

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD reached a new 15 year post float high in November trading up to 1.0182. Nevertheless, AUD/USD closed the month -2.2% lower at 0.9586. The new high in the Aussie came on November 5th — just days before a new all time high was seen in the price of gold that hit a peak of \$1,424.43 on the 9th.

The RBA is expected to keep its benchmark Cash Rate at 4.75% in December after surprising the market again in November by raising it by 25bps to 4.75%. In a speech made in late November by RBA Governor Stevens, he indicated that a near term rate hike for Australia was unlikely and that current levels were “a little tighter than average”. He also expressed hopes that a firm Aussie would help keep inflation low.

U.S. rates remain at historic lows and will likely continue at these levels until the last quarter of 2012, according to the Fed’s own estimates. Last month saw the Fed announce details of its fresh QE II plan, which will have the Fed injecting an additional \$600B in liquidity to help shore up the ailing U.S. economy. Also, in a recently televised interview, Fed Chair Bernanke stated that he would not rule out further easing measures — in addition to the \$600B already announced.

Despite the sharp sell-off in the Aussie after trading solidly over parity during October, the Aussie continues to outperform the U.S. Dollar. Also, with the price of gold testing its previous all time high of \$1,424.43 made in November and rising crude oil prices, the Australian Dollar continues to be favoured over the Greenback in the medium term on a fundamental basis.

The market now expects the RBA to hold rates steady on the 7th and will be watching MI Inflation Expectations on the 14th for further direction. U.S. markets were disappointed with the last set of U.S. employment data and will now be monitoring the housing industry that has been improving a bit lately, as well as Final GDP for Q3 due out on the 22nd.

ECONOMIC CALENDAR - Major Releases December

- 7th - RBA Rate Decision, US Treasury Currency Report
- 9th - Aus. Employment Rpt, US Initial Jobless Claims
- 10th - US Trade & Federal Budget Balances, Prelim. UM Cons Sent.
- 14th - Aus MI Infl Exp.& Ldg Indx, US Rtl Sales, PPI & Fed Rate Dec.
- 15th - Aus. Westpac Cons. Sentiment, US CPI, TIC Long Term Prch.
- 16th - RBA Bulletin, US Bldg Permits, Housing Starts, Philly Fed MI
- 20th - Aus. CB Leading Index. HIA New Home Sales
- 21st - Aus. Monetary Policy Meeting Minutes
- 22nd - US Final GDP, Existing Home Sales
- 28th - US CB Consumer Confidence
- 30th - Aus MI Inflation Gauge, US Initial Jobless Claims

AUD/USD TECHNICAL OUTLOOK

After pushing to a new post 1983 float high of 1.0182 on November 5th, AUD/USD then began a substantial correction, trading as low as 0.9536 on December 1st before then pushing sharply higher again to just under the psychological 1.0000 parity level where it now trades. The rate has continued trading within a medium term up channel bounded by an upper line currently drawn at 1.0478 and a lower line now at 0.9582, as well as a large ascending wedge with an upper line at 1.0298 and a lower line at 0.8782. These chart patterns remain bullish for AUD/USD in the longer term provided that their lower support lines continue to hold. Furthermore, the rate’s key 200-day Moving Average now comes in well below the recent price action at 0.9177. That fact, combined with the indicator’s current positive slope, yields a bullish medium term outlook for the Aussie. Also, AUD/USD’s 14-day RSI indicator is currently in the upper central part of neutral territory at 55 that should not present an impediment to a move in either direction.

From an Elliott Wave perspective, the current prevailing upward movement from the 0.8066 low of May 25th gives an overall impulsive impression, indicating further upside potential for the rate. The current upward push since 0.9536 also looks impulsive since it lacks the usual overlapping price action seen in B waves. Furthermore, given the sharp bounce seen recently off of the rate’s medium term channel line, additional upside price action remains very possible for AUD/USD over the coming month that should eventually exceed the pair’s current post float high of 1.0182. Once beyond that, look for reversals ahead of the upper wedge line now at 1.0298 and then at the channel top line currently at 1.0478, as well as at psychological resistance near round numbers like 1.0500 and 1.1000.

MAJOR LEVELS

		Current level 0.9900	
Resistance	0.9937/53	Support	0.9849
Resistance	1.0094	Support	0.9536
Resistance	1.0182	Support	0.9388/0.9405

AUD/USD – WEEKLY CHART



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