

GBP/AUD FUNDAMENTAL OUTLOOK

GBP/AUD gained +1.8% in December. The rise was in part due to increased better than expected UK data and year end asset flows favouring Sterling over the Aussie. Economic data for both countries was mostly mixed, with employment numbers showing improvement in both the UK and Australia.

Employment numbers in the UK had the Claimant Count Change decline by -3.0K, significantly better than the increase of +5.9K expected, with the previous number notably revised down from +10.1K to +6.0. Also, the UK Unemployment Rate held steady at 7.8%, versus an expected rise to 7.9%. Nevertheless, UK Manufacturing Production declined -1.3%, while UK Retail Sales came out with a flat reading.

On December 19th, the BOE's MPC Meeting Minutes showed a unanimous decision to keep the Official Bank Rate unchanged at 0.50%. Nevertheless, one member, David Miles voted for a 25B increase to the Asset Purchase Facility to 400B.

The MPC Meeting Minutes stated that, "Most members agreed that developments on the month had done little to alter the balance of arguments between maintaining and increasing the size of the monetary stimulus. Growth remained subdued. The impact of the most recent round of asset purchases was still to be fully felt."

Australian economic data was also mixed in December, with the key labour market buoyant as the Unemployment Rate dropped to 5.2% from 5.4%. Also, the Australian Employment Change came out showing an additional +13.9K jobs were added in November.

The RBA will not meet again until 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, "Members noted that global currency markets had also been relatively quiet in November, with exchange rate volatility low, although the Japanese yen had depreciated by around 3 per cent against the US dollar. The Australian dollar was little changed, remaining at a high level."

Due to the interest rate differential between the UK and Australia, relative weakness in the UK economy, and key improvements seen in the Australian economy, the Aussie continues to be favoured over Sterling in all time frames.

GBP/AUD TECHNICAL OUTLOOK

Since GBP/AUD peaked at the 1.6358 level in October 2011 and made a 1.4710 low in early August of 2012, the cross has consolidated between those levels. Mid-December saw the cross rally up to reach a high of 1.5677 on the 30th, but a January sell-off then ensured to take GBP/AUD back down to support at 1.5283.

GBP/AUD's consolidation phase is bounded on the topside by a well-established resistance line that can be drawn through the declining series of peaks made since March of 2011 at the 1.6491, 1.6386, 1.6358, and 1.6185 levels. This line is now drawn at the 1.6021 level, which should offer considerable upside resistance. The cross' latest rally to the 1.5677 level on December 30th fell short of both this line and the 1.5885 peak seen on October 4th. The subsequent price action lower to 1.5283 may well continue to fully retrace the move seen since the November 13th low of 1.5182. Furthermore, good support for GBP/AUD is seen at the 1.4759, 1.4555 and 1.4710 lows observed during the same period. The last two lows define a gently rising supportive trendline that is currently at the 1.4848 level. If this cross breaks either the upper or lower side of this slightly converging trading range convincingly, a significant further move in that direction would be expected to the extent of the range's width.

GBP/AUD fluctuated above and below its key 200-day Moving Average in December, and is now trading under its current level of 1.5447. The indicator also has a very slightly negative slope that yields a neutral to mildly bearish medium term outlook. Furthermore, GBP/AUD's 14-day RSI has been confirming recent declining price action since the 1.5677 high of December 30th with successively lower lows. It currently reads 37.00, which may mildly impede a move to the downside.

Overall, the outlook for GBP/AUD over the coming month is neutral within its long term trading range. Recent price action indicates a declining short term trend approaching good support at 1.5251/83.

MAJOR LEVELS	Current level 1.5288
Resistance 1.5603/77	Support 1.5251/83
Resistance 1.5883	Support 1.5182
Resistance 1.6174/85	Support 1.5028/70

ECONOMIC CALENDAR Major Releases

- 8th Australian Trade Balance, UK BRC Retail Sales Monitor
- 9th Australian Retail Sales, UK Trade Balance
- 10th UK Official Bank Rate, MPC Stmt, Aus. Bldg Approvals
- 11th UK Manufacturing Production, NIESR GDP Estimate
- 14th Australian ANZ Job Advertisements
- 15th UK CPI, Australian Westpac Consumer Sentiment
- 16th Australian New Motor Vehicle Sales
- 17th Australian Employment Change, Unemployment Rate
- 18th UK Retail Sales
- 23rd Aus. CPI, Trimmed Mean CPI, UK MPC Meeting Minutes
- 25th UK Preliminary GDP, CBI Realized Sales
- 28th UK Nationwide HPI, Australian CB Leading Index
- 31st Australian HIA New Home Sales, Import Prices

GBP/AUD – WEEKLY CHART



Contact Jan Borgelt at OzForex on +61 2 8667 9103 or email jan.borgelt@ozforex.com.au