

**Monday, 5 April 2004**

## Overseas Market Report - US Jobs Numbers Way Up, Indices Gain

US indices posted gains on Friday, on the back of optimism of an improving economy after the much anticipated March jobs figures came in well above expectations. The Dow Jones gained 97.26 points (0.94%) to 10,470.59. The S&P 500 was 1,141.81 at the bell, up 9.64 points (0.85%). The Nasdaq continued Thursday's rise, adding 42.16 points (2.09%) to 2,057.17. The indices also finished up on the week: the Dow up 2.5%, the S&P 500 up 3% and the Nasdaq up almost 5%.

The labor department's jobs report showed that 308,000 jobs outside the farm sector were created in March. The figures were far in advance of expectations and come off a gain of 46,000 in February. The unemployment rate rose 1 point to 5.7% from 5.6% in February, although this figure is generated by a different survey, which is given less credence.

Despite the overall positive figures, the report showed some less positive trends, which indicate the 308,000 growth rate may not be sustained. The crucial manufacturing sector failed to show payroll growth, being flat month-on-month, following a 43 month run of declines. Temporary help payrolls, a leading indicator for the overall jobs market fell for only the second time in eleven months.

The overall jobs growth did not result in an increase in the weight of the consumers average hip pocket. Hourly wages rose 2 cents to \$15.54, but the increase was not reflected in the average weekly earnings which declined by 88 cents to \$523.70.

While the Federal Reserve has specifically stated that it is waiting on jobs growth to catch up with the rest of the economy before raising interest rates, it is unlikely that one month's strong growth will be enough. The Fed will be watching the April and May jobs reports, with each positive reading adding to the likelihood of interest rate rises.

Economic reports due out this week are; The Institute of Supply Managements services figures - Monday, Import and export pricing and consumer credit figures - Wednesday, Initial jobloss claims, PPI and wholesale inventories - Thursday.

US treasury prices fell. The yield on the 10-year bond rose to 4.147%, while the 5-year yield is at 3.142%.

European markets followed Wall Streets example and also posted gains on Friday. The FTSE 100 rose 54.9 points (1.24%) to 4,465.60, while on the mainland the French Cac 40 added 69.93 points (1.91%) to 3,739.91 and the German Dax increased some 82.75 points (2.11%) to 4,007.60.

European exporters were among the biggest winners, with a fall in the Euro against the US dollar making profits more achievable.

Base metals were mixed, while gold fell but oil rose. The CRB index fell a 0.25 of a point (0.09%) to 281.49.

Foreign Equities	Close	% change	Commodities	US\$	Close	% change
Dow Jones (US)	10471	0.94	Aluminium	US\$/t 3mth	1758	1.06
S&P 500	1142	0.85	Copper	US\$/t 3mth	3028	0.38
NASDAQ	2057	2.09	Nickel	US\$/t 3mth	14525	2.32
FTSE 100 (UK)	4466	1.24	Gold	US\$/oz	422.5	-1.47
Nikkei 225 (Japan)	11816	1.13	Oil - West Texas crude	US\$/bbl	34.38	0.35

## Australian Market Report - US Jobs Growth to Push ASX higher

Strong US jobs numbers released on Friday helped push the US indices higher on both the session and the week. Local markets may rise on the news today, as the jobs figures may indicate a strengthening US economy. Ahead of the open SPI futures were up 5.0 points (0.14%) at 3,464.0. Local markets closed Friday lower. The All Ordinaries fell 6.5 points (0.19%) to 3,437.4 and the ASX 200 closed down 7.6 points (0.22%) to 3,438.6.

Major resource stocks rose on the back of rising metals prices. BHP traded up 8 cents (0.64%) to \$12.49, Rio Tinto added 30 cents (0.87%) to \$34.95 and WMC Resources gained 1 cent (0.19%) to \$5.14.

Manufacturing, importing and wholesaling giant Pacific Brands commenced trading Friday. It opened at \$2.60 compared with the offer price of \$2.50, and closed after heavy trading at \$2.59.

QBE Insurance fell 15 cents (1.32%) to \$11.19, despite the company saying it is confident of meeting its 2004 profit targets.

After the market closed Thursday, General Property Trust announced it will acquire 100% of the third stage of the Darling Park Complex from Lend Lease for a total of \$225m. To help fund the acquisition, the trust today completed a placement of 67m new GPT ordinary units at \$3.03 to raise \$203m. General Property Trust units fell 6 cents (1.94%) to \$3.04.

Qantas rose 7 cents (2.01%) to \$3.55. On Thursday its shares closed up 2.05% after it said February passenger numbers increased by 6.5% compared to a year ago.

On Friday Austal announced a contract to build an 85 metre vehicle-passenger ferry for Greek ferry operator Hellas Flying Dolphins. The monetary value of the contract was not disclosed. Austal shares found 5 cents (5.43%) to 97 cents.

PMP retreated after Thursday's gain of 6.29%. On Thursday the company announced a new \$330m five-year debt refinancing package that will replace existing

(\$334m) debt facilities, which will reduce its annual interest cost by \$7m. PMP shares lost 7 cents (4.61%) to \$1.45.

Hardman added to Thursday's 13.93% gain, up 12 cents (8.70%) to \$1.50. After the market close on Wednesday the company said it had completed a placement of 72m shares at \$1.10 per share, raising \$79.2m and also announced a one-for-six share entitlement issue at \$1.10 to raise \$88.4m.

Banking stocks fell on Friday. National Australia Bank lost 21 cents (0.67%) to \$31.00, Commonwealth Bank was down 46 cents (1.37%) to \$33.05 and Westpac shed 3 cents (0.17%) to \$17.89.

APN News and Media, Ludowici and SP Telecommunications commence ex-dividend trading today.

The world's largest integrated zinc and lead producer commences trading today as Zinifex. Shares under the offer were issued at \$1.85.

Equities/Fixed Interest	Close	% change	Currency	Close	% change
All Ordinaries	3437	-0.19	\$A vs \$US	0.7550	-0.96
S&P/ASX 200	3439	-0.22	\$A vs YEN	78.65	-0.71
90-day Bank Bill Rate	5.515%	0.10	\$A vs EUR	0.6250	-0.05
10-year Bond Rate	5.748%	5.12	\$A vs GBP	0.4130	-0.36
5-year Swap rate	5.760%	1.77	\$A vs \$NZ	1.152	0.06

## Industrial

### Volante Group (VGL)

Good result with solid outlook

**Hold - SOH preferred \$1.23**

#### Event

We reviewed the merger with Ipex in Morning Notes on 29 January. The merger was approved and completed on 12 February and the half-year results to 31 December 2003 were released on 26 February.

VGL delivered a good result despite the slump in sales caused by the trough in IT spending. Sales revenue was down 24% from the pcp to \$140m. Tumbling computer hardware prices and lower industry spending have depressed revenue. Overall NPAT was up 2.7% to \$3.1m.

VGL also declared a 4¢ interim franked dividend, in line with our expectation of 8¢ for the full year. The shares newly issued for the Ipex acquisition will not be entitled to the interim.

#### Impact

Although IT spending is recovering, industry rationalisation seems essential to the long term survival of the smaller companies. Through the merger with Ipex, VGL effectively doubles its size and significantly increases its services offering, at a time when industry outlook is improving.

The merger also gives VGL OEM (Original Equipment

Manufacturer) status, offering the opportunity to tender for major government contracts. In 2005 and 2006, a series of government IT tenders are expected to be finalised, including the G8 contract and the South Australian government's \$1bn outsourcing program.

We see VGL as a quality company with strong growth prospects and as low to medium risk within the Small Cap technology sector. The company faces a number of potential risks in the short to medium term. These include reliance on an increase in IT spending and the merger integration risk including culture changes. The merger provides size, a wider range of services and extensive R&D facilities, which will assist long term performance. Coupled with improving IT spending patterns globally, risks should abate and VGL should perform well in the medium term.

VGL touched \$1.49 in merger excitement on 17 February but has since slid to \$1.23. We still see short-term risks in current prices and recommend Hold until evidence emerges of successful merger implementation.

Alternatives meanwhile include particularly MYOB in its merger with Solution 6 - see Morning Notes on 29, 30 and 31 March. We recommend the best entry via SOH at around 80¢, an effective entry to MYO at about \$1.10.

FYE Jun	2002A	2003A	2004E	2005E
Reported NPAT \$m	4.3	3.6	9.5	10.7

<b>FYE Jun</b>		<b>2002A</b>	<b>2003A</b>	<b>2004E</b>	<b>2005E</b>
EPS	c	6.4	5.3	7.9	8.2
P/E	x	18.3	20.0	15.8	15.2
EPS Growth	%	-47.1	-17.2	49.1	3.8
DPS	c	8.0	8.0	8.0	8.0
Yield	%	7.6	7.6	6.4	6.4
Franking	%	100	100	100	100

Source: Aspect Huntley analyst estimates

## Resources

### Matrix Metals (MRX)

Situation Update

**Maintain Speculative Buy \$0.15**

#### \$20m Capital Raising and Further Drilling Results

MRX has announced a \$20m capital raising to fund aggressive exploration/development of its Queensland copper properties, in particular its well-advanced Mt Watson and White Range projects.

MRX will place \$15m worth of stock to domestic and international institutions at a price of 11.5c per share, and will also undertake a Share Purchase Plan to existing shareholders on similar terms to raise a further \$5m.

Existing shareholders will be able to purchase up to \$5,000 worth of additional stock, assuming they are registered as at Thursday April 8th 2004. If subscriptions exceed \$5m, all subscriptions will be scaled back on a pro-rata basis.

MRX has also advised of further encouraging drilling at its Mt Watson Project, that has confirmed significant sulphide copper mineralisation. An intercept from RC hole MWRC130 has returned 20 metres @ 3.03% Cu from 163 metres depth, which included 8 metres @ 4.89% Cu from 175 metres depth.

The significance of this hole is that the 20 metre intercept stopped in mineralisation due to the depth capacity of the rig and it highlights the potential for significant sulphide copper mineralisation at depth, below the existing oxide resource.

Furthermore, this hole is about 50-70 metres down-dip of a previous intercept of 70 metres @ 1.34% copper that we reported a month ago. These results have confirmed extensions to previously identified resource grade copper mineralisation and confirm that Mt Watson is emerging as a mineable deposit in its own right.

### Impact

MRX is one of six recommended stocks in our current edition of the Junior Resources Monitor. We recommended it as a Spec Buy @ \$0.12 on the back of its emerging Mt Watson and White Range Copper Projects.

Mt Watson forms part of the Mt Cuthbert Copper Project, situated 95km north of Cloncurry and 100km northeast of Mt Isa. Mt Watson was discovered in 2001 and ever since has returned promising exploration results as its resource base has simultaneously grown.

It is situated just 25km from plant and mining infrastructure and comprises five distinct resources zones. The resource base has grown significantly since we covered MRX 12 months ago in the Junior Resources Monitor @ \$0.04, increasing from 1.6mt @ 1.1% Cu to the recently announced and upgraded figure of 2.65mt @ 1.1% Cu.

The primary component of the February 2004 resource upgrade was a 300% jump in the Western Zone oxide copper resource to 1.23mt @ 1.1% Cu. The Western Zone is the location of the recently completed programme referred to above.

Drilling activity is set to continue along the now 2km of identified strike at the Mt Watson deposit, so there will be plenty of news for investors that could provide more speculative upside. We maintain our SPEC BUY recommendation, as MRX is likely to soon have two emerging copper projects with mineable potential in the Mt Isa area. The \$20m capital raising underlines the confidence that the company and institutional investors have in this emerging copper play. We maintain our SPEC BUY recommendation and recommend that shareholders take up their SPP entitlement.

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