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

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Writer: Rajesh Sharma | Reviewer: Nino Gogochashvili | Fact checker: Arjun Mandal | Modified: May 13, 2025

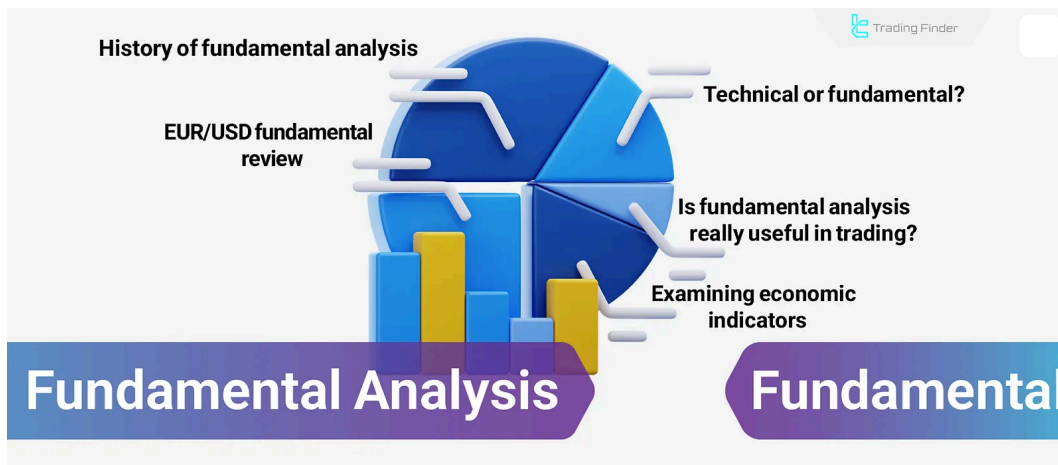
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Fundamental analysis is one of the methods used to forecast the **trends of various financial markets**, such as forex, commodities, stocks, and cryptocurrencies.



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).



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 "**Analysis**" by **Benjamin Graham** and **David Dodd**.

These two university professors developed methods for evaluating the **intrinsic value** **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**



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 fundament can also be identified for currency pairs.

Central Bank Meetings

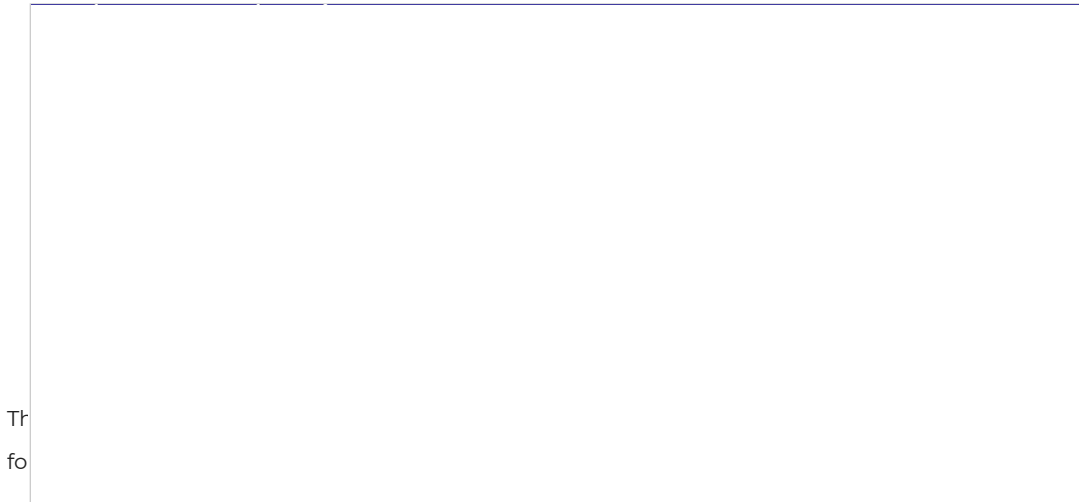
Most central banks hold **interest rate meetings** every six weeks. During these meetings, analysts assess the changes in **interest rates**, **central bank statements**, **new economic forecasts**, and even the tone of the **central bank president's speech**.

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.



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Company	EPS / Forecast	Revenue / Forecast	Market Cap	Time
Wednesday, October 30, 2024				
Microsoft (MSFT)	3.3 / 3.1	65.6B / 64.55B	3.04T	
Meta Platforms (META)	6.03 / 5.21	40.59B / 40.18B	1.87T	

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

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 currencies** (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

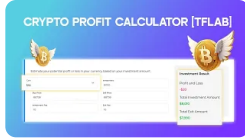
Political risks (such as presidential elections) and **geopolitical risks** (such as wars) are significantly unpredictable.

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.

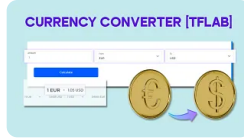
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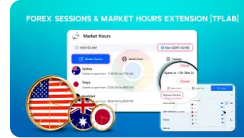
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Application of Fundamental Analysis

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 present. Conversely, if the price is higher than its intrinsic value, traders can consider selling.

Comparison Between Fundamental and Technical Analysis

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

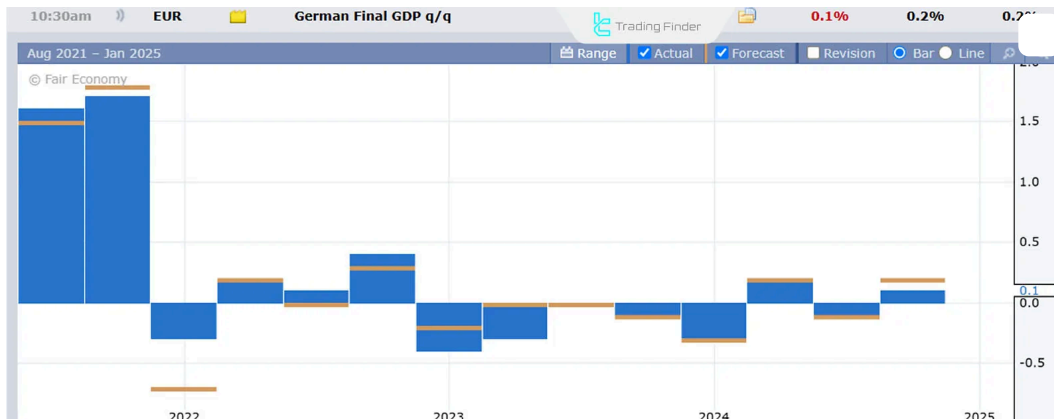
Can You Trade Using Fundamental Analysis?

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.



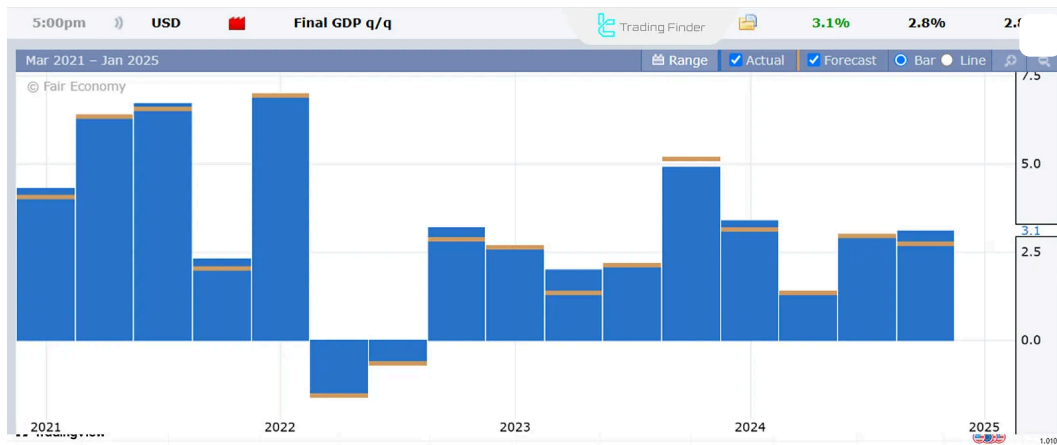
EUR/USD decline in late 2024 due to fundamental factors; Source: TradingView

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.



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**.

How Do Central Bank Meetings Affect the Market? ∨

In these meetings, changes in interest rates, central bank statements, and the tone of the central bank president's speech have a significant impact on market volatility.

What is Fundamental Analysis? ∨

Fundamental analysis focuses on the essential factors affecting a specific asset. Investors use fundamental analysis to understand the intrinsic value of stocks and to predict the trends of currency pairs and commodities.

What is Analyzed in Fundamental Analysis? ∨

In fundamental analysis, income reports (financial statements), economic data (such as CPI, GDP, NFP), market sentiment (risk appetite or aversion), and commodity price trends are evaluated.

How is Fundamental Analysis Different from Technical Analysis? ∨

Technical analysis focuses on chart patterns and price reactions to technical levels, while fundamental analysis evaluates economic data, financial reports, and monetary policies to create a

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