

## AUD/EUR FUNDAMENTAL OUTLOOK

AUD/EUR declined fractionally last month, losing 25 pips overall and ending the month virtually unchanged. The cross made a new all-time high of 0.8240, in large part due to the uncertainty over the second Greek bailout. Such concerns persist as of this writing, with insufficient creditors of Greece's debt willing to take a 53.5% loss on their investments as part of the conditions for the EU/IMF/ECB to extend the €130 billion bailout money.

After last month's drama — as passing the austerity measures through the Greek parliament lead to social upheaval and riots in Athens and exhaustive emergency meetings to make the deal happen — the Greek government still has not received the bailout money. With a deadline of March 20<sup>th</sup>, when €14.4 billion in bonds become due, Greece has very little time to meet all of the troika's demands. A disorderly Greek default could cost the Eurozone countries up to €1 trillion, according to some analysts.

The ECB once again left its benchmark Minimum Bid Rate unchanged at 1.0% in February. After the rate announcement, ECB President Mario Draghi stated that, "This outlook is subject to downside risks. They notably relate to tensions in euro area debt markets and their potential spill over to the euro area real economy. Downside risks also relate to possible adverse developments in the global economy, higher than assumed increases in commodity prices, protectionist pressures and the potential for a disorderly correction of global imbalances."

The RBA left its benchmark Cash Rate unchanged at 4.25% on March 7<sup>th</sup>, as was widely anticipated. The central bank surprised the market in February by not lowering the rate to 4.00% as the market was expecting. The RBA has not indicated it would raise or lower rates in the immediate future, although in Governor Glenn Stevens prepared statement made after the rate decision, he noted that, "Should demand conditions weaken materially, the inflation outlook would provide scope for easier monetary policy."

Economic data out of the Eurozone was mixed to lower than anticipated, while Australia's eco-data came in either better than expected or right on target. Because of the ongoing economic crisis in the Eurozone, and the disparity in the two economies, the Aussie continues to be favoured over the Euro in both the near and long terms.

## ECONOMIC CALENDAR Major Releases

- 8<sup>th</sup> Aus. Employment Ch. ECB Rate Decision, Press Conf.
- 9<sup>th</sup> Australian Trade Balance
- 13<sup>th</sup> Aus. Home Loans, German ZEW Economic Sentiment
- 14<sup>th</sup> Eurozone CPI, Core CPI, Industrial Production
- 15<sup>th</sup> Aus. New Motor Vehicle Sales, MI Inflation Expectations
- 19<sup>th</sup> Aus. CB & MI Leading Indexes, EZ Current Account
- 20<sup>th</sup> Aus. RBA Monetary Policy Meeting Minutes, Ger. PPI
- 22<sup>nd</sup> EZ & German Flash Services & Manufacturing PMI
- 22<sup>nd</sup> Australian Wage Price Index, EZ Current Account
- 26<sup>th</sup> Ger. Ifo Business Climate & Ger. GfK Consumer Climate
- 28<sup>th</sup> RBA Financial Stability Review, Ger. Retail Sales, Pr. CPI
- 29<sup>th</sup> Aus. Private Sector Credit, Ger. Unemployment Change
- 29<sup>th</sup> Australian HIA New Home Sales, EZ CPI Flash Estimate

## AUD/EUR TECHNICAL OUTLOOK

AUD/EUR rallied into a mid-January high of 0.8176, before consolidating and then rising again to hit a fresh long term high at 0.8240 on Feb 6<sup>th</sup>. After peaking again at the lower 0.8230 level on Feb 15<sup>th</sup>, the cross then traded correctively lower, falling as far as the 0.7923 level by Feb 26<sup>th</sup> before managing to bounce up to 0.8155 on Mar 5<sup>th</sup>. The downside has again reasserted itself, sending the cross back down to hit 0.8006 thus far.

From an Elliott Wave perspective, the failure of AUD/EUR to make a new high beyond 0.8240 in late February indicates that peak probably completed the fifth wave of a larger third wave that began at the 0.7239 level last November. The subsequent three move corrective price action that took the cross lower from 0.8240 down to the 0.7923 level seen on Feb 26<sup>th</sup> then looks like the A, B and C waves of a fourth wave. The upward move since the 0.7923 low now appears to be the first wave of the concluding fifth wave higher for the cross that is expected to take the AUD/EUR to new long term highs beyond 0.8240. Although the third wave was longer, the first wave went from 0.7096 to 0.7625, yielding a length of 0.0529. Projected upwards from the end of the fourth wave, it would yield a fifth wave equality objective of 0.8452 for the cross.

Furthermore, AUD/EUR is still trading well above its key 200-day Moving Average level of 0.7605 and the indicator is firmly upward sloping, yielding a bullish medium term outlook for the cross. Nevertheless, the cross' 14-day RSI, which now has a neutral reading of 45.2, showed bearish regular divergence at the latest 0.8240 peak that is characteristic of a bull market entering its final rally.

Overall, the outlook for AUD/EUR remains moderately bullish over the coming month toward an initial objective in the 0.8452 region, which could present a good profit taking opportunity for long positions in this cross.

MAJOR LEVELS	Current level 0.8026
Resistance 0.8155/76	Support 0.8012
Resistance 0.8230/40	Support 0.7923
Resistance 0.8452 (target)	Support 0.7625/7733

## AUD/EUR – WEEKLY CHART



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