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China Equity Strategy | Asia Pacific

A-Share Sentiment Declines Further to Around July 2024 Levels

MSASI continued to decline alongside lower turnover ahead of the National Day Golden Week. We maintain our cautious stance and early Sept-26 targets as subdued domestic demand and a less-supportive liquidity backdrop constrain index upside despite some stabilization in activity and policy execution.

A-share investor sentiment decreased vs. the previous cycle: Weighted MSASI decreased by 6ppt as of September 30 vs. the prior cutoff date (September 23) to 8%, reaching similar level as July 2024. The weighted MSASI 1MMA decreased by 3ppt in the same period to 23%. ADT for ChiNext, A-shares and equity futures fell 20% (to Rmb404bn), 4% (to Rmb1,595bn) and 23% (to Rmb333bn), respectively, while margin transactions remained the same (at Rmb2,582bn) vs. the prior cutoff date (September 23). The 30-day RSI decreased 15ppt in the same period (September 23-30). Consensus earnings estimate revision breadth remained negative and the deterioration last week.

Southbound net inflows – US$0.4bn over September 23-30: MTD net inflows were US$7.7bn and YTD net inflows were US$56bn (38% of the same period last year).

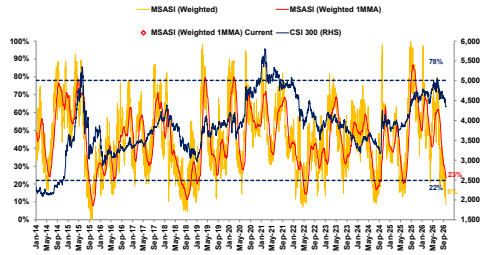
Note: As announced on July 26, 2024, by HKEX, Shanghai Stock Exchange and Shenzhen Stock Exchange, the publication of Northbound daily purchase and sales data was terminated as of August 19, 2024. Northbound daily buying and selling data were last made available on August 16, 2024.

China's September activity showed tentative stabilization, but the improvement was driven by quarter-end production and faster policy execution rather than a broad-based demand recovery. Manufacturing PMI returned to expansion at 50.1, led by stronger production, while construction PMI rebounded to 50.3 as government bond issuance accelerated and infrastructure execution picked up. Beijing also stepped up targeted easing through mortgage subsidies, a 25bp PSL rate cut and Rmb700bn of additional re-lending quotas for tech and SMEs, providing a modest cushion to growth. However, the K-shaped recovery remains intact, with resilient exports contrasting with subdued domestic demand, while the policy package remains insufficient to break the deleveraging cycle. Our China Economics team expects GDP growth to hover around 4.5% for the rest of the year, with reflation likely to remain narrow despite higher commodity-driven PPI.

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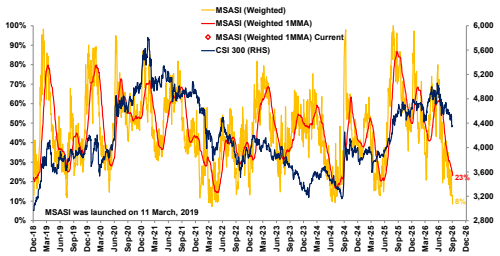
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Exhibit 1 : MS A-share Sentiment Indicator: MSASI weighted and MSASI weighted 1MMA



of Sep 30, 2026.

Exhibit 2 : MSASI trajectory since January 1, 2019



Source: CEIC, Bloomberg, Wind, RIMES, MS Research. Data as of Sep 30, 2026.

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

Research as only a single factor in making their investment decision.

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Overview (cont'd)

We maintain our more cautious stance on China equities following our early September index target cuts. September activity showed some stabilization on stronger production and faster policy execution, but domestic demand remains subdued and targeted easing appears insufficient to reverse the broader deleveraging cycle. Meanwhile, renewed Fed tightening adds to near-term global liquidity and valuation headwinds, although a shallower Fed cycle, healthier Hong Kong funding conditions and structural support from China's AI and the Asia capex cycle should limit the risk of a repeat of the broad 2022-23 de-risking episode (Hong Kong: Rate Hike Cycle Returns: Why This Time Is Different).

We therefore retain our June 2027 base-case targets of 26,550 for the Hang Seng, 8,900 for the HSCEI, 80 for MSCI China and 4,880 for the CSI 300. Our more measured outlook reflects a gradual earnings recovery amid still-soft domestic demand and less incremental support from positioning and flows after substantial normalization. Liquidity conditions also remain less favorable than three to six months ago, with higher global discount rates, moderating Southbound inflows and a heavier Hong Kong equity-supply pipeline.

Overall, we continue to see modest index-level upside rather than broad-based downside, with structural growth themes offering more differentiated opportunities; however, a sharper global risk-off episode could still trigger a correlated volatility spike in Hong Kong equities.

See also: China Market-Wise: Cutting Index Targets amid Macro and Liquidity Headwinds (3 Sep 2026);

China Equity Strategy: China/HK Flows and Positioning Monthly Tracker – August 2026 (6 Sep 2026);

Investor Presentation: China Equity Strategy: Cutting Targets amid Macro and Liquidity Headwinds (6 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%

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. Source: CEIC, Wind, Rimes, EPFR, Bloomberg,

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

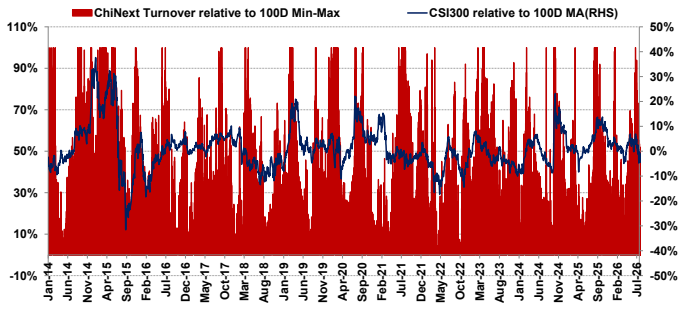


Exhibit 5: A-share turnover adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

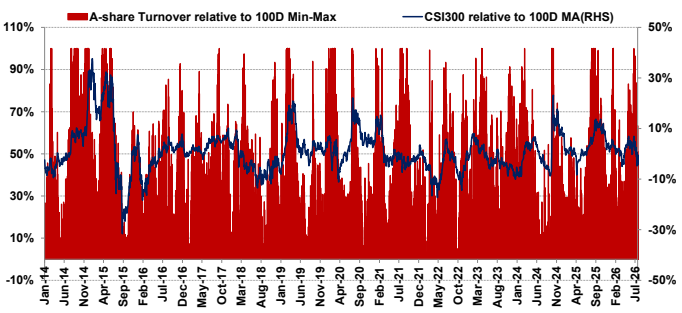


Exhibit 6: Equity futures turnover adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

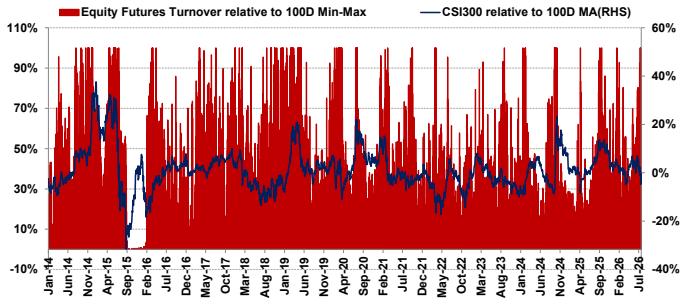


Exhibit 7: Northbound turnover adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

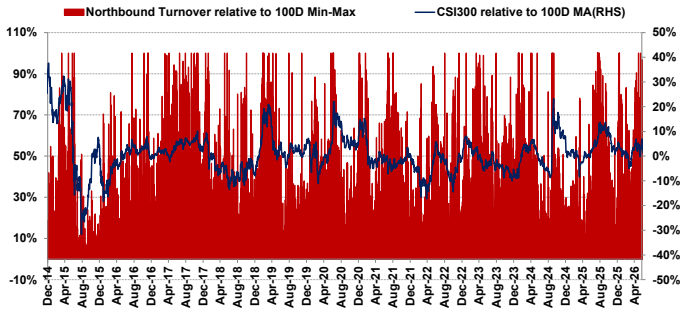


Exhibit 8: Margin transactions adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

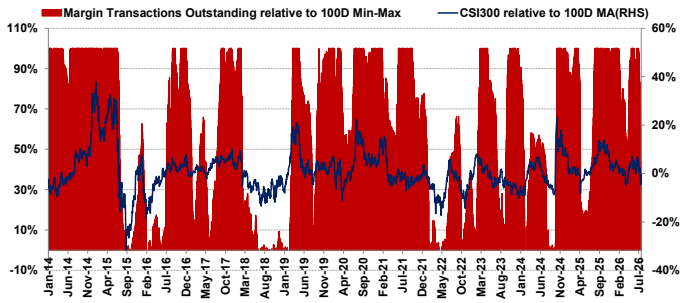


Exhibit 9: SSE new accounts adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

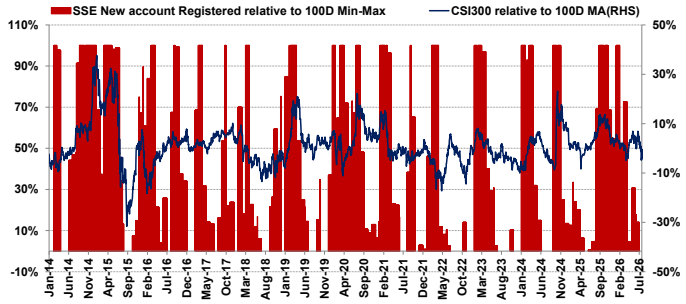


Exhibit 10: RSI-30D since January 2014 vs. CSI 300 relative to 100D MA

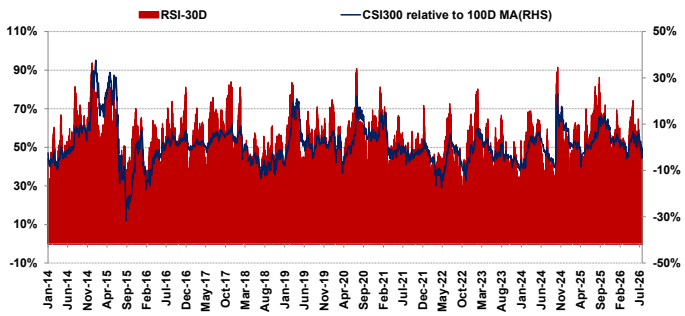


Exhibit 11: Number of limit-up A-shares adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

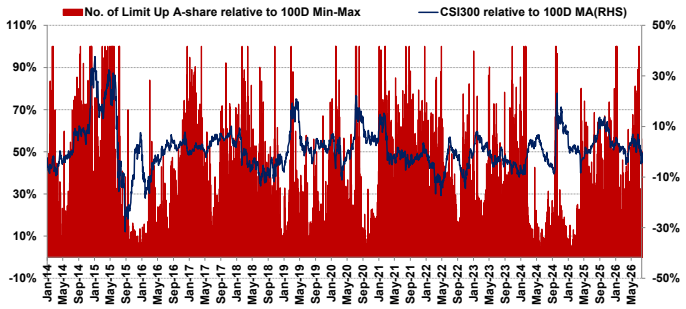


Exhibit 12: CSI 300 future backwardation adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

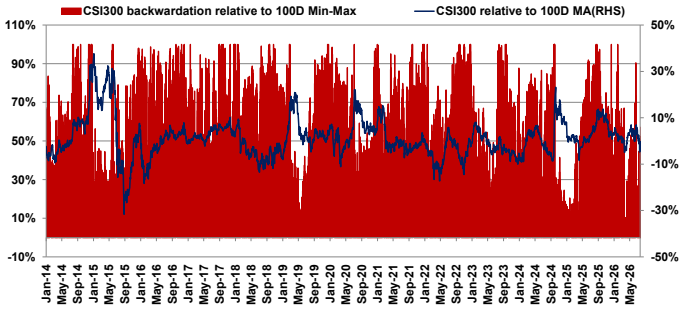


Exhibit 13: CSI 300 put-call ratio adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

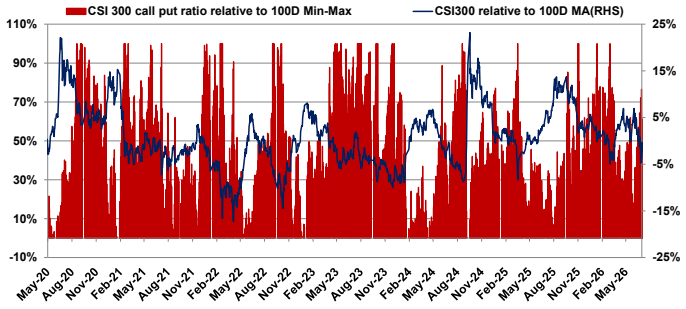


Exhibit 14: Foreign domiciled passive funds flows to CSI 300 (1mma) adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

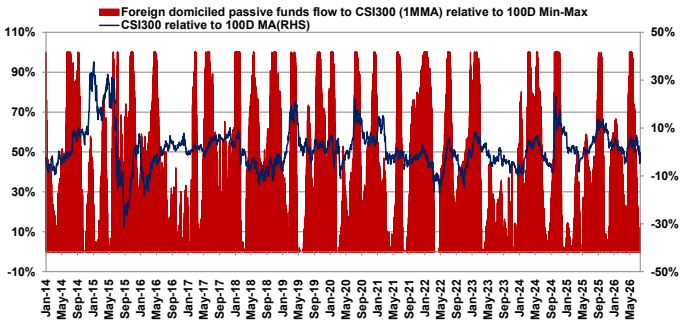


Exhibit 15: Shanghai A-share earnings estimate revision breadth (3mma) adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA

