AUD/USD IN FOCUS - SEPTEMBER

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD gained +1.8% in August, after a significant decline in the first week of the month, which took the rate under parity for the first time since March. Australian and U.S. economic numbers released during August were mixed to mostly weaker, indicating a slowdown in both economies.

Furthermore, the RBA left its benchmark Cash Rate unchanged at 4.75% on September 6th. In the associated rate statement, Governor Glenn Stevens made dovish comments and removed previous references to interest rate hikes. As a result, analysts are now anticipating a drop in the Cash Rate of 1.25% over the next year. Nevertheless, Stevens stated that, “Beyond the near term, growth is still likely to be at trend or higher, unless the world economic outlook continues to deteriorate”.

The U.S. employment situation continues deteriorating, with the most recent Non-Farm Payrolls number coming out with a flat reading that indicated considerable contraction in the U.S. job market. Nevertheless, some signs of improvement were seen last month, with U.S. Durable Goods Orders rising by 4.0% while Factory Orders increased by +2.4% and Personal Spending rose by +0.8%. The FOMC gave indications that it might provide further stimulus measures to the beleaguered U.S. economy, but a QEIII asset purchase program was not confirmed. Its latest meeting minutes stated that, “Participants generally saw the degree of uncertainty surrounding the outlook for economic growth as having risen appreciably.”

Due to a slowdown in the Australian economy and the resulting downward pressure on interest rates, the Aussie is likely to soften during the coming month, despite persistent weakness in the global and U.S. economy. Nevertheless, more upside for AUD/USD continues to be favoured in the medium and long term. The market will now look to the Australian Employment Report on the 8th and Monetary Policy Meeting Minutes on the 20th, plus U.S. Final GDP on the 29th for further indications on the direction of AUD/USD during the month of August.

ECONOMIC CALENDAR - Major Releases Sept 2011

- 7th – *Australian GDP, US Fed Beige Book*
- 8th – *Aus. Emp. Ch., Unemp. Rate, US Trade Bal. Init. Jobless Claims*
- 12th – *Australian Trade Balance*
- 14th –*US Ret.Sales, Core Ret. Sales, Aus. Westpac Cons. Sentiment*
- 15th – *Aus. MI Inflation Exp., US CPI, Curr. Acct., Philly Fed Man. Ind.*
- 20th – *Aus. MI Leading Ind., Mon. Policy Meetng Min., US Build Per.*
- 21st – *US Fed Funds Rate, FOMC Statement, Existing Home Sales*
- 23rd – *Australian CB Leading Index, IMF Meetings*
- 28th – *US Durable Goods Orders, Core Durable Goods Orders*
- 29th –*US Final GDP, Aus. RBA Fin. Stability Rep. HIA New Hm. Sls.*
- 30th –*Aus. Prvt. Sect. Credit, US Personal Spending, Chicago PMI*

AUD/USD TECHNICAL OUTLOOK

After correcting sharply lower to 0.9926 in early August, AUD/USD pushed up later in the month to peak at 1.0763 on August 31st. Nevertheless, the rate failed to best the post-float high of 1.1080 seen on July 26th and so another downward correction ensued that fell as low as 1.0485 by September 6th.

From an Elliott Wave perspective, the initial downward move from 1.1080 to 0.9926 looks like the initial A wave of a zig zag correction, with the upward leg to 1.0763 representing the B wave, and the subsequent decline that has so far reached 1.0485 serving as the concluding C wave. If so, the C wave will typically extend to a similar or greater length to the A wave projected off of the top of B before the correction finishes, which yields key Fibonacci Projection ratio objectives of 1:0.618 = 1.0049, 1:1 = 0.9608 and 1:1.618 = 0.8894.

Furthermore, in order for new highs to be seen for AUD/USD in the medium term, its rising long term support trend line currently drawn at the 0.9851 level needs to hold. Under the preceding projection scenario, this trendline seems likely to break, perhaps resulting in a deeper correction or long term consolidation phase for AUD/USD. In addition, the rate’s 14-day RSI indicator peaked at 58 when making the 1.0763 high, with the subsequent correction taking the indicator just below its central 50 point to the 47 level. Also, the rate’s key 200-day Moving Average now reads at 1.0366 with an upward slope that still yields a medium term bullish outlook, although a break below this key MA should provoke further selling.

Overall, the corrective decline in AUD/USD from the 1.1080 high should once again head lower to test key support at its 200-day MA and trendline, currently at 1.0366 and 0.9851 respectively.

MAJOR LEVELS

Current level 1.0527

Resistance	1.0763/89	Support	1.0288/1.0315
Resistance	1.0888	Support	0.9926/1.0000
Resistance	1.1012/80	Support	0.9696

AUD/USD – WEEKLY CHART

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