

Canada: Weekly Notes

Key events for the weeks of August 16 - 27, 2010

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Aug 17	Int'l Securities Transactions – Jun (8:30)	CAD23.2B		CAD8.5B	Minor	<p>▶ June's securities transactions report is expected to show a significant amount of activity given that it coincides with a heavy calendar of bond retirements. Although we are looking to see about CAD6.0bn in bonds maturing, we feel it will be more than offset by an equally heavy calendar of new issuance out of Canadian provinces and domestic financials. When combined with foreign interest in outstanding bond issues, which has been averaging CAD7.0bn a month, we are looking for a net pick up in foreign purchases of CAD8.5bn, primarily executed through bond purchases.</p> <p>▶ Boring is the new beautiful and against the backdrop of credit event in other areas of the world in June, there wasn't much more boring than a Canadian bond. As of May, YTD, net bond purchases by foreigner investors stood at CAD44.3bn vs. CAD2.0bn for money market, and CAD7.6bn for stocks.</p>
	Manufacturing Sales M/M – Jun (8:30)	0.4%		-0.1%	Med	<p>▶ Coming out of the factory gate, primary metals, petroleum and coal product prices were lower in June which will have the impact of depressing dollar receipts. Export data on the month hinted at significant declines for some primary metals, as well as slightly softer crude export volumes. Yet, while the trade story is less than inspiring, it was hard to ignore the compelling picture painted by the orders numbers. In May, new orders jumped 2.5%/m which was complimented by a 1.3% rise in unfilled orders. But on closer examination we find that growth in both categories was primarily the result of a translation effect as the value of aerospace orders (valued in USD) were converted into a weaker CAD for reporting purposes. That said, we expect sales out of the aerospace category are expected to have been strong in June helping to cushion the blow of weaker auto sales as May's burst of activity begins to moderate in front of the seasonal summer shutdowns. A similar story for food and clothing sales which are both expected to be weaker following strong results in May.</p>
Aug 19	Leading Indicators M/M – Jul (8:30)	1.0%		0.6%	Med	<p>▶ The leading indicators number has continued to throw off some respectable readings despite some significant swings in its constituents. At 0.6%, our forecast for the LEI in July is well off the pace established over the previous 12 months which on average was growing by 1.0%/m. Gone are the sizeable increases in the housing index that defined 2009 along with a significant slowdown in the pace of new orders for durable goods. Lurching equity markets have not helped the outlook either.</p>

Continued on page 2

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>

Issuer of report: HSBC Securities
 (Canada) Inc.

Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
Aug 19	Wholesale sales M/M – Jun (8:30)	-0.1%		0.3%	Med	<p>▶ Some significant moves in USD/CAD over the course May and June that is apt to inject some volatility into the number set given that a good slug of wholesale activity is cross border. Recall that volume sales in May were down -1.5% while dollar sales were flat. Most of the discrepancy was accounted for by a weaker Canadian dollar. In June, we expect to see apparel sales in decline as April's surge in sales continues to moderate. Building supply sales are expected to feel the effects of a slowing housing market. Metal product sales expected to be softer following May's 7.3%/m surge in sales. On the upside, we are expecting that motor vehicle sales are going to be stronger in keeping with solid demand for some popular vehicle lines along with improved machinery sales. The drag associated with a 30%/m decline in agricultural supplies (flooding in the Prairies), which knocked over CAD400m in sales out of the May report, is not expected to be repeated in June.</p>
Aug 20	CPI M/M – Jul (7:00)	-0.1%		0.6%	Med	<p>▶ We expect base effects and the HST will be playing havoc with the CPI number set in July. Headline consumer prices are going to be pushed higher by the onset of the harmonized sales tax (HST) that came into effect on July 1st. The HST (Ontario and BC) will affect approximately 17% of household purchases of products and services which will now be hit with a provincial sales tax. A short lived environmental levy also added to the cost of goods in July but its impact is a short lived transitory event.</p> <p>▶ Underneath the headline reading on inflation, gasoline prices are expected to have risen by close to 3%/m in July, adding nearly 0.15ppt onto the headline index. Peak summer prices for travel services are expected to add another 0.05ppt onto the headline. Food prices expected to be up marginally, although the focus will invariably fall on the behaviour of bakery products going forward as poor weather conditions impact wheat and invariably their impact winds its way into higher prices for donuts. Higher apparel prices will add 0.05ppt. On the downside, seasonal price effects are expected to drop the costs associated with purchasing of leasing a vehicle, knocking as much as 0.1ppt off the headline.</p>
	CPI Y/Y – Jul (7:00)	1.0%		1.9%	Med	<p>▶ The onset of the harmonized sales tax in the Provinces of BC and Ontario, will add roughly 0.4ppt onto the year over year inflation rate. July's year on year readings will also be impacted by a significant base effect as the CPI index slipped from 115.1 to 114.7 in July 2009.</p> <p>▶ From a policy standpoint the BoC will look past the impact of the HST. That said, monetary policy isn't about what prices were doing in July 2010 anyways, but what are the expectations for prices in July 2012. CPI for all intents and purposes, is a historical look back on where prices were, rather than where prices are going.</p>
	Core CPI M/M – Jul (7:00)	-0.1%		0.0%	Med	<p>▶ The core reading on CPI will expunge the impact of higher gasoline prices as well as changes to the tax structure from the reading on inflation.</p>
	Core CPI Y/Y – Jul (7:00)	1.7%		1.7%	Med	<p>▶ From a policy standpoint, the CPI dissected of its energy component seems to pose little in the way of an inflationary problem for the BoC. Goods prices came crashing to ground in June, running at a rate of 0.1%/y with the balance of the pricing pressure found in services where prices rose by 1.7%/y.</p>
Aug 24	Retail Sales M/M – Jun (8:30)	-0.2%		0.3%	Med	<p>▶ To be certain, May's retail sales data disappointed and so too is it likely to be the case in June. Yet as we scrapped away at the May report and the muck associated with volatile swings in petrol purchases (price effects) and building materials, what we found was a core sales number that had remained largely intact. In June, it is going to be less so. Front and centre, consumer confidence took a hit on the back of the unfolding sovereign debt crisis unfolding in Europe at the time. So too will there be price effects hitting dollar sales as both apparel and gasoline prices cascaded lower.</p> <p>▶ However, all is not lost. On the upside, remarkably strong employment gains in Q2 and continued wage growth are expected to underpin consumption. Building centre sales after two months of significant declines are expected to have stabilized.</p>
	Retail Sales x-auto M/M – Jun (8:30)	-0.1%		-0.3%	Med	<p>▶ New vehicle sales on a unit basis were up 2.5%/m in June. And while the report provides no data on dollar sales figures, we find that the categorical breakdown and vehicle mix provide some insight into what dollar sales may look like. For June, there was a preponderance of sales in the SUV and truck categories (+3.2%/m) which tend to come in at higher MSRP's than is the case with passenger cars. So too do overseas passenger cars tend to have higher pricing points than domestics. On a unit basis passenger car sales rose by 1.6%/m of which the bulk came in the domestic category. In terms of the retail sales report, we are looking for dollar sales to be up 2.2%/m, helped along by the preponderance of unit sales in the SUV category although somewhat hampered by a -0.9%/m decline in prices.</p> <p>▶ X-gasoline sales are down -0.1%/m</p>

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 13 August 2010.
- 2 All market data included in this report are dated as at close 12 August 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 Múltiple, 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. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. 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.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Securities (Canada) Inc. HSBC Securities (Canada) Inc. is a wholly owned subsidiary of, but separate entity from, HSBC Bank Canada. Member CIPF. ©Copyright 2010. MICA (P) 142/06/2010 and MICA (P) 193/04/2010