

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD saw some sharp corrective selling pressure emerge over the last few days, taking the rate down to 0.8709 on May 6th after it had rallied as high as 0.9388 on April 12th.

The market credited the sharp Aussie fall largely to the Greek debt situation and the resulting riots over a government-negotiated austerity package. Adding fuel to the uncertainty are growing concerns about the creditworthiness of Spain, Portugal, Italy, Ireland and even the United Kingdom. This situation has greatly enhanced the market's risk-aversion.

While the Aussie should have seen some buying interest from the notable rally in gold prices due to its gold exports, the U.S. Dollar was the main beneficiary of this dramatic flight to quality. This sent AUD/USD into a sharp decline that may have further to go before it recovers to April's high once again.

Regarding monetary policy, the FOMC indicated on Wednesday of last week that it would continue placing wording in its policy statements supportive of "exceptionally low levels of the Federal Funds Rate for an extended period." Accordingly, traders expect U.S. interest rates to remain at low levels over the next few months. Furthermore, on Tuesday of this week, the RBA yet again hiked its Benchmark Cash Rate by 25bps to 4.50%. Nevertheless, the Aussie lost support on comments by the central bank to the effect that interest rates to borrowers were now "close to average". The market considered this a noteworthy indication that the RBA was probably going to put rates rises on hold for June, and perhaps also for July.

In terms of economic data, the releases seen last month generally indicate that consumer and producer confidence was strengthening in the United States. Employment also improved as Non-Farm Payrolls came out at 162K last month. That number is expected to increase to 192K this month, with the U.S. Unemployment Rate remaining stable at 9.7%.

AUD/USD TECHNICAL OUTLOOK

After looking quite positive for most of April, and even making a new six month high at 0.9388, AUD/USD subsequently took a sharp nosedive in early May to trade as low as 0.8709. While the rate subsequently recovered to 0.8930, the fall has now effectively neutralized the previous bullish outlook for AUD/USD and has even broken a key medium-term upwards channel that has contained price action since late 2008 which currently has its lower trend line drawn at 0.9200. Furthermore, although the rate's 200-day Moving Average is still slanted upwards, the rate has now broken below the indicator's current level of 0.8957. If AUD/USD subsequently shows a weekly close below that key indicator, considerable additional selling pressure may emerge to extend the downward move even further.

From an Elliott Wave perspective, this remarkable downward move seems consistent with a five-wave declining C-Wave that commenced at the 0.9388 high. The fall also temporarily exceeded the key 61.8% Fibonacci Retracement level of the move from 0.8577 to 0.9388 at 0.8887. As a result, further downside would be indicated toward 0.8577 if the break of 0.8887 is sustained. Nevertheless, since the rate's 14-day RSI is in oversold territory at 28, some correction higher or consolidation may be likely first. Fibonacci projection targets for the end of this sharp, corrective downward C-Wave can be computed using the length of what would be the preceding A-Wave that declined from 0.9405 to 0.8577. When this wave is projected off of the 0.9388 high, the key C-wave target levels come in at ratios of 1:1 = 0.8560 and 1:1.618 = 0.8048.

MAJOR LEVELS

		Current level 0.8870	
Resistance	0.9388	Support	0.8799
Resistance	0.9405	Support	0.8709
Resistance	0.9848	Support	0.8577

ECONOMIC CALENDAR - Major Releases for May 2010

- May 4, 2010 – RBA Rate Statement and Cash Rate
- May 6, 2010 – Australian Trade Balance & Retail Sales
- May 7, 2010 – U.S. Employment Report
- May 12, 2010 – U.S. Trade Balance
- May 13, 2010 – Australian Employment Report and Budget
- May 14, 2010 – U.S. Retail Sales & U of M Consumer Confidence
- May 18, 2010 – U.S. Producer Price Index (PPI)
- May 19, 2010 – U.S. CPI and FOMC Meeting Minutes
- May 25, 2010 – U.S. CB Consumer Confidence
- May 27, 2010 – U.S. Advance GDP

AUD/USD – WEEKLY CHART



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