

The G7 this weekend has become important even more than the employment report today. The market did put pressure so far on the G7 which might have to find a solution to the current confidence crisis which sent the banks to the floor all week long, as well as the equity indices yesterday. Obama already damaged confidence when playing populist two weeks ago. Bernanke's subject was a serious matter and ended fine. But it made the CDS story getting worse with fundamental investors selling about everything yesterday (big call from an influent broker to leave Spain drove the Ibex -6%), creating a new vicious circle where behind the bank damages investors might have a credit crunch fresh in their mind. Although we take this matter seriously given the market sensitivity, we would stick to the idea that the sovereign debt focus is very extreme at this stage and is over played. But the market is the boss, and although we listen to it, we would play even more long for today as the CDS might fear the coming G7 and not push too far for once which the equity indices should welcome. Basics are strong enough so far to resist a new credit crunch fear (vote expected in Portugal about budget restrictions today). The surge in productivity should provide a very strong boost to domestic corporate profits, and the corporate sector is already awash with surplus cash flow. The story being that any development for the fiscal deficit will be growth negative, which could mean that loan losses might stay high during 2011 as well.

Challenge One, not talking about the Steve Mc Queen fantastic film from 40 years ago, but just about the Employment report to be released today. It will be challenging and the first one, for the pure and simple reason that the market is focusing on the CDS from the PIGS countries, which by the way became the STUPIDS (Spain / Turkey / UK / Portugal / Ireland / Dubai), while we believe the real story this year is about the employment sector from the US. Indeed, the US should be the main engine for the economic recovery with its \$14trillion GDP, while China (\$3trillion) and emerging markets have been very helpful same time last year thanks to its fantastic reactivity with its stimulus reaching the real economy much faster than any other countries.

The 2010 story used to be about the unwinding of the stimuli, and this should prove to be successful once the economy is self running, which means creating jobs back again. Already the latest GDP data are telling us that the growth pace is strong enough to support less artificial help, any job creation would be cheered if it appears to be lasting. Already we had an amazing surprise to welcome a 4k job creation as soon as last November, which would have been hard to believe when sinking early March, 8 months earlier. Unfortunately December data came back down with a 85k job destruction, putting even more pressure on today's data. Hopefully we know already that it should not be bad given the increase in job component seen on Monday through the ISM manufacturing index, a slightly better ADP employment changes, which unfortunately kept destroying 22k jobs, and an improving job survey from the non manufacturing activity. The poor jobless claims data this month are adding to the stress though that the US might still destroy jobs.

Obama's focus on small and medium size firms is important. Indeed, the service sector is enjoying much less of a cyclical rebound than the factory sector, but manufacturing groups are usually bigger and more international oriented. They did profit from the exports boosts thanks to a weaker dollar, while the small firms were more domestic growth oriented. Obama is just fine-tuning and his job bill as well as the tax incentives for mid size firms is the last and very important help before getting all set for a sustainable growth.

Not saying Europe is doing fine, just that our big caps are making money more than 50% abroad, and such an awakening from the US while China remain resilient should keep on pulling European earnings on the upside, and support growth, but on a very small speed (which by the way better explains the current deficit worry as its is a matter of ratio deficit/growth). Also, the silver lining about the CDS focus is that France and Germany have been trying hard to get a weaker euro and never succeeded the last few years. For that they should thank Greece as it is welcome for European exporters and might pull once more our economy up.

Would play that the coming G7 might cool things down on the CDS spreads, while the employment report remains a bet which however could mostly be played positively given the latest few job components we saw this week. Yesterday's drop was very bad, and hurt many players. Most long positions left have been cut, the last hour volume was big on the Eurostoxx. Some answers have to come up on the CDS, or else some friendly fundamentals to stop focusing on it as confidence has been hurt and bear players will keep enjoying shorts on any market rebound. Would risk to say that today should be fine and the market might give some money back ...

	WTI	€/€	\$/¥	10 yr US	10 yr Euro	Basic	Energy	Financ	Health	Tech	Tel	Indus	Utilities	SOX	S&P	NAS	DOW	Close
Last	73,4	1,3714	89,57	3,61	3,16	-4,52	-3,99	-3,90	-2,63	-2,93	-2,43	-3,12	-2,58	-4,64	-3,11	-2,99	-2,61	US
Perf 1d %	-4,57	-0,07	-0,51	0,79 bp	-6 bp	-3,31	-2,98	-2,58	-1,44	-2,08	-1,31	-2,13	-1,28	-4,02	-2,05	-1,98	-1,80	Europe

ECONOMIC DATA with impact

Employment report (13h30 UK time) expected +15k from previous -85k / **rate** expected 10% unchanged / average hourly earnings up 0.2% from previous 0.2% / average weekly hours 33.2 / **important** / employment report is the one survey you want to see in the green in order to get a sustainability from the economic growth once the stimuli are gradually off which is the focus this year, or was until the CDS triggered a market tumble

Portugal vote to cancel some budgets that were initially planned toward Madeira and Azores, which would look good for their debt problem

This weekend : G7 Finance ministers & Central Bankers meeting in Canada / might cool-off the CDS spread at least for today (Trichet again declined to comment on contagion risks for Spain and Portugal although he did say that if you share a common currency with others, you have to behave properly.)

POSITIVE IMPACTS

DEUTSCHE TELEKOM is considering an IPO or spinoff of its U.S. wireless service T-Mobile USA (Wall Street Journal)

LVMH : FY sales €17.1bn, in line / Operating €3.35bn (3.25bn e) despite €191m of one-offs / Strong FCF / **Dividend €1.65** (1.25 exp)

HERMES : Q4 Sales €587.3m (€557m exp) / **FY LFL +4.1%** (3.6% exp) / Current Operating result in value should show slight rise from 2008, net income seen close to 2008 level

ENEL : 2009 FY revenues €64bn (€61.7bn exp) / **EBITDA €16bn** (€15.6bn exp) / **Net debt about €51bn** (€50bn end-2008) / CEO confirms target of net debt of €45bn at end-2010

SYNGENTA : FY sales \$10.99bn (10.74bn e) / **Ebitda \$2.4bn** (2.35bn exp) / **Dividend SFR6**, unch. (6.50 e) / Planned **share buyback** in 2010 of around \$750m

UNIBAIL will enter the Eurostoxx50 Today at the close to replace **VOW** / Unibail will weight 0.1388% of the index / Separately, Unibail announced that it will acquire a portfolio of shares in 7 shopping centres in France and in Poland **for €715m**

ING : Bank of Beijing, in which ING holds a 16% stake, said that China's banking and insurance regulators have approved its plan to take a 50% stake in ING Capital Life Insurance / Bank of Beijing will pay \$100m to Beijing Capital Group for the stake

ALCATEL / STM / SANOFI / EADS / LAFARGE / VALLOUREC / TOTAL might be supported by the dollar - euro recovery

NEGATIVE IMPACTS

VOLVO : Q4 sales SEK59.8bn, in line / **Operating loss SEK2.3bn** (-519m exp) due to Q4 restructuring & writedown of SEK1.4bn / **Cut dividend to 0.00** (0.50 exp) / Said that **demand remains at historically low levels**

BHP-RIO TINTO : The Western Australian govt set a midyear deadline for Rio Tinto and BHP to start paying **higher iron ore royalties**

JULIUS BAER : Net New Money Inflows **SFR5bn** (SFR5.5bn e) as many Italians took advantage of an Italian govt tax amnesty & moved money back home) / **AUM SFR154bn** (SFR151bn e) / Net SFR473m (SFR460m e) / Tier ratio 24.2% / **Div SFR0.40** (0.50 exp)
A2A : FY **EBITDA €1.02 bn** (1.05 bn exp) / **Sees** EBITDA growth/year of 7.5% / **Sees** €500m in non strategic asset sale / **Dividend** policy unchanged / Debt rose to € 4.66 bln
EADS : France, Germany and Spain are ready to offer loans to help defuse a crisis over funding for the A400M, but only if EADS digs deeper into its own pockets
VEOLIA : EDF poached Veolia's CFO to head its finance department and was reorganising the top echelons of its management.
PEUGEOT : Mitsubishi Motors said it may supply a new small car to Peugeot
CADBURY will be **delisted on 8 March 2010**

BERKSHIRE HATHAWAY was stripped of its last **AAA** credit rating to **AA+** by S&P after it agreed to buy Burlington Northern Santa Fe
AIR PRODUCTS offered to **buy Airgas for about \$7bn** (\$60 per share in cash)

	RESULTS	DIVIDENDS	EVENTS
Today	EU \ BG Group / British Airways (BMO) / Compass Group / Dior / Eiffage / Hermes / Roche / Skanska / Syngenta / Volvo [Asia] \ Casio / Mazda Motor / Panasonic		Corning annual investor day / Gazprom Day / Xerox special meeting of investors
Monday	EU \ Klepierre / Metso / Unibail Rodamco [US] \ Electronic Arts (AMC)		
Tuesday	EU \ Alfa Laval / British Land / Elan / Faurecia (BMO) / Gas Natural / Tele2 / UBS [US] \ Biogen / Coca Cola Co / NYSE Euronext / Omnicom / Walt Disney [Asia] \ Nissan Motor		
Wednesday	EU \ Air France-KLM / Arcelor Mittal / BHP Billiton / EDF Energies Nouvelles / Nexans / Nobel Biocare / Nordea Bank / Peugeot / Reckitt Benckiser / Renewable Energy / Saipem / Sanofi-Aventis / Scor / SSAB / Telenor / Vestas Wind [US] \ Activision Blizzard [Asia] \ Baidu		
Thursday	EU \ Alcatel-Lucent / Bilfinger Berger / BT Group / Credit Suisse / Danone / Dassault Systemes / Diageo / DnB Nor / EDF / ENI / KBC / Legrand / Mobistar / Portugal Telecom / Publicis / Renault / Rio Tinto / Sampo / Smith & Nephew / Statoil / Telia Sonera / Thomas Cook / Total / Umicore [US] \ Goodyear / Marriott / Pepsi Co (BMO) / Philip Morris		Infineon AGM

TRADING IDEAS

BUY UNIBAIL to play the Eurostoxx entry tonight on close, the market drop probably made spec guys out which means it might work as index trackers will have to adjust and there is no volume on that name

For the rest, about the same as the macro landscape did not change, just the confidence ran away focusing on the CDS and with it the long positions left driving the indices heavily lower such as you saw yesterday triggered by the Spain collapse following influent broker recommendation)

BUY ALCATEL to play stock recovery with new management in place last year, earnings next week, Cisco + dollar name

BUY STM to play dollar recovery

BUY LAFARGE & ST GOBAIN to play housing sector recovery / the 21% rise in mortgage Applications has been in the shade of CDS but nice housing data to be expected this month from the US

BUY ALSTOM / AIR LIQUIDE / LINDE to play cyclical which consolidated nicely ahead of an economic recovery and indices upside trend resuming

BUY SANOFI ahead of earnings next week on the 10th / dollar name / nice chart / sold most of the Flu vaccine with Glaxo, there will be some left for centuries seen the over doing from the French government ...

BUY MITTAL AND CAP to play reversal head & shoulder possibility

BUY SANOFI (Next Report 02/10) / **SELL NOVARTIS** (Already reported 01/26) // **BUY TOTAL** (02/11) / **SELL TECHNIP** (02/18)

BROKER METEOROLOGY

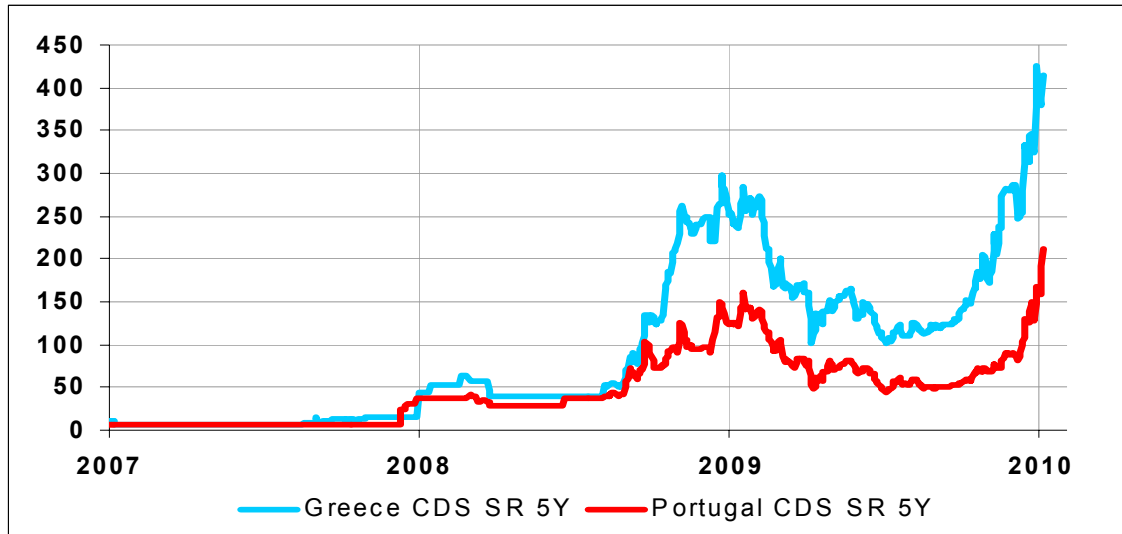
ZURICH FINANCIAL..... **RAISED TO BUY FROM HOLD**.....**BY BANK OF AMERICA – ML**
DAIMLER **RAISED TO BUY FROM HOLD**.....**BY RBS**

RENAULT **CUT TO HOLD FROM BUY**.....**BY RBS**

PLEASE FIND BELOW ON THE NEXT PAGE OUR MORNING ECO

CHART OF THE DAY

Portugal and Greece 5Y CDS
Since 2007



Source: Bloomberg

Portugal and Greece led a surge in the cost of insuring against losses on sovereign debt to a record as concern that nations will struggle to cut budget deficits deepens a “crisis of confidence” in Europe. Portugal’s public debt will rise to 91 percent of gross domestic product by 2011 from 77 percent last year, according to European Commission forecasts. Greece’s debt will increase to 135 percent of GDP, from 113 percent, and Spain’s will increase to 74 percent from 54 percent./LC

Time	Country	Indicator	Period	GE forecasts	Consensus	Previous
23.50 GMT	Japan	Official reserve assets	January			\$ 1049,4 billion
5.00 GMT	Japan	Leading index (preliminary)	December		93,5	90,7
5.00 GMT	Japan	Coincident index (preliminary)	December		97,3	96,0
7.45 GMT	France	Trade balance	December		-€ 4,0 billion	-€ 5,3 billion
7.45 GMT	France	Central government balance	December			-€ 143,3 billion
11.00 GMT	Germany	Industrial production	December		+ 0,6%,-3,7% YoY	+ 0,7%,-8,0%YoY
13.30 GMT	United-States	Employment report	January			
		Unemployment rate		10,0%	10,0%	10,0%
		Change in nonfarm payrolls		+ 75 000	+ 15 000	-85 000
		Change in manufacturing payrolls			-20 000	-27 000
		Average hourly earnings			+ 0,2%,+2,2% YoY	+ 0,2%,2,2% YoY
		Average weekly hours			33,2	33,2
20.00 GMT	United-States	Consumer credit	December		-\$ 10,0 billion	-\$ 17,5 billion

Indexes	Price	% 5 Days	Ytd
DJIA	10002,2	-1,11%	-4,08%
S&P 500	1063,1	-1,94%	-4,66%
Nasdaq	2125,4	-2,42%	-6,33%
CAC 40	3689,3	0,01%	-6,28%
DAX	5533,2	-0,13%	-7,12%
Eurostoxx 50	2707,5	-1,03%	-8,69%
DJ 600	242,7	-0,72%	-4,41%
FTSE 100	5139,3	0,01%	-5,05%
Nikkei	10057,1	-0,56%	-4,64%
Shanghai Comp	2931,0	0,04%	-10,56%
Sensex (India)	15827,2	-0,50%	-9,38%
MICEX (Russia)	1395,9	-0,76%	1,89%
Bovespa (Brasil)	63934,0	-2,52%	-6,79%

Forex	Price	% 5 Days	Ytd
EUR/USD	1,3715	-1,10%	-4,34%
EUR/JPY	123,02	1,72%	-8,53%
USD/JPY	89,70	0,59%	-3,79%
Oil	Price	% 5 Days	Ytd
Brent \$/b	71,7	1,75%	-7,14%
Gold	Price	% 5 Days	Ytd
Gold \$/oz	1066,1	-1,37%	-2,82%
Rates	USA	Euro	Japan
Central Banks*	0,25	1,00	0,11
Overnight	0,09	0,25	0,11
3 Months	0,09	0,27	0,20
10 Years**	3,61	3,16	1,38

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

** Euro: German Bund rate Source : Bloomberg

ECONOMIC DATA PREVIEW

Watch in **THE UNITED-STATES** the Employment report for January at 13.30 GMT. After reaching 10.1 % in October the worst since April 1983, US unemployment rate declined to 10% in November and stabilized in December. Unfortunately after a net 4,000 jobs creation in November, December showed a net 85 000 jobs destructions. Nevertheless, as the economy is recovering, the trend should reverse and we anticipate 75,000 net new jobs in January and a stabilization of the unemployment rate. However as the labour market is a lagging indicator of the activity, it will improve significantly only in six to nine months after the economic recovery, meaning at spring 2010.

Keep an eye in **GERMANY** on the industrial production for December released at 11.00 GMT, expected to rise by 0.4% mainly led by exports. From a year ago industrial production should improve but will remains in negative territory at -3.8% YoY (prior -8.0% YoY)./JB

ECONOMY

UNITED-STATES : NEW INCREASE OF FACTORY ORDERS IN DECEMBER

Factory orders rose by 1% in December (forecast 0.5%). This is the fourth consecutive month of rise and the eight increase in nine months. This new increase is mainly lead by the rebound of capital spending in the United-States as showed by the rising trend of the ISM manufacturing index. This trend will continue in the coming months as the recovery just began. Indeed the 450 billion of revival plan for 2010 mainly toward investment will boosted factory orders in the coming months.

UNITED-STATES : INITIAL JOBLESS CLAIMS SLIGHTLY INCREASED AND CONTINUING CLAIMS DISAPPOINTS

Initial jobless claims increased from 472 000 to 480 000 last week (expected 455 000) confirming that the recovery of the employment market remains very progressive. Indeed if after over cutting jobs companies are closer to economic fundamentals, a significant improvement of employment will not happened before spring meaning 6 to 9 month after the economic recovery. Meanwhile after improving for six consecutive weeks, continuing claims stabilized around 4 600 000 at 4 602 000 precisely.

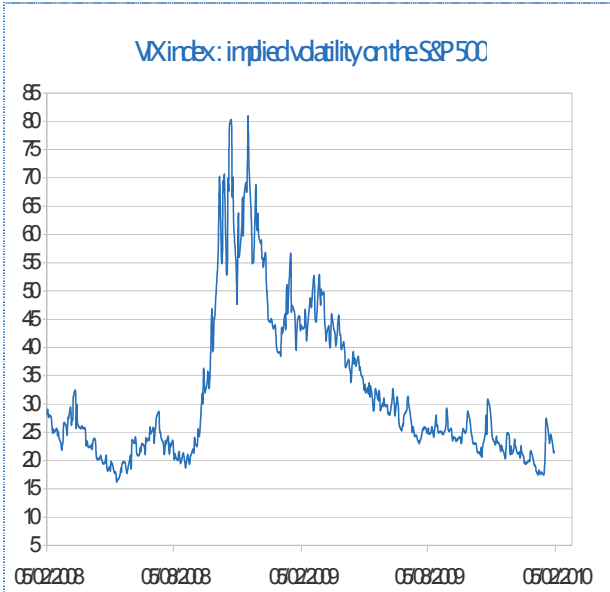
EURO AREA : THE ECB LEAVES ITS REFI RATE UNCHANGED IN FEBRUARY.

The Despite the fact that GDP in the euro zone remained very low (precisely -4 %YoY), and despite the high level of the euro currency the ECB kept its refi rate unchanged in February at 1%. It seems that the ECB has moved from dogmatism to pragmatism. Indeed, during its last press conference, its president Jean Claude Trichet mentioned that inflation in the euro zone will remain subdued in the coming months (near 1 %) and below 2% on average in 2010. Moreover, the ECB specified that the recovery should remain soft, meaning to raise rates will not be appropriate. Therefore we are changing our forecast for an early rate increase and we now anticipate a rise during next fall at the earliest, with a refi rate at a maximum of 1.5% by the end 2010.

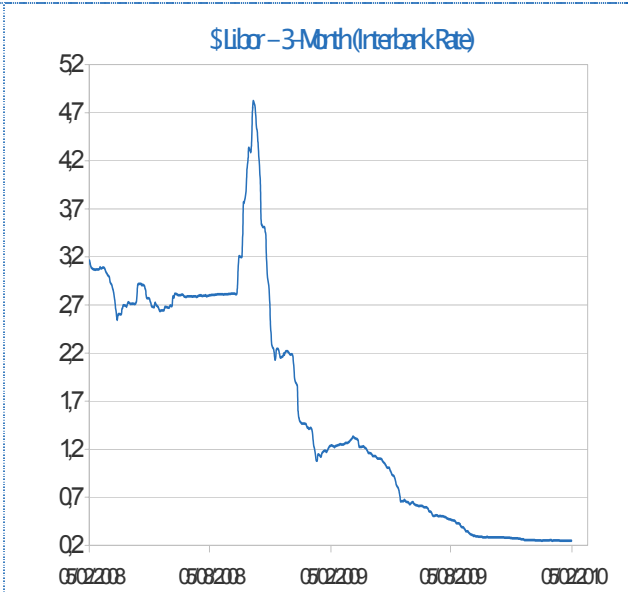
UNITED KINGDOM : STATUS QUO AT THE BANK OF ENGLAND.

The Bank of England kept its leading rate at 0.50% in February. For 2010, the return of a positive GDP growth rate as well as a slight pick up in inflation, will force the Bank of England to raise them. Therefore we forecast that rates will increase starting next Fall 2010, and will reach 1.5 % by the end of 2010./JB

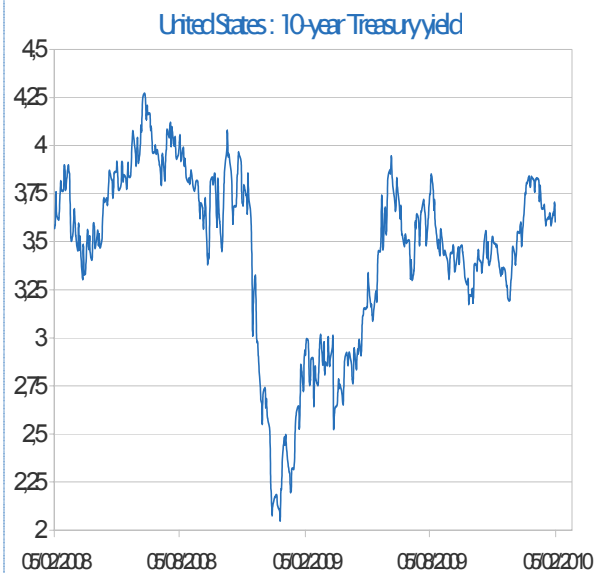
CHALLENGE ONE



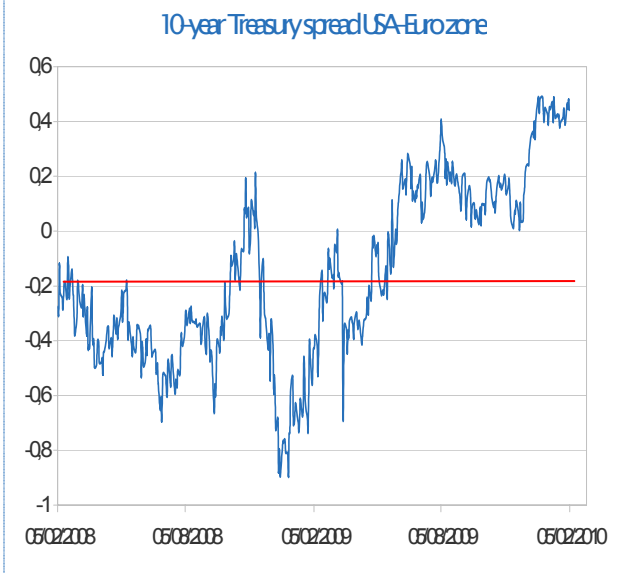
Source : Bloomberg



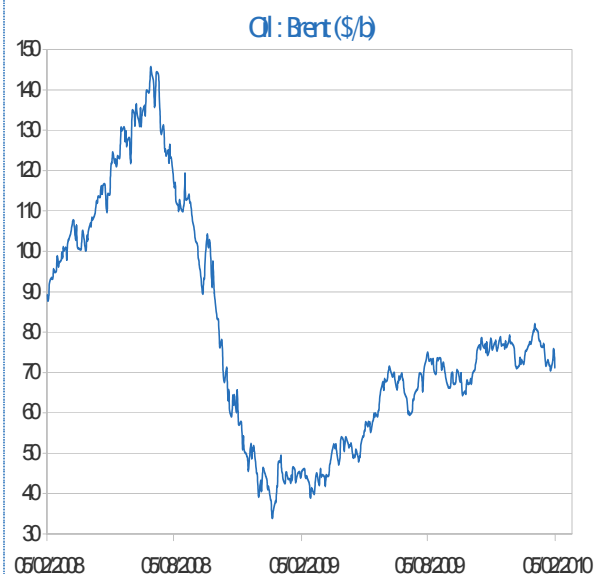
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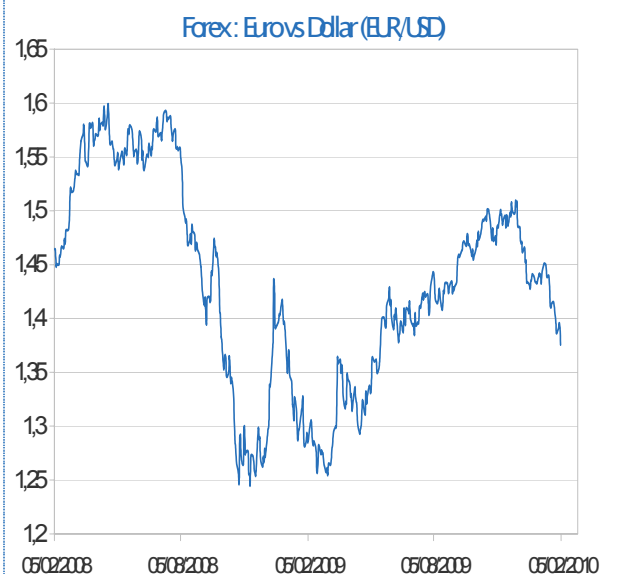
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Source : Bloomberg

