

SHANGHAI RALLY SET TO FAIL

By Daryl Guppy

The Shanghai Index has developed an astounding rally breakout in the past few days. It's great for traders who got in early on the basis of the breakout from the up sloping triangle pattern. This was also confirmation of an extended classic Guppy Multiple Moving Average breakout pattern.

But now the Shanghai index has a problem. This type of breakout is simply unsustainable. This leads to two questions. First, how high can this rally go? Second, when the rally collapses, as it inevitably will, how far below is the support level?

The breakout rally developed within the context of an up sloping triangle pattern. The triangle pattern is a long term bullish pattern developing over three months. The triangle pattern is created by the combination of the support resistance level near 2060 and the up sloping trend line. This up sloping trend line starts from the low of 1991 made on 2014 May 21. The second anchor point for the up trend line is the open at 2013 on 2014 June 20. The third anchor point of the up trend line is the low of 2018 on June 25. The fourth important anchor point is the low of 2033 on July 11.



The triangle pattern includes a base or vertical edge of the pattern created by 7 days of falling index activity starting from the high of 2061 on 2014 May 13. The

height of the base is measured and used to calculate the upside breakout target near 2125. This target was rapidly achieved and exceeded.

The triangle pattern has developed inside the very wide trading band that extended from support near 1980 to resistance near 2160. A strong rally breakout similar to the breakout in 2014 February can reach the upper target level near 2160. Again this has been achieved and exceeded.

The upside target is calculated by measuring the width of the trading band and projecting this upwards above 2060. This gives a long term target near 2340. This was a support level in 2011, July, and again in 2011, October. It acted as a resistance level in 2013 March and June. An extreme upside target is near 2450.

The current index activity has not stabilised so it's not possible to suggest which of these targets is achievable and the time frame for these moves.

The rally will retreat. The upper edge of the long term trading band near 2160 is the obvious support target. However the rally has some of the characteristics of a parabolic trend. These trends collapse rapidly and typically retrace around 50% of the up move. This would be a retreat to the area near 2110. This is not a strong historical support level.

Traders with open long side positions will tighten stops. Traders waiting for an entry opportunity will be ready to trade short.

NOTE. Daryl Guppy has a short position on the Shanghai Index.