Morning commentary for December 09, 2024

Good morning,

At 20,459 points, the FDAX once again marked a new historic high in trading last Friday, continuing the high of the previous days. Seven reaction-free trading days with steady price gains are currently on the books - this means that both the DAX index and its future are moving in a resistance-free space in terms of classic technical chart interpretations. Various market observers and traders describe this development as "now completely exaggerated" and justify it with a strong need to cover, which relates both to existing short positions and to the pressure on investors to reduce underweight positions in Europe in general and in the German market in particular. The second major accelerating factor is the unchanged gamma-short environment, which is documented in the daily reports published by Deutsche Börse AG and acts as a powerful catalyst to drive any movement.

Market-dominating trading activities are not the result of daily repositioning, but are usually driven by the need to react to changes in the overall market with regard to existing positions. Consequently, in extreme situations, movement impulses become self-propelling, feeding on themselves until they are suddenly exhausted. There is no doubt that this current upward impulse will also come to an end - the only question is when and at what level.

FDAX December contract daily chart

If one observes the flow that drives the price on a daily basis, it has shown initial changes in the last two trading days compared to the previous days. The "merciless buying consistency" seen in the run-up to the event gradually diminished, the buying waves also seen in the run-up to the event increased their intervals and the momentum with which they were led thinned out. Temporary declines in share prices tended to be absorbed by moderate purchases, so that the share price was maintained. The aggressive buying that had been seen in the run-up to the event, with ever new highs, failed to materialize for long stretches.

However, the fact that we did not see a sell order gaining dominance in the FDAX in the last trading week remained unchanged - not one. This is remarkable, especially when we consider the highs the DAX / FDAX has reached above its previous historical highs. This behavior is rather unusual, underlines the thesis of compelling covering pressure and shows impressively what pronounced gamma shorts can lead to in a market. The peculiarity of the situation becomes even clearer when we consider the fundamental and geopolitical environment in which the whole thing is taking place. And this is probably also the reason for the current events:

If we think back, negative market assessments predominated for weeks. In response, it is all too understandable that sluggish large portfolios were increasingly prepared for possible price declines over these weeks through short hedges, general position reductions - which led to underweighting - as well as increased writing of call positions (to increase portfolio returns by preserving time value). And if there are no sales despite an increasing deterioration in conditions, the only thing left to do is to take steps to reduce the risks on the downside, which can quickly escalate into a conflagration if a broad mass of investors with comparable portfolios are involved. These players are then forced to react step by step to the positions they have taken in advance. And we have obviously seen this. Once these distortions are finally overcome or at least trimmed back to a tolerable level, the magic ends just as it came.

Basically, it is rather unlikely that we will now immediately start to build up large hedges again at a higher level - I think this probability is low, but it should be borne in mind that the existing gamma short environment has remained intact up to now. It should also be noted here that as the December expiry approaches, the gamma tightens more and more around the respective base price with each passing day until the so-called "light switch effect" occurs on the expiry date, which then leads to sharp delta jumps at these very base prices. This effect is hardly taken into account in most market analyses, although it is precisely here that the absolutely necessary hedges are made via the corresponding futures, which leads to corresponding activities and thus has a massive influence on supply / demand behavior. As a result, a few dominant sales are then sufficient to cause increased selling, without "planned" sales must be involved on a large scale. Only a significant drying up of primary buying and selling would also prevent the options side from hedging and lead to a consolidation around the current level. It therefore remains exciting.

From a market perspective, we are currently still in an intact upward impulse, the directional filters are still long, and momentum is also still high, but I would refer to the "visual" evidence of declining momentum, signaled by tilting momentum indicators.

As a consequence of the ever new highs in the price development of the FDAX, the respective correction potentials are naturally recalculated on a daily basis. These are currently at:

Minimum correction:	**20,040 / 19,976 (first reaction target)**
Normal correction:	**19,824 (second reaction target)**
Maximum correction:	**19,672 / 19,621 (third reaction target)**

From a fundamental perspective, there were few influencing factors on Friday, at least the framework hardly changed. The US labor market report was a tick above expectations, but did not have any lasting impact on the markets. As a result, the publications for the US economy showed an increase in newly created jobs of 227,000 in November, compared with expectations of 214,000. Hourly wages rose by 0.37%, which was also slightly more than the expected 0.30%. Reuters quoted an employee of QC Partners as saying: "There is no immediate pressure for the Fed to act in the form of interest rate cuts from this labor market report. However, it is also not so strong that the Fed would have to pause its interest rate cuts immediately".

According to various commentaries, traders in Europe are now more concerned about the ongoing price rally. "We are cautiously optimistic about equities next year, but the levels reached now could mean that we are already borrowing some of the earnings for 2025," the head of investment at Verdence Capital Advisors told Reuters.

France is eagerly awaiting a new prime minister. President Macron has announced that he will be appointed in the coming days. This does not change the concerns about the country's debt: "France's political and economic future is surrounded by uncertainty," a market strategist from Hargreaves Lansdown told the press. However, the continued fall in yields on the French bond markets indicates that investors are at least currently relaxed.

I wish us a successful trading day! Uwe Wagner

For those interested in short-term trading: