

Pips, lots and units

PIPS, LOTS AND UNITS

A pip is the standard increment of an FX price: 0.0001 for most pairs, 0.01 where the yen is the quote currency. A lot is the standard trade size: 100,000 units of the base currency, with mini (10,000) and micro (1,000) fractions. Together they turn any price move into money - pips moved, times pip value for your size.

Traders say EUR/USD rose 40 pips the way everyone else says it got warmer outside. The units are half the language of the market, and every lesson after this one speaks them without stopping to translate. Ten minutes here pays for itself for years.

What exactly is a pip?

The standardised step a price is measured in. For most pairs it is the fourth decimal place: EUR/USD moving from 1.1000 to 1.1040 moved 40 pips. Pairs quoted in yen carry the pip at the second decimal instead - USD/JPY from 125.00 to 125.40 is the same 40 pips - because a yen is worth roughly a hundredth of the other major currencies, so two decimals do the work four do elsewhere. Platforms often quote one digit finer; that last digit is a fractional pip, a tenth.

What is a lot, and why 100,000?

A lot is 100,000 units of the base currency - a wholesale market's standard parcel, inherited from bank dealing. Retail platforms subdivide it: a mini lot is 0.10 (10,000 units), a micro 0.01 (1,000 units). The two units multiply into the number that matters: what one pip is worth for your position. On a full lot of most pairs that is 10 units of the quote currency per pip; scale it by your lot size and you can price any move before you take it. The worked example runs the chain.

Worked example - figures in USD

You trade a mini lot - 0.10 lots - of EUR/USD. A pip on a full lot is worth \$10.

1. You size a position at 0.10 lots of EUR/USD - 10,000 units of the base currency.
2. One pip on a full lot of EUR/USD is worth \$10, so on your 0.10 lots position each pip is \$1.
3. Now any move prices itself before you take it: a 25 pip move is \$25 on your size, in either direction. Same market, same move - the units just made it measurable.

What this means for you

Price every move in your account currency before you take the position - pips times pip value for your size is the whole formula, and the tools below do it for any pair. Check the pip convention whenever

yen is involved, because misreading 0.01 as 0.0001 misprices a move a hundredfold. And notice what these units quietly gave you: the ability to decide what a move is worth at different sizes, which is the raw material of position sizing - module 4's opening subject.

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

Check your understanding

1. EUR/USD moves from 1.1000 to 1.1040. USD/JPY moves from 125.00 to 125.40. How far did each move?

- a. 40 pips each - the pip sits at a different decimal for yen quotes
- b. 40 pips and 4,000 pips
- c. 4 pips and 40 pips
- d. The moves cannot be compared across pairs

Answer: a. The pip is the fourth decimal for most pairs and the second where yen is the quote, so both are 40-pip moves. Reading the yen move at the fourth decimal produces the 4,000-pip misread, which is exactly the hundredfold error the convention exists to prevent - and pips exist precisely so moves can be compared.

2. How many units of the base currency is 0.10 lots?

- a. 10,000
- b. 100,000
- c. 1,000
- d. 10

Answer: a. A standard lot is 100,000 base units, so 0.10 lots - a mini lot - is 10,000. 100,000 is the full lot, 1,000 is a micro lot (0.01), and 10 units would be 0.0001 lots, which no platform quotes.

3. A pip on a full lot of your pair is worth 10 units of the quote currency. What is a 25-pip move worth on 0.10 lots?

- a. 25 pips times one-tenth of the per-lot pip value
- b. 25 times the full-lot pip value
- c. Exactly 25 units of the quote currency, at any size
- d. It depends which direction the move went

Answer: a. Pip value scales with lot size, so 0.10 lots carries a tenth of the per-lot value and the move is pips times that. Using the full-lot value overprices it tenfold, a pip's cash value is never size-independent, and direction changes the sign of the outcome - never its magnitude.

4. Why do platforms quote a fifth decimal on most pairs?

- a. It is a fractional pip - a tenth - letting quotes move in finer steps
- b. The fifth digit is the pip
- c. Extra digits are decoration with no meaning
- d. Only yen pairs use five decimals

Answer: a. The last digit is a tenth of a pip, which lets dealers price more finely - a 0.8 pip spread needs it. The pip itself stays at the fourth decimal, the digit is meaningful, and yen quotes carry their fractional digit at the third decimal, not the fifth.