



4XC EDUCATIONAL MATERIAL

FUNDAMENTAL ANALYSIS

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FUNDAMENTAL ANALYSIS IN FOREX TRADING

WHAT IS FUNDAMENTAL ANALYSIS?

Fundamental analysis in Forex trading is a methodical approach to evaluating the economic, financial, and geopolitical forces that influence currency values. Unlike technical analysis, which focuses on historical price charts and statistical patterns, fundamental analysis examines the underlying factors driving currency price movements. It provides traders with a deeper understanding of the global economy, enabling informed long-term trading decisions and strategic positioning.

This guide explores the key components of fundamental analysis, including macroeconomic indicators, central bank policies, geopolitical dynamics, and market sentiment. It also offers practical insights on integrating fundamental analysis into a comprehensive Forex trading strategy.

KEY COMPONENTS OF FUNDAMENTAL ANALYSIS

1. MACROECONOMIC INDICATORS

Macroeconomic indicators reflect the overall health and performance of a country's economy. They play a pivotal role in determining the strength or weakness of a currency. Some of the key indicators include:

a GROSS DOMESTIC PRODUCT (GDP)

- **Definition:** Measures the total value of goods and services produced within a country over a specific period.
- **Impact:**
 - A rising GDP signals economic growth, attracting investment and strengthening the currency.
 - A declining GDP indicates economic contraction, which may lead to a weaker currency.

b INFLATION RATES

- **Definition:** The rate at which the general price level of goods and services increases over time.
- **Measurement:** Consumer Price Index (CPI) and Producer Price Index (PPI).
- **Impact:**
 - Stable or low inflation supports currency strength, as it indicates stable purchasing power.
 - High inflation can erode currency value and deter foreign investment.

c INTEREST RATES

- **Definition:** Rates set by central banks for lending money to commercial banks.
- **Impact:**
 - Higher interest rates attract foreign capital, increasing demand for the currency.
 - Lower interest rates reduce the currency's attractiveness, potentially leading to depreciation.

d EMPLOYMENT DATA

- **Key Metrics:** Non-Farm Payrolls (NFP), the unemployment rate, and job creation statistics.
- **Impact:**
 - High employment levels indicate a robust economy, which strengthens the currency.
 - Rising unemployment suggests economic challenges, leading to currency depreciation.

e TRADE BALANCE

- **Definition:** The difference between a country's exports and imports.
- **Impact:**
 - A trade surplus (exports > imports) strengthens the currency by increasing demand for it.
 - A trade deficit (imports > exports) weakens the currency because more foreign currency is required for transactions.

2. CENTRAL BANK POLICIES

Central banks play a significant role in influencing currency valuation through their monetary policies. Key aspects include:

a INTEREST RATE DECISIONS

- Central banks, such as the Federal Reserve (Fed) or European Central Bank (ECB), adjust interest rates to manage inflation and economic growth.
- Higher rates typically strengthen a currency by attracting foreign investment.

b QUANTITATIVE EASING (QE) AND TIGHTENING

- **Quantitative Easing (QE):** Central banks inject money into the economy by purchasing financial assets, often weakening the currency.
- **Tightening:** Reducing the money supply or increasing interest rates strengthens the currency.

c FORWARD GUIDANCE

- Statements about future policy intentions provide traders with insights into potential economic trends, impacting market sentiment and currency valuation.

3. GEOPOLITICAL FACTORS

Political and geopolitical events have profound effects on currency markets.
Key factors include:

a POLITICAL STABILITY

- Stable governments attract investment and strengthen the currency.
- Political turmoil or uncertainty leads to currency depreciation.

b TRADE AGREEMENTS AND CONFLICTS

- Favorable trade deals foster economic growth and boost currency strength.
- Trade wars, tariffs, and sanctions can negatively impact economies and weaken currencies.

c WARS AND NATURAL DISASTERS

- Wars create uncertainty, reducing investor confidence and currency value.
- Natural disasters can disrupt economic activity, weakening the affected country's currency.

4. MARKET SENTIMENT

Market sentiment represents the collective attitude of investors and traders, influenced by economic data, news, and expectations.

a RISK APPETITE VS. RISK AVERSION

- In times of optimism, investors favor riskier currencies, such as those from emerging markets.
- During uncertainty, they flock to “safe-haven” currencies like the U.S. dollar (USD), Swiss franc (CHF), and Japanese yen (JPY).

b NEWS AND SPECULATION

- Unexpected news, such as political upheavals or surprise economic reports, can cause sudden price movements.
- Market rumors and speculation can amplify volatility.

THE ROLE OF NEWS AND EVENTS

The Forex market is highly responsive to economic data releases and global events.
Key areas to monitor include:

1. ECONOMIC DATA RELEASES

a NON-FARM PAYROLLS (NFP)

Released monthly in the U.S., this report indicates job growth and economic health. It often causes significant market volatility.

b INTEREST RATE ANNOUNCEMENTS

Decisions by central banks to raise, lower, or maintain interest rates directly impact currency values.

c INFLATION DATA (CPI AND PPI)

These reports influence central bank policies, which in turn affect currency demand.

d RETAIL SALES AND CONSUMER CONFIDENCE

Indicators of consumer spending, which accounts for a large portion of economic activity.

2. GEOPOLITICAL EVENTS

a ELECTIONS

National elections can create volatility, especially if the results deviate from expectations or lead to policy changes.

b TRADE WARS

The imposition of tariffs or trade restrictions affects economic stability and currency demand.

c NATURAL DISASTERS

Events like earthquakes, hurricanes, or pandemics disrupt economies, weakening affected currencies.

HOW TO APPLY FUNDAMENTAL ANALYSIS IN FOREX TRADING



Monitor Economic Calendars

Use economic calendars to track upcoming data releases and their potential market impact.



Follow Central Bank Policies

Pay close attention to policy statements and speeches from central bankers, as they often signal future monetary decisions.



Stay Updated on News and Events

Regularly monitor geopolitical developments, elections, and global events to anticipate market reactions.



Combine with Technical Analysis

Use fundamental analysis to identify long-term trends and technical analysis for precise entry and exit points.



Practice Risk Management

Economic data releases and news events can lead to market volatility. Always set stop-loss and take-profit levels to manage risk.

Fundamental analysis is a cornerstone of Forex trading, offering traders insights into the economic, political, and financial factors that shape currency values. By understanding macroeconomic indicators, central bank policies, geopolitical factors, and market sentiment, traders can anticipate trends, manage risks, and refine their strategies. When combined with technical analysis, fundamental analysis provides a holistic approach to navigating the dynamic Forex market.

ECONOMIC CALENDAR

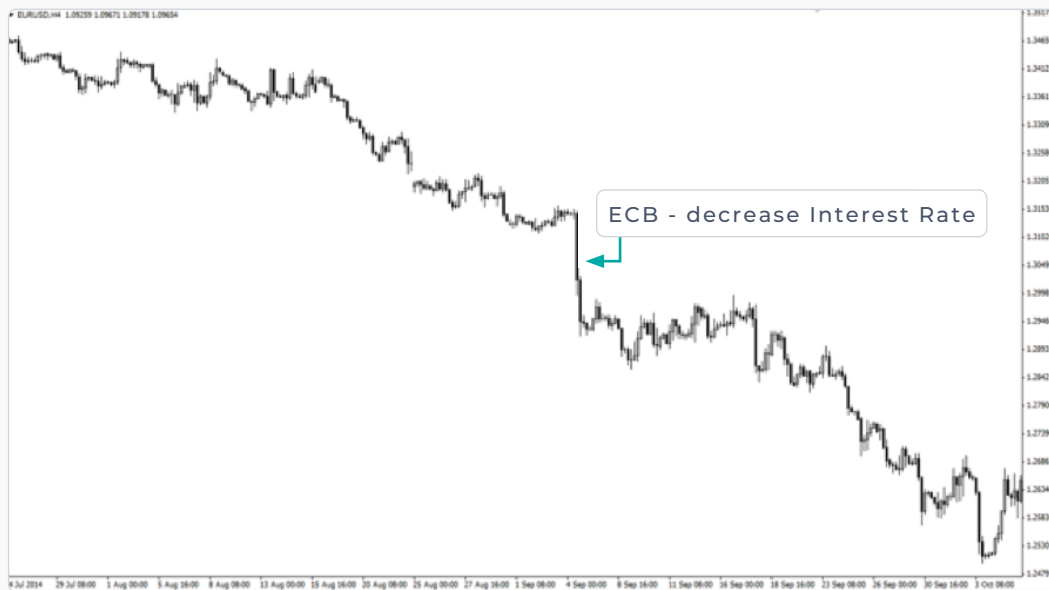
Tracks scheduled releases of economic data and events.

Time	Cur.	Imp.	Event	Actual	Forecast	Previous
Sunday, February 9, 2025						
18:50	JPY	★☆☆	Adjusted Current Account (Dec)	2.73T	2.73T	3.03T
18:50	JPY	★☆☆	Bank Lending (YoY) (Jan)	3.0%	3.1%	3.0%
18:50	JPY	★☆☆	Current Account n.s.a. (Dec)	1.077T	1.362T	3.353T
19:30	AUD	★☆☆	Building Approvals (MoM) (Dec)	0.7%	0.7%	-3.4%
19:30	AUD	★☆☆	Private House Approvals (Dec)	-3.0%	-3.0%	-1.7%
Monday, February 10, 2025						
00:00	JPY	★☆☆	Economy Watchers Current Index (Jan)	48.6	49.7	49.0
04:30	EUR	★☆☆	Sentix Investor Confidence (Feb)	-12.7	-16.4	-17.7
06:25	BRL	★☆☆	BCB Focus Market Readout			
09:00	EUR	★☆☆	French 12-Month BTF Auction	2.224%		2.218%
09:00	EUR	★☆☆	French 3-Month BTF Auction	2.450%		2.496%
09:00	EUR	★☆☆	French 6-Month BTF Auction	2.358%		2.395%
09:00	BRL	★☆☆	Auto Production (MoM) (Jan)	-7.7%		-19.5%

SOME EXAMPLES OF KEY ECONOMIC INDICATORS AFTER THE NEWS RELEASE.

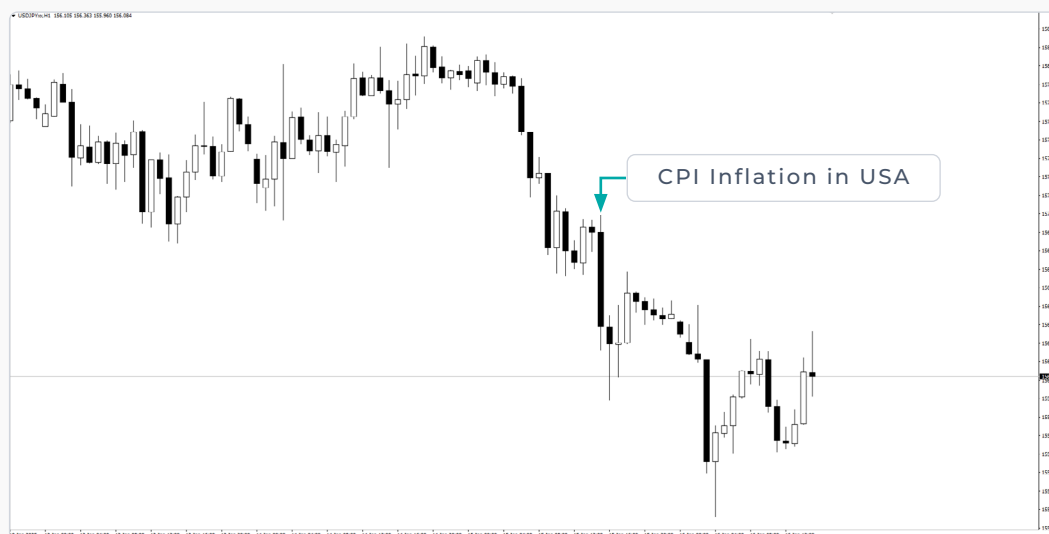
INTEREST RATES:

Set by central banks, they influence borrowing costs and attract foreign investment.



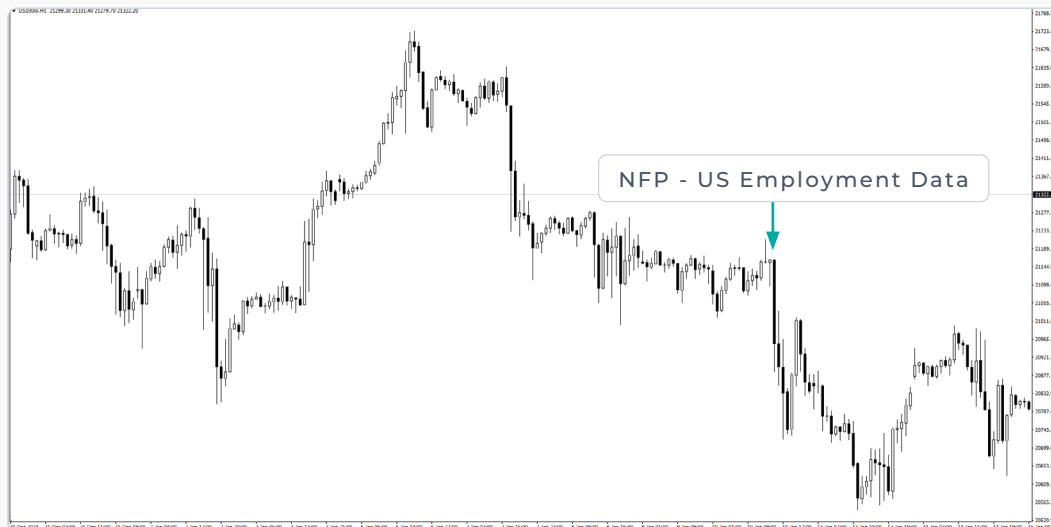
INFLATION DATA:

Indicates the rate of price increases in an economy, affecting purchasing power.



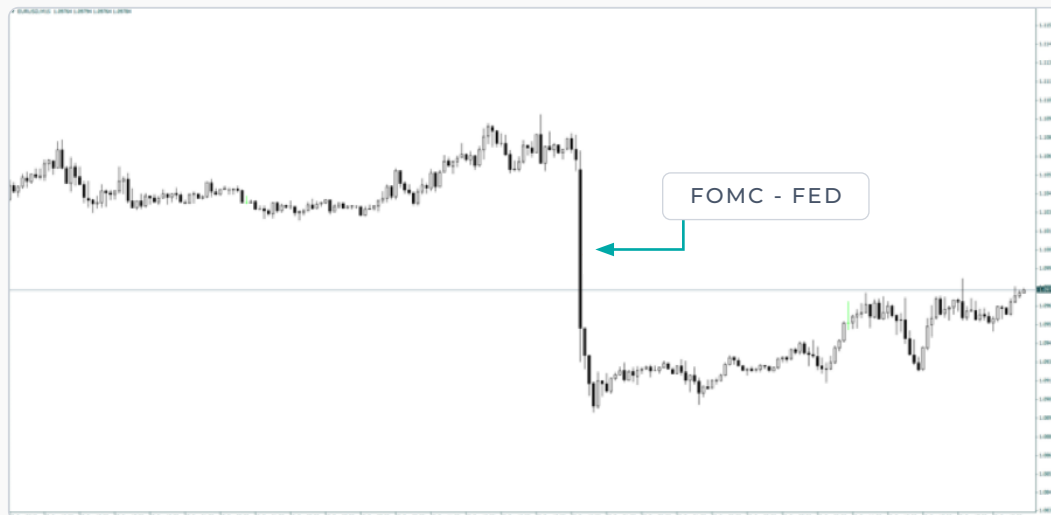
EMPLOYMENT REPORTS:

Metrics like the Non-Farm Payrolls (NFP) in the U.S. signal economic health.



CENTRAL BANK DECISIONS:

Announcements on monetary policy, such as rate changes or quantitative easing, heavily impact currency values.





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