

SHANGHAI, CHINA

By Daryl Guppy

The retreat from resistance near 2950 on February 25 was dramatic, but it is not unexpected. Several features made the 2950 area a strong resistance region. The retreat from resistance is consistent with the test, retreat and retest pattern that often develops as a new trend direction begins.

The Shanghai Index has three significant resistance areas to overcome before the two week rally can be classed as a new uptrend.

The first resistance point is the value of the lower edge of the long term group of averages in the Guppy Multiple Moving Average indicator. Current value is near 2950. The index is testing this resistance level and on Thursday retreated from this level.

The second resistance level is nearby at 3000. This is a longer term historical support and resistance level. A breakout above this level is very significant because it represents a move above a well-established resistance point. Once the index moves above this 3000 level then the 3000 level can act as a strong support level.



The third resistance level is the value of the upper edge of the long term GMMA. This is currently near 3100. This is a technical resistance level created by the GMMA indicator. The 3100 level is not an historical resistance level on the Shanghai Index. This suggests that a breakout above 3100 can move quickly to the next historical resistance level near 3400.

A move above 3000 and a move above the upper edge of the long term GMMA will confirm a change in the direction of the Shanghai index trend.

This type of trend breakout usually takes time to develop so investors and traders watch for a pullback from resistance near 2950. The pullback is part of the breakout pattern of test, retest, test and breakout that often occurs as a new uptrend develops.

The GMMA indicator on the Shanghai index chart has several bullish features. The first bullish feature is the compression in the short term GMMA. The short term group of averages have compressed and turned upwards. This shows increasing trader confidence.

The second bullish feature is the behavior of the long term group of GMMA averages. They are developing signs of compression., The separation in this group is now around 150 index points. This is down from a 200 index point separation last week. The long term group of averages is beginning to compress and turn upwards. This is usually a signal for the early beginning of a new uptrend.

The difference in the behaviour of the short term GMA and the long term, GMMA shows that traders are more optimistic about the near term future in the market. It is this first rally and retreat pattern that will encourage some investors to stop selling. The leading indicator of this investor activity is when the spread in the long term GMMA remains less than 200 Index points.