

SHANGHAI INDEX, CHINA

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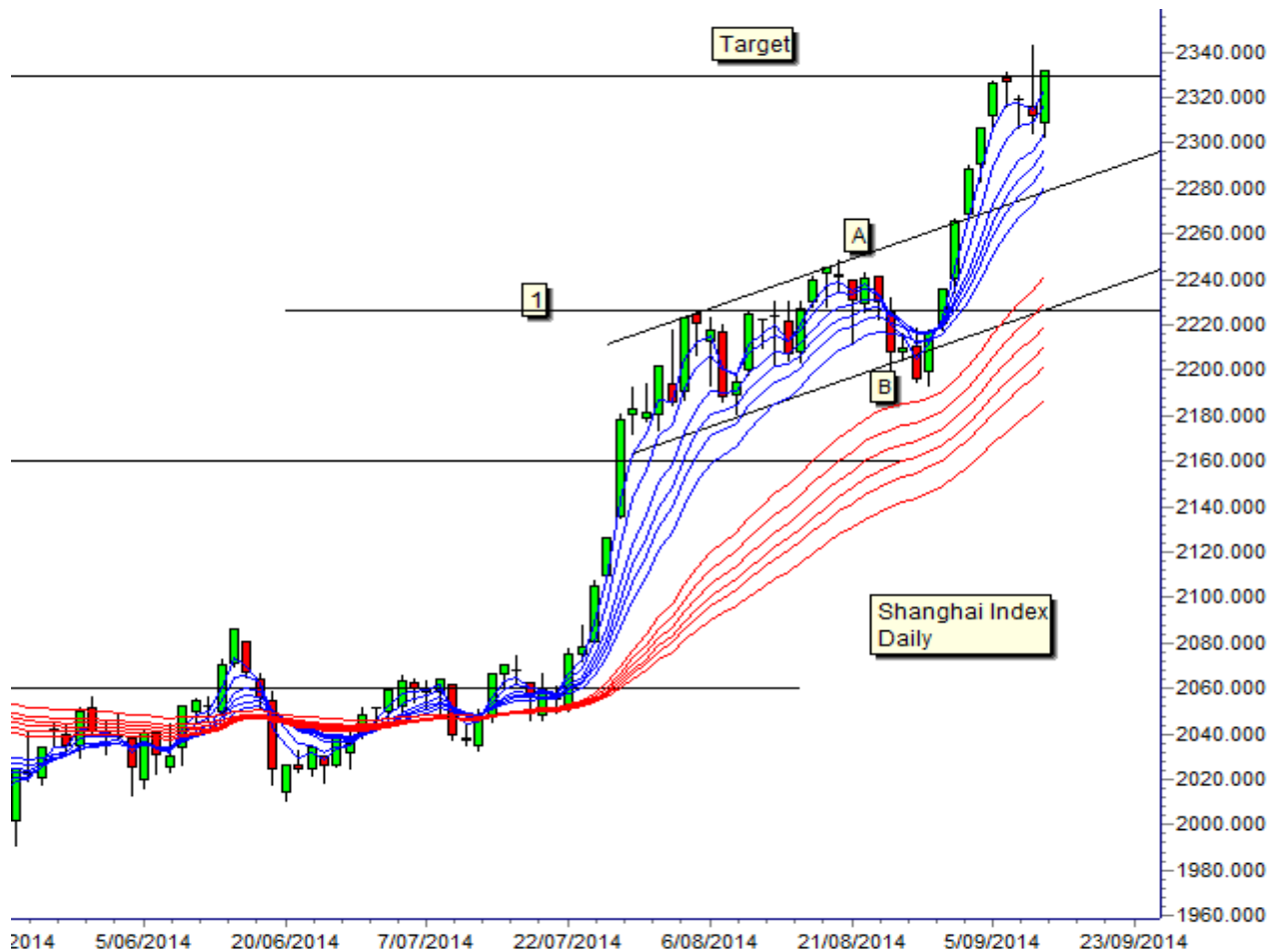
The Shanghai Index has developed a powerful rally that has reached the longer term targets near 2330 we set several weeks ago. The pattern of the Shanghai Index is very bullish. This is part of a long term fan pattern trend reversal breakout similar to the pattern in 2006. The typhoon flag pattern has been confirmed. The upper edge of the typhoon flag provides the first support level for a retreat from the resistance level upside target near 2330.

The current index activity is contained between the long term resistance level near 2330 and the value of the upper edge of the typhoon flag pattern near 2278. There is a high probability the Shanghai index will retreat from resistance and consolidate between 2278 and 2330. This consolidation activity has the characteristics of an up sloping triangle pattern. This is a bullish chart pattern.

The up sloping triangle pattern breakout above 2330 has an upside target near the historical resistance level near 2440.

If the index retreat below the upper edge of the typhoon flag pattern then the uptrend continues bullish. The typhoon flag pattern is a very strong up trend continuation pattern. The up sloping typhoon flag pattern forms at the end of the very fast rally behaviour. The index rise from 2049 to 2226 forms the <flag pole> at the start of the pattern.

The <flag> on the flag pole is defined by the two parallel up sloping trend lines. The strongest trend line is trend line A placed along the peaks of the index activity. A lower parallel trend line B is placed at the lower edge of the flag pattern. This trend line is not as well defined as trend line A. Trend line B captures the significant lows in the index activity of the flag pattern but excludes some intraday-dips below trend line B.



The typhoon flag calculation starts with the trigger line drawn from the high of the flagpole. This is line 1. The typhoon flag pattern is confirmed when the value of trend line B crosses above the value of line 1. The trend line crossover developed on September 12.

If the market fall below the upper edge of the typhoon flag pattern it means the Shanghai index will continue to move inside the typhoon flag pattern. This is also bullish but the index will use the lower edge of the flag pattern as the support level. If the index fall below the upper edge of the flag pattern then investors will protect profits and wait for the successful test of support from the lower edge of the flag pattern.

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.