Market Talks
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FOREX · BEGINNER · LESSON 4 OF 15

Pips, Pipettes and Lot Sizes

The units every forex trader uses: how price moves are counted, how big a trade is, and how to work out what each pip is worth in money

11 min read 8 quiz questions with answer key

FOREX · BEGINNER · LESSON 4 OF 15

Pips, Pipettes and Lot Sizes

IN ONE SENTENCE

A pip is the standard unit for measuring a move in a currency pair: 0.0001 for most pairs and 0.01 for pairs with the Japanese yen. A lot is the standard trade size, and the lot size decides how much money each pip is worth. Together, pips and lots turn price moves into profits and losses.

What a pip is

Currency prices move in very small steps, so traders need a common unit to talk about them. That unit is the **pip**, short for "percentage in point" or "price interest point".

- For most pairs, prices are quoted to four decimal places, and one pip is the **fourth decimal place**: **0.0001**. If EUR/USD moves from 1.0850 to 1.0851, it has moved 1 pip.
- For pairs with the Japanese yen, prices are quoted to two decimal places, and one pip is the **second decimal place**: **0.01**. If USD/JPY moves from 150.00 to 150.01, it has moved 1 pip.

The yen is different simply because one yen is worth much less than one dollar or one euro, so its prices are much larger numbers. Using pips lets traders compare moves across all pairs in the same way: "EUR/USD rose 40 pips" and "USD/JPY fell 40 pips" describe moves of a similar kind, even though the prices look very different.

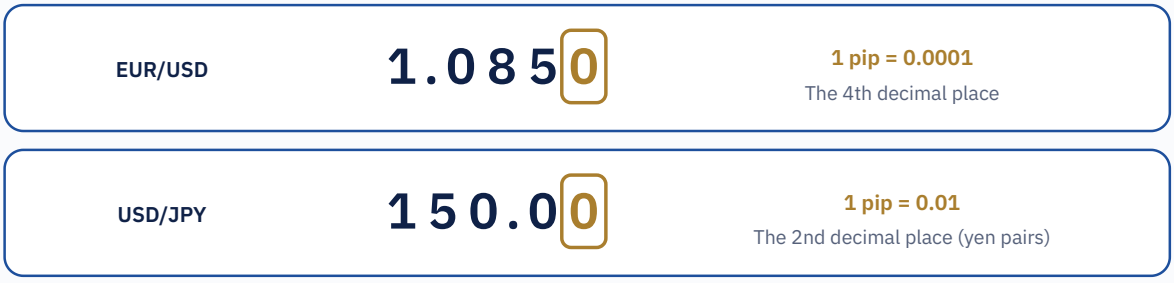


Figure 1. Where the pip sits in a price. For most pairs it is the fourth decimal place; for yen pairs it is the second.

Counting pips

To count how many pips a pair has moved, subtract the old price from the new price and divide by the pip size.

EUR/USD rises from 1.0850 to 1.0920. The difference is 0.0070. Divided by 0.0001, that is **70 pips**. USD/JPY falls from 150.20 to 149.50. The difference is −0.70. Divided by 0.01, that is **−70 pips**, a fall of 70 pips.

With practice you will count pips by eye. For most pairs, look at the last two digits of a four-decimal price: from 1.08**50** to 1.09**20** is 70 pips. For yen pairs, look at the digits after the decimal point and the units before it: from 150.**20** to 149.**50** is 70 pips.



Figure 2. To count pips, divide the price difference by the pip size. A rise is a positive number of pips, a fall a negative one.

Pipettes: the extra digit

Most brokers today quote prices with one more digit than the pip: five decimal places for most pairs, such as 1.08505, and three for yen pairs, such as 150.005. That last small digit is called a **pipette** or fractional pip. One pipette is one tenth of a pip.

Many platforms make the pip digits large and the pipette small, so the price is easy to read at a glance. The extra digit allows tighter, more precise prices, which is why spreads are often shown with a decimal, such as 1.2 pips.

This is also the source of a very common beginner mistake. Some platforms, including MetaTrader, measure distances in **points**, which on a five-digit quote are pipettes, not pips. A stop loss "50 points" away is only 5 pips away. Always check whether a number on your platform is in pips or in points, because confusing them makes every distance ten times too large or too small.



1.08505: the small last digit is a pipette. A spread of 1.2 pips is 12 pipettes.

Figure 3. Many platforms show five-digit prices with the pips large and the extra digit, the pipette, small.

Lots: how big a trade is

Forex is traded in standard amounts called **lots**. The lot size is always counted in units of the **base currency**, the first currency in the pair:

- A **standard lot** is 100,000 units. On a platform it is entered as 1.00 lot.
- A **mini lot** is 10,000 units, or 0.10 lot.
- A **micro lot** is 1,000 units, or 0.01 lot.

So buying 1 standard lot of EUR/USD means buying 100,000 euros and selling the matching amount of dollars, about $108,500 at a price of 1.0850. Buying 0.01 lot of the same pair means trading 1,000 euros.

You do not need to have $108,500 to trade a standard lot. With leverage, the broker only asks for a small deposit, called margin, while you control the full position. That makes lot size the most powerful setting on your order ticket: it decides how fast money is gained or lost. Lesson 10 explains leverage and margin.



Units are counted in the base currency. Pip values shown for pairs ending in USD, such as EUR/USD.

Figure 4. The three common lot sizes. Each is ten times bigger than the next, and so is its pip value. The squares show the size difference.

What one pip is worth

The money value of one pip depends on the lot size and on the quote currency. The basic formula is:

pip value = pip size × number of units, in the quote currency.

For any pair that ends in USD, such as EUR/USD, GBP/USD or AUD/USD, the answer is already in dollars: 0.0001 × 100,000 = **$10 per pip for a standard lot**. That is why $10, $1 and $0.10 per pip for standard, mini and micro lots are numbers worth remembering.

When the quote currency is not your account currency, one more step is needed: convert the result. For USD/JPY, 0.01 × 100,000 = 1,000 yen per pip. At a price of 150.00, 1,000 yen is worth 1,000 ÷ 150 = about **$6.67**. For EUR/GBP, 0.0001 × 100,000 = 10 pounds per pip. If GBP/USD is 1.2700, that is 10 × 1.27 = **$12.70**.

You rarely need to do this by hand, because platforms and online calculators show pip values automatically. But understanding the idea explains why the same number of pips can be worth different amounts on different pairs, and why pip values change slightly as prices move.



Figure 5. Working out the pip value of a standard lot. When the quote currency is not the account currency, the result is converted at the current price.

From pips to money

Once you know the pip value, turning a move into money is simple: **profit or loss = pips × pip value**.

The same 50-pip move on EUR/USD is worth $5 with a micro lot, $50 with a mini lot and $500 with a standard lot. The market does exactly the same thing in all three cases; only the size of the trade changes. This is why experienced traders choose their lot size carefully for every single trade, instead of always using the same size. Lesson 5 shows complete trades from start to finish, and Lesson 12 shows how to choose a lot size that matches the risk you want to take.



Figure 6. The market moves the same 50 pips in every case; only the trade size changes. Lot size decides how much a move is worth.

EXAMPLE: DAVID'S TRADE IN MONEY

David buys 0.50 lot of GBP/USD at 1.2700, which is 50,000 pounds. Each pip is worth 0.0001 × 50,000 = $5. He closes the trade at 1.2760, a gain of 60 pips. His profit is 60 × $5 = **$300**, before costs. If the price had fallen to 1.2640 instead, the same 60 pips would have been a loss of $300.

Gold and other markets

Gold, indices and crypto are traded on the same platforms, but their units are not the same as for currency pairs, and they differ between brokers. Before trading any of them, open the **contract specification** on your platform and check the contract size and the value of the smallest price step. Common examples are:

Market	Usual size of 1 lot	What a typical move is worth per lot
EUR/USD	100,000 euros	1 pip (0.0001) = $10
XAU/USD (gold)	100 ounces	$0.01 = $1, so a $1 move = $100
BTC/USD (bitcoin CFD)	Often 1 bitcoin	A $1 move = $1

Gold is the most common source of confusion. A gold price is quoted to two decimals, such as 2,650.45, and different brokers and traders call either $0.01 or $0.10 a "pip" for gold. Because 1 lot is usually 100 ounces, a move of $1 in the gold price changes the value of 1 lot by $100. Lesson 13 covers gold in detail.

Why this matters for traders

- **Remember $10, $1 and $0.10.** For pairs ending in USD, these are the pip values of a standard, mini and micro lot. They let you estimate any trade in your head.
- **Pips or points?** Check which unit your platform uses for stop loss and take profit distances. A five-digit platform's "points" are pipettes, ten times smaller than pips.
- **Lot size is your risk control.** The market decides how many pips a pair moves; you decide how much each pip is worth to you. Start small, with micro lots, while you learn.
- **Always read the contract specification** for gold, indices and crypto. The same 0.01 lot can mean very different amounts of money on different markets and brokers.

Key terms

Pip	The standard unit of price movement: 0.0001 for most currency pairs and 0.01 for pairs with the Japanese yen.
Pipette	One tenth of a pip, the fifth decimal place for most pairs and the third for yen pairs.

Point	The smallest price step on a platform. On five-digit quotes, one point is a pipette, not a pip.
Lot	A standard trade size, counted in units of the base currency.
Standard lot	100,000 units of the base currency, entered as 1.00 lot.
Mini lot	10,000 units of the base currency, entered as 0.10 lot.
Micro lot	1,000 units of the base currency, entered as 0.01 lot.
Pip value	How much money one pip is worth for a given trade size, found by multiplying the pip size by the number of units.
Account currency	The currency your trading account is held in, for example US dollars. Pip values are converted into it.
Contract specification	The details a broker publishes for each market, including the lot size and the value of each price step.

Key takeaways

1. A pip is 0.0001 for most pairs and 0.01 for yen pairs; count pips by dividing the price difference by the pip size.
2. Most platforms add an extra digit, the pipette, worth one tenth of a pip; platform "points" are often pipettes, not pips.
3. Lots are counted in units of the base currency: 100,000 for a standard lot, 10,000 for a mini lot and 1,000 for a micro lot.
4. Pip value equals pip size times units, in the quote currency; for pairs ending in USD that is $10, $1 and $0.10 per pip.
5. Profit or loss equals pips times pip value, so lot size decides how much a move is worth; gold and other markets have their own contract sizes.

Test yourself

Circle one answer for each question. The answer key with explanations is on the next page. You can also take this quiz online at markettalks.info and see your score instantly.

1. **EUR/USD moves from 1.0850 to 1.0851. How far has it moved?**

A 1 pip
B 10 pips
C 1 pipette
D 100 pips

2. **What is one pip for USD/JPY?**

A 0.0001
B 0.001
C 0.01
D 1.00

3. **GBP/USD rises from 1.2650 to 1.2735. How many pips is that?**

A 8.5 pips
B 85 pips
C 850 pips
D 0.85 pips

4. **Your platform shows a stop loss distance of 50 points on a five-digit EUR/USD quote. How many pips is that?**

A 500 pips
B 50 pips
C 5 pips
D 0.5 pips

5. **How many units of the base currency are in one mini lot?**

A 100
B 1,000
C 10,000
D 100,000

6. What is one pip worth on 1 standard lot of AUD/USD, in US dollars?

A $0.10
B $1
C $10
D $100

7. USD/JPY is at 150.00. About how much is one pip worth on 1 standard lot, in US dollars?

A $10.00
B $6.67
C $15.00
D $1,000

8. David buys 0.50 lot of GBP/USD and the price rises 60 pips. What is his profit before costs?

A $30
B $60
C $300
D $3,000

Answer key

1 A

1 pip

For most pairs one pip is the fourth decimal place, 0.0001, so this is a 1-pip move.

2 C

0.01

For pairs with the Japanese yen, one pip is the second decimal place, 0.01.

3 B

85 pips

1.2735 − 1.2650 = 0.0085. Divided by 0.0001, that is 85 pips.

4 C

5 pips

On five-digit quotes, one point is a pipette, one tenth of a pip. 50 points are 5 pips.

5 C

10,000

A mini lot, entered as 0.10 lot, is 10,000 units. A standard lot is 100,000 and a micro lot is 1,000.

6 C

$10

0.0001 × 100,000 = 10 in the quote currency, US dollars. For every pair ending in USD, a standard lot is $10 per pip.

7 B

$6.67

0.01 × 100,000 = 1,000 yen. At 150 yen per dollar, that is 1,000 ÷ 150, about $6.67.

8 C

$300

0.50 lot is 50,000 units, so one pip is worth 0.0001 × 50,000 = $5. 60 pips × $5 = $300.

SOURCES

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