

News Release

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HSBC: HONG KONG FIRMS EYE CHINA ECONOMIC SHIFT AMID TRADE CAUTION *City's Firms World's Most Upbeat on China Over Medium Term on Economic Rebalancing*

Caution among Hong Kong corporates about near term prospects for global trade growth has not dimmed expectations of a broad business boost from China's anticipated shift up the economic value chain, according to HSBC's Trade Forecast survey.

While trade confidence in the city has fallen to its lowest since 2009, Hong Kong firms are the most upbeat among all survey respondents about exporting to China over the next six months as the rebalancing of the world's second biggest economy from low-cost manufacturing hub to a higher value-added, consumer-driven model gathers pace.

"Hong Kong is well positioned to benefit from China's rebalancing from investment towards consumption," Albert Chan, Head of Commercial Banking, Hong Kong, HSBC, said.

"Businesses in Hong Kong stand to gain from changing Mainland policies and a move towards higher-value purchases. Since China is moving towards a more knowledge-based economy, Hong Kong should continue to capitalise on its strengths in technological innovation and its skilled workforce, which are the keys to secure its pre-eminence as a trade hub into the long term."

Modelled by Oxford Economics, the biannual HSBC Trade Forecast is designed to help businesses identify trends and capitalise on growth opportunities in the medium term.

The latest report shows Hong Kong's Trade Confidence Score (TCS) fell to 102 in the second half of 2015 from 124 in the first half of the year, while the global TCS fell to 120 from 124 over the same period.

But medium term prospects are underpinned by the structural economic shift fuelling China's demand for finished goods rather than just inputs for assembly and re-export.

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Some 43% of Hong Kong firms expect to trade most with China in the coming six months, up from 25% in April, and 68% expect Asia to be the most important trade region in the world, 20 points up on April's score. This reflects the development of China's economy from a "commodity importer-manufactures exporter" to a more balanced economy in which consumer goods form an increased share of imports.

This provides an important impetus for Hong Kong, which sends over half its merchandise exports to the Mainland. Though supply-chain trading is still crucial for China's – and Asia's – trade prospects, China itself has become a significant end-market.

In terms of sector contribution, exports of industrial machinery from Hong Kong are expected to be the main driver, accounting for 37% of the growth in exports between 2016 and 2020. Much of the increase reflects expected sales to China.

Hong Kong exporters are also slightly more positive about prospects for business growth in emerging markets, including the Middle East, North Africa and sub-Saharan Africa.

And as the recovery in the US, UK and Europe regains momentum, regional trade will receive a further boost. The report expects growth in global merchandise trade volumes will recover to around 3% in 2016, with growth picking up further to 5% a year by 2018-20.

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Notes to editors:

About the HSBC Trade Forecast - Modelled by Oxford Economics

Oxford Economics has tailored a unique service for HSBC which forecasts bilateral trade for total exports/imports of goods, based on HSBC's own analysis and forecasts of the world economy to generate a full bilateral set of trade flows for total imports and exports of goods, and balances between 180 pairs of countries.

Oxford Economics employs a global modelling framework that ensures full consistency between all economies, in part driven by trade linkages. The forecasts take into account factors such as the rate of demand growth in the destination market and the exporter's competitiveness. Exports, imports and trade balances are identified, with both historical estimates and forecasts for the periods 2014-16, 2017-20 and 2021-30. Sectors are classified according to the UN's Standard International Trade Classifications (SITC) and grouped into 30 sector headings. More information about the sector modeling can be found on

<http://www.globalconnections.hsbc.com/>

HSBC Trade Confidence Survey

The Trade Confidence Survey (TCS) is a quantitative indicator of the short-term outlook for global trade. The survey is the largest of its kind, and conducted on behalf of HSBC by TNS. Over 6,300 businesses globally -- from small and mid-market to large corporations -- are interviewed about their expectations towards global trade and business growth over the next six months. In the second half of 2015, the survey data collection method changed to online in 11 markets: Australia, Brazil, China, France, Germany, Hong Kong, Mexico, Poland, Singapore, UK, and USA. The past data has been calibrated to account for this change and to preserve the trends.

About HSBC Commercial Banking

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