

### III. INTERNATIONAL CAPITAL MARKETS

With a new outbreak of the economic and financial crisis at the end of 2008, international stock markets experienced greater losses in early 2009, against a background of ongoing uncertainty about the ability of the world economy to bounce back rapidly and of financial markets to get back to normal activity. Besides, the appearance of positive economic indicators showing the first signs of recovery in the world economy and a return of investor confidence as a result of massive and concerted interventions by governments and central banks throughout the world at the end of the first quarter helped calm uncertainty throughout the rest of the year, despite economic and financial difficulties in certain European countries and the Emirate of Dubai. International bond markets evolved in a different manner, making the most of their reputation as a safe investment at the beginning of the year, but then experiencing a downturn as soon as the international financial crisis showed signs of improvement.

For the year as a whole, international capital markets were marked by the following circumstances:

1- Stock markets bounced back in mid March, as investor aversion to risk faded after prevailing throughout a chaotic 2008 year, thanks to measures taken by the main industrialized countries to prop up monetary and budgetary conditions. In the United States, the Dow Jones closed on an increase of more than 20%. European stock markets in turn gained more than 20%, while the main index for the Tokyo Stock Market gained 19%. Moreover, thanks to stanch resilience by a number of economies in Asia and South America, the Morgan Stanley Capital Index (MSCI) of emerging stocks shot up by some 75%, while the MSCI world index rose by 27%.

2- The main sovereign bond markets in industrialised countries posted a counter performance in 2009. In fact, after having held exceptional attraction at the peak of the crisis and having taken advantage of their reputation as a safe investment in 2008, they recorded a considerable drop for the year 2009 as a whole, causing heavy losses for investors. In comparison to figures at the end of the previous year, ten year bond yields rose as follows: by 163 base points for US bonds to 3.84%, by 44 base points for European bonds to 3.40%, and by 13 base points for Japanese bonds to 1.30% for the year.

3- The loan market posted an improvement with return to normal conditions for the interbank market and world liquidity, especially starting the second half of the year, in line with various measures (both direct and indirect) taken by governments and central banks, which helped improve certain sensitive sectors such as banks and automotive industries, giving more flexibility to companies to raise funds on capital markets.

4- There was gradual improvement in activity on the market for emerging bond issues in foreign currency, helped by lower risk of default on payment in these countries and greater tolerance on the part of investors for emerging risk. In these conditions, margins applied on sovereign bond issues by emerging countries followed a downward trend. Thus the EMBI+ index closed for the year 2009 at 280 base points, a drop of 410 base points compared to the previous year's figure.

## A. STOCK MARKETS

After their collapse in 2008 because of the financial crisis, world stock markets bounced back in a spectacular manner in 2009. Overall, the MSCI world index went up by 27%.

The past year was marked in particular by economic recovery policies and ultra-accommodating monetary policies. Central banks succeeded in containing the crisis by making massive injections of liquidity at extremely low interest rates. At the same time, budgetary recovery plans helped improve conditions. Thus investors came to believe that there would be a return to growth sooner than expected and were willing to assume risk in acquiring stocks.

After fear at the start of the year that the financial crisis and recession could lead to a depression comparable to that of the 1930s, world markets bounced back in a remarkable manner. By the end of the first quarter, recession no longer marked stock markets. In effect, after falling to their lowest levels on 9 March, there was a stunning increase. European and American markets gained almost 20% over the figure of the beginning of 2009 and 60% compared to their lowest levels on 9 March, an achievement unparalleled since 1933.

The early impact of recovery plans launched by various governments and measures implemented to prop up the financial sector began to bear fruit, boosting investor confidence. Moreover, with access to loans being so difficult, businesses increasingly turned to the stock market for funding, leading to a greater volume of capital increases, which amounted to some 10 billion euros in 2009.

Between July and early autumn, strong corporate performance lent support to stock markets. Still, given the extent of uncertainty about economic recovery in 2010, trends in stock markets were somewhat mixed until the closing sessions of the year, when investors showed renewed interest in participating in the traditional yearend rally.

In Europe, stock values for the year as a whole posted the best figures since 1999, led by high mining prices driven by rising quotes for raw materials. The pan-European index Euro First 300 closed for 2009 on an increase of 25.69%.

The Paris Stock Market closed at the end of 2009 on an annual gain of 22.3%, after a record loss of almost 43% in 2008, with investors' return back to risky assets as the first signs of an end to recession appeared in the second quarter. This was the best annual performance in the index since 2005 (+23.4%). Over the first three months of the year, the Paris Stock Market plunged by 23%, to 2,465.46 points on 9 March 2009, falling to the levels of March 2003 just after the internet bubble burst. The CAC 40 then climbed back, soaring by 60%, on the strength of higher value for bank and automotive stocks.

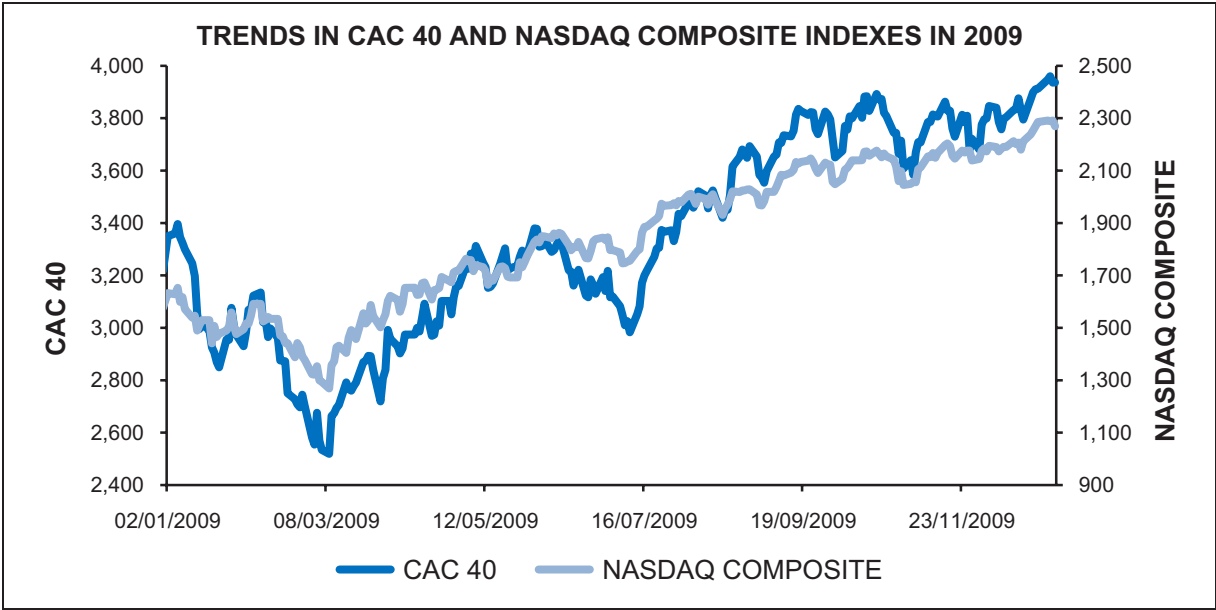
But although the overall index was higher, there were variations from one sector to another. The automotive branch (including parts manufacturers) recorded an increase of more than 75%, boosted by a very favourable base effect and by premiums for phasing out old vehicles, and this had a sustained impact in stimulating the market. Bank stocks also gained almost 70% in value. On the other hand, telecommunications stocks went up very little.

The key index on the London Stock Market closed for 2009 on an upturn of 22.1%, its best annual performance since 1997, influenced by major banks and mining stocks, two sectors

that had a major impact on trends for this index. From its lowest level, attained in March, the Financial Times Stock Exchange Index (FTSE 100) rose by 56.4%, despite the fact that the British market was burdened with an economy that was more fragile than that of other wealthy countries. In effect, the United Kingdom's economy showed no signs that the recession was coming to an end in late 2009, contrary to what was happening in most of the other developed countries.

The Madrid Stock Market's key index fell from 9,195 points on 2 January 2009 to 6,817 points on 9 March, but it then bounced back considerably, climbing by more than 77% to 12,070 points on 28 December. Various warnings by rating agencies about Spain's economic situation brought about a slight adjustment on the market and the IBEX 35 index closed for the year at 11,940 points.

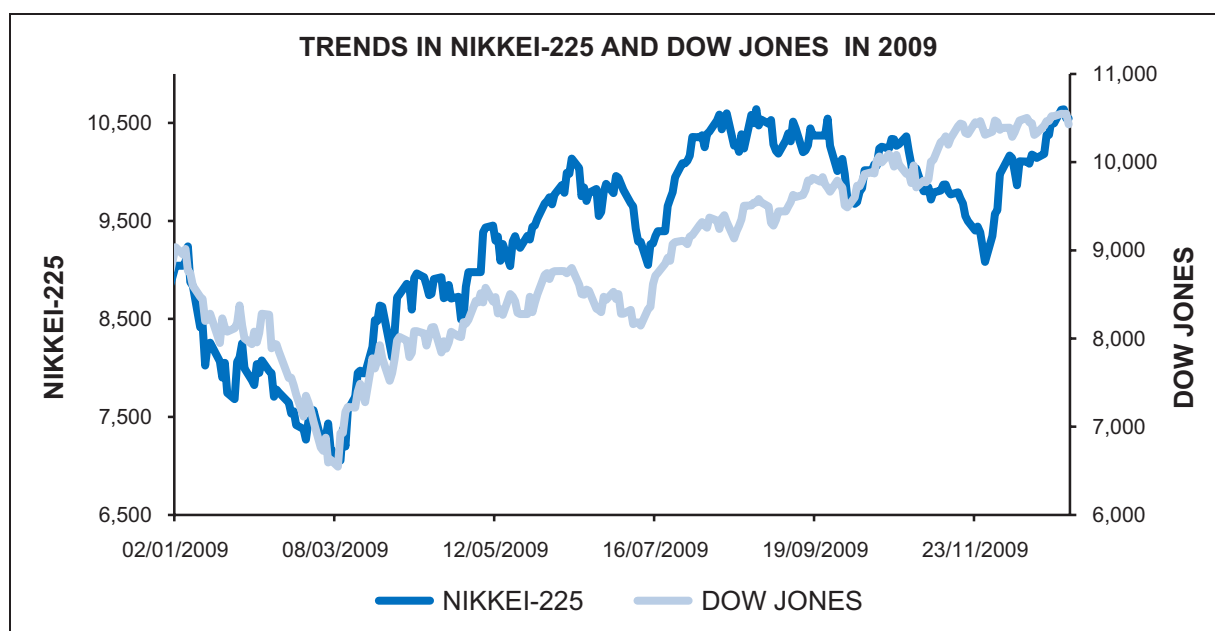
The Frankfurt Stock Market index posted an increase of almost 24% for the year and of 66% compared to its lowest level in March.



In 2009 American stock markets posted their best performance since 2003, on the strength of higher hopes as the economy recovered. The main motors for higher stock prices in 2009 were extremely low interest rates and the appearance of signs that the economic situation was stabilising.

The S&P-500 index went up by 23.5% for the year as a whole. The Dow Jones gained 18.8% and the Nasdaq Composite 43.9%. This performance was the result of nine months of rising stock market prices, led by technological values and groups of raw materials, with promising prospects based on economic recovery, a subsequent increase in investment expenditure, and renewed demand for energy, metals, and raw materials. The three most important indexes posted the following increases at yearend compared to their lowest levels in March: the S&P-500 67%, the Dow Jones 61.2% and the Nasdaq Composite 79.3%.

One of the notable components of the rise in 2009 of the US Standard & Poor's 500 index is the absence of major banks in the top 10. Financial values, which prior to the crisis were the most important category in the index, have now been replaced by technological stocks.



In Asia, the Tokyo Stock Market closed for 2009 on an increase of 19%, led by technological values helped by a weaker yen, perceived by players as a boost for Japanese exports, and by recovery measures launched by various governments. As was the case for other stock markets, the Japanese index recorded its lowest level in March, then recovered some 50%. Export listings in high technology were the major category contributing to recovery on the Tokyo Stock Market in 2009. On the other hand, bank stocks remained sluggish because of uncertainty about financing for businesses.

Stock markets in emerging countries showed their best annual performance. The MSCI world index of emerging stocks went up by 74% in 2009. Investors showed great interest in these markets, convinced that emerging countries would leave the crisis behind more quickly. The key index for the Indian Stock Market (the Sensex 30 Index) rose by 81%, the Bovespa index for the Brazilian Stock Market by 83%, and the Merval index for the Argentinian Stock Market by 115%.

#### TRENDS IN MAIN STOCK INDEXES

Financial centre	Index	31/12/08	31/12/09	Variation in %
Paris	CAC-40	3,218.0	3,936.33	22.3
Frankfort	DAX-30	4,810.2	5,957.43	23.8
London	FTSE-100	4,434.2	5,412.88	22.1
New York	DOW JONES	8,776.4	10,428.05	18.8
New York	Nasdaq composite	1,577.0	2,269.15	43.9
Tokyo	NIKKEI-225	8,859.6	10,546.44	19.0

## B. BOND MARKETS

After a sharp downturn in 2008, sovereign bond yields followed two different trends in 2009. Over the first half of the year, bond yields went up sharply, in line with better performance by stock markets in the second quarter and investor concern about growing budget deficits in the main industrialised countries. There was then a relatively fragile lull over the second half of the year.

For the first half of the year, influenced by growing expectations of inflation along with investor concern about the sustainability of the USA's debt, the 10 year US reference yield rate began the year on an upturn that reached 3% at the end of February, an increase of 79 base points over the end-2008 figure. This period of sharp correction was temporarily interrupted after the Fed announced adoption of a non conventional monetary policy, earmarking an envelope of USD 300 million to buy back sovereign bonds in an attempt to lower the overall level of rates. In effect, the 10 year US bond yield dropped to 2.54% on 18 March.

Starting on that date, yields began to rise, lasting until the first half of June, influenced in particular by coordinated action by governments at the G20 summit in April, which in turn encouraged investors to turn away from sovereign debt securities to other more profitable holdings. Thus ten year US yields came to 3.95% on 10 June, marking the high point of the year and the highest level since the end of October 2008.

Like 10 year American rates, European bond yields rose by 45 base points in January to 3.4%, following downgrading of the sovereign ratings for Portugal, Spain and Greece by the Standard and Poors agency (S & P). The rise of bond rates varied from one sovereign issuer to another, since 10 year Spanish and Portuguese sovereign yields picked up 64 and 78 base points respectively in January. Contrary to US rates, European two year yields lost some 57 base points between early January and 17 February, falling to 1.17%, as anticipation grew that the ECB would lower its key rate.

The 10 year European reference yield was highly volatile between mid February and mid March, due to the ECB's wait-and-see attitude about the monetary policy to be adopted, before following the trend of 10 year US bonds in a decisive move, marking a peak for the year of 3.71% on 5 June, an increase of 71 base points compared to the end-March figure, in line with growing concern about deteriorating public finances in certain Eastern European countries and S & P move on 22 May to downgrade the United Kingdom's sovereign debt rating from stable to negative.

Despite investor enthusiasm for short-term maturities, the European 2 year bond yield rose between mid February and end March by 7 base points to 1.24% because of expectations of stability in key rates by the main central banks, which hit record lows before moving to 1.42% on 8 June.

In Japan, 10 year yields also experienced a period of sharp tension over the first half of the year, in line with the announcement in February by the Bank of Japan (BoJ) of its intention to devote up to 1,000 billion yen (8.7 billion euros) for buy-back of stock held by Japanese banks in order to ease their balance sheets. The 10 year Japanese reference yield gained 14 base points between early January and the first week of February, rising to 1.34%, then to more than 1.50% on 10 June.

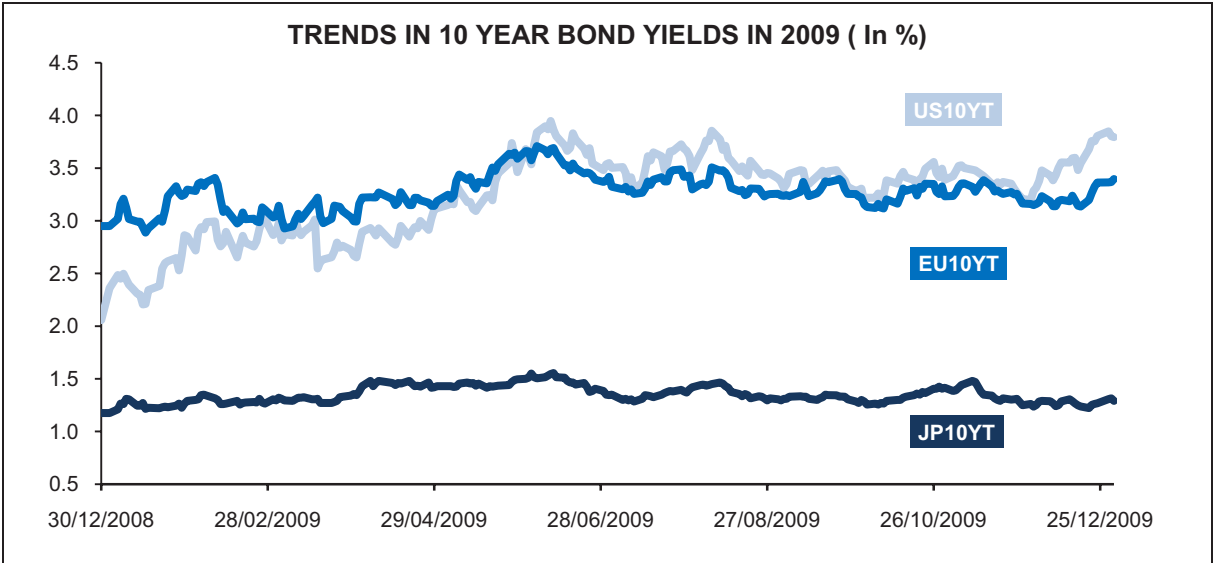
There was a relative lull in bond yields over the second half of the year, although there were chequered trends for US 10 year yields following episodes of stock market drops and publication over the second half of August of a pessimistic report on jobs in the USA, sustaining doubts about the pace of recovery, which led to a drop in the 10 year US yield to 3.40% at the end of August.

Trends in the 10 year euro zone reference yield were less volatile than that of the US yield for the same maturity. In effect, the 10 year euro rate yield closed for the third quarter of the year down by some 16 base points to 3.22%, while the 2 year euro rate yield hit its lowest level of the year at 1.09%, approaching the ECB’s key rate (set at 1%), reflecting investor perception that loan conditions in the euro zone would remain at their record level for a long time.

Over the last quarter of the year, yields suffered from renewed inflationary fears, following publication of certain figures indicating an improvement in economic conditions and questions about strategies for dealing with the crisis at European central banks. In effect, after dropping to 3.18% at the beginning of October, the US yield for 10 year bonds gained almost 32 base points, posting 3.50% at the end of the month, compared to 8 base points for the European yield of the same maturity. Statements by the US president in mid November to the effect that economic expansion was not as strong as expected, that federal rates would be maintained at exceptionally low levels, and that there was indeed concern about financial problems in the Emirate of Dubai brought about renewed aversion to risk and a drop in November in 10 year US and European reference yields by some 25 and 10 base points respectively.

As expectations of higher interest rates grew following publication in mid December of November’s US industrial production figures (up by 0.8%) and production prices in the United States that were better than expected, the ten year US reference yield closed for the year at 3.84%, up by 163 base points compared to its level at the beginning of the year. The euro zone bond market also experienced sharp correction, impacted by the US market and investor concern about further deterioration of the debt situation in Greece and Spain, closing for the year at 3.40%, an increase of 45 base points over the figure at the beginning of the year.

Still suffering from the deflationary pressure that continued to weigh on the Japanese economy, the yield for 10 year Japanese bonds moved over the second half of the year in a range of between 1.23% and 1.47%, to close for 2009 on a slight increase of 13 base points, in a context of soft recovery in activity and maintenance of short-term loans at near zero.



As for emerging countries, margins applied on issues both on primary and secondary markets tightened starting at the beginning of the year, effected by higher confidence following announcement by US officials of a plan to buy up bad assets, the strong surge in stock markets, and good performance by emerging economies, notably countries that are net exporters of merchandise that benefited from higher foreign demand for commodities. Aside from short episodes of pressure related to doubts about the sustainability of the budget deficit in certain emerging economies (especially after downward revision of ratings for certain Eastern European economies), margins applied to international sovereign issues on the secondary market went down, as reflected in the EMBI+ index, which closed for 2009 at 280 base points, falling by a considerable 412 base points from the figure posted at the end of the previous year.

**TREND IN 10 YEAR YIELDS FOR THE MAIN CURRENCIES**

<b>Currencies</b>	<b>Closure 2008</b>	<b>Closure 2009</b>	<b>Variation (base points)</b>
Dollar	2.21	3.84	+163
Euro	2.95	3.40	+45
Yen	1.17	1.30	+13