

A Federal Reserve rate meeting tomorrow, as well as President Barack Obama's state of the union address and the possibility that Fed Chairman Ben Bernanke won't get his confirmation remains the center stage this week. Also, 12 members of the Dow Jones Industrial Average and 130 companies in the S&P 500 report results. But on paper, companies are passing the earnings test with flying colors. Of the 92 companies that have released fourth-quarter results, 78% beat expectations for the bottom line, 4% matched and 17% fell under consensus forecasts. The 78% figure is unusually high, compared with the 15-year average of 61% of S&P 500 companies topping expectations. Global monetary policy and U.S. politics can take much of the credit for stocks' sorry performance in the past week, putting the shadow on earnings which happened to be more than fine. "This was a correction precipitated by fear about a Chinese slowdown, uncertainty at the Fed and populist rhetoric by Mr. Obama on banks," said a chief investment strategist. Which is true, and the predictable story of 2010 : the normalization of the economical growth. So far, the first mission is accomplished, economies are out of recession and the Great Depression 2 has been avoided. Second step was to make this growth be able to feed itself and be self supported, which means to reach some job creation data strong enough to see unemployment rates decrease. It seems from last week and Obama's speech that the political interference might not perfectly match the economic interest anymore. However, the moral hazard of the bail out has already been a reason for some sharp sell-offs last year, and in the end both Republicans and Democrats have a common interest in keeping the equity indices and the housing sector rather steady to support the wealth from households, at least until we reach some improvement on the job front.

Obama and the Fed should not be too naughty tomorrow after such a prompt negative response from the US equity markets last week. Both recoveries of the indices and economies are still fragile. Many of the past week's fears are likely to linger, and Washington will play a key role in setting the tone. Investors will be listening closely to tomorrow's Federal Reserve statement. It's expected to keep rates near 0% and largely stick to its schedule for ending its special liquidity, or bond-buying, programs. But any language about the economy or these special programs that suggests it's getting closer to raising interest rates could further punish stock and commodities. Stocks, oil and emerging markets currencies have all rallied in the past year on the belief government stimulus programs in China, the U.S. and elsewhere, coupled with ultra low rates, would help the global economy bounce out of a deep slump. The assets perceived as riskiest have performed best, thanks in part to low borrowing costs. The prospect for rising rates, in turn has walloped the high-flying investments recently. On Friday, the U.S. government will release its Q4 GDP which is likely to reveal that the economy expanded at a 5.5% rate in the last three months of the year. In his state of the union address, Obama may address the increasingly tenuous prospects for passing the type of overhaul Obama and many Democrat leaders wanted. Or he may weigh in on making it harder for diversified banks to take on risk, a proposal that helped sink stocks Thursday and Friday. We think the equity collapse sent him a signal he and other politic members should be more listening too.

The biggest worry being about Bernanke. A Senate vote to confirm him for a second term was delayed in the past week as the Democratic leadership worked to get the needed votes. The chance Bernanke may not be confirmed before his term as chairman expires Jan. 31 added to the pall over markets. If the reason he's not confirmed is simply because of a delay in the Congress, maybe because of signalling some members want to give Bernanke, the market won't be concerned for any lasting time. If the delay is occurring because there's a change in support for Bernanke, that's a different story. Once again Bernanke might be the focus for those who complains about a too easy policy which made possible the big profits from the banks at a time when the job situation remains very weak. However, for now, for the economy and the market, the best choice would be that Bernanke's job is extended.

Once and if we pass the Bernanke test, which has clearly become the center of a political dispute, investors want to hear revenue is expanding - and that they will keep increasing. Revenue growth will mean the outlook for earnings remains good for the next few quarters and should sometime soon lead to some job creations, making the economical recovery self happening and no longer dependent from politics which seem to be nervous about some bad side of the recovery, as they suffer from populists pressures. Meanwhile, the 16.7% m/m plunge in existing home sales from 6.54m annualised in November to 5.45m in December, let some think the tax credit was responsible for a large part of the recent turnaround in the housing market. We think that was not the only reason. December's decline reflects the fact that a lot of sales were rushed through to beat the end-November deadline of the original tax credit. It surely places a large question mark over whether the recovery can be sustained when the extended tax credit expires this April, even more in the current political uncertainty.

Interesting day ahead, with still Obama's speech tomorrow putting any current major event in the shade. Any news regarding Bernanke remains the focus. Any positive underlying events will just make the indices recovery even bigger as we know more regarding the Fed policy to be conducted in the soon future

	WTI	€/€	\$/¥	10 yr US	10 yr Euro	Basic	Energy	Financ	Health	Tech	Tel	Indus	Utilities	SOX	S&P	NAS	DOW	Close
Last	74,4	1,4080	89,76	3,58	3,22	0,98	0,67	0,45	-0,08	0,76	0,91	0,37	0,60	1,42	0,46	0,25	0,24	US
Perf 1d %	-0,21	-0,50	1,08	-5,01 bp	0,2 bp	1,34	0,86	-0,11	0,32	0,55	0,74	0,22	0,78	0,94	0,42	0,03	0,24	Europe

ECONOMIC DATA with impact

German IFO index for January (09.00 UK time) might be slightly more positive than some recent survey evidence. Nonetheless, an increase from 94.7 to something like 95.0 would be small compared to the recent past / **minor**

US Case-Shiller index (14h UK time) expected 146,8 from previous 146,58 / **minor**

US Consumer Confidence (15h UK time) expected 53,5 from previous 52,9 / the alternative University of Michigan survey suggests that the Conference Board measure will record a small increase from 52.9 in December to around 53.5 in January / **minor**

POSITIVE IMPACTS

SIEMENS : Q1 sales €17.35bn (17.93bn exp) / **Operating €2.25bn** (1.82bn exp) / **Order book €18.98bn** (18.43bn exp) / Confirmed FY10 outlook / Cost cuts starting to pay off but **order book decline still strong** (-15%) even if decelerating

PEUGEOT : Discussion to forge a strategic alliance with Mitsubishi Motors have stalled (Les Echos) / Unresolved issues revolve around price, valuations and any possible dilution of the Peugeot family's 30% stake in PSA

NOVO NORDISK announced overnight that the FDA approved its Victoza drug for treatment of type-2 diabetes in adults

SAGE : Trading in-line with expectations / **Net debt** at 31 December 2009 reduced to £392m from £439m at 30 September

SEVERN TRENT sees trading in line with views / Decline in consumption has stabilized / Bad debt level remained at 2.3% of turnover

TEXAS INSTRUMENT : Q4 revenue \$3.01bn (2.98bn e) / **EPS \$0.52** (0.50 e) / **Sees Q1 revenue \$2.95-3.19bn** (2.83bn e) & **Q1 EPS \$0.44-0.52** (0.44 e) / But analysts said the investors betting that the highly cyclical chip market was peaking may be doing so too soon.

APPLE : Q1 revenue \$15.68bn (12.08bn exp but not comparable) / **Shipped 8.7m iPhone** (9m exp) but better-than-forecast Mac sales / **EPS \$3.67** (3.48 exp) / Strong growth in Asia and Europe / **GM 40.9%** (40.4% exp) / **Sees Q2 EPS \$2.06-2.18** (1.77 exp)

NEGATIVE IMPACTS

KPN : Q4 revenue €3.37bn (3.43bn exp) / Ebitda €1.31bn (1.32bn exp) / Dividend €0.69 for 2009 (0.74 exp) / Sees 2010 dividend at €0.80 (0.83 exp) & 2011 at €0.85 (0.93 exp) but plans to restart €1bn share buyback

NOVARTIS : Q4 sales \$12.14bn (11.9bn exp) / Operating \$2.64bn (2.69bn exp) / FY dividend SFR2.10, in line / CEO Daniel Vasella will step down from this job & focus on his role as chairman, with pharma head Jimenez taking over the CEO job from Feb. 1.

EADS : Germany may give the group state loan guarantees for the new A400M rather than pay more for its share of the project (FTD)

E.ON : Gazprom claims about \$100 m from E.ON, as the company has not bought the agreed amount of gas (Handelsblatt)

DEUTSCHE BOERSE's CEO said 2010 "won't just be challenging, it will be difficult"

PORSCHE (Minor) : A group of investment funds sued Porsche, accusing it of fraud in a "short squeeze" that caused the funds to lose more than \$1 bn from Porsche's attempted takeover of Volkswagen in 2008

SANOFI + Teva + Actavis would be the only left bidding for **Ratiopharm** (Stuttgarter Zeitung) / The article is at odds with a report last week that the sale has narrowed to Pfizer, Teva, & Actavis / **Separately**, Sanofi got antitrust clearance for its offer for Chatterm

ENI and partners in the Karachaganak gas project in Kazakhstan will need to invest \$14.5bn to bring its 3rd phase into production, an 80% hike on previous estimates (Kazakh state oil firm KazMunaiGas)

UK BANKS : Gordon Brown said proposals for a global transaction tax on banks are "gaining support" (The Independent)

SPANISH BANKS : Spanish mortgage association urged banks to exclude €325bn of property company debt from their balance sheets, warning that the debt will never be able to be repaid (Cinco Dias)

TO BE NOTED : S&P revised to **negative from stable its outlook on the 'AA' long-term rating on Japan** / The outlook change reflects view that the Japanese government's diminishing economic policy flexibility may lead to a **downgrade** unless measures can be taken to stem fiscal and deflationary pressures...

	RESULTS	DIVIDENDS	EVENTS
Today	<p>EU // Banco Popular Espanol (BMO) / Kone / KPN / Novartis (BMO) / Siemens / ST Microelectronics (after US close)</p> <p>US // Corning (BMO) / Du Pont de Nemour (BMO) / J&J / Verizon / Yahoo! / United State Steel</p> <p>Asia // HTC</p>		Monsanto AGM
Wednesday	<p>EU // BBVA / Banco Esperito Santo / Lonza / Metropole TV (M6) sales / SAP</p> <p>US // Abbott / Boeing / Caterpillar / ConocoPhillips / General Dynamics / Qualcomm / Sun Micro / Symantec / United Tech</p> <p>Asia // Canon / LG Electronics</p>	Compass (GBP 9,777,778) / Siemens (€1.60)	Apple iSlate presentation
Thursday	<p>EU // AstraZeneca / Banco Espirito Santo / Banco Sabadell / B Sky B / H & M / Nokia / JCDecaux sales / Lonmin production report / Lonza / Seche Environnement / Suez Environnement sales / Svenska Cellulosa /</p> <p>US // Altria / Amazon.com / American Electric Power / AT&T / Baxter / Bristol Myers Squibb / Cardinal Health / Colgate / Eastman Kodak (BMO) / Eli Lilly (BMO) / Estee Lauder / Ford Motor (BMO) / Microsoft / Motorola / P&G / SanDisk / Tyco / 3M</p> <p>Asia // NEC / Nintendo / Nippon Steel / Taiwan Semiconductor / Tata Steel /</p>		
Friday	<p>EU // Infineon / OMV (BMO)</p> <p>US // Chevron final / Ford / Fortune Brands / Honeywell</p> <p>Asia // Kia Motors / NTT DoCoMo / Samsung Electronics / Tata Motors</p>		Banco Popolare EGM / Porsche AGM / Siemens AGM
Monday	<p>EU // Atlas Copco</p> <p>US // Exxon Mobil / Kraft Foods</p> <p>Asia // Mitsui Chemicals</p>	Santander (€0,12294) / Porsche (€0,05)	Energy Summit at Credit Suisse

TRADING IDEAS

Island and double bottom possibility on **DEUTSCHE BOERSE / DBK / CREDIT SUISSE / CAC / EUROSTOXX & DAX** cash indices

BUY ALCATEL on track for new image announcement on Feb 11th & **BUY TOTAL / REPSOL** (gap closed) / **SAP** back on attractive levels

BUY ABB / AEGON / METRO / VINCI / BNP & SOC GEN on double bottom

BUY ALSTOM / AXA on gap level (15.17/15.11)

BUY AEGON / SELL MUNICH RE // BUY RENAULT / SELL PEUGEOT // BUY PERNOD / SELL HEINEKEN // BUY METRO / SELL TESCO // BUY BRISTOL / SELL PFIZER

BROKER METEOROLOGY

STANDARD CHARTERED **RAISED TO BUY FROM NEUTRAL** **BY NOMURA**

LOGITECH **RAISED TO HOLD FROM SELL** **BY CITIGROUP**

LUFTHANSA **RAISED TO OVERWEIGHT** **BY MORGAN STANLEY**

EUROPEAN AIRLINES **RAISED TO ATTRACTIVE FROM CAUTIOUS** **BY MORGAN STANLEY**

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CHART OF THE DAY

Dallas Fed Manufacturing outlook level of General Business Activity Since 2004



Source: Federal Reserve Bank of Dallas

The Dallas Fed manufacturing activity index rose by 8.3% in January. This index increased for a third consecutive month confirming the investment recovery in the United-States. Indeed the ISM manufacturing index an advanced indicator of investment reached 55.9 in December. The virtuous circle of investment-employment-consumption is well taking place and the GDP could reach 4% (annualized) at the fourth quarter. /JB

Time	Country	Indicator	Period	GE forecasts	Consensus	Previous
	Japan	BoJ target rate	January 26th	0,10%	0,10%	0,10%
7.45 GMT	France	Consumer spending	December	+0,5%,+3,7% YoY	+0,6%,+3,8% YoY	-0,1%,+3,2% YoY
9.00 GMT	Germany	Ifo business climate	January	94	95,1	94,7
9.00 GMT	Germany	Ifo current assessment	January		91,3	90,5
9.00 GMT	Germany	Ifo expectations	January		99,1	99,1
9.00 GMT	Euro area	Current account balance	November			-€ 4,6 bn
9.30 GMT	United Kingdom	GDP (advanced)	4th quarter	+0,4%,-3,0% YoY	+0,4%,-3,0% YoY	-0,2%,-5,1% YoY
14.00 GMT	United-States	S&P/CS composite-20 YoY	November		-5,0% YoY	-7,28% YoY
15.00 GMT	United-States	Conference Board consumer confidence	January	54	53,5	52,9
15.00 GMT	United-States	House price index	November		0,1%	0,6%
15.00 GMT	United-States	Richmond Fed manufacturing index	January		0	-4
22.00 GMT	United-States	ABC consumer confidence	January 24th		-45	-49

Indexes	Price	% 5 Days	Ytd
DJIA	10196,9	-3,86%	-2,22%
S&P 500	1096,8	-3,44%	-1,64%
Nasdaq	2210,8	-3,37%	-2,57%
CAC 40	3781,9	-4,92%	-3,92%
DAX	5631,4	-4,85%	-5,47%
Eurostoxx 50	2807,3	-5,09%	-5,32%
DJ 600	248,3	-3,83%	-2,21%
FTSE 100	5260,3	-4,22%	-2,82%
Nikkei	10325,3	-3,15%	-2,10%
Shanghai Comp	3010,2	-4,41%	-8,15%
Sensex (India)	16780,5	-4,88%	-3,92%
MICEX (Russia)	1415,9	-4,30%	3,35%
Bovespa (Brasil)	66220,0	-4,00%	-3,45%

Forex	Price	% 5 Days	Ytd
EUR/USD	1,4081	-1,46%	-1,68%
EUR/JPY	126,22	3,14%	-5,51%
USD/JPY	89,63	1,66%	-3,75%
Oil	Price	% 5 Days	Ytd
Brent \$/b	72,1	-6,47%	-6,63%
Gold	Price	% 5 Days	Ytd
Gold \$/oz	1093,9	-3,89%	-0,27%
Rates	USA	Euro	Japan
Central Banks*	0,25	1,00	0,10
Overnight	0,03	0,25	0,10
3 Months	0,05	0,28	0,20
10 Years**	3,57	3,22	1,33

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

** Euro: German Bund rate Source : Bloomberg

ECONOMIC DATA PREVIEW

Watch in **THE UNITED-STATES** the Conference Board consumer confidence index for January released at 15.00 GMT, expected to rise from 52.9 to 54 led by the recovery in the United-States, the reduction of job destructions and the low interest rates.

Watch in **FRANCE** the Consumer spending for December released at 7.45 GMT, expected to increase by 0.5% led by Christmas sells and witch should reach 3.7% YoY.

Watch in **GERMANY** the IFO business climate for January released at 9.00 GMT, expected to stabilize at 94.0 after nine consecutive weeks of rise. Keep an eye in **THE UNITED KINGDOM** on the advance release of the GDP for the fourth quarter released at 9.30 GMT expected to rise by 0.4% ending six consecutive quarters of decline.

ECONOMY

UNITED-STATES : EXISTING HOME SALES DECLINED MORE THAN FORECAST IN DECEMBER

Existing home sales plunged by 16.7% in December (forecast -9.8%), the month after the government tax credit was originally due to expire. This is the biggest decline since record began in 1968 at 5.45 million annual rate from 6.54 million in November. Meanwhile median price increased for the first time in two years reflecting fewer first time buyers. First time buyers rushed to complete deals before the \$8000 government incentive was expected to end on November 30th. Nevertheless the extension and expansion of the credit add to the two-month delay between contract signing and closings showed that demand should rebound at the first half of 2010.

UNITED-STATES : DALLAS FED MANUFACTURING INDEX ROSE IN JANUARY

The Dallas Fed manufacturing activity index rose by 8.3% in January. This index rose for a third consecutive month confirming the investment recovery in the United-States. Indeed the ISM manufacturing index an advanced indicator of investment reached 55.9 in December. The ISM new orders reached 65.5 (a highest for five years) and the production index reached 61.8. More generally the virtuous circle of investment-employment-consumption is well taking place and the GDP could reach 4% (annualized) at the fourth quarter.

