US Dollar – What Are The Most Market Moving Economic Indicators?

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While most participants in the FX market are purely technicians, it has been estimated that 25% of all foreign exchange dealers trade with fundamentals, compared to 30% who use technicals. Among the speculative day trading community, this ratio is probably even more weighted towards technicals. However, as we have all learned throughout the past year, fundamental releases have become increasingly important market movers. Based upon our observations, the most significant movements in the dollar (against the euro) tend to occur in the first 20 minutes following the release.

Relative importance of data changes over time

The relative importance of economic releases also tend to evolve with time. In 1992, the trade balance was the number one market moving US economic release on a 20-minute basis while non-farm payrolls (and unemployment data) was the third. In 2004, these two indicators switched places with non-farm payrolls being the biggest market mover for the dollar and the trade balance taking third place. Intuitively this finding makes sense as the market shifts its attention to different economic sectors and data—for example, trade balances may take precedence when a country is seen to be running unsustainable deficits. Similarly, in an economy that has difficulty creating jobs, unemployment data will be viewed by the market as more important.

According to a paper written by the National Bureau of Economic Research (NBER) conducted in 1999, the importance of economic data was ranked as the following:

FX Dealer Ranking of Importance of Economic Data: Changes over time

As of 1997:	**As of 1992:**
1. Unemployment	1. Trade Balance
2. Interest Rates	2. Interest Rates
3. Inflation	3. Unemployment
4. Trade Balance	4. Inflation
5. GDP	5. GDP

** Calculated based upon minute reactions

What is also important to take into account is that prices do retrace throughout the course of the day, therefore the biggest 20-minute mover for the dollar may not be the most significant market mover over the course of an entire trading day. According to our own analysis of 20-minute and daily ranges, we have found and created the following rankings for economic data:

As of 2004 (20-Minute):

1. Unemployment (Non-Farm Payrolls)
2. Interest Rates (FOMC Rate Decisions)
3. Trade Balance
4. Inflation (Consumer Price Index)
5. Retail Sales
6. GDP
7. Current Account
8. Durable Goods
9. Foreign Purchases Of US Treasuries (TIC data)

As of 2004 (Daily):

1. Unemployment (Non-Farm Payrolls)
2. Interest Rates (FOMC Rate Decision
3. Foreign Purchases Of US Treasurie
4. Trade Balance
5. Current Account
6. Durable Goods
7. Retail Sales
8. Inflation (Consumer Price Index)
9. GDP

As indicated in our tables, non-farm payrolls is hands down the most significant market mover, causing an average 124 pip range of trading in the first 20 minutes following the release and a 192 pip range of trading throughout the course of the day. Interest rates also hold on to second place for both time frames, but the rankings begin to shift dramatically for the other indicators. Net foreign purchases of US securities generally has a nominal average 20-minute move of 33 pips while on a full day basis, it results in a 132-pip move.

The breakdowns of the average pip ranges for the EURUSD are the following:

As of 2004:

For 20 Minutes	Avg. Range (pips)	Total Daily Range	Avg. Range (pips)
Non-Farm Payrolls	124	Non-Farm Payrolls	193
FOMC Decision	74	FOMC Decision	140
Trade Balance	64	TICS	132
Inflation - CPI	44	Trade Balance	129
Retail Sales	43	Current Account	127
GDP	43	Durable Goods	126
Current Account	43	Retail Sales	125
Durable Goods	39	CPI	123
TICS	33	GDP	110

*The average daily range for the EURUSD in 2004 is 111 pips

As you can see, the most significant change over the past few years has been the shifting importance of the trade balance. In addition, contrary to popular belief, throughout the same time period, the GDP report has also become one of the lesser important economic indicators and has led to one of the smallest relative movements in the EURUSD. One possible explanation is that GDP releases are less frequent than other data used in the study (quarterly versus monthly). In addition, GDP data is more prone to ambiguity and misinterpretation. For example, surging GDP brought about by rising exports will be positive for the home currency; however if GDP growth is a result of inventory buildup, the effect on the currency may actually be negative.

Factors such as these are very important for currency traders to keep in mind regardless of technical or fundamentals trading strategies. For technical range traders, they know that they should probably stay away from range trading ahead of the NFPs, while breakout traders will find that the NFPs may pose a great trading opportunity. For fundamental traders, these results are also important because the exchange rate adjustment to economic news appears to be very swift, any reaction beyond a 15-30 minute window after the data is released may be the result of investor over-reaction or trading related to customer flow rather than news alone. The GDP is a perfect example - the 20-minute reaction ranking is higher than the daily ranking. It is also critical to stay abreast of which data the market deems important at any point in time because the market's focus changes from period to period, once relevant data may end up having less of an effect on currency values, and vice-versa.

Resources:

Macroeconomic Implications of the Beliefs and Behavior of Foreign Exchange Traders:
http://www.georgetown.edu/faculty/evansm1/New%20Micro/chinn.pdf

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