

A lot of earnings to be released in Europe this time, but unfortunately the focus will remain the CDS story given its impact last week on the equity markets. The story developed, not new but which we have to deal with as it became the only focus, sovereign debt levels and their costs, as growth might be too slow to pay the interest of the domestic debt. To reduce this ratio deficit/growth, you need to boost growth or reduce the deficit, which the stimuli were aiming at, and (or) reduce the budget deficit in order to reduce its costs and the one of the loan interests. But reducing deficit requires measures which might hurt growth, and as a consequence make the ratio debt cost / growth even worse. Nothing new here, but a story that surged as Greece is presenting its budget to the European commission mid February (15/16th) and IMF visit to help sort them out came on the scene just after Obama switched to a populist stance which the market did not like. Obama opened the door to a confidence crisis which made the sovereign debt impact on equity markets very big.

Some big and influent broker decision to declare "Leave Spain" was not looking good at a time of a low trading activity, awaiting more news from both the CDS story from Greece and Portugal. If they are logic in their view we should leave Italy, and why not France, Germany and Japan. Indeed, growth prediction in Italy is a poor 0.9% this year while the cost of the debt is 4.7%, France 1.5% GDP vs 2.8% cost, Germany 1.5% growth vs 2.7% cost and the Euro-zone as a whole 1.5% growth vs 3 % cost of the debt in percentage of the GDP. Japan 0.8% vs 3, goodbye, US just fine with a 3% vs 3% cost. What we try to say here, is that this problem is a problem in term of legislation, as the ECB has to respect some rules in term of collateral as a back up from countries debts. But the world is about to collapse once more, this could quickly change. In other word, the market is putting pressure on Central bankers to make a move and be more flexible in case things take longer to put back to normal. Which means, we clearly have a risk of inflation as we might just be printing money and job is done. Which means there is not much new here. Inflation has always been the following risk behind the Great Depression recovery seen the amounts of money in circulation through the accommodative policies, that would have presented a risk of a bubble and of inflation. Not saying this is great, just reminding that it is the reason why we do not keep flying blind to head back to the pre 4564 level on the cash Eurostoxx from July 2007, or 5522 from March 2000 but just cruising below 3000 digesting the rebound from 1765 and scrutinizing the coming problems. 2010 is the year of normalization, this CDS story is one of them, and it has always been planned to deal with it but strategists were more forecasting to deal with it in 2011. Obama rushed things a bit ... we deal with a two year problem within a few weeks.

As some strategists are saying, if Spain defaults, European financial institutions which have been actively financing Spain's deficit will shake. Thus the EU is likely to provide financing in exchange for heavier budget cuts. Lower imports, reduced labour costs, higher productivity should help. Situation is not easy since politics need to agree in 4/5 risky countries and 2/3 financing countries. Budget cuts would put further pressure on GDP and affect tax income. This type of market shocks are usually a buying opportunity. One would guess that the bottom will not be seen anytime as soon as a solid EU financing pack is in place which probably will not take long. More expensive financing costs, low growth is bad news for banks, which though took a very severe hit already

Just as a reminder, we will take a look at the US trade balance on Wednesday, the Retail Sales and the Jobless Claims on Thursday, but mostly the earnings which this time will intensify in Europe. But once more, what do we care about single stocks when we care about countries debts.

The employment report was rather good and very promising. Indeed, the job creation is important, but mainly as this is the one you want to take a look at to measure the economic speed, and to see whether the firms are hiring enough to trigger a decline of the unemployment rate. Not only the economic speed is not a matter so much it is strong in the US (5.7% in Q4 / possibly 5% in Q1 this year), but we know corporate are full of cash, and they optimise on the labour force when looking at the huge productivity pace (+6.5% in Q4 / +8.5% in Q3). Usually you need to reach a 150k job creation level in order to make the unemployment rate drop back. The rate of employment is a direct link to consumption. Households have a job, they spend and they weight 70% of the economy. If you reduce the unemployment rate you increase the economic activity. Obama is working on some incentives so that small and mid size firms would be hiring so that the employment rate is improving thanks to more creation. Neither bull nor bear economists were betting on a decline of the unemployment rate before 2011 or even 2012. This is promising, if in the end we accept to look back at the underlying fundamentals.

The G7 was rather positive about the debt problem and there did not seem to be any panic, although clearly aware of a danger which is growing on the European front. Group of Seven financial leaders Saturday tried to tamp down continued anxiety about the global economic recovery, with officials promising continued stimulus efforts and European leaders pledging to address public debt problems. The debt crisis in Europe, triggered by ongoing problems in Greece and other euro-zone countries, placed a brighter spotlight on the G-7 meeting here, prompting European leaders to say they are aggressively monitoring and addressing the debt situation. "We expect and are confident that the Greek government will make all the necessary decisions," said Jean-Claude Trichet, the European Central Bank president. Trichet added European members of the G-7 will "continue to monitor closely the implementation of these stability measures." Canadian Finance Minister James Flaherty lent the Europeans a hand, saying Greece's economy was of relatively small size. "So in global terms it's not of intense concern," he said. G-7 financial leaders also said they will continue providing support to their economies until the financial recovery has taken firm hold. "We are committed to maintaining support to the economy," U.K. Chancellor of the Exchequer Alistair Darling said. "We are confident that we are going in the right direction although we remain cautious." U.S. Treasury Secretary Timothy Geithner said European financial leaders were clear with the G-7 that they would manage the Greece situation with great care. He struck an optimistic tone about the economic recovery, despite mixed signals about the U.S. recovery. "The recovery came more quickly and stronger than expected," he said.

Huge volume on Friday with 19 bn euros traded on the Eurostoxx / US Sec's Schapiro said late Friday "in coming weeks agency will consider proposals to restrict

short selling, last time the short selling ban was introduced market squeezed very aggressively / EU probably ready for action on the Greek situation, but not in a rush for now, waiting for more measures to make sure the situation is understood for other countries. Worse case scenario there would be a bail out. Answer this week, before next Thursday 16th anyway meeting from the Europea commission about it.

	WTI	€/€	\$/¥	10 yr US	10 yr Euro	Basic	Energy	Financ	Health	Tech	Tel	Indus	Utilities	SOX	S&P	NAS	DOW	Close
Last	71,6	1,3624	89,31	3,59	3,12	1,73	-0,18	1,10	-0,30	1,15	0,53	-0,48	-0,25	2,39	0,29	0,74	0,10	US
Perf 1d %	-2,53	-0,39	0,34	2,13 bp	-4,3 bp	-0,29	-1,49	-0,05	-0,73	0,24	-0,20	-1,22	-0,80	1,14	-0,56	-0,11	-0,62	Europe

ECONOMIC DATA with impact

CDS

POSITIVE IMPACTS

SANTANDER is looking at possibly listing its U.K. business on the LSE for more than **£15 bn** (The Sunday Times) / However, a U.K. listing would be more likely as part of a wider operation, such as another bank or office network acquisition... (El Pais)

XSTRATA : FY revenue **\$22.73bn** (21.84bn exp) / Ebitda **\$7.05bn** (6.75bn exp) / Net **\$2.773bn** (2.76bn exp) / Dividend **\$0.08** (0.00 exp) / Said that many short and medium-term leading indicators show signs of recovery

EIFFAGE : Q4 sales €3.37bn (3.35bn e) / Construction division -16% / Public works division +7.9% / Q4 order book +2.7% at €9.9bn

NEGATIVE IMPACTS

GDF would be thinking of returning with a **sweetened offer for INT. POWER**, likely to include cash for shareholders (The Independent)
SAP said **CEO Leo Apotheker resigned with immediate effect** / SAP's supervisory board appointed 2 co-CEOs: Bill McDermott, head of field organization, and Jim Hagemann Snabe, head of product development / **Conf. Call Today 1330 UKT**
SIEMENS : A massive explosion rocked a large gas-fired power plant being built in **Connecticut** / Much of the plant's power generation equipment **was supplied by Siemens...**
ENI pulled out of its planned \$1.5 bn purchase of Heritage Oil's Ugandan assets in what should be seen as a setback for ENI's ambitions to grow in Africa... / **Separately**, at least 25% of ENI shareholders agree for a demerger of Eni's gas...
ENEL could decide in the next few weeks to accelerate **the IPO in its Enel Green Power** renewables unit (la Repubblica)
MAN may take a **writedown of €350m** on its minority stake in Scania, lowering the value of its holding to around €1 bn (FTD)
BAYER would consider acquisitions worth billions of € to bolster its healthcare business (CEO in FAZ).
TELEFONICA said inflation and a devaluation in Venezuela will have a negative impact of €548 m on 2009 results / The company also said it expects a negative impact of about €1.81bn on its assets from 2010.
TELECOM ITALIA : TELEFONICA's Chairman said he is happy with the current set-up between the 2 companies...
UBS-CEDIT SUISSE : German Finance Minister is convinced that **banking secrecy will be abolished in all of Europe** (NZZ Sunday)
DEXIA agreed to sell units in Italy, Spain, Slovakia and Turkish and must shrink its balance sheet by 35% by 2014 to win EU approval for a taxpayer-funded rescue / Won't pay cash dividends for 2 years
GERMAN BANKS : "The banks will have to cope with **write-downs in the 2-digit billion range** in their credit business in 2010" (Banking association BdB's President in Euro am Sonntag)
INTESA SANPAOLO's plans to list its asset management unit Banca Fideuram will not be discussed at board meetings next Tuesday but a decision could be taken at meetings set for **Feb. 23** (Il Messaggero)
AIR FRANCE : January traffic passenger -1.6% but cargo +2% / Passenger **load factor 78%** / Cargo **load factor 64.3%**
KLOECKNER is still pursuing acquisitions, particularly in the U.S. (CEO in Euro am Sonntag)

TO BE NOTED : Iran said it would start producing uranium enriched to a level of 20% from Tomorrow, prompting the United States and Germany to threaten carefully targeted new sanctions against Tehran.

	RESULTS	DIVIDENDS	EVENTS
Today	EU \ Klepierre / Metso / Unibail Rodamco / Xstrata prelim US \ Electronic Arts (AMC)		
Tuesday	EU \ Alfa Laval / British Land / Elan / Faurecia (BMO) / Gas Natural / Havas / Tele2 / UBS US \ Biogen / Coca Cola Co / NYSE Euronext / Omnicom / Walt Disney Asia \ Nissan Motor		
Wednesday	EU \ Air France-KLM / Arcelor Mittal / BHP Biliton / 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		Gazprom Day / Infineon AGM / Micron Technology winter analyst conf
Friday	EU \ Aegis / Banca Monte di Paschi / Banco Popolare / Boliden / Enel / Hermes / Iliad / Mediaset / Michelin / Prudential / Public Power / Swiss Life / ThyssenKrupp / Wendel / Yara international	Schlumberger (\$0.21)	

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)

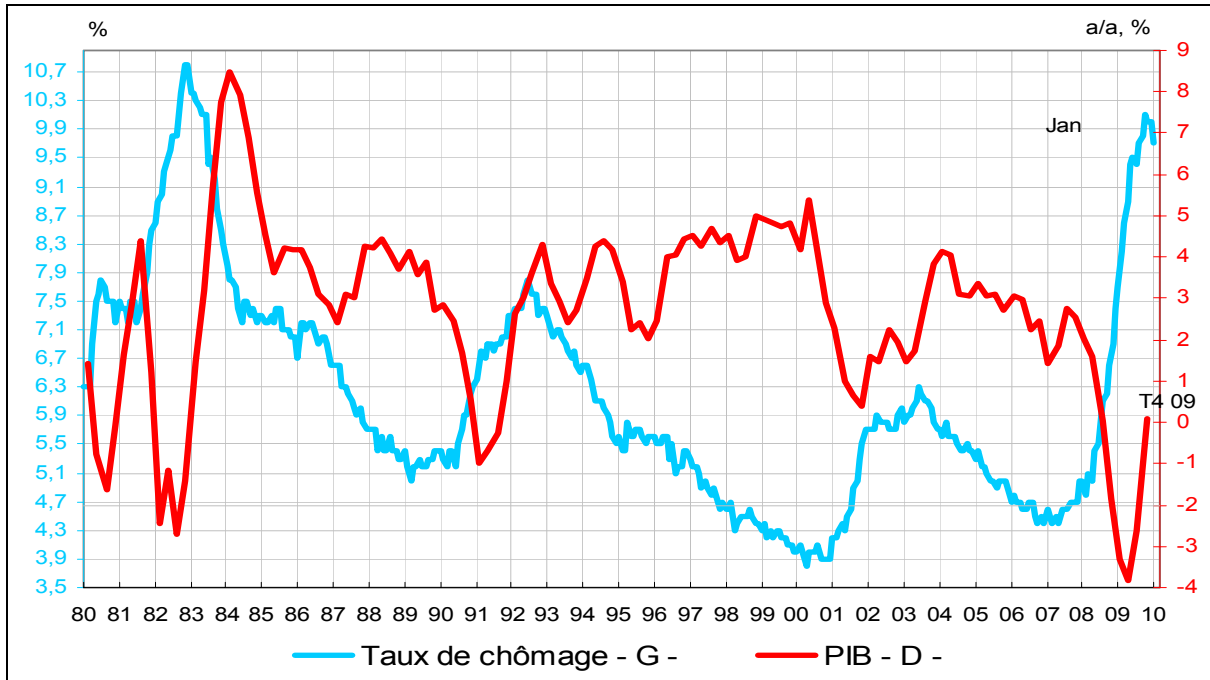
BROKER METEOROLOGY

SMITH & NEPHEW **RAISED TO BUY FROM NEUTRAL** **BY UBS**
AKZO NOBEL **RAISED TO BUY FROM HOLD** **BY ING**
UMICORE **RAISED TO BUY FROM HOLD** **BY ING**

BG GROUP **CUT TO EQUALWEIGHT** **BY BARCLAYS CAPITAL**

CHART OF THE DAY

US GDP (D) and unemployment rate (G) Since 1980



Source: BEA, BLS, and Datastream

After remaining stable in November and in December at 10% the US unemployment rate declined in January to reach 9.7%, a lowest since August 2009. The last recessions ending revealed that when unemployment decreased by 0.4% in three months it generally revealed a lasting decline trend./JB

Time	Country	Indicator	Period	GE forecasts	Consensus	Previous
23.50 GMT	Japan	Current account total (adjusted)	December		+ ¥ 1250,0 bn	+ ¥ 1304,8 bn
23.50 GMT	Japan	Trade balance	December		+ ¥ 669,4 bn	+ ¥ 490,6 bn
4.30 GMT	Japan	Bankruptcies	January			-16,6% YoY
7.30 GMT	France	Bank of France business sentiment	January			101

Indexes	Price	% 5 Days	Ytd
DJIA	10012,2	-0,49%	-3,99%
S&P 500	1066,2	-0,68%	-4,39%
Nasdaq	2141,1	-0,25%	-5,64%
CAC 40	3563,8	-4,70%	-9,47%
DAX	5434,3	-3,11%	-8,78%
Eurostoxx 50	2631,6	-5,17%	-11,24%
DJ 600	237,5	-3,78%	-6,47%
FTSE 100	5060,9	-2,33%	-6,50%
Nikkei	9951,8	-1,38%	-5,64%
Shanghai Comp	2943,8	-1,67%	-10,17%
Sensex (India)	15694,2	1,27%	-9,51%
MICEX (Russia)	1355,6	-4,49%	-1,05%
Bovespa (Brasil)	62762,7	-4,04%	-8,49%

Forex	Price	% 5 Days	Ytd
EUR/USD	1,3628	-2,08%	-4,93%
EUR/JPY	121,68	3,76%	-9,74%
USD/JPY	89,29	1,61%	-4,32%
Oil	Price	% 5 Days	Ytd
Brent \$/b	69,6	-4,82%	-9,87%
Gold	Price	% 5 Days	Ytd
Gold \$/oz	1065,8	-3,60%	-2,85%
Rates	USA	Euro	Japan
Central Banks*	0,25	1,00	0,11
Overnight	0,02	0,25	0,11
3 Months	0,09	0,28	0,20
10 Years**	3,59	3,12	1,37

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

** Euro: German Bund rate Source : Bloomberg

ECONOMIC DATA PREVIEW

NO MAJOR ECONOMIC DATA RELEASED TODAY

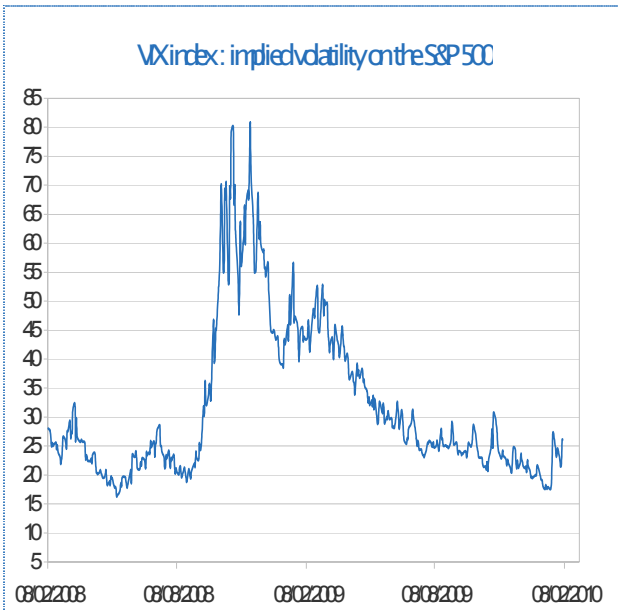
ECONOMY

UNITED-STATES : UNEMPLOYMENT RATE DECREASED IN JANUARY

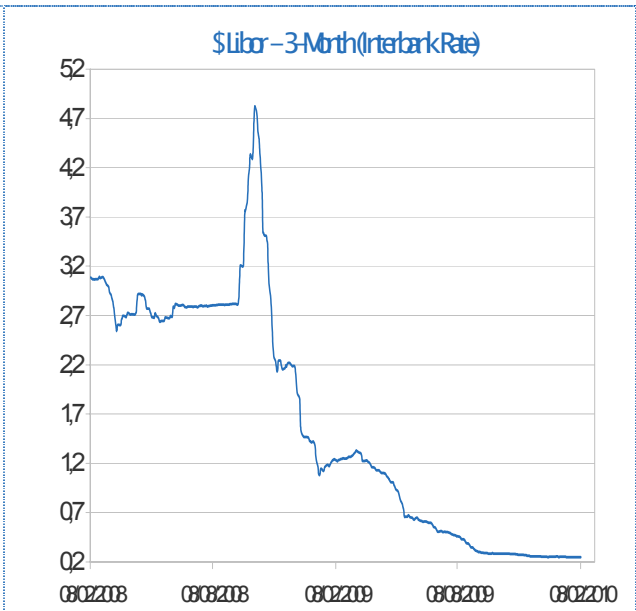
After remaining stable in November and in December at 10% the US unemployment rate declined in January to reach 9.7%, a lowest since August 2009. The last recessions ending revealed that when unemployment decreased by 0;4% in three months it generally revealed a lasting decline trend. Nevertheless 20 000 jobs has been destroyed in January despite our expectation of 75 000 jobs creation. On the other hand it must be said that jobs have been mainly destroyed in the construction sector, especially due to the hard weather conditions. On the other hand the manufacturing sector registered its first month of net jobs creation since November 2007 with 11 000 jobs, its best performance since January 2006. Meanwhile the service sector created 48 000 jobs the highest since December 2007. Even better the retail trade sector created 42 000 jobs which is encouraging regarding household consumption. Weekly and hourly wages continue to increase respectively by 0.3% and 0.6% in January reaching in both case 2.5% YoY. To conclude January employment report confirmed that the labour market is recovering and this trend should rise at a faster pace in the coming months.

GERMANY : INDUSTRIAL PRODUCTION DECLINED SHARPLY IN DECEMBER

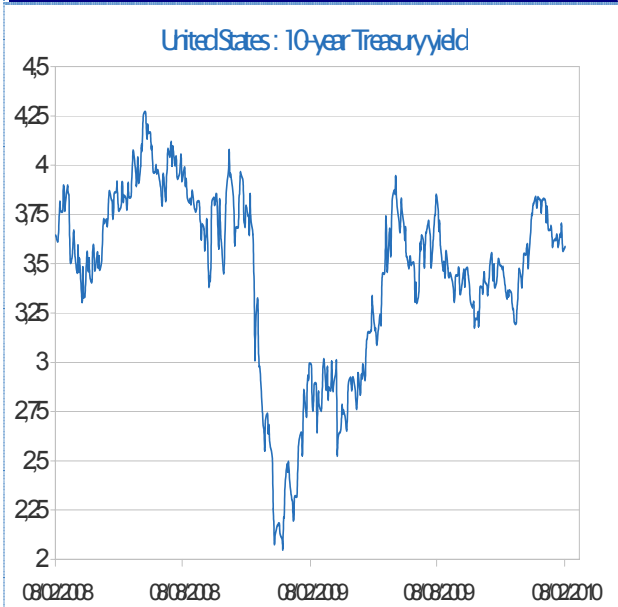
After rising by 0.7% in November German industrial production sharply declined by 2.6% in December the sharpest drop since April 2009. Looking at the breakdown Intermediate goods declined by 4.3%, capital goods were down by 3.4% and construction declined by 2.6%. Meanwhile industrial production remains weak for a year ago at -7.1% YoY. The Germany recovery as in the euro area remained weak and fragile. Therefore the GDP should rise by a small 0.4% at the fourth quarter and by 1.5% in 2010./JB



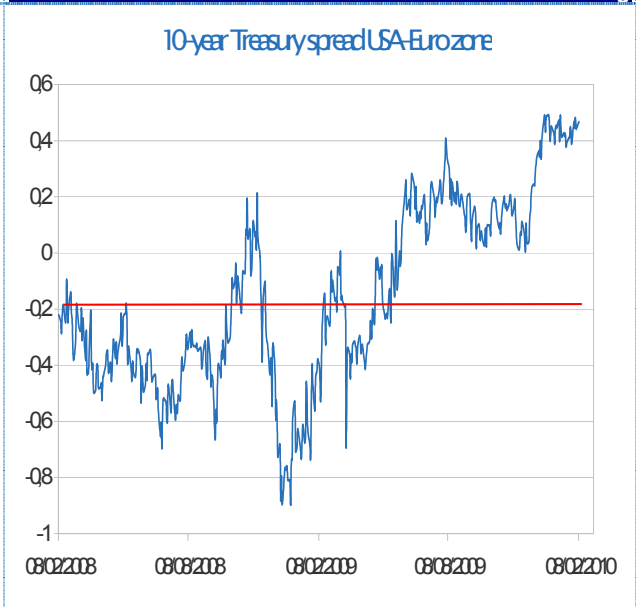
Source : Bloomberg



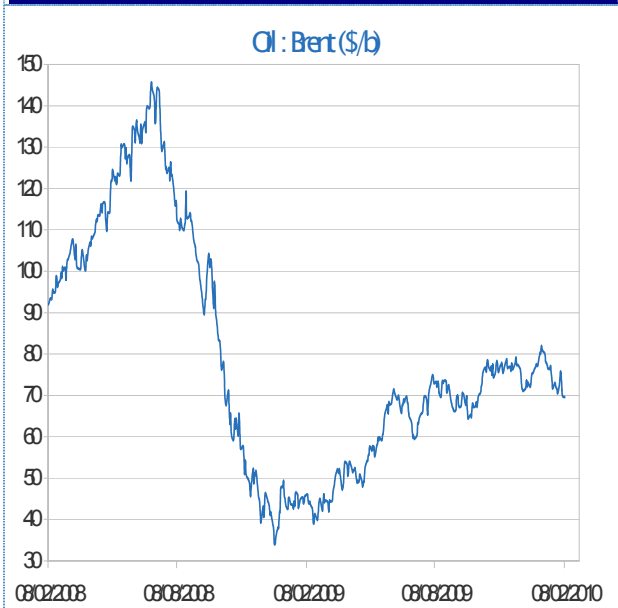
Source : Bloomberg



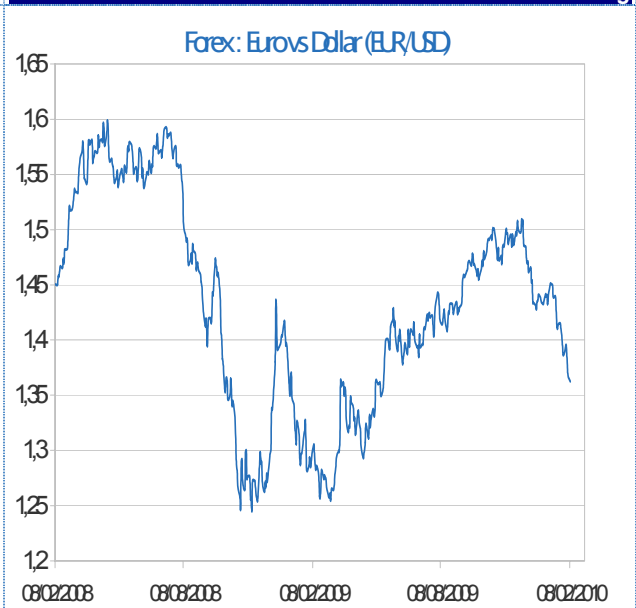
Source : Bloomberg



Source : Bloomberg



Source : Bloomberg



Source : Bloomberg