



# DOLMEN STOCKBROKERS **WEEKLY OUTLOOK**

**18.09.2006**



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Section

# 1 Market View

Equity markets put in good performances last week as the key economic data releases of US Retail Sales and US CPI both came in broadly in line with market expectations and oil and commodity prices continued to weaken. The one market that failed to advance in any significant way however was the UK where the FTSE 100 was negatively impacted by heavy oil and basic resources weighting. All eyes this week will be on the Fed who are expected to leave rates unchanged at their Wednesday meeting. The content of the accompanying statement however will be watched carefully for hints about future rate policy.

**Below are our current trading ideas**

Trading ideas	
<b>BOI</b> <b>Last rec @ €14.90</b> <b>Current: €14.90</b> <b>Target: €16.50</b> <b>Stop-loss: €14.20</b>	<p>Tomorrow, Bank of Ireland will release a pre-close trading statement for the 6 months ending 30/09/06. We expect the statement to highlight the continued strength of its domestic businesses as well as improved profitability in the UK. When the company reported its full year results at the end of May it raised its earnings guidance for the year ended March 2007 to 'low to mid-teens percentage earnings growth'. There may be further earnings upgrades in the aftermath of tomorrow's trading statement driven by stronger than expected loan growth. We are currently expecting current year loan growth of c.20%, but last week's £500m Tier 1 issue indicates that this loan growth may now be stronger than previously expected. As stated in May, we expect to see a H1 decline in the group net interest margin of c.15 basis points. We also expect BOI to confirm that it has stemmed the outflow of funds from BIAM for the period, which now only accounts for c.2% of group profits. BUY</p>
<b>Sterling Energy</b> <b>Last rec @ 21p</b> <b>Current: 18p</b> <b>Target: 28p</b> <b>Stop-loss: n/a</b>	<p>Sterling Energy is due to report results for the 6 months ended 30/06/06 on Tuesday. We are forecasting revenue, EBITDA and profit before tax of £15m, £10m and £7m respectively for H1 2006, keeping Sterling on track to report full year 2006 revenue, EBITDA and profit before tax of £45m, £35m and £21m, representing very strong year on year growth on the prior year comparatives of £13.6m, £7.6m and £5m. Evidence of such strong profit and cashflow growth should provide important reassurance to the market following the recent statement from Hardman Resources that the wells of the original development plan at Chinguetti are only likely to recover c.50% of their original proven and probable reserves estimate of 123m barrels. Sterling may be able to provide some methods by which the ultimate Chinguetti outcome will be closer to 75% of original reserves than 50%. Our view is that even under a worst case scenario of 50% reserves at Chinguetti that Sterling's NAV per share still comes to 28p per share (See last note on website), which is our current worst case 12 month price target : BUY.</p>
<b>IN&amp;M</b> <b>Last rec @ €2.25</b> <b>Current: €2.30</b> <b>Target: €2.60</b> <b>Stop-loss: €2.15</b>	<p>IN&amp;M will report interim results on Tuesday and we expect the company to highlight the strength of its Irish and South African operations. In a trading statement released at the end of June management guided that it expected revenue to have grown by 3% with EPS growth of 10%. We expect revenue of €795m (+3%), operating profit of €148m (+5%), PBT of €112m (+12%, and EPS of 7.3c (+10%). BUY</p>
<b>BHP</b> <b>Last rec @ 934p</b> <b>Current: 920p</b> <b>Target: 1250p</b> <b>Stop-loss: 900p</b>	<p>Commodity prices fell sharply last week, having a knock-on effect on the mining sector. The Reuters/Jefferies CRB Index of 19 commodities fell 2% to 314.01, its lowest level since December 2005. Oil fell below \$65 as OPEC indicated that that it would not cut its current rate of production, and copper fell 4% to \$7,500 a tonne. However, such corrections are immaterial in the context of where commodity prices have come from over the past 3 years. For example, the copper price of \$7,500 a tonne has increased by 340% from \$1,700 a tonne at the end of 2003. As a result, BHP does not require major further commodity price increases to generate strong earnings growth over the next 12 months, as this can be achieved from production increases. BUY</p>
Investment commentary	
<b>GSK</b> <b>Last rec @ 1,479p</b> <b>Current: 1,467p</b> <b>Target: 1,650p</b> <b>Stop-loss: 1,418p</b>	<p>Research revealed on Friday has shown that GSK's Avandia drug cuts the chance of patients developing Type 2 diabetes by nearly two-thirds. Type 2 diabetes, by far the most common form of the disease, is closely linked to obesity. Avandia is Glaxo's second biggest seller, with sales of 1.3 billion pounds (\$2.5 billion) last year and this data will help defend Glaxo's Avandia franchise from competitors. BUY</p>
<b>Apple</b> <b>Last rec @ \$72.52</b> <b>Current: \$74.10</b> <b>Target: \$80</b> <b>Stop-loss: \$65</b>	<p>At last week's 'special event' Apple unveiled a host of new products and improved versions of existing products. Apple signalled its move into the digital home by announcing that its iTunes online music store would begin selling movies. Apple plans to ship the iTV device in the first quarter of 2007 to let consumers stream movies, music, photos, podcasts and television shows from the Web to their televisions. We remain positive on Apple as we enter into the seasonally key period for Apple and maintain our \$80 price target. BUY</p>
<b>Anglo</b> <b>Last rec @ €12.50</b> <b>Current: €12.60</b> <b>Target: €13.50</b> <b>Stop-loss: €12.30</b>	<p>Anglo Irish Bank recently released its first ever trading statement and was particularly short in detail. For example, it states that work-in-progress levels continue to be "strong", and asset quality remains "robust", but does not give any guidance range on quantifying these areas, which will lead people to think that this year is excellent, but next year may see a slight slowdown. Full year eps will be "above 3 cent" (&gt;3.4%) better than current consensus eps for year ending 30/09/06 of 87c. The continued strong growth would appear to have been driven by continued lending activity which "remains buoyant". We were already expecting a slight slowdown next year, and so our current price target of € 13.50 is based on 13x forward eps of € 1.04. Anglo remains one of the most attractive stocks on the Iseq with good upside from current levels. BUY</p>
<b>Grafton</b> <b>Last rec @ €10.50</b> <b>Current: €10.40</b> <b>Target: €11.50</b> <b>Stop-loss: €10.10</b>	<p>Last Wednesday Grafton announced its results for the 6 months ended 30/06/06. Profit before tax (before property profit of €28.1m) of €90.2m and earnings per share of 33c were c.2% ahead of consensus forecasts of €88m and 32.5c, and were year on year increases of 11% and 9%, primarily driven by continued growth in the group's Irish merchanting chains, Chadwicks and Heiton Buckley. According to the results' announcement, Irish DIY and more importantly UK merchanting, both improved in Q2 2006, following a slow start in Q1. The outlook statement also confirmed that recent trends are pointing to a further trading improvement in H2 2006, with the group remaining "confident of continued growth in profits and eps in 2006".BUY</p>

## The Week Ahead

Date Time	Region	Event	Period	Consensus	Prior
18-Sep	US	Current Account Balance	2Q	-\$214.0B	-\$208.7B
18-Sep	US	Net Foreign Security Purchases	JUL	\$70.0B	\$75.1B
<b>19-Sep</b>	<b>IRL</b>	<b>IN&amp;M</b>	<b>H1</b>	<b>7.3c</b>	<b>6.7c</b>
<b>19-Sep</b>	<b>IRL</b>	<b>Bank of Ireland</b>	<b>Pre-close</b>	<b>n/a</b>	<b>n/a</b>
<b>19-Sep</b>	<b>IRL</b>	<b>Sterling Energy</b>	<b>H1</b>	<b>n/a</b>	<b>n/a</b>
19-Sep	GE	ZEW Survey (Econ. Sentiment)	SEP	-8	-5.6
19-Sep	GE	Zew Survey (Current Situation)	SEP	35	33.6
19-Sep	US	Producer Price Index (MoM)	AUG	0.30%	0.10%
19-Sep	US	PPI Ex Food & Energy (MoM)	AUG	0.20%	-0.30%
19-Sep	US	Housing Starts	AUG	1750K	1795K
19-Sep	US	Building Permits	AUG	1735K	1747K
20-Sep	UK	Bank of England: Minutes			
<b>20-Sep</b>	<b>US</b>	<b>FOMC Rate Decision Expected</b>	<b>SEP</b>	<b>5.25%</b>	<b>5.25%</b>
21-Sep	EC	ECB Euro-Zone Current Account	JUL	0.0B	4.0B
21-Sep	EC	Euro-Zone Current Account nsa	JUL	--	5.5B
21-Sep	US	Leading Indicators	AUG	-0.20%	-0.10%
21-Sep	US	Philadelphia Fed.	SEP	14.5	18.5

## The Week-End Papers

Paper	Company	Comment
Sunday Independent	<b>BOI</b>	Greencore boss tipped to replace O'Brien at BOI
Sunday Times	<b>Dermot Desmond</b>	Desmond flies high on expected € 1.1bn airport sale
Sunday Times	<b>UCI</b>	Butlers pay €90m in UCI cinema deal
Sunday Times	<b>Smart Telecom</b>	Vendit sues ailing Smart Telecom
Sunday Times	<b>Fyffes</b>	Fyffes-fruit group ripe for long-term growth
Sunday Times	<b>Horizon</b>	Horizon stock rises after sell-off
Sunday Times	<b>Premier Oil</b>	Premier Oil..looks undervalued
SBP	<b>Grafton</b>	Grafton Group eyes sites in Dublin, Cork and London.
SBP	<b>Anglo</b>	Anglo Irish to back Davys in €300m buyout
SBP	<b>Aer Lingus</b>	Aer Lingus €500m redevelopment plan on hold.
Sunday Tribune	<b>SSIAs</b>	SSIAs are staying saved

# Section **2** Technical Analysis

## Key technical levels

	Trend	Support 1	Support 2	Resistance 1	Resistance 2	
FTSE	Up	5858	5752	5986	6035	*Stock indices are futures  Trend is medium term: 1-3months
Dax	Up	5863	5751	6001	6060	
Dow	Up	11503	11410	11700	11840	
Nasdaq100	Down	1599	1579	1688	1692	
USD/EUR	Sideways	1.2632	1.2574	1.2700	1.2724	
GBP/EUR	Down	0.6724	0.6707	0.6748	0.6756	
Sterling Energy	Down	15.50	14	18	20	
Ryanair	Up	7.50	7.20	8.00	8.33	
Vodafone	Down	115.	111.75	120	124.75	
Brent Oil	Down	59.63	54.97	64.00	66.00	

**Stock indices** The Dow and the S+P rallied well last week and the DAX even managed to negate its key week reversal. The FTSE 100 however languished for most of the week with upside momentum still stagnant. However, as things stand the indices remain above key supports with their uptrends intact from the June lows. A test of the May highs is next. The **Dow Jones Industrial Average (cash)** targets 11670 next. Above there will open up a go at the all time high of 11750. One word of caution is the fact that momentum has not matched the new high in price yet. This warns of bearish divergence and possible setback. Support comes in at 11503/11469 and 11410. Under the latter will trigger a deeper setback which would upset the entire uptrend. The **S+P 500 (cash)** is a whisker away from the May high of 1326. Above there will bring the index to new 5 and a half year highs. Momentum is poor here also however which needs to improve if a sustained break up is to occur. Key supports at 1307/03 and 1297. Under the latter will open up a deeper sell off. The **Nasdaq Composite** has now recovered nearly 61.8% of the 2375-2012 decline. The pattern of this decline, which has bearish implications for the medium to long term, remains the thorn in the side of a sustained bull run in the other US indices. It is hard to reconcile what this index is telling us with the idea of new highs in the S+P and Dow. Further information is needed still. The **FTSE100 (cash)** had a poor week last week with upside momentum still weak. A move below support at 5832/20 will open up a deeper sell off towards 5752. Above the 5982/91 resistance area is needed to put this index on the same page as the other global markets. The **DAX (cash)** rallied well enough to unwind all of the previous week's losses. With a little stronger upside momentum the index is set up for a return to the 6158 top. Key supports rise to 5845/74 with the 5744 lows acting as bear trigger if broken.

**Stock picks** **VOD** rushed to 120 after clearing 115.00. Stronger rally ready to unfold but a drop back under 115.00 is likely first. **PCI** is pulling back further than expected. 15.13 is the line in the sand support now which protects the 13.25 low.

**Commodities** Brent is not reacting to long term trend support. The break below 65.00 now risks further correction of the long term uptrend. Targeting 55.00 next off.

### Chart Of the Week



BRENT CRUDE: Long term trendline has given way suggesting a much deeper sell off is coming.

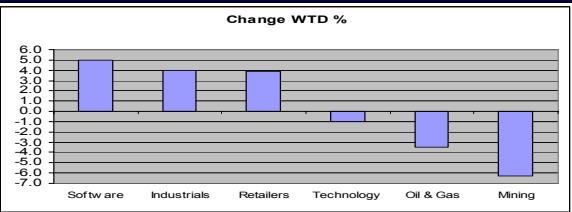
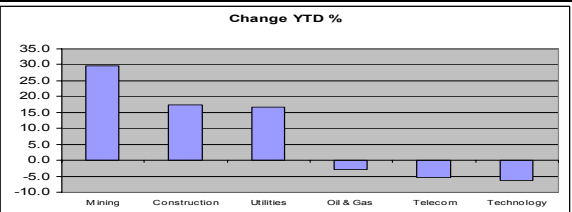
Section

# 3 Equity Markets

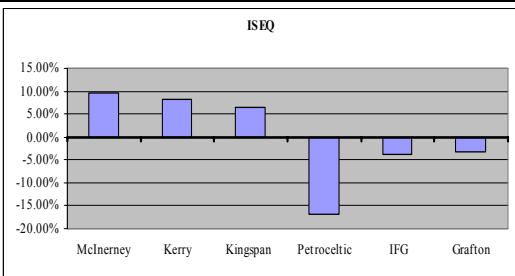
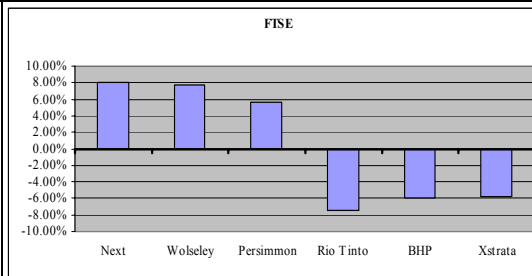
## Last Week's Moves

	Levels	Last week's moves	YTD Move
<b>Equities</b>			
FTSE	5,877	-0.04%	4.60%
Dow	11,566	1.61%	8.01%
S&P	1,319	1.67%	5.79%
Dax	5,938	2.41%	9.74%
DJStoxx	3,503	0.88%	4.60%
Iseq	8,072	1.23%	9.51%

	Div Yield-FY1	EPS Growth-FY1	P/E-FY1	P/E-FY2
ISEQ	2.55%	14.1%	12.0	10.5
UK	3.40%	15.5%	13.0	12.4
US	2.10%	10.9%	16.2	15.1
Eur	3.19%	15.0%	12.7	11.9

Sector*	Weekly Move %	YTD Move %	*Perf based on capital price moves only
Mining	-6.33	29.55	
Construction	1.69	17.35	
Utilities	2.03	16.73	
Personal Goods	1.77	15.97	
Retailers	3.88	14.12	
Industrials	3.95	12.75	
Banks	2.71	12.70	
Automobiles	-0.38	10.58	
Food	1.44	9.06	
Beverages	-0.26	7.84	
Tobacco	1.48	7.80	
Insurance	3.27	7.32	
Pharma & Biotech	0.07	5.47	
Chemicals	1.18	4.81	
Leisure Goods	3.59	4.38	
Media	0.81	3.40	
Software	4.96	-0.78	
Oil & Gas	-3.49	-2.98	
Telecoms	2.25	-5.46	
Technology	-1.03	-6.21	

## Best/Worst Performers 11/09/06 – 15/09/06

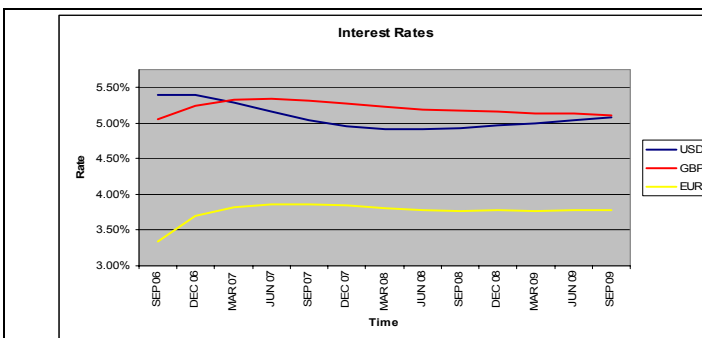
Iseq	FTSE
	

The Iseq was over one percent higher on the week and helped to reverse last week's losses. Sentiment continues to be buoyed by recent positive updates from several Iseq companies, and the reporting season continues next week with updates from both Independent News & Media and Bank of Ireland on Tuesday.

The London market was flat last week as heavyweight oils and miners weighed on the index, led lower by commodity prices. Base metals prices were softer with copper and aluminium struggling to hold key support levels as investors worried about global economic growth.

# Section **3** Commodity, Currency & Credit Markets

	Current			YTD Change			Year End Forecast		
	EURO	GBP	USD	EUR	GBP	USD	EUR	GBP	USD
<b>Base Rate</b>	3.00%	4.75%	5.25%	0.75%	0.25%	1.00%	3.50%	4.75%	5.50%
<b>3 Month</b>	3.34%	5.04%	5.39%	0.65%	0.81%	0.63%	3.61%	5.15%	5.45%
<b>12 Month</b>	3.76%	5.33%	5.43%	0.73%	0.77%	0.32%	3.77%	5.29%	5.15%
<b>5 Year</b>	3.68%	4.80%	4.75%	0.61%	0.64%	0.36%	3.80%	4.80%	5.00%
<b>10 Year</b>	3.78%	4.79%	4.57%	0.47%	0.48%	0.37%	4.00%	4.95%	5.05%
<b>EUR-USD X-RATE</b>	1.2644			6.28%			1.300		
<b>EUR-GBP X-RATE</b>	0.6736			-2.10%			0.685		
<b>CRUDE OIL FUTR</b>	64.42			0.30%					
<b>NAT GAS FUTR</b>	7.87			-30.05%					
<b>GOLD SPOT \$/OZ</b>	578.92			11.38%					
<b>SILVER SPOT \$/OZ</b>	10.825			19.97%					
<b>LME ALUMINUM</b>	2463			8.17%					
<b>LME COPPER</b>	7420			68.83%					



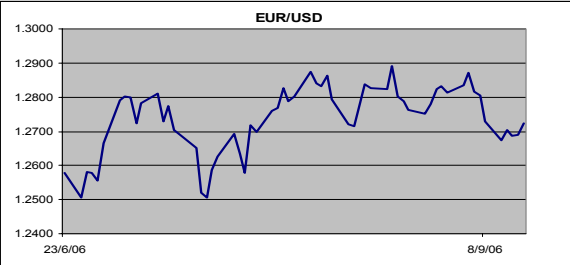
Technical View - The triangle idea was negated on Friday by the rally up through resistances at 117.40/47. The **move up off 116.69 however still looks corrective** but as to what pattern is unfolding remains unclear. The **strong turn around from just above resistance at 117.55 opens up further losses today. Target 117.07/01.** Under these will be bearish and will lead to a **test of 116.69 again and beyond.**

**Comment:**

The difference between European two- year and 10-year bond yields narrowed further last week to a six- year low after European Central Bank policy makers indicated they may keep raising interest rates into next year. German bunds slid further this morning after ECB council members Axel Weber and Klaus Liescher joined President Jean-Claude Trichet in signalling the central bank may continue raising rates into 2007 to stifle inflation in Europe

ZEW investor confidence, industrial production and industrial orders from Eurozone might provide some volatility to the Bond market this week, however the FOMC meeting in the US will provide the focus for world bond markets.

## Currency Comment

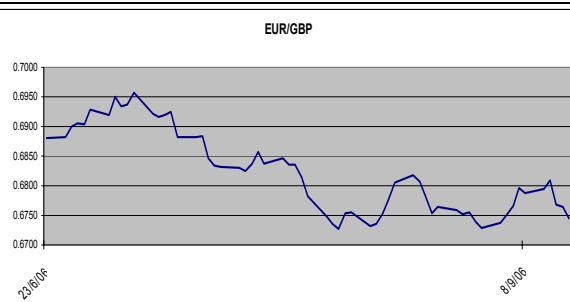


Technical View - The **sell off from 1.2938 resumed on Friday with the break of supports at 1.2675/66. Support at 1.2641 has been probed** with no break through so far. This is favoured to occur eventually however with **further losses then targeting 1.2574/62. Resistance comes in at 1.2692/1.2707 and 1.2724.** A move back to these former levels is not expected now at this stage with any ability to recover 1.2724 confirming a more durable low has been found. Look then for a stronger recovery to unfold back to **1.2753/84.**

### Comment : EUR/USD

The EURO was essentially unchanged last week against the USD. US trade deficit rose to a record US\$68b in July with unexpected drop in exports, but impact on market was insignificant as retreat in oil price is expected to improve trade deficits in the coming months. Retail sales was mixed with headline figure unexpectedly rose by 0.2%, above expectation, but ex-auto sales increased 0.2% only, slower than expected. CPI also came inline with expectation. In general, last week's data from US offered little direction to the market.

FOMC will meet again this week. The Fed is expected to hold rates unchanged at 5.25% this time. It will be interesting to know if there's any change in Fed's language, though not likely, after last round of data, in particular much stronger than expected labour costs. Housing data will be released as the week goes with capital flow data, PPI inflation and Philly Fed index.



Technical View - **Bullish divergence** is very evident now **as the cross approaches the 0.6724 support. A recovery is likely** to unfold before this level gives way. **Regaining resistance at 0.6738 opens up 0.6748/56** is short order with **potential for 0.6761/72** above there **before turning over.**

### Comment : EUR/GBP

Sterling was boosted by stronger than expected consumer inflation number and upwardly revised retail sales. CPI increased by 0.4% mom and 2.5% yoy in Aug comparing to consensus of 0.3% mom and 2.4% yoy increase. Retail sales increased 0.3% mom in Aug, meeting expectation. More important, July's growth was revised upward to 0.0% mom and 4.3% yoy, pushing Aug's yoy growth to 4.3%, beating consensus of 4.1%.

After recent cooling of rate expectation, BoE minutes will be higher focused by Sterling traders on hints of prospects for further hike this year.

## Corporate Credit Markets

Rating-5 Yr Bonds	Sample Names	Dec 2005 Yield	Yield	
AAA	Rabobank	3.65%	3.84%	<p>The Itraxx tightened 1bps over the week, from 27.5bps to 26.5bps, largely as a result of the upcoming bi-annual rollover on September 20<sup>th</sup>, when deteriorating credits are replaced with stronger names, thereby improving the overall index.</p> <p>*ITRAXX is an index of the 125 most liquid investment grade corporate names in the European market</p>
AA	Deutsche Bank	3.95%	3.93%	
A	Tesco	3.83%	4.06%	
BBB	MKS	5.30%	5.61%	
BB	Royal Caribbean Cruise lines	5.73%	6.48%	

### Sector Movements in week ended 15/09/06:

- Auto:** French automakers saw some tightening with both Peugeot and Renault tightening 1bps –Peugeot announced this week that the CEO is retiring, the news was received positively by the financial markets. German automakers were mixed with BMW unchanged, VW had widened 1bps while on Friday DCX announced a surprise profit warning, reducing FY operating targets from €6b to €5b, blaming poor performance in the US. US automakers were mixed, Ford announced significant job cuts as it ramps up its turnaround plan, spreads were slightly wider on the news as plans to sell branded car segments or other assets have been delayed in the near term as the new CEO has requested time to study the best options for Ford, with regard to asset sales.
- Building materials:** Tighter across the board with the biggest move in Pilkington, tightening 2bps while LaFarge, Heidelberg and Saint Gobain all tightened 1bps. A German newspaper this week reported a 4% growth in the cement industry, doubling the previous growth target. This growth is reportedly being fueled by demand for new construction in Germany.
- Chemicals:** Both Bayer and BASF were unchanged over the week while Linde tightened 1bps on announcement that the company is to dispose of air-separation units in the US as required following the acquisition of BOC Group.
- Airlines:** Mixed in the sector with British Airways and Lufthansa tightening 3bps and 2bps respectively after Lufthansa was fined €85m in price fixing lawsuits in the US, a figure that will be easily absorbed by operating profits. Elsewhere BAE tightened 1bps after the announcement of a 28% increase in H1 profit, attributed to sales of troop transportation vehicles to the US army in Iraq. BAA widening 1bps this week after it announced a €13m cost due to lost sales in July following the terrorism threats at UK airports.
- Food/Beverages:** Primarily unchanged in the sector except for Ahold, which widened 1bps on reports in the FT that Ahold is under pressure from hedge funds to sell-off parts of the company, Ahold has dismissed the reports. Elsewhere Compass tightened 1bps, continuing the tightening trend that started in early July.
- Telecoms:** Deutsche Telecom widened 4bps this week after S & P revised the rating outlook from stable to negative, citing higher US licensing costs and competitive pressures in the domestic fixed-line and mobile markets. Vodafone and BT were unchanged while TDC tightened another 8bps and Alcatel tightened an additional 2bps following the conclusion of the Lucent merger.
- Retail:** Both M & S and GUS widened 1bps over the week while Alliance Boots and Dixons were unchanged. However the biggest move was a 2bps widening in Kingfisher after Moody's placed the rating on review for possible downgrade, citing declining UK retail profit margins, driven by continuing challenges in the UK DIY market.
- Media:** A tightening trend seen in the sector this week with both EMI and VNU tightening 3bps each. EMI continues to tighten as the market focuses on the significant value in the music publishing business and the prospects for either private equity or Sony/BMG bidding for the division. Elsewhere BskyB tightened 1bps while Reuters and WPP were unchanged over the week.

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