

Chile Day

Opening remarks by Stuart Gulliver Group CEO, HSBC Holdings plc

> Chile Day, City of London 11 September 2012

My Lord Mayor,

Minister, Mr Felipe Larraín,

Your Excellency, Mr Tomas Muller,

Ladies and gentlemen,

To those who have travelled from Chile – welcome to London.

And to everyone who joins us here – welcome to Chile Day.

This is the second time this event has been held here in London and the second time it has been sponsored by HSBC. We're proud to be involved.

We've had a presence in Chile since 1981.

And, in fact, our involvement goes back further than that.

One of our forebear companies Gibbs, Crawley & Co established a presence in Chile in 1826 and was active in the Guano/nitrate trade.

They were a merchant and finance house – which included acting for the Ford Motor Company to bring the Model T to Chile in 1909, in what may have been the first shipment of cars into the country.

But today we're looking at what the future holds.

So I'd like to say a few words about how we see the outlook for Chile and the global economy – and also to take a look at some of the big trends for the longer term.

In a period of turmoil and uncertainty Chile is notable for its stability.

Recent decades have told an impressive story of economic development.

Today Chile is known for its strong regulatory and legal platform, for the development and sophistication of its financial markets, and for its openness. The World Economic Forum's Global Competitiveness Report, which was published just last week, confirmed this perception.

Chile was commended for its stable performance, low levels of public debt, budget surplus, transparency and good transport infrastructure.

Moreover, the report commends Chile's liberalisation policies and its openness to trade which have helped to create flexible and efficient markets.

As a consequence Chile remains the most competitive economy in Latin America. It is also one of the fastest growing economies in the region.

Our forecast for the short term is positive. We expect inflation to stay below target this year.

GDP growth should reach 5% – close to potential – and decelerate only marginally to 4.8% in 2013.

As the world's largest exporter of copper, the outlook for the global economy and the outlook for Chile go hand in hand. And there are some positive signs.

Commodity prices may have peaked in 2011, but the balance of demand and supply is expected to remain tight for some time yet. We expect prices to remain at reasonably high levels.

Our commodities team forecasts a London Metal Exchange copper price of \$8,000 per tonne for this year, declining to \$7,500 in 2013 on increasing market surplus, and rising back to \$8,000 in 2014.

Prices on the Shanghai Futures Exchange should be in line with those of the LME.

Global demand growth has slowed, due to weakness in markets such as Europe – we expect it to drop to 3% this year.

But we continue to see a cyclical recovery in demand growth in 2013 to an above trend rate of 5% and a reversion to structural growth rates of 4-4.5% thereafter.



Many large fast-growing economies are in, or are about to enter, the commodity-intensive stage of development.

And of course China is central to this.

Some observers say that the current slowdown in China is structural, and that Beijing cannot therefore act to stimulate growth without causing a sharp rise in inflation.

We take a different view.

Clearly growth in China is slowing. We believe this is largely due to collapsing global demand and the overhang of last year's tight economic policy. China is not immune from events in the rest of the world.

But we believe this lower growth is mainly cyclical – and that China still has policy tools available, which are simply not an option in the West.

Concerns have been voiced about overinvestment and the sustainability of China's growth, but again we take a different view.

We estimate that China's total capital stock is only around 30% of that in the US, while there are still huge needs. For example, more than 70% of Chinese cities with a population over 5 million still have no subway.

And through improvements in capital stock, urbanisation, education, technology and the reform process, productivity gains should continue to drive the economy forward.

Our economists predict that the potential growth rate will be 9-9.5% until 2015, and should average 8-8.5% for the following 5 years.

Staying with the macro picture, I want to look briefly at the eurozone, which is the destination for 16% of Chile's exports.

Attempts to address the eurozone's troubles have been positive and welcome, but it's clear that they haven't provided permanent solutions.

The European Central Bank announced details of its bond-buying programme last week and the initial reaction was positive. Italian and Spanish bond yields began to fall even before Mr Draghi finished speaking.

The ECB made clear that they are willing to undertake potentially large scale purchases – but the upshot was to send the ball back into the governments' court.

Some countries need to ask for help and deliver on their structural reforms and fiscal consolidation. And, together, all member states need to take steps towards closer fiscal and financial sector integration.

As we've said before – the ECB has bought time for leaders to look for solutions. But bolder action is required.

There is an opportunity to begin to rise to the challenge later this week, when eurozone finance ministers meet and are expected to set out the broad conditions for assistance to those countries that need it.

Our working assumption remains that Europe's leaders will do what it takes to ensure that the euro will survive in its current form, and that all member states now in the currency will stay in it.

Yet, even if the eurozone's leaders deliver on this, it is going to be a hard year in Europe.

We think the eurozone will shrink by 0.6% in 2012. Developed nations elsewhere will do better, but not by much.

We anticipate that developed economies, taken as a whole, will grow on average at 1%, the slowest annual rate since 2009.

George Soros and others have spoken of the risk of a 'two-speed economy' in Europe. But a two-speed global economy is already a reality today.

Chile is on the right side of this divide.

And as we look forward we believe that these dynamics will become even more pronounced.

We see a new global economy emerging – with the faster-growing economies of Asia and Latin America powering global growth over the next four decades.

These faster-growing markets will contribute twice as much growth as developed markets over this period – and by 2050 they will be bigger collectively than the developed markets.

Our model shows that Chile will rise 12 places up the rankings over this period to become the 32^{nd} largest economy.

Trade will be one of the primary engines of this growth as the new 'South-South' connections revolutionise the global economy.



And as faster-growing markets link-up, creating new connections between Asia, the Middle East and Latin America, trade and capital flows between those areas will grow significantly – increasing tenfold by 2050.

The scale of the opportunity is huge in part because the economic borders between many faster-growing nations are still high – in contrast to those in Chile.

The Asia-Latin American trade corridor is already one of the fastest growing – with a compound annual growth rate of 20%.

We expect Latin American trade to double from 2010 to 2020, from 1.4 trillion dollars to 3 trillion.

HSBC's strategy is based around these trends: the continuing growth of international trade and capital flows; and wealth creation, particularly in faster-growing markets.

Chile fits into this strategy as a valuable part of our network. And, as the global outlook that I've described makes clear, we see opportunities here in the future.

Our business in Chile reflects the orientation of the economy. Over 80% of our revenues in the country involve international transactions. We are among the top 5 players for Chilean exports.

We act as a platform for multinational clients in the country, and for the growing internationalisation of large Chilean corporates.

We have a very strong FX business, a developing rates business, and are the leader in Debt Capital Markets – including important benchmark deals for the Republic, Banco Estado, ENAP and CMPC.

For example, we recently led a 2 billion dollar dual-tranche issue for Codelco – their first ever.

It generated strong demand from high-quality accounts globally and boasted one of the largest orderbooks ever for a Latin American issue.

Both our Global Banking and Markets and our Commercial Banking businesses are interested in Chile and want to do more business there.

We believe it has a bright future.

And we look forward to helping you to seize some of the opportunities that that future will provide.

Enjoy the day – and your time here in the UK.

Thank you.