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UPDATE

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China Equity Strategy | Asia Pacific

China Free Liquidity vs. MSCI China YoY Change

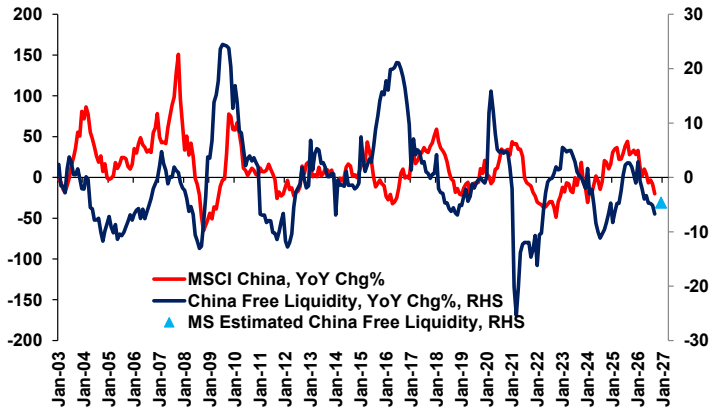
Laura Wang
Equity Strategist
Laura.Wang@morganstanley.com +852 2848-6853

Vicky Wu
Equity Strategist
Vicky.Wu@morganstanley.com +852 3963-3928

Key Takeaways

- Free liquidity declined further to its lowest level since January 2025, reflecting subdued M1 growth, firm industrial production and elevated PPI inflation.
- We expect liquidity conditions to remain constrained through year-end amid soft M1 growth and still-elevated PPI.
- The elevated PPI should not be mistaken as a sign of reflation, but rather reflecting supply-side price adjustments amid persistent demand weakness.

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 small improvement in 4Q



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

the 2027 Extel Asia Research Survey. Voting opens 10 November 2026.

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