

AUD/USD FUNDAMENTAL OUTLOOK

February began on a soft note for AUD/USD, as the RBA announced its decision to leave its key Cash Rate unchanged at 3.75% on February 2nd. This surprised a market that was discounting a 25 basis point rise, sending AUD/USD sharply lower to 0.8790 from the 0.8925 seen before the announcement.

Nevertheless, the RBA left its options open for a further rate increase at the next meeting on Tuesday, March 2nd. In his accompanying statement, Governor Glenn Stevens noted stronger-than-expected economic conditions in Australia, despite the fact that the effects of economic stimulus were no longer being felt on consumer demand. Stevens went on to conclude that "monetary policy will, over time, need to be adjusted further in order to ensure that inflation remains consistent with the target over the medium term." This relatively hawkish stance contrasts with the opinion prevailing in the FOMC that the slowly-recovering U.S. economy would not be comfortable with higher rates. Despite the pair's recent setback, this entrenched monetary policy difference seems likely to continue to provide long-term support for AUD/USD.

Furthermore, Australia's Trade Balance report released on Feb 3rd showed the deficit had widened to a level not seen since March of 2009. Although the headline number of -2.25B was slightly narrower than the -2.36B deficit expected, the breakdown showed that exports grew at a rate of 4% M/M, while imports increased by 6% M/M.

U.S. N.F. Payrolls due out on Feb 6th and expected at 13K will be closely watched for signs of U.S. recovery prospects, as will the upcoming G7 Meeting on Feb 5-6th in Iqaluit, Canada. Also, both commodity prices and risk appetites have shown some retrenchment recently, providing further fundamental reasons for AUD/USD's to remain under pressure in the near term.

AUD/USD TECHNICAL OUTLOOK

AUD/USD traded correctively lower over the last month, moving from 0.9125 to where it now trades at 0.8832. The rate's long-term technical picture remains in favorable buying territory, provided that the rate holds above its 200-day moving average (currently at 0.8545). Nevertheless, the short-term downtrend that has persisted since AUD/USD reversed at 0.9328 on January 14th remains intact and is dampening enthusiasm on rallies.

Also, due to the sharpness of its recent decline, AUD/USD has now entered oversold territory on the hourly RSI's and has even traded through its lower Bollinger Band on the hourly charts. These factors indicate that the rate should bounce first before trading lower to the corrective downward move's initial objective at 0.8733, as AUD/USD retraces 100% of the move from 0.8733 to 0.9328. On a short term-basis, this would indicate selling rallies near the 61.8% retracement level at 0.8960 that also roughly corresponds to the Jan 29th reaction high at 0.8961.

Furthermore, the Fibonacci ratios of the previous 0.8733-0.9405 move projected downwards from AUD/USD's recent Jan 14th top at 0.9328, target potentially even lower levels for this correction, provided that 0.8961 continues to hold. Besides the initial equality Fibbo projection at 0.8656 (1:1), the subsequent Fibbo projections come in at 0.8497 (1:1.236), 0.8399 (1:1.382), 0.8320 (1:1.5), 0.8241 (1:1.618), 0.8143 (1:1.764) and 0.7984 (1:2).

MAJOR LEVELS

Current level 0.8832

Resistance	0.8960	Support	0.8733
Resistance	0.9328	Support	0.8656
Resistance	0.9405	Support	0.8568

ECONOMIC CALENDAR - Major Releases for Feb 2010

- February 2, 2010 – RBA Statement & Cash Rate Announcement
- February 4, 2010 – Australian Retail Sales
- February 6, 2010 – U.S. Employment Report
- February 5&6, 2010 – G7 Meetings in Iqaluit, Canada
- February 10, 2010 – Aus. Home Loans & U.S. Trade Balance
- February 11, 2010 – Australian Employment & U.S. Retail Sales
- February 12, 2010 – U. of M. Consumer Confidence
- February 17, 2010 – U.S. FOMC Meeting Minutes
- February 18, 2010 – U.S. Producer Price Index (PPI)
- February 26, 2010 – US Preliminary GDP & Existing Home Sales

AUD/USD – WEEKLY CHART



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