Morning Commentary for February 10, 2025

Good morning,

A week ago Friday, the customs issue that had been smouldering on the markets for weeks now caught up with them in reality and has been keeping them on tenterhooks with even greater focus ever since. Stock market barometers began trading with a significant discount at the start of last week, prompting quite a few market observers to see this as the start of the expected downward reaction that they had predicted on several occasions. In fact, however, the supply-side inflation they had predicted in advance (which was to be met by a demand vacuum) did not materialize, which ultimately led to the formation of pronounced fuses in the daily bodies of the respective daily index candles last Monday.

In institutional trade, the discussions continued to focus Trump's customs policy. Two strands of thought : , the opinion prevailed that Trump entered his second term of office more prepared and that his famously erratic decisions (unlike eight years ago) still appear chaotic and destructive on the surface, but this time seem more planned and goal-oriented. This leads to train of thought number two: if there really is a "Trump playbook", as a market analyst from XTB told the press, then one could assume a repeating pattern for the EU. Trump will the same game with Europe as he did with Mexico or Canada, the XTB 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 scenario matches the actual reality, we would probably be spared the worst nightmares of the global economy in their entirety that were assumed in advance, which consequently led to an initially hesitant, then steadily increasing (re)buying pace over the last trading week.

After Canada, Mexico and China and the opinion that a pattern has been discovered in Trump's actions, the anxious focus is now turning to Europe. a stable start to Friday trading, which led to the DAX / FDAX reaching new historic highs, Trump's announcement that he intends to impose new reciprocal tariffs in the coming week intimidated buyers again. Trump did not say who these would be aimed at, but they were intended to offset tariffs imposed by other countries on US imports. In view of the weekend, when a lot can be said and the fact that the markets are generally trading at high levels, some of which are technically critical, selling set in during the afternoon (after the publication of the US labor market report).

For the Fixed Income CIO at RBC BlueBay AM, the European Union is the next target of Trump's tariff policy, as Reuters writes. It appears that EU tariffs of 25% could be announced at any time, the expert continues. These could then presumably be lowered to around 10% unless the EU retaliates and commits to both increasing defense spending and buying more energy and agricultural products from the US (which us to Trump's playbook mentioned above). However, it is not clear whether the EU is prepared to meet such demands, as there is obviously a not inconsiderable element of uncertainty.

While the focus of market participants' attention in recent days has continued to be on Trump and his decisions regarding tariffs, there have also been other developments on the fundamental front. Last Friday, the monthly labor market data was published in the US. However, this time the data was slightly below expectations and provided little impetus. The number of non-farm payrolls rose by 143,000 in January, which (as mentioned) was below consensus expectations but within the forecast range, as one expert explained in a Reuters commentary. A Pepperstone market strategist interviewed by the news agencies in this context now believes it is likely that the US Federal Reserve will remain on the sidelines for the time being, as the
"skip" in January is likely to be followed by a longer "pause" in the easing cycle, especially as the labor market continues to perform well.

However, according to various commentators, the fact that the University of Michigan's consumer confidence index clearly missed the forecast and inflation expectations for the year rose to their highest level since November 2023 also weighed on sentiment for equities.

FDAX March contract daily chart

In this context, let's take a look at the technical starting position of the FDAX. Overall, the future is still in a fundamentally intact uptrend. If we delve deeper into its qualitative substance, however, we cannot help but notice a few blemishes, which suggests that it may be its preliminary closing phase. The most striking feature its declining momentum, which is reflected in the momentum of its various standard settings. For some days now, I have been out a very obvious negative divergence between momentum and price performance. This is usually a serious indication of structural changes in the trend, but such a divergence is not a very suitable timing indicator. In addition, there are comparable (market) technical anomalies in the US indices and futures, including even less inviting chart-technical price developments. Some traders explain this currently somewhat divergent development with shifts (out of the USA, into Europe), which have been increasingly noticeable over the past few days.

The declining momentum of the rise in the DAX / FDAX is also noticeable in the underlying directional filters in the daily time frame. The directional filters (also in their default settings) are increasingly tipping over in their set-up directions from originally long into the neutral range.

In addition, short hedges are available at comparatively lower levels than one would expect. "usually" could be assumed for comparable initial situations, which could also be regarded as is interpreted as "bearish".

A look at the open interest of the DAX options shows that we are still in the gamma short range, which highlights their catalyzing effect on the price trend of the future. We still have two weeks until the expiry of the February contracts, which is manifested in a still moderate delta change behavior, but it should noted here that this development is now becoming more pronounced with each passing day - still slowly, but gaining in importance with decreasing duration.

From the point of view of classical formation theory, the formation of an emerging reversal formation is not yet completely off the table, even with the new highs on Thursday and Friday. Admittedly, the S-K-S formation in the daily chart expected or considered possible by some experts will no longer be possible in terms of its complex definition, but a double top in the daily chart is still a possible topic (albeit no longer entirely textbook). However, if we leave some room for the imagination, such a development would still be strategically conceivable if (a) the FDAX continues to fall at the beginning of the week and in the following days and (b) it falls below the potential neckline at 21,194 points on a sustained basis. If this does not fall or is not even reached in the current movement fractal, the consolidation scenario will remain dominant.

But what could lead in the direction of the development that speaks for this scenario according to (a)? If we look the two-day candle formation in the FDAX, a negative shift pattern can certainly be assumed in terms of the mathematical definition. Although its statistically measured hit rate as a sell indication in the FDAX is not high as that of the negative overlap pattern (see commentary from February 3), it is still acceptable enough to be able to expect corresponding subsequent declines.

Technical targets on the downside would initially be our classic reaction potentials: Minimum

correction:	21,758 / 21,717 (first potential reaction target) Normal
correction:	21,616 (second potential reaction target)
Maximum correction:	21,514 / 21,480 (third reaction target)

Our standard statements apply here again: if the FDAX fully or only partially exploits the minimum reaction potential in its expected reaction, we expect a resumption of the upward impulse up to the marking of a new all-time high with a probability of around 70%.

If the future falls below the lower target level of the minimum correction at 21,717 points on a sustained basis (or closes below it), the statistical probability of a resumption of the upward impulse (with a new ATH) falls to around 50%. If the FDAX also falls below the normal reaction potential (second reaction target) at 21,616 points in the course of a possible reaction, the probability of occurrence to around 32%. If it falls below the maximum correction, the resumption of the upward impulse in the current movement fractal should be sought in the random area.

In addition to the calculated reaction targets, the following (discretionary) potential support levels remain: 21,650 / 21,600, including the possible neckline of an envisaged double top or the lowest limit of a continued consolidation at 21,21,194 / 21,21,192 points.

But: monitoring the flow remains crucial. I wish us all a

successful trading week! Uwe Wagner

For those interested in short-term trading: