China Flow Lens - Monthly

Neutral liquidity, stalled breadth, ongoing rotation

Equity Strategy

Neutral liquidity conditions in A-share and HK markets

Liquidity conditions in August offered no clear advantage to either the A-share or Hong Kong market. Although A-shares attracted stronger foreign inflows, this was offset by a broad-based slowdown in domestic capital supply. In Hong Kong, corporate buybacks rebounded modestly from an extreme low base, but southbound inflows also decelerated. While weaker capital supply coincided with a temporary easing in capital demand in August, liquidity pressure is likely to re-emerge in the coming months.

Sector rotation dominated as market breadth stalled

Compared with July, the return distribution of CSI 800 constituents became more concentrated around low-single-digit gains and losses in August, suggesting that sector rotation, rather than a broad market trend, remained the dominant market feature. The compression in return dispersion across both the broad market and the IT sector is consistent with fading investor conviction in AI and moderating trading activity from earlier peaks, with ADTV fell to a YTD low of RMB2.2tn. In Hong Kong, market breadth also stalled, with the share of HSCI constituents trading above their 200-day MA edging up to only 33.9% by August 28, broadly in line with A shares. Meanwhile, the return distribution shifted left, pointing to a broad-based deterioration in market performance.

Diversification beyond AI-heavy exposure continued

Supported by passive funds, redemption pressure on foreign-domiciled China funds continued to moderate in August, with rolling four-week net outflows narrowing to USD1.6bn by end-August from USD2.7bn at end-July (page 5). A-share-focused funds recorded net inflows in four of the past five weeks, while flows into Hong Kong-focused funds improved notably in the second half of August. Meanwhile, China and EM funds continued to diversify beyond AI-heavy exposure in July. Relative to their passive peers, China active funds saw broader exposure to consumer, energy, financial, and other non-tech sectors, while EM active funds' underweights in China and India narrowed.

Domestic capital supply weakened further

Domestic capital supply softened further in the A-share market in August, with onshore equity and hybrid fund issuance falling another 18% MoM to a YTD low, new account openings at the SSE declining 9.7% MoM to 2.4mn, and corporate share buybacks dropping 40.4% MoM. In Hong Kong, buybacks edged higher from a low base, while southbound inflows slowed sharply to HKD10.4bn from HKD62.9bn in July, with flows tilting further toward defensive sectors. On the demand side, softer IPO financing activity and lock-up expirations eased near-term liquidity pressures in both markets. However, financing demand is likely to rebound as large IPOs return, while restricted-share unlocks in Hong Kong are set to reach a record ~HKD400bn in September. Key liquidity indicators are summarized in our liquidity dashboard on page 8 (Exhibit 17).

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Equity Strategy
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Patrick Pan, CFA >>
Strategist
Merrill Lynch (Hong Kong)
+852 3508 4601
patrick.pan2@bofa.com

Winnie Wu >>
Research Analyst
Merrill Lynch (Hong Kong)
+852 3508 3058
winnie.wu@bofa.com

Gina Wu >>
Strategist
Merrill Lynch (Hong Kong)
+852 3508 8008
gina.wu@bofa.com

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Glossary

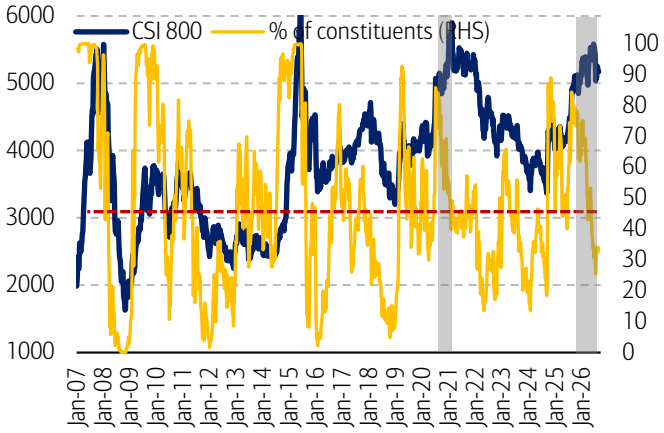
ADTV: average daily trading value
EM: emerging market
MA: Moving average
MLF: Medium-term lending facility
OMO: open market operations
OW: overweight
PBOC: People's Bank of China
SHIBOR: Shanghai Interbank Offered Rate
UW: underweight

Market breadth and return distribution

A-share market breadth rebounded modestly amid frequent rotations

The technical rebound in AI-related tech stocks in early August proved short-lived. Following the intense selloff in July, investor conviction in AI trades appears to have weakened (see also Singapore investors' feedback, Aug 24) amid elevated US Treasury yields, rising oil prices, and Fed Chair Warsh's hawkish stance at Jackson Hole. With the CSI 800 posting a mild 2.2% gain, the A-share market was featured by frequent sector rotations during August, as investors alternated between selective risk-taking in AI-related names and defensive positioning in some healthcare and consumer stocks. After bottoming at 25.4% in mid-July, the proportion of CSI 800 constituents trading above their 200-day moving averages rebounded only modestly to 33.9% by August 28, which is well below the long-term average of 45.0%. As a result, the gap between subdued market breadth and elevated index levels (grey shades in the chart) remains deep.

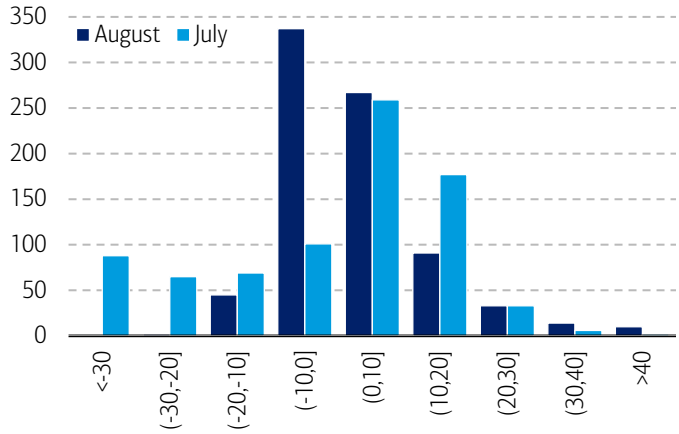
Exhibit 1: CSI 800 market breadth rebounded only modestly in August
Proportion of CSI 800 constituents trading above 200-day MA



Source: Bloomberg. Note: red line refers to the long-term average of the market breadth indicator since 2006

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Exhibit 2: The compression in return dispersion points to limited investor conviction
CSI 800 constituent return distribution for July and August 2026



Source: WIND, BofA China Equity Strategy

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Compared with July, the return distribution of CSI 800 constituents became increasingly concentrated around low-single-digit gains and losses in August, suggesting that frequent sector rotation, rather than a broad directional trend, remained the dominant market feature. While the pronounced left tail (negative-return extremes) seen in July largely disappeared, the number of stocks generating double-digit gains in the (10,20] return bucket also declined markedly. In our view, this compression in return dispersion is consistent with limited investor conviction and subdued sentiment as we discussed above, despite the stabilization in headline index performance.

Exhibit 3: Return dispersion eased further within IT but widened in materials and utilities in August
Top 3 and bottom 3 performers, current dispersion (PPT), and Z-scores by CSI 800 sector

	Top 3 outperformers	Bottom 3 underperformers	Current dispersion (ppt)*	Z-score**
Materials	Hengyi Petrochemical (000703 CH, 52.5%), Tongkun Group (601233 CH, 45.8%), Chifeng Gold (600988 CH, 40.3%)	Tinci Materials (002709 CH, -30.0%), Hunan Yuneng New Energy (301358 CH, -29.9%), Feilihua (300395 CH, -28.6%)	48.9	0.7
Information Technology	Skyverse (688361 CH, 68.0%), SigmaStar (301536 CH, 58.9%), Raytron (688002 CH, 45.0%)	Lianovation (600363 CH, -54.0%), Universal Scientific Industrial (601231 CH, -38.8%), Sunway (300136 CH, -38.0%)	45.8	0.0
Utilities	Xingrong Environment (000598 CH, 8.7%), China Yangtze Power (600900 CH, 4.1%), GD Power (600795 CH, 3.6%)	Guangdong Electric Power (000539 CH, -41.7%), Jingneng Power (600578 CH, -39.8%), Shanghai Electric Power (600021 CH, -38.9%)		
Consumer Discretionary	CFMOTO Power (603129 CH, 32.9%), Roborock (688169 CH, 24.9%), Sailun Group (601058 CH, 22.1%)	Seres (601127 CH, -38.5%), Xingyu (601799 CH, -38.3%), Fulin Precision (300432 CH, -34.9%)		
Health Care	Pharmaron (300759 CH, 73.6%), WuXi AppTec (603259 CH, 52.3%), Asymchem Lab (002821 CH, 38.8%)	iRay Technology (688301 CH, -31.3%), BrightGene Bio-Medical (688166 CH, -30.0%), Adisseo (600299 CH, -20.4%)		
Industrials	Guorui Technology (600562 CH, 27.7%), COSCO Shipping (601919 CH, 24.2%), Zhonggu Logistics (603565 CH, 23.2%)	Sungrow Power (300274 CH, -48.6%), Ginlong (300763 CH, -46.0%), Mingyang Smart Energy (601615 CH, -34.6%)		



The return distribution of HSCI constituents shifted markedly to the left in August, indicating a broad-based deterioration in market performance. The largest concentration moved from the (0%, 10%] return range in July to (-10%, 0%] in August, while the number of stocks gaining 10-20% fell sharply. At the same time, the proportion of constituents declining by more than 10% more than doubled. Overall, the distribution suggests that July's broadly positive returns gave way to weaker market breadth and predominantly flat-to-negative performance in August, although ~8% of stocks still delivered outsized gains of more than 20%.

Exhibit 6: Return dispersion within health care widened amid biotech stocks' outperformance
Top 3 and bottom 3 performers, current dispersion (ppt), and Z-scores by the HSCI sector

	Top 3 outperformers	Bottom 3 underperformers	Current dispersion (ppt)*	Z-score**
Materials	China Gold International (2099 HK, 70.6%), Wanguo Gold (3939 HK, 41.9%), Global New Material (6616 HK, 37.5%)	Ganfeng Lithium (1772 HK, -36.1%), CNBM (3323 HK, -32.1%), Deep Source (990 HK, -26.6%)	59.2	1.3
Health Care	GenScript Biotech (1548 HK, 147.7%), H&H International (1112 HK, 50.3%), Wuxi Biologics (2269 HK, 46.5%)	TransThera Sciences (2617 HK, -71.0%), Innogen Pharma (2591 HK, -67.3%), HealthyWay (2587 HK, -51.1%)	59.1	0.9
Information Technology	Marketingforce (2556 HK, 69.6%), Lenovo (992 HK, 26.9%), Kingdee (268 HK, 19.1%)	Unisound AI (9678 HK, -68.9%), Minieye (2431 HK, -65.5%), Caocao (2643 HK, -46.9%)	51.5	-0.1
Industrials	TS Lines (2510 HK, 64.6%), Fosun International (656 HK, 42.8%), SITC International Holdings (1308 HK, 37.9%)	Guofu Hydrogen Energy (2582 HK, -61.0%), Hao Tian International (1341 HK, -48.4%), CALB (3931 HK, -40.9%)	49.6	1.4
Consumer Discretionary	Bloks Group (325 HK, 36.0%), TCL Electronics (1070 HK, 25.8%), New Oriental (9901 HK, 24.6%)	Shanghai Refire (2570 HK, -56.1%), Topsports (6110 HK, -54.9%), Fenbi Ltd (2469 HK, -49.2%)	45.9	-0.1
Consumer Staples	Youran Dairy (9858 HK, 37.5%), Modern Dairy (1117 HK, 28.1%), Tingyi (322 HK, 15.9%)	IFBH (6603 HK, -42.8%), Chicmax (2145 HK, -40.4%), Guoquan Food (2517 HK, -29.3%)	43.3	0.3
Utilities	Kunlun Energy (135 HK, 10.6%), CK Infrastructure (1038 HK, 9.9%), Guangdong Investment (270 HK, 8.7%)	BJ Water (371 HK, -36.4%), Xinyi Energy (3868 HK, -33.3%), Datang Renewable (1798 HK, -33.0%)	34.5	0.4
Real Estate	Wharf REIC (1997 HK, 32.1%), Onewo (2602 HK, 8.7%), Swire Properties (1972 HK, 7.8%)	Sunac China (1918 HK, -36.3%), Poly Property (119 HK, -33.6%), Radiance Holdings (9993 HK, -32.5%)	30.0	-0.4
Communication Services	Easou Technology (2550 HK, 12.9%), Meitu Inc. (1357 HK, 9.9%), HKT (6823 HK, 3.7%)	Mobvista (1860 HK, -32.5%), China Unicom (762 HK, -25.3%), Kuaishou (1024 HK, -25.0%)	28.7	0.0
Energy	Mongolian Mining (975 HK, 28.0%), Dalipal (1921 HK, 15.3%), Shougang Fushan Resources (639 HK, 15.2%)	CIMC Enric (3899 HK, -12.3%), United Energy Group (467 HK, -9.8%), Yancoal Australia (3668 HK, -7.2%)	23.7	-0.9
Financials	Guotai Junan International (1788 HK, 32.3%), PICC P&C (2328 HK, 21.4%), GF Securities (1776 HK, 19.0%)	Yixin Group (2858 HK, -21.8%), DL Holdings (1709 HK, -16.9%), Shoucheng Holdings (697 HK, -15.5%)	22.7	-0.7

Source: WIND, BofA China Equity Strategy. Note: Percentage numbers in brackets refer to stock returns over the past 3 months as of August. Current dispersion measures median return spread between the top 20% and bottom 20% of performers within each HSCI sector over the last 3 months. **Z-score = (current dispersion – long-term average since 2015) / standard deviations

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Similar to the A-share market, Hong Kong equities saw a further compression in return dispersion within IT, while materials and utilities experienced widening dispersion. Supported by the strong outperformance of biotech stocks following Modern's vaccine breakthrough, return dispersion within the health care sector widened notably to 59.1ppt in August from 40.8ppt in July. As a result, the sector's Z-score climbed from -0.4 to 0.9 over the period.

Fund flows and allocations

Foreign outflows continued to ease in August

With market volatility easing from July, redemption pressure on foreign-domiciled China funds continued to moderate in August, primarily driven by passive funds. According to EPFR data, rolling four-week net outflows narrowed to USD1.6bn by end-August from USD2.7bn at end-July. The improvement was evident across investment benchmarks. A-share-focused funds recorded net inflows in four of the past five weeks, likely reflecting renewed investor interest in the onshore market with a higher exposure to tech-related sectors. Meanwhile, foreign fund flows into Hong Kong-focused strategies improved notably in the second half of August, while rolling four-week outflows from MSCI China-benchmarked funds narrowed to USD1.2bn by end-August from USD2.5bn at end-July.

Exhibit 7: A-share-focused funds recorded net inflows in four of the past five weeks
Weekly capital flows to foreign-domiciled China funds benchmarking against MSCI China, A-share indices, and Hong Kong indices (USD mn)

Benchmarks	3-Jun	10-Jun	17-Jun	24-Jun	1-Jul	8-Jul	15-Jul	22-Jul	29-Jul	5-Aug	12-Aug	19-Aug	26-Aug	2-Sep
China (Total)	-3295.5	-258.1	-1924.8	1276.2	-1237.6	-1485.0	-758.5	-279.5	-142.4	-1058.5	-1124.8	-32.2	823.9	-1253.9
China (Total, active)	-202.6	-69.1	-187.9	-171.8	-246.7	-269.9	4.3	95.9	-31.8	-30.0	-255.0	43.9	-54.5	-140.1
China (Total, passive)	-3092.8	-189.1	-1736.9	1448.1	-990.8	-1215.0	-762.8	-375.4	-110.6	-1028.6	-869.8	-76.1	878.5	-1113.8
MSCI China	-123.4	-182.9	-50.0	-54.0	-42.1	-543.3	-220.1	-50.3	-59.5	35.6	10.1	-54.4	-76.8	-26.3
A-share indices	-261.2	-142.8	-181.1	31.5	-230.7	-436.3	-136.1	-99.3	-63.5	52.4	106.2	25.9	-79.8	159.9
H-share indices	-2375.0	549.0	-1121.8	1535.4	-614.8	-404.6	-573.2	58.6	111.6	-749.5	-915.7	-5.4	1190.9	-914.0

Source: EPFR. Note: We color the table by row, with darker shades of green indicating higher values and darker shades of red indicating lower values. *China (total) represents a broad universe of all EPFR-tracked foreign-domiciled funds with a China investment mandate, whose benchmarks also include other China-specific indices or multi-market indices (i.e., 70%*CSI300+30%*HSI). **A-share index benchmarks include MSCI China A Share, MSCI China A 50, CSI 300, SSE Composite Index, SSE 50, Shenzhen ChiNext, and CSI 800. ***H-share index benchmarks include HSI, Hang Seng China Enterprise, and Hang Seng Tech. AUM for funds linked to China (total)/MSCI China/A-share indices/H-share indices was USD194.4bn/USD27.7bn/USD16.1bn/USD47.0bn as of May 2026.

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As for industry preferences, despite the sharp tech selloff in July, the relative exposure of foreign-domiciled active China funds to semis & semi equipment and software & services rose to 1.67 and 1.36, respectively, from 1.65 and 1.28 in June, compared with passive peers. Elsewhere, active funds' overweights in consumer services, retailing, and materials widened, while their underweights in consumer durable & apparel, energy, banks, insurance, and real estate narrowed in July, likely reflecting ongoing efforts to diversify industry allocation. Meanwhile, active funds remained proactive in stock trading, with relative cash holdings moderating to 0.94 from 1.19 in June.

Exhibit 8: Foreign-domiciled active China funds further broadened industry exposure in July
Industry exposure of active China funds relative to passive China funds

Sector	Industry group	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26
Cash	Cash	2.53	2.03	1.67	2.45	1.59	1.38	1.12	1.86	1.05	0.77	1.19	0.94
Communication services	Telecom Services	0.12	0.09	0.14	0.15	0.15	0.14	0.12	0.12	0.10	0.09	0.08	0.09
Consumer discretionary	Automobiles & Components	0.99	0.91	0.95	0.93	0.96	0.93	0.88	0.83	0.83	0.93	0.93	0.94
	Consumer Durables & Apparel	1.38	1.33	1.29	1.15	1.11	1.09	1.11	1.00	0.87	0.91	0.87	0.91
	Consumer Services	1.75	1.75	1.73	1.85	1.98	1.61	1.53	1.47	1.38	1.36	1.31	1.36
	Media	1.28	1.21	1.26	1.09	1.41	1.15	0.99	0.82	0.60	0.52	0.43	0.40
	Retailing	1.74	1.60	1.60	1.75	1.87	1.69	1.69	1.66	1.59	1.53	1.47	1.62
Consumer staples	Food & Drug Retailing	1.15	1.06	1.07	1.12	1.21	1.12	1.10	1.14	1.19	1.20	1.12	0.97
	Food Beverage & Tobacco	0.71	0.65	0.62	0.53	0.54	0.53	0.56	0.56	0.53	0.46	0.48	0.48
	Household & Personal Products	2.41	1.25	1.04	0.99	1.02	0.79	0.85	0.96	0.87	0.86	0.67	0.59
Energy	Energy	0.24	0.23	0.22	0.18	0.20	0.20	0.23	0.29	0.25	0.26	0.24	0.27
Financials	Banks	0.62	0.60	0.60	0.60	0.58	0.59	0.60	0.63	0.61	0.55	0.55	0.60
	Diversified Financials	0.83	0.80	0.71	0.64	0.53	0.72	0.85	0.76	0.83	0.78	0.71	0.69
	Insurance	0.99	1.02	1.11	1.19	1.21	1.21	1.21	1.22	1.16	1.07	0.99	1.08
Health care	Health Care Equip & Services	0.81	0.72	0.66	0.69	0.75	0.76	0.80	0.87	0.81	0.92	1.05	1.06
	Pharmaceutical & Biotechnology	0.83	0.80	0.81	0.77	0.74	0.80	0.74	0.81	0.83	0.91	0.89	0.89
Industrials	Capital Goods	1.37	1.41	1.46	1.44	1.44	1.49	1.56	1.53	1.56	1.69	1.68	1.60
	Commercial Services & Supplies	2.36	1.72	1.53	1.83	2.21	2.54	2.80	2.81	3.28	2.75	2.14	2.17
	Transportation	0.51	0.46	0.47	0.43	0.42	0.33	0.30	0.31	0.29	0.34	0.33	0.37
Information technology	Semis & Semis Equipment	1.26	1.51	1.56	1.59	1.59	1.77	1.79	1.78	1.93	1.91	1.65	1.67
	Software & Services	1.20	1.23	1.35	1.47	1.46	1.38	1.30	1.34	1.37	1.30	1.28	1.36
	Technology Hardware & Equipment	1.08	1.14	1.09	1.12	1.05	1.03	1.07	0.93	1.02	1.05	1.00	0.97
Materials	Materials	0.84	0.91	0.82	0.84	0.83	0.96	1.07	1.12	1.19	1.11	1.17	1.19
Real estate	Real Estate	0.56	0.45	0.45	0.40	0.40	0.63	0.69	0.72	0.66	0.55	0.53	0.57

Exhibit 8: Foreign-domiciled active China funds further broadened industry exposure in July
Industry exposure of active China funds relative to passive China funds

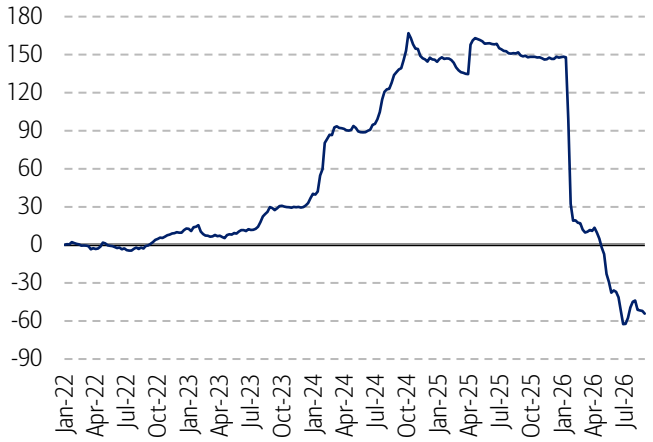
Sector	Industry group	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26
Utilities	Utilities	0.45	0.45	0.44	0.42	0.42	0.36	0.36	0.41	0.39	0.34	0.30	0.33

Source: EPFR. Note: We measure active China funds' industry preferences by dividing their industry allocations by those of passive China funds. A reading above (below) 1 suggests that active funds are overweight (underweight) the industry relative to its passive funds. We color the table by row, with darker shades of green indicating higher values and darker shades of red indicating lower values. We use EPFR industry classifications, which are broadly aligned with GICS standards.

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For China's domestic ETFs, capital support from state-backed investors in July proved short-lived and lost momentum in August. Domestic ETFs tracking A-share broad market indices – a key trading channel through which state-backed investors have historically provided market support, attracted USD17.6bn of net inflows over the four consecutive weeks in July. However, the trend reversed in August, with net outflows totaling USD9.3bn over the past five weeks. Looking ahead, we expect moderate inflows through the channel to continue in the absence of the heightened market volatility seen in July. Among thematic ETFs, funds tracking semis & semi equipment and software continued to attract strong inflows, while those focused on chip, health care, and communication equipment experienced sizable redemptions, highlighting increasingly divergent investor preferences across AI-related themes.

Exhibit 9: State-backed ETF buying faded in August
Cumulative capital flows to China's domestic broad-index ETFs (USD bn)



Source: EPFR. Note: broad-index ETFs include those ETFs tracking SSE 50 Index, CSI 300 Index, ChiNext Index, CSI 500 Index, and CSI 1000 Index

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Exhibit 10: Thematic ETFs focused on semis and software attracted ~RMB12.5bn of inflows in August
Top 5 thematic indices by ETF capital inflows and outflows in August

A-share thematic index name	Size of tracked ETFs (RMB bn)	Net fund inflows (RMB bn)
CSI Semiconductor Material & Equipment Thematic Index	93.00	5.76
SSE STAR Semi Material & Equipment Thematic Index	62.14	3.94
CSI Software & Services Index	11.97	2.09
CSI Artificial Intelligence Index	34.05	1.02
CSI All Share Software Index	7.14	0.65
CSI Brand Name Drug Industry Index	32.02	-2.58
SSE STAR Chip Index	78.35	-2.96
CSI Chemicals Sub-industry Index	25.25	-3.14
CSI Medical Service Index	29.51	-3.33
CSI All Share Communications Equip Index	42.20	-4.04

Source: WIND

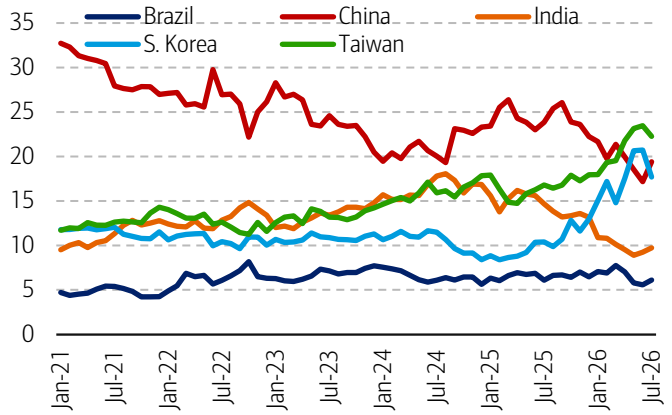
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Active EM funds further diversified away from AI-heavy markets in July

In the charts that follow, we examine global active EM funds' market allocations as of July 2026. According to EPFR data, active funds notably reduced their exposure to South Korea and Taiwan stocks, while their allocations to relatively AI-light markets, including China, India, and Brazil, increased. Notably, exposure to China stocks rebounded from 17.2% to 19.4%, marking the largest MoM increase since September 2024. That said, these changes likely reflect market-cap movements resulting from the tech selloff in July rather than active portfolio repositioning.

To better gauge underlying positioning, we compared market allocations of active and passive funds. Relative to passive peers, active funds' underweights in China and India narrowed in July, while their overweight in Brazil increased. This is broadly consistent with the rotation beyond AI-heavy markets observed in June. By contrast, positioning across the major AI beneficiaries was mixed, with the active overweight in South Korea narrowing while the underweight in Taiwan became less pronounced during July.

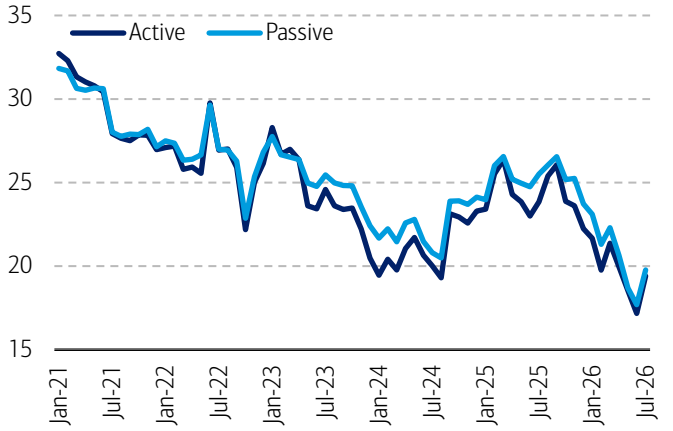
Exhibit 11: Active EM funds' allocation to AI-light markets rose in July
Market allocations by active global EM funds (%)



Source: EPFR

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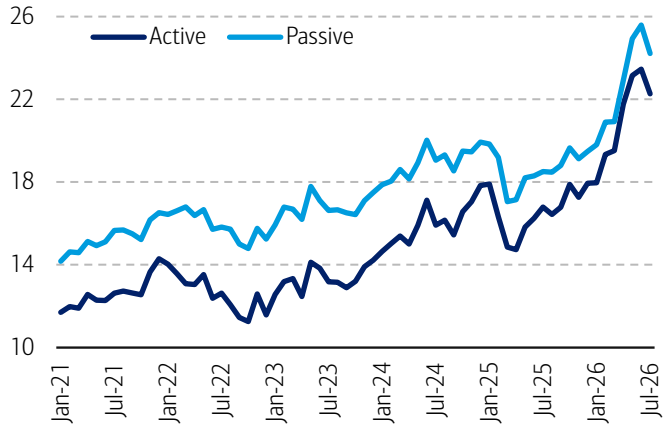
Exhibit 12: Active EM funds' relative UW on China narrowed
Active and passive global EM funds' exposure to China stocks (%)



Source: EPFR

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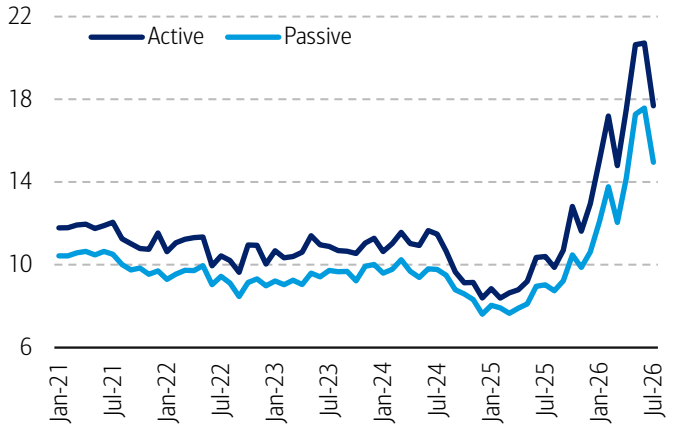
Exhibit 13: Active EM funds' relative UW on Taiwan narrowed
Active and passive global EM funds' exposure to Taiwan stocks (%)



Source: EPFR

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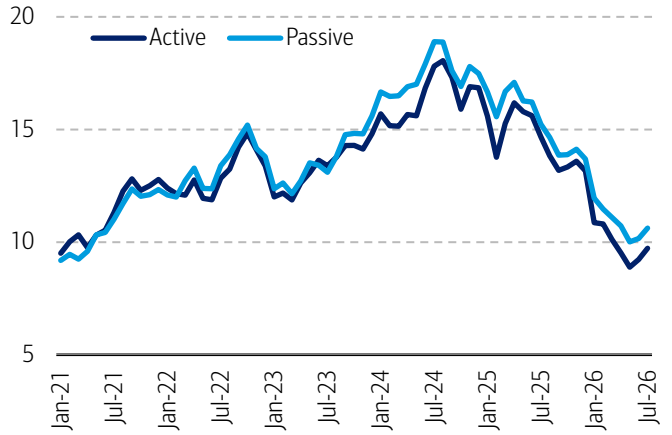
Exhibit 14: Active EM funds' relative OW on South Korea narrowed
Active and passive global EM funds' exposure to South Korea stocks (%)



Source: EPFR

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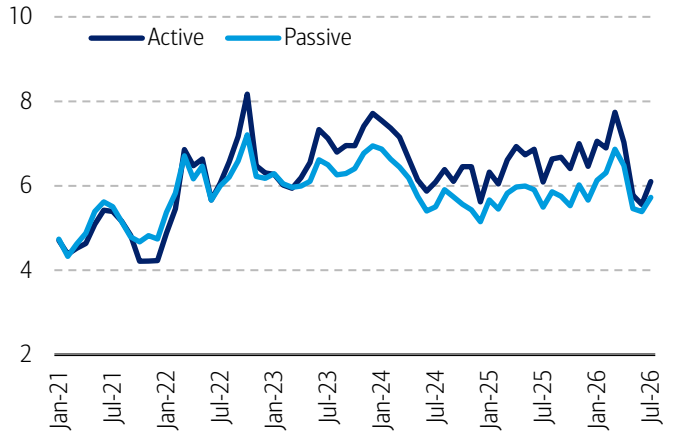
Exhibit 15: Active EM funds' relative UW on India narrowed
Active and passive global EM funds' exposure to India stocks (%)



Source: EPFR

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Exhibit 16: Active EM funds' relative OW on Brazil widened
Active and passive global EM funds' exposure to Brazil stocks (%)



Source: EPFR

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Capital supply and demand dynamics

Exhibit 17: Liquidity conditions were broadly neutral across A-share and Hong Kong markets in August
A-share and Hong Kong market liquidity dashboard

	A-share market	Aug-26	Jul-26	Impact	Hong Kong	Aug-26	Jul-26	Impact
Overall	Average daily trading value (RMB bn)	2,241.5	2,685.9	▼	Average daily trading value (HKD bn)	253.2	307.2	▼
	Margin trading as % of market turnover	9.2%	8.9%	▶				
Capital Supply	New mutual fund issuances (bn)	29.5	36.1	▼				
	Shares buyback (RMB bn)	12.9	21.7	▼	Shares buyback (HKD bn)	7.0	6.6	▲
	Northbound trading as % of turnover	6.7%	6.8%	▶	Southbound capital flows (HKD bn)	10.4	62.9	▼
	4-week China equity fund flows (USD mn)	212.2	-735.2	▲	4-week China equity fund flows (USD mn)	-147.4	-807.7	▲
Capital Demand	IPO financing (RMB bn)	22.1	97.6	▲	IPO financing (HKD bn)	3.7	116.0	▲
	Lock-up expirations (RMB bn)	177.8	510.5	▲	Lock-up expirations (HKD bn)	53.5	178.4	▲
	Share reductions by major shareholders (RMB bn)	20.2	26.3	▲				

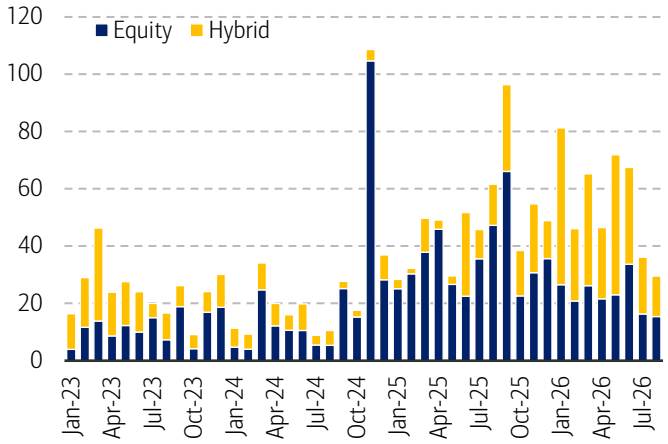
Source: WIND, EPFR.
Note: ▲ / ▶ / ▼ denote whether an indicator's movement is supportive, neutral, adverse to market liquidity relative to the previous month. A ▲ is assigned when the MoM change is supportive to liquidity — specifically, a >5% increase in overall/capital supply indicator or a >5% decline in capital demand indicator. A ▼ is assigned when the MoM change is adverse to liquidity— a >5% decline in overall/capital supply indicator or a >5% increase in capital demand indicator. A ▶ is assigned when the MoM change falls within ±5%.

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Capital supply: a broad-based slowdown

In contrast to a marginal improvement of foreign fund flows, the overall domestic capital supply in the A-share market softened further in August. Onshore equity and hybrid fund issuances fell another 18% MoM to a YTD low, with equity fund issuance refreshing the lowest level since October 2024. New account openings at the Shanghai Stock Exchange (SSE) also declined by 9.7% MoM to 2.4mn, marking the lowest level since November 2025. Meanwhile, corporate capital support weakened, with A-share buybacks falling 40.4% MoM to RMB 12.9bn after reaching a more than two-and-a-half-year high in July. By contrast, share buybacks in Hong Kong edged higher following the sharp decline recorded in July.

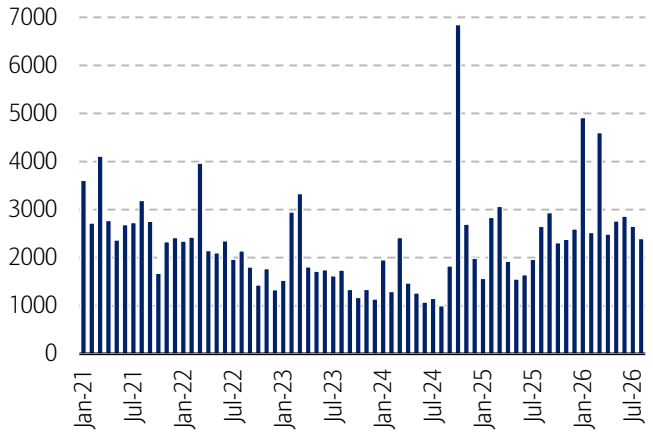
Exhibit 18: Equity and hybrid fund issuances further fell to YTD low in August
Issuances of new mutual funds (bn shares)



Source: WIND

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Exhibit 19: SSE new account opening -9.7% MoM in August
New account openings at the Shanghai Stock Exchange ('000)



Source: WIND

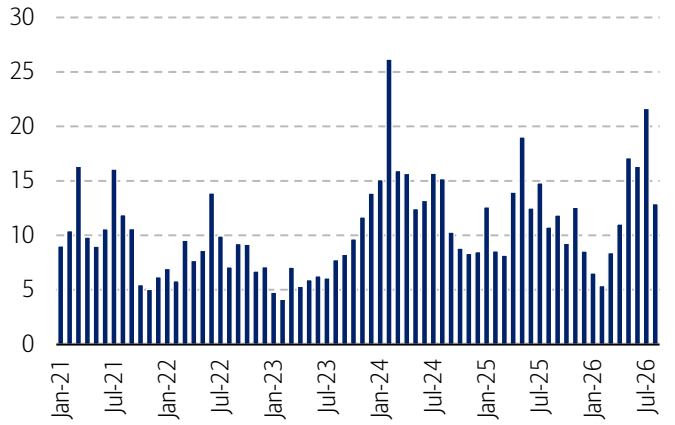
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On the Stock Connect front, both northbound and southbound trading remained largely stable in August, accounting for 6.7% and 21.3% of A-share and Hong Kong market turnover on average, respectively, versus 6.8% and 21.2% in July. However, southbound inflows to Hong Kong slowed notably to HKD10.4bn from HKD62.9bn in July, likely suggesting that mainland investors did not exhibit a strong preference for either the A-share or Hong Kong market during the month.

In terms of sector preferences (measured by sector allocations relative to market weights), southbound investors adopted a more defensive stance in August. Relative

overweights increased in communication services and utilities, while exposure to consumer discretionary, consumer staples, and financials also rose. By contrast, relative overweight positions in IT, health care, and energy were scaled back.

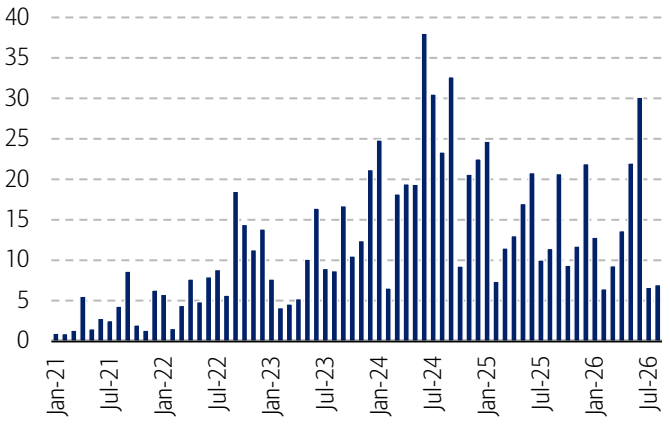
Exhibit 20: A-share buybacks declined sharply in August
Share buybacks value in the A-share market (RMB bn)



Source: WIND

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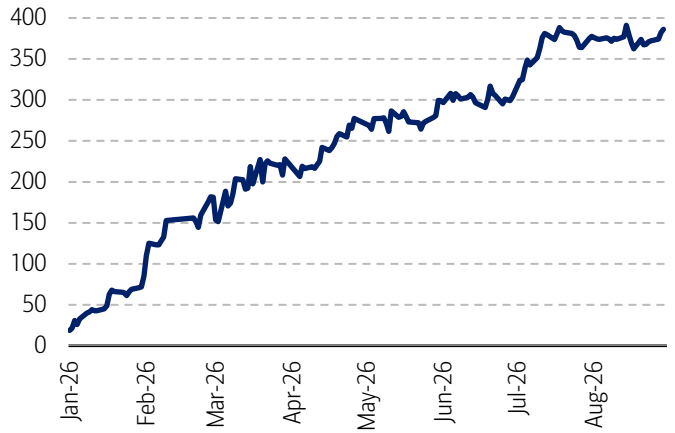
Exhibit 21: Hong Kong stock buybacks inched up in August
Share buybacks in the Hong Kong market (HKD bn)



Source: WIND

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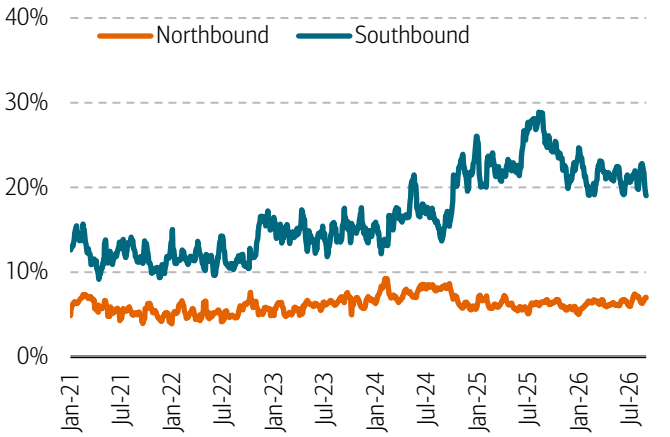
Exhibit 22: Southbound capital inflows slowed in August
Cumulative southbound capital flows to HK stocks since 2026 (HKD bn)



Source: WIND

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Exhibit 23: Stock connect trading remained stable in August
Northbound and southbound trading as % of total market turnover



Source: WIND

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Exhibit 24: Southbound investors' relative exposure increased in most non-tech industries
Sector OW (>1) and UW (<1) by southbound investors in the Hong Kong stock market

	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
Communication Services	1.58	1.52	1.54	1.54	1.53	1.54	1.52	1.48	1.49	1.44	1.49	1.57	1.59	1.54	1.58
Consumer Discretionary	0.95	0.94	0.96	0.99	1.02	1.00	1.04	1.03	1.06	1.06	1.04	1.06	0.99	0.97	1.05
Consumer Staples	0.65	0.66	0.66	0.67	0.68	0.71	0.74	0.75	0.64	0.65	0.65	0.66	0.67	0.66	0.73
Energy	1.14	1.10	1.09	1.16	1.13	1.14	1.13	1.16	1.20	1.27	1.21	1.25	1.31	1.24	1.22
Financials	0.80	0.81	0.80	0.79	0.81	0.81	0.83	0.83	0.86	0.84	0.88	0.89	0.93	0.89	0.92
Health Care	1.78	1.82	1.79	1.71	1.63	1.66	1.64	1.59	1.63	1.62	1.69	1.67	1.54	1.68	1.64
Industrials	0.52	0.52	0.51	0.48	0.48	0.51	0.50	0.51	0.52	0.49	0.49	0.45	0.45	0.46	0.49
Information Technology	1.37	1.35	1.34	1.35	1.40	1.34	1.34	1.33	1.30	1.34	1.25	1.20	1.16	1.30	1.10
Materials	0.99	1.00	0.96	0.87	0.88	0.89	0.88	0.91	0.83	0.82	0.85	0.88	0.85	0.88	0.84
Real Estate	0.71	0.73	0.73	0.74	0.77	0.80	0.81	0.77	0.82	0.83	0.81	0.83	0.85	0.84	0.91
Utilities	1.34	1.27	1.26	1.29	1.26	1.27	1.31	1.28	1.30	1.36	1.35	1.37	1.37	1.31	1.37

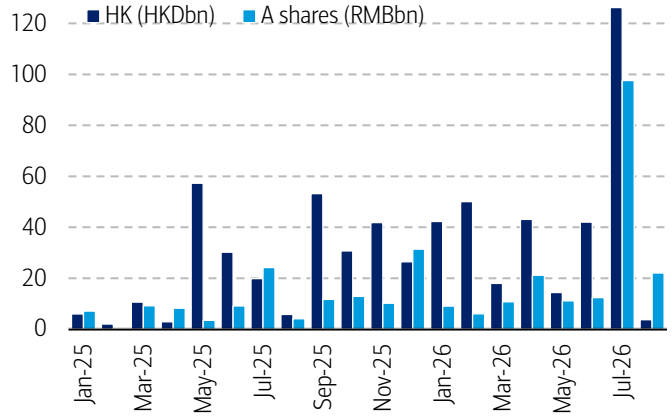
Source: WIND. Note: We define southbound investors as overweight (OW) a sector when their allocation exceeds the market weight (sector allocation / market weight > 1), and underweight (UW) when their allocation is below the market weight (sector allocation / market weight < 1). We color the table by row, with darker shades of green indicating higher values and darker shades of red indicating lower values.

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Capital demand: temporary relief from IPOs and lock-up expirations

Following the rollout of several mega IPOs in July, IPO financing activity temporarily cooled in August, with A-share financing value falling 77.4% MoM to RMB22.1bn and Hong Kong IPO proceeds dropping 97.0% MoM to HKD3.7bn. This helped ease near-term liquidity pressures from new listings in both markets. That said, IPO financing demand is likely to rebound from August's low base over the coming months as large listings return. Recent and prospective deals include Enflame on the STAR Market.

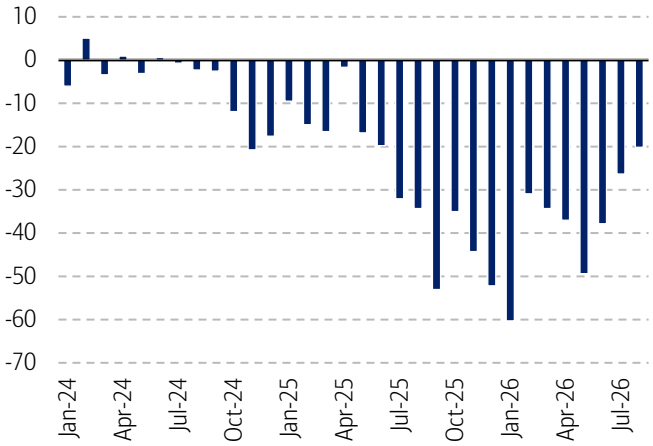
Exhibit 25: IPO financing value notably eased in August
IPO financing value in HK (HKD bn) and A-share market (RMB bn)



Source: WIND

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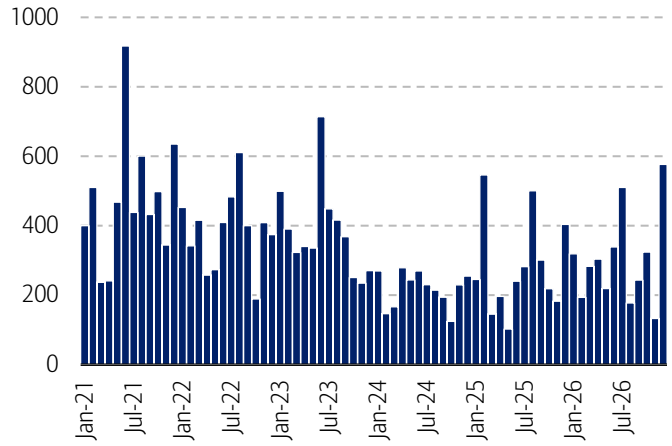
Exhibit 26: Major shareholders' selling declined MoM for three consecutive months
Share reductions by major shareholders in the A-share market (RMB bn)



Source: WIND. Note: "share reductions by major shareholders" refers to situations where large shareholders sell down their stakes in a listed company. Major shareholders include founders/controlling shareholders, senior management, strategic or financial investor, or any shareholder holding ≥5% of the company

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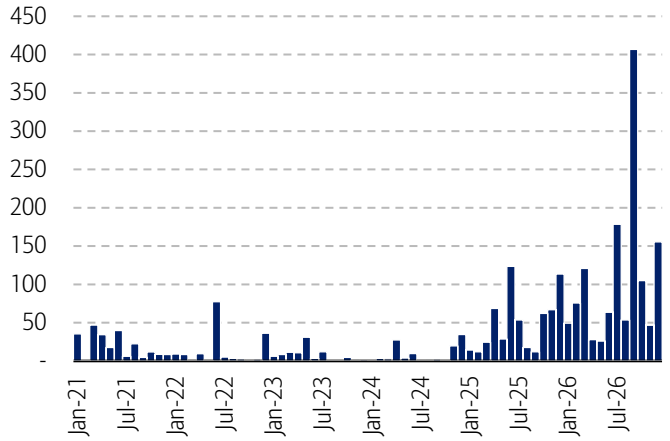
Exhibit 27: Liquidity pressure from lock-up expiry is limited in A shares
Monthly amount of lock-up expiration in the A-share market (RMB bn)



Source: WIND

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Exhibit 28: Restricted stock unlocks in Hong Kong expected to surge again in September
Monthly amount of lock-up expiration in HKEX (HKD bn)



Source: WIND.

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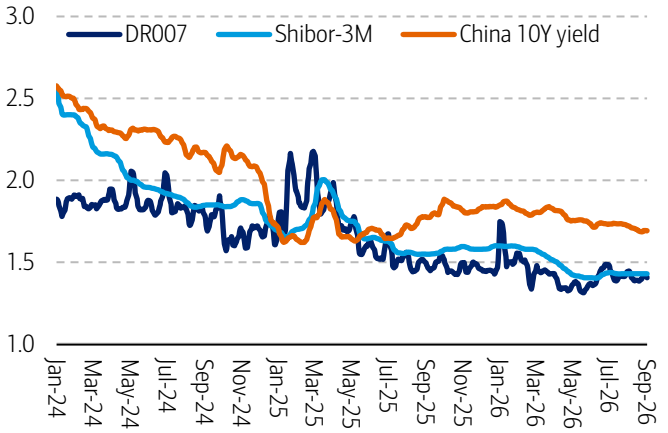
In August, share reductions by major shareholders in the A-share market continued to ease, marking a third consecutive month of moderation, while restricted-share unlocks fell to a YTD low of RMB177.8bn from RMB510.4bn in July. Hong Kong also saw a temporary easing in lock-up expiration pressure after unlocks surged to HKD178.4bn in July. However, according to WIND, unlock value is set to reach a record ~HKD400bn in September. While the market impact will partly depend on liquidity conditions, major expiries involving Zijin Gold International and Chery Automobile could create stock-

specific selling pressure, as seen with MiniMax and Z.AI in July. Looking ahead, WIND data implies that unlock activity should remain elevated, with another major Z.AI expiry potentially pushing Hong Kong's aggregate unlock value to a fresh record in January 2027.

Overview of market liquidity

With funding pressure easing after the July tax season, the PBOC moderated the pace of long-term liquidity provision, recording a net RMB100bn withdrawal via MLF operations in August. However, the central bank maintained an accommodative stance, reiterating that it would "appropriately utilize and adjust monetary policy tools while keeping liquidity ample" at its 2H26 work conference. Consistent with this approach, the PBOC stepped up short-term liquidity support in late August. Against this backdrop, 10-year government bond yields, DR007, and 3-month SHIBOR edged lower to average 1.70%, 1.41%, and 1.43%, respectively (vs. 1.73%, 1.42%, and 1.43% in July) in August.

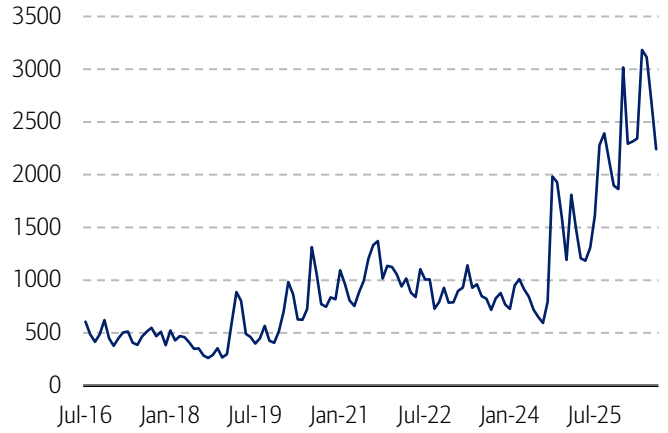
Exhibit 29: Key rates trended lower amid ample liquidity
DR007, SHIBOR – 3 month, and CGB yield (%, 5-day moving average)



Source: Bloomberg

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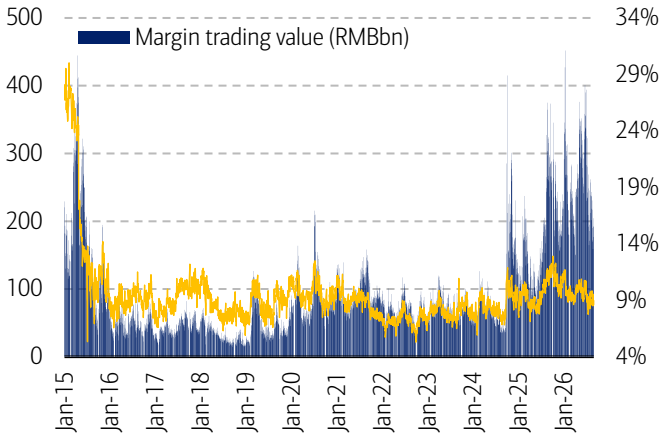
Exhibit 30: A-share daily turnover fell to RMB2.2tn in August
Average daily trading value in the A-share market (RMB bn)



Source: WIND

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Exhibit 31: Margin trading was broadly stable MoM in August
Margin trading as % of A-share market turnover (5-day moving average)



Source: WIND

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Exhibit 32: Hong Kong market daily turnover fell notably to HKD253bn in August
Average daily trading value in the Hong Kong stock market (HKD bn)



Source: WIND

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Against a backdrop of limited investor conviction and moderating trading activity from earlier peaks, combined ADTV on the Shanghai and Shenzhen stock exchanges fell further to a YTD low of RMB2.2tn in August from RMB2.7tn in July. Meanwhile, margin trading activity was broadly stable MoM, accounting for an average 9.2% of total A-

share turnover in August, versus 8.9% in July. After remaining resilient in July, Hong Kong market turnover also softened in August, with ADTV declining 17.6% MoM to ~HKD250bn.

After compiling fund flow data alongside indicators from both the capital supply and demand sides, we present our liquidity dashboard on page 8, with green/amber/red arrow denoting movements that are supportive/neutral/adverse to secondary market liquidity. Overall, liquidity conditions in August offered no clear advantage to either the A-share or Hong Kong market. Although A-shares attracted stronger foreign inflows than their Hong Kong counterparts, the benefit was largely offset by a broad-based slowdown in domestic capital supply, including weaker mutual fund issuance, fewer new account openings, and reduced corporate share buybacks. In Hong Kong, corporate buybacks rebounded modestly from a low base, but southbound inflows decelerated notably. On a more positive note, weaker capital supply coincided with a temporary easing in capital demand during August. However, liquidity pressure is likely to re-emerge in the coming months as IPO activity accelerates and lock-up expirations increase.

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