



The misery for equity markets continued last week as the previous support levels for the FTSE and the S&P we referred to last week failed to hold and markets fell to new lows for the year. The catalyst for this weakness was concern over the two biggest mortgage guarantors Fannie Mae and Freddie Mac, and talk that the US Treasury may have to bail-out the two entities. The ramifications of such a move would be significant. Fannie Mae and Freddie Mac either own or guarantee over \$5 trillion of debt, or close to half of all US mortgages. A bail-out by the Treasury would in effect 'nationalise' mortgage debt and would have significant implications for the US budget deficit and essentially place the burden of these loans on the tax-payer. While Treasury Secretary Paulson, ruled out a bail-out at this point in time, he re-affirmed that both entities still have the support of the Treasury. The consequences of a state bail-out for private sector loans would be negative for US finances, a fact reflected in the dollar sell-off as this story gained traction. Unfortunately, equity markets failed to gain the same traction, with financial stocks primarily dragging all indices lower, however investor unease was apparent with the sell-off spreading to even the most defensive sectors. The coming week will be a big test for equity markets with a raft of inflation data due for release along with a earnings releases from US banks and other key companies. Some positive newsflow will be required if equity markets are to regain their poise

TRADING IDEAS, EARNINGS & PREVIEWS

Kerry

Price: €18.55
P/E: 12.3x
Div: 4.3%
Target: €23.00

Fundamental View : Since the Kerry AGM in May of this year, the share has fallen 7% compared to a fall in the ISEQ of 25%. In 2007, the company was able to increase margins in its Consumer Foods division and maintain margins in its Food Ingredients area even with 10% adverse movements in GBP and USD plus the added problem of commodity prices hitting all time highs. The new CEO, Stan McCarthy, headed the successful America operation for a number of years where sales and operating profit increased by 63% and 26% respectively. The business model used in the America is now been rolled out across the group to decrease costs and increase sales.

Next Catalyst : A number of Kerry's peers have reported issues with rising raw materials and currency issues that will contract margins in their food ingredients divisions. Kerry has offset some of this risk since their experiences in 2006 as they have put pricing contracts in place that link volatility in commodity pricing back to the customer's contracts.

Management are guiding EPS for 2008 between €1.51 and €1.55 and looking out to 2009, double digit EPS growth is possible if GBP & USD exchange rates remain within current ranges. That would give a 2009 EPS of €1.68 and using the sector average of 13.5x, would give a 12-month price target of €23. Kerry provides exposure to a stable cash generative business that will perform well in an economic downturn.

Chart View : Downtrend is still intact but strong support in the €17-€18 area could provide an entry point for fresh longs. A break of €20.44 would suggest a move towards €23 area.

BUY

Vodafone

Price: 148p
P/E: 11x
Div: 5.28%
Target: 200p

Fundamental View : Vodafone recently purchased a 70% stake in Ghana Telecommunications for \$900m marking a further expansion into fast growing emerging markets. The company pointed out that Ghana is one of the most attractive markets in Africa with mobile subscribers growing at more than 55% per annum and mobile penetration of around 35%. We view Vodafone's purchase in Ghana as a long-term positive for the company and are encouraged by its increased focus on emerging market growth which will help offset a slowing and competitive European market.

Next Catalyst : The next catalyst for Vodafone will be 22/07/08 when the group will issue its interim management trading statement. We expect Vodafone to issue a positive outlook for the rest of the year given its strong growth prospects.

Chart View : Stock is struggling to maintain any upside momentum and the chart outlook is not favorable. The 147 level is noteworthy and strong support comes in at 140.

BUY

Intel

Price: \$20.35
P/E: 16x
Div: 2.5%
Target: \$27

Fundamental View : Last Thursday, Intel's CEO Paul Otellini said that the chipmaker is not suffering from a slowing US economy and demand from overseas customers has remained steady. Otellini pointed out that 75% of the group's revenue is generated from outside of the US and its global business has been strong. In relation to the US, Otellini commented that there may be some patterns in the US that may be concerning to some people, but we have not seen it at this stage. These positive comments from the group's CEO are similar to what the company said at its AGM in May when it said it was more positive on demand for PCs than last year.

Next Catalyst : Intel is due to report its second quarter results on 15/07/08. We take confidence from Paul Otellini's comments last week and believe that Intel will report a strong earnings report and guidance for the rest of the year.

Chart View : Intel is in a steady downtrend but strong support at \$19.50-\$20 area suggests the stock may consolidate in its current area.

BUY

British Airways

Price: 208p
Target: 185p

Fundamental View : BA recently reported a 3.1% year on year decline in premium traffic for June 2008, as well as a 3.8 percentage points decrease in its load factor to 76.7%. This shows that higher average fares because of higher fuel costs are reducing demand, particularly on long-haul routes. Unlike Ryanair, BA's non-fuel costs are also expected to rise this year, resulting in an operating profit and eps of only £60m and c.1p being generated. With consensus current year earnings forecasts still at c.£233m and 12p respectively, there is a high probability of further earnings downgrades over the coming weeks acting as a negative share price catalyst.

Next Catalyst : Further evidence of this weaker year on year demand is likely to be contained in the airline's first quarter results, due to be released on 1st August, as well as in its July traffic figures on 5th August. However, in the short term, the potential for negative newsflow at its AGM on Tuesday and further moves higher in the oil price could be the most imminent catalyst for further share price weakness. Our view is that clients can capitalise on this through a **SHORT** position in BA this week.

Chart View : BA are approaching the bottom of its recent trading range and some caution is hence required.

SHORT

Astrazeneca

Price: £23.05
P/E: 12.3x
Div: 4.1%
Target: £26.00

Fundamental View : Astrazeneca is up almost 8% for the year, this is particularly impressive when compared with the FTSE which is down over 17%. The healthcare sector is a defensive, with revenue streams that are non-cyclical. The long term fundamentals for the industry are also very compelling. As a result of aging populations in Western economies, the demand for medical products will increase significantly over the next decade. Astrazeneca researches, manufactures and sells pharmaceutical and medical products. Astrazeneca recently had positive court rulings relating to patent litigation on two of its biggest drugs, Nexium and Seroquel. This has gone along way to remove the uncertainty that has hung over the stock in recent years. The valuation for Astrazeneca is attractive, the stock is trading at a 2008 P/e of 12.3x and is expected to grow earnings 9% for 2009. The company also yields an attractive 4.1% dividend.

Next Catalyst : The next release from the company is expected to be the 2nd quarter earnings statement due on the 31st July. Also, peer GlaxoSmithKline is reporting on the 23rd of July. Results from drug trials as well as developments in patent litigations are also potential catalysts for the stock.

BUY

Earnings Week Ahead

Economic Week Ahead

Mon: (Iberia, Traffic) (Home Properties, H1) (M&T Bank, Q2) (Philips, Q2)

Mon: UK PPI (09.30), EU Industrial Production (10.00)

Tues: (BA, AGM) (Sainsbury, AGM) (Premier Foods, TS) (Intel, Q2) (J&J, Q2)

Tues: UK CPI (09.30), German ZEW (10.00), US PPI (13.30), Retail Sales (13.30), Bernanke Testimony to Senate Banking Committee (15.00)

Wed: (Merrill Lynch, Q2) (Washington Mutual) (Wells Fargo, Q2) (Land Sec. Q1)

Wed: UK Unemployment Rate (09.30), US CPI (13.30), Industrial Production (14.15), FOMC Minutes (19.00)

Thurs: (Coca Cola, Q2) (Microsoft, Q4) (JP Morgan, Q2) (IBM, Q2) (Google)

Thurs: US Jobless Claims (13.30), Housing Starts (13.30), Philly Fed (15.00)

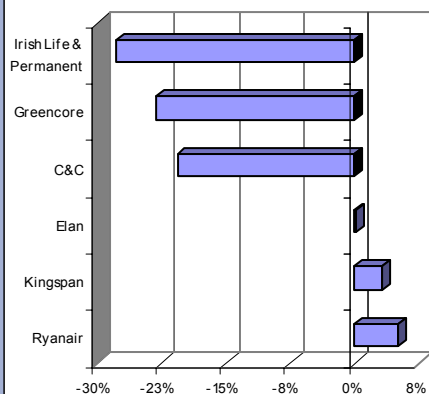
Fri: (DCC,AGM) (Cable & Wireless, AGM) (Citi Group, Q2) (Taylor Nelson, Q2)

Fri: German PPI (07.00)

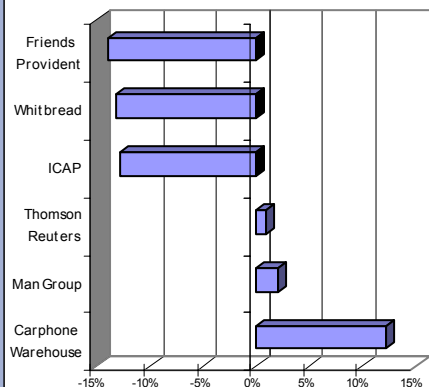
DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/
Worst Performers
07/06/08-11/07/08

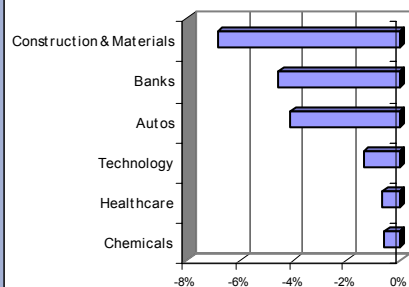
ISEQ



FTSE



Sector changes WTD



Dolmen Dozen

WEEKLY UPDATE

Company	WTD	YTD	Relevant news
AIB	-18.8%	-50.96%	M&T Bank files a lawsuit against Deutsche Bank and HBK Investments over \$82m CDO exposure.
Aviva	-1.8%	-26.23%	India's WNS buys Aviva BPO unit for \$228m .
BP	-3.6%	-11.79%	Bp and Russian partners make little progress on TNK-BP row.
IN&M	-5.8%	-43.86%	IN&M Chief Executive Anthony O'Reilly has increased his stake to 28%.
CRH	-12.5%	-38.20%	CRH issue cautious trading statement as Trends weaken.
Hewlett Packard	-4.3%	-17.61%	In Q1 HP nearly doubles the industry's average of 12% of increased PC sales.
IAWS	-4.5%	-0.33%	Prospectus for Arzjata made available.
IL&P	-28.4%	-60.64%	Moody's lowers IL&P outlook to negative
Microsoft	-2.8%	-29.07%	Yahoo says it has rejected a new proposal from Microsoft and investor Carl Icahn.
Paddy Power	-8.8%	-23.59%	Horse Racing Ireland says attendance at Irish race meetings grew 1,743 in the first six months.
Ryanair	3.3%	-44.06%	Ryanair report a 19% increase in June traffic figures , compared with the same period last year.
Vodafone	-3.9%	-20.74%	Vodafone appoints Pieter Uys as its Chief Executive Officer to replace Alan Knott-Craig as of Oct 1.

DD Unrealised gain	-17.48%	ISEQ YTD	-34.26%
YTD		FTSE YTD	-23.75%
DD Realised gain YTD	-10.96%	Average performance	-29.00%
DD Total YTD	<u>-21.35%</u>		
	Relative Performance	<u>2.94%</u>	

* DD Return (Includes dividends & FX changes since stocks inclusion)

What it says in the 'Sundays'

Company	Paper	Headline
Banks	S. Business Post	Banks move to scrap tracker mortgages
C&C	S. Tribune	C&C cutting back advertising & Marketing
Banks	S. Times	Bank faces long wait for shares to recover
Tesco	S. Times	Tesco tackles Aldi effect
Fannie & Freddie	S. Business Post	Fannie and Freddie facing bailout pain

Upcoming Corporate Visits

COMPANY	PRESENTATION DATE
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Anglo Irish Bank	14th August 2008
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Last Weeks Moves

Equities	Level	Change WTD	Change YTD	Div Yield	P/E08
ISEQ	4415	-9.2%	-36.3%	4.5%	6.8
FTSE 100	5262	-2.8%	-18.5%	4.8%	10.3
DAX	6153	-1.9%	-23.7%	4.0%	11.7
Dow Jones	11101	-1.7%	-16.3%	2.9%	14.0
S&P 500	1239	-2.5%	-15.6%	2.5%	20.5
Nasdaq	2239	-0.9%	-15.6%	0.9%	33.9
EuroStoxx 50	2756	-2.9%	-25.2%	5.0%	9.9
Nikkei 225	13040	-1.5%	-14.8%	1.7%	16.0

Sector	Weekly move%	YTD move %
Technology	-0.581	-29.75
Healthcare	-0.62	-11.346
Chemicals	-1.362	-9.847
Insurance	-2.035	-28.441
Media	-2.495	-32.899
Travel & Leisure	-2.61	-32.55
Telecom	-2.69	-26.012
Basic Resources	-2.754	-6.039
Utilities	-2.981	-20.946
Industrials	-3.139	-25.683
Oil & Gas	-3.414	-13.217
Retail	-3.831	-36.379
Food&Bev	-3.866	-25.031
Personal & Household Goods	-3.877	-29.303
Financial Services	-3.962	-31.174
Autos	-4.1	-35.056
Banks	-4.593	-37.824
Construction & Materials	-6.867	-34.825

Commodities

	Current	Change YTD
Crude Oil	\$145.08	+51.5%
Gold spot	\$959.06	+15.0%

Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.589	+8.9%	1.45-1.55
EUR-GBP	0.799	+8.7%	0.74-0.78
EUR-JPY	167.5	+3.5%	165.0

GDP Growth

	Current	Year End (est)
Ireland	5.00%	1.00%
Euro Zone	2.50%	1.50%
UK	3.10%	1.50%

Central Bank Interest Rates

	Current	3 month	Year End (est)
Euro Zone	4.00%	4.96%	4.25%
UK	5.00%	5.83%	5.00%
US	2.00%	2.79%	2.00%

Credit Market Summary

Being less volatile credit markets have held up well compared to equity markets where this week speculation surrounded the solvency of US mortgage agency giants Fannie Mae and Freddie Mac and the likelihood of a US Government bailout. While equity markets suffered a beating credit markets basked in the knowledge of a Government implied guarantee. Overall credit spreads ended flat to moderately wider over the week after spreads danced up one day and down the next. Going forward there is no reason not to believe the uncertainty will continue as markets react to negative headlines and rumours, guaranteed to be a feature next week as 2nd quarter results flood the markets.

Credit Sector Movements

Food/Beverages: Mixed in the sector – Cadbury tightened marginally this week after getting £350m in new debt issued this week, 10 year debt at 245bps over equivalent government bonds (issued 10 year bonds at 88bps over treasuries in 2003). Diageo was 2.1% wider this week while Compass was 3.6% wider.

Building materials: Wider in the sector –Wienerberger, the worlds largest brick maker, fell 23% on weak profit outlook citing the 'collapse' of UK residential construction and the stronger than expected contraction of the US housing starts.

Interest Rate Outlook

The BOE complied with market expectations and left rates on hold at 5.00%. We will have to wait another week to find out details from the meeting when the minutes are released. For the ECB a number of members were speaking and Trichet commented the rate hike was required to avoid second round effects. Expectations of further rate hikes have fallen back further during the week with the market now pricing in no rate hikes. On the data front the main release in Europe is the ZEW Index on Wednesday and it is expected to continue its decline to -55. The minutes from the FOMC meeting on the 25th of June should give some more guidance on where US interest rates are going in the next number of months.

Currency Comment

The currency pair traded in a very narrow range during the week until the fallout from Lehman's and Fannie Mae and Freddie Mac share falls. The Euro gained almost 2c against the greenback. A large amount of market moving data from the US during the week including economic releases plus a number corporate and financial earnings releases such as Intel, Merrill Lynch & IBM. Economic data from the US includes retail sales, manufacturing and the minutes from the FOMC meeting on the 25th of June. With manufacturing data from the Euro-Zone starting to weaken, the economic conditions in Europe are beginning to cool, but the USD will remain on the back foot to the EUR during the week especially with any earnings misses and weaker than expected data release.

Date from the UK continues to weak last week and this wasn't surprising due to the main data relating to housing and manufacturing. The resistance level of 0.7955 was tested a number of times and finally gave way on Friday, now the next resistance level is 0.8033. During the week PPI data on Monday will show how companies are dealing with inflationary pressures and if they are able to pass these onto their customers. Retail sales are released on Tuesday and it should highlight the continued weakness on the UK high street plus the average earnings on Wednesday will be focused on for a view into the employment market.



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