



Obama's plan to curtail risk-taking at banks, China moving to curb bank lending, a much stronger dollar that points to an acceleration of unwinding carry-trades (the euro reached a 6-month low yesterday of 1.4029 EUR/USD) and weaker-than-expected economic data weighed on equity markets yesterday for a second day in a row, while bonds appeared to be a safe haven. **But there are good incentives for a new start:** implied volatility rose (VIX at 22.3 % vs. 17.6 % at the end of last week), trade volumes are increasing, index valuation appear to be more attractive while earnings show that 80 % of S&P 500 companies that have reported Q4 earnings are positive surprises. This is why General Electric's earnings release today could be the catalyst of a new equities' upside.

By hammering Wall Street banks, Obama exacerbated investors' disappointment yesterday. These investors have already been in turmoil since last week when the White House announced a plan to impose a fee on as many as 50 financial companies to recover losses from the federal government's TARP. The global banking industry was thrown into turmoil yesterday after President Barack Obama, proposed the most far-reaching overhaul of Wall Street since the 1930s. In reforms that could force the restructuring of some of the biggest names in US finance, including JPMorgan Chase (-6.59 % yesterday) and Goldman Sachs (-4.12 %). Mr Obama promised that "never again will the American taxpayer be held hostage by a bank that is too big to fail". Paul Volcker, the former Fed chairman has advocated the move for months. Obama called for **banks to be banned from running their own trading desks and "owning, investing in or sponsoring" hedge funds and private equity groups.** Tim Geithner, the Treasury secretary, who has come under attack from Democrats on Capitol Hill, backed the plan, officials said, even though his own regulatory proposals have stopped well short of the sweeping Volcker reforms. Obama called for new rules – beyond current regulations **restricting banks from holding no more than 10 per cent of US deposits** – that would place unspecified size limits on institutions. Yesterday, regional banks that could profit by the reform soared (Fifth Third Bancorp +6.3 %, KeyCorp +5.5 %). Bankers said the lack of detail and the likelihood of a protracted debate in Congress would give them the chance both to lobby for changes and to adapt their businesses, with, for example, Goldman possibly giving up the financial holding company status it adopted in the financial crisis.

Investors also worried about the consequences of China moving to curb bank lending on global activity. Thus, oil prices declined (WTI at \$75.78 /bbl, -1.84\$) as well as raw materials. Basic resources companies weighed on equity indexes yesterday. In addition to that, macro data didn't help, despite better-than-expected Leading Indicators (+1.1 % in December vs. +0.7 % expected and a revised up +1.0 % in November).

Initial weekly jobless claims rose sharply during the week ending on January 16th (482k vs. 440k expected) after 446k (revised from 444k) a week earlier. So far, the January average points to 453.7k still on a downside trend when compared with prior monthly average of 460.2k (Dec), 480.8k (Nov), 524.2k (Oct) and 548.8k (Sept). The Philadelphia Fed index decreased from a revised reading of 22.5 in December to 15.2 this month. The index has now remained positive for five consecutive months. Indicators for new orders and shipments suggest continued growth this month, but they also declined somewhat from their December readings. The current new orders index, which has remained positive for six consecutive months, decreased 5 points. The current shipments index fell 4 points. The current inventory index, although still negative, increased 4 points, to its highest reading in 26 months.

An important victim of China's undervalued currency is Japan, currently one of the weakest spots in the global economy. Japan presented a dismaying economic picture in 2009 without much promise for improvement in 2010. About four weeks after a sharp increase in growth to a 4.8 % annual rate was initially reported for the third quarter, the same number was revised down sharply to 1.3 %. As is so often the case in Japan, the headline "real" numbers were substantially inflated by the assumption of falling prices. In the initial report, the assumption of a -5.1 % GDP deflator turned a -0.3 % nominal growth rate in the third quarter into a positive 4.8 % real rate. Once the revisions were completed, the nominal, annualized growth rate in the third quarter was reported to be -3.4 percent, as the deflator was adjusted to a 4.7 percent annual rate. Falling nominal GDP is deflationary because it shrinks the total money value of activity, thereby forcing producers to cut prices even further to try to capture a larger share of an overall shrinking demand pie. **The blunt truth is that Japan is slipping into a deflationary crisis,** with interest rates set effectively at zero, a budget deficit at over 8 % of GDP, and government debt heading for 200 % of GDP—far above the rising G7 average of about 90 %. Japan's dilemma clearly demonstrates the corrosive effects of persistent deflation. The negative shock to the global economy occasioned by the bursting of the real estate bubble, coupled with China's currency peg, which enhances China's competitive position in Asia and globally to the detriment of exporters like Japan, has placed Japan in danger of a severe deflationary crisis that policymakers have little means to combat. As already noted, although it is somewhat counterintuitive, Japan's currency may continue to strengthen despite the weakness of the economy as intensifying deflation raises real yields on Japanese government bonds. Such real yields are already substantially higher than those available in the United States and Europe at all maturities, thanks to the increase occasioned by accelerating deflation.

	WTI	€/€	\$/¥	10 yr US	10 yr Euro	Basic	Energy	Financ	Health	Tech	Tel	Indus	Utilities	SOX	S&P	NAS	DOW	Close
Last	75,9	1,4136	90,05	3,58	3,21	-4,59	-1,81	-2,53	-2,09	-0,97	-0,82	-2,14	-1,37	-0,54	-1,89	-1,12	-2,01	US
Perf 1d %	-2,86	0,37	0,05	-0,56 bp	-1,6 bp	-3,26	-1,33	-1,91	-1,84	-0,98	-1,17	-1,81	-0,98	-0,81	-1,53	-1,03	-1,75	Europe

ECONOMIC DATA with impact

GENERAL ELECTRIC and McDONALD'S earnings before market opening

No major data released today in the U.S.

In the U.K., watch for retail sales for December (09.30 U.K. time), expected +1.1 % MoM, +3.0 % YoY / **interesting** as a drop in the ILO unemployment rate (7.8 % in November vs. 7.9 %) and a jobless claims change of -15.2k in December may send retail sales above consensus.

POSITIVE IMPACTS

EADS is ready to bear only €800m of the €5.2bn in added costs of the A400M (La Tribune) / **In return,** it is seeking a rise in the payments the 7 customer governments = **The price per plane would rise to €140m** from between €105m and €110m...

AIR FRANCE-KLM wants to cut 20% from the cost structure of its short and medium flights (Les Echos) / **Separately,** Les Echos reported that Co could lose more than €300m on intra-European flights in the current fiscal year

BSkyB is considering a quick sale of its 17.9% stake in ITV after losing its appeal vs the forced sale of part of the stake (The Guardian)

ERICSSON-STM : ST-Ericsson posted **Q4 net sales of \$740m** vs \$746m y/y and an adjusted operating loss of \$50m (-125m exp) / Said the \$230m restructuring plan is on track / Q1 expected to be characterised by the usual market seasonal decline...

AMEX : **Q4 revenue \$ 6.5bn** (6.22bn exp) / **EPS \$0.59** (0.57 exp) / ROE 14.6% (13.8% exp) / Improving trends in delinquencies + shrinking card loans portfolio / Provision for losses -47% to \$748 m

AMD : **Q4 revenue \$1.65 bn** (1.50bn exp) / **Adjusted loss/share \$0.05** (-0.14 exp) / **Gross margin** rose to 45% from 23%, also above expectations / Strong growth in its graphics business / Saw signs of a turnaround emerging

NEGATIVE IMPACTS

EDF is hesitating over the proposed sale of its UK network and is considering whether it can cut its ratio of debt to operating profit by improved performance rather than by assets sale (Les Echos)

GOOGLE : Q4 revenue, ex-TAC, \$4.95bn (5.05bn exp) / **EPS \$6.79** (6.44 exp) / **Cost per click** up about 2% sequentially (+4% exp) / Sound figures overall but problems in China remain an overhang on the stock...

	RESULTS	DIVIDENDS	EVENTS
Today	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)		Sodexo AGM
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
Wednesday	EU BBVA / Banco Esperito Santo / Lonza / Metropole TV (M6) sales / SAP US Abbott / Boeing / Caterpillar / ConocoPhillips / General Dynamics / Qualcomm / Sun Micro / United Tech Asia Canon	Compass (GBp 9,777778) / Siemens (€1.60)	Apple iSlate presentation
Thursday	EU B Sky B / H & M / Nokia / Lonza / Svenska Cellulosa US Altria / American Electric Power / AstraZeneca / AT&T / Baxter / Bristol Myers Squibb / Colgate / Microsoft / P&G / SanDisk / Tyco / 3M		

TRADING IDEAS

BUY TOTAL on double bottom / **BUY ALCATEL / STM / METRO** to play reversal Head & Shoulder possibility
BUY ALSTOM / ST GOBAIN / ACCOR looking good

BUY TOTAL / SELL ASTRAZENECA to play exotic spread // **BUY STM / SELL ASML** // **BUY METRO / SELL TESCO** // **BUY H&M / SELL INDITEX** // **BUY BRISTOL / SELL PFIZER**

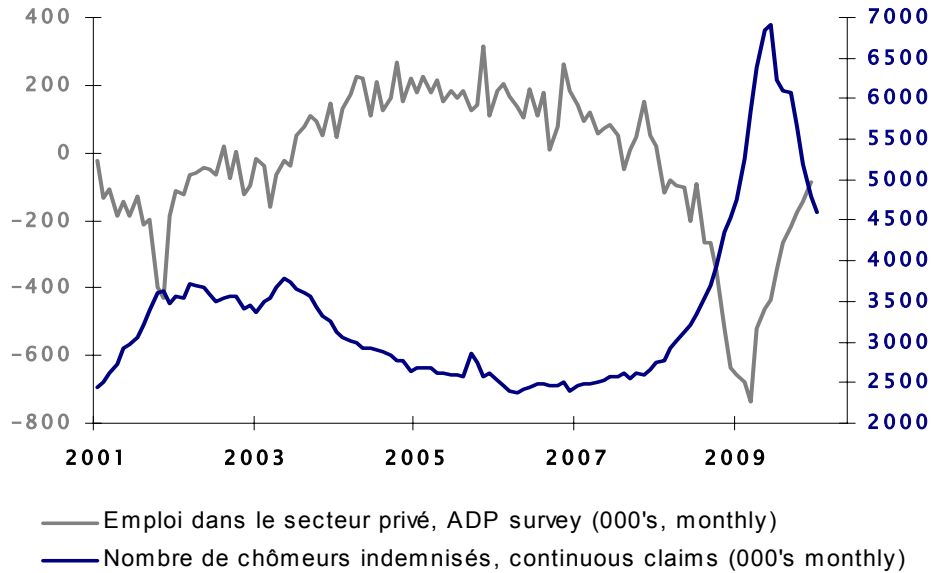
BROKER METEOROLOGY

SCHNEIDER ELEC	RAISED TO OVERWEIGHT FROM NEUTRAL	BY HSBC
LEGRAND	RAISED TO OVERWEIGHT FROM NEUTRAL	BY HSBC
RIO TINTO	RAISED TO OVERWEIGHT FROM NEUTRAL	BY HSBC
PEUGEOT	RAISED TO NEUTRAL FROM SELL	BY GOLDMAN
SEVERSTAL	RAISED TO BUY FROM NEUTRAL	BY GOLDMAN
CONTINENTAL	RAISED TO BUY FROM NEUTRAL	BY GOLDMAN
FAURECIA	RAISED TO BUY FROM NEUTRAL	BY GOLDMAN
UNITED UTILITIES	RAISED TO EQUALWEIGHT FROM UNDERWEIGHT	BY MS
DAIMLER	CUT TO NEUTRAL FROM BUY	BY GOLDMAN
ENI	CUT TO HOLD FROM BUY	BY RBS

PLEASE FIND BELOW ON THE NEXT PAGE OUR MORNING ECO

CHART OF THE DAY

ADP private report survey and US continuing claims
Since 2001



Source: Bloomberg

Initial jobless claims improved for a fifth consecutive week from 4 617 000 to 4 599 000. The very progressive recovery is logical as unemployment remains a lagging indicator of the activity with a gap of 6 to 9 months. Consequently US employment should significantly improved at spring./JB

Time	Country	Indicator	Period	GE forecasts	Consensus	Previous
7.45 GMT	France	Business climate	January	90	90	89
7.45 GMT	France	Production outlook	January		-10	-11
9.30 GMT	United Kingdom	Retail sales	December		+1,1%,+3,0% YoY	-0,3%,+3,1% YoY
10.00 GMT	Euro area	Industrial new orders	November		+0,5%,-7,1% YoY	-2,2%,-14,5% YoY

Indexes	Price	% 5 Days	Ytd
DJIA	10389,9	-2,66%	-0,37%
S&P 500	1116,5	-2,53%	0,12%
Nasdaq	2265,7	-1,82%	-0,15%
CAC 40	3862,2	-3,83%	-1,88%
DAX	5747,0	-4,04%	-3,53%
Eurostoxx 50	2863,3	-4,23%	-3,43%
DJ 600	252,8	-2,33%	-0,45%
FTSE 100	5335,1	-2,93%	-1,44%
Nikkei	10590,6	-0,36%	0,42%
Shanghai Comp	3132,1	-1,76%	-4,43%
Sensex (India)	16996,3	-3,04%	-2,68%
MICEX (Russia)	1435,9	-1,36%	4,81%
Bovespa (Brasil)	66270,1	-5,06%	-3,38%

Forex	Price	% 5 Days	Ytd
EUR/USD	1,4133	-1,74%	-1,36%
EUR/JPY	127,55	2,38%	-4,65%
USD/JPY	90,25	0,59%	-3,22%
Oil	Price	% 5 Days	Ytd
Brent \$/b	74,0	-3,21%	-4,07%
Gold	Price	% 5 Days	Ytd
Gold \$/oz	1095,9	-3,09%	-0,09%
Rates	USA	Euro	Japan
Central Banks*	0,25	1,00	0,10
Overnight	0,07	0,25	0,10
3 Months	0,04	0,28	0,20
10 Years**	3,58	3,21	1,34

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

** Euro: German Bund rate Source: Bloomberg

ECONOMIC DATA PREVIEW

NO ECONOMIC DATA RELEASE IN THE UNITED-STATES

Watch in **FRANCE** the Business Confidence Indicator for January released at 7.45 GMT, expected to reach 90 (prior 89) as unemployment remains high and the recovery remains weak and fragile in France.

ECONOMY

UNITED-STATES : NEW RISE OF THE CONFERENCE BOARD LEADING INDICATORS IN DECEMBER.

The recovery is expanding as showed by the ISM manufacturing and the ISM services index reaching 55.9 and 50.1 respectively in December, as well by the rebound of private consumption which accounts for approximately 70% of the American GDP and the industrial production. Not to mention the labour market as showed by the unemployment rate stabilizing at 10% in December. In such conditions, the Conference Board Leading Indicator logically rise by 1.1% in December.

UNITED-STATES : INITIAL JOBLESS CLAIMS INCREASED AND CONTINUING CLAIMS IMPROVED LAST WEEK

Weekly employment data revealed a rise of initial jobless claims for a third consecutive weeks at 482 000 (prior 446 000). Meanwhile initial jobless claims improved for a fifth consecutive week from 4 617 000 to 4 599 000. The very progressive recovery is logical as unemployment remains a lagging indicator of the activity with a gap of 6 to 9 months. Consequently US employment should significantly improved at spring.

EURO AREA : PMI SERVICES DECREASED AND PMI MANUFACTURING SLIGHTLY IMPROVED

At the opposite of the United-States the euro area remains far from the virtuous circle investment-employment-consumption. Indeed the latest PMI surveys (and advance indicator of investment) revealed a slight decline of the PMI services from 53.6 in December to 52.3 in January. Meanwhile the PMI manufacturing improved but very slightly from 51.6 to 52.0 in January. These data are confirming that after the technical rebound the recovery remains weak and needs to be confirmed in the Euro area./JB

