



Equity markets moved close to their July lows last week as a string of disappointing economic readings intensified concerns about the state of the global economy and about a recurring theme of ours, earnings expectations. In the absence of corporate data releases the focus was on the central banks and economic data releases. Both the ECB and Bank of England held rates as expected, however any hopes of an imminent cut in euro-zone rates was ruled out as the ECB highlight its concerns about on-going inflationary pressures and the potential for wage inflation. This disappointed equity markets and the mood was not helped by further negative data out of Germany which showed manufacturing output contracting significantly. The US non-farm payroll data which was the critical data release did nothing to help equity market sentiment as the unemployment rate jumped to 6.1%. Probably the most telling move on the week was by the dollar which rallied a further 3% on the week against the euro and clearly highlighted concerns about Europe and the UK. For equity markets all the above is not good news. A strong dollar and a weak global economy remove the two main drivers of US corporate profits year-to-date, while slower global growth and rising unemployment crimps corporate profitability outside of the US. The main focus this week will be on US Retail Sales (Fri) to see if the US consumer can provide some sign of support for the markets. Any sign of consumer weakness risks a retest of the July lows for equity markets.

TRADING IDEAS, EARNINGS & PREVIEWS

HBOS

Update

Since the start of last week HBOS has fallen 11% with the removal of HBOS from EuroStoxx 50 and comments on the funding profile of the bank putting the shares under pressure. HBOS funding profile is weighted towards wholesale funding with a loan to deposit ratio of 1.77x. Management have stated their aim is to reduce this ratio to more manageable levels in the medium term and will examine any opportunities to sell off "low deposit, high loan" parts of the group (Australia or Ireland).

With a core Tier 1 ratio of 6.5% since the rights issue, the bank has a strong capital base to work through the current economic downturn in the UK. Some negatives for the bank is its reliance on wholesale funding and the concentration of the loan book in the UK through a 20% market share of the UK mortgage market. UK housing market continues to slow and the economy is at risk to face negative growth by Q3, leaving HBOS facing a number of pressures, but with a Tangible Net Asset Value of £4.00 a large amount of bad news is already priced into the stock.

Fannie & Freddie with Preview of US Investment Banks

On Sunday US Treasury Secretary Paulson announced both Fannie Mae and Freddie Mac are in "Conservatorship". This involves the US government agreeing to inject up to \$100Bn capital into each and providing unlimited liquidity facilities to the end of 2009. The CEO's of each have been replaced and dividends on common equity are suspended. The US government will buy and hold mortgage backed securities issued by Fannie and Freddie and a \$5Bn purchase of such assets will be completed in the next few days. The boost the announcement has given the market will help US Investment banks and three are reporting results next week, Goldman Sachs reports on the 16th, Morgan Stanley on the 17th and Lehman Brothers on the 18th. Goldman Sachs has had the lowest level of write downs compared to its peers. The market is expecting 3Q EPS of \$2.40, lower than the previous two quarters due to slowing growth in Europe and a deteriorating credit environment. Morgan Stanley has taken significant write-downs during 2008 and the market is expecting \$1.5Bn further write downs and EPS for Q3 of \$0.80. Lehman Brothers has been trying to raise financing from Korean investors to strengthen its balance sheet after \$8.2Bn write-downs. Market consensus is for a further \$3Bn of write-downs resulting in a negative EPS of \$2.68 for Q3.

ECB Collateral Changes

The ECB left rates on hold on Thursday as expected, but they introduced changes to the collateral they will accept from banks in return for loans from the ECB starting in February 2009. The main changes relate to haircuts on Asset Backed Securities (ABS) with an increase of up to 16.4% on more recent issues of ABS and on senior unsecured bank bonds the haircut has increased from 1.5% to 6.5%. These are only minor changes to the overall system with the aim in the long-run to move banks in the Euro-Zone away from obtaining cash from the ECB and obtain it from inter-bank markets. Spain and Ireland are large users of the ECB facility with Spanish banks accounting for 10.8% of borrowings from the ECB. Irish data is skewed due to foreign banks in the IFSC obtaining funding from the ECB through the Central Bank of Ireland, but Irish banks use of ECB's borrowing would be lower than Spanish banks and involves much lower levels of ABS collateral. The real impact of the changes on European banks is that it will reduce the level of cheap funding available and thus will have to be replaced with more expensive customer deposits or wholesale funding putting further pressure on earnings in banks in 2009.

Diageo

Price: £10.03
P/E: 14.8x
Div: 3.33%
Target : £11.50

BUY

Fundamental View : Diageo released strong full year results in August Diageo is the leader in the premium brand alcohol sector. Diageo released full year results issued in August, as expected the company reported strong results with robust demand for its premium spirits despite global consumer weakness. Diageo are guiding for 7-9% earnings growth for the current year. Given the strength of its position as the leader in the premium brand alcohol market its defensive characteristics and its ability to pass on cost increases, we are comfortable recommending Diageo for long term portfolios.

Next Catalyst : The next catalyst for Diageo is likely to be peer results, Pernod-Ricard is expected to release its results on the 18th of September. Additionally the current Sterling weakness, Diageo due to its UK cost base and non-UK revenue streams, as a result any further decline in the British Pound should be positive for earnings.

Chart View : Stock recently broke out on a dominating downtrend. Subsequent price consolidation provides a good entry level to go long. However, low volume points to volatile trading in the short term.

BP

Update

This week saw a long awaited breakthrough in the conflict between BP and Russian partners AAR over control of their TNK-BP. While the agreement is still only preliminary, it represents a significant improvement in the outlook for TNK-BP. BP appointed CEO, Robert Dudley, will step down by the end of the year, to be replaced by a Russian speaking candidate, to be approved by both parties. Both AAR and BP will lose a representative from the board of directors, to be replaced by independent directors. The new CEO will have a primary goal of increasing the market value of the company. There are still some major obstacles to be negotiated between the two sides, particularly the issues of capex spending and dividend payouts. These are critical issues and will determine the development of TNK-BP, and BP in the future. The agreement reached also makes provisions for an IPO of the company in 12-18 months time.

Earnings Week Ahead

Mon: Associated British Foods (TS)
Tue: Redrow (FY), McDonalds (Monthly Sales), Lufthansa (Traffic)
Wed: Barratt Developments (FY), Kesa Electricals (Q1), Next (H1)
Thur: Fyffes (H1), Home Retail (TS), William Morrison (H1), Iberia (Traffic)
Fri: French Connection (H1)

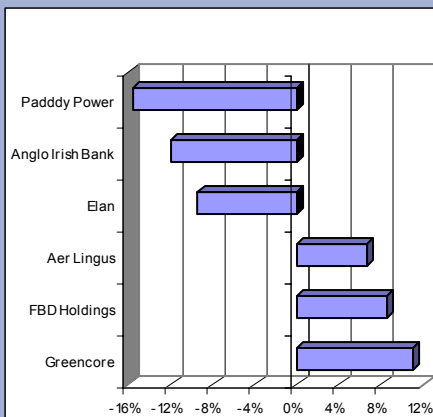
Economic Week Ahead

Mon: UK PPI (09.30)
Tues: UK Industrial & Manufacturing Production (09.30), US Pending Home Sales (15.00)
Wed: Trichet due to speak (08.00)
Thurs: US Jobless Claims, Import Prices, Trade Balance (13.30)
Fri: EC Industrial Production (10.00), US PPI & Retail Sales (13.30), Michigan Confidence (15.00)

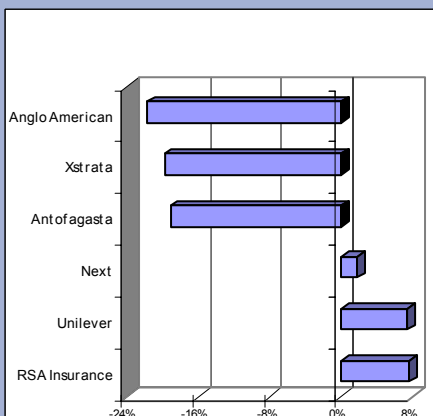
DOLMEN STOCKBROKERS Traders Update

Last Weeks Best/
Worst Performers
01/09/08-05/09/08

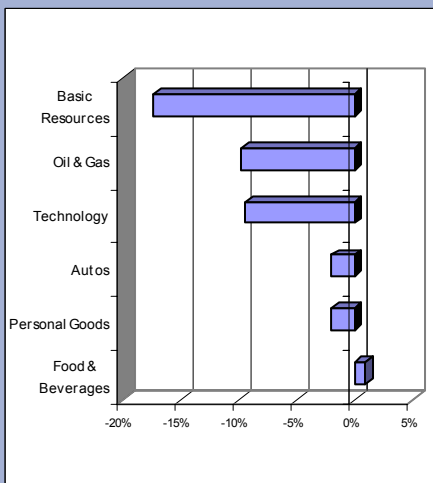
ISEQ



FTSE



Sector changes WTD



Dolmen Dozen

WEEKLY UPDATE

Company	WTD	YTD	Relevant news
AIB	-9.3%	-49.7%	AIB cuts its 2 year fixed rate mortgages by 55bps to 5.2% and its 3 year fixed by 25bps to 5.2%.
Aviva	-3.9%	-26.5%	Aviva announces the appointment of Jean-Pierre Menanteau as CEO of Aviva France.
BP	-5.7%	-18.9%	BP and Alfa Access-Renova agree in principle to an overhaul of the governance structure at TNK-BP.
IN&M	4.0%	-34.6%	IN&M announce an interim pretax profit of €96.6m for the six months to June 30.
E.ON	-4.9%	-20.9%	E.ON to increase gas prices for residential customers by 26% and power prices by 16%.
CRH	-3.3%	-27.8%	CRH announce Henry Morris as new Managing Director of its European materials division
Hewlett Packard	-4.6%	-11.3%	Lehman and JP Morgan both reinstate Hewlett-Packard with over weight rating.
Aryzta	3.5%	3.4%	A US study indicates Direct Store Delivery categories are the fastest growing in US grocery retail.
IL&P	1.6%	-45.3%	IL&P confirms it has no need to approach shareholders for extra capital.
Microsoft	-5.1%	-27.2%	Microsoft plans to cut the US prices of its Xbox 360 video game machine.
Paddy Power	-15.5%	-40.0%	Paddy Power cuts its profit guidance for 2008 due to deteriorating economic conditions in Ireland.
Vodafone	-6.6%	-29.9%	Vodafone agrees to buy a major stake in Australian mobile phone retailer Crazy John's.

What it says in the 'Sundays'

Company	Paper	Headline
Grafton	S.Business Post	Grafton to shed 1,000 jobs in huge shake-up.
Govt. Bonds	S.Business Post	German bonds will fall flat, says German bank
Irish Banks	S.Tribune	S&P: Irish Banks not as sound as rating figures suggest
CRH	S.Tribune	Finance costs 80% higher
Lehman	S.Times	Possible splitting into 2 separately listed companies.

Upcoming Corporate Visits

COMPANY

PRESENTATION DATE

Irish Life & Permanent	10th September
Paddy Power	11th September



Last Weeks Moves

Equities	Level	Change WTD	Change YTD	Div Yield	P/E08
ISEQ	4282	-4.7%	-38.2%	4.5%	7.0
FTSE 100	5241	-7.0%	-18.8%	4.7%	11.1
DAX	6127	-4.6%	-24.0%	3.9%	12.5
Dow Jones	11221	-2.8%	-15.4%	2.9%	14.1
S&P 500	1242	-3.2%	-15.4%	2.5%	25.8
Nasdaq	2256	-4.7%	-14.9%	0.9%	38.6
EuroStoxx 50	2754	-5.5%	-25.2%	4.7%	11.0
Nikkei 225	12212	-6.6%	-20.2%	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 X (1.5742-1.4978)/0.001 X 5 = \$38,200.

Commodities

	Current	Change YTD
Crude Oil	\$106.23	+10.9%
Gold spot	\$797.27	-4.4%

Exchange Rates

	Current	YTD Change	Year End (est)
EUR-USD	1.426	-2.3%	1.45-1.50
EUR-GBP	0.808	+10.0%	0.74-0.78
EUR-JPY	152.71	-6.3%	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

Last weeks' meeting of the ECB was the main driver of credit markets. While interest rates were left unchanged, the ECB effectively tightened liquidity by increasing the discount applicable to securities held as collateral by the ECB for loans to commercial banks. The move caused credit indices to widen noticeably. For the week ahead, markets are likely to be dominated by the US government intervention of Fannie Mae and Freddie Mac. Credit spreads are expected to tighten significantly in the short term. However, looking further out, risk of further widening remains, credit markets remain congested and companies are struggling with economic weakness and an inflationary environment.

Credit Sector Movements

Irish Banks: wider in the sector – Last week saw significant widening in the sector following the ECB's new criteria on collateral. Bank of Ireland spreads have hit a new high of 248bps after jumping 49bps last week. Spreads on AIB and Irish Life are back up to the levels seen during at the March highs, trading at 195 and 255 after jumping 37bps and 18bps respectively

Autos: wider in the sector – Spreads for the Auto sector widened over the week, mainly on overall market sentiment BMW fared the worst, widening 6bps to 120bps. Daimler widened 4bps to 120bps, while Renault widened 3bps to 190bps

Interest Rate Outlook

Last week the BOE and ECB left rates on hold with Trichet commenting on the importance of avoiding second round effects and that the ECB has a neutral basis. Industrial production for the Euro-Zone is due on Friday and will show how weak the Euro-Zone economy is in the second half of the year especially after the weak German industrial production numbers last Friday, but after the comments by Trichet last week chances of early rate cuts are remote.

Currency Comment

EUR/GBP

Sterling weakness continued last week following on from concerns over the state of the UK economy. Market moving data for the week ahead is limited with Retail sales and manufacturing data on Tuesday the only releases of significance. With both set of figures set to continue their previous poor showing, any possibility of EUR/GBP falling below 0.80 this week is limited and the currency pair will continue in a tight range between 0.80 and 0.82 for the week.

EUR/USD

Last week saw the USD continue to strengthen against the Euro even after the worse than expected unemployment rate on Friday. For this week Retail Sales and University of Michigan consumer sentiment on Friday are the main releases. At the moment the market is focusing on any weak Euro data and the dollar is beginning to regain some of its safe haven reputation resulting in the recent gains. The dollar has strengthened rapidly over the past number of weeks and a pull back to the 1.50 level is likely in the short-term, but the recent moves are a lead indicator for dollar strength in 2009.



Disclosures

This report has been prepared by Dolmen Stockbrokers ('Dolmen') for information purposes only 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 issuers(s) in advance of publication.

Past performance is not necessarily a guide to future returns. The value of investments and the income from them can fall as well as rise. 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. Investors may not necessarily recoup the full value of their original investment. Investors should be aware that forwarding looking statements and forecasts may not be realised.

This report 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.

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 Limited is a member firm of the Irish Stock Exchange and the London Stock Exchange.

Conflicts of Interest & Share Ownership Policy

Dolmen, its employees, directors or related companies, may have a shareholding in the securities (or related investments/ derivatives) of certain companies covered in this report, or may provide/ solicit investment banking or other services to/ from them.

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 issuers they publish research, views and recommendations on and accordingly analysts involved in the production of this report may own stocks in a company covered in it. Any own account staff trading is undertaken in strict compliance with Dolmen's own account internal rules and therefore Dolmen is satisfied that the impartiality of research, views and recommendations remains assured.

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. Stuart Draper, David Dunk and Stephen Taylor are responsible for the production of this report. Stuart Draper is Head of Research and David Dunk & Stephen Taylor 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.



DOLMEN SECURITIES LTD

75 St. Stephen's Green, Dublin 2, Ireland. Tel : +353 1 633 3800/1890 400 300
45 South Mall, Cork, Ireland Tel : +353 21 422 2122
Theatre Court, Mallow St, Limerick, Ireland. Tel : +353 61 436 500

E-mail: info@dsl.ie
E-mail: cork@dsl.ie
E-mail: Limerick@dsl.ie