Morning commentary for December 23, 2024

Good morning,

Following the sharp price losses in the middle of the last trading week as a result of the US Federal Reserve's statements on a continuation of interest rate cuts, which are now likely to be rather sluggish, and the markets' inability to recover on Thursday, the price falls continued on Friday until the end of the index expiry. In addition to the interest rate argument, market participants also pointed to the risks that a potential government shutdown in the US could . In the US House of Representatives, another bill for a transitional budget, which had been supported by President-elect Trump, failed. This also failed due to a lack of support from Republican MPs, news agencies wrote in various commentaries. Whether Republicans and Democrats in Congress will be able to agree on a solution by the deadline on Saturday night remains questionable on Friday. Various economists warned that a potential shutdown could cost economic growth.

FDAX March contract daily chart

The FDAX fell to a daily low of 19,831 points in the March contract, which is valid as of now, towards the weekend and even temporarily fell below the breakout level from the end of November at 19,935 points. This meant that the entire length of the recent upward trend (from the end of January to around the second week of December), driven primarily by covering activities and leveraged in part by very pronounced gamma short overhangs, was virtually pulverized again. Only in the course of the afternoon did any selling pressure cease and the first buyers reappeared on the scene. After the index December contracts expired, most stock market barometers, and thus also their futures, accelerated their recovery movements (obviously people did not want to go into the weekend with too many open, rather short-term positions). In the end, almost all daily bodies, both in the respective stock market barometers and in the associated futures, showed pronounced fuses. The

In the course of the closing auction, FDAX reached a bullish interpretable doji with an extreme fuse and thus a trading end close to its opening.

This of course raises the daily recurring question of what the next trading day will bring. This brings us to the diagnosis of the market:

- In five trading days, the FDAX completed an expected correction of almost 900 points (from the daily high on December 13 at 20,729 points to the daily low last Friday (December 20) at 19,831 points), which many investors had almost longed for, before starting a recovery correction.
- As a result, the future formed a daily candle with an extreme fuse in comparison to the almost non-existent candle body and the thin wick. In the technical literature, this candlestick pattern is referred to as a bullish doji, which delivers very similar statistical results to a hammer candlestick (even more comparable to a white hammer).
- In relation to the entire distance of exactly 898 points, the correction potentials are calculated as follows:

  - **Minimum correction: 20.066 / 20.102**
  - **Normal correction: 20.188**
  - **Maximum correction: 20.273 / 20.302**

- Since the daily high on Friday in the course of the recovery in the afternoon/evening 20,138 points (closing price 20,109 in the auction), we can state that the calculated minimum correction (first reaction target) was not only reached, but even exceeded. It was not quite enough to reach the normal correction (second reaction target) on Friday, but what is not is still possible.
- Market technicals are currently pointing further south, as the standard settings are generally calculated on the basis of the respective closing prices. Consequently, the (bullish interpretable) fuse is not taken into account in the market technical evaluation of the FDAX on a daily basis. Consequently, the directional filters continue to a short-set-up and the momentum naturally continues to signal an increase in momentum on the downside.

So much for the technical "facts", now we come to a possible interpretation. Let's take a look at the ratio of open short positions in the retail sector published the major retail brokers. These have fallen significantly in recent days and average somewhere between 75 and 77 %. That sounds high, but it is not. In other words, in the course of the recent setbacks in share prices, the total short position has been reduced considerably.

It should also be mentioned in passing that the December expiry is over, so the strong gamma influences seen on the price trend are history; for the next few weeks, this influence from the next expiry dates will initially be more moderate.

We must also bear in mind that it is highly likely that the last major order books were closed on Friday, which means that trading volumes should / could fall even further in the remaining sparsely distributed trading days in 2024. This makes price movements / movement impulses more fragile and also allows for surprises on both sides.

Taking all this into account, the probability that the FDAX will resume the downturn in the current movement fractal and, in the course of this, reach a new low is high, at least from a statistical point of view, after the recent overcoming of the calculated minimum correction.

movement low, fell to around 50 %. This statement is usually valid for 3 to 4 trading days. Consequently, the FDAX should be well protected on the downside. This is supported by the shape of the Friday candle. Here, too, a statistical statement can be made that there is a probability of just under 68 % that the recovery will continue, at least until the normal correction at 20,188 points is reached.

However, I would like to point out that all the statistics I have listed here are of a general nature. No special framework conditions were taken into account in the analysis - not even the order flow. Due to the many bridging days in a row that are now coming, the fact that the institutional side should basically have closed the books for 2024, we must expect little consistency as well as possible surprises. I no longer expect substantial, planned trading in the remaining trading days of 2024. This means that the order flow that usually supports us will probably not return until 2025.

It is therefore difficult to assess the extent to which fundamental influences are still being meaningfully processed by the market. New US price data was published last Friday. These were slightly better than expected. "Concerns about long-term high interest rates could be exaggerated," said CMC Markets. "The abrupt price slide on the stock markets after the Fed meeting has made the PCE report the most important of the year, and investors are breathing a sigh of relief," it continued.

The PCE price index in the US published with the data on personal spending and income in November rose less strongly than predicted, both in absolute terms and in the core rate. As this index is the Fed's preferred price measure, the inflation trend could signal a more aggressive rate cut cycle by the Fed in 2025, after it had recently significantly dampened hopes of a rate cut. Meanwhile, the University of Michigan's consumer sentiment index rose in line with expectations in December.

I wish you a blessed Christmas! Uwe Wagner

For those interested in short-term trading: