

# Investing.com

## INTRODUCTION TO FUNDAMENTAL ANALYSIS

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*The Investing.com education center was created in order to serve as a guide to the novice trader over all the essential aspects of foreign exchange, in a fun and easy-to-understand manner.*

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# General Understanding

*The Primary objective of this guide is to equip you with the prerequisite knowledge needed to better understand some of the driving forces in the Forex market, and help educate you on a number of the most popular Fundamental Analysis data points, and tools that can help you make better informed trading decisions. Fundamental Analysis refers to analyzing the political, economic and fiscal events that may influence currency prices. These may consist of reports regarding unemployment, economic & monetary policies, economic growth rates, and even the current or future outlook of inflation in a country. Before trading in the markets, it is essential that Forex traders have a least a general understanding of the forces that can affect the world's currency markets.*

## Basic Assumptions

Fundamental Analysis in the currency markets has two main assumptions:

- Long term time frames. Fundamental Analysis is mainly used to evaluate very long term trends. Think of currencies more like a moving cruise ship, there is usually a longer process to get that ship heading in one direction, to start moving in another direction for an extended periods of time.
- Currency trading is a relationship between one countries currency to another's. So a news event or economic data point that is positive or negative for one specific currency may not behave the same when compared to another currency. Simply put, a seemingly weak currency could show strength when compared with an even weaker one.

## The Necessity of Fundamental Analysis

Fundamental news announcements on a specific countries health can be like popping a sugar pill as it can really ramp the energy up for market participants. Especially in this day in age when news is at our finger-tips, and up to the second, massive amounts of money are moved from one asset to another in a flash. So a savvy trader needs to be aware of what type of events may occur, when they may happen and of course how they can prepare for them ahead of time.

Fundamental Analysis then, can be tied nicely together with Technical Analysis so a

trader can discern not only when and perhaps why large price movements may occur (Fundamental), but at what price should they try to enter and exit at (Technical).

## Accessibility

Most online brokers provide access to most major scheduled fundamental news announcements, though Investing.com provides you almost all major data points in multiple countries with our Economic Calendar. We even provide you with a very easy to understand “Importance” column within it so you can quickly scan and find those events that tend to produce the most market action.

Below is a screen shot of what Investing.com provides you:

Time	Cur.	Imp.	Event	Actual	Forecast	Previous
Thursday, February 20						
02:00	EUR	▼▼▼	German PPI (MoM)	-0.1%	0.2%	0.1%
02:00	EUR	▼▼▼	German PPI (YoY)	-1.1%	-0.8%	-0.5%
02:00	CHF	▼▼▼	Trade Balance	2.594B	1.470B	0.521B
02:45	EUR	▼▼▼	French CPI (MoM)	-0.6%	-0.3%	0.4%
02:58	EUR	▼▼▼	French Manufacturing PMI <sup>P</sup>	48.5	49.6	49.3
02:58	EUR	▼▼▼	French Services PMI <sup>P</sup>	46.9	49.4	48.9
03:30	EUR	▼▼▼	German Manufacturing PMI <sup>P</sup>		56.3	56.5
03:30	EUR	▼▼▼	German Services PMI <sup>P</sup>		53.4	53.1
03:30	INR	▼▼▼	Indian M3 Money Supply			14.50%
04:00	EUR	▼▼▼	Manufacturing PMI <sup>P</sup>		54.0	54.0
04:00	EUR	▼▼▼	Services PMI <sup>P</sup>		51.9	51.6

Source: [www.investing.com/economic-calendar](http://www.investing.com/economic-calendar) »

# Economic Indicators

*There are a number of different kinds of indicators provided by a Government or academic institution to help in evaluating the country health. These indicators are normally released or published on a weekly, monthly or quarterly basis. They represent dependable data points on an economy's health and are tracked by just about everyone in any financial or investment market.*

Economic indicators on the whole can be divided into:

## **Lagging Indicators**

Indicators released AFTER the economy has already begun to follow a certain trend. These types of indicators are used to validate changes in the economy.

## **Leading Indicators**

Indicators released whose changes PRECEDE changes in the economy. These types of indicators are used to forecast changes in the economy.

## **Major Economic Indicators**

### **Interest Rates**

Interest rate changes have a dramatic effect on capital in and outflows into a country's currency. So much so, that this may be the most important data point to remember.

Generally speaking, a high interest rate offered by a country attracts foreign investment in an effort to earn more interest on their capital. This results in an increased demand for that country's currency and continued price appreciation. Likewise, a lowering interest rate environment helps in devaluing a country's currency as those wishing to earn more interest income on their funds look for better rates elsewhere.

### **Employment Situation /Unemployment Rate**

The Unemployment Rate is a measure of the percentage of the total labor force that is unemployed but actively seeking employment and willing to work. A high percentage indicates weakness in the labor market.

### **Nonfarm Payrolls**

The Nonfarm Payrolls measure the change in the number of employed people during the last month of all non-farming businesses. Nonfarm payroll comes out the first Friday of every month for the U.S. and is usually a significant event. Within the Nonfarm payroll numbers are specifics on average hourly earnings, specifics on what sectors are increasing or decreasing jobs, and of course revisions from previous month's numbers.

*NOTE: Do not underestimate the impact this can have on the markets.*

### **Gross Domestic Product (GDP)**

This is the broadest measure of economic activity and is a key indicator for the economy's health. The percent changes in GDP shows the growth rate of the economy as a whole.

### **Trade Balance**

A measurement of the difference in worth between exported and imported goods (exports minus imports). This is the largest component of a country's balance of payments. Export data can give reflection on the growth of the nation. Imports provide an indication of domestic demand.

### **CPI**

This is a measurement of the changes in the price of goods and services. The CPI measures price change from the perspective of the consumer. It is a key way to measure changes in purchasing trends and inflation in the nation.

### **PPI**

This is a measurement of the average change in selling prices received by domestic producers of goods and services, a measurement of the cost of producing goods. The PPI measures price change from the perspective of the seller.

### **Retail Sales**

This is a measurement of the sales of retail goods over a stated time period.

### **PMI**

This is a measurement of the economic health of the manufacturing sector.

**Housing Starts**

This is a measurement of residential building construction projects begun during a specific period of time.

**Industrial Production**

This is a measurement of the production output from industrial activities. It gives us a good indicator of strength in the manufacturing sector.

**Consumer Confidence**

This is a measurement of the level of confidence consumers have in the economic activity. It is a leading indicator as it can predict the consumer spending, which is a major part in the total economic activity.

**Implications**

Although as a trader you do not need to understand every minute detail of the data that goes into each Economic Indicator, you ought to know what they are used for and their overall relationship to a country's economy. For instance, you should know which indicator is used to measure the growth rate of a country's economy and which indicator is used for measuring the inflation rate of an economy.

This is important as not all economic indicators are treated equally. Generally speaking, the financial markets tend to react more to a small handful of indicators, while ignoring others which of course can change according to the economic and political circumstances of the time. For instance, during a time of economic expansion and growth, the market may be much more sensitive to interest rate changes in a specific country than to their unemployment numbers.

**Expecting the Unexpected**

Often, the significance of this data comes not from what they measure but rather whether or not these figures fall within the expectations of the markets at that time. If a report gives a different picture from what the market participants and economists are expecting (the "Forecast" which you can see in our Economic Calendar), the result will "surprise" the market and probably result in volatile price fluctuations with potential trading opportunities as the market adjusts itself to this new data.

A word of caution though as one must not be too anxious to act whenever an economic report does not follow the market expectations as many times the market will move in one direction on a data point, to quickly revert back to the other direction based on the continual flow of new information. This commonly occurs as a “revision” to the prior month’s data which frequently happens in items such as the unemployment or Nonfarm payroll numbers.

### **Data Points**

Although an academic economist might appreciate the comprehensive details of the figures that are released in an economic report, traders generally are not interested in sifting through all that data, rather they look for headline numbers (like “unemployment is at 8.9%”, or “Nonfarm payroll came in at 216,000”) to make an informed trading decision. Because of this you can see price action move from one direction to the next in dramatic fashion as there is so much money waiting to be allocated (or moved) from one asset to another based solely on a data point.

### **Economic Indicators and Trading**

- Always have an Economic Calendar nearby so you are up to date on any major economic news announcement.
- Recognize which Economic Indicators are currently more sensitive than others during this time and remember this too will change over time.

## Economic Indicators News



## Euro zone manufacturing PMI falls to 2-month low of 53.0 in February

Investing.com - Manufacturing activity in the euro zone expanded at a slower rate than expected in February, underlining concerns over the health of the region's economy, preliminary data showed on Thursday. In a ...



### German manufacturing PMI falls to 2-month low of 54.7 in February

Investing.com - Manufacturing activity in Germany ...



### French manufacturing PMI falls to 2-month low of 48.5 in February

Investing.com - Manufacturing activity in France ...



### Italian Industrial New Orders -4.9% vs. -0.5% forecast

Investing.com - Italian industrial new orders fell ...



### Dutch Unemployment Rate 8.6% vs. 8.3% forecast

Investing.com - Unemployment in the Netherlands rose ...

Source: [www.investing.com/news/economic-indicators](http://www.investing.com/news/economic-indicators)»

- Be prepared for wild market swings by either staying on the sidelines and waiting for the excitement to cool down or strategic by placing Stops and Limits to catch any breakout and/or limit large potential losses.

*NOTE: Novice traders get caught up in news trading because they believe they can make a quick buck due to the sudden price movements and soon find themselves without any funds in their account. Trading news events is extremely dangerous business so unless you are only risking a small portion of your funds for such an event, it is probably wise to wait until after it occurs (and perhaps a new trend has begun) to enter. This is serious, so read that message again if you like keeping your bank account full.*

Below are a few chart examples of price action during a news event.

