Top Government Meetings in China

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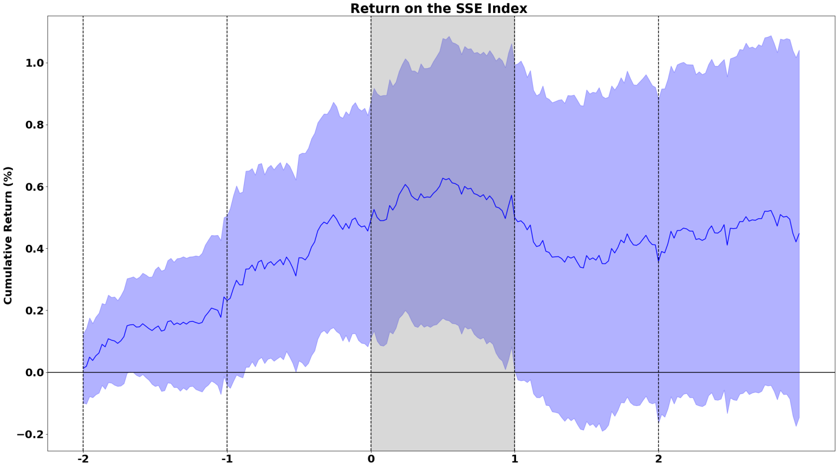
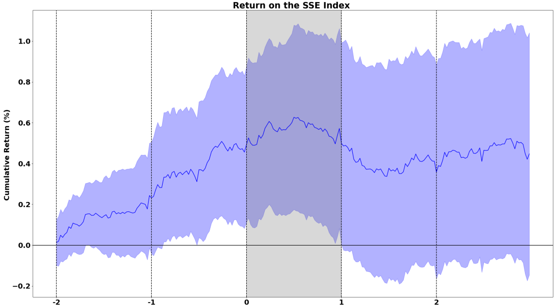
Motivations: Events with Dominant Market Impact

- Chinese stock market is in "Government centric" equilibrium instead of "Fundamental centric" equilibrium (Brunnermeier, Sockin and Xiong (2022))
  - The Chinese government conducts frequent and intensive interventions
  - Investors try to learn about the government polices rather than fundamentals
- Announcement "premia" surrounding FOMC meetings
  - Large FOMC-day return in U.S. equity (Savor and Wilson 2013).
  - Large pre-FOMC drift in U.S. and global equities (Lucca and Moench 2015).
  - The unique hold of the Fed on global equities: No announcement "premia" for other central banks. (Brusa, Savor, and Wilson 2020)
- What is the FOMC equivalent in China?
  - Top government meetings: highly anticipated, akin to the FOMC meetings.
  - Policy making in China takes place at the highest level of the government.
  - Macro announcements: M2 and total social financing (Guo, Jia, and Sun 2023).

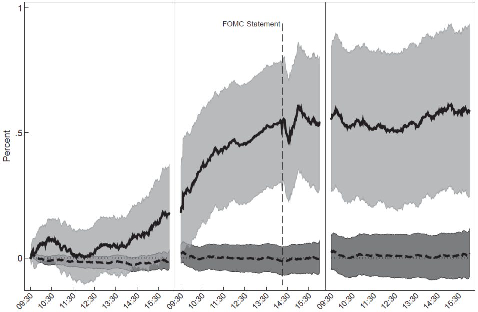
The Pre-Govt Drift in Chinese Equity



A Parallel: Top Govt Meetings in China and FOMC Meetings in the U.S.



Pre-Govt Drift in SSE



Pre-FOMC Drift in SPX

(Lucca and Moench 2015)

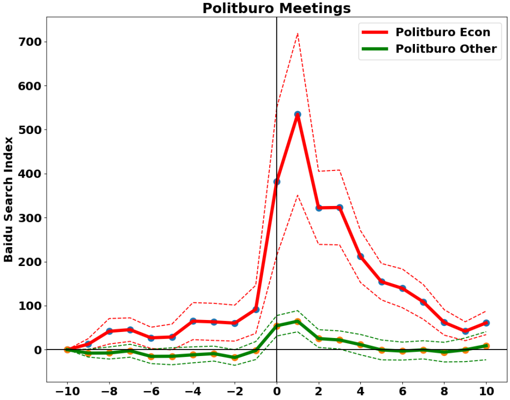
Literature Review

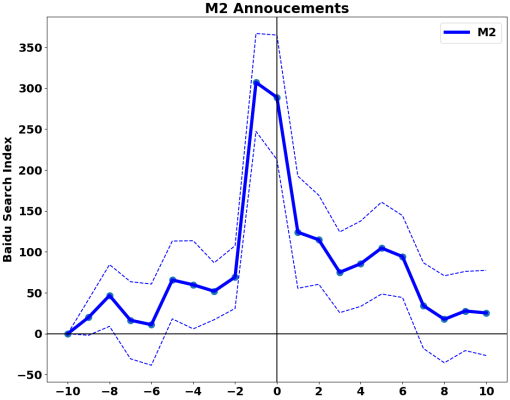
- The role of government in shaping the economy and financial markets : Song, Storesletten and Zilibotti (2011), Tombe and Zhu (2019), Geng and Pan (2023), Brunnermeier, Sockin and Xiong (2022).
- Pre-announcement returns and the underlying channels:
  - FOMC in U.S. and global equities: Savor and Wilson (2013), Lucca and Moench (2015), Brusa, Savor, and Wilson (2020).
  - The heightened uncertainty and information channels: Hu, Pan, Wang and Zhu (2022), Bernile, Hu and Tang (2016), Cieslak, Morse and Vissing-Jorgensen (2019).
- The impact of political uncertainty on asset prices: Pastor and Veronesi (2012), Pastor and Veronesi (2013), Liu and Shaliastovich (2021).

China's Government Meetings and Macro Announcements

- Pre-scheduled Government Meetings
  - Five-Yearly Party Congress and its Plenums (全国代表大会/中央全会).
  - Two Sessions (全国两会).
- Unscheduled Government Meetings
  - Politburo Meetings (中央政治局会议): Econ-Focus and others.
  - Other Meetings: Central Economic Work Conference (中央经济工作会议), State Council routine meeting (国务院常务会议), Central Financial and Economic Affairs Commission meeting (中央财经委员会会议) and Financial Stability and Development Committee meeting (金融稳定发展委员会会议).
- Macro Announcements
  - M2 Announcements: Monthly release by the PBOC. Reported within the same statement is a collection of data reflecting the broad market credit and liquidity condition (e.g., M2 money supply, RMB loans, and total social financing).

Baidu Search Intensity Before Politburo Meetings and M2 announcements





Investors' Anticipation towards Politburo Econ Meetings

- Investors anticipated there would be a Politburo meetings with econ focus ahead of the actual announcements

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预计下周一下午召开政治局会议，通稿将在盘后发出，
周三到周四召开经济工作会议。
当前宏观政策走到了重要岔路口，下周会议将非常重要。

第14期【政策边际】周度简报详细论述了当前政策转变的情况，并对下周会议做了前瞻，也对明年政策做了展望，共1.7w字加之日常跟踪内容，本期共3.6w字

快讯 | 12月9日15:22

【中共中央政治局会议：明年要大力提振消费 提高投资效益 全方位扩大国内需求】金十数据12月9日讯，会议指出，明年要大力提振消费、提高投资效益，全方位扩大国内需求。要以科技创新引领新质生产力发展，建设现代化产业体系。要发挥经济体制改革牵引作用，推动标志性改革举措落地见效。要扩大高水平对外开放，稳外贸、稳外资。要有效防范化解重点领域风险，牢牢守住不发生系统性风险底线。（新华社）

Pre-Announcement Returns in China

	Two-Day SSE Returns (%) Before the Announcements								
	Obs	Mean	TStat	Std	Min	25%	50%	75%	Max
Gov Meeting	95	**0.42**	2.22	1.85	-6.07	-0.74	0.26	1.33	5.53
(Excl. Top/Bottom 1%)	93	**0.44**	2.53	1.66	-3.98	-0.74	0.26	1.32	4.88
Two Sessions	14	0.07	0.13	2.16	-3.98	-1.06	-0.15	0.94	4.88
Plenary Session	22	0.37	1.27	1.37	-1.58	-0.51	0.24	1.01	3.42
Politburo Econ	59	**0.52**	2.06	1.94	-6.07	-0.63	0.29	1.57	5.53
Politburo Other	92	-0.04	-0.20	2.00	-11.21	-0.84	0.20	1.10	4.01
GDP	56	-0.06	-0.24	1.81	-6.82	-0.90	0.07	1.07	3.88
M2	168	0.16	1.29	1.60	-4.36	-0.75	0.14	0.98	7.04
CPI	168	-0.04	-0.26	1.97	-7.38	-0.82	-0.08	0.96	5.86
Trade	161	0.06	0.35	2.10	-6.09	-1.21	0.02	1.23	10.05
PMI	169	-0.04	-0.26	1.86	-9.93	-0.83	0.09	0.95	4.36
VAI	154	-0.04	-0.29	1.68	-6.82	-1.04	-0.07	0.96	4.79
Retail Sales	142	-0.03	-0.21	1.69	-6.82	-0.97	-0.09	0.98	4.79
SLF	85	-0.23	-1.54	1.38	-5.68	-0.83	-0.14	0.53	2.96
MLF	110	-0.05	-0.31	1.71	-8.91	-0.58	0.11	0.95	3.41
Others	2331	-0.01	-0.12	1.99	-16.81	-0.96	0.05	1.07	9.91

A Road Map

- Explaining the pre-Govt drift: The premium for heightened uncertainty.
  - Accumulation of heightened uncertainty and its subsequent resolution.
  - Institution trading in the presence of heightened uncertainty.
- Other explanations:
  - The information channel.
  - The Government put channel.
- Pre-announcement returns in China: pre-Govt vs. pre-M2.

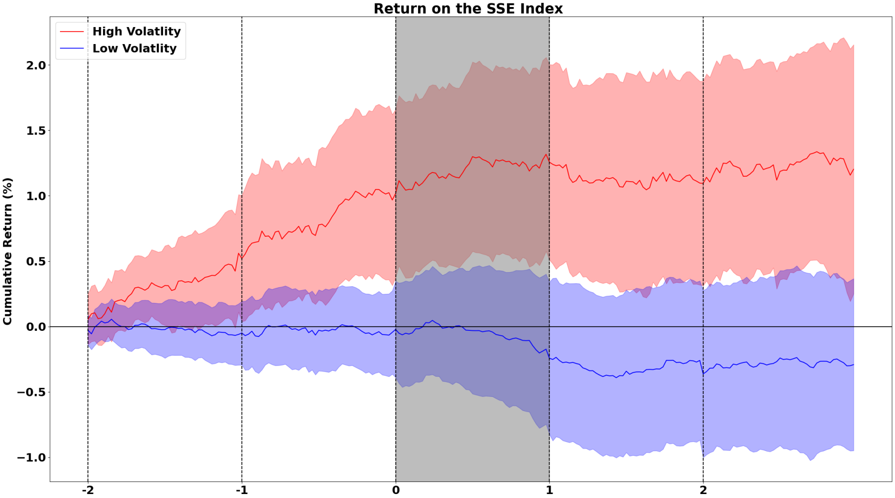
Explaining the Pre-Govt Drift: The Premium for Heightened Uncertainty

- Under the two-risk model of Hu, Pan, Wang, and Zhu (2022), the total market impact of the announcement is given by $\sigma\epsilon$, where ϵ is the news shock and σ captures the impact uncertainty.
- Central to the model is the presence of this second risk concerning σ.
    - Its variability is determined by its own volatility, given by a parameter λ.
    - Depending on the realization of σ, the same news ϵ can have substantially different market impact.
    - When λ is large, the impact uncertainty is large, giving rise to heightened uncertainty.
- *The pre-announcement drift:* the accumulation of heightened uncertainty and its subsequent resolution prior to the announcement.

Accumulation of Heightened Uncertainty and its Subsequent Resolution

	Accumulation					Pre-Ann		Ann
Day	-7	-6	-5	-4	-3	-2	-1	0
Uncertainty	Builds up					σ Resolves		ϵ Resolves
Pricing	Down					$\boxed{\text{Up}}$		
Institutions	Sell					Buy		

Pre-Govt Returns Conditioning on Accumulation-Period Market Volatility

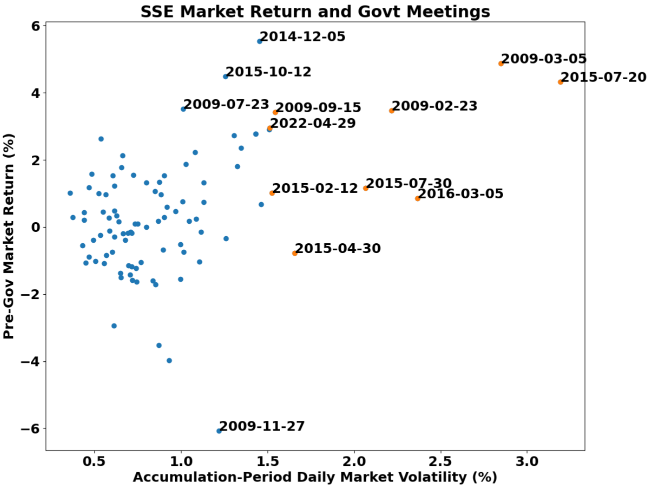


Conditioning on Accumulation-Period Market Volatility

	Sorted by Accumulation-Period Volatility					
	Govt		M2		Non-Event	
	High	Low	High	Low	High	Low
Accumulation Period [Day -7 to -4]						
SSE Ret	-0.72 [-1.27]	0.03 [0.13]	0.63 [1.58]	**0.67** [3.74]	-0.13 [-1.25]	**0.11** [2.29]
Vol (sorting var)	1.28	0.60	1.28	0.60	1.26	0.62
Pre-Announcement Period [Day -2 to -1]						
SSE Ret	**0.91** [2.74]	-0.06 [-0.34]	0.11 [0.53]	0.21 [1.55]	-0.04 [-0.62]	0.03 [0.82]
Vol	1.18	0.65	1.15	0.63	1.21	0.67
Post-Announcement Period [Day 0]						
SSE Ret	0.33 [1.54]	-0.13 [-0.63]	**0.33** [2.07]	-0.06 [-0.73]	-0.05 [-0.98]	0.01 [0.30]
Vol	1.15	0.74	1.13	0.66	1.22	0.67

	Sorted by Accumulation-Period iVIX					
	Govt		M2		Non-Event	
	High	Low	High	Low	High	Low
Accumulation Period						
SSE Ret	-0.94 [-1.33]	-0.18 [-0.80]	0.37 [0.65]	0.29 [0.96]	-0.12 [-0.88]	0.08 [1.20]
iVIX (sorting var)	28.43	17.37	28.77	17.77	28.10	17.70
Pre-Announcement Period						
SSE Ret	**1.03** [3.27]	0.22 [1.20]	0.21 [0.73]	0.07 [0.37]	-0.08 [-0.80]	-0.03 [-0.53]
iVIX	27.72	17.50	28.28	17.91	27.83	17.98
Post-Announcement Period						
SSE Ret	0.22 [1.26]	-0.07 [-0.23]	0.02 [0.11]	0.001 [0.01]	-0.03 [-0.38]	0.01 [0.16]
iVIX	27.96	17.91	27.95	17.98	27.78	18.05

Pre-Govt Returns and Market Volatility



Rolling

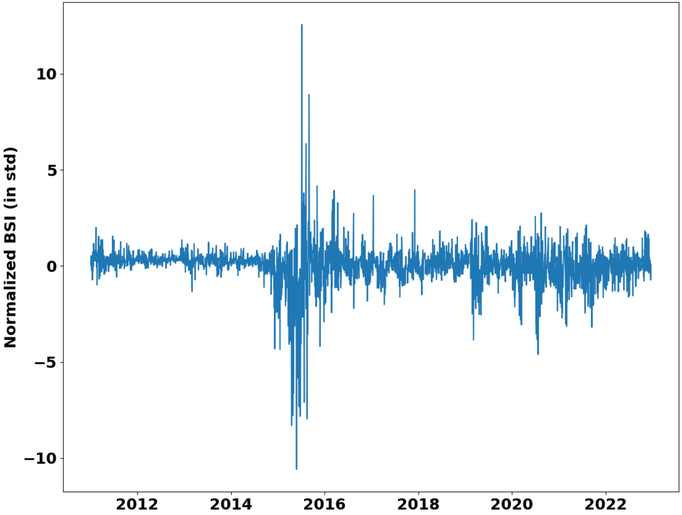
Resolution of Uncertainty Accompanying the Pre-Govt Drift

	High Volatility		Low Volatility		High-Low	
	ΔVol	ΔiVIX	ΔVol	ΔiVIX	ΔVol	ΔiVIX
GOV[-7]	0.01	-0.15	-0.005	0.03	0.01	-0.22
	[0.16]	[-0.48]	[-0.17]	[0.23]	[0.08]	[-0.66]
GOV[-6]	0.08	0.14	-0.003	-0.21	0.09	0.3
	[1.25]	[0.31]	[-0.12]	[-1.59]	[1.26]	[0.66]
GOV[-5]	0.07	0.71	-0.02	-0.18	0.09	0.93*
	[0.98]	[1.56]	[-0.77]	[-1.51]	[1.14]	[1.96]
GOV[-4]	-0.05	-0.54*	-0.01	-0.22*	-0.04	-0.31
	[-0.64]	[-1.76]	[-0.44]	[-1.90]	[-0.44]	[-0.95]
GOV[-3]	0.08	0.34	-0.003	0.04	0.08	0.31
	[0.86]	[0.67]	[-0.13]	[0.38]	[0.89]	[0.59]
GOV[-2]	-0.24***	-0.65***	0.06*	-0.01	-0.30***	-0.63**
	[-3.08]	[-2.89]	[1.81]	[-0.09]	[-3.53]	[-2.52]
GOV[-1]	0.12	-0.47	0.02	0.07	0.1	-0.52*
	[1.31]	[-1.61]	[0.49]	[0.69]	[1.07]	[-1.72]
GOV[0]	-0.09	0.47**	0.08	0.63***	-0.16	-0.14
	[-1.02]	[2.06]	[1.57]	[2.94]	[-1.64]	[-0.44]
Obs	3396	1910	3396	1910	3396	1910

Institution Trading in the Presence of Heightened Uncertainty

- The emergence of heightened uncertainty triggered by the impending government meetings induces risk-averse investors to
  - stay away or hedge their equity positions during the accumulation period,
  - and then come back to the market as the impact uncertainty gets resolved.
- We use the publicly available data from Wind to examine institution trading
  - Wind categorizes stock transactions into retail and institution by trade size.
  - Aggregating the stock-level transaction into index-level for the SSE index, we obtain a time-series of index-level buy-sell imbalances (BSI).
  - For ease of interpretation, we further normalize the BSI so that it is zero mean with a standard deviation of one.

Normalized Institutional Buy-Sell Imbalance (BSI)



Institutional Trading Before Government Meetings

	High Volatility		Low Volatility		High-Low	
	Return	BSI	Return	BSI	Return	BSI
GOV[-7]	-0.25 [-0.89]	-0.16 [-0.99]	-0.08 [-0.81]	-0.03 [-0.32]	-0.15 [-0.52]	-0.12 [-0.64]
GOV[-6]	0.23 [1.04]	0.08 [0.37]	0.03 [0.20]	0.05 [0.47]	0.21 [0.81]	0.04 [0.16]
GOV[-5]	-0.78*** [-3.32]	-0.56*** [-2.62]	-0.09 [-0.61]	-0.07 [-0.72]	-0.69** [-2.48]	-0.48** [-2.05]
GOV[-4]	0.11 [0.37]	-0.003 [-0.01]	0.06 [0.52]	0.11 [0.96]	0.04 [0.13]	-0.1 [-0.40]
GOV[-3]	0.16 [0.70]	-0.21 [-0.77]	-0.06 [-0.60]	-0.01 [-0.16]	0.21 [0.86]	-0.19 [-0.67]
GOV[-2]	0.43* [1.86]	0.37*** [2.58]	-0.07 [-0.51]	0.12 [1.37]	0.49* [1.86]	0.25 [1.55]
GOV[-1]	0.30 [1.22]	-0.002 [-0.01]	0.09 [0.90]	0.04 [0.54]	0.19 [0.73]	-0.05 [-0.21]
GOV[0]	0.15 [0.79]	0.02 [0.18]	0.03 [0.12]	0.04 [0.39]	0.12 [0.40]	-0.01 [-0.08]
Obs	3402	2909	3402	2909	3402	2909

Institution Buy-Sell Imbalance and Baidu Search ▸ Level

- Institution net selling at day -5 can predict higher increase of Baidu search for Politburo meeting with econ focus

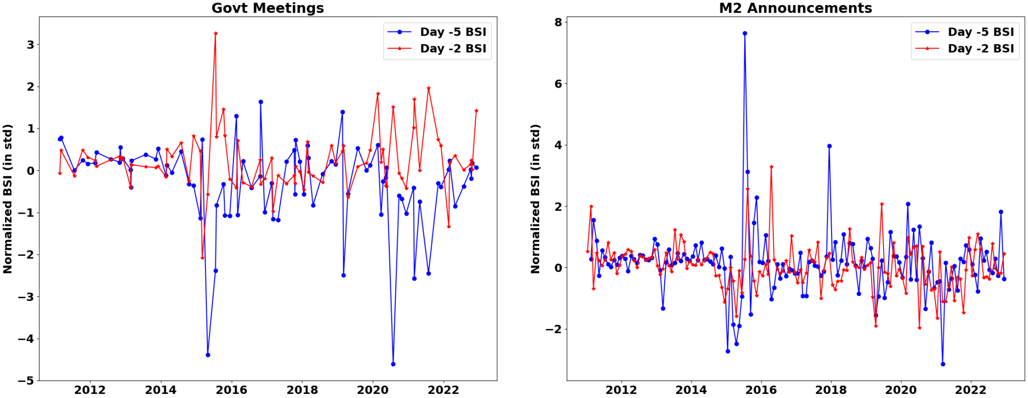
Panel A: Politburo Econ

	Contemporaneous	Predictive			
	ΔBaidu_{t-5}	ΔBaidu_{t-4}	ΔBaidu_{t-3}	ΔBaidu_{t-2}	ΔBaidu_{t-1}
const	7.83	6.6	-2.33	14.56**	287.99***
	[1.14]	[0.49]	[-0.72]	[2.06]	[3.12]
BSI_{t-5}	-31.17***	-28.94*	-2.34	-21.47***	-75.44
	[-3.33]	[-2.00]	[-0.15]	[-2.86]	[-1.33]
N	52	52	52	52	52
R-sqrd (%)	23.39	9.43	0.34	13.73	2.63

Panel B: Politburo Non-Econ

	Contemporaneous	Predictive			
	ΔBaidu_{t-5}	ΔBaidu_{t-4}	ΔBaidu_{t-3}	ΔBaidu_{t-2}	ΔBaidu_{t-1}
const	-4.06**	0.56	-0.84	11.46**	53.03***
	[-2.16]	[0.16]	[-0.31]	[2.55]	[4.92]
BSI_{t-5}	-1.3	-0.75	-1.11	1.78	5.94
	[-0.87]	[-0.44]	[-0.72]	[0.54]	[0.46]
N	80	80	80	80	80
R-sqrd (%)	0.48	0.07	0.25	0.21	0.55

Institution Buy-Sell Imbalance



Accumulation-Period BSI Predicts the Pre-Announcement BSI and Return

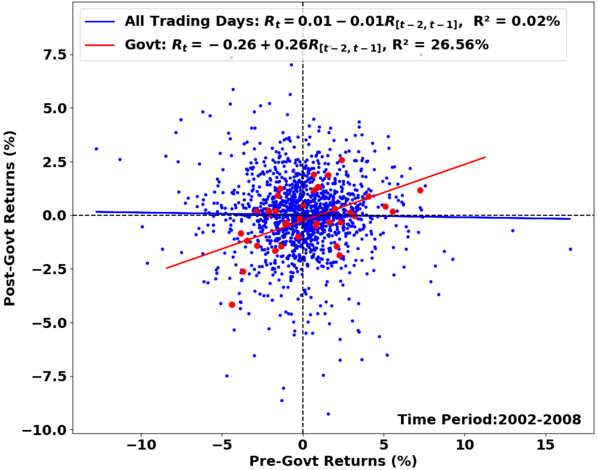
	BSI$_{t-2}$				**SSE Return**$_{t-2}$			
BSI$_{t-5}$	0.17***	0.19***	0.19***	0.18***	0.07	0.09*	0.09*	0.07
	[3.30]	[3.47]	[3.46]	[3.30]	[1.57]	[1.88]	[1.87]	[1.58]
GOV[0]		0.17**				0.03		
		[2.35]				[0.25]		
GOV[0]*BSI$_{t-5}$		-0.40***				-0.46***		
		[-3.36]				[-3.46]		
HGOV[0]			0.22*				0.17	
			[1.81]				[0.69]	
HGOV[0]*BSI$_{t-5}$			-0.45***				-0.53***	
			[-2.94]				[-2.92]	
LGOV[0]				0.12				-0.09
				[1.42]				[-0.64]
LGOV[0]*BSI$_{t-5}$				-0.18				-0.13
				[-0.79]				[-0.62]
Const	0	-0.01	-0.01	0	0	0	0	0
	[-0.03]	[-0.36]	[-0.27]	[-0.12]	[0.13]	[-0.06]	[-0.11]	[0.17]
R-sqrd (%)	3.04	3.72	3.72	3.09	0.31	0.71	0.78	0.32
Obs	2913	2913	2913	2913	2913	2913	2913	2913

Two Distinct Drivers of the Pre-Govt Returns

- Under high market volatility, the heightened uncertainty channel dominates.
- Under low market volatility or prior to 2009, evidence of the information channel:
  - The pre-Govt drift disappears.
  - The pre-Govt returns are predictive of the post-Govt returns.

Dependent Variable: Post-Govt SSE Returns				
	Pre-2009 Sample	Post-2009 Sample		
		Full	Low Vol	High Vol
Const	-0.26	0.08	-0.1	0.38**
	[-1.06]	[0.58]	[-0.59]	[2.20]
Pre-Govt Return	**0.26****	0.04	**0.29****	-0.06
	[2.66]	[0.41]	**[2.13]**	[-0.57]
R-squared (%)	26.56	0.3	5.24	0.81
N	38	95	47	47

Explaining the Pre-Govt Drift: Information Leakage



Explaining the Pre-Govt Drift: Government Put

Dependent Variable: Pre-Govt Return (Post-2009 Sample)									
	All Govt Meetings			Politburo Econ			Pre-Scheduled Meetings		
Const	0.42*	0.42*	0.42**	0.53*	0.53*	0.49**	0.26	0.27	0.33
	[1.81]	[1.81]	[2.34]	[1.93]	[1.92]	[2.22]	[0.75]	[0.75]	[1.15]
Ret [-27,-7]	-0.28			-0.49			0.31		
	[-0.33]			[-0.61]			[0.39]		
Ret [-7,-4]		0.00			0.06			-0.04	
		[0.06]			[0.52]			[-0.44]	
Vol [-7,-4]			1.73***			1.55***			1.98***
			[6.72]			[6.05]			[3.90]
R-sqrd (%)	0.23	0	21.89	0.79	0.63	15.3	0.22	0.78	36.61
Obs	95	95	95	59	59	59	36	36	36

- No evidence that the pre-Govt returns are driven by anticipations of accommodative government policies in response to negative market returns.

Pre-Announcement Returns in China: Pre-Govt vs. Pre-M2

Pre-Announcement Returns (Post-2009 Sample)

	Govt Meetings					M2 Announcement			
	SSE	MKT	SMB	HML		SSE	MKT	SMB	HML
Mean	**0.42**	**0.47**	-0.02	-0.05	Mean	0.16	0.16	**0.36**	**-0.26**
	[2.22]	**[2.39]**	[-0.09]	[-0.37]		[1.29]	[1.34]	**[3.25]**	**[-3.09]**

Regressing Pre-Announcement Returns on Accumulation-Period Volatility

	SSE	MKT	SMB	HML		SSE	MKT	SMB	HML
Const	-1.20***	-1.21***	-1.02**	0.54*	Const	-0.25	-0.12	-0.86***	0.43
	[-4.00]	[-3.75]	[-2.21]	[1.79]		[-0.72]	[-0.37]	[-2.76]	[1.57]
Accu vol	1.73***	1.80***	1.06*	-0.63	Accu vol	0.44	0.3	1.29***	-0.73**
	[6.72]	[5.70]	[1.77]	[-1.59]		[1.03]	[0.75]	[3.60]	[-2.31]
R-sqrd	22%	22%	9%	6%	R-sqrd	2%	1%	25%	14%
Obs	95	95	95	95	Obs	168	168	168	168

Conclusions

- We document the existence of a positive pre-Govt drift in China's aggregate stock market, a finding that parallels the pre-FOMC drift in the U.S.
  - The average pre-Govt return is 42 basis points over the 48-hour window before the announcement of top government meetings.
  - No significant pre-announcement drift before other announcements (e.g., M2), demonstrating the unique importance of top government meetings in China.
- We identify two distinct drivers of the pre-Govt returns:
  - The heightened uncertainty channel dominates under high volatility, and the pre-Govt drift increases to 91 basis points.
  - The information channel is present under low volatility, and the pre-Govt drift disappears.
- Overall, our paper confirms the conventional wisdom that China is a top-down economy with policy-driven markets.

Background on China's Top Government Meetings

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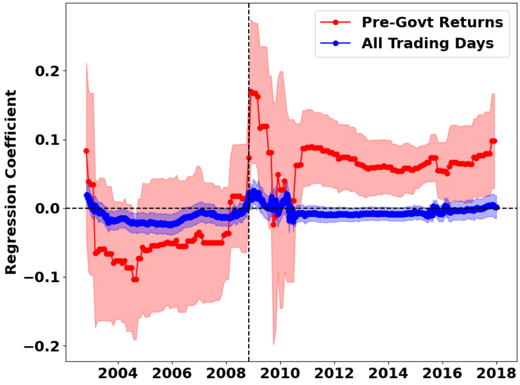

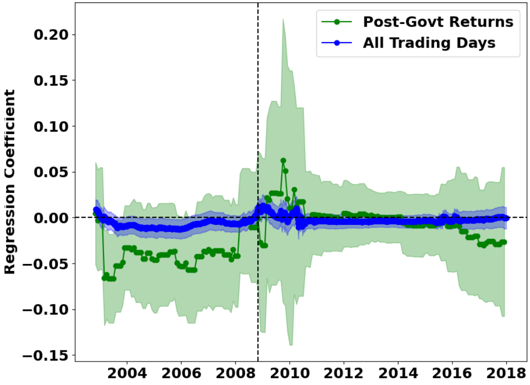

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	Panel A: Politburo Econon					
	Contemporaneous	**Predictive**				
	Baidu_{t-5}	Baidu_{t-4}	Baidu_{t-3}	Baidu_{t-2}	Baidu_{t-1}	Baidu_{t}
const	145.60***	152.21***	149.87***	164.43***	452.43***	772.41***
	[4.94]	[4.21]	[4.15]	[4.11]	[3.50]	[5.35]
BSI_{t-5}	-56.59***	-85.53***	-87.87***	-109.34***	-184.79**	-110.78
	[-3.72]	[-4.10]	[-4.34]	[-4.12]	[-2.65]	[-1.58]
N	52	52	52	52	52	52
R-sqrd (%)	12.22	17.17	18.74	21.97	8.16	2.74
	Panel A: Politburo Non-Econ					
	Contemporaneous	**Predictive**				
	Baidu_{t-5}	Baidu_{t-4}	Baidu_{t-3}	Baidu_{t-2}	Baidu_{t-1}	Baidu_{t}
const	89.66***	90.21***	89.37***	100.84***	153.87***	163.97***
	[9.91]	[11.21]	[10.05]	[10.37]	[8.59]	[10.16]
BSI_{t-5}	-1.58	-2.33	-3.44	-1.66	4.28	-7.08
	[-0.42]	[-0.68]	[-1.10]	[-0.32]	[0.31]	[-0.91]
N	80	80	80	80	80	80
R-sqrd (%)	0.1	0.32	0.55	0.08	0.17	0.65