

FIS Technical – Iron Ore Sep 18

Technical Analyst

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Highlights:

Open interest is decreasing in the DCE September futures contract and this has been the drive behind the recent upward move in the form of market short covering.

Technically the market is in a neutral mode as it is now consolidating and has formed a symmetrical triangle. The market now needs to close outside of the consolidation pattern (in either direction) to signal the next directional move in the market. Market with higher volume within the consolidation period tend to perform better than those with low volume (Bullkowski) which we are seeing.

Volume is increasing on bull days, but price action remains below the 21 period EMA, indicating the technical is conflicting.

Technically neutral, breakout is now needed.

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Source Bloomberg

Resistance – 445, 466, 494.5

Support – 437, 433, 427.5

The DCE iron ore has entered a consolidation phase in the form of a Symmetrical triangle. Due to both the ascending and descending trendlines, this is regarded as a neutral pattern and a technical breakout is needed to indicate the next directional move in the market.

Price patterns generally breakout either before or around 2/3rds of the way through the technical formation (marked on the chart), which in this instance is the 17-4-13. Beyond 2/3rds of the way through the pattern and the formation becomes less reliable as a directional indicator in the market.

The stochastic at 52 has is looking neutral, technically it has entered bullish territory, but this remains marginal at this point and would support the market being in a consolidation period, as do the moving averages that are flattening out.

Price action itself remains below the 21 period EMA, indicating that the main trend is technically considered bearish and is being driven by market short covering, as illustrated by the drop in the open interest (circled).

Volume is rising on bull days and dropping on bears days, this supports a firming technical in the form of market short covering and would suggest a degree of unease in the market. Last time open interest was at these levels was at the October 2017 low.

Resistance is at CNY 445 trend line on the descending triangle. A close above this level would be regarded as technically bullish. Likewise, a close below CNY 437 would be regarded as technically bearish and indicate downside continuation of the current trend.

Technical Analysis Glossary

Pivot Point

A point where the market makes a new high or low, before reversing in direction.

Trend Line

A directional line connecting pivot points.

Primary Trend

The main trend line over an extended period of time.

Secondary Trend

Distinct from but within the primary trend. Indicates recent trend.

Support

A previous market low where market participants have been prepared to enter long positions.

Resistance

A previous market high where market participants have been prepared enter short positions.

Range

An area between the support and resistance.

Relative Strength Index (RSI)

A technical momentum indicator that compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions in an asset. The RSI ranges from 0 to 100. Typically speaking, an asset is deemed to be overbought once the RSI approaches the 70 level, and likewise, as the RSI approaches 30, it is deemed to be oversold.

Fibonacci Retracement

Refers to areas of support or resistance. A Fibonacci retracement shows the potential retracement of a financial asset relative to the original move in price. A trend line is drawn between two points and then the vertical distance is divided by key Fibonacci ratios; 23.60%, 38.25%, 50.00%, 61.80% and 100.00%. This tool can also be used as a projection method.

Moving Average Convergence Divergence (MACD)

A trend-following momentum indicator that shows the relationship between two moving averages of prices. The MACD is calculated by subtracting the 26-day exponential moving average (EMA) from the 12-day EMA. A nine-day EMA of the MACD, called the "signal line", is then plotted on top of the MACD, functioning as a trigger for buy and sell signals on the crossover of the two lines. The histogram highlights the narrowing and widening of the two averages acting as an indicator for slowing or increasing momentum in the market. I.E a flattening or decreasing histogram in an upward market would suggest that the upward move could soon stall.

Award winning broker

In 2015 FIS was named as the best performing inter-dealing broker in Iron Ore swaps and options by Singapore-based SGX AsiaClear for the third consecutive year.

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