

Global Equity Strategy

STRATEGY

Research Analysts

Andrew Garthwaite
44 20 7883 6477
andrew.garthwaite@credit-suisse.com

Luca Paolini
44 20 7883 6480
luca.paolini@credit-suisse.com

Marina Pronina
44 20 7883 6476
marina.pronina@credit-suisse.com

Mark Richards
44 20 7883 6484
mark.richards@credit-suisse.com

Sebastian Raedler
44 20 7888 7554
sebastian.raedler@credit-suisse.com

Currency and equity investment implications

Buy the NOK: Norway is the only OECD country with both a current account and a budget surplus (both are huge) and it has low leverage. The NOK is 10% undervalued on PPP against the Euro – and with just 3% unemployment and house prices above previous peak, Norway is leading the rate cycle. The NOK offers a commodity hedge (energy exports are 60% of total exports) and the NOK is 15% cheaper than AUD. Buy: domestic Norway, especially DnB.

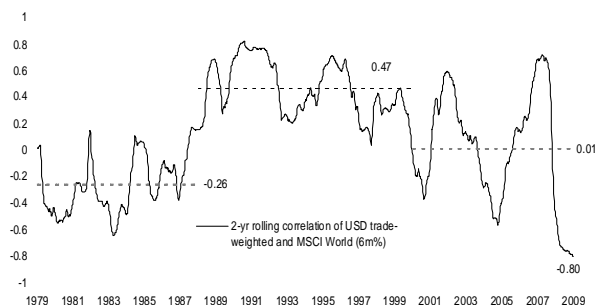
Buy Non-Japan Asian currencies: they look 30% undervalued against the dollar (particularly the KRW and TWD), although the region has vastly superior fundamentals (double the GDP growth and a third of the government debt levels of developed markets, a current account surplus of 4% of GDP). The RMB will appreciate sharply when China decides it has an inflation problem. Credit Suisse expects CPI to go to 5.1% by year-end (from 0.6% now), thus a crawling peg could re-emerge earlier than expected. Buy: domestic NJA, especially consumer focussed stocks (Swatch, Richemont, Yum Brands, STAN). A third of PC sales and 40% of handset sales are to NJA; so tech should benefit.

Sell sterling against dollar: the UK has a worse fiscal position, more overvalued housing and a more over-leveraged consumer than the US and thus we believe sterling should be 10% cheap against the dollar (£/\$1.38). Buy: Meggitt, Autonomy; sell retailing. (Our FX team are more optimistic on Sterling).

Sell Yen against dollar: the CDS spread in Japan has doubled since mid-09, and we believe the Yen has to act as a safety valve (with net foreign assets nearly half of GDP); the Yen is 25% overvalued on PPP (marginally more than its norm) and policy makers (BoJ/Kan) are no longer tolerant of Yen strength. Buy cheap exporters (Eisai, Nitto Denko, Konica Minolta). Warning: historically, 77% of the time the Yen weakens, the Nikkei underperforms in dollar terms.

We think the dollar should be range-trading against the Euro near term. If we get the government bond funding crisis, we think the dollar will weaken again (though less so than sterling). **Can commodities rise when the dollar strengthens?** Yes, they do 25% of the time. **Can equities rise when the dollar strengthens?** Yes, 70% of the time since 1980. If dollar strength is a function of stronger US growth and doesn't lead to the ECB raising rates, both equities and the dollar can rally.

Figure 1: Historically, a stronger dollar is not always negative for equities



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We like NOK, and are short GBP & JPY

We did not discuss currencies in our 2010 outlook – and will therefore address some of the issues here. We stress that these are the opinions of the global equity strategy team. We highlight where our view differs from the Credit Suisse FX team, headed by Ray Farris.

There are in our opinion four obvious trades in the currency market.

1) Long NOK versus Euro

We like the Norwegian Krone for five main reasons:

1) Norway has the best balance sheets of any country

Norway is the only developed economy that has both a large current account and budget surplus (Figure 2). Given our belief that sovereign risk is going to rise this year, we also like the fact that it is relatively underleveraged (Figure 3).

Figure 2: Norway has a budget and a current account surplus

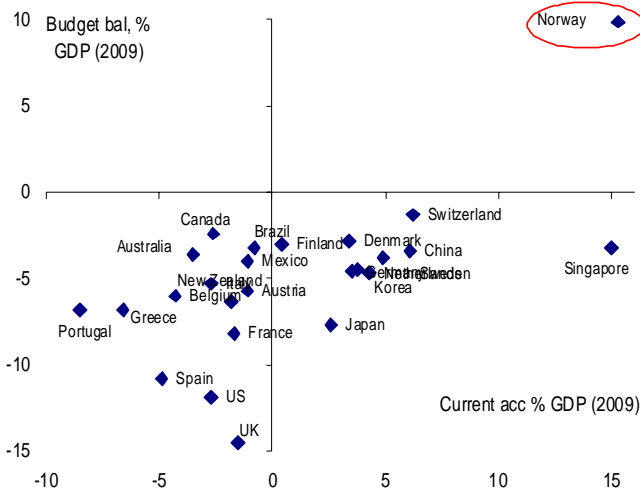
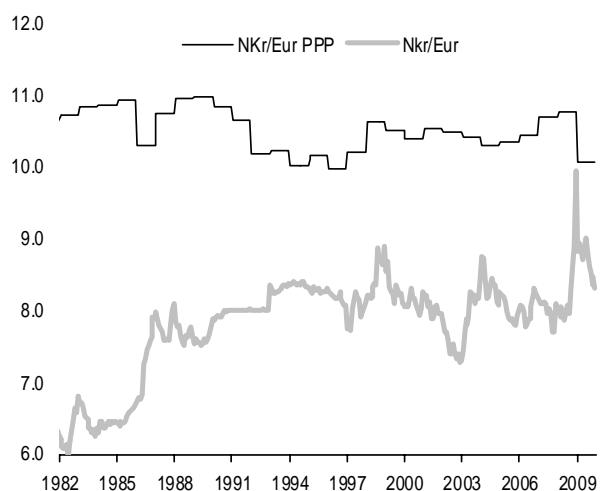
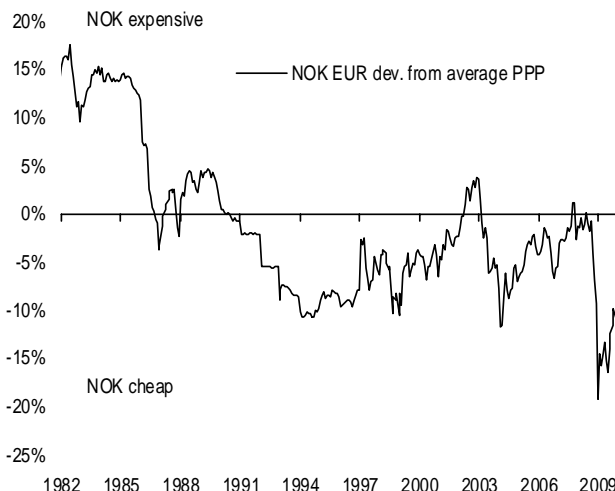


Figure 4: Norwegian Krone versus the Euro



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Figure 5: The Norwegian Krone is 10% cheap against the Euro on PPP



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We would also note that the Norwegian Krone looks, on our FX team’s model, about 15% cheap relative to the Australian dollar and the New Zealand dollar.

3) Norway is leading the monetary tightening cycle

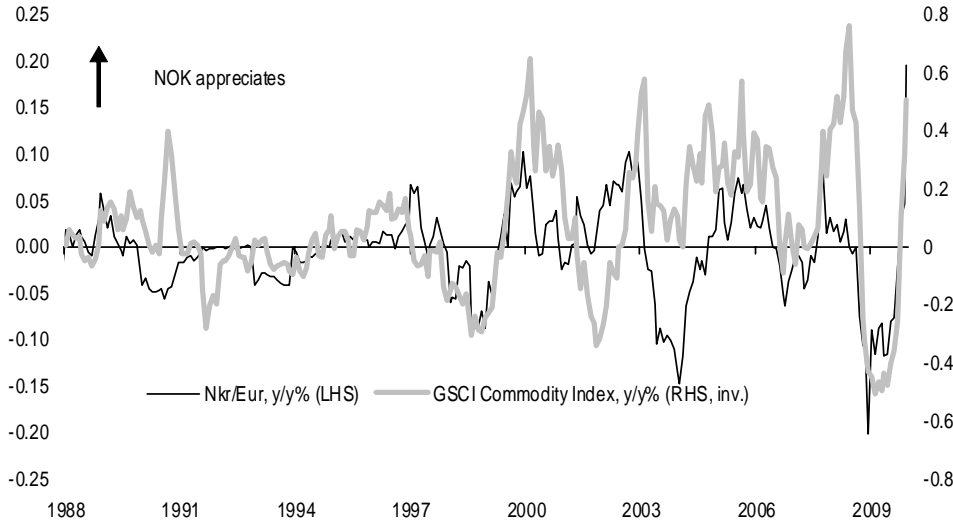
Norway is one of the few countries to have raised rates (by 50bps since October). This is due to a combination of the unemployment rate being just 3%, wage growth of 3.4%, house prices up 11% from the low (and now being at an all-time high) and an output gap of 1% for 2010 on OECD estimates (compared to 3.9% in the US and 4.5% in the Euro-area).

With the unemployment rate ultimately driving rate decisions (which in turn are the major drivers of currency movements), we believe, along with our economists, that Norwegian rates will be 2.5% by the end of this year, compared to only 1.5% in the US and 2% in Europe. It is quite easy to see rates rising even more than this.

4) The NOK is a play on commodity prices – which we expect to rise further

Norway benefits from the rise in commodity prices, with oil and gas exports accounting for around 60% of total exports and for around 20% of GDP.

Figure 6: NOK is a play on rising commodity prices



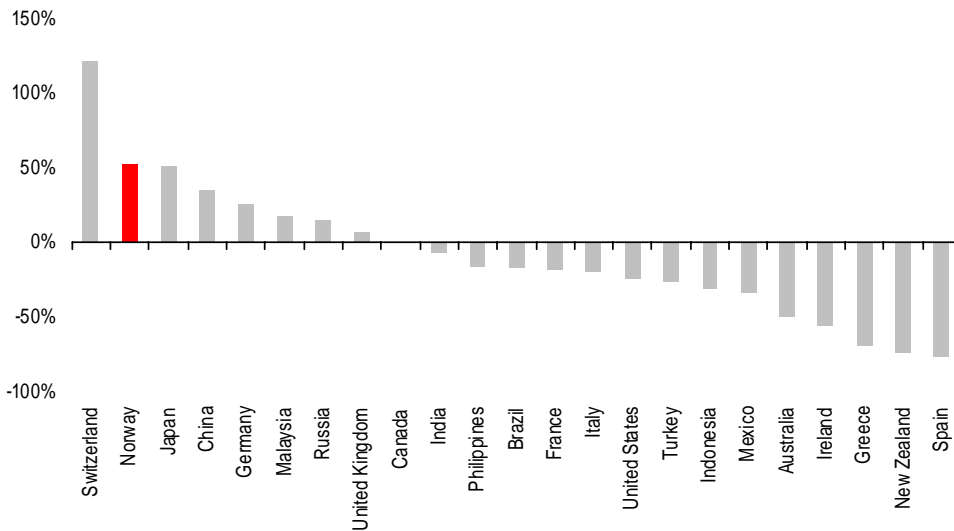
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5) The NOK is supported by a huge pool of foreign assets that can be easily repatriated

Norges Banks (the state manager of Norway’s oil revenues) has \$460bn of assets under management. If, for whatever reasons (such as a collapse in the oil price), the Norwegian Krone came under pressure, the Norges Bank could repatriate overseas assets to Norway which would end up providing some degree of support to the currency. We have seen something similar in Japan after the Kobe earthquake in January 1995, when the repatriation of Japanese capital for the rebuilding effort led to a 18% rally in the Yen in just four months.

Norway is also one of the biggest foreign creditors among big economies, with net foreign assets at 50% of GDP – which again offers protection against the chance of unforeseen events putting downward pressure on the Krone.

Figure 7: Norway is the second biggest net external creditor among big economies, relative to the size of its GDP



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How to play NOK appreciation?

The obvious play is to buy domestic Norway. We would highlight DnB NOR. Our analyst, Andreas Hakansson notes that DnB combines an attractive exposure to Norway (c90% of profits) with a Price/NAV of 1x - a meaningful discount to Nordic and European banks which trade on around 1.4x. Following the Q4 rights issue, DnB NOR is one of the better capitalised banks with a core Tier 1 ratio of 9.9% and the proposed Basel III rules will not have a major impact on DnB.

The stocks below are domestic plays on Norway. Of these, Storebrand is cheap on HOLT.

Figure 8: Domestic Norway plays

Name	Foreign Sales, %	-----P/E (12m fwd) -----			----- P/B -----		Yield (2010e)		HOLT	Momentum		Consensus (buy less holds & sells)	Credit Suisse rating
		Abs	rel to Industry	rel to mkt % above/below average	Abs	rel to mkt % above/below average	FCY	DY	Price, % change to best	3m EPS	3m Sales		
Dnb Nor Asa	6%	12.3	88%	60%	1.1	3%	n/m	2.6%	-27.5	8.9	0.8	73.9	Outperform
Storebrand Asa	10%	10.0	103%	6%	1.1	-24%	n/m	2.9%	3.0	1.5	NM	37.5	NR
Songa Offshore Cyp	0%	4.2	25%	n/a	8.4	n/a	n/a	0.0%	n/a	-7.5	0.6	42.9	NR
Sparebank 1 Smn	0%	10.0	71%	n/a	0.6	n/a	n/m	4.7%	-26.5	16.8	3.5	71.4	NR

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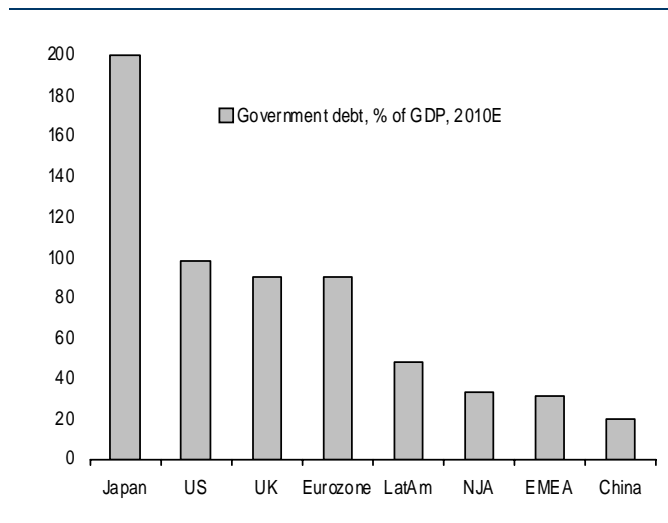
2) Long Non-Japan Asian currencies

We like the Non-Japan Asian currencies, given that:

a) *Strong fundamentals*

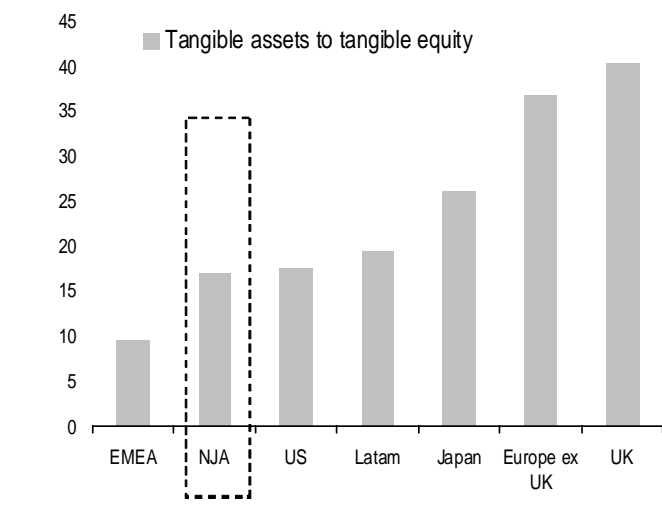
Non-Japan Asia's fundamentals are very strong relative to those of developed countries: NJA has better growth (long-term potential GDP growth, which we proxy by the IMF's growth estimate for 2014, is almost double the global average, 8.5% versus 4.5%), government debt is nearly a third of that of the G7 (Figure 9) and the region's banks are less leveraged (Figure 10).

Figure 9: Government debt to GDP is low in NJA (%)



Source: IMF, Credit Suisse economics

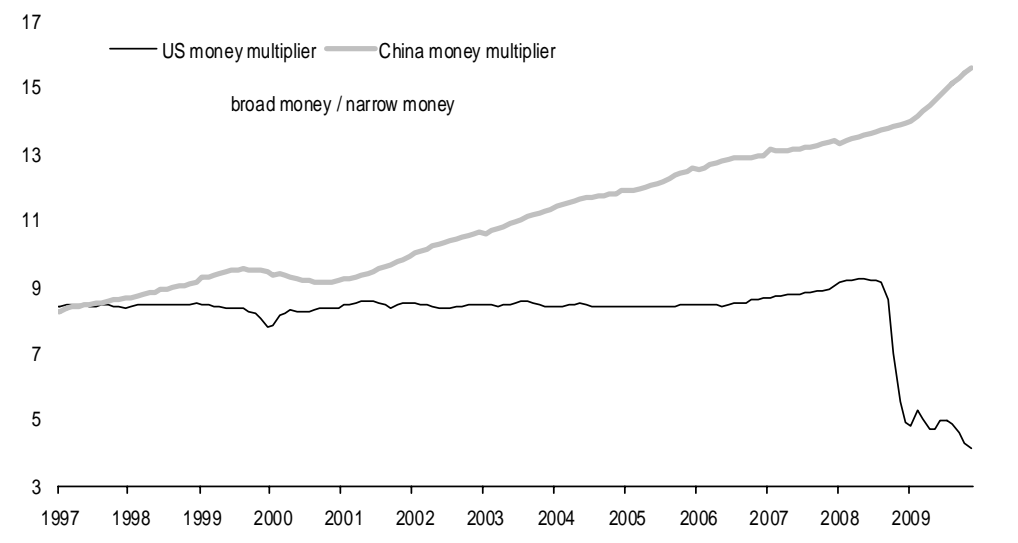
Figure 10: NJA banks' tangible assets to tangible equity is low



Source: Credit Suisse banks team, Credit Suisse HOLT, Credit Suisse estimates

In addition, the money multiplier in Non-Japan Asia has held up well, unlike that in the US.

Figure 11: The money multiplier in China has held up well – unlike that in the US

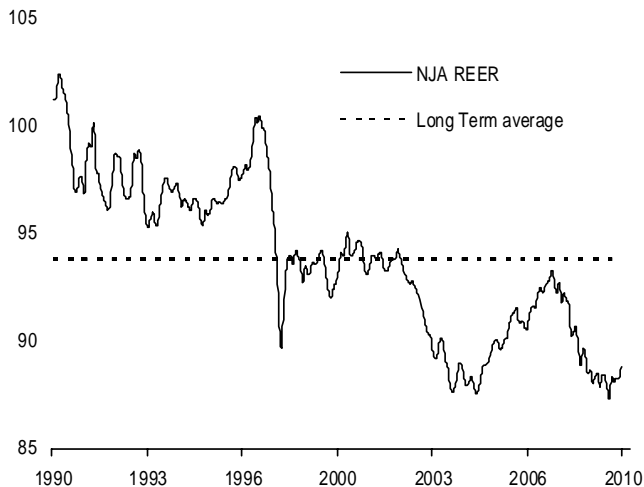


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b) Valuation

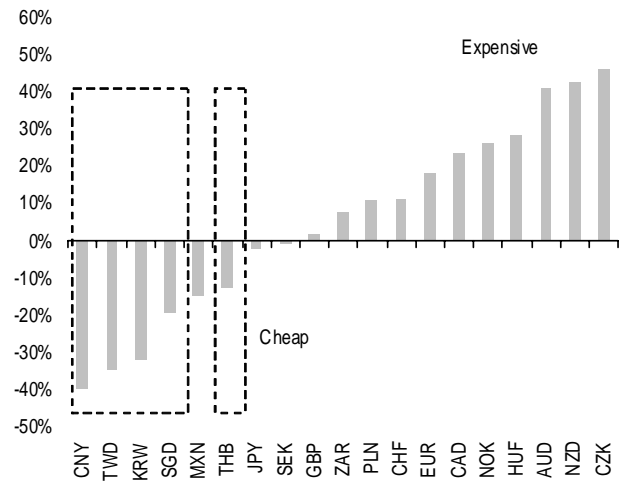
In aggregate, NJA currencies look 7% undervalued on a real effective exchange rate basis compared to their long run average and about 30% undervalued against the dollar on the Credit Suisse FX team's models, with the RmB 40% undervalued on PPP (versus the dollar).

Figure 12: NJA real effective exchange rates still undervalued



Source: Credit Suisse Global strategy team, Credit Suisse research

Figure 13: NJA currencies are undervalued on our FX team's model

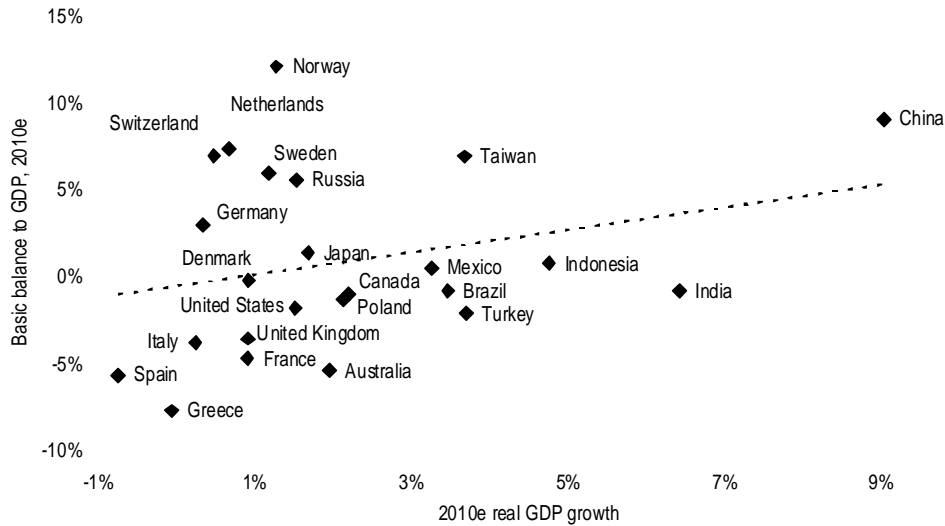


Source: Credit Suisse FX team, Credit Suisse research

Put simply the fundamentals of NJA are better relative to those of developed markets than on any occasion since 1990 and thus we think the real effective exchange rate should be back to 1995 peak levels. This would imply a 17% appreciation of the currencies. Given that a large part of the trade of the NJA economies is intra-regional (in the 2005-2007, 34% of the total trade for these economies was with other NJA economies, according to the Bank of International Settlement), a 17% real effective appreciation would mean a 26% rally versus the dollar and other non-NJA currencies.

Another way of looking at the mispricing of currencies is to consider that countries with persistently strong GDP growth rates should not be running significant current account surpluses (because strong growth should be associated with strong domestic demand – and, hence, strong imports). This, however, is what is currently happening, suggesting a major misalignment in the FX markets. On this basis, China and Norway look to have rather undervalued currencies.

Figure 14: Growth versus Basic Balance of Payment (FDI plus current account)



Source: Company data, Credit Suisse estimates

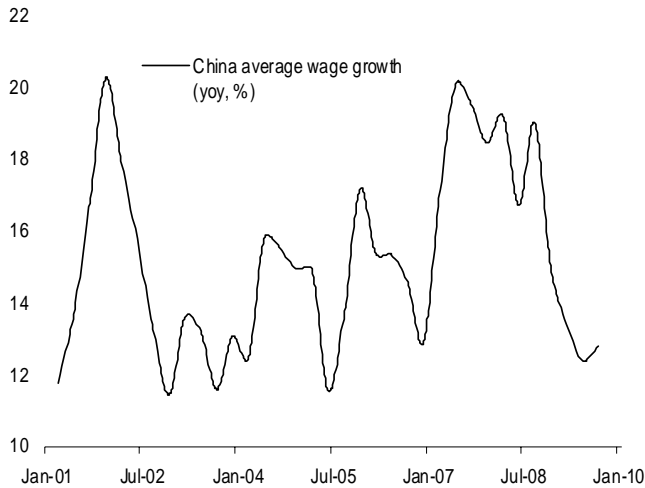
It is also increasingly unacceptable for the region to run a current account of 4% of GDP when it is also a FDI capital importer. Protectionist pressures can only rise, in our view.

When will the RMB revalue?

The major revaluation occurs when China decides to allow the RmB to appreciate against the dollar. We think this will be the case when China’s policy makers will start being concerned about economic overheating, i.e. rising wages leading to high inflation rates. A revaluation of the RmB would not only allow domestic rates to rise but it would also dampen import prices. Our economist Dong Tao believes that Chinese inflation will rise to 5% by the end of the year and will be 3.3% on average in 2010, compared to a consensus estimate of 2.5%, and this is in our opinion likely to lead to the Chinese adopting a crawling peg (Dong Tao, our Chinese economist looks for a 5% appreciation of the RMB against the dollar over this year. In our opinion, It’s easy to see a 10% appreciation in 2010).

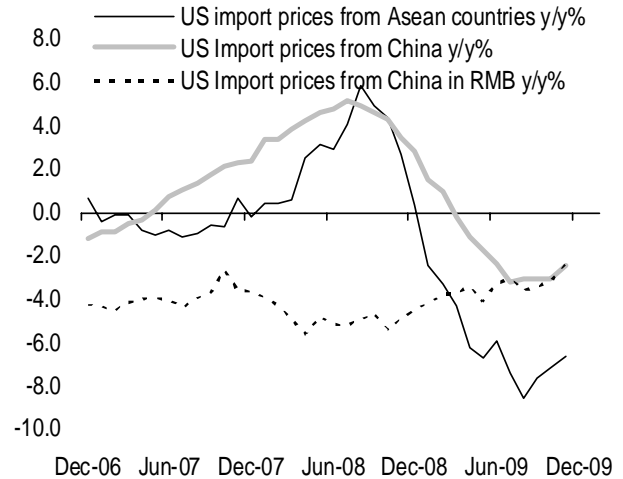
We believe that economic overheating will become a *major* concern when wage growth accelerates significantly by historical standards (i.e. to be between 15% and 20% year on year) and export prices in dollars start rising. So far, neither is happening, but when it does the RmB could revalue quite significantly.

Figure 15: China's wage growth



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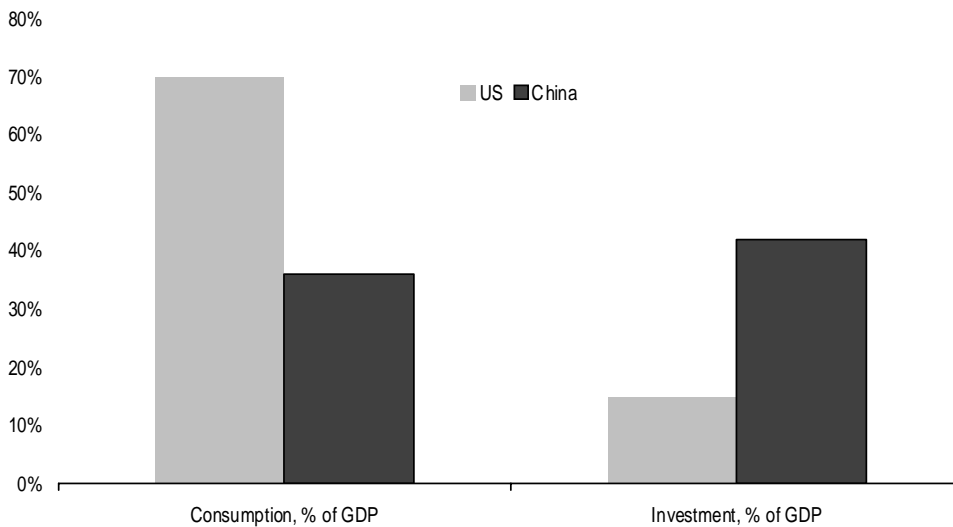
Figure 16: China's export prices to the US



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A critical part of the global post-crisis adjustment process is the rebalancing of consumption away from the US and towards China. A major catalyst for this should be a revaluation of the Rmb – i.e. a transfer of spending power from the US to the Chinese consumer.

Figure 17: The US consumption share of GDP is more than six times the investment share – while in China, the consumption share is actually below the investment share



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In consequence, NJA and Chinese growth will be more consumer, rather than investment-driven, hence our preference for exposure to consumer / financial service related names.

How to play this?

We show the NJA stocks that our analysts think will benefit most from the long-term rise of the NJA consumer (as well as the current excess liquidity).

Figure 18: Domestic NJA plays on the current excess liquidity and the long-term rise of the NJA consumer.

Name	-----P/E (12m fwd) -----			----- P/B -----		Yield (2010e)		HOLT	Momentum		Consensus (buy less holds & sells)	Credit Suisse rating
	Abs	rel to Industry	rel to mkt % above/below average	Abs	rel to mkt % above/below average	FCY	DY	Price, % change to best	3m EPS	3m Sales		
New Oriental Ed & Tech	30.6	n/a	n/a	8.2	n/a	2.6%	0.0%	-31.7	-3.5	-0.3	33.3	Outperform
Cheung Kong(Hldgs)	13.3	69%	22%	1.0	-24%	n/m	2.6%	7.4	2.9	-3.6	-4.8	Outperform
Sun Hung Kai Prop	19.2	99%	58%	1.3	15%	n/m	2.4%	2.5	2.3	-3.1	-4.4	Outperform
Gome Electrical Ap	22.7	146%	31%	4.0	-30%	3.4%	1.0%	-33.5	6.1	1.7	38.5	Outperform
Dongfeng Motor Gro	13.5	56%	26%	4.4	137%	5.5%	0.7%	26.4	20.8	9.7	68.4	Outperform
Skyworth Digital	10.6	38%	n/a	3.8	n/a	10.3%	3.4%	55.4	NM	NM	n/a	Outperform
Hongkong Land Hld	15.9	82%	1%	1.0	21%	n/m	3.2%	19.4	6.4	7.6	0.0	Outperform
Shinsegae Co	14.7	105%	-10%	2.3	13%	1.1%	0.2%	-32.9	-3.2	-3.0	25.6	Outperform
Indofoods Sukses M	17.0	113%	146%	3.7	60%	2.0%	1.7%	-22.7	12.3	1.1	66.7	Outperform
Belle Internationa	23.2	149%	n/a	5.5	n/a	5.2%	1.2%	7.1	1.8	0.4	-5.9	Outperform
China Mobile Ltd	11.3	86%	-20%	3.1	8%	5.9%	4.0%	109.1	-0.4	0.1	-17.2	Outperform
Wpg Holdings	13.7	n/a	n/a	2.6	n/a	8.4%	4.8%	-19.6	NM	NM	50.0	Outperform
Hengan Intl	27.9	146%	n/a	8.2	n/a	3.1%	2.2%	-22.2	1.9	1.5	60.0	Outperform
Tencent Hldgs Limi	38.4	178%	n/a	35.4	n/a	2.3%	0.5%	17.0	5.9	3.5	100.0	Outperform

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We also show a list of European companies with the largest sales exposure to NJA and China.

Figure 19: European stocks with high exposure to the NJA consumer

Name	Price performance rel mkt since 9 Mar '09	% Sales from GEM	% Sales from NJA	% Sales from China	-----P/E (12m fwd) -----			----- P/B -----		Yield (2010e)		Price, % change to best	3m EPS	3m Sales	Consensus (buy less holds & sells)	Credit Suisse rating	
					Abs	rel to Industry	rel to mkt % above/below average	Abs	rel to mkt % above/below average	FCY	DY						
Standard Chartered	36%	90%	75%	22%	13.5	97%	34%	1.3	-32%	n/m	2.9%	-25.6	0.9	10.9	5.5	-41.7	Outperform
Swatch Group	36%	40%	34%	27%	19.3	109%	56%	2.8	27%	4.9%	1.6%	-18.9	1.5	3.1	-0.2	14.3	Outperform
Richemont(Cie Fin)	50%	46%	32%	20%	19.6	111%	61%	3.7	72%	n/a	1.3%	-13.7	0.6	11.1	1.5	-13.3	Outperform
Hsbc Hldgs	53%	40%	27%	17%	17.0	122%	64%	1.1	-36%	n/m	3.2%	5.1	-0.8	20.3	-0.9	18.5	Outperform
Bulgari Spa	18%	32%	24%	15%	32.8	185%	77%	2.3	-37%	3.2%	1.3%	-45.9	5.7	15.6	-0.1	-72.4	Underperform
Lvmh Moet Hennessy	13%	30%	23%	13%	19.3	109%	22%	3.0	7%	4.8%	2.1%	-19.9	0.2	1.7	0.2	16.1	Outperform
Brit Amer Tobacco	-26%	59%	19%	0%	12.4	102%	20%	6.1	71%	8.1%	5.3%	-8.3	0.0	3.1	2.8	68.4	Outperform
Unilever Plc	-2%	48%	19%	3%	15.4	102%	22%	5.4	15%	6.4%	3.8%	-13.1	0.0	3.7	1.5	0.0	Underperform
Sabmiller	25%	67%	16%	9%	16.3	108%	25%	1.5	-17%	4.9%	2.5%	13.1	1.1	9.0	-2.4	-39.1	Outperform
Jc Decaux Sa	7%		15%	8%	45.1	324%	104%	1.9	-8%	2.7%	1.4%	-49.5	1.4	6.2	0.1	-36.8	Neutral
Wpp Plc	0%	25%	11%	5%	13.1	94%	11%	1.5	1%	n/a	2.7%	n/a	0.0	5.2	0.4	24.1	Outperform
Danone	-19%	43%	10%	4%	16.0	107%	9%	2.2	-9%	5.4%	2.9%	-19.4	1.4	2.3	-1.1	3.2	Outperform
Beiersdorf Ag	-6%	30%	10%	3%	23.2	121%	13%	4.6	16%	4.1%	1.8%	-17.8	0.3	3.2	0.5	-39.4	Neutral
Nestle Sa	-16%	31%	8%	2%	15.7	105%	17%	3.5	25%	5.4%	3.1%	-9.6	-0.4	-4.0	-3.7	35.1	Outperform
Pernod Ricard	-5%	26%	8%	2%	14.4	95%	15%	2.1	9%	6.8%	2.0%	-8.8	0.1	-2.3	3.6	-15.4	Underperform
Reckitt Benck Grp	-16%	28%	8%	1%	17.2	113%	20%	7.2	53%	5.5%	3.0%	-8.0	0.0	1.9	2.1	35.7	Outperform
Henkel Ag&Co. Kgaa	22%	38%	8%		17.3	113%	24%	2.5	12%	5.7%	1.5%	3.9	0.4	7.5	-0.3	-11.8	Neutral
Diageo	-12%	31%	7%	NA	14.0	92%	9%	8.2	139%	6.6%	3.6%	-16.6	0.3	-0.3	1.9	15.4	Outperform
L'Oreal	1%	28%	7%	1%	21.3	112%	-1%	4.1	4%	4.7%	2.0%	-27.5	0.4	0.1	-0.4	-25.0	Underperform
Cadbury Plc	-5%	34%	7%		18.6	123%	40%	3.4	19%	4.0%	2.5%	-59.7	0.2	4.1	2.0	-30.0	Restricted
Kingfisher	23%	16%	4%	4%	12.8	82%	0%	1.2	-29%	7.0%	3.0%	-12.0	6.1	14.1	1.3	0.0	Outperform
Anheuser-Busch Inb	15%	40%	4%	3%	16.4	108%	n/a	3.6	n/a	3.4%	1.2%	5.0	-0.1	3.6	-1.8	-14.3	Outperform
Imperial Tobacco	-22%	20%	3%	0%	10.4	86%	-1%	3.0	-93%	12.3%	4.3%	74.0	0.1	2.7	1.6	52.9	Outperform
Nokia Oyj	-20%	55%		13%	13.3	83%	-17%	2.8	-26%	9.6%	3.6%	35.6	-2.5	-7.3	-1.4	-8.8	Underperform

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We show the same list for the US stocks.

Figure 20: US stocks with high exposure to the NJA consumer

Name	Price performance rel mkt since 9 Mar '09	% sales from GEM	% Sales from NJA	% Sales from China	----P/E (12m fwd) ----			----- P/B -----		Yield (2010e)		Price, % change to best	3m EPS	3m Sales	Consensus (buy less holds & sells)	Credit Suisse rating
					Abs	rel to Industry	rel to mkt % above/below average	Abs	rel to mkt % above/below average	FCY	DY					
Yum Brands Inc	-12%		32%	21%	14.6	88%	1%	18.0	128%	5.9%	2.6%	3.0	1.0	-1.2	-10.0	Outperform
Qualcomm Inc	-14%			21%	20.2	127%	-30%	3.9	0%	4.5%	1.5%	11.1	-5.4	-6.3	71.4	Neutral
Philip Morris International	-14%	46%	17%		12.8	106%	n/a	14.7	n/a	6.9%	5.0%	-5.7	4.5	0.7	60.0	Neutral
Motorola Inc	52%		16%	7%	23.7	149%	25%	1.9	-18%	6.0%	0.0%	31.3	23.5	-2.2	0.0	Outperform
Cisco Systems Inc	7%		10%		15.9	100%	-26%	3.5	-38%	6.3%	0.0%	7.8	9.5	4.1	48.7	Outperform
Pepsico Inc	-20%	20%	10%	5%	14.7	97%	-15%	6.2	13%	5.9%	3.1%	2.3	1.7	-1.2	57.1	Outperform
Apple Inc	51%		7%		25.2	165%	13%	6.8	149%	3.3%	0.0%	-0.9	11.7	6.4	66.7	Outperform
Coca-Cola Co	-13%		7%	6%	16.4	109%	-21%	5.4	-43%	5.7%	3.2%	-8.3	2.4	1.4	75.0	Outperform
Heinz (H J) Co	-17%		5%		14.2	94%	-1%	7.0	36%	6.8%	4.1%	-11.3	3.1	1.4	-28.6	Neutral
Nike Inc	1%	24%		5%	16.4	93%	18%	3.5	4%	5.8%	1.8%	9.4	2.6	0.8	-15.8	Outperform
Procter & Gamble Co	-18%	27%		4%	14.9	97%	-11%	2.7	-47%	6.9%	3.0%	-20.7	1.3	1.9	5.9	NR
Mcdonald'S Corp	-30%			4%	13.9	84%	-5%	5.0	62%	7.1%	3.7%	-12.4	2.8	0.9	23.8	Neutral
Tiffany & Co	58%			2%	19.8	127%	22%	3.3	17%	4.6%	1.6%	-17.7	12.8	5.3	22.2	Outperform
Coach Inc	90%			2%	17.1	96%	-12%	6.5	-20%	5.1%	0.8%	15.6	8.1	2.6	41.7	Neutral
Avon Products	25%	52%			14.4	76%	-8%	13.0	-22%	6.4%	2.7%	0.8	4.2	2.7	20.0	NR
Colgate-Palmolive Co	-10%	39%			17.0	112%	1%	14.9	18%	5.1%	2.3%	10.0	2.3	2.1	5.9	NR
Mattel Inc	10%	36%			12.4	73%	n/a	2.9	n/a	7.9%	4.1%	23.7	6.3	1.2	-12.5	Outperform

Source: MSCI, IBES, Factset, © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse HOLT, Credit Suisse research

The following names look cheap on HOLT and have high exposure to the NJA consumer: HSBC, SABMiller, Yum Brands, Motorola, Cisco Systems, Pepsico, Nike (all of which are Outperform rated), Qualcomm.

A revaluation of the RmB is good for the tech names, given that a third of PC demand comes from NJA and there is a close correlation between GDP per capita and the PC penetration rate (such that, by 2017, Chinese PC demand should increase by 250m units, compared to a global installed base of 1.3bn) and handset demand (40% of demand comes from NJA).

Below we show global tech names that have more than 5% sales exposure to NJA, are cheap on HOLT and have a 2010E FCF yield above 5%.

Figure 21: Global tech names that have sales exposure to NJA, are cheap on HOLT and have a FCF yield above 5%.

Name	Sales from		----P/E (12m fwd) ----			----- P/B -----		Yield (2010e)		HOLT	Momentum		Consensus (buy less holds & sells)	Credit Suisse rating
	NJA	China	Abs	rel to Industry	rel to mkt % above/below average	Abs	rel to mkt % above/below average	FCY	DY		Price, % change to best	3m EPS		
Marvell Technology Group	71%	23%	16.3	90%	-45%	3.3	24%	6.5%	0.0%	20.1	40.9	12.1	51.7	Outperform
Csr Plc	67%	33%	17.7	98%	122%	1.1	-59%	7.3%	0.0%	52.1	18.8	4.8	52.9	Outperform
On Semiconductor Corp	60%	43%	13.9	77%	n/a	4.2	n/a	7.0%	0.0%	7.1	7.0	4.6	56.5	Outperform
Memc Electronic Matrlals	58%	19%	18.0	100%	28%	1.5	-76%	5.9%	n/a	13.7	-13.2	-0.2	-28.0	Neutral
Intel Corp	51%	14%	13.9	77%	-14%	2.9	-14%	7.3%	2.9%	0.7	21.2	5.8	44.2	Outperform
Infineon Technolog	45%		25.0	138%	1%	2.0	100%	9.3%	0.0%	17.0	53.0	1.1	10.3	Neutral
Micron Technology Inc	40%		11.6	64%	n/a	2.0	n/a	5.8%	n/a	28.6	NM	13.5	57.9	Outperform
Amkor Technology Inc	40%	3%	9.1	50%	n/a	4.3	n/a	12.1%	n/a	41.1	NM	NM	n/a	Outperform
Altera Corp	39%	19%	18.5	102%	-15%	6.9	39%	5.3%	1.0%	0.2	24.4	11.2	13.0	Neutral
Cymer Inc	31%		16.3	90%	n/a	2.2	n/a	6.0%	n/a	9.3	19.3	1.0	14.3	Outperform
Quest Software Inc	30%		13.7	88%	n/a	2.0	n/a	8.3%	n/a	229.5	4.1	-0.9	20.0	Neutral
Brightpoint Inc	27%		12.0	n/a	n/a	1.9	n/a	12.4%	n/a	31.1	-10.6	7.3	40.0	Neutral
Alcatel-Lucent	19%	7%	20.0	125%	114%	1.5	-7%	12.9%	1.9%	100.2	-8.1	-1.5	-37.5	Neutral
Motorola Inc	17%	7%	23.7	149%	25%	1.9	-18%	6.0%	0.0%	31.3	23.5	-2.2	0.0	Outperform
Symantec Corp	14%		12.0	77%	-30%	3.5	112%	11.5%	0.0%	47.6	0.8	1.1	21.2	Outperform
Cisco Systems Inc	10%		15.9	100%	-26%	3.5	-38%	6.3%	0.0%	7.8	9.5	4.1	48.7	Outperform
IBM	10%		11.9	78%	-10%	9.3	171%	8.4%	1.8%	31.0	1.5	1.1	25.0	Neutral
Sap Ag	8%		16.6	106%	-33%	5.3	-39%	6.6%	1.8%	18.7	-3.1	-3.7	0.0	Outperform
Emc Corp/Ma	8%		16.2	106%	-17%	2.5	-27%	6.6%	0.0%	9.7	4.8	1.9	36.8	Outperform
Misys	7%		16.3	104%	30%	4.9	-60%	7.6%	0.0%	2.0	0.3	0.1	0.0	Outperform
RIM Inc	5%	0%	13.5	85%	-53%	5.5	4%	6.1%	0.0%	168.6	NM	NM	n/a	Outperform

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We would also stress that a lot of the capital goods, chemical and technology companies exposed to China are seeing increased competition from Chinese companies both in the Chinese markets and abroad (see our theme “China as a threat” in our note *2010 Outlook: Sectors, themes & styles*). A revaluation of the RmB and Asian currencies could partly offset these structural headwinds as well as enable China to be able to afford more imports per RmB.

Below we show *non-consumer* related stocks that have high exposure to NJA and are outperform-rated by Credit Suisse.

Figure 22: Screen of non-consumer-related companies with high exposure to NJA and that are outperform-rated by Credit Suisse

Name	NJA Sales Exposure	-----P/E (12m fwd)-----			----- P/B -----		Yield (2010e)		HOLT Price, % change to best	Momentum		Consensus (buy less holds & sells)	Credit Suisse rating
		Abs	rel to Industry	rel to mkt % above/below average	Abs	rel to mkt % above/below average	FCY	DY		\$ m/b\$	€ m/b€		
Siemens Ag	10%	14.8	95%	11%	2.3	29%	5.7%	2.5%	-9.8	-12.4	-1.8	-15.8	Outperform
Cookson Group	17%	12.4	79%	17%	1.3	3%	n/a	0.4%	n/a	11.2	1.2	44.4	Outperform
Basf Se	14%	16.0	90%	43%	2.4	86%	8.7%	3.8%	26.6	15.4	2.4	9.7	Outperform
Linde Ag	13%	16.0	90%	7%	1.7	9%	6.6%	2.3%	-17.1	3.5	-0.7	26.7	Outperform
Croda Intl	14%	13.7	78%	14%	7.9	161%	6.9%	2.9%	-34.7	14.5	3.4	33.3	Outperform
Arkema	14%	18.0	102%	n/a	0.9	n/a	4.7%	1.4%	146.2	21.9	-4.1	0.0	Outperform
Cummins Inc	19%	24.5	114%	121%	2.7	67%	4.6%	1.5%	-34.6	2.8	-0.2	-12.5	Outperform
Caterpillar Inc	15%	21.8	101%	63%	4.6	52%	4.6%	2.8%	-25.1	42.2	8.9	-44.0	Outperform
Terex Corp	14%	-102.8	-477%	-1399%	1.3	-31%	-1.0%	0.0%	-34.4	NM	7.8	-20.0	Outperform

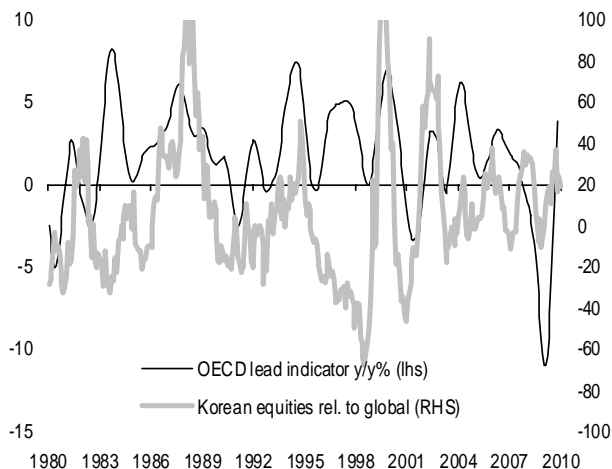
Source: MSCI, IBES, Factset, © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse HOLT, Credit Suisse research

We like the Korean Won and the Taiwanese dollar

The Korean Won and Taiwanese dollar are 30% and 35% undervalued on Credit Suisse FX team’s fair-value model. We take this to be another reason to stay overweight of Korea. In general, we like Korea for the following reasons:

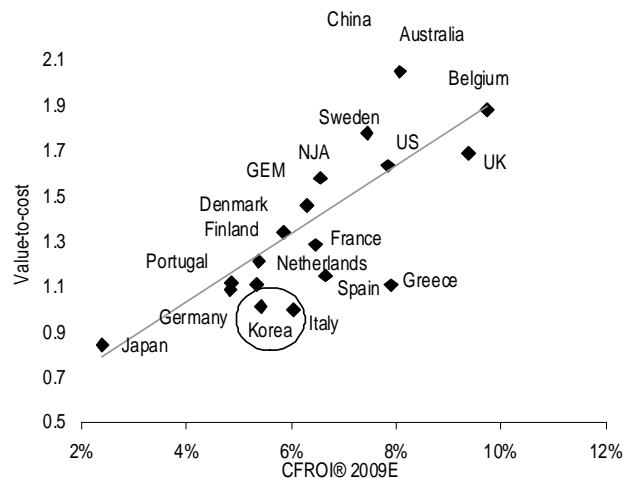
- 1) *Korean equities show a strong correlation with lead indicators*

Figure 23: Korean equities tend to outperform when lead indicators rise



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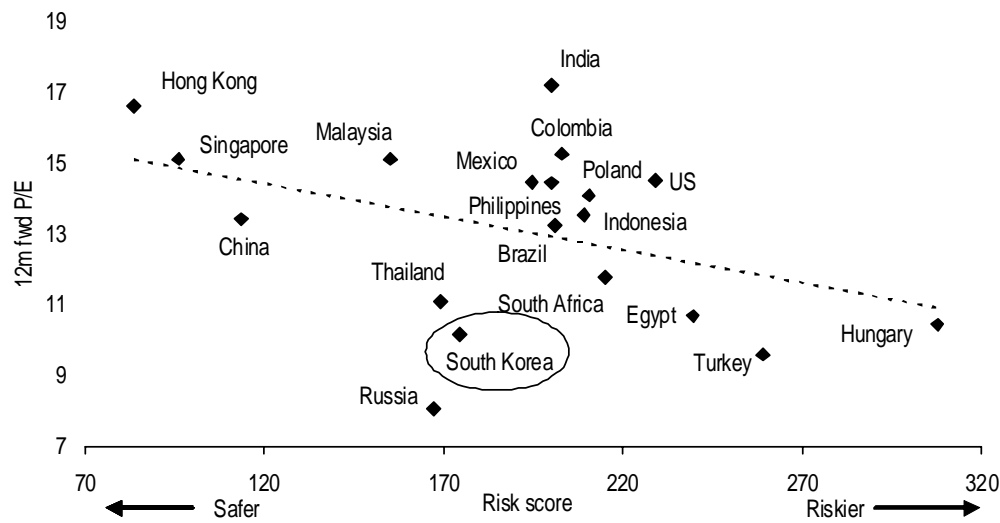
Figure 24: Korea looks attractive on HOLT’s CFROI versus VCR



Source: Credit Suisse HOLT

- 2) *It is cheap* – if we look at the 2009E CFROI® relative to the value-to-cost ratio on HOLT (Figure 24). Korea also looks attractively priced if we look at the economic risk score (see Appendix 1 for the details) against P/E.

Figure 25: South Korea looks attractive if we look at the country risk score against 12m fwd P/E



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Korea is also one of our Asian strategist's, Sakhti Siva, top picks. We would particularly focus on Korean domestic names such as Daegu Bank, KB Financial, Shinsegae and Hyundai Department Store.

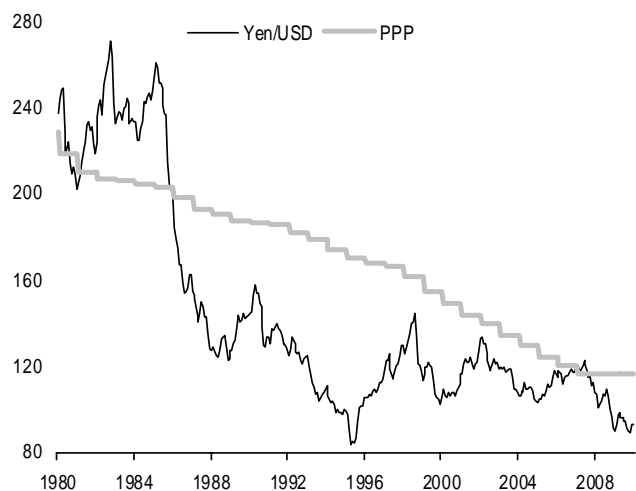
Short the Yen

We would want to be short the Yen, given that:

1) Valuation

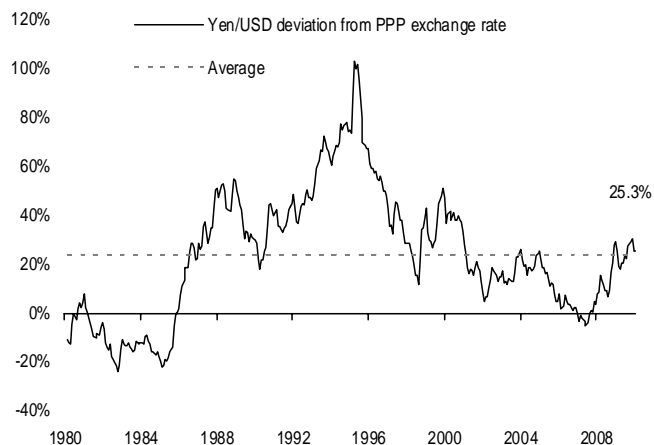
The Yen is 25% expensive against the dollar on PPP, slightly above the historic average of 24%.

Figure 26: Yen spot and PPP against the dollar



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Figure 27: The Yen is 25% expensive against the dollar

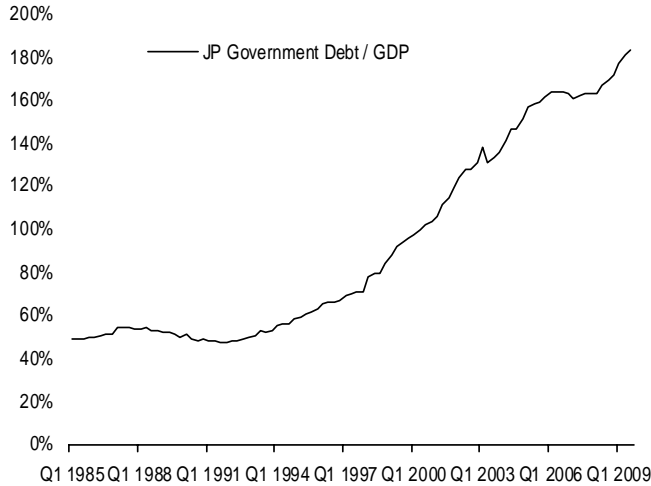


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2) The macro environment looks unpromising

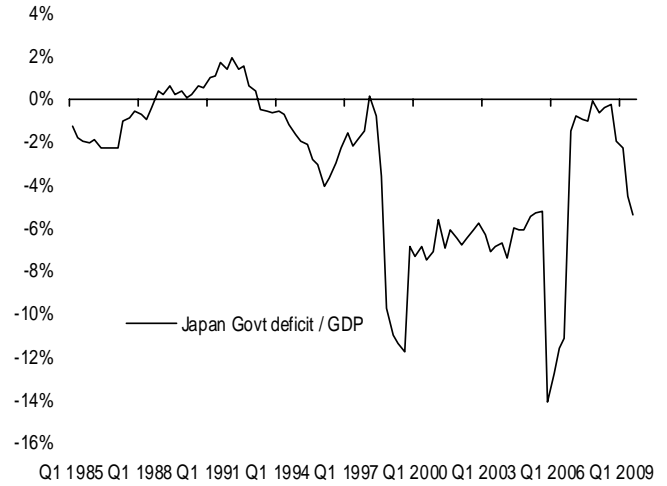
The fiscal position is extremely poor: With gross government debt to GDP of 197% (net government debt is 105% of GDP) and real rates almost two percentage points above the trend real GDP growth rate (2.4% versus 0.5%), a primary budget surplus of about 3% of GDP is required in order for the country to avoid being on an explosive debt path. However, the government runs a cyclically-adjusted budget *deficit* of 5.4% of GDP. This implies that fiscal tightening of more than 8% of GDP is required to avoid being on an explosive debt path.

Figure 28: Japan government debt to GDP



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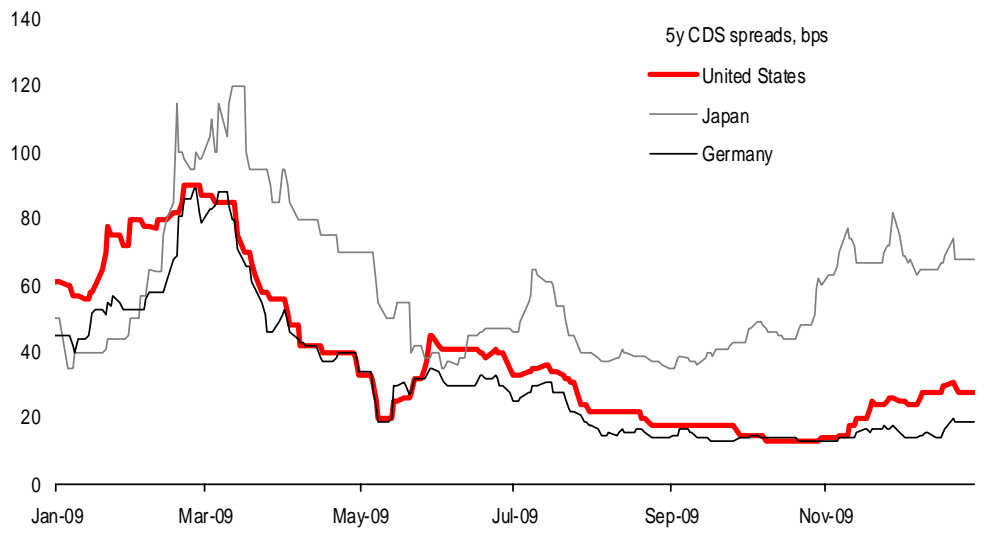
Figure 29: Japan government deficit to GDP



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In consequence of the fiscal problems, Japanese CDS spreads have risen by more than those of the US and Germany.

Figure 30: Japan CDS spreads have risen in recent months



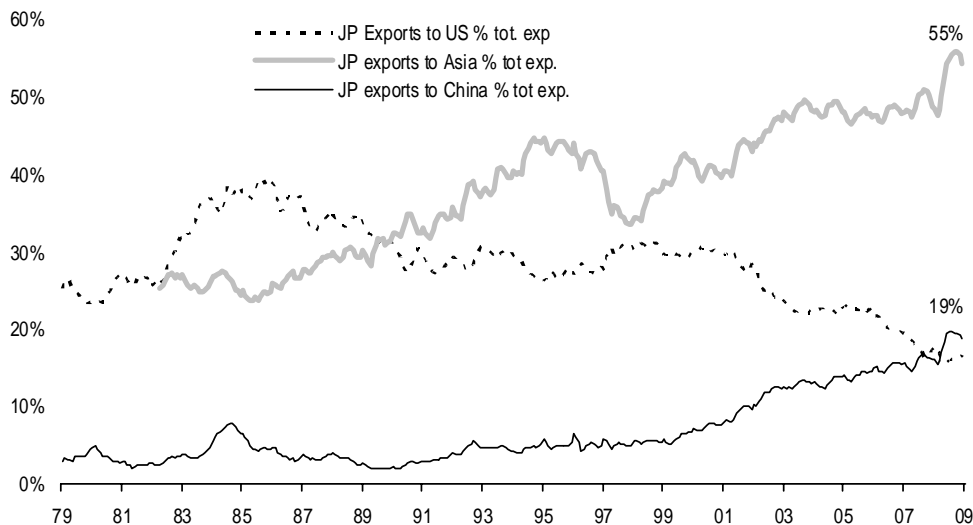
Source: Credit Suisse Locus

The obvious safety valve is the Yen. If the Yen were allowed to devalue, this would clearly boost export and economic growth (the *level* of nominal GDP in Japan is back to 1991 levels). Moreover, with Japan having net foreign assets of 50% of GDP, a weaker Yen would boost the value of external assets and thereby limit the degree of concern about domestic debt (recall, a 50% fall in the Yen would take the value of external assets above 100% of GDP- on the assumption that assets are denominated in foreign currency and liabilities are denominated in Yen)

3) Political pressure for a weaker Yen should grow

Japanese companies increasingly compete with China (19% of exports) and China is, of course, a dollar linked economy.

Figure 31: Japan exports by destination: competes increasing against dollar linked economies.



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The authorities have already shown that they are nervous about the level of the Yen and our Japanese Economics team believe that at a rate of Y85/\$ the Minister of Finance may instruct the BOJ to intervene in the market. We note that the newly appointed Minister of Finance Naoto Kan has already expressed support for a weaker Yen (“It would be nice if the yen weakened a bit more”, *Bloomberg News, January 7th*). The Bank of Japan vowed in December that it would “not tolerate” deflation, which it defined as a year-on-year rate of the change in the CPI “equal to or below 0 percent”. *Obviously, a country in structural deflation needs a depreciation of the currency to import inflation from abroad.*

Our foreign exchange team view are more bullish of the Yen (looking for Yen/\$ 90 year/end and Yen/\$ of 85 over the next 3 months – compared to a current rate Yen/\$ of 93).

How to play our call on the Yen?

A weaker Yen is relatively good news for Japanese exporters. Below we show a screen of cheap Japanese exporters: Eisai, Nitto Denko, Konica.

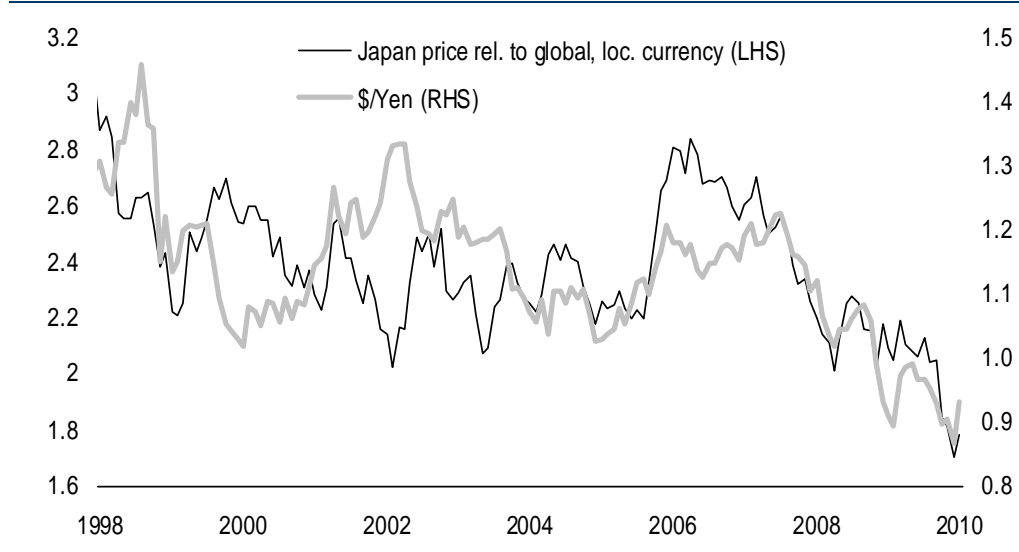
Figure 32: Japanese exporters that are cheap on PE and HOLT, have FCF yield above 5% and are Outperform-rated by Credit Suisse

Name	Foreign Sales, %	-----P/E (12m fwd) -----			----- P/B -----		Yield (2010e)		HOLT	Momentum		Consensus (buy less holds & sells)	Credit Suisse rating
		Abs	rel to Industry	rel to mkt % above/below average	Abs	rel to mkt % above/below average	FCY	DY	Price, % change to best	3m EPS	3m Sales		
Eisai Co	57%	16.0	145%	-12%	2.4	20%	9.6%	4.4%	137.6	-4.4	-1.1	-28.6	Outperform
Nitto Denko Corp	64%	16.1	91%	-31%	1.6	-8%	8.5%	1.3%	25.9	29.3	3.2	5.9	Outperform
Konica Minolta Hld	54%	21.4	101%	-24%	1.2	-18%	10.3%	1.6%	69.9	0.2	-3.0	-20.0	Outperform

Source: MSCI, IBS, Factset, © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse HOLT, Credit Suisse research

It is also relatively good news for the performance of Japan in LOCAL currency terms.

Figure 33: Japanese equities tend to outperform in local currency term when the Yen weakens



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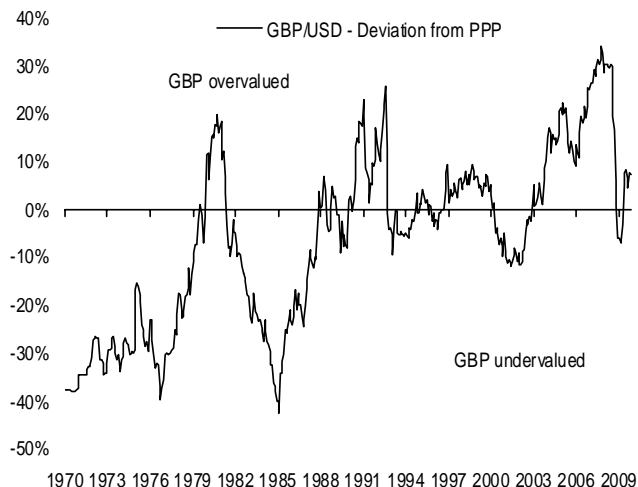
But beware of an *un-hedged* portfolio: historically, 77% of the time the Yen has weakened since 1986, Japan has underperformed global markets in dollar-terms (on a 3-month basis). Clearly, a country call on Japanese equities is a big currency call.

The only periods over the last 10 years when a weaker Yen was associated with Japan outperforming global markets in dollar terms have been in 1Q 2001, 2Q 2008 and in 4Q 2005.

3) Short sterling against the dollar

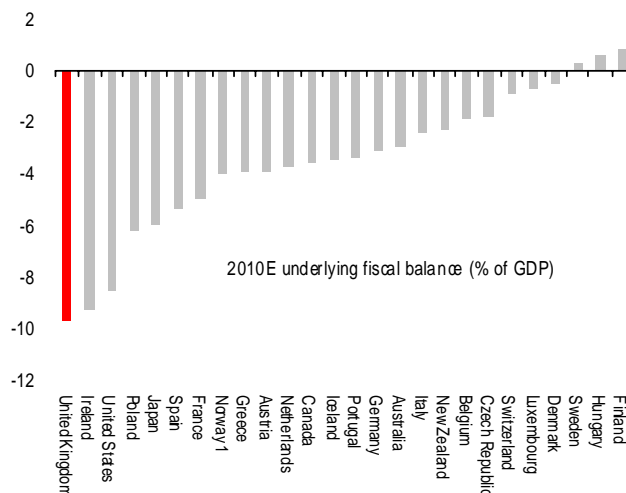
We think sterling should be 10% cheap against the dollar (i.e. \$/£1.38), compared with the current 7% premium (Figure 34). This is based on our belief that, of all the major economies, the UK has the highest chance of a government funding crisis and that other structural problems are worse in the UK than in the US.

Figure 34: Sterling is on a 7% premium to the dollar on PPP – we think it should trade on a 10% discount



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Figure 35: The UK's underlying fiscal deficit is the worst in the OECD

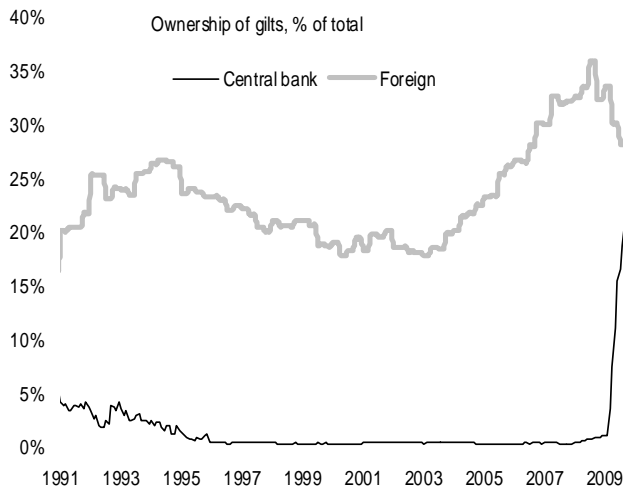


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We believe the UK is likely to suffer a government bond funding crisis for the following reasons:

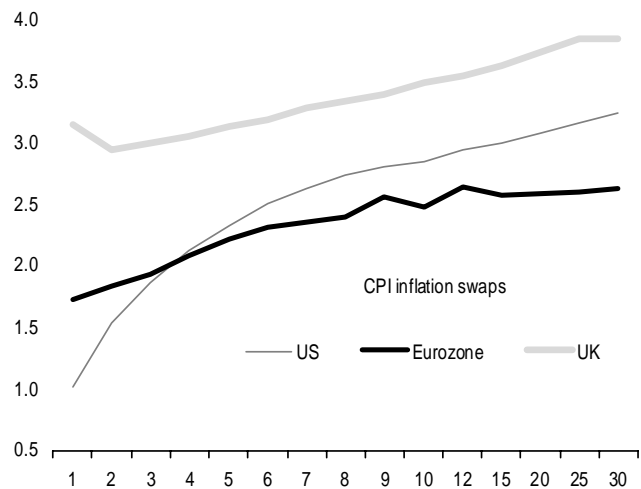
- i) the cyclically adjusted budget deficit is the worst of any region (Figure 35);
- ii) 96% of net gilt issuance in 2009 has been funded by the Bank of England (more than in any other country);
- iii) 95% of announced QE is now complete;
- iv) inflation expectations are significantly above target at 3.2% (Figure 37). This makes it more difficult for the MPC to extend quantitative easing (QE), as it would feed through to a further rise in inflation expectations (10% off trade-weighted sterling adds approximately 1% to inflation).

Figure 36: The Bank of England has bought 96% of net gilt issuance in 2009



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Figure 37: UK inflation swaps are much higher than in the US or Europe



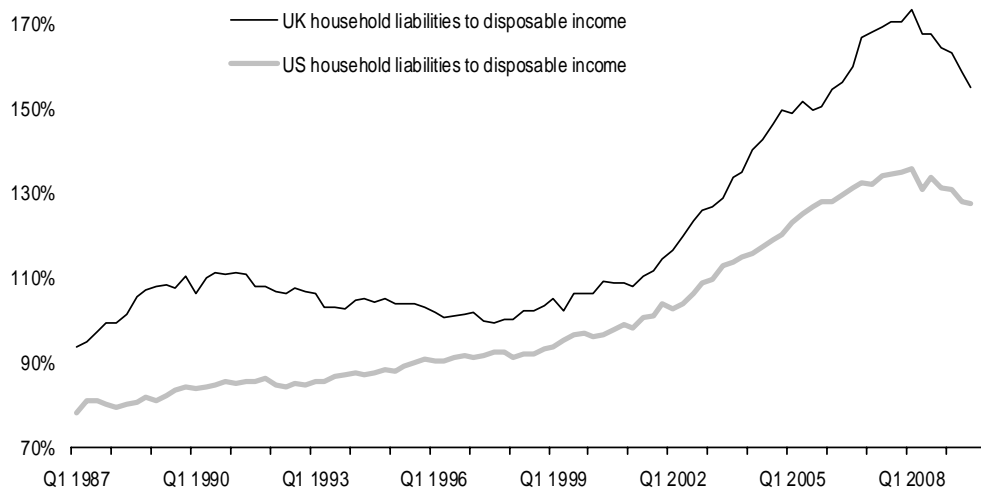
Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse research

- v) recent polls suggest an increasing likelihood of a hung or minority parliament in the upcoming election (which have to take place by June 2nd). The spectre of a weak coalition government would accelerate concerns over the willingness to tackle the fiscal deficit and is likely to accelerate worries about sterling.

The other structural problems that are worse in the UK than in the US are:

- a) *Consumer indebtedness.* Household liabilities are 155% of disposable income, compared to 128% in the US. This makes the UK consumer more vulnerable to an eventual tightening of monetary policy.

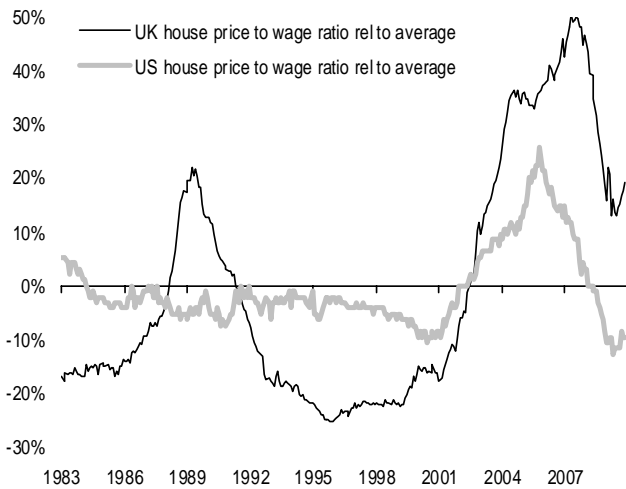
Figure 38: UK consumer indebtedness is higher than the US



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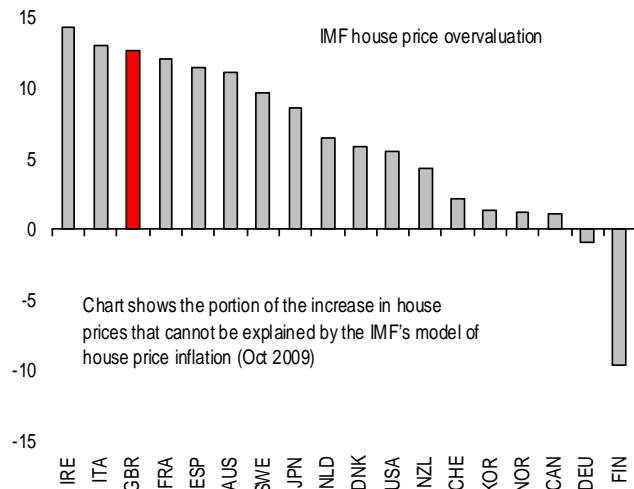
- b) *UK housing is still expensive.* The house price to wage metric is 20% above average, compared to 10% below average in the US. House prices are 13% expensive, according to the IMF, compared to just 5% in the US.

Figure 39: The house-price-to-wage ratio is 20% above average in the UK



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Figure 40: UK housing is 13% expensive on the IMF's models



Source: IMF, Credit Suisse research

Our foreign exchange team believe that sterling will weaken to 0.94 against the Euro in the near term but on account of their bearish dollar view see a modestly stronger sterling against the dollar.

How to play our call on sterling?

We would buy the UK companies with sales exposure to the US, which should benefit as sterling weakens against the dollar. Of these, Meggitt and Autonomy are cheap on HOLT.

Figure 41: Outperform-rated UK companies with more than 50% of sales to the US

Name	% Sales from US	-----P/E (12m fwd) -----			----- P/B -----		Yield (09e)		HOLT		3m EPS	3m Sales	Consensus (buy less holds & sells)	Credit Suisse rating
		Abs	rel to Industry	rel to mkt % above/below average	Abs	rel to mkt % above/below average	FCY	DY	Implied CFROI less 5-year average	Price, % change to best				
Pearson	63	14.2	102%	-5%	1.8	-17%	10.6%	4.1%	4.1	-28.7	6.6	1.5	0.0	Outperform
Autonomy Corp	64	20.2	129%	n/a	2.4	n/a	4.9%	0.0%	-12.0	128.0	-1.7	0.6	0.0	Outperform
Tomkins	53	16.1	103%	48%	1.3	-56%	7.2%	3.1%	0.2	-11.9	9.5	-1.4	-20.0	Outperform
Intercontl Hotels	53	20.6	124%	17%	-56.1	49%	5.6%	2.7%	2.0	-39.9	-0.8	0.3	-28.0	Outperform
Premier Farnell	54	14.7	n/a	11%	-45.5	-2635%	7.4%	5.4%	7.6	-47.0	7.7	3.2	0.0	Outperform
Meggitt	52	11.0	88%	9%	1.5	-26%	13.8%	3.1%	-10.7	151.0	3.0	0.6	37.5	Outperform

Source: MSCI, IBS, Factset, © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse HOLT, Credit Suisse research

Some companies have abnormally high transactional exposure to the US dollar (i.e. higher proportion of sales from the US than costs). This would particularly benefit ARM and Rolls Royce.

Figure 42: UK companies that would benefit from a weaker sterling as they have a higher proportion of sales from the US than costs

Company	Proportion of revenues in US\$	Proportion of costs in US\$	Difference
Rolls Royce	100%	33%	67%
ARM	95%	45%	50%
CSR	100%	85%	15%
HSBC	29%	27%	2%

Source: Company data, Credit Suisse estimates

What about the dollar?

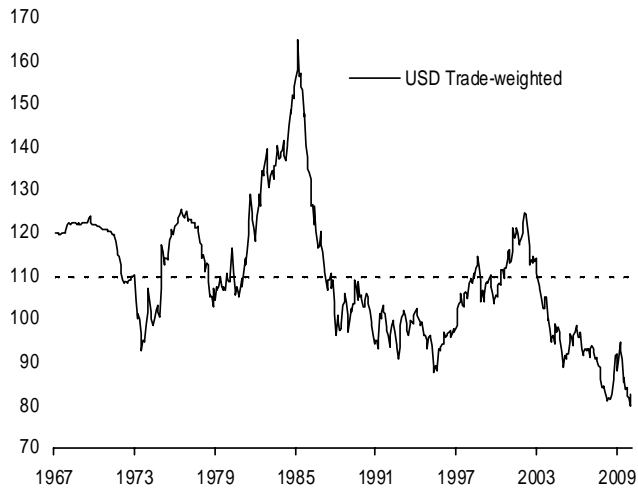
We can see the dollar being range-bound against the Euro in the first half of 2010 – but think the dollar bear market is likely to resume later in the year, though not against the Yen and sterling.

Reasons why the dollar is unlikely to weaken in H1 2010:

(1) Valuation

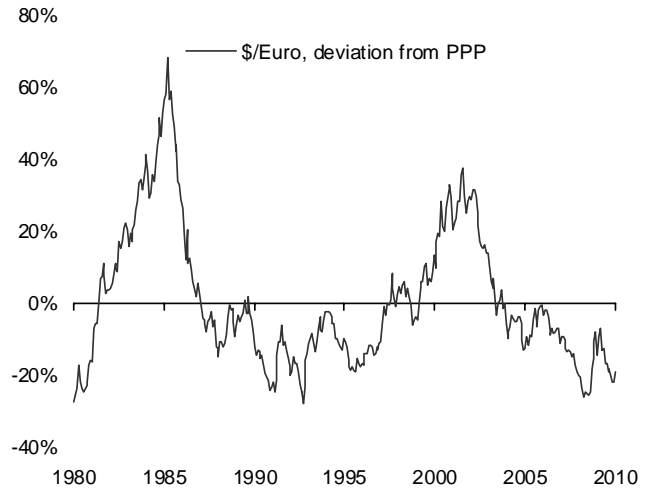
The dollar TWI is 25% below its historic average and the dollar is 20% cheap when we look at the Euro/\$ deviation from PPP against its historic average.

Figure 43: USD trade-weighted is 25% below average



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Figure 44: The dollar is 20% below the PPP exchange rate vs. the Euro

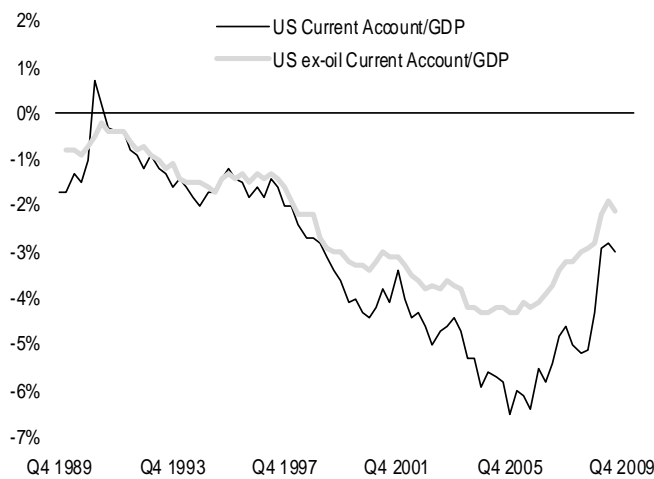


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(2) The current account is improving

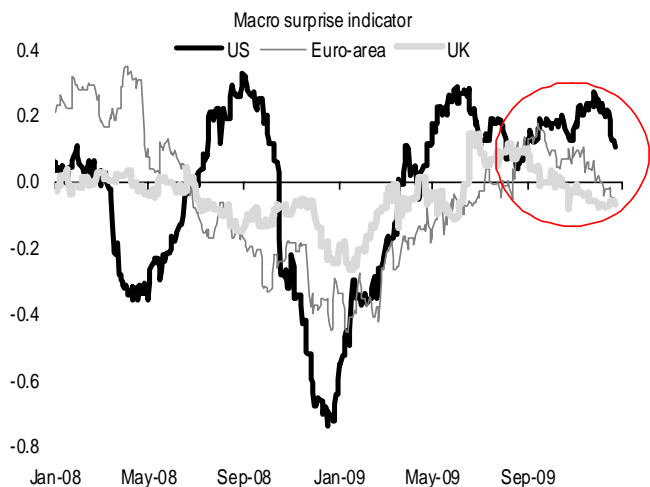
The US current account (ex oil) has halved from 4.3% of GDP to 2.1% in 3Q09 (Figure 45).

Figure 45: The US current account position has improved



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Figure 46: Macro economic surprises have been better in the US compared with the UK and Euro-area



Source: Credit Suisse European economics team

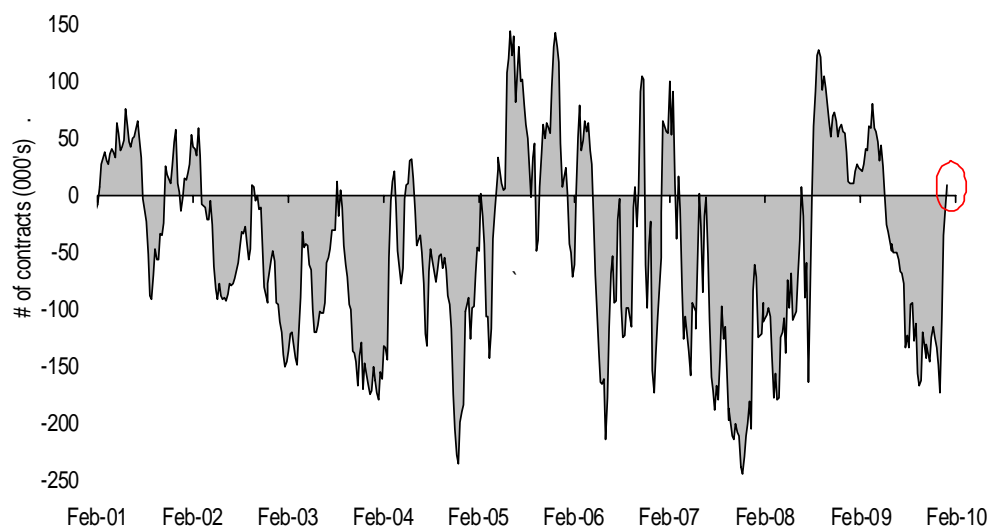
(3) Growth seems stronger than in Europe

The recovery in US growth looks stronger than that of Europe. Our economists forecast US growth of 3.4% this year, compared to 2% in the Euro-area. In addition, economic surprises continue to be positive in the US, while they are now negative in the UK and the Euro-area.

But sentiment has had a U turn:

We acknowledge that net speculative dollar positions have turned positive for the first time since May, a signal that the sentiment has stopped deteriorating.

Figure 47: Dollar net speculative positions ('000 contracts)



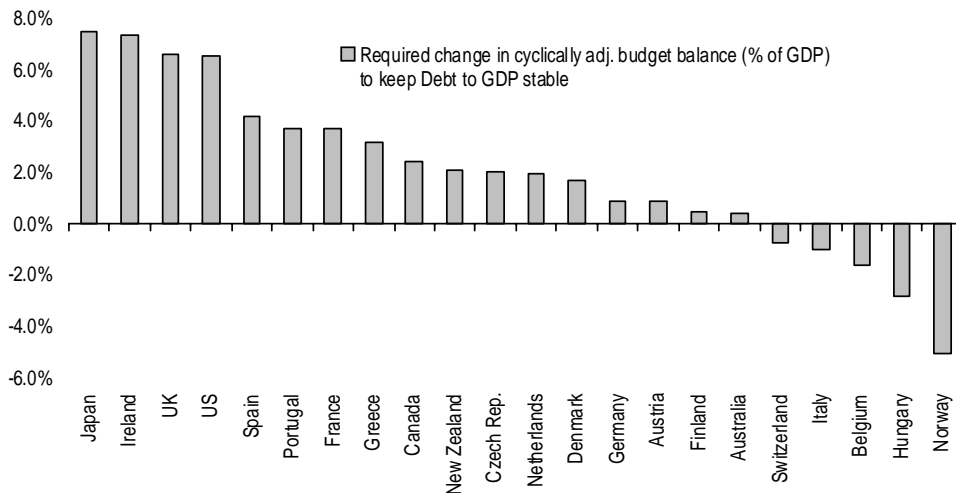
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In the long-term, we are bearish the dollar

Long term we are bearish, because a weaker currency (and more QE) is politically more convenient than implementing the fiscal tightening required to stabilize the government debt relative to GDP.

Once bank lending growth and credit growth return, we believe that real bond yields will rise to 2.5% (close to the equilibrium level, that is in line with trend growth). This would require fiscal tightening of close to 7% of GDP to stabilise government debt (Figure 48).

Figure 48: Required change in cyclically adj. budget balance (% of GDP) to keep debt to GDP stable



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We suspect that it is politically and economically not acceptable to undergo this degree of tightening (it would for example require a 30% cut in Federal spending). Only Japan and the UK are in a similarly poor situation. In consequence, these countries will probably have to expand QE and accept a weaker currency.

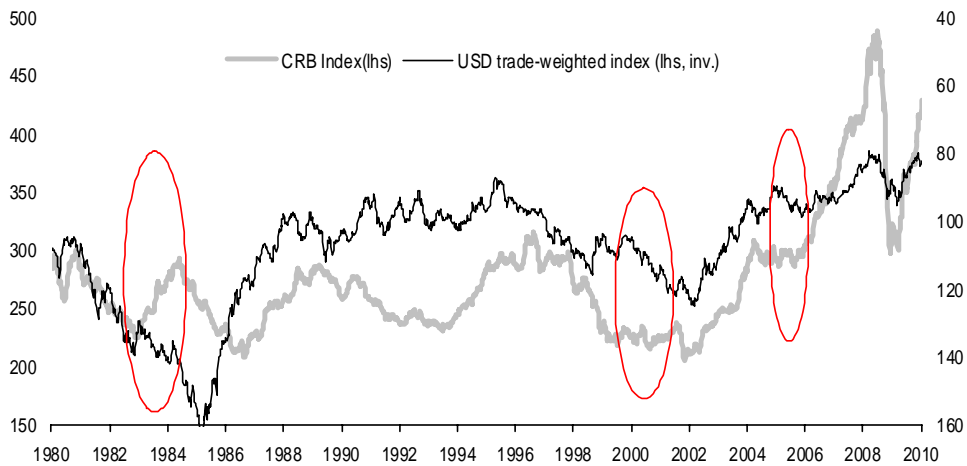
The question is, of course, will central banks be able to expand QE into a sell-off in bonds. We suspect that in the case of the Fed the dual mandate (full employment as well as inflation stability) would allow it to move more easily to QE in the face of a sharp rise in bond yields than the ECB (where there are 16 members from 16 countries and the core target is that of “inflation close to but below 2%”, a legacy from Bundesbank). Japan clearly has no inflation problem to worry about (and thus QE could be expanded dramatically) and in the case of the UK the central bank’s target is set by the politicians and has already been changed once (from RPI of 2.5% to CPI of 2%).

Our house view on the dollar is bearish, with our FX team forecasting a \$1.55/€ in 12 months, but we, on the global strategy team, suspect for the next 6 to 9 months the dollar is in a 1.40-1.50 trading range.

Is a stronger dollar necessarily bad for commodities?

There is an obvious long-term correlation between the dollar and commodities. This is partly because commodities are dollar denominated, but also because a weaker dollar tends to ease global monetary policy (with NJA effectively being dollar linked).

Figure 49: Commodity prices and the dollar are negatively correlated ... but commodities can rise with a weaker dollar.

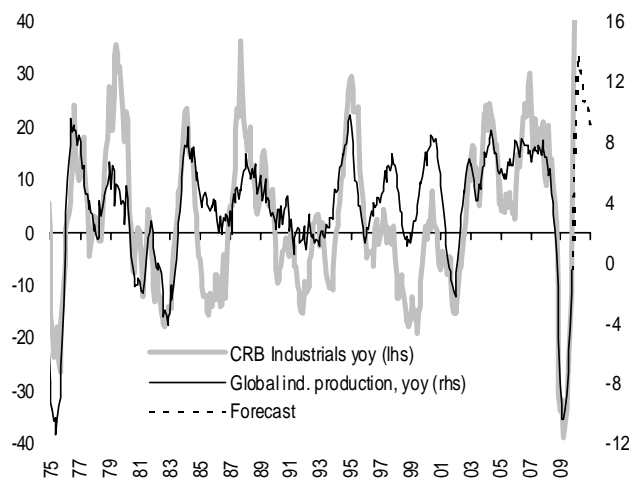


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Nevertheless there are periods when both commodities and the dollar appreciate. Since 1980, this has happened a quarter of the time, on our calculations. In particular, if the rise in the dollar is a function of stronger than expected growth (as could be the case now), rather than being a function of resumed fears about a global meltdown (leading to repatriation of overseas assets), it is logical for commodities and the dollar to be able to rally at the same time.

After all, the critical driver of commodity prices is global industrial production growth – and that is still highly supportive for commodities: *commodities tend to rise when global IP growth is above 2% – and we forecast global IP growth to remain above 9% yoy for the rest of this year.* We also note that commodity prices tend to peak almost 1 1/2 years after the peak in the inventory cycle – which has just started.

Figure 50: Global IP growth to stay above 9% in 2010 ... good for commodity prices



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Figure 51: Commodity prices tend to peak well after the peak in the inventory cycle.

Peaks in Commodity prices	Peaks in ISM Inventories	ISM inventories Lead (months)
May 74	Oct 73	7.1
Mar 80	Jul 78	20.3
Jun 84	Dec 83	6.1
May 89	Jul 88	10.1
Jul 95	Oct 93	21.3
Mar 08	Mar 05	36.5
Average		16.9

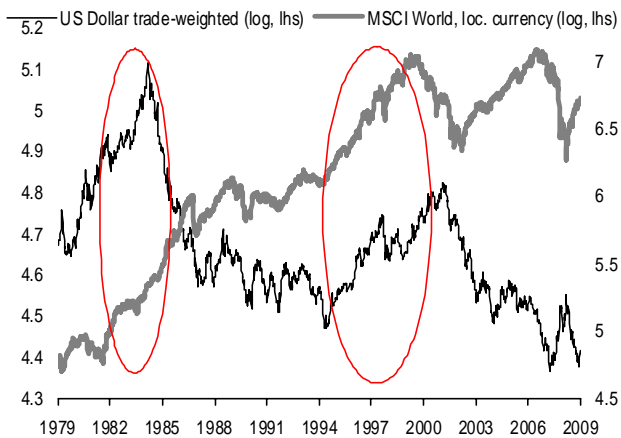
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We have argued above that the RmB is highly likely to appreciate against the dollar – and, in consequence, China will be able to afford more commodities.

Is a stronger dollar bad for equities?

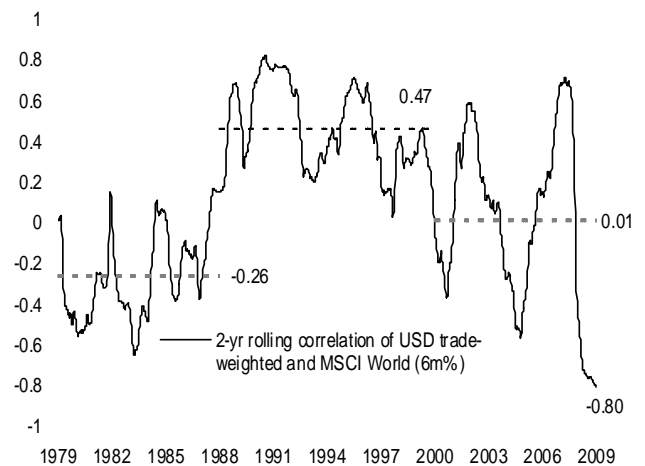
The correlation between equities and the dollar has been strongly negative in the last two years, with equities rising as the dollar declined. However, this is far from typical. There have been many periods in the past when the dollar has appreciated and equities have been strong (for instance, in the late 1990s and early 80s). In fact, since 1980, 69% of the time the dollar rose on a 3-month basis, so did global equities (but only 13% of the time since 2008).

Figure 52: The early 1980 and in the late 1990s saw equities rise while the dollar strengthened



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Figure 53: Correlation between dollar and global equities is the lowest on record



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If the dollar appreciates because of a positive surprise in US growth, it is not obvious that this would be bad for global markets. Currency corrections only become a problem for global markets if central banks respond to a weaker currency by raising rates (something that happened in October 1987), but at the current juncture this is very unlikely in Europe, where our economists expect core inflation to fall to 0.3% yoy by the end of this year.

Appendix 1

Figure 54: Country risk table

Country	Economic indicators						Ratings & CDS		Overall score	
	2009 Current account balance	2009 Government budget balance	2009 Government debt	Private sector credit	Net external assets	Potential GDP growth	CDS spreads	Credit Ratings		
<i>Weighting</i>	11%	11%	11%	11%	21%	5%	11%	21%		
1	Iceland	-8%	-13%	106%	478%	-269%	4.0%	430	BBB+	45.0
2	Greece	-7%	-13%	107%	83%	-70%	1.9%	230	BBB+	40.4
3	Hungary	-3%	-4%	83%	61%	-98%	3.5%	244	BBB-	38.4
4	Latvia	6%	-10%	9%	98%	-76%	4.0%	552	BB	35.6
5	Spain	-5%	-11%	58%	177%	-76%	2.1%	101	AA+	35.1
6	Portugal	-9%	-7%	84%	155%	-36%	1.3%	76	A+	34.0
7	Lithuania	1%	-9%	17%	71%	-50%	4.0%	310	BBB	33.1
8	Romania	-5%	-6%	13%	42%	-50%	5.0%	290	BBB-	32.9
9	Turkey	-2%	-6%	46%	29%	-27%	3.5%	190	BB	32.4
10	Ukraine	0%	-7%	25%	67%	-22%	5.8%	1295	B-	32.3
11	Bulgaria	-12%	-1%	18%	47%	-103%	5.0%	233	BBB	32.1
12	Ireland	-2%	-14%	64%	203%	-18%	2.6%	141	AA	31.3
13	Egypt	-2%	-7%	67%	41%	-17%	6.0%	260	BBB-	29.9
14	United States	-3%	-12%	87%	231%	-24%	2.1%	28	AAA	28.6
15	India	0%	-8%	77%	58%	-7%	8.1%	na	BBB-	28.6
16	Estonia	6%	-4%	4%	109%	-73%	4.0%	190	A-	27.8
17	Italy	-3%	-5%	123%	88%	-12%	1.9%	97	A+	27.7
18	South Africa	-5%	-5%	29%	84%	-24%	4.5%	144	A+	26.9
19	Kazakhstan	-3%	-3%	9%	46%	-29%	7.5%	230	BBB	26.4
20	Poland	-1%	-2%	48%	49%	-46%	4.0%	134	A	26.3
21	New Zealand	-2%	-6%	27%	168%	-77%	3.3%	50	AAA	26.2
22	Indonesia	1%	-3%	30%	27%	-32%	6.3%	191	BB+	26.1
23	Colombia	-3%	-3%	44%	30%	-22%	4.5%	151	BBB+	25.4
24	Czech Republic	-2%	-5%	36%	46%	-38%	4.0%	94	A+	25.3
25	Brazil	-1%	-3%	64%	58%	-18%	3.7%	118	BBB+	25.1
26	Argentina	5%	-1%	64%	9%	18%	3.0%	905	B-	25.0
27	Philippines	5%	-4%	57%	27%	-16%	4.5%	166	BB+	25.0
28	Australia	-4%	-4%	16%	266%	-50%	3.0%	31	AAA	24.4
29	Mexico	-1%	-4%	40%	28%	-34%	4.9%	131	A	24.3
30	Japan	3%	-8%	190%	151%	51%	1.8%	68	AA	24.0
31	France	-2%	-8%	86%	93%	-18%	2.3%	25	AAA	23.5
32	United Kingdom	-2%	-15%	75%	139%	5%	2.9%	76	AAA	23.3
33	Korea	4%	-5%	40%	178%	-12%	4.5%	86	A+	21.8
34	Thailand	6%	-6%	45%	90%	-5%	6.0%	89	A-	21.1
35	Russia	2%	-8%	7%	38%	15%	5.0%	186	BBB+	20.9
36	Malaysia	14%	-8%	50%	101%	17%	6.0%	85	A+	19.4
37	Chile	0%	-4%	5%	76%	-20%	5.4%	60	AA	17.9
38	Denmark	3%	-3%	47%	207%	-9%	2.3%	25	AAA	17.1
39	Germany	4%	-5%	78%	97%	25%	1.8%	19	AAA	16.6
40	China	6%	-3%	21%	106%	34%	9.5%	73	A+	14.2
41	Switzerland	6%	-1%	46%	183%	121%	1.5%	na	AAA	13.8
42	Singapore	16%	-3%	110%	104%	105%	4.6%	na	AAA	13.7
43	Norway	15%	10%	63%	134%	52%	2.1%	17	AAA	11.5
44	Hong Kong	13%	-2%	2%	143%	288%	4.3%	45	AA+	10.4
		1%	-6%	53%	107%	-17%	4%	192		

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Companies Mentioned (Price as of 07 Jan 10)

Air Liquide (AIRP.PA, Eu82.20, NEUTRAL, TP Eu71.00, MARKET WEIGHT)
 Alcatel-Lucent (ALUA.PA, Eu 2.63, NEUTRAL [V], TP Eu 3.00, MARKET WEIGHT)
 Alstom (ALSO.PA, Eu52.13, RESTRICTED)
 Altera Corp. (ALTR, \$22.34, NEUTRAL [V], TP \$23.00)
 Amkor Technology Inc. (AMKR, \$7.41, OUTPERFORM [V], TP \$10.00)
 Anheuser-Busch InBev (ABI.BR, Eu35.72, OUTPERFORM, TP Eu38.00, OVERWEIGHT)
 Apple Inc. (AAPL, \$210.58, OUTPERFORM [V], TP \$250.00)
 ArcelorMittal (MT.N, \$48.05, OUTPERFORM [V], TP \$60.00, OVERWEIGHT)
 Arkema (AKE.PA, Eu 27.54, OUTPERFORM [V], TP Eu 34.00, MARKET WEIGHT)
 ARM Holdings (ARM.L, 195.70 p, OUTPERFORM, TP 160.00 p, MARKET WEIGHT)
 Autonomy (AUTN.L, 1592.00 p, OUTPERFORM, TP 2000.00 p, OVERWEIGHT)
 BASF (BASF.DE, Eu 44.16, OUTPERFORM [V], TP Eu 47.00, MARKET WEIGHT)
 Beiersdorf (BEIG.DE, Eu45.70, NEUTRAL, TP Eu41.00, MARKET WEIGHT)
 Belle International Holdings Ltd (1880.HK, HK\$9.18, OUTPERFORM [V], TP HK\$7.80)
 BMW (BMW.G.F, Eu33.10, UNDERPERFORM [V], TP Eu32.00, MARKET WEIGHT)
 Brightpoint Inc. (CELL, \$6.93, NEUTRAL [V], TP \$8.00)
 British American Tobacco (BATS.L, 2044.50 p, OUTPERFORM, TP 2150.00 p, OVERWEIGHT)
 Bulgari (BULG.MI, Eu6.02, UNDERPERFORM [V], TP Eu3.20, MARKET WEIGHT)
 Cadbury (CBRY.L, 776.50 p, RESTRICTED)
 Caterpillar Inc. (CAT, \$59.67, OUTPERFORM [V], TP \$68.00)
 Cheung Kong Holdings (0001.HK, HK\$101.80, OUTPERFORM [V], TP HK\$117.24)
 China Mobile Limited (0941.HK, HK\$73.25, OUTPERFORM, TP HK\$105.00)
 Cisco Systems Inc. (CSCO, \$24.53, OUTPERFORM [V], TP \$28.00)
 Clariant (CLN.VX, SFr12.62, UNDERPERFORM [V], TP SFr9.70, MARKET WEIGHT)
 Coach, Inc. (COH, \$37.49, NEUTRAL [V], TP \$28.00)
 Compagnie Financiere Richemont SA (CFR.VX, SFr36.27, OUTPERFORM [V], TP SFr37.00, MARKET WEIGHT)
 Cookson Group (CKSN.L, 463.00p, OUTPERFORM [V], TP 570.00p, UNDERWEIGHT)
 Croda International (CRDA.L, 835.00p, OUTPERFORM, TP 860.00p, MARKET WEIGHT)
 CSR (CSR.L, 441.70 p, OUTPERFORM [V], TP 450.00 p, MARKET WEIGHT)
 Cummins Inc. (CMI, \$50.95, OUTPERFORM [V], TP \$59.00)
 Cymer Inc. (CYMI, \$39.30, OUTPERFORM, TP \$49.00)
 Daegu Bank (005270.KS, W16,300, OUTPERFORM [V], TP W20,100)
 Daimler (DAIGn.DE, Eu36.72, OUTPERFORM [V], TP Eu40.00, MARKET WEIGHT)
 Danone (DANO.PA, Eu42.75, OUTPERFORM, TP Eu46.00, OVERWEIGHT)
 Diageo (DGE.L, 1067.00 p, OUTPERFORM, TP 1050.00 p, OVERWEIGHT)
 DnB NOR (DNBNOR.OL, Nkr63.70, OUTPERFORM [V], TP Nkr80.00, MARKET WEIGHT)
 Dongfeng Motors Group Co Ltd (0489.HK, HK\$11.66, OUTPERFORM [V], TP HK\$11.50)
 Eisai (4523, ¥3,440, OUTPERFORM, TP ¥3,800, MARKET WEIGHT)
 EMC Corp. (EMC, \$17.56, OUTPERFORM, TP \$22.00)
 Ericsson (ERIC, \$9.85, UNDERPERFORM [V], TP \$7.55, MARKET WEIGHT)
 Flextronics International (FLEX, \$7.23, OUTPERFORM [V], TP \$8.70)
 GOME Electrical Appliances Holding Limited (0493.HK, HK\$2.87, OUTPERFORM [V], TP HK\$2.00)
 H.J. Heinz Company (HNZ, \$42.57, NEUTRAL, TP \$45.00)
 Hengan International (1044.HK, HK\$55.35, OUTPERFORM [V], TP HK\$47.00)
 Henkel (HNKG_p.F, Eu36.11, NEUTRAL, TP Eu35.00, MARKET WEIGHT)
 Hitachi Construction Machinery (6305, ¥2,418, NEUTRAL [V], TP ¥2,000, OVERWEIGHT)
 Holcim (HOLN.VX, SFr82.40, UNDERPERFORM [V], TP SFr62.00, OVERWEIGHT)
 Hongkong Land Holdings (HKLD.SI, \$4.78, OUTPERFORM, TP \$5.81)
 HSBC Holdings (HSBA.L, 736.50 p, OUTPERFORM, TP 830.00 p, MARKET WEIGHT)
 Hyundai Department Store Co. Ltd (069960.KS, W106,000, OUTPERFORM, TP W145,000)
 Imperial Tobacco (IMT.L, 1950.00 p, OUTPERFORM, TP 2200.00 p, OVERWEIGHT)
 Indofood Sukses Makmur (INDF.JK, Rp3750.00, OUTPERFORM [V], TP Rp4200.00)
 Infineon Technologies (IFXGn.DE, Eu 4.11, NEUTRAL [V], TP Eu 3.75, MARKET WEIGHT)
 Intel Corp. (INTC, \$20.60, OUTPERFORM [V], TP \$27.00)
 InterContinental Hotels (IHG.L, 903.50 p, OUTPERFORM [V], TP 910.00 p, MARKET WEIGHT)
 International Business Machines (IBM, \$129.55, NEUTRAL, TP \$110.00)
 Jabil Circuit Inc. (JBL, \$17.57, NEUTRAL [V], TP \$17.00)
 JCDcaux S.A. (JCDX.PA, Eu19.08, NEUTRAL [V], TP Eu15.30, OVERWEIGHT)
 KB Financial Group (105560.KS, W57,800, OUTPERFORM [V], TP W70,000)
 Kingfisher (KGF.L, 229.80 p, OUTPERFORM [V], TP 270.00 p, MARKET WEIGHT)
 Komatsu (6301, ¥1,945, NEUTRAL [V], TP ¥1,800, OVERWEIGHT)
 Konica Minolta Holdings (4902, ¥950, OUTPERFORM [V], TP ¥1,150, MARKET WEIGHT)

Koninklijke DSM NV (DSMN.AS, Eu34.74, NEUTRAL, TP Eu30.00, MARKET WEIGHT)
 Lafarge (LAFP.PA, Eu60.38, NEUTRAL, TP Eu53.00, OVERWEIGHT)
 Linde (LING.F, Eu 83.75, OUTPERFORM, TP Eu 90.00, MARKET WEIGHT)
 L'Oreal (OREP.PA, Eu78.08, UNDERPERFORM, TP Eu65.00, MARKET WEIGHT)
 LVMH (LVMH.PA, Eu79.99, OUTPERFORM, TP Eu77.00, MARKET WEIGHT)
 Marvell Technology Group Ltd. (MRVL, \$21.12, OUTPERFORM [V], TP \$22.00)
 Mattel, Inc. (MAT, \$20.00, OUTPERFORM, TP \$19.00)
 McDonald's Corp (MCD, \$61.90, NEUTRAL, TP \$69.00)
 Meggitt (MGGT.L, 276.50 p, OUTPERFORM [V], TP 250.00 p, MARKET WEIGHT)
 MEMC Electronic Materials Inc. (WFR, \$14.55, NEUTRAL [V], TP \$17.00)
 Micron Technology Inc. (MU, \$10.84, OUTPERFORM [V], TP \$15.00)
 Misys (MSY.L, 219.50p, OUTPERFORM [V], TP 300.00p, OVERWEIGHT)
 Motorola Inc. (MOT, \$8.13, OUTPERFORM [V], TP \$10.00, MARKET WEIGHT)
 NEC (6701, ¥244, NEUTRAL [V], TP ¥235, MARKET WEIGHT)
 Nestle (NESN.VX, SFr48.40, OUTPERFORM, TP SFr55.00, OVERWEIGHT)
 New Oriental Education & Technology Group (EDU.N, \$78.66, OUTPERFORM [V], TP \$79.30)
 Nike Inc. (NKE, \$65.85, OUTPERFORM, TP \$75.00)
 Nitto Denko Corp (6988, ¥3,420, OUTPERFORM [V], TP ¥4,000, MARKET WEIGHT)
 Nokia (NOK1V.HE, Eu9.29, UNDERPERFORM [V], TP Eu8.00, MARKET WEIGHT)
 NSK (6471, ¥694, OUTPERFORM [V], TP ¥840, OVERWEIGHT)
 NTN (6472, ¥421, OUTPERFORM [V], TP ¥500, OVERWEIGHT)
 ON Semiconductor Corp. (ONNN, \$8.89, OUTPERFORM [V], TP \$10.00)
 Outokumpu (OUT1V.HE, Eu14.45, NEUTRAL [V], TP Eu15.00, OVERWEIGHT)
 Pearson (PSON.L, 869.50 p, OUTPERFORM, TP 750.00 p, OVERWEIGHT)
 PepsiCo, Inc. (PEP, \$60.97, OUTPERFORM, TP \$76.00)
 Pernod-Ricard (PERP.PA, Eu 59.36, UNDERPERFORM, TP Eu 51.00, OVERWEIGHT)
 Philip Morris International (PM, \$49.53, NEUTRAL, TP \$53.00)
 Premier Farnell (PFL.L, 174.50 p, OUTPERFORM, TP 202.00 p, MARKET WEIGHT)
 Q-Cells (QCEG.DE, Eu12.35, NEUTRAL [V], TP Eu9.00, MARKET WEIGHT)
 QUALCOMM Inc. (QCOM, \$48.98, NEUTRAL [V], TP \$45.00, MARKET WEIGHT)
 Quest Software, Inc. (QSFT, \$18.60, NEUTRAL, TP \$17.00)
 Reckitt Benckiser (RB.L, 3270.00 p, OUTPERFORM, TP 3350.00 p, MARKET WEIGHT)
 Renewable Energy (REC.OL, NKr43.18, NEUTRAL [V], TP NKr35.00, MARKET WEIGHT)
 Research In Motion Limited (RIMM, \$65.30, OUTPERFORM [V], TP \$95.00, MARKET WEIGHT)
 Rolls-Royce (RR.L, 499.10 p, OUTPERFORM, TP 530.00 p, MARKET WEIGHT)
 SAB Miller Plc (SAB.L, 1841.00 p, OUTPERFORM, TP 1900.00 p, OVERWEIGHT)
 Sanmina-SCI Corp (SANM, \$11.46, NEUTRAL [V], TP \$8.00)
 SAP (SAPG.F, Eu 34.40, OUTPERFORM, TP Eu 40.00)
 Shinsegae Co. (004170.KS, W519,000, OUTPERFORM, TP W650,000)
 Siemens (SIEGn.DE, Eu66.53, OUTPERFORM, TP Eu76.00, UNDERWEIGHT)
 Skyworth Digital (0751.HK, HK\$7.78, OUTPERFORM [V], TP HK\$10.55)
 Solarworld (SWVG.DE, Eu16.61, UNDERPERFORM [V], TP Eu13.60, MARKET WEIGHT)
 Sony (6758, ¥2,743)
 Standard Chartered (STAN.L, 1604.50 p, OUTPERFORM [V], TP 2000.00 p, MARKET WEIGHT)
 Sun Hung Kai Properties (0016.HK, HK\$116.30, OUTPERFORM [V], TP HK\$133.96)
 Swatch Group (UHR.VX, SFr277.40, OUTPERFORM [V], TP SFr275.00, OVERWEIGHT)
 Symantec Corporation (SYMC, \$18.32, OUTPERFORM, TP \$20.00)
 Syngenta (SYNN.VX, SFr290.60, NEUTRAL, TP SFr270.00, MARKET WEIGHT)
 Tenaris (TENR.MI, Eu15.82, NEUTRAL [V], TP Eu14.00, OVERWEIGHT)
 Tencent Holdings (0700.HK, HK\$165.60, OUTPERFORM [V], TP HK\$166.70)
 Terex Corporation (TEX, \$22.59, OUTPERFORM [V], TP \$31.00)
 The Coca-Cola Company (KO, \$56.19, OUTPERFORM, TP \$62.00)
 Tiffany & Co. (TIF, \$46.89, OUTPERFORM [V], TP \$52.00)
 Tomkins (TOMK.L, 206.40 p, OUTPERFORM [V], TP 230.00 p, UNDERWEIGHT)
 Unilever PLC (ULVR.L, 1931.00 p, UNDERPERFORM, TP 1800.00 p, OVERWEIGHT)
 Vallourec (VLLP.PA, Eu133.85, NEUTRAL [V], TP Eu130.00, OVERWEIGHT)
 Vestas (VWS.CO, DKr319.50, UNDERPERFORM [V], TP DKr245.00, MARKET WEIGHT)
 Voestalpine (VOES.VI, Eu26.99, OUTPERFORM [V], TP Eu30.00, OVERWEIGHT)
 Wacker Chemie (WCHG.DE, Eu121.50, UNDERPERFORM [V], TP Eu80.00, MARKET WEIGHT)
 WPG Holdings Ltd (3702.TW, NT\$53.60, OUTPERFORM [V], TP NT\$71.00)
 WPP (WPP.L, 615.50 p, OUTPERFORM, TP 680.00 p, OVERWEIGHT)
 Yum! Brands, Inc. (YUM, \$34.71, OUTPERFORM, TP \$41.00)

Companies but not covered but mentioned in the report: Avon Products, Celestica Inc, Colgate-Palmolive Co, Eads (Euro Aero Def), Procter & Gamble Co, Signet, Songa Offshore Cyp, Sparebank 1 Smn, Storebrand Asa

Disclosure Appendix

Important Global Disclosures

The analysts identified in this report each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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Analysts' stock ratings are defined as follows:

Outperform (O): The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of $\pm 10-15\%$) over the next 12 months.

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***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

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Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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