GLOBAL EQUITIES **18 FEVR. 10**

DANCE WITH WOLVES

Thin session from the US, but stocks still put together a broad-based gain in the face of a strong rebound by the dollar. The greenback bounced back from its 0.9% loss in the previous session to book a 1.0% gain against competing currencies this session. It had traded with strength for the entire session, but its gains were extended after the latest FOMC meeting minutes indicated that the Fed raised its 2010 GDP forecast to 3.2% from 3.0%., and that despite the improved forecast, officials continue to believe that economic conditions warrant exceptionally low interest rates. Bernanke also stressed that the Fed would wait a long time before selling any of its holdings of mortgage-backed securities. However, the minutes note that "several" officials wanted to start a programme of asset sales "in the near future". The upshot is that as it stands now, nothing is set in stone.

Market players, the last brave ones, are focusing on the dollar-euro parity to decide when buying or selling the equity indices. We would recommend to be careful on that one, as the deleverage might support the green buck, but the latest economic data too. If we are ok on the idea that the euro-dollar could rebound slightly very short term, it is not a trade we would play actively as the US eco strength should lead to some very smooth and welcome rate hike to avoid a too hot economy and so another dangerous bubble scenario. The market sentiment is on its knees, investors are naked, which once the option expiry tomorrow behind us should lead the a nice ride as big as the after March lows one, precisely because according to big brokers the market sentiment is as low as in March.

Once more yesterday, the industrial production showed the recovery is still gaining momentum, gaining 0.9% in January. Manufacturing output increased by a full 1.0% m/m, led by a 4.9% rebound in motor vehicle output. Manufacturers are benefiting from a jump in demand both at home and abroad. On the domestic front, inventory restocking by retailers helped generate a 1.1% rise in consumer goods output, while the nascent recovery in business investment led to a 0.9% increase in the production of business equipment. Export-orientated manufacturers are also best placed to benefit from the rebound in world trade, particularly after the decline in the dollar's value last year.

The upside trend potential is big. Not only due to assets allocation, with some survey showing that, in February, a net 33% of asset managers were overweight equities, down sharply from +52% last month. Cash was raised with managers now 12% overweight cash vs 8% underweight last month. The proportion underweight bonds fell to -39%, from -48%, back to December levels. But mainly because the confidence crisis brought today the opportunity to jump in a safer market condition at a better price. Indeed, behind the Obama crisis where there was a risk to loose Bernanke, we had to deal with a Greek single focus while the underlying fundamentals were improving.

Not only the US Q4 GDP proved to be very strong (5.7%), and earnings season happened to be great with a growing volume of activity in addition to better than expected eps, 2010 data macro data so far are in line with such a bullish pace. The January ISM manufacturing came out at 58, fitting with a 5% growth, the ISM from the services did rebound too, the Retail sales came out strong, but mostly the employment report showed we were close to flat in term of job destructions, with a possible job creation number to be expected in two weeks time, with a very surprising declining unemployment rate at 9.7% which neither bull nor bear strategists were expecting to happen before long (1 to 3 years time). Indeed, it is granted that a 150k job creation figure is required in order to reverse the trend in unemployment rate. But it is not so granted anymore, as the unemployment report started to decrease even ahead of the measures taken by US officials to boost the small and mid size businesses which did not profit from the heavy liquidity flood nor from the weak dollar, being less sensitive to exports and less powerful toward banks.

The equity prices declined for not much new reasons (Bernanke was to stay and did stay, Greece was a focus last year and any defaults would obviously be bailed out which the market agreed with when focusing early December on it), there was also the risk for very bullish players to face other uncertainties such as a double dip scenario from the US economy when the quantitative policy would be unwinded. This is no longer a serious threat to take into account given the latest data we were fed with.

The market moved lower due to a lack of investors' confidence more than fundamentals, but no one could blame investors which ran away two weeks ago when trading 19bn on Friday 5th. Once again, retreated from exceptional this was the biggest session ever. Since then, there are many opportunities but investors are still cold, and will only come back gradually as time is passing by, with a feeling to do bargain hunting thanks to more fundamental confirmation while equity prices remain rather low or at least affordable. One of our faith full customer was reminding, especially at European hours (morning) that one order is enough to move a stock up or down. Which means the normalisation process from the economy created some heavy turbulence from equity markets which triggered huge opportunities through spread or directional until it will be hedged in line with basics back again. There is no business activity since that particular Friday 5th, which explains the stupid variation from this sick market, which hopefully should feel better now that it will focus on brighter outcome. Greece might be a focus but for holidays and no longer for defaulting ☺

Everyone is looking at the S&P wondering when it will break the 1003/1004 level // Nice chart from the CAC with a gap on the way down, 7 trading session on lows, and then gap up, usually very bullish if yesterday's gap is left open on the cash (3669)

	WTI	€/$	$ / ¥	10 yr US	10 yr Euro	Basic	Energy	Financ	Health	Tech	Tel	Indus	Utilities	SOX	S&P	NAS	DOW	Close
Last	76,9	1,3579	90,91	3,72	3,19	0,06	-0,22	0,38	0,80	0,41	0,25	0,62	-0,11	0,17	0,42	0,55	0,39	US
Perf 1d %	-0,51	-0,21	0,59	-0,76 bp	-1,1 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

Jobless Claims (13h30 UK time) expected 435k from previous 440k / **interesting** as last week survey showed some improvement, and the employment report is the last bit missing to make sure the US recovery will not only be strong, but sustainable.
US PPI (13h30 UK time) expected 0.8% from previous 0.2% // **ex food and energy** 0.1% from flat / **minor** as inflation is not yet the focus, and we know the base effect is not good given the sharp decline from energy prices last year at the same period
Philadelphia Fed index (15h UK time) expected 17 from previous 15.2 / hard to predict / the snow storm might have affected the survey
Leading Indicators (15h UK time) expected 0.5% from prev 1.1% / the higher the better / last month sharp rise was welcome / **minor**

POSITIVE IMPACTS

ABB : Q4 revenue $8.76bn (8.53bn exp) / **Ebit $798m** (775m exp) / **Q4 orders $7.45bn** (6.95bn exp) / **Dividend SFR0.51** (0.46 exp) / **Raised its cost-cutting** goal to $3 bn / **Sees** outlook uncertain but confirmed mid-term financial targets
PPR : FY revenue €16.52bn (17.37bn exp) with **Q4 organic sales -2.3%** but with **Gucci +3.1%** / **Operating €1.38bn** (1.33bn exp)
SCHNEIDER : FY sales €15.79bn (15.69bn exp) / **Ebita before restructuring €2.04bn**, in line / **Sees** low single-digit %age organic sales growth in 2010 + **sees** Ebita margin of around 14% before restructuring costs in 2010 (12.9% in 2009) / Dividend €2.05, in line
AXA : FY 2009 Rev €90.12bn (€89.2bn exp) / **Underlying Earnings €3.9bn** (€3.85bn exp) / **Embedded value €13.4** / to pay **DPS €0.55** (€0.51 exp) / Solvency ratio 117% end-2009 / to focus on optimizing margins in 2010
HANDELSBANKEN : Q4 NII SK5.4bn (5.6bn e) / **Operating SK3.2bn** (3.1bn exp) / Loan Losses SK691m (1bn exp) / **DPS SK8** (6 exp)
SWISSCOM : Q4 revenue SFR3.08bn (3.05bn exp) / Ebitda SFR1.09bn (1.16bn exp) / DPS SFR20 (23 exp) / Warned that price pressure due to competition in its home market will weigh on sales in 2010
TF1 : FY revenue €2.36bn, in line / **Operating €101m** (98m exp) / **DPS €0.43** (0.47 exp) / **Sees** 2010 revenue growth of 2%
INTESA SANPAOLO : Generali has agreed to dissolve the shareholder pact with Credit Agricole in Intesa Sanpaolo in a move that could save the Italian bank a hefty antitrust fine

DANCE WITH WOLVES

HEWLETT-PACKARD : Q1 revenue $31.18bn ($30bn exp) / **Q1 EPS $1.10** ($1.06 exp) / **Sees** Q2 **revenue** $29.4bn-$29.7bn ($29.04bn exp) & FY10 Adjusted EPS $4.37-$4.44 ($4.36 exp)

NEGATIVE IMPACTS

SALZGITTER reported a FY PT loss of around €495m (€-250m exp), due mainly to a considerable increase in impairment charges.
ROCHE-NOVARTIS : The FDA is probing reports of hearing loss with Novartis cancer drug Gleevec, hypothermia with Roche's Tamiflu
TECHNIP (had pre-announced slightly below est. last Feb.12) : **Dividend €1.35** (1.29 exp) / **Sees 2010 onshore/offshore operating** margin stable + 2010 **subsea operating margin above 15%** (18% in 2009) with **FY10 revenue of 5.9-6.1bn** (6.14bn exp) /
AKZO NOBEL : Q4 revenue €3.31bn (3.4bn exp) / **Ebitda €396m** (421m exp) / **Sees** economic recovery fragile and slow.
PERNOD RICARD : H1 sales €3.79bn (3.92bn exp), -3% in organic, as exp. / **Operating 1.06bn** (1.11bn exp) / **Confirmed** FY targets
SOCGEN : Q4 revenue €5.13bn (€5.65bn exp) / **Gross operating Income €1.15bn** (€1.57bn exp) / **Operating loss €759m** (€-125m exp) / Provisions €1.91bn / **Cut DPS to €0.25** (as expected) / Tier1 10.7% end Dec / Expects recovery for 2010…
SWISS RE : FY Premiums earned SFR24.6bn (24.75bn exp) / Net SFR 506m (534m exp) / P&C CR 88.3% (90.4% exp) / Estimated excess capital over SFR 9bn / **DPS SFR 1** (0.5 exp) / Aims to achieve 12% ROE over the cycle
CAP GEMINI : **FY09 revenues €8.37bn** (in line) / **Operating margin 7.1%** (7% exp) / **DSP €0.8** (€1 exp) / **Sees** operating margin rate between 6% & 6.5% in 2010, a bit light… / 2010 LFL revenue to fall 2% to 4%

	RESULTS	DIVIDENDS	EVENTS
Today	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		
Wednesday	EU \\ Accor / Acciona / Cadbury / CNP Assurances / Commerzbank / DSM / Ferrovial / Fresenius SE / Iberdrola / Mediobanca / Rhodia / TSM / Tenaris / Valeo	Land Securities (GBp 7,00) / QUALCOMM ($0.17)	

TRADING IDEAS

BUY LAFARGE ahead of the eanings small size / indeed the underperformance of the name should no longer be given the US exposure and the potential rebound from the US housing sector / underperformed Holicm by 20% since the beginning of the year
BUY CAC INDEX to play Island reversal possibility
BUY AXA / DBK on island possibility + double bottom
BUY SAP / ALSTOM double bottom on track + island possibility
BUY RWE / EON / GDF / IBERDROLA / ENEL killed lately / 15 to 20% consolidation for most of them is ok for now

BUY AIR FRANCE / SELL BRITISH AIRWAYS // BUY METRO / SELL AHOLD // BUY DANONE / SELL NESTLE to play Nestle island reversal possibility // **BUY ASTRAZENECA / SELL SANOFI // BUY LAFARGE** (02/19) **/ SELL HOLCIM** (03/03)

BROKER METEOROLOGY

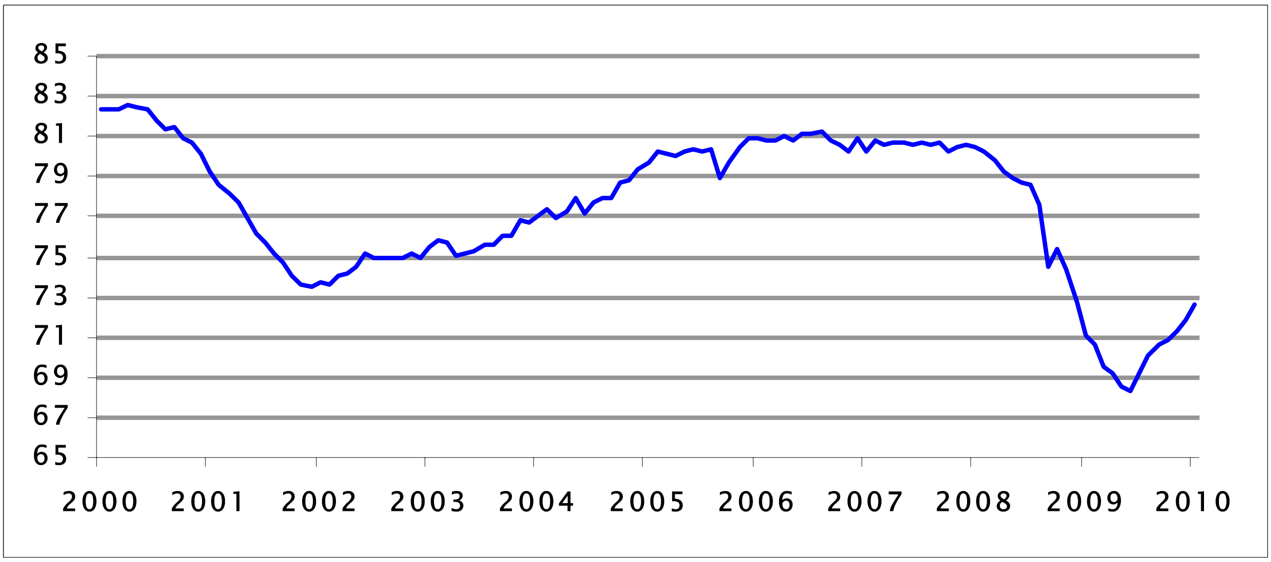
TEL ITALIA.. UPGRADED TO OUTPERFORM FROM MKT PERFORM .... BY BERNSTEIN
DEUTSCHE TEL .... UPGRADED TO OUTPERFORM FROM MKT PERFORM .... BY BERNSTEIN
STATOIL.. UPGRADED TO HOLD FROM SELL...BY ING
ST GOBAIN .... UPGRADED TO HOLD FROM SELL...BY ING
EUROPE TECH .... UPGRADED TO OVERWEIGHT FROM NEUTRAL..................................BY JPM
BNP .... UPGRADED TO BUY FROM HOLD .... BY RBS
RENAULT.. UPGRADED TO BUY FROM SELL .... BY UBS

EUROPE UTILITIES... CUT TO UNDERWEIGHT..BY JPM

PLEASE FIND BELOW ON THE NEXT PAGE OUR MORNING ECO

CHART OF THE DAY

US capacity utilization % of total capacity
Since 2000



Source: *Federal Reserve*

After five consecutive months of rising, industrial production which increased by 0.6 % in December was up by 0.9% in January (forecast 0.7%). The recovery is taking place in the United-States and all the growth motors are back. In such conditions, after having increasing by 71.9 % in December, the capacity utilization rate reach 72.6 % in January

Time	Country	Indicator	Period	GE forecasts	Consensus	Previous
9.30 GMT	United Kingdom	M4 money supply (preliminary)	January		+ 0,5%,+ 4,6% YoY	-1,1%,+ 6,4% YoY
10.00 GMT	Euro area	Consumer confidence (advanced)	Feburary		-16	-16
13.30 GMT	United-States	Producer price index	January	+ 0,6%,+ 4,3% YoY	+ 0,8%,+ 4,4% YoY	+ 0,4%,+ 4,4% YoY
13.30 GMT	United-States	Producer price index core	January	+ 0,1%,+ 0,8% YoY	+ 0,1%,+ 0,8% YoY	+ 0,0%,+ 0,9% YoY
13.30 GMT	United-States	Initial jobless claims	Feburary 13th		435 000	440 000

Indexes	Price	% 5 Days	Ytd
DJIA	10309,2	2,66%	-1,14%
S&P 500	1099,5	2,80%	-1,40%
Nasdaq	2226,3	3,57%	-1,89%
CAC 40	3725,2	2,47%	-5,36%
DAX	5648,3	2,02%	-5,19%
Eurostoxx 50	2762,3	2,30%	-6,84%
DJ 600	247,7	2,86%	-2,44%
FTSE 100	5276,6	2,97%	-2,52%
Nikkei	10335,7	3,77%	-2,00%
Shanghai Comp	3018,1	2,68%	-7,90%
Sensex (India)	16387,2	2,41%	-6,17%
MICEX (Russia)	1354,1	2,02%	-1,16%
Bovespa (Brasil)	67284,6	6,54%	-1,90%

Forex	Price	% 5 Days	Ytd
EUR/USD	1,3587	-0,67%	-5,19%
EUR/JPY	123,55	-0,64%	-8,01%
USD/JPY	90,93	-1,29%	-2,39%
Oil	**Price**	**% 5 Days**	**Ytd**
Brent $/b	75,1	2,27%	-2,64%
Gold	**Price**	**% 5 Days**	**Ytd**
Gold $/oz	1103,8	0,80%	0,66%
Rates	**USA**	**Euro**	**Japan**
Central Banks*	0,25	1,00	0,10
Overnight	0,04	0,32	0,10
3 Months	0,09	0,29	0,20
10 Years**	3,73	3,19	1,33

*US: Fed Funds; Jap: Overnight; Euro: Refi
** Euro: German Bund rate Source : Bloomberg

ECONOMIC DATA PREVIEW

Watch in **THE UNITED-STATES** the Conference Board leading indicators for January released at 15.00 GMT. The recovery is expanding as showed by the GDP rising by 5.7 % in Q4, mainly led by capital spending but also by private consumption. Not to mention the labour market, as showed by the unemployment rate declining to 9.7% in January, meaning the lowest level since August 2009. Consequently, the Conference Board Leading Indicators should rise by 0.5 % in January. Keep an eye on the Producer price index for January released at 13.30 GMT. Producer prices are expected to rise by 0.6% led by the rise in energy prices. Meanwhile producer prices should reach 4.3% YoY due to a positive base effects as energy prices were down over the same period a year ago./**JB**

ECONOMY

UNITED-STATES : HOUSING STARTS ARE UP AND BUILDING PERMITS ARE DOWN IN JANUARY

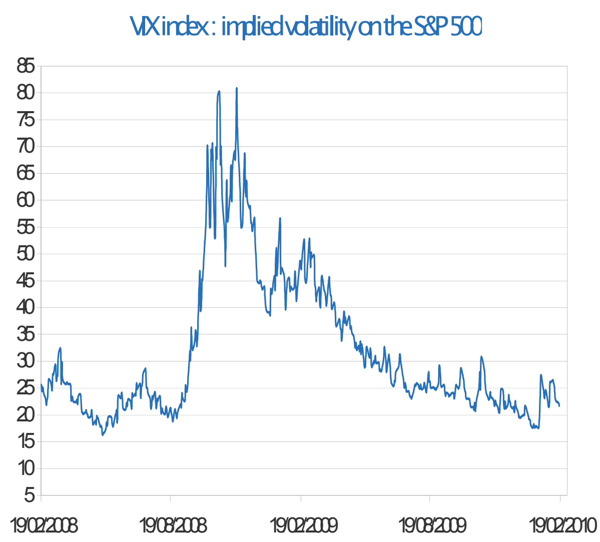
After rising by 10.5 % in November, housing starts decline slightly in December 575,000. For January housing start increase by 2.8% at 591 000 (forecast 580 000) a highest since July 2009. Meanwhile building permits a leading indicator of housing starts have been rising since November to 653,000 in December. Unfortunately this rising trend ended in January as building permits declined by 4.9% at 621 000 (forecast 620 000). Nevertheless even if the recovery remains slow the housing market is definitively rebounding, and we forecast housing starts and building permits will rise again in the coming month.

UNITED-STATES : THE INDUSTRIAL PRODUCTION RISE AGAIN IN JANUARY

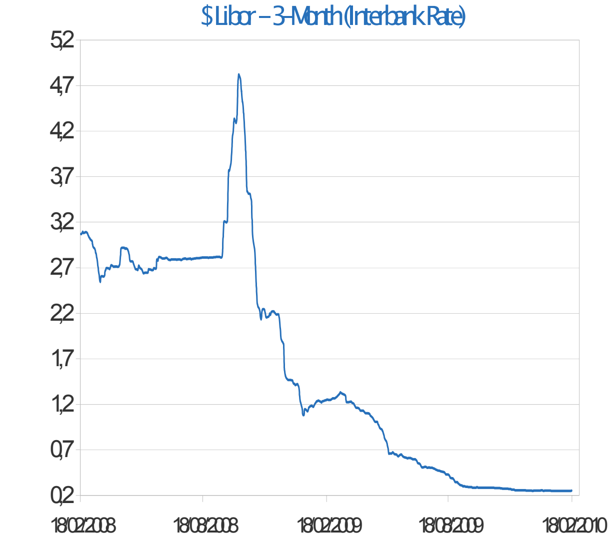
After five consecutive months of rising, industrial production which increased by 0.6 % in December was up by 0.9% in January (forecast 0.7%). The recovery is taking place in the United-States and all the growth motors are back. Indeed looking at the breakdown Business equipment rose by 0.9%, defence and space was up by 1.5% and construction supply rose by 1.0%. Meanwhile consumer goods increased by 1.1%. In such conditions, after having increasing by 71.9 % in December, the capacity utilization rate reach 72.6 % in January.

EURO AREA : THE TRADE SURPLUS WIDENNED IN DECEMBER

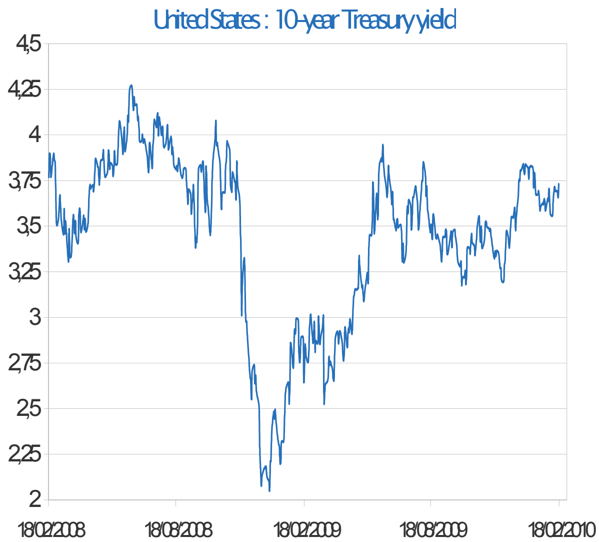
After narrowing from € 6.3 bn to € 5.3 bn in November the Euro area trade surplus widened in December to reach € 7bn. Indeed despite a strong euro, after being flat in November exports were up by 3.1% in December boosting the trade surplus. Extra euro zone exports were led by the economic recovery in the United-States and in China, boosting sell for euro area goods abroad. Meanwhile imports rose more modestly by 1.7% (prior 0.9%) as private consumption and investment remains weak in the euro area. Indeed at the opposite of the United States the euro area remains far from the virtuous circle of investment-employment -consumption./**JB**



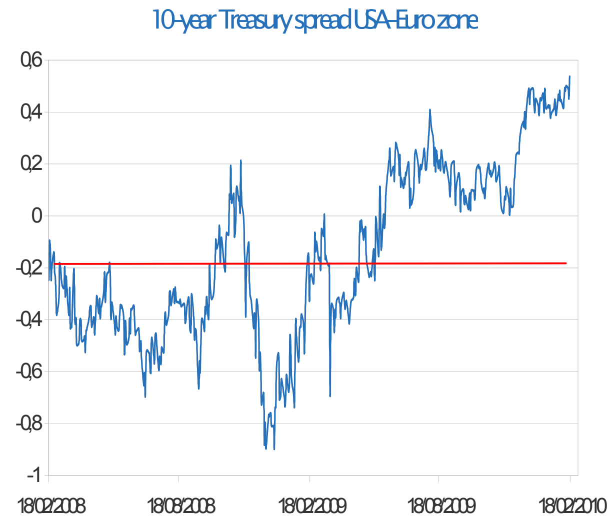
Source : Bloomberg



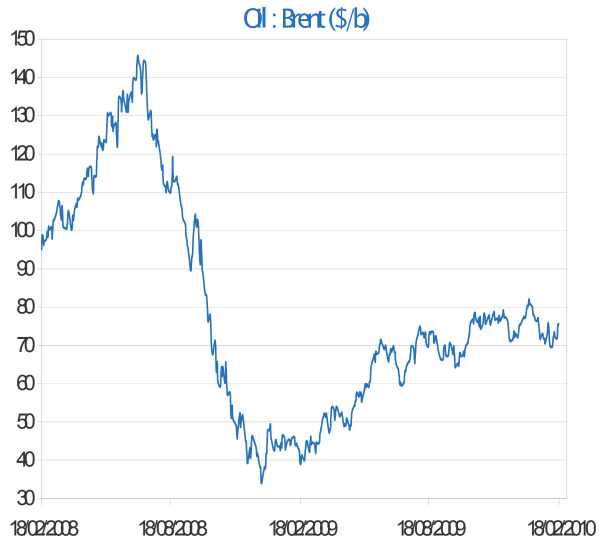
Source : Bloomberg



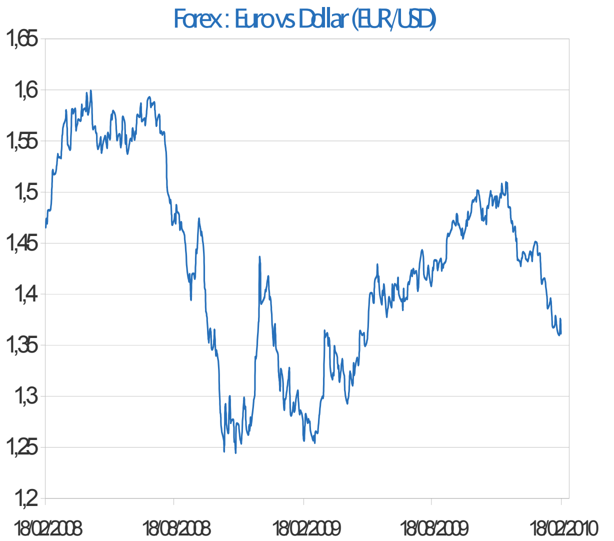
Source : Bloomberg



Source : Bloomberg



Source : Bloomberg



Source : Bloomberg