‘Trumponics’ gaining attention but it’s China that matters

sharemarket will fly higher”, *The Australian,* November 17, 2016).

For Australian ultra-high-net-worth global investors, the reticent demeanour of Chinese President Xi Jinping and his controlling Communist Party caucus is of much greater interest, simply because China is about to embark on its own “election year”, as the Chinese Communist Party prepares to convene its 19th congress.

This event will establish the framework for Xi’s second term as China’s leader and could direct Sino markets in any number of directions; any of which would heavily affect the ASX, Australian domestic real estate, trade and Australian dollar outcomes.

Although it appeared that the Australian ASX 200 rallied past its technically significant 5600-point level late last year because of the “Trump rally”, a review of ASX 50 constituents suggests that most rallied higher on the expectation of a commodities recovery in China and Chinese industrially integrated economic neighbours.

This observation only reinforces the significance of China for Australian investment communities, especially after the surge in terms of trade over the second half of 2016.

Historically, when the US and Chinese industrial output gap closes and inflation begins to rise, this has led to a “buy” signal for commodities.

The recent reacceleration in global PMIs suggests commodity markets are entering a cyclically stronger environment, especially given supply restrictions from policy actions which should benefit oil, coking coal and nickel in the near term, while economic reductions should boost natural gas and zinc.

That said, savvy global investors know the following about “Trumponics”:
- However presented, the administration’s rhetoric will always endeavour to be fiscally stimulatory, which is bullishly received by US markets.
- Trump apparently has no plan, or intention, to curtail a strong US dollar.
- There is a recalibration of what globalisation means within a nativist American administration.
- The Republicans have voting control of both houses of the US congress at least until the 2018 mid-term elections.

But when it comes to China post the 19th party congress, savvy global investors do not know:
- Whether Chinese fiscal stimulus, which has seen a continuation in domestic onshore Chinese real estate prices and reported national GDP remain at or above 6.5 per cent leading up to this congress, will continue, taper or finish altogether.
- Which direction onshore yuan and offshore renminbi reforms will head, given the mixed signals surrounding recent so-called “Panda”, “DimSum” and RMB “Greenbond” bond issuances.
- What role China wants to take within a redefinition of globalisation.
- The outcome surrounding the speculation that Xi will prevent the appointment of a clear successor at this party congress, which could allow him to extend his political influence beyond the end of his second term, or set up a more

intense fight over the succession in 2022.

The state constitution does not allow him to remain President after 2022 but it's less certain whether party regulations and customs would prevent him in practice.

Reviewed collectively, there is an unusual amount of uncertainty, geopolitically and in terms of global trade, and by association what that means for Australia's ongoing terms of trade.

On this, according to Ian Bremmer, president of Eurasia Group, said: "Jockeying for power ahead of the party congress will be cut-throat.

Xi is determined to promote his allies, but those who oppose his consolidation of power will view the congress as their last chance to block him."

Bremmer adds that the stage is set for a year of intense internecine Chinese political combat, and in Xi's drive to cement power, the President will put a premium on avoiding any event — internal or external — that could make him appear weak.

One such event could be sparked by Australia's increasing trend to block Chinese inbound investments on the basis of national security, exampled by:
1. The blocked State Grid's $US7.7 billion bid last summer to buy the country's largest power network.
2. Canberra's recent directorate for a security review of its critical infrastructure, prompted by concerns about Chinese investment.
3. Recently published China Global Investment Tracker data by the American Enterprise Institute, which suggests that Australia is the source of more "troubled transactions" for Chinese firms — defined as investment or construction agreements that encounter problems — than any other country as of January this year.

For Australian investment communities with portfolio and self-managed superannuation fund interests across the ASX 200 but also global investment markets, the progress of China heading up to and following the October party congress appears to be far more important and consequential than anything else.

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