Forex News Trading Tip: How To Trade The FOMC

The Federal Open Market Committee (FOMC) decision on interest rates is one of the most powerful market movers in the forex market and when the markets move traders trading the news have the opportunity to make money.

The FOMC sets the discount rate or federal funds rate and because interest rates are set higher to induce foreign investment and therefore fight inflation during times of prosperity and lower to increase spending during recessions they are one of the main factors influencing the strength of the dollar.

Economic indicators play a huge role in the forex trading especially for traders who approach the market through fundamental analysis and trade the news. The Federal Open Market Committee (FOMC) interest rate decision is one of the most influential indicators for the US dollar and you can be sure after the news is released there is going to be volatility in the markets and volatility is what traders thrive on.

I have heard many 'traders' say never to trade the news and especially the FOMC. Although the FOMC interest decision is a news event and can fall under the category of through fundamental analysis I am a technician and I believe that charts always price everything in. However I guarantee the market does not know what exactly the Feds comments and decision will be, therefore it is not priced in yet and this will cause the markets to react when they do find out. This is confirmed by the change in price after the decision and the continuation in the days following.

I have been trading the Fed for eight years now and yes I have been burnt in the past and that is exactly how I have come to learn how to trade it properly. The most common pattern to trade the Fed is the whip-saw. But do not be fearful of it, embrace it. Here is how it happens, first there is a large spike one direction (traders come in and follow that direction)followed by a large spike in the opposite direction (those same traders now sell their first position at a loss and reverse their position - this is when I take a position in the direction of the original move)followed by an extended move back in the direction of the original spike (all the emotional trades are left sick to their stomachs) and I am left holding a very nice position setting myself up to capture a larger than average market move.

If this pattern does not play out exactly as outlined I stand on the sidelines and do not trade at all. Because the markets are moving fast in the period following the FOMC interest rate decision I am watching a very short time frame, mainly the one and five minute charts.

About the Author

Jordan Lindsey is a professional trader who's personal forex trading group 'Conquering The Markets' utilizes his forex trading strategies to trade his forex trading systems with sound money management and together work toward helping people all over the world live better lives.