

Fundamental Forex Strategies: Trade the Euro with the IFO Report

Each month in Munich, the IFO Institute for Economic Research releases the IFO business climate survey. This is one of the most important economic figures for many Forex traders. The IFO Report is a figure that measures the results of 7,000 questionnaires completed by major German companies. The report measures the sentiment of the current and near future business climates. German companies have three options for responses when filling out the current business climate section of this survey; Good, Satisfactory, and Poor. For the near term climate questionnaire the firms have the following three options; Most Favorable, Unchanged, and More Unfavorable.

Basic Categories of the IFO Report:

Manufacturing

Construction

Whole sale

Retail sale

Understanding the Statistic:

The baseline of the IFO report is 100 points, and each month the number can fluctuate by 100 points above or below this baseline figure.

-An IFO report **reading of 100** shows that the business climate has remained neutral.

-An IFO report **reading above 100** means that the business climate has become healthier. The higher the number, the healthier the business climate.

-A strong economy might lead to inflationary pressure, which will in turn cause the ECB to tighten the interest rate. In this scenario, a tighter interest rate will lead to an appreciation of the Euro.

- An IFO report **reading that falls below 100** signifies an unfavorable business climate which could lead to an economic slowdown or recession. To keep away from a recession, the ECB may decide to cut interest rates, which will in turn lead to a depreciating Euro.

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