

Disappointing ending from the US Stocks, making their way to solid gains after a soft start, but failed to extend the advance in afternoon trade as they approach the mid January highs (1150,4 on the S&P cash). The US equity indices have many reasons to be more bullish than European ones, but are connected. Any possible risk of defaulting would have some spill over impact.

Nice and welcome consolidation from equity indices on a background of European sovereign debts as a focus. As such there should be some more with today's Portugal refinancing which will be closely watched, as well as tomorrow's strikes in Greece which should not have much impact but a psychological one. Not much new, which is precisely the reason for the current market pause, as we miss any further bullish catalysts which though should appear as soon as on Friday with the Retail Sales data which might impact the same way the employment report did last week given the possible blizzard effect.

The reason for a resilient consolidation at his stage might also be the lack of downside catalyst. First, there are not investors invested... Meaning the latest rebound was a relief and made some patient cold blood investors happy to lighten some left over positions rather than to reinforce new ones. We fully understand when looking at the rebound level, which mostly was triggered by short covering from daily traders, while the fundamental background doesn't look that safe anymore. Let us get this straight, we never thought Greece or whatever country would jeopardize the native economic recovery, bearing in mind that we also never thought Europe would be a leader in the recovery, but instead and by far the lagging one (with the UK). This is precisely the reason why we would recommend to stay long dollar vs Euro, and be patient for the equity business which will explode in two weeks time when the option gamma players will be done with the heavy quarterly option expiry Friday next week, awaiting some very bullish data due out in March from the US. But while Greece or other sovereign debt happens to be non event on an economical front, it was rather nasty on the equity indices point of view, and made investors run away waiting for some solid confirmation to jump back in. A couple more days of consolidation and we should be looking better, with some upside freedom on Friday in a week time once option expiries are behind us.

It is a year since the US S&P 500 closed at a cyclical low. The market's rebound has been impressive. In the past twelve months, the S&P 500 has risen by nearly 70%. The average gain in the first year of a stock market rally has been 44% based on those rallies that occurred around the time of the previous 13 US recessions. (12 of those rallies began before the recession ended, 1 began afterwards). However, the drop has been more than spectacular due to the deleverage and the need to cash in money as it was supposed to be king after Kerviel, Bearstearn, Lehman and Maddoff nightmares. The current cross road is just normal, the word bubble is still used on news paper every day, and precisely the reason why it should not happen anymore before long, and also the reason why the base of the current economical and financial recovery could well be solid enough to explain the end of the last 10 year bear market and the beginning of a long and healthy lasting one.

From Asia, we head this morning that China's trade surplus narrowed further to \$7.6bn from 14.2 in January because of soaring imports (in line with expectations). When compared with the same month last year, both exports and imports grew at a higher-than-expected rate, with the value of imports climbing 44.7%, reflecting growing domestic consumption on in mainland China. In Japan, Core machinery orders data showed a 3.7% drop in January. The result matched analysts' average expectations, but was below a 4.4% forecast drop reported by the Kyodo news agency.

Down today, with or without Portuguese auction probably gong fine this morning

	WTI	€/€	\$/¥	10 yr US	10 yr Euro	Basic	Energy	Finan	Health	Tech	Tel	Indus	Utilities	SOX	S&P	NAS	DOW	Close
Last	81,5	1,3596	90,08	3,69	3,13	-0,44	0,08	0,25	-0,05	0,35	1,20	0,70	-0,24	-0,21	0,17	0,36	0,11	US
Perf 1d %	0,00	-0,04	-0,11	-0,76 bp	-3,3 bp	-0,26	0,28	0,32	0,12	0,48	1,43	0,63	-0,27	-0,17	0,32	0,55	0,28	Europe

ECONOMIC DATA with impact

Portugal bond issuance (9h30 UK time)

Mortgage Applications (12h UK time) / previous was up 12% / the higher the better / minor

POSITIVE IMPACTS

DEXIA said it was **disposing of most of the shares in Assured Guaranty** it received for the sale of its U.S. bond insurer FSA / Dexia said that Assured Guaranty started a public offering of 16.4m shares owned by Dexia / Based on a closing price of \$20.98, the shares would be worth **\$344m**

STATOIL is **optimistic** about the progress of its Marcellus shale JV with Chesapeake Energy (CEO at the Cambridge Energy Research Associates' annual conference)

FRAPORT : Frankfurt airport **February passenger traffic -1%** (due to the pilot strike + storm Xynthia) **but cargo +30.1%**

FAURECIA said that One Equity Partners & Lee Gardner were **selling 4.8% of its capital** / They obtained a stake in Faurecia, as part of the acquisition of EMCON Technologies in Nov. / One Equity Partners keeps an 13% stake, subject to a 12-month lock-up to Feb. 8, 2011 / Free float will increase to 29.2%, with Peugeot remaining as the company's main shareholder with a 57.4% stake (From 70.85%)

FORTIS : **FY total gross inflows €15.8bn** (€16bn exp) / **Net €1.19bn** (€950m exp) / **DPS €0.08** (€0.10 exp) / **Proposes** a name change to "AGEAS" / Said market remained unpredictable & challenging

NATIXIS : Natixis Global AM is on the lookout for a **transformational deal to grow in Europe** outside of France / The deal would be on the kind of the merger of Credit Agricole and SGAM activities, but would unlikely be with a French partner (CEO)

MINERS : Brazilian iron ore producer **Ferrous Resources** plans for a London flotation that could be worth \$3 to \$4bn / The IPO could come as early as May (FT)

XSTRATA : Glencore said that current trading is in line with expectations and meaningfully ahead of the same period last year

NEGATIVE IMPACTS

E.ON : **FY revenue €81.82bn** (€84.3bn exp) / **Ebitda €13.53bn** (€13.4bn exp) / **Unchanged DPS at €1.5** (in line) / **Net debt end-Dec. €44.7bn / Sees 2010 Adj EBIT flat to 3% higher on year** (€11bn previously exp)

BARCLAYS (minor) would be seeking another **major U.S. acquisition** in retail banking that would add deposits and extend Barclays capital's presence in U.S / Not in talks with any U.S. businesses, and **no deal is imminent** (WSJ)

PHARMA : German Health Minister plans new legislation by the end of this year to force pharmaceutical companies & health insurers into talks aimed at **cutting drug prices** (Bild)

GSK said it **plans to cut prices** in middle-income nations

SWISS RE said its losses stemming from the recent **earthquake in Chile** are around **\$500m** & from winter storm **Xynthia** around **\$100m**

MUNICH RE pre-released **numbers on 2 Feb / Reiterated 2010 net profit target** of over €2bn despite Chile Quake & Xynthia storm / Reiterated **€5.75 DPS** / However said that 97% CR in 2010 will be difficult to reach / Will carefully consider further share buybacks

BNP is considering the sale of a **5-year bond issue** at around 115 basis points over swap (Reuters)

ACTELION : The FDA asked for more information on Zavesca in treating a rare neurological disease

TO BE NOTED : Banks in China issued around \$102.5bn of new loans last month, down nearly 50% from January due to tighter regulatory measures and the Lunar New Year holiday. The February figure is in line with the median economists estimate

	RESULTS	DIVIDENDS	EVENTS
Today	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) / Shire PLC (GBp 5,91) / Standard Chartered (\$0,497778) / 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	EU \		BBVA AGM / LG AGM
Monday	EU \ Altran Technologies / Bulgari / Seche Environnement	Seadrill (\$0,55)	
Tuesday	EU \ Zodiac sales		Inflation conf at Deutsche Bank / Industrial conf at Goldman Sachs

TRADING IDEAS

SELL BNP / CARREFOUR / AIR LIQUIDE / SCHNEIDER / ST GOBAIN / UNILEVER / LAFARGE / FRANCETEL toppish for now
SELL ALLIANZ / ZURICH FI / VINCI / PEUGEOT / STM to play double top possibility

BUY TOTAL / SELL BP // BUY ALSTOM / SELL SIEMENS // BUY GLAXO / SELL SANOFI // BUY NESTLE / SELL DANONE //
BUY INBEV / SELL HEINEKEN // BUY B SKY B / SELL PEARSON

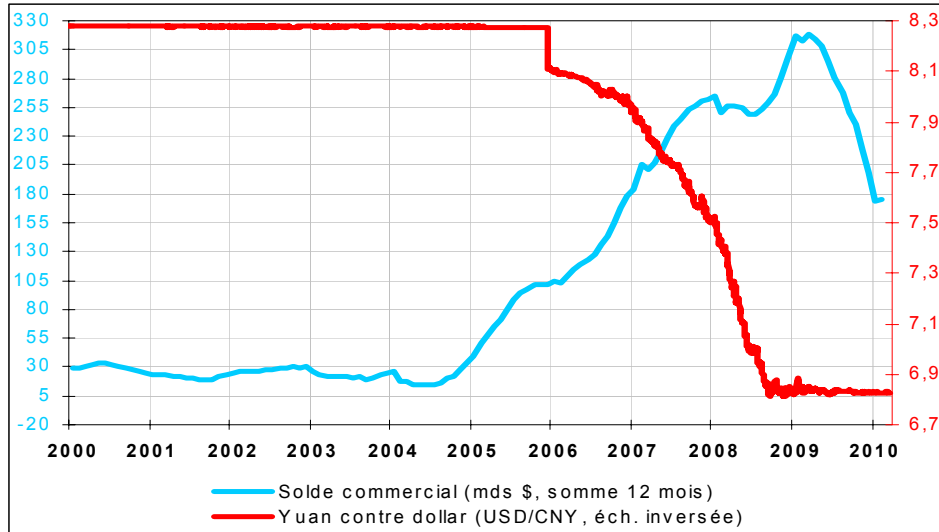
BROKER METEOROLOGY

SANDVIK..... RAISED TO BUY FROM HOLD BY CITIGROUP
PETROFAC RAISED TO BUY FROM HOLD BY RBS
WOLSELEY..... RAISED TO HOLD FROM SELL.....BY ING
BALOISE RAISED TO OUTPERFORM FROM MARKETPERFORM BY KBW
ING CUT TO MARKETPERFORM FORM OUTPERFORM BY KBW
HOLCIM..... CUT TO HOLD FROM BUYBY ING
LAFARGE..... CUT TO SELL FROM HOLD.....BY ING
SAINT GOBAIN..... CUT TO SELL FROM HOLD.....BY ING
Q-CELLS CUT TO UNDERWEIGHT FROM NEUTRAL BY HSBC

PLEASE FIND BELOW ON THE NEXT PAGE OUR MORNING ECO

CHART OF THE DAY

China net trade balance (bn/\$) and Yuan Since 2000



Sources: Bloomberg

China trade surplus narrowed from 14.17 billion dollars in January to 7.61 billion dollars in February as imports climbed led by domestic demand and capital spending. From a year ago imports reached 44.7% YoY and exports 45.7% YoY./JB

Time	Country	Indicator	Period	GE forecasts	Consensus	Previous
5.00 GMT	China	Trade balance	February		+\$ 7,15 bn	+\$14,17 bn
7.00 GMT	Germany	Trade balance	January		+€ 14,5 bn	+€ 13,5 bn
7.00 GMT	Germany	Consumer price index (final)	February		+0,2%,+0,4% YoY	+0,2%,+0,4% YoY
8.45 GMT	France	Industrial production	January	-0,5%,+1,1% YoY	+0,1%,+1,7% YoY	-0,1%,-2,3% YoY
8.45 GMT	France	Manufacturing production	January		+0,2% MoM	-0,8%,-2,0% YoY
9.30 GMT	United Kingdom	Industrial production	January		+0,2%,-0,8% YoY	+0,5%,-3,6% YoY
9.30 GMT	United Kingdom	Manufacturing production	January		+0,2%,+1,4% YoY	+0,9%,-1,9% YoY
12.00 GMT	United-States	MBA mortgage application	March 5th			14,6%
15.00 GMT	United-States	Wholesale inventories	January		+0,2%	-0,8%
19.00 GMT	United-States	Monthly budget balance	February		-\$222,0 bn	-\$42,6 bn

Indexes	Price	% 5 Days	Ytd
DJIA	10564,4	1,56%	1,31%
S&P 500	1140,5	2,03%	2,27%
Nasdaq	2340,7	2,65%	3,15%
CAC 40	3910,0	2,57%	-0,67%
DAX	5885,9	1,89%	-1,20%
Eurostoxx 50	2880,7	3,02%	-2,84%
DJ 600	256,7	2,52%	1,12%
FTSE 100	5602,3	2,26%	3,50%
Nikkei	10563,9	3,38%	0,17%
Shanghai Comp	3049,4	-0,13%	-6,95%
Sensex (India)	17141,1	1,67%	-1,85%
MICEX (Russia)	1412,6	4,15%	3,11%
Bovespa (Brasil)	69576,4	2,65%	1,44%

Forex	Price	% 5 Days	Ytd
EUR/USD	1,3597	-0,85%	-5,11%
EUR/JPY	122,44	-1,00%	-9,01%
USD/JPY	90,05	-1,84%	-3,41%
Oil	Price	% 5 Days	Ytd
Brent \$/b	79,3	0,42%	2,71%
Gold	Price	% 5 Days	Ytd
Gold \$/oz	1126,6	-1,17%	2,70%
Rates	USA	Euro	Japan
Central Banks*	0,25	1,00	0,10
Overnight	0,07	0,53	0,10
3 Months	0,15	0,28	0,20
10 Years**	3,69	3,13	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

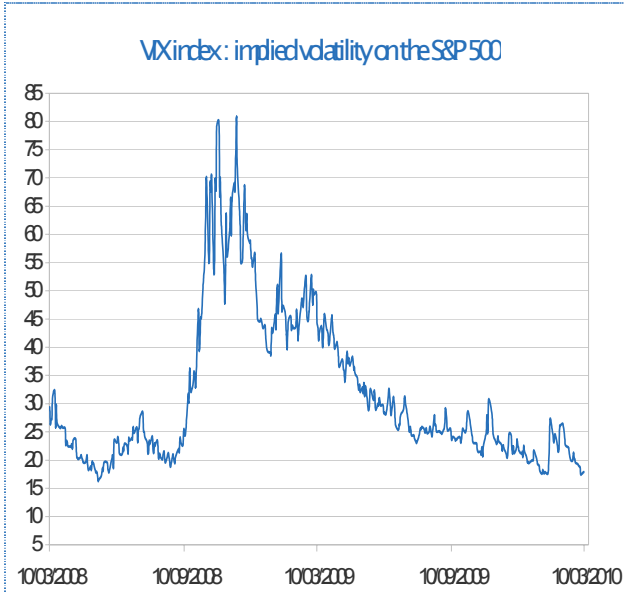
Watch in **GERMANY** the trade balance for January released at 7.00 GMT. German trade surplus is expected to rise from 13.5 bn euros in December to 14.5 bn euros in January as exports are boosted by the world trade recovery.

Watch in **FRANCE** the industrial production for January released at 8.45 GMT. French industry is already slowing down mainly because of the progressive removal of the cash for clunkers program. Consequently we forecast industrial production to decline by 0.5% in January. Meanwhile the production was back in positive territory at + 1.1% YoY for the first time since April 2008, due to a positive base effects as it sharply dropped in January 2009. /JB

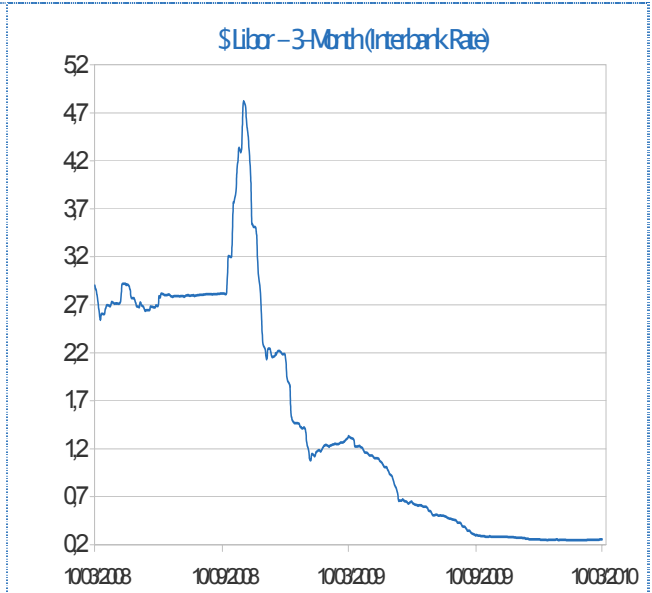
ECONOMY

FRANCE : THE TRADE DEFICIT NARROWED AGAIN IN JANUARY

After increasing in October and in November, the French trade deficit improved in December to 4.15 billion euros. For January the French external deficit improved again to 3.681 billion euros (forecast -4.0 billion). Indeed as the euro fell in January, exports which rose very slightly in December (+ 0.2%) improved significantly (+2.7%), an imports which decreased by 2.1%, were up by a small 0.9%. Nevertheless at the opposite of Germany France has some major structural issue hitting its foreign trade balance as products has a wrong geographic and sector specialization. /JB



Source : Bloomberg



Source : Bloomberg



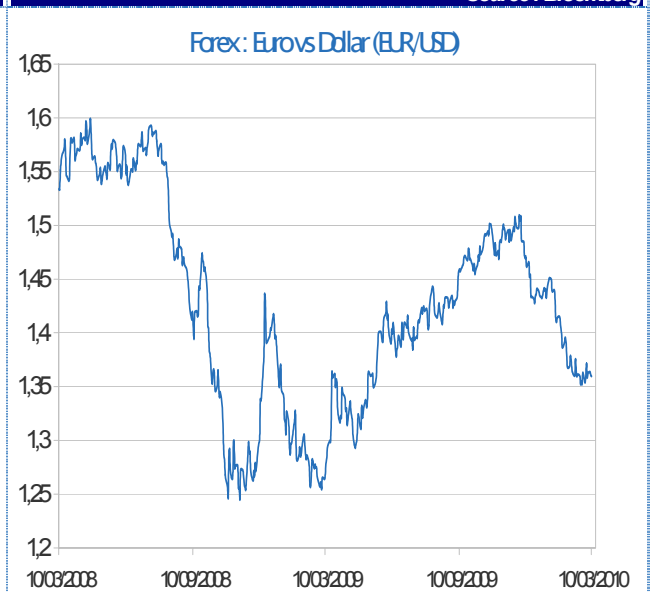
Source : Bloomberg



Source : Bloomberg



Source : Bloomberg



Source : Bloomberg