

## AUD/EUR FUNDAMENTAL OUTLOOK

AUD/EUR declined fractionally in May, with the rate falling by only -0.2%. The cross was virtually unchanged despite sovereign debt concerns in the Eurozone and the price of gold retreating after making new all-time highs. The Euro lost momentum after the ECB left rates unchanged in May after its first rate hike since 2008 of 0.25% took place on April 17<sup>th</sup>.

Amid renewed Greek debt concerns, the ECB's decided to leave its benchmark Minimum Bid Rate at 1.25% in May, as expected. After the decision, ECB head Trichet indicated that no rate hike would take place in June, with July being the earliest date for a possible rise. The central bank's decision was supported by the fact that economic numbers in the Eurozone were mostly mixed to weaker as German Factory Orders declined by -4.0% m/m versus an expected increase of +0.4%, and EZ Retail Sales fell by -1.0% m/m compared with an expected gain of +0.2%.

For its part, the RBA left its benchmark Cash Rate at 4.75% for the sixth consecutive month on May 3<sup>rd</sup>, as was generally expected. The central bank's Monetary Policy Meeting Minutes indicated that it considered its mildly restrictive monetary policy stance appropriate and that, "if economic conditions continued to evolve as expected, higher interest rates were likely to be required at some point if inflation was to remain consistent with the medium-term target."

That comment lent additional support to the AUD, so despite some relief from the ongoing European debt crisis, the Aussie continues to be favoured over the Euro in the medium to long term largely due to a stronger economic environment and higher prevailing interest rates in Australia. The forex market now looks for its future direction to the RBA Rate Decision on June 7<sup>th</sup>; the Australian Trade Balance on the 10<sup>th</sup>; Australian Employment Change and the ECB's Rate Decision on the 9<sup>th</sup>; and the RBA's Monetary Policy Meeting Minutes and German ZEW Economic Sentiment due out on the 21<sup>st</sup>.

### ECONOMIC CALENDAR - Major Releases June 2011

- 7<sup>th</sup> – RBA Rate Decision, EZ Retail Sales, Ger. Factory Orders
- 8<sup>th</sup> – Aus. Home Loans, Westpac Cons. Sent., Ger. Industrial Prod.
- 9<sup>th</sup> – Aus. Employment Ch., Unemp. ECB Rate Decision & Press Con.
- 15<sup>th</sup> – Aus. MI Inflation Exp., ECOFIN Meetings, EZ Industrial Prod.
- 16<sup>th</sup> – Aus. New Motor Veh. Sales, ECB Monthly Bulletin, EZ CPI
- 17<sup>th</sup> – German Ifo Business Climate, Belgium NBB Bus. Climate
- 20<sup>th</sup> – Aus. MI Leading Index, German PPI, EZ Current Account
- 21<sup>st</sup> – Aus. Mon. Policy Meeting Min., Ger. & EZ FISH Man. & Svc. PMI
- 24-5<sup>th</sup> – G8 Annual Summit Meetings
- 30<sup>th</sup> – Aus. HIA New Home Sales, Private Sector Credit, German Unemployment Change, EZ CPI Flash Est., EZ M3 Money Supply

## AUD/EUR TECHNICAL OUTLOOK

After consolidating above March 15<sup>th</sup>'s 0.6957 low in April, AUD/EUR initially recovered in early May as high as the 0.7556 level seen on May 10<sup>th</sup>. Nevertheless, the cross continued to show signs of weakness and has since come off to 0.7310 on June 2<sup>nd</sup>.

Last month's largely consolidative price action seen in AUD/EUR still failed to see the cross recover above its former long term support line now drawn at 0.7864, although it did remain above a redrawn lower support line now at 0.7167 that runs parallel to the well established upper resistance line for the cross currently drawn at 0.8102. Nevertheless, the aforementioned trend line breach still inhibits the chances of fresh highs above the key 0.7732 level of Dec 26<sup>th</sup>. The cross should now sustain gains above important support in the 0.6957 region for a push to fresh highs to remain probable. Otherwise, corrective activity should prevail.

Also, the medium term outlook is mixed for AUD/EUR as it continues to trade around the level of its 200-day Moving Average that the cross fell below in March, April and again in early May. That indicator now reads just below current levels at 0.7310 with a mild upward slope. Also, the cross's 14-day RSI now reads 38 in lower neutral territory may mildly impede the downside.

Overall, AUD/EUR's formerly strong upward trend seems to have broken for now, with the cross recently trading within a consolidation pattern bounded by 0.6957 and 0.7732. Since the cross may again fail to make a new high this month, those with long AUD/EUR positions may consider squaring on rallies near these historically high levels.

### MAJOR LEVELS

MAJOR LEVELS		Current level 0.7320	
Resistance	0.7390/0.7415	Support	0.7174/98
Resistance	0.7556	Support	0.6957
Resistance	0.7732	Support	0.6657

### AUD/EUR – WEEKLY CHART



Contact **Jan Borgelt** at OzForex on +61 2 8667 9103 or email [jan.borgelt@ozforex.com.au](mailto:jan.borgelt@ozforex.com.au)

#### DISCLAIMER

IMPORTANT: This information has been prepared for distribution over the internet and without taking into account the investment objectives, financial situation and particular needs of any particular person. OzForex Pty Ltd makes no recommendations as to the merits of any financial product referred to in its website, emails or its related websites. Please view our Product Disclosure Statement at: <http://www.ozforex.com.au/documents/pds.htm> Please view our Privacy Statement at: <http://www.ozforex.com.au/documents/privacy.htm> Please view our Dispute Resolution Policy at: <http://www.ozforex.com.au/documents/dispute.htm>