

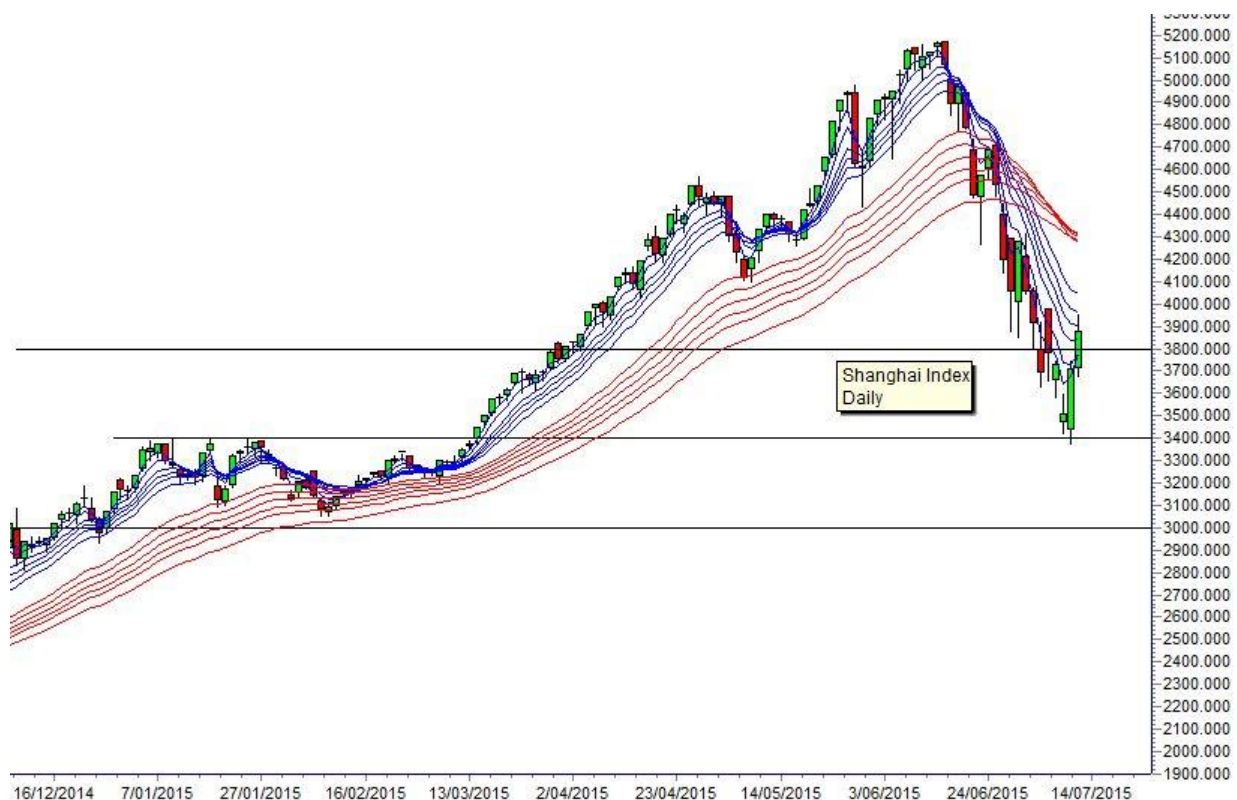
SHANGHAI INDEX, CHINA

By Daryl Guppy

The Shanghai index continues to fall rapidly towards the long term support and resistance band between 3400 and 3800. Key support levels at 4600 and 4200 and 3800 have failed. The short term group of averages in the Guppy Multiple Moving Average indicator compressed and moved below the long term GMMA. The long term GMMA group of averages have also compressed and turned down.

This is a very rapid collapse of the market and it will take time for the momentum to slow and for consolidation to develop. Although the rise in the Shanghai index was defined by well-established support and resistance levels these levels did not provide strong support when the market retreated. These levels were equally spaced and provided a pattern of support and resistance trading bands.

The same pattern of trading bands normally provided the support levels for the fall in the market. This has not happened and the market has fallen quickly through these support levels. The 4800 and the 4200 and 3800 levels did not provide strong support in the falling market. The fall below support near 3800 means the next downside support level is near 3400.



The 3400 level is the upper edge of a long term consolidation pattern that developed between 2014 December and 2015 March. The lower support level for this long consolidation area is near 3000. The fall in the index momentum is slowing as it nears the 3400 level so there is a good probability the market will consolidate between 3400 and 3800

There is a low probability to market will fall to 3000 and use this level as a new support level. Investors will look for a period of sideways consolidation that

uses 3400 as a strong support level with short term rallies to resistance near 3800. The chart consolidation pattern may be a L shape consolidation or a rounding bottom shape chart pattern. It is too early to know which of these patterns will develop.

There is a very low probability of a V shape rally rebound and new uptrend pattern.

Currently the condition for the future development of the Shanghai Index trend is not clear so investors use caution until the trend consolidation pattern is more developed. A leading indicator of trend change comes from the Relative Strength Index (RSI) indicator. Investors watch for the development of an RSI divergence pattern following the first rally rebound in the consolidation pattern. The RSI divergence pattern normally develops over several weeks.