



Today, Bank of America, Wells Fargo, Morgan Stanley ... just that ... with a bit of Xilinx and E Bay after the close. Wild day ahead since the market focused on credit exposures from JP Morgan, imagining the worst for Citigroup which in fact came out as bad as expected. Indeed, early consumer-credit delinquency stabilized, meaning that we may see a stabilizing trend ahead in actual losses and credit costs. Empty trading activity after the long US weekend did the rest, just talking about the aggressive downside move from the morning as well as the sharp rebound occurring in the afternoon in Europe.

After we get a better idea of the banking sector outcome, we will focus on the Housing sector too. Some might tell you there are heavy inventories suggesting the housing starts are unlikely to rise anytime soon. But the surge in demand from the recently extended and expanded tax credit may prompt some increase in the building of smaller homes that are in relatively short supply. Once the banking sector earnings releases is past, with some update on the housing sector, we should have a slightly bigger visibility which Goldman tomorrow and GE on Friday will increase even more.

Very slow start of the year for now, but it might change thanks to comforting micro news, ahead of the Q4 GDP out next week which will provide a better idea of the economic activity cruising pace. More today, very financial focus, and everyday for two weeks. Yesterday's US session was encouraging as investors were looking for bargains hunting following the Friday's downside session, with an impressive firmer dollar alongside one of the better sessions since the start of the year. 90% of the stocks in the S&P were up. Health care fared the best this session. It advanced 2.0% amid speculation that a Republican election to the vacant Massachusetts Senate seat could stall or stymie health care reform.

Once more IBM earnings cam out better last night, but the stock was down 1% (from +1.5% in official session) probably on a sell the fact scenario combined to some exaggerated hopes that the earnings would be a lot better, and some fear of the heavy earnings flow coming in the next two weeks.

The situation remains the same, which unfortunately explains the lack of new strong idea. The economy is running on a strong pace, whether we like it or not, which is surprising every quarter since Q2 in both Europe and the US. The Great depression has been avoided and with it the deflation spiral, and whatever the recovery strength, we are recovering still especially as the Fed and US politicians are still monitoring the quantitative easy policy, gradually off as assets prices are back to decent levels for both the Equity and Housing sectors (whatever the surveys, still waiting for the drop in Europe ...) which brought a virtuous effect feeding the economic recovery pace. Long term yields remain low as there is no inflationary pressures more than a tough temporary base effect, banks are gradually more keen on lending, and the households will borrow more once the employment sector is stronger. So far the unemployment rates have been amazingly resilient in Europe while the US managed to create jobs as soon as in November, despite the December 85k destructions which bring some stress about the January data to be released in two weeks time.

Sideways session for today awaiting Bank of America, Morgan Stanley and Wells Fargo // Chinese GDP out overnight before tomorrow' opening will be important too.

	WTI	€/€	\$/¥	10 yr US	10 yr Euro	Basic	Energy	Financ	Health	Tech	Tel	Indus	Utilities	SOX	S&P	NAS	DOW	Close
Last	78,3	1,4195	91,19	3,68	3,28	1,82	0,80	1,24	1,96	1,53	1,43	1,06	1,28	1,79	1,25	1,42	1,09	US
Perf 1d %	0,06	-0,65	0,59	-1,35 bp	2,9 bp	0,91	-0,33	0,51	1,89	1,18	1,02	0,85	0,74	1,18	0,79	1,06	0,72	Europe

ECONOMIC DATA with impact

Mortgage Applications (12h UK time) / the highest the better / previous was up 14.3% / **minor**

Bank of America / Morgan Stanley / Wells Fargo / before US opening

PPI (13h30 UK time) expected flat from +1.8% // **ex food & energy** 0.1% from previous 0.5% / **minor** as we already had the CPI which was not a problem / we know inflation is being hurt by an unfriendly base effect from last year same time when energy prices were down

Housing Starts (13h30 UK time) expected 575k from previous 574k / upside possibility / **minor** as focus earnings

Building Permits (13h30 UK time) expected 580k from 584k / **minor** as focus earnings

E Bay / Xilinx after the US close

POSITIVE IMPACTS

ASML : Q4 sales \$581m (570m exp) / **Q4 bookings value €956m** (813m exp) / **Total machine bookings 40 unit** (37 exp) / **Proposes a dividend of €0.20**, in line & unchanged / **However**, Q1 sales guidance shy of expectations at €700m (800m exp)...

SWATCH : FY09 sales SFR5.4bn (5.20bn exp) / Saw **significant rebound** in sales in H2 with a "phenomenal record month of December" / Confident that **further solid organic sales growth** will be achieved in the year 2010

CAP GEMINI : Indian outsourcing firm **WIPRO** underscored the sector's recovery with a quarterly **profit that beat market forecasts** and an **upbeat outlook**...

EUROPEAN PHARMA : Healthcare shares rallied the most yesterday in NY betting a potential Republican victory in Massachusetts' Senate race could stall Obama's reform agenda and removing a threat to the profits of insurers and drug companies

NOVARTIS : 3 new medicines were approved in Japan for patients with type 2 diabetes, high blood pressure & advanced kidney cancer

MICHELIN : S&P's affirmed its 'BBB' LT rating / The 'BBB' rating was removed from CreditWatch, where it was placed on Dec. 23 / The outlook is negative / Sees improvement in tire demand in the Q4 to continue in 2010 and ML benefiting from this trend

VIVENDI is in talks to **buy a majority stake in Datacom Solutions**, which owns a license to operate a mobile phone service in India / Officials from Datacom Solutions, a unit of Videocon Industries and Vivendi met in New Delhi last week... (The Economic Times)

EDF : French Prime Minister will Today receive the heads of EDF and Areva / Meeting set at 1500 GMT.

ELECTROLUX : **Shipments of core home appliances in North America rose by 5.1%** in December compared with the same month a year ago, data from the Association of Home Appliance Manufacturers showed late on Tuesday

BANCA POPOLARE DI MILANO statement on 2012 targets : Sees FY12 revenue €2.2bn (2bn exp) + net profit of €378m (342m exp)

BHP BILLITON : As exp, BHP posted record quarterly iron ore production + revealed it is selling more of its steelmaking input under short term reference pricing, boosting its exposure to soaring spot prices...

IBM : Q4 revenue \$27.23bn (26.9bn exp) / **GM 48.3%** (from 47.9%) / **EPS \$3.59** but with \$0.09 benefit from lower tax rate (3.47 exp) / **Sees 2010 EPS at least \$11** (10.90 exp) / Booked a **record \$18.8bn** in new services **contracts** in the quarter (+9% from last year)

NEGATIVE IMPACTS

ACCOR : Q4 rev. €1.81bn, in line / Q4 LFL sales down 7.1% / **Hotel** slightly better but **vouchers** slight worse / **Confirmed** FY09 targets

VOLKSWAGEN (Minor) : Audi will shut down production for its A3 model from Feb. 15 to Feb. 19 due to sinking orders (German press)

DEUTSCHE BOERSE will post a €420m charge for its Int. Securities Exchange unit after growth slowed in the U.S. options market (not a full surprise...) / Said it plans to keep its **dividend for 2009 unchanged at €2.10** / FY earnings report due Feb. 16

CSX (n°3 US Rail road) : **Q4 revenue \$2.3bn** (2.37bn exp) / **EPS \$0.77** (0.76 exp) / **Said** that economy showed a "modest sequential improvement" in Q4



TO BE NOTED : Chinese banking authorities have instructed some major banks to curb their lending over the rest of this month after an early burst of credit, sending China's **Shenzhen index down 3%**

	RESULTS	DIVIDENDS	EVENTS
Today	EU \ ASML (BMO) / BHP Billiton Production / Ingenico US \ Bank of America / Bank of New York Mellon / ConocoPhillips / eBay (AMC) / Morgan Stanley (BMO) / Starbucks / State Street / US Bancorp (BMO) / Wells Fargo (BMO) / Xilinx (AMC) Asia \ Samsung	Imperial Tobacco (GBP 57,77778) / Pennon (GBP 7,722222) / P&G (\$0.44)	Visa AGM
Thursday	EU \ Ahold / Bankinter / Continental Airlines / Logitech / United Utilities US \ AMD / American Express (AMC) / Goldman Sachs (BMO) / Google (AMC) / UnitedHealth / Union Pacific / Xerox (BMO) Australia \ OZ Minerals	Colgate (\$0.44)	ThyssenKrupp AGM
Friday	EU \ Bankinter / Sony Ericsson / US \ Air Products & Chemicals / General Electric (BMO) / Mc Do (BMO) / Merck / Schlumberger (BMO)	ThyssenKrupp (GBP 0.3)	
Monday	EU \ Ericsson / Fiat / Philips US \ Amgen (AMC) / Apple (AMC) / Halliburton (BMO) / Texas Instruments (AMC)		
Tuesday	EU \ Banco Popular Espanol (BMO) / Kone / KPN / Novartis / Siemens / ST Microelectronics (after US close) US \ Du Pont de Nemour (BMO) / J&J / Verizon / Yahoo! / United State Steel Asia \ HTC		Monsanto AGM

TRADING IDEAS

BUY STM to play dollar recovery

BUY ST GOBAIN / DBK / CREDIT SUISSE / ACCOR looking good

BUY STM / **SELL PHILIPS** (earnings on Monday) // BUY BT / **SELL VODAFONE** // BUY BRITISH AMERICAN TOBACCO / **SELL IMPERIAL TOBACCO** // BUY GLAXO / **SELL ASTRAZENACA** // BUY BRISTOL / **SELL PFIZER**

BROKER METEOROLOGY

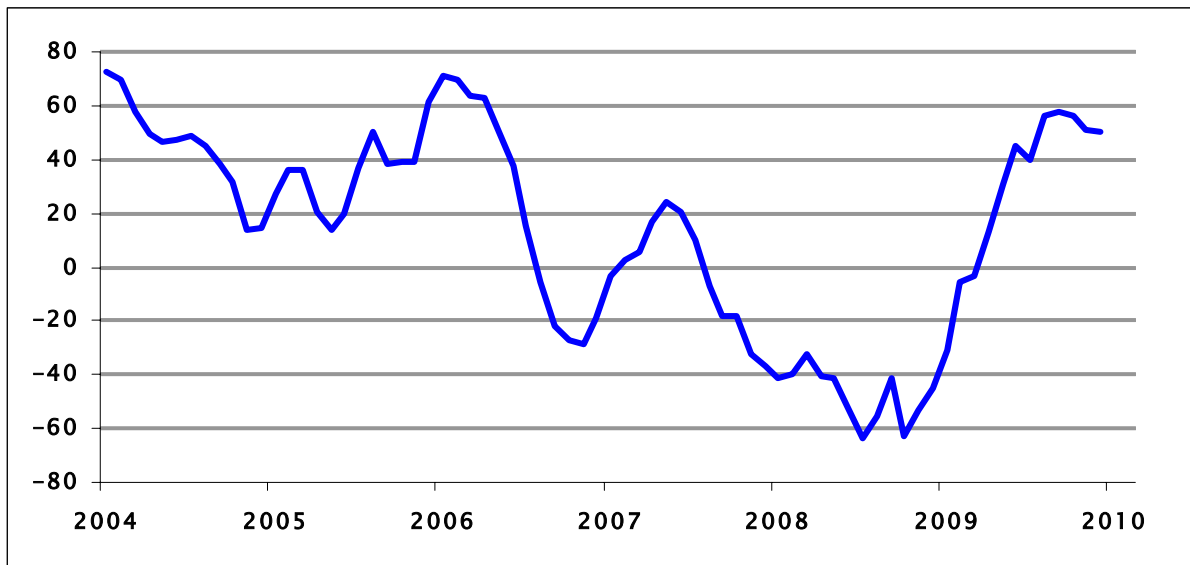
ALLIED IRISH BANK RAISED TO NEUTRAL FROM SELL BY UBS
 CABLE & WIRELESS RAISED TO BUY FROM HOLD BY CITIGROUP
 SOLVAY RAISED TO OVERWEIGHT BY JP MORGAN
 SHIRE RAISED TO OVERWEIGHT FROM NEUTRAL BY JP MORGAN
 TECHNIP RAISED TO BUY FROM NEUTRAL BY BANK OF AMERICA - ML
 EDF RAISED TO OUTPERFORM FROM NEUTRAL BY EXANE
 VOLKSWAGEN ORDINARY RAISED TO NEUTRAL FROM SELL BY UBS
 ALFA LAVAL RATED NEW OUTPERFORM BY CREDIT SUISSE

RENAULT **CUT TO SELL FROM NEUTRAL** **BY UBS**
MUNICH RE **CUT TO NEUTRAL FROM BUY** **BY UBS**
ZURICH FINANCIAL **CUT TO NEUTRAL FORM BUY** **BY UBS**
ALSTOM **CUT TO EQUALWEIGHT FROM OVERWEIGHT** **BY MORGAN STANLEY**
VALLOUREC **CUT TO UNDERPERFORM FROM NEUTRAL** **BY BANK OF AMERICA - ML**
GAZPROM NEFT **CUT TO SELL** **BY DEUTSCHE BANK**
LUKOIL **CUT TO HOLD** **BY DEUTSCHE BANK**
CARREFOUR **REMOVED FROM ANALYST FOCUS LIST** **BY JP MORGAN**
AKZO NOBEL **RATED NEW UNDERPERFORM** **BY CREDIT SUISSE**

PLEASE FIND BELOW ON THE NEXT PAGE OUR MORNING ECO

CHART OF THE DAY

ZEW German expectations of economic growth Since 2004



Source: ZEW

After declining in October and in November the ZEW index decreased again in December at 50.4. In January the ZEW index declined for a fourth consecutive month and fell more sharply than expected at 47.2 (forecast 50.0). This decline confirms that despite the slight recovery German's recovery remains fragile./JB

Time	Country	Indicator	Period	GE forecasts	Consensus	Previous
7.00 GMT	Germany	Producer prices	December		+0,2%,-5,1% YoY	+0,1%,-5,9% YoY
9.30 GMT	United Kingdom	Claimant count rate	December		5%	5%
9.30 GMT	United Kingdom	Jobless claims change	December		-4 600	-6 300
12.00 GMT	United-States	MBA mortgage applications	January 15th			14,3%
13.30 GMT	United-States	Producer prices index	December	- 0,5%, 3,7 % YoY	0,0%,+4,5% YoY	+1,8%,+2,4% YoY
13.30 GMT	United-States	Producer prices (core)	December	+0,1%, + 0,9 % YoY	+0,1%,+1,0% YoY	+0,5%,+1,2% YoY
13.30 GMT	United-States	Housing starts	December	580 000	575 000	574 000
13.30 GMT	United-States	Building permits	December	595 000	580 000	589 000

Indexes	Price	% 5 Days	Ytd
DJIA	10725,4	0,61%	2,85%
S&P 500	1150,2	0,30%	3,15%
Nasdaq	2320,4	0,35%	2,26%
CAC 40	4009,7	0,24%	1,86%
DAX	5976,5	0,56%	0,32%
Eurostoxx 50	2984,8	0,27%	0,67%
DJ 600	260,3	1,52%	2,51%
FTSE 100	5513,1	0,27%	1,85%
Nikkei	10737,5	-1,05%	1,81%
Shanghai Comp	3153,0	-0,83%	-3,79%
Sensex (India)	17476,1	0,37%	0,07%
MICEX (Russia)	1484,0	3,95%	8,32%
Bovespa (Brasil)	69908,6	-0,24%	1,93%

Forex	Price	% 5 Days	Ytd
EUR/USD	1,4189	-2,22%	-0,93%
EUR/JPY	129,44	2,44%	-2,90%
USD/JPY	91,22	0,16%	-1,97%
Oil	Price	% 5 Days	Ytd
Brent \$/b	76,3	-1,98%	-1,17%
Gold	Price	% 5 Days	Ytd
Gold \$/oz	1131,3	-0,60%	3,14%
Rates	USA	Euro	Japan
Central Banks*	0,25	1,00	0,10
Overnight	0,08	0,27	0,10
3 Months	0,05	0,27	0,20
10 Years**	3,67	3,28	1,34

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

** Euro: German Bund rate Source : Bloomberg

ECONOMIC DATA PREVIEW

Watch in **THE UNITED-STATES** the housing starts and building permits for December released at 13.30 GMT. The housing market is definitively rebounding, and we forecast that housing starts and building permits will rise again in December to reach respectively 580 000 and 595 000.

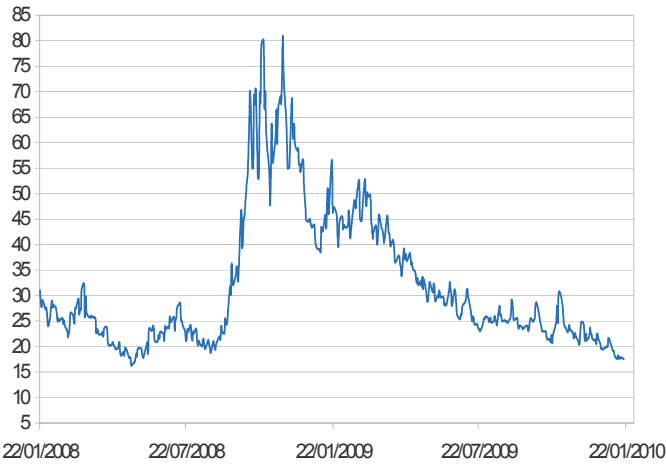
Keep on eye on the Producer prices for December released at 13.30 GMT. Producer prices are expected to improve from a year ago at +4.5% YoY (prior +2.4%YoY). This rise is logical as its is due to a positive base effects as energy prices in December, after sharply decreasing over the same period last year.

ECONOMY

Germany : **THE ZEW INDEX DECREASED IN JANUARY BUT REMAINS CONSISTENT**

After declining in October and in November the ZEW index decreased again in December at 50.4. In January the ZEW index declined for a fourth consecutive month and fell more sharply than expected at 47.2 (forecast 50.0). This decline confirms that despite the slight recovery German's recovery remains fragile. On the other hand the ZEW index remains higher than its long run average and still above zero meaning that investors still see conditions improving. The IFO index (released next Tuesday) which is a more reliable leading index of the activity will provide a more accurate steer on the economic outlook./JB

VIX index : implied volatility on the S&P 500



Source : Bloomberg

\$ Libor - 3-Month (Interbank Rate)



Source : Bloomberg

United States : 10-year Treasury yield



Source : Bloomberg

10-year Treasury spread USA-Euro zone



Source : Bloomberg

Oil : Brent (\$/b)



Source : Bloomberg

Forex : Euro vs Dollar (EUR/USD)



Source : Bloomberg