

Global snapshot

Index	Index	Friday change	% Change Friday	% Change on Week	% Change on Month	% Change on Year
All Ordinaries	3424.2	28.5	0.8	-0.2	2.3	19.9
Dow Jones	10213.0	-5.9	-0.1	0.3	-3.7	24.5
NASDAQ	1960.0	-7.2	-0.4	1.0	-3.1	41.6
S&P500	1108.0	-1.3	-0.1	-0.2	-3.1	27.6
FTSE100	4357.5	-16.1	-0.4	-1.4	-3.3	16.9
Hang Seng	12483.2	-37.0	-0.3	-2.4	-8.2	40.7
Nikkei	11770.7	239.7	2.1	3.1	10.4	40.7

27 MARCH 2004

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Overnight market action

Wall Street action on Friday was in three phases. After early profit taking, the US sharemarket staged a rally in afternoon trading. However, in the closing half-hour, confidence collapsed and the major indices closed marginally lower for the day. However, this performance should be seen in the context of the sharp gains recorded in Thursday's rally.

Supporting the market on Friday, the revised Michigan consumer index recorded a gain from 94.4 in February to 95.8 in March. Market traders had been expecting a small decline. Commerce Department data showed that consumer spending rose by 0.2 percent in February, the fourth successive rise. And the consumer expenditure price index reported by the Commerce Department rose by 1.1 percent in the year to February. Evidently there is little threat that rising inflation will speed up a rise in US official interest rates.

General Electric Co. and Cardinal Health Inc. both staged rallies after receiving positive broker ratings. Changes to US Medicare legislation is expected to result in a boost to pharmaceutical sales. Shares in on-line discount share-broker E-Trade Financial Corp. rose sharply on the announcement that it will be included in the S&P 500 index from 31 March.

Terrorism continued to overhang the European markets, where indices recorded a third straight week of declines. The share prices of Swiss Reinsurance Co. and Telecom Italia SpA, two companies considered to be at risk, both fell, despite providing the market with positive financial forecasts. In the UK retailers closed lower as investors revised their profit forecasts lower. Shares in Sainsbury, the UK supermarket chain, fell 12 percent after the company warned that price-cutting by competitors will erode into this year's profits.

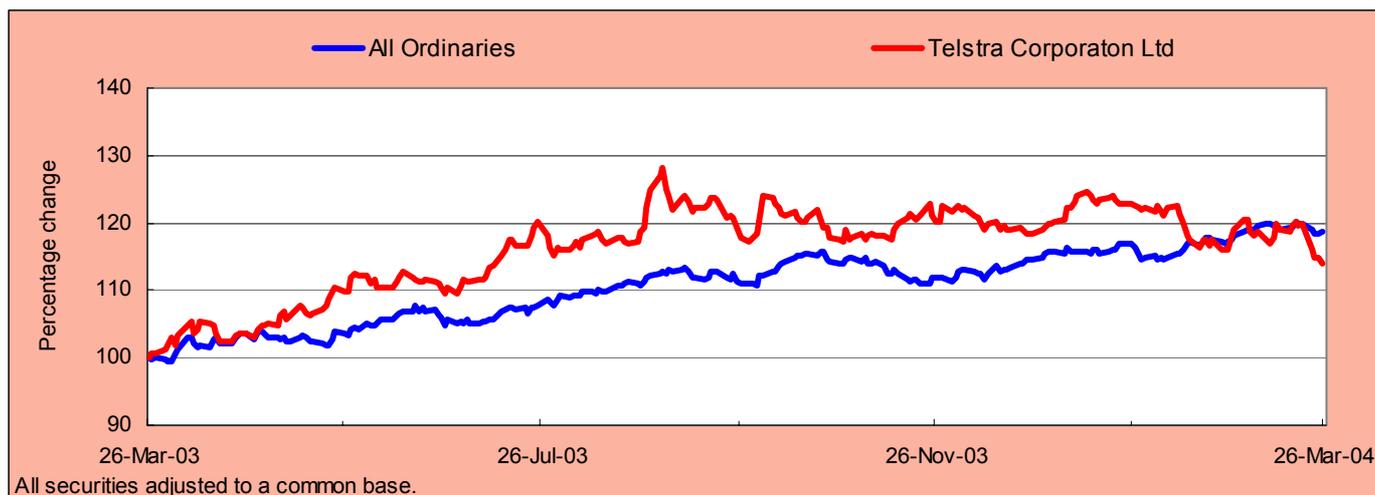
US investors are increasingly focused on the end of the March quarter. Typically trading at these times is volatile. Future directions are likely to be heavily influenced by the outcome of the forthcoming reporting season. Analyst consensus forecasts compiled by Thomson Financial Analysts point to an ambitious 16.6 percent rise in company earnings this quarter.

The local sharemarket revealed a robust indifference to Wall Street and European sharemarket volatility over the past week. A confident opening on Monday morning is likely.



Point of view

Relative share price movements: the All Ords, and Telstra Corporation Ltd (TLS)



Telstra chases retail broadband customers

Telstra is pushing forward with its goals to have one million broadband subscribers by the end of 2005 and \$1 billion in broadband revenue by the end of 2006. Currently, Telstra has around 500,000 wholesale and retail broadband customers. Recent declines in broadband prices have produced a surge in broadband subscriptions. Telstra appears on track to meet its targets.

A major 'fly in the ointment' is the Australian Competition and Consumer Commission's (ACCC) recent action against Telstra. Late last week the ACCC issued Telstra with a Competition Notice. The ACCC alleges that Telstra is engaging in anti-competitive conduct. The ACCC is of the view that Telstra is using its market power in the wholesale broadband market to lessen competition in the retail broadband market. The ACCC has alleged that Telstra's recent reductions in retail broadband prices are anti-competitive because, for some broadband packages, Telstra is charging its wholesale customers prices above its own retail prices.

The notice issued by the ACCC leaves Telstra with three options.

1. Reduce its wholesale broadband prices,
2. Increase its retail broadband prices, or
3. Do nothing and risk court action by the ACCC.

If Telstra adopts the third option it risks fines of up to \$10 million plus \$1 million for each day its conduct continues. Telstra also risks claims for damages from parties 'injured' by the conduct.

By reducing its retail broadband prices, Telstra aims to strengthen its retail broadband market share. Results ending December 2003 indicate that Telstra's broadband business is becoming increasingly skewed towards wholesale customers rather than retail customers. Telstra does not want to lose its direct relationship with higher margin retail customers. Telstra also wants to limit the impact of broadband on its traditional high-margin voice and dial-up internet



revenues. Increasing its share of retail broadband customers will also allow Telstra to capture a larger share of revenues associated with new broadband content and applications.

*Graeme Woodbridge
Senior Industry Analyst*

Australian market wrap

Investment strategy: six-month view

Sector	View	Comment
Consumer Discretionary	Overweight	Robust domestic economy and discretionary spending likely to grow into 2004
Consumer Staples	Indexweight	Strong retail spending priced in to valuations
Energy	Indexweight	Oil price to stabilise in high US\$20's, further AUD rise limited
Financials	Overweight	Global equity market recovery and lending activity to remain strong
Health Care	Indexweight	Recently returned to favour - selective opportunities
Industrials	Overweight	Rising business investment but residential construction to slow in 2004
Information Technology	Underweight	Over-investment and low barriers to entry blunt positive impact of rising IT investment spending
Materials	Indexweight	Commodity prices close to peak, AUD to stabilise around current levels
Real Estate	Overweight	Interest rate rises priced in to bonds, rotation to yield sectors
Telecommunications Services	Underweight	Long-term growth but limited entry barriers and negative regulatory backdrop
Utilities	Indexweight	Rotation to yield but real estate preferred

Market summary

Investors saw Southcorp's share price rally late in the week, spurred on by comments made by Stephen Millar of rival wine producer Constellation Brands. Mr. Miller said that he expected the recent strong growth in discount wine sales, and the oversupply of wine in the U.S. market to decrease in the near future. The excess supply of wine in the U.S. market has been a thorn in the side of Southcorp's recent performance. Investors thus welcomed the comments, boosting Southcorp's share price.

National Australia Bank (NAB) once again attracted the attention of investors this week. On Friday NAB announced that it would ask its shareholders to evict director Catherine Walter from the board. Mrs. Walter has called into question the integrity of the recent foreign exchange investigation conducted by PricewaterhouseCoopers, and, according to NAB statements, failed to cooperate with the investigation. Mrs. Walter refused to resign, making it necessary for shareholders to vote on the matter.

Colorado Group reported encouraging financial results on Thursday. The retail company announced a 28 percent increase in full-year net profits. The Company went on to say that it expects profits to grow by 10 to 15 percent in the next fiscal year. The group increased the annual dividend from 12 cents a year ago to 16 cents.

Backpacker Xpress Group announced this week that it plans to introduce a budget airline by at least November 2004. The discount carrier will cater to backpackers and students, and will initially operate with two leased Boeing 747s. The airline will increase its fleet depending on demand and is seeking to raise an additional \$50 million from new investors.

Economic signposts

Economic forecasts

	2001/02 (actual)	2002/03 (actual)	2003/04 (forecast)	2004/05 (forecast)
Economic growth (ann %)	3.9	2.8	3.6	3.3
Inflation (CPI, ann %)	2.9	3.1	2.2	2.2
Unemployment rate (end June %)	6.5	6.1	5.3	5.0
	Current (actual)	End Jun (forecast)	End Sep (forecast)	End Dec (forecast)
90 day bills (%)	5.49	5.65	5.75	5.45
10 year bonds (%)	5.32	5.90	6.30	5.50
AUD/USD	0.7403	0.7500	0.7850	0.7700
All ordinaries index	3424	3475	3500	3550

Commentary

The economic schedule picks up some pace this week after the recent absence of market moving data. Domestically, the two most important releases are the February readings on building approvals and retail trade, scheduled for Tuesday and Wednesday respectively.

New dwelling approvals probably fell by 5 percent in February. The gradual slowdown in new dwelling approvals means that builders are still likely to be well supplied with work, easing to a more sustainable pace.

There are several reasons why we expect consumers to have continued spending in February. Consumer sentiment remains buoyant because of low unemployment, rising wealth and rising income levels. In addition, interest rates remain historically low and the Australian dollar remains relatively firm. We tip a 0.5 percent rise in retail trade in February.

The latest international trade figures on Tuesday are likely to be similar to the last months result. We are expecting a trade deficit of \$2.0 billion in February after an unexpected narrowing to \$1.96 billion in January. Other local data to watch in the coming week is February private sector credit (released Wednesday) and job vacancies for the February quarter (released Thursday).

In the United States, Friday's monthly employment or non-farm payroll data is without a doubt, the highlight of the week. The US Federal Reserve will only start to increase interest rates when employment growth starts to take off. The US economy has been gathering pace, but job growth is still the missing element of the US economic recovery. We anticipate a rise of 140,000 jobs in March and the unemployment rate to remain steady at 5.6 percent.

The ISM manufacturing gauge most likely softened from recent 20 year highs. Based on previous regional manufacturing surveys, we predict an easing from 61.4 to 61.0 in March (released Thursday). The February outcome was the tenth consecutive month that the index was above 50, indicating growth in manufacturing. On a regional manufacturing level, the New York and Chicago activity readings are scheduled for release on Wednesday.

US consumer confidence is likely to have fallen from 87.3 to 82.0 in March, reflecting continued concerns about the soft job market. Worries over job availability and security can restrain consumption and confidence.

The other indicators of importance in the US include factory orders on Wednesday (rise of 2.0 percent), construction spending (rise of 0.5 percent) and weekly jobless claims both on Thursday. The latest claims for unemployment benefits will provide markets with a final glimpse of the US job market before the crucial payroll numbers are released on Friday.

The European Central Bank (ECB) meets on Thursday to discuss interest rates. Recent commentary from the ECB suggests a shift to an easing bias over the past month, however we expect rates to remain unchanged at 2 percent.

Carl Jensen, Equities Economist

Corporate and economic calendar – week beginning 29 March 2004

Coming week's economic news		Ex-dividend dates			
30 MARCH	INTERNATIONAL TRADE (FEBRUARY) BUILDING APPROVALS (FEBRUARY) US CONSUMER CONFIDENCE (MARCH)	29 MAR	AMP LIMITED BRICKWORKS LIMITED CSL LIMITED FANTASTIC HOLDINGS GRIBBLES GROUP (THE) INVESTOR GROUP PLASPAK GROUP TICOR LIMITED WATERCO LIMITED WMC RESOURCES LTD	AMP BKW CSL FAN GGL IGP PPK TOR WAT WMR	9 cents 9 cents 12 cents 4.85 cents 1 cent 5 cents 2.75 cents 1 cent 6 cents 6 cents
31 MARCH	RETAIL TRADE (FEBRUARY) PRIVATE SECTOR CREDIT (FEBRUARY) US CHICAGO NAPM (MARCH)	30 MAR	COUNT FINANCIAL LIGHTING CORPORATION SEVEN NETWORK SKILLED ENGINEERING	COU LCL SEV SKE	1 cent 1.7 cents 8 cents 6 cents
1 APRIL	US ISM MFG INDEX (MARCH)	31 MAR	IINET LIMITED	IIN	2.5 cents
2 APRIL	US NON-FARM PAYROLLS (MARCH)	1 APR	CENTENNIAL COAL DCA GROUP LIMITED PORTMAN LIMITED	CEY DVC PMM	6 cents 3 cents 4 cents
		2 APR	AUSTRALIAN ENERGY ASPEN GROUP DANKS HOLDINGS DEVINE LIMITED FKP LIMITED FOLKESTONE LIMITED GOWING BROS. LIMITED KAZ GROUP LIMITED MCPHERSON'S LTD NATIONAL CAN IND LTD	AEN APZ DKS DVN FKP FLK GOW KAZ MCP NCI	1 cent 0.37 cents 25 cents 4 cents 7 cents 2.5 cents 3.5 cents 0.25 cents 9 cents 2.5 cents

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