AUD/USD in Focus

October 2011

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD declined a whopping -10.6% in September amid mass risk aversion and tumbling commodity prices. Australian economic numbers (with the exception of employment) came in mostly better than expected. Australian GDP expanded +1.2% q/q, while U.S. numbers were mixed to mostly weaker.

The RBA left its benchmark Cash Rate unchanged at 4.75% on October 4th. In his statement following the rate decision, Governor Glenn Stevens made comments which the market interpreted as dovish stating that, “Conditions in global financial markets have continued to be very unsettled, with uncertainty increasing about both the prospects for resolution of the sovereign debt and banking problems in Europe, and the outlook for global economic growth.” Many analysts are now expecting a 25 bps RBA Cash Rate cut as soon as Q4 2011.

United States economic numbers in September continued showing growth in some sectors. Nevertheless, an underlying weakness seems to prevail. U.S. employment growth seems to be at a standstill, with the next Non-Farm Payroll number expected to be flat, growth could turn negative. Nevertheless, some signs of improvement were seen last month with U.S. Final GDP showing a solid +1.3% quarterly rise. The FOMC also unveiled its most recent stimulus measures that have now been dubbed “Operation Twist” by the market. The program will involve the issuance of $400B in new short-term bonds, while buying back bonds with 3-6 year maturities. In recent testimony before Congress, Federal Reserve Chairman Ben Bernanke worried the market further by stating that, “the economy is close… the recovery is close…to faltering,” and that the current stimulus measures would be “meaningful but not an enormous support to the economy.”

With the interest rate differential and economic fundamentals continuing to favour the Australian Dollar, last month’s enormous decline in AUD/USD may prove to be short lived. The market will now look to Australian Employment numbers out on the 13th, Australian CPI on the 26th, and U.S. Non-Farm Payrolls on the 7th for further indications on the direction of AUD/USD.

ECONOMIC CALENDAR Major Releases

7th US Non-Farm Employment Change, Unemployment Rate
10th Australian ANZ Job Advertisements
11th Aus. NAB Bus. Conf., US FOMC Meeting Minutes
12th Aus. Westpac Consumer Sentiment, Home Loans
13th Aus. MI Infl. Exp., Emp. Change, Unemp, US Trade Bal.
14th US Retail Sales, Core Retail Sales. G20 Meetings
18th Aus. Monetary Policy Meeting Minutes. US PPI
19th Aus. NAB Quarterly Business Conf., US Building Permits
24th Australian PPI
26th US Durable Goods Orders, New Home Sls. Aus. CPI.
30th US Advance GDP

AUD/USD TECHNICAL OUTLOOK

After trading correctively higher during much of August to peak at 1.0765 on Aug 31st, AUD/USD then fell sharply throughout much of September and early October. This notable decline has thus far reached as low as 0.9387 on Oct 3rd.

From an Elliott Wave perspective, the latest sharp downward move from the 1.0765 peak of Aug 31st appears to be a C wave of a zig zag correction that began with an initial A wave lower from 1.1080 to 0.9926. If so, the C wave has already fallen below the key 1:1 Fibonacci Projection ratio of 0.9611, and so the next Fibonacci ratios of 1:1.236 = 0.9339, 1:1.382 = 0.9170, 1:1.5 = 0.9034, 1:1.618 = 0.8898 and 1:2 = 0.8457 should now come into play as potential targets for the conclusion of this decline. Furthermore, AUD/USD has now broken considerably below its former rising long term support trend line currently drawn at the 0.9968 level. This can accelerate the downside for the rate considerably, and has already resulted in a deeper correction for AUD/USD that may evolve into an extended consolidation phase for the rate.

Supporting this consolidation scenario is the fact that the rate’s 14-day RSI indicator has thus far bottomed at 26 in oversold territory, but then made an additional low with an RSI reading of only 28, thereby showing bullish divergence in oversold territory that indicates a bounce may be forthcoming near term. If so, this could come just ahead of the 1:1.236 Fibonacci Projection target of 0.9339. Nevertheless, the rate’s key 200-day Moving Average now reads at 1.0382 with a mild downward slope that has now reversed the former medium term bullish outlook to bearish, and which could provoke further selling from longer term trend traders.

Overall, AUD/USD may see a near term bounce, but provided that the rate stays below the 1:1 Fibonacci Projection ratio of 0.9611, the current corrective C wave decline seems likely to resume again to test one or more of its lower Fibonacci Projection targets.

MAJOR LEVELS	Current level 0.9552
Resistance 0.9696	Support 0.9328/405
Resistance 0.9926	Support 0.9000
Resistance 1.0390	Support 0.8767

AUD/USD – WEEKLY CHART

Contact Jan Borgelt at OzForex on +61 2 8667 9103 or email jan.borgelt@ozforex.com.au

AUD/EUR in Focus

October 2011

AUD/EUR FUNDAMENTAL OUTLOOK

AUD/EUR declined in September, falling -2.8% overall. The cross-rate dropped in large part due to continued risk aversion, with asset flows channelling funds out of the commodity currencies including the Aussie and into the U.S. Dollar and Japanese Yen, as well as the Swiss Franc and Sterling. Sharply lower oil and gold prices also played a key role in the Aussie's decline versus the Euro.

Despite Germany agreeing to participate in the Greek bailout early in the month, continued uncertainty persists with Greece unable to meet its financial obligations to the Troika, or IMF, EC and ECB. The Troika will not release the next €8B bailout without compliance to its terms. A meeting on the bailout was scheduled for the 13th, but was postponed until November. According to EC Chair Juncker, Greece can hold out against default until mid-November when it will run out of money again.

The ECB left rates unchanged at 1.50% in September. ECB President Trichet noted after the rate decision that, "we expect the euro area economy to grow moderately, subject to particularly high uncertainty and intensified downside risks."

Australian economic numbers showed some improvement in September, with GDP growth coming in at +1.2% for the quarter. Nevertheless, the exception was employment, with the Australian Unemployment Rate climbing to 5.3% from 5.1%.

Also, the RBA left its benchmark Cash Rate unchanged at 4.75% on October 4th. In his statement after the decision, Governor Glenn Stevens stated that, "Conditions in global financial markets have continued to be very unsettled, with uncertainty increasing about both the prospects for resolution of the sovereign debt and banking problems in Europe, and the outlook for global economic growth."

The AUD/EUR cross currently looks set to consolidate over the coming month, although the market will now look to the ECB Rate Decision on the 6th, the Australian Monetary Policy Meeting Minutes on the 18th and will be keeping a watchful eye on sovereign debt developments in the Eurozone for further insight into the direction of the cross rate.

AUD/EUR TECHNICAL OUTLOOK

After selling off sharply during early August to the 0.7010, AUD/EUR then corrected higher during the latter part of August and into mid September, reaching the 0.7672 by Sept 11th. The cross then came off again, falling to the 0.7096 level by Oct 3rd.

From an Elliott Wave perspective, the double top that AUD/EUR made in the 0.7732/33 area, combined with the three major lows in the 0.6957/0.7096 region seem to have formed a medium term trading range for the cross. While range trading should prevail while awaiting fresh highs or lows, a break outside of the range defined by the 0.6957 low and 0.7733 high on substantial volume should then result in a substantial move in the direction of the breakout for the AUD/EUR cross. Although the former upward trend suggests a break to the upside, the double top may also result in a downside break.

Furthermore, although it has been trading around the indicator recently, the AUD/EUR cross rate is currently below its 200-day Moving Average that now reads 0.7382, with an increasingly downwards slope that yields a bearish medium term scenario. Also, the cross' 14-day RSI is currently at the 41 level in the lower part of neutral territory that should only mildly impede further downside price action. That RSI did exhibit bearish divergence relative to the cross rate at the most recent 0.7096 low, although not in oversold territory.

Overall, AUD/EUR still seems to be range bound above 0.6957 and below 0.7733, indicating that range trading strategies involving buying the cross ahead of 0.6957 and selling ahead of 0.7733 should be successful until a sustained break of the range on substantial volume is seen. When either side of the range is successfully breached, the resulting measuring objective would indicate a further ~776 pip move in AUD/EUR in that direction.

MAJOR LEVELS	Current level 0.7219
Resistance 0.7538/56	Support 0.7096
Resistance 0.7628/72	Support 0.7010
Resistance 0.7732/33	Support 0.6957

ECONOMIC CALENDAR Major Releases

6th ECB Rate Decision and Press Conference
10th Aus. ANZ Job Advertisements, French Industrial Prod.
11th Aus. NAB Business Confidence
12th Aus. Home Loans, Westpac Cons. Sent., EZ Ind. Prod.
13th Aus. MI Inflation Exp. Employment Change, Unemp, Rate.
18th Aus. Mon. Policy Mtg Min., German ZEW Econ. Sent.
19th Aus. NAB Quarterly Bus. Conf., EZ Current Account.
21st Aus. MI Leading Index, German Ifo Business Climate
24th Aus. PPI, EZ Industrial New Orders
26th Aus. CPI, Trimmed Mean Index

AUD/EUR – WEEKLY CHART

Contact Jan Borgelt at OzForex on +61 2 8667 9103 or email jan.borgelt@ozforex.com.au

OZFOREX Foreign Exchange Services

GBP/AUD in Focus

October 2011

GBP/AUD FUNDAMENTAL OUTLOOK

GBP/AUD continued rallying in September, with Sterling gaining an impressive +6.7% over the Aussie. A combination of greatly increased risk aversion and sharply lower commodity prices were the main reasons for the substantial rise in the cross rate since mixed economic data came out for both countries,

The BOE once again left the benchmark Official Bank Rate unchanged at 0.50% on September 8th, with the Asset Purchase Facility also left at £200B. Both figures were widely anticipated. Furthermore, the MPC Meeting Minutes released on September 27th showed a unanimous vote on the Official Bank Rate for the second straight month. In addition, the Asset Purchase Facility was kept steady by a unanimous vote in September versus the two dissenting members noted the previous month. UK CPI rose slightly to +4.5% that was more than double the central bank's objective of 2%. UK Interest rates are currently expected to hold steady despite rising inflation.

For its part, the RBA left its benchmark Cash Rate unchanged at 4.75% for the eleventh consecutive month on October 4th. In the accompanying rate statement, RBA Governor Glenn Stevens noted that, "Conditions in global financial markets have continued to be very unsettled, with uncertainty increasing about both the prospects for resolution of the sovereign debt and banking problems in Europe, and the outlook for global economic growth." Many analysts are now expecting a 25 bps Cash Rate cut as soon as 2011's 4th quarter.

The GBP/AUD cross rate appears to be entering a consolidation period above its lows, given the economic fundamentals of both countries. Nevertheless, due to the substantial interest rate differential and a stronger economy in Australia, GBP/AUD may be setting up for a directional reversal to the downside. Traders will now look to the BOE Rate Decision on the 6th, Australian Employment numbers on the 13th, the Australian Monetary Policy Meeting Minutes on the 18th, and the UK MPC Meeting Minutes due out on the 19th for further directional indications.

GBP/AUD TECHNICAL OUTLOOK

After GBP/AUD bounced off its key July 1.4759 low to 1.6386 and then sold off again in late August to reach a 1.4987 low in early September, the cross rallied notably throughout the rest of the month to peak at the 1.6358 level before selling off quickly to 1.6043.

From an Elliott Wave perspective, the latest sell off in GBP/AUD to 1.6043 appears to be the declining fourth wave of a corrective C wave higher. Given that the preceding A wave moved from the cross' all time low of 1.4759 of Jul 27th to its 1.6386 peak of Aug 8th, the current C wave that began at 1.4987 and has thus far attained 1.6358 should eventually exceed the 1.6386 level to target the progression of Fibonacci Projection levels consisting of 1:1 = 1.6614, 1:1.236 = 1.6998, 1:1.382 = 1.7236, 1:1.5 = 1.7428, 1:1.618 = 1.7619 and 1:2 = 1.8241. Only a break below the all time low of 1.4759 would now sour the tone and clear the way for a possible retest of GBP/AUD's broken upper resistance line now at 1.4106 of its former long term declining wedge and channel.

Furthermore, after trending higher to again penetrate into overbought territory as its apparent C wave progressed upwards to 1.6358, GBP/AUD's key 14-day RSI indicator has now corrected somewhat to read at the 64 level in the upper part of neutral territory that may still impede the upside. Also, the cross moved back above its 200-day Moving Average in September, and it now reads at 1.5547 with an increasingly upward slope that supports a mildly bullish medium term outlook.

Overall, the outlook for GBP/AUD over the coming month remains correctively bullish, provided that key support at 1.4759 holds.

MAJOR LEVELS	Current level 1.6051
Resistance 1.6206/57	Support 1.5967
Resistance 1.6358/86	Support 1.5565
Resistance 1.6491	Support 1.4759/91

ECONOMIC CALENDAR Major Releases

6th UK BOE Official Bank Rate,MPC Statement
7th UK Halifax HPI, PPI Input
10th Aus. ANZ Job Ads, UK Nationwide Cons. Conf.
11th UK Manuf. Prod., Trade Bal., Aus. NAB Bus. Conf.
12th Aus. Westpac Cons. Sent., Hm Lns, UK Claim. Cnt. Chng.
13th Aus. MI Inflation Expectations, Employment Ch., Unempl.
18th Aus. Monetary Policy Meeting Minutes, UK CPI, RPI
19th UK MPC Meeting Minutes, Aus. NAB Quart. Bus. Conf.
25th UK Current Acct., Prel. GDP, Aus. CB Leading Index
26th Aus. CPI, Trimmed Mean Index
28th UK Nationwide HPI, Aus. HIA New Home Sales

GBP/AUD – WEEKLY CHART

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