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EQUITIES	Close	Change	% +/-	P/E '05	YTD
ISEQ	6655	↓ -64	-0.96%	11.0	7.37%
FTSE 100	5370	↓ -47	-0.86%	13.5	11.54%
DAX 30	4875	↓ -88	-1.77%	15.0	14.55%
DOW	10378	↓ -103	-0.99%	19.5	-3.76%
NASDAQ	2107	↓ -25	-1.16%	15.6	0.84%
S&P	1210	↓ -11	-0.91%	21.0	-0.15%

CURRENCIES	Euro	Dollar	Stg	Yen
Euro	1.0000	1.2226	0.6756	136.2900
Dollar	1.2226	1.0000	1.8094	111.4500
Sterling	0.6756	1.8094	1.0000	201.6700
Yen	136.2900	111.4500	201.6700	1.0000
Oil (Nymex)	67.7100			

This Week's Research
Friends Provident
McInerney Holdings
IFG Group

Today's Research
RBS

Breaking News

BOI completes sales of B&W network

Bank of Ireland said that following UK High Court approval it has completed the sale of its Bristol & West branch network to Britannia Building Society for £150m (€218m), adding it will book a profit of £120m (€175m). The transaction is expected to be earnings neutral from a Bank of Ireland Group perspective going forward and have a positive impact on the group cost/income ratio, it said. Bank of Ireland has retained the Bristol & West mortgage business which will remain one of Bank of Ireland's three strategic priorities for growth in the UK.

Oil up on Hurricane Rita fears

Oil is pushing \$68 today as Hurricane Rita gets closer to Gulf of Mexico oil and gas production and forced six refineries in Texas to shut down. Yesterday a government report which showed that U.S. gasoline stocks rose by 3.4 million barrels last week, against the 200,000-barrel fall expected by analysts was slightly positive but U.S. crude stocks fell 300,000 barrels, compared to forecasts for a rise of 200,000 barrels. Stocks rose as demand for gasoline weakened, reinforcing signals that the surge in prices this year is starting to have an impact on demand.

IMF cuts eurozone growth forecasts

The renewed weakness in the euro-area is of "particular concern" for the global economic outlook in 2005 and 2006, the IMF said in its semiannual report on the global economy released yesterday. "Weak domestic demand" was highlighted by the report as the main problem and said that the outlook for the eurozone is "highly uncertain". The IMF trimmed its growth forecast over the next two years for the euro-zone. The region is expected to grow at a 1.2% rate this year, compared with the previous forecast of 1.6%. For 2006, growth should only reach a 1.8% rate, down from the previous estimate of 2.3%.

RBS (£15.76) Opportunity from US over-reaction Stuart Draper

- Recent weakness : The share price of Royal Bank of Scotland has been very weak in recent days. While some of the usual takeover stories are being put about, given that RBS recently committed to not increasing the level of its Bank of China investment for 3 years, it is unlikely to make any significant acquisitions over the next 12 months.
- US exposure : A more likely explanation for the share price weakness is the bank's US exposure, given the share price weakness of the US retail banks in the aftermath of this week's interest rate increase by the FED, and the knock-on weakness of all of the UK banks. Therefore, RBS' larger than sector average US exposure is the most rational explanation for its greater than sector average recent share price weakness.
- Margin concerns : The rationale for this is the margin erosion caused by the flattening of the US yield curve. In its H1 2005 results' announcement, RBS attributed 0.04% of the 0.23% erosion of its net interest margin to the flattening of the US yield curve, and this week's FED move extends this effect.
- Offsetting income : However, the group's sizeable US deposit base will generate higher interest income as a result of the FED move, and the adoption of Citizen's best sales practices at Charter One should also boost group income.
- Net effect : Recent strong results from the US investment banks could also result in another US income offset this year in the form of better than expected US corporate banking income. Even assuming that the net effect reduces the group net interest margin by a further 0.02% in H2 2005, this would only reduce group earnings by c.1%.
- Major upside : Following last month's c.2% downgrades to 2005 and 2006 forecasts, complicated by IFRS adjustments, the consensus 2005 and 2006 eps forecasts are still £1.76 and £1.90 respectively. As a result, even valuing the bank at a basic sector average multiple of 10x consensus 2005 eps of £1.76 generates attractive 12% upside from current levels.
- Attractive yield : With the 5 year average pe of RBS 10.8x forward earnings, a fairer 12 month share price target would be £19 (21% further upside), based on 10x consensus 2006 eps of £1.90. RBS will also pay a dividend yield of c.4.2% for waiting for this upside to be achieved : BUY.

Business Press

- Kenmare to start mining next year in Mozambique (IT)
- Bank code leads to 10,000 switches (IT)
- M&T appoints AIB chief to board (IT)
- Pension deficit to influence any sale of Aer Lingus (IT)

Investment Press— Lex

- UK interest rates: The pained calls for lower UK interest rates are getting shriller. This week, the chief executive of retailer Next said "significant" interest rate cuts were needed for growth to return to the high street.



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