

While equity markets finished the week broadly unchanged, volatility and uncertainty continued to be to the fore. The expectation of a continuation of the previous week's rally driven by a fall in oil was sidelined by a mixture of some disappointing corporate news (Vodafone) and some extremely weak economic data, particularly out of the euro-zone. There is no doubt that a weaker oil price is positive for the expectations over inflation and by extension for interest rates, but in order for the current expectations of lower inflation leading to potentially lower interest rates to become more realistic, oil needs to trade well below the current \$123.50 level for a sustained period of time. Also required to instil confidence into the equity markets is an improvement in the economic data, particularly out of Europe. While current corporate results are in most cases better than expected, there have been a number of companies in key sectors such as construction and chemicals, which have issued profit warnings and in conjunction with the weaker economic data raise concerns about the outlook for earnings in the third and fourth quarters. The coming week sees results from key sectors such as banks, oil and airlines as well as some critical euro-zone inflation data (Thurs) and US employment (Fri). Along with lower oil, the markets need a good run of results and some benign economic data if the attempted rally of the previous week is to be re-ignited.

TRADING IDEAS, EARNINGS & PREVIEWS

Banks

The rally in Irish banks continued for the first half of the week, but has fallen off over the last few days as a number of companies earnings were weaker than expected. On Friday, economic data releases came to the fore with Durable Goods and New Home Sales in the US stronger than expected. With the dollar getting a pick up on this, oil fell off significantly and equity markets rallied into the close.

After the strong run Irish banks had, they took a breather last week and remained roughly unchanged for the week except for Anglo which rose 16% over the week. As mentioned last week, Irish Banks are still at discounts to their tangible Net Asset Values (tNAV) with AIB and IPM still trading at sub 1x tNBV giving no benefit for the market position they hold and future profits even if significant losses occur from bad debts.

The next week will be an important one for Irish banks with AIB reporting half year results on the 30th as is Lloyds TSB and the day after, HBOS reports. On the economic side Irish credit growth for June is due for release on Thursday plus the Live Register for July on Friday will all provide a insight on the state of the Irish economy. The half year results from these banks plus important economic data on the Irish economy will set the tone for where the Irish banks will go over the next number of weeks.

Oil Update

Oil is now trading about 15% below its all time high of \$147.90 achieved earlier this month. In that time sentiment towards oil has changed notably. Renewed strength in the dollar, demand erosion and a modest easing of Iran/Israeli tensions have acted as catalysts for the decline. Additionally, potential regulatory intervention aimed at curbing oil speculation could be having an effect. On the bullish side, the Israel-Iran impasse is far from resolved and a failure by Iran to suspend uranium enrichment by Saturday could lead to additional sanctions against the 2nd largest oil producer. Wednesday's threat by Nigerian rebels to renew attacks on oil producing facilities was largely ignored by the market. For the moment the market is prepared to ignore potentially bullish catalysts, and risk remains to the downside. However significant disruptions in Nigeria or an incident between Iran and Israel could turn sentiment bullish again. From a technical viewpoint oil prices are likely to continue to trend downwards to test support at \$121.90 level, however risk remains to the upside in the long-term.

IAWS

Price: €15.01

P/E: 14x

Div: 1.1%

Target: €18.50

Fundamental View : On Thursday IAWS held an EGM to approve the merger with Hiestand AG Holdings and it was passed by over 99%. The next step is for the shareholders of Hiestand to approve the deal and this only requires 66.67% approval and IAWS own 64% of the shares. The merger will increase the geographical profile of IAWS and will diversify the FX exposure of the firm, for example North America will contribute 21% of operating profit in the new company compared to 28.4% in IAWS. IAWS historically has a strong track record for growing revenue with a CAGR of 25.1% over 5-years. Hiestand has a similar track record with CAGR in revenue over the same period of 22.2%, allowing a good base for the new company to double earnings over the next 5-years.

Next Catalyst : The new company will start trading in August and the management of IAWS are currently meeting with investors over the next number of weeks to explain the deal. Full year results for Aryzta will be released on the 22nd of September. The strong track record of management, the strong balance sheet and the diversification of earnings will help drive growth in the new firm. We retain our Buy recommendation on IAWS with a target of €18.50.

Chart View: Stock is currently trading in a contracting range. An upside break of this range would provide a favourable opportunity to enter a long position, with a target of 17.00

BUY

E.ON

Price: €120.19

P/E: 13.6

Div: 3.5%

Target: €150

EV/EBITDA: 8x

Fundamental View : Utility stocks offer some of the best defensive characteristics in the current turbulent equity market. E.ON is one of Europe's largest utility stocks with a portfolio of electricity and gas assets across Germany, Central Europe, the Nordic Region, the UK and the US. The group is one of the main power generators in Germany supplying close to 7.5m customers with electricity. Last week the group announced that it acquired Statkraft's 44.6% stake in E.On Sverige and one hydro unit for €4.5bn. E.On comment that the deal is earnings accretive and was taken positively by the market. We should see more corporate activity from E.On over the next year. E.ON also generates strong free cash flow and offers an attractive current year dividend yield of 3.5%.

Next Catalyst : The next catalyst for E.On will be on 13/08/08 when the group is due to report its first half results. We expect the results to be boosted by higher electricity prices and allow the company issue a positive outlook for the rest of 2008.

Chart View: Current downtrend persists, however recent price action is testing the trendline, backed by strong momentum. A break of this trendline would see price rise to the 140 area.

Buy

Diageo

Price: £8.85

P/E: 16.2x

Div: 3.75%

Target: £11.50

Fundamental View : We are reiterating our buy recommendation for **Diageo**. Diageo is the leader in the premium brand alcohol sector. Pernod-Ricard, number 2 player in the premium drinks market released quarterly results during the week. As expected the premium drinks markets is proving robust, with the company raising its guidance for annual profit. The premium spirits market is more defensive than the beer market, and operators are better able to pass on costs increases due to the strength of the brands. Additionally, Diageo has a significant exposure to emerging markets, which continue to show strong growth.

Next Catalyst : Diageo will release their full year financial statement in August, we expect a solid set of results from the company. Additionally Sterling weakness, benefits Diageo due to its UK cost base and non-UK revenue streams, as a result any further decline in the British Pound should be positive for earnings.

Chart View : Stock recently broke out on a dominating downtrend. Subsequent price consolidation provides a good entry level to go long. However, low volume points to volatile trading in the short term.

BUY

Earnings Week Ahead

Mon: (Ryanair, Q1) (TNT, Q2) (Pearson, H1) (Amgen, Q2) (Northern Foods, AGM)

Tues: (Sap, Q2) (BP, H1) (Vodafone, AGM) (Colgate, Q2) Banco Santander, Q2)

Wed: (AIB, H1) (Siemens, Q3) (Aviva, H1) (Lloyds TSB, H1) (Next, TS)

Thurs: (Vinci, Q2) (Vallourec, Q2) (Lafarge, H1) (Deutsche Bank, Q2) (HBOS, H1)

Fri: (Italcementi, H1) (Alliance & Leicester, H1) (BAE Systems, H1)

Economic Week Ahead

Tues: UK Mortgage Applications (09.30), US Case-Schiller House Price Index (14.00), Consumer Confidence (15.00)

Wed: Euro-Zone Sentiment Indicators (10.00), US ADP Employment (13.15)

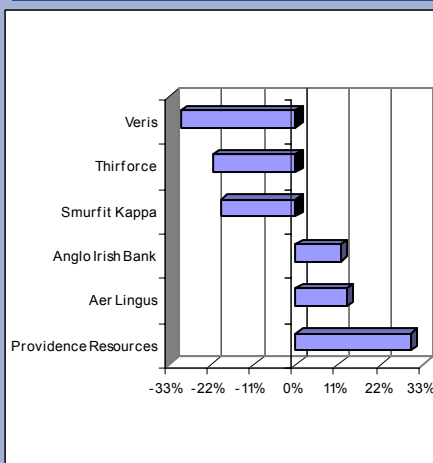
Thurs: Euro-Zone Inflation, Unemployment (10.00), Ireland Credit Growth (11.00), US Jobless, GDP, Core PCE (13.30), Chicago PMI (14.45)

Fri: German Retail Sales (07.00), UK PMI (09.30), Ireland Live Register (11.00), US Non-Farm Payrolls (13.30), Construction Spending, ISM Manufacturing (15.00)

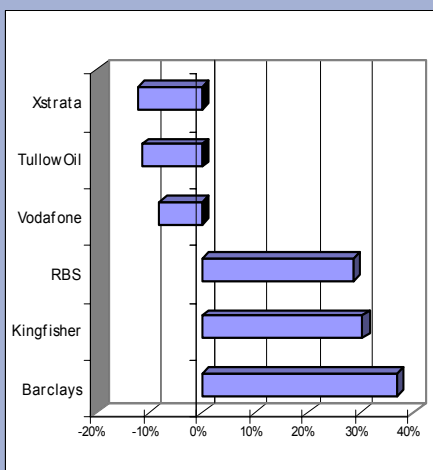
DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/ Worst Performers 21/07/08-25/07/08

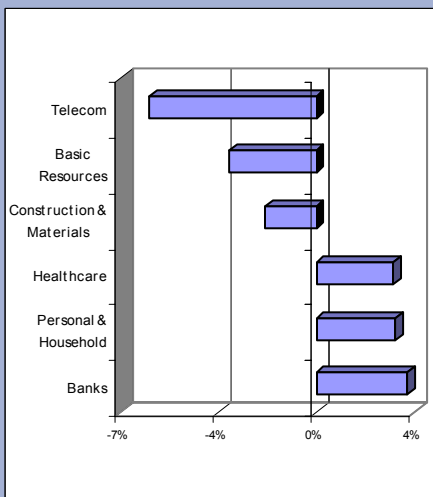
ISEQ



FTSE



Sector changes WTD



Dolmen Dozen

WEEKLY UPDATE

Company	WTD	YTD	Relevant news
AIB	-3.8%	-49.93%	Ahead of their half year results announcement on Wednesday.
Aviva	-7.9%	-28.97%	Hibernian announces David Simpson as its new chairman with immediate effect.
BP	-0.8%	-15.04%	TNK-BP Chief Executive Robert Dudley has temporarily left Russia.
IN&M	5.6%	-36.26%	Peer Daily Mail reports resilient revenues despite weakening advertising conditions.
CRH	-3.5%	-30.81%	Peer Saint-Gobain cuts its profits forecast and declined to rule out a drop in income this year.
Hewlett Packard	0.6%	-13.41%	European antitrust regulators have approved HP's acquisition of Electronic Data Systems..
IAWS	-2.3%	-0.33%	IAWS shareholders approve proposed merger of IAWS with Hiestand.
IL&P	-7.4%	-58.26%	Life Strategies report the sales of life & pension products declined 23% year on year in Q2.
Microsoft	1.2%	-26.51%	Chief Executive Steve Ballmer says MSFT isn't currently in deal talks with Yahoo.
Paddy Power	6.9%	-17.68%	Spread betting peer IG reports says current financial has started well and current trading remains strong.
Vodafone	-13.2%	-29.76%	Vodafone announce \$2bn share buyback programme after results that were worse than forecasts.

DD Unrealised gain YTD	-15.23%	ISEQ YTD	-29.42%
DD Realised gain YTD	-10.96%	FTSE YTD	-22.79%
DD Total YTD	<u>-22.55%</u>	Average performance	<u>-26.10%</u>
Relative Performance		<u>3.56%</u>	

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

What it says in the 'Sundays'

Company	Paper	Headline
AIB	S. Business Post	Nervous AIB may freeze its interim dividend
Anglo	S. Tribune	Anglo remains vulnerable to betting on price falls.
AIB	S. Times	Brokers warn of €2bn bad debts
Vodafone	S. Times	Vodafone looks into new line
Elan	S. Business Post	High hopes for Elan's Alzheimer's drug

Upcoming Corporate Visits

COMPANY	PRESENTATION DATE
Anglo Irish Bank	14th August 2008



Last Weeks Moves

Equities	Level	Change WTD	Change YTD	Div Yield	P/E08
ISEQ	4876	-0.4%	-29.7%	4.3%	7.0
FTSE 100	5353	-0.4%	-17.1%	4.8%	10.3
DAX	6437	0.8%	-20.2%	3.9%	10.6
Dow Jones	11371	-1.1%	-14.3%	2.9%	14.1
S&P 500	1258	-0.3%	-14.3%	2.4%	23.1
Nasdaq	2311	1.2%	-12.9%	0.9%	35.8
EuroStoxx 50	2857	0.7%	-22.4%	4.9%	10.2
Nikkei 225	13335	4.1%	-12.9%	1.6%	16.5

Sector	Weekly move%	YTD move %
Basic Resources	-3.141	-13.922
Healthcare	2.762	-8.79
Chemicals	1.407	-9.57
Utilities	0.811	-19.27
Financial Services	0.429	-25.681
Technology	-0.345	-23.167
Food&Bev	1.728	-21.955
Telecom	-5.972	-29.105
Oil & Gas	0.221	-16.886
Construction & Materials	-1.821	-30.586
Personal & Household Goods	2.812	-23.024
Industrials	-1.192	-21.649
Travel & Leisure	0.632	-23.64
Media	-0.786	-27.532
Retail	0.916	-30.799
Autos	2.087	-26.599
Insurance	-1.465	-25.578
Banks	3.262	-29.798

Commodities

	Current	Change YTD
Crude Oil	\$123.26	+28.7%
Gold spot	\$927.21	+11.2%

Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.57	+7.6%	1.45-1.55
EUR-GBP	0.789	+7.4%	0.74-0.78
EUR-JPY	169.43	+4.0%	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	4.25%	4.96%	4.25%
UK	5.00%	5.80%	5.00%
US	2.00%	2.79%	2.00%

Credit Market Summary

Despite volatile markets, credit spreads closed noticeably tighter by the end of the week. Financial spreads, finishing the week over 5% tighter, managing to shake off the effects of negative economic data. On Friday S&P warned of acceleration in the number of rating downgrades for banks as bad debts begin to into traditional loan books. Also, National Australia Bank wrote its CDO portfolio down to ten cents on the dollar, the securities were rated AAA at time of purchase. Credit markets are likely to be driven by Q2 earnings and macroeconomic data this week. Amongst the companies reporting this week are GM, AIB and Deutsche Bank. On the Macro side we have the first reading for US Q2 GDP and non-farm payrolls.

Credit Sector Movements

Retail: Tighter in the sector – further declines in oil prices brought relief to the consumer sensitive retail stocks. Kingfisher, which reported a weather related boost in sales, outperformed, tightening 13.8%. M&S and DSG performed strongly, tightening 12.5% and respectively. Tesco tightened 9.7%, while Morrisons and Sainsburys tightened 4.2% and 1.5% respectively.

Autos: Tighter in the sector –GM, Peugeot and Volkswagen all tightened about 11% on declining fuel costs. Luxury carmaker BMW underperformed, narrowing 5.8%. Daimler fared worst, tightening only 3.6% following a profit warning.

Interest Rate Outlook

On Friday the UK released Q2 GDP estimates, the first for any of the major economies. The figure was in line with expectations, but it shows the headwinds that are facing all the major economies, but inflationary pressures still remain a problem. Divisions are seen in the BOE and the Fed on interest rate setting policy with lines being drawn between the Doves and the Hawks and a similar problem is in place with the ECB, but not publicised. The outlook for the three major economies is for rates to remain on hold for the remainder of this year and into most of 2009 until inflationary pressures ease. Fiscal policy is all that is available to support growth in the current downturn and the US and the UK are limited in this option. On the data front the key figure will be Euro-Zone inflation on Thursday and manufacturing PMI on Friday.

Currency Comment

Continued weakness in the UK economy was highlighted last week with a much weaker than expected retail sales plus GDP figures that were the weakest since early 2005. The BOE minutes gave GBP some support with Besley voting for a rate hike, but the break down of the vote really only shows how difficult monetary policy setting is in the current environment. The longer the BOE leave rates on hold the larger the level of rate cuts that will have to be put through in 2009 & 2010 as the economy moves closer and closer to recession and no fiscal stimulus are available to support the economy. Data for next week will mainly focus on consumer credit and mortgage applications on Tuesday and a key figure will be manufacturing PMI for July which will be released on Friday

EUR/USD continues to be the “Contest of the Ugly Duckling” with the market waiting to see which economic zone’s data will be the worst. Any strength in the USD is helping the oil price to fall back and dollar strength was helped by a weaker than expected IFO figure from Germany on Thursday. Current support level for the EUR/USD is 1.5661 and this level wasn’t seriously tested last week. For the week ahead a large amount of data is due out. Non-farm payrolls will be key on Friday as decreases have remained below 100k despite the slowing US economy. Advance GDP for Q2 will be released on Thursday and a strong figure is expected which will result in USD strength.



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