

Weekly Report

Who will save Greece?

The country of Adonis and Aphrodite is heavily under attack. Foreign powers have sent their god of war, Mars (Moody's), to trouble Greece's love affairs. But Aphrodite wouldn't have earned her reputation if she was not heavenly gifted. She succeeded at last to bewitch the Greek warrior Ares... The current situation is much more complex as it may concern not just Greece. Significantly, CDS spreads of Greek Government bonds jumped only, when consequences on peripheral bonds were feared and Moody's downgrade was raising concern about the eligibility of Greek bonds as collateral at the ECB, particularly in 2011 when stricter standard requirements will be applied. If Greece's debt should be downgraded further, we expect an extension of the relaxed eligibility conditions beyond 2010. Admittedly, Greece faces a challenging fiscal situation with the 2009 budget deficit anticipated to represent 12.7 % of GDP. Immediate freeze on public sector wages and higher excise taxes, which are called for by many observers, may be however difficult to enforce. On the positive side, the revival of global trade may lead to rebounding shipping revenues, which play an important role for Greece. Additionally, Greece has been less affected by the financial and real estate crisis than other European countries. While the fiscal situation is considered serious, the risk of default seems still very remote. The situation for the EU is double-edged: Officials know Greece affects the Eurozone, but at the same time Greece serves as an example of what happens to an undisciplined member. The EU will keep the pressure high, but intervene if necessary.

Foreign Exchange

The BoJ's quarterly "economic survey of enterprises in Japan" (Tankan) reflects the fragile state of the economy. Noteworthy is the fact that all large companies plan to cut their capital spending by an average of 13.8 % for the current fiscal year ending March 2010, which even exceeds the 10.8 % decrease mentioned in the previous report. This could additionally signal that deflationary pressures will not alleviate in the foreseeable future. Businesses have also lowered their forecasts for sales and current profits in 2HFY09 in comparison to the September Tankan. Striking was the fact that small companies in non-manufacturing sectors expect the economy to worsen over the coming months, which may have been the result of the removal of the stimulus measures implemented by the Aso administration. Some of the initiatives have however been reinstalled last week. This survey supports our view that the Japanese economy is set to slow down in the first half of 2010. No change in the policy rate is therefore anticipated. If not for carry trade, but on fundamentals, the JPY should weaken.

	Short-term trend	Last
EURUSD	↓	1.4651
USDCHF	↑	1.0320
USDJPY	↑	88.604
GBPUSD	→	1.6307

Fixed Income

Yields continued the upwards trend despite fears for sovereign downgrades across the Eurozone and a critical Dubai situation. Since the surprising employment report at the beginning of December, investors appear to focus on recent economic strength and its implication on monetary policy. Meanwhile, another key statistic showed unexpectedly a significant development: retail sales reached for the first time since August 2008 growth territory again. Importantly, consumption increased also excluding automobile sales, demonstrating that recent strength can not be attributed to car incentives alone. In fact, most core categories showed strength, including department store sales, electronics, restaurants and online sales. Easier comparisons certainly also helped. Holiday sales may well perform better than originally thought and could even result in a slight gain versus the minus 1 % expected. A marked improvement in consumer sentiment supports that view. Encouragingly, respondents were more optimistic about the economy and current personal finances. Discounting may have lifted the "buying conditions for durables" index.

	Forecast end 10	Last
US 10y T %	4.80	3.54
Fed funds	2.25	0-0.25
Bund 10y %	4.00	3.18
ECB rates	1.50	1.00

Stocks

FedEx (FDX) pre-announced F2Q EPS of \$ 1.10, which was noticeable stronger than the previous guidance of \$ 0.65-0.95, but also than the consensus of \$ 0.85. The management cited better-than-expected growth in FedEx International Priority and FedEx Ground volumes, coupled with the benefits of continuing cost control programs for this positive surprise. FDX specified that y-y growth in the US overnight express and International Priority services increased each month during the quarter, which was attributed to inventory restocking, but also successful sales efforts, hinting to market share gains. The company seems also to benefit disproportionately from a dynamic economic environment in Asia and Latin America. We consider the stocks has still upside potential (price target \$ 100). Inditex (ITX SM) posted an unexpected 3Q profit. Sales, excluding currency fluctuations, rose 9 % and same store sales appear to have increased at the beginning of 4Q, which would be the first increase on that basis since one year. Gross margins increased 50 bps. Importantly, inventory was tightly managed. Price target EUR 49.

	Forecast end 10	Last
S&P 500	1230	1113
NASDAQ	2200	2450
DJ STOXX 600	270	247
SMI	7000	6433