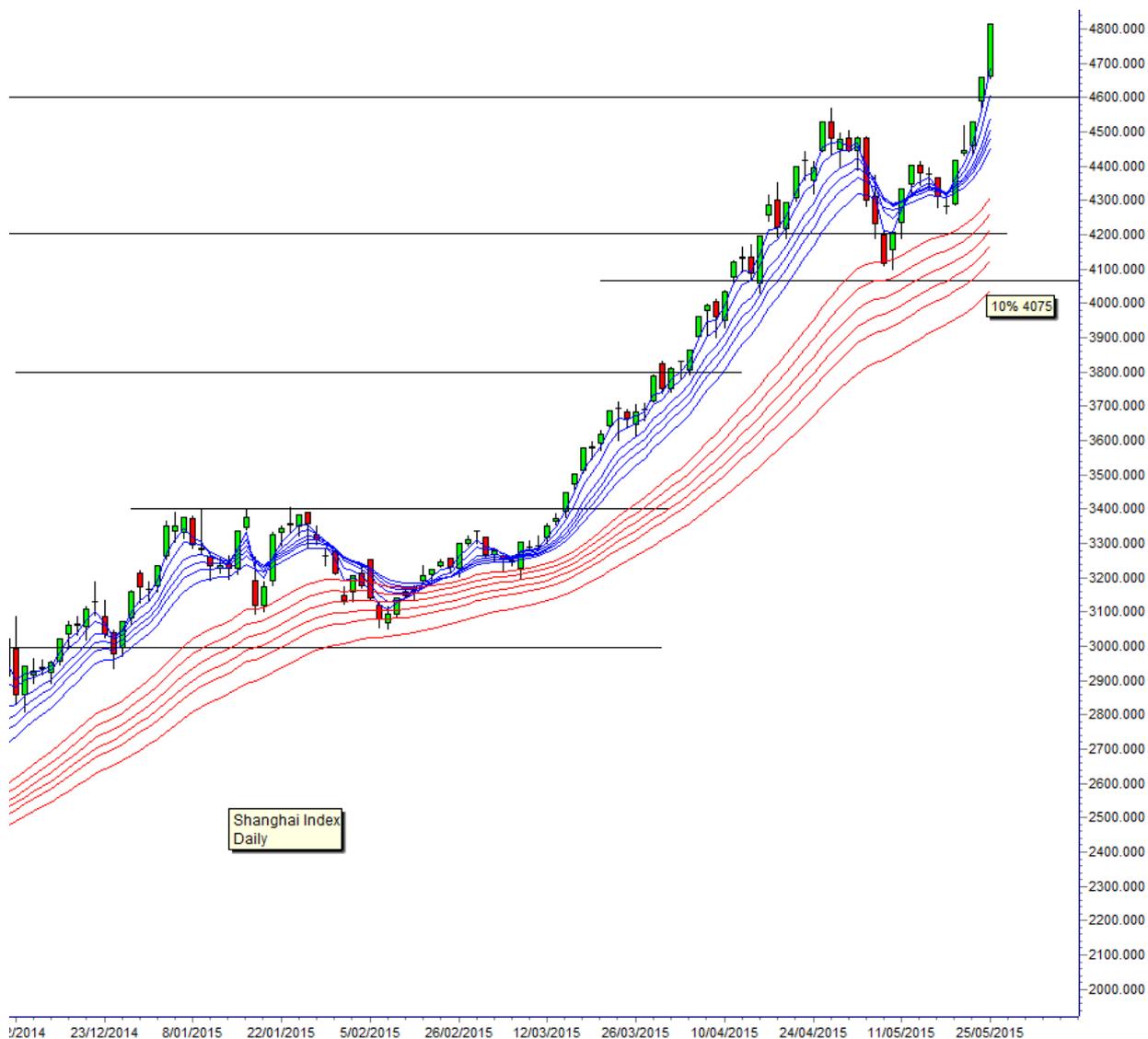


SHANGHAI INDEX, CHINA

By Daryl Guppy

The Shanghai index rebound continues above the upper edge of the Guppy Multiple Moving Average long term group of averages and above resistance near 4600. The GMMA relationship shows strong support for investors. The breakout above 4600 is strong with an upside target near 5000.



This breakout behavior has six features.

The first feature is that the index has not developed any end-of-uptrend chart patterns such as rounding top pattern or head and shoulder pattern. This is very important because it confirms the strength of the trend and the probability of up trend continuation.

The second feature is the multiple support levels. This includes historical support near 4200 and the value of the upper edge of the long term GMMA.

The third feature is the strength of the GMMA relationships. The consistent wide separation in the long term GMMA shows strong investor support for the trend. This wide separation absorbs any selling pressure and this is why the index rebounded from the upper edge of the long term GMMA.

The fourth feature is the degree of separation between the short term GMMA and the long term GMMA. This was a feature of the rising trend from March to April. This feature is developing again following the rebound from near 4200. This separation shows a high level of support for the new trend from traders and from investors.

The fifth feature is the weak divergence pattern in the Relative Strength Index. We used this weak RSI divergence to confirm the analysis of a trend consolidation instead of a trend reversal. The RSI indicator has now turned upwards. The continuation of the rally rebound has confirmed the weak RSI divergence.

The market retreat from 4527 was less than a 10% fall. This is the sixth feature because a fall of less than 10% is a technical correction in the trend and leads to up trend continuation.

SUBJECT SUMMARY

INDEX NOTES

Each week we carry index analysis notes for regional markets. These are the markets in Singapore, Malaysia, Hong Kong, Shanghai, Thailand, Taiwan and Korea. Each market is covered once every six weeks or more often if there are significant market developments. The objective of the notes is to provide an analytical, technical background to assist readers in making better trading and investment decisions.