

NOT ALL WHITE, JUST BEIGE

Nice consolidation at last taking place, which should be seen as welcome and an opportunity to do shopping whenever it is enough. Tonight's Fed Beige book should be non event but market friendly. Real action should take place with Intel and the Retail Sales tomorrow, and JP Morgan on Friday lunchtime. Alcoa and Chevron were welcome in a way as it offered a market reshuffling, thanks to stories which are not that bad on a macro view. Nothing to be chocked regarding the Alcoa sharp downside move when looking at the 32% rise in June and the 2.5% rally the day before the earnings, keeping in mind that the growing sales were encouraging signs that the business activity is gradually back. Softer commodity prices and weakness among Alcoa and other diversified metals plays (-3.8%) dragged the materials sector to a 1.9% loss, which was the worst of the major indices. Diversified financial services stocks (-2.9%) and diversified bank shares (-1.8%) slumped amid news that the government wants to impose fees on banks to help recoup TARP funds. The weakness that emanated from bank stocks even undercut multiline insurers, which had traded with strength after Hartford Financial (HIG 27.12, +0.95) issued a strong earnings update. Insurers finished fractionally lower, while the broader financial sector fell to a 1.6% loss.

The People's Bank of China (PBC) surprised some in the markets yesterday by hiking the required reserve ratio (RRR) for commercial banks by 50bp. However, it has adopted a more hawkish tone since late last year and had already signalled its intentions by pushing up the yield at two bill auctions last week and on Tuesday before the RRR announcement. Nonetheless, the move came sooner than most had expected. There might be two reasons for that move. The first was a surge in lending in early January. Local media have reported new lending of RMB600bn (US\$88bn) in the first week of the month, compared with RMB300bn in all of November (December's data are due any time). The second trigger is rising concern over capital inflows. The Q4 foreign exchange reserve data, which should also be released soon, are likely to provide evidence that hot money is flooding back into the economy. RRR hikes help curb the impact on the money supply.

What happens next depends on how commercial banks react. If loan growth slows, current inflation pressures are probably still weak enough for the government to hold off on further substantive tightening (i.e. significant interest rate hikes or a return to renminbi appreciation against the dollar) until May or June, although a further RRR hike after Chinese New Year (mid-February) is likely. Continued rapid lending would prompt earlier tightening, although two or three 27bp interest rate hikes would still leave them relatively low. Economists forecast a cumulative 81bp of hikes in the 12m lending rate in 2010, which would take it to 6.12% - hardly a major constraint when nominal GDP growth is more than 10%. Crucially, while policymakers will continue to give strong signals of concern about the inflation threat, the risk that the economy slows in the second half of the year will keep them focused primarily on securing growth. That might be a positive message for the rest of the world, which is increasingly looking to China for demand growth.

In Europe, markets reacted with alarm on Tuesday to a report published by the European Commission (EC) criticising the quality of the statistical data on the Greek public finances and news that the IMF is to send a team to look at the Greek public finances. Admittedly, the EC report was pretty damning and suggested that further revisions to the historical budget deficit cannot be ruled out due to doubts over the reliability of the Greek statistics. But this is hardly news. Meanwhile, reports indicate that the IMF delegation will be going to Greece purely to provide advice, rather than as part of any sort of bail-out programme. Nonetheless, both developments further underline the precariousness of Greece's position and suggest that markets' nervousness is unlikely to ease in the foreseeable future.

Not much happening today but the Beige book as a focus. Usual story in the pipe with a recovery gradually taking place with a still weak employment sector. Would go long on any further extreme drop ahead of tomorrow's Retail Sales

	WTI	€/€	\$/¥	10 yr US	10 yr Euro	Basic	Energy	Financ	Health	Tech	Tel	Indus	Utilities	SOX	S&P	NAS	DOW	Close
Last	80,1	1,4488	91,03	3,72	3,31	-2,09	-1,57	-1,43	-0,63	-1,27	-0,51	-0,91	-0,42	-3,59	-0,94	-1,30	-0,34	US
Perf 1d %	-2,35	0,01	-0,06	1,18 bp	-3,4 bp	-1,47	-1,12	-0,73	-0,37	-0,85	-0,26	-0,83	0,12	-3,06	-0,63	-0,84	-0,30	Europe

ECONOMIC DATA with impact

Mortgage Applications (12h UK time) / previous was up 0.5% / the higher the netter / minor

Fed's Beige Book (19h UK time)

POSITIVE IMPACTS

SANTANDER and China Construction Bank Corp. plan to set up a financial holding company venture in the Asian nation (China Daily)

ACTELION : A FDA advisory panel recommended approval of Actelion's **Zavesca** pill for patients

TELE 2 announced that it has signed the contract to acquire the remaining 12.5% in the company "Rostov Cellular Communication", in the Russian region of Rostov for will pay approximately SEK 350 m

NEGATIVE IMPACTS

SOCIETE GENERALE estimates **slight profit for Q4 (+€850m exp)** that integrates **€1.4 bn negative impact for assets at risk** (mainly CDOs of RMBS) / **Separately**, announced a **€600m gain** due to merger of CAAM/SGAM / **Sees Q4 CIB down vs Q3** mainly due to fixed income / Final results expected Feb. 18

RENAULT : CFO is expected to meet again Today with French Industry Minister about its plan to produce a new version of its Clio small car in Turkey / Industry Minister said that he **will not let the Clio 4 be produced in Turkey.**

REPSOL : Sacyr, Repsol's largest shareholder, has been **looking for a replacement** in the past weeks **for Repsol's chairman** (Cinco Dias) / The relationship between Repsol's top executive & its shareholders, mainly Sacyr, has been deteriorating for months because of disagreements over Repsol's investment plans and dividend policies...

CADBURY : KRAFT raised its 2009 profit forecast yesterday + said it was well-positioned to deliver "sustainable performance, **with or without Cadbury**" / KFT expects 2009 EPS of at least \$2 per share, up from its earlier estimate of at least \$1.97 (\$2 for the consensus)

BANCA POP. DI MILANO : Talks with shareholder Credit Mutuel for a bancassurance alliance ended with no deal, (ANSA news agency)

FONDIARIA-SAI said it was not looking at selling a controlling stake responding to speculation of possible takeover interest from AXA

	RESULTS	DIVIDENDS	EVENTS
Today		British Land (GBp 7,222222)	Credit Spread conf at Bank of America / Real Estate outlook conf at deutsche bank
Thursday	EU Carrefour sales / Delhaize / HMV trading statement / Home Retail interim / Pernod Ricard trading statement / Premier Oil trading statement / Suedzucker / Sulzer sales US Intel Asia Posco / Rio Tinto production report		Mid Cap Chemicals conf at Credit Suisse
Friday	EU Man Group interim US JP Morgan		
Monday	EU Casino sales / Soitec		
Tuesday	EU Accor sales / Alstom / Gazprom / Land Securities interim / SABMiller trading statement US Amazon.com / Citigroup / IBM		

NOT ALL WHITE, JUST BEIGE

TRADING IDEAS

SELL SAP / RENAULT / PEUGEOT / TOTAL / BNP / BBVA toppish for now

SELL DANONE to play Head & Shoulder possibility

BUY NESTLE / AIR LIQUIDE on double bottom

BUY AXA & MUNICH RE to play insurance sector

BUY CAP / SELL SAP // BUY NOVARTIS / SELL ROCHE // BUY ROYAL DUTCH / SELL BP // BUY NESTLE / SELL DANONE // BUY AIR PRODUCTS or PRAXAIR / SELL DOW CHEMICAL

BROKER METEOROLOGY

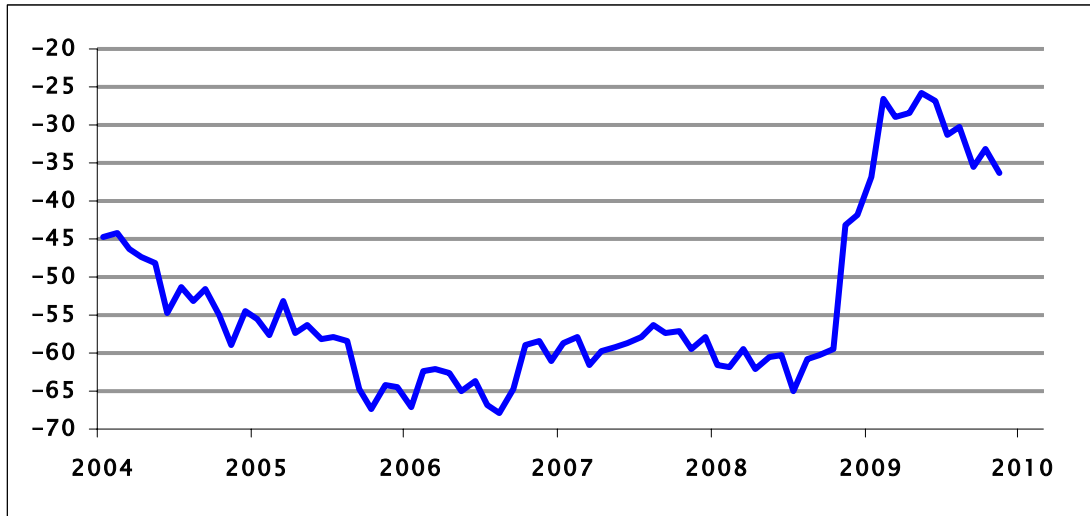
INFINEON **ADDED TO CONVICTION BUY LIST** **BY GOLDMAN SACHS**
ASML **RAISED TO BUY FROM NEURAL** **BY GOLDMAN SACHS**
RICHEMONT **RAISED TO OUTPERFORM FROM MARKETPERFORM** **BY BERNSTEIN**
ALSTOM **RAISED TO BUY FROM NEUTRAL** **BY BANK OF AMERICA - ML**
ALFA LAVAL **RATED NEW BUY** **BY BANK OF AMERICA - ML**

SALZGITTER **CUT TO UNDERPERFORM FROM NEUTRAL** **BY BANK OF AMERICA - ML**
SWISS LIFE **CUT TO HOLD FROM BUY** **BY DEUTSCHE BANK**
SCHNEIDER ELECTRIC **CUT TO NEUTRAL FROM BUY** **BY UBS**
SANDVIK **CUT TO SELL FROM NEUTRAL** **BY UBS**
TOMTOM **CUT TO NEUTRAL FROM BUY** **BY GOLDMAN SACHS**
SAINT GOBAIN **CUT TO UNDERPERFORM FROM NEUTRAL** **BY CREDIT SUISSE**
GAMESA **CUT TO HOLD FROM BUY** **BY CITIGROUP**
H&M **ADDED TO LEAST PREFERRED LIST** **BY UBS**

PLEASE FIND BELOW ON THE NEXT PAGE OUR MORNING ECO

CHART OF THE DAY

US Trade balance in value (bn/\$)
Since 2004



Source: U.S Census Bureau

After increasing in September, US trade deficit declined to 33.18 billion dollars in October and widened in November to reach 36.4 billion dollars. On the other hand looking at the real trade balance figure the trade deficit remained at the same level in volume in October-November than at the third quarter, confirming that there is a price effects as the dollar is weak./JB

Time	Country	Indicator	Period	GE forecasts	Consensus	Previous
4.30 GMT	Japan	Bankruptcies	december			-11,4% YoY
7.45 GMT	France	Current account balance	november			- € 4,5 bn
7.45 GMT	France	Consumer price index	december	+ 0,2 %, + 0,8 % YoY	+ 0,2 %, + 0,8 % YoY	+0,1%,+0,4% YoY
8.15 GMT	Germany	GDP (annualized)	december 31th		-4,8%	+1,3%
9.30 GMT	United Kingdom	Industrial production	november		+0,3%,-6,1% YoY	+0,0%,-8,4% YoY
9.30 GMT	United Kingdom	Manufacturing production	november		+0,2%,-5,1% YoY	+0,0%,-7,8% YoY
12.00 GMT	United-States	MBA mortgage applications	january 8th			+0,5%
19.00 GMT	United-States	Monthly budget statment	december		-\$92,0 bn	-\$51,8 bn
19.00 GMT	United-States	Fed Beige Book				

Indexes	Price	% 5 Days	Ytd
DJIA	10627,3	0,60%	1,91%
S&P 500	1136,2	0,02%	1,89%
Nasdaq	2282,3	-1,14%	0,58%
CAC 40	4000,1	-0,32%	1,62%
DAX	5943,0	-1,47%	-0,24%
Eurostoxx 50	2976,9	-1,18%	0,40%
DJ 600	256,4	-0,46%	0,98%
FTSE 100	5498,7	-0,43%	1,59%
Nikkei	10735,0	2,11%	1,79%
Shanghai Comp	3188,1	-0,25%	-2,72%
Sensex (India)	17329,9	-1,49%	-0,77%
MICEX (Russia)	1427,7	4,85%	4,21%
Bovespa (Brasil)	70075,8	-0,23%	2,17%

Forex	Price	% 5 Days	Ytd
EUR/USD	1,4497	0,64%	1,15%
EUR/JPY	132,06	0,89%	-1,09%
USD/JPY	91,09	1,53%	-2,24%
Oil	Price	% 5 Days	Ytd
Brent \$/b	78,4	-4,42%	1,49%
Gold	Price	% 5 Days	Ytd
Gold \$/oz	1129,9	-0,76%	2,99%
Rates	USA	Euro	Japan
Central Banks*	0,25	1,00	0,10
Overnight	0,01	0,27	0,10
3 Months	0,03	0,32	0,20
10 Years**	3,72	3,31	1,34

*US: Fed Funds; Jap: Overnight; Euro: Refi

** Euro: German Bund rate Source : Bloomberg

ECONOMIC DATA PREVIEW

Watch in the **GERMANY** the GDP annualized (8.15 GMT) expected to drop by 4.8% in 2009 after increasing by 1% in 2008 as Germany has been sharply hit by the strong recession especially because of its economic model based on exports.

Watch in the **FRANCE** the consumer price index (7.45 GMT) for December expected to rise by 0.2% reaching 0.8% YoY confirming the return occurring in all the euro area. Nothing to worry about as the return of inflation in December is due to a logical correction of the price drop of the year ago and inflation should remain under control in 2010.

ECONOMY

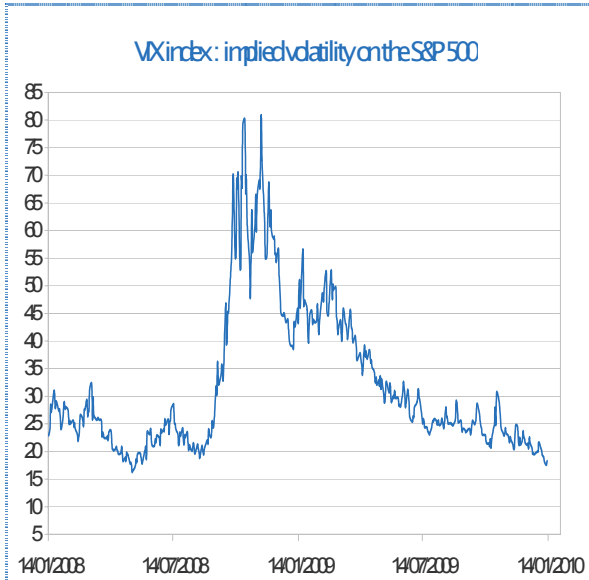
UNITED-STATES : THE TRADE DEFICIT WIDENED IN NOVEMBER

After increasing in September, US trade deficit declined to 33.18 billion dollars in October and widened in November to reach 36.4 billion dollars. Indeed, if exports remain consistent increasing by 0.9%, thanks to the weakness of the dollar, imports grew more strongly, precisely by 2.6%, mainly due to the rebound in consumption and capital spending in the United States. Moreover, the small rise in oil prices in November boosted the energy bill increasing the trade deficit. On the other hand looking at the real trade balance figure the trade deficit remained at the same level in volume in October-November than at the third quarter, confirming that there is a price effects as the dollar is weak.

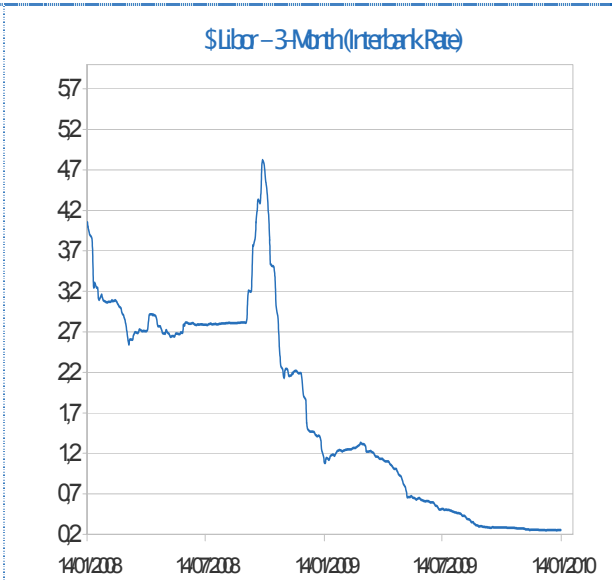
JAPAN : THE TRADE SURPLUS NARROWED IN NOVEMBER

After increasing to yen 949 billion in October, Japan trade surplus narrowed to yen 490.6 billion in November. This reduction of the trade surplus was due to a 5.2% drop in exports (as the yen rose by roughly 4% in November) compared to a rise of 5% of imports. As the BoJ leading rate is close to zero Japan must face carry trade strategy increasing the yen and hitting exports. Penalized by the exchange rate Japan cannot count on monetary or budgetary tools (as showed by the weak impacts of revival plans). In such conditions China will very shortly take the second position to Japan of the world leading economies.

NOT ALL WHITE, JUST BEIGE



Source : Bloomberg



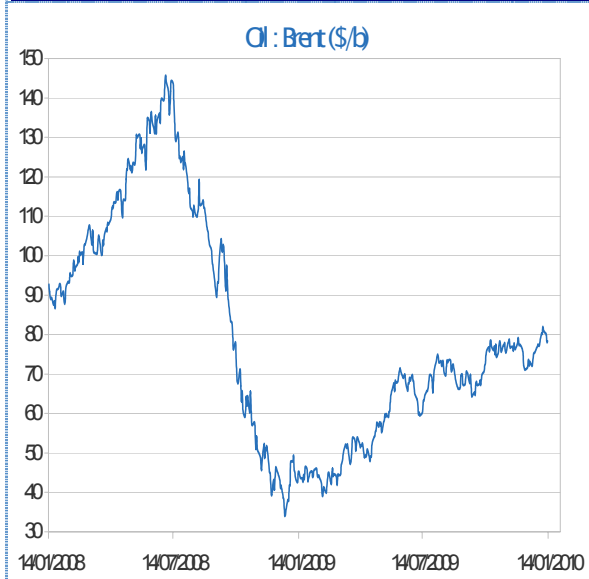
Source : Bloomberg



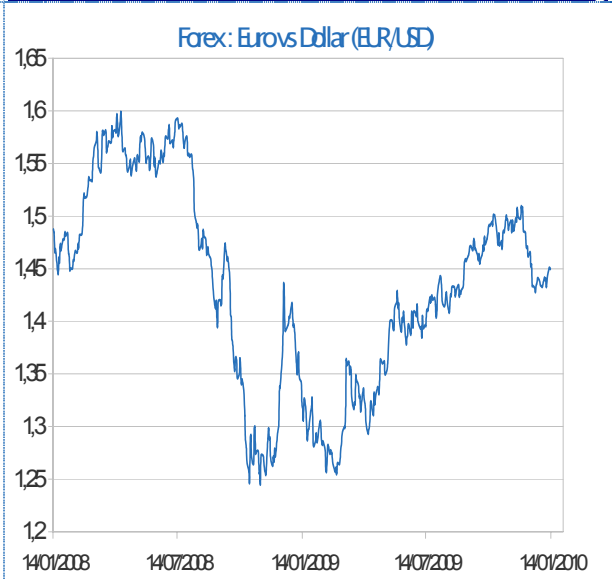
Source : Bloomberg



Source : Bloomberg



Source : Bloomberg



Source : Bloomberg