

## China A-share W&amp;W Indicator - Monthly

## The W&amp;W Indicator touched “very bullish” zone recently

Equity Strategy

## Indicator touched “very bullish” zone in February

The BofA China A-share Wax & Wane Indicator fluctuated between the “very bullish” and “neutral” zones in the past one month. The monthly/weekly average at 30/24 were both bullish, and it signaled “very bullish” readings at 14/15 on Feb 8<sup>th</sup> and 21<sup>st</sup> respectively. Valuation and fund flow are low, liquidity is very abundant, leverage and positioning are high. Chinese markets boosted by the encouraging Chinese New Year consumer spending data, more efforts to support the property market and new measures to stabilize the stock market. Within China indices, the HSCEI, NASDAQ Golden Dragon and HSI outperformed the most. The ChiNext, CSI 500 and SHCOMP relatively underperformed. We believe the market is in the process of bottoming out but a fundamental turnaround would take time.

**Leverage: 67%, high.** Margin trading as a % of A-share daily turnover is at 9.3% in Feb-24, higher than its long-term average of 8.9%.

**Valuation: 22%, low.** Currently, A-share P/E valuation is at 16x, lower than its long-term average since 2007 at 21.4x.

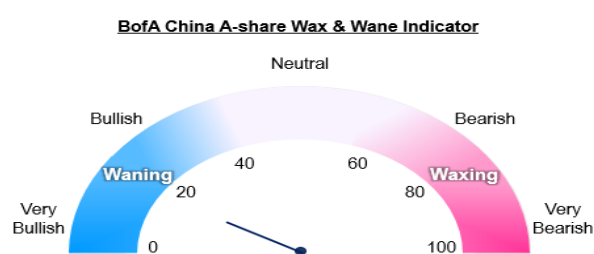
**Positioning: 63%, high.** 86.6% of stock mutual funds’ position is invested, lower than its recent peak in Feb-20 at 90.3% but higher than its long-term average of 84.5%.

**Liquidity: 0%, very loose.** China 10-year government bond yield slid to record lows at 2.4% in Feb-24. 10-year AAA corporate bond spread narrowed by 50.4bp from the beginning of Jan-23 to 36.3bp in Feb-24.

**Fund flow: 27%, bullish.** Northbound recorded RMB45.2bn net inflows in the past one month, while major A-share funds remained net sellers.

**Exhibit 1: BofA China A-share W&W Indicator**

The latest daily reading at 15 was very bullish. The monthly average was at 30



**Source:** Wind, CEIC, Bloomberg; **Disclaimer:** The BofA China A-share W&W Indicator identified as an indicator above is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This BofA China A-share W&W Indicator was not created to act as a benchmark

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22 February 2024

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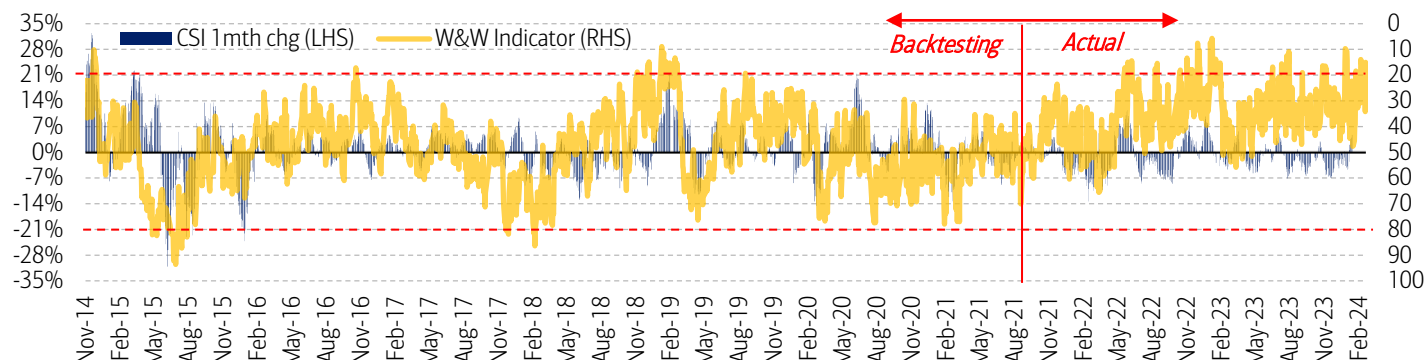
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# W&W Indicator vs CSI300 performance

The exhibits below show the historical correlation between the W&W Indicator and the CSI300 Index forward performance for the following 1/2/3 month(s) since 2014.

## Exhibit 2: W&W Indicator vs percentage change in CSI300 in the following 1mth (Back-tested)

W&W Indicator has been fairly good in predicting the CSI300 1mth performance

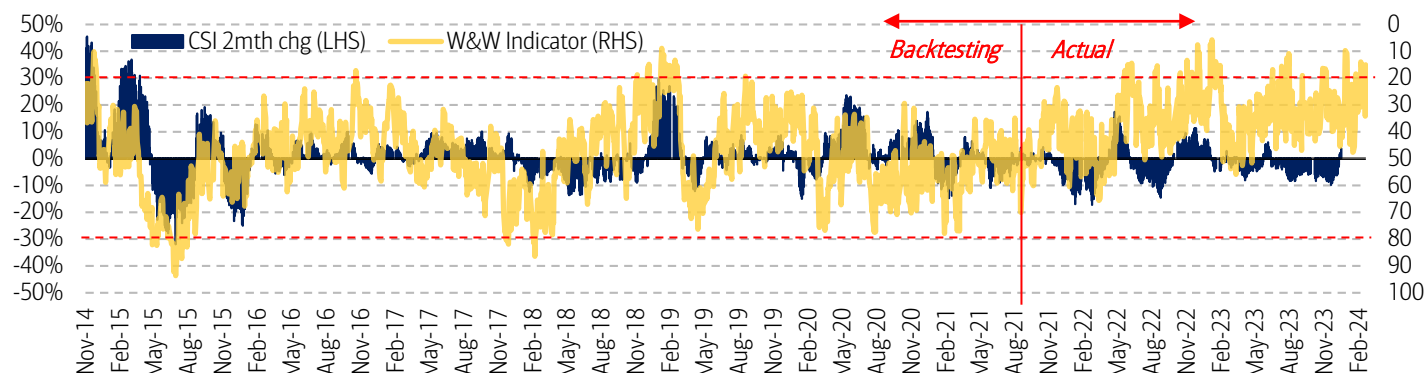


**Source:** Wind, Bloomberg \*Note: Backtesting for Jan-2010 to Jun-2021, actual starts Jul-2021. #W&W Indicator's input factors rose from six to ten from Jan-2010 to Apr-2015, due to data availability, thus the historical reading before and after Apr-15 may not be fully comparable. This performance is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein.

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## Exhibit 3: W&W Indicator vs percentage change in CSI300 in the following 2mths (Back-tested)

W&W Indicator has been fairly good in predicting the CSI300 2mth performance

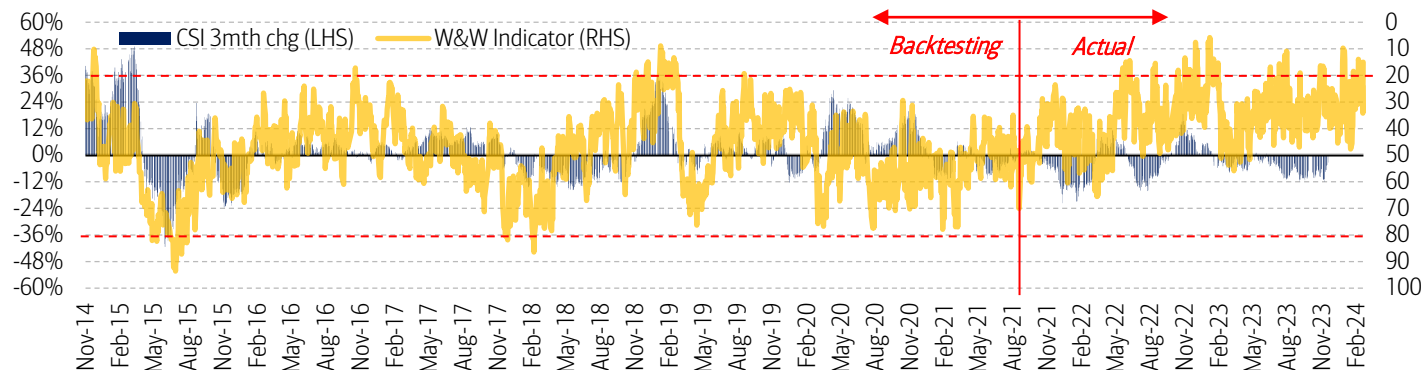


**Source:** Wind, Bloomberg \*Note: Backtesting for Jan-2010 to Jun-2021, actual starts Jul-2021. #W&W Indicator's input factors rose from six to ten from Jan-2010 to Apr-2015, due to data availability, thus the historical reading before and after Apr-15 may not be fully comparable. This performance is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein.

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## Exhibit 4: W&W Indicator vs percentage change in CSI300 in the following 3mths (Back-tested)

W&W Indicator has been fairly good in predicting the CSI300 3mth performance



**Source:** Wind, Bloomberg \*Note: Backtesting for Jan-2010 to Jun-2021, actual starts Jul-2021. #W&W Indicator's input factors rose from six to ten from Jan-2010 to Apr-2015, due to data availability, thus the historical reading before and after Apr-15 may not be fully comparable. This performance is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein.

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## Market performance

### Exhibit 5: Performance of major indices

In the past one month, major global indices saw positive returns and the offshore Chinese indices outperformed the most. Chinese markets boosted by the encouraging Chinese New Year consumer spending data, more efforts to support the property market (the 5-year loan prime rate cut and banks have started to issue funds to the white-list projects), and new measures to stabilize the stock market (net sales ban in the first and last 30 mins of trading by major firms, and a task force to track short selling). Within China indices, HSCEI, NASDAQ Golden Dragon and HSI outperformed the most. ChiNext, CSI 500 and SHCOMP relatively underperformed.

	Current level	Performance (%)								Ranking							
		1M	3M	6M	12M	YTD	3yr	5yr	10yr	1M	3M	6M	12M	YTD	3yr	5yr	10yr
Major indices																	
S&P 500	4,982	2.9	9.8	13.2	24.6	4.4	27.5	79.5	171.3	9	4	3	3	2	1	2	2
Dow Jones	38,612	2.0	10.0	12.0	16.5	2.4	22.6	49.4	139.8	14	3	5	4	5	2	3	3
NASDAQ	15,581	1.8	9.7	15.4	35.6	3.8	12.3	108.9	265.5	15	5	2	1	3	4	1	1
Euro Stoxx 50	4,775	6.5	9.1	12.1	13.9	3.2	14.6	39.6	20.0	5	6	4	5	4	3	4	7
FTSE 100	7,663	2.1	3.0	4.4	-0.1	-2.1	4.1	3.5	-15.0	13	7	7	7	9	5	8	12
Nikkei 225	38,262	4.8	12.9	17.9	24.9	7.1	-10.6	31.4	75.8	7	1	1	2	1	6	5	4
Russell 2000	1,995	2.6	11.9	7.5	5.6	-1.6	-12.0	26.6	71.3	10	2	6	6	7	7	6	5
MSCI China	54	7.2	-7.7	-6.7	-20.2	-3.5	-58.0	-33.0	-10.6	4	13	12	12	12	14	13	11
NASDAQ Golden Dragon	6,064	9.5	-7.2	-8.7	-16.2	-6.4	-70.4	-32.7	-16.7	2	10	13	9	13	15	12	13
HSI	16,503	7.8	-7.2	-6.1	-19.4	-3.3	-46.6	-42.2	-27.5	3	11	10	11	11	11	14	14
HSCEI	5,643	10.0	-7.4	-6.2	-18.3	-2.3	-53.8	-49.9	-43.7	1	12	11	10	10	13	15	15
SHCOMP	2,951	4.2	-4.5	-3.3	-14.6	-2.0	-28.3	0.3	18.3	8	9	8	8	8	8	10	8
CSI300	3,457	5.8	-4.1	-6.1	-20.2	-0.5	-46.3	-6.1	29.3	6	8	9	13	6	10	11	6
CSI500	5,139	2.5	-9.5	-8.8	-23.0	-6.5	-31.2	3.1	5.6	11	14	14	14	14	9	9	9
ChiNext	1,752	2.2	-12.3	-14.8	-32.1	-8.5	-52.1	16.0	-2.3	12	15	15	15	15	12	7	10

Source: Bloomberg, MSCI, data as of Feb 21, 2024, in USD terms

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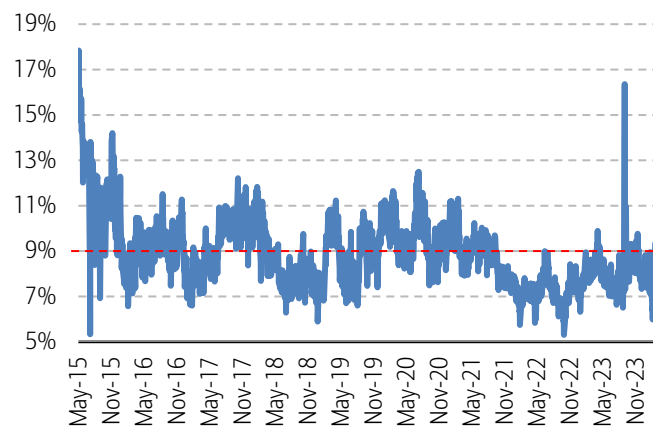
## Performance of key input factors

### Leverage: 67%, high

Margin trading as a % of A-share daily turnover is at 9.3% in Feb-24, higher than its long-term average of 8.9%. Leverage is at a high level.

### Exhibit 6: Margin financing as % of daily turnover: long term

The current margin financing as % of A-share daily turnover is higher than its long-term average

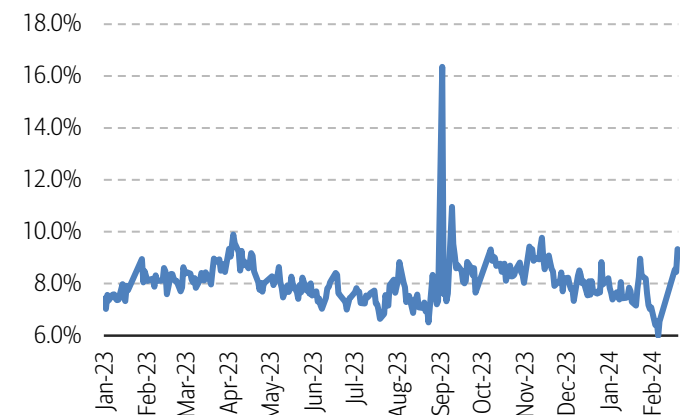


Source: BofA Global Research, Wind, CEIC

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### Exhibit 7: Margin financing as % of daily turnover since 2023

Margin financing dropped to 6.0% before the Chinese New Year (CNY) holiday but quickly rebounded to 9.3% after the holiday



Source: BofA Global Research, Wind, CEIC

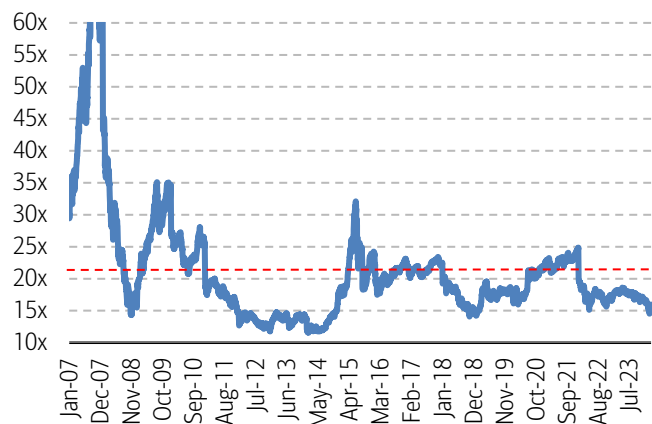
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**Valuation: 22%, low**

Currently, A-share P/E valuation is trading at 16x, lower than its long-term average since 2007 at 21.4x.

**Exhibit 8: A-share P/E valuation: long term**

The current 16x P/E of A-share is lower than its long-term average

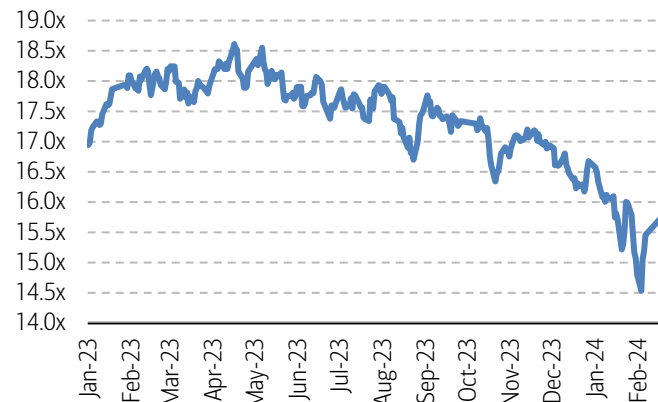


Source: BofA Global Research, Wind

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**Exhibit 9: A-share P/E valuation since 2023**

A-share P/E touched five-year low of 14.5x amid sell-off before the CNY holiday in Feb but quickly rebounded to 16x post the holiday



Source: BofA Global Research, Wind

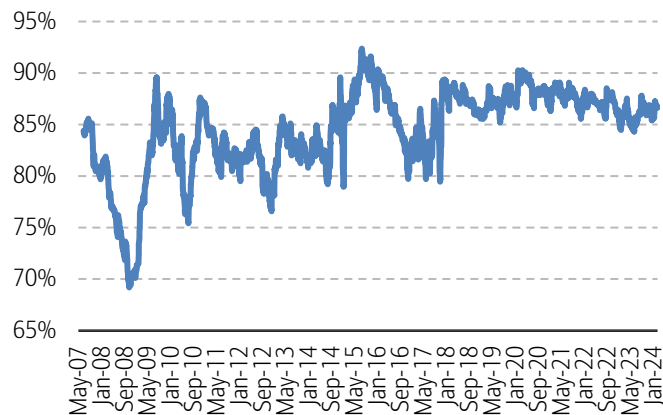
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**Positioning: 63%, high**

86.6% of stock mutual funds' position is invested currently, which is lower than its recent peak in Feb-20 at 90.3%, but higher than its long-term average of 84.5%.

**Exhibit 10: % of position invested by stock mutual funds: long term**

Stock fund positioning is at 86.6%, higher than its long-term average



Source: BofA Global Research, Wind

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**Exhibit 11: % of position invested by stock mutual funds since 2023**

86.6% of stock funds' position is invested in Feb-24, rebounded sharply from 85.7% in Dec-23



Source: BofA Global Research, Wind

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**Liquidity: 0%, very loose**

The 10-year government bond yield slid to 2.4% in Feb-24 due to the rate cut expectations. The current level is at record lows.

**Exhibit 12: China 10yr government bond yield: long term**

The current 10-yr CGB yield at 2.4% is record lows

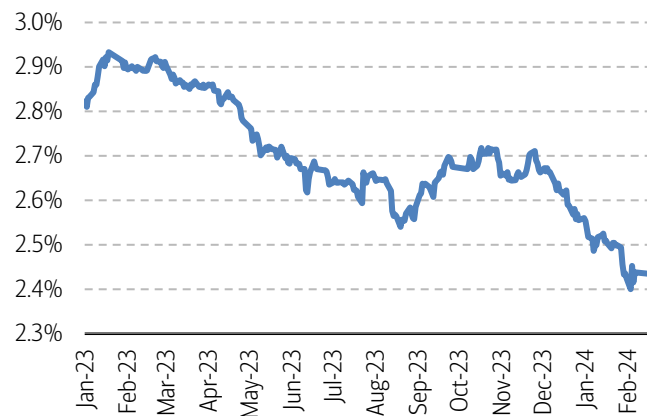


Source: BofA Global Research, Wind

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**Exhibit 13: China 10yr government bond yield since 2023**

10-yr CGB yield slid to 2.4% in Feb-24, the lowest level since 2023



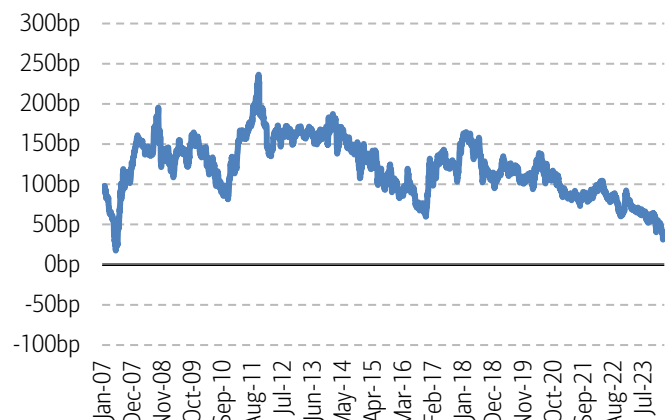
Source: BofA Global Research, Wind

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10-year AAA corporate bond spread narrowed by 50.4bp from the beginning of Jan-23 to 36.3bp in Feb-24.

**Exhibit 14: Spread between 10yr AAA corporate bond yield and 10yr CGB yield: long term**

Corporate bond spread remains at low levels

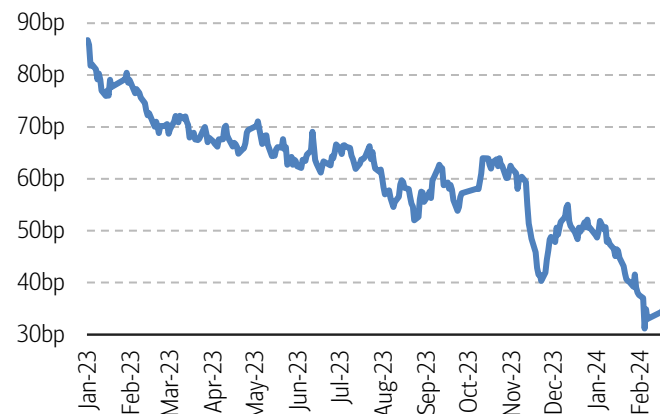


Source: BofA Global Research, Wind

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**Exhibit 15: Spread between 10yr AAA corporate bond yield and 10yr CGB yield since 2023**

Corporate spread narrowed by 50.4bp from the beginning of Jan-23 to 36.3bp in Feb-24



Source: BofA Global Research, Wind

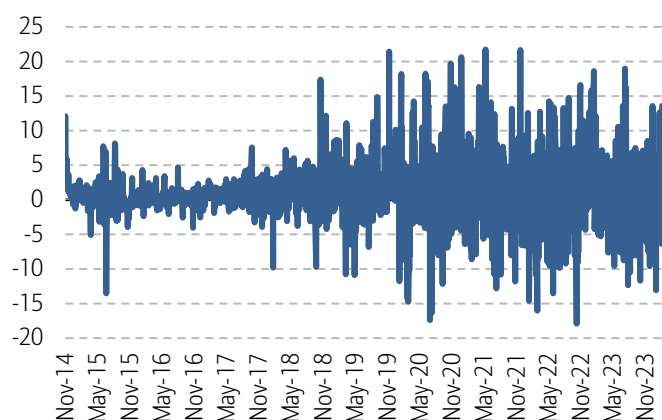
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**Fund flow: 27%, bullish**

Northbound recorded RMB 45.2bn net inflows in the past one month, while major A-share funds continued to be net sellers.

**Exhibit 16: Northbound net inflow (RMB bn): long term**

Northbound flow has been growing over the past few years

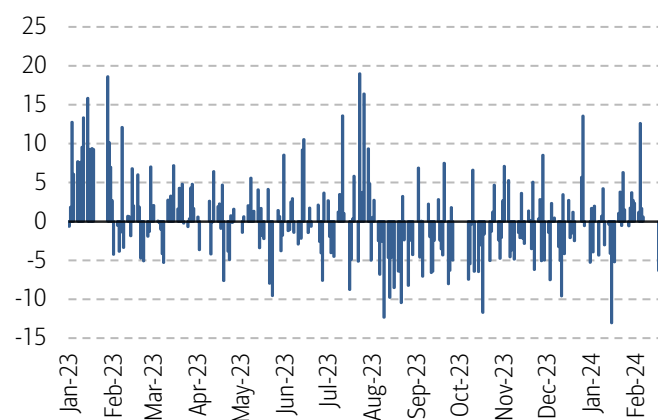


Source: BofA Global Research, CEIC

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**Exhibit 17: Northbound net inflow (RMB bn) since 2023**

Northbound had RMB45.2bn net buying over the past one month



Source: BofA Global Research, CEIC

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## Appendix

### BofA China A-share W&W indicator

The BofA China A-share Wax & Wane (W&W) Indicator is a contrarian sentiment indicator, using fund flows, liquidity, positioning, leverage, and valuation data. While the China Investment Compass guides us phases in the cycle and sectors to select, our W&W Indicator helps to gauge the short-term market sentiment and technical drivers. We believe the Indicator can offer predictive value on how the A-share market (ie. CSI300 Index) is likely to perform in the following 6 months – when the Indicator wanes, it usually creates buying opportunities, whereas when the Indicator waxes, it tends to become selling opportunities.

The Wax & Wane Indicator has a reading between 0 and 100:

When the Indicator exceeds the threshold of 80, sentiment is extremely strong, and it makes a “Very Bearish” signal. When the Indicator falls between 60 and 80, it is a “Bearish” signal.

When the Indicator drops below the threshold of 20, sentiment is extremely weak, and it makes a “Very Bullish” signal. When the Indicator falls between 20 and 40, it is a “Bullish” signal.

Please refer to our [China Strategy Initiation](#) report for details of the methodology.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R1</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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