

Technical Analysis: CSI 300 Index

Dark clouds still looming

SINGAPORE | ETF | TECHNICAL ANALYSIS

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- The boom bust cycle seems to be playing out, similar to the one we had during 2006 to 2008 (global financial crisis)
- The run up and sell down resembles the move from 2006 - 2008
- Price may have another 45% risk to the downside to 1608.00

What is CSI 300?

CSI 300 index is a free-float weighted index that consist of 300 largest and most liquid A-share stocks listed on the Shanghai or Shenzhen Stock Exchanges. The index aims to reflect the overall performance of the china A-share market.

Boom Bust cycle from 2006 – 2008

Boom(Higher high, higher low, higher high)

Since August 2006, price entered into an exponential rally where it topped out in October 2007. In between the rally, there was a slight retracement **where price formed a series of higher high, higher low and higher high in the boom cycle.**

Bust(lower low, lower high, lower low)

Once the top was created in October 2007, price tumbled 47% from the 5891 high. The stark fall brought in some retracement around April 2008 to 38.2% Fibonacci retracement level before another crash takes place. **The bulls' fate was more or less sealed after price broke below the 3122 lower low point where the final crash took price down for another 60%.**

Boom Bust Market Structure from 2006 – 2008 (CSI 300 Weekly chart)



Source: Bloomberg

Tradeable instrument:

Direxion Daily CSI 300 China A Share Bear 1X shares - (AMEX:CHAD)

The Direxion Daily CSI 300 China A Share Bear 1x Shares seeks daily investment results, before fees and expenses, of 100% of the inverse of the performance of the CSI 300 Index.

This leveraged ETF seeks a return that is -100% of the return of its benchmark index for a single day. The fund should not be expected to provide 100% of the inverse of the benchmark's cumulative return for periods greater than a day.

DBXT CSI300 US\$X@ - (SGX:KT4)

db x-trackers CSI300 1D seeks to replicate, net of expenses, the CSI 300 index where the fund invests in transferable securities and uses derivative techniques such as index swap agreements negotiated at arm's length with the Swap Counterparty. It invests part or all of the net proceeds of any issue of its Shares in one or more OTC Swap Transactions and exchanges the invested proceeds against the performance of the Index.

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Bearish Rejection off the 38.2% Fibonacci retracement level (CSI 300 Weekly chart)



Source: Bloomberg

All in all, price crumbled 72% from the 5891 all-time high to 1608 bottom.

Boom Bust cycle current

There was an identical exponential rally since 2014 which lasted until June 2015. Price followed a series of higher high, higher low, higher high pattern where a retracement happened around February 2015.

Price fell sharply for 45% after the top was formed on June 2015 from 5380 to 2952. Thereafter, a retracement took over but it was held down by the 38.2% Fibonacci retracement area, similar to the movement we had in 2008.

The 2952 lower low area became the next critical area to watch as it will decide whether the full pattern of the lower low, lower high, lower low series gets validated or not.

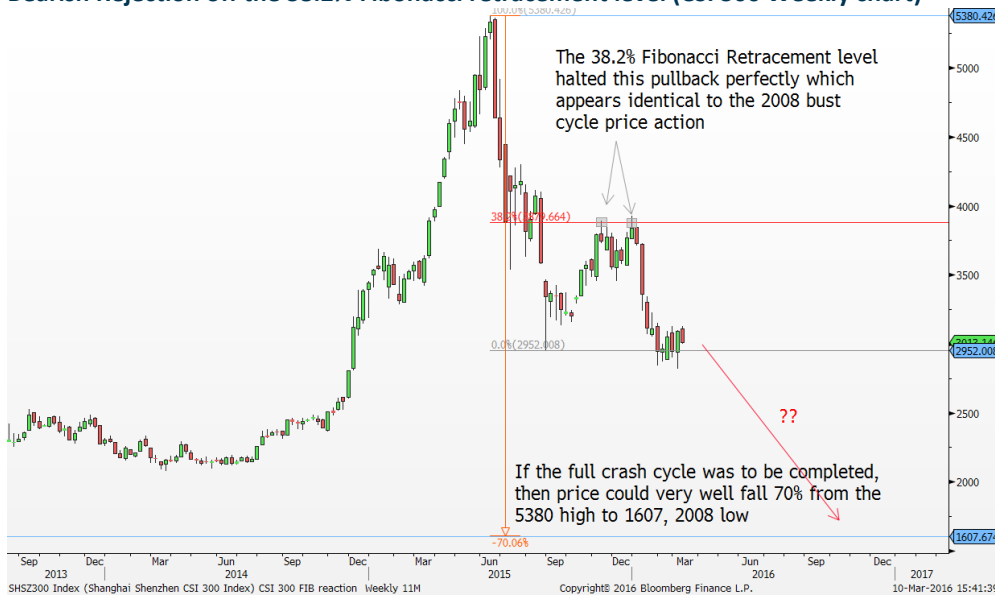
Fast forward to current time, sellers succeeded in moving price down after testing the 38.2% Fibonacci retracement level and broke the 2952 crucial support. The recent break below the 2952 support validated the crash thesis and the current down swing should have another 45% to run on the downside to 1608 low if the boom bust cycle holds.

Current market structure (CSI 300 Weekly chart)



Source: Bloomberg

Bearish Rejection off the 38.2% Fibonacci retracement level (CSI 300 Weekly chart)



Source: Bloomberg

Looking from the support and resistance point of view, it is highly likely that we will see the 2102.00 strong support area first and price should face some rejection around that area.

Sellers will have to break and close below the 2102.00 support first before further selling takes place and 1610 low gets tested.

CSI 300 Monthly chart



Source: Bloomberg

In conclusion, **we believe CSI 300 index will continue heading lower if the boom bust cycle holds.** It will be a good time to start accumulating when price nears the 2102 – 1606 support area in anticipation of the next bottom.

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