

Down but up.

Canadian trade deficit (dec) persists. -CAD246mn

Canada international trade profile remains in a deficit. The trade balance at -CAD246mn for the month of December is slightly worse than the -CAD201mn (revised) recorded in November. The is roughly in line with the market median at -CAD100mn, but well back of our own forecast looking for a re-emergence of a trade surplus with our forecast for +CAD400mn.

And while deficit is a dirty word these days, the deficit is a function of a growing trade profile, which is to say that both imports and exports grew in December. Exports rose by 1.7% (volumes were up 2.1%*m/m*) while at the same time imports rose by 1.8% (volumes up by 1.2%*m/m*). An infinitely preferable outcome to an alternative that saw Canada pushing out a trade surplus on the back of declining trade volumes for both imports and exports.

Rising cross border trade volumes speak to rising levels of economic activity in both the US and Canada.

Driving exports were gains in the energy products category (+1.5%*m/m*), forestry (+1.0%), machinery and equipment (+3.4%) and a remarkable 8.1% jump in automotive exports. Sometimes it comes down to pure luck of the draw. Canadian made line up of vehicle models have proved to be top sellers in North America. On the down side, weakness was seen in agricultural exports (-1.9%) as rapeseed exports which rose 76% in the past two months dropped by 27%*m/m*. Industrial goods and materials (-1.1%) and consumer goods exports declined by -4.6%*m/m*.

For energy, exports followed the thermometer. As temperatures dropped energy prices rose and natural gas exports followed (+5.8) as the US northeast chilled, while crude petroleum was flat. Coal exports also surged, rising 9.2%. A mixed bag for metals exports with a near 17% rise in iron ore exports offset declines in copper (-13%) and nickel (-37.5%) - both metals that are deemed sensitive to the economic cycle.

Not to worry, the export declines seem in line with some moderation of rather significant surges in previous months. Aerospace figures prominently in the export rise with a 10% rise in aircraft, engines and parts exports.

Import strength came out of the energy (+5.4%, crude imports were up 17% - filling pipelines?), industrial goods and materials (+2.9%), machinery and equipment (+6.0%) and automotive (+3.4%) categories. Automotive imports saw parts increase by 11% suggesting domestic plant activity was on the rise in December ahead of seasonal shutdowns (today's parts become tomorrow's cars). Agricultural imports (-1.1%) and consumer goods (-8.7%) softened.

Net, net, there is a need to look behind the headline trade deficit number. At this juncture it is immaterial as to whether or not Canada is running a slight surplus or a slight deficit. What is central to the Canadian economic recovery is the trend towards consistently higher export volumes (volumes have been up in three of the past four reports, averaging an increase of 2.1%*m/m*). Imports have risen steadily save for one month in the last eight. Increased cross border activity speaks to overall increases in economic activity and economic recovery in North America. It is particularly important for a small open economy like Canada.

For Canada, which managed to smooth some of the harder edges of the economic downturn by offsetting a cratering in external demand from domestic demand sources, now needs to transition away from a reliance upon consumer and public demand on over to business and external demand if the economic recovery is going to be sustainable. Today's trade data is consistent with that transition.

Disclosure appendix

Analyst certification

The following analyst(s), who is(are) primarily responsible for this document, certifies(y) that the opinion(s), 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

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

This document does not provide individually tailored investment advice and should not be construed as an offer or the solicitation of an offer to buy or sell any securities or to participate in any trading strategy. The information contained within this document is believed to be reliable but we do not guarantee its completeness or accuracy. Any opinions expressed herein are subject to change without notice. HSBC may hold a position in, buy or sell on a principal basis or act as a market maker in any financial instrument discussed herein.

Analyst(s) are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

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. Chinese Wall 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.

Additional disclosures

- 1 This report is dated as at 10 February 2010.
- 2 All market data included in this report are dated as at close 10 February 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 22 October 2008*

'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; 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. 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 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) 177/08/2009