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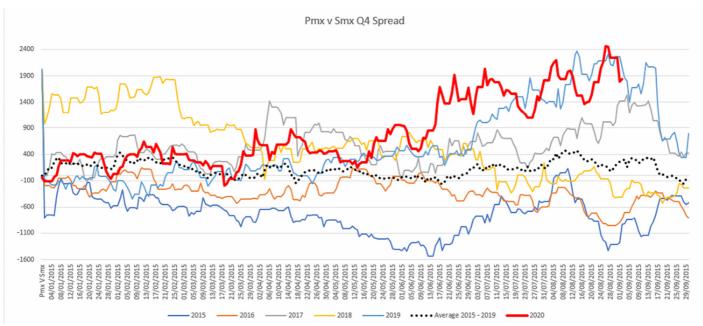
Does history point to a narrowing of the spread?

Based on the average 5 year valuation the Panamax v Supramax Q4 spread has closed USD 1,439 above its mean. Both 2017 and 2019 were strong performing years but however the recent high close of USD 2,446 is the highest in 6 years.

Exhibit 1 illustrates the 5 year high, low and average value. Two things to note

- 1) the over performing years of 2017 and 2019 both sold off aggressively towards the mean valuation.
- 2) Price is currently above the current mean valuation by USD 1,439, with the average valuation for Mid-October being USD 1,601 below the current price

Exhibit 1 Panamax v Supramax Q4 valuation



From a technical perspective the futures remain in trend as it continues to make higher highs and higher lows. However, the Relative strength index is not replicating the higher highs creating a negative divergence. Although this is not a sell signal it does warn of a momentum slowdown. This is supported by the stochastic oscillator which is in overbought territory and showing a bearish cross.

Downside Fractal support is at USD 1,386. A close below this level would create a lower low in the market indicating technical weakness and suggest the spread has entered a bearish phase.

Exhibit 2 below is the current spread illustrating the divergence

See Chart below

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Panmax v Supramax Q4 Spread

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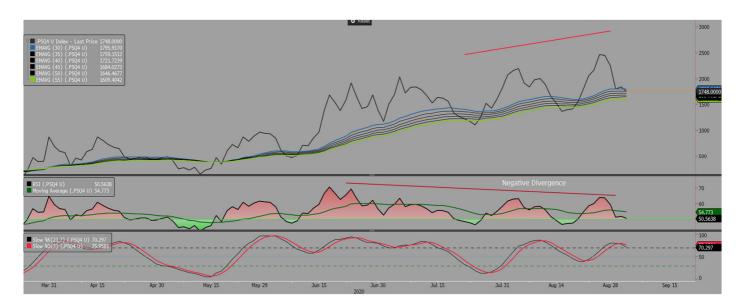


Chart Source Bloomberg

With the technical picture warning of a potential momentum slowdown based on the negative divergence and the overbought stochastic, and the historical chart indicating we are USD 1,500 above the 5 year average value there is the possibility we could see a potential mean reversion over the coming weeks.

The technical is currently bullish but based on the evidence at hand the spread is showing sign it is getting ready to narrow.

Only you can decide, but it is food for thought!!

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