

AUSSIE DOLLAR OUTLOOK

A Short-Term Technical View

Wednesday, 3 August 2011

- The AUD probed above 1.1050 but failed to trade much higher than 1.1080.
- The speed at which the AUD has given up ground has been significant and suggests the AUD might try to test key support at around 1.0690.
- Some of the fundamental factors that anchored the AUD near 1.1000 have also shifted.



From a technical perspective (i.e. price action), the AUD/USD exchange rate has probed above 1.1050 on twenty seven separate occasions when examining an hourly chart (see above chart). Despite these numerous attempts, the AUD has failed to trade much higher than 1.1080. It suggests that there is strong resistance for the AUD at this level and its failure to break above this level has likely contributed to the recent sell off in the AUD.

The AUD/USD exchange rate has fallen towards 1.0700 since hitting a high of 1.1081 on July 27. The speed at which the AUD has given up ground is significant; the AUD spent around a week above 1.0900 but has given up 2 US cents in the space of 24 hours. It suggests that the AUD in the near term might be on the back foot and could try to break under key support at around the 1.0690 level.

If the AUD breaks under this level, then a revisit of the 1.0525-50 area is on the cards.

Some of the fundamental issues that were keeping the AUD anchored near the 1.1000 level have shifted; it includes the US avoiding a debt default and a shift in sentiment over the rate outlook in Australia. Soft housing and retailing data released this week in Australia suggests the Reserve Bank is unlikely to be tightening rates soon.

We published an Australian Dollar Outlook on July 27 that looks at the fundamental factors. It includes our forecasts; we expect the AUD to be at 1.0500 at the end of this year and at 1.0100 by the end of next year. There is likely to be a lot of volatility in-between, as it is not unusual for the AUD to trade in a wide trading range within any one year.

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