

GBP/AUD FUNDAMENTAL OUTLOOK

GBP/AUD extended January's losses by a fraction in February, dropping by just 24 pips for the month after dipping to a new low of 1.4555. Sterling continues under pressure from the UK's exposure to the Eurozone debt crisis, although economic numbers in the UK improved overall in February, thereby supporting the currency.

The BOE's MPC once again left the Official Bank Rate unchanged at 0.50% but raised the amount of the Asset Purchase Facility from £275B to £325B. The MPC Meeting Minutes, out on February 22nd, showed a unanimous 0-0-9 vote on keeping rates at the same level and raising the amount of stimulus the central bank will use to boost the UK economy. Both the Official Bank Rate and the Asset Purchase Facility are expected to be left unchanged in the upcoming rate decision on March 8th. Elsewhere, UK CPI dropped to 3.6% from 4.2%, showing a significant decrease in inflationary pressure and prompting a BOE Inflation Letter. The letter stated that, "The Committee's best collective judgement is that inflation will fall back sharply in the next six months or so, and continue falling thereafter to around target by the end of next year."

In February, the Australian Employment Change numbers showed the economy had added 46,300 new jobs in January. This was considerably better than the previous release, which showed a loss of -35,600 jobs, revised down from -29,300. In addition to the increase in jobs, the Australian Unemployment Rate declined to 5.1% from a previous 5.2%. Also, the country reported an expanding trade surplus and increased home loans. On March 6th, the RBA left the Cash Rate unchanged at 4.25%, as was widely expected. The cross reacted positively on the news, putting pressure on the Aussie in part due to the post rate decision statement by Governor Glenn Stevens, where he affirmed that, "Should demand conditions weaken materially, the inflation outlook would provide scope for easier monetary policy."

After making a new low in February, the cross seems poised for a corrective bounce. Nevertheless, GBP/AUD still appears weak longer term, with a new low probable due to the disparity in the strength of the two economies and rising petrol prices.

ECONOMIC CALENDAR Major Releases

- 8th Aus. Employment Report, UK Rate Decision, MPC Stmt
- 9th Aus. Trade Balance, UK Manufacturing Prod., PPI Input
- 13th Australian Home Loans, UK Trade Balance
- 14th UK Claimant Count Change, Unemployment Rate
- 15th Aus. MI Inflation Exp., New Motor Vehicle Sales
- 19th UK Inflation Report Hearings, Aus. CB MI Leading Indexes
- 20th RBA Monetary Policy Meeting Minutes, UK CPI, RPI
- 21st UK MPC Meeting Min. , Public Sector Net Borrowing
- 22nd UK Retail Sales
- 23rd UK BBA Mortgage Approvals, CBI Realized Sales
- 27th UK Final GDP, Current Account
- 28th Aus. RBA Financial Stability Review
- 29th Australian Private Sector Credit, UK GfK Consumer Conf.

GBP/AUD TECHNICAL OUTLOOK

After GBP/AUD sold off notably in January, it bounced sharply in early February to hit a high point of 1.4836 by Feb 9th. The cross fell again as low as the 1.4555 level on Feb 14th — yet another historic low. The price action has since been correctively higher on balance, reaching up as far as the 1.4957 level by Mar 6th.

By falling to a fresh long term low point in its latest decline, GBP/AUD has once again indicated that its overall trend remains lower. Nevertheless, the latest corrective upwards move has just traded above the important 1.4947 level to reach 1.4957. If this breach is sustained, it could indicate a near term bottom is now in place at 1.4555, especially since a possible rounding or saucer bottom pattern has been forming on the year to date daily chart with its neckline at 1.4947. This argues for the possibility of correctively higher GBP/AUD rates in the short term. Nevertheless, major resistance is still seen at the falling series of highs at 1.6386, 1.6358, 1.6056 and 1.5678, and then below that at the successively higher lows of 1.4759, 1.4987, 1.4993 and 1.5031 that collectively formed a prior consolidation pattern.

GBP/AUD is now trading back up towards its higher 200-day Moving Average, which currently reads at the 1.5272 level and has a negative slope that supports a bearish medium term outlook. Also, its 14-day RSI did not confirm the new long term low by making a fresh low, thereby showing bullish regular divergence. It currently reads in the upper neutral zone at the 58 level.

Overall, the GBP/AUD outlook is correctively bullish if gains above the 1.4747/59 region materialize. An upside break of resistance levels in the 1.4987/1.5031 region would further improve the tone.

MAJOR LEVELS	Current level 1.4931
Resistance 1.4947/93	Support 1.4891
Resistance 1.5031	Support 1.4617/4711
Resistance 1.5166/81	Support 1.4555

GBP/AUD – WEEKLY CHART



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