
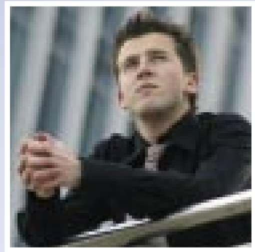
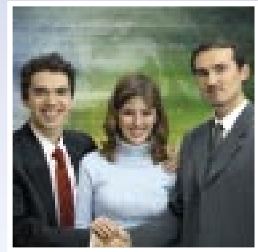

DOLMEN STOCKBROKERS **WEEKLY OUTLOOK**

23.10.2006

Dolmen Stockbrokers

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Section

1 Market View

In a week that saw the Dow set a record close over 12,000, global equity markets still only managed to finish the week broadly unchanged. A mixture of technical resistance levels on the major indices, a rising oil price on the back of a 1.2m barrels per day production cut by OPEC, and some mixed corporate results from the US all helped to cap the upward momentum of equity markets. While the US Core CPI data was equity friendly, a weaker than forecast Philly Fed reading, the second weak reading in a row, raised concerns about the rate of slowdown in the US. This week, the market may get a better feel for the overall outlook for the US economy when the Fed announces its latest interest rate decision on Wednesday. While it is expected that it will continue in 'pause mode', its assessment of the economic environment particularly on inflation and housing will be watched closely. Also this week (Friday) the release of advance Q3 US GDP will provide further evidence of the state of the US economy.

Below are our current trading ideas

Trading ideas	
BP **Last rec @ 592p** **Current: 602p** **Target: 660p** **Stop-loss: 555p**	This Tuesday, 24th October, **BP** will report results for the 3 months ended 30/09/06. The consensus forecast is for net profit of $4.74 bn, a year on year decrease of 11%. However, the 12% fall in the company's share price since the end of July may have discounted this year on year decrease, which was largely caused by the shut down of 200,000 barrels a day from its Alaska Prudhoe Bay production of 450,000 barrels a day. However, this production has now been restored to 400,000 barrels a day, and what is not yet discounted by the share price is the potential for production growth to resume in 2007. BP has a large number of new production start-ups coming on stream over the next 12 months, which should result in overall production growth of c.5% being achieved in 2007, with new start-ups in both Angola and Azerbaijan expected to increase production by a total of 400,000 barrels per day over the next 2 years. Our current 12 month price target for BP of £6.60 is based on 11x 2007 eps of 60p and BP will also pay a dividend yield of c.3.5% for waiting for this upside to be achieved : **BUY**.
GSK **Last rec @ 1459p** **Current: 1,486p** **Target: 1,650p** **Stop-loss: 1,418p**	This Thursday, 26th October, **GlaxoSmithKline** (GSK) will report its results for the 3 months ended 30/09/06. The consensus forecasts are for Q3 profit before tax and earnings per share of £1.836 bn and 22.2p respectively, representing year on year increases of 5% and 3%. Such forecasts are in line with GSK's current guidance for 2006 eps growth of 12%. However, given the modest level of Q3 growth expected, there may be scope for a positive earnings surprise on Thursday and for the company's full year earnings growth guidance to be upgraded from 12%. GSK recently filed for EU approval for a new breast cancer drug, Tykerb, which will come to market in 2007 and which has already been filed for approval in the US. It is estimated that the drug could net GSK £1 bn a year in sales by 2012, and is one of 3 cancer medicines that GSK is launching in 2007, signalling its arrival as a major force in oncology. GSK continues to buy back its own shares in the market and pays a dividend yield of c.3.1% : **BUY**.
BG **Last rec @ 703p** **Current: 703p** **Target: 765p** **Stop-loss: n/a**	On Thursday week, 2nd November, **BG Group**, formerly called British Gas, will report its results for the 3 months ended 30/09/06. The consensus forecasts are for net profit and earnings per share of £335m and 9.8p respectively, representing year on year increases of 9% and 13%. The major driver of the profit growth will be the E&P division where a 25% year on year production increase to 555, 000 barrels of oil equivalent per day (boe/d) is expected to drive similar year on year operating profit growth of c.25%. Such a Q3 result would keep BG on course for a 2006 eps of 51p, representing year on year earnings growth of 21%. Such continued stronger than sector average earnings growth, combined with the group's high quality management, has resulted in the share price trading at an average premium to NAV of 13% since the company's de-merger in 2000. This gives our current stand-alone 12 month price target of £7.65, based on a 13% premium to NAV per share of £6.77. The high quality nature of BG's assets has also resulted in some speculation that the company may receive a takeover approach from one of the oil majors. Royal Dutch Shell is most frequently mentioned as having the greatest need for BG's above average proven and probable reserve life of 19 years, and as having the largest operational overlap : **BUY**.
CRH **Last rec @ €26.90** **Current: €27.31** **Target: €30.00** **Stop-loss: €24.30**	Last week, **CRH** announced that it had signed a Letter of Intent to acquire a 26% stake in Yatai Cement, one of China's top 10 cement producers, with an option to increase this stake to 49% in 3 years. When combined with the recent smaller acquisition of a 650,000 tonne plant near Harbin, the deal, estimated to cost c.$80m for the initial 26%, gives CRH an attractive presence in North East China, further improving the global balance of group earnings. It was also recently announced that US existing home sales rose by 4.3% in August, above the consensus forecast for a flat outturn and a 7% fall in July. Any evidence of stabilisation in the US housing market should help improve sentiment toward the CRH share price, given that its European markets are continuing to recover, and given that its infrastructure and non-residential construction markets in the US remain strong. Evidence of the strength of these markets was the 20% increase in the H1 dividend to 13.5c. Our current price target of €30 is based on 13x consensus 2007 eps of €2.35 : **BUY**.
Lloyds **Last rec @ 581p** **Current: 563p** **Target: 600p** **Stop-loss: 550p**	One banking stock which we have been positive on over the last 9 months is **Lloyds TSB**, and the share price has rallied quite strongly in recent weeks, largely driven by reports of an approach for Scottish Widows from Swiss re and AXA. Part of the reason for our bullishness was an above average probability of corporate activity at the UK banking group. However, the same reports stated that the Lloyds board has rejected the approach, and Lloyds has yet made no statement on the situation. Even though further speculation could continue to push the share price higher, on a stand-alone basis, the shares are now fairly valued, and we recently downgraded our recommendation from BUY to NEUTRAL, with a new share price target of £6, based on 12x consensus 2007 eps of 50p. We also note the comments of Citigroup chief executive, Chuck Prince, last week, that buying a big western European bank is not on his agenda and that his acquisition strategy is focused on small deals in emerging markets. As a result, any further speculation may represent an opportunity for some profit-taking by investors who have patiently waited for 9 months for an attractive return to be generated, once the H1 dividend per share of 10.7p is included : **NEUTRAL**.

The Week Ahead

Date	Region	Event	Period	Consensus	Prior
24/10/06	US	Richmond Fed Manufact. Index	OCT	8	9
25/10/06	US	Existing Home Sales	SEP	6.22M	6.30M
25/10/06	US	Existing Home Sales MoM	SEP	-1.40%	-0.50%
25/10/06	US	FOMC Rate Decision Expected	Oct-25	5.25%	5.25%
26/10/06	GE	GfK Consumer Confidence Survey	NOV	8.9	8.8
26/10/06	US	Durable Goods Orders	SEP	2.00%	-0.50%
26/10/06	US	Durables Ex Transportation	SEP	1.00%	-2.00%
26/10/06	US	New Home Sales MoM	SEP	-1.00%	4.10%
27/10/06	US	GDP Annualized	3Q A	2.10%	2.60%
27/10/06	US	GDP Price Index	3Q A	2.80%	3.30%
27/10/06	US	Personal Consumption	3Q A	3.00%	2.60%
27/10/06	US	Core PCE QoQ	3Q A	2.50%	2.70%
27/10/06	US	U. of Michigan Confidence	OCT F	92.5	92.3

Paper	Company	Comment
Sunday Times	Riverdeep	Riverdeep takes US giant
Sunday Times	Aer Lingus	O'Leary's Aer Lingus offer to come up short
Sunday Times	IAWS	Cuisine site is sold to founder
Sunday Times	IAWS	Bakery deal cost IAWS lot of dough
Sunday Times	BP	Browne struggling to defend BP
Sunday Times	IL&P	Irish Life and Permanent - HOLD
Sunday Times	Elan	Elan needs a booster jab
SBP	Aer Lingus	Pension Fund gets approval to buy Aer Lingus shares
SBP	Ardagh	Ardagh investors set for 900% return
Sunday Tribune	CRH	CRH lead the way in foreign investment
Sunday Tribune	NIB	NIB continue to poach Ulster Bank staff
Sunday Indep	IL&P	Mortgage price war could flatten Permo

Section 2

Technical Analysis

Chart	Trend	Comment	Key Support	Second Support	Key Resistance	Second Resist
Iseq	Up	Running of out steam near term- but bullish trend intact –would buy the pullback	8200	8375	8550	8600
Ftse100	Up	Last weeks call correct- would lighten position into 6200 as charts unwinding overbought position.	5900	6125	6200	
Dax	Up	See continued sideways trading until overbought position unwound. Would sell at 62.75- 63.00 with 50/100 point stop.	6110	6160	6400	6260
Dow	Up	Very overbought- volume average- would sell into new significant high at 12150-12200	12050	11750	12200	
Euro/USD	Sideways	Got our bounce- go short with 1.2650 stop.	1.2725	1.2625	1.245	1.23
Euro/GBP	Sideways	Trading down- looks like we could see old lows at 0.66	.6785	.6740	.6685	.6660
Bunds	Sideways/Down	Oversold but breaking lower- on the week would buy with 116.40 stop	115	116.50	117.20	118.90
Oil	Down	Trading lower- sell into strength with 60.50 stop	56.80	56.20	60.25	62.1
Vodafone	Sideways	Either-way call: momentum slowing, overbought on weekly chart- biased to wait for 132 and sell.	1.235	1.17	1.32	1.38
Lloyds	Up	Support at 5.60 held so far but with divergence on RSIs etc looks like we are heading to 5.45- ran out of volume etc- think it will find a base at 5.35 to 5.45.	5.90		5.45	5.60
BHP	Sideways	Broken out of long term trading range- too early to say if uptrend confirmed- stay long with stops at 9.70. 10.50 will probably hold it this week. Would probably lighten on a break into the 10.40s- but risking 48p to make 20p…	10.50	10.75	8.25	9.70
Tullow	Sideways	400p is a key level: volume strong which is good but oil weaker	3.60		3.95	
C&C	Up	Trend remains positive; but at these levels of RSI has traded sideways previously- wouldn't open new longs here- would wait for 11.50-11.75.	10.70	11.50	12.50	12
Anglo	Up	A move to 14.10 to 14.40 would necessitate some profit taking	14.10	14.40	13.50	13.15

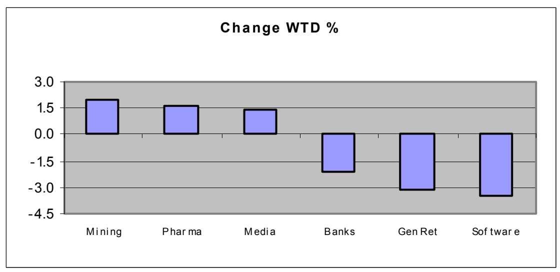
Last Week's Moves

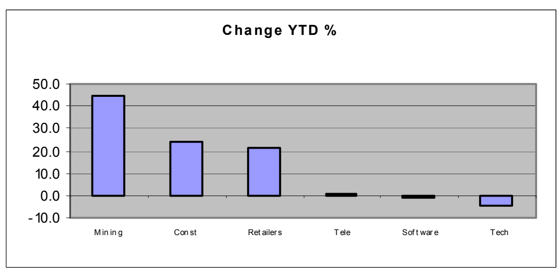
	Levels	Last week's moves	YTD Move
Equities			
DOW JONES INDUS. AVG	11982.36	0.06%	11.66%
S&P 500 INDEX	1365.46	-0.09%	9.30%
NASDAQ COMPOSITE INDEX	2336.56	-0.97%	5.86%
DJ STOXX 50 = PR	3685.7	-0.09%	9.76%
FTSE 100 INDEX	6155.199	-0.32%	9.24%
DAX INDEX	6200.34	0.11%	14.27%

	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 %
Mining	1.98	44.50
Construction	-0.68	23.62
Gen Retailers	-3.16	21.76
Utilities	-0.32	20.35
Gen Industrials	1.11	16.93
Banks	-2.08	16.72
Personal Goods	-1.07	14.42
Autos	0.34	12.94
Pharm & Biotech	1.69	11.93
Insurance	-1.43	10.98
Food Producers	-0.57	10.34
Chemicals	0.06	9.43
Beverages	-0.96	8.41
Media	1.42	7.67
Leisure Goods	-0.72	5.60
Tobacco	-0.83	3.94
Oil & Gas	0.86	3.11
Telecoms	-0.79	0.92
Software	-3.46	-1.46
Technology	-2.01	-4.25

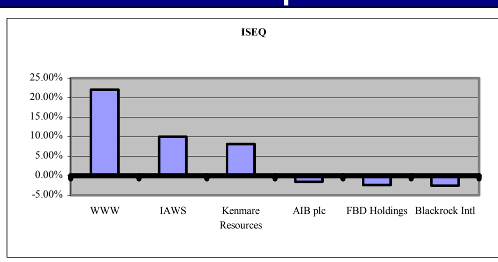
***Perf based on capital price moves only**

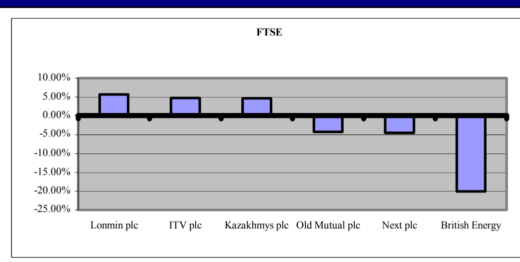




Best/Worst Performers 13/10/06 – 20/10/06

Iseq	FTSE



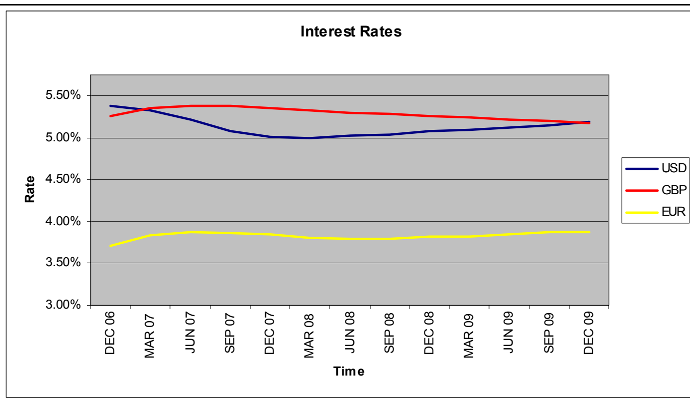


The Iseq closed marginally higher last week, once again outperforming its global peers. The performance was impressive given some weakness in the large cap financial stocks. Some investors were seen to be cashing in on recent gains after the index's recent rally

The London market was slightly lower last week despite continued strength in commodity stocks. Like in Dublin, it was the financial sector that weighed on the index, in addition to a profit warning from British Energy after announcing that a boiler-tube cracking at one of its plants is at the worst end of expectations.

Section 3 Commodity, Currency & Credit Markets

	Current			YTD Change			Year End Forecast		
	EURO	GBP	USD	EUR	GBP	USD	EUR	GBP	USD
Base Rate	3.25%	4.75%	5.25%	1.00%	0.25%	1.00%	3.50%	4.75%	5.50%
3 Month	3.52%	5.14%	5.38%	0.95%	0.99%	0.51%	3.61%	5.15%	5.45%
12 Month	3.80%	5.40%	5.40%	0.80%	0.90%	0.26%	3.77%	5.29%	5.15%
5 Year	3.74%	4.93%	4.75%	0.68%	0.76%	0.41%	3.80%	4.80%	5.00%
10 Year	3.84%	4.69%	4.78%	0.53%	0.58%	0.40%	4.00%	4.95%	5.05%
EUR-USD X-RATE	1.26125			0.73%			6.01%		
EUR-GBP X-RATE	0.669921			-0.60%			-2.60%		
CRUDE OIL FUTR	59.83			-5.77%					
NAT GAS FUTR	59.93			-31.16%					
GOLD SPOT $/OZ	7.98			14.81%					
SILVER SPOT $/OZ	149.25			34.71%					
LME ALUMINUM	173			20.33%					
LME COPPER	539.25			74.29%					

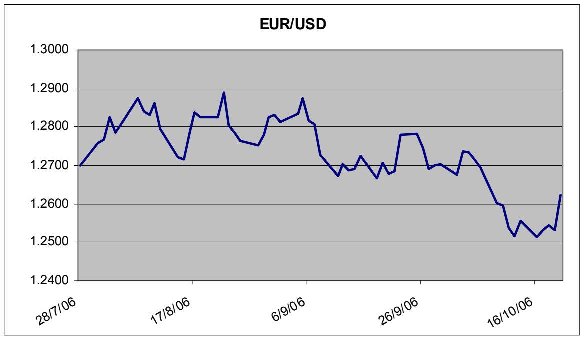
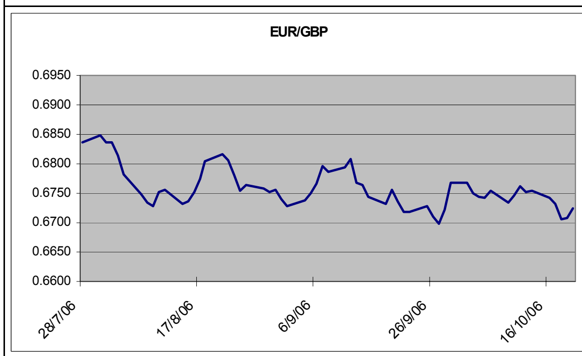


Comment:

European government bonds slid for a fourth week last week, their longest losing stretch since June, on speculation the European Central Bank will raise borrowing costs beyond December to curb inflation. The decline in bonds sent the yield on the two-year note to its highest in a month. ECB council member Erkki Liikanen said he saw ``price pressures in the medium term on the upside,'' joining other policy makers last week who have signaled higher rates.

This week once again traders will take there cue from the US, where both the Fed rate decision and the GDP number will take centre stage. If the US data comes in anyway stronger than expected, traders will try to take yields higher pricing in the likelihood of further hikes from the ECB in 2007..

Currency Comment

	**Comment : EUR/USD** Dollar failed to build on the previous week's strength and weakened across the board last week, erasing the previous week's gains.The Euro remains pressured in crosses despite rebounding against the greenback There were many reasons for dollar to extend its rally last week. Empire State manufacturing index rose strongly to 22.9, much higher than expectation of 12. Net capital flow rose to record high of $116.8B. Core PPI increased faster than expected by 0.6% vs consensus 0.2%. Core CPI remained solid and increased 0.2% mom, 2.9% yoy. Housing starts surprising rebounded to 1.77M annualized rate. But dollar failed to ride on these positive surprises and struggled to break out of its medium term range. In fact, dollar reacted more to downside surprises like drop in industrial production and below expectation building permits. After the last piece of US data, Philly Fed index, came in below expectation and stayed negative, there was further position squaring ahead of FOMC and GDP this week. Focus will be more on the latter part of this week with FOMC rate decision, GDP, housing and durable goods data. The Fed is still expected to keep rate unchanged at 5.25%. Focus will be on whether the tone of accompanying statement will indicate Fed officials are have less concern on slowing growth after recent indications of soft landing from economic data and falling energy prices. Meanwhile, recent inflation data shouldn't ease Fed's tone on this matter. US Q3 GDP growth is expected to slow further to 2.2%. But PCE core is expected to remain at 2.7%. While existing home sales is expected drop further to 6.23M annualized rate with new home sales stay flat at 1.05M. It will be interesting to see if there will be upside surprises in housing data that provide another indication of bottoming in housing slowdown. In this environment the USD will continue to react to the data so expect further volatility this week.
	**Comment : EUR/GBP** Euro remained sidelined last week with traders reacting far more to GBP data than those out of the Euro area. Germany ZEW continued to drop to -27.4. Sep HICP was flat but core increased by 1.5%, beating expectation of 1.3%. August Trade deficit widened to 5.8B. Sterling started last week strongly after higher than expected house price inflation. CPI was 2.4% in Sep, staying above BoE's 2% target for a fifth month. Core CPI in UK rose 1.4%, beating expectation of 1.2%. The hawkish BoE minutes revealed that the decision to keep rate unchanged at 4.75% was by a 7-2 vote instead of market expectation of a 9-0 vote. Andrew Sentance and Timothy Besley voted for a quarter point increase in the key rate to 5%. Q3 GDP also grew more than expectation by 0.7% qoq, 2.8% yoy. Though employment report and retail sales were weaker than expected, last week's data was generally supportive for a rate hike in November. Data from Eurozone will center on Germany including Ifo, Gfk as well as import prices and retail sales. UK economic calendar is empty this week.

Corporate Credit Markets

Rating-5 Yr Bonds	Sample Names	Dec 2005 Yield	Current Yield
AAA	Rabobank	3.65%	3.89%
AA	Deutsche Bank	3.95%	3.99%
A	Tesco	3.83%	4.09%
BBB	MKS	5.30%	5.66%
BB	Royal Caribbean Cruise lines	5.73%	6.25%

The Itraxx* tightened 0.5bps over the week to close at 27.0bps. Credit markets have been subdued this week, spirits were dampened by downgrades from both S & P and Fitch for Italy during the week. Many believe the downgrades will only serve to ignite negative sentiment towards the Eurozone, and it's grouping of divergent economies.

*ITRAXX is an index of the 125 most liquid investment grade corporate names in the European market

Sector Movements in week ended 20/10/2006:
Auto: Mainly wider in the sector – French automakers Renault and Peugeot widened 1bps each while DCX was the only German automakers to move, widening 1bps over the week while BMW and VW were both unchanged. Renault had their debt rating affirmed by Fitch however reports continue to circulate that Renault may be eyeing Ford as a possible JV. DCX weakened on reports that production cuts are not deep enough. In the US Ford widened 24bps on reports that the company is likely to report Q3 losses next week. GM was pretty much unchanged.
Building materials: Primarily unchanged in the sector, the exception being Saint Gobain, who despite being cut to hold by Deutsche Bank, tightened 1bps over the week. Deutsche Bank warned that the US subsidiary of Saint Gobain holds considerable risk due to the US housing slowdown.
Chemicals: Tighter in the sector, with both Linde ad Bayer tightening 1bps over the week, BASF was unchanged. Linde reportedly has 4 private equity bidders for its fork-lift division; the story at Bayer was similar with three bidders in the running for the Starch division, two of which are private equity.
Airlines: Tighter in the sector, the biggest move was BAA which tightened 2bps following the announcement of the sale of a 50% stake in Budapest Airport – the deal is expected to be completed in Q4 and proceeds used to reduce debt. Deutsche Lufthansa and BAE Systems were each 1bps tighter – Lufthansa on news of expansion plans; BAE tightened after the company won 2 arms contracts from the US Departmet of Defense.
Food/Beverages: Tighter in the sector – Tesco, Sainsbury and Carrefour were all 1bps tighter this week - both Tesco and Sainsbury reported marginally higher UK market shares percentages while Carrefour tightened on reports of expansion in through acquisition. Elsewhere Cadbury tightened 2bps following the announcement of restructuring plans at the Dublin plant.
Telecoms: Mixed in the sector - British Telecom was unchanged; Vodafone was 1bps tighter following the release of new phone models for the Christmas market; and Deutsche Telecom were 1bps wider after the sale of €1.5b bonds this week.
Retail: Quieter in the sector this week after significant moves last week – each Dixons; GUS and Kingfisher were unchanged over the week while Marks and Spencers and Boots were 1bps tighter. MKS announced plans to expand into Sri Lanka, using the free-trade accord between Sri Lanka and India to its advantage.
Media: Mixed in the sector - EMI was 2bps wider after the debt rating was cut 1 notch to Ba2 by Moody's. Moody's do not expect EMI will be in a position to make improvements to credit metrics in the near term. BSkyB tightened 1bps over the week after repaying £300m of debt, leaving the balance sheet with a healthy £1.4b of cash off-set by £1.7b of debt.

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