



It may be a New Year, but unfortunately for equity markets the same problems persist that were such a feature of 2008. Despite a fairly up-beat start to the new trading year as bond yields backed up, credit spreads tightened, an Obama stimulus proposal and money seemingly destined to flow into equities, the underlying concerns about corporate earnings and the state of the global economy continued to dominate. Accordingly, with the exception of the ISEQ, global indices were flat to lower on the week. The focal point for markets continues to be on the economic backdrop and particularly on the US labour market which continues to deteriorate at a rapid pace. The most recent data release saw the unemployment rate rise sharply from 6.7% in November to 7.2% in December with the January and February figures likely to be even worse. Adding to the pressure on markets were renewed sign of distress in the banking sector with a €10bn injection required for Commerzbank and rumours late on Friday of a €500m proprietary trading loss at Deutsche Bank. On the positive side, money market rates continue to ease and corporate and government bond issuance continues to increase. A continuation of this trend would be positive for equity markets and would help provide some much needed support. The key feature for markets this week will be the meeting of the ECB on Thursday when it is expected to cut rates by 50 basis points to 2%. This move along with some indication of further monetary easing in the months ahead, may help to soothe the New Year nerves.

TRADING IDEAS, EARNINGS & PREVIEWS

Irish Government 5 year issuance

The recent 5-year issuance by the Irish Government pays an annual fixed coupon of 4% and based on the current price of 99.85 provides a yield to maturity (YTM) of 4.03%. The bond is paying a premium of 175bps over an equivalent 5-year German Government bond. At issuance a large premium was required to ensure the bond issuance was a success following the failure of a German Bund auction early last week. On Friday, S&P have placed Ireland's credit rating on negative watch but the effect on Irish yields was limited as such an announcement was expected. The fiscal position of the Irish economy has deteriorated in the last year, but our debt to GDP ratio at 36% is significantly lower than the Euro-Zone average of 66.3% and much lower than Italy and Greece at 104.1% and 94.8% respectively. For investors the coupon and YTM on this bond compares favourably against bank deposit rates that have fallen over the last number of months due to ECB rate cuts and easing in the inter-bank markets. With further ECB rate cuts due on Thursday and the ECB rate to hit 1.50% in June, deposit rates will only fall further in 2009.

IL&P & JP Morgan

Buy

Irish Life and Permanent (IPM) has increased by 60% from the beginning of January. Since our call in October to switch from the other Irish banks into IPM, it has outperformed all the others. Our reasons for this call are still valid as IPM loan book is less risky than the other banks due to its lack of residential and commercial development and its ability to release capital from its Life book. The release of capital has begun and €250m of capital will be released over the next 3-years. The release of this capital avoids the need for any rights issues and allows IPM to determine its own course without Government interference unlike AIB, BOI and Anglo Irish Bank. Our other preferred financial institution and a member of the Dolmen Dozen is JP Morgan (JPM). The opportune purchases of Bear Stearns and WaMu will add to earnings in 2009 and 2010 and provide greater geographical exposure to the bank. Examining the capital position of JPM, it is in a stronger position than its peers as Tangible Common Equity (TCE) of 4.1% is higher than Bank of America and Citibank at 3.3% and 2.4% respectively. Examining the capital position based on TCE to Risk Weighted Assets (RWA), JPM is significantly head of its peers at 7.2%. With the stock currently trading at circa 1x tangible book value, it is at an attractive entry level. On the 21st of January JPM reports Q4 and full year earnings and we will prepare a details note on the stock after these results.

Microsoft

Price: \$19.75
P/E: 10x
Div: 2.6%
Target: €35

Buy

Fundamental View: Last week Microsoft announced a three year deal with Dell to put Microsoft's default software on most of Dell's personal computers and in addition announced a similar deal with Verizon Wireless for its phones. The deals are a positive for Microsoft in its attempt to take market share from Google where it continues to trail significantly in online services. Microsoft also confirmed again that it is not interested in a takeover of Yahoo, while it will still look to forge a partnership with the group. We continue to prefer software over hardware technology at the moment with Microsoft being our top pick. The company benefits from its product and geographic diversity along with its strong balance sheet with c. \$19bn of net cash.

Next Catalyst: The next catalyst for Microsoft will be on January 22nd when the group is due to issue its second quarter results. While it is possible that Microsoft may lower full-year guidance given the sharp slowdown in economic activity since it last reported we believe this is already in the price with the stock trading at 10x 2009 earnings right at the lower end of its historical range.

IN&M

Price: €0.48
P/E: 3.5x
Target: €0.96

Buy

Since Independent News & Media (INM) announced at the end of October that it had received a number of approaches in relation to its 39.1% stake in APN we have had no further update from the company. While APN is clearly a strong business we believe that in the current environment it would be in INM's best interest to sell its 39% stake in APN that would significantly reduce net debt for the company and also allay any fears that the market currently has in relation to the group's debt financing requirements of which €200m is up in May. INM's net debt/EBITDA currently stands at 3.7x which is below the typical covenant for a media company of 4x-5x. With credit markets remaining stressed the market is looking for clarity in relation to APN. A sale of APN would significantly de-lever INM's balance sheet bringing net debt down to c. €600m down from €1.4bn currently.

C&C

Price: €1.38
P/E: 5.5x
Div: 8.6%
Target: €2.10

Fundamental View: We continue to see value in C&C following the addition of the new management team. We expect C&C to focus on stabilizing its volumes in the UK market, and diversifying its product range.

Next Catalyst: C&C will release its interim results on the 16th of January. Performance is not expected to be strong given the economic climate. Critically, the market will be looking for increased visibility into the business and guidance on the strategy to be employed by new management.

Tullow Oil

Price: 732p
P/E: 31x
Div: 0.80%
Target: £9.00

Buy

Fundamental View: Before Christmas, Tullow released results of the Buffalo well in Uganda. The results were strongly positive, with Buffalo potentially surpassing Kingfisher as the largest light oil discovery in East Africa. The lack of oil-water contact suggests that there may be a continuous reservoir between the Buffalo and Giraffe prospects. Following the result, Tullow stated that the threshold for commercial development in Uganda was certain to be exceeded. Additionally Tullow released the results of the Mahogany-3 well on the Jubilee prospect in Ghana. The results were positive with the well intersecting the Jubilee prospect, and also a riskier prospect, Mahogany Deep, which also contains oil.

Next Catalyst: Tullow is in an exciting drilling phase, with 50 wells to be drilled in 2009. The results from Giraffe are expected within the next two weeks. Teak and Tweneboa are both due to begin drilling this month, with results expected by the end of the quarter.

Asian Outlook

Since late October 2008, HSCEI (Hong Kong) and CSI300 (Shanghai) have gained over 28% and 10% and outperformed the regional benchmark MSCI APXJ index by over 22% and 5%, respectively. We are positive on Chinese stocks, particularly the Hong Kong market, relative to their regional counterparts in 2009, however we believe market conditions for China could stay challenging this year. These challenges can be characterized by lingering macro headwinds, a bleak earnings outlook and potential further downward earnings revisions. On a positive side, the Chinese government's ability to ease policies and stimulate the economy will provide some support. In addition to the macro outlook Asian equity markets provide a dividend yield advantage over western indexes. With the Hong Kong market yielding close to 4% while the broader regional index is closer to 5%. This provides a significant yield advantage over both US equity market (S&P is closer to 3%) and US 10 year debt yielding 2.4%. Improvements in the underlying fundamentals of Asian companies since the financial crisis in 1997, also provides support to the dividend argument.

Earnings Week Ahead

Economic Week Ahead

Mon: (ALCOA,Q4)

Tues: (Glanbia,TS) (Game Group,TS) (Hilton Food,TS) (Premier Foods,TS) (Northern Foods,TS)

Wed: (Punch Taverns, INTERIM)

Thurs: (Bang & Olufsen,H1) (Carrefour, FY) (HMV Group,TS) (Associated British Foods, Q1) (Home Retail, Interim) (Intel, Q4)

Fri: (Anglo Irish Bank, EGM) (Smith News, TS).

Tues: UK Trade Balance (09:30), US Trade Bal.(13:30).

Wed: Ger GDP (08:15), EU Ind. Production (10:00), US MBA Mgage Apps(12:00), US Import Price Index (13:30), US Retail Sales (13:30).

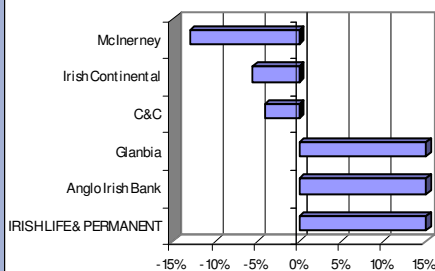
Thurs: Ger CPI (07:00), EU CPI (10:00), ECB Rate Decision (12:45), US PPI(13:30), US Jobless Claims (13:30), US Empire Manuf (13:30).

Fri: EU Trade Balance (10:00), US CPI (13:30), US Industrial Prod.(14:15), US Uni. Of Michigan (15:00).

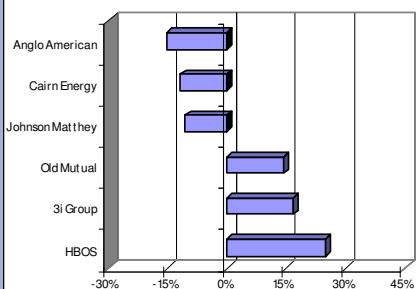
DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/ Worst Performers 12/01/08-17/01/08

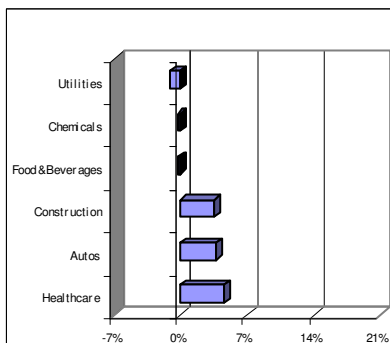
ISEQ



FTSE



Sector changes WTD



Dolmen Dozen WEEKLY UPDATE



Company	YTD	Relevant news
Aryzta	-2.2%	In its interim management statement, Aryzta say sales rose by 32% in the first quarter.
BP	-2.9%	Oil trades below \$40 a barrel
CRH	8.80%	Company expects to benefit from US infrastructure stimulus package
E.ON	-2.4%	E.ON's chief executive says financial crisis won't impact sale of German transmission power grid sale.
Hewlett-Packard	3.3%	Hewlett-Packard's CFO recently expressed confidence in full year 2009 guidance.
IL&P	6.4%	Shorting ban on Irish financials to remain in place
IN&M	15.90%	Awaiting details of potential sale of APN
J&J	-1.3%	Johnson & Johnson called 'recession proof' by Jim Cramer
JPMorgan	-17.63%	Ahead of the group's full year results on 21/01/2009
Microsoft	0.41%	Signed deals with Dell and Verizon during the week
Paddy Power	-2.98%	UK gambling levy unlikely to effect earnings
Vodafone	-1.01%	Vodafone sold £1.5bn of bonds during the week

What it says in the 'Sundays'

Company	Paper	Headline
Elan	Sunday Times	CEO says no plans to sell to Pfizer
IL&P	Sunday Times	IL&P to issue €1bn bond in coming weeks
Anglo Irish Bank	Sunday Tribune	Anglo to look internally for CEO
Aer Lingus	Sunday Tribune	Mannion Own-goal

Corporate Visits

COMPANY

PRESENTATION DATE

Grafton Group

Date to be confirmed



Last Weeks Moves

Equities	Level	Change WTD	Change YTD	Div Yield	P/E09
ISEQ	2686	11.0%	-61.3%	6.6%	4.8
FTSE 100	4449	-2.5%	-31.1%	5.9%	8.1
DAX	4784	9.2%	-40.7%	5.3%	10.3
Dow Jones	8599	-4.8%	-35.2%	3.7%	10.4
S&P 500	890	-4.5%	-39.3%	3.2%	15.9
Nasdaq	1572	-3.7%	-40.7%	1.4%	31.7
EuroStoxx 50	2159	0.7%	-41.4%	6.0%	9.0
Nikkei 225	8860	-0.3%	-42.3%	2.5%	12.8

Sector	Weekly move%	YTD move %
Healthcare	4.617	6.288
Autos	3.833	8.356
Construction & Materials	3.494	6.971
Financial Services	3.086	7.134
Personal & Household Goods	2.395	7.048
Technology	2.373	5.842
Travel & Leisure	2.087	6.257
Banks	1.991	6.535
Retail	1.97	6.92
Oil & Gas	1.67	7.966
Insurance	1.52	3.799
Telecom	1.403	4.594
Basic Resources	0.711	12.248
Industrials	0.339	4.168
Media	0.093	3.955
Food&Bev	-0.288	2.29
Chemicals	-0.296	2.525
Utilities	-1.113	1.339

Commodities

	Current	Change YTD
Crude Oil	\$48.53	-14%
Gold spot	\$845.20	-4%

Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.405	-3.7%	1.40
EUR-GBP	0.888	-7.2%	0.93
EUR-JPY	121.81	-4.4%	1.20

GDP Growth

	2008	2009 (est)
Ireland	-1.70%	-3.50%
Euro Zone	1.20%	-1.00%
UK	1.00%	-1.50%

Central Bank Interest Rates

	Current	3 month	Year End (est)
Euro Zone	2.50%	2.69%	1.50%
UK	2.00%	2.38%	1.00%
US	0.00% - 0.25%	1.26%	0.0% - 0.25%

Credit Market Summary

Credit markets started on a positive note with substantial moves narrower in credit spreads. The Investment Grade spreads were the main beneficiary, tightening 24bps to 156bps. New issuance was particularly strong this week with many real economy companies successfully bringing new issues to the market. Among those issuing new debt were E.On, GDF, Vodafone, Daimler and Volkswagen. The declining interest rate environment has lowered the cost of debt issuance to companies, despite the credit spreads that remain elevated. After much delay, German banks are now able to issue state backed paper, Commerzbank was the first bank to avail of this facility. The new issue by the Irish Government was well received by the market, with an issue size of €6bn compared to the €3bn originally target, although with a coupon of 4%, it wasn't cheap.

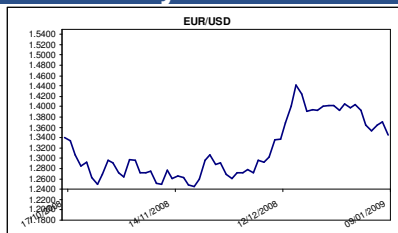
Credit Sector Movements

Automakers- Despite a poor outlook for the consumer, spreads on European auto sector companies saw significant tightening in recent weeks. Most spreads in the sector are now trading back at levels last seen in early October. BMW spreads which were trading above 500bps before Christmas, are currently trading around 280bps.

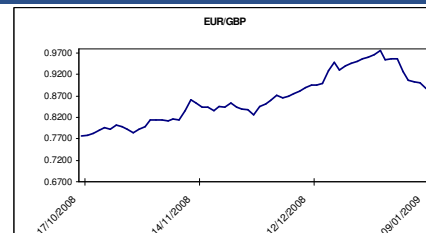
Interest Rate Outlook

Last week the Bank of England (BoE) as expected lowered interest rates by 0.50% to 1.50% its lowest rate in the history of the central bank. There is increasing expectations that the BoE will be forced to lower rates below the 1% level before June. The main focus next week will be on Thursday when the ECB is due to decide on interest rates. We expect the central bank to lower rates by 0.50% to 2.0% and expect that this will not be last rate cut it makes.

Currency Comment



The \$ made strong gains against the € last weekly marking its strongest move since October after the nonfarm payrolls report on Friday fell less than expected. The € also remained on the back foot on increasing expectations that the ECB will lower interest rates. The \$ is likely to remain strong against the € over the next week as the market awaits the ECB decision



£ rebounded strongly against the € last week as the Bank of England lowered interest rates by less than some had expected. Given the size of the move in the currency we would expect the € to regain some ground despite the ECB lowering interest rates this Thursday.



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