

China may tweak policy amid trade risks

BLOOMBERG

24 April

China's leaders are giving their strongest signal since 2015 that growth in the world's second-largest economy could slow—and that they're prepared to tweak policy if trade or financial risks threaten a sharp deceleration.

Hard work is needed to meet this year's economic targets amid an increasingly complicated geopolitical situation, according to a statement released by state media Monday following a Politburo meeting led by President Xi Jinping. Though growth remained robust in the first quarter, forecasters still see the economy slowing this year as trade tensions with the US and the campaign to clean up the financial sector remain as downside factors.

As the Politburo statement mentioned the need to boost domestic demand for the first time since 2015, and dropped a reference to deleveraging, investors are interpreting the change in tone as a signal that the government may ease off tightening measures if warranted. Stocks in Shanghai rallied the most in two months Tuesday. "There's a deep sense of risk underlying the calm surface, and the leadership's attitude has changed greatly," Deng Haiqing, chief economist at JZ Securities in Beijing, wrote in a note. "The



Chinese President Xi Jinping during a meeting at the Great Hall of the People in Beijing on Monday. REUTERS

attention attached to stabilising economic growth is the greatest since 2015."

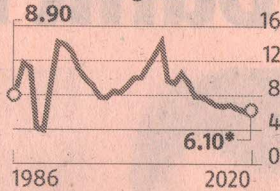
While trade tensions with the US have been easing, the statement indicates that leaders are preparing to preempt any potential economic turbulence. US Treasury Secretary Steven Mnuchin hinted at a truce Saturday in Washington, saying he's considering a trip to China and is "cautiously optimistic" about bridging differences over trade issues. "Against the backdrop of uncertain trade and invest-

ment tension with the US, the Chinese government has realised the difficulty of reaching the predetermined growth target," said Xu Jianwei, a senior greater China economist at Natixis SA in Hong Kong. "This is a significant, rather than slight, change of tone."

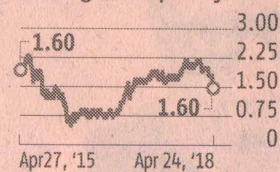
Economists surveyed by Bloomberg forecast growth will slow this year to about 6.5 per cent, the same as the government's target, and then continue decelerating for the next two years.

GRADUAL SLOWING

Annual GDP growth (%)



China 10-year govt bond yield vs Shanghai Composite yield



* Projected; Compiled by BS Research Bureau; Source: National Bureau of Statistics, Bloomberg

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