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EQUITIES	Close	Change	% +/-	P/E '06	YTD
ISEQ	7887	↓ -72	-0.90%	11.0	7.11%
FTSE 100	6042	↓ -41	-0.68%	13.5	7.53%
DAX 30	6055	↓ -64	-1.04%	15.0	11.95%
DOW	11501	↓ -142	-1.22%	19.5	6.66%
NASDAQ	2273	↓ -48	-2.07%	15.6	3.06%
S&P	1306	↓ -17	-1.28%	21.0	4.89%

CURRENCIES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.2868	0.6821	141.6600
Dollar	1.2868	1.0000	1.8561	110.0900
Sterling	0.6821	1.8561	1.0000	206.3200
Yen	141.6600	110.0900	206.3200	1.0000
Oil (Nymex)	73.3200			

This Week's Research

Sterling Energy
C&C Group
Anglo Irish Bank

Adidas

Today's Research

RBS

Today's Recommendation

RBS (£17.93) Upgrading from NEUTRAL to BUY Stuart Draper

- Management meeting : Following our recent investor meeting with Group Finance Director, Guy Whitaker, we are this morning upgrading our RBS recommendation from NEUTRAL to BUY. Our new 12 month price target of £20.50 (14% upside), is based on 10x 2007 underlying eps of 205p. Our 2006 eps forecast remains 190p, representing 8% growth on the 2005 result of 175.9p.
- Savings growth : In line with recent results from the UK life assurers, it was confirmed that sales of savings and deposit products are very strong currently, resulting in the bank's liability growth exceeding its loan growth. When combined with a steepening US yield curve, this should ensure that there is no further significant erosion of the group's net interest margin in 2006. This was one of the main reasons why we had been recommending some profit-taking in recent months.
- Deal risk : It was also clearly stated that all of the group's growth targets could be achieved organically from its UK and Irish, US and Chinese operations and that the current share buyback programme would continue. If the upcoming IPO of the bank's Bank of China investment results in RBS diluting its shareholding below 5%, then this could provide further reassurance that the risk of a major RBS deal over the next 12 months is very low.
- Personal exposure : Despite recent press coverage of the Q1 rise in UK personal insolvencies, it was also confirmed that RBS has suffered no material deterioration in personal lending credit quality recently. Its lower than sector average exposure to unsecured personal lending of c.7% of global loan book provides some important protection from this risk.
- Recommendation upgrade : In addition to the upcoming Bank of China IPO, which recent press coverage has reported will show a trebling of the initial value of the RBS investment a year ago, another near term positive catalyst for the RBS share price could be the bank's H1 trading statement on 8th June. Therefore, ahead of the very often seasonally strong month of June for the RBS share price, we this are this morning once again upgrading our recommendation from NEUTRAL to BUY, with a new 12 month price target of £20.50 (14% upside), which is based on 10x 2007 eps of 205p : **BUY**.

Breaking News

Tullow Oil drilling update

Tullow Oil has announced first gas from Bangora-1 in Bangladesh, a key part of the group's Bangora/Lalmal appraisal programme. Natural gas production from the Bangora-1 well in Block 9 commenced on May 9, and has reached a gross stabilised flow rate of 50 mmscfd, the company said. The Shahpur Chakar-1 exploration well, drilled on the Nawabshah Block in Pakistan, has been plugged and abandoned. The Gryphon Marine 1 (GRPM-1) exploration well, targeting the Gamba sandstone in the Dogbolter prospect spudded on March 21. The well yielded negative results and has been plugged and abandoned, the company said. The M'puta-2 appraisal well in Block 2, to test the extent of the oil-bearing reservoirs discovered in M'puta-1, commenced drilling on May 7. Preparations are also under way to flow test the Waraga-1 discovery at the beginning of June.

Positive news for UK banks

Countrywide, the UK's biggest chain of estate agents, has said that levels of business were at an all-time high as the pick-up in the UK property market gathered pace. The company said its sales pipeline at the end of April stood 46% higher than the start of the year at £92.3 million - a jump of 27.1% on 12 months earlier and a record for the group. The statement also indicated an improvement in the 'buy to let' area, which would be a positive for BOI. This space is a key driver of BOI's UK mortgage business.

Gold and silver reach new highs

Heavy speculative buying fuelled by inflation fears and geopolitical tensions drove gold to its highest for 26 years and silver to a level 25 year high. Spot gold rose as high as \$726.00 an ounce, the highest since January 1980, before settling at \$718.20/719.20, well up from \$701/702 in New York on Wednesday. Silver rose sharply to \$15.17, before falling to \$14.84/14.94. Gold has risen 40 percent this year and 70 percent in the past 12 months as investors diversify into precious metals as a hedge against global tensions, including those over U.S.-Iran relations, high oil prices and dollar instability. In other markets, copper, aluminium, zinc, and nickel raced to record highs as speculative money kept piling into commodities.

Business Press

- Ethanol role for Mallow plant ruled out (IT)
- Amarin posts \$6.4m net loss (IT)
- Magners may generate further upside for C&C (IT)

Investment Press

- Bank of China: Initial public offerings do not come much sexier than this. Bank of China is tapping the markets for \$10bn and, as a play on China's stonking economic growth, will very likely end up with over \$11bn - making it the world's biggest listing in seven years.



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