

## Calculating Pip Values

A pip is the smallest movement that is possible in the price of one currency against and it is vital to be able to calculate pip values quickly and easily as it is the movement in prices which results in your profit or loss when trading.

A pip is normally, but not always, 0.0001 or 0.01%. In other words, if a currency moves from a price of 1.7650 to 1.7655 it is said to move 5 pips.

The easiest way to understand how to calculate pip values is to start by considering currency pairs which involve the US Dollar and we start by considering the situation when the US Dollar is the quote currency as in the case of JPY/USD, GBP/USD or CHF/USD.

Here calculating a pip value is very easy as a pip will always have a value of \$10. So, if while trading JPY/USD the market moves in your favor by 10 pips you will make a profit of \$100. Let's see how this works.

Consider a quote of GBP/USD is 1.9730. This means that 1 UK Pound is worth 1.9730 US Dollars. A standard InterBank lot size is 100,000 and which means that 100,000 UK Pounds are worth 197,300 US Dollars. If the market moves 1 pip so that GBP/USD is 1.9731 then 100,000 UK Pounds will now be worth 197,310 US Dollars - a rise of \$10.

Now let's turn our attention to what happens when the US Dollar is the base currency and consider a quote of USD/GBP = 0.6439. Here 1 US Dollar is worth 0.6439 UK Pounds and 100,000 US Dollars are worth 64,390 UK Pounds.

If the price moves up 1 pip then USD/GBP = 0.6440 and 1 US Dollar is worth 0.6440 UK Pounds and 100,000 US Dollars is worth 64,400 UK Pounds.

In this case a movement of 1 pip represents a value of 10 UK Pounds which, in US Dollars, gives a pip value of 15.53 US Dollars ( $10 \div 0.6440$ ).

For a standard trading lot with the US Dollar as the quote or counter currency a pip has a value of \$10 but, when the US Dollar is the base currency, the pip value will vary with the market price.

## About the Author

Author Resource:- [LearningForexTradingOnline.com](http://LearningForexTradingOnline.com) provides advice on everything from the best mini Forex fully automated trading to using a world currency calculator

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