

AUD/EUR FUNDAMENTAL OUTLOOK

AUD/EUR gave back the modest gains made in February, dropping -1.0% in March. The month saw volatility increase in the rate as continued hawkish comments from the ECB and rising inflationary pressures in the EU weighed on the rate. While AUD/EUR declined considerably in mid March, the rate recovered considerably as the price of gold made new all time highs. Also supporting the rate towards the end of the month, were downgrades to the credit ratings of EU members Portugal and Ireland.

The RBA once again left the benchmark Cash Rate at 4.75% for the fifth consecutive month on April 5th as was widely expected. In the post rate release statement, Governor Glenn Stevens reiterated that unemployment would remain steady at 5%, while inflation would stay on target at 2-3%. Referring to the summer floods in Queensland, he stated that "the resumption of coal production in flooded mines is taking longer than initially expected." Nevertheless, he affirmed that production would recover and that "there will be a mild boost to demand from the rebuilding efforts as they get under way."

The ECB also kept its benchmark Minimum Bid Rate at 1.0% on Mar 3rd. Nevertheless, rising inflation in the Eurozone and continued hawkish comments by ECB chief Trichet and others indicated an imminent rate hike at the upcoming ECB Rate decision on April 7th, which has already been priced into the market.

The market will be looking ahead to the Australian Employment Report on the 6th; the ECB Rate decision on the 7th; the Australian Monetary Policy Meeting Minutes on the 18th; the German Ifo Business Climate survey on the 19th; and Australian PPI on the 20th and CPI on the 26th.

From a fundamental viewpoint, the Aussie continues to be favoured over the Euro in the long term despite an ECB hike.

AUD/EUR TECHNICAL OUTLOOK

After ranging in February, AUD/EUR took a nose dive in early March, trading down as far as 0.6757 on the 15th. Nevertheless, the rate then recovered much of its lost territory to peak at 0.7347 on the 31st.

Last month's notable moves in AUD/EUR still failed to see the cross recover above its broken lower long term up channel line that is now drawn at 0.7429 and offers resistance to the rate. This sustained trend line breach seriously calls into question the possibility of fresh highs for the cross in the coming months in excess of the 0.7732 level of Dec 26th, 2010. Furthermore, the rate fell below important support in the 0.7174/84 region that accelerated downside price action for the cross considerably, although AUD/EUR subsequently recovered.

Nevertheless, the medium term outlook remains somewhat bullish for AUD/EUR while it continues to sustain gains above its 200-day Moving Average. The indicator currently reads just below current levels at 0.7206, but the cross fell below it last month. Also, the cross's 14-day RSI is currently reading in the central part of neutral territory at the 51 level. This reading should not impede a move in either direction near term.

Overall, AUD/EUR now appears to have broken its upward trend and entered a corrective phase that may see the cross trade continue to trade lower over the coming month. The upside should also remain capped by the broken rising lower channel trend line currently drawn at 0.7429. Those holding long positions in this cross may now wish to consider squaring them on rallies near these historically high levels.

MAJOR LEVELS

Current level 0.7260

Resistance	0.7403	Support	0.7174/84
Resistance	0.7513	Support	0.6955/75
Resistance	0.7732	Support	0.6657

ECONOMIC CALENDAR - Major Releases April 2011

- 6th – Aus. Employment Change, Aus. Unemployment
- 7th – ECB Rate Decision, German Industrial Production
- 12th – Aus. Westpac Consumer Sent., Ger. & EZ ZEW Eco. Sent.
- 13th – Aus. MI Inflation Expectations, EZ Industrial Production
- 18th – Aus. Monetary Policy Mtg Mins, Ger. GfK Cons. Climate
- 19th – German Ifo Bus. Climate, Aus. Import Prices, EZ Curr. Acct.
- 20th – Ger. PPI, Aus. NAB Bus. Conf., Aus. PPI
- 26th – Australian CPI
- 28th – Aus. HIA New Home Sales, Priv. Sect. Credit, Ger. Unemp. Ch.
- 29th – EZ CPI Flash Est., EZ Unemployment, EZ M3 Money Supply

AUD/EUR – WEEKLY CHART



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