

SHANGHAI LOOKING FOR CONSOLIDATION

By Daryl Guppy

The Shanghai index has developed a significant change in the trend. Key support levels at 4600 and 4200 and 3800 have failed. The short term group of averages in the Guppy Multiple Moving Average indicator have compressed and moved below the long term GMMA. The long term GMMA group of averages have also turned down and begun to compress.

This combination of features is associated with a significant change in the direction of the trend. However, these features do not help to identify how low the market may fall. These features do not help to identify how the consolidation and future trend reversal will develop.

The main questions are these. Question one: how far will the market fall? Question two: how might the trend reversal develop?

The answer to how far will the market fall is answered by examining how the market up trend developed. The rise in the Shanghai index was defined by well-established support and resistance levels. These were equally spaced and provided a pattern of trading bands. These support and resistance level were at 3400, 3800, 4200, 4600 and 5000. The 5400 target level was not achieved.



The same pattern of trading bands will provide the support levels for the fall in the market. The market has fallen quickly, so the index has developed a

wide consolidation near each support level. The 4800 and the 4200 levels did not provide strong support in the falling market. The support level near 3800 is not successful then the next downside support level is near 3400.

How might the trend reversal develop? The answer depends on how the downtrend consolidation develops. Currently the market developed a weak consolidation between 3800 and 4200. The index has a high degree of volatility with fast up and down moves between 3800 and 4200. The degree of volatility will reduce as the downtrend momentum slows.

There is a high probability that the market will fall to 3400 and use this level as a new support level. Investors will look for a period of sideways consolidation that uses 3400 as a strong support level. The chart pattern may be a L shape consolidation or a rounding bottom shape chart pattern. It is too early to know which of these patterns will develop.

There is a low probability of a V shape rally rebound and new uptrend pattern. In this pattern the index would move above 4200 and then use 4200 as the new support level for the uptrend rally continuation. There is a low probability the market will quickly develop a rally rebound and move above 4200 and then use this level as a new support level.

Currently the condition for the future development of the Shanghai Index trend is not clear so investors use caution until the trend and consolidation pattern is more developed.