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Friday, 27 February 2015

Flash Notes

China: NPC Preview - What To Watch

- China's annual law making session National People's Congress and Chinese People's Political Consultative Conference (CPPCC) will begin next week, on 5 Mar and 3 Mar, respectively
- For the 2015 session, "new normal" economic environment could see annual growth target lowered, with an eye on the Thirteenth 5-year plan to be implemented in 2016
- While monetary policy does not generally require to pass through NPC/CPPCC, we still see opportunities for RRR/interest rate cuts either before or after the NPC session, and we maintain our call for a weak bias in the RMB in the next 3-6 months

Who

China's annual law making session National People's Congress (NPC全国人民代表大会/人大) and Chinese People's Political Consultative Conference (CPPCC全国政协) will begin next week.

Briefly, the NPC – the highest of state organ in China – is the more powerful of the two, with the authority to decide on the Premier of the State Council upon nomination by the President of the People's Republic of China, and on the choice of the Vice-Premiers, State Councilors, and Ministers in charge of ministries or commissions, among others.

The CPPCC's function is geared towards political consultation, democratic supervision and participation in the deliberation and administration of State affairs.

This set up is thus similar to the lower and upper houses in some parliamentary systems, and the House of Representatives and Senate in the US system.

When

The 2015 session for the NPC and CPPCC will begin next week, typically taking place over 7-10 days. **CPPCC will start on 3 Mar and NPC will start on 5 Mar.**

Formally, this is the Third Meeting of the 12th session (十二届三次会议) for the NPC/CPPCC, with 5 years for every session (届). As both NPC and CPPCC take place at about the same time, they are also known as "Lianghui" (两会).

For reference, the 2014 session for the NPC took place between 5 March to 13 March and the CPPCC was from 3 March to 12 March 2014.

What To Look Out For

For the 2015 NPC session, China's current "new normal" economic environment could see the annual growth target lowered to around 7% from 7.5% previously, with greater emphasis on "rebalancing" as well as quality, instead of quantity, as market reforms accelerating. With costs of production in China rising (currency, land, labour), the shift towards higher value added manufacturing, and also services will be inevitable and continue, and these issues are likely to be at the top of the agenda.

Data releases recently suggest that China's economic slowdown remains in place, after reporting 7.3%y/y pace for both 3Q14 and 4Q14, and 7.4% for full year of 2014, at the slowest since 1990, narrowly missing the official target of 7.5%.

There have been reports that some foreign manufacturers are closing or cutting back their operations in China, with one company closing its two factories and retrenching about 9000 workers recently. This is also reflected in the modest external trade report which saw a surprise declines of 3.2%y/y in exports and 19.9% contraction in imports in Jan.

Meanwhile, China is also preparing for the Thirteenth 5-year plan, which will be adopted officially in 2016, with some of the planning parameters may be brought up during the 2015 NPC/CPPCC session. The significance is that the coming 5-year plan (2016-2020) is the first under the Xi Jinping's administration, and the target is to double the economy and per capita income by 2020 from 2010. To achieve that target, **China needs to accomplish at least 6.5% to 7% annual growth rate** in the coming years, compared to the average growth rate of 8.6% in 2010-2014.

While monetary policy does not generally require to pass through NPC/CPPCC, PBoC's governor does attend the session and speak at the proceedings. As such, there will be news flows throughout the session, particularly on the central bank's role in maintaining headline momentum. After the broad RRR cut announced on 4 Feb, targeted RRR cuts are reported to have been implemented recently, with as much as 1% pt reduction on RRR for city commercial banks such as Bank of Beijing, and agricultural commercial banks, which are qualified e.g. lending to SMEs. One report noted that in Zhejiang province alone recently, 23 financial institutions were able to make additional cuts under the targeted RRR regime.

The 7D repo rate continued to remain elevated, suggesting the short term liquidity still tight. The 7D rate stood at 4.75% today (Fri 27 Feb), compared to 4.9% on Thur, 4.83% on Wed and relatively unchanged from 4.79% just before the Lunar New Year break. The 50-bps RRR cut announced on 4 Feb was partly aimed at addressing this short term liquidity issue, but the impact appears limited. **As such, we still see opportunities for at least one more 50bps RRR cut, as well as interest rate cuts, with 25bps cut either before or after the NPC/CPPCC session.** In addition, easing pressures on the CPI also allow the PBoC more flexibility to make interest rate adjustments. Given these circumstances, a weaker RMB is still on the table, and we maintain our forecasts for RMB at 6.28/US for end-1Q15 and at 6.29/USD for end-2015. **We also anticipate a widening of trading bands from 2% currently to 3%**, before the end of the 2015.

Other issues that could be raised in the NPC/CPPCC would be implementation of nationwide property tax, with the nationwide immovable property registration (不动产登记制度) being rolled out nationwide recently. In addition deepening of reform measures for the economy are likely to be intensified and there could be further announcements and implementation of restructuring of industries and sectors. Issues on the environment, pollution, resources utilization and pricing will also be part of the reform measures.

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