

GBP/AUD FUNDAMENTAL OUTLOOK

GBP/AUD continued rallying in June, adding an impressive +7.6% for the month. The gains were in part attributed to a combination of lower commodity and precious metals prices, risk aversion and better than expected economic data out of the UK. Both countries' central banks left rates unchanged. Nevertheless, the BOE MPC votes from June's MPC Meeting Minutes indicated a possible increase in the Asset Purchase Facility.

With the exception of the Current Account and Manufacturing Production, most UK economic numbers were either on target or better than expected in June. The BOE left the benchmark Official Bank Rate unchanged in June and at their latest meeting on July 4th. The central bank issued a rate statement to the surprise of many with the rate release this month. The statement noted that, "At its meeting today, the Committee noted that the incoming data over the past couple of months had been broadly consistent with the central outlook for output growth and inflation contained in the May Report. The significant upward movement in market interest rates would, however, weigh on that outlook; in the Committee's view, the implied rise in the expected future path of Bank Rate was not warranted by the recent developments in the domestic economy."

Australian economic numbers continued improving in June, with Employment Change increasing for the second consecutive month, showing an increase of +1.1K versus an expected decline of -9.8K. The Australian Unemployment Rate also declined to 5.5% from 5.6% while the Current Account came in better than expected. Nevertheless, Home Loans came in lower than expected while the Australian GDP increased by only +0.6% q/q, versus +0.8% that was expected.

The RBA left the benchmark Cash Rate unchanged at 2.75% in both June and at their latest meeting on July 2nd. Despite the recent decline in the Australian Dollar, RBA Governor Stevens thinks the currency continues overvalued stating, "It is possible that the exchange rate will depreciate further over time, which would help to foster a rebalancing of growth in the economy," he continued, "This is expected to continue in the near term as the economy adjusts to lower levels of mining investment." Due to improving conditions in the UK and possible further rate cuts by the RBA, the rate's outlook is cautiously negative near term, positive in the midterm and neutral long term.

GBP/AUD TECHNICAL OUTLOOK

GBP/AUD made similar historic lows at 1.4381 on March 11th and 1.4410 on April 1st, before then rallying sharply throughout April, May, June and into early July. On July 2nd, GBP/AUD reached a recent peak at 1.6917, before falling as low as 1.6251 by July 4th.

From an Elliott Wave perspective, GBP/AUD's all-time low of 1.4381 seen in March appears to have concluded a five wave downside move that began at the 1.5355 level on February 10th of this year. A sharp zig-zag correction higher has subsequently ensued, which has now taken the cross well above key resistance at 1.6491. This level forms the first point of the strong resistance line drawn through the set of four progressively lower highs made in the cross at 1.6491, 1.6386, 1.6358 and 1.6185 during the March 2011 to May 2012 period. The upside move strongly accelerated after that mildly declining trendline was broken convincingly on June 4th. That line is now drawn at 1.5832, and both it — and the peaks that define it — should provide good support, with additional support noted in the 1.6234/51 region.

GBP/AUD broke convincingly above the level of its key 200-day Moving Average on May 5th and has since continued to trade above it. That closely watched trend indicator now reads at the 1.5340 level, with an increasingly positive slope that supports a bullish medium term outlook for GBP/AUD. Nevertheless, the cross' 14-day RSI failed to support early July's 1.6917 high and showed regular bearish divergence indicative of a loss of momentum by making a lower reading of 64.87 compared with the significantly overbought 80.91 level seen at the previous 1.6877 peak of June 19th. That indicator currently reads in central neutral territory at the 51.91 level that should impede a move either way.

Overall, the outlook for GBP/AUD over the coming month seems correctively bearish in the near term below resistance seen at 1.6917. Good support shows in the 1.6234/51 region and below that at the aforementioned broken trendline now drawn at 1.5832.

| MAJOR LEVELS | Current level 1.6406 |
|-------------------|----------------------|
| Resistance 1.6491 | Support 1.6358/86 |
| Resistance 1.6745 | Support 1.6218/46 |
| Resistance 1.6917 | Support 1.6185 |

ECONOMIC CALENDAR Major Releases

- 8th Australian ANZ Job Advertisements
- 9th UK Manufacturing Prod., Aus. NAB Business Confidence
- 10th Australian Westpac Consumer Sentiment
- 11th Australian Employment Change, Unemployment Rate
- 12th Australian Home Loans
- 15th Aus. New Motor Vehicle Sales
- 16th UK CPI, PPI Input, RBA Monetary Policy Meeting Minutes
- 17th UK Claimant Count Change, BOE MPC Meeting Minutes
- 18th UK Retail Sales
- 19th UK Public Sector Net Borrowing
- 24th Australian CPI, Trimmed Mean CPI, UK CBI Ind. Ord. Exp.
- 25th UK Preliminary GDP, Nationwide HPI
- 29th UK Net Lending to Individuals, CBI Realized Sales

GBP/AUD – WEEKLY CHART



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