

Date: 02nd February, 2010

AUD Special Report

The RBA has today decided to leave interest rates on hold at 3.75%. The over-riding market expectation was for a 25bp hike, and the FX market has reacted accordingly. (see chart below).

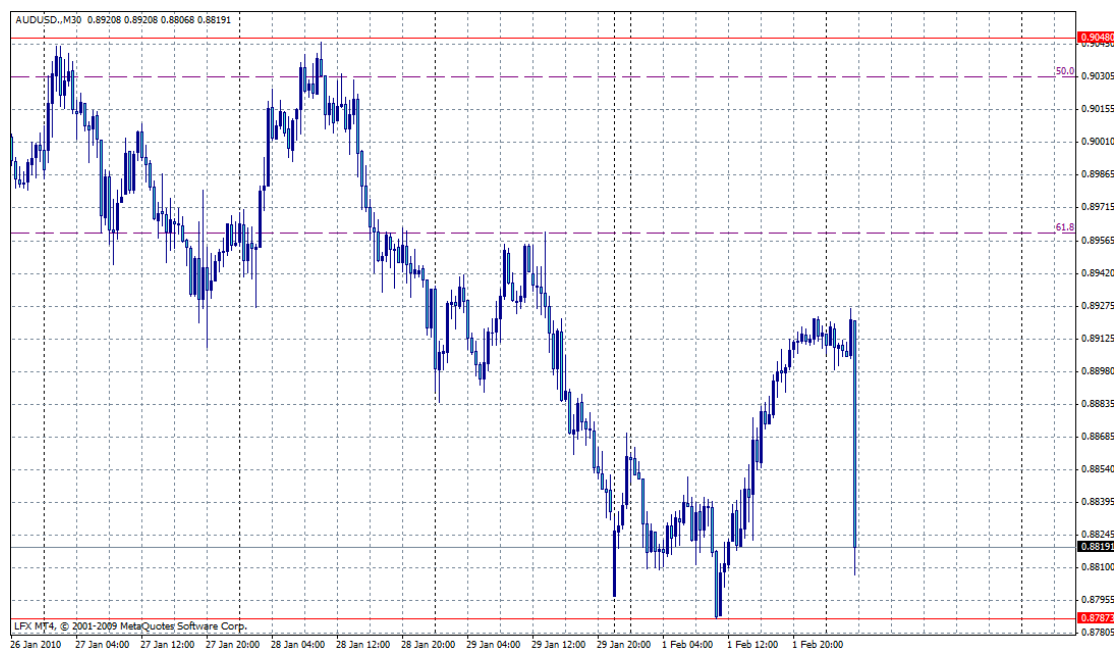
At FX Market Report, this does not come as surprise to us, given that recent CPI data was weaker than expected and asset markets around the world have suffered over the past 2 weeks. Our daily report proposed selling the overnight relief rally.

Moves in China to tighten liquidity and cool the economy will have caused policy makers at the RBA to reconsider putting the brakes on at this point in time.

Despite strong overnight manufacturing data from the U.S.A, Europe and China – the RBA will want to see further evidence of a global recovery before raising rates again.

Let's not forget that the previous RBA statement had indicated that rates were now at their 'normal' level – when taking into consideration bank margins.

Note: The accompanying statement does suggest that rate hikes are around the corner.



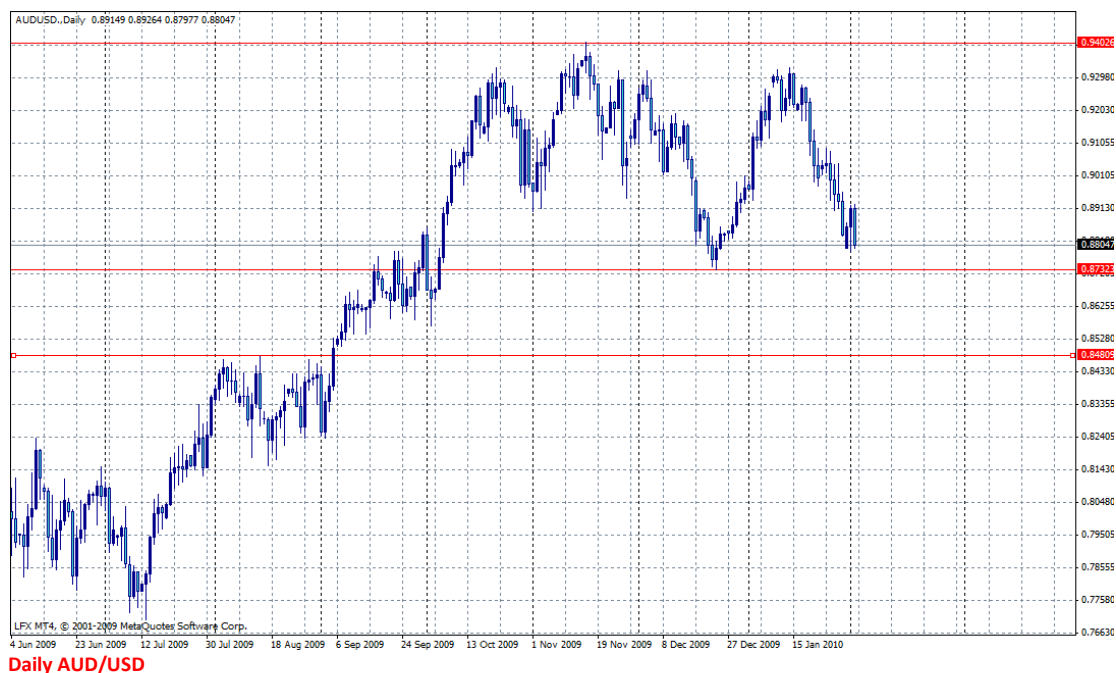
15 min AUD/USD

Our feeling is that we would have seen a sell-off in the AUD whether the RBA had hiked 25bp or not, as 25bp was so widely expected and undoubtedly priced into the market.

The lack of hike suggests that we are about to test the 0.8790 lows and then probably the 0.8730 support (see chart below).

However, the accompanying statement does suggest that rate hikes are around the corner, and we would be wary of being overly short at levels below 0.8700 – for now, and until we see a clearer direction on commodity prices and the global recovery story.

An over extension of this move (if it materializes), may allow for some cheap AUD/USD buying down at 0.8500 (ahead of 0.8480 support), although we do not recommend catching falling knives a period of congestion at that level combined with an improving global recovery story may provide the opportunity for re-establishing long AUD positions.



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