

Canada: Weekly Notes

Key events for the week of January 17 – 21 2011

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Jan 17	Int'l Securities Transactions – Nov (8:30)	C\$9.5B		C\$6.0B	Minor	<p>▶ The flow of issuance out of Canadian corporate, crown and provincial entities abated in November. There was a continued flow of deals but at a significantly reduced rate of issuance. A cursory calculation suggests approximately half the debt deal flow seen in the previous month. On that basis, our forecast is for a significantly reduced level of net foreign interest in Canadian securities. Net sales of money market are expected but still strong foreign interest in Canadian equity. Data on Japanese portfolio managers in November find that they were significant sellers of Canadian debt (~C\$1.2bn) but showed interest in Canadian stocks (~C\$200mn).</p>
Jan 18	Bank of Canada Rate Decision (9:00)	1.00%	1.00%	1.00%	Major	<p>▶ Our forecast is for the overnight target rate to be left unchanged at 1.00%. For the post-meeting statement we believe there is room for the BoC to revise up its expectations for growth in keeping with the improved outlook for the US economy, on the back of the extension of tax cuts, and a pickup in the global economic picture led by increased manufacturing activity. In terms of risk, the Canadian dollar will draw some ink out of the BoC quill. Recall that the BoC harbors concerns for the potential dampening effects of a persistently strong Canadian dollar on exports. And there remains the potential that European sovereign debt concerns could trigger financial strain. Closer to home, the rapid and continued accumulation of household debt as consumers respond to low borrowing rates is thought to be testing the patience of the Bank. Total household debt to disposable income has galloped along, rising from 130% in Q108 to 148% at present. Hand in hand with an unimpaired banking system, we remain impressed by the rate of growth for M3, which is running at 6.5% y/y.</p> <p>▶ Today's decision and post-meeting statement will be followed by the release of the monetary policy report tomorrow.</p>
Jan 19	Manufacturing Sales M/M – Nov (8:30)	1.7%		0.8%	Med	<p>▶ Our forecast is for manufacturing sales to rise by 0.8% m/m in November, supported by growth in the petroleum and coal, auto, furniture and machinery categories.</p>

Continued on page 2

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Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
Jan 19	BoC Monetary Policy Report (10:30)					<ul style="list-style-type: none"> ▶ We expect to see the BoC revise up its near-term growth forecasts for 2011. Uncertainty remains but higher frequency numbers coming out of North America point to an improving trend and greater traction in 2011. Coupled with a global pickup in manufacturing activity, the picture painted is in contrast to the rather uneven nature of the data available to the BoC at the time of the last quarterly MPR. All eyes are on the output gap and whether or not the BoC is inclined to revise its assumptions tighter and bring forward its expectations for its closing. This is a necessary precursor if our expectations for a March rate hike are to be met. The rapid and continued accumulation of household debt as consumers respond to low borrowing rates will also test the patience of the Bank. In terms of market impact, in keeping with our forecast for a March rate increase of 25bps, we would look for the BoC to move its base case economic story forward sufficiently as to warrant such a move. ▶ A press conference with BoC Governor Carney is scheduled for (11:15 ETD).
Jan 20	Leading Indicators M/M – Dec (8:30)	0.3%		0.2%	Minor	<ul style="list-style-type: none"> ▶ Our view of a slowing in the rate of growth for the LEI to 0.2% from 0.3% is predicated on a significant decline in housing starts in December although at the time of writing we had yet to see what the realtor data had to say about existing home sales. Money supply, stock prices and manufacturing are expected to make positive contributions. Business employment and the outlook on manufacturing are expected to be flat.
Jan 21	Retail Sales M/M – Nov (8:30)	0.8%		0.9%	Med	<ul style="list-style-type: none"> ▶ We expect significant gains in the new vehicle and gasoline sales categories courtesy of higher pricing metrics for both. Stripping out the impact of both vehicle and petrol sales, core sales grow at a modest 0.2% m/m. Apparel is expected to be the primary drag on the report given significant price reductions, which will affect dollar sales. Removing the impact of clothing and shoes boosts total sales to 1.1% m/m. Other areas of the report are expected to see decent gains across most categories.
	Retail Sales X-autos M/M – Nov (8:30)	0.9%		0.4%	Med	<ul style="list-style-type: none"> ▶ We are forecasting sales x-gasoline and x-auto at 0.2%/m/m.

Source: HSBC Canada

Disclosure appendix

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