

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD showed substantial swings in June and early July, closing down just 0.6% in June after the huge 9.4% drop that the rate suffered in May. The rate began June on a positive note, only to decline towards the end of the month, recovering somewhat after Prime Minister Kevin Rudd resigned on June 23rd leaving Deputy Prime Minister Julia Gillard as his successor. The rate's volatility arose from various factors, including stronger commodities prices and the announcement that the People's Bank of China would loosen the Yuan's U.S. Dollar peg that would pave the way for Chinese currency reform. Nevertheless, the PBOC might limit the Yuan's gains, thereby affecting the Chinese economy. China remains the largest consumer of Australian exports.

Also, the RBA kept its benchmark Cash Rate unchanged at 4.5%, as was widely expected, on July 6th. The rate decision followed the Australian Trade Balance which showed a surplus of 1.65B versus an expected 0.53B, with the previous number revised upward from 0.13B to 1.12B. In addition, the Australian Employment Change out on July 7th increased by 45.9K jobs versus an expected 15.3K. Both economic numbers were considerably bullish for the Aussie. U.S. economic data continued giving mixed signals, with increasingly negative home sale numbers and a weak Durable Goods report. U.S. GDP also disappointed, showing just a 2.7% increase versus 3% expected, while Non-Farm Payrolls continued to contract by -125K, despite the U.S. Unemployment Rate dropping to 9.5% versus the 9.8% anticipated.

The Australian economy is clearly in better shape than that in the United States, despite mixed economic numbers in Australia. Furthermore, the prospects for increased trade with China and increasing commodity prices continue making a case in favour of the Aussie. The RBA will announce its next Rate Decision on August 3rd, after the Australian CPI report due out July 28th, with no change in the key Cash Rate now expected.

AUD/USD TECHNICAL OUTLOOK

The anticipated corrective decline and then rise in AUD/USD materialized last month, as the rate fell to 0.8081 in early June, before rallying as high as 0.8858 toward the end of that month. A subsequent correction lower to 0.8315 in early July then provoked yet another sharp bounce to 0.8790. The rate now trades just under this level at 0.8772.

Furthermore, the rate's key 200-day Moving Average now comes in above the recent price action at 0.8973, and its slope remains still more or less flat, after previously sloping positively. This gives a neutral to bearish medium term outlook for the Aussie. In addition, AUD/USD's 14-day RSI indicator currently comes in at 58. Although now in the higher side of neutral territory, this indicator continues to support corrective upward price action since it has been demonstrating an overall upward trend since the May 20th 0.8071 low.

From an Elliott Wave perspective, the initial three wave upward move that ran from 0.8066 to 0.8858 seems like an A wave that has since corrected in a B wave to 0.8315, just under the key 61.8% retracement level of A at 0.8369. The current rally that has so far attained 0.8790 would then be the C wave in this scenario. Fibonacci projection ratios for this upward corrective move come in at 1: 0.618 = 0.8804, 1: 1 = 0.9107, 1: 1.236 = 0.9294, 1: 1.382 = 0.9410, 1: 1.5 = 0.9503, 1: 1.618 = 0.9596, and 1: 2 = 0.9899. Overall, this scenario argues for further upside in AUD/USD over the coming month, although watch the 14-day RSI for divergence versus the price that could signal the current rally is waning in strength.

MAJOR LEVELS

		Current level 0.8772	
Resistance	0.8858	Support	0.8550
Resistance	0.9077	Support	0.8315
Resistance	0.9388	Support	0.8066

ECONOMIC CALENDAR - Major Releases for July 2010

- July 1, 2010 – *Aus. Retail Sales & Bldg Approvals, US Jobless Clms*
- July 2, 2010 – *US Employment Data*
- July 6, 2010 – *RBA Rate Decision & Trade Balance, US PMI Data*
- July 8, 2010 – *Aus Employment Data, US Jobless Claims*
- July 13, 2010 – *US Trade Balance*
- July 14, 2010 – *RBA Stevens Speaks, US Retail Sales, FOMC Mins*
- July 15, 2010 – *US PPI, Fed Governor Nomination Hearings*
- July 16, 2010 – *US CPI & Prelim UoM Consumer Sentiment*
- July 20, 2010 – *Aus. Monetary Policy Mtg Mins, US Building Pmts*
- July 27-28, 2010 – *US CB Consumer Confidence, Australian CPI*

AUD/USD – WEEKLY CHART



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