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Market View

Analyst : Edward Keeling

European equity markets have opened broadly lower this morning amid weaker than expected German retail sales and following their lead from Asia overnight. German retail sales unexpectedly declined by 1.1% in November, behind economists' forecasts for a month on month rise of 0.2%. Asian investor sentiment was hit by news that the Chinese Central Bank took steps to tighten monetary policy and drain some excess liquidity from the system. In the US, equity markets finished broadly flat as weaker than anticipated US ISM non-manufacturing data and ADP employment data weighed on sentiment. However, there were some positive signals from the latest Fed minutes which suggested officials remain content with its current policy stance and that interest rates will remain at "exceptionally low levels for an extended period of time". As for today, the main economic release will be the Bank of England interest rate decision at 12:00 and US weekly jobless claims at 13:30. We expect the Bank of England Policy Committee will vote unanimously in favour of keeping interest rates at 0.5%. We also expect it will not announce any decision regarding the continuation of its asset purchase programme until the February inflation report is released. We believe the UK economy will lag Europe and the US due to its specific issues such as an indebted consumer and in particular the fiscal deficit. The level of Quantitative Easing applied to the UK economy is over 13% of GDP at this stage and the Government is running a budget deficit of over 12%. These levels are not sustainable next year and fiscal retrenchment will have to occur after the general election in early June. The UK consumer has continued to spend during the current downturn, but we believe the increase in the VAT rate to 17.5% on 1st of January, plus the prospect of higher taxes, will lead to lower consumer spending impacting on growth.

Tesco : Buy **Yesterday's Close** 412p **Price Target** 465p **Analyst : Stephen Taylor**

Sainsbury has issued a trading statement this morning covering its fiscal third quarter. The reported like for like sales that increased by 4.2% beating expectations of 3.5%. Total sales increased by 6.2%. As a result of the group's better than expected performance it said that it expects full year consensus earnings to move up a little. Like peers Next and Marks & Spencer have indicated over the last two days, Sainsbury too remains cautious about the outlook for the consumer in the UK. The group did point out however that sales in January had started well. Tesco remains our preferred UK retailer given its lower cost product offering and international exposure.

Persimmon : Buy **Yesterday's Close** 469p **Price Target** 560p **Analyst : Stephen Taylor**

Persimmon has issued a full year trading update covering 2009. During the 12-month period the group completed 8,976 new homes generating turnover of £1.4bn with 4,970 completed in the second half of the year. The group also noted that net debt over the year declined to c. £270m from £599m at the beginning of the year, highlighting the strength of its cash flow generation. Persimmon has also continued to invest in both its work in progress on new and existing developments and new land acquisitions. The group acquired 3,000 plots towards the end of 2009. In relation to 2010, Persimmon noted that forward sales are currently 40% ahead of last year at £640m. In the short-term the group remains cautious until mortgage availability and the general economy improves, however it continues to have confidence in the long-term future of the UK housing market.



International Equity Markets

Index	Value	1-Day	YTD
ISEQ	3,072	0.0%	3.8%
FTSE	5,530	0.1%	1.8%
Dow Jones	10,574	0.0%	1.4%
S&P	1,137	0.1%	2.0%
Nikkei	10,731	0.5%	1.3%
Stoxx 50	3,010	-0.1%	0.9%

Sector Performances

Sector	Index	1-Day	YTD
Construction	284	0.6%	2.1%
Technology	191	0.9%	2.7%
Oil & Gas	339	-0.1%	1.8%
Financials	230	0.4%	3.0%
Retail	241	-1.0%	-1.1%
Food & Drink	300	-0.5%	-2.2%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	83.2	1.7%	4.5%
Copper	349.5	2.4%	3.6%
Gold	1,138.4	1.8%	3.4%
Silver	18.2	2.1%	7.8%
Wheat	567.3	2.6%	3.6%
Cattle	86.0	-0.4%	-0.1%

Currency Exchange Rates

Currency	Index	1-Day	YTD
€/\$	1.441	0.3%	-0.5%
€/£	0.900	0.1%	-1.7%
£/\$	1.602	0.2%	1.3%
\$/JPY	92.325	0.7%	0.4%
€/JPY	133.030	1.0%	-0.1%
€/SFR	1.481	-0.3%	0.2%

5Yr Credit Spreads

Product	Index	1-Day	YTD
Invest Grade	64.2	-2.7%	-10.6%
High Yield	389.9	-1.8%	-9.1%
Financials	63.8	-3.5%	-12.7%
BoI	201.3	-12.4%	-16.3%
AIB	229.8	-8.4%	-14.8%
RBS	123.9	-5.2%	-9.3%

Money Market Rates

Rate	EUR	UK	US
Overnight	0.3%	0.5%	0.2%
3-Month	0.7%	0.6%	0.3%
1-Year	1.3%	1.0%	0.6%
2-Year	1.8%	1.9%	1.3%
5-Year	2.8%	3.3%	2.9%
10-Year	3.6%	4.1%	3.9%

Date	Company	Region	Event
07/01/2010	Caledonia Investments PLC	GB	TRADE
07/01/2010	EasyJet PLC	GB	TRAFFIC
07/01/2010	J Sainsbury PLC	GB	Q3 TRADE
07/01/2010	Hays PLC	GB	Q4 TRADE
07/01/2010	Rathbone Brothers PLC	GB	TRADE
07/01/2010	Apollo Grp	US	Q1
07/01/2010	Constellation Brands	US	Q3
08/01/2010	Finnair Oyj	FI	TRAFFIC
08/01/2010	Persimmon PLC	GB	TRADE
08/01/2010	Michael Page International Plc	GB	Q4 TRADE
08/01/2010	RAB Capital plc	GB	TRADE
08/01/2010	Restaurant Group Plc	GB	TRADE
11/01/2010	Austrian Airlines AG	AT	TRAFFIC
11/01/2010	Air Berlin PLC	DE	TRAFFIC
11/01/2010	Kazakhmys PLC	GB	MEETING
11/01/2010	ALCOA Inc	US	Q4
12/01/2010	Deutsche Lufthansa AG	DE	TRAFFIC
12/01/2010	Metro AG	DE	TRADE
12/01/2010	SAS AB	SE	TRAFFIC
12/01/2010	Debenhams Plc	GB	TRADE
12/01/2010	Xyratex Ltd	GB	Q4
12/01/2010	Signet Group PLC	GB	TRADE

Date	Event	Region	Estimate
07/01/2010	Retail Sales (MoM)	GE	0.30%
07/01/2010	Euro-Zone Consumer Confidence	EC	-16
07/01/2010	Euro-Zone Retail Sales (MoM)	EC	0
07/01/2010	Euro-Zone Economic Confidence	EC	90
07/01/2010	Euro-Zone Indust. Confidence	EC	-17
07/01/2010	Euro-zone Services Confidence	EC	-3
07/01/2010	Factory Orders MoM (sa)	GE	1.50%
07/01/2010	BOE ANNOUNCES RATES	UK	0.50%
07/01/2010	BOE Asset Purchase Target	UK	200B
07/01/2010	Initial Jobless Claims	US	440K
08/01/2010	Trade Balance	GE	12.5B
08/01/2010	Current Account (EURO)	GE	10.8B
08/01/2010	Imports SA (MoM)	GE	1.30%
08/01/2010	Exports SA (MoM)	GE	0.80%
08/01/2010	Wholesale Price Index (MoM)	GE	-
08/01/2010	PPI Input NSA (MoM)	UK	-0.20%
08/01/2010	PPI Output n.s.a. (MoM)	UK	0.20%
08/01/2010	Euro-Zone GDP s.a. (QoQ)	EC	0.40%
08/01/2010	Euro-Zone Govt Expend (QoQ)	EC	0.50%
08/01/2010	Euro-Zone Unemployment Rate	EC	9.90%
08/01/2010	Industrial Production MoM (sa)	GE	1.00%
08/01/2010	Change in Nonfarm Payrolls	US	0K

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