LONG TERM OUTLOOK FOR SHANGHAI INDEX

By Daryl Guppy

This is a market we have followed for more than a decade. It offers excellent stable returns. The performance of the Shanghai index no longer influences the Australian Index so it cannot be traded by proxy using iron ore producers. .

The Shanghai Index uptrend has continued strongly and is moving towards the projected upside target near 4200. The future targets for the rise in the Shanghai Index are calculated using the trading band method. The targets are then also confirmed with historical resistance levels.

The trading band projection method is very reliable for calculating upside targets. It is used to set targets for the S&P 500, the DOW and for oil.

In the period from 2014 December until 2015 March 16 the Shanghai Index developed a consolidation pattern. The lower edge of the consolidation pattern is near 3000. The upper edge of the consolidation pattern is near 3400. The width of the consolidation pattern is 400 index points. This value is used to set the next series of upside targets for the Shanghai Index.

When the Index breakout above 3400 on 2015 March 16, then the next upside target was 3800. This target was achieved in 10 days. There was a very small consolidation around the 3800 level before the index again continued with the uptrend.

The target for the breakout above 3800 is 4200. This is a technically calculated target and it must be compared to the historical activity near this level. The monthly chart shows resistance is near 4350. This suggests the Shanghai index can move above 4200 and then develop a consolidation pattern between 4200 and 4350. The long term upside target is near 4600.

Shanghai Index
Daily
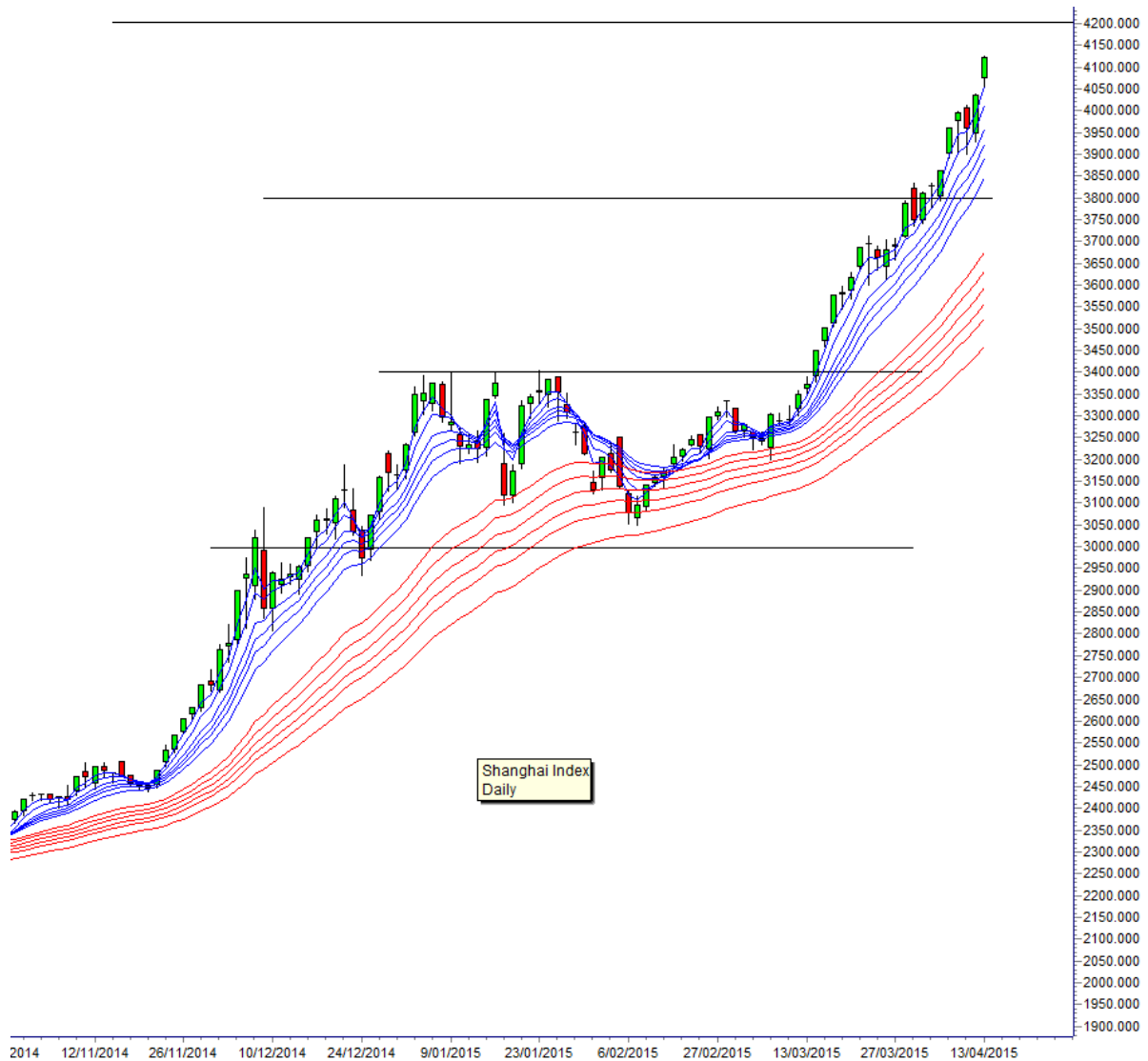
Three bullish features support the uptrend. They are shown by the Guppy Multiple Moving Average indicator.

The first is the wide and consistent degree of separation on the short term group of averages. This group of averages shows the thinking of traders. Traders are aggressive buyers. The index activity is clustered along the upper edge of the short term GMMA. When the market develops a retreat the short term GMMA does not compress because new traders enter the market as buyers. Short term GMMA support is near 3750.

The second feature is the behavior of the long term GMMA which shows the thinking of investors. This group of averages also has consistent wide separation and this is evidence of strong investor buying support for the trend.

The third feature is the consistent degree of separation between the long term and the short term group of averages. This is the behaviour characteristics of a strong and stable trend. The uptrend is fast moving but the GMMA relationships show the trend is good quality.

Investors will watch carefully for the development of end of trend chart patterns including a head and shoulder pattern and rounding top patterns.

New RKL Profit line
From start of 沪港通 trading
Nov 17, 2014
99.62% BANKED profit

We trade this Index using AGF, IZZ, Morgan Stanley China A fund, the Hong Kong CSI 300 futures ETF and a Macquarie XinHua50 warrant listed in Singapore. These instruments all have direct exposure to Shanghai A shares rather than a mix of Hong Kong listed shares.

We have open positions in all these instruments. We also publish a thrice weekly trade opportunity newsletter for Shanghai stocks – New RKL. Return since Nov 17, 2014 is 99.62%.