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| **Lesson 1: Fundamentals vs. Technicals in Forex** |
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In our last lesson we wrapped up module 3 of our free forex trading course with a look at some of the major factors that need to be considered when trading the carry trade strategy. If you have followed all of our lessons up to this point you should now have a good understanding of the basics of forex trading, the logistics of executing trades on a forex trading platform, and how trade flows and capital flows are the two broad categories of things that move the forex market. In today's lesson we are going to start a new module on the fundamentals of forex trading with a look at the question of should traders focus on fundamentals or technicals in their trading?

As we learned in our free basics of trading course in the free course section of InformedTrades.com, traders analyze any financial market including the forex market in one of 3 ways:

1. Through Fundamental Analysis

2. Through Technical Analysis

3. Through a Combination of fundamental and technical analysis

While which method a trader chooses is ultimately up to them and their trading personality, it is my opinion that a trader who at least has an understanding of both technical and fundamental analysis is in a better overall position to trade profitably, than someone who focuses on only one school of thought.

To help understand this lets say that I am a trader who studies technical analysis and believes that at least in the short term, which is the time frame that I trade on, that technicals are all that matter. Next lets say that I am looking at a chart of the EUR/USD at 8:20 AM on the first Friday of the month, and my technicals are telling me that the trade is a good buy.

If I focused purely on technical analysis then I would probably enter that position not knowing that at 8:30 AM I may be in for a surprise that I was not expecting. As those of you who have been through module 8 of my basics of trading course know, at 8:30 AM on the first Friday of the month Non Farm Payrolls (NFP's) are released, which historically has been one of the most market moving fundamental releases in the forex market.

While I am not saying that a trader who trades on technicals should not take a trade that looks good to them from a technical standpoint because of weak fundamentals, what I think this shows is that technical traders who at least have an understanding of fundamentals have the ability to decide whether or not they should factor in a specific piece of fundamental information or no. In my opinion this gives them a big leg up on technical traders who dismiss fundamentals altogether.

Now lets say that I am a trader who trades a carry trade strategy which trades based off of a model I built to forecast interest rates based on fundamental news releases. Next lets say that my model generates a buy signal at 1.4700 which I have included on the chart on your screen. Would my trading not be better served if I at least knew that there was a major head and shoulders top in place, so technically the market is very weak here?

As with our technical analysis example what I am not saying is that a trader who trades on fundamentals should not take a trade that they feel is good from a fundamental standpoint when the market is weak from a technical standpoint. What I am saying however is that fundamental traders who at least have a basic understanding of technical analysis have the ability to decide this for themselves. In my opinion this gives them a big leg up on fundamental traders who dismiss technicals altogether.

As you have probably realized if you have been following my courses, they are designed to give traders a knowledge of both fundamental and technical analysis because I believe a knowledge of both puts traders in the best position to learn to trade profitably. I also believe that you can't really make a decision if you are going to trade based mainly off of technicals, fundamentals, or a combination of the two unless you have a sound understanding of the basics of both fundamental and technical analysis.

As we have already covered the basics of technical analysis in my free basics of trading course, I am assuming that everyone already has an understanding of this. With this in mind the rest of this course will be focused mainly on the fundamentals of the forex market, which we will start with in our next lesson. If you have not done so already I encourage you to go through module 8 of the basics of trading course located in the free course section of InformedTrades.com which gives an introduction to fundamental analysis.

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| **Lesson 2: Forex Fundamentals Quiz** |
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In our last lesson we began a new module on the fundamentals of the forex market with a look at how traders who have an understanding of both technical and fundamental analysis are in the best position to be successful in the foreign exchange and other markets. In today's lesson we are going to continue our free forex trading course with a review of what we have learned up to this point so we can make sure that everyone has an understanding of the basics which they will need throughout the rest of this course.

As we now have a basic understanding of how trade flows and capital flows move the forex market, the next step is to look at each of the individual currencies we will be focusing on so we can gain an understanding of their backgrounds, and the makeup of their economies. Once we have an understanding of this it will become clear what fundamental factors are the most important drivers of individual currencies, and therefore what we as traders should watch for.

Before we get into this however it is very important that everyone has a sound understanding of how trade flows and capital flows move the forex market (which is covered in module 3 of this course) as well as the following concepts, all of which are covered in module 8 of our free basics of trading course located in the free course section of InformedTrades.com:

- We all need to understand what the business cycle is.

- The difference between monetary and fiscal policy.

- What a central bank is and how they go about changing interest rates. In module 8 of the basics of trading course we cover the Federal Reserve which is the central bank in the United States. While the central banks that we are going to be covering going forward may differ in how aggressive they are with monetary policy in relation to the Federal Reserve, the methods they use to conduct monetary policy, and the reactions of the forex market that monetary policy generates, is basically the same no matter what central bank you are looking at.

- The first currency we will be covering will be the US Dollar, so you should have a good understanding of the basic components of the US Economy.

I am going to give everyone 10 questions here that you should now have the knowledge to answer if you have been through module 8 of my free basics of trading course, and module 3 of this course. Ok so here we go:

1. If inflation is low and a Central Bank is concerned about recession, what would the expected monetary policy response be?

2. If inflation and growth are both high what would the expected monetary policy response be?

3. If a central bank raises interest rates, what affect if any is this expected to have on the currency of that country, all else being equal?

4. If a central bank lowers interest rates, what affect if any is this expected to have on the currency of that country, all else being equal?

5. If a country's imports grow and all other trade and capital flows remain equal, what affect would this have on the current account and what would be the expected affect on the currency if any?

6. If a country's exports grow and all other trade and capital flows remain equal, what affect would this have on the current account and what would be the expected affect on the currency if any?

7. If a country is a major exporter of gold and the price of gold moves up by 50% over the course of a year, what would be the expected affect if any on that country's currency all else being equal?

8. Japan is a major importer of oil and Canada is a major exporter of oil. If the price of oil goes up by 50% over the course of a year, then what affect if any should this have on the CAD/JPY currency pair all else being equal?

9. Traders who follow US Dollar fundamentals pay particular attention to any numbers which reflect the overall health of the consumer. Why?

10. The US Economy in the past was referred to as an Industrial Economy, now it is referred to more as a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Economy.

Once the first person posts the right answers to all 10 questions I will send a private message to them via the forum to request the mailing address where they would like their free copy of Day Trading the Currency Market sent.

That's our lesson for today. In tomorrow's lesson we will begin a discussion on the fundamentals that move each of the main currencies we will be focusing on, starting with the US Dollar, so I hope to see you in that lesson.

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| **Lesson 3: Why the US Dollar is Still King of the Currency World** |
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In our last lesson we had a review of the basics of fundamental analysis which we have learned up to this point with a 10 question quiz on monetary policy, trade and capital flows, and the US Economy. In today's lesson we are going to begin our discussion on the fundamentals of the main currencies of the world, starting with an overview of the US Dollar.

As we discussed briefly in our lesson on the main currencies of the world in module 1 of this course, although there is lots of news lately about the US Dollar losing some of its status, as of this lesson there is no doubt that the US Dollar is still the king of the currency world. There are several primary reasons for this which we will cover in today’s lesson, and which are behind the fact that no matter what currency a trader trades, pretty much everyone in the forex market follows the US Dollar.

The first reason why the US Dollar is the king of the currency world is the fact that it is a part of each of the world’s most actively traded currency pairs. According to the Bank of International Settlements and as outlined here, these currency pairs account for 67% of the daily turnover in the forex market. When you add the US Dollar Swidish Krona currency pair and all of the currencies categorized as “other” traded against the US Dollar, that total rises to 89%

EUR/USD 27%
USD/JPY 13%
USD/GBP 12%
USD/AUD 6%
USD/CHF 5%
USD/CAD 4%
USD/SEK 2%
USD/Other 19%

A second reason why the US Dollar is still the king of the currency world is because it is the world’s primary reserve currency, accounting for over 63% of the world’s currency reserves. A reserve currency is a currency held by the governments/central banks of other countries in large quantities. Countries do this so they can purchase goods which are priced in the reserve currency at a cheaper rate than if they had to convert, and to borrow money at a cheaper rate, since lenders will be more likely to lend knowing they hold large quantities of what is considered a more credible currency.

Perhaps most importantly for traders, many countries and especially countries in Asia (the most talked about example being china) maintain large reserves of US Dollars so they can either peg the value of their currency to the US Dollar, or maintain a loose peg. The goal here is to either stabilize their own currencies and therefore their economies and/or to hold the value of their currencies artificially low in order to make their goods more competitive overseas, something which we will examine further in our next lesson.

Thirdly, many private businesses and individuals located outside the United States hold US Dollars for trade reasons, because they consider the currency more stable than their home country’s currency, or for a multitude of other reasons. This, combined with what we just covered on the US Dollar being the world’s primary reserve currency, means that over 2/3rds of all US Dollars in circulation are held outside of the United States.

The last major reason why the US Dollar is still king of the currency world is because many major commodities such as oil, gold, and silver are priced in US Dollars, making access to US Dollars essential for anyone in the world who wants to purchase these products.

More than simple interesting facts, these factors can have huge affects on the value of the US Dollar, and are therefore extremely important to us as traders. Exactly how these things affect the US Dollar, and therefore exactly what we should watch out for as traders will be the topic of our next lesson so I hope to see you then.

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| **Lesson 4: Factors That Will Determine if the US Dollar Remains King** |
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In our last lesson we continued our free forex trading course with a look at why the US Dollar is still king of the currency world. As expected, this lesson generated a lot of debate, so in today's lesson we are going to look at whether or not the US Dollar will remain the king of the currency world.

As we discussed in our last lesson the US Dollar is involved in approximately 89% of all forex transactions, so the fate of the US Dollar has huge implications not only on the US Dollar, but on the forex market as a whole. While currently the US Dollar is still king of the currency world, many argue that the tides are changing, and that the US Dollar is in danger of losing this status. Whether or not this happens, to what extent it happens, and if it does happen how quickly or slowly it happens, is of huge importance to currency traders.

The most important reason why the US Dollar is king of the currency world is the fact that, as we learned about in our last lesson, it is the world's reserve currency. According to Wikipedia.com, as of 2007 there is approximately $7.5 trillion worth of currencies held as reserves by central banks around the world. Of that $7.5 trillion 63% or 4.7 trillion is held in US Dollars. This is an enormous amount of dollars being held by central banks outside of the United States, so forex traders watch closely anything that could show a decrease in the appetite of central banks for US Dollars.

Like with individuals and companies, other countries willingness to lend money to the United States (by holding US Dollar Denominated Debt as reserves) is based on the financial soundness of the United States as a whole. As we learned about in module 3 of this course, the US has run a large current account deficit for years. In addition to this, the country's government has also run large budget deficits. Like an individual who runs up large amounts of debt, this makes the debt of the United States less attractive, and has the potential to decrease other countries willingness to fund these activities, by holding US Dollar Denominated debt as reserves.

Secondly, many consider the monetary policy of the United States to be flawed, citing the Federal Reserve's increase of the money supply to hold interest rates low, as a major factor in the dollar's decline. As we learned about in our lessons in module 3 of this course, the lowering of interest rates tends to weaken the value of a currency all else being equal. As the value of the currency falls, countries around the world who hold that currency, see wealth evaporate due to the falling value of their reserves. This obviously has the potential to make the US Dollar less attractive for them to hold as their reserve currency, which means a decrease in demand, and a decrease in the value of the currency all else being equal.

As of this lesson the US Dollar has fallen over 35% in the last several years, as measured by the US Dollar Index. As we just discussed, this decreases the wealth of the countries who hold the US Dollar as their reserve currency, and has the potential to reduce their appetite for US Dollars, regardless of the reason for the decline in value. This potentially means a decrease in demand from the central banks to hold US Dollars as their reserve currency, and a decrease in the value of the currency, all else being equal.

**US Dollar Index**



With these three factors in mind, traders will watch carefully anything they feel will affect the willingness of other countries to continue to accumulate and hold the US Dollar as their reserve currency. Most importantly here are statements from any central bank or government officials in regards to this. While a statement from potentially any country in support of the US Dollar, or that they are diversifying away from the US Dollar has the potential to move markets, traders are especially sensitive to any hints from the largest holders of US Dollars which are listed here:



The final factor which people point to as a reason why the US Dollar may lose its status as king of the currency world, is because of the rise in prominence of the EURO, and its relative strength in comparison to the dollar. Before the introduction of the EURO, there was not really another currency which had the potential to compete on the same level as the dollar, as the reserve currency of the world. The famous former chairman of the US Federal Reserve Alan Greenspan, has even been quoted as saying: "it is absolutely conceivable that the EURO will replace the dollar as reserve currency, or will be traded as an equally important reserve currency." As you can see from the chart below, while the EURO still comes no where close to the US Dollar's dominance as the world's reserve currency, it is slowly gaining ground on the Dollar, an important point traders will be watching.



That's our lesson for today. In our next lesson we will look at other factors which can give us clues as to whether or not the US Dollar will remain the king of the currency world and how this can alert us to potential trading opportunities.

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| **Lesson 5: Determining the Fate of the US Dollar Part II** |
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In our last lesson we discussed the main factor which will determine whether or not the US Dollar remains the king of the currency world; its status as the world's reserve currency. In today's lesson we are going to continue this discussion with a look at how countries who peg their currency to the US Dollar have a large affect on whether or not the US Dollar remains the reserve currency of the world.

One of the main reasons why many countries hold so many US Dollars, is so they can use those dollars to fix the value of their currency to the US Dollar. They do this to try and give their currency and economy more credibility, which they hope will lead to a more stable economic environment, and/or to keep the prices of their goods low in comparison to other countries, so their exports will be competitive.

As a quick example lets say that country A pegs their currency at a value of 1 to 1 with the US Dollar. While it is all fine and dandy for country A to say they are pegging their currency to the US Dollar at 1 to 1, it is still the market that sets the true price of Country A's currency in relation to the US Dollar. Because of this, country A has to "defend" its currency peg, by buying its own currency and selling US Dollars when the value of their currency weakens below a 1 to 1 rate, and by selling their currency and buying US Dollars when it strengthens above the 1 to 1 rate. Here is a simple illustration of this:



As some of you who are a little more experienced in the markets probably know, some problems can arise with the above scenario, and there have been many examples in history of countries who were not able to hold their currency pegs. Probably the most famous example of this is referred to as Black Wednesday, when the famous speculator George Soros was credited with forcing the Bank of England to abandon their currency peg, causing the British pound to fall over 25% relative to the US Dollar in a matter of weeks.

So what does all this have to do with the US Dollar's Status as the world's reserve currency? Well, one of the main reasons that countries have in the past chosen to peg their currencies to the US Dollar, is because of the relative stability of the US Dollar in relation to other currencies. It is important to understand that not only do the currencies of countries who peg to the US dollar fluctuate in value along with the US Dollar, but their own monetary policy is basically tied to the monetary policy in the United States.

This is all fine and dandy so long as the monetary policy of the United States is considered sound, and so long as the currency does not fluctuate in a manner that adversely affects the economy of the country pegging to the dollar. Problems arise however when the dollar fluctuates in a way that adversely affects the economy of the country with the peg, and/or the monetary policy of the United States is set in a way that is not beneficial to those same countries.

There is a perfect example of this going on as of this lesson, with oil producing countries in the Middle East. As the price of oil has been high for so long, the economies of countries such as Saudi Arabia are booming, and money is flowing into those countries at a rate never seen before, creating all sorts of demand for the Riyal (Saudi Arabia's Currency). At the same time, the United States, the currency of which Saudi Arabia pegs their currency to, is going through an economic slowdown.

So what you have here is a situation where, if anything, monetary policy should be tightening in Saudi Arabia, and their currency should be strengthening. As their currency is pegged to the US Dollar however, they are affected by the loose monetary policy of the United States, throwing fuel on an already hot economy, and weakening their currency when it really should be strengthening. As we learned in our lessons on monetary policy in module 8 of our basics of trading course, this is a recipe for massive inflation, which it seems they are starting to see signs of now.

Scenarios such as this can cause countries to abandon their currency pegs or switch the currencies that they peg to something which is of major importance to the status of the US Dollar as the World's reserve currency.

There are many different scenarios such as the one above which can arise from countries who peg their currency to another. It is important for us to have a fundamental understanding of how to spot these scenarios, as whether or not countries continue to peg their currencies to the US Dollar, or move to a basket of currencies or another currency all together, will have huge affects on the value of the US Dollar going forward.

That's our lesson for today. In our next lesson we will wrap up our discussion on the US Dollar with a look at the final factors to consider when eying the status of the dollar, so we hope to see you in that lesson.

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| **Lesson 6: Determining the Fate of the US Dollar Part III** |
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In our last lesson we finished up our discussion on the most important factor which will determine the fate of the US Dollar, its status as the reserve currency of the world. In today's lesson we are going to wrap up our discussion on the fate of the US Dollar, with a look at the other three factors traders watch when analyzing the long term fate of the dollar.

If you remember from our first lesson on "Why the US Dollar is Still King of the Currency World", we listed 4 main contributing factors. As we just discussed, the most important factor is its status as the world's reserve currency. Next in line in importance, is the fact that so many foreigners invest in US Assets, and/or hold their savings in US Dollars. According to Kathy Lien's book Day Trading the Currency Market "Foreign direct Investments into the United States are equal to approximately 40% of total global net inflows for the US. On a net basis, the US absorbs 71% of total foreign savings." This is a huge amount of money being held in US Dollars, to the point where foreign individuals and institutions taken together, have enormous control over the fate of the US Dollar.

With this in mind, there are several things that traders watch for when trying to detect any change, which would affect foreigners appetite for US assets, and/or the US Dollar. As individuals and corporations have many of the same concerns that a central bank has in holding US Dollars, we have already covered most of the factors that will affect private individuals and institutions appetite for the dollar. These are things like return on their investments (so basically stock market performance and bond yields), anything they feel may affect those returns (things such as monetary policy and general economic soundness), and the relative value of the dollar itself.

One factor which we have not discussed yet is the general stability of the United States. Before September 11th, the US Dollar was considered a safe haven currency, which would strengthen in times of global uncertainty, as the US was considered one of the safest and most stable places in the world. The events of September 11th diminished the US Dollar's status as a safe haven currency some what, a status which it has struggled to regain ever since.

Next in line of importance is the US Dollar's role in international trade. Many commodities such as gold and oil are quoted in US Dollars in the international markets, and because of this many countries use the US Dollar in international transactions. As we discussed in our lesson on why the US Dollar is Still the King of the Currency world, this creates a lot of demand for the US Dollar, which helps keep foreigner's appetite for the currency strong. As a result, traders are very wary of any talk from countries outside the US, about moving away from the dollar as the de facto currency for international transactions. This is especially true about countries that are a part of OPEC, the oil cartel made up primarily of the oil producing countries in the Middle East.

We should now have a good understanding of each of the factors which traders watch when trying to determine the long term fundamental position of the dollar, which are:

1. Its status as the reserve currency of the world,

2. Countries willingness to use the US Dollar in their currency pegs, and the soundness of those pegs

3. Foreign interest in the US Dollar, and US Dollar denominated assets, from individuals and corporations,

4. The pricing in dollars of commodities in international markets

That wraps up this lesson and our series on the factors which will determine whether or not the US Dollar remains the king of the currency world. In our next lesson we will look at some of the key fundamental data which tends to move the dollar outside of these four factors, so we hope to see you in that lesson.

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| **Lesson 7: Economic Numbers that Move the US Dollar** |
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In our last lesson we finished up our series on what traders watch for when analyzing the long term direction of the dollar. In today's lesson we are going to continue our free forex course, with a look at where to go to find the economic data releases that move the dollar.
As you can probably imagine, we could spend many lessons and multiple hours going over each of the economic indicators that affect the price of the US Dollar. It is for this reason, that before getting into any of the actual indicators, I wanted to give everyone an overview of the broad things that move the market. As we have discussed in previous lessons the two broad categories that pretty much everything that moves the forex market fits into, are trade flows and capital flows, as covered in module 3 of this course.

Once you have an understanding of this, all that is necessary to understand how economic numbers move the dollar, is to understand which numbers are important to the market at the time, whether those numbers fit into the trade flows or capital flows category, and how they should affect the dollar as a result.

As we learned in module 8 of our basics of trading course, how the market reacts to economic releases is generally determined by two factors:

1. How important the market considers a particular release to be.

2. How close to market estimates the number comes in at. Remember that markets anticipate news, so generally if an economic release comes out as expected, there is very little if any market reaction to that release.

How important the market considers a particular economic release to be, is something that changes over time depending on what is happening from a US Dollar fundamentals standpoint. If there are worries that the economy is going into recession, then the market is going to be extra sensitive to any numbers, such as non farm payrolls and consumer spending, which may provide early warning signs that this is the case. Conversely, if the economy is heating up and the markets are worried that inflation may become a problem, then the most market moving numbers may be price data releases, such as the CPI and the PPI. For your reference, according to Dailyfx.com the most market moving indicators for 2007, in order of importance were:

1. Non Farm Payrolls
2. FOMC Releases
3. Retail Sales
4. ISM Manufacturing
5. Inflation
6. Producer Price Index
7. The Trade Balance
8. Existing Home Sales
9. Foreign Purchases of US Treasuries (TIC Data)

We have discussed most of these indicators already, and for those which we have not, a quick google search, and review of the indicator in the context of whether it fits into trade flows or capital flows, should answer the question of why they move the market.

Although I am probably a little biased since I used to work with the people who run the site, I am a very big fan of Dailyfx.com as the place where I go to find out what economic data is due for release, and for commentary on the number after the release. They have a great global calendar which you can find at the top of the site as well as tons of both technical and fundamental commentary on everything that affects the US Dollar and forex market in general.

For this lesson specifically, if you click the calendar button at the top of the site you will see they have all of the economic data releases from the major countries of the world with the time of the release, the previous number, the forecasted number and the actual number which is updated after the release. You will also notice here they have links for the more important numbers giving a definition of the release, the relative importance of the release, and the latest news release relating to that release.

If you click back to the homepage of the site you will see lots of fx related reports which the Dailyfx staff puts out throughout the day. Two of my favorite reports are the Daily Fundamental report by Kathy lien, and the US Open Market Points by Boris Schlossberg which you can find in the middle of the page.

As we discussed in module 8 of our basics of trading course, the best way to get a feel for how economic numbers affect the market, and which numbers are in focus, is to start following the market on a daily basis and seeing how it reacts to various news events. As this is the case, I highly recommend following the commentary on Dailyfx.com as well as the forex commentary on InformedTrades.com, and start putting your analysis to practice on your real time demo accounts. If you have not registered for a free realtime demo account I have included a link above this video where you can do so.

That's our lesson for today, and that wraps up our discussion on the US Dollar. In the next lesson we are going to look at the next most traded currency in the world, the EURO so we hope to see you in that lesson.