

GBP/AUD FUNDAMENTAL OUTLOOK

GBP/AUD continued losing ground in November, declining by -0.8% for the month. The cross declined in part due to increased weakness in European based risk assets, rising commodity prices and a combination of favourable economic data out of Australia and mixed to lower economic numbers out of the UK.

The BOE repeated October's rate decision on November 10th, leaving the benchmark Official Bank Rate unchanged at 0.50% with the Asset Purchase Facility also unchanged at £275B. The MPC Meeting Minutes released on November 23rd confirmed a unanimous decision on the part of all nine voting members. UK Inflation numbers in November had UK CPI come out at 5.0%, down from 5.2% the previous month, while the market consensus was for 5.1%. The BOE's Inflation Letter to the Chancellor of the Exchequer stated that, "The main risk facing the UK economy continues to come from the uncertain global economic outlook, and the extent to which weaker global economic conditions threaten the recovery, and to postpone the necessary rebalancing of the UK economy."

For its part, the RBA lowered the benchmark Cash Rate by 25 bps to 4.25% from 4.50% on December 6th. The move was expected by many analysts, although rates were expected to remain unchanged by some major banks in Australia. The RBA is widely expected to continue with a policy of lower interest rates, at least through the middle of 2012. Despite continuing growth in the mining sector, the Australian housing sector continues showing weakness, while demand for credit has also declined in the past months.

The GBP/AUD cross rate continues to decline with fundamentals still solidly favouring the Aussie over Sterling in the intermediate and long terms. Nevertheless, the rate may have a corrective rally in the short term if the BOE begins to tighten rates to deal with inflationary pressures in the UK economy. Traders will be closely monitoring the BOE's rate decision on the 8th for further indications on the direction of the cross rate.

GBP/AUD TECHNICAL OUTLOOK

After falling sharply in October, GBP/AUD largely rose throughout early November to peak at 1.6056 on Nov 22nd. The GBP/AUD cross then sold off sharply to hit a low point of 1.5207 on Dec 4th.

Given the recent series of lower highs and higher lows in the GBP/AUD cross, it still appears to be forming a converging triangular consolidation pattern at lower levels after having broken out of its former long term declining channel to the upside. Resistance is currently seen at the falling series of highs at 1.6491, 1.6386, 1.6358 and 1.6056. Also, the declining trend line drawn through the first three points that is currently at 1.6316 should offer resistance. To the downside, the lows at 1.4759 and in the 1.4987/93 region — as well as the rising trend line drawn through the 1.4759 and 1.4993 lows that is currently at 1.5094 — should lend support to the cross. A break above the falling upper trend line would indicate considerably higher levels to come, while a break below the rising lower trend line would make a retest of the all time low of 1.4759 probable, with an objective at even lower levels once a break below 1.4759 signals the resumption of the long term down trend.

Furthermore, GBP/AUD's key 14-day RSI indicator has been making a series of lower highs and higher lows that is consistent with a consolidation phase. It currently reads at the 41.5 level in the lower central part of neutral territory that may slightly impede a move lower. Also, the cross moved back below its 200-day Moving Average in late November. That indicator now reads 1.5466, with a slightly negative slope that supports a mildly bearish medium term outlook. Overall, the outlook for GBP/AUD over the coming month remains consolidative, with the upside initially preferred.

MAJOR LEVELS	Current level 1.5347
Resistance 1.6056	Support 1.5207
Resistance 1.6358/86	Support 1.4987/93
Resistance 1.6491	Support 1.4759/91

ECONOMIC CALENDAR Major Releases

- 7th Australian Quarterly GDP, UK Manufacturing Production
- 8th Aus. Employment Change, UK Official Bank Rate, MPC St.
- 9th UK PPI Input, Trade Balance
- 12th Australian Home Loans, Trade Balance
- 13th Australian Westpac Consumer Sentiment, UK CPI, RPI
- 15th Aus. MI Inflation Exp., UK Retail Sales, Consumer Inf. Exp.
- 19th Aus. MI & CB Leading Indexes, UK Rightmove HPI
- 20th Aus. Mon. Policy Mtng Min., UK Pub. Sect. Net Borrowing
- 21st UK MPC Meeting Minutes
- 22nd UK Nationwide HPI, Current Account, Final GDP
- 23rd UK BBA Mortgage Approvals
- 29th UK CBI Realized Sales
- 30th UK GfK Consumer Confidence, Aus. Private Sect. Credit

GBP/AUD – WEEKLY CHART



Contact Jan Borgelt at OzForex on +61 2 8667 9103 or email jan.borgelt@ozforex.com.au