

Fundamental Forex Foundations

4a. Institute for Supply Management (ISM) Manufacturing

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This Data Point largely measures the Supply Side-Factors for Manufacturing and other Sectors of the Economy. The Data is released the First Week after the Reporting Month on the 1st Business Day of the Month at approximately 14:00 GMT.

- The ISM-Manufacturing Release is a historical “Market-Mover”, as both the Manufacturing and Services Factors give a very Real-Time Assessment of the overall Health of the Economy.
- This First factor is based on a Survey and Comments from Purchasing Managers, while the Second is based largely on the Non-Manufacturing Sector.
- The Purchasing Managers are surveyed due to the fact that they supervise Order Flow for their respective Company or Firm, and if the Flow is increasing or decreasing.
- The PM’s will then adjust their Orders by “filling” them with either More or Less Supply as the Climate deems necessary.

The Numbers and How They are Derived

Approximately 400-Member Companies and Firms Households will receive Questionnaires nationwide from 20 Industries. The Purchasing Managers are asked if the following Seven Areas have seen either Rising, Falling, or Steady Growth:

1. New Orders.
2. Production.
3. Employment.
4. Supplier/Customer/and Own Inventories

5. Commodity Prices.
6. New Export Orders and Imports.
7. Backlog Orders.

Trading Ideas

Some Market Reactions to the Institute for Supply Management – Manufacturing Data prior to and after the Release are:

CURRENCIES: A Healthy Economy with Inflation “In-Check” will usually see an “Expansion” Reading of “50” or above, and will cause Dollar Strength in the Immediate-Term of Release. The Month-Over-Month Reading is CRUCIAL here as a “Number inside the Number”... and significant “Contraction” below “50” will see Dollar Weakness against other Currency Units.

BONDS: An Expansion Reading above “50” is seen as Negative and bearish for Bonds, especially if the overall Economy has been strengthening and expanding with other Positive Factors. A “Weaker” Reading below “40” will be Positive for Bonds and increase Strength, as this emphasizes a weaker Manufacturing Sector. A “Midrange” reading of “40” to “50” will result in largely Flat Impact and reactions from Traders as a whole.

EQUITIES: An Expansion reading above “50” is seen “Inversely” from Bonds, and Equities will find Strength, especially after moderate to average Readings previously. If a positive Reading is seen in a strong overall Economy, then Equities may actually *fall* in a “Counter-Intuitive” fashion. This is due to the Sentiment of the Economy being “overextended” and more importantly... sees the possibility of Action by the Federal Reserve to raise Interest Rates.

Traders may take Cues from overall Volume Builds in Currency Futures ahead of this Release, (as well as other “Index” Releases such as the Philly Fed and Empire Indexes). A look at the most current Commitment of Traders Report may provide some Insight in where the larger Institutional and Retail Positions stand.

A more Direct Scenario may be to look at a 5 or 15-Minute Time Cycle, and if Consensus and the actual Release comes in above the “50” Threshold, Traders may cue a Bearish Candle for Short Positions... as the Reading will be Dollar Positive.

Conversely the opposite is viable as well, with a Bullish Candle to cue Long Positions for Dollar-Weak Readings significantly below the “50” Threshold.

MANUFACTURING AT A GLANCE MAY 2009						
Index	Series Index May	Series Index April	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI	42.8	40.1	+2.7	Contracting	Slower	16
New Orders	51.1	47.2	+3.9	Growing	From Contracting	1
Production	46.0	40.4	+5.6	Contracting	Slower	9
Employment	34.3	34.4	-0.1	Contracting	Faster	10
Supplier Deliveries	49.8	44.9	+4.9	Faster	Slower	8
Inventories	32.9	33.6	-0.7	Contracting	Faster	37
Customers' Inventories	46.0	49.5	-3.5	Too Low	Faster	2
Prices	43.5	32.0	+11.5	Decreasing	Slower	8
Backlog of Orders	48.0	40.5	+7.5	Contracting	Slower	13
Exports	48.0	44.0	+4.0	Contracting	Slower	8
Imports	42.5	42.0	+0.5	Contracting	Slower	16
OVERALL ECONOMY				Growing	From Contracting	1
Manufacturing Sector				Contracting	Slower	16

*Number of months moving in current direction