

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD reached 0.9750 — a level not seen since July of 2008, on October 1st as the price of gold made a new all time high. Besides rising gold prices, the rate was also supported by a healthy dose of risk appetite and a deteriorating U.S. economy. The Aussie was up an impressive 7.9% for the month of September, its best monthly performance since May of 2009.

On October 5th, the RBA left rates unchanged at 4.5%, surprising the market, since most economists predicted that the central bank would raise rates by 25 bps. In his statement accompanying the release, Governor Stevens noted that “Recent information is consistent with a more sustainable, but still strong, pace of growth in China and most of the Asian region. In Europe and the United States, growth prospects appear to be modest in the near term.” He added that, “If economic conditions evolve as the Board currently expects, it is likely that higher interest rates will be required.” Nevertheless, the market was expecting a rate hike, and was severely disappointed, with the rate trading sharply lower in response. The focus now is on the Australian Trimmed Mean CPI report due out on the 26th that will give the RBA a better sense of whether hiking rates in November seems justified.

Conversely, U.S. rates continue low over the “extended period” promised by the Fed, with additional easing measures including debt repurchases and reinvestment in U.S. treasuries. The Dollar has been under increasing pressure, burdened by negative economic data. This Friday’s Non-Farm payroll number will be closely watched by the Fed to determine if it needs to take steps to stimulate the beleaguered US economy. Also, the FOMC minutes on the 12th may provide some useful insight into the Fed’s current perspective.

With a strong Chinese economy and gold making new all time highs, the Aussie continues to be favored in the long run over the Greenback. With that said, the rate does seem overdue for some correction or consolidation in the short-term.

AUD/USD TECHNICAL OUTLOOK

After its consolidation during August, AUD/USD made fresh upside progress in September, breaking a long term trend line at the 0.9290 level on Sep 12th that accelerated the rally to a new high at 0.9750 on Oct 1st before the rate then corrected as low as 0.9541, breaking its short term up trend line at 0.9690 in the process. The rate has also been trading within a larger up channel bounded by an upper line drawn at 0.9768 and a lower line at 0.9082. Although still bullish for AUD/USD in the longer term, this latter pattern also indicates that additional downside correction or consolidation is likely near term since AUD/USD is currently trading close to the channel top.

Furthermore, the rate’s key 200-day Moving Average now comes in well below the recent price action at 0.8986 and is positive sloping, yielding a bullish medium term outlook for the Aussie. Nevertheless, AUD/USD’s 14-day RSI indicator is currently in the lower part of overbought territory at 70, and it displayed regular divergence in overbought territory at its 0.9750 high that signalled the subsequent correction or consolidation period.

From an Elliott Wave perspective, the current prevailing upward movement from the 0.8066 low of May 23rd still appears quite impulsive, but some overlapping is still being seen among peaks and subsequent corrections after fresh peaks. Although some further corrective price action lower is possible near term, additional upside for AUD/USD is nevertheless expected over the coming months that should eventually test the major 0.9848 high made on July 15th of 2008. If that level breaks, the key parity level of 1.0000 would then beckon in what is otherwise uncharted territory for AUD/USD.

MAJOR LEVELS

		Current level 0.9696	
Resistance	0.9750	Support	0.9541
Resistance	0.9848	Support	0.9388/0.9405
Resistance(psych)	1.0000	Support	0.9220

ECONOMIC CALENDAR - Major Releases in October 2010

- October 5th – RBA Rate Decision, Aus. Ret. Sales, Trade Bal.
- October 6th – US ADP Non-Farm Employmt, Aus. Employment Rpt
- October 9th – US Non-Farm Payrolls, US Unemployment Rate
- October 11th – Aus. Home Loans, IMF Meetings End (9th-11th)
- October 13th – Aus. Westpac Cons. Sent. US FOMC Mtg Minutes
- October 14th – Aus. MI Inflation Exp. US Federal Budget Balance
- October 15th – US Trade Balance & PPI
- October 19th – Aus. Monetary Policy Meeting Minutes
- October 27th – Aus. CPI, Aus. CB Ldng Indx, US CB Cons. Conf.
- October 29th – Aus HIA New Home Sales, NAB Otrlv Bus. Conf.

AUD/USD – WEEKLY CHART



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