

DOLMEN WEEKLY TRADER



Weekly Market Commentary August 10th 2010

The Federal Reserve will be key to economic views this week as it provides its regular monthly briefing on Tuesday. No movement in base rates is expected but all eyes will be on whether Bernanke announces or points towards any additional economic stimulus. There has been increased comments regarding more unconventional policy measures in response to recent weak data including the non-farm payrolls data last Friday. Key economic data points will be US mortgage applications on Wednesday and US Michigan Confidence on Friday. In Ireland increases in employment and the poor banking results does not bode well for the outlook. Notwithstanding weak economics we see near term strength in commodities for technical reasons and see the most favourable risk/reward in buying oil. On the currency front we expect further dollar weakness but recommend dollar shorts at 1.35. We expect bond markets to continue to trade better over the coming weeks although some pause for breath from the recent rally is inevitable. In terms of equities although economic growth is slowing there is still growth of at least 2.75%- 3% in the US. Stimulus resumes the asset reflation trade we saw in 2009. We now also move to the typical end summer debate of top down forecasts suggesting slower earnings growth of circa 10% versus bottom up forecasts that suggest 20%. The S&P earnings yields is currently c. 9% i.e. a P/E of 11.5x. This compares with its historical average of 15x. There has been a buyer strike during the recent rally which was on low volume with UK institutional cash levels at 9% and M&A being at the lowest level in a while. As GDP growth slows and companies are flush with proceeds of bond issuance in the early part of the year we expect M&A to resume in September. In many sectors now, cash flow yields comfortably exceed the cost of raising money. Technically markets are grinding through key resistance levels and we expect this trend to continue and believe institutional players will continue to be wary of being caught short the market.

Trading Recommendations

BoI - Buy Previous Close (€0.85) Target (€1.20) **Analyst: Oliver Gilvarry**

Bank of Ireland (BOI) will report first half results on Wednesday, the first following its recent capital raise. Following on from AIB's results last week, focus will be on credit quality and Net Interest Margin (NIM). We expect its NIM to fall further from the year end and we expect it to decline close to management guidance for the full year of 1.45%. A positive for the group was the small change in the NAMA haircut on its second tranche of loans and we expect this not to change substantially going forward. Management guidance for impairment provisions remains €4.7bn through the cycle and we expect them to maintain this guidance on Wednesday. The results will not make for pretty reading, but they will in our view highlight the difference between BOI and AIB. In particular the lower level of problem loans along with our expectation of a good performance in its UK operations will be reasons for the differentiation. From a trading perspective we would look to buy sub €0.85 into results on Wednesday.

Cisco Results Preview **Analyst: Stephen Taylor**

Cisco will report Q4 earnings on Wednesday with EPS expected at 41.5c and revenues of \$10.9bn. Cisco's CEO John Chambers has indicated that the recovery is 'well underway' adding that economic improvements were "gaining momentum world wide". Chambers comments should be taken as a significant positive as he was one of the first CEO's to warn of the economic downturn back in 2007. Cisco is currently trading at 15.1x forward earnings and on 7.9x 2011 EV/EBITDA. We continue to like Cisco and would look to take a position ahead of results.

Smurfit Kappa - Buy Previous Close (€8.03) Target (€9.50) **Analyst: Edward Keeling**

Smurfit Kappa will release Q2 results on August 11th and we expect management to confirm that the company is performing ahead of consensus forecasts. Industry supply/demand dynamics continue to support price increases and margin expansion. Smurfit's exposure to quality corporates and the recent strength in eurozone economic data all point towards strong earnings momentum. In addition recent peer earnings reports have also been consistent with an improving operating environment. We recommend clients to buy ahead of the group's Q2 results on Wednesday.

Tullow Oil - Buy Previous Close (1262p) Target (1470p) **Analyst: Brian Gallagher**

Tullow Oil's positive momentum has continued with the recent announcement that the explorer encountered high quality oil at its Owo well and performed another successful appraisal in Uganda. The discovery at Owo is potentially transformational for Tullow Oil as it provides greater clarity on the size of the reserves in the area and opens up the possibility of developing another major field in Ghana. We continue to rate the stock as a buy and see further upside in the company's exploration portfolio particularly as we head into the second half of 2010.

FTSE 100 Miners **Analyst: Brian Gallagher**

Earnings releases last week from Rio Tinto and Xstrata have reconfirmed our bullish conviction for diversified miners. Both companies reported better than anticipated earnings, with strong revenues and reductions in net debt. Management rhetoric in relation to future outlook was also very encouraging with both CEO's outlining extensive capital expenditure programs which highlight their confidence in emerging market demand. There was also a positive read-through for the copper producer Antofagasta, with Rio Tinto and Xstrata emphasising the ongoing supply shortage in the copper market. Antofagasta remains in a unique position of expanding production when others are scrambling to find new resources or bring mothballed projects back online.

This Week's Market Events

MONDAY

Corporate

Aer Lingus Group TRAFFIC, Dragon Oil INTERIM, Dana Petroleum MEETING

Economics

Trade Balance GE, Imports GE, Current Account GE, Exports SA GE, Sentix Investor Confidence EC

TUESDAY

Corporate

Euro Disney SCA Q3 SALES, Deutsche Lufthansa TRAFFIC, Intercontinental Hotels H1, International Power INTERIM, Mondi INTERIM

Economics

BRC July Retail Sales Monitor UK, RICS House Price Balance UK, Total Trade Balance (GBP/Mln) UK, Nonfarm Productivity US, Wholesale Inventories US, FOMC Rate Decision US

WEDNESDAY

Corporate

E.ON AG Q2, SolarWorld Q2, Bank of Ireland INTERIM, Smurfit Kappa Q2, Nestle INTERIM, Adecco Q2, Balfour Beatty H1, Standard Life IN Q2, Cisco Systems Q4, Macys Q2

Economics

Jobless Claims Change UK, Average Weekly Earnings UK, ILO Unemployment Rate UK, Bank of England Quarterly Inflation Report UK, MBA Mortgage Applications US, Trade Balance US, Monthly Budget Statement US

THURSDAY

Corporate

Conergy AG Q2, Greencore Group TRADE, Prudential INTERIM, Psion INTERIM, The Estée Lauder Q4

Economics

ECB Publishes Aug. Monthly Report EC, Euro-Zone Ind. Prod. EC, Import Price Index US, Initial Jobless Claims US, Continuing Claims US

FRIDAY

Corporate

Bauer Q2, Fresenius Q2, Hypo Real Estate Holding Q2, ThyssenKrupp Q3, JCPenney Q2

Economics

GDP GE, Euro-Zone GDP EC, Advance Retail Sales US, Retail Sales Less Autos US, CPI Ex Food & Energy US, Retail Sales Ex Auto & Gas US, U. of Michigan Confidence US, Business Inventories US

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