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What to watch for at 2019 NPC

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We will pay more attention to eight areas at the upcoming National People's Congress beginning from tomorrow.

First, China will set its key target for major economic indices. GDP growth for 2019 is expected to be lowered to 6-6.5% range after 23 provinces have downgraded their growth target in their local NPC. Market will closely monitor whether China will set a quantified target for M2 growth, which was omitted last year.

Second, fiscal is always one of the most important elements for the NPC as China will set all the budgets for government expenditure to support long term sustainable growth. Two numbers will be highly watched including the fiscal deficit target and quota for local government special bond issuance. Fiscal deficit target is likely to be set at 2.8%, higher than previous years but lower than market expected 3%. Any fiscal deficit target above 2.8% could be a positive surprise. The local government special bond issuance quota is expected to be raised to above CNY2 trillion from CNY1.35 trillion in 2018. Against the backdrop of standardizing the stealth debt, China may reply more on special bond to stabilize the infrastructure investment growth, which is expected to stay between 5-10%.

Third, based on the assumption of 2.8% fiscal deficit target. We think China's nominal fiscal deficit may go up to about CNY2.8 trillion. Given about 65% of deficit may be funded by central government. Total government bond issuance after taking CNY2.1 trillion maturing profile into account will be close to CNY4 trillion.

Fourth, tax cut and reduction of administrative fees will be one of the key focuses. Should China announce the VAT cut for manufacturing sector by more than 2%, it may boost market sentiment.

Fifth, on monetary policy, the overall tone is expected to repeat the messages from the Central Economic Working Conference last December 2018. China is likely to keep its liquidity stable at a reasonable level.

Sixth, on property market. China may continue to allow local government to set their own policies. As such, we might see some marginal easing on property front. However, given most provinces have lowered their target for the revamp of shanty town. Property investment is likely to be capped.

Seventh, "new infrastructure plan" is likely to be the new hot term going forwards. China will push ahead with investments in 5G, artificial intelligence, internet of things etc as top priority to nurture new growth engine. Although it is still not enough to replace the old growth engines such as investment and property, it may partially make up the loss of growth from the old engine.

Eighth, China may continue to open its domestic market against the backdrop of trade war. China's NPC may approve the new foreign investment law to improve market accessibility to foreign investors.

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