Press Release

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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

Emerging market output falls in July

Key points

- **HSBC Emerging Markets Index: 49.4** (prior 50.6)
- Manufacturing output declines, while services activity stagnates
- Asian manufacturing remains weak, while goods production also falls in Russia, Brazil and Mexico

The **HSBC Emerging Markets Index (EMI)**, a monthly indicator derived from the PMI™ surveys, fell to a new post-crisis low of 49.4 in July, down from 50.6 in June. The latest figure was the first sub-50.0 reading since April 2009, and indicated an overall contraction of output in global emerging economies.

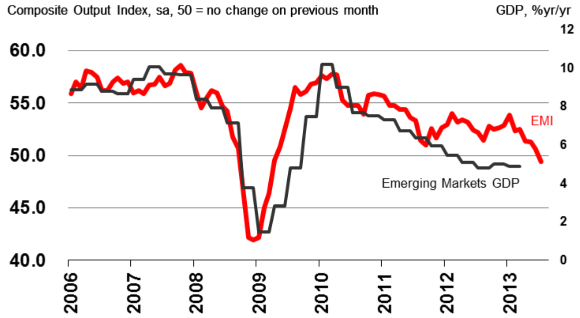
Output fell across the four largest emerging economies, the first broad-based contraction since March 2009. **Chinese** output fell for the second month running, mainly reflecting a contraction in goods production.

July data signalled the first decline in **new business** in global emerging markets in over four years. China, India, and Brazil all posted lower receipts of new work during the month, while growth in Russia was the slowest in nearly three years.

Employment in global emerging markets was broadly unchanged in July compared with one month previously. Job shedding at manufacturers offset marginal growth in service sector staffing.

Inflationary pressures remained weak in July. **Input prices** rose at the fastest rate in four months, but one that remained modest, while **prices charged** for final goods and services were broadly flat.

HSBC Emerging Markets Index



Data summary

Country/region	Coverage	Index	Jul-13	Jun-13	Jul-12
Emerging Markets	**Composite***	**Output**	**49.4**	**50.6**	52.2
	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	49.5	49.8	519
India	Composite*	Output	48.4	50.9	54.4
Brazil	Composite*	Output	49.6	51.1	48.9
Russia	Composite*	Output	48.7	50.1	52.6

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

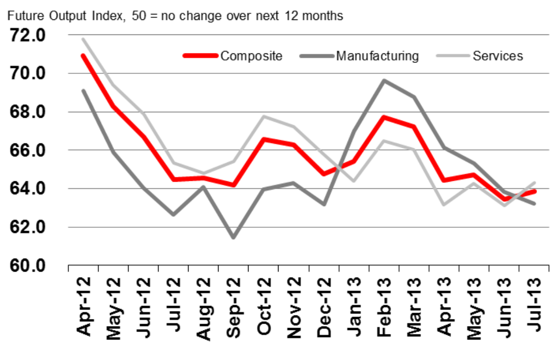
*Manufacturing & Services

Business expectations

The **HSBC Emerging Markets Future Output Index** is a new series tracking firms' expectations for activity in 12 months' time. The index rose slightly from June's low, but was still the second-lowest figure in 16 months of data collection to date. Manufacturing sentiment weakened for the fifth consecutive month, while business expectations in services picked up slightly since June. Among the four largest emerging economies, sentiment was weakest in China.

See page 3 for more analysis on business expectations

Emerging Markets Future Output Index



Comment

Frederic Neumann
Co-Head of Asian Economic Research

"Emerging markets are not yet feeling a lift from stabilizing demand in the United States, Europe, and Japan. For example, manufacturers have seen new export orders contract for a fourth consecutive month in July. There are signs that domestic headwinds for growth are stiffening as well. Total new manufacturing orders fell sharply last month, while new orders for services continue to expand at a disappointing pace.

"The main risk for emerging markets at the moment is that the cyclical downturn in manufacturing and softer service sector activity will ultimately lead to a weaker job market. Manufacturing employment in China, Brazil, Russia, Poland, and Korea, for instance, has already started to decline, with service jobs in most cases still growing, albeit at a softening pace. Deteriorating job prospects could weigh on household spending, thus undoing the lift expected from easing consumer inflation in most emerging markets.

"Some comfort, however, can be taken from the relative stability of the future output index. While it eased back marginally for manufacturers it rose for service providers. This suggests that relative optimism remains among businesses regarding the EM growth trajectory over the coming twelve months. Possibly, this may reflect the view, such as in China, that some policy accommodation could be forthcoming to help arrest the broader deceleration in activity."

Pablo Goldberg
Global Head of Emerging Markets Research

"EM continues to disappoint, dragged down by China. Regional divergences intensify. LatAm and Asia worsen, while CEEMEA improves."

Regional tweets

www.twitter.com/HSBC_EMI_PMI

Simon Williams
HSBC Chief Economist, MENA

"MENA's oil rich states are still growing well, but Egypt's road to recovery is a long one."

Frederic Neumann
Co-Head of Asian Economic Research

"Asia manufacturing orders fall sharply, despite a more stable West. Worries now local, especially with China's engine sputtering."

Andre Loes
HSBC Chief Economist, LATAM

"Bad month; Mexico manufacturing's first fall since 2009, on US weakness, while Brazil sees even faster drop on poor domestic sales."

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

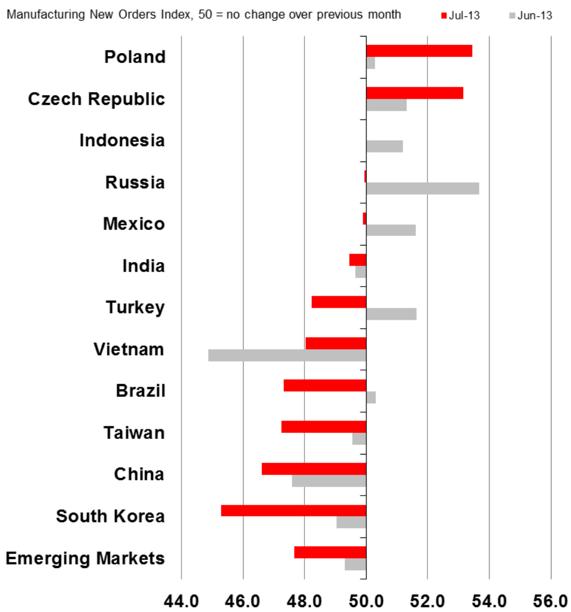
"CEE looks better than Russia and Turkey, perhaps due to eurozone stabilisation. They are also less vulnerable to a liquidity shock."

Detailed data summary: Output Index

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

▲ (green) Above 50, rising
▼ (green) Above 50, falling
► (green) Above 50, unchanged
▼ (black) 50, falling
▲ (red) Below 50, rising
▼ (red) Below 50, falling
*Non-oil

Manufacturing downturn increasingly broad-based in July



Manufacturing summary

Production at **Chinese** manufacturers declined for the second month in a row in July. Lower output was driven by the sharpest decline in new business for 11 months. New export orders, in contrast, fell at a reduced pace, though have now declined for four months in a row. Anecdotal evidence indicated deteriorating market conditions, both domestically and internationally, had led to reduced client demand. Exporters reported that new sales to Europe, South East Asia and the United States were all lower than June levels.

July survey data showed **South Korean** manufacturing output contracted at the fastest pace for nine months. A domestic economic slowdown and unfavourable foreign exchange conditions were reportedly the root causes of lower levels of production, new orders and employment in the sector. Similarly, operating conditions deteriorated in **Taiwan's** manufacturing sector in July. Production levels decreased for the third month running, with both new orders and new export orders falling at faster rates.

Elsewhere in Asia, **Indian** manufacturing output declined for the third month running in July, albeit at a fractional pace. Production also fell for the third consecutive month in **Vietnam**, and was unchanged since June at **Indonesian** manufacturers.

In Latin America, **Brazil** posted a decline in goods production for the first time in 11 months, reflective of lower new order intakes. Meanwhile, the depreciation of the real resulted in higher prices paid for inputs, with the rate of cost inflation accelerating to the fastest in over three years and charge inflation picking up to the sharpest in five years. Similarly, **Mexican** manufacturing business conditions deteriorated in July. Output contracted over the month, partly reflecting a stagnant trend for new orders, and this in turn led to a flat trend in employment.

Manufacturers in the **Czech Republic** and **Poland** both registered improving business conditions in July, partly reflecting signs of stabilisation in the eurozone. In the former, new orders, exports, output and employment all rose in July, in a sign of demand gaining momentum. Meanwhile in Poland, a robust increase in new orders led to the first rise in production since April 2012.

The business climate facing **Russian** goods producers worsened at the start of the second half of the year. A stagnation in new orders led to the first drop in manufacturing output in four years, while firms cut staff at the fastest rate in six months. Contrary to the overall weakness in new orders, the volume of new export business rose at the fastest rate in 14 months.

July data signalled stagnating output levels in **Turkey's** goods-producing sector. New order intakes declined for the first time since last August and firms reduced their purchasing activity. That said, workforce numbers continued to rise. Meanwhile, the rate of input cost inflation accelerated to the quickest since November 2011.

Middle East non-oil economy

Saudi Arabia's non-oil private sector economy continued to experience improving business conditions in July, but the overall strength of growth was the joint-third weakest since the PMI survey began in mid-2009. Output growth slowed to a survey-record low, while the expansion in new business remained relatively weak.

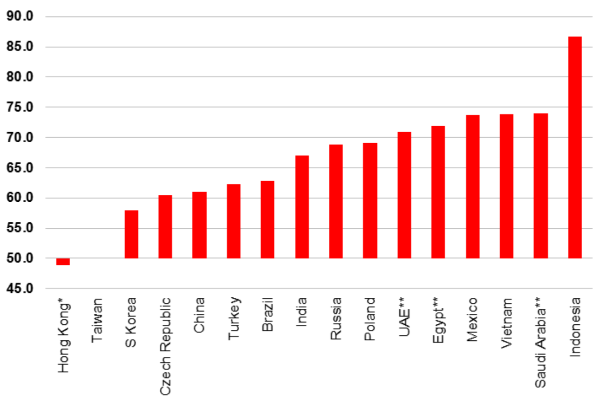
July data signalled further rises in output and new order intakes at non-oil producing private sector companies in the **United Arab Emirates**. Meanwhile, new export business rose at the sharpest rate since January and employment levels increased further. The overall improvement in operating conditions was sharper than the four-year survey trend.

The latest PMI survey data signalled sharp declines in both output and new orders at **Egypt's** non-oil producing private sector firms. Employment levels fell for the fifteenth month in succession and purchasing activity declined at the second-sharpest rate in the survey history. Political instability remained the key factor undermining private sector business conditions in July.

Business Expectations

July date signalled the weakest 12-month outlook for manufacturing production in **China** of 2013 so far. Other notable findings were sharp deteriorations in sentiment in both **Taiwanese** manufacturing and the **UAE** non-oil private sector economy, while companies in **Hong Kong** forecast a slight reduction in activity over the forthcoming year. Sentiment in **Egypt's** non-oil private sector strengthened sharply, though this reflected the current difficult business environment. The strongest overall manufacturing output outlook was registered in **Indonesia**, while **Vietnam** saw the greatest improvement since June.

Future Output Index (manufacturing unless stated), 50 = no change over next 12 months, July 2013



*= Whole Economy, ** = Non-oil private sector

Combined manufacturing and services data signalled that **China** held a weaker outlook for activity than Russia, India and Brazil. Moreover, only **Brazil** recorded a stronger level of sentiment than the average over 16 months of data collection to date.

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 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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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

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