

AUD/EUR FUNDAMENTAL OUTLOOK

AUD/EUR lost 14 pips in November, making it the second month in a row the rate has ended virtually unchanged. While the pair had a narrow range during the month, fundamentals continued favouring the Aussie versus the Euro. The rate had shown considerable strength at the beginning of the month, in part due to the bailout instalment granted to Greece and mixed economic data from both nations, nevertheless, the pair sold off in the latter part of the month.

The Eurozone continued giving mixed economic signals, with French and German GDPs expanding while German Retail Sales weakened, dropping -2.8% m/m, versus an expected decline of only -0.3%. Nevertheless, EZ Flash GDP declined -0.1% q/q, indicating the Eurozone has fallen back into a recession. GDP growth is now expected to be between +0.3 and a contraction of -0.9%, the previous forecast was for +1.4% to -0.4%, 2014's expected GDP is expected to range between +0.2% to -2.2%.

The ECB left its benchmark Minimum Bid Rate unchanged at 0.75% on December 6th. In his statement after the rate release, ECB President Mario Draghi reiterated that, "The economic weakness in the euro area is expected to extend into next year. In particular, necessary balance sheet adjustments in financial and non-financial sectors and persistent uncertainty will continue to weigh on economic activity."

Australian economic numbers showed improvement on balance last month, with the latest Employment Change data showing the economy had added +13.9K jobs in November, significantly better than the +0.2K that was expected while the Australian Unemployment Rate dropped to 5.2% from 5.4% with analysts expecting an increase to 5.5%.

On December 4th, the RBA cut its benchmark Cash Rate 25 bps to 3.0% from 3.25% as was widely anticipated. In his statement after the rate announcement, RBA Governor Glenn Stevens noted that, "There are signs of easier conditions starting to have some of the expected effects, though the exchange rate remains higher than might have been expected, given the observed decline in export prices and the weaker global outlook." Due to Australia's interest rate cut and continued uncertainty in the Eurozone, the outlook for AUD/EUR is neutral in the near and medium terms, but favouring the Aussie in the longer term.

ECONOMIC CALENDAR Major Releases

- 7th Australian Trade Balance, German Industrial Production
- 10th Aus. Home Loans, EZ Sentix Investor Confidence
- 11th Australian NAB Bus. Conf., German ZEW Economic Sent.
- 12th Spanish 10y Bond Auction, EZ Industrial Production
- 13th Aus. MI Inflation Expectations, EZ Monthly Bulletin
- 14th Ger. & Fr. Flash Man. & Svcs PMI, EU Economic Summit
- 17th Australian CB Leading Index
- 18th Australian RBA Monetary Policy Meeting Minutes
- 19th German Ifo Business Climate, EZ Current Account
- 21st German GfK Consumer Climate
- 27th Italian 10-year Bond Auction
- 28th French Consumer Spending
- 31st Australian Private Sector Credit

AUD/EUR TECHNICAL OUTLOOK

After AUD/EUR traded off its August high of 0.8616 to an early October low of 0.7796, the cross rallied up to 0.8224 on November 12th before then coming off as far as the 0.7971 level by December 2nd.

AUD/EUR is still trading with a long term upward sloping channel that has persisted over the past four years since the cross bottomed at 0.4713 in October 2008. The high point thus far achieved in this remarkable upward trend was set at the 0.8616 level in July of this year, after the cross had almost doubled in value since its 2008 low. AUD/EUR has more recently been in a corrective phase lower, which appears to have concluded at the 0.7796 level on October 4th. This dip in the cross tested and helped define the lower trendline of the channel, which is currently drawn at the 0.7970 level. AUD/EUR just bounced off this key support line once again in early December, indicating that it may well hold for a more extended rally over the coming month.

Furthermore, after fluctuating around it since September, AUD/EUR has now moved back above the 0.8057 level of its virtually flat 200-day Moving Average. This tends to support a neutral to mildly bullish medium term outlook for the cross. Also, AUD/EUR's 14-day RSI has returned back above the central 50 level, reflecting more bullish price action in recent days. That indicator is currently situated in neutral territory at the 53.6 level, which should not substantially impede price action in either direction.

Overall, the medium term outlook for AUD/EUR seems to be cautiously restoring its former bullish tone after a deep correction lower. Also, the second sharp bounce seen after failing to break the rising lower channel trendline since October could well mark the tentative early days of another rally in AUD/EUR.

| MAJOR LEVELS | Current level 0.8087 |
|---------------------------|----------------------|
| Resistance 0.8223/41 | Support 0.7966/95 |
| Resistance 0.8611/16 | Support 0.7854 |
| Resistance 0.9000 (psych) | Support 0.7796 |

AUD/EUR – WEEKLY CHART



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