

SHANGHAI, CHINA

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The Shanghai Index fall below 3400 is a genuine change in the trend. The fall below the critical 3000 support level is very bearish because the next strong support level is near 2400.

There are two possible future developments for the Index. Scenario one is a bullish development,

In 2015 August the Shanghai index dropped below 3000 for two days. This was an overshoot following the very fast market fall from 3800. Optimistic investors are hoping that the current fall below 3000 is also an overshoot following the fast fall from 3538. An overshoot is confirmed if the market is able to rally strongly in the next few days and close above 3000. It is too soon to know if this rally activity will develop.

If scenario one develops then there is a good probability that the rally will repeat the behavior of the Shanghai Index between 2015 August and September. This behavior included retests of the 3000 level as a support level and the development of a uptrend breakout pattern.

Possible scenario two is if the Shanghai Index continues to stay below 3000. In this situation the next down side support target is near 2400. From 2014 November to December the index moved quickly upwards between 2400 and 3000. The rally did not have any consolidation pauses. This means that when the market falls below 3000 there are not historical consolidation or support areas until the index reaches 2400.



Investors are very cautious because a continued fall below 3000 can move very quickly to test historical support near 2400.

It is too soon to know if the market will be unable to quickly move above the 3000 level.