Morning commentary for December 20, 2024

Good morning,

Despite yesterday's daily trading range of a good 150 points on the FDAX, trading was rather sluggish. Initial gains were due to the typical covering of the previous day's heavy losses, after which trading continued without any notable order flow. However, the stock market is currently considered to be "shot", as both the technical picture and the fundamental valuations show. The change in the outlook for interest rate cuts, which was manifested by the hawkish statements from the US Federal Reserve on Wednesday evening, changed the valuation benchmarks for individual stocks.

"The Fed has dampened already fading market hopes for generous rate cuts in 2025. Markets now expect a pause in January and only two rate cuts in the whole of next year - down from almost six in early September," a market strategist from Blackrock Investment Institute was quoted by Reuters yesterday on the change in market sentiment. From this perspective, equity valuations have become even more expensive, which has necessitated a shift (i.e. selling). But: Powell's message was not so shocking in principle, but the markets were already on the brink of collapse (this issue has been discussed several times in recent times) and it did not take much to encourage the players to sell. According to the press, some market participants are now preparing for further falls in the short term and are talking about an imminent correction. The Christmas rally could already be over.

FDAX March contract daily chart

The discount continues this morning. As the December contracts expire today, we are now working with the March 2025 contract, which leads to changed prices compared to the December contract expiring today due to its basis for cash. Thus, the limits of the interim consolidation in the March contract are derived from the areas around 20,152 on the downside and 20,673 / 20,729 on the upside. The next lower support and thus the next lower potential target area is the price level around 19,935 points.

It was noticeable yesterday that although the FDAX had approached the calculated targets of a possible minimum correction in its recovery, it did not exhaust them, which from a statistical point of view ultimately led to the expectation that a new impulse low would occur as a result, which we are already seeing this morning.

From a technical perspective, the FDAX continues to deteriorate, the momentum on the downside, depicted by the momentum per default setting, continues to increase, the underlying directional filters indicate a short-set-up.

From a fundamental perspective, the economic data published yesterday tended to take a back seat - especially as they did not show a clear trend. The weekly US labor market data and the third revision of GDP for the third quarter were better, while the Philadelphia Fed index for December was much weaker than expected. Contrary to expectations, the index of leading indicators rose in November. Existing home sales were also higher than expected last month.

According to the press, the Bank of England confirmed its key interest rate at 4.75% yesterday lunchtime, as the majority had expected. As Reuters writes, a senior economist at LBBW was surprised that three of the nine council members had voted in favor of lowering the key interest rate. Apparently, in view of the recent disappointing economic news, the risks for the economy are being weighted somewhat higher than previously thought in the circles of the British central bank, he explained. According to Reuters, the expert quoted now expects the Bank of England to cut its key interest rate by one percentage point next year.

I wish us a successful trading day!

Uwe Wagner

For those interested in short-term trading: