

Intermediate - Trading Analysis

Fundamental Analysis

What is it?

- ▶ It depends!
- ▶ Each form of fundamental analysis entails following or examining different factors.
- ▶ For stocks or equities, it can be how healthy a company is i.e. balance sheet, P/E ratio etc.
- ▶ For commodities how the weather is for the next few months.
- ▶ It can be the analysis of an economy as a whole or an industry as a whole.

Why?

- ▶ The Goal of fundamental analysis is to try and find the core value of a security or instrument by scrutinizing everything that can affect the security in questions value!
- ▶ This analysis focuses on economic, social and political factors!
- ▶ This is especially important with regards to Currencies!!!!!!

In fundamental analysis there are two approached: Macroeconomics and Microeconomics. Whatever approach we use, being a trader who looks at fundamentals, you will need to watch out for politics, economic releases, monetary policies, cashflows etc...



Figure 1 Fundamental Analysis

Most important releases to look at and watch:

Interest Rates Decisions, Consumer Price Index releases (CPI), Gross Domestic Product Releases (GDP) and Central Banker speeches.

You can always find a calendar of future important releases with their respective expectation and the value of the previous release.

Date	Time	Currency	Impact	Detail	Actual	Forecast	Previous	Graph
Fri Feb 7	12:14am	AUD	🟡	AGC Construction Index	48.2		50.8	
	2:30am	AUD	🔴	RBA Monetary Policy Statement				
	7:00am	JPY	🟡	Leading Indicators	112.1%	111.9%	111.1% ⁺	
	9:00am	EUR	🟡	German Trade Balance	18.5B	17.3B	18.9B ⁺	
	9:45am	EUR	🟡	French Gov Budget Balance	-74.9B		-87.0B	
		EUR	🟡	French Trade Balance	-5.2B	-5.6B	-5.7B	
	10:00am	CHF	🟡	Foreign Currency Reserves	437.7B		435.2B	
	10:15am	CHF	🟡	Retail Sales y/y	2.2%	3.9%	-4.2%	
	10:31am	EUR	🔴	German Constitutional Court Ruling				
	11:30am	GBP	🔴	Manufacturing Production m/m	0.3%	0.6%	-0.1% ⁺	
		GBP	🟡	Trade Balance	-7.7B	-9.3B	-9.8B ⁺	
		GBP	🟡	Industrial Production m/m	0.4%	0.7%	-0.1% ⁺	
	1:00pm	EUR	🟡	German Industrial Production m/m	-0.6%	0.5%	2.4% ⁺	
	3:30pm	CAD	🔴	Employment Change	29.4K	19.7K	-45.9K	
		CAD	🔴	Unemployment Rate	7.0%	7.1%	7.2%	
		USD	🔴	Non-Farm Employment Change	113K	185K	75K ⁺	
		USD	🔴	Unemployment Rate	6.6%	6.7%	6.7%	
		USD	🟡	Average Hourly Earnings m/m	0.2%	0.2%	0.0% ⁺	
	5:00pm	GBP	🟡	NIESR GDP Estimate	0.8%		0.7%	
	10:00pm	USD	🟡	Consumer Credit m/m	18.8B	12.4B	12.4B ⁺	
	10:25pm	CAD	🟡	Gov Council Member Macklem Speaks				

Figure 2 Forexfactory economic calendar

A simple search for the term “economic calendar” will lead you to several website offering free information for such news.

Once the data is released it will be automatically updated on these website and you can see the result of the release. A red number shows that the result was lower than the expected one, and a green one shows a higher (better) than expected result.

How to apply this to forex?

- ▶ Economic data affects markets in various ways!
- ▶ Are these macro factors improving or diminishing with regards to the economy? i.e. is inflation a continuous issue, is unemployment constantly rising month on month.
- ▶ Did the figure surpass or fall short of the expectations? i.e. did GDP increase or decrease, did retail sales fall compared to last year at this time

- ▶ How does the report or number compare to other economies or countries? i.e. unemployment rate of Germany compared to that of the United States of America.

How do I use this

- ▶ Generally the rule of thumb is...positive result positive for currency, except for unemployment levels i.e. the lower the better.
- ▶ Try and understand the background of each indicator and then focus on the reaction to the results.
- ▶ Always be aware of the calendar and the major news of the day, be aware of the expectations and follow if they are met.
- ▶ Never react too quickly to results as they can be revised and this may influence a direction.