Morning Commentary for January 13, 2025

Good morning,

The issue of future interest rate developments in the US, but also in Europe, has been and continues to be the focus of attention on the markets. From this perspective, last Friday's US labor market figures were the most important publication of the past week, and their results once again shook up expectations and thus the need for portfolio adjustments. While a further cycle of interest rate cuts was considered a foregone conclusion last year, which tended to contribute to higher prices on the equity markets, the first dampeners set in with Trump's election as future US president (as his planned tariff policy seen as a potential driver of inflation). The sharp price movements, which have already been widely discussed in the media in connection with reports on the planned action in this matter, should also be seen in this light. The US labor market report on Friday then added fuel to the fire: with 256,000 new jobs created, the US labor market once again proved to be extremely robust. This was well above expectations of 164,000 jobs, further dampening expectations of further interest rate cuts by the US Federal Reserve. It should also be added that the separately recorded unemployment rate fell, although economists had predicted stagnation. US hourly wages were largely in line with expectations.

Over the weekend, the news portal Reuters referred to an assessment by a US economist at DWS, who is of the opinion that there will be no further interest rate cuts in the US for the time being. In any case, some experts do not expect any further interest rate cuts until the second half of the year. The key question now is whether the persistently robust demand for labor in the US is due to the euphoria following the elections, which could have a temporary effect, or whether there is some sustainability behind it. However, if the robustness continues, this suggests that the US Federal Reserve will leave interest rates at a higher level for even longer than was expected just a few months ago, according to the DWS expert.

Following the publication of the data, traders were quoted in the press as expecting a pause in interest rate cuts, which should over the January, March and May meetings. The probability that the Fed will keep interest rates at their current level in June is being priced into the interest rate futures market with a probability of well over 40%. According to Reuters, the probability of the US Federal Reserve not lowering interest rates at all this year was 28% on Friday evening, up from 13.4% previously. A month ago, the markets had still considered this possibility to be completely unlikely.

This change in market expectations goes hand in hand with the recently expressed caution regarding possible further interest rate cuts by Fed representatives. The minutes of the December meeting revealed that some members of the Federal Open Market Committee wanted to focus more on the potential impact of President-elect Trump's trade policy on inflation. "When Chairman Jerome Powell and others at the Fed claim that the labor market is no longer a source of inflationary pressure, I think that statement is premature," said Santander's US chief economist.

In any case, the US markets were hit hard on Friday. The Dow Jones, NASDAQ, S&P 500 and Russell 2000 all hit rock bottom and yields rose on the bond markets

increased accordingly. The USD benefited from this development and appreciated further against the EUR, for example.

FDAX March contract daily chart

In comparison, the DAX / FDAX remained impressively stable towards the weekend, even though Friday's daily pattern had an impressive wick. Following the publication of the figures, the FDAX initially fell below the lower limit of the recently formed interim consolidation at 20,382 /
20,378 and also temporarily marked price levels below the calculated minimum correction (and thus the first reaction target) at 20,390 / 20,355 with its impulse and Friday low at 20,319 points. However, the onset of buying after the cash close pushed the future just above the calculated target level again, so that the FDAX went into the weekend at 20,390 in the auction. This raises the question of what the balance of power in the market will look like in the coming week.

From a purely technical point of view, the recently formed interim consolidation, which can be derived from the daily chart in the classic manner, is now very much over. The coming week will show whether the temporary break of the lower boundary level will now be followed by (a) further declines that will lead to a renewed downturn or (b) the break seen on Friday is merely a stretch, which would then result in an adjustment of the lower boundary. We can also include the assessment of the breakthrough seen in the calculated minimum correction in this analysis. The statistics I have compiled and used regarding the future movement behavior of the FDAX on a daily basis according to the degree to which reaction or correction potentials have been exhausted are based on the respective closing price. Temporary intraday undershoots (or overshoots in upward reactions) are not considered separately in the statistics, here only a bit of discretionary assessment (with all its subjective weaknesses) helps. In any case, I handle this in such a way that in the case of more pronounced breakthroughs (whereby "pronounced" is also subjective), I set the probabilities of a resumption of the corrected impulse at the next lower level. In this specific case, this would mean that the probability of a resumption of the upward movement in the current fractal, with an accompanying new impulse high above 20,622, is no longer 68 to 72 %, but just under 50 %

has fallen. To make matters worse, the validity of this statistically assessed probability only applies until the close of trading on Monday. From Monday evening onwards, the consolidation is already considered to be too long for a connection or dependency on the previous impulse development to assumed. If we also take this aspect into account, the probability of a rapid price recovery "feels" significantly lower than 50%.

From a technical chart perspective, we need to focus on Friday's pronounced wick. The daily pattern in the FDAX can be interpreted as a bearish doji, although here too cannot "automatically" expect further immediate and sustained price falls, as the body of the doji is (still) within the "old" consolidation zone defined in advance. Statistical analyses show that in such cases, the underlying consolidation zones generally persist, although it should be noted that almost all candlestick patterns within consolidation zones are far less meaningful than when they form during active impulse phases.

If we look at the market technology on a daily basis, it can currently also be interpreted as neutral in its standard settings. The tentative long set-ups of the directional filters of the previous days have mostly slipped back into neutral status with Friday's declines, and momentum is also declining again in the neutral range, which suggests a low level of momentum.

In conclusion, the technical picture of the FDAX on a daily basis suggests that we can interpret an initial situation that does not allow any particular weighting for one of the two possible directions (up or down).

If we then take the next step in the direction of intermarket relationships, the technical deterioration in the US indices, the increased yields in the bond markets and the weak EUR come into . All three aspects do not necessarily point to a good environment for the FDAX at present. Rising yields in the bond market make equities rather unattractive, while a weak euro harbors rising inflation risks due to the resulting increase in energy and commodity prices for the euro area.

Another aspect that may be viewed more critically is the comparatively high level of investment currently being made by institutional investors. They have been busy buying recently.

If we summarize everything, the market is now somewhere between two stools, whereby it is not unlikely that more and more players are beginning to take an increasingly critical view of the overall situation (specifically also in the DAX, which has so far held up impressively compared to the US markets).

What scenarios are there? As things stand here and now, new highs above the upper range limit at 20,622 are rather unlikely in the short term. Remaining in the consolidation zone (with a stretched lower range limit) is possible, at least the statistics (with all the restrictions already mentioned) currently speak in favor of this. If we summarize all other aspects, we should definitely keep an eye on increased risks to the downside.

If discounts are applied, the potential targets are defined as follows:

- 20,271 points as a normal correction and second mathematical reaction target
- 20,187 / 20,159 as maximum correction and third mathematical reaction target

- It should be noted here that the next lower support band lies in the area around 20,180 / 20,166 / 20,152 points and thus coincides with the maximum correction, which significantly increases the analytical significance of this level.

I wish us all a successful trading week! Uwe Wagner

For those interested in short-term trading: