What's up or down with Shanghai?

• The Shanghai index had been on a tear earlier in the year -- rallying around 100% at the beginning of the year. The index had made its lows in October of last year at 1664.92, made higher lows in March 2009 (when the SPX made lower lows), and recently went over 3400 before failing at the 38.2% retracement way back in July/August of this year.
• The question remains is the Shanghai headed for lower or higher levels from here.
• Looking at the chart in the next slide shows that we are at a critical juncture and a break to the upside calls for higher prices, whereas breaking down through the uptrend line calls for lower prices.
• You can periodically check the blog link at the bottom of our site www.legacyfunds.net for continuous updates on China and other global markets.
Respect direction of trendline break either up or down

Came back and filled this gap, then failed at 38.2% resistance level
Real Estate Market in China

- Furthermore, many arguments can be made that China’s real estate market is a bubble at the brink of popping. STRATFOR has done a great job of analyzing the situation, as quoted below:
  - Following a temporary drop toward the end of 2007, land prices rose steadily, then began surging again with Beijing's stimulus package and a flood of easy credit in 2009. With much of this money flowing into the real estate sector
  - Beijing knows that one of the country's underlying economic problems continues to be an overheated real estate market, but it also knows that the real long-term solution - limiting the flow of cash and credit - could have dire socio-economic ramifications.
  - Another factor that enters the equation is a cultural one. The Chinese people generally prefer to buy new houses, as opposed to renting homes or buying secondary houses in which people have already lived. Indeed, in urban areas, marriage proposals often include a promise to buy a new commodity house. As a result, the secondary housing market remains very small in comparison (due also to fewer available bank loans for lived-in houses and the complicated process involved in transferring ownership).
Real Estate Market in China, cont.

- As housing prices continue to rise, a parallel trend is manifesting itself - rising vacancy rates in urban areas.
- All of these factors contribute to the burgeoning real estate bubble - and make it difficult to predict when that bubble will burst. With 70 percent of real estate investment in China coming from bank loans, a dramatic drop in land values could send shock waves throughout the economy. There are already signs of decline.
- Given the current global economy and the economic balancing act it must maintain domestically, Beijing has few good choices. It must keep enough cash flowing to maintain economic growth and social stability in the short term while tightening credit to avoid a tsunami of bad loans and a market collapse over the long term. Certainly, Beijing does not want to face the kind of collapse in the housing market that Japan experienced in the 1990s, which triggered a financial crisis and more than a decade of economic malaise.

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