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Foreign Exchange Services

AUD/USD in Focus

March 2012

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD extended its gains in February, increasing by +1.0% overall for the month. The RBA surprised the market last month by leaving the benchmark Cash Rate at 4.25% on February 7th. Most analysts expected the central bank to lower the rate to 4.00%.

Economic data was, with the exception of a few indicators, mostly positive for the Australian economy in February, while U.S. economic data was mixed last month, with some improvement in key indicators such as employment and manufacturing.

For the month of February, Australia reported an expanding trade surplus and an increase in home loans. Also, the Australian Employment Change numbers showed the economy had added 46,300 new jobs in January, considerably better than the previous release, which showed a loss of -35,600 jobs that was revised down from -29,300. In addition to the increase in jobs, the Australian Unemployment Rate declined to 5.1% from its previous 5.2% result, which was better than the consensus of 5.3%.

While the United States reported mixed economic data in February, many important indicators showed considerable improvement. Labour data showed general improvement, including a continued decline in Weekly Initial Jobless Claims, a much better than expected Non-Farm Payrolls number, and a decline in the U.S. Unemployment Rate to 8.3% from 8.5%.

On March 6th, the RBA left the Cash Rate unchanged at 4.25% as was widely expected. The rate reacted negatively, putting pressure on the Aussie, due in part to the post rate decision statement by Governor Glenn Stevens, where he affirmed that, “Should demand conditions weaken materially, the inflation outlook would provide scope for easier monetary policy.”

The FOMC for its part, also left rates at 0<0,25% until 2014 may not occur if the United States economy experiences a rise in inflation. The month ended with Bernanke downplaying recent strength in economic data and making no mention of additional stimulus or QE3.

Due to changes in risk sentiment, the outlook is for the rate to decline near term, but to trade higher in the mid and long terms. Traders will be watching the US Employment numbers out this week and the RBA’s Monetary Policy Meeting Minutes on the 20th.

ECONOMIC CALENDAR Major Releases

7th Aus. GDP, US ADP Non-Farm Employment Change
8th Aus. Employment Change, Unemployment Rate
9th Aus. Trade Balance, US Non-Farm Payrolls, Unemp. Rate
13th US Core Retail Sales, Australian Home Loans
15th US PPI, Australian MI Inflation Expectations
16th US CPI, Core CPI, Prelim. UofM Consumer Sentiment
19th Aus. CB Leading Index, MI Leading Index
20th Aus. Monetary Policy Meeting Minutes, US Bldg Permits
21st US Existing Home Sales
27th US New Home Sales
28th Aus. RBA Financial Stability Review, US Durable Goods
29th Aus. Private Sector Credit, US Final GDP
30th Aus. HIA New Home Sales, US Chicago PMI

AUD/USD TECHNICAL OUTLOOK

After rising notably in January to 1.0844, the Aussie consolidated at high levels during most of February and just managed to exceed the previous month’s high by a few pips by trading up to 1.0856. Nevertheless, March has initially seen AUD/USD fall sharply, hitting a low of 1.0525 thus far by the 5th.

Recent price action indicates a bearish double top pattern may have formed at 1.0844 and 1.0856 and its neckline at the 1.0597 level has now broken to the downside. Furthermore, the notable fall seen on March 5th has broken this neckline, with a characteristic sharp selloff ensuing to the 1.0525 level thus far. Based on an average of the highs, the computed measuring objective of this classic chart pattern would imply a near term target of 1.0344 for AUD/USD. From an Elliott Wave perspective, the high at 1.0856 appears to have concluded a five wave impulsive move higher that began at 0.9663. If correct, the standard Fibonacci retracement levels should come into play now that the market has fallen below the 23.6% retracement level of 1.0574. The subsequent sequential Fibonacci targets for the correction are 38.2% = 1.0400, 50% = 1.0260, 61.8% = 1.0119 and 100% = 0.9663. Since this correction appears to be a fourth wave, it should not fall below the first wave’s peak at 1.0380 in order to be followed by a rally that exceeds the 1.0856 high.

Although AUD/USD is still trading above its 200 day Moving Average at 1.0403, the indicator’s slope has just turned slightly negative again. Also, AUD/USD’s key 14-day RSI indicator failed to confirm the higher peak at the 1.0856 level by reading lower than it did at the 1.0844 peak, thereby showing bearish regular divergence. That indicator has now fallen below the central 50 level to read at 41.5, which should not significantly impede a move in either direction.

Overall, the current correction lower may offer a buying opportunity ahead of 1.0380 before a rally to fresh recent highs is seen.

MAJOR LEVELS	Current level 1.0542
Resistance 1.0597	Support 1.0380/86
Resistance 1.0844/56	Support 1.0044
Resistance 1.1080	Support 0.9861

AUD/USD – WEEKLY CHART

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