

Lost ... and not yet found

With interest rates heading towards zero and printing presses being warmed up ...
... the task is to bring to an end the worst economic crisis since the 1930s ...
... but debts are excessive and global contagion rife, suggesting unconventional
policies will struggle to make an impression

By Stephen King and Stuart Green

Disclosures and Disclaimer This report must be read with the disclosures and analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

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A truly global crisis

For a while, it was possible to pretend that the financial and economic crisis was merely a problem for the major industrialised countries. Over the last three months, however, that theory has been blown out of the water. We have made savage downgrades to our forecasts with some of the emerging markets bearing the brunt of the bad news. On the basis of nominal GDP weights, we expect global GDP to shrink in 2009, an extraordinary development in the modern era.

While the current crisis threatens to be as deep and as painful as the downswings of the mid-1970s and early-1980s, the underlying causes are very different. Most obviously, the earlier crises were dominated by concerns about inflation whereas deflation is the obvious risk today. Failures in the financial system have led to increased monetary hoarding. Stuffing cash under the mattress, however, will only end in cumulative tears: this, after all, was part of the dynamic associated with the Depression in the 1930s.

A sobering experience

Although we now know something of the scale of this crisis, a year ago forecasters were reluctant to slash their forecasts. Back then, there was a strong belief that traditional policy measures would work. Our analysis of forecast errors reveals that hardly any forecasters were able to gauge the scale of the unfolding crisis. We've since discovered, however, that there are limits to the benefits of conventional policy, not least because we're seeing a massive reduction in the quantity of lending available, irrespective of the level of interest rates.

The comparison with the 1930s is worth stressing if only to emphasise that policymakers are struggling to keep the economic ship on an even keel. As with the 1930s, parts of the global economy are being battered as a result of excessive debt, financial seizures, money hoarding, deflationary fears and, over the last three months, international contagion.

A spreading problem

As banks try to improve their loan-to-deposit ratios and their Basel II capital adequacy ratios, lending is in decline. Emerging markets dependent on international banking flows are vulnerable to this risk. A simple ranking of vulnerabilities using data from the Bank for International Settlements suggests there are specific risks associated with those countries which have seen large increases in foreign claims in recent years (the Central European 3, China, India and South Korea) and which are facing rollover issues in the next twelve months.

Of course, knowing that some countries are relatively vulnerable in the light of financial contagion does not mean that they will necessarily end up the biggest losers. China, for example, has reacted to a sudden and dramatic loss of economic momentum by launching a huge fiscal package which, given its current account surplus and healthy fiscal position, carries considerable credibility. Nevertheless, our analysis shows that emerging markets in general are at risk not just from a reduction in trade flows but also, increasingly, from a diminution of capital flows.

HSBC Projections

GDP	_ Global Economics Quarterly Q4 08 (October) _		_ Latest _	
	2008	2009	2008	2009
World	2.5	1.9	2.0	-0.1
Developed	1.3	0.7	0.9	-1.1
Emerging	6.4	5.7	5.8	3.1
US	1.7	1.0	1.1	-0.9
UK	1	-0.2	0.7	-2.5
Eurozone	1.1	0.4	0.9	-1.4
Japan	0.8	0.6	0.3	-1.4
Brazil	5.3	3.7	5.5	2.0
Russia	6.9	4.8	5.4	-2.0
India*	7.9	7.1	7.7	5.9
China	9.7	9.1	9.2	7.8
Inflation	Global Economics Quarterly Q4 08 (October) _		_ Latest _	
	2008	2009	2008	2009
World	4.6	3.1	4.3	1.1
Developed	3.6	2.2	3.3	0.0
Emerging	8.1	6.4	7.9	5.0
US	4.4	2.2	3.8	-1.2
UK	3.8	2.6	3.6	0.4
Eurozone	3.5	2.4	3.3	1.1
Japan	1.7	1.0	1.8	0.0
Brazil	6.2	4.7	6.2	5.8
Russia	14.3	12.3	14.1	11.8
India*	8.1	7.5	8.3	6.8
China	6.7	4.2	6.1	-0.2

Source: HSBC. These forecasts are based on an oil price assumption of USD45 per barrel although, as we note in the text, there is currently no clear one for one relationship between oil prices and economic activity

The policy challenge

With interest rates edging closer and closer to zero, unconventional policies are making an appearance. Although it seems we're all Keynesians now, we highlight some of the obvious difficulties associated with these weird and wonderful textbook tricks. One of the biggest problems lies in explaining precisely what unconventional policies are likely to achieve, and by when. Central banks have invested a huge amount of time and energy in making their policy choices as transparent as possible. The benefits of this approach are about to be lost, such is our lack of understanding of how alternative policies are supposed to work.

Will it work?

Our forecasts suggest a return to stability, if not effervescence, through the course of 2009. However, even if GDP levels off and possibly recovers, there will still be problems. Most obviously, we fear trend growth will be lower, labour markets weaker and real asset values more depressed than might be associated with a typical post-war recovery.

In the absence of model-based predictions of the likely effectiveness of unconventional policies, we highlight some of the ways to tell whether, later in the year, policy is beginning to work, underlining some of the key financial, lending, price and real data which are likely to be pivotal in calling for a recovery. We note, though, that there's a significant danger of false positives, in line with Japan's experience through much of the 1990s.

Buying and selling

Given all these uncertainties, investment recommendations are more than usually difficult. However, if the US is at the forefront of monetisation, as seems increasingly likely, we suspect the euro will increasingly be seen as an attractive safe-haven. It should be an out-performer in the year ahead. We remain underweight equities, cautiously enthusiastic about high-grade corporate bonds (particularly if governments and central banks start to buy this paper outright in a bid to narrow interest rate spreads) and worried about further housing weakness. In asset allocation, we're increasingly interested in spotting the pricing anomalies which result from living in a world of tremendous uncertainty.

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Key forecasts

Key forecasts

	GDP				Inflation			
	2007	2008f	2009f	2010f	2007	2008f	2009f	2010f
World (nominal GDP weights)	3.5	2.0	-0.1	2.6	2.8	4.3	1.1	1.9
World (PPP weights)	5.2	3.4	1.1	3.6	3.6	5.3	1.9	2.3
Developed	2.4	0.9	-1.1	1.6	2.1	3.3	0.0	1.1
Emerging	7.6	5.8	3.1	5.6	5.3	7.9	5.0	4.6
North America	2.1	1.1	-0.9	2.4	2.8	3.7	-1.1	1.0
US	2.0	1.1	-0.9	2.4	2.9	3.8	-1.2	1.0
Canada	2.7	0.6	-0.8	2.5	2.1	2.3	1.1	1.8
Latin America	4.8	3.8	0.7	2.7	4.7	6.7	5.2	4.5
Mexico	3.2	1.7	-0.7	1.8	3.8	6.6	4.0	3.3
Brazil	5.7	5.5	2.0	3.6	4.5	6.2	5.8	4.9
Argentina	8.1	6.8	0.8	2.9	8.5	8.0	8.2	8.5
Chile	5.1	4.1	2.3	4.0	7.8	8.1	4.6	3.6
Western Europe	2.7	0.9	-1.4	0.9	2.1	3.3	1.0	1.6
Euro-15	2.6	0.9	-1.4	0.9	2.1	3.3	1.1	1.7
Germany	2.6	1.2	-1.5	0.9	2.3	2.8	0.7	1.7
France	2.1	0.8	-0.8	1.0	1.6	3.2	1.4	2.0
Italy	1.4	-0.5	-1.8	0.5	2.0	3.5	1.5	1.8
Spain	3.7	1.1	-1.3	1.4	2.8	4.2	1.0	2.7
Other Western Europe	3.0	1.0	-1.6	0.8	2.0	3.4	0.8	1.2
UK	3.0	0.7	-2.5	0.5	2.3	3.6	0.4	0.9
Norway	3.7	1.8	0.2	1.8	0.7	3.7	2.7	2.4
Sweden	2.9	0.6	-0.6	1.4	2.2	3.6	1.4	1.8
Switzerland	3.3	1.8	-1.0	0.8	0.7	2.4	0.3	1.2
EMEA	5.9	4.6	0.5	3.3	7.2	11.0	9.1	7.5
Czech Republic	5.8	4.5	2.2	4.0	2.8	6.4	1.7	2.0
Hungary	1.1	1.1	-2.0	1.8	8.0	6.1	2.0	1.7
Poland	6.6	5.2	3.0	3.5	2.5	4.3	2.9	3.0
Russia	8.1	5.4	-2.0	2.0	9.0	14.1	11.8	9.0
Turkey	4.6	1.1	-1.4	4.3	8.8	10.5	11.8	12.0
Ukraine	7.6	4.4	-9.0	1.0	12.8	25.3	20.2	11.6
Egypt*	7.1	7.2	5.1	5.3	9.5	11.6	17.2	10.4
Israel	5.3	4.5	2.2	3.7	3.4	3.7	1.2	2.5
Saudi Arabia	3.4	6.3	0.9	2.2	4.1	10.1	7.1	4.8
UAE	7.6	8.0	6.2	6.1	11.1	14.5	9.5	7.4
South Africa	5.1	3.4	2.5	4.0	7.1	11.6	6.3	6.0
Asia-Pacific	5.7	3.7	2.0	4.4	2.2	4.3	1.5	1.4
Japan	2.4	0.3	-1.4	1.1	0.0	1.8	0.0	-0.4
Australia	4.2	2.4	1.5	3.1	2.3	4.6	3.0	2.5
New Zealand	3.1	-0.5	-0.2	2.4	2.4	4.2	2.7	2.5
Asia ex Japan	9.3	7.0	5.0	7.3	4.4	6.8	2.7	3.0
China	11.9	9.2	7.8	8.9	4.8	6.1	-0.2	0.8
Asia ex Japan & China	6.9	5.0	2.3	5.7	4.2	7.3	4.8	4.5
Hong Kong	6.4	3.3	-2.0	4.3	2.1	4.3	2.0	3.6
India	9.3	7.7	5.9	7.6	6.4	8.3	6.8	4.7
Indonesia	6.3	6.1	3.8	5.0	6.1	10.2	7.7	7.8
Malaysia	6.3	5.5	2.8	5.6	2.0	5.7	3.9	2.5
Philippines	7.2	3.9	2.0	4.8	2.8	9.5	5.0	4.3
Singapore	7.7	1.9	-1.2	5.5	2.1	6.6	2.6	3.0
South Korea	5.0	2.7	-0.6	4.6	2.5	4.7	2.9	3.2
Taiwan	5.7	1.0	-0.7	4.7	1.8	3.4	-1.6	1.4
Thailand	4.9	3.5	0.6	4.0	2.2	5.8	0.3	2.9
Vietnam	8.5	6.4	5.4	6.6	8.3	23.1	9.6	10.1

Notes: Calendar year, except for * which is based upon Egyptian fiscal year (July-June); Global and regional aggregates are calculated using chain nominal GDP (USD) weights
Source: HSBC

Monetary & fiscal policy assumptions



Monetary policy

	Q1 2008	Q2 2008	Q3 2008	Q4 2008f	Q1 2009f	Q2 2009f	Q3 2009f	Q4 2009f
US								
Targeted Fed funds	2.25	2.00	2.00	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	0.50	0.50	0.50	0.10	0.10	0.10	0.10	0.10
Eurozone								
Repo rate	4.00	4.00	4.25	2.50	2.00	1.50	1.50	1.50
UK								
Bank rate	5.25	5.00	5.00	2.00	0.25	0.25	0.25	0.25
Canada								
Overnight rate	3.50	3.00	3.00	1.50	1.00	1.00	1.00	1.00

Source: HSBC

Fiscal policy

Country	2008	2009
US	Most of the government's policy actions for 2008 have already been announced. We assume that the proposed fiscal stimulus (USD600bn to USD1000bn being discussed) will not be passed until after President-elect Obama is inaugurated on 20 January, 2009.	We assume that a large fiscal stimulus package will be passed early in 2009, after President-elect Obama takes office. There is likely to be a focus on infrastructure spending, and the total size could be at least USD600bn and perhaps as much as USD1trillion. The boost to government spending could begin in Q2 or possibly Q3, depending on when the package is passed.
Japan	The effect of PM Aso's fiscal packages declared in last October should emerge in Q2 and Q3 2009, but its impact to real GDP would only be 0.1 to 0.2ppt. There are some anxieties about the implementations of these measures.	We assume another stimulus package of 3 trillion yen in FY2009, which would be expected to boost the real GDP growth rate by 0.3 to 0.4ppt. The consumption tax hike will be likely postponed until at least until FY2012.
Eurozone	In the first half of the year there was a small bias towards loosening, largely reflecting France and Spain. Stimulus packages announced in late 2008 will impact more on 2009 while governments' involvement in bank recapitalisation will also add to the future fiscal burden. The Eurozone deficit is likely to have widened to around 1.8% of GDP in 2008.	Given the recession across the Eurozone, the automatic stabilisers will add to government spending as will the ongoing costs of dealing with the financial crisis. The additional new fiscal stimulus in 2009 currently amounts to less than 1% of GDP but the pressure is growing for a larger stimulus, particularly from Germany. We expect the Eurozone deficit to widen to more than 3% of GDP in 2009.
Germany	The financial crisis has already been a slight fiscal burden in 2008. Actions taken by the KfW (state owned) bank in the context of risk protection for IKB caused net public borrowing of 0.2% of GDP instead of the previously reported zero. However, in 2008, the deficit should "only" widen to 0.6% of GDP, driven by strong tax revenues.	For 2009 and 2010, the approved fiscal measures (1st fiscal package) are so far EUR 31bn (1.3% of GDP). However, the new stimulus for 2009 should amount to just EUR12bn (0.5% of GDP). A second fiscal package of EUR15bn (decided in January, 0.6% of GDP) is in the making. Furthermore, a ruling on the commuter tax means that EUR 2.5bn for both 2007 and 2008 has to be reimbursed, with this sum also being absent from 2009 receipts. Overall, the deficit should be 1.9% of GDP.
France	The budget deficit should reach 3.2% of GDP due to the looser budget policy and the slowdown in growth. No new measures have been decided to limit growth in public expenditures. Moreover, the financial market rescue package will weigh on public debt, mainly via the Dexia recapitalisation.	Stimulus plans, automatic stabilisers and the sharp decline in the fiscal revenues will widen the budget deficit to 4.6% of GDP on our calculations. Nicolas Sarkozy has always banked on improving the French public finances by GDP growth and not by the reduction of government expenditures. Therefore, 2009 will therefore lead to a non-controlled slip in government spending.
Italy	After 2007's significant tightening, which narrowed the deficit to 1.9% of GDP, fiscal policy entailed a small loosening in 2008. Together with the cyclical downturn this is likely to have resulted in the budget deficit widening in the budget deficit to more than 2½% of GDP.	Italy's high debt burden (104% of GDP in 2007) precludes a meaningful stimulus. The Berlusconi government recently announced a EUR 80bn package which involves higher infrastructure spending, though much of the money is slated for bank recapitalisations. We expect the deficit to widen towards 4% of GDP in 2009-10.
UK	The downturn in the economy has seen government borrowing rise significantly, not to mention the additional borrowing required to nationalise Northern Rock, Bradford & Bingley and recapitalise the banking system. In the second quarter, net debt reached 43% of GDP from just 30% five years ago.	With public sector borrowing having already risen rapidly, the Chancellor has limited the proposed fiscal measures to a stimulus equivalent to around 1% of GDP. We think it more likely that public sector borrowing rises to over 9% of GDP in 2009.
Canada	After an 11-year string of surpluses, Canada is expected to run a small deficit of CAD4.0bn in the current fiscal year ending March 31 st 2009. The current debt to GDP ratio is an affordable 31% down from a high of 68.4% in 1995.	We expect fiscal policy to be economically stimulative in 2009 with the release of a fiscal stimulus package on January 27 th 2009. The package size is expected to be between CAD25 to CAD30bn.

Source: HSBC

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The worst crisis in decades

Piecing together our economic projections for 2009, the picture that's emerged is gloomier than we initially expected. Our forecasts for growth in individual countries don't seem to be particularly weak. Collectively, though, our numbers are remarkably soft. In aggregate, we're talking about the worst annual synchronised global economic downswing since the 1930s.

Our economists around the world mostly believe that we're currently in the worst part of the crisis. While this may be the case, the forecasts suggest there will be no early return to normality. In the US, for example, we expect the unemployment rate to continue rising into 2010. At 8.8%, the rate will be the highest since the dark days of the mid-1970s, a time of oil shocks, Middle Eastern crises and Watergate.

There have been two deep and protracted global recessions in the post-war period, specifically 1975 and the early 1980s. The current downswing is likely to be as bad, if not worse. The background to this crisis, though, differs from the earlier crises. This downswing reflects a catastrophic collapse of confidence in the functioning of the financial system.

Unlike the earlier post war shocks, it's a crisis associated with the threat of deflation. In the mid-1970s and early-1980s, interest rates rose to remarkably high levels as inflation rampaged through the world economy. This time, policy rates in many countries and regions are fast approaching the zero rate bound and, in the US, have already done so.

Forecasting is a particularly hazardous task at the moment. Charts 1 through to 6 show the evolution of consensus forecasts for growth in 2009 in a variety of countries over the last twelve months. The revisions have, in most cases, been greater than the forecasting range exhibited at the beginning of 2008. In other words, not a single forecaster was able to gauge the magnitude of the meltdown.

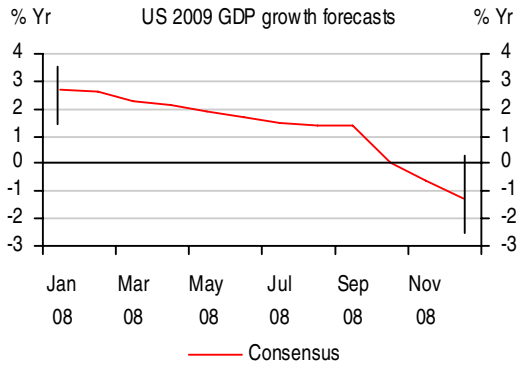
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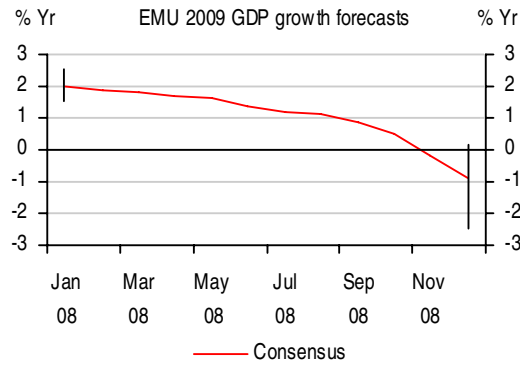
Eating humble pie: the forecasting community's track record

1. US growth forecasts have tumbled



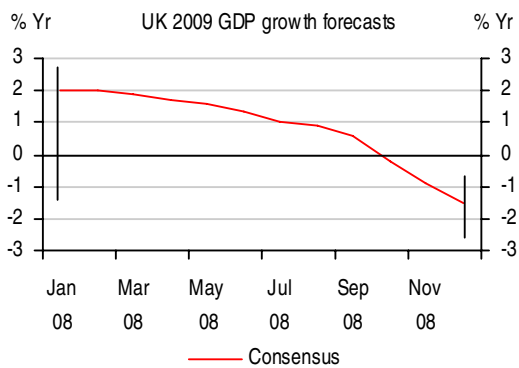
Source: Consensus forecasts and HSBC. Vertical lines in this and all other charts on this page indicate the forecasting range at the beginning and the end of the survey period

2. Eurozone prospects aren't encouraging



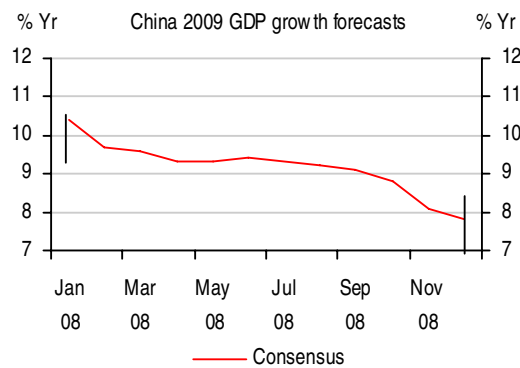
Source: Consensus forecasts and HSBC

3. The UK has gone from soft landing to crunching recession



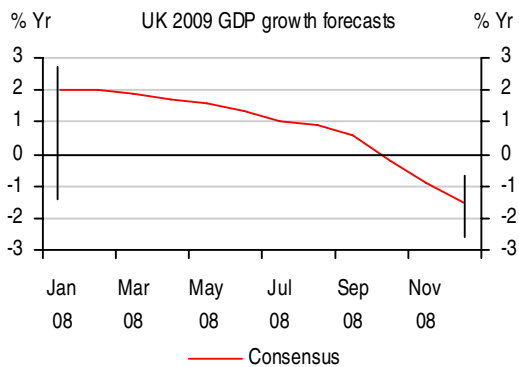
Source: Consensus forecasts and HSBC

4. China's outlook is suddenly looking bleak



Source: Consensus forecasts and HSBC

5. Japan is unable to show any independence



Source: Consensus forecasts and HSBC

6. South Korea's earlier confidence has disappeared

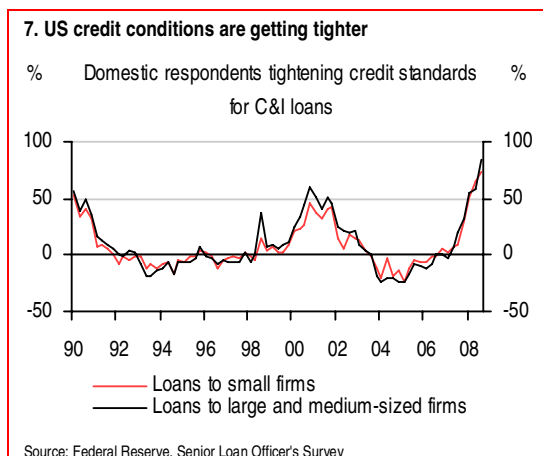


Source: Consensus forecasts and HSBC

This failure reflects six key points:

First, the relationship between changes in policy rates and their impact on the real economy is unreliable. Simulation results which claim, for example, that a 1% cut in policy rates will lift GDP by 0.25% are likely to be wide of the mark in current circumstances.

Second, the collapse in securitisation in the middle of 2007 starved banks of the funds which they had previously used to deliver a high volume of loans. The ensuing restriction on the quantity of available credit, leading to a credit crunch, reduced the impact of changes in the price of credit (chart 7).



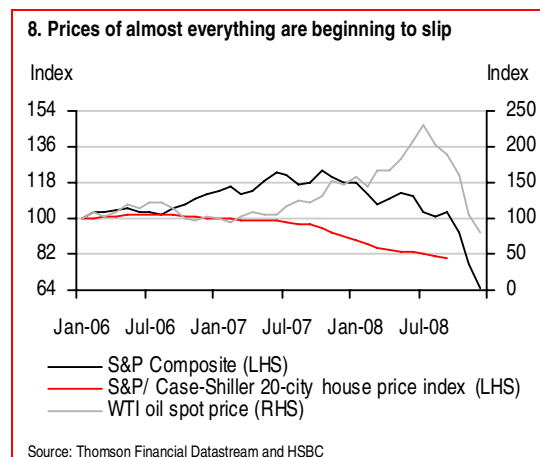
Third, there are no easy techniques to measure the scale of any credit crunch. The various surveys look terrifying but typically measure the number of banks tightening credit conditions, not the degree to which each bank is restricting credit availability.

Fourth, some policy actions may have given rise to unintended consequences. For example, the pressure on banks receiving capital injections from governments to demonstrate a home lending bias may have led to cross border capital flows drying up. For those emerging markets dependent on the largesse of international banks, this has hardly been welcome news.

Fifth, forecasters have problems with counterfactuals. Even if monetary or fiscal policy is effective, will the stimulus be enough?

Knowing, for example, that a fiscal stimulus will boost the level of GDP by 2% says nothing about the actual growth rate: a 2% boost might make all the difference between contraction and expansion, but it might simply limit the contraction to -5% compared with a -7% decline in the absence of a stimulus package.

Sixth, price movements in current circumstances are difficult to interpret. Falling oil prices are typically regarded as a good thing for oil-consuming nations, but what happens if the decline in oil prices goes hand-in-hand with falls in other commodity prices and a range of asset prices? In these circumstances, are lower oil prices instead a sign of deflationary pressures? (chart 8)



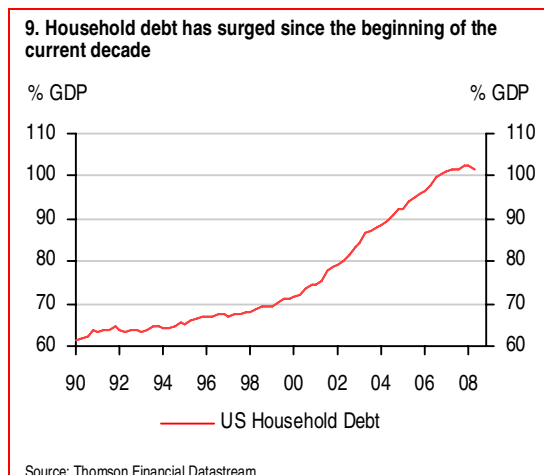
A sobering precedent

Inevitably, therefore, crises from the past provide a fallback position for economic projections. As we argued in the fourth quarter 2008 edition of Global Economics, however, examples from the last two or three decades are not completely compelling. Most of these crises were limited only to individual countries or regions. As our forecasts have tumbled in the last three months, the picture now emerging inevitably takes us back to the conditions which prevailed during the Great

Depression. Like the Depression, the current crisis revolves around excessive debt, financial seizures, money hoarding, expectations of deflation and international contagion.

Excessive debt

While household debt levels have been rising for many years, the last six or seven years have seen an unusually rapid pace of increase, linked intimately to the housing boom in a number of leading industrial nations. A similar rapid increase in debt levels took place in the 1920s. The success of Henry Ford's Model Ts was based not just on mass production but also on mass borrowing.



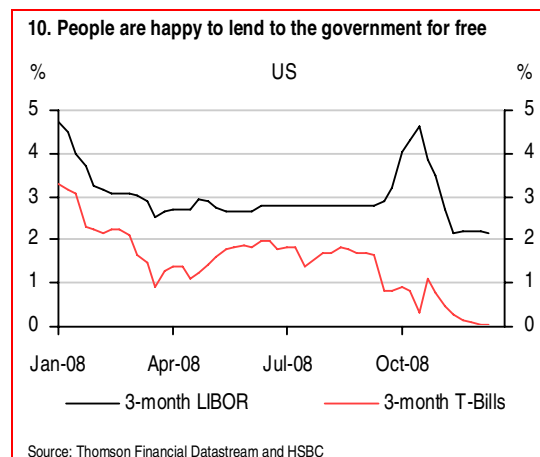
Financial seizures

The financial seizures of the last 18 months stem from a sudden loss of funding associated with an implosion of trust in mortgage-backed securities. With loan-to-deposit ratios well north of 100% in many countries, banks are under pressure to cut their lending. US banks during the Great Depression were faced with similar challenges, although their lending shortfalls stemmed from retail, rather than wholesale, bank runs.

Money hoarding

Households and companies have increasingly reacted to the credit crunch by liquidating risky assets and holding cash. Stuffing money under the

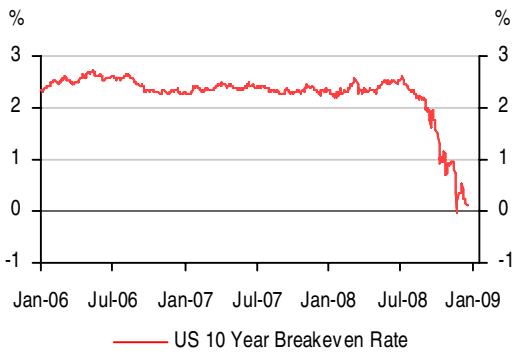
mattress, however, leads to a drop in currency in circulation which, in turn, reduces demand. The usual remedy for this problem is to cut interest rates but, such is the lack of trust in the financial system, investors are currently happy to own government paper with negative interest rates as opposed to higher-yielding bank deposits (chart 10). Monetary hoarding was also a key feature of the 1930s.



Deflation expectations

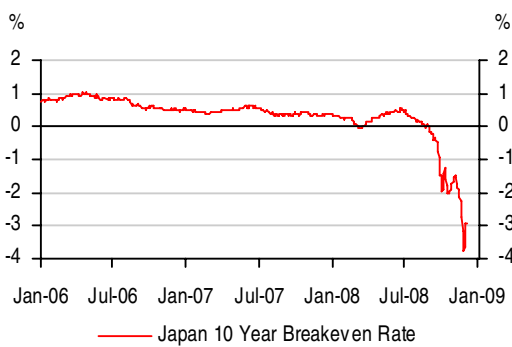
Across a wide range of financial market indicators, there's growing evidence that deflation is on its way. Ongoing weakness in commodity prices could force many indicators of consumer and producer price inflation into negative territory for a period next year. But aside from this rather technical factor other, broader gauges of economic activity are hinting at the development of underlying deflationary behaviour. Asset prices have fallen sharply and with unions increasingly willing to accept wage cuts in exchange for job guarantees, the possibility of a generalised deflation is undeniably growing. Irving Fisher-style price and wage declines threaten more than just a recession: they encourage further monetary hoarding and a downward spiral in economic activity.

11. Inflation expectations have collapsed in the US...



Source: Bloomberg

12....in Japan....



Source: Bloomberg

13....and in the UK



Source: Bloomberg

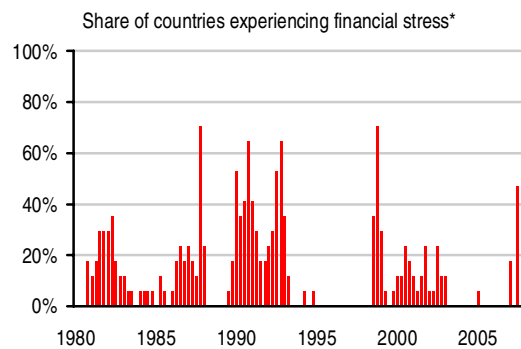
International contagion

The financial crisis of the past year has proved remarkably synchronised across the developed economies, providing a further point of comparison the Great Depression. Chart 14, using

data from the IMF, shows that the proportion of the seventeen leading industrialised economies experiencing financial stress has moved to the highest level in the past thirty years. Financial pressures have turned to economic stress during the course of 2008 and the evidence of recent months suggests that this contagion has increasingly permeated the emerging markets, where growth during the first half of year had proved reasonably robust.

A sharp, synchronised slowdown – the like of which has not been witnessed since the 1970s – is now ravaging the global economy and although the term a ‘global recession’ is poorly defined, we estimate that economies equating to well in excess of 50% of global GDP experienced a contraction during the final months of the year.

14. Financial stress has proved all encompassing



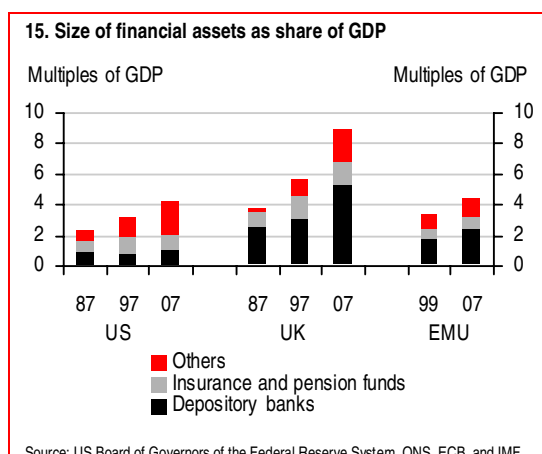
*Chart shows proportion of the 17 industrialised economies for which the IMF calculates a Financial Stress Indicator
Source: HSBC, IMF

Short-term pain, long-term drain?

Given the sharp declines registered in the numerous indicators of business and consumer sentiment during the past few months – from the Japanese Tankan to the German IFO survey and back to the US NAHB homebuilder index – further bleak data releases have to be expected in the short-term. Arguably the most formidable challenge facing policymakers, however, relates

to the de-leveraging process now underway across the various banking systems. Chart 15 provides an insight into the potential scale of this problem, showing the extent to which the banking sector balance sheets in the UK, US and Euro-zone have grown in relation to nominal GDP over the past decade.

The different methodological treatment of bank assets across these regions rules out making any clear comparisons between the UK, US and Euro-zone, and therefore any strong indications of which of these economies are most at risk from de-leveraging. But the important point is that the size of banking system balance sheets in relation to GDP within all of these regions is well above the level observed at the end of the 1990s, and that such elevated levels are unlikely to be sustained within today's environment. In addition, where government guarantees have been applied to the new capital raising programmes of banks (such as in the UK), these are aimed primarily at facilitating the refinancing of existing commitments as they mature, rather than allowing banks to expand their balance sheets still further.



Overall, the body of the government measures announced hitherto, by allowing the continued access to wholesale markets, may reduce the threat of bank failure/counterparty risk. A short, sharp and violent period of de-leveraging will also

likely be avoided, with this process instead being managed in a more orderly fashion over a period of perhaps several years. But the inevitable adjustment has been partially postponed rather than averted, and the economic consequences could still be significant. A situation where net lending growth lags that of deposits would be very different to that experienced by the major economies over the past decade, with growth suffering in turn.

Unintended consequences could be significant

A further layer of complication comes from the external influence being placed upon banks from new stakeholders (governments) to maintain net lending to certain areas of the economy. If the flow of credit to ring-fenced sectors is to be held at prescribed levels, net lending to the remaining sections of the economy will fall by a greater extent than would otherwise be the case. Measures aimed at ensuring the steady flow of capital, therefore, risk in some instances the opposite outcome, and the most vulnerable area during this process could well be international lending, given that the *quid pro quo* for taxpayer funds will be a support of domestic sectors. In our view, this could threaten an outbreak of capital market protectionism, a modern day version of the trade protectionism which started with the Smoot-Hawley tariff in 1930.

Flows under threat

Capital flows, accompanying the rise in trade activity, have been regarded as a key driver of global growth over the past decade and with this in mind the record USD1.1trn decline in international claims reported by the Bank for International Settlements (BIS) during the second quarter of this year is a truly concerning development.

16. Growth in foreign claims on emerging market economies, end-1998 to June 2008

	End-1998 Foreign Claims		June 2008 Foreign claims			
	Level, USDbn	Share of GDP	Level, USDbn	Growth from end-1998	International share	of which less than 1-year maturity
Argentina	83.9	28.1%	40.3	-52.0%	53.9%	36.2%
Brazil	133.3	15.8%	377.2	183.0%	36.1%	49.6%
Chile	40.3	50.8%	93.3	131.3%	43.9%	52.2%
Mexico	86.2	20.5%	366.5	325.3%	25.1%	30.8%
Czech Republic	18.7	30.2%	212.4	1036.7%	24.6%	36.7%
Hungary	21.9	46.6%	163.9	647.2%	65.0%	26.2%
Poland	23.1	13.4%	315.0	1266.2%	40.5%	23.8%
Russia	60.7	22.4%	266.1	338.3%	79.4%	47.2%
Turkey	37.3	18.6%	177.3	375.5%	72.0%	53.0%
Ukraine	1.4	3.3%	56.5	3984.0%	67.8%	48.0%
Egypt	5.9	6.9%	38.0	546.4%	62.8%	53.2%
Israel	7.0	6.5%	16.6	137.9%	82.6%	44.9%
Saudi Arabia	16.3	11.2%	45.8	180.6%	95.0%	66.0%
United Arab Emirates	11.9	24.5%	139.0	1069.0%	68.9%	56.6%
South Africa	23.1	17.2%	117.8	409.0%	27.2%	44.6%
China	80.5	7.9%	322.0	299.9%	78.2%	63.6%
India	30.3	7.3%	225.2	642.7%	65.5%	55.9%
Hong Kong SAR	275.5	165.1%	401.3	45.7%	45.8%	59.6%
Indonesia	49.6	51.9%	71.7	44.7%	74.9%	57.8%
Malaysia	27.9	38.7%	126.2	351.7%	44.5%	57.1%
Philippines	20.0	30.7%	30.7	53.3%	75.4%	49.1%
Singapore	165.9	201.3%	301.5	81.8%	68.1%	70.3%
South Korea	79.6	23.0%	392.1	392.8%	61.4%	63.2%
Taiwan	34.9	-	130.5	274.2%	40.4%	71.3%
Thailand	58.1	51.9%	56.9	-2.0%	39.3%	44.6%
Vietnam	2.1	7.7%	18.6	782.9%	77.4%	48.8%

Source: HSBC, Bank for International Settlements. Table shows growth in foreign claims (international and locally generated) by overseas banks on emerging market economies between end-1998 and June 2008. Maturity structure relates to those claims that are international (cross-border in nature). Data are calculated on an immediate risk basis. The international share is the degree to which international banks fund their lending in foreign economies via cross-border flows rather than through funds generated within the foreign economy itself

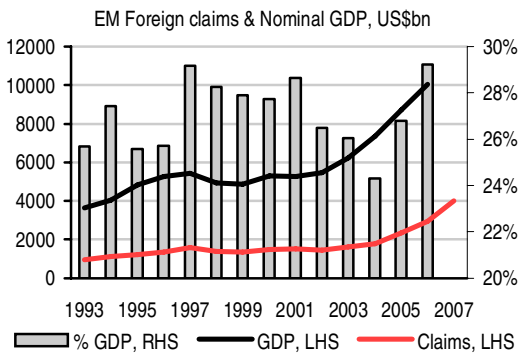
The flow of capital from developed economy banks to emerging market economies is at particular risk from this process, not least because of the rapid growth experienced within these flows over the course of the past decade. The growth in foreign claims on the big-three Central European economies has been especially large, rising from USD63.7bn at the end of 1998 to a figure of USD691.3bn by the second quarter of 2008. Other large increases, detailed in table 16, have also been recorded in overseas lending to China, India and South Korea during this period, although growth in credit to other Asian economies has not risen significantly ahead of the levels recorded at the time of the 1998 crises.

While the size of these liabilities when compared to GDP can still be relatively small on a country by country basis, for emerging markets as a whole

they have turned more significant over the past fifteen years. A fair proportion of the rising trend in claims illustrated in chart 17 can of course be attributed to the deeper trends of financial market liberalisation and greater political openness – the benefits of which are beyond dispute – but the accelerating trend of recent years appears particularly vulnerable to recent events.

The potential for a sudden reversal of this trend and a sharp deterioration within the previously robust global trade cycle is of course the key factor behind the recent, widespread downgrading of emerging market growth forecasts. But whilst the downturn in trend has already turned obvious – with key regional exporters such as Singapore registering drastic declines in shipments – the prospect of similar declines developing within capital flows has so far yet to emerge.

17. Overseas lending to Emerging Markets as a share of GDP



Source: HSBC, Bank for International Settlements, World Bank

Rollover risk back on the radar

Considering the growth of earlier lending alone, however, will not provide a complete picture as to identifying those economies most at risk from any sudden retrenchment in the willingness of banks to extend foreign claims. Some assessment of rollover risk – whether in response to a sudden or, more pertinently to the current situation, a prolonged period of financial stress – may also be gleaned from an assessment of two further criteria, the details of which are included in table 16:

- 1 **The proportion of ‘local’ funding within overall claims.** A bank wishing to increase its exposure to a certain overseas economy may do so through two broad avenues; by increasing international, cross-border flows or funding the expansion by originating liabilities within the debtor economy. A greater reliance upon this ‘local’ funding should reduce the risk of a sudden retrenchment of credit availability in response to an event specific to the creditor economy.

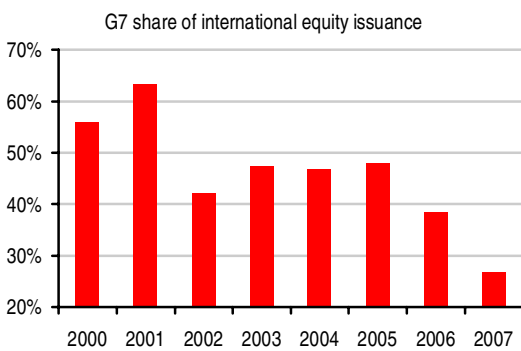
- 2 **The maturity structure of international claims.** A greater proportion of international (cross-border) claims falling due within a 1-year period increases the propensity for rollover risk to develop in response to financial sector stress. The BIS only provides data on the maturity structure of international (cross-border) claims, but some important variations can nevertheless be identified across the emerging market economies, with more than half of the international claims on India, China and South Korea falling due within 12 months.

Clearly, a range of indicators needs to be considered when considering roll-over risk specifically or the broader exposure to a reduction in capital flows. Areas of potential vulnerability can easily be identified, but the ability to withstand rising external pressures must also be considered and a high level of foreign exchange or strong domestic focus of growth will doubtless lend support to many economies¹.

But, at the margin, the availability of external capital to the EM sphere is now facing the least favourable environment for many a year. This deterioration of credit availability will also be compounded by the reduction in IPO activity within equity markets, a financing channel that has proved increasingly popular within the corporate sectors of Emerging Market economies, just as their developed economy counterparts sought to reduce outstanding equity. Separate data collated by the BIS show that while the corporate sectors of the G7 economies accounted for almost two-thirds of global equity issuance in 2001, this figure had slipped to around a quarter by 2007 (see chart 18). Indeed, net issuance in China totalled more than three times that recorded in the United States last year.

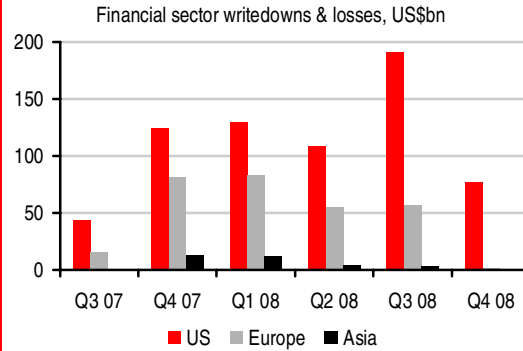
¹ See 'Ranking EM vulnerability and policy flexibility' by Philip Poole, 18th December 2008

18. Equity financing dominated by non-G7 world



Source: HSBC, Bank for International Settlements

19. Little direct exposure does not provide immunity



Source: HSBC, Bloomberg

So far at least, the fallout from the US mortgage-backed security market - and the concomitant need to raise additional capital - has been an issue for the US and European banking systems, with few explicit problems reported elsewhere (see chart 19). But through this process of home bias and unanticipated consequences, a small direct exposure to the initial problem will not preclude a tightening of credit conditions across respective banking systems, and these aspects of international contagion have played a prominent role over the last three months. Indeed, our forecast revisions reflect the ways in which the crisis has slowly taken a grip on countries which, hitherto, were seen to be immune. The emerging markets are in the firing line.

For the emerging world as a whole, our projections for 2009 point to the weakest outcome for growth since the Asian crisis in 1998. The weakness is particularly skewed towards Russia, the Ukraine, parts of Central and Eastern Europe and the smaller trading nations of Asia. Indeed, across the emerging world, our forecasts suggest only two pockets of strength. Fortunately, they're two countries with unusually deep pockets, namely China and India. Even in these countries, though, the forecasts for growth are both lower and more dependent on policy stimulus than before. Our GDP forecast for China, for example, has come down to 7.8% compared with an earlier 9.1% projection, even though there's an additional 2-4% of GDP fiscal stimulus underpinning the new numbers.

The policy challenge

Our forecasts suggest that interest rates in many of the major industrialised countries will be at, or close to, zero by the middle of 2009. Inevitably, therefore, the debate will shift to unconventional policies in line with the arguments set out in *“To the printing press and beyond”* (15 December 2008). There are four difficulties:

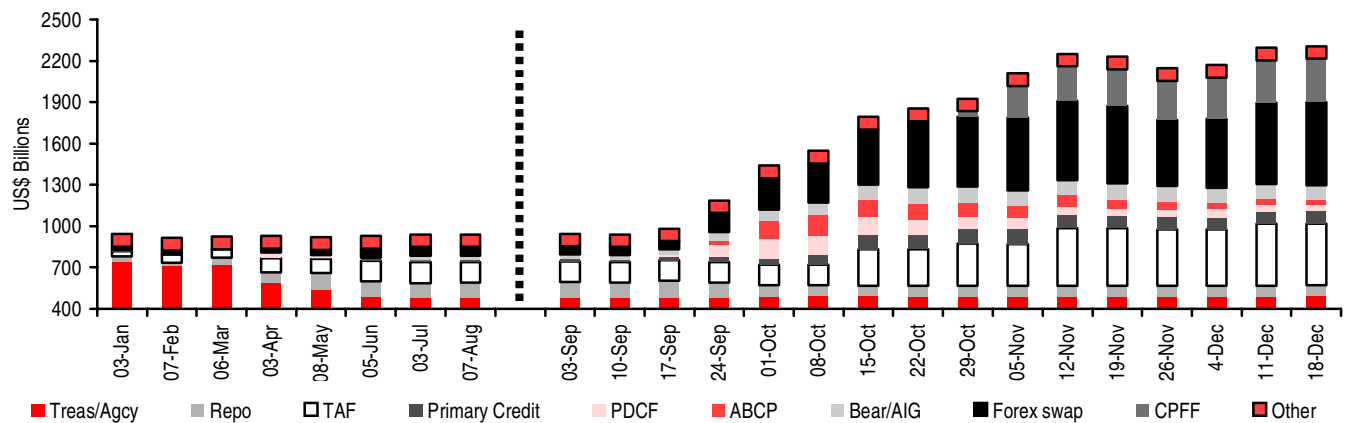
The need for unconventional policies depends partly on the zero rate bound but also on the extent of any subsequent deflation. The more prices fall – or are expected to fall – the greater the degree of unconventional action required.

Unconventional policies will require careful explanation. Traditional monetary policy is reasonably transparent. The Bank of England, for example, publishes inflation projections based on both current interest rates and “market” interest rates: the difference in these projections enables the Bank to signal to markets whether their views of its expected future path for interest rates is along the right lines. By influencing market expectations, the Bank can adjust monetary conditions without changing actual policy rates. The Norges Bank is even more explicit, publishing its own forecasts of where it thinks policy rates will be over the next two years. When, though both actual rates and expected rates are both at zero, what additional information can a central bank offer? Does transparency take a back seat?

In a zero rate world, monetary policy will increasingly have to act in co-ordination with fiscal policy. If the central bank’s balance sheet expands, presumably the assets held on the balance sheet will ultimately be backed by taxpayers. Moreover, if central banks eventually jump into their helicopters by buying government debt, thereby giving cash to governments to spend as they see fit, they will lose aspects of their hard-won independence.

Then there’s the market’s interpretation of unconventional policies. What does it mean when the Federal Reserve is expanding its balance sheet? How big will the expansion be? Will it be big enough? Which assets should the Fed be buying? Is the Fed merely buying assets to support the banking system (by, for example, making it easier for banks to meet their Basel II requirements) or is it trying to bypass the banking system? If the latter, to what degree should we trust its allocation of funds?

20. Federal Reserve Balance sheet advance illustrates scale of ambition, and problems...



Source: Federal Reserve, HSBC estimates. Chart shows Federal Reserve's holdings of Treasury/Agency paper and other assets in relation to following activities: Repo lending, Term Auction Facility (TAF), Primary credit window, Primary Credit Dealer Facility (PDCF), Asset-Backed Commercial Paper Facility (ABCP), the Bear Sterns & AIG loans (Bear/AIG), foreign exchange swaps, the Commercial Paper Funding Facility (CPFF) and other activities.

Taking a quantum leap

Chart 20 illustrates the extent to which the Federal Reserve's activities have already expanded, with the size of its balance sheet more than doubling inside the space of two months. Totalling less than USD1trn at the beginning of the year and consisting mainly of Treasury and Agency paper, the make-up of the Fed's assets has also undergone a remarkable transformation. Treasuries have been loaned out under the Term Auction Facility, discount window access extended to non-depository institutions, swap agreements made with foreign central banks and loan facilities created with special purpose vehicles.

But the motivation behind each new facility was the same, namely the need for the central bank – relying upon its perception as a risk free entity with substantial resources at its disposal - to compensate for the breakdown in the normal functions of the market. Legal or moral hazard concerns undoubtedly present a formidable obstacle here, particularly when dealing with the potential purchase of corporate sector assets. Price formation would be a further complication, as discovered during the attempts to purchase mortgage-related assets under the Troubled Assets Relief Program. Offering too high a price risks presenting taxpayers with large losses, while too

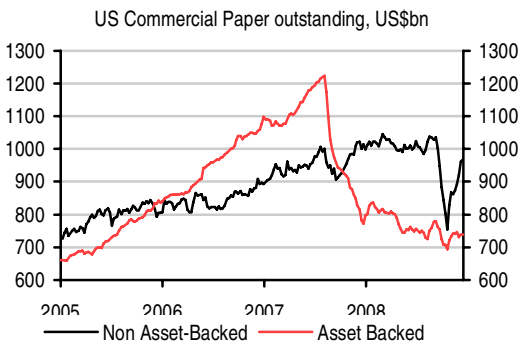
low a price risks removing the incentive for institutions to participate.

Finding solace through quantum?

It is important to remember that the initial forays towards this area of policy have not been wholly unsuccessful. For example, the commercial paper purchase schemes operated under the auspices of the Federal Reserve, which extend to both the financial and non-financial sectors, may provide a precedent here and the initial results suggest that market conditions have been stabilised (Chart 21). The high profile intention to purchase substantial tranches of Government Sponsored Enterprise debt also appears to have encouraged a decline in the spread between the yields of these assets and those of plain Treasury debt.

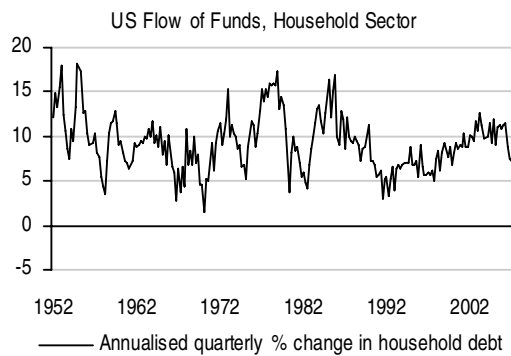
Once more, however, it is practically impossible to determine how these apparent improvements match with the prior expectations of policymakers, or indeed gauge whether any improvement has been achieved in the most efficient manner. Cross-border comparisons will prove even more difficult. The focus of analysis – having been fixed upon issues such as interbank spreads and the absolute level of policy rates

21. Fed's actions have steadied the ship...



Source: HSBC, Federal Reserve

22. ...but demand may simply not exist



Source: HSBC, Federal Reserve

during 2008 – could prove much more fluid over the coming year, perhaps providing the scope for even greater shifts in sentiment. Furthermore, even if the supply of credit is boosted by the various forms of quantitative easing, there is little guarantee that demand will follow suit. News of a decline in the level of US household credit debt during the third quarter of 2008 – the first to be recorded in the more than 50-year history of the Federal Reserve’s Flow of Funds dataset – suggests that the desire to restructure balance sheets may override any improvement in credit availability (Chart 22).

This, in turn, raises the spectre of deflation. Until now, central bank policy has been a hybrid between price and quantity. By offering to purchase a wider range of assets, the Fed injects cash into the system but, at the same time, encourages a narrowing of spreads over government paper. Thus, its actions have an impact both on the supply of cash and the cost of credit. In a world of deflation, however, there will come a point where nominal interest rates will converge on the zero bound, but where real interest rates across the board would start to rise. At this point, central bank policy would have to depend entirely on quantitative actions. Moreover, if the private sector is hoarding cash, the quantitative actions seen so far may come to

nothing: it’s easy enough printing money but, to be effective, it ultimately needs to circulate through the economy. In a true debt deflation, the only institution that can guarantee to spend the money is the government. Selling government paper to the central bank to raise cash which the government then spends is the ultimate form of monetisation. In a deflationary world, the idea would be to increase not just the money stock but also its velocity of circulation in the hope that deflationary expectations could be removed. But these kinds of policies can easily be misinterpreted. Turning on the printing press, after all, conjures up images of the Weimar Republic or, currently, Zimbabwe.

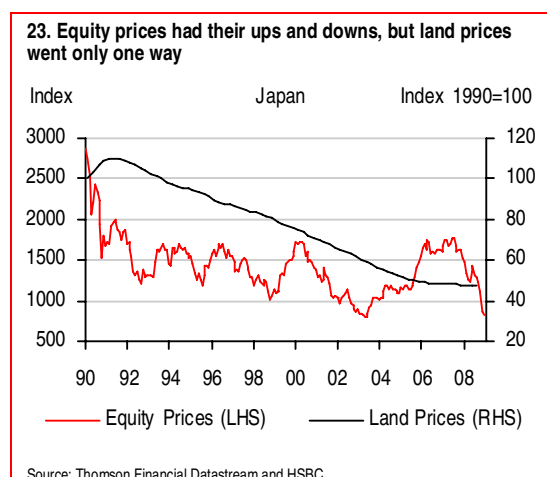
Japan’s problems

There are no easy answers. Unconventional policies are exactly as they are described. They are, on the dictionary definition, “different from what is regarded as normal as standard.” The benchmarks traditionally used by economists to gauge the likely success or otherwise of policy initiatives will work less well in future. Moreover, as we argued in *“The Credibility Gap”* (September 2008), cyclical economic success might still be associated with structural long-term failure.

One lesson from Japan’s experience in the late-1980s is that bubbles tend, wrongly, to encourage a

belief that output is sustainably higher, and can grow sustainably more quickly, than subsequently turns out to be the case. It's interesting to note Japan's asset price experience after the bubble burst.

Relatively liquid markets, such as equities, delivered the occasional bounce, offering a tantalising promise of better times ahead. Illiquid markets, notably land, did not enjoy the same rebounds and, ultimately, provided a more accurate assessment of Japan's ongoing stagnation. Liquid markets were, then, a gauge of people's fickle beliefs. Illiquid markets, by contrast, avoided fickleness and, instead, remained steadfastly rooted in the grim economic realities.



The fickleness of people's beliefs extended into the economic sphere. For each year that growth surprised on the upside, forecasters revised the following year's forecast up. And every year that growth came in lower than expected, forecasts for the following year were cut. Almost invariably, these were the wrong decisions. Japanese growth appeared to follow a rather random walk around a very low mean: the mistake both economists and equity strategists made was to assume either that a strong recovery was just around the corner or that the economy was on the verge of imploding.

Japan's experience creates some serious problems. Its performance led to waves of both optimism and pessimism with no real ability to pinpoint, on a frequent basis, what the underlying

trend of the economy actually was. The mistake, perhaps, was to assume either that there should be a strong recovery or a deep recession. The choice, though, wasn't binary. Japan, for the most part, simply meandered, unable to recover but equally unable to fall into a depressionary slump.

Indicating a recovery

Given all these uncertainties, it might seem premature to think about the timing of recovery. However, some sort of roadmap is required if only to judge, in real time, whether unconventional policies are working.

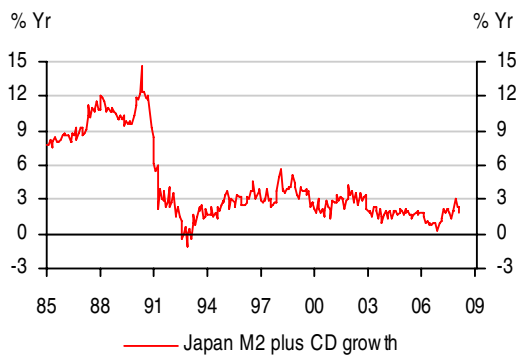
At the very least, we know that policy will be loosened dramatically in some countries. In the US, for example, there's increasing talk that President-Elect Obama's fiscal package will amount to USD800bn over two years, which would amount to around 3% of GDP per year through 2009 and 2010. However, as we've repeatedly argued through this article, knowing the size of any given package does not, in itself, allow us to make clear statements about the economic outlook. To do so, we'd need clear knowledge of the scale of underlying problems. Given the record of the consensus over the last 12 months, it's fair to say that we don't have that luxury.

So what data will be handy in the months ahead? There are four separate categories:

Financial data: Given that this is a financial crisis, financial data will be very important. Interest rate spreads will tell us something about the success or otherwise of quantitative easing, but have to be cross-checked against deflation expectations: the more they build, the less relevant narrower spreads become. Money supply data may become increasingly important, particularly after firms exhaust their opportunities to draw on contingent loans. In Japan, money supply growth fell away, never to regain its earlier

lustre. Asset prices more broadly are important but the Japan experience is again important: in current conditions, a recovery in house prices would be of more significance than a recovery in equity prices. Currency movements might also be helpful but, here, care is needed. A falling dollar might be a sign of a return of risk appetite, but it might just as easily reflect international concerns about the impact of monetisation on the value of US assets held abroad.

24. After Japanese monetary growth collapsed, it never really recovered



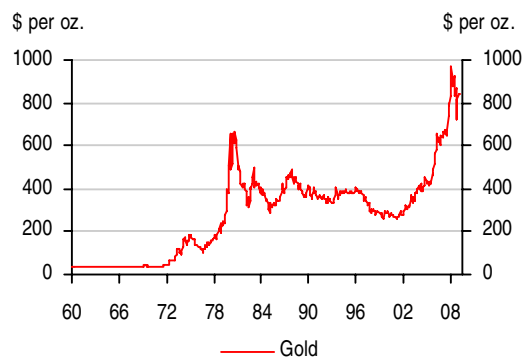
Source: Thomson Financial Datastream

Lending conditions: The various lending surveys produced by central banks are obvious candidates here. The Federal Reserve's Senior Loan Officer Survey is the best, if only because it has the longest track record. There are, though, other sources of information on the quantity of lending, notably loan-to-value ratios on home loans and numbers of mortgage approvals.

Pricing data: We've already noted that, unlike the crises of the mid-1970s and early-1980s, this latest trauma is associated with deflation, not inflation. The greater the risk of deflation, the bigger the danger of money hoarding which would lead to even bigger price declines. The obvious data to look at in this regard are the gold price (likely to be high in circumstances of financial uncertainty but the relationship is less stable than gold bugs would claim), various measures of inflation expectations from both

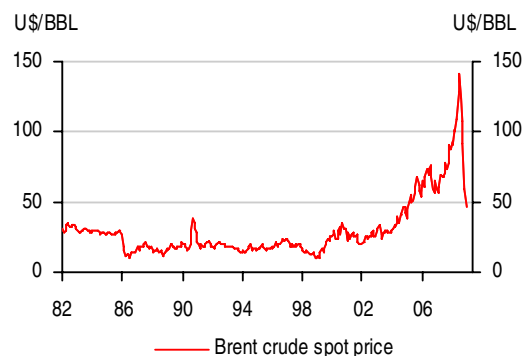
financial markets and consumer surveys and, of course, movements in commodity prices. Of considerable importance will be the need to distinguish between price declines stemming from beneficial supply-side shocks and price declines signalling money hoarding. In normal circumstances, for example, lower oil prices would be good news for oil-importing nations through their impact on real incomes. However, in a deflationary world, lower oil prices might simply be a symptom of a lower overall price level and, hence, a higher real debt level.

25. Gold in an uncertain world



Source: Bloomberg

26. The oil price collapse: good news, or a sign of deflation?

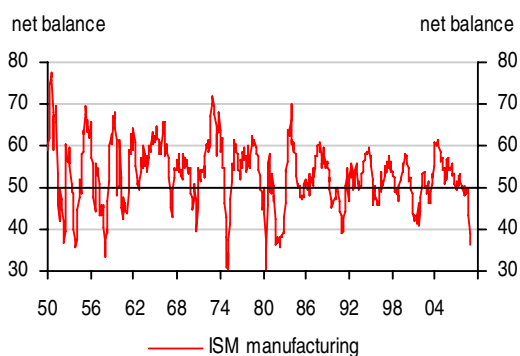


Source: Thomson Financial Datastream

Real economic data: Because this is a financial crisis, we've left real data until last. We think we're likely to see a recovery in the first half of the year in a number of the ISM and PMI surveys, if only because the declines we've seen to data have,

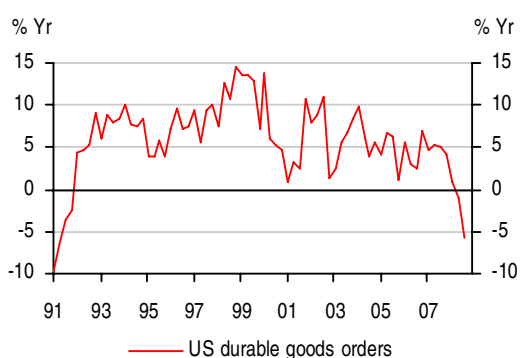
historically, reversed very quickly. However, although a pick-up in these series might suggest that the accelerated pace of economic decline is drawing to a close, that in itself won't be enough to demonstrate the beginnings of a recovery. Other real indicators of use include measures of the inventory cycle (although, as with Japan in the 1990s, the danger lies in thinking the crisis is cyclical rather than structural), the various Beige Book type central bank surveys, consumer confidence and the assorted industrial orders series.

27. The ISM survey spikes down and then recovers



Source: Thomson Financial Datastream

29. Durable goods orders in the US are heading down rapidly



Source: Thomson Financial Datastream and HSBC

Conclusions

We are living through economic history in the making. The global economy is remarkably weak. Contagion has been worse than feared. Conventional economic policies have delivered only modest results so far. Across the

industrialised world, we are fast heading towards zero interest rates. Suddenly, on the “*menu du jour*”, a range of exotic unconventional options is available. We are heading into the financial equivalent of a “bush tucker trial”.

Our latest forecast revisions suggest that we're now competing with the very worst global downswings in the post-war period. The novelty, though, is the rising risk of deflation. A crisis which has its origins in the US housing market and a meltdown in the world's financial system is mutating into a shock which now involves monetary hoarding. Against a background of elevated debt levels, this provides a recipe for deflationary instability.

In a few months' time, with interest rates at or close to zero, what should investors be doing? Our first conclusion, written up in detail by David Bloom's currency strategy team (see, for example, *FX Forecast Change: 2009 dollar downgrade – euro upgrade*), is to think about selling dollars in favour of euros. The crisis has, so far, been kind to the dollar. Our view, though, is that the US is more likely than others to turn on the printing press. Certainly, Ben Bernanke, the Chairman of the Federal Reserve, is willing to consider the idea, as he indicated clearly in his 2002 speech titled “*Deflation: Making sure IT doesn't happen here*”. With around half of US Treasuries held abroad, outright monetisation might lead to dollar sales. With the European Central Bank likely to stick to its more conservative, Bundesbank-led, approach, the euro could be a major beneficiary. History is important: for the US, the defining economic crisis is the Depression whereas, for Germany, it's the hyperinflation of the Weimar Republic in the 1920s.

As for asset allocation more broadly, we inevitably remain cautious. As Richard Cookson explains in “*Navigator: six impossible things before breakfast*”, we are heavily underweight

equities while we have a big overweight bet on investment grade corporate credit (partly on the basis that unconventional measures will act directly on credit spreads). It's not impossible, of course, for equities to stage a strong rebound but, unless there are broader signs of recovery, bounces of this kind may create selling opportunities later in the year. More importantly, though, we remain focused on pricing anomalies at the macro level. Deflation fears have increased but, towards the end of 2008, equity markets had modestly recovered. Futures markets suggest oil prices will rise, notwithstanding growing deflationary fears. CDS spreads for some companies are lower than for their respective governments. Corporate spreads are priced for 1930s depression default rates, which suggests equities are relatively expensive.

More pricing anomalies will doubtless crop up in a highly uncertain world. In the meantime, though, all we can do is hope that unconventional policies prove to be unconventionally right rather than unconventionally wrong.

Global economic forecasts

GDP

Annual										
% Year	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
World (Nominal GDP weights)	1.6	1.9	2.5	3.7	3.2	3.8	3.5	2.0	-0.1	2.6
World (PPP weights)	2.4	3.0	3.9	5.0	4.7	5.3	5.2	3.4	1.1	3.6
Developed	1.2	1.3	1.8	2.9	2.3	2.8	2.4	0.9	-1.1	1.6
Emerging	3.2	4.5	5.7	7.0	6.8	7.6	7.6	5.8	3.1	5.6
North America	0.8	1.6	2.5	3.6	2.9	2.8	2.1	1.1	-0.9	2.4
US	0.8	1.6	2.5	3.6	2.9	2.8	2.0	1.1	-0.9	2.4
Canada	1.8	2.9	1.9	3.1	2.9	3.1	2.7	0.6	-0.8	2.5
Latin America	0.1	0.4	2.1	5.2	3.9	4.9	4.8	3.8	0.7	2.7
Mexico	-0.2	0.8	1.4	4.0	3.1	4.9	3.2	1.7	-0.7	1.8
Brazil	1.3	2.7	1.1	5.7	3.2	4.0	5.7	5.5	2.0	3.6
Argentina	-4.4	-10.9	9.0	8.9	9.2	8.5	8.1	6.8	0.8	2.9
Chile	3.4	2.2	3.9	6.1	5.5	4.3	5.1	4.1	2.3	4.0
Western Europe	1.9	1.1	1.1	2.1	1.8	2.9	2.7	0.9	-1.4	0.9
Euro-15	1.9	0.9	0.8	1.8	1.7	2.9	2.6	0.9	-1.4	0.9
Germany	1.4	0.0	-0.2	0.7	0.9	3.2	2.6	1.2	-1.5	0.9
France	1.8	1.1	1.1	2.2	1.9	2.4	2.1	0.8	-0.8	1.0
Italy	1.7	0.5	0.0	1.4	0.7	1.9	1.4	-0.5	-1.8	0.5
Spain	3.6	2.7	3.1	3.3	3.6	3.9	3.7	1.1	-1.3	1.4
Other Western Europe	2.0	1.8	2.1	2.8	2.3	3.1	3.0	1.0	-1.6	0.8
UK	2.5	2.1	2.8	2.8	2.1	2.8	3.0	0.7	-2.5	0.5
Norway	1.8	1.3	1.0	3.4	2.1	2.5	3.7	1.8	0.2	1.8
Sweden	1.2	2.4	2.1	3.5	3.3	4.4	2.9	0.6	-0.6	1.4
Switzerland	1.2	0.4	-0.2	2.5	2.5	3.4	3.3	1.8	-1.0	0.8
EMEA	1.7	3.1	5.7	6.5	6.0	6.2	5.9	4.6	0.5	3.3
Czech Republic	2.5	1.9	3.6	4.6	6.5	6.4	5.8	4.5	2.2	4.0
Hungary	4.1	4.4	4.2	4.8	4.1	3.9	1.1	1.1	-2.0	1.8
Poland	1.2	1.4	3.9	5.3	3.6	6.2	6.6	5.2	3.0	3.5
Russia	5.1	4.7	7.3	7.2	6.4	7.4	8.1	5.4	-2.0	2.0
Turkey	-5.7	6.2	5.3	9.4	8.4	6.9	4.6	1.1	-1.4	4.3
Ukraine	9.2	5.2	9.6	12.1	2.6	7.1	7.6	4.4	-9.0	1.0
Egypt*	3.5	3.2	3.2	4.1	4.5	6.8	7.1	7.2	5.1	5.3
Israel	-0.4	-0.6	2.3	5.2	5.3	5.2	5.3	4.5	2.2	3.7
Saudi Arabia	1.0	0.1	7.7	5.3	5.6	3.1	3.4	6.3	0.9	2.2
UAE	3.5	2.6	11.9	7.4	10.5	9.4	7.6	8.0	6.2	6.1
South Africa	2.7	3.7	3.1	4.9	5.0	5.3	5.1	3.4	2.5	4.0
Asia/Pacific	2.3	3.2	4.0	5.1	4.8	5.5	5.7	3.7	2.0	4.4
Japan	0.2	0.3	1.5	2.7	1.9	2.4	2.4	0.3	-1.4	1.1
Australia	2.1	4.2	3.0	3.9	2.8	2.7	4.2	2.4	1.5	3.1
New Zealand	2.4	4.7	3.8	4.4	2.7	1.6	3.1	-0.5	-0.2	2.4
Asia-ex-Japan	5.2	6.8	7.2	8.0	8.2	9.1	9.3	7.0	5.0	7.3
China	8.3	9.1	10.0	10.1	10.4	11.6	11.9	9.2	7.8	8.9
Asia ex-Japan & China	3.1	5.1	5.0	6.3	6.4	7.0	6.9	5.0	2.3	5.7
Hong Kong	0.5	1.8	3.0	8.5	7.1	7.0	6.4	3.3	-2.0	4.3
India**	4.5	4.5	7.3	7.3	9.1	9.8	9.3	7.7	5.9	7.6
Indonesia	3.6	4.5	4.8	5.0	5.7	5.5	6.3	6.1	3.8	5.0
Malaysia	0.3	4.4	5.4	7.3	5.3	5.8	6.3	5.5	2.8	5.6
Philippines	1.8	4.4	4.9	6.4	5.0	5.4	7.2	3.9	2.0	4.8
Singapore	-2.3	4.0	2.9	8.7	8.1	8.2	7.7	1.9	-1.2	5.5
South Korea	3.8	7.0	3.1	4.7	4.2	5.1	5.0	2.7	-0.6	4.6
Taiwan	-2.2	4.6	3.5	6.2	4.2	4.8	5.7	1.0	-0.7	4.7
Thailand	2.2	5.3	7.0	6.4	4.7	5.2	4.9	3.5	0.6	4.0
Vietnam	6.9	7.1	7.3	7.8	8.4	8.2	8.5	6.4	5.4	6.6

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 07	Q4 07	Q1 08f	Q2 08f	Q3 08f	Q4 08f	Q1 09f	Q2 09f	Q3 09f	Q4 09f
North America											
US*	% Quarter	4.8	-0.2	0.9	2.8	-0.5	-6.3	-2.0	1.0	3.1	2.1
	% Year	2.8	2.3	2.5	2.1	0.7	-0.5	2.0	2.2	2.1	2.2
Canada*	% Quarter	2.3	0.8	-0.6	0.6	1.3	-2.5	-2.7	-0.8	1.6	2.5
	% Year	3.1	2.8	1.6	0.8	0.5	-0.3	-0.8	-1.2	-1.1	0.1
Latin America											
Mexico	% Quarter	1.2	1.0	-0.2	0.2	0.6	-0.5	-1.0	-0.2	0.5	0.8
	% Year	3.4	4.2	2.6	2.8	1.6	0.2	0.0	-1.6	-1.3	0.0
Brazil	% Quarter	1.2	1.7	1.7	1.6	1.8	-1.3	0.7	1.1	0.7	0.3
	% Year	5.4	6.1	6.1	6.2	6.8	3.0	1.9	2.2	1.3	2.6
Argentina	% Quarter	3.1	1.8	0.6	2.1	2.0	0.3	-1.3	0.1	0.5	0.1
	% Year	9.1	9.2	8.1	7.8	6.7	5.1	3.2	1.2	-0.4	-0.6
Chile	% Quarter	-0.5	0.9	1.6	1.8	-0.1	0.8	-0.3	1.4	0.8	1.0
	% Year	4.1	5.6	3.3	4.6	4.8	3.9	2.5	1.8	2.4	2.9
Western Europe											
Euro-15	% Quarter	0.6	0.3	0.7	-0.2	-0.2	-0.9	-0.5	-0.2	0.1	0.2
	% Year	2.6	2.1	2.1	1.4	0.6	-0.6	-1.7	-1.8	-1.5	-0.4
Germany	% Quarter	0.6	0.3	1.4	-0.4	-0.5	-0.9	-0.5	-0.1	0.2	0.2
	% Year	2.4	1.7	2.7	1.9	0.8	0.3	-1.3	-0.7	-0.5	0.3
France	% Quarter	0.7	0.3	0.4	-0.3	0.1	-0.7	-0.3	-0.2	0.2	0.3
	% Year	2.4	2.2	2.0	1.2	0.6	-0.5	-1.2	-1.1	-1.0	-0.1
Italy	% Quarter	0.2	-0.4	0.5	-0.4	-0.5	-0.9	-0.5	-0.3	0.0	0.2
	% Year	1.6	0.1	0.4	-0.2	-0.9	-1.4	-2.4	-2.3	-1.8	-0.6
Spain	% Quarter	0.6	0.6	0.3	0.1	-0.2	-1.1	-0.5	-0.2	0.4	0.2
	% Year	3.6	3.3	2.6	1.8	0.9	-0.9	-1.7	-2.0	-1.3	0.0
Other Western Europe											
UK	% Quarter	0.8	0.5	0.3	0.0	-0.5	-0.9	-1.1	-0.4	-0.3	0.0
	% Year	3.3	2.9	2.3	1.5	0.3	-1.1	-2.5	-2.9	-2.7	-1.9
Norway	% Year	3.0	3.7	3.6	3.0	0.6	-1.5	1.2	0.4	0.0	0.3
Sweden	% Year	2.4	2.2	1.7	0.7	0.3	-0.1	-0.6	-0.4	-0.6	-0.5
Switzerland	% Year	3.2	3.7	3.1	2.5	1.7	0.1	-0.8	-1.0	-1.4	-0.7
EMEA											
Czech Republic	% Year	6.4	6.6	5.3	4.6	4.7	3.2	2.4	2.1	1.8	2.5
Hungary	% Year	0.9	0.8	1.7	2.0	0.8	-0.2	-1.5	-2.5	-2.5	-1.5
Poland	% Year	6.5	6.4	6.1	5.8	4.8	4.2	2.9	2.6	3.1	3.4
Russia	% Year	7.3	9.5	8.5	7.5	6.2	0.0	-3.0	-3.0	-3.5	0.0
Turkey	% Year	3.3	3.6	6.7	1.9	0.0	-3.3	-2.3	-2.8	-1.5	1.1
Ukraine	% Year	6.2	7.4	6.5	6.2	9.0	-4.0	-6.0	-8.0	-10.0	-12.0
Egypt**	% Year	6.7	7.9	7.4	6.7	5.8	5.1	4.6	4.3	5.0	6.1
Israel	% Year	6.2	5.8	5.8	5.3	4.8	3.0	2.3	2.2	3.0	3.5
South Africa	% Year	5.2	4.6	3.8	4.4	2.9	2.5	2.3	2.0	2.5	3.0
Asia/Pacific											
Japan	% Quarter	0.5	0.5	0.6	-1.0	-0.5	-0.1	-0.6	-0.7	0.4	0.6
	% Year	1.9	2.0	1.4	0.7	-0.5	-1.0	-2.1	-1.9	-1.0	-0.3
Australia	% Quarter	1.1	0.9	0.6	0.4	0.1	0.3	0.3	0.5	0.4	0.7
	% Year	4.2	4.2	3.3	2.9	1.9	1.3	1.0	1.2	1.5	1.9
New Zealand	% Year	3.1	2.4	1.0	-0.3	-0.9	-1.8	-1.1	-0.4	0.2	0.9
Asia-ex-Japan											
China	% Year	11.5	11.3	10.6	10.1	9.0	6.8	6.5	7.2	8.4	8.5
Asia ex-Japan & China											
Hong Kong	% Year	6.8	6.9	7.3	4.2	1.7	-0.3	-1.9	-3.9	-2.0	-0.1
India	% Year	9.3	8.8	8.8	7.9	7.6	6.6	5.8	5.7	5.8	6.3
Indonesia	% Year	6.5	6.3	6.3	6.4	6.1	5.5	4.6	3.4	3.2	4.0
Malaysia	% Year	6.7	7.3	7.4	6.7	4.7	3.3	2.1	1.7	2.7	4.7
Philippines	% Year	7.1	6.4	4.7	4.4	4.6	2.2	0.5	1.3	2.9	3.1
Singapore	% Year	9.5	5.4	6.9	2.3	-0.6	-0.5	-4.6	-2.7	0.0	2.6
South Korea	% Year	5.1	5.7	5.8	4.8	3.8	-2.8	-4.4	-2.0	0.1	3.4
Taiwan	% Year	7.0	6.4	6.2	4.6	-1.0	-5.1	-5.4	-1.5	1.1	3.1
Thailand	% Year	5.1	5.7	6.0	5.3	4.0	-0.7	-2.3	0.4	2.0	2.2
Vietnam	% Year	8.7	9.3	7.5	5.8	6.5	5.6	5.0	5.3	5.5	5.8

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

Consumer prices

Annual										
% Year	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
World	2.5	2.1	2.2	2.5	2.7	2.7	2.8	4.3	1.1	1.9
Developed	2.0	1.4	1.8	1.9	2.3	2.3	2.1	3.3	0.0	1.1
Emerging	4.7	5.1	4.2	4.8	4.4	4.4	5.3	7.9	5.0	4.6
North America	2.8	1.6	2.3	2.6	3.3	3.1	2.8	3.7	-1.1	1.0
US	2.8	1.6	2.3	2.7	3.4	3.2	2.9	3.8	-1.2	1.0
Canada	2.5	2.2	2.7	1.9	2.2	2.0	2.1	2.3	1.1	1.8
Latin America	4.9	10.7	5.7	6.0	5.1	4.2	4.7	6.7	5.2	4.5
Mexico*	4.4	5.7	4.0	5.2	3.3	4.1	3.8	6.6	4.0	3.3
Brazil*	7.7	12.5	9.3	7.6	5.7	3.1	4.5	6.2	5.8	4.9
Argentina*	-1.5	41.0	3.7	6.1	12.3	9.8	8.5	8.0	8.2	8.5
Chile*	2.6	2.8	1.1	2.4	3.7	2.1	7.8	8.1	4.6	3.6
Western Europe	2.2	2.1	2.0	1.9	2.1	2.1	2.1	3.3	1.0	1.6
Euro-15	2.4	2.3	2.1	2.2	2.2	2.2	2.1	3.3	1.1	1.7
Germany	1.8	1.4	1.0	1.8	1.9	1.8	2.3	2.8	0.7	1.7
France	1.8	1.9	2.2	2.3	1.9	1.9	1.6	3.2	1.4	2.0
Italy	2.3	2.6	2.8	2.3	2.2	2.2	2.0	3.5	1.5	1.8
Spain	2.8	3.6	3.1	3.1	3.4	3.6	2.8	4.2	1.0	2.7
Other Western Europe	1.6	1.4	1.5	1.1	1.7	2.0	2.0	3.4	0.8	1.2
UK	1.3	1.3	1.4	1.3	2.0	2.3	2.3	3.6	0.4	0.9
Norway	3.0	1.3	2.5	0.5	1.5	2.3	0.7	3.7	2.7	2.4
Sweden	2.4	2.2	1.9	0.4	0.5	1.4	2.2	3.6	1.4	1.8
Switzerland	1.0	0.6	0.6	0.8	1.2	1.1	0.7	2.4	0.3	1.2
EMEA	10.4	9.7	7.4	6.2	6.6	6.0	7.2	11.0	9.1	7.5
Czech Republic	4.7	1.8	0.7	2.5	1.9	2.6	2.8	6.4	1.7	2.0
Hungary	9.2	5.3	4.7	6.8	3.6	3.9	8.0	6.1	2.0	1.7
Poland	5.5	2.0	0.8	3.5	2.1	1.0	2.5	4.3	2.9	3.0
Russia*	21.6	15.8	13.7	10.9	12.7	9.7	9.0	14.1	11.8	9.0
Turkey	54.4	45.0	25.3	8.6	8.2	9.6	8.8	10.5	11.8	12.0
Ukraine*	12.0	0.8	5.2	9.0	10.3	9.1	12.8	25.3	20.2	11.6
Egypt**	2.4	2.4	3.2	14.3	8.9	4.2	9.5	11.6	17.2	10.4
Israel*	1.4	6.5	-1.9	1.2	2.4	-0.1	3.4	3.7	1.2	2.5
Saudi Arabia	-1.1	0.2	0.6	0.3	0.4	2.3	4.1	10.1	7.1	4.8
UAE	2.7	2.9	3.1	7.0	9.0	10.5	11.1	14.5	9.5	7.4
South Africa	5.7	9.2	5.9	1.4	3.4	4.6	7.1	11.6	6.3	6.0
Asia/Pacific	0.9	0.3	1.0	1.8	1.4	1.9	2.2	4.3	1.5	1.4
Japan	-0.8	-0.9	-0.2	0.0	-0.3	0.1	0.0	1.8	0.0	-0.4
Australia	4.4	3.0	2.8	2.3	2.7	3.5	2.3	4.6	3.0	2.5
New Zealand	2.6	2.7	1.8	2.3	3.0	3.4	2.4	4.2	2.7	2.5
Asia-ex-Japan	2.4	1.4	2.2	3.7	3.1	3.6	4.4	6.8	2.7	3.0
China	0.7	-0.8	1.2	3.9	1.8	1.5	4.8	6.1	-0.2	0.8
Asia ex-Japan & China	3.9	3.2	3.0	3.6	4.2	5.2	4.2	7.3	4.8	4.5
Hong Kong	-1.6	-3.0	-2.6	-0.4	0.9	2.0	2.1	4.3	2.0	3.6
India	4.3	4.0	3.7	3.9	4.0	6.3	6.4	8.3	6.8	4.7
Indonesia	11.5	11.9	6.7	6.1	10.5	13.1	6.1	10.2	7.7	7.8
Malaysia	1.4	1.8	1.1	1.4	3.0	3.6	2.0	5.7	3.9	2.5
Philippines	6.8	2.9	3.5	6.0	7.7	6.3	2.8	9.5	5.0	4.3
Singapore	1.0	-0.4	0.5	1.7	0.5	1.0	2.1	6.6	2.6	3.0
South Korea	4.1	2.8	3.5	3.6	2.8	2.2	2.5	4.7	2.9	3.2
Taiwan	0.0	-0.2	-0.3	1.6	2.3	0.6	1.8	3.4	-1.6	1.4
Thailand	1.5	0.7	1.8	2.8	4.5	4.6	2.2	5.8	0.3	2.9
Vietnam	-0.3	4.1	3.1	7.8	8.3	7.5	8.3	23.1	9.6	10.1

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

Quarterly

% Year	Q3 07	Q4 07	Q1 08	Q2 08f	Q3 08f	Q4 08f	Q1 09f	Q2 09f	Q3 09f	Q4 09f
North America										
US	2.4	4.0	4.1	4.4	5.3	1.6	-0.5	-1.5	-2.8	-0.2
Canada	2.2	2.4	1.8	2.3	3.4	1.6	1.6	0.5	0.2	2.2
Latin America										
Mexico	4.0	3.8	3.9	4.9	5.5	6.2	6.7	6.0	5.2	4.4
Brazil	4.1	4.5	4.7	6.1	6.3	6.2	6.5	5.6	5.6	5.8
Argentina	8.6	8.5	8.5	9.1	8.9	8.0	8.0	8.0	8.1	8.2
Chile	4.8	7.2	8.0	8.9	9.3	8.9	8.0	6.9	4.7	3.9
Western Europe										
Euro-15	1.9	2.9	3.4	3.6	3.8	2.3	1.5	0.9	0.6	1.5
Germany	2.2	3.1	3.1	3.0	3.3	1.8	1.2	0.6	0.1	1.0
France	1.4	2.5	3.3	3.7	3.6	2.4	1.6	1.1	1.2	1.7
Italy	1.7	2.6	3.3	3.8	4.1	2.9	2.5	1.4	1.0	1.2
Spain	2.4	4.0	4.5	4.7	5.0	2.6	1.4	0.7	0.5	1.5
Other Western Europe										
UK	1.8	2.1	2.4	3.3	4.9	3.9	2.0	0.7	-0.6	-0.5
Norway	0.2	1.4	3.5	3.2	4.7	3.5	3.0	3.0	2.5	2.5
Sweden	1.9	3.1	3.2	3.9	4.4	3.0	2.0	1.5	1.3	1.0
Switzerland	0.6	1.7	2.5	2.7	3.0	1.7	0.9	0.2	-0.4	0.3
EMEA										
Czech Republic	2.5	4.8	7.4	6.8	6.6	4.8	1.9	1.6	1.6	1.7
Hungary	7.7	7.0	6.9	6.8	6.3	4.4	2.7	1.7	1.6	1.7
Poland	2.0	3.3	4.3	4.4	4.7	3.8	3.0	2.9	2.9	2.9
Russia	8.9	11.4	12.9	14.9	14.9	14.3	14.1	14.3	13.5	11.5
Turkey	7.1	8.4	9.2	10.6	11.1	11.1	11.7	11.2	13.3	13.7
Ukraine	14.1	15.5	22.5	30.2	25.8	22.9	20.9	17.9	18.1	18.1
Egypt	9.3	6.9	14.4	20.2	21.5	19.9	13.7	10.3	10.1	11.4
Israel	1.6	3.4	3.6	5.6	4.4	3.7	2.4	2.0	1.5	1.2
South Africa	6.8	8.4	9.9	11.6	13.4	11.5	7.9	6.1	5.0	6.2
Asia/Pacific										
Japan	-0.1	0.4	1.0	1.4	2.4	1.3	0.7	0.4	-0.6	-0.5
Australia	1.9	3.0	4.2	4.5	5.0	4.8	4.1	3.1	2.4	2.2
New Zealand	1.8	3.2	3.4	4.0	5.1	5.1	4.2	2.8	2.2	1.7
China	6.1	6.6	8.0	7.8	5.3	3.2	0.7	-0.8	-0.6	0.1
Hong Kong	1.7	3.5	4.6	5.7	4.6	2.5	2.1	1.4	1.8	2.5
India	6.7	5.5	6.3	7.8	9.0	10.2	9.0	7.5	6.0	5.0
Indonesia	6.5	6.7	6.5	9.0	12.0	11.8	10.4	8.1	6.4	6.2
Malaysia	1.8	2.2	2.6	4.9	8.4	7.0	6.5	5.0	2.0	2.3
Philippines	2.5	3.3	5.5	9.7	12.2	10.7	7.8	5.0	3.8	3.5
Singapore	2.7	4.1	6.6	7.5	6.6	5.7	3.0	2.0	2.4	2.9
South Korea	2.3	3.4	3.8	4.8	5.5	4.6	3.7	2.8	2.4	2.6
Taiwan	1.5	4.5	3.6	4.2	4.5	1.2	-0.2	-2.5	-2.4	-1.3
Thailand	1.6	2.9	5.0	7.5	7.2	3.5	1.2	-1.0	-0.1	1.2
Vietnam	8.6	10.7	16.4	24.5	27.7	24.0	17.3	8.4	5.5	7.3

Source: HSBC

Short rates

3 month money

End period	2005	2006	2007		2008				2009			
	Q4	Q4	Q3	Q4	Q1	Q2	Q3	Q4e	Q1f	Q2f	Q3f	Q4f
North America												
US (USD)	4.5	5.3	5.2	4.7	2.8	2.8	4.5	0.8	0.4	0.4	0.4	0.4
Canada (CAD)	3.4	4.2	4.9	4.5	3.6	3.4	4.1	2.3	2.3	2.3	2.3	2.3
Latin America												
Mexico (MXN)	8.0	7.2	7.4	7.3	7.6	7.6	8.3	8.4	8.4	8.0	7.8	7.8
Brazil (BRL)	17.4	12.8	11.0	11.2	11.5	12.7	14.0	13.4	12.3	11.3	10.3	10.5
Argentina (ARS)*	4.8	7.1	8.6	10.0	8.5	10.7	11.5	15.3	15.5	15.7	15.9	16.3
Chile (CLP)*	4.5	5.3	5.9	6.5	6.6	7.9	8.7	8.6	8.6	7.6	7.1	7.0
Western Europe												
Euro-15												
	2.5	3.7	4.8	4.6	4.7	4.9	5.3	3.4	2.9	2.3	2.2	2.2
Other Western Europe												
UK (GBP)	4.6	5.3	6.2	5.9	6.0	5.9	6.3	2.8	1.3	1.0	0.8	0.8
Sweden (SEK)	2.0	3.3	4.3	4.7	4.8	5.0	5.5	2.7	2.2	2.2	2.1	2.0
Switzerland (CHF)	1.0	2.1	2.7	2.8	2.8	2.8	3.0	0.6	0.4	0.4	0.4	0.4
Norway (NOK)	2.6	3.9	5.7	5.9	6.1	6.6	7.7	4.8	4.7	4.6	4.5	4.5
EMEA												
Hungary (HUF)	6.3	8.1	7.5	7.6	8.2	8.8	8.7	10.0	8.2	6.5	5.3	5.2
Poland (PLN)	4.6	4.2	5.1	5.1	5.6	5.8	6.6	6.1	5.4	5.0	5.0	5.0
Russia (RUB)*	5.9	5.9	7.8	6.3	6.3	5.4	9.0	21.0	12.0	11.0	15.0	21.0
Turkey (TRY)	13.8	17.6	17.0	16.0	16.9	19.3	19.1	18.0	18.5	19.0	19.5	19.5
Ukraine (UAH)	6.6	7.6	4.2	6.6	11.8	16.4	18.0	20.0	16.0	15.0	15.0	18.0
South Africa (ZAR)	7.0	9.2	10.4	10.5	10.6	11.9	12.1	11.3	11.0	10.5	9.8	9.5
Asia/Pacific												
Japan (JPY)	0.1	0.6	1.0	0.9	0.9	1.0	1.1	0.9	0.7	0.6	0.6	0.6
Australia (AUD)	5.8	6.5	7.0	7.3	7.8	7.8	7.3	5.1	4.7	4.7	4.6	4.7
New Zealand (NZD)	7.7	7.7	8.8	8.9	9.1	8.7	8.0	6.0	5.8	5.7	5.7	5.9
Asia-ex-Japan												
China (CNY)	1.7	1.8	2.9	3.3	3.3	3.3	3.3	2.0	0.9	0.4	0.4	0.4
Asia ex-Japan & China												
Hong Kong (HKD)	4.2	3.9	5.2	3.5	2.0	2.3	3.7	1.6	1.4	1.1	0.8	0.8
India (INR)	6.3	8.2	7.8	8.0	8.7	9.4	11.0	9.2	8.5	7.7	7.5	7.0
Indonesia (IDR)	12.8	9.5	7.8	7.8	8.0	9.2	9.9	9.3	8.6	8.1	8.1	8.1
Malaysia (MYR)	3.2	3.7	3.6	3.6	3.6	3.7	3.7	3.3	2.8	2.8	2.8	2.8
Philippines (PHP)	5.2	4.8	3.8	3.7	5.7	6.0	6.3	4.5	4.8	5.0	5.0	6.0
Singapore (SGD)	3.3	3.4	2.6	2.4	1.4	1.3	1.9	0.7	0.6	0.6	0.6	0.8
South Korea (KRW)	4.0	4.8	5.3	5.7	5.3	5.4	5.8	3.7	2.7	2.5	2.5	2.5
Taiwan (TWD)	1.6	1.8	2.1	2.2	2.2	2.2	2.3	1.1	0.7	0.6	0.7	0.8
Thailand (THB)	4.5	5.3	3.6	3.9	3.3	3.7	4.0	3.1	2.1	1.6	1.6	1.6

Note: * = 1-month money
Source: HSBC

Long rates

10-year bond yields													
End period		Q4 05	Q4 06	Q3 07	Q4 07	Q1 08	Q2 08	Q3 08f	Q4 08f	Q1 09f	Q2 09f	Q3 09f	Q4 09f
Americas													
	US	4.4	4.7	4.6	4.0	3.4	4.0	3.8	2.5	2.4	2.2	2.0	2.0
	Canada	4.0	4.1	4.3	4.0	3.4	3.7	3.8	4.1	4.2	4.2	4.2	4.2
	Chile	5.3	5.4	6.3	6.3	6.6	7.8	7.3	6.2	6.5	7.0	6.5	6.6
Western Europe													
Euro-15													
		3.3	4.0	4.4	4.4	4.1	4.8	4.4	3.2	3.1	2.9	2.8	2.9
	Germany	3.3	3.9	4.3	4.3	3.9	4.6	4.0	3.2	3.1	2.9	2.8	2.9
	France	3.3	4.0	4.4	4.4	4.1	4.8	4.3	3.2	3.1	2.9	2.8	2.9
	Italy	3.5	4.2	4.6	4.6	4.3	5.1	4.9	3.4	3.3	3.1	3.0	3.1
	Spain	3.3	4.0	4.4	4.4	4.1	4.9	4.6	3.2	3.1	2.9	2.8	2.9
Other Western Europe													
	UK	4.1	4.7	5.0	4.5	4.3	5.1	4.4	3.5	3.4	3.2	3.0	2.8
	Sweden	3.3	3.8	4.3	4.3	4.0	4.5	3.8	4.2	4.2	4.2	4.4	4.6
	Switzerland	1.9	2.5	3.0	3.0	2.9	3.3	2.5	2.9	2.7	2.6	2.6	2.7
	Norway	3.6	4.3	5.0	4.7	4.3	5.1	4.4	4.3	4.3	4.3	4.3	4.3
EMEA													
	Hungary	7.0	6.7	6.5	7.2	8.8	8.3	8.2	7.8	7.4	7.2	6.9	6.5
	Poland	5.1	5.2	5.6	5.7	5.9	6.0	5.9	5.8	5.4	5.3	5.5	5.5
	Russia	6.8	6.5	6.4	6.3	6.4	6.7	8.7	11.2	11.5	11.9	12.7	12.9
	South Africa	7.5	7.7	8.1	8.3	9.2	10.7	8.8	7.4	7.2	7.0	7.0	7.0
Asia/Pacific													
	Japan	1.5	1.7	1.7	1.5	1.3	1.6	1.5	1.4	1.4	1.2	1.0	1.0
	Australia	5.2	5.9	6.1	6.3	6.0	6.5	5.4	5.3	5.5	5.7	5.9	6.0
	New Zealand	5.8	5.8	6.2	6.4	6.4	6.4	5.8	5.7	5.8	5.8	6.1	6.2
Asia-ex-Japan													
	Hong Kong	4.2	3.7	4.4	3.4	2.6	3.5	2.9	2.4	2.2	2.1	2.1	2.2
	India	7.1	7.6	7.9	7.8	7.6	8.7	8.7	6.5	5.5	4.8	4.8	5.5
	Indonesia*	13.3	9.4	8.9	9.2	9.7	13.2	13.0	12.5	12.0	12.5	11.0	9.5
	Philippines	10.2	6.4	7.1	6.4	7.2	9.2	8.1	7.2	7.0	7.0	6.8	6.8
	Singapore*	3.0	3.0	2.5	2.3	1.6	2.6	2.4	1.4	1.3	1.3	1.5	1.5
	South Korea*	5.0	4.8	5.4	5.6	5.0	5.4	5.8	5.8	5.7	5.5	5.3	5.3
	Vietnam*	8.8	8.3	8.2	8.7	8.7	19.7	15.9	9.0	7.5	7.5	7.5	7.5

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

Exchange rates vs USD

Exchange rates vs USD												
End period	2005	2006	2007		2008				2009			
	Q4	Q4	Q3	Q4	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
Americas												
Canada (CAD)	1.17	1.16	0.99	0.99	1.03	1.01	1.06	1.20	1.35	1.40	1.40	1.40
Mexico (MXN)	10.63	10.80	10.93	10.92	10.64	10.31	10.93	12.50	12.00	12.25	12.50	12.75
Brazil (BRL)	2.34	2.14	1.84	1.77	1.75	1.59	1.91	2.30	2.35	2.35	2.35	2.45
Argentina (ARS)	3.03	3.06	3.15	3.15	3.17	3.02	3.13	3.45	3.63	3.72	3.87	4.14
Chile (CLP)	514	532	511	498	437	525	552	625	650	675	700	700
Western Europe												
Eurozone (EUR=)	1.18	1.32	1.42	1.46	1.58	1.58	1.40	1.40	1.45	1.45	1.50	1.50
Other Western Europe												
UK (GBP=)	1.72	1.96	2.04	1.99	1.99	1.99	1.78	1.55	1.58	1.58	1.61	1.61
Sweden (SEK)	7.96	6.84	6.47	6.46	5.93	6.02	6.97	7.43	6.90	6.72	6.33	6.17
Norway (NOK)	6.77	6.23	5.42	5.43	5.08	5.09	5.91	6.36	6.00	5.86	5.47	5.47
Switzerland (CHF)	1.32	1.22	1.17	1.13	0.99	1.02	1.12	1.11	1.07	1.07	1.05	1.05
EMEA												
Czech Republic (CZK)	24.6	20.9	19.3	18.2	15.9	15.2	17.4	16.8	17.6	17.6	16.7	16.7
Hungary (HUF)	214.0	190.6	176.7	172.9	164.1	149.2	172.2	185.7	179.3	179.3	170.0	166.7
Poland (PLN)	3.26	2.90	2.65	2.46	2.22	2.13	2.41	2.21	2.21	2.41	2.27	2.27
Russia (RUB)	28.8	26.4	25.0	24.5	23.5	23.5	25.6	28.6	33.0	33.0	33.0	33.4
Turkey (TRY)*	1.35	1.42	1.21	1.17	1.33	1.22	1.23	1.65	1.55	1.70	1.85	1.75
Ukraine (UAH)	5.05	5.05	5.05	5.05	5.00	4.53	5.07	7.80	7.80	7.80	7.80	9.00
Israel (ILS)	4.60	4.17	4.10	3.95	3.45	3.30	3.55	3.90	3.92	3.95	3.98	4.00
South Africa (ZAR)	6.34	7.05	6.90	6.83	8.13	7.83	8.28	10.00	9.50	9.50	9.75	10.00
Asia/Pacific												
Japan (JPY)	118	119	115	112	100	106	106	90	100	100	105	105
Australia (AUD=)	0.73	0.79	0.88	0.88	0.91	0.96	0.79	0.67	0.67	0.65	0.66	0.67
New Zealand (NZD=)	0.68	0.71	0.76	0.77	0.79	0.76	0.67	0.57	0.59	0.54	0.55	0.56
China (CNY)	8.07	7.81	7.51	7.31	7.01	6.86	6.77	6.80	6.80	6.80	6.80	6.80
Hong Kong (HKD)	7.75	7.77	7.76	7.80	7.78	7.80	7.80	7.80	7.80	7.80	7.80	7.80
India (INR)	45.0	44.2	39.7	39.4	40.0	43.0	45.0	45.0	45.0	45.0	45.0	45.0
Indonesia (IDR)	9825	8996	9145	9393	9204	9218	9500	12500	13000	13500	13500	13500
Malaysia (MYR)	3.78	3.53	3.41	3.31	3.20	3.26	3.45	3.60	3.65	3.70	3.70	3.70
Philippines (PHP)	53.0	49.1	45.3	41.3	41.5	44.8	47.0	50.5	52.5	53.0	53.0	53.0
Singapore (SGD)	1.66	1.53	1.49	1.44	1.38	1.36	1.43	1.55	1.65	1.70	1.70	1.70
South Korea (KRW)	1008	930	915	936	991	1048	1100	1400	1400	1400	1200	1200
Taiwan (TWD)	32.8	32.6	32.7	32.4	30.4	30.4	32.0	34.0	35.0	36.0	36.0	36.0
Thailand (THB)	41.0	36.0	34.2	33.7	31.5	33.5	35.0	36.0	37.0	37.5	37.5	37.5
Vietnam (VND)	15896	16050	16217	16217	16217	16110	16800	16900	17000	17100	17200	17200

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			
	Q4	Q4	Q3	Q4	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
vs EUR												
Americas												
US (USD)	1.18	1.32	1.42	1.46	1.58	1.58	1.40	1.40	1.45	1.45	1.50	1.50
Canada (CAD)	1.38	1.53	1.41	1.44	1.63	1.60	1.49	1.68	1.96	2.03	2.10	2.10
Europe												
UK (GBP)	0.69	0.67	0.70	0.73	0.80	0.79	0.79	0.90	0.92	0.92	0.93	0.93
Sweden (SEK)	9.39	9.02	9.20	9.45	9.40	9.48	9.79	10.40	10.00	9.75	9.50	9.25
Switzerland (CHF)	1.55	1.61	1.66	1.66	1.57	1.60	1.57	1.55	1.55	1.55	1.57	1.57
Norway (NOK)	7.99	8.21	7.71	7.94	8.05	8.02	8.30	8.90	8.70	8.50	8.20	8.20
Czech Republic (CZK)	29.0	27.5	27.5	26.6	25.2	23.9	24.5	23.5	25.5	25.5	25.0	25.0
Hungary (HUF)	252	251	251	253	260	235	242	260	260	260	255	250
Poland (PLN)	3.84	3.83	3.77	3.60	3.52	3.35	3.39	3.80	3.20	3.50	3.40	3.40
Russia (RUB)	34.0	34.8	35.5	35.9	37.3	37.0	36.0	40.0	47.9	47.9	49.5	50.1
Asia/Pacific												
Japan (JPY)	139	157	164	163	158	167	149	126	145	145	158	158
Australia (AUD)	1.61	1.67	1.61	1.67	1.74	1.64	1.78	2.09	2.16	2.23	2.27	2.24
New Zealand (NZD)	1.73	1.87	1.88	1.90	2.02	2.07	2.10	2.46	2.46	2.69	2.73	2.68
Africa												
South Africa (ZAR)	7.48	9.30	9.81	9.99	12.88	12.33	11.63	14.00	13.78	13.78	14.63	15.00
vs GBP												
Americas												
US (USD)	1.72	1.96	2.04	1.99	1.99	1.99	1.78	1.55	1.58	1.58	1.61	1.61
Canada (CAD)	2.01	2.28	2.02	1.96	2.04	2.02	1.90	1.86	2.13	2.21	2.25	2.25
Europe												
Eurozone (EUR)	0.69	0.67	0.70	0.73	0.80	0.79	0.79	0.90	0.92	0.92	0.93	0.93
Sweden (SEK)	13.66	13.39	13.18	12.86	11.79	11.97	12.43	11.54	10.89	10.62	10.20	9.93
Norway (NOK)	11.62	12.19	11.05	10.81	10.10	10.14	10.54	9.87	9.47	9.26	8.80	8.80
Switzerland (CHF)	2.26	2.39	2.38	2.25	1.97	2.03	2.00	1.72	1.69	1.69	1.69	1.69
Asia/Pacific												
Japan (JPY)	203	233	234	222	198	211	189	140	158	158	169	169
Australia (AUD)	2.34	2.48	2.30	2.27	2.18	2.07	2.26	2.32	2.36	2.43	2.44	2.40
New Zealand (NZD)	2.52	2.78	2.70	2.59	2.53	2.61	2.67	2.73	2.67	2.92	2.93	2.88
Africa												
South Africa (ZAR)	10.89	13.80	14.05	13.60	16.15	15.58	14.76	15.53	15.00	15.00	15.70	16.11

Source: HSBC

Consumer spending

Consumer spending										
% Year	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
World	2.5	2.4	2.4	3.4	3.1	3.3	3.4	1.7	0.0	1.8
Developed	2.3	2.0	2.0	2.8	2.3	2.5	2.4	0.6	-0.8	0.9
Emerging	3.5	3.9	4.3	6.2	6.7	6.7	7.3	6.1	3.3	5.0
North America	2.5	2.8	2.8	3.6	3.1	3.1	2.9	0.5	-1.3	1.3
US	2.5	2.7	2.8	3.6	3.0	3.0	2.8	0.3	-1.3	1.3
Canada	2.3	3.6	3.0	3.3	3.7	4.3	4.5	3.3	-1.3	0.3
Latin America	1.0	0.1	1.8	5.5	5.2	5.7	5.6	4.0	1.2	2.5
Mexico	2.5	1.6	2.2	5.6	4.8	5.6	4.2	1.8	0.4	1.9
Brazil	0.7	1.9	-0.8	3.8	4.5	5.2	6.3	6.0	2.0	3.0
Argentina	-5.7	-14.4	8.2	9.5	8.9	7.8	9.0	7.1	1.2	2.5
Chile	2.9	1.9	4.0	7.2	7.4	6.5	7.8	5.6	3.1	5.0
Western Europe	2.2	1.4	1.6	2.0	1.7	2.0	2.0	0.7	-0.6	0.6
Euro-15	2.0	0.9	1.2	1.5	1.6	1.8	1.6	0.3	-0.2	0.8
Germany	1.9	-0.8	0.1	-0.2	0.2	1.2	-0.3	-0.4	-0.1	0.4
France	2.6	2.3	2.0	2.4	2.5	2.5	2.4	1.0	0.6	1.4
Italy	0.7	0.2	1.0	0.8	0.9	1.1	1.5	-0.4	-0.5	0.7
Spain	3.4	2.8	2.9	4.2	4.2	3.9	3.5	0.4	-2.3	0.5
Other Western Europe	2.4	2.8	2.5	3.3	2.0	2.3	3.2	1.8	-1.5	0.2
UK	3.0	3.5	2.9	3.4	1.5	2.0	3.2	1.9	-2.4	-0.4
Norway	1.8	2.8	2.6	5.1	4.0	4.7	6.5	1.6	0.3	2.2
Sweden	0.4	2.6	2.0	2.6	2.7	2.5	3.0	1.4	-0.1	2.0
Switzerland	2.3	0.1	0.9	1.5	1.8	1.6	2.0	1.8	0.2	0.4
EMEA	2.8	5.3	5.9	8.5	7.9	7.9	8.8	7.8	1.9	4.1
Czech Republic	2.3	2.2	6.0	2.9	2.5	5.4	5.9	2.2	1.0	2.5
Hungary	5.7	9.9	7.8	3.2	3.8	1.3	-1.9	0.9	-2.9	2.0
Poland	2.3	3.0	2.6	4.0	2.7	5.0	5.0	4.8	3.2	3.0
Russia	9.5	8.9	7.5	12.1	11.8	11.3	13.1	10.2	0.0	3.0
Turkey	-6.6	4.7	10.2	11.0	7.9	4.6	4.1	2.0	-0.8	3.3
Ukraine	9.6	9.5	12.6	12.2	16.6	14.4	17.1	15.5	-9.0	2.0
Egypt*	4.0	2.7	2.3	2.1	4.7	6.4	6.9	5.7	3.1	3.4
Israel	2.7	1.1	1.3	5.0	3.4	4.8	7.2	4.4	2.0	3.8
Saudi Arabia**	0.6	0.3	3.7	5.8	9.5	13.4	14.0	20.0	9.0	7.5
UAE**	5.3	21.6	10.5	29.1	16.4	12.2	18.0	20.0	13.0	11.0
South Africa	3.5	3.2	3.5	6.7	6.9	8.2	7.0	2.5	1.5	3.0
Asia/Pacific	3.0	2.8	2.3	3.4	3.6	4.0	4.2	3.2	2.3	3.3
Japan	1.7	1.1	0.4	1.6	1.3	2.0	1.5	0.9	-0.3	0.1
Australia	2.9	3.9	3.5	5.9	3.0	3.1	4.5	2.2	1.2	2.6
New Zealand	2.0	4.4	6.0	6.0	4.7	2.4	4.3	0.0	0.4	2.0
Asia-ex-Japan	5.1	5.1	4.6	5.2	6.6	6.5	7.3	6.1	5.1	6.5
China	6.2	6.2	6.5	7.2	8.5	8.7	9.0	8.9	8.0	8.5
Asia ex-Japan & China	4.6	4.5	3.6	4.2	5.6	5.3	6.3	4.4	3.3	5.2
Hong Kong	1.9	-0.9	-1.3	7.0	3.0	6.0	7.8	2.9	0.4	2.8
India	6.1	2.9	8.1	5.2	8.7	7.1	8.3	6.5	5.5	6.8
Indonesia	3.5	3.8	3.9	5.0	4.0	3.2	5.0	5.2	3.9	4.6
Malaysia	2.4	4.4	6.6	10.5	9.1	6.5	10.8	8.6	5.0	5.5
Philippines	3.6	4.1	5.3	5.9	4.8	5.5	5.8	4.4	2.6	4.4
Singapore	4.7	4.9	0.9	5.9	3.4	3.3	4.6	4.7	4.3	5.2
South Korea	4.9	7.9	-1.2	-0.3	3.6	4.5	4.5	1.7	0.0	3.8
Taiwan	0.7	2.6	1.5	4.5	3.0	1.8	2.3	-0.4	1.1	3.0
Thailand	4.1	5.4	6.4	6.1	4.9	3.0	1.6	2.4	2.0	3.5
Vietnam	4.5	7.6	8.0	7.1	7.3	8.3	9.6	7.3	6.0	6.8

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

Investment spending

Investment spending										
% Year	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
World	-0.3	-1.0	4.2	7.3	7.9	7.1	6.4	4.4	-0.5	6.4
Developed	-1.1	-2.8	2.0	4.5	4.9	3.4	1.3	-1.9	-6.5	1.1
Emerging	2.6	5.8	12.1	16.3	16.4	16.7	18.3	16.7	9.6	13.8
North America	-2.5	-4.7	3.6	7.3	7.0	2.4	-2.5	-4.1	-10.0	0.9
US	-3.0	-5.2	3.4	7.3	6.8	2.0	-3.1	-4.7	-10.8	1.0
Canada	3.0	1.3	6.3	8.0	8.9	7.1	3.9	2.0	-2.3	-0.1
Latin America	-3.8	-5.4	1.0	10.6	8.1	10.1	9.9	10.6	-0.7	4.5
Mexico	-5.6	-0.6	0.4	8.0	6.5	9.6	5.6	5.0	-3.6	3.3
Brazil	0.4	-5.2	-4.6	9.1	3.6	9.8	13.5	16.0	2.0	5.5
Argentina	-15.7	-36.4	38.2	34.4	22.7	18.2	13.6	12.6	-0.7	4.3
Chile	4.3	1.5	5.7	10.0	23.9	2.9	14.3	16.2	2.6	6.1
Western Europe	0.6	-0.7	1.1	2.9	3.3	5.9	4.7	0.4	-5.4	0.6
Euro-15	0.6	-1.4	1.3	2.0	3.1	5.3	4.2	1.0	-5.5	0.6
Germany	-3.4	-6.2	-0.3	-1.3	1.3	8.5	4.5	4.9	-3.5	-0.2
France	2.3	-1.6	2.2	3.3	4.5	5.0	4.9	0.0	-4.0	1.1
Italy	2.4	3.7	-0.9	1.6	1.2	2.7	0.8	-1.9	-6.1	1.4
Spain	4.4	3.4	5.2	5.2	6.5	7.7	5.0	-2.9	-11.3	0.7
Other Western Europe	0.7	1.8	0.6	5.8	3.9	7.8	6.4	-1.4	-5.1	0.6
UK	2.6	3.6	1.1	5.9	1.5	7.6	6.0	-3.9	-9.0	0.1
Norway	-1.2	-1.3	0.2	10.1	13.2	7.3	9.5	4.1	0.5	2.2
Sweden	-0.5	-1.8	1.4	5.7	8.9	7.7	8.0	4.6	1.6	1.5
Switzerland	-3.5	-0.5	-1.2	4.5	3.7	4.7	5.4	-1.0	-3.4	-0.9
EMEA	-2.3	1.9	7.2	10.2	11.4	14.8	16.7	12.0	-1.4	6.1
Czech Republic	6.6	5.1	0.4	3.9	1.8	6.5	5.8	4.7	2.0	4.7
Hungary	5.1	10.1	2.1	7.7	5.6	-2.4	0.1	-3.0	-3.5	1.5
Poland	-9.7	-6.3	-0.1	6.4	6.5	14.9	17.6	9.2	3.1	3.5
Russia	10.3	2.8	12.8	12.6	10.6	17.5	20.8	13.0	-16.0	0.9
Turkey	-30.0	14.7	14.2	28.4	17.4	13.3	5.5	0.3	-4.2	3.8
Ukraine	6.2	3.4	12.2	-2.2	-0.3	18.7	24.8	15.0	-25.0	0.0
Egypt*	-2.2	5.5	-8.7	6.2	14.2	13.3	23.8	15.5	11.9	12.1
Israel	-5.1	-13.7	-10.7	4.0	2.9	6.4	13.6	5.3	0.8	3.0
Saudi Arabia**	2.3	1.6	15.6	5.6	25.1	19.1	22.8	23.0	6.5	8.0
UAE**	4.8	3.7	17.1	11.1	15.5	29.0	25.0	26.0	17.0	18.0
South Africa	3.5	3.7	9.1	8.9	8.9	13.8	17.1	11.5	8.5	10.5
Asia/Pacific	1.9	2.7	7.8	10.7	12.0	10.8	13.0	11.3	8.4	12.5
Japan	-0.9	-4.9	-0.5	1.4	3.1	0.5	1.1	-3.8	-3.9	2.2
Australia	-4.9	17.1	8.9	8.0	8.0	5.4	9.1	8.8	5.6	4.5
New Zealand	-1.2	10.9	10.2	11.6	3.6	-1.2	4.5	-0.2	-1.6	4.6
Asia-ex-Japan	6.5	10.4	16.5	19.3	19.4	18.4	20.1	18.7	13.5	16.4
China	13.0	16.9	27.7	27.6	27.2	24.5	25.8	24.0	17.5	19.0
Asia ex-Japan & China	1.3	4.6	5.3	9.4	8.5	8.3	9.4	7.2	3.3	9.0
Hong Kong	2.9	-4.6	1.0	2.7	4.1	7.0	4.2	3.9	-1.2	9.3
India	4.3	7.7	9.7	18.9	17.4	15.1	13.8	11.3	8.0	13.0
Indonesia	6.5	4.7	0.6	14.7	10.9	2.5	9.2	12.2	4.6	5.8
Malaysia	-2.8	0.3	2.7	3.1	5.0	7.9	9.6	4.6	5.9	7.8
Philippines	-13.0	2.3	3.6	1.3	-6.6	3.8	11.8	3.9	3.3	4.6
Singapore	-3.9	-11.4	-3.2	10.2	-1.5	13.5	20.2	17.9	1.0	6.7
South Korea	-0.2	6.6	4.0	2.1	2.4	3.6	4.0	-0.7	-2.5	5.6
Taiwan	-19.9	1.1	1.7	19.5	1.2	0.9	1.9	-7.4	2.3	6.8
Thailand	1.1	6.5	12.1	13.2	10.5	3.9	1.3	1.7	1.4	6.3
Vietnam	10.7	12.9	11.9	10.4	9.7	9.9	23.0	13.5	7.0	9.0

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

Exports

Export volume growth (GDP basis)

% Year	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
World	0.5	3.0	5.2	10.8	8.4	10.1	8.2	5.1	-3.0	4.0
Developed	0.6	1.3	1.7	7.6	5.6	8.1	5.5	3.5	-2.4	2.9
Emerging	0.2	7.5	14.2	18.0	14.1	13.8	13.0	7.8	-3.8	5.7
North America	-4.8	-1.4	0.4	8.6	5.8	7.2	6.8	4.5	-2.2	4.3
US	-5.4	-2.3	1.3	9.7	7.0	9.1	8.4	6.7	-1.7	5.0
Canada	-3.0	1.2	-2.3	5.0	1.8	0.6	1.0	-4.3	-4.2	0.9
Latin America	0.0	1.9	7.4	16.0	12.5	11.8	10.0	11.9	-8.3	4.9
Mexico	-3.7	1.4	2.7	11.5	6.8	10.8	6.2	7.4	-10.9	7.8
Brazil	5.7	3.7	21.1	32.0	22.6	16.5	16.6	21.7	-8.0	1.5
Argentina	4.3	0.7	4.4	2.0	20.0	6.0	8.0	3.0	1.5	4.0
Chile	7.2	1.6	6.0	13.3	4.3	5.5	7.8	3.7	-4.1	6.4
Western Europe	3.7	1.6	1.2	6.4	5.4	8.3	4.6	2.9	-2.3	2.3
Euro-15	4.0	1.8	1.2	6.7	4.9	8.1	6.0	3.1	-2.5	2.6
Germany	6.8	4.3	2.4	9.4	7.9	13.1	7.7	4.2	-2.0	2.6
France	2.5	1.3	-0.7	3.0	3.5	5.6	3.2	2.6	-0.9	2.8
Italy	2.2	-2.8	-1.6	3.8	1.8	6.5	4.5	-1.2	-2.9	1.8
Spain	4.2	2.0	3.7	4.2	2.5	6.7	4.9	3.2	-5.5	1.3
Other Western Europe	2.4	0.9	1.2	5.6	7.1	9.2	0.3	2.3	-1.6	1.5
UK	2.9	1.0	1.7	4.9	8.2	10.7	-5.1	0.9	-2.9	0.5
Norway	4.2	-1.0	-0.7	0.5	0.1	0.3	2.7	0.4	0.3	2.0
Sweden	0.9	1.2	3.9	10.7	7.0	8.7	6.3	3.5	0.2	3.0
Switzerland	0.6	-0.3	-0.2	7.9	7.2	9.9	9.4	4.6	-4.1	0.6
EMEA	1.7	3.0	10.5	11.9	6.5	8.2	7.5	6.2	-0.8	4.4
Czech Republic	11.2	2.1	7.2	20.7	11.8	15.5	14.9	10.5	3.5	5.5
Hungary	8.1	3.9	6.2	15.7	11.6	18.8	15.9	3.9	1.5	3.5
Poland	1.0	7.4	20.8	18.6	2.6	12.3	8.5	7.8	1.8	3.5
Russia	3.6	9.6	12.5	11.8	6.5	7.3	7.4	3.0	-5.0	2.0
Turkey	3.9	6.9	6.9	11.2	7.9	6.6	7.3	3.3	-0.2	4.1
Ukraine	2.9	9.1	10.3	13.8	-11.2	-4.9	3.2	5.0	-22.5	6.0
Egypt*	3.3	-7.8	11.8	27.6	20.2	21.3	23.3	28.8	11.5	12.5
Israel	-11.2	-2.3	8.2	18.2	4.3	5.9	8.6	5.8	0.8	4.5
Saudi Arabia	-3.5	-4.4	13.7	3.1	4.7	-2.6	-4.1	6.0	-7.6	5.4
UAE**	0.6	-1.3	10.7	5.5	6.9	8.4	-0.8	4.2	3.0	3.2
South Africa	2.4	1.0	0.1	2.9	8.0	5.6	7.5	2.5	0.8	4.0
Asia/Pacific	-2.0	9.5	14.3	18.6	14.3	14.4	13.6	6.9	-3.9	5.7
Japan	-6.9	7.4	9.2	14.0	6.9	9.7	8.6	4.5	-5.3	3.4
Australia	2.2	0.0	-1.2	4.3	2.3	3.3	3.2	5.7	5.3	4.4
New Zealand	3.4	6.4	2.1	5.7	-0.5	1.9	3.5	-0.8	1.2	4.4
Asia-ex-Japan	-0.6	11.1	17.4	21.1	17.4	16.3	15.4	7.6	-4.0	6.3
China	7.5	18.0	32.0	32.0	29.0	25.0	23.7	8.4	-5.0	7.0
Asia ex-Japan & China	-3.0	8.7	12.0	16.4	11.7	11.4	10.1	7.0	-3.2	5.8
Hong Kong	-1.7	9.0	12.8	15.4	10.6	9.4	8.0	3.4	-9.5	7.4
India	-1.6	14.4	19.0	28.0	31.1	20.3	23.1	15.8	1.5	11.4
Indonesia	0.6	-1.2	5.9	13.5	16.6	9.4	8.0	12.8	0.2	7.7
Malaysia	-7.5	4.5	5.7	2.3	8.3	7.0	4.2	5.6	-1.5	5.7
Philippines	-3.4	4.1	4.8	15.0	4.8	13.4	5.6	1.2	-5.9	3.5
Singapore	-4.0	7.2	13.7	20.6	11.6	11.0	6.6	5.0	-2.5	3.5
South Korea	-2.7	13.3	15.6	19.6	8.5	11.8	12.1	6.2	-6.1	5.0
Taiwan	-7.8	10.6	10.4	14.4	7.6	10.3	8.8	2.8	-6.9	6.9
Thailand	-4.2	12.0	7.0	9.6	4.2	8.5	7.1	6.2	0.0	4.3
Vietnam	4.0	11.2	20.6	31.4	22.5	22.1	22.7	29.9	-3.0	13.1

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

Industrial production

Industrial production										
% Year	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
World	0.1	2.7	4.6	6.3	5.3	6.2	5.7	2.2	-1.2	4.2
Developed	-2.4	-0.4	1.0	2.6	2.0	2.9	2.3	-1.4	-5.0	1.7
Emerging	3.5	6.9	9.3	10.9	9.2	10.2	9.6	6.5	3.1	7.0
North America	-3.4	0.0	1.2	2.4	3.2	2.0	1.6	-1.7	-1.9	1.9
US	-3.4	-0.1	1.2	2.5	3.3	2.2	1.7	-1.5	-1.9	2.0
Canada	-3.5	2.1	0.2	1.9	1.6	-0.2	0.3	-3.5	-2.4	0.7
Latin America	-0.8	0.7	2.3	7.2	3.9	4.6	4.8	3.1	-0.4	2.5
Mexico	-3.5	-0.1	-0.2	3.7	2.6	5.3	1.9	0.4	-2.2	0.3
Brazil	1.6	2.7	0.1	8.3	3.1	2.8	6.0	4.3	1.5	4.0
Argentina	-2.9	-8.3	13.6	10.7	8.0	8.4	7.5	5.9	-2.4	2.0
Chile	0.6	10.9	5.3	8.8	5.5	3.3	4.1	1.3	0.7	3.6
Western Europe	0.0	-0.7	0.1	2.0	1.0	3.4	2.9	-1.0	-4.3	1.8
Euro-15	0.4	-0.4	0.3	2.1	1.4	4.0	3.4	-1.0	-4.7	1.8
Germany	-0.4	-1.3	0.1	2.5	2.8	6.0	5.9	0.7	-5.1	1.5
France	1.3	-1.3	-0.2	1.7	0.4	0.9	1.3	-2.2	-6.6	1.0
Italy	-1.0	-1.3	-0.6	-0.3	-0.9	2.4	-0.1	-3.4	-4.5	2.3
Spain	-1.4	0.1	1.4	1.6	0.8	3.9	1.9	-6.7	-12.3	1.2
Other Western Europe	-1.4	-1.6	-0.5	1.7	-0.3	1.5	1.6	-1.1	-3.2	1.7
UK	-1.5	-1.7	-0.6	0.9	-1.1	0.7	0.4	-1.3	-2.8	1.7
Norway	-1.4	0.9	-4.0	2.2	-0.6	-2.5	-0.7	-1.2	-2.9	1.2
Sweden	-0.6	0.2	1.5	4.1	2.4	3.5	4.0	-0.7	-1.3	3.2
Switzerland	-0.7	-5.1	0.1	4.4	2.7	7.8	9.5	0.5	-8.7	0.2
EMEA	2.4	3.7	7.0	7.9	4.7	5.9	6.2	2.5	-3.4	3.3
Czech Republic	5.0	5.0	5.9	9.8	6.7	12.9	8.5	3.0	-1.5	2.5
Hungary	5.0	2.6	6.4	8.3	7.0	10.6	8.5	0.1	-7.1	3.5
Poland	0.6	0.8	8.7	12.7	4.0	12.0	9.7	5.6	-2.9	3.5
Russia	4.9	3.7	7.0	6.6	4.0	2.9	4.9	1.4	-3.8	2.0
Turkey	-8.7	9.5	8.8	9.7	5.4	5.8	5.4	-0.1	-2.2	4.5
Ukraine	14.2	7.0	15.8	12.5	3.1	6.2	10.2	-1.8	-21.3	4.0
Egypt*	6.8	7.1	2.7	6.5	5.8	5.3	6.1	6.8	4.4	4.9
Israel	-5.0	-1.8	-0.3	6.9	3.6	8.5	4.3	5.5	1.5	4.0
Saudi Arabia	-1.3	-3.9	13.4	6.6	6.1	2.8	2.7	5.0	-2.1	3.4
UAE	3.0	-1.4	12.7	6.7	5.6	10.3	8.0	7.8	5.7	5.4
South Africa	2.9	4.6	-1.9	3.3	4.2	4.9	5.5	2.5	-2.3	3.5
Asia/Pacific	2.2	6.8	9.4	10.7	9.3	10.7	9.7	6.1	1.2	7.3
Japan	-6.8	-1.3	3.3	5.5	1.1	4.8	2.8	-2.6	-18.3	1.0
Australia	0.2	2.7	0.3	0.0	1.7	0.5	3.2	3.1	1.0	1.0
New Zealand	-0.2	5.6	2.8	4.6	-2.6	-1.7	1.5	-1.0	1.4	2.0
Asia-ex-Japan	4.9	9.2	11.4	12.5	11.5	12.5	11.5	8.3	5.6	9.0
China	9.7	12.7	16.7	16.3	15.9	16.2	15.8	12.7	9.5	12.0
Asia ex-Japan & China	-0.8	6.1	5.9	9.0	6.2	6.5	6.2	4.1	0.8	5.4
Hong Kong	-4.4	-9.7	-9.2	2.9	2.5	2.2	-1.6	-5.9	-5.9	-6.3
India	2.7	5.8	7.0	8.4	8.2	11.5	8.5	3.3	2.9	6.5
Indonesia	3.3	5.3	5.3	6.4	4.6	4.6	4.7	4.0	2.7	4.9
Malaysia	-5.9	4.3	8.4	11.3	5.2	7.1	3.1	3.4	-2.3	3.5
Philippines	2.9	3.5	4.2	5.0	5.3	4.6	3.4	2.9	-0.4	4.8
Singapore	-11.6	8.4	-30.3	13.9	9.5	11.9	5.9	-2.6	-3.2	6.0
South Korea	0.6	8.0	5.5	10.4	6.3	8.4	6.8	7.1	2.8	5.8
Taiwan	-8.4	7.1	8.7	9.8	4.6	5.0	8.1	0.5	-2.6	7.4
Thailand	1.4	6.9	10.4	8.3	5.2	6.0	6.2	7.6	2.8	4.3
Vietnam	16.2	14.2	19.8	17.6	25.5	16.0	16.7	15.2	9.0	13.6

Source: HSBC

Wage growth

Wage growth										
% Year	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
World	6.0	5.7	5.7	5.4	5.8	6.2	7.0	7.0	4.3	4.9
North America	4.0	3.6	3.5	3.7	3.2	3.1	3.3	3.0	2.8	2.6
US	4.2	3.7	3.7	3.8	3.2	3.1	3.4	3.1	2.8	2.7
Canada	1.4	2.1	1.4	2.1	3.2	3.0	3.2	2.9	2.7	2.1
Latin America	5.1	6.6	7.1	5.6	9.1	9.0	10.0	10.9	6.7	6.7
Mexico	9.3	6.1	4.9	4.4	4.5	4.3	4.3	4.5	4.3	3.7
Argentina	-4.0	7.6	12.1	9.3	20.3	18.9	22.7	25.0	12.0	13.5
Chile	5.3	6.8	6.6	2.5	3.2	7.9	6.0	7.3	5.2	4.0
Western Europe	4.1	3.4	3.1	2.9	2.8	3.1	3.2	3.7	3.5	3.1
Euro-15	3.7	3.0	2.6	2.5	2.5	2.6	2.9	3.5	3.2	2.7
Germany	1.9	2.7	2.1	1.3	1.0	1.3	1.4	2.6	2.7	2.1
France	2.5	2.5	2.4	2.5	2.8	2.7	2.6	3.1	3.5	2.7
Italy	2.6	2.1	2.2	2.8	3.1	2.9	2.3	3.3	2.6	2.4
Spain	3.5	3.8	3.9	2.8	2.6	3.4	3.9	4.9	2.5	2.8
Other Western Europe	4.4	3.7	3.5	4.1	3.8	4.0	4.0	3.8	2.4	2.3
UK	4.5	3.5	3.4	4.4	4.0	4.1	3.9	3.6	2.5	2.0
Norway	4.5	5.2	4.7	4.2	3.5	4.1	5.7	5.6	2.2	3.9
Sweden	3.7	3.5	2.9	2.5	2.9	3.0	3.6	3.7	2.2	3.0
EMEA	19.6	16.7	12.1	11.6	12.4	13.1	14.5	13.5	6.2	7.5
Czech Republic	3.5	3.5	6.8	6.7	5.3	6.5	7.3	8.3	3.5	4.5
Hungary	18.2	18.2	12.1	6.2	8.7	8.2	8.0	7.5	5.0	5.5
Poland	5.3	3.7	2.6	4.3	3.2	5.0	9.1	10.5	6.5	4.5
Russia	21.0	16.6	10.4	10.6	12.6	13.5	16.2	12.5	2.0	4.0
Turkey	31.8	37.2	23.0	13.4	12.2	11.5	9.5	9.5	11.5	10.8
Ukraine	34.9	20.7	23.0	27.6	36.5	29.4	29.7	32.0	5.0	12.0
Israel	7.1	-4.2	-3.0	2.5	1.0	1.6	2.9	-0.3	1.0	2.5
South Africa	8.8	9.5	8.1	7.5	6.5	9.1	8.9	10.1	7.5	8.0
Asia/Pacific	6.8	7.5	8.5	7.8	8.7	12.2	14.7	14.7	7.6	9.9
Japan	-1.6	-2.9	-0.8	-0.7	0.6	0.2	-0.7	0.0	-2.0	0.1
Australia	3.6	3.3	3.6	3.5	4.1	4.0	4.1	4.1	3.9	3.8
New Zealand	1.9	2.2	2.3	2.4	2.9	3.0	3.2	3.5	3.1	2.8
Asia-ex-Japan	9.4	10.6	11.1	10.0	10.7	11.7	14.4	14.2	7.7	9.5
China	11.7	12.6	13.6	12.3	12.3	14.0	18.0	17.0	9.0	11.0
Asia ex-Japan & China	3.3	4.6	3.8	3.3	4.8	4.2	3.7	5.0	3.3	4.2
Hong Kong	0.0	0.0	-1.3	-2.5	2.6	1.3	0.3	5.0	1.0	3.3
Philippines	10.8	10.4	0.4	3.6	8.5	7.9	4.5	7.0	7.0	6.0
Singapore	2.7	1.2	3.6	2.6	4.3	3.5	4.1	5.0	3.0	4.0
South Korea	5.7	11.5	9.4	6.5	6.4	5.6	5.9	4.2	2.8	4.8
Taiwan	0.0	-0.7	1.5	1.8	1.3	1.1	2.3	2.1	2.2	2.3
Thailand	1.0	-0.8	2.2	2.3	6.9	6.2	3.0	10.6	4.5	5.7

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

Budget balance

Budget balance										
% GDP	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
North America	0.6	-2.4	-3.2	-2.9	-1.9	-1.0	-1.4	-4.0	-5.3	-6.1
US	0.5	-2.7	-3.6	-3.2	-2.1	-1.2	-1.6	-4.3	-5.7	-6.6
Canada	1.3	0.8	0.7	0.7	0.8	1.0	0.7	-0.3	-0.6	-0.2
Latin America	-2.3	-2.6	-2.3	-0.7	-0.8	-0.6	-0.5	0.0	-1.4	-1.2
Mexico	-0.7	-1.2	-0.6	-0.2	-0.1	0.1	0.1	-0.1	-2.2	-1.9
Brazil	-3.3	-4.2	-4.7	-2.4	-3.0	-3.0	-2.3	-1.3	-1.6	-1.7
Argentina	-3.2	-1.5	0.5	2.6	1.8	1.8	0.2	1.1	-0.5	0.0
Chile	-0.4	-1.0	-0.4	2.2	4.6	7.7	8.5	7.0	1.5	3.5
Western Europe	-0.9	-2.2	-2.8	-2.6	-2.2	-1.1	-0.6	-2.0	-4.0	-3.5
Euro-15	-1.8	-2.6	-3.1	-2.9	-2.6	-1.3	-0.6	-1.8	-3.3	-2.8
Germany	-2.8	-3.7	-4.0	-3.8	-3.2	-1.6	0.0	-0.6	-1.9	-0.6
France	-1.6	-3.2	-4.1	-3.6	-3.0	-2.4	-2.7	-3.2	-4.6	-4.4
Italy	-3.1	-3.0	-3.5	-3.5	-4.2	-3.3	-1.5	-2.8	-3.7	-4.0
Spain	-0.7	-0.5	-0.2	-0.4	1.0	1.8	2.2	-2.0	-3.8	-3.5
Other Western Europe	1.9	-0.9	-2.0	-1.6	-1.3	-0.2	-0.3	-2.8	-6.3	-5.6
UK	0.8	-1.8	-3.0	-3.1	-3.3	-2.3	-2.6	-5.4	-9.2	-8.2
Norway	13.3	9.2	7.3	11.1	15.1	18.5	17.3	16.0	14.0	13.0
Sweden	1.7	-1.4	-1.2	0.6	2.0	2.2	3.4	2.5	0.4	-0.4
EMEA	-2.3	-3.2	-2.2	-0.4	2.4	3.0	1.8	2.2	-2.8	-2.4
Hungary	-2.7	-9.0	-7.2	-6.5	-7.8	-9.1	-5.0	-3.4	-2.7	-2.6
Poland	-4.2	-4.9	-4.4	-4.5	-2.5	-2.4	-2.0	-2.2	-2.6	-2.5
Russia	3.0	1.4	1.7	4.4	7.5	7.4	5.4	4.1	-2.8	-3.3
Turkey	-12.1	-11.4	-8.8	-5.4	-1.3	-0.5	-1.6	-1.3	-2.5	-1.2
Ukraine	-0.3	0.5	0.2	-3.3	-1.1	-0.7	-1.4	-1.3	0.0	-0.6
Egypt*	-5.9	-10.2	-10.4	-9.5	-9.6	-8.2	-7.5	-7.7	-7.9	-7.1
Israel	-4.5	-3.8	-5.5	-3.9	-1.9	-0.9	0.0	-1.8	-4.5	-2.5
Saudi Arabia	-3.9	-2.9	4.5	11.4	18.4	21.7	12.5	21.4	-8.0	-5.4
UAE	-10.5	-10.7	-4.4	-0.4	8.0	12.1	11.6	19.7	13.7	12.3
South Africa	-0.7	-0.7	-2.5	-2.0	-0.5	0.2	0.7	-0.2	-2.4	-1.8
Asia/Pacific	-4.1	-4.1	-3.4	-2.5	-2.4	-1.2	-0.4	-1.0	-3.3	-3.2
Japan	-6.8	-8.3	-7.7	-5.5	-6.1	-1.0	-1.4	-3.0	-4.1	-3.5
Australia	-0.1	1.3	1.8	1.1	1.5	1.5	1.6	1.0	-1.5	-1.5
New Zealand	2.1	3.2	3.8	4.3	4.5	3.9	3.8	2.0	0.1	0.1
Asia-ex-Japan	-3.5	-3.2	-2.6	-2.0	-1.8	-1.4	-0.2	-0.6	-3.2	-3.2
China	-2.3	-2.6	-2.2	-1.3	-1.2	-1.0	0.6	1.2	-2.7	-3.2
Asia ex-Japan & China	-4.5	-3.7	-3.0	-2.6	-2.3	-1.8	-1.1	-2.5	-3.7	-3.1
Hong Kong	-4.9	-4.8	-3.2	1.7	1.0	4.0	7.7	-3.0	-3.5	3.3
India	-6.7	-6.4	-4.9	-4.1	-4.2	-3.6	-2.9	-4.7	-5.0	-4.5
Indonesia	-2.5	-1.3	-1.7	-1.0	-0.5	-0.9	-1.3	-1.2	-1.8	-1.5
Malaysia	-5.5	-5.6	-4.4	-4.1	-3.6	-3.3	-3.2	-4.5	-5.0	-4.0
Philippines	-4.0	-5.3	-4.7	-3.8	-2.7	-1.1	-0.2	-1.1	-2.6	-2.7
Singapore	2.2	0.8	-1.1	-1.9	-0.8	-0.2	0.6	1.7	-1.0	-3.0
South Korea	1.2	3.3	1.1	0.7	0.4	0.4	3.8	1.1	-1.7	-1.8
Taiwan	-6.4	-4.2	-2.7	-2.8	-0.6	-0.6	-0.3	-0.5	-3.2	-1.8
Thailand	-2.6	-1.4	0.3	0.0	0.3	1.2	-2.3	-0.7	-2.8	-3.3
Vietnam	-4.9	-4.8	-4.9	-4.9	-4.9	-5.0	-5.0	-4.0	-5.5	-4.8

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

Current account

Percentage										
% GDP	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
North America	-3.3	-3.9	-4.3	-4.7	-5.2	-5.4	-4.8	-4.2	-2.4	-2.6
US	-3.8	-4.4	-4.8	-5.3	-5.9	-6.0	-5.3	-4.7	-2.7	-2.9
Canada	2.3	1.7	1.2	2.3	1.9	1.4	0.9	1.5	1.0	1.1
Latin America	-3.2	-0.2	0.8	1.0	1.1	1.4	0.6	-1.0	-1.4	-1.2
Mexico	-2.8	-2.2	-1.2	-0.9	-0.6	-0.2	-0.5	-1.6	-2.5	-2.1
Brazil	-4.2	-1.5	0.8	1.8	1.6	1.3	0.1	-1.8	-0.8	-1.1
Argentina	-1.4	9.0	6.3	2.3	3.1	3.8	2.7	2.5	0.0	0.5
Chile	-1.6	-0.9	-1.1	2.2	0.8	4.7	4.4	-2.0	-4.2	-2.0
Western Europe	-0.1	0.8	0.7	1.0	0.5	0.2	0.4	-0.2	-0.1	0.2
Euro-15	-0.4	0.7	0.3	0.8	0.2	0.1	0.4	-0.5	-0.3	-0.1
Germany	0.0	2.0	1.9	4.7	5.2	6.1	7.6	6.5	6.3	6.4
France	2.0	1.3	0.9	0.6	-0.7	-0.7	-1.2	-2.1	-2.6	-2.1
Italy	-0.1	-0.8	-1.3	-0.9	-1.7	-2.6	-2.4	-3.0	-3.1	-2.6
Spain	-3.9	-3.3	-3.5	-5.3	-7.4	-8.9	-10.1	-9.1	-6.5	-6.2
Other Western Europe	0.8	1.1	1.9	1.7	1.4	0.7	0.2	0.7	0.5	1.2
UK	-2.1	-1.5	-1.3	-1.6	-2.5	-3.8	-4.3	-2.6	-1.7	-1.0
Norway	16.1	12.6	12.3	12.7	16.3	17.3	15.4	15.7	8.2	9.5
Sweden	4.3	5.0	7.2	6.7	6.8	8.4	8.4	7.0	3.9	4.2
Switzerland	7.7	8.3	12.8	12.9	13.6	14.5	13.3	7.6	7.3	9.0
EMEA	3.5	2.8	3.0	4.1	5.1	3.8	2.1	1.5	-1.1	-0.4
Czech Republic	-5.3	-5.5	-6.2	-5.2	-1.3	-2.6	-1.8	-2.7	-2.7	2.8
Hungary	-6.1	-7.0	-8.7	-8.6	-7.3	-7.8	-6.5	-6.4	-3.9	-4.0
Poland	-2.8	-2.5	-2.1	-4.1	-1.6	-2.3	-3.0	-7.3	-7.8	-6.5
Russia	11.0	8.4	8.3	10.0	11.1	9.5	6.1	5.6	3.5	2.9
Turkey	1.7	-0.7	-2.6	-4.0	-4.7	-6.1	-5.8	-6.6	-4.3	-3.5
Ukraine	3.7	7.5	5.8	10.5	3.1	-1.6	-4.0	-5.3	-0.9	-2.4
Egypt*	0.0	0.7	2.4	4.3	3.2	1.6	2.1	0.9	-0.7	-1.1
Israel	-1.5	-1.2	1.2	2.4	3.3	6.1	3.1	1.8	2.3	1.9
Saudi Arabia	5.1	6.3	13.1	19.7	28.5	27.7	24.9	31.1	0.1	7.3
UAE	9.4	4.7	8.5	9.9	18.2	21.5	18.6	17.2	9.2	8.9
South Africa	0.1	0.6	-1.3	-3.2	-3.8	-6.4	-7.3	-7.2	-7.4	-7.2
Asia/Pacific	2.0	2.8	3.0	2.8	3.7	5.2	6.1	4.1	3.0	2.8
Japan	2.2	2.9	3.2	3.7	3.7	3.9	4.8	3.7	4.6	4.8
Australia	-2.0	-3.7	-5.3	-6.1	-5.8	-5.3	-6.3	-5.0	-4.1	-4.7
New Zealand	-2.8	-3.9	-4.3	-6.4	-8.6	-8.6	-7.9	-7.9	-7.0	-6.9
Asia-ex-Japan	2.2	3.1	3.4	3.0	4.1	5.9	6.9	4.6	3.0	2.7
China	1.3	2.4	2.8	3.6	7.2	9.5	11.3	8.9	5.2	4.6
Asia ex-Japan & China	3.0	3.7	4.0	2.5	1.0	2.3	2.3	0.3	0.6	0.8
Hong Kong	4.5	8.3	9.2	8.9	12.4	11.4	10.6	10.2	8.8	9.1
India	0.8	1.5	1.6	0.1	-1.9	-1.1	-1.1	-3.0	-2.0	-1.5
Indonesia	4.2	3.9	3.4	0.6	0.1	3.0	2.4	-0.7	-1.6	-1.2
Malaysia	8.3	8.4	12.8	12.1	15.0	16.3	15.6	15.6	9.9	9.0
Philippines	1.9	6.9	0.9	1.1	2.0	4.5	4.3	4.4	3.0	0.9
Singapore	15.5	17.1	30.6	25.4	23.7	21.8	24.3	15.3	11.2	11.0
South Korea	1.7	1.0	2.0	4.1	1.9	0.6	0.6	-0.7	1.5	2.0
Taiwan	6.5	8.9	10.0	6.0	4.9	7.2	8.6	6.9	5.6	5.3
Thailand	5.4	5.5	5.6	1.7	-4.3	1.1	5.9	0.2	2.0	1.6
Vietnam	2.1	-1.9	-4.9	-3.4	0.4	0.5	-10.0	-12.3	-7.6	-5.7

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

Balance										
USDbn	2001	2002	2003	2004	2005	2006	2007	2008f	2009f	2010f
North America	-368.0	-448.0	-512.0	-603.0	-688.9	-753.6	-705.6	-642.2	-376.7	-414.1
US	-385.0	-461.0	-523.0	-625.0	-710.9	-771.6	-718.6	-665.0	-391.4	-429.7
Canada	17.0	13.0	11.0	22.0	22.0	18.0	13.0	22.8	14.7	15.6
Latin America	-45.8	-13.6	3.0	10.6	15.8	26.2	10.5	-41.5	-43.9	-41.3
Mexico	-17.7	-14.1	-8.6	-6.6	-5.2	-2.2	-5.5	-17.3	-25.7	-22.7
Brazil	-23.2	-7.6	4.2	11.7	14.0	13.6	1.7	-28.6	-10.2	-15.9
Argentina	-3.8	8.8	8.1	3.4	5.6	8.0	7.1	8.3	0.1	1.4
Chile	-1.1	-0.6	-0.8	2.1	1.4	6.8	7.2	-3.9	-8.1	-4.1
Western Europe	5.0	93.8	104.5	141.6	87.2	50.3	54.7	15.5	20.0	48.8
Euro-15	-19.0	56.2	38.4	75.3	10.4	-16.2	17.8	-69.5	-27.4	-19.7
Germany	0.4	42.5	47.5	125.2	141.2	180.9	248.6	252.8	214.1	220.2
France	25.0	20.0	16.0	11.0	-14.0	-15.0	-31.0	-55.0	-37.4	-37.1
Italy	-0.6	-9.9	-19.9	-15.9	-28.6	-49.2	-50.5	-76.0	-62.0	-53.8
Spain	-22.7	-23.5	-31.6	-53.7	-80.9	-112.2	-143.0	-161.6	-118.7	-124.8
Other Western Europe	24.0	37.6	66.1	66.3	76.7	66.5	36.8	85.1	47.3	68.5
UK	-30.8	-25.2	-24.6	-35.1	-55.5	-93.8	-119.7	-59.0	-39.2	-23.4
Norway	26.5	25.6	27.1	32.0	48.4	60.0	59.4	68.0	33.0	29.1
Sweden	9.3	13.2	22.6	23.4	23.8	34.0	37.8	33.6	16.9	19.0
Switzerland	19.0	24.0	41.0	46.0	49.0	58.0	56.0	34.3	29.3	36.9
EMEA	41.7	32.4	50.3	87.5	163.5	170.0	131.3	163.7	-21.5	-1.2
Czech Republic	-3.1	-4.6	-5.8	-5.6	-1.6	-3.7	-2.9	-5.3	-5.2	-6.0
Hungary	-3.0	-4.9	-6.8	-8.4	-7.3	-7.0	-6.8	-8.8	-5.1	-6.0
Poland	-5.4	-5.0	-4.6	-10.4	-4.8	-7.9	-12.9	-35.4	-34.9	-35.0
Russia	33.6	29.1	35.8	59.9	84.3	94.3	78.3	92.4	45.4	39.4
Turkey	4.0	-1.0	-8.0	-14.0	-22.0	-32.0	-38.0	-48.4	-28.6	-28.5
Ukraine	1.4	3.2	2.9	6.8	2.5	-1.7	-5.6	-9.8	-1.1	-3.5
Egypt*		0.6	1.9	3.4	2.9	1.8	2.7	1.5	-1.0	-2.0
Israel	-1.7	-1.3	1.4	2.9	4.3	8.5	5.0	3.7	4.7	4.0
Saudi Arabia	9.4	12.0	28.1	49.3	90.0	98.9	95.0	152.0	0.4	31.1
UAE	6.5	3.5	7.5	10.5	24.4	35.1	37.0	41.8	23.1	24.4
South Africa	0.1	0.7	-2.2	-6.9	-9.2	-16.4	-20.6	-20.0	-19.1	-19.0
Asia/Pacific	164.7	223.2	256.6	304.9	360.4	493.7	649.1	553.4	456.8	470.7
Japan	86.2	117.4	131.3	169.4	165.6	175.2	202.2	167.6	194.4	216.0
Australia	-7.0	-16.0	-29.0	-37.0	-41.0	-40.0	-57.0	-41.9	-30.3	-38.2
New Zealand	-1.4	-2.5	-3.5	-6.0	-9.2	-8.7	-11.1	-9.7	-6.6	-7.8
Asia-ex-Japan	86.8	124.2	157.7	178.5	245.0	367.2	514.9	437.5	299.4	300.8
China	17.4	35.4	45.9	68.7	160.8	249.9	371.8	372.0	240.0	230.0
Asia ex-Japan & China	69.4	88.8	111.9	109.9	84.2	117.3	143.1	65.5	59.4	70.8
Hong Kong	7.5	13.6	14.7	14.7	22.1	21.7	22.0	22.2	19.1	21.3
India	3.4	7.1	8.8	0.8	-14.7	-9.5	-12.1	-36.1	-26.1	-21.2
Indonesia	6.9	7.8	8.1	1.6	0.3	10.8	11.0	-3.5	-6.5	-5.5
Malaysia	7.0	8.0	13.0	15.0	21.0	25.0	29.0	35.4	21.8	21.2
Philippines	1.3	5.3	0.7	0.9	2.0	5.3	6.3	7.4	4.8	1.4
Singapore	10.6	11.3	21.4	27.7	28.4	29.9	39.3	28.0	17.6	18.4
South Korea	8.0	5.4	11.9	28.2	15.0	5.4	6.0	-6.1	11.1	17.5
Taiwan	18.9	26.4	30.5	19.7	17.6	26.3	33.0	27.4	19.5	19.0
Thailand	5.1	4.7	4.8	2.8	-7.6	2.2	15.8	0.7	4.9	4.2
Vietnam	0.7	-0.7	-1.9	-1.6	0.2	0.3	-7.1	-9.8	-6.8	-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

US

Bold policy, patchy results

The FOMC has cut rates close to zero and we think the earliest that Fed funds will be raised is 2011. Meanwhile, the Fed has made it clear that it will continue to explore new ways to expand its balance sheet. Purchases of longer-term Treasuries are on the table along with ongoing GSE debt purchases and announced plans to buy mortgage-backed securities. Further facilities and direct lending initiatives may be on the way. To top things off, a large fiscal stimulus involving infrastructure spending is likely to be passed, probably totalling at least USD600bn and perhaps as much as USD1trillion.

Our general outlook remains similar since the US forecast note published on 5th December 2008. Overall, we expect the bold policy moves will have some effect, but the results could be messy and patchy, given the scope of problems in banking

sector and the widespread destruction of household assets and wealth. Q4 2008 GDP is almost certain to show a big decline, and we anticipate another fall of 2.0% (annualised) in Q1 2009. GDP growth could return to positive territory in Q2, assuming the fiscal package is passed soon after Obama takes office on January 20th. However, we continue to see sizeable job losses through all of 2009 (gradually lessening in the second half), taking the unemployment rate up to 8.5% by the end of the 2009 and eventually to 8.8% in 2010.

Core inflation is likely to ease further, given falling input prices, lower inflation expectations, and muted wage growth. We see Q4/Q4 2009 core PCE inflation at 1.0%. Headline CPI may show year-on-year deflation through most of 2009 but should climb back towards 1% by the end of the year, assuming stable energy prices.

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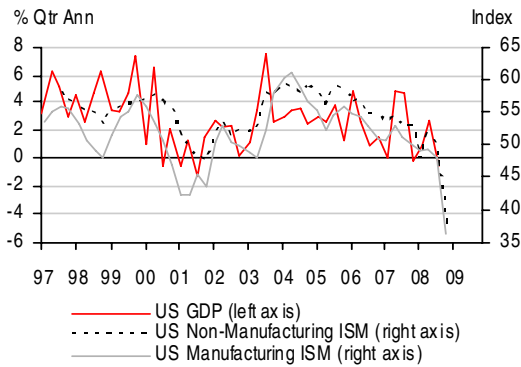
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% q-o-q annualised

	2008f	2009f	2010f	Q3 08f	Q4 08f	Q1 09f	Q2 09f	Q3 09f	Q4 09f
Consumer spending	0.3	-1.3	1.3	-3.7	-3.5	-1.5	0.0	1.0	1.0
Government consumption	2.9	4.3	6.2	5.3	2.0	1.6	6.0	8.0	8.0
Private fixed investment	-4.7	-10.8	1.0	-5.6	-18.1	-16.5	-11.5	0.0	0.0
Housing	-21.1	-14.6	1.2	-17.6	-25.0	-18.0	-10.0	0.0	0.0
Stockbuilding (ppt contribution)	-0.3	-0.1	0.2	0.9	-0.2	-0.2	-0.2	0.2	0.2
Domestic demand	-0.2	-1.5	2.6	-1.5	-4.8	-3.1	-0.4	2.6	2.6
Exports	6.7	-1.7	5.0	3.4	-18.1	-3.1	4.3	5.0	5.0
Imports	-2.6	-4.8	5.5	-3.2	-5.5	-9.5	-5.2	0.8	7.3
GDP (year)	1.1	-0.9	2.4	0.7	-0.5	2.0	2.2	2.1	2.2
GDP (% quarter annualised)	-	-	-	-0.5	-6.3	-2.0	1.0	3.1	2.1
Industrial production (% year)	-1.5	-1.9	2.0	-3.0	-5.1	-4.9	-3.7	-0.7	2.0
Unemployment (%)	5.7	7.9	8.7	6.0	6.7	7.3	7.8	8.2	8.5
GDP deflator (% year)	2.3	0.7	1.1	2.7	2.1	1.1	1.0	0.2	0.4
Consumer prices (% year)	3.8	-1.2	1.0	5.3	1.6	-0.5	-1.5	-2.8	-0.2
Employment costs (% year)	3.1	2.8	2.7	3.0	2.9	2.9	2.9	2.8	2.6
Current account (USDbn)	-665	-391	-430	-706	-538	-424	-386	-369	-387
Current account (% GDP)	-4.7	-2.7	-2.9	-4.9	-3.8	-3.0	-2.7	-2.6	-2.7
Budget balance (USDbn)	-612	-819	-986	-	-	-	-	-	-
USD effective (1990 = 100)	83.5	91.0	89.7	86.6	86.2	90.4	91.2	91.2	91.2
3-month money (%)	2.7	0.4	0.4	4.5	0.8	0.4	0.4	0.4	0.4
10-year bond yield (%)	3.4	2.2	2.0	3.8	2.5	2.4	2.2	2.0	2.0

Source: HSBC

ISM surveys and GDP growth

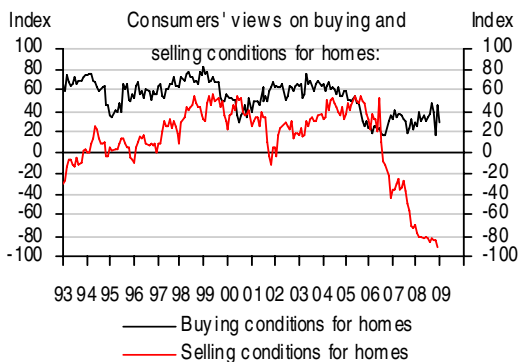


Source: Thomson Financial Datastream

Decline in economic activity has been broad-based

- ▶ Comments in the Fed's Beige Book and the ISM surveys reflect a widespread weakening in both service sector and manufacturing activity.
- ▶ The slowdown has affected tourism, hotels and food services, educational services, advertising, architecture, business support, IT, legal services and retail trade, along with other categories. The health care industry is one of the few exceptions, with business remaining strong.
- ▶ The pullback in manufacturing has been similarly broad, affecting both durable and non-durable goods producers. Weaker activity in the steel industry has affected other industries. Construction softness continues to impact sectors like machinery, building materials, and home furnishings.

Home buying and home selling conditions

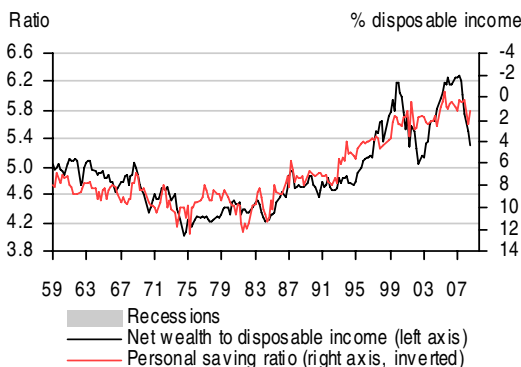


Source: University of Michigan Survey of Consumers

Will consumers feel better about housing in 2009?

- ▶ The University of Michigan consumer survey shows a record level of pessimism on selling conditions for homes, with 95% of households recently indicating that it was a bad time to sell.
- ▶ 61% of this group cited low prices, 31% said they couldn't afford to buy, and 14% said they would lose money if they sold their homes (up from 5% at the beginning of the year).
- ▶ Home buying conditions have not fallen nearly as much in comparison to selling conditions. In December, 60% of households thought that prices were low or that good buys were available, up from just 8% back in October 2005.

Net wealth to income and personal saving ratio



Source: Thomson Financial Datastream

How much could the personal saving ratio increase?

- ▶ The household net worth to disposable income ratio fell to 5.3 in Q3 2008, down from a high 6.3 in Q2 2007.
- ▶ Household real estate assets fell by 10% over this period, while financial assets including stocks and bonds fell by 8.6%. With household liabilities rising 4.6%, total net worth fell from USD63.6 trillion down to USD56.5 trillion, a decline of 11.1%.
- ▶ This decline in wealth may induce households to begin saving a bigger portion of their current income. We think the personal saving ratio could reach 5% by the end of 2010.

Canada

Recession.

The focus has shifted to domestic demand as both the business and consumer environments begin to deteriorate in Q4 2008. Government spending is expected to pick up some of the slack with a fiscal stimulus package (details yet to be released) expected to be implemented over the course of 2009 and on into 2010.

Business investment is expected to be struck down by plunging demand for commodities which has prompted the shelving or scaling back of a significant number of projects (~CAD100bn) in the Canadian energy sector. The consumer is being bombarded by softening jobs growth, declining home prices and the negative wealth effect of a massive sell-off in stocks. In keeping with a rather pressing consumer environment, significant belt tightening is forecast.

So too the trade picture, which is expected to remain challenged by decelerating global growth rates and declining demand for commodities, which make up more than half of the merchandise trade picture. However, a much weaker Canadian dollar is expected to partially offset this impact.

Canada is expected to record an official recession as is defined by two quarters of negative growth beginning in Q4 2008. In response, the BoC has adjusted rates in keeping with a view to recession by cutting rates by 75bp in December. We believe there is at least another 50bp to go, pushing the overnight rate down to 1.00%.

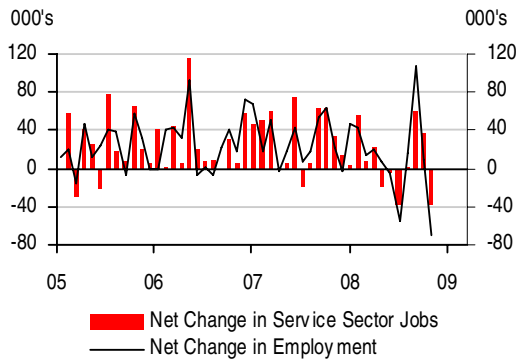
Event risks to the forecast include the potential for a greater than expected inventory de-stocking, the risk that the consumer goes into a deeper downturn than forecast, or that the banking sector aggressively rations credit.

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% Year	2008f	2009f	2010f	Q3 08f	Q4 08f	Q1 09f	Q2 09f	Q3 09f	Q4 09f
Consumer spending	3.3	-1.3	0.3	3.1	1.2	-0.2	-1.4	-1.9	-1.8
Government consumption	3.7	4.6	5.2	3.1	2.8	3.5	3.9	5.2	5.6
Investment	2.0	-2.3	-0.1	1.4	0.2	-1.2	-2.4	-2.9	-2.8
Stockbuilding (% GDP)	0.5	-0.4	0.4	0.9	-0.2	-0.6	-0.6	-0.4	-0.2
Domestic demand	2.5	-1.3	2.0	2.1	-0.3	-0.6	-1.9	-1.9	-0.6
Exports	-4.3	-4.2	0.9	-5.6	-4.3	-4.8	-4.7	-4.0	-3.4
Imports	1.2	-4.9	-0.2	-1.2	-4.3	-3.9	-6.0	-5.3	-4.4
GDP	0.6	-0.8	2.5	0.5	-0.3	-0.8	-1.2	-1.1	0.1
GDP (% quarter annualised)	-	-	-	1.3	-2.5	-2.7	-0.8	1.6	2.5
Industrial production	-3.5	-2.4	0.7	-3.5	-3.1	-3.1	-1.8	-2.8	-1.8
CPI	2.3	1.1	1.8	3.4	1.6	1.6	0.5	0.2	2.2
Average earnings	2.9	2.7	2.1	2.9	3.0	2.9	3.0	2.8	2.0
Unemployment (%)	6.1	7.2	8.1	6.1	6.3	6.5	6.9	7.4	7.9
Current account (CADbn)	23.9	16.3	17.5	5.6	5.2	4.7	4.2	3.7	3.7
Trade account (CADbn)	54.2	37.9	45.8	14.7	10.6	9.4	9.0	9.0	10.5
Budget balance (CADbn)	-4.0	-10.0	-4.0	-	-	-	-	-	-
CAD/USD	1.08	1.29	1.30	1.06	1.20	1.25	1.30	1.30	1.30
3-month money (%)	3.3	2.3	2.4	4.1	2.3	2.3	2.3	2.3	2.3
10-year bond yield (%)	3.8	4.2	4.2	3.8	4.1	4.2	4.2	4.2	4.2

Source: HSBC

Employment growth has decelerated.

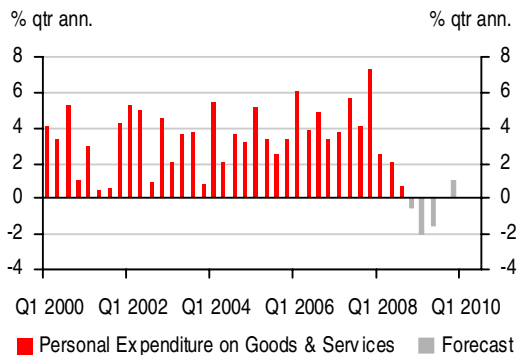


Source: Thomson Financial Datastream, Statistics Canada

Service sector employment softens.

- ▶ 358K jobs were created in 2007. Year to date, 132K have been generated with an outright decline of 70K jobs in November 2008.
- ▶ Particularly troublesome is the weakness in service sector employment growth. Year to date, 84K service sector jobs have been created versus the 400K jobs added last year.
- ▶ The overall unemployment rate remains rather low, courtesy of a participation rate which has recently seen significant declines, thereby helping to offset an otherwise soft jobs picture. However, the drift to higher levels of unemployment has begun. HSBC is forecasting unemployment to peak at 8.4% in Q2 2010

Consumer recession.

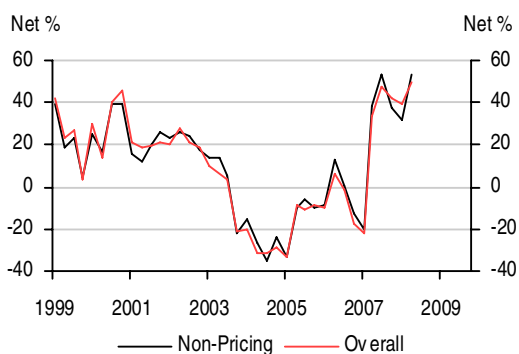


Source: Thomson Financial Datastream

Sentiment shifters.

- ▶ Housing prices, stock markets and job prospects are all consumer sentiment shifters. For Canada, all three have turned negative and adversely affected consumer confidence.
- ▶ In the last 6-months, more than CAD1 trillion in market capitalization has disappeared from the Canadian stock market. Housing prices began to spiral lower beginning in the summer of 2008 and, as of October, had decline by nearly 10% in year-on-year terms.
- ▶ In each of the last three quarters, the Canadian consumer confidence index has declined, dropping from 88 in Q4 2007 to the current reading of 61 for Q3 2008.

Canadian Senior Loan Officer Survey.



Source: Bank of Canada

Credit expected to tighten.

- ▶ Abundant credit underscored robust levels of consumer demand and the accumulation of total household credit at double digit rates of growth since 2004. In 2007, the credit environment changed as banks began to tighten lending standards at the same time that their cost of capital was shifting higher.
- ▶ The conundrum. Despite the move to tighten lending standards back in 2007, the rate of total household credit growth continues to run at double digit levels, rising 10.9% over the year to September 2008. Although this is down from the March high at 12.4%. A sharp deceleration is expected as the data catch up with current events.

Mexico

Little to do against recession?

We have revised our GDP growth forecast for 2009 from 0.8% to -0.7%, as a result of the continued deterioration of both external and internal conditions. The increased likeliness of a severe contraction in the US implies the possibility of a collapse in non-oil exports and thus in industrial production through the manufacturing sector. At the same time, it implies a substantial reduction in both remittances and capital flows, with negative consequences in various components of aggregate demand, in the context of a significant squeeze in bank financing.

The outlook for growth is also affected by the observed depreciation of the currency. We believe a weaker MXN will have a contractionary effect, through increased costs to some businesses and negative effects on their balance sheets. Unfortunately, the lower value of the currency may also offset the observed declines in international prices of commodities and therefore

have a negative impact on inflation dynamics.

In our view, headline inflation will continue to increase throughout Q1 2009, and start declining only to reach 4.0% by the end of the year. This view assumes that the exchange rate stabilizes quite rapidly, as otherwise we may see a hump-shaped path for this variable. On the positive side, the possibility of revisions to the prices of gasoline may provide some relief, although it is quite unclear whether this may actually occur. As a result, we believe there is little room for monetary policy actions at least during H1 2009, when a sustained downward trend for inflation may be confirmed.

In this context, we believe there is little room for fiscal policy to offset lower growth. Therefore, we think that virtually all components of economic activity will experience serious difficulties. As a result, our growth estimate for 2009 contains a significant downside risk.

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% Year	2005	2006	2007	2008f	2009f	2010f
Private consumption	4.8	5.6	4.2	1.8	0.4	1.9
Public consumption	3.5	0.3	1.0	1.3	0.2	1.2
Gross capital formation	6.5	9.6	5.6	5.0	-3.6	3.3
GDP	3.1	4.9	3.2	1.7	-0.7	1.8
Industrial production	2.6	5.3	1.9	0.4	-2.2	0.3
Unemployment (%)	3.8	4.3	4.4	4.8	5.8	5.0
Consumer prices*	3.3	4.1	3.8	6.6	4.0	3.3
Exports (USDbn)	214.2	249.9	271.9	298.7	273.1	305.2
Imports (USDbn)	221.8	256.1	281.9	315.6	294.9	324.7
Current account (USDbn)	-5.2	-2.2	-5.5	-17.3	-25.7	-22.7
Current account (% GDP)	-0.6	-0.2	-0.5	-1.6	-2.5	-2.1
Budget balance (% GDP)	-0.1	0.1	0.1	-0.1	-2.2	-1.9
MXN/USD	10.8	11.0	10.9	11.1	12.4	12.8
3-month money (%)	9.3	7.3	7.4	8.0	7.7	6.7

Note: * = end-year,
Source: HSBC

Brazil

From wine to water

As a relatively insulated economy (exports represent 12.8% of GDP) and one with a significant government participation (public spending is 20% of GDP, and tax collection shows a low elasticity to the economic cycle), Brazil can be defined as a “low-Beta” country. As a consequence, Brazil may grow above world average rate in 2009, but after 3 months of open crisis in the US and Europe, there is nevertheless a perception that the Brazilian economy is reaching a turning point and the slow down in growth will be significant.

Brazil, as with many other countries, is suffering from a credit crunch due to the scarcity of USD credit lines. Consequently, we have revised our 2009 GDP growth estimate to 2.0%, from 2.6% previously. The behaviour of the BRL has reflected the significant redemptions occurring on emerging markets funds. At the current level of the BRL, and with lower growth, we believe the current account will start to reverse the trend deterioration observed since 2007.

The magnitude of the depreciation so far implies some degree of pass through to inflation. However, falling commodity prices and de-leveraging (which is forcing companies to slash inventories) is diluting the pass through when compared to previous depreciation experiences.

The inflationary effect of the weaker BRL, even if reduced, prevents the BCB from cutting interest rates in the short term. Going forward, the combination of a quick adjustment of production levels – already indicated by the October industrial production data – and important capacity additions that are already coming on stream, may drive the output gap to a more comfortable position regarding inflation. This would provide room for aggressive rate cuts, most likely starting in January 2009. All in all, the scenario points to a significant slow down that will interrupt a sequence of 12 quarters of growth. Still, the country maintains showing solid external solvency ratios and fiscal accounts.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Private consumption	4.5	5.2	6.3	6.0	2.0	3.0
Gross capital formation	3.6	9.8	13.5	16.0	2.0	5.5
GDP	3.2	4.0	5.7	5.5	2.0	3.6
Industrial production	3.1	2.8	6.0	4.3	1.5	4.0
Unemployment (%)	9.8	10.0	9.3	7.8	9.2	9.0
Consumer prices*	5.7	3.1	4.5	6.2	5.8	4.9
Exports (USDbn)	22.6	16.5	16.6	21.7	-8.0	1.5
Imports (USDbn)	17.1	24.1	32.0	43.4	-12.2	4.0
Current account (USDbn)	14.0	13.6	1.7	-28.6	-10.2	-15.9
Current account (% GDP)	1.6	1.3	0.1	-1.8	-0.8	-1.1
Budget balance (% GDP)	-3.0	-3.0	-2.3	-1.3	-1.6	-1.7
BRL/USD	2.39	2.16	1.90	1.89	2.38	2.38
3-month money	19.0	14.8	11.7	12.8	10.3	9.5

Note: * Year end. Source: HSBC

Argentina

An unavoidable fate

Since last August, Argentina has suffered the double whammy of a terms of trade shock and a stronger local currency. First, the collapse of commodities has left the price of the Argentine commodity export basket almost 9% below the 2007 average level. Second, other emerging market currencies have suffered sharp falls – the BRL has weakened by 45% since August – and the Peso has as a consequence lost a large part of its competitive edge.

In addition, capital flight began in July 2007 and, with varying intensity, has not stopped since. Therefore, a diminished trade surplus – which should fall to USD4.4bn in 2009 from USD12.8bn in 2008 – would not be enough to weather further significant outflows.

Government concerns that a sharp devaluation could trigger a currency/deposit run or impact on lower income groups' purchasing power led the central bank to smooth the exchange rate adjustment, by first selling reserves and later through a combination of stricter capital controls and moral suasion.

Furthermore, to avoid the reopening of external and fiscal deficits, the government nationalized the pension fund system and it has recently sent a bill to Congress containing the most generous tax amnesty ever seen to counter capital flight. Regarding competitiveness, the administration is implementing various tariffs/subsidies on trade activity. Whatever the outcome of the capital repatriation bill, the exchange rate misalignment limits the sustainability of the ongoing policy of financial repression with fiscal expansion. In the short term, we expect more controls on the exchange rate and targeted fiscal policies.

Assuming only a gradual recovery in the real exchange rate – which implies more of a leakage than a massive capital flight – we place our 2009 growth forecast at 0.8% (compatible with a 1.2% drop in real GDP when using the former national accounts methodology). Unless the relative price shock is reversed more quickly, the adjustment process should reveal itself through a combination of reduced growth and lower reserves.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumption	8.9	7.8	9.0	7.1	1.2	2.5
Gross capital formation	22.7	18.2	13.6	12.6	-0.7	4.3
GDP	9.2	8.5	8.7	6.8	0.8	2.9
Unemployment (%)	11.6	10.2	7.5	7.5	10.3	9.5
Industrial production	8.0	8.4	7.5	5.9	-2.4	2.0
Consumer prices*	12.3	9.8	8.5	8.0	8.2	8.5
Exports (USDbn)	40.0	46.5	55.9	72.3	60.9	63.3
Imports (USDbn)	28.7	34.2	44.8	59.5	56.5	57.9
Current account (USDbn)	5.6	8.0	7.1	8.3	0.1	1.4
Current account (% GDP)	3.1	3.8	2.7	2.5	0.0	0.5
Budget balance (% GDP)	1.8	1.8	0.2	1.1	-0.5	0.0
ARS/USD	2.94	3.08	3.12	3.19	3.84	4.42
1-month money (%)*	4.8	6.7	8.2	11.5	15.8	16.3

Source: HSBC

Chile

Activity now the main concern

Although we see Chile as being in a better position than other countries in the region, it is not immune to the ongoing global economic slowdown. A particular weakness is the fact that Chilean economy remains highly dependent on commodity exports, especially copper. The deterioration in external demand and the less favourable terms of trade will both work to curb economic growth. On the domestic side, we believe that consumption will continue to decelerate as tighter liquidity conditions limit credit expansion. Finally, we expect the growth of investment to slow considerably, given that mining and energy investment projects will start to be scaled-back. As a result, we have revised down our 2009 GDP growth forecast to 2.3% from 3.2% previously.

Regarding inflation, although the headline reading appears to have started to ease, the rate remains well above the official target of 3% (with a band

of +/-1%). In addition, different core inflation measures remain on the rise, suggesting an uncertain outlook for price stability. On the upside, there is a risk that the CLP depreciation could pass-through to inflation via tradable goods prices. On the other hand, the fall in commodity prices, along with the economic slowdown, will help to mitigate inflationary pressures. We therefore believe that inflation could remain high for some months before beginning an overall downward trend.

Given this outlook, we consider that the monetary authorities will need to assess additional data before starting any interest rate easing cycle. As a result, we expect the Central Bank to leave the monetary policy rate on hold at 8.25% during the first quarter of 2009. However, this scenario depends upon the extent to which the economy slows. As a result, we recognize that interest rate cuts may begin sooner rather than later.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Private consumption	7.4	6.5	7.8	5.6	3.1	5.0
Fixed investment	23.9	2.9	14.3	16.2	2.6	6.1
GDP	5.5	4.3	5.1	4.1	2.3	4.0
Industrial production	5.5	3.3	4.1	1.3	0.7	3.6
Unemployment (%)	7.9	6.0	7.2	7.8	8.7	7.9
Consumer prices*	3.7	2.1	7.8	8.1	4.6	3.6
Exports (USDbn)	40.6	58.0	67.6	71.6	62.5	71.5
Imports (USDbn)	30.4	35.8	43.9	59.6	56.8	61.3
Current account (USDbn)	1.4	6.8	7.2	-3.9	-8.1	-4.1
Current account (% GDP)	0.8	4.7	4.4	-2.0	-4.2	-2.0
Budget balance (% GDP)	4.6	7.7	8.5	7.0	1.5	3.5
CLP/USD	552	534	519	535	681	700
3-month money (%)**	4.5	5.3	6.5	8.6	7.0	6.8

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

Eurozone

Downward slide

The largely oil-induced consumer downturn in the first half of 2008 has gradually evolved into a fully-fledged recession. Third quarter GDP contracted 0.2% q-o-q as the waning support from the global economy was reflected in lower investment and net exports while consumption stabilised. A much larger contraction (-0.9%) is expected in Q4, when the large inventory boost in Q3 (0.3% pts) is likely to be reversed and investment takes another leg down.

The ECB finally began the monetary easing process with a 50 bps cut as part of the globally coordinated moves on October 8. Having swiftly followed up with an additional 125bps of rate reductions (to 2.5%) at the November and December meetings, the latest comments suggest that further cuts will be delivered more slowly. The governing council wants to observe the impact of the rate cuts and bank

recapitalisation plans already undertaken. Mr Trichet has also suggested that the onus of monetary stimulus will not all be on policy rates, as the ECB needed to be wary of rates “being trapped at nominal levels which are too low”.

We still think there will be more cuts in H1 2009, and recently lowered our forecast trough to 1.5%, but it appears there is a growing likelihood of more “unconventional” measures before we get there. Varying degrees of fiscal stimulus are also being delivered across the Eurozone but this is unlikely to prevent ongoing contraction in H1 2009.

We have lowered our GDP forecast for 2009 from -0.3% to -1.4% and expect a very gradual recovery in 2010, with growth still below 1%.

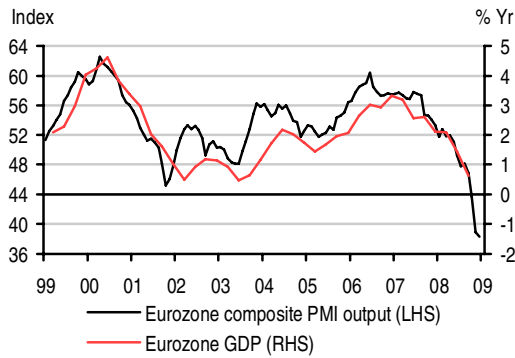
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% Year	2008f	2009f	2010f	Q3 08	Q4 08f	Q1 09f	Q2 09f	Q3 09f	Q4 09f
Consumer spending	0.3	-0.2	0.8	0.0	-0.3	-0.5	-0.3	-0.2	0.1
Government consumption	1.8	1.2	1.9	2.3	1.7	1.5	1.1	0.7	1.4
Fixed investment	1.0	-5.5	0.6	0.9	-3.0	-6.3	-6.4	-6.0	-3.0
Final domestic demand	0.8	-1.1	1.0	0.6	-0.5	-1.4	-1.4	-1.3	-0.3
Stockbuilding (% GDP)	-0.2	-0.3	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0
Domestic demand	0.6	-1.2	1.1	0.3	-0.5	-1.7	-1.5	-1.4	-0.3
Exports	3.1	-2.5	2.6	2.4	1.0	-2.0	-2.9	-3.5	-1.7
Imports	2.8	-2.8	2.6	2.5	1.5	-1.7	-2.3	-4.3	-3.0
GDP	0.9	-1.4	0.9	0.6	-0.6	-1.7	-1.8	-1.5	-0.4
GDP (% quarter)	-	-	-	-0.2	-0.9	-0.5	-0.2	0.1	0.2
Industrial production	-1.0	-4.7	1.8	-1.6	-6.0	-7.4	-6.3	-4.6	-0.3
Unemployment (%)	7.5	8.7	9.2	7.5	8.0	8.4	8.7	8.9	9.1
Wages	3.5	3.2	2.7	3.8	3.6	3.5	3.4	3.1	3.0
Inflation	3.3	1.1	1.7	3.8	2.3	1.5	0.9	0.6	1.5
M3	9.4	5.9	5.0	8.9	8.0	7.0	6.0	5.5	5.0
Current account (% GDP)	-0.5	-0.3	-0.1	-	-	-	-	-	-
Budget balance (% GDP)	-1.8	-3.3	-2.8	-	-	-	-	-	-
3-month money (%)	4.6	2.4	2.4	5.3	3.4	2.9	2.3	2.2	2.2
10-year bond yield (%)	4.1	2.9	2.9	4.4	3.2	3.1	2.9	2.8	2.9
USD/EUR*	1.40	1.50	1.50	1.40	1.40	1.45	1.45	1.50	1.50

Source: HSBC

A sharper contraction in Q4

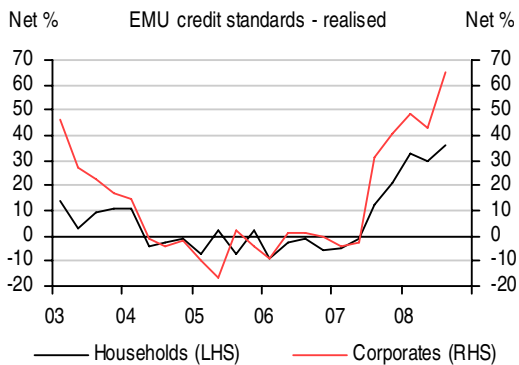


Source: Reuters, Thomson Financial Datastream, Eurostat, and HSBC

Growth and PMIs

- ▶ Third quarter GDP contracted 0.2%, the same as in Q2. Consumption stabilised after the drop in 1H08 but investment contracted 0.6% q-o-q and the economy was only spared a much sharper drop by a large boost from inventories (0.3% pts).
- ▶ The survey data for Q4 has collapsed. The flash composite PMI, which fell to a record low of just 38.3 in December, points to a sharp contraction in GDP.
- ▶ We expect only very subdued growth in the coming year. Ongoing weakness in domestic consumption and the deteriorating export outlook, as well as the impact of tighter financing conditions on investment, point to a contraction in full-year GDP of 1.4% in 2009.

Tighter lending standards

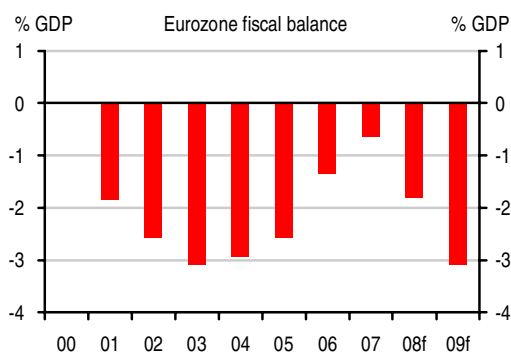


Source: Thomson Financial Datastream, Eurostat, and HSBC

Bank lending

- ▶ Household borrowing and housing markets continue to cool across the region while non-financial corporates' loan growth volume has slowed only marginally (to 11.9% y-o-y in October).
- ▶ The raft of bank recapitalisation and refinancing schemes announced across the Eurozone in October and ongoing generous liquidity provision from the ECB will not prevent a further tightening of bank lending standards and more marked downturn in corporate loan growth in the coming year.
- ▶ This will be reflected in a sharper contraction in investment spending.

EU policies with national differences



Source: Thomson Financial Datastream, Eurostat, and HSBC

Fiscal policy

- ▶ In late November the European Commission proposed an EU-wide stimulus package of EUR200bn (1.5% of GDP).
- ▶ But with no political or fiscal union, and with governments still differing over what the major problems they face are, the amounts involved and the types of measures are likely to vary greatly across the 27 countries of the EU.
- ▶ This stimulus, together with the impact of the cyclical downturn on the cost of the automatic stabilisers, implies the budget deficit will widen sharply (to about 3% of GDP in 2009 and further in 2010 as the debt-servicing costs of the rise in public debt to finance bank recapitalisations starts to feed through).

Germany

From boom to bust

With the GDP contraction of 0.5% q-o-q in Q3 2008 the German economy has entered a recession for the first time since Q1 2003. In Q3 2008, the negative growth momentum was based mainly on net exports (-1.7 percentage points). Stockbuilding was positive by 0.9 percentage points and despite a further increase in the saving ratio of private households consumer spending generated a meagre positive impulse by 0.1 percentage points. The saving ratio of private households moved up to 11.4% in Q3 2008 from 10.9% in 2007. In the coming quarters we expect an unchanged saving ratio of 11.4%.

Germany suffers extremely from the global collapse in economic activity. In October, industrial production dropped by 2.1% m/m (Sep. 08: -3.3% m/m). In Q4 2008, industrial production is likely to fall by around 4% q/q. All in all, GDP should shrink

by around 1% q/q in Q4 2008. This would lead to a statistical overhang of around -1% for 2009. Driven by stagnant consumer demand and contracting investment, exports and imports in H1, GDP should shrink by 1.5% in 2009. The growth contribution from consumer spending should be zero (2008e: -0.2%), machinery & equipment investment should be negative by 0.7pts (2008e: +0.5 pts) and net trade should be a burden by 1.0pts (2008e. 0.0 pts).

Private consumption should hardly drop in 2009 as we expect a positive impulse from the fiscal stimulus package (passed in November 2008), falling inflation and the higher wage level. Further more, due to the labour market reforms the labour market should be in a better shape than in previous economic downturns. However, despite the intentions by big businesses to abandon layoffs the unemployment rate should deteriorate towards 8.2%.

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% Year	2008f	2009f	2010f	Q3 08	Q4 08f	Q1 09f	Q2 09f	Q3 09f	Q4 09f
Consumer spending	-0.4	-0.1	0.4	-0.8	-0.6	-0.6	0.2	-0.1	0.0
Government consumption	2.5	2.5	1.8	2.9	3.2	2.6	2.4	2.3	2.6
Investment	4.9	-3.5	-0.2	5.1	1.8	-3.5	-3.4	-4.0	-3.0
Machinery & equipment	5.3	-5.8	-1.4	5.4	-0.4	-4.0	-6.5	-7.1	-5.7
Construction	2.6	-1.4	1.1	2.7	1.7	-4.1	-0.7	-0.7	0.1
Stockbuilding (% GDP)	-1.1	-1.3	-5.3	-0.6	-1.1	-1.3	-1.4	-1.3	-1.3
Domestic demand	0.6	-0.6	0.5	0.9	0.6	-0.7	0.0	-1.3	-0.3
Exports	4.2	-2.0	2.6	3.2	1.4	-2.1	-2.4	-2.0	-1.5
Imports	4.9	-0.1	2.2	5.2	5.3	1.2	1.9	-1.9	-1.5
GDP	1.2	-1.5	0.9	0.8	0.3	-1.3	-0.7	-0.5	0.3
GDP (% quarter)	-	-	-	-0.5	-0.9	-0.5	-0.1	0.2	0.2
Industrial production	0.7	-5.1	1.5	-0.1	-5.0	-7.8	-6.6	-5.2	-0.4
Unemployment (%)	7.7	8.1	8.4	7.6	7.5	7.9	8.0	8.1	8.2
Average earnings	2.6	2.7	2.1	3.0	3.1	3.0	2.9	2.6	2.4
Producer prices	6.3	1.5	1.4	8.5	6.9	4.4	1.9	-0.4	0.3
Consumer prices	2.8	0.7	1.7	3.3	1.8	1.2	0.6	0.1	1.0
Current account (EURbn)	163.2	159.0	166.0	34.8	38.0	39.0	40.0	40.0	40.0
Current account (% GDP)	6.5	6.3	6.4	5.6	6.1	6.2	6.3	6.3	6.3
Budget balance (% GDP)	-0.6	-1.9	-0.6	-	-	-	-	-	-
3-month money (%)	4.6	2.4	2.4	5.3	3.4	2.9	2.3	2.2	2.2
10-year bond yield (%)	3.9	2.9	2.9	4.0	3.2	3.1	2.9	2.8	2.9

Source: HSBC

Budget deficit will remain below 3 % of GDP

Budget deficit				
	2007	2008	2009	2010
ex recapitalisation				
EURbn	4	14	46	15
% of GDP	0.2	0.6	1.9	0.6
with recapitalisation				
EURbn	4	42	86	15
% of GDP	0.2	1.7	3.5	0.6

Source: Reuters EcoWin, HSBC

Recapitalisation of financial institutions up to EUR80bn

- ▶ The government owned financial market stabilisation fund (FMS Fund), created in October 2008, is going to take stabilisation measures until 31st Dec. 2009. Thereafter, the FMS Fund must be wound up. The Fund gives credit guarantees up to EUR400bn for financial institutions. The Funds financial commitment is max. EUR100bn which is divided in up to EUR80bn for recapitalisation measures and up to EUR20bn for drawn guarantees.
- ▶ Up to now, guarantees in the amount of EUR90bn have been given out and one recapitalisation measure by EUR8.2bn.
- ▶ It is still unknown how much will be drawn of the Fund and in which time frame the measures will be taken. Nevertheless, the budget deficit should not exceed 3% of GDP, as recapitalisation measures are not necessarily Maastricht relevant.

Sentiment fell deeper than “hard” economic data

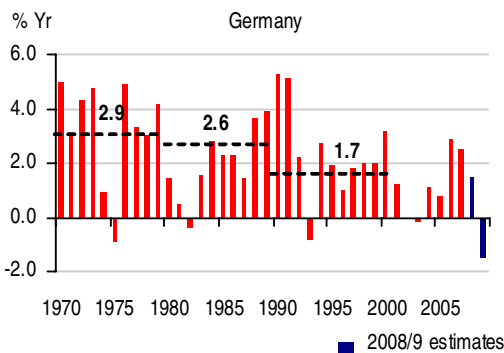


Source: Reuters, EcoWin, HSBC

Industrial orders collapsed like in 2000/2001

- ▶ As in 2001, industrial orders are expected to have steadily declined on a quarterly basis in the course of 2008. Even if the order inflow remained unchanged in November and December (the October release was the latest), the q/q-decline in Q4 accelerated to -10.4%. Until now, the heaviest quarterly decline since the German reunification has occurred in Q2 1992 with 4.7% q/q.
- ▶ The current economic downturn is in part comparable with the situation in 2000/2001. After a rise of 11.4% y/y in 2000, industrial orders broke down by 2.5% in 2001 and again by 0.2% in 2002. This time, after a y/y rise by 9.9% in 2007, industrial orders are expected to fall by 4.6% in 2008.
- ▶ The decline in business sentiment is even sharper than the fall in “hard” economic data. Ifo export business expectations broke down sharply in the last months.

Longest recession phase since German reunification



Source: Bundesbank, HSBC

Heaviest y/y contraction expected in 2009

- ▶ The GDP contraction in Q2 2008 (-0.4% q/q) should have marked the beginning of a deep and longer lasting phase of economic contraction. After another quarterly decline in Q3 (-0.5% q/q) we expect GDP to contract further in Q4 and in Q1 and Q2 in 2009. This would be the longest recession phase since the German reunification.
- ▶ We expect the German GDP to contract by 1.5% y/y in 2009. This would be the heaviest yearly decline ever. In 2010, the yearly growth rate should return into the positive area (0.9% y/y).
- ▶ Keep in mind that there have never been occurred two consecutive yearly GDP contractions since 1950. However, up to now, no yearly decline beyond the 1%-mark has been reported for Germany since the second world war.

France

Deep industrial recession and a property market crisis

GDP grew by 0.1% q-o-q in Q3 08 after falling by 0.3% q-o-q in Q2 08. This welcome surprise was due to a rebound in household consumption, up 0.2% q-o-q in Q3 08, and higher corporate investment, up 0.3% q-o-q. As exports rose by 1.9% q-o-q in Q3 08, foreign trade did not dampen growth. But housing investment continued to subtract from GDP, falling by 1.6% q-o-q in Q3 after shrinking by 2.7% q-o-q in Q2.

However, this quarterly rise masks a sharp slowdown in economic activity in France. Industrial output is contracting and the property market crisis is worsening. Industrial output fell by 0.9% q-o-q in Q3 08 after 0.7% in Q2. The closure of automobile plants in the last quarter in order to shift stocks is likely to result in a sharp drop in industrial output in Q4. In October, automobile production had fallen by 29% y-o-y, below the level it had in November 1997. The

outlook for investment has also deteriorated further. According to INSEE survey, firms expected their investment to fall back by 4% in 2009.

The property market adjustment is increasing in scale. New housing sales plunged by 44% y-o-y in Q3 08, while new housing stocks at the end of Q3 08 stood at a record high of 113,404 units. Stocks are now equivalent to 21 months' sales, compared with 6 months on average in 2006. While prices have not yet fallen significantly, we expect a sharp drop in 2009.

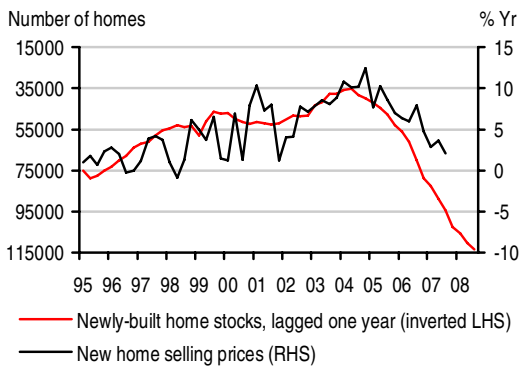
The fiscal stimulus plan presented by Nicolas Sarkozy on 4 December 2008 should have an impact on growth in 2009 through the amount of additional public investment. We estimate the impact to be half a point of GDP, with 0.3% pts taking effect in 2009, but the industrial recession is so severe that GDP will contract all the same. In our calculation, the public deficit could rise to 4.6% of GDP in 2009 due to a sharp rise in public expenditures and the recession.

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% Year	2008f	2009f	2010f	Q3 08	Q4 08f	Q1 09f	Q2 09f	Q3 09f	Q4 09f
Consumer spending	1.0	0.6	1.4	0.6	0.2	0.4	0.6	0.6	0.8
Government consumption	1.6	1.4	1.3	1.7	1.7	1.8	1.5	1.2	1.1
Investment	0.0	-4.0	1.1	-0.4	-3.5	-5.5	-5.3	-4.3	-1.0
Stockbuilding (% GDP)	0.8	0.9	4.3	0.9	0.8	0.8	0.8	0.9	0.9
Domestic demand	0.8	-0.1	1.5	0.4	0.0	-0.3	-0.5	-0.4	0.6
Exports	2.6	-0.9	2.8	2.7	1.3	-1.9	-0.2	-1.4	0.2
Imports	2.5	1.3	4.2	1.9	2.8	0.9	1.6	0.7	2.2
GDP	0.8	-0.8	1.0	0.6	-0.5	-1.2	-1.1	-1.0	-0.1
GDP (% quarter)	-	-	-	0.1	-0.7	-0.3	-0.2	0.2	0.3
Manufacturing output	-2.3	-4.5	0.7	-2.9	-7.2	-7.5	-5.7	-4.6	0.0
Unemployment (%)	7.5	8.7	8.9	7.3	8.2	8.4	8.6	8.7	8.9
Average earnings	3.1	3.5	2.7	3.0	3.8	4.1	3.8	3.0	3.0
Consumer prices	3.2	1.4	2.0	3.6	2.4	1.6	1.1	1.2	1.7
Trade account (EURbn)	-57.2	-67.5	-59.0	-16.2	-18.0	-16.0	-16.5	-17.0	-18.0
Current account (% GDP)	-2.1	-2.6	-2.1	-	-	-	-	-	-
Budget balance (% GDP)	-3.2	-4.6	-4.4	-	-	-	-	-	-
3-month money (%)	4.6	2.4	2.4	5.3	3.4	2.9	2.3	2.2	2.2
10-year bond yield (%)	4.1	2.9	2.9	4.3	3.2	3.1	2.9	2.8	2.9

Source: HSBC, Thomson Financial Datastream

The property market crisis...

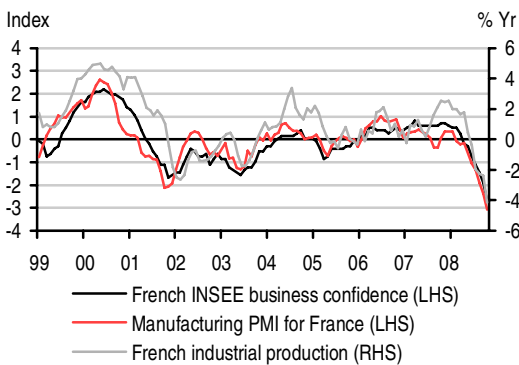


Source: MEEDDAT, HSBC

... will continue to constrict GDP in 2009

- ▶ New housing prices fell by only 0.6% q-o-q in Q3 08 and continued to grow over a one-year period, by 2.1% in Q3 08 after 3.7% in Q2 08. But sales continued to slide and stocks to grow.
- ▶ Prices for existing properties fell by 2.9% q-o-q in Q3 08 and by 2.6% y-o-y according to FNAIM. And the number of transactions continued to tumble.
- ▶ We anticipate the slide in prices to continue for existing properties and to accelerate for new housing. In view of the decline in new housing starts, falling prices and the job losses that will occur in the sector, we have forecasted that the property market crisis will knock one point off GDP growth in 2009.

The industrial recession ...



Source: INSEE, Reuters, HSBC

... is deep

- ▶ In October, car production fell back to its 1997 level. With French carmakers closing most of their factories in December, the decline will continue.
- ▶ The slowdown in global demand will dampen industrial exports, further reducing manufacturing output. Surveys already suggest a downturn on a scale comparable to that of 1993, when industrial output fell by 4%.
- ▶ In view of the crisis in the automotive industry and the likely decline in global demand, we expect industrial output to fall by 6.6% on a yearly average in 2009. Under the combined effect of tumbling stock markets, tighter terms of credit and overproduction, we expect corporate investment to shrink by 7.2% as an annual average of in 2009.

The recovery plan will prop up public-sector investment ...

Table. Measures announced by Nicolas Sarkozy	Amount*
- Public investment in 2009 - TGV, roads, defence equipment - EDF, La Poste, RATP - Renovation of public buildings	EUR10.5bn
- Tax reimbursement facilities - Excess VAT and taxes reimbursed more quickly	EUR11.4bn
- Sectoral assistance - Property: construction of an additional 70,000 social housing units, increase in the amount of zero-interest loans - Automobile: EUR1,000 bonus for buying a new car to replace one more than 10 years old - Small businesses: exemption from employer's contributions for newly hired staff	EUR4bn

*Government figures

... household consumption already being supported by automatic stabilisers

- ▶ During a recession household consumption is sustained by automatic stabilisers. Public spending represents 54% of GDP and almost a third of French households' average income stems from redistribution. French household consumption is therefore less cyclical than that of France's European partners.
- ▶ Nevertheless, in view of what we predict to be a jump in unemployment, we expect household consumption to remain flat in 2009. 38,300 jobs were lost in the market sector in the second and third quarter. In 2009, given the property market crisis and the slump in the car industry, we expect a further 200,000 job losses, driving the unemployment rate up to 9% by the end of 2009.
- ▶ In view of the scale of redistribution to households, Nicolas Sarkozy has opted to focus the recovery plan on public-sector investment and reimbursement facilities (see the table for details).

Italy

No sign of a bottom

Italy lacks the obvious household imbalances of the likes of the UK and US: household indebtedness, at about 50% of household income is less than half of that of the US or UK and the savings rate is about 7% compared with about 1% in the US and the UK. Nonetheless, having contracted by about 0.5% in 2008, we expect Italy to register another contraction in GDP of 1.8% in 2009. There is, quite simply, no pillar of support. Real wages have received a welcome boost from the fall back in oil prices but confidence continues to hit new lows amid rising unemployment concerns. The decline in investment (-1.9% q-o-q in Q3) continues to gain momentum and further sharp contractions in both construction and business investment are forecast for 2009. Given the persistent erosion of Italy's export competitiveness, there is little prospect of it

bucking the trend amid the sharp downturn in world trade and the very high level of public debt (about 104% of GDP on the Maastricht criteria) precludes a sizeable fiscal stimulus. However, prime minister Berlusconi recently announced a EUR80bn package which involves some increase in infrastructure spending, though much of the money is slated for bank recapitalisations.

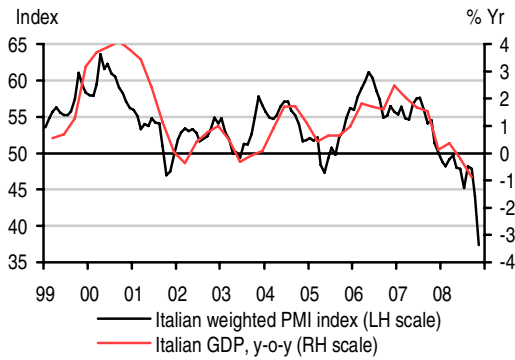
The recent sharp cuts in ECB rates will provide some assistance to existing debt holders given that more than 70% of Italy's mortgage stock is at variable rates. However, the household savings rate could still edge up a little in the coming year, contributing to ongoing subdued consumer spending. We envisage no significant pick up in consumer and business confidence without an improvement in the external environment and therefore do not expect GDP growth to turn positive until very late 2009.

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% Year	2008f	2009f	2010f	Q3 08	Q4 08f	Q1 09f	Q2 09f	Q3 09f	Q4 09f
Consumer spending	-0.4	-0.5	0.7	-0.6	-0.4	-0.6	-0.5	-0.6	-0.3
Government consumption	1.1	0.4	0.7	1.1	1.0	0.7	0.3	0.4	0.4
Investment	-1.9	-6.1	1.4	-1.9	-5.3	-7.0	-7.7	-6.4	-3.2
Stockbuilding (% GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
Domestic demand	-1.0	-1.5	0.8	-1.1	-1.4	-1.8	-1.7	-1.6	-0.8
Exports	-1.2	-2.9	1.8	-3.1	-3.3	-4.9	-4.1	-2.6	0.0
Imports	-2.4	-1.9	2.8	-3.4	-3.2	-2.7	-2.3	-2.0	-0.6
GDP	-0.5	-1.8	0.5	-0.9	-1.4	-2.4	-2.3	-1.8	-0.6
GDP (% quarter)	-	-	-	-0.5	-0.9	-0.5	-0.3	0.0	0.2
Industrial production	-3.4	-4.5	2.3	-4.2	-6.3	-7.5	-6.7	-4.0	0.3
Unemployment (%)	6.8	7.6	8.0	6.8	7.1	7.4	7.6	7.7	7.8
Hourly wage rate	3.3	2.6	2.4	4.2	3.0	2.8	2.6	2.6	2.5
Consumer prices	3.5	1.5	1.8	4.1	2.9	2.5	1.4	1.0	1.2
Current account (EURbn)	-47.6	-48.0	-42.0	-6.5	-12.0	-14.0	-13.0	-10.0	-11.0
Current account (% GDP)	-3.0	-3.1	-2.6	-	-	-	-	-	-
Budget balance (% GDP)*	-2.8	-3.7	-4.0	-	-	-	-	-	-
3-month money (%)	4.6	2.4	2.4	5.3	3.4	2.9	2.3	2.2	2.2
10-year bond yield (%)	4.4	3.1	3.1	4.9	3.4	3.3	3.1	3.0	3.1

Note: * = state sector cash balance
Source: HSBC

Another recession

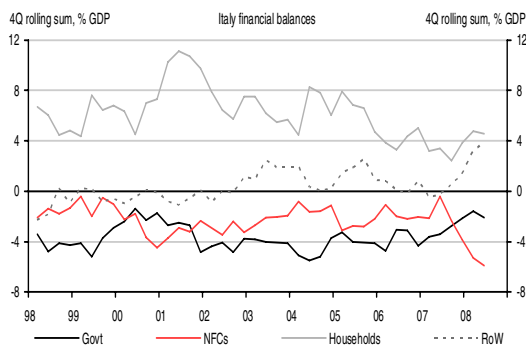


Source: Reuters, Thomson Financial Datastream

PMIs and growth

- ▶ GDP fell 0.5% q-o-q in Q3 and the PMI surveys point to a sharper contraction in activity in Q4.
- ▶ The Q3 drop was explained by the weakness of investment (-1.9% q-o-q) and exports (-1.6%).
- ▶ The 2.6% drop in September industrial production and 1.2% drop in October sets up Q4 for a sharp q-o-q decline in GDP.

Household balance sheet is sound

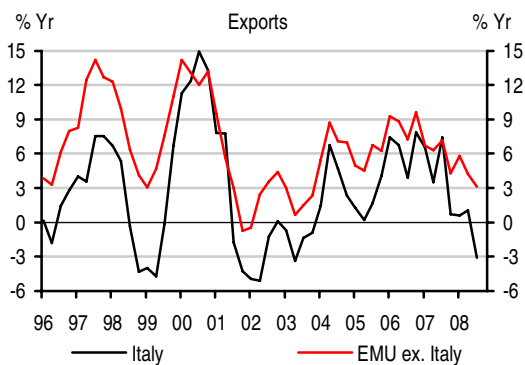


Source: Thomson Financial Datastream

Sectoral balances and bank lending

- ▶ Italy's household sector runs a sizeable financial surplus while the financial balance of the non-financial corporate sector runs an increasingly large deficit.
- ▶ Household loan growth slowed to just 0.6% y-o-y in October while mortgage lending fell 1.8% y-o-y.
- ▶ Lending to non-financial corporates has slowed much more modestly (8.6% y-o-y in Oct) but the continued tightening of bank lending standards points to a more marked downturn in corporate borrowing and investment spending in 2009.

Exports falling sharply



Source: Thomson Financial Datastream, and HSBC

Exports of goods and services

- ▶ Italy's high level of relatively high unit labour costs continue to undermine its export competitiveness.
- ▶ Together with a high dependence on the auto sector (for which industrial production fell 34% y-o-y in October), this has meant that Italy's export sector has significantly underperformed that of the rest of the Eurozone.
- ▶ Exports of goods and services were already down 3.1% y-o-y in 3Q08 and with the two major export destinations – Germany and France – expected to contract until mid-2009, a further fall appears inevitable.

Spain

Rebalancing is painful

On our projection, the Spanish economy will slowly rebalance, but this will not go without pain. Private consumption and investment will be the main drags on economic growth in 2009. A slow recovery is foreseen in H2 09 / 2010, but our projected 2010 growth rate of 1.4% illustrates that the economic momentum is set to remain below figures which were considered Spain's potential growth rates during the housing boom (3.0 to 3.5%).

Spain's downturn is going to be more pronounced than in 2001 to 2003, but similar to what the economy experienced at the beginning of the 90s. In terms of drivers, ECB rate cuts will alleviate Spanish households' debt burden. But the dramatic rise in the unemployment rate will erode the economy's disposable income. Industry is projected to go through a deep recession, reflected by a sharp contraction in investment.

Government spending is set to remain a positive. For 2009, the fiscal stimulus amounts to 1.1% of GDP. Measures announced in November, which will take effect from 2008 through 2010, will be included in the 2008 budget, but are again of the same magnitude.

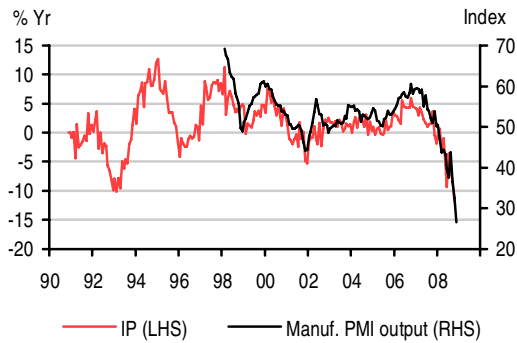
The economy has to go through a deep restructuring process, which goes hand in hand with lower trend growth. The economy has to re-orientate itself away from construction and real estate, towards more tradable goods. This cannot happen in just a year. In the medium term, wage indexation and sticky prices are bound to resurface as topics as well, especially as oil prices might not stay indefinitely at USD40pb.

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% Year	2008f	2009f	2010f	Q3 08	Q4 08f	Q1 09f	Q2 09f	Q3 09f	Q4 09f
Consumer spending	0.4	-2.3	0.5	0.1	-1.6	-2.6	-3.3	-1.9	-1.3
Government consumption	5.1	7.1	4.6	5.9	5.9	7.5	7.4	6.8	6.9
Investment	-2.9	-11.3	0.7	-3.4	-10.6	-14.9	-12.7	-11.5	-5.3
Stockbuilding (% GDP)	0.1	0.0	-0.2	0.1	0.1	0.0	0.0	0.0	0.0
Domestic demand	0.3	-3.1	1.1	0.1	-2.9	-4.4	-4.0	-2.9	-0.8
Exports	3.2	-5.5	1.3	1.5	2.8	-0.7	-5.9	-8.4	-6.8
Imports	0.4	-9.4	1.0	-1.1	-3.6	-8.4	-10.5	-11.0	-7.8
GDP	1.1	-1.3	1.4	0.9	-0.9	-1.7	-2.0	-1.3	0.0
GDP (% quarter)	-	-	-	-0.2	-1.1	-0.5	-0.2	0.4	0.2
Industrial production	-6.7	-12.3	1.2	-6.4	-14.4	-17.0	-14.0	-12.4	-4.6
Unemployment (%)	11.1	16.0	17.2	11.3	13.3	14.7	15.7	16.5	17.0
Average earnings	4.9	2.5	2.8	6.0	3.3	2.0	2.7	2.5	2.6
Consumer prices	4.2	1.0	2.7	5.0	2.6	1.4	0.7	0.5	1.5
Trade account (EURbn)	-93.5	-74.5	-75.0	-23.0	-19.0	-18.5	-19.0	-18.5	-18.5
Current account (EURbn)	-99.4	-70.5	-71.0	-22.8	-18.0	-17.5	-18.0	-17.5	-17.5
Current account (% GDP)	-9.1	-6.5	-6.2	-	-	-	-	-	-
Budget balance (% GDP)	-2.0	-3.8	-3.5	-	-	-	-	-	-
3-month money (%)	4.6	2.4	2.4	5.3	3.4	2.9	2.3	2.2	2.2
10-year bond yield (%)	4.2	2.9	2.9	4.6	3.2	3.1	2.9	2.8	2.9

Source: HSBC

The industry is falling into a deep recession ...

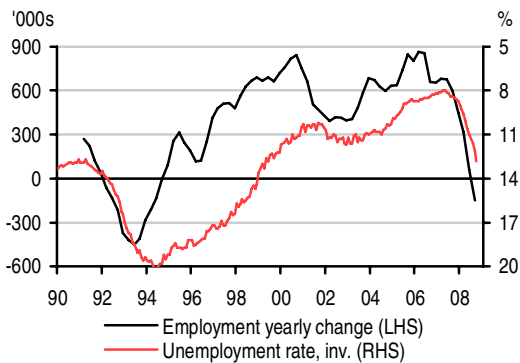


Source: Eurostat, Thomson Financial DataStream, HSBC

.. which underlines the need for restructuring

- ▶ In Q4, sentiment indicators have collapsed around the world. Spain was one of the leaders in a negative sense, which is in line with that fact that it is globally one of the economies which clearly suffered from a housing bubble.
- ▶ The weakness is at present especially pronounced for intermediate goods (-19% y-o-y in October), although the contraction in capital goods output is reaching similar levels (-14% y-o-y in October). Given that exports have been the weak link in Spain for years, the suspicion has to be that the industry benefited heavily from the housing boom.
- ▶ Hence, looking forward, the big challenge for industry is rebalancing away from an economy which was driven by the construction and real estate sector. Competitiveness has to be increased. Spending on R&D will be necessary, and the entire process is likely to take quite some time.

The weak labour market ...

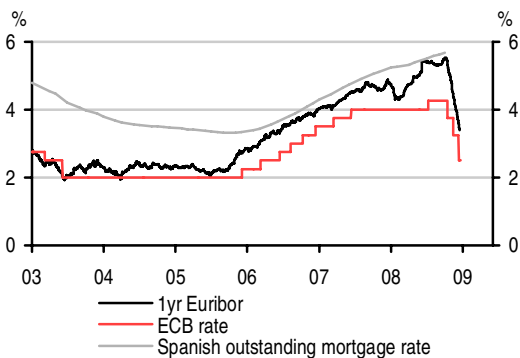


Source: Bloomberg, HSBC

... will weigh heavily on private consumption

- ▶ The labour market started to weaken dramatically at the beginning of 2008, with the negative tendency picking up momentum in the course of the year.
- ▶ The negative momentum is only going to stabilise slowly, and the peak of the unemployment rate is now seen at 17.2%
- ▶ This means that private consumption will stay depressed for a sustained period as well.

... whilst households' balance sheets ...



Source: BoS, Thomson Financial DataStream, HSBC

... should benefit from lower ECB rates

- ▶ Spanish households' mortgage rates typically track the 1 year Euribor, and are reset once a year.
- ▶ Distortions persist in money markets, but thanks to ECB action on the liquidity and policy rate side, the 1 yr Euribor is at 3.1%, currently at the lowest level since July 2006, and a good 200bps below its peak in September of this year.
- ▶ This will alleviate pressures on households' (and corporates') balance sheets, although it may not be enough to revive new lending significantly, if one really wishes the latter.

UK

Collateral damage

The UK is stuck in a classic liquidity trap. Restrictions on the quantity of credit are playing a significant role in driving down residential and commercial property prices which have fallen roughly 16% and 28%, respectively, from their peak. As a result, households and corporates are keen to pay down debt to restore the ratio of assets to liabilities. Any benefits in the form of interest rate or tax cuts are therefore being saved rather than spent.

Up until recently, the hope had been that even if rate cuts did not revive consumer spending, the resulting decline in sterling (a phenomenal 28% decline from the peak) would boost exports. The collapse in global indicators in recent months has quashed such hopes.

Both the central bank and government are grappling with policy measures to end households and

corporates desire to hoard cash and get money circulating around the economy to improve activity. In the Pre-Budget Report, the Chancellor announced enormous upward revisions to his borrowing projections but the actual fiscal stimulus was a relatively modest 1% of GDP.

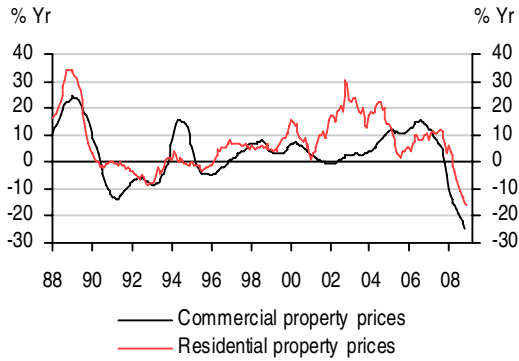
Policymakers are clearly concerned about the deflationary consequences of the current downturn, fears that will only intensify over the coming weeks if unemployment rises in the way in which we anticipate. So we should expect further more aggressive policy action in the coming months. We forecast a further 100bp rate cut in January and 75bp rate cut in February so that rates trough at 0.25%. Once conventional ammunition is spent, unconventional policy action will follow (See the European Quarterly: *Diving into the unknown*, for a detailed explanation of our expected policy measure.)

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% Year	2008f	2009f	2010f	Q3 08f	Q4 08f	Q1 09f	Q2 09f	Q3 09f	Q4 09f
Consumer spending	1.9	-2.4	-0.4	1.4	0.0	-1.8	-2.4	-2.9	-2.5
Government consumption	2.6	4.4	3.5	2.7	3.6	3.6	4.7	4.7	4.5
Investment	-3.9	-9.0	0.1	-4.9	-9.4	-11.0	-10.1	-8.7	-5.9
Stockbuilding (% GDP)	-0.3	-0.1	0.0	-0.6	-0.4	0.0	-0.3	-0.1	-0.1
Domestic demand	0.7	-2.3	0.5	0.0	-1.4	-2.3	-2.6	-2.5	-1.7
Exports	0.9	-2.9	0.5	-0.3	-0.8	-3.0	-3.5	-3.2	-2.0
Imports	0.8	-2.2	0.5	-1.2	-1.8	-2.4	-2.4	-2.5	-1.4
GDP	0.7	-2.5	0.5	0.3	-1.1	-2.5	-2.9	-2.7	-1.9
GDP (% quarter)	-	-	-	-0.5	-0.9	-1.1	-0.4	-0.3	0.0
Manufacturing output	-1.3	-2.8	1.7	-1.9	-3.4	-4.6	-3.8	-2.3	-0.3
Unemployment (%) - ILO	5.7	7.7	8.6	5.9	6.4	7.0	7.5	8.0	8.3
Average earnings	3.6	2.5	2.0	3.4	3.0	2.8	2.6	2.5	2.3
RPI	4.0	-1.8	0.6	4.9	2.9	-0.1	-1.6	-2.9	-2.5
CPI	3.6	0.4	0.9	4.8	3.9	2.0	0.7	-0.6	-0.5
Current account (% GDP)	-2.6	-1.7	-1.0	-	-	-	-	-	-
PSNB (% GDP)	-5.4	-9.2	-8.2	-	-	-	-	-	-
USD/GBP**	1.55	1.61	1.61	1.78	1.55	1.58	1.58	1.61	1.61
GBP/EUR**	0.90	0.93	0.93	0.79	0.90	0.92	0.92	0.93	0.93
Base rate (%)**	2.00	0.25	1.50	5.00	2.00	0.25	0.25	0.25	0.25
10-year bond yield (%)**	4.4	3.1	2.8	4.4	3.5	3.4	3.2	3.0	2.8

Notes: *corporate capital allowance changes in April 08 is likely to affect investment spending, ** end-quarter estimates
Source: HSBC

Both residential and commercial property prices...

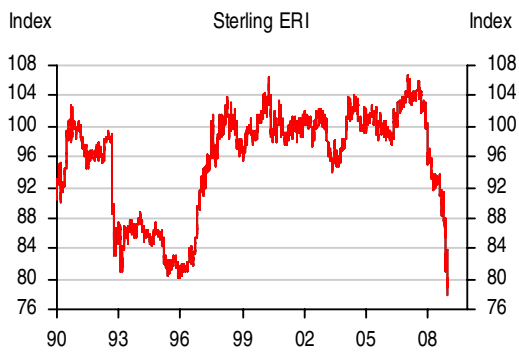


Source: Nationwide, Halifax and IPD

...continue falling, with little respite in sight

- ▶ With the securitisation markets still closed, banks have a more limited amount of funds available to lend so extend mortgages on a property only if there is also a sizeable deposit, to guard themselves against further house prices declines.
- ▶ But this strategy proves self-fulfilling as few first-time buyers have the required deposit. As such, house prices are likely to continue falling for the foreseeable future.

Hopes that sterling will boost activity are fading...

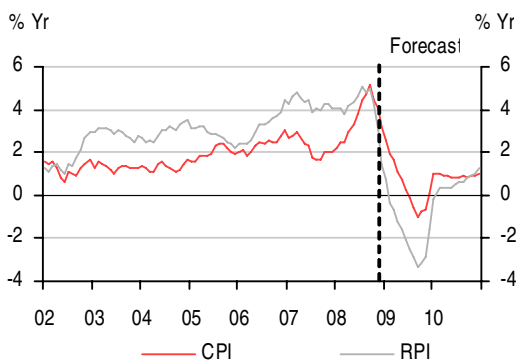


Source: Thomson Financial Datastream

...as global demand has faltered

- ▶ Sterling has now fallen 28% from the peak.
- ▶ The Bank of England has openly welcomed the decline in sterling, as the need to rebalance the economy is recognised.
- ▶ The weakness of sterling is the main stimulus driving the improvement in GDP in both the Bank of England and Treasury forecasts for 2010.
- ▶ But as global demand has faltered, this optimism is fading.

'Good deflation' is forecast...



Source: Office for National Statistics & HSBC Forecasts

...not medium-term general price declines

- ▶ Energy and food price declines look set to push both RPI and CPI into negative territory in 2009.
- ▶ However, this is merely food and energy prices falling back to previous levels after recent large increases.
- ▶ The question is whether the downturn in demand is so severe that the UK economy experiences more general price deflation. We expect some degree of nominal rigidity in the labour market to mean that the UK largely experiences a period of relative price stability rather than outright deflation.

Norway

Grinding to a halt

The Norwegian economy has been slowing following above-average growth last year. In 3Q08, it experienced the first q-o-q contraction since 1Q02. Declining household consumption has been the major driver, contracting 0.6% q-o-q in 3Q after remaining flat in the previous quarter. Exports too saw a massive 2% q-o-q decline.

Effects of the global financial crisis have become more pronounced and severe in Norway than expected earlier. Banks are tightening their credit standards, credit channels are drying up and domestic money market rates have seen a marked increase as a result of risk premiums abroad spilling over into the Norwegian money market. These have resulted in higher interest rates on loans to households and firms. The higher rates can have a great bearing on Norwegian households, who mostly face floating rate loans on their residential mortgages, and do not favour a near-term recovery in

household consumption. In fact, consumer confidence in 4Q08 has weakened for the sixth consecutive quarter to a 16-year low.

Norges Bank's regional enterprise network indicates a mood for reduction in investment and workforce in the face of weakening consumer demand. Against this background, we revise down our 2009 growth forecast to 0.2% from 1.4%. We feel that the proposed fiscal boost next year might just help prevent a contraction.

A sharp slowdown in the real economy is expected to anchor inflationary expectations and favour further monetary easing. After an aggressive 275bp easing in the policy rate since October (a record 175bp was delivered in December alone), we look for a further 100bp reduction over the next year, taking it to 2% by end 2009. We feel the risks to these forecasts still remain biased to the downside.

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% Year	2008f	2009f	2010f	Q3 08	Q4 08f	Q1 09f	Q2 09f	Q3 09f	Q4 09f
Consumer spending	1.6	0.3	2.2	0.7	-0.3	-0.8	-0.2	0.9	1.4
Government consumption	3.6	6.3	5.6	3.0	3.7	5.0	6.1	6.9	7.2
Investment	4.1	0.5	2.2	1.7	-1.5	1.2	0.4	0.0	0.3
Stockbuilding (% GDP)	2.2	1.4	0.7	2.6	2.5	1.5	1.5	1.5	1.0
Domestic demand	3.8	0.7	2.3	1.5	0.3	1.1	1.4	2.1	2.5
Exports	0.4	0.3	2.0	-1.2	-2.0	-1.5	-0.7	1.8	1.8
Imports	5.5	1.9	3.3	5.6	0.4	1.6	2.5	1.6	2.0
GDP*	1.8	0.2	1.8	0.6	0.0	-0.8	-0.3	1.0	0.8
GDP (% quarter)	-	-	-	-0.7	0.4	-0.6	0.7	0.5	0.2
Mainland GDP	1.8	0.2	1.8	0.6	0.6	0.6	0.6	0.6	0.6
Industrial production	-1.2	-2.9	1.2	-3.4	-4.1	-5.4	-4.1	-2.1	-0.1
Unemployment (%)	2.7	3.2	3.4	2.5	3.0	3.2	3.2	3.2	3.2
Average earnings	5.6	2.2	3.9	5.6	4.0	1.4	1.7	2.5	3.0
Consumer prices	3.7	2.7	2.4	4.7	3.5	3.0	3.0	2.5	2.5
Current account (% GDP)	15.7	8.2	9.5	18.0	9.0	9.0	8.0	8.0	8.0
Budget balance (% GDP)	16.0	14.0	13.0	-	-	-	-	-	-
NOK/EUR**	8.9	8.2	8.0	8.30	8.90	8.70	8.50	8.20	8.20
3-month money (%)	6.3	4.6	4.7	7.7	4.8	4.7	4.6	4.5	4.5
10-year bond yield (%)	4.5	4.3	4.3	4.4	4.3	4.3	4.3	4.3	4.3

Note: * = total GDP; ** = end-year
Source: HSBC

Sweden

Looming recession fears

The growing signs of recession around the world are a worrying development for Swedish economic growth, which is crucially dependent on external demand. External events are likely to have an impact on domestic demand as well, as they will affect the availability of both household and corporate credit owing to deteriorating access to bank funding.

Such a situation is particularly distressing for Sweden which is well past its peak in this cycle and has been slowing down anyway. The contraction in Swedish q-o-q GDP in the first three quarters of 2008 was far worse than envisaged and confidence indicators hint at stunningly weak growth ahead.

The extent of bearishness appears well entrenched in policy circles as well, with the central bank delivering a 275bp easing in just about two months (record 175bp cut in December alone).

We are revising down our 2009 growth forecasts to -0.6% (from 1%), which would be the first contraction in full-year GDP since the early 1990s. An expansionary fiscal policy, though helpful, is unlikely to prevent a contraction next year.

The policy rate, currently at 2%, is not very far from the recent low of 1.5%. However, the ongoing weakness in the economy under declining inflationary expectations leaves scope for further – even if limited – monetary accommodation.

We expect a 50bp reduction in the policy rate by H2 2009, taking it to 1.5% – our end-2009 policy rate forecast. The risks though remain biased to the downside.

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% Year	2008f	2009f	2010f	Q3 08	Q4 08f	Q1 09f	Q2 09f	Q3 09f	Q4 09f
Consumer spending	1.4	-0.1	2.0	1.0	0.8	0.4	-0.3	-0.5	-0.2
Government consumption	1.2	2.3	2.7	1.6	1.7	2.2	2.2	2.3	2.4
Investment	4.6	1.6	1.5	4.3	3.6	2.5	1.5	1.3	1.1
Stockbuilding (% GDP)	0.5	0.2	0.3	0.5	0.5	0.1	0.3	0.1	0.1
Domestic demand	1.8	0.5	2.3	1.0	1.7	1.4	0.1	0.1	0.3
Exports	3.5	0.2	3.0	3.5	1.5	0.2	1.0	-0.3	0.1
Imports	4.9	1.3	4.9	2.9	2.2	0.6	1.6	1.3	1.8
GDP	0.6	-0.6	1.4	0.3	-0.1	-0.6	-0.4	-0.6	-0.5
GDP (% quarter, sa)	-	-	-	-0.1	0.0	-0.4	0.1	-0.3	0.2
Industrial production	-0.7	-1.3	3.2	-1.6	-2.1	-2.7	-2.0	-0.6	0.3
Unemployment (%)	6.3	7.3	7.1	5.6	6.5	7.0	7.0	7.5	7.5
Average earnings	3.7	2.2	3.0	3.7	3.0	2.5	2.0	2.0	2.5
Consumer prices	3.6	1.4	1.8	4.4	3.0	2.0	1.5	1.3	1.0
Current account (% GDP)	7.0	3.9	4.2	8.3	4.8	4.5	3.6	3.9	3.6
Budget balance (% GDP)	2.5	0.4	-0.4	-	-	-	-	-	-
State debt (% GDP)	37.0	35.0	33.0	-	-	-	-	-	-
SEK/USD	6.59	6.53	6.17	6.97	7.43	6.90	6.72	6.33	6.17
EUR/SEK	9.77	9.63	9.25	9.79	10.40	10.00	9.75	9.50	9.25
3-month money (%)	4.5	2.1	2.2	5.5	2.7	2.2	2.2	2.1	2.0
10-year bond yield (%)	4.1	4.4	4.6	3.8	4.2	4.2	4.2	4.4	4.6

Source: HSBC

Switzerland

Succumbing to global drag

In the coming quarters, the still relatively robust domestic economy will give way to the sharp deceleration in global trade. At this juncture, any lower SNB 3 CHF target is symbolic, as repo rates are already very close to zero. Hence, unless money market spreads come in sharply, the SNB's next step is quantitative easing.

Investment activity is already suffering and will contract further. Construction investment has been a weak link for a couple of years. Equipment investment, although already negative, is set to contract further. Private consumption, up to now the stronghold, will lose its momentum as the unemployment rate rises. Inflation is set to fall close to 0% in 2009, predominantly on the back of lower energy prices.

All this is a classic growth cycle for a small open economy, and similar to what Switzerland

experienced from 2001 to 2003. The more interesting feature is that with the SNB's interest rates in its repo operations at 0.1% (1 week), and 0.15% (6 months), the SNB is already hitting the zero lower bound. The SNB can still symbolically lower its CHF 3 mth target from currently 1.0%, but the real question is how it can reach the new target. The answer is through the direct purchase of securities, i.e. quantitative easing. Debt monetisation would also be an option to circumvent financial markets entirely. The other way to loosen monetary policy is through the CHF. Typically, Switzerland suffers from an appreciating currency when global growth falters – and this might well have been a reason for the surprise 100bps cut in November. Hence, the SNB could intervene in currency markets, or introduce negative interest rates on foreign accounts as in the 1970s. At the moment, we prefer quantitative easing as the first alternative policy step.

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% Year	2008f	2009f	2010f	Q3 08	Q4 08f	Q1 09f	Q2 09f	Q3 09f	Q4 09f
Consumer spending	1.8	0.2	0.4	1.6	1.3	0.9	0.4	-0.2	-0.2
Government consumption	-1.0	1.3	1.4	-0.3	1.5	1.6	1.4	1.0	1.2
Investment	-1.0	-3.4	-0.9	-1.1	-2.6	-4.2	-3.4	-3.3	-2.8
Stockbuilding (% GDP)	-1.8	-1.4	-1.0	-2.5	-2.2	-1.9	-1.4	-1.1	-1.3
Final domestic demand	0.8	-0.5	0.2	0.7	0.4	-0.3	-0.4	-0.8	-0.7
Exports	4.6	-4.1	0.6	5.4	2.9	0.6	-5.4	-7.2	-4.3
Imports	0.9	-3.2	0.4	1.7	-2.0	0.4	-5.1	-4.6	-3.2
GDP	1.8	-1.0	0.8	1.7	0.1	-0.8	-1.0	-1.4	-0.7
GDP (% quarter)	-	-	-	0.0	-0.6	-0.6	0.1	-0.4	0.2
Industrial production	0.5	-8.7	0.2	0.7	-8.5	-11.1	-13.8	-8.3	-1.3
Unemployment (%)	2.6	3.3	3.8	2.6	2.7	2.8	2.8	3.0	3.0
Consumer prices	2.4	0.3	1.2	3.0	1.7	0.9	0.2	-0.4	0.3
Current account (EURbn)	24.8	23.6	29.7	6.1	5.8	5.3	5.5	6.1	6.7
Current account (% GDP)	7.6	7.3	9.0	7.5	7.1	6.4	6.8	7.6	8.3
SFR/USD*	1.11	1.05	1.07	1.12	1.11	1.07	1.07	1.05	1.05
SFR/EUR*	1.55	1.57	1.60	1.57	1.55	1.55	1.55	1.57	1.57
3-month money (%)	2.3	0.4	0.8	3.0	0.6	0.4	0.4	0.4	0.4
10-year bond yield (%)	2.9	2.7	2.7	2.5	2.9	2.7	2.6	2.6	2.7

Note: * = end-year
Source: HSBC

Hungary

IMF/EU funds keep wolf from the door ... at a cost

Hungary is heading for recession; the question now is, how deep? Unlike the rest of the region, Hungary heads into this global downturn at a low ebb. Growth was only barely recovering from austerity measures imposed since 2006 when a sharp forint sell-off in mid-October catalysed a 300bp rate hike and further fiscal belt-tightening. The IMF, EU and World Bank responded to the loss of confidence with a remarkably large funding package totalling USD25.1bn on top of a EUR5bn swap facility with the ECB. Hungary now has funds well in excess of liabilities for the next 12–18 months and confidence has been largely restored. But spending cuts and monetary policy tightening now threaten to turn a downturn into a full throttle economic collapse.

To avoid this outcome, the authorities are now acting in concert to provide liquidity in the banking system and support small and medium-

sized enterprises directly. Since the forint has stabilised, the central bank has cut rates by 100bp in two moves, including an intra-meeting cut in early December. It is likely to continue to ease as quickly as market conditions will allow, and we expect rates to fall from the October peak of 11.50% to a forecast of around 5% in H2 2009.

With inflation plummeting and the currency now a lesser concern, the priority will be to avoid a sudden stop in lending, and to minimise job losses by limiting wage growth. Foreign currency lending – long a feature of capital flows – is set to fall sharply, particularly in the corporate sector. The current account deficit will narrow in tandem, with both exports and imports likely to be in decline through most of 2009. This dark cloud's silver lining will be Hungary's likely preparedness to join ERM II in late 2009 or early 2010, and possibly adopt the euro in 2013.

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% Year	2005	2006	2007	2008f	2009f	2010f
Consumer spending	3.8	1.3	-1.9	0.9	-2.9	2.0
Government consumption	0.2	4.4	-3.1	-1.5	-2.2	0.5
Fixed investment	5.6	-2.4	0.1	-3.0	-3.5	1.5
Exports	11.6	18.8	15.9	3.9	1.5	3.5
Imports	6.8	13.9	13.1	3.1	-1.5	1.5
GDP	4.1	3.9	1.1	1.1	-2.0	1.8
Industrial production	7.0	10.6	8.5	0.1	-7.1	3.5
Unemployment*	7.3	7.5	7.7	8.0	9.2	8.8
Consumer prices	3.6	3.9	8.0	6.1	2.0	1.7
Current account (% GDP)	-7.3	-7.8	-6.5	-6.4	-3.9	-4.0
Budget balance (% GDP)**	-7.8	-9.1	-5.0	-3.4	-2.7	-2.6
HUF/USD*	214.0	190.6	172.9	179.3	166.7	157.4
HUF/EUR*	252.5	251.4	252.8	260.0	250.0	220.0
3-month money (%)*	6.3	8.1	7.5	10.0	5.2	5.0
10-year yield (%)*	7.0	6.7	7.1	7.8	6.5	6.2

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

Poland

This ship will stay afloat longer

In the current environment, the best an economy can hope for is to slow more gradually than others and avoid the worst the global downturn can bring. Poland seems well placed to do both. Not only does it enjoy a particularly strong base from which to fall, but Poland will have the benefit of a number of growth-supportive factors in 2009. GDP growth has averaged 5.6% year-on-year in the first three quarters of 2008, remaining as high as 4.8% in Q3. Growth in employment has been sustained through October bringing unemployment to a 17-year low. Retail sales growth was as high as 7.9% in October; and domestic demand accelerated to 8.3%yoy in Q3. While the industrial sector has weakened, the rest of the economy was at least buoyant through the third quarter.

The outlook from here is clearly worse. Export growth plummeted in November in what is the start of an extended fall in external demand. However, there are

a number of factors that should compensate for some of the fall in external demand. First, exports comprise 33% of GDP in Poland, compared to 65%–80% in the rest of Central Europe. The fall in external demand will therefore have a weaker impact on the Polish economy as a whole. In addition, Poland will benefit from a cut in personal income tax, which will put 95% of taxpayers in the lower 18% tax bracket.

Furthermore, EU transfers are set to peak in 2009, with the Finance Ministry forecasting net transfers of PLN 24bn (EUR8bn). Much of this will go towards infrastructure investment projects.

Poland's dovish Monetary Policy Council is nonetheless expecting the worst and has embarked on a rate cutting cycle that is just getting into full swing. The risk here – particularly now that Polish inflation is set to exceed the EU convergence reference rate – is that the NBP cuts too far too fast and makes a policy error. A 2012 euro adoption date is still possible, though far from assured.

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% Year	2005	2006	2007	2008f	2009f	2010f
Consumer spending	2.7	5.0	5.0	4.8	3.2	3.0
Government consumption	6.6	4.3	1.9	-0.4	0.0	2.5
Fixed investment	6.5	14.9	17.6	9.2	3.1	3.5
Exports	2.6	12.3	8.5	7.8	1.8	3.5
Imports	-1.6	15.0	12.5	7.7	3.2	4.5
GDP	3.6	6.2	6.6	5.2	3.0	3.5
Industrial production	4.0	12.0	9.7	5.6	-2.9	3.5
Unemployment (%)*	17.6	14.9	11.4	9.3	10.6	10.5
Consumer prices	2.1	1.0	2.5	4.3	2.9	3.0
Current account (% GDP)	-1.6	-2.3	-3.0	-7.3	-7.8	-6.5
Budget balance (% GDP)	-2.5	-2.4	-2.0	-2.2	-2.6	-2.5
PLN/USD	3.24	2.90	2.47	2.76	2.72	2.73
PLN/EUR	3.85	3.83	3.60	4.00	3.40	3.20
3-month money (%)*	4.6	4.2	5.7	5.3	4.3	5.0
10-year bond yield (%)*	5.1	5.2	5.9	5.8	5.5	5.3

Note: * = year-end
Source: HSBC

Russia

Double hit from de-leveraging and commodity prices

The Russian economy has been feeling the negative impact of the global financial crisis since September. Economic growth has slowed sharply, with industrial production already contracting. The Ministry of Economy believes that at least a two-quarter recession has already started. There are two main channels through which the negative impact feeds through to the Russian financial sector and the real economy.

De-leveraging and the related sharp deceleration of domestic credit growth is the first channel. Russia saw USD80bn of net capital inflows last year.

These resources pushed up domestic demand, credit growth, and led to economic overheating. Now the reverse is taking place. Financial resources leave the country, launching the downward phase of the credit cycle. According to our estimates, net capital outflows have reached USD120bn since August 8th. Not surprisingly, this has caused a severe liquidity squeeze, partial credit crunch, bank failures and prompted runs on banks and on the rouble. An injection of some USD138bn through fiscal and monetary channels has covered

this immediate shortfall, but has failed in many instances to get the resources through to right destinations at the micro level.

With tight liquidity, refinancing of local ruble bonds and long-term bank credit lines has become a major issue. Technical defaults on local bonds have become common. Highly leveraged sectors such as construction and retail trade are the biggest victims. Tight liquidity also seriously affected sectors with high shares of bank financing in working capital, such as food and light industries, as well as agriculture. Companies operating in other sectors have suffered too, given the overall weakening of domestic demand.

The fall in world commodity prices, particularly those of crude oil, steel and non-ferrous metals, is the second channel through which the global financial crisis has affected Russia. Russian exporters of raw materials saw a fall in both external demand and prices on their goods and had to significantly reduce output, especially in ferrous metallurgy.

With exporters getting hit as well, the whole Russian economy now feels the pain.

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% Year

	2005	2006	2007	2008f	2009f	2010f
GDP	6.4	7.4	8.1	5.4	-2.0	2.0
Industrial production	4.0	2.9	4.9	1.4	-3.8	2.0
Consumer prices	12.7	9.7	9.0	14.1	11.8	9.0
Current account (USDbn)	84.3	94.3	78.3	92.4	45.4	39.4
Current account (% GDP)	11.1	9.5	6.1	5.6	3.5	2.9
Foreign exchange reserves (USDbn)	175.9	295.6	465.9	396.8	347.2	405.6
Overall fiscal balance (% GDP)	7.5	7.4	5.4	4.1	-2.8	-3.3
RUB/USD*	28.4	27.0	25.3	25.3	33.1	35.0
1-month money (%)*	4.7	4.8	4.9	10.4	16.0	14.8

Note: * = year average
Source: HSBC

Turkey

It's all about the IMF

With the significant deterioration in external financing conditions, the Turkish economy is set for a hard-landing, and we foresee a 1.6% y-o-y contraction in activity in the second half versus 4.2% real growth in first half of last year. Against this worsening macro outlook, Turkish companies carry a massive USD81.4bn short FX position as of Q2 2008 and external borrowing conditions are unlikely to recover anytime soon. Thus, despite the relatively good shape of public balances and the banking sector, as well as low household debt, the FX-leverage of the corporate sector poses significant risks to Turkey's macroeconomic stability.

External financing requirements in 2009 are simply huge: the USD50bn amortisation need of medium-to-long term debt principle, the USD51.9bn short-term external debt stock as of Q2 2008 and the narrowing yet still sizable USD20-30bn current account deficit.

With official FX reserves hovering below USD70bn, Turkey has to find alternative external financing sources. The most plausible alternative is the IMF. The government has been dragging its feet on a new deal ever since the previous one expired in early May, probably due to looming local elections in March 2009. The news flow on a potential new IMF programme has created further uncertainty.

In our view, a new IMF agreement with a sizable loan support is definitely needed given the extremely precarious global backdrop. However, it would be only the start of a viable solution. IMF money is disbursed to the official sector, whereas the problems are in private companies this time around. Hence, the IMF and government officials should creatively seek ways to rehabilitate the private sector with the support of IMF reserves in order to stabilise the country's macro outlook.

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% Year	2005	2006	2007	2008f	2009f	2010f
Consumer spending	7.9	4.6	4.1	2.0	-0.8	3.3
Government consumption	2.5	8.4	6.5	3.2	2.1	1.7
Fixed investment	17.4	13.3	5.5	0.3	-4.2	3.8
Stockbuilding (% GDP)	-0.8	-0.8	0.2	-0.5	-1.0	-0.1
Domestic demand	9.4	7.0	4.7	1.7	-1.3	3.2
Exports	7.9	6.6	7.3	3.3	-0.2	4.1
Imports	12.2	6.9	10.7	2.3	-1.7	3.7
GDP	8.4	6.9	4.6	1.1	-1.4	4.3
Industrial production	5.4	5.8	5.4	-0.1	-2.2	4.5
Consumer Prices	8.2	9.6	8.8	10.5	11.8	12.0
Producer prices	2.7	11.6	5.9	12.9	13.9	7.2
Current account (% GDP)	-4.7	-6.1	-5.8	-6.6	-4.3	-3.5
Budget deficit (% GDP)	-1.3	-0.5	-1.6	-1.3	-2.5	-1.2
TRY/USD**	1.35	1.47	1.27	1.36	1.71	1.53
3-month money (%)*	13.8	17.6	16.0	18.0	19.5	17.0

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

Saudi Arabia

Tipping point

The continued weakening of international oil prices is weighing heavily on Saudi Arabia's economic outlook. The initial sharp decline from the mid-08 USD150/b highs had relatively little impact on anticipated economic performance, cutting the future value of fiscal and current account surpluses, but leaving spending plans readily fundable. At under USD50/b, however, Saudi Arabia finds itself at the tipping point at which oil price declines feed through into the domestic economy.

Public spending is the most immediate pressure point. Using an assumed average oil price of USD45/b for 2009, we expect Saudi Arabia's fiscal revenues to fall by 50% y-o-y. Six consecutive years of surplus leave the government well placed to fund shortfalls and we expect the government to run substantial deficits in 2009 and 2010. Nevertheless, spending growth is likely to be more moderate than we had previously anticipated, dampening a key stimulus for domestic demand and liquidity growth.

SAMA has reacted to slowing economic growth by loosening monetary policy and we expect the central bank to continue to cut rates over the coming months. Nevertheless, we expect the local credit market to remain very tight, with access to funding for corporates further constrained by declining international appetite for Saudi risk. With recent heavy equity market losses also weighing on sentiment, we expect to see growth in private and government consumption, as well as investment spending, to fall well below recent highs.

Headline economic growth rates will also be impacted by OPEC-mandated production cuts which we expect to be maintained in order to put a floor under oil prices. This will see industrial output contract in 2009 and reduce export volumes substantially, cutting overall real growth rates to a little over 1% - the slowest rate of growth since 2002. In nominal terms, the shift in trends will be even more marked with dollar GDP set to fall by some 25% y-o-y, the steepest drop on record.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending*	9.5	13.4	14.0	20.0	9.0	7.5
Government consumption*	18.4	18.4	3.5	14.0	10.0	10.0
Fixed investment*	25.1	19.1	22.8	23.0	6.5	8.0
Stocks*	-15.8	31.8	-2.7	15.0	-5.0	-5.0
Exports*	45.6	16.0	12.2	39.6	-47.7	22.3
Imports*	35.1	29.3	28.2	30.0	-5.0	2.0
GDP	5.6	3.1	3.4	6.3	0.9	2.2
Consumer prices	0.4	2.3	4.1	10.1	7.1	4.8
Current account balance (USDbn)	90.0	98.9	95.0	152.0	0.4	31.1
Current account balance (% GDP)	28.5	27.7	24.9	31.1	0.1	7.3
Budget balance (% GDP)	18.4	21.7	12.5	21.4	-8.0	-5.4
SAR/USD	3.75	3.75	3.75	3.75	3.75	3.75
3-month money (%)**	5.0	4.9	4.0	3.0	1.9	1.8

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

South Africa

Fiscal cushion will soften the blow

The South African economy, like so much of the world, is slowing sharply. High interest rates have cut into household and corporate demand, which has now been falling for six quarters. In Q3 2008 the downturn spread to the key services sector and, notably, to the mining sector as well.

Protected by an insular banking sector and capital controls, South African markets have been relatively immune to the dislocation and liquidity problems experienced in markets that are more interconnected with the global financial infrastructure. This immunity does not extend to commodities, which comprise 64% of total South African exports (although exports make up only 29% of GDP – relatively low for an emerging market). With much of the economy under strain, government spending and infrastructure investment – comprising a combined 40% of GDP – will likely prevent the economy from slipping

into recession. The government's medium-term budget framework shows a shift from surplus into deficit until 2011/12, with average expenditure growth of 9.3% over the next three years. Social services, comprising more than half of all expenditure, will see a 10.7% spending rise. Infrastructure expenditure growth will rise from 7.0% of GDP to 8.1% over the same period. At the same time, government debt to GDP is targeted to fall to under 25%.

The risk to this view is political. Jacob Zuma is set to become president following elections (likely to take place in Q1 2009); while he has been reassuring on the economic front, it is not clear he will be able to prevent the more militant voices in his party from pushing for disruptive adjustments to the economic framework, like eliminating the inflation-targeting regime. The establishment of the new COPE party by ANC economic moderates may tilt ANC policy to the left, and will likely cut the ANC's majority as well.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	6.9	8.2	7.0	2.5	1.5	3.0
Government consumption	4.8	5.1	4.8	5.0	7.5	8.0
Fixed investment	8.9	13.8	17.1	11.5	8.5	10.5
Exports	8.0	6.0	7.5	2.5	0.8	4.0
Imports	10.7	18.9	10.0	2.7	1.0	4.5
GDP	5.0	5.3	5.1	3.4	2.5	4.0
Industrial production	4.2	4.9	5.5	2.5	-2.3	3.5
M3	24.0	23.1	23.6	18.0	11.0	15.0
Consumer prices	3.4	4.6	7.1	11.6	6.3	6.0
Current account (% GDP)	-3.8	-6.4	-7.3	-7.2	-7.4	-7.2
Budget balance (% GDP)	-0.5	0.2	0.7	-0.2	-2.4	-1.8
ZAR/USD	6.40	7.03	7.01	8.56	9.69	10.00
3-month money (%)*	7.0	9.2	11.3	11.3	9.5	8.7
10-year bond yield (%)*	7.5	7.7	8.4	7.4	7.0	7.5

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

Japan

Sizable growth forecast cuts

We have lowered our forecast of real GDP growth in 2008 to 0.3% from 0.8% previously, and to -1.4% from 0.6% in 2009. The sizable downward revisions of 2009 growth are mainly attributable to the expected sharp deterioration of the global economy. Industrial production is expected to slump and the recurring profit of all industries are expected to decline 60 to 70% in Q2 2009.

Assuming overseas economies improve against the backdrop of the various stimulus packages, we project a gradual improvement in Japan's economy from the Q3 200. But the balance sheet adjustment of US households sector, which have a 1/3 share of global private consumption, will persist, so the positive ripple effect to Japan's export performance will be limited.

With the large drop in commodity prices and the expansion of a negative GDP gap, we now project CPI inflation at 0.0% y-o-y in 2009 (+1.0% previously), and -0.4% y-o-y in 2010.

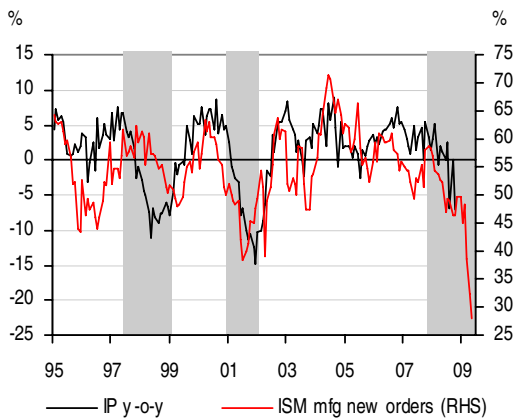
A weak economy and strong yen will probably force the BoJ to lower its policy rate to 0.1% in Q1 2009. The BoJ will may also increase outright purchases of long-term JGBs. We expect the policy rate to remain at 0.10% throughout 2010. And we also assume a 3 trillion yen "real water" fiscal spending in 2009.

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% Year	2008f	2009f	2010f	Q3 08f	Q4 08f	Q1 09f	Q2 09f	Q3 09f	Q4 09f
Consumer spending	0.9	-0.3	0.1	0.5	0.4	-0.7	0.2	-0.3	-0.3
Government consumption	0.6	0.7	0.8	0.4	-1.0	-0.3	0.8	1.3	0.9
Investment	-3.8	-3.9	2.2	-4.4	-4.1	-5.1	-5.4	-3.9	-1.2
Private non-residential	-2.4	-6.4	0.8	-3.9	-5.7	-7.9	-8.7	-5.9	-2.8
Private residential	-8.0	4.4	0.9	-4.7	8.0	4.7	7.8	3.5	1.6
Public	-6.7	0.6	9.4	-5.9	-5.6	0.0	-0.3	-0.7	3.6
Stockbuilding (% GDP)	0.5	0.7	0.4	0.3	0.8	0.9	0.6	0.6	0.5
Domestic demand	-0.4	-0.8	0.4	-1.1	-0.9	-1.1	-0.9	-0.6	-0.6
Exports	4.5	-5.3	3.4	4.3	-2.5	-9.0	-6.6	-5.5	0.4
Imports	0.1	-2.1	-0.8	1.1	-1.8	-3.5	-0.3	-3.1	-1.3
GDP	0.3	-1.4	1.1	-0.5	-1.0	-2.1	-1.9	-1.0	-0.3
GDP (% quarter)	-	-	-	-0.5	-0.1	-0.6	-0.7	0.4	0.6
Industrial production (% year)	-2.6	-18.3	1.0	-2.2	-10.9	-19.5	-21.9	-19.8	-11.6
Unemployment rate	4.0	4.7	4.6	4.1	4.0	4.4	4.7	4.7	4.7
Wholesale prices	4.9	-2.0	0.5	7.1	2.7	0.0	-6.9	-9.6	-6.2
CPI	1.8	0.0	-0.4	2.4	1.3	0.7	0.4	-0.6	-0.5
M2+CDs	2.1	1.8	1.8	2.0	1.9	1.8	1.7	1.8	1.9
Current account (JPYtrn)	17.5	21.1	25.0	3.4	3.7	4.5	5.1	5.7	5.8
Current account (% GDP)	3.7	4.6	4.8	2.7	3.9	4.3	4.8	5.0	4.5
Budget balance (% GDP)	-3.0	-4.1	-3.5	-	-	-	-	-	-
JPY/USD	117	100	103	106	90	100	100	105	105
3-month money (%)	1.0	0.6	0.6	1.1	0.9	0.7	0.6	0.6	0.6
Benchmark bond (%)	1.5	1.2	1.0	1.5	1.5	1.4	1.2	1.0	1.0

Source: HSBC

Freefall of manufacturing activities expected

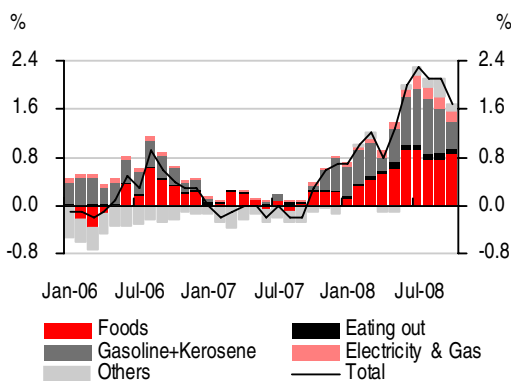


Source: OECD, METI
*ISM new order index is sifted 6 month rightward.

Implications from US stagnancy

- ▶ Japan's economy has already entered into a recession since Q4 2007. Given the close relationship between US mfg ISM new orders and Japan's industrial production (with a 6 month time lag), there is a strong possibility that Japan's industrial production could decline more than 20% y-o-y in Q2 2009. This also implies that all industries' recurring profit could decline 60 to 70% y-o-y in H1 2009.
- ▶ The effects of the global and domestic fiscal stimulus packages should underpin the Japanese economy from H2 2009. But the US household sector will remain under strong pressure to adjust their balance sheets for years to come, so the final demand for Japan's exports should recover only slowly.
- ▶ Japanese private personal consumption has only declined once since 1955, but we expect it to do so again in 2009 based on the apparent y-o-y decline of real employees' income.

Inflation profile and contributions

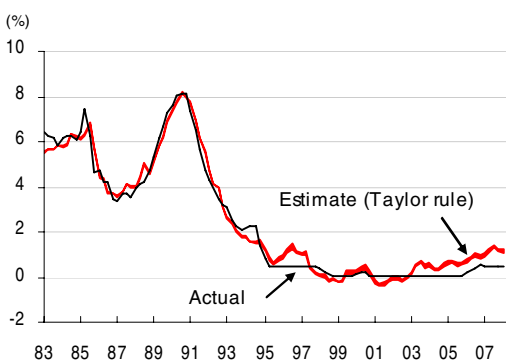


Source: MIC

Deflation will return

- ▶ Core CPI inflation hit 2.4% y-o-y in July, but it dropped down to 1.9% in October amid the commodity price collapse. Given the current downturn of commodity prices, downward pressure for core CPI y-o-y should strengthen towards the summer of 2009. The continuous expansion of a negative GDP gap through 2009 should also push CPI downward in 2010 as well.
- ▶ Nominal wages per worker fell 0.1% y-o-y in October, the first decline since December 2007, mainly due to the sharp decline of overtime wages. And winter bonuses in 2008 are expected to decline 3 to 4% y-o-y.
- ▶ The positive impact of the improvement of terms of trade brought by falling commodity prices will be much smaller than the negative impact of sluggish sales volumes during a recession. Typically, commodity prices fall amid recession.

Taylor rule and o/n call rate



Source: HSBC

Monetary policy

- ▶ The BoJ will downgrade its overall economic assessment to "deteriorating" at least until January 2009 and also its growth forecasts for both FY2008 and FY2009 sizably in January. These expected developments could be reasons for the BoJ to cut rates again to 0.10%. The BoJ may also announce that it will admit the target rate to go down to zero for exceptional periods when liquidity demand is strong, especially before the fiscal year-end.
- ▶ There exists some possibility that the BoJ will again adopt the quantitative easing policy amid a prolonged recession, but we expect the BoJ refrain from this option, as financial systemic risks in Japan will not as severe as in the US or Euro-zone, and some fiscal stimulus effects could be expected from H2 2009.

Australia

Struggling through

Australian output growth fell sharply during 2008, driven down by softer household consumption. Much of this weakness was caused by high interest rates and high fuel prices, however, rather than the impact of the global financial crisis. The financial system has so far come through the global crisis in relatively good shape. The major banks have been able to acquire additional funding liabilities, and also issue new capital to meet provisioning and sustain lending growth. Mortgage delinquencies are little changed from the low level of previous years, and banks remain profitable.

The central bank has responded to the domestic slowdown and the gloomy global outlook by rapid cuts in the cash rate. The Australian government has responded by a swift reversal of its previously tight fiscal policy. Through 2009 we expect

residential mortgage interest rates to match the lowest for several decades. Interest rate cuts have a prompt impact on household disposable incomes in Australia because most mortgage interest rates vary in response to changes in the cash rate. We also expect more fiscal stimulus, following on from the spending package of 1% of GDP delivered in December. Business investment will likely fade in the second half of 2009, but some of the investment decline will be offset by additional government investment spending. With growth slower through East Asia, export volume growth through the year will slow. If consumption is as we expect a little stronger in the first half of 2009 than the two middle quarters of 2008, Australia has a fighting chance of getting through a slow and difficult year without an actual recession.

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% Year	2008f	2009f	2010f	Q3 08f	Q4 08f	Q1 09f	Q2 09f	Q3 09f	Q4 09f
Consumer spending	2.2	1.2	2.6	1.7	0.8	0.5	1.1	1.4	1.7
Government consumption	3.8	3.8	3.8	3.5	3.3	3.6	3.8	4.0	4.0
Investment	8.8	5.6	4.5	9.1	8.5	6.7	5.0	6.2	5.5
Final domestic demand	4.1	2.0	3.0	4.1	3.0	2.1	2.4	2.5	2.4
Stockbuilding (% GDP)	0.4	0.2	0.2	0.3	0.3	0.5	0.1	0.4	0.3
Domestic demand	4.1	1.6	3.0	4.0	3.3	2.7	2.3	2.5	2.3
Exports	5.7	5.3	4.4	5.0	7.3	6.1	4.5	6.0	5.0
Imports	12.0	5.6	3.9	13.2	10.9	7.4	5.3	4.7	4.5
GDP	2.4	1.5	3.1	1.9	1.3	1.0	1.2	1.5	1.9
GDP (% quarter)	-	-	-	0.1	0.3	0.3	0.5	0.4	0.7
Industrial production	3.1	1.0	1.0	3.8	2.5	1.6	0.6	0.9	0.9
CPI	4.6	3.0	2.5	5.0	4.8	4.1	3.1	2.4	2.2
Unemployment	4.2	5.4	5.9	4.2	4.5	5.0	5.4	5.7	6.0
Average earnings	4.1	3.9	3.8	4.1	4.0	4.0	4.0	3.9	3.9
Current account (AUDbn)*	-50.6	-43.0	-53.0	-52.0	-49.0	-37.3	-33.6	-36.8	-43.0
Current account (% GDP)	-5.0	-4.1	-4.7	-	-	-	-	-	-
Budget balance (% GDP)	1.0	-1.5	-1.5	-	-	-	-	-	-
USD/AUD	0.83	0.66	0.72	0.79	0.67	0.67	0.65	0.66	0.67
3-month money (%)	7.0	4.7	5.4	7.3	5.1	4.7	4.7	4.6	4.7
10-year bond (%)	5.8	5.8	6.2	5.4	5.3	5.5	5.7	5.9	6.0

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

New Zealand

Continuing recession

Output in New Zealand fell through 2008, and the downturn may well continue during the first half of 2009. The shallow but protracted slowdown was engendered by high interest rates designed to counter rising inflation. By the time the severity of the global downturn made it plain that inflation was no longer the main problem, New Zealand was already in recession. Reversing its stance the Reserve Bank of New Zealand (RBNZ) cut the cash rate by 325bp to 5% in the second half of 2008, and we expect another 100 basis points of easing in the first quarter of this year.

Retail sales, housing construction, business investment, employment and export growth all remain subdued, however, and it will likely be the second half of the year before lower interest rates, a cheaper currency and tax cuts see a resumption of solid output growth. One element inhibiting recovery is the continuing deflation of a prolonged house price boom, coinciding as it does with the global downturn in equity prices.

The New Zealand dollar depreciated by nearly 50% against the USD through 2008, a useful move for New Zealand exporters. With a big current account deficit and high net foreign liabilities compared to GDP, New Zealand needs a matching capital inflow. The need to retain an interest rate premium to other advanced economy markets is a constraint on taking the cash rate to a very low level, and RBNZ Governor Alan Bollard will be wary of taking the cash rate much below 4% in 2009.

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% Year	2005	2006	2007	2008f	2009f	2010f
Consumer spending	4.7	2.4	4.3	0.0	0.4	2.0
Government consumption	4.2	4.8	4.0	4.0	3.8	2.9
Investment	3.6	-1.2	4.5	-0.2	-1.6	4.6
Final domestic demand	4.4	1.5	4.3	-0.2	0.3	2.4
Stockbuilding (% GDP)	1.0	0.1	0.6	0.2	0.2	0.2
Domestic demand	4.2	1.2	4.5	-0.1	0.3	2.4
Exports	-0.5	1.9	3.5	-0.8	1.2	4.4
Imports	5.5	-2.6	8.6	4.5	1.6	4.2
GDP	2.7	1.6	3.1	-0.5	-0.2	2.4
Consumer prices	3.0	3.4	2.4	4.2	2.7	2.5
Current account (% GDP)	-8.6	-8.6	-7.9	-7.9	-7.0	-6.9
Budget balance (% GDP)	4.5	3.9	3.8	2.0	0.1	0.1
Unemployment*	3.8	3.7	3.7	3.9	5.1	6.0
NZD/USD	0.70	0.64	0.75	0.70	0.55	0.57
3-month money (%)	7.2	7.6	8.5	8.0	5.8	6.1
10-year bond yield (%)	5.9	5.8	6.3	5.7	5.2	5.4

Note: * Year end. Source: HSBC

China

Getting worse before getting better

China's economy is slowing at an accelerating pace. As the world's factory, China's economy is not immune to the global downturn. Since the Eurozone, US and Japan account for over 56% of China's total exports, the synchronised developed world recession is cutting into export growth significantly. We expect growth in the dollar value of Chinese exports to drop sharply to -3% in 2009 with a cyclical low of -19% in Q1. There are also signs of weakness on the domestic front. Transaction volume of property sales in big cities has been falling by 20-40% y-o-y since the start of 2008, implying the slowdown in property investment by private developers is likely to accelerate into 2009. The announced RMB900bn of new fiscal spending on public housing for the next 3 years should provide a buffer, but is not enough to fully offset the downturn in private property investment. Combined with a sharp slowdown in car sales, this is forcing producers in

metal and machinery sectors to adjust expectations and hence inventories. We expect this unwinding of excessive stock and even capacity to continue until there is a meaningful improvement in demand.

Fearing the nasty social and economic consequences of a hard landing, Beijing policymakers announced a RMB4trn stimulus package on 9th November. The massive pump-priming needs to be accompanied by much looser monetary conditions. Since the major macro risk has already shifted from inflation to deflation, the PBoC has some leeway to significantly ease credit. In addition to the four cuts in the last three months, we expect the PBoC to slash rates by around 200bp by June 2009. Meanwhile, we think the central bank will cut the required reserve ratio (RRR) by 400bp. Once it kicks in, the stimulus package can lift GDP growth above 8% in H2 2009, though we expect a weaker growth rate in H1 2009 to drag down the whole-year average for 2009 to 7.8%, the lowest in nine years.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	8.5	8.7	9.0	8.9	8.0	8.5
Government consumption	12.9	11.7	14.3	12.0	18.0	16.0
Fixed asset investment	27.2	24.5	25.8	24.0	17.5	19.0
Exports	29.0	25.0	23.7	8.4	-5.0	7.0
Imports	17.0	20.0	17.8	10.4	-4.0	6.0
GDP	10.4	11.6	11.9	9.2	7.8	8.9
Industrial production (ex-small enterprises)	15.9	16.2	15.8	12.7	9.5	12.0
Consumer prices	1.8	1.5	4.8	6.1	-0.2	0.8
Current account (% GDP)	7.2	9.5	11.3	8.9	5.2	4.6
Budget balance (% GDP)	-1.2	-1.0	0.6	1.2	-2.7	-3.2
CNY/USD	8.18	7.93	7.54	6.83	6.80	6.80
1-year time deposit (%)	2.3	2.4	3.3	3.7	1.0	0.9
1-year lending (%)	5.6	5.9	6.8	6.9	3.7	3.4

Source: HSBC

Hong Kong SAR

Contraction is on the way

We expect Hong Kong's economy to contract during 2009 but look for a stabilisation towards the end of the year. The poor economic outlook for the G3 economies will depress external demand. Domestic demand is expected to tread water for the year, and while government investment could provide a modest buffer, the initial support on offer remains relatively small.

Private consumption growth slowed sharply in 2008, from 7.9% y-o-y in Q1 to 0.2% in Q3. We expect private consumption to remain modest through the first half of 2009 as consumer sentiment will be depressed by lower income growth amidst a weaker labour market and negative wealth effects from the property and stock markets. The expectation of lower inflation may also cause some postponement of consumer spending.

In addition to lower demand from the developed world, the second round effects on intra-regional trade within Asia will weigh on Hong Kong's

export performance. Slower export growth to Mainland China (50% of Hong Kong exports), for instance, will also be reflective of US weakness. Indeed, the low single-digit growth in shipments to Korea and Singapore, and the contraction of exports to Taiwan, suggest that these second-round effects have already surfaced.

The slower global trade cycle has yet to affect Hong Kong's trade-related services, the growth of which remained robust at 7.8% y-o-y in Q3 2008 versus 9.5% in Q2. However, the deterioration in global financial conditions has led to a significant slowdown in financial and business service exports, to 5.8% y-o-y in Q3 2008 from 12.1% in Q2. Given the slower global trade cycle, lower financial and business services demand and a reduction in tourism, we expect the growth of service exports to fall into negative territory during 2009.

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% Year	2005	2006	2007	2008f	2009f	2010f
Consumer spending	3.0	6.0	7.8	2.9	0.4	2.8
Government consumption	-3.2	0.1	2.3	2.6	3.1	2.0
Fixed investment	4.1	7.0	4.2	3.9	-1.2	9.3
Stockbuilding (% GDP)	-0.3	-0.1	1.0	0.8	0.6	0.8
Domestic demand	1.5	5.9	7.8	2.7	0.1	4.5
Exports	10.6	9.4	8.0	3.4	-9.5	7.4
Imports	8.0	9.1	8.8	3.2	-9.0	7.6
GDP	7.1	6.7	6.3	3.3	-2.0	4.3
Industrial production	2.5	2.2	-1.6	-5.9	-5.9	-6.3
Unemployment (%)	5.6	4.8	4.0	3.5	4.8	4.9
Retail sales	6.8	7.3	12.8	9.6	-2.7	5.2
Consumer prices	0.9	2.0	2.0	4.3	2.0	3.6
Goods & services balance (% GDP)	12.4	11.4	10.6	10.2	8.8	9.1
Budget balance (% GDP)	1.0	4.0	7.7	-3.0	-3.5	3.3
HKD/USD	7.77	7.77	7.80	7.80	7.80	7.80
3-month money (%)	3.1	4.3	4.3	2.4	1.0	0.6
Prime rate (%)	6.2	7.9	7.6	5.2	5.0	5.0

Source: HSBC

India

Feeling the pinch

India, despite being viewed as a relatively closed economy has not been able to escape the aftershocks of global financial crisis. Last year the equity market fell by nearly 60%, the rupee by more than 20% and, to top it all, fears are growing that the country has slipped into the grip of a credit crunch.

A large part of the underlying liquidity shortage (despite some recent improvements) emanates from the significant FDI withdrawals. These totalled cUSD13.9bn through to the first week of December (or c2% of GDP) against a net inflow of USD16.2bn over the same period in 2007. The central bank intervention that followed, aimed at slowing the pace of rupee depreciation, only aggravated these trends. Moreover, the availability of overseas funds Indian corporates has become an issue, forcing them to look to domestic sources of capital.

The central bank has reacted through both conventional and non-conventional measures. Since September there has been a 350bp reduction in the cash reserve ratio, a 250bp reduction in repo rate and a 100bp reduction in the Statutory Liquidity ratio. A fiscal stimulus of around 2.5%

of GDP has also been announced over this fiscal year and we expect some further fiscal loosening to be delivered in 2009 as well.

However, doubts surround the effectiveness of monetary policy within the current environment. And while fiscal measures should yield better immediate results, the announced stimulus of around USD24bn remains far below the hundreds of billions announced by other countries in the world. Given the lags surrounding the implementation and eventual effectiveness of the policy response, the effects of the deep and synchronised developed world recession will be felt in the near term. Some support is, however, likely to be derived from softening oil prices and rising domestic crude oil and gas production.

Given this more troublesome environment, we have revised down our FY2009 and FY2010 growth forecasts to 7% and 6% respectively (from 7.5% and 7.3% previously), but expect a rebound to 8% in FY2011. Some further monetary easing is also expected over the next six months with the repo and reverse repo rates hitting 5.5% and 3.75% respectively.

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% Year

	2005	2006	2007	2008f	2009f	2010f
GDP*	9.1	9.8	9.3	7.7	5.9	7.6
GDP (Financial year)**	9.4	9.6	9.0	7.0	6.2	8.0
Consumer prices	4.0	6.3	6.4	8.3	6.8	4.7
Current account (% GDP)	-1.9	-1.1	-1.1	-3.0	-2.0	-1.5
Budget balance (% GDP)	-4.2	-3.6	-2.9	-4.7	-5.0	-4.5
Broad money supply	16.1	19.6	21.8	20.8	15.0	18.0
INR/USD	44.0	45.1	40.7	43.2	45.0	44.3
3-month money (%)	5.7	7.0	8.3	9.3	7.9	6.5
Prime rate (%)	10.5	11.3	13.0	12.8	11.8	11.3

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

Indonesia

Shifting gears

Although economic growth has held up well through most of 2008 – clocking above 6% – the outlook for 2009 has turned gloomier. For starters we are going to see the lagged impact of the 150bp worth of policy tightening delivered by Bank Indonesia between May-October 2008. On the face of it 150bp might not sound that much, but the effective tightening has been much more given the rise in bond yields, mortgages rates and so on. Second, although Indonesia's direct exposure to the developed world is relatively limited, it is heavily integrated into the Asian region, which is succumbing to the synchronised recession in the developed world. Third, Indonesia remains a big commodity exporter, and the collapse in prices is leading to large terms of trade losses.

At the same time inflation has turned in the country, having peaked in September at 12%. The pace of decline has however been slow compared with other countries in the region, probably reflecting the persistent strength of demand through 2008.

Nevertheless a deteriorating growth outlook and slowing inflation has been enough to prompt Bank Indonesia to embark upon an easing cycle, cutting rates by 25bp to 9.25% in December. We look for an additional 125bp of easing to come through in 2009, taking rates to a low of 8% by Q209.

Unlike a host of other countries in the region, Indonesia is probably the only major economy not to announce significant additional fiscal measures to support economic growth. This, we think, reflects the government's realisation that fundraising would be rather difficult within the current financial crisis.

Indonesia also has elections in 2009 – parliamentary in April and the Presidential poll in July. Although there are a number of contenders, the incumbent President Yudhoyono still remains the most likely winner at this stage.

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% Year	2005	2006	2007	2008f	2009f	2010f
Consumer spending	4.0	3.2	5.0	5.2	3.9	4.6
Government consumption	6.6	9.6	3.1	9.2	6.9	5.6
Fixed investment	10.9	2.5	9.2	12.2	4.6	5.8
Stockbuilding (% GDP)	1.9	1.6	0.0	0.3	0.3	0.2
Domestic demand	6.3	3.2	4.1	7.6	4.3	5.0
Exports	16.6	9.4	8.0	12.8	0.2	7.7
Imports	17.8	8.6	8.9	13.2	0.5	8.4
GDP	5.7	5.5	6.3	6.1	3.8	5.0
Industrial production	4.6	4.6	4.7	4.0	2.7	4.9
Unemployment (%)	10.6	10.8	9.7	9.3	9.7	9.9
Consumer prices	10.5	13.1	6.4	10.2	7.7	7.8
Current account (% GDP)	0.1	3.0	2.4	-0.7	-1.6	-1.2
Budget balance (% GDP)	-0.5	-0.9	-1.3	-1.2	-1.8	-1.5
IDR/USD	9840	9135	9176	10106	13375	13500
3-month money (%)	9.0	11.9	8.1	8.9	8.3	8.1

Source: HSBC

Malaysia

An outperformer?

Despite its heavy dependence on exports and its various political issues, Malaysia proved one of the more resilient Asian economies in 2008 and we expect this to remain the case in 2009.

This is not to say that GDP growth won't slow further. We think it will, largely as a result of much softer export growth which is likely to ultimately turn negative. Nevertheless, the knock-on effects to the domestic economy should be limited, with private consumption and investment growth both expected to remain positive in the first half of 2009, before picking up in the second half of the year.

While private investment is vulnerable in the short-term, the government plans a significant boost to development spending, focussed on "high impact" projects, in order to offset much of the likely weakness. It has also announced a reduction in employee pension contributions and additional funding for the provision of low cost housing.

Talking of policy measures, it is worth bearing in mind that Bank Negara Malaysia (BNM) was the only Central Bank in the region not to raise rates in 2008 and it doesn't face a credit/real estate bubble that is in danger of bursting. The financial sector appears to be in good health as well and it is interesting to see that a slowdown in lending growth by international banks has, so far, been offset by stronger lending by local banks. BNM has recently cut its already low policy rate (from 3.5% to 3.25%) and further reductions are likely. We are looking for another 75bp of cuts over the next few months.

The country's strong connections with the Middle East should ensure that Foreign Direct Investment holds up relatively well, while our analysis suggests that the negative impact of lower palm oil prices feeds through only after a considerable lag.

Overall, we are looking for GDP growth to slow below 2% in mid-2009, before rebounding in the second half of the year and averaging 5.6% in 2010 as a whole.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	9.1	6.5	10.8	8.6	5.0	5.5
Government consumption	6.5	4.9	6.6	9.3	4.2	4.0
Fixed investment	5.0	7.9	9.6	4.6	5.9	7.8
Stockbuilding (% GDP)	-0.7	0.0	-1.2	-2.6	-2.5	-2.4
Domestic demand	5.5	7.5	8.3	6.0	5.3	6.0
Exports	8.3	7.0	4.2	5.6	-1.5	5.7
Imports	8.9	8.5	5.4	6.0	-0.1	6.1
GDP	5.3	5.8	6.3	5.5	2.8	5.6
Industrial production	5.2	7.1	3.1	3.4	-2.3	3.5
Unemployment (%)	3.6	3.3	3.2	3.4	3.7	3.5
Consumer prices	3.0	3.6	2.0	5.7	3.9	2.5
Current account (% GDP)	15.0	16.3	15.6	15.6	9.9	9.0
Budget balance (% GDP)	-3.6	-3.3	-3.2	-4.5	-5.0	-4.0
MYR/USD	3.78	3.64	3.41	3.38	3.69	3.70
3-month interbank rate (%)	2.9	3.7	3.6	3.6	2.8	2.8

Source: HSBC

Philippines

Quite resilient, considering

Over the course of 2008, the Philippines found itself caught up in the two major cross-currents that swept the global economy: the surge in inflation over the first half and the financial bust over the second. Yet, surprisingly, the economy keeps on chugging along, even if growth risks are visibly rising. Years of stringent macroeconomic management are finally paying off: a smaller budget deficit and improved external balances are providing, at last, some much needed stability.

Yet, there is more to the Philippines' success story: remittances. And it is here that the major risks lie for the economy in 2009. After growing at a rapid pace in recent years, and pushing the current account into comfortable surplus and fuelling domestic consumption, the sharp deceleration in world trade growth and recession in developed economies will take their toll on remittances over the coming year. All told, we are forecasting an almost 20% drop in remittances.

Not quite as bad as perhaps some might think, and reflective, ultimately of the remarkable diversification, both geographically and professionally, of Overseas Filipinos. The slowdown in remittances will take its toll on household spending and therefore overall growth.

Still, remittances should remain resilient enough to offset the country's chronic trade deficit and therefore help stabilize the currency. This, in turn, will provide the central bank with some room to cut rates, although, unlike other countries, stubborn inflation will be a constraint. While externally the country appears far less vulnerable than in the past, another risk is re-emerging: the government's revenue effort appears to be slipping once more, which, coupled with promises for more spending, should weigh on the budget deficit, pushing it out to well over 2% of GDP. So far, so good in the Philippines, but it would be a shame to waste hard won gains now with more profligate spending.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	4.8	5.5	5.8	4.4	2.6	4.4
Government consumption	2.3	10.4	8.3	4.6	6.9	6.6
Fixed investment	-6.6	3.8	11.8	3.9	3.3	4.6
Stockbuilding (% GDP)	0.3	0.5	0.5	0.9	0.9	0.9
Domestic demand	2.0	5.7	6.9	4.8	3.0	4.5
Exports	4.8	13.4	5.6	1.2	-5.9	3.5
Imports	2.4	1.9	-4.5	0.0	-4.0	3.5
GDP	5.0	5.4	7.2	3.9	2.0	4.8
Industrial production	5.3	4.6	3.4	2.9	-0.4	4.8
Unemployment (%)*	8.0	7.9	7.2	7.7	8.7	7.7
Consumer prices	7.7	6.3	2.8	9.5	5.0	4.3
Current account (% GDP)	2.0	4.5	4.3	4.4	3.0	0.9
Budget balance (% GDP)	-2.7	-1.1	-0.2	-1.1	-2.6	-2.7
PHP/USD	55.0	50.9	45.2	46.0	52.9	53.0
3-month money (%)	6.1	5.2	3.4	5.6	5.0	6.0

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

Singapore

Going, going, gone?

Singapore has already seen real GDP contract in three of the last four quarters and we expect the next two to see falls as well, with the year-on-year rate dropping to a low of -4.6% in Q1 2009.

What was originally a downturn stemming largely from the pharmaceutical sector has spread far wider than we expected. Of particular concern is the fact that services showed their first seasonally adjusted quarter-on-quarter drop (of 1.4%) for more than five years in Q3. Also of note is the performance of the electronics sectors, where exports have shown a successive weakening.

Looking ahead, with the weakness of external demand set to intensify over the next few months it is hard to see the economy turning around any time soon and the persistent weakness of output is likely to translate into bigger job losses.

Nevertheless, all is not lost. History suggests that when the economy does turn, it turns sharply.

Indeed by the end-2009 we are looking for year-on-year GDP growth of 2.6%, averaging 5.5% in 2010 as a whole.

Several factors are likely to help the economy. First, the policy environment will become more supportive, with interest rates (which are market determined) dropping lower still, while fiscal policy will be eased further in the January budget. Second, exporters will benefit from improving regional demand during the second half of 2009. Third, it is hard to believe that pharmaceuticals output will continue to drop at a 30-50% year-on-year rate for too much longer. Fourth, the sharp drop in commodity prices will drive CPI inflation much lower, helping support real incomes. We expect the headline rate to fall from a recent high of 7.5% to 2% by mid-2009.

Overall, while the next 6-9 months is going to be very challenging, we believe the ingredients for an end-2009 recovery are falling into place.

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% Year	2005	2006	2007	2008f	2009f	2010f
Consumer spending	3.4	3.3	4.6	4.7	4.3	5.2
Government consumption	9.4	10.7	2.3	9.5	4.0	4.0
Fixed investment	-1.5	13.5	20.2	17.9	1.0	6.7
Stockbuilding (% GDP)	-2.1	-1.9	-1.9	0.8	0.8	0.8
Domestic demand	6.3	7.7	9.2	14.0	3.0	5.5
Exports	11.6	11.0	6.6	5.0	-2.5	3.5
Imports	11.3	11.4	6.8	9.3	-1.2	3.4
GDP	8.1	8.2	7.7	1.9	-1.2	5.5
Industrial production	9.5	11.9	5.9	-2.6	-3.2	6.0
Unemployment (%)	3.2	2.7	2.2	2.1	3.2	3.7
Consumer prices	0.5	1.0	2.1	6.6	2.6	3.0
Current account (% GDP)	23.7	21.8	24.3	15.3	11.2	11.0
Budget balance (% GDP)	-0.8	-0.2	0.6	1.7	-1.0	-3.0
SGD/USD	1.67	1.58	1.49	1.43	1.69	1.70
3-month money (%)	2.2	3.4	2.7	1.5	0.6	1.3
Prime rate (%)	5.3	5.3	5.3	5.4	5.4	5.4

Source: HSBC

South Korea

Struggling on several fronts

The financial turmoil has engulfed markets both at home and abroad. Korean November exports fell 18% from a year ago while October industrial production also contracted 2.4% y-o-y. In recent years, with domestic spending remaining weak, exports have driven Korea's GDP growth, but the engine is now stalling in the face of a worldwide economic slump. We thus revise down our GDP growth forecasts to 2.7% and -0.6% for 2008 and 2009, respectively, as Korea's shipments to the US are likely to plunge over the coming months.

Inflation pressures (CPI) cooled for the fourth straight month in November as a steep decline in oil prices and sluggish domestic demand outweighed the upside pressure on imported inflation resulting from a weaker Korean won.

Indeed, the depreciation of the won has had no meaningful impact on price pressures, opening the door for the Bank of Korea to cut rates. We now

expect another 175bp of interest rate cuts in the coming two quarters, bringing the target call rate to 2.25% year-end, representing a low point since the authorities adopted the current monetary regime in 1999.

In early November, against the backdrop of a developed economy recession, the Korean government unveiled a 14 trillion-won stimulus package on top of the previous tax cut and extra budget spending amounting to 3.4 percent of GDP. But confidence remains subdued in Korea, since excessive leverage amongst households, small firms, and banks is putting further downside pressure on the economy. Financial sector stress is now forcing financial institutions to cut back on the provision of credit, pushing down private consumption and investment spending growth.

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% Year	2005	2006	2007	2008f	2009f	2010f
Consumer spending	3.6	4.5	4.5	1.7	0.0	3.8
Government consumption	5.0	6.2	5.8	4.4	6.0	4.7
Fixed investment	2.4	3.6	4.0	-0.7	-2.5	5.6
Stockbuilding (% GDP)	0.0	0.1	-0.4	0.0	0.0	0.0
Domestic demand	3.3	4.5	4.0	1.7	0.1	4.5
Exports	8.5	11.8	12.1	6.2	-6.1	5.0
Imports	7.3	11.3	11.9	5.1	-5.7	5.1
GDP	4.2	5.1	5.0	2.7	-0.6	4.6
Industrial production	6.3	8.4	6.8	7.1	2.8	5.8
Unemployment (%)	3.7	3.5	3.2	3.3	3.5	3.5
Retail sales	4.3	4.9	4.4	3.1	4.0	4.5
Consumer prices	2.8	2.2	2.5	4.7	2.9	3.2
Current account (% GDP)	1.9	0.6	0.6	-0.7	1.5	2.0
Budget balance (% GDP)	0.4	0.4	3.8	1.1	-1.7	-1.8
KRW/USD	1026	950	929	1135	1300	1200
3-month CD yield (%)	3.6	4.5	5.2	5.3	2.7	3.3
5-year treasury yield (year-end)	4.7	4.9	5.4	5.7	5.5	5.4

Source: HSBC

Taiwan

Relying on fiscal measures

After growing at 5.4% y-o-y in the first half of 2008, the island is finally heading towards a period of recession as the economy contracted by 1% y-o-y in Q3 2008 following a 4.6% growth rate in Q2. The October and November data suggest that the economy is deteriorating rapidly and we have therefore revised our 2008 and 2009 GDP growth forecasts to 1% and -0.7%, respectively.

Exports, the main driver of the economy, are widely expected to contract further in the coming quarters after a more than 18% y-o-y contraction in November. The key question, therefore, is will domestic demand collapse in 2009? Private consumption and investment spending are unlikely to rebound for at least two quarters given a rising unemployment rate and business closures. However, the domestic banking sector and monetary conditions remain healthy with no signs of wholesale funding problems so far. In addition, we expect the fiscal stimulus packages to kick in towards the end of the second quarter (if

implemented successfully), and these are estimated to be equivalent to 4% of GDP in 2009.

Meanwhile, the CBC has adopted a rather aggressive monetary easing pattern since late-September 2008. Inflation is likely to continue its easing trend and may turn into deflation during 2009 as cost-push and domestic demand driven pressures fade. This will provide more room for the CBC to cut the re-discount rate to 1.25% by Q2 2009 in order to boost business and consumer confidence.

Overall, we expect growth to trough in Q1 2009 and begin to recover gradually in the wake of the stimulus packages and more favourable base effects (vis-à-vis 2008). The government still has plenty of room to implement further fiscal measures if necessary, as the budget deficit is expected to hit 3.2% of GDP in 2009, which is well below the 6.4% deficit seen during the 2001 recession.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	3.0	1.8	2.3	-0.4	1.1	3.0
Government consumption	1.1	-0.4	0.9	1.1	2.9	3.0
Fixed investment	1.2	0.9	1.9	-7.4	2.3	6.8
Stockbuilding (% GDP)	0.1	0.3	0.4	0.5	0.4	0.2
Domestic demand	1.7	1.5	2.2	-1.6	1.5	3.6
Exports	7.6	10.3	8.8	2.8	-6.9	6.9
Imports	3.8	5.6	3.8	-0.7	-5.5	5.7
GDP	4.2	4.8	5.7	1.0	-0.7	4.7
Industrial production	4.6	5.0	8.1	0.5	-2.6	7.4
Unemployment (%)	4.1	3.9	3.9	4.1	5.0	4.4
Consumer prices	2.3	0.6	1.8	3.4	-1.6	1.4
Current account (% GDP)	4.9	7.2	8.6	6.9	5.6	5.3
Budget balance (% GDP)	-0.6	-0.6	-0.3	-0.5	-3.2	-1.8
TWD/USD	32.3	32.6	32.7	31.7	35.8	36.0
3-month CD (%)	1.4	1.6	2.0	2.1	0.7	1.0
Prime rate (%)	3.7	4.0	4.1	4.3	2.6	2.6

Source: HSBC

Thailand

Double whammy

Political uncertainty has remained centre-stage over the last six months, weighing on sentiment and helping push growth to a 3-year low of 4% in the third quarter. Indicators for Q4, such as exports, are also rather weak and so we look for growth to average 3.5% in 2008.

The coming year, however, is going to be even more challenging. For one there is little hope that a quick solution will be found to the political impasse, depressing business confidence and hitting both domestic and foreign investment. Additionally, rising economic and political uncertainty means that households will probably retrench despite real income gains on the back of rapidly declining inflation. Unfortunately, exports will fail to come to the rescue this time around given the synchronised collapse in demand from the developed world and growing signs of caution from the Asian consumer. At the same time tourism - which makes up roughly 10% of the

economy - is also going to suffer given recent events in the country. Overall, growth is expected to be fragile in 2009, with our forecast being just 0.6% – the weakest since the dark days of the Asian crisis.

As can be expected, policymakers have brought out their tool kit to shore up confidence and support growth. The Bank of Thailand started its easing cycle with a bang, cutting rates by 100bp to 2.75% in early December. More rate cuts are definitely on the cards and, as such, we are pencilling in 100bp of additional easing during Q1, with rates bottoming at 1.25% in Q2 and remaining flat thereafter until the middle of 2010. The government is not holding back either, announcing a THB 100bn package (1.1% of GDP), which we think will largely be spent on infrastructure. The policy stimulus will filter through to the economy with a lag, which should see growth in 2010 bounce to 4%, against the backdrop of an improving regional outlook.

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% Year	2005	2006	2007	2008f	2009f	2010f
Consumer spending	4.9	3.0	1.6	2.4	2.0	3.5
Government consumption	11.4	2.4	9.2	-0.8	8.6	5.6
Fixed investment	10.5	3.9	1.3	1.7	1.4	6.3
Stockbuilding (% GDP)	2.0	0.3	0.1	1.7	1.3	1.2
Domestic demand	7.5	1.3	2.0	3.8	2.1	4.4
Exports	4.2	9.1	7.1	6.2	0.0	4.3
Imports	8.9	3.3	3.4	7.2	1.9	4.9
GDP	4.7	5.2	4.9	3.5	0.6	4.0
Industrial production	5.2	6.0	6.2	7.6	2.8	4.3
Unemployment (%)	1.9	1.5	1.4	1.3	1.6	1.8
Consumer prices	4.5	4.6	2.2	5.8	0.3	2.9
Current account (% GDP)	-4.3	1.1	5.9	0.2	2.0	1.6
Budget balance (% GDP)	0.3	1.2	-2.3	-0.7	-2.8	-3.3
THB/USD	40.6	37.6	34.7	34.0	37.4	37.5
3-month interbank rate (%)	3.3	5.2	4.0	3.5	1.9	1.6

Source: HSBC

Vietnam

From inflation to growth

The policy focus in Vietnam has shifted rapidly from fighting inflation just a few months back to providing support to economic growth. The central bank has taken aggressive easing action by slashing interest rates by 400bp to 10% and cutting the cash reserve ratio by 500bp to 6% over a six week period starting 20th October, while a number of measures have also been undertaken to improve bank liquidity and credit availability to firms. The government is not holding back either, planning to boost spending by USD1bn (1% of GDP) in the infrastructure and export-oriented sectors.

Although these measures should help avert a hard landing, the growth outlook remains rather bleak. For one, exports, which make up 70% of GDP, are expected to crumble given the synchronised recession in the developed world. Additionally domestic demand is expected to take a breather, largely on account of lower investment. Part of this is a spill-over from export weakness, but at the same time foreign direct investment - which

makes up 20-25% of total investment - is forecast to halve. Overall, we expect GDP growth to average 5.4% in 2009 – a 10-year low – compared with an expected 6.4% in 2008.

Just as inflation went up dramatically in 2008, it is expected to fall with as much vengeance in 2009, as high commodity prices drop out of the annual comparison. In addition, weaker growth should help contain underlying price pressures. We look for inflation to hit 5% by the middle of 2009 and then head up gradually, reaching its long-term average of 11% by the end of 2010.

We think that further monetary easing is likely and expect the base rate to hit a low of 7.5% in Q1 2009. This, together with improving regional outlook, should see growth bounce back in 2010. But for the Vietnamese dong some depreciation is expected in 2009 as foreign direct investment and remittance flows weaken.

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% Year

	2005	2006	2007	2008f	2009f	2010f
Consumer spending	7.3	8.3	9.6	7.3	6.0	6.8
Government consumption	8.1	8.6	9.0	5.8	6.5	5.8
Fixed investment	9.7	9.9	23.0	13.5	7.0	9.0
Exports - Goods	22.5	22.1	22.7	29.9	-3.0	13.1
Imports - Goods	15.7	33.4	32.6	35.0	-7.9	10.0
GDP	8.4	8.2	8.5	6.4	5.4	6.6
Industrial production	25.5	16.0	16.7	15.2	9.0	13.6
Unemployment (%)	5.3	4.8	4.6	4.8	5.4	5.2
Consumer prices	8.3	7.5	8.3	23.1	9.6	10.1
Current account (% GDP)	0.4	0.5	-10.0	-12.3	-7.6	-5.7
Budget balance (% GDP)	-4.9	-5.0	-5.0	-4.0	-5.5	-4.8
VND/USD	15866	16006	16096	16613	17125	17200
Short-term lending rate (%)	7.8	7.8	8.3	9.0	7.5	8.0
5-year interest rate (%)*	8.8	8.3	8.7	9.0	7.5	7.5

Note: * end-year. Source: HSBC

Disclosure appendix

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