

AUD/EUR FUNDAMENTAL OUTLOOK

AUD/EUR continued its steep decline in June, losing -3.5% for the month overall. The continued decline was the result of a combination of lower commodity and precious metals prices, risk aversion and better than expected economic data out of the Eurozone. Australian numbers were mostly mixed to lower than expected in June and combined with a risk adverse market, put significant pressure on the rate.

Eurozone numbers came out mostly better than expected last month, with a vote by the German Constitutional Court on the legality of Outright Market Transactions or OMTs by the ECB. Manufacturing and Services PMI numbers showed improvements in France and Spain, with Industrial Production and Sentiment indicators also showing improvement. Bond yields increased in Italy and Spain while Germany posted better than expected Retail Sales and CPI numbers. Nevertheless, the near collapse of the coalition government in Portugal last week reminded traders in no uncertain terms that the European debt crisis certainly may not be over yet.

The ECB left its benchmark Minimum Bid Rate unchanged in both June and at their most recent meeting on July 4th. In his opening remarks after the rate release, ECB President Draghi stated that, "The risks surrounding the economic outlook for the euro area continue to be on the downside. The recent tightening of global money and financial market conditions and related uncertainties may have the potential to negatively affect economic conditions. Other downside risks include the possibility of weaker than expected domestic and global demand and slow or insufficient implementation of structural reforms in euro area countries."

Australia released mostly mixed economic numbers in June with notable improvements in Employment Change and the Australian Current Account, which showed a narrowing deficit. Australian GDP, grew by +0.6% q/q, versus an expected increase of +0.8%. The RBA left the benchmark Cash Rate unchanged at 2.75% in June and at their latest meeting on July 2nd. Despite the recent decline in the Australian Dollar, RBA Governor Stevens said that, "It is possible that the exchange rate will depreciate further over time, which would help to foster a rebalancing of growth in the economy."

Due to continued pressure on commodities and the possibility of further RBA rate reductions, the outlook on the rate is negative in the near and medium terms, but neutral in the longer term.

ECONOMIC CALENDAR Major Releases

- 5th German Factory Orders
- 8th German Industrial Prod., Aus. ANZ Job Advertisements
- 9th Australian NAB Business Confidence, ECOFIN Meetings
- 10th Aus. Westpac Consumer Sent., French Industrial Prod.
- 11th ECB Monthly Bulletin, Australian Employment Change
- 12th EZ Industrial Production, Australian Home Loans
- 15th Australian New Motor Vehicle Sales
- 16th RBA Mon. Policy Mtng Min., Ger. ZEW Econ. Sentiment
- 19th German PPI, Spanish HPI
- 23rd German, EZ and French Flash Manuf. and Svcs PMIs
- 24th Australian CPI, Trimmed Mean CPI
- 25th German Ifo Business Climate, Spanish Unemp. Rate
- 30th German Preliminary CPI, Spanish Flash GDP

AUD/EUR TECHNICAL OUTLOOK

AUD/EUR's twin peaks in the 0.8181/82 region seen in the latter part of March and early April provoked a notable correction to the downside that dominated price action in the cross throughout April, May and early June. After reaching an intermediate low point of 0.6935 on June 19th, the cross bounced as high as 0.7174 before again heading south, although it has thus far failed to make a new medium term low, only reaching 0.6945 by July 2nd.

AUD/EUR broke its long term up trend line early in 2013 that had prevailed for roughly four years, resulting in a considerable follow-on selloff in the cross. Although AUD/EUR briefly tested that line toward the latter part of March, its upside momentum failed ahead of that key rising resistance line. The general move since then has been notably lower, unfolding in the five wave pattern indicative of a sharp zig-zag correction. Brief upside bounces seen in early June to the 0.7239 level and then in the latter part of June to the 0.7174 level were both met with renewed selling pressure that has so far brought the cross down to resistance in the 0.6935/45 zone.

Also, AUD/EUR has traded generally under the level of its key 200-day Moving Average throughout most of April, May, June and into early July. That indicator now reads at the 0.7804 level and has a considerably negative slope that supports a bearish medium term outlook for the cross. In addition, AUD/EUR's 14-day RSI has now corrected its oversold condition to read in the lower central part of neutral territory at the 41.33 level that may only mildly impede downside moves. That key RSI has also been showing hidden bearish divergence at the recent series of higher corrective peaks, signalling that the sharp downward move may soon resume.

Overall, AUD/EUR has corrective upside potential initially July that could reach into the 0.7022 to 0.7239 range (the extent of the fourth wave of one lesser degree) beyond 0.7174, but the 14-day RSI's hidden bearish divergence signals a subsequent decline.

MAJOR LEVELS	Current level 0.7058
Resistance 0.7174/93	Support 0.7022
Resistance 0.7239	Support 0.6935/7010
Resistance 0.7356	Support 0.6464

AUD/EUR – WEEKLY CHART



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