Title:
FOREX Fundamental Analysis

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597

Summary:
Information on using fundamental analysis for FOREX trading.

Keywords:
forex, forex system, forex trading,forex online

Article Body:
Most FOREX traders rely on analysis to make plan their trading strategy. This article will discuss fundamental analysis. The other common form of analysis is technical analysis. After reading this article you should have a better understanding of fundamental analysis and how to use it as part of your FOREX strategy.

Political and economic changes are the basis of fundamental analysis. These can frequently affect currency prices. Traders that take advantage of fundamental analysis will gather their information from a variety of news sources. They are looking for information about unemployment forecasts, political ideologies, economic policies, inflation and growth rates.

Fundamental analysis will provide you with an overview of currency movements and a broad picture of the economic conditions. Most traders then will combine their fundamental analysis with technical analysis to plot actual entrance and exit points as well as confirming the information provided by their fundamental analysis.

Just like most markets the FOREX market is controlled by supply and demand. Many economic factors can affect the supply and demand but the two most critical ones are interest rates and the strength of the economy. The over all strength of the economy is affected by changes in the GDP, trade balances and the amount of foreign investment.

There are many economic indicators released by government and academic sources. These indicators are usually released on a monthly basis but will sometimes be released weekly. These are pretty reliable measures of economic health and are closely followed by all traders.

There are many indicators that are released but some of the most important and commonly followed are : interest rates, international trade, CPI, durable goods orders, PPI, PMI and retail orders.

Interest Rates - can cause a currency to either strengthen or weaken depending on the direction of movement. In some cases high interest rates will attract foreign money, however high interest rates will frequently cause stock market investors to sell of their portfolios. They do this believing that the higher cost of borrowing money will adversely affect many companies. If enough investors sell of their holdings in can cause a downturn in the market and negatively affect the economy.

Which of these two affects will take place depends on many complex factors, but there is usually an agreement among economic observers as to how the current change in interest rates will affect the general economy and the price of the currency.

International Trade - If there is a trade deficit (more items imported than exported) it is usually considered a negative indicator. When there is a trade deficit it means that more money is leaving the country to buy foreign goods than is entering the country and this can have a devaluing effect on the currency. Usually though trade imbalances are already factored into the market consideration. If a country normally operates with a trade deficit then there should not be an affect on the currency price. The currency price will normally only be effected by trade differences when the deficit is greater than the market expected.

The measurement of the cost of living (CPI) and the cost of producing goods (PPI) are a couple of other important indicators. You should also watch the GDP which measures the value of all the goods produced in a country and the M2 Money Supply which measures the total amount of currency for a country.

In the US alone there are 28 major indicators, these can have a strong effect on the financial market and should be closely watched. This information can be found many places on the internet and is provided by many brokers.