

## China NPC - Much Ado ...

"Well, everyone can master a grief but he that has it" - **Shakespeare**, *"Much Ado About Nothing"*

- Undeniably, there will be **much ado about** the annual plenary session of the **National People's Party Congress (NPC)** that commences 5th March.
- Especially *as markets anticipation of emphatic stimulus from Beijing is accentuated* by the recent surprise 25bp 5Y LPR cut, the largest on record for this benchmark.
- In fact, there may be headline excitement about "around 5%" growth target being retained; as speculation of whether this reflects desire for "above 5%" is triggered.
- In particular, if this growth target is delivered alongside any step-up in monetary policy setting to "pro-active" stimulus alongside an enlarged (~3.5% of GDP) fiscal deficit.
- Notably, any **allusion to measures to boost consumption may also excite**, given the conspicuous absence of consumer confidence reflected in consumer deflation and under the hood of the initial optical allure of Lunar New Year spending.
- **But the risk is that the stimulus availed in effect will fall significantly short of that anticipated.**
- In which case, any the initial cheer is liable to justifiable reservations if not misgivings, in the absence of an unequivocal and aggressive stimulus shift.
- Crucially, *given the conspiracy of inherent policy conflicts, unresolved confidence deficit, and tensions with longer-term economic restructuring.*

### Inherent Policy Constraints:

- First and foremost, various facets of inherent policy conflicts, **severely limiting scope for unfettered stimulus.**
- For one, this involves **binding trade-off between market/sector rescue and currency/financial stability.**
- So, **scope for unimpeded rate cuts are hobbled by attendant risks to** (more imminent) **currency stability while appetite for credit push is curbed by mounting future financial threat.**
- This explains the targeted cuts to RRR (to ease banking liquidity) and 5Y LPY (to signal mortgage support) but steady 1Y LPR benchmark to backstop the CNH.
- Point being, **regardless of deflation ostensibly backing monetary stimulus, the reality is one of constrained options** amid conflicting currency/financial stability risks.
- What's more, **even fiscal latitude may be overstated.**
- Fact is, Beijing recognizes, and arguably has the **capacity to buffer.** But is **constrained by an aversion to condoning moral hazard and/or unsustainable fiscal slide.**

- As a result of which, **lifelines** for *heavily indebted LGFVs*, wider *shadow banking* space and the *property* sector are likely to be rationed; inclined to necessary backstop, not
- Upshot being, a more calibrated and flexible approach to wielding multiple policy tools may merely alleviate, not surmount, pre-existing policy constraints.

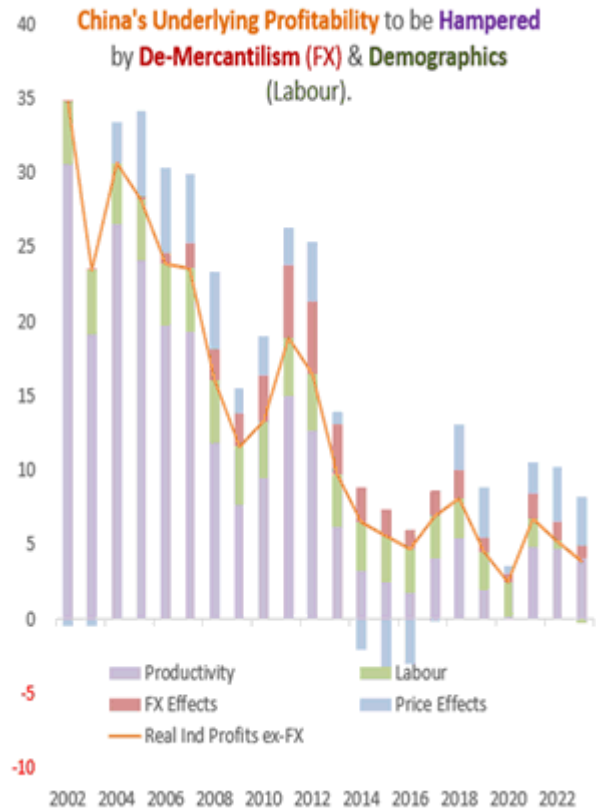
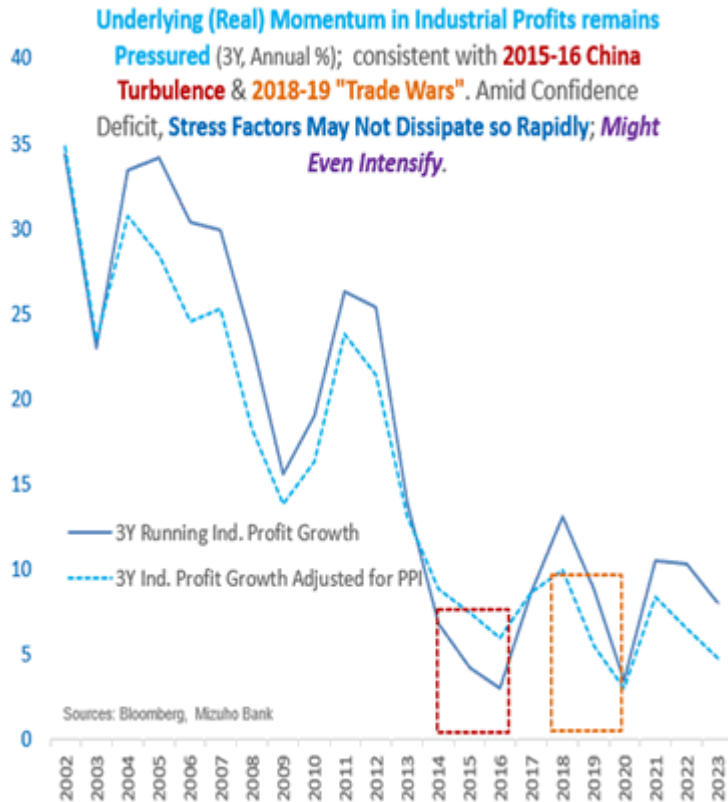
### **Unresolved Confidence Deficit:**

- Meanwhile, the **unresolved confidence deficit** suggests that *growth multipliers* are *suppressed* and *stimulus efforts* are *dulled*.
- For one, ramped-up "white list" loans (>CNY160b) to the property sector alongside 5Y LPR cuts and home purchase requirements, the **housing gloom has not lifted**,
- And this is **problematic given the circularity between confidence and property prices**; with ~70% of household wealth being tied in housing.
- With **no clear sign of Beijing's easing grip on the sector, apart from leeway to deliver on projects**, household confidence remains precarious at best.
- More so as **youth unemployment is elevated** whilst **industrial optimism** currently **subdued**, and **further threatened by adversarial geo-politics**.
- All said, *financially handicapped local governments* with potential linkages to *shadow banking prone to wobbles* amid *property gloom* make for headwinds and **higher bar for stimulus to be converted to economic boost**.

### **Restructuring Tensions:**

- Above all, anyone paying attention to "**Xi Jinping Thought**" will be cognizant of the **need to seriously re-evaluate hopeful assumptions about sharp policy course reversals to fire up growth for its own sake**.
  - Simply put, **some element of Schempetarian pain is intended** as the ideology positions China for *global advantage in technology*, *steering away from unproductive investments* and *more equitable redistribution*.
  - Point being, **easy leverage and/or reverting back to "boom town" property market (considered a non-productive asset) is simply not part of the plan** that needs to allocate resources to high-tech industrial pursuits.
  - Which is why there is no shying away from the slogan that "property is for living, not speculation".
  - And pointedly an economic course that **steers away from the boom-bust cycles of financial excesses**, with shades of **aversion to conspicuous consumption** (amid burgeoning wealth gap).
  - It thus won't be the first allusion to **desire for "quality" growth, but will inadvertently impose a more significant trade-off with "quantity"** (of growth).
- And so, the **NPC will at best offer silver linings that alleviate pain** and **mitigate risks**.

- Whereas, it **cannot provide silver bullets to overcome policy conflicts amplified geo-political threats and structural impediments.**
- In particular, as *demographic decline* and *trade assaults exacerbate structural decline in productivity.*



- Notably, this **underpins downside risks to the CNH** when Beijing can least afford it.
- To be sure, **arguments of mercantilist gains from a weaker currency are outdated** in the era of "trade war" risks, and desire to boost domestic consumption.
- **Instead**, currency stability risks and attendant threat of destabilizing capital outflows are accentuated, challenging the PBoC's **preference for renminbi stability, if not mild appreciation bias.**
- But while the preference is for CNH stability, the propensity is for CNH slippage given the confluence of economic, geo-political and structural risks.
- In turn, the aforementioned inherent policy constraints are accentuated, while confidence deficit may be exacerbated and unwelcome challenges to restructuring may mount.
- It appears that *mastering economic grief with policy is easier said than done ...*
- Especially in *China's* case given an economy *caught in the throes of confidence deficit amid geo-political headwinds* and *painful political/demographic shifts.*

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