# Morning Commentary for January 27, 2025

Good morning,

The focus on the possible increase in tariffs on imports into the US, which is closely linked to Trump, was remains one of the swords of Damocles hanging over the stock market. The new/old US president knows how to play this keyboard and keep his economic "counterparts" on their toes. In addition, Trump (unlike in his first term of office) is entering his second term of office better prepared than he was eight years ago, which is perhaps also in the fact that he is currently less openly blustering on key issues, but one could get the impression that he is weighing up the use of the instruments at his disposal to implement his ideas more skillfully. That doesn't make it any better (for us), but perhaps a little more predictable. Statements from the US administration at least point in this possible direction: last week, Trump said that he would prefer not to have to impose tariffs on Chinese imports. At the same time, however, he added that the option would give Washington "tremendous power" over Beijing, according to the press. "These are clearly off-the-cuff remarks, but the market has gained the impression overnight that there is a scenario in which China escapes the worst of the tariff regime," Reuters quotes a Deutsche Bank analyst as saying.
"I suspect there still plenty of time for a more aggressive approach."

According to some market observers, this statement could interpreted as an indication that Trump will ultimately be more pragmatic in his tariff policy than announced. "With the announcement that he may waive tariffs against China, the US President is igniting the next stage of the current price fireworks," said asset manager QC Partners. The announcement that a 25% tax would be levied on goods from Canada and Mexico on February 1 did not lead to a strong reaction on the markets; on the contrary, it was ignored in the previous week as share prices continued to rise.

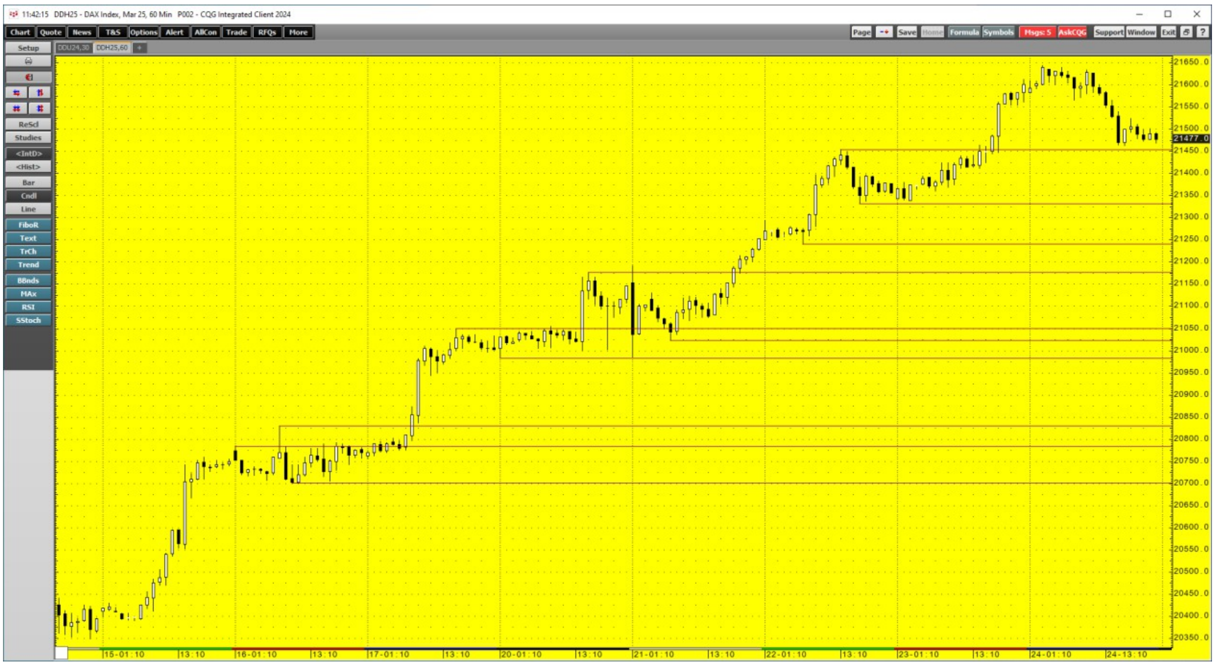
As a first step into the new stock market week, let's take a look at the technical starting position on the stock markets. As of Monday morning, the daily charts of the Dow Jones, NASDASQ, S&P 500, DAX and EuroStoxx show intact upward trends. What is remarkable is the fact that these have been almost reaction-free in the last two weeks of their development, or at least with little reaction if we refer to the down day on January 16 (which led to a doji formation in the FDAX) in the US indices. These uptrends, some of which were driven by remarkable temporary order flows, can now be defined as overheated in market terms, which often used as an indication of an imminent further reaction. As
However, this market-technical starting position is not really a "safe" reaction indicator, as highly dynamic markets generally exhibit overheated momentum indicators of their own accord (which is why filter indicators such as the ADX are still used today to relativize apparently excessive momentum). Of course, "normal" interim reactions are also possible at any time during such trend phases and are generally also normal or
"desirable", but we are still lacking anything tangible that could herald a sustained change in direction from a technical chart perspective.

The mood and arguments among professional traders and fund managers, with whom I am either in direct contact or from whom I hear via third parties, continue to be extremely divided - a fact that I rarely experienced in this extreme form before. From unreservedly bullish to the expectation of a imminent flash crashes are all there and everyone has their own comprehensive explanations and justifications. The only interesting thing (and I have already referred to this in recent days) is the manageably low volatility in the index options traded on the market. If you looked at the prices for straddles in the previous week, their prices were such that no one seemed to expect even the slightest price movement or reaction, which repeatedly left supporters of the impending flash crash theory baffled. If they did  the plunge, these strategies in Daly options ended up being worthless, which only further underpinned the carefree attitude of other players. "No one is afraid, everyone believes that things will only  up, but at least stay at these levels," is often heard from the pessimists.

FDAX March contract daily chart

After eight days of unbridled price rises on the FDAX, including eight new ATHs in a row, the futures finally calmed down a little on Friday and corrected slightly, albeit at a moderate pace and far from a possible flash downturn, at least until now. Within the underlying directional filters in their default setting in the daily chart time frame, Friday's slight price markdown has so far shown no noticeable changes in their direction: the set-ups have so far remained long. It is worth mentioning in this regard that the momentum measured by the momentum could not and cannot match the pace of the previous days or the previous week, but this is not an effect of Friday's development. With a little imagination, one could interpret a (slightly, very slightly negative) divergent development between price performance and momentum, but no alarm bells are yet ringing in the market diagnosis.

If we define chart levels, these are derived in the areas at the level of the current ATH at 21,645 points as previously unconfirmed, but classically possible resistance. On the downside, potential support levels remain unchanged at 20,729 points and then lower. In order to bridge the "gap" between Friday's closing price and the first lower support mentioned above, I  to possible supportive earlier potential turning points from the 60-minute chart, although I would like to point out that we can only really speak of reference points here. It is hardly possible to assume any notable old position slippages here - which would be an absolute prerequisite for being able to count on reasonably reliable demand overhangs here. With this proviso in mind, corresponding "price levels of possible interest" are derived from the areas around 21,450 points, 21,330, 21,250, 21,175 and 21,050.




FDAX March contract 60 minutes

My preferred method for estimating possible reaction targets is to calculate the correction potential. In relation to the distance of the most recent upward movement, these are calculated in the following ranges:

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| Minimum correction and thus first reaction target: | 21.151 / 21.077 |
| Normal correction and second reaction target: | 20.898 |
| Maximum correction and third reaction target: | 20.718 / 20.658 |

For the sake of completeness, let's take a look at the current distribution of open interest in DAX index options. Here we are still in a gamma-short environment, resulting from clumped call-short positions in the overhang. However, the term of the February contracts "at the front" here is still comparatively long, the overhang sizes are manageable and the critical gamma component, which forces us to take action, is therefore tradable, which means that its influence on the FDAX is not currently in the foreground.

From a fundamental point of view, players on Friday looked at the purchasing managers' indices (PMI) for production in the eurozone's private sector. According to Commerzbank economists, these rose unexpectedly sharply, which is a sign of hope for an imminent turnaround for the better in the European economy. "However, as the sentiment indicators are still at a low level and today's increase was probably not supported by the southern European countries, we  only a moderate development of the euro economy in the new year," they said in a commentary. In their opinion, the positive effect of the lower key interest rates should only fully unfold in the second half of 2025 and the economy should pick up somewhat more strongly. With regard to the sector indices, the car manufacturer sector was one of the winners with an increase of 1.1%.

In the US, the Uni-Michigan consumer sentiment index failed to meet expectations in January. As Reuters writes, the Purchasing Managers' Index for the manufacturing sector moved just into expansionary territory in January, contrary to expectations, while the index for the service sector fell more sharply than expected but remained above the growth threshold of 50 points. Sales of existing homes rose slightly more than expected in December.

In conclusion, I would like to state that a reaction may have been initiated on Friday within a previously strong and intact upward trend, the actual extent of which can only be guessed at so far. We still lack a more usable potential sell indication within the price trend. Assessments of the coming price trend among institutional market participants currently diverge widely - I have rarely seen anything like it. The volatilities in index options currently do not really reflect the risks seen by the pessimists, which could well increase the pressure on the price significantly in the event of further falls.

I am currently focusing on the calculated reaction targets and following the

flow. I wish us all a successful trading week!

Uwe Wagner

For those interested in short-term trading: