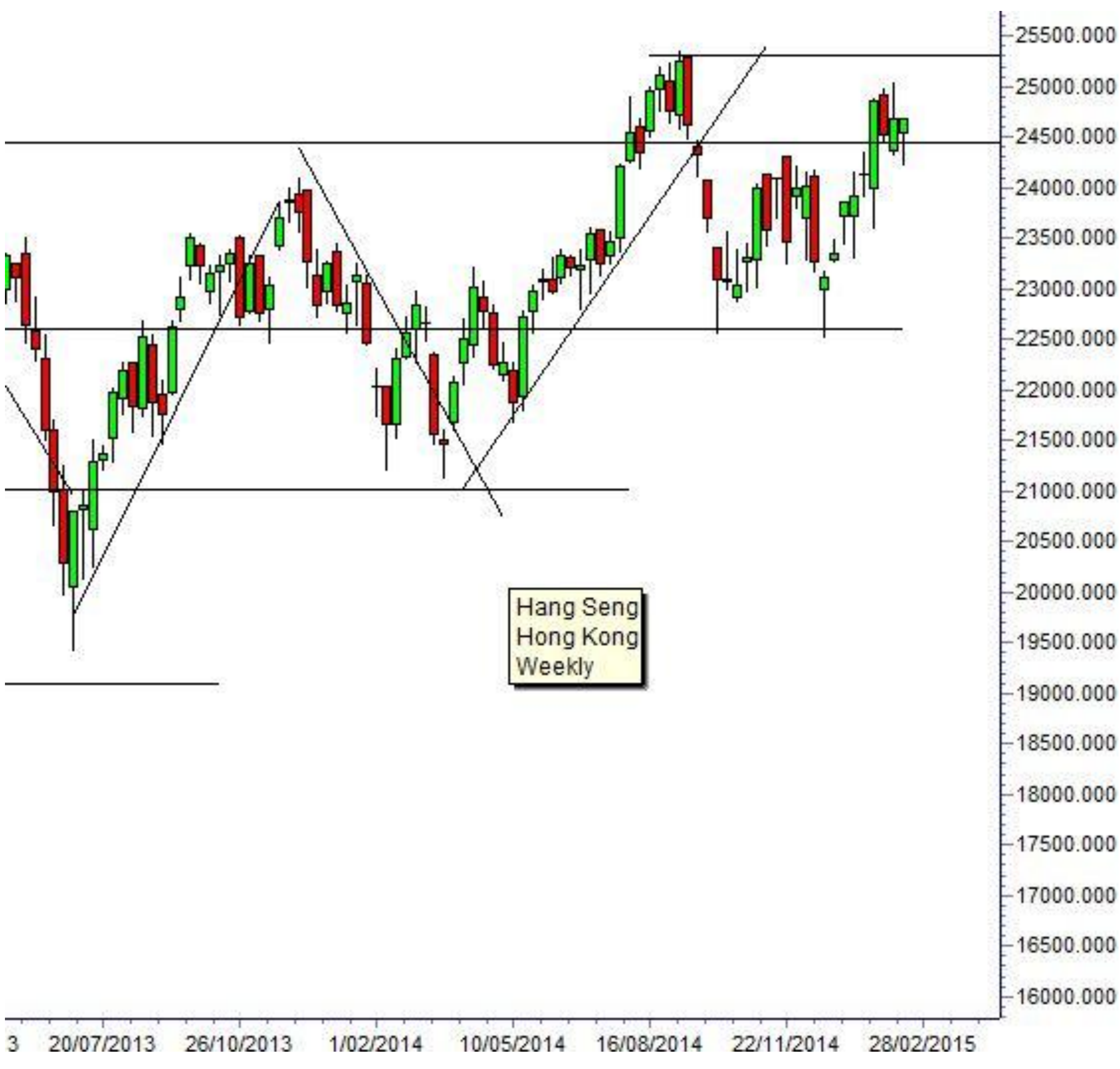
HANG SENG, HONG KONG

By Daryl Guppy

Little has changed with the Hang Seng. It's good at duplication the consolidation pause in the Shanghai index, but not so good at duplicating the momentum rise in Shanghai. A new resistance target is set near 25300. The Hang Seng is locked the market into a sideways trading pattern. Support is near 22600 and resistance near 24400 and then 25300. This offers rally and retreat opportunities within the trading band. There is no strong trending behavior on the Hang Seng.

In December we asked what sustains Hong Kong? Its status as the only entry point into China has played a major role. 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. Some people expected a flood of Chinese money in to Hong Kong, but the massive capital flow is in the opposite direction. Money is going into China. The H Shares will end up like the old Shanghai B shares – a moribund and irrelevant market.



Our analysis is reflected in the Hang Seng which has not behaved in the same way as the Shanghai Index. The Hang Seng remains trapped in a sideways trading band whilst the Shanghai index has added more than 30%. This situation will not change. The link between Hong Kong and Shanghai market performance has disappeared.

Support near 22,600 was successfully tested. Traders look for the Hang Seng to trade between 22600 and 24500 in a rally rebound and retreat sideways trading pattern.