

Valance Company, Inc.



Weekly

September 28, 2005

III

Highlights

US – Inventories of homes for sale increased (page 2)

Euroland – Eurozone M3 and German CPI unexpectedly accelerate (page 7)

Japan – Trade Surplus increases (page 15)

UK – Q2 GDP revised to its slowest annual pace in 12 years (page 23)

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September 22 - September 28 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	0.00	0.06	11.00	16.00	16.50	15.50
	3.75	4.02	4.32	4.44	4.49	4.49
EU	0.00	0.01	4.00	10.00	15.00	16.50
	2.00	2.15	2.19	2.27	2.38	2.46
JN	0.00	0.00	0.00	1.00	1.50	2.50
	0.00	0.06	0.11	0.19	0.27	0.36
UK	0.00	0.01	5.00	9.00	10.00	11.00
	4.50	4.61	4.53	4.44	4.41	4.43
CA	0.00	0.07	17.00	20.00	20.00	16.00
	2.75	3.01	3.27	3.42	3.51	3.55
AU	0.00	0.01	6.00	13.00	17.00	18.00
	5.50	5.57	5.65	5.69	5.69	5.68
NZ	0.00	0.08	11.00	18.00	16.00	22.00
	6.75	7.13	7.21	7.21	7.04	6.92
SZ	0.00	0.02	6.00	11.00	13.00	15.00
	0.75	0.77	0.88	1.01	1.16	1.29

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Valance Co., Inc.

Valance Economic Report: United StatesCesar Guerra
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September 28, 2005

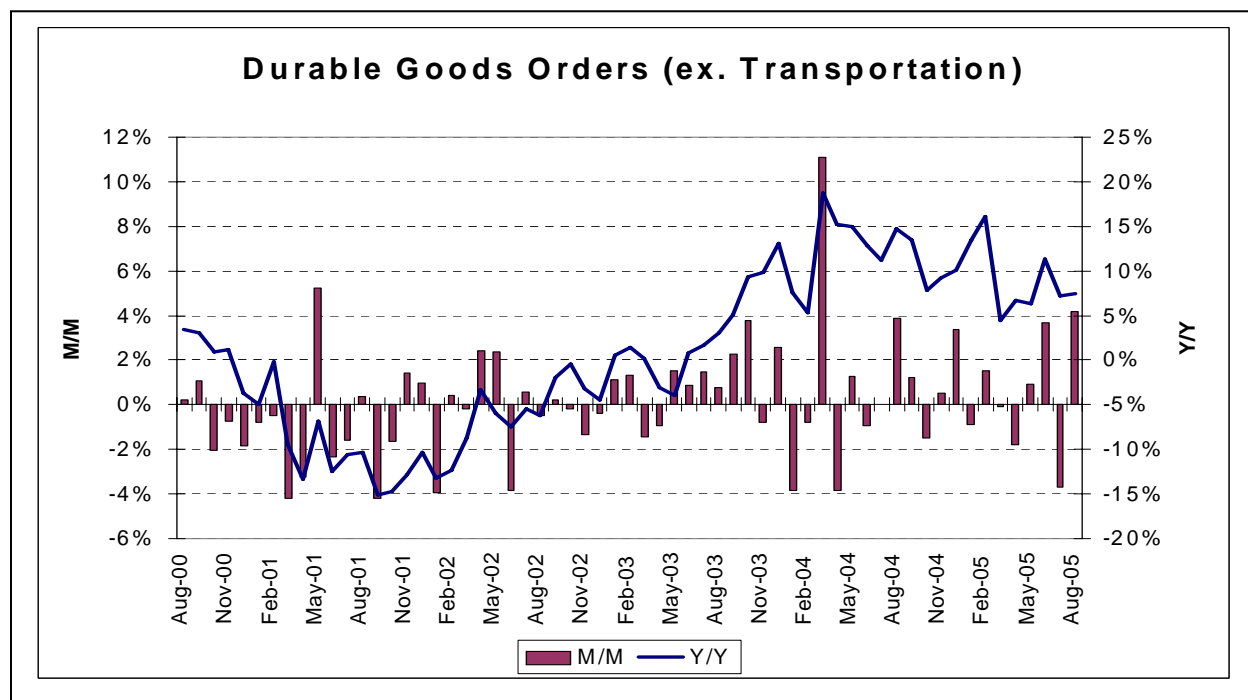
This week's light economic data showed a solid rebound in durable goods orders and healthy absolute levels of home sales. However, monthly supply measures are showing some signs of weakness in housing. A series of Fed speakers helped the front-end of the curve sell-off, after Hurricane Rita did less damage than expected. Fed speakers highlighted the health of the economy, the transitory impact of Katrina and Rita, and concerns about energy, material and labor costs.

Weekly Highlights

Durable Goods Orders – excluding transportation, up 4.2% M/M in August. (page 2)

Housing Sales– volumes remained at healthy levels, but monthly supply levels rose. (page 4)

Consumer Confidence– remains weak, post-Katrina. (page 5)

Weekly Releases**Chart of the Week: *Durable Goods Orders ex. Transportation***

Durable Goods Orders, excluding transportation, increased 4.2% M/M and 7.5% Y/Y in August, above expectations. This volatile series showed strength in August, pre-Katrina, after a weak July. Non-defense capital goods orders, ex-aircraft (a proxy for business capex in the GDP report), increased 3.6% M/M after falling 3.3% M/M in July.

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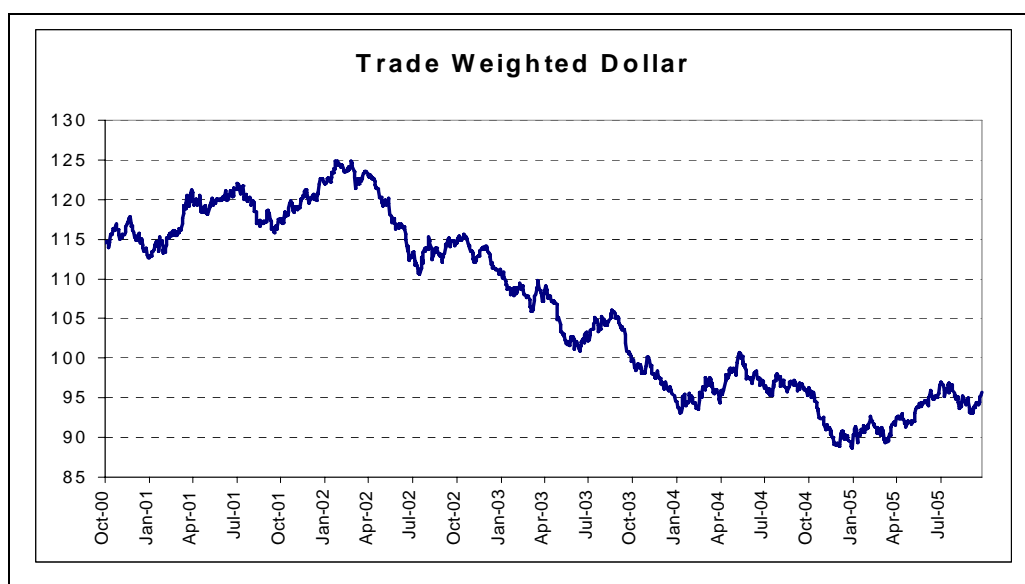
U.S. Financial Balances & Trade Weighted Dollar

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	--	-3.4%

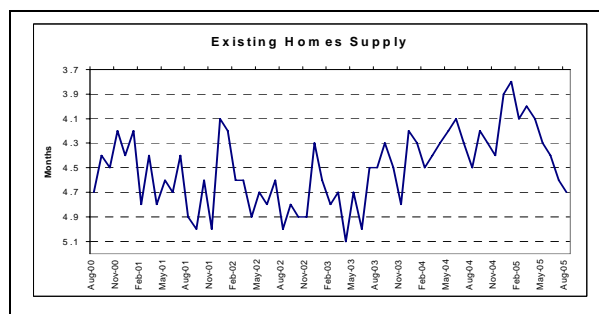
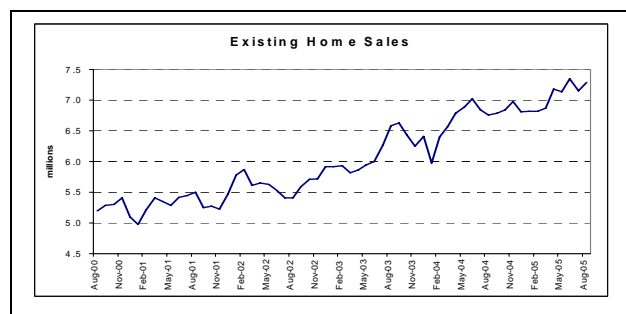
The budget deficit is currently at \$328 bln on a trailing twelve month basis and forecasts see the budget deficit increasing to \$400 bln with Katrina related spending in 2006. The larger budget deficit will stimulate the economy in the short-run, but the trade deficit as of July is still 5.5% of GDP, 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



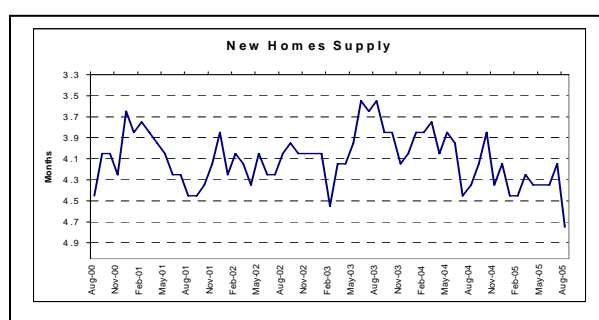
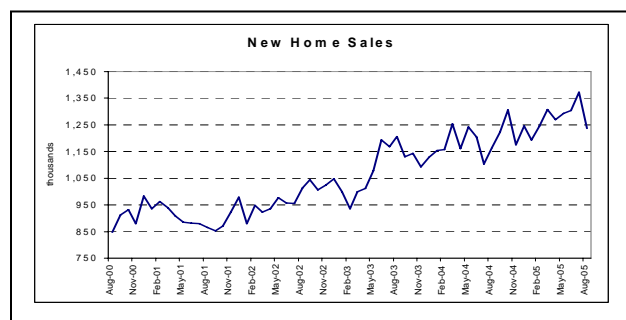
Housing

Existing Home Sales



Existing Home Sales increased from 7.15 mln to 7.29 mln in August. Median prices were up 1.9% M/M and 15.8% Y/Y. The supply of existing homes has now reached 4.7 months, the highest since November 2003.

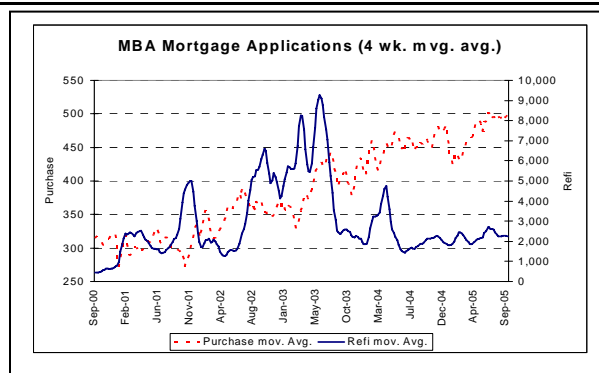
New Home Sales



New Home Sales dropped from 1.373 mln to 1.237 mln in August. Median prices were up 2.5% M/M, but up only 1.0% Y/Y. The supply of new homes has now reached 4.7 months, the highest since June 2000.

MBA Mortgage Applications

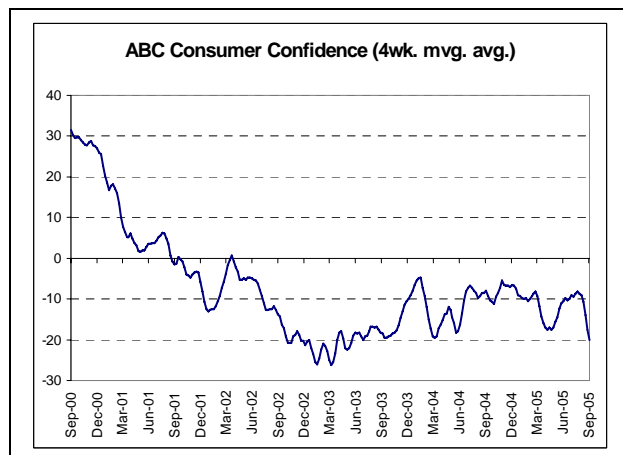
Purchase and refinancing mortgage applications decreased 3.4% and increased 10.5%, respectively this week. Despite this week's decline, purchase applications remain at healthy levels and do not show any significant deterioration post-Katrina.



Consumer Confidence & Continuing Claims

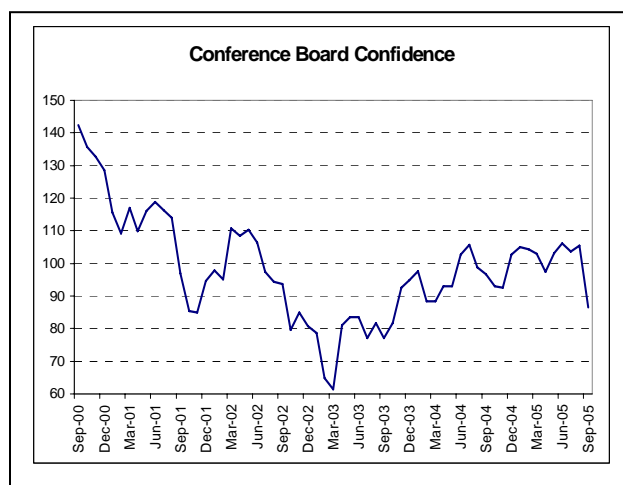
ABC Consumer Confidence

The ABC Consumer Confidence Index improved from -23 to -22. The economy and buying components remained flat and the finances component increased from 10 to 12. The overall index moved higher after six consecutive weeks of declines.



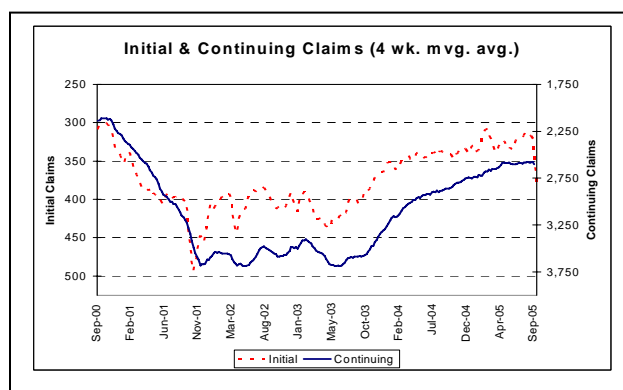
Conference Board Confidence

The Conference Board's Index of Consumer Confidence dropped from 105.5 to 86.6 in September. Expectations and people's assessment of current conditions both fell, from 123.8 to 108.9 and from 93.3 to 71.7, respectively. The job components both showed some weakness.



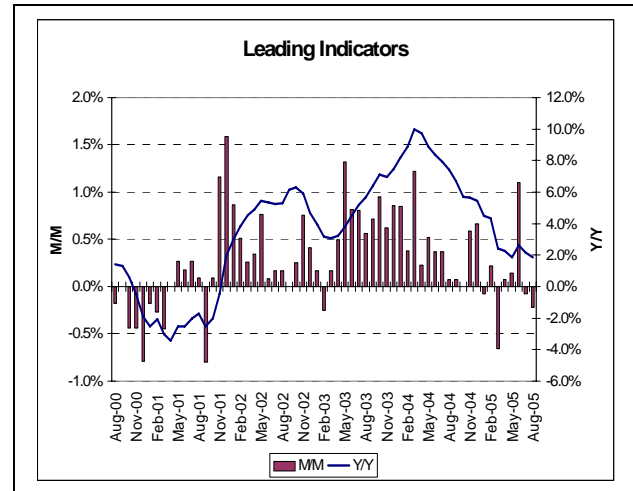
Initial & Continuing Claims

The four-week moving average of initial and continuing claims increased to 376k and 2,603k, respectively. Initial claims reached 432k this past week and would have remained at healthy levels if it were not for the impact of Hurricane Katrina. It appears that Katrina has not had a strong secondary affect on the labor market.



Leading Indicators & Upcoming Dates

Leading Indicators decreased 0.2% M/M and increased 1.9% Y/Y in August. The largest negative contributors were the flattening yield curve and weakness in consumer expectations.



Key Dates This Week

Date	Indicator	Expectation	Previous
09/29	GDP Annualized (Q2 F)	3.3%	3.3%
09/29	Initial Jobless Claims (SEP 24)	415K	432K
09/29	Continuing Claims (SEP 17)	2708K	2666K
09/29	Help Wanted Index (AUG)	39	39
09/30	Personal Income (AUG)	0.3%	0.3%
09/30	Personal Spending (AUG)	-0.2%	1.0%
09/30	PCE Core (M/M AUG)	0.1%	0.1%
09/30	U. of Michigan Confidence (SEP)	78.0	76.9
09/30	Chicago Purchasing Manager (SEP)	52.0	49.2
10/03	Construction Spending (M/M AUG)	0.4%	0.0%
10/03	ISM Manufacturing (SEP)	52.0	53.6
10/03	Total Vehicle Sales (SEP)	16.0M	16.8M
10/04	Factory Orders (AUG)	0.6%	-1.9%
10/04	ABC Consumer Confidence (OCT 2)	NA	-22
10/05	MBA Mortgage Applications (SEP 30)	NA	-6.6%

Valance Co., Inc.

Valance Economic Report: Euro Zone

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September 28, 2005

The ECB ratcheted up its hawkish rhetoric this week as German CPI and Euro Zone money supply both surprised on the upside. Business confidence also surged as manufacturer optimism remains strong. With a weak consumer, rising rates and energy prices seeping into consumer prices, stagflation fears are increasing.

Weekly Highlights

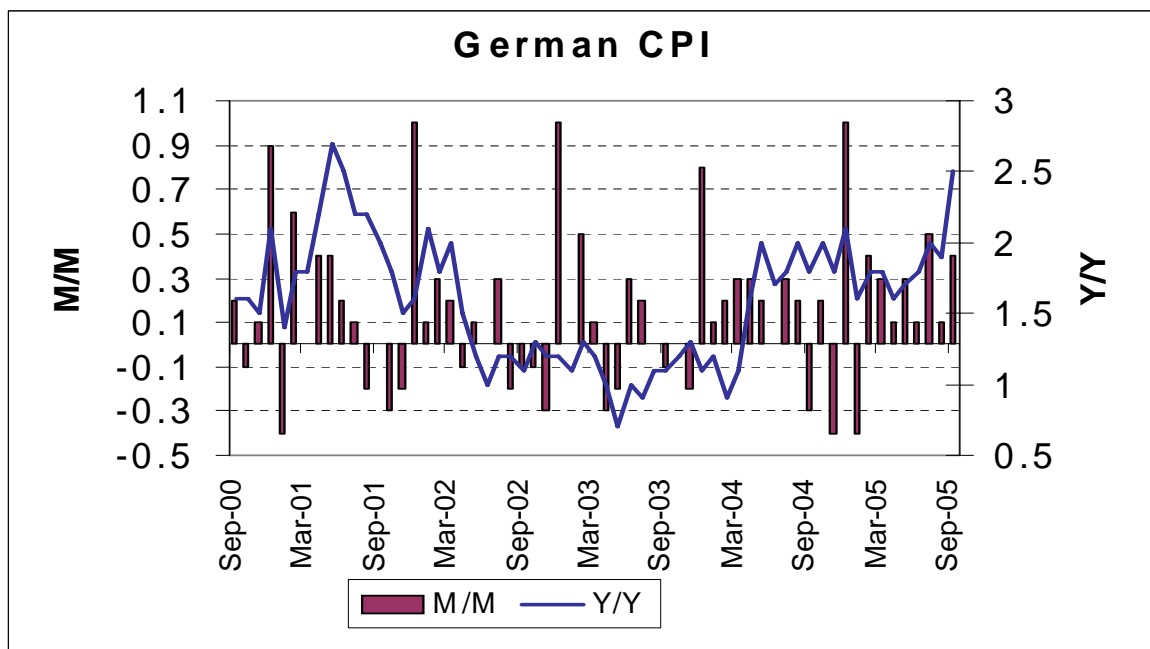
German CPI– Price growth accelerated to 2.5% Y/Y in September (page 7)

Euro Zone M3 –M3 continued to accelerate in August. (page 9)

German IFO – rose to an eighth month high in September. (page 9)

Weekly Releases & News

Chart of the Week: German CPI



Germany's September Consumer Prices accelerated from 1.9% Y/Y August to 2.5% as oil prices and their secondary effects seep into consumer goods prices. Companies have generally been absorbing the surging fuel costs due to the weak domestic. However, this data has brought some doubt as to whether this continues. Higher prices may well cripple the economy by further hurting the consumer and reducing investment spending, and if the inflationary pressures lead to action by the ECB.

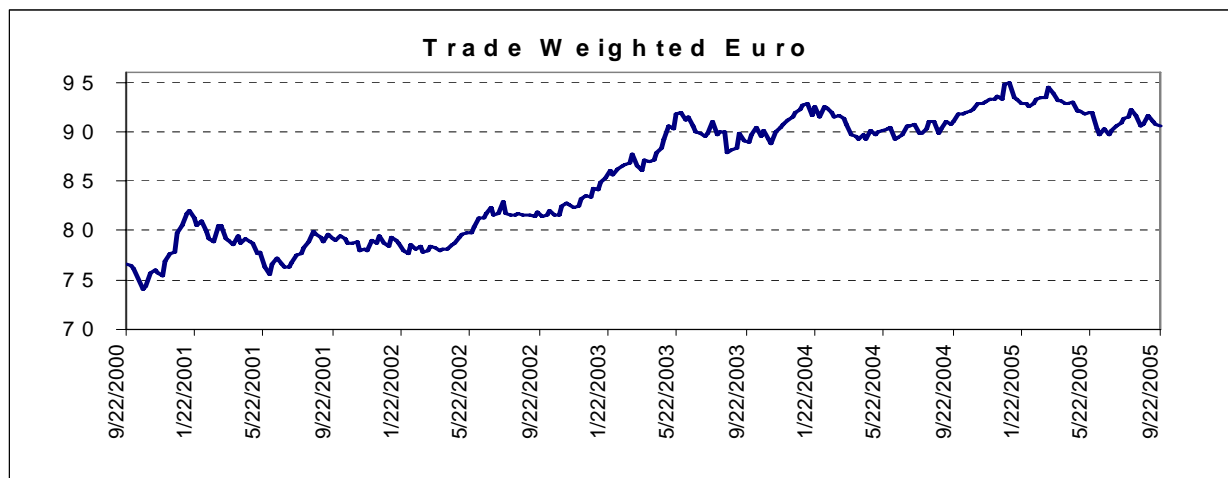
Euro Zone Financial Balances & Trade Weighted Euro

Financial Balances

<i>Germany</i>	<i>Last period (\$blns euros)</i>	<i>Last 12mth. 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.

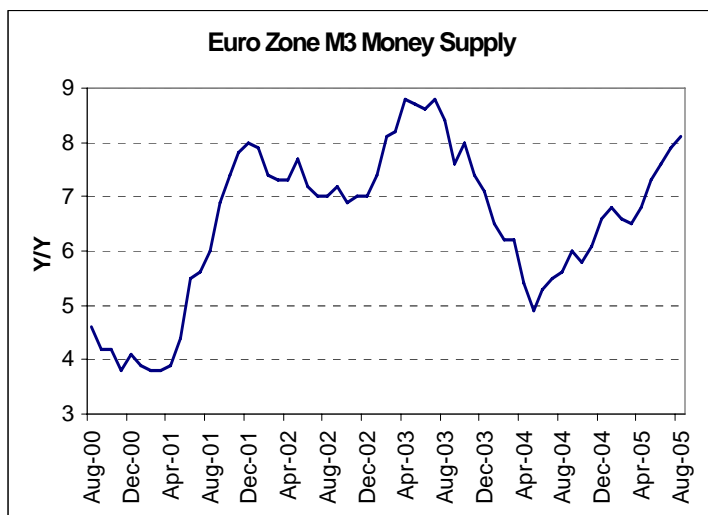
Trade Weighted Euro



Euro Zone M3, Italian Wages & German IFO

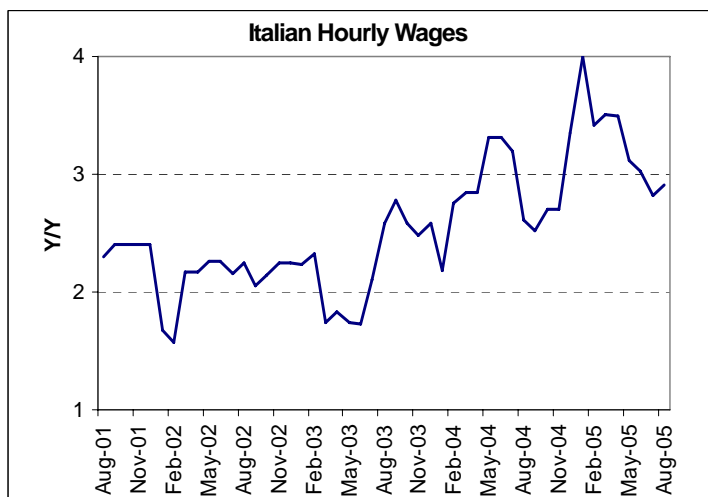
Euro Zone M3

The Euro Zone's August M3 growth unexpectedly accelerated from 7.9% Y/Y in July to 8.1%. Overnight deposits increased 4.1% Y/Y and short term deposits increased 2.1% Y/Y. The ECB has been "vigilant" regarding the growth for some time now; with oil prices climbing it may very well lead to action on their part.



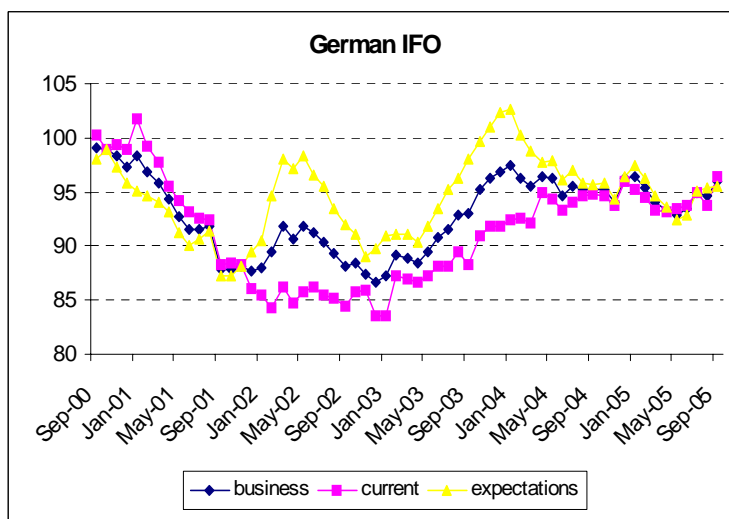
Italian Hourly Wages

Italy's August Hourly Wages increased 0.1% M/M and 2.9% Y/Y. Though somewhat muted for now, the ECB will likely take note of any upward trend.



German IFO

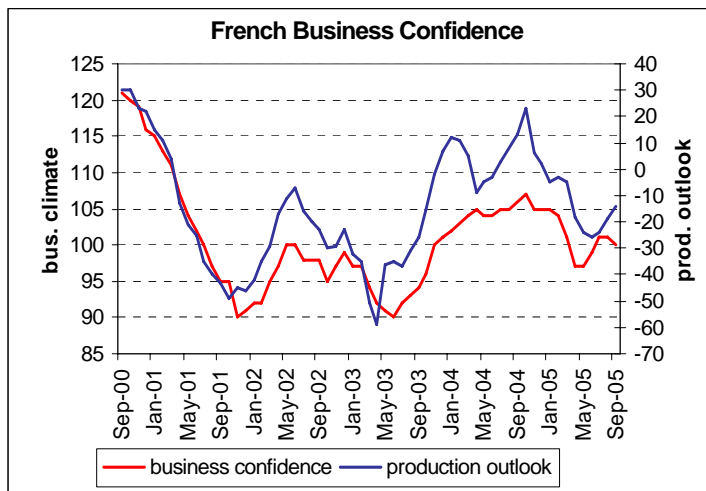
Germany's September IFO Business Confidence unexpectedly rose from 94.6 in August to an eighth month high of 96. The Current Assessment index increased from 93.8 to 96.4 while the Expectations index increased from 95.4 to 95.5. The fact that sentiment rose despite the poor outcome of the German elections may be a positive sign for the short term direction of the economy.



French & Italian Business Confidence, Italian Cons. Confidence

French Business Confidence

France's September Business Confidence fell from 101 in August to 100. The Production Outlook Indicator increased from 87.8 to 89.5.



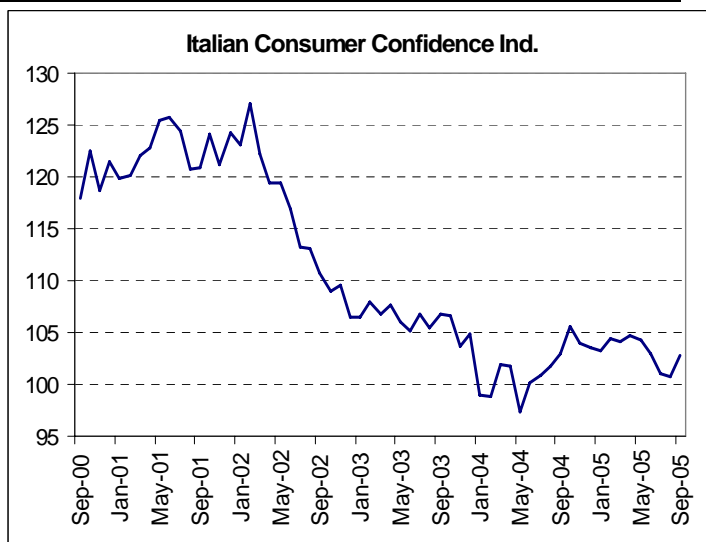
Italian Business Confidence

Italy's Business Confidence unexpectedly rose to a four month high of 89.5 in September; up from 87.5 in August.



Italian Cons. Confidence

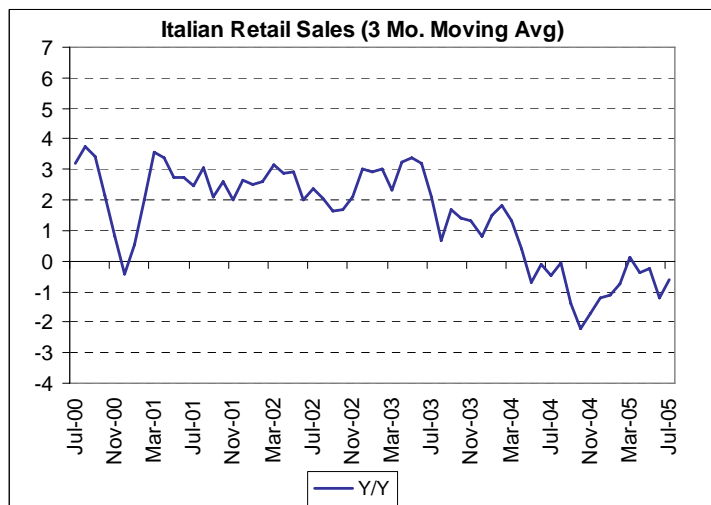
Italy's September Consumer Confidence rose for the first time in 5 months, increasing from 100.8 in August to 102.8. Italian employment has risen over the past few months and may be leading to improved sentiment, if not actual spending.



Italian Retail Sales, Orders & Euro Zone Trade Balance

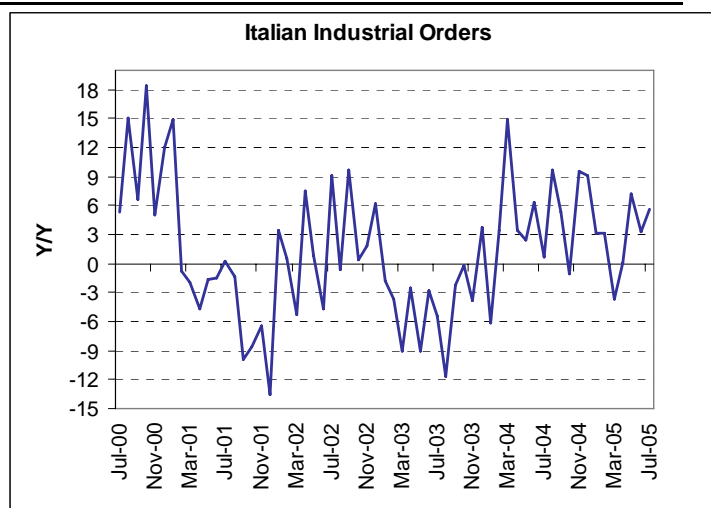
Italian Retail Sales

Italy's July Retail Sales decreased 0.3% M/M and 2.1% Y/Y, the second consecutive month that sales have contracted. A recent pickup in employment and confidence may lead to stronger sales in the upcoming months.



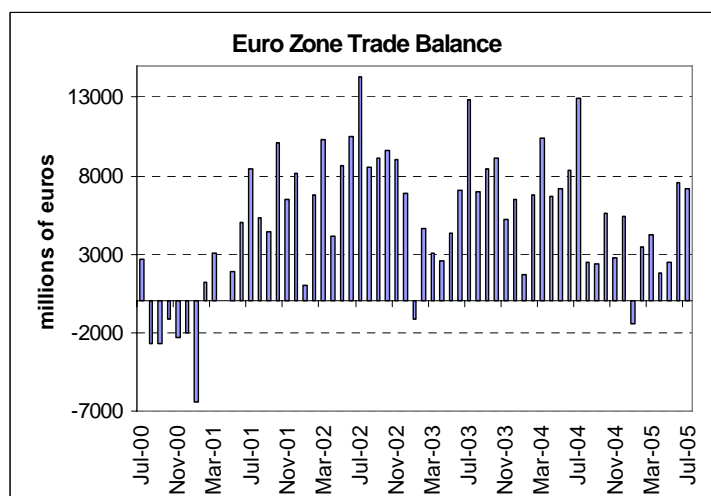
Italian Industrial Orders

Italy's July Industrial Sales increased 1.8% M/M and 0.6% Y/Y; led by foreign purchases. Orders increased 3.6% M/M and 5.6% Y/Y.



Euro Zone Trade Balance

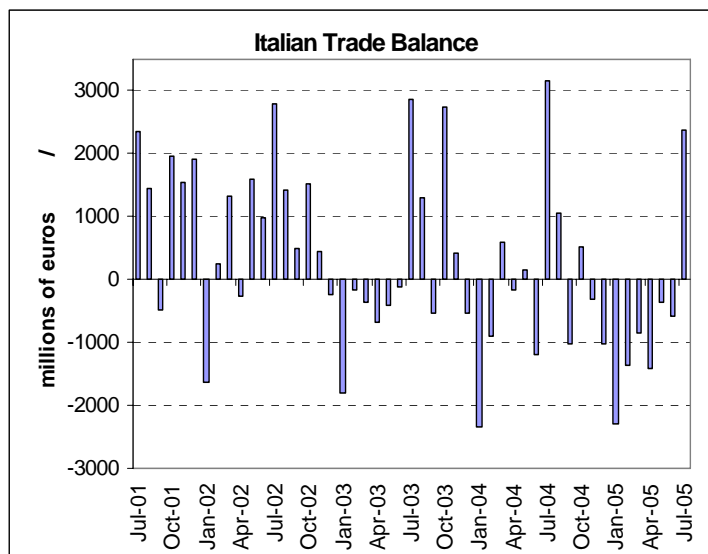
The Euro Zone's July Trade Surplus narrowed from 7.6bln euros in June to 7.2bln as exports contracted 3.2% M/M. Imports increased 1.2% M/M.



Italian Trade Balance & News

Italian Trade Balance

Italy's July Trade Balance increased from a deficit of 588mln euros to a surplus of 2.6bln as imports contracted slightly M/M and exports grew 10.4%. The August Non-EU Trade Deficit widened from 719mln in July to 1.5bln as exports contracted slightly.



News

EU/ ECB

Sept. 28th – A “World Competitiveness” report by the WEF showed that Germany, France and Spain all slipped relative to their World counterparts. Germany fell from 13th to 15th, France fell from 27th to 30th, Spain fell from 23rd to 29th and Italy remained in the 47th spot.

Sept. 26th – ECB members, Axel Weber and Erkki Liikanen stated that the ECB is ready to lift rates should oil prices pick up and lead to inflation. Weber noted “increasing price risks” as a great concern. Earlier in the week, ECB member Nicholas Garganas stated that he was much more concerned with inflation than with poor growth. In addition to oil prices, the ECB remains concerned with money supply growth. Garganas stated that the situation should be monitored very carefully and that there “is more liquidity than the euro area needs for non inflationary growth.”

Sept. 23rd – ECB President Jean Claude Trichet commented on oil, stating that high oil costs will hurt the Euro area economy for several years to come. Trichet stated, the increase in oil prices in the past 18 months “will have a significant impact on growth and inflation over three years.” Growth is forecasted to be about 1% less than it would have been otherwise.

Germany

Sept. 28th – Germany may be heading toward a grand coalition as the CDU/CSU and SPD parties meet to discuss such an allegiance. SPD leader Schroeder stated, “I am very certain there will be such a government in the shape of a grand coalition.”

Sept. 27th – Germany’s October Gfk Consumer Confidence fell from 3.3 in September to a nine month low of 3.1.

News

Sept. 28th – Germany’s DaimlerChrysler AG plans to cut 5,000 jobs on September 29th in an attempt to reduce costs and restructure the corporation. DaimlerChrysler had previously made a labor deal that prevents them from laying off employees so the company will cut jobs by offering severance payments and early retirement plans.

Sept. 23rd – The DIW Institute may cut its German growth forecast from 0.9% in 2005 and 1.5% 2006; citing oil prices as the main reason for the possible revisions. Bank of America also cut its 2006 German growth forecast, lowering it from 1.5% to 1.2%. BOA noted the poor election outcomes as a “missed opportunity”.

France

Sept. 28th – French Prime Minister Dominique de Villepin proposed a 2006 budget that aims at cutting the deficit by slowing spending. The budget also forecasts 2.25% GDP growth in 2006, a very optimistic expectation. The deficit is forecasted to fall to 2.9% of GDP in 2006, 2.2% in 2007, and 1.3% in 2008 under “best case scenarios”. France is currently considering a tax on drug makers to curb the deficit in the welfare system.

Italy

Sept. 27th – Italy may increase its capital gains tax in an attempt to meet its 2007 EU deficit obligations. Bank loans for investment purposes will no longer be tax deductible; investors will also have to keep shares for 2 years to benefit from tax exemptions, compared with the current one year rule

Sept. 22nd – Italian Finance Minister Domencio Siniscalco resigned after previously calling for the Bank of Italy’s governor to resign. The resignation came days before the 2006 budget was to be presented leaving Italy’s deficit cutting measures in doubt.

Sept. 26th – The IMF urged Italy to deal with their budget deficit, stating that the situation has “contributed to hurting consumer and business confidence.” Italy’s credit rating is in danger of being cut by the S&P if the high debt issue is not resolved. The S&P may also trim Germany’s rating if deficit issues are not resolved shortly.

Upcoming Dates

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/29	Italian Retailer's Confidence (AUG)	--	100.4
09/29	German Unemployment Change (SEP)	-12k	-12k
09/29	German Employment Change (SEP)	15k	30k
09/30	German Retail Sales (AUG)	0.4% M/M	-0.6% M/M
09/30	French Unemployment Change (AUG)	-5k	-30k
09/30	Euro Zone Business Climate (SEP)	-0.14	-0.07

Valance Co., Inc.

Valance Economic Report: Japan

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September 28, 2005

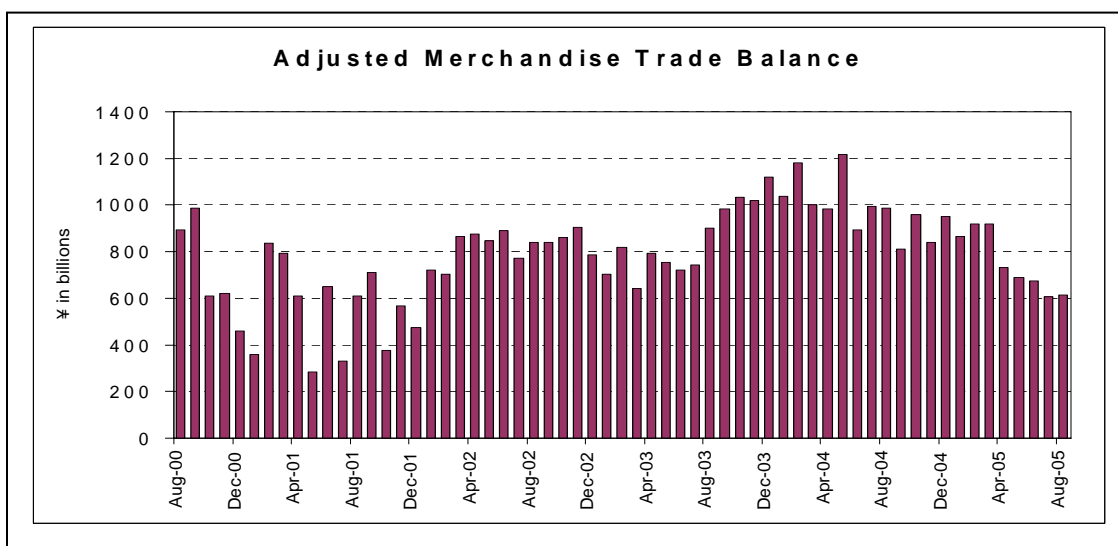
With the Trade Surplus edging upward in August, despite the higher cost of imports, and with large manufacturer's confidence increasing sharply in Q3, recent data continues to indicate that Japan's recovery is well grounded.

Weekly Highlights

Merchandise Trade Balance (SA) – increased from ¥606.9 bln to ¥614.7 bln in August. (page 15)

BSI Large Manufacturing Index – increased from 5.7 pts in Q2 to 17.1 pts in Q3. (page 17)

All Industry Activity Index– declined 0.8% M/M in July. (page 17)

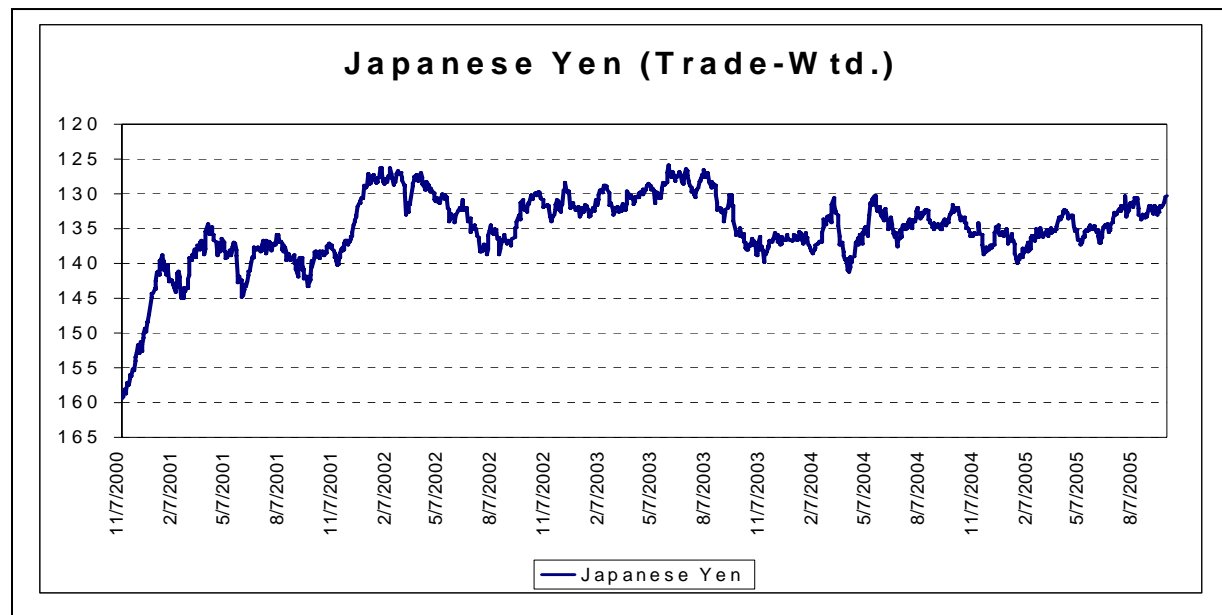
Weekly Releases & News**Chart of the Week: *Merchandise Trade Balance***

Japan's Merchandise Trade Balance increased from ¥606.9 bln to ¥614.7 bln in August. Exports increased 2.9% M/M and 3.9% Y/Y. Imports increased 3.1% M/M and 7.9% Y/Y. Although the increase missed economists' expectations for an adjusted balance of ¥800 bln, it came despite sharp increases in oil and raw materials costs. On a per-country basis, the value of exports to the US increased 2.6% Y/Y while exports to Asia increased 9.7% Y/Y and exports to the EU declined 0.8% Y/Y. This data supports views that the recovery in Japan may be able to withstand transitory shifts toward higher oil prices as export demand remains solid.

Japan's Financial Balances

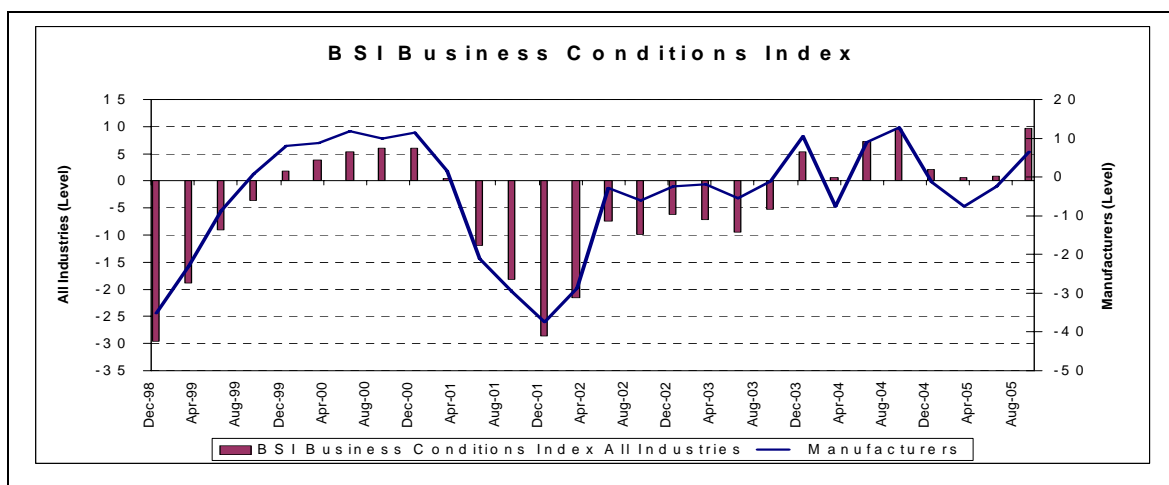
Financial Balances

<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%



Tertiary Index, All Industry Activity Index & Corp. Service Prices

BSI Large Manufacturing



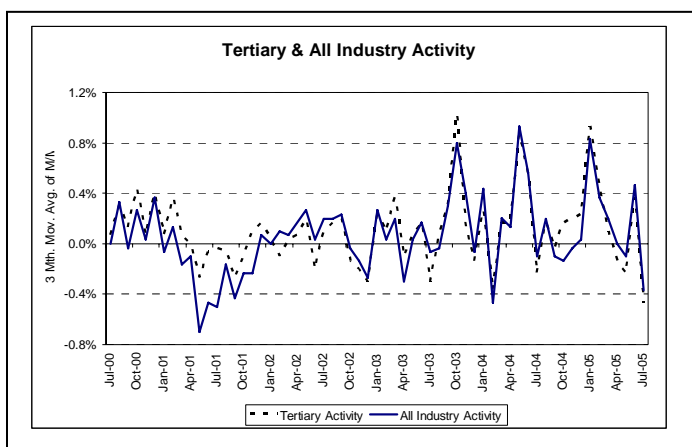
The Business Outlook Survey increased from 5.7 in Q2 to 17.1 in Q3 2005, with a positive number indicating that optimists outnumber pessimists. The Q4 outlook was 13.9 and the Q1 2006 outlook was 9.3. On the domestic economy, the survey level increased from 0.9 in Q2 to 9.7 in Q3. Q4's outlook was 10.7 and Q1 2006's outlook was 9.7. On employment, the index increased from 7.8 in Q2 to 9.0 in Q3. The Q4 outlook was 8.1 and the Q1 2006 outlook was 7.3.

Combined, this data suggests that companies remain optimistic about conditions and supports views that manufacturers will continue to play a key role in the economic recovery as hiring, capex, and sales improve.

Tertiary & All Industry Index

The All Industry Activity Index declined 0.8% M/M and increased 0.4% Y/Y in July. Industrial Production led declines for the month, falling 1.2% M/M and 2.3% Y/Y.

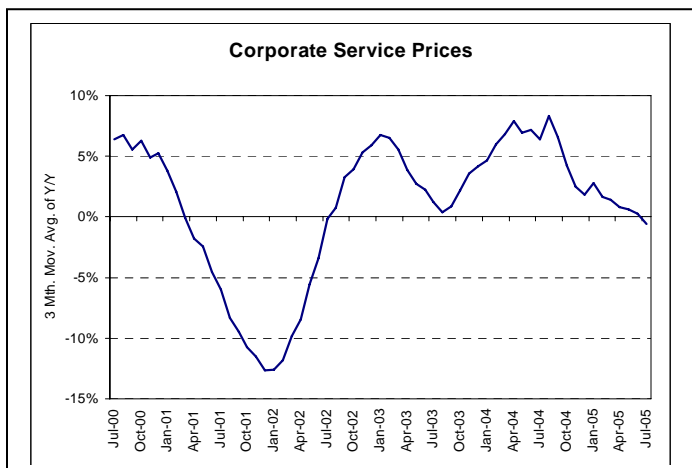
The Tertiary Industry Activity Index declined 0.8% M/M and increased 1.0% Y/Y. Both data are expected to rebound in the upcoming months however, as company sentiment continues to improve.



Corp. Service Prices, Supermarket Sales & Dept. Sales

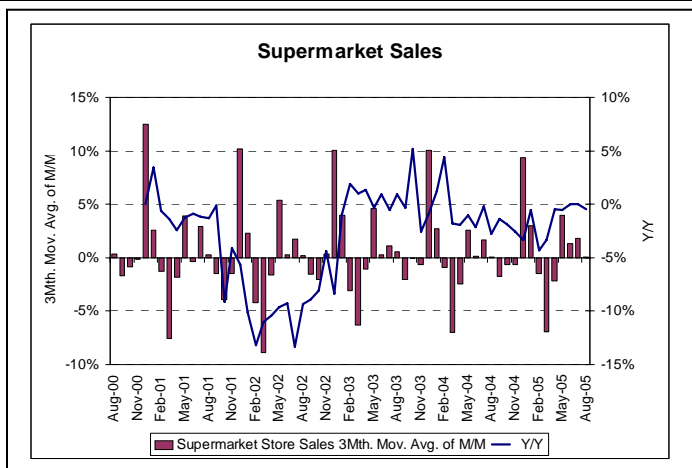
Corp. Service Prices

Corporate Service Prices declined 0.6% M/M and 0.8% Y/Y in August. This decline was led by decreases in advertising and renting components.



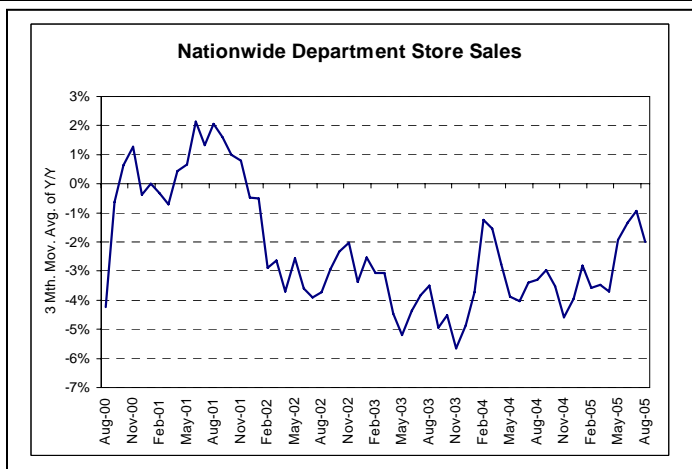
Supermarket Sales

Supermarket Store Sales declined 4.7% M/M and 2.9% Y/Y in August. Food sales increased 1.0% M/M and declined 3.6% Y/Y. Clothing sales declined 25.2% M/M and 2.1% Y/Y.



Nationwide Dept. Sales

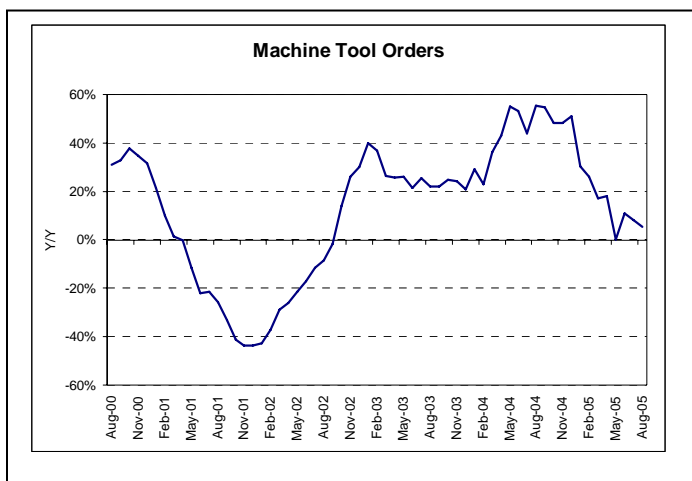
Nationwide Department Store Sales declined 0.7% Y/Y in August. The decline was due largely to an 11.6% Y/Y decline in household goods sales.



Machine Tool Orders & Small Business Confidence

Machine Tool Orders

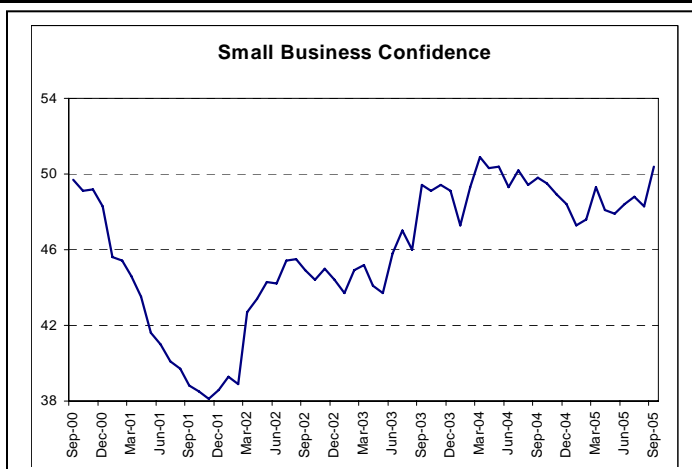
Machine Tool Orders declined 1.8% M/M and increased 5.4% Y/Y in August. Domestic sales increased 1.9% M/M and 11.0% Y/Y while Foreign sales declined 6.1% M/M and 0.8% Y/Y.



Small Business Confidence

The Small Business Confidence Index increased from 48.3 to 50.4 in September. October is forecasted to be 50.5. The Manufacturing sector rebounded by 2.1pts in September from 48.8 to 50.9..

The IT sector also did well in September, increasing 10pts from 48.0 in August to 58.0 in September.



News

Political Update & Reforms

Koizumi reiterated his resolve to privatize the Japan post in a vote that is expected to come in mid-October. At the same time, he also reiterated his support for a number of government reforms that center on downsizing the size of the Government.

One of the planned reforms includes reducing the annual pay for government employees by an average of ¥4,000 or 0.1%. The reform is planned on being submitted on November 1st.

The Council of Economic and Fiscal Policy discussed a proposal on September 27th for reducing the number of central government employees by at least 5% over the next 5 years. Members on the panel called for a large reduction in public sector personnel costs by setting a specific target, such as reducing the cost by half within the next ten years, with relationship to the country's GDP. They also proposed reforming the government pay system to one that takes into account the country's fiscal situation.

BoJ's Comments

BoJ Member, Miyako Suda, commented on Wednesday, September 28th that, "The end of quantitative easing policy may be close," although she added that "it is vital that we judge when to end the easy policy based on whether the consumer price index is stable above zero." On monetary policy after the end of easing, she commented that, "I have no idea how long the BoJ would keep the zero-rate policy. This depends on the state of the economy as well as price and interest-rate conditions, and the recovery of market functions." Should the situation permit however, she did say that rates could be raised "swiftly." She also commented that IT companies have completed their inventory adjustments and that the economy is improving along with what the BoJ had anticipated in its April economic outlook.

Low Earners May Get Relief to Offset Consumption Tax Hike

Finance Minister, Sadakazu Tanigaki, indicated Tuesday that a tax cut for low income earners may be considered in the event of a consumption tax hike. Tanigaki commented on corporate taxes, stating that, "Japan should not be the only one with high rates."

News & Upcoming Dates

Economy on a Recovery Path According to Government

According to a government report released last Thursday, the government maintained its view that the country is undergoing an economic recovery, led by private sector demand. The report described the economy as “recovering at a moderate pace, with both the corporate sector and the household sector improving,” the same language used last month. The government upgraded its assessments of capex and housing however, depicting them as “increasing.”

Companies to Increase IT Staffing Services

A number of personnel service companies in Japan are increasing operations in the staffing of IT services. Intelligence Ltd, for example, is expected to double the size of its staff to around 2,000 people. Other companies, such as Pasona Tech, are entering into employment contracts with engineering school students who have not yet graduated.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/28	Large Retailers' Sales (Aug M/M)	-1.7%	-1.6%
09/28	Retail Trade (Aug Y/Y)	0.6%	0.6%
09/28	Retail Trade (Aug M/M)	1.2%	-2.2%
09/29	Vehicle Production (Aug Y/Y)	N/A	-2.5%
09/29	Jobless Rate (Aug)	4.3%	4.4%
09/29	Job-Applicant Ratio (Aug)	0.97	0.97
09/29	Workers' Household Spending (Aug Y/Y)	-1.9%	-3.3%
09/29	Tokyo Core CPI (Sep M/M)	0.1%	0.1%
09/29	Tokyo Core CPI (Sep Y/Y)	-0.2%	-0.3%
09/29	Nat'l Core CPI (Aug M/M)	0.1%	0.0%
09/29	Nat'l Core CPI (Aug Y/Y)	-0.1%	-0.2%
09/29	Industrial Production (Aug M/M)	1.8%	-1.2%
09/29	Industrial Production (Aug Y/Y)	2.1%	-2.3%
09/29	Average Lending Rate (Aug)	N/A	1.404%
09/30	Housing Starts (Aug Y/Y)	3.5%	8.3%
09/30	Annualized Housing Starts (Aug)	1.226M	1.335M
09/30	Construction Orders (Aug Y/Y)	N/A	20.8%

Valance Co., Inc.

Valance Economic Report: *United Kingdom*

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September 28, 2005

Two interesting were released this week: CBI Retail Sales in September had its fastest pace of decline in 22 years, and Q2 GDP was revised to its slowest annual pace in 12 years. This data, along with the recent upshot in CPI inflation, puts the MPC in a very difficult situation as it tries to stimulate growth without spurring inflation. We continue to believe the MPC's next move will be a rate cut.

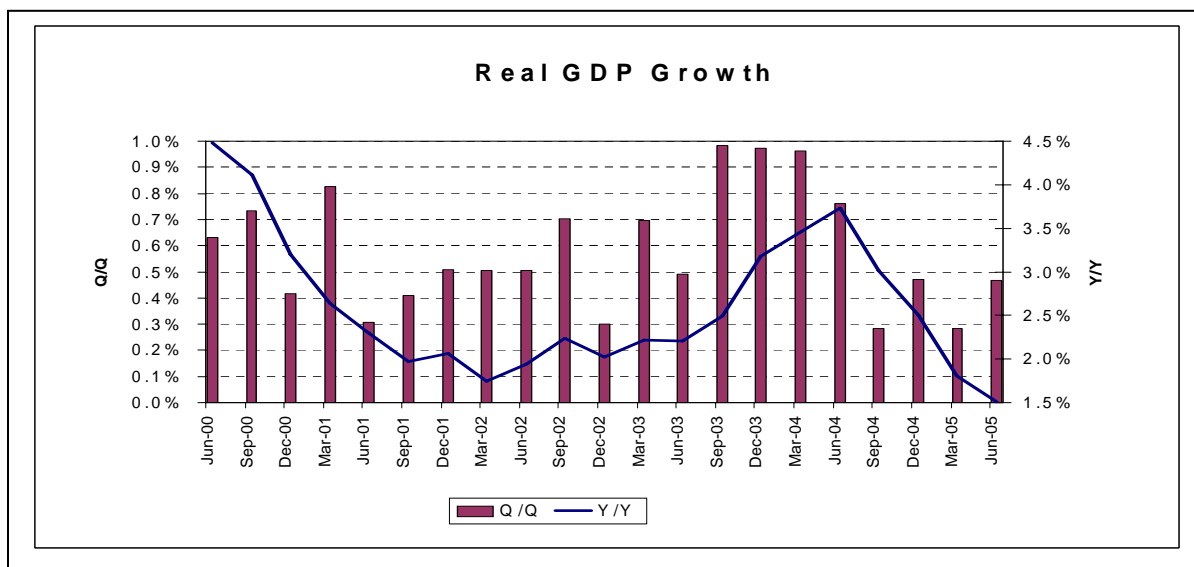
Weekly Highlights

Real GDP- in Q2 was revised down from 1.8% Y/Y to 1.5% Y/Y; the slowest annual pace in 12 years. (page 23)

CBI- reported that the volume of Retail Sales in September decreased from -18 to -24, the fastest pace of decline in 22 years. (page 25)

Weekly Releases & News

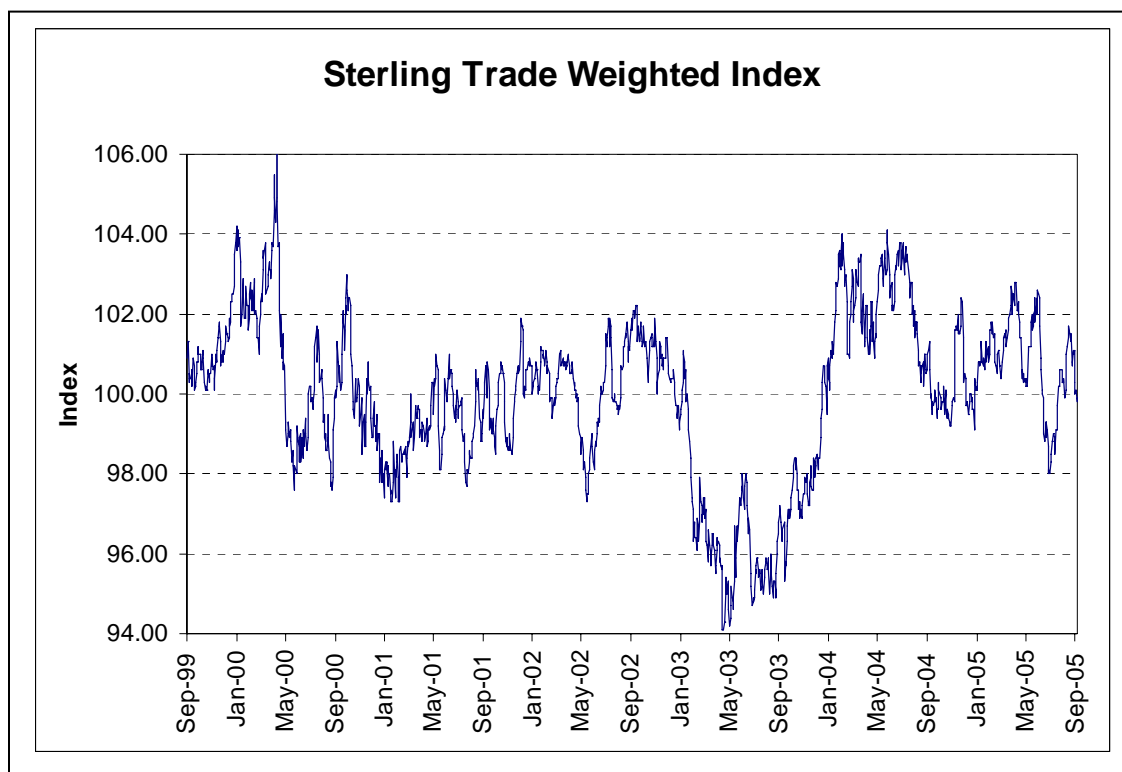
Chart of the Week: *Real GDP Growth*



Real GDP in Q2 was revised up from 0.4% Q/Q to 0.5% Q/Q and down from 1.8% Y/Y to 1.5% Y/Y due to revisions to prior quarters (no economists anticipated the downward revision); this is the slowest annual pace of real GDP growth in 12 years. Consumption, which was revised from up 0.2% Q/Q to 0.4% Q/Q in Q2, was fully offset by downward revisions to prior quarters, resulting in the “paltry” 1.5% Y/Y growth. For consumption, this is the worst outcome in ten years. The largest annual decreases were in mining and quarrying, 7.9% Y/Y, and manufacturing 1.1% Y/Y.

Financial Balances & Trade Weighted Index

<i>U.K.</i>	<i>Last Period (blns)</i>	<i>Last 12mth. % of GDP</i>
Budget Balance (monthly)	-£5.9 (June)	+1.6%
Trade Balance (monthly)	-£3.4 (May)	-1.2%
Curr. Acct. Balance (quarterly)	-£3.1 (March)	-1.0%
Private Balance	--	-2.6%

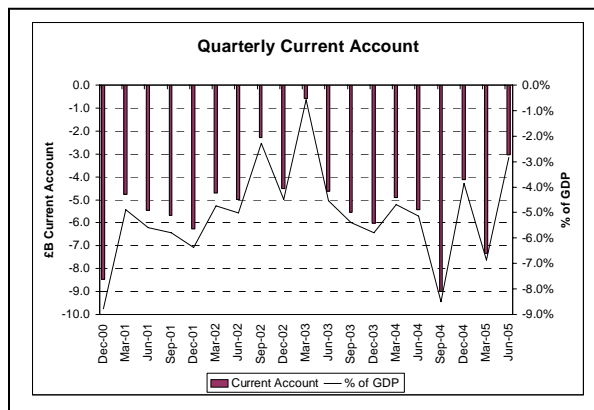


The MPC recently commented that it feels the Sterling will continue to appreciate and this will help dampen the increasing inflation, helping to take some pressure off the MPC to hike rates.

Current Account Deficit

Current Account Deficit

The Current Account Deficit decreased from -£5.8 bln to £-3.1 bln in Q2 to -2.8% of GDP. Trade in goods increased 7.8% Q/Q and trade in services increased 4.1% Q/Q.



Data & Upcoming Dates

Data

CBI Retail Sales

The Confederation of British Industry (CBI) reported that the volume of Retail Sales decreased from -18 to -24, the fastest pace of decline in 22 years. CBI reported that half of the 123 retailers surveyed commented that sales fell from a year ago, while only 26% said they rose. Going forward, sales are unlikely to improve next month, as the index of expectations for October decreased from -15 to -22, a record low.

British Bankers Association

The British Bankers Association (BBA) reported that mortgage approvals increased 6.0% M/M and 8.5% Y/Y in August. The rate cut in August has somewhat provided a small stimulus to the housing market, contributing to recent moderation of falling house prices.

CBI Industrial Trends

The Confederation of British Industry (CBI) reported that total orders improved slightly from -29 to -27, though the negative trend in September continued as cost pressures continue to squeeze manufactures profits. Due in part to surging oil prices and freight costs recently increasing 33% M/M, manufactures average price expectations for the next three months remained at -8 for the second consecutive month.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/29	Nationwide House Prices	0.3% M/M 2.2% Y/Y	-0.2% M/M 2.3% Y/Y
09/29	Net Lending Secured on Dwellings	£7.2 bln	£6.5 bln
09/29	Mortgage Approvals	99k	97k
09/30	GfK Consumer Confidence	-4	-4
10/03	CIPS PMI Manufacturing	--	--
10/03	CIPS PMI Construction	--	--

Valance Co., Inc.

Valance Economic Report: New Zealand

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September 28, 2005

New Zealand's annual trade deficit widened to a record in August as surging fuel prices increased the cost of imports. Permanent migrants' data suggest that home buying and consumer spending may slow.

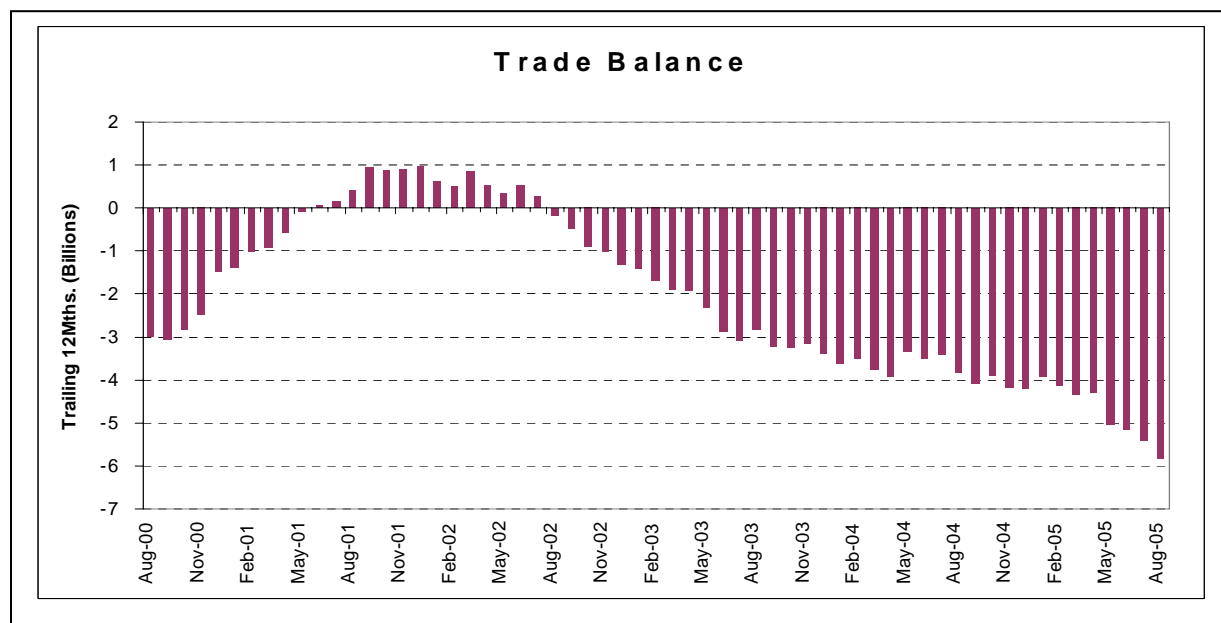
Weekly Highlights

Trade Deficit - widened to a record NZ\$1.11 bln in August. (Page 27)

Visitor Arrivals - short-term visitor arrivals rose 0.3% M/M in August (Page 28)

Weekly Releases & News

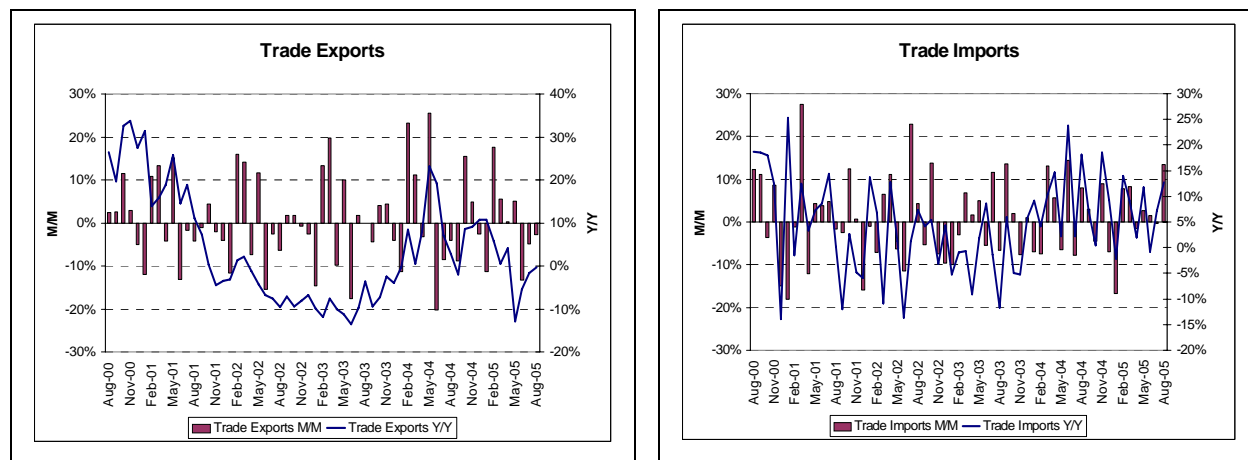
Chart of the Week: *Trade Deficit*



New Zealand's annual trade deficit widened to a record in August as surging fuel prices increased the cost of imports. The trade deficit in August was a record NZ\$1.11 bln compared with NZ\$708 mln a year earlier and an upwardly revised NZ\$630.3mln (Prior NZ\$ 616.8M) in July. New Zealand's current account gap was 8% of GDP in the year to June. Exports fell 0.2% Y/Y bln in August, a fourth successive annual decline. Imports rose 13% Y/Y to a record NZ\$3.47 bln, almost five times the 2.8% gain expected by economists.

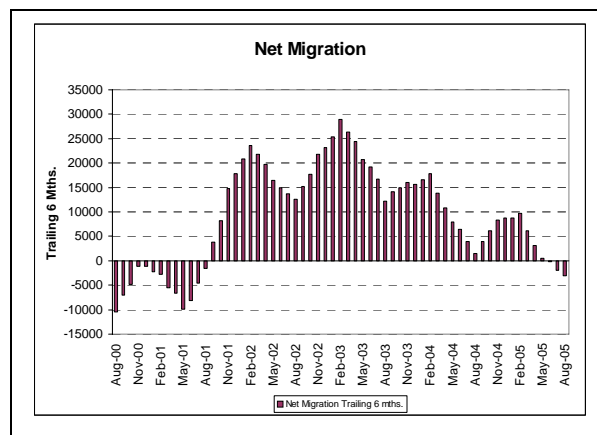
Exports, Imports & Visitor Arrivals

Exports & Imports

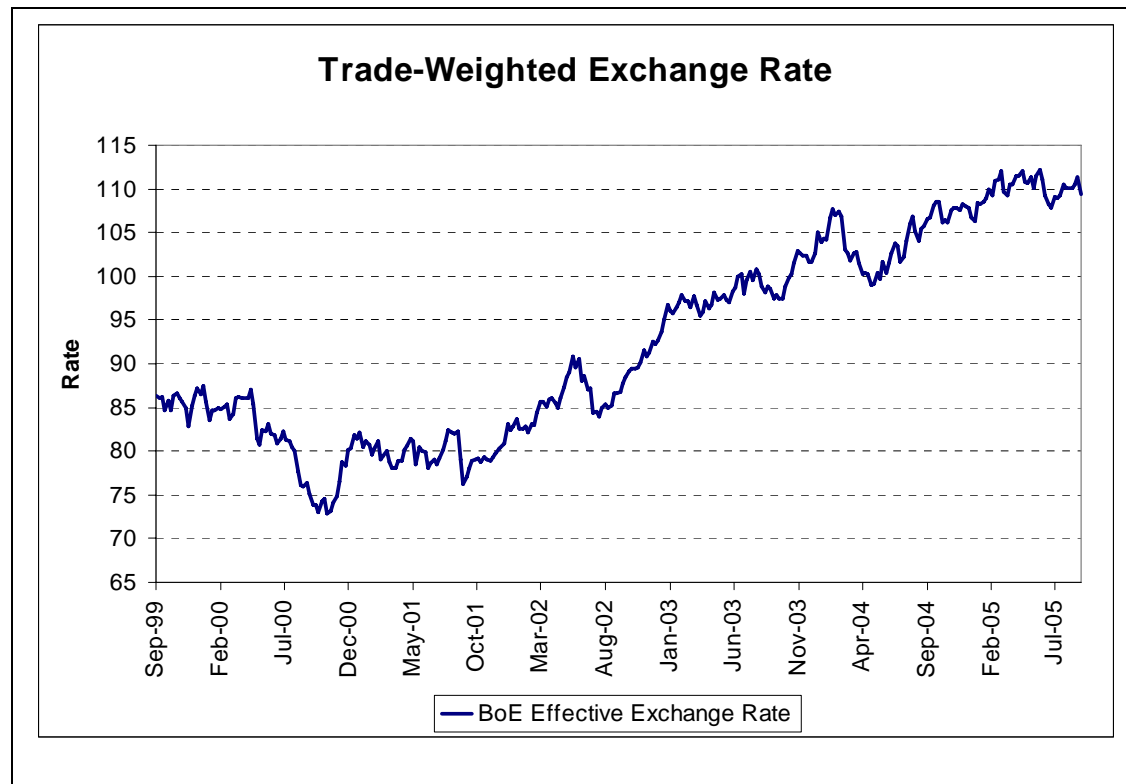


Visitors Arrivals

New Zealand gained 66% fewer permanent migrants in the year to August, suggesting home buying and consumer spending may slow after helping to drive economic growth to its fastest pace in four years in 2004.



Trade-Weighted Exchange Rate & Upcoming Dates



The biggest jump in imports since February and a fourth month of decline in exports should extend the record current account deficit. New Zealand's dollar has fallen 3.7% during the past 10 days, the worst performing currency in the world, and is heading for its first annual decline in four years.

Key Dates

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/28	NBNZ Business Confidence (SEP)	---	-32.1%
09/28	GDP (Q2)	0.7%	0.6%
09/29	Building Permits (AUG)	---	-7.2%

Valance Co., Inc.

Weekly Economic Report: *China*

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September 28, 2005

No economic data was released this week.

News Releases

September 28th – U.S. Threatening China with Restrictions – The U.S. is threatening to impose caps on import items such as sweaters, robes, wool trousers and knit fabrics should Sino-U.S. textile talks prove futile. With an October 1st deadline approaching and China's hopes for an early resolve, an agreement doesn't seem likely with four rounds of talks still unsettled.

September 27th – U.S. Retaliation against China Would Hurt U.S. More Than China – China's Central Bank Governor, Zhou Xiaochuan, stated that the U.S'. retaliation over China's yuan exchange rate decisions would cause more damage to the U.S. than to China. Zhou's comments came as a result of U.S. Senators Charles Schumer and Lindsey Graham's threats to impose a 2.75% tariff on Chinese exports after October 1st.

September 27th – PBoC Raises Forecasts – The research bureau of the PBoC expects China's economy to grow 9.2% in 2005 instead of the previously forecast 9.0%. The bureau also expects GDP to slow to 8.7% Y/Y in H1 of 2006.

September 25th – China Is In No Hurry – China's Central Bank Governor, Zhou Xiaochuan, remarked at an annual meeting of the IMF and the World Bank that China is not ready to move any further on the yuan. Zhou stated, "We're not in a hurry to move forward." He also added "In China, the philosophy is gradualism" in reference to moving toward a market-oriented exchange rate system.

September 23rd – New Real Estate Investment Method – Meng Xiaosu, President of China's National Real Estate Development Group, announced that Real Estate Investment Trusts (REIT) will be used in expansion of the real estate sector. The REITs are dividend-paying funds that make money by investing in various forms of real estate and then by renting out space to consumers.

September 23rd – No Plans to Spend Foreign Reserves On Oil – Ji Men, Head of the Financial Markets Division of the PBoC stated, at an energy conference, that China has "no plans yet to use foreign-exchange reserves to buy oil for the national stockpile." He added that most of China's forex reserves are invested in treasuries and gold. These comments followed those of Zheng Xinli, Deputy Director of China's Central Policy Research Office, who said "why not consider buying energy stocks instead."

News Releases (cont'd.) & Upcoming Dates

September 23rd – China Widens Yuan Band – China increased its trading band from 1.5% to 3.5% against the yen, Hong Kong dollar and euro in an effort to move toward a more flexible exchange rate system and kept the band against the dollar to 0.3%. This move came ahead of the G-7 meeting and was likely intended to deflect criticism of currency manipulation. Some comments on China's decision to widen the trading band are as follows:

- **September 26th – G-7 Ministers** - "There's been some progress, but obviously we want to see some more," **U.K. Chancellor of the Exchequer, Gordon Brown**; **U.S. Treasury Secretary John Snow** - "greater flexibility is still needed."; **Japanese Finance Minister Sadakazu Tanigaki** - "We should expect China to make its currency more flexible after it gets adjusted to the new system," and "China has overcome a big hurdle with its July decision, and we need to watch for a while how they will manage the currency."
- **September 23rd – Economist Chris Leung at DBS Bank, Ltd.** - "This is a very smart move on the part of the Chinese. They are killing many birds with one stone. It's hard for the U.S. to complain that China isn't doing anything on further reform as the government is imposing currency flexibility against non-dollar currencies."; **Yiping Huang, Chief Economist at Citigroup** – "The move today shows China is in the process of introducing more flexibility to the currency exchange regime."; **Deutsche Bank Fixed Income Strategist, Ralf Preusser** – "I think it's a political gesture ahead of the G7 meeting. It's the second step down the long, long road to currency flexibility. But it's a small step." **Jim O'Neill, Head of Global Research at Goldman Sachs Group, Inc.** - "They're correcting a mistake that they created with the system they set up" and "It will be a good number of years before China allows a free floating currency."; **Mike Moran, Regional Economist at Standard Chartered Plc** – "This is a half move by the Chinese government towards possibly widening the yuan's trading band against the dollar. We may see the government widen the band against the dollar by the end of the year. The Chinese government has started with the euro, yen because they are smaller components of the currency basket."

September 22nd - IMF Increases Growth Forecasts for 2005 – The IMF announced in its semi-annual World Economic Outlook report, that it has increased its 2005 growth forecast for China from 8.5% to 9.0% citing "robust" growth.

Key Dates This Week

Date	Indicator	Expectation	Previous
10/02	PMI Manufacturing – Sep	--	52.6
10/03-07	Business Climate Index – 3Q	--	131.7

Valance Co., Inc.

Valance Economic Report: Sweden

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September 28, 2005

Recent data in Sweden was generally upbeat: Real GDP Growth grew 0.6% from Q1 to Q2 while the Y/Y growth improved. The Trade Surplus widened, from a year earlier, on increased exports and PPI also rose. Conversely, Consumer and Manufacturing Confidence both fell as a result of rising gasoline prices.

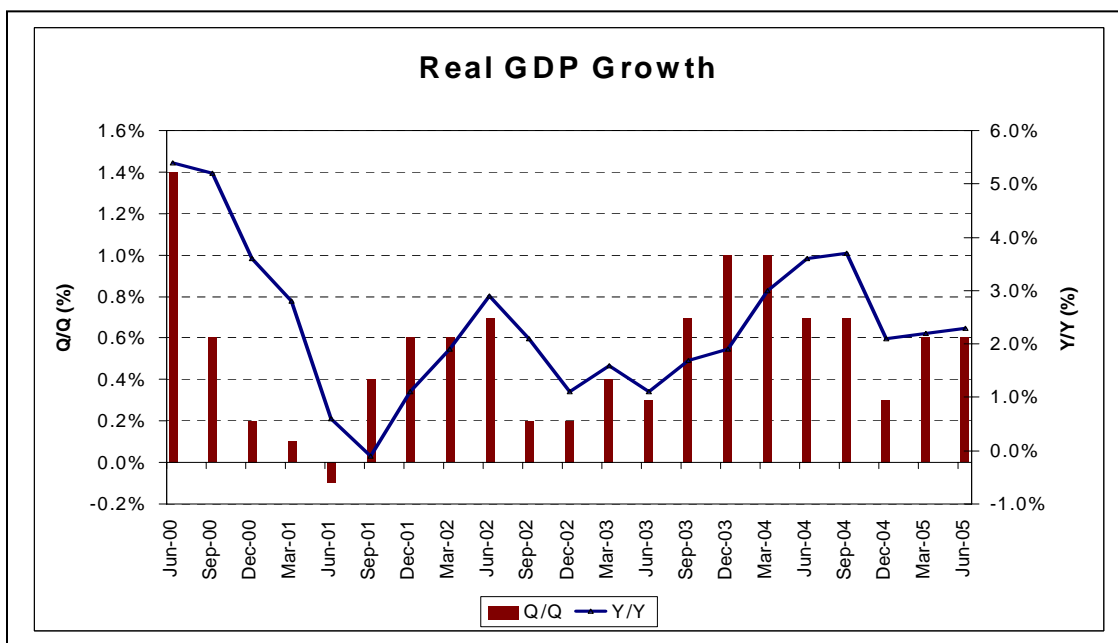
Weekly Highlights

Real GDP Growth - grew 0.6% Q/Q in Q2 while Y/Y growth rose from 2.2% in Q1 to 2.3% in Q2. (page 32)

Trade Balance – narrowed from SEK 13.4 bln in July to SEK 7.2 bln in August, but widened from SEK 6.6 bln a year. (page 34)

Weekly Releases & News

Charts of the Week: *Real GDP Growth*

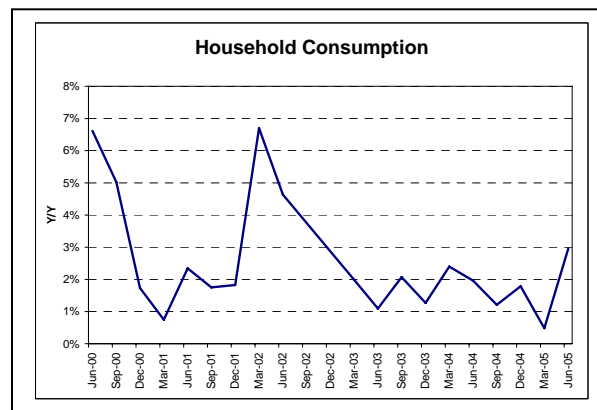


Real GDP Growth advanced by 0.6% Q/Q in Q2, while Y/Y growth rose from 2.2% in Q1 to 2.3% in Q2. Growth was spurred by increased business investment and consumer spending which grew 1.1% Q/Q.

Household Consumption, Gross Fixed Capital Formation & Imports of Goods and Services

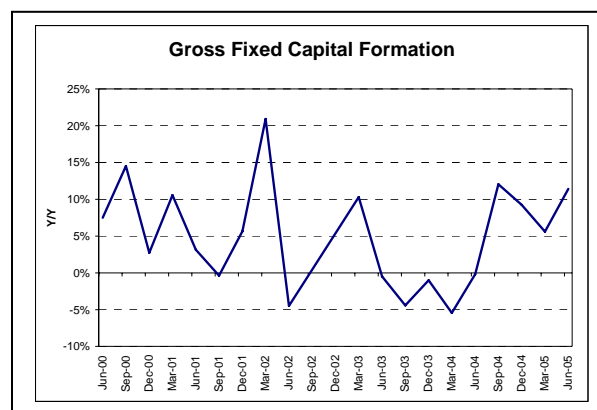
Household Consumption

Real Household Consumption growth increased from 0.2% Q/Q in Q1 to 1.1% Q/Q in Q2. Similarly, Y/Y growth increased from 1.2% in Q1 to 2.5% in Q2.



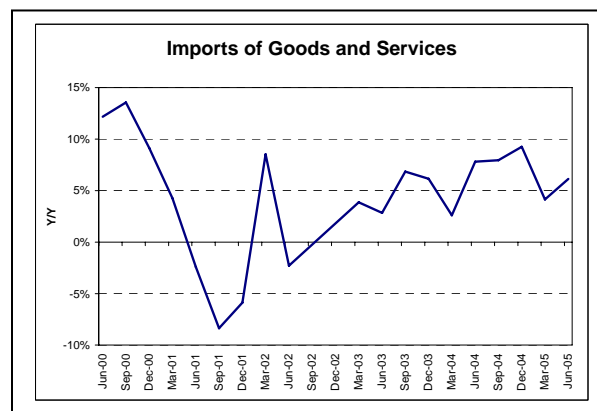
Gross Fixed Capital Formation

Gross Fixed Capital Formation growth increased from 1.7% Q/Q in Q1 to 2.2% Q/Q in Q2, and slowed from 9.2% Y/Y in Q1 to 8.7% Y/Y in Q2.



Imports of Goods and Services

Imports of Goods and Services rose from -3.0% Q/Q in Q1 to 1.9% Q/Q in Q2. All components of domestic demand thus increased in Q2.



Exports of Goods and Services, Trade Balance & PPI

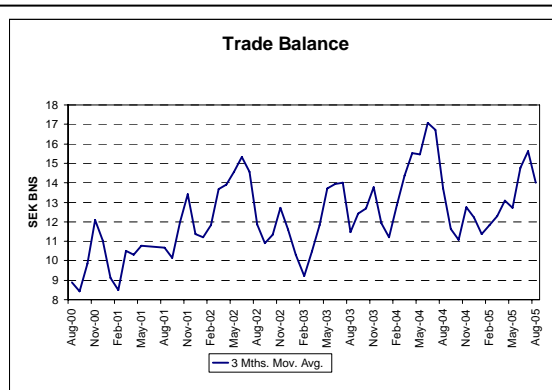
Exports of Goods and Services

Exports of Goods and Services increased from -1.4% Q/Q in Q1 to 1.5% Q/Q in Q2.



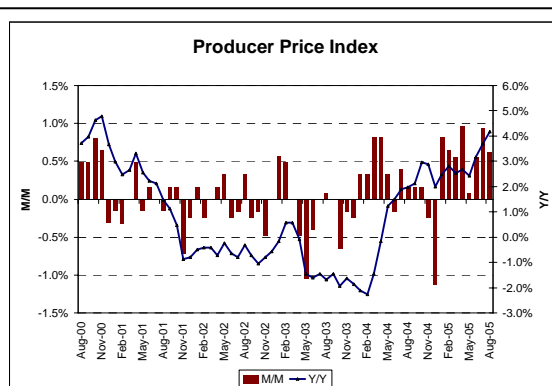
Trade Balance

The Trade Balance narrowed from SEK 13.4 bln in July to SEK 7.2 bln in August, but widened from SEK 6.6 bln a year. Exports and Imports both rose 8.0% Y/Y.



PPI

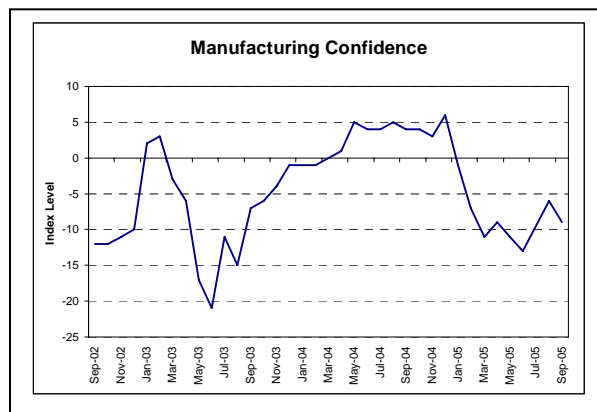
The Producer Price Index rose 0.6% M/M and 4.2% Y/Y in August, above expectations of 0.4% M/M and a 4.0% Y/Y gain. The growth was partially attributed to the increase in costs of petroleum products and metals.



Manufacturing Confidence, Consumer Confidence & Trade Weighted Exchange Rate

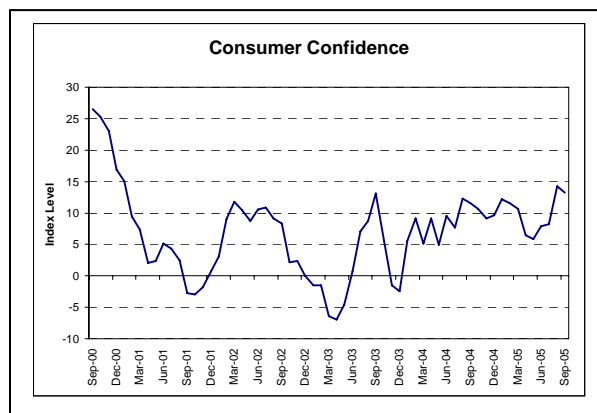
Manufacturing Confidence

Manufacturing Confidence fell from -6.0 in August to -9.0 in September. Expectations were for -6.0.

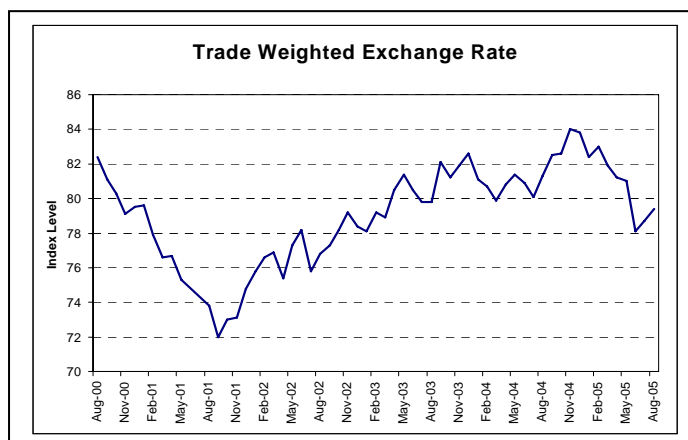


Consumer Confidence

Consumer Confidence fell from 14.2 in August to 13.2 in September. Increased transportation and heating costs fueled by surging oil prices were partially responsible for the decrease.



Trade Weighted Exchange Rate



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
09/29	Retail Sales s.a. (M/M) / n.s.a. (Y/Y) - Aug	0.4%	-0.6%
10/03	Swedbank PMI Survey - Sep	6.6%	8.6%

Valance Co., Inc.

Valance Economic Report: Switzerland

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September 28, 2005

Data this week was mixed as the Trade Surplus narrowed to its lowest in over two years and the UBS Consumption indicator fell. Conversely, the KOF Swiss Leading Indicator rose above expectations. In other news, UBS AG cut its economic growth forecast to 1.3% for 2005 and 1.6% for 2006.

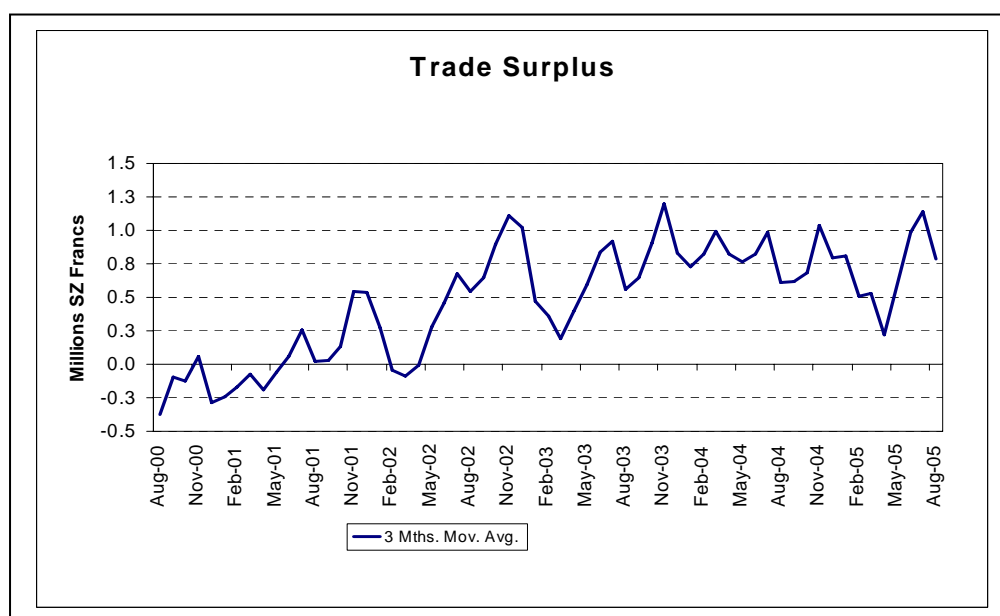
Weekly Highlights

Trade Surplus - narrowed from 681.7 mln francs in July to 77 mln francs in August. (page 37)

KOF Swiss Leading Indicator - increased from a revised 0.70 (down from 0.71) in August to 0.77 in September. (page 38)

Weekly Releases & News

Chart of the Week: Trade Balance

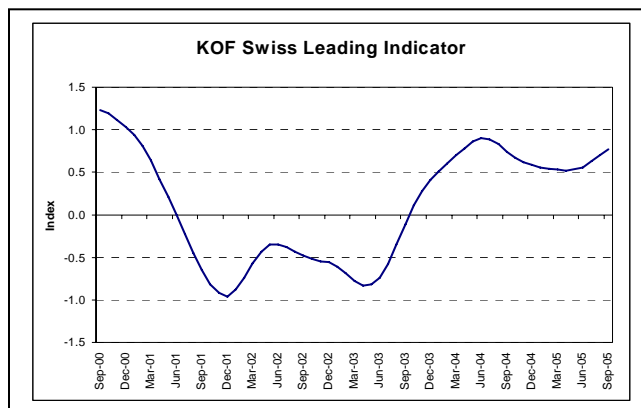


Switzerland's Trade Surplus narrowed from 681.7 mln francs in July to 77 mln francs in August, marking the smallest trade surplus in over two years. Record oil prices and a pick up in imports are partly to blame for the narrowing surplus. Exports and imports, adjusted for inflation, rose 6.5% and 5.2% M/M, respectively.

KOF Swiss Leading Indicator, UBS Consumption Indicator & Trade Weighted Exchange Rate

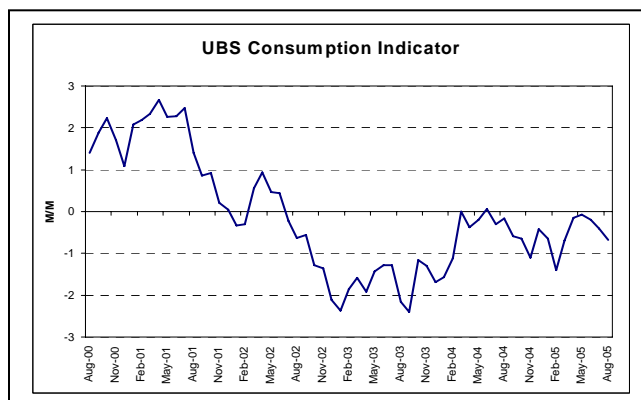
KOF Swiss Leading Indicator

The monthly aggregate of indicators increased from a revised 0.70 (down from 0.71) in August to 0.77 in September. Expectations were for a 0.70 outcome. This marked the highest level in a year. The pickup is being led by exports, which have benefited from a weaker local currency this year.

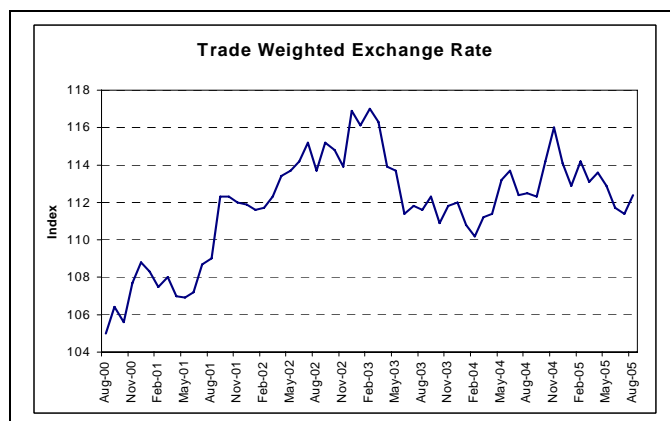


UBS Consumption Indicator

The UBS Consumption Indicator fell for the third straight month in August, from -0.4 in July to -0.68, due to surging oil prices that have threatened consumer spending.



Trade Weighted Exchange Rate



News Releases & Upcoming Dates

News Releases

September 22nd – UBS Cut Its Economic Growth Forecasts for Switzerland – UBS AG cut its economic growth forecast for 2005 from 1.6%, predicted in July, to 1.3%. It also expects to see an economic expansion of 1.6% in 2006 instead of the previously forecasted 1.8%.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
10/03	SVME – Purchasing Managers' Index - Sep	--	54.0
10/04	CPI – M/M / Y/Y – Sep	--	0.1% / 1.0%