

**GBP/AUD FUNDAMENTAL OUTLOOK**

GBP/AUD extended its January losses, falling by -2.3% in February. The continued slide was in part due to mixed economic data out of both countries, the interest rate differential between the two currencies, an unfavourable Inflation report and dissension among members of the BOC's Monetary Policy Committee.

UK economic numbers included a rising UK Unemployment Rate, which gained a notch from 7.7% to 7.8%, while January's Claimant Count Change showed a decline of -12.5K, versus -5.3K expected, with the previous number significantly revised from -12.1K to -15.8K. UK Inflation held steady at 2.7%, while continued weakness could be noted in the housing sector. UK Construction PMI came out with a reading of 48.7, versus an expected 49.7 print, and the RICS House Price Balance declined by -4%, versus an expected flat reading. The latest UK Manufacturing PMI number, out on March 1<sup>st</sup> indicated the UK economy continues contracting; having come out with a reading of 47.9 that was well below the expansionary 50 benchmark and the expected 51.0 level.

The BOC left its benchmark Official Bank Rate unchanged at 0.50% and the Asset Purchase Facility at 375B at the bank's February 7<sup>th</sup> meeting. While the vote to maintain rates was unanimous, the MPC Meeting Minutes showed that three members, Governor King, David Miles and Paul Fisher voted to increase the size of the Asset Purchase Facility but the proposal was rejected by the six other members.

Australian economic numbers were mostly mixed last month. The housing sector showed the most weakness with Australian Building Approvals declining in both its February and in its latest March release. Nevertheless, Australian Employment Change showed considerable improvement in February. The RBA left its benchmark Cash Rate unchanged at 3.0% at its February meeting and again at its March 5<sup>th</sup> meeting. In his statement after the rate release, Governor Glenn Stevens said that, "During 2012, there was a significant easing in monetary policy. Though the full impact of this will still take more time to become apparent, there are signs that the easier conditions are having some of the expected effects."

Because of persistent weakness in the UK economy and the interest rate differential between the two currencies, the outlook for the rate is now lower in the near term and neutral in both the mid and long terms.

**ECONOMIC CALENDAR Major Releases**

- 7<sup>th</sup> Aus. Trade Balance, UK Official Bank Rate, MPC Stmt
- 12<sup>th</sup> UK Manufacturing Prod, Aus. Westpac Consumer Sent.
- 13<sup>th</sup> Australian Home Loans
- 14<sup>th</sup> Aus. Employment Change, Unemployment Rate
- 19<sup>th</sup> Aus. Monetary Policy Meeting Min, UK CPI, PPI Input, RPI
- 20<sup>th</sup> UK MPC Mtg Mins, Claimant Count Change, Unemp. Rate
- 21<sup>st</sup> UK Retail Sales, Australian CB Leading Index
- 25<sup>th</sup> UK Nationwide HPI, BBA Mortgage Approvals, CBI Realized Sales
- 26<sup>th</sup> RBA Financial Stability Review,
- 27<sup>th</sup> UK Current Account, Final GDP
- 28<sup>th</sup> BOE Credit Conditions Survey
- 29<sup>th</sup> Australian HIA New Home Sales, Private Sector Credit

**GBP/AUD TECHNICAL OUTLOOK**

GBP/AUD traded lower overall in February and into early March, softening as far as the 1.4615 level by March 5<sup>th</sup>. Although the cross remained within its broad trading range in February, which is bounded by its 1.6491 peak of March 2011 and its 1.4555 low of February 2012, GBP/AUD came progressively closer to testing its range's lower horizontal support line.

GBP/AUD's long term consolidation is also bounded on the topside by a well-established resistance line drawn through the successively lower peaks seen since March 2011 at the 1.6491, 1.6386, 1.6358, and 1.6185 levels. This mildly declining line is now drawn at the 1.6019 level, which should offer significant resistance to GBP/AUD's upside potential. When the cross rallied to the 1.5313/15 region in January and February, both upside attempts failed ahead of this resistance line. Although important support noted at the 1.4759 and 1.4710 levels has now given way, further support is still seen at the key 1.4555 low point of February 14<sup>th</sup> of 2012. Although a bounce looks like the most probable scenario, if the cross eventually sustains losses below the 1.4555 level, the resulting move would target the 1.2619 level obtained by projecting the range's width lower from the breakout point.

GBP/AUD has remained below its 200-day Moving Average since January 2nd. This key indicator currently reads at the 1.5303 level and has a pronounced negative slope that yields a bearish medium term outlook for the cross. Furthermore, GBP/AUD's 14-day RSI demonstrated bullish regular divergence near oversold territory at the 1.4629 low seen on February 24<sup>th</sup>, which could have already provoked a considerable bounce. That indicator currently reads at the 34.2 level, which could well impede further downside moves.

Overall, the outlook for GBP/AUD over the coming month remains neutral to bearish as it approaches the base of its long term 1.4555 to 1.6491 trading range. If the 1.4555 level holds, look for a bounce to ensue, but a break of that key support point would be bearish.

MAJOR LEVELS	Current level 1.4663
Resistance 1.4848/83	Support 1.4618/29
Resistance 1.4964	Support 1.4555
Resistance 1.5028/70	Support 1.4500 (psych)

**GBP/AUD – WEEKLY CHART**



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