FINANCIAL MARKETS

# WHY NON-FARM PAYROLLS CAN INFLUENCE USD

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# NFP REPORT: A MONTHLY HIGHLIGHT

## FOREWORD

All traders know that macro data releases can affect the markets. One noteworthy example is something called the Non-Farm Payrolls report.

Many Forex traders bank pips from this report, which is published once every calendar month.

If you want to do the same, you'll find this eBook useful. It explains why the Non-Farm Payrolls report is important - and how it can affect the US dollar (USD).

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# WHY THE NFP REPORT MATTERS

## THE NFP REPORT EXPLAINED

So why is the Non-Farm Payrolls report important? Why do so many Forex traders look for it on the economic calendar?

The answer is simple. The Non-Farm Payrolls report, which is published by the US Bureau of Labor Statistics, measures monthly employment changes in the United States.

It excludes agriculture, government and non-profit sector jobs data.

Remember - employment is a key indicator of the economic health of the United States (or any other country). This is why the Non-Farm Payrolls report can affect the value of USD.

There's a key principle to keep in mind here. Generally, better than expected employment data helps to support USD, while weaker than expected employment data can drag on USD.

## WHEN IS THE NFP RELEASED?

The Non-Farm Payroll report is released on the first Friday of every calendar month at 08:30 EST. You can find it marked on the Blackwell Global economic calendar.

## STRUCTURE OF THE NFP REPORT

Let's explore the structure of the Non-Farm Payrolls report. It contains three specific employment data points that Forex traders need to monitor:

- Unemployment Rate
- Average Earnings
- Headline Non-Farm Payrolls

Ahead of each Non-Farm Payrolls report, your Blackwell Global economic calendar will display a forecast for each of these data points. If the published report shows large deviations from these forecasts, USD price moves usually occur.

Here's some more detail on each data point.

**Unemployment Rate**

While significant, the Unemployment Rate is the least important data point of the three. This data point shows the percentage of Americans that are out of work.

The Unemployment Rate is known as a lagging indicator - and it can give clues as to where the United States is in its economic cycle.

If the United States is in the late stages of its economic cycle (growing), lower levels of unemployment would be expected. However, if the United States is entering a downturn, higher levels of unemployment would be expected.

As such, this data point can be useful for tracking the broader economic health of the United States. However, big deviations above or below forecasts in an individual report can still surprise the markets and move USD.

**Average Earnings**

A Non-Farm Payrolls report also contains Average Earnings data (month-on-month and year-on-year). This data is important because it gives clues about the purchasing power of Americans.

Sustained growth in wages is clearly a sign that the economy is healthy. But it also indicates that Americans have more money to spend, which could drive inflation over time. Such a scenario could see the Federal Reserve tighten its monetary policy and increase interest rates.

On the other hand, if wage growth is poor, the economy could require monetary easing to kickstart growth and prevent deflation.

The scenarios above are why traders pay close attention to Average Earnings data.

In an individual Non-Farm Payrolls report, significant deviations away from forecasts can cause USD price movements.

**Headline Non-Farm Payrolls**

This is the data point that dominates the financial markets once a Non-Farm Payrolls report is published. It shows us the number of new jobs that have been created in the past month. When tracked month-on-month, this data point is a means to assess the health of the US economy.

In an individual Non-Farm Payrolls report, traders typically look for a notable deviation from the headline forecast. A significant reading above the forecast acts to strengthen USD, while a significant reading below drags on USD.

Remember - many Forex traders and institutions place orders ahead of (and after) a Non-Farm Payrolls report being published. This extra volume can cause notable market reactions and price volatility.

## WHAT TO LOOK FOR

It's best to trade a Non-Farm Payrolls report when all three data points deviate in the same direction. Generally, the bigger the deviation, the more USD price will move.

For instance, if all three data points read below forecasts, it's likely that USD will weaken. Alternatively, if all three data points read above forecasts, it's likely that USD will strengthen.

If the Non-Farm Payroll data points align with forecasts, or the data points are mixed, the impact on USD will be more muted.

**Broader Fundamentals**

Traders should also consider the broader fundamental picture when looking to trade the Non-Farm Payrolls report.

For instance, there could be geopolitical issues that are pinned to USD. One recent example is the trade tensions between the United States and China. These factors should be considered before trading the Non-Farm Payrolls report.


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