Morning Commentary for January 06, 2025

Good morning,

The new stock market year completed its first trading days at the end of last week without any significant changes in the technical or fundamental starting positions. Over the past few days, there has been much discussion primarily about the EUR/USD exchange rate. The overriding downward trend of the euro currency had basically continued here; only Friday brought a small interim recovery and, as is the case, the statements regarding the effects of this development on the stock markets were once again at odds with each other.

With prices below USD 1.0250, the euro its lowest level since fall 2022. While a weak euro was previously interpreted as largely supportive for the German stock market, some experts see a rather double-edged sword in the current environment. Some market observers point out that imports traded in USD are becoming more expensive in the eurozone - this includes energy such as oil and gas - which may entail the risk of inflation rising again. However, in a phase in which market players are betting on interest rate cuts by the ECB (which is one of the reasons cited for recent purchases), these expectations of the European Central Bank could fall. On the other hand, the old rule still applies that products from the eurozone become cheaper as the euro weakens, but this only helps sectors that only use a small amount of expensive imported energy.

In addition, the presence of traders on the market was rather sparse in the first trading days of the year. Many will have used the bridging days to extend their Christmas and New Year vacations, so it can be assumed that trading activity will only return to normal in the coming week. However, it should also be noted here that Monday (January 6) is also a public holiday in some countries and that some market observers are also pointing out that, in view of Trump taking office in the USA on January 20, the associated uncertainties (specifically with regard to his economic and customs policy) mean that general restraint on the market could/should be expected to continue.

On the economic side, it should be noted that the ISM index for the US manufacturing industry in December was better than expected on Friday. This also applies to the Purchasing Managers' Index for US industry, which was revised on Thursday. However, a Reuters commentary points out that both indices are still below the expansion threshold of 50, which means that they do not tend to argue against a further fall in interest rates. And this brings us back to the US Federal Reserve: the press is unanimous in its view that a change in interest rates is currently almost ruled out for the January meeting of the US Federal Reserve, but that there a 50% probability of a rate cut for the subsequent meeting in March. "A resilient economy should be relatively well equipped to deal with the rise in borrowing costs," a bond expert from Wellington Management is quoted as saying with regard to the recent dampening of interest rate cut hopes.

With regard to oil prices, Reuters points out they have been climbing for the fifth day in a , most recently by up to 1.2% - close to the three-month highs. A Pepperstone strategist was quoted by the agency as saying that geopolitical uncertainty and confidence in the Chinese economy are coming together at the start of the year and this is driving up prices. Elsewhere, it was said that the main reason for the price increase was the

Expectations that the new US president will tighten sanctions against Iran, Venezuela and Russia and thus reduce global supply.

FDAX March contract daily chart

From a technical perspective, the FDAX largely stood still in the few trading days over Christmas and New Year, but this was largely expected. Turnover was meagre, the order book was thin and there were hardly any really strong orders (very small orders were enough to produce acceptable temporary price movements given the thin order book). If we look at the daily chart of the FDAX from a technical perspective, the declines from December 16 to 20 resulted in a consolidation phase, which is still valid until the beginning of the week. If we define the meaningful, discretionary potential range or zone boundaries here, these are derived from the levels around 20,166 / 20,180 on the upper side and 19,921 / 19,910 on the lower side in the narrower sense, "stretched" to 19,831 in the broader sense.

Market technology naturally stabilized as a result of the current consolidation, both in terms of momentum and directional filters, which are moving towards a more neutral set-up.

An analysis of the opinions of more trading-oriented market participants reveals some persistently bearish views. Temporary price recoveries are not ruled out from this corner either, but these are primarily seen as opportunities for further selling. "The market is far too expensive and should be trading several thousand points lower" are not individual statements and are justified by the rather critically assessed environment. This continues to include geopolitical risks (above all armed conflicts), but also the economic policy risks associated with the new Trump administration.

In practical terms, the focus should therefore be on the aforementioned range limits. If order flows do not pick up when the range limits are reached, there is a high probability that these limits will prevail as resistance or support (including stretching). If breakthroughs are made in connection with an attractive order flow, we can certainly expect to see a supporting thrust. On the upside potentially higher resistances (as possible targets) in the areas around 20,483 points, above that around 20,673 and then 20,729 (previous all-time high). On the downside, previous turning points are at around 19,745, and below that at 19,408 and 19,421. In retrospect, these levels are all unconfirmed so far, which makes their analytical significance rather subordinate.

I wish you all a happy new stock market year. Uwe

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For those interested in short-term trading: