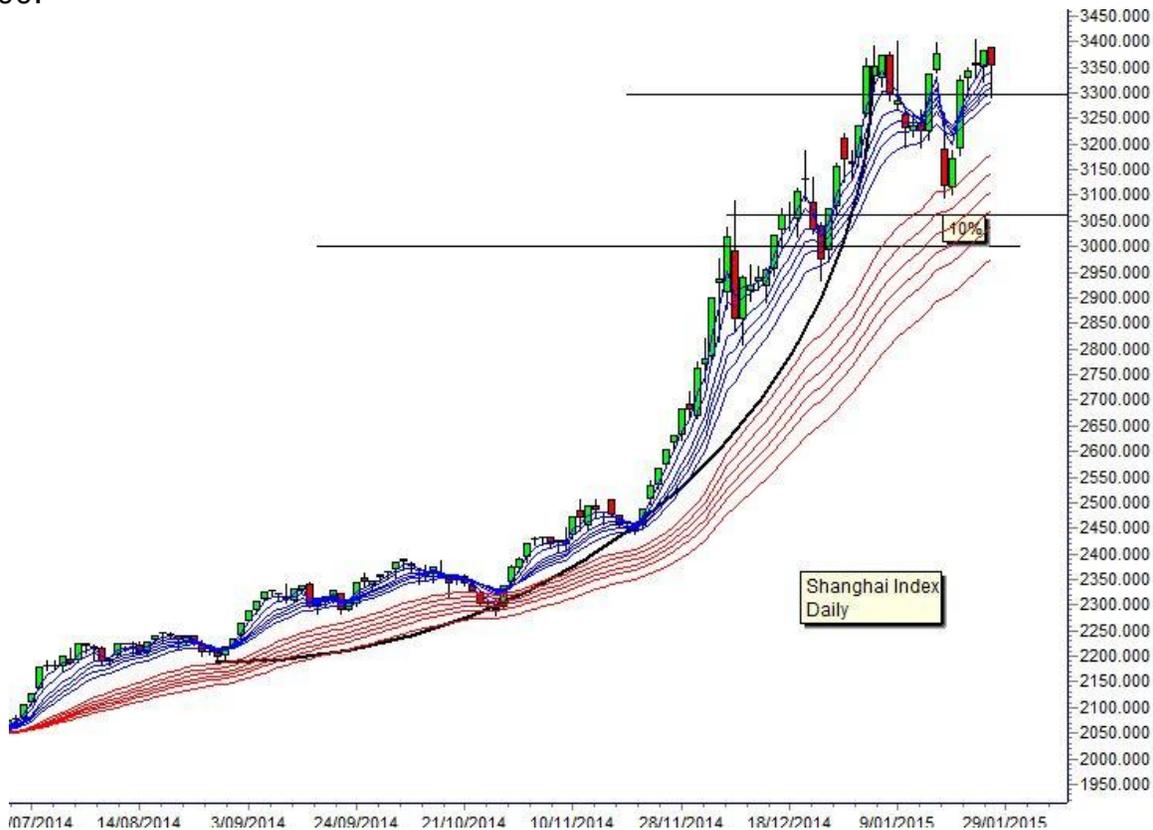


## **SHANGHAI MARKET**

*By Daryl Guppy*

The health of the China market is a key concern for the region. The Shanghai Index has entered an aggressive technical correction in the order of 10%. The technical correction consolidation area has extreme volatility. The rally and retreat behavior is substantial and volatile. This behavior creates a consolidation pattern that may develop into a base for a further upside move.

The monthly chart of the Shanghai Index shows a wide consolidation band. The lower edge of the band is near 3000 and this is confirmed with the current index activity. The upper edge of the consolidation band is near 3300. However the index has moved above 3300 several times and created a new resistance level near 3400.



The very strong and powerful historical consolidation band has reduced the probability of a large collapse after the index moves to the right of the parabolic trend line.

A 10% retracement from the new resistance level near 3400 gives a target level of 3060. A fall of less than 10% is a technical correction in the trend. A fall of more than 10% is a signal for a change in the trend. The rally rebound above 3300 and three other support features in the Shanghai Index suggest there is a high probability of a technical correction.

The first support feature is the long term historical support level near 3000.

The second support feature is the behaviour of the long term group of averages in the Guppy Multiple Moving Average indicator. The group maintained

consistent wide separation even when the index dropped to 3095 on January 19, Monday. This wide separation shows very strong investor buying support for the uptrend.

The third support feature is the position of the upper edge of the long term GMMA, This value is near 3125 and this provides good support for the market rebound.

The consistent degree of separation in the long term GMMA shows continued investor support for the uptrend. There is also consistent separation between the short term GMMA and the long term GMMA. This is further confirmation of trend stability. This degree of consistent separation shows investors and traders have confidence the market will rebound and the uptrend will continue. When some investors take profits near 3300 there are many other investors who are buying when the market develops a retreat towards support near 3100. This is very bullish behaviour. This buying activity maintains the consistent separation between the long term and short term GMMA.

When the market retreated in 2014 December 9, on December 24 and January 19 there was no compression in the long term GMMA. These behaviours confirm the strength and stability of the long term uptrend.