Morning Commentary for January 30, 2025

Good morning,

If we look at the price performance of the DAX / FDAX from a purely technical perspective, there is an intact upward trend in the overall picture so far, which is developing with sufficient momentum to ensure that its existence not jeopardized. The two most obvious confirmations of this are the currently still intact long-set-up via the underlying directional filters and the fact that the FDAX has not even fully corrected the current uptrend in its most recent (and so far only) reaction since mid-January. If you look a little closer, you will find blemishes, such as the first indications of a negative divergence between momentum development and price action or evidence of a slight loss of momentum via the position and alignment of the directional filters, but so far these have only been marginal remarks, without serious threats to the current impulse being able to assert themselves.

FDAX March contract daily chart

If you try to explain the current movement in fundamental terms, you are bombarded daily with assessments across the entire spectrum - from confirming clarity to incomprehensible shaking of the head - all of which are logical in their own right, and in the evening you agree on the assessment that best explains the day.

If we look at the order flow, the way in which buying took place yesterday showed that further shifts were clearly taking place in an overarching style: technology in the USA tended to be sold (even if the NASDAQ also recovered well in the wake of the general price rally following the Fed's interest rate decision), while Europe's "old stocks" were bought. These repeated, wave-like purchases, e.g. in the FDAX, were a clear indication that buying was not necessarily based on price, but on weighting.

The potential double top in the daily chart of the FDAX March contract, which was mentioned as a possible scenario yesterday morning, is probably off the table in a classic form after the convincing formation of a new historic high. So far, we do not have a formation or a daily pattern or similar, which can be interpreted as a potential sell indication - from a chart and market technical perspective, however, we must concede that the price trend must first develop into such a situation before corresponding indications can be derived (technology primarily diagnoses).

Opinion among the institutional traders and fund managers with whom I am in contact remains mixed and covers the entire spectrum of opinion diversity. However, it is now noticeable that the general focus of opinion seems to be gradually shifting more and more towards a more critical, more cautious mode. And there are more and more opinions that consider violent reactions to be increasingly likely, with opinions also differing only in terms of timing.

As a consequence, all we can do again is to pick up the scent of indications in the flow in the direction of increasing reaction risks, but nevertheless to align ourselves strictly with the real existing flow.

Yesterday's decision by the US Federal Reserve to keep the key interest rate in the range of 4.25 to 4.50
% had been widely expected and did not provoke any major reaction. As Reuters writes, the central bankers also made only minor changes to their statement. According to the press, the statement shows that they are satisfied with the interest rate policy, as inflation is only slightly above their target of 2% and labor market conditions are solid.

According to Reuters, the recent stable employment figures suggest that the Fed leave interest rates at their current level for a while longer. A rate cut in March or May remains possible, according to the market, but is currently only being priced in with a low probability. The US money markets are currently expecting just under two interest rate cuts this year, the first of which is unlikely to take place before June.

Interesting in this direction is the statement by the Chief Global Economist at Morgan Stanley, according to which tariff increases could cause the US Federal Reserve to pause with interest rate cuts and remain on hold until the economy slows down noticeably. He believes that the Fed is unlikely to raise interest rates if tariffs drive up prices, as tariffs are also likely to pressure on domestic production by increasing input costs.

I wish us all a successful trading day! Uwe Wagner

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