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(Financial Times)

Sterling falls as QE expands by £50bn
(Financial Times)

Market View

Analyst : Stephen Taylor

European equity markets are lower this morning following weaker closes in the US and Asia overnight as concerns around global economic growth continue despite the recent run up in equity markets. Comments from China this morning that it has not seen the bottom in the global economy are driving the mining sector lower and weighing on the FTSE. In addition the People's Bank of China has made a few comments that second half loan growth is likely to be lower than the first half of the year. On the currency front, one of the largest moves over the last 24 hours has been in relation to sterling which has reversed its fortunes against both the Dollar and the Euro. The catalyst for this was the Bank of England's extension of its Quantitative Easing program by £50bn bringing the total amount to £175bn. The extension of the QE program was due that Bank of England's feeling that despite the recent improvement in economic data the depth of the recession is deeper than previous thought. While the announcement provided initial support to the stock market it has to be cautioned that the reason for the additional stimulus is due to continued weakness in the economy and fragility of the financial system. As for today, the main focus is on the non-farm payrolls figure due out at 13.30pm. Current consensus is for a further 330,000, slightly better than the drop we saw in June. With the S&P now 45% of its March low the market needs to see a better than expected number today. If not, given comments from China today, equity market could be in for a correction.

RBS Interim Results

Analyst : Oliver Gilvarry

Royal Bank of Scotland (RBS) reported half year results this morning. The group reported a pre-tax profit of £15m, excluding write-down of goodwill. Net attributable loss was £1.042bn driven by significant impairments across the group. Operating profit for the group before impairment losses was £4.2bn, an increase of 213% on the same period in 2008. Global Banking & Markets (GBM) had very strong results with operating profit increasing 337% compared to the first half of 2008, driven mainly by income from trading activities. Hester, CEO of RBS, stated the favourable conditions benefiting GBM will not continue into the second half of the year. Impairments rose to £7.5bn across the group with loan impairments rising to £6.8bn or 2.25% of the loan book. The vast majority of the impairments were generated on assets held in the non-core part of the group and the Government Asset Protection Scheme (GAPS) covers 70% of the assets causing the impairment charges. Non-performing and potential problem loans at the half year increased to £31bn. Arrears on UK mortgages have increased to 1.8% of the mortgage book at the half year, but the rate of increase is slowing. Corporate defaults have increased, as has arrears on unsecured lending. Management are continuing to re-structure the business with the aim of reducing assets by £500bn, with 50% of this target already achieved. The loan to deposit ratio was in line with estimates at 1.45x, but the cost of funding has increased with Net interest Margin (NIM) falling 18% to 1.69%. On capital, core tier 1 has increased by 50bps to 6.4% and once the GAPS is in place, core tier 1 will increase by an extra 500bps. On the GAPS, management have stated it has not been finalised yet, but it should be concluded in the autumn. In the results this morning, Hester makes the comment the GAPS "has significant uncertainties" and the scheme has "enormous operational complexity". Issues still outstanding are the final sign-off of assets to be covered and confirmation of the price of the coverage. With regard to Ireland, Ulster bank made an operating loss of £8m at the half year due to an impairment charge of £157m or 0.89% of loans. The customer deposit book in Ulster Bank in the period fell by 21% in constant currency terms mainly due to the impact of the Government guarantee scheme. NIM has increased in Ulster Bank by 3bps to 1.95%, but the tough economic conditions significantly impacted profitability.

The results from RBS this morning have a large amount of noise due to the split of the core and non-core bank and the conference call this morning will provide more clarity on the results. The group sees two or three years of elevated provisions and the greatest extent of the restructure will be completed this year, but the group is optimistic about the future. As with Lloyds Banking Group, the GAPS is the key to the restructuring of the bank.

GSK : Buy **Current Price** (1150p) **Price target** (under review) **Analyst : David Dunk**

The Canadian Government has announced the purchase of 50.4m units of GSK's swine flu vaccine for \$374m. It's likely that the order is part of the 291m of orders announced by GSK already. The cost of the vaccines to Canada is reportedly C\$403.2m, which suggests an individual unit cost of £4.44, slightly below market expectations. GSK is set to benefit significantly from the sales of the vaccine and flu treatment Relenza in this year and the next. Separately, GSK has announced the purchase of the PentaStaph vaccine from Nabi Biopharmaceuticals for an initial sum of \$20m, plus up to \$26m in further milestone dependent payments. The vaccine is designed to protect against the contraction of S. aureus infections. This deal marks the latest in GSK's efforts to boost its research pipeline, with small acquisitions, and joint ventures.

Ryanair : Neutral **Current Price** (€3.12) **Price target** (€3.30) **Analyst : David Dunk**

Air France released traffic figures last night. Load factor increased to 85.1% from 84.4% driven by a decrease in capacity of 4.1%. Traffic for the month declined by 3.3%, in comparison with the same month in the previous year. The group carried 6.9m passengers, a decline of 4.5%. The company noted a stabilisation in the declines in the cargo business, and initial signs of lower levels of deterioration in unit revenues. The decline in cargo traffic of 17.2% was in line with the capacity cuts of 17%. It remains our view that the Flag carriers remain under pressure, and are likely to continue to underperform the low cost short haul carriers.



International Equity Markets

Index	Value	1-Day	YTD
ISEQ	2,864	1.0%	21.0%
FTSE	4,691	0.9%	4.8%
Dow Jones	9,281	-0.4%	5.5%
S&P	1,003	-0.3%	10.4%
Nikkei	10,388	1.3%	17.5%
Stoxx 50	2,662	0.7%	8.2%

Sector Performances

Sector	Index	1-Day	YTD
Construction	237	-0.1%	2.1%
Technology	175	0.3%	4.3%
Oil & Gas	290	-0.4%	3.1%
Financials	218	2.8%	2.7%
Retail	228	-0.6%	1.8%
Food & Drink	258	1.5%	4.6%

Commodity Prices

Commodity	Index	1-Day	YTD
Crude Oil	71.9	0.0%	26.6%
Copper	151.2	-2.1%	89.2%
Gold	843.0	0.0%	9.0%
Silver	11.1	-0.8%	29.1%
Wheat	613.3	-5.1%	-21.1%
Cattle	85.8	-0.8%	-0.6%

Currency Exchange Rates

Commodity	Index	1-Day	YTD
€/\$	1.435	-0.4%	-2.8%
€/£	0.855	0.8%	11.2%
£/\$	1.678	-1.2%	-12.5%
\$/JPY	95.460	0.5%	-4.7%
€/JPY	136.947	0.1%	-7.3%
€/SFR	1.529	-0.1%	-2.3%

5Yr Credit Spreads

Commodity	Index	1-Day	YTD
Invest Grade	103.1	-1.4%	-40.8%
High Yield	151.2	-1.1%	-36.0%
Financials	843.0	-1.1%	-26.0%
Bol	11.1	-1.3%	34.8%
AIB	613.3	-1.4%	61.5%
RBS	85.8	-0.1%	-2.2%

Money Market Rates

Rate	EUR	UK	US
Overnight	0.3%	0.4%	0.2%
3-Month	0.9%	0.9%	0.5%
1-Year	1.3%	1.2%	0.9%
2-Year	1.9%	2.3%	1.7%
5-Year	2.9%	3.7%	3.2%
10-Year	3.6%	4.2%	4.0%

Corporate Calendar

Thursday August 6th

US	Ameren Corporation	Q2
US	CBS Corporation	Q2
US	Prudential Financial, Inc.	Q2
US	MBIA Inc.	Q2
US	The NASDAQ OMX Group	Q2
US	Williams Co. Inc.	Q2
BE	KBC Groep NV	Q2
FR	Veolia Environnement SA	Q2
DE	Air Berlin PLC	TRAFFIC
DE	COMMERZBANK AG	Q2
DE	Deutsche Telekom AG	Q2
CH	Zurich Financial Services A	INTERIM
GB	EasyJet PLC	TRAFFIC
GB	Aviva Plc	INTERIM
GB	Ladbroke's Plc	INTERIM
GB	RSA Insurance Group PLC	INTERIM
GB	Schroders PLC	INTERIM
GB	WM Morrison Supermarket	TRADE
GB	Unilever PLC	H1
GB	Thomson Reuters PLC	Q2

Friday August 7th

US	Edison Intl.	Q2
FI	Finnair Oyj	Q2
DE	Allianz SE	Q2
DE	Hypo Real Estate Holding A	Q2
DE	PUMA AG Rudolf Dassler S	Q2
SE	SAS AB	TRAFFIC
GB	Royal Bank of Scotland Gro	INTERIM

Monday August 10th

GB	Morgan Sindall PLC	TRADE
GB	John Swan and Son PLC	Q2
US	Dynegy Inc.	Q2
US	Fluor Corporation	Q2

Tuesday August 11th

DK	Bang & Olufsen A/S	YRTRADE
DK	Danske Bank A/S	Q2
DE	Deutsche Lufthansa AG	TRAFFIC
ES	Iberia Lineas Aereas de Espana SA	TRAFFIC
CH	Adecco SA	Q2
GB	Assura Group Ltd	TRADE
GB	Intercontinental Hotels Group Plc	H1
GB	Collins Stewart Plc	INTERIM
GB	Friends Provident PLC	INTERIM

Wednesday August 12th

IE	Smurfit Kappa Group Plc	Q2
DE	E.ON AG	Q2
NL	ING Groep NV	Q2
SE	SAS AB	Q2
CH	Nestle SA	H1
GB	BPP Holdings PLC	INTERIM
GB	TUI Travel Plc	Q3
US	Macy's, Inc.	Q2

Economic Calendar

Thursday August 6th

	Region	Irish time	Previous
Factory Orders MoM (sa)	GE	11:00	4.40%
BOE Announces Rates	UK	12:00	0.50%
ECB Announces Interest Rates	EC	12:45	1.00%
Initial Jobless Claims	US	13:30	584K

Friday August 7th

Trade Balance	GE	07:00	9.6B
Current Account (EURO)	GE	07:00	3.7B
Imports SA (MoM)	GE	07:00	-2.10%
Exports SA (MoM)	GE	07:00	0.30%
PPI Input NSA (MoM)	UK	09:30	1.50%
PPI Output n.s.a. (MoM)	UK	09:30	-0.20%
Industrial Production MoM (sa)	GE	11:00	3.70%
Change in Nonfarm Payrolls	US	13:30	-467K
Unemployment Rate	US	13:30	9.50%
Consumer Credit	US	20:00	-\$3.2B

Monday August 10th

Sentix Investor Confidence	EC	09:30	-31.3
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Tuesday August 11th

RICS House Price Balance	UK	00:01	-18.10%
Consumer Price Index (MoM)	GE	07:00	--
CPI - EU Harmonised (MoM)	GE	07:00	--
Total Trade Balance (GBP/Mln)	UK	09:30	-\$2168
Unit Labor Costs	US	13:30	3.00%
Wholesale Inventories	US	15:00	-0.80%
ABC Consumer Confidence	US	22:00	--

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DOLMEN SECURITIES LTD

75 St. Stephen's Green, Dublin 2, Ireland. Tel : +353 1 633 3800/1890 400 300
45 South Mall, Cork, Ireland Tel : +353 21 422 2122
Theatre Court, Mallow St, Limerick, Ireland. Tel : +353 61 436 500

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