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A Party with Important Implications

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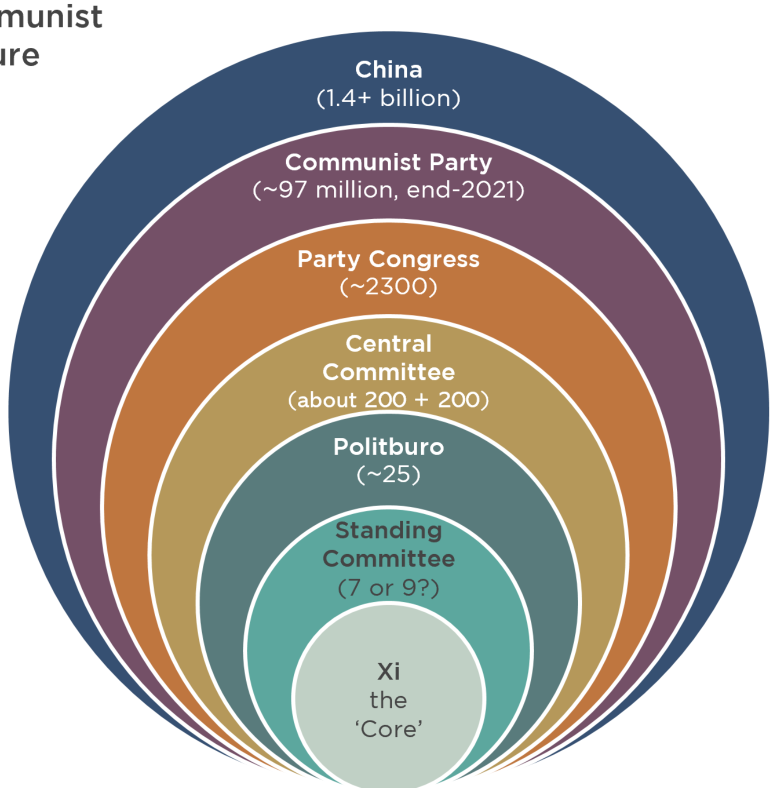
China's 20th Party Congress will be held from October 16 to October 23, and the most widely covered agenda item will be President Xi Jinping's expected historic reappointment. However, this Party Congress also will focus on a leadership reshuffle, ideology, and long-term strategy. It is unlikely that we will see any announcement of concrete economic policy, but there may be some more subtle leadership and public policy announcements with important near- and longer-term ramifications. We expect President Xi Jinping will present a lengthy work report detailing the Party's achievements over the past five years along with updates on the fight against COVID, the common prosperity policy campaign, which is aimed at promoting income equality and more balanced and fair regional development, the property market, and other important topics.

Even though we do not expect to gain clarity on China's economic policy objectives, the Party Congress has the potential to reshape the composition of the country's complex party system (see Figure 1).

1 China's Communist Party Structure



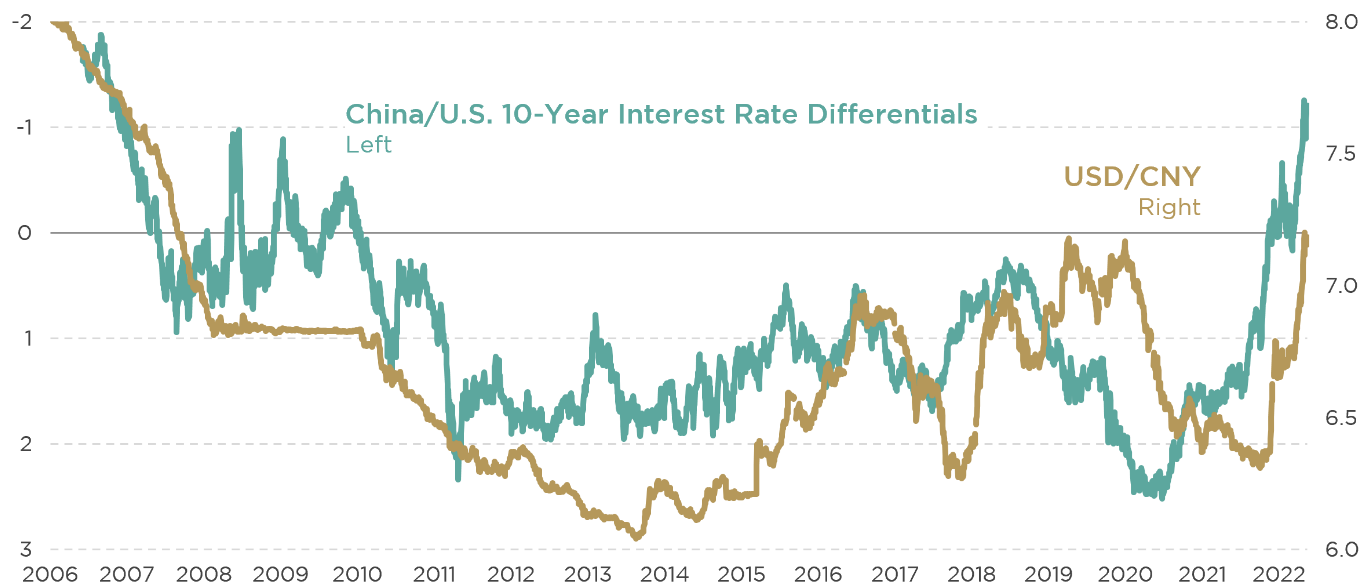
Source: Evercore

While economic policy is not expected to be a feature of this Party Congress, core public policies, like China's zero-COVID policy, will be at the forefront, and many of these have significant implications for future growth. We believe China's zero-COVID policy is likely to remain in place until at least next March when the National

People's Congress will be held. However, the restrictive program probably could extend even longer, gradually being phased out, subject to vaccination progress and the evolving COVID situation.

Despite the recent pickup in easing in the property market and in private investment and consumer spending, we have not seen visible signs of a turnaround in the economy as a result of the restrictive zero-COVID policy. We need to see stronger policy change to shore up the confidence of both private business and consumers. In the meantime, we believe there should be some marginal improvement with an uptick in policy implementation as new leaders start with their new track records. Therefore, the risk for Chinese government bonds is for yields to go up rather than go down. However, without a meaningful acceleration in the economic recovery, the yield selloff likely will be limited. On the renminbi (RMB) front, we can see the depreciation of the currency is still driven largely by the strong U.S. dollar (USD) but also by weaker growth fundamentals given the potential delayed reopening of the domestic economy to next year if and when the zero-COVID policy relaxes. RMB depreciation is also being driven by a historical negative interest rate differential; the U.S. 10-year rate was recently higher than the China 10-year government bond rate by 120 basis points (see Figure 2).

2 China/U.S. 10-Year Interest Rate Differentials vs. USD/CNY
As of 10/11/2022



Source: Bloomberg (© 2022, Bloomberg Finance LP)

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