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Market Movers

IRISH PAPERS TODAY

Bank of Ireland blames rate increase on cost of funding
(The Irish Times)

Procter and Gamble says a double-dip recession unlikely
(The Irish Times)

Lenders to follow BoI with rate hike
(Irish Independent)

INTERNATIONAL PAPERS TODAY

BP faces \$20bn in penalties for oil leak
(Financial Times)

Dollar falls on expectations of easing by Fed
(Financial Times)

Israel - Lebanon clash kills four
(Wall Street Journal)

Market View

Analyst: Stephen Taylor

European equity markets have opened slightly lower this morning following weaker closes in Asia overnight. Data out of the US yesterday disappointed to the downside with pending homes sales falling below expectations, while personal income and spending figures for June also fell short of consensus. The disappointing economic data highlights the cautiousness of the consumer. The savings rate in the US has increased to 6.4% and further emphasises the unwillingness of the consumer to spend. This will likely continue to weigh on economic data. From the earnings season we have also seen some slight disappointments from the consumer staple stocks including Procter & Gamble yesterday that reported disappointing earnings and guidance for the remainder of the year. Overall while the data is likely to remain subdued for sometime, we still maintain our longer-term bullish outlook on equity markets as valuations remain attractive and corporates have never been so strong in terms of their balance sheet strength and cost base. As for today the main focus will be on economic data out of the US. ADP Employment data is expected to show that 30,000 jobs in the private sector in the US were added and will provide a key read across for Friday's nonfarm payroll number. ISM services will also be a key data point today as it represents c. 80% of the US economy and is expected to show a further decline for July.

Lloyds Banking Group: Buy Previous Close 72p Target 75p Analyst Oliver Gilvarry

Lloyds Banking Group (LBG) reported first half results this morning with a good beat in most areas. The main beat was in Retail with PBT of £1.9bn higher than expected by the market. Net interest margin (NIM) also beat expectation coming in at 2.08%, alleviating concerns over the ability of the group to achieve its target of a 2.00%. Net Interest Income (NII) was better than expected and was up 7.3% yoy with total income up 4.2% yoy. The strong NII and NIM highlight the higher spreads LBG has been passing onto customers in the last number of months. Along with higher income, costs continue to be taken out from the group with the Cost:Income ratio falling to 43.5% from 48.4% at the year end. Provisions also fell back from the highs seen in June of 2009, with a charge of £6.6bn in line with expectations and the cover of provisions to impairments is 45%, up 1% from 2009. Wealth & International was the only division to experience higher impairments compared to last year, and this would seem to be due to the Irish division. With higher NAMA haircuts than expected having an impact here. The group continues to reduce the size of the balance sheet and the loan:deposit ratio is now 1.46x and wholesale funding greater than 1-year is 48.6%. On outlook, the group sees a gradual recovery for the UK economy over the next number of years, with unemployment and corporate failures to peak this year and at lower levels than in previous recessions. Management have reiterated the target for a ROE of 15% over the medium to longer term. We believe these results show the strength in the LBG franchise due to its market position in the UK economy and we will be reviewing our price target in the coming days.

Irish Financials

Analyst Oliver Gilvarry

AIB has released its interim results this morning covering the six months to the 30th June 2010. Management have reiterated that it was a very difficult trading period for the group and its customers. A significant level of credit losses was experienced in addition to the loss on transfer of the first tranche of loans to NAMA. Operating profit before provisions was €976m. This is down from €1.7bn for the same period last year. Loan loss provisions were €2.3bn and included €1.2bn related to loans that have been identified for the transfer to NAMA. Although progress was made in improving its funding profile, higher funding costs remain an issue. This is a function of increased cost of customer deposits, higher wholesale funding charges and the cost of the State's Eligible Liabilities Guarantee scheme. As a result net interest margin fell by 47 basis points to 1.56%. Total income reduced by 24% excluding the NAMA loss on transfer and capital exchange gains. The bank's loan:deposit ratio was 143%. This is down from 146% at 31st December 2009 but remains at elevated levels. At 30th June 2010, AIB's equity core tier 1 ratio was 3.8%. In terms of outlook, management have reiterated that business and market conditions remain challenging and that the environment for operating income generation remains difficult. In the short term, the key priorities for AIB are to complete the transfer of eligible loans to NAMA, execute the capital raising plan and conclude the restructuring plans process with the European Commission. AIB continues to actively address the Financial Regulator's determination that it needs to generate the equivalent of €7.4bn of equity capital by 31st December 2010.

CRH: Buy Previous Close €16.30 Target €20.00 Analyst Stephen Taylor

CRH peer Martin Marietta reported second quarter earnings yesterday. The group reported 2Q EPS of \$1.18 that was slightly ahead of expectations of \$1.17 while revenue also surprised to the upside coming in at \$504.6m versus \$497.2m expected. There were some mixed points on the group's outlook statement as it raised its volume growth target to between 4% - 6% compared to its previous target of 2% - 4% growth. However the company pointed out that the pricing environment remains difficult and lowered its aggregate pricing assumptions to down 1% - 3% compared to its previous target of flat to up 2%. Overall reports from materials producers have been relatively subdued with a clear lack of revenue growth being generated in the sector. We continue to like CRH longer-term and will be interested to see out its order backlog has progressed when it reports interim results on August 24th.



Pfizer: Buy **Previous Close** \$16.34 **Target** \$20.00 **Analyst** Stephen Taylor

Pfizer reported a strong set of second quarter earnings yesterday with revenue and earnings both coming in well ahead of expectations. EPS came in at 62c compared to 52c consensus. Revenue for the period was \$17.3bn, c. \$700m ahead of expectations. The company also raised the bottom end of its profit target for the year. In addition Pfizer signalled its intention to increase shareholder returns by indicating that it will look to dividend increases in December and aims to increase its payout ratio to 40% from 33% previously. Pfizer also noted that it had repurchased \$500m of its own shares during the second quarter. Pfizer indicated that it is considering some bolt on acquisitions worth several billions of dollars. While Pfizer' shares have underperformed year to date, yesterday's +6% move following results we believe has signalled a return of interest in the stock.

BP: Buy **Previous Close** 416p **Target** 500p **Analyst** Brian Gallagher

BP have announced this morning that its "static kill" operation which the company performed over the last 24 hours was successful. The procedure involved pumping heavy drilling into the wellbore through the same equipment that the company used in its "top kill" effort. Its success means that the well is almost certainly contained and that BP will now seal the well permanently using the relief wells which it begun drilling in early May. Separately, BP announced yesterday that it had agreed to sell its Colombian assets to a Canadian/Colombian consortium for \$1.9bn. This brings BP total divestments since the disaster to just under \$8.9bn with the company expected to sell between \$25-30bn over the next 18 months. We believe the next major catalyst for the oil major will be its own internal review of the Macondo disaster that is expected to be made public at the end of August. This will mark the beginning of what will be a long legal battle that will determine the eventual liabilities and fines BP will be forced to pay.



International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,962	0.0%	-0.6%
FTSE	5,396	0.0%	-1.1%
Dow Jones	10,636	2.0%	2.0%
S&P	1,120	2.2%	0.5%
Nikkei	9,694	1.3%	-10.0%
Stoxx 50	2,819	-0.1%	-5.5%

Sector Performances

Sector	Index	1-Day	YTD
Construction	258	-0.4%	-7.3%
Technology	196	-0.7%	5.4%
Oil & Gas	306	0.3%	-8.2%
Financials	231	-0.1%	2.8%
Retail	266	0.3%	7.8%
Food & Drink	332	-0.2%	8.3%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	82.55	1.5%	-1.0%
Copper	335.85	-0.9%	-0.6%
Gold	1,186.15	0.3%	8.7%
Silver	18.42	0.0%	9.6%
Wheat	680.00	-1.9%	18.9%
Cattle	94.23	-0.2%	4.9%

Currency Exchange Rates

Currency	Index	1-Day	YTD
€/\$	1.323	0.4%	-7.8%
€/£	0.829	0.0%	-6.5%
£/\$	1.595	0.4%	-1.5%
\$/JPY	85.790	-0.8%	8.8%
€/JPY	113.500	-0.4%	-15.2%
€/SFR	1.375	0.4%	7.8%

5Yr Credit Spreads

Product	Index	1-Day	YTD
Invest Grade	119.7	-2.5%	38.8%
High Yield	513.3	-6.9%	-8.1%
Financials	143.6	-3.4%	41.4%
BoI	325.2	-2.9%	13.7%
AIB	438.8	-0.3%	36.5%
RBS	201.6	-4.7%	15.0%

Money Market Rates

Rate	EUR	UK	US
Overnight	0.4%	0.5%	0.2%
3-Month	0.9%	0.7%	0.4%
1-Year	1.2%	1.1%	0.5%
2-Year	1.3%	1.4%	0.7%
5-Year	2.1%	2.4%	1.7%
10-Year	0.029	3.3%	2.9%

Date	Company	Region	Event
04/08/2010	Societe Generale	FR	Q2
04/08/2010	Adidas AG	DE	H1
04/08/2010	Allied Irish Banks PLC	IE	INTERIM
04/08/2010	British Airways PLC	GB	TRAFFIC
04/08/2010	Legal and General Group	GB	INTERIM
04/08/2010	Lloyds Banking Group PLC	GB	INTERIM
04/08/2010	Standard Chartered PLC	GB	INTERIM
04/08/2010	Next Plc	GB	Q2
04/08/2010	British Land Co Plc	GB	Q1
04/08/2010	Shire Plc	GB	Q2
04/08/2010	Prudential Fincl.	US	Q2
04/08/2010	Time Warner	US	Q2
05/08/2010	COMMERZBANK AG	DE	Q2
05/08/2010	Deutsche Telekom AG	DE	Q2
05/08/2010	Unilever NV	NL	Q2
05/08/2010	EasyJet PLC	GB	TRAFFIC
05/08/2010	Rio Tinto PLC	GB	H1
05/08/2010	Smith & Nephew PLC	GB	H1
05/08/2010	Aviva Plc	GB	INTERIM
05/08/2010	Barclays PLC	GB	INTERIM
05/08/2010	Ladbrokes Plc	GB	INTERIM
05/08/2010	Schroders PLC	GB	INTERIM

Date	Event	Region	Estimate
04/08/2010	PMI Services	GE	--
04/08/2010	PMI Services	EC	--
04/08/2010	PMI Composite	EC	--
04/08/2010	PMI Services	UK	--
04/08/2010	Euro-Zone Retail Sales	EC	--
04/08/2010	MBA Mortgage Applications	US	--
04/08/2010	ADP Employment Change	US	--
04/08/2010	ISM Non-Manf. Composite	US	--
05/08/2010	Factory Orders MoM (sa)	GE	--
05/08/2010	BOE Asset Purchase Target	UK	--
05/08/2010	BOE ANNOUNCES RATES	UK	--
05/08/2010	ECB Announces IRates	EC	--
05/08/2010	Initial Jobless Claims	US	--
05/08/2010	Continuing Claims	US	--
06/08/2010	Industrial Production (MoM)	UK	--
06/08/2010	Manufacturing Production	UK	--
06/08/2010	Industrial Production MoM	GE	--
06/08/2010	Change in Private Payrolls	US	--
06/08/2010	Change in Nonfarm Payrolls	US	--
06/08/2010	Avg Hourly Earning	US	--
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