News Trader Trading System

Contents

The news trader trading system takes advantage of inefficiencies in forecasting. When economic data is released there are market expectations for the release which, through forecasting models, is often wrong. Those instances where the deviation in expectations versus the actual release is wide creating a pricing gap which the market then fills. It is not quite as simple as trading headline deviations however, oftentimes there are details that can easily be missed and this leads to news trading getting a bad reputation through losses.

This trading program will provide you with a clear path to building an understanding of the fundamental picture. You will learn how to source the information required and how to apply that to identifying trading opportunities.

What to Expect

The vast majority of you reading this will be employed and would have encountered the difficulties of trading while working. The general path taken to circumvent the time commitment is swing trading however this means wider stops in an environment of news flow that can change sentiment resulting in more losses. The chances of being in a trade and having news altering sentiment which affects price gets tighter as time goes by.

Trading economic releases will remove you from being in the market for a period of time where sentiment is likely to shift. You can plan your trading weeks in advance by using the economic calendar and your daily overhead is not going to burden your time at work.

Sun Jun 30				
Mon Jul 1	All Day	All		OPEC Meetings
	3:00pm	USD		ISM Manufacturing PMI
Tue Jul 2	5:30am	AUD		Cash Rate
		AUD		RBA Rate Statement
Wed Jul 3	2:30am	AUD		Building Approvals m/m
	1:30pm	CAD		Trade Balance
	3:00pm	USD		ISM Non-Manufacturing PMI
Thu Jul 4	2:30am	AUD		Retail Sales m/m
Fri Jul 5	1:30pm	CAD		Employment Change
		CAD		Unemployment Rate
		USD		Average Hourly Earnings m/m
		USD		Non-Farm Employment Change
		USD		Unemployment Rate

Each of these represents a potential trading opportunity. You can see the exact date and time which means you can plan ahead and it is not important if you miss some because there are more than enough opportunities every week.

The research needed to maintain the knowledge required can be found on central bank websites for each economy you wish to trade and you will additionally need to visit other sites for economic releases, news feeds, and economic data sites. You will need to journal your findings unless you are one of the few people who are blessed with a photographic memory.

We spend many hours researching to extract the important information out and present it to you in a timeline format so you can read it like a story. We also collocate other information so that you don't need to maintain dozens of links or switching between sites to get the information you need. If it is convenience you want alongside your growing account then you will save yourself hours of research time by using our service for the price of 5 Grande Starbucks Latte's every month (Not literally).

10 mins prior to each trade you will tune into sentiment and narrow down your pairing list (more on that later) and if the data release meets trade criteria, you take the trade. Your trading account will be flat at the end of each day. Your daily homework is to catch up on central bank communication, update on any major news themes dominating the market, and review the data points for the next trading day. This is what it takes to trade economic releases successfully. You will not be successful at trading headline economic releases without an understanding of what it means to central bank policy.

A brief example of a trade and what to expect in terms of the process and the decisions you need to make

Here is a trade example that shows the scenario that offers a trading opportunity. Fundamentally, the FED have changed their language to be more dovish while the BOC have been cautiously hawkish. The tier 1 data for each was released at the same time, which is not always the case, the results were a beat and a miss creating the perfect pairing scenario. The scenario is a hawkish central bank fundamentally with a beat on key data (in this case both employment and unemployment) paired with a dovish central bank with a miss on key data. As you can see the market continued to price in the new information so that it reflects where the central bank is headed with monetary policy.

Date	10:47am	Currency	Impact		Detail	Actual	Forecast	Previous
Fri Jun 7	1:30pm	CAD		Employment Change		27.7K	5.0K	106.5K
		CAD		Unemployment Rate		5.4%	5.7%	5.7%
		USD		Average Hourly Earnings m/m		0.2%	0.3%	0.2%
		USD		Non-Farm Employment Change		75K	177K	224K
		USD		Unemployment Rate		3.6%	3.6%	3.6%

Here is some of the background information that is used to arrive at the point of taking the trade.

USA

FED’s dual mandate is maximum employment, stable prices and moderate long term interest rates

May 1, 2019 press conference with Powel

- The economy is healthy (accommodating financial conditions, high employment with job growth and wage growth, and strong business and consumer confidence)
- Inflation has been weaker than expected and is believed to be transitory

May 7, 2019 Clarida comments

- Our focus right now is to get inflation up to 2%

May 16, 2019 Brainard comments

- Employment inflation relationship is broken

Kashkari comments

- Wages not rising in a way that signals faster inflation

May 20, 2019 Williams comments

- Policymakers want to maintain a strong labour market and keep inflation low

May 30, 2019 Clarida comments

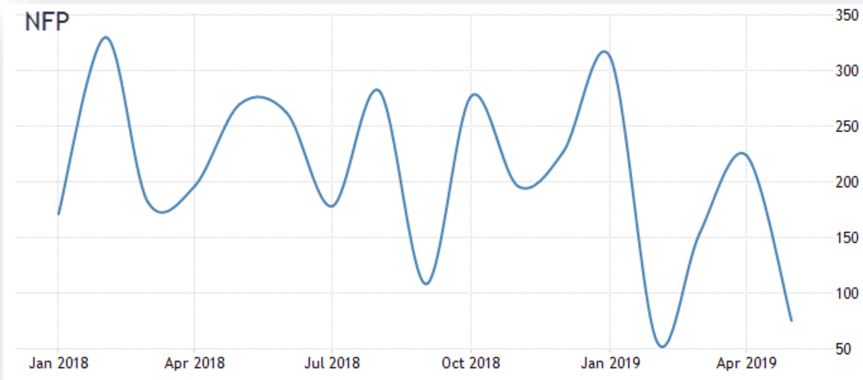
- Downside risk could call for more accommodative policy
- Inflation has been coming in lower than expected

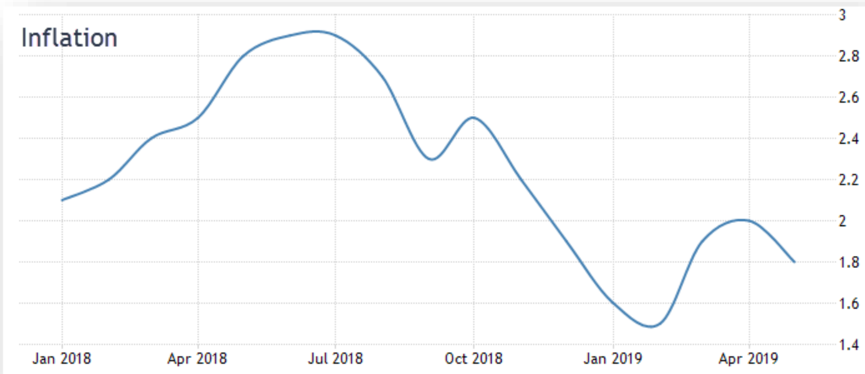
June 3, 2019 Bullard comments

- A rate cut may become a more attractive option if inflation keeps disappointing

June 4, 2019 Powel comments

- Fed will act as appropriate to sustain the expansion





Canada

The BOC mandate is low inflation and price stability

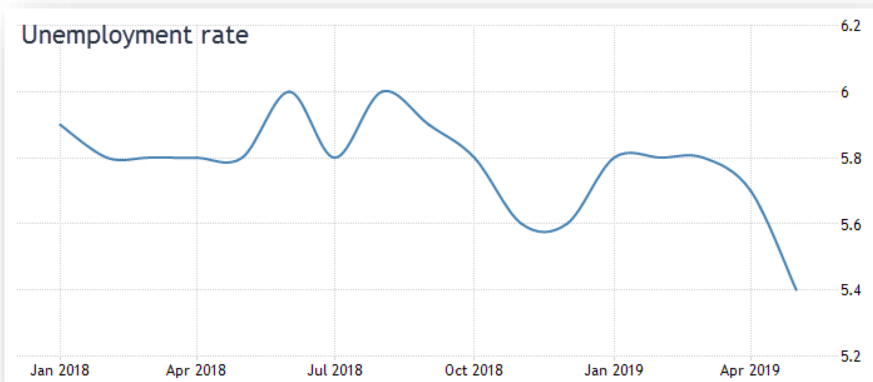
April 25, 2019 comments from Poloz

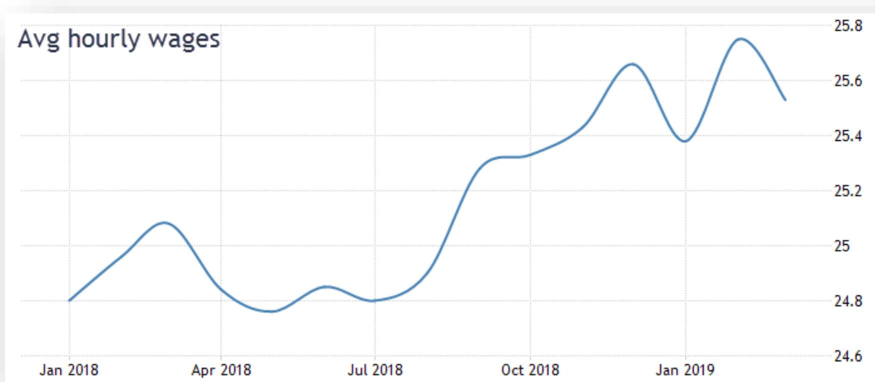
- Good reason to believe the economy will accelerate in H2
- It's possible that the BOC's estimate of the neutral rate could be increased again

May 29, 2019 press conference with Poloz

- Inflation expectations for CPI and core remain close to 2%
- Job growth strong
- Pickup in consumer spending
- Accumulating evidence that the slowdown in late 2018 and early 2019 is being followed by a pickup in Q2

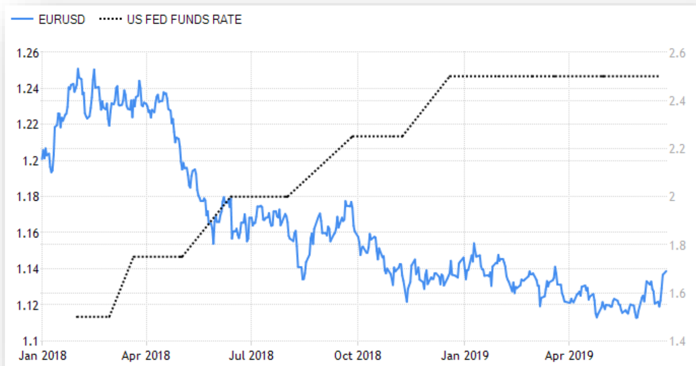

Inflation Rate
3.5
3
2.5
2
1.5
1
Jan 2018
Apr 2018
Jul 2018
Oct 2018
Jan 2019
Apr 2019

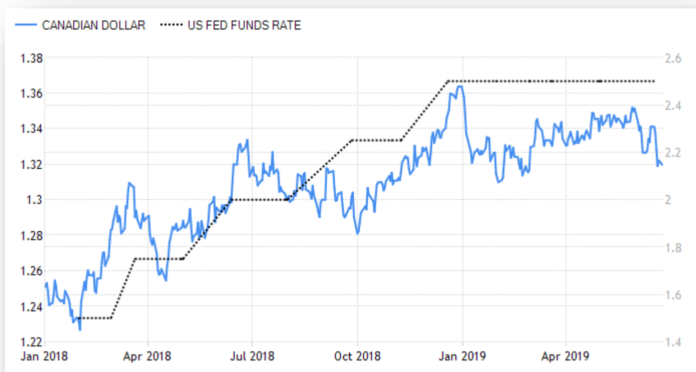

Unemployment rate
6.2
6
5.8
5.6
5.4
5.2
Jan 2018
Apr 2018
Jul 2018
Oct 2018
Jan 2019
Apr 2019


Avg hourly wages
25.8
25.6
25.4
25.2
25
24.8
24.6
Jan 2018
Apr 2018
Jul 2018
Oct 2018
Jan 2019

Researching 101

Building your knowledge begins with understanding central banks. They hold the keys to the cost and supply of money. Take a look at the following examples where you can visually see the effects monetary policy has on the value of a currency. In this example, there is a divergence of policy with the ECB and the FED. The second example is with the BOC and the FED with a similar divergence.





To understand a central bank, you need to understand their mandate, what tools they have at their disposal to implement monetary policy, and their language which includes forward guidance on future policy. Here are a few examples of tools they utilise:

Open Market Operations

The central bank buys\sells securities between the country's private banks. When they buy they effectively inject cash into banks' reserves providing them more capital to lend and when they sell it reduces banks' reserves which reduces their lending capacity

Quantitative Easing

This is a flavour of open market operations but on a bigger scale.

Reserve Requirement

The money banks need to have in their reserves with the central bank overnight. The lower the reserve requirement the more money the bank has to lend and the higher it is will be the opposite.

Discount Rate (Interest Rate)

The rate at which a central bank charges banks to borrow money. The higher the rate the more banks are inclined to lend from other banks. It is typically used as the lender of last resort

There are many other tools you need to be aware of and their uses which you can find on their websites. Central banks will discuss the implementation of their tools based on their assessment of the economy. If you don't understand the tool then you need to make it your objective to understand it. Knowing why a given tool is used will vastly improve your understanding of monetary policy.

The second aspect of central banks you need to be aware of is their policy on forward-guidance. They do not want to surprise markets so they utilise forward-guidance to communicate their intentions. Here are some examples leading into the June 19th 2019 Monetary Policy meeting

[Powell June 4, 2019]
- Fed will 'act as appropriate' to sustain the expansion
- Fed 'closely monitoring' impact of trade developments
- Much higher likelihood rates will fall to effective lower bound in a downturn
- Crisis-era tools worked and are likely to be needed again
- 'Dot plot' has distracted attention from how the Fed will react to unexpected events

[Evans June 4, 2019]
- The economy still solid but uncertainty higher
- Trade uncertainty seems to be weighing on business investment
- He's comfortable with policy now but worried about inflation levels below 2%
- Inflation pressures seem not strong or absent

[Bullard June 3, 2019]
- A rate cut may become 'a more attractive option' if inflation keeps disappointing
- Says that 2019 inflation may fall short of the target
- A rate cut may help to maintain inflation goal credibility
- Says that Fed needs to tread carefully to sustain US expansion
- Any adjustment in policy would be in response to incoming data

The press conference further enforced forward guidance of an imminent rate cut in the upcoming Monetary Policy meetings

[Press conference monetary policy June 19, 2019]

- The economy has performed reasonably well (strong employment)
- Crosscurrents have reemerged (global growth and trade uncertainties)
- Growth indicators around the world have disappointed on net raising concerns about the global economy. Progress on trade has turned to greater uncertainty since May's meeting. Contacts in business and agriculture have raised concerns about developments which has contributed to a drop in confidence.
- The base outlook remains favourable however the question is if these uncertainties weigh on the outlook and calls for additional accommodation in policy
- Participants noted weaker business investment and trade issues supporting their judgement of the risk of a less favourable outcome has risen
- Employment needs watching with recent softness - note the Fed average employment over a 3-6 month period
- Inflation moving towards the 2% objective has been slower than anticipated. Participants expressed concerns about inflations return to the 2% target. Wages are rising but not at a pace that will provide much upward impetus to inflation. Weaker global growth will keep inflation down around the world
- 8 participants wrote down cuts and those participants that wrote down flat rates for the rest of 2019 agree that the case for additional accommodation has strengthened since the last meeting- note Bullard voted for a rate cut at this meeting
- Uncertainties surrounding the baseline outlook has clearly risen since the last meting. Powel said it is important that monetary policy doesn't overreact to individual data points or short term changes in sentiment. Doing so would add more uncertainty to the outlook. The Fed will continue to monitor these developments and use all the available tools to sustain the expansion
- Before changing policy, the FED would like to see more data to determine how the risk continues to weigh on the outlook.

The other critical information you get from their communication is the areas of the economy they are focused on. This will be communicated through speeches and press conferences. Here are the highlights from the last press conference before writing this tutorial.

[Press conference monetary policy June 19, 2019]

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- Growth indicators around the world have disappointed on net raising concerns about the global economy. Progress on trade has turned to greater uncertainty since May's meeting. Contacts in business and agriculture have raised concerns about developments which has contributed to a drop in confidence.
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Forward-guidance is also communicated through speeches.

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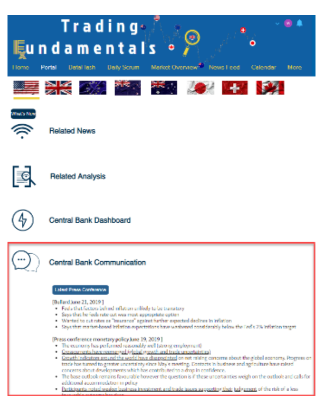
- Any adjustment in policy would be in response to incoming data

[Daly June 3, 2019]
- Mexico tariffs raise uncertainty - will hurt economic growth
- Tariffs causing upward pressure on inflation
- No sustained deep inversion in the yield curve

[Fed May 31, 2019]
- Inflation expectations anchored around 1.7%
- Wage growth is ticking up but slowly
- 'Not quite there yet' on the need for a Fed policy shift

[Fed May 30, 2019]
- No sustained deep inversion in the yield curve
- We will continue to move back towards 2% inflation
- Patient on a possible rate cut
- Mexico tariffs raise uncertainty - will hurt economic growth
- Tariffs causing upward pressure on inflation
- The economy is in good shape

The screenshots you have seen are from our portal where we track all important central bank communication. This information can also be found on central bank websites under their speeches and publication sections but you will have to read through all of it across every central bank you track to produce the same information we have on the site.



General research guidelines

It can take a few weeks to months to build your base knowledge on how central banks work, their policy tools and their communication. This base knowledge is a prerequisite to trading fundamentals else you are trading without any knowledge of what is really going on, which would be more akin to gambling. Expect to spend a lot of time, in the beginning, to build your base understanding. When you have a base understanding the workload becomes a lot lighter and can be thought of maintenance. Central banks are communicating all the time and you will need to track a basket of economies to have an adequate pool of opportunity.

In a typical week, you will be catching up on central bank communication in the evenings. Some weeks are busier than others so there isn't a standard schedule but you should be looking to spend a least 1 hour every night catching up on developments across the economies you track. Some weeks are heavier than others with multiple central banks releasing their policy update so look at 1 hour as a general guideline that can fluctuate according to central bank activity.

You will need to keep a journal because you can't remember all the important information unless you are blessed with a photographic memory. The journal doesn't need to be very detailed, it should be thought of as a reference manual that you will use to prepare for trades. The format of the portal on our site is generally the sort of format you should be aiming for with the information in chronological order and separated into sections. You will learn how to use this when we reading the prepping for a trade section.

Pairing strongest against weakest

This is generally an area of currency trading that is overlooked by many traders, especially those that only focus on technical analysis. Matching the weakest economies with the strongest is a process that delivers trading opportunities. If you pair weak with weak or strong with strong then you are not trading an opportunity, you are trading luck. Fluctuations in currencies arise from fluctuations in economic data, central bank policy and political themes. If all economies were equal then you won't make any profit trading them against each other.

The starting point of pairing economies is central bank analysis. You can think of this as a proxy for studying the economy and their policy and their communication (forward guidance) reflects their assertions of where it is headed. Monetary policy isn't enough to go by when determining the strength of the underlying economy. Studying central banks is a combination of analysing their policy and communication.

Your analysis of central banks will provide you with the medium-term direction of a currency. Trading only on this information isn't enough because currencies fluctuate around the longer term trends. Fluctuations around the longer term trend are driven by sentiment which is affected by economic data and political news. When pairing you can break down opportunities into 2 categories, the first is when economic and political news are in alignment with the medium-term trend and generally provide strong sentiment. The second is news that conflicts with the medium-term trend and these are still trading opportunities but at a reduced scale. Think of these as being partly responsible for retraces in trends with the other aspect being profit taking. Lesser quality opportunities can result in price ranges and as a consequence, you need to adjust your expectations when trading these.

Based on these 2 categories you will have different qualities of opportunities every day and you should learn to be conscious of this fact and use it to manage trades effectively. The actual pairing setup, for lack of a better term, is derived from surprises to expectations. If for example the market was expecting a given outcome and the data or political news reflects a different reality then you have met the criteria for at least one side of pairing. You need to have a weak and a strong together for a trading opportunity to materialise. Sometimes this can happen at the same time when economic data is released for 2 economies that are geographically collocated. This is true for the UK and Europe, or Canada and the USA. Most of the time, however, there will be a time difference between pairing economies and the trade will be initiated as soon as the pairing can be matched.

There are also occasions where there is major news for a single economy and nothing else for the remainder of the day. In these situations, you can fall back on pairing with the medium term trends. In other words, one side of the pairing will be a release or political news and the other will be the medium-term trend. Again in this situation, you need to adjust your expectations as the trade won't yield as much price movement as a fresh complete pairing would so you need to adjust your expectations and manage the trade accordingly.

Here is an example. Canada produced a beat on expectations on a key economic data point (a core component in the BOC mandate) and leading into this day was a lot of dovish FED communication which was confirmed by their policy statement and press conference. There were 2 trading opportunities on the day. The first was pairing the good Canadian CPI with the dovish US$ sentiment driven by dovish FED communication and market expectations. The second trade was provided when the FED released their statement and a continuation following the press conference.

Date	10:02am	Currency	Impact		Detail	Actual	Forecast
Wed Jun 19	1:30pm	CAD		CPI m/m		0.4%	0.1%
	7:00pm	USD		FOMC Economic Projections			
		USD		FOMC Statement			
		USD		Federal Funds Rate		<2.50%	<2.50%
	7:30pm	USD		FOMC Press Conference			

Sometimes pairing is affected by the general sentiment of the market and this is known as risk-on and risk-off. When the market is in risk-on mode, risky asset classes will be appreciating. You will see equity markets in positive territory and government bond yields increasing. When the market is in risk-off mode the equity markets will be red, government bond yields will be falling, and in currencies you will see the Yen and Swiss Franc appreciate. If the risk-off is a global issue and related to financial markets then you can also see the US$ appreciate as a safe haven as it holds world reserve status.

<u>An example of risk-off</u>

Investing.com

Live Indices

Name	Last	Prev.	Chg.	Chg. %	Time
S&P 500	2,945.35	2,951.72	-5.11	-0.17%	24/06
FTSE 100	7,400.55	7,382.50	-16.14	-0.22%	10:20:19
DAX	12,263.45	12,220.27	-11.12	-0.09%	10:20:30
Euro Stoxx 50	3,447.05	3,441.05	-8.52	-0.25%	10:20:12
SMI	9,889.50	9,878.00	-14.00	-0.14%	10:20:21
CAC 40	5,514.07	5,497.50	-7.64	-0.14%	10:20:30
S&P/ASX 200	6,658.00	6,647.40	-7.40	-0.11%	06:59:51
Nikkei 225	21,162.94	21,228.00	-123.05	-0.58%	06:59:58
Hang Seng CEI	10,742.41	10,894.73	-210.53	-1.92%	08:58:59
Hang Seng	28,185.98	28,444.50	-327.02	-1.15%	08:59:58
S&P/TSX	16,523.47	16,527.07	-1.96	-0.01%	24/06
Shanghai	2,983.09	2,999.31	-25.06	-0.83%	07:57:26
S&P 500 VIX	15.44	15.44	+0.18	+1.18%	10:20:23
STOXX 600	383.36	383.74	-0.44	-0.11%	10:20:30

Term	Yield	% Change
U.S. 1M	2.161	+2.04%
U.S. 3M	2.131	+0.15%
U.S. 6M	2.083	-0.26%
U.S. 1Y	1.923	-0.26%
U.S. 2Y	1.732	-0.24%
U.S. 3Y	1.682	-0.46%
U.S. 5Y	1.746	-0.30%
U.S. 7Y	1.875	-0.11%
U.S. 10Y	2.018	-0.07%
U.S. 30Y	2.548	-0.04%

Currency Heat Map

	EUR	USD	JPY	GBP	CHF	AUD	CAD	NZD	CNY
EUR		-0.13%	-0.39%	-0.27%	0.28%	-0.19%	-0.16%	-0.53%	0.03%
USD	0.11%		-0.27%	-0.21%	0.39%	-0.12%	-0.02%	-0.41%	0.14%
JPY	0.38%	0.26%		0.05%	0.71%	0.18%	0.2%	-0.16%	0.39%
GBP	0.28%	0.17%	-0.09%		0.56%	0.1%	0.15%	-0.22%	0.33%
CHF	-0.28%	-0.38%	-0.65%	-0.58%		-0.5%	-0.45%	-0.8%	-0.25%
AUD	0.24%	0.14%	-0.13%	-0.05%	0.52%		0.11%	-0.28%	0.23%
CAD	0.16%	0.03%	-0.24%	-0.13%	0.42%	-0.02%		-0.31%	0.21%
NZD	0.56%	0.42%	0.15%	0.25%	0.82%	0.31%	0.39%		0.53%
CNY	-0.03%	-0.14%	-0.38%	-0.33%	0.28%	-0.49%	-0.21%	-0.46%	

Prepping for a trade

Being prepared for a trade is an important factor in your ultimate success. It will provide you with greater result consistency and trade execution. Every evening, aside from your research, you need to spend some time reviewing the next trading day and also the remainder of the week. You need to be aware of what's ahead of the upcoming day because it can be the cause of markets being quiet. If for example there is a G20 meeting at the end of the week then markets will get quieter as that meeting approaches. Knowing when to stand on the sidelines is a critical factor in preventing unnecessary losses and frustration.

The sort of preparation you need to do each night is to take a look at tier 1 economic data releases for the following day and the week ahead. You also need to review any political developments that might take centre stage as is often the case. In terms of economic data, you need to ascertain if the release is related to a key focal point for the central bank. You should look at the historical data for this indicator and see if it is generally erratic or if there are decisive trends visible. Trading erratic indicators is not recommended because you cannot decipher meaningful information from data that doesn't exhibit trends. Take a look at the expectations and previous values so that you can get an idea of the market expectations. You should already have in your mind, a general idea of pairing based on central bank research. This is only part of the equation however, you will ultimately build your pairing list off of fresh economic data and political news and align that with the medium-term trend. Recall the pairing section and refer back to this to make this point and process clear.

Finally, you should spend a short amount of time scanning the news and research feeds to see if there is any analyst commentary on the upcoming release. You should try to get as much information as you can and this includes other opinions so that you can make an accurate assessment of what to expect and how it could pan out if expectations aren't met.

During the course of the day, while the market is open(especially in EU and US sessions), you don't need to spend time researching. You should look to refreshing your view of sentiment by looking at actual economic releases on the day see if there are are any deviations in expectations. This is the pairing process in action so if you are unfamiliar with it then you need to refer back to that section now before proceeding. This process includes scanning news feeds to see what the major themes are on the day. It is also essential to keep an eye on other markets to ensure you are aware of changes to general sentiment (risk-on\off). You don't need to spend hours doing this or be glued to the screen. You can periodically catch up but you will need to set aside at least 10 minutes prior to a release to finalise your preparations.

10 minutes before a release you should begin your final preparations for a trade. You should already have a list of pairings to utilise if the data released beats or misses expectations. This final 10 minutes is really just a last check on sentiment to ensure you haven't missed information that could change your pairings or derail your trade. A major political news story, for example, could override economic releases or an economic news release that you might have missed could change your pairing list. This shouldn't be a laborious task and it should take less than 10 minutes and you will become faster at it as your experience matures.

Placing a trade

You will need access to an economic release calendar with as little delay as possible. Freely available calendars generally have a delay and time is money so you should look for a service that provides faster releases than what is freely available. We have data flash as part of our service offering which is better than freely available tools and cost-effective but is slightly slower than a premium product like Eikon. Dataflash is adequate for trading news releases and when you can afford it you should look to upgrading to a premium product that is on the same level as the banks.

Placing a trade should be a very straightforward process. If there is a deviation one way or another you will have a pairing selection for each scenario. Your trading plan will also be in line with the quality of the pairings. In other words, If there is a deviation and it aligns with the medium-term trend then you can expect the trade to produce more than if it were in opposition. There isn't much more to discuss on this as all the work leading up to this point is the trading strategy and this is merely the execution of that strategy.

Managing trades

This area of news trading needs to be expanded-on because you need to set your expectations away from the traditional risk-reward profile that is perpetuated in literature and widely adopted amongst retail traders. A quick note on risk-reward. Nobody knows where the price will change its course and therefore you cannot assume your assertion of risk and reward has any merit or edge. Be honest with yourself, how often does your assertion of risk-reward come to fruition? The likely answer is rarely because sentiment is fluid and ever changing according to developing news. If you were to set rigid parameters to this market then you will assume a greater degree of losses.

A far better way of dealing with risk and targets is to view a stop as an exit of last resort and have no set target. This might seem like it introduces uncertainty but you need to realise that markets are constantly providing feedback and it is this mechanism that will ultimately feed into a well-designed trade management process that will accommodate any situation.

To better understand the dynamics at play, consider the lifecycle of sentiment beginning with a catalyst and ending with price changing course. A catalyst (a deviation in expectations of news) will move price but the amount of interest in the move varies widely from catalyst to catalyst. This is why rigid trade management strategies are inconsistent. Interest in price movement will wane over time which is your first input into understanding when to exit a trade. The second factor is the strength of memontum which is strongest immediately after a catalyst. Strong momentum should have no problem breaking through support and resistance levels but as momentum dissipates, then price will struggle to break through these levels.

Putting these 2 factors, price and time together, you have a mechanism that will provide you with market feedback on when to exit a trade. If you enter a trade and nothing is going on for 5-10 minutes after your entry then you know momentum is laking and you need to exit. This will reduce your losses overall which increases your profitability. If you have entered a trade and it starts to go against you then you have either missed information and gotten the direction of the trade wrong or the market is focused on other matters. In either case, your stop should not be left to get hit and you should rather just exit the trade and reduce your loss. If you have entered a trade and in profit, then price will journey to the next support or resistance area. The longer price remains at this area without breaking the greater the chances that momentum has run its course and it is time to exit the trade. You can give price a time limit at levels to make this judgement and 10 minutes is normally sufficient (2* 5-minute bars).

This exit strategy will in most cases be the right time to take profit. There will be instances where price eventually breaks through but you should rather strategies to accommodate the many over the few. This is exactly the opposite of the standard risk-reward profile that will have you take many losses to accommodate the few winners. It is far more profitable to accommodate the many over the few and this trade management process is designed to handle it.