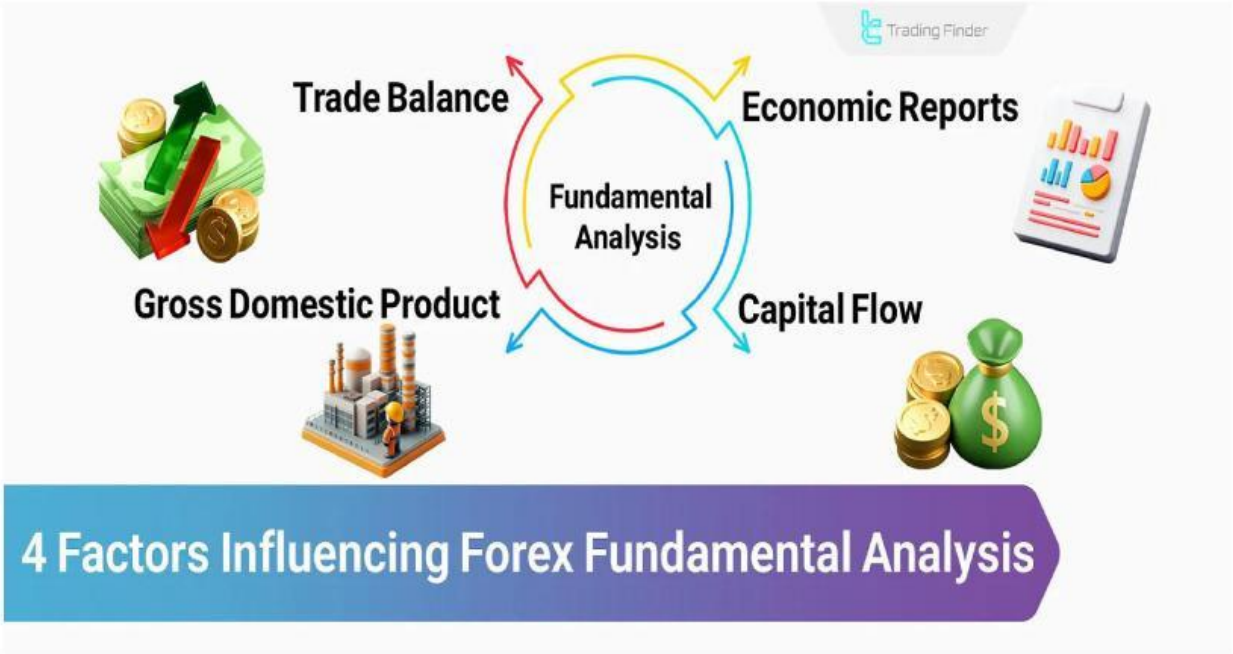
4 Factors Influencing Forex Fundamental Analysis [Economic Reports and GDP]

The most significant factors influencing **Forex Fundamental Analysis** are **economic reports**, **Gross Domestic Product (GDP)**, **capital flow**, and **trade balance**.



Economic reports, capital flow, trade balance, and GDP are key factors influencing fundamental analysis

Economic reports (including **CPI**, **NFP**, and **PMI**) create volatility in the **Forex market** based on the difference between actual figures and forecasts.

Additionally, understanding how **GDP impacts Forex** and analyzing its key components **[trade balance, demand, government spending, capital flow, and investment]** are essential for identifying **mid-term and long-term market trends**.

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4 Key Factors in Fundamental Forex Analysis

Economic growth, **capital flow**, and **trade balance** influence **long-term economic trends** and, consequently, **currency movements**. **Key Factors Influencing Fundamental Analysis:**

1- **Economic Data and Reports**

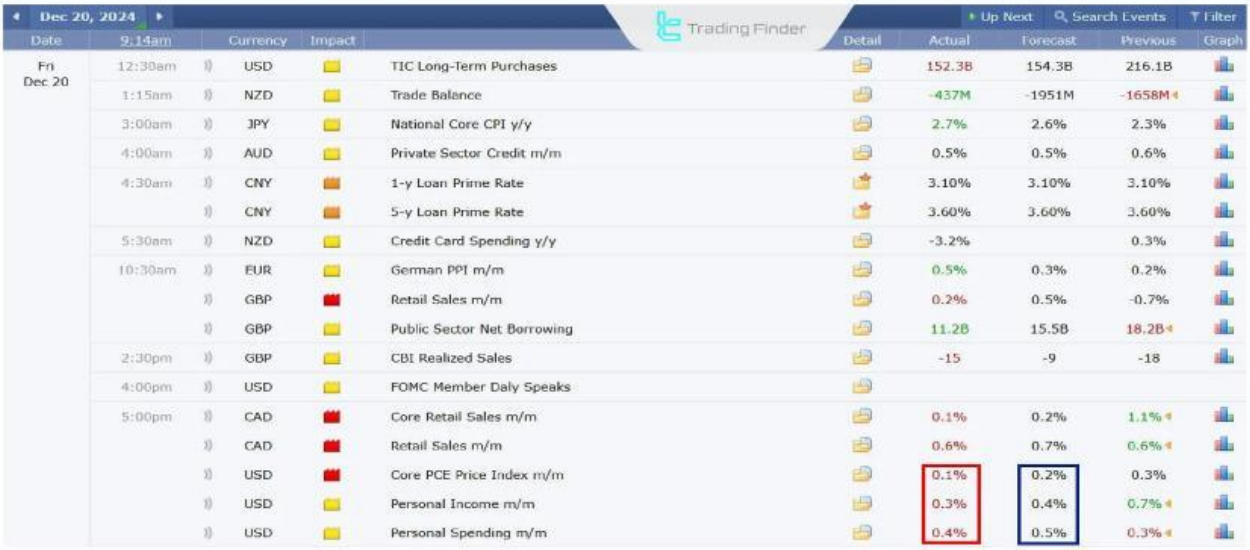
2- **Economic Growth (GDP)**

3- **Capital Flow**

4- **Trade Balance**

1- Economic Data Affecting Forex

Economic data is generally categorized into three groups: **production**, **inflation**, and **employment data**, all of which play a role in fundamental factors affecting currency pairs market.



Dec 20, 2024 — Trading Finder — Up Next — Search Events — Filter

Date	9:14am	Currency	Impact		Detail	Actual	Forecast	Previous	Graph
Fri Dec 20	12:30am	USD		TIC Long-Term Purchases		152.3B	154.3B	216.1B	
	1:15am	NZD		Trade Balance		-437M	-1951M	-1658M	
	3:00am	JPY		National Core CPI y/y		2.7%	2.6%	2.3%	
	4:00am	AUD		Private Sector Credit m/m		0.5%	0.5%	0.6%	
	4:30am	CNY		1-y Loan Prime Rate		3.10%	3.10%	3.10%	
		CNY		5-y Loan Prime Rate		3.60%	3.60%	3.60%	
	5:30am	NZD		Credit Card Spending y/y		-3.2%		0.3%	
	10:30am	EUR		German PPI m/m		0.5%	0.3%	0.2%	
		GBP		Retail Sales m/m		0.2%	0.5%	-0.7%	
		GBP		Public Sector Net Borrowing		11.2B	15.5B	18.2B	
	2:30pm	GBP		CBI Realized Sales		-15	-9	-18	
	4:00pm	USD		FOMC Member Daly Speaks					
	5:00pm	CAD		Core Retail Sales m/m		0.1%	0.2%	1.1%	
		CAD		Retail Sales m/m		0.6%	0.7%	0.6%	
		USD		Core PCE Price Index m/m		0.1%	0.2%	0.3%	
		USD		Personal Income m/m		0.3%	0.4%	0.7%	
		USD		Personal Spending m/m		0.4%	0.5%	0.3%	

U.S. PCE inflation data is one of the key factors in Forex Fundamental Analysis; Source: Forex Factory

The image above shows a snapshot of the **U.S. PCE inflation data** for December 2024 on the Forex Factory website.

Economic data includes **previous**, **forecast**, and **actual** figures (**the actual data released**). In the image, expectations are highlighted in **blue**, while actual values are highlighted in **red**.

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Production Data

Production data indicates the health of the **manufacturing sector**. Since production directly affects **economic growth** and the **job market**, understanding manufacturers' state is highly significant.



PMI, GDP, retail sales and durable goods orders are types of manufacturing and economic data

Types of production data:

- **Purchasing Managers' Index (PMI):** A survey of procurement managers that provides insights into employment, raw material inflation, and sales volumes; **(Above expectations: Currency strengthens)**
- **Retail Sales**: Measures the **sales volume** in the **retail sector** and is used to **assess demand**; **(Above expectations: Currency strengthens)**
- **Durable Goods Orders**: Indicates the level of **orders for factory equipment** and **capital goods; (Above expectations: Currency strengthens)**
- **Gross Domestic Product (GDP):** This represents **total production within a country** and is the primary measure of **economic growth**; **(Above expectations: Currency strengthens)**

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Employment Data

Consumer demand drives **economic growth**, but strong demand is only possible when the **labor market** thrives. **Low unemployment** and **higher wages** boost demand.

Central banks also use labor market data to determine monetary policy. **Below are the key employment-related indicators:**

- **Unemployment Rate:** Percentage of the labor force actively seeking but unable to find work; **(Above expectations: Currency weakens)**
- **Non-Farm Payrolls (NFP):** Measures employment changes in the U.S. excluding agriculture; **(Above expectations: Currency strengthens)**
- **Unemployment Claims:** Reflects the number of new unemployment insurance claims. **(Above expectations: Currency weakens)**

Inflation Data

Controlling inflation is one of the **central bank's** primary objectives, and inflation data can cause significant market volatility. **Main inflation-related indicators:**

- **Consumer Price Index (CPI):** Measures the weighted average price change of a specific basket of goods. **(Above expectations: Currency strengthens)**
- **Core CPI**: CPI excluding food and energy prices. (Above expectations: Currency strengthens)
- **Producer Price Index (PPI):** Measures inflation in raw material costs and serves as a leading indicator for consumer inflation. **(Above expectations: Currency strengthens)**
- **Personal Consumption Expenditures (PCE):** Reflects U.S. consumer inflation and is the Federal Reserve's preferred measure of inflation. **(Above expectations: Currency strengthens)**

2- The Impact of Economic Growth on Forex

Economic growth reflects the health of **production** and the **overall economy**. During periods of economic expansion, **consumer demand** is high, and producers experience increased sales.

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With higher profits, producers hire more employees, leading to an improved labor market and a **lower unemployment rate**.

These conditions generate **healthy tax revenues for the government**. Additionally, a country with strong economic growth attracts foreign investors, increasing demand for its local currency and strengthening it.

According to the explanation above, **the currency appreciates** if **GDP data** is **higher than expectations**. Conversely, the respective currency weakens if **GDP data** is **lower than expectations**.

3- Capital Flow

Capital flow represents the **movement of investments between countries**. **Capital Flow Forms:**

- **Foreign Direct Investment (FDI):** Refers to investments in **long-term assets** such as land, factories, and companies;
- **Portfolio Investment:** Refers to investments in **short-term assets** like **stocks**, **bonds**, and other securities.

Capital flow directly affects **currency supply and demand** and is one of the key factors in Forex **Fundamental Analysis**. However, **positive** and **negative capital flows** affect currency strength differently.

Capital Inflows

Capital inflows occur when **demand for a currency** increases, leading to its appreciation. For example, when global investors buy U.S. government bonds, the demand for the U.S. dollar increases, making it stronger.

Note: To buy foreign government bonds, an investor must first convert their local currency into the currency of the bond-issuing country. This conversion increases demand for the destination currency.

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Capital Outflows

Capital outflows occur when **currency is sold**, leading to its depreciation. In this case, the currency of the receiving country appreciates, impactes the exchange rate.

4- Trade Balance and Forex Fundamental Analysis

Trade balance represents the net value of exports and imports and has two possible states:

- **Trade Surplus**: Trade surplus occurs when the value of **exported goods** is higher than **imported goods;**
- **Trade Deficit**: Trade deficit occurs when the value of **imported goods** is higher than **exported goods.**



Trade balance formula is the result of subtracting the total value of exports and the total value of imports

Factors Influencing Trade Balance

The exchange rate between the home and destination country plays a critical role in **trade balance**. Additionally, trade balance is influenced by other factors such as **commodity prices** and **economic growth**:

- **Commodity Prices**: In economies reliant on commodity exports, fluctuations in commodity prices significantly impact trade balance;
- **Economic Growth**: Higher economic growth increases demand for imports;
- **Exchange Rate**: In export-driven economies, a controlled local currency depreciation can boost exports.

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Note: Commodities refer to raw or minimally processed goods traded globally.

Impact of Trade Balance Data on Forex

Trade balance data affects the Forex market in two ways:

- **Higher-than-expected data**: Strengthens the respective currency
- **Lower-than-expected data**: Weakens the respective currency

Conclusion

Economic reports, **GDP**, **capital flow**, and **trade balance** are essential **factors influencing forex basic analysis** as they determine the **supply** and **demand** for currency pairs.

One can understand **currency movement trends** by analyzing **capital flow** and **trade balance**. Additionally, continuous monitoring and detailed analysis of economic reports help forecast **medium-term currency movements**.

source:

1.our website link :
https://tradingfinder.com/education/forex/influencing-factors-fundamental-analysis/
2.all Education :
https://tradingfinder.com/education/forex/

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

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