

AUD/EUR FUNDAMENTAL OUTLOOK

AUD/EUR gained sharply in June rising an impressive +5.4%. The rise in the rate was largely due to continued uncertainty in the Eurozone and improving economic conditions in Australia. While some progress was made with a pro-austerity party vote in the Greek parliament, the Euro was heavily burdened by rising bond yields and downgrades on Spanish debt and a tentative €100 B bailout of the Spanish banking system. In addition, bond yields in Italy were a matter of concern as they also approached the unsustainable 7% level on 10-year bonds.

The Greek parliamentary election was one of the main focuses last month for the Euro. The pro-bailout New Democracy party defeated the anti-bailout Syriza party with 30% of the vote. The Syriza party came in second with 26.6% and the socialist PASOK party followed with 12.5%. No single majority party was elected, forcing the New Democracy party to form a coalition government. Economic numbers out of the Eurozone were weaker in June, with the exception of some improving French economic numbers, most economic releases for the Eurozone were worse than expected.

The ECB cut its benchmark Minimum Bid Rate by 25 bps to a historical low of 0.75% on July 5th. In a press conference after the rate release, ECB President Mario Draghi stated that, "Inflationary pressure over the policy-relevant horizon has been dampened further as some of the previously identified downside risks to the euro area growth outlook have materialised. Consistent with this picture, the underlying pace of monetary expansion remains subdued."

Australian economic numbers showed considerable improvement in June. Employment Change showed the Australian economy added 38.9K new jobs in May, versus an expected loss of -2.7K jobs. The improving economic picture was reiterated by a +1.3% rise in Australian GDP in the first quarter, beating the consensus of a +0.5% rate of growth.

The RBA left its benchmark Cash Rate unchanged at 3.5% on July 3rd; Governor Stevens stated, "In Australia, recent data suggest that the economy continued to grow in the first part of 2012, at a pace somewhat stronger than had been earlier indicated." Due to improving economic conditions in Australia and uncertainty in the Eurozone, AUD/EUR is favoured in the near, mid and long terms.

AUD/EUR TECHNICAL OUTLOOK

AUD/EUR fell initially during early May to make a new recent low at the 0.7673 level on May 17th. The cross then reversed direction and began rising impulsively throughout the rest of May and June to hit a new historic high at the 0.8318 level on July 4th.

From an Elliott Wave perspective, AUD/EUR's recent rally beyond its February 6th peak of 0.8241, which was its previous all-time high, signals that a new impulsive move to the upside is currently underway in this cross. The base of the current move lies at the preceding 0.7673 low seen on May 17th. That reversal point was situated just ahead of AUD/EUR's key long term support trend line, which has since risen to 0.7724, indicating that future gains may well be forthcoming in this cross, although a break below that line would seem bearish. To the upside, an upper rising wedge trendline offers resistance at 0.8425, while the up channel's top line is currently situated at 0.9039.

Furthermore, AUD/EUR is now trading well above the 0.7819 level of its rising 200-day Moving Average, which continues to support a bullish medium term outlook for this cross. Also, AUD/EUR's 14-day RSI has confirmed recent peaks within the prevailing upward impulse. Nevertheless, that indicator is currently reading well into overbought territory at the 82.9 level, which could significantly impede a further move to the upside until some corrective price action lower normalizes its level.

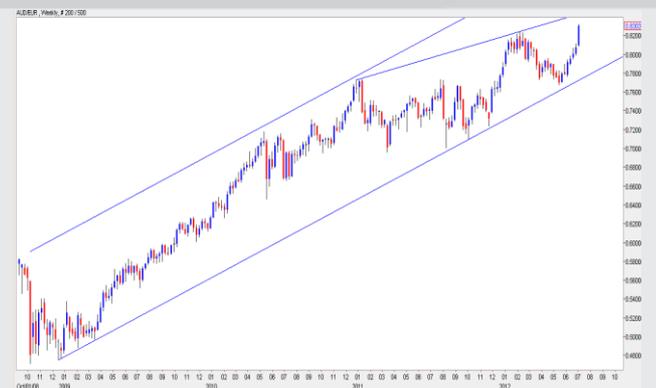
Overall, the medium term outlook for AUD/EUR indicates further upside price action is more likely than not, with a buy on dips strategy preferred now that it appears the cross' long term upwards trend is resuming. Nevertheless, the current overbought situation in the cross indicates that a correction lower may be forthcoming in the near term that could provide a buying opportunity.

MAJOR LEVELS	Current level 0.8303
Resistance 0.8318	Support 0.8230/41
Resistance 0.8425 (line)	Support 0.8155/76
Resistance 0.8500 (psych)	Support 0.7906/54

ECONOMIC CALENDAR Major Releases

- 9th Aus. NAB Business Confidence, ECB Draghi Speech
- 10th Aus. Wespac Cons. Sent., Home Loans, ECOFIN Meetings
- 11th Australian Employment Change, Unemployment Rate
- 12th ECB Monthly Bulletin, EZ Industrial Production
- 16th Aus. Monetary Policy Mtng Mins, EZ CPI, Core CPI
- 17th German ZEW Economic Sentiment, G7 Meetings
- 18th Aus. NAB Quarterly Bus. Report, Spanish HPI
- 19th EZ Current Account, Australian Import Prices
- 23rd Australian PPI, French Consumer Spending
- 24th Australian CPI, Trimmed Mean CPI, EZ Flash PMI
- 25th German Ifo Business Climate
- 27th Italian 10-year Bond Auction
- 30th Australian HIA New Home Sales, Bldg Approvals

AUD/EUR – WEEKLY CHART



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