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## China Equity Strategy | Asia Pacific

## A-share Sentiment Drops amid Disappointing April Data

Investors' sentiment dropped notably following the April data pack, reflected through a decline of trading volume vs. the prior cycle. Additional policy easing is looking more likely in late June/early July to navigate through temporary macro weakness. We provide signposts to watch.

**A-share sentiment down notably vs. prior week:** Weighted and simple MSASI as of May 17 dropped by 9ppt and 10ppt to 55% and 47%, respectively, vs. the 5 trading days before (May 10). Average daily turnover (ADT) for ChiNext and A-shares during May 11-17 decreased by 17% and 22%, respectively, compared to their prior seven-day trading cycles (April 27 - May 10). ADT for Northbound declined by 24% in the same period. Consensus earnings estimate revisions breadth continued its downward momentum since mid-March.

**Northbound saw net inflows of US\$535mn while Southbound saw net inflows of US\$1.5bn during May 11-17:** Northbound MTD net inflows totaled US\$1.7bn and YTD net inflows totaled US\$28.4bn. Southbound MTD net inflows stood at US\$2.0bn and YTD net inflows totaled US\$15.6bn.

**Investors' sentiment continued to drop amid weaker-than-expected macro data, as well as geopolitical relations in a multipolar world. Our view:** We had discussed the rising concern among investors due to weakness shown through the April data pack. Sentiment was further weakened this week with disappointing IP growth (5.6% vs. consensus' 10.9%) and a higher youth unemployment rate in April (20.4%, rising for 4 months in a row). **Current macro trends may warrant additional policy easing, in our view, which we think could arrive in late June/early July.** Our economics team forecasts that [with additional easing kicking in GDP growth could reaccelerate to >5%Q SAAR in 2H, keeping full-year at 5.7%Y](#). In other words, the current weakness in the macro data pack is more likely to be a temporary hiccup rather than a major trend that could derail 2023's overall recovery trajectory. The timing and magnitude of any upcoming easing measures could have a significant impact on market sentiment, all else being equal. In addition to macro concerns, despite recent re-engagement between US and China ([three high-level government official meetings took place last week](#)), investors are also cognizant of a potential [new Executive Order aimed at restricting certain direct investment into Chinese high tech areas by US firms](#). The latest media reports suggest that [an announcement may be delayed until after the G7 summit](#). (Continued below.)

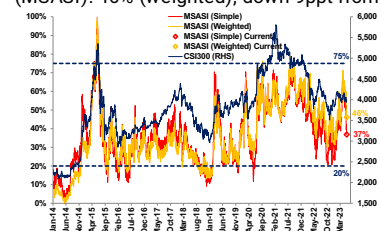
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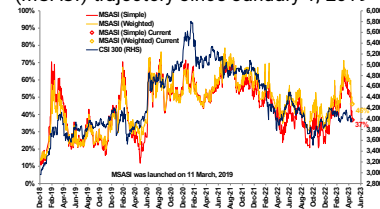
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**Exhibit 1: Morgan Stanley A-share Sentiment Indicator (MSASI): 46% (weighted), down 9ppt from May 10**



Source: CEIC, Bloomberg, Wind, RIMES, Morgan Stanley Research; data as of May 17, 2023

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



Source: CEIC, Bloomberg, Wind, RIMES, Morgan Stanley Research; data as of May 17, 2023

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## A-share Sentiment Drops amid Disappointing April Data, Continued

**Market sentiment will likely stay volatile in the near term given the concerns discussed above. We would advise investors to monitor the following:** 1) Signs of consensus earnings cuts bottoming out; 2) Shanghai Stock Exchange's seminar titled "Exploring the investment value and promoting the valuation re-rating of central SOEs"; 3) timing and scale of any incremental easing measures; and 4) announcement of a potential new Executive Order, as well as resumption of US government officials' China visits (US Secretary of the Treasury Janet Yellen, and/or Secretary of State Antony Blinken).

## MSASI Methodology

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

MSASI was officially 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 \(12 Mar 2019\)](#).

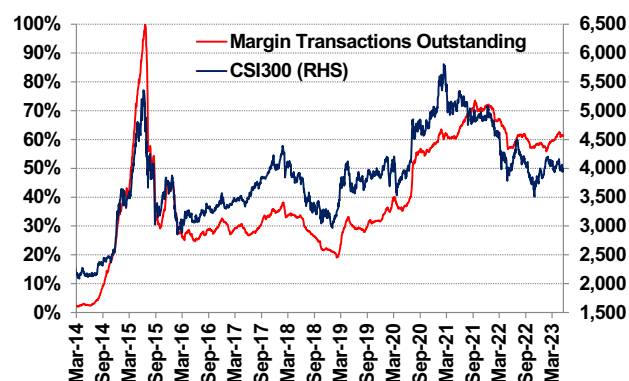
- 1) Margin transactions outstanding:** Historical margin financing balance, scaled to 0-100% based on its percentage away from its high and low levels since January 2014 (available daily; we use weekly ending balance for analytical purposes).
- 2) New investors registered:** Number of new investors 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

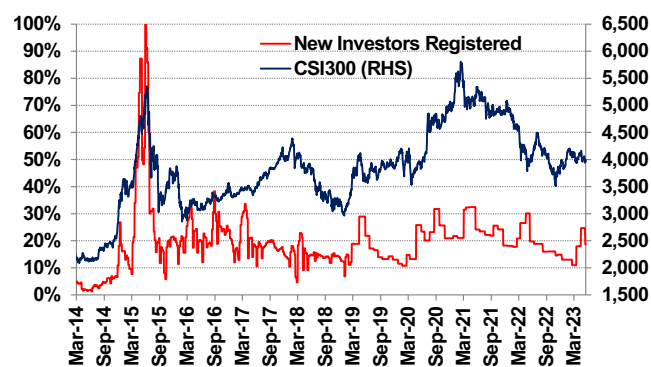
- The charts below show the scaled version of all these metrics as they are used in the MSASI compilation analysis.
- We use data from January 2014 to the present, because some of the market-influencing factors were not fully developed before that, i.e., Stock Connect Northbound (the program was launched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



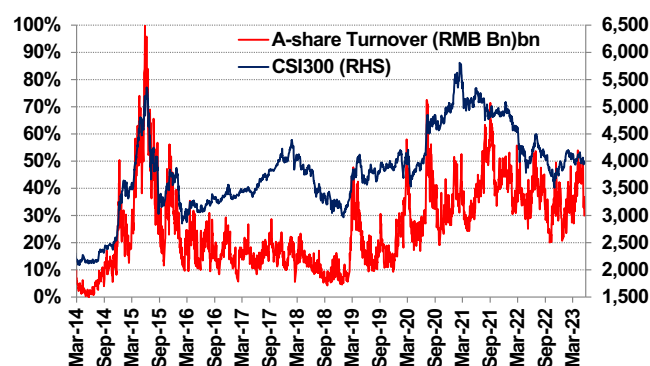
Source: CEIC, Bloomberg, Morgan Stanley Research. Data as of May 17, 2023.

**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



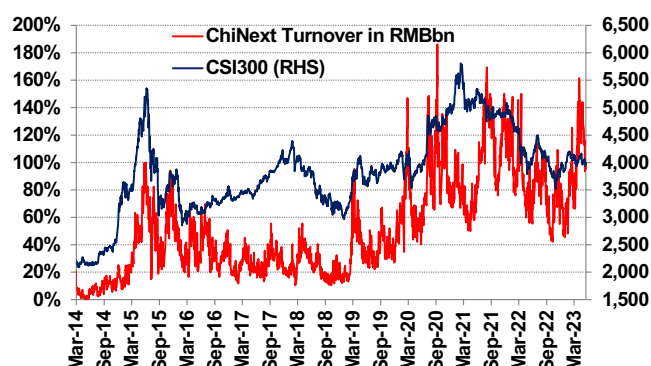
Source: CEIC, Bloomberg, Morgan Stanley Research. Data as of May 17, 2023. China Depository Settlement Corporation published new investors registered for April 2023 on May 13, 2023, and has not published weekly numbers since February 22, 2019 (it used to publish this data point both weekly and monthly).

**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



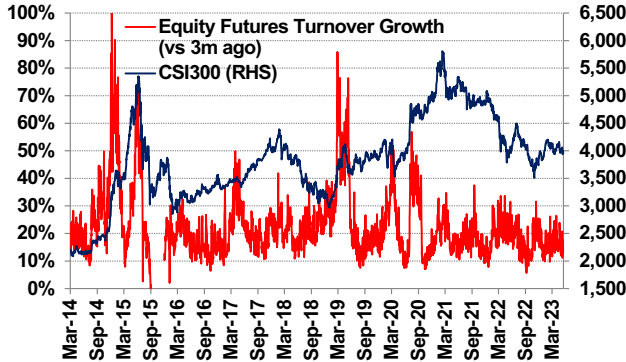
Source: CEIC, Morgan Stanley Research. Data as of May 17, 2023.

**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



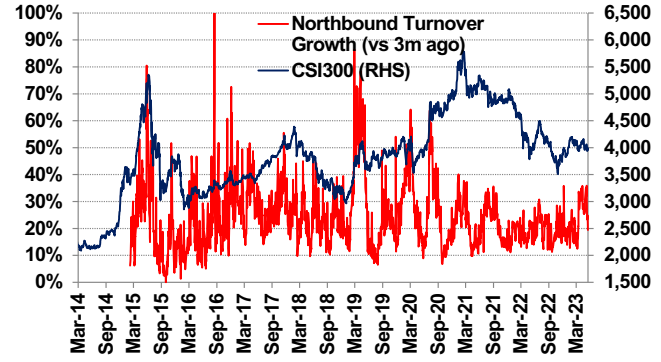
Source: CEIC, Morgan Stanley Research. Data as of May 17, 2023.

**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



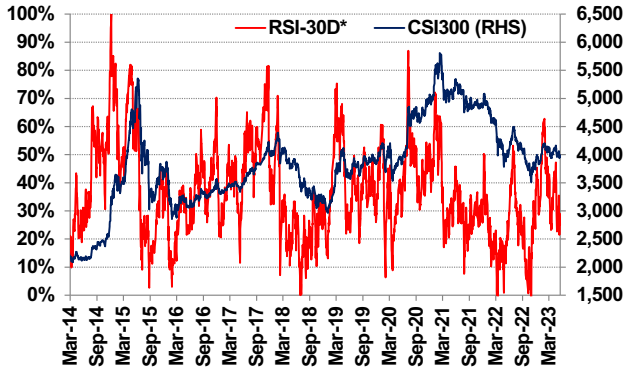
Source: CEIC, Morgan Stanley Research. Data as of May 17, 2023.

**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



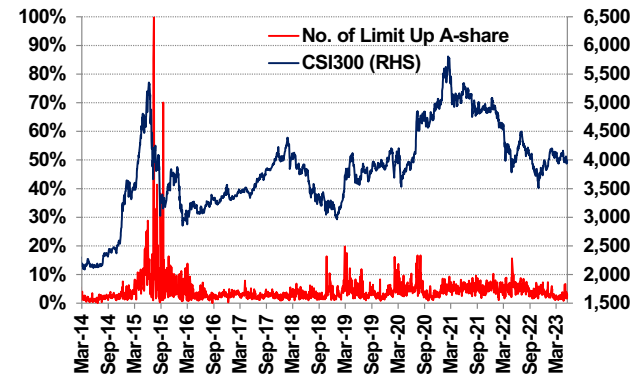
Source: CEIC, Morgan Stanley Research. Data as of May 17, 2023.

**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



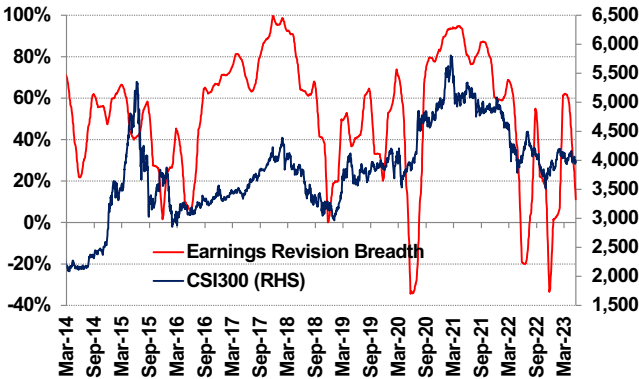
Source: CEIC, Bloomberg, Morgan Stanley Research. Data as of May 17, 2023. \* RSI-30D is rebased to fit into 0% to 100% based on the high and low of RSI30D since January 2014.

**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 May 17, 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

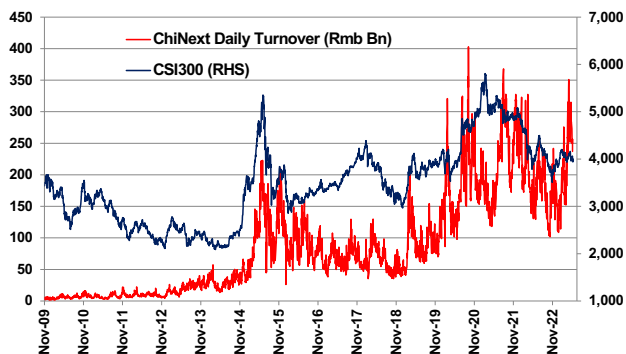


Source: CEIC, RIMES, Morgan Stanley Research. Data as of May 17, 2023.



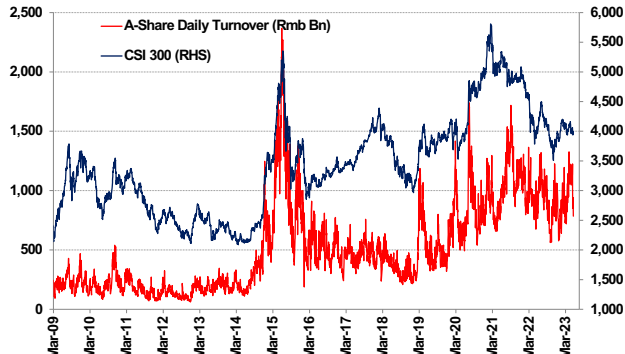
# Appendix: A-share Market Data

**Exhibit 12:** ChiNext daily turnover (Rmb bn) trend



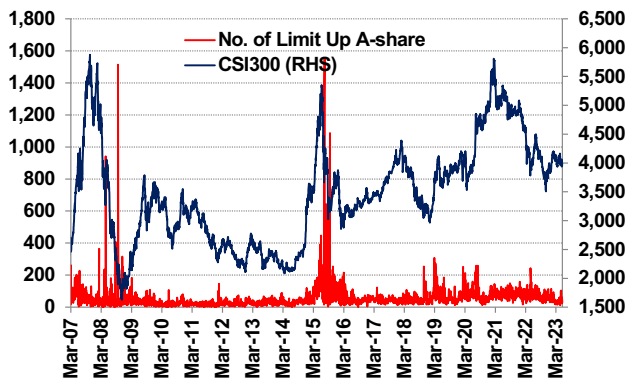
Source: CEIC, Morgan Stanley Research. Data as of May 17, 2023.

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



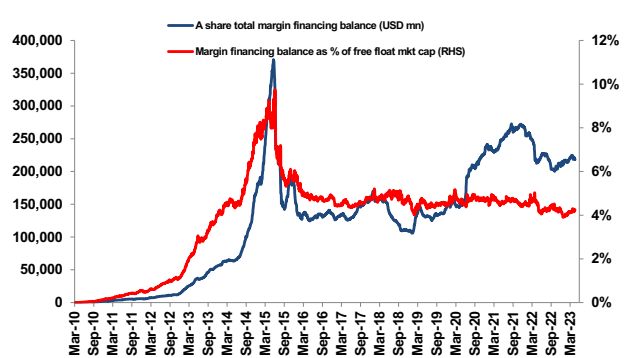
Source: CEIC, Morgan Stanley Research. Data as of May 17, 2023.

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



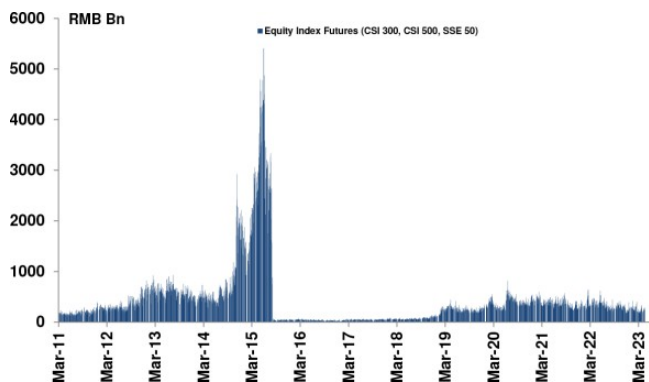
Source: Wind, Morgan Stanley Research. Data as of May 17, 2023.

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



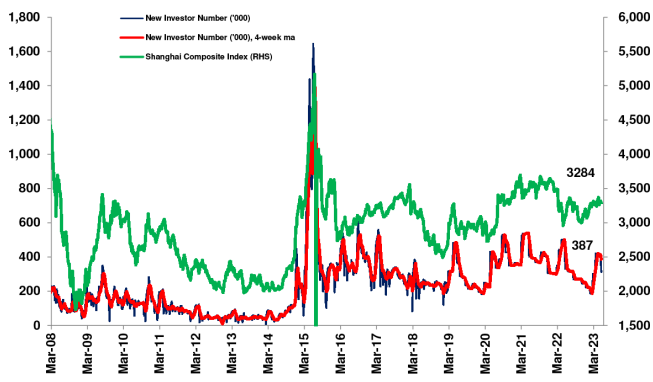
Source: CEIC, Morgan Stanley Research. Data as of May 17 2023

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



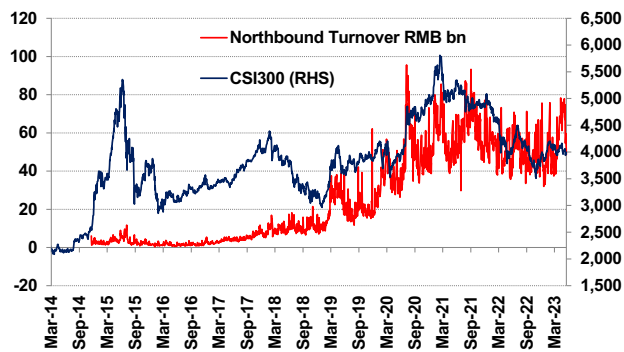
Source: CEIC, Morgan Stanley Research. Data as of May 17, 2023

**Exhibit 17:** A-share new investor accounts



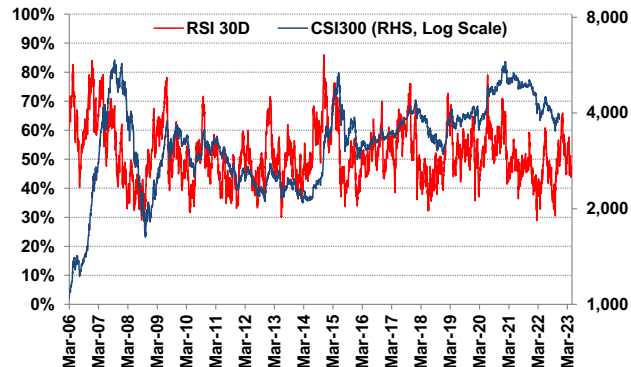
Source: CEIC, Morgan Stanley Research. Data as of May 17 2023. China Depository Settlement Corporation published new investors registered for April 2023 on May 13, 2023, and has not published weekly numbers since February 22, 2019 (it used to publish this data point both weekly and monthly).

**Exhibit 18:** Northbound turnover (Rmb bn) trend



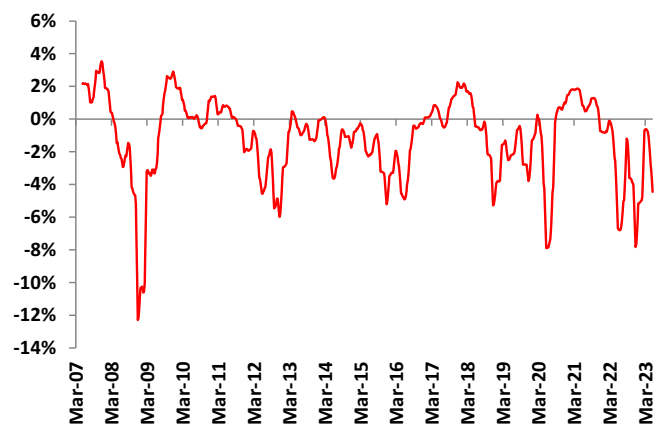
Source: CEIC, Morgan Stanley Research. Data as of May 17, 2023.

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



Source: Bloomberg, Morgan Stanley Research. Data as of May 17, 2023.

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



Source: IBES, Rimes, Morgan Stanley Research. Data as of May 17, 2023



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	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MSC
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<b>Equal-weight/Hold</b>	<b>1660</b>	<b>45%</b>	<b>307</b>	<b>47%</b>	<b>18%</b>	<b>721</b>	<b>47%</b>
<b>Not-Rated/Hold</b>	<b>5</b>	<b>0%</b>	<b>1</b>	<b>0%</b>	<b>20%</b>	<b>1</b>	<b>0%</b>
<b>Underweight/Sell</b>	<b>639</b>	<b>17%</b>	<b>70</b>	<b>11%</b>	<b>11%</b>	<b>228</b>	<b>15%</b>
<b>TOTAL</b>	<b>3,661</b>		<b>647</b>			<b>1549</b>	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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