

**More friendly confirmations that the latest equity rise was justified as the macro and micro basics** are following just behind. There seems to be no misleading so far. As some economists are saying, we went through the worst point in growth while peaking on the unemployment front anytime soon. The severity of the recession which was close to the Great Depression one, but ended just fine as a tough recession thanks to government sponsorship, probably better explains the lasting lagging time between the growth recovery and the reversal of the unemployment rate. But already the peak in jobless Claims since March 2009 seemed to be a strong marker for risky assets which boosted afterwards ever since. According to experience from the past, we might well be in the ideal and scenario where the low policy rates should remain for a while, and the volatility stay relatively low. This is bull equity. And if the economy happened to confirm the 5% growth which appears likely on Q4, yes yields might be rising but only gradually as the Fed will monitor very carefully the easy quantitative policy exit, and yes the unemployment rate will start decrease earlier than most strategists would have expected, which is another very bullish sign of equity markers. Once again, most corporate were ready for a Great Depression fight, which triggered post Lehman a for four months economy stall, but things happened to turn a lot better faster than expected.

**Intel's earnings were just great** up 2% from 2.5% in official welcoming higher eps ( 40cts vs 30 expected) and revenue (\$10.6 vs 10.17 exp), record gross margin of 65%, provided revenue guidance of 9.3 to 10.1 bn vs 9.354 consensus etc... Not much to say. The interesting thing being that the sales keep on growing up 28% year on year. Already on Monday Alcoa's surprising sales were welcome too, as not so long ago most bear strategists were contesting the recovery since it was just leaning on the corporate's balance sheet adjustments which were looking to get profit back in a shrinking business environment. It seems no longer the case, or less true, which is a strong sign of business expansion which should spread to most sectors. The chip sector has become a very good leading indicator, and is a cyclical tech. Higher prices and strong demand from it is a good point.

**However December Retail Sales, in addition to a lower than expected employment report in December will bring some stress on January's** data to be released in February. Indeed, both surveys were revised up in November and came out lower than expected. As a whole on a quarterly stance, the impact so far was very limited as it did not change the overall quarterly expectations, which the earnings releases will tell us. What was not in December was to be found in November. However, on a sequential view, which for us and for some sceptical of a too easy bullish process, we should remember that whatever the earnings, February might be shaky if things were to keep on worsening in January (data to be released in Feb). The impact would be harmful, since the Q1 forecast would be revised on the downside, and with it the full year predictions. In the meantime, there is not drama, and December is full of possible seasonal effect, while things keep on gradually improving on the housing and equity indices front, and the Fed is aware of the weakness of the economic recovery which the market is seeing as an airbag in case of further troubles. Let's not worry too much about the decreasing or slightly disappointing December data for now, we already had some signs of a pause in September data released in October.

**As such today's January Michigan index might be more important than usually.** Indeed, the continued improvement in labour market conditions, as shown by the recent fall in weekly initial jobless claims to a 17-month low, is likely to boost consumer confidence in January. This decline in firings should more than offset the recent increase in the gasoline price to push the University of Michigan's measure of consumer confidence up from 72.5 in December to around 75.0. That would suggest consumers are gradually becoming more optimistic as the economic recovery continues. However, this would still leave confidence at a fairly low level by historical standards. It would still be consistent with fairly subdued rates of annual consumption growth of between 1% and 2%.

**Mixed feelings from economists about the newly proposed levy on the liabilities of the biggest 50 US banks.** As well as being very popular with voters, President Obama's plan to tax banks makes some sense from an economics perspective; it will recoup some of the taxpayers' money spent on the financial bailout and, at the margin at least, it will dissuade banks from becoming too big too fail. However, to the extent that it discourages banks from making loans in the future and increases the incentives for banks to use off-balance sheet vehicles, the tax is a bad thing.

**Focus JP Morgan earnings, Intel's trading level, Industrial Production, Michigan Index. Busy day ahead.**

**Watch out US will be closed on Monday for Martin Luther king Day, which doesn't mean it won't be active** on Monday as European asset allocations might well be taking place in favour of equity business , depending on today's data

	WTI	€/€	\$/¥	10 yr US	10 yr Euro	Basic	Energy	Financ	Health	Tech	Tel	Indus	Utilities	SOX	S&P	NAS	DOW	Close
Last	79,1	1,4429	91,13	3,73	3,30	-0,90	0,24	0,57	0,73	0,72	-1,76	-0,01	-0,25	-0,59	0,24	0,38	0,28	US
Perf 1d %	-1,09	-0,48	0,58	-1,14 bp	-0,5 bp	-0,73	-0,03	-0,16	0,45	0,31	-0,29	-0,16	-0,21	-0,97	0,01	0,13	0,13	Europe

## ECONOMIC DATA with impact

**JP Morgan (12h UK time)**

**CPI (13h30 UK time)** expected 0.2% from previous 0.4% // **ex food and energy** 0.1% from flat / **minor** as inflation is not the focus for now, but the base effect linked to the sharp drop in energy prices will have pushed the headline number higher on a yearly basis.

**Empire Manufacturing index (13h30 UK time)** expected 12 from previous 2.55 / **minor** as not the focus today

**Industrial Production (14h15 UK time)** expected 0.6% from previous 0.8% // **Capacity Utilization** 71.8% from 71.3% / **important** / the rebound in the ISM Manufacturing index point to another gain in manufacturing output in December.

**Michigan Index (14h55 UK time)** expected 74 from previous 71.3% / **interesting** as fresh data from January / the improvement in labour conditions seen through the initial jobless claims is likely to boost confidence in January

## POSITIVE IMPACTS

**RENAULT** : France **may raise its stake** to have a greater say in the company's decision-making (Industry Minister) / There is a 50/50 chance that the state will raise its stake to as much as 20% from just over 15% , Estrosi told Reuters, a day after he met with RNO CFO

**CARREFOUR** : **Q4 sales €25.99bn**, in line / **LFL growth -0.9%** / **Hyper LFL -2.7%** (-3% exp) / **France** a touch better with **still weak** rest of Europe / **Better China** / **Better Latam** / **Better Brazil** / **Sees FY09 Ebit €2.78bn** (2.61bn exp) / **Recruited** former Tesco executive James McCann to head its French operations... / Turnaround on its way...

**FUGRO reiterated its FY09 outlook** + sees **signs of recovery** in the oil and gas industry as well as in the mining segment in 2010

**STM** announced the repurchase of a portion of its zero coupon senior convertible bonds due 2016 for \$315m

**SGS** : **FY09 sales SFR4.7bn** (4.83bn exp) / **Operating €814m** (810m e) / **Dividend SFR60** (50 exp) / **Sees** higher sales & profit in 2010

**IBERIA's passenger load factor** rose to 79% in December, a historic high for this month and up from 76% a year earlier / **Passenger** traffic down 2.7% from a year ago

**FRAPORT** : Passenger numbers rose for the 1st time in more than a year and a half in Dec. / The number of passengers that passed through the airport edged up by 2.3% from the year-earlier

**REPSOL's board meets** to vote on whether chairman Antonio Brufau stays and judge the current management of the company according to the advances made in its 2008-2012 strategic plan... amid open criticism (Sacyr) over the decision to cut dividend...

**JULIUS BAER** completed the acquisition of **ING's** Swiss private banking biz / The deal will generate around €150m for ING

**INTEL : Q4 revenue \$10.57bn** (10.15bn exp) / **EPS \$0.40** (0.31 exp) / **GM 65%** (63% exp) / **Sees** Q1 revenue \$9.3-10.1bn (9.34bn exp) with FY10 GM of 61% (59.6% exp) / Gave a bullish margin outlook on higher prices + firm demand for server chips

### NEGATIVE IMPACTS

**PERNOD RICARD : Q2 organic sales growth -2%** (-1.5% exp) / **Repeated** its FY target of 1-3% rise in profit from recurring ops / Saw the first signs of recovery in the duty-free market (H1 results Feb. 18<sup>th</sup>)

**FIAT (Minor) :** Italian Industry Minister is convening a meeting on January 29 with Fiat management and trade unions to discuss the planned closure of the Termini Imerese car plant in Sicily

**PHARMA :** US Congressional Democrats finalizing a health-care overhaul asked drug companies to contribute an **additional \$10bn** and possibly more over a decade to help cover the cost

	RESULTS	DIVIDENDS	EVENTS
Today	<b>EU</b> \ Man Group interim <b>US</b> \ JP Morgan (BMO)	Caterpillar(\$0.42)	
Monday	<b>EU</b> \ Casino sales / Soitec		
Tuesday	<b>EU</b> \ Accor sales / Alstom (BMO) / Gazprom / Land Securities interim / SABMiller trading statement <b>US</b> \ Amazon.com / Citigroup (BMO) / IBM		
Wednesday	<b>EU</b> \ ASML (BMO) / BHP Billiton Production / Ingenico <b>US</b> \ Bank of America / ConocoPhillips / eBay / Morgan Stanley / Starbucks / State Street / US Bancorp / Wells Fargo / Xilinx (AMC) <b>Asia</b> \ Samsung	Imperial Tobacco (GBp 57,77778) / Pennon (GBp 7,722222) / P&G (\$0.44)	Visa AGM
Thursday	<b>EU</b> \ Ahold / Bankinter / Continental Airlines / Logitech <b>US</b> \ AMD / American Express / Goldman Sachs / Google / Union Pacific / Xerox <b>Australia</b> \ OZ Minerals	Colgate (\$0.44)	ThyssenKrupp AGM

### TRADING IDEAS

**BUY BMW / NESTLE / ACCOR / BASF** on double bottom

**BUY STM / ASML / ALCATEL** to play bullish trend

**SELL DANONE** to play double top possibility

**SELL RENAULT / PEUGEOT / THYSSEN** to play H&S possibility / **SELL TOTAL / ENI / BP / MICHELIN** toppish still

**BUY HOLCIM / SELL LAFARGE // BUY ROYAL DUTCH / SELL BP // BUY SALZGITTER / SELL THYSSEN // BUY NESTLE / SELL DANONE // BUY LOCKHEED MARTIN / SELL NORTHROP GRUMMAN**

### BROKER METEOROLOGY

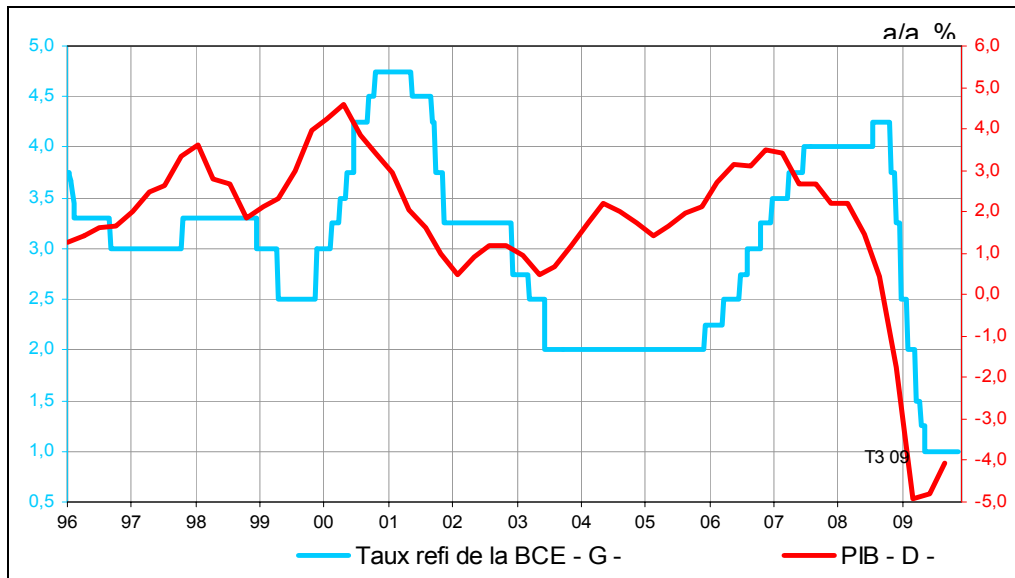
**HSBC**..... **RAISED TO BUY FROM HOLD** ..... **BY DEUTSCHE BANK**  
**JC DECAUX** ..... **RAISED TO NEUTRAL FROM SELL** ..... **BY UBS**  
**ALSTOM**..... **RAISED TO OUTPERFORM FROM NEUTRAL** ..... **BY EXANE**

**TOTAL**..... **CUT TO HOLD FROM BUY** ..... **BY ING**  
**STATOIL**..... **CUT TO SELL FROM HOLD**..... **BY ING**  
**HEIDELBERGCEMENT** ..... **CUT TO HOLD FROM BUY** ..... **BY ING**  
**NOVO NORDISK**..... **CUT TO HOLD** ..... **BY JEFFERIES**  
**UNILEVER**..... **CUT TO REDUCE FROM BUY** ..... **BY NOMURA**  
**PARMALAT**..... **CUT TO REDUCE FORM BUY** ..... **BY NOMURA**  
**RIO TINTO**..... **CUT TO HOLD FROM BUY** ..... **BY CITIGROUP**  
**SAP**..... **CUT TO HOLD FROM BUY** ..... **BY UNICREDIT**  
**SANDVIK**..... **CUT TO UNDERPERFORM FROM NEUTRAL**..... **BY EXANE**

**PLEASE FIND BELOW ON THE NEXT PAGE OUR MORNING ECO**

CHART OF THE DAY

Euro area GDP (D) (%/YoY) and ECB refi rate (G)  
Since 1996



Source: Bloomberg

Despite the logical rise of inflation in the euro zone, which would have much bothered the ECB board of directors a few months ago the ECB decided to come down in saying that inflation in the euro zone will remains weak in the coming months (around 1%) and below 2% over the all year. In such conditions we changed our last prevision and we forecast that the rise of the ECB refi rate will take place at the soonest at fall 2010 and at 1.5% maximum./JB

Time	Country	Indicator	Period	GE forecasts	Consensus	Previous
10.00 GMT	Euro area	Consumer price index	december	+ 0,3 %, + 0,9 % YoY	+ 0,3 %, + 0,9 % YoY	+0,1%,+0,5% YoY
10.00 GMT	Euro area	Trade balance	november		+ € 5,0 bn	+ € 6,3 bn
13.30 GMT	United-States	Consumer price index	december	+0,2%,+2,8% YoY	+0,2%,+2,8% YoY	+0,4%,+1,8% YoY
13.30 GMT	United-States	Consumer price index core (ex food and energy)	december	+0,1%,+1,8% YoY	+0,1%,+1,8% YoY	+0,0%,+1,7% YoY
13.30 GMT	United-States	Empire Manufacturing index	december		12,00	2,55
14.15 GMT	United-States	Industrial production	december	+0,6%	+0,6%	+0,8%
14.15 GMT	United-States	Capacity utilization	december	71,8%	71,8%	71,3%
14.55 GMT	United-States	University of Michigan confidence (preliminary)	january		74,0	72,5

Indexes	Price	% 5 Days	Ytd
DJIA	10710,6	0,98%	2,71%
S&P 500	1148,5	0,61%	2,99%
Nasdaq	2316,7	0,74%	2,10%
CAC 40	4015,8	-0,22%	2,02%
DAX	5988,9	-0,51%	0,53%
Eurostoxx 50	2989,7	-0,59%	0,84%
DJ 600	258,8	0,32%	1,95%
FTSE 100	5498,2	-0,51%	1,58%
Nikkei	10982,1	1,64%	4,13%
Shanghai Comp	3216,3	0,71%	-1,86%
Sensex (India)	17574,1	-0,18%	0,63%
MICEX (Russia)	1455,7	6,88%	6,25%
Bovespa (Brasil)	69801,4	-0,92%	1,77%

Forex	Price	% 5 Days	Ytd
EUR/USD	1,4413	0,05%	0,64%
EUR/JPY	131,19	1,73%	-1,52%
USD/JPY	91,02	1,76%	-2,21%
Oil	Price	% 5 Days	Ytd
Brent \$/b	77,5	-4,07%	0,36%
Gold	Price	% 5 Days	Ytd
Gold \$/oz	1138,1	-0,03%	3,74%
Rates	USA	Euro	Japan
Central Banks*	0,25	1,00	0,10
Overnight	0,03	0,24	0,10
3 Months	0,04	0,30	0,20
10 Years**	3,72	3,30	1,33

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

\*\* Euro: German Bund rate Source : Bloomberg

## ECONOMIC DATA PREVIEW

Watch in the **UNITED-STATES** the industrial production and capacity utilisation (14.15 GMT) for December. After increasing from July to September (+3%) and stabilizing in October, US industrial production which rose by 0.8% in November should be up by 0.6% in December. As showed by the "production index" of the last ISM manufacturing survey up to 61.8 in December. In such conditions, after having increasing by 71.3% in November, the capacity utilization rate should reach 71.8% in December.

Watch in the **EURO AREA** the consumer price index (13.30 GMT) for December. In December, consumer prices should increase by 0.3% led by energy prices and commodities. From a year ago prices should rise again to 0.9%YoY. Inflation could even reach 1.7%YoY in January but should remain under control in 2010.**JB**

## ECONOMY

### UNITED-STATES : RETAIL SALES SLIGHTLY DECLINED IN DECEMBER

After increasing by 1.2% in October and by 1.8% in November (revised from +1.3%) advanced retail sales slightly declined by 0.3% in December. Meanwhile advanced retail sales less auto declined from 1.9% in November to -0.2% in December. Nevertheless this unexpected decline is not offsetting the global trend of consumption rebound. Indeed retail sales increased by 5% (annualized) and by 3% (annualized) in real terms. All the growth motors are back in the United-States starting with companies capital spending, industrial production, consumption. Not to mention a stabilization of the unemployment rate at 10% in December.

### UNITED-STATES : INITIAL JOBLESS CLAIMS SLIGHTLY ROSE AND CONTINUING CLAIMS DECLINED LAST WEEK

Initial jobless claims slightly rose from 433 000 to 444 000 last week confirming that the rebound of the employment market remains very progressive. Meanwhile continuing claims improved from 4 807 000 to 4 596 000 last week showing that its is now easier to find a job when you have lost it. Nevertheless the bottom has been reached on the labour market and the negative spiral has been broken as showed by the unemployment rate stabilizing at 10% in December.

### EURO AREA : INDUSTRIAL PRODUCTION INCREASED IN NOVEMBER

After declining by 0.3% in October Euro industrial production rose by 1% in November confirming the slight investment recovery as showed by the PMI manufacturing index (a leading indicator of investment). Meanwhile from a year ago industrial production remained weak at -7.1% YoY. The euro area is progressively recovering but the rebound remains weak and fragile. Indeed it will not be able to handle to many bad news as a lasting strong euro or a rise in energy prices. At the opposite of the United-States the euro area remains still very far from the virtuous circle of investment-employment - consumption.

### EURO AREA : THE ECB LEAVES UNCHANGED ITS REFI RATE IN JANUARY

Despite the logical rise of inflation in the euro zone, which would have much bothered the ECB board of directors a few months ago the ECB decided to come down in saying that inflation in the euro zone will remained weak in the coming months (around 1%) and below 2% over the all year. Meanwhile the ECB draw the attention on the fact that the recovery will remained weak, meaning that it will not be able to handle an rise of the refi rate. In such conditions we changed our last prevision and we forecast that the rise of the ECB refi rate will take place at the soonest at fall 2010 and at 1.5% maximum. This means that the Fed fund rate s will rise before the ECB refi rate precisely in June which will allowed the dollar to pursue its rising trend in reaching \$1.20 by September. In such conditions the euro area growth could reach 2% at the beginning of 2011.

