

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD traded on the softer side in February as lower commodity prices and risk appetites weighed on the rate. Nevertheless, AUD/USD opened March with a firm tone after the RBA decided to raise its benchmark Cash Rate by 25 bps to 4% on March 2nd. This move surprised much of the market that was expecting rates would stay unchanged for another month, and sent AUD/USD higher. The rate had traded under the 0.8935 level just prior to the rate hike, and proceeded to rally from there, hitting 0.9057 after the announcement.

In his associated statement released on March 2nd, RBA Governor Glenn Stevens justified the move by citing a growing global economy and expanding world GDP during 2010 and 2011, despite credit conditions remaining difficult in many other countries. He noted that Australia's economy had been stronger-than-expected after a mild downturn a year ago, and added, "With the risk of serious economic contraction in Australia having passed, the Board moved late last year to lessen the degree of monetary stimulus that had been put in place when the outlook appeared to be much weaker." Governor Stevens finished his statement by observing that with growth and inflation trending close to target, "over the coming year, it is appropriate for interest rates to be closer to average. Today's decision is a further step in that process."

The U.S. Economy, on the other hand, appears to be showing signs of inching out of recession, despite its continuing struggles with a deepening credit crisis, the sub-prime mortgage debacle and a still-lingering general economic slowdown. Even with positive numbers, U.S. Consumer Confidence is at its lowest levels in ten months. With U.S. manufacturing having expanded for the seventh month in a row, the market now looks for direction to the U.S. Employment Report on March 5th where expectations center on -35K for NFP and 9.8% for the Unemployment Rate. The G8 meeting scheduled for the end of March may also prove interesting.

AUD/USD TECHNICAL OUTLOOK

AUD/USD consolidated most of last month comfortably above its 200-day MA which currently comes in at 0.8656 and continues rising. This indicates that the medium-term outlook remains bullish, although the rate did come close to that key MA (then at 0.8559) when it traded down to 0.8577 on Feb 5th. That seems to have formed a medium-term low after meeting a wave equality target at 0.8656.

The rate is now retracing its move from 0.9328 to 0.8577, which has temporarily stalled for a breather after trading up to 0.9070 on Feb 23rd. This level was just beyond the previous Feb 17th 0.9035 high and the move's important 61.8% Fibonacci retracement level at 0.9041. This prompted a reaction lower in AUD/USD to 0.8799, which in the process broke support coming from a short-term upwards-slanting trend line then at 0.8947. Although this effectively neutralised the short-term outlook for AUD/USD, it remains bullish medium-term.

At present, AUD/USD is now correcting higher from that 0.8799 low of Feb 25th, and now that the pair has broken above the 61.8% Fibonacci retracement level at 0.8966, this should lead the rate back to 0.9070. Also, with the 14-day RSI in neutral territory at 51, the market is awaiting a clear directional signal. With the AUD/USD's current strength, this could come on a break of 0.9070 which would again reassert the short-term bullish scenario and set up 0.9328 as an initial target, with the 0.9405 Nov 16, 2009 high and the 0.9849 Jul 15, 2008 high after that.

MAJOR LEVELS

		Current level 0.9050	
Resistance	0.9070	Support	0.8799
Resistance	0.9328	Support	0.8656
Resistance	0.9405	Support	0.8577

ECONOMIC CALENDAR - Major Releases for Mar 2010

- March 2, 2010 – RBA Statement and Cash Rate, Aus. Retail Sales
- March 3, 2010 – Australian GDP
- March 4, 2010 – Australian Trade Balance
- March 5, 2010 – U.S. Employment Report
- March 11, 2010 – Aus. Employment Report & U.S. Trade Balance
- March 12, 2010 – U of M Consumer Confidence & U.S. Retail Sales
- March 16, 2010 – U.S. FOMC Statement & Fed Funds Rate
- March 17, 2010 – U.S. Producer Price Index (PPI)
- March 19, 2010 – U.S. Consumer Price Index (CPI)
- March 26, 2010 – U.S. Final GDP
- March 29-31, 2010 – G8 Meeting, Australian Retail Sales

AUD/USD – WEEKLY CHART



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