

1 IMPACT OF TECHNICAL AND FUNDAMENTAL ANALYSIS IN THE GLOBAL FOREIGN 2 EXCHANGE MARKET

4 ABSTRACT

5 This paper presents review of technical and fundamental analysis as influenced global foreign
6 exchange across all trading sessions in meta bank trading server. The trading is held by broker
7 firms across the globe where meta bank is the global consults for investors.

8 The broker firms make provisions of trading tools, interactive trading platform for potential traders to
9 make trade transaction with 100% independence of their trading decisions and supports from brokers
10 firms.

11 The trading platform is characterised into chartist, line and bar for representing symbols and track
12 trends of price pattern across the globe.

13 Technical and fundamental analysis is employed among foreign exchange traders and financial
14 journalists in the major sessions (US, London, Asian and Pacific) make impacts. Results confirmed
15 that most traders use both forecasting approaches while minority relies on either chartistic technical
16 analysis and fundamental analysis. Financial journalists put more emphasis on fundamental analysis
17 as the key factor that override other trading instruments. Two distinct traders are identified by research,
18 intraday and inter-day traders. The overall impacts attached to fundamental and technical analysis
19 vary across different trading sessions. Foreign exchange traders mentioned a series of psychological
20 motives and consequences of the use of chartism previous histories. The major concept that the
21 research emphasised is on trading tools for technical analysis and financial journalist forecast in
22 support of fundamental analysis. Therefore, it is recommended that traders should follow fundamental
23 and technical analysis simultaneously to achieve successful trading carrier.

24 **KEY WORDS:** Foreign exchange, Fundamental analysis, Bullish, Bearish, Technical analysis.

26 Introduction

27 A central question within the interchange market is how market participants and currency traders
28 forecast future market developments. Interchange market participants are usually classified in line
29 with two completely different forecast approaches; elementary and chartistic (Frankel and Froot,
30 1986, 1990). In line with this distinction, fundamentalists are market participants that drive market
31 trend with high volatility by analysing the underlying economic conditions upon that they assume
32 changes in exchange rates. Chartists, in distinction, study solely the consolidation and gathering
33 momentum in market price trends and believe that the history of previous knowledge provides
34 indicators for future exchange rates. Chartists use technical analysis, i.e. the analysis of past change
35 per unit movements to guide forecasts and mercantilism selections within the interchange market
36 (Neely, 1997). Chartism includes the visual hunt for continual patterns of knowledge across time
37 frames.

38 Recent research is aimed at formulating another economical markets approach and to supply
 39 additional complete answer on how expectations in money markets are shaped, differentiate between
 40 arbitrageurs, i.e. rational smart-money investors, and noise traders. Noise is outlined as processes
 41 resulting in shadow data, i.e. market mechanisms that blur observations of the market (Black, 1986).
 42 Arbitrageurs and noise traders, however, don't transcend the classes of fundamentalists and chartists
 43 because the basis for forecasts and selections by arbitrageurs may be seen (Menkhoff, 1998).
 44 Technical associate analysis may be seen as an example for noise mercantilism since its ways build
 45 'on noise or "popular models" and not on information' (Shleifer and Summers 1990, p. 24). the
 46 fundamental distinction between chartists and fundamentalists has served as basis for an indication
 47 of the existence of heterogeneous market expectations within the interchange market (Frankel and
 48 Froot, 1990). Significantly within the short term, efforts to see future exchange rates on the premise
 49 of economic 'fundamentals' have had very little success (Harvey, 1996). MacDonald and Taylor
 50 (1992) observed that models that are supported with a theory of economic fundamentals alone don't
 51 supply enough explanations of short changes in movements. Also, Frankel and Froot (1990) noted
 52 that normal economic science analysis, for instance, of growth rates or of trade numbers, cannot
 53 predict most short charge per unit changes. For instance, the worth of the dollar in 1984/1985
 54 dramatically departed from what elementary expectations alone would counsel. In response to the
 55 proof that fundamentals alone don't fulfill to elucidate changes in behaviour, theoretical models that
 56 think about the interaction of chartist and fundamentalist expectations are developed (e.g. Levin,
 57 1997; Vigfusson, 1997).
 58 Despite the growing awareness of non-fundamental factors within the expectations and selections of
 59 interchange participants, there's a shortage of empirical knowledge on the employment of technical
 60 analysis in money markets. A tiny low variety of previous empirical studies on this subject realized
 61 that the relative importance of elementary and technical trading strategies within the interchange
 62 market depends on the mercantilism time frame horizon assumed. Chartism is employed principally
 63 for short forecasts within the London interchange market (Allen and Taylor, 1990), a finding
 64 confirmed for port by Lui and Mole (1998). Menkhoff (1997) finds that conjointly within the German
 65 interchange market Chartism is employed extensively. Previous studies have conjointly shown that
 66 the relative importance of chartist and elementary analysis within the market is subject to a method of
 67 amendment. For instance, Frankel and Froot (1990) showed that within the amount from 1978 to
 68 1988 interchange forecast services surveyed by Euromoney magazine demonstrate a notable shift
 69 within the reasonably foretelling techniques used. Whereas throughout 1983–1985 the share of
 70 forecast services using technical analysis reached a most, this proportion then diminished slightly
 71 within the 3 consequent years.
 72
 73 This research tries to increase the results of previous findings on the importance of Chartism and
 74 fundamentalism among interchange traders in London (Taylor and Allen, 1992) and in port (Lui and
 75 Mole, 1998) to a replacement geographic location. This paper shows the 1st interchange traders

kind currency forecasts in numerous European mercantilism locations, i.e. in U.S, London, Asian, and Pacific. Since the information for this analysis was gathered at the same time in numerous sessions, an instantaneous analysis of native variations in forecast strategies employed in completely different geographic locations of the interchange market is feasible. In point of view ,the primary study that determines the importance of various varieties of actors within the market, money journalists, attribute to Chartism and Protestantism for the trends in market. Finally, for the primary time frames additional completely differentiated compartmentalisation of perpetual traders supported their foretelling designs that takes different forecast preferences and trading strategies on many foretelling horizons under consideration is established. A cluster analysis of traders' forecast approaches on numerous sessions goes on the far side for the easy categorization of elementary and chartist traders and permits for an outline of 2 distinct traders designs across time frames, 'chartist, ascending', 'fundamental, ascending', 'constant chartist', and 'inverse middle'.

METHOD

The results conferred during this research supported by conducted experiment on broker trading platform during active exchange hours (Sunday 22GMT to Friday 23GMT) sessions. Trading instruments like MACD, Moving Average and candle stick pattern recognition were employed to forecast maket trend directions and money maker news company i.e. Forexfactory and comodity index were used for financial journalist forecast on their database.

Trading instruments that support technical and fundamental analysis in the study were listed bellow;

- i. MACD (Moving Average Convergence and Divergence)
- ii. Moving Average
- iii. Candle stick pattern recognition
- iv. Company News
- i. **MACD (Moving Average Convergence and Divergence):** is characterised with slow moving average and fast moving average for monitoring price changes across time frames. Its detect price actions when trends unfold and review market peak to peak price to the point of reversal.
- ii. **Moving Average:** Is an instrument for forecasting market price range and can review price major trend along time frames on trading platform. This prepare trader to identify current trends irrespective of time frame used to support technical impact on market price as it advances. The setup properties used in this experimental research is 33 exponential moving average High, Low and Close price and work excellently across all time frames.
- iii. **Candle stick pattern recognition:** This gives recognitions on price formation which is instrumental to market price decision making, for instance consolidation and momentum price over period of time gives trade signal by reviewing potential trend direnction, this can be broken down into three categories are shown on table 1.
 - a. Reversal patterns

- 14 b. Trend confirmation
15 c. Entry and Exit points

16 **Table 1:Candle Pattern Recongnition**

PATTERN TYPES	PATTERN NAMES
Reverse Pattern	Head and Shoulder, Double Top, Double Bottom, Consolidation, Momentum,
Trend confirmation Pattern	Bull Engulfing, Bear Engulfing, Doji, Rail-track
Entry/Exit Pattern	Inverted Hammar, Grave Stone Doji, Hanging Man, Paircing, Shooting Stars, Morning star, Evening Star

- 17
18 **iv. Time Frames:** Intraday trader depends on 5Min, 15Min,1hr and 4hr market watch for
19 monitoring market trends while interday trade traders depends on 1hr, 4hr,weekly and
20 monthly time frames to support technical and fundamental analysis.
21 **v. Forex News companies:** Capitalist and money makers gives forecast on daily basis in
22 support of fundamental analysis to forecast trading events and successful traders usually
23 follow news speculations to make decisions for the benefit of making profits with news
24 advantage. The research captured Forex factory as the major news publisher available for
25 traders consumption. News impact is categorised into 3 perspectives as shown on table 2.

26 **Table 2: News events natures**

News types	Colour indentification	Reaction on Market Price
High Impact	Red	High volatility
Medium Impact	Orange	Medium Volatility
Low Impact	Yellow	Low Volatility

27 28 RESULTS

29 TECHNICAL ANALYSIS

30 Impact of Technical analysis on global market price depends on trading instruments, price actions,
31 entry/exit price,most active trading session. London and US sessions were captured using Japanese
32 candle stick patterns, MACD and Moving average to experiment trading activities. Figure 1 shows
33 intraday technical outlooks of Great Britain Pound versus US dollars (GU) pairs on 5min time frame
34 on FX-Open platform.

35 Fig 1: 5Minute Technical outlooks

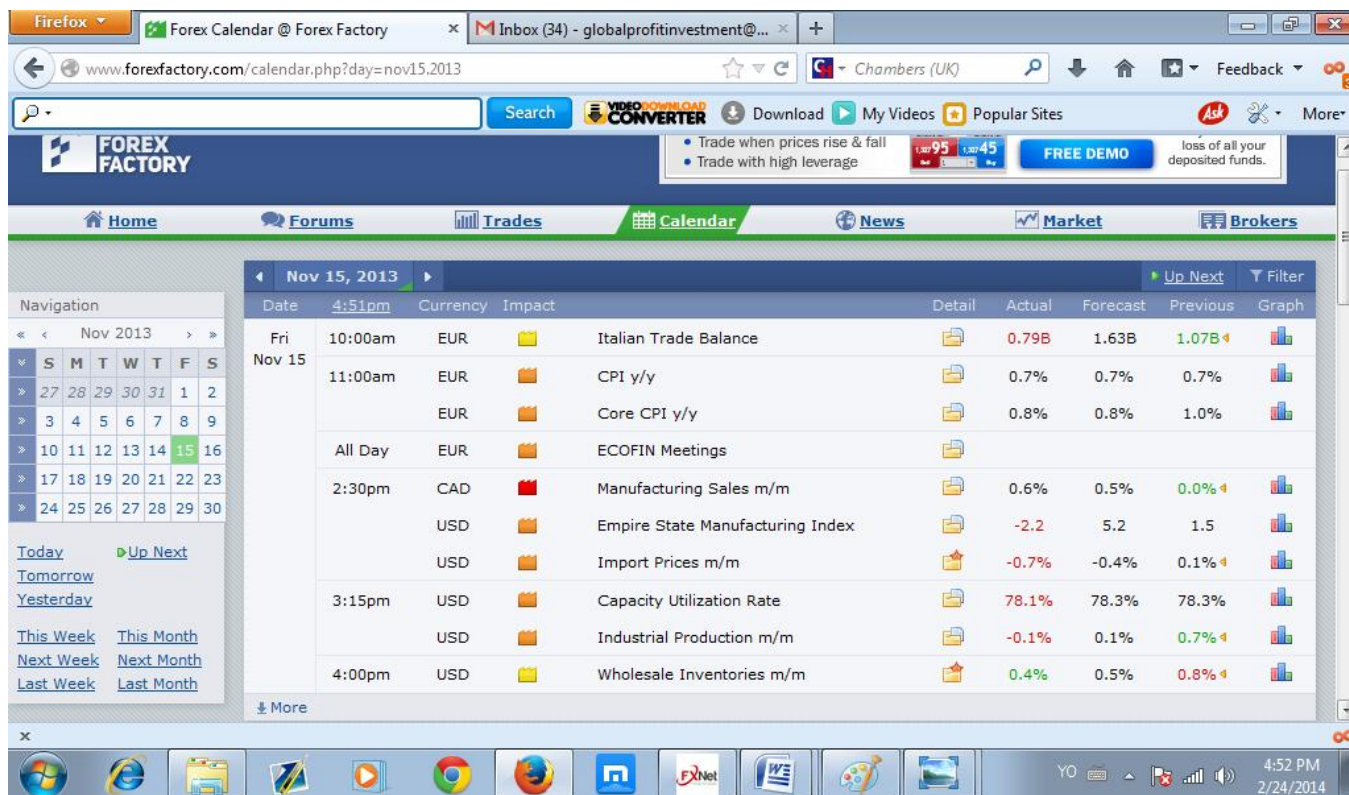


Fig 2: News Trade event impact on GU currency



Fig 2 above and fig 3 below Shows impact of news supported by journal's forecast on the fundamental analysis results as it overrides all technical trading tools and GU reacted to the news event dated November 15 around 16GMT server time thus influenced global market with high volatility. The major news release focused on US dollars on import prices, capacity utilization rate and industrial production

46 **Fig 3: Forex factory New Timeline**

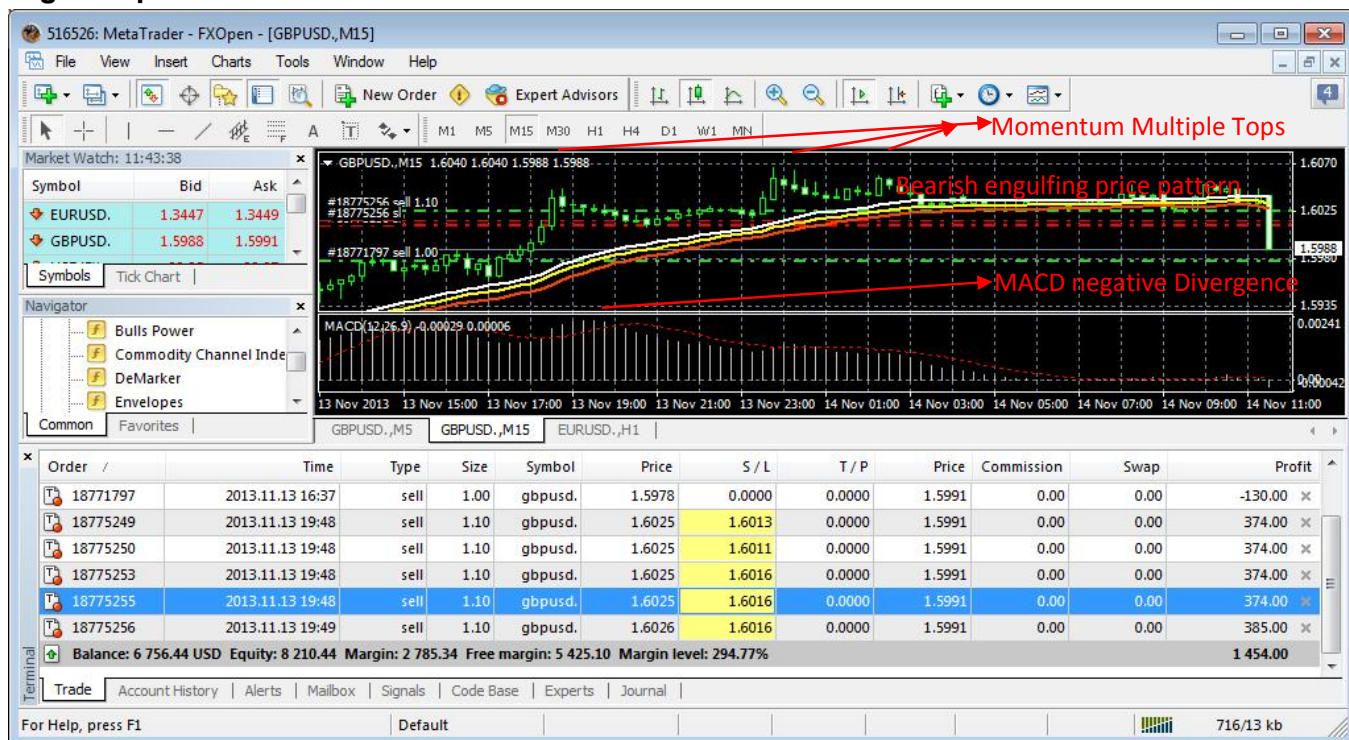


47

48 **Source:** Forex Factory server on Forex News

49 FX Net Broker company fundamental expert analysis briefing stated that; *"A lack of market moving*
 50 *news today has kept the Asian session quiet and most currencies were trapped in ranges. Markets*
 51 *will now look ahead to data from the United States due later today on a consumer confidence survey*
 52 *by the Conference Board. EURUSD traded a small 10-point range between \$1.3728 "*

53 **Fig 4: Impact of Technical Outlook on Price Actions**



55 Technical outlooks on 15min time frame metal trader 4 platform show response of technical forecast
56 as resulted to reversal as a results of rules on market price technical reactions measured with MACD,
57 moving Average and japanese candle patterns, these makes potential traders conceive idea of the
58 expected direction of price movement with best regards to price actions.

59 **Discussions**

60 As a result of MACD negative Divergence and the occurrence of multiple tops that make great impact
61 of price to reverse because both conditions oblige as the price ascending upward which means price
62 do definitely reverse and gives new trend in bearish engulfing pattern. In reciprocal, trade
63 requirement for MACD positive divergence with occurrence of multiple bottoms that will create bull
64 engulfing pattern for up trend initialization.

65 33 exponential moving average (High,Low,Close) is a unique strategy to monitor trends, it enables
66 traders to follow trend as it advance by entering market with retracement low-low on uptrend and
67 high-high on down trend.

68 Japanese Candle stick pattern review price information for traders to make decision by following
69 chartistic trading rules. Major reversal pattern gives traders potential chance to prepare for new
70 market direction. Trends pattern allow traders to follow price actions as it unfolds, moreso, to trade
71 winning paths of major current trends in either uptrend (Bullish candle stick patterns) or
72 downtrend(bearish candle stick patterns). Execution trades is an height of sending request over meta
73 trade client terminal to broker server of which an authentication is sent to meta bank on broker
74 approval. Active position signifies status of concurrent orders (buy or sell) which will reside on trade
75 tab and the trade history shows all completed (close) trades displayed in profits and loss trades.

76 News events is an economic indicator that allow traders to follow fundamental analysis forecasted by
77 Forex factory and other news companies in relation to actions even on countries economic activities.
78 According to the findings, it shows that news is like a catalyst that speed up market price on
79 immediate release because successful trader only take advantage of high impact news that spikes
80 market price.

81 **Observation**

82 Combination of technical and fundamental analysis gives excellent trade results because market
83 price is always right and obey both analysis on reactions.

84 Interday traders make trade activities on long time(days, Weeks, Months) basis and dominate global
85 market because they posed giant capital on long time investment while intraday traders complete all
86 trading activities within a day and popularly known as market scalpers because of their little startup
87 investment.

88 The most active and trending trading activities was discovered in two sessions (London and US) of
89 which market price gain highest volatility especially US session.

90 **Conclusion**

91 Experience is required on technical and fundamental analysis in order to forecast accurately since
92 analysis is a principal factor of making profit target on global market therefore traders sustain in
93 global market using both forecast strategies to support trading decision.

94

95 **Recommendation**

96 Importance of technical and fundamental analysis cannot be overemphasised for making trade
97 decisions and limit losses. Being a perfect economic indicators to monitoring, evaluate and
98 forecasting market price therefore, It is a guide to support traders on capital management to
99 strenghten investment margin. Technical and fundamental analysis is best employed in London and
00 US trading sessions for both interday and intreday traders.

01 Traders should take precautions on prematured trends and false signals based on sentimental news,
02 overbought and oversold trading zones to avoid trade loss. Protecting accounts with the use of stop
03 loss and take up profit on every trade executions is hereby recommended.

04

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