

Valance Company, Inc.



Weekly

September 21, 2005

III

Highlights

US – Inflation expectations no longer “well contained” (page 2)

Euroland – Slew of downward revisions to growth forecasts (page 9)

Japan – Tokyo Land Prices increase for the first time in 15 years (page 15)

UK – MPC member speeches show dovish tilt (page 23)

Canada – IMF warns on inflation (page 29)

Switzerland – SNB leaves rate unchanged; cites oil risk (page 43)

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September 15 - September 21 Short Term Interest Rates

Country	Change in BPs		(3Mth. Futures Contracts Yields)			
	Official Rate	3 Mth. LIBOR	Dec-05	Mar-06	Jun-06	Sep-06
US	0.25	0.09	10.00	9.00	7.00	5.00
	3.75	3.96	4.19	4.27	4.30	4.31
EU	0.00	0.00	-0.50	-2.50	-3.50	-3.50
	2.00	2.14	2.16	2.17	2.22	2.29
JN	0.00	0.00	0.50	1.50	1.50	1.50
	0.00	0.06	0.11	0.17	0.25	0.33
UK	0.00	0.00	-3.00	-7.00	-8.00	-8.00
	4.50	4.60	4.48	4.35	4.31	4.32
CA	0.00	0.02	4.00	5.00	5.00	5.00
	2.75	2.94	3.09	3.21	3.30	3.39
AU	0.00	-0.01	1.00	2.00	3.00	3.00
	5.50	5.57	5.61	5.60	5.55	5.53
NZ	0.00	0.09	7.00	11.00	15.00	12.00
	6.75	7.05	7.10	7.05	6.90	6.70
SZ	0.00	-0.01	-8.00	-11.00	-13.00	-15.00
	0.75	0.75	0.82	0.90	1.03	1.14

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Valance Economic Reports

Valance Co., Inc.

Valance Economic Report: United States

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September 21, 2005

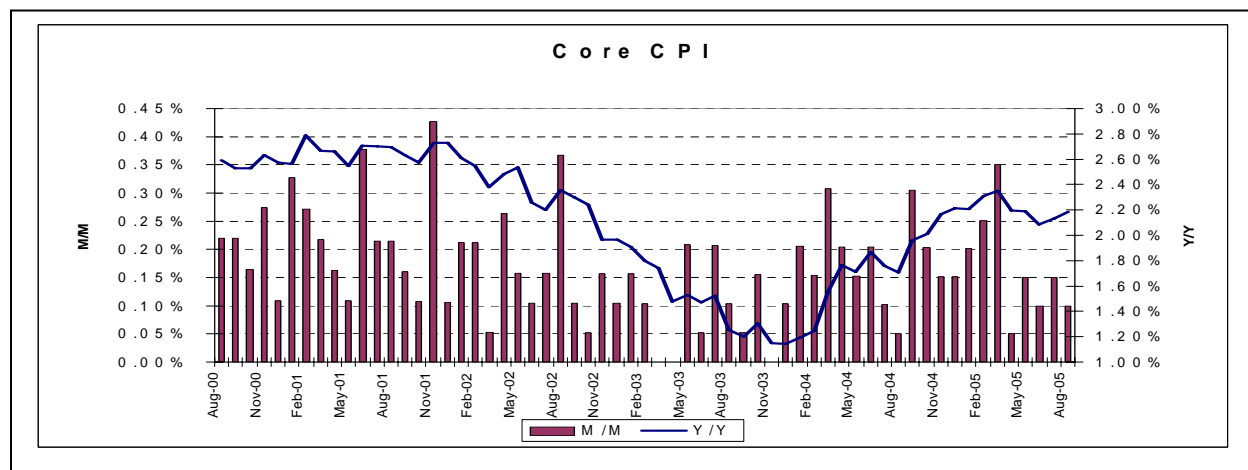
This week's economic data showed tame inflation in core CPI readings and post-Katrina weakness from the Philly Fed and Empire surveys. The ICSC-UBS weekly retail sales data also showed Y/Y growth slowing to 2.4% Y/Y from 4.0% Y/Y last month. The main event of the week was obviously the Fed's decision to hike rates 25 bps to 3.75% and leave the measured and accommodation language in the statement. The big surprise was Olson's dissent (calling for rates to remain unchanged) and 5 of 12 districts not asking for increases in the discount rate. Despite the dissent, it is clear the Fed's intended path is for higher rates and one only to be stopped if demand weakness proves to not be transient. Given that the Fed is focused on future inflation and that an assessment that current weakness is not transitory will take time, Fed Funds Futures appear to be underestimating the odds of future hikes if Rita proves to not be catastrophic.

Weekly Highlights

Core CPI- up 0.1% M/M in August. (page 2)**Philly Fed & Empire-** surveys show post-Katrina weakness with elevated price components. (page 4)**Housing Indicators-** remained stable. (page 4)

Weekly Releases

Chart of the Week: Core CPI



Core CPI increased 0.1% M/M and 2.2% Y/Y in August, and the annualized 3-month rate of growth has dropped from 2.0% at the end of 2004 to 1.4% currently. Inflation appears to remain well contained, but the Fed remains concerned that high energy prices and low unemployment could threaten price stability.

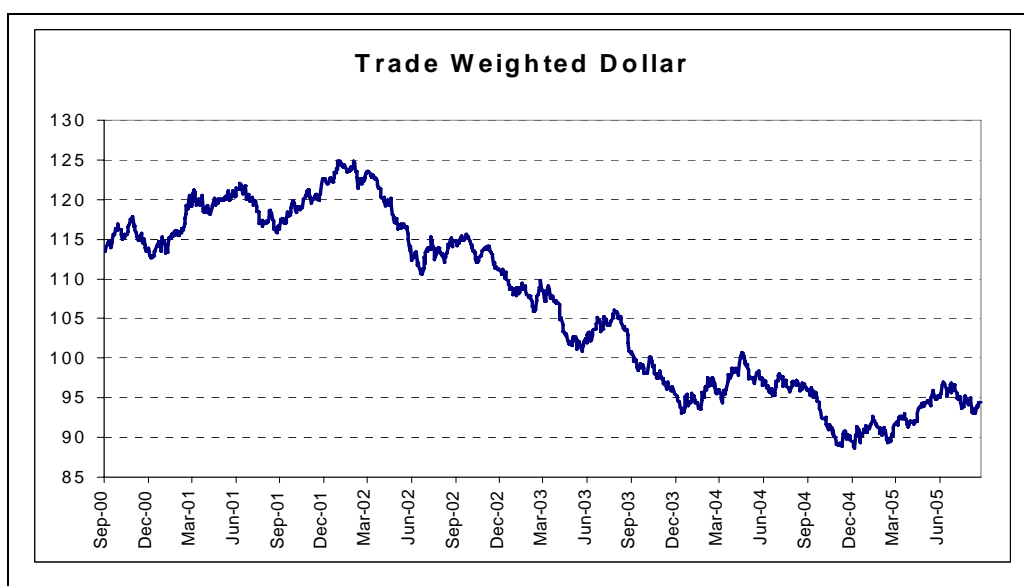
U.S. Financial Balances & Trade Weighted Dollar

Financial Balances

<i>U.S.</i>	<i>Latest period (\$bns)</i>	<i>Last 12mo. as a % of GDP</i>
Budget Balance	-50.0 (August)	-2.7%
Trade Balance	-57.9 (July)	-5.5%
Current Account Balance	-195.7 (Q1)	-6.1%
Private Balance	--	-3.1%

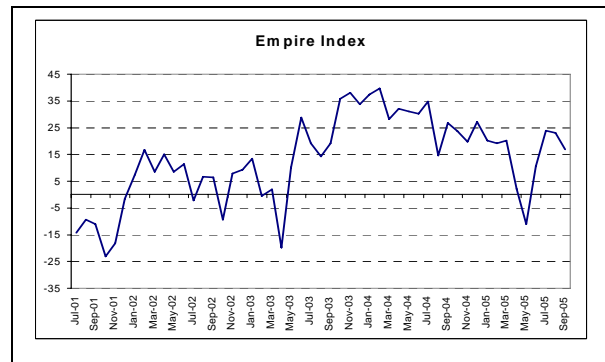
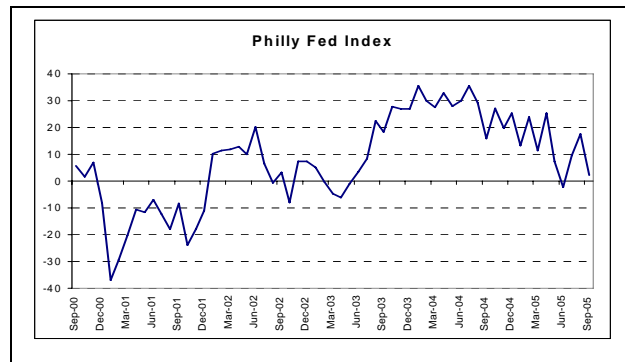
The budget deficit is currently at \$328 bln on a trailing twelve month basis and forecasts see the budget deficit increasing to \$400 bln with Katrina related spending in 2006. The larger budget deficit will stimulate the economy in the short-run, but the trade deficit as of July is still 5.5% of GDP, with no clear signs of narrowing quickly. The budget deficit will remain too small to support a robust and sustained expansion, given the size of the current account deficit. As mortgage equity extraction slows and debt service levels increase, fragility in the economy should become more evident.

Trade Weighted Dollar



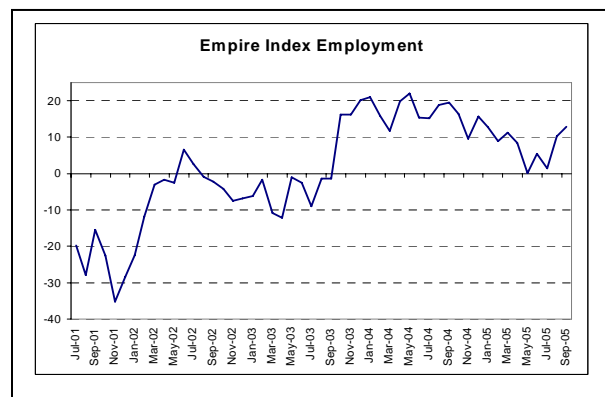
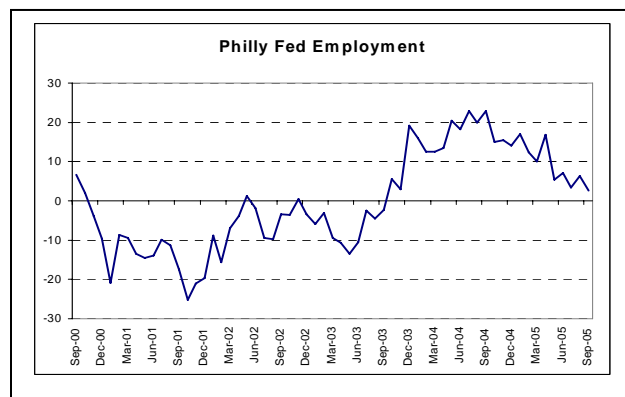
General Index, Employment Index & Prices Paid Index

General Index



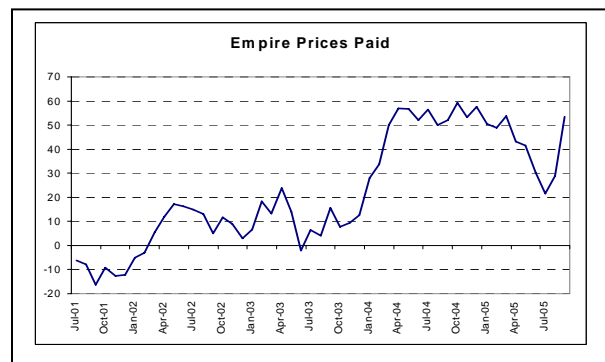
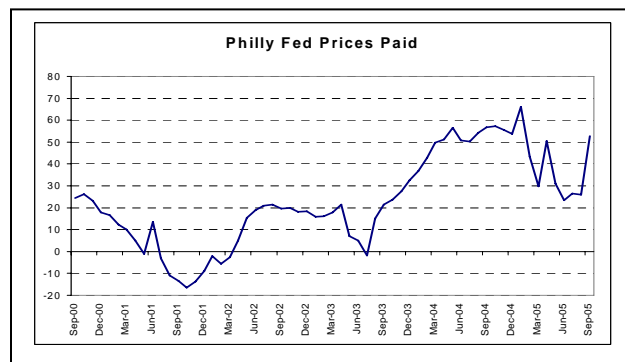
The Philly Fed and Empire Index dropped from 17.5 to 2.2 and from 23 to 17, respectively. These surveys could be overstating current weakness as they were taken in the immediate aftermath of Katrina.

Employment Index



The Philly employment component declined from 6.3 to 2.7 and the Empire employment component increased from 10 to 13.

Prices Paid Index

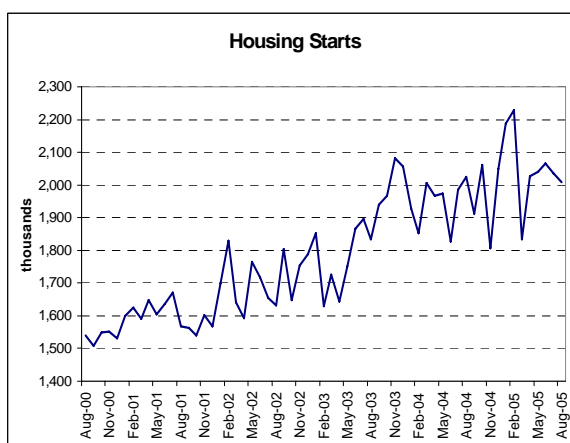


Prices paid components jumped over 20 points in both the Philly and Empire Index, while new orders dropped over 20 points.

Housing

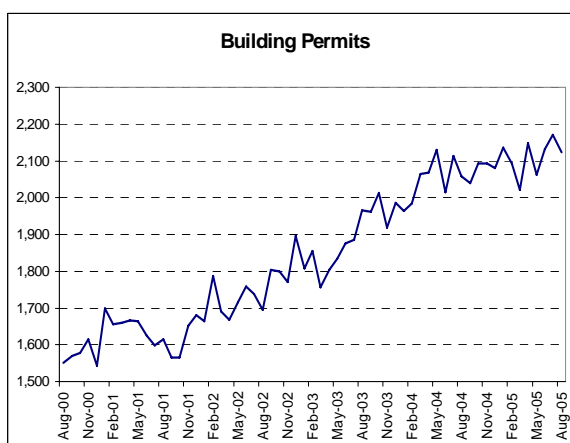
Housing Starts

Housing Starts dropped from 2,035k to 2,009k in August. Housing starts continue to remain firm, but have been relatively flat over the past year.



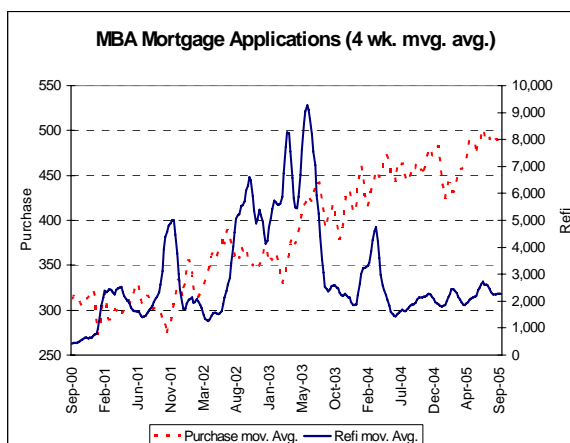
Building Permits

Building Permits declined from 2,171k to 2,124k in August. Despite the decline, this series shows housing backlogs remained healthy pre-Katrina.



MBA Mortgage Applications

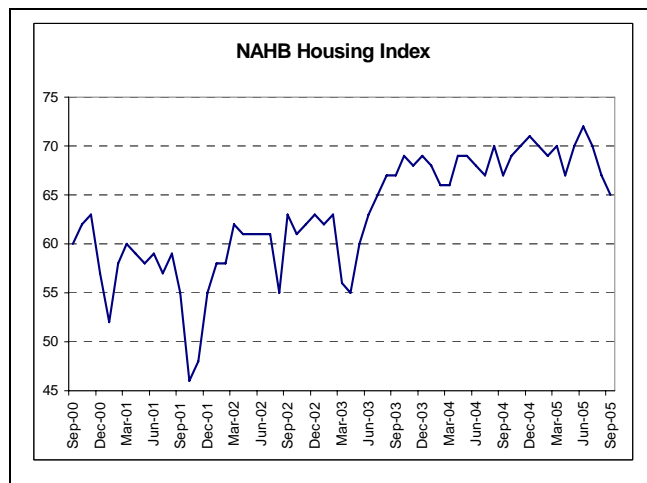
Purchase and refinancing mortgage applications decreased 2.6% and increased 7.0%, respectively this week. Post-Katrina purchase mortgage applications have remained firm.



NAHB Housing Index, Continuing Claims & Confidence

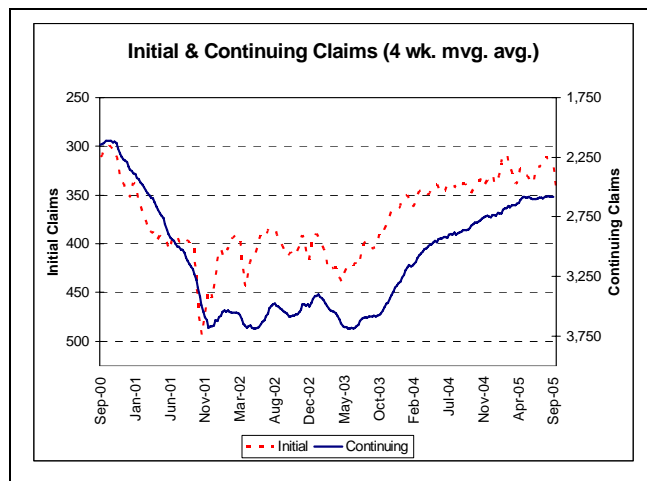
NAHB Housing Index

The NAHB Housing Market Index dropped from 67 to 65 in September. The present sales index declined from 73 to 72 and the future sales index dropped from 77 to 69. This series has been relatively flat over the past two years. The overall and future sales indices have not been this low since the summer of 2003.



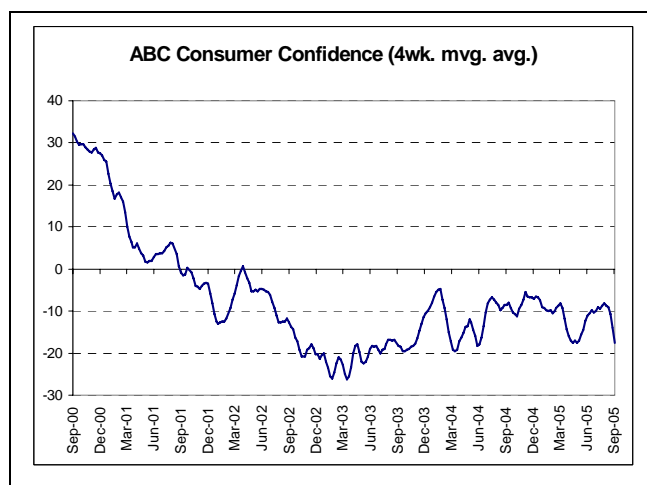
Initial & Continuing Claims

The four-week moving average of initial and continuing claims increased to 341k and 2,582k, respectively. Initial claims for the week jumped from 327k to 398k after Katrina and continuing claims should start to experience more upward pressure next week.



ABC Consumer Confidence

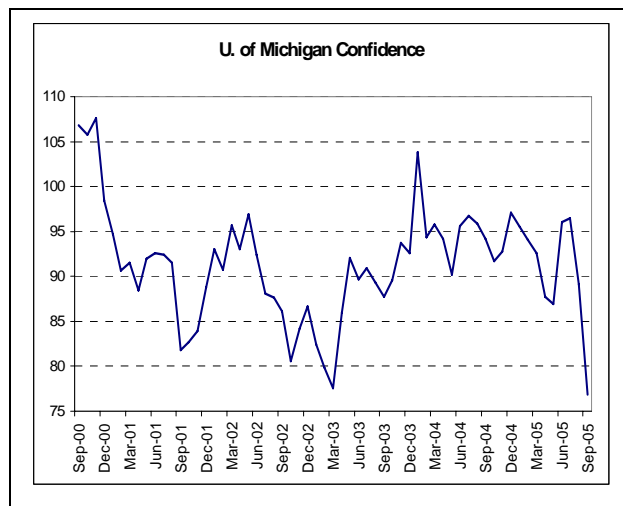
The ABC Consumer Confidence Index decreased from -20 to -23. The economy, finance and buying, all dropped, declining to -40, 10 and -38, respectively. The overall index has now dropped six weeks in a row.



Confidence cont. & Current Account Balance

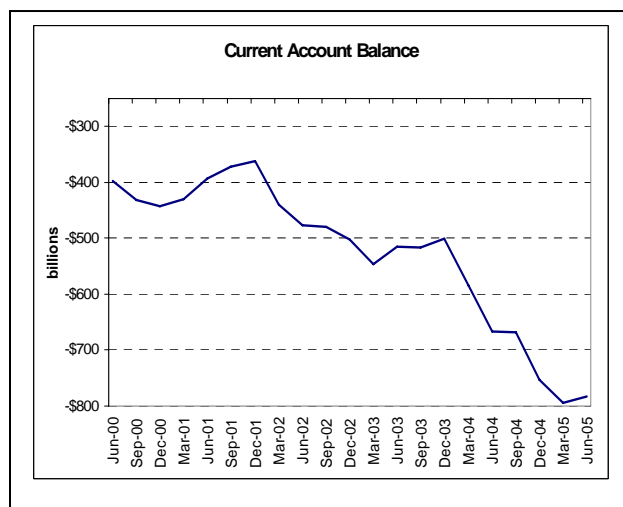
U. of Michigan Confidence

The University of Michigan Confidence Index dropped from 89.1 to 76.9. The current and expectations components both declined dramatically, to 97.7 and 63.6, respectively.



Current Account Balance

The Current Account Balance narrowed to -\$195.7 billion in the second quarter of 2005 as exports grew faster than imports. The Current Account Balance is now over -6.1% of GDP.



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/22	Initial Jobless Claims (SEP 17)	450K	398K
09/22	Continuing Claims (SEP 10)	2659K	2590K
09/22	Leading Indicators (AUG)	-0.3%	0.1%
09/26	Existing Home Sales (AUG)	7.10M	7.16M
09/27	New Home Sales (AUG)	1350K	1410K
09/27	Consumer Confidence (SEP)	98.0	105.6
09/27	ABC Consumer Confidence (SEP 25)	NA	-23
09/28	MBA Mortgage Applications (SEP 23)	NA	1.5%
09/28	Durables ex. Transportation (AUG)	1.0%	-3.2%

Valance Co., Inc.

Valance Economic Report: Euro Zone

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September 21, 2005

This week's Euro Zone economic indices were mixed but echoed the continued theme of a lack of inflationary pressure and sub-par economic growth. Business confidence plummeted, labor costs slowed, core price pressures remained tame, and production growth remained moderate.

Weekly Highlights

German ZEW – confidence plummeted as elections did not produce a legitimate winner. (page 9)

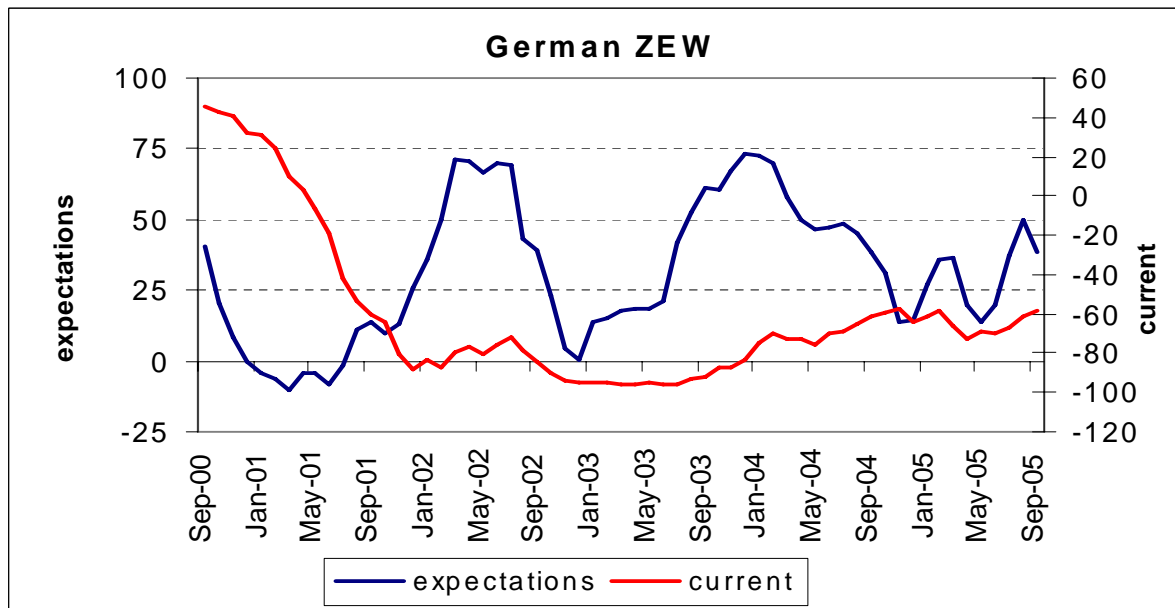
French Spending – consumer spending rebounded in August. (page 10)

Euro Zone Labor Costs – costs slowed, likely keeping inflationary pressures tame. (page 13)

Research Institutions – widespread downward revisions made to growth forecasts across the Euro Zone region. (page 15)

Weekly Releases & News

Chart of the Week: German ZEW



Germany's September ZEW economic sentiment index plummeted from 50 in August to 38.6 as optimism regarding election outcomes faded. The current assessment survey increased from -61.1 to -58.1. Optimism had been artificially high under hopes that the CDU party would win elections and proceed to make economic reforms, with many corporations stating they would increase hiring efforts under the new regime. The political stalemate will most likely result in a lack of true reforms in the near future.

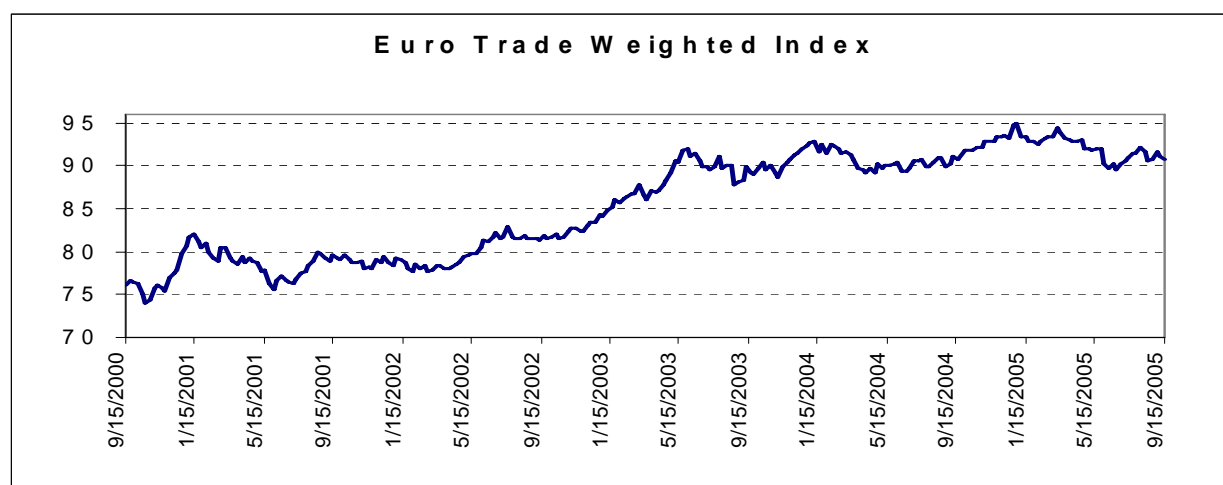
Euro Zone Financial Balances & Trade Weighted Euro

Financial Balances

<i>Germany</i>	<i>Last period (\$blns euros)</i>	<i>Last 12mo. as a % of GDP</i>
Budget Balance	-80.3 (12/04)	-3.6%
Trade Balance	12.1 (May)	7.1%
Current Account Balance	5.2 (May)	3.6%
Private Savings Balance		7.2%
<i>France</i>		
Budget Balance	-5.15 (May)	-3.4%
Trade Balance	-1.25 (May)	-1.3%
Current Account Balance	-2.87 (May)	-1.0%
Private Savings Balance		2.4%
<i>Italy</i>		
Budget Balance	-3.4 (July)	-3.5%
Trade Balance	-0.36 (May)	0.4%
Current Account Balance	-3.2 (May)	1.2%
Private Savings Balance		4.7%

Euro area public deficits will most likely overshoot their official targets once again in 2005 as growth this year has proven much weaker than forecasted. Initial 2006 budget drafts also suggest overly optimistic growth forecasts. Citigroup forecasts an average euro area deficit of 3.2% in 2005 and 3.4% in 2006, above the EU's 3% limit.

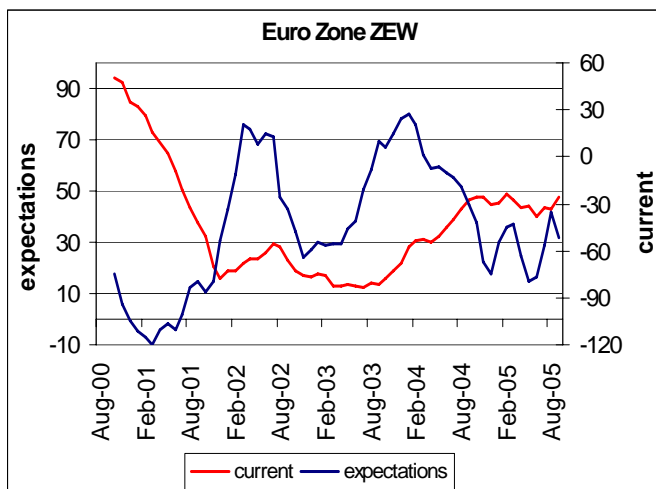
Trade Weighted Euro Index



Euro Zone ZEW, Ind. Pro. & French Consumer Spending

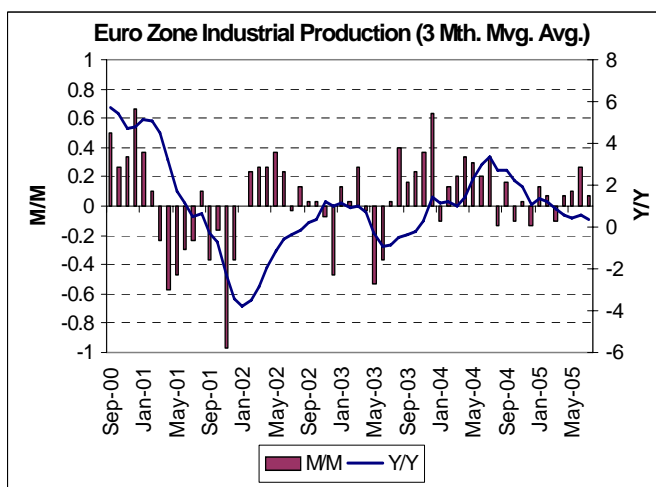
Euro Zone ZEW

The Euro Zone's September ZEW expectations survey fell from 41.6 in August to 31.8 while the current assessment survey increased from -33.3 in August to -26.1.



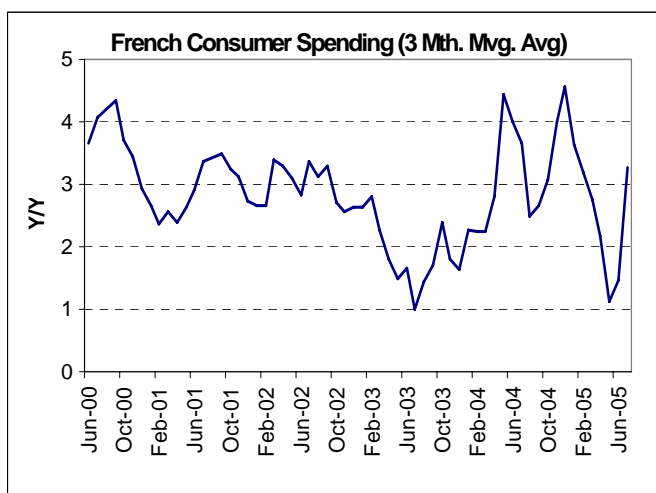
Euro Zone Industrial Production

The Euro Zone's July Industrial Production increased 0.2% M/M and 0.5% Y/Y.



French Consumer Spending

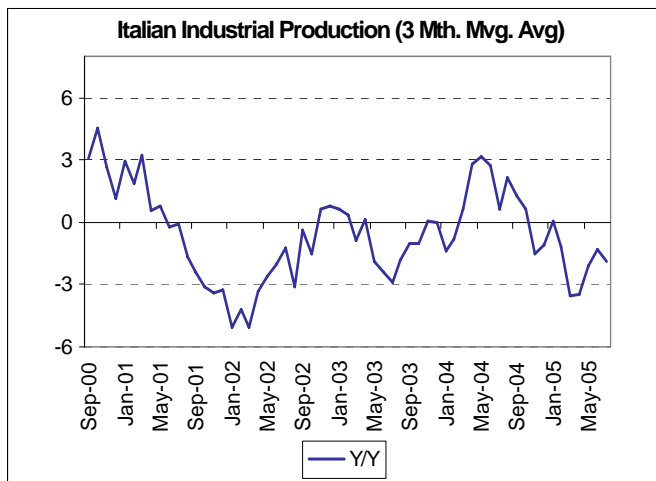
France's August Consumer Spending surged 1.9% M/M and 5.7% Y/Y, the largest mthly increase in over a year. An increase in government subsidized jobs and price cuts by retailers were cited as the key reasons for the large pickup.



Italian Ind. Production, Unemployment & Spanish Orders

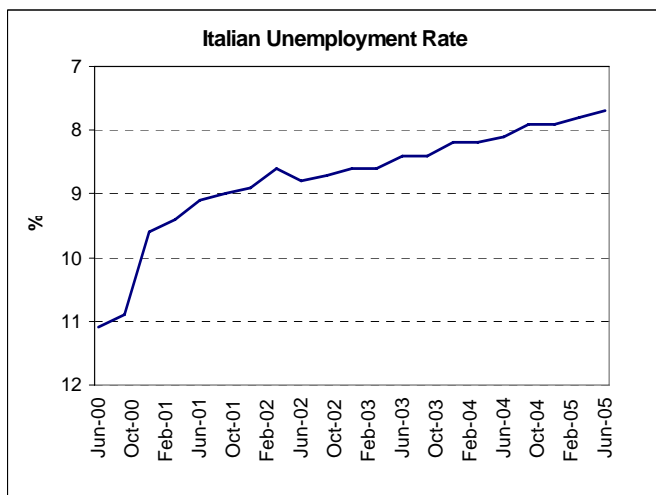
Italian Industrial Production

Italian Industrial Production picked up in July, increasing 0.5% M/M while falling 3.4% Y/Y. Production, however, remains on a downtrend compared to last year.



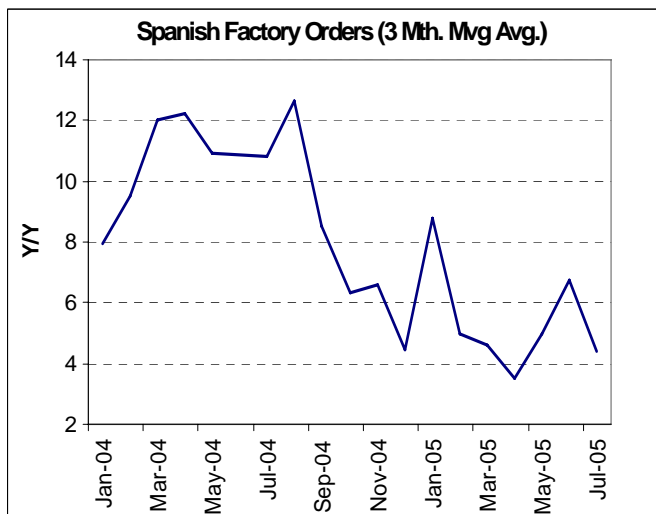
Italian Unemployment Rate

Italy's Q2 Unemployment Rate fell from 7.9% in Q1 to 7.7%, the lowest rate in a decade. The total employed increased 0.4% Q/Q. Despite a faltering economy, Italy has managed to produce job growth in each of the past 5 quarters.



Spanish Factory Orders

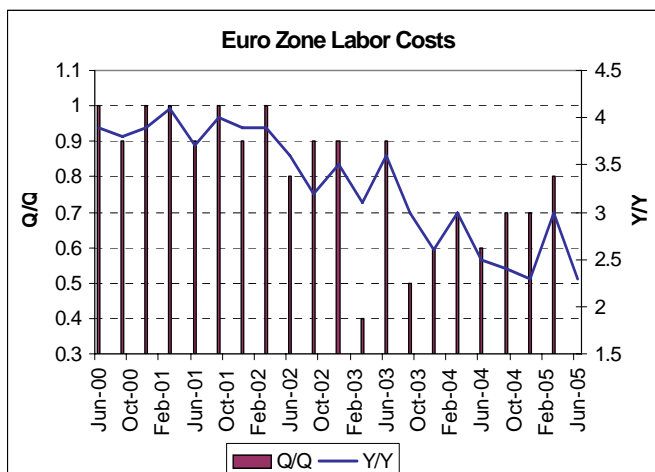
Spain's July Factory Orders growth slowed to 1.9% Y/Y as consumer goods orders stagnated.



Euro Zone Labor Costs, CPI & Current Account

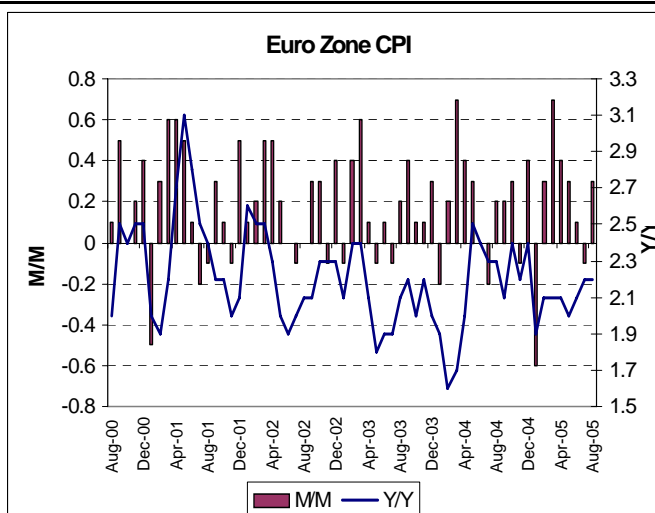
Euro Zone Labor Costs

The Euro Zone's Q2 Labor Costs slowed to 2.3% Y/Y, down from 3% in Q1; further suggesting that second round effects from oil prices have not materialized.



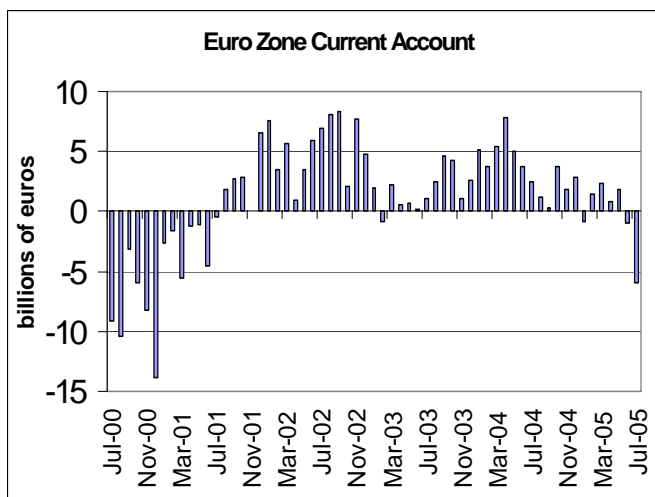
Euro Zone CPI

The Euro Zone's August Consumer Prices increased 0.3% M/M after declining 0.1% in July. Headline Y/Y prices increased 2.2%, while core prices increased 1.3%.



Euro Zone Current Account

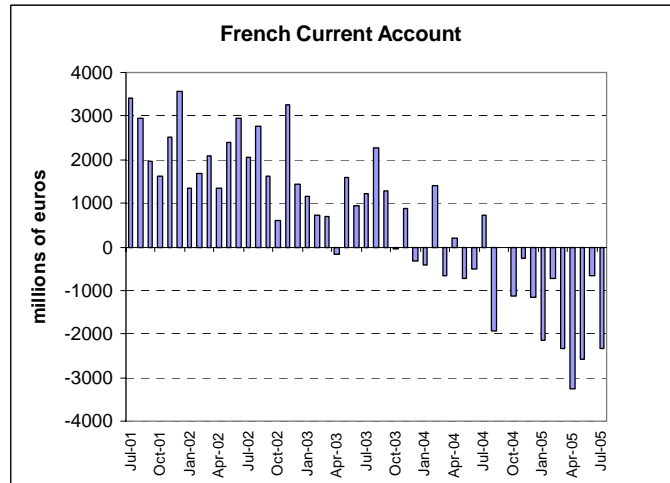
The Euro Zone's July Current Account deficit widened from 1bln in June to 5.9bln as the goods surplus fell from 6.5bln to 2.2bln.



French & Spanish Current Account

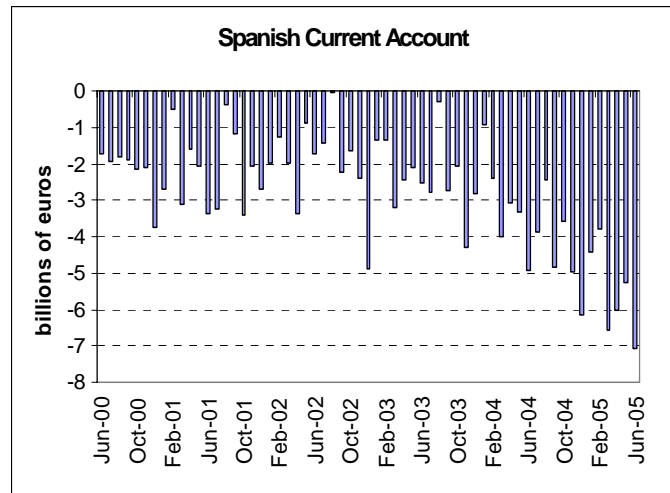
French Current Account

France's July Current Account deficit widened from 651 mln euros in June to 2.5 bln, spurred by the widening trade deficit.



Spanish Current Account

Spain's June Current Account deficit widened from 5.3 bln euros in May to 7.1 bln.



News

ECB/ Euro Zone

Sept 21st – The IMF cut its 2005 and 2006 Euro Zone growth forecasts from 1.3% in 2005 and 2.3% in 2006, to 1.2% this year and 1.8% next year, stating, “The tentative expansion in the euro area has faltered once again”.

Sept 21st – ECB President Jean Claude Trichet stated that the bank sees a “considerable oil shock” but that the shock is due to increased global demand and not a supply shortage. Trichet stated, “That’s why we’re particularly vigilant, to prevent destabilizing second round effects that could hurt growth and job creation.” He also noted that the ECB remains “particularly vigilant” regarding M3. ECB member Yves Mersch added that the ECB would act “immediately” should oil prices translate into wage demands.

Sept 20th – ECB member Klaus Liebscher stated that the ECB has no upward bias for rates, stating, “We have no bias. There are no signals in one direction or the other.” Liebscher, along with member Lucas Papademos, also noted that there is no evidence that oil prices are boosting wages or having any second round effects.

Germany

Sept 21st – Germany’s RWI Institute cut its German growth forecast from 1% for 2005 and 1.8% for 2006 to 0.9% and 1.4% respectively, stating, “There have been unfavorable developments in oil prices” and “There’s a great deal of political uncertainty now and we haven’t priced into our forecasts that the government is now likely to be inactive.” Germany’s HWWA Institute also trimmed its German growth forecast, lowering expectations from 0.7% in 2005 and 1.3% in 2006 to 0.6% and 1% respectively. The HWWA stated, “The correction of the forecast reflects entirely the burden for private households from higher prices on oil and other sources of energy.”

Sept 21st – S&P stated that Germany must curb its spending and reform its social security systems to avoid putting its credit rating at risk, stating, “Failure to address these issues will undermine German sovereign creditworthiness.”

Sept 19th – The German political stalemate has already had a negative impact on job growth. Leoni AG, a German maker of wiring systems, currently employs 90% of its workforce outside of Germany, stated that there is now “no chance we’ll move any jobs back to Germany... A grand coalition is the worst result imaginable.” A previous survey regarding corporate hiring practices if the CDU party did not win echoed the same sentiment.

France

Sept 16th – Total SA, Europe’s largest oil refinery, will invest 2.8 bln euros to expand oil refining in France over the next 5 years. The French government had threatened to raise oil company taxes unless more investment was made or prices were cut.

News & Upcoming Dates

Spain

Sept 20th – **Spain reported a budget surplus** of 7.4 bln euros which it will use to cut taxes, increase spending and pay down debt. Deputy Finance Minister Ordonez stated that, “That means that when this country has problems we will have more space to increase the deficit.”

Sept 18th – **The Spanish government**, as planned, raised its alcohol and tobacco taxes in order to fund health care spending. Beer tax increases 1 cent, wine taxes increase 30 cent and cigarette taxes increase 10 cent. The tax increases are not believed to have an effect on inflation.

Italy

Sept 21st – **Employers lobby Confindustria** reversed its call for an Italian contraction of 0.3% this year, stating that the economy will grow 0.2%. Strong export growth was cited as the reason for the expansion. The IMF however, cut their Italian growth forecast from 1.2% to 0% this year.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/22	Euro Zone Industrial Orders (JUL)	1.4% M/M	3.1% M/M
09/22	Italian Consumer Confidence (SEP)	100.5	100.8
09/23	Italian Trade Balance (JUL)	1801 mln	-588 mln
09/23	Italian Retail Sales (JUL)	0.2% M/M	-0.2% M/M
09/26	German CPI (SEP)	0.1% M/M	0.1% M/M
09/27	Euro Zone M3 (AUG)	--	7.9% Y/Y
09/27	German IFO – business climate (SEP)	--	94.6

Valance Co., Inc.

Valance Economic Report: Japan

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September 21, 2005

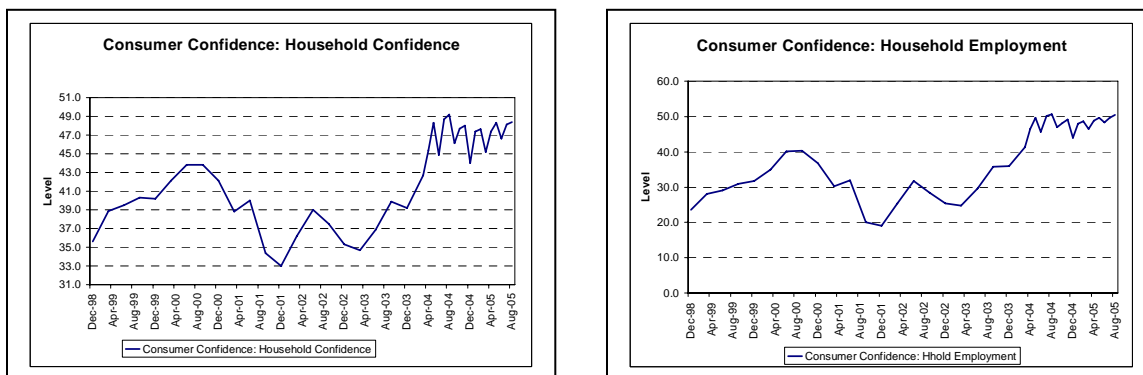
This week's data was relatively light from Japan. Consumers became less pessimistic in August due to improved employment prospects and Tokyo land prices increased for the first time in 14 years. On the political front, Koizumi's postal reform bill appears likely to pass within the next month. The BoJ continues to remain optimistic on the economy, a view reflected by data and a trend that we expect to continue into 2005.

Weekly Highlights

Consumer Confidence – increased from 48.2 to 48.4 in August. (page 17)

Tokyo Dept. Store Sales– declined 6.1% Y/Y in August. (page 19)

Leading Economic Index – declined from 66.7 to 45.5 in July. (page 19)

Weekly Releases & News**Chart of the Week: Consumer Confidence**

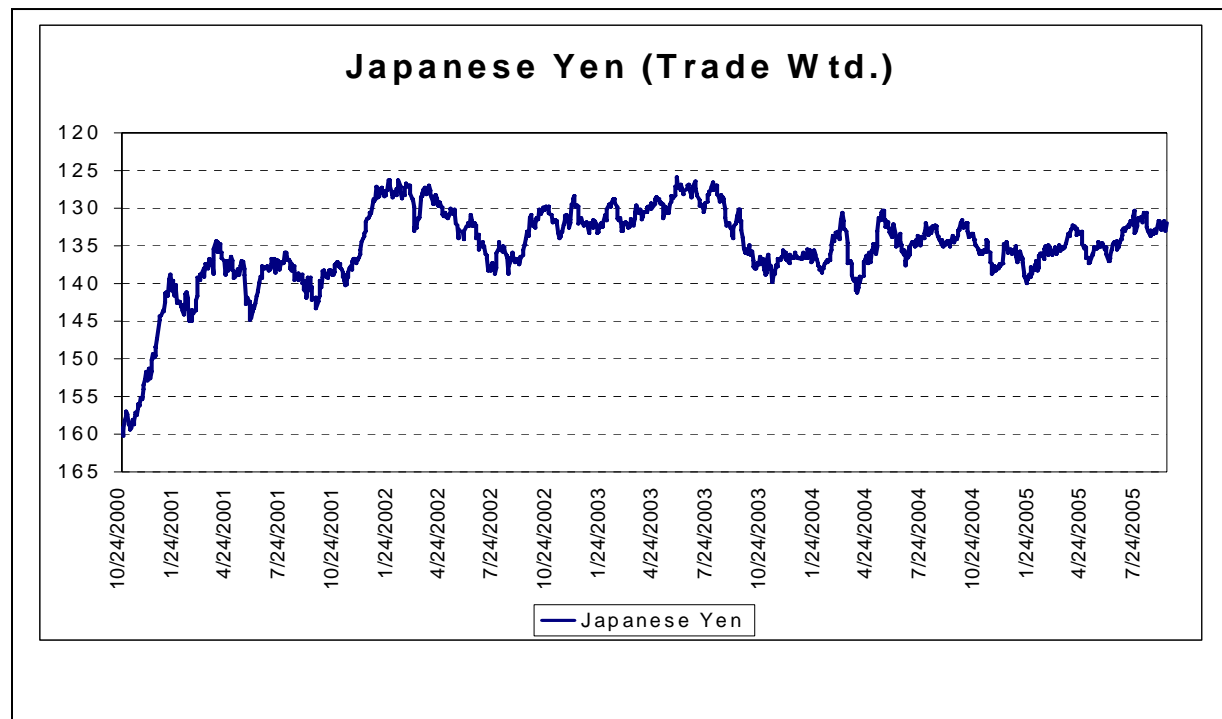
Note: Consumer Confidence Series changes from quarterly to monthly in March 2004

Overall Household Consumer Confidence increased from 48.1 in July to 48.4 in August. Most of the index components edged upward as well. Although the overall livelihood index was unchanged, income growth increased from 45.7 to 45.9, employment increased from 49.7 to 50.4, and the willingness to buy durable goods index increased from 50.2 to 50.4. Altogether, the indices suggest that consumers were less pessimistic in August as employment prospects improved.

Japan's Financial Balances

Financial Balances

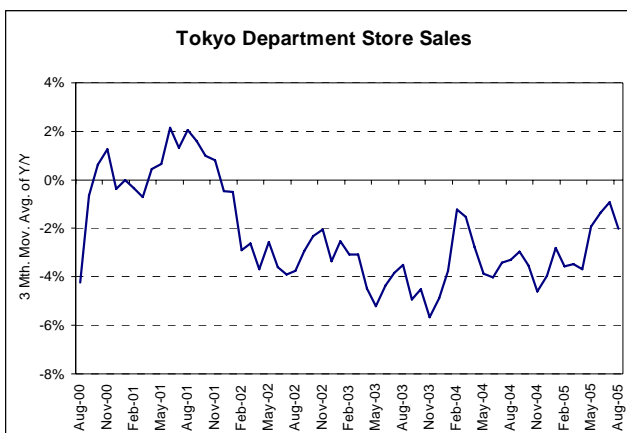
<i>Japan</i>	<i>Last period (¥trln)</i>	<i>Last 12mo. as a % of GDP</i>
Budget Balance	-3.03 (May)	-6.9%
Trade Balance	0.69 (June)	2.2%
Current Account Balance	1.50 (June)	5.2%
Private Balance	--	12.1%



Tokyo Dept. Store Sales, Leading Economic Index & Bankruptcies

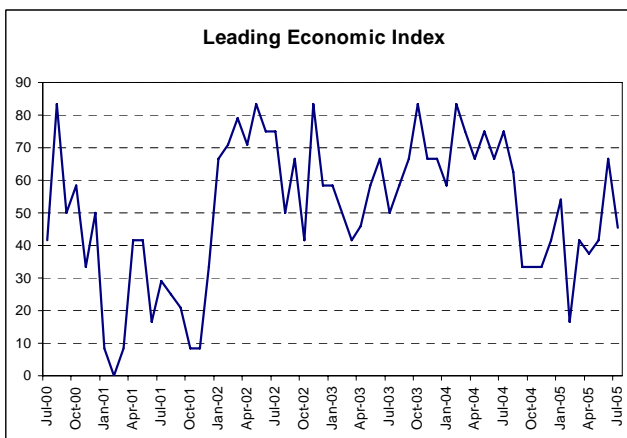
Tokyo Dept. Store Sales

Tokyo's Department Store Sales declined 6.1% Y/Y in August. The decline was due largely to a drop in the sales of household appliances.



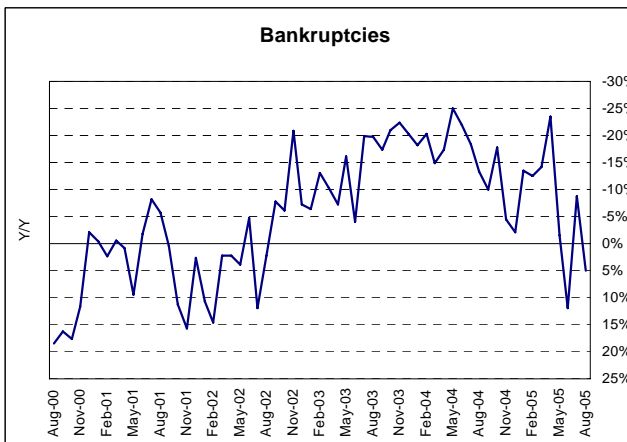
Leading Economic Index

Japan's Leading Economic Index declined from 66.7 to 45.5 in July. The Coincident Index declined from 100.0 to 30.0 in July.



Bankruptcies

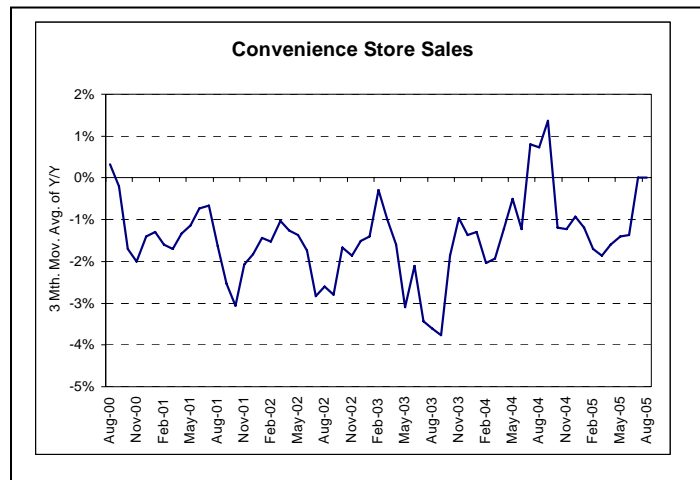
The number of corporate bankruptcies in Japan increased 5.0% M/M and 12.5% Y/Y in August. The Y/Y increase is the second highest in over three years.



Convenience Store Sales & Tokyo Condominium Sales

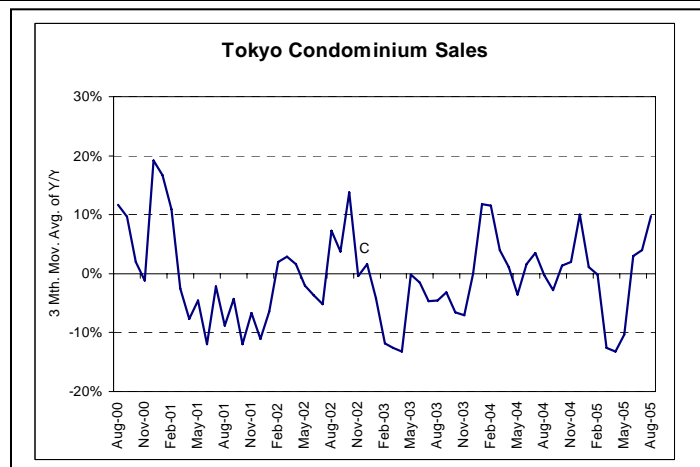
Convenience Store Sales

Convenience Store Sales in Japan increased 2.2% M/M? and declined 1.3% Y/Y on a same store basis in August. The total number of stores increased 2.6%. Customer traffic increased 3.4% on a whole and was unchanged on a same store basis.



Tokyo Condominium Sales

Condominium sales in Tokyo increased 12.7% Y/Y in August as the number of condos sold increased 25.1% Y/Y. The average unit price increased 10.9% Y/Y and the average price per square meter increased 5.3% Y/Y.



News

Political Update & Reforms

Japan's lower and upper houses officially re-elected Prime Minister, Junichiro Koizumi, on September 21nd. The entire cabinet had previously resigned, as a part of a formal procedure the parliament carries out when it starts a session. Koizumi then stated that he intends on reappointing his cabinet members to the jobs they had prior to the elections. Koizumi stated that he will continue to promote reform and lower spending in an effort to reduce public debt. Having won the elections, his postal bill is expected to be passed by mid October.

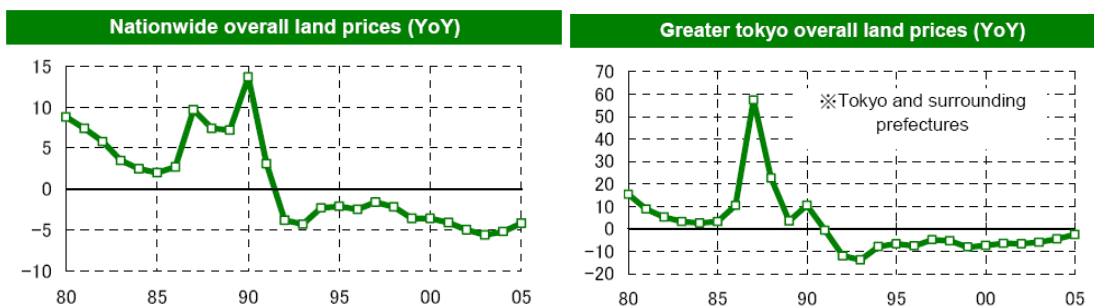
Household Financial Assets Reach Record High

The value of financial household assets increased 0.7% Y/Y to a record high of ¥1,433 tln. The increase was due largely to an increase in income according to the BoJ. The increase reflects improvement in the labor sector as employment and wage prospects improve.

Tokyo Land Prices Increase For 1st Time in 15 Years

Land prices in Tokyo increased for the first time since 1990 according to a government survey. The average price of land in Tokyo increased 0.5% Y/Y in residential areas and 0.6% Y/Y in commercial areas as of July 1st. Officials noted that the increase was due in part to active investment in real estate as expectations of a recovery increase.

Land prices were also on a rising trend in other metropolitan areas such as Osaka and Nagoya. Nationwide, land prices declined 4.2% Y/Y on average, marking the 14th consecutive year of declines, although the trend is reversing.



Source: MLIT, BNP paribas

News & Upcoming Dates

BoJ & MoF Comments

BoJ Member, Atsushi Mizuno, commented on inflation in the Japanese economy, stating that, “Given that Japan’s economic recovery has continued for a long time, and the gap between supply and demand of the economy has been narrowing, there is a high chance that core consumer prices will turn positive as early as October.” He also noted that the recovery needed to be sustainable before the BoJ could change its policy.

BoJ Deputy Governor, Kazumasa Iwata, commented that the BoJ should introduce an inflation target as a way of preventing rapid upswings in long term rates due to market speculation over BoJ policy. Iwata has been an advocate of inflation targeting for some time. Until last year, he argued that the BoJ should use a target of 1-2% core inflation to indicate to the market the timing of changing its policy.

Finance Minister, Sadaku Tanigaki, commented that a rapid increase in bond yields may slow the economic recovery, although he declined to estimate on when deflation would end, stating that, “we aren’t in a situation in which we can rush to make such a forecast.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/21	Adj. Merch. Trade Bal.	¥800.0 bln	¥604.9 bln
09/21	Tertiary Industry Index (Jul M/M)	-0.7%	1.0%
09/21	All Industry Activity Index (Jul M/M)	-0.7%	1.3%
09/25	BSI Large Manufacturing (Q3 Q/Q)	-0.7%	1.0%
09/25	BSI Large All Industry (Q3 Q/Q)	-0.7%	1.3%
09/26	Chain Store Sales (Aug Y/Y)	N/A	-2.3%
09/26	Nationwide Dept. Sales (Aug Y/Y)	N/A	1.1%
09/26	Corp. Service Price (Aug Y/Y)	N/A	-0.7%
09/27	Machine Tool Orders (Aug Y/Y)	N/A	5.2%

Valance Co., Inc.

Valance Economic Report: United Kingdom

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September 21, 2005

The MPC Minutes released were slightly dovish in tone as they stated consumption growth had been weaker than expected and that export growth might have been overstated. In addition, they noted that while oil prices will likely continue to impact CPI inflation, this could be offset by a continued appreciation of Sterling. Meanwhile, RICS House Prices continued to decrease, but at a slower pace. This data bolsters our view of rate cuts being the next move for the MPC.

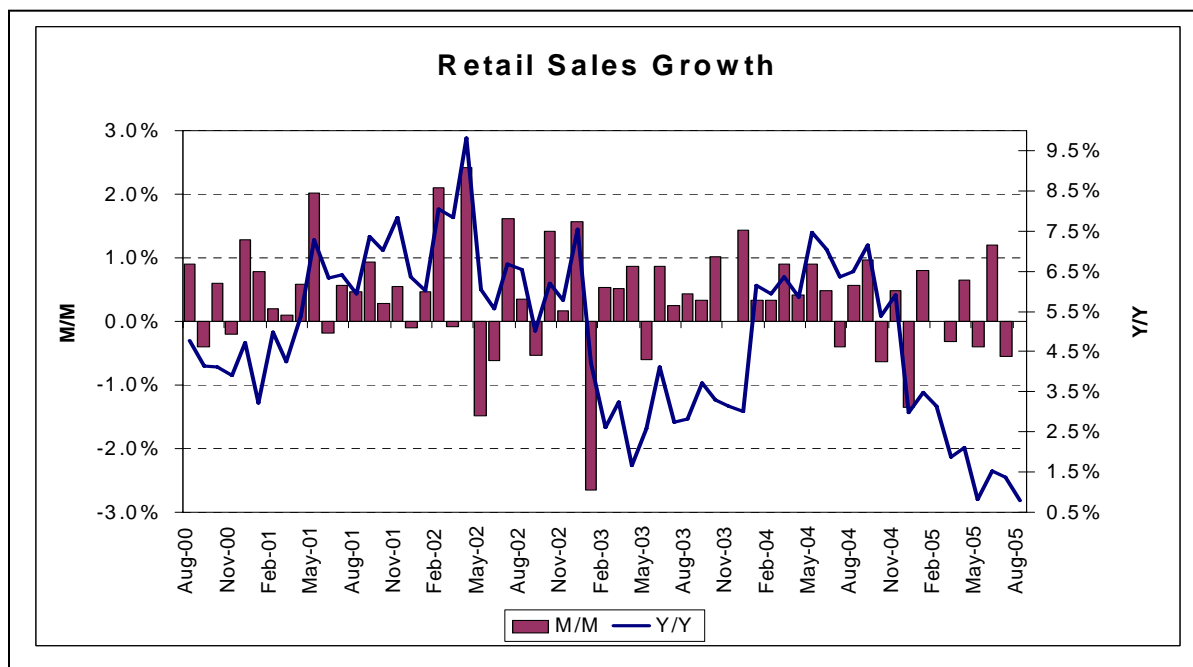
Weekly Highlights

Retail Sales- remained flat M/M and increased 0.8% Y/Y in August. (page 23)

The Budget Surplus- fell from £6.4 bln in August of 2004 to £4.8 bln in August 2005. (page 25)

RICS Reported Prices- increased from -34 to -26 in August. (page 26)

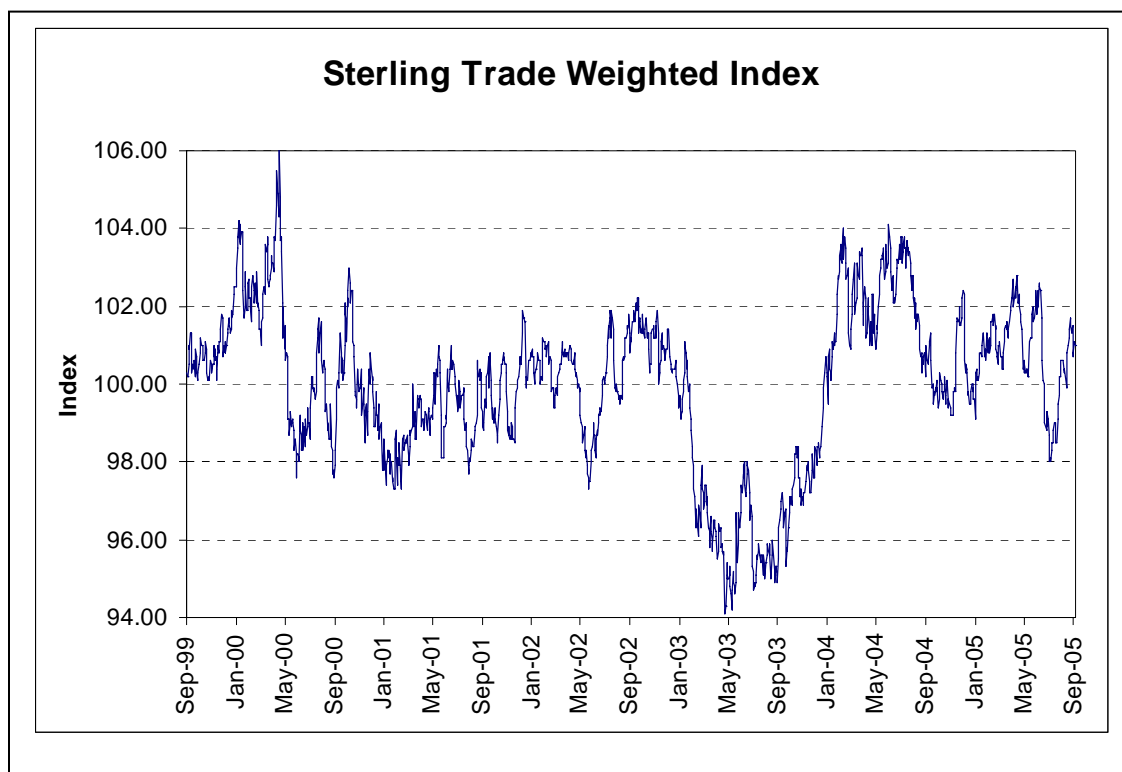
MPC Minutes- shows members voted 9-0 to leave rate unchanged at the September meeting. (page 25).

Weekly Releases & News**Chart of the Week: Retail Sales Growth**

Retail Sales remained flat M/M and increased 0.8% Y/Y in August, against expectations of a small M/M increase. A decrease in food sales at large food stores of 1.2% M/M, due in part to August being the peak vacation time for Britons, was offset by increases in all the other sectors.

Financial Balances

<i>U.K.</i>	<i>Last Period (blns)</i>	<i>Last 12m % of GDP</i>
Budget Balance (monthly)	£4.8 (July)	1.6%
Trade Balance (monthly)	-£3.4 (May)	-1.1%
Curr. Acct. Balance (quarterly)	-£5.8 (March)	-2.0%
Private Balance	--	-3.5%



MPC Minutes and Budget Balance

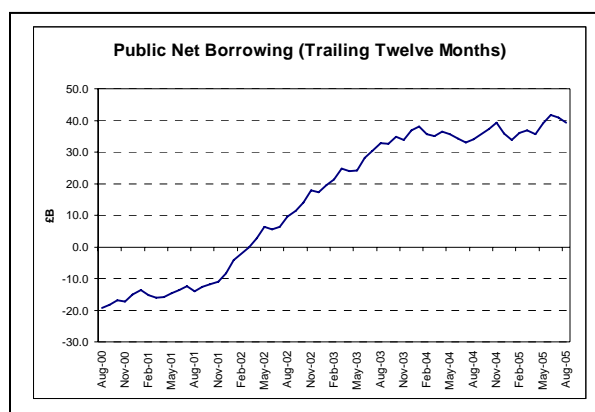
MPC Minutes

The MPC September minutes released were slightly dovish in tone and showed they voted 9-0 to leave rates unchanged. Highlights include:

- Near-term outlook for UK-weighted world demand growth seemed broadly similar to the outlook at the time of the August Inflation Report.
- Higher oil prices continue to pose a downside risk to world demand and an upside risk to world export prices.
- Slight upward revision to Q2 GDP left growth slightly below trend for the fourth quarter in a row.
- Consumption growth has been weaker than expected.
- Export growth might have been overstated.
- Data releases and survey indicators relating to July and August suggested that GDP growth in Q3 was likely to be broadly similar to that in Q2.
- UK consumption and business investment and euro-area domestic demand have continued to weaken. If sustained, these developments were likely to push down on UK GDP growth and deliver a lower inflation outturn than the one envisaged in the August Inflation Report.
- Sterling's appreciation would also push down on inflation.
- Inflation outturns have also been higher than anticipated over the past year and reflected more than the impact of higher oil prices.
- Few signs of any second-round effects arising yet from the increase in oil prices. Inflation expectations appeared to be well-anchored.

Budget Balance

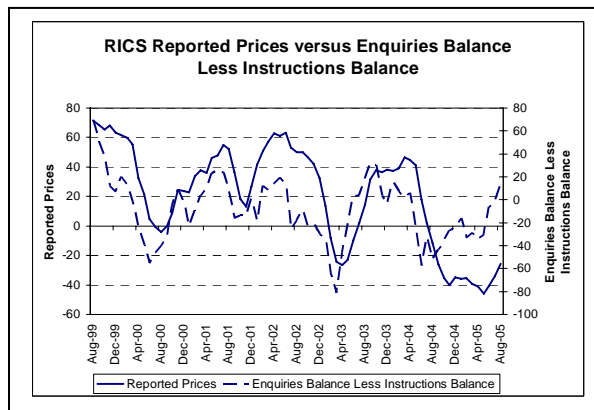
The Budget Surplus fell from £6.4 bln in August of 2004 to £4.8 bln in August of 2005. On a cumulative basis, borrowing in the first five months of the 2005-2006 financial year was £20.8 bln. This is higher than in the same period of the previous three years and is unlikely to improve in light of rigid government commitments to spend over the near term.



RICS House Price Survey

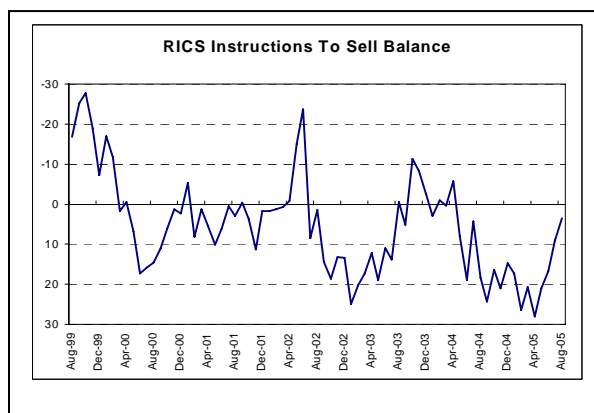
Reported Prices

RICS Reported Prices increased from -34 to -26 in August, continuing the fall of the last thirteen months, though the pace of decline eased back for a third consecutive month. House prices continued to decrease in all regions except in the North West where they turned flat and in Scotland where prices rose for the fourth consecutive month.



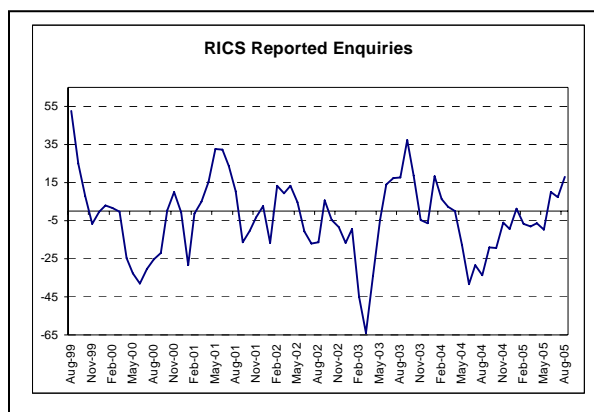
New Instructions to Sell

RICS New Instructions to Sell decreased from +9 to +4 in August, the slowest growth of homes coming onto the market in four months. Sellers may feel the current level of house prices have become too low for them to justify selling their property.



Reported Enquiries

RICS Reported Enquiries jumped from +7 to +18 in August, the third consecutive month of increase. The rate cut in August and the possibility of future rate cuts seems to be motivating buyers.



Data

Data

CML Mortgage Lending

The Council of Mortgage Lenders (CML) reported that mortgage lending increased 9.1% M/M and 4.0% Y/Y in August, the highest annual growth since July of 2004. Re-mortgages surged 15.0% M/M in August as home owners rushed to refinance their houses after the recent rate cut.

BBA Mortgage Lending

The British Bankers Association (BBA) reported that mortgage lending increased 16.2% M/M, which brings the mortgage lending rate in line with the average of the last six months after the slowdowns in June and July.

Rightmove House Price Survey

Rightmove's House Price Survey decreased 0.4% M/M and increased 1.6% Y/Y in September. Rightmove reported that the deceleration of Y/Y growth may be coming to an end as buyers are being "tempted" by more realistic prices to purchase a property.

Brown reprimanded by EU over widening Budget Deficit

Gordon Brown was reprimanded by the EU to bring down the UK's budget deficit after the EU commission stated the deficit will reach 3.25% of GDP through March 2006, above the EU's limit of 3.0%. This is politically embarrassing for Brown after he recently told the EU to follow the UK's "economic recipe." The commission stated that Brown's economic projections are "no longer tenable" and that "revised national accounts and other economic data show that the slowdown has been much sharper than previously understood." While the EU is unable to impose any restrictions on the UK, it is able to issue deficit-reducing recommendations.

Comments & Upcoming Dates

Comments

MPC Member, Steve Nickell, commented that there is “serious risk” that economic growth will fall short of the MPC’s forecast as high oil prices, which have increased slack in the labor market and high levels of household debt, continue to affect the economy. In addition, household savings rates could rise, denting consumption growth. When asked about the economy bouncing back, he stated that, “My best guess is that it will, but there is a serious risk that that won't happen, in which case we can respond to that. What happens to interest rates in the future depends very much on whether that forecast pans out.” Nickell is known to be one of the biggest activists on the board. He voted for a rate cut at the last meeting in August.

MPC Member, David Walton, commented that consumption may remain “subdued” amid surging energy prices and record household debt, damping pressures that have driven inflation to an eight-year high. “The slowdown in growth over the past year should lead to some moderation in inflationary pressure further ahead. The stability of wage inflation and the decline in cost and price pressures across a range of business surveys in recent months suggest that, for the moment at least any second round effects from higher oil prices will be modest.” He voted for a rate cut at the August meeting.

Together they suggest that a significant proportion of the MPC is feeling uncomfortable about its August growth forecast, which was considerably more optimistic than the consensus of independent forecasters.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/22	CBI Industrial Trends Survey	--	--
09/26	BOE Quarterly Bulletin	--	--
09/27	Total Business Investment	--	0.1% Q/Q 2.5% Y/Y
09/27	BBA Mortgage Lending	--	--
09/28	Nationwide House Prices	--	2.3% M/M -0.2% Y/Y
09/28	Q2 GDP Revision 3	--	0.4% Q/Q 2.1% Y/Y
09/28	CBI Distributive Trades	--	--
09/28	Current Account	--	-£5.0 bln

Valance Co., Inc.

Valance Economic Report: *Canada*

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September 21, 2005

This past week, Canada released generally strong economic data. Retail Sales and New Motor Vehicle Sales both rose above expectations and the Composite/Leading Index remained strong.

Weekly Highlights

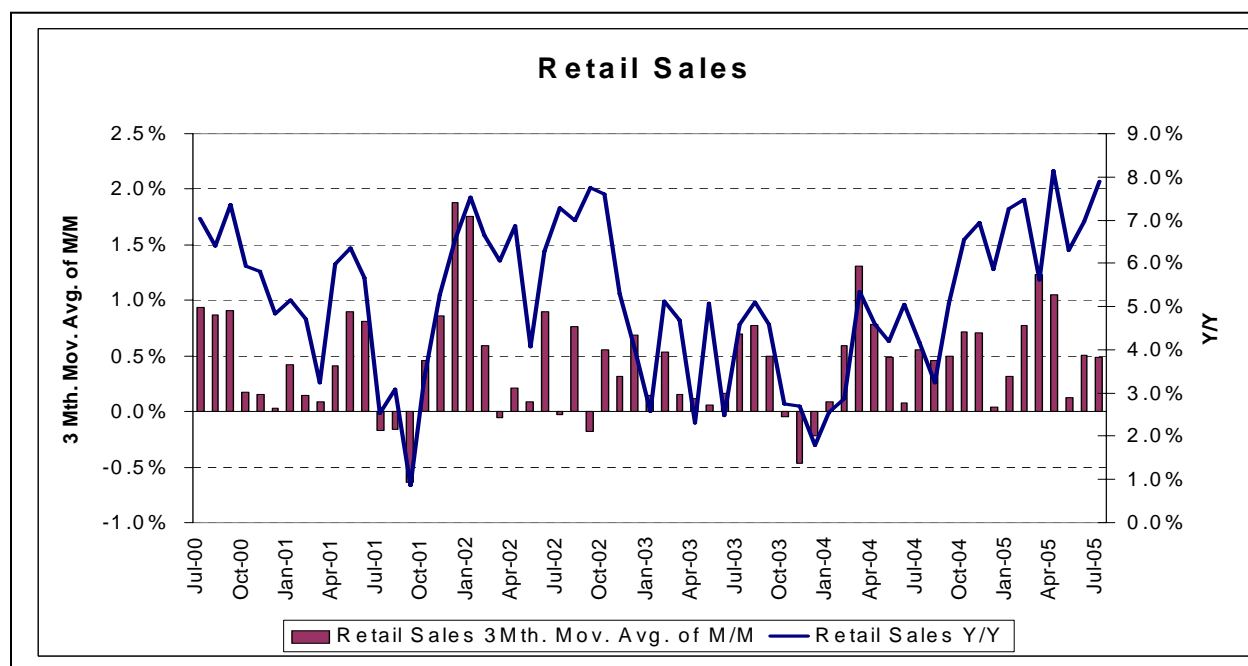
Retail Sales - increased 1.5% M/M and 7.9% Y/Y in July, above expectations. (page 29)

New Motor Vehicle Sales - increased 7.3% M/M and 15.7% Y/Y in July. (page 31)

Composite/Leading Index - increased 0.3% M/M and 3.5% Y/Y in August. (page 31)

Weekly Releases & News

Charts of the Week: *Retail Sales*



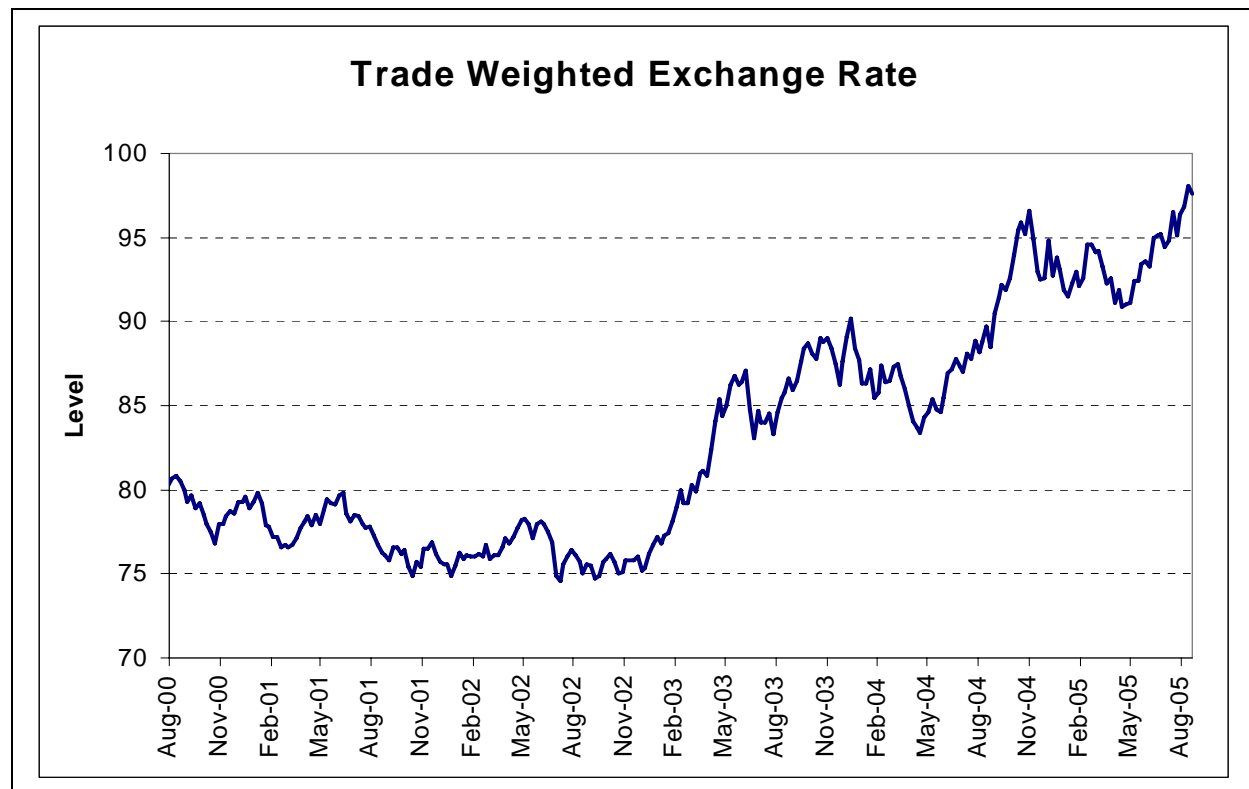
Retail Sales increased 1.5% M/M and 7.9% Y/Y in July, above expectations. Retail Sales, less autos, increased 0.7% M/M in July, also above expectations. Strong auto sales, coupled with increases in the food, furniture and pharmacy sectors, resulted in the solid increase in Retail Sales.

Financial Balances & Trade Weighted Exchange Rate

Financial Balances

<i>Canada</i>	<i>Latest period (C\$bbln)</i>	<i>% of GDP</i>
Budget Balance	1.7 (June)	.2%
Trade Balance	4.9 (June)	4.9%
Current Account Balance	4.7 (Q2)	2.2%
Private Balance	--	2.0%

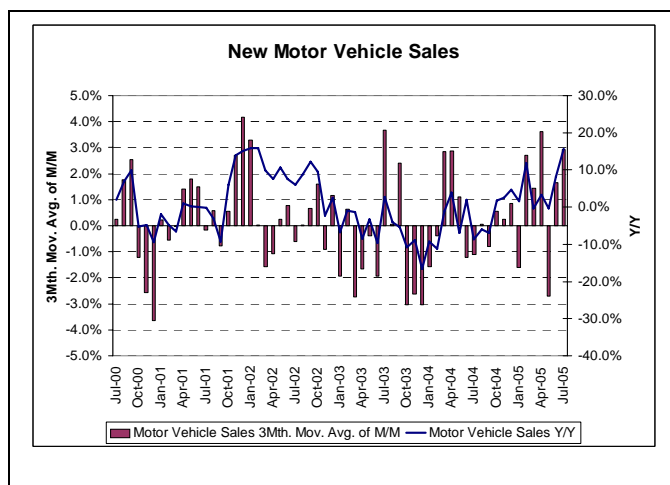
Trade Weighted Exchange Rate



New Motor Vehicle Sales, Wholesale Sales & Composite/Leading Indicators

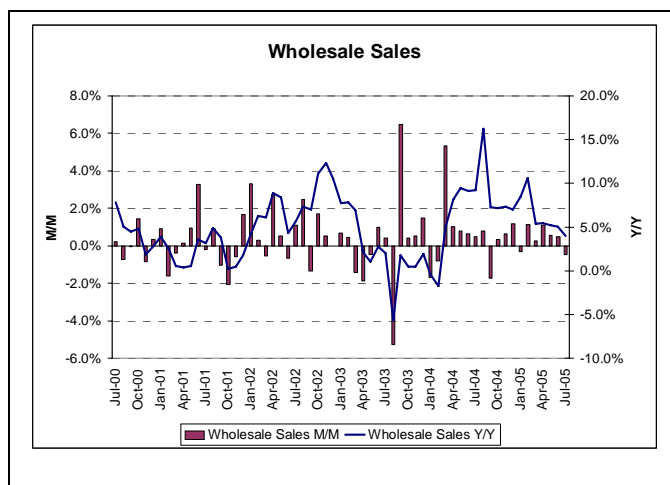
New Motor Vehicle Sales

New Motor Vehicle Sales increased 7.3% M/M and 15.7% Y/Y in July as incentives boosted demand for new trucks. This strong result followed an 8.5% M/M increase in June. Total vehicle purchases reached 152,229, a record high.



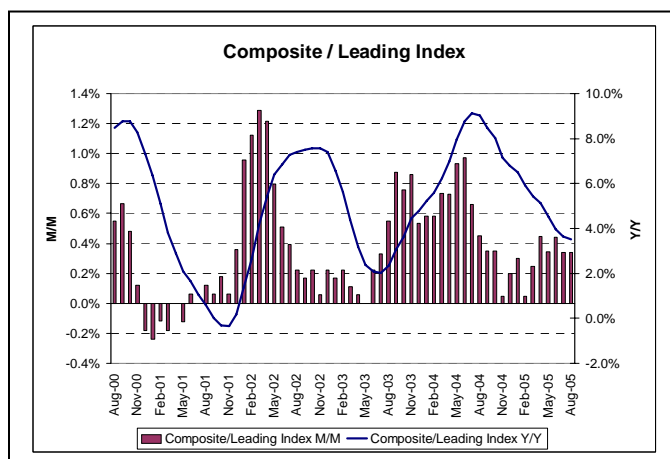
Wholesale Sales

Wholesale Sales decreased 0.5% M/M and increased 4.0% Y/Y in July. The decline in sales was attributed to lower demand for building materials, and machinery and electronic equipment.



Composite/Leading Index

The Composite/Leading Index increased 0.3% M/M and 3.5% Y/Y in August as a result of strong domestic demand. Consumer spending remained strong with growth in sales of durable goods increasing 1.1% M/M. Housing demand remained strong for the fourth consecutive month as house sales hit a new record high in August. Business and personal services were also a source of solid growth.



News

Existing Home Sales

Canadian unit sales of existing homes in 25 major markets increased 4.8% M/M in August. New Home sales increased 3.3% M/M in July. Average home prices increased 10.9% Y/Y. These results were posted by the Canadian Real Estate Association.

Canada Needs Older Workers, OECD Says

The OECD thinks that Canada is in better shape than most countries in regards to dealing with its aging population. However, it has indicated that Canada still needs a major overhaul of its retirement practices if it intends to prevent weaker economic growth. “Older people offer tremendous potential value to businesses, the economy and society,” the report noted. “Unfortunately, they often represent an untapped and discriminated-against resource, as many public policy measures and private workplace practices pose serious barriers to work, both paid and unpaid.” The report recommended that all provinces should ban mandatory retirement.

BoC September Interest Rate Hike Was Appropriate, IMF Says

According to the IMF, the Bank of Canada’s decision to increase interest rates on September 7th, was appropriate, citing that “With labor market conditions tightening and unit labor costs increasing, price developments need to be monitored carefully,” stated the IMF in its World Economic Outlook report released today. They also commented that Canada’s economy will expand 2.9% in 2005 and 3.2% in 2006. Its earlier estimate published in April was for increases of 2.8% in 2005 and 3% in 2006.

Every Albertan to get \$400, Klein Says

Every individual in Alberta will receive \$400 from the province’s unbudgeted surplus, according to Premier Ralph Klein. The funds should be distributed to individuals by the end of this year. The surplus will also be spent on infrastructure projects and various endowments.

Upcoming Dates

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/22	Consumer Price Index (M/M) (AUG)	0.4%	0.2%
09/22	Consumer Price Index (Y/Y) (AUG)	2.7%	2.0%
09/22	Core Consumer Price Index (M/M) (AUG)	0.1%	0.0%
09/22	Core Consumer Price Index (Y/Y) (AUG)	1.6%	1.4%

Valance Co., Inc.

Valance Economic Report: Australia

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September 21, 2005

The recent pick up in growth is unlikely to prompt the RBA to increase interest rates again this year amid signs that inflation is in check. June and July were the first months since August 2004 that the Leading Index had grown above trend, which suggests that growth may accelerate by late 2005 and into 2006.

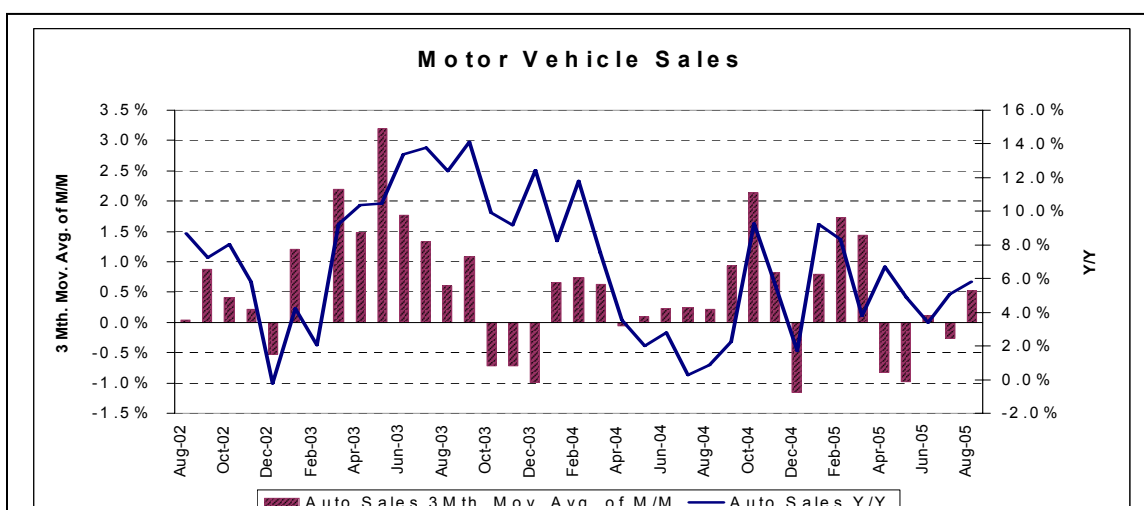
Weekly Highlights

New Motor Vehicle Sales – gained 1.4% M/M in August from a revised 0.6% M/M in July. (Page 34)

Westpac Leading Economic Index – rose 0.1% M/M and 4.7% Y/Y in July. (Page 35)

Weekly Releases & News

Chart of the Week: *Motor Vehicle Sales*



New Motor Vehicle Sales gained 1.4% M/M in August from an upwardly revised 0.6% (previously 0.4%) and 5.8% Y/Y in July.

Westpac Leading Economic Index, Vacancies Index, News & Key Dates

Westpac Leading Economic Index

The Leading Index, a gauge of growth for the next six to nine months, rose 0.1% in July from June. The Y/Y growth rate of the index was 4.7%, more than its long-term trend of 4.0%. This was a fifth consecutive month of gain in July, suggesting that growth may accelerate. The annualized growth rate of the Coincident Index, which provides a more up-to-date picture of the economy, was 5% in July, above its long-term trend of 4.1%.

Skilled Vacancies Index

An index measuring the number of jobs available for skilled workers in Australia fell 1.3% M/M in September from August. Total skilled vacancies were 10.4% lower in September than a year earlier.

News

Industry groups have welcomed a key federal concession on a new regulatory regime aimed at drawing billions of dollars of investment into infrastructure ranging from electricity to railways. Amendments to the Trade Practices Act expected to be passed by federal parliament next month will enshrine pricing principles that would guide regulators when they decide how to force monopoly infrastructure owners to open up their networks to others, including rivals.

Key Dates This Week

	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/28	Job Vacancies (AUG)	--	-1.1 %
09/28	RBA's Macfarlane Speech	--	--

Valance Co., Inc.

Valance Economic Report: New Zealand

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September 21, 2005

Provisional results from Saturday's New Zealand elections have put neither of the two major parties, Labor or National, in a position to form a government. The Current Account Deficit widened to a record in the year ending on June 30th as soaring oil prices and increased consumer demand for cars, computers and clothing drove up imports.

Weekly Highlights

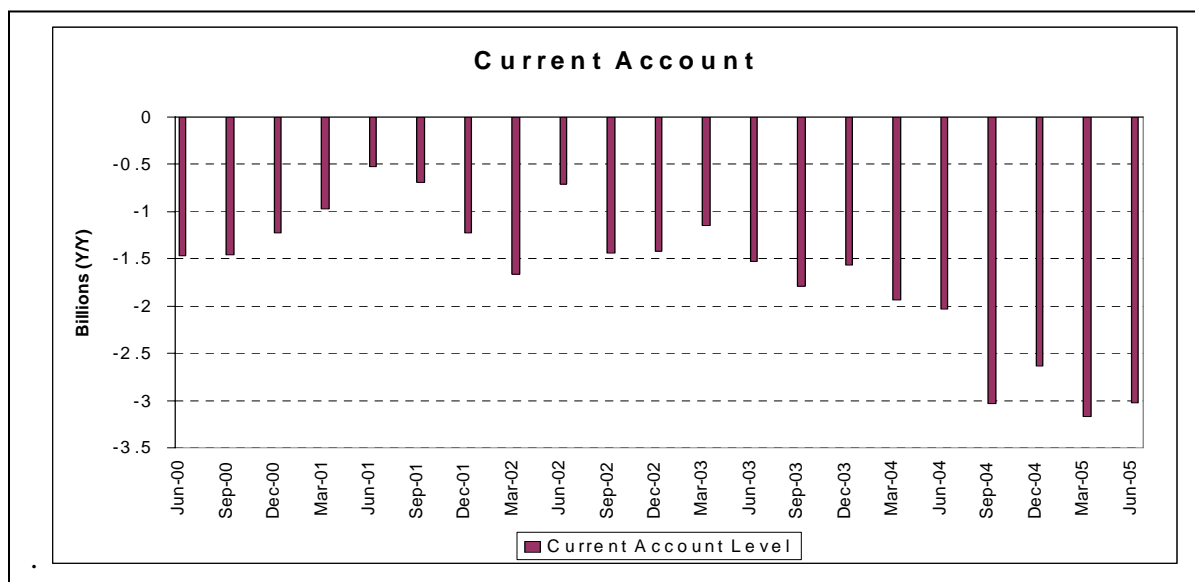
Current Account Deficit – widened to NZ\$2.85 bln in Q2 from a revised NZ\$1.86 bln in Q1. (Page 36)

Housing Sales – rose 3.9% M/M and 4.8% Y/Y in August (Page 37)

NZ PMI – expanded to 53.1 in August from 48.2 in July. (Page 37)

Weekly Releases & News

Chart of the Week: *Current Account Balance*

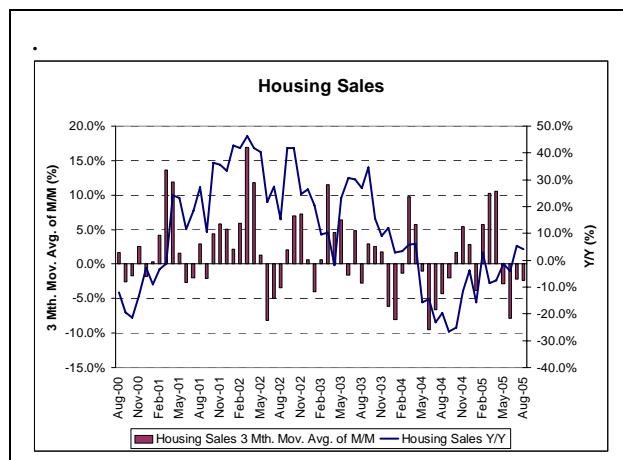


The Current Account deficit widened to NZ\$2.85 bln Q/Q from an upwardly revised NZ\$1.86 bln in Q1 (previously -1.421bln). The current account deficit now stands at a record 8% of GDP.

Housing Sales & News

Housing Sales

New Zealand consumers bought more houses in August than in July. Sales rose 3.9% M/M and 4.8% Y/Y in August. The national median house price increased 3.6% to NZ\$290,000.



News

National Elections:

Provisional results from Saturday's New Zealand elections have put neither of the two major parties, Labor or National, in a position to form a government. The incumbent Labor Party leads by a narrow margin of 23,000 votes with 218,000 special votes still to be counted. As it stands, the result gives Labor 40.7% of the vote (50 seats) and National 39.6% (49 seats). Both would need to stitch together a shaky coalition with more than one of the minor parties to guarantee the 62 seats needed for a parliamentary majority.

Manufacturing Activity:

New Zealand Manufacturing Index expanded to 53.1 in August from 48.2 in July.

Food Prices:

New Zealand food prices fell 0.2% M/M and rose 2% Y/Y in August led by cheaper fresh fruit and vegetables. Food prices make up about 17% of the overall CPI, which the RBNZ uses as its key measure of inflation when setting interest rates.

Spending & Saving:

Finance Minister Michael Cullen said that the current account deficit demonstrated that government policies should be set to counter consumer spending and encourage saving. He added that this is no time to be stimulating demand in the economy and that the government must maintain a strong fiscal position to lean against the effects of high, debt-financed consumption.

Key Dates this Week

<i>Indicator</i>		<i>Expectation</i>	<i>Previous</i>
09/22	Visitor Arrivals (AUG)	---	-16.0%
09/26	Trade Balance (AUG)	---	-616.80ml

Valance Co., Inc.

Weekly Economic Report: **China**

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September 21, 2005

China continues to post strong economic releases. Fixed Asset Investment increased above expectations, Foreign Exchange Reserves increased and the Real Estate Climate Index remained above the expansion level.

Weekly Highlights

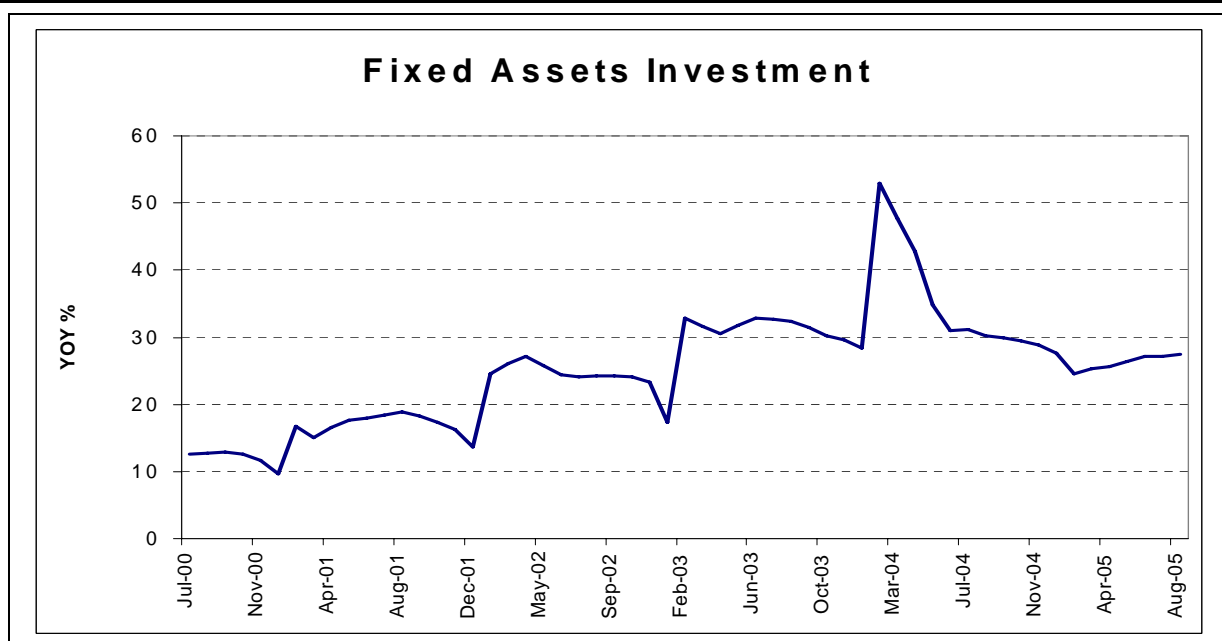
Fixed Assets Investment - increased from 27.2% Y/Y in July to 27.4% Y/Y in August. (page 39)

Real Estate Climate Index - remained at 101.9 in August. (page 40)

Household Savings - increased 1% M/M and 17.5% Y/Y in August. (page 40)

Weekly Releases & News

Chart of the Week: *Fixed Assets Investment*

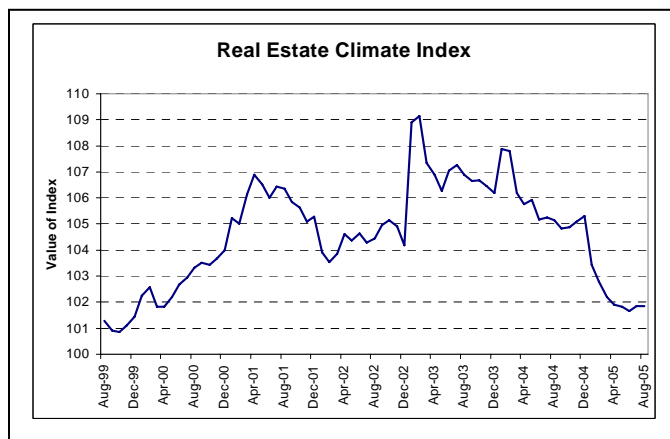


Fixed Assets Investment increased from 27.2% Y/Y in July to 27.4% Y/Y in August, above expectations of 27.0% Y/Y. New project starts remained firm, implying strong investment spending in the coming months

Real Estate Climate Index, Household Savings & FX Reserves

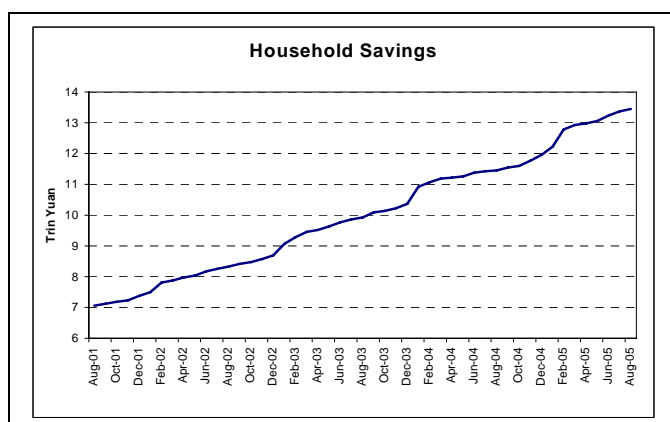
Real Estate Climate Index

The Real Estate Climate Index stood at 101.9 in August, the same reading recorded in July. Land Development Area and the Sales Prices components posted the highest increases. The Real Estate Climate Index is a composite index used to measure the well-being of the real estate industry in China; a reading above 100 indicates industry expansion, while below 100 suggests contraction. It has stabilized recently after falling for over 2 years.



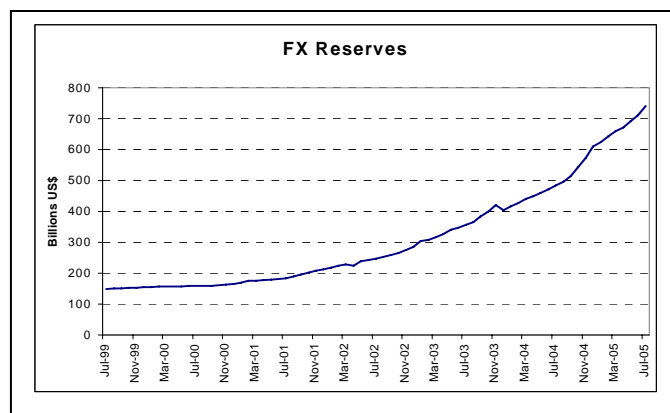
Household Savings

Household Savings increased 1% M/M and 17.5% Y/Y in August.



FX Reserves

China's Foreign Exchange Reserves reached a record \$740 bln in July.



News Releases

News Releases

September 20th – Textile Agreement Will Not Affect 2006 Quota - An agreement made recently between the EU and China, which will allow 50% of textiles that were blocked at EU ports to be included in next year's quota, is troubling to some European retailers who believe this may pose a similar problem next year. However, Commerce Minister, Bo Xilai promised that this agreement will not affect 2006 exports and he also commented that only 3.0% of these items will be added to next year's quota which is "quite small."

September 19th – Prudent Monetary Policy – Vice Finance Minister, Li Yong, stated that China will be cautious relative to its monetary policy. Yong added that decisions will be based on the conditions of the market, however, "there will be no drastic moves in monetary policy."

September 19th – PBoC Pledges to Keep the Yuan Stable – In an effort to improve China's exchange rate system, the PBoC has pledged to keep its currency stable and to further develop its foreign exchange market. Other comments on the state of the yuan were as follows:

- September 15th – Yi Gang, Assistant to the Central Bank Governor, stated a managed floating system will be used instead of further revaluation.
- September 16th – The OECD is calling for "greater flexibility".
- September 16th – Wang Chunzheng, Vice Chairman of the National Development and Reform Commission is also seeking a more flexible yuan. Wang added that "This kind of policy recommendation is a reasonable one."

September 19th – IMF Sees No Evidence of Manipulation – Managing Director of the IMF, Rodrigo de Rato, stated that there is no evidence that China has manipulated its currency. He added that "we never saw a basis for that." The IMF has been urging China for over a year to move to a more flexible exchange rate, citing that it would help to protect China against inflation. However, Rato suggested that the revaluation process didn't go far enough.

September 19th – China's Real Estate Slowing Down – According to China's National Statistics Bureau and the National Development and Reform Commission, China's property prices have slowed down by 0.7% M/M in August. Real Estate prices have increased by 6.3% Y/Y in 70 of China's major cities.

September 16th – U.S. Reignites Pressure on China to Re-value the Yuan - The Bush Administration is once again putting pressure on China to step up the pace in adjusting its currency. The U.S. Officials are not satisfied with the fact that China's two month old decision to let the yuan move with market forces has resulted in only a small increase in its exchange value. This pressure precedes the scheduled September 23-24 meeting in Washington, D.C. which will include senior economic officials from the Group of Seven major industrialized nations. The Chinese finance minister, Jin Renqing, has also been invited to this meeting.

News Releases (cont'd.) & Upcoming Dates

News Releases (cont'd.)

September 16th – China's Economy Will Continue to Grow, Says OECD – The OECD reported that China's economy will grow 9.0% this year and 9.2% in 2006 as a result of private sector growth, capital market reforms and growth in the finance and banking sectors. The OECD also predicted that China's current account surplus will total \$100 bln this year and \$101 bln in 2006 as a result of growing exports.

Upcoming Dates

Nothing to report.

Valance Co., Inc.

Valance Economic Report: Sweden

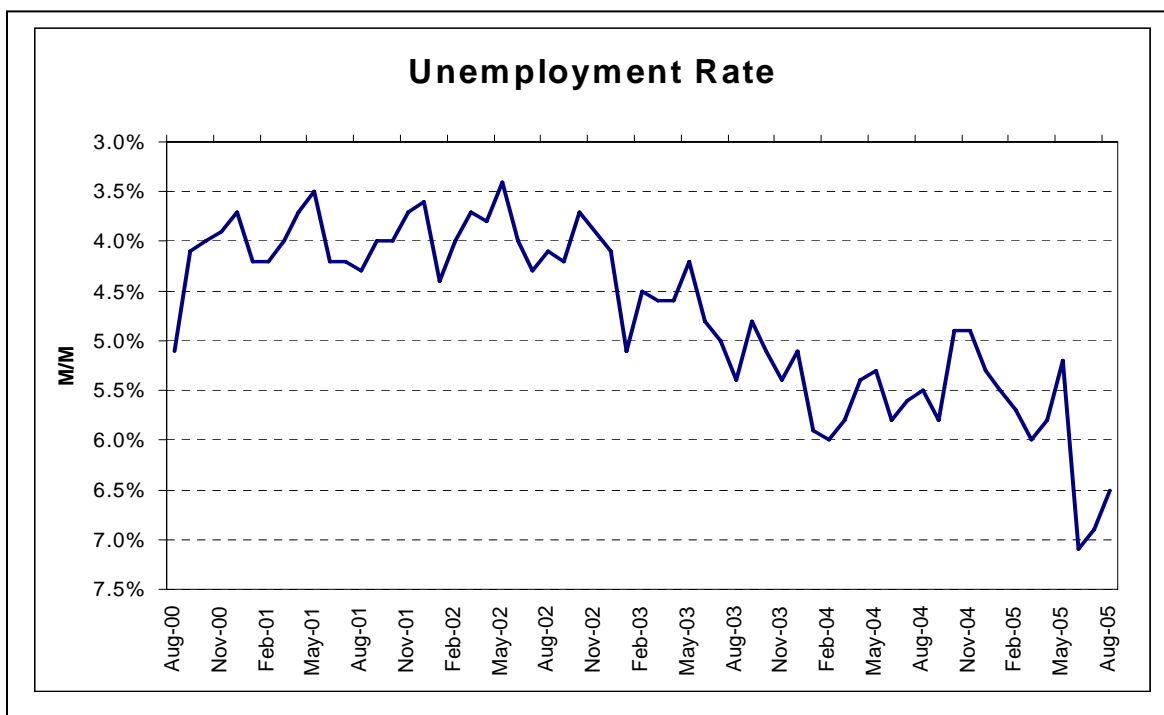
Evelyn L. Richards

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September 21, 2005

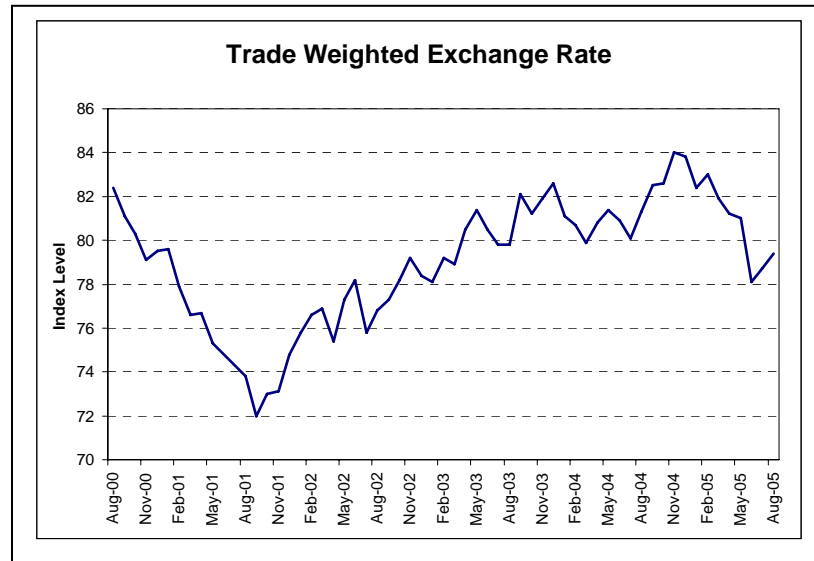
Sweden's Unemployment Rate, the only economic indicator released this week, dropped from 6.9% in July to 6.5% in August.

Weekly Releases & News**Charts of the Week: Unemployment Rate**

The Unemployment Rate fell from 6.9% in July to 6.5% in August amid increased consumer spending and a pick up in economic growth. Expectations were for a drop to 6.8%. The decline was also partly attributed to the Statistics office's new calculation method implemented in April as well as increased spending on training programs. The number of individuals unemployed fell to 304K in August -- down 23K from the month before.

Trade Weighted Exchange Rate & Upcoming Dates

Trade Weighted Exchange Rate



Key Dates This Week

Date	Indicator	Expectation	Previous
09/22	GDP s.a. (Q/Q) / w.d.a. (Y/Y) - 2Q	--	0.6% / 2.2%
09/23	PPI Y/Y / M/M - Aug	--	3.7% / 0.9%
09/26	Trade Balance - Aug	--	13.4B
09/28	Manufacturing Confidence - Sep	--	-6.0
09/28	Consumer Confidence - Sep	--	14.2

Valance Co., Inc.

Valance Economic Report: Switzerland

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September 21, 2005

This week's economic news was highlighted by the Swiss National Bank's decision to leave its three-month Libor Rate unchanged at 0.75%. Additionally, growth in Industrial Production improved significantly from -6.5% Q/Q in Q1 to 7.6% Q/Q in Q2.

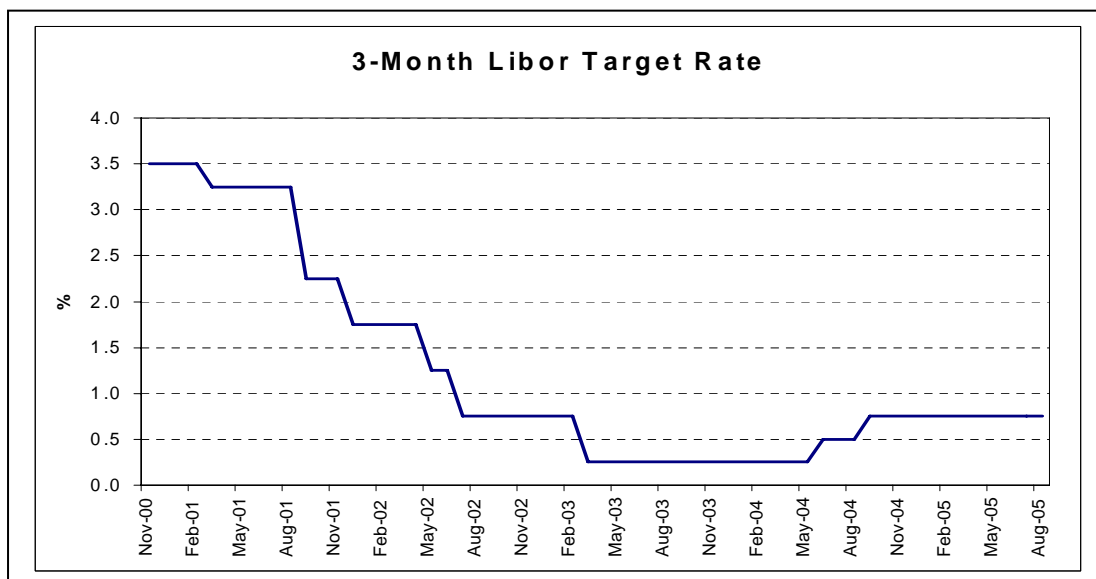
Weekly Highlights

3-Month Libor Target Rate – was left unchanged at 0.75%. (page 45)

Industrial Production - rose to 7.6% Q/Q and 4.0% Y/Y in Q2. (page 46)

Weekly Releases & News

Chart of the Week: 3-Month Libor Target Rate

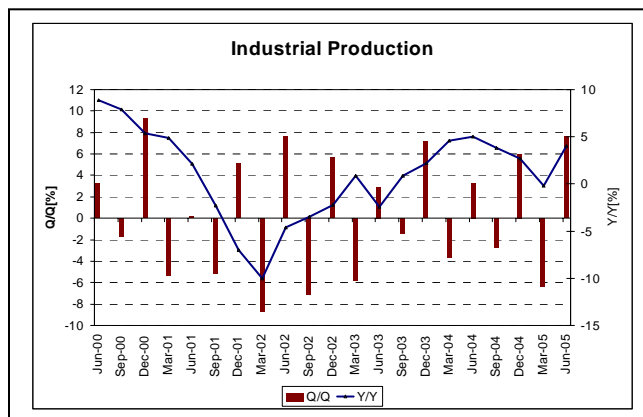


The Swiss National Bank left its key interest rate unchanged at 0.75% as expected. The Bank's policymaker's attributed its decision to leave the rate as is to stimulate Switzerland's economic growth which is being hampered by rising oil prices.

Industrial Production, Adjusted Real Retail Sales & Producer and Import Prices

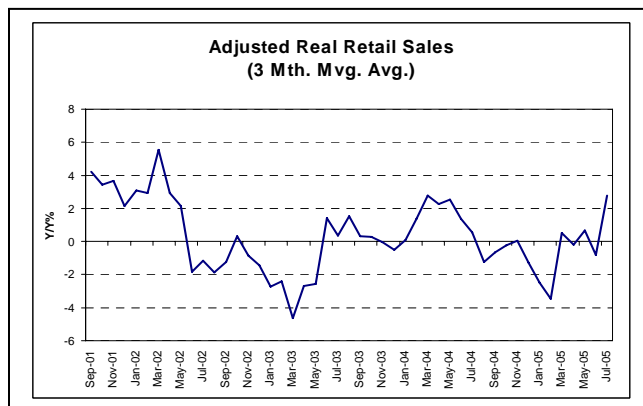
Industrial Production

Industrial Production rose significantly to 7.6% Q/Q and 4.0% Y/Y in Q2 above expectations of a 3.8% Q/Q and 0.5% Y/Y gain. The Q/Q rise was led by an increase in demand for exports. Orders also rose 9.6% Q/Q and 6.6% Y/Y in Q2.



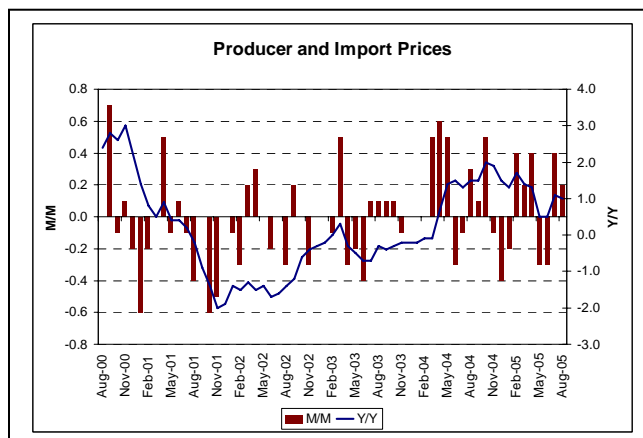
Adjusted Real Retail Sales

Swiss Retail Sales rose from 3.2% Y/Y in June to 5.5% Y/Y in July, when adjusted for inflation and shopping days. This was the first increase in two months as consumers spent more on clothes and electronics.



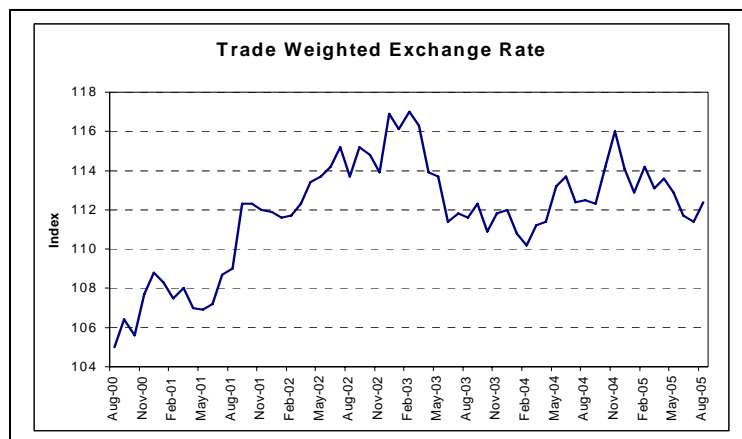
Producer and Import Prices

Producer & Import Prices slowed from 0.4% M/M and 1.1% Y/Y in July to 0.2% M/M and 1.0% Y/Y in August. The M/M increase was partially attributed to rising oil prices. Expectations were for no change to M/M growth and a 1.2% Y/Y gain.



Trade Weighted Exchange Rate & News

Trade Weighted Exchange Rate



News

September 19th – Deficit To Be More Than Forecast – The Ministry of Finance reported that the 2006 budget deficit will actually be 697 mln francs as opposed to the 680 mln francs previously forecasted in June. The 2004 budget deficit was 3.1% of GDP.

September 17th – Swiss Economists Revise Outlook for 2005 & 2006 – The Association of Business Economists surveyed 19 economists and the results were as follows:

- Swiss exports will rise 3.7% in 2005 and 4.6% in 2006.
- GDP is expected to expand by 1.3% in 2005 and 1.7% in 2006.
- The Unemployment Rate will average 3.8% in 2005 and fall to 3.6% in 2006.
- Inflation will average 1.2% during both years.

September 15th – SNB Comments Following Rate Decision -

On the Swiss economy:

“The recovery in the Swiss economy continues. The National Bank expects the economy to expand by around 1 percent in 2005.”

On inflation and oil:

“Inflation will be slightly higher at 1.2 this year, compared with a previous forecast of 1 percent in June. Inflation prospects for 2006 are slightly less favorable than in the June forecast, but for 2007 they have remained virtually unchanged. On the assumption that the three-month Libor remains unchanged at 0.75 percent, annual inflation is forecast to stand at 0.8 percent in 2006 and reach 1.4 percent in 2007.” The target is 2.0%.

On rate decision:

“The reasons for this decision are two-fold. Firstly, even though oil prices are high, the inflation forecast until mid-2006 is at a low level. This affords the National Bank leeway for its monetary policy, which it can use without jeopardizing price stability.”

Upcoming Dates

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/22	Trade Balance - Aug	--	0.74B
09/27	UBS Consumption Indicator	--	-4.0
09/28	KOF Swiss Leading Indicator – Sep	--	0.71