

Canada: Weekly Notes

Key events for the week of December 20-24, 2010

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
Dec 20	Wholesale sales M/M – Oct (8:30)	0.4%	0.7%	1.1%	Med	<ul style="list-style-type: none"> ▶ The brisk pace of sales recorded for US wholesalers in October provided some insight into what may be expected in the Canadian segment, as a good slug of sales activity is cross-border. A near 3% m/m pickup in export volumes over the course of the reporting month also helped support our view of a strong sales number for Canadian wholesalers. Tempering this view is the presence of a stronger Canadian dollar vs. the USD in October, which will negatively affect US dollar receipts that are converted to CAD for reporting purposes.
Dec 21	CPI M/M – Nov (7:00)	0.4%	0.3%	0.4%	Major	<ul style="list-style-type: none"> ▶ Several factors are behind the steady increase in prices in November, much of which is related to seasonal factors. ▶ Baked into the mix of our forecast are stronger auto prices, which should add as much as 0.4ppt to the index, as new model-year vehicles hit dealer lots at full MSRP. So too should food prices be significantly higher, adding 0.2ppt, as higher prices for imported fresh produce work their way into the consumer basket of goods. And gasoline prices were once again on the march in November, adding 0.1ppt to the index. ▶ Helping to offset some of this pricing pressure will be weaker prices for travel (low season), recreation, and apparel (seasonal discounting), which together should knock 0.3ppt out of the CPI index. Altogether, we forecast a 0.4% m/m jump in consumer prices (unrounded 0.44%).
	CPI Y/Y – Nov (7:00)	2.4%	2.3%	2.3%	Major	<ul style="list-style-type: none"> ▶ Despite the significant m/m rise in prices, the y/y measure is being held back by a significant base effect. Recall that in November 2009, the base jumped to 115.2 from 114.6. The impact dissipates in December. From a pricing story, gasoline, while well back of the highs, continues to contribute significantly to the y/y CPI story, accounting for nearly 0.4ppt of the overall increase in prices. ▶ From a policy standpoint, the BoC should fall back on the view that inflation expectations remain firmly wedded to the 1-3% inflation band, around which it targets a 2% inflation rate. Yet it is hard to ignore the contrasting pictures painted by US and Canadian inflation rates.
	Core CPI M/M – Nov (7:00)	0.4%		0.2%	Major	<ul style="list-style-type: none"> ▶ The core measure on prices will remove the inflationary effects of higher prices for fresh fruit, vegetables, and gasoline. For the forecast, we are looking for core CPI to have risen by 0.2% m/m.
	Core CPI Y/Y – Nov (7:00)	1.8%		1.6%	Major	<ul style="list-style-type: none"> ▶ Like the headline measure on consumer inflation, November's core y/y reading will be affected by the base effect associated with last November's jump in core prices. Based on our forecast for m/n core inflation of 0.2%, y/y inflation will run at 1.6%

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

Continued on page 2

Source: HSBC Canada

Economic diary – Canada (cont'd)

Date		Last	Median	HSBC	Impact	Comments
Dec 21	Retail sales M/M – Oct (8:30)	0.6%		0.5%	Med	▶ Consumer confidence has been declining since hitting a post-financial crisis high of 89.0 in Q1/10, although the current reading of 82.4 is not entirely out of context with pre-crisis readings on confidence. Still, while employment growth in the first half of the year was particularly robust, it has sagged considerably in the second half. That said, our expectations are for a modest pickup in sales, driven in large part by the purchase of petrol, which experienced a 3.3% m/m pricing increase in October.
	Retail sales x-autos – Oct (8:30)	0.4%		0.4%	Med	▶ We forecast sales x-gasoline and x-auto at 0.0% m/m.
Dec 23	GDP M/M – Oct (8:30)	-0.1%		0.3%	Major	▶ Our forecast is looking to see a strong pickup in manufacturing output, increased activity in the construction industry, a turnaround in resource-related industries (pipeline bottlenecks at the border with the US in September were resolved in October), and increased activity in financial services (existing home sales picked up smartly). Overall, service sector output should have grown 0.2% m/m, while goods-producing industries should have jumped 0.7% m/m. On that basis, our forecast is for the Canadian economy to have grown by 0.3% m/m (unrounded 0.34%) in October.
Dec 24	Christmas eve					▶ Bond and equity markets close early, at 13:00 Eastern time.

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 17 December 2010.
- 2 All market data included in this report are dated as at close 16 December 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., The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch.

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. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch.

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