



We indicated here last week that the real test of the ability for equity markets to move higher would be the Non-Farm Payroll data and that a figure in excess of 300,000 could be problematic. Unfortunately our caution was justified with the 533,000 number the worst monthly reading since the 602,000 number in December 1974 when the global economy was in the middle of an oil induced recession. While oil is not the reason for the current economic downturn the situation is nonetheless extremely serious. The multitude of stimulus packages being proposed and the extraordinary measures being taken by global central banks to cut interest rates are having minimal effect with the root cause of the current crisis, US housing, still in decline. The effect of the housing market decline cannot be emphasised enough as not only has it derailed the banking sector, it has severely damaged one of the key drivers of US growth, the consumer. Having used their properties as personal ATM machines to fund their spending, the consumer is now crimped by negative equity and the prospect of no job. The turning point for equity markets will only arrive when the housing and consumer sectors gain some traction and in an effort to achieve this goal the authorities will continue to cut rates. Against such a background and in a week that has US Retail Sales data as the main economic release, equity markets will continue to remain volatile within their recent trading ranges.

TRADING IDEAS, EARNINGS & PREVIEWS

Last week saw historical moves in interest rates in the UK with interest rates cut by 1.00% leaving base rates at 1950's lows of 2.00%. In the Euro-Zone the ECB were less aggressive than the Bank of England, but still cut by 0.75% leaving base rates at 2.50%.

Growth estimates for both economic areas in 2009 have constantly been revised downward with the ECB's own estimates now at -0.5% from +1.2% in September. In the UK, the Government estimate a fall in GDP of 1.25% next year with market estimates for negative growth in 2010 also. Unemployment levels in the UK and Europe will increase from the low levels over the past number of years as the reduction in balance sheets underway in banks and companies affects workers. The process of deleveraging balance sheets will not only affect companies, consumers will also have to undertake this process as they repay the cheap credit borrowed over the last number of years that financed their consumption.

In the UK, the current rate cycle isn't complete, but the next rate cuts will be towards the end of Q1 after the 300bps in the last 3-months. Interest rates will reach the bottom at 1.50% as the BOE help ease the worst effects of the current recession. The fiscal stimulus package introduced by the UK Government will help boost the economy, but the future tax hikes that will pay for the increased government borrowing means interest rate will remain at 1.50% out to 2011 to foster growth in the economy as taxes increase.

The ECB will now pause and see the effect of the rate cuts over the last 3-months and determine if the rate cuts are been passed on by banks, but Euro-Zone interest rates will fall as low as 1.75% by June 2009 and will remain at these levels for 2009 and 2010. The level of total Euro-Zone Government borrowing to GDP will not be as high as in the UK implying lower tax increases and less need to support the consumer by keeping rates low. Once the ECB see inflationary pressures over the course of 2010, interest rates will be increased from historic lows.

“Money for Nothing”

C&C

Price: €1.06
P/E: 5.5x
Div: 11.5%
Target: €2.1

Buy

Fundamental View : Following on from the announcement by C&C on Monday regarding the appointment of a new CEO, C&C have set a date for an EGM to approve the proposed compensation scheme, on the 18th of December. The company intends to issue 16 million shares under the scheme, 12.8 million to the new executives, with the remainder available to new and existing executives. The shares are subject to vesting conditions, which accelerate in the case of a takeover. In the event of a successful bid of €2.50 or greater occurring in twelve months time, two-thirds of the participant's allotment would be vested. A successful bid made above €2.50 in two and three years time, would yield a five-sixths and full vesting, respectively. In addition, dividends due to shares in the scheme are waived until they have been fully vested and paid for. As a result, it would be in the interest of the new management to reduce dividend payments by the company.

Next Catalyst : The next potential positive catalyst is likely to relate to the current strategic review, the results of which will probably be released early in the new year. Any changes implemented by new management will take time to take affect, and won't mitigate the expected poor industry data in the coming months. Sterling weakness is also a negative for C&C.

BP

Price: £5.04
P/E: 4.8x
Div: 6.2%
Target: £7.00

Buy

Fundamental View : Energy prices continue to weaken as the global economies slow down. Thus far, OPEC cuts in production have lagged behind the sharp declines in demand. This has led to significant builds in inventories over the last few months. Weak energy prices are likely to persist over the coming months. Looking past this, the oil & gas sector, and our preferred pick BP, offers attractive value due to the long term fundamentals in the sector. We expect the integrated majors to emerge stronger from the current climate, due to healthy balance sheets and strong cash flows. Among the exploration sub-sector of the oil and gas industry, our preferred pick is Tullow. However we expect the integrated majors to outperform the exploration sub-sector.

Next Catalyst : BP reports its fourth quarter results on the 3rd of February, while Tullow is expected to release its full year results on the 11th of March. Tullow is also entering a key phase in its exploratory operations, with numerous drilling results over the coming months.

Thomson Reuters

Price: £13.79
P/E: 4.8x
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 its markets division. 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. Citigroup recently announced it was due to cut 50,000 jobs an indication that the loss of jobs across the industry could be worse. At 11.5x forward earnings the company looks expensive in the current environment when compared to peers McGraw-Hill and Reed Elsevier. **Note :** with all short positions we recommend using a stop loss.

Next Catalyst : Thomson Reuters is due to report fourth quarter earnings on 24/02/09 and we expect the company to issue cautious guidance on 2009.

Wolseley

Price: £3.35
P/E: 8.5x
Div: 3%
Target: £2.40

Sell

Fundamental View : Shares in Wolseley traded flat last week despite the Bank of England lowering interest rates by 1% to 2% and the ECB lowering interest rates by 0.75% to 2.50%. Given that all of Wolseley's exposure is to slowing European and US economies we believe that shares in the group could trade lower in the short to medium term as the group's valuation is adjusted downwards. The group currently trades at a premium to its sector at 7x EV/EBITDA when compared to its sector average of 6x and CRH of 5x. We believe this premium is unwarranted and set a share price of 240p based on 6x 2009 forecasted EBITDA of £650m. **Note :** with all short positions we recommend using a stop loss.

Next Catalyst : Wolseley is due issue a trading update on 26/01/08.

Earnings Week Ahead

- Mon:** National Semiconductor (SALES), Air Berlin (TRAFFIC), Whitbread (Q2), McDonalds Corp (SALES).
- Tues:** Ashtead Group (Q2), Axa SA (S/holders), Deutsche Lufthansa (Investor).
- Wed:** JJB Sports (Interim), Kroger (Q2), Autozone (Q1).
- Thurs:** HMV Group (Interim).
- Fri:** HBOS Plc (Meeting).

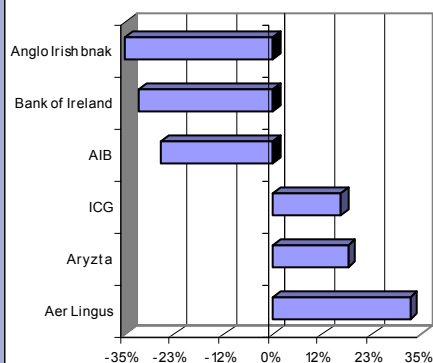
Economic Week Ahead

- Mon:** UK PPI (09:30), German Industrial Production (11:00).
- Tues:** UK RICS House Price Balance (00:00:1), Ger Trade Balance (07:00), Ger Current Account (07:00), Ger Imports/Exports (07:00), UK Trade (09:30), UK Ind. Prod. (09:30), US Pending Home Sales (15:00).
- Wed:** US MBA Mortgage Applications (12:00), US Monthly Budget (19:00), US Wholesale Inventories (15:00).
- Thurs:** ECB Monthly Report (09:00), US Trade Bal.(13:30), Irl CPI (11:00), US Initial Jobless Claims (13:30), US Import Price Index (13:30).
- Fri:** EU Ind. Prod.(10:00), US PPI (13:30), US Retail Sales (13:30), US Michigan Confid.Survey (15:00), US Business Inventories (15:00).

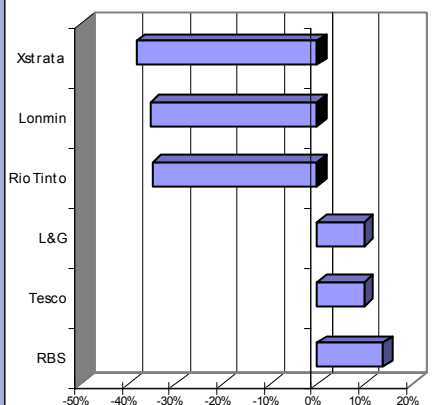
DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/
Worst Performers
01/12/08-05/12/08

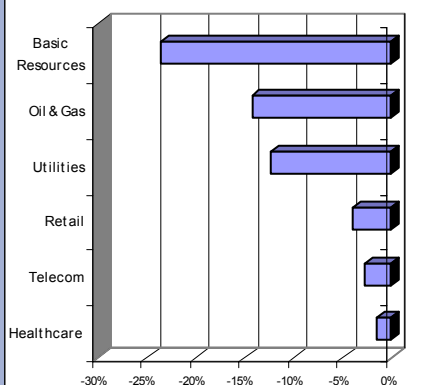
ISEQ



FTSE



Sector changes WTD



Dolmen Dozen

WEEKLY UPDATE

Company	WTD	YTD	Relevant news
Aryzta	17.7%	-12.2%	In its interim management statement, Aryzta say sales rose by 32% in the first quarter.
BP	-9.3%	-22.3%	BP and BG agree North Sea asset swap.
CRH	2.1%	-27.1%	CRH completes the renewal and extension of €1.5bn of its banking facilities.
E.ON	-14.6%	-51.6%	E.ON's chief executive says financial crisis won't impact sale of German transmission power grid sale.
Hewlett-Packard	-8.6%	-36.1%	Hewlett-Packard plans to further integrate EDS .
IL&P	-3.5%	-86.3%	Permanent TSB says may not pass on next ECB cuts.
IN&M	2.2%	-80.2%	IN&M announce it is re-locating its London operations to Kensington in west London.
J&J	-4.4%	-16.0%	Johnson & Johnson to acquire Israel's Omrix Biopharmaceuticals for \$27 a share or \$465m.
JPMorgan	-0.7%	-28.0%	JPMorgan sells \$1.25bn in bonds that will be guaranteed by the Federal Deposit Insurance Corp.
Microsoft	-7.6%	-47.5%	Speculation over Microsoft and a \$20bn online search deal with Yahoo.
Paddy Power	-4.5%	-41.2%	Irish government makes some favourable amendments to bookmaker tax.
Vodafone	-0.5%	-32.6%	Vodafone plans to sell 10 year benchmark sterling bond.

What it says in the 'Sundays'

Company	Paper	Headline
Ryanair	Sunday Tribune	Ministers have 'open mind' about Ryanair bid
Irish Banks	Sunday Times	Probe into assets of six banks
Aer Lingus	Sunday Times	Meeting angers Aer Lingus
Aer Lingus	S. Business Post	Aer Lingus looks to EC to block Ryanair takeover
Anglo Irish Bank	S. Independent	Bankers living in lala land

Corporate Visits

COMPANY

PRESENTATION DATE

Anglo Irish Bank

5th December



Last Weeks Moves

Equities	Level	Change WTD	Change YTD	Div Yield	P/E08
ISEQ	2481	-2.2%	-64.2%	6.7%	5.9
FTSE 100	4049	-5.6%	-37.3%	6.2%	7.6
DAX	4381	-6.8%	-45.7%	5.5%	11.1
Dow Jones	8635	-2.2%	-34.9%	3.6%	10.4
S&P 500	876	-2.2%	-40.3%	3.3%	18.9
Nasdaq	1509	-1.7%	-43.1%	1.4%	30.0
EuroStoxx 50	1993	-7.7%	-45.9%	6.1%	8.6
Nikkei 225	7917	-7.0%	-48.3%	2.7%	12.1

Sector	Weekly move%	YTD move %
Healthcare	-1.51	-17.82
Telecom	-2.77	-36.54
Retail	-4.01	-45.23
Autos	-4.17	-45.93
Insurance	-5.13	-50.21
Personal & Household Goods	-5.45	-42.21
Food&Bev	-6.3	-31.91
Construction & Materials	-7.02	-52.44
Media	-7.24	-43.24
Technology	-7.34	-52.08
Travel & Leisure	-8.75	-48.79
Industrials	-9.29	-52.33
Financial Services	-9.73	-56.83
Chemicals	-10.88	-46.49
Utilities	-12.32	-45.60
Oil & Gas	-14.30	-43.16
Basic Resources	-23.06	-68.73

Commodities

	Current	Change YTD
Crude Oil	\$40.81	-57.4%
Gold spot	\$756.45	-9.3%

Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.272	-12.83%	1.45-1.50
EUR-GBP	0.866	17.85%	0.74-0.78
EUR-JPY	118.18	-27.45%	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	2.50%	3.56%	2.50%
UK	2.00%	3.38%	2.00%
US	1.00%	2.19%	1.00%

Credit Market Summary

Last week saw the CEO's of the Big 3 US automakers testifying before Congress. Between them, they are looking for \$34bn in federal loans, with the bulk of the money going to GM. All of the automakers saw steep sales declines, November sales were down over 30% on the previous year. GM's management believes it will run out of money before the year end without government assistance. As expected, Bank of America shareholders approved the Merrill Lynch merger. Primary market issuance continued unabated. EDF, Hewlett-Packard and Daimler all issued new paper. JP Morgan, Goldman Sachs and Anglo Irish Bank were issuers of government bank paper. Looking forward, markets are unlikely to get an early Christmas present from Goldman Sachs and Morgan Stanley, when they report in the week before Christmas. The results cover some of the most volatile trading sessions of the last year as well as the failure of Lehmans.

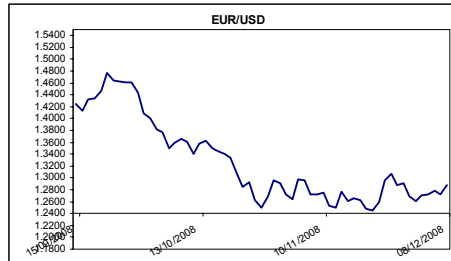
Credit Sector Movements

Retail- Spreads on retailers widened noticeably during the week. Cyclical retailers fared the worse, widening substantially, while, non-cyclical retailers performed relatively better. DSG International spreads widened over 300bps to just 2,000bps, indicating a high level of concern for the electronics group. Meanwhile spreads on Tesco widened 40bps to 185bps, and Sainsbury spreads moved from 126bps to 166bps.

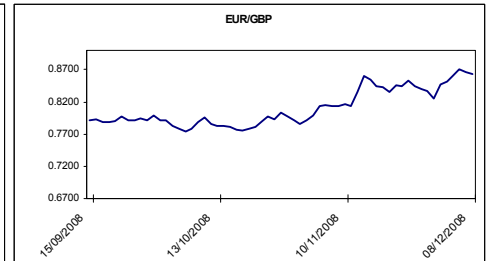
Interest Rate Outlook

Last week both the ECB and Bank of England lowered interest rates dramatically by 0.75% and 1% to 2.5% and 2%, respectively. We continue to expect both central banks to continuing lowering interest rates over the next few months with the ECB lowering rates to 1.75% and Bank of England to 1.50% by the first half of 2009. Focus next week will be in Europe and the US with German business confidence in the form of ZEW due on Tuesday, while retail sales in the US on Friday will also be closely watched. Further deterioration in both figures is expected and will strengthen calls for further interest rate cuts.

Currency Comment



The Euro strengthened last week despite the ECB lowering interest rates by a larger amount than expected. The market took the view that the ECB's actions may help stave off a continuing deterioration in European economic activity. This week may see a rebound in the \$ through the latter half of the week if retail sales for November, which include the Thanksgiving period, come in stronger than expected.



Sterling remained under pressure last week as the market expects the Bank of England to have to make further aggressive rate cuts over the coming months in a bid to stabilise the rapidly slowing economy. Sterling is likely to remain under pressure this week with industrial production figures from the UK on Tuesday likely to show a continuing fall off in activity.



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