

Canadian current account deficit (Q4/09) narrows.

The C/A contributes to the overall theme of economic recovery.

The Canadian current account deficit shrunk in the final quarter of 2009, dropping from an upwardly revised -CAD13.8bn in Q3/09 down to -CAD9.8bn in Q4/09. At -CAD9.8bn, the result is back of the market median at -CAD8.5bn but just slightly wide of our own forecast looking for -CAD10.1bn.

Although wide of the median, the headline deficit is unlikely to spark any upset in markets.

The story behind the current account deficit was already fairly well fleshed out prior to the release with the bulk of the expected improvement in the current account deficit flowing from an improved trade picture. Energy exports helped push the balance of trade into a surplus of +CAD577mn. So too did a surge in the value of auto exports also up help heft the trade balance into the black. Between energy and autos, two of the categories hardest hit by economic recession, this is where one would expect to find the improvements as economic recovery in North America gains traction.

At CAD577mn, the surprise move to surplus for the trade balance is a significant improvement from the -CAD4.1bn deficit Canada was sitting on in Q3/09. The widening in the travel deficit of roughly -CAD50mn matches our expectations. So too did the normally volatile investment income category play ball in the fourth quarter, widening by a comparatively moderate -CAD300mn not far from our forecast of -CAD400mn.

Overall, the report contributes to the overall theme of economic improvement for Canada. For markets, particularly FX, the report will largely fail to register as a significant event. It is an improvement yes. But Canada at this time has little difficulty in funding its external liabilities given the generally pervasive view in the marketplace that while it may be a rather boring credit (Olympics aside), it is deemed to be an attractive credit with none of the exciting rating event risks that is associated with some of the European continental and island economies. Indeed, foreign investors snapped up nearly CAD28bn of Canadian securities in Q4/09. For the year, foreign investors lunched on a record CAD109bn of Canadian securities.

Against the backdrop of potential defaults percolating on the market's conscience, boring old Canada is the new beautiful. And the girls, well they know how to play hockey.

Disclosure appendix

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