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China Equity Strategy | Asia Pacific

A-share Sentiment Weakened as K-Shaped Macro Picture Persists

MSASI dipped marginally as trading volume softened amid ongoing K-shaped fundamentals. We expect market dynamics to become clearer and smoother around or after the summer, although near-term volatility may persist. We remain overweight on A-shares vs. offshore.

A-share investor sentiment weakened vs. the previous cycle: Weighted MSASI decreased 4ppt vs. the prior cutoff date (May 27), to 62%, and the weighted MSASI 1MMA rose 3ppt over the same period, to 59%. ADT for ChiNext and A-shared decreased 9% (to Rmb779bn) and 6% (to Rmb3,019bn), respectively, vs. the previous cycle, while equity futures turnover and margin transactions outstanding remained largely unchanged. The 30-day RSI increased 1% over the same period (May 28–June 3). Consensus earnings estimate revision breadth stayed negative and remained the same vs. last week.

Southbound recorded net inflows of US\$4.5bn during May 28 - June 3: YTD net inflows reached US\$35.3bn, and MTD net inflows totaled 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.*

Macro data indicate widening K-shaped demand amid elevated oil prices: May Manufacturing PMI slipped 0.3ppt, to 50%, as the market expected. Consumption export orders and energy-intensive production weakened; meanwhile high-end manufacturing held up. Infrastructure still lacks policy traction. On the other hand, inflation momentum remains contained: PPI MoM slipped to 1% (vs. 1.7% in April) as the oil price spike moderated, although YoY could rise to 4% on a low base. According to our economics team for China, weak April-May data point to rising downside pressures on 2Q GDP. They expect policymakers to re-accelerate fiscal rollout from June, with targeted infrastructure support to prevent growth from falling materially below 4.5%.

Continued in the following section.

MORGAN STANLEY ASIA LIMITED*

Laura Wang

Equity Strategist

laura.wang@morganstanley.com

+86 21 68616000

Chloe Liu

Equity Strategist

chloe.liu@morganstanley.com

+86 21 6861 6217

Vicky Wu

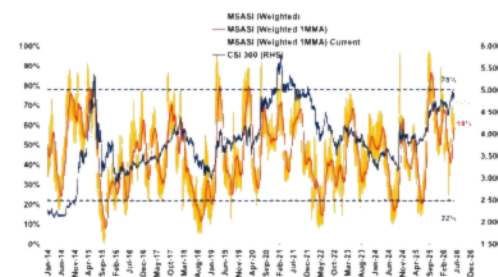
Equity Strategist

vicky.wu@morganstanley.com

+86 21 6861 6100

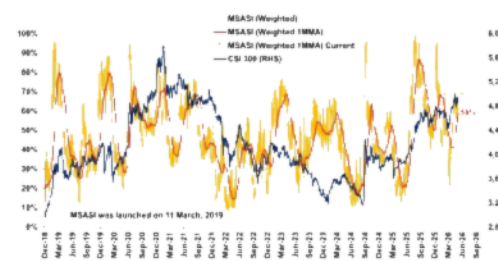


Exhibit 1 : MS A-share Sentiment Indicator: MSASI weighted and MSASI weighted 1MMA



Source: CEIC, Bloomberg, Wind, RIMES, Morgan Stanley Research. Data as of June 3, 2026.

Exhibit 2 : MSASI trajectory since January 1, 2019



Source: CEIC, Bloomberg, Wind, RIMES, MS Research. Data as of June 3, 2026.

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Overview (continued)

We still see moderate (10-12%) upside for Chinese equities over 6–12 months – supported by likely improvement of 2Q26 earnings from stronger exports, AI/energy capex, CNY appreciation, and easing price competition among Internet platforms.

However, we warn against persistency of volatility in the near term – amid potential 1Q misses, July HK IPO unlocking, fading Fed cut expectations, as well as ongoing uncertainty over the Hormuz situation. Consequently, the market setup – especially for the offshore market (Hong Kong + ADRs) – could stay relatively volatile and then gradually stabilize after summer.

We prefer A-shares over offshore – given higher exposure to upstream manufacturing/hard tech, IPO catalysts, and National Team support.

By sector, we favor upstream Materials, Industrials, and Energy, alongside Semis, with moderate exposure to Financials and yield plays.

Read more: [China Equity Strategy Mid-year Outlook: 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:

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

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)

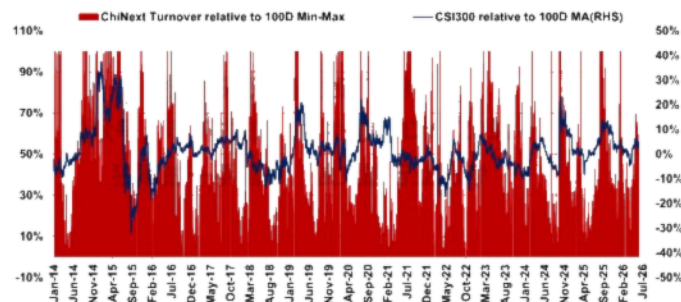
Indicator	R-sq vs. CSI 300 (relative to 100MA)	Weighting
ChiNext Turnover	12.6%	10%
A-share Turnover	19.7%	15%
Equity Futures Turnover	8.1%	6%
Northbound Turnover	7.6%	8%
Margin Transaction Outstanding	34.3%	15%
SHSE New accounts Registered	14.3%	3%
Earnings Revision Breadth (3MMA)	6.6%	8%
RSI-30D	49.0%	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: ChiNext, new account registrations, through the R-squared with the CSI300, is from the data as available on a monthly basis rather than daily or weekly. We also input a relative level average (3 months) for the CSI300, but not to escape its high R-squared with the CSI300, the data is only available from 2014 forward, so we also input a relative level average (3 months).
 Source: CICC, Wind, Bloomberg, EPFR, Bloomberg, Morgan Stanley Research.

Other items to keep in mind

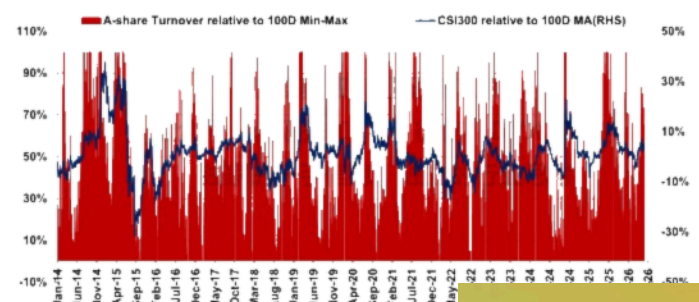
- The charts below show the scaled version of all these metrics as they are used in our MSASI compilation analysis.
- We use data from January 2014 to the present because some of the market-influencing factors were not fully developed before that, i.e., Stock Connect Northbound (program only launched 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: CICC, Morgan Stanley Research, Data as of June 9, 2026

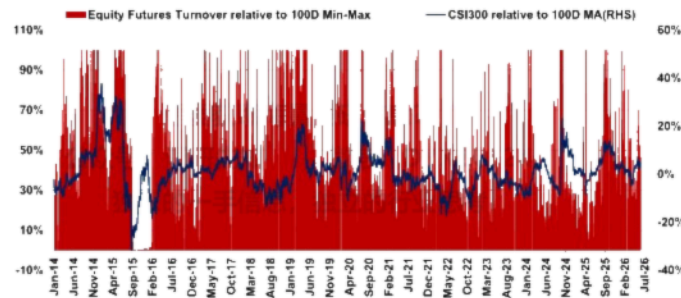
Exhibit 5: A-share turnover adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA



Source: CICC, Bloomberg, Morgan Stanley Research, Data as of June 9, 2026

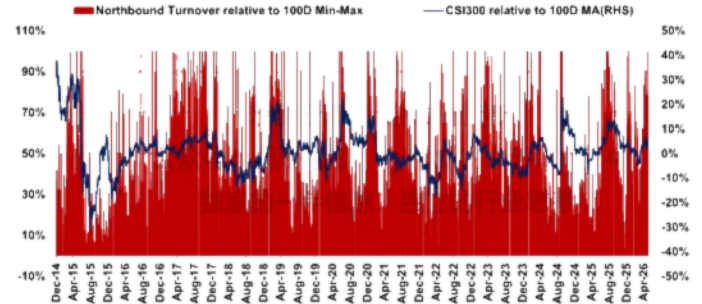


Exhibit 6: Equity futures turnover adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA



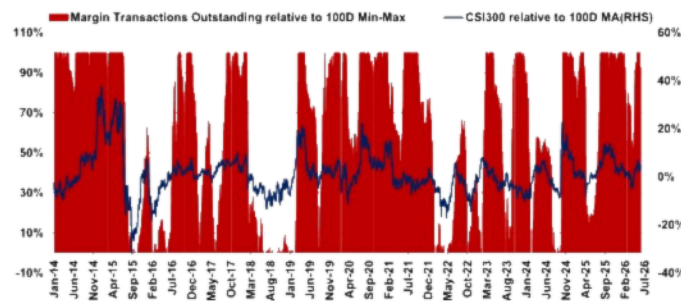
Source: © Morgan Stanley Research. Data as of June 3, 2026.

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



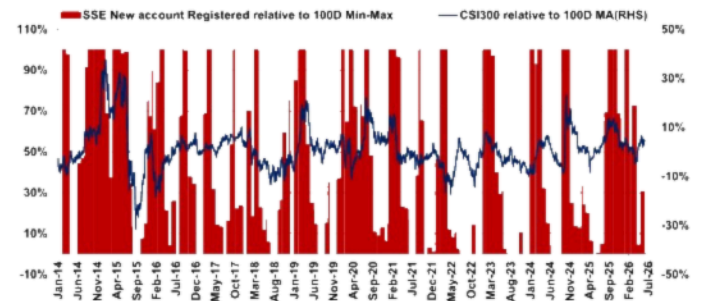
Source: © Morgan Stanley Research. Data as of June 3, 2026.

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



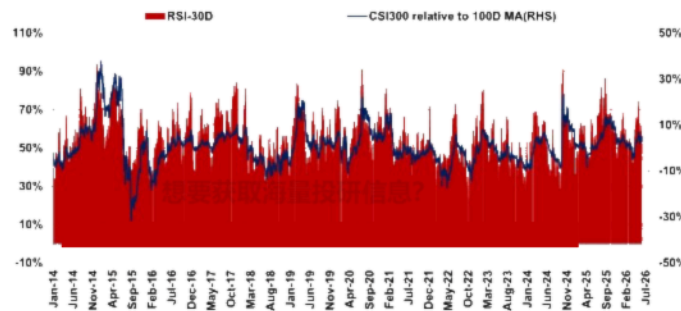
Source: © Morgan Stanley Research. Data as of June 3, 2026.

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



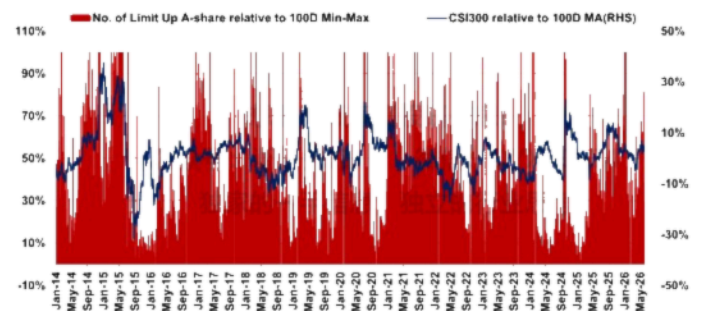
Source: © Bloomberg, Morgan Stanley Research. Data as of June 3, 2026.

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



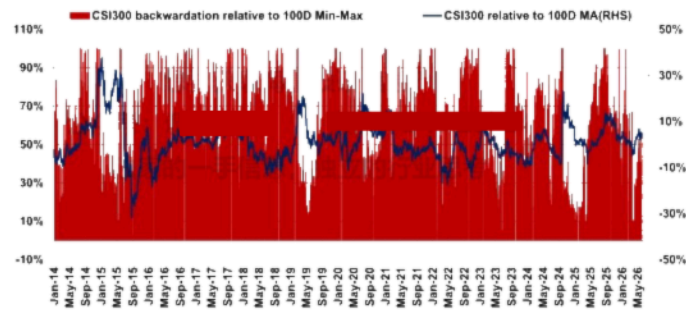
Source: © Bloomberg, Morgan Stanley Research. Data as of June 3, 2026.

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



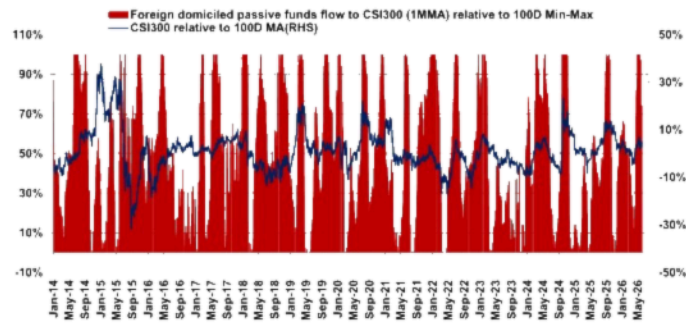
Source: © Wind, Bloomberg, Morgan Stanley Research. Data as of June 3, 2026.

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



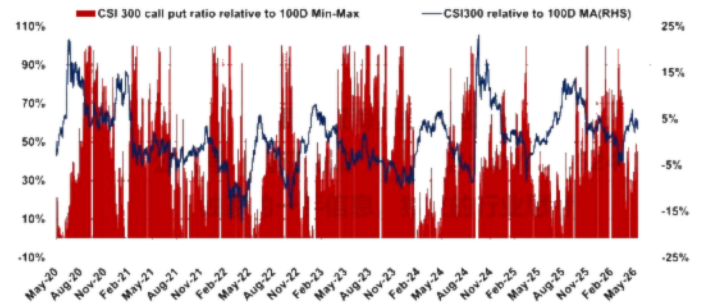
Source: © 2020 Wnd Morgan Stanley Research. Data as of June 3, 2020

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



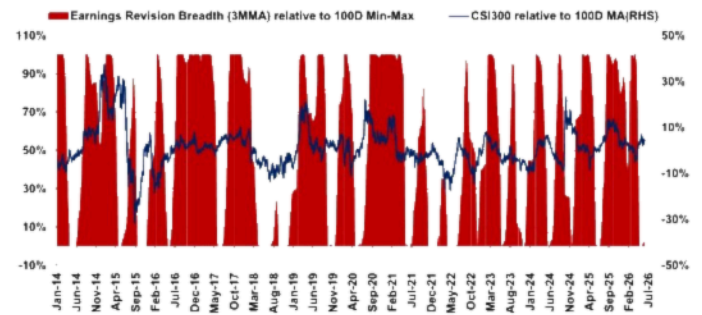
Source: © 2020 Wnd Morgan Stanley Research. Data as of June 3, 2020

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: © 2020 Wnd Morgan Stanley Research. Data as of June 3, 2020

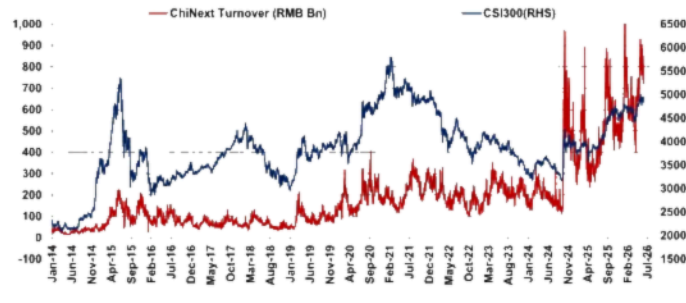
Exhibit 15: Shanghai A-share earnings estimate revision breadth (3mma) adjusted by moving 100D min max (scaled to 0 100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA



Source: © 2020 Morgan Stanley Research. Data as of June 3, 2020

Appendix: A-share Market Data

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



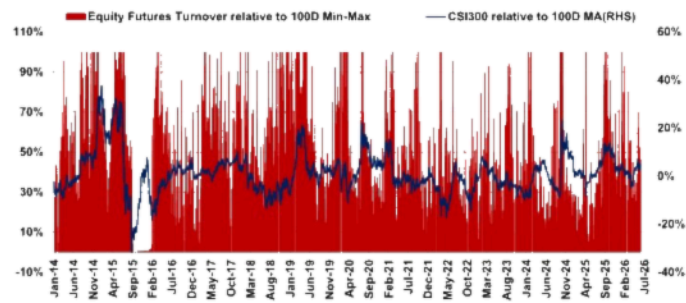
Source: © IC Morgan Stanley Research, Data as of June 3, 2026

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



Source: © IC Morgan Stanley Research, Data as of June 3, 2026

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



Source: © IC Morgan Stanley Research, Data as of June 3, 2026

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



Source: © IC Morgan Stanley Research, Data as of June 3, 2026

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



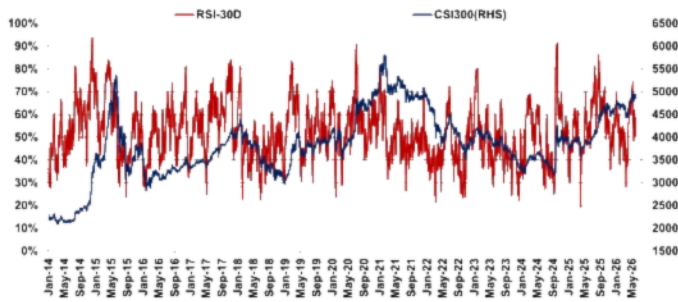
Source: © IC Morgan Stanley Research, Data as of June 3, 2026

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



Source: © IC Morgan Stanley Research, Data as of June 3, 2026

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



Source: Bloomberg, Morgan Stanley Research, Data as of June 3, 2026

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



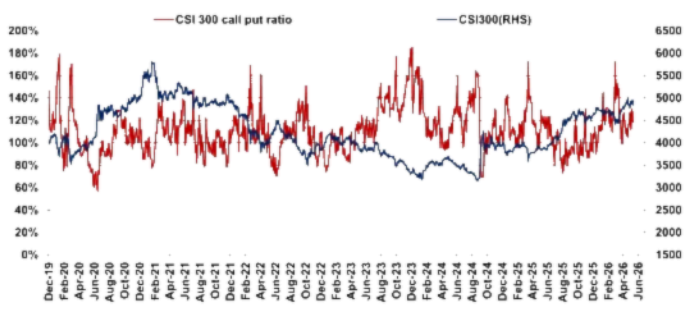
Source: Wind, Morgan Stanley Research, Data as of June 3, 2026

Exhibit 24: CSI 300 future backwardation vs. CSI 300



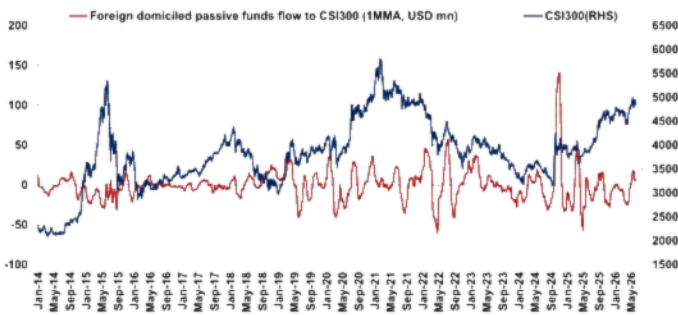
Source: IC, Wind, Morgan Stanley Research, Data as of June 3, 2026

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



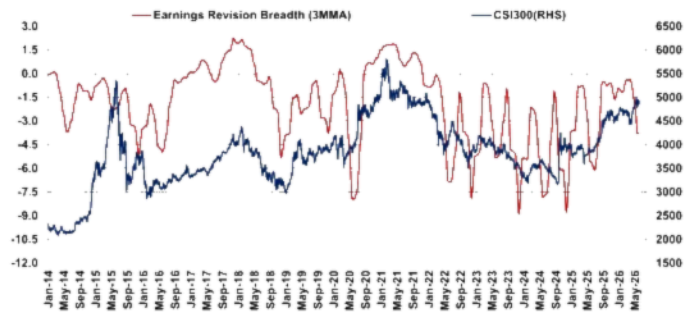
Source: IC, Wind, Morgan Stanley Research, Data as of June 3, 2026

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



Source: IC, Wind, Morgan Stanley Research, Data as of June 3, 2026

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



Source: IC, Wind, Morgan Stanley Research, Data as of June 3, 2026

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



Source: IC, Morgan Stanley Research, Data as of June 3, 2026