

Valance Company, Inc.



Weekly

October 12, 2005

III

Highlights

US – Mortgage applications soften & payrolls are better than expected (page 2)

Euroland – Eurozone Manufacturing remains strong (page 7)

Japan – Machine Orders surge above expectations (page 13)

UK – MPC Governor King hawkishly comments that the UK has been going through a “rebalancing.” (page 19)

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October 6 – October 12 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 | 0.04 | 1.50 | 5.00 | 5.00 | 5.00 |
| | 3.75 | 4.14 | 4.42 | 4.60 | 4.67 | 4.69 |
| EU | 0.00 | 0.00 | 3.50 | 6.00 | 7.00 | 8.00 |
| | 2.00 | 2.18 | 2.27 | 2.38 | 2.51 | 2.61 |
| JN | 0.00 | 0.00 | 0.00 | 0.50 | 1.50 | 2.00 |
| | 0.00 | 0.07 | 0.11 | 0.18 | 0.27 | 0.37 |
| UK | 0.00 | -0.03 | 1.00 | 0.00 | -1.00 | 0.00 |
| | 4.50 | 4.57 | 4.49 | 4.38 | 4.33 | 4.35 |
| CA | 0.00 | 0.03 | 6.00 | 8.00 | 7.00 | 8.00 |
| | 2.75 | 3.08 | 3.35 | 3.53 | 3.62 | 3.67 |
| AU | 0.00 | 0.01 | 6.00 | 9.00 | 11.00 | 10.00 |
| | 5.50 | 5.59 | 5.70 | 5.77 | 5.77 | 5.76 |
| NZ | 0.00 | 0.04 | 6.00 | 4.00 | 3.00 | 4.00 |
| | 6.75 | 7.21 | 7.30 | 7.28 | 7.18 | 7.03 |
| SZ | 0.00 | -0.01 | 1.00 | 3.00 | 4.00 | 5.00 |
| | 0.75 | 0.80 | 0.92 | 1.15 | 1.35 | 1.48 |

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Valance Economic Reports

Valance Co., Inc.

Valance Economic Report: United States

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October 12, 2005

This week's light economic data showed confidence recovering a bit, mortgage applications softening and better than expected payrolls data for September. Fed minutes revealed that Olson's dissent was Katrina related and that the Fed is likely to continue their hiking campaign. Some hawkish quotes from the minutes include: "further rate increases probably would be required", "worrisome loss of fiscal discipline" and storm increased "upside risks to inflation."

Weekly Highlights

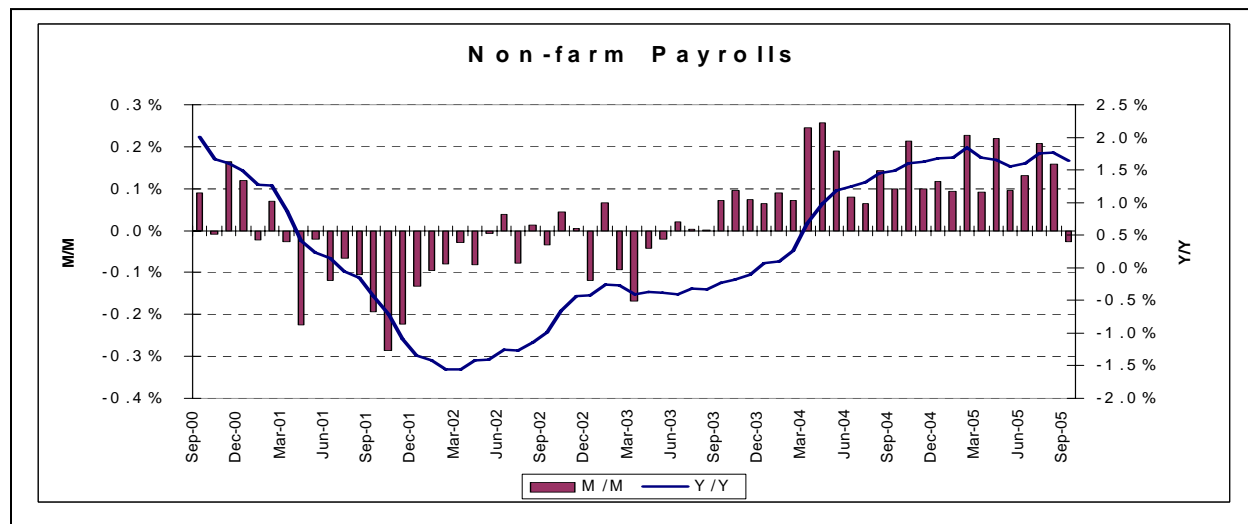
Employment- payrolls decreased 35k in September. (page 2)

Average Hourly Earnings- increased 0.2% M/M and 2.6% Y/Y in September. (page 4)

Mortgage Applications- are starting to soften. (page 5)

Weekly Releases

Chart of the Week: *Non-farm Payrolls*



Non-farm Payrolls decreased 35k in September, better than expected, and August's payroll data was revised up 42k to 211k. Excluding the impact of Katrina, payrolls would have increased in line with trend payroll gains of about 195k per month. The Fed views the economic weakness from Katrina as a transitory impact and will not likely be slowed in their hiking campaign by the decline in payrolls.

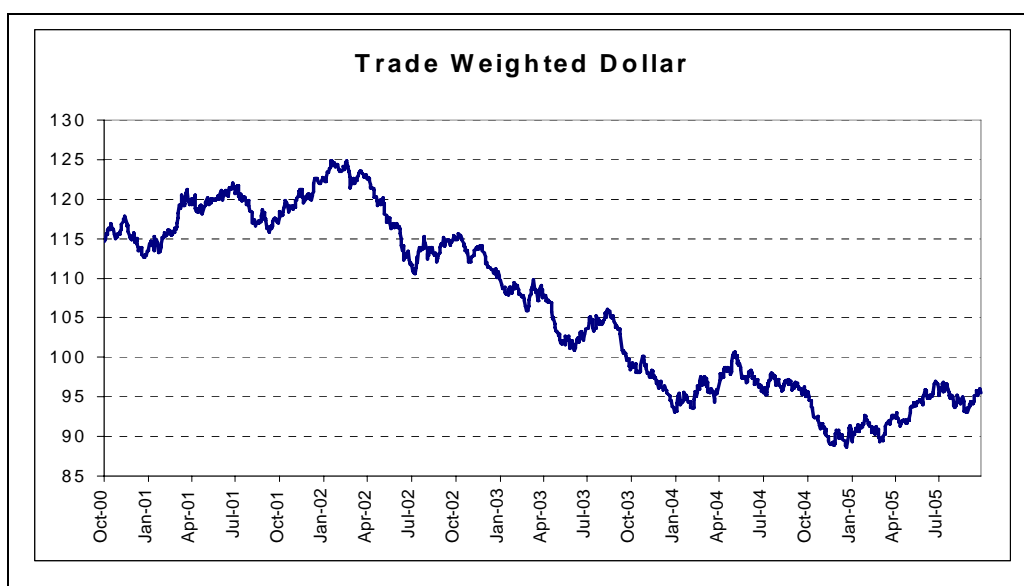
U.S. Financial Balances & Trade Weighted Dollar

Financial Balances

| <i>U.S.</i> | <i>Latest period (\$blns)</i> | <i>Last 12mth. as a % of GDP</i> |
|-------------------------|-------------------------------|----------------------------------|
| Budget Balance | -50.0 (August) | -2.7% |
| Trade Balance | -57.9 (July) | -5.5% |
| Current Account Balance | -195.7 (Q2) | -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.

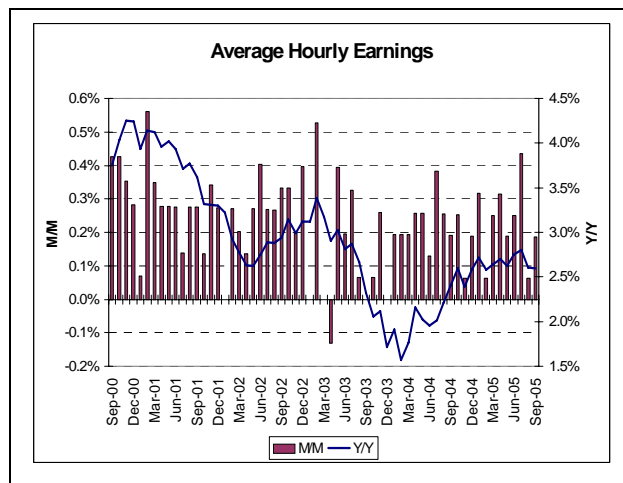
Trade Weighted Dollar



Employment

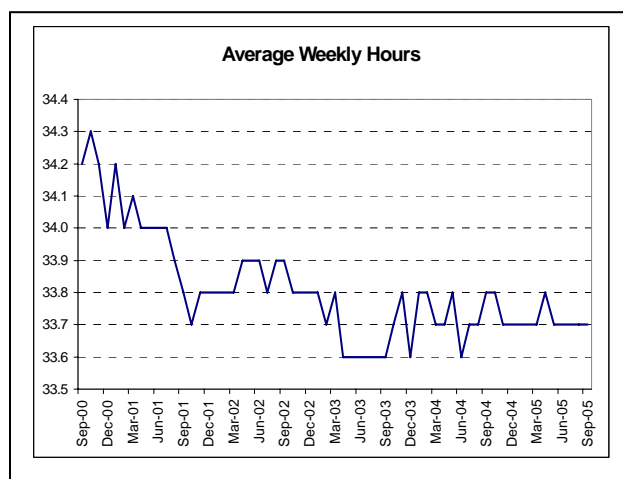
Average Hourly Earnings

Average hourly earnings grew 0.2% M/M and 2.6% Y/Y in September. This series shows no acceleration in upward wage pressures. The Fed will continue to closely monitor wage data.



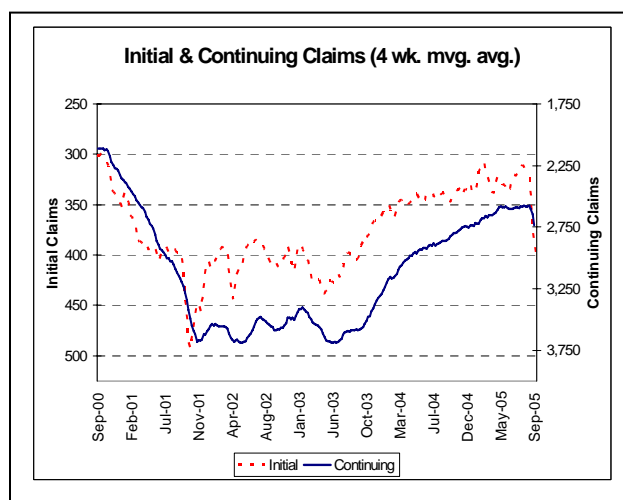
Average Weekly Hours

Average weekly hours remained at 33.7 in September. This metric continues to be relatively flat in absolute terms, which suggests that some slack remains in the labor market.



Initial & Continuing Claims

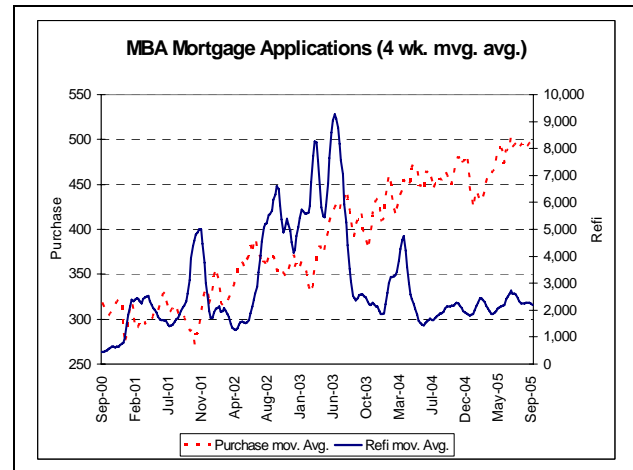
The four-week moving average of initial and continuing claims increased to 405k and 2,732k, respectively. Initial jobless claims increased 21k to 390k, but about 74k were hurricane related. This leaves "core" initial claims in line with pre-Katrina levels.



Mortgage Applications & Confidence

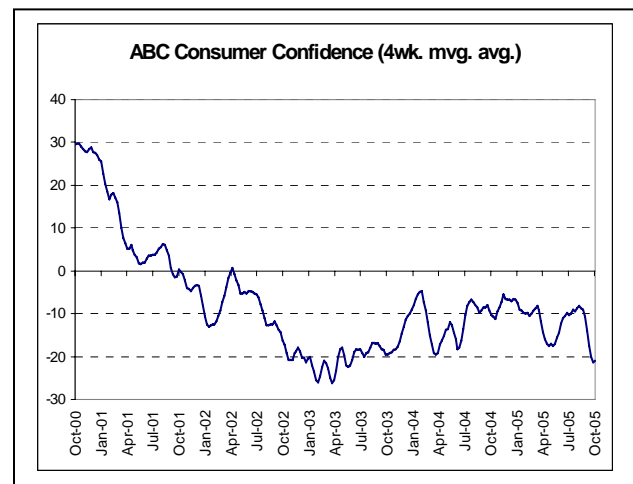
MBA Mortgage Applications

Purchase and refinancing mortgage applications declined 0.9% and 4.9%, respectively, this week. The recent softness in mortgage applications could be an early sign that housing price growth and mortgage equity extraction could be starting to slow.



ABC Consumer Confidence

The ABC Consumer Confidence Index improved from -20 to -19. The economy component remained flat and the finances and buying components increased from 14 to 16 and from -38 to -36, respectively. The four week moving average has improved for the first time post-Katrina.



Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|------------------------------------|--------------------|-----------------|
| 10/13 | Trade Balance (AUG) | -\$59.5B | -\$57.9B |
| 10/13 | Import Price Index (M/M SEP) | 1.0% | 1.3% |
| 10/13 | Initial Jobless Claims (OCT 8) | 360K | 390K |
| 10/13 | Continuing Claims (OCT 1) | 2947K | 2905K |
| 10/14 | CPI Ex Food & Energy (M/M SEP) | 0.2% | 0.1% |
| 10/14 | Retail Sales Less Autos (SEP) | 0.8% | 1.0% |
| 10/14 | Industrial Production (SEP) | -0.4% | 0.1% |
| 10/14 | Capacity Utilization (SEP) | 79.4% | 79.8% |
| 10/14 | U. of Michigan Confidence (OCT) | 80.0 | 76.9 |
| 10/14 | Business Inventories (AUG) | 0.2% | -0.5% |
| 10/14 | Monthly Budget Statement (SEP) | \$36.0B | \$24.6B |
| 10/17 | Empire Manufacturing (OCT) | 20.0 | 17.0 |
| 10/18 | PPI Ex Food & Energy (M/M SEP) | 0.2% | 0.0% |
| 10/18 | NAHB Housing Market Index (OCT) | 64 | 65 |
| 10/18 | ABC Consumer Confidence (OCT 16) | NA | -19 |
| 10/19 | MBA Mortgage Applications (OCT 14) | NA | -2.6% |
| 10/19 | Housing Starts (SEP) | 1950K | 2009K |
| 10/19 | Building Permits (SEP) | 2050K | 2124K |

Valance Co., Inc.

Valance Economic Report: Euro Zone

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October 12, 2005

A few weeks ago we posed the question, “has Euro Zone production peaked already”, apparently not. Despite weak Euro Zone Manufacturing PMI data in August, manufacturing has remained strong with German production continuing to grow and French production showing signs of life. It is unlikely that the current momentum will prove strong enough to produce meaningful employment gains however.

Weekly Highlights

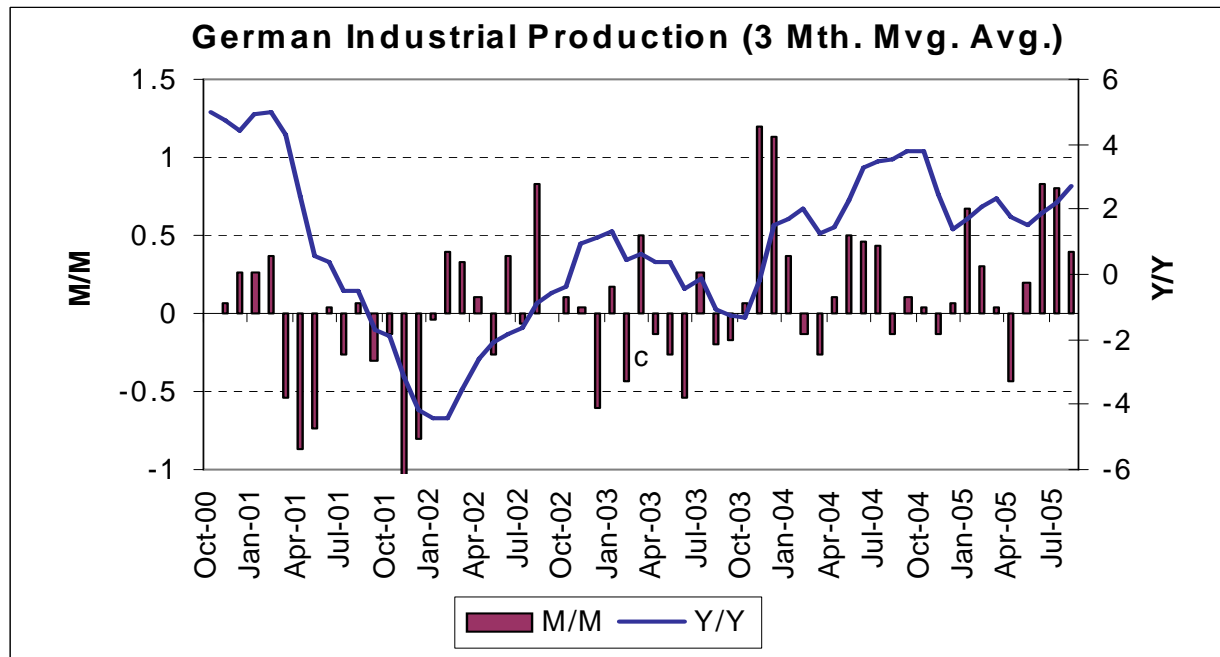
German Industrial Production– Y/Y production accelerated in August. (page 7)

German Exports– largest M/M expansion since January. (page 9)

French Industrial Production– largest M/M increase in 11 months. (page 10)

Weekly Releases & News

Chart of the Week: German Industrial Production



Germany's August Industrial Production fell 1.6% M/M while increasing 2.0% Y/Y. It was the first M/M decline in the past 3 months. Despite the decline, Germany's manufacturing sector appears poised for a rather strong Q3.

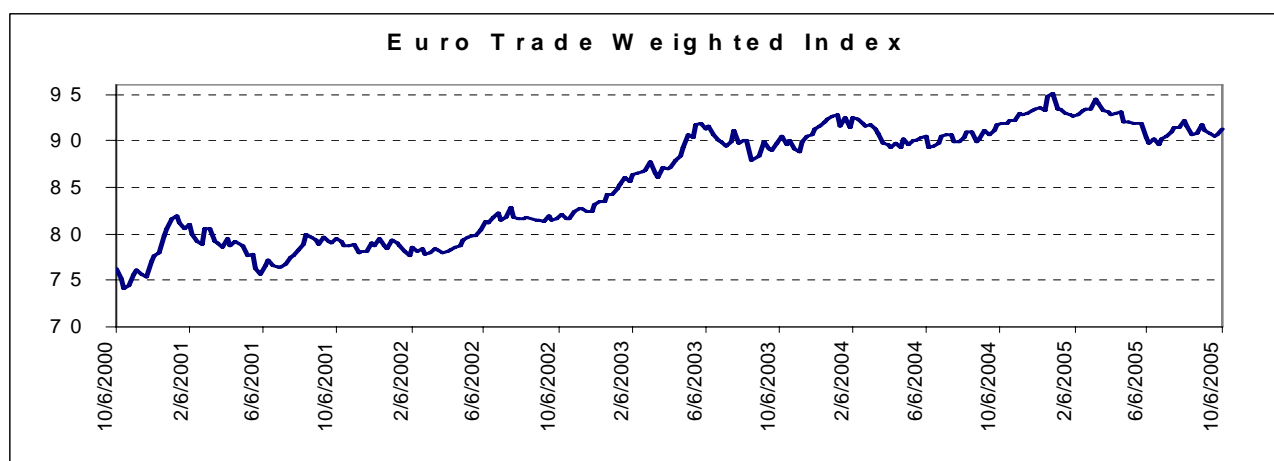
Euro Zone Financial Balances & Trade Weighted Euro

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.

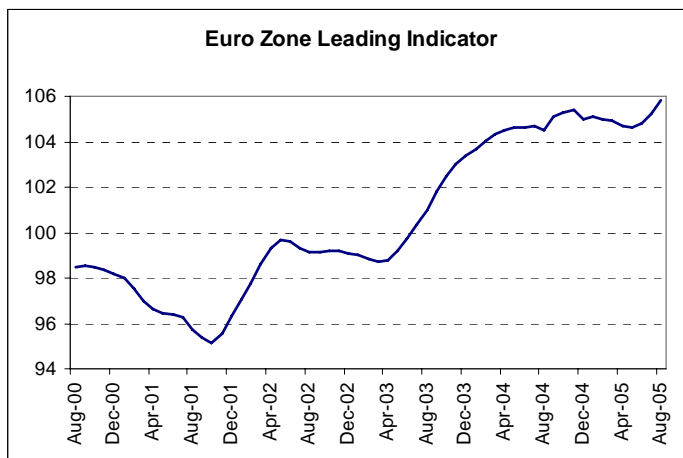
Trade Weighted Euro



Euro Zone OECD Ind., German Factory Orders & Exports

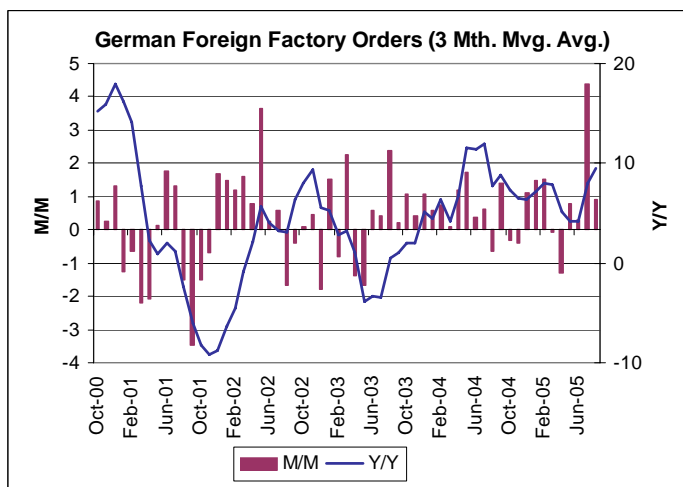
Euro Zone OECD Leading Indicator

The Euro Zone's August OECD Leading Indicator increased from 105.2 in July to 105.8.



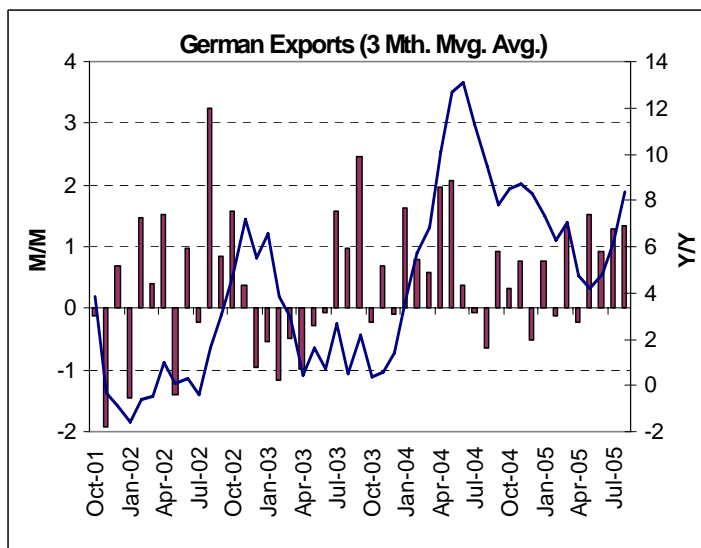
German Factory Orders

Germany's August Factory Orders fell 3.7% M/M while increasing 8.3% Y/Y.



German Exports

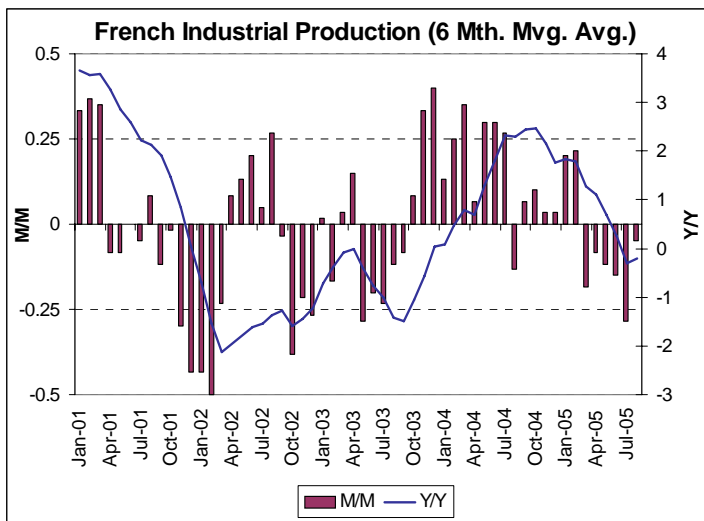
Germany's August Exports expanded 3.5% M/M and 10.7% Y/Y, the largest M/M increase since January. Imports increased 6% M/M and 12.8% Y/Y, narrowing the Trade Surplus from 14.1 bln euros to 11.6 bln.



French Ind. Production, Exports & Spanish Household Exp.

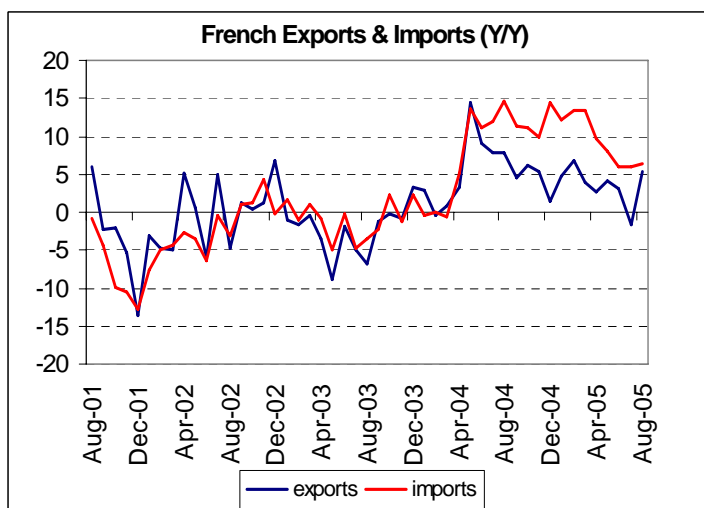
French Industrial Production

France's August Industrial Production increased 0.8% M/M and 1% Y/Y after contracting in July.



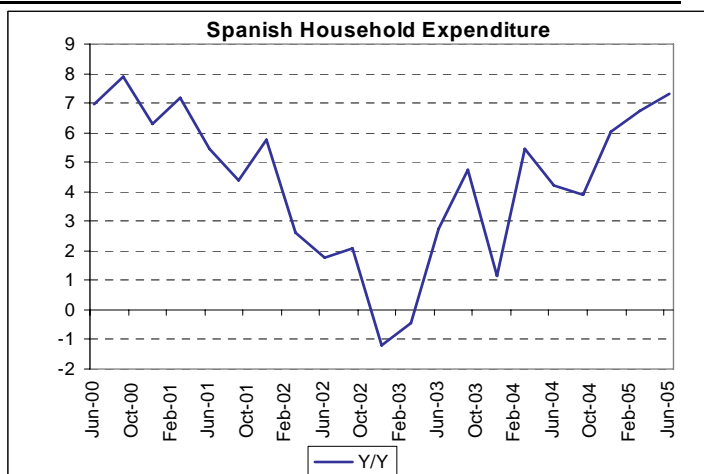
French Exports

France's August Trade Deficit narrowed from 2.7 bln euros in July to 2.3 bln as exports increased 4% M/M and 5.3% Y/Y and imports increased 3.1% M/M and 6.4% Y/Y.



Spanish Household Expenditure

Spain's Q2 Household Expenditure fell 1.73% M/M while increasing 7.31% Y/Y.



News

Oct. 12th – German Labor Agency Alt stated that Germany's unemployment will not fall in 2006 stating, "We expect economic growth of 1.25% next year. That won't bring any additional dynamism to the labor market". The number of German full time jobs will fall almost 10% this year as compared to 2000.

Oct. 11th – Monster Worldwide Inc.'s index of online job ads in five European economies rose in September, increasing from 109 in August to 110. The German index rose from 114 to 116.

Oct. 11th – ECB member Yves Mersch stated that the ECB's change of rhetoric was "correctly" understood. He added that interest rates are "still appropriate, which is a difference from being plain appropriate." After leaving interest rates unchanged at 2%, ECB President Trichet had stated that "strong vigilance" was necessary regarding inflationary pressures (as opposed to "vigilance" used in previous statements). Trichet also added that "inflationary dangers are increasing". Finally, Mersch noted that all options are being considered but that the option of a cut was "discarded" in their last meeting.

Oct. 11th – ECB President, Jean Claude Trichet, in a meeting with European Finance Ministers, noted the need for vigilance regarding oil and inflationary pressures. The finance ministers disagreed, stating that they see no second round effects at all.

Oct. 11th – EU ministers called on Germany to cut its large deficit once again, stating that it is "essential" that the new government cut the deficit "as soon as possible". In addition, the EU may no longer give Germany the expected extra time to reign in the deficit.

Oct. 11th – After being appointed Chancellor, Germany's Angela Merkel granted what some believe to be too much power to the SPD party, allowing them to keep control of the ministries of finance, labor, health and five others in the future cabinet.

Oct. 10th – ECB President Jean Claude Trichet stated that the potential growth rate of the euro region will decline to as low as 1.5% over the next 15 years unless governments change their economic policies. Trichet added, "In particular, there is a need to further boost labor utilization and productivity."

Oct. 6th – The French economy will expand 1.5% in 2005 according to the Insee Institute, though they noted that "The main uncertainty in these forecasts remains petrol prices". Insee expects 0.4% Q/Q expansion in Q3 followed by 0.3% expansion in Q4.

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|-------------------------------------|--------------------|-----------------|
| 10/13 | French CPI (SEP) | 0.3% M/M | 0.4% M/M |
| 10/13 | Italian Industrial Production (AUG) | 0.4% M/M | 0.5% M/M |
| 10/14 | Spanish CPI (SEP) | 0.6% M/M | 0.4% M/M |
| 10/14 | Italian Trade Balance (AUG) | -320 mln | 2387 mln |

Valance Co., Inc.

Valance Economic Report: Japan

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October 12, 2005

The long awaited recovery in the IT sector is all but complete. IT and Telecomm sectors have helped increase August Machine Orders to a level nearly three times above market expectations. Household Spending increased in August as well, and although Consumer Confidence slipped, we look for trends in capex and manufacturing to continue, giving the BoJ good reason to discuss a late FY2005 or early FY2006 change in policy.

Weekly Highlights

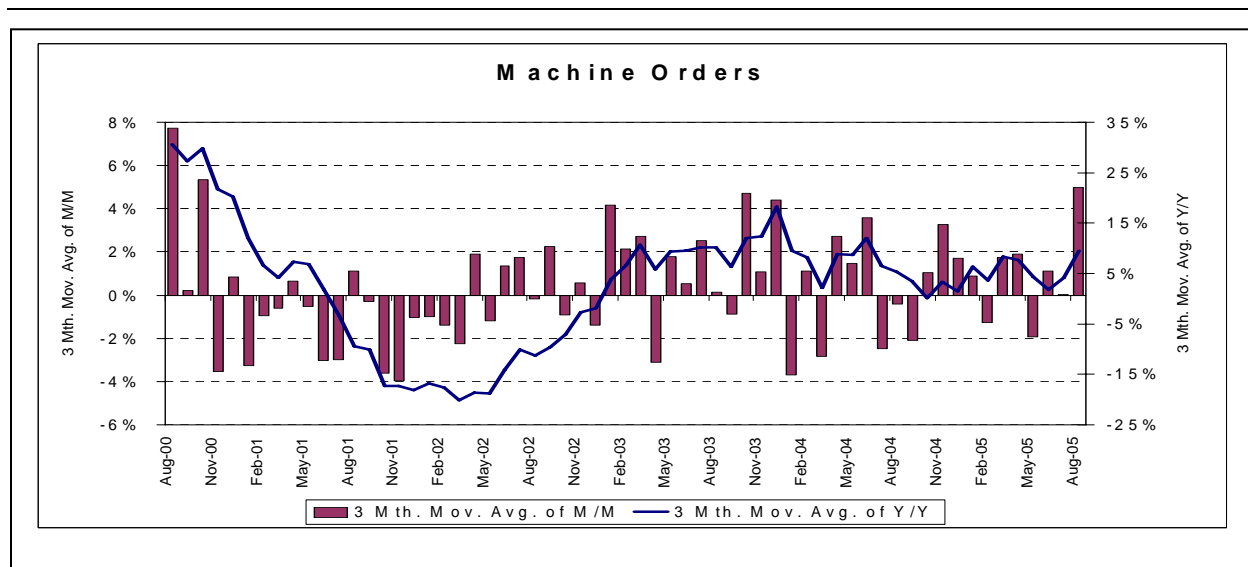
Machine Orders– increased 8.2% M/M and 13.4% Y/Y in August. (page 13)

Household Spending – increased 4.8% M/M and declined 0.6% Y/Y in August. (page 15)

Consumer Confidence– declined from 48.4 to 45.6 in September. (page 16)

Weekly Releases & News

Chart of the Week: *Machine Orders*



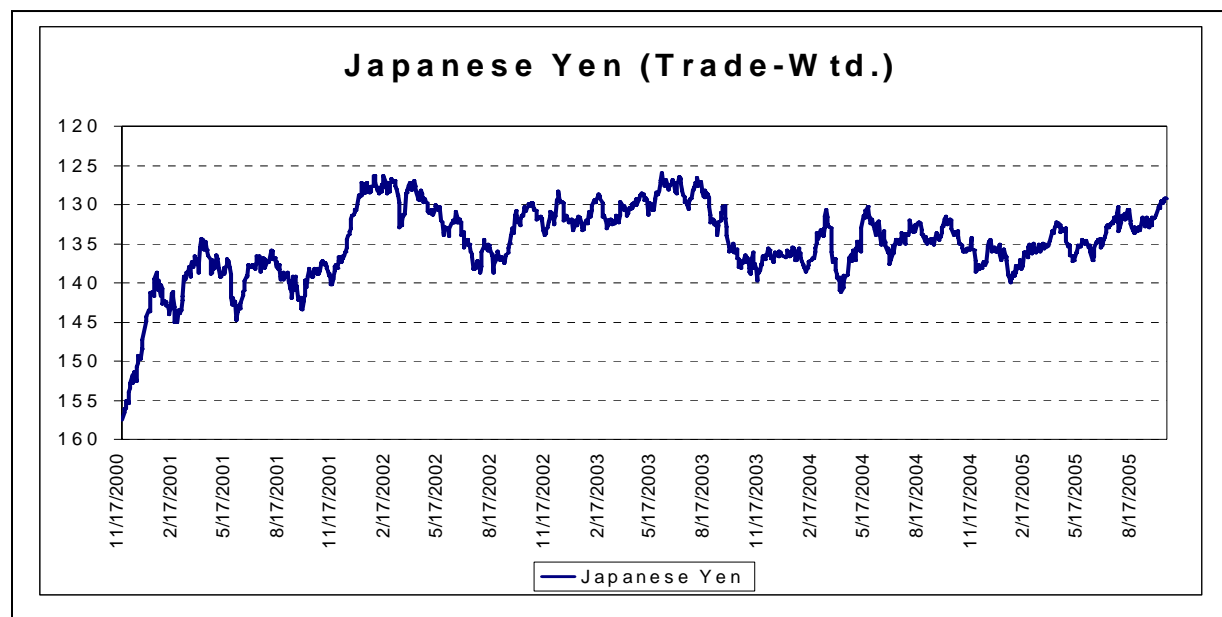
Machine Orders increased 8.2% M/M and 13.4% Y/Y in August. Although economists were looking for a recovery from the prior month's decline, the data came in significantly above the 2.5% M/M and 7.7% Y/Y increase that economists were expecting. The data, which originates from both manufacturing and non-manufacturing fronts, is in line with the growing evidence that the country is soundly emerging from its recent soft patch.

Details within this data were very positive. Orders from manufacturers increased 9.5% while non-manufacturer orders increased 7.6%. Of note however, were electronic companies, which improved 10.2%, faring even better than general machinery companies, which improved 9.2%. Among non-manufacturers, telecomm companies did best, improving 17.9%. All told, the data also supports the BoJ's view that IT industries' adjustment appears complete and that they may begin a shift in monetary policy by the beginning of FY 2006.

Japan's Financial Balances

Financial Balances

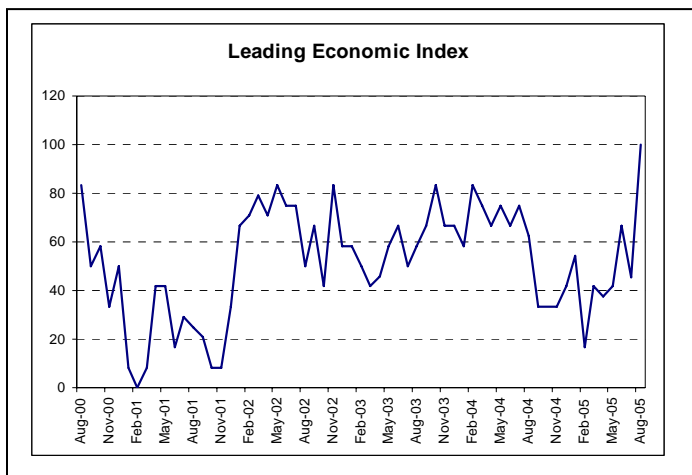
| <i>Japan</i> | <i>Last period (¥trln)</i> | <i>Last 12mth. as a % of GDP</i> |
|-------------------------|----------------------------|----------------------------------|
| Budget Balance | -3.03 (May) | -6.9% |
| Trade Balance | 0.69 (June) | 2.2% |
| Current Account Balance | 1.50 (June) | 5.2% |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



Leading Economic Index, Household Spending & Eco Watchers Survey

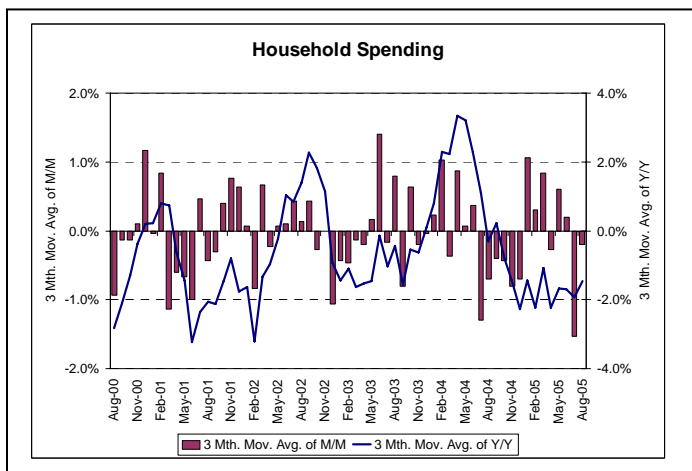
Leading Economic Index

Japan's Leading Economic Index increased from 45.5 to 100.0 in August, reaching its highest level since February 2000. Improvements in the index components were broad as every component, with the exception of retail sales value, improved in the month.



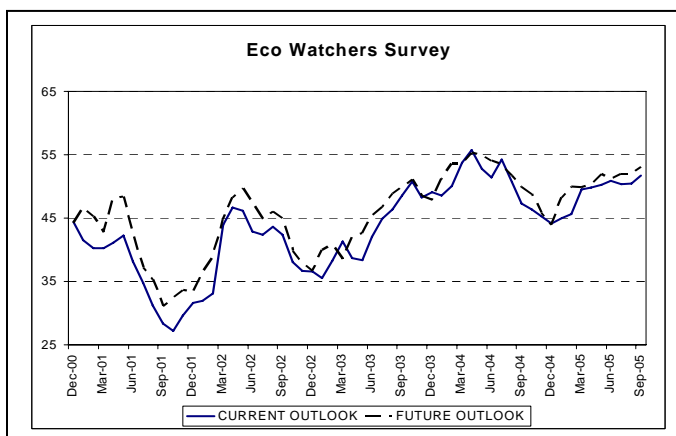
Household Spending

Real Household Spending increased 4.8% M/M and declined 0.6% Y/Y in August as consumer spending bounced back from last month's decline.



Eco Watchers Survey

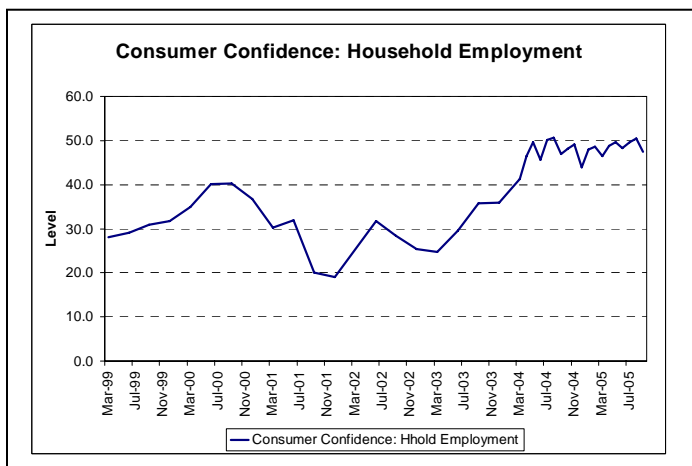
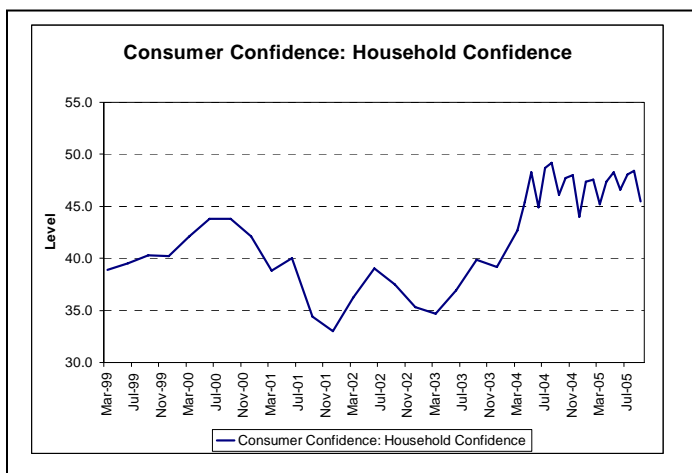
According to the Eco Watchers Survey, Consumers' Current Outlook increased from 50.5 to 51.7 in September, its highest level in 14 months. The Future Outlook increased from 51.9 to 53.1, its highest level in 14 months as well.



Consumer Confidence

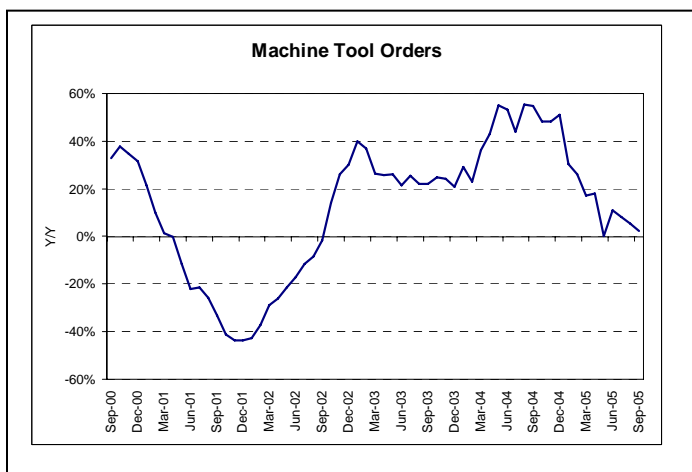
Consumer Confidence

The Consumer Confidence - Household Confidence declined from 48.4 to 45.5 in September. The Employment component declined from 50.4 to 47.4 in September. Overall customer sentiment appeared to have become slightly pessimistic in September, as higher fuel prices have dampened optimism and brought the index below 50.0.



Machine Tool Orders

Machine Tool Orders increased 2.2% Y/Y in September.



News

BoJ's Comments

Oct 12th – Although the BoJ chose to leave policy unchanged, they noted that “Investment has continued to increase against the background of high corporate profit and a modest improvement in business sentiment,” in its monthly report. “We will scrutinize the sustainability of the economic recovery and will see if the economy can continue to recovery even if there are various risk factors,” BoJ’s Governor Fukui commented. The time for core prices to rise “is getting pretty close,” Fukui stated, reiterating his view that interest rates will eventually head toward “positive territory.” Fukui also commented that the likelihood of a change in policy will “grow toward the fiscal year” which starts April 1st.

Oct 12th – The BoJ is “fully aware” that maintaining its stance on monetary policy for too long could harm the economy, Deputy Governor, Toshiro Muto, commented. He also acknowledged that the Bank should not end its 4.5 year old policy of quantitative easing too early. He noted that it was appropriate for the Central Bank to maintain its policy for the time being as many companies are still cautious about increasing business investment. In addition, consumer spending is moderate and core consumer prices remain around zero. He feels there is a high probability that core prices will turn positive at the end of this fiscal year, if not in the next fiscal year.

Gov't Comments

Oct 6th - Prime Minister Koizumi asked his ruling Liberal Democratic Party to devise a plan to reduce the number of government workers by 20% over the next 10 years. The request comes in line with his plans to put in measures to reduce the size of Japan’s government while he is in office.

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|--------------------------------------|--------------------|-----------------|
| 10/12 | Broad Liquidity (Sep Y/Y) | 2.5% | 2.5% |
| 10/12 | Bank Lending (Sep Y/Y) | -1.8% | -1.9% |
| 10/12 | Adjusted Current Account Total (Aug) | ¥1353.7 bln | ¥1367.6 bln |
| 10/12 | Trade Balance – BOP Basis (Aug) | 365.0 bln | 1044.8 bln |
| 10/13 | Domestic CGPI (Sep M/M) | 0.2% | 0.2% |
| 10/13 | Domestic CGPI (Sep Y/Y) | 1.7% | 1.7% |
| 10/13 | Export Price Index (Sep M/M) | N/A | -0.4% |
| 10/13 | Export Price Index (Sep Y/Y) | N/A | 0.5% |
| 10/13 | Import Price Index (Sep M/M) | N/A | 0.2% |
| 10/13 | Import Price Index (Sep Y/Y) | N/A | 13.2% |
| 10/14 | Industrial Production (Aug M/M) | 1.2% | 1.2% |
| 10/14 | Industrial Production (Aug Y/Y) | N/A | 1.6% |
| 10/14 | Capacity Utilization (Aug) | N/A | 102.7 |
| 10/14 | Tokyo Dept. Store Sales (Sep Y/Y) | N/A | 1.2% |
| 10/17 | Bankruptcies (Sep Y/Y) | N/A | 5.0% |
| 10/17 | BoJ Monetary Policy Meeting Minutes | N/A | N/A |
| 10/18 | Leading Economic Index (Aug) | N/A | 100.0% |
| 10/18 | Coincident Index (Aug) | N/A | 88.9% |
| 10/18 | Machine Tool Orders (Sep Y/Y) | N/A | 2.2% |

Valance Co., Inc.

Valance Economic Report: *United Kingdom*

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October 12, 2005

The UK continues to move through its low growth and increasing inflation period as Manufacturing Production remained weak and Output Producer Prices have surged amid increasing energy costs. In addition, the ODPM and HBOS housing surveys both reported deceleration in annual growth.

Weekly Highlights

The Trade Deficit- surged from £3.94 bln to £5.34 bln in August, its largest amount ever. (page 19)

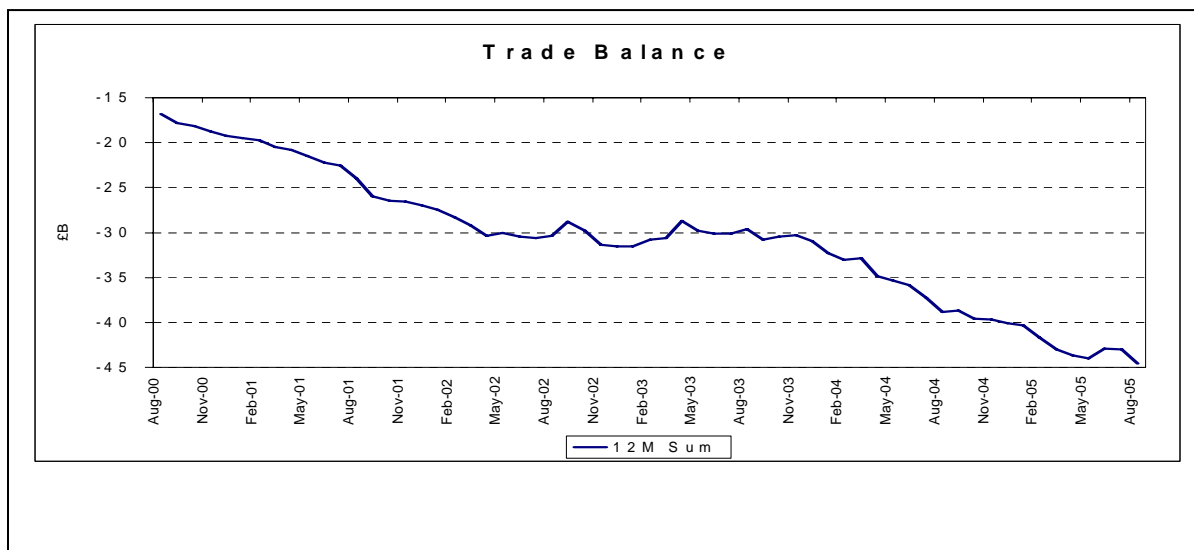
ODPM House Price Survey- remained flat M/M and increased 2.8% Y/Y in August. (page 21)

Output Producer Prices- jumped 0.7% M/M and 3.3% Y/Y in September. (page 21)

Average Earnings (ex. bonus)- increased 4.0% 3M/3M and 4.0% Y/Y in August. (page 23)

Weekly Releases & News

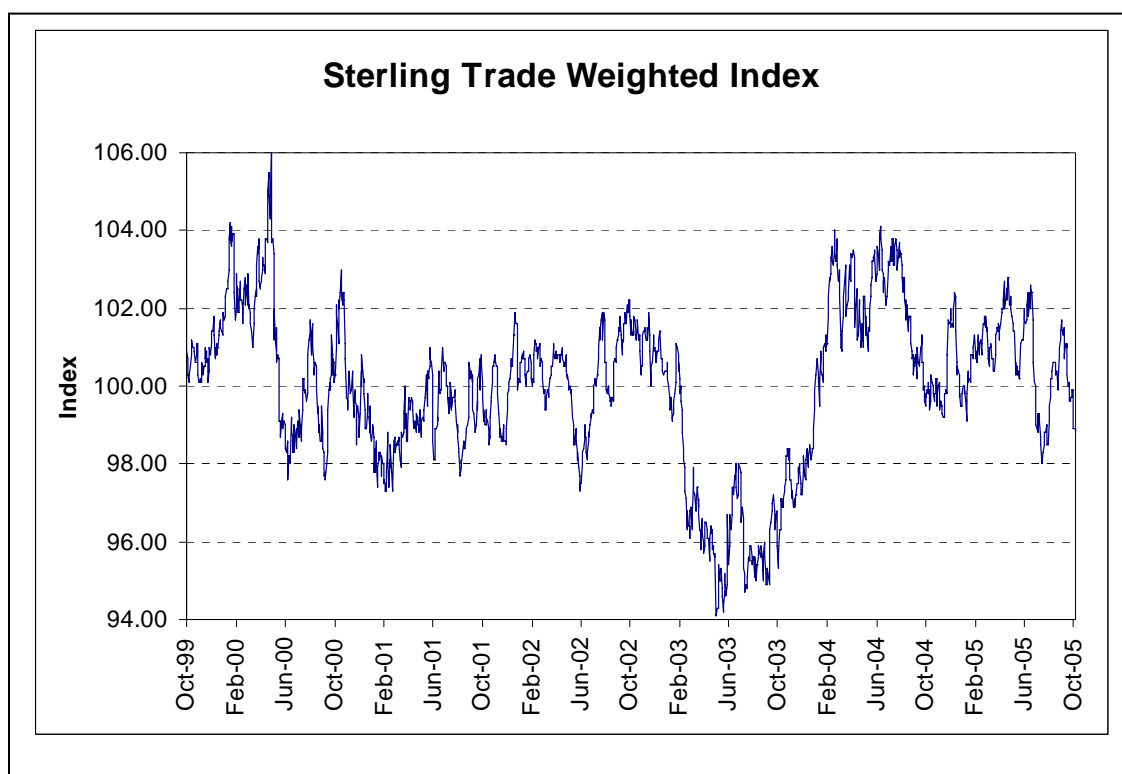
Chart of the Week: *Trade Deficit*



The Trade Deficit surged from £3.94 bln to £5.34 bln in August, its largest amount ever. This was mainly attributed to huge insurance claims to be paid by Lloyds of London after Hurricane Katrina. The international profits of Lloyds are counted as an export of services, thus a pay-out appears as a drop in exports. Minus this affect due to Lloyds of London, UK exports increased 3.7% M/M and imports increased 3.3% M/M. The oil account fell into a record deficit as the UK imported more oil than it exported, the first shortfall since November 2004.

Financial Balances & Trade Weighted Index

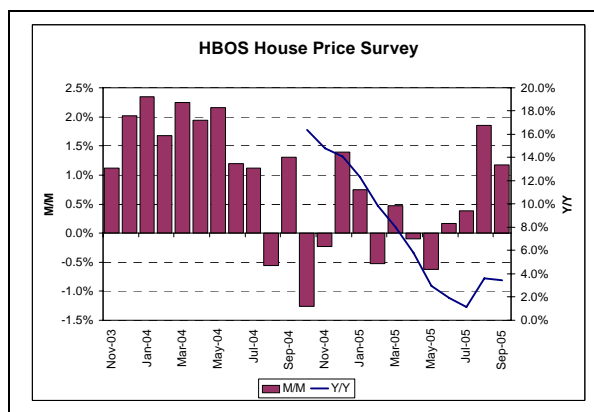
| <i>U.K.</i> | <i>Last Period (blns)</i> | <i>Last 12mth. % of GDP</i> |
|------------------------------------|---------------------------|-----------------------------|
| Budget Balance (monthly) | -£5.9 (June) | +1.6% |
| Trade Balance (monthly) | -£5.4 (May) | -1.8% |
| Curr. Acct. Balance (quarterly) | -£3.1 (March) | -1.0% |
| Private Balance | -- | -2.6% |



House Price Surveys & Output Producer Prices Growth

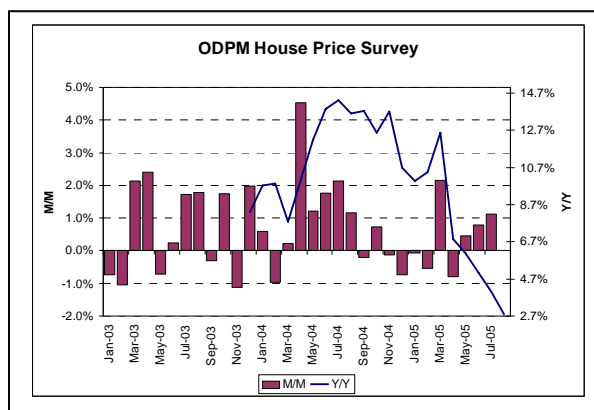
HBOS House Price Survey

HBOS House Prices increased 1.2% M/M and 3.5% Y/Y in September. The annual rate of house price inflation is now at single figures throughout the mainland.



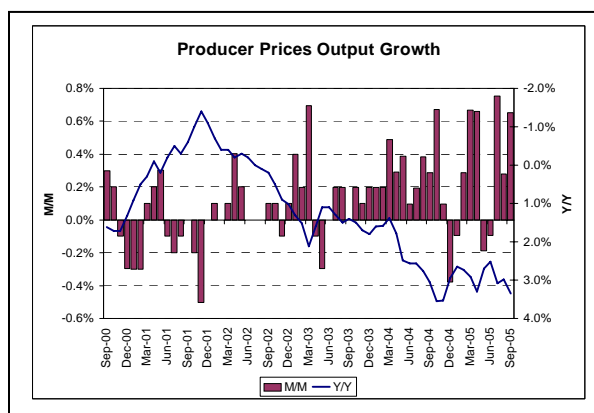
ODPM House Price Survey

ODPM House Prices remained flat M/M and increased 2.8% Y/Y in August, its slowest annual pace in nine years.



Output Producer Prices

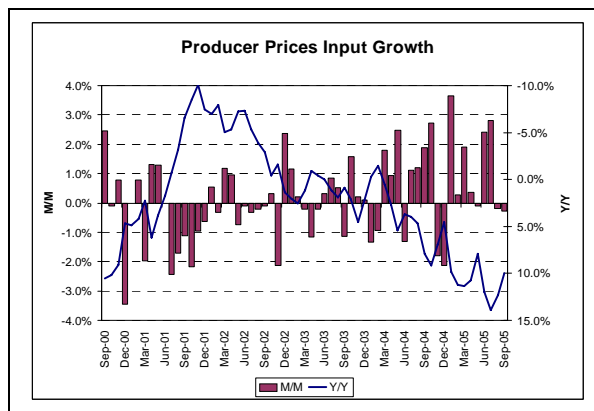
Output Producer Prices increased 0.7% M/M and 3.3% Y/Y in September. Nine of the ten sectors increased M/M, but was largely affected by petroleum products prices increasing 0.4% M/M. Output Prices, excluding food, beverages, tobacco and petroleum, increased 0.3% M/M and 2.1% Y/Y September.



Input Producer Prices & Production Growth

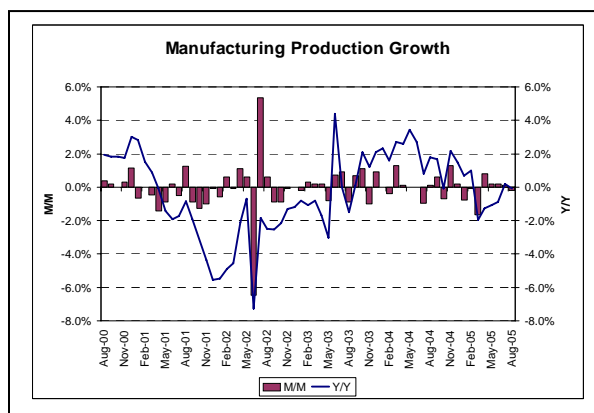
Input Producer Prices

Input Producer Prices decreased 0.3% M/M and 10.0% Y/Y in September. The M/M decrease was mainly due to crude oil decreasing 0.4% M/M, though this was offset by the price of fuel increasing 0.1% M/M. Input Prices, excluding food, beverages, tobacco and petroleum, decreased 0.2% M/M and increased 5.5% Y/Y in September.



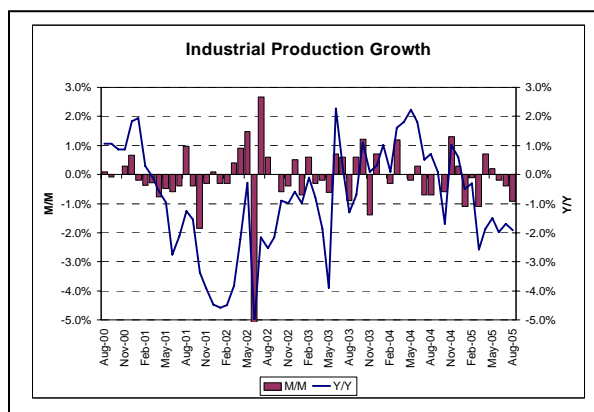
Manufacturing Production

Manufacturing Production decreased 0.2% M/M and 0.1% Y/Y in August. The output of textiles, leather & clothing decreased 1.8% M/M, and food, drink & tobacco decreased 1.1% M/M. Coke, refined petroleum & nuclear fuels increased 1.1% M/M and chemicals & man-made fibers increased 1.0% M/M.



Industrial Production

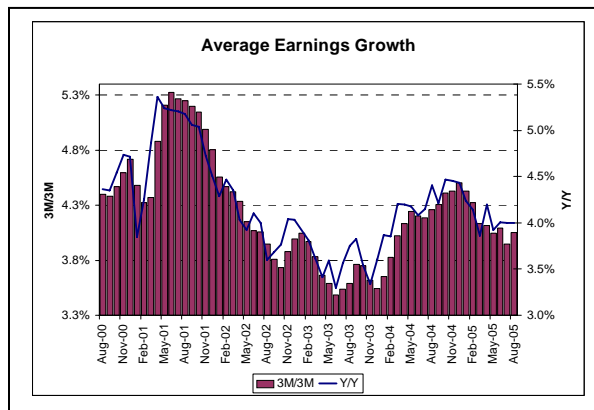
Industrial Production, which excludes mining and quarrying, decreased 0.9% M/M and 1.9% Y/Y in August.



Average Earnings Growth & Employment Data

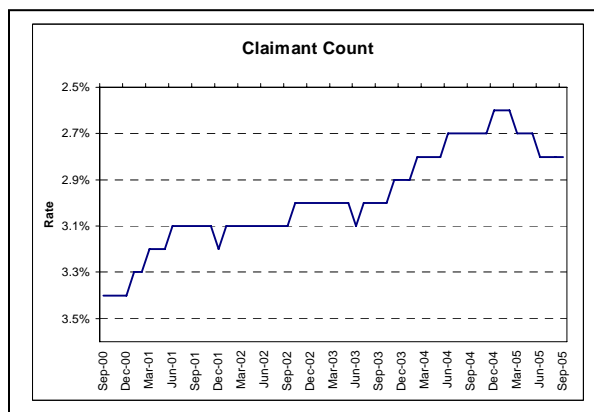
Average Earnings

Average Earnings (ex. bonus) increased 4.0% 3M/3M and 4.0% Y/Y in August. The private sector (inc. bonus) increased 4.1% 3M/3M and 3.8% Y/Y while the public sector (inc. bonus) increased 4.3% 3M/3M and 4.3% Y/Y.



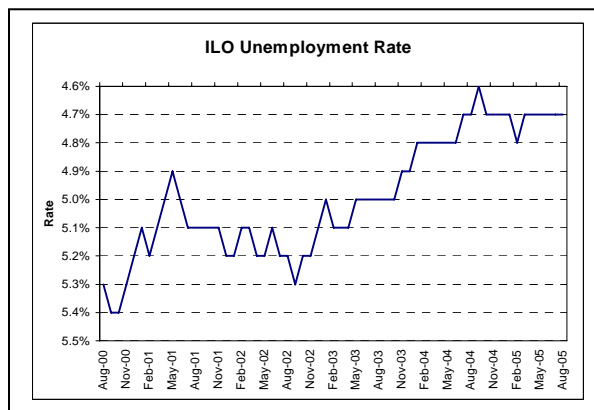
Claimant Count Rate

The Claimant Count Unemployment Rate remained at 2.8% for the fourth consecutive month in September. The number of unemployed increased by 8,200 individuals and has now risen for 8 consecutive months, the longest stretch in 12 years.



ILO Unemployment Rate

The ILO Unemployment Rate remained at 4.7% for the sixth consecutive month in August.



Data, Comments & Upcoming Dates

Data

OECD Forecast

The OECD cut its growth forecast for the UK from 2.4% to 1.7% for this year, sharply below Gordon Brown's forecast of 3.0-3.5%; though Brown recently hinted that growth might be as low as 2.0-2.5%. The OECD has kept its 2006 projections at 2.4%.

BRC Retail Sales

The British Retail Consortium (BRC) reported that same store sales increased 2.9% M/M and decreased 0.8% Y/Y in September. Annual growth has now been negative for seven of the nine months this year.

NIESR GDP Estimate

The NIESR reported that GDP slowed from 0.5% Q/Q in Q2 to 0.3% Q/Q in Q3. NIESR attributes this decrease to sluggish factory output and the slowdown in consumer spending.

Comments

MPC Governor King

Mervyn King hawkishly commented that he is not convinced in the case for lower interest rates and could see many reasons why the rise in oil prices might increase inflationary pressure. He also reminded his audience that high oil prices reduced the economy's ability to grow without inflation. Also, he insisted the Bank was not responsible for the slowdown in growth this year.

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|------------------------------|--------------------|----------------------|
| 10/13 | Leading Indicator | -- | 0.4% M/M |
| 10/13 | Coincident Indicator | -- | 0.1% M/M |
| 10/16 | Rightmove House Price Survey | -- | -- |
| 10/17 | RICS House Price Survey | -25 | -26 |
| 10/18 | CPI | -- | 0.4% M/M 2.1% Y/Y |
| 10/19 | MPC Minutes | -- | -- |
| 08/17 | Claimant Count | -- | 2.8% |
| 08/17 | Average Earnings | -- | 4.1% Y/Y |
| 08/17 | ILO Unemployment | -- | 4.8% Q/Q |

Valance Co., Inc.

Valance Economic Report: Canada

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October 12, 2005

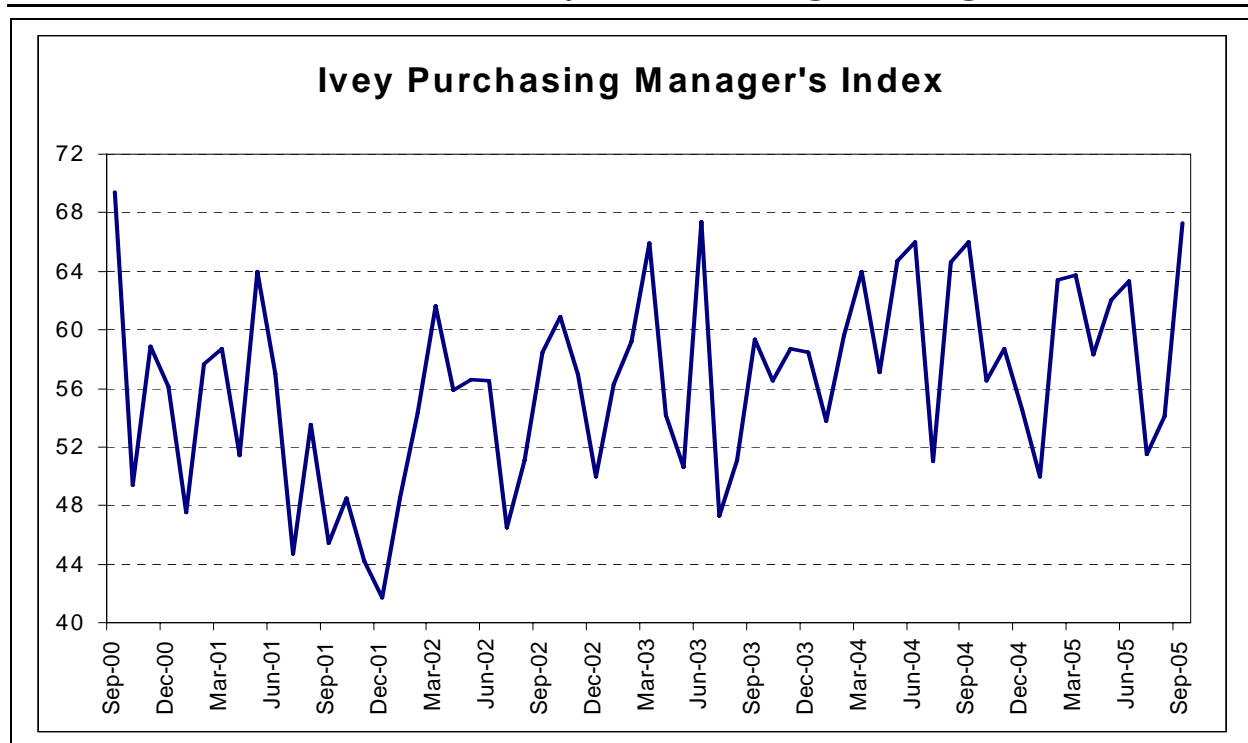
Canada's economic releases over the past week remained strong. The Ivey Purchasing Manager's Index increased well above expectations, the Unemployment Rate decreased to match a 30 year low and Building Permits reached its highest level on record.

Weekly Highlights

The Ivey Purchasing Manager's Index - increased from 54.1 in August to 67.3 in September. (page 25)

The Unemployment Rate – decreased from 6.8% to 6.7% in September. (page 27)

New House Prices - increased 0.4% M/M and 4.6% Y/Y in August. (page 28)

Weekly Releases & News**Charts of the Week: *Ivey Purchasing Manager's Index***

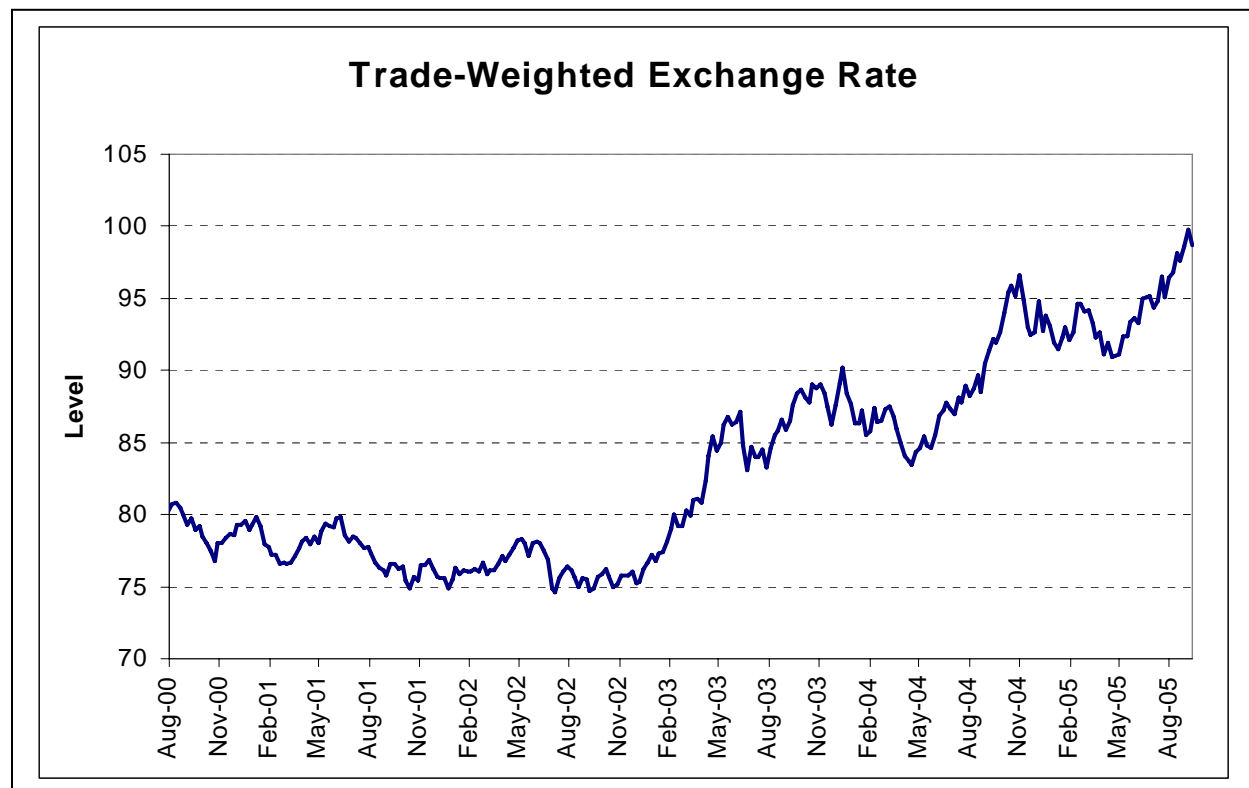
The Ivey Purchasing Manager's (IPM) Index increased from 54.1 in August to 67.3 in September, well above expectations for a reading of 57. The Price Index increased from 70.8 to 73.4 and the Employment Index decreased from 58.8 to 55. Additionally, the Supplier-Deliveries Measure increased from 39.2 to 42.2 and the Inventory Gauge increased from 56.7 to 63.6. The IPM index has remained above or at the expansion level for 26 consecutive months.

Financial Balances & Trade Weighted Exchange Rate

Financial Balances

| <i>Canada</i> | <i>Latest period (C\$bln)</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

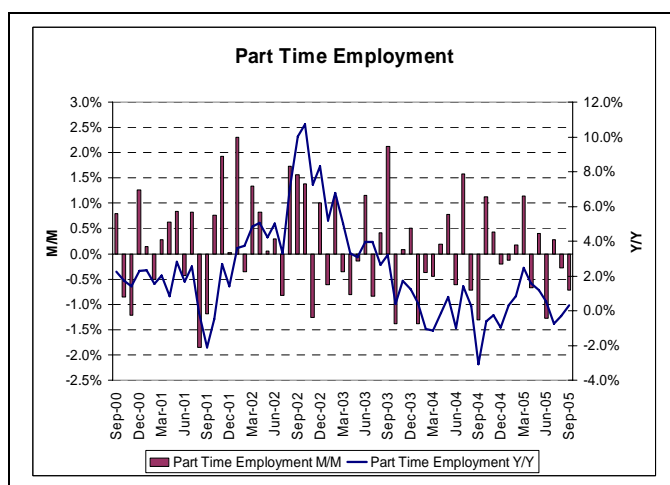
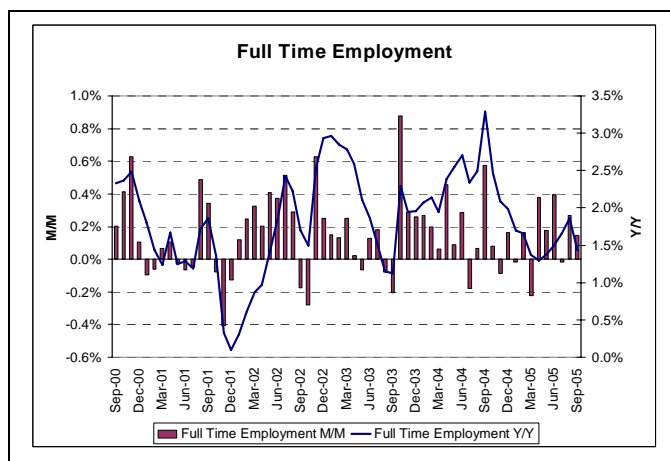
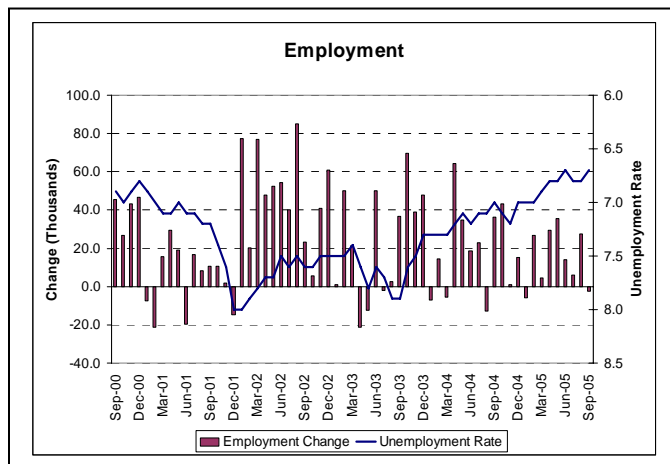


Employment Data

The Canadian economy lost 2.3K jobs in September as a result of companies firing part-time employees.

Full time employment increased 0.1% M/M and 1.4% Y/Y while part time employment decreased 0.7% M/M and increased 0.3% Y/Y.

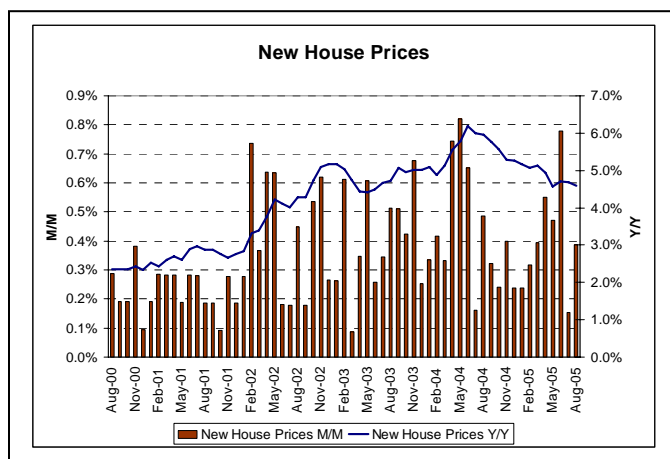
The Unemployment Rate decreased 6.8% to 6.7%, to match a 30 year low.



New House Prices, Housing Starts & Building Permits

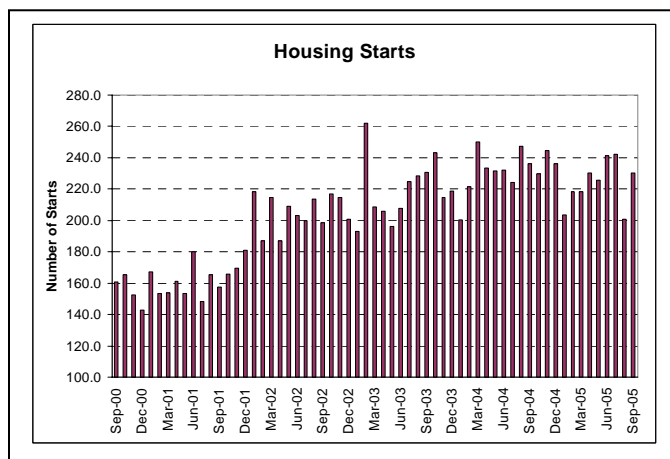
New House Prices

New House Prices increased 0.4% M/M and 4.6% Y/Y in August, in line with expectations. A strong market for new housing, coupled with increases in prices for building materials and labor, pushed up house prices.



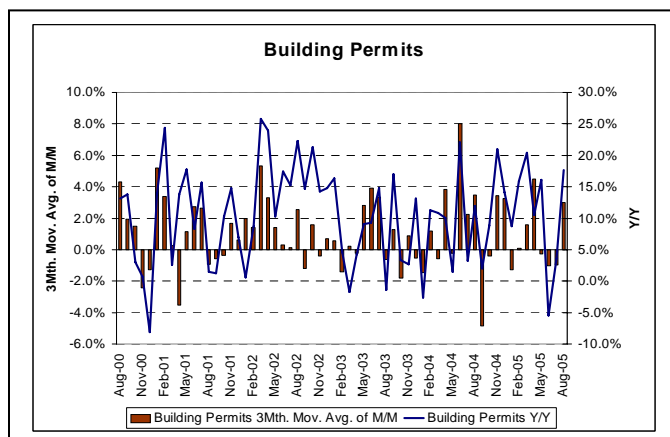
Housing Starts

Housing Starts increased 14.7% M/M and decreased 2.5% Y/Y in September, above expectations. The increase was mainly attributed to an increase in construction of multiple family homes.



Building Permits

Building Permits reached its highest level on record in August, increasing 10.2% M/M and 17.7% Y/Y in August. Increased investment intentions by the government and several businesses attributed to this increase. The value of permits for non-residential permits also reached a record high level, surging 32.0% M/M.



News

Inflation Targets are Beneficial to the Economy, Says BoC's Macklem

October 6th - The Bank of Canada's Deputy Governor, Tiff Macklem, commented that the Bank's system of inflation targeting is beneficial to the economy. Governor Macklem noted that, "Inflation targeting, in combination with a flexible exchange rate, has been successful as a macroeconomic stabilizer." He further stated that the Bank will "think hard" on the time frame it should use to reach its inflation target after any economic shock. He indicated that a long time frame may allow the Bank to use information contained in asset price moves, while a drop in "persistence of inflation" may indicate a shorter time horizon.

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|-------------------------------------|--------------------|-----------------|
| 10/13 | Int'l Merchandise Trade (AUG) | C\$6.0 | C\$5.8 |
| 10/14 | Manufacturing Shipments (M/M) (AUG) | 1.0% | -1.4% |
| 10/14 | New Motor Vehicle Sales (M/M) (AUG) | -6.0% | 7.3% |
| 10/18 | Int'l Securities Transactions (AUG) | C\$4.0 | C\$3.3 |
| 10/18 | Leading Indicators (M/M) (SEP) | 0.4% | 0.3% |
| 10/18 | Bank of Canada Rate OCT 18 | 3.0% | 2.75% |
| 10/19 | Wholesale Sales (M/M) (AUG) | 0.5% | -0.5% |

Valance Co., Inc.

Valance Economic Report: Australia

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October 12, 2005

Recent data continues to indicate that the housing market is weakening as home loans continued to decline in August. The labor market continues to appear firm however, as job ads increased in August. Consumers turned pessimistic in September, according to a Westpac survey, and although businesses were more confident, it appears that the RBA will be on hold for some time.

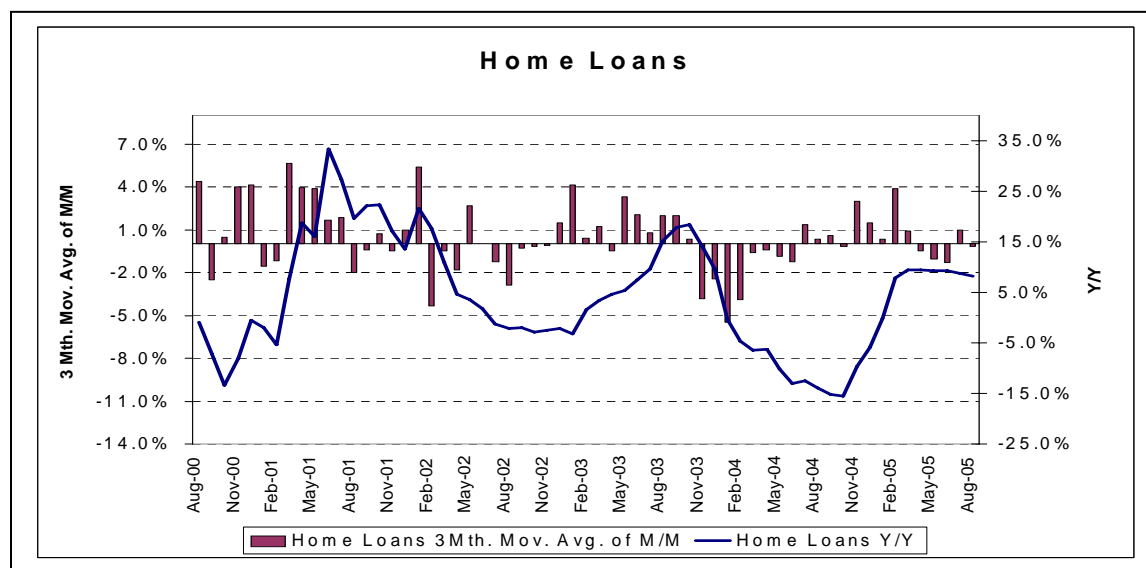
Weekly Highlights

Home Loans – declined 0.2% M/M and increased 8.2% Y/Y in August. (page 31)

ANZ Job Advertisements – increased 0.2% M/M and declined 6.2% Y/Y in August. (page 32)

Weekly Releases & News

Chart of the Week: *Home Loans*

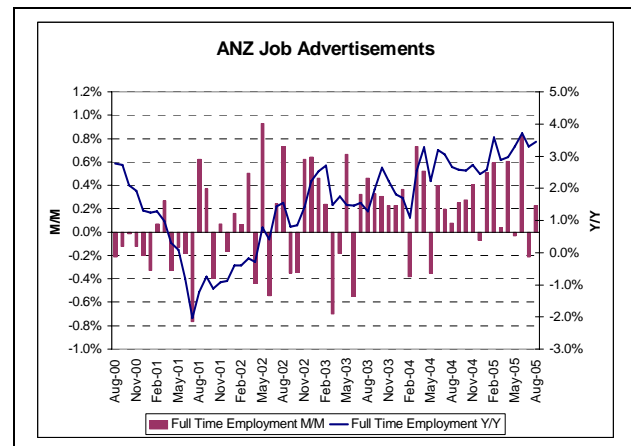


Home Loans declined 0.2% M/M and increased 8.2% Y/Y in August, the fourth consecutive month of decline. This data, combined with higher energy prices, is expected to give the Reserve Bank of Australia enough reason to leave rates unchanged through this year. At the same time however, the housing market hasn't crashed, and with a lack of weakness in the labor market, it is likely that the RBA will remain vigilant as risks may be shifting to the upside.

ANZ Job Ads & News

Job Ads

Job advertisements in major newspapers increased 0.2% M/M and declined 6.2% Y/Y in August.



Westpac Consumer Confidence

The Westpac Consumer Confidence Index declined 1.6% M/M to 98.7 in September. The reading was the lowest since March 2003 and was the third time in the last four years that the index had dropped below 100, indicating that the number of pessimists, outnumber the number of optimists.

NAB Business Survey

The National Australia Bank Business Survey improved in September. The Business Confidence Index increased from 4pts in August to 6pts in September. The Business Conditions Index increased from 8pts in August to 11pts in September. A reading above zero indicates that a majority of companies expect their industry to improve. The increase resulted as miners and builders such as BHP Billiton and Leighton Holdings LTd., recorded record profits.

Cashcard Retail Index

Australia's Cashcard Retail Index increased 0.4% M/M in September. The increase was accompanied by a 0.2% increase in the trend of the index, which increased for the first time in five months. The increase was attributed to companies cutting prices to attract shoppers.

News & Upcoming Dates

RBA's Stevens' Comments

Reserve Bank of Australia's Deputy Governor, Glenn Stevens, commented that the labor market is, "on most measures," "very tight," although it has yet to lead to increases in wages. "There is some pressure on costs. Still, the rate of pickup in the published data on labor costs is pretty mild and gradual." The "mild" increase in wages "is a little surprising given the strength of commentary that we get from virtually every business we talk to about how hard it is to get skilled and in many cases even unskilled labor," he said.

Howard & Costello's Comments

October 11th - Australia Treasurer, Peter Costello, commented that "petrol prices will feed into the headline CPI" in the upcoming months. He noted that if fuel prices had a second-round effect, there would be a danger to the economy as the prices of other goods increased.

October 9th - Australian Prime Minister, John Howard, commented that Australia's new industrial relations system to encourage more workplace contracts will produce additional jobs and higher wages. "The foundation of our future prosperity will be found in a cooperate workplace culture...the more that you can get individuals focusing on agreements at the work place level, the better off the nation will be," he commented.

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|--------------------------------------|--------------------|-----------------|
| 10/12 | Unemployment Rate (SEP) | --- | 5.0% |
| 10/18 | Westpac Leading Economic Index (AUG) | --- | |

Valance Co., Inc.

Weekly Economic Report: **China**

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October 12, 2005

This past week, China's Trade Balance narrowed slightly, but remained near cyclical highs. Additionally, the Business Climate Index increased.

Weekly Highlights

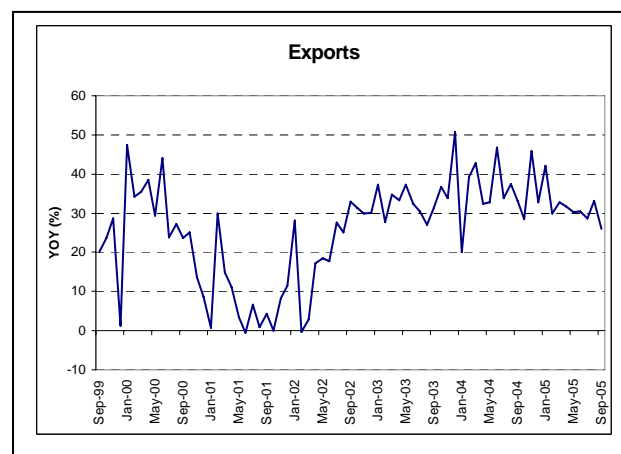
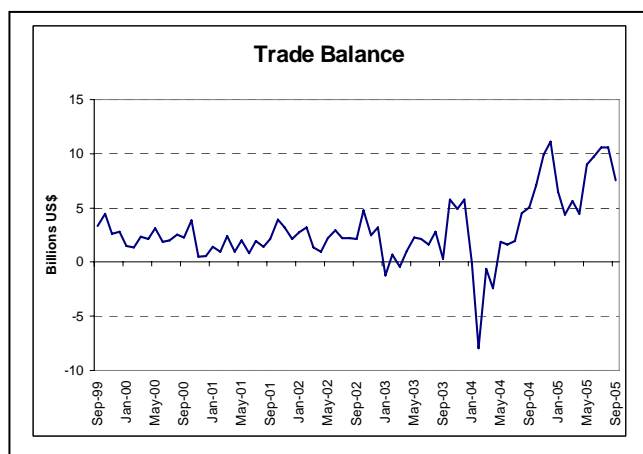
China's Trade Balance - narrowed from US\$10.0 bln in August to US\$7.6 bln in September. (page 34)

The Business Climate Index - increased from 131.7 in Q2 to 132 in Q3. (page 35)

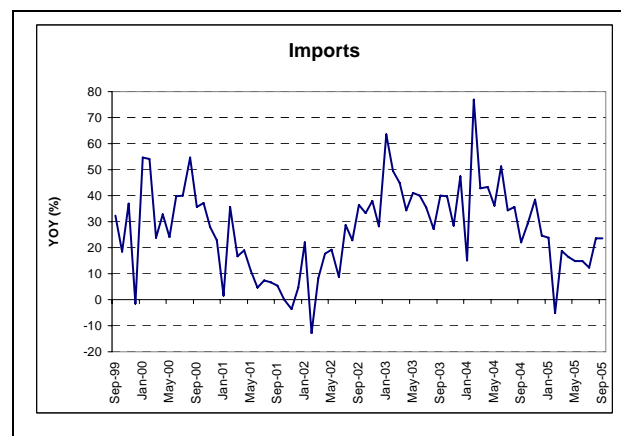
The Entrepreneur Confidence Index - decreased from 128.5 in Q2 to 127.6 in Q3. (page 35)

Weekly Releases & News

Charts of the Week: *Trade Balance, Total Exports & Imports*



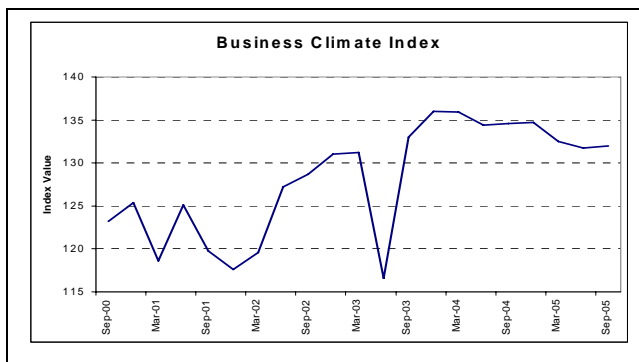
China's Trade Balance narrowed from US\$10.0 bln in August, its third highest level on record, to US\$7.6 bln in September. Total Export growth slowed from a revised 32.2% Y/Y in August to 25.9% Y/Y in September. On the other hand, Import growth remained at its August revised level of 23.5% Y/Y.



Business Climate Index, Entrepreneur Confidence Index & News

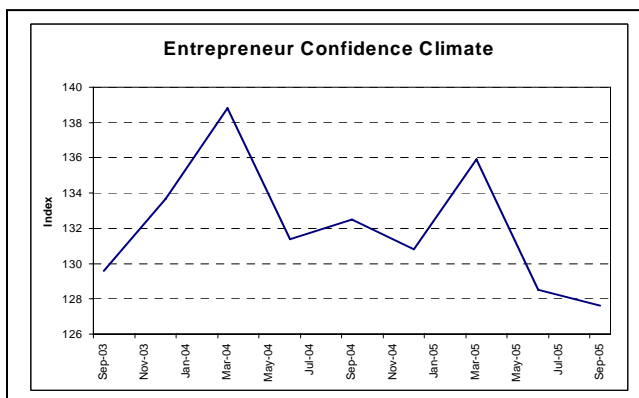
Business Climax Index

The Business Climate Index increased from 131.7 in Q2 to 132 in Q3. Consumers were more optimistic about the Wholesale and Retail, Construction and Real Estate sectors.



Entrepreneur Confidence Index

The Entrepreneur Confidence Index, which reflects business confidence of China's economy, decreased from 128.5 in Q2 to 127.6 in Q3. The Real Estate, Transport and Telecommunication, and Construction sectors all posted declines.



News

October 11th - Per Capital GDP May Double by 2010 – The China Daily reported that China plans on doubling its per capita GDP by the year 2010 from \$854 in 2000. This proposal is part of the Communist Party's five year development plan.

October 11th – 9.4% GDP in Last Nine Months – The National Development and Reform Commission reported that China's GDP was 9.4% Y/Y in the last nine months. The Commission also reported that GDP is expected to expand 9.2% at the end of this year with growth slowing to 8.5% in 2006. The growth is partially attributed to extensive construction projects and increased exports.

October 11th – IEA Cuts China's 2005 Oil Demand Forecast – The International Energy Agency revised its 2005 growth forecast for oil demand from 3.4% to 3.2%. This reduction marks the fifth time the IEA has changed its forecast this year. The Agency remarked, "The demand picture appears to be stabilizing with government pressure to limit product exports, thereby increasing supplies to the domestic market."

News Releases (con t'd.) & Upcoming Dates

News Releases

October 11th – NBS Consumer Survey Shows Drop in Willingness to Buy Houses and Cars – A consumer confidence survey released by the National Bureau of Statistics showed that the Chinese are less willing to buy houses and cars. Interest in buying houses has dropped from 18% in June to 16% in September and interest in buying cars has also declined from 13% in June to 10.0% in September. The overall consumer confidence index was at 94.4 points in March; it rose to 94.6 points in June and then decreased to 94.3, in September. Consumers who expect China to continue to receive solid growth increased from 52% in June to 54% in September.

October 7th – Snow Will Continue to Press China on More Yuan Moves – In a testimony to the Senate Finance Committee, U.S. Treasury Secretary, John Snow stated his persistence to continue requesting that China make its currency more flexible. Snow said, “The commitment has been made, the initial step has been made, but we need to see more flexibility incorporated into the currency reflecting real demand and supply in the market.”

October 6th – U.S. May Be Violating WTO Rules – A spokesperson for China’s Ministry of Commerce reported that the United States’ plan to accept petitions to investigate whether quota restrictions should be placed on 21 categories of textiles is against WTO rules. The spokesperson stated “This action made by the US side obviously runs counter to the World Trade Organization rules.” The U.S. is being cautioned to cooperate with China so as not to further damage trade relations between the two countries.

October 6th – China’s Foreign Debts Up 7.5% in H1 – The State Administration of Foreign Exchange reported that foreign debt in China rose 7.5% to 266.18 bln in H1 this year. Mid and Long-term Foreign Debt accounted for 46.9%, while Short-term made up 53.1 % of the total.

October 6th – Yuan Is Not Linked to High Trade Surplus – The Central Bank Governor, Zhou Xiaochuan, commented that China’s exchange rate has not had a large effect on the country’s high trade surplus. He added that the remedy for stabilizing the surplus may result from improving domestic demand.

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|------------------------------------|--------------------|-----------------|
| 10/14-31 | Unemployment Rate (Y/Y) – 3Q | -- | 4.2% |
| 10/16-21 | Real Estate Climate Index - Sep | -- | 101.86 |
| 10/16-21 | Property Prices Accumu (Y/Y) – Sep | -- | -- |

Valance Co., Inc.

Valance Economic Report: Sweden

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October 12, 2005

A smaller-than-expected Budget Deficit and weaker Industrial Production were the highlights of this week's Swedish data. In other news, IMF Director, Stefan Ingves, was selected to succeed Lars Heikensten as Governor of the Riksbank.

Weekly Highlights

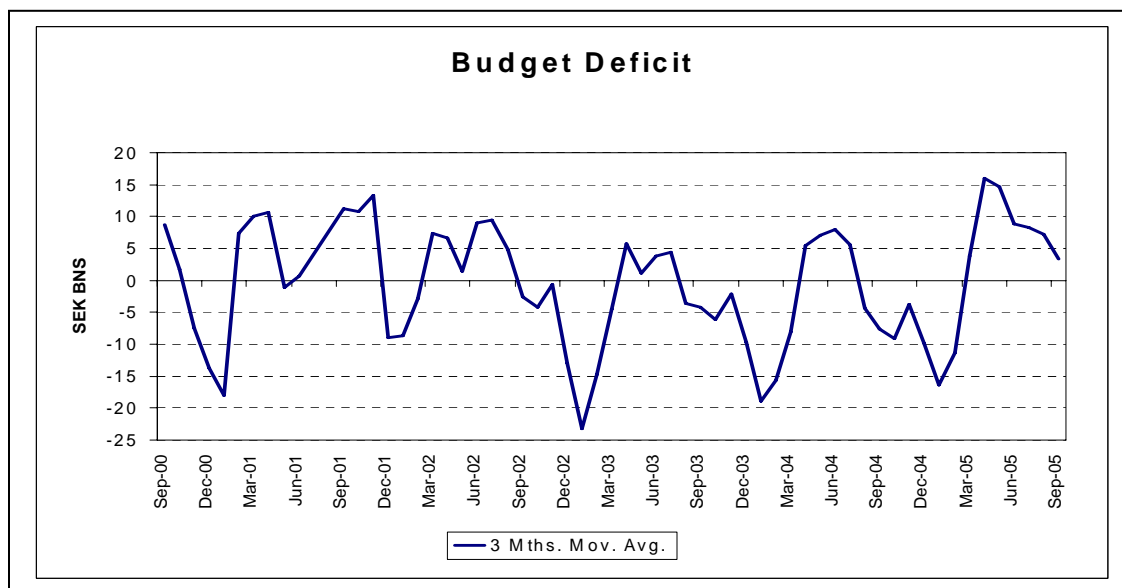
Budget Deficit – was SEK 9.4 bln in September. (page 37)

Industrial Production - fell 4.4% M/M and 4.0% Y/Y in August. (page 38)

Industrial Orders - rose 2.4% M/M and 15.5% Y/Y in August. (page 38)

Weekly Releases & News

Chart of the Week: *Budget Deficit*

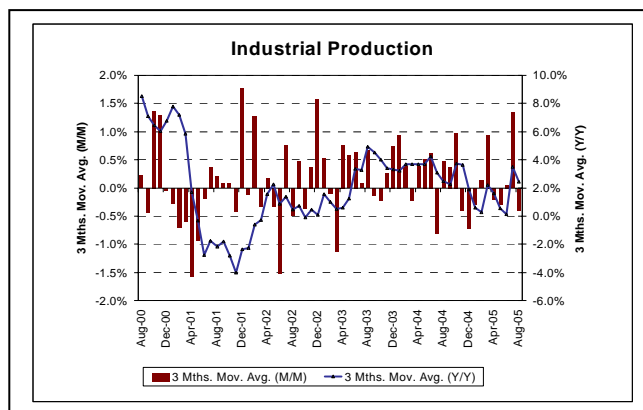


Sweden experienced a budget deficit of SEK 9.4 bln last month. The lower-than-expected deficit was partially attributed to increased customs payments and low government spending and debt payments. Expectations were for a SEK 13.2 bln deficit.

Industrial Production, Industrial Orders & Activity Index Level

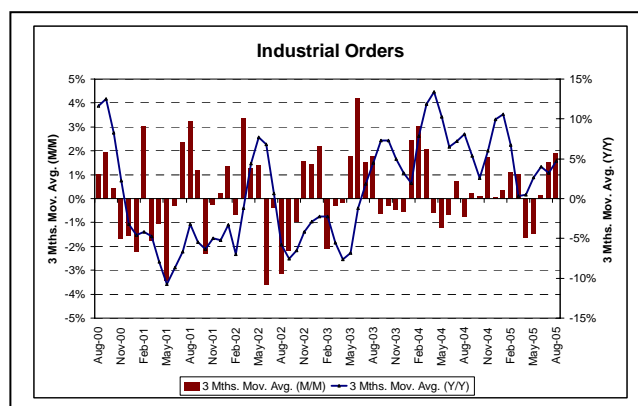
Industrial Production

Industrial Production fell 4.4% M/M and 4.0% Y/Y in August. The decline was, in part, a result of a decrease in manufacturing of telecommunications equipment and vehicles. Expectations were for a -0.9% M/M loss and a 4.8% Y/Y gain.



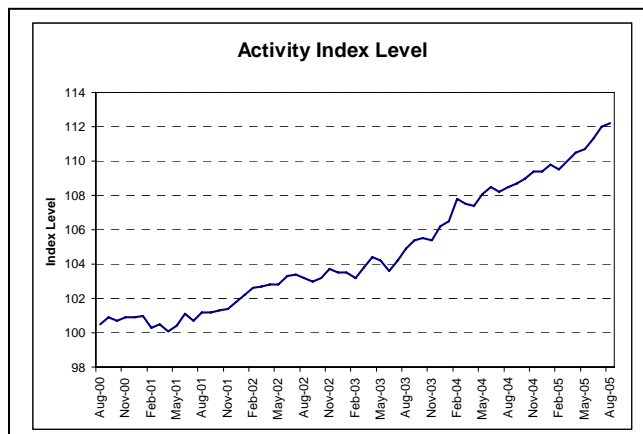
Industrial Orders

Industrial Orders rose 2.4% M/M and 15.5% Y/Y in August. The monthly gain was reflective of an 8.3% increase in export market orders. In addition, new orders in the capital goods industry increased by 6.9%.



Activity Index Level

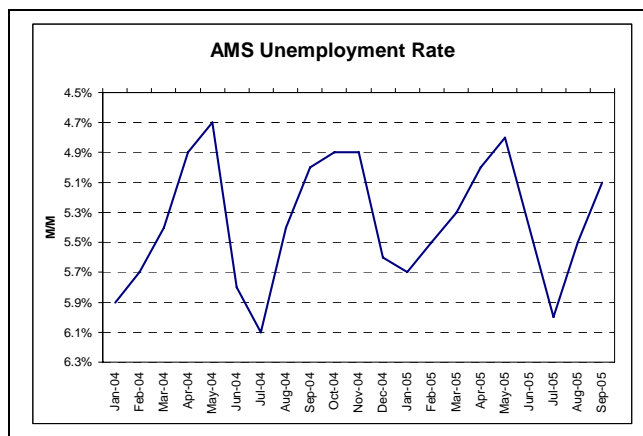
The Activity Index Level increased from 112.0 in July to 112.2 in August.



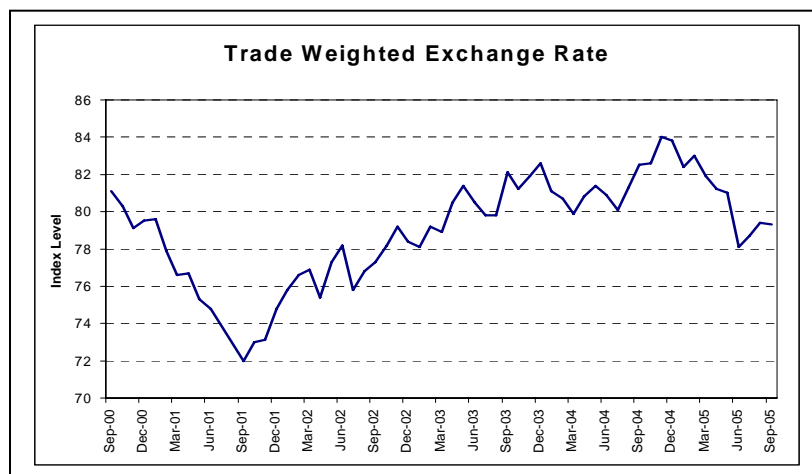
AMS Unemployment Rate, Trade Weighted Exchange Rate & News Releases

AMS Unemployment Rate

The Labor Board's un-official Unemployment Rate fell from 5.5% in August to 5.1% in September. The decrease was due to more persons finding jobs. A total of 237K Swedes were unemployed (a decrease of 26K from the month before). There were 8K job openings, 4.8k persons were given notice and 121K took part in retraining programs all last month. This data suggests that the job market is improving.



Trade Weighted Exchange Rate



News Releases

October 11th – IMF Director to take over helm of Riksbank – Much to everyone's surprise, the Swedish Riksbank chose IMF Director, Stefan Ingves, over Deputy Governor, Irma Rosenberg, to succeed Lars Heikensten as Governor of the Central Bank. Ingves' six year term will commence in early 2006.

News Releases (cont'd.) & Key Dates This Week

News Releases (cont'd.)

October 11th – Inflation Still On Target? – Deputy Governor of the Riksbank, Kristina Persson, commented that, “Inflation was judged to rise by degrees but remains moderate.” Persson added, “I think that this assessment of future inflation still seems to be fairly close to the mark, although it does look as though growth and thereby resource utilisation could be somewhat higher than we counted on early this summer.”

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|--|--------------------|-----------------|
| 10/13 | CPI – Headline Rate - M/M / Y/Y – Sep | -- | 0.2% / 0.6% |
| 10/13 | CPI – Underlying Inflation – M/M / Y/Y – Sep | -- | 0.2% |

Valance Co., Inc.

Valance Economic Report: Switzerland

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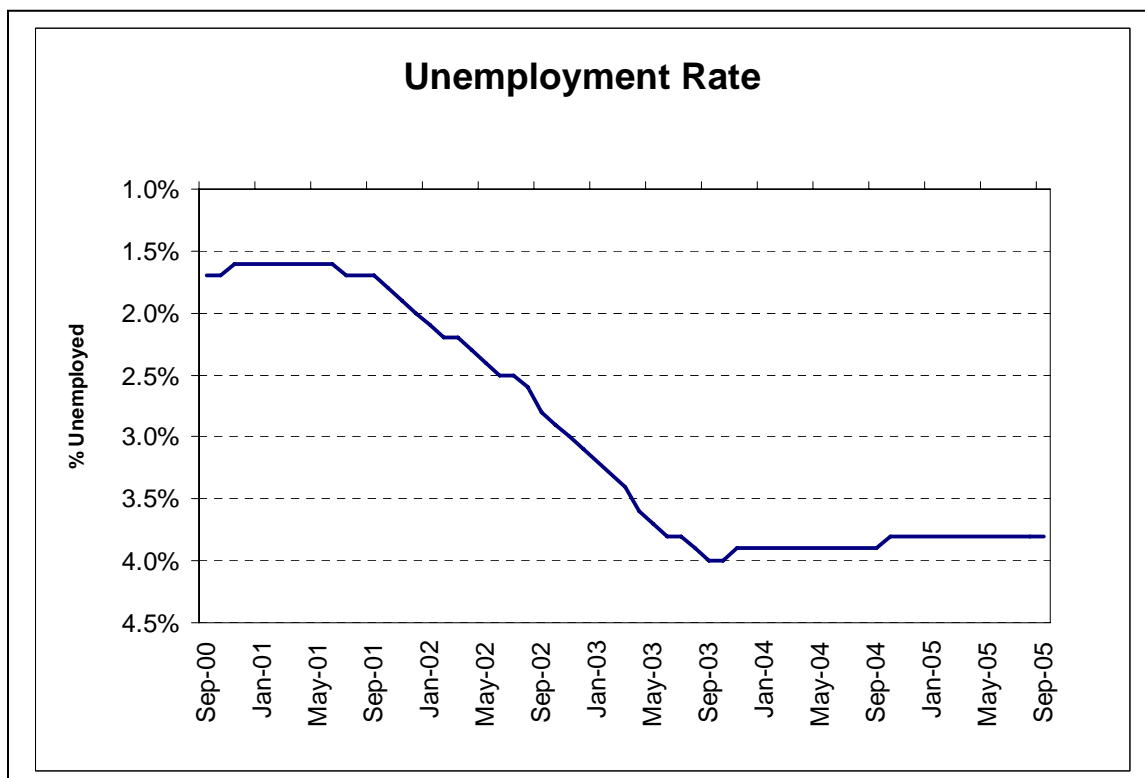
erichards@valance.us

October 12, 2005

Switzerland's Unemployment Rate, the only economic data released this past week, remained unchanged at 3.8% for the 11th consecutive month. In other news, economic growth forecasts for 2005 and 2006 were also released -- most of which indicated slightly higher growth.

Weekly Releases & News

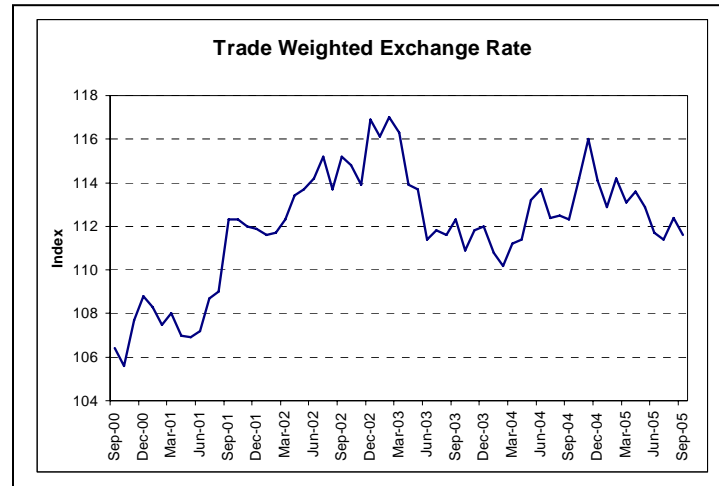
Chart of the Week: *Unemployment Rate*



The Unemployment Rate was unchanged at 3.8% in September for the eleventh consecutive month, as expected. This data partly reflects companies suspending hiring plans as a result of a 42% surge in oil prices and weakening consumer demand.

Trade Weighted Exchange Rate & News

Trade Weighted Exchange Rate



News

October 6th - Economic Growth Forecasts for 2005 & 2006 – The following is a breakdown of economic growth forecasts for 2005 and 2006 from several Swiss agencies. It shows the latest forecasts for percentage changes in GDP and the dates they were made, with the previous forecasts in parentheses.

| | 2005 | 2006 | |
|-------------------------|-------------|-------------|----------|
| Government | 0.9 (1.5) | 1.5 (1.8) | July 1 |
| Swiss National Bank | 1 (1) | | Sept. 15 |
| KOF | 1.7 (1.6) | 1.5 (2.1) | Oct. 6 |
| BAK | 1.2 (1.4) | 1.5 (1.6) | July 19 |
| OECD | 1.25(1.9) | 2 | May 24 |
| IMF | 0.8 (1.2) | 1.8 (2) | Sept. 21 |
| Association of Business | | | |
| Economists survey | 1.3 (1.3) | 1.7 (1.7) | Sept. 17 |
| UBS AG | 1.3 (1.6) | 1.6 (1.8) | Sept. 22 |
| Credit Suisse Group | 1.4 (1.3) | 1.7 (1.6) | Oct. 4 |

Key Dates This Week

| <i>Date</i> | <i>Indicator</i> | <i>Expectation</i> | <i>Previous</i> |
|-------------|--|--------------------|-----------------|
| 10/14 | Adjusted Retail Sales – Y/Y - Aug | -- | 5.5% |
| 10/18 | Producer & Import Prices – M/M / Y/Y - Sep | -- | 0.2% / 1.0% |