

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD rose +2.0% in February as the rate spent most of the month consolidating over parity — a tendency that persisted into early March. The Aussie's strength versus the Greenback came on the back of the price of gold making a new record high at 1440.30 on Mar 2nd due to safe haven buying spurred by recent revolts in Muslim countries including Tunisia, Egypt, Libya and Iran. The price of crude oil also gained significantly during the month, and this factor also boosted AUD/USD.

The RBA's latest rate decisions on February and March 1st left its benchmark Cash Rate at the 4.75%, in line with expectations. Also, the RBA's Quarterly Monetary Policy Report release on Feb 4th saw the central bank revise upward its 2011 GDP estimate from +3.75% to +4.25%. Nevertheless, growth seen in 2010 was revised down from 3.5% to 2.75%. In addition, inflation was projected to rise to 2.75% in 2011 and could hit 3% — the top of the RBA's target range — by the end of 2012. This report sent the Aussie sharply higher, which traded largely over parity during February and early March.

For its part, the FOMC left the benchmark Fed Funds rate at historical lows of <0.25% and its controversial debt repurchase program at \$600B through June at its Jan 26th meeting, with no rate decision announced during February. The meeting's minutes were released on Feb 16th and showed that FOMC members are anticipating gains in U.S. economic growth, although without expecting much improvement in the U.S. employment crisis that seems increasingly structural. Due to the departure of long-time hawkish dissenter Thomas Hoenig, the rate decision was unanimous.

The market will now be closely watching the upcoming U.S. and Aussie Employment Reports out on the 4th and 10th respectively. Also important will be the FOMC Rate Decision and the RBA's Monetary Policy Meeting Minutes out on the 15th, as well as the U.S. Trade Balance and Retail Sales numbers out on the 10th and 11th. Net, the Aussie is still favoured long term.

ECONOMIC CALENDAR - Major Releases March 2011

- 3rd – Aus. Trade Balance, US ISM Non-Manuf. PMI, Jobless Claims
- 4th – U.S. Employment Report
- 10th – Aus. Employment Report, US Trade Balance, Jobless Claims
- 11th – US Retail Sales, Prelim. U. of M. Consumer Sentiment
- 15th – Aus. Monetary Mtg Mins, Fed Rate Decision
- 16th – US Building Permits, PPI
- 17th – US CPI, Jobless Claims
- 24th – US Durable Goods Orders, Jobless Claims
- 29th – AUS CB Consumer Confidence
- 30th – US ADP Non-Farm Employment Change
- 31st – Aus. Retail Sales, Building Approvals, US Jobless Claims

AUD/USD TECHNICAL OUTLOOK

AUD/USD rallied initially in February to a monthly high of 1.0199 seen on Feb 4th before then consolidating in a range below that level and above the reaction low of 0.9942 seen on Feb 15th. Early March saw the Aussie trade above parity and toward the top of this range. Last month's price action saw the rate remain within its medium term ascending wedge pattern that is bounded by an upper line now drawn at 1.0334 and a lower line at 1.0039. This pattern seems to be dominating the current technical picture and is mildly bullish for the rate initially, but portends longer term weakness if its lower support line gives way that could ultimately leads to a significant reversal to the downside.

Nevertheless, the rate's key 200-day Moving Average still reads well below the current rate at 0.9489. 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 consolidating, with a current reading in the central part of neutral territory at 53 that should not significantly impede a move in either direction. The rate's Bollinger Bands also contracted somewhat during February as a response to the general reduction in volatility.

From an Elliott Wave perspective, the recent impulsive upside price action rising from the 0.8066 low of May 25th is showing signs of having potentially completed. A break of the major high at 1.0255 would now be needed to target the upper wedge line drawn at 1.0334. Until then, consolidative and mildly bullish pressures to the upside are more likely to predominate in the rate's near future, as long as the lower wedge support line — now drawn at 1.0039 — continues to hold.

MAJOR LEVELS

		Current level 1.0118	
Resistance	1.0182/99	Support	0.9943/66
Resistance	1.0255	Support	0.9803
Resistance - line	1.0334	Support	0.9536

AUD/USD – WEEKLY CHART



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