

Canada: Weekly Notes

Key events for the weeks of May 24 – June 4, 2010

Economic diary – Canada

Date		Last	Median	HSBC	Impact	Comments
May 28	Current account (BoP) – Q1/10 (8:30)	-CAD9.8bn	-CAD7.3bn	-CAD7.9bn	Med	<p>► We expect that the Q1/10 current account will show significant signs of improvement, as the trade balance for goods continued to build on the previous quarter's slight surplus. For the forecast, we penciled in a trade surplus of CAD2.2bn, an improvement from the CAD380m in Q4/09. In other areas of the report, the travel deficit is expected to shrink by CAD450m, as the Vancouver Olympics sparked a 5.2% jump in foreign travelers to Canada, and many Canadians stayed at home. As is usually the case, the wild card for the report should be the disposition of investment income flows, which can swing wildly. On a net basis, it is expected that the deficit on investment income will have continued to widen, despite improved profits abroad for Canadian investors vs. the higher returns for foreign investors to be found in Canada. For the forecast, we assume that the investment income deficit widened by CAD350m in Q1/10. All in, we are looking for the current account deficit to have narrowed to minus –CAD7.9bn.</p>
May 31	GDP M/M – Mar (8:30)	0.3%		0.5%	Major	<p>► Canada entered the first quarter of 2010 like a lion and appears to be exiting it much the same. While February had the Olympics, March had the Para-Olympic Games, which by all accounts were well-attended. In turn, that suggests that those areas of the economy affected – culture/entertainment and food/accommodation – did not reset to pre-Olympic levels of activity. In other areas of the report, manufacturing shipments data were strong, with volumes rising 1.7%/m/m, suggesting that overall activity was brisk, a view helped along by busy cross-border activity, with goods export volumes up 2.3%/m/m. Employment in the natural resources sector was strong, suggesting that activity in this category continues to pick up speed, led by mining. However, natural gas remains an anchor, hampered by mild winter conditions and a commensurate pricing environment in keeping with abundant supplies amidst soft demand. The construction sector was busy. Employment was particularly strong in March (+21K). But so too did the manufacturing shipments report (Mar) mention strong sales of concrete and cement due to mild temperatures.</p>
	GDP Q/Q – Q1/10 (8:30)	5.0%		5.9%	Major	<p>► The Q1/10 GDP report should be a continuation of the recovery story. We expect that included in that story will be a continued improvement in external demand, as cross-border activity recovers and net trade begins to contribute positively to GDP. Since May 2009, export volumes are up 15%, incidentally at the same time that the currency has been appreciating, +16% vs. the USD. However, despite a robust headline print on GDP, one area of concern that we have in the area of business investment, plants/equipment and non-residential structures, which continue to lag behind the broader recovery. Business investment is an integral part of a balanced and sustainable economic recovery for Canada.</p> <p>► <i>Continued.</i></p>

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 FINRA regulations.

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
	GDP Q/Q – Q1/10 (8:30)	5.0%		5.9%	Major	<p>▶ Two things are clear to us. First, the Canadian consumer is hitting a debt wall. Consumer debt-to-disposable income is at a historically high 146%. Second, spending associated with the fiscal stimulus will come to a halt at the end of Q1/11. In turn, this suggests that both the consumer and government need to hand the economic football over to growing external and business demand.</p> <p>▶ Business demand has yet to recover. It is early into the recovery process – Q4/09 was the first quarter to see a material recovery in GDP – and business investment typically lags behind the process. On that basis, it is reasonable to expect that business investment may merely be another quarter or two away from recovery, as well. Still, wholesale data out on the month of March were encouraging, with sales of machinery and equipment up 4.9% m/m, although that was preceded by a -2.8% decline in the previous month.</p> <p>▶ It big and its real. In each of the last two quarters for which data are available, changes in inventory have accounted for a sizable proportion of US GDP growth (3.8ppt in Q4/09 and 1.6ppt in Q1/10). For the most part, this should provide a temporary boost only, to US GDP. By contrast, Canadian GDP growth, at least for Q4/09, is devoid of the boost afforded the US from changes in inventory. Quite the contrary. In Q4/10, destocking continued to drag on Canadian GDP, knocking out -0.9ppt, rather than providing for a substantial contribution. On that basis, we believe that the overall profile of the Canadian economic recovery appears more balanced than is necessarily the case with the US economy, which is, to date, reliant on a transitory boost from an inventory contribution for a good slug of its economic growth.</p>
May 31	Industrial Product Price Index M/M – Apr (8:30)	-0.4%		-0.6%	Minor	<p>▶ CAD was stronger in April, rising 1.7% m/m vs. USD, which will generally drag on prices. By category, we expect fruits, vegetables, autos, machinery, and capital equipment including electronics to see pricing declines largely on the back of a stronger Canadian dollar. On the upside, lumber, primary, and fabricated metal products are pricing higher on the back of better pricing metrics supported by external demand. Petroleum and coal products also should have seen moderate price increases.</p>
	Raw Material Price Index M/M – Apr (8:30)	0.8%		1.0%	Minor	<p>▶ Vegetable product prices are lower, although this is offset by stronger prices for food on the hoof. There has been a reduction in terms of both herd sizes and issues regarding winter feeding and limited weight gain for cattle this year that has contributed to a robust pricing environment. Lumber prices are stronger. Again, capacity has been cut back, with producers having a better handle on supply. Metals prices are significantly higher, along with upward pressure on mineral fuel prices. For April, we are forecasting raw material prices to have gained 1.0% m/m</p>
Jun 1	Bank of Canada rate decision (9:00)	0.25%	0.50%	0.50%	Major	<p>▶ We are forecasting a 25bp rate hike. It would be the first rate increase since July 2007 and could usher in rate hikes at each of the remaining fixed-date meetings for 2010, which puts our year end O/N rate target at 1.50%. This presupposes a total of five 25bp rate hikes in 2010.</p> <p>▶ The market's uncertainty associated with recent events as they pertain to the EU have jumped the Atlantic, transmitted through the mechanism of global capital markets. The question for the June 1 rate meeting is whether market uncertainty and the unfolding events related to the question of solvency in the EU trump a Canadian economy that is performing well ahead of plan (in April, the BoC advanced by a quarter its forecast for closing the output gap), along with a policy profile that is creating a growing problem with consumer indebtedness. A rapidly growing level of consumer indebtedness has been fed and fostered by a steady diet of cheap money.</p> <p>▶ We would suggest that the answer is "no." And in that, the BoC looks beyond potentially transitory market conditions and instead focuses on the rapidly developing economic profile for Canada. At this stage, there is no clear-cut evidence that market uncertainty is impacting domestic lending and the overall dissemination of capital in the Canadian economy. While market uncertainty is high, we are not experiencing the breakdown in market capital or interbank lending to the extent that crippled markets and economies alike in 2008. That said, if there is a reason not to go, that would be found in a concern for market uncertainty spilling on over into economic uncertainty.</p>
Jun 4	Net change in employment – May (7:00)	108.7K		10.0K	Major	<p>▶ Forecasting the net change in employment has proved difficult of late, given recent volatility in the jobs picture. Last month's report showed the economy showering the labor force with a historically unprecedented 109K newly minted jobs. As this is a household survey, there are no revisions, so we are left with April's 109K as a part of the historical record. For May, we expect to see some necessary smoothing out of April's spike, with the forecast for a very marginal net gain in jobs. The breakdown favors goods-producing industries (+31K) at the expense of service sector (-21K) employment. In April, nearly 107K jobs were created.</p>
	Unemployment rate – May (7:00)	8.1%		8.1%	Major	<p>▶ The participation rate is on the rise, as improving economic prospects pull in the previously discouraged. Last month's jobs report supported a 0.2ppt pickup in the participation rate. Had the labor force not grown by an equally impressive 95.0K workers, the unemployment rate would have handily pushed below 8% and printed 7.7%.</p> <p>▶ After rising 0.2ppt in April, the participation rate should remain unchanged in May, we believe. The expected rise in jobs is insufficient to offset the natural growth in the labor of about 22K workers, but not weak enough to allow the unemployment rate to creep higher.</p>

Economic diary – Canada (cont'd)

Building permits M/M – Apr (8:30)	12.2%	-7.5%	Med	▶ We believe that it is probably best to look at April's permits number in the context of March's 12.2% m/m jump. Indeed, we will be looking to aggregate the two. For April, we are looking for a -30% decline in industrial permits to follow March's 57% jump. We are also looking for a -10% decline in residential permits, led by a CAD400m drop in multifamily dwelling permits, following March's 54% spike in approvals. Overall, we expect the dollar value of builder permits to be down -7.5% m/m.
IVEY PMI – May (10:00)	58.7	62.5	Med	▶ May's IVEY could prove interesting, we believe. Typically, May is a very strong month for the IVEY purchaser index due to seasonal factors. On average – outside of 2009's recession-riddled reading of 48.4 – IVEY will typically print readings in the 60s for May. Given that April's 58.7 was in keeping with the seasonal norms of the number set, we are forecasting the May IVEY at 62.5 – a high print yes, but well with in the historical context of the number set, a number that is not seasonally adjusted.

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 21 May 2010.
- 2 All market data included in this report are dated as at close 20 May 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 & Burkhart 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. 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) 177/08/2009