

Pan European Weekly

Weekly Commentary

30 January 2012

Overview

- European shares were mixed last week as disappointing US economic data could lead to slower growth in the Continent's largest export market.
- Britain's GDP contracted in the final quarter of 2011, raising fears of a double dip recession. The central bank governor warned of further economic weakness and the need for banking and supply-side reforms, which could pave the way for more quantitative easing.
- Spain's fourth-quarter unemployment rate rose to 22.9%, the highest in 15 years.
- Fitch cut the credit ratings for Italy, Spain, Belgium Slovenia and Cyprus because of financing inflexibility amid the regional debt crisis. Meanwhile, Standard & Poor's reaffirmed the EU's long and short-term issuer credit ratings, but it came with a negative outlook because of ongoing sovereign debt risks.
- Germany's purchasing managers' index (PMI) for both manufacturing and services rose in January. In France, the services PMI climbed but manufacturing dipped.
- Greece rejected Germany's call for Athens to cede sovereignty over tax and spending decisions to a Eurozone "budget commissioner" in return for the next bail-out.

Sector News

Basic Resources: **BHP Billiton** received conditional approval to expand capacity at its harbour in Western Australia to boost iron ore exports to China. **Rio Tinto** became the major shareholder of Canada's Ivanhoe Mines, which has expanding gold and copper assets in Asia.

Consumer Goods: **GKN** ended its joint venture in Thailand but will continue operations in the country. **AG Barr** had a strong final quarter with sales rising 12%. **Barry Callebaut** signed a long-term contract with **Unilever**, which will double its volume and supply 70% of the latter's global cocoa and chocolate needs. **Hornby** warned that lacklustre Christmas sales would hurt full-year profits. Although **PZ Cussons** half-year results reflected good revenue growth, it suffered margin pressure from high raw materials costs.

Financials: **Nordea Bank's** fourth-quarter profits rose by 2.1% as higher income compensated for bad loans.

Industrials: Morgan Sindall won several Scottish public sector projects. **Ultra Electronics** will supply **Rolls Royce** with reactor control systems for Royal Navy submarines. **Chemring's** full-year earnings improved despite narrower margins; it proposed a larger dividend payout and a share buyback. **RPC's** third-quarter trading was boosted by organic sales growth and the acquisition of Superfos. **Weir** will pay US\$176 million to acquire Novatech, a US manufacturer of pump valves for upstream oil and gas applications, which has also been its long-standing supplier.

Pharmaceuticals: Novartis posted decent full-year results with healthy cash flow despite lower sales of its pandemic flu vaccine. **Roche's** hostile bid for leading DNA-sequencing

technology provider Illumina, triggered a shareholder rights plan to oppose the offer. Elsewhere, Roche's study on the use of Avastin for the treatment of colorectal cancer was positive.

Technologies: Aveva saw healthy demand for its products in the oil and gas sector, while its enterprise solutions business secured several important contracts. Despite the challenging economic environment of its European customers, **Sage's** trading met our expectations.

Telecoms: Ericsson's fourth-quarter earnings were worse-than-expected because of margin dilution in Europe and delayed investment in its network.

We hold all the companies highlighted above.

Indices Performance Table

INDEX	WOW	YTD	WOW (US\$)	YTD (US\$)	27/01/2012
FTSE All Share	0.1%	3.5%	1.2%	4.9%	2958.9
FTSE 100	0.1%	2.9%	1.2%	4.2%	5733.5
FTSE 250	0.3%	7.4%	1.4%	8.8%	10854.7
FTSE 350	0.1%	3.5%	1.2%	4.8%	3027.3
FTSE Small Cap	1.4%	6.6%	2.5%	8.0%	2931.5
FTSE Europe	0.3%	4.5%	1.6%	5.7%	301.1
FTSE Europe ex UK	0.4%	5.3%	2.0%	6.7%	272.9
Germany - DAX	1.7%	10.4%	3.6%	12.2%	6512.0
France - CAC 40	-0.1%	5.0%	1.8%	6.8%	3318.8
Spain - IBEX 35	1.1%	1.1%	3.0%	2.7%	8657.3
Italy - FTSE MIB Index	2.0%	5.7%	3.9%	7.1%	15946.9
Netherlands - AEX	-0.3%	2.2%	1.6%	3.9%	319.4
Portugal - PSI 20	-0.9%	-1.1%	0.9%	0.6%	5434.9
Ireland - ISEQ	0.1%	3.6%	1.9%	5.4%	3007.5
Switzerland - SMI	-1.5%	1.6%	0.5%	4.2%	6033.5
Sweden - OMX 30	0.8%	5.4%	1.1%	7.2%	1041.4
Denmark - OMX 20	-0.1%	3.8%	1.8%	5.6%	405.0
Finland - OMX 25	-0.8%	9.0%	1.1%	10.8%	2117.3
Norway - OBX	0.8%	2.9%	2.7%	5.6%	368.0
FTSE EPRA	0.5%	5.3%	2.3%	7.0%	1282.07
FT350 Real Estate	0.2%	7.0%	1.3%	8.4%	336.12

Source: Aberdeen Asset Management, Bloomberg, Reuters, IRESS

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