Pip value, in your currency

> **PIP VALUE**
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> Pip value is what one pip of price movement is worth to your position, stated in the currency your account is held in. It is the contract size multiplied by the pip size, which gives a value in the pair's quote currency, converted to your account currency where the two differ. Every cost and every risk number in FX runs through it.

Module 1 told you what a pip is: the fourth decimal place on most pairs, the second on yen pairs. Knowing that is like knowing a mile is 1,760 yards. Useful, and not the same as knowing what the taxi costs.

Every number that matters to you in this module arrives in pips: the spread, the slippage, the break-even distance. Your account is not denominated in pips. It holds pounds, dollars, euros or yen, and pip value is the exchange rate between the two worlds.

Where does the number come from?

A standard lot is 100,000 units of the base currency. One pip of movement on that lot changes the position's value by 100,000 times the pip size, and the answer lands in the quote currency - the second one in the pair, the one prices are written in. For most pairs that is 100,000 times 0.0001, which is 10 units of the quote currency per lot. Yen pairs use a pip of 0.01 and give 1,000 yen per lot.

If your account is held in the quote currency, that is the finished number. Deal EUR/GBP from a sterling account and a pip is worth £10 per lot before any conversion, because the quote currency already is your currency.

What if your account currency is not the quote currency?

Then the quote-currency amount converts at the current rate between the two, and the pip value drifts as that rate drifts. A euro-denominated account trading EUR/USD earns and pays pips in dollars, converted to euros at the going rate. The conversion is one multiplication, and forgetting it is the most common arithmetic error in beginner risk calculations.

Position size scales it linearly. Half a lot is worth half as much per pip; 0.07 lots is worth 7% of the per-lot figure. There is no curve here, and that is what makes the whole module's arithmetic checkable by hand.

Worked example - figures in USD

You hold 0.7 lots of EUR/USD, and your account is in USD.

1. Start from the per-lot figure for your pair: one pip on one standard lot is worth $10.00 in your account currency.
2. Scale to your size: at 0.7 lots, each pip of movement changes your account by $7.00, in either direction - the value is the same whether the pip moves for you or against you.

Diagram: Contract size times pip size gives the quote currency. One conversion turns it into yours - unless they already match.

View it in the web lesson: https://ticksprout.com/learn/fx/costs-and-mechanics/pip-value-in-your-currency

What this means for you

Work out your pip value before you look at any cost, because it is the multiplier on all of them. A 1 pip spread means nothing by itself; at your size and in your currency it is a specific amount of money, and you should be able to state it without opening a calculator. When lesson 3 prices the spread and lesson 6 prices a week of financing, this number is doing the conversion every time.

Try it yourself with the pip-value calculator: https://ticksprout.com/tools/pip-value

Check your understanding

1. One pip on one standard lot of a non-yen pair is worth 10 units of which currency, before any conversion?

a. The base currency - the first in the pair

b. The quote currency - the second in the pair

c. The account currency, always

Answer: b. Contract size times pip size gives 100,000 x 0.0001 = 10 units of the quote currency, because prices - and price changes - are written in the quote currency. It only becomes an account-currency figure after conversion, and it is never natively the base currency.

2. Your account currency matches the pair's quote currency. What does the conversion step do?

a. Nothing - the quote-currency value already is your value

b. It halves the pip value

c. It still applies, using the pair's own price

Answer: a. Conversion exists to move the value from the quote currency into a different account currency. When they are the same currency there is nothing to convert. Using the pair's own price would be converting into the base currency, which is not where your account lives.

3. Why do yen pairs produce a different per-lot figure?

a. Their contract size is smaller

b. Their pip is 0.01 rather than 0.0001, so the arithmetic gives 1,000 yen per lot

c. Japanese regulation caps pip values

Answer: b. The contract size is the same 100,000 units; the pip size differs because yen prices carry two decimal places rather than four. 100,000 x 0.01 = 1,000 yen. Regulation has nothing to do with it.