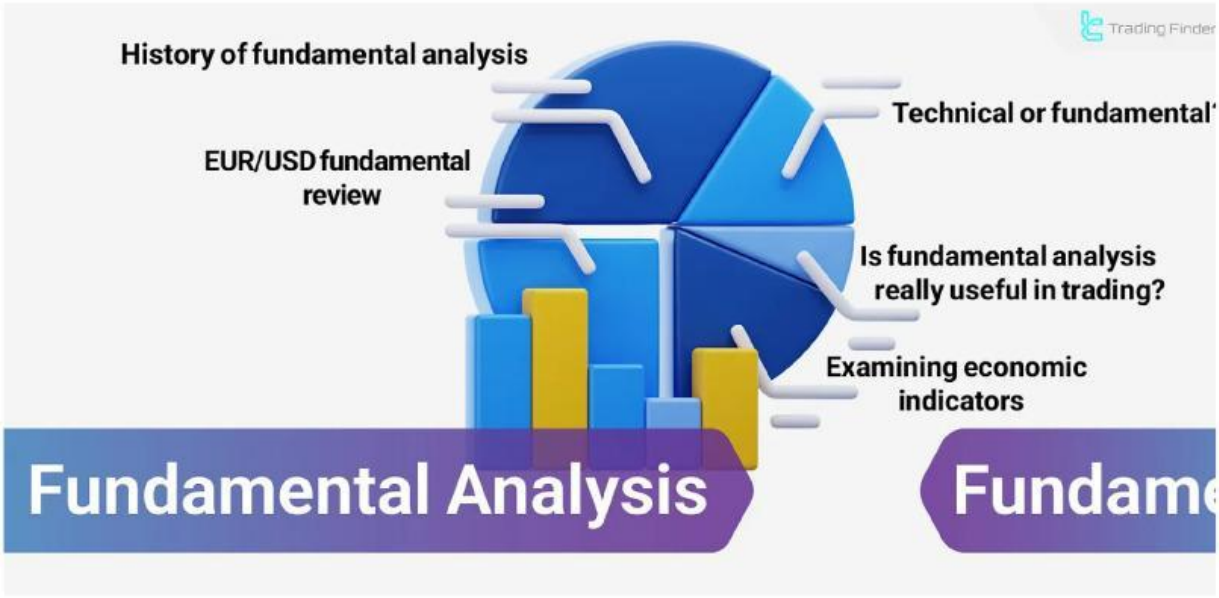
What is Fundamental Analysis? [Economic Data and Central bank Meetings]

Fundamental analysis is one of the methods used to forecast the **trends of various financial markets**, such as forex, commodities, stocks, and cryptocurrencies.



Fundamental Analysis is a method used in financial markets to predict market trends based on fundamental factors, including economic data and macroeconomic conditions

It examines fundamental factors like **economic data**, **central bank meetings**, **market sentiment**, **earning reports**, and **geopolitical risks** to identify the **mid-term** and **long-term** price trends (**Forex**, stocks, gold, oil, etc).

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What is Fundamental Analysis?

Fundamental Analysis is a method used in financial markets with the aim of identifying the **intrinsic value** of assets (the true value of an asset based on macroeconomic parameters and fundamental analysis) and predicting **mid-term** and **long-term** trends.

History of Fundamental Analysis

The initial idea of fundamental analysis emerged with the rise of classical economics in the **18th** and **19th** centuries.

Adam Smith, in his book **"The Wealth of Nations,"** first emphasized the concept of **intrinsic value** and the factors influencing the value of goods and services.

Modern fundamental analysis was introduced in **1934** with the publication of the book **“Security Analysis”** by **Benjamin Graham** and **David Dodd**.

These two university professors developed methods for evaluating the **intrinsic value** of stocks using **financial** and **economic data.**

Fundamental Factors Affecting Assets

Several data points are examined in fundamental analysis, including economic data and market sentiment. Key fundamental factors affecting assets include:

- **Economic Data**
- **Central Bank Meetings**
- **Income Reports and Financial Statements**
- **Market Sentiment**
- **Geopolitical Risks**

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Among the things examined in fundamental analysis are economic data, central bank meetings, earnings reports, market sentiment, and geopolitical risks.

Economic Data

Economic data refers to the reports published on **Forex Factory**, which can be categorized into three main types: **production data**, **inflation data**, and **employment data**.

Continuously studying and evaluating these reports provide insights into a country's macroeconomic conditions and are helpful for fundamental analysis of forex.

Using economic data, **fundamental biases** (the bias of an asset based on fundamental parameters) can also be identified for currency pairs.

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Central Bank Meetings

Most central banks hold **interest rate meetings** every six weeks. During these meetings, analysts assess the changes in **interest rates**, **central bank statements**, **new economic forecasts**, and even the tone of the **central bank president's speech**.

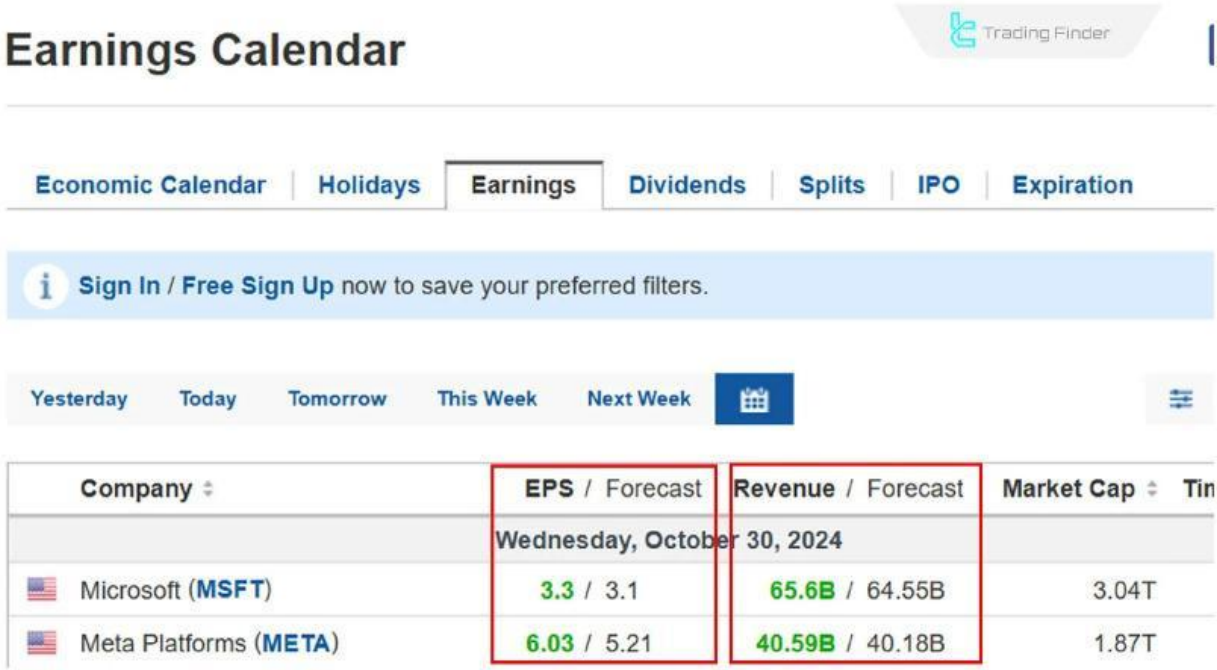
To stay updated on the latest central bank interest rate changes, you can use the Central Bank Interest Rates tool on TradingFinder.

Earning Reports and Financial Statements

Financial statements and **Earning reports** of companies can be used to predict stock trends and stock indices.

Companies' earnings reports are published quarterly, and to view the results of the reports, you can use the **earnings calendar tool** of the Trading Finder collection.

The company's performance is measured by comparing **actual earnings per share (EPS)** with forecasted figures.



Microsoft and Meta's Q3 2024 revenue and realized EPS fundamentals were higher than expected; Source: Investing.com

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The financial reports of **large companies** (in terms of market cap) impact the overall **market sentiment**, and index traders should pay special attention to the reports of these companies.

Market Sentiment

Market sentiment refers to the **willingness** or **reluctance** of traders to take risks. In a **risk-off market**, **safe assets** like **gold**, **bonds**, and **low-risk currecies** (such as CHF, JPY, and USD) are in demand.

Conversely, in a **risk-on market**, demand shifts towards riskier assets like **stocks**, **cryptocurrencies**, and **risk-on currencies** (such as AUD, NZD, and CAD).

Geopolitical Risks

Political risks (such as presidential elections) and **geopolitical risks** (such as wars) are significantly unpredictable.

As geopolitical tensions increase, **fear** spreads in the market, and it enters a **risk-off state**. In this case, **safe assets** become more in demand, while riskier markets face selling pressure.

Application of Fundamental Analysis

By using **fundamental analysis** and **economic data**, one can detect the fundamental bias of assets and avoid opening positions contrary to market biases.

Fundamental analysis, by determining the **intrinsic value** of an asset, helps identify the probability of the price reaching its fair value.

If the current price of an asset is lower than its intrinsic value, a **buying opportunity** is presented. Conversely, if the price is higher than its intrinsic value, traders can consider selling.

Comparison Between Fundamental and Technical Analysis

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Technical analysis examines **price charts** and price reactions to key levels.

On the other hand, the **fundamental analysis** draws a comprehensive picture of the asset in question by evaluating **financial statements**, **macroeconomic conditions** and **market sentiment**.

Comparison of fundamental and technical analysis:

Parameters	Fundamental	Technical
Type of analysis	Focus on fundamental factors and news	Focus on price charts
Trading horizon	Medium-term and long-term	Mostly short-term trading
Tools	Financial statements, economic reports, news	Price charts, support and resistance levels, indicators
Forecasting accuracy	Higher accuracy in predicting long-term trends	Higher accuracy in predicting short-term trends
Suitable strategies	Swing trading, long-term investing	Scalping

Can You Trade Using Fundamental Analysis?

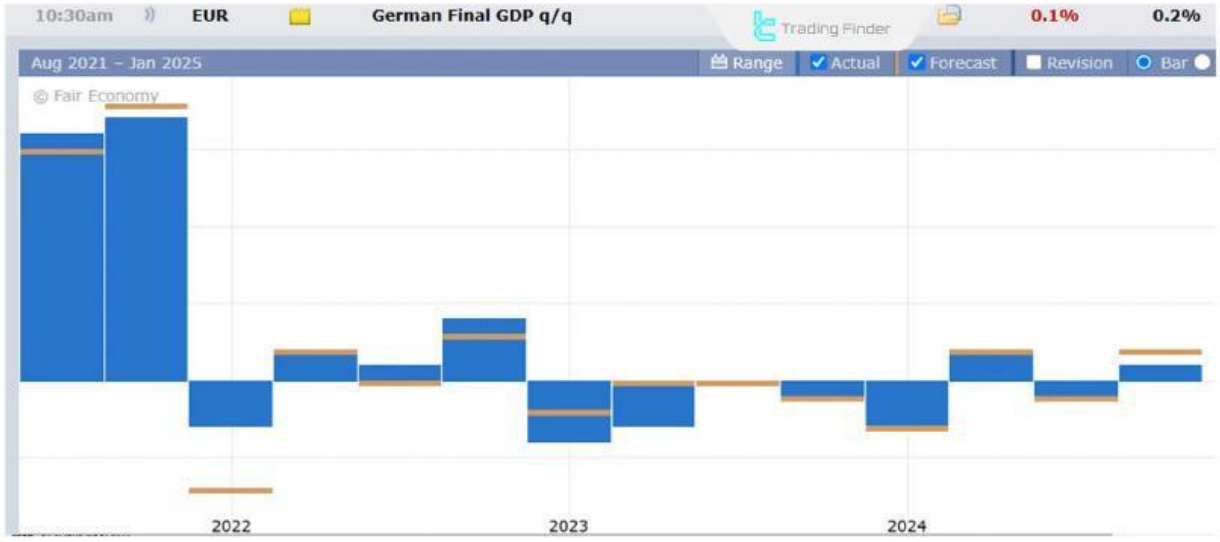
A real-life example of **fundamental analysis' impact on financial markets** will be evaluated. Below is a chart showing the sharp decline of the EUR/USD pair in October 2024.

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EUR/USD decline in late 2024 due to fundamental factors; Source: TradingView

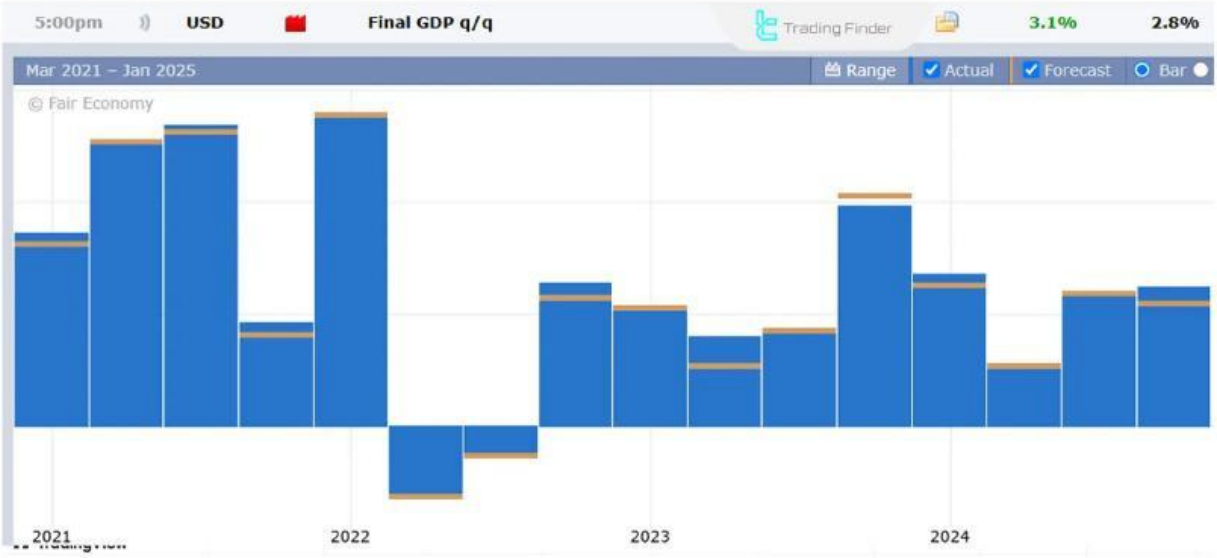
The reason for this decline can be traced back to the severe divergence in **monetary policies** and **economic growth** between Europe and the United States.



Germany's economic growth has been severely weakened since 2022 under the influence of the contractionary policy; Source: Forex Factory

This image shows **Germany's weak economic growth** from mid-2022 to late 2024. Germany, being the largest economy in Europe, significantly influences the euro.

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This image shows the strong economic growth of the U.S. during the same period. Source: Forex Factory

In response to **weakening economic growth** in Europe, the European Central Bank (ECB) reduced **interest rates** by **150 basis points** (**1.5%**) from a peak of **4.5%**.

In contrast, the U.S. economic data showed **strong growth**, resulting in inflationary pressures and **slower interest rate cuts**.

As a result of the **monetary policy gap** and **economic growth** in Europe and America, the dollar has strengthened against the euro in the last three months of 2024.

Conclusion

Fundamental analysis is a method used in financial markets to predict price trends by evaluating fundamental factors such as **economic reports**, **central bank meetings**, and **financial news**.

The data analyzed in fundamental analysis is mainly applied to predict **mid-term** and **long-term** trends, making it particularly suitable for **long-term investors** and **swing traders**.

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Sources:

1. Our website link :
https://tradingfinder.com/education/forex/what-is-fundamental-analysis/

2. All Education :
https://tradingfinder.com/education/forex/

3. TradingFinder Support Team (Telgram):
https://t.me/TFLABS


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