AUD/USD in Focus

May 2012

AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD gained marginally in April rising by +0.7% overall. Both countries reported weaker economic data on balance over March's numbers, with improvement in some areas such as Australian employment. Contraction in U.S. economic growth as measured by Advance GDP and lower growth in China indicated a possible slowdown in the feeble global economic recovery.

Australia showed weakness in both CPI and PPI numbers, with Trimmed Mean CPI rising by only +0.3% q/q, versus +0.5% that was anticipated, and PPI dropping by -0.3% q/q, versus an increase of +0.5 expected. Aussie Employment Change, however, showed the country had added +44.0K jobs in March, versus an expected increase of +6.4K while the Australian Unemployment Rate remained at 5.2%.

United States economic numbers showed improvement in the housing sector, but weaker than expected Non-Farm Payroll numbers out in both April and May. Non-Farm Employment Change for April showed an increase of +115K, versus +173K expected. The FOMC left the Fed Funds Rate unchanged at 0.25% in their latest meeting, suggesting further easing due to a slowdown in the U.S. economy.

The big news for the rate was the RBA's unexpected 50 bps cut to the Cash Rate, from 4.25% to 3.75% on May 1st. The overall consensus was for the RBA to cut the rate by 25 bps to 4.0%. In the statement following the rate announcement, Glenn Stevens stated, "Since it last changed the cash rate in December, the Board has maintained the view that the setting of policy was appropriate for the time being, but that the inflation outlook would provide scope for easier monetary policy, if needed, to support demand. The accretion of evidence over recent months suggests that it is now appropriate for a further step in that direction."

Due to the larger than expected cut in the Cash Rate and weakness in commodity prices, the Australian Dollar will probably continue to be pressured against the Greenback, at least in the near and mid terms. If the world economy keeps losing momentum, as witnessed by recent weaker growth numbers in China and the United States, then the Australian Dollar might continue to lose ground against the Greenback and other major currencies in the longer term.

AUD/USD TECHNICAL OUTLOOK

AUD/USD fell correctively during March and early April to hit a low of 1.0226 on April 10th, although it then managed to bounce to 1.0474 by April 26th. Nevertheless, the downside again reasserted itself, sending the rate lower to 1.0170 by May 3rd.

The price action in AUD/USD since its historic 1.1080 peak on July 24th of last year has shown at least two double top formations. The latest was formed by February's twin peaks at 1.0844 and 1.0856, although the rate has already attained its measuring objective of 1.0344. Nevertheless, the overall prevailing chart pattern in AUD/USD since its 1.1080 peak currently appears to be a neutral triangular consolidation pattern formed as the rate trades between converging trend lines now drawn at 1.0076 and 1.0791, with three waves of the typical five already seeming complete. Furthermore, the rate's corrective decline is fast approaching its long term uptrend line drawn at the 1.0076 level, which also corresponds to the lower rising line of the aforementioned triangle pattern. This key trendline should provide good support, although a sustained break below it would be considerably bearish for the rate.

In addition, AUD/USD has again fallen below its 200 day Moving Average that now reads 1.0340 and has a slightly negative slope, thereby turning the medium term outlook for the rate bearish. Nevertheless, AUD/USD's key 14-day RSI indicator failed to confirm the recent 1.0170 low by reading higher than it did at the April 9th low of 1.0227, thereby showing signs the downward move may be losing momentum. That indicator has remained mostly below the central 50 level since early March, and currently reads 36.2, which could mildly impede a downside move.

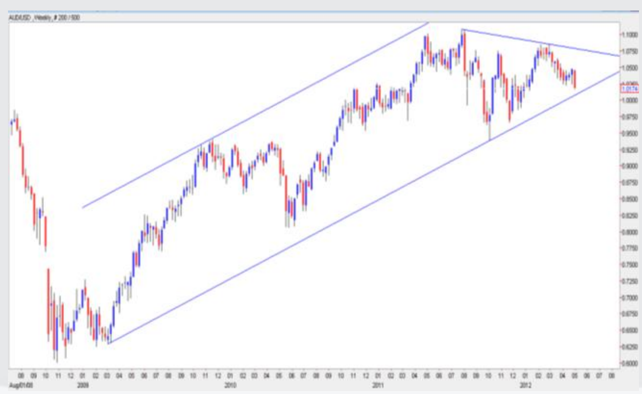
Overall, the near term decline in AUD/USD may offer a buying opportunity ahead of the key long term rising trendline at 1.0076 since a corrective rally seems more likely than not over the coming month.

MAJOR LEVELS	Current level 1.0174
Resistance 1.0453/74	Support 1.0044
Resistance 1.0637	Support 0.9861
Resistance 1.0844/56	Support 0.9663

ECONOMIC CALENDAR Major Releases

8th Australian Trade Balance, Annual Budget Release
10th Aus. Employment Change, Unemployment, US Trade Bal.
11th US PPI, Core PPI, Prelim. UoM Consumer Sentiment
14th Australian Home Loans, G7 Meetings
15th Aus. Monetary Policy Mtg Mins, US CPI, Retail Sales
16th US Building Perm. FOMC Meeting Minutes
17th Aus. MI Inflation Expectations, US Initial Jobless Claims
22nd US Existing Home Sales
23rd Australian CB & MI Leading Indexs, US New Home Sales
24th US Durable Goods Orders, Core Durable Goods Orders
29th US CB Consumer Confidence
30th Aus. Private Capital Exp., US Pending Home Sales
31st Aus. Building Approvals, US Preliminary GDP

AUD/USD – WEEKLY CHART



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AUD/EUR in Focus

May 2012

AUD/EUR FUNDAMENTAL OUTLOOK

AUD/EUR gained +0.6% in April, rising marginally as both the Eurozone and Australia reported mixed economic data. The Aussie was favoured over the Euro last month due in part to continued uncertainty over Europe's fiscal situation, with increasing pressure from troubled members Spain and Italy.

Confidence in a viable solution to the European financial crisis continued in flux last month as Spain became the focus of attention. Spanish Unemployment rose to 24.4% from 22.9% in 2012's first quarter while 10-Year Spanish bond yields have been closing in on the 6% level indicating the possible need for a bailout. Also, Spanish sovereign debt was downgraded two notches by S&P to BBB.

The Australian economy showed some weakness in both CPI and PPI numbers, with Trimmed Mean CPI rising by only +0.3% q/q, versus an expected+0.5%, and PPI dropping by -0.3% q/q, versus an increase of +0.5 expected. Aussie Employment Change, however, showed the country had added +44.0K jobs in March, versus an expected increase of +6.4K while the Australian Unemployment Rate remained at 5.2%.

The ECB left the benchmark Minimum Bid Rate at 1.0% in April and May. After the May rate release, ECB President Draghi stated that, "This combination of measures has helped both the financial environment and the transmission of our monetary policy. Further developments will be closely monitored, keeping in mind that all our non-standard monetary policy measures are temporary in nature and that we maintain our full capacity to ensure medium-term price stability by acting in a firm and timely manner."

The RBA conversely, cut the benchmark Cash Rate by 50 bps to 3.75% from 4.25% on May 1st, surprising the market, which was expecting a cut of 25 bps to 4.0%.After the rate announcement, Governor Stevens stated that, "the Board has maintained the view that the setting of policy was appropriate for the time being, but that the inflation outlook would provide scope for easier monetary policy, if needed, to support demand."

Due to the ongoing European financial crisis, the rate is expected to range trade for a period of time, eventually finding its way higher in all time frames.

ECONOMIC CALENDAR Major Releases

8th Aus.Trade Balance, Annual Budget, Ger. Industrial Prod.
10th Aus. Employment Change, Unemp. ECB Monthly Bulletin
14th Aus. Home Loans, EZ Industrial Production, G7 Meetings
15th Aus. Monetary Policy Mtng Min., German ZEW Econ. Sent.
16th Aus. Westpac Consumer Sentiment, EZ CPI, Core CPI
17th Australian MI Inflation Expectations
23rd Aus. CB and MI Leading Indx, EZ Current Account
24th German Ifo Business Climate, Flash Man. And Svcs. PMI
25th German GfK Consumer Climate, G8 Meetings
29th German Preliminary CPI, Italian 10-Year Bond Auction
30th Aus. Private Capital Expenditure, Construction Wrk Done
31st Aus. HIA New Home Sales, Building Approvals, Private Sector Credit, German Retail Sales

AUD/EUR TECHNICAL OUTLOOK

After AUD/EUR hit a fresh long term high at 0.8240 on February 6th, it then fell correctively to hit the 0.7953 level by February 26th before it recovered to trade as high as the 0.8155 level by March 1st. The downside then reasserted itself, sending the cross to a recent low of 0.7737 on May 3rd.

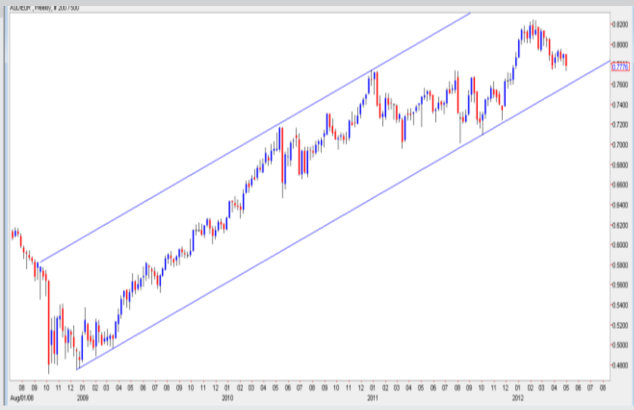
From an Elliott Wave perspective, AUD/EUR's failure to rally beyond 0.8240 since February indicates that peak probably concluded an upward impulse that started at the 0.7239 level on November 22nd. The initial corrective decline that took the cross down to the 0.7923 level now looks like a three wave A segment of a zig-zag correction, followed by a B wave rally to 0.8155. This scenario indicates that an extended declining C wave is currently in progress, which has already fallen below the end of A to hit 0.7737 — a level that falls just between the Fibonacci projection ratios of 1.236=0.7763 and 1.382=0.7717. The 1.618 Fibonacci projection ratio is 0.7642, and for new highs to be seen in this cross over the coming few months, the current C wave lower should reverse ahead of the long term rising support line currently drawn at 0.7578.

Furthermore, AUD/EUR is still trading above its key 200-day Moving Average level of 0.7663, although its formerly positive slope has almost flattened out, yielding only a mildly bullish medium term outlook for the cross. Also, the cross' 14-day RSI is reading on the bearish side of neutral territory at the 39.4 level, which should only slightly impede a move lower.

Overall, the near term outlook for AUD/EUR indicates further corrective activity lower, although the view remains cautiously bullish over the coming months, with a buy on dips strategy preferred in anticipation of the long term upwards trend eventually resuming. A break below the cross' 200-day MA and its long term uptrend line would sour the tone considerably for this cross.

MAJOR LEVELS	Current level 0.7776
Resistance 0.7923	Support 0.7733/46
Resistance 0.8155/76	Support 0.7625
Resistance 0.8230/40	Support 0.7239

AUD/EUR – WEEKLY CHART



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OZFOREX Foreign Exchange Services

GBP/AUD in Focus

May 2012

GBP/AUD FUNDAMENTAL OUTLOOK

GBP/AUD gained ground in April, rising +1.6% overall for the month. The rise was in part due to improved economic numbers in the UK, with the notable exception of UK Preliminary GDP, which declined by -0.2% in the first quarter of 2012. Analysts expected an increase of +0.1%. Also, supporting the rate were soft commodity prices and mixed economic data out of Australia.

Economic data out of the UK showed firming in the construction and housing sectors; UK Construction PMI showed improvement in March and again in April, printing at 55.8, versus 51.4 in its latest reading, also UK Nationwide HPI increased by 2,2% in March but contracted by -0.2% in its latest reading for April.

Australian economic numbers were mostly mixed, with improvement in employment, Aussie Employment Change showed the country had added +44.0K jobs in March. Nevertheless, Australia showed weakness CPI, with Trimmed Mean CPI rising by only +0.3% q/q, versus +0.5% that was anticipated,

The Bank of England left the benchmark Official Bank Rate unchanged at 0.50% and the Asset Purchase Facility also unchanged at 325B in its April 5th rate decision. The central bank disclosed in its MPC Meeting Minutes on April 18th a unanimous decision to keep rates unchanged, while the Asset Purchase Facility had only one dissenter, David Miles, who asked for the program to be raised by 25B to 350B. In the previous decision, Adam Posen had also dissented, but voted to keep the program unchanged in April.

The RBA, for its part cut the benchmark Cash Rate by 50 bps to 3.75% from 4.25% in its latest decision on May 1st, taking the market by surprise. The economist consensus was for a 25 bps cut to 4.0%.After the rate announcement, Governor Glenn Stevens stated, “In considering the appropriate size of adjustment to the cash rate at today's meeting, the Board judged it desirable that financial conditions now be easier than those which had prevailed in December.”

Due to the larger than expected RBA rate cut, and improving economic conditions in the UK, GBP/AUD will probably continue correctively higher in the near and mid-terms, although the longer term outlook remains bearish.

GBP/AUD TECHNICAL OUTLOOK

GBP/AUD fell to an historic low at the 1.4555 level on Feb 14th, but the cross has risen correctively since then, pushing up as high as the 1.5887 level on May 3rd. The cross also bested initial resistance at the 1.5502 and 1.5728 levels that now lend support.

The long term down trend for GBP/AUD appears to be reversing after an upside break of its key declining trend line, which is currently drawn at 1.4555, thereby making the upside seem more likely in the medium term. Furthermore, the cross seems to be forming a saucer bottom pattern over the last four months, which has a low point of 1.4555 and a neckline redrawn at the 1.6056 level now that the 1.5678 resistance level has been convincingly exceeded. Accordingly, the correction higher in GBP/AUD seems to have further to go, although major resistance is noted at the falling series of highs at 1.6491, 1.6386, 1.6358 and 1.6056. Initial support is seen at 1.5678, and below that at the successively higher lows of 1.4759, 1.4987, 1.4993 and 1.5031 that collectively formed the base of a previous consolidation pattern in this cross.

GBP/AUD is also currently trading above its key 200-day Moving Average, which currently reads at the 1.5316 level, and it has an increasingly positive slope, thereby turning the medium term outlook for the cross bullish. Nevertheless, its 14-day RSI did not confirm the latest corrective high at 1.5887 by only peaking at 72.2, thereby showing bearish regular divergence in overbought territory relative to its 76.1 reading seen on March 29th when it only traded as high as 1.5476.

Although the GBP/AUD outlook has improved considerably, the bearish price-RSI divergence argues for a correction lower in May.

MAJOR LEVELS	Current level 1.5852
Resistance 1.6056	Support 1.5728
Resistance 1.6358/86	Support 1.5232
Resistance 1.6491	Support 1.4555

ECONOMIC CALENDAR Major Releases

8th Aus. Trade Balance, UK RICS House Price Balance
9th UK BRC Retail Sales Monitor
10th Aus. Employment Chg, Unemployment Rt, BOE Rate Stmt
11th UK PPI Input
14th Australian Home Loans, G7 Meetings
15th RBA Monetary Policy Meeting Minutes, UK Trade Balance
16th UK BOE Inflation Report, Claimant Count Change
17th Australian MI Inflation Expectations
22nd UK CPI, BOE Inflation Letter, Pub. Sector Net Borrowing
23rd UK MPC Meeting Min., Aus. CB & MI Leading Indexes
24th UK Retail Sales, Revised GDP
30th Australian Private Capital Expenditure
31st Australian Private Sector Credit, Building Approvals

GBP/AUD – WEEKLY CHART

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