



DOLMEN STOCKBROKERS **WEEKLY OUTLOOK**

09.10.2006



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Section

1 Market View

Last week saw the Dow Jones hit an all time high as the latest set of economic releases from the US reaffirmed that the worlds largest economy was slowing, while weak oil and commodity prices reduced the potential of further inflation. The combination of these factors along with comments from Fed Chairman Bernanke that the cooling housing market and the previous policy of monetary tightening would ease inflationary pressures and take 1% of GDP growth in the fourth quarter and into 2007 heightened expectations that the next move in US rates would be down. Whether this turns out to be the case will be made clearer this week as the Fed release minutes for its last meeting in September and also we get a feel for the current economic conditions when the Fed's Beige Book is released.

Below are our current trading ideas

Trading ideas	
<p>BP Last rec @ 582p Current: 573p Target: 660p Stop-loss: n/a</p>	<p>BP's recent trading statement for the 3 months ended 30/09/06 indicated production of only 3.8m boe per day as a result of another "heavy UK maintenance season". This was lower than the 3.9m boe per day which was expected, and the 3.824m boe per day which was achieved for Q3 2005. Following on from the recent disappointments in relation to lower refining margins and a delay in restoring the Thunder Horse production, as well as the c.25% correction in the oil price, there is a great deal of bad news now factored into the company's share price, which has fallen by 12% since the end of July. However, what is not yet discounted by the share price is the potential for production growth to resume in 2007. BP has a large number of new production start-ups coming on stream over the next 12 months, which should result in overall production growth of c.5% being achieved in 2007, with new start-ups in both Angola and Azerbaijan expected to increase production by a total of 0.4m boe per day over the next 2 years. Our current 12 month price target for BP of £6.60 (15% upside) is based on 11x 2007 eps of 60p. BP will also pay a dividend yield of 3.7% for waiting for this upside to be achieved : BUY.</p>
<p>BHP Billiton Last rec @ 887p Current: 916p Target: 1,250p Stop-loss: 830p</p>	<p>Our view remains that BHP does not require major further commodity price increases to generate strong earnings growth over the next 12 months, as this can be achieved from production increases. The company expects to increase production by c.8% per annum over the next 4 years, which will be achieved by its US\$14.4 bn sector leading project pipeline coming on stream. For the 12 months ending 30/06/07, BHP is expecting to expand its production of iron ore, copper, coking coal, oil and nickel by between 6% and 12%. We are forecasting 18% eps growth to £1.04 for the year ending 30/06/07, and our current 12 month price target of £12.50 is based on 12x eps of £1.04. Now accounting for between 15% and 25% of global commodity demand, BHP also gives investors a major exposure to China's expansion as an industrial superpower : BUY.</p>
<p>IAWS Last rec @ €15.90 Current: €14.70 Target: €15.90 Stop-loss: €14.20</p>	<p>On September 26th IAWS reported pre-tax profits of €123.5m for the year ended 31/07/06, up 14.6% on the previous year. Earnings per share was up 13.5% to 81.6 cent and turnover was 10.6% higher at €1.6bn, compared to forecasts of 80c and €1.52bn respectively. Operating margins remained stable against a backdrop of higher costs, and the agribusiness division showed some recovery, with profits up 5% to €24m on the back of increased demand for animal feed ingredients and fertiliser. IAWS shares enjoyed a strong run up to the results and we expected a certain level of profit taking post-results. Our recommendation on the stock in the run up to results had been Neutral. However, the sharp c.10% correction since then has generated an attractive buying opportunity in a high growth food company. BUY</p>
<p>CRH Last rec @ €26.54 Current: €26.90 Target: €30 Stop-loss: €24.30</p>	<p>US mortgage applications increase last week by the highest amount since June 2005, increasing by 11.9% on the previous week. A factor in the increase in activity has been the 0.5% decline in the 30 year mortgage rate over the past 3 months. Last week, it was also announced that US existing home sales rose by 4.3% in August, above the consensus forecast for a flat outturn and a 7% fall in July. Any evidence of stabilisation in the US housing market should help improve sentiment toward the CRH share price, given that its European markets are continuing to recover, and given that its infrastructure and non-residential construction markets in the US remain strong. Evidence of the strength of these markets was the 20% increase in the H1 dividend to 13.5c. Our current price target of €30 is based on 13x consensus 2007 eps of €2.35: BUY.</p>
<p>GSK Last rec @ 1,436p Current: 1,445p Target: 1,650p Stop-loss: 1,418p</p>	<p>GSK will file for EU approval for a new breast cancer drug this week. GSK hopes the drug, Tykerb, will come to market sometime next year and has already filed for approval in the U.S. It is estimated that the drug could net GSK at least £1 bn a year in sales by 2012. Tykerb is one of three cancer medicines that Glaxo hopes to launch next year, signalling its arrival as a major force in oncology. GSK continues to buy back its own shares in the market and pays a healthy dividend of almost 3.5% percent; these factors should continue to offer some support to shares. BUY</p>

The Week Ahead

Date	Region	Event	Period	Consensus	Prior
11/10/06	US	Minutes of Sep 20 FOMC Meeting	N/a	N/a	N/a
12/10/06	US	Fed's Beige Book	SEP	N/a	N/a
12/10/06	IRL	C&C	H1	14c	22c
13/10/06	US	Advance Retail Sales	SEP	0.20%	0.20%
13/10/06	US	U. of Michigan Confidence	OCT	86	85.4

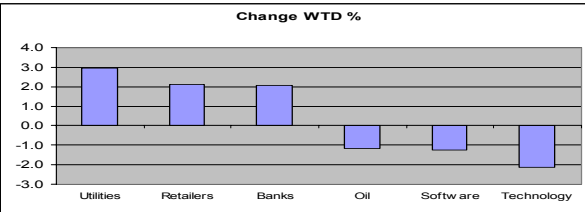
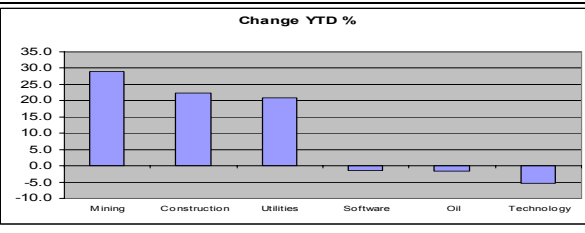
The Week-End Papers

Paper	Company	Comment
Sunday Times	Viridian	Viridian stirs for takeover
Sunday Times	Glanbia	Chinese venture for food group [Glanbia]
Sunday Times	Tesco	Tesco hit by row over 'illegal' child labour
Sunday Times	CRH	CRH -building giant cements status-buy
Sunday Times	Smart Telecom	Vodafone's Irish arm in Smart move
Sunday Independent	Tullow Oil	Tullow Oil splashes € 32m
SBP	Ryanair	EU vote could scupper Ryanair takeover bid

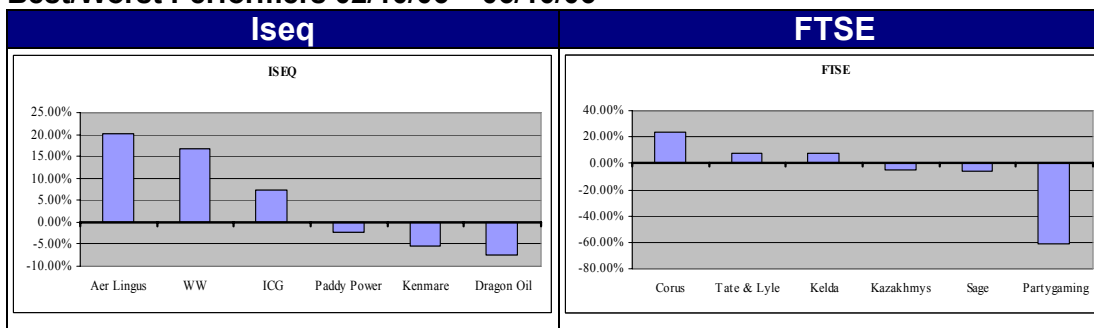
Last Week's Moves

	Levels	Last week's moves	YTD Move
Equities			
FTSE	6,001	0.68%	6.81%
Dow	11,838	1.41%	10.50%
S&P	1,346	0.87%	7.94%
Dax	6,085	1.33%	12.50%
DJStoxx	3,599	1.37%	7.48%
Iseq	8,275	0.90%	12.69%

	Div Yield-FY1	EPS Growth-FY1	P/E-FY1	P/E-FY2
ISEQ	2.55%	14.1%	12.0	10.5
UK	3.40%	15.5%	13.0	12.4
US	2.10%	10.9%	16.2	15.1
Eur	3.19%	15.0%	12.7	11.9

Sector*	Weekly Move %	YTD Move %	*Perf based on capital price moves only
Mining	-0.76	28.85	
Construction	-0.48	22.38	
Utilities	2.95	20.74	
Retailers	2.12	18.57	
Personal Goods	0.34	18.27	
Banks	2.06	17.03	
General Industrials	1.49	14.17	
Food Producers	1.73	11.98	
Autos	0.33	11.54	
Insurance	0.08	10.18	
Chemicals	0.69	8.14	
Beverages	0.21	7.85	
Pharma & Biotech	-0.62	6.53	
Media	1.56	6.48	
Leisure Goods	0.07	5.49	
Tobacco	-0.94	3.41	
Telecoms	1.18	-0.32	
Software	-1.25	-1.40	
Oil & Gas	-1.15	-1.77	
Technology	-2.14	-5.37	

Best/Worst Performers 02/10/06 – 06/10/06

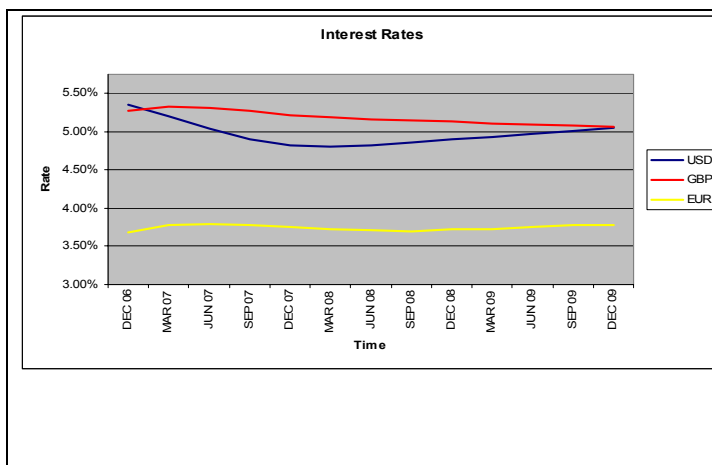


The US market wasn't the only market to reach a new all time high last week, with the ISEQ hitting a fresh all time high on Thursday. The Irish market was close to one percent higher last week, with the airline sector making up the bulk of the week's gains after Ryanair's audacious bid for Aer Lingus.

M&A speculation and a rebound in the commodities sector lifted UK stocks last week, with markets taking in stride a decision from the Bank of England to leave interest rates on hold at 4.75%. On the downside, the gaming sector was hit hard again after the US Congress passed a bill to ban on-line gambling in the US.

Section **2** Commodity, Currency & Credit Markets

	Current			YTD Change			Year End Forecast		
	EURO	GBP	USD	EUR	GBP	USD	EUR	GBP	USD
Base Rate	3.25%	4.75%	5.25%	1.00%	0.25%	1.00%	3.50%	4.75%	5.50%
3 Month	3.46%	5.10%	5.37%	0.91%	0.93%	0.37%	3.61%	5.15%	5.45%
12 Month	3.73%	5.32%	5.26%	0.68%	0.73%	0.07%	3.77%	5.29%	5.15%
5 Year	3.64%	4.80%	4.63%	0.58%	0.63%	0.27%	3.80%	4.80%	5.00%
10 Year	3.76%	4.57%	4.68%	0.44%	0.47%	0.28%	4.00%	4.95%	5.05%
EUR-USD X-RATE	1.2601			5.99%			1.300		
EUR-GBP X-RATE	0.6734			-2.09%			0.685		
CRUDE OIL FUTR	60.3			-5.48%					
NAT GAS FUTR	7.611			-32.86%					
GOLD SPOT \$/OZ	568.88			10.09%					
SILVER SPOT \$/OZ	11.015			25.07%					
LME ALUMINUM	2541.5			11.62%					
LME COPPER	7299			66.08%					

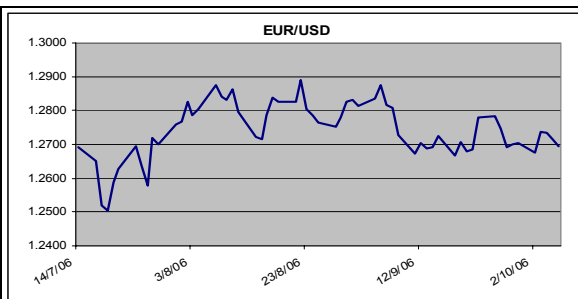


Comment:

European government bonds posted a second week of declines as a government report showed the U.S. unemployment rate unexpectedly fell, raising concern about inflation in the world's largest economy. Bunds reversed an earlier advance as the U.S. jobs report damped speculation the Federal Reserve will cut borrowing costs early next year.

This week traders will look to see if global bond markets continue to move lower, reversing the trend established over the last number of weeks. We however expect last weeks move lower to be a correction as the trend resumes upwards on the back of weaker than expected US data numbers.

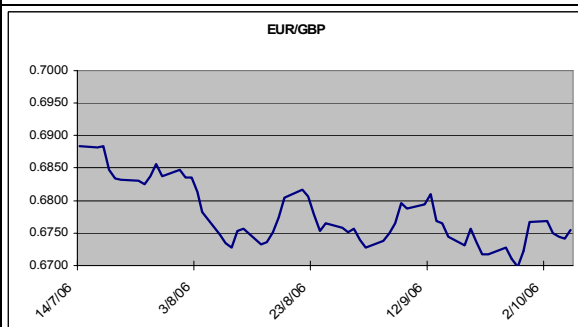
Currency Comment



Comment : EUR/USD

Dollar was bounded in tight range most of the week but staged a strong broad based rally after Friday's employment report. Both ISM Manufacturing and Non-Manufacturing indices came in weaker than expected. Price components dipped sharply in both surveys but employment components were mixed. Bernanke talked about concerns on the slowing housing market but offered no indications on interest direction. The headline job increase in September was much weaker than expected at 51k. However, the net upside revision of 62k to Aug's figure has pushed it up 121k to 128k, which brought last two months' average to around 120k, which is close to expectation and staying close to 3 months and 6 months averages. Also, unemployment rate surprisingly dropped to 4.6%.

It will important to see if dollar could carry last week's strength into this week. Further strengthening would likely firm up the bullish tone in the greenback in the last quarter of 2006. Monday is a market holiday in US. Market moving events include FOMC minutes on Wednesday, Trade Balance and Beige Book on Thursday as well as import/export prices and retail sales on Friday. Our bias remains towards a weaker USD into the final months of the year, we would look to a weak trade balance and retail sales number to drive the USD weaker on the week.



Comment : EUR/GBP

EURGBP was range bound for the week closing marginally weaker at .6730 against GBP. The ECB raised interest rates by 0.25% to 3.25% last week and signaled that there will be further rate hike in December. Data from Eurozone was close to expectation with Germany factory orders strengthened sharply in August. However, Euro remains driven by strength and weakness in other currencies rather than it own rate or economic outlook.

BoE left interest rates unchanged at 4.75% last week. Focus will be on the coming minutes which are to be released on Oct 18. Data from UK were solid but traders seem to be holding their bet on Sterling before the getting more information on the balance of hawks and doves from the BoE minutes.

Data from Eurozone include Germany Trade Balance and inflation Q2 GDP revision. UK PPI and trade balance will also be released.

We continue to like the EURO against GBP as we feel there is a possibility that the BOE will not increase rates before year end.

Corporate Credit Markets

Rating-5 Yr Bonds	Sample Names	Dec 2005 Yield	Yield	
AAA	Rabobank	3.65%	3.76%	The Itraxx* tightened 1bps over the week to close at 29bps. Credit markets appear to be focused on the ECB's optimism regarding sustained Eurozone growth, while choosing to ignore the ECB rate hikes and their negative effects on general corporate credit metrics. *ITRAXX is an index of the 125 most liquid investment grade corporate names in the European market
AA	Deutsche Bank	3.95%	3.836	
A	Tesco	3.83%	3.98%	
BBB	MKS	5.30%	5.53%	
BB	Royal Caribbean Cruise lines	5.73%	6.33%	

Sector Movements in week ended 06/10/2006:

- **Auto:** Mixed in the auto sector with the biggest move in Renault, which tightened 6bps after discussions with GM were terminated (GM had demanded compensation for taking part in the alliance). DCX also tightened, 3bps, following reports of 5.5% growth in unit sales at the Mercedes division. Elsewhere BMW and Peugeot were unchanged while VW was 1bps tighter. In the US both Ford and GM were tighter, 10bps and 19bps respectively. Ford tightened after reporting that improvements to the bottom line are expected to be seen in H2 2007 following completion of the cost cutting initiatives.
- **Building materials:** Mixed in the sector with LaFarge and Heidelberg unchanged, Pilkington was 1bps tighter while Saint Gobain was 2bps tighter following the announcement of 2 large contracts for armored windows.
- **Chemicals:** Both Bayer and BASF were unchanged this week while Linde was wider after they announced the company had been awarded a €40m contract to build a liquefied factory in Perth, Australia.
- **Airlines:** Volatile sector this week - British Airways widened 2bps to 105bps after announcing a reduction to revenue growth in 2007 and a higher pension deficit than previously reported. BAA tightened 5bps after new parent, Ferrovial, was added to the Merrill Lynch 'Europe 1' list. Elsewhere Lufthansa was 3bps tighter after dismissing rumours of a takeover by Emirates Airlines. Rolls Royce was 1bps tighter after winning a €1b engine contract and being placed on review for possible upgrade by Moody's..
- **Food/Beverages:** Mixed in the sector with Sainsbury, Carrefour and Diageo unchanged, while each Compass; Tesco and Cadbury were 1bps tighter. Compass was tighter following good sales growth from their nearest competitor; Tesco reported strong sales growth in H1 2006; and Cadbury's rating was affirmed by rating agency Dominion, following impressive organic sales growth and positive steps in the direction of the strategic plan to dispose of non-core assets.
- **Telecoms:** Tighter in the sector, Deutsche Telecom was 3bps tighter after announcing plans for a 3G network in T-Mobile in the US. Elsewhere Vodafone and British Telecom 1bps tighter - Vodafone was tighter despite EU rulings on roaming charges, a fine for Vodafone, FT and Telenor are expected next month. BT was tighter after announcing they had won a 7 year contract to manage the PepsiCo network.
- **Retail:** GUS widened 4bps this week, as a resolution of the S & P credit rating review nears, which is going to coincide with the completion of the demerger, indicating a downgrade is expected. Dixons, Kingfisher and Boots are all 1bps tighter after the BOE helped preserve the cash in UK consumers' pockets by not hiking interest rates this week.
- **Media:** Tighter for the most part - EMI tightened 2bps this week after the EU vetoed the merger between Sony and Bertelsmann, a positive fro EMI. Elsewhere BskyB was 1bps tighter after OFCOM restated BskyB's share of UK digital growth up from 17% to 60%. Reuters and WPP were both unchanged.

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