

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD gave back a portion of October's gains in November, losing -2.4% for the month. The decline was due in part to extreme risk aversion as a consequence of the ongoing European financial crisis, as well as a lower interest rate and mixed economic data out of Australia, along with some improvement in U.S. economic numbers.

The RBA lowered its benchmark Cash Rate by 25 bps from 4.50% to 4.25% on December 6th, making it the second consecutive month the central bank has lowered interest rates. With inflation numbers just slightly over target, the RBA is widely expected to continue with a policy of lower interest rates, at least through the middle of 2012. Despite continuing growth in the mining sector, the Australian housing sector continues showing weakness. Also, according to a private sector survey conducted by Dun and Bradstreet, business confidence in Australia has dropped dramatically as events have unravelled in the Eurozone, with sales expectations dropping by 5 points and profit expectations flat.

Economic data from the United States showed some improvement in November with better than expected numbers in both employment — the U.S. Unemployment Rate showed an unexpected drop from 9.0% to 8.6% — and housing. Improvements in Core Durable Goods Orders and Retail Sales also benefited the U.S. Dollar despite a lower Preliminary GDP number. U.S. interest rates continued at historically low levels, with the Fed Funds rate left at <0.25%. In the accompanying statement the Fed stated, "The Committee continues to expect a moderate pace of economic growth over coming quarters and consequently anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate."

While the Aussie continues to be favoured over the Greenback in the mid and long terms, more near term corrections can be expected due to risk aversion stemming from the continued economic malaise in the Eurozone. Traders will be closely monitoring Australian GDP out on the 7th, Aus. Employment numbers on the 8th, the Australian Trade Balance and Home Loans on the 12th, the FOMC Rate Statement on the 13th, U.S. CPI on the 16th, and Australian Monetary Policy Meeting Minutes on the 20th, in addition to any major developments in the European financial crisis.

ECONOMIC CALENDAR Major Releases

- 7th Australian Quarterly GDP
- 8th Australian Employment Change, Unemployment
- 9th US Trade Balance, Preliminary UoM Consumer Sentiment
- 12th Aus. Trade Balance, Home Loans, US Federal Budget Bal.
- 13th US Ret. Sales, FOMC Stmt, Aus. Westpac Cons. Conf.
- 15th Aus. MI Inflation Exp., US PPI, TIC Long Term Purch.
- 16th US CPI, Core CPI
- 18th Aus. MI Leading Index
- 20th US Building Perm., Aus. Monetary Policy Mtng Minutes
- 22nd US Final GDP, Initial Jobless Claims
- 23rd US New Home Sales, Core Durable Goods Orders
- 30th Aus. Private Sector Credit, US Chicago PMI

AUD/USD TECHNICAL OUTLOOK

After rallying throughout most of October, the Aussie then came off sharply during early November to make a key reversal low at 0.9663 on Nov 22nd. Shortly thereafter, AUD/USD gapped upward to start a notable rally that has thus far reached a high point of 1.0330 on Nov 29th before the Aussie then consolidated its gains.

From an Elliott Wave perspective, the latest sharp downward move from the 1.0753 high of Oct 26th seems to have an impulsive nature, but it has thus far failed to fall below the previous 0.9387 low of Oct 3rd. Although this indicates contracting price action that could be forming a triangle pattern, the down move may also be the first wave of a C wave decline, with the subsequent correction to 1.0330 seen as the second wave of C. Provided that AUD/USD stays below 1.0753, the initial objective for this C wave remains at 0.9060, which is the A=C wave equality objective obtained by projecting the length of the A wave drop from 1.1080 to 0.9387 downward off the 1.0753 B wave peak. Furthermore, rising long term channel lines for AUD/USD can be drawn with the lower line providing support at 0.9594 and the upper line offering resistance at 1.1879. Furthermore, the recent corrective price action is now trading below a declining medium term trend line currently offering resistance at 1.0597. This situation indicates that consolidation may prevail until either the rising long term support line or the falling medium term resistance line is broken.

Like the recent consolidative price action showing lower highs and higher lows, AUD/USD's 14-day RSI indicator is also showing similar signs of consolidation, thereby supporting the formation of a triangle pattern. The indicator is currently reading in central neutral territory at 53.2, which should not impede a move in either direction. Furthermore, although the Aussie broke briefly back above its very slightly rising 200-day Moving Average that now reads 1.0410, it has since fallen below it again to neutralise the medium term outlook for the rate over the coming month.

MAJOR LEVELS	Current level 1.0176
Resistance 1.0330	Support 0.9926
Resistance 1.0753/65	Support 0.9663
Resistance 1.1080	Support 0.9387

AUD/USD – WEEKLY CHART



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