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UPDATE

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China Equity Strategy | Asia Pacific

China Free Liquidity vs. MSCI China YoY Change

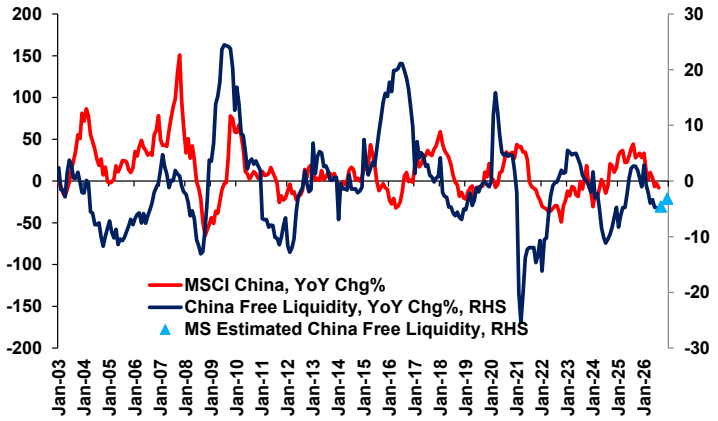
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Key Takeaways

- Free liquidity declined further to its lowest level since Feb 2025, driven by lukewarm M1 growth, firm industrial production, and elevated PPI inflation.
- We expect liquidity conditions to remain constrained, with only a modest improvement in 4Q, supported by easing PPI inflation and softer industrial output.
- We expect corporate borrowing appetite to remain subdued amid persistent macro headwinds, if policy stimulus does not meaningfully step up by October.

Exhibit 1: MS China Free Liquidity Indicator vs. MSCI China YoY % – Free liquidity continued to decline to a fresh low since Feb 2025; we expect it to remain constrained with only a small improvement in 4Q



Price Inflation (PPI) less Industrial Production (IP) growth (3-month moving average is used for IP YoY). Plotted trendline represents demand deposits.

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

Research as only a single factor i
decision.

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