

August 21, 2026 05:38 AM GMT

China Equity Strategy | Asia Pacific

A-Share Sentiment Rebounds as IPO Overhang Eases; What to Watch Next

MSASI rebounded this week as the latest flagship IPO completed its listing. We see further improvement of A-share market dynamics as the largest liquidity overhang fades and global AI trades regain footing. Watch for September window for the next batch of catalysts.

A-share investor sentiment increased vs. the previous cycle: The weighted MSASI increased by 10ppt as of Aug 19 vs. the prior cutoff date (Aug 12) to 41%. The weighted MSASI 1MMA decreased 4ppt in the same period to 38%. Turnover for ChiNext, A-shares outstanding and equity futures increased by 13% (to Rmb639bn), 17% (to Rmb2,513bn) and 64% (to Rmb575bn), respectively, while margin transactions remained the same (at Rmb2,633bn) vs. the prior cutoff date (Aug 12). The 30-day RSI decreased 7ppt in the same period (August 12-19). Consensus earnings estimate revision breadth remained negative, although it did improve marginally vs. last week.

Southbound net inflows – US\$1.1bn over August 12-19: MTD net inflows were US \$2.1bn and YTD net inflows were US\$48.6bn (40% of same period last year).

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 suggests a more entrenched K-shaped economy for China entering Q3, and potentially higher chance of stimulus step-up: July activity indicators broadly missed expectations, including industrial production (4.5%YoY vs. 4.8% consensus), FAI (-6.7%YTD vs. -6.2%), and retail sales (0.6%YoY vs. 1.5%). Weakness remained concentrated in domestically driven sectors, including infrastructure investment, upstream production, housing, and consumption, while export-oriented high-tech manufacturing continued to strengthen, with production growth accelerating to 12.3%YoY in July from 9.6% in 2Q. Our China Economics team revised down 3Q GDP tracking 10bps, to 4.4%YoY. **Further worsening of macro could increase the likelihood of incremental policy fine-tuning this fall. We think an equity market rebound is possible if such policy fine-turning is confirmed.**

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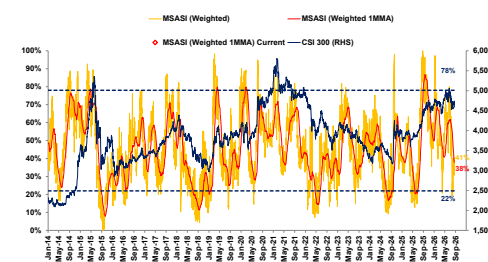
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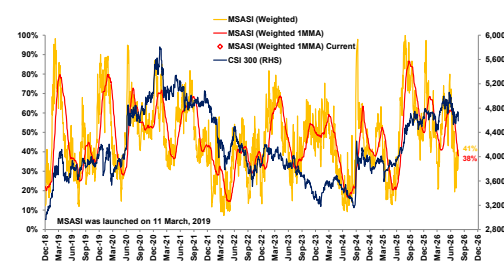
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Exhibit 1 : MS A-share Sentiment Indicator: MSASI weighted and MSASI weighted 1MMA



of August 19, 2026.

Exhibit 2 : MSASI trajectory since January 1, 2019



Source: CEIC, Bloomberg, Wind, RIMES, MS Research. Data as of August 19, 2026.

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Overview (continued)

We believe A-share market dynamics are likely to improve further from here as the global AI trade regains its footing and onshore mega IPOs are gradually debuted.

Throughout this cycle, A-shares have shown unusually high sensitivity to global AI sentiment due to their significant exposure to AI infrastructure and hard-tech industries. This amplified both the rally and the subsequent correction following the summer sell-off. As a result, stabilization and a renewed recovery in global AI-related trades would be an important catalyst for A-share market breadth and sentiment into year-end (see latest US market view [here](#)). On the other hand, we do not necessarily worry the impact of recent large IPOs (i.e. CXMT, UniTree etc.) despite their temporarily crowded trading patterns.

With another high-profile IPO for Unitree completing its listing this week, we believe the near-term liquidity overhang should gradually fade. As we had discussed in [our latest China Market-Wise report](#), the liquidity crowding effect is likely to be short-lived rather than indicative of a persistent market-wide liquidity shortage. Over the longer term, we view flagship listings such as these as evidence of the **continued upgrading of China's capital market ecosystem**, which helps reshape the A-share tech listing landscape. Moreover, such additions of high-quality companies in the hard tech space in the long run should help improve the A-share market's asset quality and attract more participation by different investor types. For more details please see: [China Market-Wise: A-Share Dynamics Improving amid Milestone IPOs; HK Risk-Reward Under Pressure \[17 Aug 2026\]](#).

What to monitor from here - Potential mid-September window for the next batch of catalysts. We recently returned our preference to A-shares over Hong Kong-listed shares, as we think that in a recovery in AI-related trades globally, particularly in markets such as Korea, Taiwan and Japan, could trigger near-term profit-taking in Hong Kong and revive funding rotation away from the market. Consequently, we would expect the relative performance gap between Hong Kong and A-shares to narrow as A-share market breadth improves. We are looking towards mid-September for the following potential catalysts: 1) improvement in US-China relationship ahead of President Xi's US visit; 2) better chance of fiscal stimulus in China; and 3) next window for Hong Kong-listed hyperscalers and LLMs to release their latest AI progress.

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

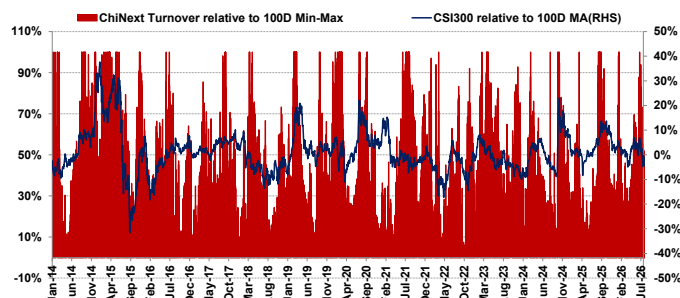


Exhibit 5: A-share turnover adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

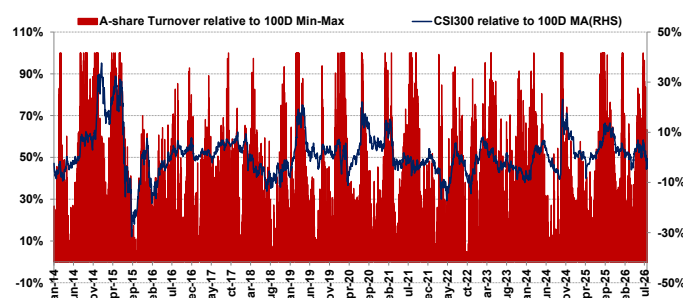


Exhibit 6: Equity futures turnover adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

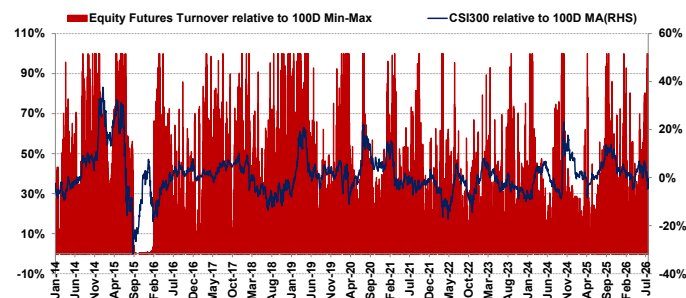


Exhibit 7: Northbound turnover adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

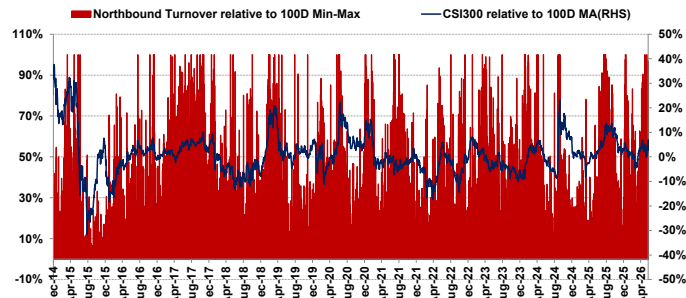


Exhibit 8: Margin transactions adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

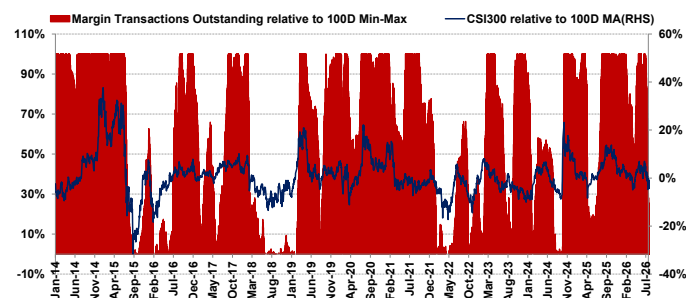


Exhibit 9: SSE new accounts adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

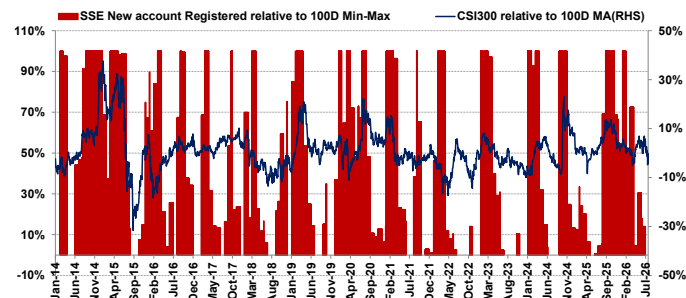


Exhibit 10: RSI-30D since January 2014 vs. CSI 300 relative to 100D MA

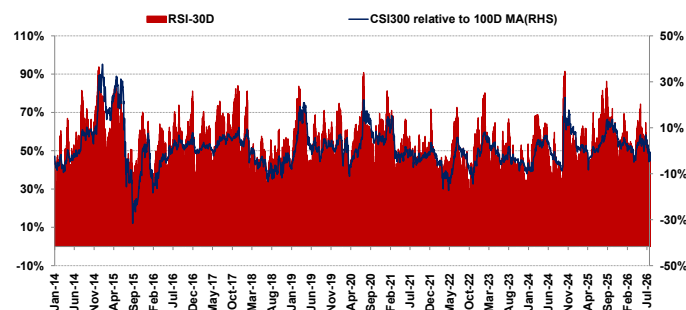


Exhibit 11: Number of limit-up A-shares adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

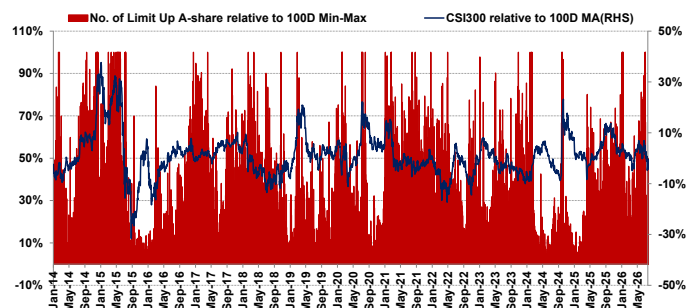


Exhibit 12: CSI 300 future backwardation adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

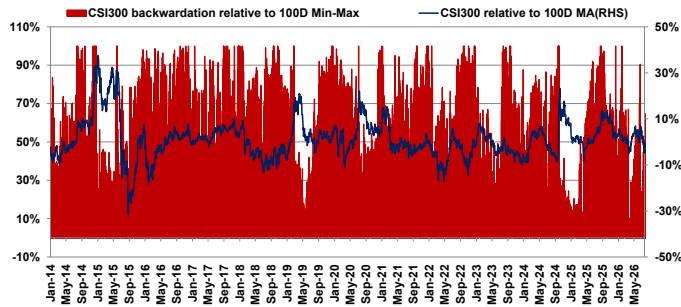


Exhibit 14: Foreign domiciled passive funds flows to CSI 300 (1mma) adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

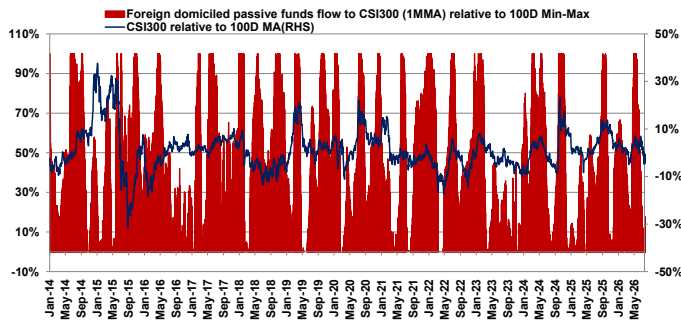


Exhibit 13: CSI 300 put-call ratio adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

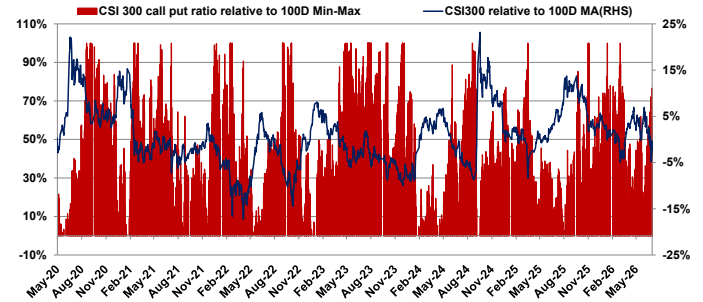


Exhibit 15: Shanghai A-share earnings estimate revision breadth (3mma) adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

