

GBP/AUD FUNDAMENTAL OUTLOOK

GBP/AUD shot up in June, with the rate rising to an inter-day high of 1.8141 in early July, a level not seen since January. Sterling reacted positively to the U.K.'s Emergency Budget released June 22nd by the new Conservative-Lib Dem coalition government. Also a factor was the MPC's one dissenting vote against keeping the Official Bank Rate at 0.50%, leading to speculation that the BOE would hike rates sooner than thought.

For its part, the RBA left its benchmark Cash Rate unchanged at 4.5 percent in their Rate Decision on July 6th, as was widely expected. In his statement made after the release, Governor Stevens wrote, "In Europe, while output in some key countries has been improving recently, prospects for next year are more uncertain given the budgetary constraints governments face and the pressure on euro area banks."

The GBP/AUD cross weakened considerably in the first week of July as the BOE left the Official Bank Rate unchanged at 0.50% and the Asset Purchase Program at £200B. Other factors that reflect negatively on the rate's outlook include weaker U.K. housing and manufacturing numbers, as well as a negative Trade Balance report showing a deficit of £8.1B.

Basically, given the U.K.'s precarious budget situation and negative economic numbers, GBP/AUD seems likely to decline over time eventually given the level of interest rates in the U.K. being so low in relation to Australian interest rates, and making the long AUD carry trade an increasingly attractive strategy.

With respect to the outlook for U.K. rates, considering the dissenting vote by Andrew Sentence over the Official Bank Rate vote at the June MPC meeting, rates could well increase in the U.K. soon. Traders will also look for U.K. GDP due out on July 12th and CPI due for release on July 13th. Unless Australian CPI due out on July 28th shows a considerable rise in inflation, rates in Australia are now expected to remain unchanged until Q4.

GBP/AUD TECHNICAL OUTLOOK

After apparently completing a three wave upwards correction to its medium term downward trend at 1.8141, the GBP/AUD cross has since traded off sharply, trading as low as 1.7139, with the 1.6745 low of June 21st now in sight, followed by the major low of 1.6218 made on May 12th of this year.

A lower trend line can be drawn under this recent upward price action that should provide some support at its current level of 1.6921, which is rising over time, and just under the key 1.7000 psychological level. If that line breaks, one may see the 1.6745 low tested as the overall down trend seems set to resume soon.

Furthermore, the medium-term outlook remains firmly bearish for the cross, now that GBP/AUD is again trading below its 200-day Moving Average that now comes in at 1.7380 and is still sloping downwards even after the recent correction higher. In addition, the 14-day RSI for the pair is currently in the central part of neutral territory at 44 and therefore has little bearing on the rate. Also, the bearish price/RSI divergence seen tends to indicate that the corrective rally has now reached its turning point and could well be in the process of reversing.

Overall, this technical scenario tends to favour a strategy of selling rallies in GBP/AUD near present levels up to 1.8141 to establish medium-term short positions in the direction of the prevailing downwards trend. Profit-taking objectives for this trade would initially be at the 1.6921 rising trend line, or if that breaks, near the recent 1.6748 and 1.6218 lows.

MAJOR LEVELS

		Current level 1.7172	
Resistance	1.7775	Support	1.6997
Resistance	1.7892	Support	1.6745
Resistance	1.8141	Support	1.6218

ECONOMIC CALENDAR - Major Releases for July 2010

- July 1, 2010 – Australian Retail Sales & Building Approvals
- July 3, 2010 – UK Services PMI
- July 6, 2010 – RBA Rate Stmt & Cash Rate, Aus. Trade Balance
- July 8, 2010 – Aus. Employment Data, UK Rate Decision and HPI
- July 9, 2010 – UK PPI
- July 13, 2010 – UK CPI
- July 14, 2010 – Speech by RBA Stevens, UK Claimant Change
- July 20, 2010 – Australian Monetary Policy Meeting minutes
- July 21, 2010 – MPC Meeting Minutes
- July 22, 2010 – UK Retail Sales

GBP/AUD – WEEKLY CHART



Contact **Jan Borgelt** at OzForex on +61 2 8667 8103 or email jan.borgelt@ozforex.com.au

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