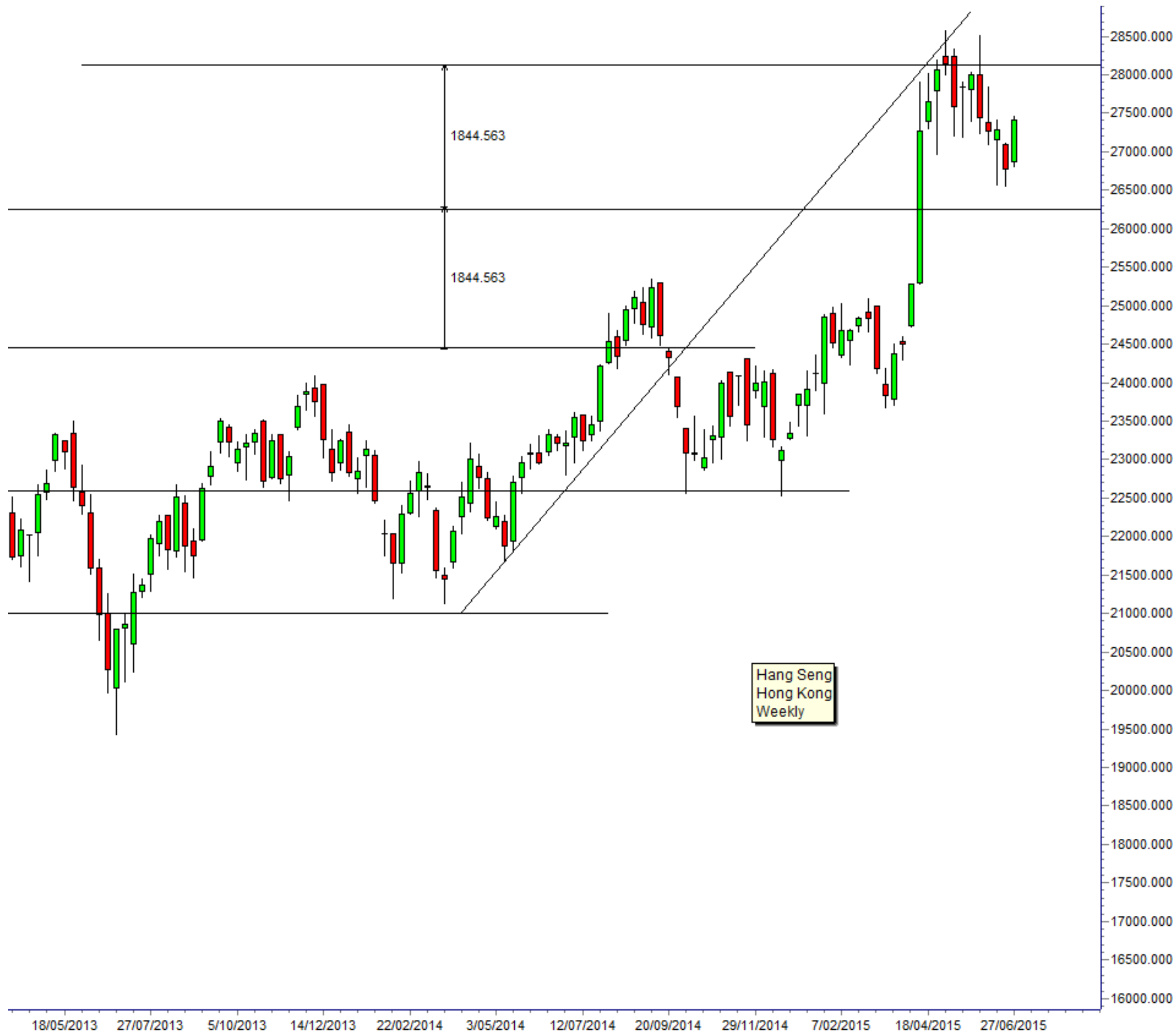
HANG SENG, HONG KONG

By Daryl Guppy

The extension of the uptrend line acted as resistance. The market was not able to break above this line and above the projected resistance level near 28,100. The Hang Seng moves in trading bands. The current rally behavior quickly moved above the first trading band projection, but has paused at the second trading band projection. Now the index will test support near the trading band level at 26,300.

There is a weak linkage with the behavior of the Shanghai Index. It moves faster on the downside, but more slowly on the upside rebound rallies.



This breakout was unstable and was driven by trend arbitrage. This is the idea that the trend of Hong Kong co-listed Shanghai stocks is different from the trend in Shanghai. The reasoning is that these stocks will catch up and duplicate the Shanghai trend. It's flawed reasoning because these stocks are not fungible – they cannot be exchanged for Shanghai stocks. So this is a market of limited buyers and sellers. It lacks the liquidity for a sustainable trend. Traders watch for a sudden trend reversal and then go short.

The Hong Kong market was sustained by its status as the only entry point into China. The market was buoyed by the co-listing or dual listing of Shanghai shares. Now there is no need to use Hong Kong because traders can go direct to Shanghai.