

The weekly insight into world stock markets

Chinese Party Congress

Even amidst the busiest period for company reporting in Europe and America, the most important event scheduled for this week is the conclusion of the 19th National Congress of the Communist Party of China. This forum meets only once every five years to appoint China's leadership.

If previous form is followed, at the closing ceremony on Wednesday the congress will conclude with a highly choreographed ceremony in which the most powerful men in China, the newly appointed Politburo Standing Committee (PSC), will file out on stage behind the General Secretary (Xi Jinping) to be presented to the world for the first time. This year there is particular interest, because five of the current seven member PSC are scheduled to step down having reached the traditional retirement age, whilst the other member (Premier Li Keqiang) has in the past been rumoured to be vulnerable to replacement. So aside from Xi Jinping himself we are still far from sure who else will be standing on that stage. Remarkably, we are not even sure how many will follow him out – in 2012 we first discovered that the PSC had been shrunk to seven members from nine when only six people filed out onto the stage behind him.

Having said this, we know those who are in the running and we will be able to deduce a great deal about China's future direction from those who make the cut. The things to watch are first, the size of the PSC. We think it highly unlikely, but if the rumour that the PSC will be shrunk further to five members turns out to be right, the narrative casting Xi Jinping as a new Mao will be reinforced.

Second, the personnel. To a great extent, in the first five year term, the power of a new Chinese Leader is quite restricted. His first Politburo is, largely, inherited. After five years in power, however, Xi has consolidated his support, partly through a vigorous anti-corruption campaign. He will now choose his own team for the next five years. His choices of PSC members will signal China's economic direction, the candidates to succeed him and the time frame for that transition.

In this context, we have already noted that the survival (or not) of premier Li Keqiang on the PSC will be significant. Li is a highly respected technocrat, very much in favour of internationalisation and market reforms, but he has also taken some of the blame for the volatility surrounding these initiatives. He has also been seen as a possible threat to Xi, since he was backed by a different faction of the party. If Li stays on the PSC, Xi will be signalling both that he values technical competence above all else, and also that he continues to endorse market oriented economic development.

There has also been much speculation as to whether Xi Jinping chooses to overlook the traditional retirement age guidelines and reappoints 69 year old Wang Qishan to the PSC. Nicknamed "Fireman Wang" in China, because of his track record of being sent in to put out political fires, he has been in charge of Xi's anti-corruption purge. If he keeps his seat, two messages could be taken. That the anti-corruption drive will lose none of its force and, more subtly, that Xi Jinping may be opening the way to stay as General Secretary past the next five years – he himself will be 69 when the next "even year" Congress takes place in 2022.

So who is expected to make the step up to be the top of the so called "sixth generation" of Chinese leadership? The generally well-informed South China Morning Post has reported that several sources suggest that Li Keqiang will be-reappointed and that Wang Qishan will not. They name the other five PSC members as likely to be Li Zhanshu (currently Xi's chief of staff, 67) , Han Zheng (Party Secretary of Shanghai, 63) , Zhao Leji (to succeed Wang Qishan, 60) , Wang Yang (a reformer, current vice premier, 62) and Wang Huning (political theorist, nicknamed "China's Kissinger", 62). If this is right, the balance of membership would signal a commitment to continue the current direction of pragmatic economic reform. The relatively young Zhao Leji could be well placed as a possible successor to Xi if he delivers on his anti-corruption brief.

Aside from the evolution in leadership, Xi Jinping's curtain-raising half-day introduction, together with the speeches delivered at the conference, have all signalled a new confidence in China's economic & social model, its global standing and its future development. The Western press continue to view China's rise with suspicion, most often focussing on the negatives of high debt, a lack of political freedom and of the rule of law by Western standards. We make no judgement about the political system, but strongly believe that far from being unstable (either politically or economically) China is in control of its own destiny. From an investment perspective, it will continue to be a positive force for the global economy and for South East Asia for the foreseeable future. A strong leadership and a unified sense of purpose in China contrasts starkly with the state of play in the other Great Power. China, with offers of friendship and significant regional material investment to its neighbours, appears set to benefit from those who are looking for a stable partner.

Finally, *turdus merula* is better known as the blackbird. This week, Perry White is the editor of which daily newspaper?

John Haynes
Head of Research

FTSE 100 Weekly Winners

Pearson	9.5%
International Airlines Group	5.8%
Rentokil Initial	5.3%
RSA Insurance Group	4.7%
Smurfit Kappa Group	3.7%
Standard Chartered	3.5%
Royal Bank of Scotland Group	2.6%

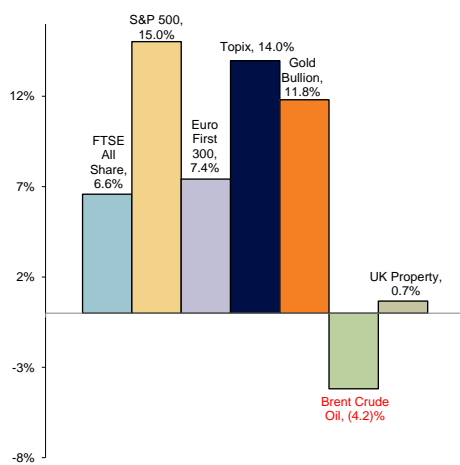
Source: FactSet

FTSE 100 Weekly Losers

ConvaTec Group	-23.2%
Merlin Entertainments	-17.2%
Reckitt Benckiser	-8.0%
Unilever	-7.6%
Fresnillo	-6.8%
Mediclinic International	-5.7%
GKN	-4.6%

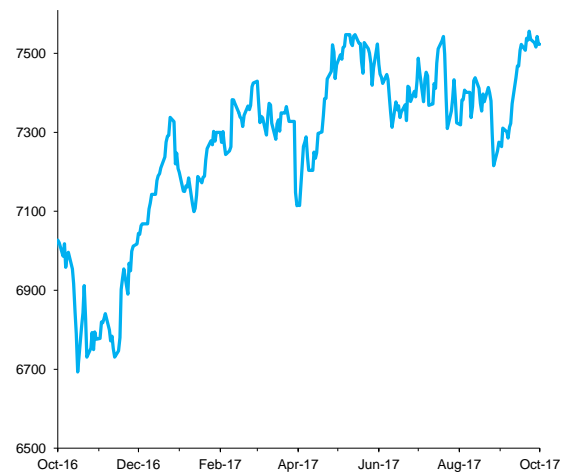
Source: FactSet

Year to Date Market Performance



Source: FactSet

FTSE 100 Index, Past 12 Months



Source: FactSet

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Registered No. 2122340. Registered Office: 2 Gresham Street, London EC2V 7QP.

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