

**GBP/AUD FUNDAMENTAL OUTLOOK**

GBP/AUD has recently seen an increase in both volatility and price, with the rate currently trading considerably higher than its low of 1.6217 made on May 12th. The rally is partly the result of the increasing probability of a rate hike by the BOE to keep down inflation, combined with a stable RBA rate outlook.

Two weeks ago, BOE Governor Mervyn King wrote to George Osborne, the freshly-appointed U.K Chancellor of the Exchequer, to the effect that he anticipated inflation would fall to the government's 2% target within the year. King's letter also noted that, "Inflation has been somewhat higher than expected over the past year and the Committee (which sets rates) is conscious that the pace and extent of the prospective fall in inflation are highly uncertain."

Also, the interest rate outlook for Australia was clarified this Monday as the RBA left its key Cash Rate unchanged at 4.5%. Traders are now no longer expecting another rate hike by the RBA in the medium term. In his statement released after the announcement, RBA Governor Stevens noted that, "Conditions in Europe overall have been relatively weak, and the foreshadowed budgetary tightening will probably mean that this will continue." This was in reference to austerity measures currently being contemplated by the European economies.

In addition, BOE Governor King noted in a statement last week that, "Both the strength of the recovery and the impact of the financial crisis on the supply potential of the economy remain highly uncertain." He also added that the BOE would expand its asset purchase program if necessary.

While the U.K. political situation has stabilized to some degree, the future for U.K. monetary policy remains unclear, although the BOE is expected to leave rates unchanged on June 10th. Traders will be watching the U.K. CPI report and Inflation Report hearings on June 15<sup>th</sup> to assess how the BOE will tackle inflation. A passive response should see GBP/AUD soften.

**ECONOMIC CALENDAR - Major Releases for June 2010**

- June 1, 2010 – RBA Rate Stmt and Cash Rate, Aus. Retail Sales
- June 2, 2010 – Australian GDP
- June 3, 2010 – Aus. Trade Balance, UK HPI data & Services PMI
- June 4-5, 2010 – G20 Meeting in Seoul
- June 10, 2010 – Aus. Employment Data, UK Rate Decision
- June 11, 2010 – UK Manufacturing Production, PPI and GDP Est
- June 15, 2010 – Aus. MP Minutes, UK CPI & Inflation Rpt Hearings
- June 16, 2010 – UK Employment Report
- June 18, 2010 – UK Retail Sales
- June 22, 2010 – UK BBA Mortgage Approvals & Annual Budget
- June 30, 2010 – UK Final GDP and Current Account

**GBP/AUD TECHNICAL OUTLOOK**

The GBP/AUD cross has been trading within a well-defined downward channel since early 2009, with the rate making a fresh low at 1.6218 on May 12<sup>th</sup> of this year.

The lower trend line of this long-term down channel is currently drawn at 1.4648, while the parallel upper trend line comes in at 1.7730. Although a recent corrective rally has brought the rate sharply higher to test its upper trend line, these levels appear to be better selling opportunities as the down trend seems set to continue even further over the coming months.

Furthermore, the medium-term outlook remains firmly bearish for the cross, as long as GBP/AUD continues to show weekly closes below its 200-day Moving Average that now comes in at 1.7588 and is sloping convincingly downward. In addition, the 14-day RSI for the pair is currently at 66 and nearing its overbought territory level of 70. Nevertheless, increasing signs of bearish divergence on this key indicator tend to point to the current corrective rally being in the process of losing steam.

Overall, this technical scenario tends to favour a strategy of selling rallies in GBP/AUD near present levels to establish medium-term short positions in the direction of the prevailing downwards trend. Medium term target profit-taking levels for this trade would initially be near the recent 1.6218 low, and in any case ahead of the prevailing channel bottom that currently comes in at 1.4648 and is declining. Stops would be placed safely above the channel top that is now at 1.7730 and falling.

**MAJOR LEVELS**

Current level 1.7661

Resistance	1.7775	Support	1.7260
Resistance	1.8281	Support	1.6997
Resistance	1.8470	Support	1.6218

**GBP/AUD – WEEKLY CHART**



Contact **Jan Borgelt** at OzForex on +61 2 8667 9103 or email [jan.borgelt@ozforex.com.au](mailto:jan.borgelt@ozforex.com.au)

**DISCLAIMER**

IMPORTANT: This information has been prepared for distribution over the internet and without taking into account the investment objectives, financial situation and particular needs of any particular person. OzForex Pty Ltd makes no recommendations as to the merits of any financial product referred to in its website, emails or its related websites. Please view our Product Disclosure Statement at: <http://www.ozforex.com.au/documents/pds.htm> Please view our Privacy Statement at: <http://www.ozforex.com.au/documents/privacy.htm> Please view our Dispute Resolution Policy at: <http://www.ozforex.com.au/documents/dispute.htm>