# Morning Commentary for February 03, 2025

Good morning,

One man is currently influencing the stock markets with his statements like no other - traders are watching the clock to be able to estimate when he might say something or write something on X or his platform, people hang on his every and share prices react quite reliably. I'm talking about Donald Trump, the current US president, who is skillfully throwing the weight of the US into the balance with the aim of gaining advantages for his country over the rest of the world, even the risk of underestimating the complexity of the global economy and achieving the opposite of what was intended. We saw a very good example of this on Friday evening, when the following news from Reuters burst into a world reeling from impending tariff increases on imports into the USA:

"BREAKING: President Trump is DELAYING beginning 25% traffs on Canada and Mexico from February 1st to March 1st, per Trump Administration officials."

In an already low-liquidity Friday evening trading session, this news led to hectic temporary buying in the FDAX after the future had already retreated from its daily highs. The denial came before new highs were reached:

"WH PRESS SEC. LEAVITT: REUTERS REPORT ON TARIFFS IS FALSE; MEXICO, CANADA, CHINA TARIFFS TO START FEB 1ST"

Hectic selling set in again and pushed the FDAX to new daily lows, from which the future was unable to recover significantly by the close of trading. After 10 p.m., when FDAX trading had also ended, the next announcement came:

"TRUMP: WE'LL BE DOING SOMETHING VERY SUBSTANTIAL ON TARIFFS WITH EUROPEAN UNION"

This means that the coming trading session at the start of the week will remain exciting.

FDAX March contract 60 minutes chart

After an initially firm trading session on Friday evening, Wall Street was also under pressure due to the looming (not unexpected) introduction of high tariffs by the new US government. The indices gave back their interim gains and slipped into negative territory. Even though, according to White House spokeswoman Karoline Leavitt, negotiations were still due to take place on Friday evening, some market observers that the initial course had already been set. The reporting season thus took a back seat.

A subsequent Reuters commentary then stated: "Additional tariffs on crude oil would cause unnecessary volatility and make fuel and transportation more expensive globally. This leads to increased uncertainty, especially for industries that  on stable energy costs, such as manufacturing, transportation, aviation and logistics," quoting the CEO of asset manager deVere.

As a result, negative overlap patterns formed in the FDAX as well as in the Dow Jones and Russel 2000 futures at the end of the week, and negative shift patterns formed in the NASDAQ 100 and S&P 500 futures in the respective daily charts.


FDAX March contract daily chart

If we focus on these two-day patterns (Thursday and Friday), they are classified as "sell patterns". The interesting thing about these price formations, which belong to the candlestick theory, is their exact describability (in contrast to the classic complex price formations as we know and use them from "western" charting), which allows a statistically relevant evaluation. I have been carrying out these evaluations for almost three decades on the FDAX, where the probabilities of both price patterns as an indication of possible subsequent sales on the following day (depending on the structure of the rules to be measured) are higher than with the other known daily candlestick formations (Hanging Man, Shooting Star and similar), which are usually used for corresponding statistical evaluations. The negative overlap pattern delivers the highest hit rate (at least in the FDAX) at over 80% (which leaves around 20% probability that the sell indication of this pattern will fail).

Of course, we have to bear in mind that the current, still diagnostically valid, overarching upward momentum of the last two weeks has shown impressive strength
/ or still has, which could lead to the expectation that it will not break away on the spur of the moment without resistance. However, a serious warning shot, accompanied by a possible change in the fundamental geo-economic environment, Friday's price performance may well be worthy of attention.

From a market perspective, a possible reaction would not really come as a surprise either; I would refer to the recent slowdown in the momentum of the upward impulse - here I have referred several times to the negative divergence between the price trend and its momentum.

Traders who analyze the order flow , as well as its composition (and origin), now see considerable risks on the downside - at least in the short term. Hedging positions derivatives, both institutional and retail, have recently been reduced - in some cases considerably. Over the last few days, we have primarily seen reallocations, which was partly due to the recent phase of price rises. This fact has given rise to the suspicion/opinion among some experts that possible further selling could "hit a vacuum" on the downside. Of course, it should not be forgotten that some players have already built up high expectations of significant selling in the last few trading days. There is therefore the possibility that the desire to be "right" could be the father of the idea. But if we take all aspects together, an imminent, more pronounced reaction potential is not impossible.

One of the risks (in addition to tariffs) remains the risk of inflation. Reuters pointed out again on Friday that even without tariffs, a key US inflation rate rose in December. The price measure favored by the central bank, the personal consumption expenditures (PCE) index, was higher than a year ago and above the Fed's target. Nevertheless, the market initially reacted little impressed by this figure, as it met the expectations already defined in advance.

US labor costs rose in the fourth quarter of 2024, but also met forecasts, according to Reuters. Meanwhile, the mood among purchasing managers in the Chicago area brightened in December.

As futures traders, let's also look beyond the horizon: the US currency showed strength - in line with the threat of import tariffs from Saturday and the higher price data. The dollar index rose by 0.6%. Reuters quoted Danske Bank as saying: "News of tariffs from the Trump administration remain in focus". A protectionist economic policy generally has an inflationary effect and supports the national currency.

Yields on the bond market also rose slightly. The yield on ten-year US securities rose by 3.0 basis points to 4.55% and the market is already eagerly discussing when the time will come for major shifts from equities to bonds. There is also talk that rising prices and tariffs could give the US Federal Reserve less leeway to cut interest rates - which were the key drivers of the recent bull market. The markets are largely pricing in another interest rate pause for the Fed in March and no rate cuts before June.

Oil prices were mixed. According to the press, the market is waiting to see whether the US implements its plans to impose tariffs on Canada and Mexico and whether oil will be affected. "The statement," writes Reuters, "that the tariffs may not include oil is consistent with the concept that Trump does not want high oil prices" and refers to an assessment by an expert from TP ICAP. The Opec+ meeting on Monday, at which a decision will be made on further production policy, is also being looked forward to, the report continued.

Gold also traded at a record high. The troy ounce gained 0.2% to USD 2,800. The precious metal continued to benefit from its status as a safe haven - especially in view the imposition of new tariffs by the US, according to reports. According to the press, demand for safe investments has risen in light of the uncertainty surrounding the impact of the tariffs proposed by the Trump administration on inflation and economic growth, according to broker ActivTrades. If the tariffs are implemented, they could drive up inflation in the US and potentially trigger a trade war, which would cloud the global economic outlook, the broker's analysts added. According to a director at Metals Focus, a significant number of central banks are also interested in gold as a means of moving away from the US dollar.

I wish us all a successful trading week! Uwe Wagner

For those interested in short-term trading: