

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD lost some ground in January after making a new post float high point of 1.0255 on the last day of the year. The Aussie lost 2.6% in January versus the Greenback due in part to severe flooding in Queensland, which may cost the country as much as 1% of GDP in reconstruction costs. In addition to the flooding in Queensland, the price of gold dropped from \$1,417 to \$1,332 in January, which also adversely affected the rate.

While no rate decision was made in the month of January, the RBA's latest rate decision on February 1st left the benchmark Cash Rate at 4.75% as was widely expected. Nevertheless, the RBA's Monetary Policy quarterly report, out on the 4th, revised its estimate for GDP growth in 2011 from +3.75% to +4.25%. Also, growth for 2010 was revised downward from 3.5% to 2.75%, and inflation was projected to rise to 2.75% in 2011 and hit the top of the RBA's range of 3% by the end of 2012. The Monetary Policy report sent AUD/USD sharply higher, driving the rate comfortably over parity in the first week of February.

The FOMC left the benchmark Fed Funds rate at historical lows of <0.25%. Nevertheless, the latest rate decision was unanimous as long-time dissenter Thomas Hoenig was no longer voting on the FOMC. Two FOMC members, regional Fed chiefs Charles Plosser and Richard Fischer, voted on the rate decision for the first time. The debt repurchase program was left at 600B through June, with the committee's accompanying statement reiterating the Fed's stance of keeping rates low.

The market will be attentive to the upcoming Australian Employment numbers out on the 10th, and the Australian MI Inflation Expectations and Home Loans out on the 14th, the RBA's Monetary Policy Meeting Minutes, out on the 15th and the MI Leading Index on the 17th. In U.S. numbers, the Trade Balance out on the 11th, Retail Sales and the FOMC Meeting Minutes on the 16th, and U.S. Preliminary GDP on the 25th. The Aussie continues to be favoured over the Greenback in the near and intermediate terms.

AUD/USD TECHNICAL OUTLOOK

AUD/USD fell initially in January to a monthly low of 0.9803 seen on Jan 12th before then consolidating in a range above that level and below the reaction high of 1.0076 seen on Jan 20th. Early February then saw renewed Aussie buying interest emerge, taking the rate sharply back above parity to 1.0199. Last month's price action saw the rate remain within its long term ascending wedge pattern, although the rate traded below the lower line of an important medium term up channel bounded by an upper line at 1.1080 and a lower line at 1.0181. Nevertheless, that trendline break failed to result in significant follow through to the downside, and the rate subsequently broke back up into its bullish channel. Also, a smaller ascending wedge pattern with a rising upper line drawn at 1.0292 and a lower line at 0.9894 seems to be dominating the current technical picture. These chart patterns remain bullish for AUD/USD in the longer term provided that their lower support lines continue to hold, although ascending wedges often signal weakening in an up trend that ultimately leads to a reversal to the downside. Nevertheless, the rate's key 200-day Moving Average still reads well below the current rate at 0.9350. That fact, combined with the indicator's current positive slope, yields a bullish medium term outlook for the pair. Also, AUD/USD's 14-day RSI indicator is currently reading in the upper central part of neutral territory at 61 that may modestly impede a move to the upside.

From an Elliott Wave perspective, the recent impulsive upside price action channelling up from the 0.8066 low of May 25th may be limited near term. A break of the major high at 1.0255 is needed to target the upper wedge line now at 1.0292, and then the channel top line now at 1.1080. Until then, corrective pressures are more likely to predominate in the near future.

| MAJOR LEVELS | | Current level 1.0134 | |
|-------------------|-----------|----------------------|--------|
| Resistance | 1.0182/99 | Support | 1.0076 |
| Resistance | 1.0255 | Support | 0.9803 |
| Resistance - line | 1.0292 | Support | 0.9536 |

ECONOMIC CALENDAR - Major Releases February

2011

- 7th - *Aus. Retail Sales, ANZ Job Advertisements*
- 9th - *Australian Westpac Consumer Sentiment*
- 10th - *Aus. Employment Report, US Initial Jobless Claims*
- 11th - *US Trade Balance, U. of M. Consumer Sentiment*
- 14th - *Aus. MI Inflation Exp. Aus. Home Loans*
- 15th - *Aus. MPC Meeting Minutes, US Core Ret. Sales, US PPI*
- 17th - *Aus MI Leading Index US CPI, Core CPI, Initial Jobless Clms*
- 24th - *Aus. CB Leading Index, Prvt Cap. Exp., US Durable Goods*
- 25th - *US Prelim. GDP, Revised U. of M. Consumer Sentiment*
- 28th - *Aus Private Sector Credit, Aus. Company Operating Profits.*

AUD/USD – WEEKLY CHART



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