



They say extraordinary times call for extraordinary measures, and in a history making week that is exactly what markets saw. The history was made with the election of the first African-American President while the extraordinary measure was the 1.5% cut in UK base rates by the Bank of England to 3%, its biggest cut in its relatively short history of being an independent entity. While the ECB 'only' moved by reducing interest rates by 50 basis points to 3.25%, in 'normal' circumstances the collective impact of all three events should have been sufficient to move the market substantially higher. These however cannot be described as 'normal' times and the market reaction to the interest rate cuts in particular was extremely disappointing, with the 5% fall in all markets reflecting the severity of the situation the global economy finds itself in. The fear six months ago was that inflation would spiral out of control, but now the fear for central banks is that deflation will take hold. A deflationary environment is one characterised by a reduction in the general level of prices sustained over several months, usually accompanied by declining employment and output. The recent decline in commodity prices, falling GDP and the latest US and global labour statistics all point to such a scenario, one which is not helpful for equity markets. The week ahead will see the release of economic data that will show how quickly the global economy is slowing with German ZEW (Tues), Euro-zone Q3 GDP (Fri) and US Retail Sales (Fri) all scheduled. With earnings due from CRH, Bank of Ireland, Wal-Mart and Vodafone also due, expect equity market volatility to continue.

## TRADING IDEAS, EARNINGS & PREVIEWS

### Thomson Reuters

Price: £11.72  
P/E: 11x  
Div: 6.5%  
Target: £10.00

**Sell**

**Fundamental View :** We believe that the outlook for companies heavily exposed to financial services is likely to remain difficult throughout 2009 and expect further earnings downgrades to come. Thomson Reuters is particularly exposed to this downturn as it generates c. 55% of its revenue from financial firms. With up to 15% of employees expected to lose jobs at financial services firms in the City of London and Wall Street over the next year, at 11x forward earnings the company looks expensive in the current environment. **Note : with all short positions we recommend using a stop and in this case we recommend the level of £12.50**

**Next Catalyst :** Thomson Reuters is due to report third quarter earnings this Wednesday and we expect the company to issue cautious guidance for the rest of the year and 2009.

### BMW

Price: €22.45  
P/E: 8.7x  
Div: 5.0%  
Target: €16.00

**Sell**

**Fundamental View :** Shares in BMW rose by 12% following the release of the group's earnings last week on the back of the company's comments that the group will have 'clearly' positive earnings this year and reiterated its earnings targets through 2012. The group did however lower earnings guidance for this year and we expect this trend of downgrades to guidance to continue next year as the economic environment continues to weaken. It should be noted that S&P downgraded the group's credit ratings to A from A+ on the back of a weakened business profile. Our sell call on BMW has worked well over the last six months as the stock has fallen from €38 down to a low of €16 in October. We believe that the consumer environment will continue to weaken over the next year which will again lead to downgrades to earnings forecasts and expect the group's share price to retest its October lows. **Note : with all short positions we recommend using a stop and in this case we recommend the level of €25.00.**

**Next Catalyst :** There is no specific earnings catalyst for BMW over the next few months as the majority of automakers have already issued earnings results for the third quarter. However we believe that the continued decline in economic data will be enough to push shares in BMW lower.

### UK Retailers

Last week the Bank of England lowered interest rates by 1.50% to 3.00% in an attempt to stimulate the UK economy. Over the last year **Tesco** has been our top pick in the UK retail sector given its ability to outperform during a recession and also its geographical diversity with c. 27% of revenue generated outside of the UK with a large proportion generated from growing emerging markets. Tesco remains our top pick in the sector, however given the decline in UK interest rates and expectations that the rate may fall to at least 2% next year we believe that value will be starting to emerge in some of the more discretionary end retailers including Marks & Spencer and Next. We feel that both companies are well positioned to whether the current downturn with strong balance sheets and offer attractive valuations at 8x and 7x forward earnings, respectively.

### Oil & Gas Sector Update

We remain overweight the oil & gas sector, despite significant pullbacks in energy prices. In the long term we expect oil prices that are significantly higher than today's levels. This is due to declining production from maturing oil fields, coupled with growing emerging market demand. It has been reported that the IEA have increased its estimates for oil prices to \$100 a barrel once the global economy recovers, and over \$200 by 2030. Within the sector BP is our preferred pick, due to its diversity and financial profile. Tullow is our preferred pick for investors seeking exposure to oil exploration, although it also a riskier investment. The company has enormous exploration and development potential. For short term trades, we recommend entry points of 470p on BP and 550p on Tullow, targeting moves to 590p and 670p respectively. We recommend stop losses with short term trades, Tullow in particular. Our 12 month fundamental price targets are unchanged at 700p for BP and 1,100p for Tullow.

## Earnings Week Ahead

**Mon:** DCC (Interim), AIG (Q3), Starbucks (Q4), McDonalds (Sales), Allianz (Q3), Cable & Wireless (Interim), Deutsche Post (Q3), HSBC Holdings (Interim), Tyson Foods (Q4), Dyckerhoff (Q3), Deutsche Postbank (Q3).

**Tues:** CRH (IMS), Norkom (Interim), Unicredit (Q3), Northern Foods (Interim), Vodafone (Interim), VT Grp. (Interim), Yell (Interim), Lufthansa (Traffic).

**Wed:** Irish Life (IMS), Thomson Reuters (Q3), Macys (Q3), Applied Materials (Q4), E.ON (Q3), Hypo Real Estate (Q3), Smurfit Kappa (Q3), Iberia (Q3), Holcim (Q3), Land Securities (Int), Scottish & Southern (Int), Sainsburys (Int), Tullow Oil (Int).

**Thurs:** Bank of Irl. (Int), Siemens (Q4), Wal-Mart (Q3), Dr Pepper (Q3), Kohls (Q3), Zurich (Q3), Investec (Int), SABMiller (Int), BT (Q2), Vallourec (Q3), TUI AG (Q3).

**Fri:** Dexia (Q3), Conergy (Q3).

## Economic Week Ahead

**Mon:** UK PPI (09:30), EU Sentix Invest. Confid. (09:30), Irl Ind. Production (11:00).

**Tues:** UK Trade Balance (09:30), EU & GER ZEW Survey (10:00).

**Wed:** UK Jobless Claims (09:30), ILO Unemployment (09:30), EU Ind Prod (10:00), BoE Inflation Report (10:30), MBA US Mortgage Applications (12:00), ABC US Consumer Confidence (22:00).

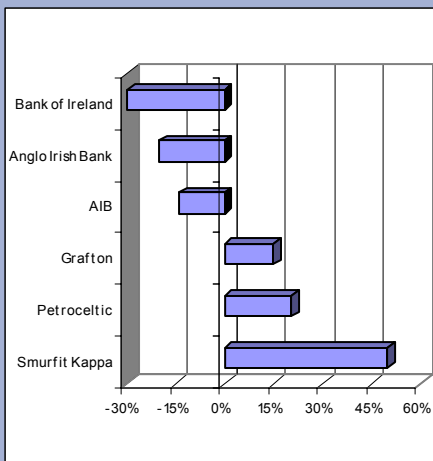
**Thurs:** US GDP (07:00), ECB Monthly Report (09:00), US Trade Bal (13:30), US Jobless Claims (13:30), US Budget Statement (19:00), Irish CPI (11:00).

**Fri:** German CPI(07:00), EU CPI(10:00), EU GDP(10:00), US Import Index(13:30), US Advance Retail Sales (13:30), US Michigan Confid (15:00), US Business Inventories (15:00).

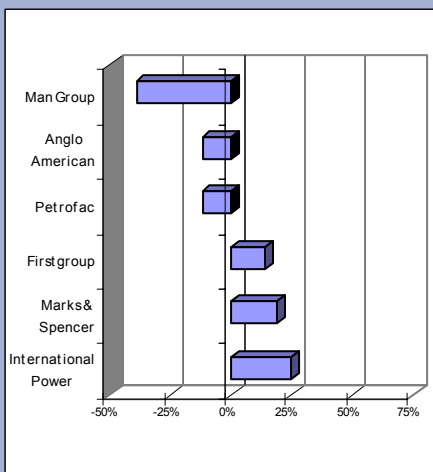
# DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/  
Worst Performers  
03/11/08-07/11/08

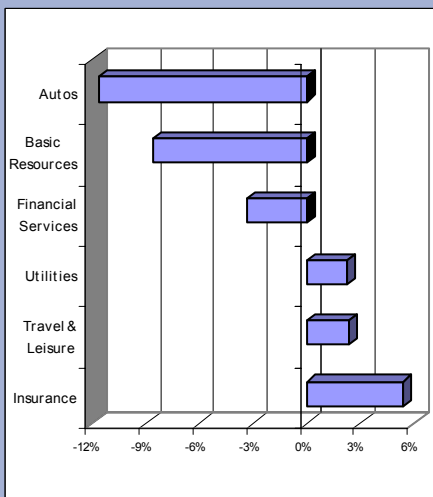
## ISEQ



## FTSE



## Sector changes WTD



# Dolmen Dozen

## WEEKLY UPDATE



Company	WTD	YTD	Relevant news
AIB	-13.8%	-76.8%	AIB cuts its 2008 eps forecast to €1.20, citing higher funding costs and weaker credit quality.
Aviva	2.3%	-44.1%	Peer RSA insurance reports 3Q premiums rose 11%, driven by growth in the international business.
BP	1.5%	-16.3%	BP capital markets sell \$3bn in five year notes.
IN&M	14.1%	-69.2%	IN&M announces it plans to sell its stake in APN News & Media will cut its debt by c.€800m.
E.ON	4.3%	-36.2%	E.On and Masdar join forces to partner in the London Array offshore wind farm project.
CRH	-6.4%	-32.1%	Ahead of its interim management statement on November 11th.
Hewlett Packard	-10.0%	-31.7%	HP to strengthen presence in China with new PC manufacturing plant.
Aryzta	-12.0%	-12.2%	La Brea's sales are now more than double the level which existed at the time of the IAWS purchase.
IL&P	-9.3%	-79.3%	Ahead of its interim management statement on Wednesday 12th November.
Microsoft	-4.0%	-39.8%	CEO Steve Ballmer says Microsoft not interested in revisiting possible Yahoo acquisition.
Paddy Power	-1.1%	-41.4%	Unibet, an online gambling peer, reports a 52% increase in gross win for the half financial year.
Vodafone	-10.4%	-43.2%	Ahead of its interim results on Tuesday 11th November.

## What it says in the 'Sundays'

Company	Paper	Headline
AIB	S. Independent	Bulgaria losses pushing AIB to sell \$2bn M&T
AIB	S.B.Post	Consolidation hopes to be hit by AIB stance
Irish Banks	S.B.Post	Tensions grow between state and banks over lending
Irish Banks	S.Tribune	Banks in talks over builders' bad debts
Bank of Ireland	S.Tribune	Bol pulls £12m overdraft from UK offices firm

## Corporate Visits

### COMPANY

### PRESENTATION DATE

AIB	10th November
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## Last Weeks Moves

Equities	Level	Change WTD	Change YTD	Div Yield	P/E08
ISEQ	2827	-6.7%	-59.2%	6.8%	5.9
FTSE 100	4365	-12.4%	-32.4%	5.6%	8.1
DAX	4938	-14.8%	-38.8%	5.0%	10.5
Dow Jones	8944	-13.4%	-32.6%	3.6%	10.8
S&P 500	931	-15.3%	-36.6%	3.2%	20.5
Nasdaq	1647	-15.4%	-37.9%	1.3%	28.2
EuroStoxx 50	2284	-16.2%	-38.0%	5.4%	9.2
Nikkei 225	8583	-21.9%	-43.9%	2.5%	13.0

Sector	Weekly move%	YTD move %
Insurance	5.43	-45.08
Travel & Leisure	2.40	-42.63
Utilities	2.30	-32.34
Retail	0.47	-37.77
Personal & Household Goods	0.01	-35.00
Food&Bev	-0.13	-23.08
Media	-0.63	-39.52
Chemicals	-0.66	-36.50
Technology	-0.86	-44.74
Banks	-1.33	-53.44
Oil & Gas	-1.99	-32.46
Telecom	-2.26	-38.31
Industrials	-2.55	-47.83
Construction & Materials	-2.58	-48.41
Healthcare	-2.82	-11.08
Financial Services	-3.29	-47.41
Basic Resources	-8.62	-56.85
Autos	-11.60	-30.98

## Commodities

	Current	Change YTD
Crude Oil	\$61.04	-36.3%
Gold spot	\$736.65	-11.7%

## Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.27.2	-12.8%	1.45-1.50
EUR-GBP	0.813	10.6%	0.74-0.78
EUR-JPY	124.90	-23.3%	165.0

## GDP Growth

	2007	2008 (est)
Ireland	5.00%	0.50%
Euro Zone	2.50%	1.50%
UK	3.10%	0.50%

## Central Bank Interest Rates

	Current	3 month	Year End (est)
Euro Zone	3.25%	4.47%	2.75%
UK	3.00%	4.50%	2.75%
US	1.00%	2.29%	1.00%

## Credit Market Summary

In recent weeks, credit markets have been taking their lead from equity movements. This week was no exception, with spreads tightening significantly early in the week, only to give back most of the gains in the latter half of the week. The easing by the ECB and BOE has done little to improve sentiment. There have been suggestions that the Fed may use the TARP programme to inject capital into non-bank financials in the US. The CDS recovery auctions on the Icelandic banks yielded very low recovery rates, 1% and 3% for Landsbanki and Glitnir respectively. Looking forward, consumer spending will likely be in focus with US retail figures on Friday, as well as results from Walmart.

## Credit Sector Movements

**Pharmaceuticals-** Despite troubles elsewhere over the last 18 months, credit spreads on pharmaceutical names remain relatively tight. Last week, Glaxo tightened 13bps to 80, while Novartis tightened 8bps to 65. Meanwhile AstraZeneca tightened 9bps to 121.

## Interest Rate Outlook

The dramatic events in the UK last week resulted in UK base rates hitting their lowest levels since the 1950's and this isn't the end of the rate cuts. In the Euro-Zone, the 50bps cut will be followed by another on the 4th of December as Trichet heavily hinted towards another cut at the Press Conference on Thursday. Data for the week ahead in the Euro-Zone will be focused on GDP released on Friday at 10am. This will show another quarterly fall and the Euro-Zone will have entered its first recession since the formation of the single currency union in 1999.

## Currency Comment

### EUR/GBP

The poorer economic outlook for the UK economy has left sterling on the backfoot to the Euro over the last week. The large rate cut on Thursday resulted in a GBP rally at first, but this soon ran out of steam as the market considered why the BOE cut rates so aggressively. Retail sales on Tuesday should result in a fourth month in a row where they have fallen as the UK consumer pulls back on discretionary spending. The reason for this pull back will be highlighted with unemployment data on Weds with the claimant count for October released at 9.30 in the morning.

### EUR/USD

The dollar is maintaining its gains against the Euro as a number of issues come to the fore. The slowdown in the Euro-Zone is beginning to pick up pace and this week GDP figures on Friday should show the Euro-Zone in recession. Another factor is the background concern over the stability of the single currency experiment and if a prolonged downturn would lead to cracks in the single currency. The result of this is that the dollar will not be replaced as reserve currency any time soon and will help maintain dollar strength even with the large fiscal spend coming through next year.



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