

All-points alert as the Aussie breaks out and goes on the run

TECHNICAL
ANALYSIS
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THE Australian dollar is moving into particularly bullish territory after breaking out of the "symmetrical triangle" with the US dollar identified in this column on July 13. That triangle indicated that the Aussie would probably trade within a tightening band with the greenback of between US70¢ and US90¢.

But this week's graph, supplied by Alan Clement, an international futures and foreign exchange trader and Victorian board member of the Australian Technical Analysts Association, shows the Aussie has broken out of that triangle. As a result, "the Aussie dollar is in a very bullish mode, and

looks to be heading towards parity with the US dollar", Clement says.

It has been a turbulent ride for the Aussie in the past few months. It broke below a support floor of US87¢ and fell as far as US82¢ in June. It quickly recovered to the US87¢ level but in doing so created what is known as a "false breakout", which caught traders unawares as the currency fell again towards US85¢.

Some of those traders had to unwind losing positions and, in combination with new buyers taking bullish positions, the Aussie began to move up, Clement says.

In early September, the uptrend consolidated. The market convincingly

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broke through the previously described symmetrical triangle (the dashed blue line on the chart). Since then the trajectory has been almost vertical, a very bullish sign in the minds of technical analysts.

So, just how high will the currency go? Clement attempts to answer that

question by taking the height of the pattern from the June low to the time of the breakout and projecting it upwards the same distance (the broken red lines) from current values. That, he says, gives us a target of US\$1.02 in the short term.

Another milestone is also being tested as the

Aussie approaches its record high (since deregulation) of US98¢, reached in July 2008. Once that level is reached, Clement expects the currency to take a breather, exhibiting a little weakness before resuming its upward trend. If, as Clement's analysis predicts, the

Aussie does move to parity with the greenback, it is likely to hit more turbulence as traders deal with an important psychological barrier.

A cautionary note: this bullish stand will have to be reassessed if during Clement's expected near-term setback the Aussie falls back through US90¢, as that would put it back into the old symmetrical triangle of consolidation.

On a fundamental level, the Aussie is benefiting from the weaker greenback and the strength of the resource sector. And in the longer term, Clement can see the Aussie moving as high as US\$1.20. But it is too early to make firm predictions of anything like that, he says.

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