

## AUD/USD FUNDAMENTAL OUTLOOK

AUD/USD ended the month of May with a whopping -8.3% decline. The drop was largely attributed to the RBA unexpectedly cutting the benchmark Cash rate by 25 bps from 3.0% to 2.75% on May 7<sup>th</sup>. While both countries reported mixed economic data, asset flows favoured the Greenback over the commodity dollars in part because of the slide in precious metals prices, which took the metals down significantly in May.

The Australian economy showed improvements in the Trade Balance and especially Employment Change, which saw the economy add +50.1K new jobs in April, significantly higher than the +11.5K increase expected. The Australian Unemployment Rate also shaved a notch, dropping to 5.5% from 5.6%. Other Australian numbers which came in better than expected were Home Loans, which increased +5.2% m/m, versus +3.8% expected and Building Approvals, jumping +9.1% m/m, versus +4.1% that was expected.

The RBA gave the market a surprise last month, reducing the benchmark Cash Rate to 2.75% from 3.0%. The RBA left the rate unchanged at their last meeting on June 4<sup>th</sup>. In his prepared statement after the rate release, Governor Glenn Stevens wrote, "At today's meeting the Board judged that the easier financial conditions now in place will contribute to a strengthening of growth over time, consistent with achieving the inflation target. It decided that the stance of monetary policy remained appropriate for the time being. The Board also judged that the inflation outlook, as currently assessed, may provide some scope for further easing, should that be required to support demand."

US numbers were equally mixed, with last month's improvement in the NFP number showing an additional 165K jobs and the Unemployment Rate dropping to 7.5% from 7.6%. Other highlights for US numbers were in the housing sector and in Consumer Confidence. The FOMC left its benchmark Fed Funds rate at the historical low of <0.25% in May. The central bank's rate statement reiterated that, "The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction." Some members were vocal about tapering off asset purchases, which gave considerable support to the US Dollar.

Due to the selloff after last month's rate decision, the outlook for AUD/USD is increasingly bearish in all time frames.

### ECONOMIC CALENDAR Major Releases

- 10<sup>th</sup> Australian Home Loans, NAB Business Confidence
- 11<sup>th</sup> Australian Westpac Consumer Sentiment
- 12<sup>th</sup> Australian Employment Change, Unemployment Rate
- 13<sup>th</sup> US Core Retail Sales, Retail SIs, Initial Jobless Claims
- 14<sup>th</sup> US PPI, Core PPI, US Current Account, G8 Meetings
- 16<sup>th</sup> Australian New Motor Vehicle Sales
- 17<sup>th</sup> Australian RBA Monetary Policy Meeting Minutes
- 18<sup>th</sup> US Building Permits, CPI, Core CPI, Housing Starts
- 19<sup>th</sup> FOMC Meeting Minutes, Press Conf., Fed Funds Rate
- 20<sup>th</sup> US Existing Home Sales, Philly Fed Manufacturing Indx
- 25<sup>th</sup> US Core Durable Goods Orders, CB Consumer Conf.
- 27<sup>th</sup> Aus.HIA New Home Sales, US Pending Home Sales
- 28<sup>th</sup> US Chicago PMI, Revised UoM Consumer Sentiment

## AUD/USD TECHNICAL OUTLOOK

After AUD/USD peaked at 1.0582 on April 10th, the rate then started a sharp decline that extended throughout the rest of April, May and into early June. The rate found support at the 0.9528 level in late May, from which a modest bounce to 0.9792 ensued, before it fell again to hit the 0.9432 level on June 5th.

April's rally in AUD/USD lost momentum ahead of resistance in the 1.0585/92 region, and the notable drop seen since then has taken the rate below its fairly tight trading range of 1.0115 to 1.0624 that had prevailed since July of 2012. Longer term, AUD/USD has also broken the lower trendline of its relatively symmetrical triangular pattern that was initially bounded on the topside by the historic 1.1080 high of July 2011 and on the downside by the October 2011 reaction low of 0.9387. Rising resistance is now noted at that pattern's lower trendline, which is now drawn at the 0.9884 level, and the fact that AUD/USD is now trading convincingly below it sets up a measuring objective of 0.8174 to complete the triangle pattern's breakout. This is computed by subtracting the initial height of the triangle from the May 15th breakdown level of 0.9867. Above that line, the 1.0497/1.0624 region should provide considerable additional resistance to upside moves in AUD/USD over the coming month.

AUD/USD continued to trade below its 200 day Moving Average in May, after having fallen below it in mid-April. That key indicator now reads at the 1.0314 level with a negative slope that yields a bearish medium term outlook for the rate. Furthermore, AUD/USD's 14-day RSI has now returned to lower neutral territory, after correcting from the oversold condition it was in throughout most of May. It currently reads at the 39.24 level, which could slightly impede downside moves.

Overall, AUD/USD's outlook for May remains bearish toward the aforementioned triangle breakout's long term objective of 0.8174. Intervening support at 0.9387/0.9580 could provoke a bounce.

| MAJOR LEVELS         | Current level 0.9586 |
|----------------------|----------------------|
| Resistance 0.9663/96 | Support 0.9580       |
| Resistance 0.9926    | Support 0.9435       |
| Resistance 1.0115/67 | Support 0.9387       |

### AUD/USD – WEEKLY CHART



Contact Jan Borgelt at OzForex on +61 2 8667 9103 or email [jan.borgelt@ozforex.com.au](mailto:jan.borgelt@ozforex.com.au)