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China Equity Strategy | Asia Pacific

A-Share Sentiment Remains Soft Amid Macro Headwinds

MSASI remained soft amid elevated US yields and rising expectations for further Fed tightening. We lowered our China equity index targets on a weaker growth outlook, tighter liquidity, less favorable flow dynamics and rising regulatory uncertainty, while highlighting key catalysts to watch.

A-share investor sentiment was largely unchanged vs. the previous cycle: Weighted MSASI decreased by 1ppt as of September 9 vs. the prior cutoff date (Sep 2), to 20%. The weighted MSASI 1MMA was unchanged in the same period at 31%. ADT for ChiNext, A-shares outstanding and equity futures decreased 8% (to Rmb473bn), fell 6% (to Rmb1,913bn) and rose 5% (to Rmb417bn), respectively, while margin transactions remained the same (at Rmb2,611bn) vs. the prior cutoff date (August 26). The 30-day RSI increased 4ppt in the same period (September 2-9). Consensus earnings estimate revision breadth remained negative with little change vs. last week.

Southbound net inflows – US$0.6bn over September 2-9: MTD net inflows were US$2.1bn and YTD net inflows were US$50bn (37% of the 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.

China's August inflation data rebounded but mostly import-driven: Headline CPI rose to 0.8% YoY while PPI accelerated to 3.8%, largely reflecting higher oil and non-ferrous metal prices amid Middle East supply risks and tariff-related stockpiling. Core CPI momentum also picked up, supported by chipflation, gold and firmer tourism prices. However, underlying domestic pricing power remained soft, with weak labor-market conditions continuing to constrain inflation outside tech and imported cost pressures. Our China Economics team expects CPI to remain range-bound at around 0.5–1.0% YoY in the coming months, while the PPI outlook should stay fluid amid oil-price uncertainty. Overall, the August rebound appears more supply- and import-driven than demand-led, suggesting that a broader reflationary turn has yet to take hold.

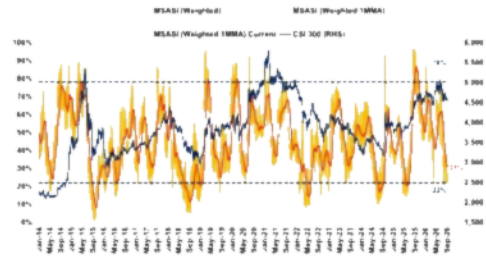
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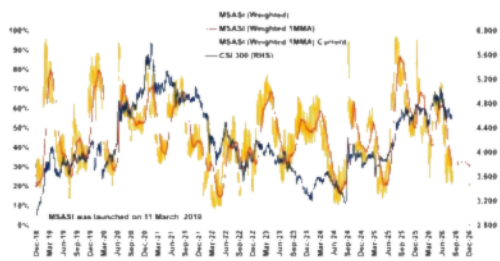
Vicky Wu

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



Source: CEIC, Bloomberg, Wind, RIMES, Morgan Stanley Research. Data as of Sep 9, 2026

Exhibit 2 : MSASI trajectory since January 1, 2019



Source: CEIC, Bloomberg, Wind, RIMES, MS Research. Data as of Sep 9, 2026

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Overview (cont'd)

We turned more cautious on China equities and lowered our index targets amid weakening macro momentum and a less supportive liquidity backdrop. Our new Jun-27 base-case targets are 26,550 for the Hang Seng, 8,900 for the HSCEI, 80 for MSCI China and 4,880 for the CSI 300, implying only 5-7% upside across major China indices. This primarily reflects softer macro data and lower GDP forecasts, which imply a slower earnings recovery trajectory, and normalization of investor positioning and flows from previously extreme underweight levels, leaving less room for additional inflows. We also note deterioration in other market dynamics, such as relatively tighter liquidity conditions vs. three to six months ago due to HK IPO supply and share unlocking schedules, a potentially more hawkish path by the Fed and YTD capital flow recaliberation by the Chinese government.

What could make us more bullish? We see four potential upside catalysts: 1) renewed global volatility favoring Hong Kong's defensive positioning; 2) further AI/LLM progress supporting HK-listed technology leaders; 3) tangible improvement in China-US relations; and, most importantly, 4) a meaningful step-up in policy easing. Although a September 2024-style stimulus pivot is not our base case, further macro weakness could raise expectations for stronger policy support, providing upside to both Hong Kong and A-share markets.

Read more: China Market-Wise: Cutting Index Targets amid Macro and Liquidity Headwinds (3 Sep 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:

Normalized Value = (Latest Value−Min (Last 100 Days)) /
(Max (Last 100 Days)−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 (Futures Price – Spot Price)/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%

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

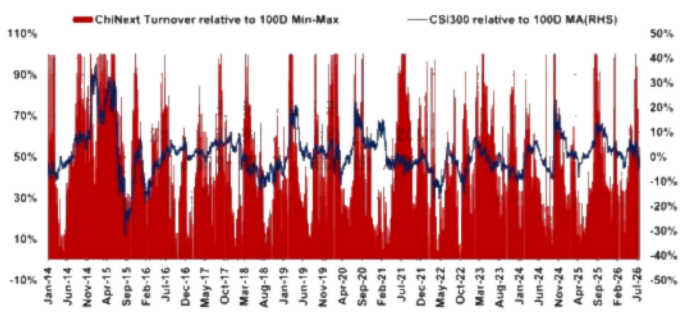


Exhibit 5: A-share turnover adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

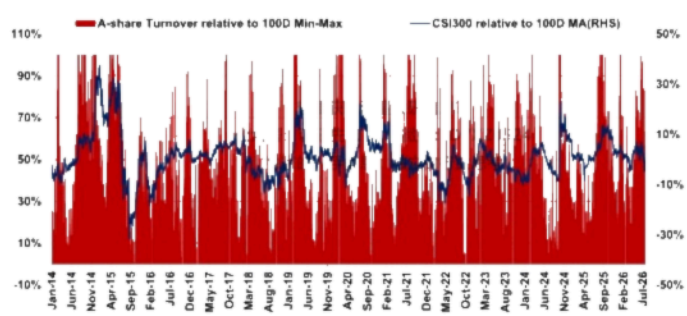


Exhibit 6: Equity futures turnover adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

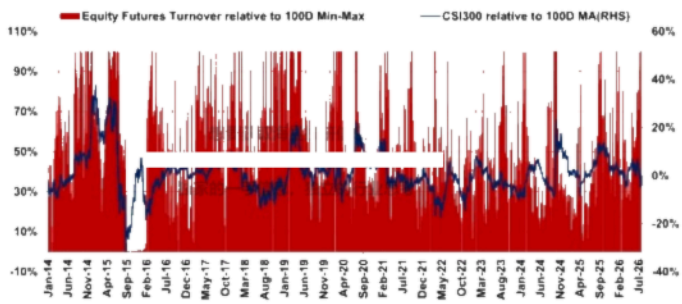


Exhibit 7: Northbound turnover adjusted by moving 100D min max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

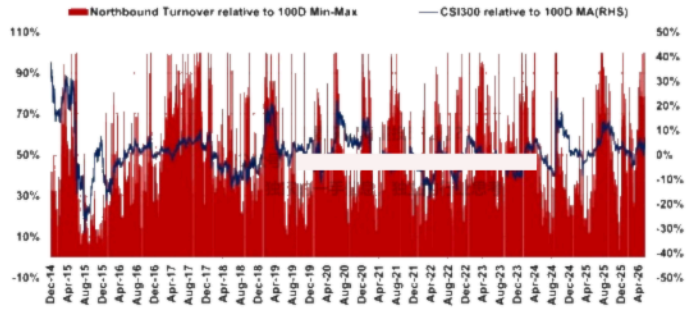


Exhibit 8: Margin transactions adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100 day high and low levels) vs. CSI 300 relative to 100D MA

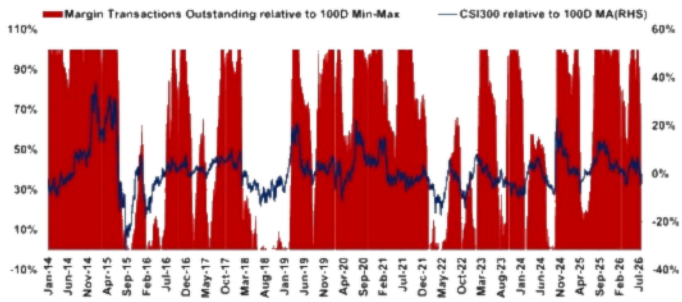


Exhibit 9: SSE new accounts adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100 day high and low levels) vs. CSI 300 relative to 100D MA

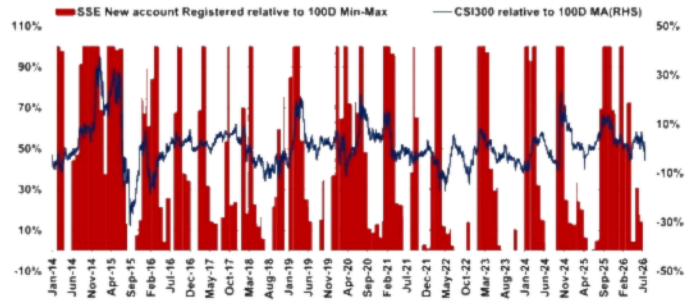


Exhibit 10: RSI-30D since January 2014 vs. CSI 300 relative to 100D MA

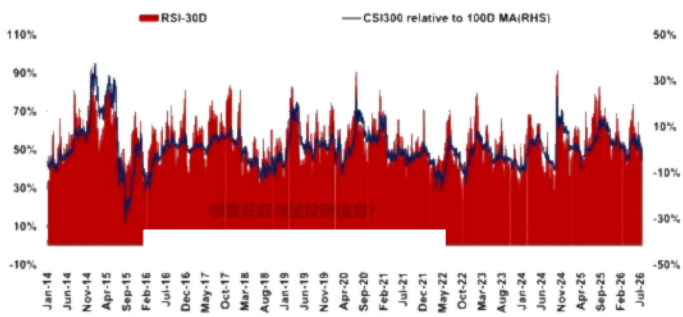


Exhibit 11: Number of limit-up A-shares adjusted by moving 100D min-max (sca ed to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

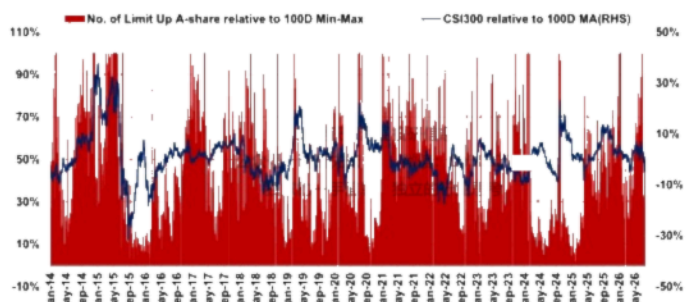
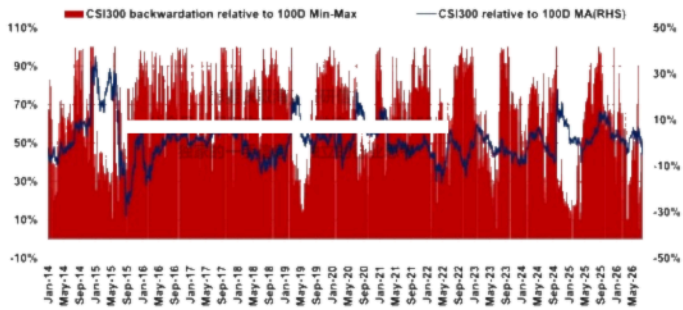


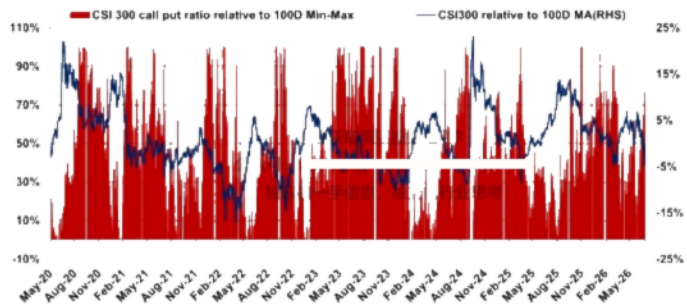


Exhibit 12: CSI 300 future backwardation adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA



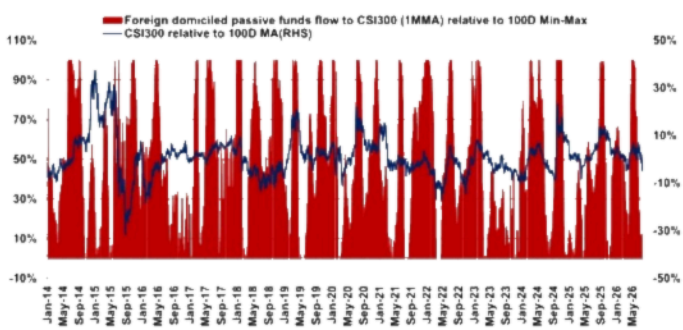
Source: [illegible]

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



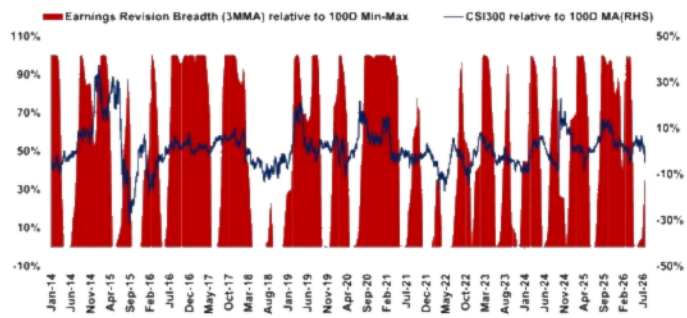
Source: [illegible]

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: [illegible]

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: [illegible]

Appendix: A-share Market Data

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



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



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

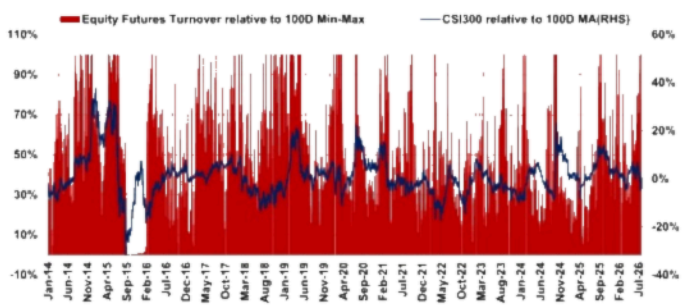


Exhibit 19: Northbound daily turnover (RMB bn) trend vs. CSI 300



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



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



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

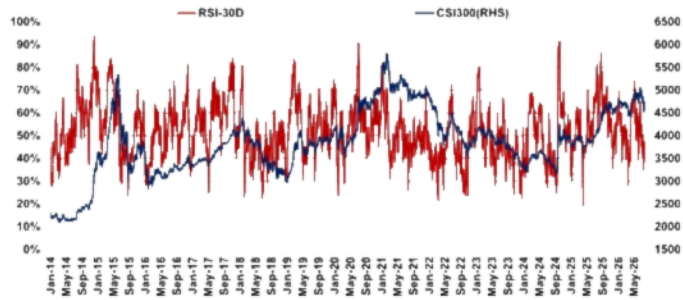


Exhibit 23: Number of A shares trading at limit up vs. CSI 300



Exhibit 24: CSI 300 future backwardation vs. CSI 300



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

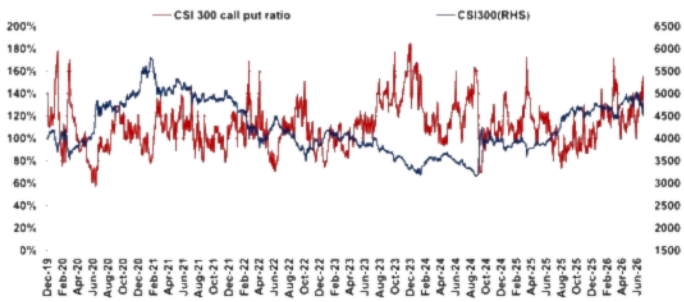


Exhibit 26: Foreign domiciled passive funds flows (1mma, USDmn) to CSI 300 vs. CSI 300

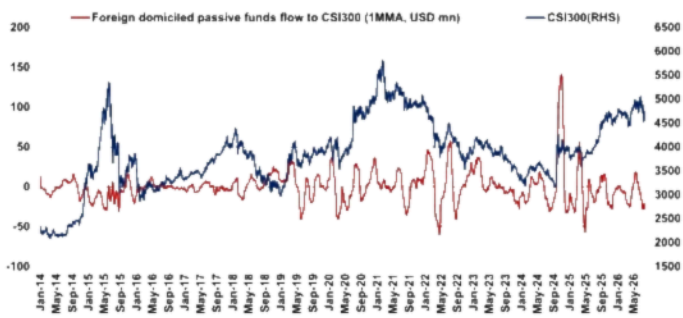


Exhibit 27: Shanghai A-share earnings estimate revision breadth (3mma) vs. CSI 300



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

