

AUD/USD FUNDAMENTAL OUTLOOK

The AUD/USD made a new recent high in early August after July's dramatic rise, before consolidating its gains the rest of the month, and eventually closing just 1.6% lower against the Greenback. The big news last month were the National elections that resulted in the first hung Parliament in Australia in 70 years. The resulting uncertainty was the key factor in the failure of the Aussie to perform better last month, but consolidating gold and crude oil prices also contributed.

Also, the RBA kept the benchmark Cash Rate at 4.5% in its September 7th meeting, as was widely expected. In his statement accompanying the Rate Decision, Governor Glenn Stevens noted that, "Financial markets are functioning more smoothly than they were a few months ago, though caution persists." He added that, "Recent information suggests that the Australian economy has been growing at around trend pace." The Rate Decision came on the back of Australian Labour and Green parties agreeing to form a coalition, thereby increasing former PM Julia Gillard's chances of achieving a majority. Also, while Australian GDP had expanded by 1.2% last quarter, the Australian Trade and Current Account figures failed to impress the market by coming in lower than expected.

In contrast, the U.S. economy continues treading water, giving few indications that it will spark up soon, despite some isolated highlights like September's good NFP number. Still, Australia continues to outperform the United States economically, and considering the relative strength of the economies of China and Japan that make up two of Australia's principal trading partners, buying AUD/USD still makes sense fundamentally. In addition, being long the Aussie against the Greenback will not only likely result in trading gains, but the interest rate differential will also benefit carry traders. Looking forward, traders will now focus on MI Inflation Expectations on the 15th, the tentatively-scheduled RBA Annual Report on the 16th and the Monetary Policy Meeting Minutes on the 20th.

AUD/USD TECHNICAL OUTLOOK

After its strong rally seen during the month of July, AUD/USD made a new recent high at 0.9220 on August 1st before then consolidating between that level and its reaction low point of 0.8769 that was seen on August 25th. The rate has recently recovered as high as 0.9179 as it trades within an up channel bounded by an upper line drawn at 0.9450 and a lower line at 0.8846, with another test of 0.9220 now looking very possible.

Furthermore, the rate's key 200-day Moving Average now comes in below the recent price action at 0.8940, and its slope remains still more or less flat, after previously sloping positively. This gives a neutral to mildly bullish medium term outlook for the Aussie. In addition, AUD/USD's 14-day RSI indicator currently reads in the upper part of central territory at 58. This key indicator continues to support upward price action by having traded in an overall upward trend since the May 25th 0.8066 low. Nevertheless, the rate is currently approaching its upper Bollinger Band on the daily charts that may provide some resistance to a move higher.

From an Elliott Wave perspective, the current prevailing upward movement from the 0.8066 low seems to have unfolded in what looks to be the first three waves of a five wave impulse, moving first up to 0.8858, then down to 0.8315 and then up to 0.9220. Overall, this scenario argues for an initial dip followed by more upside in AUD/USD during September that should test 0.9220 and perhaps even the major 0.9388 and 0.9405 highs. Still, traders might do well to watch the 14-day RSI for divergence that could signal the current rally's strength is topping out.

MAJOR LEVELS		Current level 0.9110	
Resistance	0.9220	Support	0.9077
Resistance	0.9388	Support	0.8857
Resistance	0.9405	Support	0.8769

ECONOMIC CALENDAR - Major Releases

September 2010

- September 7, 2010 – RBA Rate Decision, Aus. Home Loans
- September 8, 2010 – US Fed Beige Book, Aus. Employment Rpt
- September 9, 2010 – US Trade Balance
- September 13, 2010 – Aus. NAB Business Confidence
- September 14, 2010 – US Retail Sales, Aus. Westpac Cons. Sentimt
- September 15, 2010 – Aus. MI Inflation Expectations
- September 16, 2010 – US PPI, RBA Annual Rpt, RBA Lowe Speaks
- September 20, 2010 – Aus. Monetary Policy Meeting Minutes
- September 21, 2010 – US Rate Decision, FOMC Statement
- September 28, 2010 – US CB Consumer Confidence

AUD/USD – WEEKLY CHART



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