The Context in which Markets Move

The Economic / Event Calendar

- Learn to interpret market action in the context of the events calendar
- How to prepare for trading the events
- Trading tactics
- Reflection and further positioning

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Basics

- Know the Economic Calendar
    - You can get an economic calendar free on Bloomberg.com; it also has charts
    - Review the calendar up to a week or more ahead of time. Helps you get a feel for how markets are going to act (or not act).

- (very understood) Markets move in Reaction to Economic Calendar
- (lesser considered) Markets move in Preparation for Economic Calendar
    - Some traders take new positions based on their expectation of what the data might be. However most of the bigger players reduce risk before reports. You have to anticipate this. Expect the unexpected before reports (i.e., large countertrend moves may be in play). After the report comes out, traders start taking on positions again.

Reviewing History

- Study Chart history alongside the historic economic and event calendar:
    - economic data releases
    - political speeches
    - FOMC announcements and meeting minutes, etc

- Learn how markets react to data and news; pay special attention to more recent reports;
    - directionally
    - amount
    - just temporary or set tone for entire day or week?
    - You will use this information when you see data and news releases incoming in the future
    - Example: if ISM is 58 instead of 55, how big a move might that translate into for your product?
- Understanding fuels confidence: stare at the data and charts; The more you understand the game, the faster you'll be able to react and the more confidence you'll have to take action while other amateurs are sitting there scared to pull the trigger.

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How will it play out this time?

- Initial direction of the market generally as expected
  - However, good to prepare by considering if the timing is right for a counter- intuitive market reaction to data/news.
    - Is the current trend in response to data/news losing steam?
  - If market reaction is inverse to what you expected, you have to take it very seriously.
  - Plan ahead of time for various scenarios.

- Will the move last or fade?
  - Study the reaction after last few reports.
    - Buy the rumor sell the news; or continue in same direction? Will partially depend on how predictable the report is vs. amount of surprise. Beware of trying to follow an obvious trend in joining/fading economic data; often after the reaction to 3-4 economic reports starts repeating itself, people try to front run the data and/or the reaction changes. Try to focus on what you believe the proper reaction "should" be. Try to make your own judgments about what has been factored in already.
  - Current market sensitivity to data and news
    - Usually watching the media can help guide you here. If everyone says a report is important, that's a good enough signal that the report is important and that there will be increased volatility.
  - How does the rest of the calendar look after this report?
    - If an important data point is coming 30 minutes after the current report, then the reaction to the current report will probably cease to be a factor 5-15 minutes after the report. If the current report is a big one and/or no more reports loom, then this report can dictate trading the rest of the day or longer.

General Advice:

- History doesn't repeat but it rhymes. Market response (i.e., to good and bad data) will usually not be the same as last time. More often it is a combination of what happened last time with what traders think the next move should be.

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Preparation

- Data Source
    - Invest in a squawk box, or find another way to get the numbers as fast as possible
    - best opportunities post-data are within 1 minute of data release
- Get out of positions at least 5-15 minutes before report, or hours/days for important events
- Imagine expected trading ranges based on different +/- numbers
- Bringing together your study of prior charts

Action / Positioning, Order Entry

- Compare your expected trading ranges with market action as it's happening; your ranges should be flexible, trading is a combination of art and science
- Markets move fast, you must be ready and able to enter orders and flip positions very quickly
- Trade based on your assessment of where the market will go compared to where it currently is
- Fade moves that occur towards the sides of your expected trading ranges as soon as they stop moving
- Only play for further breakouts if your historic data analysis suggests a more dramatic move is imminent
- These tactics generally apply unless markets start suggesting that a counter-intuitive move is in play; they you can join that move instead
- Reduce position/exit as volatility and volume drop and market becomes indecisive; the initial trade is over
- Within 0-15 minutes after data releases, depending on importance, you can trade very actively and profitably whereas this style might not normally be profitable in a low volatility market; must take advantage while you can, and then back off when market reaches a neutral point

Next Steps: What have you learned?

- A market's response to economic data/news is very important
- Once the initial trade is over, you have to spend some time interpreting what happened or you may get caught off-sides
- Think about what happened and learn from it
- If you form a strong opinion, you can trade off it

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