Morgan Stanley | RESEARCH

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China Equity Strategy | Asia Pacific

China Free Liquidity vs. MSCI China YoY Change

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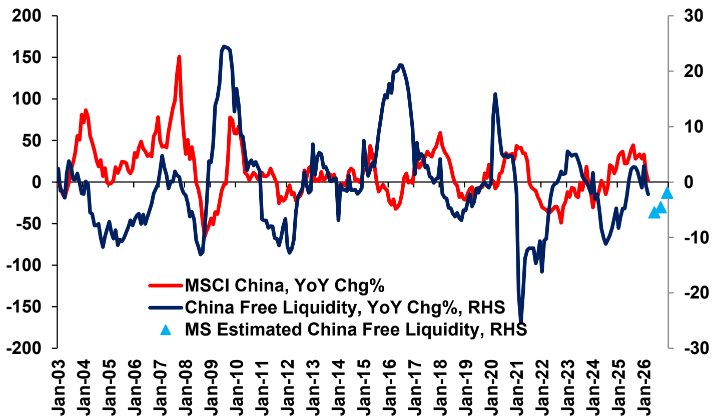
Key Takeaways

- The reading dropped to its lowest level since June 2025...
- ...driven by lukewarm M1 growth combined with accelerating nominal industrial production upon positive PPI.
- We expect it to stay negative through 2026, given subdued M1 growth and positive PPI in 2Q26 with energy shocks.

Exhibit 1: MS China Free Liquidity Indicator vs. MSCI China YoY % – Free liquidity dropped further in March, reaching the lowest level since June 2025; we expect it to stay negative through 2026



Price Inflation less Industrial Production growth (3-month moving average is used for IP YoY). Plotted trendline represents Morgan Stanley Economics team's quarterly estimates for 2Q26, 3Q26 and 4Q26. For M1 since 2025, we used official M1 - household demand deposit.