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America's trade deficit in January dropped sharply as both exports and imports fell. The Commerce Department said Friday that the deficit fell 8.3 percent to $41.8 billion in January from $45.6 billion in December. A shrinking trade gap reflected a drop in exports, which fell $5.6 billion to $189.4 billion. Imports fell $9.4 billion to $231.1 billion.

Much of the dip in imports likely came from lower oil prices and a labor dispute that disrupted shipping at West Coast ports. At the same time, the strong dollar that has made American goods less affordable abroad is weighing down exports. The trade deficit reached $505 billion last year, up 6 percent from the 2013 deficit of $476.4 billion. It was the largest imbalance since 2012. Economists expect the deficit to widen further in 2015 as stable growth in the United States drives imports and tepid growth overseas paired with a strong dollar depress exports.

The politically sensitive deficit with China was $29.3 billion in January, down from $30.4 billion in December. Still, that constant imbalance has created pressure on Congress and the Obama administration to take tougher actions against what critics see as China's unfair trade practices. American manufacturers say that China is manipulating its currency to keep it artificially low against the dollar, which benefits Chinese exporters while creating a barrier for American goods.

Yet a domestic energy boom has kept the deficit in check. Not only have oil costs plunged since June, but the American production made possible by fracking has reduced dependence on foreign oil. Between December and January, petroleum imports fell 23 percent to $17.7 billion.

What a boom! Almost 18 billion dollar of oil money historically destined to foreign (Arab) countries is now captured back in the American economy earned by American corporations which hire American oil field workers . However, benchmark American crude was down 40 cents to $50.34 a barrel on the New York Mercantile Exchange indicating surplus inventories are still building in North America. Brent crude, the international benchmark, was up 27 cents to $60.75 in London as tension in the Ukraine look to escalate.

The American economy churned out a much better-than-expected 295,000 jobs last month, and the unemployment rate eased to 5.5 percent .A burst of hiring sent bond prices lower and the dollar higher in early trading on Friday. Apple rose 1 percent after it was announced that the company would be joining the Dow Jones industrial average, replacing AT&T. AT&T fell 1 percent. American employers extended a healthy streak of hiring in February by adding 295,000 jobs, the 12th straight monthly gain above 200,000. The Labor Department said Friday that the unemployment rate fell to 5.5 percent from 5.7 percent. Still, the strong job gains weren't enough to lift wages by much. The average hourly wage rose just 3 cents in February to $24.78 an hour. The American job market is on fire. All of this, of course, is playing into the markets today and suggests the Federal Reserve won't wait too long to unveil its first interest rate hike, possibly in June. In theory, when the unemployment rate is at the natural rate, interest rates should be at the neutral rate of between 3 per cent and 4 per cent. As such, this is quite a symbolic change that increases the pressure on the Fed to hike rates in June. Admittedly, the 0.1-per-cent month-over-month rise in hourly earnings pushed the annual growth rate back down to 2 per cent, from 2.2 per cent. However, if the Fed waits until wage growth rises, the Fed could be reacting too late.

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These figures will probably further increase speculation that the Fed could raise interest rates in June. Last week the Federal Reserve Chair, Janet Yellen, indicated that a summer increase was possible while leaving the door open to a later increase. All things considered I think this is a very good labor market report and will only feed into expectations for a rate hike from the Fed in June.

The yield on the 10-year Treasury responded by bond notes jumping to 2.20 percent from 2.12 percent late Thursday, as investors factored in a higher probability of a summer rate hike. The American dollar was the main mover after the release of the figures as traders priced in an earlier rate hike. The Euro, already at 12-year lows, slid 1.4 percent to $1.0881 while the dollar rose 0.7 percent to 121.13 Yen.

In Canada, the combination of a strong American jobs report and exceptionally weak Canadian trade reading sent our Loonie tumbling. Other currencies fell by an even greater extent as the American employment reading sent the greenback up, suggesting the Federal Reserve will move quickly now to raise interest rates for the first time.

Our Loonie is expected to sink further going forward, eventually hitting the 75-cent mark. Disappointing Canadian data and oil prices flirting with a break back below $50 can only strengthen the greenback.

In Canada, however, what we now have is the second-fattest trade shortfall on record. Driven down by the oil crash and mining slump, exports tumbled by 2.8 per cent in January, Statistics Canada said today. Imports were little changed, meaning the trade deficit swelled to $2.5-billion from December's revised gap of $1.2-billion.

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