**Morning commentary for December 16, 2024**

Good morning,

We are rapidly approaching the end of the year. Most market observers expect institutional investors to close their books at the end of next week. The US Federal Reserve's interest rate decision next Wednesday and the expiry of the December contracts on Friday are still on the agenda, and everything that comes after that will most likely be fine-tuning - unless news tumbles in that upsets the fundamental or geopolitical environment in a way that deviates significantly from the current situation. In view of the fact that the markets rose sharply in 2024, the question arises anyway as to what extent potential gains from 2025 have already been clearly anticipated, so that we are currently seeing a conspicuous increase in hedging at current price levels. This is all the more remarkable given that we can assume that the recent gains in share price performance were caused by the covering of lower hedges.

So far, we have not seen any real selling in value stocks, apart from the odd manageable sell basket, which has characterized the flow distribution in recent days - unlike in the weeks before. In concrete terms, this means that these price levels are not (yet) being used for exits, but the current valuations are being secured via derivatives on the futures exchanges.

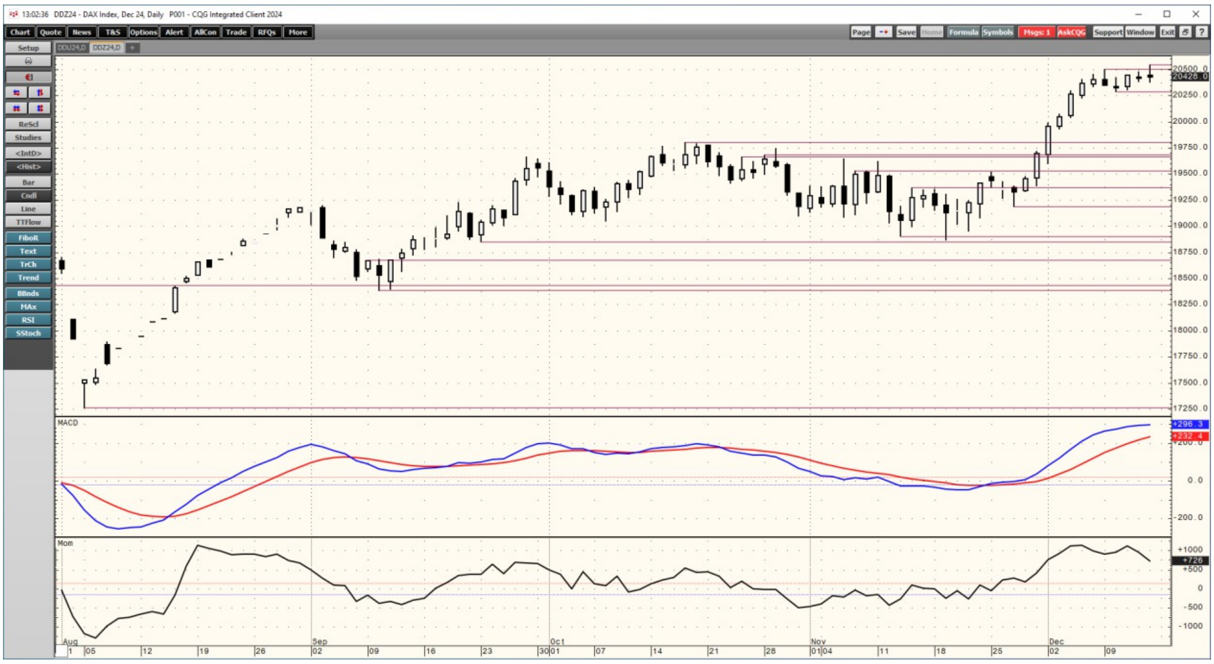
In the retail sector, on the other hand, the level of short positions was reduced somewhat towards the end of last week, i.e. more short positions were closed - at least more than new positions were added. If this trend continues in the remaining trading days of this year, there could be a tendency towards further price falls without a "crash" being imminent, which some experts naturally also do not want to rule out.

As expected, the ECB cut interest rates by 25 bp in the last trading week. According to "informed sources", the European Central Bank "does not intend to make any major interest rate cuts in the current cycle for the time being, as the Swiss National Bank has just done". Last Thursday, the SNB surprisingly lowered its interest rate by 50 bp, whereas 25 bp had been expected in advance. This growing expectation helped the euro somewhat towards the weekend.

In view of the Fed's interest rate decision in the middle of the week, the market is saying that the interest rate futures market is still pricing in a 97% probability of a rate cut. Following this expected interest rate cut of 25 bp, most players are assuming that the pace of further interest rate cuts in the US will be "leisurely" in the future. Reuters cites the protectionism announced by US President-elect Trump, which stands for rising inflation rates again in the future, as a reason for this, while the US Federal Reserve itself has repeatedly indicated that it can take its time with interest rate cuts, it says.

From a technical chart perspective, the FDAX is currently consolidating at a very high level. The predominant feature is the lack of sustained flow. In marked contrast to the previous weeks, some of the continuing coverages were less steady, far less powerful and much more sporadic. However, the overheating in the market, which had been mentioned by various technically oriented analysts in the run-up to the event, began to dissipate as a result of this sideways consolidation.

is already starting to decline. The momentum within the most recent movement impulse is falling - which is also shown by the momentum in its standard settings. The majority of the underlying more sluggish directional filters still show long set-ups in their standard settings, but here too the change to neutral set-ups that can be interpreted are within reach.



FDAX December contract daily chart

As a technical consequence, we outline the limits of the current consolidation in the FDAX December contract as follows:

- On the upside, the potential upper resistance levels are around 20,505 / 20,545 points,
- On the downside, we derive the lower, possibly supportive lower limit in the area around 20,287.

Should the lower limit at 20,287 in the FDAX December contract be sustainably undercut (and not only the less desirable stretches occur), the next lower, classically derivable possible support levels are derived in the areas around 19,802 / 19,747 / 19,666 and lower. There is a lot of space in between, which could now be filled with parts of the calculable correction potentials for projection purposes. However, I am cautious in this respect, as the current consolidation has already lasted too long. Statistics show that the reliability of both correction potentials and price patterns diminish dramatically in terms of their significance and accuracy if (a) the consolidations last more than three days after reaching impulse extremes, or (b) the consolidation lasts longer than three days after reaching impulse extremes.
(b) price patterns occur during market phases with low momentum and low turnover.

Open option positions and the resulting position overhangs receive little attention in current market analyses. Since the German equity market has a comparatively huge (for its overall size) derivative overhang, this low appreciation of open interest is completely incomprehensible. Gamma lies dormant here - this is the driving force that influences the delta of the positions in the options books, and this in turn is not hedged anywhere else but in the future. This means that every price change in the cash index (in this case relating to the DAX index) is reflected in the future on the respective index.

(here FDAX) and thus inevitably leads to excess demand or excess supply.

On Friday at 13:00, the December options contracts on the DAX expire, as does the December contract on the FDAX. The December options contracts on DAX shares follow at 17:30. With each day that we approach this expiry, the gamma tightens more and more around the respective strike price and accelerates the respective delta changes there, which abruptly changes the respective hedge requirement in futures. On Friday itself, we then speak of the so-called "light switch effect", which can lead to (a) heavy hedging at the corresponding base prices or (b) efforts to keep the cash price away from the base prices. This means that movements in the cash basis prices in the coming week will be particularly interesting for the more short-term oriented trader.

I wish us a successful trading week! Uwe Wagner

For those interested in short-term trading: