

About the deficits, here what another strategist said over the weekend "I don't think we're in an Armageddon situation. We've run large deficits as a percentage of GDP in the past, such as in 1975, when the deficit blew out to 6.5% of GDP and people thought the world had come to an end. If you look back in U.S. economic history, the five years after the deficit peaks invariably have torrid growth. Same for the peak in unemployment, which we recently hit. Remember: President Clinton left us in the late 1990s with budget surpluses and low unemployment, yet the succeeding decade was nothing to write home about in terms of either growth or stock-market performance."

About the valorisation, on a trailing 12-month basis, the Standard & Poor's 500 is selling for around 18 times reported earnings. But price/earnings ratios are much lower looking forward -- 13.5 times this year's estimated earnings and 11 times next year's consensus forecasts. What makes these readings so low is the fact that, in past periods, when P/E ratios got this low, there was either rampant inflation and/or high interest rates. That's not the case today, and that's what makes current valuations so compelling.

Yesterday once more, the Empire manufacturing index improvement reflected the US sharp awakening. Although still lagging the national ISM Manufacturing survey, the 24.9 increase in February from 15.9 the previous month is fitting with an ISM of 55, well below the ISM level of 58.4 reported for January. This means the small and mid size business might still be lagging, but seem to be recovering as well as larger corporate at last, as time is passing by. Obama's focus on that type of business will boost the recovery even more.

Same from the NAHB index which should predict some better housing starts for today. Indeed, the housing sector is a drag currently for the US GDP. The focus from Obama on the small and mid size businesses can only do good to the sector. Indeed, most of these workers would hardly borrow any money, there is psychosis inside their firm which could not profit neither from the flooding liquidity nor from the weak dollar seen there low level of exporting activity. If you go further, some better housing starts, and some better days for the housing business will bring a positive contribution to the GDP, but also will help increasing confidence and spending. It took a few months, but the US officials understood the need to focus more on this type of smaller businesses. And some better employment situation as well as increasing housing prices should come out of it which will make the recovery more solid and sustainable.

The US economy is on track for some nice dances, same for the US equity market, while Europe is still focusing on its internal political troubles. We know Greece will not blow, or should we rather say we know there will not be any systemic risk from a Greek defaults, whether the EU or the IMF is coming to rescue when needed. The reason for the morning drop yesterday from the European indices comes from the lack of clear details regarding a possible Greece rescue plan. But this is precisely the lack of details which at this stage prevents to suffer from further mess such as the social one in Europe. Indeed, the answer from German households to the possible Greek rescue plan is "why should I pay for some guys who retire at 55 when our retirement age has been postponed to 67 ?" which means Merkel would be placed in a tough situation. Same for Sarkozy, who would also suffer from a bail out from the IMF instead of the EU as Strauss Kahn, head of the IMF would be a hero, and would easily use this in the French presidential election in 2 year time.

To make a long story short, the ideal situation is that investors and hedge funds stop focusing on a possible Greek defaults, which in itself is enough to send Greece into a defaulting situation due to higher debt costs whatever the budget restriction they implement. More details of the possible bail out plan might bring further troubles such as some potential social mess in Europe which investors would not fancy. However, in the meantime the US recovery is enough to be a new focus, and make investors hopefully come back in equity business to profit from attractive valuations. Disconnection never last more than a few weeks. US will drag Europe on the upside, especially as Japan is awakening and China is still doing great.

The strong US data could not help for a while, neither the EU officials communication, but the moon has changed this weekend ... and the mood seems to be more confident that the Greece default is not a subject anymore. Analysts are upgrading the banking sector, while Barclays yesterday and BNP today are showing some nice results

	WTI	€/€	\$/¥	10 yr US	10 yr Euro	Basic	Energy	Financ	Health	Tech	Tel	Indus	Utilities	SOX	S&P	NAS	DOW	Close
Last	77,3	1,3768	90,34	3,68	3,21	2,87	2,54	2,42	0,86	1,57	1,08	2,06	1,83	2,44	1,80	1,40	1,68	US
Perf 1d %	3,63	-0,01	-0,22	2,46 bp	0,1 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

Mortgage Applications (12h Uk time) / previous was down 1.2% / the higher the better / **minor**

Housing Starts (13h30 Uk time) expected 580k from previous 557k / the 11% rise in building permits last December is predicting some increase from the housing starts in January / **interesting** at a time when investors are taking for granted that the housing sector is in trouble still, and a drag to the US GDP / any improvement would be welcome / the NAHB improvement last night was encouraging as it is a very good leading indicator for the housing sector surveys.

Building Permits (13h30 UK time) expected 620k from previous 653k /

Industrial Production (14h15 UK time) and Capacity Utilization expected 0.8% from 0.6% & 72.6% from 72% / the ISM Manufacturing was really strong predicting a high survey / higher capacity would be welcome too / **interesting**

Minutes from the FOMC meeting (19h UK time) / may provide further details on exit strategy / **minor**

POSITIVE IMPACTS

BNP : Q4 rev. €10.06bn (€10.24bn exp) / **Net €1.36bn** (€1.06bn exp) thx to better cost of risk at €1.9bn (€2.36bn exp) / **DPS €1.5** (+50%) (In line) / Tier1 10.1% / Said it is well placed in all its main businesses

DEUTSCHE BOERSE : Q4 rev. €505.4m, in line / **Ebit loss €166m** (-215m exp) / **DPS €2.10** (in line) / **Confirmed** cost-cutting targets

ATOS : FY revenue €5.13bn, in line / **Operating margin 5.7%** (5.4% exp) / **No dividend** / **Sees** 2010 operating margin up by 50-100 bp

XSTRATA & GLENCORE are called on evaluating the feasibility of a **tie-up** (Les Echos)

AREVA : U.K. regulators have dealt a new blow to Westinghouse's nuclear reactor designs, raising concerns about the robustness of its concrete reinforcements (The Daily Telegraph)

AEROPORTS DE PARIS : January traffic down just 0.1% vs January 2009

AXA Asia Pacific reported in line with guidance given in January : **FY rev. A\$6.11bn** / **Operating A\$554m** / Net A\$679m / **DPS 9.25c**

TATA STEEL reported above estimates with surprisingly strong EBITDA at Corus / Said domestic steel demand & prices are firming up

NEGATIVE IMPACTS

ING : Q4 underlying banking PTP €132m (€317m exp) / **Underlying insurance PTP loss €47m** (€380m exp) / **Q4 net loss €712m** (€ - 306m exp) / Loan Provision €686m (€869m exp) / **No dividend** (as exp) / Says Greece exposure limited

PUBLICIS : Q4 revenue €1.27bn (1.29bn exp) **but org. Growth -5.4%** (-5.8% exp) / **FY operating €629m** (658m exp) / **DPS €0.60**, unchanged & in line / **No clear guidance over 2010**

NORSK HYDRO : Q4 revenue NK16.43bn (16.54bn exp) / **Ebit loss NK938m** (-123m exp) / **DPS NK0.50** (0.30 exp) / **No strong sign** of recovery in Europe & Northam / China strong

CARREFOUR-CASINO : French hypermarkets chain Auchan announced "sharp price cuts" in the non-food business



Today	EU \ Aker Solution / Atos Origin / 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)	
Monday	EU \ Petroleum Geo-Services / TNT [US] \ Campbell Soup	Applied Materials (\$0.06)	
Tuesday	EU \ Carlsberg / Iberdrola renovables / Vallourec [US] \ Home Depot / Office Depot		

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 / **NAHB came out better last night** / Cimpor 17% stake valo possible increased / more US housing data today might bring positive surprises according to latest mortgage applications data and the NAHB last night / if you are looking for a hedge, HOLCIM looks nice with a double top possibility for the Lafarge – Holcim spread
BUY AXA (earnings tomorrow) and **AEGON** to play the insurance sector
BUY SAP / ALSTOM / BMW / BNP / SOCGEN (earnings tomorrow) / **DBK** double bottom on track + Greece focus seems to be fading
BUY RWE / EON / GDF / IBERDROLA / ENEL killed lately / 15 to 20% consolidation for most of them is ok for now

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 ASTRAZENACA / SELL SANOFI // **BUY LAFARGE** (02/19) / **SELL HOLCIM** (03/03) // **BUY ENEL** or **GSZ** / **SELL EDF** // **BUY DIAGEO** (Ar) / **SELL AB INBEV** (03/04)

BROKER METEOROLOGY

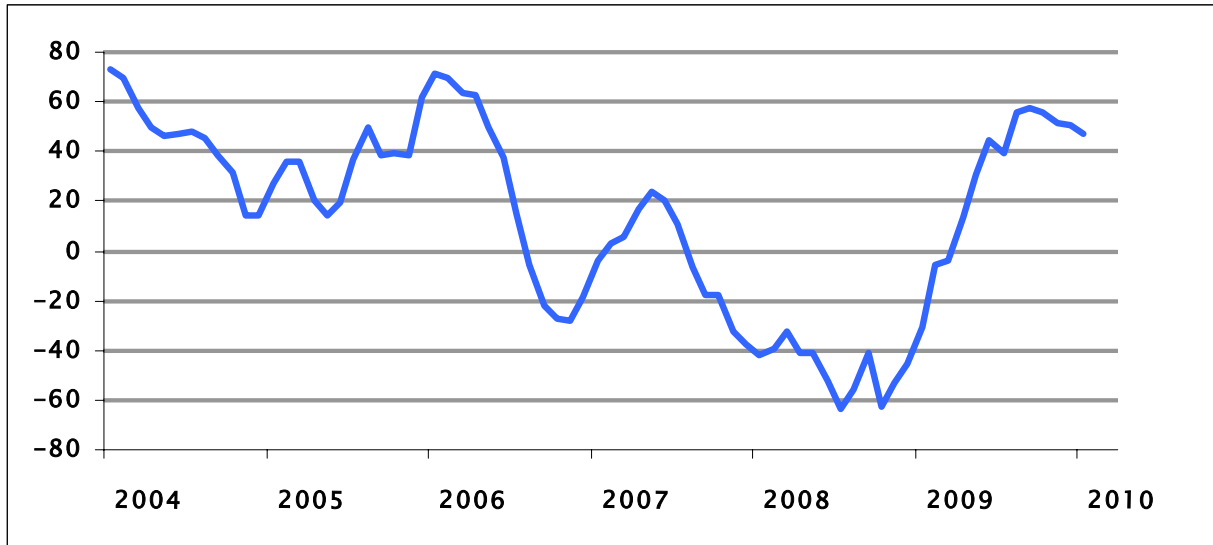
BNP **UPGRADED TO OVERWEIGHT FROM EQUALWEIGHT** **BY MS**
MEDIASET **UPGRADED TO OVERWEIGHT FROM NEUTRAL** **BY JPM**
REED **UPGRADED TO OVERWEIGHT FROM NEUTRAL** **BY JPM**
CLARIANT **UPGRADED TO BUY FROM NEUTRAL** **BY NOMURA**
UNICREDIT **UPGRADED TO OUTPERFORM FROM MKT PERFORM** **BY KBW**
BARCLAYS **UPGRADED TO BUY FROM HOLD** **BY RBS**
YARA **UPGRADED TO BUY FROM REDUCE** **BY NOMURA**

BMPS **CUT TO UNDERPERFORM FROM MKT PERFORM** **BY KBW**
BBVA **CUT TO EQUALWEIGHT FROM OVERWEIGHT** **BY MS**
SANTANDER **CUT TO EQUALWEIGHT FROM OVERWEIGHT** **BY MS**

PLEASE FIND BELOW ON THE NEXT PAGE OUR MORNING ECO

CHART OF THE DAY

ZEW Germany Expectations of economic growth Since 2004



Source: ZEW

After declining for four consecutive months to reach 47.2 in January the ZEW index was down again in February at 45.1. Indeed as the stock market remains weak, as the euro remains way to high compare to economic fundamentals there is still a high level of uncertainty among investors and institutional /JB

Time	Country	Indicator	Period	GE forecasts	Consensus	Previous
9.30 GMT	United Kingdom	Claimant count rate	January		5%	5%
9.30 GMT	United Kingdom	Jobless claims change	January		- 10 000	- 15 200
10.00 GMT	Euro area	Trade balance (adjusted)	December		+ € 3,9 bn	+ € 3,9 bn
12.00 GMT	United-States	MBA mortgage applications	February 12th			-1,2%
13.30 GMT	United-States	Housing starts	January	590 000	580 000	557 000
13.30 GMT	United-States	Building permits	January	660 000	620 000	653 000
14.15 GMT	United-States	Industrial production (final)	January	+0,7%	+0,8%	+0,6%
14.15 GMT	United-States	Capacity utilization	January	72,5%	72,6%	72,0%
19.00 GMT	United-States	FOMC minutes	January			
19.00 GMT	United-States	Monthly budget statment	January		-\$ 46,0 bn	-\$ 63,5 bn

Indexes	Price	% 5 Days	Ytd
DJIA	10268,8	3,73%	-1,53%
S&P 500	1094,9	3,69%	-1,81%
Nasdaq	2214,2	4,20%	-2,42%
CAC 40	3669,0	1,56%	-6,79%
DAX	5592,1	1,71%	-6,13%
Eurostoxx 50	2720,8	1,98%	-8,24%
DJ 600	244,4	2,23%	-3,75%
FTSE 100	5244,1	2,82%	-3,12%
Nikkei	10306,8	0,83%	-2,27%
Shanghai Comp	3018,1	2,68%	-7,90%
Sensex (India)	16457,7	1,84%	-5,77%
MICEX (Russia)	1361,5	1,74%	-0,62%
Bovespa (Brasil)	65855,0	4,93%	-3,99%

Forex	Price	% 5 Days	Ytd
EUR/USD	1,3757	0,12%	-4,01%
EUR/JPY	124,26	-0,53%	-7,43%
USD/JPY	90,32	-0,40%	-3,10%
Oil	Price	% 5 Days	Ytd
Brent \$/b	75,2	3,90%	-2,58%
Gold	Price	% 5 Days	Ytd
Gold \$/oz	1118,2	4,29%	1,93%
Rates	USA	Euro	Japan
Central Banks*	0,25	1,00	0,10
Overnight	0,06	0,32	0,10
3 Months	0,09	0,29	0,20
10 Years**	3,68	3,21	1,33

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

** Euro: German Bund rate Source : Bloomberg

ECONOMIC DATA PREVIEW

Watch in **THE UNITED-STATES** the Building permits and housing starts for January released at 13.30 GMT. The housing market is definitively rebounding, and we forecast housing starts and building permits to rise again in January to reach respectively 590 000 and 660 000. Watch the Industrial production and capacity utilization for January released at 14.15 GMT. After five consecutive months of rising, industrial production which increased by 0.6 % in December should be up by 0.7% in January. As showed by the “production index” of the last ISM manufacturing survey up to 66.2 in January the highest since April 2004. In such conditions, after having increasing by 72 % in December, the capacity utilization rate should reach 72.5 % in January./**JB**

ECONOMY

UNITED-STATES : NEW RISE OF THE EMPIRE MANUFACTURING INDEX

The Empire manufacturing index increased for a third consecutive month to reach 24.91 (prior 15.92). This sharp increase is confirming the rising trend of capital spending in the manufacturing sector as showed by the last ISM manufacturing survey reaching 58.4 in January and more specifically the ISM production index reaching 66.2 a highest since April 2004.

GERMANY : THE ZEW INDEX DECLINED AGAIN IN FEBRUARY

After declining for four consecutive months to reach 47.2 in January the ZEW index was down again in February at 45.1. Indeed as the DAX index lost around 8% since the beginning of the year as the German recovery remains weak and fragile there is a high level of uncertainty among investors and institutional. Furthermore Germany must face a strong euro hitting exports and still has a very weak domestic demand. In such condition after declining by 5% in 2009 the German GDP should rise by a small 1.5% in 2010./**JB**

