

SHANGHAI TESTING CONSOLIDATION BREAKOUT

By Daryl Guppy

The Shanghai Index is developing a rebound after a 10% technical correction in the uptrend. There are two resistance levels. The first resistance level is near 3300. The second resistance level is near 3400.

The 10% trend correction behavior created a broad consolidation band between 3060 and 3400. The correction behavior has developed inside a seven week sideways consolidation band. The Shanghai consolidation includes frequent strong rally and retreat behavior.

The consolidation band between 3060 and 3400 creates a good foundation for a breakout and continuation of the uptrend. Investors who took profits near 3400 are now returning to the market and buying into the rally from 3060 in anticipation of a continuation of the uptrend. A successful breakout above resistance near 3400 will see an increase in investor buying activity.

The resistance level near 3400 is not a triple top pattern because the touch points near 3400 are too close together. A triple top pattern normally takes 10 to 14 weeks to develop.

The wide separation in the long term group of averages in the Guppy Multiple Moving Average indicator confirms strong investor support for the trend continuation. The long term GMMA developed slight compression but it has now turned upwards and is expanding. This is bullish behavior.

The short term GMMA compressed and turned up with the rally rebound activity from the upper edges of the long term GMMA. This is also bullish behavior.

The market continues in a bullish consolidation phase but good rally strength can develop into a breakout above 3400 and create new long term uptrend. The first target for a breakout above 3400 is calculated from the consolidation band between 3000 and 3300. This gives an upside target near 3600. The second upside target is calculated from the width of the consolidation band between 3000 and 3400. This is calculated from a breakout from the 3400 level and gives an upside target near 3800.



These upside targets are compared with the long term resistance levels calculated from the monthly chart of the Shanghai Index. The market has long term historical resistance near 3750. This is the most important level so 3750 is the possible target for a breakout above 3400.