

26<sup>th</sup> October 2006

## Australian Dollar vs U.S. Dollar – Long Term Outlook

The Australian Dollar has been in a narrowing sideways trading range for the past 3 years and this would appear to be part of a corrective pattern within an underlying multi-year rally. This being the case we should be expecting the A\$ to begin on a sustained rally before very long and last approximately 9-11 months.

All three time frame charts show price trading in a range around the Pivot Cloud and when this occurs we should look for the first clear break in either direction. We also note how the weekly and daily charts have seen a trend resistance line on FXS-RSI broken and this should also imply the move should be higher.

From the monthly chart it would appear that we are most likely seeing a multi-year expanded flat correction which started in July 1986 rallying to a Wave efa high at 0.8960 in February 1989. This would imply that we see a move back to the area of that same high to complete an extended Wave [iv].

The only risk we see to this is that the larger sideways move continues within an irregular triangle which would actually imply the opposite move – lower within Wave ^d.

Thus we need watch for the next break below 0.7014 or above 0.7791. However, as mentioned above, the greater evidence suggests the break may have already started with the daily price chart having broken above the Pivot Cloud – now we need to see confirmation but there could still be a short continuation of the sideways move before this occurs.

Ian Copsey

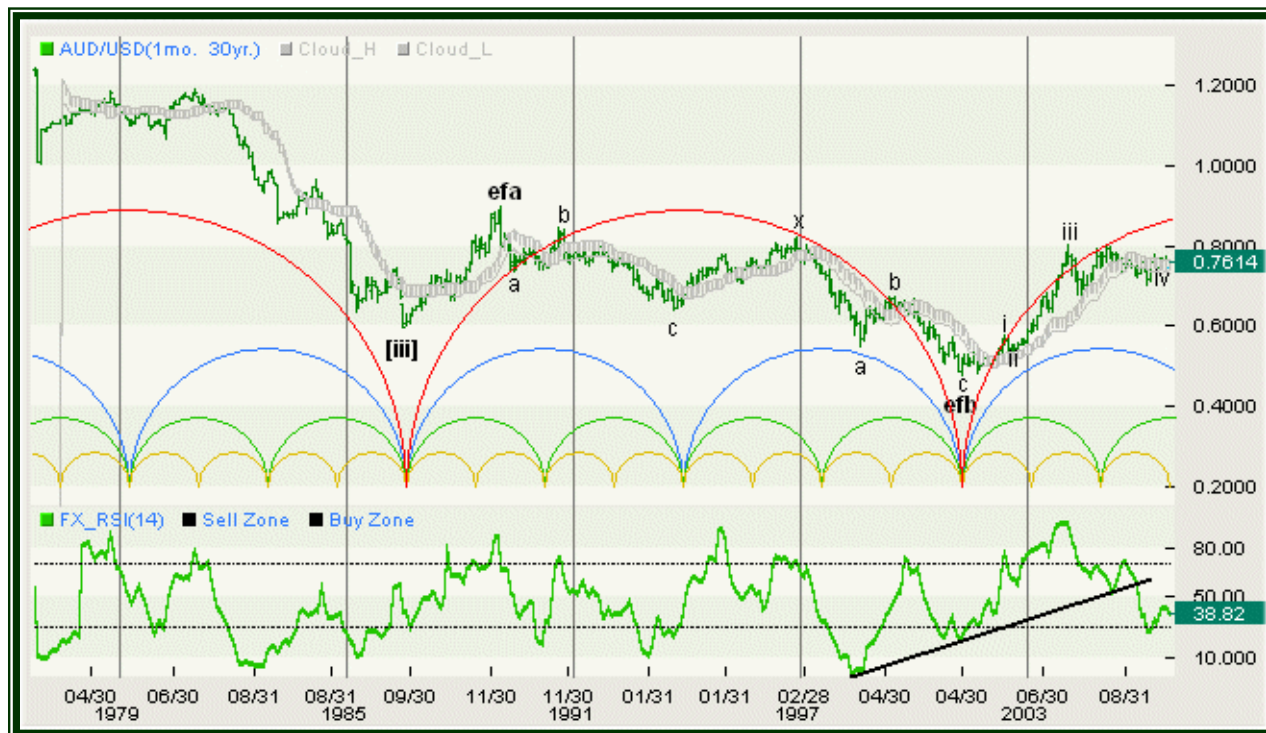
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## Monthly Chart



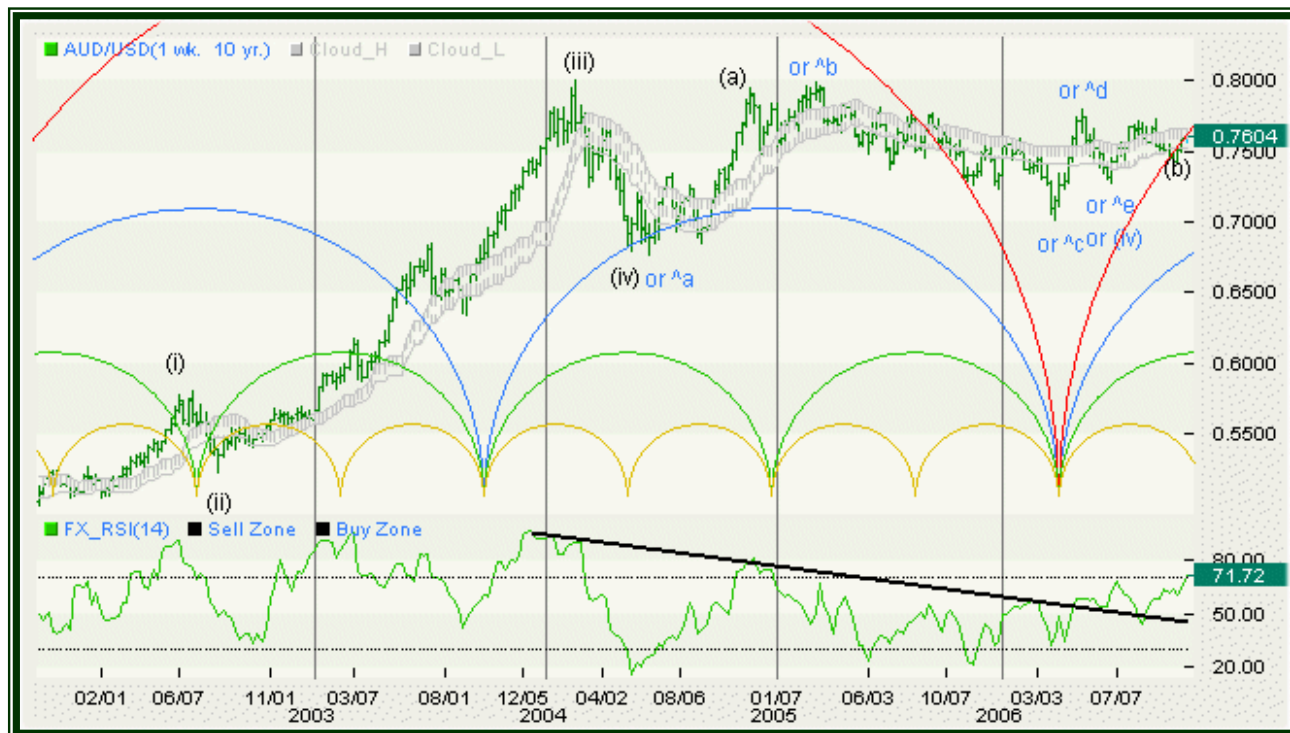
### Points to note on the monthly chart:

- Wave efa retraced 50% of Wave [ii]
- The Wave efb low at 0.4775 represented a 38.2% expansion of the rally from Wave [iii] at 0.5959 to Wave efa at 0.8960
- We should therefore see Wave efc in five waves moving back to the 0.8960 area
- There appears to be a Wave (v) target at 0.8924
- Price is trading around the Pivot Cloud
- FXS-RSI is now recovering from oversold
- The longer red cycle is rising, the blue cycle is declining, the green finding a peak while the yellow appears to be finding a low

There is nothing that can be said to stand out on the monthly chart. Cycles are, on the whole quite mixed but if we look at the symmetry of the decline from Wave x around the beginning of 1997 down to the efb low and look for a similar but opposite move higher we can see a certain likeness in the degree and gradient. It would suggest that there is potential for additional gains that could last another 9-12 months as indicated by the shorter yellow cycle that has around 9-10 months to reach its next peak.

This would certainly fit in with the wave count shown which would require a final Wave v higher to complex a multi year expanded flat correction around the 0.8924-60 area approximately. A clean break of price above the Pivot Cloud will help in this respect and should then see follow-through higher. With FXS-RSI having reached oversold and beginning to rise it would appear to be an ideal oversold signal that should spark further gains. However, it would be best to wait for break of resistance.

## Weekly Chart



### Points to note on the weekly chart:

- There was a cycle low at the 0.7014 low
- Either Wave (iv) completed at 0.6772 in June 2004 or it has developed in a triangle ending at 0.7270
- If Wave (iv) ended at 0.6772 then Wave (a) completed at 0.7945 in November 2004 and Wave (b) developed in a triangle ending at the recent 0.7413 low
- FXS-RSI broke above a downtrend line, moved back to retest and is now overbought
- Price is trading within the Pivot Cloud

The sideways ranging that has been seen for the past three years is not very clear and the cycles, while matching a number of price lows, do not appear to have great correlation in terms of summation of the individual cycles. We do note that a yellow cycle low is due and this could imply gains quite soon.

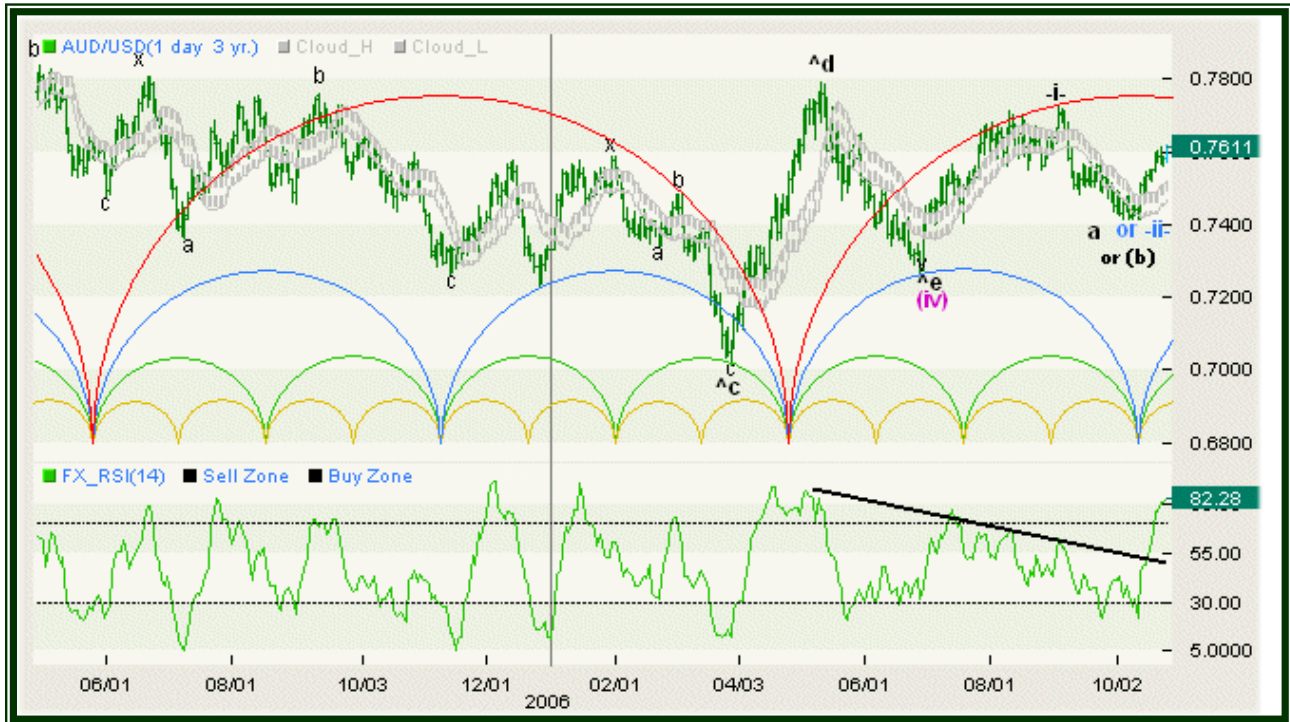
Indeed, the fact that FXS-RSI broke above a trend resistance line in the middle of this year and subsequently retested the line on a pullback does provide a generally bullish feel. However, FXS-RSI is overbought at this moment but unless there is any break of the swing low around 0.7270 the overbought signal may not be relevant.

In terms of the wave count there are three potential interpretations.

1. We could be still in a large triangle that would imply a move lower to the 0.7270 area before continuing sideways.
2. We could have just completed a Wave (b) of Wave (v) and thus we are commencing on Wave (c)
3. We may have seen an end to a triangular Wave (iv) at 0.7270 and thus we are looking at an ABC rally in Wave (v)

We also note that price has been trading around the Pivot Cloud for a long period and a clean break should be watched to judge the next directional move.

## Daily Chart



### Points to note on the daily chart:

- A cycle low was seen at the recent 0.7413 low
- Wave  $\wedge e$  was a 66.67% projection of Wave  $\wedge c$
- Wave  $-ii-$  was a 66.67% retracement of Wave  $-i-$
- Price has recently broken above the Pivot Cloud
- FXS-RSI has moved above a resistance line and is now overbought

Cycles are a little inaccurate but it appears that we have recently seen a major cycle low at the 0.7413 low when FXS-RSI was oversold. Since then FXS-RSI has broken above its resistance line and is overbought. Price has broken above the Pivot Cloud which appears positive and we should watch to see if the Cloud supports on any retest.

The wave structure is so erratic it is particularly difficult to be sure that the correct wave count has been displayed. However, this one is offered as being a good chance of being correct.