

China closed until Thursday, the moon has changed yesterday... last month the change of moon triggered a change of trend... sad but not much more to tell you than has been said already, fundamentals are improving, obvious in the US more than in Europe which explains the huge potential for the US equity indices to resume their upside trend, the dollar to keep on recovering, although might consolidate for now, and in the end the European indices to follow the US trend, with behind an improving European economy thanks to the International environment. What has changed is not really the basics but rather the confidence. We understand the confidence is extremely important, and might drive the indices as much as the economies, but hopefully US investors are much more confident thanks to a growing economy, a brighter employment landscape (lower Unemployment rate, better jobless Claims, smooth unwinding from Bernanke) which should bring a guarantee for a sustainable recovery. We do not believe in disconnection between the US and Europe on a financial market view, which means if the US happen to do fine, then Europe will follow bot on equity indices and economically.

Once the Greek focus is fading, we should take a look at interesting data this week with the NAHB out on Tuesday which will tell that the Housing sector is not that much back to hell in the US, indeed the Tax credit extension should provide a boost to he sector even more as the yields are low and the employment is improving. Mortgage Applications in the US were amazingly high two weeks ago. The housing starts and building permits on Wednesday will tell even more about it, while we will take a look at the probably strong Industrial Production that same day, even as investors might try to read from the FOMC meeting minutes that same day further details about the quantitative easy policy unwinding. The jobless Claims will be the focus on Thursday given their latest improvement at a time when employment seems on track for brighter days, with a dropping unemployment rate at 9.7% while we still did not get some job creations from corporate. Employment being the focus as to make the recovery a sustainable one. In such an environment, for now, both the PPI on Thursday and the CPI on Friday will not be too much of a focus. Deflation still remains a threat, and any inflation at this stage is more due to an unfriendly base effect due to higher energy prices rather than some real inflation.

The Retail sales once more confirmed the healthy recovery from the US economy. January's retail sales figures show that spending is at least still rising at a steady pace. Sales increased by a solid 0.5% m/m last month, while stripping out autos and gasoline, underlying sales increased by a slightly stronger 0.6%. Stripping out autos and gasoline, underlying sales increased by a slightly stronger 0.6%. This is good news, especially as it represents 70% of the GDP. Better employment sector is what we should get when looking at the lower than expected claims last week and the coming Obama's job bill which should help even more and get the strong current recovery to switch into a lasting one even without Bernanke super easy quantitative policy.

About China, January's required reserve ratio (RRR) hike was the first major step away from ultra-loose policy in the current cycle and was seen by many as heralding more substantive tightening to come. By contrast, the primary purpose of Friday's hike – effective from 25th February – is to manage domestic liquidity rather than tighten further. Excess reserves held by commercial banks at the central bank climbed from 2.1% of customer deposits at the end of Q3 last year to 3.1% at the end of Q4. Hence the two 50bp RRR hikes since then simply reverse this additional loosening, restoring to policymakers greater control over bank lending. As long as China's foreign exchange reserves continue rising and the People's Bank of China (PBC) wants to guide the growth of bank lending, further RRR hikes (or big increases in issuance of sterilisation debt) will have to follow. For this reason, the latest move tells us little about the likely timing of a first interest rate move, other than in underlining that the PBC is now focused both on managing monetary conditions and on supporting the economic recovery. Yes, there is a case for an early interest rate hike, possibly as soon as March, in order to keep inflation expectations in check. However, since credit growth in China is determined by how much banks are allowed to lend rather than the interest rate, the direct impact on activity would be minimal.

One of the focus for the week might be today's euro-group (euro-zone finance ministers) meeting to see if last week's "political statement" will be followed up with some economic substance. Failure to add more meat to the bones could soon see the markets' patience run out again as the bail out of Greece is not looking too good for Merkel in Germany which last week local press was reporting, probably adding to the already big lack of confidence from investors about European markets. Last week's eagerly awaited European Union "accord" on Greece contained vague pledges to support the efforts of the Greek government and monitor its actions, but very little in the way of concrete detail. It is not clear whether that lack of substance reflected a dismal failure amongst members to agree on just how to help Greece or a clever and deliberate intention to give the markets an implicit guarantee on Greek debt without appearing to let Greece off the hook and hence encourage fiscal laxity amongst other countries. For now, the markets don't seem to be too sure what to make of it all. We think the Greek bail out is no longer a doubt since the G7 last weekend made it clear that it would be a systemic risk worse than the Lehman one to let Greek country down. However, the communicate could not be much more clear, as there would be a risk for Merkel about the moral hazard with German people hardly agreeing with, while Sarkozy wants it to be clear that Europe will act, rather than the IMF, in order to protect himself from Strauss Kahn, head of the IMF, his new challenger for the next Presidential election. However, Greece will not make defaults, or should we say any Greek default should no longer be seen as a risk for the financial stability and so the economy.

A rebound should be expected, and should last. We now know that the US are close to succeed and make their prompt recovery a lasting one (high GDP, Lower Unemployment rate,) which this week Industrial Production will remind us (the ISM was very strong), while the escalation in bearish sentiment and the contraction in bullish sentiment, as well as the rising level of fear reflected in the spike in the Volatility Index (VIX) are increasing the strength of the rebound and its chance to happen. Today and tomorrow's ecofin meeting should not bring any doubt about the Greece possible bail out of needed, while any further details about a financial plan when it occurs would be cheered by the market at last. Also, the EU might focus tomorrow on a short selling ban, according to Jean Paul Gauzes, a Conservative lawmaker with close links to Barri er. He said that he could amend and tighten hedge-fund rules now working their way through the European assembly. 'I am going to try to introduce a ban on naked short selling for alternative investment funds. I am in favour of asking the Commission to come up with proposals, but there is nothing to stop us doing it already,' he explained. His views were echoed by Wolf Klinz, a prominent German liberal who chairs a committee on the financial crisis. 'I cannot see any economic benefit in naked short selling, selling shares that you do not own. Where you cannot see any specific economic benefit in something, then it should be banned,' he said. And the moon has changed yesterday ...

	WTI	€/\$	\$ / ¥	10 yr US	10 yr Euro	Basic	Energy	Financ	Health	Tech	Tel	Indus	Utilities	SOX	S&P	NAS	DOW	Close
Last	74,1	1,3586	90,12	3,69	3,19	0,25	-0,56	-0,09	-0,09	0,21	-0,44	-0,44	-0,48	0,54	-0,27	0,28	-0,44	US
Perf 1d %	-1,31	-0,34	0,15	-0,19 bp	-4,2 bp	-1,16	-1,59	-1,06	-0,85	-0,72	-0,78	-1,34	-1,24	-0,21	-1,00	-0,68	-1,18	Europe

ECONOMIC DATA with impact

Any news from the ecofin meeting happening today and tomorrow in Brussels / The equity market volatility / low intraday move would help bringing confidence back from investors

POSITIVE IMPACTS

YARA : Q4 rev NOK 13.79 bn (14.89 est) / **EBITDA NOK 1.39bn** (1.21 est) / **Op pft NOK279M** (261 est)/ **Net pft NOK1.42bn** (424 est) / **DPS NOK4.5** (in line) / Agreed to buy **TERRA** Ind for \$41.10 /shrs in cash / Saw major improvement in fertiliser mkt

VEOLIA was given the green light to run passenger trains in France in competition with national rail operator SNCF (official)

EDF-ENI will meet next week and will discuss the French power group's entry in the South Stream gas pipeline.

EON expects higher unit sales in electricity and gas in the first-half of this year (CFO in press)

RDSA may sell \$10Bn of assets, including North Sea oilfields, as part of an effort to revitalize the oil giant (The Sunday Times)

DAIMLER agreed to pay about \$200M & 2 subsidiaries will plead guilty to resolve a U.S. investigation into whether the company paid bribes to secure business overseas... end of the story....

FIAT: CEO said there's a strong likelihood that Alfa Romeo will return to the U.S. market

ANGLO AMERICAN is on course to achieve its goal of cutting costs by \$2Bn by next year (Chairman in Sunday Telegraph)

H&M : January same store sales +1% (0.5% est)

CASINO: Venezuelan President said he'll accept a "friendly" proposal from the French retailer to buy 80% of Cativen SA, which controls the Exito and Cada chains, after expropriating Casino's Exito stores last month....

HUGO BOSS is planning to boost its workforce after cutting some 500 jobs in 2009,

LUXOTTICA expects a "mid-single-digit" growth rate in 2010, while profitability growth will exceed sales growth (CEO)

LEGRAND will "probably" return to growth this year as business picks up in France, Italy and the U.S. (Investir citing CEO). He said he is seeking takeovers, particularly in developing countries and "complementary" products

TELECOM ITALIA plans to ask a civil court to implement a EU court decision over license fees to claim back €520M (Il Messaggero)

ERICSSON will exchange & enhance Telekom Austria's current IPTV platform in order to deliver blended content services to multiple devices which will eliminate barriers between TV set & PCs and introduce a new generation user interface.

HSBC & RBS & STANDARD CHARTERED : Dubai World may offer creditors 60% of the money they're owed backed by the sheikdom's government as part of a deal to reschedule \$22bn of debt (Dow Jones citing sources).

DEXIA shareholder Groep Arco doesn't rule out a split of the bank along national lines (De Tijd citing Dexia directors)

BALOISE : CEO says on track to increase earnings power by sfr200m by 2012 / Says Co has benefitted from UBS outflows / Sees acquisition opportunities from changes to Banks', Insurers' solvency regulation / Says Co would defend itself against any possible hostile takeover / says changes to Co's ROE, CR, EPS targets would be very surprising

DEUTSCHE BOERSE : Brazil clearing house Cetip said it is in strategic cooperation talks with DB.

IBERIA :The U.S. Department of Transportation gave its tentative approval to grant antitrust immunity to American Airlines and four oneworld partners to form a global alliance / Separately passenger traffic rose 1.8% in January from a year earlier

NEGATIVE IMPACTS

AIR LIQUIDE : FY Revenue €11.98bn (€12.2bn exp) / **Operating €1.95bn** (€2.04bn exp) / **Net Profit €1.23** (€1.16bn exp) / **DPS €2.25** (€2.29 exp) / cut €335m costs (€300m goal) / Net debt down to €4.9bn from €5.48bn / to award 1 free share for every 15 on May 18/ sees net profit growing again in 2010

MAN SE : **09 Rev €12Bn** (in line) / **09 Op pft €504M** (522 est) / **DPS €0.25** (1 est) / **09 Net loss €258M** (158 est) / **Q4 order intake €2.64Bn** (2.53 est) / **Q4 Rev €3.26Bn** (3.19 est) /

BAE SYSTEM will lose out on a lucrative contract for the US Army after the Co challenge of an earlier award to a rival was rejected.

BP may face opposition from environmentalists & its own shareholders over plans to pay about \$1.2Bn for a share in a Canadian oil sands project (Sunday Times)

CARREFOUR will boost its investment in Brazil this year and next to 1.25Bn reais (\$674M) from 1Bn reais last year (Press)

FRANCE TEL : An Egyptian judicial committee recommended a local administrative court uphold a verdict that prevents the Co from taking full control of wireless operator Egyptian Co. for Mobile Services because its offer is unfair to minority shareholders

BANK OF IRELAND is planning to launch a rights issue within 6 to 8 weeks to raise at least €1bn (The Sunday Times)

BANCO POPULAR expects its bad loans ratio to peak at 5.5% in the Q2 or Q3 before stabilising or falling slightly (chairman told El Pais). He added that he expected POP's net interest margin to decline in 2010 from 3% of total loans

	RESULTS	DIVIDENDS	EVENTS
Today	EU \ Air Liquide (BMO) / L'Oreal / Man SE / TUI AG /		
Tuesday	EU \ Barclays (BMO) / Clariant / Deutsche Boerse / Gas Natural / Givaudan / intercontinental Hoteles / Premier Food /Yara US \ Kraft Foods / Merck & Co	Microsoft (\$0.13)	
Wednesday	EU \ Acergy / Aker Solution / Atos Origin / BNP Paribas / ING / Legal & General / Norsk Hydro (BMO) / TF1 / Publicis / Synthes US \ Applied Material / HP /	Carnival (\$ 0,111111) / Scottish & Southern Energy (GBp 23,33333)	TUI AGM
Thursday	EU \ ABB / AkzoNobel / Axa / BAE Systems / Cap Gemini / Corio / Daimler / Endesa / Pernod Ricard / PPR / Randstad / Reed Elsevier / Schneider Electric / Shire / Soc Gen / Solvay / Svenska Handelsbanken / Swiss Re / Swiss com / Technip / Terna / TF1 / Thales / TomTom US \ Dell / Goodyear / Wal Mart (BMO)		
Friday	EU \ ADP / Carrefour / Lafarge / Nestle / Rentokil / Shire US \ Anglo American / SeaFrill	Arcelor Mital (\$0,1875) / Johnson & Johnson (\$0.49)	

TRADING IDEAS

BUY LAFARGE killed lately by the deleverage process from cyclical names, and even more on Friday by the MSDW St Gobain downgrade which had some impact on the all sector at a time when there is not much brave buyers left to insist on such a sick market / Lafarge is very US oriented and should strongly profit from the recovery / Cimpor 17% stake valo possible increased on Friday pm / US housing data tomorrow and Wednesday which might bring positive surprises according to latest mortgage applications data / if you are looking for a hedge, **HOLCIM** looks nice with a double top possibility for the Lafarge – Holcim spread

BUY AXA which releases earnings this week and will remind to investors its 5% yields when talking about its 0.7 € minimum dividend

BUY SAP which soared too much on the management switch + double bottom possibility

BUY BNP / SOC GEN / DBK to play Greek problem sorted out

BUY ALSTOM / EON / GDF / IBERDROLA / ENEL killed lately / 15 to 20% consolidation for most of them is ok for now

BUY ARCELORMITTAL / TOTAL / REPSOL / ENI to play oil names as the dollar strength should loose momentum short term due to the Greek focus fading



BUY DANONE / SELL NESTLE to play Nestle island reversal possibility // **BUY RENAULT / SELL BMW** to play Renault's consolidation thanks to its electrical switch news flow coming anytime + French fund looking possibly at raising its stake (owns 17%) would not really let Renault stock price down too much

BUY LAFARGE (02/19) // **SELL HOLCIM** (03/03) // **BUY GSZ / SELL EDF** // **BUY PERNOD** (02/18) or **DIAGEO** (Ar) // **SELL AB INBEV** (03/04) // **BUY ALLIANZ** (02/25) // **SELL ZURICH FI** (Ar)

BROKER METEOROLOGY

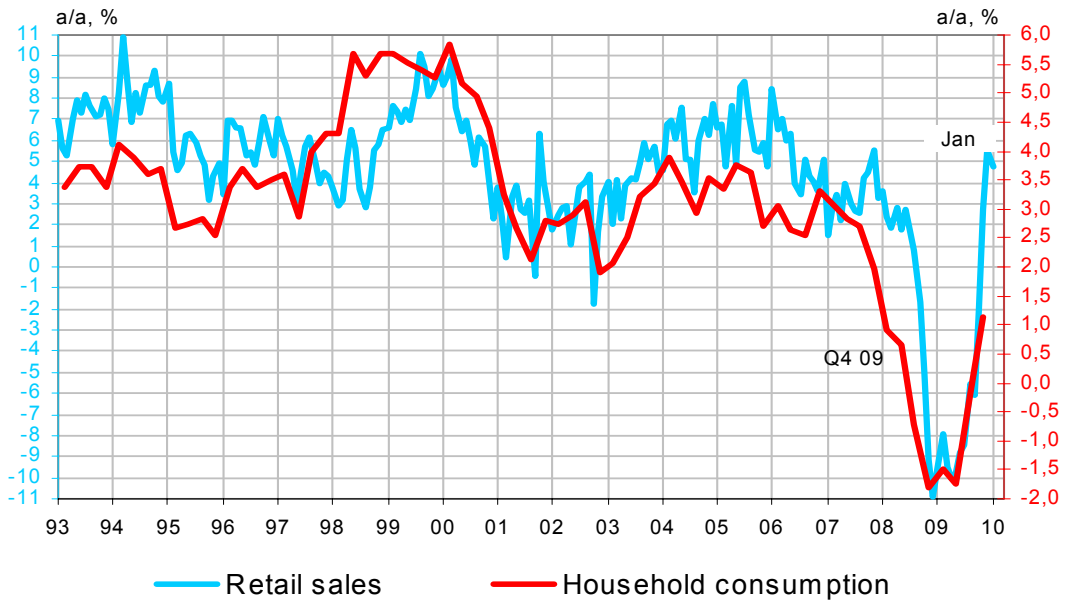
DAIMLER..... REMOVED FROM EUROPE 1 CONVICTION LIST BY BOFA/MERRILL
VESTAS WIND CUT TO HOLD FROM BUY BY RBS
ROLLS ROYCE CUT TO HOLD FROM BUY BY CITIGROUP
AKER SOLUTION CUT TO HOLD FROM BUY BY CITIGROUP

GLAXOSMITHKLINE UPGRADED TO NEUTRAL FROM UWBY JPM
GAMESA UPGRADED TO BUY FROM HOLD BY CITIGROUP
RENAULT UPGRADED TO OW FROM UW BY MORGAN STANLEY
TECHNIP UPGRADED TO HOLD FROM SELL BY CITIGROUP
RIO TINTO ADDS TO EUROPE 1 LIST BY BOFA/MERRILL
SEVERSTAL RAISED TO OV FROM EQW BY MORGAN STANLEY

PLEASE FIND BELOW ON THE NEXT PAGE OUR MORNING ECO

CHART OF THE DAY

US advanced retails sales (value-%)
Since 1993



Source: US Census bureau

For January, led by the rise in real wages and reduction of job destruction, retail sales increase by 0,5%. This data confirmed that despite the end of the cash for clunkers program retails sales remained consistent, which is very encouraging as household consumption account for 70% of the US GDP. Excluding transport, the rise reached 0,6% reversing a 0.2% declined in December./JB

Time	Country	Indicator	Period	GE forecasts	Consensus	Previous
23.50 GMT	Japan	GDP (preliminary)	4th quarter	+ 0,9% QoQ	+ 0,9% QoQ	+ 0,3% QoQ
23.50 GMT	Japan	GDP annualized (preliminary)	4th quarter	+3,6%	+3,5%	+1,3%
0.01 GMT	United Kingdom	Rightmove house prices index	February			+ 0,4%, + 4,1% YoY
4.30 GMT	Japan	Industrial production (final)	December			+ 2,2%, + 5,3% YoY

Indexes	Price	% 5 Days	Ytd
DJIA	10099,1	1,03%	-3,15%
S&P 500	1075,5	0,97%	-3,55%
Nasdaq	2183,5	2,00%	-3,77%
CAC 40	3599,1	0,99%	-8,57%
DAX	5500,4	1,22%	-7,67%
Eurostoxx 50	2674,5	1,65%	-9,80%
DJ 600	241,0	1,56%	-5,07%
FTSE 100	5142,5	1,84%	-5,00%
Nikkei	10013,3	-2,55%	-5,06%
Shanghai Comp	CLOSED	2,68%	-7,90%
Sensex (India)	16070,1	2,31%	-7,99%
MICEX (Russia)	1304,9	-3,75%	-4,76%
Bovespa (Brasil)	65855,0	4,93%	-3,99%

Forex	Price	% 5 Days	Ytd
EUR/USD	1,3593	-0,41%	-5,08%
EUR/JPY	122,51	-0,57%	-8,73%
USD/JPY	90,13	-0,97%	-3,21%
Oil	Price	% 5 Days	Ytd
Brent \$/b	72,3	3,89%	-6,33%
Gold	Price	% 5 Days	Ytd
Gold \$/oz	1092,6	2,81%	-0,39%
Rates	USA	Euro	Japan
Central Banks*	0,25	1,00	0,09
Overnight	0,03	0,20	0,09
3 Months	0,09	0,29	0,20
10 Years**	3,69	3,20	1,33

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

** Euro: German Bund rate Source : Bloomberg

ECONOMIC DATA PREVIEW

NO ECONOMIC DATA RELEASED IN THE UNITED-STATES

Watch in **JAPAN** the preliminary release of the GDP for the fourth quarter released at 23.50 GMT. For the fourth quarter the preliminary release should confirm the advanced release at +0.9%. Meanwhile the GDP annualized should reach +3.6%.**JB**

ECONOMY

UNITED-STATES : RETAIL SALES INCREASED IN JANUARY.

Despite an expected monthly rise US retail sales declined by 0.3% in December. This rise was mainly led by the November's revision from 1.3% to 1.8%. As a consequence of the rise in October (+ 1.2%), retail sales reached + 1.7% at the fourth quarter the highest since the fourth quarter 2007. For January, led by the rise in real wages and reduction of job destruction, retail sales increase by 0,5%. This data confirmed that despite the end of the cash for clunkers program retail sales remained consistent, which is very encouraging as household consumption account for 70% of the US GDP. Excluding transport, the rise reached 0,6% reversing a 0.2% declined in December.

EURO AREA : SLIGHT RISE OF THE GDP AT THE FOURTH QUARTER

Despite some forecast expecting a sharp rise of the GDP at the fourth quarter the Euro area GDP increased only by 0.1% at the fourth quarter, meaning very far away from the 1.4% rise of the US GDP at the fourth quarter (5.6% annualized). Looking at the breakdown all Euro area countries were hit, indeed Germany GDP reached 0% after 0.4% and 0.7% at the second and third quarters and despite the rebound of international trade, Italy declined by 0.2%, Spain by 4.5%. The only exception being France as the GDP rose by 0.6%. Nevertheless excluding stocks the French GDP declined by 0.3% at the fourth quarter confirming that the GDP is not as good as it looks. However, as interest rates are not dropping any more, with the effects of the stimulus plans fading, and the strong euro, the euro zone should have a harder time to transform this technical rebound into a durable recovery. In such conditions, unfortunately it seems that the recovery in the euro area will be weak and fragile. Consequently after dropping by around 4% in 2009 the Euro area GDP should rise by only 1.5% in 2010.**JB**

