

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD extended its previous months +5% gain, rising +2.5% in July due in part to renewed risk appetite in the forex market, extended carry trades and improving Australian economic data. The gain in the rate also reflected mixed economic numbers out of the United States, with improvements in employment despite continued weakness in Factory and Durable Goods Orders. The European situation continues weighing on risk assets, although its effect has waned somewhat recently.

The Australian economy continued improving overall in July, despite a -27.0 drop in the Employment Change versus an expected increase of +0.2K. Most other economic numbers came out as expected or were better than the market analysts' consensus forecasts. Building Approvals showed the most improvement, with the June number showing a decrease of -2.5% — significantly lower than the decline of -14.6% that was expected. Also, import prices rose by +2.4%, while the Trade deficit expanded to -0.29B from -0.3B, versus -0.51B expected.

The RBA left its benchmark cash rate at 3.5% at its July 3rd meeting as was widely anticipated. The RBA's Monetary Policy Meeting Minutes for the July 3rd meeting stated that, "members noted that the possibility that the situation in Europe could deteriorate again and spill over to other economies remained a substantial risk."

Economic data for the United States continued lagging in some key sectors such as housing. Building Permits and Housing Starts came out as expected, but weakness was evident in Existing Home Sales, New Home Sales and Pending Home Sales. Conversely, employment numbers showed some improvement, with Non-Farm Payrolls gaining for the past two releases, although the Unemployment Rate also rose last month.

The FOMC left the benchmark Fed Funds Rate unchanged at <0.25% at its most recent decision on August 1st. No hints were given for a new round of QEIII and the central bank's rate statement essentially read the same as the previous month.

Due to continued improvements in the Australian economy versus the U.S. economy and as corrective action is anticipated, the outlook for the rate is neutral in the near term, but still positive in both the medium and long terms.

AUD/USD TECHNICAL OUTLOOK

After AUD/USD rose steadily in June, it also rose more erratically in July, peaking at 1.0580 on August 2nd. A sharp correction lower to 1.0438 was then seen later that same day.

From an Elliott Wave perspective, AUD/USD remains within the consolidative price pattern noted since the rate made its historic high at 1.1080 on the 24th of July 2011. The rate seems to be forming a medium term symmetric triangle pattern, and to be rallying within the fourth wave of five anticipated waves. The first wave declined from 1.1080 to 0.9387, the second wave rose to 1.0856, the third wave fell to 0.9560, and the fourth wave has rallied to 1.0580 thus far. The rate also shows a long term upward trend, with rising support and resistance lines now drawn at the 0.9756 and 1.2248 levels respectively. Additional trendline support is seen at the triangle's lower line currently drawn at 0.9631, while its falling upper line is drawn quite close to the current rate at 1.0697. A sustained break of this latter line would be quite bullish.

AUD/USD has also traded convincingly above its 200 day Moving Average since July 24th. That indicator now reads 1.0276, and its slope is only mildly negative, thereby yielding a neutral to mildly bullish medium term outlook for the rate. Nevertheless, AUD/USD's key 14-day RSI indicator again failed to confirm the recent 1.0571 high by reading lower than it did at the July 18th high of 1.0444, thereby showing bearish regular divergence. Although not in overbought territory, such divergence can indicate the present rally in AUD/USD could be losing momentum. That indicator is now reading 67.39 and is approaching the overbought zone that could significantly impede a move higher.

Overall, the outlook for AUD/USD for the coming month is cautiously higher initially within a triangular consolidation pattern. This rally should then be followed by a correction lower — unless the triangle's upper trend line breaks convincingly, which would be a bullish signal.

| MAJOR LEVELS | Current level 1.0566 |
|----------------------|----------------------|
| Resistance 1.0580 | Support 1.0444/74 |
| Resistance 1.0637/89 | Support 1.0321/29 |
| Resistance 1.0844/56 | Support 1.0177 |

ECONOMIC CALENDAR Major Releases

- 7th RBA Cash Rate, US Fed Bernanke Speech
- 8th Australian Home Loans, US 10-year Bond Auction
- 9th US Trade Balance, Aus. Employment Chng Unemployment
- 14th US Core Retail Sales, Core PPI, Aus. NAB Business Conf.
- 15th Aus. Westpac Consumer Sentiment, US Core CPI, CPI
- 16th US Building Permits, Aus. MI Inflation Expectations
- 21st RBA Monetary Policy Meeting Min., FOMC Meeting Min.
- 22nd US Existing Home Sales, Australian MI Leading Index
- 23rd US New Home Sales, Initial Jobless Claims
- 28th Aus. HIA New Home Sales, US CB Consumer Confidence
- 29th US Preliminary GDP, Pending Home Sales
- 30th Aus. Private Capital Expenditure, Private Sector Credit
- 31st US Chicago PMI, Factory Orders

AUD/USD – WEEKLY CHART



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AUD/EUR FUNDAMENTAL OUTLOOK

AUD/EUR exceeded its previous month's gains, rising +5.6% in July. Continued economic turmoil in the Eurozone was the major reason for the rise, but increased interest in the Australian Dollar due to high interest rates in Australia also contributed to the rise. Spain and Italy took the spotlight in Eurozone news last month, as Spanish 10-year bond yields crossed the "unsustainable" 7% threshold which marked the bailouts for Ireland, Portugal and Greece. Following last month's downgrades to Spanish sovereign debt and a bailout package for Spanish banks of €100B, Moody's downgraded 13 Italian banks on July 16th, with S&P downgrading 15 Italian banks on August 3rd.

Despite the adverse economic scenario, ECB head Mario Draghi pledged to do everything possible to defend the Euro, including buying up as much sovereign debt as possible to bring down bonds yields of troubled countries. Spanish PM Rajoy has given signs that Spain will be requesting a full formal bailout from the ECB and EU, as well as the bank bailout approved last month.

The ECB left rates unchanged at their latest rate decision on August 2nd. ECB President Draghi stated in his prepared comments after the decision that, "Exceptionally high risk premia are observed in government bond prices in several countries and financial fragmentation hinders the effective working of monetary policy. Risk premia that are related to fears of the reversibility of the euro are unacceptable, and they need to be addressed in a fundamental manner. The euro is irreversible."

Australian economic numbers continued improving overall in July with the exception of a -27.0K drop in Employment Change, versus an expected increase of +0.2K. Improvement in the construction and housing sector could be noted in Building Approvals the June number showing a decrease of -2.5%, significantly lower than the decline of -14.6% that was expected. The RBA left its benchmark cash rate at 3.5% at its July 3rd meeting as was widely anticipated. The Meeting Minutes for the RBA's latest meeting stated "the possibility that the situation in Europe could deteriorate again and spill over to other economies remained a substantial risk."

Although the initial move higher may be overdone now, due to continued uncertainty in the Eurozone and an improving Australian economy, the Aussie remains favoured over the Euro longer term.

AUD/EUR TECHNICAL OUTLOOK

AUD/EUR rallied impulsively off of May 17th's 0.7673 low point throughout June and July to hit a new historic high at the 0.8616 level on August 1st.

From an Elliott Wave perspective, AUD/EUR's recent rise to fresh all-time highs considerably beyond its February 6th peak of 0.8240 indicates that a new impulsive rally is now underway. This upside move began at 0.7673, just ahead of AUD/EUR's long term up channel's lower support line, which now provides rising support at the 0.7900 level. The cross also exceeded the upper trend line of a rising wedge pattern, and it now seems headed for even higher levels over the coming months, perhaps after some initial corrective activity lower. Substantial resistance for AUD/EUR is anticipated at the rising long term upper channel trendline that is currently drawn at the 0.9171 level.

Furthermore, AUD/EUR is now trading well above the 0.7929 level of its rising 200-day Moving Average, which continues to support a bullish medium term outlook for this cross. Nevertheless, AUD/EUR's 14-day RSI failed to confirm the most recent peak at 0.8616 within the prevailing upward impulse by making a lower high in overbought territory — a classic bearish signal that a significant correction may be forthcoming shortly. That indicator has now returned to upper neutral territory at the 65.3 level, which could significantly impede a further move to the upside until some additional corrective price action lower or a consolidation period normalises its level.

Overall, the medium term outlook for AUD/EUR remains bullish, although a near term correction or consolidation period could well occur before the rally resumes to make fresh highs. If a dip is seen, it could provide a buying opportunity, especially ahead of the broken rising upper wedge trendline now at 0.8469.

| MAJOR LEVELS | Current level 0.8526 |
|---------------------------|----------------------|
| Resistance 0.8616 | Support 0.8230/41 |
| Resistance 0.9000 (psych) | Support 0.7732 |
| Resistance 0.9171 (line) | Support 0.7673 |

ECONOMIC CALENDAR Major Releases

- 7th RBA Cash Rate, Italian Prelim GDP, German Factory Ordrs
- 8th Australian Home Loans, German 10-year bond auction
- 9th Aus. Employment Chng. Unemployment, ECB Mnthly Bltn
- 14th German ZEW Economic Sent., Aus. NAB Business Conf.
- 15th Australian Westpac Consumer Sentiment
- 16th EZ CPI, Core CPI, Aus. MI Inflation Expectations
- 21st RBA Monetary Policy Meeting Minutes
- 22nd Germ. Ifo Business Climate, Australian MI Leading Index
- 23rd German Flash Manufacturing PMI, Final GDP
- 28th Aus. HIA New Home Sales, EZ M3 Money Supply
- 29th German Retail Sales, Italian 10-year bond auction
- 30th Aus. Private Capital Expenditure, Private Sector Credit
- 31st EZ CPI Flash Estimate, Unemployment Rate

AUD/EUR – WEEKLY CHART



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GBP/AUD FUNDAMENTAL OUTLOOK

GBP/AUD extended its previous month's losses by falling another -3.2% in July. The decline was in part due to general uncertainty in the Eurozone and the effect it would have on the UK, combined with improving economic data out of Australia. Also affecting the rate were overall weaker numbers out of the UK, including the CPI that showed inflation had slowed down and a weaker than expected Preliminary GDP number.

UK annualized CPI dropped to 2.4% in June, versus a consensus of 2.8%, while UK Preliminary GDP declined -0.7% q/q, versus the -0.2 expected. Weakness was also noted in UK Retail sales, which rose only +0.1% m/m, versus an expected increase of +0.6%. Nevertheless, the UK Claimant Count Change declined to 6.1K from 6.9K, while the UK Unemployment Rate dropped to 8.1%, The UK Trade Deficit also narrowed to -8.4B from -9.7B expected.

The MPC's Meeting Minutes showed a unanimous decision to keep the BOE's benchmark Official Bank Rate at 0.50%, but members Dale and Broadbent voted against raising the Asset Purchase Facility, which was increased to £375B from £325B. The minutes stated that, "The near-term outlook for GDP growth had weakened. It now seemed possible that output would be roughly flat over 2012 as a whole, implying a period of two years where there had been little or no economic growth – a near-term picture somewhat weaker than had been expected at the time of the May Inflation Report."

The Australian economy continued improving overall in July, with the exception of a -27.0K Employment Change drop when analysts had expected an increase of +0.2K. Australian Building Approvals rose +27.3% in May, with the June number showing a decrease of -2.5% that was significantly better than the decline of -14.6% expected. The RBA also left its benchmark cash rate at 3.5% at its July 3rd meeting, as was widely anticipated. The RBA's Monetary Policy Meeting Minutes for the July 3rd meeting noted that, "the possibility that the situation in Europe could deteriorate again and spill over to other economies remained a substantial risk."

Although the current decline may be somewhat overdone, due to the ongoing risk associated with the UK's exposure to the Eurozone, and continued weakness in the UK economy, as well as improving economic conditions in Australia, the outlook continues favouring the Aussie over Sterling in the medium and long terms.

GBP/AUD TECHNICAL OUTLOOK

GBP/AUD continued heading southward in July, falling as far as the 1.4726 level by August 5th, after the cross had also traded substantially lower during late May and June.

Since GBP/AUD failed to rally through strong resistance in the 1.6358 to 1.6386 region, the cross now appears to be heading for another test of its historic low point of 1.4555, which now provides key support. A break below that level would be considerably bearish for GBP/AUD, and would indicate that a fresh impulsive decline is underway. The cross has already fallen below the important series of successively higher lows at 1.4759, 1.4987, 1.4993 and 1.5031 during its current notable decline, which now offer resistance to the rate. GBP/AUD is supported by a falling wedge lower trendline at 1.4303 and resisted on the upside by its declining channel top line now drawn at 1.5464, and a break above that line would improve the tone considerably in this cross.

GBP/AUD also fell back below its key 200-day Moving Average, which currently reads at the 1.5310 level. That indicator's slope has also turned negative again, yielding a bearish medium term outlook for the cross. Furthermore, GBP/AUD's 14-day RSI has pushed down into oversold territory at the 27.0 level, although this shows divergence relative to the 26.7 level reached at the July 4th low of 1.5070. Not only can such oversold levels impede further downside price action significantly, but the regular bullish divergence seen signals that a correction higher is now likely in the near term.

Overall, GBP/AUD looks to be trading within a strong downside impulse, which will be confirmed by a break of the historic 1.4555 low point. Nevertheless, the cross' currently oversold status and bullish divergence showing on the RSI indicates that a bounce may provide GBP/AUD bears with a near term selling opportunity before the downtrend resumes to take this cross to fresh lows.

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|---------------------------------|------------------------------|
| MAJOR LEVELS | Current level 1.4756 |
| Resistance 1.4987/1.5070 | Support 1.4726 |
| Resistance 1.5603 | Support 1.4555 |
| Resistance 1.6174/85 | Support 1.4303 (line) |

ECONOMIC CALENDAR Major Releases

- 7th RBA Cash Rate, UK Manufacturing Production
- 8th Australian Home Loans, UK BOE Inflation Report
- 9th UK Trade Balance, Aus. Employment Chng. Unemployment
- 10th UK PPI Input, PPI Output
- 14th UK CPI, RPI, BOE Inflation Ltr., Aus. NAB Business Conf.
- 15th UK MPC Mtng Min., Aus. Westpac Consumer Sentiment
- 16th UK Retail Sales, Aus. MI Inflation Expectations
- 21st RBA Mon. Policy Mtng Min., UK Public Sec. Net Borrowing
- 22nd Australian MI Leading Index
- 23rd UK Revised GDP, BBA Mortgage Approvals
- 28th Aus. HIA New Home Sales
- 30th Aus. Private Capital Expenditure, Private Sector Credit
- 31st UK GfK Consumer Climate

GBP/AUD – WEEKLY CHART



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