# Morning Commentary for January 31, 2025

Good morning,

... and we go again. At 21,899 points, the FDAX marked its tenth historic all-time high in yesterday's trading. Without the two-day dip at the beginning of the week, this sequence would have been almost uninterrupted. From a technical perspective, this development is largely confirmed; the only flaw that is now becoming increasingly noticeable is that momentum in its standard setting - as an indicator of momentum development - is slowly losing touch with the price increase, so that a negative divergent development is becoming increasingly apparent. Otherwise, from a technical perspective, the trend-confirming indications still predominate.

One of the most intense discussions currently taking place in the retail sector therefore revolves around the following questions: How long will the buying pressure (be able to) continue before the momentum tips over? - and - How do you prepare for this in trading practice?

Let me start by saying that the number of people who expect this current upward impulse to end soon is increasing. Rather than being underpinned by more and more fundamental arguments, the nervousness is increasing and with it the concern of missing an expected change of momentum in trading.

FDAX March contract daily chart

Purely technically oriented trading players still argue quite pragmatically here: they point to the need to form a price trend formation, or at least a correspondingly interpretable daily pattern - accompanied by a technical market indication (such as the divergence between price trend and momentum that can now be interpreted negatively - which would at least point to an actual exhaustion of the demand side). Yes, of course you have to take into account that the instruments of technical analysis have their strength in the diagnosis and therefore you are "running after" the fact. This means that you don't catch the peak in sales. The other side of the approach, which is now also being seen in the market, is the increasing fixing of the price rise - in anticipation of a reaction - in order to avoid the break-off.

to miss out. In order to keep the inevitable price losses under control, the proponents of this trading method  against the trend through intensive "back and forth trading". This is extremely labor-intensive and, in my view, very gruelling when you are fighting against an unchecked rise day after day and are happy in the end if you have come out of it with small losses, but always had your foot in the door so as not to miss the expected "crash". The reason given for this labor-intensive and nerve-wracking approach is that the first push on the downside could be very strong, allowing you to quickly make up for what you have lost so far and then be fully in the market.

And then there are the classic phase traders who, regardless of the overriding opinions - even if it can be extremely difficult to isolate themselves from them - actually just follow the flow. The returns may not be sky-high, but the risk remains manageable and the return is largely steady without having to fight against possible price losses following an opinion.

It doesn't matter what phase the market is in - still in the middle of a rise or about change direction - when the mood turns, we will see it and follow it.

From a fundamental perspective, the most important event yesterday was probably the ECB's cut in the key interest rate. As Reuters writes, this was not the last interest rate cut for LBBW economists. The target value for the deposit rate at the end of the year is likely to be just under 2%. Provided, of course, that inflationary developments do not throw a spanner in the works of the ECB Governing Council. In addition, it is not yet clear what effect the change of office in the White House will have. In this respect, the ECB would do well to stick to its approach of deciding from meeting to meeting, they judged.

Economic sentiment in the eurozone also brightened surprisingly in January. The rise for the EU was  to increased confidence in industry, construction and, to a lesser extent, the service sectorwhile confidence in the retail sector declined.

In the US, the economy grew robustly in the fourth quarter, but slightly less than predicted. The deflator (PCE) favored by the US Federal Reserve as a measure of inflation rose by 2.3% after an increase of 1.5%. The GDP deflator amounted to 2.2 % after 1.9 % in the previous quarter. Economists had expected 2.3% here. In contrast, the weekly labor market data was better than expected. The Fed had indicated a longer pause in interest rate cuts the previous day, which appears to be justified by the data.

I wish us all a successful trading day! Uwe Wagner

For those interested in short-term trading: