

Syrian Private University
الجامعة السورية الخاصة
Faculty of Business Administration
كلية إدارة الأعمال

“Foreign Exchange management”
Part IV (lecture 8,9,10)
“Foreign exchange forecasting”
Technical and fundamental Analysis

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Foreign exchange forecasting - Introduction

Technical analysis and fundamental analysis

- ✓ Technical analysis and fundamental analysis differ greatly, but both can be useful forecast tools for the Forex trader.
- ✓ They have the same goal - to predict a price or movement.

- ✓ The technician studies the **effect while,**
- ✓ The fundamentalist studies **the cause of market movement.**

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Technical analysis

- ✓ Technical analysis is a method of predicting price movements and future market trends by studying charts of past market action.
- ✓ Technical analysis is concerned with what has actually happened in the market, and creates charts from that data to use as the primary tool.
- ✓ Technical analysis is built on three essential principles:

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Technical analysis: PRINCIPLES

- ✓ **Market action discounts everything**

This means that the actual price is a reflection of everything that could affect it, for example, supply and demand.

- ✓ **Prices move in trends**

Technical analysis is used to identify patterns of market behavior that have long been recognized as significant.

- ✓ **History repeats itself**

The manner in which Forex chart patterns are repeated.

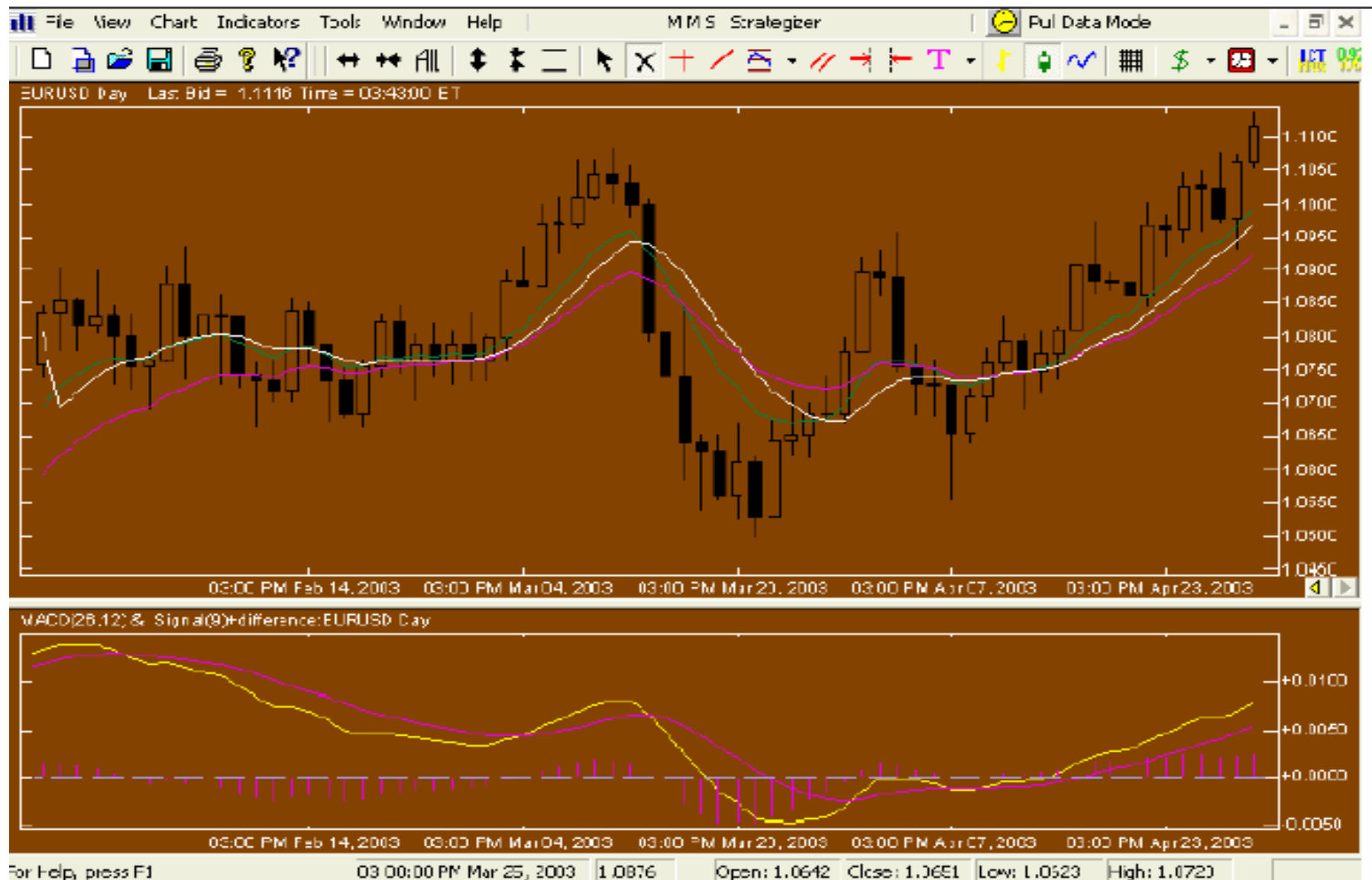
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Technical analysis: How does it work

- ✓ The technical analysis is made using graphs (charts) showing the movement of a currency's price for past periods.
- ✓ The traders take a look at the currency price chart and then use the technical analysis techniques that can help him in predicting how much the price of this currency will be after a period of time.
- ✓ On the basis of this forecast he will decide whether to buy or sell this currency.
- ✓ Let's look at a type of such graphs analyzed by traders:

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Technical analysis: How does it work



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Technical analysis: How does it work

- ✓ The above chart is based on the EUR / USD exchange rate within several days. The traders study this chart and apply the technical analysis techniques so that they can then decide how much the EUR / USD rate will be in the coming days.
- ✓ If he is convinced that the EUR / USD will rise, trader will buy the Euro, but if he see the opposite direction m he will sell the euro.
- ✓ *We will briefly explain each part of the chart after a while.*

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Technical analysis: Time frame

- ✓ you follow the movement of a currency price, in order to answer the following question: Will the currency price rise or fall? How many points will it rise or fall?
- ✓ Given this question, you need to know how much this currency was an hour ago and how it was two hours ago and three and four hours!!!!
- ✓ If you find that the price of the currency rises more and more every hour, you expect that this rise will still continue.
- ✓ This means that the best option is to buy this currency because its price will rise steadily over hours.

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Technical analysis: Time frame

- ✓ When you study the currency price for hour after hour, you find that the time frame is Hourly, and so for daily, monthly..... Etc).
- ✓ When you follow the currency price for a previous period, what information are you looking for?

Open price, Close price, High price, Low price

What does that mean?

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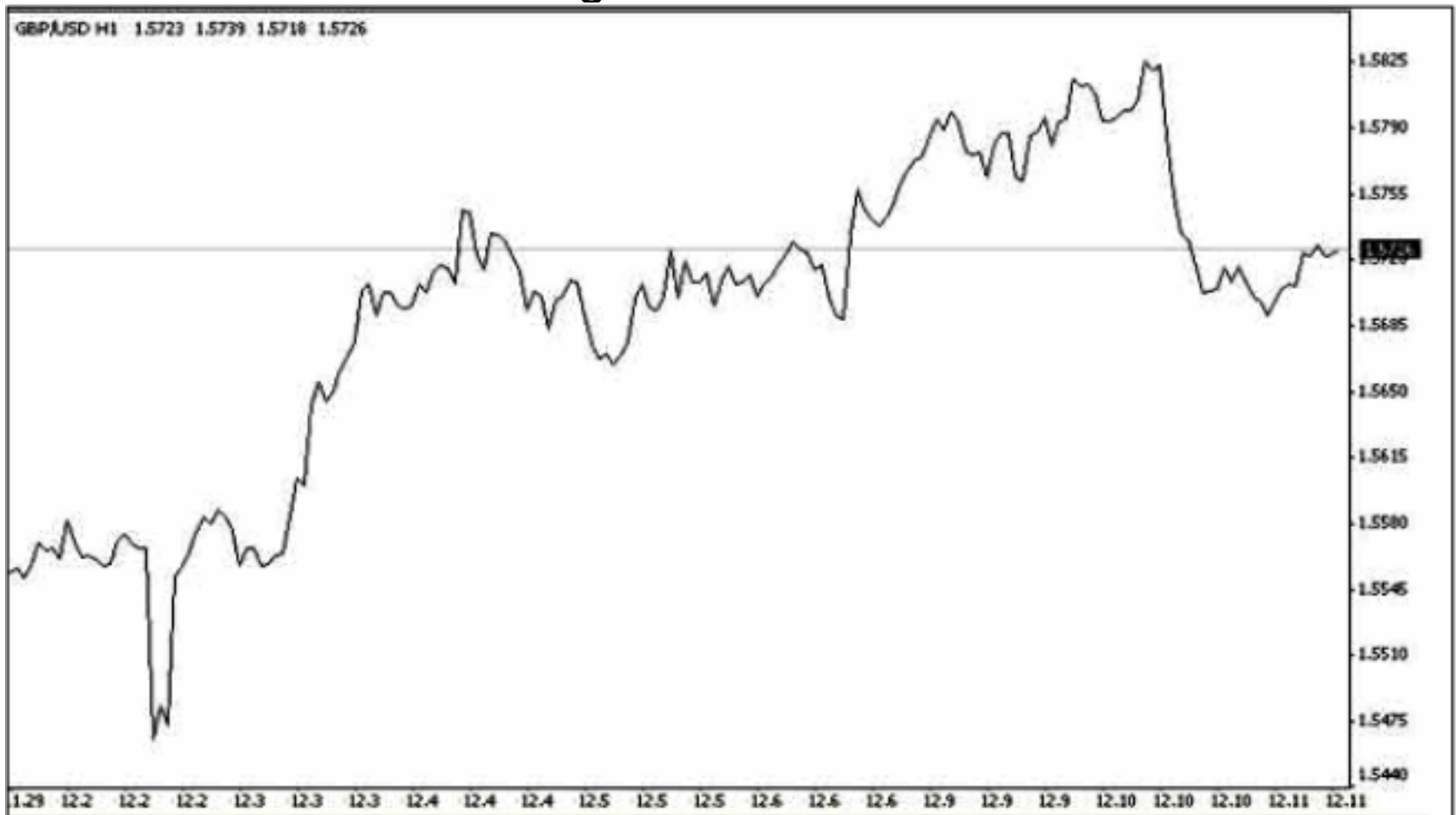
Technical analysis: Time frame

- ✓ **Open price:** what was the currency price at the beginning of the hour, or day or a specified period.
- ✓ **Close price:** what was the currency price at the end of the hour, or day or a specified period.
- ✓ **High price:** the highest price being arrived by the currency price over an hour, a day, or a specified period.
- ✓ **Low price:** the lowest price being arrived by the currency price over an hour, a day, or a specified period.

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Technical analysis: Chart example

✓ Look at the following chart



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Technical analysis: Chart example

- ✓ In the above figure, you see the chart for the GBP against the USD per hour.
- ✓ It is one of the types of charts that reflect the movement of the price and you will now learn how to read the chart of any currency.
- ✓ When you learn to read the chart of currency movement you will be able to read Chart of the movement of the price of any stock or commodity on the international stock exchanges.

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Technical analysis: Chart types

- ✓ Currently, there are three ways of expressing the movement of the currency price which is most widely used by all traders around the world and in various types of exchanges and financial markets
- ✓ Let's take a look at the three most popular types of charts:
 - 1.Line chart
 - 2.Bar chart
 - 3.Candlestick chart

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Technical analysis: Chart types - *Line Charts*

- ✓ A simple line chart draws a line from one closing price to the next closing price.
- ✓ When strung together with a line, we can see the general price movement of a currency pair over a period of time.
- ✓ Here is an example of a line chart for EUR/USD:

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Technical analysis: Chart types - *Line Charts*



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Technical analysis: Chart types - *Line Charts*

- ✓ As you can see, the euro price was in decline until 30/7 and then turned to the upside.
- ✓ Linear charting is the least common type of chart.
- ✓ The other two types capture the interest of most traders because they give greater, finer, and clearer information about the pairs price movement.

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Technical analysis: Chart types – *Bar Charts*

- ✓ A **bar chart** also shows closing prices, while simultaneously showing opening prices, as well as the highs and lows.
- ✓ The bottom of the vertical bar indicates the lowest traded price for that time period,
- ✓ while the top of the bar indicates the highest price paid. So, the vertical bar indicates the currency pair's trading range as a whole.
- ✓ The horizontal hash on the left side of the bar is the opening price, and the right-side horizontal hash is the closing price.
- ✓ *Here is an example of a bar chart for EUR/USD:*

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Technical analysis: Chart types – *Bar Charts*

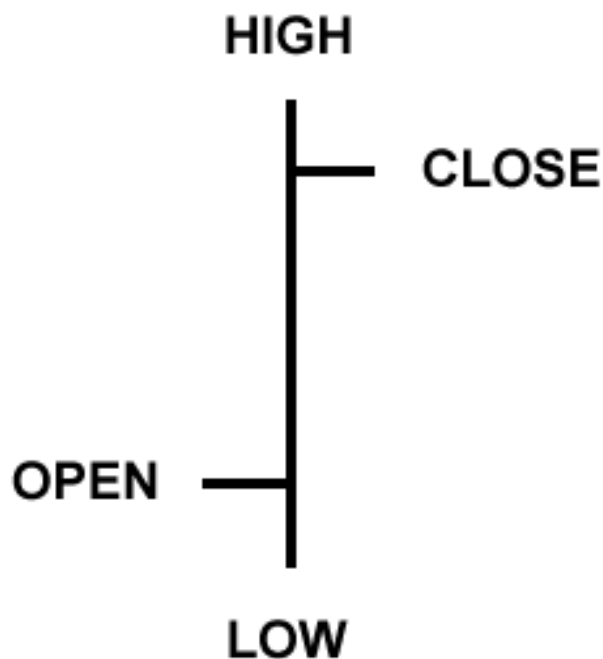


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Technical analysis: Chart types – *Bar Charts*

- ✓ Bar charts are also called “OHLC” charts, because they indicate the **O**pen, the **H**igh, the **L**ow, and the **C**lose for that particular currency.

Here’s an example of a price bar:



Open: The little horizontal line on the left is the opening price.

High: The top of the vertical line defines the highest price of the time period.

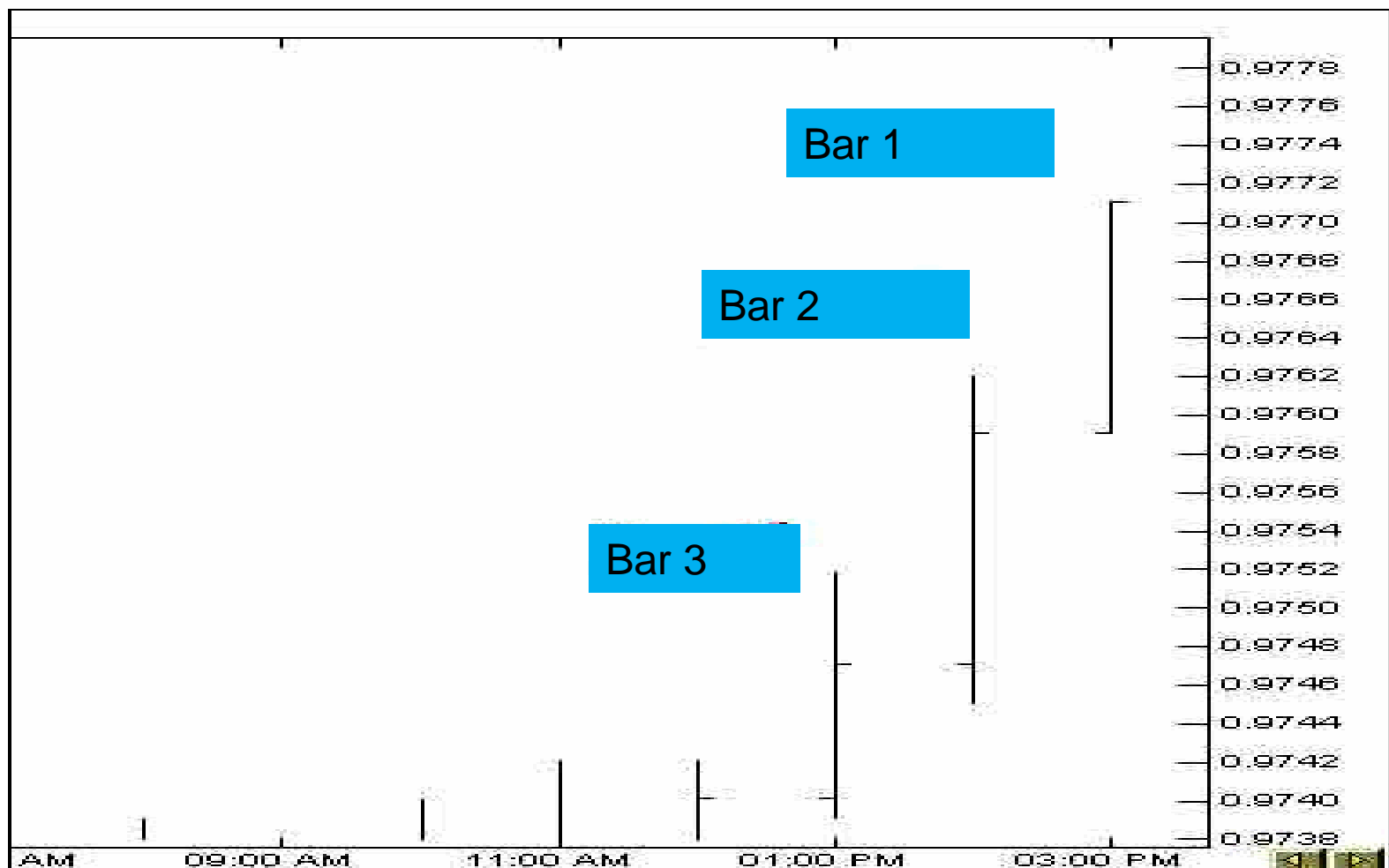
Low: The bottom of the vertical line defines the lowest price of the time period.

Close: The little horizontal line on the right is the closing price.

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Technical analysis: Chart types—*Bar Charts - Examples*

✓ *Example 1:*



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Technical analysis: Chart types–*Bar Charts - Examples*

- ✓ This chart for the EUR / USD and the time frame is the hour.
- ✓ **Bar 1:** references the price moves at 3 o'clock, where the opening price = 0,9759. also it represents lowest price being reached by the Euro during this hour. Closing price is 0,9771. Which refers as well to the highest price of the Euro.
- ✓ **Bar 2:** represents price moves at the 2 o'clock where the opening price =0, 9747. And the lowest price during this hour = 0,9745. Closing price = 0,9759. The highest price was during this hour =0, 09762.

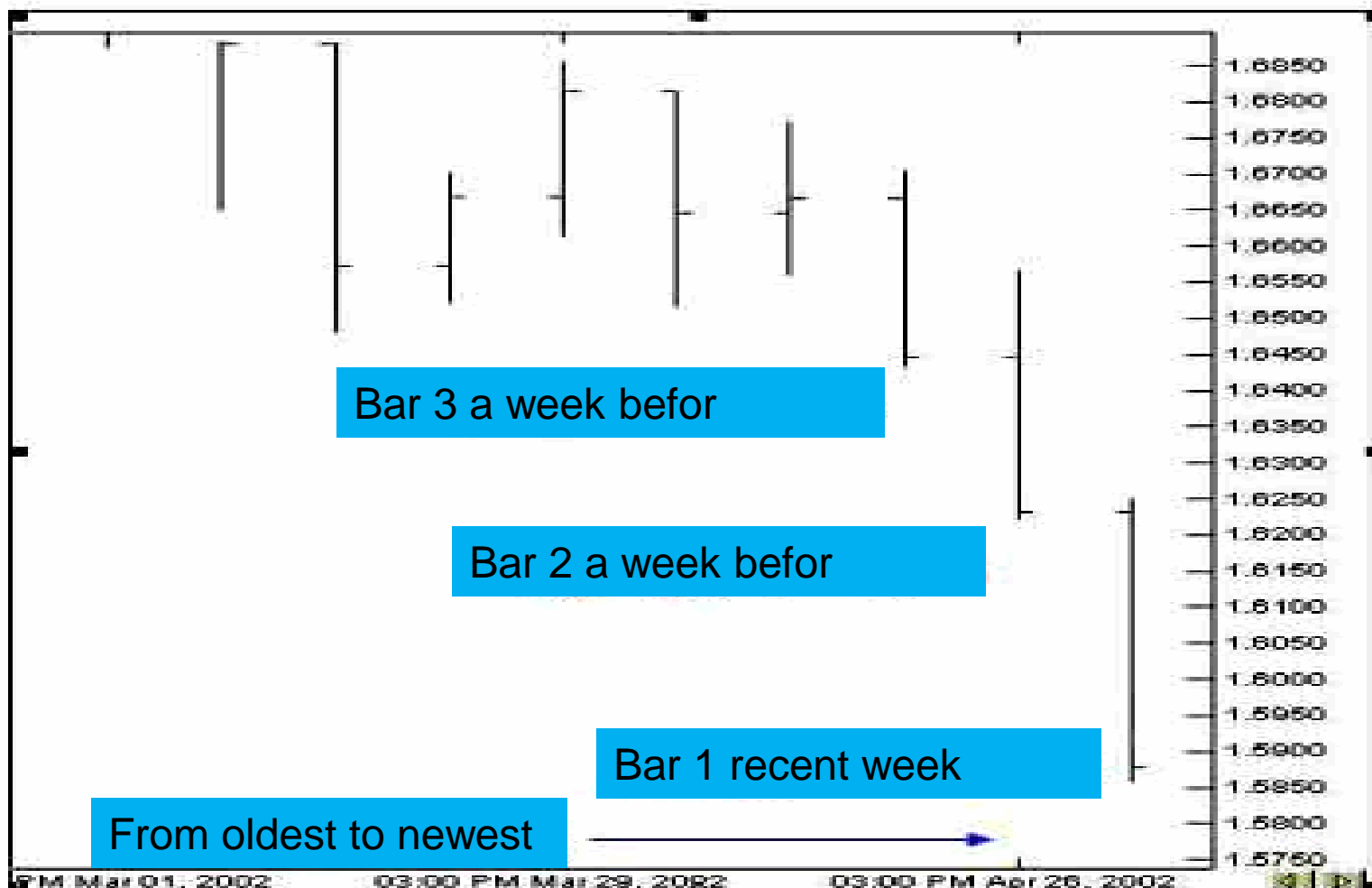
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Technical analysis: Chart types—*Bar Charts - Examples*

- ✓ This chart for the EUR / USD and the time frame is the hour.
- ✓ **Bar 3:** represents the price movement at 1 o'clock where the opening price = 0,9740. And the lowest exchange rate during this hour = 0. 9739. The closing price was = 0,9747. The highest price was = 0,975
- ✓ Let's take another example which chart the price of USD/CHF and the time frame is the week.

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Technical analysis: Chart types—*Bar Charts - Examples*



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Technical analysis: Chart types—*Bar Charts - Examples*

- ✓ **Bar 1:** represents the recent week where the Franc was worthing at the beginning of the week (opening price) = 1.6240, which appears by the small hash on the left side of the bar. The highest price being reached by the franc this week = 1.6250, and the closing price (at the end of the week) of the Franc against dollar = 1.5875, which is represented by the small hash on the right side of the bar. The lowest price being arrived by the franc this week was = 1.5860.

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Technical analysis: Chart types—*Bar Charts - Examples*

- ✓ **Bar 2:** represents the previous week where the opening price of the franc = 1.6450 and the highest price was = 1.6555 was the price. The closing for this week = 1.6235 and the lowest price = 1.6225.
- ✓ **Bar 3:** represents the week before where the opening price of the franc was 1.6675 and the highest price for this week = 1.6725 and the closing price = 1.6450 and the lowest price = 1.6440.

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Technical analysis: Chart types– *Candlestick Charts*

- ✓ **Candlestick charts** show the same information as a bar chart, but in a prettier, graphic format.
- ✓ Candlestick bars still indicate the high-to-low range with a vertical line.
- ✓ However, in candlestick charting, the larger block in the middle indicates the range between the opening and closing prices. Traditionally, if the block in the middle is filled or colored in, then the currency closed lower than it opened.

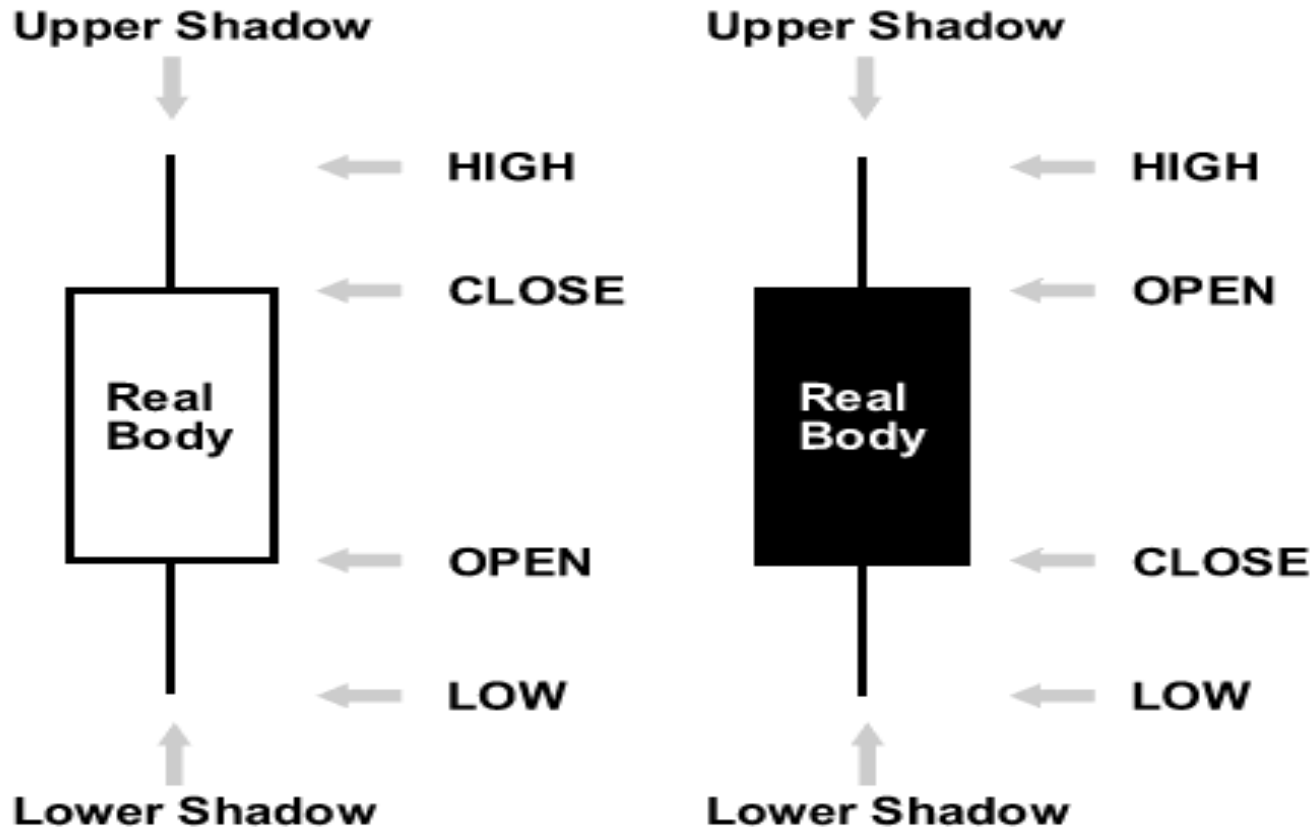
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Technical analysis: Chart types– *Candlestick Charts*

- ✓ In the following example, the ‘filled color’ is black.
- ✓ For our ‘filled’ blocks, the top of the block is the opening price, and the bottom of the block is the closing price.
- ✓ If the closing price is higher than the opening price, then the block in the middle will be “white” or hollow or unfilled.

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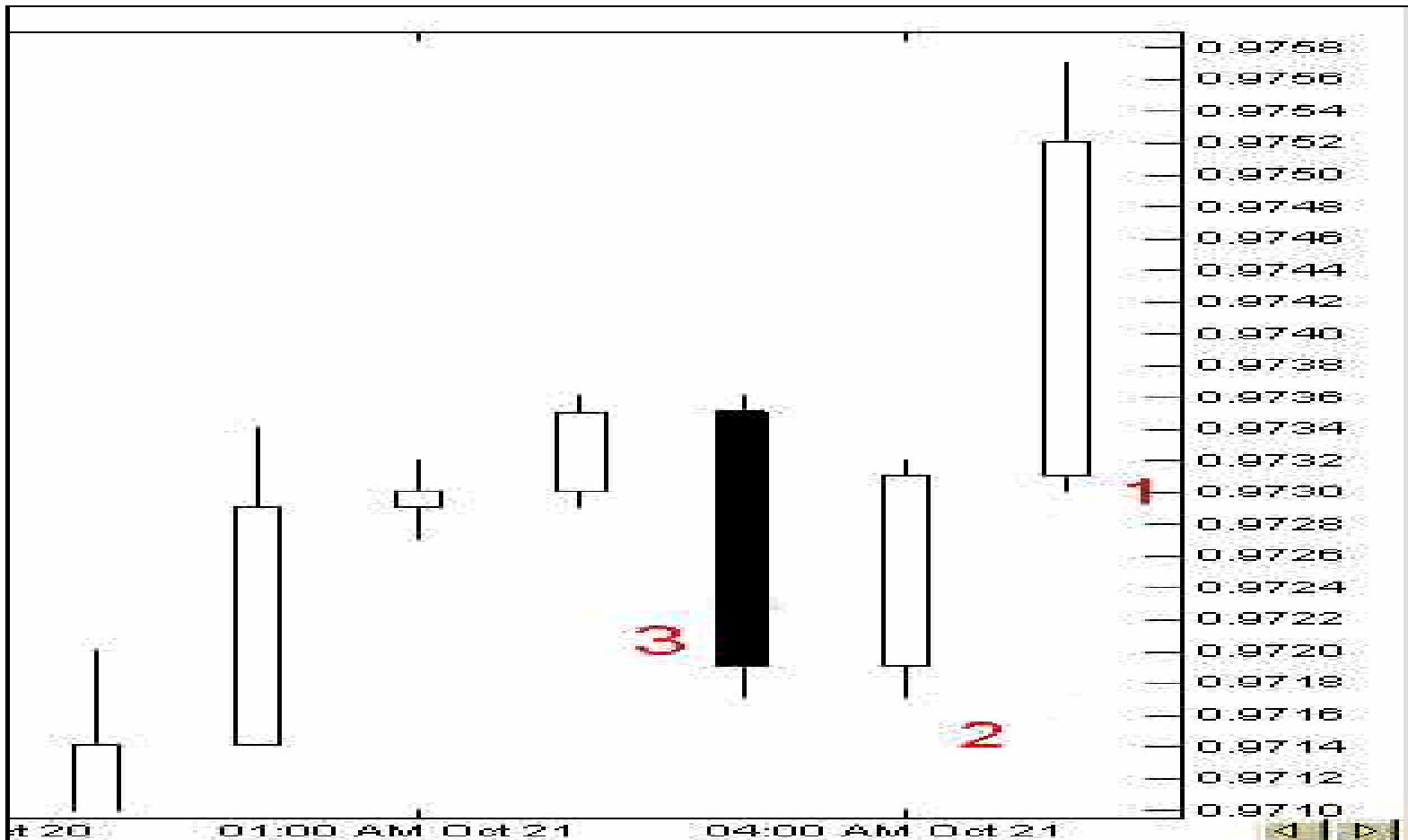
Technical analysis: Chart types– *Candlestick Charts*



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Technical analysis: Chart types– *Candlestick Charts*

- ✓ Example 1 : This chart is for the Euro against the Dollar and the time frame is one hour.



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Technical analysis: Chart types– *Candlestick Charts*

- ✓ **Candle 1:** It represents the current hour and as you can see it is a bullish candle indicating that the price is moving up during this hour. The opening price was 0,9731 (Bottom of the block), and lowest price = 9730, which is indicated by the lower end of the line. The closing price is at 0,9752 (Upper of the block) and as you notice the closing price is higher than the opening price, therefore candlestick is a bullish one, while the highest price of the Euro against dollar reached the at this time =0,9757, Which is represented by the upper end of the line.

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Technical analysis: Chart types– *Candlestick Charts*

- ✓ **Candle 2:** represents the hour that preceded, which is also an ascending candle with its opening price = 0,9719. Its closing price = 0,9731. The hour started at a price and ended at a higher price so it is a bullish candle, and the highest price for this time is 0,9732. The lowest price = 0,9717.

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Technical analysis: Chart types– *Candlestick Charts*

- ✓ **Candle 3** represents the hour before the previous candle, and as you see it's a bearish candle indicating that the price started at a price and ended at a lower price. The opening price was = 0,9735 (The upper end of the block) and the closing price = 0,9719 (the lower end of the block). The highest price = 0,9736 and the lowest price = 0,971