

SHANGHAI COMPOSITE, CHINA

By Daryl Guppy

The Shanghai Index up sloping triangle pattern continues to develop. This is a long term bullish pattern developing over three months. The rapid retreat on July 9, and the rebound rally starting July 11, Friday, is part of this triangle pattern. The July 11 rebound used the up sloping trend line as the support level. This also confirmed the placement of the uptrend line. The up sloping triangle pattern is invalidated if the index closes below the value of the up sloping trend line.

The triangle pattern is created by the support resistance level near 2060 and the up sloping trend line. This trend line starts from the low of 1991 made on 2014 May 21. The second anchor point for the up trend line is the open of 2013 on June 20. The third anchor point of the up trend line is the low of 2018 on June 25. The fourth important anchor point is the low of July 11.



The base of the triangle is created by 7 days of falling index activity starting from the high of 2060 on 2014 May 13. The base is measured and used to calculate the upside breakout target near 2125. This is a long term target and a similar level to the highs achieved in the 2014 April rally. A successful breakout may take several weeks to reach the 2125 level.

The end of the triangle pattern develops around August 14 so there is the possibility of more retreat and rebound activity before the upside breakout is fully confirmed. A breakout in the last third of the triangle pattern is often very strong.

This bullish chart pattern is supported by the behaviour of the Guppy Multiple Moving Average indicator. The classic GMMA breakout is a 3 part pattern. The first part is when the index rally touches the lower edge of the long term GMMA in 2014

May 14. The second part is when the index move touch the upper edge of the long term GMMA in 2014 May 29. The third part is when the index move above the upper edge of the long term GMMA in June.

The movement near 2060 in early July was a consolidation test of resistance and not a breakout. The recent breakout pattern has a fourth attempted breakout above the 2060 level. The GMMA pattern is unusual because it is also in the medium term environment of an up sloping triangle pattern. These GMMA and the triangle behaviour pattern appear in the long term environment of a broad trading band for the Shanghai index that begin in 2013 December. The upper edge of the trading band is near 2160. The lower edge of the trading band is near 1980. The central support and resistance level is near 2060.

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.