



January 18<sup>th</sup> 2010

# GLOBAL EQUITIES

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## Thoughts: 2010, the year of all hopes

2008 was the year of all disappointments, 2009 the year of all dangers. 2010 should be the year of all hopes.

After having avoided a much publicized catastrophe and then having initiated the recovery, the world economy and the financial markets need now to convert the try. Let's not fool ourselves! Following the excessive downdraft end 2008/early 2009, the rebound was almost inevitable, even though 95% of market strategists didn't want to face reality. In other words, after the technical rebound and the perfusions administered by the authorities, but now almost exhausted, now comes the critical time: convert the technical rebound into a long lasting and strong recovery.

If 2009 was the year of resurrection, 2010 should be the one of transcendence, i.e. the return to a world economy that can sustain a perennial and autonomous growth. This is what we anticipate for the next few quarters. Sadly this move will not be straight forward and even less homogeneous. China, that was at the source of the 2009 recovery will again carry the yellow jersey. After getting back to a 9% growth rate during 2H09, China's GDP should increase by 10% YoY. The Celestial Empire will pull in its wake all of Asia and actually all of the emerging economies, or let say emerged. It is convenient for the rich western countries to keep a semantic distance with some "dynamic" countries by keeping the label "emerging" but sooner or later they will have to face the truth. From 2002 until 2008, the so-called emerging countries accounted for 70% of the world growth and in 2009 their contribution was over 100%, as for the first time the entire group of developed countries simultaneously recorded a drop in their economies. Thanks to those "emerging" countries, the world economy was able to limit the damages of the financial crisis.

In 2010, the supremacy of the "New World" led by China, India and Brazil should persist with expected growth on GDP of 9.7%, 7.5%, and 4.5% respectively, followed, according to our forecasts, by the 4 Dragons (South Korea, Hong Kong, Taiwan and Singapore) and the 4 Tigers (Indonesia, the Philippines, Malaysia and Thailand) with an average + 4.5%, and then the Latin American neighbours of Brazil, + 4%. Russia, after a disastrous 2009 should gradually catch up with the pack, +2.5%. Finally after having been the worst of the emerging areas in 2009, Central and Eastern Europe will get back into positive territory but by a mere + 1.5%, i.e. the lagging economic area within the emerging world, for the third year running!

In this context, it will imitate its "big sister", Western Europe and in particular the Eurozone, which will remain the laggard in the world ranking (+ 1.5%), with only Japan doing worse (+0.8%). Once more, as it has been the case for the past 15 years, the USA will remain paradoxically the strongest economy within the developed world. Though at the origin of the subprime crisis, the country recorded the smallest recession in 2009 (-2.5% as against -4% in the Eurozone and -5% in Japan) and will experience the strongest improvement in 2010 (+3%). In order to achieve this result, Uncle Sam is benefiting from ongoing measures, notably the very accommodative monetary policy by the FED, but also from budgetary ones, totalling US\$ 450 billions, directed towards investments in infrastructure, in infotech and new energy technologies. Due to the multiplying effects of those policies, private engines will take over from public tractors, creating the virtuous circle of capital spending -jobs - consumption. Growth should then stabilize around 3% allowing for an easy financing of the recovery and consequently the public debt.

So an increase in interest rates is obvious but will remain subdued, preventing a return to an economy lacking vitality and to pessimism among financiers. As we wrote it last week in our "Markets" views, world equity markets could rise by a further 15% this year, meaning that 2009 was not a flash in the pan. On the contrary we expect that trend to continue until 2012.

Of course, nothing can be taken for granted and unforeseen events can always put this scenario in jeopardy, may it be geopolitical risks in Iran, threats of terrorist attacks or natural catastrophes. We are sure that they will linger around, very often put forward, sometimes with exaggeration. Similarly should central banks adopt a too restrictive rate policy, especially in Europe, with a far too strong Euro and a too high priced barrel of oil. All those events would surely impact the world economy. We have to live with them. That's one of the main lessons of the past few years. Those crisis are part of our lives and those who believe that it is possible to avoid them through stiffer regulations and higher government spending, are liars. Instead of giving up and crying on one's fate, it would be better to look ahead, to invest and to innovate. Let's not forget: attack is the best defence. Those who are putting those strategies in place will win over the current crisis and be ready to face the new one, most likely in 2012. In the meantime, let's enjoy 2010, that will be the year of all hopes and also all opportunities.

Marc Touati

## Economic data released this week:

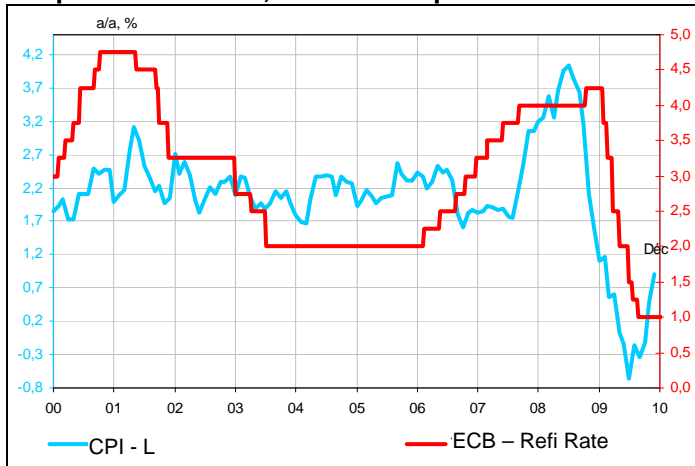
Country	Event	Period	Actual	Prior	Climate	sum up
	US Trade balance	November	-\$ 36,40 bn	-\$ 33,18 bn		
	US Retail sales	December	-0,3%	+1,8%		
	US Retail sales less auto	December	-0,2%	+1,9%		
	US Initial jobless claims	January 9th	444 000	433 000		
	US Continuing claims	January 2nd	4 596 000	4 807 000		
	US Business inventories	November	+0,4%	+0,4%		
	US Consumer price index	December	+0,1%,+2,7% YoY	+0,4%,+1,8% YoY		
	US Consumer price index core (ex food and energy)	December	+0,1%,+1,8% YoY	+0,0%,+1,7% YoY		
	US Empire Manufacturing index	December	15,92	4,50		
	US Industrial production	December	+0,6%	+0,6%		
	US Capacity utilization	December	72,0%	71,5%		
	US University of Michigan consumer confidence (preliminary)	January	72,8	72,5		
	ZE Industrial production	November	+1,0%,-7,1% YoY	-0,3%,-10,9% YoY		
	ZE ECB announce rate	January 14th	1,00%	1,00%		
	ZE Consumer price index	December	+0,3%,+0,9% YoY	+0,1%,+0,5% YoY		
	ZE Trade balance	November	+ € 3,9 bn	+ € 4,7 bn		
	Fr Industrial production	November	+1,1%,-3,8% YoY	-0,6%,-8,0% YoY		
	Fr Manufacturing production	November	+1,6%,-2,9% YoY	-0,5%,-8,2% YoY		
	Fr Bank of France business climate	December	101	99		
	Fr Central government balance	November	-€ 143,3 bn	-€ 134,8 bn		
	Fr Current account balance	November	- € 3,8bn	- € 4,2bn		
	Fr Consumer price index	December	+0,3%,+0,9% YoY	+0,1%,+0,4% YoY		
	All GDP (annualised)	December 31st	-5,0%	+1,3%		
	All Consumer price index (final)	December	+0,8%,+0,9% YoY	+0,7%,+0,8% YoY		
	UK Trade balance	November	-£ 2,9 bn	-£ 3,12 bn		
	UK Industrial production	November	+0,4%,-6,0% YoY	+0,0%,-8,4% YoY		
	UK Manufacturing production	November	+0,0%,-5,4% YoY	+0,0%,-7,8% YoY		
	JN Current account balance	November	+ ¥ 1304,8 bn	+ ¥ 1376,2 bn		
	JN Trade balance	November	+ ¥ 490,0 bn	+ ¥ 949,0 bn		
	JN Bankrupties	December	-16,6% YoY	-11,4% YoY		
	JN Machine tool orders (preliminary)	December	+62,8% YoY	-8,4% YoY		
	JN Machine orders	November	-11,3%,-20,5% YoY	-4,5%,-21,0% YoY		
	CH Official reserve change	December	\$ 2399 bn	\$ 2273 bn		

## Markets:

### The ECB: A new Mr. Trichet for the New Year?

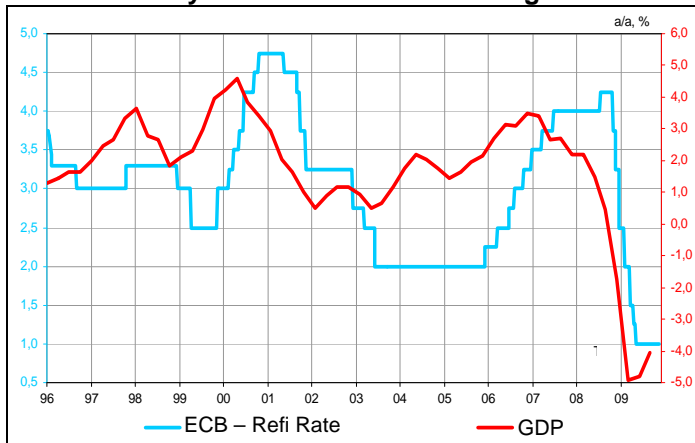
Did the ECB finally decide to switch from dogmatism to pragmatism? This is a fair question to ask, following the press conference held by its President last week. Indeed, despite the expected rise in inflation in the Eurozone, which would have raised the hair on the ECB's members heads a few quarters ago, the Bank has decided to stay put, underlining that inflation will remain contained over the next few months (close to 1% according to its own words), below 2% over the whole of 2010. Furthermore, the Bank looks at a soft recovery, hence implying no early tightening of its monetary policy.

#### Despite the reflation, the ECB keeps cool



In other words, whereas we were fearing a return to some form of monetary dogmatism in 2010, with a refi rate increase during the Spring, the turn of the year appears to have meant a change in strategy by the ECB. This about-turn is welcome of course, as it demonstrates the desire by the ECB not to spoil the economic recovery, by maintaining the status quo in its policy as long as needed for the economy to firm durably, in line with the FED's own policy.

#### The ECB finally worries about economic growth

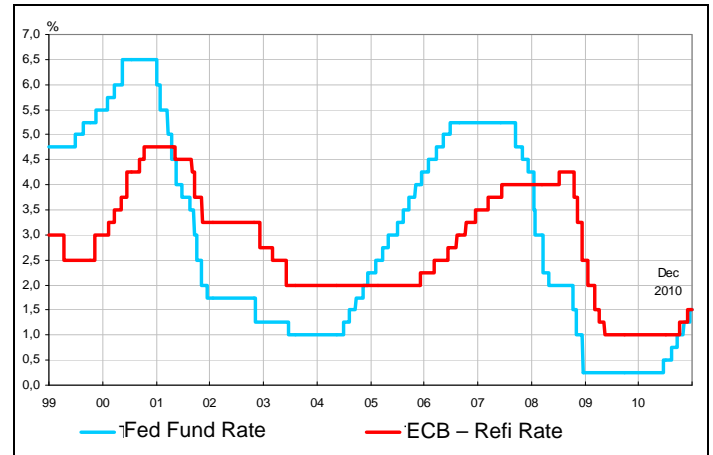


In as much we did criticize the ECB's past actions, especially the untimely rise in its refi rate during the Summer 2008; at a time when the Eurozone was in recession and the underlying inflation below 2%; today we can only applaud to its adoption of a more sensible and pragmatic approach. We are led to believe that the crisis has truly transformed the world economy and change the way of thinking of our central bankers, including those based in Frankfurt, which was totally unthinkable not long ago.

Therefore, we are now changing our views and do not expect for an early tightening anymore, but more likely in the Fall of 2010 with a refi rate reaching 1.5% at the most by year end. This also means that we are now anticipating the FED to move ahead of the ECB, allowing for the strengthening of the US\$ as against the Euro to possibly 1.20 by next September.

This level should be kept until year end as FED funds up to 1% by the Fall could then reach 1.5% by December; hence no differential between rates on both sides of the Atlantic. We are also modifying our forecast for the economy in the Eurozone, which should grow at a 2% clip at the beginning of 2011.

#### FED/ECB: No differential in rates starting the Fall 2010-01-15



Nevertheless, history shows that one shouldn't rejoice to quickly, just by listening to ECB's members statements. One's true nature tends to reappear at some point! A U-turn can always happen, should growth get carried away and inflation out of hand, for example due to higher commodity prices!

But let's not deny ourselves: for once the ECB won't interfere with the economic recovery. Just let's pray that our hopes won't be dashed later in the year.

Marc Touati

## Economic events from January 18<sup>th</sup> to January 25<sup>th</sup>:

### A relatively quiet week

In the United-States we will focus on Wednesday on the housing starts and the building permits and on Thursday on the Conference Board leading indicators.

From this side of the Atlantic, we will focus on Tuesday on the ZEW index and on Friday on the PMI manufacturing and services index in the Euro area.

#### **Tuesday January 19th, 10h GMT: stabilization of the ZEW index in January.**

After declining in October and in November the ZEW index decreased again in December at 50.4. After decreasing for three consecutive months we forecast a stabilization of the ZEW index at 50 in January.

#### **Wednesday January 20th, 13h30 GMT: new rise of the housing starts and building permits in December.**

After declining by 10% in October, housing starts improved in November to reach 574 000. Building permits which declined by 4% in October, improved as well to reach 589 000 in November. 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.

#### **Thursday January 21st, 15h GMT: 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. Consequently, the Conference Board Leading Indicator should rise by 0.7% in December.

#### **Friday January 22nd, 9h GMT: PMI manufacturing and services stabilized in January**

The PMI manufacturing index increased every month since March to 51.6 in December a highest since March 2008. Nevertheless the recovery remains weak and fragile in the euro zone and this index should be stabilized at 51 in January. Meanwhile, the PMI services index which reached 53.6 in December should be stabilized at 53 in January.

*Jérôme Boué*

## Global calendar of the statistics and economic events for this week:

Date	Time	Country	Event	Period	GE Forecast	Consensus	Prior
18/01/2010	1.01 am	United Kingdom	Rightmove house price index	January			-2,2%,+1,7% YoY
18/01/2010	5.30 am	Japan	Industrial production (final)	November			+2,6%,-3,9%YoY
18/01/2010	5.30 am	Japan	Capacity utilization (final)	November			0,2%
19/01/2010	10.30 am	United Kingdom	Consumer price index	December		+0,2%,+2,5% YoY	+0,3%,+1,9% YoY
19/01/2010	10.30 am	United Kingdom	Consumer price index core (ex food and energy)	December		+2,2% YoY	+1,9% YoY
<b>19/01/2010</b>	<b>11.00 am</b>	<b>Germany</b>	<b>ZEW survey (economic sentiment)</b>	<b>January</b>	<b>50</b>	<b>50</b>	<b>50,4</b>
19/01/2010	11.00 am	Germany	ZEW survey (current situation)	January		-55,5	-60,6
19/01/2010	11.00 am	Euro area	Construction spending	November			-0,6%,-7,7% YoY
19/01/2010	11.00 am	Euro area	ZEW survey (economic sentiment)	January			48,0
19/01/2010	7.00 pm	United-States	NAHB housing market index	January		17	16
19/01/2010	11.00 pm	United-States	ABC consumer confidence	January 17th			-47
20/01/2010	7.00 am	Japan	Machine tool orders (final)	December			62,8%
<b>20/01/2010</b>	<b>8.00 am</b>	<b>Germany</b>	<b>Producer prices index</b>	<b>December</b>		<b>+0,2%,-5,1% YoY</b>	<b>+0,1%,-5,9% YoY</b>
20/01/2010	8.00 am	Japan	Convenience store sales	December			-6,3% YoY
20/01/2010	10.30 am	United Kingdom	BoE Minutes (monetary policy meeting January 7th)				
20/01/2010	10.30 am	United Kingdom	Claimant count rate	December		5%	5%
20/01/2010	10.30 am	United Kingdom	Jobless claims change	December		0	-6 300
20/01/2010	10.30 am	United Kingdom	Average earning (including bonus) 3M/YoY	November		+1,7%	+1,5%
20/01/2010	1.00 pm	United-States	MBA mortgage applications	January 15th			14,3%
<b>20/01/2010</b>	<b>2.30 pm</b>	<b>United-States</b>	<b>Producer prices index</b>	<b>December</b>	<b>-0,5%, 3,7 % YoY</b>	<b>0,0%,+4,4% YoY</b>	<b>+1,8%,+2,4% YoY</b>
<b>20/01/2010</b>	<b>2.30 pm</b>	<b>United-States</b>	<b>Producer prices (core)</b>	<b>December</b>	<b>+0,1%, +0,9 % YoY</b>	<b>+0,1%,+1,0% YoY</b>	<b>+0,5%,+1,2% YoY</b>
<b>20/01/2010</b>	<b>2.30 pm</b>	<b>United-States</b>	<b>Housing starts</b>	<b>December</b>	<b>580 000</b>	<b>575 000</b>	<b>574 000</b>
<b>20/01/2010</b>	<b>2.30 pm</b>	<b>United-States</b>	<b>Building permits</b>	<b>December</b>	<b>595 000</b>	<b>584 000</b>	<b>589 000</b>
21/01/2010	3.00 am	China	GDP	4th quarter	10,5% YoY	10,5% YoY	8,9% YoY
21/01/2010	3.00 am	China	Consumer price index	December		+1,4% YoY	+0,6% YoY
21/01/2010	3.00 am	China	Retail sales	December		+16,3% YoY	+15,8% YoY
21/01/2010	6.00 am	Japan	Leading economic indicator (final)	November			91,2
21/01/2010	6.00 am	Japan	Leading coincident indicator (final)	November			95,9
21/01/2010	10.30 am	United Kingdom	Public sector net borrowing	December		+€18,5 bn	+€20,3 bn
21/01/2010	10.30 am	United Kingdom	M4 money supply (preliminary)	December		+0,9% YoY	+0,1%,+9,3% YoY
21/01/2010	2.30 pm	United-States	Initial jobless claims	January 16th		440 000	444 000
21/01/2010	2.30 pm	United-States	Continuing claims	January 9th			4 586 000
21/01/2010	4.00 pm	United-States	Indice de la Fed de Philadelphie	January		18,0	20,4
<b>21/01/2010</b>	<b>4.00 pm</b>	<b>United-States</b>	<b>Conference Board leading indicators</b>	<b>December</b>	<b>0,7%</b>	<b>0,7%</b>	<b>0,9%</b>
22/01/2010	<b>8.45 am</b>	<b>France</b>	<b>Business climate</b>	<b>January</b>	<b>89</b>	<b>90</b>	<b>89</b>
22/01/2010	8.45 am	France	Production outlook	January		-11	-11
22/01/2010	9.00 am	France	PMI manufacturing (preliminary)	January		54,9	54,4
22/01/2010	9.00 am	France	PMI services (preliminary)	January		59,0	59,3
22/01/2010	9.30 am	Germany	PMI manufacturing (advanced)	January		52,9	52,7
22-28 January	9.30 am	Germany	PMI services (advanced)	January		53,0	52,7
<b>22/01/2010</b>	<b>10.00 am</b>	<b>Euro area</b>	<b>PMI manufacturing (advanced)</b>	<b>January</b>	<b>51</b>	<b>52,0</b>	<b>51,6</b>
<b>22/01/2010</b>	<b>10.00 am</b>	<b>Euro area</b>	<b>PMI services (advanced)</b>	<b>January</b>	<b>53</b>	<b>53,9</b>	<b>53,7</b>
<b>22/01/2010</b>	<b>10.00 am</b>	<b>Euro area</b>	<b>PMI composite (advanced)</b>	<b>January</b>			<b>54,2</b>
22/01/2010	10.30 am	United Kingdom	Retail sales	December		+1,2%,+3,0% YoY	-0,3%,+3,1% YoY
22/01/2010	11.00 am	Euro area	Industrial new orders	November		+0,5% MoM	-2,2%,-14,5% YoY

## Our economic and financial forecast for 2009-2010.

	Real GDP growth				Inflation annual average				Unemployment rate annual average			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
<b>US</b>	2,0	1,1	-2,5	3,0	2,9	3,8	-0,3	2,4	4,6	5,8	9,3	9,2
<b>Japan</b>	2,1	-0,7	-5,0	0,8	0,1	1,4	-1,2	1,2	3,9	4,0	5,1	5,1
<b>Eurozone</b>	2,7	0,7	-4,0	1,5	2,1	3,3	0,3	1,8	7,4	7,4	9,4	9,4
<b>Germany</b>	2,5	1,0	-5,0	1,5	2,3	2,6	0,3	1,8	9,0	7,8	8,1	8,1
<b>France</b>	1,9	0,7	-2,3	1,5	1,5	2,8	0,1	1,5	8,0	7,4	9,0	9,0
<b>Italy</b>	1,7	-1,0	-4,5	0,9	2,0	3,5	0,8	2,0	6,2	6,8	7,8	8,0
<b>Spain</b>	3,8	1,1	-3,5	0,6	2,8	4,1	-0,3	2,0	8,3	11,3	17,8	18,0
<b>UK</b>	3,1	0,7	-3,9	1,4	2,3	4,0	0,9	2,2	5,4	5,6	7,5	7,3
<b>World</b>	5,0	2,8	-0,3	3,6								

	Key interest rates				10 years government bond interest rates				
	Jan 18th	in 3 months	in 6 months	in 1 year	Jan 18th*	in 3 months	in 6 months	in 1 year	
<b>United States</b>	0-0,25	0,25	0,50	1,50	<b>United States</b>	3,67	3,90	4,30	4,50
<b>Euroland</b>	1,00	1,00	1,00	1,50	<b>Euroland</b>	3,26	3,60	4,00	4,30
<b>United Kingdom</b>	0,50	0,50	0,75	1,50	<b>United Kingdom</b>	3,94	4,10	4,30	4,50
<b>Japan</b>	0,10	0,10	0,10	0,10	<b>Japan</b>	1,33	1,50	1,70	1,90

	Exchange rates				International equities markets				
	Jan 18th*	in 3 months	in 6 months	in 1 year	Jan 18th*	in 3 months	in 6 months	in 1 year	
<b>EUR/USD</b>	1,439	1,45	1,30	1,20	<b>Dow Jones</b>	10,610	11,000	11,500	12,300
<b>USD/JPY</b>	90,90	95	100	110	<b>Nikkei</b>	10,855	10,800	11,000	11,500
<b>EUR/JPY</b>	130,79	138	130	132	<b>Cac 40</b>	3,971	4,150	4,350	4,500
<b>EUR/GBP</b>	0,88	0,87	0,85	0,82	<b>Euro Stoxx 50</b>	2,951	3,050	3,250	3,400

\* Level at 9.15 am (Paris Time)



## GLOBAL EQUITIES

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