

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD rose +5.5% in April and took the Australian Dollar to a string of new post float highs against the U.S. Dollar. Fuelling the Aussie's impressive rally was the price of gold also making a series of new all-time highs last month. The precious metal gained over 8% in USD terms, closing the month at \$1,562 per ounce. In addition, mixed economic data out of the United States and signs of rising inflation in the Australian economy contributed to the Aussie's strength.

The RBA's rate decision made on May 3rd left its benchmark Cash Rate at the 4.75%, as widely expected. In his post rate statement, Governor Glenn Stevens mentioned Australia's terms of trade rising, while unemployment continued steady at 5%. The natural disasters suffered by Australia over the summer were cited as the main cause of a decline in GDP over the March quarter. Nevertheless, CPI inflation was expected to remain close to target. The Australian Dollar's exchange rate — the highest in several decades — was expected to, "exert additional restraint on the traded sector", if sustained.

By the same token, the FOMC left the benchmark Fed Funds rate at historical lows of <0.25% and the QEII debt repurchase program at \$600B through June at its Apr 27th meeting. Despite some members voicing their support to end the debt repurchase program early, Fed chief Bernanke's comments to the contrary weighed heavily on the Greenback. He stated that, "Extended period suggests it would be a couple of meetings probably before action", and that he did not know, "how quickly response will be required". The market view remains that the Fed has no intention of raising rates, at least not in the near or mid-term.

The market will now be looking to the Australian Monetary Policy Statement and the U.S. Non-Farm Payrolls on the 6th. Also, Australian Building Approvals on the 30th and Australian GDP on the 31st. AUD/USD may retrace somewhat short term, although the Aussie continues to be favoured longer term.

ECONOMIC CALENDAR - Major Releases May 2011

- 6th – Australian MPC Statement and US Non-Farm Payrolls
- 10th – Aus. Trade Balance, Annual Budget Release, NAB Bus. Conf.
- 13th – Aus. MI Inflation Expectations, US Retail Sales
- 11th – US Trade Balance, Federal Budget Balance
- 12th – Aus. Employment Num, US Retail Sales, Initial Jobless Claims
- 16th – Aus. Home Loans, US TIC Long Term Purchases
- 17th – Aus. Monetary Policy Meeting Minutes, US Bldg. Permits
- 18th – FOMC Meeting Minutes
- 26th – Aus. Private Capital Exp. US Prel. GDP, Initial Jobless Claims
- 27th – US Pending Home Sales
- 31st – US CB Cons. Conf., Aus. HIA New Hme Sls., Curr. Acct, Bldg. Ap

AUD/USD TECHNICAL OUTLOOK

After rallying sharply in the latter half of March, AUD/USD continued rising throughout most of April to peak at a new post-1983 float high of 1.1012 that the rate attained on May 1st.

Last month's bullish price action saw AUD/USD break out of its apparent ascending wedge pattern to the upside. The rate's notable rise now seems to be targeting the theoretical upper trend line currently drawn at 1.1529 that lies parallel to a well established lower trend line now drawn at 0.9380.

Furthermore, the rate's key 200-day Moving Average still reads well below the current rate at 0.9865. That fact, combined with the indicator's current positive slope, yields a bullish medium term outlook for the pair.

Nevertheless, while AUD/USD's 14-day RSI indicator had been on a notable rising trend, its penetration well into overbought territory has gone as high as the 79 level. This tends to indicate that the rate is overdue for some corrective or consolidative price action that will help to normalize the indicator. Also, this RSI has still not shown significant signs of bearish divergence relative to the prevailing bullish price action and so continues to confirm the recent rally.

In addition, due to the rate's consistent directional movement to the upside, its Bollinger Bands contracted somewhat from its expanded state reached in late March as a response to the general decline in volatility.

In summary, the recent impulsive rally from the 0.9696 low of March 15th that initiated at the 0.8066 low of May 25th appears to have more to go before completion. A break above the important 1.1012 high is now needed to accelerate the upside.

MAJOR LEVELS

Current level 1.0759

Resistance	1.1012	Support	1.0677
Resistance - psych	1.1500	Support	1.0389
Resistance - line	1.1529	Support	1.0254

AUD/USD – WEEKLY CHART



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