Understanding Fundamental Analysis

The underlying elements affecting the economy of the subject is studied by Forex fundamental analysis. According to this method, the analysis of forex economic indicators, social factors and government policy of a business cycle can forecast price movement and trends of the market. The fundamentals of any country, multinational industry, or trading bloc lie in the combination of factors like social, political, and economic influences. However, it is rather hard to stay aside from all these variable factors. Therefore, the sphere of complicated and subtle market fundamental lets the explorer know and understand more details of a dynamic global market during the analysing.

It is possible to predict the conditions of the economy but unlikely the market prices by using the fundamental analysis. You should have a certain plan of action concerning the ways of using the information as entry and exit spots in a certain strategy of trading. Forex fundamental analysis is a fundamental strategy of trading widely used by so called fundamental Traders. This strategy contains some estimation where the different basic criteria, except for the price movement, are taken into consideration during currency trading. The economic conditions in the currency native country along with a number of other factors are the obligatory elements of these criteria. Any fundamental part of the economy is included into the fundamental analysis. A decent forex fundamental analysis includes a number of macroeconomic factors like economic growth rates, foreign exchange banks rates, inflation, unemployment level and others. The market supply and demand coming from political and social powers is the aim of fundamental analysis. The market supply and demand balance forms the currencies prices. The interest rates and the overall economy strength are the two key factors that influence the supply-demand balance. The overall health of the economy can be understood through a number of economic indicators like GDP. The frequent inability of online forex fundamental analyses to find the entry and exit points is forex fundamental analysis key problem. Due to this factor, the risk control, especially provided with the leverage, gets quite complicated. Only a piece of an enormous amount of information coming every day is considerable. The interest rates and international trade are the factors analysed the most carefully. In order to create the forex trading strategy fundamentalist traders, create models. The empirical data is gathered in these models for further forecasting the possible price trends and market behaviour basing on the key economic indicators which are systematized in forex economic calendar.

Sometimes it happens that two analysts possessing the same data come to different conclusions about the market behaviour. Still you should research the fundamental data and find out their best fitting to the style of trading and expectations before getting down to any analysis. Any data making the country tick is considered as fundamental by forex traders. The fundamentals are the combination of certain plans, unpredictable behaviours, and unforeseen events found out from the factors like interest rates and the policy of central bank and even natural disasters. That is why it is better to be aware of the affective contributors of all these factors than to all the fundamentals listed.

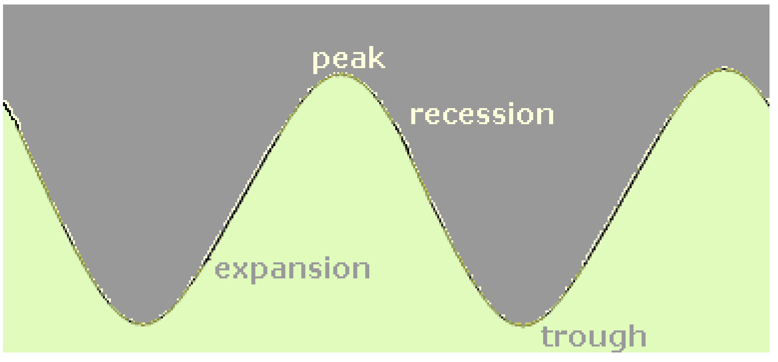
Fundamental elements of the economy

1. The Basic Concept

The economy will be affected by the investment performance. The expected returns may change due to inflation or deflation influence. That is why it is important to take the economy trends into consideration, while planning the strategies of investment.

A. The Business Cycle

The activity of the economy is generally shown by the business cycle. The business cycle consists of four stages: recovery (also known as expansion), peak, contraction (also called recession), and trough.



The growth of business activity, the increase of demand and production, as well as the expansion of employment can be seen. The interest rates generally rise during this phase due to money borrowing by businesses and consumers for their expansion.

B. Inflation

At the moment of business cycle peak the amount of goods on demand gets higher than the one offer, which is followed by the price increase and inflation. At the inflationary environment, the amount of money offered for the goods is too high and it makes the conditions for the prices to rise. This lowers the customer's ability for purchasing.

The demand declines lowering the economic activity due to the prices increase. The recessionary phase follows this process.

C. Deflation

During deflation, the economic activity lowers making the employers fire the workers and lowering the demand. This is generally followed by the prices lowering that turn into deflation. The trough phase comes after that. Deflation is characterized as a process of strong and prolonged prices reduction. The following demand rise is caused by low prices. It creates the conditions for the economy to come into the expansion phase.

2. Gross National Product (GNP)

Gross National Product is one of the key indicators of the economic activity. All the services provided and the goods produced within the US economy form the GNP. There are 4 components included in the GNP. They are consumer spending, government spending, investments, and net exports.

Gross National Product adjusted for inflation (Real GNP) being in decline during two successive quarters is a sign of recession.

3. Indicators of the Business Cycle

There are three types of indicators describing the economy movements during its entering into a certain phase of the business cycle. The ones generally used by the economists are leading, coincident, and lagging indicators.

4. The business cycle's effect in Forex

Forex market There are three types of indicators describing the economy movements during its entering into a certain phase of the business cycle. The ones generally used by the economists are leading, coincident, and lagging indicators.

The US dollar movements in the Forex market are usually trending the opposite direction to the interest rates. For instance, the increase of incomes caused by the interest rates' uptrend declines the US dollar index accordingly.

5. Monetary Policy

The control of money and credit supply within the economy is the general aim on the monetary policy. The interest rates are affected by these processes, which cause the economic activity decline. The monetary policy is mainly interested in the inflation control.

6. The activity of the Federal Reserve System (FRS)

The US monetary policy is directed by the Federal Reserve System. The nation's central bank is the Federal Reserve System. It was established in 1913 by the Act of Congress and created 12 Federal Reserve districts within the country. The Federal Reserve Board of Governors located in Washington D.C. is responsible for district banks activity coordination. The seven members of the board are appointed by the President and the nominees require the confirmation of the Senate later.