

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD rose just 0.3% in May after making another post-float high of 1.1012 on May 2nd. The price action in the Aussie correlated significantly with the price of gold, which made its all-time high of \$1,575.45 also on May 2nd but then fell sharply down to \$1,462.24 by May 5th. In addition to the fall in commodity prices, Australian employment numbers were softer, although trade and construction data showed improvement. Conversely, U.S. economic data showed overall weakness last month that hurt the Greenback's prospects.

Last month's RBA Rate Decision left rates at 4.75%, as was widely anticipated. Nevertheless, despite inflation numbers staying at or near target, the RBA indicated in last month's Monetary Policy Meeting Minutes that, "if economic conditions continued to evolve as expected, higher interest rates were likely to be required at some point". Still, Australian consumer confidence numbers weakened last month, while inflation expectations declined somewhat. Nevertheless, the rally in the Aussie continues being largely commodity-driven, with the strong gold price being a major factor behind its recent rise.

For its part, the FOMC left the benchmark Fed Funds interest rate unchanged at the historical lows of <0.25% and the QEII debt repurchase program at \$600B last month. Also, the FOMC Meeting Minutes for its April meeting revealed that a majority of its members would support an additional asset purchase program if there was, "significant change in the economic outlook or the risks to that outlook". Economic numbers out of the United States continue to show fundamental weakness in the U.S. economy, with employment growth contracting notably, so a rise in U.S. interest rates seems unlikely at best.

Overall, despite historically high levels, the Aussie continues to be favoured over the U.S. Dollar in the medium and long term. The market will now be looking for direction to the RBA Rate Decision on June 7th, the Australian Employment Report out on the 9th and the U.S. FOMC Rate Decision on the 23rd.

ECONOMIC CALENDAR - Major Releases June 2011

- 7th – RBA Rate Decision, U.S. Treasury's Geithner speaks
- 8th – Fed's Bernanke speaks, Westpac Cons. Conf. & Aus. Hm Loans
- 9th – U.S. Beige Book, Aus. Emp. Rpt, U.S. Trade Bal, Jobless Claims
- 14th – U.S. Retail Sales & PPI
- 15th – Aus. MI Inflation Expectations, U.S. CPI
- 16th – U.S. TIC Long Term Purchases, Bldg Permits & Jobless Claims
- 21st – Aus. Monetary Policy Meeting Minutes
- 23rd – Fed Rate Decision, Conf. & Statement, Aus. CB Leading Index
- 24th – U.S. NHS, Durable Goods, GDP, and 25th - G8 Meetings
- 29th – U.S. CB Cons. Conf, ADP NF Emp. Ch,
- 30th – U.S. Pndg Hm Sales, Jobless Clms & Aus. Prv Sector Credit

AUD/USD TECHNICAL OUTLOOK

After rallying notably in April, AUD/USD peaked at a new post-1983 float high of 1.1012 on May 1st. The rate then corrected as low as 1.0440 on May 24th, but bounced up to 1.0774 on June 2nd.

Last month's price action saw AUD/USD make a new high, but then move correctively lower throughout most of the month before bouncing. The rate's ongoing long term rise still seems to be trading within a theoretical upper resistance trend line currently drawn at 1.1580 that lies parallel to a well established rising lower support trend line now drawn at 0.9470.

Furthermore, the rate's 14-day RSI indicator had been on a notable rising trend and had penetrated well into overbought territory as far as the 79 level just prior to the 1.1012 peak that only moved the indicator to 75. This bearish divergence in overbought territory accurately indicated that the rate was overdue for a correction, and AUD/USD's subsequent price action has helped to normalize the indicator, which now reads in the central part of neutral territory at the 54 level.

In addition, the rate's key 200-day Moving Average reads at 1.0046 — well below AUD/USD's current level — and has an upward slope that yields a bullish medium term outlook. Also, due to the rate's corrective and then largely consolidative price action last month, its Bollinger Bands again contracted as a response to the general decline in volatility.

Overall, the recent corrective decline from the 1.1012 high of May 1st now appears to be itself correcting to the upside, but the rate may then see another selloff before the correction runs its course. The rate moving above 1.1012 would now be needed for the ongoing longer term rally in AUD/USD to reassert itself.

MAJOR LEVELS

Resistance	1.0888	Support	1.0587
Resistance	1.1012	Support	1.0440
Resistance - psych	1.1500	Support	1.0389

AUD/USD – WEEKLY CHART



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