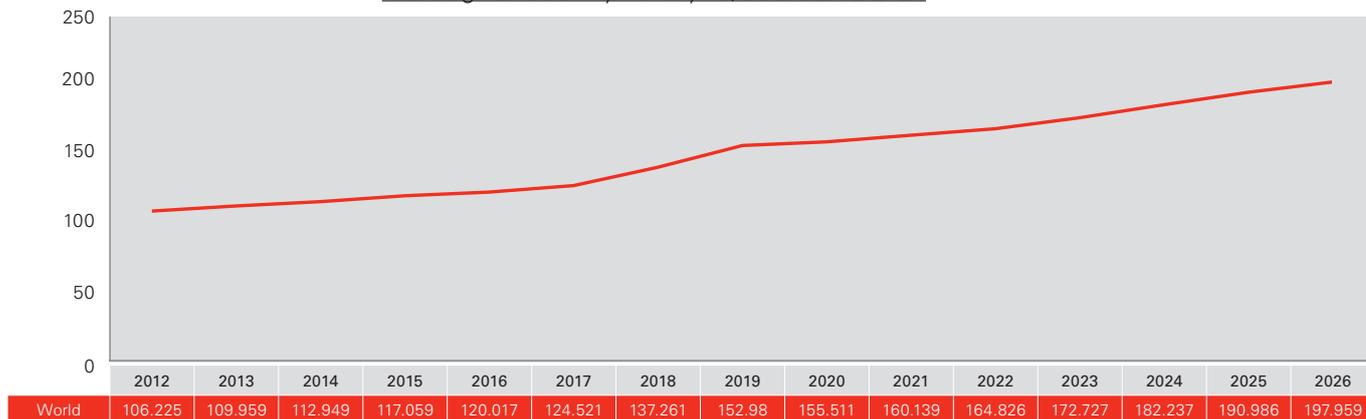


Global Connections Report

Global Outlook

- World trade is forecast to grow by 98% to 2026 against previous forecast of 99% – indexed to Jan 2011
- Over the 15 year period April 2012 to April 2026 growth is forecast at 88%, steady from Feb 2011 forecast of 86%
- Emerging market trade growth to outpace developed world, leading to an eventual rebalancing of trade flows
- Companies to increase trade activity by 4.7% annually, with growth weak at first before accelerating
- Trade Confidence Index positive; 9 of the 10 most confident countries from emerging markets

Annual growth rates year on year, World 2012-2026

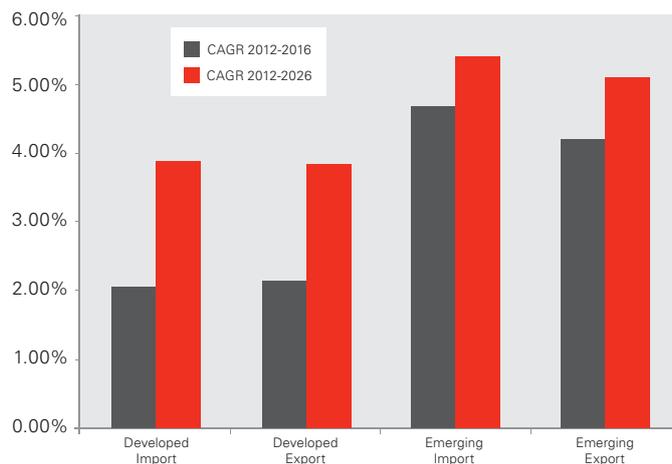


Global trade overview

Emerging markets to lead trade growth

Despite the ongoing difficulties in the global economy, notably in the Euro Area, global trade is forecast to grow at a robust rate of 4.7% annually over the next 15 years, giving a total rise in trade over that period of 98%. This figure has been indexed to January 2011, and remains relatively flat from the previously forecasted figure of 99% growth indexed to Jan 2011. However, it should be noted that the recent deterioration in economic and financial conditions would, if sustained, dampen this forecast as it was based on parameter data that was collected up to the middle of April. Even this forecast reflects the current uncertainty to a degree, with the near term projection over the next five years showing the weakest growth, at 3.7%, before an acceleration to 5.9% in the five years to 2021. What the forecast does show is that the underlying forces driving global trade forward remain very much intact, led by Emerging Market countries.

Those countries continue to outpace the developed world in terms of speed of trade growth, with Poland, India and the Czech Republic expected to show export growth of around 5.5% while Brazil and India are forecast to see import growth of over 7%. Developed nations continue to grow in places, and are clearly still represent the largest share of global trade by volume, but are showing much slower overall growth, with Europe particularly weak. Partly as a result the forecast predicts some rebalancing of global trade, with the rate of growth of US exports expected to be faster than that of its imports whilst in Germany, China, Brazil and India, we expect to see the rate of growth of imports exceed that of their exports.



Forecast data provided by:



Share of world trade

Increased share of trade

The Emerging Markets countries are forecast to see the biggest gains in trade, with Latin America up by 6% and Asia by 5.4% to 2016. China, despite its increasing size, is still forecast to see strong growth in both imports and exports of 5.1% and 4.7% to 2016. India sees the fastest growth in exports of 5.4% and with imports to grow 7.2%. Poland and the Czech Republic are the two other fastest growing exporters, while Brazil and Saudi Arabia are 1st and 3rd for import growth.

Decreased share of trade

The weakest trade growth is expected in Europe at just 2.1%. France, the UK and Italy all expected to see trade growth of 2.5% or less. Spain sees very weak growth in imports of just 1.3%, but exports should grow by 3.3%. A similar rebalancing is expected in the US with exports growth of 3.5% and imports of just 1.6%. Japan broadly holds its own with exports to grow 2.9% and imports by 2.7%.

Macroeconomic trends

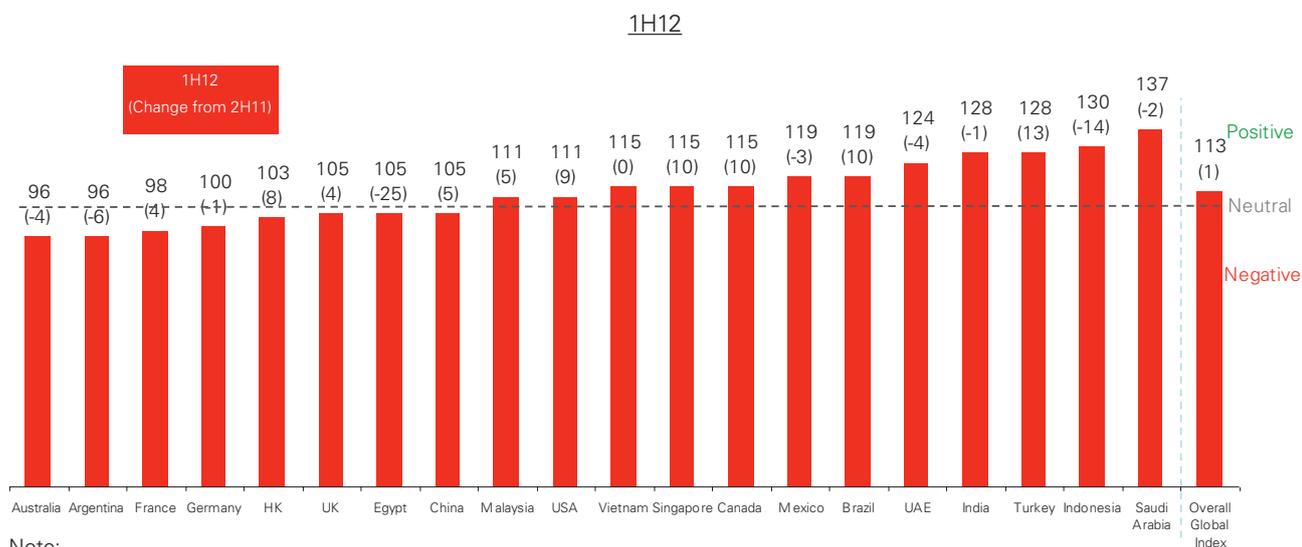
The spillover from turmoil in Europe is the biggest concern in the forecast

Although the forecast is more optimistic than four months ago, the recent rapid deterioration in economic conditions and markets, highlighted by the recent poor PMI surveys, suggests we have to treat the improvement in the forecast with some caution. That is particularly the case now the weakness in the data appears to be reaching places like India, China and Australia. The forecast is most vulnerable in the near term and there would be scope for the 3.7% forecast over the first five years to be revised lower should the turmoil continue. Nevertheless, there are some trends which will likely continue despite this. First and foremost the rebalancing of global trade with the big surplus and Emerging Market nations seeing faster import growth. Emerging Market nations are also becoming more dominant in global trade, with China forecast to be the dominant trade nation by 2026. Equally the trade corridors between those nations are growing in strength, most notably in Asia, but also between South East Asia, India and Latin America.

Global Trade Confidence Index

The Trade Confidence Index, a study of current sentiment amongst 5,800 international businesses, suggests the short-term outlook for the global economy is positive. Almost three quarters (71%) of respondents believe it will remain stable or grow in the next six months, with an Index score of 113, above the neutral score of 100.

Echoing the Trade Forecast, the Index finds that emerging markets remain considerably more confident about international trading prospects than their developed counterparts. Canada is the only western nation in the top 10 most confident nations, which features countries from Latin America, the Middle East and Asia. Turkey has grown in confidence most significantly over the last six months (up 13 points) and now stands alongside India as one of the most confident countries studied. Indonesian and Saudi Arabian respondents are most assured overall.



Confidence amongst business leaders extends to the volume of trade expected to occur. Half (50%) of respondents expect volumes to grow in the next six months while 37% anticipate they will remain stable. This is slightly more positive than in H2 2011. While the risk of buyer payment default is a concern, two thirds (68%) of those surveyed think that this risk is unlikely to get any worse before year end.

Trade Corridors

Global Overview

As noted above we are seeing strong growth in Emerging Market trade. Interestingly trade in Asia is predominantly intra-regional with 10 of the top 15 trade partners coming from the region, whereas the Latin American trade is predominantly extra-regional with 9 of the top 15 from outside the region. We are also seeing growing trade corridors between those two regions. The fastest growing export partners for Asia are Brazil and Panama, with Mexico also in the top seven, while for Latin America India is the fastest growing trade partner, with China, Thailand, Indonesia and Singapore in the top 5 of import partners.

Current trade corridors

The US, Germany, China and France are the top four trading nations globally and are expected to remain that way over the forecast period, although Japan is projected to overtake France on exports to become 4th in the world by 2016. China becomes the dominant trade nation by some distance by the end of the forecast period, as its strong growth trajectory will result in it overtaking the US as the world's second largest importer after Germany, and strengthening its position as the world's largest exporter by 2026. India is also forecast to make considerable progress rising to be the 10th largest importer and 12th largest exporter. Russia also becomes a large import destination rising to be the 9th largest in the world. Spain shows one of the largest downward moves as it goes from the 11th to 14th largest importer, but it remains the 13th largest exporter.

Emerging trade corridors

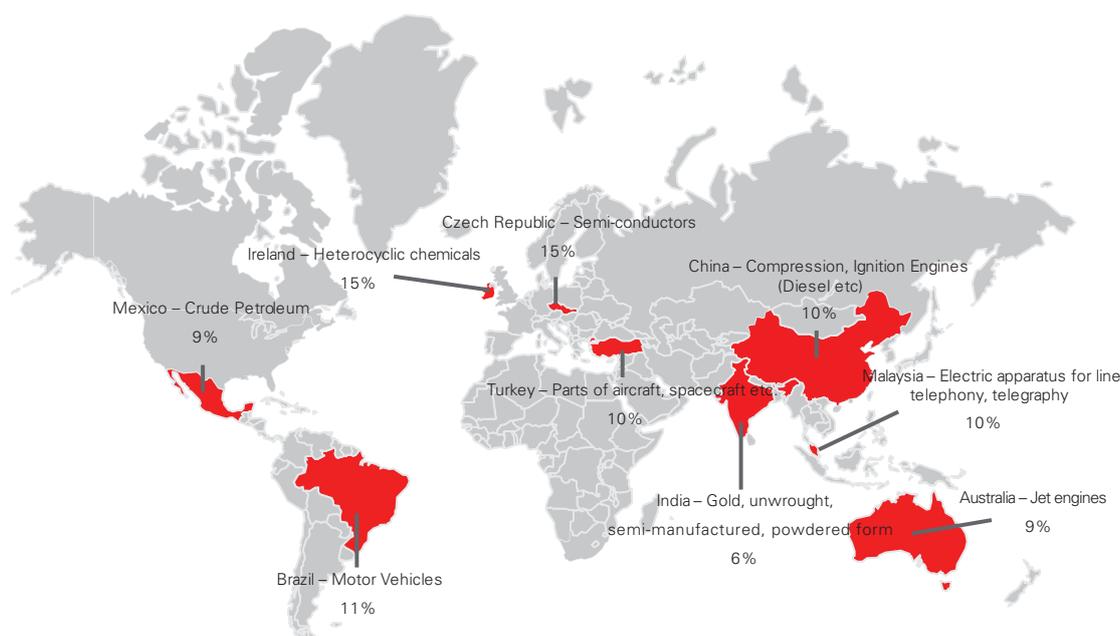
Brazil and India are forecast to see the fastest import growth globally over the next five years at 7.7% and 7.2% respectively. They are followed by Saudi Arabia at 6.4%, with Indonesia and the UAE both better than 5.5%. Indonesia is also expected to see the 10th fastest growth in exports. Poland and the Czech Republic are expected to see the 1st and 3rd fastest growth in exports at 5.6% and 5.4% and Poland is also the 6th fastest growing importer with a similar growth rate. Malaysia also shows up in the top 10 growing markets for both imports and exports, while Singapore is the 4th fastest growing exporter and just makes the top 15 for import growth.

Trade Sectors

Global Overview

Cars, Non-Crude Oil and Medicaments are the sectors that dominate world trade. Auto trade is a good proxy for the speed at which economies are developing and it is no surprise to see emerging countries leading the growth. Brazil is expected to see car imports rise by more than 13% over the next five years, with exports up 4.9%. Similarly Chinese imports of cars are expected to rise by nearly 12%, while exports of cars from India should grow by nearly 13%. Imports of Medicaments are expected to grow by 5.3% and Biopharma by 6.6%. Much of this trade emanates from the US and Europe, but the demand is from Emerging Markets. Asian and Latin American imports of Medicines forecast to rise by around 7% and Latin American imports of Biopharma by more than 11%.

All figures shown are 2012-2016 CAGR



Current Trade Sectors

Non-Crude Petroleum is the other top three sector and care of the assumed growth in the world economy is expected to see solid growth. Again this is led by emerging market countries, with Brazil's non-crude imports forecast to rise by 10.7% and China's by 6.8% to 2016. Not surprisingly MENA plays a key role in this with Crude Oil exports projected to rise by 4.3%, Gas by 5.7% and Non-Crude Oil by 4.1% by 2026. Outside of the top three sectors, computers are still expected to see solid growth at around 5%.

Emerging Trade Sectors

The fastest growing sectors are expected to be Printing, Telecom Equipment and Gold with growth of around 8-9%. Growth in Telecom Equipment is again Emerging Market driven with China expected to see growth of around 11% in exports and 12% in imports over the next five years. Brazil and India are expected to see growth in imports of 14.7% and 11.4%. Shipping is also expected to be a fast growing import sector globally at around 6.8%, led by South Korea, Japan and China.

Alan Keir

Group Managing Director and Global Head
HSBC Commercial Banking

"Our latest Global Connections report has shown the key role that 'emerging' markets are playing within the global economy and their growing position as a lynchpin in global trade. Although still known as 'emerging', these markets have firmly established themselves as the long term driving force behind global growth.

With a tipping point in the balance of trade power predicted we will soon see that imports will grow faster than exports in 'emerging' markets. This will signify a shift where traditionally export driven countries will drive developed and emerging market growth as their own trade demands become more powerful.

Similarly, the short term snapshot provided by our Trade Confidence Index shows that traders in emerging markets are reporting significantly higher levels of confidence, with seven out of ten of the top countries in the index currently noted as emerging. These insights will help businesses to understand how demand patterns and optimism are changing and how these seismic shifts are re-balancing the global economy.

"The message for international businesses, small or large, is to look at the bigger picture. Those in developed nations have to look beyond their borders at the opportunities in rapidly growing markets, while emerging market businesses need to access the growth of these new trade powerhouses closer to home."

Notes on the data:

The forecast predictions in this document have been provided by Delta Economics, and should not be construed as HSBC advice or guidance. The research was commissioned by HSBC as part of a marketing campaign for HSBC Commercial Banking. The findings are based on Delta Economics' interpretation of data which has been sourced from publicly available sources.

This forecast predicts how trade is going to develop over the next five, 10 and 15 years, based on data compiled by Delta Economics, an independent research house. It forecasts overall trade growth (exports, imports and total trade) globally, in global regions, and individual countries. With data from over 200 countries, the report covers the top 50 sectors for exports and imports for 19 selected countries. The Forecast has a unique approach to understanding the drivers of trade from a business perspective, informed by: trade trends, macroeconomic and market influences trade, and business

environment influences on trade (including regulation, demographics, access to capital and finance). This research has been commissioned by HSBC and undertaken by Delta Economics.

The economic and business narratives stem from a broader documentary search that includes material from National Statistical Offices, the World Bank and International Monetary Fund, economic blogs, the Economist Intelligence Unit, Bloomberg, the Financial Times and other professional and financial services news websites.

About Delta Economics:

Delta Economics is a leading research-led economics consultancy founded in 2006 by Dr Rebecca Harding, a trade economist. Delta specializes in economic growth and trade modelling/forecasting. It also has extensive expertise in quantitative and qualitative market research, market intelligence and thought leadership with a specialism in the entrepreneurial and small and medium sized business sector.

HSBC Commercial Banking

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