

On February 10<sup>th</sup>, in a written statement, Ben Bernanke warned the markets that **1) the Discount Rate (DR, 0.50% till yesterday) could be raised soon** **2) the Fed Funds target Rate (FFR, 0.0%/0.25% currently) could be replaced by the interest rate paid by the Fed to banks for their excess reserves (IER, 0.25% currently) as the major tool of its monetary policy:**

*"Before long we expect to consider a modest increase in the spread between the discount rate and the target federal funds rate"*

*"It is possible that the Federal Reserve could for a time use the interest rate paid on reserves, in combination with targets for reserve quantities as a guide to its policy stance while simultaneously monitoring a range of market rates"*

**As for the first issue, the Federal Reserve decided yesterday to raise the Discount Rate (Primary Credit) by 25 bps to 0.75 %.** In light of continued improvement in financial market conditions the Fed has unanimously approved several modifications to the terms of its discount window lending programs. The Board announced that, effective on March 18th, the typical maximum maturity for primary credit loans will be shortened to overnight. Primary credit is provided by Reserve Banks on a fully secured basis to depository institutions that are in generally sound condition as a backup source of funds. Finally, the Board announced that it had raised the minimum bid rate for the Term Auction Facility (TAF) by 25bps to 0.50 %. The final TAF auction will be on March 8, 2010. The increase in the discount rate announced Thursday widens the spread between the primary credit rate and the top of the FOMC's 0 to 1/4 percent target range for the federal funds rate to 1/2 percentage point. The increase in the spread and reduction in maximum maturity will encourage depository institutions to rely on private funding markets for short-term credit and to use the Federal Reserve's primary credit facility only as a backup source of funds. The Federal Reserve will assess over time whether further increases in the spread are appropriate in view of experience with the 1/2 percentage point spread.

**As for the second issue (IER), a technical explanation is necessary.** The Fed Funds target rate (the overnight market rate that banks charge to each other for borrowing excess reserves) has, since 1994, been the main monetary policy tool for the Federal Reserve. The discount rate (the rate that the Fed charges banks for short term borrowing) had been the main policy tool before 1994. The Fed began paying interest on required reserves (0.25%) and on excess reserves (0.25%) in October 2008. In the federal funds market, the quantity of reserves demanded is a decreasing function of the FFR. There is a reserve requirement (banks have to hold a certain percentage of deposits in the form of reserves) and the demand for excess reserve is a form of insurance. However, the FFR should not go below the IER, since a bank could lend excess reserves to the Fed. This results in a kink in the demand curve. The quantity of reserves supplied is determined by the Fed, but the FFR should not go above the DR - since banks can borrow from the Fed at the discount rate, they won't pay more to borrow from other banks. Once the Fed begins tightening policy it will drain reserves. It can do this by selling assets, but the Fed would perhaps have to sell an unsettlingly large amount of assets to push the supply curve past the kink in the demand curve. So the FFR, in this scenario, would not be a reliable measure of monetary policy. While the Fed is reducing bank reserves (by selling assets at a gradual pace), it can also raise the IER. Eventually, the supply curve will pass through the kink and the Fed can rely again on the FFR as the main tool of monetary policy. In normal conditions, the FFR will be somewhere between the IER and the DR. Until then, the key monetary policy tools will be the IER and the target level of bank reserves.

**As a consequence of the hike of the Discount rate, the dollar soared vs. the euro (1.3461 EUR/USD),** while U.S. equity markets, that were up yesterday (despite an increase to 473 k vs. 442k of the weekly initial jobless claims), reversed their trend with index futures down this morning (DJIA -0.87 %, S&P 500 -1.10 %, Nasdaq 100 -0.95 % at 06.30 GMT). Some investors consider that this rate hike is a withdrawal of stimulus with negative upshot for the economy (which is certainly not the case...) Asian Markets were mixed this morning: Nikkei -2.05 %, Hong Kong -2.27 % but Shanghai composite (06.30 GMT). Anyway, equity markets are resilient: the S&P 500 index is down 0.75 % YTD only while, for European investors, the dollar rose 6.5 % YTD and 12.5 % since late November vs. the euro. And company earnings are currently up 75 % in Q4, above analysts' estimates...

**Gold was resilient as well (\$1102 /oz) despite a new IMF sale.** Following the sale of 212 tons of gold to central banks in September 2009, the IMF is moving ahead with sales on the gold market, phasing the sales so as to avoid market disruption. In September 2009, the IMF's Executive Board approved gold sales totaling 403.3 metric tons. Having already sold over half that amount to several central banks, the IMF is now looking to sell the remaining 191.3 tons of gold. The IMF will continue to hold a substantial portion of its assets in gold. The sale of the full 403.3 metric tons would reduce the IMF's gold holdings by about one-eighth. Prior to any sales on the gold market, sales were first made exclusively to interested central banks, thus shifting gold within the official sector. Now the IMF will begin sales of the remaining gold on the market. This will be done in a phased way. Official interest in the IMF's gold sales has proven substantial—at 212 tons thus far. The proceeds from these sales amount to almost \$7.2 billion, or just over SDR 4.5 billion. The sales were conducted at market prices, and were allocated on a first-come, first-served basis to three central banks that expressed interest (Bank of India 200 tons, Bank of Mauritius 2 tons, Bank of Sri Lanka 10 tons).

European markets should be weaker at the opening. Today's session may be volatile, with monthly index expiries.

	WTI	€/€	\$/¥	10 yr US	10 yr Euro	Basic	Energy	Financ	Health	Tech	Tel	Indus	Utilities	SOX	S&P	NAS	DOW	Close
Last	78,0	1,3465	91,91	3,78	3,25	1,14	0,50	0,60	0,41	0,88	0,06	0,98	0,53	0,29	0,66	0,69	0,81	US
Perf 1d %	1,32	-0,46	0,36	-1,91 bp	5,7 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

**CPI (13h30 UK time)** expected 0.3% from previous 0.1% // **ex food & energy** 0.1% from previous 0.1% / **minor** as inflation is not yet the focus, and we know the base effect is not good given the sharp decline of energy prices last year at the same period.

**Mortgage Delinquencies (15h UK time)** / the lowest the better / **minor** for today.

**Monthly European index & options (on equities and on indexes) expiries.**

## POSITIVE IMPACTS

**NESTLE : FY sales SFR108bn (105.7bn e) / FY org. growth 4.1% (3.9% e) / FY real internal growth 1.9% (1.6% e) / Ebit SFR15.7bn (14.5bn exp) / DPS SFR1.60 (1.47 exp) / Plans to achieve higher organic growth in 2010 than 2009 + better FY10 Ebit margins / As exp, will launch a new SFR10 bn share buy back programme to buy back an SFR5 bn more before end 2010**

**ANGLO-AMERICAN : FY revenue \$24.64bn (20.88bn exp) / 2009 underlying EPS \$2.14 (1.97 exp) / Resumption of DPS** expected in respect of 2010 / **Medium and long term outlook** for the mining industry remains strong

**ADP : FY sales €2.63bn (2.62bn exp) / Operating €883m (861m exp) / Cut DPS by €0.01 to €1.37 / Sees 2010 revenue up slightly versus 2009 + 2010 EBITDA in the range of 2009, in line**

**AIR FRANCE** and China Southern Airlines are planning a **joint venture** for the route between Paris and Guangzhou (Les Echos)

**REPSOL : Sacyr, Repsol's largest shareholder, will ask for an additional seat on the board** of the oil company (Cinco Dias)

**CORIO : FY operating €219m (213m exp) / DPS €2.65 (2.60 exp) / No outlook**

**ROCHE : U.S. health regulators approved Roche's blockbuster cancer drug Rituxan** to treat the most common form of leukemia in adults.

## NEGATIVE IMPACTS

**TOTAL** : Workers at Total's 6 French oil refineries **extended their strike** action yesterday / The call by workers for an "unlimited strike" at caused fears of **possible supply cuts**.

**LAFARGE** : FY sales **€15.88bn** (16.40bn exp) / **Operating €2.48bn** (2.60bn exp) / **Especially weak Q4** with net loss of €38m / **DPS €2** (1.75 exp) / **Plans to cut an extra €200m of costs** in 2010 / **Sees** global cement demand to increase between 0 and 5% in 2010

**THALES** : FY sales **€12.88bn** (12.83bn exp) / **FY operating €151m** (449m e) / **Surprised with net loss of €128m** (+238m e) / **Cut** dividend to €0.5 / **Expects** stable revenue in 2010 + lower order intake

**CARREFOUR** : FY operating **€2.77bn**, in line **but huge €1.07bn restructuring charge** / **FY net €385m** (€1.03bn e) / **DPS €1.08**, unchanged & in line / **Sees** environment likely to remain challenging in 2010

**NATIXIS** said it was **in talks with AXA to sell its private equity business in France for €507m**

**AREVA...** : **Soldiers staged a coup in Niger**, announcing they had suspended the constitution after seizing the President / Areva has a monopoly on Niger's uranium output... (Niger produces **about 7.5% of the world's uranium**)

**BRITISH AIRWAYS** : Cabin crew have voted in favor of **strike action** (Evening Standard) / The result of the latest ballot among 12,000 crew will be declared by the Unite union Monday...

**NOVARTIS-GSK...** : U.S. health officials said they were taking steps to reduce the use of certain asthma drugs because of serious risks, including death

**DELL** : Q4 revenue \$14.9bn (13.80bn exp) / **GM** fell to 16.6% from 17.2% as component costs rose / **EPS \$0.28** (0.27 exp) / Lower ASP weighed on profitability, especially due to growth in netbook computers / **Sees GM** to rebound in the current fiscal year

**US BANKS** : Whitney's profit expectations for banks are **30% lower than expectations on Wall Street**, due mainly to shriveling lending portfolios / She said on CNBC that higher capital levels required by the govt will continue to result in lower returns for banks / **BOA** is the "least worst" investment in the financial sector as it has a lot of assets to sell...

**EUROPEAN BANKS** : The EU Commission aims to require Europe's banks to raise their contributions to deposit guarantee funds to 2% of deposits they hold (FTD) / The commission aims to raise the funds to a total of €128bn in the next 10 years, up from €23bn at present

	RESULTS	DIVIDENDS	EVENTS
Today	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)	
Thursday	EU \ ACS / Aegon / Allianz / BASF / British American Tobacco / Centrica / Credit Agricole / Deutsche Postbank / Deutsche Telekom / Dexia / Eiffage / France Telecom / Heineken / Henkel / Merck KGaA / Natixis / OMV / RBS / Red Electrica / Repsol / RWE / Safran / Suez Env / Segro / Sulzer / Telecom Italia / Voestalpine [US] \ Heinz	McDonald's (\$0.55)	

## TRADING IDEAS

**BUY CAC INDEX** to play Island reversal possibility

**BUY AXA / DBK / SAP** on island possibility + double bottom

**BUY ALSTOM** on reversal Head & Shoulder possibility

**BUY RWE / EON / GDF / IBERDROLA** consolidation for most of them is ok for now

**SELL TECHNIP** to play island possibility

**BUY BT / SELL VODAFONE // BUY ALSTOM / SELL SCHNEIDER // BUY AIR FRANCE / SELL BRITISH AIRWAYS // BUY METRO / SELL UNILEVER or AHOLD // BUY ASTRAZENACA / SELL SANOFI**

## BROKER METEOROLOGY

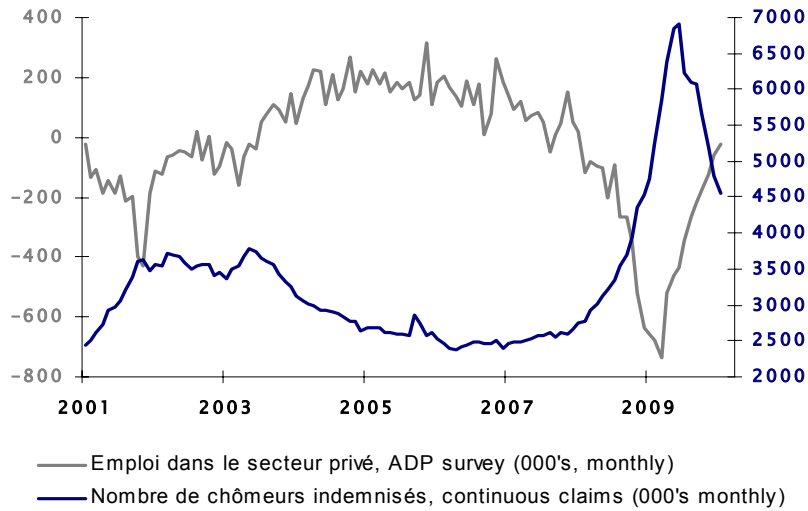
**AKZO NOBEL** ..... **UPGRADED to HOLD FROM SELL** ..... **BY UNICREDIT**  
**TECHNIP** ..... **UPGRADED to OUTPERFORM FROM NEUTRAL** ..... **BY EXANE**  
**EDP** ..... **RAISED TO HOLD FROM SELL** ..... **BY SOGGEN**  
**SOCIETE GENERALE** ..... **UPGRADED TO HOLD FROM SELL** ..... **BY RBS**

**BOLIDEN** ..... **CUT TO NEUTRAL FOM BUY** ..... **BY GOLDMAN SCHS**  
**RWE** ..... **CUT TO SELL FROM HOLD** ..... **BY SOGGEN**  
**RANDSTAD** ..... **CUT TO HOLD FROM BUY** ..... **BY RBS**

**PLEASE FIND BELOW ON THE NEXT PAGE OUR MORNING ECO**

CHART OF THE DAY

US APD employment survey and continuing claims Since 2001



Source: ADP, Bloomberg

After continuing claims stabilised at 4 563 000. Nevertheless the US job machine is progressively improving as the economy is recovering. Indeed job destruction are decreasing and the unemployment rate stabilized at 9.7%. As there is a gap of around 6 to 9 months between the economic recovery and a significant improvement of the job market at spring 2010./JB

Time	Country	Indicator	Period	GE forecasts	Consensus	Previous
7.00 GMT	Germany	Producer price index	January		+0,3%,-4,0% YoY	-0,1%,-5,2% YoY
7.45 GMT	France	Business confidence indicator	February	92	93	92
7.45 GMT	France	Production outlook indicator	February		-3	-4
9.00 GMT	Euro area	Current account balance (adjusted)	December			+ € 0,1 bn
9.00 GMT	Euro area	PMI manufacturing (advanced)	February		52,5	52,5
9.00 GMT	Euro area	PMI services (advanced)	February		52,7	52,4
9.00 GMT	Euro area	PMI composite (advanced)	February		53,5	53,7
13.30 GMT	United-States	Consumer price index	January	+0,3%,+2,8% YoY	+0,3%,+2,8% YoY	+0,2%,+2,7% YoY
13.30 GMT	United-States	Consumer price index core	January	+0,2%,+1,8% YoY	+0,1%,+1,7% YoY	+0,1%,+1,8% YoY

Indexes	Price	% 5 Days	Ytd
DJIA	10392,9	3,67%	-0,34%
S&P 500	1106,8	3,69%	-0,75%
Nasdaq	2241,7	4,42%	-1,21%
CAC 40	3747,8	3,62%	-4,79%
DAX	5680,4	3,21%	-4,65%
Eurostoxx 50	2778,3	3,66%	-6,30%
DJ 600	249,1	3,11%	-1,87%
FTSE 100	5325,1	3,33%	-1,62%
Nikkei	10123,6	3,73%	-4,01%
Shanghai Comp	3018,1	2,68%	-7,90%
Sensex (India)	16133,9	2,55%	-7,62%
MICEX (Russia)	1338,8	0,71%	-2,28%
Bovespa (Brasil)	67836,1	4,82%	-1,10%

Forex	Price	% 5 Days	Ytd
EUR/USD	1,3463	-1,23%	-6,04%
EUR/JPY	123,73	-0,91%	-7,90%
USD/JPY	91,89	-2,11%	-1,35%
Oil	Price	% 5 Days	Ytd
Brent \$/b	76,1	5,46%	-1,36%
Gold	Price	% 5 Days	Ytd
Gold \$/oz	1102,1	0,80%	0,47%
Rates	USA	Euro	Japan
Central Banks*	0,25	1,00	0,09
Overnight	0,04	0,32	0,09
3 Months	0,10	0,29	0,20
10 Years**	3,77	3,25	1,34

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

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

## ECONOMIC DATA PREVIEW

Watch in **THE UNITED-STATES** the Consumer price index for January released at 13.30 GMT. Despite a slight rise of 0.1 % in December, inflation reached 2.7 % YoY the highest since October 2008. Nothing to worry about as, this rise is the result of a base effect, led by the decline in energy prices during the second half-year 2008, as against a rise in the second half-year 2009. This base effect will last and consumer prices should be up to 2.8% YoY in January. The core inflation should remain under control at 1.8% YoY, still below the Federal fund target of 2.5%.**/JB**

## ECONOMY

### **UNITED-STATES : PRODUCER PRICES ROSE AGAIN IN JANUARY**

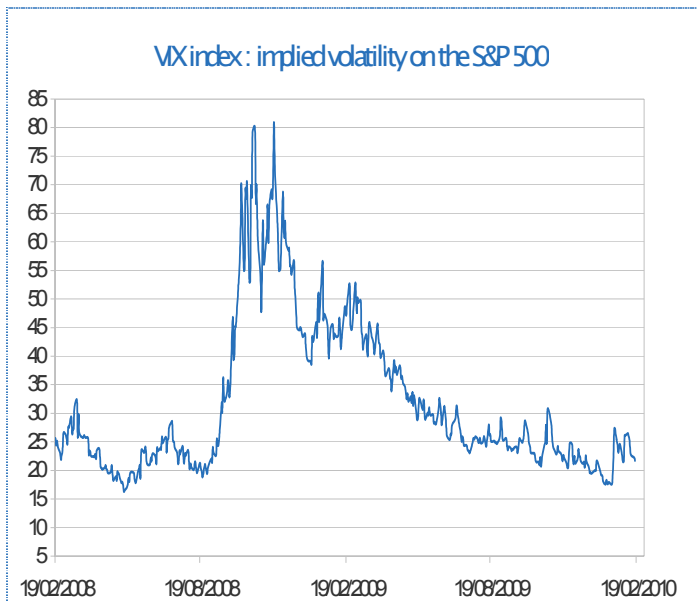
After being up by 0.4% in December, Us producer prices rose by 1.4% in January despite the decreasing trend of oil which remains anyway at a high level led by the economic recovery. From a year ago producer prices reached + 4.6% YoY due to a positive base effect as energy prices were down last year over the same period. Meanwhile ex food and energy producer prices rose more modestly by 0.3%,+1.0% YoY (forecast +0.1%,+0.8% YoY).

### **UNITED-STATES : INITIAL JOBLESS CLAIMS ARE UP AND CONTINUING CLAIMS STABILIZED**

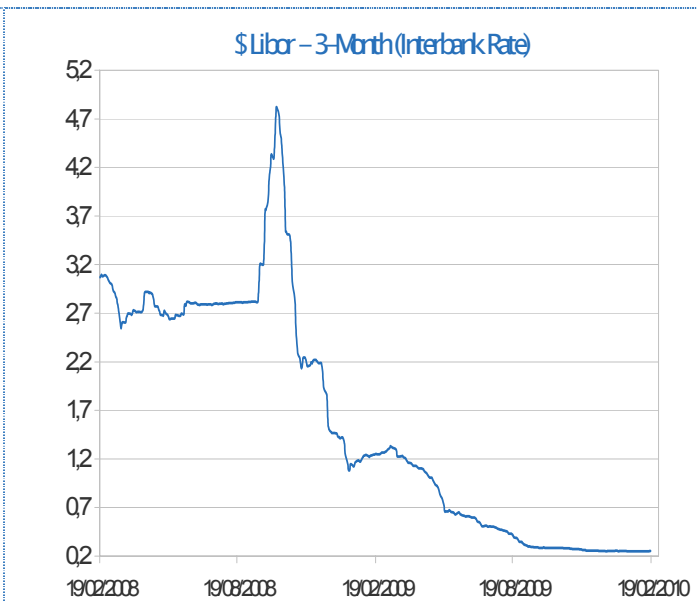
After declining to 442 000 initial jobless claims were up to reach 473 000 last week. Meanwhile continuing claims stabilised at 4 563 000. Nevertheless the US job machine is progressively improving as the economy is recovering. Indeed job destruction are decreasing and the unemployment rate stabilized at 9.7%. As there is a gap of around 6 to 9 months between the economic recovery and a significant improvement of the job market at spring 2010.

### **UNITED-STATES : SLIGHT RISE OF THE CONFERENCE BOARD INDEX**

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 and the reduction of job destruction. In such conditions the Conference Board Leading Indicators rose logically by 0.3 % in January. The virtuous circle of "investment-employment-consumption" is back in the United-States and the Conference Board leading indicator should rise again in the coming months.**/JB**



Source : Bloomberg



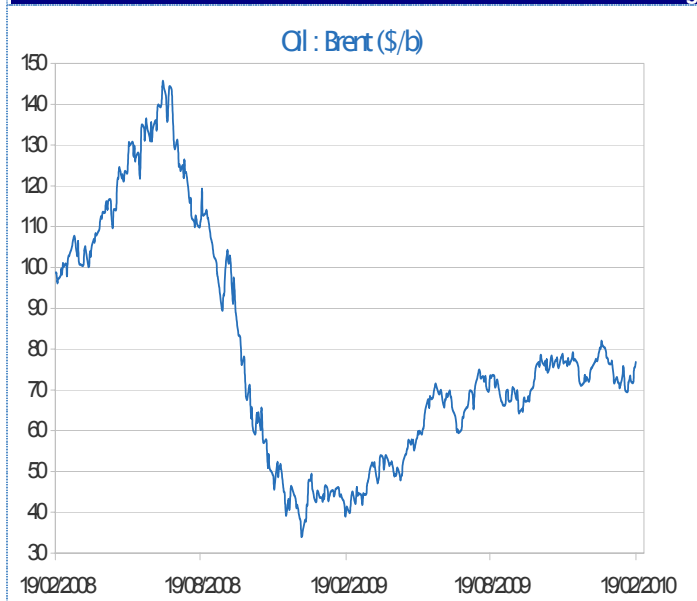
Source : Bloomberg



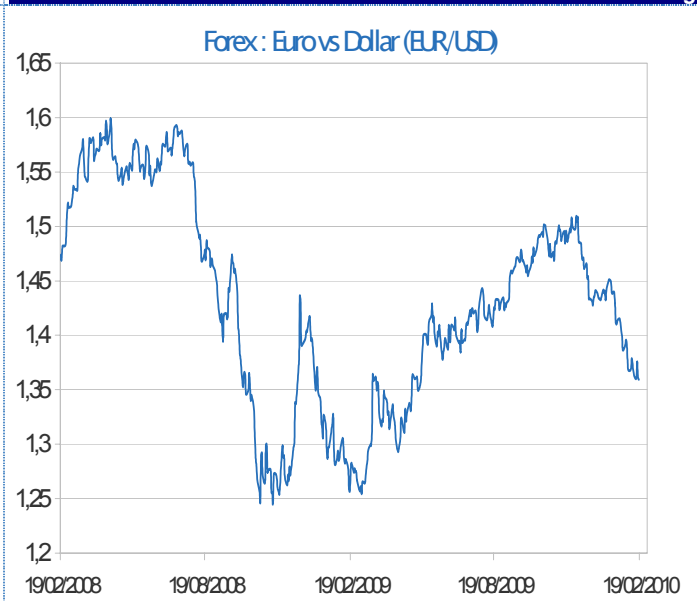
Source : Bloomberg



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Source : Bloomberg