

Last Friday morning, equity markets wondered whether the U.S. Discount Rate on primary credit hike (DR, +25 bps to 0.75%) would have some negative monetary impact or not on the economic activity (see our Friday mail). At that time, a sharp decrease of U.S. equity index futures and negative close of Asian Markets indicated that markets regarded this hike as a strong tightening and the withdrawal of monetary stimuli that would trigger a "double dip" scenario linked to "exit strategies".

But Friday's equity session ended on a positive stance. The S&P 500 index was up 3.13 % last week. Markets understood the Fed's message:

**1) The Fed was careful and clever enough to explain that the DR hike was not a tightening of monetary policy** ("The modifications are not expected to lead to tighter financial conditions for households and businesses and do not signal any change in the outlook for the economy or for monetary policy"). The Fed is no rush to make an early move. The "extended period" language suggests that the Fed Fund target rate (FFR 0.00%/0.25% currently) will stay at near-zero for many months. The increase in the DR isn't a tightening of the monetary policy because the target of the FFR (0.00%/0.25%) has not changed. But it does widen the corridor, which is a necessary step in preparation for an eventual rise in the FFR by year end.

**2) The Fed explained the hike was normalization.** The widening of the spread between the DR and the FFR is best viewed as another step in the normalization of the Fed's lending role. Before the crisis began, borrowers at the discount windows were charged a 100bps premium over the FFR and could only borrow overnight. The day after Bear Stearns collapsed, that premium was slashed to 25bps and the maximum duration of loans was extended to 90 days. This rate hike takes the premium back to 50bps and the Fed also announced that only overnight loans will be available from mid-March onwards.

**3) The Fed suggested the interest rate paid on excess reserves (IER, 25bps currently) will become the monetary policy tool instead of the FFR.** As the IER sets a floor under the FFR, the DR sets a ceiling. The FFR shouldn't fall below the interest rate payable on reserves because banks have no reason to lend to other banks at the FFR at a lower rate of return than they could get by leaving the funds on deposit at the Fed.

**4) The Fed has closed emergency liquidity facilities (FOMC 01/26/10):** in light of improved functioning of financial markets, the Fed will be closing the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, and the Term Securities Lending Facility on February 1st, as previously announced. In addition, the temporary liquidity swap arrangements between the Federal Reserve and other central banks will expire on February 1st. The Federal Reserve is in the process of winding down its Term Auction Facility: \$50 billion in 28-day credit will be offered on February 8 and \$25 billion in 28-day credit will be offered at the final auction on March 8. The anticipated expiration dates for the Term Asset-Backed Securities Loan Facility remain set at June 30 for loans backed by new-issue commercial mortgage-backed securities and March 31 for loans backed by all other types of collateral.

**5) The Fed tried to avoid a clash between doves and hawks,** which would be the worst case scenario for the financial markets. Remember January 26<sup>th</sup>/27<sup>th</sup> FOMC meeting: "Voting against the policy action was Thomas M. Hoenig (Kansas City Fed President), who believed that economic and financial conditions had changed sufficiently that the expectation of exceptionally low levels of the federal funds rate for an extended period was no longer warranted".

**Ben Bernanke probably won't have much to add in his semi-annual testimony this week two day format, with a House appearance on Wednesday, and a Senate appearance on Thursday.** He will echo the latest FOMC statement by arguing that "with substantial resources slack continuing to restrain cost pressures and with longer-term inflation expectations stable, inflation is likely to be subdued for some time".

**Nevertheless, Treasury yields still rose in the wake of the hike announcement (10-year TNote yielding 3.78 % on Friday vs. 3.69 % on Monday 15th).** It is currently unclear whether a monetary tightening would have a great impact on long-term rates. But the most frequently cited problem attributed to the spike in U.S. deficits and debt is the threat of higher long-term interest rates. Early in November 2009, the Treasury Borrowing Advisory Committee, which comprises representatives from the dealer community and advises the Treasury on management of the public debt, issued a warning: under some scenarios, the yield on 10-year government bonds could rise to 10% over the next decade because of a rapid run-up in the ratio of debt-to-GDP and rising concerns over inflation. But it is worth recalling that in today's highly fragile U.S. economy, even with very low interest rates and substantial excess reserves in the banking system, borrowing by households and businesses is virtually nonexistent outside of the mortgage sector. Empirical studies of the impact of higher deficits and debt on interest rates have been plagued by a fundamental problem in the past. Straightforward regression studies, even those that control for other variables, such as expected or actual inflation, typically suffer from what is called cycle bias. The cycle bias results in a finding that larger government deficits and associated increases in debt actually result in lower interest rates. This paradoxical result occurs because, in the United States, non-federal government debt (currently about \$27 trillion) is nearly four times as large as federal government debt (currently about \$7.2 trillion). The sharp recession and financial collapse have depressed private borrowing even more than government borrowing has increased, **so interest rates have remained low.**

**This morning (06.00 GMT), Asian markets were on the upside (Nikkei +2.58 %, Hong Kong +2.61 %, Shanghai composite +0.03 %).** U.S. index futures were up as well: DJIA +0.25 %, S&P 500 +0.27 %, Nasdaq 100 +0.32 %. Oil prices soared with 1 month Nymex future above \$80 /bbl (80.16) and Gold price was particularly resilient (\$1124 /oz). This week, apart of Bernanke's Testimony (Wednesday & Thursday), watch for February's Consumer Confidence (tomorrow), S&P/CS house prices (tomorrow), existing home sales for January (Wednesday) January durable goods orders (Thursday) and Q4 GDP revision (5.3 % expected vs. 5.7 % advanced) & January's existing home sales (Friday).

**Reporting today in the U.S.:** Campbell Soup, Lowe's (before the opening), Nordstrom, RadioShack (after the close). Home Depot, Macy's, Target report tomorrow before the opening.

	WTI	€/€	\$/¥	10 yr US	10 yr Euro	Basic	Energy	Financ	Health	Tech	Tel	Indus	Utilities	SOX	S&P	NAS	DOW	Close
Last	80,1	1,3639	91,68	3,79	3,29	0,51	0,21	0,44	-0,15	-0,14	-0,30	0,51	1,38	0,30	0,22	0,10	0,09	US
Perf 1d %	3,98	0,19	-0,38	1,34 bp	3,4 bp	0,44	0,15	0,49	-0,14	0,08	0,22	0,58	1,42	0,34	0,26	0,13	0,08	Europe

**ECONOMIC DATA with impact**

**Chicago Fed National Activity Index** for January (13.30 GMT), expected positive following -0.61 in December and -0.39 in November

**Dallas Fed Manufacturing Index** for February (15.30 GMT) expected on the upside after 8.3% in January and 3.8 % in December.

Manufacturing activity have been improving for several months in the U.S. /Minor

**POSITIVE IMPACTS**

**TNT: Q4 Sales €2.95bn** ( 2.86 est) / **Q4 EBIT €128M** (113 est) / **DPS €0.53** / Job Cut in a range of 6.5k to 11k / Early signs of improving trend in economy

**BMW** is set to announce a deal on Monday to offload £3Bn of longevity risks from its UK pension scheme to DBK(FT) / Separatly the Co plans to start making an electric car for city use in mid-2013 at its plant in Leipzig , BMW also plans to save millions of euros by using

three basic models as the basis for most of its cars in the so-called "backbone strategy" (Automobilwoche) / BMW plans to intensify the cooperation with Peugeot & is willing to sacrifice the Formula One team to guarantee the long-term future of the Co (Spiegel)/ BMW factories will be fully utilised and there is no need for more short working hours (Focus)

**RENAULT** plans to increase its share in the German carmarket to 4.5% this Y & to 6% by 2012, boosted by its Dacia brand, (Die Welt)

**DEUTSCHE BANK** will complete its purchase of Sal. Oppenheim on Feb. 25 (WirtschaftsWoche)

**HSBC** sells stake in Wells Fargo HSBC Trade Bk for \$171m in cash. HSBC plans to expand commercial Banking services after sale.

**OLD MUTUAL** has hired JPM to consider a sale of its U.S. life insurance biz & has found several possible buyers (FT citing Sources)

**NATIXIS** : Wansquare reported on Sunday that NATIXIS was planning to sell its Coface insurance unit, and that SCOR RE was interested / Denied by Natixis on Sunday ...

**FRANCE TEL – DEUTSCHE TEL** : The E.Commission gave its green light to UK merger between Orange & T-Mobile

**DEUTSCHE TELEKOM** plans to keep its dividend stable in the coming years (FAZ)

**KPN** : BlackRock Owns 4.99% of Royal KPN Voting Rights: (AFM Filing)

**NOKIA-INTEL** are merging their popular Moblin & Maemo software platforms. This will create a unified Linux-based platform that will run on multiple hardware platforms across a wide range of computing devices, including pocketable mobile computers, netbooks ....

**REPSOL- IBERDROLA** ... : Spain's ruling Socialist Party proposed removing corporate bylaws that cap the voting rights of any company's shareholder (El Pais citing no source . It could affect 14 spanish listed Cos)

**GDF SUEZ** asked Belgium's top court to annul a €250M nuclear tax proposed by the Belgian government in 2008 (Sunday Mail)

**NATIONAL GRID** expects to raise its FY DPS following a mild US winter & thus fewer repairs, & a robust performance by its transmission biz (Sunday Mail)

**ACCOR** sold 5 properties in 4 European countries to Invesco Real Estate for €154M

**TUI** has denied a newspaper report that it is planning to bid for the minority stake in TUI Travel

**FRAPORT**: Airlines agreed to pay more to use runways in Frankfurt, helping to finance a multi-bn € expansion of the airport.

**NOVARTIS** pulled further ahead of rival Merck in the bid to get the first oral multiple sclerosis treatment to market after the Swiss drugmaker's Gilenia was given U.S. priority review status. Novartis also said its vaccine against meningococcal disease, Menveo, had received U.S. approval.

**OIL SERVICES** : SCHLUMBERGER will buy SMITH intl for about \$11bn all in stock. Smith holder will get 0.6966 SLB shr .

## NEGATIVE IMPACTS

**TOTAL** : Talks between Total & workers protesting the possible closure of the Dunkerque refinery collapsed , the CGT union said, calling for a strike to spread to all French refineries

**CENTRICA** will cut its gas prices by an average of 7% (Sunday Mail)

**EDF** plans to build France's biggest solar-power plant at the Euro Disney theme park .

**RIO- BHP** : Germany's Federal Cartel Office has launched a investigation into the planned iron ore JV between BHP & RIO.

**INTESA – AGRICOLE** : Italy's antitrust authority may force C. Agricole & Intesa to sell some branches in the country (Il Sole 24 Ore)

**GERMAN BANKS (not new) Germany's BaFin bank regulator is concerned about the risk to the country's financial industry if the Greek deficit crisis spreads within the euro area . German banks hold €522Bn in debt by Greece, Portugal, Italy, Ireland and Spain, comprising about 20% of foreign debt held by German banks (Der Spiegel)**

**BBVA- SANTANDER** : the Bank of Spain tightened its rules on accounting for real estate assets. Banks are now required to put aside 30% (20% prev.) of the value of property held by lenders for more than a year ( Europa Press)

**BANK OF IRELAND** said the state is to get a 15.7% stake in the lender as it issues shares instead of a dividend payment.

**SABADELL** will pay \$160.6M for Mellon United National Bank of Florida, 13% more than officially announced (EI Economista)

**EADS** : The German govt has failed to find a national buyer for a stake in EADS, forcing it to extend a deal that gives a group of banks a 7.5% stake in the defence company (FT)

**LUFTHANSA** Pilots went on strike after last-ditch attempts to reach a compromise failed (the airline)

**GLAXOSMITHKLINE** knew of possible heart damage linked to the diabetes drug AVANDIA several years before a study documented the risk, (two U.S. senators)

	RESULTS	DIVIDENDS	EVENTS
Today	<b>EU</b> \ Petroleum Geo-Services / TNT <b>US</b> \ Campbell Soup	Applied Materials (\$0.06)	
Tuesday	<b>EU</b> \ Carlsberg / Heineken / Iberdrola renovables / Merck KGaA / Vallourec <b>US</b> \ Home Depot / Office Depot		Goldman Sachs Technology and Internet conf
Wednesday	<b>EU</b> \ Accor / Acciona / Cadbury / CNP Assurances / Commerzbank / Dexia / DSM / Ferrovial / Fresenius SE / Iberdrola / Mediobanca / Rhodia / TSM / Tenaris / Valeo	Land Securities ( GBp 7,00) / QUALCOMM (\$0.17)	
Thursday	<b>EU</b> \ ACS / Aegon / Allianz / BASF / British American Tobacco / Centrica / Credit Agricole / Club Mediterranee / Deutsche Postbank / Deutsche Telekom / Dexia / Eiffage / France Telecom // Henkel / Merck KGaA / Natixis / OMV / RBS / Red Electrica / Repsol / RWE / Saint Gobain / Safran / Suez Env / Segro / Sulzer / Telecom Italia / Voestalpine <b>US</b> \ Heinz <b>Asia</b> \ OZ Minerals	McDonald's (\$0.55)	
Friday	<b>EU</b> \ Bayer / Belgacom / Endesa / Gamesa / Gecina / Lloyds / Sacyr Vallehermoso / Telefonica <b>US</b> \ Novell	Goldman Sachs (\$0,35)	

## TRADING IDEAS

**BUY CAC INDEX** to play Island & reversal Head & Shoulder possibility

**BUY Oil** names as **TOTAL / ENI / ROYAL DUTCH** to play reversal Head & Shoulder on this names + upside trend

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

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

**SELL TECHNIP** to play island possibility still

**BUY LAFARGE / SELL HOLCIM** So feared figures of Lafarge behind us nice prospect for 2010 + strong dividend yield (2€ ex date 07/01/2010) Holcim figures on third of March should now be feared // **BUY BT / SELL VODAFONE** // **BUY ALSTOM / SELL SCHNEIDER** // **BUY AIR FRANCE / SELL BRITISH AIRWAYS** // **BUY METRO / SELL UNILEVER** // **BUY ASTRAZENACA / SELL SANOFI** // **BUY PFIZER / SELL BRISTOL**

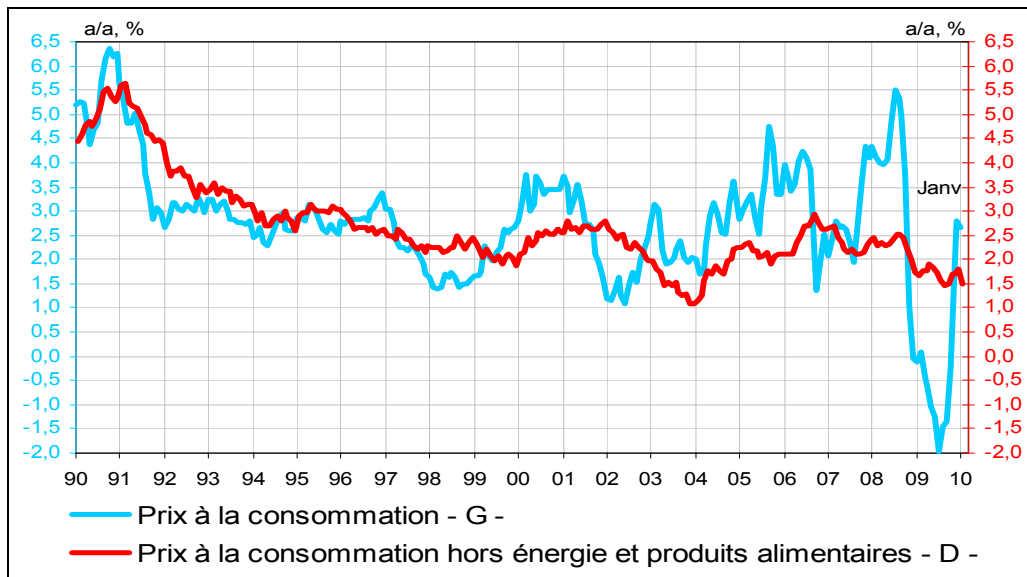
**BROKER METEOROLOGY**

ROCHE .....	ADDED TO SWISS TOP LIST .....	BY CREDIT SUISSE
ALCATEL – LUCENT .....	ADDED TO EUROPEAN 1 <sup>ST</sup> LIST .....	BY BANK OF AMERICA – ML
LADBROKES .....	ADDED TO BUY FROM NEUTRAL .....	BY UBS
NORDEA BANK .....	RAISED TO NEUTRAL FROM UNDERWEIGHT .....	BY JP MORGAN
EDP RENOVAVEIS .....	RAISED TO BUY FROM HOLD .....	BY CITIGROUP
GAZPROM .....	RAISED TO BUY FROM HOLD .....	BY UNICREDIT
TELE2 .....	RAISED TO NEUTRAL FROM UNDERPERFORM .....	BY BANK OF AMERICA – ML
PETROBRAS .....	QRAISED TO OVERWEIGHT FROM NEUTRAL .....	BY HSBC
REPSOL .....	RAISED TO NEUTRAL FROM SELL .....	BY GOLDMAN SACHS
AXA .....	CUT TO HOLD FROM BUY .....	BY CITIGROUP
GLAXOSMITHKLINE .....	CUT TO EQUALWEIGHT .....	BY MORGAN STANLEY

PLEASE FIND BELOW ON THE NEXT PAGE OUR MORNING ECO

CHART OF THE DAY

Consumer price index (G) and Core CPI (D) (%- YoY)  
Since 1990



Source: BLS and Dtastream

Consumer price index rose by 0.2% in January reaching 2.6% YoY (prior 2.7% YoY). Meanwhile the core CPI decreased by 0.1% confirming that inflationist pressure remains widely under control. Meaning that if the Fed is preparing the field for and upcoming rise of Federal Fed Funds this is absolutely justified as inflation is rising and the economy recovering. Anyway this rate rise will remain low due to the weak inflationist pressure.

Time	Country	Indicator	Period	GE forecasts	Consensus	Previous
5.00 GMT	Japan	Supermarket sales	January			-5.0% YoY
7.00 GMT	Japan	Convenience store sales	January			-5.5% YoY
13.30 GMT	United-States	Chicago Fed activity index	January			-0,61
15.30 GMT	United-States	Dallas Fed manufacturing activity	February			8,3%

Indexes	Price	% 5 Days	Ytd
DJIA	10402,4	2,72%	-0,25%
S&P 500	1109,2	2,92%	-0,53%
Nasdaq	2243,9	3,11%	-1,11%
CAC 40	3769,5	4,76%	-4,24%
DAX	5722,1	4,03%	-3,95%
Eurostoxx 50	2793,4	4,46%	-5,79%
DJ 600	250,3	3,90%	-1,42%
FTSE 100	5358,2	4,35%	-1,01%
Nikkei	10400,5	0,32%	-1,38%
Shanghai Comp	3019,1	2,68%	-7,88%
Sensex (India)	16359,4	0,24%	-6,33%
MICEX (Russia)	1353,8	3,75%	-1,19%
Bovespa (Brasil)	67597,4	3,91%	-1,45%

Forex	Price	% 5 Days	Ytd
EUR/USD	1,3627	0,19%	-4,87%
EUR/JPY	124,83	-1,99%	-6,88%
USD/JPY	91,60	-1,81%	-1,65%
Oil	Price	% 5 Days	Ytd
Brent \$/b	78,0	8,47%	1,00%
Gold	Price	% 5 Days	Ytd
Gold \$/oz	1125,1	2,21%	2,60%
Rates	USA	Euro	Japan
Central Banks*	0,25	1,00	0,11
Overnight	0,05	0,32	0,11
3 Months	0,10	0,29	0,20
10 Years**	3,79	3,29	1,36

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

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

## ECONOMIC DATA PREVIEW

Watch in [THE UNITED-STATES](#) the [Dallas Fed manufacturing index](#) for January released at 15.30 GMT, expected to rise again following the ISM manufacturing index which reached 58.4 in January. Indeed the virtuous circle of “investment-employment-consumption” is back in the United-States./**JB**

## ECONOMY

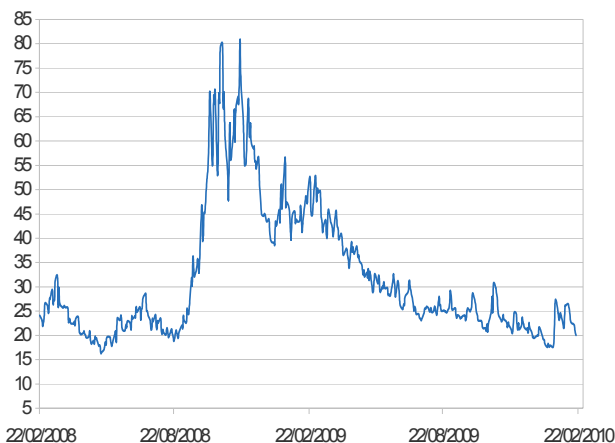
### UNITED-STATES : INFLATION IS TAKING PLACE BUT REMAINS UNDER CONTROL.

Consumer price index rose by 0.2% in January reaching 2.6% YoY (prior 2.7% YoY). Meanwhile the core CPI decreased by 0.1% confirming that inflationist pressure remains widely under control. Even if prices continues to rise by 0.2% per month since the end of the year (high hypothesis), yearly average inflation will remain below 2.4% in 2010 and below 1.5% for the core CPI. Meaning that if the Fed is preparing the field for and upcoming rise of Federal Fed Funds this is absolutely justified as inflation is rising and the economy recovering. This rate rise will remain low due to the weak inflationist pressure.

### EURO AREA : THE PMI MANUFACTURING IS UP BUT THE PMI SERVICES DECLINED IN FEBRUARY

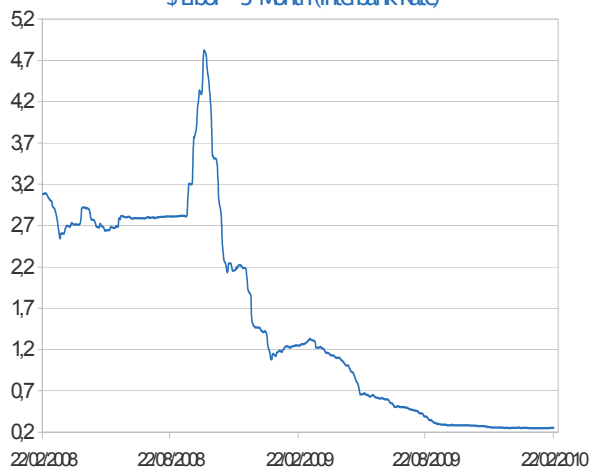
The PMI manufacturing which went over the level of 50 (border between an expansion and a contraction of the activity) on October, improved for a twelve consecutive month in February to reach 54.1 (prior 52.4). Meanwhile the PMI services which went over the level of 50 in September decreased for a second consecutive month in February at 52.0 (prior 52.5). At the opposite of the United-States the recovery remains weak and fragile in the Euro area which will not be able to handle to many “bad news” as a lasting strong euro (compared to economic fundamentals), a rise of oil. Not to mention the revival plans presently fading./**JB**

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-Euro zone



Source : Bloomberg

Oil : Brent (\$/b)



Source : Bloomberg

Forex : Euro vs Dollar (EUR/USD)



Source : Bloomberg