



November 16th 2009

GLOBAL EQUITIES

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Thoughts:

French economic growth: nothing to write home about !

Following 2Q09's surprise and the strong rebound in industrial production in Q309, the French economy was on the launching pad to record a strong growth for Q3. But no! For sure, GDG grew but at a slower pace than expected, +0.3%, keeping the YoY rate at - 2.4%. So nothing to write home about! Even more so, when looking at Germany's 0.7% increase over the same period, after +0.4% in the previous quarter.

Admittedly, the recovery over the past two quarters confirms that the gloomy scenario that still prevailed just a few months ago, has not materialized. Also thanks to this rebound, the negative carry-over for the French GDP now stands at -2.4%. In other words, the annual average contraction for 2009 should be no worse than - 2.2%. There again, nothing to crow about!

But beyond those global figures, more disturbing is the analysis of the components. For once, it was the foreign trade side that helped the French economy, thanks to the German revival. Exports rose by 2.4% whereas imports rose by a mere 0.4%. Two lessons can be drawn: on the one hand, foreign trade did contribute 0.4% to the rate of growth; on the other, domestic demand contracted by 0.1%. So after taking a break during Q2, recession is back on the domestic front. Needless to say: The French economy remains fragile!

Looking at those individual figures is without recourse! Despite the strength showed by spending for manufactured goods, total household consumption (goods and services) stagnated, the only fourth time that has happened since 1997 : 1Q97(-0.1%); 1Q08 and 2Q0 (-0.2% and nil respectively). Even worse, capital spending contracted for the sixth consecutive quarters (-1.4%) with both corporates and households cutting back on their investments (- 9.7% and -13.6% respectively over that period), back to 3Q06 and 1Q05 levels!

It means that, should we anticipate a return to a stronger growth in capital spending (+0.5% per quarter, a rather optimistic assumption), we will have to wait until 2014 and 4Q16 to reach 1Q08's level in capital expenditure for both corporates and households. A rather worrying prospect and France, while being out of recession, is still convalescent and a relapse cannot be ruled out, should there be a little hitch!

In fact in 3Q09, the only component of domestic demand showing some strong trend is public consumption (+0.7%) which represents 23.6% of GDP. Without this perfusion, domestic demand would have been in negative territories (at least -0.3%) and GDP would have contracted. And that's the problem.











If with a huge state stimulus program and a public deficit of close to 9% of GDP, the French economy can only manage a mere +0.3% growth in the past 2 quarters, what will happen in 2010 when the impact of the stimulus plan fades? This question is all the more acute if we add the impact of a strong euro and a probable rise in interest rates in the course of next year.

In other words, having used all possible ammunitions to keep the French economy afloat in 2009, how will we be able to keep our dream alive in 2010? The answer, given by the French government: " The jumbo loan ". Let's hope that this issue will be efficient and will not be added to the 40 year long list of costly French government bond issues. In fact , the European commission already issued an initial warning last week by stating that though France is using a stratagem by increasing public debt without burdening the budget deficit, it must not forget that it will have to service this loan in paying interests and that will definitely worsen the budget imbalance This year alone debt servicing amounts to € 60 billions and will rise to close to € 70 billions in 2010, bringing the budget deficit to € 150 billions, i.e. 3.6% and 8% of GDP respectively. As for public indebtedness, it could reach 80% of GDP! Where are the famous Maastricht convergence criteria of 3% and 60%!

So, even if the unemployment situation is a temporary consolation prize, it is now clear the French economic growth will remain slow and feeble, at best +1.3% next year. It means unemployment at around 10% and a deficit around 8.5% of GDP. 2010 will not be a recession year but will remain a year of penitence.

Marc Touati

Economic data released this week:

Country	Event	Period	Actual	Prior	Climat	Sum up
	US ABC consumer confidence	November 8th	-46	-49		
	US MBA mortgage applications	November 6th	3,2%	8,2%		
	US Initial jobless claims	November 7th	502 000	514 000		
	US Continuing claims	October 31 th	5 631 000	5 770 000		
	US Monthly budget statement	October	-\$176,4 bn	-\$155,5 bn		
	US Trade balance	September	-\$36,5 bn	-\$30,8 bn		
	US University of Michigan consumer confidence (preliminary)	November	66,0	70,6		
	EZ ZEW economic sentiment	November	51,8	56,9		
	EZ Industrial production	September	+0,3%,-12,9% YoY	+1,2%,-15,1% YoY		
	EZ Gross Domestic Product (advanced)	3rd quarter	+0,4% QoQ,- 4,1% YoY	-0,2% QoQ,- 4,8% YoY		
	Fr Banque de France business climate	October	95	93		
	Fr Industrial production	September	-1,5%,-10,4% YoY	+2,8%,-10,0% YoY		
	Fr Manufacturing production	September	-1,6%,-11,0% YoY	+3,0%,-10,7% YoY		
	Fr Current account balance	September	-€ 3,7 bn	-€ 4,0 bn		
	Fr Consumer price index	October	+0,1%,-0,2% YoY	-0,2%,-0,5% YoY		
	Fr Wages (preliminary)	3rd quarter	+0,5%QoQ	+0,4%QoQ		
	Fr Gross Domestic Product (preliminary)	3rd quarter	+0,3% QoQ,- 2,4% YoY	+0,3% QoQ,- 2,9% YoY		
	GER Trade balance	September	+ € 10,6 bn	+ € 8,1 bn		
	GER Current account balance	September	+ € 9,4 bn	+ € 4,4 bn		
	GER Industrial production	September	+2,7%,-12,9% YoY	+1,8%,-16,5% YoY		
	GER Consumer price index (final)	October	+0,1%,+0,0% YoY	+0,1%,+0,0% YoY		
	GER ZEW economic sentiment	November	51,1	56,0		
	GER ZEW present situation	November	-65,6	-72,2		
	GER Gross Domestic Product (preliminary)	3rd quarter	+0,7% QoQ,-4,8% YoY	+0,4% QoQ,-5,8% YoY		
	UK Trade balance	September	-£ 3,4 bn	-£ 2,1 bn		
	UK Unemployment rate	October	5,1%	5,0%		
	JP Current account balance	September	+ ¥ 1338,0 bn	+ ¥ 1233,6 bn		
	JP Trade balance	September	+ ¥ 599,2 bn	+ ¥ 303,7 bn		
	JP Bankrupties	October	-11,8% YoY	-18,0% YoY		
	JP Machine orders	September	+10,5%,-22,0% YoY	+0,5%,-26,5% YoY		
	JP Industrial production (final)	September	+2,1%,-18,4% YoY	+1,4%,-18,9% YoY		
	JP Capacity utilization (final)	September	1,6% MoM	2,3% MoM		
	CH Consumer price index	October	-0,5% YoY	-0,8% YoY		
	CH Retail sales	October	+16,2% YoY	+15,5% YoY		
	CH Industrial production	October	+16,1% YoY	+13,9% YoY		
	CH Trade balance	October	+\$23,99 bn	+\$12,93 bn		

Markets:

What about the « right price » for the Dow Jones and the Eurostoxx?

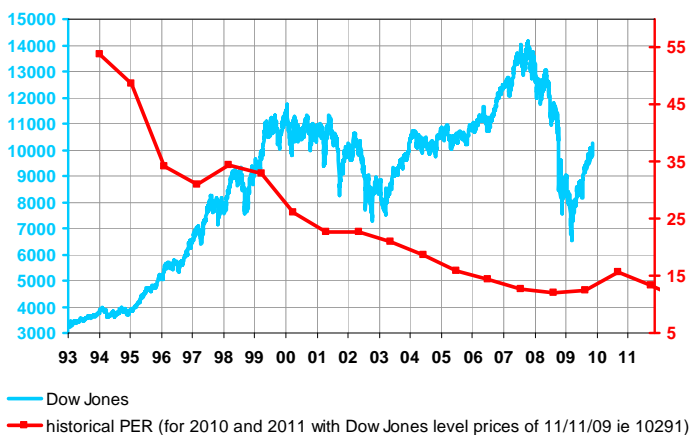
Following last week's analysis on the "right price" for the CAC40, we received a large number of requests asking for similar studies on European and American indices. Two reasons for being happy: firstly, it shows that our papers are being read and secondly it confirms the return of investors to economic fundamentals, indicating that the panic period when pessimism was the norm, is well over.

So to satisfy the demand, we are going to apply the same methodology to the Dow Jones, the S&P 500 and the Eurostoxx 50.

Also, from now on, we will publish on a weekly basis the "right" levels for all those market indices according to our earnings estimates, economic forecasts and interest rates.

So let's begin with the Dow Jones. We must admit that the current PE of 15 appears quite reasonable to us, as compared with an average of close to 24 (23.9 to be exact) since 1993

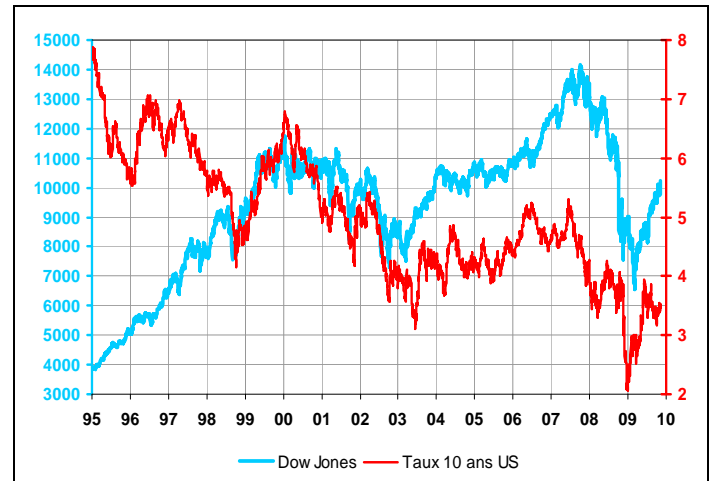
A very reasonable PER.



If looking at 2010 and 2011 estimates, a Dow Jones currently standing at around 10300 would give a PE below 10 times. That said, should earnings rise by 15% p.a. over the next two years (meaning back to the 2007 level), the index should climb to 14000.

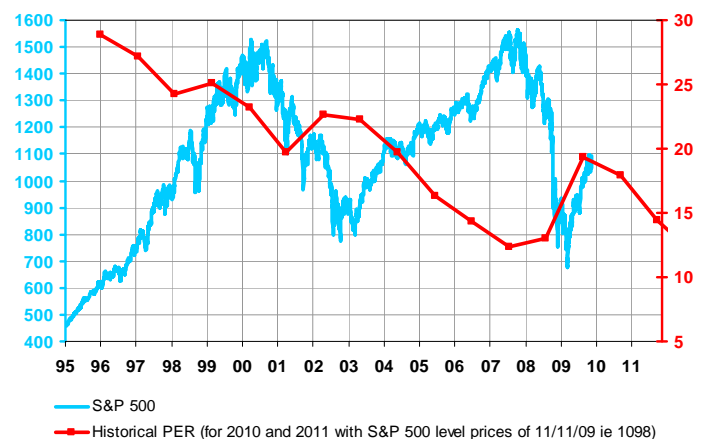
Of course, this is only theoretical and it will most likely be cooled off by the anticipated 100 bps rise in 10 year rates. Hence the "right price" for the Dow Jones could be around 11500 in 2010 and 13000 in 2011. In other words the 2007 historical level will not be broken.

The limited increase in long term rates will only slow down the Dow Jones' rise.



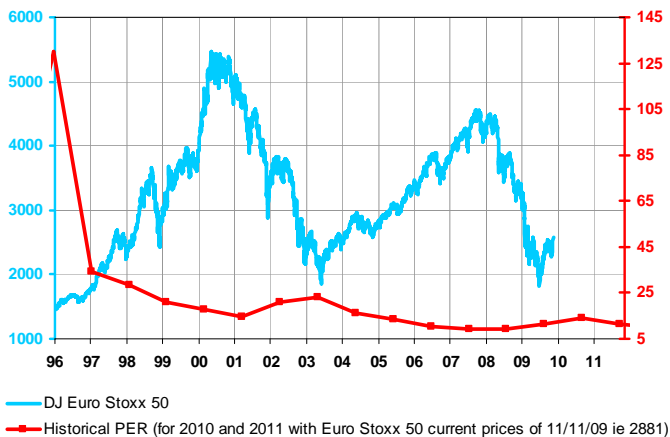
Similarly for the S&P 500, the "right price " should hover around 1250 in 2010 and 1400 in 2011, There again, good news but short of the 2007's level, before the subprime crisis. But because of the 2008-9 trauma, these levels look very bullish but not extravagant as was the case 3 years ago, hence avoiding the repeat of a speculative bubble.

The S&P 500 also on a bullish path.



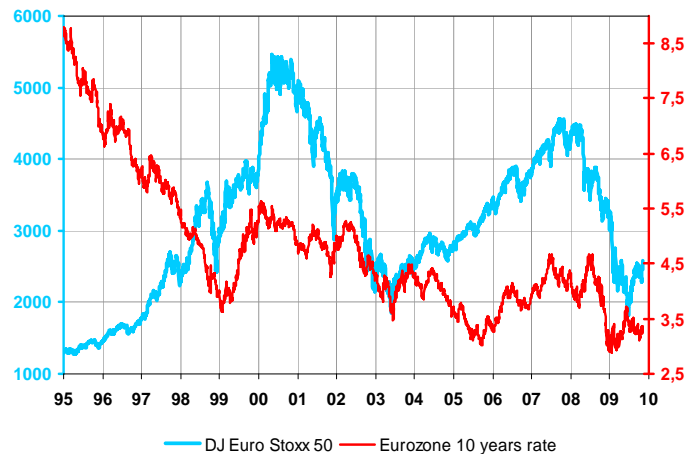
As for the Eurostoxx50, , using the same methodology, with a current PE of 15x (as against an average of 25x over the past 15 years), an estimated growth rate of 15% in eps in 2010 and 2011 together with long term rates (10 yr Bund) around 4.5% in the fall of 2010, the index should reach 3200 by year end of 2010.

The Eurostoxx 50 at 3500 in a year's time.



Of course , these “ right prices” are not predictions. But by using very conservative assumptions, we are coming up with normalized levels ,that allow for substantial gains.

Quid of a bond crash in the euro area?



If excluding natural or military catastrophes, by definition unpredictable, the only risk that can hamper such a bullish move would stem from a collapse on the bond markets, due, for example to an explosion in public indebtedness and its consequence the impossibility to service it, as the interest payments would exceed the GDP's nominal increase.

We believe that the USA appear safe in facing this challenge, thanks to an estimated GDP growth of 2.8% next year. It may be more problematic for the Eurozone, as we expect a meager 1.3% increase in its economy.

Marc Touati

What are the « right prices» of the main equity indices ?

Index	PER hypothesis end of 2010	Balanced level end of 2010 (average earning growth rate: 15 % in 2010 and 2011)	Long term rates	"Fair Value" end of 2010 (PER level : 15; yearly EPS:15%, long term rates: 4,50%)
Dow Jones	15	13500	4,50%	12200
S&P 500	15	1350		1250
DJ Eurostoxx 50	15	3500		3200
CAC 40	15	4500		4200

Economic events from November 16th to November 20th: Another positive week for Uncle Sam.

The week will be particularly dense in the US : on Monday : retail sales; on Tuesday : industrial production; on Wednesday : inflation as well as housing starts and building permits; and finally on Thursday the Conference Board leading indicator.

On this side of the Atlantic, we will focus on Monday on inflation in the euro zone for October.

Monday, November 16, 10h GMT: deflation is still hitting the euro zone.

After having increasing by 0.3% in August, consumer prices were flat in September to reach -0.3% YoY.

In October, consumer prices should increase by 0.3% led by the rise in energy prices and commodities. The annual slide should remain in negative territory for a fifth consecutive month at -0.1%. Nevertheless it should get back to positive territory in December. Finally the core index (excluding energy and food) should reach +1.1%YoY in October.

Monday, November 16, 14:30: rise in US retail sales in October.

After increasing by 2.2% in August US retail sales declined by 1.5% in September mostly led by the end of the "cash for clunkers" program. However, boosted by a 0.3% rise in hourly wages and by the reduction of job destructions, retail sales should increase by 0.9% in October. Excluding transport, after increasing by, retail sales should rise by 0.4%YoY following a 0.5%YoY increase in September.

Tuesday, November 17, 15:15: new rise in US industrial production in October.

After rising by 0.7% in September, US industrial production should confirm its rebound and increase by 0.5% in October, the fourth consecutive monthly increase. As showed by the ISM manufacturing "production" index of 63.3 in October the highest level

since July 2004. In such conditions, after reaching 70.5% in September, showing a third consecutive month of increase, the rate of capacity utilization should rise again at 71% in October.

Wednesday, November 18, 14:30: deflation slows down in the United States.

Despite an increase of 0.2% in September, consumer prices remained in negative territory (precisely at -1.3%) and this for the seventh consecutive month. For October, led by the rise in energy prices and by the economic recovery in the United States, consumer prices should increase by 0.2%. The annual slide should be at -0.2%. The core index should increase by 0.1% in October and reach 1.6% YoY.

Wednesday, November 18, 14:30: housing starts confirm their rebound in the US.

After having reached an historical low in April, respectively at 479,000 and 498,000, housing starts and building permits are on a rising trend getting closer to 600,000. The bottom floor has been reached on the real estate market as showed by NAHB index of realtors.

In addition, low prices and mortgages rates should boost housing sales. Therefore we anticipate housing starts and building permits to reach 600,000 and 590,000 respectively in October .

Thursday, November 19, 16:00: the Conference Board leading indicator rises again in October

The recovery is expanding as showed by the ISM manufacturing and the ISM services index reaching 55.7 and 50.6 respectively in October, as well by the rebound of private consumption which accounts for approximately 70% of the American GDP. Not to mention the reduction of job destruction (precisely 190,000 in October "the best score" since August 2008). Consequently, the Conference Board Leading Indicator should rise by 0.4% in October.

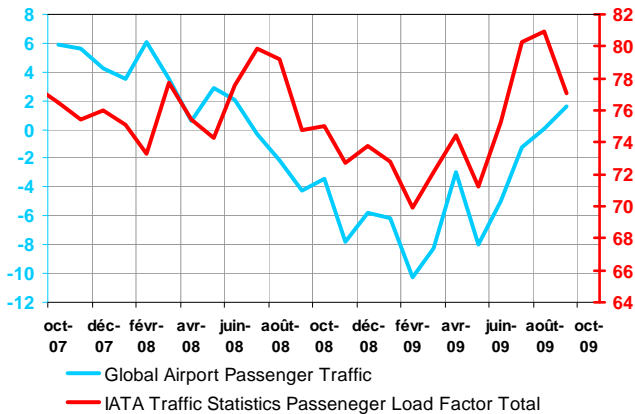
Jérôme Boué

Analysis and Perspectives: Immediate take-off.

According to IATA, airlines will have lost some US\$ 11 billions in 2009 and a further US\$ 3.8 billions in 2010. At the end of next year the industry would have suffered a loss of value of some US\$ 30 billions

The decline in traffic has been unprecedented. But the first signs of stabilization are appearing, mainly in Asia, as stated by Singapore Airlines. International passenger traffic is now 5% above the trough of March 2009 and cargo traffic is up 12% from its December 2008 bottom. It clearly indicates a slight improvement, pulled by the Asia-Pacific region (passenger traffic up 2.1% in September as against -1.8% in August) and Latin America (traffic up 3.4% as against - 1.6%).

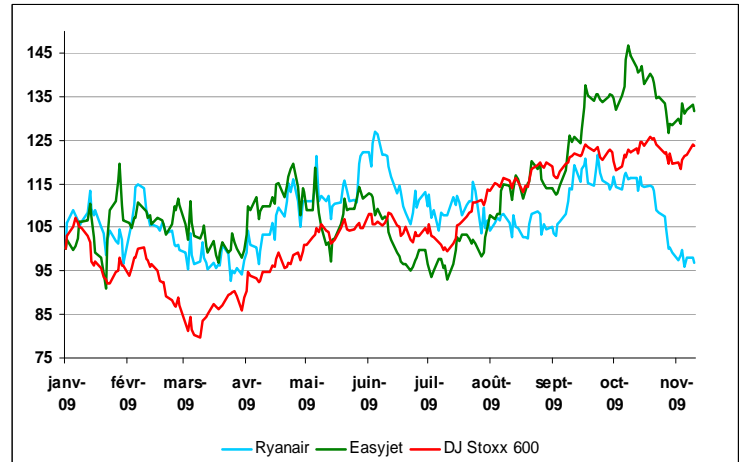
A slight recovery



In Europe, though, a more contrasting picture as the market is clearly more impacted by its segmentation between low cost carriers on short and medium haul and traditional carriers on long haul

EasyJet (385p) and Ryanair (2.99€) have recorded strong numbers in the past few months and carry today more passengers than British Airways and Lufthansa. EasyJet' strategy appears more astute as the company is able to maintain its margins while increasing its passenger traffic (+ 6.6% in October), whereas Ryanair profit margins have been eroded. Its passenger traffic rose by 14.5% on average every month since the beginning of the summer, thanks to a sharp cut in its fare structure (- 20%). This aggressive move to gain market share has led to an increase in non profitable routes.

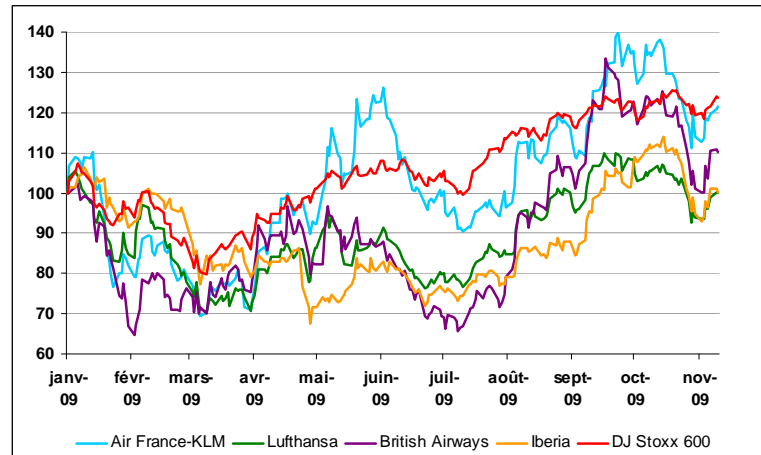
Ryanair under valued



Traditional companies are suffering from higher operating costs on short and medium haul. Passenger traffic are still declining (-4.1% for AF/KLM and -4% for British Airways). Nevertheless load factors are improving as available seat kilometres have been heavily curtailed

Lufthansa remains the least affected company. Its traffic grew by 1.1% in October after a 2% decline in September thanks to its Asian coverage. Furthermore its partnership within the Star Alliance is more global than AF/KLM, a part of the Sky Team group. Hence a better costs structure and a more efficient revenue split. Lufthansa market capitalisation amounts to only 0.75 its book value.

Airlines: a lagging sector



With a price/book value of 0.6x (as against between 0.8 and 1.5x for similar companies) AF/KLM is , together with Lufthansa, the lowest valued stock within the sector.

Its traffic decline has been significant but appears to have stabilized in the past three months. Load Factor rose again and stands at 82.5% (+1.3%) in October as compared with 75.5% in March 09.

The cargo business remains the weakest link, dropping again by 19% in October. And that division is being restructured (already 10% of the workforce has been let go)

to become a "low cost" company. AF/KLM Cargo is the leading cargo airline but no route is currently profitable

Hopefully AF/KLM should come stronger out of this crisis. Its fleet is among the newest and is the leading airline on most of its routes. Its financial structure is among the soundest in the industry and the venture with Delta/Northwest governs a 30% market share on the North Transatlantic market with estimated revenues of US\$ 12 billions.

It is precisely the critical size issue that is speeding up the reshaping of the industry, as confirmed by the announced merger between British Airways and Iberia, creating the 3rd largest European airline. British

Airways and Iberia will keep 2 hubs, London and Madrid but will combine their networks, especially on the Europe-Americas routes, enabling better cost controls and increasing revenues.

This deal validates previous mergers by AF/KLM and Lufthansa. Iberia is currently valued at 1.35 book value and British Airways at 1.5x. A similar valuation would put AF/KLM at € 15.- and Lufthansa at € 15.10

Philippe Moni / Gerard Weinberg
(Institutional Sales at Global Equities)

Global calendar of the statistics and economic events for this week:

Date	Time	Country	Event	Period	GE forecast	Consensus	Previous
16/11/2009	0.50 am	Japan	Gross Domestic Product (preliminary)	3rd quarter	+ 0,7% QoQ	+ 0,7% QoQ	+0,6% QoQ
16/11/2009	0.50 am	Japan	Gross Domestic Product annualized (preliminary)	3rd quarter	+3,0%	+2,9%	+2,3%
16/11/2009	1.01 am	United Kingdom	Rightmove house prices	November			+2,8%,+0,2% YoY
16/11/2009	8.00 am	Euro area	New car registrations (EU 25)	October			+ 6,3%
16/11/2009	11.00 am	Euro area	Consumer price index	October	+0,3%,-0,1% YoY	+0,3%,-0,1% YoY	+0,0%,-0,3% YoY
16/11/2009	11.00 am	Euro area	Consumer price index core (ex food energy)	October	+1,1% YoY	+1,1% YoY	+1,2% YoY
16/11/2009	2.30 pm	United-States	Retail sales	October	+0,9%	+0,9%	-1,5%
16/11/2009	2.30 pm	United-States	Retail sales less auto	October	+0,4%	+0,4%	+0,5%
16/11/2009	2.30 pm	United-States	Empire Manufacturing	November		29,0	34,57
16/11/2009	4.00 pm	United-States	Business inventories	September		-0,6%	-1,5%
17/11/2009	10.30 am	United Kingdom	Consumer price index	October		+0,1%,+1,4% YoY	+0,0%,+1,1% YoY
17/11/2009	10.30 am	United Kingdom	Consumer price index core (ex food energy)	October		+1,7% YoY	+1,7% YoY
17/11/2009	11.00 am	Euro area	Trade balance adjusted	October			+ € 1,0 bn
17/11/2009	2.30 pm	United-States	Producer price index	October	+0,5%,-1,9% YoY	+0,5%,-1,7% YoY	-0,6%,-4,8% YoY
17/11/2009	2.30 pm	United-States	Producer price index core	October	+0,1%,+1,4% YoY	+0,1%,+1,4% YoY	-0,1%,+1,8% YoY
17/11/2009	3.15 pm	United-States	Industrial production	October	+0,5%	+0,4%	+0,7%
17/11/2009	3.15 pm	United-States	Capacity utilization	October	71 %	70,8%	70,5%
17/11/2009	7.00 pm	United-States	NAHB housing market index	November		19	18
17/11/2009	11.00 pm	United-States	ABC consumer confidence	15 November			-46
18/11/2009	7.00 am	Japan	Machine tool orders (final)	October			-42,6%
18/11/2009	10.00 am	Euro area	Current account balance	September			- € 1,3 bn
18/11/2009	10.30 am	United Kingdom	Bank of England minutes				
18/11/2009	11.00 am	United Kingdom	Construction output	September			-0,4%,-11,3% YoY
18/11/2009	1.00 pm	United-States	MBA mortgage applications	November 13th			
18/11/2009	2.30 pm	United-States	Consumer price index	October	+0,2%,-0,2% YoY	+0,2%,-0,2% YoY	+0,2%,-1,3% YoY
18/11/2009	2.30 pm	United-States	Consumer price index core (ex food energy)	October	+0,1%,+1,6% YoY	+0,1%,+1,6% YoY	+0,2%,+1,5% YoY
18/11/2009	2.30 pm	United-States	Housing starts	October	600 000	598 000	590 000
18/11/2009	2.30 pm	United-States	Building permits	October	590 000	580 000	573 000
19/11/2009	6.00 am	Japan	Leading index (final)	September			86,4
19/11/2009	6.00 am	Japan	Coincident index (final)	September			92,5
19/11/2009	10.30 am	United Kingdom	Retail sales	October			+0,0%,+2,4% YoY
19/11/2009	10.30 am	United Kingdom	M4 money supply (préliminaire)	October			+0,8%,+11,6% YoY
19/11/2009	10.30 am	United Kingdom	Public sector net borrowing	October			+ € 14,8 bn
19/11/2009	2.30 pm	United-States	Initial jobless claims	November 14th		504 000	502 000
19/11/2009	2.30 pm	United-States	Continuing claims	November 7th		5 650 000	5 631 000
19/11/2009	4.00 pm	United-States	Conference Board Leading index	October	+ 0,4%	+ 0,4%	+ 1,0%
19/11/2009	4.00 pm	United-States	Philadelphia Fed index	November		11,6	11,5
20/11/2009		Japan	Bank of Japan target rate	November 20th	0,10 %	0,10%	0,10%
20/11/2009	8.00 am	Germany	Producer prices	October		+0,1%,-7,5% YoY	-0,5%,-7,6% YoY

Our economic and financial forecast for 2009-2010.

	Real GDP growth				Inflation				Unemployment rate			
					Annual average				Annual average			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
US	2,0	1,1	-2,2	2,8	2,9	3,8	-0,4	2,3	4,6	5,8	9,3	9,0
Japan	2,1	-0,7	-5,0	0,2	0,5	1,2	-0,2	1,2	3,9	4,1	5,0	4,8
Eurozone	2,7	0,7	-3,9	1,3	2,1	3,3	0,3	1,8	7,4	7,4	9,4	9,4
Germany	2,5	1,0	-4,9	1,5	2,1	2,6	0,5	2,0	9,0	7,8	9,4	9,4
France	1,9	0,7	-2,2	1,3	1,6	2,8	0,1	1,5	8,0	7,5	9,5	9,5
Italy	1,7	-1,0	-4,5	0,9	2,2	3,2	1,0	2,0	6,2	6,9	9,3	9,3
Spain	3,8	1,1	-3,5	0,6	3,2	3,5	1,0	2,0	8,3	10,5	16,0	16,2
UK	3,1	0,7	-3,9	1,4	2,3	4,0	0,9	2,2	5,4	5,6	7,5	7,3
World	5,0	2,8	0,0	3,2								

	Exchange rates				International equities markets				
	Nov 16th*	3 months	6 months	1 year	Nov 16th*	3 months	6 months	1 year	
EUR/USD	1,498	1,45	1,30	1,20	Dow Jones	10,270	10,000	10,800	11,500
USD/JPY	89,48	95	100	110	Nikkei	9,791	10,700	11,000	11,500
EUR/JPY	134,05	138	130	132	Cac 40	3,840	3,900	4,200	4,400
EUR/GBP	0,90	0,87	0,85	0,82	Euro Stoxx 50	2,911	2,950	3,100	3,300

	Key interest rates				10 years government bond interest rates				
	Nov 16th	in 3 months	in 6 months	in 1 year	Nov 16th*	in 3 months	in 6 months	in 1 year	
United States	0-0,25	0,25	0,50	1,75	United States	3,41	3,50	4,00	4,30
Euroland	1,00	1,25	1,50	1,75	Euroland	3,37	3,50	3,90	4,20
United Kingdom	0,50	0,50	0,75	1,50	United Kingdom	3,79	3,70	4,00	4,30
Japan	0,10	0,10	0,10	0,10	Japan	1,34	1,40	1,70	1,90

* Level at 9.45 am (Paris Time)



GLOBAL EQUITIES

ENTREPRISE D'INVESTISSEMENT

23, rue Balzac– 75008 Paris - France
Standard: + 33 (0) 1 444 333 00 – Fax : + 33 (0) 1 70 70 19 19
www.global-equities.com

CONTACTS

Economic and Financial Research

Marc TOUATI

HEAD OF ECONOMIC AND FINANCIAL RESEARCH

+33(0)1.44.43.33.80

mtouati@global-equities.com

Jérôme BOUE

ECONOMIST

+33(0)1.44.43.33.77

jboue@global-equities.com

Luis CAMEIRAO

STRATEGIST

+33(0)1.44.43.33.69

lcameirao@global-equities.com