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### Market Movers

## IRISH PAPERS TODAY

Jobless to hit 15% before upturn  
*(The Irish Times)*

BT revenue fall smaller than expected  
*(The Irish Times)*

Thirty investors eye up buy & Sell  
buyout  
*(Irish Independent)*

## INTERNATIONAL PAPERS TODAY

Shell and Exxon profits tumble  
*(Financial Times)*

Irish banks Nama-sis  
*(Financial Times)*

UK House prices likely to improve  
*(The Wall Street Journal)*

## DOLMEN DOZEN

Company	1-day %	YTD %
Aryzta	-0.5%	6.7%
BP	0.4%	-4.3%
CRH	0.4%	4.5%
DCC	-0.5%	44.8%
E.ON	3.4%	-4.2%
HPQ	1.2%	17.7%
IL&P	4.1%	115.2%
INM	1.1%	-44.2%
J&J	1.0%	3.3%
JPMorgan	1.9%	22.0%
Microsoft	0.0%	22.5%
Vodafone	2.6%	-12.2%

## Market View

**Analyst : Oliver Gilvarry**

Overnight, US markets ended positive with DJIA up almost 1% and S&P 500 up 1.20%. The US market was helped by the strong 7-year US bond auction yesterday evening. The US Government raised \$28bn in the sale, ending this week's record offering of \$115bn. The bid:cover ratio was good with strong institutional investor demand, including foreign banks. The 7-year auction ended the week on a positive for US Treasuries after the disappointing 2 and 5-year auctions in the early part of the week. After the market closed Disney reported earnings that were weaker than expectations as Q3 profits declined by 26% as the recession on lower advertising and theme park sales. Disney's CEO commented after the results that the company "continues to see signs of economic stabilisation while the pace of the recovery remains uncertain." Signs of some stabilisation in the US economy could be seen in the initial jobless claims data released yesterday. Weekly jobless claims were higher than expected, but there was a decline in continuing claims. Falling from 6.251m to 6.197m, continuing a trend we have seen over the last three weeks. In Ireland, details on NAMA were released yesterday evening providing the structure of the organisation. No detail was provided on the haircut or discount the loans will be transferred at, but details on this will be released by the middle of September. We have a detailed note on NAMA with today's daily. This morning, the FTSE and DAX are broadly flat and US futures are indicating a positive open. The market will be focused on Q2 US GDP due for release at 13.30. The market is expecting a decline of 1.5% in US GDP QoQ compared to a 5.5% decline in the previous release. UK Q2 GDP disappointed when it was released last week coming in weaker than expected and the risk is to the downside for the US GDP figure as we believe it could disappoint. It should be remembered that this is a historical number and the market will look through this unless it is extremely poor such as a decline of over 2%.

**CRH : Buy** Current Price (€17.20) Price target (€19.00) Analyst : Stephen Taylor

French peer of CRH, Lafarge, reported first half net profit that fell to €387m from €761 last year beating analyst expectations of €355m. Revenue declined by 12% to €7.9bn. Operating margins declined by 3.6% to 14.2%. For the second quarter operating income declined by 28% to €796m, however its emerging markets division put in a strong performance with operating income increasing by 21% to €482m. While Lafarge has balance sheet concerns due to its \$15bn acquisition of Orascom, the company benefits from a significant exposure to emerging markets. The majority of CRH's revenue is generated from US and European markets. In relation to its outlook, while the group expects the rate of decline in the second half of the year to slow, Lafarge predicts annual cement volumes to decline between 4% to 8% worse than its previous estimate of -2% to -5%.

**BHP Billiton : Buy** Current Price (1592p) Price target (1800p) Analyst : David Dunk

Vedanta has released first quarter production figures, as well as a trading update this morning. EBITDA was slightly ahead of expectations at \$354.7m compared to forecasts of \$345m. Revenue was \$1.36bn for the period. The company saw a higher output in all commodities in the first quarter, with a significant increase in aluminium compared with the last quarter of its previous fiscal year. As expected, Vedanta was impacted by lower commodity prices in the period. Anglo American has also released a trading statement this morning. Underlying EPS was \$0.91, compared to forecasts of \$0.67. Net income was \$3bn, down 31% on the same quarter last year. Due to the difficult market conditions, the company does not intend to pay an interim dividend. Anglo has delivered on cost cuts of \$450m in the first half of the year, and expects total cost cuts for the year of \$1bn. Anglo expects demand to remain soft in the near term, but growth from China is expected to support prices. Given that Rio Tinto and BHP Billiton, our preferred in the sector, have already reported their most recent quarterly results, we see limited read through for them following today's results.

**BA: Sell** Current Price (135p) Price target (100p) Analyst : David Dunk

British Airways has reported Q1 results this morning that were slightly worse than expected. The Airline has reported a net loss of £106m, marginally worse than expectations for a £95m loss. Trading conditions remain very challenging, with revenues down 12.2%, at £1.98bn for the quarter, behind expectations for £2bn. The company has seen a stabilisation of underlying volumes and seat factors, and expects yields to come under further pressure over the year. Net debt for BA was £2.27bn at the end of the quarter. The company remains focused on cost cutting, with over 4,000 job reductions in the last 12 months, and further capital expenditure cuts of 20%. Overall, the results were worse than expectations, highlighting the difficult market conditions for BA. We do not anticipate any major stock price moves in the sector following the results.



**United Drug : Buy Current Price (€1.90) Price target (under review) Analyst : David Dunk**

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United Drug has released an interim trading statement this morning. Trading in the company's third quarter was in-line with expectations. The current restructuring programme appears to be progressing well, with the company now targeting €9-10m of annual savings, although the company now expects to incur a once-off charge of €14m this year. Trading conditions for some of United Drugs divisions remains weak. The consumer products division has been impacted by lower consumer discretionary spending, with trading below previous year levels. Similarly, the Medical & Scientific business is also trading below previous year levels, as a result of lower capital spend in hospitals. On the other hand, the healthcare supply chain division is performing well in all markets, and the packaging and specialty division has seen a pickup in activity. Management sees net profit in-line with previous year on a constant currency basis, but a weaker sterling exchange rate will result in a lower full year profit than last year.

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# NAMA

(National Asset Management Agency)



Date: **31st July 2009**

Analyst: **Oliver Gilvarry**

The National Asset Management Agency Bill 2009 was released yesterday evening. The proposed legislation was issued in draft format by the Government so that people can "have an opportunity to consider it prior to its formal publication as a Bill in September." The Oireachtas (Irish Parliament) will return early from its Summer Recess on the 16th of September to consider the Bill. The reason for the creation of NAMA is to remove the riskiest loans from the balance sheets of Irish banks, allowing the banks to provide credit to the economy and supporting economic recovery.

Institutions wanting to participate in NAMA will have 28-days after the establishment day of NAMA to apply. The Minister for Finance along with the Governor of the Central Bank and the Financial Regulator will decide if an institution becomes a designated body. Factors such as the systemic importance to the State, maintenance of financial stability and facilitating the flow of credit into the economy will be taken into account.

In relation to foreign banks that have lent to Irish developers, they can apply to become part of NAMA, but the Minister will consider factors such as support these banks have received already and the support available to that bank from another country. With RBS, Lloyds Banking Group, KBC and Danske Bank all having received support from their own Governments it would seem unlikely the foreign banks will be involved in NAMA directly. On loans that are syndicated between a participating institution and a non-participating institution, NAMA will only acquire those loans relating to the participating bank in NAMA. NAMA expects a co-operative business like approach with such institutions outside NAMA.

The Bill doesn't provide any indication of what the haircut or discount that will be applied by NAMA when purchasing the loans. The Bill does state each loan will be valued separately. The valuation of the underlying collateral will be based on current market value and will be adjusted "to reflect a longer term economic value" that the underlying collateral could achieve. The Bill implies the Government will not pay current prices for the assets, but it will not pay the maximum theoretical value for them either.

NAMA will purchase loans from participating banks and payment for these loans will be in the form of Government bonds that will pay a floating rate of interest that can re-set every six-months. These bonds will enable a bank holding such bonds to repo the bonds with the ECB, thereby improving its liquidity position. An "Acquisition Schedule" will be provided to each participating bank outlining which loans will be purchased at what price, the bank has 14-days to object. Under the proposed Bill, NAMA will decide what assets it wishes to take.

The agency will be given a number of powers under the act. It will have all the commercial powers of a financial asset management company including the ability to buy and sell assets, manage loans and work with borrowers. These powers will enable it to complete developments if it believes this will achieve an optimum return to the State. NAMA will also have limited compulsory acquisition powers in order to prevent situations where individuals may seek to impede the progress of NAMA.

On the new debt to be issued by the Government to pay for the purchase of bank loans by NAMA, it is expected this will appear "off balance sheet". From a statistical perspective the Statistical Office of the European Communities, EuroStat may treat the payment for the loans as a swap, where the assets are used to off-set the liability and therefore will not include the "NAMA Bonds" in our national debt calculations. The coupons on the bonds will be financed from payments received from the assets held by NAMA and the bonds ultimately will be repaid from the sale of assets or redemptions of loans.

The first loans will be transferred into NAMA within weeks of the Bill being passed through the Oireachtas. The top fifty exposures in the participating banks will be transferred by the end of the year with the remainder by June of 2010. An indication of the haircut will become apparent in the debates on NAMA as the Government will have to provide some indication to the Oireachtas as to the level of debt issuance due to the agency.

The impact for Irish banks taking part in NAMA will be positive as it will remove the bad loans that are weighing down their balance sheets. It will reduce the Risk Weighted Assets (RWA) and the loans books quickly. It will provide liquidity through the NAMA Bonds and increase investor confidence enabling banks to access longer term funding. The Bill also eliminates any concerns the Government would only pay current market prices forcing the banks to accept "fire sale" values.

The Government has also stated in a release with the Bill it believes a "commercially focused banking system" is best able to meet the lending needs of the economy. The statement also highlights that if further re-capitalisation of the banks was necessary due to NAMA, further capital injections will be in the form of equity capital. The Irish Government's aim is to remove uncertainty over the Irish bank's balance sheets, allow them to access liquidity in the markets and provide credit to the economy. While the Government has stated that they will provide equity capital to the banks if needed, the prospect of a full nationalisation of AIB and BOI has receded even further.

The release of the Bill is a positive step for the Irish banking sector. While uncertainty still exists over the Irish banks, we now have a timeline on when NAMA will be implemented and when it will be finished moving assets from bank's balance sheets. The Government's comments on supporting the banks, and avoiding nationalisation is positive for bond holders. Risk still exists for equity holders to be diluted, but with the Government against full nationalisation Lower Tier 2 bonds of Irish banks are attractive. Once NAMA starts to remove loans from AIB and BOI, the credit and liquidity problems facing those banks will fall substantially. Their risk profile will come more in line with other European banks. And with the Government willing to provide further capital via ordinary equity, this will only provide more support to Lower Tier 2 debt holders in the capital structure.



## International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,799	1.5%	20.3%
FTSE	4,632	1.8%	4.6%
Dow Jones	9,154	0.9%	4.3%
S&P	987	1.2%	9.2%
Nikkei	10,357	1.9%	16.9%
Stoxx 50	2,655	2.1%	8.4%

## Sector Performances

Sector	Index	1-Day	YTD
Construction	234	2.6%	14.4%
Technology	175	2.8%	14.1%
Oil & Gas	298	1.4%	10.2%
Financials	205	3.0%	36.3%
Retail	229	1.7%	25.8%
Food & Drink	259	1.8%	11.9%

## Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	66.9	5.7%	19.6%
Copper	256.4	3.5%	81.9%
Gold	934.4	0.5%	6.3%
Silver	13.5	1.7%	20.0%
Wheat	516.3	0.9%	-20.3%
Cattle	89.9	0.7%	0.8%

## Currency Exchange Rates

Commodity	Index	1-Day	YTD
€/\$	1.407	0.2%	1.0%
€/£	0.853	-0.5%	-12.0%
£/\$	1.649	0.7%	11.6%
\$/JPY	95.56	0.6%	5.2%
€/JPY	134.50	0.8%	6.1%
€/SFR	1.531	0.2%	2.6%

## 5Yr Credit Spreads

Commodity	Index	1-Day	YTD
Invest Grade	109.1	-6.3%	-42.4%
High Yield	687.3	-2.7%	-33.5%
Financials	81.2	-6.6%	-35.0%
BoI	341.4	-2.1%	41.6%
AIB	352.1	-1.1%	70.5%
RBS	128.4	-2.3%	-7.3%

## Money Market Rates

Rate	EUR	UK	US
Overnight	0.3%	0.4%	0.2%
3-Month	0.9%	0.9%	0.5%
1-Year	1.2%	1.2%	0.8%
2-Year	1.8%	2.2%	1.5%
5-Year	2.8%	3.7%	3.0%
10-Year	3.6%	4.3%	3.9%

## Date Company Region Event

Date	Company	Region	Event
03/082009	Loews Corp.	US	INTERIM SALES
03/082009	Marathon Oil Corporatio	US	Q1
03/082009	Pulte Homes Inc.	US	Q2
03/082009	Tyson Foods	US	Q2
03/082009	Dyckerhoff AG	DE	Q2
03/082009	Barclays PLC	GB	Q2
03/082009	Hammerson PLC	GB	Q2
03/082009	HSBC Holdings PLC	GB	Q2
04/08/2009	Allegheny Energy, Inc.	US	Q2
04/08/2009	Vulcan Materials	US	Q2
04/08/2009	Cameron	US	Q2
04/08/2009	HCP, INC.	US	Q2
04/08/2009	Kraft Foods	US	Q2
04/08/2009	PPL Corporation	US	Q3
04/08/2009	Rowan Co., Inc.	US	Q3
04/08/2009	D.R. Horton	US	Q2
04/08/2009	Emerson	US	H1
04/08/2009	BNP Paribas SA	FR	FINAL
04/08/2009	BMW Bayerische Motor	DE	INTERIM
04/08/2009	Deutsche Boerse AG	DE	TRADE
04/08/2009	HeidelbergCement AG	DE	INTERIM
04/08/2009	UniCredit SpA	IT	INTERIM
04/08/2009	UBS AG	CH	INTERIM
04/08/2009	Xstrata Plc	CH	INTERIM

## Date Event Region Estimate

Date	Event	Region	Estimate
31/07/2009	GfK Consumer Confidence	UK	-23
31/07/2009	Euro-Zone CPI Estimate (Yo	EC	-0.40%
31/07/2009	Euro-Zone Unemployment R	EC	9.70%
31/07/2009	GDP QoQ (Annualized)	US	-1.50%
31/07/2009	Personal Consumption	US	-0.50%
31/07/2009	Core PCE QoQ	US	2.40%
31/07/2009	Chicago Purchasing Manage	US	42
03/08/2009	PMI Manufacturing	GE	--
03/08/2009	PMI Manufacturing	EC	--
03/08/2009	PMI Manufacturing	UK	--
03/08/2009	ISM Manufacturing	US	--
03/08/2009	Construction Spending MoM	US	--
03/08/2009	Total Vehicle Sales	US	--
04/08/2009	PMI Construction	UK	--
04/08/2009	Euro-Zone PPI (MoM)	EC	--
04/08/2009	Personal Income	US	--
04/08/2009	PCE Deflator (YoY)	US	--

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