

## Morning Comments August 31, 2009

SHCOMP really took it on the chin last night and broke down out of a bear flag targeting a conflux of support in a band of 2333-2402 which represent the measuring implications of the bear flag, the 61.8% Fibonacci retracement of the entire leg up from the lows and the peaks reached in late Sept of 08 as well as the mid Feb peak. Minor support resides just under 2600 with heavy resistance now indicated 2760-2860.

More importantly, what does a weak Chinese equity market mean for other markets? If you ask the statistician the answer is likely, nothing. Take a look at the correlation studies below and one can see that few markets show the lack of correlation with others that SHCOMP demonstrates. What does matter however, at least in the short term, is perception. With further downside forecast for SHCOMP we would expect investor interpolation of the price action to spill into other markets however briefly and influence trading while price targets are open, a reversal notwithstanding.

We have been increasingly inclined bearishly on the SE Asian markets generally as we have written about recently and continue to see negative divergences unfold across the region. We prefer shorts be built and confess to being emboldened a bit by the action in China. Also, we have been heavily long of US tech shares and as such keep a close eye on TWSE. Negative divergences are opening up there and we must stay alert to implications of this tech focused index.



The results presented should not and cannot be viewed as an indicator of future performance.  
 Charts courtesy of Bloomberg Finance L.P.

<HELP> for explanation. EquityCORR  
 1<GO> to Edit, 2<GO> for more options, <MENU> to return to correlation menu

1) Edit		2) Actions		Add Matrix Short		asia corr				
12/31/2008	-	08/31/2009	Daily	Calculation	Correlation	Local CCY				
Correlation Matrix (10 Rows x 10 Columns)										
Security	STI	JCI	KLCI	TwSE	SHCOMP ↑	HSI	KOSPI	SET	SENSEX	SPX
1) SHCOMP	0.397	0.399	0.357	0.264	1.000	0.517	0.412	0.369	0.328	0.088
2) HSI	0.828	0.713	0.648	0.580	0.517	1.000	0.594	0.712	0.621	0.275
3) KOSPI	0.523	0.534	0.493	0.634	0.412	0.594	1.000	0.421	0.345	0.184
4) JCI	0.727	1.000	0.604	0.474	0.399	0.713	0.534	0.682	0.427	0.230
5) STI	1.000	0.727	0.638	0.589	0.397	0.828	0.523	0.701	0.596	0.349
6) SET	0.701	0.682	0.556	0.354	0.369	0.712	0.421	1.000	0.608	0.325
7) KLCI	0.638	0.604	1.000	0.541	0.357	0.648	0.493	0.556	0.377	0.271
8) SENSEX	0.596	0.427	0.377	0.298	0.328	0.621	0.345	0.608	1.000	0.285
9) TWSE	0.589	0.474	0.541	1.000	0.264	0.580	0.634	0.354	0.298	0.137
20) SPX	0.349	0.230	0.271	0.137	0.088	0.275	0.184	0.325	0.285	1.000

Color bands based on Statistical Significance: Most Significant Significant Less Significant Least Significant  
 Click on a security to view more options, or on a matrix value to view correlation and scatter charts.  
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1) Edit		2) Actions		Add Matrix Short		asia corr				
08/31/2007	-	08/31/2009	Daily	Calculation	Correlation	Local CCY				
Correlation Matrix (10 Rows x 10 Columns)										
Security	STI	JCI	KLCI	TwSE	SHCOMP ↑	HSI	KOSPI	SET	SENSEX	SPX
1) SHCOMP	0.368	0.309	0.354	0.317	1.000	0.517	0.353	0.298	0.329	0.044
2) HSI	0.852	0.652	0.597	0.604	0.517	1.000	0.704	0.660	0.658	0.309
3) STI	1.000	0.670	0.608	0.609	0.368	0.852	0.702	0.671	0.650	0.294
4) KLCI	0.608	0.604	1.000	0.554	0.354	0.597	0.565	0.555	0.473	0.155
5) KOSPI	0.702	0.584	0.565	0.709	0.353	0.704	1.000	0.521	0.494	0.239
6) SENSEX	0.650	0.497	0.473	0.406	0.329	0.658	0.494	0.538	1.000	0.328
7) TWSE	0.609	0.528	0.554	1.000	0.317	0.604	0.709	0.471	0.406	0.131
8) JCI	0.670	1.000	0.604	0.528	0.309	0.652	0.584	0.600	0.497	0.164
9) SET	0.671	0.600	0.555	0.471	0.298	0.660	0.521	1.000	0.538	0.309
20) SPX	0.294	0.164	0.155	0.131	0.044	0.309	0.239	0.309	0.328	1.000

Color bands based on Statistical Significance: Most Significant Significant Less Significant Least Significant  
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<HELP> for explanation.

EquityCORR

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multifactor corr study

12/31/2008 - 08/31/2009 Daily Calculation Correlation Local CCY

<Filter> Correlation Matrix (10 Rows x 10 Columns)

Security	SPX	CRY	GC1	DXY	DAX	HG1	CL1	SOX	SHCOMP	TNX
1) SHCOMP	0.088	0.168	0.128	-0.135	0.130	0.260	0.118	0.110	1.000	0.082
2) HG1	0.440	0.704	0.246	-0.295	0.558	1.000	0.462	0.462	0.260	0.348
3) CRY	0.573	1.000	0.281	-0.422	0.576	0.704	0.832	0.509	0.168	0.437
4) DAX	0.699	0.576	-0.017	-0.367	1.000	0.558	0.453	0.573	0.130	0.415
5) GC1	-0.025	0.281	1.000	-0.213	-0.017	0.246	0.147	0.053	0.128	0.034
6) CL1	0.462	0.832	0.147	-0.317	0.453	0.462	1.000	0.387	0.118	0.457
7) SOX	0.795	0.509	0.053	-0.336	0.573	0.462	0.387	1.000	0.110	0.224
8) SPX	1.000	0.573	-0.025	-0.425	0.699	0.440	0.462	0.795	0.088	0.279
9) TNX	0.279	0.437	0.034	0.030	0.415	0.348	0.457	0.224	0.082	1.000
20) DXY	-0.425	-0.422	-0.213	1.000	-0.367	-0.295	-0.317	-0.336	-0.135	0.030

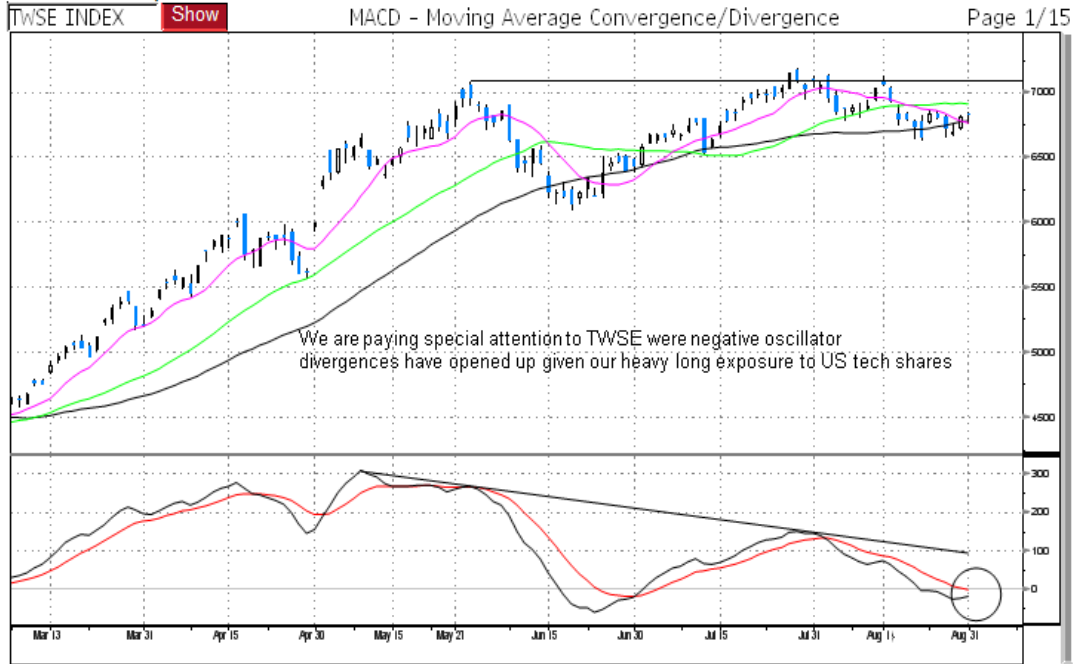
Color bands based on Statistical Significance: Most Significant Significant Less Significant Least Significant

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TWSE ↑6825.95 +16.09 Index MACD

At 01:46 Op 6844.91 Hi 6848.96 Lo 6760.05



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**TWSE ↑6825.95 +16.09**

Index **MACD**

At 01:46 Op 6844.91 Hi 6848.96 Lo 6760.05

TWSE INDEX

Show

MACD - Moving Average Convergence/Divergence

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