

# **SHANGHAI INDEX, CHINA**

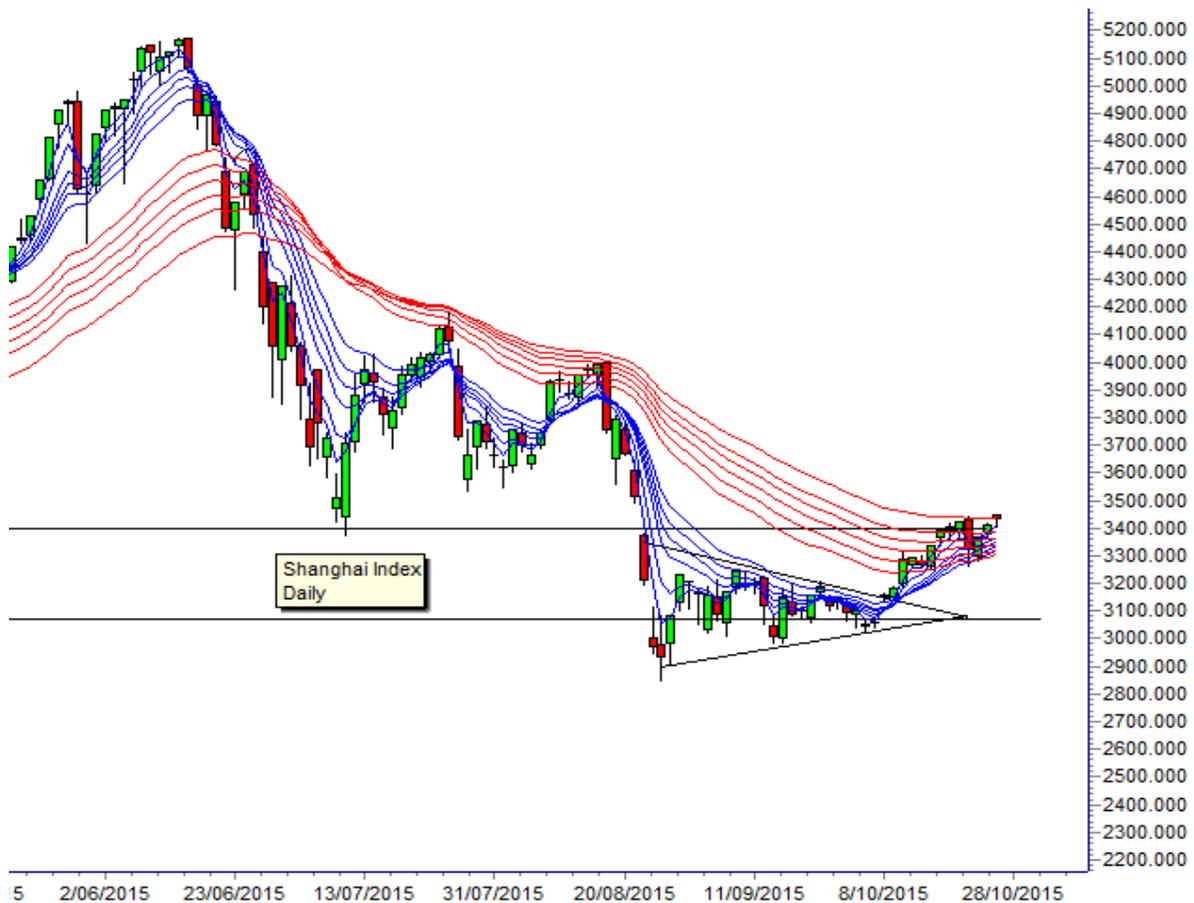
*By Daryl Guppy*

The Shanghai index rally has retreated from the upper edge of the long term group of averages in the Guppy Multiple Moving Averages indicator. This is a retreat from near the strong resistance level near 3400. The rally shows increasing confidence in the market from the short term traders. The retreat developed because a few investors are less confident about the market.

The long term group of averages is showing early signs of compression. This shows that a larger number of investors are becoming more bullish.

The retreat is part of the normal pattern of development for a trend breakout. This development is a rally followed a retreat and then followed by a new rally. The retreat from near 3400 has recent support near 3200. The 3200 level acted as a short term resistance level in the recent consolidation behaviour in the Shanghai index. A retreat from 3400 to near 3200 followed by a new rebound rally from 3200 is a very bullish signal for the market because it shows the breakout rally is sustainable.

If the market develop a fall below 3200 then this is less bullish because it shows that the period of consolidation between 3100 and 3400 will continued for several more weeks.



The rally breakout to 3400 developed from a symmetrical triangle pattern. This triangle is a pattern of indecision. It shows the bullish forces are equally balanced by the bearish forces. The triangle pattern has a valid downtrend line and a valid uptrend line.

The Shanghai Index rallied with an upside breakout from this pattern. The base of the triangle is measured and this value is projected upwards from the point of the breakout from the triangle. This method gives an upside target near 3600. This is a longer term target and the current retreat is part of the pattern of breakout development.

The first target for the new rally is the upper level of the long term GMMA near 3400 and this has been achieved. The path for the breakout from 3100 to 3600 will not be smooth. The breakout will include rally and retreat behaviour. Traders look for a retreat and rally continuation from near 3200.

Traders watch for an increase in rally and retreat trading between 3200 and 3400 because this is a bullish signal that shows increased confidence.

There is low probability the rally rebound will quickly develop into a sustained new uptrend so investors need patience. Investors watch for the development of compression in the long term GMMA group of averages and this is developing. Compression shows selling pressure is weakening.

## **SUBJECT SUMMARY**

### **INDEX NOTES**

Each week we carry index analysis notes for regional markets. These are the markets in Singapore, Malaysia, Hong Kong, Shanghai, Thailand, Taiwan and Korea. Each market is covered once every six weeks or more often if there are significant market developments. The objective of the notes is to provide an analytical, technical background to assist readers in making better trading and investment decisions.