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GLOBAL ECONOMIC INDICATORS TOO FRAGILE FOR GREEN SHOOTS OF RECOVERY, SAYS HSBC GLOBAL INVESTMENTS

Despite indications that the risk of a prolonged global recession has diminished, global economic indicators remain too weak and fragile to infer there are green shoots of recovery, according to Charles Genocchio, head of global investments at HSBC Bank Australia.

Genocchio, in his monthly market outlook Global Investment Views, argues that although confidence is improving in isolated areas from their low point, global economic growth is still fragile and the unemployment situation continue to deteriorate. For example, US unemployment rose to 9.4% in May, the highest level since September 1983.

He points to contracting economies worldwide, as 2009 growth forecasts continue to be revised downward, and as sluggish domestic demand provides little support for waning export demand. In the US, for example, the consensus forecast for 2009 GDP growth was revised down by 0.2% to -2.9% year on year in May, while the Eurozone economy is expected to shrink by 3.8% this year, indicating that the growth outlook remains weak despite the recent improvement in confidence.

Following a strong rally in Asia (the MSCI Asia ex Japan index rose by more than 14% in May, making it one of the top performing regions globally), Genocchio believes that the strength of these markets is reflected in valuations and it is difficult to see them making further progress unless developed markets also advance.

“The sustainability of the rally rests, in part, on improvements in the global macro situation as it is difficult to envisage Asian equities continuing to appreciate if major developed markets weaken. From a macro perspective, the Asian region displays better fundamentals and economic data than other parts of the world. However, following the recent rally, valuations appear to already reflect this relative economic strength.”

HSBC Global Investment’s preferred asset class from a top down view remains corporate debt. Genocchio says despite the recent market rally, valuations remain attractive, and both investment grade and high yield are likely to benefit from extensive government and central bank support which will further enhance the lending environment for corporates.

Within currencies, Genocchio maintains a moderate negative view on the GBP relative to the euro due to the likely negative impact of quantitative easing measures adopted by the Bank of England. Standard & Poor’s recent downgrade of the credit outlook for the UK adds to the country’s weak outlook.

Economic indicators too fragile for green shoots of recovery, says HSBC Global Investments/2

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Media enquiries to:

Kate Epworth on +61 2 9006 5682 /

+61 418 700 172 /

kateepworth@hsbc.com.au

Daniel Pigott on +61 2 9006 5396 /

+61 422 908 994 /

danielpigott@hsbc.com.au

Notes to editors

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