

AUSTRALIA'S TRADE SECTOR LOOKS TO GREATER CHINA FOR GROWTH, SAYS HSBC TRADE CONFIDENCE INDEX

****Australian importers and exporters see trade volumes stabilising****

****China and Southeast Asia are Australia's top markets for trade growth in next three months****

****Risks remain in foreign exchange volatility, demand for products and non payment by customers****

Despite their pessimism on the outlook for the global economy over the next three months, Australian importers and exporters see significant upside in Australia's proximity to the emerging markets of Asia, in particular China, according to a new regional trade survey – the HSBC Trade Confidence Index.

The HSBC Trade Confidence Index asked 2,100 trade-oriented businesses in seven different countries (300 in Australia) about their three-month outlook on: trade volumes; buyer and supplier risks; the need for trade finance; and the impact of foreign exchange and government regulations on their businesses.

According to Andrew Skinner, Head of Trade and Supply Chain at HSBC Bank Australia, "Australia is entrenched in the global economy and continues to be impacted by international uncertainty, however the HSBC Trade Confidence Index highlights the opportunity that may end Australia's slump sooner rather than later – the link to Greater China and South East Asia."

Tim Harcourt, Chief Economist for the Australian Trade Commission agreed, saying, "Australia's amazing recession-dodging continues this week with new evidence of how China's role in regional trade is helping Australia. According to the HSBC Trade Confidence Index, the overall fall in demand for Australian exports globally has been counteracted by the strong economic performance of China."

The broader outlook

The majority (55%) of Australian companies surveyed see the global economic outlook declining in the next three months, with only Hong Kong more pessimistic (65%).

In terms of the outlook for trade volumes, however, Australian importers and exporters are more moderate. Twenty-five per cent expect an increase in trade volumes and 47 per cent see trade volumes remaining constant (28 per cent see them declining). In bearish Hong Kong 46 per cent said they expect volumes to decline in the next three months whereas in Vietnam and mainland China, 54 per cent and 42 per cent of respectively expect trade volumes to increase.

"Most Australians traders are evenly split in terms of where global trade will be in the next 3 months, although nearly half think that it has stabilised, which might indicate that the worst is behind us after a tough 12 months," said Tim Harcourt.

Australia's trade sector looks to Greater China for growth, says HSBC Trade Confidence Index/2

According to Andrew Skinner at HSBC, this is where China's continuing demand becomes important. In the Mainland, the government's stimulus measures are likely to drive renewed trade activity around commodities, raw materials and other goods and services that are required to support infrastructure projects and fuel domestic demand.

Regional benefits

It's this proximity to China and Asia's emerging markets that Australia's trade sector sees as offsetting the global contraction. Three out of five (57%) Australian importers and exporters are already doing business with China and almost a third cites China as the most promising area for growth in trade over the next three months. Over half (54%) of Australian businesses are doing business with Southeast Asia, and almost a quarter (22%) see it as their most promising growth opportunity in the next quarter. Only five per cent expect growth in Western Europe (including the UK) and just eight per cent see it in North America (the US and Canada) over the same period.

According to Tim Harcourt, "China's bamboo shoots are helping Australia rather than green shoots in the USA. China is definitely helping Australia with over two-thirds of traders already in China and one third seeing China as the place where they'll get an increase in trading opportunities over the next three months, followed by South East Asia and the rest of Asia. Australia used to worry about the Tyranny of Distance. The HSBC Trade Confidence Index shows that the Power of Proximity rules now, as regional trade in Asia is helping Australia dodge the worst that the GFC can throw at us."

Outlook on buyer and supplier-related risks

Australian businesses will continue to watch the trade environment carefully, however. While the majority of businesses surveyed across Asia were unconcerned about the risk of suppliers not honouring their trade agreements increasing in the next three month, views differed on the risk of payment default by buyers, with Australian companies the most concerned in the region. Over one-third of Australian respondents (36%) are concerned buyer payment default risk will increase in the next three months, followed closely by those in India (34%) and Hong Kong (31%).

When asked what they would do to cover themselves from non-payment risk, greater use of trade finance through their banks was cited as the top strategy by businesses in Australia (26%), Singapore (16%), the UAE (27%) and India (56%). Almost a quarter of Australian businesses (23%) would also seek to mitigate risk by splitting orders and reducing exposure per transaction. In Hong Kong, nearly one-fifth (17%) said they would ask for advance payment from buyers, while one-third of respondents in mainland China (32%) and Vietnam (32%) said they would rely on export credit insurance.

"More than ever, suppliers are anxious about getting paid on time – or getting paid at all and buyers are

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less likely to make payments before they are certain that all terms in the trade agreement are met," said Andrew Skinner at HSBC.

"In the past, much of the focus on working capital financing was on receivables, but this is largely post-shipment and a relatively small part of the overall fulfillment process. Today, suppliers want working capital support up front. This is because buyers are only making payments against sound documentation or sometimes only after they receive the goods. Traditional trade finance solutions are making a comeback due to the increased security they provide to buyers and sellers."

Outlook on the need for trade finance

While over half of respondents in Vietnam (57%) and India (53%) expect their trade finance needs to increase in the next three months, Australian businesses were the most confident in the region that their need for trade finance would remain the same. Three quarters of Australian respondents see their need for trade staying constant while 14 per cent said their need for trade finance would increase.

When asked where they would obtain financing, about half of respondents in Australia (48%), mainland China (54%), Hong Kong (50%), UAE (49%) and India (47%) said they expect their banks to meet their trade finance needs. In addition, 38 per cent of Australian respondents plan to rely on self-funding, along with 41 per cent of respondents in both Singapore and Vietnam.

Outlook for the impact of foreign exchange on business

Fluctuating exchange rates (40%) are cited as one of the top likely challenges for trade growth by Australia businesses surveyed for the HSBC Trade Confidence Index.

In Australia, 23 per cent saw foreign exchange rates disadvantaging their business, while 35 per cent saw it benefiting their business. Other countries were more polarized. Sixty-one percent of respondents in Vietnam, 32 per cent in Singapore and 30 per cent in Hong Kong expected foreign exchange rates to adversely impact their businesses in the next three months, while 48 per cent of respondents in India and 39 per cent in UAE expect to benefit from exchange rates.

According to HSBC's Andrew Skinner, "Today foreign exchange risks are greater as businesses contend with a highly volatile foreign exchange market and as a result, hedging has become a key solution for many companies engaged in trade.

"For Australia and parts of Asia, in anticipation of increased trade with Greater China, the recent initiative in China to make the renminbi a regional currency to transact and settle cross-border trade will help customers reduce foreign exchange risk."

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Fluctuating exchange rates were rated as the top likely barriers to trade by respondents in Vietnam (62%), Hong Kong (54%) and India. This compared with a lack of product demand being the top challenge for trade growth cited in Australia (62%), Singapore (48%) and mainland China (43%).

Conclusion

Tim Harcourt concluded, "There's no doubt, times have been tough trade-wise in the GFC and global trade is still expected to fall by at least 11 per cent in 2009. But the HSBC Trade Confidence Index shows that traders are coping and are better placed in this region – stretching from Shanghai to Hong Kong and Ho Chi Minh City, and then Singapore to Sydney, and on to Delhi to Dubai. However, the good news from China in particular and the region as a whole shows that trade-wise Australia, despite the GFC, has found ourselves in the right place at the right time."

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Notes to editors

Footnotes

*The HSBC Trade Confidence Index was conducted by research company TNS in April –May 2009.

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