

# The Chinese 'presidential put'

What to expect from China's Communist Party congress in October  
UBS Asset Management

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China's most important political event—the 19th National Congress of the Communist Party of China—will begin on 18th October with more than 2000 Party delegates from the country attending. At the 18th Communist Party congress back in 2012, Xi Jinping was anointed China's leader and it is expected that he will serve for another five-year term. This year all eyes will be on the new leadership line-up and the policy direction for the next five years.

## Xi Jinping's footprint

In recent months, China has introduced several new policies aimed at reducing leverage. These actions are part of Chinese President Xi Jinping's reform agenda. An important difference this time around, as we've seen many announcements over the years, is the central party's higher resolve to unwind the leverage in the economy than at any stage since Xi Jinping came to power.

Xi is now the center of the party, and this is the first time he's been able to select his key party ministers. In 2013 when he came into power, most members were already in place. This year, nearly half of the 25 spots in the ruling Politburo and 5 out of 7 on its supreme Standing Committee are replacement possibilities with his people, which means he's less likely to be challenged should there be missteps. Those involved in sectors targeted for reform will be more compliant than in the past as the new five-year plan is laid out later this year. Additionally, for the first time in many years, regulators, the People's Bank of China (PBOC) and politicians seem very confident about the growth backdrop. If this is their mindset, then you sense the resolve to tackle the leverage issue can be enforced with vigor.

## The Chinese 'presidential put'

We're contemplating another aspect tied to this topic of resolve, and the consequent behavioral impact on the market. Over the last fifteen years, long-time China observers have become accustomed to the Chinese 'presidential put' (Xi Jinping & Hu Jintao) —not too dissimilar to the famous Greenspan put in the US. If the economy turns south, the central authorities quickly abandon strict policy measures and turn on the lending taps to save the economy. In China's case it had more to do with supporting the underlying economy, rather than propping up financial market assets as was the case in the US. What if Xi officially abandons explicit GDP growth targeting at the end of year during the National People's Congress? Will the market interpret this as a 'presidential put' that has expired? It is interesting to see at the local level Chinese provinces no longer just have GDP targets. These days, they have a broad array of measures such as environmental and reform agenda targets.

Our key takeaways are: we don't expect to see the old days of extended credit fueled upswings going forward. Short rates will likely remain elevated as the credit creation slows and tighter macro prudential measures plug the leaky holes in the unregulated lending markets. Our out of the box call is a potential Xi announcement pulling the 'presidential put' from their armory, cancelling an explicit GDP target. In our portfolios, we are looking to add Chinese long bonds in the 3.7–4.0% range.

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