



Weekly Traders Update



Brief Market View

A government report showing the U.S. economy slowed more than expected in the second quarter helped spark Friday's rally in stocks. The weaker-than-expected GDP numbers suggest the Federal Reserve may pause in its campaign of raising interest rates.

U.S. stocks could be in for another volatile week, when the July jobs data and other economic reports may help determine the interest-rate outlook. In addition to the high-profile jobs report, data on the U.S. manufacturing and services sectors, factory orders, personal income and spending will be on tap. An inflation gauge closely tracked by the Federal Reserve also will be in the spotlight. The data may attract more attention than usual since this will be the last week before the Fed's August 8 policy meeting. This week's heavy economic agenda in the US starts on Monday with a reading of regional manufacturing activity known as the Chicago PMI. All eyes will be on the PCE Index, which is one of the Fed's most closely watched inflation measures. The week wraps up on Friday with the U.S. nonfarm payrolls report for July. The U.S. economy likely added 150,000 jobs in July, up from 121,000 in June.

In the UK, the Bank of England meets on Thursday, with only a little speculation about the chances for a rate hike this week. With UK growth edging up a rate cut would appear to be unnecessary, but with subdued trends in inflation expectations and wages, a rate hike would appear to be equally unnecessary.

The ECB will meet on Thursday, and the market is fully pricing in the central bank raising rates by 25 basis points to 3.0 percent.

We have an equally busy corporate calendar to look forward to this week. Banking stocks will be in focus, with a host of big Irish and UK names reporting. On Monday HSBC reports interim results, followed up by HBOS and AIB on Tuesday. Lloyds-TSB and Barclays will report on Wednesday and Thursday respectively. RBS will complete the program on Friday. Other stocks to watch out for this week will be, Elan, Ryanair, Wm Hill & Travis Perkins (Tuesday) and British Airways (Friday)

Below are our trading ideas for this week.

AIB (€18.84)

Tomorrow (1st August), AIB will announce its interim results. The consensus forecast is for profit before tax growth of 16% to € 990m, driven by very strong loan growth, as well as some exceptional recoveries of previously written off loans. The consensus full year eps forecast for 2006 of €1.71 would represent year on year growth of 17%, and our current 12 month price target of €20.50 is based on 12 times 2006 eps of €1.71.

Lloyds-TSB (€5.44)

Lloyds TSB will announce its interim results on Wednesday (2nd August), with the consensus forecast being for 6% profit before tax growth to £1.72 bn. Overall, the results are expected to show that the bank's operating performance is continuing to improve, with each of its three divisions expected to deliver revenue growth in excess of cost growth. Helped by greater stability in the level of retail bad debts, strong growth in savings product sales and cost savings of £30m, we are forecasting 2% full year eps growth in 2006 to 48p and 6% eps growth in 2007 to 51p. This provides further share price upside for investors, in addition to a net dividend of c.10.7p, going ex within the next 2 weeks. There also remains an above average probability of the bank receiving a takeover approach this year.

Vodafone (€1.19)

Vodafone has paid shareholders a special dividend of 15p per share, and has implemented a 7 for 8 share consolidation, leaving the shares now rated at 10 times current year earnings and paying a dividend yield of 6%. Such a yield should act as a strong support for the share price at current levels, opening up the way for further asset sales and subscriber growth to drive significant share price upside.

GSK (€14.93)

Last week Glaxo reported solid Q2 results and raised its FY earnings guidance. However the shares reacted negatively to the results as the guidance for EPS growth of 12% was below expectations of mid-teens/15%. However in the subsequent conference call management highlighted that it viewed the guidance as 'fairly conservative'. The company also revealed strong data for a bird flu vaccine, which has the potential to be a blockbuster drug worth over £2bn. We remain buyers of GSK and maintain our current price target of £16.50.

Sterling Energy (25p)

Sterling Energy's share price has fallen by over 20% from its high earlier this year, as a result of a lower level of initial production at its offshore Mauritania field. However, continued higher than expected oil and gas prices keeps the company on course to grow its cashflow per share to 3p in 2007. Exploration progress from the well recently spudded onshore Louisiana could also act as a near term catalyst for the share price.

Ryanair (€7.74)

Tomorrow, Ryanair will announce its results for the 3 months ended 30/06/06. The consensus forecast is for net profit of € 98m, a year on year increase of 52%. This would represent an acceleration on last year's Q1 net profit growth of 21%, driven by very strong passenger and ancillary revenue growth, as well as by the fact that Easter took place during the quarter this year. However, the extra cost pressures over the second half of the airline's financial year, as a result of prior year fuel cost comparatives equivalent to \$49 a barrel, as well as the extra average fare pressures from the delivery of 30 new 737-800's, may prevent the results from acting as a major short term positive catalyst for the share price. As a result, the share price could suffer from some profit-taking in the short term, following its 16% rise over the last two months.

UK banks - The technical view

The UK bank sector has risen by 5.5% over the past two weeks, ahead of the announcement of interim results. As a result, the index may be slightly over-extended on a short term technical basis, with the potential for a retracement of 38.2% of the upward move before basing and turning up again. Therefore, even though the results themselves should in general show an improving operating environment, the UK bank sector could suffer this week from some profit-taking.

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Earnings Calendar

HSBC	31-Jul	H1
HBOS	1-Aug	H1
Ryanair	1-Aug	Q1
Elan	1-Aug	Q2
AIB	1-Aug	H1
Travis Perkins	1-Aug	H1
Wm Hill	1-Aug	H1
Lloyds	2-Aug	H1
Barclays	3-Aug	H1
BA	4-Aug	Q1
RBS	4-Aug	H1

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