THE ¼ EMPTY GLASS

Little consolidation this week with Europe as a focus and the Greek PM Papandreou visit in Washington for talks with US President Obama. This continues a whistle-stop tour of major capitals after talks with German Chancellor Merkel in Berlin on Friday and French President Sarkozy in Paris on Sunday. As acting Foreign Minister as well as PM, the tour can be presented as relationship building rather than anything else. But in light of the PM's threat to call on IMF financing if the EU refuses, winning support from the Obama Administration may be a means of ensuring IMF support should it be required. Note, neither Germany nor France believes Greece needs to go to the IMF. Sarkozy's comment's yesterday were more supportive of eventual EU aid, should it be required. Though unlikely to be in place to help Greece, German FinMin Schaeuble also seems to be increasingly in favour of a European resolution. Also note, German Chancellor Merkel meets with Eurogroup head Juncker today, French PM Fillon on Wednesday and Dutch PM Balkenende and Queen Beatrix on Thursday. This may be important diplomacy ahead of next week's Eurogroup and ECOFIN meetings.
On Friday, Portugal is presenting its budget which the opposition party might disagree with. Today, PM Socrates is expected to discuss the plans with opposition parties. Writing an ambitious, credible and detailed Stability Programme is one thing. What Portugal needs is some kind of platform for national unity in order to convince markets that a minority government is going to be able to deliver a medium-term consolidation programme. <u>That sense of unity could be tested on Friday, the Portuguese 2010 Budget bill will be voted on in parliament.</u> The main opposition party, the Social Democrats, have said they will abstain from the vote. If they don't, it could be significant. However, it is not that the Social Democrats are opposed to consolidation. In fact, they are urging greater control of spending than that proposed by the minority Socialist government.
Portugal has yesterday followed Greece in announcing additional measures to shore up confidence in its plans to tackle its fiscal crisis. The measures consist of public spending cuts, tax increases and privatizations and will contribute to a planned reduction in the budget deficit from 9.3% in 2009 to 8.3% in 2010 and eventually to 3% by 2013. While that is a slower rate of consolidation than that planned in Greece, it comes from a better starting point. (Greece’s deficit was 12.7% last year.) Note too that, at around 80% of GDP, the level of Portuguese outstanding public debt is lower than in Greece (110%). Yesterday’s measures should boost the chances of a favourable response to Portugal’s stability and convergence programme, due to be submitted to the EC later this month. Nonetheless, with some 12% of Portuguese debt set to mature over the next six months, market confidence looks likely to remain pretty fragile. <u>The next test will be a bond auction on Wednesday.</u>
<u>**As Europe's governments scramble to control budget deficits and spending, investors may be overlooking companies made attractive by a weak euro, aggressive cost cutting and cheap valuations, among other factors.** Europe has suffered the biggest losses so far this year out of any investable market -- developed or emerging. The Stoxx 600 index of Europe's biggest companies is down about 1%, with regional indexes such as France's CAC-40 off around 3% and Spain's IBEx-35 tumbling more than 10%. Money has been flowing out of the Europe region for the past six weeks, with investors rattled by the fallout over Greece's fiscal woes, according to fund-tracker EPFR Global. There are also fears that the euro is headed for an eventual collapse. "There is a widespread perception among some circles here that the euro is about to go out the window due to the pressure on the system being exerted by problems in Greece, Portugal and Spain". Such pessimism is overdone. European governments and businesses both have vested interests in a viable euro, and suggestions to the contrary are seen as far-fetched."When you speak to European politicians, industrial leaders, bankers --such as the CEO of Siemens -- they don't even let you finish the question". "'Do you think California is going to drop into the ocean?". "Investors are forgetting that Europe is home to a lot of companies that operate and sell products globally and do it very well". "They are leaders in industry whereas most people are just focused on the demographics of Europe."</u>
Here are a few reasons that many investment managers are optimistic about European stocks: <u>Euro weakness</u>. Europe-based companies that have sales in U.S. dollars and derive part of their revenue from exports are among the best opportunities. Since December, the euro has lost almost 10% of its value against the dollar. <u>Attractive valuations.</u> Cheap valuations among European stocks are also a driving force for investors. "If you assume that at some point in the future you can get back to the peak earnings we enjoyed in 2007, then the European market looks quite cheap. <u>Corporate belt-tightening</u>. Investors should give European companies credit for their austerity measures. These efforts have resulted in "surprisingly resilient" operating margins since the second quarter of 2009. "People have been positively surprised by the reaction of the majority of European companies -- large multinationals that have been aggressively reducing their cost base, labor costs and inventories and managing supply chains tightly". Corporate earnings growth might not match the last economic cycle coming out of 2000-2001, but reduced capacity and spending is helping companies emerge stronger from the crisis. "Corporate Europe looks in good shape considering what we've been through," are saying strategists, which we agree with. <u>Change agents</u>. Catalysts that can add value and draw attention to a business are crucial, and we can find them across Europe. "We're talking about businesses where reported profits exceptionally poor at the moment due to transition issues". "Even if all of that change doesn't come through, we'd like to think we'd lose less and if they do come through there will be better returns than what the market sees."
About the Greek problem, regulation tightening and research from politics have been helping in getting predators on the government's side. "Without any limitation on proprietary activity by commercial banks, they will, indeed, over time come to take on the characteristics of hedge funds," Volcker said this weekend about banks. "And then, I ask, could we expect the same attention to the more essential services?" Volcker said that allowing banks to take customer deposits and at the same time engage in risky trading served "neither the public's interest in maintaining key services nor the need for a self-reliant, failsafe financial system." He also <u>urged steps to "corral excesses" in derivatives markets, including the use of credit default swaps (CDS)</u>. "Surely the recent revelations about the use (and abuse) of complex derivatives in obscuring the extent of Greek financial obligations reinforces the need for greater transparency and less complexity," Volcker said. Responding to Volcker's comments, European Central Bank President Jean-Claude Trichet expressed scepticism about the idea of limiting risky trading activities to hedge funds and other institutions that are unregulated. "If we push all these activities from regulated institutions to non-regulated, don't we take the risk of having a system that could be even more unstable?" he said during a panel discussion.
After a little consolidation which should start today, we should end the week the same way as last week. The Greek demonstration due on Thursday, as well as the FOMC tomorrow night might in addition to the Portugal focus and its bond issue tomorrow justify a little consolidation given the bear mood still existing and the lack of bullish catalysts rather than curing the latest problems. Same as last week, the Friday's Retail Sales should wake us up then.

	WTI	€/$	$ / ¥	10 yr US	10 yr Euro	Basic	Energy	Finan	Health	Tech	Tel	Indus	Utilities	SOX	S&P	NAS	DOW	Close
Last	81,5	1,3616	90,00	3,70	3,17	-0,29	-0,09	0,33	-0,36	0,22	1,15	-0,30	0,00	-0,09	-0,02	0,25	-0,13	US
Perf 1d %	-0,59	-0,13	0,47	-1,33 bp	0,9 bp	-0,66	-0,54	0,21	-0,39	0,03	0,88	-0,40	-0,06	-0,21	-0,17	0,05	-0,19	Europe

ECONOMIC DATA with impact

Obama and Greek prime minister Papandreou

POSITIVE IMPACTS

SANOFI & Merck agreed to combine the Merial unit & Merck's Intervet/Schering Plough to create a leader in the animal health market
STANDARD LIFE is considering selling its health insurance biz for around £200m (Reuters)
RDSA : The A$3.26bn takeover offer for Arrow Energy is to be **shared 50:50** by RDSA & PetroChina (Australian Financial Review)

KLOECKNER : FY revenue €3.90bn, in line/ **Ebitda loss €68m** (-116m exp) / **For 2010**, expects in a still challenging environment only a slight increase in real demand
IPR : FY Rev £3.67bn (£3.46bn exp) / **Operating €1.16bn** (€1.14bn exp) / **DPS 12.53p** / FCF £791m / **Net Debt £5.06bn** (5.33bn exp)
ACCIONA's Mexican unit won a $600m contract to build 3 wind-powered generation plants
EDF is exploring the possibility of a partnership with Russia's state atomic energy Rosatom, to build & operate new reactors (Les Echos)
TOTAL said it had been approached by several industry players interested in its refining assets.

TEXAS INSTRUMENT mid-quarter update = **TXN raised the bottom end of its Q1 forecast** / TXN **sees Q1 revenue** $3.07-3.19bn from 2.95-3.19bn (3.09bn exp) **+ EPS $$0.48-0.52** from $0.44-0.52 (0.49 exp) + said it was struggling to fill orders in time as demand for chips rose faster than it could make them

NEGATIVE IMPACTS

EADS : FY revenue €42.8bn (42.55bn exp) / **Ebit loss €322m**, impacted by FY charge of €1.8bn for A400M (+230m exp) / **Underlying** Ebit €2.2bn, in line / **Net loss €763m** (-417m exp) / **Net FCF** €9.8bn / **No dividend** (€0.20 exp) / **Sees 2010** Ebit of €1bn (1.5bn exp) as deterioration of the hedge rates will weigh by about €1bn compared to 2009 / **Northrop Grumman said it will not submit bid** for US tanker competition forcing EADS to decide whether it will submit a solo bid…
DEUTSCHE POST : FY revenue €46.2bn (€46.48bn exp) **/ Underlying EBIT €1.47bn** (in line) / DPS €0.6, in line / Targets 40% to 60% payout / Sees higher operating for 2010 & 2011 / Sees 2010 EBIT €1.6bn-€1.9bn range (€1.9bn exp)
AREVA : News site Mediapart cites an unidentified source as saying Areva CEO Lauvergeon could be sacked by the end of this week
RBS' pension deficit is 69% of its market value, higher than any other financial firm in the FTSE 350 index (Hymans Robertson's report)
ACCOR… : Marriott International plans to more than double the number of its properties in Europe in the next few years (WSJ)
UK RETAIL : The British Retail Consortium said **like-for-like sales rose 2.2% on the year** in February after falling 0.7% in January but below economists forecast that like-for-like retail sales would rise 3.0% from a year earlier / Total sales, which include new stores, rose 4.5% from February 2009 after a 1.2% gain a month earlier
ANTOFAGASTA : FY revenue $2.96bn (2.86bn exp) / **EPS ex one-offs 67.7c** (69c exp) / **Total DPS 23.4c** (28c exp) (Ordinary DPS +4.4%) / Medium term copper outlook remains positive / Guidance unchanged

	RESULTS	DIVIDENDS	EVENTS
Today	EU \\ Antofagasta / Deutsche Post / EADS / International Power / Severstal / Solvac US \\ Kroger		Applied Material AGM / Chevron analyst meeting / Aviation, Transportation, and Defense conf at JP Morgan / Annual Consumer & Retail Leveraged Finance conf at Goldman Sachs
Wednesday	EU \\ E.On / Exonhit / Fortis / JCDecaux / Lagardere / Mun Re / Pirelli & Co / Saipem / Standard Life preliminary US \\ Clean Energy / Inter Parfums / Novellus System mid-quarter	Admiral group (GBp 15,22222 + 17,88889) / TUI Travel (GBp 8,555556)	Tyco AGM / Valeo investor day / Walt Disney AGM
Thursday	EU \\ Bilfinger Berger / Delhaize / Hannover Re / Geberit / Home Retail / Lufthansa / Old Mutual / Swatch final / Volkswagen US \\ National Semiconductor		BBVA AGM / ExxonMobil analyst meeting / Financial Services conf at Citigroup
Friday			BBVA AGM / LG AGM
Monday	EU \\ Altran Technologies / Bulgari / Seche Environnement		

TRADING IDEAS

SELL AIR LIQUIDE / SCHNEIDER / ST GOBAIN / UNILEVER / LAFARGE / FRANCETEL toppish for now
SELL BNP to play island reversal possibility (bearish)
SELL ALLIANZ / VINCI / PEUGEOT / STM / VINCI to play double top possibility

BUY ALSTOM / SELL SIEMENS // BUY GLAXO / SELL SANOFI // BUY NESTLE / SELL DANONE // BUY INBEV / SELL HEINEKEN // BUY B SKY B / SELL PEARSON // BUY WYNN RESORTS / SELL STARWOOD HOTELS

BROKER METEOROLOGY

NESTLE.. RAISED TO OVERWEIGHT FROM NEUTRAL ....BY JP MORGAN

IMPERIAL TOBACCO.............................. CUT TO SELL FROM NEUTRAL ....BY UBS
LVMH.. CUT TO MARKETPERFORM...BY BERNSTEIN

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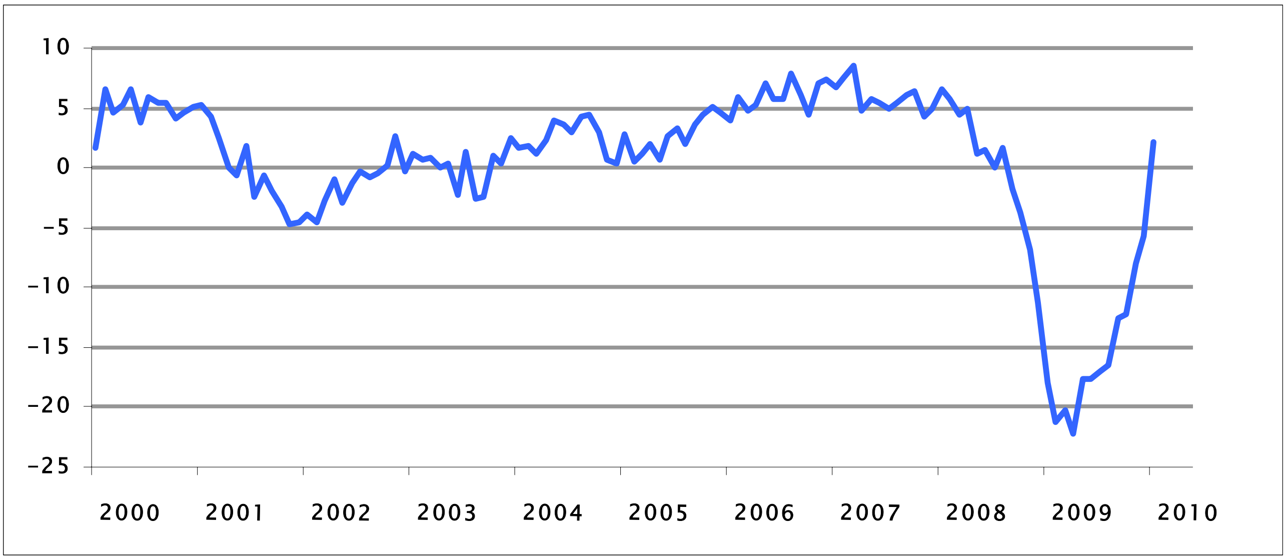
CHART OF THE DAY

German Industrial production SA (YoY)
Since 2000



Sources: Deutsche Bundesbank

From a year ago industrial production is back in positive territory for the fist time since August 2008. This rise is the logical consequence of a positive base effect as German industrial production was sharply down a year ago at -6.6%. More generally German industrial production remains very fragile as the whole economy which should increase by a small 1.5% in 2010./**JB**

Time	Country	Indicator	Period	GE forecasts	Consensus	Previous
6.00 GMT	Japan	Machine tool orders (preliminary)	February			+189,4% YoY
7.45 GMT	France	Total trade balance	January	-€ 4 bn	-€ 4 bn	-€ 4,3 bn
9.30 GMT	United Kingdom	Visible trade balance	January		-£ 7,0 bn	-£ 7,2 bn
9.30 GMT	United Kingdom	Total trade balance	January		-£ 3,0 bn	-£ 3,2 bn
15.00 GMT	United-States	IBD/TIPP economic optimism	March			46,8
22.00 GMT	United-States	ABC consumer confidence	March 7th		-48	-49

Indexes	Price	% 5 Days	Ytd
DJIA	10552,5	1,45%	1,19%
S&P 500	1138,5	2,08%	2,10%
Nasdaq	2332,2	2,60%	2,78%
CAC 40	3903,5	3,56%	-0,83%
DAX	5875,9	2,84%	-1,37%
Eurostoxx 50	2879,3	3,84%	-2,89%
DJ 600	256,9	3,47%	1,17%
FTSE 100	5606,7	3,81%	3,58%
Nikkei	10567,7	4,07%	0,20%
Shanghai Comp	3070,0	-1,12%	-6,32%
Sensex (India)	17096,9	4,10%	-2,11%
MICEX (Russia)	1414,4	6,13%	3,24%
Bovespa (Brasil)	68575,5	2,00%	-0,02%

Forex	Price	% 5 Days	Ytd
EUR/USD	1,3614	0,18%	-4,98%
EUR/JPY	122,52	-1,28%	-8,93%
USD/JPY	89,99	-1,10%	-3,48%
Oil	**Price**	**% 5 Days**	**Ytd**
Brent $/b	79,3	2,42%	2,66%
Gold	**Price**	**% 5 Days**	**Ytd**
Gold $/oz	1122,5	-1,05%	2,36%
Rates	**USA**	**Euro**	**Japan**
Central Banks*	0,25	1,00	0,10
Overnight	0,09	0,34	0,10
3 Months	0,15	0,29	0,20
10 Years**	3,70	3,17	1,31

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

ECONOMIC DATA PREVIEW

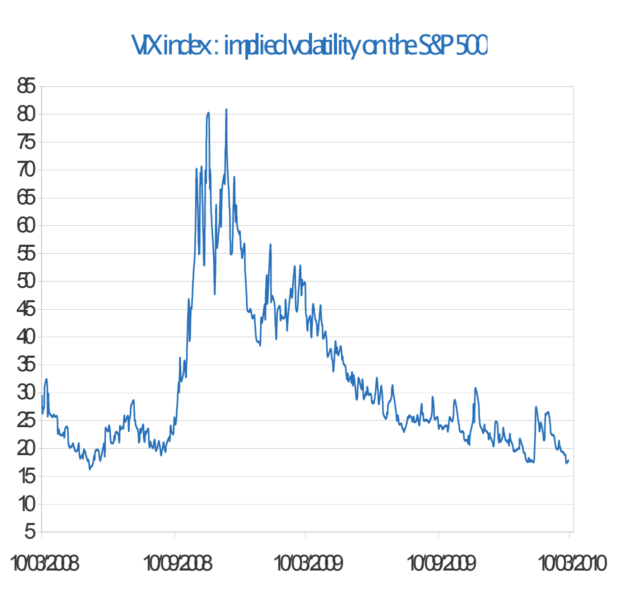
NO MAJOR ECONOMIC DATA RELEASED IN THE UNITED-STATES

Watch in **FRANCE** the trade balance for January released at 7.45 GMT. After increasing in October and in November, the French trade deficit improved in December to 4.2 billion euros. For January the French external deficit should improved again to 4 billion euros. Indeed as the euro fell in January, exports which were flat in December should rise and imports, which decreased by 2.1%, should decline further.

ECONOMY

GERMANY : SLIGHT INCREASE IN GERMAN INDUSTRIAL PRODUCTION IN JANUARY

After declining by 1% in December (revised down from -2.6%) German industrial production slightly increased by 0.6% in January (forecast +1%). Looking at the breakdown Germany industrial production has been hit by bad weather conditions as showed by the construction sector dropping by 14.3% in January. Meanwhile capital good declined by 1% and consumer goods were down by 0.1%. As a consequence of the decline in oil price in January industrial production the energy sector rose by 8.8% and intermediate goods increase by 3.3%. From a year ago industrial production is back in positive territory for the fist time since August 2008. This rise is the logical consequence of a positive base effect as German industrial production was sharply down a year ago at -6.6%. More generally German industrial production remains very fragile as the whole economy which should increase by a small 1.5% in 2010./**JB**



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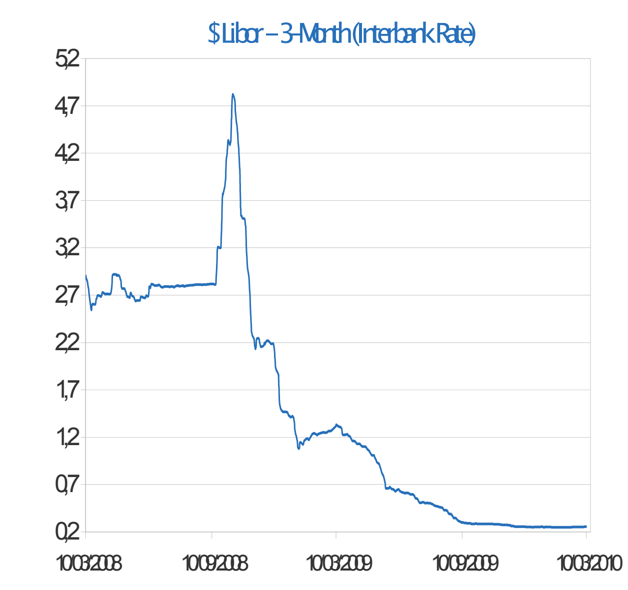

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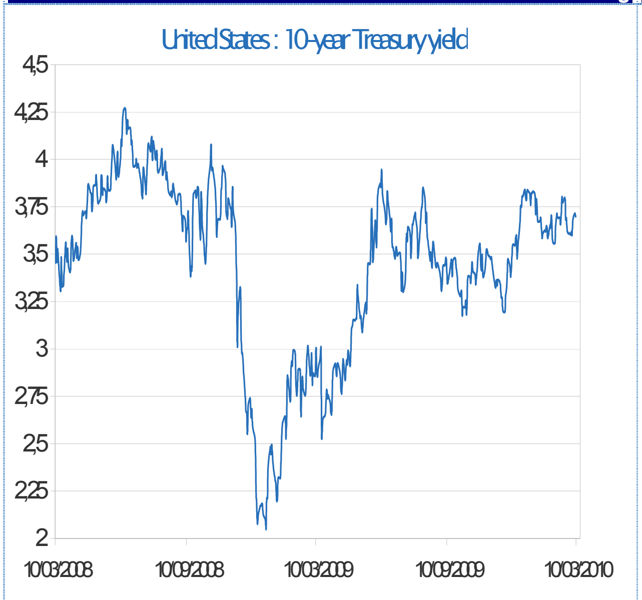

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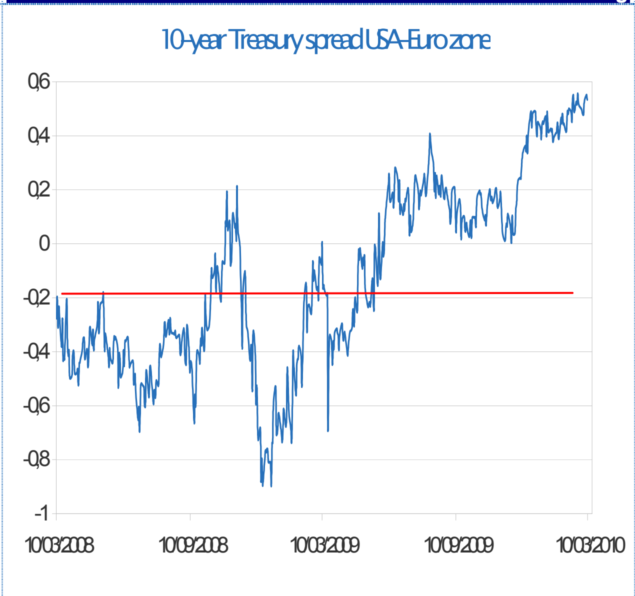

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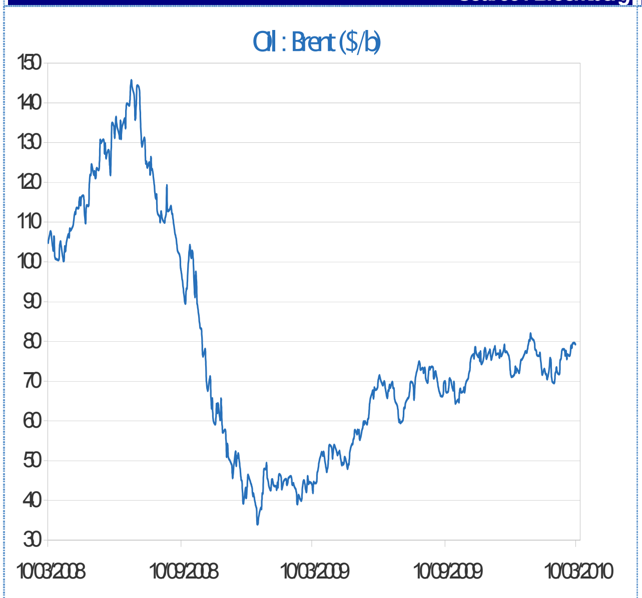

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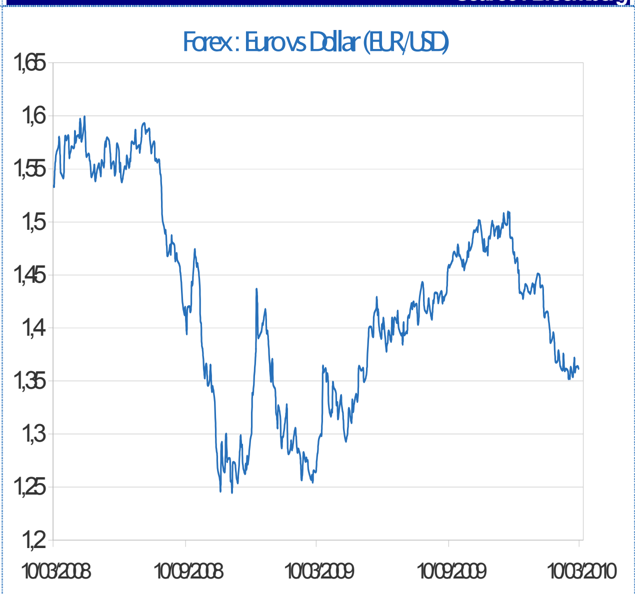

Source : Bloomberg