

Pan European Weekly

Weekly Commentary

16 January 2012

Overview

- European stocks rose last week, as Italian and Spanish debt auctions at lower yields eased concerns in the Continent. But gains were pared sharply after Standard & Poor's cut the credit ratings on nine European countries including France, Italy and Spain, leaving only four triple-A nations in the currency bloc.
- German growth cooled to 3% in 2011, dragged down by a contraction in the fourth quarter.
- Inflation accelerated in Germany and France, but slowed in Spain in December. In the UK, house prices climbed to an eight-month high, whereas producer prices fell unexpectedly. Both the European Central Bank and the Bank of England left interest rates unchanged, amid tentative signs of respite from the sovereign debt crisis.
- November economic data were mixed. Eurozone exports improved, led by France and the Netherlands, thanks to the weaker euro. But factory output suffered its first decline in almost two years, dragged down by Spain. Meanwhile, unemployment worsened in Italy and Spain.

Sector News

Consumer Goods: Swiss chocolate maker **Barry Callebaut** acquired Spanish La Morella Nuts to add to its portfolio of products. UK homebuilder **Persimmon** continued to see growth in house sales volumes and improving margins, resulting in a net cash position.

Consumer Services: UK retailer **Tesco's** Christmas trading update was dominated by a more challenging domestic backdrop. Although underlying group sales excluding petrol was buoyed by the international businesses, like-for-like sales in the country declined.

Financials: Spanish banking group **BBVA** included goodwill charges from its 2007 acquisition of US bank Compass, which should improve its core capital ratio because of the tax treatment of goodwill and does not affect its cash flow.

Health Care: In the UK, **AstraZeneca** reaffirmed its full-year earnings guidance. **Dechra Pharmaceuticals**, in its six-month trading update, reported good growth in the veterinary products segment, while its services unit remained resilient despite increased competition.

Industrials: In full-year results and trading updates, Germany's **GEA** expects results at the upper-end of forecasts due to better-than-expected orders in the final quarter. In

the UK, **TT Electronics** expects full-year results to improve significantly from 2010; **XP Power** warned of soft bookings and customer demand in the final quarter due to global uncertainty; **Interserve** expects earnings to be in line with estimates; while **Fenner** recorded solid growth across all divisions, despite slower growth in advanced engineered products due to destocking by distributors. In contract wins, UK defence equipment maker **Chemring's** Italian subsidiary Simmel Difesa was awarded an extension to a contract delivering 81 million pyrotechnic illumination mortar rounds until 2014. Construction company

Keller secured a contract with Bechtel Australia for piling installation. French manufacturing company **Mersen** won a contract with Siemens Energy to develop green energy sources in the North Sea. Sweden's **Atlas Copco** purchased Perfora, the leading drilling and cutting-equipment maker.

Real Estate: UK property developer **Development Securities** released an upbeat trading update with good progress in several projects.

We hold all the companies highlighted above.

Indices Performance Table

INDEX	WOW	YTD	WOW (US\$)	YTD (US\$)	13/01/2012
FTSE All Share	0.1%	1.5%	-0.7%	0.1%	2899.9
FTSE 100	-0.2%	1.2%	-1.0%	-0.2%	5636.6
FTSE 250	2.1%	3.5%	1.2%	2.1%	10457.7
FTSE 350	0.1%	1.5%	-0.8%	0.1%	2968.4
FTSE Small Cap	2.0%	2.3%	1.1%	0.9%	2812.3
FTSE Europe	0.7%	1.4%	0.2%	-0.7%	292.3
FTSE Europe ex UK	1.2%	1.6%	0.9%	-0.8%	263.3
Germany - DAX	1.4%	4.1%	1.1%	1.9%	6143.1
France - CAC 40	1.9%	1.2%	1.5%	-1.0%	3196.5
Spain - IBEX 35	1.9%	-1.4%	1.6%	-3.5%	8450.6
Italy - FTSE MIB Index	2.5%	-0.5%	2.2%	-2.9%	15011.1
Netherlands - AEX	-0.6%	-1.0%	-0.9%	-3.2%	309.3
Portugal - PSI 20	-2.1%	-0.3%	-2.5%	-2.4%	5479.6
Ireland - ISEQ	1.4%	1.0%	1.0%	-1.2%	2929.4
Switzerland - SMI	-0.3%	1.0%	0.0%	-0.5%	5996.3
Sweden - OMX 30	0.7%	2.1%	-0.6%	0.2%	1009.0
Denmark - OMX 20	0.7%	2.9%	0.3%	0.6%	401.2
Finland - OMX 25	0.9%	3.4%	0.0%	1.1%	2007.1
Norway - OBX	0.3%	2.1%	-0.5%	0.5%	365.1
FTSE EPRA	2.0%	-0.5%	1.7%	-2.6%	1212.21
FT350 Real Estate	2.0%	0.6%	1.1%	-0.7%	316.25

Source: Aberdeen Asset Management, Bloomberg, Reuters, IRESS

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