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China Equity Strategy | Asia Pacific

A-share Sentiment Improved, but Near-term Volatility Expected

MSASI improved on higher turnover and RSI. We see ~5-10% upside for Chinese equities toward year-end with e-commerce competition easing, a more balanced index mix and upstream/green tech edge, but near-term volatility remains high. We continue to prefer A-shares over the offshore market.

A-share investor sentiment improved vs. previous cycle: Weighted MSASI increased 6ppt vs. the prior cutoff date (April 15) to 51%; the weighted MSASI 1MMA dropped 1ppt over the same period to 42%. ADT for ChiNext increased 9% (to Rmb679bn) and A-shares rose 8% (to Rmb2,464bn), while ADT for equity futures dropped 2% (to Rmb378bn) vs. the previous cycle. Margin financing outstanding increased slightly to Rmb2,692bn. The 30-day RSI increased by 7% over the same cycle (April 16-22). Consensus earnings revision breadth remained negative, deteriorating marginally vs. last week.

Southbound had net inflows of US\$3.3bn during April 16-22: YTD net inflows hit US\$28.6bn, while MTD net inflows recorded US\$3.3bn.

**Note: As announced on July 26, 2024, by HKEX, Shanghai Stock Exchange, and Shenzhen Stock Exchange, the publication of Northbound daily purchase and sales data was terminated as of August 19, 2024. Northbound daily buying and selling data were last made available on August 16, 2024.*

March property sales decline narrowed; Beijing and Shanghai appear as bright spots, but sustainability in doubt: Rebased national sales fell 13% y-y in value and 7.4% y-y in volume (vs. -20% and -14% in 2M26), suggesting sequential improvement. The NBS 70-city home price index continued to edge lower, though at a softer pace - primary and secondary markets both fell 0.2% m-m (vs. -0.3% and -0.4% in February). In particular, tier 1 cities primary prices increased 0.2% m-m and secondary prices rose 0.4% (vs. flat and -0.1% in February), supported by firm secondary market activity. Notably, YTD secondary sales in Shanghai and Beijing have exceeded market expectations, though **the strength was largely driven by transactions in older, lower-priced housing stock that offer decent rental yields.** Beyond tier 1 cities, divergence is widening: secondary listing volumes and asking prices in tier 2 and lower-tier cities continued to deteriorate. Our property team remains cautious on sustainability - fragile resident sentiment, combined with the diminishing policy effect of recent HPR relaxations, raises questions on whether the current momentum will hold. **The pace of decline may narrow further in 2Q on favorable base effects, but a durable recovery could remain elusive.**

Continued in the following section.

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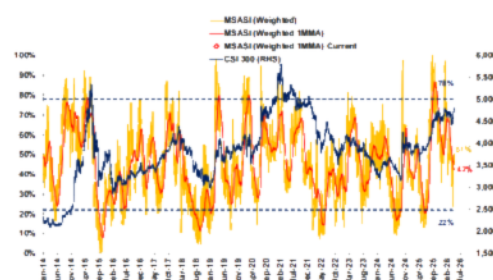
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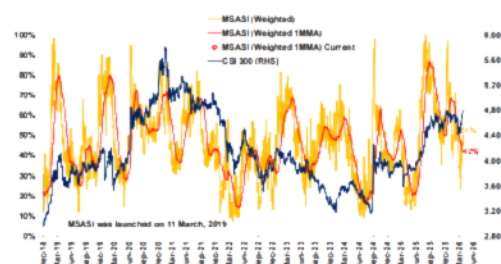
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Exhibit 1 : MS A-share Sentiment Indicator (MSASI weighted) and (MSASI weighted 1MMA)



Source: CEIC, Bloomberg, Wind, RIMES, Morgan Stanley Research. Data as of April 22, 2026.

Exhibit 2 : MSASI trajectory since January 1, 2019



Source: CEIC, Bloomberg, Wind, RIMES, MS Research. Data as of April 22, 2026.

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Overview (continued)

We see ~5-10% upside for Chinese equities toward year-end with a few positive developments shaping up, though near-term volatility remains high: E-commerce competition is likely to ease following regulatory tightening, while potential LLM-related index rebalancing may drive incremental inflows into Hong Kong equities. At the same time, China's strengthened positioning in global supply chains – particularly in upstream manufacturing and hard-tech – should provide durable support. We reiterate our year-end targets of 27,500 for the Hang Seng Index and 90 for MSCI China. We expect the path to remain choppy in the near term with volatility persisting through the May to July period amid uncertainty around the US-China presidents meeting, 1Q earnings season, IPO shares unlocking, and the ongoing Middle East situation. (More details: [China Market-Wise: Moderate Upside Through Choppy Waters \(19 Apr 2026\)](#))

MSASI Methodology

Related report: [China Equity Strategy: Relaunching MSASI: A New Take on A-share Market Sentiment and Technical Signals \(27 Oct 2025\)](#)

Step 1: Normalizing sentiment metrics

The new MSASI is based on 12 individual indicators, each designed to capture a different dimension of investor sentiment and market activity.

To make these metrics comparable, each is re-scaled using a 100-day moving min-max normalization. This approach helps reduce noise from high-frequency movements and better reflects whether sentiment is improving or deteriorating over the medium term.

Normalization Formula:

$$\text{Normalized Value} = (\text{Latest Value} - \text{Min (Last 100 Days)}) / (\text{Max (Last 100 Days)} - \text{Min (Last 100 Days)})$$

Each normalized series is expressed on a 0-100 scale, where higher values indicate stronger or more active sentiment conditions.

The 12 metrics included are:

- 1. ChiNext Turnover:** Daily trading turnover on ChiNext, normalized using the 100-day moving min-max method (available daily; weekly closing values used for analysis).
- 2. A-share Turnover:** Daily turnover of all A-shares, normalized using the 100-day moving min-max method (available daily; weekly closing values used for analysis).
- 3. Equity Index Futures Turnover:** Daily turnover of equity index futures, normalized using the 100-day moving min-max method (available daily; weekly closing values used for analysis).
- 4. Northbound Turnover:** Daily Stock Connect northbound trading turnover, normalized using the 100-day moving min-max method (available daily; weekly closing values used for analysis).
- 5. Margin Financing Outstanding:** Total margin transaction balances, normalized using the 100-day moving min-max method (available daily; weekly closing values used for analysis).
- 6. New Accounts Registered with the Shanghai Stock Exchange:** Monthly number of new retail accounts registered with the Shanghai Exchange, normalized using the 100-day moving min-max method (available monthly).
- 7. 30-Day RSI (CSI 300):** Relative Strength Index over a 30-day period for CSI 300 (available daily; weekly closing values used).
- 8. Number of Limit-Up A-shares:** Daily count of stocks hitting the 10% upper price limit, normalized using the 100-day moving min-max method (available daily; weekly closing values used for analysis).
- 9. CSI 300 Futures Backwardation:** The percentage difference between CSI 300 futures

and spot prices, calculated as $(\text{Futures Price} - \text{Spot Price}) / \text{Spot Price}$, normalized using the 100-day moving min-max method (available daily; weekly closing values used for analysis).

10. CSI 300 Call-Put Ratio: Ratio of open interest in call options to put options, normalized using the 100-day moving min-max method (available daily; weekly closing values used for analysis).

11. Foreign Passive Fund Flows to CSI 300 (1MMA): One-month moving average of daily flows from foreign-domiciled passive funds to CSI 300, normalized using the 100-day moving min-max method (available daily; weekly closing values used for analysis).

12. Earnings Estimate Revision Breadth (3MMA): Three-month moving average of the net proportion of upward earnings estimate revisions vs. downward earnings estimate revisions, based on the Shanghai A Index, normalized using the 100-day moving min-max method (available weekly).

This normalization process ensures that each indicator contributes proportionally, regardless of scale or data frequency, while highlighting directional shifts in sentiment over time.

Step 2: Constructing the Weighted Sentiment Indicator

Once normalized, each of the 12 series is assigned a weight based on its historical explanatory power relative to the CSI 300 Index.

Weights are determined by the R-squared values from a single-factor regression between the metric (relative to its 100-day moving min max) and the CSI 300 (relative to 100MA) performance.

This weighting method gives greater emphasis to indicators that have historically demonstrated stronger correlations with market movements, ensuring that the overall index reflects sentiment components most relevant to A-share performance.

Step 3: Constructing the MSASI (Weighted)

Using the weighted sentiment indicator derived in Step 2, we construct the MSASI (Weighted) as the composite measure of overall market sentiment.

This index is then re-scaled to a 0-100 range, based on its distance from historical high and low values since January 2024.

This scaling allows the indicator to reflect relative sentiment strength over time – where higher readings indicate stronger investor enthusiasm, and lower readings reflect weaker sentiment or risk aversion.

Step 4: Constructing the MSASI (Weighted 1MMA)

To highlight underlying trends and reduce short-term volatility, we apply a one-month moving average to the MSASI (Weighted).

The resulting MSASI (Weighted 1MMA) smooths out high-frequency fluctuations, providing a clearer picture of medium-term sentiment dynamics and improving interpretability for tactical or strategic analysis.

Exhibit 3: Weighting of 12 indicators of MSASI, and R-squared of indicators vs. CSI 300 (relative to 100MA)

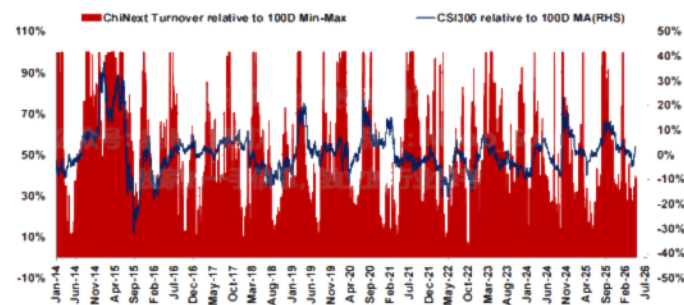
Indicator	R-sq vs. CSI 300 (relative to 100MA)	Weighting
ChiNext Turnover	12.6%	10%
A-share Turnover	19.7%	15%
Equity Futures Turnover	8.1%	6%
Northbound Turnover	7.6%	8%
Margin Transaction Outstanding	34.3%	15%
SHSE New accounts Registered	14.3%	3%
Earnings Revision Breadth (3MMA)	6.6%	8%
RSI-30D	49.0%	15%
No. of Limit Up A-share	4.6%	6%
CSI300 backwardation	3.9%	4%
CSI300 call put ratio	14.0%	6%
Foreign domiciled passive funds flows to CSI300 (1MMA)	0.5%	4%

Note: for SHSE new account registrations, although the R-squared with the CSI 300 is high, the data is available only on a monthly basis rather than daily or weekly, so we assign it a relatively lower weight. Similarly, for the CSI300 call/put ratio, despite its high R-squared with the CSI 300, the data is only available from late 2019 onward, so we also assign it a relatively lower weight.
Source: CLIC, Wind, Rimes, EPR, Bloomberg, Morgan Stanley Research

Other items to keep in mind

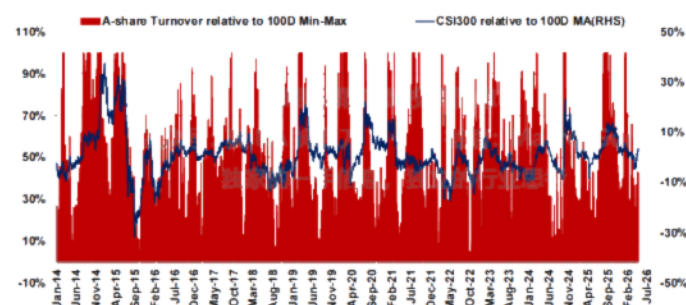
- The charts below show the scaled version of all these metrics as they are used in our MSASI compilation analysis.
- We use data from January 2014 to the present because some of the market-influencing factors were not fully developed before that, i.e., Stock Connect Northbound (program only launched in November 2014).
- Some metrics have gone through regime shifts owing to regulatory changes, i.e., index futures trading, which became heavily regulated as part of market stabilization measures during the 2015 correction. We try to accommodate/normalize, such shifts by looking at relative level to moving 100 days min-max level rather than absolute volume/value.

Exhibit 4: ChiNext turnover adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA



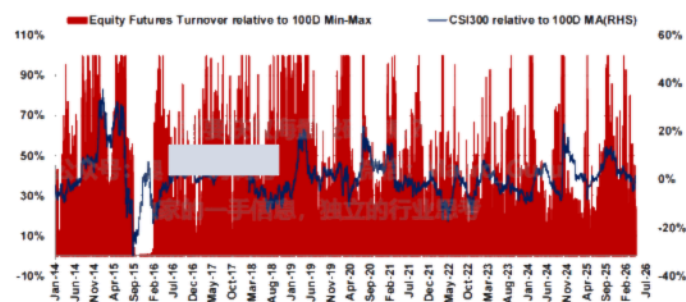
Source: CLIC, Morgan Stanley Research. Data as of April 22, 2025.

Exhibit 5: A-share turnover adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA



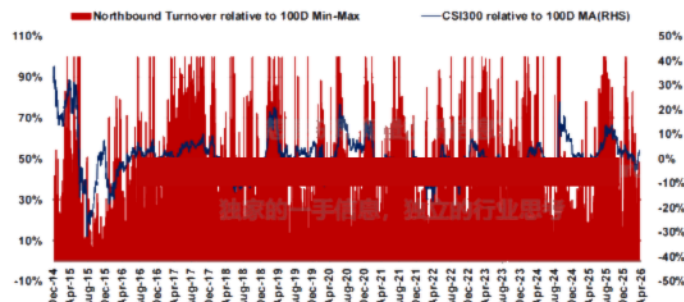
Source: CLIC, Bloomberg, Morgan Stanley Research. Data as of April 22, 2025.

Exhibit 6: Equity futures turnover adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA



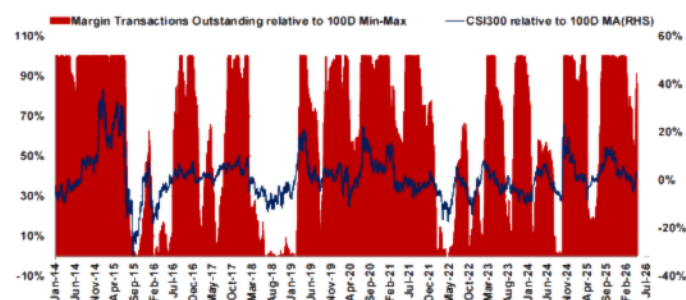
Source: CEIC, Morgan Stanley Research. Data as of April 22, 2026.

Exhibit 7: Northbound turnover adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA



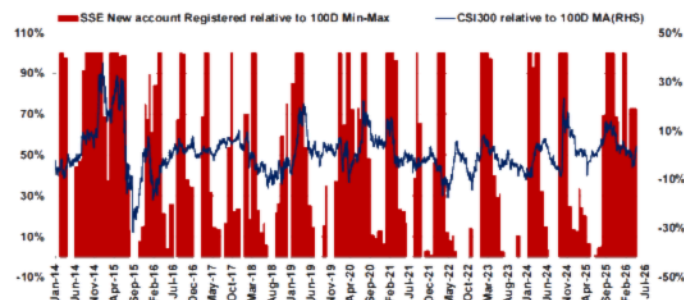
Source: CEIC, Morgan Stanley Research. Data as of April 22, 2026.

Exhibit 8: Margin transactions adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA



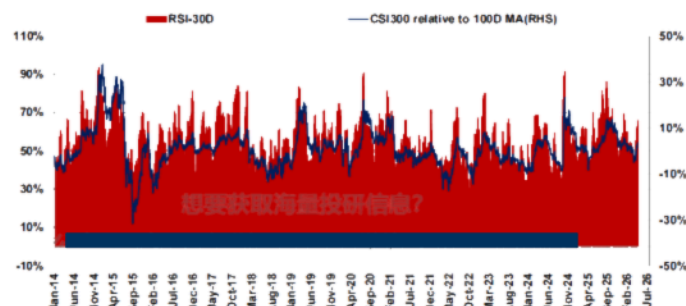
Source: CEIC, Morgan Stanley Research. Data as of April 22, 2026.

Exhibit 9: SSE new accounts adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA



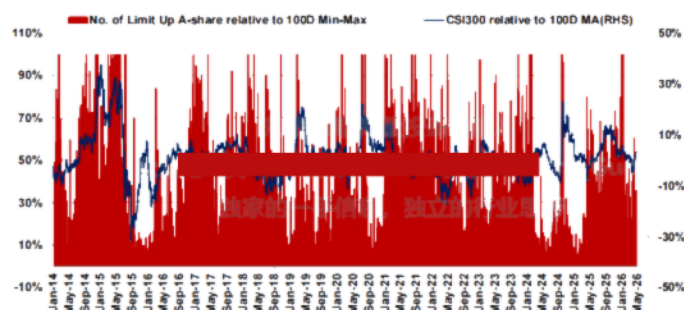
Source: CEIC, Bloomberg, Morgan Stanley Research. Data as of April 22, 2026.

Exhibit 10: RSI-30D since January 2014 vs. CSI 300 relative to 100D MA



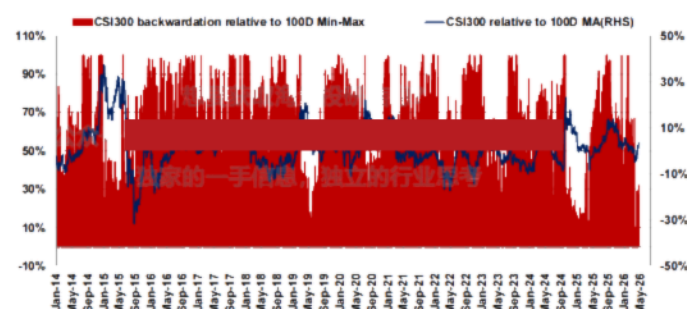
Source: CEIC, Bloomberg, Morgan Stanley Research. Data as of April 22, 2026.

Exhibit 11: Number of limit-up A-shares adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA



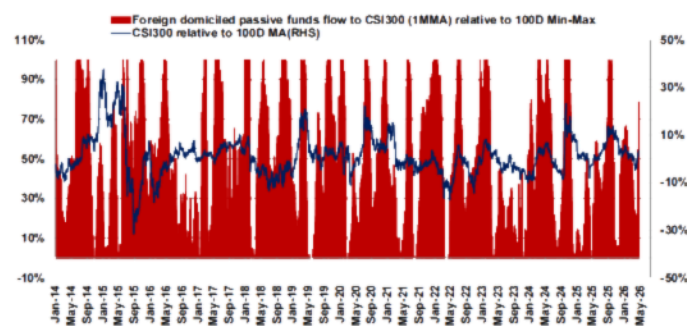
Source: CEIC, Bloomberg, Morgan Stanley Research. Data as of April 22, 2026.

Exhibit 12: CSI 300 future backwardation adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA



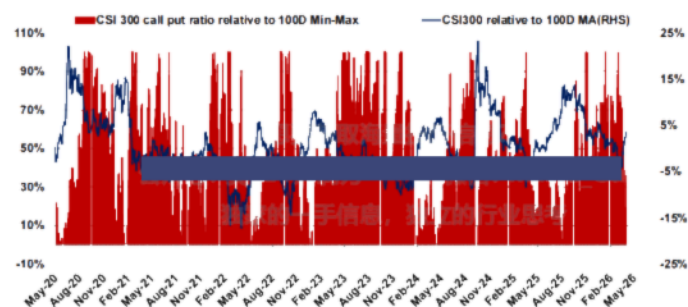
Source: CEIC, Wind, Morgan Stanley Research. Data as of April 22, 2026.

Exhibit 14: Foreign domiciled passive funds flows to CSI 300 (1mma) adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA



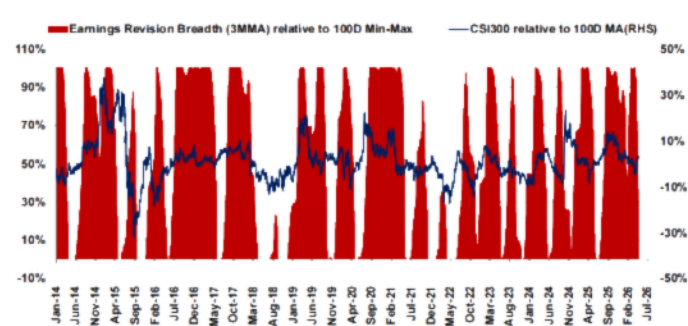
Source: CEIC, Wind, Morgan Stanley Research. Data as of April 22, 2026.

Exhibit 13: CSI 300 put-call ratio adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA



Source: CEIC, Wind, Morgan Stanley Research. Data as of April 22, 2026.

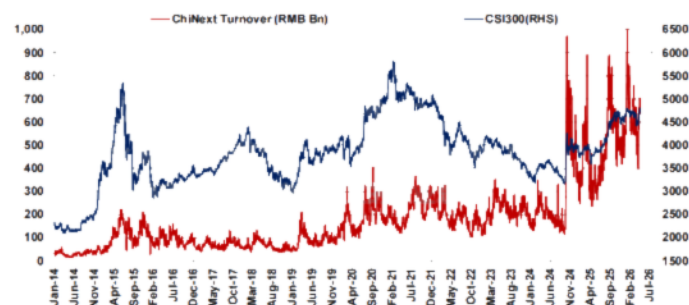
Exhibit 15: Shanghai A-share earnings estimate revision breadth (3mma) adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA



Source: CEIC, Morgan Stanley Research. Data as of April 22, 2026.

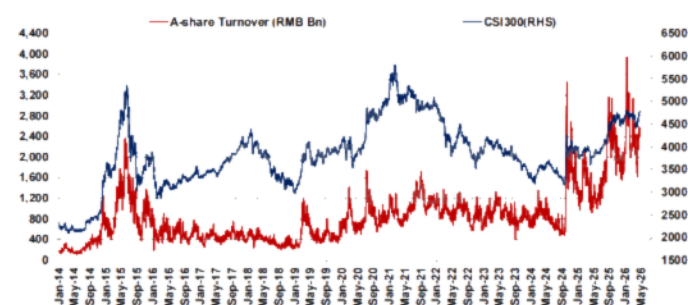
Appendix: A-share Market Data

Exhibit 16: ChiNext daily turnover (RMB bn) trend vs. CSI 300



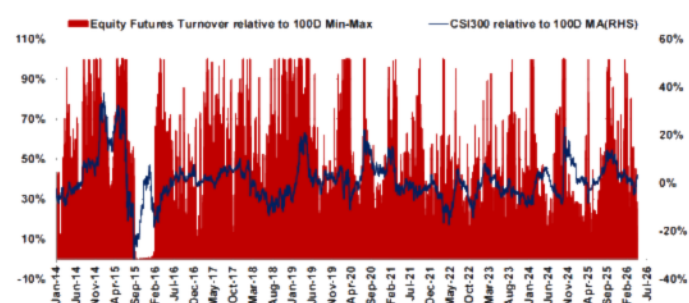
Source: CICC, Morgan Stanley Research. Data as of April 22, 2026.

Exhibit 17: A-share daily turnover (RMB bn) trend vs. CSI 300



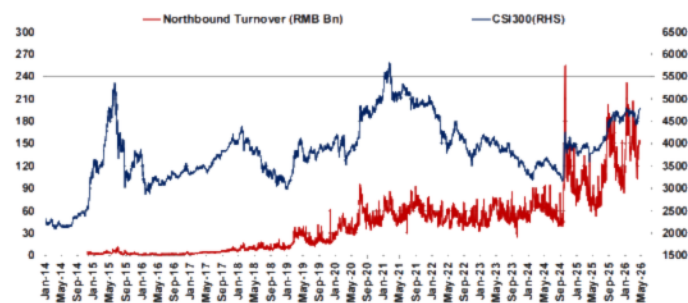
Source: CICC, Morgan Stanley Research. Data as of April 22, 2026.

Exhibit 18: A-share equity futures turnover (RMB bn) trend vs. CSI 300



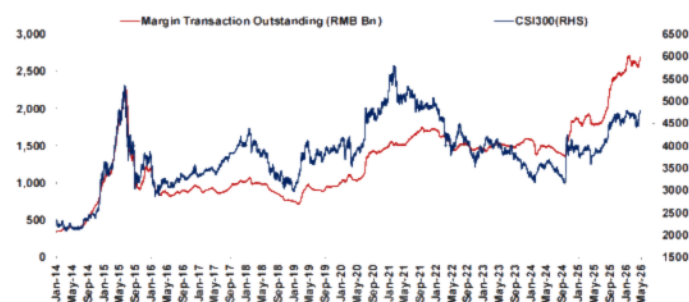
Source: CICC, Morgan Stanley Research. Data as of April 22, 2026.

Exhibit 19: Northbound daily turnover (RMB bn) trend vs. CSI 300



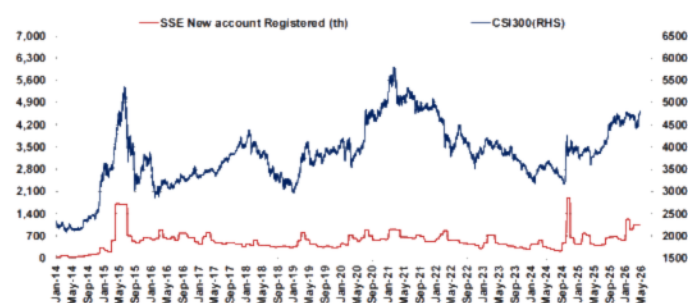
Source: CICC, Morgan Stanley Research. Data as of April 22, 2026.

Exhibit 20: A-share margin financing vs. CSI 300



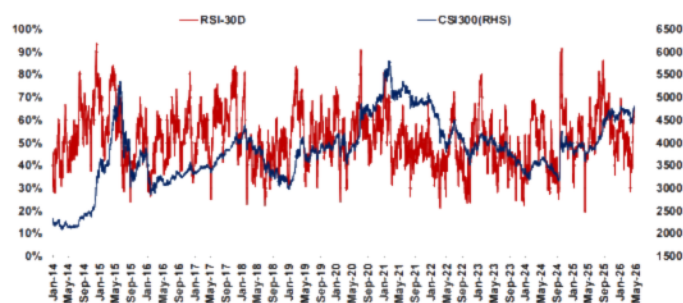
Source: CICC, Morgan Stanley Research. Data as of April 22, 2026.

Exhibit 21: SSE new accounts registered (unit thousand) vs. CSI 300



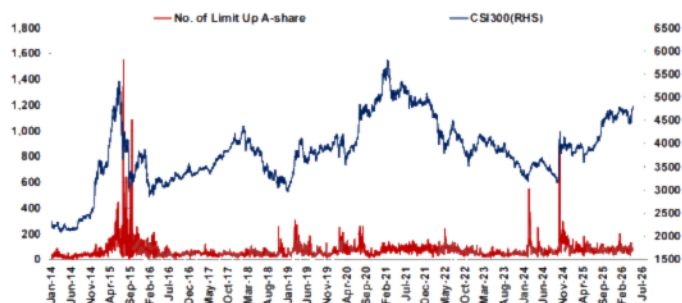
Source: CICC, Morgan Stanley Research. Data as of April 22, 2026.

Exhibit 22: RSI (30 days) vs. CSI 300



Source: Bloomberg, Morgan Stanley Research. Data as of April 22, 2020.

Exhibit 23: Number of A-shares trading at limit up vs. CSI 300



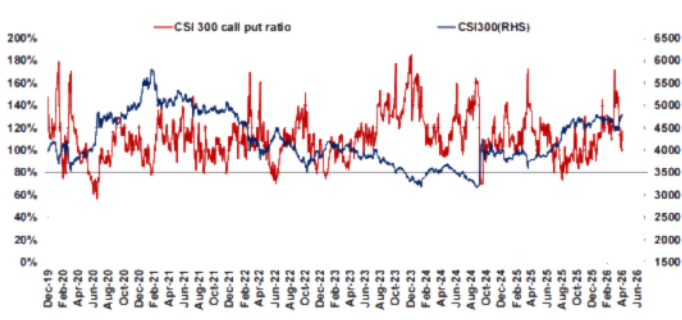
Source: Wind, Morgan Stanley Research. Data as of April 22, 2020.

Exhibit 24: CSI 300 future backwardation vs. CSI 300



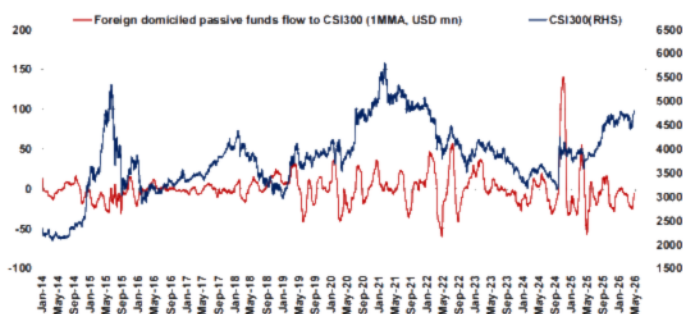
Source: CIBC, Wind, Morgan Stanley Research. Data as of April 22, 2020.

Exhibit 25: CSI 300 call put ratio vs. CSI 300



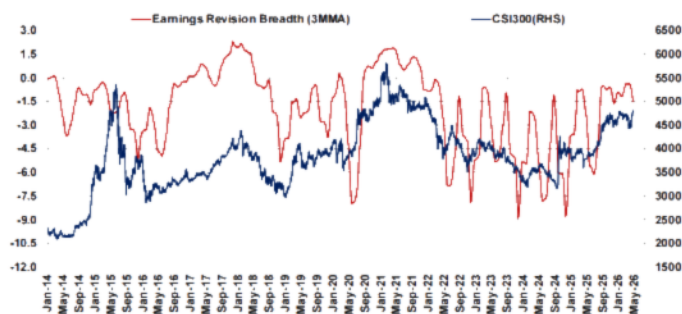
Source: CIBC, Wind, Morgan Stanley Research. Data as of April 22, 2020.

Exhibit 26: Foreign domiciled passive funds flows (1mma, USDmn) to CSI 300 vs. CSI 300



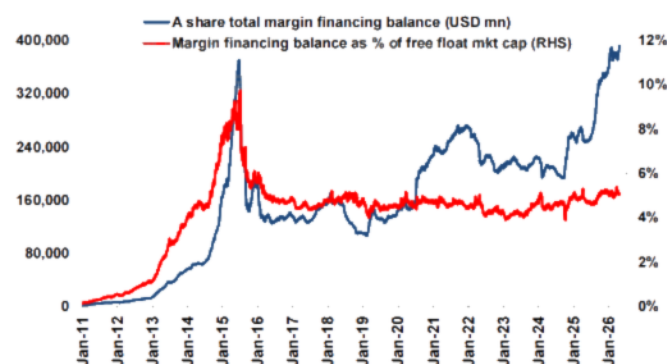
Source: CIBC, Wind, Morgan Stanley Research. Data as of April 22, 2020.

Exhibit 27: Shanghai A-share earnings estimate revision breadth (3mma) vs. CSI 300



Source: CIBC, Wind, Morgan Stanley Research. Data as of April 22, 2020.

Exhibit 28: A-share margin financing (USD mn)



Source: CIBC, Morgan Stanley Research. Note: Data as of April 22, 2020.



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