

17 May 2011

AUSTRALIA LAGS BEHIND IN THE RUSH FOR RMB, SAYS HSBC RESEARCH

****Australian trade sentiment softens in the first half of 2011****

****Greater China the most promising region for growth among Australian importers and exporters****

****Use of the RMB to settle trade gaining momentum globally****

Australia's importers and exporters are ill-prepared for the rise of the Chinese currency and are lagging the region in their use of the Renminbi, according to the latest HSBC Trade Confidence Index. Despite the significant business opportunities available to Australian businesses by virtue of the internationalisation of the Renminbi (RMB), just six per cent of Australian traders expect to use the RMB to settle trade in the next six months. By contrast, the RMB has emerged as a top 3 trade settlement currency in the next six months among traders overall, led by traders in Greater China, the Middle East and Southeast Asia, and overtaking the pound sterling for the first time.

The HSBC Trade Confidence Index is the world's largest trade confidence survey covering a total of 21 markets – including key economies in the Asia-Pacific region, MENA, Latin America, North America and Europe. The current survey comprises six-month views of 6,390 exporters, importers and traders from small and mid-market enterprises on: trade volume; buyer and supplier risks; the need for trade finance; access to trade finance; and the impact of foreign exchange on their businesses.

Australia's Trade Confidence Index fell to 107 (110 in 2H10), in line with an easing in the six month outlook for trade volume, positioning Australia at the lower end of the countries surveyed and well below the global average of 114. Confidence was highest in the emerging markets of India (140), Saudi Arabia (132) and Mexico (125), and sentiment among traders in the world's top export markets, namely, China (114), Germany (107) and the US (111), was also solid with the China and US indices strengthening by three points each.

Andrew Skinner, head of trade and supply chain for HSBC in Australia, said: "With China now the world's second largest economy, and the world's largest exporter, the rapid internationalisation of the RMB is a story that Australian traders ignore at their peril.

"We believe that by 2015 over half of Chinese trade, some US\$2 trillion annually, will be settled in RMB – representing over US\$40 billion for Australia alone. With China as Australia's largest trading partner, it's important that businesses here prepare themselves for this seismic shift in the global financial system.

"For businesses that have receivables or payables in RMB, the ability to conduct trade in the local Chinese currency allows traders to achieve a natural currency hedge, eliminating FX risks and costs and promoting more efficient transactions.

Australia lags behind in the rush for RMB, says HSBC research /2

“As RMB becomes more commonplace in the future, Australian traders that do not have the capability to transact in RMB may be disadvantaged if Chinese traders prioritise RMB-ready businesses.

Likewise, those who have RMB capabilities could find that they can negotiate improved trading terms with Chinese suppliers and purchasers.

“The HSBC Trade Confidence Index has consistently shown that, for Australia’s importers and exporters, Greater China is both the top region for existing trade and the most promising region for trade growth. But Australian traders are now at risk of being left behind as the rest of the world jumps on the RMB bandwagon,” Skinner said.

Key Australian findings of the HSBC Trade Confidence Index included:

- Thirty per cent of respondents see Greater China (including Hong Kong, Taiwan and Macau) as the most promising region for trade growth in the next six months, followed by Southeast Asia (19%) and New Zealand (17%).
- South East Asia and Greater China remain Australia’s key trading regions, cited by 60 and 48 per cent of respondents respectively as regions they are currently trading with.
- Australian traders see the US dollar as the dominant trade settlement currency for the next six months, with 85 per cent of Australian traders anticipating it will be their primary or secondary trade settlement currency, followed by the Australian dollar (41%) and the Euro (36%).
- Just one per cent of respondents expect to use the RMB as their primary currency, while five per cent say they will use RMB as their second currency.
- Thirty-seven per cent of traders nominate fluctuating exchange rates as the top barrier to growth, down from 45 per cent in the second half of 2010.
- Almost a third of respondents (29%) have an unfavourable outlook on the impact of exchange rates, up significantly from 21 per cent in 2H10. The same proportion (29%) have a favourable outlook on the impact of exchange rates on their business, a one point decline from 2H10.
- Confidence in the global economy is increasing among Australian importers and exporters, with 46 per cent expecting it to grow in the next half year (up from 39% in 2H10) and 15 per cent expecting a decline (down from 24% in 2H10).
- Just over half of respondents (51%) expect trade volume to increase in the next six months, down from 57 per cent in 2H10.
- Around a quarter (26%) expect their need for trade finance to increase in the next six months, up slightly from 24 per cent in 2H10.
- A growing number of respondents (55% up from 51%) nominate their banks as the channel they will use to meet their trade financing obligations, with 34 per cent self-funding, down 4 points.

Global Results

The HSBC Trade Confidence Index indicated that exporters and importers around the world remain optimistic about trade prospects in the next six months despite increasing concerns about rising costs, reduced profitability and volatile demand. Key findings include:

- Overall, traders around the world indicated the RMB would become one of their top 3 most used trade settlement currencies in 2011.
- The RMB overtook the pound sterling for the first time, being ranked the 3rd highest for primary currency usage globally.
- The use of the RMB to settle trade in the next six months is gaining momentum being led by traders in Greater China (45%), MENA (13%) and Southeast Asia (16%).
- Developed markets recognise the emerging markets as a driver of growth and plan to expand their relationships with them in the near term, with more than a quarter (27%) of respondents in the US looking to Greater China for growth while over a tenth (14%) of traders in China see further growth potential with the US in the next six months.
- Traders across the globe identified Greater China as the most promising region for growth followed by Europe and Latin America. In Asia, traders from Hong Kong (50%), Indonesia (44%), Malaysia (43%) and Australia (30%) see Greater China as the most promising region for growth while twenty three per cent in North America, 11 per cent in South America, 24 per cent in MENA and 16 per cent in Europe see the best prospects in Greater China.
- The outlook for Germany's trade sector held steady at 107 with 31 per cent and 26 per cent of respondents forecasting Central/Eastern Europe and Greater China, respectively, as the most promising regions to expand trade.
- Inflation is bringing new headwinds that are increasingly becoming a concern for traders globally with nearly half (45%, +10) of respondents in the US, 38 per cent in Southeast Asia (+7) and 22 per cent in Australia (+3) citing costs of shipping, logistics and storage as a major barrier to growth.
- Rising interest rates continue to trouble traders in Greater China (34%, 0) and Southeast Asia (30%, +14).
- Traders in North America (31%, +9) and South America (25%, +15) worry about tightened margins, while traders in MENA are most concerned about weak demand (38%, +10) and buyer default risk (37%, +10).
- Fluctuating exchange rates continue to be an ongoing barrier to growth for those in Greater China (62%, +7), Southeast Asia (59%, +15), North America (47%, +4), South America (40%, +3) and MENA (33%, +12).

Andrew Skinner concluded: "The role of Greater China as the new axis for global trade continues to grow as traders in both developed and emerging markets look to Asia for the greatest growth potential."

ends/more

Media enquiries to:

Kate Epworth on +61 2 9006 5682 / +61 418 700 172 / kateepworth@hsbc.com.au

Notes to editors

HSBC Bank Australia

In Australia, the HSBC Group offers an extensive range of financial services through a network of 33 branches and offices. These services include personal and commercial financial services, financial planning, trade finance, treasury and financial markets, payments and cash management and securities custody. Principal HSBC Group members operating in Australia include HSBC Bank Australia Limited (ABN 48 006 434 162 and AFSL 232595) and The Hongkong and Shanghai Banking Corporation (ABN 65 117 925 970 and AFSL 301737). HSBC is marketed worldwide as ‘the world’s local bank’.

About the HSBC Trade Confidence Index

The results were used to calculate an index range from 0 to 200, with 200 representing the highest confidence level, 0 representing the lowest and 100 being neutral. The HSBC Trade Confidence Index covers a total of 21 markets – including key economies in the Asia-Pacific region, MENA, Latin America, North America and Europe. It is the largest trade confidence survey globally. The current survey comprises six-month views of 6,390 exporters, importers and traders from small and mid-market enterprises on: trade volume; buyer and supplier risks; the need for trade finance; access to trade finance; and the impact of foreign exchange on their businesses. Please see the attached report HSBC Trade Confidence Index – May 2011 for more information. The survey was conducted by research company TNS between February to March 2011.

ends/all