HSBC Global Research

Macro
Global Economics
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Global
ECONOMICS

The tipping point

Emerging nations now in the driving seat...

...as developed world is held back by high debts

Low US rates to support flow of excess liquidity into emerging markets

By Stephen King and Stuart Green

The Tipping Point

The rise of the East, the demise of the West

We have reached a tipping point in global economic affairs. While there are some encouraging signs of recovery in the developed world, the real economic action is taking place elsewhere. For both cyclical and structural reasons, the emerging nations are set to dominate world economic activity in the years ahead. Although we have revised up our 2010 projections for most countries in the world, the revisions leave the emerging world looking particularly healthy: we now expect emerging nations to see economic growth of 6.0% next year (up from 5.3% last quarter) while the developed world will expand by only 1.8% (from 1.2% previously).

Part of the emerging nations' dominance reflects ongoing struggles in the developed world. A combination of low interest rates, quantitative easing and loose fiscal policy has returned stability to financial markets and raised hopes that the worst of the crisis is now safely behind us. Nevertheless, some of the central problems of recent years have yet to go away. Banks no longer enjoy the funding of old. Households and governments are awash with debt. Developed economies remain on life-support systems imposed by policymakers.

While, then, there has been a welcome turnaround in the inventory cycle and we have been in the process of revising up many of our forecasts, we expect policymakers to maintain stimulus packages for a long time. In the US, for example, even though growth prospects have improved, the level of activity is set to remain very low, suppressing core inflation and keeping unemployment unacceptably high.

Over coming months, investors will doubtless focus on so-called 'exit strategies', assuming that the financial system is not about to suffer any more nasty financial shocks. We think the exit 'sequence' is of considerable importance. Tighter fiscal policy should ideally come before tighter monetary policy in a bid to ensure no sudden, and unwelcome, rise in bond yields. Co-ordination between fiscal and monetary authorities is, therefore, vital even at the cost, however temporary, of central bank independence.

The merry-go-round

The structural arguments in favour of outperformance by emerging economies are compelling. Low per capita incomes offer plenty of room for catch-up. Thawing political relations have allowed companies from all over the world to invest in emerging nations. Information travels around the world much more quickly and much more cheaply thanks to new telecommunications technologies, making the management of assets within the emerging world much easier than before. Trade linkages between emerging nations have increased rapidly in recent years. And banking systems in the emerging world have come out of the crisis relatively unscathed.

In the short term, however, emerging nations will also benefit from what we call the *monetary merry-go-round*. Low US interest rates typically encourage capital to flow into the emerging world. Attempts by emerging nations to limit the resulting exchange rate appreciation lead to offsetting capital outflows in the form of rising foreign exchange reserves which are often invested in Treasuries. Higher demand for Treasuries keeps yields low and, hence, leaves US interest rates low, thereby allowing the merry-go-round to repeat, seemingly *ad infinitum*.

The global cost of capital ends up being too low as a result. A hunt for yield develops. Before the credit crunch, this led to huge investments in mortgage-backed securities which, in turn, fuelled the US housing boom. Post-credit crunch, however, the hunt for yield has gone elsewhere. Investors are now keen on the emerging nations with their strong secular economic prospects.

The implications are simple. Emerging currencies will be under upward pressure, their asset markets should appreciate and their sources of growth should switch from exports towards domestic demand, thereby narrowing their currently high current account surpluses. In time, problems will arise, either in the form of higher inflation or the re-emergence of rapidly widening current account deficits but, at this moment, we are only in the foothills of the process. With no imminent upward move in US interest rates likely, the merry-go-round should be able to spin a few times more. China and India will continue to expand at a rapid rate: we project economic growth for these two giants in 2010 of 9.5% and 7.2%, respectively.

HSBC growth and inflation forecasts

GDP	'And now for the hard part…' (30 June 2009)		Latest	
	2009	2010	2009	2010
World	**-2.3**	**2.2**	**-2.3**	**2.8**
Developed	**-3.4**	**1.2**	**-3.4**	**1.8**
Emerging	**1.1**	**5.3**	**1.3**	**6.0**
US	-1.9	1.9	-2.4	2.8
UK	-3.8	1.6	-4.3	1.7
Eurozone	-4.3	0.1	-3.9	0.7
Japan	-6.3	1.2	-5.7	1.2
Brazil	-0.3	4.1	0.4	5.3
Russia	-7.9	2.5	-8.3	3.1
India	6.0	7.5	6.2	7.2
China	7.8	8.5	8.1	9.5
Inflation	**'And now for the hard part…' (30 June 2009)**		**Latest**	
	2009	**2010**	**2009**	**2010**
World	**0.9**	**1.8**	**1.0**	**2.0**
Developed	**-0.1**	**0.9**	**-0.1**	**1.0**
Emerging	**4.5**	**5.0**	**4.7**	**5.4**
US	-0.6	0.8	-0.5	1.3
UK	1.8	2.1	2.1	2.4
Eurozone	0.5	1.3	0.4	1.3
Japan	-1.4	-1.1	-1.2	-1.4
Brazil	4.4	4.8	4.7	5.0
Russia	11.6	11.5	11.9	8.7
India	7.0	5.8	10.5	9.6
China	-0.6	0.8	-0.6	2.6

Source: HSBC

A raw deal

A switch from developed to emerging-led economic growth, combined with loose US monetary conditions, should pave the way towards higher commodity prices. Demand for commodities is now disproportionately focused on the emerging world: lower incomes per capita tend to be associated with much more incremental spending on infrastructure and the basics of human life, all of which are highly commodity-intensive.

Apart from benefiting some of the commodity producers in the emerging world (among them, Brazil, Russia and Saudi Arabia), higher commodity prices will also offer currency support to the likes of Canada, Australia, New Zealand and Norway. Meanwhile, for those countries still pondering exit strategies and faced with multiple years of debt repayment, we suspect currencies will be weak: the most obvious candidates are the US dollar and sterling.

Our asset allocation recommendations continue to thrive on the mountains of liquidity created by central banks and fiscal authorities around the world. Within our preference for risky assets, we favour corporate bonds over equities: low levels of activity will, in our view, lead to anxiety over long-run sources of corporate profits. Meanwhile, with liquidity flowing from the developed to the emerging world, we favour emerging market assets in general over their equivalents in the developed world.

Contents

Key forecasts

Key forecasts

	GDP 2008	GDP 2009f	GDP 2010f	GDP 2011f	Inflation 2008	Inflation 2009f	Inflation 2010f	Inflation 2011f
World (nominal GDP weights)	**1.5**	**-2.3**	**2.8**	**3.6**	**4.3**	**1.0**	**2.0**	**2.3**
World (PPP weights)	**2.6**	**-0.7**	**3.9**	**4.4**	**5.4**	**1.9**	**2.9**	**2.9**
Developed	**0.4**	**-3.4**	**1.8**	**2.7**	**3.3**	**-0.1**	**1.0**	**1.2**
Emerging	**5.4**	**1.3**	**6.0**	**6.1**	**8.2**	**4.7**	**5.4**	**5.6**
North America	**0.4**	**-2.3**	**2.8**	**4.4**	**3.7**	**-0.5**	**1.3**	**1.3**
US	0.4	-2.4	2.8	4.5	3.8	-0.5	1.3	1.2
Canada	0.4	-2.3	2.6	3.1	2.4	0.3	1.2	2.0
Latin America	**3.2**	**-3.5**	**4.1**	**3.7**	**8.3**	**5.5**	**6.1**	**5.8**
Mexico	1.3	-7.0	3.6	3.4	6.5	4.1	4.0	3.4
Brazil	5.1	0.4	5.3	4.2	5.9	4.7	5.0	5.3
Argentina	4.7	-3.5	2.4	2.6	22.9	14.6	15.7	13.9
Chile	3.2	-1.7	4.0	4.6	7.1	-1.5	2.5	3.2
Western Europe	**0.6**	**-3.8**	**0.4**	**1.4**	**3.3**	**0.7**	**1.5**	**1.8**
Eurozone	**0.6**	**-3.9**	**0.7**	**1.2**	**3.3**	**0.4**	**1.3**	**1.7**
Germany	1.0	-4.9	1.4	1.2	2.7	0.3	0.7	1.5
France	0.3	-2.1	0.2	1.3	3.2	0.1	1.6	2.0
Italy	-1.0	-5.0	0.2	0.8	3.5	0.8	1.7	1.5
Spain	0.9	-3.5	-0.4	1.8	4.1	-0.6	1.3	1.7
Other Western Europe	**0.9**	**-3.5**	**1.3**	**2.3**	**3.5**	**1.5**	**1.9**	**2.0**
UK	0.7	-4.3	1.7	2.3	3.6	2.1	2.4	2.2
Norway	2.1	-1.5	1.2	2.2	3.8	2.6	2.0	2.6
Sweden	-0.4	-4.5	2.1	2.9	3.5	-0.1	1.1	2.9
Switzerland	1.6	-1.7	0.4	1.7	2.4	-0.6	0.6	0.9
EMEA	**4.1**	**-3.8**	**2.9**	**3.7**	**10.9**	**7.8**	**6.4**	**8.5**
Czech Republic	3.1	-3.7	1.5	2.5	6.4	1.1	1.2	1.8
Hungary	0.6	-5.9	-0.6	3.5	6.1	4.3	2.9	2.0
Poland	4.8	1.0	2.0	3.4	4.2	3.6	2.6	2.5
Russia	5.6	-8.3	3.1	2.4	14.1	11.9	8.7	15.4
Turkey	0.9	-5.3	2.9	4.1	10.4	6.4	8.7	6.7
Ukraine	2.1	-15.8	5.5	4.0	25.2	15.9	9.0	9.3
Egypt*	7.2	4.7	4.1	4.2	11.7	15.5	11.2	8.3
Israel	4.0	0.3	3.3	4.2	3.8	4.2	2.4	2.6
Saudi Arabia	4.3	-1.1	4.1	5.9	9.9	5.0	3.8	6.0
UAE	7.0	-2.0	4.2	6.4	13.5	1.8	3.0	6.0
South Africa	3.1	-1.8	1.6	2.8	11.5	7.0	5.7	6.5
Asia-Pacific	**3.1**	**0.1**	**4.7**	**4.8**	**4.1**	**0.8**	**1.8**	**1.8**
Japan	-0.7	-5.7	1.2	1.1	1.5	-1.2	-1.4	-0.8
Australia	2.4	0.8	2.6	2.8	4.3	1.9	2.8	3.0
New Zealand	-1.1	-1.7	1.5	2.4	3.9	2.1	2.2	2.6
Asia ex Japan	**6.7**	**4.9**	**7.7**	**7.7**	**6.7**	**2.6**	**4.6**	**3.9**
China	9.0	8.1	9.5	8.9	5.9	-0.6	2.6	2.5
Asia ex Japan & China	**4.6**	**1.8**	**5.8**	**6.3**	**7.3**	**5.0**	**6.1**	**4.8**
Hong Kong	2.4	-4.0	3.8	4.3	4.3	0.6	2.3	3.0
India	7.5	6.2	7.2	8.9	8.3	10.5	9.6	6.0
Indonesia	6.1	4.3	5.8	5.5	10.2	5.3	7.9	7.0
Malaysia	4.6	-2.0	6.8	5.5	5.4	0.8	3.3	2.5
Philippines	3.8	1.8	4.2	4.7	9.3	3.2	4.8	5.9
Singapore	1.1	-2.5	6.5	5.5	6.5	0.3	2.5	2.0
South Korea	2.2	-0.4	4.6	4.9	4.7	2.8	3.1	3.2
Taiwan	0.1	-4.2	4.4	4.9	3.5	-0.7	1.1	1.6
Thailand	2.6	-2.8	4.5	4.9	5.5	-0.9	3.3	3.6
Vietnam	6.2	4.9	6.8	5.9	23.0	7.6	10.4	7.1

Source: HSBC

Monetary & fiscal policy assumptions

Monetary policy

	Q1 2009	Q2 2009	Q3 2009	Q4 2009f	Q1 2010f	Q2 2010f	Q3 2010f	Q4 2010f
US								
Targeted Fed funds	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25	0.00 to 0.25
Japan								
Overnight call rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Eurozone								
Repo rate	1.25	1.00	1.00	1.00	1.00	1.00	1.25	1.50
UK								
Bank rate	0.50	0.50	0.50	0.50	0.50	1.00	1.50	2.00
Canada								
Overnight rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75

Source: HSBC

Fiscal policy

Country	2009	2010
US	The CBO recently estimated a federal budget deficit of USD1.6 trillion for FY2009 (11.2% of GDP) if Freddie Mac and Fannie Mae are included in the budget, and USD 1.4 trillion if excluded. Public debt as a share of GDP will rise from 40.8% of GDP in 2008 to 53.8% in 2009.	The CBO estimates a budget deficit of $1.4 trillion for FY2010, although we suspect that faster growth may provide scope for the deficit to come in a little lower than expected at $1.2 trillion. The debt-to-GDP ratio is set to rise to around 61.4% of GDP and CBO projects it will be 67.8% in 2019.
Japan	The new government is planning to withdraw the supplementary budget for FY2009, which was made by the former LDP government, to collect 7.1 trillion yen in resources for FY2010 economic packages. This should push down real GDP growth rate by 0.1 to 0.2ppt in the latter half of FY2009.	We assume that economic policy by the new government will proceed almost in line with its strategy. It will push up real GDP growth rate by 0.3ppt in FY2010, mainly through private consumption.
Eurozone	The automatic stabilisers relating to recession are adding to the government spending already committed to the sizeable stimulus packages in France and Germany. We expect the budget deficit in the Eurozone to widen to nearly 6% of GDP in 2009 with virtually every economy within it exceeding the 3% Maastricht limit.	A further discretionary fiscal stimulus will be delivered (smaller than the roughly 1% boost in 2009) and the ongoing rise in unemployment implies higher spending on benefits. However, the stabilisation in the economy should limit the deterioration in the deficit in 2010, which is nonetheless expected to widen to about 6.4% of GDP.
Germany	For 2009 and 2010, the first fiscal measures were announced in autumn 2008, with a second fiscal package being approved in February 2009. Including the commuter tax relief, both packages comprise around EUR 45bn each year.	A consolidation of public finances will be a priority for the new administration. Overall, a widening of the deficit from 4.6% of GDP in 2009 to 6.0% in 2010 is barely avoidable.
France	In spite of the Q2 09 GDP growth rebound, we forecast the budget deficit widening due to additional government expenditures. And the growth in public spending excluding cyclical expenditures has continued to rise, thanks to the lack of new plans to reduce structural spending. Moreover, the lack of tax revenue after the cut in restaurant VAT will weigh on the public deficit, which could therefore reach 7.4% of GDP. The level of public debt will however be reduced by Eurostat 's decision to not account for the loans granted by the Société de Financement de l'Economie Française within public debt.	In 2010, GDP could be higher, but not by enough to limit the rise in unemployment benefit expenditure. Moreover, the abolition of the business tax called "taxe professionnelle" will not be fully offset by the new carbon tax, reducing tax revenue. The public deficit should therefore continue to widen to 7.6% of GDP and public debt could reach 83.8% of GDP.
Italy	Italy's high debt burden (about 106% of GDP in 2008) precludes a meaningful stimulus. Nonetheless, we expect the sharp contraction in GDP to widen the deficit to 5.6% of GDP.	Even in the absence of a fiscal stimulus, the deficit will widen further and the government debt-to-GDP ratio appears set to rise to nearly 118%.
UK	With such a large amount of funds required to support the banking system, little room existed for fiscal stimulus to be delivered. To date, the cut in VAT and the car scrappage scheme are the only measures of note. Even so, the government deficit is still expected to be more than 12% of GDP in FY09/10.	Even without further fiscal stimulus the public sector deficit is unlikely to improve significantly in FY10/11. However, we are less concerned about the potential cost of contingent liabilities relating to the banking sector and so overall public sector debt should remain well below the 100% level that might have resulted in a sovereign rating downgrade by S&P.
Canada	The current-year deficit expected to hit CAD56bn in fiscal 2009-10 and CAD45bn in fiscal 2010-11.	The fiscal authorities expect the debt to GDP ratio to peak at a very manageable 36% in 2011 and decline to 32% by 2014-15. Even if those assumptions prove incorrect, it is clear that Canada's debt levels will cause little concern, having run budgetary surpluses for more than a decade.

Source: HSBC

HSBC

The Tipping Point

- Emerging nations now in the driving seat…
- …as developed world is held back by high debts
- Low US rates to support flow of excess liquidity into emerging world

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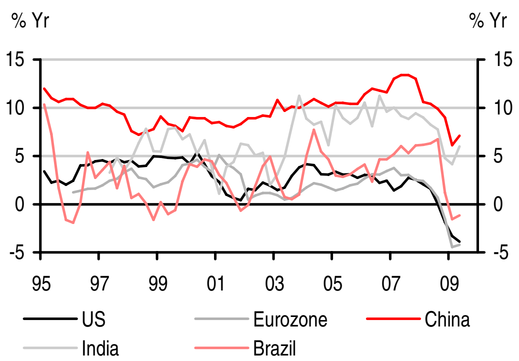
Home comforts…for some

It all depends on where you live, at least for the time being. If you're on Wall Street, life suddenly seems a lot sweeter. If you're on Main Street, life is still very tough. If you're in Asia, you may have a smile on your face. In Europe or the US, you may only be breathing a sigh of relief.

1. The crisis spread far and wide, but the biggest losses were in the developed world

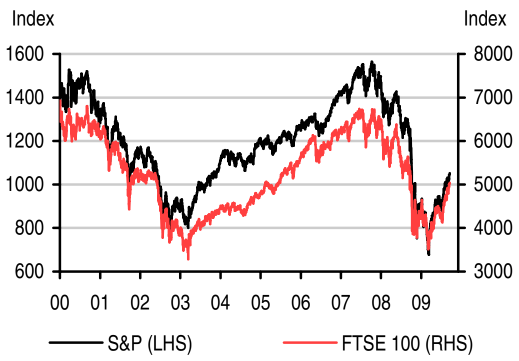


Source: Thomson Financial Datastream

The dramatic recovery in financial markets seen over the last few months highlights three themes. First, the response from policymakers – interest rate cuts, quantitative easing and fiscal boosts – has proved remarkably potent: activity has at least stabilised and, in many countries, is moving back up. Second, because of that response, fears of a Great Depression Mark II have faded very quickly. Earlier in the year, investors were increasingly pricing in financial Armageddon. They're not anymore. Third, while many parts of the world have been through deep economic traumas – the US, many parts of Europe, Japan, Russia and the Ukraine have all suffered hugely – other parts of the world have had happier experiences. China, India, Brazil and Australia have, to date, managed to cope with the crisis a lot better than others, and a lot better than their own histories might have suggested. Fears of a synchronised collapse in economic activity were, it seems, overblown (chart 1).

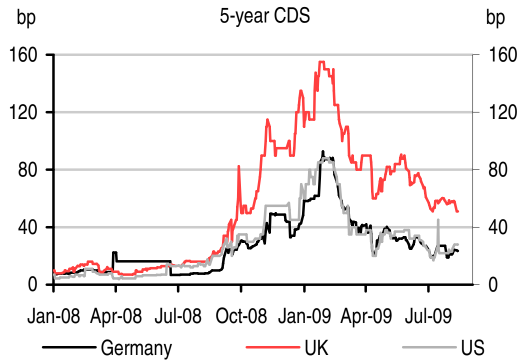
As financial markets recover, so the effectiveness of monetary policy begins to increase. If falling asset prices are a key reason behind so-called balance sheet deflation – whereby declining asset values pressurise debtors to repay their debts at a faster rate, thereby stymieing demand and driving asset prices lower still – rising asset prices bring this vicious circle to an end. Quantitative easing in its various forms encourages this process. By increasing the supply of money relative to other assets, the value of those assets rises in monetary terms, making existing debts easier to cope with (see charts 2 and 3).

2. Equity markets have rebounded… but remain at depressed levels



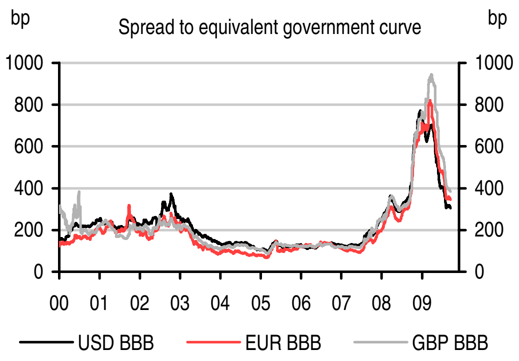
Source: Bloomberg

4. Credit default spreads are not yet back to 'normal'



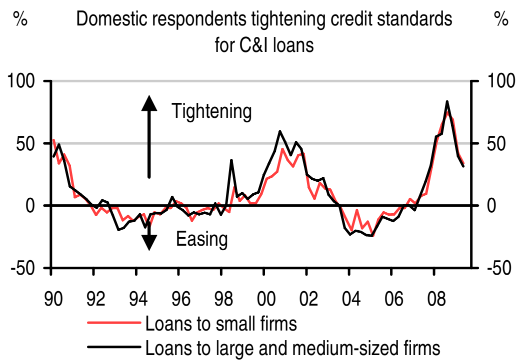
Source: Bloomberg

3. Corporate spreads have narrowed



Source: Merrill Lynch

5. US banks are still tightening credit conditions, but by less than before

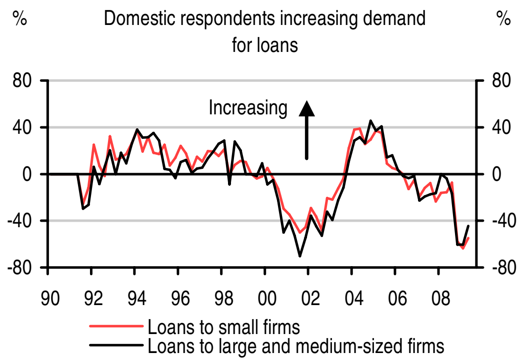


Source: Federal Reserve

Yet, despite these encouraging signs, there are also plenty of indications of ongoing stress within the system. Credit default swap spreads have narrowed compared with the extremes seen earlier in the year but they remain, for the time being, at challenging levels (chart 4). They may not be slamming on the brakes as aggressively as they had been earlier in the year but, for the most part, banks are still tightening lending standards (chart 5).

Those companies which can easily access capital markets have been doing so happily, but many small- and medium-sized companies, mostly dependent on bank lending for their working capital, have found themselves in a less favourable position and, in some cases, have been reluctant to borrow (chart 6).

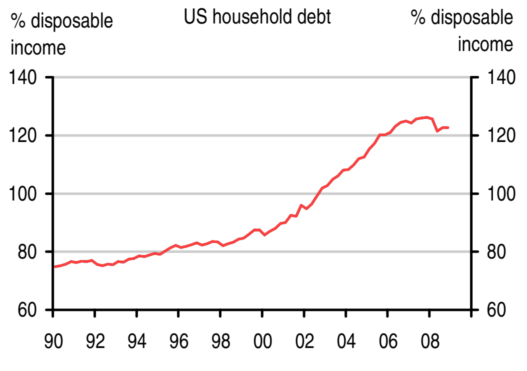
6. US corporate demand for loans remains depressed



Source: Federal Reserve

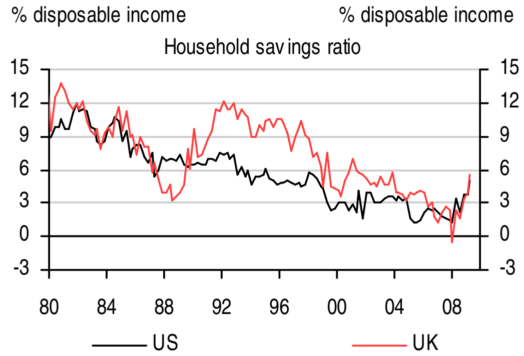
Although consumer confidence has recovered in the US and elsewhere, households are rebuilding savings (charts 7 and 8) and, in some cases, have only been tempted to open their purses and wallets as result of the temporary temptations of car-scrappage schemes. Unemployment, meanwhile, continues to climb: US unemployment, for example, is at its second-highest rate since the 1930s (chart 9). High unemployment, in turn, poses a threat to free trade. The dispute between the US and China over tyres is partly rooted in a desire in the US to blame other nations for the weakness of its domestic labour market.

7. US household debt remains very high....



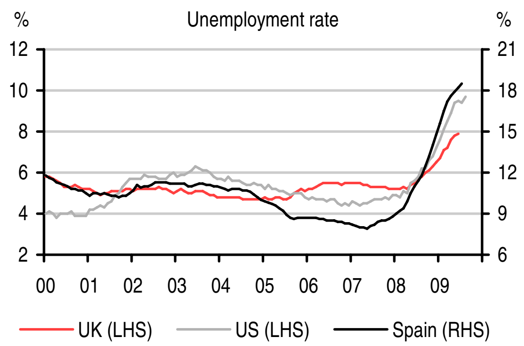
Source: Thomson Financial Datastream and HSBC

8....notwithstanding a hefty increase in the saving ratio



Source: Federal Reserve and Office for National Statistics

9. The real cost of the crisis: soaring unemployment

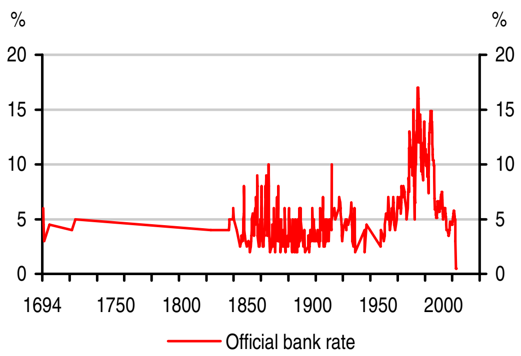


Source: Thomson Financial Datastream

Taking the drugs

More generally, parts of the world economy remain on life support. The blood may now be coursing through the economic patient's veins, but it's only doing so because fiscal and monetary drugs are being administered in considerable amounts. On the monetary front, Fed funds are at the lowest level since records began in the early 1950s. The Bank of England's policy rate is at its lowest level since the bank was first founded in 1694 (chart 10). The European Central Bank is a much more youthful institution but it, too, now presides over the lowest interest rates in its history: moreover, in its day, the Bundesbank never set interest rates at such low levels. Meanwhile, the various forms of quantitative easing are not being reversed, even if the willingness to buy additional assets is beginning to fade: no central banker wants to drain liquidity and then be blamed for a renewed crumbling of either confidence or activity. Japan's experience has left policymakers lacking an appetite for pre-emption.

10. Economic life support: the lowest UK policy rates since the Bank of England was founded in 1694

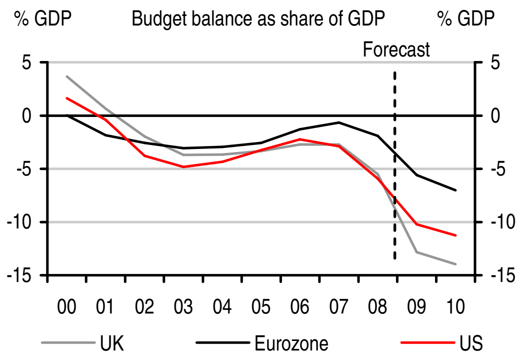


Source: Bank of England

Monetary policy on its own, however, has been insufficient to kick-start recovery. To understand why, it's worth spending a few moments pondering the nature of the financial destruction which took place over the last couple of years. The sale of asset-backed securities, collateralised debt obligations and their ilk were, in their heyday, a key source of funds through which banks could expand their lending – most obviously to would-be house purchasers. Demand for these esoteric securities reflected a 'hunt for yield', partly because returns on traditional government bonds had been dragged lower through the asset allocation decisions of emerging market central bank reserve managers. With the ability to raise funds through wholesale markets, banks became increasingly able to lend well beyond the value of their deposits. With the collapse of these markets, however, many banks have had no choice other than to slash their lending volumes. Without funding, lending must fall.

This, in turn, created two risks. The first was a simple collapse of money supply, leading to much weaker economic activity. The second was a drop in money's velocity of circulation, as households, companies and investors began to hoard available cash. In these circumstances, printing money wasn't enough. Policymakers had to make sure it would be spent. Increasing government borrowing was the obvious answer (chart 11).

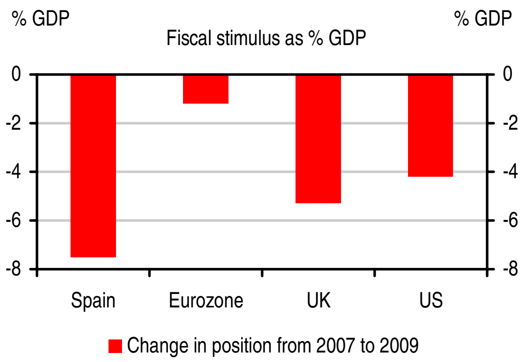
11. Fiscal discipline disappeared long ago



Source: OECD

The numbers are breathtaking. According to the OECD, the degree of underlying fiscal stimulus for its member countries amounted in aggregate to 3.0% of GDP between 2007 and 2009. Never before have we seen coordinated action on this scale. This sizeable stimulus masks the even more extraordinary actions taken by individual countries: Australia, Iceland, Ireland, New Zealand, Norway, Spain, and the UK all loosened fiscal policy over those two years by more than 5% of GDP while the US eased policy by over 4% of GDP (chart 12). Only the Eurozone as whole exercised any degree of caution but, even there, policy was still loosened to the tune of 1.2% of GDP (and that number masks many sins at the level of individual countries).

12. The fiscal stimulus has been huge



Source: OECD

The OECD is, of course, mostly a rich nations' club (even if Mexico is one of its members). Not all those countries which offered fiscal stimulus are members. China, in particular, delivered a massive boost to infrastructure spending in late 2008, which proved to be the most important contributory factor to a re-acceleration in the rate of Chinese growth. This may prove to have been worth up to 4% of Chinese GDP.

Learning the lessons

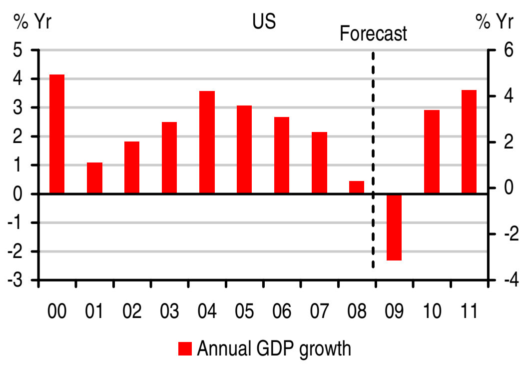
The good news from all of this is that the lessons from the 1930s have most definitely been learned. On the occasion of Milton Friedman's 90th birthday, Ben Bernanke gave a speech which concluded with the following words: "*Let me end my talk by abusing slightly my status as an official representative of the Federal Reserve. I would like to say to Milton and Anna: Regarding the Great Depression. You're right, we did it. We're very sorry. But thanks to you, we won't do it again.*" Friedman had rightly emphasised the Fed's failure to bail out the US economy via monetary expansion in the early 1930s as a key reason behind the length and depth of the Depression which followed. Ben Bernanke and other central bankers have clearly taken note. There were moments where it looked as though they hadn't done enough – or at least enough of the right things – particularly when Lehman Brothers failed.

Nevertheless, there can be no doubt that the extraordinary policies followed in equally extraordinary circumstances were appropriate and, over time, increasingly successful.

On this reckoning, the worst is behind us. There is, however, a big gap between the worst of all possible worlds and the Panglossian best of all worlds. Recovery is on its way, but relative to the past it will be an unusually muted affair in the west. Elsewhere, however, the outlook may prove a lot brighter. Indeed, we are potentially facing a pivotal moment in the evolution of the world economy. While the West struggles, the prospects for the emerging world appear, mostly, to be rather more encouraging.

In the developed world, the undoubtedly good news from recent months needs to be placed in context. Ian Morris, our US economist, has revised up his forecasts for US economic growth. After the devastating declines in activity seen in 2008 and early 2009, signalling the worst US downswing since the 1930s, there have been favourable signs of a bounce in activity, helped along by an end to de-stocking, so-called 'cash for clunkers', signs of an early bounce in capital spending and an acceleration in exports. As a result, we now expect growth in 2010 of 2.9% and in 2011 of 3.6%.

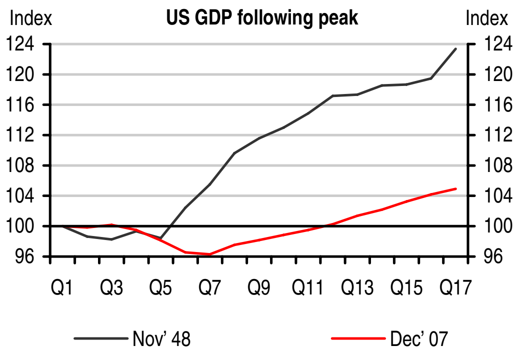
13. It fell off a cliff…but it's now climbing back up



Source: Thomson Financial Datastream and HSBC forecasts

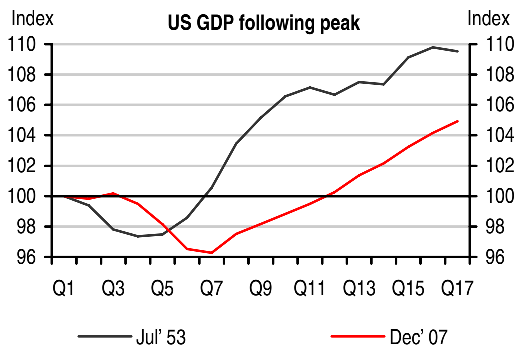
These numbers sound favourable, but the picture is not as bright as it first seems. Although we have no double-dip in our forecasts, the level of activity will still be very depressed relative to previous economic cycles. The bounce from the trough is, on our numbers, slightly stronger than in the early years of the 1990s and of this decade, but that isn't particularly difficult given the depths to which the US economy had fallen in the first place. Charts 14-23 show the performance of the US economy in each economic cycle since the 1940s. In each chart, the pre-recession peak is indexed to equal 100 and, on each chart, we've added the latest cycle, together with our forecasts out to 2011 by way of comparison. The message is crystal-clear: the cumulative losses associated with the latest downswing are worse than any previous episode, with the sole exception of the 1980 recession (which was swiftly followed by the 1982 recession).

14. Comparisons with the late 1940s...



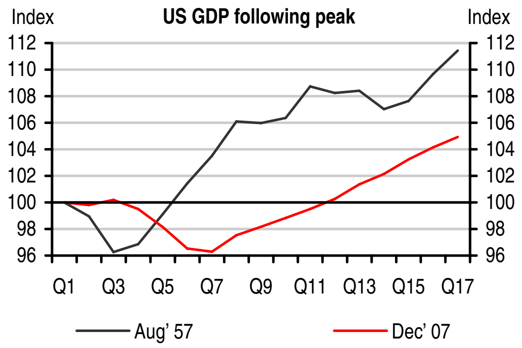
Source: Department of Commerce and HSBC calculations. Peak dates set by National Bureau of Economic Research

15. ...the early 1950s



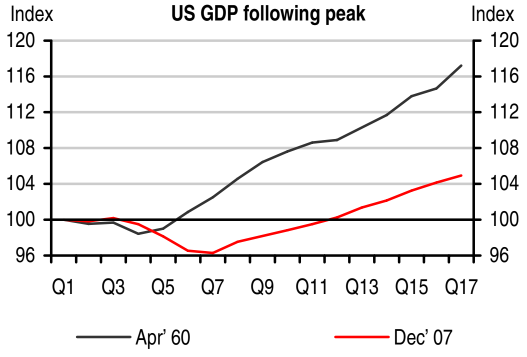
Source: Department of Commerce and HSBC calculations. Peak dates set by National Bureau of Economic Research

16. ...the late 1950s...



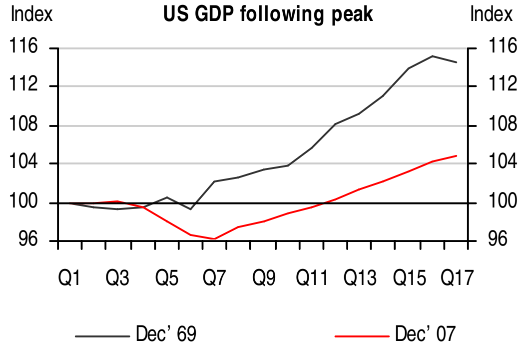
Source: Department of Commerce and HSBC calculations. Peak dates set by National Bureau of Economic Research

17. ...the early 1960s...



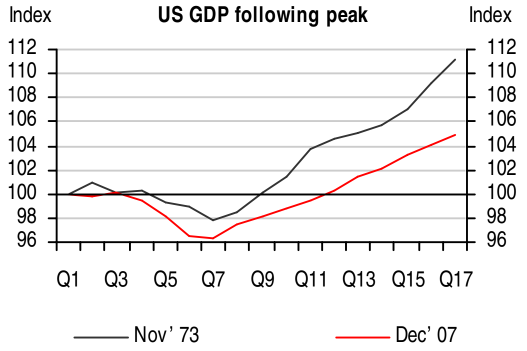
Source: Department of Commerce and HSBC calculations. Peak dates set by National Bureau of Economic Research

18. ...the end of the swingin' '60s...



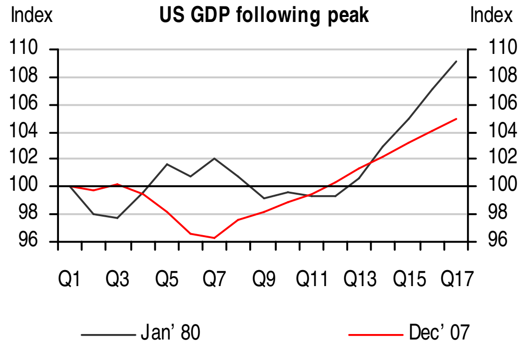
Source: Department of Commerce and HSBC calculations. Peak dates set by National Bureau of Economic Research

19. ...the oil-ravaged 1970s...



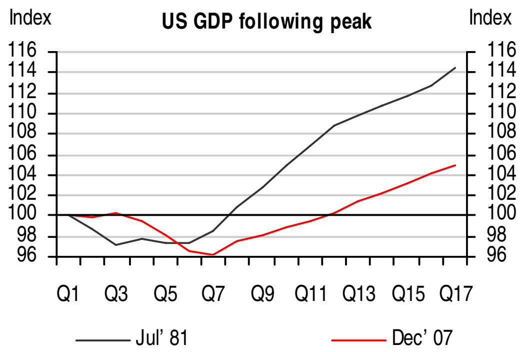
Source: Department of Commerce and HSBC calculations. Peak dates set by National Bureau of Economic Research

20. ...the early 1980s (part 1)...



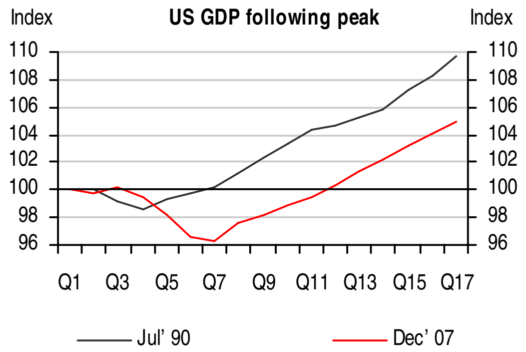
Source: Department of Commerce and HSBC calculations. Peak dates set by National Bureau of Economic Research

21. ...the early 1980s (part 2)...



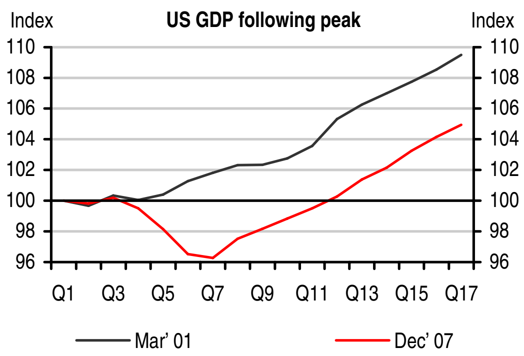
Source: Department of Commerce and HSBC calculations. Peak dates set by National Bureau of Economic Research

22. ...the early 1990s (credit crunch part 1)...



Source: Department of Commerce and HSBC calculations. Peak dates set by National Bureau of Economic Research

23. ...and the early noughties (post TMT collapse)



Source: Department of Commerce and HSBC calculations. Peak dates set by National Bureau of Economic Research

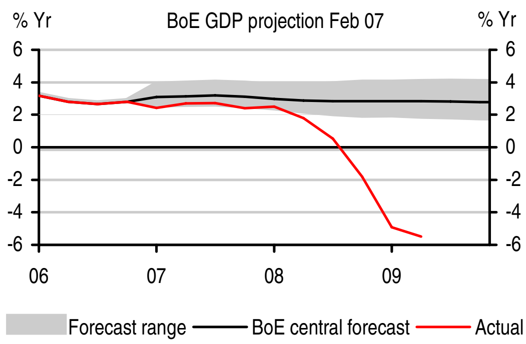
Getting it wrong, and putting it right

A similar story can be told for almost all of the major industrialised countries. The losses have been far greater than both policymakers and independent forecasters had expected or, indeed, feared. Chart 24, for example, shows the Bank of England's projections for economic growth back in 2007 using its well-known 'fan chart', which is supposed to provide a range of outcomes likely to happen on 90 out of 100 occasions. Given subsequent events, the fan was nothing like wide enough (indeed, given that the economic cycle was already relatively mature and financial imbalances had become bigger, it's not obvious why the risk of a full-blown recession was considered significantly lower than 10%).

Now that the near-term indicators are mostly improving and the threat of a 1930s-style depression is fading, it becomes a little easier to say something about the likely nature of recovery, at least in the west. Given the severity of the collapse in economic activity, three scenarios are worth considering:

First, output two years ago may have been much further above its long-term trend than had previously been assumed. That should come as no surprise given that both the US and UK depended critically on debt to fuel economic growth and that many of the loans extended to provide more debt depended on securitisation.

24. A little more imagination required



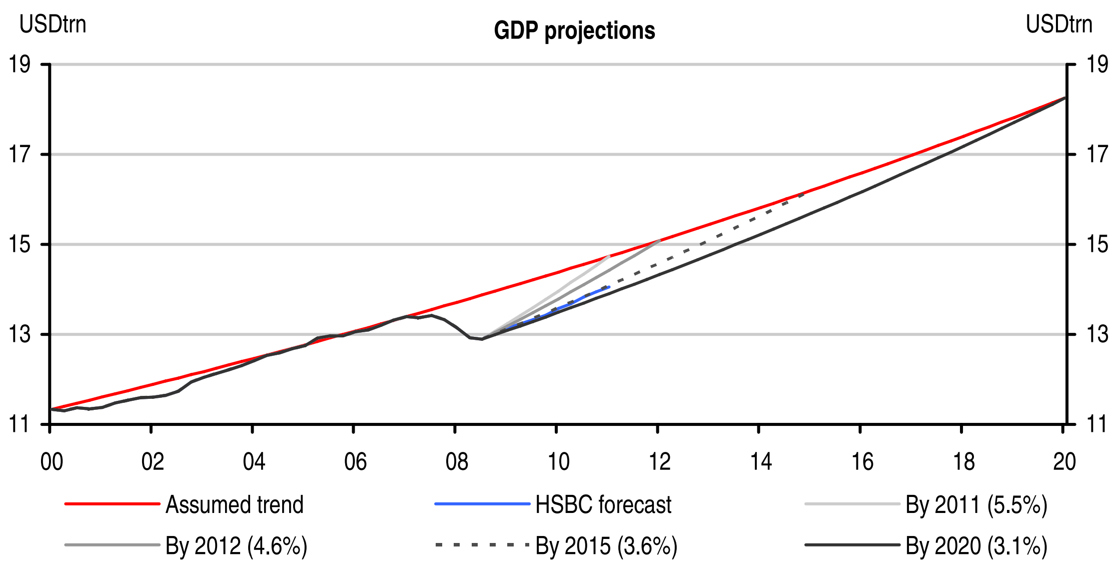
BoE projection based upon market interest rate expectations, from February 2007 Inflation report.
Source: Bank of England and Office for National Statistics

Second, the trend rate of economic expansion may have slowed at the beginning of this decade. The hangover from the technology boom was masked only by an excessive reliance on debt and that ultimately proved to be economic quicksand.

Third, and in contrast to the above, perhaps we're about to see an extraordinary recovery in economic activity as confidence returns to pre-crisis levels.

Of these, our forecasts for the western world are mostly consistent with scenarios 1 and 2. A rebound taking us back to the pre-crisis trend would require unprecedented growth rates in the US, the UK and other similarly afflicted countries. Chart 25 shows the growth rates required to take the US back to the peak-to-peak trajectory seen over the last economic cycle which, according to the National Bureau of Economic Research, peaked in 2007. A return to that trajectory by 2011 – in line with the experience during the last recession – would require growth from now on at 5.5%. To hit the trajectory in 2012, the required growth rate would be 4.6%. And to hit the trajectory by 2020, growth would have to average 3.1%, with no room whatsoever for further recessions.

25. Hard work climbing back up the cliff



Note: Annual growth required to meet assumed trend given in brackets
Source: Department of Commerce and HSBC forecasts

None of these growth rates is impossible. Our point, however, is that the current debate – over whether growth over the next couple of years will average 2% or 3% – misses the main point. It's obviously good news that the US economy is showing signs of recovery. But there is not a single forecaster who currently believes there will be a return to 'business as usual' at any time soon.

Headwinds

In effect, all forecasters are assuming a permanent loss of activity. The sources of loss are not hard to find. Banks cannot lend so easily. Households are repaying debts. Unemployment continues to rise. Debt levels are still very high. And, at some point, the policy life support will have to be withdrawn. In the UK, for example, both major political parties now accept the need for cuts in public spending following a remarkable deterioration in the public finances since the middle of the decade: the only issues now are where the cuts will fall and how big they will be. Austerity is back, big time.

There's no doubt that growth has picked up strongly in the short term. Outside of clunkers and their ilk, however, the evidence of self-sustaining growth is rather limited. One of the big drivers is inventories. An end to de-stocking will add to growth in the short term, even if there is no outright restocking (although fewer inventory cuts will also mean higher imports). Another big driver is exports (which, in part, are connected to similar inventory adjustments elsewhere in the world: if de-stocking comes to an end, imports tend to rise). But, with the possible exception of capital spending, the big domestic drivers of demand – consumer spending and government outlays – are in trouble.

The problem is simple. It's called debt.

We've already seen the extent to which household debt has risen and how, faced with increased uncertainty and reduced credit availability, saving ratios have risen. It's worth noting, however, that higher saving ratios have, so far, done very little to lower debt/income ratios. For policymakers, the bigger challenge lies with government debt. The research note we wrote in May – *And when the money runs out?* – is still very relevant. We argued back then that governments were facing awkward choices: austerity, inflation, default or devaluation. Our views have not since changed.

Much-reduced levels of activity compared with pre-crisis levels leave governments and central banks with hard choices. In the short term, those countries faced with large budget deficits funded through the printing press will be at risk of currency weakness. Longer term, unless deficits have been reduced significantly *before* quantitative easing is withdrawn, the big risk is a sudden upward spike in bond yields. Quantitative easing both makes it easier for governments to run large budget deficits and reduces the near-term incentive to deliver fiscal consolidation.

The great escape

These issues are likely to prove crucial in any discussion over exit strategies. Like the loosening that's taken place over the last two years, exit strategies ideally should involve close coordination between monetary and fiscal policies. Sequencing is likely to be particularly important: get it right, and economies may be able to recover slowly but smoothly; get it wrong, and another economic mess beckons.

As we see it, the biggest problem is how to cope with debts which, through the copious use of quantitative easing in its various forms, may have been mis-priced. Admittedly, central banks have had different approaches to quantitative easing. The European Central Bank has focused on repo operations which, in theory, can be brought to an end easily, while the Federal Reserve and Bank of England have made outright purchases. These, eventually, will have to be sold back into the market. The Bank of England has focused on purchases of government paper while the Federal Reserve has primarily chosen to purchase big chunks of outstanding mortgage-backed securities (although, to the extent that these are government-guaranteed, they're not so different from government paper). In all cases, however, the same broad theme applies: the actions of central banks have left the prices of these assets – and hence their yields – at non-market levels.

Now imagine two contrasting approaches to a policy exit strategy:

First approach: The central bank decides to end quantitative easing in the light of early signs of recovery: not only does it stop buying additional pieces of paper but it sells some of its existing bond holdings back into the market to reduce its balance sheet. It buttresses this decision with higher short-term interest rates. Meanwhile, the government continues to borrow heavily, with no clear indication of any fiscal exit strategy.

Second approach: The government announces a fiscal exit strategy, including binding commitments on both tax and spending. Only after this is announced and begins to bite does the central bank choose to raise short-term interest rates. To prevent an unwarranted spike in other interest rates – either on government bonds or mortgage-backed securities – which might hamper a broader recovery, the central bank persists with quantitative easing and only gradually withdraws its support.

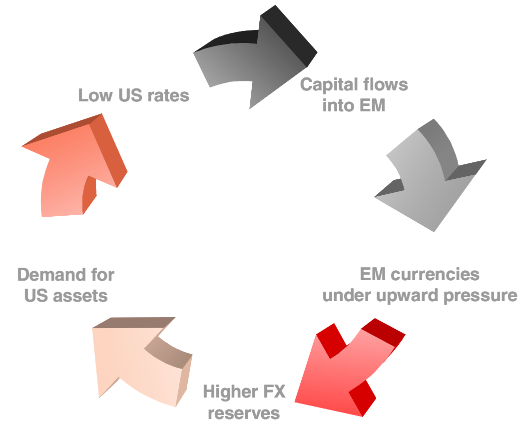
There are, of course, other sequencing options. We think, however, that our two approaches capture two extremes. The first approach is, in our view, the more destabilising. Quantitative easing can, in our view, only be withdrawn fully once investors understand that there is a credible reduction in government liabilities in the pipeline. In the UK, for example, the Bank of England has been responsible over the last 12 months for the purchase of a sum equivalent to the entire new gilt issuance of the UK government. Meanwhile, the narrowing of MBS spreads in the US may say something about a renewed level of confidence in the financial system, but is just as likely to reflect a wholesale nationalisation of the mortgage market, which creates its own risks for government bonds. Put another way, the bond market on either side of the Atlantic is no longer a market: it is, instead, rigged by governments and central banks. That may be no bad thing given the circumstances of the last two years, but any attempt to return to business as normal is fraught with dangers. Freeing up government bond and mortgage markets is the equivalent of privatisations on the most massive of scales.

For the US at least, we expect the Federal Reserve to keep interest rates very low for the foreseeable future. While other countries are contemplating higher interest rates – at the time of writing, Israel had already delivered while the Reserve Bank of Australia was hotly tipped to follow suit – Ben Bernanke's Fed is likely to resist. With its triple mandate – price stability, full employment and low bond yields – it's difficult to see why interest rates should rise any time soon. In any case, the Federal Reserve is well aware of its own mistakes in the 1930s. Apart from its failure to ease policy sufficiently during the Depression, the Fed was also guilty of tightening policy too aggressively in 1937, prompting the second-worst downswing in 20th Century US economic history.

The return of the monetary merry-go-round

If, however, US interest rates remain low, we're likely to see yet another performance of the monetary merry-go-round which characterised international economic and financial developments throughout much of the last two decades.

26. The merry-go-round



Source: HSBC

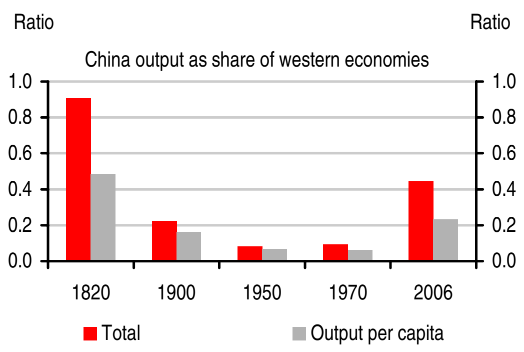
Chart 26 shows the merry-go-round in action. Low US interest rates prompt flows of capital into emerging nations, creating downward pressure on the dollar but, at the same time, upward pressure on emerging market currencies. Some of those emerging nations resist upward pressure on their currencies by adding to foreign exchange reserves. These are typically invested in low-risk dollar assets such as Treasuries. The yield on these instruments falls.

Prior to the credit crunch, low US interest rates across the yield curve led to a massive increase in securitisation. The hunt for yield sparked a huge increase in lending to potential home purchasers and real estate developers, sparking the sub-prime boom. That story, however, has now come to a sticky end.

Interest rates in the US are, of course, still very low. The hunt for yield, however, has headed elsewhere. Investors are no longer interested in buying mortgage-backed securities. Instead, they have increasingly succumbed to the temptations of emerging markets. It's hardly a surprising result: growth is strong, banking systems mostly resilient and, in some cases, policy stimulus measures mostly effective. While there are ongoing worries about the sustainability of growth in the US and Europe – too much debt, bad demographics and too much life support – the same doesn't really apply for the emerging world. Global growth is, for the foreseeable future, going to be led by the emerging world. This is partly a liquidity fuelled story. It is also, though, a reflection of the long-term forces of economic development. Over the last 60 years, Asia has led the world in its pace of economic growth. Its global influence, though, has only been felt more recently as its increased relative size has started to exert a bigger gravitational pull.

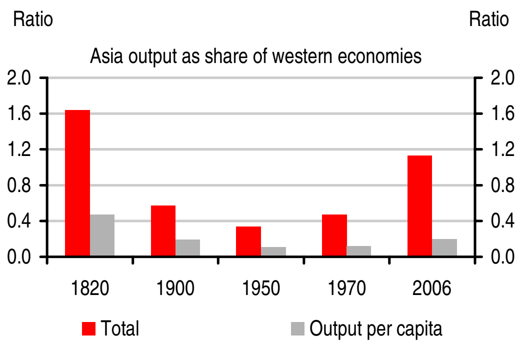
Charts 27 and 28 show the relative sizes of China and of Asia as a whole relative to the 'Western' economies (Western Europe, the US, Canada. Australia and New Zealand). As far as relativities are concerned, we are returning to conditions last see in the first half of the 19th century, before the industrial revolution was in full swing. Three secular factors are driving this process: technology, political openness and, for parts of Asia, favourable demographics.

27. China: a catch-up of epic proportions



Source: GGDC and HSBC

28. Asia's been catching up for decades



Source: GGDC and HSBC

29. Share of Global GDP and commodity consumption (% Yr)

	GDP USD terms	GDP PPP terms	Oil	Aluminium	Copper
United States	30.0	22.7	22.5	19.8	13.0
Western Europe	32.7	22.1	17.8	21.3	22.3
Japan	11.8	7.3	5.5	7.6	7.5
China	4.9	14.9	9.1	22.6	21.9
Other Asia	6.7	14.6	11.2	14.3	18.9
CIS	1.7	3.4	4.9	2.6	4.5
Latam*	3.9	6.2	6.8	4.3	5.7
Middle East**	1.1	1.6	5.5	0.6	1.8

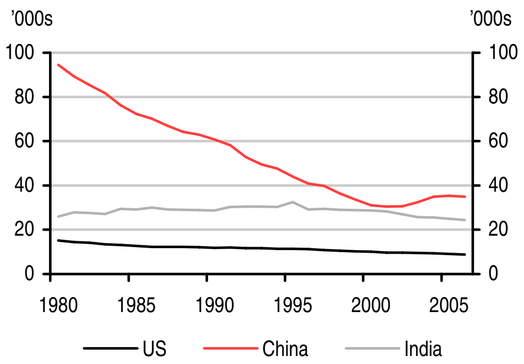
Notes: *Includes Mexico. **Saudi Arabia and Iran only
Source: HBSC, IEA and World Bank

A commodity bonanza

This will prove to be of major significance for commodity markets, given the different intensities with which developed and emerging economies consume commodities for every unit of GDP growth. Indeed, for an asset class of effectively finite supply, such as commodities, this substantial shift in the structure and – by extension – level of demand, could well be reflected far sooner than in many other indicators or asset classes.

Table 29 shows the disproportionately large consumption of commodities (oil, aluminium and copper) by the various emerging economies/blocs in relation to their share of global output. A greater concentration of global growth within such economies will by extension influence commodity demand to a greater extent than the future headline rate of global growth alone would indicate. Essentially, these nations possess a higher income elasticity of demand for commodities than developed economies, due either to a greater share of industry within overall GDP than the G7 economies (especially true for China), or the use of less efficient production processes. The price elasticity of demand of emerging economies is also likely to be lower, due to the more limited opportunities to switch to alternative energy inputs, implying less substitution away from oil than might normally be expected during periods of sharply rising prices. Chart 30, for instance, shows that, while the energy intensity per unit of China's GDP dropped precipitously during the 1980s and 1990s, this trend has partially reversed during recent years, even as oil prices have moved substantially higher.

30. Total primary energy intensity of GDP*

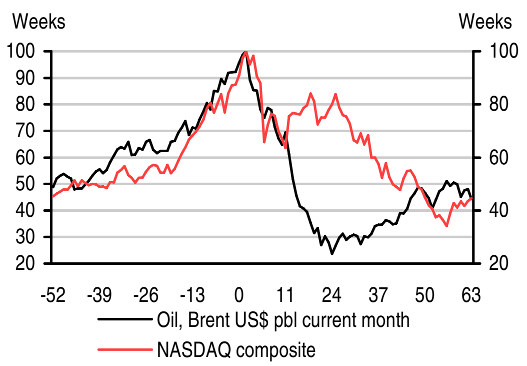


Note: * Total primary Energy Consumption (BTU) per unit of GDP, 2000 US$ basis.
Source: US Dept of Energy, HSBC

Shifting centre of gravity

Discussions around the possible shift of price leadership within commodity markets from West to East are, of course, nothing new. This theme proved particularly prominent during the early months of 2008 as commodity prices – starting with oil but moving swiftly to foodstuffs – continued to appreciate, even as evidence mounted within the developed economies of an impending economic downturn. This dislocation between activity and commodity price movements was seen as an irritation for central banks, particularly those charged with an explicit inflation target. In essence, the disruption of the typical relationships within commodity pricing threatened to constrain the ability of developed economy central banks to respond in an entirely unbridled manner to the deteriorating growth outlook, in turn increasing the risk of a hard economic landing. To a lesser extent, this may also be true for certain emerging market central banks, particularly those within Central Europe economies possessing strong trade links to the key European economies.

31. Oil prices and the NASDAQ – déjà vu all over again?



Note: Chart shows movement during weeks preceding and following the peak in current month Brent oil prices (July 2007) and NASDAQ composite (March 2000)
Source: Thomson Financial Datastream, HSBC

Re-coupling, in extremis

Extreme circumstances, it seems, led to a re-alignment of G7 industrial cycles and commodities, and the speed with which this convergence developed during the autumn of 2008 led many to question whether the earlier advance in commodity prices was more speculative than fundamental in nature. Certainly, the run-up in oil prices ahead of their July 2008 peak bears a striking similarity to the ascent of the NASDAQ to its March 2000 high (see Chart 31), and the early declines of these series also proved extremely closely matched. The fall in oil prices then outstripped that of the NASDAQ over comparable periods, perhaps not surprisingly given the severity of the financial and economic fallout which developed last autumn. But just over a year from their peak level, the overall decline seen in Brent crude oil prices is now within a remarkable half a percentage point of the fall recorded in the NASDAQ composite index over the comparable period (55% for both series using weekly data).

Coincidence or otherwise, chart 31 provides a salutary warning of the dangers of subscribing fully to the 'de-coupling' argument when discussing commodities, as well as illustrating the difficulties facing all central banks when assessing the likely future relationship between activity and price pressures – especially while estimates of trend growth across many economies remain clouded. Recessions, particularly those proceeded by financial stress, can often result in large revisions to estimated levels of spare capacity within an economy. Should the relationship between activity and commodity prices also turn less predictable, due to factors not fully understood or quantified, the degree of uncertainty facing policymakers over the coming years would ratchet up still further.

A tailor-made hedge for QE

Even a cursory glance at indicators such as the number of open interest contracts on commodity futures suggests that speculative activity within the commodity sphere has increased in recent years. However, to ascribe the major shifts in commodity price movements to purely speculative forces would appear wholly irrational once the shifting demand dynamics of the market – both present and future – are considered. Moreover, there is little to suggest that this investor interest is about to subside. Commodity markets offer a number of appealing properties as an asset class, and despite the pronounced volatility of recent years, this attraction may even have increased over the period.

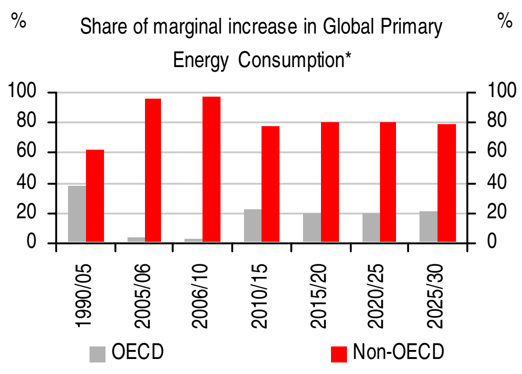
Aside from offering a naturally strong hedge against inflation, commodities – being priced predominantly in US dollars, of finite supply and offering a physical, tangible value – offer an appealing antidote to the inflationary concerns that have developed around the quantitative easing programmes conducted by most major central banks and the Federal Reserve in particular. The rise of the gold price beyond the USD1,000/oz level, for instance, doubtless reflects the expansion in base money and government debt levels produced by the unconventional policy measures adopted over the past year. And should global recession now give way to an emerging market-led, resource-intensive recovery of growth, the medium-term outlook for the physical demand for commodities would also change considerably.

This time it's for real?

The events of the past year, of course, suggest that confident assertions about future developments and impending paradigm shifts should be accompanied by a suitably large health warning. But even the more conservative estimates of future energy demand, and the likely geographical breakdown, suggest that the marginal, determining influences upon commodity markets will assume an increasingly different pattern over the next 20 years.

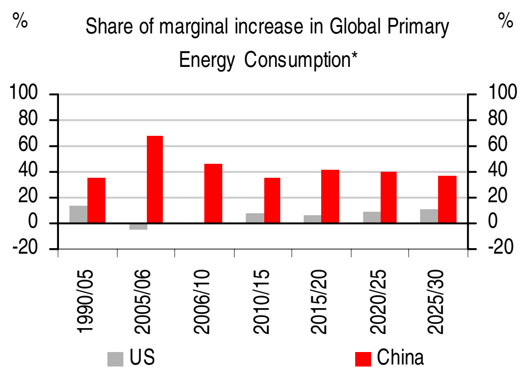
The estimates of primary energy consumption produced by the US Department of Energy, illustrated in part by charts 32 & 33, certainly make for interesting reading. Under the reference case projections – assuming what appears to be a decent level of trend US GDP growth of 2.4%, and a reasonably modest 6.8% for China – well over 80% of the total increase in energy demand expected between 2006 and 2030 is forecast to come from non-OECD nations. Furthermore, the domination of the marginal increase in demand by non-OECD nations is seen as remaining close to this 80% level throughout the forecast period. China alone is expected to have accounted for well over 40% of the anticipated increase in global energy consumption between 2006 and 2010, with the US seen as a negligible marginal influence during the period. Even between 2025 and 2030, China is still expected to be the source of over one-third of the increase in global energy demand, highlighting the structural nature of these changes.

32. OECD a fading influence on energy demand...



Note: Chart shows breakdown by region of the marginal increase in energy consumption expected between the stated dates
Source: US Dept. of Energy, HSBC

33. ...while China is set to dominate US trends

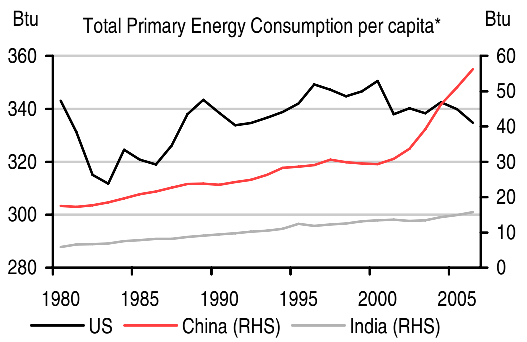


Note: Chart shows breakdown by region of the marginal increase in energy consumption expected between the stated dates
Source: Source: US Dept. of Energy, HSBC

Lessons from history…

Certainly, when looking at energy consumption on a per capita basis, what first seem alarmist forecasts for the likely future shift in energy demand can, if anything, begin to appear slightly conservative. Chart 34, for instance, illustrates per capita energy consumption in the US, China and India since 1980, showing that even after a steady – and in China's case rapid – increase in recent years, per capita energy consumption within the developing economies remains a tiny fraction of that in the US. This suggests that a sustained period of catching-up can be expected.

34. A long, long way to go...



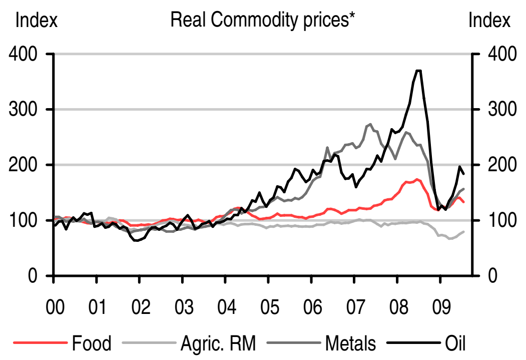
Note: Million Btu per person
Source: US Dept. of Energy, HSBC

An increased consumption of energy and commodities is, of course, only to be expected the current development phase of countries such as China and India. Evidence collated from the process of industrialisation followed by the US economy during the early years of the 20th century, the Japanese economy during the post-war period and South Korea during the 1960s suggests that the intensity of commodity demand – particularly for metals – increases in a fairly linear fashion before, then, levelling off as per capita GDP (PPP basis) approaches the USD15K level and service sector activity develops.

…and clues to the future

With this income threshold still distant for India and China, as well as other economies within Asia-Pacific, strong, outsize demand for commodities over the coming years appeared likely even before the dramatic events of the past year threatened to tilt the balance and nature of global growth from west to east. Permanently lost output within the developed world, and an extremely accommodative policy environment within emerging markets, could now reinforce – or, for a developed world policymaker, exacerbate – the demand trends that were always likely to have developed across commodity markets in the future.

35. Volatility, not levels, is the issue



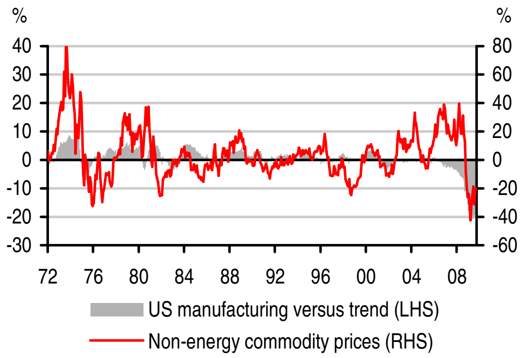
Note: * Prices indexed at constant 2005 levels
Source: IMF, HSBC

A further layer of complexity

Importantly, the implications for developed economy policymakers of such potential trends across commodity markets relate mostly to matters of direction and influence rather than the absolute level of prices. Developed economy growth proved resilient, at least on the surface, to the more than seven times increase that developed in oil prices (nominal) between January 2002 and July 2008. That this increase in energy costs proved gradual and consistent with a heightened access to credit by some of the major economies arguably proved decisive, and it is exactly this complicity, or happy coincidence of fortunes, that developed economy policymakers can no longer take for granted.

The events of the past two years have already shown the relationship between commodity prices and trends within the industrial sectors of the G7 economies to be much less predictable than in previous decades. Whereas previous peaks and troughs in US activity tended to coincide with similar patterns in commodity markets, more recent evidence hints that a much more fluid relationship is developing, with the two forces only re-aligning in an extremely abrupt fashion in late-2008. Chart 36 neatly illustrates this point, tracking the movement in US manufacturing output (versus an assumed trend rate of expansion) against the corresponding change in the S&P GSCI measure of non-energy commodity prices, seen as a particularly useful benchmark due to its production-weighting basis.

36. US manufacturing output and commodity price inflation



Note: Chart shows deviation in US manufacturing output versus an assumed trend rate of expansion versus the annual rate of change in the non-energy S&P GSCI commodity price index
Source: Thomson Financial Datastream, HSBC

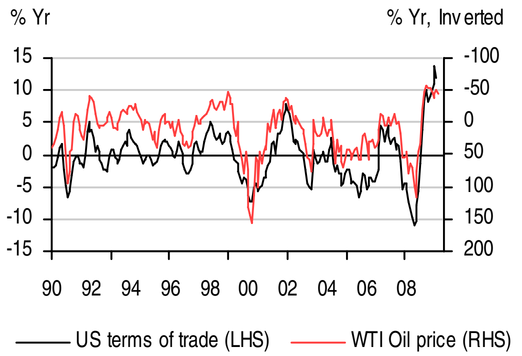
Wishful thinking no longer a (policy) option

The problems created by the volatility of commodity price movements, the breakdown of the more typical pricing patterns and a pronounced lack of visibility over future pricing trends all proved extremely troubling during the course of 2007 and 2008. With the benefit of hindsight, this brief period of de-coupling does appear to have complicated the task that faced central banks during the summer of last year, especially those with an explicit inflation target, and constrained their ability to concentrate more fully upon the clear evidence of an impending economic slowdown, if not a full-blown recession.

Given the eventual collapse in commodity prices, however, it may be tempting to view their earlier rise as temporary aberration; perhaps driven more by speculative forces than any underlying shift within the economic fundamentals that ultimately determine commodity behaviour. But to do so would be to completely disregard the changes in the structure of energy demand of the coming decades and the economic forces behind these.

Future economic downturns in the developed economies, for instance, may not be accompanied by an offsetting decline in commodity prices, leaving inflation rather "stickier" than in previous economic downturns. Other factors, such as the terms of trade of developed economies –a guide not only to inflationary pressures but also to the international purchasing power and ultimately wealth of an economy – may also be subjected to larger shifts. This process may already be under way and in fact, judging by the relationship between the US terms of trade and the oil price illustrated in chart 37, could yet turn more volatile. Indeed, should emerging economies increasingly allow an appreciation of their currencies in order to moderate economic growth in the future, the deterioration in the economic significance and influence of the developed world could yet assume an entirely new momentum.

37. Oil very important to US terms of trade



Source: Thomson Financial Datastream, HSBC

HSBC

De-coupling is dead, long live de-coupling

Overall, just as the economic collapse of the past year forced commodities lower, the economic structure that is likely to emerge during recovery – and the enhanced prospects of economic influence moving from West to East – could yet lead to a more enduring, pronounced shift in the forces driving commodity markets in the future. Reports of the death of economic de-coupling could, therefore, yet prove greatly exaggerated, and the likely implications for economic conditions within the developed world may only be about to turn more evident. The developed world will have to cope not only with the debts built up over many years but, in addition, with the terms of trade costs associated with emerging success. Offsetting these constraints will be better prospects to export to the emerging world. Some nations – notably capital goods producers such as Germany – are probably better placed than others to take advantage of these opportunities.

Conclusions

Amid all the good news over the global economy which has emerged in recent months, we think it is important not to lose sight of the key themes which are likely to dominate in the months and years ahead. The developed world may have had a welcome bounce but many countries are still heavily constrained by debt. Exit strategies are not straightforward and investors will have to think carefully about the appropriate sequencing between monetary and fiscal policy. The level of activity is likely to remain depressed even on the most optimistic of growth projections.

Given this, interest rates will remain low for a long time. Even for those countries set to raise rates in 2010 – on our forecasts, most obviously the UK and, later on, the Eurozone – the monetary stance will remain very easy by past standards.

Low interest rates will be effective, but their benefits will mostly spin out to the emerging world via a credit-crunch-constrained version of the monetary merry-go-round. In the developed world, loose monetary conditions will mostly help to narrow corporate bond spreads and will offer some support to equities before growth doubts set in again. Richard Cookson, our global head of asset allocation, remains enthusiastic about corporate bonds and, to a lesser extent, equities, at the expense of government bonds which, we think, don't offer the same upside.

The flow of liquidity into the emerging world favours emerging nation assets. It should also temporarily alleviate global imbalances: higher capital outflows from the US will narrow the American current account deficit while higher inflows into the emerging world, by boosting domestic consumption and investment, should narrow current account surpluses. The liquidity flow should also favour emerging currencies at the expense of, in particular, the US dollar and (if the Bank of England continues to advertise its 'benign neglect') sterling too. Of the majors, David Bloom's currency team particularly like the euro. Although some constituent countries have serious economic problems, the Eurozone as a whole has had a 'good crisis'.

As the source of global growth tips towards the emerging nations, we think commodity prices may, once again, demonstrate their resilience, particularly if the dollar remains weak. Commodity currencies – most obviously the Canadian, Australian and New Zealand dollars alongside the Norwegian krone – stand to benefit. Higher commodity prices, in turn, will act as a further constraint on the pace of recovery in the developed world.

The crisis may be over, and for the emerging nations may have provided the foundations for another surge in economic growth, but the developed world will be clearing up the mess left behind for years to come.

Global economic forecasts

GDP

Annual

% Year	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
World (Nominal GDP weights)	**2.0**	**2.5**	**3.7**	**3.3**	**3.7**	**3.6**	**1.5**	**-2.3**	**2.8**	**3.6**
World (PPP weights)	3.1	3.9	5.0	4.8	5.3	5.3	2.6	-0.7	3.9	4.4
Developed	**1.4**	**1.8**	**2.9**	**2.4**	**2.7**	**2.4**	**0.4**	**-3.4**	**1.8**	**2.7**
Emerging	**4.5**	**5.7**	**7.0**	**6.8**	**7.6**	**7.9**	**5.4**	**1.3**	**6.0**	**6.1**
North America	**1.9**	**2.4**	**3.5**	**3.1**	**2.7**	**2.2**	**0.4**	**-2.3**	**2.8**	**4.4**
US	1.8	2.5	3.6	3.1	2.7	2.1	0.4	-2.4	2.8	4.5
Canada	2.9	1.9	3.1	3.0	2.9	2.5	0.4	-2.3	2.6	3.1
Latin America	**0.4**	**2.1**	**5.2**	**3.9**	**5.0**	**4.8**	**3.2**	**-3.5**	**4.1**	**3.7**
Mexico	0.8	1.4	4.0	3.2	5.1	3.3	1.3	-7.0	3.6	3.4
Brazil	2.7	1.1	5.7	3.2	4.0	5.7	5.1	0.4	5.3	4.2
Argentina	-10.9	9.0	8.9	9.2	8.5	8.7	4.7	-3.5	2.4	2.6
Chile	2.2	3.9	6.0	5.6	4.6	4.7	3.2	-1.7	4.0	4.6
Western Europe	**1.1**	**1.1**	**2.1**	**1.9**	**2.9**	**2.6**	**0.6**	**-3.8**	**0.9**	**1.5**
Eurozone	**0.9**	**0.8**	**1.8**	**1.7**	**2.9**	**2.6**	**0.6**	**-3.9**	**0.7**	**1.2**
Germany	0.0	-0.2	0.7	0.9	3.4	2.6	1.0	-4.9	1.4	1.2
France	1.1	1.1	2.3	1.9	2.4	2.3	0.3	-2.1	0.2	1.3
Italy	0.5	0.1	1.4	0.8	2.1	1.5	-1.0	-5.0	0.2	0.8
Spain	2.7	3.1	3.3	3.6	4.0	3.6	0.9	-3.5	-0.4	1.8
Other Western Europe	**1.8**	**2.0**	**2.9**	**2.3**	**3.1**	**2.7**	**0.7**	**-3.5**	**1.4**	**2.1**
UK	2.1	2.8	3.0	2.2	2.9	2.6	0.7	-4.3	1.7	2.3
Norway	1.4	0.8	3.3	1.8	1.5	3.2	2.1	-1.5	1.2	2.2
Sweden	2.4	2.0	3.5	3.3	4.5	2.7	-0.4	-4.5	2.1	2.9
Switzerland	0.4	-0.2	2.5	2.6	3.6	3.6	1.8	-1.7	0.4	1.7
EMEA	**3.1**	**5.7**	**6.4**	**5.9**	**6.3**	**5.8**	**4.1**	**-3.8**	**2.9**	**3.7**
Czech Republic	1.9	3.6	4.6	6.5	6.4	5.8	3.1	-3.7	1.5	2.5
Hungary	4.4	4.3	4.7	3.9	4.0	1.2	0.6	-5.9	-0.6	3.5
Poland	1.4	3.9	5.3	3.6	6.2	6.7	4.8	1.0	2.0	3.4
Russia	4.7	7.3	7.2	6.4	7.7	8.1	5.6	-8.3	3.1	2.4
Turkey	6.2	5.3	9.4	8.4	6.9	4.7	0.9	-5.3	2.9	4.1
Ukraine	5.2	9.6	12.1	2.6	7.1	7.9	2.1	-15.8	5.5	4.0
Egypt*	3.2	3.2	4.1	4.5	6.8	7.1	7.2	4.7	4.1	4.2
Israel	-0.6	2.3	5.2	5.3	5.2	5.3	4.0	0.3	3.3	4.2
Saudi Arabia	0.1	7.7	5.3	5.6	3.1	3.4	4.3	-1.1	4.1	5.9
UAE	2.6	11.9	7.4	10.5	9.4	5.2	7.0	-2.0	4.2	6.4
South Africa	3.7	3.1	4.9	5.0	5.3	5.1	3.1	-1.8	1.6	2.8
Asia/Pacific	**3.2**	**3.9**	**5.1**	**4.8**	**5.3**	**6.0**	**3.1**	**0.1**	**4.7**	**4.8**
Japan	0.3	1.5	2.7	1.9	2.0	2.3	-0.7	-5.7	1.2	1.1
Australia	4.2	3.0	3.8	2.8	2.8	4.0	2.4	0.8	2.6	2.8
New Zealand	4.7	4.4	4.4	2.8	2.7	3.0	-1.1	-1.7	1.5	2.4
Asia-ex-Japan	**6.8**	**7.1**	**8.0**	**8.2**	**9.2**	**9.8**	**6.7**	**4.9**	**7.7**	**7.7**
China	9.1	10.0	10.1	10.4	11.6	13.0	9.0	8.1	9.5	8.9
Asia ex-Japan & China	**5.2**	**4.9**	**6.3**	**6.4**	**7.0**	**6.9**	**4.6**	**1.8**	**5.8**	**6.3**
Hong Kong	1.8	3.0	8.5	7.1	7.0	6.4	2.4	-4.0	3.8	4.3
India**	4.6	7.3	7.3	9.2	9.9	9.3	7.5	6.2	7.2	8.9
Indonesia	4.5	4.8	5.0	5.7	5.5	6.3	6.1	4.3	5.8	5.5
Malaysia	4.4	5.4	7.3	5.3	5.8	6.2	4.6	-2.0	6.8	5.5
Philippines	4.4	4.9	6.4	5.0	5.3	7.1	3.8	1.8	4.2	4.7
Singapore	4.0	2.9	8.7	8.7	8.4	7.8	1.1	-2.5	6.5	5.5
South Korea	7.2	2.8	4.6	4.0	5.2	5.1	2.2	-0.4	4.6	4.9
Taiwan	4.6	3.5	6.2	4.2	4.8	5.7	0.1	-4.2	4.4	4.9
Thailand	5.3	7.0	6.4	4.7	5.2	4.9	2.6	-2.8	4.5	4.9
Vietnam	7.1	7.3	7.8	8.4	8.2	8.5	6.2	4.9	6.8	5.9

Notes: * = based upon Egyptian fiscal year (July-June); ** = calendar year. We now calculate the weighting system using chain nominal GDP (USD) weights
Source: HSBC

Quarterly

% Quarter & % Year		Q3 08	Q4 08	Q1 09	Q2 09	Q3 09f	Q4 09f	Q1 10f	Q2 10f	Q3 10f	Q4 10f
North America											
US*	*% Quarter*	-2.7	-5.4	-6.4	-1.0	5.1	2.3	2.7	2.7	3.1	4.4
	% Year	0.0	-1.9	-3.3	-3.9	-2.0	-0.1	2.2	3.2	2.7	3.2
Canada*	*% Quarter*	0.4	-3.7	-6.1	-3.4	3.5	2.0	2.8	3.8	3.2	3.2
	% Year	0.3	-1.0	-2.3	-3.2	-2.5	-1.1	1.2	3.0	3.0	3.3
Latin America											
Mexico	*% Quarter*	-0.7	-2.4	-5.8	-1.1	2.2	1.8	0.5	0.6	0.6	0.5
	%Year	1.7	-1.6	-8.0	-10.3	-7.5	-2.3	3.9	5.5	3.5	1.5
Brazil	*% Quarter*	1.3	-3.4	-1.0	1.9	1.8	1.7	1.1	1.1	1.1	1.0
	% Year	6.8	1.3	-1.8	-1.2	0.1	4.4	5.9	5.8	5.2	4.3
Argentina	*% Quarter*	1.5	-5.2	-2.3	0.2	1.2	0.8	0.6	0.5	0.1	-0.1
	% Year	4.8	0.3	-3.8	-4.2	-4.3	-1.8	3.6	3.0	2.0	1.1
Chile	*% Quarter*	-0.9	-2.3	-0.8	-0.4	1.7	1.4	1.0	0.8	0.8	0.9
	% Year	4.6	0.2	-2.3	-4.5	-1.7	2.0	4.1	4.9	3.8	3.3
Western Europe											
Eurozone	*% Quarter*	-0.4	-1.8	-2.4	-0.1	0.3	0.3	0.0	0.1	0.2	0.4
	% Year	0.4	-1.7	-4.9	-4.7	-4.0	-1.9	0.6	0.8	0.7	0.7
Germany	*% Quarter*	-0.3	-2.4	-3.5	0.3	0.8	0.5	0.2	0.2	0.2	0.3
	% Year	0.8	-1.8	-6.7	-5.9	-4.9	-2.0	1.8	1.7	1.1	0.9
France	*% Quarter*	-0.3	-1.4	-1.4	0.3	0.4	0.3	-0.3	-0.4	0.2	0.4
	% Year	0.1	-1.7	-3.5	-2.6	-2.0	-0.3	0.8	0.1	-0.1	-0.1
Italy	*% Quarter*	-0.8	-2.1	-2.7	-0.5	0.1	0.2	-0.1	0.1	0.2	0.3
	% Year	-1.3	-2.9	-6.0	-6.0	-5.1	-2.9	-0.3	0.3	0.4	0.5
Spain	*% Quarter*	-0.6	-1.1	-1.6	-1.1	-0.2	0.2	-0.6	0.1	0.5	0.5
	% Year	0.5	-1.2	-3.2	-4.2	-3.9	-2.6	-1.6	-0.5	0.2	0.5
Other Western Europe											
UK	*% Quarter*	-0.7	-1.8	-2.5	-0.6	0.4	0.7	0.4	0.5	0.6	0.5
	% Year	0.3	-2.0	-5.0	-5.5	-4.4	-2.0	0.8	1.9	2.1	1.9
Norway	*% Year*	1.2	0.5	-0.7	-2.5	-1.5	-1.1	-0.4	1.5	1.9	1.9
Sweden	*% Year*	0.2	-5.1	-6.5	-6.1	-5.2	0.0	1.4	1.9	2.2	3.0
Switzerland	*% Year*	1.3	-0.2	-1.6	-2.1	-1.8	-1.1	-0.3	0.2	0.6	1.0
EMEA											
Czech Republic	*% Year*	4.7	0.7	-4.5	-5.5	-3.7	-1.2	0.6	1.4	1.7	2.1
Hungary	*% Year*	1.3	-2.5	-6.7	-7.5	-5.8	-3.5	-2.5	-1.0	0.1	1.1
Poland	*% Year*	5.8	4.8	2.9	0.8	1.1	0.8	1.4	2.0	1.6	1.8
Russia	*% Year*	1.2	-9.8	-10.9	-8.4	-4.3	4.6	4.2	2.1	1.5	2.4
Turkey	*% Year*	1.0	-6.5	-11.3	-7.3	-2.9	3.8	2.2	1.9	3.4	3.0
Ukraine	*% Year*	6.4	-8.0	-20.3	-18.0	-17.0	-8.0	8.0	7.0	5.0	4.0
Egypt**	*% Year*	5.8	4.1	4.4	3.5	3.5	4.1	4.0	4.9	4.5	4.1
Israel	*% Year*	4.0	2.1	-0.1	-0.5	0.4	1.3	2.5	3.0	3.5	4.0
South Africa	*%Year*	0.2	-1.8	-1.3	-2.8	-1.8	-1.2	0.9	1.2	2.0	2.2
Asia/Pacific											
Japan	*% Quarter*	-1.3	-3.4	-3.3	0.6	0.5	0.4	-0.1	0.5	0.2	0.3
	% Year	-0.3	-4.3	-8.7	-7.2	-5.5	-1.8	1.4	1.4	1.1	0.9
Australia	*% Quarter*	0.3	-0.7	0.4	0.6	0.1	0.8	0.5	0.8	1.0	0.7
	% Year	2.4	0.7	0.3	0.6	0.4	1.9	2.0	2.2	3.2	3.1
New Zealand	*% Year*	-1.7	-2.2	-1.9	-1.1	-2.4	-1.4	0.3	0.7	2.9	2.3
Asia-ex-Japan											
China	*% Year*	9.0	6.8	6.1	7.9	8.6	9.2	9.7	9.5	9.3	9.4
Asia ex-Japan & China											
Hong Kong	*% Year*	1.5	-2.6	-7.8	-3.8	-3.1	-1.1	4.0	3.5	3.7	3.9
India	*% Year*	7.7	5.8	5.8	6.1	6.0	6.7	6.1	6.8	7.5	8.5
Indonesia	*% Year*	6.4	5.2	4.4	4.0	3.7	4.9	5.5	5.8	6.2	5.8
Malaysia	*% Year*	4.8	0.1	-6.2	-3.9	-1.3	3.3	9.8	7.3	5.6	5.0
Philippines	*% Year*	4.6	2.9	0.6	1.5	1.9	3.0	4.7	4.9	4.4	2.8
Singapore	*% Year*	0.0	-4.2	-9.5	-3.5	-1.2	4.5	9.6	5.9	5.4	5.3
South Korea	*% Year*	3.1	-3.4	-4.2	-2.2	0.1	4.5	4.9	5.2	4.5	4.0
Taiwan	*% Year*	-1.0	-8.6	-10.1	-7.5	-3.2	4.7	6.2	4.4	3.4	3.6
Thailand	*% Year*	3.9	-4.2	-7.1	-4.9	-3.1	3.8	5.4	4.5	4.4	3.6
Vietnam	*% Year*	6.5	5.7	3.1	4.5	5.5	6.6	6.8	7.0	6.8	6.6

Note: * = quarter-on-quarter data has been annualised; ** = based upon Egyptian fiscal year (July – June)
Source: HSBC

Consumer prices

Annual

% Year	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
World	**2.1**	**2.2**	**2.5**	**2.7**	**2.7**	**2.8**	**4.3**	**1.0**	**2.0**	**2.3**
Developed	**1.4**	**1.8**	**1.9**	**2.3**	**2.3**	**2.1**	**3.3**	**-0.1**	**1.0**	**1.2**
Emerging	**5.1**	**4.2**	**4.8**	**4.4**	**4.4**	**5.5**	**8.2**	**4.7**	**5.4**	**5.6**
North America	**1.6**	**2.3**	**2.6**	**3.3**	**3.1**	**2.8**	**3.7**	**-0.5**	**1.3**	**1.3**
US	1.6	2.3	2.7	3.4	3.2	2.9	3.8	-0.5	1.3	1.2
Canada	2.2	2.7	1.9	2.2	2.0	2.1	2.4	0.3	1.2	2.0
Latin America	**10.7**	**5.7**	**6.0**	**5.1**	**4.2**	**6.0**	**8.3**	**5.5**	**6.1**	**5.8**
Mexico*	5.7	4.0	5.2	3.3	4.1	3.8	6.5	4.1	4.0	3.4
Brazil*	12.5	9.3	7.6	5.7	3.1	4.5	5.9	4.7	5.0	5.3
Argentina*	41.0	3.7	6.1	12.3	9.8	20.1	22.9	14.6	15.7	13.9
Chile*	2.8	1.1	2.4	3.7	2.1	7.8	7.1	-1.5	2.5	3.2
Western Europe	**2.1**	**2.0**	**1.9**	**2.1**	**2.1**	**2.1**	**3.3**	**0.7**	**1.5**	**1.8**
Eurozone	**2.3**	**2.1**	**2.2**	**2.2**	**2.2**	**2.1**	**3.3**	**0.4**	**1.3**	**1.7**
Germany	1.4	1.0	1.8	1.9	1.8	2.3	2.7	0.3	0.7	1.5
France	1.9	2.2	2.3	1.9	1.9	1.6	3.2	0.1	1.6	2.0
Italy	2.6	2.8	2.3	2.2	2.2	2.0	3.5	0.8	1.7	1.5
Spain	3.6	3.1	3.1	3.4	3.6	2.8	4.1	-0.6	1.3	1.7
Other Western Europe	**1.4**	**1.5**	**1.1**	**1.7**	**2.0**	**2.0**	**3.5**	**1.5**	**1.9**	**2.0**
UK	1.3	1.4	1.3	2.0	2.3	2.3	3.6	2.1	2.4	2.2
Norway	1.3	2.5	0.5	1.5	2.3	0.7	3.8	2.6	2.0	2.6
Sweden	2.2	1.9	0.4	0.5	1.4	2.2	3.5	-0.1	1.1	2.9
Switzerland	0.6	0.6	0.8	1.2	1.1	0.7	2.4	-0.6	0.6	0.9
EMEA	**9.8**	**7.4**	**6.2**	**6.6**	**6.0**	**7.3**	**10.9**	**7.8**	**6.4**	**8.5**
Czech Republic	1.8	0.7	2.5	1.9	2.6	2.8	6.4	1.1	1.2	1.8
Hungary	5.2	4.7	6.8	3.6	3.9	8.0	6.1	4.3	2.9	2.0
Poland	2.0	0.8	3.5	2.1	1.0	2.5	4.2	3.6	2.6	2.5
Russia*	15.8	13.7	10.9	12.7	9.7	9.0	14.1	11.9	8.7	15.4
Turkey	45.0	25.3	8.6	8.2	9.6	8.8	10.4	6.4	8.7	6.7
Ukraine*	0.8	5.2	9.0	10.3	9.1	12.8	25.2	15.9	9.0	9.3
Egypt**	2.4	3.2	14.3	8.9	4.2	11.1	11.7	15.5	11.2	8.3
Israel*	6.5	-1.9	1.2	2.4	-0.1	3.4	3.8	4.2	2.4	2.6
Saudi Arabia	0.2	0.6	0.3	0.4	2.3	4.1	9.9	5.0	3.8	6.0
UAE	2.9	3.1	7.0	9.0	10.5	11.1	13.5	1.8	3.0	6.0
South Africa	9.7	5.4	1.4	3.5	4.6	7.1	11.5	7.0	5.7	6.5
Asia/Pacific	**0.3**	**1.0**	**1.8**	**1.4**	**2.0**	**2.2**	**4.1**	**0.8**	**1.8**	**1.8**
Japan	-0.9	-0.2	0.0	-0.3	0.2	0.0	1.5	-1.2	-1.4	-0.8
Australia	3.0	2.8	2.3	2.7	3.5	2.3	4.3	1.9	2.8	3.0
New Zealand	2.7	1.8	2.3	3.0	3.4	2.4	3.9	2.1	2.2	2.6
Asia-ex-Japan	**1.4**	**2.2**	**3.7**	**3.1**	**3.6**	**4.4**	**6.7**	**2.6**	**4.6**	**3.9**
China	-0.8	1.2	3.9	1.8	1.5	4.8	5.9	-0.6	2.6	2.5
Asia ex-Japan & China	**3.2**	**3.0**	**3.6**	**4.2**	**5.2**	**4.1**	**7.3**	**5.0**	**6.1**	**4.8**
Hong Kong	-3.0	-2.6	-0.4	0.9	2.0	2.1	4.3	0.6	2.3	3.0
India	4.0	3.7	3.9	4.0	6.3	6.4	8.3	10.5	9.6	6.0
Indonesia	11.9	6.7	6.1	10.5	13.1	5.8	10.2	5.3	7.9	7.0
Malaysia	1.8	1.1	1.4	3.0	3.6	2.0	5.4	0.8	3.3	2.5
Philippines	2.9	3.5	6.0	7.7	6.3	2.8	9.3	3.2	4.8	5.9
Singapore	-0.4	0.5	1.7	0.5	1.0	2.1	6.5	0.3	2.5	2.0
South Korea	2.8	3.5	3.6	2.8	2.2	2.5	4.7	2.8	3.1	3.2
Taiwan	-0.2	-0.3	1.6	2.3	0.6	1.8	3.5	-0.7	1.1	1.6
Thailand	0.7	1.8	2.8	4.5	4.6	2.2	5.5	-0.9	3.3	3.6
Vietnam	4.1	3.1	7.8	8.3	7.5	8.3	23.0	7.6	10.4	7.1

Note: * = end-year values. We now calculate the weighting system using chain nominal GDP (USD) weights
Source: HSBC

Quarterly

% Year	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09f	Q1 10f	Q2 10f	Q3 10f	Q4 10f
North America										
US	5.3	1.6	0.0	-1.2	-1.7	0.8	1.6	1.5	1.0	0.9
Canada	3.4	2.0	1.2	0.1	-0.8	0.9	1.4	1.1	1.3	1.1
Latin America										
Mexico	5.5	6.2	6.2	6.0	5.2	4.4	4.3	3.8	3.9	4.0
Brazil	6.3	5.9	5.6	4.8	4.4	4.7	4.8	4.5	4.9	5.0
Argentina	26.2	22.9	19.6	15.5	13.5	14.6	14.6	15.7	15.7	15.7
Chile	9.2	7.1	5.0	1.9	-2.1	-1.5	-0.8	0.0	1.6	2.5
Western Europe										
Eurozone	**3.8**	**2.3**	**1.0**	**0.2**	**-0.3**	**0.7**	**1.4**	**1.5**	**1.4**	**1.5**
Germany	3.3	1.6	0.8	0.3	-0.3	0.6	0.8	0.6	0.7	0.7
France	3.6	2.0	0.7	-0.2	-0.5	0.5	1.4	1.5	1.9	1.8
Italy	4.1	2.9	1.4	0.9	0.2	1.0	2.1	1.6	1.9	1.4
Spain	5.0	2.5	0.5	-0.7	-1.5	-0.5	0.5	1.3	1.6	1.8
Other Western Europe										
UK	4.9	3.9	3.0	2.1	1.6	1.9	2.9	2.6	2.0	2.0
Norway	4.7	3.6	2.4	3.1	2.5	2.5	2.0	2.0	2.0	2.0
Sweden	4.4	2.4	0.8	-0.5	-0.5	-0.3	1.0	1.0	1.3	1.3
Switzerland	3.0	1.6	0.0	-0.7	-1.1	-0.5	0.4	0.6	0.6	0.7
EMEA										
Czech Republic	6.6	4.7	2.2	1.4	0.2	0.6	0.6	0.8	1.7	1.6
Hungary	6.3	4.3	3.0	3.6	5.1	5.4	5.2	3.3	1.6	1.4
Poland	4.3	4.7	3.8	3.2	3.7	3.7	3.6	3.1	2.3	2.3
Russia	14.9	13.8	13.7	13.0	11.3	10.1	8.2	7.0	7.5	10.0
Turkey	11.1	10.1	7.9	6.0	6.5	7.4	9.1	9.8	9.7	7.7
Ukraine	15.2	12.9	10.4	9.0	8.5	8.0	8.0	8.5	9.5	11.0
Egypt	21.5	18.3	12.1	10.1	10.2	12.5	12.0	10.0	8.5	8.1
Israel	5.8	3.8	3.6	3.6	3.0	4.2	4.1	3.1	2.0	2.4
South Africa	13.4	11.2	8.4	7.8	6.1	5.8	5.8	5.4	5.7	5.9
Asia/Pacific										
Japan	2.4	1.0	0.0	-1.0	-2.4	-1.6	-1.2	-1.6	-1.4	-1.3
Australia	5.0	3.7	2.5	1.5	1.5	2.0	2.5	2.8	3.0	2.8
New Zealand	5.1	3.4	3.0	1.9	1.8	1.9	2.0	2.2	2.3	2.4
China	5.3	2.5	-0.6	-1.1	-0.6	0.1	1.7	3.0	2.7	3.0
Hong Kong	4.6	2.3	1.7	-0.1	-1.0	1.9	1.6	2.7	3.8	1.2
India	9.0	10.2	9.4	8.9	11.5	12.0	12.5	11.5	8.0	7.0
Indonesia	12.0	11.5	8.6	5.7	2.8	4.3	6.4	8.0	9.0	8.3
Malaysia	8.4	5.9	3.7	1.3	-2.1	0.5	2.7	3.5	3.5	3.3
Philippines	12.2	9.7	6.9	3.2	0.9	1.9	3.6	4.5	5.4	5.6
Singapore	6.6	5.4	2.1	-0.5	-0.4	0.1	1.5	3.3	2.9	2.4
South Korea	5.5	4.5	3.9	2.8	1.9	2.6	2.7	2.7	3.2	3.3
Taiwan	4.5	1.9	0.0	-0.8	-1.4	-0.4	1.2	0.4	1.3	1.4
Thailand	7.3	2.1	-0.2	-2.8	-1.9	1.3	2.4	3.0	3.8	3.8
Vietnam	27.7	23.6	14.5	6.3	3.5	6.0	11.0	12.0	10.0	8.5

Source: HSBC

HSBC

Short rates

3 month money

End period		2006 Q4	2007 Q4	2008 Q3	2008 Q4	2009f Q1	2009f Q2	2009f Q3	2009f Q4f	2010f Q1f	2010f Q2f	2010f Q3f	2010f Q4f
North America													
	US (USD)	5.3	4.7	4.5	1.4	1.4	0.8	0.3	0.3	0.4	0.4	0.4	0.5
	Canada (CAD)	4.2	4.5	4.1	1.9	1.0	0.5	0.5	0.4	0.4	0.5	0.8	1.1
Latin America													
	Mexico (MXN)	7.2	7.3	8.3	8.2	7.0	5.0	4.5	4.5	4.9	5.5	5.5	5.7
	Brazil (BRL)	12.8	11.2	14.0	13.0	10.3	8.8	8.7	8.8	9.0	9.3	10.3	11.5
	Argentina (ARS)*	7.1	10.0	11.5	15.7	12.6	12.0	13.0	14.0	14.2	14.4	14.2	14.0
	Chile (CLP)*	5.3	6.5	8.5	8.2	2.6	1.1	0.4	0.6	0.6	1.5	2.6	3.1
Western Europe													
Eurozone		3.7	4.6	5.3	2.9	1.6	1.0	0.8	0.9	1.0	1.3	1.6	1.8
Other Western Europe													
	UK (GBP)	5.3	5.9	6.3	2.8	1.6	1.1	0.5	0.8	1.1	1.4	1.9	2.4
	Sweden (SEK)	3.3	4.7	5.5	2.5	1.1	1.0	0.5	0.7	1.0	1.3	1.6	1.8
	Switzerland (CHF)	2.1	2.6	3.0	0.6	0.6	0.4	0.3	0.3	0.3	0.5	0.7	1.0
	Norway (NOK)	3.9	5.9	7.7	4.0	3.0	2.0	1.9	2.1	2.3	2.5	2.8	3.1
EMEA													
	Hungary (HUF)	8.1	7.6	8.7	10.0	9.8	9.7	7.5	6.1	5.6	4.8	4.8	4.8
	Poland (PLN)	4.2	5.1	6.9	6.7	6.0	4.2	4.7	4.4	4.2	4.0	4.1	4.3
	Russia (RUB)*	5.9	6.3	8.3	20.6	14.5	10.1	9.0	8.5	8.0	8.0	11.8	15.0
	Turkey (TRY)	17.6	16.0	19.1	15.5	12.5	9.1	7.5	7.7	8.5	9.7	9.8	10.0
	Ukraine (UAH)	7.6	6.6	18.0	20.0	17.4	16.0	15.0	14.0	12.0	10.5	9.0	9.0
	South Africa (ZAR)	9.2	11.3	12.1	11.4	8.8	7.6	7.0	7.0	7.0	7.0	7.2	7.7
Asia/Pacific													
	Japan (JPY)	0.6	0.9	1.1	1.0	0.7	0.4	0.4	0.4	0.4	0.2	0.2	0.2
	Australia (AUD)	6.5	7.3	7.3	4.1	3.2	3.3	3.4	3.2	3.2	3.3	3.5	3.6
	New Zealand (NZD)	7.7	8.9	8.0	6.0	3.8	3.2	3.0	3.0	3.0	3.0	3.0	3.0
Asia-ex-Japan													
	China (CNY)	1.8	3.3	3.3	1.7	1.7	1.7	1.7	1.7	1.7	2.0	2.3	2.3
Asia ex-Japan & China													
	Hong Kong (HKD)	3.9	3.5	3.7	1.0	0.9	0.4	0.3	0.3	0.3	0.3	0.3	0.3
	India (INR)	8.2	8.0	11.0	8.5	7.1	4.4	4.8	4.8	4.8	5.0	5.3	5.5
	Indonesia (IDR)	9.5	7.8	9.9	12.0	8.6	7.0	7.0	6.9	6.8	7.2	7.6	8.1
	Malaysia (MYR)	3.7	3.6	3.7	3.4	2.1	2.1	2.1	2.1	2.1	2.1	2.4	2.6
	Philippines (PHP)	4.8	3.7	5.7	6.1	4.4	4.5	5.0	6.0	6.0	6.0	6.0	6.0
	Singapore (SGD)	3.4	2.4	1.9	1.0	0.7	0.7	0.6	0.6	0.7	0.7	0.8	0.9
	South Korea (KRW)	4.8	5.7	5.8	4.7	2.5	2.4	2.2	2.2	2.7	3.0	3.2	3.2
	Taiwan (TWD)	1.8	2.2	2.3	1.0	0.4	0.4	0.7	0.8	1.1	1.1	1.5	1.5
	Thailand (THB)	5.3	3.9	4.0	3.0	1.8	1.4	1.6	1.6	1.6	1.8	2.1	2.3

Note: * = 1-month money
Source: HSBC

Long rates

10-year bond yields

End period		Q4 05	Q4 06	Q4 07	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09f	Q1 10f	Q2 10f	Q3 10f	Q4 10f
Americas													
	US	4.4	4.7	4.0	2.3	2.7	3.5	3.3	3.3	3.1	3.0	3.0	3.0
	Canada	4.0	4.1	4.0	2.7	2.7	3.4	3.3	3.5	3.5	3.6	3.7	3.7
	Chile	5.3	5.4	6.3	5.4	5.4	5.8	6.0	6.1	6.1	6.4	6.9	6.9
Western Europe													
Euro-15		**3.3**	**4.0**	**4.4**	**3.5**	**3.6**	**3.8**	**3.5**	**3.6**	**3.5**	**3.4**	**3.4**	**3.4**
	Germany	3.3	3.9	4.3	2.9	3.0	3.4	3.2	3.3	3.2	3.1	3.1	3.1
	France	3.3	4.0	4.4	3.3	3.6	3.7	3.5	3.6	3.5	3.4	3.4	3.4
	Italy	3.5	4.2	4.6	4.4	4.4	4.3	4.0	4.0	4.0	3.9	3.9	3.9
	Spain	3.3	4.0	4.4	3.8	3.8	4.0	3.8	3.9	3.9	3.8	3.8	3.8
Other Western Europe													
	UK	4.1	4.7	4.5	3.1	3.2	3.7	3.6	3.4	3.4	3.4	3.4	3.4
	Sweden	3.3	3.8	4.3	2.4	3.0	3.5	3.4	3.4	3.4	3.4	3.4	3.4
	Switzerland	1.9	2.5	3.0	2.1	1.9	2.3	2.0	2.2	2.2	2.2	2.3	2.3
	Norway	3.6	4.3	4.7	3.8	3.8	4.2	4.2	4.2	4.2	4.2	4.2	4.2
EMEA													
	Hungary	7.0	6.7	7.2	8.2	12.0	9.7	8.0	7.8	7.6	7.3	7.2	7.0
	Poland	5.1	5.2	5.7	5.9	5.4	6.3	6.2	6.1	6.0	5.9	5.7	5.6
	Russia	6.8	6.5	6.3	11.3	12.8	11.2	11.7	12.2	11.2	10.2	12.1	15.1
	South Africa	7.5	7.7	8.4	7.3	8.6	8.9	9.0	8.8	8.7	8.8	8.9	9.0
Asia/Pacific													
	Japan	1.5	1.7	1.5	1.2	1.3	1.4	1.3	1.5	1.5	1.5	1.5	1.5
	Australia	5.2	5.9	6.3	4.0	4.4	5.5	5.4	5.8	5.8	5.9	5.9	5.9
	New Zealand	5.8	5.8	6.4	4.9	4.8	6.0	5.6	5.5	5.2	5.2	5.4	5.5
Asia-ex-Japan													
	Hong Kong	4.2	3.7	3.4	1.2	1.9	2.6	2.6	2.4	2.4	2.4	2.4	2.4
	India	7.1	7.6	7.8	5.3	7.0	7.0	6.2	6.4	6.7	7.0	7.2	7.5
	Indonesia*	13.3	9.4	9.2	11.8	11.7	11.1	9.3	9.3	9.3	9.8	10.3	10.8
	Philippines	10.2	6.4	6.4	7.3	7.8	8.1	9.3	9.3	9.3	9.3	9.3	9.3
	Singapore*	3.0	3.0	2.3	1.4	1.4	1.5	1.2	1.3	1.5	1.6	1.7	1.8
	South Korea*	5.0	4.8	5.6	4.3	3.8	3.9	4.3	4.3	4.5	4.8	5.0	5.0
	Vietnam*	8.8	8.3	8.7	10.0	9.2	9.6	10.0	10.0	11.0	12.0	12.5	12.8

Note: * = 5-year bond yield
Source: HSBC

Exchange rates vs USD

Exchange rates vs USD

		2005	2006	2007	2008		2009				2010		
		Q4	Q4	Q4	Q4	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
Americas													
	Canada (CAD)	1.17	1.16	0.99	1.23	1.26	1.16	1.09	1.15	1.20	1.20	1.25	1.25
	Mexico (MXN)	10.63	10.80	10.92	13.69	14.17	13.18	13.56	12.90	12.90	12.90	12.90	12.90
	Brazil (BRL)	2.34	2.14	1.77	2.31	2.32	1.95	1.79	1.80	1.75	1.70	1.70	1.70
	Argentina (ARS)	3.03	3.06	3.15	3.45	3.71	3.80	3.84	3.95	4.05	4.10	4.30	4.50
	Chile (CLP)	514	532	498	637	584	533	544	540	545	550	555	560
Western Europe													
	Eurozone (EUR=)	1.18	1.32	1.46	1.40	1.33	1.40	1.45	1.50	1.50	1.50	1.50	1.50
Other Western Europe													
	UK (GBP=)	1.72	1.96	1.99	1.45	1.43	1.65	1.60	1.62	1.63	1.66	1.70	1.75
	Sweden (SEK)	7.96	6.84	6.46	7.85	8.27	7.75	7.05	6.93	7.00	7.00	7.13	7.13
	Norway (NOK)	6.77	6.23	5.43	6.95	6.75	6.44	5.88	5.68	5.33	5.33	5.33	5.33
	Switzerland (CHF)	1.32	1.22	1.13	1.06	1.14	1.09	1.04	1.05	1.07	1.07	1.07	1.07
EMEA													
	Czech Republic (CZK)	24.6	20.9	18.2	19.2	20.7	18.5	17.6	17.0	17.0	16.7	16.3	16.0
	Hungary (HUF)	214.0	190.6	172.9	189.9	232.4	194.3	182.8	173.3	170.0	170.0	166.7	163.3
	Poland (PLN)	3.26	2.90	2.46	2.94	3.52	3.18	2.76	2.53	2.47	2.40	2.33	2.27
	Russia (RUB)	28.8	26.4	24.5	29.4	34.0	31.3	30.9	31.2	29.8	31.2	31.9	33.2
	Turkey (TRY)*	1.35	1.42	1.17	1.54	1.66	1.54	1.52	1.58	1.63	1.60	1.62	1.60
	Ukraine (UAH)	5.05	5.05	5.05	7.80	8.20	7.50	8.60	9.50	8.50	8.00	9.00	10.00
	Israel (ILS)	4.60	4.17	3.95	3.78	4.16	3.94	3.90	3.80	3.77	3.75	3.70	3.70
	South Africa (ZAR)	6.34	7.05	6.83	9.25	9.51	7.72	7.50	7.75	8.00	7.75	8.25	8.50
Asia/Pacific													
	Japan (JPY)	118	119	112	91	99	96	90	100	105	105	105	105
	Australia (AUD=)	0.73	0.79	0.88	0.70	0.69	0.81	0.87	0.86	0.88	0.91	0.93	0.95
	New Zealand (NZD=)	0.68	0.71	0.77	0.58	0.57	0.65	0.71	0.69	0.70	0.71	0.72	0.73
	China (CNY)	8.07	7.81	7.31	6.82	6.83	6.83	6.83	6.80	6.80	6.80	6.73	6.66
	Hong Kong (HKD)	7.75	7.77	7.80	7.75	7.75	7.75	7.80	7.80	7.80	7.80	7.80	7.80
	India (INR)	45.0	44.2	39.4	48.6	50.6	48.0	48.1	48.0	48.0	47.5	47.0	46.5
	Indonesia (IDR)	9825	8996	9393	11027	11550	10235	9700	9500	9200	9000	8900	8800
	Malaysia (MYR)	3.78	3.53	3.31	3.46	3.65	3.54	3.51	3.50	3.50	3.50	3.48	3.46
	Philippines (PHP)	53.0	49.1	41.3	47.5	48.3	48.2	47.6	46.0	45.5	45.0	44.5	43.5
	Singapore (SGD)	1.66	1.53	1.44	1.43	1.52	1.45	1.42	1.40	1.40	1.38	1.36	1.34
	South Korea (KRW)	1008	930	936	1263	1375	1283	1186	1200	1150	1125	1100	1075
	Taiwan (TWD)	32.8	32.6	32.4	32.9	33.9	32.8	32.9	31.5	31.0	30.0	29.5	29.0
	Thailand (THB)	41.0	36.0	33.7	34.9	35.5	34.0	34.0	33.0	32.5	32.0	31.5	31.5
	Vietnam (VND)	15896	16050	16217	16900	17776	17798	18200	18200	18400	18400	18400	18400

Note: Turkish currency (until then coded TRL) shed 6 zeros of its exchange rate in January 2005
Source: HSBC

Exchange rate vs EUR & GBP

Exchange rate vs EUR & GBP

End period		2005	2006	2007	2008		2009				2010		
		Q4	Q4	Q4	Q4	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
vs EUR													
Americas													
	US (USD)	1.18	1.32	1.46	1.40	1.33	1.40	1.45	1.50	1.50	1.50	1.50	1.50
	Canada (CAD)	1.38	1.53	1.44	1.73	1.67	1.63	1.58	1.73	1.80	1.80	1.88	1.88
Europe													
	UK (GBP)	0.69	0.67	0.73	0.97	0.93	0.85	0.91	0.93	0.92	0.91	0.88	0.86
	Sweden (SEK)	9.39	9.02	9.45	10.99	10.98	10.87	10.22	10.40	10.50	10.50	10.70	10.70
	Switzerland (CHF)	1.55	1.61	1.66	1.48	1.51	1.53	1.51	1.57	1.60	1.60	1.60	1.60
	Norway (NOK)	7.99	8.21	7.94	9.73	8.96	9.03	8.52	8.52	8.00	8.00	8.00	8.00
	Czech Republic (CZK)	29.0	27.5	26.6	26.8	27.4	26.0	25.5	25.5	25.5	25.0	24.5	24.0
	Hungary (HUF)	252	251	253	266	309	272	265	260	255	255	250	245
	Poland (PLN)	3.84	3.83	3.60	4.12	4.67	4.46	4.00	3.80	3.70	3.60	3.50	3.40
	Russia (RUB)	34.0	34.8	35.9	41.1	45.2	43.9	44.8	46.8	44.7	46.8	47.9	49.8
Asia/Pacific													
	Japan (JPY)	139	157	163	127	131	135	131	150	158	158	158	158
	Australia (AUD)	1.61	1.67	1.67	2.01	1.91	1.73	1.67	1.74	1.70	1.65	1.61	1.58
	New Zealand (NZD)	1.73	1.87	1.90	2.40	2.33	2.17	2.03	2.17	2.14	2.11	2.08	2.05
Africa													
	South Africa (ZAR)	7.48	9.30	9.99	12.94	12.63	10.83	10.88	11.63	12.00	11.63	12.38	12.75
vs GBP													
Americas													
	US (USD)	1.72	1.96	1.99	1.45	1.43	1.65	1.60	1.62	1.63	1.66	1.70	1.75
	Canada (CAD)	2.01	2.28	1.96	1.79	1.80	1.91	1.75	1.86	1.96	1.99	2.13	2.19
Europe													
	Eurozone (EUR)	0.69	0.67	0.73	0.97	0.93	0.85	0.91	0.93	0.92	0.91	0.88	0.86
	Sweden (SEK)	13.66	13.39	12.86	11.37	11.85	12.76	11.29	11.22	11.44	11.60	12.15	12.47
	Norway (NOK)	11.62	12.19	10.81	10.07	9.68	10.60	9.41	9.19	8.71	8.84	9.08	9.33
	Switzerland (CHF)	2.26	2.39	2.25	1.53	1.63	1.79	1.67	1.69	1.74	1.77	1.82	1.87
Asia/Pacific													
	Japan (JPY)	203	233	222	131	142	159	144	162	172	174	179	184
	Australia (AUD)	2.34	2.48	2.27	2.08	2.06	2.04	1.85	1.88	1.86	1.82	1.83	1.84
	New Zealand (NZD)	2.52	2.78	2.59	2.48	2.51	2.54	2.24	2.35	2.33	2.33	2.36	2.40
Africa													
	South Africa (ZAR)	10.89	13.80	13.60	13.39	13.63	12.72	12.01	12.54	13.07	12.84	14.05	14.86

Source: HSBC

Consumer spending

Consumer spending

% Year	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
World	**2.3**	**2.4**	**3.3**	**3.2**	**3.2**	**3.1**	**1.3**	**-0.5**	**1.5**	**3.1**
Developed	**2.0**	**2.0**	**2.7**	**2.5**	**2.4**	**2.2**	**0.3**	**-0.9**	**0.7**	**2.5**
Emerging	**3.9**	**4.3**	**6.2**	**6.5**	**6.7**	**7.2**	**5.6**	**0.8**	**4.8**	**5.4**
North America	**2.7**	**2.8**	**3.4**	**3.4**	**3.0**	**2.8**	**-0.1**	**-0.7**	**1.2**	**4.1**
US	2.7	2.8	3.5	3.4	2.9	2.6	-0.2	-0.8	1.1	4.2
Canada	3.6	3.0	3.3	3.7	4.1	4.6	3.0	-0.1	2.2	3.2
Latin America	**0.1**	**1.8**	**5.5**	**5.2**	**5.8**	**5.2**	**3.5**	**-3.4**	**2.9**	**3.8**
Mexico	1.6	2.2	5.6	4.8	5.7	3.9	1.5	-8.1	2.1	4.1
Brazil	1.9	-0.8	3.8	4.5	5.3	6.3	5.4	2.5	4.5	4.2
Argentina	-14.4	8.2	9.5	8.9	7.8	9.0	6.5	-0.2	0.9	2.0
Chile	1.9	4.0	7.2	7.4	7.1	3.9	4.3	-2.9	3.8	3.6
Western Europe	**1.4**	**1.6**	**1.9**	**1.8**	**1.9**	**1.8**	**0.5**	**-1.1**	**-0.2**	**0.8**
Eurozone	**0.9**	**1.2**	**1.5**	**1.6**	**1.8**	**1.6**	**0.3**	**-0.8**	**-0.4**	**0.5**
Germany	-0.8	0.1	-0.2	0.4	1.4	-0.3	0.2	1.2	-0.3	0.3
France	2.3	2.1	2.3	2.5	2.6	2.4	1.0	0.7	0.1	1.0
Italy	0.2	1.0	0.8	1.2	1.3	1.2	-0.9	-1.8	0.2	0.4
Spain	2.8	2.9	4.2	4.2	3.8	3.6	-0.6	-5.2	-1.7	1.0
Other Western Europe	**2.9**	**2.5**	**3.1**	**2.4**	**2.0**	**2.5**	**1.1**	**-2.1**	**0.2**	**1.7**
UK	3.5	3.0	3.1	2.2	1.5	2.1	1.2	-3.0	0.2	1.6
Norway	2.8	2.5	5.1	3.9	4.8	6.0	1.2	-0.7	1.1	3.2
Sweden	2.6	2.0	2.3	2.7	2.5	3.1	-0.4	-1.3	1.1	2.2
Switzerland	0.1	0.9	1.6	1.7	1.6	2.4	1.7	1.0	-0.2	1.4
EMEA	**5.1**	**5.8**	**8.4**	**7.7**	**7.8**	**8.5**	**8.3**	**-1.4**	**3.1**	**4.2**
Czech Republic	2.2	6.0	2.9	2.5	5.4	4.5	2.7	1.5	1.4	2.6
Hungary	9.8	7.9	3.2	3.8	1.3	-1.8	-0.1	-6.5	-1.8	3.0
Poland	3.0	2.6	4.0	2.7	5.0	5.0	5.4	1.8	2.5	3.1
Russia	8.9	7.5	12.1	11.8	11.3	13.6	11.5	-8.0	2.0	2.0
Turkey	4.7	10.2	11.0	7.9	4.6	4.1	0.8	-2.2	2.9	3.5
Ukraine	0.8	5.2	9.0	10.3	9.1	12.8	25.2	15.9	9.0	9.3
Egypt*	2.7	2.3	2.1	4.7	6.4	4.2	7.6	4.8	3.9	4.3
Israel	1.1	1.3	5.0	3.4	4.8	6.7	3.9	0.2	3.2	3.8
Saudi Arabia**	0.3	3.7	5.8	9.5	13.4	14.0	20.0	3.0	6.5	8.0
UAE**	21.6	10.5	29.1	16.4	12.2	18.0	20.0	2.0	6.0	11.0
South Africa	3.2	3.5	6.7	6.9	8.3	6.6	2.3	-2.5	1.2	2.5
Asia/Pacific	**2.9**	**2.4**	**3.4**	**3.6**	**3.7**	**3.9**	**2.6**	**1.4**	**3.6**	**3.8**
Japan	1.1	0.4	1.6	1.3	1.5	0.7	0.6	-1.1	0.8	1.0
Australia	3.9	3.6	5.9	3.0	3.2	4.4	2.6	1.8	2.8	3.0
New Zealand	4.4	5.9	5.9	4.9	2.5	4.1	-0.1	-1.1	0.7	2.6
Asia-ex-Japan	**5.2**	**4.7**	**5.3**	**6.5**	**6.4**	**7.5**	**5.0**	**4.0**	**6.4**	**6.6**
China	6.2	6.5	7.2	8.5	8.7	9.0	8.9	8.0	8.5	8.6
Asia ex-Japan & China	**4.8**	**3.8**	**4.3**	**5.4**	**5.2**	**6.6**	**2.6**	**1.5**	**5.0**	**5.3**
Hong Kong	-0.9	-1.3	7.0	3.0	5.9	8.5	1.7	-1.0	2.1	3.0
India	2.9	8.1	5.2	7.1	6.3	8.5	2.9	5.0	8.0	8.3
Indonesia	3.8	3.9	5.0	4.0	3.2	5.0	5.3	4.9	5.4	5.0
Malaysia	4.4	6.6	10.5	9.1	6.8	10.4	8.5	2.5	5.6	5.0
Philippines	4.1	5.3	5.9	4.8	5.5	5.8	4.7	2.4	3.7	5.2
Singapore	4.9	0.9	5.9	3.1	4.0	5.2	2.4	-2.5	3.6	3.2
South Korea	8.9	-0.4	0.3	4.6	4.7	5.1	0.9	-0.5	3.2	3.5
Taiwan	2.6	1.5	4.5	3.0	1.8	2.3	-0.3	0.4	2.1	2.6
Thailand	5.4	6.4	6.1	4.9	3.0	1.6	2.5	-0.7	2.6	2.9
Vietnam	7.6	8.0	7.1	7.3	8.3	9.6	7.6	3.4	5.8	5.0

Note: * = based upon Egyptian financial year (July-June). We now calculate the weighting system using chain nominal GDP (USD) weights. ** = Nominal data only.
Source: HSBC

Investment spending

Investment spending

% Year	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
World	**-0.5**	**4.3**	**7.4**	**8.0**	**7.4**	**6.9**	**3.5**	**-3.0**	**8.2**	**9.3**
Developed	**-2.4**	**1.9**	**4.5**	**4.8**	**3.6**	**1.9**	**-2.7**	**-13.2**	**-0.4**	**2.9**
Emerging	**6.5**	**12.4**	**16.5**	**16.9**	**16.9**	**17.9**	**15.5**	**13.4**	**18.8**	**15.8**
North America	**-3.8**	**3.5**	**7.4**	**6.7**	**2.7**	**-1.6**	**-4.5**	**-17.8**	**2.7**	**6.3**
US	-4.2	3.2	7.3	6.5	2.3	-2.1	-5.1	-18.5	3.0	6.5
Canada	1.3	6.3	8.0	9.0	7.1	3.7	0.9	-10.7	-0.3	3.7
Latin America	**-5.2**	**1.1**	**10.6**	**8.6**	**10.2**	**10.2**	**9.2**	**-11.9**	**8.0**	**7.5**
Mexico	-0.6	0.4	8.0	7.5	9.8	7.2	4.9	-12.7	4.9	7.2
Brazil	-5.2	-4.6	9.1	3.6	9.8	13.5	13.8	-10.0	15.0	9.0
Argentina	-36.4	38.2	34.4	22.7	18.2	13.6	8.7	-13.8	3.3	4.5
Chile	1.5	5.7	10.0	23.9	2.3	12.0	19.5	-12.4	2.0	5.5
Western Europe	**-0.7**	**1.2**	**2.9**	**3.4**	**5.8**	**5.3**	**-0.9**	**-9.7**	**-1.0**	**1.7**
Eurozone	**-1.4**	**1.3**	**2.0**	**3.1**	**5.3**	**4.8**	**-0.7**	**-9.5**	**-0.9**	**1.6**
Germany	-6.1	-0.3	-1.3	1.1	8.6	5.3	2.3	-8.6	1.6	1.4
France	-1.7	2.2	3.3	4.5	4.4	6.5	0.4	-4.1	-0.6	2.1
Italy	3.7	-0.9	1.5	1.4	3.2	1.6	-2.9	-13.0	-2.3	1.8
Spain	3.4	5.2	5.2	6.5	8.3	4.3	-3.9	-15.3	-3.3	1.2
Other Western Europe	**1.8**	**0.6**	**5.7**	**4.3**	**7.6**	**7.1**	**-1.4**	**-10.6**	**-1.5**	**1.9**
UK	3.6	1.1	5.7	2.4	6.5	7.8	-2.8	-14.5	-2.4	1.9
Norway	-1.3	0.2	10.1	13.1	11.7	8.5	3.8	-4.0	0.2	2.0
Sweden	-1.8	1.5	5.1	8.9	9.4	7.7	2.4	-17.1	-2.1	4.5
Switzerland	-0.5	-1.2	4.5	3.8	4.7	5.2	0.4	1.0	-0.2	1.4
EMEA	**4.4**	**7.4**	**10.6**	**13.4**	**15.6**	**14.3**	**2.5**	**-2.0**	**6.6**	**7.5**
Czech Republic	5.1	0.4	3.9	1.8	6.0	10.8	-1.1	-5.8	1.5	3.2
Hungary	10.1	2.1	7.7	5.6	-3.2	1.5	-2.6	-6.1	0.0	1.5
Poland	-6.3	-0.1	6.4	6.5	14.9	17.6	7.9	0.8	3.5	5.5
Russia	12.8	12.6	10.6	18.0	21.1	10.3	-16.0	1.0	5.0	5.0
Turkey	14.7	14.2	28.4	17.4	13.3	5.4	-7.1	-15.9	3.6	5.7
Ukraine	3.4	12.2	-2.2	-0.3	18.7	24.8	10.0	-22.5	0.0	6.0
Egypt*	5.5	-8.7	6.2	14.2	13.3	31.8	15.5	3.7	4.4	4.9
Israel	-13.7	-10.7	4.0	2.9	6.4	15.5	3.8	-5.2	3.0	5.5
Saudi Arabia**	1.6	15.6	5.6	25.1	19.1	22.8	23.0	8.0	17.0	15.0
UAE**	3.7	17.1	11.1	15.5	29.0	25.0	26.0	-5.0	8.0	9.0
South Africa	3.7	9.1	8.9	8.9	13.8	17.1	10.2	5.5	7.1	7.5
Asia/Pacific	**3.1**	**8.3**	**11.2**	**12.4**	**11.3**	**13.4**	**12.0**	**10.8**	**15.8**	**14.2**
Japan	-4.9	-0.5	1.4	3.1	0.5	0.8	-5.0	-13.1	-5.1	-2.1
Australia	17.1	8.9	8.0	7.9	5.1	9.5	9.6	-4.4	-1.7	4.9
New Zealand	10.9	10.2	13.5	3.7	-0.2	4.9	-4.3	-14.2	-1.4	2.3
Asia-ex-Japan	**10.6**	**16.8**	**19.5**	**19.5**	**18.4**	**20.2**	**19.6**	**20.1**	**21.9**	**17.8**
China	16.9	27.7	27.6	27.2	24.5	25.8	26.1	27.5	26.0	20.0
Asia ex-Japan & China	**4.8**	**5.5**	**9.5**	**8.3**	**8.1**	**9.1**	**4.9**	**0.1**	**7.8**	**8.9**
Hong Kong	-4.6	1.0	2.7	4.1	7.1	3.4	0.0	-8.3	5.0	6.0
India	7.7	9.7	18.9	17.6	14.5	12.9	8.2	6.0	11.0	12.5
Indonesia	4.7	0.6	14.7	10.9	2.6	9.4	11.7	3.3	8.7	7.4
Malaysia	0.3	2.7	3.1	5.0	7.5	9.6	0.8	-7.5	4.1	7.0
Philippines	2.3	3.6	2.8	-6.6	3.9	10.9	2.9	0.2	4.3	5.9
Singapore	-11.4	-3.2	10.2	-2.0	13.3	19.2	13.7	-5.2	8.0	7.6
South Korea	7.1	4.4	2.1	1.9	3.4	4.2	-1.7	-2.0	4.3	5.5
Taiwan	1.1	1.7	19.5	1.2	0.9	1.9	-10.6	-16.3	3.8	3.7
Thailand	6.5	12.1	13.2	10.5	3.9	1.3	1.1	-8.1	7.1	7.1
Vietnam	12.9	11.9	10.4	9.7	9.9	23.0	13.2	3.2	8.0	6.0

Note: * = based upon Egyptian financial year (July-June). We now calculate the weighting system using chain nominal GDP (USD) weights, ** = Nominal data only.
Source: HSBC

Exports

Export volume growth (GDP basis)

% Year	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
World	**3.0**	**5.3**	**10.8**	**8.3**	**10.1**	**8.3**	**4.0**	**-13.1**	**5.5**	**6.4**
Developed	**1.4**	**1.7**	**7.6**	**5.5**	**8.1**	**5.6**	**1.7**	**-13.7**	**4.9**	**5.1**
Emerging	**7.4**	**14.1**	**18.0**	**14.0**	**13.9**	**13.1**	**7.7**	**-12.3**	**6.4**	**8.3**
North America	**-1.2**	**0.6**	**8.4**	**5.6**	**7.1**	**6.8**	**3.3**	**-11.8**	**5.6**	**7.3**
US	-2.0	1.6	9.5	6.7	9.0	8.4	5.4	-11.1	6.2	7.8
Canada	1.2	-2.3	5.0	1.9	0.8	1.1	-4.7	-15.1	2.8	4.7
Latin America	**1.9**	**7.4**	**16.0**	**12.5**	**11.8**	**9.7**	**9.2**	**-16.6**	**2.4**	**8.1**
Mexico	1.4	2.7	11.5	6.8	10.9	5.7	1.4	-16.3	-4.5	5.4
Brazil	3.7	21.1	32.0	22.6	16.5	16.6	23.2	-20.9	9.9	12.7
Argentina	0.7	4.4	2.0	20.0	6.0	8.0	0.0	-7.0	2.8	3.7
Chile	1.6	6.0	13.3	4.3	5.5	7.8	3.1	-4.8	5.2	3.6
Western Europe	**1.6**	**1.2**	**6.5**	**5.4**	**8.4**	**4.9**	**1.1**	**-13.0**	**3.5**	**3.8**
Eurozone	**1.8**	**1.2**	**6.7**	**4.9**	**8.1**	**6.0**	**1.0**	**-14.0**	**4.1**	**3.9**
Germany	4.3	2.4	9.3	8.0	13.4	7.8	2.4	-15.0	5.7	4.3
France	1.4	-1.2	3.7	3.4	5.0	2.5	-0.6	-10.9	2.4	3.3
Italy	-2.8	-1.5	3.6	2.0	6.5	4.0	-3.7	-20.2	2.7	3.0
Spain	2.0	3.7	4.2	2.5	6.7	6.6	-1.0	-13.7	0.6	3.4
Other Western Europe	**2.4**	**1.2**	**5.7**	**7.0**	**9.4**	**1.5**	**1.5**	**-10.1**	**1.8**	**3.6**
UK	1.0	1.8	5.0	7.9	11.3	-2.8	0.8	-10.7	2.0	3.9
Norway	-0.4	-0.4	0.6	0.2	-0.5	2.4	1.3	-7.3	1.7	2.2
Sweden	1.1	3.9	11.0	6.9	8.6	6.0	1.6	-13.1	3.4	5.9
Switzerland	-0.1	-0.5	7.9	7.8	10.0	9.5	2.9	-12.6	1.0	3.7
EMEA	**3.0**	**10.5**	**11.9**	**6.5**	**8.1**	**7.3**	**5.6**	**-11.6**	**5.0**	**6.7**
Czech Republic	2.1	7.2	20.7	11.8	15.5	15.0	6.6	-14.5	2.2	6.5
Hungary	3.9	6.2	15.7	11.6	17.7	15.9	4.6	-15.5	3.2	8.5
Poland	7.4	20.8	18.6	2.6	12.3	4.9	5.8	-22.0	5.0	8.5
Russia	9.6	12.5	11.8	6.5	7.3	6.4	3.0	-8.0	4.0	2.0
Turkey	6.9	6.9	11.2	7.9	6.6	7.3	2.3	-6.9	4.9	8.3
Ukraine	9.1	10.3	13.8	-11.2	-4.9	3.2	4.0	-40.0	15.0	10.0
Egypt*	-7.8	11.8	27.6	20.2	21.3	23.3	28.8	8.9	11.3	12.5
Israel	-2.3	8.2	18.2	4.3	5.9	8.5	8.0	-11.6	8.1	9.0
Saudi Arabia	-4.4	13.7	3.1	4.7	-2.6	-4.1	6.0	-11.9	4.2	6.8
UAE**	-1.3	10.7	5.5	6.9	8.4	4.0	4.3	-4.5	4.8	5.8
South Africa	1.0	0.1	2.9	8.0	6.0	7.5	1.7	-17.0	3.5	5.5
Asia/Pacific	**9.4**	**14.2**	**18.6**	**14.3**	**14.4**	**13.7**	**6.7**	**-13.7**	**8.3**	**8.6**
Japan	7.4	9.2	14.0	6.9	9.7	8.4	1.8	-24.7	13.0	8.3
Australia	0.0	-1.2	4.3	2.3	3.3	3.3	3.8	2.3	5.1	5.8
New Zealand	6.4	2.3	6.1	-0.4	1.7	3.8	-1.2	-1.7	0.2	3.6
Asia-ex-Japan	**10.9**	**17.2**	**21.2**	**17.3**	**16.4**	**15.6**	**8.1**	**-11.8**	**7.5**	**8.8**
China	18.0	32.0	32.0	29.0	25.0	23.8	11.2	-14.0	7.0	8.0
Asia ex-Japan & China	**8.5**	**11.8**	**16.5**	**11.6**	**11.5**	**10.5**	**5.9**	**-10.1**	**7.9**	**9.3**
Hong Kong	9.0	12.8	15.4	10.6	9.4	8.3	2.7	-11.1	7.4	7.9
India	14.4	19.0	28.0	31.1	21.1	20.6	25.9	-16.4	12.0	11.6
Indonesia	-1.2	5.9	13.5	16.6	9.4	8.5	9.5	-10.0	8.5	8.2
Malaysia	4.5	5.7	2.3	8.3	6.6	4.5	1.3	-11.0	8.4	9.4
Philippines	4.1	4.8	15.0	4.8	13.4	5.6	-1.9	-9.6	7.1	7.8
Singapore	7.2	13.7	20.6	11.7	11.7	8.7	1.3	-11.0	7.6	9.2
South Korea	12.1	14.5	19.7	7.8	11.4	12.6	5.7	-4.9	5.7	10.3
Taiwan	10.6	10.4	14.4	7.6	10.3	8.8	0.0	-13.4	8.7	9.5
Thailand	12.0	7.0	9.6	4.2	9.1	7.1	5.4	-13.5	6.7	7.2
Vietnam	11.2	20.6	31.4	22.5	22.1	22.7	29.9	-5.4	12.2	10.4

Note: * = based upon Egyptian financial year (July-June). We now calculate the weighting system using chain nominal GDP (USD) weights
Source: HSBC

HSBC

Industrial production

Industrial production

% Year	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
World	**2.7**	**4.6**	**6.3**	**5.3**	**6.3**	**5.8**	**1.5**	**-7.2**	**6.0**	**5.5**
Developed	**-0.4**	**1.0**	**2.6**	**1.9**	**2.9**	**2.2**	**-2.2**	**-13.2**	**3.4**	**3.2**
Emerging	**6.9**	**9.2**	**10.9**	**9.2**	**10.2**	**10.1**	**5.8**	**-0.1**	**9.1**	**8.1**
North America	**0.1**	**1.2**	**2.4**	**3.1**	**2.1**	**1.4**	**-2.4**	**-10.1**	**2.5**	**3.1**
US	-0.1	1.3	2.5	3.3	2.3	1.5	-2.2	-10.1	2.5	3.0
Canada	2.1	0.2	1.5	1.6	0.2	0.2	-4.2	-9.5	2.5	3.6
Latin America	**0.7**	**2.3**	**7.3**	**3.9**	**4.6**	**5.3**	**1.8**	**-7.9**	**6.8**	**4.3**
Mexico	-0.1	-0.2	3.7	2.6	5.3	3.1	-0.7	-8.5	3.9	3.7
Brazil	2.7	0.1	8.3	3.1	2.8	6.0	3.1	-8.7	10.6	5.5
Argentina	-8.4	13.5	10.7	8.0	8.4	7.5	3.8	-5.3	2.4	2.5
Chile	10.9	5.3	10.2	6.0	3.3	6.0	-0.2	-5.8	5.2	2.8
Western Europe	**-0.7**	**0.2**	**2.0**	**0.9**	**3.3**	**2.9**	**-1.9**	**-14.3**	**1.8**	**2.8**
Eurozone	**-0.4**	**0.3**	**2.1**	**1.4**	**4.0**	**3.4**	**-1.7**	**-15.5**	**1.9**	**2.7**
Germany	-1.3	0.2	2.5	2.9	5.8	5.8	0.0	-16.4	3.1	2.6
France	-1.8	-1.1	1.3	0.1	1.3	1.2	-2.5	-16.5	-2.8	-1.8
Italy	-1.4	-0.6	-0.4	-0.8	3.7	2.2	-3.4	-19.1	1.4	2.7
Spain	0.1	1.3	1.7	1.2	3.9	2.0	-7.5	-16.1	-0.3	3.9
Other Western Europe	**-1.7**	**-0.3**	**1.5**	**-0.4**	**1.0**	**1.5**	**-2.5**	**-10.6**	**1.3**	**3.2**
UK	-1.7	-0.6	1.1	-1.3	0.0	0.3	-3.1	-10.4	1.6	3.5
Norway	0.0	-1.9	-1.1	-0.3	-2.2	-1.3	0.2	-3.8	-0.3	0.7
Sweden	-0.2	1.8	4.1	2.4	3.7	4.1	-3.7	-16.5	1.3	4.0
Switzerland	-5.1	0.4	4.0	2.7	7.8	9.5	1.3	-9.7	0.3	1.6
EMEA	**3.7**	**7.0**	**7.9**	**4.6**	**6.3**	**6.1**	**2.2**	**-11.1**	**4.4**	**4.5**
Czech Republic	5.0	5.9	9.8	6.4	9.8	8.5	-1.6	-14.0	3.5	5.5
Hungary	2.6	6.4	8.3	7.0	10.6	8.5	4.9	-16.8	3.1	4.6
Poland	0.8	8.7	12.7	4.0	12.0	9.7	3.9	-5.6	5.4	5.5
Russia	3.7	7.0	6.6	4.0	4.4	4.1	0.8	-13.1	3.4	2.7
Turkey	9.5	8.8	9.7	5.4	5.8	5.4	-0.9	-9.9	3.0	4.4
Ukraine	7.0	15.8	12.5	3.1	6.2	10.2	-3.1	-23.8	5.8	6.0
Egypt*	7.1	2.7	6.5	5.8	5.3	8.8	14.0	-2.0	3.6	4.8
Israel	-1.8	-0.3	6.9	3.6	8.5	4.3	7.0	-4.5	4.9	9.0
Saudi Arabia	-3.9	13.4	6.6	6.1	2.8	2.7	4.5	-6.3	4.4	7.1
UAE	-1.4	12.7	6.7	5.6	10.3	8.0	6.4	-1.6	5.0	6.1
South Africa	4.6	-2.0	3.3	4.2	4.9	5.5	1.0	-15.0	8.1	3.5
Asia/Pacific	**6.8**	**9.3**	**10.7**	**9.3**	**10.7**	**10.1**	**5.5**	**-0.7**	**10.7**	**8.8**
Japan	-1.3	3.3	5.5	1.1	4.8	2.8	-3.4	-22.6	11.6	4.7
Australia	2.5	-0.1	0.2	1.8	0.4	3.2	2.9	-2.8	2.0	3.0
New Zealand	5.4	3.2	5.0	-2.1	-1.5	2.1	-1.0	-5.7	3.8	4.1
Asia-ex-Japan	**9.3**	**11.3**	**12.4**	**11.5**	**12.5**	**12.1**	**7.6**	**4.5**	**10.8**	**9.9**
China	12.7	16.7	16.3	15.9	16.2	17.1	12.9	9.5	14.0	13.0
Asia ex-Japan & China	**6.3**	**5.6**	**8.9**	**6.1**	**6.4**	**5.9**	**2.0**	**-5.1**	**6.4**	**6.1**
Hong Kong	-9.7	-9.2	2.9	2.5	2.2	-1.5	-6.6	-8.5	1.5	2.3
India	5.8	7.0	8.4	8.2	11.5	8.5	2.6	5.0	9.0	7.7
Indonesia	5.3	5.3	6.4	4.6	4.6	4.7	3.7	1.6	6.3	4.7
Malaysia	4.3	8.4	11.3	5.2	6.7	3.1	1.4	-9.9	7.5	6.5
Philippines	3.5	4.2	5.0	5.3	4.2	3.3	4.3	-3.2	1.5	1.6
Singapore	8.4	-30.3	13.9	9.5	11.9	5.9	-4.2	-5.5	9.2	6.0
South Korea	8.0	5.5	10.4	6.3	8.4	6.9	3.1	-3.4	7.8	8.5
Taiwan	7.9	7.1	9.3	3.8	4.7	7.8	-1.8	-13.6	7.6	7.8
Thailand	6.9	10.4	8.3	5.2	6.0	6.2	3.9	-4.7	4.3	4.6
Vietnam	14.2	19.8	17.6	25.5	16.0	11.6	11.8	4.8	11.5	7.3

Source: HSBC

Wage growth

Wage growth

% Year	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
World	**5.7**	**5.6**	**5.3**	**5.9**	**6.1**	**6.4**	**6.2**	**2.0**	**3.8**	**4.1**
North America	**3.6**	**3.6**	**3.7**	**3.3**	**3.0**	**2.4**	**1.1**	**-1.5**	**-0.8**	**0.6**
US	3.7	3.7	3.8	3.2	3.0	3.4	2.9	1.8	2.4	3.5
Canada	2.4	2.7	2.7	3.9	2.5	4.3	2.9	1.6	1.2	1.7
Latin America	**6.6**	**7.1**	**6.1**	**10.9**	**8.9**	**9.3**	**10.6**	**7.2**	**6.2**	**6.1**
Mexico	6.1	4.9	4.4	4.5	4.3	4.3	4.5	4.0	3.6	3.5
Argentina	7.6	12.1	11.0	26.0	19.4	20.0	23.4	14.5	12.5	12.0
Chile	6.8	6.6	2.9	5.0	5.4	7.3	8.5	5.0	3.0	4.0
Western Europe	**3.3**	**3.0**	**2.8**	**2.8**	**2.9**	**3.2**	**3.7**	**2.8**	**2.6**	**2.7**
Eurozone	**3.2**	**2.8**	**2.4**	**2.5**	**2.6**	**2.9**	**3.6**	**3.0**	**2.3**	**2.3**
Germany	2.5	2.1	1.3	1.0	1.2	1.3	2.8	2.6	1.9	1.8
France	2.5	2.4	2.5	2.8	2.8	2.7	2.9	2.1	1.3	1.6
Italy	2.1	2.2	2.8	3.1	3.0	2.2	3.5	2.9	2.2	2.2
Spain	3.8	4.1	2.9	2.5	4.9	4.1	4.8	1.9	2.1	2.2
Other Western Europe	**3.3**	**3.1**	**3.8**	**3.5**	**3.6**	**3.5**	**3.4**	**1.9**	**3.0**	**3.6**
UK	3.5	3.4	4.4	4.0	4.1	3.8	3.7	1.6	3.1	3.8
Norway	5.2	4.7	4.2	3.5	4.1	5.7	6.0	3.8	3.2	3.2
Sweden	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.4	2.2	2.5
EMEA	**16.1**	**11.6**	**9.7**	**12.4**	**13.1**	**14.7**	**12.2**	**1.0**	**5.8**	**6.3**
Czech Republic	3.5	6.8	6.7	5.3	6.5	7.3	8.6	2.2	3.5	4.5
Hungary	18.2	12.1	6.2	8.7	8.2	8.0	7.9	1.0	2.5	3.5
Poland	2.3	4.7	-8.1	3.2	5.0	9.1	10.3	3.8	4.5	4.0
Russia	16.6	10.4	10.6	12.6	13.5	17.2	9.7	-6.0	2.0	2.0
Turkey	34.5	17.4	11.7	12.5	11.5	9.2	8.5	2.0	6.0	8.5
Ukraine	20.7	23.0	27.7	36.5	29.4	29.7	33.7	7.4	11.5	11.3
Israel	-4.2	-3.0	2.5	1.0	1.6	2.1	-0.8	-0.3	0.5	1.5
South Africa	9.5	8.1	7.5	6.5	9.1	8.9	9.5	6.5	8.7	8.5
Asia/Pacific	**7.5**	**8.5**	**7.8**	**8.7**	**12.2**	**13.4**	**14.2**	**6.1**	**10.8**	**10.1**
Japan	-2.9	-0.8	-0.7	0.6	0.2	-1.0	-0.3	-4.5	-1.5	-1.0
Australia	3.3	3.6	3.5	4.1	4.0	4.1	4.1	3.7	3.8	3.9
New Zealand	2.2	2.3	2.3	2.8	3.2	3.2	3.6	3.0	2.8	3.1
Asia-ex-Japan	**10.6**	**11.1**	**10.0**	**10.7**	**11.7**	**13.1**	**13.8**	**6.8**	**10.7**	**9.9**
China	12.6	13.6	12.3	12.3	14.0	16.2	17.0	9.0	13.0	11.5
Asia ex-Japan & China	**4.6**	**3.8**	**3.3**	**4.8**	**4.2**	**3.7**	**4.0**	**0.9**	**3.5**	**4.3**
Hong Kong	0.0	-1.3	-2.5	2.6	1.3	0.3	3.7	1.0	3.3	3.5
Philippines	10.4	0.4	3.6	8.5	7.9	4.5	5.3	3.8	4.5	5.5
Singapore	1.2	3.6	2.6	4.3	3.5	4.1	5.0	1.5	3.0	4.0
South Korea	11.6	9.4	6.5	6.4	5.6	5.9	4.2	2.8	4.8	6.0
Taiwan	-0.7	1.5	1.8	1.3	1.1	2.3	0.0	-1.0	1.1	2.0
Thailand	-0.8	2.2	2.3	6.9	6.2	3.0	10.2	-1.4	5.0	5.0

Note: Global and regional aggregates are calculated using the World Bank's 2004 PPP weights
Source: HSBC

Budget balance

Budget balance

% GDP	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
North America	**-2.6**	**-3.4**	**-3.0**	**-1.8**	**-1.6**	**-2.0**	**-5.0**	**-11.1**	**-7.0**	**-5.3**
US	-2.9	-3.7	-3.3	-2.0	-1.8	-2.2	-5.4	-11.7	-7.3	-5.6
Canada	0.8	0.7	0.7	0.8	1.0	0.7	-0.4	-3.6	-2.8	-1.7
Latin America	**-2.8**	**-2.5**	**-0.9**	**-1.0**	**-0.9**	**-0.6**	**-0.4**	**-2.6**	**-1.7**	**-1.6**
Mexico	-1.2	-0.6	-0.2	-0.1	0.1	0.0	-0.1	-2.1	-2.5	-2.1
Brazil	-4.4	-5.1	-2.8	-3.4	-3.5	-2.8	-2.0	-3.2	-1.6	-1.9
Argentina	-1.5	0.5	2.6	1.8	1.8	1.1	1.4	-1.5	-0.2	0.0
Chile	-1.0	-0.4	2.1	4.6	7.7	8.8	5.3	-4.1	-1.7	-1.5
Western Europe	**-2.2**	**-2.8**	**-2.6**	**-2.2**	**-1.0**	**-0.5**	**-1.5**	**-6.8**	**-7.1**	**-6.0**
Eurozone	**-2.6**	**-3.1**	**-3.0**	**-2.5**	**-1.3**	**-0.6**	**-1.4**	**-5.8**	**-6.4**	**-5.2**
Germany	-3.7	-4.0	-3.8	-3.2	-1.6	-0.2	-0.1	-4.6	-6.0	-4.0
France	-3.2	-4.1	-3.6	-3.0	-2.3	-2.7	-3.4	-7.4	-7.6	-6.5
Italy	-3.0	-3.5	-3.5	-4.2	-3.3	-1.5	-2.7	-5.6	-6.1	-5.2
Spain	-0.5	-0.2	-0.4	1.0	2.0	2.2	-3.8	-10.2	-8.7	-7.5
Other Western Europe	**-0.9**	**-2.0**	**-1.5**	**-1.2**	**-0.2**	**-0.1**	**-1.8**	**-9.9**	**-9.3**	**-8.6**
UK	-1.8	-3.0	-3.1	-3.3	-2.3	-2.4	-4.4	-13.2	-12.4	-11.9
Norway	9.2	7.3	11.1	15.1	18.5	17.7	18.8	14.0	11.5	14.0
Sweden	-1.4	-1.2	0.6	2.0	2.4	3.8	2.5	-3.3	-1.4	-1.0
EMEA	**-2.8**	**-2.0**	**-0.2**	**2.4**	**3.0**	**1.9**	**2.8**	**-5.6**	**-5.1**	**-4.3**
Hungary	-9.0	-7.2	-6.5	-7.8	-9.1	-4.9	-3.3	-4.1	-4.0	-3.5
Poland	-4.9	-4.4	-4.5	-2.5	-2.4	-1.4	-1.9	-4.7	-6.3	-4.0
Russia	1.8	1.7	4.3	7.5	7.4	5.4	4.1	-7.9	-7.4	-6.5
Turkey	-11.4	-8.8	-5.4	-1.3	-0.5	-1.6	-1.5	-6.1	-4.3	-5.5
Ukraine	0.5	0.2	-3.3	-1.1	-0.7	-1.4	-1.3	-5.1	-4.4	-3.9
Egypt*	-10.2	-9.1	-9.1	-9.6	-8.2	-7.5	-6.8	-6.9	-9.5	-8.3
Israel	-3.8	-5.5	-3.9	-1.9	-0.9	0.0	-2.1	-5.2	-4.5	-3.5
Saudi Arabia	-2.9	4.5	11.4	18.4	21.7	12.5	31.7	-1.8	1.9	5.0
UAE	2.9	3.1	7.0	9.0	10.5	11.1	13.5	1.8	3.0	6.0
South Africa	-0.7	-2.5	-2.0	-0.5	0.2	0.7	-0.3	-5.8	-5.4	-5.7
Asia/Pacific	**-4.1**	**-3.4**	**-2.5**	**-2.4**	**-1.2**	**-0.4**	**-2.0**	**-5.1**	**-5.4**	**-4.4**
Japan	-8.3	-7.7	-5.5	-6.1	-1.0	-1.4	-3.5	-10.2	-10.5	-10.0
Australia	1.3	1.8	1.2	1.7	1.9	1.8	1.2	-3.5	-3.0	-1.0
New Zealand	3.8	4.0	4.1	5.2	5.9	5.0	2.9	-1.5	-1.0	0.5
Asia-ex-Japan	**-3.2**	**-2.6**	**-2.0**	**-1.8**	**-1.4**	**-0.2**	**-1.8**	**-4.1**	**-4.4**	**-3.3**
China	-2.6	-2.2	-1.3	-1.2	-1.0	0.6	-0.4	-2.9	-4.3	-3.3
Asia ex-Japan & China	**-3.8**	**-2.9**	**-2.6**	**-2.3**	**-1.8**	**-1.1**	**-3.2**	**-5.2**	**-4.4**	**-3.4**
Hong Kong	-4.8	-3.2	1.7	1.0	4.0	7.7	0.1	-3.9	-1.2	2.5
India	-6.4	-4.9	-4.1	-4.2	-3.6	-2.8	-6.3	-6.9	-5.8	-4.9
Indonesia	-1.3	-1.7	-1.0	-0.5	-0.9	-1.3	-0.1	-1.9	-1.6	-1.0
Malaysia	-5.6	-4.4	-4.1	-3.6	-3.3	-3.2	-4.8	-8.5	-5.8	-4.0
Philippines	-5.3	-4.7	-3.8	-2.7	-1.1	-0.2	-0.9	-3.8	-4.3	-3.3
Singapore	0.8	-1.1	-1.9	-0.8	-0.2	0.6	1.7	2.7	-2.6	-1.0
South Korea	3.3	1.1	0.7	0.4	0.4	3.8	1.2	-2.6	-2.4	-2.2
Taiwan	-4.7	-1.9	-3.2	-1.2	-0.5	-0.3	-1.3	-4.2	-2.9	-1.0
Thailand	-1.4	0.3	0.0	0.3	1.2	-2.3	-1.1	-6.4	-6.1	-5.6
Vietnam	-4.8	-4.9	-4.9	-4.9	-5.0	-5.0	-5.0	-8.0	-7.0	-5.5

Note: * = based upon Egyptian financial year (July-June). Global and regional aggregates are calculated using the World Banks' 2004 PPP weights
Source: HSBC

Current account

Percentage

% GDP	2002	2003	2004	2005	2006	2007	2008	2009f	2010f	2011f
North America	**-3.8**	**-4.2**	**-4.7**	**-5.3**	**-5.4**	**-4.7**	**-4.5**	**-2.7**	**-1.9**	**-1.3**
US	-4.3	-4.7	-5.3	-5.9	-6.0	-5.2	-4.9	-2.7	-2.0	-1.5
Canada	1.7	1.2	2.3	1.9	1.4	1.0	0.5	-2.5	-0.4	0.8
Latin America	**-0.2**	**0.9**	**1.1**	**1.1**	**1.3**	**0.5**	**-1.0**	**-0.4**	**-1.2**	**-1.6**
Mexico	-2.2	-1.0	-0.7	-0.5	-0.5	-0.8	-1.4	-1.7	-2.0	-1.7
Brazil	-1.5	0.8	1.8	1.6	1.3	0.1	-1.8	-0.8	-2.0	-2.7
Argentina	9.0	6.3	2.3	3.1	3.8	2.8	2.2	3.4	2.3	1.3
Chile	-0.9	-1.1	2.2	0.8	4.6	4.4	-2.0	-0.7	0.1	-0.7
Western Europe	**0.7**	**0.6**	**0.9**	**0.4**	**0.2**	**0.3**	**-0.6**	**-0.6**	**-0.3**	**0.0**
Eurozone	**0.6**	**0.3**	**0.8**	**0.1**	**-0.1**	**0.1**	**-1.1**	**-1.2**	**-0.9**	**-0.7**
Germany	2.0	1.9	4.7	5.1	6.5	7.9	6.6	4.1	4.2	4.3
France	1.3	0.9	0.6	-0.4	-0.5	-1.0	-2.3	-1.6	-1.3	-1.3
Italy	-0.8	-1.3	-0.9	-1.7	-2.6	-2.4	-3.4	-2.5	-2.3	-2.1
Spain	-3.3	-3.5	-5.3	-7.4	-9.0	-10.0	-9.6	-7.1	-6.2	-5.5
Other Western Europe	**1.0**	**1.7**	**1.4**	**1.3**	**1.2**	**1.0**	**1.0**	**1.2**	**1.7**	**2.5**
UK	-1.7	-1.6	-2.1	-2.6	-3.3	-2.7	-1.7	-1.4	-1.1	-0.5
Norway	12.6	12.3	12.7	16.3	17.3	16.0	19.5	11.0	9.5	12.5
Sweden	4.7	7.2	6.7	7.0	8.5	8.8	6.2	7.3	7.1	7.6
Switzerland	8.8	13.3	13.4	14.0	15.2	10.0	2.4	6.5	6.7	8.3
EMEA	**2.8**	**3.0**	**4.1**	**5.1**	**3.7**	**1.7**	**1.3**	**0.3**	**-0.5**	**-0.3**
Czech Republic	-5.5	-6.2	-5.2	-1.3	-2.4	-3.2	-3.4	-2.8	-2.7	-2.4
Hungary	-7.0	-8.7	-8.7	-7.3	-7.8	-6.6	-9.0	-4.0	-4.8	-3.5
Poland	-2.5	-2.1	-4.1	-1.6	-2.3	-3.8	-7.2	0.2	-2.2	-3.2
Russia	8.4	8.3	10.0	11.1	9.5	6.0	6.1	3.3	0.4	-0.8
Turkey	-0.7	-2.6	-4.0	-4.7	-6.1	-5.8	-5.7	-2.0	-2.8	-3.3
Ukraine	7.5	5.8	10.5	3.1	-1.5	-3.7	-7.2	-2.6	-2.6	-0.7
Egypt*	0.7	2.4	4.3	3.2	1.6	1.7	0.5	-1.8	-1.4	0.6
Israel	-1.2	1.2	2.2	3.2	5.1	2.6	0.8	3.6	2.3	1.7
Saudi Arabia	6.3	13.1	19.7	28.5	27.7	24.9	30.8	3.9	10.6	17.1
UAE	4.7	8.5	9.9	18.2	21.5	9.9	9.8	5.2	9.0	10.9
South Africa	0.6	-1.3	-3.2	-3.8	-6.4	-7.3	-7.4	-5.3	-5.8	-6.4
Asia/Pacific	**2.8**	**3.0**	**2.8**	**3.7**	**5.2**	**6.0**	**4.4**	**3.2**	**2.7**	**3.0**
Japan	2.9	3.2	3.7	3.6	3.9	4.9	3.2	3.2	4.5	5.5
Australia	-3.7	-5.3	-6.1	-5.8	-5.3	-6.3	-4.6	-3.7	-3.7	-4.1
New Zealand	-3.9	-4.2	-6.3	-8.5	-8.6	-8.1	-8.9	-7.5	-8.2	-7.2
Asia-ex-Japan	**3.1**	**3.4**	**3.0**	**4.1**	**6.0**	**6.7**	**5.1**	**3.5**	**2.6**	**2.8**
China	2.4	2.8	3.6	7.2	9.5	11.0	9.8	5.1	4.3	4.2
Asia ex-Japan & China	**3.8**	**4.0**	**2.5**	**1.1**	**2.3**	**2.4**	**0.2**	**1.9**	**0.9**	**1.3**
Hong Kong	8.3	9.2	8.9	12.4	11.4	10.8	10.9	11.5	12.5	13.2
India	1.5	1.6	0.1	-1.9	-1.1	-1.0	-3.1	-1.5	-2.0	-1.9
Indonesia	3.9	3.4	0.6	0.1	3.0	2.4	0.1	1.5	0.3	0.8
Malaysia	8.4	12.8	12.1	15.0	16.7	15.7	17.4	15.4	12.9	13.2
Philippines	6.9	0.9	1.1	2.0	4.5	4.8	2.5	2.7	1.9	0.7
Singapore	17.7	31.0	26.4	27.5	25.4	23.5	14.8	10.3	9.1	9.8
South Korea	1.0	2.0	4.1	1.9	0.6	0.6	-0.7	2.6	1.1	0.8
Taiwan	8.9	10.0	6.0	4.9	7.2	8.6	6.3	8.1	6.6	7.6
Thailand	5.5	5.6	1.7	-4.3	1.1	5.9	-0.1	3.1	1.2	3.3
Vietnam	-1.7	-4.9	-2.1	-1.1	-0.3	-9.8	-11.6	-6.9	-8.3	-5.7

Note: * = based upon Egyptian financial year (July-June). Global and regional aggregates are calculated using the World Banks' 2004 PPP weights
Source: HSBC

Balance

USDbn	2001	2002	2003	2004	2005	2006	2007	2008	2009f	2010f
North America	**-381.0**	**-446.0**	**-511.0**	**-609.0**	**-728.0**	**-786.0**	**-712.0**	**-698.0**	**-420.0**	**-304.9**
US	-398.0	-459.0	-522.0	-631.0	-749.0	-804.0	-727.0	-706.0	-386.6	-298.8
Canada	17.0	13.0	11.0	22.0	21.0	18.0	15.0	8.0	-33.4	-6.1
Latin America	**-45.8**	**-13.6**	**4.4**	**11.8**	**16.3**	**24.1**	**7.8**	**-40.4**	**-18.5**	**-51.8**
Mexico	-17.7	-14.1	-7.2	-5.2	-4.4	-4.4	-8.3	-15.8	-14.7	-20.2
Brazil	-23.2	-7.6	4.2	11.7	14.0	13.6	1.6	-28.2	-12.8	-39.0
Argentina	-3.8	8.8	8.1	3.2	5.3	7.8	7.4	7.1	9.9	7.2
Chile	-1.1	-0.6	-0.8	2.1	1.5	7.2	7.2	-3.4	-1.0	0.2
Western Europe	**8.7**	**91.9**	**100.9**	**133.6**	**86.2**	**65.7**	**87.8**	**-47.7**	**-66.8**	**-37.3**
Eurozone	**-19.0**	**56.2**	**38.4**	**75.3**	**10.4**	**-16.2**	**17.8**	**-150.3**	**-150.2**	**-122.3**
Germany	0.4	42.5	47.0	125.2	138.8	193.0	258.3	260.6	138.4	153.0
France	25.0	20.0	16.0	12.0	-9.0	-11.0	-26.0	-70.0	-43.6	-37.9
Italy	-0.6	-9.9	-19.9	-15.9	-28.6	-49.0	-50.9	-84.4	-52.1	-52.5
Spain	-22.7	-23.5	-31.6	-53.7	-80.9	-112.9	-142.3	-164.5	-105.8	-99.0
Other Western Europe	**27.6**	**35.7**	**62.5**	**58.3**	**75.8**	**81.9**	**70.0**	**102.6**	**83.4**	**85.0**
UK	-29.7	-28.4	-30.2	-45.2	-58.9	-81.1	-75.7	-49.9	-34.6	-24.7
Norway	26.5	25.6	27.1	32.0	48.4	59.8	61.3	97.5	50.2	35.9
Sweden	10.8	12.5	22.6	23.5	24.4	34.1	39.1	32.7	35.2	37.6
Switzerland	20.0	26.0	43.0	48.0	51.0	61.0	43.0	13.0	32.5	36.2
EMEA	**41.7**	**32.4**	**50.4**	**87.1**	**162.6**	**167.2**	**104.3**	**144.8**	**29.8**	**12.9**
Czech Republic	-3.1	-4.6	-5.8	-5.6	-1.6	-3.5	-5.3	-6.8	-5.5	-6.0
Hungary	-3.0	-4.9	-6.8	-8.6	-8.1	-8.7	-8.9	-13.1	-5.5	-7.7
Poland	-5.4	-5.0	-4.6	-10.4	-4.8	-7.9	-15.9	-37.7	1.2	-12.9
Russia	33.6	29.1	35.8	59.9	84.3	94.3	77.2	102.3	39.9	5.9
Turkey	4.0	-1.0	-8.0	-14.0	-22.0	-32.0	-38.0	-41.6	-11.9	-18.6
Ukraine	1.4	3.2	2.9	6.8	2.5	-1.6	-5.3	-12.9	-2.8	-3.0
Egypt*		0.6	1.9	3.4	2.9	1.8	2.3	0.9	-3.4	-3.0
Israel	-1.7	-1.3	1.4	2.7	4.2	7.2	4.2	1.6	6.9	5.0
Saudi Arabia	9.4	12.0	28.1	49.3	90.0	98.9	95.0	150.4	15.3	49.6
UAE	6.5	3.5	7.5	10.5	24.4	35.1	19.6	22.3	11.2	22.0
South Africa	0.1	0.7	-2.2	-6.9	-9.2	-16.4	-20.6	-20.5	-15.7	-18.5
Asia/Pacific	**158.3**	**211.2**	**242.3**	**291.5**	**351.3**	**490.3**	**638.1**	**584.4**	**456.7**	**459.5**
Japan	86.7	117.7	131.1	170.2	165.0	174.7	202.9	157.3	154.8	208.9
Australia	-14.3	-28.8	-43.5	-53.2	-53.6	-53.1	-68.7	-54.6	-48.0	-52.0
New Zealand	-1.4	-2.5	-3.4	-5.9	-9.1	-8.5	-11.0	-11.4	-8.8	-10.9
Asia-ex-Japan	**87.3**	**124.7**	**158.1**	**180.4**	**249.0**	**377.2**	**514.8**	**493.2**	**358.7**	**313.5**
China	17.4	35.4	45.9	68.7	160.8	253.3	371.8	426.1	240.0	230.0
Asia ex-Japan & China	**69.8**	**89.3**	**112.3**	**111.8**	**88.2**	**123.9**	**143.0**	**67.0**	**118.7**	**83.5**
Hong Kong	7.5	13.6	14.7	14.7	22.1	21.7	22.4	23.5	24.1	27.5
India	3.4	7.1	8.8	0.8	-14.7	-9.3	-11.3	-36.1	-17.0	-25.1
Indonesia	6.9	7.8	8.1	1.6	0.3	10.8	10.5	0.3	7.8	1.6
Malaysia	7.0	8.0	13.0	15.0	21.0	26.0	29.0	38.8	30.1	27.3
Philippines	1.3	5.3	0.7	0.9	2.0	5.3	7.1	4.2	4.3	3.3
Singapore	11.0	11.7	21.8	29.0	33.2	35.5	39.3	27.3	17.6	17.8
South Korea	8.0	5.4	11.9	28.2	15.0	5.4	5.9	-6.4	21.0	10.5
Taiwan	18.9	26.4	30.5	19.7	17.6	26.3	33.0	24.9	29.4	26.5
Thailand	5.1	4.7	4.8	2.8	-7.6	2.3	14.1	-0.2	7.9	3.1
Vietnam	0.7	-0.6	-1.9	-1.0	-0.6	-0.2	-7.0	-9.2	-6.5	-9.0

Note: * = based upon Egyptian financial year (July-June). Global and regional aggregates are calculated using the World Banks' 2004 PPP weights
Source: HSBC

HSBC

US

Sweet spot?

Our new US economic forecasts show an improving profile for real GDP for the rest of 2009 and for 2010 relative to our previous projection from three months ago. About half of the upgrade comes from domestic factors, such as upgrades to business investment, and half from improvements in US exports as a result of strengthening demand in the rest of the world. This suggests that the US recovery is partially determined by developments abroad.

Our forecasts still factor in a cautious view of consumers, as the need to maintain a positive saving ratio means that consumer spending will underperform GDP. But if our forecasts are anywhere near right, the GDP recovery will be stronger than in the early 1990s and early 2000s, although weaker than the recoveries of the 1970s and 1980s. Upside surprises to the economic data have been the norm since March even though, on an absolute basis, much of the data are still miserable. Nonetheless, something does appear to have changed as the economy entered the second half of the year. Indeed, real GDP should be strong in Q3, thanks to 'cash-for-clunkers'-led consumer spending, a slower reduction of inventories, higher government spending, and possible increases in residential and business equipment spending.

The probability of a double-dip in 2010 has receded because financial conditions have continued to ease over the past few months. This does not guarantee that credit flows will improve sufficiently to sustain recovery, but we believe the probability of a more favourable outcome has certainly increased. Corporate debt and MBS issuance has been strong in 2009, for instance, the latter buoyed by Fed purchases.

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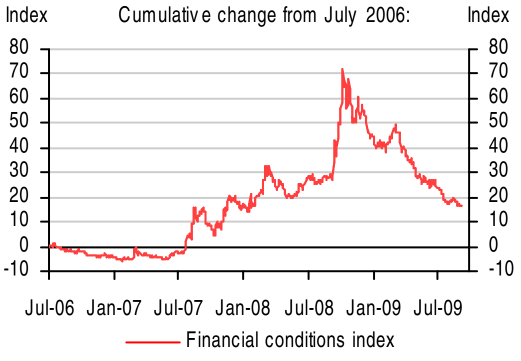
% q-o-q annualised

	2009f	2010f	2011f	Q3 09f	Q4 09f	Q1 10f	Q2 10f	Q3 10f	Q4 10f
Consumer spending	-0.8	1.1	4.2	2.5	-0.5	1.0	1.5	2.0	3.0
Government consumption	2.5	3.1	0.2	5.5	4.0	2.0	2.0	2.0	2.0
Private fixed investment	-18.5	3.0	6.5	-0.6	3.4	4.0	5.2	6.4	10.2
Housing	-21.6	5.7	6.4	5.0	5.0	8.0	10.0	12.0	8.0
Stockbuilding (ppt contribution)	-0.7	0.7	0.6	2.2	0.9	0.9	0.5	0.2	0.3
Domestic demand	-3.4	2.5	4.3	5.0	1.8	2.5	2.6	2.7	4.1
Exports	-11.1	6.2	7.8	12.8	7.0	5.0	5.0	8.0	8.0
Imports	-15.7	2.6	5.3	10.0	2.0	3.0	3.0	4.0	4.0
GDP (year)	-2.4	2.8	4.5	-2.0	-0.1	2.2	3.2	2.7	3.2
GDP (% quarter annualised)	-	-	-	5.1	2.3	2.7	2.7	3.1	4.4
Industrial production (% year)	-10.1	2.5	3.0	4.5	4.0	3.0	3.0	3.0	3.0
Unemployment (%)	9.2	9.6	8.8	9.6	9.7	9.7	9.7	9.6	9.5
GDP deflator (% year)	1.3	0.9	1.3	0.6	0.7	0.2	0.7	0.8	0.8
Consumer prices (% year)	-0.5	1.3	1.2	-1.7	0.8	1.6	1.5	1.0	0.9
Employment costs (% year)	1.8	2.4	3.5	1.6	1.5	1.9	2.2	2.6	2.9
Current account (USDbn)	-386.6	-298.8	-230.9	-289.0	-223.0	-183.6	-171.3	-303.6	-304.1
Current account (% GDP)	-2.7	-2.0	-1.5	-2.5	-2.0	-1.8	-1.7	-0.8	-0.7
Budget balance (USDbn)	-1618.6	-1151.6	-898.5	-	-	-	-	-	-
USD effective (1990 = 100)	86.8	88.0	88.1	82.8	85.6	87.7	87.6	88.3	88.1
3-month money (%)	0.7	0.4	0.4	0.3	0.3	0.4	0.4	0.4	0.5
10-year bond yield (%)	3.2	3.0	3.0	3.3	3.3	3.1	3.0	3.0	3.0

Source: HSBC

Financial conditions continue to ease

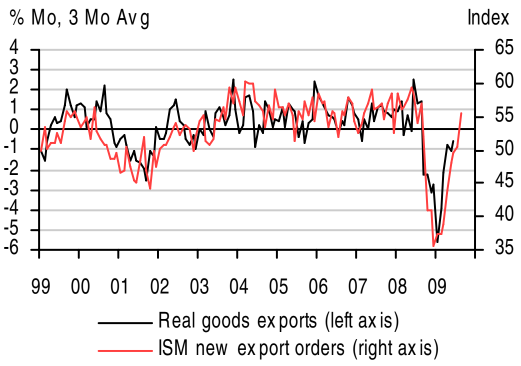


Source: Haver Analytics, Federal Reserve

Conditions easiest since January 2008

- Financial conditions have continued to ease over recent months, reducing the risk of a double-dip recession.
- Short-term liquidity spreads such as the TED spread and 3-Month LIBOR spread have now come back to normal, while stock prices are up and the dollar down.
- Although credit spreads have narrowed in recent months, they remain wide, and will need to keep coming in to assure a more sustainable recovery.

As world trade picks up, US exports rise

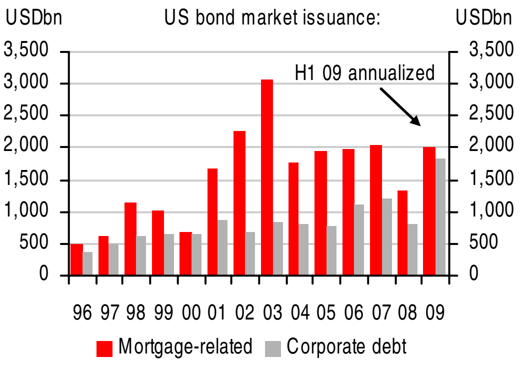


Source: University of Michigan Survey of Consumers, National Association of Homebuilders

Quicker-than-anticipated export recovery

- The ISM manufacturing export series has recovered strongly since its collapse late last year
- It has a very strong correlation with US real exports of goods, and this suggests that US exports will soon be on a rising track.
- Net exports will be helpful for pushing up US GDP growth over the next few quarters,

Some capital market activity opens up



Source: Haver Analytics, Bureau of Labor Statistics

Strong issuance in corporate and mortgage bonds

- MBS issuance fell sharply from USD2trn in 2007 to about USD1.3trn in 2008. In 2009, it has jumped back to an annualised USD2trn, partly thanks to the Fed's aggressive purchases.
- Much of this has been in the form of funding mortgage refinancing, rather than mortgage purchases, which would do more to stimulate spending.
- Corporate debt issuance has picked up to an annualised USD1.8trn in the first half of 2009. If this pace is maintained, 2009 will be a record year. However, bank lending to firms is shrinking.

Canada

Catching a wave

The Canadian economy is in the process of emerging from recession: the third quarter of 2009 is likely to be viewed as the end point to the current recessionary cycle. The auto sector is showing signs of recovery following a period of significant adjustment. In tandem, trade volumes are gearing up. Canadian consumers, a steadying force throughout much of the global recession, will continue to be a driver of growth courtesy of a supportive lending environment.

Incredibly, existing home sales are back up to peak levels of activity, spurred on by the pent-up demand created by the months of financial crisis and uncertainty. An ultra-low rate environment has also helped feather the consumer nest.

Yet we expect that real estate activity will begin to moderate as pent-up demand is burned off, and higher interest rates in 2011 will also curb some of this activity. The immediate outlook for commodities is also less certain. The steady build-up of global economic capacity prior to the financial crisis has now turned to capacity destruction, possibly implying a softer level of demand for commodities and a reduced degree of influence for that sector within the Canadian economy during the near term.

Price pressures remain benign, with recent deflation turning to inflation during the final quarter of 2009. A substantial degree of lost output and only modest economic growth suggest that a fair degree of economic slack will persist throughout the forecast period. The factors that prompt the Bank of Canada (BoC) to move from the zero bound to a merely a very low interest rate environment in 2011 are likely to be concerns about over-stimulating the real estate market and encouraging unhealthy activity in the consumer sector, rather than inflation.

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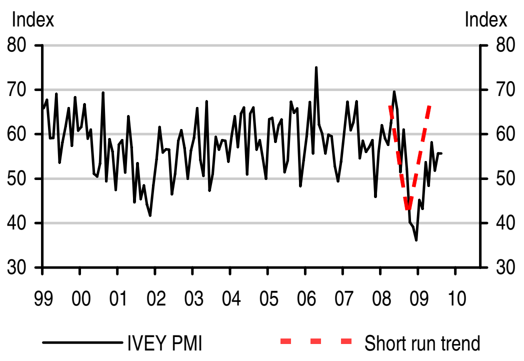
% Year

	2009f	2010f	2011f	Q3 09f	Q4 09f	Q1 10f	Q2 10f	Q3 10	Q4 10f
Consumer spending	-0.1	2.2	3.2	-0.2	1.0	1.8	2.0	2.2	2.7
Government consumption	2.9	5.8	1.3	3.2	4.2	5.5	6.5	6.2	5.0
Investment	-10.7	-0.3	3.7	-12.3	-9.1	-2.9	-0.9	0.7	2.0
Stockbuilding (% GDP)	-0.4	0.2	0.4	-0.2	0.0	0.1	0.2	0.2	0.3
Domestic demand	-3.2	3.0	3.1	-3.5	-1.4	2.3	3.3	3.1	3.3
Exports	-15.1	2.8	4.7	-16.1	-10.9	-1.6	4.8	4.2	4.1
Imports	-16.4	4.0	4.5	-17.5	-10.6	2.0	5.3	4.4	4.1
GDP	-2.3	2.6	3.1	-2.5	-1.1	1.2	3.0	3.0	3.3
GDP (% quarter annualised)	-	-		3.5	2.0	2.8	3.8	3.2	3.2
Industrial production	-9.5	2.5	3.6	-10.7	-6.4	-0.7	4.2	3.7	2.8
CPI	0.3	1.2	2.0	-0.8	0.9	1.4	1.1	1.3	1.1
Average earnings	1.6	1.2	1.7	1.8	1.4	1.3	1.5	0.9	1.1
Unemployment (%)	8.5	9.4	8.9	8.7	9.2	9.4	9.4	9.3	9.3
Current account (CADbn)	-38.9	-7.0	13.0	-12.0	-8.0	-5.0	-3.0	0.0	1.0
Trade account (CADbn)	-3.3	11.4	32.1	-1.7	-0.5	2.3	1.6	3.0	4.5
Budget balance (CADbn)	-56.0	-45.0	-29.0	-	-	-	-	-	-
CAD/USD	1.16	1.23	1.25	1.09	1.15	1.20	1.20	1.25	1.25
3-month money (%)	0.6	0.7	2.0	0.4	0.4	0.4	0.5	0.6	1.0

Source: HSBC

IVEY PMI

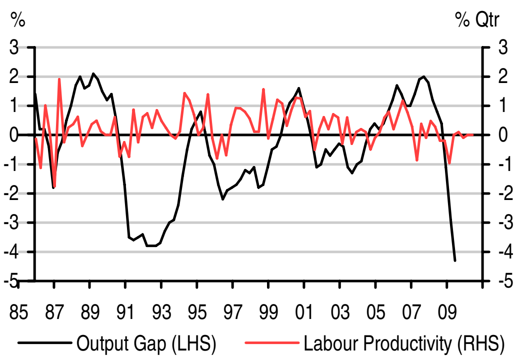


Source: Bloomberg

Injecting a note of caution.

- The IVEY PMI suggests that Canada is charting out a very nice V-shaped recovery. The problem with the IVEY data, like all PMI data, is that it provides direction, but little guidance on the likely strength of recovery.
- It is true that purchasing activity is higher, but we would suggest that it is modestly rather than robustly so, in keeping with previous recessions, for several reasons.
- Globally, economic capacity has been reduced, in some cases permanently. The need for fiscal deleveraging and rebalancing in the developed world also suggests that trend growth in the coming years may be less than in recent years.

Output Gap and Productivity

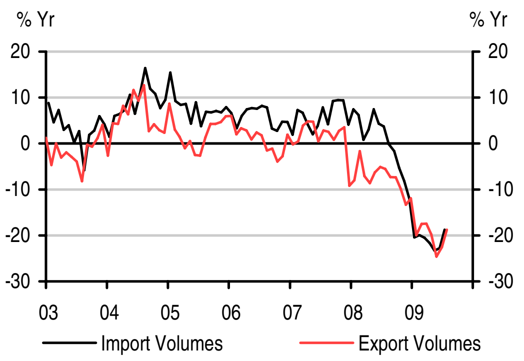


Source: Bank of Canada, Statistics Canada

Wide output gap is wide, but trend growth is constrained by low productivity.

- The output gap, estimated by the BoC at -4.3%, is at its widest level in over 25 years. And while the growth numbers appear decent, they do not appear strong enough to close the output gap anytime soon.
- Still, the bar has been set pretty low. Productivity growth has been weak, and the BoC estimates of trend growth are at historically low levels (1.1% for 2009, 1.5% for 2010, and 1.9% for 2011).
- On that basis, some caution is warranted when discussing the issue of spare capacity, as what appear to be modest growth rates from a historical perspective may still be strong enough to chip away at the output gap.

International Trade



Source: Thomson Financial Datastream

Recovery in external demand required for sustainable economic recovery.

- While domestic demand provided a steadying force throughout much of the global economic recession, trade proved to be negative for growth.
- The July 2009 trade data, however, saw Canada riding the wave of global economic recovery, highlighted by a rather significant pick-up in trade volumes.
- We remain concerned, however, that degree of lost output incurred during the recession, and its implications for near-term commodity demand, could hamper the performance of Canadian exports.

HSBC

Mexico

Fiscal horse-trading in Congress

Our view is that Congress will eventually pass the 2010 budget proposal as intended by the government, with only minor modifications. However, in the meantime, tough political discussions will prevail in Congress and in the media. In particular, the PRI, the dominant force in Congress, will fight for more control on social and anti-poverty programmes at the state level, to strengthen its electoral prospects in the 2012 presidential elections.

We believe the government considers that, in order to guarantee fiscal and macro stability, the proposed deficit size of 0.5% of GDP cannot be breached. Therefore, if Congress rejects some tax measures, such as the 2% anti-poverty tax on consumption, it will have to cut expenditures. These revenue enhancements are positive elements, and we believe that, if Congress does not dilute them, Mexico could avoid a downgrade.

We have revised our 2009 GDP projection to -7.0% in August from - 5.9% previously. Q2 2009 GDP data showed the strongest y-o-y decline (of 10.3%) in the last 70 years. We estimate that this contraction may continue at a rate of -7.2% (y-o-y) in Q3 2009, and then -2.3% (y-o-y) in Q4 2009.

Despite the grim scenario depicted for 2009, the latest indicators have been encouraging and shown signs of economic recovery. Of particular importance are the industrial production data, with an increase of 2.8% (m-o-m) in July.

As we see inflation declining gradually to 4.1% by end-2009, we continue to expect the monetary policy rate to remain stable, at 4.5% at end-2009 and throughout Q1 2010. We also maintain our call of 100bp tightening in Q2 2010, as the anticipated second-round effects of administered price increases begin to materialise.

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% Year

	2006	2007	2008	2009f	2010f	2011f
Private consumption	5.7	3.9	1.5	-8.1	2.1	4.1
Public consumption	1.7	2.1	0.6	10.2	5.3	3.4
Gross capital formation	9.8	7.2	4.9	-12.7	4.9	7.2
GDP	5.1	3.3	1.3	-7.0	3.6	3.4
Industrial production	5.3	3.1	-0.7	-8.5	3.9	3.7
Unemployment (%)	4.7	4.8	4.9	7.4	5.2	5.0
Consumer prices*	4.1	3.8	6.5	4.1	4.0	3.4
Exports (USDbn)	249.9	271.9	291.3	206.6	226.7	252.1
Imports (USDbn)	256.1	281.9	308.6	224.6	247.6	270.1
Current account (USDbn)	-4.4	-8.3	-15.7	-14.7	-20.2	-18.1
Current account (% GDP)	-0.5	-0.8	-1.4	-1.7	-2.0	-1.7
Budget balance (% GDP)	0.1	0.0	-0.1	-2.1	-2.5	-2.1
MXN/USD	11.0	10.9	11.4	13.5	12.9	12.9
3-month money (%)	7.3	7.4	7.9	5.5	5.3	6.6

Note: * = end-year,
Source: HSBC

Brazil

Recovery on track

Not only did the Q2 GDP figures confirm expectations that the Brazilian economy would resume growth in the quarter, but they also surprised on the upside. Q2 2009 GDP advanced by 1.9% q-o-q (-1% in Q1 2009 and -3.4% in Q4 2008), with domestic consumption leading the way.

The labour market has proved resilient and real income growth has been protected by falling inflation; credit availability to individuals is returning to normal, wealth destruction has proved negligible and tax incentives have provided an additional impulse. Fixed-asset investment has continued to lag, with spending flat on the quarter in Q2 but still declining 17% y-o-y. In light of these developments, and with marked improvements in both leading indicators and the hard data emerging for Q3, we have raised our GDP forecasts to +0.4% for 2009 (0.0% previously), +5.3% in 2010 (+4.6% previously) and +4.2% in 2011 (+3.8% previously).

CPI inflation fell below the centre of the BCB's 2.5% to 6.5% target range in August, mostly driven by food prices. Still-resilient core inflation, especially for services prices, prevented a faster decline in inflation and should contribute to bringing inflation back to higher levels as the recovery gains speed. We have slightly increased our 2010 CPI forecast to 5.0% from 4.8% as a result. Despite expectations of a stronger recovery, however, we continue to believe the BCB will raise rates only towards the end of 2010. The marginal deterioration in the inflation outlook will likely prove insufficient to trigger a pre-emptive rate hike before the elections.

Fiscal expansion continues to support demand. Although the focus of the spending increases may raise concerns, the expected development of fiscal accounts doesn't suggest any significant risk of a much higher debt/GDP ratio. Last but not least, we continue to see capital inflows as being roughly sufficient to finance the forecast deterioration in the current account over the next six months, and expect continued upward pressure on the BRL.

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% Year

	2006	2007	2008	2009f	2010f	2011f
Private consumption	5.3	6.3	5.4	2.5	4.5	4.2
Gross capital formation	9.8	13.5	13.8	-10.0	15.0	9.0
GDP	4.0	5.7	5.1	0.4	5.3	4.2
Industrial production	2.8	6.0	3.1	-8.7	10.6	5.5
Unemployment (%)	10.0	9.3	7.9	8.2	7.7	7.3
Consumer prices*	3.1	4.5	5.9	4.7	5.0	5.3
Exports (USDbn)	16.5	16.6	23.2	-20.9	9.9	12.7
Imports (USDbn)	24.1	32.0	43.6	-25.5	24.8	19.9
Current account (USDbn)	13.6	1.6	-28.3	-12.8	-39.0	-54.6
Current account (% GDP)	1.3	0.1	-1.8	-0.8	-2.0	-2.7
Budget balance (% GDP)	-3.5	-2.8	-2.0	-3.2	-1.6	-1.9
BRL/USD	2.16	1.90	1.89	1.96	1.71	1.90
3-month money	14.8	11.7	12.7	9.1	10.0	12.0

Note:* Year end. Source: HSBC

Argentina

Shadows and light

The improved external environment – global financial conditions, soy prices, Brazilian growth – and better weather conditions are a significant boost to the economy. As the backdrop improves, local fundamentals increase their relevance: inflation, fiscal dynamics and the "financial normalisation" strategy recently announced by the minister of finance are the key themes for the next quarters.

Inflation has fallen from 20% to around 13% currently, but this is still too high a level for an economy in deep recession. Moving forward, some acceleration in the inflation rate should take place as the economy rebounds, challenging the expansionary fiscal and monetary policies. In such a context, the central bank could choose to slow the pace of devaluation – helped by the better environment – as a means of anchoring expectations.

As expenditure rose over 35% y-o-y in the May-July quarter but revenues increased only 11%, fiscal dynamics are now the main short-term concern. We expect the primary surplus to fall to 0.7% GDP at the end of 2009, with the overall balance at -1.5% of GDP. Our pessimism ends there. Despite diminished expectations of fiscal moderation, there are several reasons to expect stronger fiscal revenues: i) growth in grain exports owing to higher prices and volumes – 2009 was affected by a severe drought; ii) a possible doubling in central bank earnings transferred to the Treasury next year owing to a larger 2009 devaluation; iii) the impact of economic recovery on highly pro-cyclical tax collection. Overall, the primary surplus could double and the budget balance move close to neutral.

Minister Boudou's "financial normalisation" comprises the following: i) addressing the CPI credibility issue; ii) dealing with the holdouts; iii) obtaining an Article IV consultation with the IMF; iv) refinancing the Paris Club debt; and v) pursuing some liability management to ease the financing programme. Some small steps have been taken in this direction. Nevertheless, we remain sceptical about the possibility of reporting an inflation rate closer to private sector estimates, which raises some doubts about the possibility of a favourable Article IV consultation, among other things.

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% Year

	2006	2007	2008	2009f	2010f	2011f
Consumption	7.8	9.0	6.5	-0.2	0.9	2.0
Gross capital formation	18.2	13.6	8.7	-13.8	3.3	4.5
GDP	8.5	8.7	4.7	-3.5	2.4	2.6
Unemployment (%)	9.3	7.8	7.4	9.5	8.8	8.0
Industrial production	8.4	7.5	3.8	-5.3	2.4	2.5
Consumer prices*	9.8	20.1	22.9	14.6	15.7	13.9
Exports (USDbn)	46.5	55.9	70.0	57.9	60.8	63.0
Imports (USDbn)	34.2	44.8	57.4	42.2	48.2	53.8
Current account (USDbn)	8.0	7.4	7.0	9.9	7.2	4.3
Current account (% GDP)	3.8	2.8	2.2	3.4	2.3	1.3
Budget balance (% GDP)	1.8	1.1	1.4	-1.5	-0.2	0.0
ARS/USD	3.08	3.12	3.19	3.83	4.24	4.80
1-month money (%)*	6.7	8.2	11.6	12.9	14.2	14.7

Source: HSBC. *Previous methodology estimates

Chile

Ready for take-off

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Activity readings, while still negative in y-o-y terms, suggest that the Chilean economy is bottoming out and ready to begin a strong recovery. Q2 GDP reported what we expect to be the most negative point for y-o-y growth (-4.5%), while activity fell by 0.4% on a quarterly basis and we expect this to be the last negative reading in the current cycle. Private consumption fell by 2.6% y-o-y while fixed investment contracted 19% y-o-y, contributing 5 percentage points to the fall in GDP, with inventories making a similarly negative contribution. However, the decline in imports (also -19% y-o-y in Q2) should allow for a positive contribution from net exports in 2009. The other source of growth came from fiscal stimulus, a factor that contributed to a deficit in the primary balance of around 9% of GDP.

The central bank cut its policy rate to 0.5% and launched additional liquidity measures in July. Inflation turned negative in August, and will likely remain so for the remainder of 2009.

Nevertheless, given that the main factor behind this deflation is the fall in commodity prices (exacerbated by a stronger CLP), we believe inflation should be back at 3.0% by the end of next year, the central point of the targeted range. Furthermore, although an output gap will remain, its influence on core inflation for a small, very open economy such as Chile will be limited. We expect the central bank to begin a rising rate cycle by mid-2010. Meanwhile, deflation is helping consumption and sustaining real wage growth.

The policy effort, it seems, is beginning to pay off. Industrial production and economic activity both climbed in seasonally adjusted terms for three consecutive months through to July. In annualised terms, GDP may increase by over 6% in Q3 2009 and Q4 2009.

Apart from the domestic drivers, external factors should help the Chilean economy over the coming months. A recovery in copper prices and rising demand will boost exports and bring the current account back towards equilibrium in 2010.

% Year

	2006	2007	2008	2009f	2010f	2011f
Private consumption	7.1	3.9	4.3	-2.9	3.8	3.6
Fixed investment	2.3	12.0	19.5	-12.4	2.0	5.5
GDP	4.6	4.7	3.2	-1.7	4.0	4.6
Industrial production	3.3	6.0	-0.2	-5.8	5.2	2.8
Unemployment (%)	8.0	7.0	7.7	11.1	10.3	9.3
Consumer prices*	2.1	7.8	7.1	-1.5	2.5	3.2
Exports (USDbn)	58.0	67.6	66.5	49.6	55.4	62.1
Imports (USDbn)	35.8	43.9	57.6	43.1	48.5	53.8
Current account (USDbn)	6.8	7.2	-3.4	-1.0	0.2	-0.9
Current account (% GDP)	4.6	4.4	-2.0	-0.7	0.1	-0.7
Budget balance (% GDP)	7.7	8.8	5.3	-4.1	-1.7	-1.5
CLP/USD	534	519	538	550	553	560
3-month money (%)**	5.3	6.5	8.2	1.3	3.1	4.3

Note: * = end-year; ** = end-year 90-day deposit rate
Source: HSBC

HSBC

Eurozone

A mixed bag

The outlook for the Eurozone is one of very mixed fortunes for its major economies. Germany is the clear beneficiary of the strong revival in Asia and will also see growth being supported by public investment, which will help to offset the unwind of the car scrappage scheme. Consequently, we see GDP growth in Germany back around trend in 2010. In contrast the likes of Spain, which will continue its deflationary adjustment, are set to contract further. Meanwhile, France, which has been the clear outperformer of the region over the past year, will see only weak growth as the large fiscal stimulus provided in 2009 starts to fade. We expect q-o-q growth rates in the Eurozone of about 0.3% in H2 09, followed by a temporary period of renewed weakness in early 2010 when the car scrappage schemes unwind, resulting in a sub-trend GDP forecast of 0.7% in 2010. Consequently, the output gap will remain very large. Assuming stable oil prices, we expect inflation to rise up to about 1.5% before edging lower in H2 10, implying no urgency for the ECB to start raising rates. We therefore maintain our forecast of a very modest rate rise (50bp) in late 2010 in what would be a nod towards normalisation from an exceptionally low level. There is, however, a risk that a sharper rise in oil prices pushes up inflation expectations, threatening an earlier rate increase. Under either scenario, however, we would expect the ECB to continue with the provision of large amounts of liquidity against the extended collateral framework, even once it has started to raise rates.

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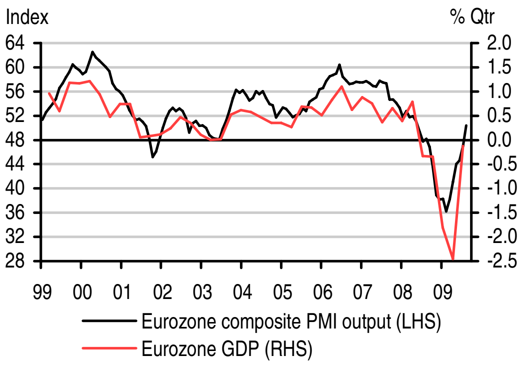
% Year

	2009f	2010f	2011f	Q3 09	Q4 09f	Q1 10f	Q2 10f	Q3 10f	Q4 10f
Consumer spending	-0.8	-0.4	0.5	-0.7	-0.2	-0.1	-0.5	-0.5	-0.4
Government consumption	2.5	2.1	1.6	2.4	2.6	2.5	2.3	2.0	1.6
Fixed investment	-9.5	-0.9	1.6	-9.7	-6.1	-1.7	-0.7	-0.6	-0.6
Final domestic demand	-2.0	0.0	1.0	-2.0	-0.9	0.1	0.0	0.0	0.0
Stockbuilding (% GDP)	-0.8	-0.4	-0.4	-0.9	-0.8	-0.5	-0.3	-0.4	-0.3
Domestic demand	-2.8	0.4	1.0	-3.0	-1.7	-0.1	0.9	0.5	0.5
Exports	-14.0	4.1	3.9	-14.9	-6.9	3.1	5.2	4.4	3.8
Imports	-12.4	3.4	4.4	-13.7	-8.5	0.3	4.4	4.4	4.4
GDP	-3.9	0.7	1.2	-4.0	-1.9	0.6	0.8	0.7	0.7
GDP (% quarter)	-	-	-	0.3	0.3	0.0	0.1	0.2	0.4
Industrial production	-15.5	1.9	2.7	-15.5	-8.9	-1.0	2.3	3.5	3.1
Unemployment (%)	9.6	11.0	10.6	9.8	10.3	10.7	11.0	11.2	11.2
Wages	3.0	2.3	2.3	2.8	2.6	2.4	2.4	2.3	2.3
Inflation	0.4	1.3	1.7	-0.3	0.7	1.3	1.4	1.4	1.3
M3	4.0	3.3	5.0	3.5	3.0	2.8	3.0	3.5	4.0
Current account (% GDP)	-1.2	-0.9	-0.7	-	-	-	-	-	-
Budget balance (% GDP)	-5.8	-6.4	-5.2	-	-	-	-	-	-
Debt (% GDP)	79.4	85.8	91.0	-	-	-	-	-	-
ECB refi rate*	1.00	1.50	2.50	1.00	1.00	1.00	1.00	1.25	1.50
3-month money (%)	1.1	1.4	2.6	0.8	0.9	1.0	1.3	1.6	1.8
10-year bond yield (%)**	3.6	3.4	3.4	3.5	3.6	3.5	3.4	3.4	3.4
USD/EUR*	1.50	1.50	1.50	1.45	1.50	1.50	1.50	1.50	1.50

Note: *end-year. **weighted average of the 'Big 4'
Source: HSBC

GDP growth to turn positive in H2 09

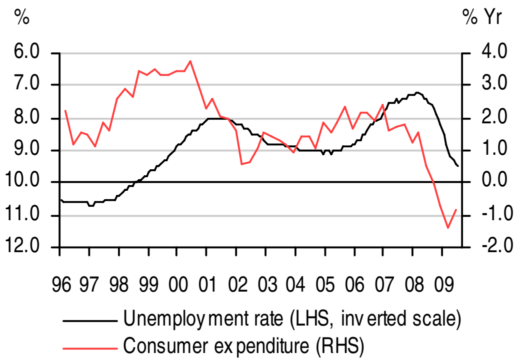


Source: Markit Economics, Eurostat

PMIs and GDP

- The sharp contraction in GDP finally abated in Q2 with a contraction of a mere 0.1% q-o-q. The main drags on growth were investment and de-stocking while net trade (falling imports) and the fiscal stimulus measures helped moderate the pace of contraction.
- While this was the fifth consecutive quarter of contraction in the Eurozone, we believe that we have seen the trough this year for GDP in Q2 and continue to expect positive GDP growth in H2 09.
- Divergences between the countries appear set to remain large with Germany now expected to grow 1.4% while other countries, notably Spain, continue to contract in 2010.

Many more job losses ahead

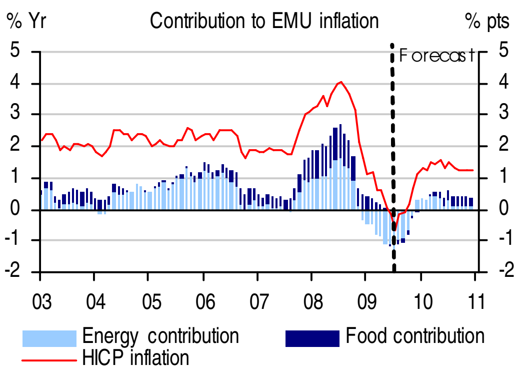


Source: European Commission, Thomson Financial Datastream, Eurostat, and HSBC

Unemployment and consumption

- Although the household savings rate continued to rise, consumer spending rose 0.2% q-o-q in Q2 helped by robust real income growth and government incentives, particularly the car scrappage schemes in France and Germany.
- However, the labour adjustment so far has been modest compared with the sharp contraction in activity, because of government policies aimed at keeping workers in their jobs for longer.
- The delayed rise in the unemployment rate, which we expect to hit 11% by mid-2010, will be a drag on consumption throughout 2010.

Inflation has now passed the trough



Source: Thomson Financial Datastream

Inflation

- Inflation hit a trough of -0.7% y-o-y in July and is now heading higher. Base effects from last year's oil price surge are now waning so energy will make a positive contribution to headline inflation from December.
- However, we continue to expect the weakness of demand growth to deliver further reductions in the rate of core inflation.
- Countries such as Ireland, Spain and Greece, which have, in the past, usually run much higher inflation rates than the Eurozone average, will exert much of the downward pressure.

HSBC

Germany

Strong near-term outlook

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After four consecutive quarters of contraction, GDP surprisingly rose by 0.3% q-o-q in Q2 and a more robust bounce is expected in H2 09. Orders and leading indicators point to a healthy rise in production. The stabilisation in business activity in important trading partners was already evident in the more modest decline in exports in Q2. The latest export figures for June and July suggest that export growth is likely to be even more robust in Q3 but the contribution of net exports to growth (+1.6pp in Q2) will be lower as imports pick up as well. We also expect a smaller negative contribution from destocking, which detracted 1.9pp from quarterly growth in Q2.

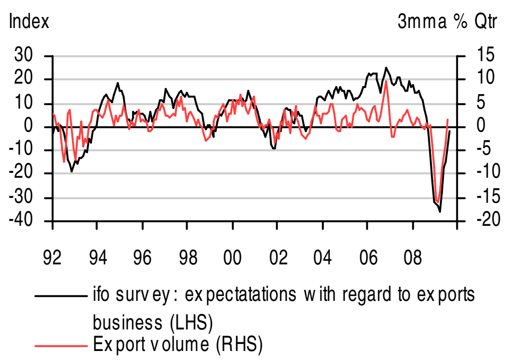
The scrapping bonus is influencing the pattern of consumer spending in 2009/2010 significantly. As in Q2 09, the growth contribution from private consumption will be 0.4% pts in Q3 09 and will stay positive in Q4. Overall GDP is likely to pick up by 0.8% q-o-q in Q3 09 (Q4: 0.5%) therefore limiting the decline in annual GDP to less than 5%. Despite the unwind of the car scrappage scheme and a general moderation in other components from early 2010 onwards, annual average GDP growth of 1.4% should still be achievable in 2010, with government spending still a major driver of growth. Despite the sharp recession, the number of unemployed has so far deteriorated by only about 300,000 since the cyclical low. The unemployment rate stands at 8.3%, up from a trough of 7.6% in October 2008, one of the smallest increases in the developed world. One reason for this is the sharp rise in the number of short-time workers to 1.5 million. Rising unit labour costs will, however, force companies to lay off more workers in the next few quarters, putting downward pressure on private spending in 2010.

% Year

	2009f	2010f	2011f	Q3 09f	Q4 09f	Q1 10f	Q2 10f	Q3 10f	Q4 10f
Consumer spending	1.2	-0.3	0.3	1.5	2.2	0.7	-0.2	-0.8	-1.0
Government consumption	2.7	2.6	1.8	2.9	3.1	2.7	2.8	2.5	2.2
Investment	-8.6	1.6	1.4	-8.6	-6.3	2.1	1.6	1.5	1.3
Machinery & equipment	-20.9	-0.6	1.5	-22.3	-19.7	-1.5	-1.0	-0.3	0.4
Construction	0.0	3.2	1.2	1.6	3.7	4.5	3.5	2.7	1.9
Stockbuilding (% GDP)	-2.0	-1.7	-1.7	-2.2	-2.2	-1.8	-1.6	-1.6	-1.6
Domestic demand	-1.4	0.9	0.8	-1.6	-0.9	0.3	1.9	0.9	0.7
Exports	-15.0	5.7	4.3	-16.1	-7.1	5.3	7.7	5.4	4.4
Imports	-9.1	4.3	3.7	-11.7	-6.2	0.5	7.2	5.3	4.3
GDP	-4.9	1.4	1.2	-4.9	-2.0	1.8	1.7	1.1	0.9
GDP (% quarter)	-	-	-	0.8	0.5	0.2	0.2	0.2	0.3
Industrial production	-16.4	3.1	2.6	-16.6	-9.5	3.8	4.4	2.2	2.0
Unemployment (%)	8.4	9.8	9.0	8.3	8.7	9.4	9.9	10.0	9.8
Average earnings	2.6	1.9	1.8	2.5	2.3	2.1	2.0	1.8	1.8
Producer prices	-4.1	-0.2	1.3	-7.6	-5.9	-2.9	-0.6	1.3	1.3
Consumer prices	0.3	0.7	1.5	-0.3	0.6	0.8	0.6	0.7	0.7
Current account (EURbn)	97.0	102.0	27.0	27.0	27.0	25.0	25.0	25.0	27.0
Current account (% GDP)	4.1	4.2	4.3	4.5	4.5	4.1	4.1	4.1	4.4
Budget balance (% GDP)	-4.6	-6.0	-4.0	-	-	-	-	-	-
3-month money (%)	1.1	1.4	2.6	0.8	0.9	1.0	1.3	1.6	1.8
10-year bond yield (%)	3.2	3.1	3.1	3.2	3.3	3.2	3.1	3.1	3.1

Source: HSBC

Rebound in exports ...

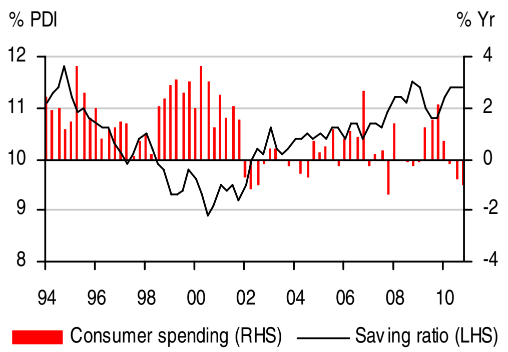


Source: Reuters EcoWin

... but no start of a further boom situation

- The particularly sharp collapse in exports reflects a combination of unfavourable transient factors rather than a fundamental and permanent loss of competitiveness.
- The global fiscal boost and monetary expansion seem strong enough to reanimate global trade and stabilise export activity in Germany. Export order volume in the industry is already 14% above its cyclical low (+18% for domestic order).
- There is no sign of momentum in global trade comparable to that before the financial market crisis, though. A lasting strong revival in exports/investment in machinery & equipment is therefore not very likely over the next 1 ½ years horizon.

Fluctuations in consumption due to fiscal policy ...

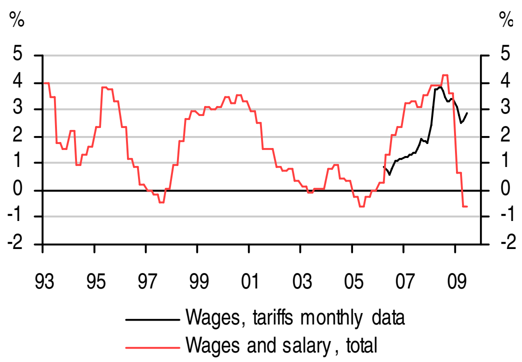


Source: Reuters EcoWin, HSBC

... and no trend towards a falling savings ratio

- We think that the recent fall in the savings ratio of private households is induced by the car scrapping bonus and hence only of temporary nature. There is no change to medium-term savings motives of the consumer.
- Total final consumption expenditure by households rose slightly by 0.1% y-o-y in H1 09. Without purchases of passenger vehicles (+23% y-o-y) household consumption expenditure would have been down by 1.0%.
- The scrapping bonus drove up new passenger vehicle by around 1 million. We are anticipating the positive impetus on private consumption in 2009 will be unwound in 2010.

Pay agreements up ...



Source: Reuters EcoWin

... but total wages down

- The collective pay commitment between businesses and employees is weakening. Many pay agreements contain exemption clauses which allow businesses to deviate from the agreed tariffs. The employees do not receive all wage increases agreed and some wage benefits are discontinued temporarily.
- The most important thing however is that paid working time has declined significantly in part as a result of short-time work and the reduction of flexi-time accounts. Hence total wages are falling significantly.
- The labour market will cloud over further, but the increase should turn out to be moderate compared to the last recession. Unemployment should increase on average to 4.2 million persons in 2010 (2008: 3.27 million: 2009e: 3.55 million).

France

Fiscal stimulus to fade in 2010

GDP increased by 0.3% q-o-q in Q2 09, on the back of stronger-than-expected household consumption and exports. Household spending was buoyed by the car-scrapping incentive as well as tax and welfare initiatives. The abolition of the second annual income tax payments for low-income households and the payment of a EUR150 bonus to 3 million families in June limited the impact of rising unemployment on gross disposable income. At the same time, Germany's car-scrapping scheme triggered a recovery in French exports. Total exports rose 1% q-o-q in Q2 09 out of which 0.7pp may be attributed to car exports alone.

It would be premature to assume sustainable economic recovery however, given the continued draw-down of stocks and ongoing contractions in business and residential investment. Growth in Q2 stemmed mainly from an unexpectedly quick response to the stimulus package and welfare initiatives.

We continue to forecast that the government investment contained in the stimulus package will have a positive impact on GDP in H2 09. But the end of the stimulus in 2010 will probably mean an automatic correction in GDP. The capacity utilisation rate is too low to expect a strong enough recovery in business investment early next year to offset the fall in government investment.

Moreover, household gross disposable income will no longer benefit from the one-off measures adopted this year: higher unemployment will continue to weigh on wage growth and the widening in the public deficit could drive the savings rate up. Household consumption is therefore also likely to fade at the beginning of 2010. The end to the car-scrapping incentive will also have a depressive impact on car sales. We therefore expect a durable expansion in GDP only from H2 10 onwards.

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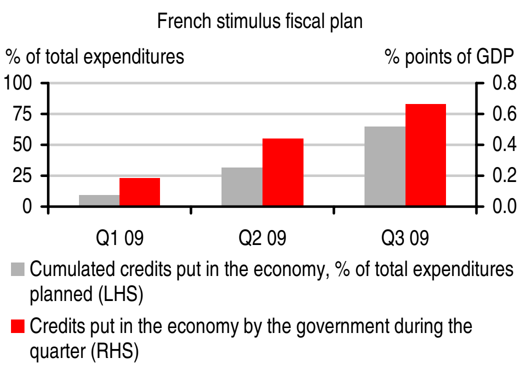
% Year

	2009f	2010f	2011f	Q3 09f	Q4 09f	Q1 10f	Q2 10f	Q3 10f	Q4 10f
Consumer spending	0.7	0.1	1.0	0.8	0.8	0.4	-0.1	-0.1	0.1
Government consumption	1.8	2.2	1.6	2.0	2.7	3.5	2.4	1.7	1.2
Investment	-4.1	-0.6	2.1	-3.5	1.8	1.4	1.2	-1.4	-3.5
Stockbuilding (% GDP)	-1.1	-1.3	-1.2	-1.5	-1.6	-1.5	-1.4	-1.2	-1.1
Domestic demand	-1.7	0.3	1.6	-1.9	-0.5	0.2	0.5	0.3	0.1
Exports	-10.9	2.4	3.3	-10.9	-4.8	3.0	2.5	2.0	2.0
Imports	-8.9	2.6	4.0	-9.7	-4.7	0.9	3.8	3.3	2.4
GDP	-2.1	0.2	1.3	-2.0	-0.3	0.8	0.1	-0.1	-0.1
GDP (% quarter)	-	-	-	0.4	0.3	-0.3	-0.4	0.2	0.4
Manufacturing output	-14.8	-1.2	1.4	-14.6	-9.5	-1.6	-1.5	-2.0	0.2
Unemployment (%)	9.4	10.6	11.2	9.7	9.9	10.1	10.4	10.8	11.2
Average earnings	2.1	1.3	1.6	1.7	1.6	1.3	1.2	1.3	1.4
Consumer prices	0.1	1.6	2.0	-0.5	0.5	1.4	1.5	1.9	1.8
Trade account (EURbn)	-43.1	-40.2	-41.6	-9.5	-10.0	-9.8	-9.8	-10.2	-10.4
Current account (% GDP)	-1.6	-1.3	-1.3	-	-	-	-	-	-
Budget balance (% GDP)	-7.4	-7.6	-6.5	-	-	-	-	-	-
3-month money (%)	1.1	1.4	2.6	0.8	0.9	1.0	1.3	1.6	1.8
10-year bond yield (%)	3.6	3.4	3.4	3.5	3.6	3.5	3.4	3.4	3.4

Source: HSBC, Thomson Financial Datastream

The effect of the stimulus package…

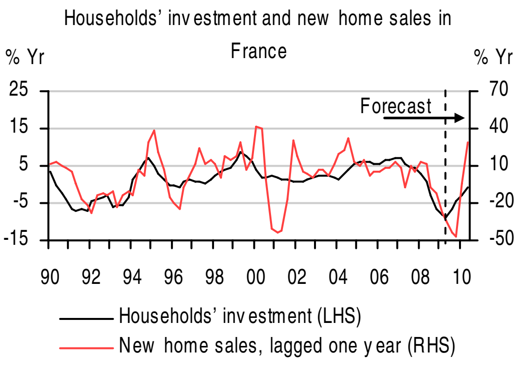


Sources: Ministry in charge of the implementation of the recovery plan, HSBC

… will be very short-lived

- Apart from the EUR26.0bn stimulus package, welfare and tax measures have also been adopted to limit the decline in household gross disposable income and include the abolition of two of the three annual income tax payments for low-income households, a EUR150 bonus to 3 million families and an increase in the allowance for children going back to school.
- According to the government, EUR18.2bn of the EUR26.0bn provided in the stimulus package had already been spent by end-August 2009, of which EUR8.0bn was spent between June and August.
- By the end of 2009, most of the tax and welfare measures complementing the stimulus package will have been implemented.
- We therefore expect a drop in GDP in H1 10, in line with the end of supplementary government spending and lower public investment compared with the end of 2009.

Residential investment…

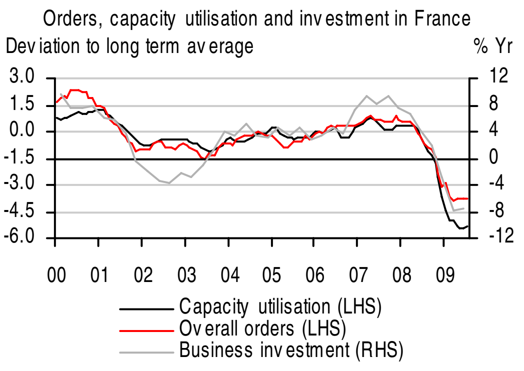


Sources: INSEE, MEEDDAT, HSBC

… could cease to contract in 2010

- The number of building permits fell by a further 7.3% q-o-q in Q2 09, but this compared with a 12.8% q-o-q drop in Q1 09.
- The contraction in residential investment will therefore be less marked in H2 09. It will reverse from Q2 10 onwards if the rebound in home sales is confirmed.
- New home sales rose 10% q-o-q in Q2 09, or by 29.6% y-o-y. Building permits will start increasing again late this year, and starts will follow suit in mid-2010.
- The rebound in sales was less marked for existing homes in Q2 09. They remain one-third lower than they were in Q2 08.

But business investment will slide further….



Sources: INSEE, Banque de France, HSBC

… in line with weak domestic demand

- The debt rate for non-financial companies has hit its highest level since 1978. Credit conditions remain unhelpful, as are direct financing costs. Lastly, the capacity utilisation rate is very low at 70.7%, compared with an average of 82.8% between 1981 and 2007.
- At the same time, mounting unemployment and budgetary slippage will limit household consumption in H1 10, thereby dampening business prospects.
- We expect the end of car-scrapping incentives in France's European trading partners to damage French exports, as the latter's rebound in Q2 09 was sustained by European car sales. The end of stimulus packages abroad will also weigh on business prospects.

Italy

Glimmers of hope

The positive growth surprises in Italy's two major export destinations – Germany and France – provide some scope for optimism that Italy will soon return to growth. While Italy, as usual, is lagging the Eurozone aggregate, Q2 GDP also surprised on the upside, contracting by 0.5% q-o-q. Consumption eked out a minor rise, helped by incentives for car purchases and government spending grew by a remarkably robust 1.3% – unimpressive by the standards of some of the stimulus packages around the world but large given the fiscal constraints of Italy's government which already had a debt stock well over 100% of GDP before the crisis even began.

Unlike France and Germany, Italy will not therefore get a lift from public investment in the second half of 2009, though tax incentives put in place by the government are expected to limit the fall in investment.

Activity indicators, notably industrial production and exports, are showing further signs of stabilisation in Q3, helped by car scrappage schemes across Europe, and GDP may even be slightly positive but domestic demand growth is expected to remain relatively subdued.

Households continue to benefit from the pass through of previous rate cuts and consumer confidence has recovered while the latest bank lending survey shows improving demand for household (but not corporate) borrowing. However labour income is likely to be weak as wage growth is slowing and unemployment is set to head higher over the coming year. Consequently the pace of the recovery will be heavily dependent on external demand, particularly from within Europe.

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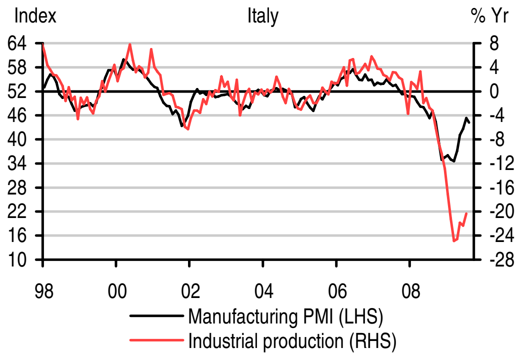
% Year

	2009f	2010f	2011f	Q3 09f	Q4 09f	Q1 10f	Q2 10f	Q3 10f	Q4 10f
Consumer spending	-1.8	0.2	0.4	-1.8	-0.8	0.4	0.1	0.1	0.2
Government consumption	1.3	0.7	0.4	1.2	1.3	1.3	0.2	0.7	0.6
Investment	-13.0	-2.3	1.8	-14.2	-9.1	-5.1	-2.3	-1.3	-0.3
Stockbuilding (% GDP)	-0.2	-0.3	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	0.0
Domestic demand	-4.1	0.0	0.7	-4.3	-2.5	-0.5	-0.1	0.1	0.3
Exports	-20.2	2.7	3.0	-21.0	-13.1	-0.9	3.5	4.7	3.7
Imports	-15.8	1.4	2.5	-17.1	-10.9	-1.6	1.6	3.1	2.5
GDP	-5.0	0.2	0.8	-5.1	-2.9	-0.3	0.3	0.4	0.5
GDP (% quarter)	-	-	-	0.1	0.2	-0.1	0.1	0.2	0.3
Industrial production	-19.1	1.4	2.7	-20.0	-11.6	-2.0	2.3	3.0	2.5
Unemployment (%)	7.7	8.9	8.9	7.8	8.2	8.5	8.9	9.0	9.1
Hourly wage rate	2.9	2.2	2.2	2.5	2.3	2.2	2.2	2.2	2.2
Consumer prices	0.8	1.7	1.5	0.2	1.0	2.1	1.6	1.9	1.4
Current account (EURbn)	-37.2	-35.0	-34.0	-6.0	-9.0	-12.0	-9.0	-6.0	-8.0
Current account (% GDP)	-2.5	-2.3	-2.1	-	-	-	-	-	-
Budget balance (% GDP)*	-5.6	-6.1	-5.2	-	-	-	-	-	-
3-month money (%)	1.1	1.4	2.6	0.8	0.9	1.0	1.3	1.6	1.8
10-year bond yield (%)	4.2	3.9	3.9	4.0	4.0	4.0	3.9	3.9	3.9

Note: * = state sector cash balance
Source: HSBC

HSBC

Sharp contraction is behind us

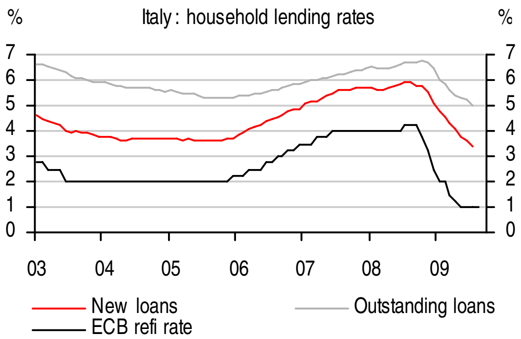


Source: Markit Economics, Thomson Financial Datastream

PMIs and IP

- Recent data have been volatile but have basically confirmed that the collapse in industrial production is behind us.
- Industrial production rose 1% m-o-m in July and is likely to show a modest quarterly rise in Q3, helped by improving export demand.
- GDP fell by less than expected in Q2, contracting 0.5% q-o-q and the pace of decline should moderate further in Q3 before turning positive in Q409. Italy will therefore once again be a laggard of the Eurozone.

Rate cuts are feeding through

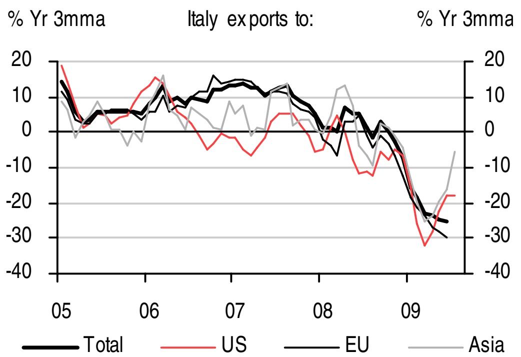


Source: Thomson Financial Datastream

Consumption and unemployment

- Households are benefiting from the sharp cuts in interest rates as 70% of Italy's mortgage stock is at variable rates but as the household debt-to-income ratio is low (at around 60%), the boost to real incomes has not been as big as in the UK.
- Consumer spending nonetheless grew 0.3% q-o-q in Q2 (after contracting by a cumulative 2.2pp in the previous two quarters) helped by the car sales programme, which incentivised consumers to trade in old cars for less-polluting models.
- Rising unemployment over the next year will continue to curb consumer spending which we expect to be stable at best in 2010.

Clear signs of improving Asian and US demand



Source: Eurostat, HSBC forecasts

Exports

- Italy's export performance remained dismal in Q2, with real exports of goods & services falling a further 3.7% q-o-q and down 23.9% y-o-y.
- Exports to the US and Asia are showing clear signs of turning. However, demand from the EU – the market for 57% of Italy's exports – remains the major drag even though Italy's car manufacturers have benefited from reviving demand for small cars across Europe. The recent signs of stabilisation within the EU suggest that Italy's exports will start to edge up in the coming months.
- The trade deficit narrowed by 40% y-o-y in H1 09 but, with the implosion in imports also expected to abate, the deficit is likely to stabilise from here.

Spain

A long way to go

There were few signs of an economic recovery in Spain in Q2 2009, with the weakest GDP performance recorded amongst the big four countries in the Eurozone. The contraction in Q2 was worse than market and the Spanish central bank's projections and revealed the extent of the collapse in domestic demand. Private consumption has shrunk for six quarters on the trot, while investment has shown a massive contraction over the same period, detracting on average around 1.0pp each from overall GDP growth in the last four quarters. The collapse in domestic demand was also evident from the drop in imports which outpaced the fall in exports; allowing a positive contribution to GDP from the net exports component. The only component of domestic demand that has held up has been public consumption on the back of the government stimulus programmes.

The picture is unlikely to brighten significantly. Worries about labour market conditions will subdue any real income impact of falling mortgage payments as well as incentive schemes like car scrappage on consumer spending. Hence, we expect consumer spending to contract further over the coming year, albeit at a more moderate pace. The main contributor to growth, then, is likely to remain net exports as imports stay weak and exports pick up given the recovery in Germany and France. Public spending will also add to growth, though this is likely to be constrained by the limits imposed by the EDP. With FX depreciation not an option to kick-start recovery, the burden of adjustment will fall on internal price dynamics via deflation/low inflation.

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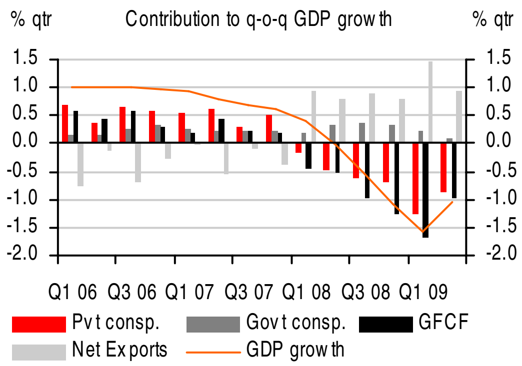
% Year

	2009f	2010f	2011f	Q3 09f	Q4 09f	Q1 10f	Q2 10f	Q3 10f	Q4 10f
Consumer spending	-5.2	-1.7	1.0	-5.5	-4.7	-3.3	-2.2	-1.1	-0.4
Government consumption	5.1	4.2	2.3	4.7	4.2	4.1	4.7	4.2	4.1
Investment	-15.3	-3.3	1.2	-16.2	-13.2	-7.8	-3.9	-1.2	0.0
Stockbuilding (% GDP)	-0.1	-0.8	1.5	-0.5	-0.8	-1.2	-1.1	-0.7	-0.2
Domestic demand	-6.5	-1.6	2.5	-7.3	-6.3	-4.5	-2.6	-0.2	1.2
Exports	-13.7	0.6	3.4	-13.2	-7.9	0.7	0.6	0.5	0.6
Imports	-20.4	-1.4	1.6	-20.2	-15.7	-4.5	-2.0	-0.2	1.1
GDP	-3.5	-0.4	1.8	-3.9	-2.6	-1.6	-0.5	0.2	0.5
GDP (% quarter)	-	-	-	-0.2	0.2	-0.6	0.1	0.5	0.5
Industrial production	-16.1	-0.3	3.9	-15.2	-8.0	-2.0	-0.2	0.1	1.0
Unemployment (%)	19.0	21.8	21.9	20.0	20.8	21.4	21.7	22.0	22.1
Average earnings	1.9	2.1	2.2	2.0	1.9	2.1	2.3	2.1	2.0
Consumer prices	-0.6	1.3	1.7	-1.5	-0.5	0.5	1.3	1.6	1.8
Trade account (EURbn)	-49.2	-44.0	-41.0	-13.0	-12.0	-11.5	-11.5	-11.0	-10.0
Current account (EURbn)	-74.6	-66.0	-60.0	-22.0	-18.5	-18.0	-16.5	-16.0	-15.5
Current account (% GDP)	-7.1	-6.2	-5.5	-	-	-	-	-	-
Budget balance (% GDP)	-10.2	-8.7	-7.5	-	-	-	-	-	-
3-month money (%)	1.1	1.4	2.6	0.8	0.9	1.0	1.3	1.6	1.8
10-year bond yield (%)	3.9	3.8	3.8	3.8	3.9	3.9	3.8	3.8	3.8

Source: HSBC

Support to GDP growth from net exports…

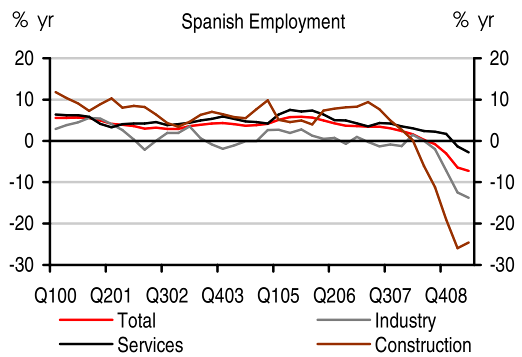


Source: Thomson Financial Datastream, HSBC

… a reflection of the sharp fall in domestic demand

- With the exception of public spending, domestic demand has contracted sharply for six consecutive quarters. Capital formation has been hardest hit, detracting over 1.0pp in each quarter from overall growth.
- Rising unemployment and the limited impact of interest rate cuts on real incomes so far due to the yearly reset of mortgage rates has also led to a sharp fall in private consumption. The pace of contraction is likely to moderate, however, as the real wage impact of government schemes and lower interest rates begin to feed through.
- Net exports have contributed positively to growth over the past six quarters. But this again is more a reflection of poor domestic demand as imports collapsed (-4.7% q-o-q on average since Q1 08) as compared to exports (-2.6%). Global recovery will support further positive contributions from net trade.

Labour market deterioration remains a big concern…

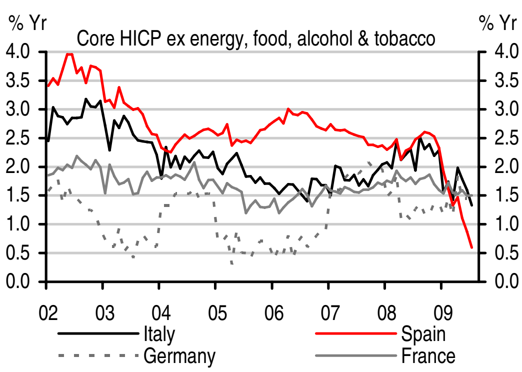


Source: INE, HSBC

…as employers' cut back on permanent employment

- Spanish unemployment at 18.5% is nearly double that of the Eurozone average (9.5%). Sectors worst affected in the recession have seen the largest labour cuts, with the construction sector shedding a quarter of its labour force over the past year though this has started to moderate recently.
- A look at employment details by type of contract also reveals that part-time permanent employment has risen (8.7% y-o-y) while full-time permanent employment has fallen (-2.2% y-o-y).
- In addition, the data clearly shows that ongoing adjustments have taken place so far, with a greater shedding of temporary jobs than permanent jobs (-19.8% y-o-y in Q2 09 versus -1.1% y-o-y). In fact, permanent employment has fallen for the first time in several years in Q2 09. With employers' now cutting back permanent employment, private consumption is likely to remain subdued despite improving real incomes.

Core HICP has fallen sharply…



Source: Datastream, HSBC

… much below that of the other big four economies

- Spain has historically had a higher rate of core inflation than any of the other big four economies in the Eurozone, with the gap between the Spanish and German core inflation rate being as high as 2.3pp when core inflation peaked at 4.0% for Spain in May 2002.
- In the absence of an option to devalue out of recession; collapsing demand (both internal and external) has, however, translated into severe downside pressures on Spanish core inflation, pushing it significantly below that of Germany as well over the last two quarters.
- Dis-inflationary pressures on the core rate will likely persist over the coming months as demand remains weak, though base effects and rising oil prices are likely to push the headline inflation rate, which turned negative in Q1 09, back above 0.5% y-o-y by end 2009.

UK

Deleveraging: how much and how painful?

We are not making any significant changes to our UK forecasts from the last Global Economics. The primary concern with regards to UK activity was the enormous amount of debt held by the household sector. There has been a sharp fall in consumer spending over the past year, which has been more evident in spending on services than spending on goods. But it seems that monetary policy is now serving to boost asset prices, in particular the housing market, which should limit the desire to reduce liabilities (or de-lever). Moreover, record low effective mortgage rates are still providing a sizeable boost to UK household income so we should see quarterly consumer spending growth from Q3.

The corporate sector balance sheet in the UK, in aggregate at least, is in considerably better shape, having run a financial surplus for the last seven years. This might explain why firms have chosen to hoard labour during the downturn. Whilst unemployment is still rising, the pace at which it is increasing has slowed markedly since the beginning of the year.

Concerns now surround government sector debt. Financial sector profits and employee wages and stamp duty from the housing market were key sources of tax revenue. The fall in these tax receipts is likely to result in a public sector deficit of more than 12% of GDP this fiscal year. Government spending will undoubtedly serve as a drag on growth over the coming years, but any meaningful fiscal tightening is unlikely to begin before 2011. For the Bank of England to meet its inflation target it will have to compensate by keeping interest rates lower to stimulate private demand. Thus while we expect the Bank Rate to rise from the current 'emergency low' by the middle of 2010 we think the peak in rates will be lower in this cycle.

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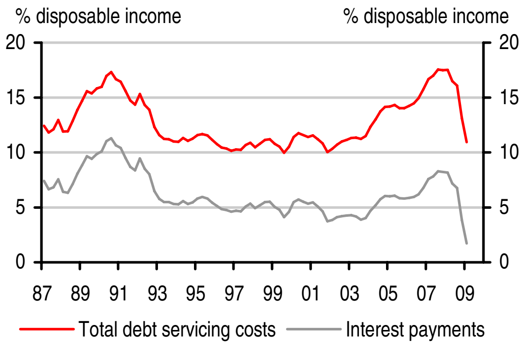
% Year

	2009f	2010f	2011f	Q3 09f	Q4 09f	Q1 10f	Q2 10f	Q3 10f	Q4 10f
Consumer spending	-3.0	0.2	1.6	-3.3	-1.9	-0.5	0.2	0.4	0.5
Government consumption	2.1	1.4	1.2	2.3	1.6	1.8	1.5	1.2	1.2
Investment	-14.5	-2.4	1.9	-15.0	-13.4	-7.1	-2.0	-0.5	0.5
Stockbuilding (% GDP)	-1.1	1.1	0.2	-1.2	0.7	1.3	1.3	1.2	0.7
Domestic demand	-5.0	1.2	1.7	-5.3	-2.5	0.2	1.4	1.6	1.3
Exports	-10.7	2.0	3.9	-11.5	-7.2	0.4	2.5	2.4	2.6
Imports	-12.9	-0.1	1.8	-13.8	-8.3	-1.8	0.7	0.6	0.3
GDP	-4.3	1.7	2.3	-4.4	-2.0	0.8	1.9	2.1	1.9
GDP (% quarter)	-	-	-	0.4	0.7	0.4	0.5	0.6	0.5
Manufacturing output	-10.4	1.6	3.5	-11.1	-5.9	0.3	2.0	2.0	2.0
Unemployment (%) - ILO	7.8	8.6	7.5	8.0	8.2	8.4	8.6	8.6	8.6
Average earnings	1.6	3.1	3.8	1.6	2.2	3.8	2.7	3.0	3.0
RPI	-0.7	3.9	3.0	-1.4	-0.1	3.3	4.0	3.9	4.4
CPI	2.1	2.4	2.2	1.6	1.9	2.9	2.6	2.0	2.0
Current account (% GDP)	-1.4	-1.1	-0.5	-	-	-	-	-	-
PSNB (% GDP)	-13.2	-12.4	-11.9	-	-	-	-	-	-
USD/GBP*	1.57	1.69	1.75	1.60	1.62	1.63	1.66	1.70	1.75
GBP/EUR*	0.90	0.89	0.86	0.91	0.93	0.92	0.91	0.88	0.86
Base rate (%)**	0.50	2.00	3.50	0.50	0.50	0.50	1.00	1.50	2.00
10-year bond yield (%)**	3.5	3.4	3.4	3.6	3.4	3.4	3.4	3.4	3.4

Note: *end-quarter estimates
Source: HSBC

The fall in debt service costs...

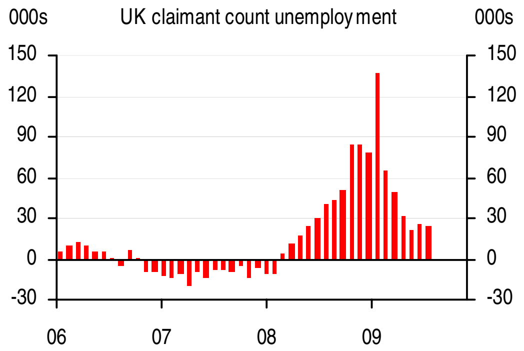


Source: Thomson Financial Datastream

...likely explains the improvement in the housing market

- UK households have more debt than any other country in the G7. But the upside is that both household and corporate debt is financed on short-term interest rates. With the 525bp decline in the BoE Bank Rate, debt servicing costs have fallen dramatically and by a far greater amount than that seen in the US and Eurozone.
- This probably explains why foreclosures are lower than the level seen last year. With a lack of forced selling, the housing market looks to be stabilising. Prices have risen for the last four months which should limit the need for the household sector to de-lever.

The pace at which unemployment is rising has eased...

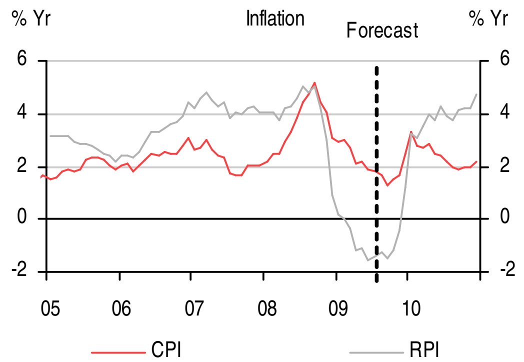


Source: Office for National Statistics

...and is likely to peak at a level much lower than that seen in past recessions

- Unemployment remains a key risk with regards to the outlook for consumer spending. It seems that in this cycle firms made job cuts early, most likely due to the high-profile nature of the financial crisis.
- More recently however, the pace at which unemployment is rising has slowed. And there are some positive signs most recently from the Bank of England Agents Survey and the KPMG/ REC survey to suggest that this should slow further in the coming months.

Inflation has proved incredibly sticky...



Source: Office for National Statistics

...and rising energy prices and the reinstatement of 17.5% VAT is likely to lead to a sharp rise in inflation in the coming months

- UK inflation has surprised to the upside in 13 of the last 17 months and is well above the level that the MPC anticipated earlier in the year.
- This cannot be entirely explained by food and energy prices which have both fallen sharply. Core inflation has been rising and despite the cut in VAT stands at 1.8%. Whilst higher import costs will be playing some role, we believe this also reflects the fact that retail demand has held up better than anticipated. As consumer spending recovers we expect further upward pressure on core inflation. Moreover, base effects from higher energy prices, and the reinstatement of VAT are likely to push inflation sharply higher in the coming months.

HSBC

Norway

Signs of recovery

GDP fell by 1.3% q-o-q (-2.5 y-o-y) in Q2, greater than the 0.8% q-o-q (-0.7% y-o-y) contraction seen in Q1 but this was largely attributable to the petroleum industry. The mainland economy actually grew by 0.3% q-o-q in Q2 after a fall of 0.3% in Q1. Except for greater de-stocking, all other components improved in quarterly terms in Q2. Norway remains a relative out-performer in Europe and we expect it to grow by 0.1% q-o-q in Q3 and 0.9% in Q4.

Household expenditure surprised on the upside in Q2 growing by 0.6% q-o-q. Consumer confidence has recovered strongly, retail sales are rising and unemployment has risen by much less than expected. Adding to that is the most expansionary fiscal budget in 30 years which should ensure robust government expenditure until 2010. Even investment eked out a 0.1% q-o-q rise in Q2, after falling 5% q-o-q in Q1 but the near term outlook remains poor and we expect further annual declines during the next few quarters, though rising oil prices may pose an upside risk to investment in oil and gas extraction in 2010.

Industrial indicators have been mixed. Business confidence has risen but the most recent PMI took a sharp leg down and manufacturing production continues to register monthly declines. However, recent improvement in the world trade cycle points to better trade prospects in the near future.

Core inflation was 2.5% in July (3.3% in June) and within the central bank's target for the first time since June 2008. Low profitability of businesses, falling capacity utilisation and production, currency appreciation and low wage growth, all point to lower inflation over the coming months. Nonetheless, assured by signs of recovery, the central bank left the policy rate unchanged for the first time since September 2008 at 1.25% in August and warned that it may be appropriate to increase the interest rate earlier than previously projected.

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% Year

	2009f	2010f	2011f	Q3 09f	Q4 09f	Q1 10f	Q2 10f	Q3 10f	Q4 10f
Consumer spending	-0.7	1.1	3.2	-0.2	1.1	1.5	1.1	0.9	0.7
Government consumption	6.1	5.9	4.0	6.9	7.0	7.0	6.2	5.4	5.0
Investment	-4.0	0.2	2.0	-4.7	-4.7	0.2	0.1	0.2	0.4
Stockbuilding (% GDP)	0.6	0.4	0.4	0.6	0.4	0.0	0.3	0.5	0.7
Domestic demand	-1.9	1.7	0.0	0.4	1.0	2.5	2.1	1.9	1.7
Exports	-7.3	1.7	2.2	-6.8	-7.6	-1.6	1.9	3.2	3.2
Imports	-11.6	3.5	4.1	-12.1	-7.6	3.5	2.3	3.5	4.8
GDP	-1.5	1.2	2.2	-1.5	-1.1	-0.4	1.5	1.9	1.9
GDP (% quarter)	-	-	-	0.1	0.9	0.0	0.6	0.5	0.8
Industrial production	-3.8	-0.3	0.7	-3.4	-5.7	-4.4	0.9	1.2	1.3
Unemployment (%)	3.4	4.0	4.0	3.5	3.6	3.8	4.0	4.0	4.0
Average earnings	3.8	3.2	3.2	4.7	3.1	3.2	3.2	3.2	3.2
Consumer prices	2.6	2.0	2.6	2.5	2.5	2.0	2.0	2.0	2.0
Current account (% GDP)	11.0	9.5	12.5	10.5	10.0	9.0	9.0	10.0	10.0
Budget balance (% GDP)	14.0	11.5	14.0	-	-	-	-	-	-
NOK/EUR**	8.5	8.0	8.0	8.52	8.52	8.00	8.00	8.00	8.00
3-month money (%)	2.2	2.7	3.6	1.9	2.1	2.3	2.5	2.8	3.1
10-year bond yield (%)	4.1	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2

Note: * = end-year
Source: HSBC

HSBC

Sweden

The worst is over

The Swedish economy returned to growth in Q2, expanding by 0.2% q-o-q following a 0.9% contraction in Q1. Our full-year 2009 forecast remains unchanged at -4.5% but we have revised up our 2010 growth forecast to 2.1% (1.1% earlier), mainly due to a better than expected pick up in consumption and better trade prospects in the future.

Although, the government has allocated a total of SEK111bn through 2009-10, fiscal spending was flat in Q2. Household consumption stabilised and with rising consumer confidence, growing retail sales and falling inflation, the fall in 2009 should be limited to 1.3% and it is expected to contribute robustly to growth from early next year. On the downside, unemployment has touched 9% and is expected to rise further, to more than 10% in 2010.

Being a small open economy, Sweden has been hit hard by a synchronised fall in external demand. It has suffered double digit annual declines in exports, imports, investment and production. However, after the massive de-stock in H1 09 production is stabilising and the world trade cycle is showing growing signs of a turn. Improving financing conditions, the slower fall in capacity utilisation, PMI readings above 50 and a weaker krona also point to an improving outlook.

Latvia remains a downside risk, having had its credit rating downgraded for the fourth time this year, but the Riksbank asserts that the Swedish banks are adequately capitalised and can withstand any arising loan losses. The Riksbank has aggressively cut the policy rate to 0.25% and has been the first to introduce a negative deposit rates for banks (-0.25%) which it hopes will encourage banks to lend. Underlying inflation remains stable although CPI inflation is expected to be slightly negative this year and to average just over 1% in 2010.

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% Year

	2009f	2010f	2011f	Q3 09f	Q4 09f	Q1 10f	Q2 10f	Q3 09f	Q4 09f
Consumer spending	-1.3	1.1	2.2	-1.0	0.0	0.5	0.9	1.3	1.7
Government consumption	1.7	0.5	0.5	1.2	1.6	0.6	0.6	0.5	0.4
Investment	-17.1	-2.1	4.5	-17.2	-17.1	-2.2	-2.2	-2.0	-2.0
Stockbuilding (% GDP)	-1.2	-0.2	0.2	-1.3	-0.9	-0.6	-0.3	-0.1	0.1
Domestic demand	-5.4	1.5	2.4	-5.3	-3.7	0.4	1.8	1.8	1.8
Exports	-13.1	3.4	5.9	-13.9	-8.9	-2.5	2.7	5.3	8.4
Imports	-15.7	2.6	5.7	-17.3	-12.4	-4.4	2.6	5.3	7.2
GDP	-4.5	2.1	2.9	-5.2	0.0	1.4	1.9	2.2	3.0
GDP (% quarter, sa)	-	-	-	0.5	0.3	0.4	0.7	0.8	1.1
Industrial production	-16.5	1.3	4.0	-17.7	-12.6	-6.0	0.9	4.4	6.7
Unemployment (%)	8.8	10.4	10.2	9.2	9.2	10.0	10.4	10.4	10.6
Average earnings	2.4	2.2	2.5	2.2	2.2	2.0	2.0	2.2	2.5
Consumer prices	-0.1	1.1	2.9	-0.5	-0.3	1.0	1.0	1.3	1.3
Current account (% GDP)	7.3	7.1	7.6	7.1	6.2	7.3	6.8	7.4	7.0
Budget balance (% GDP)	-3.3	-1.4	-1.0	-	-	-	-	-	-
State debt (% GDP)	43.6	42.0	40.0	-	-	-	-	-	-
SEK/USD	7.50	7.00	7.00	7.05	6.93	7.00	7.00	7.13	7.13
EUR/SEK	10.62	10.50	10.50	10.22	10.40	10.50	10.50	10.70	10.70
3-month money (%)	0.8	1.4	2.6	0.5	0.7	1.0	1.3	1.6	1.8
10-year bond yield (%)	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4

Source: HSBC

HSBC

Switzerland

Turning cautiously optimistic

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Despite continued contraction of GDP, the Swiss economy has held up better than expected over H1 09, helped by resilient consumption and government spending. Signs are also now emerging of a likely stabilisation of the economy in the second half, with the KOF leading indicator almost moving back into positive territory and the PMI manufacturing output index moving above 50 for the first time in a year. Investments and exports have traditionally been the main drivers of growth and we believe that we are nearing the end of a protracted correction period for the former with a sustained positive contribution to growth likely in 2010. Recovery in exports (in particular high-value items like diamonds and watches) is likely to take longer, however, despite the expected tentative growth in major export destination such as Germany. Private consumption that has held up well during the recession is also likely to fall over the coming quarters as the deterioration in the labour markets starts to hurt, with unemployment moving towards a five-year high of 4.0%.

The central bank which was worried about growth and persistent deflation (over the three-year horizon) has moved aggressively to support the economy, expanding the monetary base at a ballistic rate that has averaged 130% y-o-y since March 2009. This in turn has succeeded in pushing the less volatile M3 growth to five-year highs (5.9% in July 2009). While we expect the SNB to revise up its rather bearish growth projections, this is unlikely to result in any major change in monetary policy till Q2 10 when a clearer picture on the sustainability of global growth is expected to emerge. Deflationary pressures have abated, but the SNB will remain committed to supplying ample liquidity and preventing CHF strength over the next few quarters.

% Year

	2009f	2010f	2011f	Q3 09f	Q4 09f	Q1 10f	Q2 10f	Q3 10f	Q4 10f
Consumer spending	09	10.0	11.0	0.9	1.0	0.3	-0.4	-0.4	-0.2
Government consumption	-1.7	0.4	1.7	2.3	2.1	2.4	1.5	1.8	1.7
Investment	1.0	-0.2	1.4	-2.9	-0.6	0.9	0.0	0.9	1.0
Stockbuilding (% GDP)	-3.1	0.7	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Final domestic demand	-201.9	59.7	12.3	0.1	0.7	0.7	-0.1	0.2	0.3
Exports	0.2	0.3	1.6	-15.7	-8.2	-2.2	1.4	2.1	2.9
Imports	3.7	1.3	1.9	-10.5	-5.5	-4.0	1.6	2.0	2.7
GDP	-1.7	0.4	1.7	-1.8	-1.1	-0.3	0.2	0.6	1.0
GDP (% quarter)	-	-	-	-0.1	0.0	0.0	0.2	0.4	0.4
Industrial production	-9.7	0.3	1.6	-9.4	-5.2	-3.0	0.3	1.0	2.7
Unemployment (%)	3.7	4.7	4.4	3.9	4.2	4.4	4.6	4.8	5.0
Consumer prices	-0.6	0.6	0.9	-1.1	-0.5	0.4	0.6	0.6	0.7
Current account (EURbn)	22.9	24.1	30.6	5.0	5.4	5.5	5.7	5.6	7.3
Current account (% GDP)	6.5	6.7	8.3	5.9	6.0	6.0	6.2	6.6	7.9
SFR/USD	1.08	1.07	1.07	1.04	1.05	1.07	1.07	1.07	1.07
SFR/EUR	1.53	1.60	1.60	1.51	1.57	1.60	1.60	1.60	1.60
3-month money (%)	0.3	0.6	1.6	0.3	0.3	0.3	0.5	0.7	1.0
10-year bond yield (%)	2.1	2.3	2.5	2.0	2.2	2.2	2.2	2.3	2.3

Note: * = end-year
Source: HSBC

HSBC

Hungary

Back from the brink

The Hungarian economy declined steeply in the first half of 2009 as consumption and investment collapsed, and industrial activity and exports plummeted. However, from recent data releases it appears likely that the worst is over and recovery is on the way. While recovery is set to be gradual, growth may turn positive by H2 2010. In the meantime, the Hungarian economy has adjusted considerably over the past year. The trade and current account deficits have narrowed sharply as a fall in exports has been far outpaced by declining imports, and the income deficit has narrowed.

While a decline in the forint has helped in this adjustment, the HUF proved a primary concern with regard to financial stability, losing one-third of its value in the six months to early March and forcing the NBH to maintain sub-optimally high interest rates through July.

A recovery of the HUF in Q2 has allowed the NBH to resume the easing cycle, which started with an aggressive 100bp cut in July and is set to continue apace in the months ahead, assuming that risk appetite remains relatively firm. Inflation has risen following a July VAT hike, but by far less than expected.

As a stipulation of its IMF programme, budget spending has remained exceedingly tight. Fiscal reforms brought in under the Bajnai government – which will serve until parliamentary elections next year – have addressed pensions, local government financing and social transfers, and should ensure that a tighter budget is set to stay. As a result, the IMF has been complimentary of Hungary's efforts, and is due to complete its third review and disbursement in late September. Hungary was, however, able to return to the capital markets for funding in July, suggesting that not much more IMF funding may be necessary.

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% Year

	2006	2007	2008	2009f	2010f	2011f
Consumer spending	1.3	-1.8	-0.1	-6.5	-1.8	3.0
Government consumption	4.4	-2.2	-2.1	-1.2	-0.5	0.0
Fixed investment	-3.2	1.5	-2.6	-6.1	0.0	1.5
Exports	17.7	15.9	4.6	-15.5	3.2	8.5
Imports	14.6	13.1	4.0	-19.0	1.2	7.0
GDP	4.0	1.2	0.6	-5.9	-0.6	3.5
Industrial production	10.6	8.5	4.9	-16.8	3.1	4.6
Unemployment*	7.5	7.7	7.8	10.5	11.2	10.3
Consumer prices	3.9	8.0	6.1	4.3	2.9	2.0
Current account (% GDP)	-7.8	-6.6	-9.0	-4.0	-4.8	-3.5
Budget balance (% GDP)**	-9.1	-4.9	-3.3	-4.1	-4.0	-3.5
HUF/USD	190.3	173.3	191.1	175.7	163.3	162.1
HUF/EUR	251.2	252.9	265.6	260.0	245.0	235.0
3-month money (%)*	8.1	7.5	10.0	6.1	4.8	4.3
10-year yield (%)*	6.7	7.1	8.2	7.8	7.0	6.5

Note: * = year-end; ** Cash deficit rather than European Standard Accounting budget deficit
Source: HSBC

Poland

Recession? What recession?

While many economies in the region faced a steep decline in GDP, the Polish economy has managed to achieve positive growth in every quarter of the last year. Growth was fuelled by consumption (in turn, supported by a strong labour market), powerful momentum in investment and a considerable increase in net exports. The current account deficit, which was over EUR19bn in 2008, will be very close to flat or in surplus in 2009. Steady interest rate cuts delivered by a dutifully dovish MPC – even as the zloty plummeted – also helped. Looking ahead, consumption growth is likely to ease, and net exports should fall, suggesting a gradual recovery in the quarters ahead.

The government will face a more stringent fiscal environment as it seeks to avoid exceeding the 55% debt/GDP threshold that would trigger more drastic expenditure cuts. The budget's growth (1.0%) and inflation (1.0%) assumptions appear very conservative, leaving an ample fiscal cushion in the 2010 budget, though the government has set an ambitious privatisation timetable that will have to achieve some success if the deficit target is to be met.

Inflation is unlikely to come anywhere close to the target and is more likely to be in the region of 3.0% for the year. Stronger inflation would have been an issue for Poland's euro adoption plans, but since missing the Q2 target to join ERMII, the government has conceded that 2012 is no longer a realistic euro adoption target. 2014 is now a more likely date for euro adoption, assuming that inflation and the budget deficit fall, and political issues are resolved. Presidential elections in 2010 will soon come into focus, and may favour the ruling Citizens' Platform candidate given the party's robust popular support.

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% Year

	2006	2007	2008	2009f	2010f	2011f
Consumer spending	5.0	5.0	5.4	1.8	2.5	3.1
Government consumption	4.3	1.9	0.0	1.1	2.0	1.6
Fixed investment	14.9	17.6	7.9	0.8	3.5	5.5
Exports	12.3	4.9	5.8	-22.0	5.0	8.5
Imports	15.0	7.0	6.2	-27.3	5.0	9.5
GDP	6.2	6.7	4.8	1.0	2.0	3.4
Industrial production	12.0	9.7	3.9	-5.6	5.4	5.5
Unemployment (%)*	14.9	11.4	9.5	12.0	13.0	14.0
Consumer prices	1.0	2.5	4.2	3.6	2.6	2.5
Current account (% GDP)	-2.3	-3.8	-7.2	0.2	-2.2	-3.2
Budget balance (% GDP)	-2.4	-1.4	-1.9	-4.7	-6.3	-4.0
PLN/USD	3.1	2.8	2.4	2.5	2.3	2.6
PLN/EUR	3.9	3.8	3.4	3.8	3.4	3.2
3-month money (%)*	4.2	5.7	5.9	4.0	4.0	4.1
10-year bond yield (%)*	5.2	5.9	5.4	6.0	5.5	5.3

Note:* = year-end
Source: HSBC

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Romania

No quick fix

The recession in Romania deepened in the second quarter as the economy shrunk by 8.7% y-o-y after a fall of 6.2% y-o-y previously. Household consumption and fixed investments remain the main reasons for the material downturn, while net exports maintained their positive contribution to headline growth, reflecting an ongoing correction in the balance-of-payment accounts. Although firms seem to have embarked upon the long- awaited inventory-building cycle, it is unlikely to boost growth, as inventory changes account for only around 1% of GDP. Looking ahead, the economy is likely to start recording positive growth from the second quarter of 2010, although a sound revival in bank lending and a subsequent increase in private consumption appear to be the main prerequisites of a sustained recovery, which is likely to arrive only in 2011.

Notwithstanding temporary bouts of global and regional risk aversion, investor sentiment toward Romanian assets has improved noticeably since the conclusion of IMF-led external loan package. Given a worse-than-expected contraction in domestic demand, the IMF and EU revised down the key macro assumptions of the programme in August and increased this year's budget-gap target nearly twofold, to 7.3% of GDP (in cash terms) while the government has reportedly agreed to cut spending by 0.8% of GDP during the second half of 2009.

The passage of legislation pertaining to IMF-induced fiscal reforms, including an overhaul of the public wage system, is crucial for the continuation of IMF programme's successful implementation. However, public dissatisfaction with the bills appears high and political risks may resurface ahead of the November presidential election, in which the two strongest contenders are from each of the coalition parties.

The National Bank of Romania's (NBR) dovish bias remains intact; the bank lowered its key rates by another 50bp to 8.0% in September. The cumulative easing has reached 225bp so far and the NBR appears determined to revive lending – minimum reserve requirement ratios have also been reduced gradually since March. Assuming the markets continue to normalise and political risks remain subdued, the widening negative output gap and benign inflation outlook justify further measured rate cuts in the months ahead.

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% Year

	2006	2007	2008	2009f	2010f	2011f
Consumer spending	12.8	11.6	9.1	-10.1	0.8	4.8
Fixed investment	19.9	28.9	19.3	-20.6	2.0	9.4
Exports	9.8	7.8	18.9	-19.6	3.3	9.8
Imports	22.7	27.8	17.1	-27.8	2.4	13.1
GDP	7.9	6.2	7.1	-7.5	0.9	3.2
Industrial production	9.4	10.1	2.6	-9.4	1.4	4.9
Unemployment (%)*	5.2	4.1	4.4	9.2	10.1	8.5
Consumer prices	6.6	4.8	7.9	5.6	3.8	4.0
Current account (% GDP)	-10.4	-13.9	-12.6	-5.0	-4.5	-6.5
Budget balance (% GDP)**	-2.2	-2.5	-5.4	-7.2	-5.7	-3.8
RON/USD*	2.56	2.45	2.89	2.80	2.53	2.48
RON/EUR*	3.38	3.57	4.03	4.20	3.80	3.60
3-month money (%)*	8.0	8.0	14.7	8.5	6.3	6.6

Note: * = year-end, ** = General government balance (ESA 95)
Source: HSBC

Russia

Shaky export-led recovery

The significant decline of economic output in Russia from the pre-crisis peak level has potentially primed the economy for a strong bounce-back once the global economy stabilises. Indeed, this process appears already to be under way, with the 10.9% y-o-y decline in Q2 GDP likely to prove the trough for the current cycle, and activity appears to have rebounded since June.

Yet the recovery observed so far is based on rather shaky ground. Growth has primarily been boosted by export demand, a rally in global commodity prices and financial markets as well as restocking. Other growth ingredients, however, are missing. Private consumption is weakening owing to the decline in real wages, incomes and ongoing job cuts. Banks are struggling with troubled assets and (state-owned banks apart) continue to curb loan portfolios. The government's efforts to stabilise the situation have helped to prevent a bigger fall in output, but public procurement and many public investment programmes have been curtailed in order to keep the fiscal situation under control.

So, the domestic drivers of growth appear weak and the slow progress in solving banking sector problems will also constrain credit activity. At the same time, the possibility of a further boost to growth from fiscal easing has disappeared, and the budget deficit has jumped to c8% of GDP in 2009. As a result, the pace of economic recovery in Russia will be determined by the global economy and financial markets.

Moreover, a credible 'exit' strategy for fiscal policy has yet to be worked out. It will be very challenging politically for the Russian government to quickly reduce the budget deficit following the decision to boost current public spending while curbing investment expenditure during the crisis. If progress is not made on this front, however, the deterioration in the fiscal position will at some point start to damage macroeconomic stability through a spike in inflation and/or a rapid rise in public debt. Given the authorities' past tolerance of double-digit inflation, the risk of an inflation spike appears higher than that of a sharp rise in debt. If the government succeeds in implementing fiscal austerity measures, however, medium-term macroeconomic stability would be preserved at the expense of below-trend economic growth.

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% Year

	2006	2007	2008	2009f	2010f	2011f
GDP	7.7	8.1	5.6	-8.3	3.1	2.4
Industrial production	4.4	4.1	0.8	-13.1	3.4	2.7
Consumer prices	9.7	9.0	14.1	11.9	8.7	15.4
Current account (USDbn)	94.3	77.2	102.3	39.9	5.9	-11.6
Current account (% GDP)	9.5	6.0	6.1	3.3	0.4	-0.8
Foreign exchange reserves (USDbn)	295.6	465.9	412.5	406.8	392.5	368.6
Overall fiscal balance (% GDP)	7.4	5.4	4.1	-7.9	-7.4	-6.5
RUB/USD*	27.2	25.6	24.8	31.8	31.4	35.2
1-month money (%)*	4.8	4.9	10.1	12.5	10.3	16.9

Note: * = year average
Source: HSBC

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Turkey

IMF saga still ongoing

The Turkish government and the IMF have been in negotiations for a new loan programme for almost a year now and this issue still dominates the agenda. Istanbul will host the annual autumn meetings of the IMF in early October, but neither side wants their bilateral relations to overshadow this international event. While markets are disappointed by the lack of an agreement, both parties have hinted that talks will continue and that the next phase will be an evaluation of the government's recently announced medium-term economic programme.

In our view, the IMF deal represents both a significant funding support and a roadmap for the structural reform efforts that Turkey needs to make on both the fiscal front and real economy. Starting with the former, the Treasury's rollover ratio of domestic debt from the market has already crept up to 107% y-t-d. Interest rates have, counter-intuitively, been falling during that period but that can be explained by subdued inflationary pressure (in the short-term), hence the central bank's monetary easing, and the lack of loan demand from the private sector. Turkish banks have consequently directed vast resources to finance public sector borrowing, which they deem less risky. In the absence of strong non-resident portfolio inflows and/or an IMF agreement, the Treasury has to deal with significantly (c30%) higher domestic debt redemptions next year.

On the economic reform front, Turkey's key vulnerability is still the very low level of registered domestic savings. We believe an IMF programme could address weak tax revenues and the large grey/untaxed economy (c40-45% of registered activity). Otherwise, the government has to convince investors that it could undertake these arduous reforms on its own and without IMF funding support, which may not be that easy if global rates gradually pick up and the Turkish economy ends up with twin deficits once again.

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% Year

	2006	2007	2008	2009f	2010f	2011f
Consumer spending	4.6	4.1	0.8	-2.2	2.9	3.5
Government consumption	8.4	6.5	1.9	0.9	2.7	3.9
Fixed investment	13.3	5.4	-7.1	-15.9	3.6	5.7
Stockbuilding (% GDP)	-0.8	0.2	0.2	-2.9	-2.2	-0.9
Domestic demand	7.0	4.7	-1.0	-5.1	3.0	4.0
Exports	6.6	7.3	2.3	-6.9	4.9	8.3
Imports	6.9	10.7	-3.8	-16.4	8.3	12.9
GDP	6.9	4.6	0.9	-5.3	2.9	4.1
Industrial production	5.8	5.4	-0.9	-9.9	3.0	4.4
Consumer Prices	9.6	8.8	10.4	6.4	8.7	6.7
Producer prices	11.6	5.9	8.1	5.4	7.2	6.9
Current account (% GDP)	-6.1	-5.8	-5.7	-2.0	-2.8	-3.3
Budget deficit (% GDP)	-0.5	-1.6	-1.5	-6.1	-4.3	-5.5
TRY/USD**	1.41	1.16	1.52	1.58	1.60	1.58
3-month money (%)*	17.6	16.0	15.5	7.7	10.0	8.6

Note: * = year end; ** = starting in January 2005, when the Turkish currency (until then coded TRL) shed 6 zeros off its exchange rate
Source: HSBC

HSBC

Saudi Arabia

The long road back

Our confidence that the Saudi economy is set to return to growth is undimmed. Our conviction that that recovery has yet to commence, however, is also unchanged.

Timely data are scant but consolidated banking sector figures show that lending to the private sector has continued to contract – a trend we view as the inevitable unwinding of the 2006-08 credit boom. We also see the fall in claims as reflective of a downward shift in private consumption and investment spending – a conclusion supported by weak trade volume figures and by a sustained fall in inflation, which stood at a two-year low in August 2009. We continue to expect the Saudi economy to contract this year for the first time since 1999.

The conditions for recovery, however, seem to be increasingly well established. In part this reflects improvements in the external environment. Easing recession in the west and accelerating, energy-intensive growth in Asia should see oil prices rise in 2010 and 2011, giving the government additional scope to boost recurrent and capital spending without generating a fiscal shortfall. Even if oil revenues fall short, the government appears ready to draw down on its asset stock to fund spending growth. With some USD400bn in liquid assets still at its disposal, the Saudi Arabian Monetary Authority (SAMA) has sufficient resources to maintain this support for many years to come.

Our expectation is that the growth in public spending that has put a floor under the downturn in 2009 will be the trigger for acceleration in activity during 2010 and a support into 2011. Although bank lending is currently weak, the system is highly liquid and looks well placed to extend new funding once sentiment turns. We look for economic growth averaging over 5% in 2010-11, on a rising trend.

Recovering growth, subdued inflation and low rates in the US should prompt SAMA to maintain its very loose monetary policy stance. We do not expect the 1 January 2010 deadline for the launch of a Gulf single currency to lead to any change in monetary arrangements.

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% Year

	2006	2007	2008	2009f	2010f	2011f
Consumer spending*	13.4	14.0	20.0	3.0	6.5	8.0
Government consumption*	18.4	3.5	14.0	9.0	10.0	10.0
Fixed investment*	19.1	22.8	23.0	8.0	17.0	15.0
Stocks*	31.8	-2.7	15.0	-5.0	-5.0	-5.0
Exports*	16.0	12.2	38.8	-38.5	25.0	22.9
Imports*	29.3	28.2	30.0	-8.0	7.0	19.0
GDP	3.1	3.4	4.3	-1.1	4.1	5.9
Consumer prices	2.3	4.1	9.9	5.0	3.8	6.0
Current account balance (USDbn)	98.9	95.0	150.4	15.3	49.6	91.2
Current account balance (% GDP)	27.7	24.9	30.8	3.9	10.6	17.1
Budget balance (% GDP)	21.7	12.5	31.7	-1.8	1.9	5.0
SAR/USD	3.75	3.75	3.75	3.75	3.75	3.75
3-month money (%)**	4.9	4.0	3.0	0.4	0.9	1.3

Note: * Nominal growth. ** End year.
Source: HSBC

HSBC

South Africa

Recovery some way off

The impact of the global economic downturn was somewhat delayed in South Africa; likewise, the recovery may come with a lag. GDP dropped 2.8% y-o-y in Q2 after falling 1.3% in Q1, and looks set to remain in negative territory through Q3 at least. Manufacturing has suffered the most (mining has been very weak), while sectors that have benefited from the government's attention and investment have fared better. Government spending has kept the recession moderate, and may keep it short. But private sector weakness and its relative lack of investment could put it on a poor footing in the future and make for a slow recovery. The political situation has settled since parliamentary elections early this year, and no radical policy shifts are on the cards. However, the increasingly influential left of the party is determined to see more of its policies implemented in the future.

Interest rates were cut by 500bp from December 2008 through August 2009, and it is still unclear whether easing has stopped. The appointment of Gill Marcus to replace South African Reserve Bank (SARB) governor Tito Mboweni when he steps down in November adds to the uncertainty created when the SARB cut rates unexpectedly in August, just as wage agreements were coming in on the high side of expectations. Inflation remains high but has eased substantially and to within 1ppt of the 3%–6% target range, but persistent price stickiness in the past couple years and generous wage agreements put further improvement in doubt. On the fiscal side, spending has increased, as one would expect during a recession in a country with ample fiscal flexibility. However, many of the government's plans permanently raise spending and are likely to increase indebtedness over time.

The rand's remarkable strength owes much to the good performance of risk assets recently, while FDI and expectations of M&A related inflows provide support, as does the gold price. We do not expect it to last indefinitely.

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% Year

	2006	2007	2008	2009f	2010f	2011f
Consumer spending	8.3	6.6	2.3	-2.5	1.2	2.5
Government consumption	5.1	4.8	5.0	4.8	5.1	5.3
Fixed investment	13.8	17.1	10.2	5.5	7.1	7.5
Exports	6.0	7.5	1.7	-17.0	3.5	5.5
Imports	18.9	10.0	2.2	-15.0	3.5	5.5
GDP	5.3	5.1	3.1	-1.8	1.6	2.8
Industrial production	4.9	5.5	1.0	-15.0	8.1	3.5
M3	23.1	23.6	14.5	6.0	10.5	15.8
Consumer prices	4.6	7.1	11.5	7.0	5.7	6.5
Current account (% GDP)	-6.4	-7.3	-7.4	-5.3	-5.8	-6.4
Budget balance (% GDP)	0.2	0.7	-0.3	-5.8	-5.4	-5.7
ZAR/USD	7.03	7.01	8.37	8.12	8.13	8.50
3-month money (%)*	9.2	11.3	11.4	7.0	7.7	8.5
10-year bond yield (%)*	7.7	8.4	7.3	8.8	9.0	8.5

Note: * = index 1995 = 100 (end year)
Source: HSBC

HSBC

Japan

Downward pressure remains

We have raised our forecast for real GDP growth in 2009 to -5.7%, from -6.3%, mainly to reflect stronger-than-expected growth in the April-June period, and have maintained our 2010 growth forecast at 1.2%. Japan will remain burdened with a large negative output gap throughout the forecast period, forcing companies, especially manufacturers, to cut capital investments and personnel costs. Unemployment looks set to stay above 6% in 2010 and decline only slightly in 2011. Thus, private domestic demand will not drive growth, which will, instead, probably be propelled by government spending and investment and exports to rapidly developing Asian countries.

The economic policy of the new Japanese government is a major uncertainty. If this policy is implemented as planned, it will probably push down on growth in the second half of FY 2009, stimulate growth in FY 2010 and be growth-neutral in FY 2011.

The large negative output gap will be a persistent source of downward pressures upon prices. The government's economic policy will also reduce core CPI by an estimated 0.6pt in FY 2010 and 0.1pt in FY 2011. We project that the core CPI will fall by 1.2% in 2009, by 1.4% in 2010, and by 0.8% in 2011.

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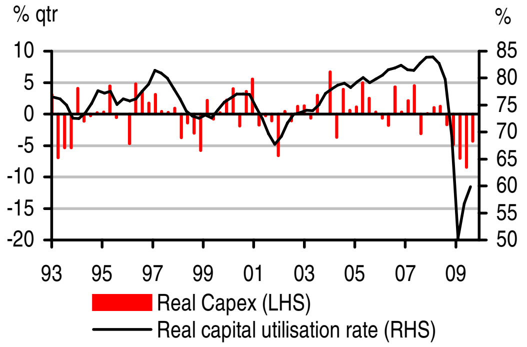
% Year

	2009f	2010f	2011f	Q3 09f	Q4 09f	Q1 10f	Q2 10f	Q3 10f	Q4 10f
Consumer spending	-1.1	0.8	1.0	-1.0	-0.3	0.7	0.7	0.8	1.1
Government consumption	0.7	0.5	-1.6	1.4	-0.1	0.0	0.8	0.7	0.5
Investment	-13.1	-5.1	-2.1	-13.1	-9.6	-5.4	-4.1	-5.1	-5.3
Private non-residential	-20.3	-6.4	0.5	-20.6	-15.8	-9.8	-6.2	-5.4	-4.0
Private residential	-10.2	-2.9	1.4	-14.3	-16.3	-10.8	-1.4	0.8	0.8
Public	12.5	-2.6	-12.4	17.7	18.7	12.8	-0.3	-7.9	-12.9
Stockbuilding (% GDP)	0.2	0.2	0.3	0.0	0.1	0.2	0.2	0.2	0.3
Domestic demand	-3.9	-0.4	-0.1	-3.5	-3.1	-1.0	0.2	-0.2	-0.1
Exports	-24.7	13.0	8.3	-23.4	-7.3	21.9	15.7	9.3	6.7
Imports	-16.3	-0.3	0.5	-15.6	-16.8	-1.7	2.0	-0.5	-1.0
GDP	-5.7	1.2	1.1	-5.5	-1.8	1.4	1.4	1.1	0.9
GDP (% quarter)	-	-	-	0.5	0.4	-0.1	0.5	0.2	0.3
Industrial production (% year)	-22.6	11.6	4.7	-21.7	-6.3	23.4	13.8	6.2	3.1
Unemployment rate	5.2	6.1	5.9	5.4	5.7	6.0	6.1	6.1	6.0
Wholesale prices	-5.1	-1.0	-0.2	-8.3	-4.8	-1.5	-1.0	-0.8	-0.7
CPI	-1.2	-1.4	-0.8	-2.4	-1.6	-1.2	-1.6	-1.4	-1.3
M2+CDs	2.7	2.7	2.5	2.8	3.0	2.8	2.7	2.6	2.5
Current account (JPYtrn)	15.5	21.9	26.8	5.1	‘	4.3	5.1	6.6	5.9
Current account (% GDP)	3.2	4.5	5.5	4.3	3.8	3.7	4.3	5.5	4.7
Budget balance (% GDP)	-10.2	-10.5	-10.0	-	-	-	-	-	-
JPY/USD	96	105	105	90	100	105	105	105	105
3-month money (%)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Benchmark bond (%)	1.4	1.3	1.3	1.3	1.4	1.2	1.2	1.2	1.3

Source: HSBC

Industrial production gaining momentum…

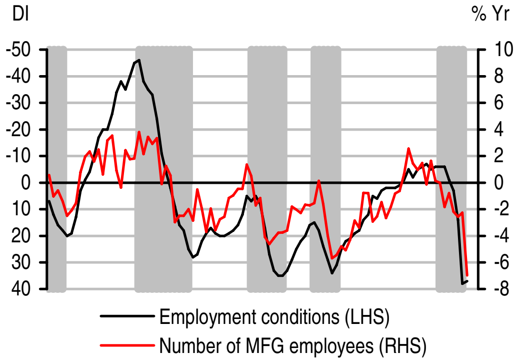


Source: METI, MoF

…but still too low for capex trend to turn up

- Industrial production bottomed out in February and has since risen by 18.4%, mainly due to the effects of global fiscal stimuli and the rebound in the inventory cycle. The new orders component of the US ISM manufacturing index, a prominent leading indicator of Japan's industrial production, indicates that Japan's IP will keep growing at least until the end of this year.
- Fixed investment (capex), however, is not likely to increase as the capacity utilisation rate is still too low. In the past, capex did not rise on a quarterly basis until the real capacity utilisation rate had risen above the 73% level. This is about 20% higher than the level in July 2009, implying a weak trend for capex for some time yet.

Increase in manufacturers' employees is the key…

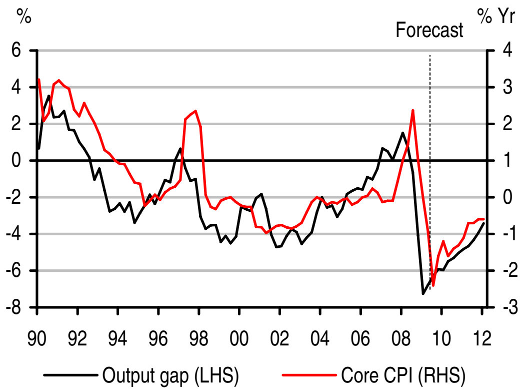


Source: METI, MHLW

… but it seldom happens

- The Japanese unemployment rate climbed to a record 5.7% in July, and will rise to above 6% in early 2010.
- Nearly all job losses are coming from the manufacturing sector. During the last recovery phase, manufacturers did not increase labour inputs during the first five years of recovery, when industrial production rose by more than 26% from the bottom.
- There is little likelihood of an increase in employment in the manufacturing sector until companies report a shortage of labour, or the industrial production index reaches 100, (average level of 2005), which is 21% higher than the current level.

Continuous negative output gap…



Source: Cabinet Office, MIC, HSBC forecasts

… leads continuous deflation

- The negative output gap expanded to over 7% in Q1 2009. It started to contract as economy hit bottom, but will remain throughout the forecasting period, given our GDP forecast and the assumption of a 0% potential growth rate.
- Japan experienced seven years of deflation from 1998 to 2004, and the current negative output gap is estimated to be much larger than during those years.

HSBC

Australia

What crisis?

Among OECD countries, Australia has had an impressive run. The economy has so far avoided recession, registering only one quarter of negative growth late last year. Over the first half of 2009, growth accelerated again, driven both by exports and a rebound in consumer spending, partly reflecting the government's stimulus measures.

For the full year, we now expect the economy to expand by 0.8%. Investment in particular should rebound over the second half, with official infrastructure projects kicking in fully and spending on dwellings rising again. In fact, house prices have risen in recent months as property demand remains strong amid low interest rates and continued population growth. While house prices remain high relative to incomes and rents, there is no reason to expect real estate prices to plunge any time soon: under-investment in dwellings relative to fundamental demand growth means that a structural shortage of housing in urban areas may persist for quite some time.

Still, caution is warranted. With the central bank likely to start hiking rates again in the first quarter of next year, a rise in debt-servicing costs by households may detract from consumption growth, even if the labour market has recently shown signs of tentative stabilisation. As a result, rate hikes may prove gradual. Reviving domestic growth may also mean that imports start rising again at a faster rate than exports, putting some pressure on Australia's trade position and, consequently, financial conditions onshore as the banking sector remains dependent on external financing. In short, we expect growth to remain below trend in 2010 at 2.6%.

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% Year

	2009f	2010f	2011f	Q3 09f	Q4 09f	Q1 10f	Q2 10f	Q3 10f	Q4 10f
Consumer spending	1.8	2.8	3.0	1.9	2.7	2.8	2.6	2.9	2.8
Government consumption	2.2	1.9	1.6	1.8	1.5	1.7	1.3	2.0	2.5
Investment	-4.4	-1.7	4.9	-6.9	-8.4	-4.8	-4.3	-0.3	2.7
Final domestic demand	-0.6	1.4	3.3	-0.7	-0.8	0.5	0.5	1.9	2.7
Stockbuilding (% GDP)	-0.7	0.2	0.2	-0.7	0.0	0.0	0.2	0.4	0.3
Domestic demand	-1.2	2.3	3.2	-1.6	0.6	1.6	1.6	2.9	3.1
Exports	2.3	5.1	5.8	2.0	5.2	4.7	4.6	5.7	5.4
Imports	-9.7	6.3	7.5	-11.9	-3.0	6.3	5.7	6.3	6.9
GDP	0.8	2.6	2.8	0.4	1.9	2.0	2.2	3.2	3.1
GDP (% quarter)	-	-	-	0.1	0.8	0.5	0.8	1.0	0.7
Industrial production	-2.8	2.0	3.0	-3.0	-1.0	1.0	2.0	2.0	3.0
CPI	1.9	2.8	3.0	1.5	2.0	2.5	2.8	3.0	2.8
Unemployment	5.7	6.6	6.0	5.9	6.0	7.5	6.5	6.3	6.0
Average earnings	3.7	3.8	3.9	3.5	3.6	3.8	3.8	3.8	3.8
Current account (AUDbn)*	-48.0	-52.0	-56.0	-54.0	-48.0	-44.0	-44.0	-52.0	-52.0
Current account (% GDP)	-3.7	-3.7	-4.1	-	-	-	-	-	-
Budget balance (% GDP)	-3.5	-3.0	-1.0	-	-	-	-	-	-
USD/AUD	0.81	0.92	0.95	0.87	0.86	0.88	0.91	0.93	0.95
3-month money (%)	3.4	4.2	4.6	3.4	3.6	3.9	4.2	4.2	4.4
10-year bond (%)	5.3	5.9	6.0	5.9	5.9	6.0	6.0	6.0	6.0

Note: Quarterly data are a four-quarter rolling sum; * = quarter annualised
Source: HSBC

New Zealand

Still work to do

New Zealand, unlike its neighbours, is showing few signs that its economy has entered full recovery mode yet. High-frequency data suggest that consumer spending remained tepid in the second quarter, with retail sales volumes continuing to shrink in annual terms through June of this year. Household spending will likely remain depressed for quite some time, given that the unemployment rate is still ticking up and wage growth is feeble. Meanwhile, the savings rate is still in deeply negative territory, making a bounce in consumer expenditure appear unlikely for now.

The corporate sector, too, is still grappling with recession. While sentiment has improved, investment is unlikely to soar any time soon, not least because credit to firms is still contracting. A pick-up in global commodity prices, however, suggests that exports may strengthen over the coming quarters, pointing towards a stabilisation of output. Meanwhile, effective lending rates have started to decline, matching the cut in the policy rate. This should ultimately help revive business and investment activity and the economy more broadly.

Given only tentative signs of stabilisation, the central bank can afford to leave rates on hold for a considerable period. With inflation expectations relatively well anchored, and output recovering only gradually, we only expect a hike in the policy rate during the third quarter of next year – much later than other central banks in the region. For 2009 as a whole, we expect the economy to contract by 1.7%, followed by a relatively muted expansion of 1.5% next year and 2.4% in 2011.

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% Year

	2006	2007	2008	2009f	2010f	2011f
Consumer spending	2.5	4.1	-0.1	-1.1	0.7	2.6
Government consumption	4.9	3.5	3.8	1.4	4.0	2.2
Investment	-0.2	4.9	-4.3	-14.2	-1.4	2.3
Final domestic demand	2.2	4.2	-0.5	-4.3	-0.1	2.5
Stockbuilding (% GDP)	0.4	0.7	1.0	-1.9	0.3	0.4
Domestic demand	1.5	4.5	-0.2	-7.0	2.1	2.6
Exports	1.7	3.8	-1.2	-1.7	0.2	3.6
Imports	-2.6	8.7	2.5	-18.5	1.9	4.3
GDP	2.7	3.0	-1.1	-1.7	1.5	2.4
Consumer prices	3.4	2.4	3.9	2.1	2.2	2.6
Current account (% GDP)	-8.6	-8.1	-8.9	-7.5	-8.2	-7.2
Budget balance (% GDP)	5.9	5.0	2.9	-1.5	-1.0	0.5
Unemployment*	3.8	3.7	4.2	5.9	6.2	5.4
NZD/USD	0.64	0.75	0.70	0.66	0.72	0.73
3-month money (%)	7.6	8.4	8.0	3.2	3.6	3.9
10-year bond yield (%)	5.8	6.3	6.1	5.8	6.2	6.4

Note: * Year end. Source: HSBC

China

Recovery sustained into 2010

China's infrastructure investment-led recovery is accelerating, as the filtering-through of stimulus measures has substantially lifted domestic demand. Despite the normalisation in new lending, fixed asset investment growth remained strong at 33% y-o-y in January-August, thanks to the acceleration of local-government-backed investment and the pick-up in property investment. August industrial production growth hit a 12-month high of 12.3% y-o-y. Meanwhile, the second-round effect of the stimulus package is being reflected by robust consumer spending. Retail sales growth remained steady at 16.6% y-o-y in August (in real terms), thanks to the recovery in the property market and stronger than expected car sales.

We believe the infrastructure-centric, investment-driven recovery can be sustained into 2010, and look for GDP growth to reach 9.5% next year, given that the construction work on most of these infrastructure projects, once started, will typically last two to three years. Investment in newly started projects grew 81% y-o-y in the first eight months of the year, implying plenty of new projects in the pipeline to sustain the growth in 2010. Indeed, there is plenty of slack in infrastructure investment in China. The risks of accumulating overcapacity are limited, in our view. Meanwhile, there are emerging signs that the recovery is rotating from infrastructure investment to private investment and consumption.

Deflationary pressures have started to ease and we expect CPI to turn to positive in Q4 2009. That said, there is no imminent inflationary risk or need to raise interest rates. We think the inflation risk will be controllable in 2010, given that the output gap and manufacturing overcapacity – owing to a slow recovery in global demand – will keep inflation in check. Thus, we do not expect any meaningful tightening via rate hikes before Q2 next year.

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% Year

	2006	2007	2008	2009f	2010f	2011f
Consumer spending	8.7	9.0	8.9	8.0	8.5	8.6
Government consumption	11.7	14.3	12.0	18.0	16.0	14.0
Fixed asset investment	24.5	25.8	26.1	27.5	26.0	20.0
Exports	25.0	23.8	11.2	-14.0	7.0	8.0
Imports	20.0	17.8	8.5	-16.0	10.0	4.0
GDP	11.6	13.0	9.0	8.1	9.5	8.9
Industrial production (ex-small enterprises)	16.2	17.1	12.9	9.5	14.0	13.0
Consumer prices	1.5	4.8	5.9	-0.6	2.6	2.5
Current account (% GDP)	9.5	11.0	9.8	5.1	4.3	4.2
Budget balance (% GDP)	-1.0	0.6	-0.4	-2.9	-4.3	-3.3
CNY/USD	7.93	7.54	6.88	6.82	6.75	6.50
1-year time deposit (%)	2.4	3.3	3.8	2.3	2.5	2.8
1-year lending (%)	5.9	6.8	7.0	5.3	5.6	5.9

Source: HSBC

HSBC

Hong Kong SAR

Riding a regional recovery

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Similar to the global economy, Hong Kong's economy has rebounded faster than we had expected. Real GDP grew by 3.3% on a quarterly basis during Q2, and on a year-on-year basis the rate of contraction eased to -3.8% in Q2 from -7.8% in the previous quarter. There are still some overhangs in 2009, but we expect a fully fledged recovery in 2010 and have raised our 2010 GDP forecast to 3.8% from 2.4%.

Consumer confidence rose significantly in Q2, due in part to the global asset market boom and smaller-than-expected job cuts in the local market, and private consumption rose 4% from Q1. Job creation remains absent, however. We now expect the jobless rate to peak at 6.2% Q1 2010 versus 6.7% previously. Therefore, we expect private consumption to improve at a faster pace only next year.

Merchandise trade also surprised us in Q2, recording export growth of 11% q-o-q, substantially better than the performance of China's exports. Indeed, China's strong public investment may have been a factor here, given the rise in Hong Kong exports to the country. Hong Kong's export prospects will also benefit from the upgraded outlook for the G3 countries.

Private investment remains the greatest hindrance to growth, recording a larger-than-expected contraction in Q2. While banks have eased their lending criteria, corporate loan growth remains subdued. We believe companies are still postponing capacity expansions until they see a meaningful improvement in the global economy.

Hong Kong has recorded two months of deflation. While the general price level is still under downward pressure, rising private rental costs could work through the economy faster than expected. Therefore, we have also raised our 2010 CPI forecast to 2.3% from 1.4% previously.

% Year

	2006	2007	2008	2009f	2010f	2011f
Consumer spending	5.9	8.5	1.7	-1.0	2.1	3.0
Government consumption	0.2	3.0	1.8	1.8	1.5	1.3
Fixed investment	7.1	3.4	0.0	-8.3	5.0	6.0
Stockbuilding (% GDP)	-0.1	0.8	0.6	-0.5	-0.2	0.2
Domestic demand	5.9	7.9	0.8	-3.7	3.0	3.9
Exports	9.4	8.3	2.7	-11.1	7.4	7.9
Imports	9.1	9.2	2.0	-11.4	7.2	7.9
GDP	7.0	6.4	2.4	-4.0	3.8	4.3
Industrial production	2.2	-1.5	-6.6	-8.5	1.5	2.3
Unemployment (%)	4.8	4.0	3.6	5.6	6.1	5.7
Retail sales	7.1	12.8	10.5	-2.1	4.5	7.8
Consumer prices	2.0	2.0	4.3	0.6	2.3	3.0
Goods & services balance (% GDP)	11.4	10.8	10.9	11.5	12.5	13.2
Budget balance (% GDP)	4.0	7.7	0.1	-3.9	-1.2	2.5
HKD/USD	7.77	7.80	7.77	7.78	7.80	7.80
3-month money (%)	4.3	4.3	2.4	0.5	0.3	0.3
Prime rate (%)	7.9	7.6	5.3	5.0	5.0	5.0

Source: HSBC

HSBC

India

How big a drought effect?

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A number of Indian economic indicators have improved markedly in recent months, such as motor vehicle sales, industrial production and the service sector Purchasing Mangers Index (PMI). Overall, it is clear that the recovery has begun.

Looking ahead, however, the recovery faces a potentially important challenge in the form of the country's 13th drought in the past 60 years. Agricultural output contracted in the previous 12, recording an average fall of 3%. With agriculture now a smaller part of the economy (accounting for 20% of total output) the GDP effect should be smaller than in the past, but will by no means be negligible given that more than half of the population still live off the land.

It is just as well, therefore, that there are plenty of offsetting factors in play. In particular, the full impact of the various fiscal and monetary stimulus measures, many of which are targeted at the rural (and urban) poor, have yet to be felt. The government may also decide to pump more money into the rural economy to help ease the situation, albeit at the risk of undermining the public finances further. Despite some more encouraging signs on government revenues, we are sticking with our forecast of a 7.5% of GDP central government deficit in 2009/10 and a 12% general government shortfall.

The country has yet to see oil and gas production step up to any significant extent, although this is presumably only a question of time. Meanwhile, exports are set to take a turn for the better given the prospect of an improving regional/world trade cycle.

We have been forecasting 6.2% GDP growth in fiscal year 2009/10and 8% in 2010/11 since the beginning of this year and remain happy with those numbers. If anything, the risks to the former are on the upside given the surprisingly good start to the fiscal year.

In contrast to other countries, CPI inflation has remained high in India, thanks to persistently high food price rises. Inflation on the more closely watched wholesale price series was negative but is now moving higher and looks set to hit 8% by the March next year. Although the Reserve Bank has been sounding more hawkish recently we doubt it will make a rate move this year.

% Year

	2006	2007	2008	2009f	2010f	2011f
GDP*	9.9	9.3	7.5	6.2	7.2	8.9
GDP (Financial year)**	9.7	9.0	6.7	6.2	8.0	8.5
Consumer prices	6.3	6.4	8.3	10.5	9.6	6.0
Current account (% GDP)	-1.1	-1.0	-3.1	-1.5	-2.0	-1.9
Budget balance (% GDP)	-3.6	-2.8	-6.3	-6.9	-5.8	-4.9
Broad money supply	19.6	21.8	20.3	19.0	19.0	19.0
INR/USD	45.1	40.7	44.6	48.7	47.3	45.3
3-month money (%)	7.0	8.3	9.2	5.3	5.0	6.3
Prime rate (%)	11.3	13.0	12.9	11.5	12.0	13.0

Note: * = calendar year; ** = based upon Indian fiscal year (April-March)
Source: HSBC

Indonesia

Election-related resilience?

Outside of Japan, Indonesia registered the smallest quarter-on-quarter GDP rise in Q2 of all the main Asian countries. However, at 5.3% on an annualised basis it was far from disastrous and came mainly as a consequence of the economy's far greater resilience at the end of last year and the beginning of this.

The big question, however, is how much of that resilience was the function of the election-related spending which has now faded. It is certainly hard to believe that the strong *improvement* in private consumption and confidence through the global crisis – which Indonesia must have been one of the only countries to experience – had nothing to do with the timing of the parliamentary and presidential elections.

With this in mind, and factoring in Indonesia's fairly small monetary and fiscal easing actions, as well as its comparatively low trade exposure, we would be very surprised if the country registered one of the best Asian growth performances in 2010 as seems likely in 2009 (although it won't be bad either).

Inflation is set to rear its ugly head again before the year is out and might rise close to 10% before peaking around the middle of next year. The lagged impact of the rise in commodity prices will be the key factor, just as it was in the first half of 2008, and the central Bank will probably move rates modestly higher next year to counter the threat of second-round effects.

As we have frequently pointed out, Indonesia has made significant structural progress since the 1997/98 crisis, repairing balance sheets, clamping down on corruption and encouraging greater inward FDI.

A key test of President Yudhoyono's second and final term will be the extent to which he can extend the change for good. In particular, will labour market reform prove a step too far?

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% Year

	2006	2007	2008	2009f	2010f	2011f
Consumer spending	3.2	5.0	5.3	4.9	5.4	5.0
Government consumption	9.6	3.9	10.4	12.8	2.5	2.3
Fixed investment	2.6	9.4	11.7	3.3	8.7	7.4
Stockbuilding (% GDP)	1.6	0.0	0.2	-0.1	-0.1	0.0
Domestic demand	3.2	4.1	7.7	4.9	6.0	5.4
Exports	9.4	8.5	9.5	-10.0	8.5	8.2
Imports	8.6	9.0	10.0	-14.5	9.6	8.8
GDP	5.5	6.3	6.1	4.3	5.8	5.5
Industrial production	4.6	4.7	3.7	1.6	6.3	4.7
Unemployment (%)	10.8	9.7	8.8	9.0	9.3	8.8
Consumer prices	13.1	6.4	10.2	5.3	7.9	7.0
Current account (% GDP)	3.0	2.4	0.1	1.5	0.3	0.8
Budget balance (% GDP)	-0.9	-1.3	-0.1	-1.9	-1.6	-1.0
IDR/USD	9135	9176	9730	10246	8975	8800
3-month money (%)	11.9	8.1	9.3	8.0	7.2	8.1

Source: HSBC

HSBC

Malaysia

Strong, sustained success?

As expected, the Malaysian economy sprang back to life in the second quarter, registering 17% quarter-on-quarter annualised growth. Moreover, given the strong rise in the country's lead indicator, as well as an impressive improvement in consumer confidence, Q2 is unlikely to represent a flash in the pan. That is consistent with a return to near double-digit private consumption growth in the not-too-distant future.

More fundamentally, the vast bulk of the fiscal and monetary stimulus measures have yet to feed through to the real economy, while Malaysia, along with Singapore, will be one of the main beneficiaries of the turn in the regional/world trade cycle, as exports represent roughly 120% of GDP. Relatively high palm oil and rubber prices will help the agricultural sector and there is some hope that the government's liberalisation measures will pay dividends in time, boosting the share of investment in GDP.

Overall, the country looks set to enjoy a sustained, V-shaped recovery and we have raised our already above-consensus growth forecasts. Given the terrible start to the year, GDP is still on course to contract in 2009 as a whole – although by just 2% – but we expect the economy to expand by nearly 7% in 2010. If we are right, then unemployment will start to change course next year and the property market should receive a lift as well.

This is not to say that it will all be plain sailing. As elsewhere in the region, inflation is now close to bottoming and the central bank will face a tricky decision: when to start hiking the policy rate, which currently stands at just 2%. Last year Bank Negara was the only Asian Central Bank prepared to "see through" the commodity-driven rise in inflation, and it typically seems to focus more on core than on the headline CPI rate. We therefore doubt it will be in any particularly hurry to tighten the screws and look for the first move in the third quarter of next year.

It will also be important to see if and how the government tackles the high fiscal deficit in the October budget and whether the reform process continues as promised.

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% Year

	2006	2007	2008	2009f	2010f	2011f
Consumer spending	6.8	10.4	8.5	2.5	5.6	5.0
Government consumption	5.0	6.5	10.9	2.1	1.0	1.0
Fixed investment	7.5	9.6	0.8	-7.5	4.1	7.0
Stockbuilding (% GDP)	0.1	-0.8	-1.5	-4.5	-0.6	0.0
Domestic demand	7.7	8.5	6.0	-3.4	9.3	5.5
Exports	6.6	4.5	1.3	-11.0	8.4	9.4
Imports	8.1	6.0	1.9	-13.3	10.9	10.0
GDP	5.8	6.2	4.6	-2.0	6.8	5.5
Industrial production	6.7	3.1	1.4	-9.9	7.5	6.5
Unemployment (%)	3.3	3.2	3.3	3.8	3.7	3.4
Consumer prices	3.6	2.0	5.4	0.8	3.3	2.5
Current account (% GDP)	16.7	15.7	17.4	15.4	12.9	13.2
Budget balance (% GDP)	-3.3	-3.2	-4.8	-8.5	-5.8	-4.0
MYR/USD	3.64	3.41	3.34	3.55	3.49	3.43
3-month interbank rate (%)	3.7	3.6	3.6	2.2	2.1	2.9

Source: HSBC

HSBC

Philippines

Look at those remittances

Along with its neighbours, the Philippine economy rebounded in Q2, expanding 2.4% q-o-q sa. Unlike other economies, however, it was primarily fiscal spending that drove the recovery as household spending remained a little subdued and investment continued to linger. As a result, the fiscal deficit has widened due to both pump-priming and to faltering revenue collection. If not addressed, the fiscal balance may move to the centre of market attention as we slide towards elections in the second quarter of next year.

Still, remittances are truly astounding. Rather than contract this year, as we and virtually everyone else had expected, they now look set to rise. The main reason here is the strength of flows from the Middle East, where more than half of all Overseas Filipino Workers reside. Remittances underpin the external payments position of the country as well as household spending, and, with flows remaining intact, and possibly accelerating again, we expect growth to pick up while exchange market worries may subside. Stronger growth may also herald the end of the easing cycle, with the central bank already on hold at 4% in the last few months. As the economy picks up speed, and inflation returns, we expect the authorities to begin hiking in the second quarter of next year, once the elections are out of the way. Headline inflation, in fact, may breach the central bank's target towards the end of 2010, warranting pre-emptive action by monetary officials.

A rising policy rate is unlikely to derail the current recovery, not least because liquidity remains flush in the local financial system and banks are capable of extending credit at favourable terms. Altogether, we expect growth next year to rebound to 4.2% from less than 2% in 2009, which may not feel quite like the 'good old days' but is nevertheless a respectable pace of growth.

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% Year

	2006	2007	2008	2009f	2010f	2011f
Consumer spending	5.5	5.8	4.7	2.4	3.7	5.2
Government consumption	10.4	6.6	3.2	8.8	8.3	6.4
Fixed investment	3.9	10.9	2.9	0.2	4.3	5.9
Stockbuilding (% GDP)	0.5	0.8	0.6	-0.2	-0.2	-0.2
Domestic demand	5.7	7.0	4.0	1.6	4.1	5.4
Exports	13.4	5.4	-1.9	-9.6	7.1	7.8
Imports	1.8	-4.1	2.4	-5.7	7.2	9.7
GDP	5.3	7.1	3.8	1.8	4.2	4.7
Industrial production	4.2	3.3	4.3	-3.2	1.5	1.6
Unemployment (%)*	7.9	7.2	7.5	8.5	7.4	7.0
Consumer prices	6.3	2.8	9.3	3.2	4.8	5.9
Current account (% GDP)	4.5	4.8	2.5	2.7	1.9	0.7
Budget balance (% GDP)	-1.1	-0.2	-0.9	-3.8	-4.3	-3.3
PHP/USD	50.9	45.2	45.3	47.5	44.6	42.8
3-month money (%)	5.2	3.4	5.6	4.8	6.0	6.0

Note: * Since Sep 2005, the ILO definition of unemployment has been adopted by official sources. Source: HSBC

HSBC

Singapore

Pre-emptive policy making?

After Singapore's deepest-ever recession has come one of its strongest-ever quarters of economic growth. The more than 20% quarter-on-quarter annualised rise in Q2 2009 GDP was heavily influenced by a huge bounce in the volatile pharmaceutical sector, but financial services also showed a dramatic improvement and construction continued to boom.

Higher-frequency industrial production, exports and retail sales data suggest the recovery continued at a relatively rapid pace in the third quarter. Domestic policy support, positive wealth effects and the prospect of a strong regional/world trade recovery bode well for the future.

What was once looking like a catastrophic, possibly double-digit, GDP contraction this year is now shaping up for a more modest 2.5% fall. As for 2010, we have upped our growth forecast from 5.3% to a healthy 6.5%.

The Monetary Authority of Singapore (MAS) is likely to take a more cautious line than this when it meets in mid-October to discuss the exchange rate stance. We suspect that doubts about the sustainability of the global recovery will keep the central bank on hold, although a return to a policy of modest and gradual appreciation is probable come the April meeting.

It is interesting that the government has taken modest steps to cool activity in the housing market, even before private residential prices have officially recorded a renewed rise. Does this signal an attempt at more pre-emptive policy making designed to avoid asset bubbles from developing? If it is and it's successful, then this should help dampen some of the extreme volatility the economy has witnessed over recent years. Interestingly, the 2009-10 World Economic Forum survey ranked Singapore a relatively low 35^{th} in terms of macroeconomic stability.

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% Year

	2006	2007	2008	2009f	2010f	2011f
Consumer spending	4.0	5.2	2.4	-2.5	3.6	3.2
Government consumption	6.6	2.2	8.1	3.6	4.2	0.0
Fixed investment	13.3	19.2	13.7	-5.2	8.0	7.6
Stockbuilding (% GDP)	-1.7	-3.2	2.8	1.6	0.8	0.5
Domestic demand	6.8	6.9	15.9	-4.1	4.2	3.9
Exports	11.7	8.7	1.3	-11.0	7.6	9.2
Imports	11.9	8.3	6.1	-11.7	6.9	9.0
GDP	8.4	7.8	1.1	-2.5	6.5	5.5
Industrial production	11.9	5.9	-4.2	-5.5	9.2	6.0
Unemployment (%)	2.7	2.2	2.1	3.3	3.7	3.5
Consumer prices	1.0	2.1	6.5	0.3	2.5	2.0
Current account (% GDP)	25.4	23.5	14.8	10.3	9.1	9.8
Budget balance (% GDP)	-0.2	0.6	1.7	2.7	-2.6	-1.0
SGD/USD	1.58	1.49	1.40	1.45	1.37	1.33
3-month money (%)	3.4	2.7	1.5	0.7	0.7	1.0
Prime rate (%)	5.3	5.3	5.4	5.4	5.4	5.4

Source: HSBC

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South Korea

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On a rebound

Just a few months ago, the Korean economy was widely expected to shrink by more than 2% this year in the aftermath of the global credit crunch. But Korea has become one of the fastest-recovering economies in the world, posting a record-high trade surplus, as well as impressive stock and housing market rallies. The Korean won, meanwhile, has strengthened considerably.

Recently, sentiment among households has improved markedly, probably reflecting a positive wealth effect and stabilising labour market. This has translated into a robust gain for retail sales, which have recorded positive annual growth for three consecutive months, although the July reading was softer following an end to tax cuts on new-car purchases during that month.

In the second quarter, the economy expanded by a seasonally adjusted 2.6% q-o-q. In addition to stronger-than-expected private consumption, corporate investment also grew 10.1% q-o-q. Following the rebound in the second quarter, high-frequency data suggests continued acceleration into the third quarter: industrial production and service sector data show signs of improvement, while leading indices suggest the recovery will endure. With exports rebounding on a sequential basis and the government promising accommodative fiscal and monetary policy until early next year, Korea may even eke out positive growth for this year.

The asset market rally puts pressure on the Bank of Korea to raise rates early. But given officials' concerns over growth, we stick by our view that rate hikes will only arrive in the first quarter, but then by a full 50bp. For all of 2010, we have pencilled in interest rates hikes of some 100bp, which would take the policy rate to 3%. Growth in 2010 should comfortably top 4%.

% Year

	2006	2007	2008	2009f	2010f	2011f
Consumer spending	4.7	5.1	0.9	-0.5	3.2	3.5
Government consumption	6.6	5.4	4.2	4.4	1.8	3.3
Fixed investment	3.4	4.2	-1.7	-2.0	4.3	5.5
Stockbuilding (% GDP)	1.1	0.8	1.5	-1.3	0.0	0.0
Domestic demand	4.9	4.5	-0.1	-0.2	3.3	4.0
Exports	11.4	12.6	5.7	-4.9	5.7	10.3
Imports	11.3	11.7	3.7	-10.7	6.1	9.1
GDP	5.2	5.1	2.2	-0.4	4.6	4.9
Industrial production	8.4	6.9	3.1	-3.4	7.8	8.5
Unemployment (%)	3.5	3.2	3.2	3.9	3.6	3.3
Retail sales	4.9	4.4	0.1	3.0	4.5	5.5
Consumer prices	2.2	2.5	4.7	2.8	3.1	3.2
Current account (% GDP)	0.6	0.6	-0.7	2.6	1.1	0.8
Budget balance (% GDP)	0.4	3.8	1.2	-2.6	-2.4	-2.2
KRW/USD	950	929	1127	1261	1113	1050
3-month CD yield (%)	4.5	5.2	5.5	2.4	2.9	3.1
5-year treasury yield (year-end)	4.9	5.4	5.2	4.4	4.7	4.8

Source: HSBC

HSBC

Taiwan

A little brighter at last

The Taiwanese economy is finally showing signs of life. After recording a historic contraction of 10.1% y-o-y in Q1, real GDP growth came in at a surprising -7.5% y-o-y in Q2. Even more inspiring is that the economy expanded 4.8% q-o-q on a seasonally adjusted basis, indicating that the island is on the road to recovery. We now expect Taiwan's economy to contract by 4.2% in 2009 and expand by 4.4% in 2010 and 4.9% in 2011.

A revival in domestic demand is likely to outrun an export recovery in the coming quarters. While domestic credit and financial markets have been fundamentally stable, improving cross-strait relations and loose monetary conditions stimulated the island's domestic demand. Exports have recovered from their trough, although the recovery should be gradual given sluggish demand in the US and Europe.

Meanwhile, the recent cabinet reshuffle finally minimised domestic noises from the opposition party after the Typhoon Morakot disaster. Political pressure will prompt the Ma administration to carry out reconstruction work immediately, and possibly bring forward the previously announced major public construction programme for next year, further supporting the island's domestic demand. In addition, the overall cross-strait relationship should remain stable in the medium term, benefiting Taiwan's economy by boosting onshore investment and confidence.

To maintain momentum, policymakers will have to keep monetary conditions loose for the rest of the year. However, inflationary pressure is likely to return in 2010 with global economic conditions recovering. Low interest rates and abundant liquidity are likely to inflate asset prices. We therefore expect Taiwan's CPI to rise 1.1% in 2010 and 1.6% in 2011. The Central Bank of The Republic of China will step into a gradual tightening cycle in early 2010, in our view, with the policy rate rising to 1.75% by the end of 2010 from 1.25% currently.

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% Year

	2006	2007	2008	2009f	2010f	2011f
Consumer spending	1.8	2.3	-0.3	0.4	2.1	2.6
Government consumption	-0.4	0.9	1.1	2.4	2.0	1.2
Fixed investment	0.9	1.9	-10.6	-16.3	3.8	3.7
Stockbuilding (% GDP)	0.3	0.4	0.3	-0.6	-0.4	-0.5
Domestic demand	1.5	2.2	-2.4	-3.7	2.6	2.4
Exports	10.3	8.8	0.0	-13.4	8.7	9.5
Imports	5.6	3.8	-4.0	-15.9	7.1	6.9
GDP	4.8	5.7	0.1	-4.2	4.4	4.9
Industrial production	4.7	7.8	-1.8	-13.6	7.6	7.8
Unemployment (%)	3.9	3.9	4.1	5.9	5.8	5.2
Consumer prices	0.6	1.8	3.5	-0.7	1.1	1.6
Current account (% GDP)	7.2	8.6	6.3	8.1	6.6	7.6
Budget balance (% GDP)	-0.5	-0.3	-1.3	-4.2	-2.9	-1.0
TWD/USD	32.6	32.7	31.4	32.8	29.9	28.3
3-month CD (%)	1.6	2.0	2.1	0.6	1.2	1.7
Prime rate (%)	4.0	4.1	4.4	2.8	2.8	3.3

Source: HSBC

HSBC

Thailand

Still a little groggy

Thailand had its fair share of challenges of late. Not only did the global economy seemingly collapse around the Kingdom, but domestic political turmoil also took a chip out of the economy. All the more remarkable, therefore, that growth rebounded in the second quarter, and at a respectable 2.3% q-o-q (seasonally adjusted at that). Of course, in annual terms output is still lower. But momentum appears firmly established, with coming quarters likely to show positive sequential growth as well.

Despite the Kingdom's well-documented political travails, this recovery is primarily driven by domestic demand. And this is not only a story about fiscal pump-priming: private consumption and investment rose as well compared with the first quarter. A combination of relative political stability, low interest rates and receding inflation are the primary reasons. Nevertheless, officials are not complacent and have promised more fiscal spending over the coming year to sustain the recovery and provide much-needed public infrastructure investment. If exports now fire up as well, which we expect over the coming months, not least due to a restocking bounce in the US, then Thailand may post growth above 4% for all of 2010. Yet, politics remains a real risk. The government has promised a debate over constitutional reforms and, once these are agreed upon, new elections. As recent history shows, however, this remains a perilous path at best.

Given lingering political uncertainties, the Bank of Thailand may stay on hold a little longer than its neighbours, possibly hiking only by late in the second quarter. And even then the path of tightening is likely to be gradual, to shore up a still-fragile economy. The country, in short, is still a little groggy from the double whammy of domestic political turmoil and a collapse in exports. But like those resilient Thai boxers, the economy is starting to right itself again.

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% Year

	2006	2007	2008	2009f	2010f	2011f
Consumer spending	3.0	1.6	2.5	-0.7	2.6	2.9
Government consumption	2.4	9.2	0.5	7.0	6.0	5.0
Fixed investment	3.9	1.3	1.1	-8.1	7.1	7.1
Stockbuilding (% GDP)	0.3	0.1	1.4	-0.9	-0.8	0.0
Domestic demand	1.3	2.0	3.5	-4.5	4.2	4.3
Exports	9.1	7.1	5.4	-13.5	6.7	7.2
Imports	3.3	3.4	7.5	-19.0	6.9	6.9
GDP	5.2	4.9	2.6	-2.8	4.5	4.9
Industrial production	6.0	6.2	3.9	-4.7	4.3	4.6
Unemployment (%)	1.5	1.4	1.4	2.2	3.3	3.2
Consumer prices	4.6	2.2	5.5	-0.9	3.3	3.6
Current account (% GDP)	1.1	5.9	-0.1	3.1	1.2	3.3
Budget balance (% GDP)	1.2	-2.3	-1.1	-6.4	-6.1	-5.6
THB/USD	37.6	34.7	33.5	34.1	31.9	31.0
3-month interbank rate (%)	5.2	4.0	3.6	1.6	1.8	2.8

Source: HSBC

HSBC

Vietnam

A need to squeeze…already?

Vietnam's huge monetary and fiscal stimulus is beginning to bring rewards, with GDP registering 9.5% seasonally adjusted annualised growth in the second quarter, more than offsetting the 6.5% Q1 contraction. Along with the government's various infrastructure projects, which have kick-started the construction sector, the four-percentage-point interest rate subsidy on bank lending to the commercial sector has been a big success. In fact, it may actually prove too successful as credit has exploded as a result, rising 25% in the eight months to August. Liquidity, particularly US dollar liquidity, is in short supply within the banking sector and the State Bank is now attempting to limit lending growth to 30% in the year as a whole, largely through moral suasion.

The pick-up in credit and economic growth has already led to a renewed deterioration in the trade position and more overt fiscal and monetary action may be required in the not-too-distant future to prevent the deficit from rising to troublesome levels again. We are looking for 200bp of base rate hikes in the first half of next year and the same again in the second half, which will temper growth in 2011. Our FX team also expect a modest further depreciation of the dong, to 18,200, in the next few months.

Inflation probably hit a cyclical low of 2% in August and we expect it to return to double digits in early 2010. Rather than strong growth, the initial trigger will be the rise in international food and energy commodity prices, which have a nasty habit of feeding through in to Vietnam's CPI even though the country is a net exporter of both items. Food and energy together account for more than half the country's headline CPI basket, while core inflation also tends to respond to movements in these commodities.

In summary, Vietnam is once again enjoying robust growth, but further pre-emptive action is required to ensure the imbalances don't become too large.

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% Year

	2006	2007	2008	2009f	2010f	2011f
Consumer spending	8.3	9.6	7.6	3.4	5.8	5.0
Government consumption	8.6	9.0	5.8	6.5	5.0	3.0
Fixed investment	9.9	23.0	13.2	3.2	8.0	6.0
Exports - Goods	22.1	22.7	29.9	-5.4	12.2	10.4
Imports - Goods	33.4	41.2	28.5	-15.1	17.0	10.0
GDP	8.2	8.5	6.2	4.9	6.8	5.9
Industrial production	16.0	11.6	11.8	4.8	11.5	7.3
Unemployment (%)	4.8	4.6	4.7	5.4	5.3	4.9
Consumer prices	7.5	8.3	23.0	7.6	10.4	7.1
Current account (% GDP)	-0.3	-9.8	-11.6	-6.9	-8.3	-5.7
Budget balance (% GDP)	-5.0	-5.0	-5.0	-8.0	-7.0	-5.5
VND/USD	16006	16146	16507	17994	18400	18400
Short-term lending rate (%)	7.8	8.3	8.5	7.0	11.0	11.0
5-year interest rate (%)*	8.3	8.7	10.0	10.0	11.0	13.0

Note: * end-year. Source: HSBC

Notes

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