MONTHLY EDITION
November 12, 2012

INVESTMENT STRATEGY & MARKETS INSIGHTS

THE COAST IS CLEARING

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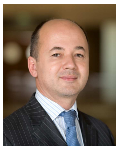

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CHASE FOR YIELD FAVORS HIGH YIELD CREDIT AND SEARCH FOR GROWTH WILL BENEFIT EM EQUITIES

As we approach year end, investors are keen on taking profits and cleaning their books. While abundant central bank liquidity and glimmers of a silver lining in the macro outlook can be seen as risk on factors, window dressing and lingering political uncertainty will continue to compel investors to keep a relatively cautious stance in the short term as political uncertainty weighs on market sentiment. However, brace for a risky asset rally in early 2013 with a re-rating of massively undervalued asset classes. We identify investment opportunities both in credit and in equities as investors are eagerly looking for alternatives to cash and may turn more bullish on the back of the improvement in the macro outlook and receding political risks.

Global growth is picking back up slightly, supported by loose monetary policies and an improving macro outlook in the US and China. With the exception of the Eurozone, the macro outlook is turning more supportive with EM economies massively outpacing debt-trapped DM economies.

In spite of dispelled systemic risks, investors have so far remained shy about investing in equities as attractive valuations are offset by elevated uncertainty surrounding the course of fiscal policies and low growth prospects in DM economies. From a micro perspective, improving corporate margins, at historical highs, can no longer drive profits without a stronger pickup of growth. The Q3 earnings season posted disappointing figures more for top line sales than for earnings, with Q4 likely to be worse. Yet, **on DM markets, we tactically prefer Eurozone equities to other markets as most of the bad news has been priced in and rock bottom valuations offer greater upside.**

Our biggest call for equities is on EM markets. Below average valuations, potential for additional policy easing and sustained growth make these markets compelling. The biggest catalyst for a broad-based improvement in EM equity performance is the growth turnaround in China already reflected by the bottoming out of leading indicators. Capital inflows to EM have so far mainly benefited fixed income markets and are likely to partially reallocate in favor of equities.

In the fixed income universe, corporate high yield is still the most attractive asset class. The year-to-date performance has been impressive (23% in the EZ, 13% in the US) with further spread compression expected in some markets given the positive carry in a zero policy rate environment. Investment grade looks comparatively more richly valued and more exposed to any yield pick up on benchmarks considering the much thinner spread cushion.

On **sovereign bonds**, central bank policies have anchored sovereign yield curves at ultra-low levels, making sovereign bonds unattractive. Only short-dated peripheral debt that offers both positive real yield and an ECB “put option” for issuance with maturity up to three years seems attractive. Here, Spanish and Irish debt are our preferred bets.

GLOBAL ASSET ALLOCATION

	USA	Eurozone	UK	Asia	Latam	EMEA	Japan
Goverment bonds	UW	UW	UW	UW	MW	MW	UW
Equities	MW	OW	MW	OW	MW	MW/OW	MW
Corporate credit	OW	OW	OW	MW	OW	MW/OW	UW

UW: Underweight
MW: Market Weight
OW: Overweight

MACRO OUTLOOK

DEVELOPED MARKETS

The global outlook is set to experience a gradual improvement in the months to come. The main engine of the modest growth pick up we foresee has been a further relaxation of monetary policies across the globe supplemented by more positive momentum in the US and China.

In developed economies, central banks have pledged additional liquidity injections in various forms, providing a backstop to tail risks: financial dislocation in the Eurozone, a fall back into a protracted recession in the US or in the UK. This loosening monetary stance is set to continue as fiscal policies will remain tight, if not tighten more.

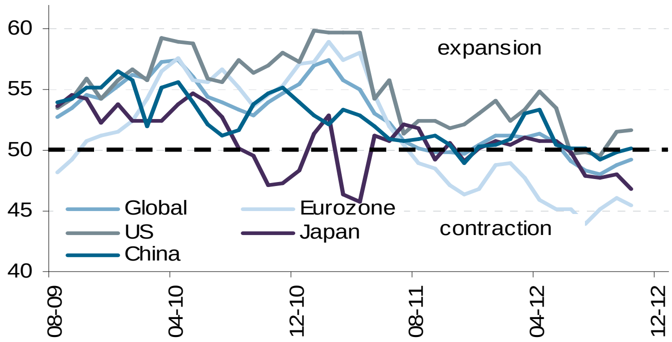
Too much fiscal retrenchment poses a significant risk to economic activity on both sides of the Atlantic. Whatever the need for closing these huge fiscal gaps, too ambitious targets will dent domestic demand impairing further the countries' solvency. In the short term, the US fiscal cliff will be the major market concern. The reelection of President Obama with a House of Representatives still led by Republicans is the perfect recipe for political gridlock fueling uncertainty until a likely last hour compromise. For this reason, businesses will continue to hold back big investment decisions, weighing on the recovery pace and on the appetite for risk. We are convinced that the Obama administration and Congress will eventually find an agreement to avoid the automatic spending cuts from kicking in and pushing the economy back into recession.

In the Eurozone, the ECB decision to buy peripheral debt with conditions has paved the way for a more benign financial environment. Financial stress indicators have markedly receded, as ECB intervention has dispelled tail risks (Euro area break up…). Spain is still expected to request a bailout, but spread compression is giving the government more time to ask for a lifeline. Yet, putting off too long such a request is not an option as Spain's economic outlook remains grim and the debt redemption wall for 2013 is big. At the Euro area level, ongoing recession is exemplified by shrinking private consumption and fast rising unemployment. A near-term exit from recession is not yet in sight and would require further monetary easing and a postponement of 2013 fiscal targets.

As for its macro outlook, the **UK** sits between the US and the Eurozone. Its economy is heading towards a modest recovery already materialized in Q3 thanks partially to BoE action, with the recent launch of the Funding Lending Scheme to prop up bank lending. Stringent austerity measures will continue to weigh substantially on activity.

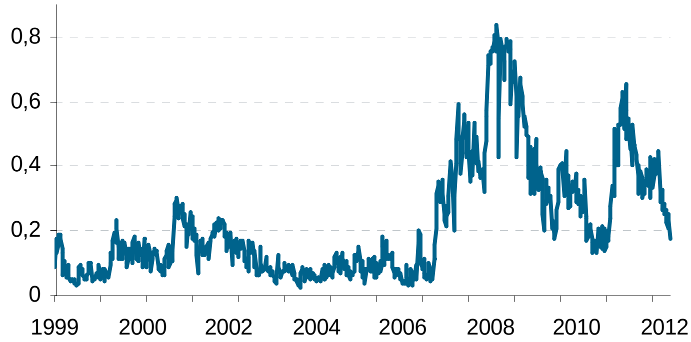
In **Japan**, economic momentum is still losing ground and the BoJ has fallen short of the stimulus needed to boost growth effectively. Only a significant weakening of the yen could foster export competitiveness and prop up equity markets, but the odds are not so high.

Global PMI manufacturing



Source: Bloomberg, Société Générale Private Banking

ECB systematic stress indicator



Source: ECB, Société Générale Private Banking

MACRO OUTLOOK

EMERGING MARKETS

Persistent economic stagnation in developed economies still stands in stark contrast with emerging markets, where, according to the IMF, growth is expected at 5.3% this year and 5.6% in 2013 vs. 1.3% and 1.5%, respectively, for advanced economies. Furthermore, major risks have faded heading into 2013—Eurozone debt crisis and China hard landing risk—clearing the way for a revival of risk appetite which we expect to support EM, particularly given a status quo view on US QE following the election. The danger is that the liquidity surge complicates the growth recovery with excessive FX appreciation, especially if inflation rears its head once again.

ASIA

Weak external demand amid resilient domestic demand has weighed on Asia's trade balances while risk factors have stunted portfolio flows, causing an overall erosion of balance of payments positions. This helps explain the muted appreciation pressure on Asian FX during the latest QE. Given reduced systemic risk, and with the two Asia giants—China and India—appearing to turn a corner, Asia's export contraction is winding down, lending a bias in favor of Asian FX (INR, KRW).

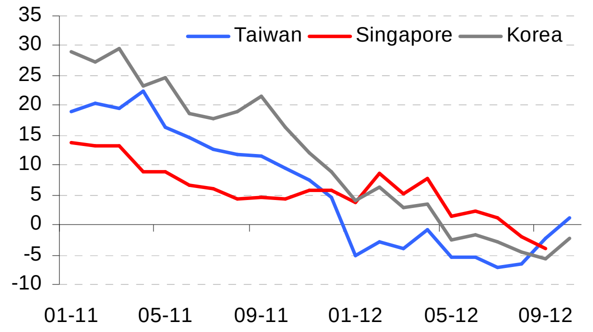
EMEA

Financial deleveraging and close export ties with the Eurozone remain the region's key weakness. Domestic credit growth is slowing, export growth has turned largely negative, sentiment is poor, and inflation has cut into real spending power, though is expected to ease. Turkey, however, has made progress diversifying away from the Eurozone and towards MENA, helping to offset weakening domestic demand. Furthermore, a coherent policy mix which includes successful inflation targeting and a strong growth outlook recently led Fitch to upgrade Turkey to IG, a status lost in 1994. Russia's structural story is shifting (privatizations may lead to greater transparency, local debt market Euroclearability should support inflows) but growth momentum is slowing. Inflation may, however, have peaked. Russia is in a good position to benefit from a China recovery and supportive oil price outlook.

LATIN AMERICA

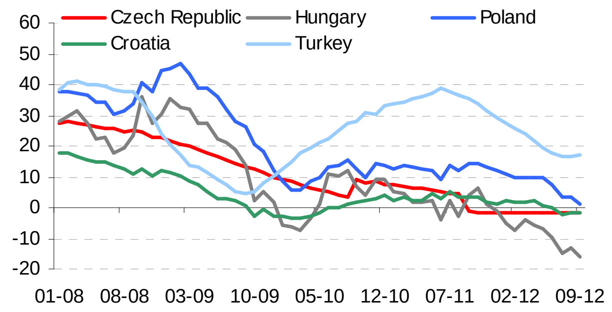
Despite the global slowdown, favorable domestic conditions have helped prop up growth even in many of the region's most open economies (Peru, Chile, Mexico). Strong capital inflows have helped fuel credit growth with the IIF forecasting increased inflows in 2013. Brazil is the region's key outlier, with sluggish growth despite massive policy easing (fiscal and monetary), though activity seems to have bottomed out. In fact, it may be the only country in the region where 2013 GDP growth will exceed 2012, helped by statistical carry-over (Peru and Colombia could also perform well). Investment prospects remain uncertain, however, given strong government intervention in the private sector. Mexico remains our standout favorite, given the successful shift to domestic demand drivers and prospects for structural reforms.

Asia: Exports (3mma, % yoy)



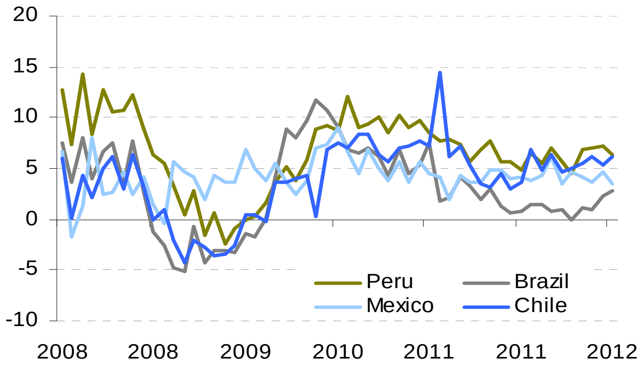
Source: Bloomberg, Société Générale Private Banking

Eastern Europe: Credit to Households (% yoy)



Source: Datastream, Société Générale Private Banking

Latin America: Economic Activity Index (GDP Proxy, % yoy)



Source: Bloomberg, Société Générale Private Banking

INVESTMENT VIEWS

US FOCUS

The reelection of President Obama with a House of Representatives still led by Republicans will maintain a political gridlock fueling uncertainty in the short term.

US EQUITIES TO BE ALMOST FLAT BY YEAR END. PREFER FINANCIALS TO CYCLICALS

While US equities have performed well this year (+12.7%), they are still appealing (2012e P/E 13.9x, 15% discount to the 10y average). Nevertheless, despite attractive valuations, we see a potential for negative surprises due to profits downgrades in Q4. According to our forecasts, 2012e profit growth should stand at 0% vs. +6% forecasted by consensus. As earnings downgrades are not priced in, the S&P 500 may trade down to 1375 by the end of the year before stabilizing towards 1450 in Q1 2013.

That said, we would suggest overweighting Financials (especially Banks) and underweighting expensive Consumer related stocks. Indeed, thanks to the recovery in the housing market and to the good FICC business performance, cheap US Banks (IB and regional) should continue to perform well. On the other hand, expensive Consumer stocks may be penalized by profit downgrades.

With the S&P 500 expected to be flat by year end we suggest leveraging US portfolios being OW Financials.

Latest changes in our US sectors allocation

Sectors	MSCI %	Sep-12	Oct-12	Chg
Energy	11.0%	OW	**N**	↘
Basic Materials	3.5%	N	**OW**	↗
Industrials	9.9%	N	**N**	
Consumer Discretionary	12.2%	OW	**N**	↘
Consumer Staples	11.2%	N	**N/UW**	
Health Care	11.7%	N	**OW**	↗
Financials	15.1%	OW	**OW**	
Information Technology	19.1%	N	**OW**	↗
Telecoms	3.0%	UW	**UW**	
Utilities	3.4%	N	**UW**	↘

Source: MSCI, Société Générale Private Banking

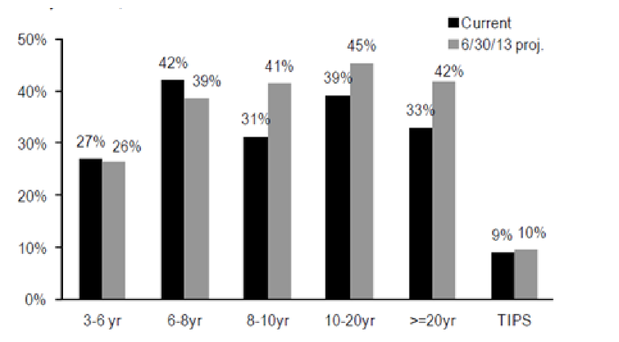
NO VALUE IN TREASURIES. CREDIT A CARRY PLAY

What we have seen so far in the Treasury market is a flattening of the 2/10 curve (Operation Twist/QE3). What can we expect from now? The reelection of Obama could trigger: 1) confirmation of accommodative monetary policy and risk market relief in a first stage, 2) continuation of split government that would lead to volatility due to fiscal cliff negotiations. This should continue to support Treasuries in the end whether an agreement is reached or not. Yet Treasuries are too expensive. In our view, 10yr fair value lies between 2.30% and 2.70%.

Credit markets: all fundamental and technical factors argue for a continuation of the positive trend. IG spreads have a little more room to tighten, which should, together with Treasury support, benefit the asset class in the near future. Favor sub financial debt and BB (in the HY space).

On Treasuries, we recommend being UW. Corporates are a carry play. Opt for short duration (curve is flat) and BBB/BB to capture higher spreads.

Treasuries held by the FED (% of outstanding)



Source: JPMorgan

INVESTMENT VIEWS

EUROZONE FOCUS

Financial stress indicators have markedly receded, as ECB intervention has dispelled systemic risks. Most downside risks have been discounted so far.

IT IS NOT TOO LATE TO BE TACTICALLY OVERWEIGHT ON BANKS

Although the Euro area economy is failing to shine, a lot seems priced into current multiples (2012e P/E 11x based on consensus forecasts). With earnings momentum slightly improving and bonds in Spain and Italy still performing well, the DJ Euro Stoxx should trade slightly up by the end of the year (2650). We see the ECB's OMT program as potential catalyst for Euro area outperformance vs. the US.

Waiting for better visibility about global economic growth, we prefer to leverage Euro area equity portfolios with Financials rather than Cyclical sectors. Indeed, we increase our current Marketweight weighting on Euro Financials to Overweight as we believe that thanks to the LTRO and to ECB action, we may see further banking sector rerating (2012e PBV at 0.7x). We reduce Energy and Basic Materials to Marketweight and Underweight, respectively.

I *With the ECB ensuring Bank and Government liquidity in the secondary markets, we believe that potential for further upside surprises in the Euro area is not fully priced-in on Financials.*

THE BEAUTY OF CORPORATE BONDS

With a 8.90% year-to-date performance, European sovereign debt markets have performed remarkably well so far. However, the massive liquidity injections no longer offset risk on North European Sovereigns' curves. Real negative yields are nonsense and the "belly countries" of Europe are more attractive for short- to medium-term investment (France/Belgium). Lastly, the OMT/LTRO context advocates for investments in the short end of Spain/Italy curves, as we believe Spain will request financial assistance. Southern Europe curves should remain steep though. So be careful on the long end, especially with Greek risk insidiously creeping back up and portfolio managers unlikely to add risk before year end. Get ready for the January rally instead.

We are more constructive on credit markets ahead of the January rally (with no sell-off by year end). We reiterate our constructive position on High Yield and subordinated financial debt markets, based on still strong fundamentals, the supportive regulatory framework and very strong technicals (massive inflows still). Spread compression has some room to go (for HY) and credit remains a carry play in any case.

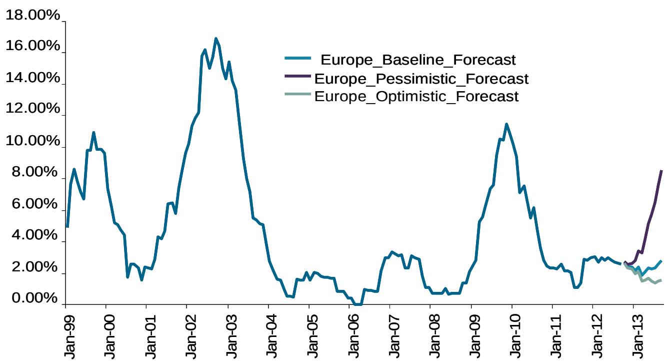
I *In a context of low visibility/high liquidity, opt for spread cushion and low duration.*

Latest changes in our Euro area sectors allocation

Sectors	MSCI %	Sep-12	Oct-12	Chg
Energy	7.8%	OW	N	↘
Basic Materials	7.4%	N	UW	↘
Industrials	12.8%	UW	UW	
Consumer Discretionary	14.8%	N	UW/N	
Consumer Staples	13.4%	N	N	
Health Care	7.0%	OW	OW	
Financials	18.5%	N	OW	↗
Information Technology	4.5%	N	N	
Telecoms	5.6%	UW	UW	
Utilities	8.2%	N	UW/N	

Source: MSCI, Société Générale Private Banking

European High Yield default rate history and forecasts



Source: Moody's, Société Générale Private Banking

INVESTMENT VIEWS

UK FOCUS

While the economy is heading towards a modest recovery stringent austerity measures will continue to weigh on activity.

WAITING FOR BETTER VISIBILITY IN THE UK

While the UK market remains cheap compared to other developed countries (2012e 11.2x vs. 13.5x for DM) we believe that it still lacks a positive catalyst to outperform. Indeed, the BoE put on hold its asset purchase program on November 8. We therefore suggest investing more in Euro stocks which may see strong outperformance on ECB action (we expect Spain to apply for a bailout in the coming months).

As UK banks are strongly correlated to Euro area banking performance, we expect UK Financials (Overweight) to do well. For the time being, we would recommend picking growth sectors outside the UK (EM or US) and therefore keep a cautious stance on Energy, Basic Materials and Industrials (all rated Marketweight). We underweight expensive Consumer Staples (2012e P/E 14.5x).

With earnings forecasts still trending lower, we do not see cheap valuations as a sufficient catalyst for outperformance vs. other developed countries. We expect the FTSE to trend close to 6000 by Q1 2013.

NO CHOICE BUT CORPORATE CREDIT IF YOU HAVE TO INVEST IN FIXED INCOME

We have not seen much of a performance so far on the Gilt market (2.24% YTD TR) in spite of QE. And yet, one could also say that QE has been more of a help to the Gilt market than to the UK economy. At 1.81%, the 10-yr Gilt is expensive and does not even compensate for inflation (CPI likely to stay north of 2% in 2013). So what's next? The BoE already owns 34% of outstanding nominal Gilts and has now turned to non-conventional tools (Funding Lending Scheme). We expect therefore to witness a steepening of the Gilt curve on the belly, probably less so on the very long end (30yr area) as supply remains limited going forward and foreign ownership is likely to remain on a positive momentum through year end. Stay out or choose short duration.

To be invested in £ markets, corporate credit is more attractive. Fundamental & technical factors are supportive, just like everywhere else.

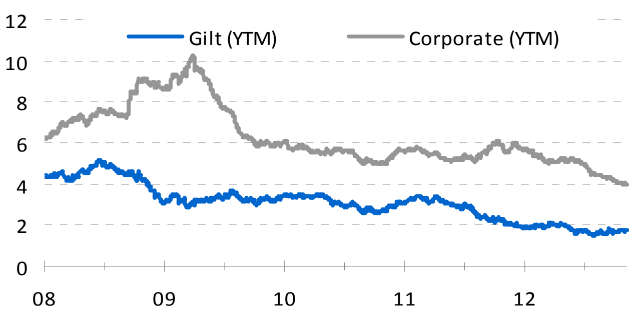
Stay exposed to HY and bank subordinated debt. The fall in yield is becoming a concern in a relatively limited market in size, in spite of attractive spreads on a relative value basis. Average yield for £ corporates stands at 3.92% for 8-year duration: not enough!

UK sectors allocation

Sectors	MSCI %	Sep-12	Oct-12
Energy	17.7%		UW/N
Basic Materials	14.0%		N
Industrials	6.0%		N
Consumer Discretionary	6.1%		N/OW
Consumer Staples	0.0%		UW
Health Care	7.5%		N
Financials	20.1%		OW
Information Technology	0.8%		UW
Telecoms	6.4%		UW
Utilities	4.0%		OW

Source: MSCI, Société Générale Private Banking

Gilt/Corporate Yield (YTM)



Source: FactSet, iBoxx, Yieldbook

INVESTMENT VIEWS

JAPAN FOCUS

The economic momentum is still losing ground and the BoJ has fallen short of the stimulus.

DESPITE DEEP VALUE, WE ARE STILL MISSING THE UPSIDE CATALYST

Japanese equities are extremely cheap, currently trading at P/BV close to 0.9x for both 2012 and 2013 forecasts. However, while potential downside seems limited, we do not see positive catalysts either in the coming months. Profit momentum continues to be poor (it is the weakest among developed countries) and further profits downgrades should not be excluded before the end of the year. Therefore, while valuation helps to define a floor we do not see the Nikkei trading above 9400 by end-2012.

We would suggest keeping a defensive allocation with low exposure to exporters which still face contracting activity. We would Overweight Health Care, Telecoms and Banks while Consumer Discretionary and Basic Materials should be avoided.

The Nikkei is really a value market but a rerating catalyst is missing in the short term. Waiting for a currency depreciation, stay very defensive

Japanese sectors allocation

Sectors	MSCI %	Sep-12	Oct-12
Energy	**1.8%**		**N**
Basic Materials	**6.0%**		**UW**
Industrials	**18.7%**		**N**
Consumer Discretionary	**20.5%**		**UW**
Consumer Staples	**0.0%**		**N**
Health Care	**7.2%**		**OW**
Financials	**16.9%**		**OW**
Information Technology	**11.4%**		**N**
Telecoms	**7.3%**		**OW**
Utilities	**2.4%**		**UW**

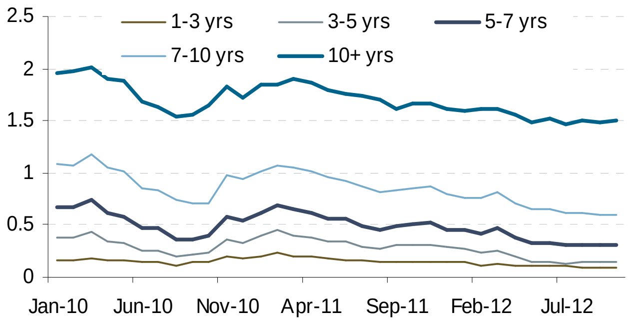
Source: MSCI, Société Générale Private Banking

WATCH THE ENTRY POINT IF ANY

So far, the BoJ has failed in raising inflation expectations. It will therefore keep easing by buying JGBs. At the same time, the Japanese government may face difficulties meeting its issuance needs in the current political context: the "Japanese fiscal cliff". This could create an attractive entry point from a relative value perspective for Japanese investors. This does not give many basis points to catch though! Even corporate markets are unattractive: fundamentals are—still and in spite of competition—globally good (CB monetary easing, reconstruction demand, Utilities' sector normalization, etc). Pricing is very rich: BofA ML index stands at 0.68% for a 4yr average duration. The only way to find profits is probably to watch those issues attracting specific market attention (improper accounting: Olympus for example) or more global negative factors (deterioration in Sino-Japanese relations). Keep an eye also on foreign banks (eg, US or Australian) as they are regular issuers of Yen bonds.

Stay long duration to try and catch yields that should trade in a 0.70% to 0.85% range on the 10-year bond. Prefer Credit.

Japanese JGB YTM (%)



Source: Bloomberg, Société Générale Private Banking

INVESTMENT VIEWS

ASIAN MARKETS FOCUS

Recent data points to a turnaround in the China growth story, boosted by government-led infrastructure spending. Asia's export contraction looks to be turning a corner, demand is picking up, restocking is approaching and inflation remains contained.

DECORRELATING FROM DEVELOPED MARKETS ECONOMIC GROWTH. KOREA IS OUR TOP PICK

Recent data points to a reacceleration in Chinese economic growth. We believe that earnings momentum should shortly improve, sustaining Chinese and Asian stock market performance relative to other Emerging Markets. In Asia, while we continue to Overweight China, tactically we prefer South Korea given low multiples (2012e P/E 9.6x vs. 11.2x for GEM) and strong profits growth. Signs of recovery in South Korean exports is the catalyst to buy into year end.

Among Asian sectors, we would suggest tactically Overweighting those related to internal demand, namely Consumer Discretionary and Financials. On the other hand, waiting for better visibility on developed countries' economic growth we Underweight global cyclicals such as Basic Materials and Industrials.

Asia remains our favorite place to invest among EMs. We particularly like South Korea thanks to low valuations, strong EPS momentum and recent underperformance.

DIFFERENT STORY ON FIXED INCOME MARKETS: ASIA IS TOO FASHIONABLE

On the credit side, 2012 YTD is already a record year in terms of issuance. This offer finds growing demand, especially from the private investor base. As such, it helps liquidity. Added to improving corporate fundamentals together with sovereign upgrades (eg, Philippines), all factors have contributed to strong inflows into the asset class, and to spread compression. We do not see any particular catalyst for outperformance over the coming three months however. Moreover, nonperforming assets at Chinese banks could triple in 2013 according to Chinese sources, and as such weigh on Asian credit markets.

No value in hard currency (HC) sovereign bond markets.

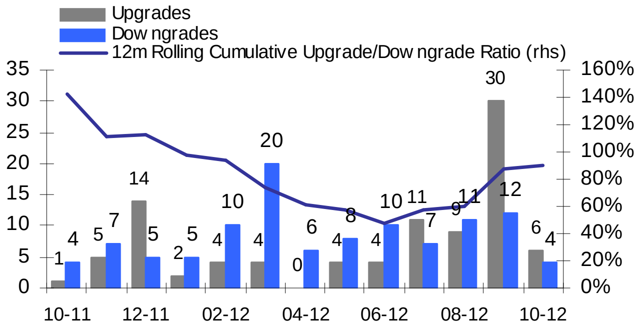
Take profit on HY markets which are too tight vs. US HY and have already enjoyed very good performance YTD (20.4% TR). Lock in profits by investing in defensive corporate Investment Grade (in spite of low yields), well supported by the growing EM institutional investor base. Get ready to add risk in January.

Asian sectors allocation

Sectors	MSCI %	Sep-12	Oct-12
Energy	5.6%		N
Basic Materials	8.8%		UW
Industrials	7.6%		UW
Consumer Discretionary	14.4%		OW
Consumer Staples	17.6%		N
Health Care	1.8%		UW
Financials	25.3%		OW
Information Technology	8.5%		OW
Telecoms	9.6%		N
Utilities	4.1%		N

Source: MSCI, Société Générale Private Banking

Positive momentum on Asia Fundamentals



Source: S&P, Moody's, Fitch

INVESTMENT VIEWS

LATAM MARKETS FOCUS

Despite the global slowdown, favorable domestic conditions supported by fiscal and monetary easing have helped buffer regional economic growth against undue external drag. Expect a continuation of the status quo heading into 2013.

THE LEAST ATTRACTIVE STOCKS AMONG EMERGING MARKETS

With earnings momentum trending down (especially Brazil) and expensive valuations (Latam 2012e P/E 13.3x vs. 11.2x for GEM), there are few reasons for regional outperformance in the very short-term. Indeed, as superior earnings growth and lower risk perception (eg, US fiscal cliff) would be necessary to sustain a valuation premium vs. other EMs, we would tend to slightly reduce exposure in favor of Asia, though remain Marketweight.

That said, while we keep an Underweight on global sectors (Energy, Basic Materials and Industrials) we favor domestic growth, Consumer Discretionary and marginally Staples. Despite the worsening policy backdrop toward banks in recent months (notable reductions in rates on selected consumer loans), we remain Overweight Financials given ongoing credit growth.

Considering the relative expensiveness of the region, we would suggest taking more exposure to other EM, namely Asia.

Latam sectors allocation

Sectors	MSCI %	Sep-12	Oct-12
Energy	52.6%		UW
Basic Materials	8.6%		UW
Industrials	3.3%		UW
Consumer Discretionary	2.7%		OW
Consumer Staples	6.0%		N
Health Care	0.0%		NM
Financials	17.6%		OW
Information Technology	0.0%		NM
Telecoms	0.7%		N
Utilities	8.4%		N

Source: MSCI, Société Générale Private Banking

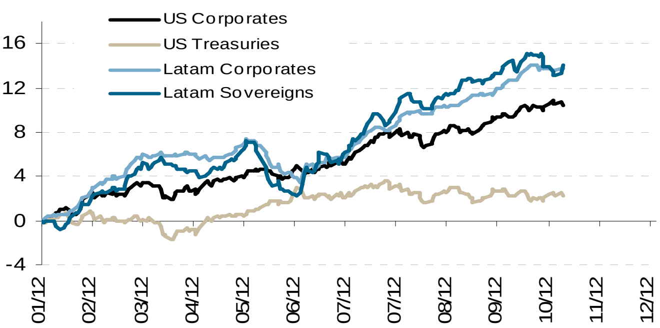
WE LIKE THIS DISREGARDED MARKET

The two main sovereign markets are Brazil & Mexico (HC). We don't see much value in either right now.

For corporates, 2012 has witnessed so far a record level of issuance ($70.3bn YTD). Investors have been very active which creates positive market liquidity momentum. We may see a bit of cautiousness up to year end, however. This is very much driven by the still shy US growth prospects, together with good performance of Latam YTD (+13.7%) and recent data showing a slightly declining average solvability of corporates (upgrade/downgrade ratio). However, the current balance of negative/positive outlooks is a comforting element for the near future which creates an entry point in our view. On the valuation side, Latam has lagged EMEA and Asia in 2012, with spreads still trading much wider. The context of sustained growth anticipated in 2013, especially in Brazil, even if still below trend, is positive.

US data is obviously going to be an important driver in the near future. However, on a EM corporate relative value basis, we reiterate our OW on Latam. We see more attractiveness on Brazil, Mexico, Peru and Colombia. Bond picking is key of course. We like state-owned Brazilian banks.

YTD total return (%): US vs. Latam



Source: Bloomberg, Société Générale Private Banking

INVESTMENT VIEWS

EMEA MARKETS FOCUS

With the Euro area recession weighing on activity, monetary policies are likely to remain accommodative, yet growth still subdued. The recent decline of Russian inflation amid softening activity argues in favor of policy there being held steady (ie, no more rate hikes at this time).

RUSSIA IS OUR BEST PICK WITHIN THE REGION

Strong correlation with the Euro area on which we are tactically positive, low valuations (2012e P/E 8.3x vs. 11.2x for GEM) and the big weight of Russia within the region (41.9% of the market cap) are all factors which sustain our positive view on EMEA to year end. While the Turkish equity market shows the best profits momentum in the region, we would tactically Overweight Russia. Indeed, positive momentum, low valuation (2012e P/E 5x) and underperformance should be catalysts for a re-rating (not only in the short term).

We like the attractiveness of the Energy market in Russia (2012e P/E 4.0x) and the fundamental risk-reward offered by Russian Banks (2012e P/E 5.9x) which are short-term driven by EU banks (Overweight).

I Our positive stance on Euro area equities by the end of the year clearly calls for potential reweighting of the region. We are buyer of cheap Energy and Banks in Russia.

EMEA sectors allocation

Sectors	MSCI %	Sep-12	Oct-12
Energy	47.6%		OW
Basic Materials	11.3%		N
Industrials	0.9%		N
Consumer Discretionary	2.0%		OW
Consumer Staples	0.0%		OW
Health Care	3.6%		N
Financials	21.8%		OW
Information Technology	0.0%		NM
Telecoms	6.5%		N
Utilities	5.1%		UW

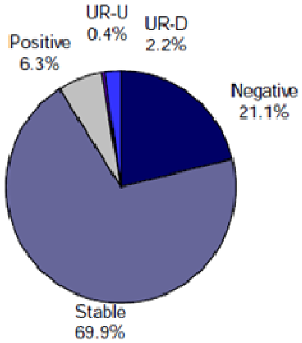
Source: MSCI, Société Générale Private Banking

THE MOST DEPENDENT EM MARKET ON NEGATIVE EXOGENEOUS FACTOR

The strong link of EMEA to Western Europe is a key weakness. Given our expectations for ongoing EZ recession, macro factors are therefore slightly negative. Moreover, we have seen a lot of low quality issuers take advantage of the low yield environment recently. That lowers the average quality of the corporate universe, on which we focus here. We still like corporate credit but we want to adopt a cautious stance, except for Russian and Turkish banks as they are bought by the Asian investor base.

I Be cautious on a relative value perspective within the EM corporate space despite attractive yields, at an average of 4.35% (7.3% on HY) and YTD performance of 15%. Take profit on High Yield and stick to a selective bond picking process.

EMEA HY outlooks' composition



Source: S&P, Moody's and Fitch

INVESTMENT VIEWS

FOREX

EUR/USD: RANGEBOUND MARKET IN THE MONTHS AHEAD

As market sentiment turned more positive, many EUR short positions have settled, lifting the single currency upward since mid-summer. Unsterilized QE3 launched by the Fed should weaken the USD vs. the EUR but the woes of the Eurozone remain a substantial drag on the single currency. Spain requesting a bailout would be a short-term positive. But the recession should lead the ECB to take additional easing measures (rate cut, liquidity, collateral), although not necessarily in the months ahead except if growth disappoints meaningfully. The overall effect appears undecided without demonstrating a particular trend but risks looking more tilted to the downside for the EUR.

In this context, the EUR should trade in the 1.30-1.25 range at a three-month horizon.

USD/JPY: BoJ ACTION AND STRONGER RISK APPETITE WILL DRAG DOWN THE YEN.

Following on the Fed QE3, the Bank of Japan substantially increased its securities purchases twice in the past two months in order to keep up pace and try to weaken the yen. Further action is likely as the BoJ is shouldering rising political pressure. Improvement in global investor sentiment and continuous monetary easing is set to weigh on the yen.

We are betting on an erosion of the yen over the coming months (82/USD at three months).

EUR/GBP: THE POUND SHOULD CONTINUE TO REGAIN SOME GROUND

After a summer weakening vs. the EUR, the pound has recently taken a reverse course. As the United Kingdom should see better economic conditions in 2013 than the Eurozone (modest growth vs. zero growth) and the BoE could slow the pace of its asset purchases, this should stage a positive effect on the pound's performance.

We expect the GBP to appreciate further (0,78/EUR at three months).

EUR/CHF: ALWAYS A SAFE HAVEN FOR WORRIED INVESTORS

We stick to our view that the time for a stronger EUR vs. the CHF has not yet come. A new episode of tension in the Eurozone would trigger another rush towards the CHF. As long as investors question the ability of the EZ to tackle decisively the European crisis, the CHF will remain the perfect safe haven and will continue to attract capital inflows.

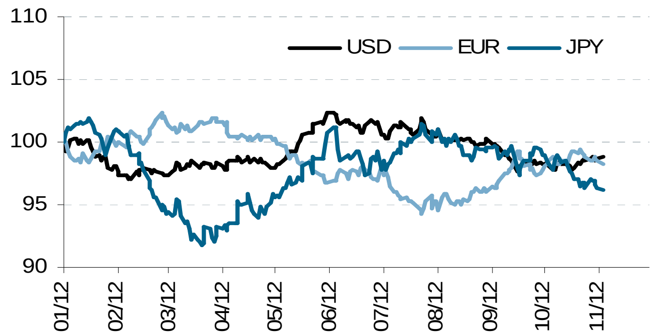
We keep unchanged our 1,20/EUR forecast at three months.

FOREX Forecasts

Cross Rates	Spot	3M Forecast	12M Forecast
	12/11/2012		
EUR/USD	1,27	1,28	1,25
EUR/GBP	0,80	0,82	0,78
EUR/CHF	1,21	1,20	1,20
USD/JPY	79	82	85
USD/CAD	1,00	0,99	0,97
AUD/USD	1,04	1,04	1,02

Source: Datastream, Société Générale Private Banking

Trade-weighted Exchange Rate (rebased to 100 on 02/01/2012)



Source: Datastream

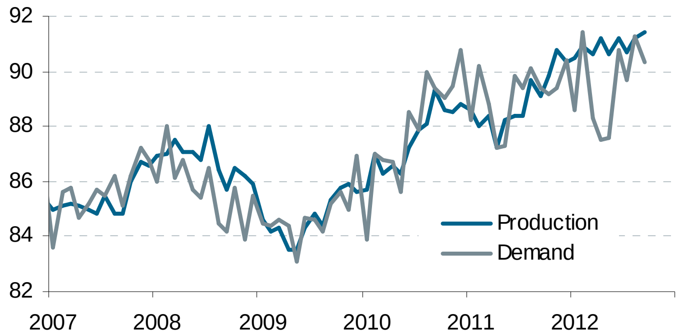
COMMODITIES

OIL: PRICE SHOULD INCH UP BUT NOT BEFORE 2013

After gaining USD 25 between June and August, the price of Brent has moved sideways, returning recently below the USD 110/b mark. As the global economy is moving towards a growth turnaround, we consider that oil demand should rise but a price pick-up may not materialize before early 2013. Indeed, two offsetting factors may play out in the short term: the first one is the receding geopolitical risk premium as the Obama re-election makes a direct confrontation with Iran less likely; the second one is the increase in US oil production that reverses the course of the last thirty years. Moreover, OPEC oil supply remains abundant. With growth bottoming out in EM economies, demand should gradually gain pace, pushing up prices albeit moderately. Continuous quantitative easing by the Fed is also price supportive over time.

In this context, we consider that the price of a barrel should range trade (USD 100-110/b) before regaining ground above USD 110/b under the effect of improved economic conditions in emerging and developed economies.

Global Oil Production and Demand (million barrels)



Source: Bloomberg, Société Générale Private Banking

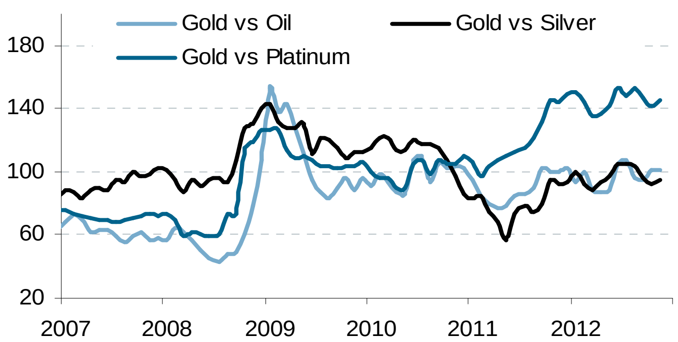
GOLD: POLICY BACKDROP REMAINS SUPPORTIVE

After a significant price run-up during last summer, gold has pulled back. This is not fully consistent with the monetary easing being carried out across the board, particularly in developed economies. QE3 in the US and the announcement of the bond buying program by the ECB, all open-ended or unlimited monetary actions, are strong positives for gold as liquidity is set to flood financial markets. Considering that fiscal policies will tighten somewhat in G20 countries on average next year, further monetary policy relaxation is due to avert a further deterioration of the economic momentum.

Fear of currency debasement that translates into a search for an inflation hedge will continue to support the appetite for gold. Over the coming months, gold offers a potential upside as demand for gold as an investment will continue to soar.

The conditions are there for gold to return to close to USD 1800/oz over the coming three months.

Gold Price relative to other commodities (average since 1971=100)



Source: Datastream, Société Générale Private Banking

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