

LESSON 5: A PRIMER TO FUNDAMENTAL ANALYSIS

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Forex Training Summary and Quiz

Forex Fundamental Analysis

Fundamental analysis is the study of economic indicators in an attempt to predict future market conditions.

Also referred to as news events, these items tend to have a predictable effect on currencies.

Central Banks are responsible for implementing monetary policy designed to meet the fiscal policy objectives of the government.

The ability to influence short-term interest rates - which have a corresponding relationship to commercial interest rates - is the primary monetary tool available to Central Banks.

Economic calendars list upcoming data releases as well as the results expected.

COMMON ECONOMIC INDICATORS

Indicator Name	How the Indicator Affects the Currency
Gross Domestic Product	Strong GDP results indicate a healthy economy, suggesting that the currency may increase in value compared to currencies for countries with weaker economies.
Consumer Price Index	A CPI that continues to trend upwards month over month could be a signal that inflation is eroding buying power to the point that the Central Bank will raise interest rates to curb spending. An increase in interest rates may lead to an increase in demand for the currency as the potential for a higher return makes the currency more attractive for investors.
Employment Reports	If employment trends downwards, the economy could weaken as fewer people will have the means to purchase non-essential goods. If employment is increasing, then spending is likewise expected to increase, and a stronger economy often leads to a stronger currency.
Interest Rates	Investors naturally look to currencies that provide the best return. If interest rates rise for a particular currency, investors will increase their holdings in that currency to profit on the higher return. The resulting increase in demand for the currency could cause it to appreciate in value compared to other currencies.
Yield Curve	Because the yield curve is seen as an indicator of future interest rates, its impact on currency values is much the same as that of interest rates in general.
Producer Price Index	Like other inflation-based reports, increasing PPI values could signal an interest rate hike to combat inflation. Interest rate increases can lead to a greater demand for the currency.
Institute of Supply Management	Also tracks inflationary pressures in the economy. An ISM trending upwards can suggest a growing economy, which makes the currency attractive to forex traders.
Retail Sales	A stronger Retail Sales report indicates overall growth in the economy, thus increasing the currency's appeal to investors.
Industrial Production Index	A positive or increasing IPI suggests continued economic growth, which often leads to a stronger currency.
Commodity Price Index	An increase in the Commodity Price Index means that commodities are generating more income for the economy, which often leads to an appreciation in the country's currency.
Trade Balance	The Trade Balance Report provides insight into the demand for a currency on the global markets. If the balance of trade shows a surplus or declining deficit, then there may be an increased demand for the currency. If the report shows a growing deficit, then the increased supply of the currency could lead to a devaluation against other currencies.
Current Account	Current Account deficits can have a negative impact on the currency for the same reasons cited for Trade Balance deficits. When in a deficit situation, a country is forced to convert its own currency to

the currencies of other countries. This increases the supply of currency, resulting in a potential devaluation against other currencies.

Putting It All Together

1. Fundamental analysis is the study of _____ in an attempt to predict future market conditions.

- past events
- economic indicators
- exchange rates
- horoscopes

2. Central Banks are responsible for implementing _____ designed to meet the fiscal objectives of the government.

- new laws
- traditions
- guidelines
- monetary policy

3. The ability to influence _____ is the primary monetary tool available to Central Banks.

- corporate profits
- interest rates
- volatility
- compliance

4. _____ list upcoming releases for indicators such as labor reports and economic growth, together with the expected results.

- Corporate results
- Yield curves
- Economic calendars
- Price charts

5. The _____ measures the total value of all goods and services produced by a country during the reporting period.

- Trade Balance
- Gross Domestic Product
- Retail Sales Report
- Yield Curve

6. The _____ is a consumer-level analysis of the cost to buy a defined basket of goods and services and is based on a starting index value of 100.

- Wage Price Index
- Liquidity spread
- Fiscal policy
- Consumer Price Index

7. The yield curve shows the relationship between yield, and _____.

- the spot rate
- maturity
- the commencement date
- exchange rates

8. A trade surplus means a country exported _____.

- more than it imported
- less than it imported
- the same amount it imported
- only goods it no longer needed

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