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How to interpret forex fundamental analysis

Fundamental analysis of the Forex market Price changes in global currencies, commodities, and metals are connected to a plethora of developments that have an influence on the situation in a particular country and on the world as a whole. These can be economic or political changes as well as natural disasters. This is exactly what people look at when they carry out fundamental analysis. If we look at history, it's possible to correlate changes in management at major enterprises, in heads of state, or of production output, with fluctuations in currency pairs or other assets. What fundamental analysis is based on Traders are mostly interested in whether or not they can profit by predicting the price movements of an instrument before or after a certain event. History plays a part in this analysis as it helps you anticipate the level of volatility at the time of publication as well as determine the direction in which the trend will move if the figures come out higher or lower than predicted. The basic tenets of fundamental market analysis: Prices never change on their own; there's always a reason. It's possible to predict the impact of various factors on price movements. An accurate assessment of the dynamics of economic/political factors provides a reliable indicator of future price changes. Force majeure circumstances have an impact of price fluctuations, but are difficult to predict. Fundamental analysis of the Forex market can be done either on its own, or together with technical analysis. So, an unfavourable prediction about future price movements can lead to traders prematurely closing their open positions or cutting their losses on orders on which they had at least hoped to break even. Some people are of the opinion that the publication of news temporarily stops technical analysis from working, and so if your trading strategy is based on technical analysis, you should exit the market during such releases, and only re-enter when the resulting price fluctuations have subsided. Types of news that affect the market To give you a quick understanding of what fundamental analysis is, you can take a look at the Forex economic calendar, where the most important upcoming events across the world are listed. To learn how these events impact exchange rates, oil prices, metals, or other assets, you need to study them separately. No one is going to simply reveal the secret behind it. A good way to get around this is to study the economic calendar as well as other sources for previous periods and take note of the actual price changes on the chart. Fundamental analysis requires having a real grasp of the situation in countries whose national currencies the trader plans to earn from by trading. Economic events are split into the following categories based on how much influence they have on the market: In practice, news items vary in volatility at the time of publication as a result of impulsive movements, both planned and chaotic, which complicates the trading process. As a result, positions can be closed prematurely and with minimal profit, despite the activation of a trailing stop. On the other hand, the potential profit from important news items is higher. For guaranteed profit, however, you need to know which way the price will move. This is impossible without fundamental analysis. You can make a profit on any news item; the most important thing is choosing the right time to open your position. This approach helps you maximise your profit; by entering the market at the peak, rather than halfway through the process, as often happens when people trade the news. Political factors affecting price changes News on a country's domestic and foreign policy will exert an impact on that country's national currency. For example, instability will weaken the currency, decreasing its value. During presidential and parliamentary elections, prices can fluctuate solely on the basis of rumours, many of them unfounded. According to experts, these kinds of situations are created intentionally, allowing people to take advantage of and profit from temporary drops or rises in price. Some political news has a negligible effect on the market. For example, a political leader's position on a certain issue is generally known beforehand, so when official speeches by them are aired, this doesn't tend to cause any serious price fluctuations. Traders are sometimes faced with unexpected circumstances. For example, someone could voice a different opinion than expected before clarifying that they were misunderstood. These types of situations generally lead to an impulsive jump or decline before prices return to their original levels. The role of political news in trade is relatively small. Fundamental analysis of Forex usually considers this as an additional factor that has a greater impact on the long term, while short-term trading is conducted on the basis of economic performance. Economic factors The value of a national currency relative to that of other countries depends on the economic situation in the country. When working with major currency pairs, the comparison is made with the US dollar, while with cross currency pairs this is made with other currencies, although the US dollar still has a role in the calculations. On the one hand, this relationship results in the currency pair reacting to any American news, and on the other, to events in the country where the "second" currency of the pair is in circulation. The key indicators of each country are: Data on the labour market, such as the level of unemployment, the amount of unemployment benefits paid, and the positive/negative dynamics of these indicators. Statistics on the industrial and agricultural sectors are analysed separately. Trade balance, which shows the volumes of its own production, import, and export volumes (gross indicator for all types of products). Gross Domestic Product (GDP), that is, the sum of all goods and services produced in the country in a given period. Changes in the monetary policy of individual countries and the Eurozone. One peculiarity of the Forex market is that fundamental analysis tends to be done simultaneously in several countries. The United States is often the main reference when forecasting price changes or trends, while the countries of currencies included in a pair may only add to or mitigate the effects had on price movements. The influence of force majeure situations on prices Natural disasters (earthquakes, hurricanes, deaths, droughts, floods) influence the market in an unpredictable way. In part, weather forecasts can help predict them, but working with these calculations is quite risky. The same goes for technological disasters; there is no way to predict them and the trader will only see the impact on the market once they have happened. It is easier to operate with factors of a social nature, such as coups d'état, military conflicts, revolutions, strikes, etc. Any public upheaval can cause a fall in the value of the national currency. Depending on the currency pair, this may result in a rise or fall in price. You can predict these changes in detail, but only for long-term events. How to use the economic calendar One of a trader's main tools when practising fundamental analysis is the economic calendar. In it, the main events are displayed by country (including events of low impact on the market). The list also shows the estimated and past results. For the trader, they are useful only when related to a previously made prognosis; whether they will fall in line with expectations, or whether they will be higher or lower. The economic calendar indicates the most important events, that is, the data that we must analyse first. When trading based on the economic calendar, the key points are: The more important the news, the greater volatility one can expect from the currency pair. In this case, placing orders with market execution is more difficult because of a high load on the broker's server. As such, it is recommended to enter the market early, with the help of pending orders. In long-term trading, central bank publications are important. By analysing their monetary policies, you can make a prediction of the financial situation in a specific country, a set of countries, and even the world as a whole. You have to pay attention to the forecasts. If the recently published data outperformed your expectations, the currency's value is likely to increase. If there are no significant changes in the data, even if the news is strong, there will be no significant price jumps. The economic calendar shows all events. If a trader usually deals with a specific currency pair or a group of currencies, it is recommended that you create a filter to view only the countries that relate to these currencies. For example, when trading the USD/JPY pair, you can hide the news from European countries, as the events influencing the pair are in the US and Asia. The influence of fundamental analysis on technical analysis Discussions about the best type of analysis: fundamental or technical, usually lead to the conclusion that it is best to employ both. Monitoring support and resistance levels helps predict trend changes when the price breaks an important level during certain news releases. Combining fundamental and technical analysis (FA and TA, respectively) leads to a more effective outcome. The fundamental analysis of the currency market influences technical analysis as follows: The impact of news often disrupts previously formed patterns, abruptly changing market trends. In times like these, TA traders prefer to just watch the market swings. A lot of trading strategies are based on correctional phases, which are very common after strong news. The principles of TA begin to apply again during these correctional phases. Fundamental factors take precedence over technical ones. If the news points to a likely rise in the price of a certain asset, the technical picture may prove to be incorrect (in the long run). Operations performed at intervals of H4 or more should definitely include fundamental analysis. It is very difficult to get high profits without taking political and economic factors into account. Looking at the price history of any asset, you can see many cases of the price returning to its point of origin within a short time (in a matter of days or even weeks). Trading strategies based on news Trading on the Forex market based on economic news and policies is done both manually and automatically (via "consulting" robots). The latter, depending on the type of trading strategy, is configured to close or open positions ahead of news releases. Preparation for the opening of the orders may include technical analysis, but the trader can opt to reject this in favour of economic forecasts. Distinguishing features of news-based trading: The manual opening of market orders with a high chance of profit is usually available only on one currency pair. Changing between graphs and successfully entering the market from anywhere can be achieved only with the help of advisors/scripts. The use of pending orders is very common. But you have to take into account that when opening at the best available price, the stronger the news, the greater the likelihood of slips, which is a normal occurrence. It's recommended for traders who practice fundamental analysis to subscribe to newsletters published by experienced Forex analysts. By studying independent forecasts it will eventually become easier to navigate the current trends. After all, you don't always have the time and desire to figure everything out on your own. This type of approach is more efficient, since market signals are analysed based on the knowledge of competent experts.

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