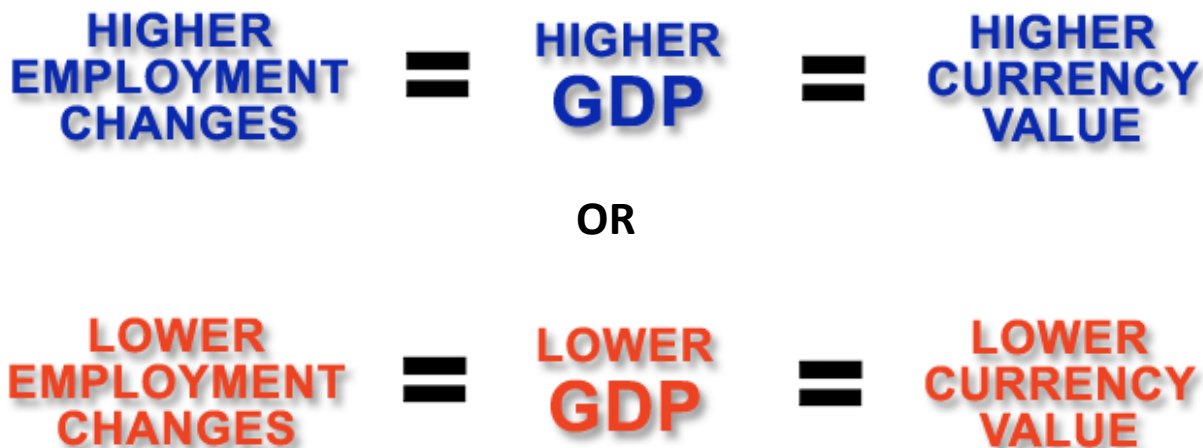
**LOWER  
RETAIL  
SALES = LOWER  
GDP = LOWER  
INFLATION = LOWER  
CURRENCY  
VALUE**

Other news releases related to the economy are:

**Non-Farm Payroll (or Employment Changes)** - *Measures the change in number of employed people during the previous month, excluding the farming industry. A rising trend has a positive effect on the nation's currency. Job creation is an important indicator of economic health because consumer spending, which is highly correlated with labor conditions, makes up a large portion of GDP. This report is the first of the month that relates to labor conditions, making it susceptible to big surprises.*

Different countries, other than the U.S.A., call this news release as Employment Changes or Employment Rate. But they are pretty much the same thing. The NFP is however, one of the most volatile news release for the Forex Market. Other news releases related to the Employment are Unemployment Rate and the weekly Jobless claims.





Other important economic indicators are:

**ISM Manufacturing Index** - *the Institute of Supply Management (ISM)*

*Manufacturing Index measures the activity level of purchasing managers in the manufacturing sector, with a reading above 50 indicating expansion. A rising trend has a positive effect on the nation's currency. To produce the index, purchasing managers are surveyed on a number of subjects including employment, production, new orders, supplier deliveries, and inventories. Traders watch these surveys closely because purchasing managers, by virtue of their jobs, have early access to data about their company's performance, which can be a leading indicator of overall economic performance.*

**ISM** was established in 1913 in the U.S. and has been reporting since June 1998. For the past ten years of so, ISM have established a solid track record of the validity of its reports, and they are very highly regarded. ISM also publishes an **ISM Non-Manufacturing Index**, which is a survey for the Service sector.

Other countries such as UK and Eurozone, have their own purchasing manager index figures (PMI), but they are all similar to one another, with 50 being the medium, below 50 indicates contraction and above 50 indicates expansion.



Last but not least...

**New Home Sales** - *Measures the annualized number of new residential buildings that were sold during the previous month. A rising trend has a positive effect on the nation's currency because the housing market is a leading gauge for the overall economy. A high level of housing activity signals that the construction industry is healthy and that consumers have the capital to make large investments. More importantly, new housing activity creates an economic ripple effect as home owners buy goods such as appliances and furniture for their homes, and builders buy raw materials and hire more workers to meet demand.*

**Existing Home Sales** - *Measures the annualized number of existing residential buildings that were sold during the previous month. A rising trend has a positive effect on the nation's currency because large purchases tend to be made by consumers that are optimistic and confident in their financial position. The sale of a home also triggers commissions for real estate agents, and often home owners will purchase goods such as appliances and furniture shortly after purchasing a home. Traders watch this report closely as it's the month's first demand-side housing indicator to be released.*

These two indicators, along with Housing Start, Building Permit, and Housing Prices, measure the health of the housing sector. **I only trade these two housing**

## News Profiteer's Definitive Guide to Fundamental News Trading

---

**news releases** because they have the best track records with most predictable market reaction after the news release.

Another notable news release only for the U.S. is:

**Durable Goods** - or a **hard good** is a good which does not quickly wear out, or more specifically, it yields services or utility over time rather than being completely used up when used once. Durable goods measures primarily goods with a shelf-life of more than 3 years, such as household appliances.

This indicator is usually related to Home Sales. If we get higher housing figures, most likely we will get higher durable goods releases as well.

**HIGHER  
HOUSING** = **HIGHER  
GDP** = **HIGHER  
CURRENCY  
VALUE**

---

OR

**LOWER  
HOUSING** = **LOWER  
GDP** = **LOWER  
CURRENCY  
VALUE**

---

## NEWS – INFRASTRUCTURE

---

Let's talk about news releases that are related to the infrastructure of the entire economy. These news releases, at the time of writing this e-book (Aug. 2008), are not "hot". They are pretty much ignored, but as I pointed out before, fundamental news releases are cyclical. They will be back soon enough and it is best that we get some idea on what they are:

**Current Account** - *is the sum of the balance of trade (exports minus imports of goods and services), net factor incomes (such as interest and dividends) and net transfer payments (such as foreign aid). The current account balance is one of two major metrics of the nature of a country's foreign trade (the other being the net capital outflow). A current account surplus increases a country's net foreign assets by the corresponding amount, and a current account deficit does the reverse. Both government and private payments are included in the calculation. (wiki)*

**Trade Balance** - *is the difference between a country's output and its domestic demand (the difference between what goods a country produces and how many goods it buys from abroad; this does not include money re-spent on foreign stocks, nor does it factor the concept of importing goods to produce for the domestic market).*

**Capital Flow (TIC Net Long-Term)** – *is the bookkeeping report of the capital flow in and out of the country, it tracks the investment in this country and out of this country. A continuous negative number means no one is investing in the country. The higher it stays, eventually will drive down the currency value.*

**Other news releases** such as Consumer Sentiment, Consumer Confidence, Chicago PMI, and Empire State Business Index belong in a group of their own. Usually these news releases do not move the market much, unless the release number deviates from the forecast number by a huge difference... Then the rule of thumb is to always trade in the direction of the huge surprise.

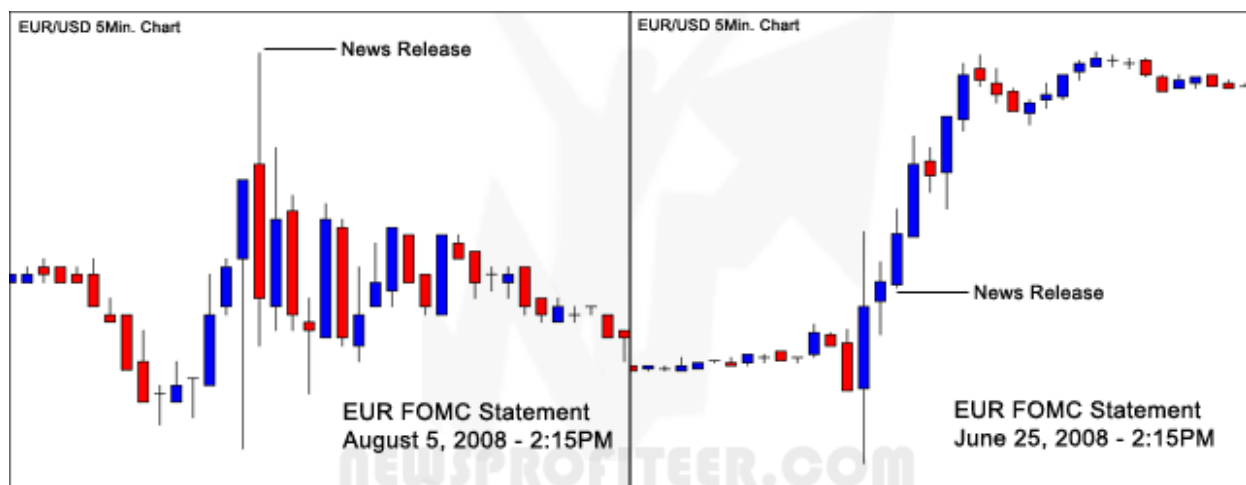
## News Profiteer's Definitive Guide to Fundamental News Trading

---

One important type of news releases that I cannot over-stress its importance is the speeches of Central Bankers. **Central Bankers are the most important people in the Forex Market.** They have the ability to move the market hundreds of pips with their speeches, and when they speak, market listens. Most of the time market will overreact to the speeches, and if you can learn to decipher their speeches, you can be the first mover in the market... It is not easy to trade their speeches, but once you figure out what they are talking about, you'll learn something that only 5% of retail Forex traders know, and you will have a great advantage.

Central Banker's speeches have a set format, usually. They change a sentence of two from previous statements to reflect their current policy. If you just read the previous few statements, it would be very easy to notice the differences; and by comparing with past market reactions, you can decipher their speeches rather easily. All you need to do is spent a little time in research. As I said, fundamental news trading is not difficult.

Let me give you an example of the most recent two FOMC statements:



# News Profiteer's Definitive Guide to Fundamental News Trading

---

*Release Date: August 5, 2008*

For immediate release

The Federal Open Market Committee decided today to keep its target for the federal funds rate at 2 percent.

Economic activity expanded in the second quarter, partly reflecting growth in consumer spending and exports. However, labor markets have softened further and financial markets remain under considerable stress. Tight credit conditions, the ongoing housing contraction, and elevated energy prices are likely to weigh on economic growth over the next few quarters. Over time, the substantial easing of monetary policy, combined with ongoing measures to foster market liquidity, should help to promote moderate economic growth.

**Inflation has been high, spurred by the earlier increases in the prices of energy and some other commodities, and some indicators of inflation expectations have been elevated. The Committee expects inflation to moderate later this year and next year, but the inflation outlook remains highly uncertain.**

Although downside risks to growth remain, the upside risks to inflation are also of significant concern to the Committee. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Elizabeth A. Duke; Donald L. Kohn; Randall S. Kroszner; Frederic S. Mishkin; Sandra Pianalto; Charles I. Plosser; Gary H. Stern; and Kevin M. Warsh. **Voting against was Richard W. Fisher, who preferred an increase in the target for the federal funds rate at this meeting.**

*Release Date: June 25, 2008*

For immediate release

The Federal Open Market Committee decided today to keep its target for the federal funds rate at 2 percent.

Recent information indicates that overall economic activity continues to expand, partly reflecting some firming in household spending. However, labor markets have softened further and financial markets remain under considerable stress. Tight credit conditions, the ongoing housing contraction, and the rise in energy prices are likely to weigh on economic growth over the next few quarters.

The Committee expects inflation to moderate later this year and next year. However, in light of the continued increases in the prices of energy and some other commodities and the elevated state of some indicators of inflation expectations, uncertainty about the inflation outlook remains high.

**The substantial easing of monetary policy to date, combined with ongoing measures to foster market liquidity, should help to promote moderate growth over time.** Although downside risks to growth remain, they appear to have diminished somewhat, and the upside risks to inflation and inflation expectations have increased. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Donald L. Kohn; Randall S. Kroszner; Frederic S. Mishkin; Sandra Pianalto; Charles I. Plosser; Gary H. Stern; and Kevin M. Warsh. **Voting against was Richard W. Fisher, who preferred an increase in the target for the federal funds rate at this meeting.**

## News Profiteer's Definitive Guide to Fundamental News Trading

If you can notice that on June meeting there was a paragraph "...substantial easing... should help to promote moderate growth..." basically meant that FOMC will stop cutting rates, which was a hawkish statement (market didn't react favorably to this release because USD was under selling pressure, without actions backing up words, market went against USD despite of this hawkish tone). In August statement "Inflation has been high, spurred by earlier increases in price of energy... expects inflation to moderate later this year... inflation outlook remains highly uncertain." Meaning that high inflation was caused by high crude price, with recent crude price pullback, inflation should ease... therefore FOMC August statement was leaning towards a neutral stance.

Also pay special attention to who voted against and for what. Any change in voting could send a strong signal in addition to the statement.

### Here are the major Central Bankers:



**US – FOMC Ben Bernanke**



**UK – BOE Melvyn King**



**EU – ECB Jean Claude Trichet**



**CA – BOC Mark J. Carney**



**JP – BOJ Masaaki Shirakawa**



**NZ – RBNZ Dr. Allan Bollard**



**CH – SNB Jean-Pierre Roth**




**AU – RBA Glenn Stevens**


## News Profiteer's Definitive Guide to Fundamental News Trading

---

As a conclusion, here are the news releases that I trade. In the following illustration, you will see the news releases, the deviation, and the expected minimum movements if the deviations are hit:

### Special Definitive Guide Cheat Sheet Report


 US Reports	Tradable Trigger	Movement Range
Core CPI m/m	0.20%	50 pips
Retail Sales	0.50%	50 pips
Interest Rate	0.25%	70 pips
Trade Balance	7.0B	40 pips
NonFarm Payroll	70K	70 pips
ADP NFP Changes	50K	40 pips
ISM Manufacturing	2.5	70 pips
New Home Sales	70K	70 pips
Existing Home Sales	400K	70 pips
GDP q/q	0.30%	60 pips


 Canada Reports	Tradable Trigger	Movement Range
Core CPI m/m	0.3%	50 pips
Interest rate	0.25%	70 pips
Trade Balance	0.7B	40 pips
Employment Change	30K	60 pips
IVEY PMI	3.0	50 pips
GDP m/m	0.2%	50 pips
Core Retail sales	0.5%	50 pips




## News Profiteer's Definitive Guide to Fundamental News Trading

---

 United Kingdom Reports	Tradable Trigger	Movement Range
CPI y/y	0.3%	50 pips
Industrial Production	0.3	50 pips
Interest rate	0.25%	70 pips
Manufacturing PMI	2.0	50 pips
Retail Sales	0.5%	60 pips
MPC Vote (minutes)	2 Votes	50 pips
GDP q/q	0.3%	50 pips

 New Zealand Reports	Tradable Trigger	Movement Range
CPI q/q	0.3%	50 pips
Interest rate	0.25%	70 pips
Retail Sales	0.5%	40 pips
GDP q/q	0.3%	40 pips

 Australia Reports	Tradable Trigger	Movement Range
Interest rate	0.25%	70 pips
Employment Changes	27K	60 pips
GDP q/q	0.3%	50 pips
Retail Sales	0.6%	50 pips
CPI q/q	0.3%	50 pips

## Chapter 7 – Basic Trading Methods

Let's start by defining few important terms:

- **Forecasted (Consensus or Expected) Figure:** This is usually derived from a survey done by financial news organizations such as Bloomberg, Reuters, etc... Usually they get a number of economists, anywhere from 20 to 240, and ask them what number they think it will be. After getting all of the numbers, the highest and the lowest are taken out with the rest averaged out to a single "averaged" figure. That is why with different news organizations will have a slightly different consensus number.
- **Deviation:** is the difference between the actual release number and the forecasted number. Let's say that CPI is expected to be 3.0% and the actual number came out as 3.3%; the deviation is then 0.3%.
- **Actual Figure:** This is the actual release figure from the official source of the information.
- **Revision:** This is the revised change done for previous release figure, usually the month before. It could sometime impact the market greatly if the revision is huge. Usually if we have a good deviation with a good revision number, the market will react even more.

**Fundamental Trading In a Nutshell:** Every major news release has a forecasted or consensus figure determined by economists beforehand. If the actual release figure is different from the consensus or forecasted (or expected) figure, the market is surprised and will react to the release immediately. The bigger the surprise, or deviation, will produce bigger reaction. Based on historical data, we can predict that a particular deviation will trigger a minimum amount of pips movement. If a news release consistently moves over 40 pips with a particular deviation, we expect that a similar deviation in the future will likely to cause the market to move 40 pips.

Although we have to be flexible in our trading, news trading requires that a specific plan to be followed with specific set of rules to protect our investment. It

## News Profiteer's Definitive Guide to Fundamental News Trading

---

is particularly important that we only take a trade when our expected deviation is hit, not we get a close enough deviation.

For example, if you have promised your teenage son a car on his 18<sup>th</sup> birthday on the condition that he gets straight A's in school this semester, and he came home with a couple of B's, you wouldn't have to give him a car. We must regard news trading with the same kind of discipline because **sometimes almost still means no**.

To further drive this point, consider that since the forecasted number is an average, many fund managers or banks might be expecting a slightly different number than you and I, and if we take a close enough deviation to trade, we might just be going in the opposite direction against some of these big fund managers.

For example, if the upcoming **ISM Manufacturing Index** has a forecasted number of 52.5, and our standard deviation is 3.0. The actual release came out as 50.3... what is our course of action? The actual deviation is 2.2, about 0.8 points away from our tradable deviation, but it's close enough... so you enter a short trade. But Mr. Big Shot at ABC Hedge Fund may also be looking at release of 50.3, which still means expansion in the sector (above 50 means expansion, below 50 means contraction), and decided to go on a long trade. This could be devastating for your account. Remember, the deviations that we trade are "safe" deviations, they have been proven to work in the past and that is why we trade them.

It's time to lay down some ground rules before getting into the actual trading methods. Remember that the following are extremely important and you should always keep in mind when trading the news, no matter what kind of news releases or how huge the deviations are.

1. It doesn't matter whether or not the market reacts the way you expect it to react. You have to remember that nothing is absolute in trading, especially with Forex.
2. We do not form an opinion before the news release; we will wait for news release to come out, and then trade according to plan.

## News Profiteer's Definitive Guide to Fundamental News Trading

---

3. We are only looking for the probability of the combined reaction of the market in the short term, within the first 30 minutes up to 2 hours immediately after the news release.
4. We must be flexible in trading. If market sentiment, technical analysis, and the news release numbers all point to one direction but the market still react in a completely opposite direction, we must also act accordingly. It is most likely that we've missed some underlying reason to this reaction, and we must respect the market.
5. We only concentrate on the news that has most impact to the market with most predictable reaction.
6. We always assume that the market will overreact to the news.
7. Study the reaction of the market after news release. You will see the "underlying market" sentiment.

Ok, it's time to talk about the actual fundamental news trading methods. Remember to always prepare a plan by writing them down on a piece of paper; do not get into the market unprepared.

*It is important that you get a news wire service, such as tradethenews.com, Reuter, or Bloomberg if you want to trade fundamental news. Do not use those free news wire services or news feed from your broker. Every second counts in news trading, you could make up 10 times the money you pay for the news feed service with just one good trade.*

---

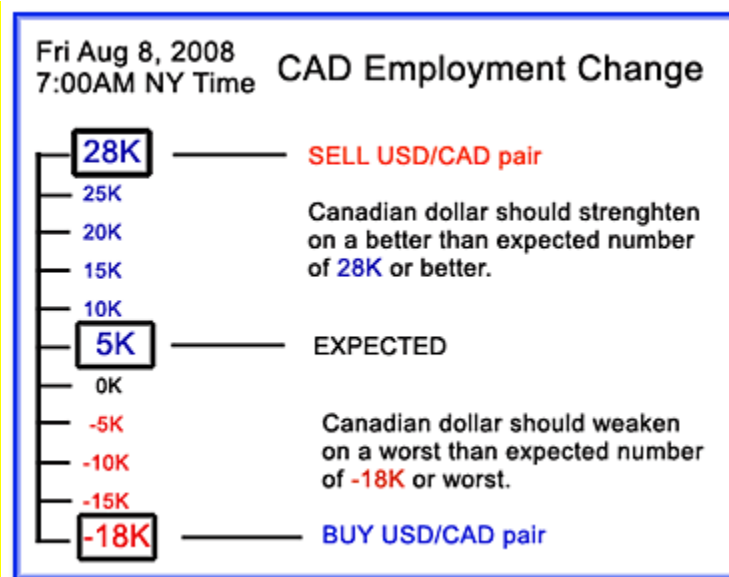
## Fundamental Trading Methods

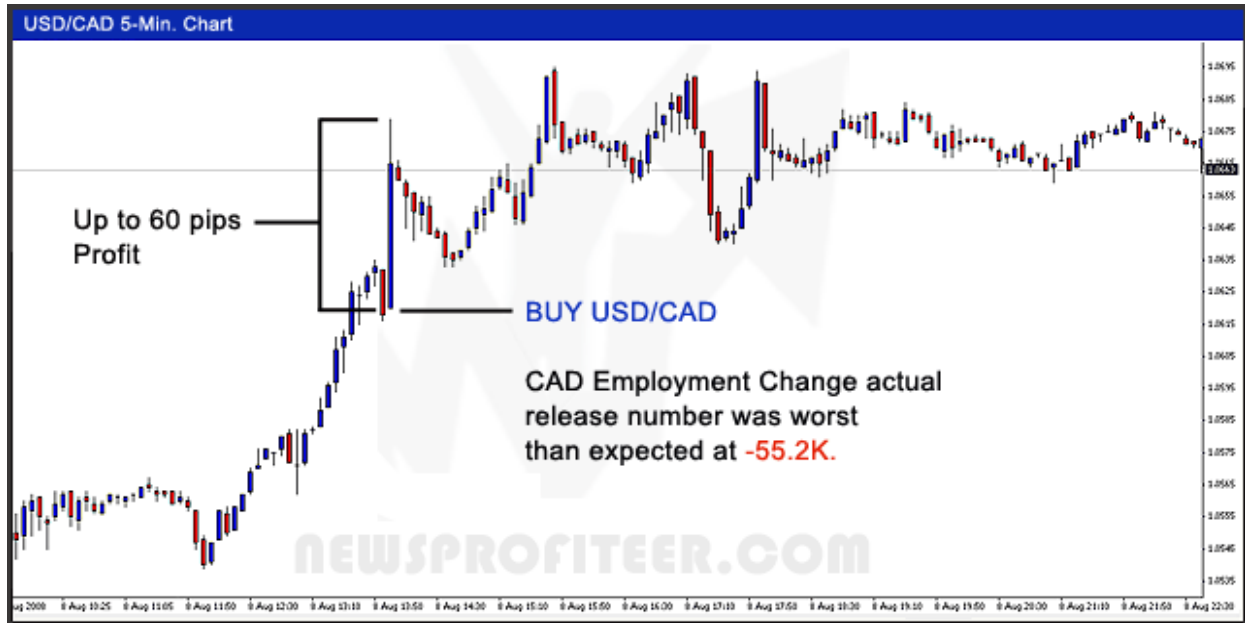
---

### TRADE THE SPIKE

- We wait for the news release to come out. Based on the release number we will enter the market immediately if our expected deviation is hit.
- We will try to catch the initial spike move, whole or part of the move, and get out of the trade at top of the expected movement range (40-50 pips.)
- **A stop/loss will be placed 15 pips from the pre-release price.** This is the price level just before the news release. Our take profit order will be once again the top of the expected movement range.
- This type of trading requires a fast reaction, a good broker that allows you to trade the news and gives you a good fill with minimum slippage.

### Trade Plan





### TRADE THE RETRACEMENT

- We wait for the news release to come out. Based on the release number we will determine “where” to get into the market if our expected deviation is hit.
- We will wait for the market to retrace back within 10~15 pips of the pre-release price level. Sometimes when we have a huge deviation, we can enter the market at 20 pips from the pre-release level, but it would be based on discretion. Market will usually retrace within the first 5~30 minutes, if a retracement is to take place.
- **A stop/loss will be placed 15 pips from the entry price.** Therefore, it is very important to wait for the market to come back because if we enter too soon, we might get stopped out.
- This type of trading is much easier than trading the spike, but sometimes we might not get a retracement at all or big enough and miss this trade altogether.



## PRE-NEWS TRADING

- We enter the market 5 minutes before the news release.
- We base our entry on market sentiment and technical trend of the currency pair.
- We **ALWAYS** enter in the direction of the current trend. If the news release goes our way, we can take advantage of the entire move. If the news release goes against us, we might have to endure the initial drawdown, but usually after the news impact is over, the market will resume its technical trend and give us a chance with a small profit or break even. We might have to wait anywhere from 2 to 12 hours.
- We only trade news releases that won't change market trend. Important enough to move the market, but unable to change long-term market sentiment. For instance, we will not pre-news trade Non-Farm Payroll, CPI, GDP, and Central Bank speeches, but we can trade Retail Sales, Trade Balances, PMI reports, etc... Especially reports that will not have a profound impact on the trend.
- This is highly advanced. Remember to trade in the direction of the trend, and don't try to guess what the release number is going to be. Trend will

## News Profiteer's Definitive Guide to Fundamental News Trading

---

always trump news releases in the long term. Experiment first with demo accounts to get an idea how this method works.



### Weekly Outlook

I provide a weekly outlook where I analyze the fundamental trends. I strongly suggest that you to sign up for a free membership and read my outlook to get a broader view of the market. I think you will also understand better some of the concepts that I talk about in this book once you see them being applied in real-life. This weekly outlook is valued at \$49 per month; get your trial for one free month today by using the following coupon code.



## Chapter 8 – Currency Analysis

I feel this book will be incomplete unless I include this section. Most of the information included in this section might seem basic, but some are quite advanced in my opinion. I would recommend that you go through each and every currency and hopefully you will understand them better.

Let's get started!

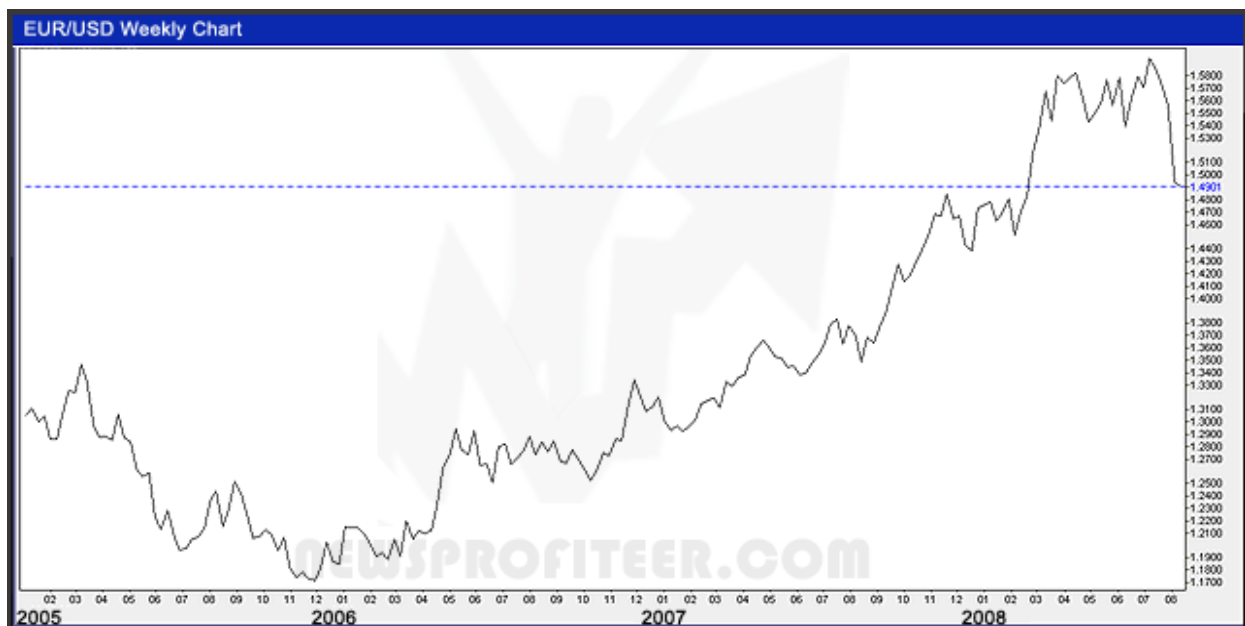
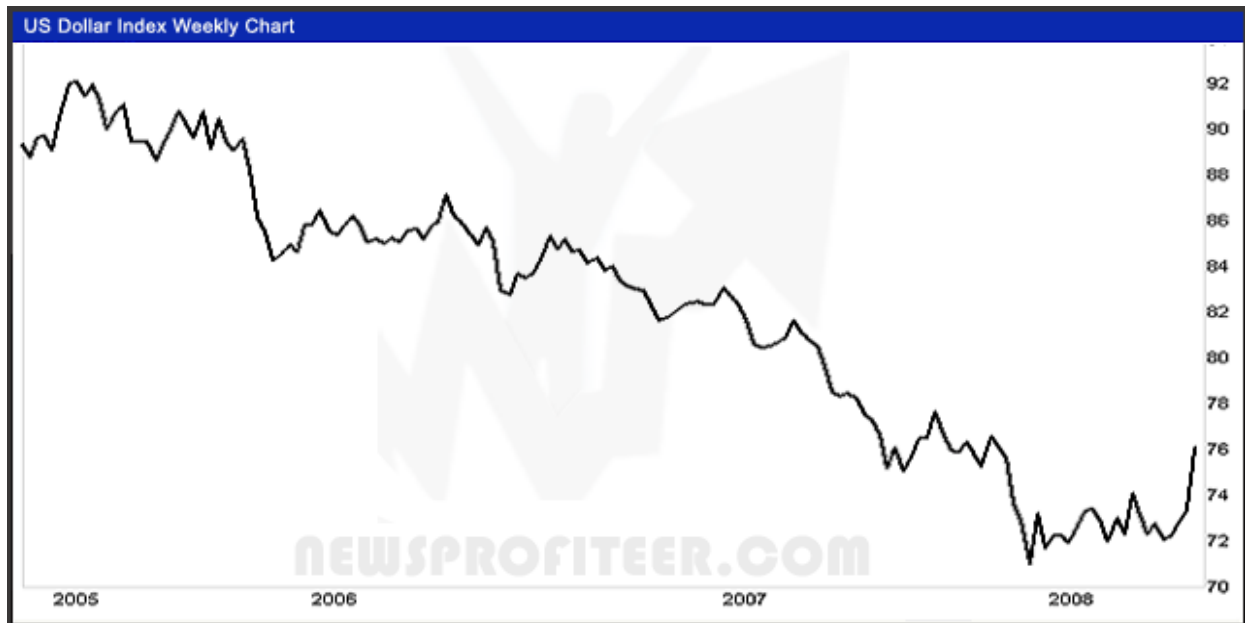


- The original Euro Zone is made up of 12 countries, and they are: Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, and Spain.
- The major countries in the EURO Zone are: **France, Italy, Germany, and Spain.**
- There are over 500 million people using Euro as their currency.
- The EUR/USD is one of the most traded currency pair in the Forex Market. **It covers about 50% of all the activities of the Forex Market.**
- EUR/USD valuation is primarily driven by the US Dollar Index. **Since US Dollar is on 90% of all currency trades.** USD is the dominant currency.
- US Dollar Index is made up of: Euro 58%, Yen 13%, Pound 12%, Canadian 9%, Swedish Kroner 4% and Swiss Franc 4%. (AUD & NZD are not included in the Index)

By looking at correlations of USD/CHF and EUR/USD, one can use movements on the Swiss Franc as gauge to market sentiment.

If USD is weak, EURO gets a default boost as it is the 2<sup>nd</sup> most traded currency. If USD is strong, EURO will be weak as default.

## US Dollar Index & EUR/USD 3 Year Chart



## News Profiteer's Definitive Guide to Fundamental News Trading

---

<u>Euro Zone</u>	<u>United States</u>
<b>Central Bank Governor:</b> Jean Claude Trichet	<b>Central Bank Governor:</b> Ben S. Bernanke
<b>Voting Members:</b> Lucas D. Papademos Guy Quaden, Axel A. Weber, Nicholas Garganas, Miguel Frenandez Ordonez, Christian Noyer, John Hurley, Mario Draghi, Yves Mersch, Nout Wellink, Klaus Liebscher, Vitor Manuel Ribeiro Constancio, Marko Kranjec, Erkki Liikanen.	<b>Voting Members:</b> Timothy F. Geithner, Thomas M. Hoenig, Donald L. Kohn, Randall S. Kroszner, Eric S. Rosengren, Frederic S. Mishkin, Charles L. Evans, William Poole, Kevin M. Warsh
<b>Current Interest rate:</b> 4.25%	<b>Current Interest rate:</b> 2.00%



- GBP, Sterling, Cable, or Pound is the official Currency for the United Kingdom.
- **London** is the world's largest financial center, dominated by financial services such as Banking and Insurance. Therefore its currency is also very sensitive to equity market news.
- GBP/USD makes up about 14% of all Currency traded in the Forex Market according to 2004 study. It is more likely about 10~12% today.
- GBP is the only one of the major currencies traded in the Forex Market that is not linked in some way to a global Commodity.
- Therefore, Sterling is susceptible to wilder moves because of the lack of anchors in commodities.
- Sterling is also more likely to be driven by Market Sentiment.
- GBP/USD pair is known to make fake moves before London open. The best time to trade this pair is actually after 3:00am. News releases usually at 4:30am. (New York Time)

## News Profiteer's Definitive Guide to Fundamental News Trading

---

- Due to the low liquidity situation during the Asian Session, GBP/USD may appear to be trending in one direction, only to have the entire movement reversed around London Open.
- London bank traders are known to take profits just around their market open. According to an ex-bank trader that if at the beginning of the day their trades (from the previous day) are already in profit, in order to keep their books in positive standing for the rest of the day, they will take profits and close the trades.

GBP/USD and GBP/JPY are very volatile currencies and are known for their tendency to move in a whipsaw during trading sessions.

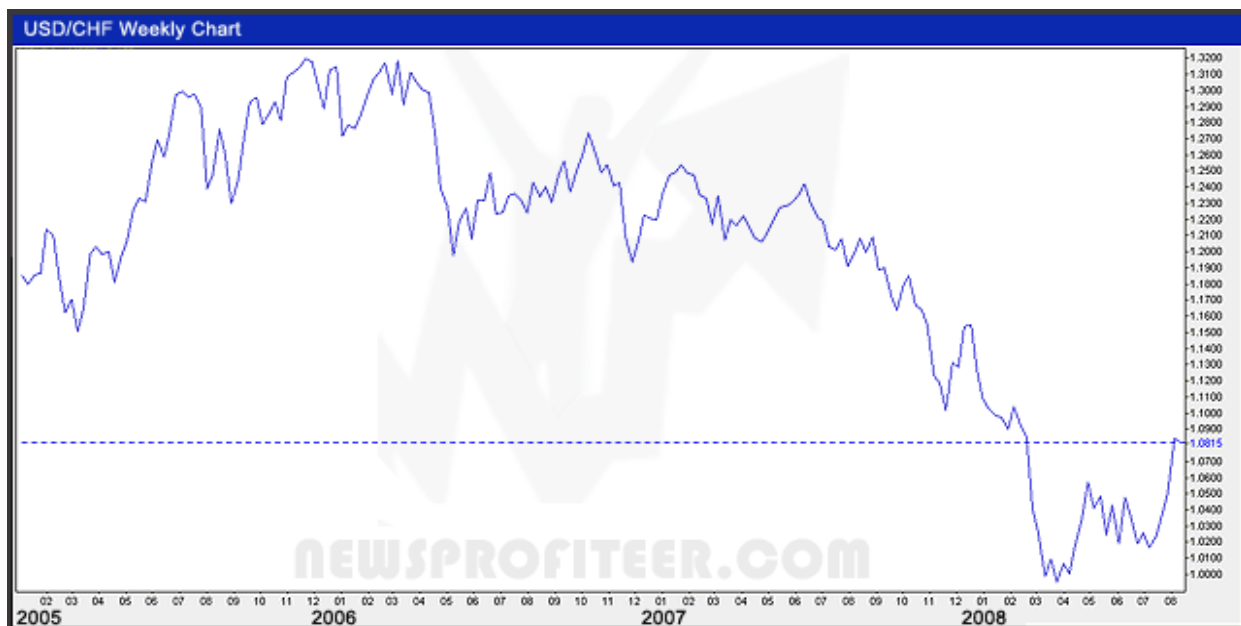
<u>United Kingdom</u>	<u>United States</u>
<b>Central Bank Governor:</b> Melvyn King	<b>Central Bank Governor:</b> Ben S. Bernanke
<b>Voting Members:</b> Kate Barker, Charles Bean, Tim Besley, David Blanchflower, Andrew Sentance, Paul Tucker, John Gieve, and Spencer Dale.	<b>Voting Members:</b> Timothy F. Geithner, Thomas M. Hoenig, Donald L. Kohn, Randall S. Kroszner, Eric S. Rosengren, Frederic S. Mishkin, Charles L. Evans, William Poole, Kevin M. Warsh
<b>Current Interest rate:</b> 5.00%	<b>Current Interest rate:</b> 2.00%



- Switzerland's official currency is the Swiss Franc, or CHF
- Switzerland's official policy is to maintain Neutrality. Therefore:
- Swiss Franc is known as the **safe-haven currency of the world**. It is the mandate of the Swiss government to control and maintain its currency value actively.
- Swiss Franc will keep its value against depreciation, although the interest rate is minimal (just enough to offset inflation), it is the one currency that trader sought after during Geo-Political uncertainties and for Risk Aversion.
- Swiss Franc makes up about 4% of the total activities in the Forex Market.
- Swiss Franc has a direct long-term correlation link to the US Treasury Yield. (One of the most secure instrument in the world backed by the entire assets of the U.S. Government)
- CHF will move ahead of EURO and GBP. You can use USD/CHF to gauge market sentiment.
- During recent Carry Trade unwinding, (JPY related pairs), CHF has consistently traded higher than the USD Dollar.

# News Profiteer's Definitive Guide to Fundamental News Trading

## US 10-Year Treasury Yield & USD/CHF Chart



### Switzerland

**Central Bank Governor:** Jean-Pierre Roth

**Voting Members:** Jean-Pierre Roth, Philipp Hildebrand, Thomas Jordan

**Current Interest rate:** 2.75%

### United States

**Central Bank Governor:** Ben S. Bernanke

**Voting Members:** Timothy F. Geithner, Thomas M. Hoenig, Donald L. Kohn, Randall S. Kroszner, Eric S. Rosengren, Frederic S. Mishkin, Charles L. Evans, William Poole, Kevin M. Warsh

**Current Interest rate:** 2.00%

## News Profiteer's Definitive Guide to Fundamental News Trading

---

Due to the nature of the correlation of CHF and the 10 year treasury Yield, during the days where we see them move in tandem we know that the movement is more likely to hold.

Why use the 10-year Treasury Yield Note and what is a Treasury note? A Treasury note is nothing more than a promise to pay by the U.S. Government for its face value and the interest that it bears. US Treasury bill is known as the most secure investment in the world as it is guaranteed by the U.S. Government. We use the 10 year note because of its impact on long-term interest rate, and also when investors move out of the equity market, they tend to invest in treasury notes and bonds.

Most central banks maintain their foreign Dollar reserves in the form of 10-year T-notes due to the time to maturity. T-notes also have a great impact on the mortgage industry as it is used to determine the mortgage rate in the form of a premium above the established rate, the rate being the T-note rate.

When the Federal Reserve raises interest rate, they buy back T-notes to reduce supply, thus increasing the return value on all T-notes in circulation. When the Feds cut interest rate, they issue more T-notes to reduce the return value of all circulating T-notes as well.



- CAD, Loonie, or Canadian Dollar is the official currency of Canada.
- CAD is a commodity currency. Its valuation is driven by Crude Oil Prices.
- Canada has the second largest Oil reserves in the world, behind Saudi Arabia.
- Because of the recent rise of Crude Oil Prices, CAD has appreciated way above normal levels. It has broken Parity level with the US Dollar several times.

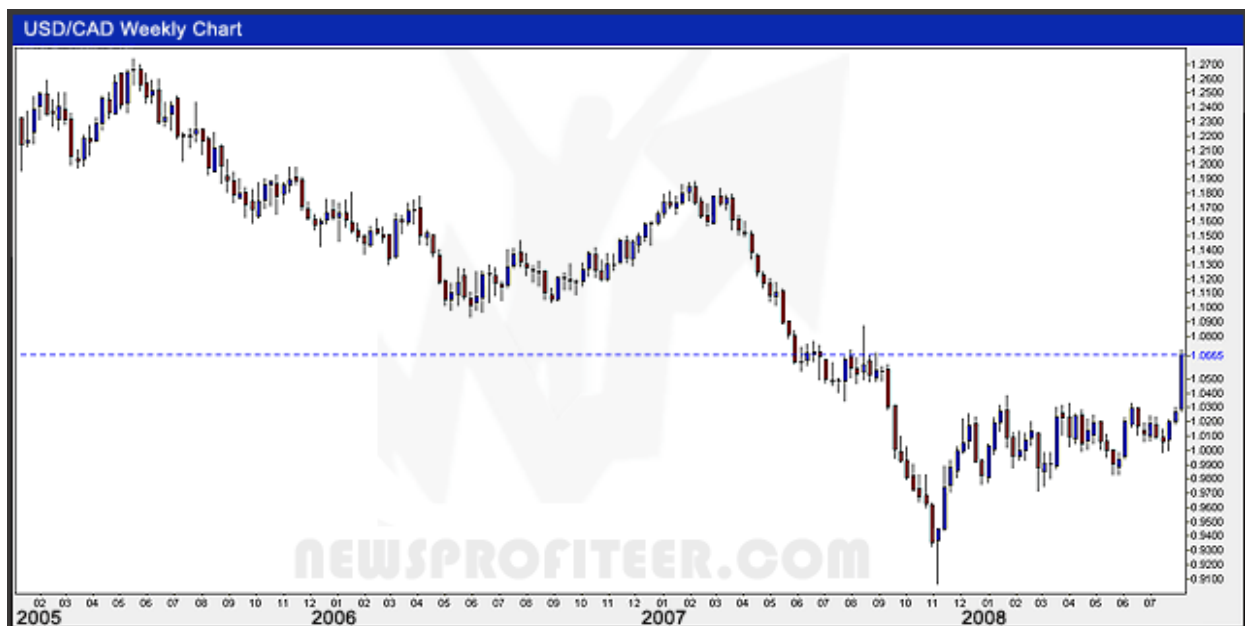
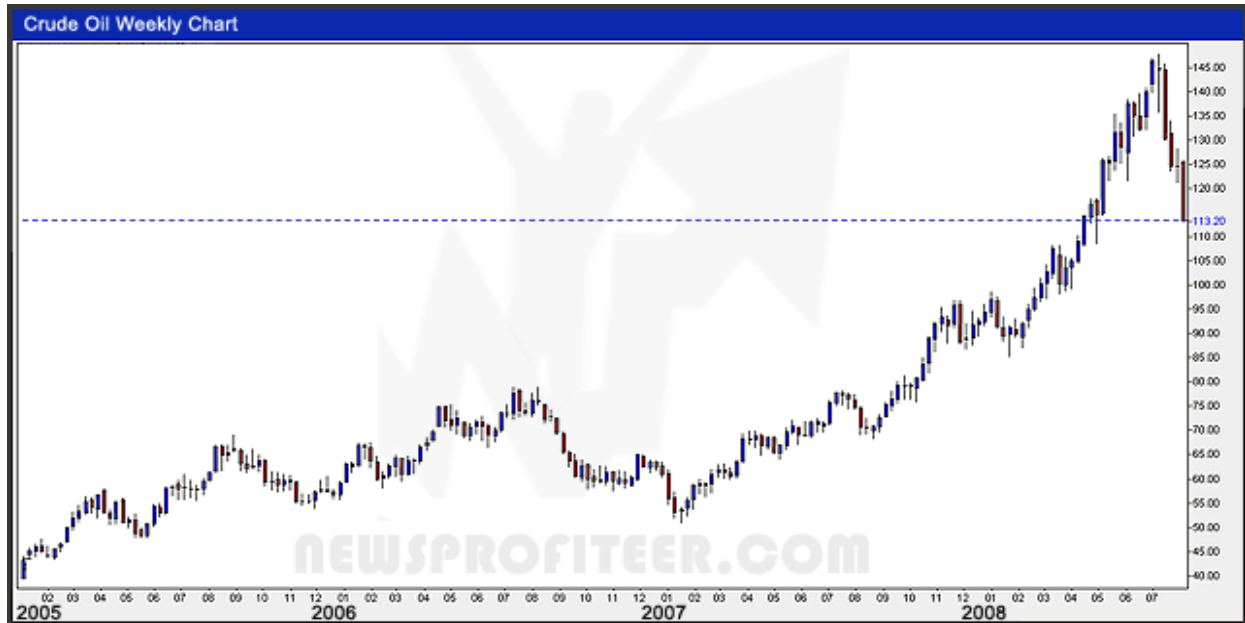
## News Profiteer's Definitive Guide to Fundamental News Trading

---

- Recent news out of Canada (Apr. 08) suggested that its economy might be affected by US. Since United States is the number one importer of Canadian goods.
- USD/CAD makes up about 4% of all the activities of the Forex Market.
- We trade news releases from Canada regularly. Usually release times are either 7:00am or 8:30am NY Time.
- When trading USD/CAD, you must be aware of the intraday Crude Oil prices.
- Oil is priced internationally in US Dollar. If Oil goes up, USD goes down, USD/CAD goes down. If Oil goes down, USD goes up, USD/CAD goes up.



## Crude Oil 3-year Chart and USD/CAD Chart



## News Profiteer's Definitive Guide to Fundamental News Trading

---

<u>Canada</u>	<u>United States</u>
<b>Central Bank Governor:</b> Mark J. Carney	<b>Central Bank Governor:</b> Ben S. Bernanke
<b>Voting Members:</b> Mark J. Carney, W. Paul Jenkins, Sheryl Kennedy, Pierre Duguay, David Longworth	<b>Voting Members:</b> Timothy F. Geithner, Thomas M. Hoenig, Donald L. Kohn, Randall S. Kroszner, Eric S. Rosengren, Frederic S. Mishkin, Charles L. Evans, William Poole, Kevin M. Warsh
<b>Current Interest rate:</b> 3.00%	<b>Current Interest rate:</b> 2.00%

Since global commodity prices are pegged to the USD, a contract to buy crude is an automatic contract to sell USD and vice versa. Most Oil exporting countries keep their foreign reserve with a different currency rather than USD because of this reason, for instance, Saudi Arabia uses the Euro.

In Forex Market, if USD is losing against Euro, one can expect that the US Dollar Index is lower, therefore ALL commodities (because they are pegged to the USD) are going to be traded higher by default.

Canadian Dollar is also affected by the amount of Oil Reserves in the U.S. If the reserves are high, then Canadian dollar will drop in value as crude prices drop. U.S. is of course the number one client for Canadian oil export.

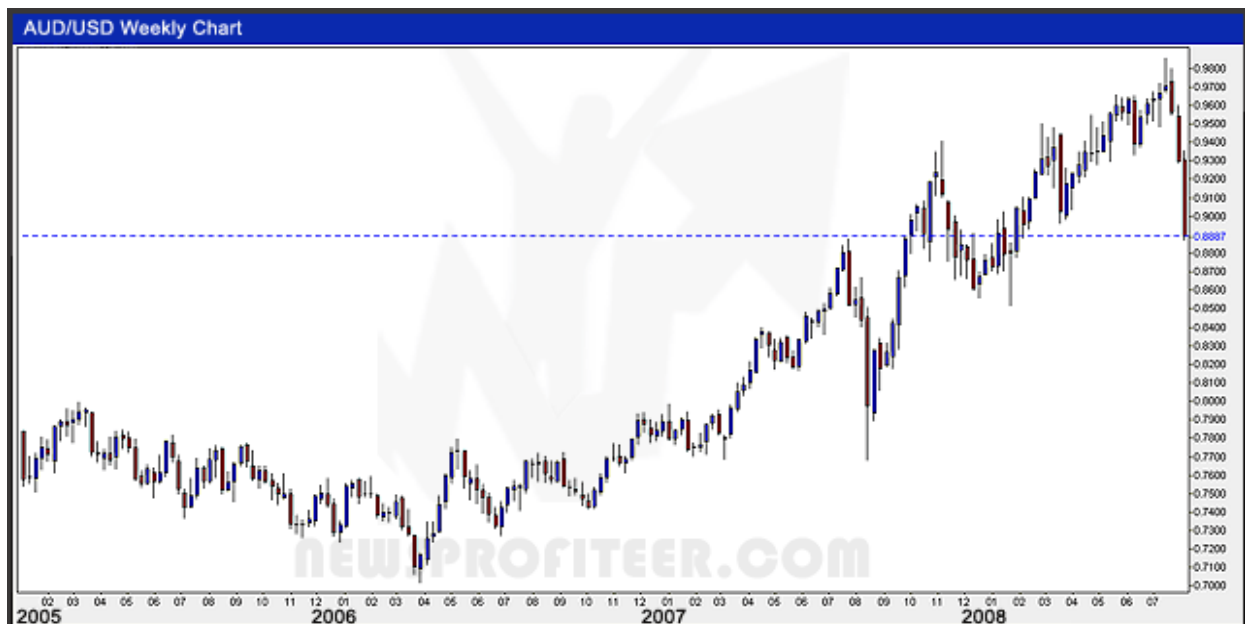


- Australian Dollar (AUD) is the official Currency for the Commonwealth of Australia.
- AUD/USD makes up for about 4% of the total Forex Market activity, it is the 6th most traded currencies in the world.
- AUD has a very high interest rate, it could be the “new” carry trade for the future if US keep on cutting its interest rate.

## News Profiteer's Definitive Guide to Fundamental News Trading

- AUD is also a commodity currency. It has a long-term correlation with Gold Index.
- We trade Australian News releases around 9:30pm NY Time.

### Spot Gold and AUD/USD Chart



## News Profiteer's Definitive Guide to Fundamental News Trading

---

<b><u>Australia</u></b>  <b>Central Bank Governor:</b> Glenn Stevens  <b>Voting Members:</b> Glenn Stevens, Ric Battellino, Ken Henry, John Akehurst, Jillian Broadbent, Roger Corbett, Graham Kraehe, Donald McGauchie, Warwick McKibbin  <b>Current Interest rate:</b> 7.25%	<b><u>United States</u></b>  <b>Central Bank Governor:</b> Ben S. Bernanke  <b>Voting Members:</b> Timothy F. Geithner, Thomas M. Hoenig, Donald L. Kohn, Randall S. Kroszner, Eric S. Rosengren, Frederic S. Mishkin, Charles L. Evans, William Poole, Kevin M. Warsh  <b>Current Interest rate:</b> 2.00%
--	---

Gold is considered as “safe” investment compared to the Stock market. In times of uncertainty and turmoil, investors move their investments into Gold. During times of prosperity, investments are moved out of Gold into other higher yielding instruments.

Gold are being used heavily as a hedge to inflation to protect assets from future declines.

As Gold is also pegged to the U.S. Dollar; a contract to buy Gold is an automatic contract to sell USD.



### Japanese Yen (carry trade)

- Japanese Yen, JPY, is the official currency of Japan.
- It is the 3rd most traded currencies in the world, behind US Dollar and the Euro.
- USD/JPY makes up for about 17% of the total Forex Market activities.
- Due to the low interest rate of Yen, it is particularly attractive for investors to SELL JPY against other currencies, especially the GBP/JPY pair with a huge interest rate difference. **(Risk Appetite)**

## News Profiteer's Definitive Guide to Fundamental News Trading

- It is also why Yen carry trades have a long-term correlation link with the Equity market.
- When Equity Market is lower, **Risk Aversion** is in place, higher yielding currencies such as AUD, GBP, NZD get sold off against the Yen
- When Equity Market is higher, **Risk Appetite** is in place, lower yielding currencies such as YEN and maybe US Dollar get sold off against GBP, AUD, and NZD.

### S&P 500 and EUR/JPY 3-year Chart



## News Profiteer's Definitive Guide to Fundamental News Trading

---

<b><u>Japan</u></b>  <b>Central Bank Governor:</b> Masaaki Shirakawa  <b>Voting Members:</b> Toshiro Muto, Kazumasa Iwata, Miyako Suda, Atsushi Mizuno, Kohiko G.Nishimura, Tadao Noda, Seiji Nakamura , Hidetoshi Kamezaki  <b>Current Interest rate:</b> 0.50%	<b><u>United States</u></b>  <b>Central Bank Governor:</b> Ben S. Bernanke  <b>Voting Members:</b> Timothy F. Geithner, Thomas M. Hoenig, Donald L. Kohn, Randall S. Kroszner, Eric S. Rosengren, Frederic S. Mishkin, Charles L. Evans, William Poole, Kevin M. Warsh  <b>Current Interest rate:</b> 2.00%
--	---

Ok, that is about it for all major currencies. I left out NZD (or Kiwi) on purpose because it is very similar to AUD in many ways. As a matter of fact, major news from Australia usually affects the Kiwi and vice versa.

As a conclusion for this section, let me leave you with few general trading tips:

- Sometimes when the news come out suggesting that the currency pair goes in one direction, but instead of moving in that direction the market turns opposite and move against the fundamental news in a whipsaw fashion. **Do not ignore this!** There must be an underlying reason for this move and you just didn't see it. Stay flexible and get ready to follow the trend.
- **Support and Resistance areas** are basically areas layered with orders. Support areas have tons of BUY orders ready to be picked up, therefore when the market travels to that area, it stops and reverses; vice versa with Resistance areas. You can see these areas by looking at hourly charts of recent highs and recent lows. What's interesting is that Market Makers will push the market to the S/R areas, and then wait to see if it breaks through. Usually just beyond the Support areas you will see large SELL orders, and BUY orders just beyond the resistance area. Once these S/R areas have been taken out, market will resume its trend. Use this information to plan your trade.

- **Forex Options expire between 9:30 ~10:30 am EST everyday, you will see heavy market movements as dealers are trying to move the market before the options expire. Be extra careful as the dealers might push the market to a price point and exercise the options and then price reverses. Sometimes news events will move the market before 9:30am, and then the move will continue until 11:00am.**
- **11:00am ~ Noon where London Market closes. Many profit taking and order covering will occur, it is best to also take your profits for short term trades.**
- **Friday's are usually the day that bank traders and dealers try to square their books. If they have lost money during the week, they will try to break even on Friday; if it is the last Friday of the month, then they might try to recover their losses for the whole month; if it is the last Friday of the quarter, then they will try to recover their losses on Friday. Be very careful during Friday's since the market might not respond well to news events, technical analysis, or just common sense. Take smaller profits and get out fast.**

## Chapter 9 – Money Management

Trading the news requires a sound money management plan and a low risk to reward ratio. This Money Management Plan will not only benefit your news trading, but by applying it to all your trading decisions, you will see a significant increase in both profit and consistency.

The first rule in money management is to protect your money. If you take unnecessary risks all the time, you **will** lose your entire account. The first step is to determine your leverage and your lot size.

Your maximum leverage should not be more than 8 times of your available deposit amount. I know some brokers will offer you a 200:1 or even 400:1 leverage, but if you are not using it fully, it doesn't really benefit you. If you were to use a 400:1 leverage on a \$25,000 account fully, you would have to trade 100 standard lots. No one in their right mind will trade 100 standard lots using a 400:1 leverage. Every pip will either make you \$1,000 or cost you \$1,000, and you will be paying \$3,000 in spread cost just to get in on a trade.

On a side note: Most brokers offering 200:1 or 400:1 accounts are secretly hoping and wishing that you over-leverage your account. They may have a dealing desk trading against you, and it is just a matter of time before you get margined out... They have a license to rob you blind...legally.

Remember that trading Forex is similar to, in many ways, betting in a casino. The house will always win. If you use a sound money management plan, you will stay long enough to catch the big moves and make some real money, whereas people who over-leverage their accounts won't have the chance.

Therefore, if you have a \$25,000 account, you should trade no more than 8 times your money, which is \$200,000, or 2 standard lots. If you were trading a currency pair that requires more margins, then you should only trade 1 standard lot per every \$25,000.



## News Profiteer's Definitive Guide to Fundamental News Trading

---

You should also put a limit to your daily loss to no more than 2% of your account. In our case of \$25,000 account, you should not lose more than \$500 per day. That is 25 pips per lot if you trade 2 lots, or 50 pips if you trade 1 lot.

In the case of trading fundamental news, I would suggest that you divide your total trading lots to 2. Using our \$25,000 example, you would trade 1 Lot per trade up to 2 trades at a time.

No matter how many lots that you trade, the basic rules of order management is simple. You want to lock in your profit and never let a winning trade go negative on you. Our news trades are considered successful once it reaches 15 pips of profit; therefore there is absolutely no reason why after a 15 pips of profit you would still let the trade go negative on you. Always move your stop to breakeven or lock in 1 pip of profit when you are up to 15 pips.

Once you get 20 pips of profit, close 50% of your position guaranteeing you a profit, and leave the stop/loss at either breakeven or 1 pip profit, and let the market ride. 75% of the time you will end up with 1 pip or breakeven, but the other 25% of the time you will end up winning 50, 100, or even 200 pips.

Once you have taken profit on the first 50% of your position and lock in your remaining 50% with profit, you are no longer risking any capital. It will no longer count as part of your leverage. You may take on other trades.

For example, you Bought 1 Lot of EUR/USD and Sold 1 lot of USD/CHF, and you have taken 20 pips profit on both with 0.5 Lots and still have 0.5 Lots USD/CHF and EUR/USD riding the market, you are free to trade 2 more lots since you are not risking anything with your current open trades.

Another important aspect to money management is your daily goals. Set realistic goals by looking at your monthly target. If you have a \$25000 account and you would like to make 20% return per month, or \$5000, you need to generate about \$250 per day. That's 25 pips of profit on 1 lot. Therefore, if you are trading 1 lot per currency pair, you would stop trading for the day once you have 2 successful

## News Profiteer's Definitive Guide to Fundamental News Trading

---

trades. Of course if you follow the 50% rule with the order management, you could make more, without taking additional risk.

Your goals will determine your risk factor. If you plan to make 50% return on your account per month, be prepared to lose up to 50% of your account. A realistic number will be anywhere from 5% to 25% of the account. Anything above that is too risky. Trading is a business, and to run a successful business you need capital. If you only have \$5000, don't expect to make \$10,000 by the end of the month. Go for something more realistic like \$1,000 or even \$1,200, but never expect to double or triple your account size.

Here are my basic trading plan guideline:

**\$25,000**  
Initial Deposit

**/ 20%** Monthly Return

1. Trade up to 2 standard lots at a time.
2. Trade only 1 standard lot per currency pair.
3. Move stop/loss to break even once you are up 15 pips of profit.
4. Take profit at 20 pips with 0.5 lot and let the other 0.5 lot run.
5. Do not take any more trades once you lose \$500 per day.
6. Do not trade more than 2 currency pairs at a time.
7. Once you reach \$250 of profit daily, stop taking on new trades.

**\$50,000** / **20%** Monthly  
Initial Deposit Return

1. Trade up to 4 standard lots at a time.
2. Trade only 2 standard lots per currency pair.
3. Move stop/loss to break even once you are up 15 pips of profit.
4. Take profit at 20 pips with 1 lot and let the other 1 lot run.
5. Do not take any more trades once you lose \$1000 per day.
6. Do not trade more than 2 currency pairs at a time.
7. Once you reach \$500 of profit daily, stop taking on new trades.

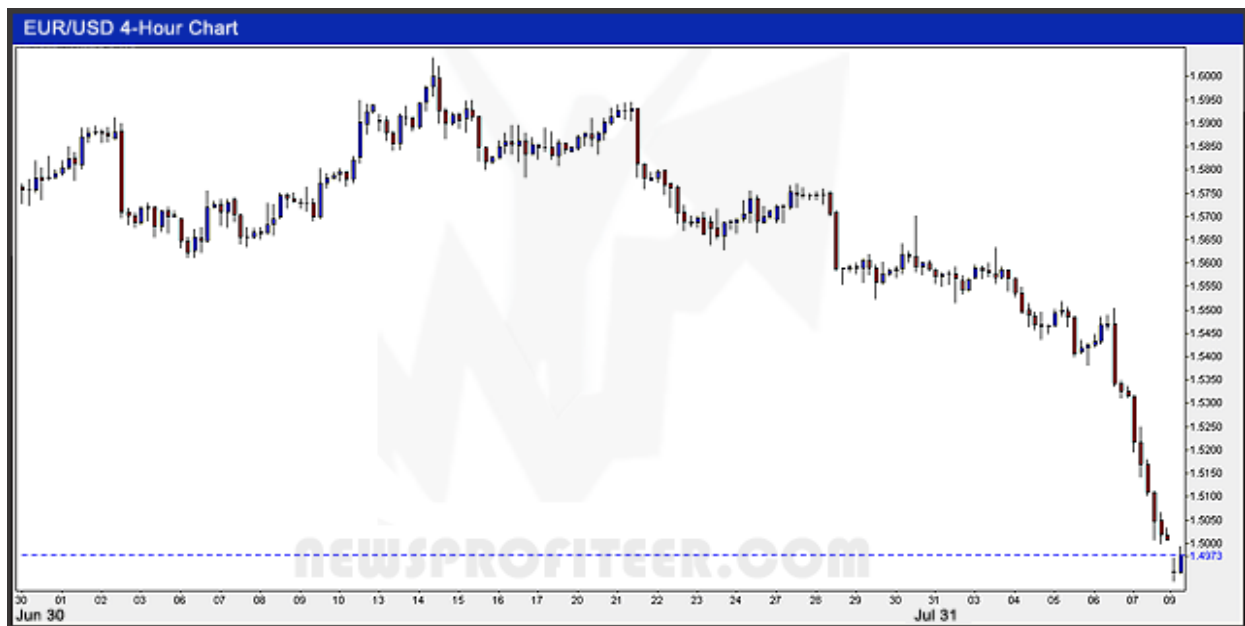
**\$100,000** / **20%** Monthly  
Initial Deposit Return

1. Trade up to 8 standard lots at a time.
2. Trade only 4 standard lots per currency pair.
3. Move stop/loss to break even once you are up 15 pips of profit.
4. Take profit at 20 pips with 2 lots and let the other 2 lots run.
5. Do not take any more trades once you lose \$2000 per day.
6. Do not trade more than 2 currency pairs at a time.
7. Once you reach \$1000 of profit daily, stop taking on new trades.

## Chapter 10 – Sentiment Trading (Long Term Trading)

This is actually one of my favorite subjects, Sentiment Trading. Sentiment trading is basically trading **with** market sentiments. The concept is pretty simple, find out what the market sentiment is, and place a trade in the direction of market sentiment.

So, how can we find out what is the market sentiment? Well, look at this 4-hour chart below; can you spot a trend? That is pretty much your long-term market sentiment.



There are actually 2 types of market sentiment, one being long term sentiment and the other being short term. We cannot really take advantage of the long term sentiment as retail traders, because we don't have the financial backing to sit through market volatility; however, short term sentiment is where we can make good money.

Short term sentiment is driven by fundamental news. If the market is expecting a better than forecasted news release, it will try to price in the outcome days before the actual news release. It is often called "Buy Rumor and Sell Fact". For example, if the market is expecting ECB to raise interest rate next week, we will

## News Profiteer's Definitive Guide to Fundamental News Trading

---

see EUR/USD going up few days, even a week before the actual ECB announcement, to price in the rate hike. During the actual interest rate announcement, where the market has already priced in the hike, might start to SELL EUR/USD and drive market lower as major players scramble to cover their original long orders and take profits.

So how can you benefit from this type of trading? Well, here are some basic rules for you to follow:

- Always look ahead a few days and be aware of any upcoming major news releases such as interest rate announcements, CPI, GDP, Central Banker speeches, etc...
- Pay attention to recent news announcements and watch market reaction. If a seemingly negative news release is unable to move the market by much (or vice versa), then there must be a reason why.
- Always keep in mind of the relationships between different news releases. Retail Sales to GDP, PPI to CPI, etc... If we get a much better than expected Retail Sales figure this week, market will tend to expect a better than expected GDP next week, therefore take advantage of this sentiment.
- Watch the market closely the day before the major announcement. Preferably at the end of Tokyo session or earlier for European news releases, or at the end of London session for U.S./Canada news releases.
- Place a trade in the direction of the market if you see a short term trend establishes, and make sure to close the trade **before** the actual news release. Market Sentiment has absolutely no effect on the actual result. If you can make anywhere from 40 pips to 100 pips per sentiment trade, it is good enough. There is no need to make the extra points from the news release. You can trade the retracement of the news release and take your profits.
- Read market analysis by different economists. Read my weekly outlook and learn how to read the market.

## News Profiteer's Definitive Guide to Fundamental News Trading

---

- Not every major news release is sentiment tradable. If the market is confused, then sit it out. Only trade the market when you see a clear, established short term trade.

Once again, market will try to price in a high impact news release few sessions before the actual release. This price in market action is called short term Market Sentiment. For instance, if there is an overwhelming consensus that a certain central bank is going to cut rate, we should be looking at its currency at least a day before and try to "price in" our trade, just like most major players by selling it ahead of time.

Retail traders don't see this simple fact. People just follow the market without asking why. As a herd, traders are not very perceptive. However, as individual traders, if we just keep an eye on future events, it is not hard to predict what the market is going to do one week ahead of time.

We have to understand that the market does not move based on Technical Analysis or just some moving averages crossing. If this is what Forex is all about, then we should have 95% of winners in the Forex Market. But I think the opposite is true. Most traders would rather choose the complicated method, although they don't understand it, rather than choose an easy, simple method because they think that trading couldn't be this easy... It is the same idea as if you raise the price on a certain item will add more perceived value to it, even though it is the same item.

So market sentiment is to understand market psychology. Traders overreact and over exaggerate trades. That is exactly what we are counting on.

How do we determine what kind of sentiment, bearish or bullish? There are actually 2 different ways.

**Price Action:** There is absolutely nothing better than simple price action. Look at how the market is trading prior to the high impact news scheduled next session or two. If you see market is buying USD, then it is safe to assume that the current

short-term trend and market sentiment is USD bullish. We will be looking at support areas on a pull back to enter LONG USD.

**Fundamental News Relationships:** This requires that you understand how each news release is released with one another. I will try to list a few below, but I don't think I can cover everything... but once you know what you are looking for, you will get used to these relationships:

Here is a list of news release relationships. Usually when the first news release is better than expected, expectations will start to build prior to the second news release for better than expectation figures. This will help you to identify the market trends and possibly enter on a sentiment trade.

- a. **PPI -> CPI:** A high PPI will affect market sentiment towards a better CPI release.
- b. **Retail Sales -> GDP:** Retail sales in emerging countries such as the US makes up about 2/3 of the market. If Retail Sale is good, then possibly we will see better GDP.
- c. **Unemployment, Jobless Claims, Unemployment rate -> Retail Sales:** If people are losing jobs, they will not have money to spend at the retail levels, therefore affecting the GDP as a whole.
- d. **Housing Data -> Durable Goods:** Especially in the U.S., a higher housing data will have a positive effect on durable goods because more people buy new houses equals to more people buying new appliances.
- e. **PMI -> GDP and General Economy:** Purchasing Manager Index, such as UK Manufacturing PMI, U.S.'s ISM Manufacturing PMI, Canada's IVEY PMI, all have an effect on the future GDP and the health of economy.

- f. **ADP -> NFP:** U.S. ADP has an impact on the expectation of NFP. But if we get an extremely out of norm reading, like NFP is expecting -50K and we get a +80K on ADP, then traders will probably just ignore this, thinking it is probably a mistake.

Just to give you an example... If the Retail Sales numbers for the past 3 months has been coming out better than expected in the U.S., then at the end of the quarter, one should expect to see higher GDP q/q release, as Retail Sales make up about 72% of the US GDP number. Therefore, few sessions or even a couple of days before the release of GDP, you should start to look for signs of stronger USD, and plan your entry for a sentiment trade in the direction of that expectation...

To perfect your entry, always look for entries during the Market Cycle times, as you'll probably get the best possible entry without having to endure massive swings in the market. More on Market Cycle below.



## Chapter 11 – Risk to Reward Ratio

Risk to Reward ratio is another important topic for Forex Trading. It is very important to evaluate your risk before taking a trade. If your reward is less than what you are risking, then it does not make sense to take the trade.

For example:

**U.S. Non Farm Payroll Projected Movement = 90 pips.**

If Pre-Release Price for EUR/USD is at 1.5900, once the news comes out, we see a quick drop to 1.5840.

### Original Scenario



**Entry:                   SELL EUR/USD @ 1.5840**

**Profit Target:       1.5810**

**Stop/Loss:           1.5900**

**Results: 60 pips of risk and 30 pips of profit = 2:1 risk to reward ratio.**

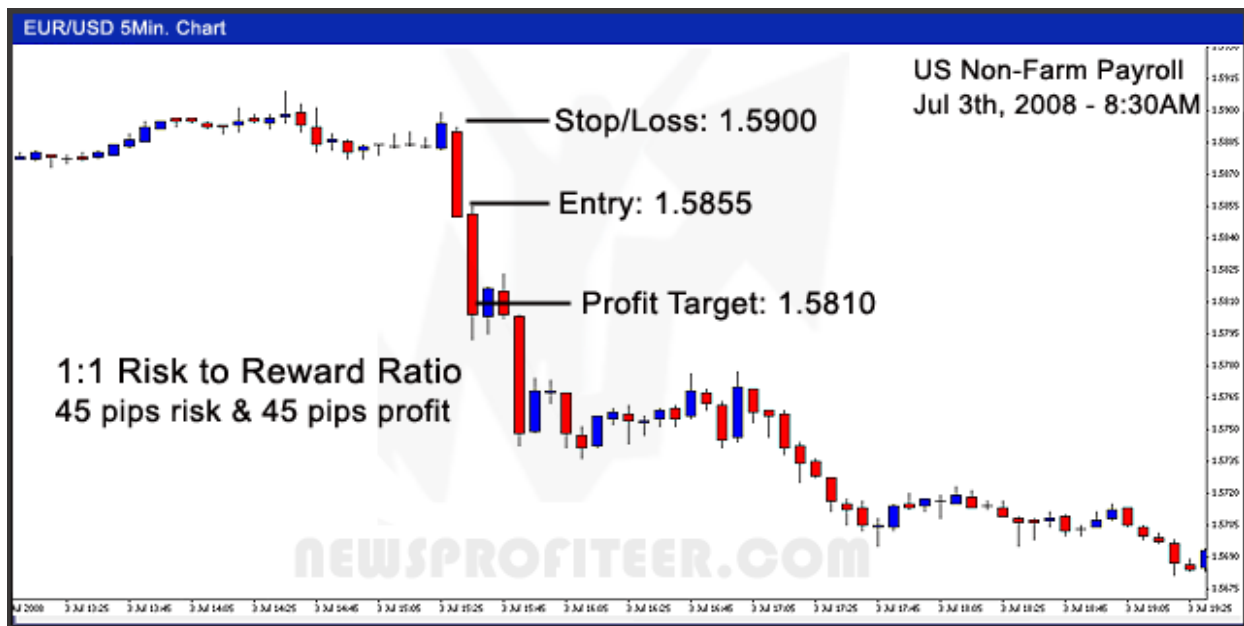
## News Profiteer's Definitive Guide to Fundamental News Trading

---

Now you have a choice, if you get in at this point, you might have to suffer retracement all the way back to 1.5900, which is 60 pips, and your profit target is only 30 pips, or 1.5810 (projected 90 pips movement). Your risk to reward ratio is actually 2:1, risking 60 pips to make 30 pips.

A more practical approach will be to wait until it retraces back to 1.5855, then enter with 1:1 risk to reward ratio, risking 45 pips to make 45 pips.

### Better Risk to Reward Ratio Scenario



**Entry:** SELL EUR/USD @ 1.5855

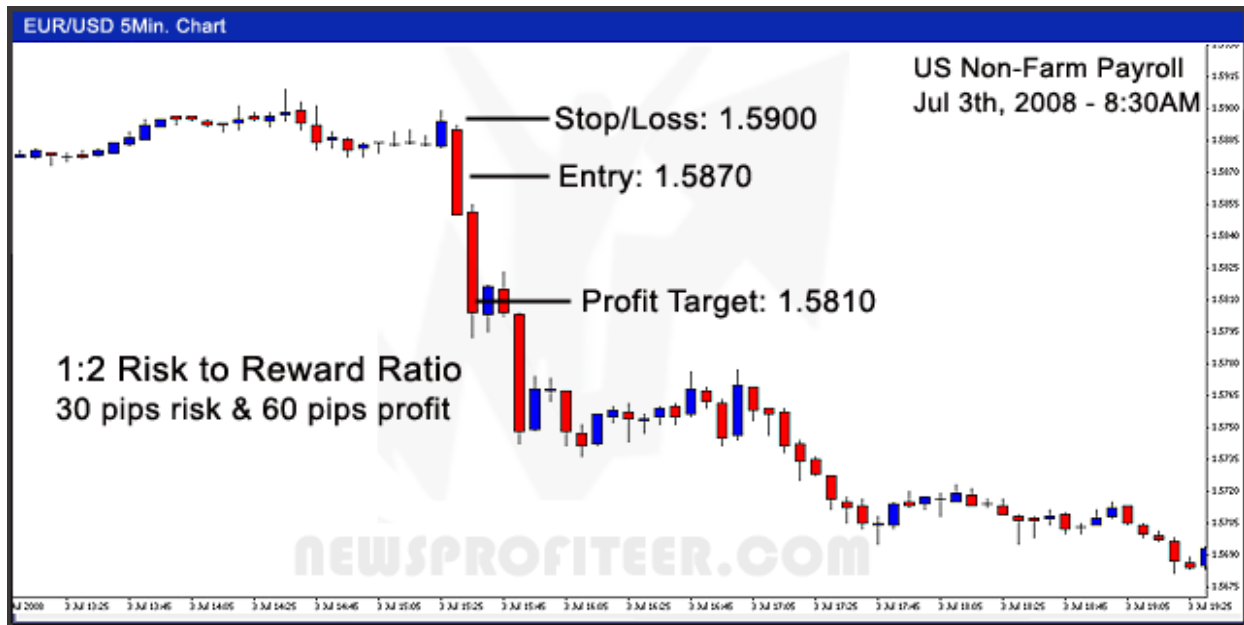
**Profit Target:** 1.5810

**Stop/Loss:** 1.5900

**Results:** 45 pips of risk and 45 pips of profit = 1:1 risk to reward ratio.

If you wait for it to come back at 1.5870, then you are getting a 1:2 risk to reward ratio, risking 30 pips to make 60 pips.

## Even Better Risk to Reward Ratio Scenario



**Entry:**                    **SELL EUR/USD @ 1.5870**

**Profit Target:**        **1.5810**

**Stop/Loss:**            **1.5900**


**Results: 30 pips of risk and 60 pips of profit = 1:2 risk to reward ratio.**

Always plan ahead when trading. If it does not match your plan, then do not trade. There is really no reason to take higher risk on a not ideal entry when there are so many opportunities to trade.

# News Profiteer's Definitive Guide to Fundamental News Trading

## Chapter 12 - Putting it all together

Let's take a look at the week of **Aug. 3-8, 2008's economic calendar, courtesy of [Forexfactory.com](http://Forexfactory.com):**


Aug 3 - Aug 9								Filter 
Date	 5:35am	Currency	Impact		Detail	Actual	Forecast	Previous
Sun Aug 3	6:45pm	NZD		Labor Cost Index q/q		0.8%	0.8%	0.7%
	7:50pm	JPY		Monetary Base y/y		-0.7%		0.4%
	9:30pm	AUD		HPI m/m		-0.3%	-1.1%	0.4% 
Mon Aug 4	3:30am	CHF		SVME PMI		54.1	53.4	54.9
	4:30am	EUR		Sentix Investor Confidence		-15.3	-10.0	-9.3
	4:30am	GBP		Construction PMI		36.7	37.6	38.8
	5:00am	EUR		PPI m/m		0.9%	0.8%	1.2%
	6:22am	USD		Challenger Job Cuts y/y		140.8%		46.7%
	All Day	CAD		Holiday: Civic Holiday				
	8:30am	USD		Core PCE Price Index m/m		0.3%	0.2%	0.2% 
	8:30am	USD		Personal Spending m/m		0.6%	0.5%	0.8%
	8:30am	USD		Personal Income m/m		0.1%	-0.1%	1.8% 
	10:00am	USD		Factory Orders m/m		1.7%	0.7%	0.9% 
	7:30pm	AUD		Services PMI		42.8		45.4
	11:06pm	NZD		ANZ Commodity Prices m/m		1.8%		0.0%
Tue Aug 5	12:30am	AUD		Cash Rate		7.25%	7.25%	7.25%
	12:30am	AUD		RBA Rate Statement				
	4:00am	EUR		Services PMI (r)		48.3	48.3	48.3
	4:30am	GBP		Manufacturing Production m/m		-0.5%	0.1%	-0.5%
	4:30am	GBP		Services PMI		47.4	46.7	47.1
	4:30am	GBP		Industrial Production m/m		-0.2%	0.1%	-0.9% 
	5:00am	EUR		Retail Sales m/m		-0.6%	-0.6%	0.5% 

# News Profiteer's Definitive Guide to Fundamental News Trading

	10:00am	USD		ISM Non-Manufacturing PMI		49.5	48.6	48.2
	2:13pm	USD		FOMC Statement				
	2:13pm	USD		Federal Funds Rate		2.00%	2.00%	2.00%
	7:01pm	GBP		Nationwide Consumer Confidence		51	59	62
	7:01pm	GBP		NIESR GDP Estimate		0.1%		0.2%
	9:30pm	AUD		Home Loans m/m		-3.7%	-2.1%	-6.9%
Wed Aug 6	1:00am	JPY		Leading Economic Index		91.2%	90.8%	92.9%
	5:32am	GBP		BRC Shop Price Index y/y		3.2%		2.5%
	6:00am	EUR		German Factory Orders m/m		-2.9%	0.4%	-1.4%
	10:00am	CAD		Ivey PMI		65.5	62.0	69.6
	10:35am	USD		Crude Oil Inventories		1.7M	0.1M	-0.1M
	6:45pm	NZD		Employment Change q/q		1.2%	0.1%	-1.3%
	6:45pm	NZD		Unemployment Rate		3.9%	3.8%	3.7%
	7:30pm	AUD		Construction PMI		41.6		40.3
	7:50pm	JPY		Core Machinery Orders m/m		-2.6%	-9.6%	10.4%
	9:30pm	AUD		Employment Change		10.9K	4.5K	22.2K
	9:30pm	AUD		Unemployment Rate		4.3%	4.3%	4.3%
Thu Aug 7	2:00am	EUR		German Trade Balance		18.1B	15.0B	14.5B
	2:45am	EUR		French Trade Balance		-5.6B	-4.6B	-4.7B
	4:00am	EUR		Italian Industrial Production m/m		0.1%	0.2%	-1.4%
	4:00am	GBP		Halifax HPI m/m		-1.7%	-1.5%	-2.0%
	6:00am	EUR		German Industrial Production m/m		0.2%	0.8%	-1.8%
	7:00am	GBP		Official Bank Rate		5.00%	5.00%	5.00%
	7:45am	EUR		Minimum Bid Rate		4.25%	4.25%	4.25%
	8:30am	CAD		Building Permits m/m		-5.3%	-1.0%	2.0%
	8:30am	EUR		ECB Press Conference				
	8:30am	USD		Unemployment Claims		455K	420K	448K

## News Profiteer's Definitive Guide to Fundamental News Trading

	10:00am	USD		Pending Home Sales m/m		5.3%	-1.0%	-4.9% 
	10:35am	USD		Natural Gas Storage		56B	60B	65B
	3:00pm	USD		Consumer Credit m/m		14.3B	6.6B	8.1B 
Fri Aug 8	1:00am	JPY		Economy Watchers Current Index		29.3		29.5
	1:45am	CHF		Unemployment Rate		2.5%	2.5%	2.5%
	2:45am	EUR		French Government Budget Balance		-32.8B		-50.1B
	4:00am	EUR		Italian Prelim GDP q/q		-0.3%	0.0%	0.5% 
	7:00am	CAD		Employment Change		55.2K	5.0K	-5.0K
	7:00am	CAD		Unemployment Rate		6.1%	6.2%	6.2%
	8:30am	USD		Prelim Nonfarm Productivity q/q		2.2%	2.5%	2.6% 
	8:30am	USD		Prelim Unit Labor Costs q/q		1.3%	1.4%	2.5%
	10:00am	USD		Wholesale Inventories m/m		1.1%	0.5%	0.9%

First of all, I recommend that you do this every Sunday afternoon before the market open. Quickly scan all high-impact tradable upcoming news releases (indicated with a red folder ) and note their release time. Then classify tradable news into their respective countries like the following:

<b>Canada:</b>	Wednesday	IVEY PMI
	Friday	Employment Changes
<b>Australia:</b>	Tuesday	Cash Rate
	Wednesday	Employment Changes
<b>U.S.A.:</b>	Tuesday	FOMC Statement
<b>United Kingdom:</b>	Tuesday	Services PMI
	Thursday	Official Bank rate
<b>Euro Zone:</b>	Thursday	Minimum Bid Rate, Trichet Press Conference

## News Profiteer's Definitive Guide to Fundamental News Trading

Canada:	Wednesday	IVEY PMI
	Friday	Employment Changes

Once you have classified them into their respective countries, now you can draw correlation with the news releases. The only thing that I can see from a glance is **Canada IVEY PMI and Employment Changes**. Since the IVEY PMI also have an employment component, if we get a better than expected number on IVEY PMI, we could expect a better Employment changes on Friday. Therefore, here is what I will be looking at for Canadian Dollar.

**Wednesday Plan:** Wait for IVEY PMI to be released, and then either trade the spike or trade the retracement with this news release.

**Result:** IVEY PMI came out better than expected, market dropped 28 pips from pre-release price and then retraced beyond the pre-release level within 1 hour. USD is showing exceptional strength for the entire session.



## News Profiteer's Definitive Guide to Fundamental News Trading

**Friday Plan:** If the market shows a stable established trend on Friday's London session, we will trade market sentiment on USD/CAD or EUR/CAD. If we see technical trend on Friday going the same direction as the IVEY PMI release, which was pro Canadian Dollar, we'll have the option to trade the spike, trade the retracement, or pre-news trade.

**Result:** Market did establish a trend of Pro US Dollar prior to the news release; however it is probably due to other factors. Therefore, sentiment was extremely USD/CAD long. We could have entered a long trade anytime during early London session and pickup 50~100 pips.

Then during the news release, if we traded pre-news, as the number came out extremely bad for CAD, with established bullish USD/CAD trend, we could have made up to 40 pips immediately after the news release. If we were trading the spike, the initial spike was about 50 pips. If we were trading the retracement, USD/CAD retraced within 18 pips of pre-release price, given the extreme negative surprise and well established USD bullish trend, you could justify a retracement entry and possibly make 15 to 25 pips of profit.





## News Profiteer's Definitive Guide to Fundamental News Trading

---

<b>Australia:</b>	Tuesday	Cash Rate
	Wednesday	Employment Changes

Australian Dollar will have its Interest Rate announcement early Tuesday morning. Here is what I have found by doing a little research (courtesy of Trade the News):

*- Seasoned Australian journalist Terry McCrann, a central bank watcher at The Daily Telegraph, kept banging his rate-cut drum yesterday, as he did at the weekend. McCrann argued that the RBA pushed interest rates higher than the required level, as insurance in case demand didn't slow fast enough. Now that economic data has demonstrated that demand is slowing quicker than anticipated, the RBA can take back the insurance and cut interest rates at today's meeting.*

*- It is interesting to note that a seasoned and well-respected journalist has put his reputation on the line, since none of the other notable central bank watchers have argued for a rate cut at today's meeting. "McCrann has been saying that the RBA is ready to cut today, though none of the other commentators came on board, so I don't think that the RBA seriously wanted to prepare the market for an August move," said Matthew Johnson at ICAP Australia. "I'm more agnostic, preferring to think that the RBA would wait and see about the H2 stimulatory factors and Q3 inflation outcome - but willing to respect the better access that these backgrounded journalists obtain." He added: "I can clearly see how they could have done the communiqué up, with references to further signs that major trading partners are slowing (Japan and Europe look ill, and the Chinese manufacturing PMI was sub-50 last week), the observation that commodity prices show some signs of having peaked, and a downgrade of financial markets - back to fragile, from 'difficult' in July. However, it must be kept in mind that August is the first meeting after the horror Q2 CPI result - and the last time they got surprised like this, they spent 'considerable time' discussing the case for a hike."*

## News Profiteer's Definitive Guide to Fundamental News Trading

**Tuesday Plan:** My interpretation, after doing my research on various news sources and reading different analysis, is that even if RBA leaves rate unchanged, we are still going to get very dovish accompanied statement. Furthermore, the recent trend on AUD/USD has been extremely bearish; this currency pair has dropped over 500 pips before this news release...

Therefore, it is ideal to do a pre-news trading by SELLING AUD/USD 5 minutes before the interest rate announcement. The situation was pretty much an one-way street, very low risk of a reversal and practical impossibility of a rate hike.

**Result:** RBA left its Cash Rate unchanged. But the accompanied statement was very pessimistic. With a well established SELL trend on AUD/USD, an immediate movement of 40 pips followed by a prolonged movement of 120 pips at the end of the day, with a total of 400+ pips of drop by the end of the week... Our pre-news trade turned out to be a great trade, yielding a minimum of 40 pips and a maximum of 400 pips of profit!



**RBA Glenn Steven's Statement:**

## News Profiteer's Definitive Guide to Fundamental News Trading

---

*At its meeting today, the Board decided to leave the cash rate unchanged at 7.25 per cent.*

*Inflation in Australia has been high over the past year in an environment of limited spare capacity and earlier strong growth in demand. This was evident again in the most recent CPI data. In these circumstances, the Board has been seeking to restrain demand in order to reduce inflation over time.*

*As a result of increases in the cash rate last year and early this year, additional rises in market interest rates and tougher credit standards, there has been a substantial tightening in financial conditions since the middle of 2007. Some further tightening has occurred over the past couple of months. Conditions in international financial markets remain difficult, with heightened concerns over credit persisting.*

*The evidence is that the tightening in financial conditions, in conjunction with other factors including rising fuel costs, and lower asset values, has restrained demand. **Indicators of household spending have continued to record subdued outcomes over recent months, and credit expansion to both households and businesses has slowed significantly.** Surveys suggest a softening in business activity, and there have also been some early signs of an easing in labour market conditions.*

*The rise in Australia's terms of trade that is currently occurring is working in the opposite direction, adding substantially to national income and ability to spend. At the same time, high prices of oil and a range of other commodities have added to global inflationary risks. They are also dampening growth in a number of countries.*

***Given the opposing forces at work, considerable uncertainty has surrounded the outlook for demand and inflation.** On balance, however, it is looking more likely that demand will remain subdued, and **economic growth will be fairly slow,** over the period ahead. Inflation is likely to remain relatively high in the short term, with the CPI affected by high global oil prices. Looking further ahead, inflation in both CPI and underlying terms is likely to decline over time, given the outlook for demand, provided wages growth remains moderate. The Bank's forecast remains that inflation will fall below 3 per cent during 2010.*

*Weighing up the available domestic and international information, the Board judged that the cash rate should remain unchanged this month. **Nonetheless, with demand slowing, the Board's view is that scope to move towards a less restrictive stance of monetary policy in the period ahead is increasing.***

**Wednesday Plan:** Wednesday's Employment number will probably be a non-event considering what happened during the rate decision previous day. Remember that the only reason employment changes figure has any impact on the currency market is the notion of better economy equals possibility of rate hike. But since RBA already made its bed, this news release will not change the trend. Therefore, we could trade the spike, trade the retracement, or pre-news trade by SELLING AUD/USD before the news.

## News Profiteer's Definitive Guide to Fundamental News Trading

---

**Result:** Employment Changes came better than expected but not enough to hit our deviation trigger. However, the sentiment was very Audi bearish, a sentiment trade during would've worked out very well. If a pre-news trade was entered, market would spike against you briefly by up to 35~40 pips, but then the underlying trend will take over during the New York Session next day, giving you a chance for a small profit or break even.



## News Profiteer's Definitive Guide to Fundamental News Trading

---

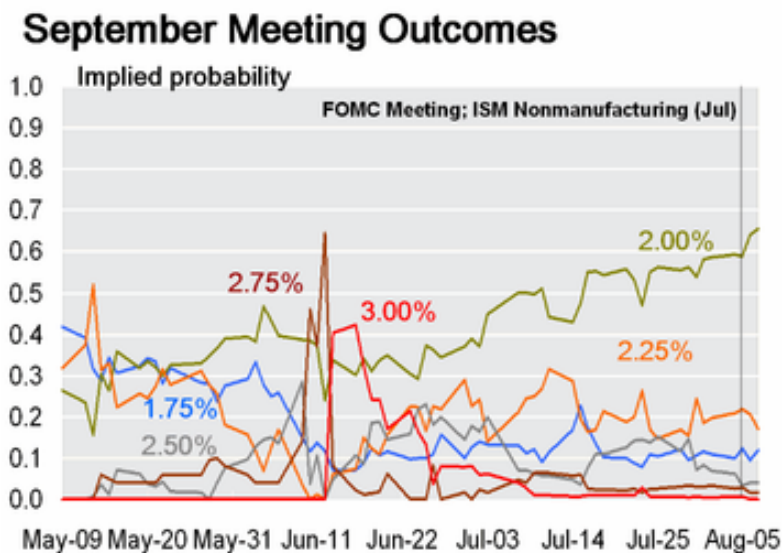
**U.S.A.:**

Tuesday

FOMC Statement

**Tuesday Plan:** I will be focusing on FOMC Interest Rate announcement, as it is one of the most volatile events. My plan is actually to wait for the announcement and try to decipher the statement. Therefore, if FOMC is hawkish, I will sell EUR/USD and BUY GBP/JPY, if FOMC is dovish, I will buy EUR/USD.

My research on this particular announcement yielded that FOMC will leave interest rate unchanged. There are no expectations of a surprise hike and no particular inclination to hawkish or dovish statements. Therefore my decision to wait and see is justified. Furthermore, Fed Fund Futures shows almost a 0% of a rate hike. Do a search on Google for Fed Fund Future; you'll see the following graph:



It shows that the upcoming September Rate decision, at present moment, has a 65% chance of 2.00% (unchanged), and 20% for 2.25% (hike), 10% for 1.75% (cut).

**Result:** FOMC decided to leave rates unchanged as expected. Accompanied statement was not extremely hawkish, lots of uncertainty and therefore no trade. Future outlook on the US Dollar is still moderate bullish for the time being.

# News Profiteer's Definitive Guide to Fundamental News Trading



## FOMC Statement:

*The Federal Open Market Committee decided today to keep its target for the federal funds rate at 2 percent.*

*Economic activity expanded in the second quarter, partly reflecting growth in consumer spending and exports. However, labor markets have softened further and financial markets remain under considerable stress. Tight credit conditions, the ongoing housing contraction, and elevated energy prices are likely to weigh on economic growth over the next few quarters. Over time, the substantial easing of monetary policy, combined with ongoing measures to foster market liquidity, should help to promote moderate economic growth.*

***Inflation has been high, spurred by the earlier increases in the prices of energy and some other commodities, and some indicators of inflation expectations have been elevated. The Committee expects inflation to moderate later this year and next year, but the inflation outlook remains highly uncertain.***

*Although downside risks to growth remain, the upside risks to inflation are also of significant concern to the Committee. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.*

*Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Elizabeth A. Duke; Donald L. Kohn; Randall S. Kroszner; Frederic S. Mishkin; Sandra Pianalto; Charles I. Plosser; Gary H. Stern; and Kevin M. Warsh. Voting against was Richard W. Fisher, who preferred an increase in the target for the federal funds rate at this meeting.*

## News Profiteer's Definitive Guide to Fundamental News Trading

---

<b>United Kingdom:</b>	Tuesday	Services PMI
	Thursday	Official Bank rate

**Tuesday Plan:** I will also focusing on the Services PMI from UK. I will be trading this particular release with either trade the spike or trade the retracement; if I see an established trend before the news release, I might be inclined to trade the sentiment... but with FOMC meeting scheduled later on today, I would probably pass.

**Result:** Services PMI came out as expected. Minimal market reaction as the market braces from the FOMC meeting from U.S. later in the afternoon.



**Thursday Plan:** I will be focusing on the Interest Rate. My research on TTN (Trade the News) and other analysts yielded that an overwhelming majority feel that BOE will keep rates unchanged. Since there aren't any statements from BOE unless they change the interest rate, I do not expect to see much market reaction. Therefore, I will prepare for a surprise hike or cut then either trade the spike or trade the retracement.

## News Profiteer's Definitive Guide to Fundamental News Trading

---

As far as sentiment trading, I will be looking for an established bullish trend forming late Tokyo session and early European session.

**Result:** Market sentiment was inclined for better GBP/USD as the sentiment went up 80 pips from Tokyo session to London open. A good 20 to 40 pips for sentiment trading was possible. Then the rate decision came out as expected with no surprises. With no accompanied BOE statement, the market was calm as everyone waits for ECB's rate decision and Trichet's Press Conference later on today.





## News Profiteer's Definitive Guide to Fundamental News Trading

---

**Euro Zone:**                      Thursday                      Minimum Bid Rate, Trichet Speech

**Thursday Plan:** I will be watching Interest rate decision from ECB. Again, an overwhelming majority of analysts agreed that no change to the interest rate. I will wait for the release and then for the press conference at 8:30am.

If a surprise hike or cut is announced, I will trade the spike or trade the retracement. There will be no pre-news trade as the outcome will depend primarily on Trichet's speech.

I will be listening to the speech and trying to decipher whether Trichet is hawkish or dovish. If he is dovish, I will SELL EUR/USD, if he is hawkish, I will buy EUR/USD.

If I see an established trend during Tokyo session and perhaps early London session, I will trade with this sentiment. Since Trichet has been a hawk as of late, I am anticipating market sentiment to be pro Euro prior to his speech.

**Result:** During early London Session, I observed an established trend of buying EUR/USD with short term market sentiment of expectation for a hawkish speech from Trichet. I entered the market going long on EUR/USD. Before the actual press conference, I am up about 60 pips of gain.

At 7:45am ECB announced an unchanged decision for the interest rate. Market didn't move much as it was widely expected. The bullish trend for EUR/USD continues as market prepares for Trichet's speech in about 45 minutes.

At 8:30am, Trichet came out hawkish first but then went dovish immediately. EUR/USD lost 100 pips in a matter of 10 minutes and continued to lose up to 500 pips by Friday. One of the most notable phrase from Trichet is his new motto, "ECB has no bias", which also caused a significant sell-off of Euro last rate decision press conference. It was a good SELL trade, with FOMC being semi-hawkish and ECB dovishness; we saw a perfect combination for EUR/USD weakness.

Please read below Trichet's complete statement with Q&A transcript. It is a little long and boring, but I definitely recommend that you take the time to read through it at least once.

# News Profiteer's Definitive Guide to Fundamental News Trading



## Trichet's Prepared Speech and Q&A:

Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of today's meeting of the Governing Council.

On the basis of our regular economic and monetary analyses, we decided at today's meeting to leave the **key ECB interest rates** unchanged. The information that has become available since our previous meeting has further underpinned the reasoning behind our decision to increase interest rates in July. **It has confirmed that annual inflation rates are likely to remain well above levels consistent with price stability for a protracted period of time and that risks to price stability over the medium term remain on the upside.** This assessment is underpinned by continued vigorous money growth, with so far no signs of significant constraints on bank loan supply. In such a context, it remains crucial to avoid broadly based second-round effects in wage and price-setting. The latest economic data point to a weakening of real GDP growth in mid-2008, which in part was expected after the exceptionally strong growth in the first quarter. Against this background and in full accordance with our mandate, we emphasise that maintaining price stability in the medium term is our primary objective and that it is our strong determination to keep medium and long-term inflation expectations firmly anchored in line with price stability. This will preserve purchasing power in the medium term and support sustainable growth and employment. On the basis of our assessment, the current monetary policy stance will contribute to achieving our objective. We will continue to monitor very closely all developments over the period ahead.

Allow me to explain our assessment in greater detail, starting with the **economic analysis**.

**The information on economic activity that has become available since the July press conference suggests that real GDP growth figures for mid-2008 will be substantially weaker than for the**

## News Profiteer's Definitive Guide to Fundamental News Trading

---

**first quarter of the year.** As indicated on previous occasions, this represents partly a technical reaction to the strong growth seen in the first months of the year. In addition, it also partly reflects a weakening in GDP growth due to factors such as slower expansion at the global level and dampening effects from high and volatile oil and food prices. In order to assess the underlying momentum of euro area economic activity and to avoid being misguided by highly volatile quarterly outturns, it is necessary to look through the volatility in quarter-on-quarter growth rates and monthly indicators.

Taking this perspective, growth in the world economy, while moderating, is expected to remain relatively resilient, benefiting in particular from sustained growth in emerging economies. This should support external demand for euro area goods and services. As regards domestic developments, in a medium-term perspective the fundamentals of the euro area are sound and the euro area does not suffer from major imbalances. Investment growth in the euro area has provided ongoing, though moderating, support to economic activity. Moreover, employment and labour force participation have increased significantly, and unemployment rates remain low in historical terms. However, these developments, which support household disposable income and consumption, are unlikely to fully compensate the loss of purchasing power caused by higher energy and food prices.

**In the view of the Governing Council, the uncertainty surrounding this outlook for economic activity remains high, owing to, among other things, the very high and volatile levels of commodity prices and the ongoing tensions in financial markets. Overall, downside risks prevail.**

In particular, risks stem from the dampening impact on consumption and investment of further unanticipated increases in energy and food prices. Moreover, downside risks continue to relate to the potential for the financial market tensions to affect the real economy more adversely than currently anticipated. The possibility of disorderly developments owing to global imbalances also implies downside risks to the outlook for economic activity, as do concerns about the emergence of protectionist pressures. In this respect, the failure of the recent negotiations in the context of the World Trade Organization's Doha round on trade liberalisation is a major setback.

With regard to price developments, annual HICP inflation has remained considerably above the level consistent with price stability since last autumn, reaching 4.0% in June 2008 and, according to Eurostat's flash estimate, 4.1% in July. This worrying level of inflation rates results largely from both direct and indirect effects of past sharp increases in energy and food prices at the global level. At the same time, while labour productivity growth has decelerated, there are some indications that labour cost growth has been rising in recent quarters.

Looking ahead, on the basis of current futures prices for commodities, the annual HICP inflation rate is likely to remain well above a level consistent with price stability for quite some time, moderating only gradually in 2009.

Risks to price stability at the policy-relevant medium-term horizon remain clearly on the upside and have increased over the past few months. These risks include notably the possibility of further increases in energy and food prices and of increasing indirect effects on consumer prices. There is a very strong concern that price and wage-setting behaviour could add to inflationary pressures via broadly based second-round effects. The Governing Council is monitoring price-setting behaviour and

## News Profiteer's Definitive Guide to Fundamental News Trading

---

wage negotiations in the euro area with particular attention. Furthermore, there are potential upside risks from unanticipated rises in indirect taxes and administered prices.

Against this background, it is imperative to ensure that medium to longer-term inflation expectations remain firmly anchored at levels in line with price stability. The shift in relative prices and the related transfer of income from commodity-importing countries to commodity-exporting countries require a change in the behaviour of companies and households. Therefore, broadly based second-round effects stemming from the impact of higher energy and food prices on price and wage-setting behaviour must be avoided. All parties concerned, in both the private and the public sector, must meet their responsibilities in this regard. In this context, the Governing Council has repeatedly expressed its concern about the existence of schemes in which nominal wages are indexed to consumer prices. Such schemes involve the risk of upward shocks in inflation leading to a wage-price spiral, which would be detrimental to employment and competitiveness in the countries concerned. The Governing Council therefore calls for such schemes to be avoided.

The **monetary analysis** confirms the prevailing upside risks to price stability at medium to longer-term horizons. In line with our monetary policy strategy, we take the view that the sustained underlying strength of monetary and credit expansion in the euro area over the past few years has created upside risks to price stability. Over recent quarters, these risks appear to have become manifest as inflation has trended upwards.

Not least in the face of the ongoing tensions in financial markets, the monetary analysis helps to support the necessary medium-term orientation of monetary policy by focusing attention on the upside risks to price stability prevailing at medium to longer horizons. While the growth of broad money and credit aggregates is now showing some signs of moderation, also reflecting the policy measures taken since 2005 to address upside risks to price stability, the strong underlying pace of monetary expansion points to continued risks to price stability over the medium term.

The current yield curve has led to very rapid increases in time deposits and to a substantial decline in annual M1 growth. Such effects and other temporary factors must be taken into account in assessing monetary developments. Overall, a broad-based analysis of the data, taking the appropriate medium-term perspective, confirms the underlying strength of money growth.

One of the main factors leading to this conclusion is the still high growth of MFI loans to the private sector, which is underpinning the robust nature of monetary growth. The pace, maturity and sectoral composition of bank borrowing suggest that, at the level of the euro area as a whole, the availability of bank credit has, as yet, not been significantly affected by the ongoing financial tensions. Higher short-term interest rates and housing market weakness in several parts of the euro area have dampened the growth of household borrowing over the past few years. By contrast, and notwithstanding tighter financing conditions and moderating economic growth, the expansion of bank credit to non-financial corporations thus far remains very robust.

To sum up, a **cross-check** of the outcome of the economic analysis with that of the monetary analysis clearly confirms the assessment of increasing upside risks to price stability over the medium term. Annual inflation rates are likely to remain well above levels consistent with price stability, and

## News Profiteer's Definitive Guide to Fundamental News Trading

---

monetary aggregates continue to grow vigorously, with so far no signs of significant constraints on bank loan supply. The latest economic data point to a weakening of real GDP growth in mid-2008, which in part was expected after the exceptionally strong growth in the first quarter. Against this background, it remains crucial to avoid broadly based second-round effects in wage and price-setting. In full accordance with our mandate, we emphasize that maintaining price stability in the medium term is our primary objective and that it is our strong determination to keep medium and long-term inflation expectations firmly anchored in line with price stability, thereby preserving purchasing power in the medium term and supporting sustainable growth and employment in the euro area. On the basis of our assessment, the current monetary policy stance will contribute to achieving our objective. We will continue to monitor very closely all developments over the period ahead.

Regarding **fiscal policy**, there are risks that some countries will not achieve their fiscal targets this year. In this situation a rigorous implementation of budget plans and the avoidance of expenditure slippage are of crucial importance. Budget plans for 2009, which are currently being finalised in a number of countries, need to reflect European commitments. In particular, countries with still large deficits must provide ambitious and concrete deficit reduction plans, backed by clearly specified measures, preferably on the expenditure side. Where budgetary scope is available, automatic stabilisers can contribute to the smoothing of cyclical economic fluctuations.

As regards **structural policies**, measures which reduce adjustment costs and promote moderate unit labour cost growth are of the utmost importance, particularly in the current climate of high inflation and slowing real GDP growth. These include the removal of impediments to competition in the services sector in general, and at the various stages of the food supply chain in the retail and distribution sectors, as well as in the energy sector, more specifically. Equally, making labour markets more flexible and enhancing investment in education and training would foster productivity, thereby increasing the scope for increases in real incomes.

We are now at your disposal for questions.

\* \* \*

### **Transcript of the questions asked and the answers given by Jean-Claude Trichet, President of the ECB, and Lucas Papademos, Vice-President of the ECB**

**Question:** Just a few short questions. Particularly on the growth outlook: I have not actually read the introductory statement yet, but am I right in picking up that you have dropped reference to data pointing to moderate but ongoing real GDP growth? Because you have always said you expected growth to be weak in the second quarter, that you basically expected a trough now, but you expected growth to pick up again towards the end of the year. Now data has come in worse than many people expected and some people would say that there is a real danger of a recession in the euro area economy. So, can you comment on that, can you comment on whether you see the risk of recession in the euro area?

And also, you said last month you have no bias in terms of your monetary policy stance. Is that still the case?

## News Profiteer's Definitive Guide to Fundamental News Trading

---

*And also, in light of upcoming wage negotiations in some large euro area countries, were some members of the Governing Council of the opinion that you should be in a stance of heightened alertness, or strong vigilance?*

**Trichet:** *On the first question, you remember that last time, a month ago I said that we would have, at mid-year, a trough, in our own understanding, and that we should, in any case, add up the first quarter and the second quarter to take into account the fact that the first quarter was, in certain economies in particular and in the euro area as a whole, exceptionally robust. And I will certainly confirm that. We will see what our new forecasts, our new staff projections, are when we meet in September. Then I will display the new staff projections and I will be more in a position to comment on your question. At the present moment I would say that what we have seen is that as regards the risks that we have listed as the downside risks for growth in the euro area – I did that last time on behalf of the Governing Council, and also in the month before – there is some materialisation of these risks that were identified. But they were already identified: thus for us, it is not a surprise. We knew that there were risks, and those risks are materialising. I have already, last month, identified clearly the second and third quarter of this year as being particularly weak. Later on we will see, and it will be much better to discuss that during our next rendezvous in September with the new staff projections.*

*As regards your second question, what is important in what I have said is that, on the basis of our current assessment, the current monetary policy stance contributes to achieving our objective. And, I would say as candidly as possible, we have no bias. And, as you know, we are never pre-committed and we always do what we judge, at any time, appropriate to deliver price stability and be credible in the delivery of price stability.*

*On your third question, which was on the wage and salary negotiations in particular, again, you might have noted that when we are speaking, on behalf of the Governing Council, of wages and salary increases, we also mention the price-setting issue. And we are not making any difference between this particular price, which is wages and salaries, and the other prices, where we might judge that there is not sufficient competition between the firms and where some price-setting is abnormal. As regards wages and salaries, we have had a very clear message for a number of months or quarters, and I will repeat now very solemnly that we consider it absolutely essential that we have no second-round effects in this domain. It's essential not only for price stability; it's essential for medium-term sustainable growth and job creation and for preserving the substantial progress which has been made in this domain over the last years.*

**Question:** *I have very similar questions, but one thing I did not understand in what you have said. You were speaking of weakening growth in the middle of 2008, in part expected – does it mean that the other part was unexpected, and is growth going worse than you were expecting?*

*And I did not hear any comment on the oil prices, which decreased considerably in the last weeks. Do you think it will have an impact on inflation and will slow down inflation faster than you thought?*

**Trichet:** *Let me take your second question first. I have mentioned on a number of occasions, on behalf of the Governing Council, that the price of oil – and not only of oil, also of food – was high and volatile. I would say that “volatile” captures pretty well the evolution that we have seen in the most recent*



## News Profiteer's Definitive Guide to Fundamental News Trading

---

*period. We have had a peak, and then it went down. We will see what happens. We are entirely pragmatic, and predictions of the future prices of commodities are probably the most difficult exercise you can imagine. Personally, I consider that the peak in the price of oil and commodities was abnormal and did not correspond to what would be an equilibrium price. But we will see what happens. We have to be, again, totally humble in the presence of facts and figures, and we will see what happens. I think "high and volatile" is a good description, a good way to capture things in the present situation.*

*As regards your first question on growth, again, what we are seeing is that you have the technical correction of the second quarter, after a first quarter which was extraordinarily robust, particularly in some countries, in Germany in particular. So since the very beginning it has been perfectly known that we would have a correction, a technical correction. And that is the reason why we always said that we had to take both the first and the second quarter together into account. Now, I have also mentioned other phenomena that are playing their role: in particular, but not exclusively, the slowing down at a global level, the dampening effect of the very high level of oil and commodities, which have added of course to the difficulty in this respect. But again, I give you a rendezvous for September as regards more precision in this domain with the new staff projections.*

**Question:** *This is just a "yes" or "no" question: Was the Governing Council surprised by the weakness of the data, the recent data?*

*The second question: Do you think that your actions in the money markets are enough to ease the tensions or do you think that you have to continue to do this and do everything ... is there a point in the next few years when things will return to normal?*

*And also, when you say that "again, there is no bias", can we read into that that things go either way, that it is equally balanced on one side to the other?*

**Trichet:** *On the first question: as I have said we are totally pragmatic and humble in the face of facts and figures. We take them as they are. As regards the number of surveys that have come in and that we took note of, I would not say that we were surprised because we had already identified the risks and we had said clearly that the risks we had listed were on the downside. So, the fact that some of the survey data are very weak was for us the materialisation of risks that we had identified and made public. And again, we will see what happens, we will see what the second quarter and the third quarter bring. And, for what will come beyond the second and third quarters, I would refer you to the rendezvous I had already mentioned to your colleagues, to the meeting in September.*

*But let me add something. Do not forget that – to again use a metaphor that is familiar – we have only one needle in our compass. That needle is price stability, our definition of price stability. We take all the information that comes in as contributions to indicate what the situation is with respect to that needle in our compass. We do not compare two needles, one of which being price stability and the other business activity or cyclical development, or whatever. That is not the way we operate. Everybody knows that and I am only repeating what everybody knows.*

*As regards the money market, I have nothing special to say in this respect. I would only mention that we have taken recently decisions together with the Federal Reserve and also with the Swiss National*

## News Profiteer's Definitive Guide to Fundamental News Trading

---

*Bank. We had made that public. I think that these are proof of transatlantic cooperation that has been welcomed by the markets. We will continue to follow the situation very carefully. As you know, we have felt from the very beginning that we had a responsibility to contribute to a smooth functioning of the money market. But the tensions that we have seen and we are still seeing on both sides of the Atlantic originated outside the money market. So that it was not up to us alone to eliminate these tensions, but to contribute to a smooth functioning of the money market.*

*On the bias, I will stick to what I have already said, that we have no bias.*

**Question:** *I also have a couple of questions and, if you forgive me, I am going to pressure you a little bit on this growth question because I am not quite sure I understand. The last time you expressed your vision of baseline growth for the euro area, you said that the trough would come in the second and third quarters. Would you say that again today?*

*Second, a colleague of yours on the Governing Council said recently, if I have got this quote right, that "it is a mistake to think that inflation will fall if the economy weakens". Do you agree with that statement and is that the sentiment of the Governing Council?*

*And third: perhaps you have the results of the second quarter bank lending survey with you today. Would you be able to give us a glimpse of those results? If so, let us know whether there is a further tightening of lending standards and whether there is any more thought on the Governing Council on this apparent discrepancy between still strong non-financial corporation lending growth and tightening standards?*

**Trichet:** *I confirm that the trough that had been defined a month ago was a trough for the mid-year, for the second and third quarters. There is absolutely no reason not to confirm that. The information we have gained over the past month confirms that. Again, I will not say anything more than that at this stage. I will give you figures at the next meeting with our new staff projections. Our position is clear on the fact that we had identified risks, the fact that some of those risks are materialising and the fact that we see reasons for the materialisation of those risks that are, as I have already indicated, the slowdown of the global economy in particular, and the drain on our economy as a result of the development of the commodity, oil and food prices. All are elements that explain what we are observing at the moment.*

*As regards inflation, once again, we have only one needle in our compass and we take absolutely all information that is pertinent into consideration to identify the risk of inflation in the months and years to come. And, as always, we look at simply everything. The level of demand is part of this analysis, as is the monetary analysis, the level of exchange rates and so forth. So, we have to, as always, work out a synthesis.*

*On the bank lending survey, we will – as generally it is the case – publish the bank lending survey tomorrow. What I can tell you at this stage is that we have seen a somewhat lower net tightening of credit standards for loans to households for house purchase, but a somewhat greater net tightening for consumer credit and other lending to households, although starting from a lower level. We have, if everything is taken into account, a somewhat lower net tightening of credit standards for loans to*



## News Profiteer's Definitive Guide to Fundamental News Trading

---

enterprises than that observed in the first quarter. But these are not major changes and there is still a significant tightening of credit according to the bank lending survey. So, I would say, more or less the same level of tightening, but perhaps a little less net tightening. You mentioned the credit dynamism. We are still observing a level of dynamism as regards credit and counterparts of monetary aggregates that remains important. It has been published, so that there is nothing new for you there. But it is true, as high as these figures are that loans to non-financial corporations continue to grow at a rate – according to our last observation – of 13.6%. There has been a reduction in comparison with the previous month. We were at 14.2%, so that the rate is diminishing, but only slightly. We are seeing loans to households and loans to finance house purchase that are at a much lower rate of growth with a further reduction of outstanding credit because in the case of the loans for households we now have a level of 4.2%, after 4.9% in the previous month. So we have a significant slowdown. And for loans for house purchase, we – not surprisingly – have a strong decrease from 5.6% in the previous month to, most recently, 4.4%. But, if everything is taken into account, the dynamism of loans to non-financial corporations has given us an overall level of lending to the private sector that is still very dynamic and I would say again that, in that domain too, we have to be respectful and pragmatic and will have to see what the facts and the figures are. We will continue to look at them with extreme care.

**Question:** First of all, as regards the increase in rates in July, could you elaborate a bit more on whether you believe you achieved your goals with this increase, particularly in relation to inflation expectations?

My second question is – and I just want to confirm that I'm reading this statement right: You noted in the risks to price stability "increasing indirect effects on consumer prices", and I have in my mind that you used the word "pass-through" as well. I believe that this is a change from last month, and I was wondering if you could elaborate on why that went into the statement.

My third question, just to follow up on what my colleague asked, is: Why is slower growth – and as you've said, you anticipated the risks and they have materialised – not listed in the statement as a downside risk to inflation? That would seem to me to be, *prima facie*, a factor that we have to consider.

**Trichet:** First of all, as regards our decision last month, as I said on behalf of the Governing Council, all the information that has become available since our last meeting has, in our judgement, underpinned the reasoning behind our decision to increase rates in July. Everything that we have observed as regards inflationary risks has fully justified what we have done. I would say that, particularly as regards inflation expectations, all the information we have confirms that we were right to do what we did.

As regards inflation, I don't see that there's any comment to make. Our analysis is exactly the same as before, and you should not over-interpret any changes that you might have noticed. We are in a universe where we see all the risks that I have listed. They are exactly the same kinds of risk that were listed before. We see a pipeline effect in a number of other prices stemming from increases in the prices of inputs – particularly commodities – and that is something which is ongoing and undoubtedly creates more risks. **We have the risk of second-round effects and the absolute necessity to avoid the materialisation of such risks.** Again I see that we have a situation which is not of a different nature.

## News Profiteer's Definitive Guide to Fundamental News Trading

---

***As regards your third question, again we had ourselves already priced in the fact that we would have a trough in the second and third quarters, so we will see what exactly happens.*** We are totally pragmatic, and this is one element which, of course, needs to be incorporated in our synthetic analysis. Let me nevertheless make one or two observations. Economists would tell you that the considerable changes we have observed in relative prices not only have the conjunctural effect of acting as a drain on the resources of the euro area and other consumer economies, but also change the overall growth potential of those economies, because you have a change in relative prices, which has a big impact on the productive sector itself and its capacity to produce. It seems to me that a number of effects in this respect are not taken into account by part of the analysis which is being done. So I would draw your attention to that point, too. There is not only a conjunctural effect, but also a structural effect.

**Question:** You've mentioned the financial market turmoil a number of times. It's now a year since the very obvious onset of the credit crunch. How would you characterise the past year in financial markets? What will end the crisis and when, and do you think that more European banks are at risk of huge losses?

**Trichet:** As you know, from the outset we considered this to be a very serious market correction. We took decisions which were in line with the analysis that we were facing an important market correction with episodes of turbulence. We never considered that there was a "quick fix" that could allow us to resolve that situation, and everything that has happened since then has proved that our analysis was right. The central banks are cooperating. I've mentioned further examples of that cooperation. The Eurosystem has always been very alert in following everything that has happened as efficiently as possible. I am asked very frequently whether the worst is now over or whether we should expect further enormous difficulties in the future. I would stick to what I have always said, namely that it's an ongoing, very important market correction with episodes of turbulence and high levels of volatility, and that it is absolutely no time for complacency. That, for me, would be the best definition. You have not mentioned the collateral issue but it is, of course, part of the interaction we have with the money market. I told you last time – and I will stick to that – that we consider that our collateral framework has served us pretty well since the beginning of this turbulence. In a way, we were perhaps more prepared for the turbulence than some others, because we had also the capacity to accept private paper as collateral, the primary difference between us and a number of other institutions. We had the capacity to refinance commercial banks over three months, which was not necessarily the case in other economic areas. We had, since the establishment of the Eurosystem and the euro, traditionally had a very large number of counterparts, which proved to be very useful in the circumstances, and we also, traditionally, had a large amount of outstanding of refinancing, which also proved useful in the circumstances. So, these were the various elements which allowed us to cope with this unpredictable situation from the outset. That being said, we are examining our rules with great care and watching developments carefully. And we will see what we have to do, if it proves necessary, to refine elements of our scheme – as we have done in the past, because we did that two years ago and four years ago. So, it's just as I said last time, I have nothing new to tell you and that would be my comment on that.

**Question:** Mr Trichet, the IMF has recently published a report on the euro area. It is somewhat critical of the monetary analysis, stating that it does not really contain much information on future inflation.

## News Profiteer's Definitive Guide to Fundamental News Trading

---

*The IMF report also suggests that the two pillars should be consolidated into one. What is your take on that?*

*And second question: Do you have any advice for the IMF concerning their global analysis?*

**Trichet:** *First of all, it seems to me that the IMF was cautious in mentioning this. However, we do not agree with the IMF on this. We consider our two-pillar strategy to have served us extremely well. On a number of occasions I have explained why we consider the information from the monetary analysis to be very pertinent and how it has helped us to take decisions in difficult times and at difficult moments. And, presently, I can say that these decisions are considered by everybody to have been fully vindicated. In particular, I mention our decision to refuse to decrease in rates in 2004 and our decision to increase rates in December 2005. These decisions were very significantly helped by our monetary analysis and were certainly very important in strategic terms. Let me also point out that there is a paradox in this position, because increasingly I have been hearing praise among economists for the monetary analysis and the two-pillar strategy. It seems to me that, at the current juncture, we are in a somewhat different universe to that of ten or even five years ago. Furthermore, it is paradoxical because, the European Parliament said that it judged the two-pillar strategy to be a very good concept. Reference was made to this in the European Parliament's resolution which was adopted recently. So, to conclude, I would ask the IMF to do its very important job, and I am in no doubt that it will continue to do the job very well.*

**Question:** *If, in the course of your ongoing review of the collateral policy, there were to be a change, how would you let us know?*

**Trichet:** *We would be as public as possible. But, in any case, we regularly have to do some updating and there is nothing special to say in this regard, in terms of communication. So, you will see when the time comes.*

**Question:** *You mentioned the structural changes. And I wonder whether or not the Governing Council in fact reassessed its notion of potential growth in the euro area; before it was 2.5%?*

**Trichet:** *No, at this stage, I cannot refer to analytic work that would respond to your question.*

**Question:** *Monsieur Sarkozy recommended that the ECB publish the meeting. What is your position? The same as last year, I imagine, but probably...*

**Trichet:** *First of all, I am not sure at all that this is the position of the Head of State of France. I saw that in a paper, but referring to a conversation with aides. I myself do not comment on rumours or leaks that are not confirmed. The publication of minutes would be a paradox because the last resolution of the European Parliament (on the ECB) mentions that the European Parliament understands why we are not publishing minutes. They ask us to be as transparent as possible; they ask, in particular, that, in this candid exchange that we have, we be even more transparent. I try to be as transparent as possible, as you know, and we are proud that our predecessors, Wim Duisenberg and Christian Noyer, gave us – to Lucas Papademos and me – the concept of this interaction, because it did not exist before the setting up of the euro, as you are aware. There was no central bank in the world engaging in immediate, real-time communication after the decision of the Governing Council. So, in*

## News Profiteer's Definitive Guide to Fundamental News Trading

---

*terms of transparency we have been bold since the very beginning of the euro. And we continue to try to be exemplary in this respect, as this interaction is demonstrating. But again, the European Parliament said that they understood why we were cautious as regards the publication of minutes.*

**Question:** *Just a quick question. After this press conference investors will have certainly priced out any possibility of a rate increase this year and early next year. Are you comfortable with that? Can you comment on that?*

**Trichet:** ***We have no bias. We are never pre-committed. We do always what is necessary to deliver price stability in the medium term.***

**Question:** *Going back to the collateral rules. You say you will let us know because you are very transparent. Is there a possibility that you will let us know before we see you next month? And how soon can we expect....*

**Trichet:** *I have said no more today than what I said a month ago. So, do not assume anything, but see it as a reminder of the terms of reference that I have for this particular issue.*

**As a conclusion:** I have seen a major shift in market sentiment and long term sentiment as USD continues its bullish run as of 8/8/2008.

**Euro** has broken major support area this week and is expected to head below 1.50 as ECB expresses major concerned over its economic growth (Trichet's speech).

**BOC** is likely to keep rate unchanged or cut rate as the worst labor data was released in 17 years on Friday.

**RBA** is expected to cut interest rate and along with its pessimistic economic outlook, **AUD** is facing strong opposition in the coming weeks.

**BOE** decided to keep rate unchanged but my research yielded an overwhelming possibility for a rate cut before the end of the year. Sterling is also not looking good.

Overall I see the future weeks with USD continue to strengthen against all other currencies. Risk appetite may return as major monies move out of commodities and going back in equity market, thus boosting USD by default.

**One Final Note:** Most of these highlighted sections from the rate statements made by ECB, FOMC, RBA, etc... are pre-marked by newscasters and economists. They are released along with the actual statement as headlines. Sometimes the newscaster will even tell you that the central banker is being hawkish or dovish. You really don't need to go through the entire statement to figure out what is happening. All you need to know are the headlines.

I use multiple news wire services, but if you are starting out, I would recommend Trade the news ([tradethenews.com](http://tradethenews.com)), they charge only \$175 per month for Forex news and the broadcasters are very professional with their analysis. You'll get the headlines for the speeches plus their on-the-spot review of the tone. This is just another reason why you should get a news wire service instead of using a free one provided by a broker or Forex website.

## Chapter 13 – Million Dollar Tips

In this section I am going to share with you some of the most important tips that have helped my trading tremendously. I believe just by knowing these tips, your trading could be improved instantly.

You see, as a computer programmer, I like to solve problems logically. And if you ever looked at any kind of automated trading programs, such as a blackbox solution or an Expert Advisor (EA) for MT4 platform, you'll notice that any good programmer worth their salt will tend to put a time-filter in their programming, generally used to "avoid" extreme market conditions during news releases, such as a "do not trade" function during 8:25-8:30am EST to avoid US News, or 4:25-4:35am EST for UK News.

However, the idea of time-filter is nonexistent in technical analysis. Sure, we all learned to avoid "extreme market condition", but by learning to trade the news, we are actually taking advantage instead of avoiding "extreme market condition".

What I am going to show you is another form of taking advantage of extreme market condition. They are based on years of observation and logical conclusion. I am sure that once you become aware of these conditions, you'll be able to benefit from them.

The first tip is what I call the **"Lunchtime Reversals"**. My theory is, that every bank trader, hedge fund manager, or anyone who manages enough volume that could affect the currency market flow in the short term, takes lunch breaks, especially during the London and New York Sessions, where the New York Session lunchtime coincides with London market close.

These big shot traders, during a regular session, will usually close their positions and take profit just around their respective lunchtime to avoid any surprises, and therefore the market will either stall or reverse. When they come back to lunch, if they see the market start to go the other way, they will change their direction and then re-enter their trade, thus reinforcing the reversal. That's why if you pay special attention to, let's say EUR/USD, during a normal everyday trading day

## News Profiteer's Definitive Guide to Fundamental News Trading

---

you'll see signs of market reversal just around 7:00am or 11:30am, and depending on the sentiment, market may continue or reverse completely the opposite direction. Therefore, if I am planning a contrarian trade (reversal, going against short-term trend), I will always wait until just before the New York Open (UK Lunch) or around 11:30am EST and enter the trade. However, I would never have entered a contrarian trade if it is not a normal ranging day. I would actually stay in my trade and ride out the slight reversal/stalling during these lunchtime periods, knowing fully well that the market will continue after this minor reversal.

Sometimes, during extreme market condition, traders will skip lunch and just keep on pushing the market, and that is another sign of staying away from entering a reversal trade.

So, if you see a reversal around London and New York Lunchtime, maybe it's sign to either take your profits or to enter a new trade.

The second tip, which also helped me to make a lot of money, is what I called the **"Stock Market Jitter"**. Exactly 30~45 minutes before equity market open, 3:00am for London and 9:30am for New York, you'll see some extreme market movement, usually in the form of a reversal... This is the exact time to enter the market because right after Equity Market opens, currency market will usually go back to the pre-equity market open levels.

I have seen this kind of market movement again and again. I have learned to hold on to my trade and not to get scared out of a profitable position during equity market open, or to plan my entry just around this particularly volatile time.

Usually you want to go with market trend and wait for reversal at this time for a much better entry, but I have also learned to pick up quick pips taking a reverse position in this short 30~45 minutes. My best trade was a 80 pips reversal with GBP/JPY around this time. You've got to master this tip!

You see, by knowing what to expect from these normal market events, you can add **20~30 pips extra** to every single trade that you take. Lord knows how much profit I was scared out of during these times when market suddenly reversed



before I learned this simple fact. And no one will tell you about these little nuances in trading UNLESS they are active traders.

Another important tip is to **concentrate on the currency pair that has the most potential to move TODAY**. If we have news scheduled for Sterling today, then our focus should be on all GBP related pairs, such as GBP/USD, GBP/JPY, or even EUR/GBP. I usually will stay away from other currency pairs today because I don't want to spread my attention too thin and end up with losing trades.

As a general rule, and a great tip, is to concentrate on just a few currency pairs. Do not trade too many different pairs and constantly worrying that you'll miss a good move. Like I said before, most professional traders concentrate only on ONE currency pair, EUR/USD, which also has the most liquidity in the entire Forex Market.

The only reason that I was able to put 2 and 2 together with my **"Stock Market Jitter" and "Lunchtime Reversals"** is because I was only concentrating on a few currency pairs, namely the EUR/USD, GBP/USD, GBP/JPY, and either AUD/USD or USD/CAD if either one have news pending.

If you would go back and re-read Chapter 12 where I talked about how to put everything together, you'll see that my focus in trading and my selection of currency pair to trade is based on the news release scheduled for that day. Make this a routine into your trading and chasing around and buying/selling every currency pair under the sun, you'll thank me later.

The last tip, but obviously not the least important, is what I called a **short term stable market sentiment**, which I use a lot in my short term sentiment trading. If you are still unsure about sentimental trading, read Chapter 10 and then Chapter 12 for real-life examples.

The basic idea is that when a big news release is scheduled for the next day, market will either trade up or down the primary currency pair, in attempt to possibly *price in* the outcome. That is what we call "sentiment". For example, if there are uncertainties to BOE's Interest rate decision, with a possible of a rate



hike, market will trade up GBP/USD a day or days before the actual release, pricing in the rate hike. **(Another scenario could be that the market is highly uncertain, therefore there would be no pre-market sentiment.)**

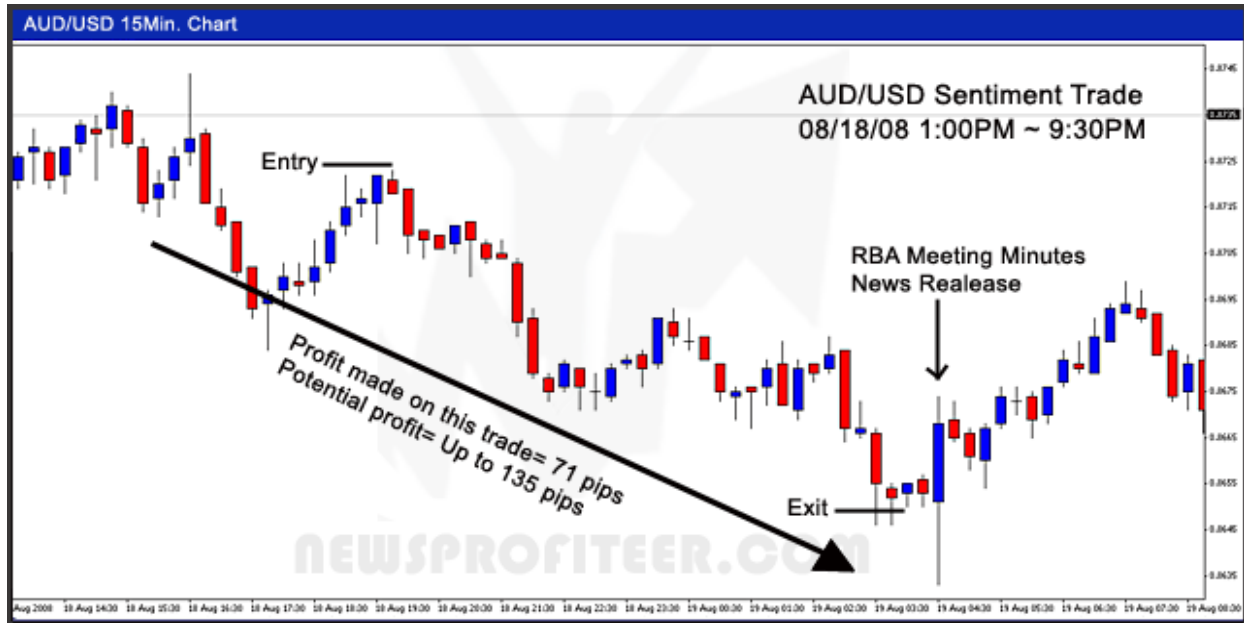
Depending on the news release and its possible impact to the market, you'll see market sentiment take place just one session before its scheduled release, such as a UK news release sentiment will manifest around Asian Session and partially carried over during early London open. Sometimes a huge news release might even affect sentiment 2 to 3 sessions before, such as the recent Australian Interest Rate decision (week of 8/8/08).

The rule of thumb is to know what news is coming next session, then watch market condition. If you see a steady market movement in the absence of news releases, (obviously watch GBP/USD for UK news, AUD/USD for Australian news, etc...) then you are probably looking at market sentiment. At this present moment, which may change depending on market condition, I am looking for a 30~40 pips of move within 1 and half hour (150 minutes), without retracement, then it signals me market sentiment. My next step would be to look at recent resistance and support levels to determine whether or not there is enough room for an entry, or wait for a pullback and then enter (Stock Market Jitter or Lunchtime Reversal) my order. In the case of AUD/USD, where you see a continuous AUDI sell-off, by knowing this currency pair and how slow it moves, you can really set your order with proper Stop Loss and leave it running, specially if the news is coming late at night.

Remember, there must be a news release coming for this to work. And ideally you would get out of the trade just before the news for maximum profit. I have noticed that most sentiment traders take profit about an hour or 30 minutes before the news release. You should do it too.

I hope these tips will bring you lots of positive trades. Learn to identify them first, and then to use them regularly in your trading arsenal. As a matter of fact, you don't need to have many good trades, just a couple good trades and repeat them over and over.

## News Profiteer's Definitive Guide to Fundamental News Trading



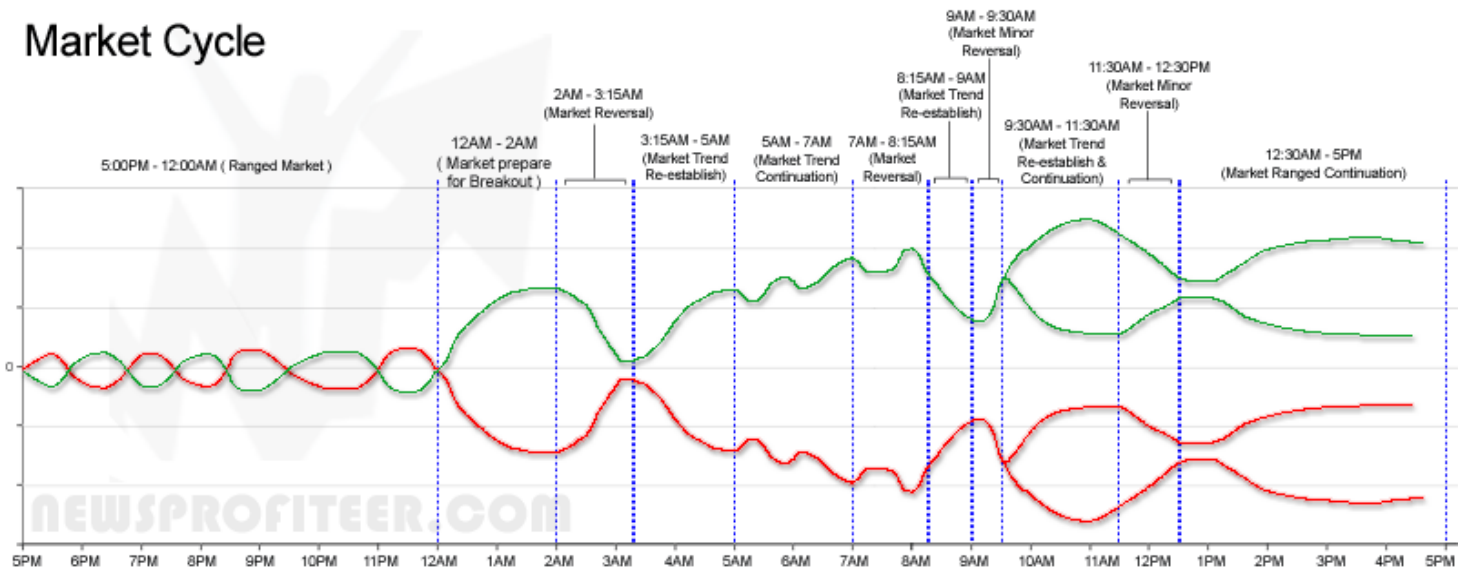
## Chapter 14 – Market Cycle

Forex Market moves in a predictable cycle on a daily basis. It is as your local traffic, where you'll have traffic jam during certain hours in a certain direction flow, and other hours at the opposite direction. If we can predict market direction during this cycle, we will have an advantage that most traders don't have. It is like having local traffic radio on while driving, letting you know where are the accidents and delays, so that you can choose the least traveled road.

Market generally moves in the following manner:

<b>5:00pm ~ 12:00am EST</b>	<b>Ranged market.</b>
<b>12:00am ~ 2:00am EST</b>	<b>Market prepare to breakout</b>
<b>2:00am ~ 3:15am EST</b>	<b>Market reverse</b>
<b>3:15am ~ 5:00am EST</b>	<b>Market Trend Re-Establish</b>
<b>5:00am ~ 7:00am EST</b>	<b>Market Trend Continuation</b>
<b>7:00am ~ 8:15am EST</b>	<b>Market reverse</b>
<b>8:15am ~ 9:00am EST</b>	<b>Market Trend Re-Establish</b>
<b>9:00am ~ 9:30am EST</b>	<b>Market Minor Reversal</b>
<b>9:30am ~ 11:30am EST</b>	<b>Market Trend Re-Establish and Continuation</b>
<b>11:30am ~ 12:30am EST</b>	<b>Market Minor Reversal</b>
<b>12:30pm ~ 5:00pm EST</b>	<b>Market Ranged Continuation</b>

## Market Cycle



## My Trading Methods using Market Cycle

The best way to use this market cycle information is to trade around the time of reversals. Of course it is extremely important to put the context of the market into consideration, and then possibly enter a trade if you have enough reason to justify it.

For instance, if the market has been relatively flat on risk sentiment, meaning there are no strong sentiment demanding for risk or seeking shelter in safe-haven currencies, or just a regular trading day, you could look at the market just around the reversal time, especially the JPY pairs.

Then, once enter a reversal trade from the top or the bottom, depending where the market was trading at, then wait for the next hour or so and close your trade in profit. Of course, you need to consider the context of the market and there are no sentiment driven reasons for the market to move higher. Usually this will play out 8 out of 10 times, giving you at least 30 to 80 pips of profits, sometimes even more.

So I enter the market at around these reversal times, usually timing my entry just after a spike in the market. **For instance, if you are looking to short the GBP/JPY just around the reversal and the market has been pushing it up, wait for a final**

**spike up just around the reversal, and then you can enter a SELL trade, possibly at the top, for at least 50 pips of profit.**

Remember, we look at the premarket trend and we are looking to trade AGAINST that trend that is how we trade the reversal times...

The second usage for the market cycle is the **market continuation** time. When you are holding on a trade, market may move up and down, and sometimes shake you out of a trade. But by knowing you are in a market extension time, you can hold on to your trade just a few moments longer for a extra 20 ~50 pips of gain. I have seen this time and time again, especially during the London trading hours, if I just held on to my trades until 7:00am, I would have made an additional 50 pips... This is a tip that is worth millions for the right person.

Of course, when you are in a losing trade and the market is going against you, sometimes we get emotional and want to get out of the trade when it is pretty much the worst case scenario... Keep your eye on the reversal time. If you are anywhere close to them, just hold on and the market will give you a better exit. Sometimes, even let you break even. Of course, once again, if the market is driven by risk sentiment, then I do not recommend holding on a losing trade, even if the reversal is just around the corner.

## Chapter 15 – SPECIAL RESOURCES SECTION

**SPECIAL Announcement:** I have created a standalone version of Strength Meter, it is downloadable from my website, and you don't need to have Excel or the hassle of setting it up. Just make sure your MT4 has the DDE Server option enabled, and fire up the Newsprofiteer Meter, and voila, you are done!

In this section I am going to share with you some of the tools that I have been using in my daily trading. These are the tools that I find crucial and I cannot do without them. Some of these tools are freely available and some aren't. I am not the creator of these tools and I give credits to the people who created them.

Here we go:

### Strength Meter:

Microsoft Excel - Jim-SuperMeter.xls

Type a question for help

File Edit View Insert Format Tools Data Window Help

Reply with Changes... Egd Review...

F41

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	<b>Weights</b> 0.963928 0.999840616 0.980315618 0.98291689												
2		Euro/Dollar	Pound/Dollar			Dollar/swiss	Loonie/Dollar						
3		EUR/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CAD	EUR/AUD	EUR/CAD	EUR/CHF	EUR/GBP	EUR/JPY	
4	High	1.4816	1.9598	0.8965	108.9600	1.1012	1.0204	1.6621	1.5103	1.6300	0.7563	161.2800	
5	Ask	1.4810	1.9587	0.8956	108.8000	1.1008	1.0197	1.6549	1.5104	1.6301	0.7564	161.1100	
6	Bid	1.4808	1.9583	0.8952	108.7700	1.1005	1.0192	1.6532	1.5093	1.6297	0.7561	161.0700	
7	Low	1.4782	1.9575	0.8890	108.6000	1.0984	1.0175	1.6511	1.5060	1.6267	0.7549	160.5400	
8													
9	PIP Range	34	23	75	36	28	29	110	43	33	14	74	
10	Bid Ratio	76.5%	34.8%	82.7%	47.2%	75.0%	58.6%	19.1%	76.7%	90.9%	85.7%	71.6%	
11													
12	Relative	EUR	GBP	AUD	USD	USD	USD	EUR	EUR	EUR	EUR	EUR	
13	Strength	7	3	7	4	7	5	2	7	8	7	6	
14		USD	USD	USD	JPY	CHF	CAD	AUD	CAD	CHF	GBP	JPY	
15		2	6	2	5	2	4	7	2	1	2	3	
16													
17	Total Strength	USD	EUR	GBP	CHF	CAD	AUD	JPY	NZD	Strong			
18		4.1	6.2	3.8	2.3	2.67	7.0	4.0	6.0	Rising			
19	# of evaluation points	7	6	4	3	3	4	5	1	Neutral			
20	-1						3					Weak	
21													
22	Relative	GBP	GBP	NZD	AUD	AUD	CHF	AUD	NZD	#VALUE!			
23	Strength1	4	6	6	7	7	4	0	#VALUE!	#VALUE!			
24		JPY	CHF	USD	CAD	JPY	JPY	NZD	JPY	#VALUE!			
25		5	3	3	2	2	5	9	#VALUE!	#VALUE!			
26													
27	PIP Range1	84	50	67	71	102	42	105	#VALUE!	#VALUE!			
28	Bid Ratio1	47.6%	64.0%	61.2%	81.7%	76.5%	45.2%	0.0%	#VALUE!	#VALUE!			
29													
30	Ready												



I can instantly see what currency is strong and what currency is weak. Let me show you how to set it up with MetaTrader then I will show you how to use this signal meter.

### **Download MetaTrader**

If you don't have MetaTrader, go to <http://www.metaquotes.net> to download the latest MetaTrader platform.

However, if you download it from ODL Markets you will get stock market charts such as: UK FTSE, German DAX, French CAC, Gold, Silver, Crude Index, etc...

[http://www.odlmarkets.com/metaquotes\\_metatrader4\\_demo.html](http://www.odlmarkets.com/metaquotes_metatrader4_demo.html)

Complete form and click on 'Sign Up' button to register for a demo account.



# News Profiteer's Definitive Guide to Fundamental News Trading

Free MetaTrader 4 Demo | FX, CFD, Gold, Silver & Oil on 1 platform - Windows Internet Explorer

http://www.odmarkets.com/metaquotes\_metatrader4\_demo.html

File Edit View Favorites Tools

RoboForm Search Logins (passwords) ARS TGP Sponsors Save Generate

Free MetaTrader 4 Demo | FX, CFD, Gold, Silver & Oil ...

odl ODL Markets

US Office: +1 312 893 5070  
UK Office: +44 20 7903 6550

Client Login

Home | FX Gold Silver | CFDs | Spread Trading | Equities | Futures and Options | Oil | Partners | About ODL | Trader Area | Accounts

**Download Your Free MetaTrader 4 Demo**  
Now for the first time you can trade Forex, CFDs, Gold, Silver & Oil all on Metatrader 4

Simply fill out the form below to receive your free Metatrader 30 day demo.

**Register for your Metatrader Demo:**

Preferred Language: English

Name:

Email:

Phone (Ind country & local dialing codes):

Country of Residence: Select your country of residence

\* Required fields

Please keep me informed of free news, seminars and education ☐

Please ensure your email is correct to receive your Metatrader 4 demo download

Sign up

**Client Login:**  
Username:   
Password:   
Login to your Account

**FX, Gold, Silver**

- Open a FX Account
- FX Platforms
- What is FX?
- Advantages of FX Gold & Silver
- Why trade FX with ODL?
- Meet the ODL FX Team
- FX Spreads and Rates
- FX Interest Rollovers
- FX Margins

**Spread Trading**

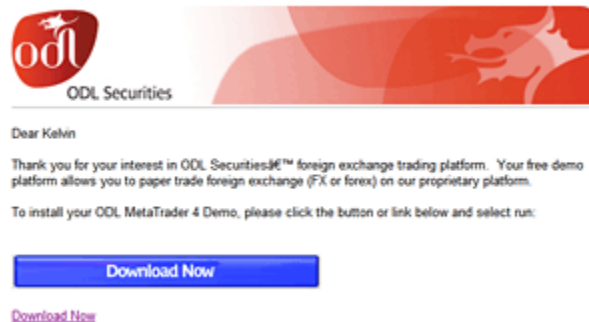
**Equities**

**Futures & Options**

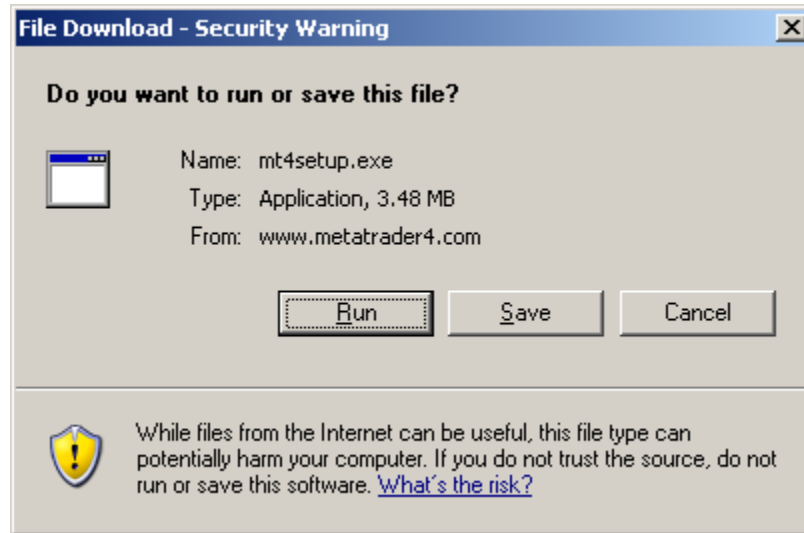
**Oil Trading**

**Partnerships, IB, Whitelabels**

**About ODL**

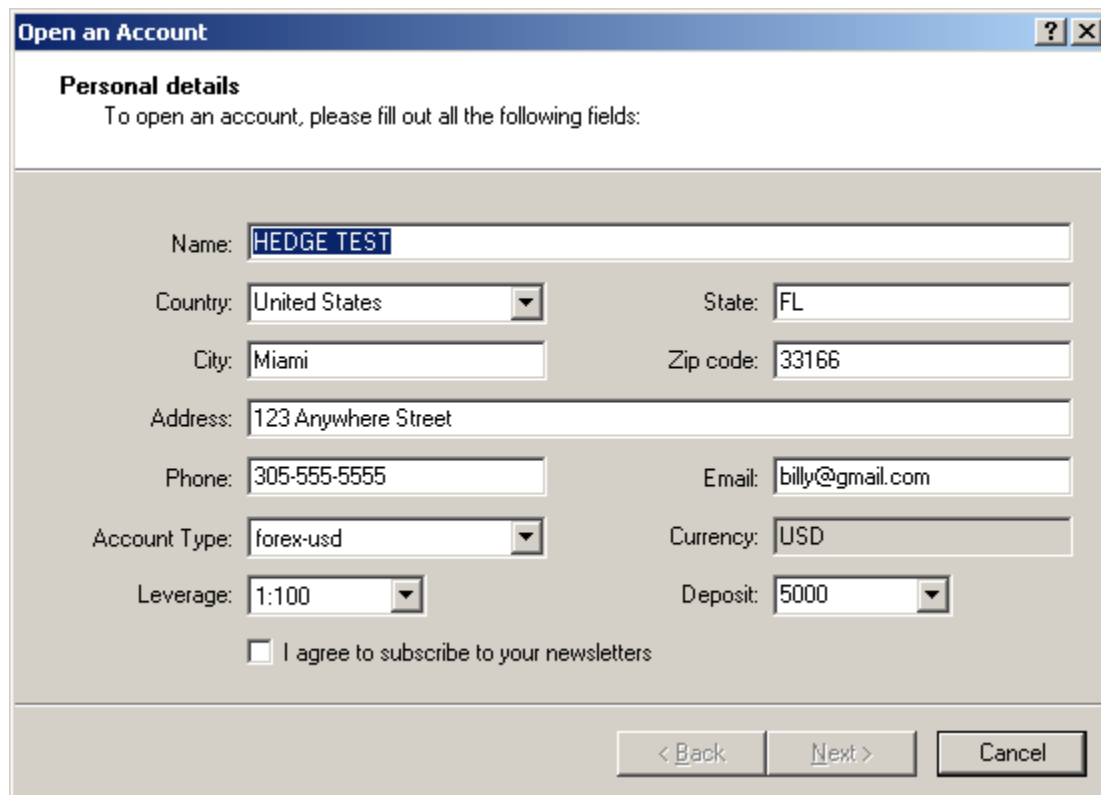


Once registered, you will receive an email with the download link.



Click on 'Run' to initiate process.

Once you have downloaded and installed the platform, you will be asked to open up an account if you have never opened an account before. This is done directly from the platform. You will see the following window.

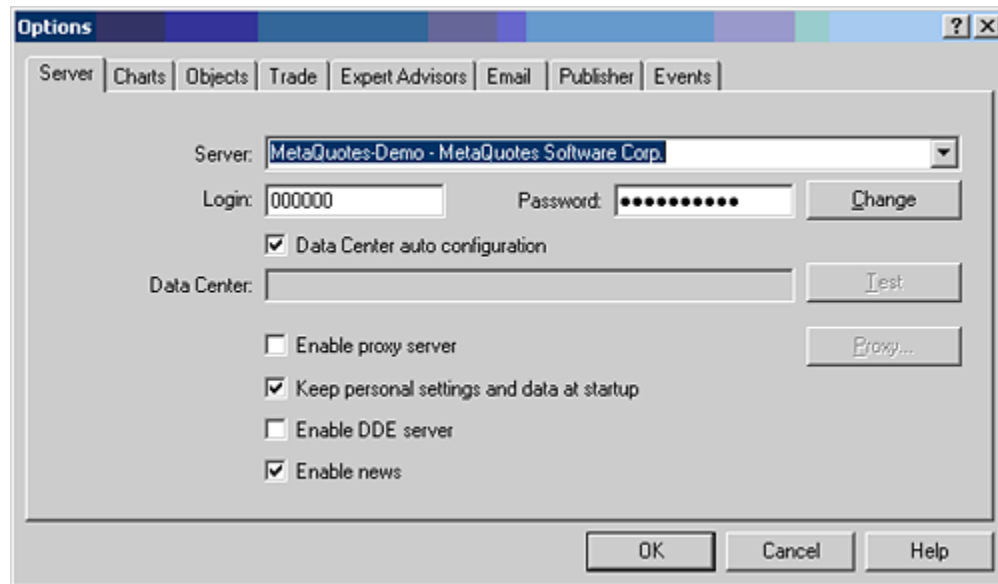
A window titled "Open an Account" with a "Personal details" section. It instructs the user to fill out the following fields: Name (HEDGE TEST), Country (United States), State (FL), City (Miami), Zip code (33166), Address (123 Anywhere Street), Phone (305-555-5555), Email (billy@gmail.com), Account Type (forex-usd), Currency (USD), Leverage (1:100), and Deposit (5000). There is a checkbox for "I agree to subscribe to your newsletters" and navigation buttons "< Back", "Next >", and "Cancel".

## News Profiteer's Definitive Guide to Fundamental News Trading

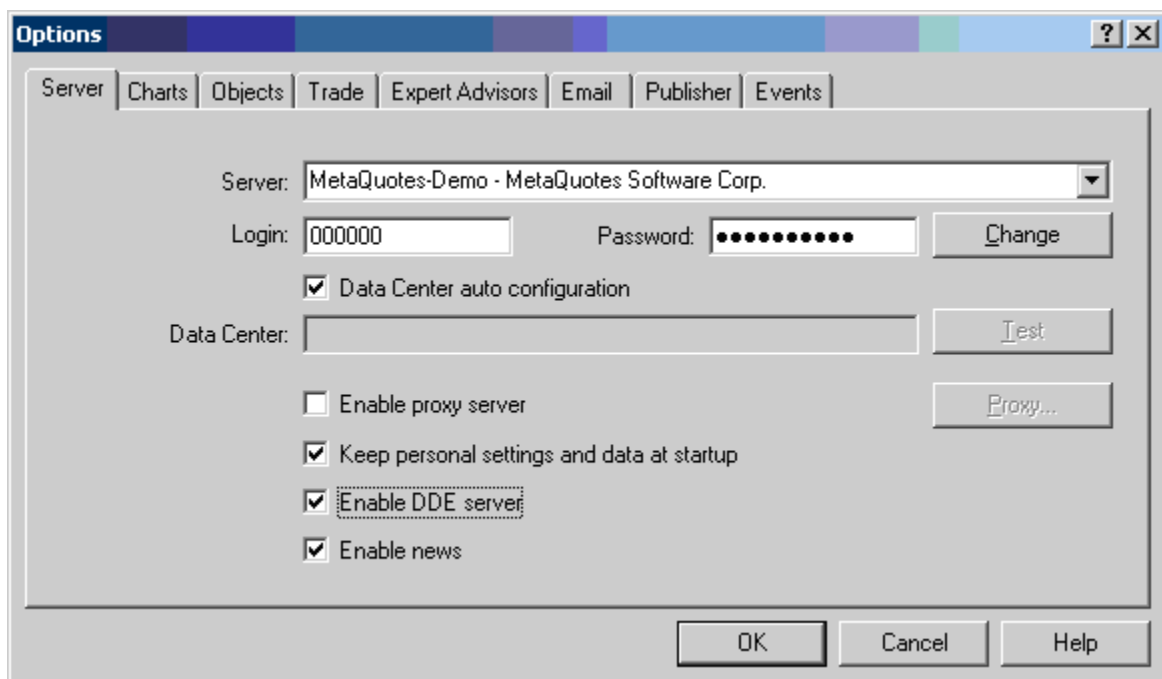
---

Enter whatever information you want, follow the instructions and you should have a demo account with live data feed, all for FREE!

Then Go to the TOP MENU where you see "File View Insert..." Select Tools and then select Options (you can also use a short cut Ctrl-O).



Make sure that on the Server Tab you check the box where says "ENABLE DDE SERVER".



## News Profiteer's Definitive Guide to Fundamental News Trading

---

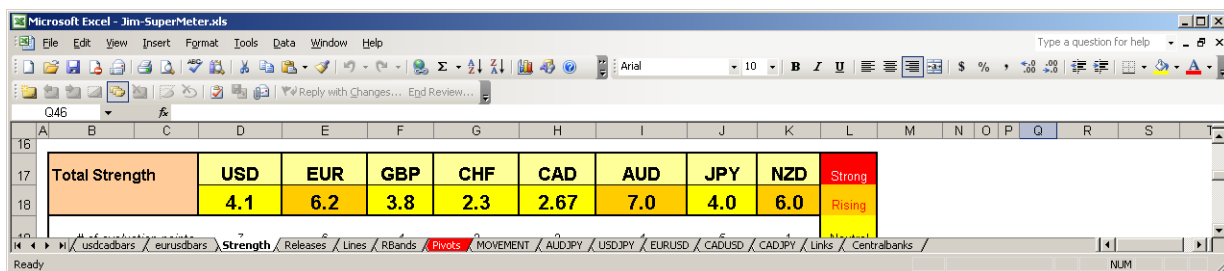
Once you have done this, your Strength Meter is ready to work!

Remember to always start MetaTrader first, and then start your Strength Meter (Excel). You might be asked if you want to update, answer “yes” to all of the questions.

What can the strength meter do? Will, to begin with, you get a snapshot of the market condition. You can see what currencies are strong and what currencies are weak at the moment. It gives you a plethora of information and you should always remember to use it as a confirmation tool in your trading.

Remember what we talked about Risk Aversion and Risk Appetite? When I see a typical risk aversion scenario, both JPY and CHF get much stronger (Orange to Red color). I will also confirm this with looking at a chart, but usually my first clue without comparing 8 different currency pairs is the currency meter.

Also I often match up the currencies to trade the news. For instance, if I was to trade an U.S. news, just prior to the actual news release, I will look at the strength of all the currencies versus (EUR, CHF, GBP, CAD, AUD) the USD...



	USD	EUR	GBP	CHF	CAD	AUD	JPY	NZD	
Total Strength	4.1	6.2	3.8	2.3	2.67	7.0	4.0	6.0	Strong
									Rising

Based on this meter, I see that if the news is **good for the USD**, I should be **buying USD/CHF**; if the news is **bad for the USD**, I should be **buying EUR/USD**. By matching the weakest/strongest currencies with USD, I can expect to get more movement out of the news event.

I also use strength meter to determine the “short term sentiment established trend” when I trade short term sentiments. Obviously using strength meter is not enough; you also need to confirm the market with charts. But as always, this is where I would start.

Another great use for this tool is determining what is moving the market. Often times when we see a currency pair moving, and being a pair, it is sometimes hard to determine which one is moving the market. When we see GBP/USD going up, we don't know if it is a GBP strength or USD weakness. If USD is weak, then you should also see EUR/USD going up... If GBP is strong, then you should also see EUR/GBP going down. But having the strength meter will save you so much time, because you can just look at the strength and know what is going on.

I recommend that you keep the meter up and running at all times. I usually start my meter and leave it on the entire week. As a matter of fact, I never turn off my signal meter, unless I was rebooting my PC.

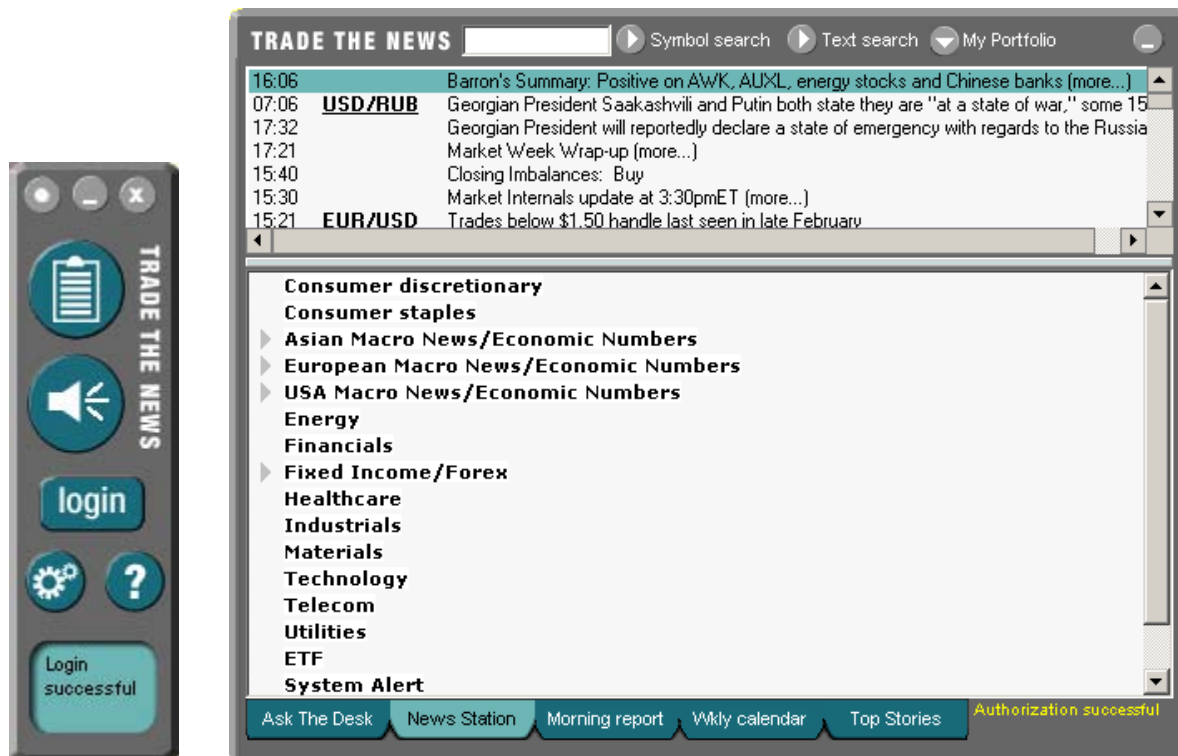
It is very obvious that when the signal meter is showing strength of one particular currency, you don't go against it! It has saved me from making many mistakes when I was starting out.

One last thing, the strength meter also has patterns. As I mentioned before, when I see both JPY and CHF strengthening, I will stay away from going long with carry trades. Once you have seen different market conditions along with the strength meter, you will begin to notice a pattern emerging. I am still documenting different patterns and maybe one day I will release a special report on that. Surely every trader can benefit from it.

# News Profiteer's Definitive Guide to Fundamental News Trading

## Trade The News

Trade the News is a news wire service that I use. I have been using Trade The News for years and they have provided a great service, delivery time, and accuracy. You'll get into your trades on time, and sometimes even beat the market by a fraction of a second. They are very reliable people and I cannot praise them enough.



Trade the News charges \$175.00 per month for their Forex news service. They allow you to do research and also provide commentaries prior to major news releases. They have been very good with Central Bank Speeches and Statements where you get the headlines and commentaries from broadcasters. I have made lots of money trading the news using only their service.

# News Profiteer's Definitive Guide to Fundamental News Trading

You can sign up for a trial at <http://www.tradethenews.com> and test drive free for 7 days.



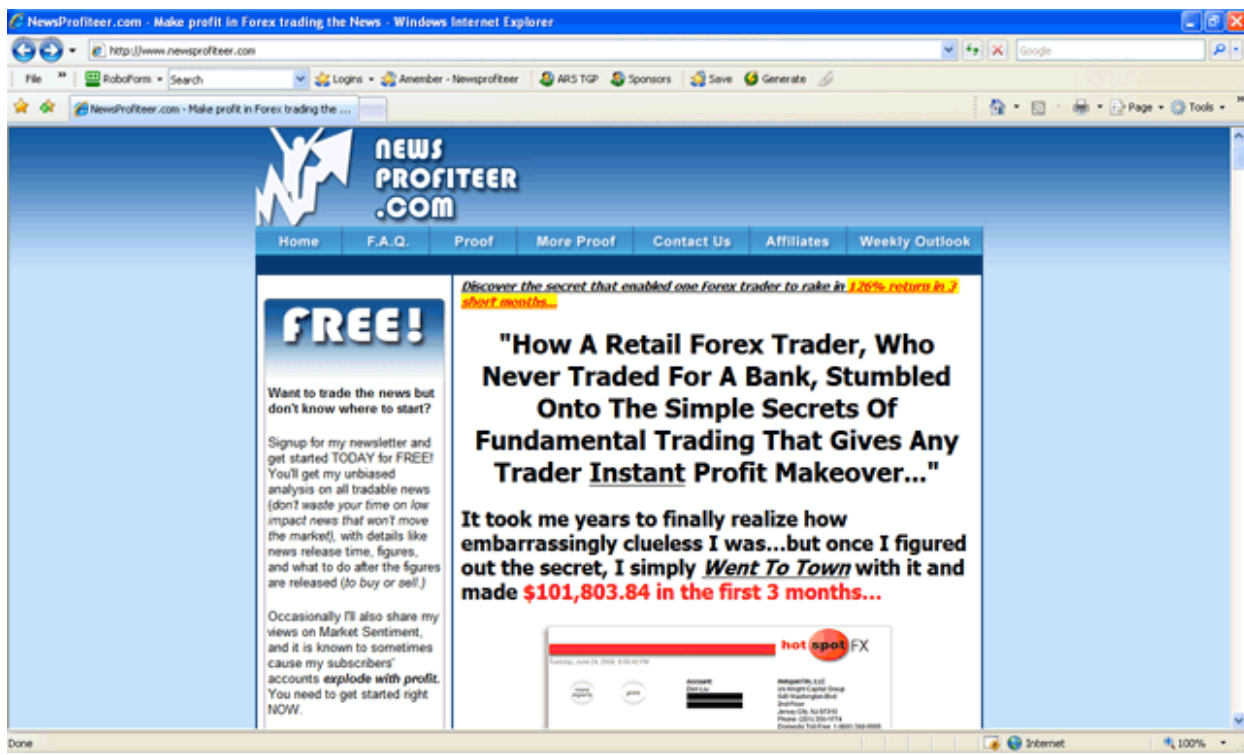
# News Profiteer's Definitive Guide to Fundamental News Trading

---

## NewsProfiteer

Ok, this is my own service. I provide a free news alert service for traders. I have two types of membership, one is free and the other one is only \$49.00 a month. The free membership will give you a daily email analyzing news event scheduled for the next day. I will give you my thoughts on what news is tradable, what is the deviation that I am looking for, and what is the expected movement if the deviation is hit. It is a very informative newsletter and I recommend that everyone signup for it immediately if not already a member.

The paid membership will give you access to a special restricted area where you can download different tools that I use, including the Strength Meter, and also access to my special weekly outlook section. Remember I recommended that everyone to look at the market on Sunday before the open? I do this faithfully (except when I am on vacation) and I share with my members in this section. I will give you my take on the market, what kind of sentiments that I am looking at, plus I send out special alerts to my paid members if I see a strong sentiment trade developing. You can signup at: <http://www.newsprofiteer.com>





# News Profiteer's Definitive Guide to Fundamental News Trading

## ForexFactory

If you have never visited Forex Factory, I recommend that you visit them immediately. Forex Factory have an economic Calendar that get feeds from Trade The News, although they are about 5 second delay, they are still the best FREE news calendar out there.

Also FF has many seasoned analysts writing commentaries on the market. Many major news events such as Interest rate, CPI, GDP, etc... you'll get some very interesting commentaries and analysis. I personally make a habit to read these commentaries and articles to keep me in the loop of what the market thinks is going on. However, I will never base my trading decisions on these articles; I always do my own studies as well.

You can visit at: <http://www.forexfactory.com>

The screenshot displays the Forex Factory website interface within a Windows Internet Explorer browser window. The page features a navigation bar with links to 'Forex Forum', 'Forex Calendar', and 'Forex News'. A prominent banner advertises 'GET 2 WEEKS OF DAILY FX TRADING STRATEGIES' with a 'FREE TRIAL' offer from CMC Markets. The main content area is titled 'Today's Calendar' and lists economic events for August 11, 2008. The events are organized by time and include details such as the currency, impact, and a comparison of actual, forecast, and previous values. A sidebar on the left provides information about the number of traders online (3,266) and offers shortcuts to active threads, the weekly calendar, and recent news. At the bottom, there are sections for 'Latest Forum Activity' and 'Forex News'.

Date	Time	Currency	Impact	Detail	Actual	Forecast	Previous
Mon Aug 11	2:00am	EUR	High	German WPI m/m	1.4%	0.5%	0.9%
	2:00am	JPY	High	Machine Tool Orders y/y	-8.9%		-2.5%
	2:45am	EUR	High	French Industrial Production m/m	-0.4%	0.5%	-2.9%
	4:30am	GBP	High	PPI Input m/m		1.0%	2.1%
	4:30am	GBP	High	Trade Balance		-7.4B	-7.5B
	4:30am	GBP	High	PPI Output m/m		0.5%	0.9%
	8:15am	CAD	High	Housing Starts		210K	218K
	8:30am	CAD	High	New Housing Price Index m/m		0.1%	0.0%
	7:01pm	GBP	High	BRC Retail Sales Monitor y/y			-0.4%
	7:01pm	GBP	High	RICS House Price Balance		-90.0%	-88.0%
7:50pm	JPY	High	CGPI y/y		5.8%	5.6%	
9:30pm	AUD	High	NAB Business Confidence			-9	

# News Profiteer's Definitive Guide to Fundamental News Trading

## DailyFX

This is another great website for articles and Financial Calendar. It is run by FXCM and their lead analysts are Kathy Lien and Boris Schlossberg, whom have been made popular by FXCM. My take is not to base your trade on their analysis, but do read their research and how they come about to that analysis.

Sometimes on their website you will see one analyst talk about EUR/USD breaking out to the top side, where the other analysts will say USD is on the rebound. Again, take everything with discretion and expand your trading horizons.

You can visit at: <http://www.dailyfx.com>

Forex News | Forex Trading News | Currency Trading News - Windows Internet Explorer

http://www.dailyfx.com/

File Edit View Favorites Tools H

Forex News | Forex Trading News | Currency Trading ...

Chinese Español Mon, 13 Aug 2008 Search: GO

News Calendar Charts Currency Rooms Forum DailyFX Plus Sign In

Monday, 11 August 2008 02:16:16 GMT

### US Dollar Breaks Records, Resistance. Will The Rally Continue?

Records were broken and important technical levels fell with the dollar's incredible rally last week. However, there was no specific top-tier indicator to trigger such a monumental move. So, is this just a remarkable false breakout or the inevitable fundamental shift behind a long-term trend change? To answer that question, we need to consider the fundamental buildup to the biggest one-day greenback advance in over five years and the longest overall sustained rally since the 2005 bearish reversal. On the outlook for growth, the second quarter GDP reading from the previous week seems to have placated the market, but that shouldn't blind us to the first drop in growth since 2001 reported in the revision to the 4Q 2007 figure. Nor should it overshadow the significant burden on the outlook for expansion over the second half.

[Full Article](#)

**FXCM - FOREX TRADING**

- Forex Practice Account
- Forex Courses
- Open An Account
- Deposit Funds
- Risk Warning

**DAILY FX +**

- Forex Trading Signals
- Weekly Strategy Outlook
- News From Thomson

**FREE WEBINARS**

- Getting Started in Forex

**Chief Strategist**  
**ANTONIO SOUSA**

**U.S. Dollar Could Rally Further As Interest Rate Expectations Move on Its Favor**

In this article, we argue that a significant shift of interest rate expectations in favor of the U.S. dollar has been the main driver behind the recent strength of the greenback. We expect the Fed to

**LATEST FOREX NEWS**

Monday, 11 August 2008 05:12:54 GMT  
**5 Key Events for the Forex Market This Week 08-11-08**

Monday, 11 August 2008 05:47:05 GMT  
**Euro Opens US Dollar Steady to Start the Trading Week**

Friday, 08 August 2008 23:45:57 GMT  
**US Dollar Rally Masks A Severe Carry Breakdown**

Friday, 08 August 2008 22:26:51 GMT  
**Forex in 60 Seconds - Dollar Builds To A**

**Featured Topics**

- Daily Reports
- Analyst Picks
- Special Reports
- Trading Ideas
- Weekly Strategies
- Technical Analysis

**Live Currency Rates**

NAME	LAST	HIGH	LOW
EUR/USD	1.4000	1.5015	1.4002
USD/JPY	109.82	110.30	109.81
GBP/USD	1.9175	1.9209	1.9105
USD/CHF	1.0700	1.007	1.0705
USD/CAD	1.0667	1.0681	1.0640
EUR/JPY	166.78	165.40	163.82
AUD/USD	0.8002	0.8095	0.8002

**If oil goes to \$150 per barrel, what happens to the US dollar?**  
Learn to trade currencies using GLOBAL EVENTS!

**FREE PRACTICE ACCOUNT**

**REGISTER NOW**

**24 hour Online Currency Trading**

Done Internet 100%

# News Profiteer's Definitive Guide to Fundamental News Trading

## Federal Reserve Bank of Cleveland

This is the link to view Federal Reserve Fund Futures, a great website to find out what is the public's expectation for Future Fed Action. Normally traders will take this into account into long-term trend outlook.

You can visit at: <http://www.clevelandfed.org/research/data/fedfunds/index.cfm>



# News Profiteer's Definitive Guide to Fundamental News Trading

## Mataf.net

Mataf is a great web resource for Forex Traders. If you have never visited this website, I recommend that you visit it immediately. You can find an online Correlation Chart in its Forex Tools section, along with a variety of other tools. The best part about Mataf is that you can get everything for FREE.

You can visit at: <http://www.mataf.net>

Forex (foreign exchange) Currency trading - Mataf.net - Windows Internet Explorer

http://www.mataf.net

File Edit View Favorites Tools Help

Forex (foreign exchange) Currency trading - Mataf.net

Forex (foreign exchange) Currency trading

**MATAF** FOREX TRADING *beSMART* FITMARKETS

HOME FOREX ANALYSIS TRADING TOOLS FORUM CURRENCY CONVERTER Subscribe

**Forex**

**CROWN FOREX**

Symbol	Bid	Ask
▲ EURUSD	1.4907	1.4908
▲ GBPUSD	1.9097	1.9098
▲ USDCHF	1.0864	1.0865
▲ USDJPY	110.28	110.29
▼ NZDUSD	0.6983	0.6984
▼ USDCAD	1.0698	1.0699
▼ AUDUSD	0.8826	0.8827

[Free Practice Account](#)

**Technical analysis** RSS

EURUSD GBPUSD USDCHF  
USDJPY GBPJPY EURJPY  
USDCAD AUDUSD EURCHF  
EURGBP EURAUD EURUSD

**LATEST NEWS**

► **Sarben: Mataf.net is Going On Vacation**  
Aug 9, 11:10 GMT  
Hello, it's the end of Mataf Season 6th. I hope you will be there for the 7th Season. The 6th season ends ...

► **dipole: Alert Service**  
Aug 9, 14:43 GMT  
Does anyone know of a rate alert service other than trading signal alerts? I can find on google is mobile4x.com...

**AVAFX**  
ONLINE TRADING CENTER  
Integrity, service and functionality. By simply opening up an account the whole brokerage package is automatically given to the trader, irrespective of the trading size or activity of the client.  
[Free Practice Account](#) [Open an Account](#)

**NEWSLETTER**

**ACM**  
advanced currency markets  
[More information](#)  
[Visit ACM's website](#)  
[Bullish Attitude](#)  
[Free practice account](#)

**AVA FX**  
ONLINE TRADING CENTER  
[More information](#)  
[Visit AVA FX's website](#)  
[Free practice account](#)

**CROWN FOREX**  
[More information](#)  
[Visit CROWN FOREX's website](#)  
[Free practice account](#)

**FXCM**  
[More information](#)  
[Visit FXCM's website](#)  
[Free practice account](#)  
[WWW.FXCM.COM](#)

**CIM Banque**  
[More information](#)

# News Profiteer's Definitive Guide to Fundamental News Trading

## Henryliuforex.com

This is my blog where I post on upcoming news releases with detailed analysis and my trade plans on how to trade them. This is based 100% on the methodology in this e-book.

However, as words on the book are just words, I record every news event that I recommend to trade, as I trade them live, and I post the entire video back in the post, showing you how to make money trading the news...

Some of my e-book customers might be skeptical over my trading methods, but once they see how I apply these same methods in real time, with real money, most will appreciate the simplicity in the whole process. It is as simple as I explain it here, and by seeing how it is done by me, you'll gain the confidence needed in trading Forex for success.



## News Trading Afterthought

I thought it's extremely important to end this book on this chapter, because of the huge amount of inquiries that I've received recently, all about news trading.

You see, it's extremely important that we always put the context of the market into our trading consideration instead of following a formula. As I have given you a formula that works, and continues to work, in this e-book; and by taking the context of the market into consideration, I think my formula will not only work much better, but your trading will improve significantly as well.

Here is a scenario to consider; there are only 3 viable reactions after a news release, and they are:

- **BUY or SELL in the direction if our tradable deviation is hit.**
- **Do nothing**
- **Take a reversal trade in the OPPOSITE direction**

The first reaction is pretty self-explanatory. As a matter of fact, I've dedicated the entire book explaining how to do it.

You wait for the news to come out, and based on the release, you either 1) Spike Trade, or 2) Retracement Trade... Pretty straight forward.

The second reaction, staying out of the market, also seems self-explanatory, since if the news is not going to give you a reason, or justification, to enter a trade, then perhaps it is best just staying out of the market.

Then the third reaction and that is where most novice news traders, or even veteran news traders fail, because they do not put the *context* of the market in their trade consideration.

Let me explain,

If the market has traveled to the support or resistance of your target currency, once the news comes out, you have to make sure that there is enough



## News Profiteer's Definitive Guide to Fundamental News Trading

---

momentum to carry over these levels; so, even if we get a tradable release, be very discreet over your trading because if these levels hold, expect for the market to reverse and that, in itself, presents a golden opportunity for an entry in the reversal position and make tons of pips.

Not many traders take advantage of this simple fact, by taking reversal when you can clearly see that the momentum ran out. Usually this happens either these support/resistance levels are too strong, or the release is either in line with expectation or just slightly tradable. So instead of a gradual and steady push beyond these points, you get a sharp retracement, where on the second attempt to breach, you get yourself a perfect entry for a reversal trade...

By making the right decision and put the context of the market in your trading, your news trading career just went from trading about 15 out of 40 news events a month (15 out of 40 news events that give you tradable deviations), to about 30 trades.

Furthermore, there is a known market psychological reaction called "Buy on Rumor and Sell on News". Most traders know about this, but they don't know how to take advantage of it. By looking at any **No Trade** news events, the ones that our deviation has not been hit, you could enter a reversal trade in the opposite direction of the premarket sentiment. This is because of the expectation or speculation of traders on a better or worse release, but because the release came out close or at expectation, most pre-news traders are taking profits out of the market, and that will cause the market to go in reverse direction, and giving you yet another golden opportunity to make money and exploit these situations.

Of course, as I cannot overstress that fact that you need to use sound judgment and put the entire context of the market in consideration. If the market didn't show any kind of pre-market sentiment, or the pre market sentiment was uncertain, you can't possible expect a reversal entry from there.

In conclusion, what I am trying to say is this: You could theoretically take a trade after any news release, regardless of the release number, based on just the context of the market. Of course I would warn against taking trades

## News Profiteer's Definitive Guide to Fundamental News Trading

---

indiscriminately, as that is a sure way to financial ruins. But instead of overlooking these opportunities because you might even know that they are possible in the first place, you are now in a position to look for these “trades” and possibly make more money around news trading time than ever.

One last thing and I really hope this will stay with you for the rest of your trading career, and that is to limit yourself to only trade Forex around news releases. I think by understanding news and fundamental factors, you have much better odds at trading, plus you'll cut down your trading time significantly, if you are like the old me, who used to trade 16 hours a day. And I have to say without any doubt, my trading only improved once I spend less time at it... It may be unfathomable, but give it a try; you'll definitely thank me later.

Henry Liu

(Revised Ver. October 2009)