Press Release

Embargoed until: 00:01 (UK Time), 5th July 2013

Note: The HSBC Emerging Markets Index, a weighted composite indicator derived from national HSBC Purchasing Managers' Index™ (PMI™) reports in 16 emerging economies, is now being published on a monthly basis rather than quarterly.

HSBC Emerging Markets Index

Asian weakness weighs on global emerging markets in June

Key points

- **HSBC Emerging Markets Index: 50.6** (prior 51.3)
- Chinese manufacturing output falls, as does production in other Asian economies
- Future Output Index falls to new low

The **HSBC Emerging Markets Index (EMI)**, a monthly indicator derived from the PMI™ surveys, sank to 50.6 in June, indicating only a marginal increase in output across global emerging markets. The latest figure was the lowest in over four years, and signalled the weakest increase in output over the current growth sequence which began in May 2009.

Among the largest emerging economies, output stagnated in **China**, registering a marginal fall for the first time since August 2012. This mainly reflected lower manufacturing production, as services activity registered another mild increase. Meanwhile output stagnated in **Russia**, while **India** and **Brazil** both posted weak rates of growth.

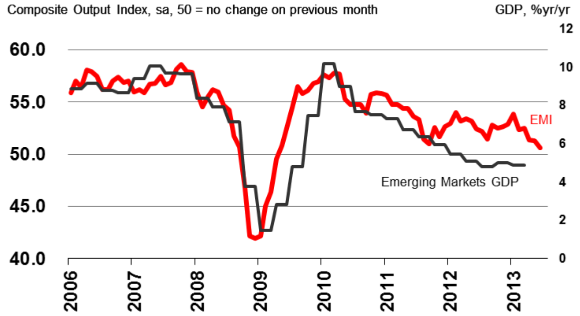
The volume of **new business** in global emerging markets was little-changed from one month previously, weighed down by a fall in manufacturing new orders.

In line with the trend shown throughout the second quarter, the rate of **employment** growth in emerging markets was marginal in June.

Average **input prices** paid by private sector firms in emerging markets rose at a slightly faster rate in June, albeit one that was still the second-lowest in the current four-year period of rising prices.

Page 2: Mid-year commentary by **Stephen King**

HSBC Emerging Markets Index



Data summary

Country/region	Coverage	Index	Jun-13	May-13	Jun-12
Emerging Markets	**Composite***	**Output**	**50.6**	**51.3**	52.4
	Composite*	New Orders	▼	▼	▼
	Composite*	Backlogs	▼	▲	▼
	Composite*	Employment	▲	▲	▼
	Composite*	Input Prices	▲	▼	▼
	Composite*	Output Prices	▲	▼	▼
	Composite*	Future Output	▼	▲	▼
Emerging Markets	**Services**	**Activity**	▼	▲	▼
Emerging Markets	**Manufacturing**	**Output**	▼	▼	▼
China	Composite*	Output	49.8	50.9	50.6
India	Composite*	Output	50.9	52.0	55.7
Brazil	Composite*	Output	51.1	51.2	515
Russia	Composite*	Output	50.1	51.0	52.6

▲ Above 50, rising ▲ Below 50, rising
▼ Above 50, falling ▼ Below 50, falling

*Manufacturing & Services

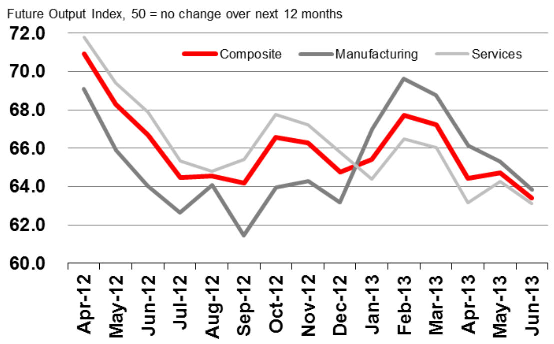
Business expectations

The **HSBC Emerging Markets Future Output Index** is a new series tracking firms' expectations for activity in 12 months' time. The index fell in June to the lowest level in 15 months of data collection to date. This reflected weaker sentiment in both manufacturing and services. Business expectations generally weakened in Asia, Russia and the Middle East, but improved in Latin America and Central Europe.

See inside for more analysis on business expectations…

- *Asia*
- *Latin America*
- *Middle East & North Africa*
- *Central & Eastern Europe*

Emerging Markets Future Output Index



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Tapering, China and EM blues

Mid-year commentary

The decline in the HSBC Emerging Markets Index (EMI) to 50.6 in June 2013 marks the lowest rate of increase in more than four years. Indeed, it is the EMI's weakest outcome since the global financial crisis in 2008/09 when, for a fleeting moment, the index dropped to a mere 42.0.

At 49.5, the manufacturing sub-component was particularly soft, implying an overall manufacturing contraction within the emerging market universe for the first time since October 2012. Last year, emerging market policymakers had the excuse of the Eurozone crisis to explain what appeared to be a trade-related temporary setback. Now, with Eurozone financial strains having eased, weakness in the emerging world appears to be more a home grown affair.

Within manufacturing, most countries and regions with outcomes below 50.0 – the threshold between expansion and contraction – were to be found in Asia.

China led the way, with manufacturing output at a modest 48.6, but India, South Korea, Taiwan and Vietnam also posted contractions, as did Hong Kong on the broader composite measure. Poland, which has been particularly exposed to ongoing economic weakness in the Eurozone, was the only other country with a below-50 reading, part of a consistent pattern since May of last year.

China's relative economic weakness in June was not just reflected in soft manufacturing output. Within the latest EMI, there is evidence of widespread deceleration: Chinese manufacturing orders and employment both dropped to 47.6 and exports stood at a mere 44.9.

The weakness in emerging markets reflects three distinct changes in the global economy since the beginning of the year. First, the Federal Reserve has indicated that the printing press won't be running at full speed indefinitely. Although the threatened tapering of quantitative easing merely implies the Fed will take its foot off the gas a little, investors have gone one stage further, taking the view that tapering might be the first step towards an eventual increase in Fed funds. For nations dependent on copious liquidity inflows, that's a nerve-wracking prospect.

Second, China's own economic slowdown reveals a new approach from Beijing's new leadership. Before the global financial crisis, China's economy thrived on extraordinarily rapid export growth. As the rest of the world froze, and Chinese exporters felt the pinch, Beijing searched for a new source of rapid economic expansion. For a while, a combination of infrastructure investment and rapid credit growth appeared to be delivering the goods. It was not to last: a declining marginal return on capital and increased "froth" in the credit markets led to a rethink. The new administration is now more focused on the "quality" than the "quantity" of growth. That means more in the way of "supply-side" reforms, including a move to (higher) market interest rates and higher hurdle rates. While these will lay the foundations for sustained future economic expansion, they come with a short-term cost: HSBC suggests growth in China this year and next will be a modest 7.4%.

Third, while US dollars were flowing freely and Chinese domestic demand was rising swiftly, many emerging nations were able to place structural reform on the backburner, knowing they could grow relatively quickly without the need for politically-tricky decisions. The cost, however, was a persistent deterioration in balance of payments positions which has now been exposed thanks to the shift of monetary emphasis in the US and the Chinese slowdown. Big current account deficits across the emerging world – from India through to Brazil and from Indonesia through to Chile – have suddenly become a source of vulnerability. Lower export volumes and declining commodity prices haven't helped.

If there is a silver lining, it comes from lower price pressures. Although the composite price index was slightly higher in June than in May, it remains only a touch above 50, suggesting that earlier fears of inflation – particularly acute at the beginning of 2011 – were overdone. Indeed, it appears that signs of excess demand materialised primarily through balance of payments positions and not via rapidly rising prices. Inflation has remained well behaved even as the economic cycle in the emerging world has ebbed and flowed.

Longer-term, prospects for the emerging world remain encouraging. The latest setbacks should be seen primarily as "growing pains". China, in particular, will slowly be able to rebalance its economy away from exports and infrastructure towards domestic consumption, thanks to reforms affecting consumer credit and the provision of social security. As such, China should eventually act as a spur to other emerging nations.

Meanwhile, as we've frequently argued, the last great opportunity for world trade and capital flows to expand further depends on increased "south-south" connections, linking Asia with the Middle East, sub-Saharan Africa and Latin America. As the Southern Silk Road takes shape, so economic progress in the 21st Century will increasingly be led by the emerging world.

Stephen King
Global Chief Economist, HSBC

Regional tweets

www.twitter.com/HSBC_EMI_PMI

Simon Williams
HSBC Chief Economist, MENA

"The Gulf has slowed into the hot summer months, but the underlying story is still strong. Egypt's outlook remain politics dependent"

Frederic Neumann
Co-Head of Asian Economic Research

"Asia is feeling the pinch from jittery financial markets. The road ahead looks bumpy with manufacturing slowing further"

Andre Loes
HSBC Chief Economist, LATAM

"Softening in June point to very weak Brazil 2Q; Mexican industry struggling, with the slowest growth since the series started"

Agata Urbanska
Economist, Central & Eastern Europe

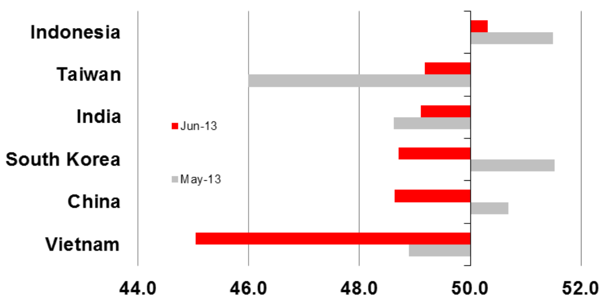
"June manufacturing PMIs show CEEMEA can buck the negative EM trend provided the Eurozone side-steps the EM downturn"

Detailed data summary: Output Index

Country / region	Coverage	Mar-13	Apr-13	May-13	Jun-13
Emerging Markets	**Composite**	▲	▼	▼	▼
Brazil	Composite	▼	▲	▼	▼
China	Composite	▲	▼	▼	▼
India	Composite	▼	▼	▲	▼
Russia	Composite	▼	▼	▼	▼
Emerging Markets	**Services**	▼	▼	▲	▼
Brazil	Services	▼	▲	▼	►
China	Services	▲	▼	▲	▲
India	Services	▼	▼	▲	▼
Russia	Services	▼	▼	▼	▼
Emerging Markets	**Manufacturing**	▲	▼	▼	▼
Brazil	Manufacturing	▼	▼	▼	▼
China	Manufacturing	▲	▼	▼	▼
Czech Republic	Manufacturing	▼	▲	▲	▲
Indonesia	Manufacturing	▲	▲	▼	▼
India	Manufacturing	▼	▼	▼	▲
South Korea	Manufacturing	▲	▲	▼	▼
Mexico	Manufacturing	▼	►	▲	▼
Poland	Manufacturing	▼	▼	▲	▲
Russia	Manufacturing	▼	▲	▼	▲
Turkey	Manufacturing	▼	▼	▼	▲
Taiwan	Manufacturing	▲	▼	▼	▲
Vietnam	Manufacturing	▲	▼	▼	▼
Egypt	Private sector*	▼	▼	▲	▼
Hong Kong	Private sector	▼	▼	▼	▼
Saudi Arabia	Private sector*	▲	▲	▼	▼
United Arab Emirates	Private sector*	▼	▲	▲	▼

▲ Above 50, rising
▼ Above 50, falling
► Above 50, unchanged
▲ 50, rising
▼ 50, falling
▲ Below 50, rising
▼ Below 50, falling
► Below 50, unchanged
*Non-oil

Manufacturing output contracts across Asia



Manufacturing summary

Chinese manufacturers signalled a first reduction of output for eight months in June. The rate of contraction was modest and attributed to weaker client demand, as total new orders declined for the second month in a row. New business from abroad also fell in June, with the rate of contraction the joint-sharpest in over four years. Anecdotal evidence suggested that reduced client demand, particularly from Europe and the US, led to fewer new export orders. Fewer new orders enabled manufacturers to reduce the level of work-in-hand for the second month in a row, albeit marginally.

Operating conditions in **Taiwan's** manufacturing sector deteriorated for the second successive month in June, though only slightly. Manufacturers signalled reductions in both output and new orders, albeit at weaker rates. Lower volumes of new business led to a reduction in the level of work-in-hand, while purchasing activity declined to reflect lower production requirements.

In **South Korea's** goods-producing sector, both output and new order volumes were down in June, the first such falls for four and five months respectively. Rates of deterioration were modest in both cases. Firms commented that demand from major clients had fallen at a time when economic uncertainty was heightened. The weakness of the Japanese yen was again noted by some panellists as a factor reducing their relative competitiveness in export markets. Foreign sales were down modestly for the first time in 2013 so far.

Manufacturing new orders in **India** fell for the first time since March 2009 during June, although marginally. Export business, however, rose at the sharpest rate since January as demand from key foreign clients strengthened. Reduced output levels were recorded for the second month running in June, amid evidence of tougher economic conditions and persistent powercuts. That said, the overall pace of contraction was slight and eased since May.

Indonesian manufacturing output increased only marginally in June. New order book volumes rose for the thirteenth month running, but the rate of expansion was the slowest since February. Anecdotal evidence suggested that demand from European clients was sluggish, and that unfavourable exchange rates had weighed on new order growth.

The **Vietnamese** manufacturing sector was hit by marked downturns in output and new orders in June, leading companies to cut employment and purchasing. The domestic market was the principal source of demand weakness in June, as the level of new export business fell only slightly.

New orders placed at manufacturers in **Brazil** rose during June. That said, the pace of expansion was only marginal and the weakest in the current nine-month period of growth. Export business fell for the third month running, and at the sharpest rate in a year-and-a-half. Panellists commented on frail demand from European clients. Subsequently, output increased only modestly.

Mexican manufacturing business conditions improved at the weakest pace in nearly four years during June. Although output and new orders continued to rise, the rates of growth were only modest and contributed to the weakest increase in employment since January.

After a stagnation in May, **Turkish** manufacturing firms reported an increase in production levels in June. While the pace of expansion was the quickest in three months, respondents indicated that disruptions caused by ongoing protests in the country prevented output from growing at a stronger pace.

The business climate facing **Russian** goods producers improved in June. New business and output both increased at faster rates, leading to a rise in employment in the sector for the first time since last October.

The **Polish** manufacturing sector edged closer to stabilisation at the end of the second quarter. The volume of incoming new work increased for the first time since the start of 2012, leading to a broad stabilisation in the level of output. New export orders rose for only the second time in over two years.

Business conditions in **Czech** manufacturing posted the first notable improvement for over a year in June. Output rose at a faster rate and new orders increased for the first time in four months, helped by a resumption of export growth.

Middle East non-oil economy

June data indicated a further slowing of activity growth in **Saudi Arabia's** non-oil producing private sector. While output increased markedly, the rate of expansion was the weakest since data collection began in August 2009. Companies linked weaker growth to a slowdown in market demand. In line with the trend for activity, new order growth slowed to a 21-month low.

Non-oil producing private sector companies in the **United Arab Emirates** reported increased output and new order levels in June. The rates of expansion, however, eased from May. New business from foreign markets also expanded at a slower pace. Meanwhile, payroll numbers rose solidly and the rate of wage inflation accelerated to the sharpest in the 47-month survey history.

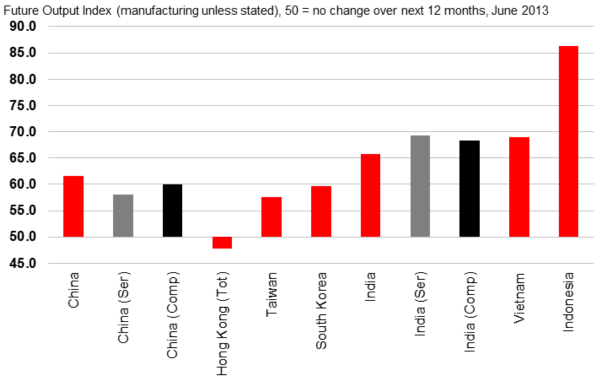
June data for the **Egyptian** non-oil producing private sector economy signalled declines in both output and new orders, and the rates of contraction picked up from the previous survey period. Having increased fractionally in May, inventory levels also declined markedly and the overall rate of input price inflation remained sharp.

Future Output Index: Asia

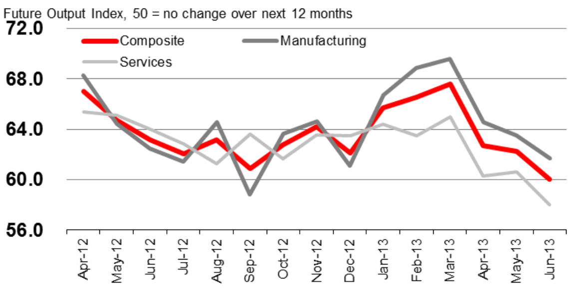
Chinese business expectations weakened in June to the weakest in the 15-month history of the combined manufacturing and services data. Notably, **service** sector sentiment was the weakest since that survey began in November 2005. **Manufacturing** output expectations meanwhile were the weakest in six months.

Elsewhere in Asia, manufacturers in the south of the region were generally more optimistic than those further north. **Indonesia**, **Vietnam** and **India** posted the strongest overall sentiment in June, although expectations in the latter two economies were weaker than at the start of the year.

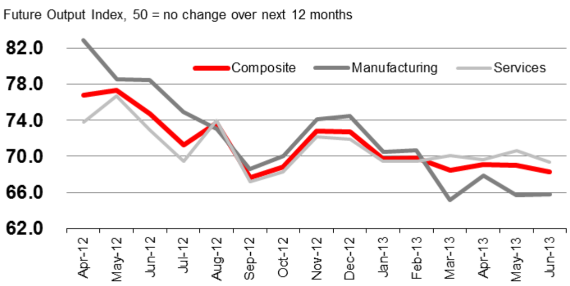
Business expectations: Asia



China



India

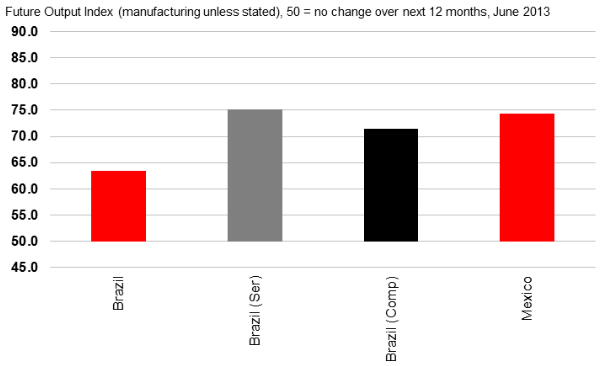


Future Output Index: Latin America

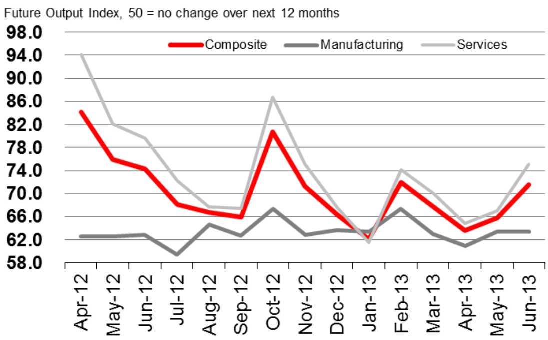
Business expectations in the **Brazilian** private sector strengthened in June, to the second-highest in a year. This improvement was largely driven by the service sector, as signalled by the Future Activity Index reaching an eight-month high. Manufacturing output expectations were positive overall, and broadly similar to the underlying trend over 15 months of data collection for the goods-producing sector.

Manufacturers in **Mexico** were optimistic regarding the one-year business outlook in June, and the degree of positive sentiment strengthened for the first time in 2013 so far. New client wins and the launch of new products are both anticipated to support higher production levels. Overall, confidence towards future output growth was the highest in three months, but weaker than the average over the 15-month series history.

Business expectations: Latin America



Brazil



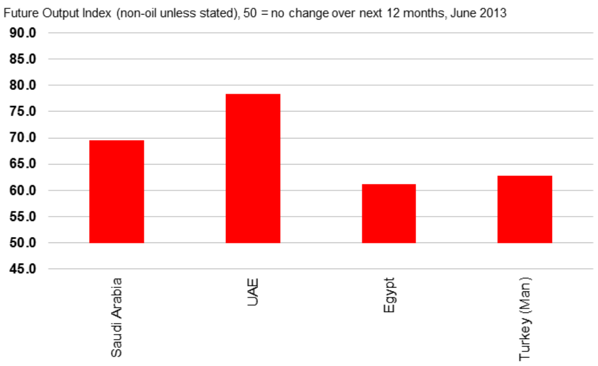
Future Output Index: Middle East & North Africa

The Future Activity Index for **Saudi Arabia's** non-oil private sector signalled positive sentiment in June. However, the latest reading was the weakest since data collection for the series began in April 2012. Meanwhile in the **United Arab Emirates** the 12-month outlook for activity remained strongly positive, with the degree of sentiment unchanged from May's three-month high.

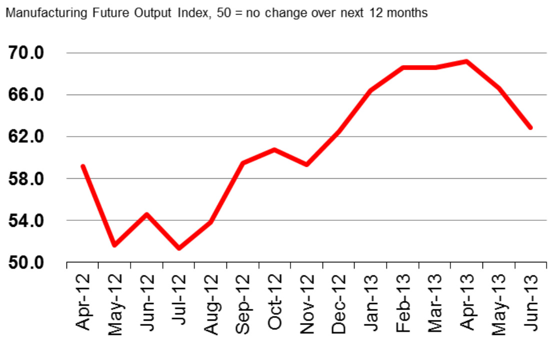
Companies in **Egypt** were, on balance, optimistic regarding growth of activity over the next 12 months, linked to improving economic and political conditions. Sentiment was, however, relatively weak in the context of the 15-month series history, and when compared with other economies in the region.

Positive sentiment was reported by **Turkey's** manufacturers in June. The latest reading of the Future Output Index was, however, the weakest since last December. Some firms mentioned unfavourable exchange rates and protests in the country as threats to growth.

Business expectations: MENA



Turkey

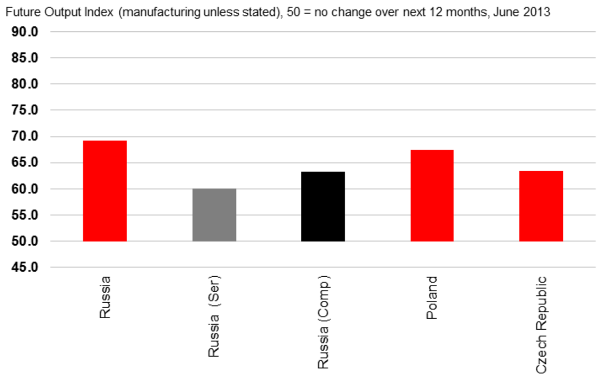


Future Output Index: Central & Eastern Europe

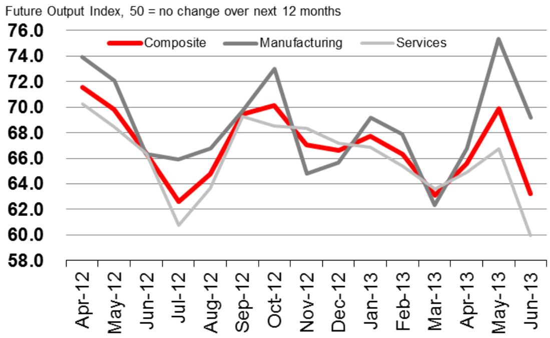
The forward-looking indicator from the **Russian** services PMI survey deteriorated sharply in June. The 12-month outlook for activity was the weakest in four-and-a-half years. Moreover, since the services survey began in October 2001, expectations have been weaker only in the immediate aftermath of the global financial crisis in late-2008. Manufacturers were more positive than their service sector counterparts, but sentiment also weakened sharply since May.

The Manufacturing Future Output Indexes for **Poland** and the **Czech Republic** both remained below the Russian equivalent in June, but both registered increases since May, signalling strengthening sentiment regarding the 12-month outlook for production. This partly reflected emerging signs that the downturn in the eurozone economy was easing.

Business expectations: Central & Eastern Europe



Russia



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Notes to Editors:

The HSBC Emerging Markets Index (EMI) is a weighted composite indicator derived from national *Purchasing Managers' Index™ (PMI™)* surveys in the following economies:

- China
- South Korea
- Taiwan
- Hong Kong
- Vietnam
- Indonesia
- India
- Brazil
- Mexico
- Turkey
- United Arab Emirates
- Saudi Arabia
- Egypt
- Russia
- Poland
- Czech Republic

The *Purchasing Managers' Index™ (PMI™)* surveys on which the EMI is based have become the most closely-watched business surveys in the world, with an unmatched reputation for accurately anticipating official data. The survey data are collected using identical methods in all countries, with survey panels stratified geographically and by International Standard Industrial Classification (ISIC) group, based on contributions to GDP. Around 7,500 firms are surveyed in total.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators, a 'diffusion' index is produced, which reflects the percentage of positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. All data are seasonally adjusted.

Data collected at the national level for manufacturing and services are then weighted together according to relative contributions to national or regional GDP to produce indicators at the national whole economy or aggregate emerging market level.

Note on revisions: The EMI figure is subject to one revision post-release. This reflects the addition, post-release, of manufacturing PMI data produced by third parties, including Israel (produced by IPLMA), Singapore (SIPMM) and South Africa (BER), and non-manufacturing PMI data for Mexico (produced by IMEF). Markit does not have access to the latest figures for these surveys prior to publication.

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HSBC is one of the world's largest banking and financial services organisations, with around 6,600 offices in both established and faster-growing markets. We aim to be where the economic growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 58 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 81 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 220,000 shareholders in 129 countries and territories.

Markit:

Markit is a leading, global financial information services company with over 2,800 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com.

Markit Economics:

Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index™ (PMI™) series, which is now available for over 30 countries and also for key regions including the Eurozone. The PMIs have become the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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