

DOLMEN STOCKBROKERS **WEEKLY OUTLOOK**

08.01.2007



Dolmen Stockbrokers

Section

1 Market View

US dollar : Despite last week's US dollar strength, helped by better than expected non farm payroll data, we expect further dollar weakness in Q1 2007 as expectations further increase concerning a US interest rate cut in Q2 2007. Our view is that the unsustainably mild December weather in the US contributed to the stronger than expected December payroll data.

Interest rates : In addition to the Fed keeping rates on hold until Q2 2007, we also do not expect any move from the ECB until March 2007, as it continues to monitor the strength of the European economic recovery in the face of a stronger Euro exchange rate versus the US dollar.

Oil price : Despite last week's oil price correction, to which the unsustainably mild recent US weather also contributed, our view remains that continued strong demand growth from China and India particularly, as well as more normal winter temperatures, will drive a higher oil price from current levels during the remainder of Q1 2007.

Equity markets : Given the above US dollar view, we continue to favour European and UK equities, which despite slightly lower earnings growth in 2007, continue to offer significant upside potential in line with their 2007 earnings growth.

Current Trading ideas

Trading ideas	
<p>Tullow Oil Last rec @ 370p Current: 370p Target: 420p Stop-loss: 348p</p>	<p>The share price of Tullow Oil has fallen by c.13% over the past 2 months, driven primarily by the c.11% fall in the oil price over the past 2 weeks. This has created an attractive entry level ahead of the group's 2006 year end trading statement due to be released on Wednesday 3 weeks, 31st January. This trading statement should contain further information on the reserves potential of the first discoveries of Tullow's recent encouraging Ugandan drilling program. We are forecasting that Tullow will report 52% earnings per share growth to 26p for 2006, and further 15% growth to 30p for 2007. Such continued strong earnings growth warrants at least a sector average rating of 14x 2007 eps, and so our new 12 month price target of £4.20 (14% upside) is based on 14x 2007 eps of 30p. With attractive upside now to this price target, we upgrade our recommendation again from NEUTRAL to BUY.</p>
<p>BP Last rec @ 568p Current: 557p Target: 660p Stop-loss: 540p</p>	<p>Tomorrow, 9th January, BP will release a trading statement for the 3 months ended 31/12/06. The statement should confirm a significantly stronger production performance in Q4 2006, as Alaska Prudhoe Bay production was restored, and as production was less disrupted by maintenance work than it was in Q3 2006. BP has a large number of new production start-ups coming on stream over the next 12 months, which should result in overall production growth of c.5% being achieved in 2007. Our current 12 month price target for BP of £6.60 (18% upside) is based on 11x 2007 eps of 60p, and BP will also pay a dividend yield of c.3.5% for waiting for this upside to be achieved. BP's ongoing share buyback programme should also continue to support the share price at current levels : BUY.</p>
<p>GSK Last rec @ 1345p Current: 1380p Target: 1500p Stop-loss: 1300p</p>	<p>In a month's time, on 8th February, GlaxoSmithKline will announce its results for the 3 months ended 31/12/06. These results should show full year 2006 earnings per share growth of 15% to 95p, which could act as a catalyst to spark some recovery in the Glaxo share price. With US approval for Tykerb (breast cancer) on course for March 2007, and a US filing for Cervarix (cervical cancer) on course for April 2007, the results' release could also help improve sentiment towards the group's pipeline. At 13.9x consensus 2007 eps of £1, the shares are still trading at an 11% discount to the current EU pharma sector average of 15.6x 2007 eps, and the share price will also continue to receive some support from the company's ongoing share buyback programme : BUY.</p>
<p>BHP Billiton Last rec @ 931p Current: 884p Target: 1100p Stop-loss: 830p</p>	<p>On Thursday fortnight, 25th January, BHP Billiton will release a trading statement for the 3 months ended 31/12/06. The statement should confirm that the group remains on target to achieve current year earnings growth of at least 60%. For the 12 months ending 30/06/07, BHP expects to expand its production of iron ore, copper, coking coal, oil and nickel by between 6% and 12%, and so as a result, does not require further commodity price increases to generate continued strong earnings growth. Over the past 6 years, the group has traded in a range of between 10x and 19x current year eps. As a result, our view is that 12x is a fair multiple, particularly given the strong earnings growth explained above, and so our current 12 month price target of £11 (24% upside) is based on 12x current year eps of £0.92: BUY.</p>

The Week-End Papers

Paper	Company	Comment
Sunday Times	Elan	Blokhams say "speculative Buy below €10.50", Goodbody say "add"
Sunday Times	Smurfit Kappa	May float again as early as this quarter.
Sunday Times	Waterford Wedgewood	Share watch is cautious about good xmas sales, saying, "xmas comes but once a year"
Sunday Times	Tullow Oil	Recent buying from Hardman Resources shareholders is a mark of confidence in Aidan Heavey down under.
Sunday Times	Paddy Power	A good xmas for the bookies. Dresdner backs the stock with a €16.50 target, and Davy have earnings growth for 2007 at 27%
Sunday Independent	CRH	House price worries hit cement barons
SBP	CRH	BAR keeps getting higher for CRH
SBP	Banks	Bank report points investors to 'large-cap' equities in 2007
Sunday Tribune	Kingspan	may have paid c. €20m for two UK homebuilders
Sunday Tribune	IAWS	planning to ramp up roll out Tim Hortons products in Ireland.

Economic Calendar

Date	Region	Event	Period	Consensus	Prior
8/1/2007	US	Fed's Kohn Speaks on Economic Outlook in Atlanta			
1/10/2007	UK	Nationwide Consumer Confidence	DEC	88	89
1/10/2007	US	US U.S. Companies Expected to Report Earnings Jan 10			
1/10/2007	UK	Bank of England's Monetary Policy Committee Meets			
1/10/2007	US	Trade Balance	NOV	-\$59.5B	-\$58.9B
1/11/2007	EC	Euro-Zone GDP s.a. (QoQ)	3Q F	0.50%	0.50%
1/11/2007	EC	Euro-Zone GDP s.a. (YoY)	3Q F	2.70%	2.70%
1/11/2007	UK	BOE ANNOUNCES RATES	Jan-11	5.00%	5.00%
1/11/2007	EC	ECB Announces Interest Rates	JAN	3.50%	3.50%
1/11/2007	US	Fed's Bies Speaks at Risk Mitigation Summit in Washington			
1/12/2007	US	Advance Retail Sales	DEC	0.60%	1.00%
1/12/2007	US	Retail Sales Less Autos	DEC	0.50%	1.10%

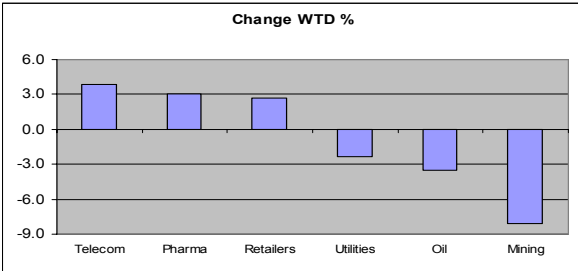
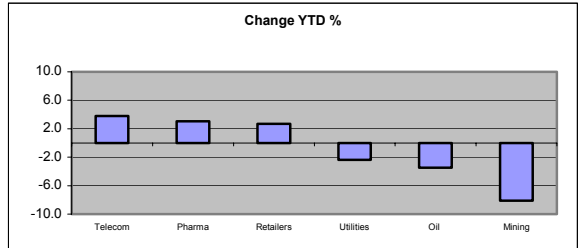
Corporate Calendar

Date	Region	Company	Event
08/01/2007	GB	EasyJet	December Traffic Figures
09/01/2007	GB	Bovis Homes	Final Trading Update
09/01/2007	GB	BP	Q4 Trading Update
10/01/2007	GB	Taylor Woodrow	Final Trading Update
10/01/2007	GB	WM Morrison	Christmas Trading Update
11/01/2007	GB	HMV	H1 Earnings/ Christmas Trading Update
11/01/2007	GB	Sainsbury	Q3 Trading Update
11/01/2007	GB	Redrow	H1 Earnings
11/01/2007	GB	SIG	Final Trading Update
12/01/2007	GB	Carphone Warehouse	Q3 Trading Update

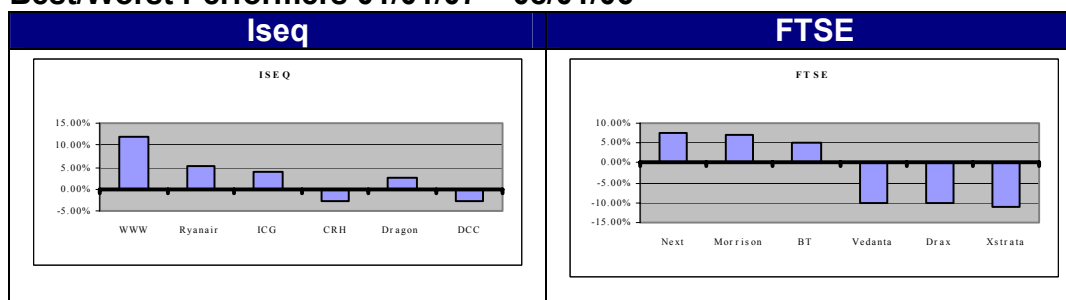
Last Week's Moves

	Levels	Last week's moves	YTD Move
Equities			
DJ INDUS. AVG	12398.01	-0.83%	-0.52%
S&P 500	1409.71	-1.05%	-0.61%
NASDAQ	2434.25	0.36%	0.79%
DJ	3734.04	0.98%	0.98%
FTSE 100	6232.598	0.21%	0.21%
DAX	6618.129	0.32%	0.32%

	Div Yield-2006	EPS Growth 2006	P/E-2006	P/E-2007
ISEQ	2.55%	14.1%	12.0	10.5
UK	3.40%	15.5%	13.0	12.4
US	2.10%	10.9%	16.2	15.1
Euro	3.19%	15.0%	12.7	11.9

Sector*	Weekly Move %	YTD Move %	*Perf based on capital price moves only
Telecommunications	3.80	2.69	
Pharmaceuticals	3.03	3.03	
General Retailers	2.68	2.68	
Banks	1.48	1.48	
Technology	1.26	1.26	
Tobacco	0.89	0.89	
Autos	0.79	0.79	
Construction	0.40	0.40	
Media	0.40	0.40	
Insurance	0.39	0.39	
Food Producers	0.12	0.12	
Chemicals	-0.03	-0.03	
Software	-0.14	-0.14	
General Industrials	-0.29	-0.29	
Personal Goods	-0.65	-0.65	
Beverages	-0.81	-0.81	
Leisure Goods	-1.19	-1.19	
Utilities	-2.38	-2.38	
Oil & Gas Producers	-3.49	-3.49	
Mining	-8.13	-8.13	

Best/Worst Performers 01/01/07 – 08/01/06



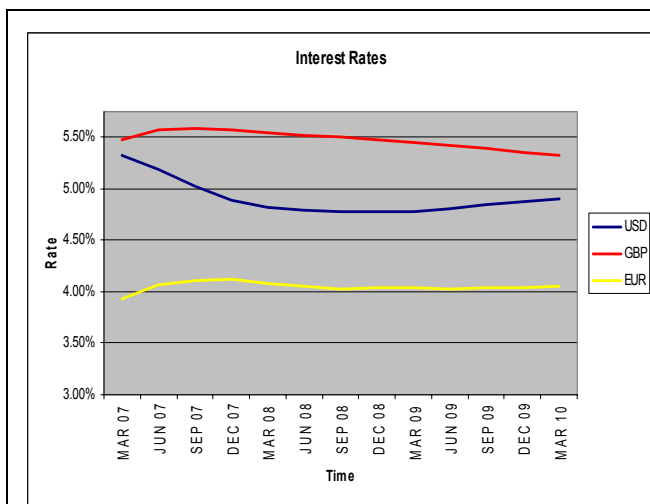
The Irish market started the new year with a bang, continuing the upwards march it made last year and putting pay to any thoughts that things couldn't get any better, to end its first day of trading in 2007 at a record 9,537. Fyffes and its new spin-off Total Produce were the few newsmakers of the day, though C&C and Kingspan yet again grabbed the limelight, making significant gains on the back of positive sentiment for the stocks. As the week progressed some of last year's biggest gainers struggled as investors took the opportunity to take some profit following the recent good run.

On Tuesday the FTSE closed at a six year high after shares of mining companies led the market in its first day of trading in 2007. However later in the week miners such as BHP and Rio Tinto dropped more than 3.5% each as copper prices showed further weakness. Shares of listed supermarket groups Tesco, William Morrison and J.Sainsbury all closed higher towards the end of the week helping to offset the miners' losses.

Section

3 Commodity, Currency & Credit Markets

	Current			YTD Change		
	EURO	GBP	USD	EUR	GBP	USD
Base Rate	3.50%	5.00%	5.25%	0.00%	0.00%	0.00%
3 Month	3.74%	5.33%	5.03%	0.01%	0.07%	0.05%
12 Month	4.02%	5.59%	4.89%	0.02%	0.07%	0.07%
5 Year	3.94%	5.10%	4.66%	0.03%	0.05%	-0.04%
10 Year	3.98%	4.80%	4.66%	0.03%	0.06%	-0.05%
EUR-USD X-RATE	1.30095			-1.46%		
EUR-GBP X-RATE	0.672967			-0.12%		
CRUDE OIL FUTR	56.73			-7.11%		
NAT GAS FUTR	6.392			1.03%		
GOLD SPOT \$/OZ	607.8			-4.54%		
SILVER SPOT \$/OZ	12.075			-6.43%		
LME ALUMINUM	2608			-6.96%		
LME COPPER	5611			-11.36%		

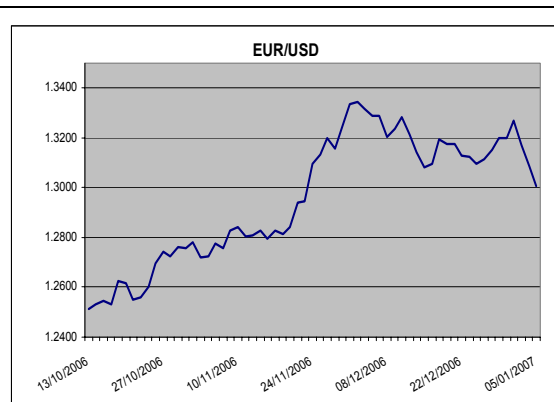


Comment:

Bond yields moved higher across the board on the week as US economic data came in stronger than expected. The US Bond market finished the year with a large inversion in the curve, with the market looking for the possibility of two rate cuts in early 2007. Recent economic data and commentary by Fed Res Officials have made the possibility of rate cuts as a little premature.

This week the main focus will be the B.O.E and E.C.B rate meetings, with the likelihood interest rates remaining unchanged. The markets will be watching for comment on the future direction of rates. In the US Friday's Retail Sales numbers will be the main number for the week.

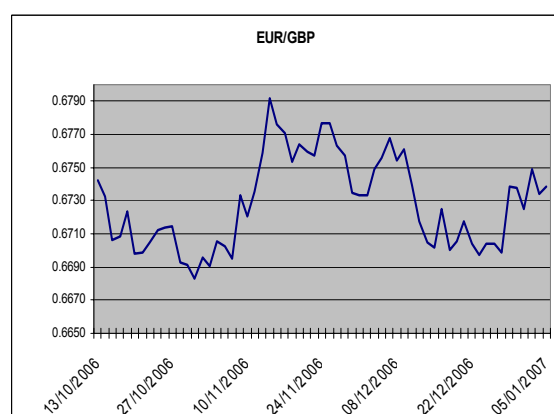
Currency Comment



Comment: EUR/USD

Despite initial weakness, dollar staged a strong rebound across the board last week on a series of solid economic data releases to end the week 1.5% stronger versus the Euro. Dollar's strength started on Wednesday after a stronger than expected ISM manufacturing index this was followed by the ISM Services index which was also better than expected, the week ended with a strong payroll number suggesting the US economy finish the year on a strong footing.

Economic calendar in US starts on Wednesday this week with Nov Trade Balance data. Trade deficit surprisingly dropped to below \$60b in Oct and is expected to stay below \$60 in Nov despite widening mildly. Retail sales, which provided upside surprise to the market last month is expected to slow back to 0.7% growth, with ex-auto sales at 0.6% in Dec. With a lighter set of data releases we look to see the USD consolidate around the 1.30/1.31 range against the Euro this week.



Comment : EUR/GBP

The Eurozone data was, generally mixed last week. A significant feature was that the German data remained strong with the PMI indices rising over the month while there was a drop in German unemployment of over 100,000 for December. UK PMI indices both came in better than expected, in particular with services-sector index risen to a nine-year high of 60.6 from 59.8.

This week starts off with jam-packed economic release scheduled in Eurozone, featuring retail sales, factory orders, trade balance, industrial production, wholesale price from Germany. But focus will be mainly on ECB rate decision and press conference on Thursday. Though ECB is widely expected to keep rate unchanged at 3.50% this time, attention will be paid to whether Trichet will use the phrase "monitor very closely" to setup for a rate hike two months later, i.e. in March. Trade balance, and industrial/manufacturing production data from UK will also be featured. Meanwhile, BoE is expected to keep rates unchanged at 5.00%. Without further announcements. That BoE meeting will likely be a non-event.

We expect to see EURGBP trading higher this week on the back of expected hawkish comments from the ECB on Thursday. .6760 to .6780 could prove a short term target.

Corporate Credit Markets

Rating-5 Yr Bonds	Sample Names	Dec 2005 Yield	Current Yield	
AAA	Rabobank	3.65%	4.04%	<p>The Itraxx* tightened 1bps over the week – the move follows strong trading sessions as investors return to market after the Christmas period. The major stimulus remains the US economy therefore macro data will be monitored carefully in the next few weeks for any indications of changes to fundamental sentiment in the US.</p> <p>*ITRAXX is an index of the 125 most liquid investment grade corporate names in the European market</p>
AA	Deutsche Bank	3.95%	4.14%	
A	Tesco	3.83%	4.18%	
BBB	MKS	5.30%	5.72%	
BB	Royal Caribbean Cruise lines	5.73%	6.27%	

Sector Movements in week ended 08/01/2007:

Automotive: Primarily unchanged in the sector – the only mover was BMW which tightened 1bps over the week after the company announced a 2.2% market share increase in the US. This tightening follows worries earlier in the week that the Fed minutes indicated that rate cuts might not come as early as some investors had hoped. In the US GM and Ford continued to tighten – Ford tightened 9bps in the 5yr CDS while GM was more subdued with a 2bps tightening after analysts expressed concerns about ongoing GM market share erosion in the US.

Building materials: Unchanged across the sector – all names are unchanged over the month however they are closing out 2006 significantly tighter, which is particularly interesting given the concerns in the sector due to the much talked about US housing slowdown.

Chemicals: Mixed in the sector – Bayer was 1bps tighter, while BASF was unchanged and Linde was 1bps wider. Bayer investors were relieved that a litigation case had been settled, thereby eliminating liability uncertainty; while Linde continues to be of interest to private equity houses.

Airlines: Mixed in the sector – British Airways tightened 1bps while BAA widened 1bps and the remaining names were unchanged. BA tightened after announcing a 7.4% increase in EBIDA to September 2006 and perception that demand remains buoyant for the airline, despite fog delays over the Christmas period.

Food/Beverages: Quiet in the sector – supermarkets were unchanged however the beverage and services were mixed with Compass and Diageo both 1bps tighter while Cadbury was 1bps wider. Diageo reported a 3% increase in alcohol sales over the Christmas period. Compass is a volatile seasonal name, while Cadbury widened, presumably now that the Christmas chocolate binge is over!

Telecoms: Mixed in the sector – both BT and Vodafone widened 1bps each while Deutsche Telecom tightened 1bps over the week. Reports of the Vodafone acquisition in India continue to drive spreads wider. DT equity has risen sharply in recent weeks due to its domestic internet network monopoly and the recent proactive cost cut announcements.

Retail: Also a mixed sector – MKS and GUS were unchanged however Dixons and Kingfisher were both 2bps wider. The sector became nervous this week after the CEO of Home Depot resigned due to the poor stock price performance during his tenure. The only other mover was Boots, 1bps tighter over the week.

Media: Mixed in the sector – EMI moved 1bps wider following reports that the more lucrative album sales fell 5% in 2006. Elsewhere Reuters tightened 1bps, despite the announcement of a share buyback programme, and BSkyB was unchanged.

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