Previewing the all-important July Politburo meeting

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Looking ahead to this week, the most important macro development in China will be the July Politburo meeting that will take place sometime in the next seven days.

- **Some context:** The 25-member Politburo meets once a month to discuss top-level policy priorities.
- Once a quarter, those meetings specifically focus on recent economic performance, and are a key venue for (re)-calibrating economic policy going forward.
- July will be one of these econ-focused meetings – with the Q2 GDP data having just been released and the economic trajectory for H2 2022 in doubt.
- For our money, we'd expect the meeting to take place this coming weekend – on July 30 or 31.

What to expect: The most important development at this meeting will likely be some form of official walk-back of the 2022 GDP growth target of "around 5.5%."

- This will be a huge deal – in the past several decades China has never officially missed or revised the growth target in real time.
- Sure, the numbers have been juked at times – but that's very different from admitting the target won't be met.
- Still, at this stage it's unclear to us exactly how the walk-balk will be worded.
- At a minimum, officials will blame something on the order of "complex and unforeseen external factors" for having knocked the economy off course.
- That said, it's also possible that they won't explicitly admit that the growth target is out of reach, preferring instead to use vague Party speak to send their message.
- Either way – we expect the message will come through pretty clearly in one form or another.
- Of particular note will be whether or not officials explicitly tie their revised growth aims to the COVID-containment policy.
- Xi Jinping gave a nod in that direction on his recent inspection tour of Wuhan, indicating that people's health and safety is a higher priority than economic growth – but the official Politburo readout may not be this explicit.

Why it all matters: Clients may wonder why we continue to focus so obsessively on whether or not officials will adjust the GDP growth target – given that the target itself isn't all that meaningful.

- The key here is that backing away from the growth target will give officials more flexibility in how – and to what extent – they seek to stimulate the economy in the coming months.
- To be sure, additional economic support is on the way – as the torrent of special purpose bonds and policy bank lending that have been issued and allocated over the past two months make their way into the economy.
- And as we've written previously, this could represent pretty substantial support – on the order of up to 2.5% of GDP.
- But by backing off of the GDP growth target, policymakers will be better able to ensure that they don't over-do stimulus measures and end up overheating the economy around the turn of the year.

This last point is incredibly important:

- In our view, the worst thing policymakers could do is panic and over-stimulate to hit to an overly-aggressive and arbitrary GDP growth target – thereby undoing all the hard work of recent years to rein in debt and de-risk the financial system.
- Fortunately, a spate of high-level policy advisors have argued against over-stimulation in recent weeks – not only underscoring that the GDP growth target is now unattainable, but also advocating for caution, to keep from overheating the economy.
- Indeed, Premier Li Keqiang underscored the need to remain measured with stimulus in his speech at Summer Davos last week.

Other items of note: Besides some expected language around the growth target, we are not looking for any significant additional economic policy announcements from the Politburo this week.

- The State Council has already rolled out the economic support plan for Q3.
- And we expect policymakers will want some time to judge the efficacy of those measures, before rolling out any major new initiatives.
- So the Politburo may call for boosting infrastructure investment, but that will really just be a reiteration of the current plan.
- And while senior policy advisors are already outlining the need for additional fiscal measures to avoid a fiscal cliff in Q4 – by bringing forward the 2023 special purpose bond quota, introducing a new round of special treasury bonds, or adjusting the fiscal deficit – policymakers will have time to hone those plans over the next couple of months.

Putting it all together: The reason all of this is so important is that we continue to think that the risks are to the downside for Chinese economic performance in H2 2022.

- Not only are officials backing off the growth target and underscoring the need to avoid over-stimulating – but we also have ongoing concerns around the efficacy of the coming infrastructure stimulus.
- We also continue to see a spate of economic headwinds that could undermine growth in the second half of the year, including: a dire property market, weak loan demand, struggling SMEs, the potential for export demand to wane, sluggish consumer spending, and…
- …this little thing called COVID-19.

In our view, then, growth is more likely to come in around 4% for the year – rather than the 4.5-4.8% that most domestic economists (including those linked to the government) are now expecting.

- As such, we expect both the Chinese economy and a range of Chinese assets to underperform over the next six months.

On the global economic front, such a scenario would clearly be a drag on output – but it may also translate into a more concerted disinflationary impulse from China, giving developed world central banks a little more breathing room than is currently expected.