

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD lost marginally in December, declining by just -0.6% overall for the month to end the year just 4 pips lower. After trading in a wide range during the month, the currency pair seems to have stabilized at a higher rate after falling mid-month in reaction to lower precious metals and commodities prices.

The RBA does not meet in January for a rate decision but lowered its benchmark Cash Rate by 25 bps from 4.50% to 4.25% on December 6th which sparked a sell-off in the pair. Many analysts expect the RBA to continue with a policy of lower interest rates, at least through the middle of 2012. Economic numbers for Australia in December were lower than expected on balance, with significant declines in Building Approvals and Employment. The Australian Unemployment Rate actually rose a notch in December, from 5.2% to 5.3%, while Employment Change showed a loss of -6.3K jobs in the month compared to an expected increase of +10.3K. Also affecting the rate was a narrowing trade surplus from +2.25B to +1.6B. Consumer sentiment has also deteriorated according to Westpac, their survey last month showed a substantial decline of -8.3%, versus a previous reading of +6.3%.

United States economic data was a mixed bag in December with better than expected numbers in employment, steadily declining Initial Jobless Claims and the U.S. Unemployment Rate dropping to 8.6% from 9%. Nevertheless, Average Hourly Earnings declined by -0.1% last month, versus an expected increase of +0.2%, while Non-Farm Payrolls came in as expected at 120K. The FOMC Meeting Minutes for the December 13th meeting had little in the way of any change in interest rates in the near future, the minutes stated that, "With the rate of increase in economic activity anticipated to remain moderate, most participants expected that inflation would settle over coming quarters at or below levels consistent with their estimates of its longer-run mandate-consistent rate." The Fed's outlook on rates according to the minutes, "has not changed lately".

After last month's volatile trading, lower than expected economic data and lower rates out of Australia — along with improved numbers in the United States — could well signal corrective action in AUD/USD near term, bringing the rate below parity again, although the longer term outlook favours the Aussie. Looking forward, traders will watch U.S. Non-Farm Payrolls on the 6th, Australian CPI on the 25th and U.S. Advance GDP on the 27th.

ECONOMIC CALENDAR Major Releases

- 6th US Non-Farm Payrolls, Unemployment Rate
- 9th Australian ANZ Job Advertisements, Retail Sales
- 10th Australian Building Approvals
- 12th US Core Retail Sales, Retail Sales, Initial Jobless Claims
- 13th US Trade Balance, Preliminary UoM Consumer Sentiment
- 16th Australian Home Loans, CB Leading Index
- 17th Aus. MI Leading Index, Westpac Consumer Confidence
- 18th Aus. New Motor Vehicle Sales, US PPI, TIC Long Term Pr.
- 19th Aus. Employment Change, Unemployment, US Core CPI
- 23rd Australian PPI
- 25th Australian CPI, Trimmed Mean CPI, US FOMC Statement
- 26th US Durable Goods, Core Durable Goods, New Home Sales
- 27th US Advance GDP, Advance GDP Price Index

AUD/USD TECHNICAL OUTLOOK

After making a key reversal low at the 0.9663 level on Nov 22nd, the Aussie rose sharply during late November and into early December to peak at 1.0380. AUD/USD then ranged above 0.9861 throughout the holiday period until making a slightly higher high on Jan 2nd at the 1.0386 level. The rate has since fallen to 1.0232.

From an Elliott Wave perspective, recent contracting price action in AUD/USD could well be forming a symmetric triangle pattern. If so, the rate seems to be in its fourth wave move higher from the 0.9663 low of Nov 22nd that has thus far reached as high as the 1.0386 level. This scenario argues for another push higher in AUD/USD during the coming month to meet the declining upper trend line of this pattern, now at the 1.0505 level before a fifth wave lower ensues. The fifth wave should then test the lower rising trendline, currently drawn at the 0.9891 level. Furthermore, the rising long term channel lines for AUD/USD can be redrawn to incorporate this consolidation period, with the lower line providing support at 0.9686 and the upper line offering resistance at 1.1752.

AUD/USD's key 14-day RSI indicator is also showing similar signs of consolidation with a recent set of lower highs and higher lows that also supports the idea of a forming triangle pattern. The indicator is currently reading in the upper central part of neutral territory at 57.2, which should only mildly impede a move higher. Furthermore, the Aussie is now approaching its flat 200-day Moving Average that now reads 1.0412 from the downside, yielding a neutral medium term outlook for the rate.

The outlook for AUD/USD is neutral pending a break of the current consolidation period, so selling near the upper line of the triangle pattern and buying near the lower line would make sense. A break of either converging line should result in a move in the direction of the breakout with a targeted length of $0.2042 = 1.0180$ (first triangle peak level) - 0.9038 (projected level of lower triangle line).

| MAJOR LEVELS | Current level 1.0272 |
|----------------------|----------------------|
| Resistance 1.0386 | Support 1.0044 |
| Resistance 1.0753/64 | Support 0.9861 |
| Resistance 1.1080 | Support 0.9663 |

AUD/USD – WEEKLY CHART



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