

AUD/EUR FUNDAMENTAL OUTLOOK

AUD/EUR lost -2.0% overall in December. The decline reflected lower bond yields and optimism for stimulus measures in the Eurozone, and continued weakness in some of Australia's economic sectors, such as housing. The Euro also benefitted from a credit rating upgrade from S&P for Greece and the ECB taking a supervisory role in Eurozone banks. Economic data for both countries was mostly mixed in December with a notable uptick in economic sentiment for the Eurozone.

Eurozone ZEW Economic Sentiment came out at +7.6, versus an expected+0.1, while German ZEW Economic Sentiment printed at +6.9, significantly higher than the -11.4 reading expected by the market. Other highlights in December's EZ economic data were German Factory Orders, increasing by +3.9%, versus +0.9 expected, and Spanish Unemployment Change showing a drop to 74.3K, versus 90.0K expected.

The ECB left its benchmark Minimum Bid Rate at 0.75% at its December 6th meeting. In a speech on December 17th, ECB President Mario Draghi stated that, "The SSM (Single Supervisory Mechanism) will contribute to restoring confidence in the banking sector across the euro area. It will help to revive inter-bank lending and cross-border credit flows, with tangible effects for the real economy. And combined with possible direct recapitalisation of banks by the European Stability Mechanism and an envisaged single resolution mechanism, the SSM will go a long way towards breaking the vicious feedback loops between sovereigns and banks."

Economic numbers for Australia were mixed in December with the Australian Unemployment Rate, dropping to 5.2% from 5.4%; and Australian Employment Change, showing an additional +13.9K jobs added in November. The RBA will have their next rate decision on February 5th after lowering the Cash Rate from 3.25% to 3.0% in December as was widely anticipated. The RBA's Monetary Policy Meeting Minutes stated that, "further easing may be appropriate in the period ahead, but had decided to maintain the existing setting for the time being, in view of the slightly higher-than-expected September quarter CPI and somewhat better information about the world economy."

Due to the interest rate differential, the Aussie is now favoured over the Euro in all time frames.

ECONOMIC CALENDAR Major Releases

- 8th Australian Trade Balance, EZ Retail Sales, Unemp. Rate
- 9th Aus. Retail Sales, German Industrial Production
- 10th Australian Bldg Approvals, ECB Minimum Bid Rate
- 14th Aus. ANZ Job Advertisements, EZ Industrial Production
- 15th Australian Westpac Consumer Sentiment
- 16th Aus. New Motor Veh. Sales, EZ CPI, Core CPI
- 17th Aus. Employment Chng, Unemp. Rate, MI Inflation Exp.
- 22nd EZ Economic Sentiment, German ZEW Economic Sent.
- 23rd Australian CPI, Trimmed Mean CPI, Ger. Flash Man. PMI
- 25th German Retail Sales, German GfK Consumer Climate
- 28th EZ M3 Money Supply, Australian CB Leading Index
- 29th Australian NAB Business Confidence
- 31st Aus. HIA New Home Sls, Imp. Prices, German Prel. CPI

AUD/EUR TECHNICAL OUTLOOK

AUD/EUR peaked in August at 0.8616, but fell to 0.7796 by early October before rising to 0.8224 by November 12th. The cross then fell to find support at the 0.7793 level on December 24th, before starting a sharp rally to the 0.8059 level by January 6th.

AUD/EUR's deep corrective dip seen in December to 0.7793 took it below the long term upward sloping support line that forms the base of a channel that has persisted over the past four years since the cross bottomed at 0.4713 in October 2008. Although the cross has since recovered to and even barely exceeded the same rising trendline, it is still too early to conclude that the breach is a false one that would suggest redrawing the lower trend line of the channel to accommodate the correction. If the cross subsequently falls consistently or consolidates below the trend line, then this would argue for a confirmed break of the trend. On the other hand, if AUD/EUR again rises above the trend line and sustains these gains, the cross may be headed higher once again. Interestingly, good support is seen at the key 0.7796 level where the market reversed higher on October 4th and at the similar 0.7793 level where the cross reversed higher on December 24th. This tight region should therefore be closely watched

Furthermore, AUD/EUR has been trading below its key 200-day Moving Average since December 13th, although it has recently risen to test that indicator again. It currently reads at the 58.10 level with a slightly positive slope that supports a neutral medium term outlook for the cross. Also, AUD/EUR's 14-day RSI returned back above the central 50 level in early January, reflecting more bullish recent price action. That indicator is now in neutral territory at the 58.21 level, which should only mildly impede a move higher.

Overall, the medium term outlook for AUD/EUR seems to be neutral pending a sustained break back above its key lower channel line or a break below strong support seen at 0.7793/96.

MAJOR LEVELS	Current level 0.8024
Resistance 0.8223/41	Support 0.7993/96
Resistance 0.8611/16	Support 0.7854
Resistance 0.9000 (psych)	Support 0.7796

AUD/EUR – WEEKLY CHART



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