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IDEA

October 22, 2026 09:00 PM GMT

China Equity Strategy | Asia Pacific

A-Share Sentiment Remains Near July 2024 Levels for Third Week

MSASI remained near July 2024 lows for a third week, with softer turnover and Southbound outflows. The sharp HK selloff reinforces our cautious stance on Chinese equities – weak domestic demand and liquidity headwinds persist, while valuations have yet to reach an outright bottom.

A-share investor sentiment remained subdued: Weighted MSASI remained largely unchanged as of October 21 vs. the prior cutoff date (October 14) at 9%, hovering around July 2024 levels for a third consecutive week. The weighted MSASI 1MMA decreased 3ppt in the same period, to 17%, pointing to continued weakness in the underlying sentiment trend. ADT for ChiNext, A-shares, and margin transactions outstanding decreased 8% (to Rmb390bn), 8% (to Rmb1,505bn), and 3% (to Rmb2,450bn), respectively. Equity futures turnover rose 6% (to Rmb471bn) vs. the prior cutoff date. The 30-day RSI decreased 4ppt in the same period. Consensus earnings estimate revision breadth remained negative and deteriorated further last week.

Southbound net outflows – US$1.9bn over Oct 15-21: October MTD flows turned negative at -US$0.8bn and YTD net inflows were US$55bn (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.

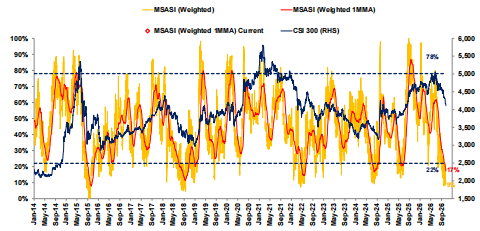
China's 3Q GDP growth rebounded to 4.5% YoY (vs. 4.3% in 2Q and consensus of 4.4%), returning to the lower end of the official target range, supported by resilient exports and faster fiscal execution: September infrastructure FAI improved to -10.5% YoY from -14.8% in August, while retail sales growth edged up to 1.1% YoY (vs. 0.4% previously), partly reflecting favorable holiday timing rather than a meaningful demand recovery. Underlying consumption remained weak, with per capita household spending growth slowing to 3.5% YoY. Our economics team for China expects 4Q GDP growth of 4.5–4.6% YoY, supported by faster budget implementation and targeted easing, but sees limited scope for further stimulus as growth returns to the target range. Overall, export resilience and policy support should help defend the growth floor, but persistent household deleveraging and weak domestic demand continue to constrain a broader recovery.

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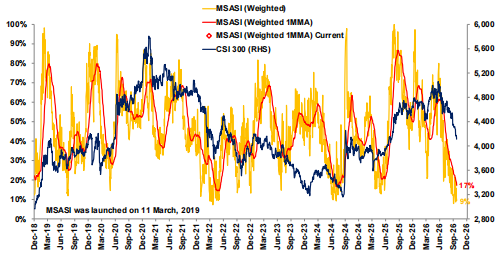
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Exhibit 1 : MS A-share Sentiment Indicator: MSASI weighted and MSASI weighted 1MMA



Source: CEIC, Bloomberg, Wind, RIMES, Morgan Stanley Research. Data as of Oct 21, 2026.

Exhibit 2 : MSASI trajectory since January 1, 2019



Source: CEIC, Bloomberg, Wind, RIMES, MS Research. Data as of Oct 21, 2026.

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Overview (cont'd)

The recent correction in Hong Kong equities reinforces our more cautious stance on Chinese equities and the index target cuts introduced in early September: On October 22, the Hang Seng Index fell more than 3% and the Hang Seng Tech Index dropped over 5%, with the HSTECH retreating to levels last seen at the start of the September 24, 2024 policy-driven rally. While 3Q GDP growth rebounded to 4.5% YoY, stronger exports and faster fiscal execution have reduced the urgency for further policy easing, with subdued domestic demand and household deleveraging continuing to constrain a broader earnings recovery. Meanwhile, elevated US Treasury yields and renewed Fed tightening expectations remain headwinds to global liquidity and offshore equity valuations.

We 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: The recent selloff is consistent with our assessment of a less favorable liquidity and flow backdrop, as foreign funds returned to net outflows, investor positioning has largely normalized and Southbound buying remains well below last year's pace. Despite the correction, we believe Hong Kong equities have yet to reach an outright valuation bottom, leaving room for further downside if global financial conditions tighten or risk appetite weakens.

Overall, we maintain our cautious index-level stance, favoring select structural opportunities alongside defensive dividend plays. Reflecting this positioning, we added Swire Properties (1972.HK) to our China/HK Focus List as a defensive dividend play, supported by its 5% dividend yield, consistent dividend growth and attractive valuation, while removing CATL-A (300750.SZ). Healthier Hong Kong funding conditions and structural support from AI and the Asian capex cycle should limit the risk of prolonged broad-based de-risking, but global liquidity shocks could still trigger further volatility in Hong Kong equities.

Read more:

- China Equity Strategy: Focus List Changes – China/HK (21 Oct 2026);
- China Market-Wise: Cutting Index Targets amid Macro and Liquidity Headwinds (3 Sep 2026);
- China Equity Strategy: China/HK Flows and Positioning Monthly Tracker – September 2026 (8 Oct 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

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, wherein 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)

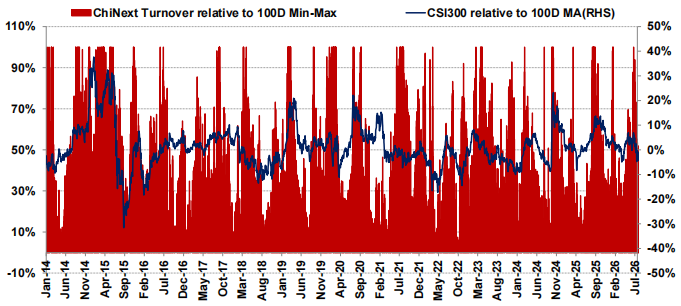
Indicator	R-sq vs. CSI 300 (relative to 100MA)	Weighting
ChiNext Turnover	12.6%	10%
A-share Turnover	19.7%	15%
Equity Futures Turnover	8.1%	6%
Northbound Turnover	7.6%	8%
Margin Transaction Outstanding	34.3%	15%
SHSE New accounts Registered	14.3%	3%
Earnings Revision Breadth (3MMA)	6.6%	8%
RSI-30D	49.0%	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, Morgan Stanley Research.

Other items to keep in mind

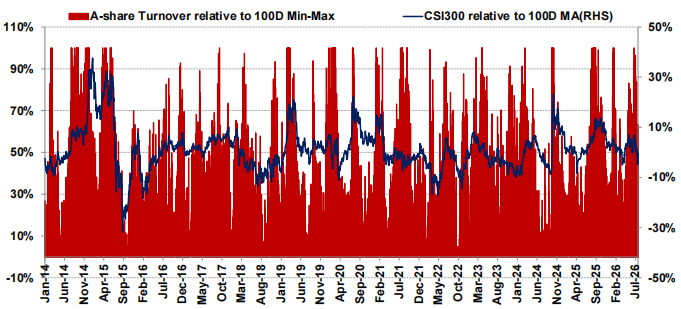
- The charts below show the scaled version of all these metrics as they are used in our MSASI compilation analysis.
- We use data from January 2014 to the present because some of the market-influencing factors were not fully developed before that, i.e., Stock Connect Northbound (program only launched 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



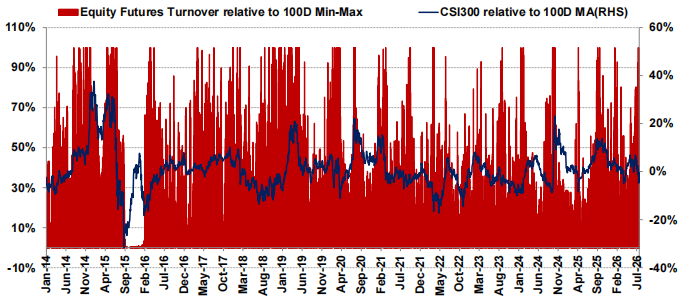
Source: CEIC, Morgan Stanley Research. Data as of Oct 21, 2026.

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



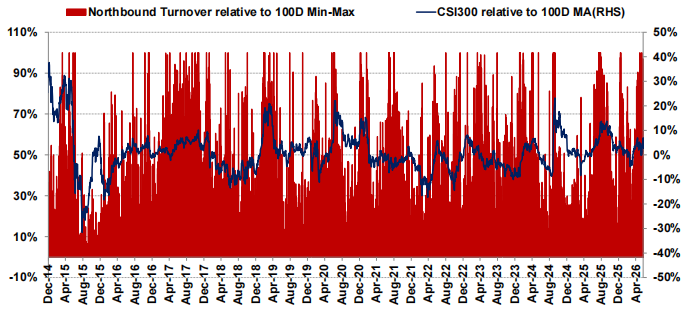
Source: CEIC, Bloomberg, Morgan Stanley Research. Data as of Oct 21, 2026.

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



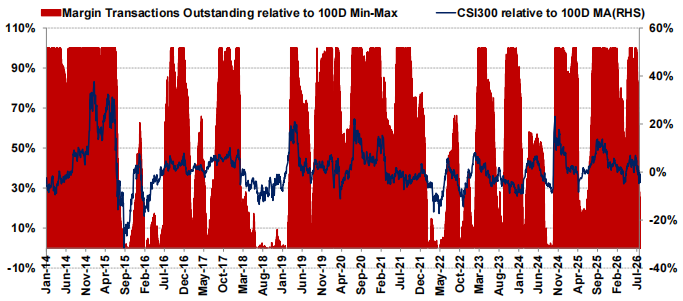
Source: CEIC, Morgan Stanley Research. Data as of Oct 21, 2026.

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



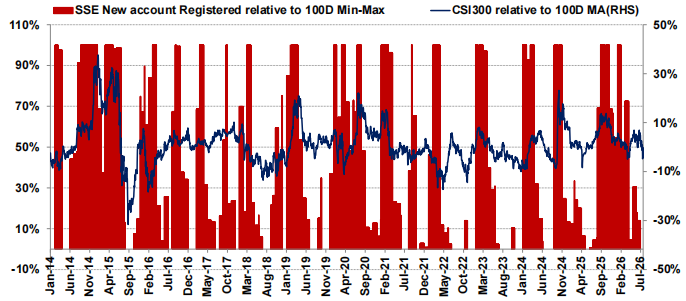
Source: CEIC, Morgan Stanley Research. Data as of Oct 21, 2026.

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



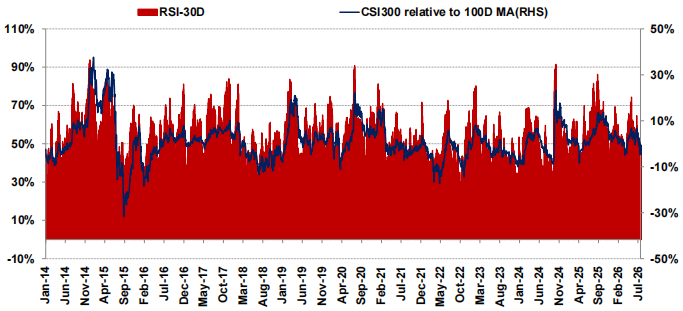
Source: CEIC, Morgan Stanley Research. Data as of Oct 21, 2026.

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



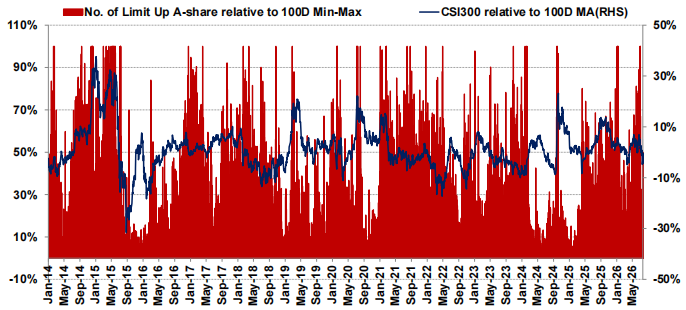
Source:CEIC, Bloomberg, Morgan Stanley Research. Data as of Oct 21, 2026.

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



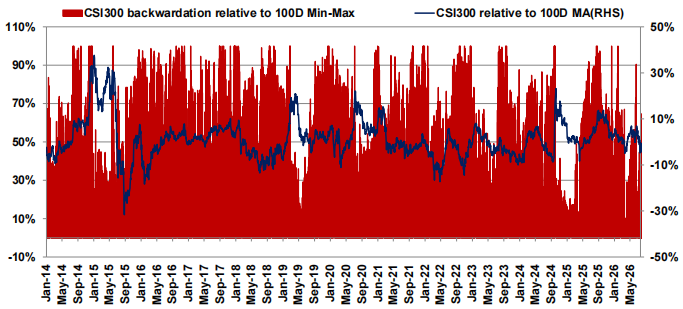
Source: CEIC, Bloomberg, Morgan Stanley Research. Data as of Oct 21, 2026.

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



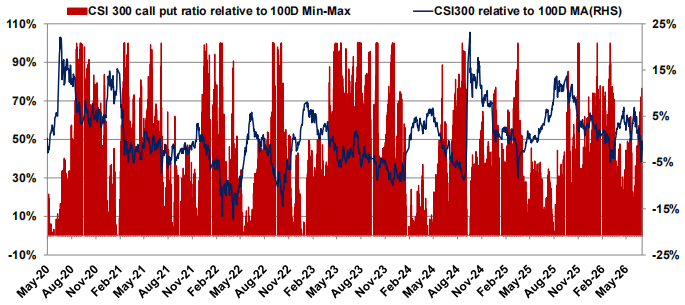
Source: CEIC, Wind, Bloomberg, Morgan Stanley Research. Data as of Oct 21, 2026.

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



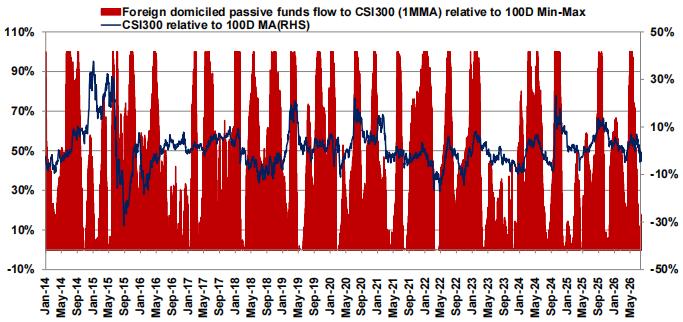
Source: CEIC, Wind, Morgan Stanley Research. Data as of Oct 21, 2026.

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



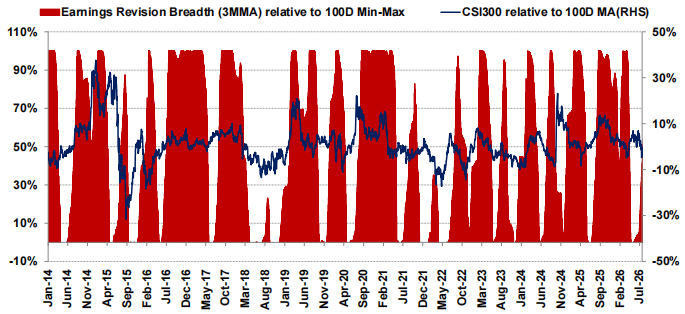
Source: CEIC, Wind, Morgan Stanley Research. Data as of Oct 21, 2026.

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: CEIC, Wind, Morgan Stanley Research. Data as of Oct 21, 2026.

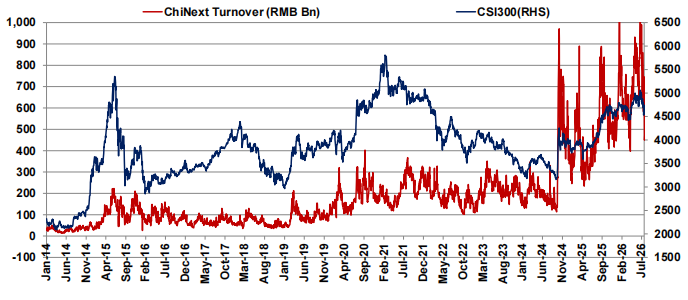
Exhibit 15: Shanghai A-share earnings estimate revision breadth (3mma) adjusted by moving 100D min-max (scaled to 0-100% based on the percentage away from its 100-day high and low levels) vs. CSI 300 relative to 100D MA



Source: CEIC, Morgan Stanley Research. Data as of Oct 21, 2026.

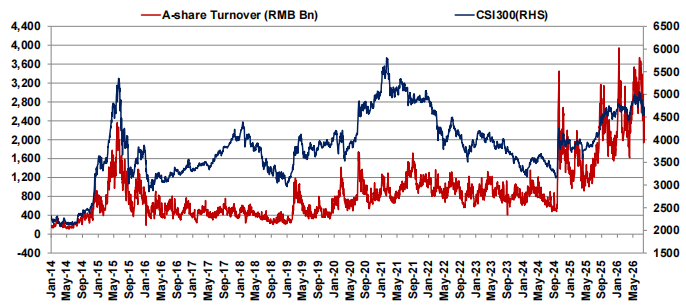
Appendix: A-share Market Data

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



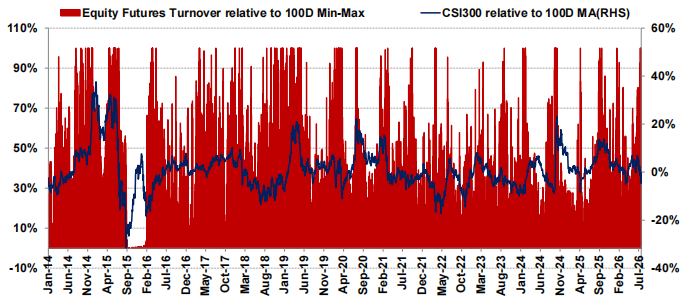
Source: CEIC, Morgan Stanley Research. Data as of Oct 21, 2026.

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



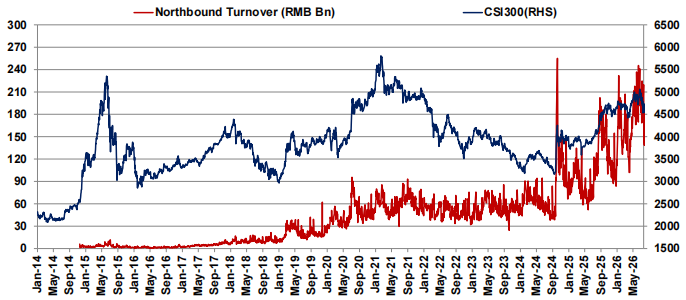
Source: CEIC, Morgan Stanley Research. Data as of Oct 21, 2026.

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



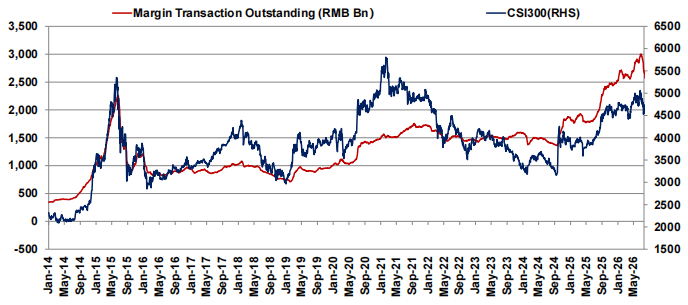
Source: CEIC, Morgan Stanley Research. Data as of Oct 21, 2026.

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



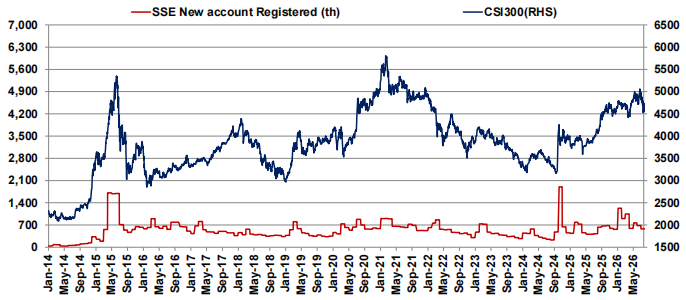
Source: CEIC, Morgan Stanley Research. Data as of Oct 21, 2026.

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



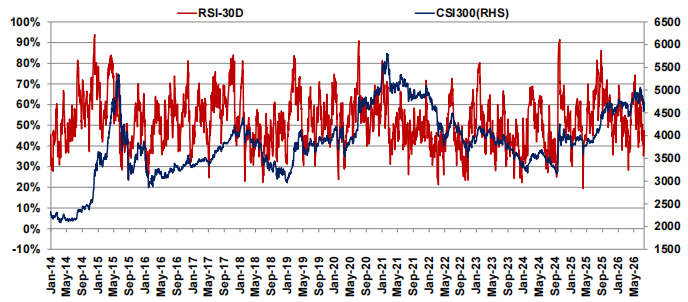
Source: CEIC, Morgan Stanley Research. Data as of Oct 21, 2026.

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



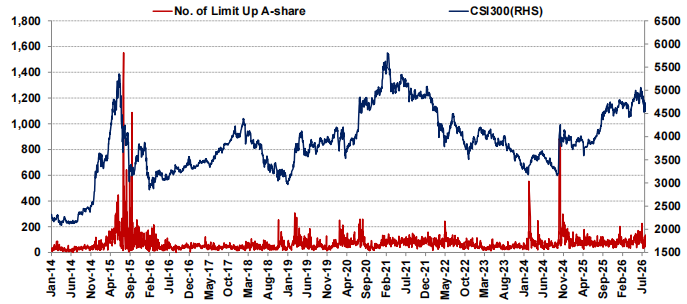
Source: CEIC, Morgan Stanley Research. Data as of Oct 21, 2026.

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



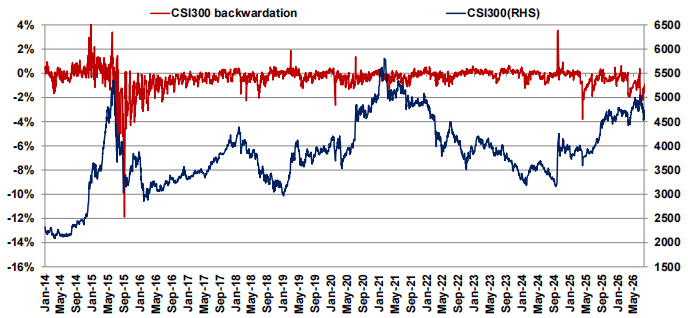
Source: Bloomberg, Morgan Stanley Research. Data as of Oct 21, 2026.

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



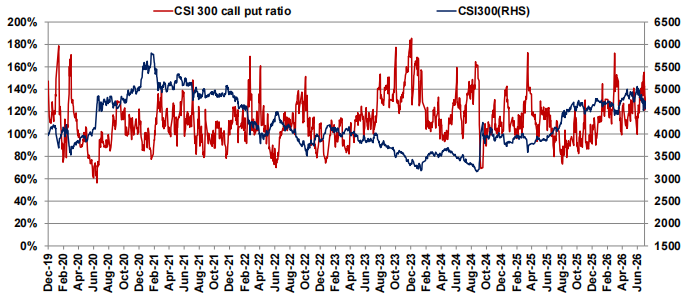
Source: Wind, Morgan Stanley Research. Data as of Oct 21, 2026.

Exhibit 24: CSI 300 future backwardation vs. CSI 300



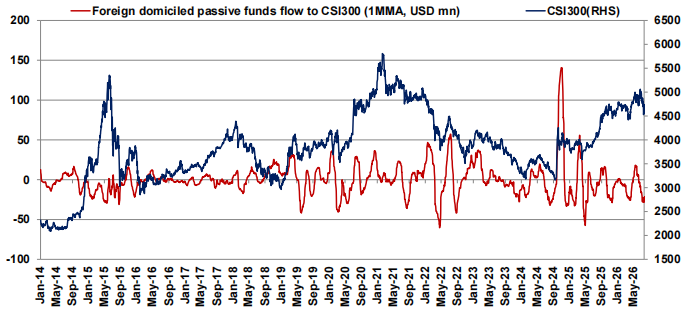
Source: CEIC, Wind, Morgan Stanley Research. Data as of Oct 21, 2026.

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



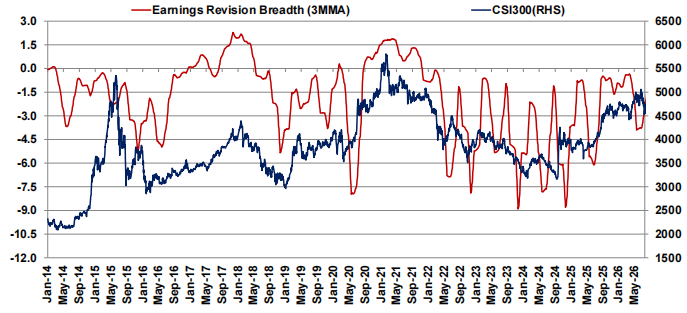
Source: CEIC, Wind, Morgan Stanley Research. Data as of Oct 21, 2026.

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



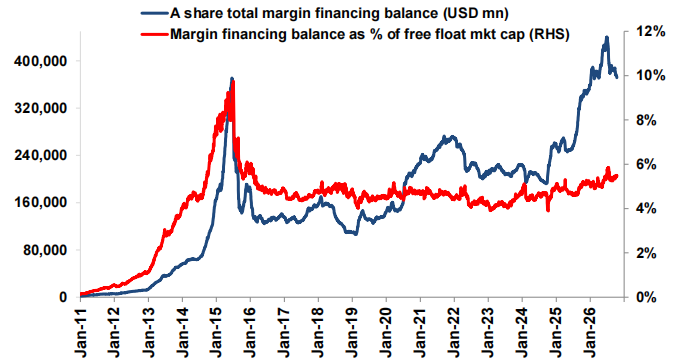
Source: CEIC, Wind, Morgan Stanley Research. Data as of Oct 21, 2026.

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



Source: CEIC, Wind, Morgan Stanley Research. Data as of Oct 21, 2026.

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



Source: CEIC, Morgan Stanley Research. Note: Data as of Oct 21, 2026.

Valuation Methodology and Risks

Swire Properties (1972.HK)

Base case, sum of the parts .

HK - Office and retail: Gross cap rates of 4.75% and 5.75%, respectively.

China - Office and retail: Gross cap rates of 7.0% and 8.0%, respectively. Rents remain stable.

HK development properties: DCF, WACC of 8%.

30% NAV discount: 1 SD above average since 2011. We cite broadening recovery into HK office, active capital recycling efforts, and commitment to boosting total shareholder return.

Risks to Upside

- Faster-than-expected ramp-up of new investment properties to build recurring income base
- More capital recycling to unlock asset value
- Strong recovery in office and retail segments in Hong Kong

Risks to Downside

- Slow recovery in HK office and retail
- Slowdown in retail recovery in China
- Difficulty in offloading non-core assets

Contemporary Amperex Technology Co. Ltd. (300750.SZ)

Base case, EV/EBITDA. We use this methodology to remain consistent with the approach taken by our global battery analysts for international peers. We assign a 13x EV/EBITDA multiple to 2027E EBITDA, which implies a 20x P/E for 2027E. This is the three-year +0.5 SD level, to reflect a potential new product cycle. Our target value implies a 35% discount to our DCF-based NAV, showing valuation discipline.

Risks to Upside

- Faster-than-expected EV penetration and ESS application
- Lower geopolitical risks
- Better-than-expected margins
- Higher-than-expected market share gain

Risks to Downside

- Weaker EV penetration and ESS application
- Potential threats from other battery makers
- Geopolitical risks lead to decoupling of battery supply chain
- Stall in market share gain