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China Equity Strategy | Asia Pacific

A-share Sentiment Improved on Higher Turnover

MSASI has risen on semi supercycle momentum and Huawei's "t (Tau) Law". We expect market dynamics to turn clearer and smoother around or after the summer, though near-term volatility is likely to persist. We remain OW A-shares versus offshore.

A-share investor sentiment weakened vs. the previous cycle: Weighted MSASI increased by 9ppt vs. the prior cutoff date (May 20) to 64%, and the weighted MSASI 1MMA increased by 5ppt over the same period to 55%. ADT for ChiNext and A-share turnover increased by 5% (to Rmb853bn) and 4% (to Rmb3,217bn), respectively, vs. the previous cycle, while equity futures turnover and margin transaction outstanding remained largely unchanged. The 30-day RSI increased 2% over the same period (May 21–27). Consensus earnings estimate revision breadth stayed negative and deteriorated vs. last week.

Southbound recorded net outflows of US\$1.9bn during May 21–27: YTD net inflows reached US\$32.9bn, and MTD net inflows totaled US\$0.4bn.

**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.*

High-frequency tracking in May showed a deepening two-speed economy:

Consumption momentum remains subdued, with passenger car and online home appliance sales weakening further MTD. Construction indicators remain soft, with cement shipments and rebar demand near multi-year lows, reflecting a mechanical housing slowdown from low new starts alongside weak infrastructure capex. Upstream utilization also remains under pressure, with LNG and crude soft and asphalt continuing to deteriorate. In contrast, container throughput growth stabilized despite the ongoing oil shock. PMI for emerging sectors remains at a solid level, with still-elevated export orders despite some softening from April.

Continued in the following section.

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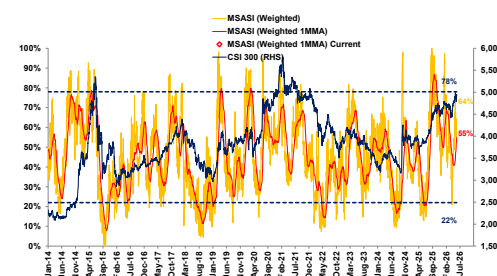
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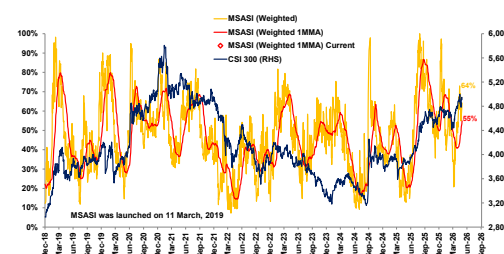
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Exhibit 1 : MS A-share Sentiment Indicator (MSASI weighted) and (MSASI weighted 1MMA)



of May 27, 2026.

Exhibit 2 : MSASI trajectory since January 1, 2019



Source: CEIC, Bloomberg, Wind, RIMES, MS Research. Data as of May 27, 2026.

investors should be aware that the firm may have a conflict of

Research as only a single factor in making their investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

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Overview (continued)

We reiterate our 10-12% upside potential forecast for Chinese equity indices on a 6-12-month basis with potential 2Q 2026 earnings outlook improvement. We expect the 2Q26 earnings outlook to improve, supported by stronger export growth amid an accelerating AI/energy capex cycle, CNY appreciation vs. USD, and peaking earnings pressure from large-cap platforms' intense price competition. That said, **near-term volatility could persist** given potential 1Q earnings misses, a sizeable HK IPO unlock in July, and liquidity uncertainty as Fed rate cut expectations fade. **We expect market dynamics to become clearer and smoother around or after the summer.**

On positioning, we continue to **prefer A-shares over offshore**, given their higher concentration of high-end upstream manufacturing and hard-core tech names, anticipated A-share IPO catalysts, and National Team support. Sector-wise, we strongly prefer **upstream asset-focused sectors** – selected **Materials, Industrials** and **Energy**. We also favor the **tech localization theme (Semis)** and maintain moderate exposure to **Financials** (Insurance and Exchanges) as well as yield plays.

Read more: [China Equity Strategy Mid-year Outlook | Asia Pacific: Forging New Horizons \(13 May 2026\)](#).

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 CSI 300 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.

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

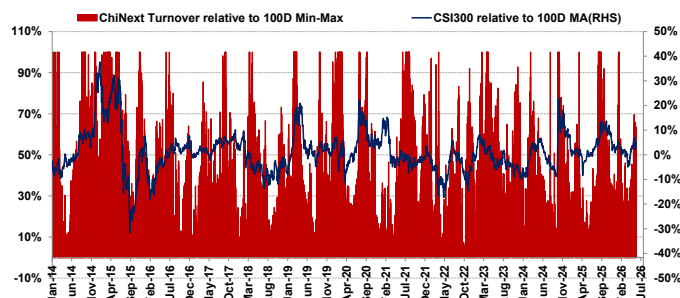


Exhibit 5: A-share turnover adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

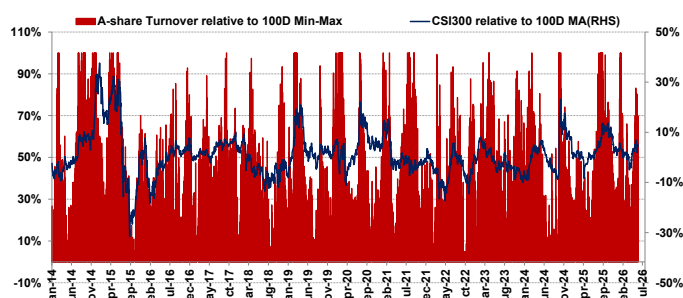


Exhibit 6: Equity futures turnover adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

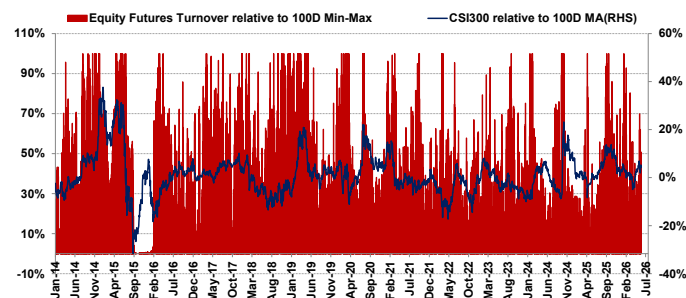


Exhibit 7: Northbound turnover adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

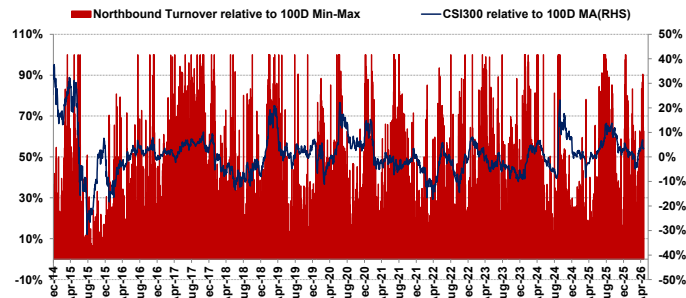


Exhibit 8: Margin transactions adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

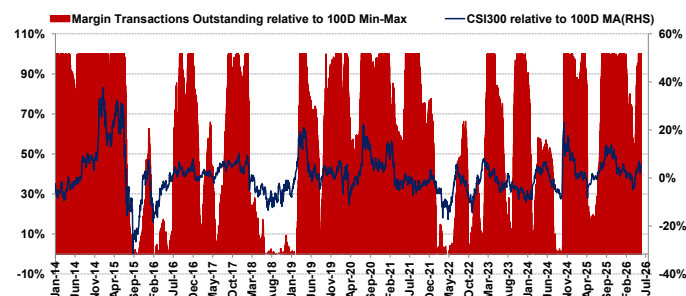


Exhibit 9: SSE new accounts adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

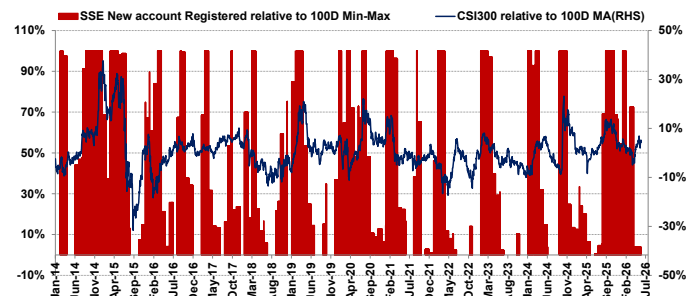


Exhibit 10: RSI-30D since January 2014 vs. CSI 300 relative to 100D MA

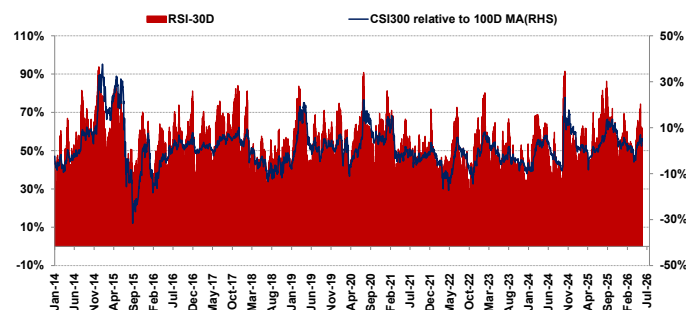
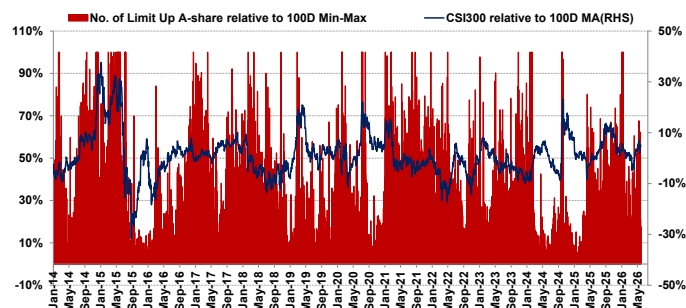


Exhibit 11: Number of limit-up A-shares adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA



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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

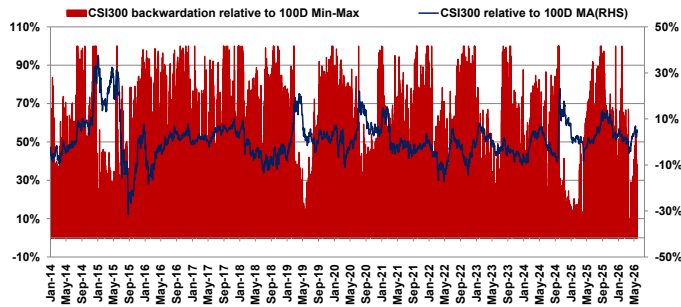


Exhibit 14: Foreign domiciled passive funds flows to CSI 300 (1mma) adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

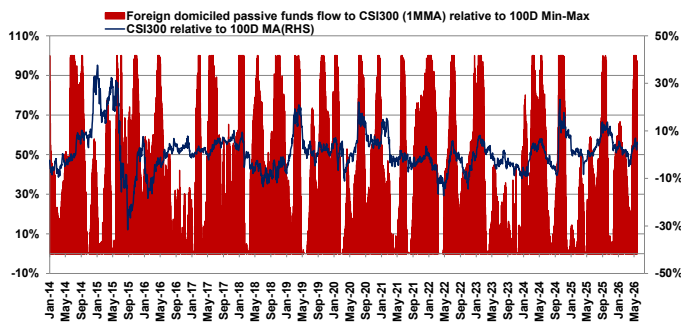


Exhibit 13: CSI 300 put-call ratio adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

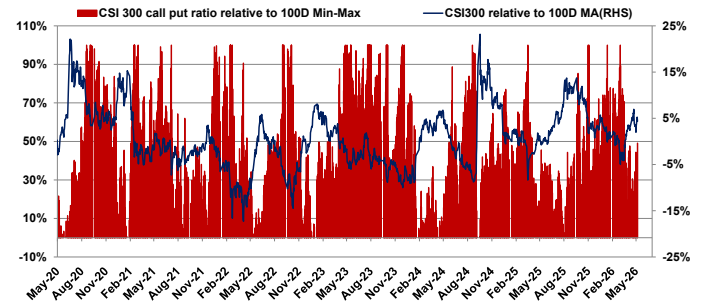


Exhibit 15: Shanghai A-share earnings estimate revision breadth (3mma) adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

