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IRISH PAPERS TODAY

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Tough sanctions proposed for states flouting EU budget rules (*The Irish Times*)

Obama blames Europe woes for US economic "headwinds" (*Irish Independent*)

INTERNATIONAL PAPERS TODAY

Clarke to slash £4bn prisons budget (*Financial Times*)

Anadarko approved key BP well designs (*Financial Times*)

EU sharply expands stress tests (*Wall Street Journal*)

Market View

Analyst: Stephen Taylor

European equity markets have opened slightly higher this morning following significant declines in global equity markets yesterday. Concerns surrounding global growth, tight credit markets and credibility of data out of China following the revisions lower to consumer confidence data is weighing on investor sentiment. All of these issues are likely to be with us for the foreseeable future, however the sharp nature of the pull back has led to some strong buying opportunities of sectors that we like including technology, healthcare, food retail, telecoms and energy. While markets will remain volatile we do not believe that the US economy is heading into a double dip recession and expect the upcoming earnings season to provide some confidence in equity markets. Alcoa will kick off earnings season on July 12th, however the main focus will be on the large cap multinational companies and financials that will report after that date. While global growth forecasts are likely to be revised downwards, we believe that the outlook for corporates remains relatively positive given the restructuring and cost take out that has taken place over the last number of years. As for today the main focus will be on the 3-month repo operation in Europe and its effect that it may have on European credit markets. On the economic front the main focus will be on the ADP employment report that is expected to show that 60,000 private sector jobs were added in the US economy during June and will provide a key read across for the all important non-farm payrolls due on Friday. With current concerns around growth downgrades in the US, Friday's number will be of significant importance for equity markets.

BP: Buy **Previous Close** 308p **Target** 500p **Analyst** Brian Gallagher

Weather conditions in the Gulf of Mexico have meant that some of BP's efforts to contain its leaking well have been stopped. Flights carrying dispersant have been grounded, skimming boats have been told to return to shore and the controlled burning of pockets of oil have been ceased. Larger equipment which is used to collect oil will remain in the area for now. The category 1 hurricane will also disrupt BP's plans to increase the capacity of the collection to 53,000. Separately, the FT has reported this morning that one of BP's main partners, Anadarko, were aware of the decisions that BP was making in relation to the completion of the well. Recently, Anadarko have tried to distance themselves from the disaster because if BP is found to be grossly negligent, Anadarko would avoid paying its 25% share of the eventual costs of the spill.

HMV: Buy **Previous Close** 57p **Target** Under Review **Analyst** Stephen Taylor

HMV released its full year results this morning for the 52 weeks ending 24th April. Total group sales grew 3.1% to in excess of £2bn, reflecting market share gains across all product categories. Despite continued weakness at its Waterstone's bookstore chain, profit before tax was up 17% to £74.2m, in line with analysts' expectations. Trading was strong in live venues, following its entry into the fast growing live music market through a joint venture with MAMA group. The group will pay a final dividend 5.6p, resulting in a full year dividend of 7.4p. Management have reiterated its focus on transforming the business from a one dimensional retailer to a broader entertainment brand. It has set out a clear three year strategic plan and has made significant moves into live music and in digital. In terms of current trading, the group's new financial year has begun with some further disruption to trading from the impact of the world cup. Longer term, management are confident it is now in a strong position to deliver sustainable growth.

European Financials

Analyst Oliver Gilvarry

Concerns still remain over the maturity of the ECB 1-year repo tomorrow. The details of the 3-month repo will be released after 10.00 this morning. An amount of under €250bn borrowed under the 3-month repo will be taken as a positive by the market. On stress tests, comments from Germany indicate the Landesbank system will also be included in the examination of the European banking system. The potential exclusion of this part of the German banking system was a concern and was undermining the benefit of the European stress tests. More details on the inclusion of the Landesbanks and the details of the criteria to be used in the stress tests will be released in the next number of weeks. Until more clarity appears on the European banking system, financials will remain under pressure.

Ryanair: Buy **Previous Close** €3.60 **Target** €4.70 **Analyst** Edward Keeling

Yesterday Ryanair announced it will cut its UK winter capacity by 16% from November. It has indicated this is the result of continued demand weakness and the refusal of the UK govt. to scrap its £11 air travel tax. This move does not come as a surprise and reflects the benefits of Ryanair's flexible low cost business model. During periods of underperformance, Ryanair can reallocate its aircraft to other bases where pricing is stronger and costs are lower. It was also encouraging to note that despite the prospect of severe austerity measures across the majority of Ryanair's markets, CEO Michael O'Leary made comments that in the last couple of weeks bookings have been very strong. This combined with the prospect of a 30c a share dividend payable in October will continue to support Ryanair's share price.

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