

RACONTEUR



German downturn on DAX 30

No doubt everyone has noticed the bearish movements on the German market since the summer, after topping just above the crucial price level of 10,000 points – a very significant point for investors, says Pierre Veyret, an analyst for online broker ActivTrades. But what are the reasons behind such a reversal? And what does the future hold?

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Several economic indexes have shown signs of slowing down. The Ifo Business Climate Index dropped for the sixth consecutive time in October (-1.5 points at 98.3 points) to reach its lowest level since December 2012. Also the Zew Index, which measures the economic perspective on a six-monthly basis, fell for the tenth time and is now in the negative zone for the first time since November 2012 (-10.5 points at -3.6 points).

The Zew Centre for European Economic Research is also expecting further down-grading in the mid-term due to geopolitical crises, for example, in Ukraine and the Middle East, the weakening of the eurozone, and recent disappointing statistics on German production and exports.

The latest hit came from the German government on October 14 when it decided to reduce the country's economic growth forecast to 1.2 per cent in 2014 and 1.3 per cent in 2015, down from 1.8 per cent and 2.0 per cent respectively.

All these elements combined could explain the strong bearish movements on the German index as more and more buyers are fleeing the market.

From our [weekly chart](#), we can clearly see the “head and shoulders” reversal pattern with a “head” just above the significant 10,000-points level. This pattern is well known by technical analysts to trigger a market psychology reversal and a strong bearish movement after validation. We see the validation with a breaking out of the “neckline” (in orange).

With ActivTrades you can trade the DAX 30 from one-point spreads and no swaps, which will significantly decrease the cost of each transaction

Following this pattern validation and with the news coming from the German economy, we could draw the famous Fibonacci fan lines which give us potential support levels.

Since everyone knows that no market is going in a straight line from A to B, there are always variations even in a trend. The German index has bounced back on the 38.2 per cent dynamic Fibonacci ratio to pull back on the 23.6 per cent ratio. Currently, this week’s candle is in a “doji” configuration, as it was the week before, which in this case could be interpreted as a first reversal signal and maybe the end of the pull-back.

The Retail Sales Index announced the end of the bullish trend by breaking its ascending dynamic support (in red) long before prices did. Now, this relative strength indicator is clearly in a bearish channel, below the crucial 50 per cent zone.

WHAT DO WE TAKE INTO ACCOUNT?

Everyone has to remember that even if the DAX 30 is one of the most liquid markets in the world, the [jump on volatility](#) brought many strong market movements for intraday or even swing trading activity. However, that kind of investor will pay attention to trading costs and optimised technical solutions.

Fortunately with ActivTrades you can trade this index from one-point spreads and no swaps, which will significantly decrease the cost of each transaction.

In addition, ActivTrades is able to offer exclusive trading smart tools to ease trading activity. For example, SmartLines can be used to execute target prices while traders are away from their computer. This tool places an automatic order as soon as the price crosses the trendline activated by the trader – in such a case it would be useful for the 38.2 per cent ratio.

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