

DOLMEN WEEKLY TRADER



Weekly Market Commentary July 5th 2010

We expect continued market volatility this week with risks to the downside remaining. Markets remain focused on the downside risk to growth from reduced government spending, the slowdown in the US and the continued sovereign debt crisis in Europe. Key economic indicators disappointed last week including nonfarm-payrolls, the US ISM manufacturing and the Chinese PMI releases. The resurgence in economies over the last 9 months is increasingly being perceived as a normalisation of inventory levels as opposed to a demand led recovery. This is being followed by government and consumer deleveraging resulting in the threat of deflation. The main event next week will be the ECB press conference following its interest rate decision where we expect the base rate to remain on hold at 1%. Any lack of details or urgency on the policies needed to address the underlying European debt problems could undermine investor sentiment. In terms of currencies we see a resumption in Euro weakness in due course and our preferred play is to be short €/£. Charts point to further market weakness but at that point both p/e valuations and excess dividend yield over government bond yields should provide support. The sectors most vulnerable to further weakness against this volatile backdrop are the financial and oil sectors. Sectors that should outperform include food retail, pharma, telecoms and utilities. The lack of clarity surrounding the European bank stress tests, reduced lending narrowing net interest margins, continued lack of liquidity in the euro banking system and increasing regulation risk will all weigh on bank shares. Poor oil price action and concerns over the BP problems suggests further oil sector weakness.

Trading Recommendations

Index Hedge

Analyst: Oliver Gilvarry

In light of the continued volatility in equity markets, we recommend that traders who are initiating new longs consider using a hedge until an improvement in key economic data points is seen. The instruments we recommend using to implement this strategy are futures contracts or index ETFs. This particular view reflects our belief that the recent pullback should be used as an opportunity to buy companies with high quality assets and earnings.

Tullow Oil - Buy Previous Close (1046p) Target (1470p) **Analyst:** Brian Gallagher

Very few market participants dispute the quality of Tullow Oil's assets but up until recently they appeared to be fully priced. The recent drop off in the market has afforded investors an opportunity to add a high quality explorer to their portfolio. On Tuesday, the company will issue a trading/operational update which will bring the market's focus back towards the stock.

CRH - Buy Previous Close (€16.78) Target (€21.50) **Analyst:** Stephen Taylor

CRH will issue a trading update this week on Wednesday the 7th of July. We expect the group to reiterate that its US materials business, its largest business segment, is performing well as it continues to benefit strongly from the US infrastructure stimulus spend. Revenues from this division will also be boosted by the recent dollar strength of the US dollar versus the euro. The amount of small scale acquisitions made during the year will also be a key focus in the statement, in addition to the potential or likelihood of any large scale deals during the rest of the year. In terms of risks going into the statement, any comments on the extent of the recent slowdown in the US residential sector and in some of its European markets will be closely watched.

C&C - Buy Previous Close (€3.23) Target (€3.90) **Analyst:** Edward Keeling

After a year of repositioning the group in terms of market segment and geographic exposure, C&C's management are now completely focused on operational success. It is entirely concentrated on achieving volume growth in the UK and delivering shareholder returns. We believe management will deliver growth rates in excess of market estimates reflecting a better route to market and broader product offering. It is also encouraging to note recent positive industry comments from UK pub groups which point towards continued sales momentum in the UK LAD alcohol market.

Ryanair - Buy Previous Close (€3.65) Target (€4.70) **Analyst:** Edward Keeling

Last week Ryanair's CEO Michael O'Leary made comments that in the last couple of weeks bookings have been very strong. This combined with our belief that Ryanair fares will benefit from less capacity in the industry, slower growth rates and increased route rationalisation gives us confidence ahead of the airlines Q1 results on July 20th. Although, the actual results will be negatively impacted by the volcanic ash disruptions earlier in the year, such positive comments suggest there is little risk to the airline's guidance for full year net profits to rise by between 10% - 15%. This combined with the prospect of a 30c a share dividend payable in October, we expect will continue to provide support to Ryanair's share price. **Next Catalyst:** Traffic figures 6th July.

Irish Financials

Analyst: Oliver Gilvarry

Financials finished lower last week despite the fact that the ECB approved the extension of the Bank Guaranteed Scheme. The Irish Government is now backing new bond issues and investor deposits with terms of less than 5 Years until the end of December (this facility was previously set to expire at the end of September). News that the take up (€132Bln) at the ECB 3 month repo facility, prior to the expiry of the first of the one year (€442Bln) repo was less-than-expected failed to provide any upside for Irish Financials. Furthermore, news that Ireland had 'officially' emerged from the recession did little to temper negative investor sentiment as quarterly GDP rose to 2.7%. A closer look at this number revealed that once foreign company profits were removed, Gross National Product, fell -0.5%. Overall conditions in the banking sector remain very strained as poor funding conditions and higher interbank rates stifle optimism and growth.

This Week's Market Events

MONDAY

Corporate

British Airways PLC TRAFFIC

Economics

PMI Services GE, PMI Services EC, PMI Composite EC, PMI Services UK, Sentix Investor Confidence EC, Euro-Zone Retail Sales (MoM)

TUESDAY

Corporate

EasyJet PLC TRAFFIC, Persimmon TRADE, Tullow Oil H1 TRADE

Economics

ISM Non-Manf. Composite US, ABC Consumer Confidence US,

WEDNESDAY

Corporate

Finnair Oyj TRAFFIC, Air Berlin PLC TRAFFIC, SAS AB TRAFFIC, Marks & Spencer Group Q1 TRADE, CRH TRADE

Economics

Euro-Zone GDP EC, Factory Orders GE, MBA Mortgage Applications US

THURSDAY

Corporate

Man Group Plc TRADE & AGM, AIR France-KLM AGM, Babcock International Group AGM

Economics

Trade Balance GE, Imports SA GE, Current Account GE, Exports SA GE, Ind Prod UK, Manu Prod UK, Ind Prod GE, BOE Announces RATES UK, ECB Announces Rates EC, Initial Jobless Claims US, Consumer Credit US

FRIDAY

Corporate

Austrian Airlines TRAFFIC, Deutsche Lufthansa TRAFFIC

Economics

Consumer Price Index GE, Total Trade Balance UK, PPI Input UK, PPI Output UK, Wholesale Inventories US

Regulatory Information

Dolmen Securities Limited is regulated by the Financial Regulator. Dolmen Securities Limited is a member firm of the London Stock Exchange. Dolmen Stockbrokers is regulated by the Financial Regulator. Dolmen Stockbrokers Limited is a member firm of the Irish Stock Exchange and the London Stock Exchange.

This report has been prepared by Dolmen Stockbrokers ('Dolmen') for information purposes in order to assist investors to make their own investment decisions and is not intended to and does not constitute personal recommendations nor provide the sole basis for any evaluation of the securities discussed. Specifically the information contained in this report should not be taken as an offer or solicitation of investment advice or, encourage the purchase or sale of any particular security, option, future or other derivative investment. Not all recommendations are necessarily suitable for all investors and Dolmen recommend that specific advice should always be sought prior to investment, based on the particular circumstances of the investor.

Although the information in this report has been obtained from sources, which Dolmen believes to be reliable and all reasonable efforts are made to present accurate information Dolmen give no warranty or guarantee as to, and do not accept responsibility for, the correctness, completeness, timeliness or accuracy of the information provided or its transmission. Nor shall Dolmen, or any of its employees, directors or agents, be liable to for any losses, damages, costs, claims, demands or expenses of any kind whatsoever, whether direct or indirect, suffered or incurred in consequence of any use of, or reliance upon, the information. Any person acting on the information contained in this report does so entirely at his or her own risk.

All estimates, views and opinions included in this report constitute Dolmen's judgment as of the date of the report but may be subject to change without notice. Changes to assumptions may have a material impact on any recommendations made herein.

Unless specifically indicated to the contrary this report has not been disclosed to the covered issuer(s) in advance of publication.

Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. Investments denominated in foreign currencies are subject to fluctuations in exchange rates, which may have an adverse affect on the value of the investments, sale proceeds, and on dividend or interest income. The income you get from your investment may go down as well as up. Figures quoted are estimates only, they are not a reliable guide to the future performance of this investment. Investors should be aware that forward-looking statements and forecasts may not be realised.

This report is the property of Dolmen and may not be reproduced (in whole or in part) altered, transmitted or made available to any other person without the prior written permission of Dolmen.

Conflicts of Interest & Share Ownership Policy

Dolmen, its employees, directors or related companies, may have a shareholding in the securities (or related investments / derivatives) of certain companies covered in this report, or may provide/ solicit investment banking or other services to/ from them.

It is noted that research analysts' compensation is impacted upon by overall firm profitability and accordingly may be affected to some extent by revenues arising other Dolmen business units including Corporate Finance, Fund Management and Stockbroking. Revenues in these business units may derive in part from the recommendations or views in this report. Notwithstanding, Dolmen is satisfied that the objectivity of views and recommendations contained in this report has not been compromised.

Dolmen permits research analysts to own shares and/ or derivative positions in the companies they publish research, views and recommendations on. Accordingly analysts involved in the production of this report may have positions in any securities herein. Dolmen ensures that all staff dealing is undertaken in strict compliance with Dolmen's internal staff dealing procedures. Therefore Dolmen is satisfied that the impartiality of research, views and recommendations remains assured.

Analyst Certification

Each research analyst responsible for the content of this report, in whole or in part, certifies that: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report. Oliver Gilvarry, Stephen Taylor, Edward Keeling and Brian Gallagher are responsible for the production of this report. Oliver Gilvarry is Head of Research and Stephen Taylor, Edward Keeling and Brian Gallagher are equity analysts.

For US Persons Only

This report is only provided in the US to major institutional investors as defined by s. 15 a-6 of the Securities Exchange Act, 1934 as amended. A US recipient of this report shall not distribute or provide this report or any part thereof to any other person.

Dolmen Stockbrokers, 75 St. Stephen's Green, Dublin 2, Ireland.



DOLMEN SECURITIES LTD

75 St. Stephen's Green, Dublin 2, Ireland.
45 South Mall, Cork, Ireland
Theatre Court, Mallow St, Limerick, Ireland.

Tel : +353 1 633 3800/1890 400 300
Tel : +353 21 422 2122
Tel : +353 61 436 500

E-mail: info@dsl.ie
E-mail: cork@dsl.ie
E-mail: Limerick@dsl.ie