

# China: Takeaways from President Xi's opening remarks at the 20th Party congress

## Bottom line:

- The 20th National Congress of the Communist Party of China (NCCPC) convened today in Beijing and will conclude on 22 October. Through the opening remarks, President Xi summarized the achievements over the past five years and set out the blueprint for the Party and the country for the future.
- In summary, 1) President Xi's "Thoughts on Socialism with Chinese Characteristics for a New Era" have been further highlighted; 2) national security and social stability appear to have become more important, especially for the security of key supply chains; 3) President Xi reiterated the "One Country, Two Systems" principle, and strengthened the stance to secure national sovereignty; and 4) economic development remains important, with continued focus on high-quality growth.
- Our textual analysis suggests the adjusted frequency of "security", "people", "socialism", "modernization" and "military" this time increased versus five years ago, that of "growth" and "law-based governance" remained largely stable, while that of "economy", "market" and "reform" declined somewhat.
- We believe the ongoing Party congress may not be an inflection point for major policy changes. We maintain our view that a reopening will probably be delayed until at least Q2 2023, and implemented gradually to the extent possible. Policymakers' reaction function such as "no flooding of easing measures" and the top leadership's long-term goals are unlikely to change after the Party Congress.
- In terms of equity market implications, we are not changing our views in the absence of any fresh and material policy and political inputs so far from the Congress—We prefer China A over Offshore equities, and would continue to focus on thematic ideas such as "Common Prosperity" and "Little Giants" to trade for sustainable alpha in the stock market. That said, we'd argue that a high level of risk premium is embedded in prevailing equity valuations, and investors should consider option strategies to tactically position in the market.

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**Main points from GS Economics team:**

1. The 20th National Congress of the Communist Party of China (NCCPC) convened today in Beijing and will conclude on 22 October (For more on this see the latest [GS Top of Mind](#) publication and [our preview](#)). Through the opening remarks today, President Xi summarized the achievements over the past five years and set out the blueprint for the Party and the country for the future.

2. Our key takeaways from President Xi's remarks today:

- **The report further highlighted Xi's "Thoughts on Socialism with Chinese Characteristics for a New Era"**. President Xi summarized the achievements over the past five years, especially on socialism theory and thoughts, party leadership, high-quality growth, structural reforms, people's livelihood (including Covid control), among others. He emphasized that from now on, the CPC's core task is to lead Chinese people to build China into a "great modern socialist country"; to achieve the second centennial goal,<sup>1</sup> and to comprehensively strive for the "great rejuvenation of the Chinese nation" via the modernization with Chinese characteristics.<sup>2</sup> President Xi called for continued adherence and further development of the thoughts on a long-term basis.
- **Increased emphasis on national security and social stability.** President Xi highlighted the importance of national security and social stability, required improving the legal, strategical, policy, risk monitoring and emergency management systems to ensure national security, safeguard the supply chains of food, energy and other key products, and improve the efficiency of social governance. He specially mentioned that "Chinese people must hold their rice bowls firmly in their own hands", signaling the importance of food self-sufficiency and security.
- **On national sovereignty**, President Xi emphasized the need to comprehensively, accurately and firmly implement the national basic policy of "One Country, Two Systems". Regarding Taiwan issues, he pledged to make the most efforts to pursue for a peaceful reunification, but said China will not commit to abandoning the military option. President Xi stressed that China must achieve and has the ability to achieve a complete reunification. He also required strengthening military training and battle preparedness.
- **Economic development remains important, with continued focus on high-quality growth.** President Xi reiterated that "the principal contradiction facing Chinese society is that between unbalanced and inadequate development, and the people's ever-growing needs for a better life", and China's long-term prospect as "to basically achieve socialist modernization by 2035", and "to build China into a great

<sup>1</sup> Note among the "Two Centenaries" goals, China has fulfilled the first goal to "build a moderately prosperous society in all respects" by 2021 (the centenary of the founding of the CCP in 1921) and has been working on the second goal to "build a modern socialist country that is prosperous, strong, democratic, culturally advanced and harmonious" by 2049 (the centenary of the founding of the People's Republic of China).

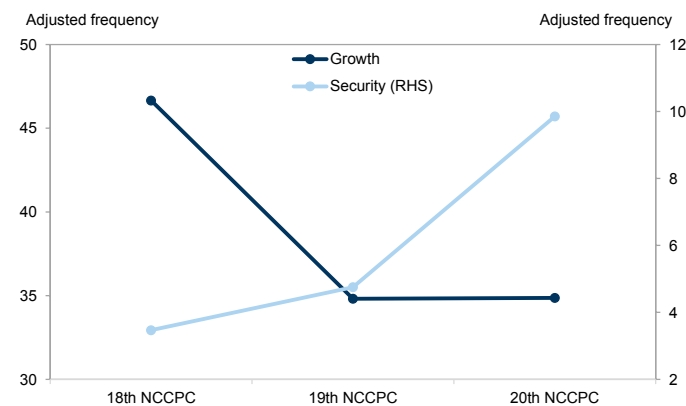
<sup>2</sup> According to Xi's remarks, the modernization with Chinese characteristics required adhering to the CCP's leadership and socialism with Chinese characteristics, achieving high-quality growth, developing the whole-process people's democracy, achieving the common prosperity, promoting the harmonious coexistence between human and nature, and building a community with a shared future for mankind, etc.

modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious, and beautiful by the middle of this century.” He highlighted the need to focus on the real economy when boosting the modernization of industrial supply chains.

- President Xi also emphasized a few other issues, including 1) further improving people’s income, livelihood and employment; 2) accelerating the establishment of a housing system that ensures supply through multiple sources, provides housing support through multiple channels, and encourages both housing purchase and renting (we note President Xi didn’t mention “housing is for living in, not for speculation” during his speech, but this was flagged in his full reports at the 19th and 20th NCCPC); 3) employing a gradualist approach to pursue the decarbonization targets; 4) improving the public health system and emergency response mechanism, especially against major epidemics; 5) maintaining the high pressure on corruption.

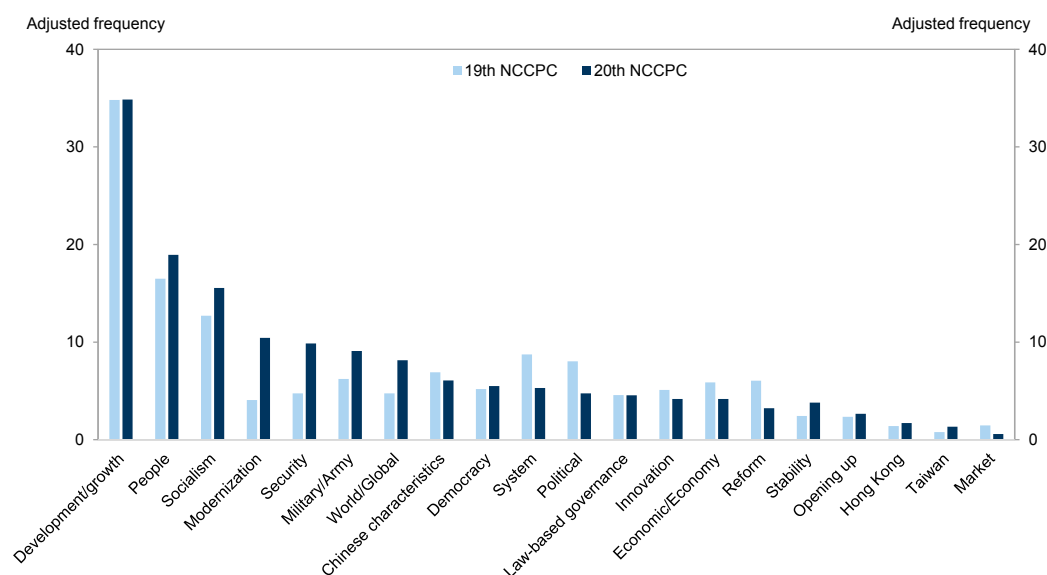
3. We compare the number of times major keywords were used in the President Xi’s opening remarks at the 20th NCCPC, with his speech at the 19th NCCPC (in 2017) and former President Hu Jintao’s at the 18th (in 2012). Based on our textual analysis, we find the adjusted frequency of “people”; “socialism”; “modernization”; “security” and “military” this time increased versus five years ago (adjusted for the length of reports), that of “growth” and “law-based governance” remained largely stable, while that of “economy”; “reform” and “market” declined somewhat (Exhibit 1 and Exhibit 2).

**Exhibit 1: The emphasis on security increased in Xi’s 20th NCCPC speech, while that on growth remained stable**



Adjusted frequency refers to the number of select keywords per 1000 words in the reports available.

Source: Government websites, Goldman Sachs Global Investment Research

**Exhibit 2: Shifting emphasis in Xi's speeches from the 19th to 20th Party Congress**

Source: Government websites, Goldman Sachs Global Investment Research

4. We continue to believe the ongoing Party congress may not be an inflection point for major policy changes. Specifically, key health and political considerations suggest to us a reopening will probably be delayed until at least Q2 2023, and implemented gradually to the extent possible. In the past week, state media has doubled down the zero-Covid policy stance, dimming the hope of an imminent reopening. Moreover, we believe policymakers' reaction function such as "no flooding of easing measures" and the top leadership's long-term goals such as "housing is for living in, not for speculation" — despite no mention of it in Xi's speech today but appeared in his full report released afterwards — are unlikely to change significantly after the Party Congress.

5. **Timeline for key events ahead:** According to the agenda, in coming days, Party leaders and delegates will focus on the amendment to the Party's constitution, a review of the report of the 19th CPC Central Committee, and the election of the 20th CPC Central Committee and the 20th CPC Central Commission for Discipline Inspection. The new Politburo Standing Committee will be revealed at the first plenary session of the 20th CPC Central Committee (following the conclusion of the 20th Party congress, likely on 23 October). There will also be several press conferences by policymakers during the Party congress. We list the (likely timeline) for key political and policy events in coming quarters in Exhibit 3.

**Exhibit 3: A series of high-level policymaker meetings will occur over the next year**

Dates (possible)	Key political and policy events
Oct 16-22 2022	The 20th Party Congress
Oct 23 2022	First Plenum of the 20th CPC Central Committee
Early Dec 2022	Politburo meeting on 2023 economic policy outlook, preparation for CEWC
Mid Dec 2022	Central Economic Work Conference (CEWC)
Jan/Feb 2023	Second Plenum of the 20th Party Congress
Mar 2023	Two Sessions - NPC and CPPCC
Oct/Nov 2023	Third Plenum of the 20th Party Congress

Source: Xinhua, www.gov.cn

**Main points from GS Portfolio Strategy team:**

1. Empirically, over the past 5 Party Congress cycles (i.e. 25 years), Chinese stocks have tended to perform well 1 month in the run-up to the Congress, but **range-trade when the event was in progress, and correct 5% on average 1 month post the meeting**. However, the pre-Congress rally didn't materialize this time around as MSCI China has already fallen 4% so far in the 4th quarter alongside global equities and risk assets on intensifying growth, inflation, policy, and geopolitical concerns worldwide.
2. As widely expected, **the opening speech by President Xi on Day 1 of the Congress offered limited incrementally new information** about potential changes in Party leadership, cyclical policy directions, and other geopolitical and ideological subjects. This means that all eyes will be on October 23 when new members of the Politburo and Politburo Standing Committee will be officially unveiled, with the spotlight centering on whether President Xi will break the tradition of a two-term limit and secure an unprecedented third term as the CCP Party Secretary. While data points are limited, leadership transition (or lack thereof) could be influential to short-term returns as the **market usually performed well post the event in the episodes where a leadership transition took place** (i.e. 2002 and 2012), perhaps reflecting market expectation that incoming leaders would focus on growth when they took office.
3. On policy, the event (after it is concluded) has been perceived by some investors as **a potential trigger for the authorities to gradually relax the Covid-related restrictions**, and more broadly, for policymakers to turn more aggressive on growth supportive measures. In fact, re-opening beneficiaries have outperformed since August likely catalyzed by the reduction of travel/social gathering restrictions in Hong Kong and Macau, and the confirmation that several high-profile events will be held in China in the coming quarters although the optimism has faded somewhat in the past few days with mass testings are still being conducted across the country, and State media outlets and senior officials from the National Health Commission reiterating the justifications for sticking with the zero-Covid approach. Overall, our economists do not expect a drastic shift of policy dynamics post the Congress and expect the Zero Covid Policy to stay effective until 2Q23 on political and public health considerations, but the **composition of top Party leadership will probably shed light on the policy directions** going forward. For now, our policy news trackers, which group key words from State-sponsored media platforms into 2 main categories—ideology/politics and economy/markets—suggest to us that the policy focus has remained largely consistent in the lead-up to the Congress, with the balance shifting modestly from ideology to growth.
4. While uncertainties still abound, one observation that stands out to us is that **a high level of (event/political) risk premium is arguably embedded in prevailing equity valuations** relative to previous Congress cycles. This is partly reflected by: a) the wide and “unexplained” valuation discounts to prevailing index PE per our top-down macro PE model which has historically matched well with realized index valuations; b) elevated implied volatility and skew in index option pricing; and, c) rising country risk premium based on the Credit-Default-Swap (CDS) market pricing. At the headline index level, MSCI China and CSI300 is trading on 9.1x and 11.0x, -1.2 s.d. and -0.6 s.d. to their

respective past 10Y averages, with more than 30% and 23% of the index constituents trading below their book value. All these suggest to us that there could be potential for risk premium to moderate due to removal of political uncertainty and perhaps improving policy visibility when the Congress ends.

5. We are not changing our strategies in the absence of any fresh and material policy and political inputs so far from the Congress—we prefer **China A over Offshore equities** as the former is comparatively less exposed/sensitive to the global macro headwinds and US-China tensions, and could receive downside support from the **“National Team”** if it is called into action on significant market weakness. Thematically, the increased emphasis on national security, social stability, technology development, and innovation (relative to President Xi’s opening speech at the 19th Party Congress), these likely policy priorities reinforce our view that investors should align their portfolio with strategic policy directions to trade for sustainable alpha in China, with our **“Common Prosperity” portfolio** offering investors broad exposures to “mass but unique consumption”, “hard” technology and manufacturing upgrading, green/renewable energy, and SOE reformers. In a similar vein, we’d highlight our new thematic portfolio—**Chinese “Little Giants”** (GSSRCNLG)—which contains growthy small/mid caps in strategically important sectors for China (Cap Goods, (New) Materials, Tech Hardware) that are handpicked by the authorities for explicit policy support. For investors who can utilize derivatives, we believe **risk reversals** (or similar structures) **on HSCEI continues to look attractive**, considering: a) the put strike levels are below/close to GFC lows for HSCEI which has corrected 54% from its 2021 peak and 13% in the past month; b) index valuations are at the low end of the historical range (7.8x fP/E, -1.2 s.d.) and skew is high; and, c) fundamentally, we expect 10% profit growth per annum for Chinese corporates over the next 5 years.

**Exhibit 4: Chinese stocks usually trade well ahead of, consolidate around, and correct post the Congress in the past 5 cycles**

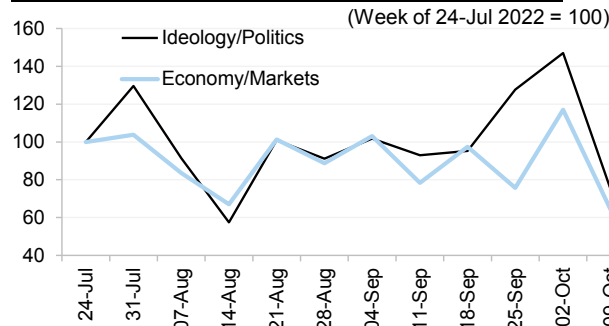


Source: FactSet, Goldman Sachs Global Investment Research

**Exhibit 5: Chinese stocks usually traded better in the episodes where top Party leadership took place**



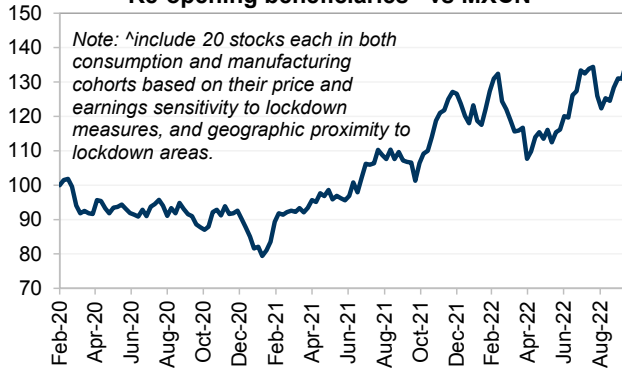
Source: MSCI, FactSet, Goldman Sachs Global Investment Research

**Exhibit 6: Policy emphasis on economy/markets has modestly risen in the past week per articles from State-sponsored media outlets****News Mentions Index based on key state-owned media<sup>^</sup>**

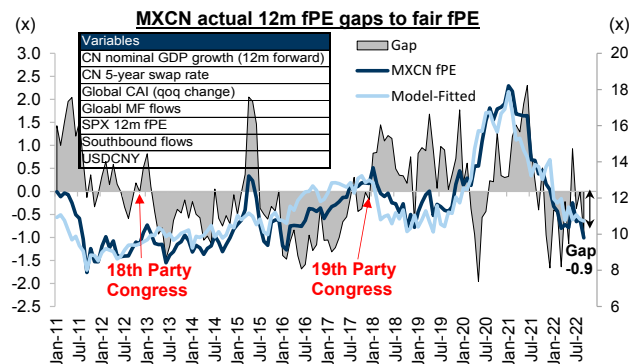
<b>Ideology/Politics</b>	动态清零 or 共同富裕 or 一带一路 or 人类命运共同体 or 中华民族伟大复兴 or 中国梦 or 新时代中国特色社会主义 or 决胜全面小康 or 两个确立 or 两个维护
<b>Economy/Markets</b>	改革开放 or 对外开放 or 通关 or 自由贸易 or 支持民营企业 or 经济发展 or 经济增长 or 稳增长 or 稳经济 or 保就业 or 稳就业

<sup>^</sup>based on % of news articles with keywords (title and lead paragraph only) in all news articles from People's Daily, China Daily, Xinhua, Cankao Xiaoxi and Global Times

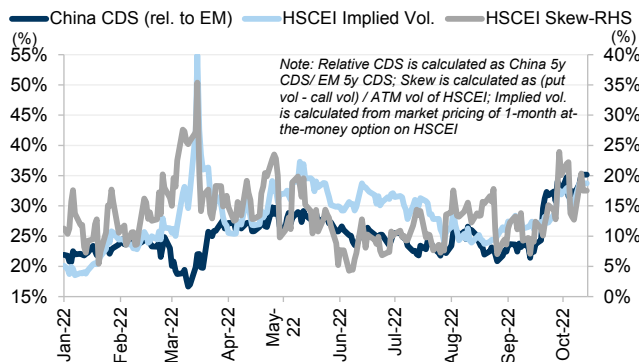
Source: Factiva, Goldman Sachs Global Investment Research

**Exhibit 7: Market expectation on re-opening has strengthened in recent months****Re-opening beneficiaries<sup>^</sup> vs MXCN**

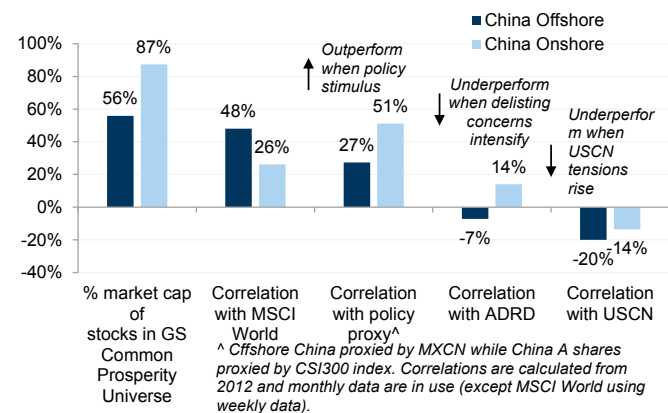
Source: FactSet, MSCI, Goldman Sachs Global Investment Research

**Exhibit 8: Prevailing valuations are trading at high discounts to our model-implied fair values relative to previous Congress cycles**

Source: Bloomberg, FactSet, Goldman Sachs Global Investment Research

**Exhibit 9: Significant risk premium seems embedded in equity prices**

Source: Goldman Sachs Global Investment Research

**Exhibit 10: Chinese A shares look better positioned than Offshore equities from a macro risk exposure and policy perspective**

Source: Bloomberg, Wind, FactSet, Goldman Sachs Global Investment Research



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