

AUD AND ECONOMIC COLLAPSE

By Daryl Guppy

Australia is on sale with a sustained fall in the Australia dollar below recent support near \$0.76 on the AUDUSD pair. Historical support is near \$0.715. The Australian Reserve Bank Governor Steven is jawboning the Aussie down to \$0.67. The idea that a low dollar equals a faltering economy and an economy in deep distress does not seem to worry the Reserve Bank which has wound back a decade of miscalculated GDP growth figures to under 3%.

Trading short the AUD has been a winning strategy since September 2014 with the sharp collapse below \$0.93. There have been clear short trades with sustained falls of around \$0.075.

During the prolonged downtrend the Aussie has moved between broad trading bands. These bands have matched historical support and resistance levels. The fall below \$0.94 had a historical support level at \$0.865. This support was broken in November 2014 and the Aussie quickly fell to \$0.79.



The same trading band measurement is used to set the target below support near \$0.79. This gives a downside target of \$0.715. The last time this level was achieved the Australian index was trading at 3500. That's a 37% fall from current levels near 5580. Once the target is achieved it is followed by a period of

consolidation. We use the [ANTSSYS](#) method to trade both the sustained falls below the support levels and the shorter term consolidation volatility.

A fall below \$0.715 gives a target of \$0.64. This is the support level tested at the depths of the 2008 market collapse. This also acted as a support level in 1999 and saw the Australian index trading at 3300. That's 40% below current levels.

Low US interest rates and high Australian interest rates broke the nexus between commodity pricing and the Australian dollar. This saw the Aussie trading above parity with the US dollar. This commodity nexus has now returned as Australian interest rates edge lower. The health of the Aussie reflects the poor health of the Australian economy. Both the AUD crosses and the Australian Index provide secular shorting opportunities.



On the other side of the trading coin, the Oanda chart of the GBPAUD cross provides a secure and stable long side trade.