

**Lower finish from the US in a rather quiet trading activity, following the welcome reversal from Friday.** Investors weighed a report in The Wall Street Journal that Federal Reserve Chairman Ben Bernanke will begin laying the groundwork for credit tightening later in the year, bringing to a close a period of historically low interest rates that have made it easier for ailing banks to book big profits, which weighted on banks, as well as the credit concern from Europe of course.

**There was this article reminding an old saying : that is when the tide goes that you can see who is swimming naked.** In recent months, there has been endless speculation about what might happen if - or when - central banks start to implement "exit strategies". One of the most revealing sagas in relation to the exit strategy debate currently lies with the drama that has recently developed around the Greek debt world. Back in the autumn of 2008, after the collapse of Lehman Brothers, the ECB loosened the rules that govern how banks can get central bank funds. In particular, it let banks use government bonds rated BBB or above in ECB money market operations, instead of accepting bonds rated A-, or better. This was initially presented as a "temporary" policy, slated to last until late 2009. But last year the ECB extended the policy until the end of 2010. Thus, during 2009, banks which were holding Greek bonds have been merrily exchanging these for other assets via the ECB - which, in turn, has helped support Greek bond price (and, by extension, Greek banks that hold a large chunk of outstanding Greek bonds). Until recently, many observers thought - or hoped - that this policy would be extended again, perhaps until 2011 or beyond. For although Greek debt currently has a credit rating that meets the old ECB rules, there is a good chance the debt will be downgraded this year if they don't do enough cuts in their budget - which creates the risk that Greek bonds will be excluded from any newly tightened ECB regime. However, earlier this year, senior ECB officials indicated that they intended to "normalise" the policy, as planned, at the end of 2010, as part of a package of exit policies. Thus, a potential source of support for Greek debt now looks threatened. This, has spooked investors, such as German insurance companies, which also hold large chunks of Greek bonds.

**Greece's problems were partly masked for much last year by all the ECB support, the day of reckoning could be approaching fast.** Perhaps Greece will manage to get its fiscal affairs sorted fast enough to cope. Perhaps other countries such as Spain and Portugal will do so too. But some powerful investors are clearly betting against that. Stand by for plenty for drama. Greece is certainly not the only country which might yet look dangerously naked when that central bank tide goes out. The market gyrations have almost certainly been magnified by the sheer volume of speculative, hedge fund money now swirling around. And the Greek subject came at the deep point of lack of confidence which followed Obama's tough populist stance with the risk to see Bernanke's mandate not extended.

**However, it's not as if something devastating has happened, either in Europe, where economies have been struggling for some time, or in Washington.** It was expected that the Obama administration would try to restrict big banks. What's different now is that investors have the feeling they have more to lose than they did a year ago, so they sell at the first whiff of a problem. Investors are linking financial problems in Europe with the U.S. economic recovery. Some worry that governments' debt problems will spread in the same way that bad mortgages in the U.S. took down economies here and abroad in 2008. "They are shell-shocked because they've seen a similar movie before and they didn't like the ending," said a chief economist. "They're wondering whether this is the sequel or not." Investors have probably been overreacting to the problems in Europe. But, they are more demanding about what they want to see from the world's economies. 2010 is a year where investors will be looking for signs of sustainability and no longer recovery, and it's deeply started with all the subjects dealt at once, even Iran is coming up.

**Regarding Greece, the ECB has to adopt a tough stance to make sure the budget to be presented on the 16th February will be enough cut to be accepted.** But the last weekend meeting told us that the all world understood the necessity to not let Greece falling down following the message sent by the investment community to the all financial markets, with an obvious heavy impact possibility on the all world economy. Financial ministers from the G7 are perfectly aware of the fragility of the economic recovery, even if US Geithner and Paulson reminded that the recovery was gaining traction. But European officials have to keep their strict stance in order to make sure other countries will be firm regarding their budget spending, this is the reason why we do not believe in a Greek drama, enough has been done in turn of damages already ... But the Greek government will probably succeed in providing something acceptable as a budget, and if not there would be a solution found which will avoid a spill over impact to the all European countries which nowadays means to the all world, such as the G7 was reminding last week-end in Canada.

**Yesterday's pick up, on most of the single stock reminded that investors are closely looking at the improving background** as soon as things are more quiet on the CDS front. There might be a few more days needed to bring serenity back in place, and be back to work with some specific recommendation to be made on single stocks. So far, last week, the market was just a bin in which everyone was sending its garbage cleaning their portfolio, such as the 19 bn euros traded on the Eurostoxx on its lows on Friday was telling us. Nearly as big as the biggest session ever when there was a reshuffle of the MSCI in a fast market.

**Important EU summit on Thursday - will hopefully agree on a back-up plan if help should be needed.** The EU summit on Thursday, called by the new full time EU president Van Rompuy to discuss the crisis, where we should know more about any bail out regarding Greece. Germany used to be against the bail out, arguing that it would be difficult to explain to the Irish and others who conducted better policies in the good years (including fiscal surpluses) and who took tough measures on their own during the last year. This hard line is being challenged by a coalition of "federalists", including the Commission and some member states, and a group of "pragmatics" pointing to the very practical risk of the crisis spinning out of control. The "federalists" are adamant that the crisis should be handled inside the EU, while the "pragmatics" continue to waver between an "internal solution" (i.e. bilateral loans) and calling in the IMF. Whatever, Thursday should deliver a statement calling for any government under pressure to do what's necessary to restore confidence, and then probably some sort of indication where help will come from, if it's needed. That ought to be good for spreads, and if so, for the euro (at least temporarily.)

**A few more days of slow trading, hopefully building a bottom, should lead to brighter days for equity business.** While bear players should just be awaiting a rebound to try some new shorts, now it is equity portfolio managers which are swimming naked and are waiting for some more fundamental confirmation to jump in. EU meeting on Thursday might be one, same as the CDS cooling down spreads in the meantime. Looking forward to it so we can dance again.

	WTI	€/€	\$/¥	10 yr US	10 yr Euro	Basic	Energy	Financ	Health	Tech	Tel	Indus	Utilities	SOX	S&P	NAS	DOW	Close
Last	71,7	1,3705	89,45	3,58	3,15	-1,65	-0,82	-1,92	-0,37	-0,55	-0,73	-0,90	-1,07	-0,36	-0,89	-0,70	-1,04	US
Perf 1d %	0,26	0,41	-0,64	2,32 bp	2,5 bp	0,58	0,62	-0,16	0,11	0,59	0,22	0,18	-0,01	1,34	0,28	0,34	-0,04	Europe

## ECONOMIC DATA with impact

### CDS

### POSITIVE IMPACTS

**SWATCH : FY revenue SFR5.42bn, in line / Operating SFR903m (840m exp) / Dividend SFR 4.00 (4.25 exp) / Saw good start so far in 2010 + sees excellent outlook for rest of year**

**FAURECIA : FY sales €9.29bn (9.56bn exp) / Operating loss €92m (-209m exp) / However sees possible downturn in the H2...**

**ALFA LAVAL : Q4 sales SEK6.6bn, in line / Ebitda SEK1.15bn (1.08bn exp) / Dividend SEK2.50 (2.25 exp) / Sees flat demand**

# SHALL WE DANCE?

**BRITISH LAND** : Q3 NAV per share +18% at 438p (430p exp) / Adj. EPS 7p (6.4p exp) / Q3 dividend 6.5 pence, in line /  
**PENNON** : Performance since 1 October 2009 has been in line with management expectations  
**BSKYB** successfully placed a shareholding of 10.4% in ITV / Placing of 404.36 m ITV shares with Morgan Stanley at 48.50p per ITV share / Intends to retain its residual 7.5% investment in ITV for the medium term  
**ASTRAZENECA** announced that the FDA has approved CRESTOR to reduce the risk of stroke, myocardial infarction...  
**REPSOL** : Shareholders are pressing Repsol's management to revise its investment plan to prevent hurting the group's profitability  
**E.ON** is sorting through parties interested in buying major parts of its data processing unit E.ON IS (FTD) / The unit has €400 m in rev.  
**SANTANDER** confirmed that it is in talks with China Construction Bank Corp to set up a joint financial holding company (Chairman)  
**EADS** : The U.S. Air Force plans to issue final terms after Feb. 23, for bids on a multibillion-\$ contract to build aircraft-refuelling tankers

## NEGATIVE IMPACTS

**UNIBAIL** : 2009 Net rental income €1.25bn (€1.52bn exp) / FY NAV per share at €128.20 (€129.3 exp) / EPS €9.19 (€9.32 exp) / Proposes €8 dividend (In line) / Expects 2010 recurring net profit to grow 0%-2% / 2010 will be a transitional year  
**TELE2** : Q4 revenue SEK9.89bn (9.78bn exp) / Ebitda SEK2.19bn, in line, helped by Russian biz / Dividend SEK5.85, in line / Added 1.15 m new customers in Russia for a total of 14.45 m at year-end / Expects to have 18-19 m customers there by the end of 2011  
**UBS** : Q4 revenue SFR6.1bn (SFR6.9bn exp) / Net New money outflows SFR11bn for global asset management (SFR 33.2bn at Private banking) / Profit SFR 1.2bn including a one-off SFR 480m tax credit (SFR 325m exp) / Tier1 15.4% end-Dec  
**SWEDBANK** : Q4 revenue SEK7.98bn (SEK 8.1bn exp) / NII SEK4.7bn (SEK 4.8bn exp.) / Operating loss SEK1.67bn (SEK1.35bn exp) / Loan losses SEK5bn (SEK 5.2bn exp) / 2010 will be challenging but says a profit for FY2010 is feasible  
**UK RETAILERS** : UK British Retail Consortium January sss -0.7% on year, the worst January sales growth in the 15 years = "An awful start to the year and in stark contrast to an upbeat December" said the director general of the BRC / "Retailers will be hoping these results are mainly a snow-induced blip, rather than an indication of further difficulties..."

	RESULTS	DIVIDENDS	EVENTS
Today	<b>EU</b> // Alfa Laval / British Land / Elan / Faurecia (BMO) / Gas Natural / Havas / Tele2 / UBS <b>US</b> // Biogen / Coca Cola Co / NYSE Euronext / Omnicom / Walt Disney <b>Asia</b> // Nissan Motor		
Wednesday	<b>EU</b> // Air France-KLM / Arcelor Mittal / BHP Bilton / EDF Energies Nouvelles / Nexans / Nobel Biocare / Nordea Bank / Peugeot / Reckitt Benckiser / Renewable Energy / Saipem / Sanofi-Aventis / Scor / SSAB / Telenor / Vestas Wind <b>US</b> // Activision Blizzard <b>Asia</b> // Baidu		
Thursday	<b>EU</b> // 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 <b>US</b> // Goodyear / Marriott / Pepsi Co (BMO) / Philip Morris		Gazprom Day / Infineon AGM / Micron Technology winter analyst conf
Friday	<b>EU</b> // 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)	
Monday	<b>EU</b> // Air Liquide / L'Oreal / Man SE / TUI AG /		

## TRADING IDEAS

**SELL BUND** to play double top / **BUY DAX** to play double bottom  
**BUY ALCATEL** which unfortunately was trapped in this debt focus, swimming naked too as remaining a bet stage, just ahead of its earning release which seen worth playing long (new management in place / dollar name / Cisco nice figures)  
**BUY LAFARGE** / **ST GOBAIN** / **HOLCIM** to play construction sector killed on the Greek debt fear, but once solved the strong mortgage applications last week in US should predict some better days for construction  
**BUY ALSTOM** / **EON** / **IBERDROLA** / **LVMH** / **REPSOL** to play double bottom  
For brave ones : **BUY AXA** / **AEGON** / **ALLIANZ** to play nice chart and insurance names / risky as bear strategists sold the idea that in case of a Greek turmoil insurers would be hardly hit / big part of the answer on Tuesday with EU meeting about Greece  
**BUY BMW** / **DAIMLER** / **DBK** / **BNP** / **SOC GEN** same as above .....  
**BUY RENAULT** to play Island possibility

**BUY ACCOR (02/24)** / **SELL SODEXO** // **BUY BP(Ar)** / **SELL ROYAL DUTCH (Ar)** // **BUY GENERALI (02/25)** / **SELL AEGON (02/25)**

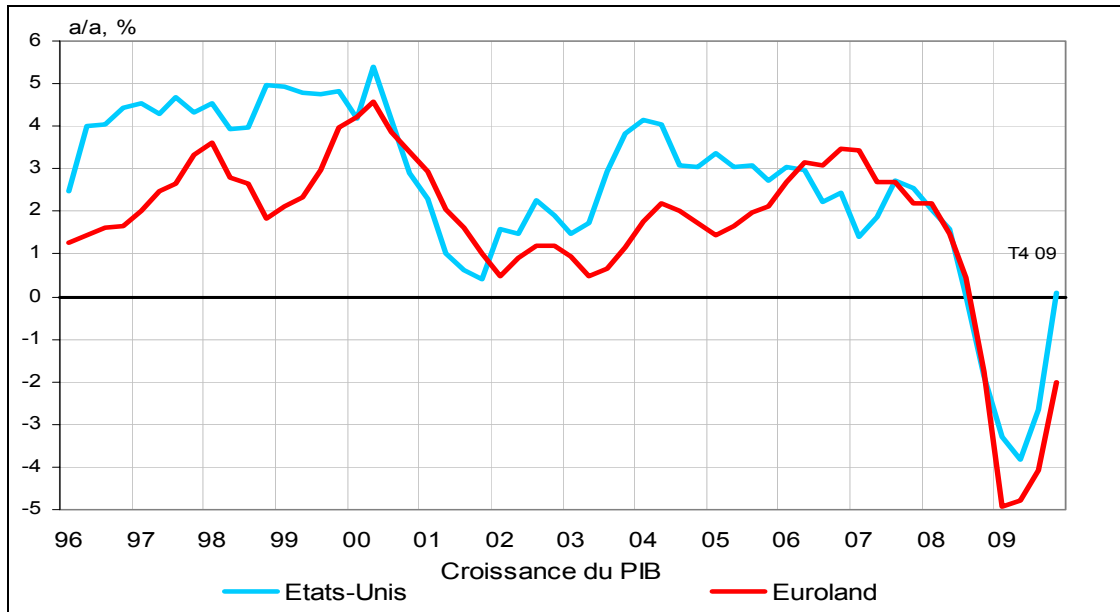
## BROKER METEOROLOGY

**VALLOUREC**..... **RAISED TO OVERWEIGHT FROM NEUTRAL** ..... **BY JP MORGAN**  
**CARREFOUR**..... **STARTED AT OVERWEIGHT** ..... **BY MORGAN STANLEY**  
**DELHAIZE**..... **STARTED AT OVERWEIGHT** ..... **BY MORGAN STANLEY**  
**NORDEA**..... **RAISED TO MARKET PERFORM FORM UNDERPERFORM** ..... **BY KBW**  
**VODAFONE**..... **RAISED TO OVERWEIGHT** ..... **BY BARCLAYS CAPITAL**  
**ROYAL DUTCH SHELL**..... **RAISED TO OVERWEIGHT** ..... **BY HSBC**  
**CORIO**..... **RAISED TO BUY FROM HOLD** ..... **BY ING**  
**FRESENIUS**..... **STARTED AT BUY BY JEFFERIES** ..... **BY JEFFERIES**  
**Q-CELLS**..... **CUT TO HOLD FROM BUY** ..... **BY CITIGROUP**

PLEASE FIND BELOW ON THE NEXT PAGE OUR MORNING ECO

## CHART OF THE DAY

### US GDP and Euroland GDP (YoY) (Q4 2009) Since 1996



Source: Sources : BEA, Eurostat, Global Equities forecast for the Q4 09 in the eurozone

As a matter of fact, after having believed that the US economy would suffer far more than the Eurozone's, markets finally realized, as usual, that it's exactly the contrary that is taking place. In the USA, the economy shrank by 2.4% "only" whereas the Eurozone's plunged by 4%.

Time	Country	Indicator	Period	GE forecasts	Consensus	Previous
0.01 GMT	United Kingdom	RICS house price balance	January		27%	30%
6.00 GMT	Japan	Machine tool orders (preliminary)	January			+ 63,4% YoY
7.00 GMT	Germany	Trade balance	December		+ € 15,0 bn	+ € 17,4 bn
7.00 GMT	Germany	Current account total	December		+ € 19,1bn	+ € 18,1bn
7.00 GMT	Germany	Consumer price index (final)	January		-0,6%,+0,8% YoY	-0,6%,+0,8% YoY
9.30 GMT	United Kingdom	Trade balance	December		-£ 2,8 bn	-£ 2,9 bn
15.00 GMT	United-States	Wholesale inventories	December		+0,5%	+1,5%
22.00 GMT	United-States	ABC consumer confidence	February 7th			-49

Indexes	Price	% 5 Days	Ytd
DJIA	9908,4	-2,59%	-4,98%
S&P 500	1056,7	-2,91%	-5,23%
Nasdaq	2126,1	-2,03%	-6,31%
CAC 40	3607,3	-4,11%	-8,36%
DAX	5484,9	-3,00%	-7,93%
Eurostoxx 50	2664,3	-4,62%	-10,14%
DJ 600	238,9	-3,78%	-5,90%
FTSE 100	5092,3	-2,83%	-5,92%
Nikkei	9932,9	-2,48%	-5,82%
Shanghai Comp	2933,1	-0,21%	-10,50%
Sensex (India)	15994,7	-1,39%	-8,42%
MICEX (Russia)	1322,2	-6,69%	-3,49%
Bovespa (Brasil)	63153,1	-5,14%	-7,93%

Forex	Price	% 5 Days	Ytd
EUR/USD	1,3705	-1,81%	-4,37%
EUR/JPY	122,74	2,85%	-8,83%
USD/JPY	89,56	0,99%	-4,06%
Oil	Price	% 5 Days	Ytd
Brent \$/b	69,9	-7,75%	-9,49%
Gold	Price	% 5 Days	Ytd
Gold \$/oz	1070,8	-3,97%	-2,44%
Rates	USA	Euro	Japan
Central Banks*	0,25	1,00	0,11
Overnight	0,03	0,58	0,11
3 Months	0,10	0,28	0,20
10 Years**	3,58	3,15	1,35

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

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

## ECONOMIC DATA PREVIEW

Watch in **GERMANY** the trade balance for December at 7.00 GMT. The German's trade surplus is expected to narrow from € 17.4 bn in November to € 15 bn in December as the euro remained high compared to economic fundamentals, hitting demand for German's goods abroad.

## ECONOMY

### **JAPAN : THE TRADE SURPLUS INCREASED IN DECEMBER**

After narrowing to yen 490.6 bn in November ending three consecutive months of rise, Japan's trade surplus increased to reach yen 631.2 bn December. Indeed the Yen rose by 8% in December hitting demand for Japanese goods abroad. As the interest rate remained low in Japan the carry trade strategy is lasting, strengthening the yen. Japan economy being mainly led by exports it has been sharply hit in 2009 and the GDP dropped by 5% (yearly average). For 2010 growth will be back but should remain very weak around 0.8% (yearly average)./JB

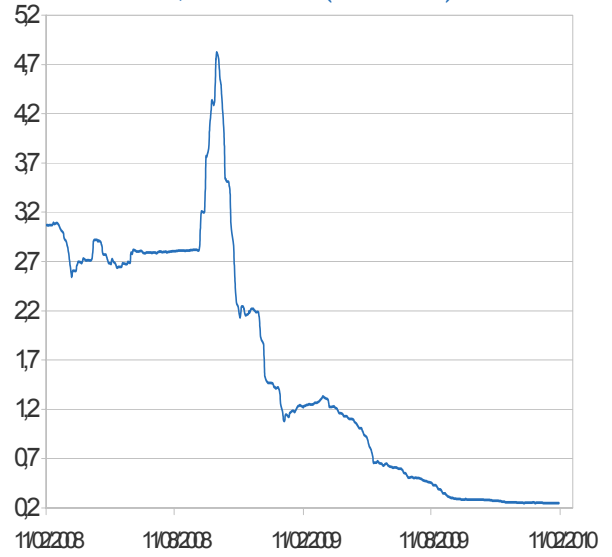
# SHALL WE DANCE?

VIX index: implied volatility on the S&P 500



Source : Bloomberg

\$Libor - 3-Month (Interbank Rate)



Source : Bloomberg

United States : 10-year Treasury yield



Source : Bloomberg

10-year Treasury spread USA-Eurozone



Source : Bloomberg

Oil : Brent (\$/b)



Source : Bloomberg

Forex: Eurovs Dollar (EUR/USD)



Source : Bloomberg