



Equity markets recorded modest gains last week, a result that could be viewed as either disappointing given the de facto nationalisation of Fannie and Freddie or indeed a very positive result given the difficulties encountered by Lehman Bros. On balance we would go with the latter of these, since in essence Lehman, while in severe difficulties, is in a more comfortable space than Bear Stearns, when in the run-up to its Fed backed bail-out last March, saw markets sell-off sharply. While there is no doubt that the Lehman situation is destabilising, it merely confirms our view that the financial sector continues to face difficulties that will take some further time to resolve. One of the key areas of focus for the markets this week will be the release of UK and US CPI data due for release on Tuesday. Lately there has been a visible downward trend in both CPI and PPI readings so a further sign of this from both these readings will help placate markets over the outlook for interest rates. Of even greater importance for the interest rate outlook will be the Fed meeting on Tuesday when they will leave rates at 2%, but will give an overview of the risks they see in the economy at present. While the week is light in corporate newsflow, there will be important results out of Goldman Sachs and Morgan Stanley which will add some colour to the broader investment banking sector, while nearer to home, Bank of Ireland will be in focus as it releases a trading up-date on Wednesday. While nervousness still dominates trading patterns, we believe benign inflation data on Tuesday could help markets trade back up to top of their recent trading ranges.

TRADING IDEAS, EARNINGS & PREVIEWS

Lehman & ML & BOI Update

Over the weekend Lehman failed to find a buyer for the bank and it has entered into Chapter 11 to protect itself against its creditors. US Government officials had convinced a number of institutions to buy \$40-70Bn of lower quality assets from Lehman's and the bank would then be sold to the main bidders, Barclays and Bank of America (BOA). Both banks wanted a US government loan to support the purchase and when their request was refused, both walked away. BOA then went and did a deal with Merrill Lynch paying \$50Bn or \$29 per share for the Investment Bank. To support the market 10 large international banks have put a \$70Bn collateral line in place to provide liquidity to the market and the Fed window has been expanded to accept all investment grade assets including equities. AIG has requested funding from the Fed to bridge \$40Bn of funding they intend to raise from the sale of assets. No decision has been made on the request by the Fed yet.

BOI releases a pre-close trading statement on the 17th of September. The market will await an up-date on credit quality on the Irish and UK loan books plus any guidance on 2009. The level of detail expected by the market is significantly higher than what was provided at the AGC in July.

IPM Update

IPM presented an up-date to Dolmen Stockbrokers last week on their 1H results and on the outlook for 2009. Guidance for the remainder of the year is for Net Interest Margin (NIM) to be between a range of 98 to 100bps and for high single digit decline in profits. We see further pressures on NIM in 2009 from higher funding costs and with lower demand for investment products, 2008 EPS will fall. Our estimate for EPS in 2009 is €1.41 from €1.94 in 2007. Despite these negative pressures, the capital release from the life book is underway with €100m next year and more capital to be released in 2010 and 2011. The capital released from the life book would allow IPM to take impairment levels between 60-80bps over a four year period without lowering capital ratios below current levels.

The bank remains significantly exposed to wholesale funding and the increased cost lowers EPS, but the release of capital from the life company will give the group a cushion to manage impairments on the loan book during the current slowdown.

Fundamental view: Aryzta has now been trading for almost a month since the creation of the company from the merger of IAWS and Hiestand AG. Aryzta is a global player in the frozen bread, viennoiserie and patisserie. IAWS historically has had a strong track record for growing revenue with a CAGR of 25.1% over 5-years. Heistand has a similar track record with CAGR in revenue over the same period of 22.2%, allowing a good base for the new company to double earnings over the next 5-years.

Next catalyst: On Monday the 22nd Aryzta will release its first set of results since the creation of the company and the market is expecting 2008 EPS of €2.00, PBT of €195m and EBITDA of €295m. The strong track record of management, strong balance sheet and the diversification of earnings will help drive growth in the new firm. We retain our Buy recommendation on Aryzta with a target of €37.00 and would buy on any weakness in the run up to results below €34.

ARYZTA

Price: €34.18
P/E: 13.9x
Div: 1.2%
Target: €37.00
BUY

Thomson - Reuters

Price: £15.15
P/E: 16.1x
Div: 4.80%
Target: £13.00
Short

Fundamental View : We continue to hold a negative stance towards corporates that generate the majority of their revenue from financial services with Thomson-Reuters being a typical case in point. The company generates over half of its revenue from financial services firms and given the current downturn in financial sector we believe the company is at risk to downgrades in earnings estimates over the next year. At Thomson Reuters' most recent second quarter results in August its Markets division (exposure to financials) saw growth decline quarter on quarter to 7% from 9% in the first quarter. We expect this slowdown to pick up over the next few quarters given that we expect financial services firms to cut back on spending over the next year. The company currently trades at 16x forward earnings a significant premium to the 11x that the media sector trades on, while on an EV/EBITDA the stock also looks expensive at c. 7.5x.

Next Catalyst : Thomson Reuters is due to report third quarter results on 12/11/08. While the company did reiterate guidance at its most recent results we believe that given the difficult environment that the company operates in there is a significant possibility that it may lower earnings guidance.

BHP

Price: £15.10
P/E: 6.1x
Div: 2.40%
Target: £22.00
BUY

Fundamental View: In our last call on the mining sector from the 18th of August we noted that the sector was oversold and due a short-term bounce. At this stage we see significant value in the sector, particularly our preferred pick in the sector BHP Billiton. BHP posted a strong set of results recently, with record profits and tight cost discipline. It has operational diversity from both geographical and product range. The outlook for BHP is favourable as a result of its strong pipeline and long term support for commodity prices.

Next Catalyst: Moves in the mining sector are likely to continue to be dominated by commodity prices and sentiment. Even with significantly lower commodity prices, BHP offers attractive long term value. We maintain our 12-month price target of £22 and in the short term, we would buy on weakness at the £13.75 level or below. It is our view that the proposed BHP/Rio Tinto merger is unlikely to proceed, but any developments here will affect BHP's share price.

Ryanair

Update

Despite the fall off in oil prices over the last number of months from an all time high of \$147.27 a barrel on July 11th to trade at \$101.86 currently shares in Ryanair have traded broadly flat. While the decline in oil prices is clearly a significant positive for the company along with a number of competitors going into administration we believe that Ryanair still faces significant headwinds with regards to economic weakness. Our analysis of average fares over the last number of months shows that the company continues to lower fares in order to price competitors out of the market. This lowering of average fares along with reduced capacity will clearly have a negative effect on revenue. Given the current difficult operating environment we remain neutral on the stock. However if the share price was to drop towards the low end of its trading range between €2.30-€3.00 we would look to buy it on the weakness on a short-term basis.

Earnings Week Ahead

Mon: Kroger (2Q)

Tue: Berkeley Group (TS), Darden Restaurants (1Q), Best Buy (3Q), Adobe (3Q), Goldman Sachs (3Q)

Wed: Bank of Ireland (TS), Woolworths (Interim), Morgan Stanley (3Q), ThirdForce (1H)

Thur: Pernod Ricard (FY), Danisco (1Q), Kingfisher (Interim), Oracle (3Q)

Fri:

Economic Week Ahead

Mon: EU Labor Costs (10.00), Trichet Speaks (10.00), US Empire Manufacturing (13.30), Industrial Production (14.15)

Tues: German CPI (7.00), UK CPI (9.30), EU CPI (10.00), German ZEW (10.00), US CPI (13.30), FOMC Rate Decision (19.15)

Wed: BoE Minutes (09.30), UK Unemployment Rate (09.30), US Current Account Balance (13.30), Housing Start & Building Permits (13.30)

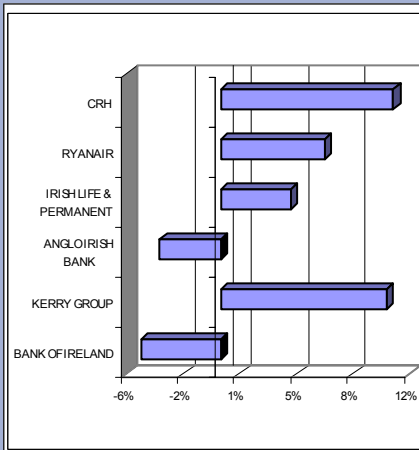
Thurs: UK Retail Sales (09.30), US Initial Claims (13.30), Philly Fed (15.00), Leading Indicators (15.00)

Fri: German Producer Prices (7.00)

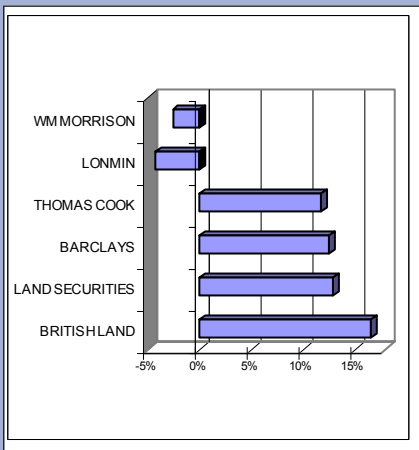
DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/
Worst Performers
08/09/08-12/09/08

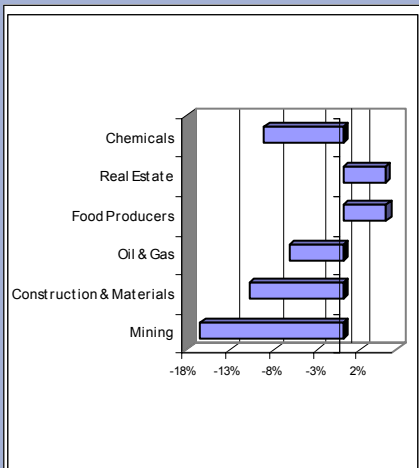
ISEQ



FTSE



Sector changes WTD



Dolmen Dozen

WEEKLY UPDATE

Company	WTD	YTD	Relevant news
AIB	0.1%	-49.6%	AIB had negative broker commentary from JPMorgan and Dresdner during the week
Aviva	7.8%	-20.7%	Aviva said that £230m will be erased from the value of its Delta Lloyd
BP	2.2%	-17.1%	Recently settled dispute with Russian partners in relation to TNK
IN&M	-9.7%	-40.9%	INM went ex-dividend during the week
E.ON	-3.0%	-24.8%	Goldman Sachs reiterated its buy rating on E.On
CRH	10.3%	-20.4%	JPMorgan ungraded CRH to overweight from equal-weight
Hewlett Packard	4.7%	-6.7%	Sanford Bernstein upgraded HP to overweight from market weight
Aryzta	-1.0%	12.9%	Ahead of group's results on 22/09/08
IL&P	4.0%	-43.1%	Recently appointed Liam O'Reilly to Board
Microsoft	7.2%	-22.8%	Research in Motion will use Microsoft's search engine on products
Paddy Power	-5.9%	-43.6%	Recently announced that full-year profits will not meet expectations
Vodafone	3.9%	-27.1%	Reports suggest that Vodafone wants to raise stake in Poland's Polkomtel

What it says in the 'Sundays'

Company	Paper	Headline
Cable & Wireless	S. Telegraph	C&W accelerates demerger plan.
IN&M.	S.Tribune	If O'Brien is going to make a bid Christmas is the time.
Aer lingus	S.Tribune	To use US crew on transatlantic flights.
Bank of Ireland	S.Tribune	BIAM fail to find joint venture partner.
ICG	S.B.Post	Fresh bid for ICG could be on the cards.
Tullow Oil	S.B.Post	Tullow have oil discovery at Kigogole 1 in Uganda.

Upcoming Corporate Visits

COMPANY

PRESENTATION DATE

ThirdFoce

19th September 2008



Last Weeks Moves

Equities	Level	Change WTD	Change YTD	Div Yield	P/E08
ISEQ	4345	1.46%	-37.52%	4.5%	7.0
FTSE 100	5386	2.78%	-16.58%	4.7%	11.1
DAX	6213	1.40%	-22.99%	3.9%	12.5
Dow Jones	11389	1.50%	-14.14%	2.9%	14.1
S&P 500	1242	0.76%	-11.34%	2.5%	25.8
Nasdaq	2249	-0.29%	-15.20%	0.9%	38.6
EuroStoxx 50	3277	2.89%	-23.32%	4.7%	11.0
Nikkei 225	12215	0.02%	-16.86%	1.7%	16.4

Trading Currencies Example

- IG Markets offer contracts on all major forex pairs.
- FX transactions with IG Markets are a special form of CFD and are cash settled.
- Standard margin is 2% of position value.
- The EUR/USD spread is 2 pips, e.g. 1.4244/1.4246.
- Guaranteed stops are available. A premium is charged (usually just 3 pips) on the opening of these "limited risk transaction" positions. For these trades the margin required is equal to the amount that would be lost if the stop were triggered.
- Mini-contracts are available (1/10th the size of the full contract).
- Trading hours usually 21.00 on Sunday to 22.00 on Friday...London time.
- For a standard EUR/USD contract the position size is €100,000, the value of 1 pip is \$10, and the margin required is 2% (so if EUR/USD is at 1.4250, the margin required for 1 contract is 2% of 1.4250 X 100,000 which is \$2,850).

Trade Example:

- EUR/USD is trading at 1.5742/1.5744 and you decide to short 5 contracts at 1.5742.
- Position value is 5 X €100,000 = €500,000 = \$787,100. Margin required is \$15,742.
- A few weeks later EUR/USD is trading at 1.4976/1.4978. You decide to cover your short by buying back 5 contracts at 1.4978.
- Your P&L on the trade is: €500,000 X 1.5742 - €500,000 X 1.4978 = \$38,200. Or using the \$10 per pip method, your P&L on the trade is \$10

Commodities

	Current	Change YTD
Crude Oil	\$97.98	6.6%
Gold spot	\$778.20	-6.7%

Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.4279	-2.12%	1.45-1.50
EUR-GBP	0.79351	7.79%	0.74-0.78
EUR-JPY	149.32	-8.42%	165.0

GDP Growth

	2007	2008 (est)
Ireland	5.00%	1.00%
Euro Zone	2.50%	1.50%
UK	3.10%	1.00%

Central Bank Interest Rates

	Current	3 month	Year End (est)
Euro Zone	4.25%	4.96%	4.25%
UK	5.00%	5.81%	4.75%
US	2.00%	2.79%	2.00%

Credit Market Summary

After much speculation and waiting the Federal Reserve finally stepped in and bailed out Fannie Mae and Freddie Mac. Credit markets initially reacted jubilantly, with financial spreads trading 12bps tighter at one point. The market sobered up quite quickly with the realization that the bailout would trigger a technical default and the settlement of over a trillion dollars of CDS insurance on the two GSE's. Although the recovery rate will likely be very close to par, it will still require significant transfers of funds and has shaken credit markets. As if that was not enough for one week, the news that KDB were no longer in negotiations with Lehmans to take an equity stake has sent its share price plummeting and its CDS spreads skyward. Looking forward credit markets are likely to be volatile, even more so than usual, with news on Lehmans likely to dominate sentiment.

Credit Sector Movements

Irish Banks: wider in the sector – Irish banks followed the herd last week with significant widening. AIB widened 27 bps to 222, Bank of Ireland widened 24bps to 272, and Irish Life widened 16bps to 271. Anglo broke trend, spreads were flat on the week, though still far wider than its peers about the 320 level.

Interest Rate Outlook

Main focus from an interest point of view is the Fed on Tuesday evening. No rate change is expected, but the statement afterwards will be examined for a view on the direction of the next rate move. On Weds Bank of England releases the minutes from the meeting with the expectation of one voting in favour of rate cut and the remainder on hold.

Currency Comment

EUR/GBP

The currency pair continued in a tight range during the week and GBP got a slight gain over the EUR on the strength of the dollar, but remained close to its recent range. The UK inflation report for August will result in another letter to be issued by the BOE Governor to the Chancellor. The market is expecting 4.9%, but the possibility is for this figure to surprise on the negative with 5% a strong possibility. This will be negative for the currency, but a move above 0.82 is unlikely with 0.81 a target on those days as the data will disappoint.

EUR/USD

The dollar continued to strengthen against the EUR with the 1.40 level breached on Wednesday and then went through the 1.39 level the next day. This rally was on the back of the bailout of Fannie and Freddie plus the pressures on the financial system from Lehman Brothers. Economic data is light next week with the Philly Fed released on Thursday providing an indication on the state of manufacturing in the US economy. The market is expecting a stronger number than last month, but the trend will be for further contraction. The outlook for the currency pair for the week will be very dependent on the Lehman story, but the move has been so rapid and serve a spring back to 1.45 or closer to 1.50 is possible this week.



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