

GBP/AUD FUNDAMENTAL OUTLOOK

GBP/AUD lost -3.2% in June, in part due to increasing economic weakness in the UK and as a result of an improving economic picture in Australia. The loss in the rate was also precipitated by further stimulus measures taken by the BOE and the Liborgate scandal involving Barclay's Bank.

Economic numbers in the UK were mostly lower than expected in June with the manufacturing sector and employment showing considerable weakness. Manufacturing PMI in June came in at 45.9 but rebounded to 48.6 in July, while Construction PMI printed at 48.2, versus an expected 53.1 print. Manufacturing Production also lost -0.7%, versus an expected flat reading, while the Claimant Count increased to 8.1K new claims, versus an expected decline of -3.1K.

In addition to the weaker economic numbers, Barclays Bank settled charges last week with a hefty fine for manipulating the LIBOR and a similar rate called the Euribor to its advantage since 2005. BOE Governor Mervyn King stated that "We need to put it right... both the culture and structure... from excessive levels of compensation to shoddy treatment of customers to the deceitful manipulation of one of most important interest rates. The future calculation of Libor on 'my word is my libor' is now dead."

The BOE left the benchmark Official Bank Rate unchanged at 0.50% on July 5th, but raised the Asset Purchase Facility by 50B to 375B. In his prepared statement after the rate announcement, Governor King stated that, "against the background of continuing tight credit conditions and fiscal consolidation, the increased drag from the heightened tensions within the euro area meant that, without additional monetary stimulus, it was more likely than not that inflation would undershoot the target in the medium term."

Australian economic numbers improved considerably in June, with Employment Change showing the Australian economy had added 38.9K new jobs in May along with a +1.3% rise in Australian GDP in the first quarter. For its part, the RBA cut its benchmark Cash Rate by another 0.25% to 3.50% from 3.75% on June 5th, bringing the rate to its lowest level since 2009.

Due to weakness in the UK economy and improvements in the Aussie economy, as well as the interest rate differential, the Aussie is now favoured against Sterling in the near, mid and long terms.

GBP/AUD TECHNICAL OUTLOOK

GBP/AUD gained sharply during early May to 1.6174 on the 14th before correcting down to 1.5894 on the 16th, and then rising again to 1.6185 by the 22nd. The cross then traded substantially lower throughout the rest of May and June to hit 1.5070 by July 4th.

GBP/AUD seems to have completed a saucer bottom pattern over the last five months, but it failed to rally through strong resistance in the 1.6358 to 1.6386 region that has held the cross down thus far. The pattern's historic low point of 1.4555 now provides key support, and a break below that level would sour the tone for this cross considerably. Also, a short term double top pattern, with twin peaks at 1.6174 on May 14th and 1.6185 on May 22nd, and a neckline at 1.5894, has now met its 1.5609 measuring objective. Good support is also seen for the cross at the series of successively higher lows of 1.4759, 1.4987, 1.4993 and 1.5031. Major resistance is noted at the falling series of highs at 1.6491, 1.6386, 1.6358 and 1.6056.

GBP/AUD also broke back below its key 200-day Moving Average, which currently reads at the 1.5360 level. That indicator's slope has also turned negative, yielding a bearish medium term outlook for the cross. Furthermore, GBP/AUD's 14-day RSI has pushed down into oversold territory at the 26.7 level, which may impede further downside price action significantly. Nevertheless, that indicator has confirmed the two latest lows at 1.5375 and 1.5070 by showing lower readings of 31.4 and 26.7 respectively, so traders might wait for bullish regular divergence to appear before covering shorts in this cross.

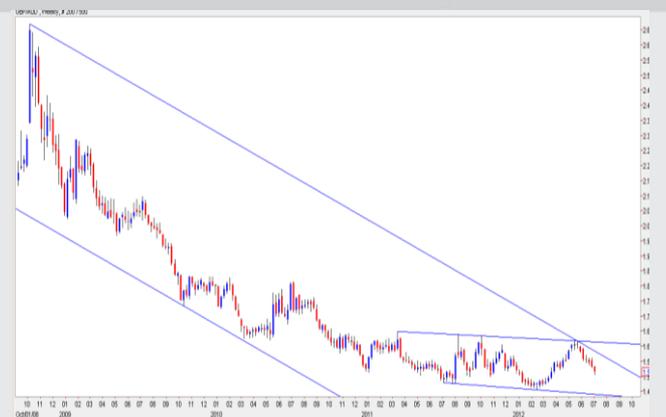
Overall, GBP/AUD appears to be starting a new downside impulse that will be confirmed by a break of the historic 1.4555 low. Nevertheless, the cross' currently oversold status indicates that a bounce may offer a near term selling opportunity first.

MAJOR LEVELS	Current level 1.5155
Resistance 1.5678	Support 1.4987/1.5031
Resistance 1.6174/85	Support 1.4759
Resistance 1.6358/86	Support 1.4555

ECONOMIC CALENDAR Major Releases

- 9th Aus. NAB Business Confidence, UK RICS House Price Bal.
- 10th Aus. Wespac Cons. Sent., Home Loans, UK Man. Prod.
- 11th Australian Employment Change, Unemployment
- 13th Australian Westpac Consumer Sentiment
- 15th UK Rightmove HPI
- 16th Australian Monetary Policy Meeting Minutes
- 17th UK CPI, RPI, Aus. MI Leading Index, G7 Meetings
- 18th UK Claimant Count Chng, MPC Meeting Minutes
- 19th UK Retail Sales
- 20th UK Public Sector Net Borrowing
- 22nd Australian PPI
- 24th Australian CPI, Trimmed Mean CPI, UK BBA Mtg. App.
- 30th Australian HIA New Home Sales, Building Approvals

GBP/AUD – WEEKLY CHART



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