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BAY STREET-Canada due for "boring is beautiful" budget

Sun, Feb 28 2010

- * March 4 federal budget's market impact seen limited
- * Relatively strong finances appeal to global investors
- * Talk of delayed corporate tax cuts, but odds low
- * Long-term deficit exit strategy key

By Jeffrey Hodgson

TORONTO, Feb 28 (Reuters) - Global investors ravaged by rising sovereign risk will find welcome respite in Canada's March 4 federal budget, with controlled leaks and relatively healthy finances making it a refreshingly low-key event for markets.

In stark contrast to the Greek budget tragedy unfolding in Europe, Canada is expected to forecast a deficit of less than 3 percent of gross domestic product, the lowest of any Group of Seven nation.

And Finance Minister Jim Flaherty and his officials have spent weeks diligently stealing their own thunder, pre-releasing major news like mortgage rule changes and stressing there will be no significant new spending or tax measures.

"It doesn't make for a great exciting story. But, guess what? For investors, boring is beautiful. That's the new beautiful," said Stewart Hall, an economist with HSBC Securities in Toronto.

"Boring is certainly beautiful against the backdrop of what we're seeing in some of the other sovereign names."

A Reuters survey found analysts expect the Conservative government to forecast a deficit of C\$45 billion (\$43 billion) for 2010-11, down from the record C\$56 billion shortfall Ottawa anticipates for the current fiscal year. [ID:nN26119942]

Analysts see the deficit shrinking further to C\$27.2 billion in 2011-12.

The government said in September it expects Canada's federal debt-to-GDP ratio will rise to 35.5 percent in March 2011 from 29 percent in March 2009. While not a welcome trend for bond investors, it's nowhere near the triple digit debt-to-GDP ratios of Italy and Japan.

Warren Buffett once noted that creditworthiness is like oxygen: you don't notice it when it's around. With sovereign default fears on the rise, Canada's superior fiscal position is paying off handsomely for holders of its currency and bonds.

The Canadian government now pays less than the United States to borrow money for 10 years or more in local currency. And the Canadian dollar, up 15.9 percent last year against the greenback, recently hit a two-year high against the euro.

"Canada's generally viewed as having a reasonably sound fiscal backdrop relative to other G10 currencies. The incremental details on the budget aren't likely to change that," said Dan Katzive, foreign exchange strategist at Credit Suisse in New York.

LITTLE STOCK-SPECIFIC NEWS SEEN

This year's budget is also unlikely to contain many of the targeted spending measures that can boost specific sectors of the stock market.

Shares of Montreal-based engineering firm SNC-Lavalin Group Inc <SNC.TO> have risen more than 40 percent since last year's budget, which contained billions in infrastructure spending. But Flaherty has pledged to let his two-year C\$46 billion stimulus package wind down, providing little fodder for further bounces.

There is a chance that the minority government could defer planned corporate tax cuts, which have raised the ire of the left-leaning New Democratic Party, said Andrew Dunn, a managing partner and with Deloitte & Touche.

"I wouldn't give much more than 50/50 odds of that happening ... and yet it's a relatively easy thing to do from a policy perspective," he said.

"And if they sell it right, it actually could have a fairly material impact on their ability to get their deficit down over the next couple of years."

But he said even this would be unlikely to have a significant stock market impact, in contrast to Flaherty's decision in 2006 to tax the country's income trust sector, which wiped out billions of dollars in market capitalization.

Another potential risk for investors is that the opposition votes against the budget and takes down the government. But this is seen as unlikely given that no party commands a strong lead in the polls. [ID:nN25107702]

Analysts said that perhaps the biggest concern for investors is the government's longer-term plan to return to the surplus position that Canada enjoyed for a decade. If Ottawa fails to maintain credibility on the issue, they said this could in time put upward pressure on bond yields.

"Most would agree that you don't have to do this overnight. But you do have to have some sort of road map," said Bob Gorman, chief portfolio strategist at TD Waterhouse.

(\$1=\$1.05 Canadian) (Editing by Rob Wilson)

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