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China Equity Strategy | Asia Pacific

A-Share Sentiment Edges Down as Market Awaits Further Stimulus

Investor sentiment declined throughout the week despite marginal improvement on macro data and ongoing easing measures. We believe additional and continuous policy easing/support may be needed to navigate through short-term cyclical weakness and long-term structural challenges.

A-share sentiment dropped vs. prior week: Weighted and simple MSASI fell 3ppts and 4ppts to 45% and 38%, respectively. Turnover for ChiNext, A shares and Northbound dropped 12%, 9%, and 4%, respectively, vs. the prior cut-off day. RSI-30D declined 3.6ppts vs. the prior cutoff day. Consensus earnings estimate revision breadth continued its downward momentum since the end of August.

Northbound net outflows reached US\$1.8bn during September 7-13, the sixth consecutive week of net outflows: Northbound MTD net outflows were US\$1.5bn, while YTD net inflows retreated to US\$20.4bn. Southbound saw net inflows of US\$222mn during September 7-13, the seventh consecutive week of net inflows. Southbound YTD net inflows stood at US\$30.2bn, and MTD net inflows totaled just US\$3mn.

Market sentiment remained subdued despite marginal improvement on macro data and incremental easing: August CPI and PPI improved on higher energy prices, but weakness in core CPI and non-oil commodities suggest continued deflation risk. August TSF data surprised the market to the upside on incrementally stronger fiscal impulse. Over the past week, more Tier 2 cities (e.g., Qingdao, Jinan, Nanjing) lifted home-buying curbs to revive demand. PBoC announced a 25bps RRR cut on 14 September. Despite incremental easing on housing, policy effectiveness remains to be seen. Latest housing sales data has yet to show notable recovery. Earnings revision breadth has seen accelerating downward revision momentum, which we expect to continue into early 4Q.

We reiterate our cautious stance on Chinese equities and remain equal-weight in an EM/APxJ context: We have yet to see concrete evidence of housing policy easing acting a backstop to falling property sales. There has also been a lack of clarity on orderly resolution of local government indebtedness. **Signposts to monitor:** 1) Sep/Oct property sales; 2) August macro data pack for China; 3) further fiscal stimulus and local debt resolutions to be rolled out, and; 4) plans and reforms ahead of the Third Plenum of the 20th Party Congress. Further details [here](#).

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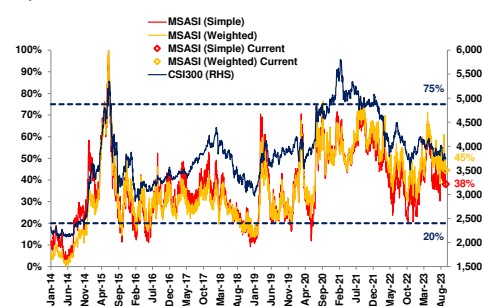
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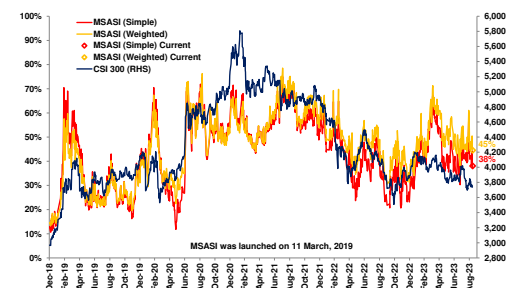
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Exhibit 1 : MS A-share Sentiment Indicator (MSASI): 45% (weighted), down by 3ppts vs. September 6



Source: CEIC, Bloomberg, Wind, RIMES, Morgan Stanley Research. Data as of September 13, 2023.

Exhibit 2 : Morgan Stanley A-share Sentiment Indicator (MSASI) trajectory since Jan. 1, 2019



Source: CEIC, Bloomberg, Wind, RIMES, Morgan Stanley Research. Data as of September 13, 2023.

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MSASI Methodology

We monitor nine metrics on a regular basis to gauge the sentiment level onshore

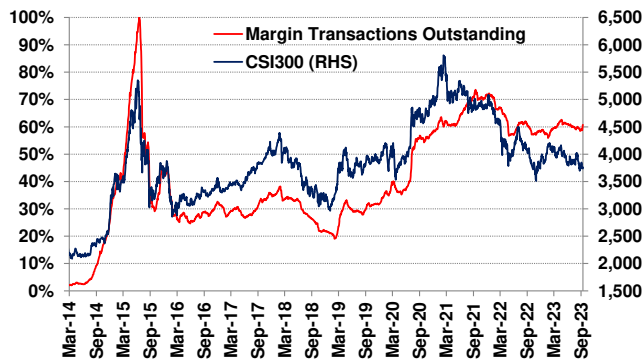
MSASI was launched on March 13, 2019, and aims to provide a straightforward quantitative measure to benchmark market sentiment levels. It is compiled based on nine metrics. For background information and methodology regarding MSASI, please refer to [China Equity Strategy: Tracking A-share Market Sentiment and Technical Indicators – Launching MSASI \(12 Mar 2019\)](#).

- 1) Margin transactions outstanding:** Historical margin financing balance, scaled to 0-100% based on its percentage away from its high and low levels since January 2014 (available daily; we use weekly ending balance for analytical purposes).
- 2) New investors registered:** Number of new investors registered per week, scaled to 0-100% based on its percentage away from its high and low levels since January 2014 (available weekly).
- 3) A-share turnover in RMB:** Daily A-share turnover in RMB, scaled to 0-100% based on the percentage away from its high and low levels since January 2014 (available daily; we use weekly ending balance for analytical purposes).
- 4) ChiNext turnover in RMB:** Daily ChiNext turnover in RMB, scaled to 0-100% based on the percentage away from its high and low levels since January 2014 (available daily; we use weekly ending balance for analytical purposes).
- 5) Northbound turnover growth rate (vs. three months ago):** Growth rate of Stock Connect Northbound buy orders (period ending day RMB amount vs. three months ago), scaled to 0-100% based on the percentage away from its high and low levels since January 2014 (available daily; we use weekly ending balance for analytical purposes).
- 6) Equity index futures turnover growth rate (vs. three months ago):** Growth rate of A-share index futures trading turnover (period ending day RMB amount vs. three months ago), scaled to 0-100% based on the percentage away from its high and low levels since January 2014 (available daily; we use weekly ending balance for analytical purposes).
- 7) RSI-30D:** Relative Strength Index based on the CSI 300 over a 30-day period. Original data are scaled to 0-100% based on percentage away from high and low levels since January 2014 (available daily; we use weekly ending balance for analytical purposes).
- 8) Number of limit-up A-shares:** Number of stocks that hit 10% price trade limit-up per day, scaled to 0-100% based on the percentage away from its high and low levels since January 2014 (available daily; we use weekly ending balance for analytical purposes).
- 9) Earnings estimate revision breadth** based on Shanghai A Index owing to data availability, scaled to 0-100% based on the percentage away from its high and low levels since January 2014. It measures the number of sell-side stock analysts who raise their earnings estimates vs. the number of analysts who lower their estimates. This metric is more related to corporate fundamentals (available weekly).

More to keep in mind

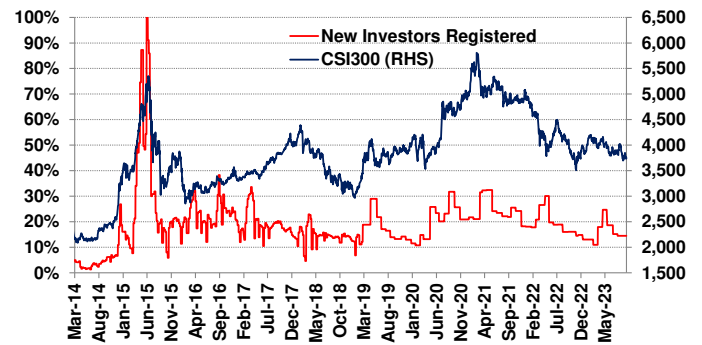
- The charts below show the scaled version of all these metrics as they are used in the MSASI compilation analysis.
- We use data from January 2014 to the present, because some of the market-influencing factors were not fully developed before that, i.e., Stock Connect Northbound (the program was launched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

Exhibit 3: Margin transactions outstanding (scaled to 0-100% based on the percentage away from its high and low levels since January 2014) vs. CSI 300



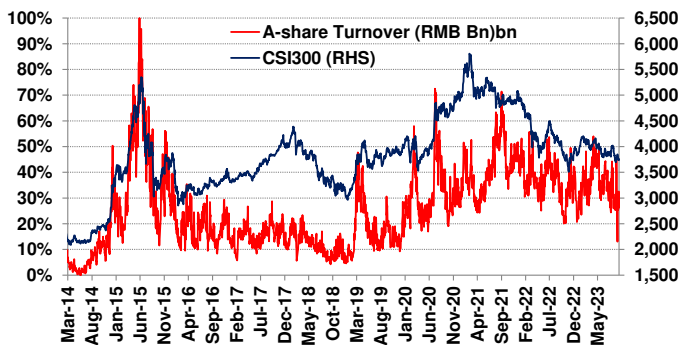
Source: CEIC, Bloomberg, Morgan Stanley Research. Data as of September 13, 2023.

Exhibit 4: New investors (scaled to 0-100% based on the percentage away from its high and low levels since January 2014) vs. CSI 300



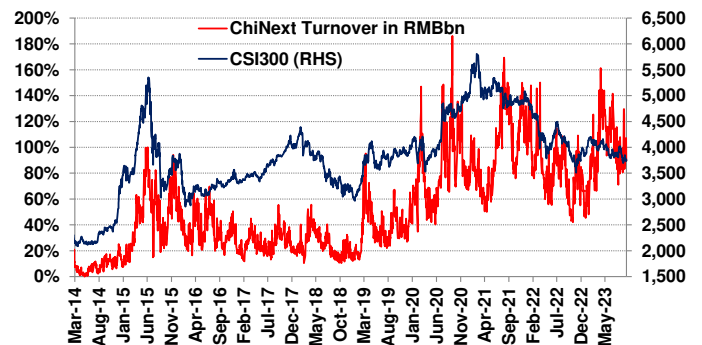
Source: CEIC, Bloomberg, Morgan Stanley Research. Data as of September 13, 2023. China Depository Settlement Corporation published new investors registered for July 2023 on August 15, 2023, and has yet to publish weekly numbers since February 2019.

Exhibit 5: A-share turnover (scaled to 0-100% based on the percentage away from its high and low levels since January 2014) vs. CSI 300



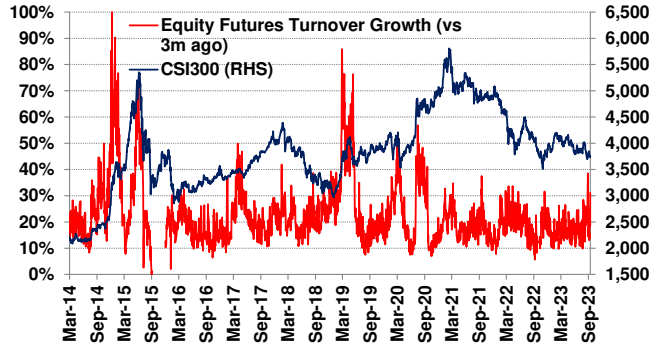
Source: CEIC, Morgan Stanley Research. Data as of September 13, 2023.

Exhibit 6: ChiNext turnover (scaled to 0-100% based on the percentage away from its high and low levels since January 2014) vs. CSI 300



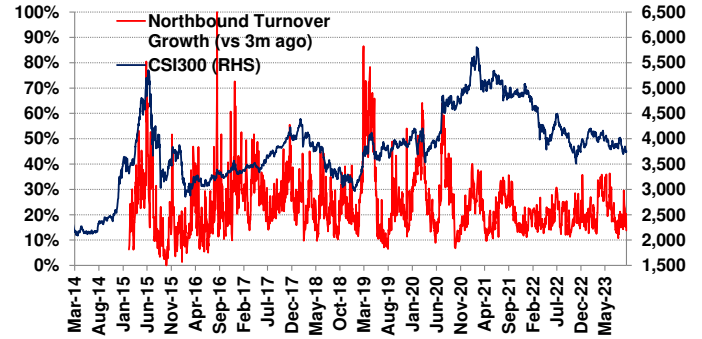
Source: CEIC, Morgan Stanley Research. Data as of September 13, 2023.

Exhibit 7: Equity futures turnover (vs. three months ago; scaled to 0-100% based on the percentage away from its high and low levels since January 2014) vs. CSI 300



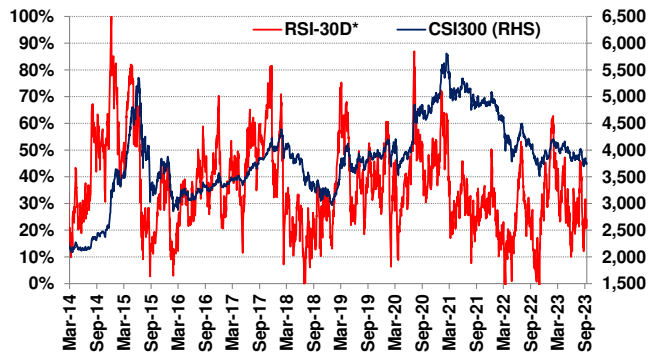
Source: CEIC, Morgan Stanley Research. Data as of September 13, 2023.

Exhibit 8: Northbound turnover (vs. three months ago; scaled to 0-100% based on the percentage away from its high and low levels since January 2014) vs. CSI 300



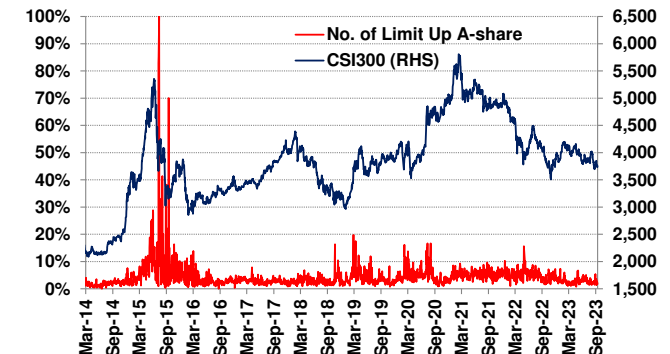
Source: CEIC, Morgan Stanley Research. Data as of September 13, 2023.

Exhibit 9: RSI-30D* (scaled to 0-100% based on the percentage away from its high and low levels since January 2014) vs. CSI 300



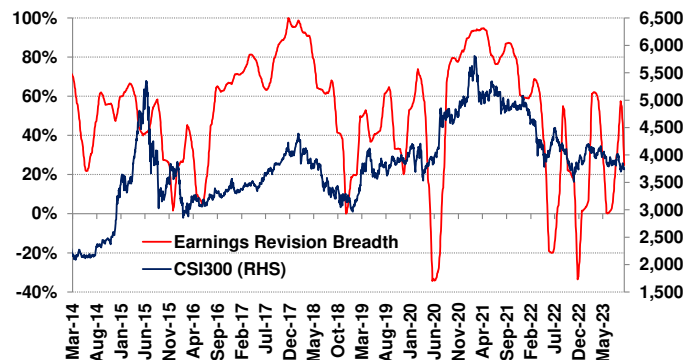
Source: CEIC, Bloomberg, Morgan Stanley Research. Data as of September 13, 2023. * RSI-30D is rebased to fit into 0% to 100% based on the high and low of RSI-30D since January 2014.

Exhibit 10: Number of limit-up A-shares (scaled to 0-100% based on the percentage away from its high and low levels since January 2014) vs. CSI 300



Source: CEIC, Wind, Bloomberg, Morgan Stanley Research. Data as of September 13, 2023.

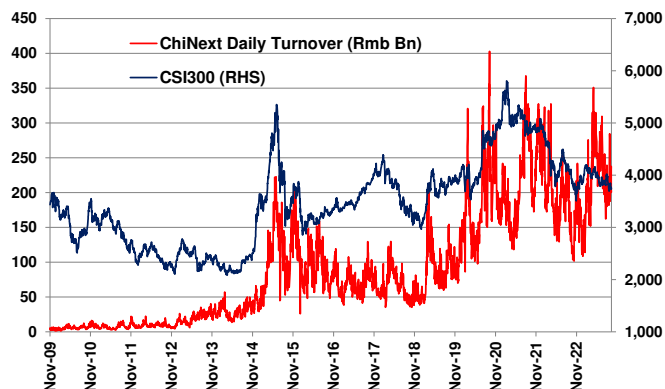
Exhibit 11: Shanghai A-share earnings estimate revision breadth (3MMA, scaled to 0-100% based on the percentage away from its high and low levels since January 2014) vs. CSI 300



Source: CEIC, RIMES, Morgan Stanley Research. Data as of September 13, 2023.

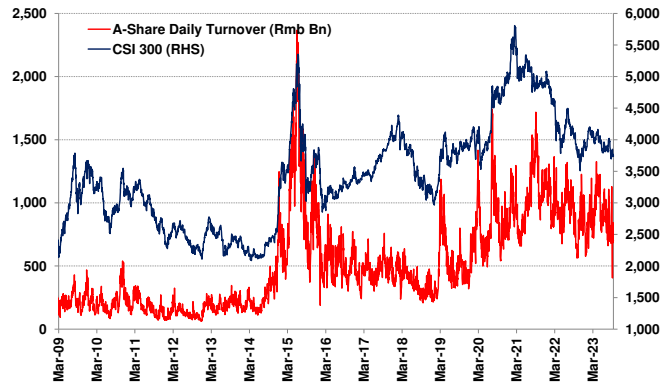
Appendix: A-share Market Data

Exhibit 12: ChiNext daily turnover (RMB bn) trend



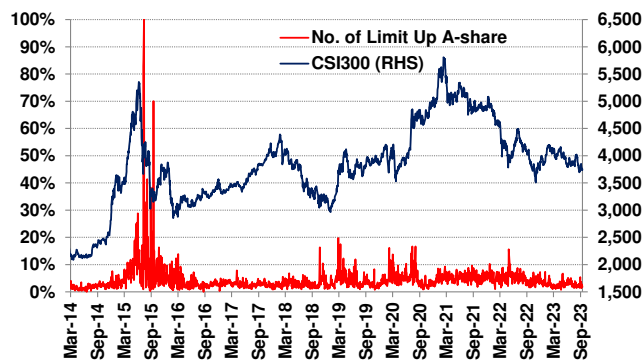
Source: CEIC, Morgan Stanley Research. Data as of September 13, 2023.

Exhibit 13: A-share daily turnover (RMB bn) trend



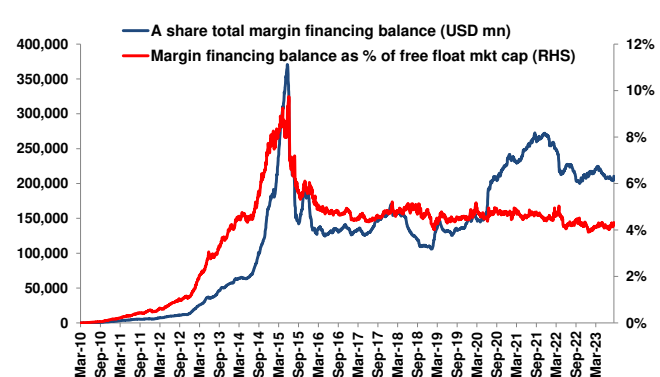
Source: CEIC, Morgan Stanley Research. Data as of September 13, 2023.

Exhibit 14: Number of A-shares trading at limit up



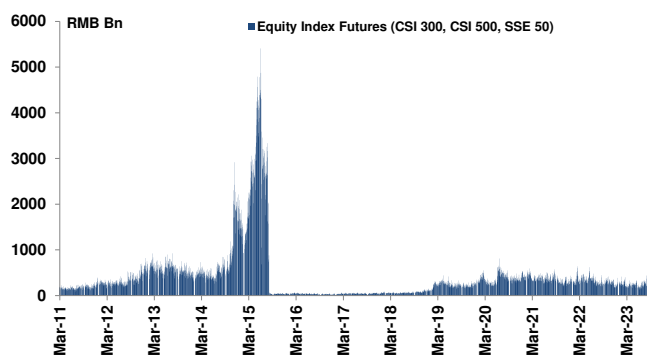
Source: Wind, Morgan Stanley Research. Data as of September 13, 2023.

Exhibit 15: A-share margin financing (USD mn)



Source: CEIC, Morgan Stanley Research. Data as of September 13, 2023.

Exhibit 16: A-share equity futures turnover (RMB bn) trend



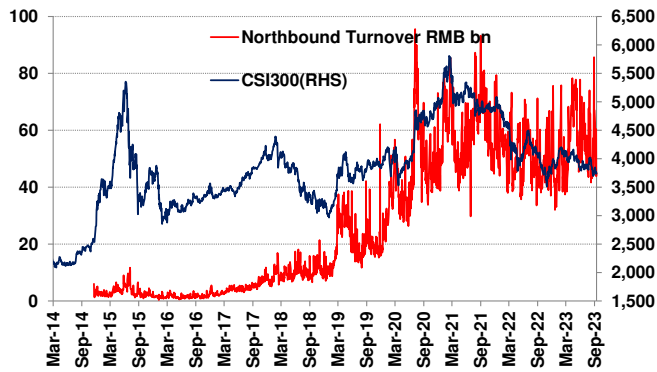
Source: CEIC, Morgan Stanley Research. Data as of September 13, 2023.

Exhibit 17: A-share new investor accounts



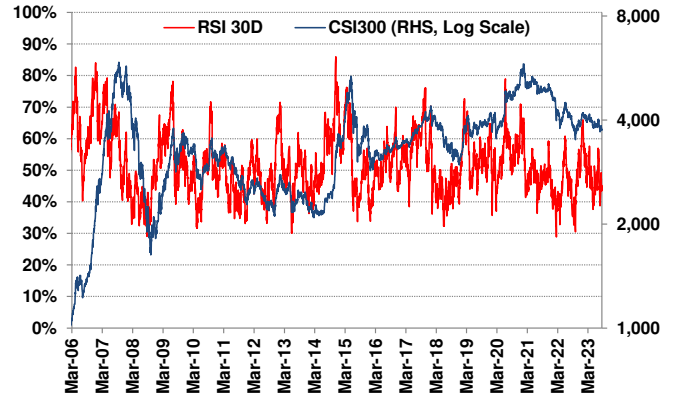
Source: CEIC, Morgan Stanley Research. Data as of September 13, 2023. China Depository Settlement Corporation published new investors registered for July 2023 on August 15, 2023, and has not published weekly numbers since February 22, 2019 (it used to publish this data point both weekly and monthly).

Exhibit 18: Northbound turnover (RMB bn) trend



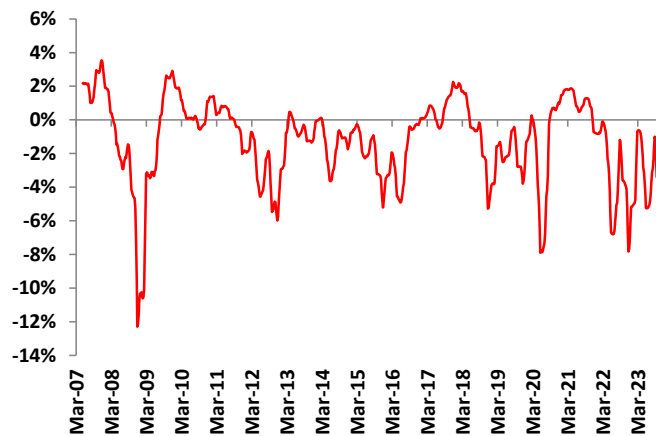
Source: CEIC, Morgan Stanley Research. Data as of September 13, 2023.

Exhibit 19: A-share (CSI300) RSI (30 days)



Source: Bloomberg, Morgan Stanley Research. Data as of September 13, 2023.

Exhibit 20: Shanghai A-share earnings estimate revision breadth (3mma)



Source: IBES, Rimes, Morgan Stanley Research. Data as of September 13, 2023.

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Equal-weight/Hold	1686	46%	301	47%	18%	719	47%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	594	16%	67	10%	11%	218	14%
Total	3,628		641			1544	

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