HSBC *Purchasing Managers' Index*™ Press Release

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HSBC Russia Manufacturing PMI®

Russian manufacturing business climate improved only marginally in May

Summary

HSBC survey data compiled by Markit signalled a near-stagnation of Russian manufacturing growth in May and a sharp easing in cost inflationary pressure. Output growth slowed to a modest pace as new orders were broadly flat over the month, while stocks of finished goods rose as sales disappointed.

The headline figure from the survey is the seasonally adjusted HSBC Russia Manufacturing *PMI®*, a composite index designed to track overall business conditions. Any figure greater than 50.0 signals improvement, below 50.0 contraction. The *PMI* dropped to 50.7 in May, only just above neutrality. It has now fallen by 4.9 points from March's fifty-five month high of 55.6, the largest sustained decline recorded since the financial crisis of late-2008.

Latest data signalled that new order intakes were fractionally lower in May than one month earlier. Domestic demand faltered, while new export orders were largely unchanged on the month. The overall stagnation in new orders brought to an end a sequence of continuous expansion that stretched back to April 2010.

Production growth was maintained for the twenty-second month running in May, but at a reduced rate. The pace of expansion has slowed continuously since hitting a near three-year high in February, with the latest growth the weakest since December 2009. The muted trend in market conditions in the manufacturing sector was underlined by the steepest drop in backlogs of work in six months, and a rise in stocks of finished goods as sales disappointed.

Inflationary pressures eased in May to the greatest extent seen since the onset of the global financial crisis, reflecting the recent falls in commodity prices. Input price inflation slowed for the fourth successive month from January's recent high, and was the weakest since July 2009.

Russian manufacturers increased their prices charged for the twenty-third successive month in May. The rate of inflation slowed, however, to the weakest since last July

A bright point from the latest survey was a further increase in manufacturing employment. The current period of jobs growth now stretches to eight months.

Comment

Commenting on the Russia Manufacturing *PMI* survey, Alexander Morozov, Chief Economist (Russia and CIS) at HSBC, said:

"Russian manufacturing has almost lost growth momentum. This must reflect a decline in domestic demand, which has led to stocks accumulation for the first time since the 2008 economic crisis. In essence, the PMI report predicts negative surprises from industrial production data for May, and probably beyond.

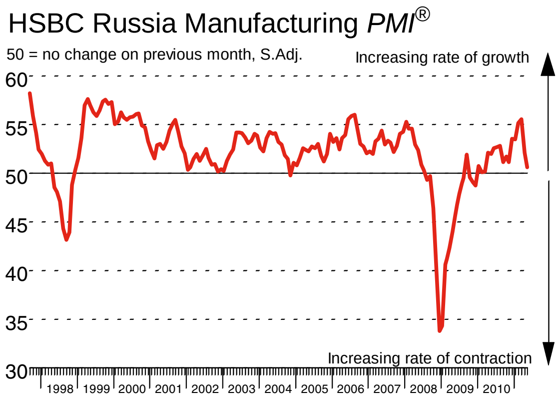
Yet, as opposed to 2008, the downside appears limited this time. New export orders (that have some forward looking power) have not yet declined, rising fractionally since April, while companies continue to create jobs. Provided that export demand is maintained in the coming months, manufacturing appears switching to a crawling growth trend of 2-3% and waiting for new impetus for growth, such as improvements in business climate, political and policy certainty, etc. These growth factors are unlikely to emerge until 2012.

PMI price indexes point to easing inflationary pressures in manufacturing to below their long-run averages, which is a positive development. Combined with a marked moderation of output growth, the situation in manufacturing seems to justify the dovish policy stance. However, in our opinion, monetary policy cannot and should not be a substitute for structural and institutional weaknesses."

Key points

- Manufacturing *PMI* close to neutrality at 50.7.
- Weakest rise in output since December 2009.
- Input price inflation slowed to twenty-two month low.

Historical Overview



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Notes to Editors:

The HSBC Russia Manufacturing *PMI* is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 manufacturing companies. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to Russian Industrial Production. 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 the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index*™ (*PMI*®) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

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.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

HSBC Group:

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US$180bn at 31 December 2010. We are headquartered in London. As 'The world's local bank', we combine the largest global emerging markets banking business and a uniquely cosmopolitan customer base with an extensive international network and substantial financial strength. HSBC operates through long-established businesses and has an international network of some 7,500 offices in 87 countries and territories in six geographical regions; Europe, Hong Kong, Rest of Asia-Pacific, the Middle East, North America and Latin America.

HSBC Group operates in Russia through OOO HSBC Bank (RR). HSBC Russia provides a wide range of corporate banking, investment banking and financial markets products and services to corporate and institutional customers.

About Markit:

Markit is a leading, global financial information services company with over 2,000 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, see www.markit.com.

About PMIs:

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.