Morning commentary for December 19, 2024

Good morning,

It was painful to see how the DAX and FDAX had been resisting a due reaction for days - yesterday, Wednesday, trading was "absolutely listless" throughout the day, as one trader aptly put it. Consequently, one could conclude that there were no noticeable order flows in the market at midweek either (at least until the US interest rate decision) and that trading was therefore in the hands of traders.

The extremely low trading volume yesterday also showed once again how fragile any expectations become when analysis-oriented players interpret signals, but then find themselves alone because there is no follow-through flow. After the break of the lower range limit of the consolidation phase of the last two weeks on Tuesday, the first "early birds" fixed the market yesterday morning. They found support in many market commentaries, which referred to this fresh sell signal from a technical perspective. In a normal market phase, such an approach could have led to success with some probability - but it happened as it does when follow-up orders are missing: the market was covered. Initially timidly, then more vigorously, so that the FDAX was carried quite steadily from its early daily low of 20,195 points over a period of seven hours to the daily high of 20,343, before a wait-and-see calm set in ahead of the Fed interest rate decision.

FDAX December contract daily chart

This ultimately turned out as expected, with a rate cut of 25 basis points, but the Fed's new projections showed that they expect fewer rate cuts next year than previously assumed. The accompanying commentary also indicated a slower pace of interest rate cuts for the coming year. In his press conference following the interest rate decision, Fed Chairman Powell referred to the still solid labor market. Inflation is still "largely" on track, Reuters quoted him as saying. This was not really surprising and, to be honest, it was also not really surprising that the first players began to use these statements as a reason for the first more conspicuous selling. However, it was pleasing to see that market participants had not yet completely retreated before the end of the year, but were showing signs of life. After 20:00, the FDAX began to fall at an accelerated pace, although this was also due to the fact that the order book was still thin and the sudden increase in supply was met with only weak demand.

In retrospect, the development we have seen certainly fits into the overall technical picture, as the initial situation in the market had initially deteriorated in recent days (loss of momentum, as well as the change from a long-set-up in the directional filters to a neutral direction). With yesterday's development, we now have young short-set.us, the momentum shows a clear acceleration of a downward movement dynamic. In addition, the lower limit of the recently formed consolidation zone at 20,287 points was broken, which formally indicates a downward potential of the FDAX price trend down to the next lower possible support levels in the areas around 19,802 / 19,747 / 19,666 and below.

Nevertheless, I would like to emphasize once again at this point: the order book in the FDAX has been rather thinly filled for weeks, and we have not seen a real, steady flow. The last strong price rise at the end of November / beginning of December was driven by short covering (I include the reduction of underweight positions here), as well as by the delta distortions that occurred due to the gamma-short environment. Yesterday, too, the suddenly emerging supply overhang was met by a vacuum, which also facilitated the wide discount range seen.

Looking ahead, there should formally be further downside potential. I deliberately do not refer to reaction potentials as possible price targets on the downside - these have lost any connection to their most recent price increase, at least statistically, due to the long interim consolidation of the last two weeks. But classically, the next lower chart levels mentioned above can be named as possible price targets: 19,802 / 19,747 / 19,666.

However, if we bring the topic of reaction potential into play, I would like to calculate this on the upside (the daily low of 19,968 points reached so far this morning has already been taken into account):

Minimum correction: 20,158 / 20,187 (first reaction target)

Normal correction: 20,256 (second reaction target)

Maximum correction: 20,325 / 20,348 (third reaction target)

Here too, if the FDAX does not sustainably exceed the calculated minimum reaction target in a recovery, the statistical probability of new impulse lows being generated in the current movement fractal is over 68%. However, I would like to point out that the order flow situation has remained poor up to now, which can certainly trigger conspicuous price movements if even small orders are placed - on both sides.

I wish us a successful trading day! Uwe Wagner

For those interested in short-term trading: