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Pitchfork shows Aussie's rise may be in for a pause

TECHNICAL ANALYSIS
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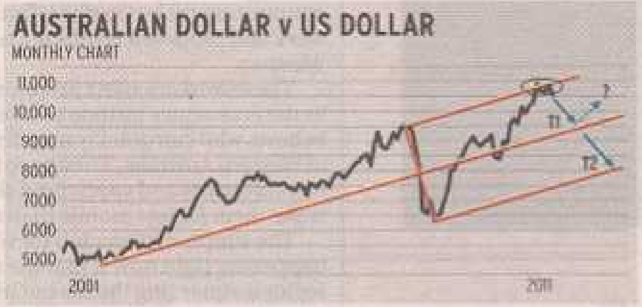
THE dollar has been on a stellar trajectory since the global financial crisis hit in 2008. Back then it sank to about US63¢ as financial markets gyrated and credit markets froze. But as the dust settled and Australia, with its booming resource sector and well-capitalised banks, began to look attractive, the Aussie began to climb.

Alan Clement, an international futures trader and member of the Australian Technical Analysts Association, says its long-term trajectory has also been upwards. "The dollar has been in a long-term uptrend against the US dollar since its low below US50¢ back in 2001. It peaked at US95¢ in 2008 and then fell heavily to US63¢ during the GFC. This was followed by a sharp rise to the $US1.10 level we have seen recently."

However, Clement says the currency is showing signs of retracing some of its recent gains. Some short-term weakness is also to be expected given the deleveraging of risk we are seeing in stocks and commodities as investors sell assets to cut their borrowings in a world worried about debt. Because of Australia's large exposure to the resource sector, moves by foreign investors to reduce their exposure to commodities often means selling Australian dollar-denominated assets.



The chart shows what is known as an "Andrew's pitchfork" formation, with the handle of the pitchfork sitting on the 2001 low and the base for the three prongs built on the low and high points of the volatile year of 2008. "We see that the Aussie has recently found resistance at the upper boundary of the pitchfork (circled area). If this resistance holds, the first target to the downside would be a return to the pitchfork centreline, around US95¢ (marked T1)", Clement says.

If the price can find support and stabilise at the centreline, it could form a platform for another move to the upside. However, if it continues to weaken at that point, we could be headed for a retest of the lower pitchfork boundary, just above US80¢ (marked T2), Clement says.

In either case, we should expect the strong uptrend in the Aussie to continue after any short-term weakness. Indeed, Clement thinks many traders and investors will view any weakness in the currency as a long-term buying opportunity.

This is because the long-term fundamental outlook for the currency is good. "It is considered a proxy and safe alternative to Asian investment, and will prosper as the region's economies continue to grow," he says.

"Also, with Australian interest rates relatively high compared with other developed economies, it will continue to be in demand as part of the 'carry trade', where investors buy the Aussie while shorting currencies with much lower interest rates, such as the yen and US dollar. Finally, it is a 'commodity currency', so will continue to strengthen as commodity prices rise."

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