16 April 2010

Economics
Canada

HSBC Global Research

Canada: Weekly Notes

Key events for the week of April 19–23, 2010

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Apr 19	Int'l securities transactions – Feb (8:30)	CAD11.8B		CAD6.5B	Med	▸ A couple of big-ticket foreign currency bond deals were printed in February, including a USD3.0B Ontario issue. A quick tally of Bloomberg deal data showcased ~CAD6.0bn in deal flow over the reporting period. Softer equity markets may have prompted some trimming of Canadian equity positions, although money market funds may have benefited from these flows. Boring is beautiful, in our view. Foreign investor interest in Canada has accelerated sharply over the past year, jumping from CAD29bn in 2008 to CAD109bn in 2009.
Apr 20	Bank of Canada rate announcement (9:00)	0.25%	0.25%	0.25%	Major	▸ The non-decision decision. We are looking for no change in the overnight rate, with the post-meeting statement drawing the bulk of the market response. It is here that we expect the BoC to introduce some updates to its economic base case, a full airing of which is to take place on Thursday. A couple of elements in the story that need addressing include forecasts for both the domestic and US economies, which have been performing ahead of plan. Core inflation has also been running stronger than expected, although headline inflation remains in keeping with forecasts. And although dollar parity has been breached, we believe that the BoC is harboring a more-relaxed view on the currency and the threat it poses to the recovery than in the past. Since May 2009, export volumes are up 14%, while the currency has continued to trend higher. To us, this suggests that the state of global economic growth (growing/contracting) is more important than the value of USD/CAD in determining the state of Canadian external demand. ▸ We expect that the BoC will maintain its conditional pledge to hold rates at 0.25% through the end of Q2/10. The tendency of the market to aggressively price any perceived changes in the BoC's monetary stance potentially threatens the bank's ability to control the monetary story until it is ready to begin hiking rates. At this juncture, why muddy the waters or confuse the message and risk a massive market response? By and large, markets are already well-priced for the expected onset of rate hikes in Q3/10, with some pricing consideration given to an earlier June rate-hike scenario. HSBC continues to forecast a Q3/10 rate hike. ▸ We believe that the BoC will refrain from moving away from its balanced risk assessment at this time. Inflation has not run away and appears likely to stabilize slightly below the 2% target in the next months. Inflation expectations are well-anchored around the BoC's 2% inflation target. An abundance of excess capacity and robust productivity rates suggest that while the BoC under estimated how fast the economy would grow in Q4, so too did it underestimate the rate at which the economy can potentially increase output.

Continued on page 2

Source: HSBC Canada

Stewart Hall *
Economist
HSBC Securities (Canada) Inc.
+1 416 868 7523
stewart_hall@hsbc.ca

View HSBC Global Research at:
http://www.research.hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to NYSE and/or NASD regulations.

Issuer of report: HSBC Securities (Canada) Inc.

Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
Apr 21	Wholesale sales M/M – Feb (8:30)	3.0%	1.2%	0.6%	Med	▸ Wholesale sales have been running particularly strong over the past year, rising 9.5% since June 2009, led largely by a significant 44% bounce in motor vehicles sales. A big part of the bounce in wholesale autos has been a function of a number of large auto industry companies exiting bankruptcy protection in the summer of 2009. But so too has demand been rather brisk, as Canada has been producing and shipping some of the better-selling vehicle models. Still, after having seen wholesale sales jump 3.0%m/m in January, we expect that sales took a bit of a breather in February, advancing by just 0.6%m/m, held back by declines in household demand, building supplies, and pharmaceuticals.
Apr 22	Leading Indicators M/M – Mar (8:30)	0.8%	0.7%	0.6%	Minor	▸ Of the index constituents, we are forecasting that the headline will be driven by continued strength in the housing component (existing home sales remain strong, although housing starts slipped slightly in March), retail trade, stocks, money supply, and the US leading indicators index. The index wild card remains the disposition of durable goods orders, which provided a significant boost to the February number with a 6.2%m/m rise in new orders that is not expected to be replicated in the March report.
	Bank of Canada Monetary Policy Report (10:30)					▸ The bank has a fair bit of work to do, in our view. Growth forecasts need to be adjusted both for the domestic and US economies that have both been operating above plan. Core CPI is running above forecast, as well, but in the next couple of months, significant increases in the base index last year will help to take some of the top side off of overall CPI. As well, lots of excess capacity continues to slosh around not only in the Canadian economy, but throughout much of the developed world. In Canada, above-forecast GDP growth has been offset by above-target gains in productivity. On a net basis, while growth was plentiful in Q4/09 and into 2010, it is expected to have done little to close the bank's estimates surrounding the output gap, given a robust resurgence in productivity. In the absence of any apparent worries for bottlenecks or capacity constraints in the economy, the BoC may be somewhat more tolerant of a core inflation rate that is running ahead of January forecasts. ▸ Yet at the same time, the risks associated with the bank's economic outlook in January, "the persistent strength of the Canadian dollar and the low absolute level of US demand continue to act as significant drags on economic activity in Canada" have been seen to recede somewhat. A stronger currency has seemed to do little to deter external demand, while the US economy has managed to generally surprise on the upside across a host of key data points. ▸ But so too do risks remain. Considerable excess economic capacity in both Canada and among developed world economies, the global economic recovery remains nascent in many respects (Europe continues to founder, US economic growth in Q4/09 was largely a function of changes to inventories), the Canadian banking industry remains reticent to lend to businesses, while unofficial measures of US M3 show outright contraction, and until now, the US economic recovery has largely been a jobless recovery. All of this opens the door to a more conservative approach to policy than may necessarily be priced into markets. ▸ Bank of Canada Governor Carney will meet the press at 11:15 to discuss the report.
Apr 23	CPI M/M – Mar (7:00)	0.4%	0.2%	0.2%	Major	▸ Gasoline prices, which have been problematic in the past, were up a comparatively minor 0.8%m/m in March and should add considerably less than 0.1ppt (about 0.03) onto the headline. Travel services (introduced into the CPI every Jan-Mar period), which figured prominently in February with a near 18%m/m rise, is forecast to be up a comparably minor 2% in March, adding little more than 0.03ppt. Apparel is expected to rise by more than 2.0% m/m and contribute 0.1%ppt to the headline as new seasonal lines hit store shelves at full prices. Food prices are expected to be moderately higher, adding 0.03ppt. Recreation is expected to have risen by 1.0%m/m, adding about 0.1ppt. Discounting in the auto industry is expected to have come to the fore as auto dealers continue to compete for market share, in the process knocking nearly -0.1ppt out of the headline. All in, we are forecasting CPI up 0.19ppt in March.
	CPI Y/Y – Mar (7:00)	1.6%	1.6%	1.6%	Major	▸ The Bank of Canada may be inclined to take a slightly more relaxed view on inflation. I) A base effect in the index is expected to take some of the top side off the CPI in May and June. II) The existence of a fairly large output gap. Although the economy grew 5.0% in Q4/09, productivity grew an even greater 5.6%, suggesting that the economy continues to run with significant slack. In that, pricing pressures may be more transitory, pricing shock rather than inflation derived from capacity constraints and economic bottlenecks. To wit, energy prices were running at 4%y/y as of February; services a more palatable 2.0% (although this is inflated by travel services), and by contrast, goods prices are running at a depressed 1.1%y/y.
	Core CPI M/M – Mar (7:00)	0.7%	0.0%	0.1%	Major	
	Core CPI Y/Y – Mar (7:00)	2.1%	1.9%	2.0%	Major	

Economic diary – Canada (cont'd)

Retail sales M/M – Feb (8:30)	0.7%	1.1%	0.4%	Med	Retail sales are expected to have been boosted by significantly higher vehicle unit sales. While the data have yet to be released, and vehicle mix is unknown, but preliminary data suggest that unit sales were up 7.0%m/m. However, ramped-up auto sales came on the back of significant discounting, which will reduce the upside dollar impact on sales. Olympics fever may have also contributed to sales of related apparel and merchandise. The expiration of the government's home renovation tax credit is expected to prompt a plunge in hardware and specialized building center sales. Essentially, the 1.8% run-up in x-auto January sales helped to cannibalize February's numbers. So too a 15%m/m jump in home furnishings in January is expected to be largely unwound in February. The comparatively soft retail sales number should not be read as a broader change in the disposition of the Canadian consumer to consume.
Retail sales X- autos – Feb (8:30)	1.8%	0.8%	-0.4%	Med	

Source: HSBC Canada

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Stewart Hall

Important Disclosures

This document has been prepared and is being distributed by the Research Department of HSBC and is intended solely for the clients of HSBC and is not for publication to other persons, whether through the press or by other means.

This document is for information purposes only and it should not be regarded as an offer to sell or as a solicitation of an offer to buy the securities or other investment products mentioned in it and/or to participate in any trading strategy. Advice in this document is general and should not be construed as personal advice, given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. If necessary, seek professional investment and tax advice.

Certain investment products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. Investors should consult with their HSBC representative regarding the suitability of the investment products mentioned in this document and take into account their specific investment objectives, financial situation or particular needs before making a commitment to purchase investment products.

The value of and the income produced by the investment products mentioned in this document may fluctuate, so that an investor may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Value and income from investment products may be adversely affected by exchange rates, interest rates, or other factors. Past performance of a particular investment product is not indicative of future results.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

** HSBC Legal Entities are listed in the Disclaimer below.*

Additional disclosures

1. This report is dated as at 16 April 2010.
2. All market data included in this report are dated as at close 15 April 2010, unless otherwise indicated in the report.
3. HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

Disclaimer

** Legal entities as at 31 January 2010*
'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc, Toronto; HSBC Bank, Paris branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Dusseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt S.A.E., Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; 'GR' HSBC Pantelakis Securities S.A., Athens; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv, 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler A.S., Istanbul; HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, HSBC Bank Brasil S.A. - Banco Múltiplo, HSBC Bank Australia Limited, HSBC Bank Argentina S.A., HSBC Saudi Arabia Limited.

Issuer of report
HSBC Securities (Canada) Inc.
70 York Street, 8th Floor
Toronto, Ontario M5J 1S9, Canada
Telephone +1 416 868 7523
Fax +1 416 364 2543
Website: www.research.hsbc.com

This document has been issued by HSBC Bank Canada, HSBC Securities (Canada) Inc., and/or their affiliates (collectively "HSBC"). The material contained in this document is for the information of clients of HSBC and is not for publication to other persons, whether through the press or by other means. Unless otherwise stated, any pricing information given in this document is indicative only, is subject to change and does not constitute an offer to buy or sell any securities, currency or related financial instrument at any price quoted. HSBC is not liable for any errors or omissions in the content or transmission of this email. . Where this document contains market updates/overviews, or similar materials (collectively deemed “Commentary” in Canada although other affiliate jurisdictions may term “Commentary” as either “macro-research” or “research”), the Commentary is not an offer to sell, or a solicitation of an offer to sell or subscribe for, any currency or related instrument. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient in the preparation of the Commentary. The Commentary is derived from sources HSBC believes to be reliable but which HSBC has not independently verified. No representation or warranty is made with respect to the completeness or accuracy of the Commentary. HSBC, its affiliates, their directors, officers, employees and agents: (1) are not liable for any direct or consequential loss arising from use of or reliance on the Commentary, and (2) may have a long or short position in, or otherwise participate in markets for, the currencies and securities mentioned in the Commentary.
This document may be distributed in the United States solely to "Major US Institutional Investors" (as defined in Rule 15a-6 of the US Securities Exchange Act of 1934); such recipients should note that any transactions effected on their behalf will be undertaken through HSBC Securities (USA) Inc. in the United States.
In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) (“SFA”) and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. In Hong Kong, this document has been distributed by The Hongkong and Shanghai Banking Corporation Limited in the conduct of its Hong Kong regulated business for the information of its institutional and professional customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited makes no representations that the products or services mentioned in this document are available to persons in Hong Kong or are necessarily suitable for any particular person or appropriate in accordance with local law. All inquiries by such recipients must be directed to The Hongkong and Shanghai Banking Corporation Limited. In Korea, this publication is distributed by either The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") or The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch ("HBAP SEL") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act (“FSCMA”). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. Both HBAP SLS and HBAP SEL are regulated by the Financial Services Commission and the Financial Supervisory Service of Korea. In the UK this report may only be distributed to persons of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC is authorized and regulated by Secretaría de Hacienda y Crédito Público and Comisión Nacional Bancaria y de Valores (CNBV). HSBC Bank (Panama) S.A. is regulated by Superintendencia de Bancos de Panama. Banco HSBC Honduras S.A. is regulated by Comisión Nacional de Bancos y Seguros (CNBS). Banco HSBC Salvadoreño, S.A. is regulated by Superintendencia del Sistema Financiero (SSF). HSBC Colombia S.A. is regulated by Superintendencia Financiera de Colombia. Banco HSBC Costa Rica S.A. is supervised by Superintendencia General de Entidades Financieras (SUGEF). Banistmo Nicaragua, S.A. is authorized and regulated by Superintendencia de Bancos y de Otras Instituciones Financieras (SIBOIF).
In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its “wholesale” customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient.