

HSBC Trade Connections:

Trade Forecast Quarterly Update

October 2011

Quarterly forecast exploring the future of world trade and the opportunities for international businesses

- World trade will grow by 73% in next 15 years
- World trade will grow annually at 2% until 2015
- Companies to increase trade activity annually by 3.9% to achieve projected growth
- UK's trade to grow by 60% by 2025

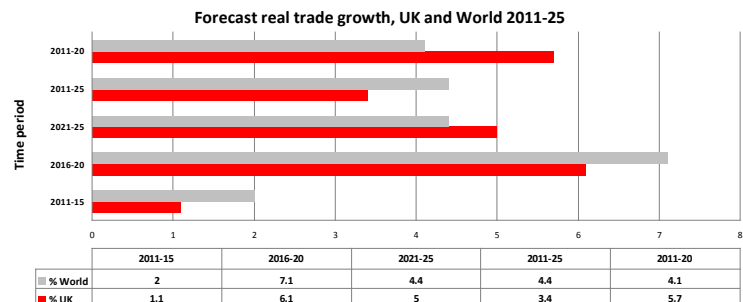
Global trade outlook

The new Trade Forecast is predicting that world trade will grow by 73% in the next 15 years, with merchandise trade volumes in 2025 hitting \$43.6trillion compared to today's \$27.2trillion. To achieve this growth, the Trade Forecast is predicting that companies across the world will increase their trade activity by a combined 3.9% between 2011 and 2025. The Trade Forecast anticipates that the spotlight will be on Egypt, India, China, Indonesia and Brazil to drive world trade growth during this period.

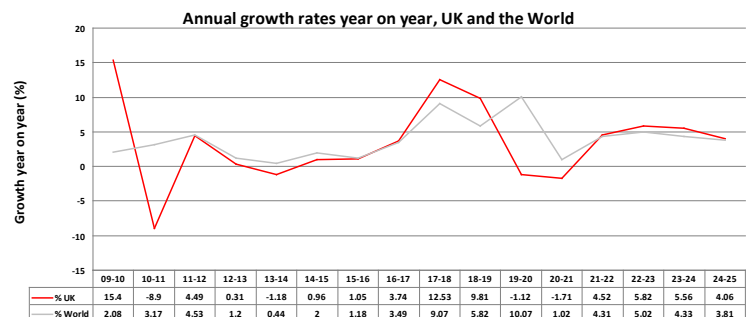
This is reflected in HSBC's Trade Confidence Index which reveals that businesses around the world believe that China will continue to be a source of key trading opportunities over the next six months, with Latin America, South East Asia, and the Middle East also featuring strongly. Despite an overall dip in global trade confidence, businesses in Indonesia, Saudi Arabia, Egypt and the UAE are particularly optimistic about the future, showing a positive uplift in confidence on the first half of 2011. On a global scale, the majority of respondents (84%) anticipate either an increase in international trade, or consistent levels of international business activity, over the next six months. For businesses trading internationally or starting to trade internationally, the combined global outlook provides a positive view of future business opportunities with new trade corridors opening.

The UK's trade outlook

The UK accounted for 3.4% of world trade at the end of 2010. The Trade Forecast is predicting the UK's trade will grow substantially over the next 15 years, once the near term period of slow growth has passed. The Forecast anticipates that UK trade volumes will grow by 60% (below the world average of 73%) to the end of 2025. It is anticipated that merchandise trade volumes in 2025 will be \$1,360.7billion from their levels at the end of 2010 of \$933.7billion.



The UK is experiencing slow economic growth generally at the moment and, although parts of the manufacturing sector in particular are known to be strong, the UK as a whole has not yet entirely recovered its 'pre-crisis' levels of trade. As part of the current global market volatility, the Forecast anticipates trade will slow by 8.9% over the next 12 months. This is unsurprising given that UK trade picked up quickly to grow by 15.4% during 2010. The UK's share of world trade is expected to fall to 2.8% by 2025, this nevertheless represents an increase in total trade value and an annualised growth rate over the next two years of 4.48%.

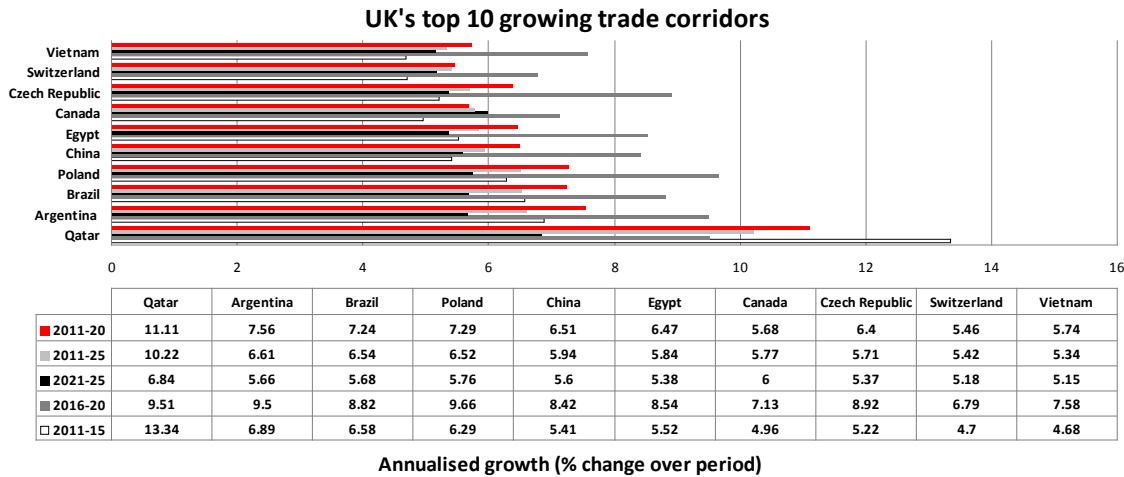


Confidence in the UK

Western Europe (excluding Germany) and China continue to be the top trading partners for UK traders - these two regions are expected to continue to in importance over the next six months. Similar to their US counterparts, 50% of UK traders will look to tighten payment terms and employ export insurance strategies over the next six months to mitigate their trade risks. UK buyers will look to their bank for finance with a view to increasing reliance on payment terms from suppliers.

The UK's fastest growing trade corridors

The US, Germany and the Netherlands are the UK's major export destinations, while its major import partners are Germany, China and the Netherlands. As in other European countries, its predominant trading partners are within Europe. However, over the next 15 years, it is anticipated that a number of new trading partners will increase in importance. Although in volume terms, some of these like Qatar and Argentina are relatively small, others are going to increase very substantially in importance and volume, including Brazil and Poland, where trade values with the UK will more than double.



Macroeconomic trends

The UK has experienced flat economic growth since the downturn and this means that its businesses have not been able to take advantage of the recovery fully following recession. However, until recently, manufacturing output and trade was increasing and this suggests that more manufacturers have been taking advantage of a weaker currency to trade abroad.

Trade trends and corridors

The UK has growing trade corridors with Switzerland and Ireland. Switzerland is a dominant importer of pharmaceutical products while Ireland is a major export destination for computer equipment. The Forecast predicts that both of these trends will continue. Oil trade is opening up with Qatar which explains why it registers as such a high growth partner while Argentina is set to more than double its trade in agricultural commodities with the UK over the next 15 years. Trade with India is set to grow by 5.17% over the period and with Hong Kong by 4.5%.

Business trends

Commodities, especially oil, play a vital part in the structure of the UK's trade, which will not change substantially over the next 15 years. However, the UK is also home to highly specialised, innovative manufacturing companies that form an integral part of supply chains in motor vehicles and data processing globally. As the strength of consumer demand picks up in the medium term around the world, the UK's trade growth is set to grow by 4% - above the average for the world (at 3.5%). Companies need to grow their international activities at at least that rate in order to take advantage of these medium term trade growth prospects.



"For UK businesses, there is a world of opportunities around the globe. Understanding which markets offer the greatest growth potential for companies operating in different sectors is key when planning for growth. *HSBC Trade Connections* should act as a valuable resource for businesses in their planning."

- Ian Tandy, Head of Trade and Supply Chain, HSBC UK

HSBC Trade Connections

Trade Forecast

The Trade Forecast predicts how trade is going to develop over the next five, 10 and 15 years. It forecasts overall trade growth (exports, imports and total trade) globally, in global regions, and individual countries. Spanning 36 countries, it covers the top 10 sectors for exports and imports for each of these. 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 (for example GDP, oil prices, inflation, foreign direct investment), and business environment influences on trade (including regulation, demographics, access to capital and finance). The 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.

Trade Confidence Index

The HSBC Trade Confidence Index covers a total of 21 markets and is the largest trade confidence survey globally. The current survey comprises six-month views of 6,390 exporters, importers and traders from small and mid-market enterprises on: trade volume; buyer and supplier risks; the need for trade finance; access to trade finance; and the impact of foreign exchange on their businesses. The survey was conducted by research company TNS between July and September 2011.

About HSBC Commercial Banking

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. HSBC is one of the world's most international commercial banks with over three million customers in more than 60 markets. With 7,500 dedicated relationship managers, Commercial Banking contributed over US\$4 billion in profit before tax to the Group in the half-year to 30 June 2011.