

DOLMEN WEEKLY TRADER



Weekly Market Commentary July 12th 2010

It continues to be market technicals vs. market fundamentals. Market downtrends remain but are offset by both valuation metrics such as dividend yield and also the forthcoming earnings season. Double dip forecasts versus continued constructive earnings. Equity markets may continue last weeks rally to the next key technical resistance levels on indices; S&P 1,108, Dow Jones 10,313 and FTSE 5,180 and then 5300. Caution remains as volume has been light and we suggest traders that are long specific equities remain hedged on the FTSE (Bloomberg ticker : XUKS LN). Longer term we believe the current economic fears of double dip will not be correct but growth will be subdued creating a slow impetus to job recovery. Companies have strong balance sheets and productivity gains so earnings growth on subdued turnover is possible for the more efficient companies. This will be captured in the coming weeks in the release of second quarter earnings. We expect earnings to be in line with forecast and will look to comments on outlook and margins to set the market direction. Alcoa will be first to report today, however results from Intel on Tuesday, JPMorgan on Thursday, General Electric and Bank of America on Friday will provide a greater picture of the global economy. Our preferred sectors remain: technology, pharmaceutical, energy and telecoms. Our preferred currency trade is to sell the € against the £ with a stop loss at 0.85. We are also negative on the € versus the \$ and would use any move towards that 1.30 level to build a short position. Further technical weakness in commodities should be used to build a long-term position in copper.

Trading Recommendations

C&C - Buy Previous Close (€3.35) Target (€3.90) **Analyst:** Edward Keeling

Over the coming weeks there will be significant catalysts for C&C. Several UK pub groups will be reporting in two weeks while C&C's AGM will take place on August 5th. We are expecting some sort of trading update from management and comments on recent sales trends will be of course closely watched. Given the potential benefit from the good weather, the world cup and the restructuring of the group's product offering, we believe there are upside risks to consensus estimates.

Ryanair - Buy Previous Close (€3.86) Target (€4.70) **Analyst:** Edward Keeling

We recommend clients stay long Ryanair. The group will be reporting Q1 results on the 20th July and we see little risk in terms of results or guidance. Recent management rhetoric has been encouraging and the airlines route rationalisation which saw significant capacity pull backs at weaker airports should be supportive of the airlines booking profile. In addition, the prospect of a 30c dividend payable in October should continue to generate increased investor interest.

CRH - Buy Previous Close (€15.53) Target (€20.00) **Analyst:** Stephen Taylor

Last week CRH issued a disappointing trading statement. While the cumulative sales decline had eased somewhat, CRH now anticipates a greater fall in revenue for the full year than it had originally anticipated. As a result of the cautious outlook, shares in CRH are likely to underperform until there is a clear pick up in activity. The company did indicate that its order backlog in its US material division is strong heading into the second half of the year due to the stimulus package and is an area of potential upside surprise for the company. In addition CRH was more positive on its conference call in relation to acquisitions signalling that the pipeline for some potential deals is strong. CRH has one of the strongest balance sheets amongst its peers leaving it in a good position for purchases. In the short-term however given the cautious outlook shares in CRH may underperform. Longer-term we continue to like CRH and the group is well positioned operationally when revenue growth returns.

Tullow Oil - Buy Previous Close (1128p) Target (1470p) **Analyst:** Brian Gallagher

Last week, the Ugandan government gave Heritage Oil the go ahead to sell assets located in the Lake Albert Basin to Tullow Oil. This announcement has cleared the way for Tullow Oil to complete its 66% farmout to Total and CNOOC over the coming weeks. Once this deal is completed, Tullow Oil and its partners, can then begin its development for the basin which is expected to produce in excess of 200,000 barrels of oil per day. The announcement by the Ugandan government also coincided with the UK listed explorer's operational update. This update reinforced our investment thesis and we expect the stock to outperform the market and peers in the second half of 2010.

BP - Buy Previous Close (365p) Target (500p) **Analyst:** Brian Gallagher

This weekend BP began enhancing the containment facilities around the well. It is hoped that these enhancements will increase the oil major's capacity to collect oil from approximately 25,000 barrels of oil per day to between 60,000 - 80,000 barrels of oil per day. The additional capacity would mean that BP will be able to contain nearly all the oil escaping from the well while it waits for its two relief wells to intercept the ruptured well from below. Also, according to numerous press reports, BP is approaching and being approached by a number of prospective buyers who could provide the company with additional funds to deal with the eventual liabilities of the disaster.

Intel - Buy Previous Close (\$20.24) Target (\$25.00) **Analyst:** Stephen Taylor

Intel will report second quarter earnings after the US market closes Tuesday July 13th. We expect the company to report EPS of \$0.43 on \$10.3bn of revenue. Recent data points including the Semiconductor Industry Association raising its outlook for global chip sales bodes well for the health of the PC and mobile device space. With Intel trading at 10x 2011 earnings we believe that the market is overly discounting a significant pull back in demand over the coming 12-months and see shares in Intel as an attractive investment.

This Week's Market Events

MONDAY

Corporate

Domino's Pizza UK & IRL INTERIM, Grainger MEETING, ALCOA Q2

Economics

GDP UK

TUESDAY

Corporate

Iberia TRAFFIC, Burberry Group PLC Q1 TRADE, Northern Foods TRADE, British Airways AGM, BTG AGM, Intel Q2, Yum! Q2, CSX Q2

Economics

RICS House Price Balance UK, CPI UK, RPI UK, UK House Prices UK, ZEW Survey EC, Trade Balance US, Monthly Budget Statement US, ABC Consumer Confidence US

WEDNESDAY

Corporate

Ashmore Q4 TRADE, Barratt Dev TRADE, Acergy Q2, Rio Tinto Q2 OUTPUT, Pirelli MEETING, ICAP AGM, J Sainsbury AGM, M&S AGM, Marriott Q2

Economics

Jobless Claims UK, Unemployment Rate UK, CPI EC, €Zone Ind. Prod, Mort Apps US, Import Price Index US, Advance Retail Sales US, Business Inventories US, FOMC Minutes US

THURSDAY

Corporate

Carrefour Q2 SALES, Novartis Q2, Mothercare Q1 TRADE, Burberry AGM, Premier Oil TRADE, Pirelli S/HOLDERS, Google Q2, JPM Chase Q2

Economics

GDP CH, CPI CH, Retail Sales CH, Ind Prod CH, ECB Monthly Report EC, Jobless Claims US, Empire Manufacturing US, Ind Prod US, Capacity Utilization US, Philadelphia Fed.

FRIDAY

Corporate

Aeroports de Paris TRAFFIC, DCC TRADE, British Land AGM, BoA Q2, CitiGrp Q2, GE Q2, Mattel Q2

Economics

Euro-Zone Trade Balance EC, CPI US, U. of Michigan Confidence US

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