

FIS European Close

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	Previous Close	Current Close	% Change
Cape 1 month forward	12375	11125	-10.1%
Cape Q2 21	12675	12550	-1.0%
Cape Cal 22	14175	14200	0.2%

	Previous Close	Current Close	% Change
Pmx 1 month forward	12250	12050	-1.6%
Pmx Q2 21	12500	12475	-0.2%
Pmx Cal 22	10675	10725	0.5%

	Previous Close	Current Close	% Change
Smx 1 month forward	12050	11725	-2.7%
Smx Q2 21	10925	10825	-0.9%
Smx Cal 22	10300	10325	0.2%

	Previous Close	Current Close	% Change
Brent	55.58	55.54	-0.1%
WTI	52.63	52.32	-0.6%
Iron ore	162.75	153.35	-5.8%

Data Source FIS and Bloomberg

We had 153.80 as a potential downside target for the Feb iron ore futures based on the bearish Gartley pattern two days ago (the pattern has been in play for weeks). The futures are now off USD 10.00 and trading at USD 152.90 as iron ore deals with the reality of low margins and Chinese Government looking to roll back steel production, at a time the big five have announced their intention to increase supply. Will they really roll back steel production? The reality is, price is too high and the margins are not there. For this market to be healthy on all sides, price needs to correct, production cuts or not it is the rhetoric that counts right now and that is to get prices lower. On the 25th we noted that the last time steel margins were at these levels the DCE iron ore was 487 RMB lower, that's now down to RMB 400.

If the freight market was the comeback kid yesterday then it took a bit of a beating today. The Cape seasonality is in play, which the futures have been pricing in for some time with a deep discount to the index. The index is now off 36% in six sessions, to USD 16,133 and this has pushed the Feb futures another 10% lower today. The Q2 capes is holding ground at just 1% lower leaving the Cape v Panamax at attractive levels. The spread is attractive due to the overvaluation of the Panamax index rather than the undervaluation of the Capesize index.

Bullish or bearish is the question in the Panamax Q2 futures. If the price pulls back from here it is likely going to be a flat correction meaning we should find support around the USD 11,800 level. If we move higher from here then the futures could possibly trade as high as USD 13,200 on an extended fifth. The index continues to move lower and looks to have entered a corrective phase. If the index is lower tomorrow then we could test technical support levels in the coming days.

No matter how you dress up the Supramax index, the reality is we are seeing a momentum slowdown. The index has not ground to a halt just yet and continues to see positive pricing. However, as highlighted on the morning technical report yesterday the upside move in the Feb futures created a negative divergence, resulting in price moving lower again this morning. The technical is not a buy on the front months and the index is slowing down, warning we could soon enter into a corrective phase.

Yesterday the futures were rallying on a 10 million drawdown in the U.S stocks, today oil slips with global virus risks clouding a demand rebound, as the South African coronavirus variant has been reported to have reached the U.S. (Bloomberg). Price is consolidating in a range, we maintain the cycle remains bullish at this point. On the morning technical we introduced a Bollinger band on the 4-hour chart due to the price being in range which caught the upside move this afternoon beautifully. Upside resistance/target is still around the USD 59.00—USD 59.50 level at this point. The cycle remains bullish until it tells us otherwise.