

DOLMEN WEEKLY TRADER



Weekly Market Commentary September 6th 2010

Last week's economic data out of the US including the better than expected employment report was broadly positive despite the disappointing services figure. The Q/E debate will continue in the background, but unless data becomes significantly worse, Q/E is not likely before year end. Our US unemployment estimate for the year end is too low and we would expect the rate to be closer to 10% by year end. Non farm was positive Friday with better job creation, but a weak jobs market will remain for the rest of this year and into next. A break through 10% may be the catalyst needed to force policy action from the FED and US Government. Lower growth weakens the outlook for Oil and the dollar should strengthen against the Euro as European peripheral countries are still in focus with Ireland's banking issues continuing to weigh. Bond markets paused for breath as yields reached all time lows and while unlikely to rise aggressively the pace of fall must lessen to the absolute level of yields. While growth is weak, equity markets became too pessimistic regarding growth and further weakness will be offset by QE and the benefits of low interest rates. M&A activity continues and will support the equity market as August has been a record month. Valuations in the market remain attractive, as earnings yields are still high. For the week ahead there are few economic releases and we expect markets to move higher to the upper end of ranges.

Trading Recommendations

FTSE 100 Miners

Analyst: Brian Gallagher

We recommend that clients **take profits** in **Antofagasta** and **consider a switch** into either **BHP Billiton** or **Rio Tinto**. We maintain our long term buy rating on the Antofagasta but given the recent run up in Antofagasta we expect the larger diversified miners to outperform near term. Australian based miners including BHP Billiton and Rio Tinto have been buoyed recently by the weak government that is likely to be formed following Australia's first hung parliament in over 70 years. This lack of majority has brought recent taxation legislation into question which is positive for the miners who have considerable assets in the country. Moreover, last week's stronger global macro data in the form of Indian & Australian GDP and Chinese data has reinforced our view that emerging markets will continue to drive the global economy. **BHP Billiton** and **Rio Tinto** currently trade on more attractive relative valuations than Antofagasta.

IPM - Company Update

Analyst: Oliver Gilvarry

Irish Life & Permanent's (IPM) results were well received with the performance in the Life business offsetting some of the losses in the banking arm. Impairment charges of €150m were better than expected but credit quality remains weak in the mortgage book with impaired loans at 3.16% of the loan book compared to 2.14% previously but at least the rate of increase in same has slowed. The life business should continue to perform in the second half of the year, but the bank will most likely remain under pressure due to lower banking margins and elevated loan losses. The release of value from the life book is central to the creation of value and this will only be achieved if IPM is a catalyst for consolidation in the Irish banking market, with the sale of EBS, and the IPM bid for same being the next development. Guidance from IPM is for this process to be completed in late September to early October. We are meeting with Management today to discuss further the results and the strategic direction of the bank. We see value in the stock but it will trade in line with the other Irish banks until a decision is reached on the future of EBS.

Tesco - Buy

Previous Close (413p)

Target (465p)

Analyst: Stephen Taylor

We remain buyers of Tesco at current levels and it is our preferred UK retail play. With the UK's unemployment rate remaining well below that of the US and Europe (ex Germany), we expect the UK consumer to continue spending at current levels. There was much comment this week on higher UK inflation which is positive for Tesco as it improves pricing power and therefore operating margins. Tesco also benefits from international exposure with over 30% of revenue being generated from outside of the UK with a significant proportion from higher growth markets including Asia. Shares in Tesco offer a dividend yield of 3.16% on what is a growth story. Warren Buffet's Berkshire Hathaway also recently increased its stake to over 3% in Tesco. Finally, Tesco's peer, WM Morrison will report this Thursday.

Vodafone - Update

Analyst: Stephen Taylor

We continue to maintain our positive stance on Vodafone and recommend buying on weakness. Continued speculation surrounding asset sales is likely to continue as management is currently reviewing all operating activities and will provide a short-term catalyst for a break through the 160p level. In particular speculation over the sale of China Mobile could benefit. The group's earnings outlook is improving with both organic service revenue and data traffic showing growth. Vodafone also pays an attractive dividend yield of c. 5.5% and has committed to increasing its dividend by 7% per year over the next three years.

Other Ongoing Stock Calls

Tullow Oil: We continue to recommend that clients exercise caution when trading Tullow Oil as the stock is facing high event risk with the tax dispute between the Ugandan Government and Heritage Oil still unresolved.

CRH: Shares in CRH will continue to trade dependent on economic data. Last week's non-farm payroll figure showed that 20,000 jobs were added in the construction sector a potential leading indicator of improvement.

Smurfit Kappa: Recent upgrade of Mondi debt is a positive for the sector as is talk of more consolidation according to Stora Enso. The slightly better than expected China data was also a positive for last week. Due to these positive newflows last week, we remain buyers of the stock.

This Week's Market Events

MONDAY

Corporate

EasyJet PLC TRAFFIC, IG Group Holdings Q1 TRADE, Salamander Energy MEETING, Soco International EGM

Economics

Sentix Investor Confidence EC

TUESDAY

Corporate

Whitbread PLC Q2 TRADE

Economics

Factory Orders MoM GE, ABC Consumer Confidence US

WEDNESDAY

Corporate

Berkeley Group Holdings AGM, DSG International AGM

Economics

Trade Balance GE, Exports SA GE, Industrial Production UK, Manufacturing Production UK, Industrial Production MoM GE, MBA Mortgage Applications US Fed's Beige Book US

THURSDAY

Corporate

Home Retail Group Q2 TRADE, WM Morrison Supermarkets INTERIM, HMV Group AGM

Economics

Consumer Price Index GE, Total Trade Balance UK, BOE Asset Purchase Target UK, BOE ANNOUNCES RATES UK, Trade Balance US, Initial Jobless Claims US, Continuing Claims US

FRIDAY

Corporate

JD Wetherspoon PRELIM

Economics

PPI Input UK, PPI Input UK, PPI Output UK, PPI Output UK, Wholesale Inventories US

Regulatory Information

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 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 forwarding 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

Unless specifically stated to the contrary in this report, Dolmen, its employees, directors or related companies, do not hold shares in the stocks covered in this report.

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.

Our conflicts of interest management policy is available at the following link;

http://www.dolmenstockbrokers.ie/regulation_mifld.shtml

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 the 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.

Other important disclosures

A description of Dolmen's basis of valuation or any other methodology used to evaluate a financial instrument or issuer or to set a price target and the meaning of any recommendation made such as buy, sell or hold is set out at:

<http://www.dolmenstockbrokers.ie/disclosures.shtml>

Prices quoted in this report, unless otherwise indicated, are as of close on the previous trading day.

A summary of existing and prior price targets for each company under coverage is available at <http://www.dolmenstockbrokers.ie/disclosures.shtml>

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