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Government sets up group to consider disposal of State assets (*The Irish Times*)

Irish banks undergo EU stress tests today (*The Irish Times*)

Banks lied about the scale of losses in crisis talks (*Irish Independent*)

INTERNATIONAL PAPERS TODAY

Trichet calls for worldwide tightening (*Financial Times*)

Swiss aim to steal EU stress test thunder (*Financial Times*)

EU banks face results Friday of stress tests (*Wall Street Journal*)

Market View

Analyst: Brian Gallagher

European equities have opened flat this morning as the market awaits the release of the EU wide bank stress test which is designed to ascertain the ability of the EU banking sector to absorb further shocks. The view in the market is that results of the tests are less important than the actual methods used to complete them. Traders will be hoping to see evidence that The Committee of European Banking Supervisors were rigorous and intrusive in their practices as this is the only way the whole process will gain credence. Equity markets yesterday shrugged off Bernanke's "unusually uncertain" comments and chose to focus on some strong earnings releases. AT&T, CAT, and UPS all beat the street but more crucially they talked up their outlooks and raised guidance for the rest of the year. This will add further weight to the argument that while the consumer remains weak, corporate America continues to advance. There was further positive news in the commodities space as both soft and industrial materials pushed higher. Copper bucked its recent downtrend opening up a move to \$3.40/lb and oil rallied as storms in the gulf threatened US supply. Importantly, BP were given the go ahead to keep its stacking cap on its ruptured well indicating both the Government and BP itself are becoming more confident in the ability of the current strategy to contain the leak. Today, there is no macro economic data out of the US to follow on from the positive Existing Home Sales which we saw yesterday however, in Europe, German IFO and UK Q2 GDP are set to be released. Finally, McDonalds, Verizon and Honeywell will report results today.

EU Wide Stress Tests

Analyst Oliver Gilvarry

Overnight further details on the European stress tests were released with Slovenia's largest bank reported to have failed the test with one German bank also failing. This is expected to be HRE and according to Spanish newspapers several Spanish banks have also failed, which in our view will be the smaller Cajas rather than any of the larger listed Spanish banks. The key for the market will be the level of detail released this evening on the stress tests. If a large amount of detail is given rather than just an announcement of who has passed or failed, this will be taken as a positive by the market. We continue to expect AIB and BOI to pass the tests with AIB passing on a conditional basis pending it raising capital as required by the Financial Regulator.

Microsoft: Buy **Previous Close** \$25.84 **Target** \$35.00 **Analyst** Stephen Taylor

After the US market closed last night Microsoft reported a strong set of results that were well ahead of expectations on both the bottom and top line. The group reported EPS of 51c compared to expectations of 46c. Revenue of \$16.04bn was also well ahead of expectations of \$15.25bn. Unearned revenue came in at \$14.8bn compared to expectations of \$14.5bn. The company guided full year operating expenses of \$26.9bn to \$27.3bn compared with expectations of \$27bn to \$27.5bn. Microsoft's strong results have been driven by a recovery in corporate spend as demand for its Windows 7 and Office 2010. Microsoft declined to comment on a potential increase in its dividend. Given the extent of Microsoft's net cast balance of c. \$32bn it has plenty of scope to increase cash payouts to shareholders. We believe that if Microsoft were to engage in this action, would see a re-rating in the stock. Trading at just over 11x next years earnings with double digit earnings growth we believe that its shares offer excellent long-term value and reiterate our buy rating.

Vodafone: Buy **Previous Close** 149p **Target** 155p **Analyst** Stephen Taylor

Vodafone issued a trading statement for the first quarter trading period ending June 30th. The company saw a return to group service revenue growth of 1.1% with improving trends seen in all regions. In Europe, the UK saw a 0.7% increase, while Germany was up 0.2% in revenue terms. Emerging markets performed well in particular in India with 13.7% growth, while Turkey received record revenue growth of 23.7% growth. Data growth continued to show a strong performance with revenue increasing by 25.4% to £1.2bn. Vodafone has reiterated its full year earnings guidance. The group also noted that its sustained free cash flow generation supports capital investment and a 7% increase in its dividend per share over the next three years. We reiterate our buy rating on Vodafone.

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