



March 8th 2010

GLOBAL EQUITIES

SUMMARY

Le WEEKLY

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Thoughts: The French and the Euro: Is it the divorce?

It's not really a surprise. The French have always been lukewarm toward the Euro. Already on Sept. 28, 1992 the "Yes" vote on the Maastricht Treaty narrowly won with a 51.08% score, a 538 000 vote margin at the time when the "No" vote camp was supported by small parties.

Then, surely blinded by the then prevailing economic growth of 1999/2000 and the fact that the French franc was still in circulation, the French didn't really pay attention to the creation of the Euro in January 1999. It's only in 2002, with the introduction of coins and notes denominated in Euro and the gradual removal of the national currency that the French started to turn against the single currency, firstly because of the issues linked to the forced conversion (just a reminder: in 2002, there were still a lot of people "thinking" in old franc, that existed prior to 1960), then the abusive rounding up of retail prices, hence the perception of higher inflation.

So to speak, from the onset of the Monetary Union, French quickly forgot the newly found stability on the foreign exchange markets, following years of speculation against the Franc and its subsequent devaluations, the ability to benefit from lower interest rates and the possibility of travelling within a 300 million inhabited economic zone without queuing to change currencies. One must admit that French politicians did everything to remind everyone that the euro was forced upon us and France had to obey European directives willingly or unwillingly and carry out some unwanted reforms. It's always so easy to lay the blame on somebody else!

Still, following 10 years characterized by a soft economic growth and a recession of historic proportions, the French have developed a new relationship to the Euro: regrets and even divorce! According to a poll by the French magazine Paris Match, 69% missed the Franc. For sure, this is only a survey and therefore has a limited value, but the size of this rejection is quite mind-boggling even worrying!

Yes, one of the reasons for the nostalgia, is stemming from the false idea that the conversion of the French franc into the Euro has led to a sharp rise in inflation. To be fair some sectors, such as the tourism industry or the restaurant trade did round up prices but looking at statistics, the analysis is quite different. From Jan. 2002 until Dec.2009, retail prices rose by 15%, i.e. 1.7% p.a. on average. During the 8 preceding years, those increases were 12% and 1.5% respectively. Actually, annual inflation amounted to 1.9% between 1990 and 2001 and 4.4% between 1980 and 2001. So stating that inflation accelerated with the arrival of the euro is nonsense.

But the uneasy feeling remains. Beyond the cold statistical figures which led the French to believe that those numbers may be biased here and in Europe, the real gap between those numbers and their perception is only the result of comparing personal income, that have been stagnating for most, to retail prices.

In other words, the real reason for this distrust is not to be found in an excessive inflation rate but in the fact that the implementation of the EMU has not been able to spurt a faster growth, i.e. higher long lasting employment and higher revenues. One can only adhere to the popular wisdom.

From 1980 until 2001, despite various crisis and speculative moves against the Franc, annual GDP growth reached an average of 2.2% but from 2002 onwards, that rate was cut to 1.1% And lets not throw the blame on the recent crisis, as the rate of growth for the pre- recession period from 2002 until 2008, was 1.6% only.


























































Similarly on the job market. From 1990 until 2001, the annual growth in salaried employment was 1.2% but it was cut down to a mere 0.1% between 2002 and 2009. In this environment, how can the French love the Euro?

For sure, the single currency is the perfect scapegoat, but some major errors, may they be political, monetary or budgetary, an excessive valuation of the Euro, sounded the death knell for a strong economic showing, which had already abandoned the French ship because of France's traditional structural rigidities. That's the real cost of the Euro! Feeling protected by the single currency, authorities have not been willing to engage in a badly needed major restructuring of the economy. This was (and is) the case not only here but also in other countries as well, starting with the Southern European countries.

Now we are facing a real challenge: either our politicians succeed in reforming our economies, leading to faster growth and lower unemployment, hence completing the construction of the Eurozone, by harmonizing our fiscal policies, and other regulatory aspects as well as a real federal budget, or they can't. Either the Eurozone will be saved or it will not survive beyond 2020.

Marc Touati

Economic data released this week:

Country	Event	Period	Actual	Prior	Climate	sum up
	US Personal income	January	+0,1%	+0,3 %		
	US Personal spending	January	+0,5%	+0,3 %		
	US Personal spending core	January	+0,0 %, +1,4 % YoY	+0,1 %, +1,5 % YoY		
	US ISM manufacturing	February	56,5	58,4		
	US Construction spending	January	-0,6%	-1,2 %		
	US Total vehicle sales	February	10,36 millions	10,82 millions		
	US ADP employment report	February	-20 000	-60 000		
	US ISM non-manufacturing	February	53,0	50,5		
	US Productivity in the non manufacturing sector (final)	4th quarter	+6,9 %	+6,2 %		
	US Unit labor costs (final)	4th quarter	-5,9%	-4,4 %		
	US Initial jobless claims	February 27th	469 000	498 000		
	US Continuing claims	February 20th	4 500 000	4 634 000		
	US Factory orders	January	+1,7%	+1,5 %		
	US Pending home sales	January	-7,6 %, +8,8 % YoY	+0,8 %, +9,2 % YoY		
	US Unemployment rate	February	9,7%	9,7%		
	US Change in nonfarm payrolls	February	-36 000	-26 000		
	US Change in manufacturing payrolls	February	+ 1000	+20 000		
	US Average hourly earnings	February	+0,1 %, +1,9 % YoY	+0,2 %, +1,9 % YoY		
	US Average weekly hours	February	33,8	33,9		
	US Consumer credit	January		-\$ 1,7 Mds		
	ZE PMI manufacturing (final)	February	54,2	54,1		
	ZE Unemployment rate	January	9,9%	9,9 %		
	ZE Consumer price index (first estimate)	February	+0,9 % YoY	+1,0 % YoY		
	ZE Producer price index	January	+0,7 %, -1,0 % YoY	+0,1 %, -2,9 % YoY		
	ZE PMI services (final)	February	51,8	52		
	ZE PMI composite (final)	February	53,7	53,7		
	ZE Retail sales	January	-0,3 %, -1,3 % YoY	+0,5 %, -0,5 % YoY		
	ZE GDP (preliminary)	4th quarter	+0,1 %, -2,1 % YoY	+0,1 %, -2,1 % YoY		
	ZE ECB announces rates	4 mars	1,00%	1,00%		
	Fr PMI manufacturing (final)	February	54,9	54,6		
	Fr PMI services (final)	February	54,6	54,7		
	All PMI manufacturing (final)	February	57,2	57,1		
	All Indice PMI des directeurs d'achats dans les services (final)	February	51,9	51,7		
	All Factory orders	January	+4,3 %, +19,6 % YoY	-1,6 %, +7,3 % YoY		
	UK Net consumer credits	January	+£ 0,5 Mds	+£ 0,3 Mds		
	UK M4 money supply (final)	January	+0,4 %, +4,9 % YoY	+0,6 %, +5,1 % YoY		
	UK PMI manufacturing	February	56,6	56,6		
	UK PMI construction	February	48,5	48,6		
	UK PMI services (final)	February	58,4	54,5		
	UK Official reserve assets	February	-\$ 314 millions	-\$ 250 millions		
	UK BoE announces rates	4 mars	0,50%	0,50%		
	JN Official reserve assets	February	+\$ 1051,1 Mds	+\$1053,1 Mds		
	JN Unemployment rate	January	4,9%	5,2 %		
	CH PMI manufacturing	February	52,0	55,8		

Markets:

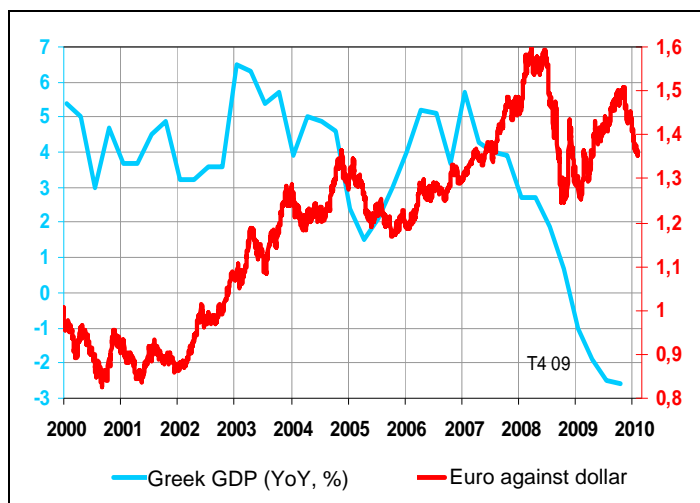
The € must to drop

\$ 1.45, 8 weeks ago, \$ 1.3480 on March 2nd, \$ 1.37 the following day. To be sure, the extreme volatility of the euro against the dollar is far from being over. In actual fact, depending on the vagaries of the Greek drama, markets' mood swings from depression to ecstasy within a few hours.

Due to the high level of uncertainty that surrounds the Eurozone, this strong volatility and the vigour of those speculative moves are unfortunately unavoidable. Nevertheless, it is necessary to take a step back and realize that should the Euro rise because of a solved Greek crisis, then this move will feed itself and start a new storm.

Let's not forget, that beyond the budgetary laxness and the "buddy buddy" arrangements on the Greek debt, the prime reason of this crisis was the collapse of the Greek economy and the burst in unemployment, which led Greece close to a major social crisis. All those events would not have taken place, had the ECB not raised rates in 2008 and insufficiently reduced them in 2009, hence a euro far too strong since 2007.

A strong Euro: the grave digger for Greece

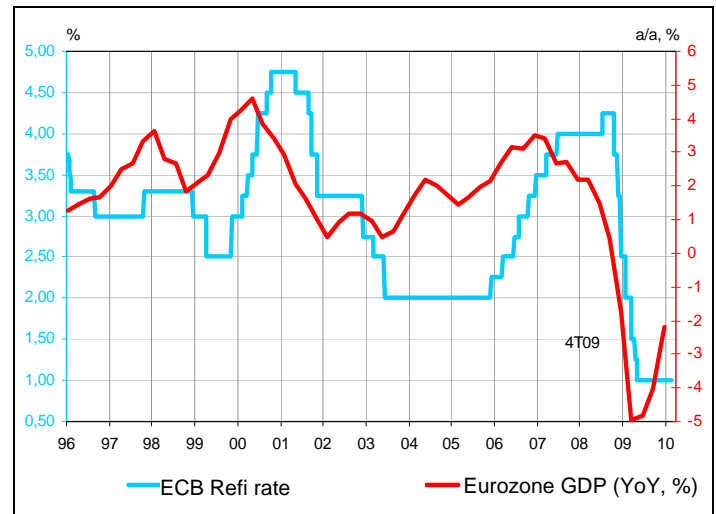


Sources : Eurostat & Bloomberg

So, if the Euro repeats the same move, the economic growth will turn negative, unemployment will grow larger, thus aggravating the level of deficits, which will raise further suspicion on Greece's ability to just cover its annual interest payments. Same cause, same effect. That's without mentioning the domino effect on a large part of the Eurozone, including France.

In other words, the decline in the value of the Euro is a must. But we cannot expect a new drop in refi rates by the ECB, so it will all depend once more on the American goodwill.

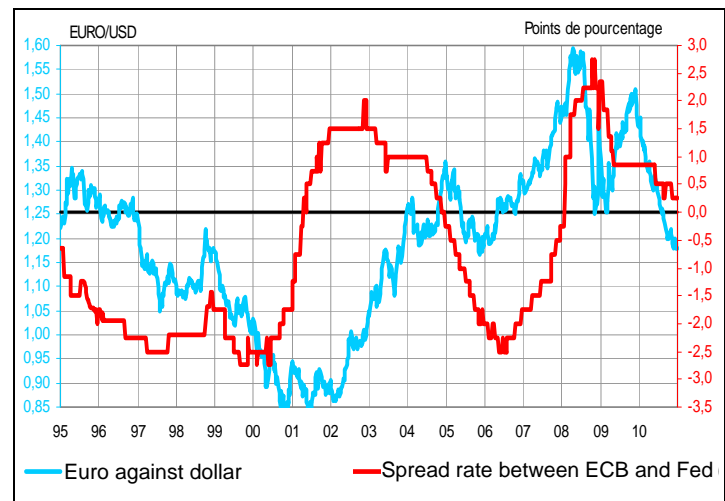
The ECB has to keep calm and stop fooling around with the economy



Sources : Eurostat & Bloomberg

Actually, in order to stop for once the upward temptation of the Euro, we need to recreate an even level between FED Funds and refi rates or possibly a positive spread. We have to hope that the ECB will keep calm and will not act to quickly in order not to hamper the economic growth. So the FED has to raise its FED Funds as the US economy gathers strength and unemployment drops, possibly as early as this month, and we now expect a tighter monetary policy starting next June.

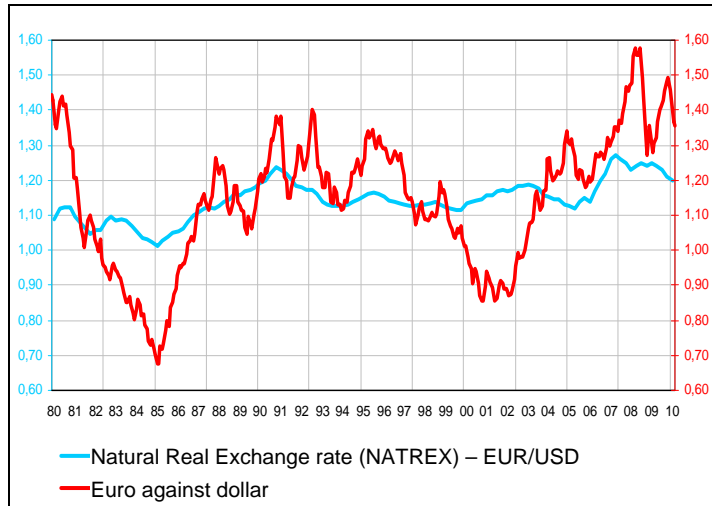
The FED to the rescue



Sources : Datastream

Then, the Euro will move by September 2010 towards its objective levels of \$ 1.15 on a purchasing power parity, and \$ 1.20 based on Natrex.

The overvaluation of the Euro has lasted for too long



Sources: Datastream, Calculation Global Equities

This justified depreciation will then enable the Eurozone’s economy and notably the Southern European countries, to grow faster. We must keep in mind, the austerity measures alone adopted by Greece will not solve Europe’s ill. The positives of fiscal measures and cuts in public spending will be wiped out by the negatives of a weak economy.

Even markets can figure that out. So a weaker Euro means a faster economy, a reduction in deficits, giving Greece a kiss of life and ultimately saving the Eurozone.

The ECB and European leaders could have succeeded a year ago. But because of a dose of dogmatism and a lack of will power, they didn’t do it and are now counting on the FED’s help. That’s the irony: the setting up of the single currency was supposed to free the Eurozone from the US leadership and actually it’s the reverse that’s happening!

Marc Touati

Economic events from March 8th to March 12th: A quiet week on both sides of the Atlantic.

In the United States : focus on Thursday on the trade balance for January, and on Friday on retail sales for February.

In France : the trade balance on Tuesday the industrial production on Wednesday.

Tuesday, March 9, 7:45 GMT: slight decline in the French trade deficit for January.

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 improve 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.

Wednesday, March 10, 8:45 GMT: French industrial production declined again in January.

After two consecutive declining months, French industrial production looked like recovering being up by 1.1% in November. Unfortunately, not only the progression of November was sharply revised downwards (precisely at 0.6%) but moreover, industrial production was down by 0,1% in December. Therefore industrial increased by only 0.1% in Q4. Just three quarters after getting out of the recession, 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.

Thursday, March 11, 13:30 GMT: slight increase in the US trade deficit in January.

After narrowing in October, the US trade deficit which increased to 40.18 billion dollars in December, should rise further in January. Indeed, as the dollar rose in January, exports which increased by 3.3% in December should slow down. Meanwhile imports which increased by 4.8% should remain strong, led as well be the consumption rebound.

Friday, March 12, 13:30 GMT: US retail sales are up again in February.

After having declined by 0.1% in December ending two consecutive rising months, US retail sales increased by 0,5% in January. Boosted by the rise in October (+ 1.2%) and in November (+ 2.0%), retail sales rose by + 1.85% in Q4.

For February, because of the rise in wages, retail sales should increase by 0.2%. Excluding transport, the rise should reach 0.3%.

Jérôme Boué

Global calendar of the statistics and economic events for this week:

Date	Time	Country	Event	Period	GE Forecast	Consensus	Prior
08/03/2010	00.50 am	Japan	Current account balance (adjusted)	January		+ ¥ 1249,5 bn	+ ¥ 1100,5 bn
08/03/2010	00.50 am	Japan	Trade balance	January		+ ¥ 152,9 bn	+ ¥ 631,2 bn
08/03/2010	5.30 am	Japan	Bankruptcies	February		-1,7%	-21,8%
08/03/2010	9.30 am	France	Bank of France business climate	February		104	104
08/03/2010	12.00 am	Germany	Industrial production	January		+1,2%,+0,8% YoY	-2,6%,-7,1% YoY
09/03/2010	1.01 am	United Kingdom	RICS house price balance	February		30%	32%
09/03/2010	6.00 am	Japan	Leading indicator (preliminary)	January		96,6	94,3
09/03/2010	6.00 am	Japan	Coincident indicator (preliminary)	January		99,6	97,4
09/03/2010	7.00 am	Japan	Machine tool orders (preliminary)	February			+189,4% YoY
09/03/2010	8.45 pm	France	Total trade balance	January	-€ 4 bn	-€ 4 bn	-€ 4,3 bn
09/03/2010	10.30 am	United Kingdom	Visible trade balance	January		-£ 7,0 bn	-£ 7,2 bn
09/03/2010	10.30 am	United Kingdom	Total trade balance	January		-£ 3,1 bn	-£ 3,2 bn
09/03/2010	4.00 pm	United-States	IBD/TIPP economic optimism	March			46,8
09/03/2010	11.00 pm	United-States	ABC consumer confidence	March 7th		-48	-49
10/03/2010	00.50 am	Japan	Machine orders	January		-3,5% MoM	20,1% MoM
10/03/2010	6.00 am	China	Trade balance	February		+\$ 7,30 bn	+\$14,17 bn
10/03/2010	8.00 am	Germany	Trade balance	January		+€ 16,1 bn	+€ 13,5 bn
10/03/2010	8.00 am	Germany	Current account balance	January			+€ 20,6 bn
10/03/2010	8.00 am	Germany	Consumer price index (final)	February		+0,2%,+0,4% YoY	+0,2%,+0,4% YoY
10/03/2010	9.45 am	France	Industrial production	January	-0,5%,+1,1% YoY	+0,2%,+1,7% YoY	-0,1%,-2,3% YoY
10/03/2010	9.45 am	France	Manufacturing production	January		+0,2% MoM	-0,8%,-2,0% YoY
10/03/2010	10.30 am	United Kingdom	Industrial production	January		+0,2%,-0,8% YoY	+0,5%,-3,6% YoY
10/03/2010	10.30 am	United Kingdom	Manufacturing production	January		+0,2%,+1,4% YoY	+0,9%,-1,9% YoY
10/03/2010	11.00 am	Italy	GDP (final)	4th quarter		-0,2%,-2,8% YoY	+0,6%,-4,6% YoY
10/03/2010	1.00 pm	United-States	MBA mortgage application	March 5th			14,6%
10/03/2010	4.00 pm	United-States	Wholesale inventories	January		+0,2%	-0,8%
10/03/2010	8.00 pm	United-States	Monthly budget balance	February		-\$202,0 bn	-\$42,6 bn
11/03/2010	00.50 am	Japan	GDP (final)	4th quarter		+1,0% QoQ	+1,1%QoQ
11/03/2010	00.50 am	Japan	GDP annualised (final)	4th quarter		+4,0%	+4,6%
11/03/2010	3.00 am	China	Consumer price index	February		+2,4% YoY	+1,5% YoY
11/03/2010	3.00 am	China	Retail sales	February		+18,3% YoY	+17,5% YoY
11/03/2010	3.00 am	China	Industrial production	February		+19,5% YoY	+18,5% YoY
11/03/2010	9.45 am	France	Central government balance	January		- € 140,0 bn	- € 138,0 bn
11/03/2010	9.45 am	France	Non-farm payrolls (final)	4th quarter		-0,4% QoQ	-0,4% QoQ
11/03/2010	2.30 pm	United-States	Trade balance	January	-\$ 40,3 bn	-\$ 41,0 bn	-\$ 40,2 bn
11/03/2010	2.30 pm	United-States	Initial jobless claims	6 March		450 000	469 000
11/03/2010	2.30 pm	United-States	Continuing claims	February 27th			4 500 000
12/03/2010	5.30 am	Japan	Industrial production (final)	January			+2,5%,+5,1% YoY
12/03/2010	5.30 am	Japan	Capacity utilization (final)	January			+1,4%
12/03/2010	9.45 am	France	Current account balance	January		-€ 3,9 bn	-€ 3,6 bn
12/03/2010	12.00 am	Zone euro	Industrial production	January		+0,7%,-1,6% YoY	-1,6%,-4,8% YoY
12/03/2010	2.30 pm	United-States	Retail sales	February	+0,2%	-0,2%	+0,5%
12/03/2010	2.30 pm	United-States	Retail sales less auto	February	+0,3%	+0,0%	+0,6%
12/03/2010	3.55 pm	United-States	Université de Michigan consumer confidence (preliminary)	March		74,0	73,6
12/03/2010	4.00 pm	United-States	Business inventories	January		+0,1%	-0,2%

Our economic and financial forecast for 2010.

	Real GDP growth				Inflation annual average				Unemployment rate annual average			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
US	2,0	1,1	-2,4	3,0	2,9	3,8	-0,3	2,4	4,6	5,8	9,3	9,2
Japan	2,1	-0,7	-5,0	1,5	0,1	1,4	-1,3	1,2	3,9	4,0	5,1	5,1
Eurozone	2,7	0,7	-4,0	1,5	2,1	3,3	0,3	1,3	7,4	7,6	9,4	9,6
Germany	2,5	1,0	-5,0	1,5	2,3	2,6	0,3	1,8	9,0	7,8	8,1	8,2
France	1,9	0,7	-2,2	1,5	1,5	2,8	0,1	1,3	8,4	7,8	9,5	9,6
Italy	1,7	-1,0	-4,9	0,9	2,0	3,5	0,8	2,0	6,2	6,8	7,8	8,2
Spain	3,8	1,1	-3,6	0,0	2,8	4,1	-0,3	2,0	8,3	11,3	18,0	18,5
UK	3,1	0,7	-4,8	1,4	2,3	4,0	0,9	2,2	5,4	5,6	7,5	7,3
World	5,0	2,8	-0,3	3,6								

	Key interest rates				10 years government bond interest rates				
	March 8th	in 3 months	in 6 months	in 1 year	March 8th	in 3 months	in 6 months	in 1 year	
United States	0-0,25	0,25	0,50	1,50	United States	3,70	3,90	4,30	4,50
Euroland	1,00	1,00	1,00	1,50	Euroland	3,16	3,60	4,00	4,30
United Kingdom	0,50	0,50	0,50	1,50	United Kingdom	4,08	4,10	4,30	4,50
Japan	0,10	0,10	0,10	0,10	Japan	1,33	1,50	1,70	1,90

	Exchange rates				International equities markets				
	March 8th	in 3 months	in 6 months	in 1 year	March 8th	in 3 months	in 6 months	in 1 year	
EUR/USD	1,366	1,32	1,27	1,20	Dow Jones	10,566	11,000	11,500	12,300
USD/JPY	90,30	95	100	110	Nikkei	10,586	10,800	11,000	11,500
EUR/JPY	123,34	125	127	132	Cac 40	3,919	4,100	4,350	4,500
EUR/GBP	0,90	0,87	0,85	0,82	Euro Stoxx 50	2,886	3,050	3,250	3,400

* Level at 9.30 am (Paris Time)



GLOBAL EQUITIES

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