

**Obama's new actions will be helpful.** As President Obama put it in his speech, "even though banks on Wall Street are lending again, they are mostly lending to bigger companies. But financing remains difficult for small business owners across the country." To address the problem, he proposed using \$30bn from the replenished TARP funds to encourage community banks to make loans to small businesses. And to persuade small firms to make use of the money on offer, he proposed new tax credits and incentives for smaller firms who hire new workers and invest in new capital equipment. The \$30bn is a good start. The measures to promote lending to small businesses should be applauded. Obviously bringing the deficit down to more manageable levels is going to require some time and different other measures.

**However, the focus on helping the small firms is the key to get the credit activity back on a decent speed.** Indeed, since the financial crisis erupted, bank loans to commercial and industrial borrowers have shrunk by more than \$300bn, or 17%. The value of all types of bank loans has fallen by \$630bn, or 8.6%. These declines occur despite the Fed's Herculean efforts to boost liquidity, through its large-scale purchases of Treasury securities and agency MBS. The reserve balances held by commercial banks at the Fed have increased from an average of \$10bn pre-October 2008, to more than \$1,000bn today. In theory, commercial banks could have used those reserves to more than double the size of their loan books. In fact the lack of economic visibility is not helping to boost credit and makes the employment recovery a very slow one, which is not helping in term of confidence neither the banks to lend to small firms, nor the small firm to increase hiring

**Which means the job bill in addition to an easier credit to small firms should help the lagging employment sector.** The productivity out next Thursday is a very good sign that we are very close to create jobs in a sustainable way. With employment continuing to fall in the fourth quarter and hours worked edging only slightly higher, it appears the big gain in GDP was achieved principally through efficiency gains. Calculations suggest that non-farm productivity increased by a very strong 6.5% at an annualised pace, down only slightly from the enormous 8.1% increase in the third quarter. Altogether, productivity probably increased by 5.5% last year, which would be the biggest 12 month gain since the last economic recovery almost a decade ago. It is just a matter of a months before we get some job creation data which would reduce at last the high unemployment rate. +4k in November, -85k in December, January report will be important as to bring investor confidence back which could trigger some nice and strong inflow in equity business

**The ISM Manufacturing is showing that the employment report on Friday might bring some upside surprise.** We should not start counting our eggs, and wait for the ADP employment changes on Wednesday, but the job component jump from 50.2 to 53.3 is a relief. For the rest, the increase in the ISM index from 54.9 in December to a five-and-a-half year high of 58.4 in January is consistent with GDP growing at a slightly more modest rate of around 5% in the first-quarter of this year. Which is very welcome. The gain in the new orders index, from 64.8 to 65.9, is encouraging as it tends to lead the headline index. The increase in the inventories index, from 43.0 to 46.5, suggests that the inventory adjustment continued into the new year. Business from big firms seem to happen great, justly need to bring the one of the small firm back on track, which Obama and US officials are working on.

**About Greece, the focus remains when and how Greece will be bailed out and no longer if.** The Greek budget deficit story seems to be approaching a denouement, with expectations that the EU will announce its opinion on the budgetary proposals tomorrow. The press speculation is that this will accompanied by demands for additional spending cuts and tax increases. Whatever the impact on the real economy in the medium term, an EU approval could lead to a short squeeze, benefiting CDS, and hence the stocks, although volatility is likely to remain, awaiting for the next story. Another view regarding Greece would be that both Germany and France would not be in a hurry to bail out so much they enjoy the euro weakness happening at last. However, things could wait until the extreme limit, with in the end the Greek government calling Brussels to say they just can't pay, triggering a series of half coordinated short term loans that will be put together, weighted not relative to GDP, but relative to various national banks exposures. French banks would hold claims on Greek entities of \$80bn, broadly the same as Swiss banks, while – in third place - German banks are owed about \$30bn

**While the market could have been more sharply up yesterday, it had to do like the old pa from "up" and put some balloons** such as some fresh flows entering thanks to an attractive discount and some increasing fundamentals coming from the growing sales from the earnings releases, a huge Q4 GDP which brings some comfort on how we will slowdown when the Fed unwinds the easy quantitative policies, and of course the very nice ISM job component which predict some brighter days for the employment report which we should see on Friday. We should be cruising on a 3% growth this year in the US, which equity indices should fancy very much, especially once there is no longer any sponsors to boost the economy. This normalization should bring a premium, but for now we have to go through these turbulences as best as possible. In the meantime, some bear players looking for a revenge from last year to develop an Armageddon scenario, with European predictable turmoil as a focus to predict Hell, are enjoying a rebound to place some new shorts. This must be the reason why the indices rise was rather mild yesterday while the volume reasonably big. There was a battle with two strong views fighting each other. We believe in a new upside trend starting, and a safer landscape which fundamental investors will take opportunity from.

	WTI	€/€	\$/¥	10 yr US	10 yr Euro	Basic	Energy	Financ	Health	Tech	Tel	Indus	Utilities	SOX	S&P	NAS	DOW	Close
Last	74,7	1,3924	90,77	3,66	3,19	4,34	3,00	1,43	0,44	1,56	0,57	1,43	0,76	3,05	1,43	1,11	1,17	US
Perf 1d %	2,64	-0,05	-0,11	0,98 bp	-1 bp	3,14	2,59	1,59	0,23	1,05	0,63	1,22	0,51	2,60	1,18	0,66	1,00	Europe

**ECONOMIC DATA with impact**

**Pending Home Sales** (15h UK time) expected -0.5% / n recent months, commercial and residential construction have been going in sharply different directions. Activity in the commercial real estate sector is in freefall, with construction falling at an annualised rate of more than 30%. In contrast, residential spending is enjoying a miracle recovery, perhaps boosted by the tax credit for first-time buyers / **minor**, focus employment report this week and Greece troubles

**POSITIVE IMPACTS**

**NOVO NORDISK** : Q4 sales DKK 13.06bn (13.27bn exp) / **Operating DKK3.22bn** (3.33bn exp) / **Dividend DKK7.50** (7.00 exp) / Plans to **buy back DKK7.5bn** of shares in 2010 / **Sees FY10 sales** +6-10% (a touch better) + **sees FY10 operating** +10% (+7% exp)

**SUBSEA 7** : Q4 sales \$538m (506m exp) / **Ebitda \$1331m** (82m exp) / **Order backlog \$2.8bn** (2.96bn exp) / Market remains challenging in the short term but positive for the medium to long term

**IMPERIAL TOBACCO** said it made a good start to the year with trading in line with its views / Has increased prices across portfolio in UK, Spain, France / Cigarette volumes strong in rest of EU / Maintained growth momentum in rest of the world region

**AXA** : GS private equity is in talks to buy some or all of the 15.6% stake in Taikang Life held by AXA (FT) / The stake is valued at **\$1bn**

**KBC** is in advanced talks with several potential buyers to **sell its unprofitable brokerage unit Japan** (Bloomberg)

**FRANCE TEL.** will propose to its board Feb. 24 to **separate the CEO & chairman roles** / M. Richard will take over as CEO March 1, while M. Lombard will continue as chairman until June 2011 / M. Richard will unveil a **new industrial project around mid-March**

**VIVENDI** : As expected, French broadcaster M6 decided to sell its stake in pay-TV channel Canal+ to Vivendi, bringing Vivendi a step closer to its goal of buying out the business's minority shareholders / M6 said Vivendi would pay a **minimum €384m** on Feb. 22.

**RENAULT** is to set up **its own dealerships in India** (The Economic Times) / The move follows inconclusive talks with Mahindra & Mahindra over the fate of the 2 companies' JV



**UNIBAIL** (as expected) will replace **VOLKSWAGEN** in the EuroStoxx50 on February 8.

**RDSA** outlined plans for a **\$12bn biofuel JV** with partner Brazil's **COSAN** that could dominate Brazil's market for ethanol

**SIEMENS** is on track to achieve **10% Indian market share by 2012**.

**MINERS** : China's leading steel mills have begun talks in Singapore with the big 3 global miners on 2010 contract iron ore prices

### NEGATIVE IMPACTS

**FIAT** : Italian car sales **+30.2%** in Jan., while Fiat sales were up 30.4% reflecting the last minute purchases last year due to the expiry of a car scrappage scheme + weak comparison / Fiat's **market share at 32.02%** / Registrations would likely rise in Feb. as the order book kept unwinding / But they could fall dramatically in March if the Italian govt kept delaying its renewal of the car scrappage scheme

**MUNICH RE** : FY Gross Premiums written €41.4bn ( €43bn exp) / CR 95.3% (99.4% prev.) / Net Profit €2.56bn (€2.35bn exp) / Co is ongoing SBB / Proposes **higher dividend to €5.75** from €5.5

**ENAGAS** : FY09 Ebitda **€701.3m** (703.8m exp) / **Net profit €298 m** (286m exp)

**AIR FRANCE** : Continental Airlines' lawyers at criminal trial starting today **will blame Air France for the Concorde crash** outside Paris 10 years ago that killed 113 people / Continental will tell the court that the Air France Concorde caught fire before its ire was torn by a metal strip from A Continental plane

**EADS** : Airbus said it **doesn't expect major orders from the Singapore Airshow** / Boeing expects new orders for commercial aircraft this year to fall short of deliveries, leading to its order book shrinking / The Singapore Airshow began Today and ends Sunday

**REC** said there was a fire on Monday at a plant owned by SiC Processing AS, which supplies slurry for water sawing to a REC wafer unit in Norway / "A prolonged shut down may affect REC Wafer's production capabilities at some of REC's wafer lines," REC said

	RESULTS	DIVIDENDS	EVENTS
Today	<b>EU</b> // Atlas Copco / BP / Enagas / Gazprom / Maurel & Prom / Novo Nordisk / Vinci sales (AMC) <b>US</b> // Dow Chemical (11.30 GMT) / Man Power / Sun Micro / US car sales / VeriSign (AMC) / Whirlpool (BMO)		Imperial Tobacco AGM / US financials conf at Morgan Stanley
Wednesday	<b>EU</b> // Fortum / Italcementi / Mapfre / Roche (BMO) / Sandvik (BMO) / Scania / Standard Life (BMO) / Tandberg <b>US</b> // Broadcom (AMC) / Black & Decker / Cisco (AMC) / Comcast / Electronic Arts / International Power / Lazard / Pfizer / Philip Morris / Time Warner (BMO) / Visa (AMC) <b>Asia</b> // Honda Motor / Mitsubishi Motors / Sumitomo Chemical / Takeda Pharmaceutical / Toyota Industries	Alcoa (\$0.03) / Boeing (\$0.42) / Intel (\$0.1575) / Pfizer (\$0.18) / Sodexo (€1.27)	American Express financial meeting
Thursday	<b>EU</b> // Altana / Banco Santander / Danske Bank / Deutsche Bank / Enel prelim / GSK / Kellogg (BMO) / LVMH / Munich Re / Neste Oil / Portugal Telecom / Royal Dutch / Stora Enso / Unilever (BMO) / Vodafone interim / Yell group / Zurich Financial <b>US</b> // Kellogg (13.00 GMT) / Kraft Food / Master Card / Northrop Grumman / Sara Lee <b>Asia</b> // Lenovo / Sony / Toyota		Accenture AGM / Deutsche Bank analyst meeting
Friday	<b>EU</b> // BG Group / British Airways (BMO) / Compass Group / Dior / Eiffage / Hermes / Roche / Skanska / Syngenta / Volvo <b>Asia</b> // Casio / Mazda Motor / Panasonic		Corning annual investor day / Gazprom Day / Xerox special meeting of investors
Monday	<b>EU</b> // Klepierre / Metso / Unibail Rodamco <b>US</b> // Electronic Arts (AMC)		

### TRADING IDEAS

**BUY LAFARGE / ST GOBAIN & HOLCIM** which never rebounded, ahead of pending home sales today

**BUY DBK / SOC GEN / ABB / ALSTOM** looking good

**BUY AXA / DT BOERSE / SIEMENS** to play double bottom

**BUY ALCATEL / STM** to play dollar recovery still & Island reversal possibility on **VIVENDI & ADECCO**

**BUY BAYER / SELL AKZO // BUY AXA / SELL AVIVA // BUY FIAT / SELL BMW // BUY DANONE / SELL UNILEVER or NESTLE // BUY AMEX / SELL VISA / BUY PHILIP MORRIS / SELL LORILLARD**

### BROKER METEOROLOGY

**RIO TINTO** ..... **RAISED TO BUY FROM HOLD** ..... **BY CITIGROUP**

**SWISS LIFE** ..... **RAISED TO NEUTRAL** ..... **BY HSBC**

**SCOR** ..... **RAISED TO OVERWEIGHT** ..... **BY HSBC**

**MORRISON SUPERMARKETS** ..... **RAISED TO OVERWEIGHT FROM NEUTRAL** ..... **BY JP MORGAN**

**EDP RENOVAVEIS** ..... **CUT TO HOLD FROM BUY** ..... **DEUTSCHE BANK**

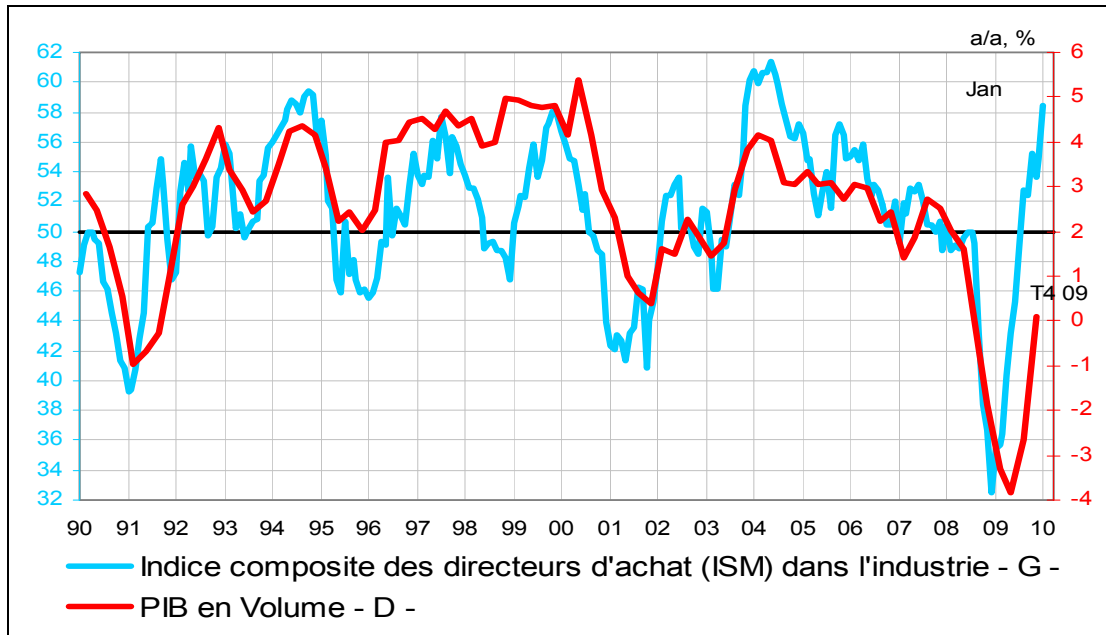
**ANGLO AMERICAN** ..... **RAISED TO BUY FROM HOLD** ..... **BY SOCIETE GENERALE**

**RECKITT** ..... **CUT TO NEUTRAL FROM OUTPERFORM** ..... **BY CREDIT SUISSE**

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

CHART OF THE DAY

ISM manufacturing (G) and GDP in volume(D)  
Since 1990



Source: Bloomberg

After five consecutive months above the level of 50 (marking the boarder between contraction and expansion of the activity) the ISM manufacturing index for January rose by 4.5% meaning 25.9 points since its lowest level in December 2008. With a level of 58.4 this capital spending leading indicator reached a highest since August 2004 meaning at a time were the US GDP growth was 4% YoY. Therefore our prevision of 3% of the GDP in 2010 will be most likely revised up./JB

Time	Country	Indicator	Period	GE forecasts	Consensus	Previous
7.00 GMT	Germany	Retail sales	December		+0,9%,-2,5% YoY	-1,1%,-2,8% YoY
9.30 GMT	United Kingdom	PMI construction	January		47,0	47,1
10.00 GMT	Euro area	Producer price index	December		+0,0%,-3,0%YoY	+0,1%,-4,4% YoY
15.00 GMT	United-States	Pending home sales	December		+1,0% MoM	-16,0%,19,3% YoY
22.00 GMT	United-States	ABC consumer confidence	January 31st		-45	-48
22.00 GMT	United-States	Total vehicle sales	January		10,90 million	11,23 million

Indexes	Price	% 5 Days	Ytd
DJIA	10185,5	-0,11%	-2,33%
S&P 500	1089,2	-0,68%	-2,32%
Nasdaq	2171,2	-1,78%	-4,32%
CAC 40	3762,0	-0,53%	-4,43%
DAX	5654,5	0,41%	-5,09%
Eurostoxx 50	2793,3	-0,35%	-5,79%
DJ 600	248,4	0,11%	-2,16%
FTSE 100	5247,4	-0,23%	-3,06%
Nikkei	10371,1	-2,93%	-1,66%
Shanghai Comp	2947,8	-4,95%	-10,05%
Sensex (India)	16316,4	-2,98%	-6,58%
MICEX (Russia)	1417,0	0,08%	3,43%
Bovespa (Brasil)	66571,7	0,53%	-2,94%

Forex	Price	% 5 Days	Ytd
EUR/USD	1,3922	-1,27%	-2,85%
EUR/JPY	126,38	0,01%	-5,61%
USD/JPY	90,78	-1,26%	-2,58%
Oil	Price	% 5 Days	Ytd
Brent \$/b	73,2	0,94%	-5,23%
Gold	Price	% 5 Days	Ytd
Gold \$/oz	1104,0	0,54%	0,59%
Rates	USA	Euro	Japan
Central Banks*	0,25	1,00	0,10
Overnight	0,10	0,25	0,10
3 Months	0,09	0,29	0,20
10 Years**	3,65	3,19	1,36

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

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

## ECONOMIC DATA PREVIEW

**NO MAJOR ECONOMIC DATA RELEASED IN THE UNITED-STATES.**

Watch in **THE EURO AREA** the Producer prices for December at 10.00 GMT, expected to be flat, and remaining in negative territory at -3.1% YoY.

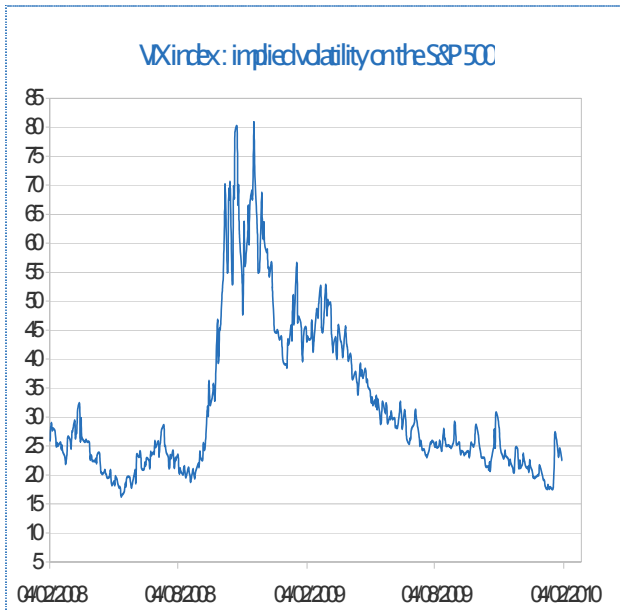
## ECONOMY

### **UNITED-STATES : PERSONAL INCOME AND PRIVATE SPENDING INCREASED IN DECEMBER.**

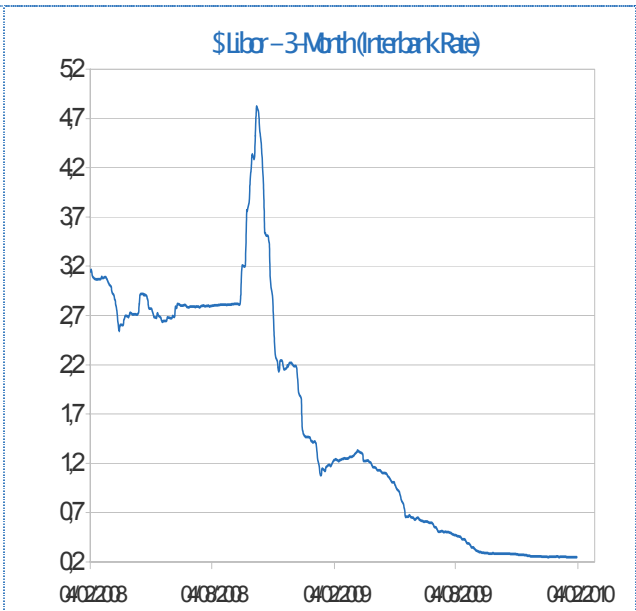
After rising for a fourth consecutive month in October, income of US households was up by 0.5 % in November. For December, personal income rose by 0.4 %, mainly due to the stabilization of unemployment. Not to mention the rise in average weekly wages in December. Therefore, private spending which had already increased by 0.7 % in November was logically up by 0.2 % in December. Meanwhile it must be noticed that the saving rate increased from 4.5% to 4.8% which will be supported household consumption (70% of the GDP) in the coming months.

### **UNITED-STATES : SHARP RISE OF THE ISM MANUFACTURING IN JANUARY.**

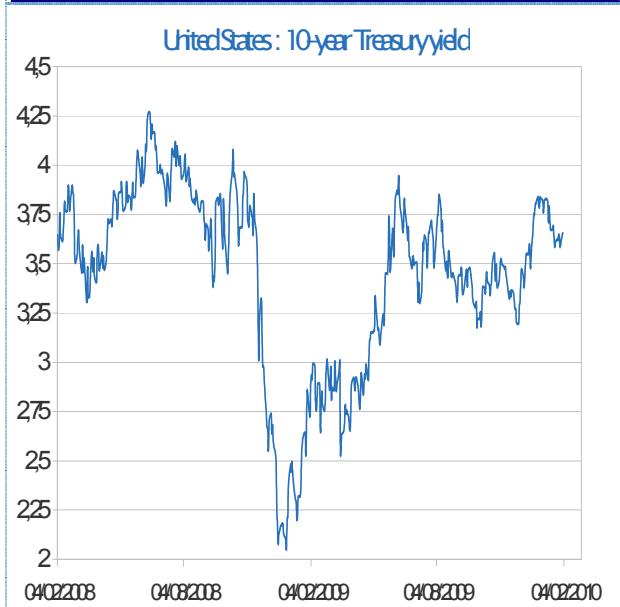
After rising by 5.7% (annualized) at the fourth quarter 2009, the US economy is still improving. Indeed after five consecutive months above the level of 50 (marking the boarder between contraction and expansion of the activity) the ISM manufacturing index for January rose by 4.5% meaning 25.9 points since its lowest level in December 2008. With a level of 58.4 the capital spending leading indicator reached a highest since August 2004 meaning at a time were the US GDP growth was 4% YoY. But this is not all, indeed the ISM manufacturing sub index the "employment" reached 53.3 meaning a highest since April 2006, confirming that the unemployment is recovering in the United-States. Meanwhile "new orders index" reached 65.9 a highest since April 2004, and the "production index" reached 66.2 a highest since April 2004 as well. Therefore our prevision of 3% of the GDP in 2010 will be most likely revised up./**JB**



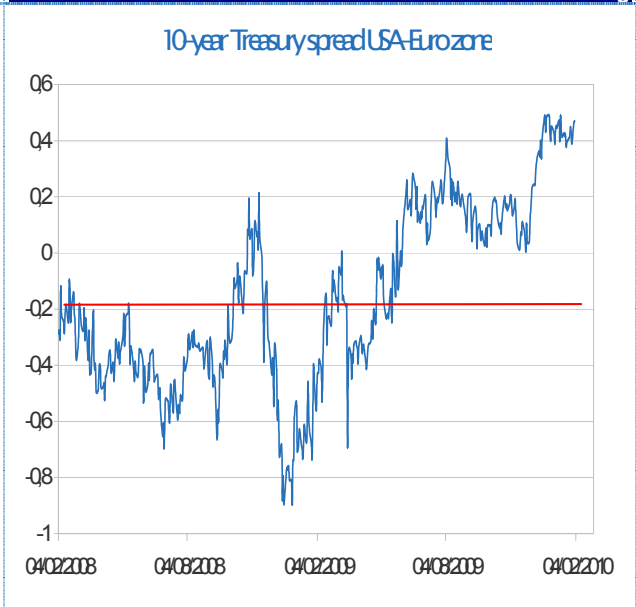
Source : Bloomberg



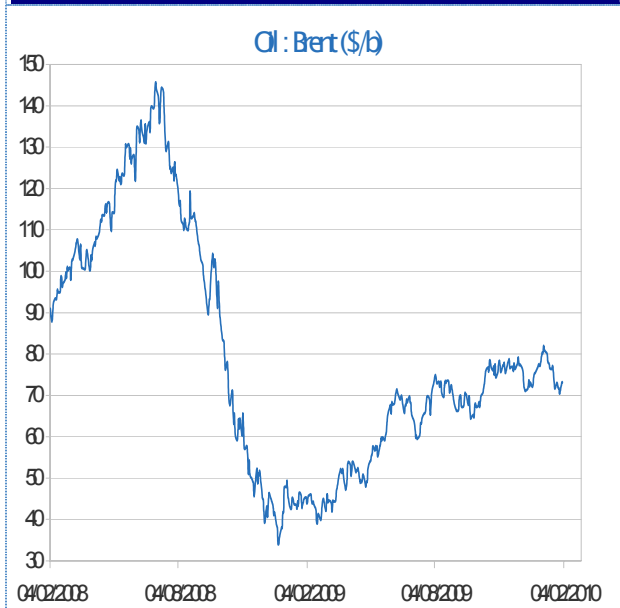
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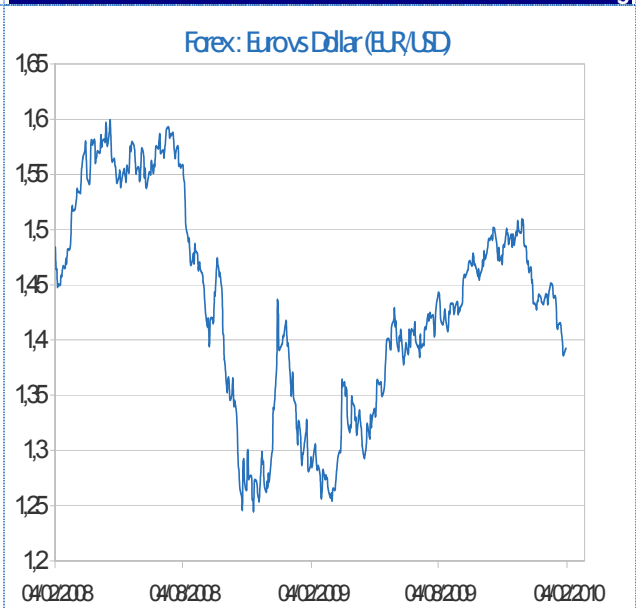
Source : Bloomberg



Source : Bloomberg



Source : Bloomberg



Source : Bloomberg