

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD gained an impressive +3.7% in January in the absence of a rate decision by the RBA, as Australia reported better economic data on balance and gold prices rose. In addition to the Australian economy showing improvement in January, economic data out of the United States also gained ground overall.

The RBA will meet again on February 7th for the next rate decision. Until late last week, many analysts had considered a rate cut from 4.25% to 4.00% was imminent. Nevertheless, because of extremely positive employment news out of the United States, some analysts are reconsidering whether the RBA will cut interest rates or leave rates unchanged after all. The majority of economists monitored by Bloomberg are still calling for a rate cut, but analysts perceive the likelihood of the central bank leaving rates unchanged has increased considerably recently, with 80% of analysts surveyed by Bloomberg calling a rate cut on Friday, now down to 52% of those surveyed still on the side of the RBA cutting rates. Australian economic numbers improved on balance in January, with an improving housing sector and a falling Unemployment rate. The Australian Trade Balance in January came out at a disappointing surplus of +1.38B, but improved in February, rising to +1.71B.

Economic data out of the United States has been showing improvement recently. Perhaps most notable was last week's Non-Farm Payroll number showing the economy had added 243K jobs, versus an expected 150K, while the U.S. Unemployment Rate dropped to 8.3% from 8.5%. The FOMC left rates unchanged once more at the historically low level of 0<0.25% in January. The latest FOMC statement announced the Fed expects to leave rates at these historically low levels until at least 2014 and the Fed set an inflation target of 2%, which was an unprecedented move for the U.S. central bank. Nevertheless, a majority of insiders still believe another round of quantitative easing is likely during the coming year, weakening the Greenback's prospects considerably.

Despite possible near term corrective price action in AUD/USD due to the prospect of an imminent RBA rate cut, the Australian Dollar continues showing well justified strength against the U.S. Dollar over the long term. Traders will now be looking to the RBA Rate Decision on the 7th, the RBA's Monetary Policy Statement on the 10th, and the FOMC Meeting Minutes on the 15th for further indications on the future direction of AUD/USD.

AUD/USD TECHNICAL OUTLOOK

After dipping initially to the 1.0145 level in early January, the Aussie rose sharply during the rest of the month and into early February to trade as high as the 1.0794 level on Feb 2nd. The rate has since corrected slightly to the 1.0710 but seems well supported at these high levels.

Last month, AUD/USD demonstrated an impressively bullish breakout from its extended consolidation phase that had been in effect since late July of 2011. The rate exceeded a downwards sloping trendline by breaking the 1.0450 level in mid-January which gave the rate sufficient momentum to surpass key resistance in the 1.0753/64 region briefly. From an Elliott Wave perspective, the initial A-B-C downwards correction from the 1.1080 high to the subsequent 0.9387 low now seems complete, and a fresh long term upward impulse starting from that low point appears to be the most likely scenario presently unfolding. If so, it looks like the initial sharp move up to hit the 1.0753 level on Oct 23^d, 2011 was the first wave, with the subsequent second wave bottoming at 0.9663 on Nov 20th. This view implies that AUD/USD is currently trading in the strongest third wave of this impulse, which has thus far attained the 1.0794 level and should ultimately take the pair to a new post float high over the next few months. Key resistance is now seen at the present high point of 1.1080, and exceeding that point will lend additional weight to this bullish scenario.

Although AUD/USD has now broken back above its 200 day Moving Average at 1.0398, the indicator's slope remains slightly negative. Also, AUD/USD's key 14-day RSI indicator is now reading just below overbought territory at the 68.9 level, and seems to be showing early signs of bearish regular divergence at recent price peaks that penetrated into the overbought zone. This situation indicates that a near term correction may present traders with a buying opportunity in AUD/USD as a longer term rally to fresh highs looks like it may be in the process of setting up.

MAJOR LEVELS	Current level 1.0723
Resistance 1.0753/64	Support 1.0386
Resistance 1.0794	Support 1.0044
Resistance 1.1080	Support 0.9861

ECONOMIC CALENDAR Major Releases

- 7th RBA Rate Decision & Statement, Westpac Consumer Sent.
- 10th RBA Monetary Policy Statement, US Trade Balance
- 13th Aus. Home Loans
- 14th US Core Retail Sales, Retail Sales, Aus. MI Inflation Exp.
- 16th Aus. Employment Report, US PPI, Building Permits
- 17th US CPI, Core CPI, G20 Meetings
- 21st Aus. RBA Monetary Policy Meeting Minutes
- 22nd Aus. Wage Price Index, US Existing Home Sales
- 24th US New Home Sales
- 27th US Pending Home Sales
- 28th Aus. Private Sector Credit, US Core Durable Goods Ord.
- 29th Aus. Private Capital Expenditure, US Preliminary GDP

AUD/USD – WEEKLY CHART



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