

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD continued its ascent in December to hit yet another new post float high point of 1.0255 on the last day of the year, rising 7% on the month. The Aussie was also up over 12% versus the Greenback last year, making it the second best performing major currency of 2010, after the Japanese Yen. The Aussie's rally was due in part to rising commodity prices, with the price of gold hitting another all time high of \$1,430.90 on December 7th. Crude oil also traded through the psychological \$90 per barrel level, which gave the Aussie additional support.

The RBA's next rate decision will be announced on February 1st, when it is expected to leave its benchmark Cash Rate at 4.75%. In last month's Rate Statement, RBA Governor Glenn Stevens noted that Australia's "terms of trade are at their highest level since the early 1950s, and national income is growing strongly as a result." He added that, "Asset values have generally been little changed over recent months and overall credit growth remains quite subdued, notwithstanding evidence of some greater willingness to lend."

The benchmark Fed Funds rate will likely remain at historical lows of <0.25%, especially with the debt repurchase program and other easing measures included in the Fed's QE II stimulus plan. Also, two regional Fed presidents — Charles Plosser of the Philadelphia Fed and Richard Fischer of the Dallas Fed — will begin voting on the FOMC. They replace outgoing FOMC member Thomas Hoenig of the Kansas City Fed, who has seemingly cast his last dissenting vote. This voting change may bring some unexpected results at the 25-26th FOMC meeting.

AUD/USD traded mostly higher for the entire month of December, with relatively few down days. Although the upside is still favoured long term, AUD/USD may be in for a substantial near term bear phase. Also, stronger recent U.S. employment and housing market data indicate the Greenback may be in for a corrective boost. The market will now be looking to Friday's U.S. NFP number and then GDP on the 29th for direction.

AUD/USD TECHNICAL OUTLOOK

AUD/USD rallied throughout most of December and even made a fresh post 1983 float high of 1.0255 on the 31st. Since then, the pair has begun a significant downside correction, trading back below the psychological 1.0000 parity level as low as the 0.9959 level seen on January 5th. The rate has continued trading within a medium term up channel bounded by an upper line currently drawn at 1.0801 and a lower line now at 0.9836, as well as a large ascending wedge pattern with an upper line at 1.0324 and a lower line at 0.8906. These chart patterns remain bullish for AUD/USD in the longer term provided that their lower support lines continue to hold. Furthermore, the rate's key 200-day Moving Average now comes in well below the recent price action at 0.9275. That fact, combined with the indicator's current positive slope, yields a bullish medium term outlook for the Aussie. Also, AUD/USD's 14-day RSI indicator is currently in the central part of neutral territory at 50 that should not present an impediment to a move in either direction.

From an Elliott Wave perspective, the recent price action channelling up from the 0.8066 low of May 25th gives an overall impulsive impression, although further upside potential for the rate may be limited near term as the final 5th wave may now have terminated at 1.0255. If so, this would indicate that corrective pressures are more likely to predominate over the coming month, without new highs being seen in AUD/USD for some time. A downside break of the rate's medium term channel line now at 0.9836 would tend to confirm this scenario. On the other hand, if new highs are indeed seen, one could look for reversals ahead of the upper wedge line now at 1.0324 and then at the channel top line now at 1.0801, plus at psychological resistance near round numbers like 1.0500 and 1.1000.

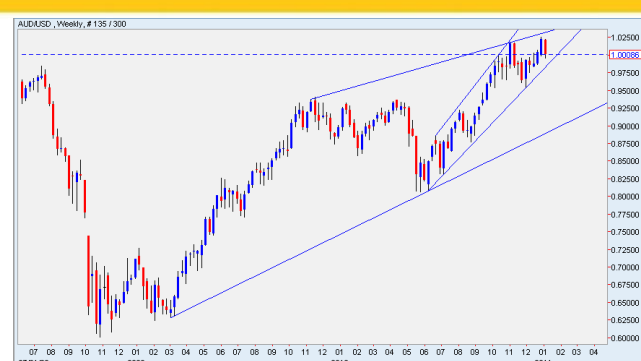
MAJOR LEVELS

		Current level	1.0003
Resistance	1.0028/65	Support	0.9953/64
Resistance	1.0182	Support	0.9849
Resistance	1.0255	Support	0.9536

ECONOMIC CALENDAR - Major Releases Jan 2011

- 8th - US Non-Farm Payrolls, US Unemployment
- 10th - Aus. Retail Sales, ANZ Job Advertisements.
- 11th - Australian Trade Balance
- 13th - Aus. Employment Change & Unempl. Rate, US Beige Book
- 14th - US Trade Balance, Initial Jobless Claims, PPI
- 15th - US Retail Sales, CPI, U. of M. Consumer Sentiment
- 18th - Aus MI Leading Index
- 20th - Aus. MI Inflation Exp., US Existing Home Sales
- 25th - Aus. CB Leading Index, Trimmed Mean CPI
- 27th - US Fed Rate Decision, FOMC Statement, New Home Sales
- 29th - US Advance GDP, Revised U. of M. Consumer Sentiment

AUD/USD – WEEKLY CHART



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