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Lunchtime market report

# Traders nervous of rate rise

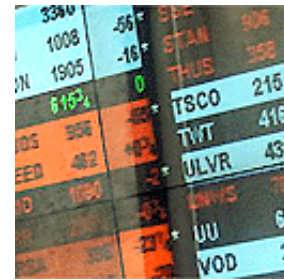
**Nick Fletcher**  
**Monday July 31, 2006**  
[The Guardian](#)

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The odd bright spot in the market this morning could not disguise an underlying nervousness before Thursday's meeting of the Bank of England's interest rate-setting committee.



Photograph: Guardian

Dealers are becoming increasingly concerned that the Bank will opt for a rate rise this week following growing evidence of the strength of the economy. The latest sign of this came this morning from an upbeat housing market report from Hometrack showing prices rose in July for the fourth successive month.

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By lunchtime the **FTSE 100** was down 27.7 points to 5,947.2, although as befits another summer's day, share volumes were light. It seems a far cry from last week's performance, when the market saw its biggest weekly gain since March 2003.

Financials were generally weaker, although **HSBC** added 4.5p to 978.5p after it reported a better than expected 18% rise in half year profits.

Sugar group **Tate & Lyle** was one of the big movers, up nearly 4% to 692.5p. A trade agreement late last week between the US and Mexico on sweeteners could lead to a cut in the Mexican tax on fructose, which would benefit Tate's US business. There is also continuing strong demand for its sucralose and ethanol products, and the current price of sugar on the commodities markets means Tate is likely to make higher profits from its trading business. It recently issued a positive trading statement and has plans for an investor presentation in September, which could help sustain the interest in its shares. Broker Evolution has a buy recommendation on the shares, with a two-year price target of 900p.

If it's a summer Monday there must be a major firm's shares rising on bid speculation, and today it was the turn of water company **Severn Trent**. It added more than 2% to £13.03 on suggestions of a £5bn takeover plan by US private equity groups Kohlberg Kravis Roberts and Apollo Management. The company said it had received no formal or informal offers, and the shares fell back from this morning's best level of £13.53.

Positive results from media group **Pearson** lifted its shares by around 2% but the long awaited debut of the merged chemists Alliance Unichem and Boots proved a damp squib. **Alliance Boots**, as it is now known, saw its shares lose just over 1% to 795p as analysts were underwhelmed. Broker Seymour Pierce repeated its underweight recommendation, while Dresdner Kleinwort said sell and set a 690p price target.

**Cadbury Schweppes** slipped 4p ahead of Wednesday's half-year results, which should show some of the impact of the recent scare over salmonella in chocolate. Evolution said half-year margins would be hit by higher raw materials costs and sentiment by the salmonella problems, but added that this should provide a buying opportunity since the rest of the business is performing well.

Property group **Countrywide** added around 2.5% on talk of a management buyout, while **JJB Sports** climbed 2.7% on talk that Mike Ashley, owner of Lillywhites and Sports World, had built up a 10% stake in the sportswear retailer.

Lower down the market, staffing group **Corporate Services** fell more than 9% despite issuing a statement saying it knew of no reason for the fall. It added that investment fund Active Value no longer had a notifiable stake in the company, and had distributed shares representing around 8.7% directly to the fund's investors.

Full-year results from fuel cell group **ITM Power** did not impress. The shares fell nearly 11% despite a couple of analysts publishing positive notes.

But Spanish based estate agency **Medsea Estates** added 17% after it signed a deal with Saga, the tour operator for the over-50s, to become its key supplier of overseas homes.

Security company **ARC Risk Management** climbed nearly 14% following share buying by its directors.

Finally, keep an eye on **MTI Wireless Group**, a market leader in making flat panel antennae for fixed wireless broadband. Its shares added 0.5p to 38p after revenues for the half year rose 36% and operating profits climbed 61%. The company trades on a price-earnings ratio of less than 10 times, and has net cash representing 12p a share. Traders believe the share price has been hampered by current events in the Middle East, since its parent company is based in Israel. But the present troubles are unlikely to have any practical effect on the company, and the parent operation has seen some stake-building recently, which has pushed its own shares to an all time high on the Tel Aviv stock exchange on takeover hopes. MTI Wireless has also seen a major seller of its shares in the market but this process is now believed to be drawing to a close, so the shares could go higher from here on.

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