

Stock Index Analysis: Shanghai Stock Exchange Composite (SSEC)

SSEC.WI -Daily 12/26/14 C=3157.725 +85.19 (2.77%) O=3078.005 H=3164.155 L=3064.176 V=460,701
 Fibon Ret 0.0% (995.459), 38.2% (2925.872), 50.0% (3526.664), 61.8% (4127.456), 100.0% (6057.87)



Figure 1.1: Historical Price Trend from 1997 to 2014 (Smaller Graph depicts the Phases of a Market "Bubble")

(Smaller Graph is Referenced from: https://people.hofstra.edu/geotrans/eng/ch7en/conc7en/stages_in_a_bubble.html)

Chart Data by:



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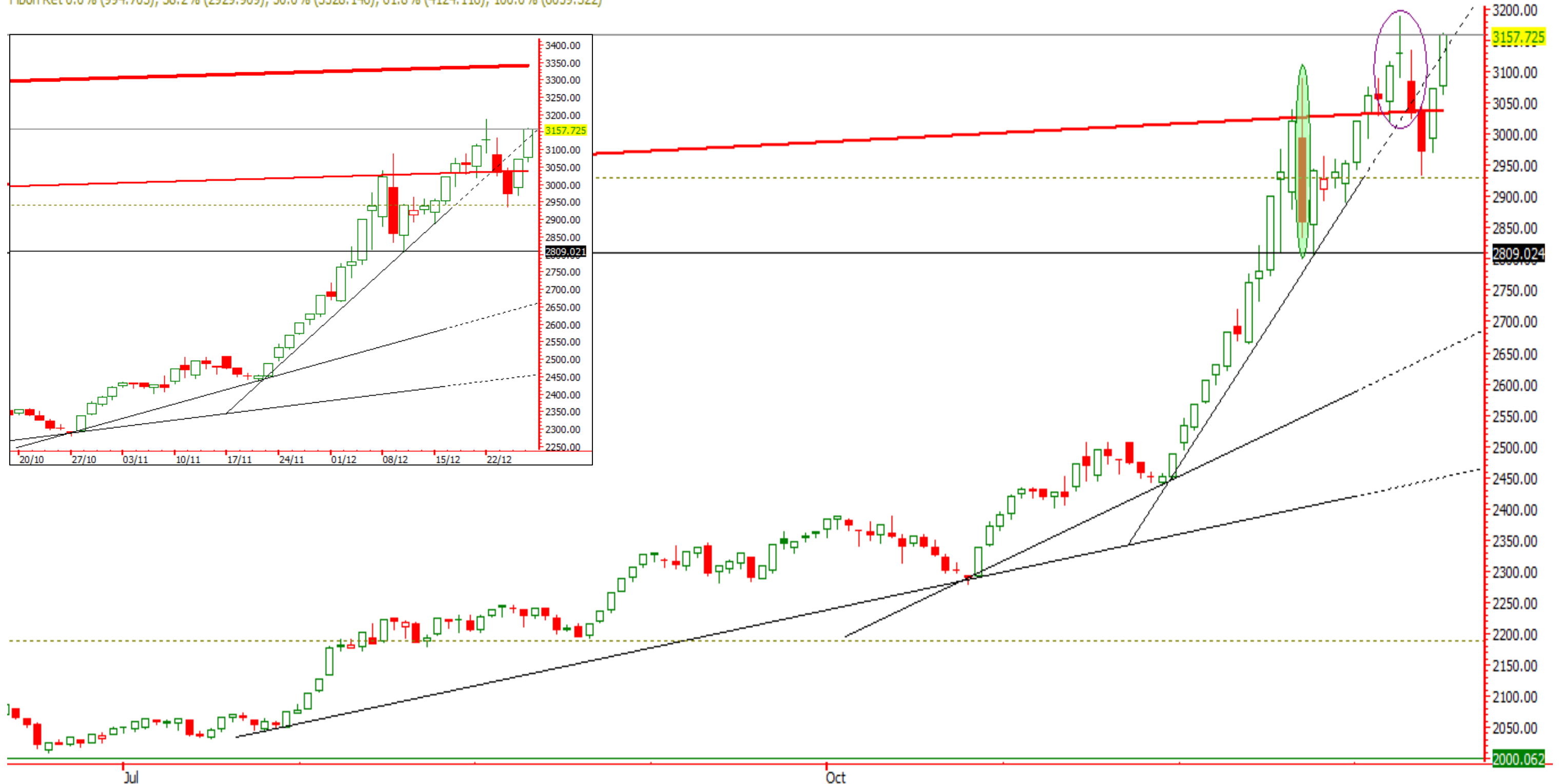


Figure 1.2: Historical Price Trend from 21 July 2014 to 22 December 2014

(Smaller graph depicts the Price Resistance Channel)

Chart Data by:



Stock Index Analysis: Shanghai Stock Exchange Composite (*SSEC*)

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Fundamental Analysis

Hong Kong-Shanghai Stock Exchange Connect

On 17 November 2014, the two stock exchanges launched a trading link which allows billions of dollars of cross border transactions and international investors more access to the China equity market. This opens up more liquidity, billions of dollars, for Shanghai Stock Exchange (*SSE*) to access. The increased in liquidity exposure would increase the attractiveness of trading *SSEC*. As China is poised to become even stronger, economically, in the future; more investor's money is expected to flow into *SSE*, and that would suggest *SSEC* is likely to continue on its current bullish trend. However, currently China is experiencing a momentary economic slowdown, partly due to global economic slowdown. This increases the uncertainties of the longer term outlook.

People's Bank of China (*PBOC*) Interest Rate Cut

On 21 November 2014, *PBOC* cut interest rate by 0.4% to 5.6% and one-year deposit rate by 0.25% to 2.75%. This cause investors to move from bonds to equities, as bonds give less attractive returns now. With more investor's money flowing into the equity market, the *SSEC* rallied into the early December, as depicted by Figure 1.2. Price rally is expected to continue.

China Boost Bank Liquidity by US\$65 Billion

Banks in China received excess liquidity of US\$65 billion on the 11 December 2014. The effect of excess liquidity would be passed from the banks to companies; and ultimately, the excess liquidity would flow into the equity prices. As a result, the *SSEC* experienced a short rally from 12 December to 22 December 2014. This rally is expected to continue.

Technical Analysis

Historical Price Analysis

Comparing the graphs in Figure 1.1, there is a resemblance between the two charts, where the *SSEC* experienced the stages of market bubble formation and burst, during the years 2005 - 2010. Currently, the *SSEC* seems to be in the maniac phase, after breaking out of the symmetrical triangle formation as depicted in Figure 1.1.

From Figure 1.1, it could be seen that the lower part of the symmetrical triangle is also a strong support line which supported price at multiple occasions, with the only exception between middle of year 2004 to year 2006. If price falls further, the testing of the area around this trend line would be critical.

Price Resistance Channel, Trend Lines & Fibonacci Retracement Analysis

A price resistance channel could be seen in Figure 1.1. A consolidation of the price within the price resistance channel is expected where a break of the price in either direction could potentially set the long term direction of the price for some

time. It is important to note that the upper trend line of the channel is converging with a major resistance level of 3500 (*depicted in figure 1.1*). Price is likely to test this area and break it for the bull trend to continue. A failure in breaking this price level would suggest a pullback in *SSEC*. The price 3500 is also near the critical 50% Fibonacci retracement level, which gives strength to the major resistance level.

If price breaks above the 3500 price level, the next price level targets (*resistance levels*) would be 3800, follow by 4300.

If price fails to break through, and a pullback occurs, price will be expected to re-test the 2809, follow by 2440, which are price support levels (*depicted by figure 1.2*). A break of these support levels would suggest the start of a bearish trend.

Price Resistance Channel

The area between the double red trend lines, depicted in Figures 1.1 and 1.2, is an area of high price resistance where price is likely to range before breaking out in one direction. The lower trend line is connected by all the troughs. The upper trend line is connected by all the 2nd lowest price bottoms in history.

Parabolic Price Trend Analysis

From Figure 1.2, *SSEC* could be seen to move in a parabolic-like curve, depicted by the 3 trend lines with extended ray. The 3 trend lines also act as immediate support levels. It could be seen that the rate of price increase is faster from one trend line to another. It is to be noted that the faster the price increase, the more unstable the price trend would be, and prices are more likely to pullback when the rate of increase

is too rapid. This pullback could be seen from the recent price action which broke below the 3rd trend line, before reversing and recovering. The recovery of the price above the 3rd trend line rejected the bearish signal from the evening star candle pattern (*circled in Figure 1.2*). This indicates that the current bull trend is still in session.

However, the breakthrough of the 3rd trend line could still be seen as the first sign of weakness to the current bull trend. If current prices reverse again and falls further to test and break the 2810 price support level, this could indicate possible early sign of a bear market.

Uncertainties to Price Projections

China economy and market is usually closely regulated by the government. Government intervention is highly possible any time, to either stimulate the economy or suppress market "bubble" formation. An intervention would drastically change the conclusion of the current price analysis.

Example of Government Intervention

PBOC announced, on the 8th December 2014, that only higher quality collateral would be accepted for all future loan applications. This effectively removed around 500 billion yuan worth of bonds that are eligible to be used for re-financing activities. This reduced the liquidity in the market and caused a sell down, which was seen in Figure 1.2, whereby the sell down candle is highlighted in green.

Conclusion to Expected Price Trend

Both the fundamental and technical analysis suggest that current *SSEC* trend is cautiously bullish.