Morning Commentary for February 07, 2025

Good morning,

There had already been signs of this on Wednesday, after the FDAX managed to push above the 21,600 / 21,650 level after several attempts with slightly increasing intraday momentum and finally overcame the maximum correction calculated in advance. However, the fact that it also marked a new all-time high in yesterday's trading obviously surprised quite a few participants in the market, which was reflected in the fact that buying resumed with a consistency that we saw in phases in the first part of the overarching upward trend in the second half of January.

FDAX March contract daily chart

A market analyst from XTB told the press that the stock market had "seen through" Trump's "playbook". Trump will play the same game with Europe as he did with Mexico or Canada, the expert continued: threaten tariffs, delay or suspend implementation, get what you actually want from Europe, such as higher defense spending or a better trade position for the US. If this reasoning proves to be correct, a huge burden would be lifted from the shoulders of the stock markets, but the generally nagging question remains as to where the whole thing is still going. With the recent all-time high in the FDAX overcome, no meaningful resistance levels can be defined on the upside, at least none that really deserve their definition on the basis of possible older position skews. Some traders argue that there are ongoing shifts - out of US stocks and into European stocks. The positive course of the reporting season and reports about a possible US ceasefire plan for Ukraine, which the US administration will allegedly present at the Munich Security Conference next week also have a very prominent place in the chain of arguments.

Nevertheless, we must bear in mind that as prices continue to rise, the markets - and in the specific case of the FDAX - also fall.

In purely diagnostic terms, we can therefore state that the DAX / FDAX remain in an intact uptrend, which has so far fulfilled all technical chart and market assessment criteria. However, the most striking technical market symptom is an ever-growing negative divergence between the actual rising price trend and its medium-term dynamic development. In the specialist literature, such an aspect is described as a warning signal that indicates dwindling strength in the trend and thus significantly increases the risk of a reaction. Although statistical evaluations confirm this rather general statement, the shortcoming here is the lack of a concrete timing option - namely when the end of the current and measured impulse begins. Especially when there are no chart markers that could be used to define possible reversal levels.

The formation of a possible S-K-S formation, which was discussed yesterday as a possible scenario, is also off the table with the marking of a new all-time high in the daily chart, so that the stock market traffic light is currently still green, even if it has to be pointed out again and again and also at the risk of a tiresomely repetitive reminder that nobody wants to hear it anymore: "the trees do not grow into the sky, not even these".

However, it is also a fact that, at least until the close of trading yesterday evening, the order flow clearly indicated the presence of buy orders. The rises in the FDAX were stronger and more consistent than the slight countertrends seen in the meantime. The latter were conspicuous for their slowness and hesitancy - typical behavior when the buy side clearly dominates.

As various market observers also pointed out yesterday, monetary policy also provided supportive impetus. As expected, the Bank of England cut its key interest rate by a further 25 basis points at midday. Nevertheless, the pound came under downward pressure following the decision. According to Reuters, traders blamed the rather dovish outlook for this. It was also reported that the BoE was of the opinion that sufficient progress had been made on disinflation and that a "gradual and cautious approach" to further interest rate cuts was appropriate.

Today, Friday, the publication of the US labor market report for January is being referred to. It is well known that this is seen as very important for the Fed's interest rate course each month. Nevertheless, it should be noted once again at this point that the US Federal Reserve has recently signaled that it is in no hurry to cut interest rates and wants to wait and see - partly because it wants to factor the effects of Trump's policies into its decisions.

Yields rose again slightly on the bond market after falling sharply the previous day. This supported the USD, with the euro weakening slightly to USD 1.0385. Reuters quoted a Pepperstone strategist as saying: "Uncertainty about President Trump's trade policy remains high. This has recently driven investors into safe havens such as bonds, the USD or gold, which has recently repeatedly hit record highs.

I wish us all a successful trading day! Uwe Wagner

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