

## AUD/EUR FUNDAMENTAL OUTLOOK

AUD/EUR lost some ground in April, declining by -2.2%. The cross declined despite renewed sovereign debt concerns in the Eurozone and the price of gold making new all-time highs. The Euro gained considerable strength in April largely due to the ECB's first rate hike since 2008, which took place on April 7<sup>th</sup>.

The ECB raised its benchmark Minimum Bid Rate to 1.25% from 1.0%, as was widely expected. The rate hike was attributed to rising energy costs in the Eurozone and increased inflationary pressures. Headline inflation for the Eurozone rose +2.6% y/y in March and contributed to the decision to hike rates. The ECB raised rates despite likely consequences for the housing sectors of EU members Spain and Ireland, which are already in trouble. In addition, Portugal is still thought to be the next country in line for receiving an EU/IMF bailout.

For its part, the RBA once again left the benchmark Cash Rate at 4.75% for the sixth consecutive month on May 3<sup>rd</sup>, as was widely anticipated. In his post rate release statement, Governor Glenn Stevens reiterated much of what he wrote in the April release. Basically, he affirmed that the Australian economy continues to strengthen despite the destruction from last summer's natural disasters. Stevens saw terms of trade rising, unemployment remaining steady at 5% and CPI inflation was expected to stay at or near target. As a consequence, rates in Australia are not expected to move any time soon.

The forex market will now be looking ahead to the ECB Rate decision on the 5<sup>th</sup>, the Australian Trade Balance on the 10<sup>th</sup>, the Australian Monetary Policy Meeting Minutes on the 17<sup>th</sup> and the German Ifo Business Climate survey on the 20<sup>th</sup>.

From a fundamental point of view, the Aussie continues to be favoured over the Euro in the long term despite additional ECB rate hikes. Nevertheless, a short term weakening of the Aussie may be expected after its recent rise

## AUD/EUR TECHNICAL OUTLOOK

After correcting sharply lower in early March to a low point of 0.6957, AUD/EUR then consolidated above that level throughout April, but only managed to trade as high as 0.7415 on May 1<sup>st</sup>.

Last month's consolidative price action seen in AUD/EUR still failed to see the cross recover above its broken lower long term support line now drawn at 0.7504. This supports redrawing the lower support line at 0.6840 so that it runs parallel to the well established upper resistance line for the cross that currently comes in well above the current cross level at 0.8039. Nevertheless, the significant 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 to support another push to fresh highs.

Also, the medium term outlook remains mixed for AUD/EUR while it continues to trade around the level of its 200-day Moving Average. The indicator currently reads just above current levels at 0.7256 with a mild upward slope, but the cross fell below it in April and now again in early May. Also, the cross's 14-day RSI now reads 41 in lower neutral territory that should only mildly impede a downward move near term.

Overall, AUD/EUR's strong upward trend seems to have broken, with the cross remaining in a consolidation phase that may see the cross trade again fail to make a new high this month. In the near term, the upside should now remain capped at the 0.7732 level. Those with long AUD/EUR positions may consider squaring on rallies near these historically high levels.

### MAJOR LEVELS

Current level 0.7237

Resistance	0.7403/15	Support	0.7174/84
Resistance	0.7513	Support	0.6955/75
Resistance	0.7732	Support	0.6657

### ECONOMIC CALENDAR - Major Releases May 2011

- 5<sup>th</sup> – ECB Rate Decision, Aus. Building App. Retail Sales
- 6<sup>th</sup> – RBA Mon. Policy Statement, German Industrial Production
- 10<sup>th</sup> – Australian Trade Balance, Annual Budget Release
- 12<sup>th</sup> – Aus. Employment Numbers, ECB Monthly Bulletin
- 16<sup>th</sup> – Aus. Home Loans, EZ CPI, Trade Balance
- 17<sup>th</sup> – German ZEW Econ. Sentmt, Aus. Monetary Policy Mtg Mins
- 20<sup>th</sup> – Ger. Ifo Business Climate, Aus. MI Leading Index
- 26<sup>th</sup> – Australian Private Capital Expenditure
- 27<sup>th</sup> – German Preliminary CPI
- 31<sup>st</sup> – Australian Building Apprvls, Current Acct. EZ CPI Flash Est

### AUD/EUR – WEEKLY CHART



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