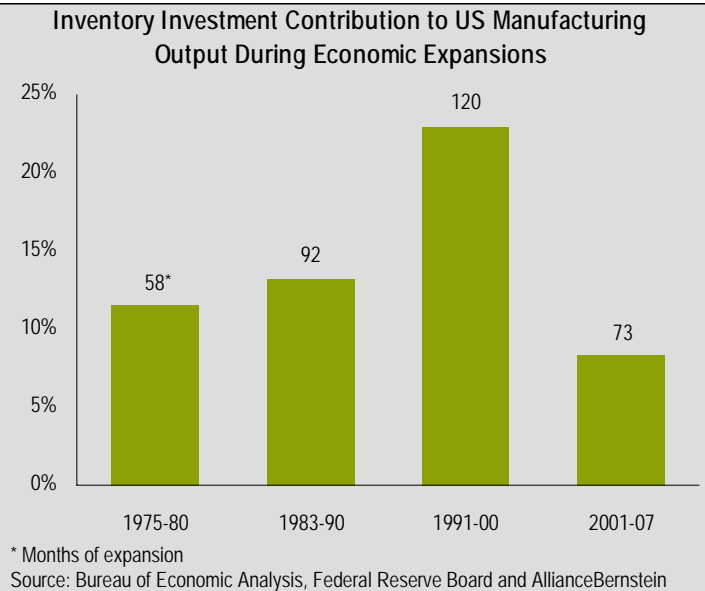


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January 22, 2010

**World Summary:** Global stock markets finished lower this week [DJI: -5.0% NASD: -4.8% DAX: -3.1% NKY: -3.6% HS: -4.3% BVSP: -4.0%]; one-week performance as of 4:00 pm]. The US dollar appreciated against the Euro and depreciated against the Yen. Non-energy commodity prices were overall lower with metal prices down 2.4% and ag prices down 0.6%. Gold fell 3.3% and settled at \$1094 per ounce. WTI crude fell to \$72 per barrel.

**United States:** Q4 real GDP probably rose 4% to 4.5%, recording its strongest quarterly gain since Q1 2006. Although we expect solid gains in exports and business spending on equipment and software the largest contribution will come from inventory investment. We estimate that the pace of inventory liquidation slowed dramatically in the last quarter and the shift in the inventory cycle could have lifted real GDP by about 3 percentage points. Although that contribution is relatively large it is important to realize that non-farm inventories still contracted in Q4 and the process of rebuilding is still ahead. The potential lift from inventory rebuilding depends on the strength and length of the business cycle, and we are adding a lot in 2010.



**Emerging Markets:** Brazil's finance ministry intends to lower some import tariffs and reiterate a commitment to a 3.3% primary fiscal target as a means of holding inflation down. We think the measures should help domestic rates, although some rate hikes are almost certain this year, in our view. Argentina's December fiscal surplus was around 1%, but subtracting some one-off measures gives a figure slightly negative, showing that fiscal strains remain. China's 4Q/09 GDP came in a touch stronger at 10.7% y/y, resulting in full-year 2009 GDP at 8.7%. We expect growth will improve to 10.2% in 2010 underpinned by a full-scale export recovery and firmer consumption growth. Fixed asset investment growth will slow from last year's frenetic pace but should stay solid at around 25%.

**U.S. High Yield:** The high yield market was lower for the week (-0.18%). Volatility, as measured by the VIX, reversed trend and rose significantly to 24. CCC (-0.54%) credits under performed BB (-0.02%) credits. Electric Utilities (-0.71%) and Paper (-1.32%) were the worst performing sectors, while Pipelines (+1.08%) was the best performing sector. Fund inflows totaled \$554 million. Seven deals priced this week for \$4.50 billion.

**Europe:** The euro area manufacturing PMI rose to 52.0 in January from 51.6 in December. The details were good, with the output component increasing to 55.8 and orders up to 55.0. Moreover, with the inventories reading still low (44.4), the orders-to-inventories ratio remained at a high level, pointing to further near-term strength in the headline index. By contrast, the services PMI was disappointing, at 52.3 from 53.6, pushing the composite PMI down to 53.6 from 54.2. However, this is still consistent with qoq GDP growth of 0.4 to 0.5%.