Dolmen Daily

DOLMEN STOCKBROKERS

Thursday 10th December 2009

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(*Financial Times)*

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Banks' bonuses hit by 50% levy in UK budget
(*The Wall Street Journal)*

Market View — Analyst : Stephen Taylor

European equity markets opened slightly lower this morning marking the fourth straight day of losses, albeit relatively modest declines. Concerns around sovereign risk are continuing with the main focus being in Europe. Following Greece's downgrade by Fitch on Tuesday, S&P placed Spain's AA+ rating on negative watch for potential downgrade. S&P, which had already cut Spain's rating from AAA in January said that the country will experience a 'more pronounced and persistent deterioration' in its budget and a 'more prolonged period of economic weakness' than it had expected at the start of the year. The move by the rating agencies is resulting in further Euro weakness against the Dollar in what is being observed as a flight to safety. Economic data is also turning slightly negative with Industrial Production figures released out of France this morning falling short of expectations, in addition to yesterday's disappointing figures out of Germany. While risk in the market has clearly risen in the last number of weeks, we still remain positive on equity markets. Any dip in economic figures or rise in sovereign risk further emphasises the need for central banks to keep interest rates on hold and historically low levels for an extended period of time. As for today, the focus will be on the economic side. In the UK the Bank of England is expected to keep rates on hold at 0.5%. We also expect the Central Bank to maintain its quantitative easing program at £200bn. In the US the main focus will be on weekly jobless claims and deficit figures

Smurfit Kappa:Buy **Yesterday's Close** €5.80 **Target Price** €7.25 **Analyst** Edward Keeling

Smurfit Kappa's CEO Gary McCann has made some encouraging remarks regarding the current state of the European paper industry. In an interview yesterday McCann indicated that recent price hikes in the container board industry have held, suggesting some pricing power is returning to the market as a result of low inventory levels, some capacity reductions and rising costs. Looking forward McCann indicated that demand for corrugated boxes had `stabilised and that the bias is towards growth. We remain positive on Smurfit Kappa. While we do acknowledge SKG's net debt position is significant, we take comfort from its recent senior debt negotiations. We believe its current covenant levels are reasonable and take comfort from both its net debt reduction over recent years and its debt maturity profile. Furthermore, we expect this year to be the trough in earnings as corrugated box price increases are passed through next year and demand picks up.
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AerLingus : Buy **Yesterday's Close** €0.58 **Target Price** €0.65 **Analyst** Edward Keeling

Aer Lingus announced yesterday that Chief Financial Officer (CFO) and head of short haul operations Sean Coyle has resigned. The statement by Aer Lingus noted that Mr. Coyle is to leave the company by mutual agreement at the end of December 2009 to purse other interests. He is also to resign his position as member of the Aer Lingus board. Aer Lingus said that is has commenced its search for his replacement and it will appoint a new CFO in due course.

Irish Budget
2010

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Analyst: **Edward Keling**

Thursday 10th, December 2009

Yesterday the government outlined its 2010 budget and reiterated its objective of reducing the country's overall deficit by €4bn over the coming year. The government's belief is that we are now on the road to recovery and that we are now entering the next phase of the Government's plan to stabilise its finances and stimulate crucial sectors of our economy to sustain and create jobs. Minister for Finance Brian Lenihan believes that since the Supplementary Budget last April, the necessary steps have been taken that will allow us take part in a global recovery. While we do agree some appropriate action has taken place, in terms of satisfying the demands of the international financial markets and aligning the governments expenditures with depleted revenues, there is still further significant adjustments required before we can claim to be on a sustainable path to economic recovery. However we have illustrated that we are both capable and willing to make the necessary sacrifices to bring the country back to financial prosperity.

Current Expenditure : Reflecting the absolute need to reduce government expenditure and avoid raising taxes, the government has made significant cuts to social welfare. Jobseeker's Allowance and Supplementary Welfare allowance for persons aged 20 and 21 who have no dependent children is being reduced to €100 per week and for those aged between 22 and 24 to €150 per week. A larger contribution to the reduction in Government expenditure was seen through the lowering of child benefits. The lower and higher rate of Child benefit will be reduced by €16 per month, bringing these rates to €150 and €187 per month respectively. These measures are forecasted to reduce social spending by €760m in 2010. However overall spending in the Department of Social Welfare and Family Affairs will actually increase to €21.1bn next year driven by higher unemployment. There were further cuts in all other departments including Arts, Sports & Tourism, Communications, Energy & Natural Resources and Defence.

Capital Expenditure : As widely anticipated there has been further cuts in public sector pay. Lenihan has proposed an 8% cut for those with salaries from €125,000 to €165,000; a 12% cut for those earning between €165,000 to €200,000 and 15% for those earning €200,000 or more. It has also been confirmed that these are permanent reductions which will be reflected in future pension entitlements. The salary of the Taoiseach will be reduced by 20%, while Ministers and Secretaries will take a pay cut of 15%. In addition from January 1st 2010, public servants will receive a reduction of 5% on the first €30,000 salary, a reduction of 7.5% on the next €40,000 of salary and a reduction of 10% on the next €55,000 of salary. In terms of day to day spending on public services, the government has reduced spending by €1bn compared with pre budget estimates.

Stimulus measures : Several measures have been introduced in an attempt to stimulate the economy. To stem the flow of cross boarder shopping there will be a 12 cent reduction in the price of a pint of beer and cider, a 14 cent reduction per half glass of spirits and a 60 cent reduction per standard bottle of wine. More broadly, the 0.5% increase in VAT imposed in October is to be reversed and it is thought this will take effect as of January 1st 2010. To assist the automotive industry a car scrappage scheme has been introduced and will run until December 31st 2010. VRT relief of up to €1,500 per new car purchased will be made available under the scheme, where a car of 10 years or older is scrapped. To encourage activity among the housing sector, those who buy a house within the next three years will receive mortgage relief at current levels for the next seven years. Confronting the unemployment problems, €136m in funding will be used to provide an additional 26,000 individuals with training places and supports. Of this, €36m will be allocated to an Employers Job Incentive Scheme giving PRSI exemption to encourage employers take employees off the dole. Finally the government announced its intention to introduce the a National Solidarity Bond. This is a medium term national savings product which will be used as an additional source of funding for capital investment. It is thought a product of this kind will enable ordinary citizens provide money to the state and create employment.

Irish Forecasts	2009	2010	2011
GDP	-7.5%	-1.3%	3.3%
CPI	-4.3%	-0.8%	1.8%
Unemployment	12.2%	13.2%	12.6%
Debt as % of GDP	64.5%	77.9%	82.9%

** Source Department of Fincance*

Budget 2010 Overview	Saving in € millions
Total Current Expenditure Savings	**3,090**
Capital Savings	**961**
Total Expenditure Savings	**4,051**

Main Points

Social Welfare	**809**

Maximum Personal rate for weekly schemes to decrease by between €8.20 and €8.50

Child Benefit reduced by €16 per month

Jobseekers' Allowance reduced for under-25s and in cases where job offers have been refused

Health & Children	**415**

Reduction in reimbursement in State drug scheme

Increase in Value for Money Programmers

Public Sector Pay	**>1,000**

Public Service salaries will be reduced as follows:
- 5% on the first €30,000
- 7.5% on the next €40,000
- 10% on the next €55,000

Pensions linked to average salary across career rather than final salary

Taoiseach's salary to be reduced by 20%

Taxation Amendments

Citizens with a certain level of assets or income will pay €200,000 levy to maintain their Irish passport

VAT rate reduced to 21% from 21.5%

Scrappage scheme of up to €1500 on cars over 10yrs old

Excise Duty on Alcohol Reduced

New universal tax to replace Levys and PRSI

Mortgage Interest Relief to be continued till 2017

Carbon tax of €15 per tonne

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Market Movers

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International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,854	-0.6%	22.1%
FTSE	5,204	-0.4%	17.6%
Dow Jones	10,337	0.5%	17.8%
S&P	1,096	0.4%	21.3%
Nikkei	10,005	-1.3%	11.3%
Stoxx 50	2,818	-1.1%	15.5%

Sector Performances

Sector	Index	1-Day	YTD
Construction	264	-0.9%	1.8%
Technology	175	-1.0%	3.6%
Oil & Gas	313	-1.0%	2.7%
Financials	216	-1.6%	2.2%
Retail	235	-1.6%	1.7%
Food & Drink	289	-0.6%	4.0%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	70.7	-2.7%	18.7%
Copper	312.4	-1.3%	115.1%
Gold	1,128.6	0.0%	27.6%
Silver	17.2	-3.5%	53.5%
Wheat	535.3	-0.8%	-22.0%
Cattle	81.9	-1.4%	-10.3%

Currency Exchange Rates

Currency	Index	1-Day	YTD
€/$	1.473	0.2%	-5.0%
€/£	0.905	0.3%	5.6%
£/$	1.626	-0.2%	-10.1%
$/JPY	87.867	-0.7%	2.8%
€/JPY	129.385	-0.5%	-2.4%
€/SFR	1.512	0.1%	-1.2%

5Yr Credit Spreads

Product	Index	1-Day	YTD
Invest Grade	81.2	2.3%	-53.7%
High Yield	495.5	1.4%	-51.9%
Financials	77.1	3.7%	-33.4%
BoI	246.1	-0.6%	-2.9%
AIB	276.4	0.3%	31.5%
RBS	138.6	1.6%	2.9%

Money Market Rates

Rate	EUR	UK	US
Overnight	0.4%	0.4%	0.2%
3-Month	0.7%	0.6%	0.3%
1-Year	1.2%	0.9%	0.5%
2-Year	1.7%	1.7%	1.1%
5-Year	2.6%	3.0%	2.5%
10-Year	3.4%	3.8%	3.6%

Date	Company	Region	Event
10/12/2009	DS Smith Plc	GB	INTERIM
10/12/2009	Costco Wholesale Corp	US	Q1
10/12/2009	National Semiconductor	US	Q2
11/12/2009	HMV Group PLC	GB	INTERIM
14/12/2009	Whitbread PLC	GB	TRADE
14/12/2009	Total SA	FR	S/HOLDERS
14/12/2009	Endesa SA	ES	S/HOLDERS
15/12/2009	ESI Group SA	FR	Q3 SALES
15/12/2009	Iberia Lineas Aereas de	ES	TRAFFIC
15/12/2009	Volvo AB	SE	TRAFFIC
15/12/2009	Cadbury PLC	GB	TRADE
15/12/2009	Go-Ahead Group PLC	GB	TRADE
15/12/2009	Renovo Group Plc	GB	PRELIM
15/12/2009	Societe Generale	FR	S/HOLDERS
15/12/2009	Worldspreads Group Plc	IE	AGM
15/12/2009	Best Buy Co.	US	Q3
15/12/2009	Adobe Systems	US	Q4
16/12/2009	Aeroports de Paris SA	FR	TRAFFIC
16/12/2009	Drax Group Plc	GB	TRADE
16/12/2009	Kesa Electricals plc	GB	INTERIM
16/12/2009	Punch Taverns PLC	GB	Q1 TRADE
16/12/2009	Austrian Airlines AG	AT	EGM

Date	Event	Region	Estimate
10/12/2009	BOE ANNOUNCES RATES	UK	0.50%
10/12/2009	BOE Asset Purchase Target	UK	- -
10/12/2009	Trade Balance	US	-$38.1B
10/12/2009	Initial Jobless Claims	US	- -
11/12/2009	PPI Input NSA (MoM)	UK	- -
11/12/2009	PPI Output n.s.a. (MoM)	UK	- -
11/12/2009	Import Price Index (MoM)	US	- -
11/12/2009	Advance Retail Sales	US	- -
11/12/2009	U. of Michigan Confidence	US	- -
14/12/2009	Rightmove House Prices (MoM)	UK	- -
14/12/2009	Eurozone Employment (QoQ)	EC	- -
14/12/2009	Euro-Zone Ind. Prod. sa (MoM)	EC	- -
15/12/2009	CPI (MoM)	UK	- -
15/12/2009	RPI (MoM)	UK	- -
15/12/2009	DCLG UK House Prices (YoY)	UK	- -
15/12/2009	ZEW Survey (Econ. Sentiment)	EC	- -
15/12/2009	Producer Price Index (MoM)	US	- -
15/12/2009	Empire Manufacturing	US	- -
15/12/2009	Industrial Production	US	- -
15/12/2009	Capacity Utilization	US	- -
15/12/2009	NAHB Housing Market Index	US	- -
15/12/2009	ABC Consumer Confidence	US	- -

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Dolmen Stockbrokers, 75 St. Stephen's Green, Dublin 2, Ireland.

DOLMEN SECURITIES LTD

75 St. Stephen's Green, Dublin 2, Ireland.	Tel : +353 1 633 3800/1890 400 300	E-mail: info@dsl.ie
45 South Mall, Cork, Ireland	Tel : +353 21 422 2122	E-mail: cork@dsl.ie
Theatre Court, Mallow St, Limerick, Ireland.	Tel : +353 61 436 500	E-mail: Limerick@dsl.ie