Press Release

Embargoed until: 00:01 (UK Time), 7th January 2014

Note: The HSBC Emerging Markets Index, a weighted composite indicator derived from national HSBC Purchasing Managers' Index™ (PMI™) reports in 17 emerging economies, is now being published on a monthly basis rather than quarterly.

HSBC Emerging Markets Index

Emerging market growth checked at year end

Key points

- **HSBC Emerging Markets Index: 51.6** (prior 52.1)
- Manufacturing continues to outpace services

The **HSBC Emerging Markets Index (EMI)**, a monthly indicator derived from the PMI™ surveys, signalled overall growth of output across global emerging markets in December. But the EMI fell to 51.6, from 52.1 in November, signalling a weaker rate of expansion.

Manufacturing output continued to rise at a faster pace than **services** activity, and the rate of growth was only fractionally weaker than November's eight-month high. Meanwhile, service sector output rose at the slowest rate in three months.

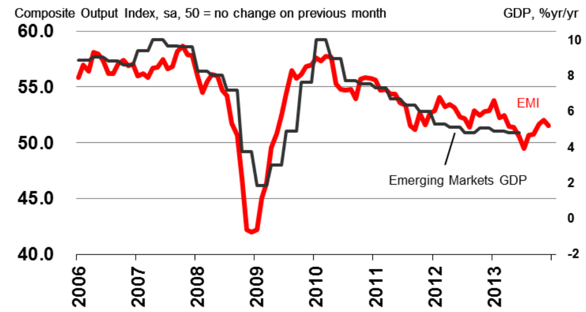
Goods output growth was broad-based across the economies covered at the end of 2013, with the strongest expansions indicated in **Taiwan**, the **Czech Republic** and **Turkey**. **Chinese** manufacturing output growth eased from November's eight-month high.

New business inflows in global emerging markets rose for the fifth month running, albeit at the weakest rate since September. **Backlogs** continued to expand marginally, in line with the broad trend shown throughout the fourth quarter.

Inflationary pressures in emerging markets remained muted in the final month of 2013, with average **input prices** rising at the slowest pace since July. This led to the weakest increase in **output prices** in the current five-month sequence of inflation.

Page 2: commentary by **Stephen King**

HSBC Emerging Markets Index



Sources: HSBC, Markit.

Data summary

Country/region	Coverage	Index	Dec-13	Nov-13	Dec-12
Emerging Markets	**Composite***	**Output**	**51.6**	**52.1**	52.8
	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	51.2	52.3	51.8
India	Composite*	Output	48.1	48.5	56.3
Brazil	Composite*	Output	51.7	51.8	53.2
Russia	Composite*	Output	52.5	52.2	54.1

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

*Manufacturing & Services

Sources: HSBC, Markit.

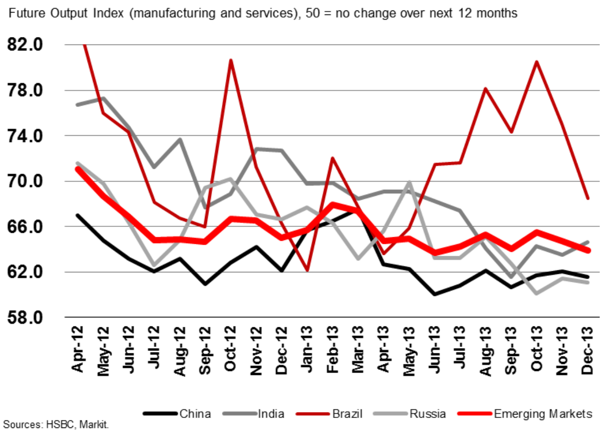
Business expectations

The **HSBC Emerging Markets Future Output Index** is a new series tracking firms' expectations for activity in 12 months' time. The index fell to a six-month low in December, reflecting weaker sentiment in both manufacturing and services. That said, the index's average in Q4 was higher than those in the previous two quarters.

Among the largest emerging markets, **Brazil** continued to post the strongest sentiment regarding anticipated output growth in 2014, but the extent of optimism continued to ease sharply from October's peak. **Russian** firms remained less optimistic, on average, than their counterparts in **China** and **India**.

Continued on page 4…

Emerging Markets Future Output Index



Sources: HSBC, Markit.

markit

HSBC

Commentary

The December 2013 HSBC Emerging Markets Index (EMI) dropped to 51.6, down from 52.1 in November. Emerging economies are no longer expanding at the rapid rates recorded before the onset of the global financial crisis. Nor have they been able to replicate the pace seen in late-2009 and early-2010 during the early post-crisis bounce. Still, despite the relative weakness, there is no indication of any imminent descent into recession: consistently over 50, the index remains well above the traumatic levels recorded in 2008 and the first half of 2009.

In relative terms, however, the emerging market story remains disappointing, at least compared with the US and the UK, where recent equivalent business surveys have been in the high 50s and, on some occasions, in the low 60s. Even the Eurozone, held back by a very soft performance by France, appears currently to be doing a bit better than the emerging world.

Aggregation nevertheless hides a multitude of different experiences. On the whole, manufacturing activity across the emerging world is doing a bit better. Pockets of manufacturing weakness earlier in 2013 – with many countries witnessing declines into the 40s – have mostly disappeared. Some countries, however, are a lot stronger than others, with notable buoyancy in Taiwan, the UAE and Saudi Arabia. The services story is not quite so encouraging, largely a reflection of chronic weakness in India, where the output index has been below 50 for six consecutive months. China's service output remains significantly higher than India's but, at 50.9, it still represents the lowest reading since August 2011.

The overall impression within the emerging world is of countries that no longer enjoy the dynamism of old and which, on rather too many occasions, are teetering on a recessionary cliff edge (even if they never quite make the final leap).

In some cases, weakness is partly policy-induced. China's earlier attempt to switch from export-led growth pre-crisis to domestic demand-led growth post-crisis led to excessive credit growth, too much wasteful infrastructure investment and an overheating property market: releasing some of the pressure out of this system has inevitably led to more modest rates of growth.

In other cases, weakness is partly a reflection of new balance of payments strains. India, Brazil and Indonesia have all experienced rapidly widening current account deficits in recent years thanks in part to substantial inflows of hot money. With the Federal Reserve now tapering its asset purchases and with long term interest rates rising in the developed world, those inflows have begun to dry up: the result has been downward pressure on currencies, upward pressure on domestic funding costs and, as night follows day, a slower pace of economic growth.

In Egypt and, perhaps in 2014, Turkey, economic weakness has been closely associated with political uncertainty.

Longer term, however, prospects for the emerging world remain encouraging. China is still engaged in an economic transition of epic proportions, catching up for hundreds of years of earlier disengagement with the rest of the world. As new economic synapses are created – through both trade and capital flows – China will carry on expanding at a rapid pace, even if its ageing population imposes a demographic constraint in coming years. China's new found wealth will, in turn, be invested in other parts of the emerging world currently lacking in 21st Century infrastructure. Those investments will allow China easier access to the resources it craves but will also allow many emerging nations to trade more heavily with each other. That, in turn, should be the catalyst for further economic expansion, creating a new Southern Silk Road for the emerging world.

Stephen King
Chief Global Economist, HSBC

Regional tweets: www.twitter.com/HSBC_EMI_PMI

Simon Williams
HSBC Chief Economist, MENA

"Oil rich gulf economies remain strong into the new year; Egypt takes another small step on long road to recovery."

Frederic Neumann
Co-Head of Asian Economic Research

"Korea and Taiwan riding the wave of electronics. But new export orders for Asia disappoint. The region fails to join global lift."

Andre Loes
HSBC Chief Economist, LATAM

"Industry acceleration in Brazil and Mexico; despite slight Brazil services slowdown the region ends 2013 on stronger foot."

Murat Ulgen
HSBC Chief Economist, CEE & Sub-Saharan Africa

"CEE and Turkey finish 2013 in a solid shape although the recent political uncertainty could weigh on Turkey's business sentiment."

Detailed data summary: Output Index

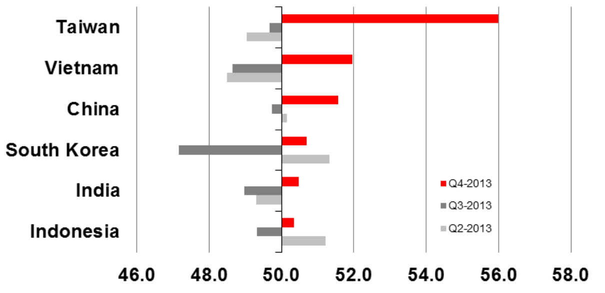
Country / region	Coverage	Sep-13	Oct-13	Nov-13	Dec-13
Emerging Markets	**Composite**	►	▲	▲	▼
Brazil	Composite	▲	▲	▼	▼
China	Composite	▼	▲	▲	▼
India	Composite	▼	▲	▲	▼
Russia	Composite	▼	▲	▼	▲
Emerging Markets	**Services**	▼	▲	►	▼
Brazil	Services	▲	▲	▲	▼
China	Services	▼	▲	▼	▼
India	Services	▼	▲	▲	▼
Russia	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*	▲	▼	▲	▲
South Africa	Private sector	▼	▲	▲	▼
United Arab Emirates	Private sector*	▲	▼	▲	▲

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

Sources: HSBC, Markit.

Asian manufacturing recovers in Q4

Manufacturing Output Index, 50 = no change over previous month, average over quarter



Manufacturing

Chinese manufacturers signalled a further expansion of output in December, though the rate of growth eased. New orders also rose at a fractionally slower pace, with foreign sales posting a slight decline for the first time in four months.

Taiwanese manufacturers reported the sharpest expansion of output in 32 months in December. Total new orders and new export orders also increased at sharper rates. Meanwhile, **South Korean** production expanded for the third successive month, and the pace of output growth accelerated to a seven-month high.

The **Indian** manufacturing sector ended 2013 on an encouraging footing. Operating conditions improved for the second successive month, as both output and new orders increased. Consequently, firms raised their workforce numbers further.

December data indicated improving manufacturing operating conditions in **Indonesia**, underpinned by renewed growth of output and a further expansion of new orders. Export demand stabilised, after contracting in each of the previous six months. Similarly, conditions in **Vietnamese** manufacturing improved as output and employment increased at sharper rates, while purchasing activity rose at the fastest pace in the series history.

Brazil's manufacturing economy expanded in December, with stronger production growth and renewed gains in new work. Meanwhile, input and output price inflation cooled further. **Mexican** manufacturing business conditions also continued to improve in December with the strongest increase in production for ten months, as well as a solid rise in new orders.

Turkey's manufacturing companies reported a further rise in production in December. Although down since November, the pace of expansion was above the long-run series average. New orders also increased at a weaker, but still solid rate, with companies commenting on higher activity in the auto sector and improving market conditions. Concurrently, panellists linked growth in new export business to stabilising conditions in Egypt and the securing of new clients.

The downturn in **Russia's** manufacturing sector gathered pace in the final month of 2013. The overall deterioration in business conditions was the strongest in four years as new order inflows stagnated, weighed down by a further drop in export demand. This led to only a fractional rise in output, and the worst round of job cuts in over four years.

Emerging European economies continued to benefit from the continent's wider recovery in December. Growth of **Polish** output, new orders and exports all remained strong, albeit weaker than in November, while input purchases and jobs grew at faster rates. Meanwhile the **Czech** manufacturing sector continued to expand at a marked rate with further sharp increases in output and new orders. Growth of new export business remained particularly strong.

Middle East and Africa

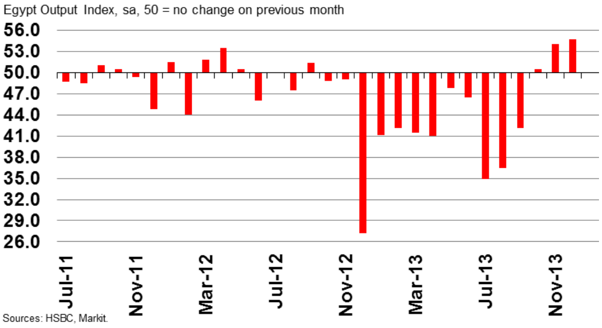
South Africa's private sector companies reported broadly unchanged output levels during December, ending a two-month period of growth. New orders continued to increase, although at a marginal pace. The rise in new business was domestically driven, as client demand from foreign markets weakened for the second time in the past three months.

December saw further steep increases in output and new orders at the **UAE's** non-oil producing private sector firms, with growth in activity accelerating to a 32-month high. Meanwhile, work-in-hand accumulated at the fastest pace in the series history and output charges rose for the first time since September.

Saudi Arabia's non-oil producing private sector firms posted the fastest pace of expansion in eight months in December. New orders also increased at a quicker pace, with companies commenting on higher construction activity, increased infrastructure developments and good marketing efforts.

December saw a solid rise in activity at **Egyptian** non-oil producing private sector companies, with the pace of expansion accelerating to a new series high. New order intakes also increased further, while employment levels continued to decline. Concurrently, input cost inflation accelerated.

Egyptian growth sustained



Business Expectations

In manufacturing, the two South East Asian economies covered – **Indonesia** and **Vietnam** – posted the strongest sentiment regarding output in 2014, followed by **Brazil** and **Mexico** respectively.

The weakest manufacturing outlook was held by **China**, followed by **South Korea** and **Taiwan**. Meanwhile output expectations in the **Czech Republic** and **Poland** remained stronger than their long-run series averages, linked to the recent improvement in the eurozone and other European economies such as the UK.

The 12-month outlook for non-oil private sector output in **Egypt** remained stronger than the trend recorded in the 21-month series history, but was still weaker than expectations registered in both **Saudi Arabia** and the **UAE**. Meanwhile, **South African** private sector companies held the worst expectations since the future output series began in April 2012.

For further information, please contact:

Pablo Goldberg
Global Head, EM Research
Tel + 1 212 525 8729
pablo.a.goldberg@us.hsbc.com

Lisa Baitup
HSBC Media Relations
Tel + 44 20 79910624
lisa.baitup@hsbcib.com

Simon Williams
Chief Economist, MENA
Tel +971 4 423 6925
simon.williams@hsbc.com

Murat Ulgen
Chief Economist, Central & Eastern Europe & Sub-Saharan Africa
Tel +44 20 7991 6782
muratulgen@hsbc.com

Frederic Neumann
Co-Head of Asian Economic Research
Tel +852 2822 4556
Mob +852 6331 0731
fredericneumann@hsbc.com.hk

Andre Loes
Chief Economist, LATAM
Tel +55 11 3371 8184
andre.a.loes@hsbc.com.br

Notes to Editors:

The HSBC Emerging Markets Index (EMI) is a weighted composite indicator derived from *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
- South Africa
- 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 8,000 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 for Israel (produced by IPLMA) and Singapore (SIPMM). Markit does not have access to the latest figures for these surveys prior to publication.

HSBC Holdings plc:

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 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 55 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 80 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 216,000 shareholders in 130 countries and territories.

Markit:

Markit is a leading, global financial information services company with over 3,000 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.

About PMI:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are 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. To learn more go to www.markit.com/economics.

Chris Williamson, Chief Economist
Telephone + 44 20 7260 2329
E-mail chris.williamson@markit.com

Caroline Lumley, Corporate Communications
Telephone +44 20 7260 2047
E-mail caroline.lumley@markit.com