

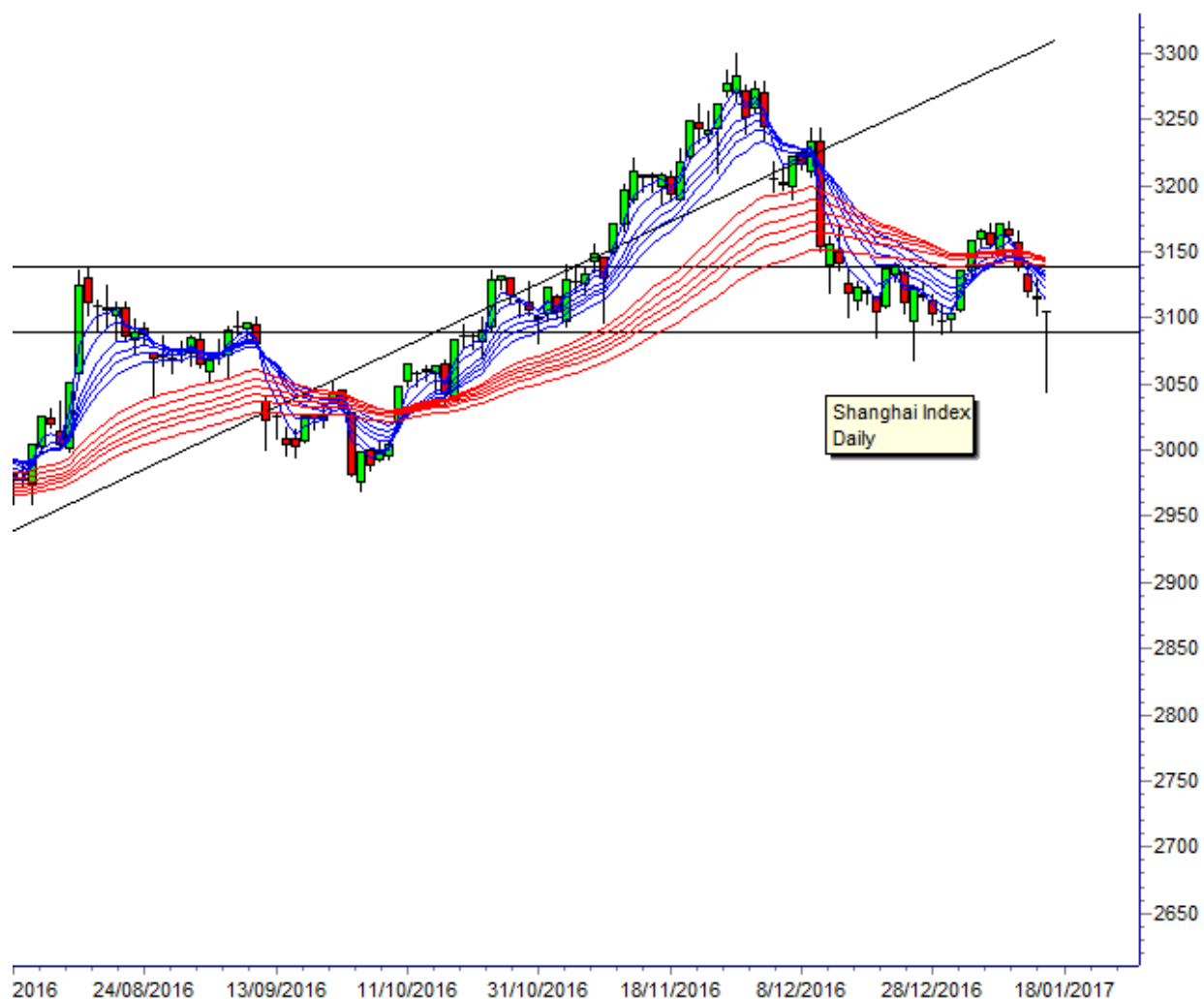
SHANGHAI INDEX, CHINA

By Daryl Guppy

The Shanghai Index breakout has retreated and is retesting the trading consolidation band. There are two bearish influences which may bring a temporary halt to the strong continuation of the breakout. The first bearish influence is the inauguration of President Trump on January 20. This is creating nervousness in many markets.

The second bearish influence is the Spring Festival Holiday starting January 27. Often the Shanghai index develops a retreat before Spring Festival and then rebounds strongly after the Spring Festival holidays.

Investors are ready for a pullback and retest of the upper edge of the consolidation area near 3140. A rebound rally after the pullback to around 3140 is confirmation of a change in trend direction and a buy signal. Investors are waiting for the rebound rally to develop before they actively start buying. Investors look for the rebound rally to develop from near 3090 after moving below 3140.



The change in the Guppy Multiple Moving Average relationships continues with the long term GMMA averages compressing and moving sideways. The short term GMMA has turned down and is testing the lower edge of the long term GMMA and the 3140 levels as a support feature.

Investors continue to wait for a sustained close above 3140 because this confirms the potential to develop a new uptrend continuation. The breakout pattern is often a breakout rally, followed by a retreat and retest of support, and then a new rally that is the beginning of a sustainable uptrend. The current retreat below 3140 is part of this pattern but the investors watch for the rebound rally to develop from near 3090.

There are three resistance features to overcome before the rally breakout becomes a sustainable uptrend.

The first resistance feature is a combination of the recent resistance level near 3140 and the long term Guppy Multiple Moving Average. The 3140 level is the upper edge of the consolidation trading band. The value of the lower edge of the long term GMMA remains near 3140. The strong rally breakout has to overcome this combined GMMA and resistance level features.

The second resistance feature is the value of the upper edge of the long term GMMA This is near 3150. The long term GMMA is maintaining steady compression.

The third resistance feature is the long term uptrend line that defines the development of the trend in the Shanghai index. The index moved strongly below this line on Dec 16. In the future this trend line will act as a resistance level for any rally rebound. The current value is near 3290.