

Valance Company, Inc.



Weekly

October 19, 2005

III

Highlights

US – Core CPI remains subdued, but pressures and expectations build (page 2)

Euroland – Volume rises on ECB hawk-o-meter; but will action follow? (page 10)

Japan – Industrial Production and CGPI post solid gains (page 17)

UK – MPC Minutes were inconclusive on the timing over the next step for policy rates (page 24)

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October 13 – October 19 Short Term Interest Rates

Country	Change in BPs		(3Mth. Futures Contracts Yields)				Jun-06	Sep-06
	Official Rate	3 Mth. LIBOR	Dec-05	Mar-06				
US	0.00	0.04	1.00	0.00	-0.50	-1.00		
	3.75	4.18	4.42	4.60	4.67	4.68		
EU	0.00	0.00	-0.50	0.50	-1.00	-1.50		
	2.00	2.19	2.27	2.39	2.50	2.60		
JN	0.00	0.00	-0.50	-0.50	-0.50	-0.50		
	0.00	0.06	0.10	0.17	0.27	0.36		
UK	0.00	0.01	4.00	10.00	13.00	13.00		
	4.50	4.58	4.53	4.48	4.46	4.48		
CA	0.00	0.08	6.00	11.00	15.00	14.00		
	2.75	3.16	3.41	3.63	3.77	3.81		
AU	0.00	-0.01	0.00	-1.00	1.00	1.00		
	5.50	5.58	5.67	5.72	5.73	5.73		
NZ	0.00	0.07	6.00	10.00	10.00	3.00		
	6.75	7.28	7.36	7.36	7.26	7.06		
SZ	0.00	0.00	0.00	-3.00	-4.00	-3.00		
	0.75	0.80	0.92	1.12	1.31	1.45		

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Valance Economic Reports

Valance Co., Inc.

Valance Economic Report: United States

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October 19, 2005

This week's economic data showed tame inflation in Core CPI readings with some inflationary pressures evident in Import Prices and PPI and expectations measures. Inflation expectations (1yr forward) in the University of Michigan survey increased from 4.3% to 4.6% in September and 5-10 year expectations rose from 2.8% to 3.1%. Housing data remained firm and Retail Sales showed a strong consumer, post-Katrina. A series of Fed speakers continued to highlight that high energy prices, *ceteris paribus*, will soften demand and put upward pressures on inflation. However, members of the Fed have clearly communicated that the inflation risk and its impact on inflation expectations is the most pressing issue with regards to monetary policy. Some of the rhetoric coming from the Fed seems to open the possibility of larger hikes.

Weekly Highlights

Core CPI- up 0.1% M/M in September. (page 2)

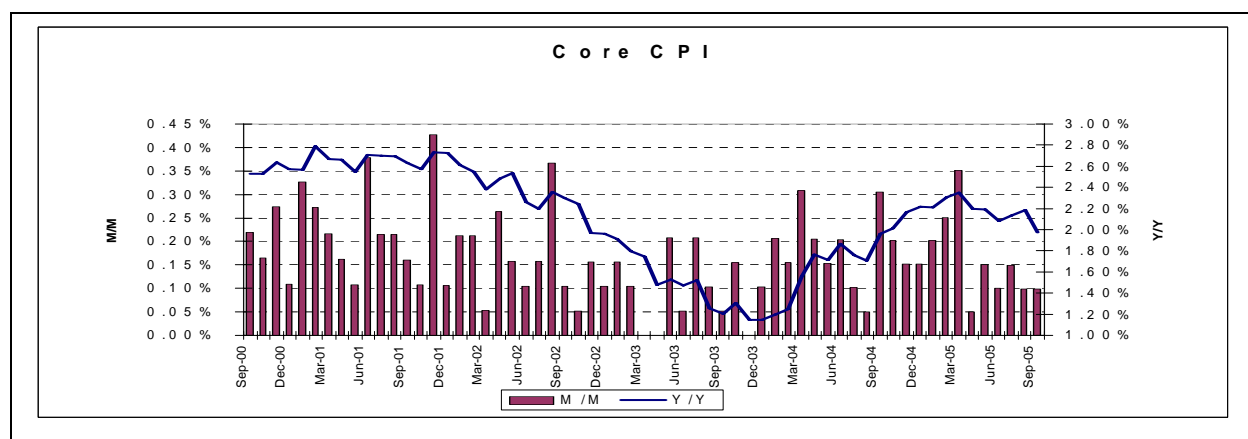
Core PPI- up 0.3% M/M in September. (page 4)

Retail Sales- excluding autos & gas, up 0.6% M/M in September. (page 4)

U. of Mich. Inflation Expectations- increased from 4.3% to 4.6% in October. (page 7)

Weekly Releases

Chart of the Week: Core CPI



Core CPI increased 0.1% M/M and 2.0% Y/Y in September; the annualized 3-month rate of growth has dropped from 2.0% at the end of 2004 to 1.4% currently. The headline rate increased 1.2% M/M and 4.7% Y/Y. Core inflation remains contained, but the Fed remains concerned that high energy prices and low unemployment could threaten price stability in the future. Also, Fed Vice Chair Ferguson commented that the recent drop in core may be temporary as a result of auto incentives over the summer.

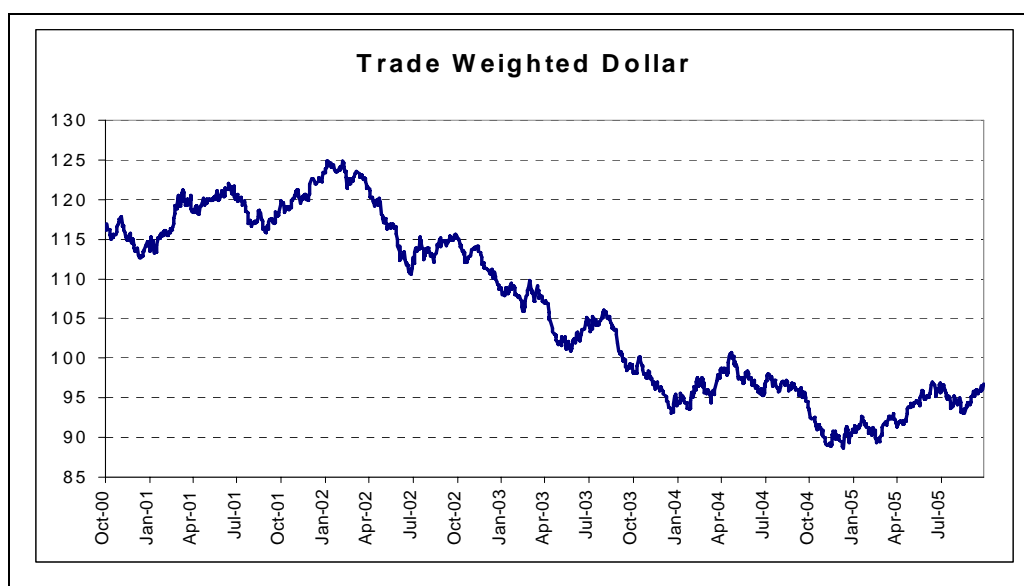
U.S. Financial Balances & Trade Weighted Dollar

Financial Balances

U.S.	Latest period (\$blns)	Last 12mth. as a % of GDP
Budget Balance	35.7 (September)	-2.6%
Trade Balance	-59.0 (August)	-5.5%
Current Account Balance	-195.7 (Q2)	-6.1%
Private Balance	--	-3.4%

The budget deficit is currently at \$317 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 August, 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.

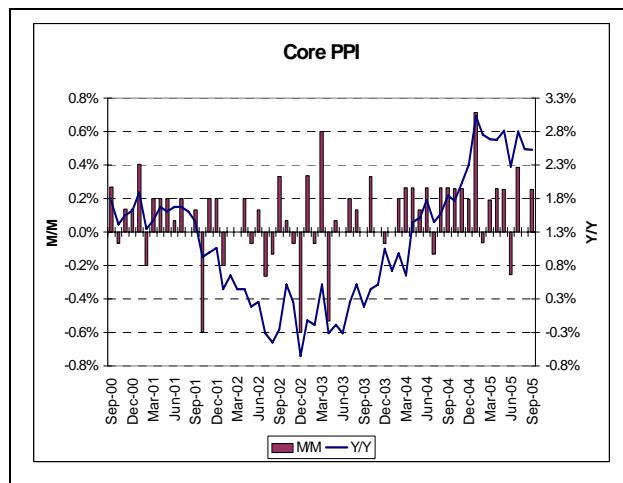
Trade Weighted Dollar



PPI, Retail Sales & Budget Balance

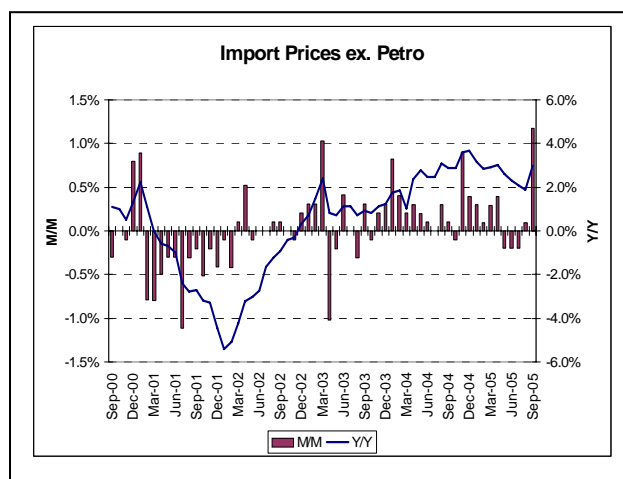
Core PPI

Core PPI was up 0.3% M/M and 2.5% Y/Y in September. Core Crude and core intermediate goods' prices increased 5.3% M/M and 1.2% M/M, respectively. PPI data shows some build-up of inflationary pressures in the earlier stages of production.



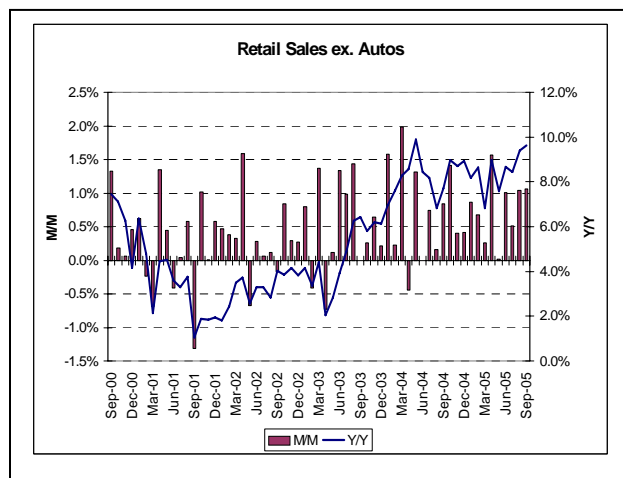
Import Prices ex. Petroleum

Import prices, excluding Petroleum, increased 1.2% M/M and 3.0% Y/Y September. Excluding all fuel, import prices gained 0.4% M/M and 1.5% Y/Y. Inflationary pressures continue to rise through imports even though the dollar continues to strengthen.



Retail Sales ex. Autos

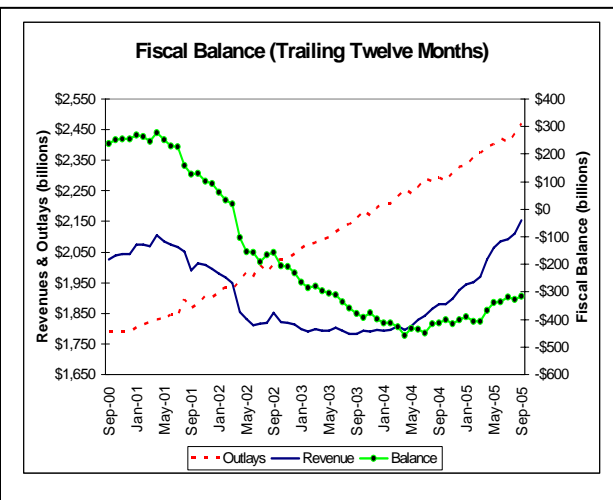
Retail Sales, excluding autos, increased 1.1% M/M and 9.6% Y/Y in September. Retail Sales, excluding autos and gas, were still up 0.6% M/M, a sign that consumers are still quite strong post-Katrina.



Budget Balance, Trade Balance & Employment Claims

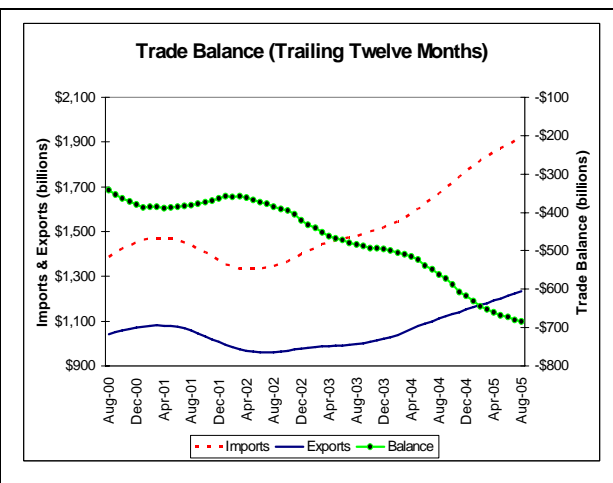
Fiscal Balance

The Fiscal Balance in September had a surplus of \$35.8 bln versus \$24.6 bln in September 2004. On a trailing twelve month basis, the deficit fell from \$328 bln to \$317 bln, driven by accelerating tax collections. Katrina related spending has boosted most 2006 deficit estimates over \$400 bln. Those estimates may be too high based on the strength of the revenue path.



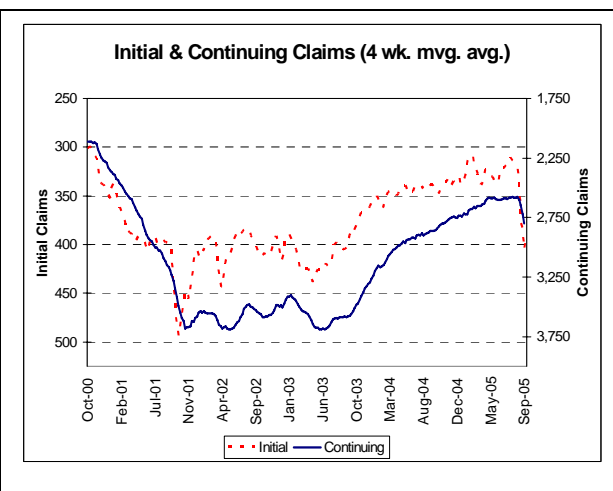
Trade Balance

The Trade Deficit widened from \$58 bln to \$59 bln in August. Imports grew 1.8% M/M and 10.9% Y/Y and exports grew 1.7% M/M and 12.1% Y/Y. The trailing twelve month trade deficit is now \$684.5 bln or 5.5% of GDP. The trailing twelve month trade deficit was \$562.5 bln in July.



Initial & Continuing Claims

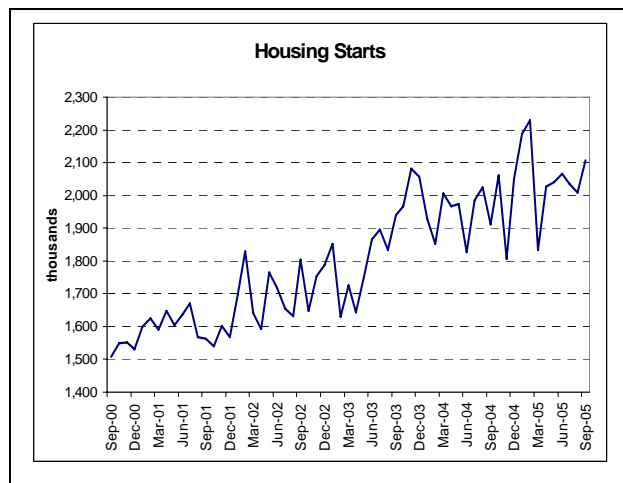
The four week moving average of initial claims dropped to 396k and continuing claims increased to 2,799k. This week's continuing claims data showed a decline for the first time post-Katrina, while initial claims unrelated to the hurricanes remain healthy.



Housing

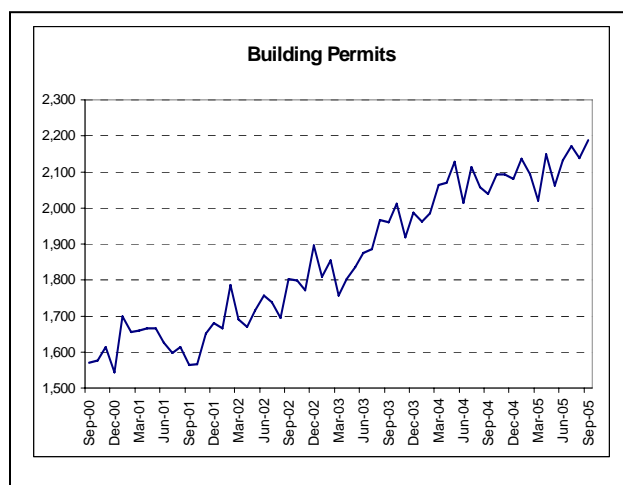
Housing Starts

Housing Starts increased from 2,038k to 2,108k in September. Housing starts continue to remain firm, but have been relatively flat over the past year.



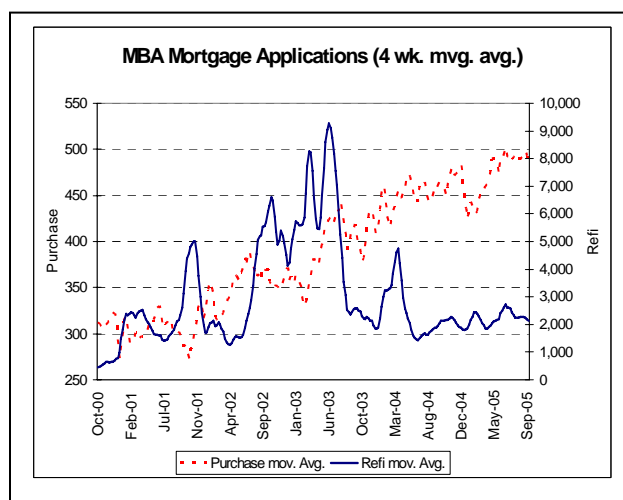
Building Permits

Building Permits increased from 2,138k to 2,189k in September. Housing back-logs remained firm post-Katrina, and show no signs of weakness in the housing market.



MBA Mortgage Applications

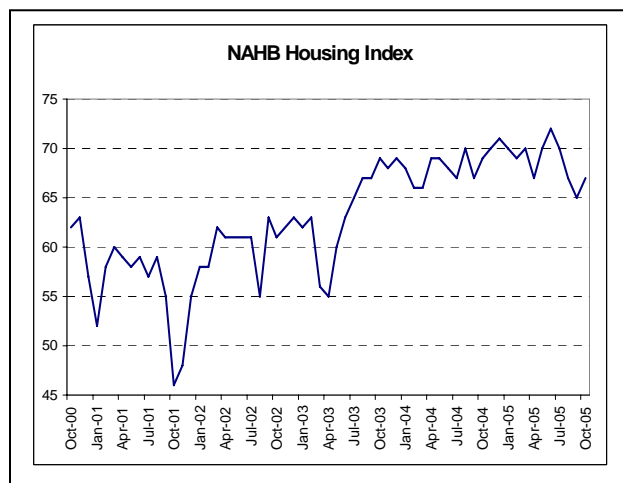
Purchase and refinancing mortgage applications increased 7.3% and 4.5%, respectively, this week. It is still too early to tell, but the recovery in the purchase applications index, back above 500, suggests that the softness seen in the last few weeks was just volatility and not a new trend.



NAHB Housing Index & Consumer Confidence

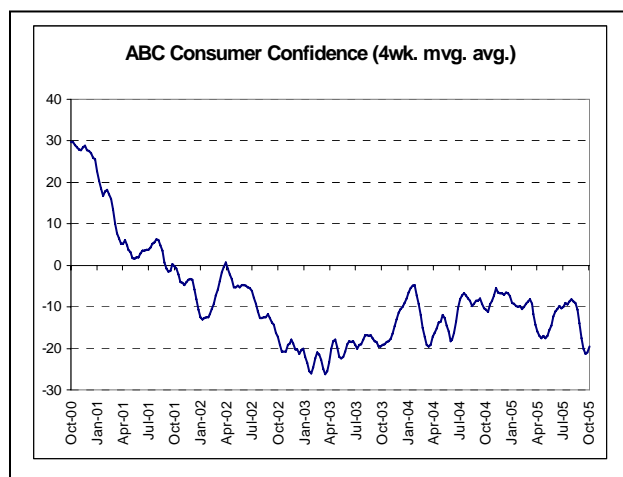
NAHB Housing Index

The NAHB Housing Market Index increased from 65 to 67 in October. The present and future sales components both moved slightly higher, from 72 to 73 and from 70 to 72, respectively. This indicator recovered a bit from over two year lows reached last month.



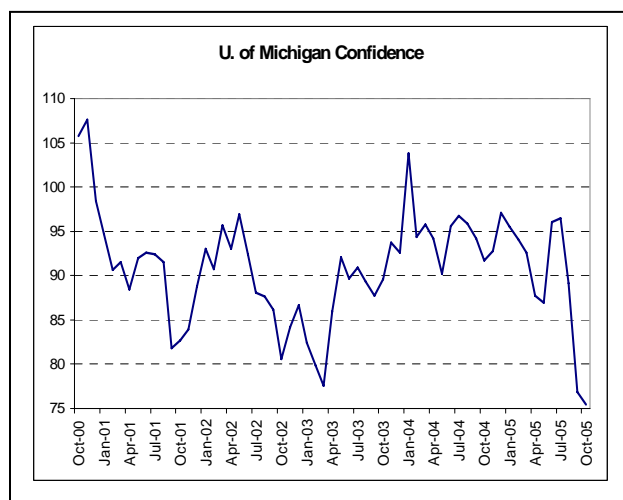
ABC Consumer Confidence

The ABC Consumer Confidence Index improved from -19 to -17. The finance component remained flat and the economy and buying components improved from -36 to -34 and from -36 to -34, respectively. The four week moving average continues to improve post-Katrina.



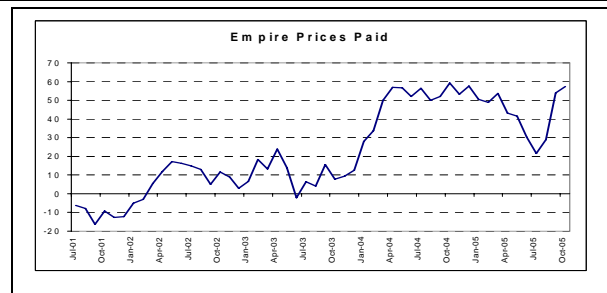
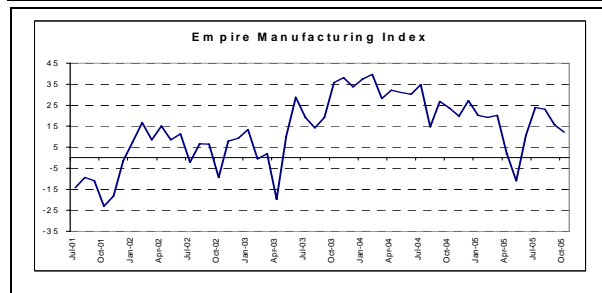
U. of Michigan Confidence

The University of Michigan Confidence Index dropped from 76.9 to 75.4 in October. The current and expectations components both declined, to 95.7 and 62.4 from 98.1 and 62.4, respectively. Inflation expectations (one year out) increased from 4.3% to 4.6% in October and up from 3.1% in August.



Empire Index, Industrial Production & Cap.Utilization

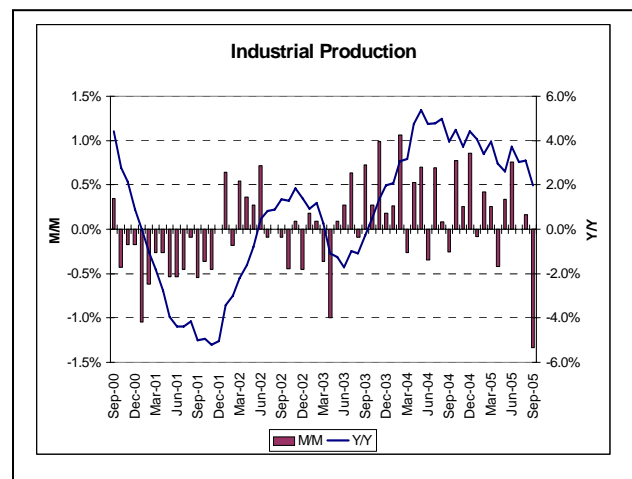
Empire Manufacturing Index



The Empire Manufacturing Index declined slightly from 15.6 to 12.1 in October, still showing expansion in the manufacturing sector. The prices paid component increased from 53.9 to 57.3 heightening concerns over inflationary pressures. Prices received increased from 10.1 to 15.6. The employment component decreased from 11.7 from 9.3.

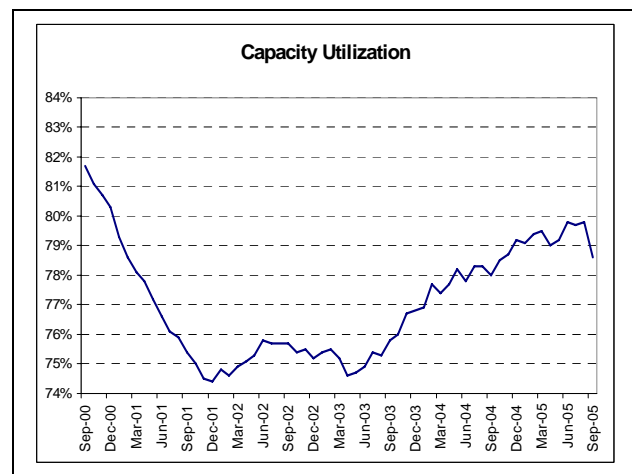
Industrial Production

Industrial Production decreased 1.3% M/M and increased 2.0% Y/Y in September. This data was impacted by Katrina and other one-time events and does not accurately reflect the current dynamics of the manufacturing sector.



Capacity Utilization

Capacity Utilization dropped from 79.8% to 78.6% in September due mostly to non-recurring events. This measure of slack in the economy should recover in the following months and should not weigh heavily in the Fed's decision making.



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
10/19	Fed's Beige Book	NA	NA
10/20	Initial Jobless Claims (OCT 15)	365K	389K
10/20	Continuing Claims (OCT 8)	2880K	2873K
10/20	Leading Indicators (SEP)	-0.5%	-0.2%
10/20	Philadelphia Fed. (OCT)	10.0	2.2
10/25	Existing Home Sales (SEP)	7.20M	7.29M
10/25	Consumer Confidence (OCT)	90.0	86.6
10/25	ABC Consumer Confidence (OCT 23)	NA	-17
10/26	MBA Mortgage Applications (OCT 21)	NA	6.1%
10/27	Durable Goods Orders (SEP)	-1.1%	3.4%

Valance Co., Inc.

Valance Economic Report: Euro Zone

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October 19, 2005

A rather light week for Euro Zone data as headline CPI accelerated (as expected) and investor confidence increased slightly in both the Euro Zone and in Germany. Of most interest, the ECB continued to ratchet up its hawkishness, making it clear that they are completely prepared to move if second round effects appear. With the state of employment and consumer spending as is, we don't recommend holding your breath.

Weekly Highlights

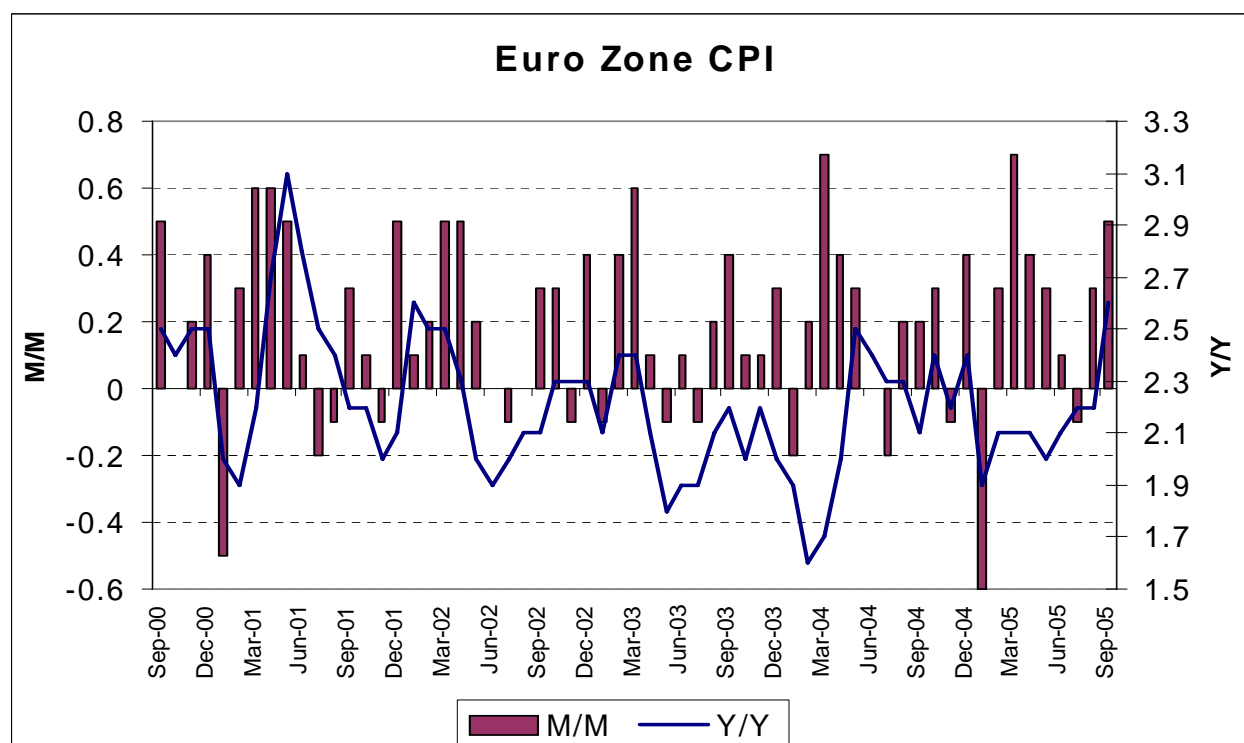
Euro Zone CPI— accelerated to 2.6% Y/Y in September. (page 10)

German ZEW— increased, but less than expected. (page 12)

Euro Zone Industrial Production— continued its measured growth. (page 12)

Weekly Releases & News

Chart of the Week: Euro Zone CPI



The Euro Zone's Consumer Prices Index accelerated markedly in September, increasing 0.5% M/M and 2.6% Y/Y; the fastest pace of Y/Y expansion since May 2005. Alcohol, tobacco, and energy prices were the main drivers as Core Prices increased 1.3% Y/Y for the third consecutive month.

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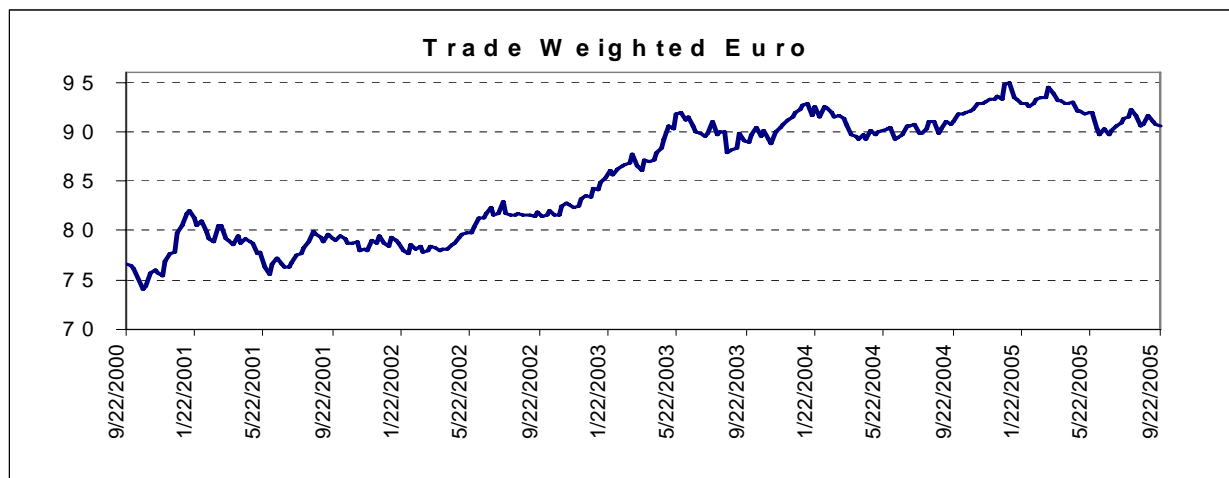
Euro Zone Financial Balances & Trade Weighted Euro

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.

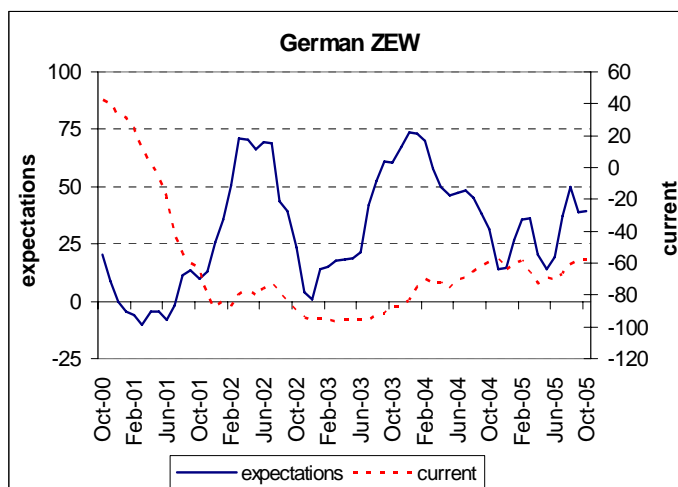
Trade Weighted Euro



German ZEW, Euro Zone ZEW & Industrial Production

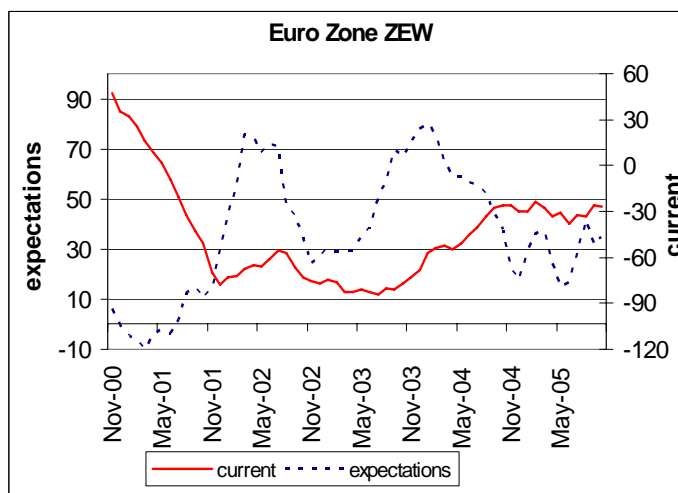
German ZEW

Germany's October ZEW Economic Sentiment Survey increased, but less than expected. Sentiment increased from 38.6 in September to 39.4 in October. Expectations were for an increase to 42. The Current Assessment Index increased from -58.1 in September to -58. Disappointment relating to the reform efforts of CDU leader, Merkel, is believed to be a large reason for the sub-forecast reading.



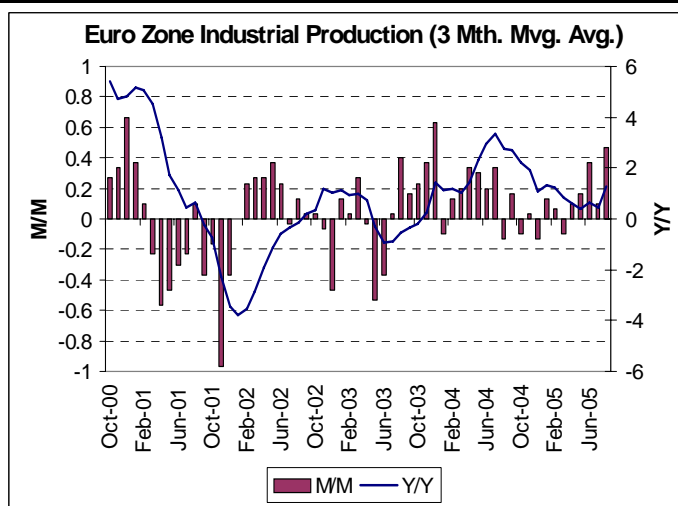
Euro Zone ZEW

The Euro Zone's October ZEW Economic Sentiment Index increased from 31.8 in September to 34.7 while the Current Assessment Survey fell from -26.1 to -26.9.



Euro Zone Industrial Production

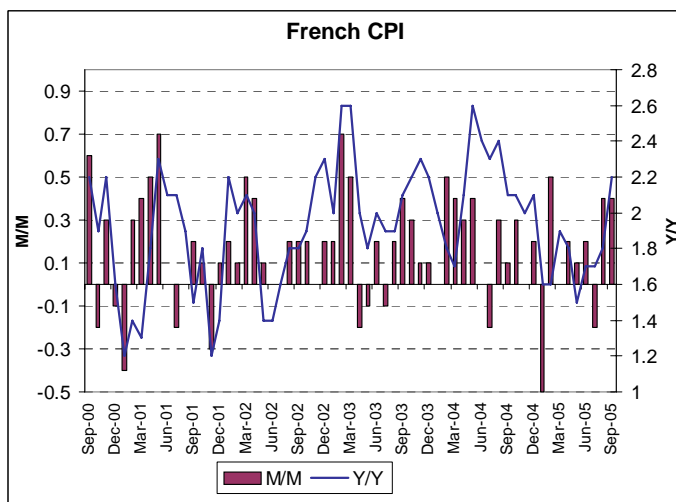
The Euro Zone's August Industrial Production increased 0.8% M/M and 2.6% Y/Y, despite a decline in energy related goods. Production is likely to remain strong in upcoming months.



French CPI, Spanish CPI & Italian Industrial Production

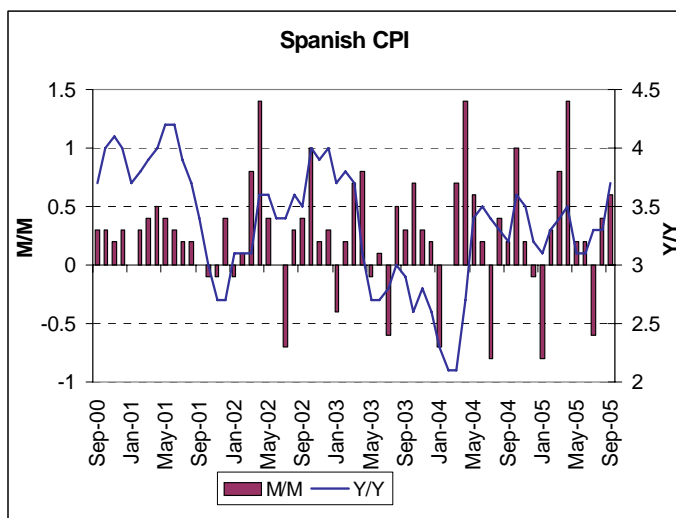
French CPI

France's September Consumer Prices Index increased 0.4% M/M and 2.2% Y/Y. Surging oil prices remain the key driver as ex food and energy, prices only increased 0.2% M/M and 1% Y/Y.



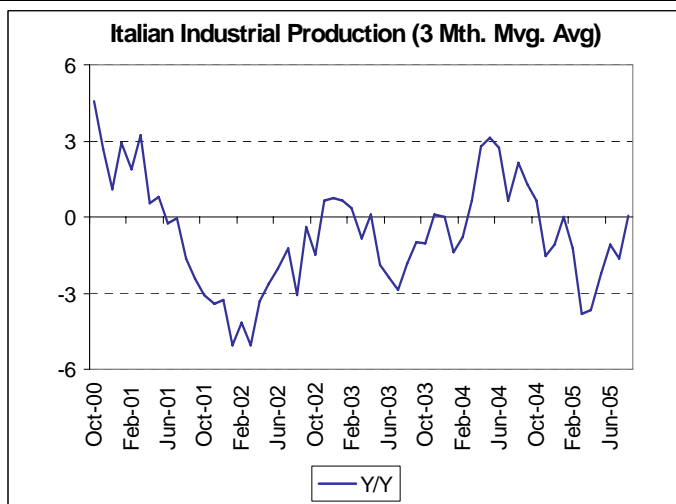
Spanish CPI

Spain's September Consumer Prices Index increased 0.6% M/M and 3.7% Y/Y, the fastest pace of Y/Y growth in 2 years. Core prices increased 0.3% M/M and 2.5% Y/Y.



Italian Industrial Production

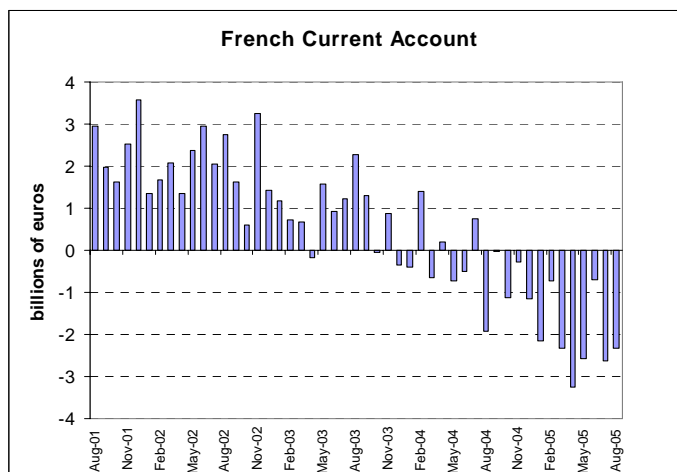
Italy's August Industrial Production expanded 1.3% M/M and 5.9% Y/Y, more than double the market's expectation. With recent pickups in consumer and business confidence, and now the manufacturing sector, Italy appears poised for stronger growth than originally expected for Q3 and Q4.



Italian Trade Balance, French & Spanish Current Account

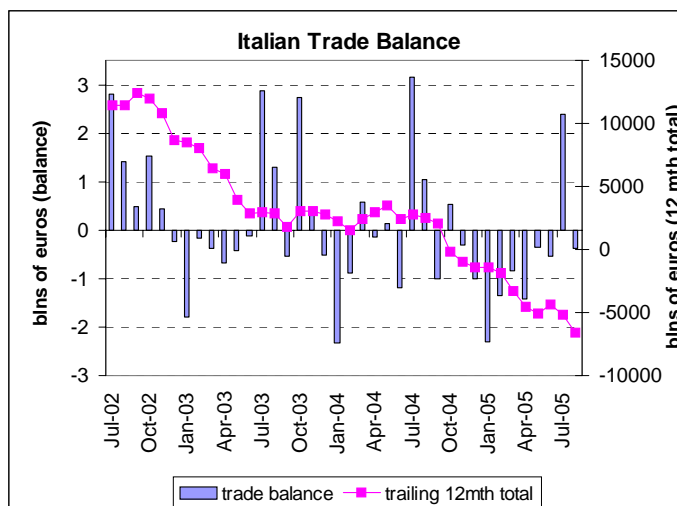
French Current Account

France's August Current Account deficit narrowed slightly from 2.6 bln euros in July to 2.3 bln.



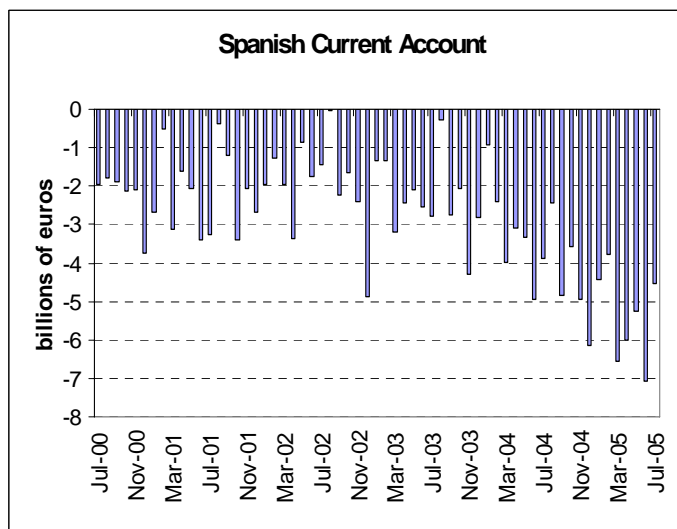
Italian Trade Balance

Italy's August Trade Balance decreased from a surplus of 2.4 bln euros in July to a deficit of 367 mln.



Spanish Current Account

Spain's July Current Account deficit narrowed from 5.1 bln euros in June to 4.5 bln as the tourism and services sectors improved.



News

ECB/ EU

Oct. 19th – IG Metall, Europe's largest industrial labor union, stated that they won't consider one-off events such as energy prices or tax increases when setting their wage demands in 2006, stating, "We've always supported a wage policy oriented toward the medium term and I don't see why we should diverge from that".

Oct. 18th – ECB President Jean Claude Trichet, in a letter to the EU, stated that the ECB would "act decisively if the increase in the price of oil was transmitted to other sectors of the economy". ECB member Jaime Caruana also commented, stating that "Rates are still appropriate despite the fact that we are seeing an increase in inflationary risks. Short term risks have already materialized". Member Jose Manuel Gonzalez-Paramo added that the risk of oil costs passing through have "increased in this cycle, though there is no evidence that 2nd round effects are happening". Earlier in the week, ECB member Issing stated that "there are signs that moderate wage developments may be coming to an end." The comments all add up to a very hawkish bank despite the IG Metall statement.

Oct. 17th – The ECB stated that it is "plausible" that 2yr yields will exceed 10yrs, stating, "Amid low or falling long term interest rates, the risk of flattening or even an inversion of yield curves has started to feature as a plausible risk scenario." The statements were part of a report prepared by the Banking Supervision Committee.

Germany

Oct. 19th – Germany's 6 leading economic institutes will cut their 2006 growth forecast from 1.5% to 1.2% while raising their 2005 forecast from 0.7% to 0.8%, according to a report by the Financial Times Deutschland. The institutes also expect a 2006 German budget deficit of 3.1% of GDP. The German government will also cut their own growth forecast, lowering the 2005 forecast to below 1% and the 2006 forecast to between 1% and 1.5%.

France

Oct. 14th – French Non Farm payrolls increased 0.2% M/M in August, after Prime Minister Dominique de Villepin introduced a new type of work contract that makes it easier for small companies to terminate employees. Excluding temporary jobs, non farm payrolls increased 0.3% M/M according to the Insee Institute.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
10/20	Spanish Factory Orders (AUG)	--	1.9% Y/Y
10/20	Italian Consumer Confidence Ind. (OCT)	103.1	102.8
10/20	Euro Zone Trade Balance (AUG)	2.2 bln	7.2 bln
10/21	French Consumer Spending (SEP)	-1.2% M/M	1.9% M/M
10/21	Italian Industrial Orders (AUG)	-1.5% M/M	3.6% M/M
10/24	Euro Zone Industrial New Orders (AUG)	--	1.2% Y/Y
10/24	German CPI (OCT)	--	2.5% Y/Y

Valance Co., Inc.

Valance Economic Report: Japan

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October 19, 2005

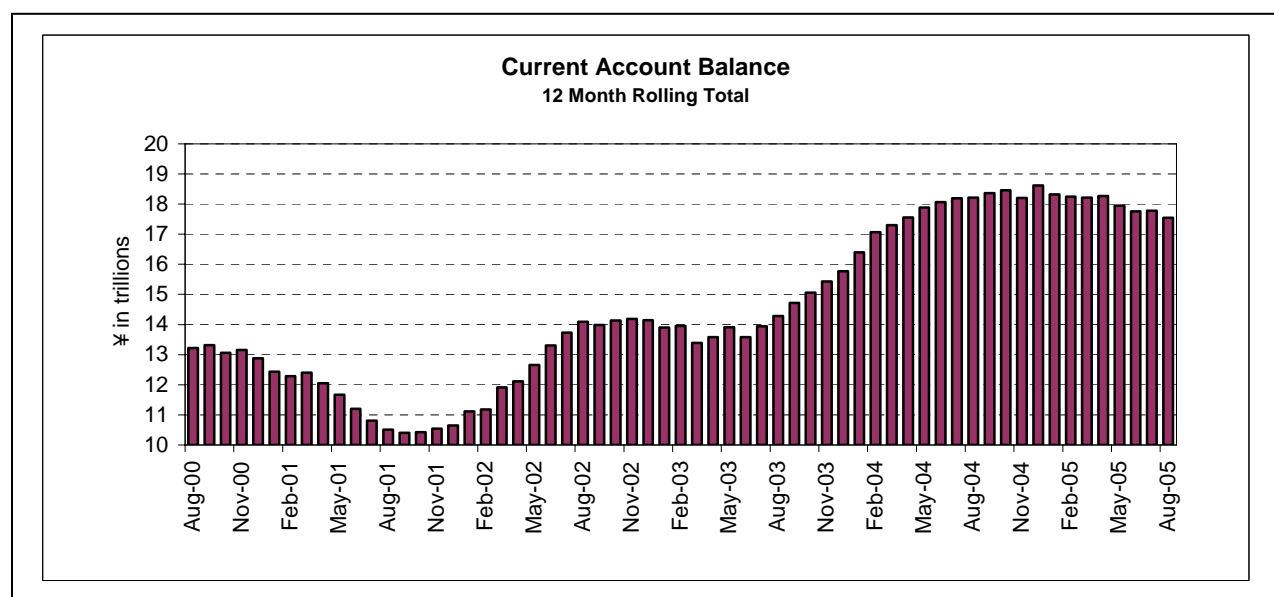
Industrial production and the CGPI posted solid gains this week. The economy appears to be holding up well to higher energy prices. The BoJ appears on track to start adjusting monetary policy next fiscal year.

Weekly Highlights

Current Account Balance – narrowed from ¥1,650 bln in July to ¥1,216 bln in August. (page 17)

Industrial Production - increased 1.1% M/M and 1.5% Y/Y in August. (page 19)

Domestic CGPI – increased 0.2% M/M and 1.7% Y/Y in September. (page 20)

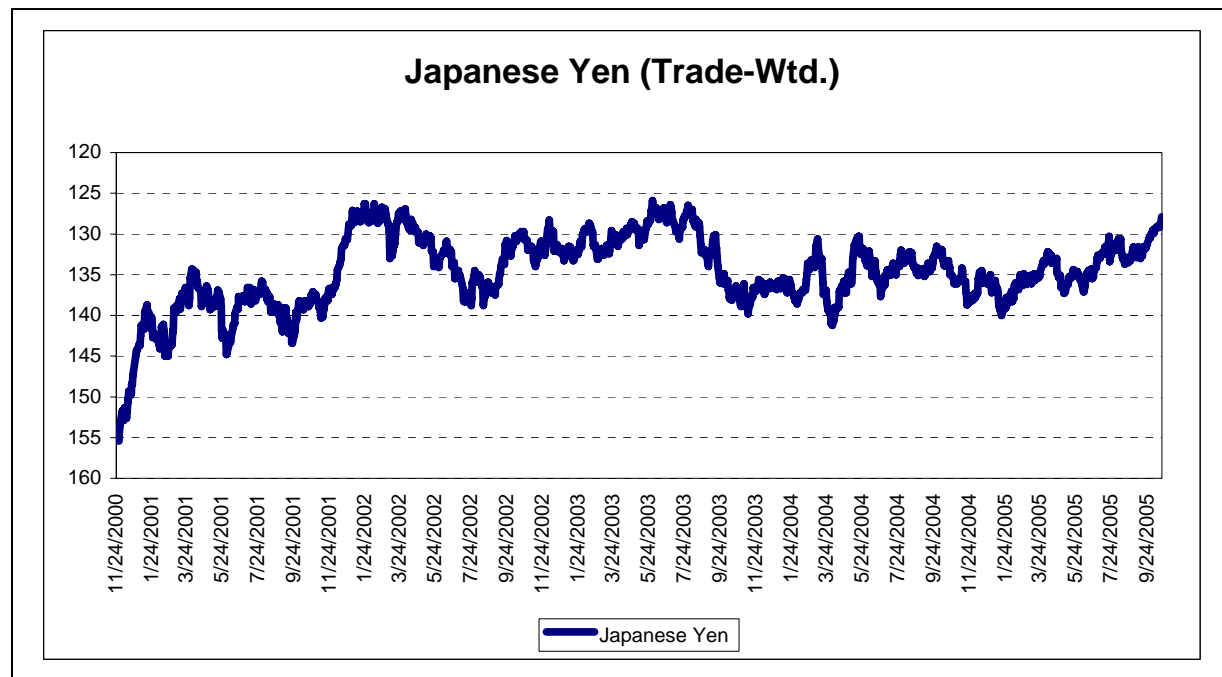
Weekly Releases & News**Chart of the Week: *Current Account Balance***

Japan's Current Account Balance narrowed from ¥1650 bln in July to ¥1216 bln in August, and is 15.6% lower than its year-ago total. Imports increased 24.1% Y/Y, while exports increased 8.8% Y/Y.

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%

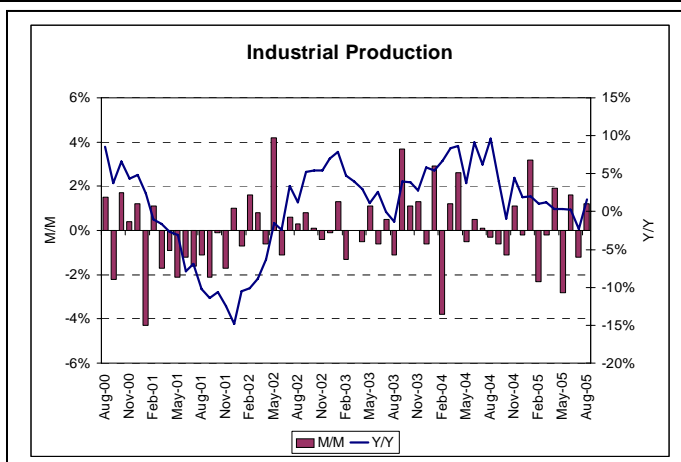


Industrial Production, Dept. Store Sales & Bankruptcies

Industrial Production

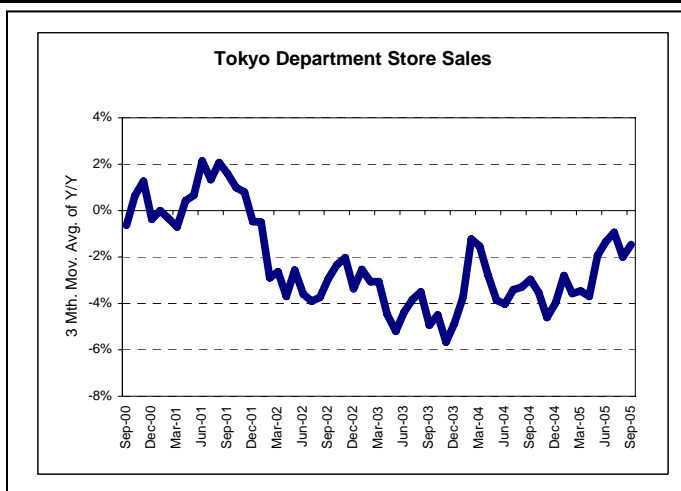
Industrial Production increased 1.1% M/M and 1.5% Y/Y in August, below the 1.2% M/M originally estimated. Shipments increased 2.2% M/M and 3.3% Y/Y, above the 1.7% increase originally estimated. Inventories increased 1.1% M/M and 4.2% Y/Y, slightly above the 1.0% M/M originally estimated.

The index for production capacity increased 0.1% to an unadjusted 91.5, its highest level since April 2004.



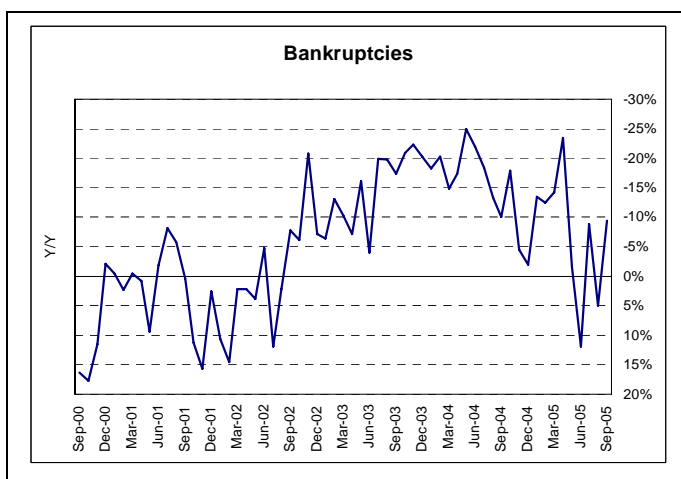
Tokyo Department Store Sales

Tokyo Department Store Sales increased 0.5% Y/Y in September. The increase was the first in two months and follows a 6.1% Y/Y decline in sales in August.



Bankruptcies

Bankruptcies declined 9.4% Y/Y in September. The number of bankruptcies in Japan in the April-September half of FY2005 fell below 6,500 for the first time in 14 years, on a fiscal first-half basis. The drop was attributed to the fact that more midsize and small firms used the government's safety net lending facility and avoided failure. Improved business conditions, mainly in major companies, was another contributing factor.

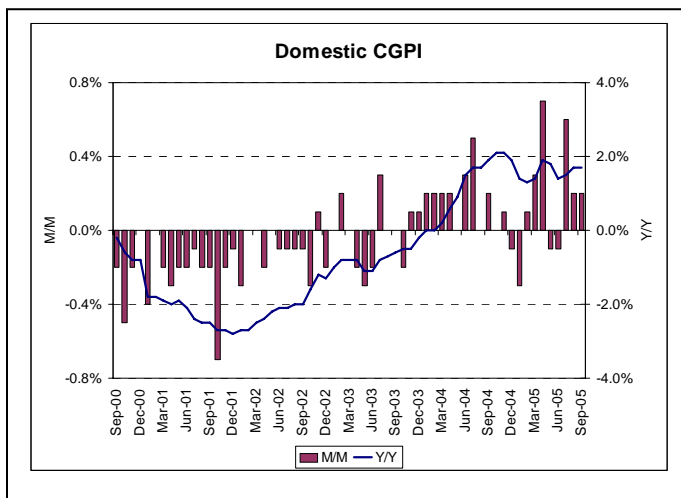


Domestic CGPI, Export & Import Prices

Domestic CGPI

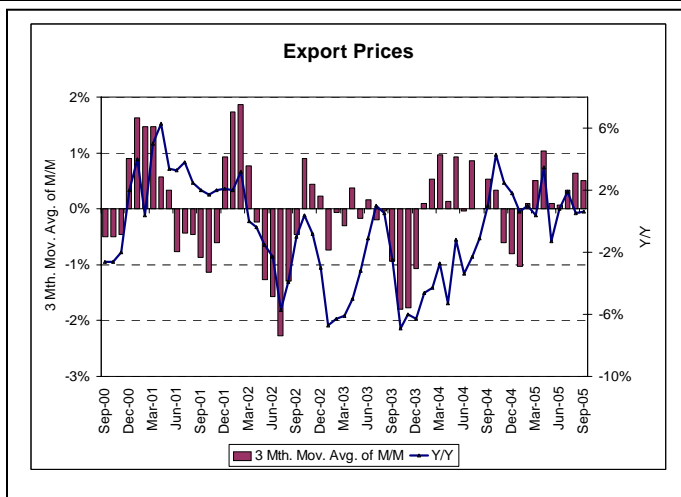
Japan's Domestic Corporate Goods Price Index increased 0.2% M/M and 1.7% Y/Y in September.

The increase was partly attributed to the steady rise in oil prices, and on a Y/Y basis, was in line with market expectations.



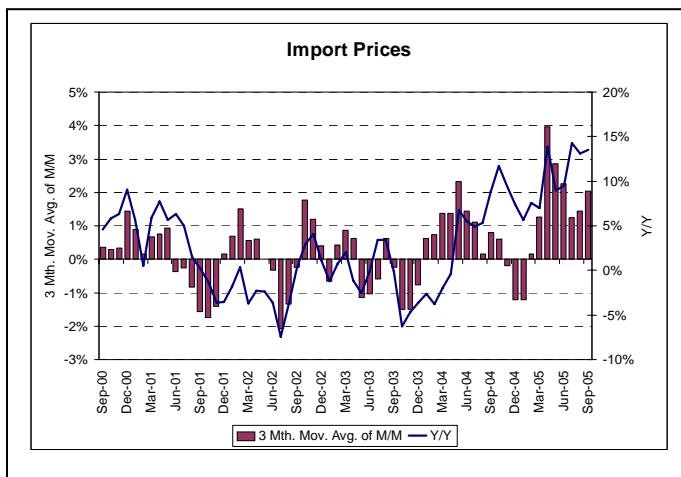
Export Prices

Export prices increased 0.1% M/M and 0.6% Y/Y in September.



Import Prices

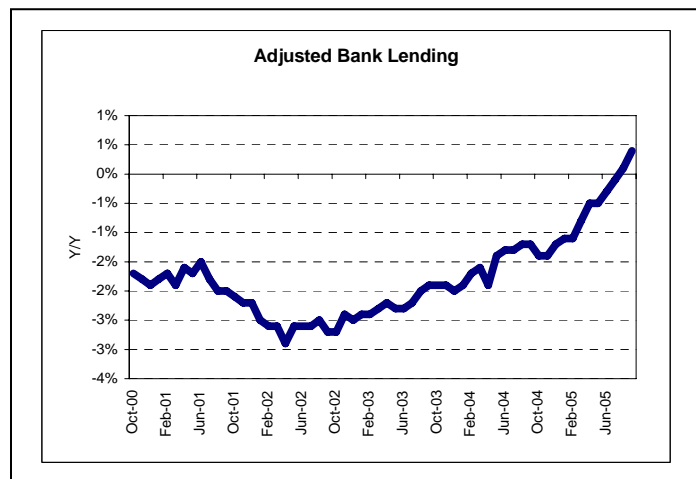
Import prices increased 1.8% M/M and 13.5% Y/Y in September.



Bank Lending & Leading Index Revision

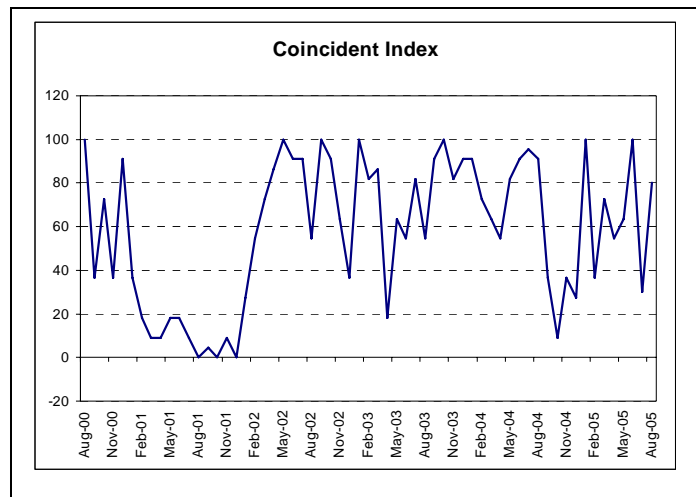
Bank Lending

Adjusted Bank Lending increased 0.4% Y/Y, the largest increase in over 7 years.



Leading Index Revision

Japan's Leading Economic Index was revised this week. The August data for the overall index remained unchanged at 100.0; however, the coincident index was softer than originally estimated, declining from an original estimate of 88.9% to 80.0% in August. Even after being revised downward, the index remained solid, above the 50% neutral line, and supports the government's assessment that the economy is improving.



News

Gov't & BoJ's Comments

Oct 13th – According to BOJ watchers interviewed by The Nikkei Financial Daily, most of the BoJ's policy board are considering next spring as the ideal time to end its quantitative monetary-easing policy. According to the analysts, three of the BoJ's nine member panels are inclined toward the idea of ending the monetary policy around the end of the current fiscal year in March. Two other members believe it to be appropriate to end in April, while BoJ's Gov. Fukui is seen as being more cautious, supporting a change at any time as early as March or several months later. Finally, two governors are more cautious than Fukui and would rather see June as the best time to end the easy monetary policy.

Oct 14th – Finance Minister Tanigaki indicated that the BoJ should not rush to alter the current monetary policy framework. "Mild deflation continues in Japan. (The government and the BoJ) need to take steady measures to deal with this problem," he stated.

Oct 16th – BoJ's Governor Fukui stated that he has told his G20 counterparts that the BoJ will keep its ultra-easy monetary policy in place until Japan's index of consumer prices stabilizes in positive territory. "The trend of prices is heading in a good direction," he stated, but added that, "until the CPI stabilizes above zero we will firmly continue the current easy policy." Fukui noted that even though Japan's economic health had been getting better, "Japan remains in a mild deflation."

Oct 16th – Deputy Bank's Governor, Toshiro Muto, commented on Monday that the improving Asian economies are strong enough to fend off the negative impact of higher oil prices. He stated that, "The economic fundamentals of most Asian countries are much stronger than in the 1970's when they were hit by the worst oil market turmoil ever." He also commented that Asian countries responded swiftly to the recent spike in oil prices by raising interest rates or slashing public fuel subsidies. "These prompt actions have helped them minimize potential disruptions to their economies."

News & Upcoming Dates

Business Confidence Increased in 2nd Quarter

According to the Japan Finance Corporation for Small and Medium Enterprises Index, business conditions increased from –6.8 to –3.3 in Q2. The index suggests that more small firms are becoming optimistic about the economy, although a majority remains pessimistic. Improvement was predominantly recorded within the manufacturing sector, although non-manufacturing sectors claimed to be better off as well. The survey also found that sales had improved for the first time in three quarters, increasing from –0.5 to +3.2. In addition, the sales index for the non-manufacturing sectors turned positive for the first time since Q1 1997.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
10/20	Convenience Store Sales (Sep Y/Y)	N/A	-1.3%
10/20	Tertiary Industry Index (Aug M/M)	0.9%	-0.8%
10/20	All Industry Activity Index (Aug M/M)	0.8%	-0.8%
10/25	Merchandise Trade Balance Total (Sep)	¥755.1 bln	¥113.8 bln
10/25	Adjusted Merchandise Trade Balance (Sep)	N/A	N/A
10/25	Corp. Service Prices (Sep Y/Y)	N/A	-0.6%

Valance Co., Inc.

Valance Economic Report: *United Kingdom*

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October 19, 2005

CPI rose less than expected; MPC Minutes were inconclusive on the timing over the next step for policy rates; and the RICS Survey suggested further consolidation in housing.

Weekly Highlights

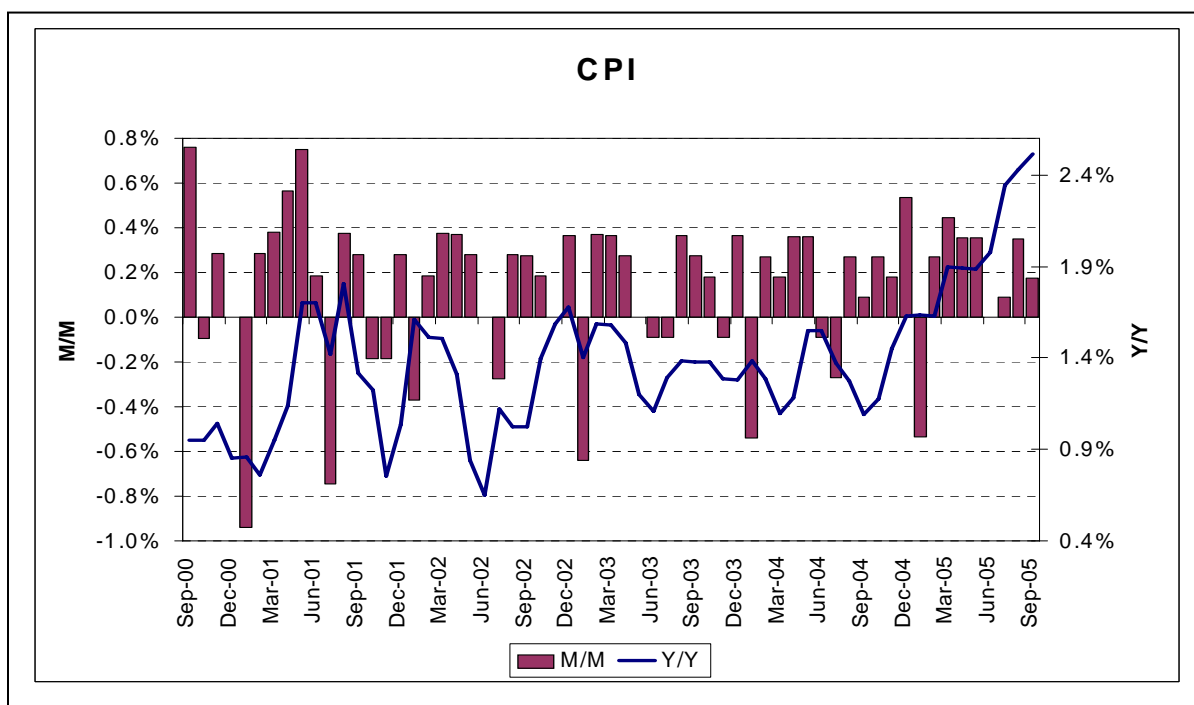
Headline CPI Inflation- increased 0.2% M/M and 2.5% Y/Y in September, mainly on the back of increasing crude oil prices. (page 24)

MPC Members- voted 9-0 to leave rates unchanged at their October meeting. (page 26)

RICS Reported Prices- increased from -25 to -21 in September. (page 27)

Weekly Releases & News

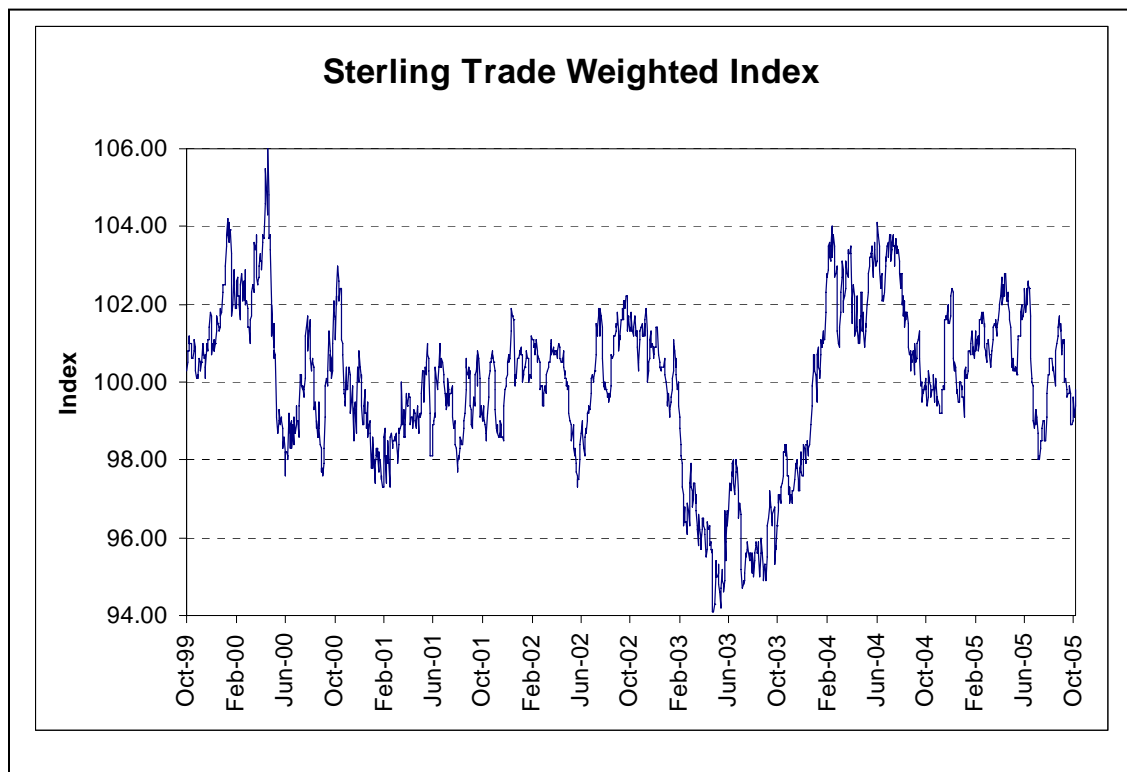
Chart of the Week: *CPI Growth*



Headline CPI Inflation increased 0.2% M/M and 2.5% Y/Y in September, the highest annual rate since the start of this series in January 1997. For the third consecutive month, the largest upward effect on the CPI annual rate has resulted from transport, up 6.0% Y/Y, due to steadily rising petrol prices. A partially offsetting large downward effect resulted from clothing and footwear, down 5.3% Y/Y, as retailers have discounted prices to continue to attract shoppers.

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%



MPC Minutes

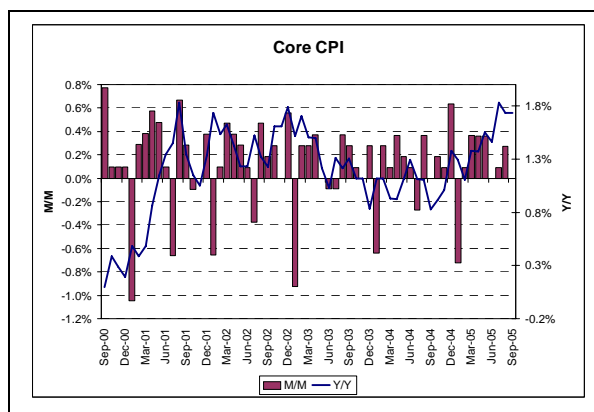
MPC Members voted 9-0 to leave rates unchanged:

- *Although oil prices had edged lower since the September meeting, the cumulative increase in the oil price over the past twelve months continued to exert a significant influence on the outlook for growth and inflation.*
- *Output growth continued to be subdued.*
- *The four-quarter growth rate of GDP had been revised lower, primarily reflecting downward revisions to service sector activity.*
- *It was possible that the deceleration in output was less pronounced than indicated by the official data.*
- *The rate of service sector growth implied by official data appeared weaker than that suggested by business surveys.*
- *On the demand side, consumption growth had been revised up in Q2, but remained a little weaker than the profile embodied in the August Inflation Report.*
- *Business investment growth had been revised higher, and was now in line with the August Inflation Report projections.*
- *There was a variety of comments about potential supply. In particular, the supply effects of oil on the one hand, and migration on the other, could work in opposite directions.*
- *CPI inflation had risen to 2.4%, above the Committee's target.*
- *If the oil price did not rise further, the direct impact of oil on CPI inflation was likely to fade towards the end of the year, although considerable uncertainty surrounded that judgment.*
- *Medium-term inflation expectations appeared well-anchored, although it was important not to be complacent on this front.*
- *On balance, the short-term prospects for growth and inflation recorded minimal changes since the August Inflation Report, although some members felt that the downside risks to demand had increased.*
- *But there had been some significant data revisions and news about the supply side.*
- *The November Inflation Report would provide the Committee with an opportunity to assess the effect of both the demand-side news and the supply-side news for the overall pressures of demand on supply capacity.*
- *It was also important to be alert to the possibility of second-round effects from the higher oil price.*
- *At present, there are little signs that higher oil prices were feeding through into either wage settlements or medium-term inflation expectations.*
- *But if such effects were to take hold, the Committee would need to run a tighter monetary policy than would otherwise have been the case.*

Core CPI & RICS Housing Data

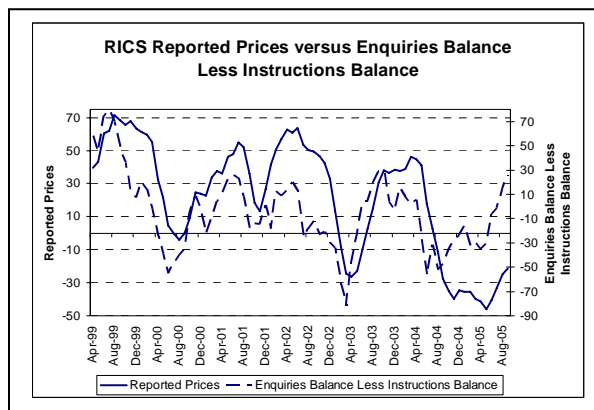
Core CPI

CPI Inflation, excluding food and energy, remained flat M/M and 1.7% Y/Y in September.



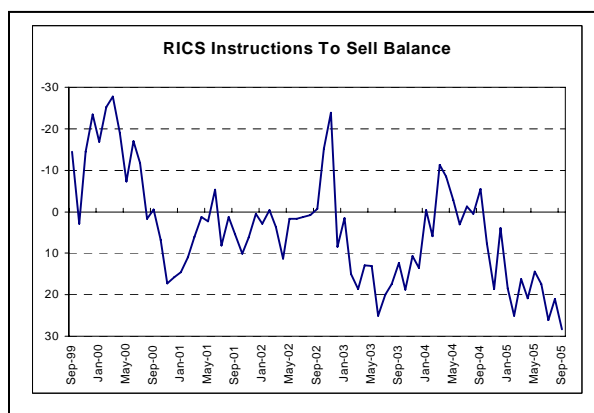
RICS Reported Prices

RICS Reported Prices improved from -25 to -21 in September, continuing the fall of the last fourteen months, though the pace of decline eased back for a fourth consecutive month. House prices were static in London after being in decline since mid-2004. Price declines have abated in the rest of the country, except for Scotland where prices have continued to rise.



RICS Instructions to Sell

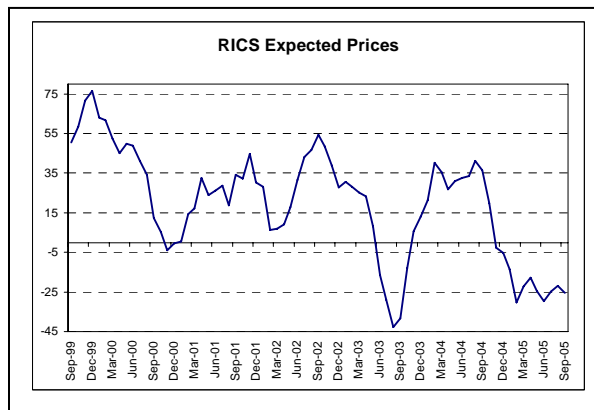
RICS New Instructions to Sell decreased from +4 to -8 in September, the first drop in 18 months. RICS reported that signs of a modest recovery in the housing market have reduced the stimulus to sell, following fears of a large drop in house prices earlier in the year.



RICS Housing Data & Leading, Coincident Indicator

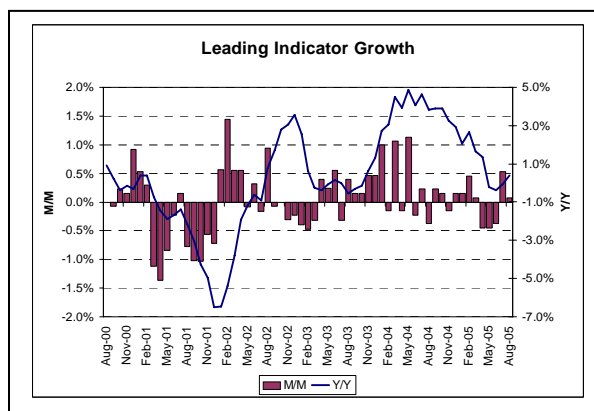
RICS Expected Prices

RICS Expected Prices increased from -4 to +7 in September; this is the first time this data has been in positive territory in eighteen months and points to some stabilization in the housing market.



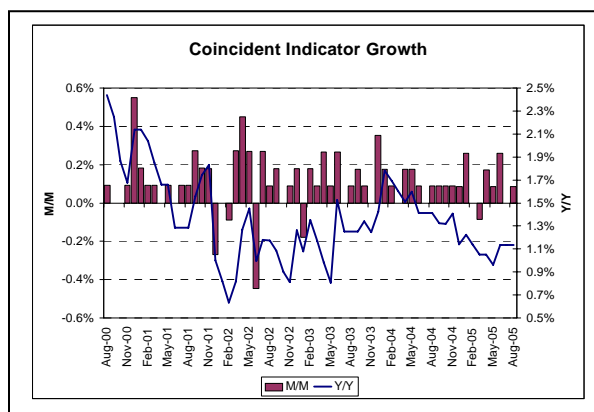
Leading Indicator

Leading Indicator increased 0.1% M/M and 0.4% Y/Y in August. Gains were led by the FTSE, and consumer confidence, while order book volumes exerted a drag.



Coincident Indicator

The Coincident Indicator increased 0.1% M/M and remained at 1.1% Y/Y for the third consecutive month in August. Employment increased 0.1% M/M and industrial production decreased 0.1% M/M.



Data & Comments

Data

Rightmove House Price Survey

Rightmove House Price Survey decreased 0.4% M/M and increased 1.6% Y/Y in September, the third straight month of M/M declines.

Comments

BOE's Lomax Comments:

Rachel Lomax commented that the U.K.'s growth during "the last decade has been quite exceptional by historical standards. We have had lower inflation and steadier output than any time in our history. It's very difficult to look forward and say this will always be true. I don't think we can count on it. Some of it is good monetary policy; some of it is a good external environment."

In regards to inflation, "we are over our target, we have been over that and we are probably likely to stay over it for the next few months, even if oil prices don't rise further. I think that the framework we have got at the moment envisages cases where inflation goes away from target by more than 1 percent. The thing was never set up so tight as to demand inflation within half a percentage point of 2 percent."

"A central bank that keeps its eye on the ball can keep inflation low. The question is: what happens to supply and output?"

BOE's Lambert Comments:

Richard Lambert commented that the Bank of England is "determined" to prevent higher oil prices from feeding through into inflation, even though there's a risk that growth and price growth may lag the Bank's August estimates. Wage growth so far, remains "measurably lower" than the Central Bank previously expected. "We are paying even more attention than usual at the moment to the various measures of inflation expectations. So far as we can tell, inflation expectations for the short term may have risen a little in the past few months – hardly surprising, given all the news about petrol prices. But expectations for this time next year and beyond appear to remain firmly anchored to the target. That's good news." In his speech, Lambert did not raise the possibility of further cutting interest rates, and suggested he's unlikely to favor more reductions any time soon.

Upcoming Dates

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
10/20	Retail Sales	--	0.0% M/M 0.8% Y/Y
10/20	Public Sector Net Borrowing	--	--
10/20	CML & BBA Mortgage Lending Data	--	--
10/21	GDP	--	--

Valance Co., Inc.

Valance Economic Report: *Canada*

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October 19, 2005

Economic releases in Canada continue to support further BoC tightening. The BoC increased interest rates by 25bps to 3.00% this week, as expected, and stated that there are more hikes likely to come within this interest rate hiking cycle.

Weekly Highlights

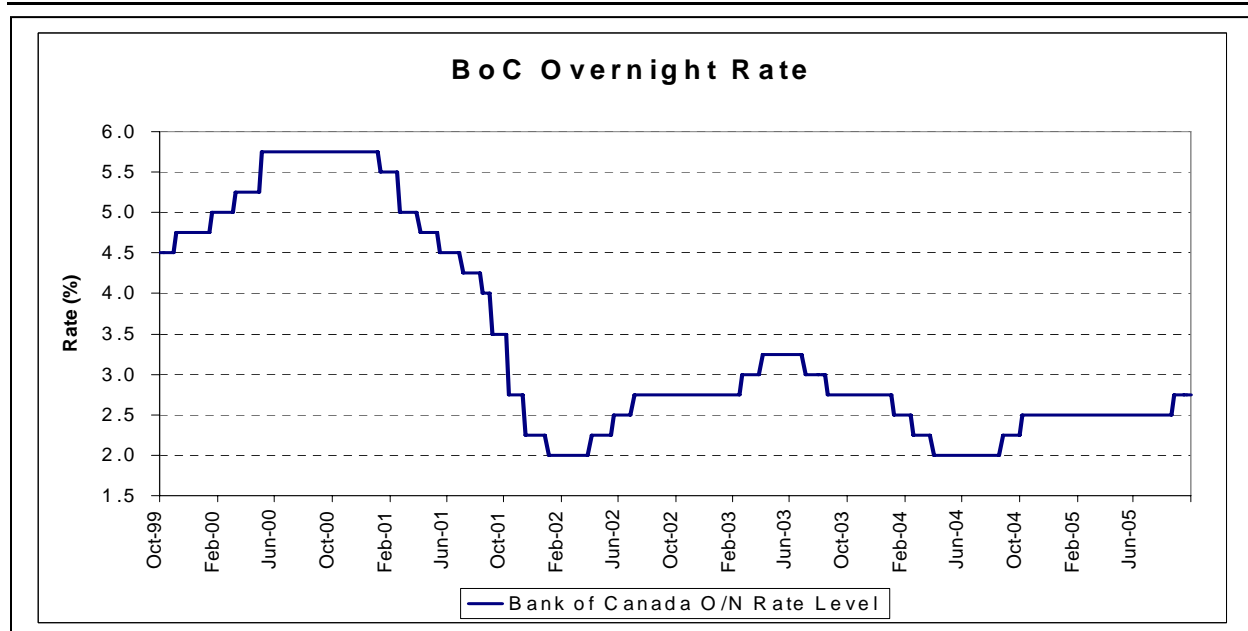
The Bank of Canada - increased interest rates by 25bps to 3.00%, as expected. (page 31)

Canada's Merchandise Trade Balance - increased from a revised C\$4.9bn in July to C\$5.6bn in August. (page 33)

Manufacturing Shipments - increased 3.3% M/M and 1.6% Y/Y in August. (page 33)

Weekly Releases & News

Charts of the Week: *BoC Overnight Rate*



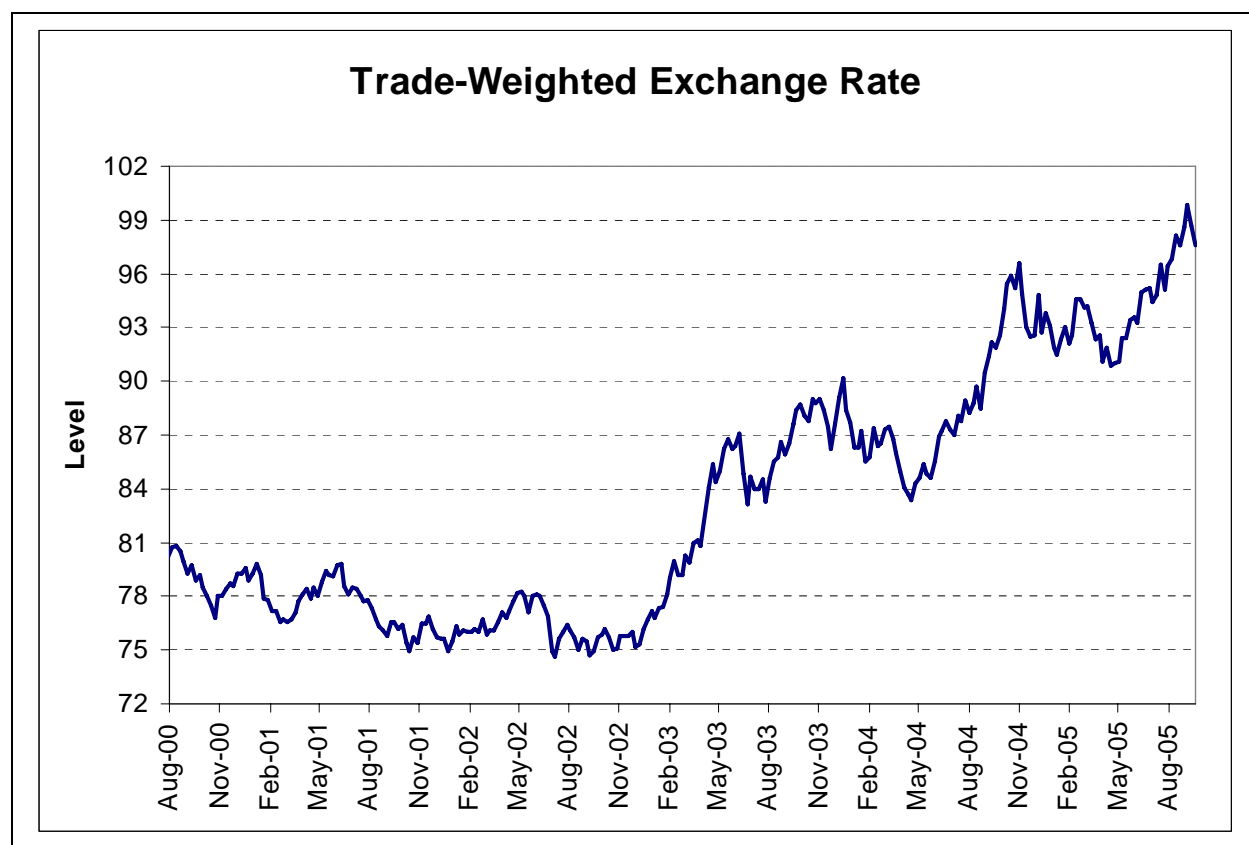
The Bank of Canada increased interest rates by 25bps to 3.00% as expected. The Bank's statement which followed this decision outlined some hawkish comments which fall directly in line with our view that there are additional rate hikes to come within this cycle. "In line with the Bank's outlook, and given that the Canadian economy now appears to be operating at capacity, some further reduction of monetary stimulus will be required to maintain a balance between aggregate supply and demand over the next four to six quarters, and to keep inflation on target," the Bank stated. The BoC's next scheduled date for announcing its overnight rate target is December 6th, 2005.

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%

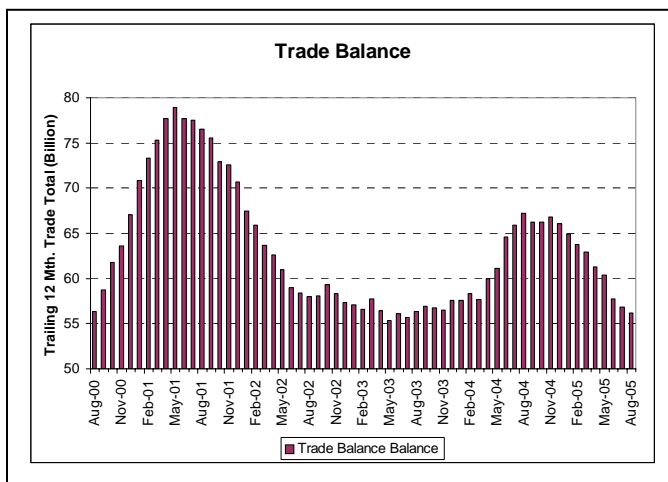
Trade-Weighted Exchange Rate



Trade Data

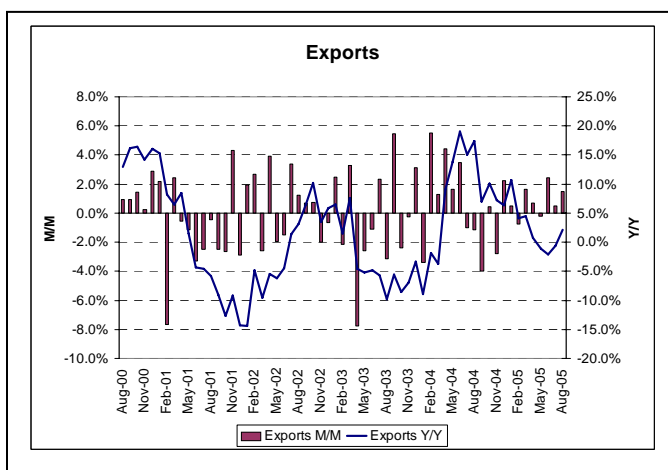
Merchandise Trade Balance

Canada's Merchandise Trade Surplus increased from a revised C\$4.9bn in July to C\$5.6bn in August. Exports increased 1.5% M/M and 2.1% Y/Y in August. Imports decreased 0.4% M/M and increased 4.6% Y/Y.



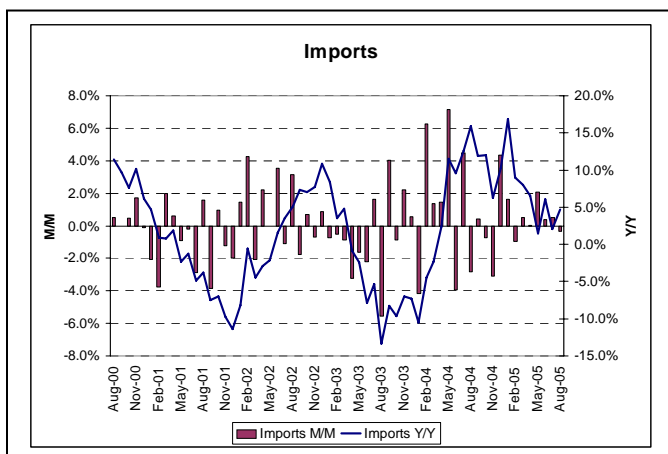
Exports

Exports increased 1.5% M/M and 2.1% Y/Y in August. Exports increased in the energy, agriculture and fishing, and automotive sectors.



Imports

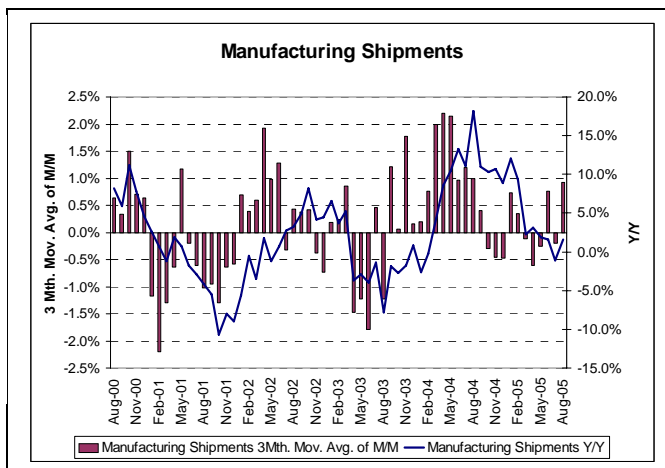
Imports decreased 0.4% M/M and increased 4.6% Y/Y in August as the rise in energy imports was insufficient to offset declines in all other sectors.



Manufacturing Data

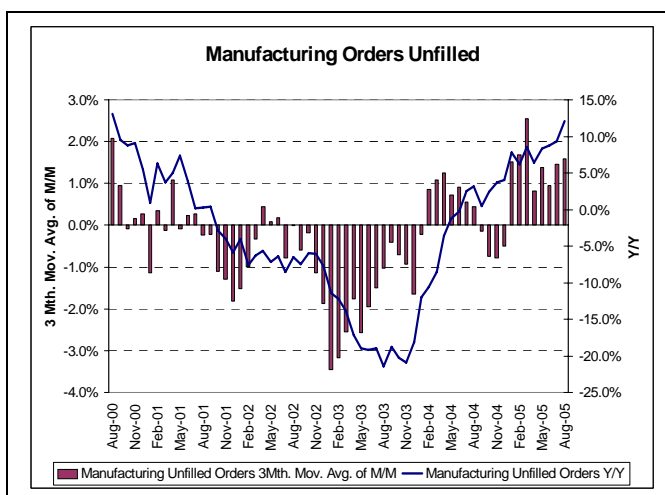
Manufacturing Shipments

Manufacturing Shipments increased 3.3% M/M and 1.6% Y/Y in August, well above expectations for an increase of 1.0% M/M. Manufacturing Orders increased 3.4% M/M and 3.6% Y/Y. Inventories remained flat M/M and increased 6.4% Y/Y.



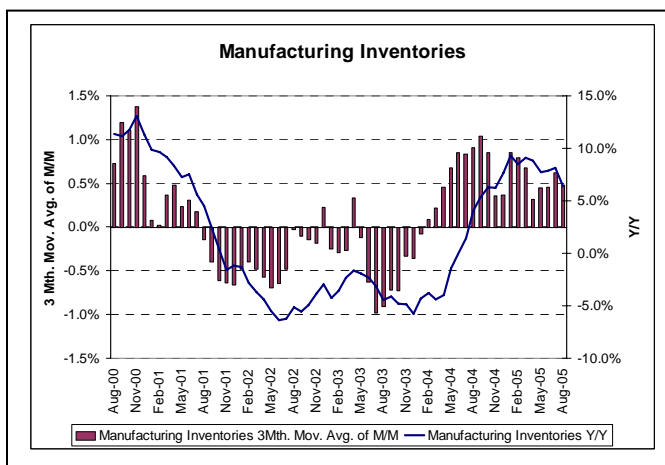
Manufacturing Orders Unfilled

Unfilled manufacturing orders, a good leading indicator of future production, increased 2% M/M and 12.1% Y/Y in August.



Manufacturing Inventories

Manufacturing Inventories remained flat M/M and increased 6.4% Y/Y. The inventory-to-shipment ratio decreased from 1.31 in July to 1.27 in August, as a result of strong shipment activities.

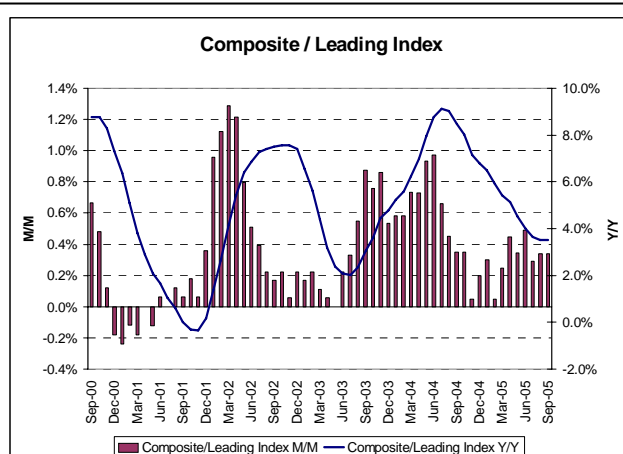


Composite/Leading Index, New Motor Vehicle Sales & Wholesale Sales

Composite/Leading Index

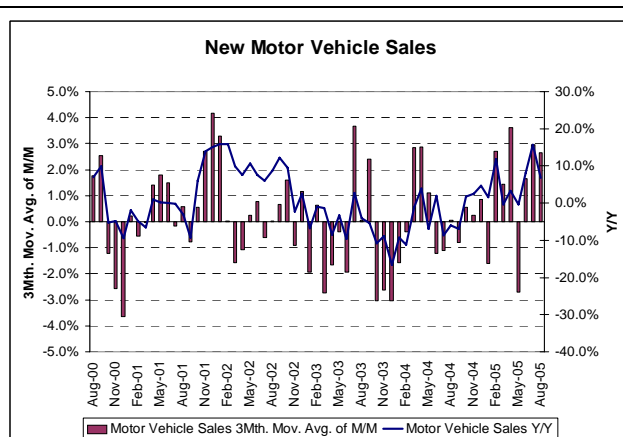
The Composite/Leading Index increased 0.3% M/M and 3.5% Y/Y in September as a result of strong domestic demand.

Increases were shown in seven out of the ten components with household spending in the lead. With its sixth consecutive increase the housing index reached a new record in September increasing 2.1% M/M. Outlays for durable goods increased 1.3% for the third straight month and new orders increased 0.6% M/M.



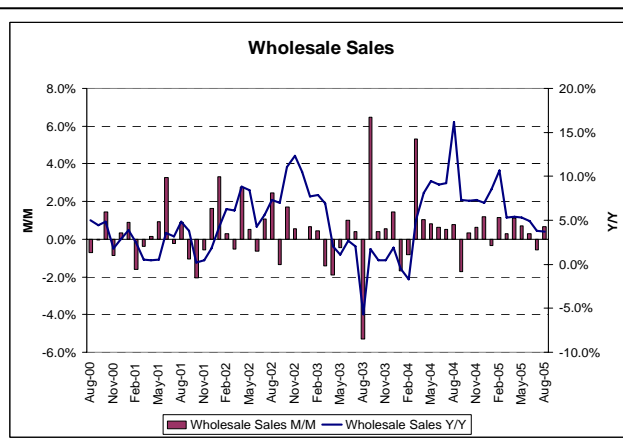
New Motor Vehicle Sales

New Motor Vehicle Sales decreased 7.9% M/M and increased 6.7% Y/Y in August. The majority of the decline occurred as a result of lower sales of trucks, which includes minivans, sport-utility vehicles, light and heavy trucks, vans and buses.



Wholesale Sales

Wholesale Sales increased 0.7% M/M and 3.7% Y/Y in September. This increase was mainly due to increases in sales of automotive products.



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
10/21	Retail Sales (M/M) (AUG)	-0.5%	1.5%
10/21	Retail Sales Less Autos (M/M) (AUG)	0.7%	0.7%
10/25	Consumer Price Index (M/M) (SEP)	0.7%	0.4%
10/25	Consumer Price Index (Y/Y) (SEP)	3.3%	2.6%
10/25	Core CPI (M/M) (SEP)	0.2%	0.2%
10/25	Core CPI (Y/Y) (SEP)	1.7%	1.7%

Valance Co., Inc.

Weekly Economic Report: *China*

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October 19, 2005

China's economic releases remained firm over the past week. Money Supply M2 surpassed the PBoC's 15% target for the fourth consecutive month. Additionally, Foreign Capital Via Signed Agreements and Household Savings both accelerated.

Weekly Highlights

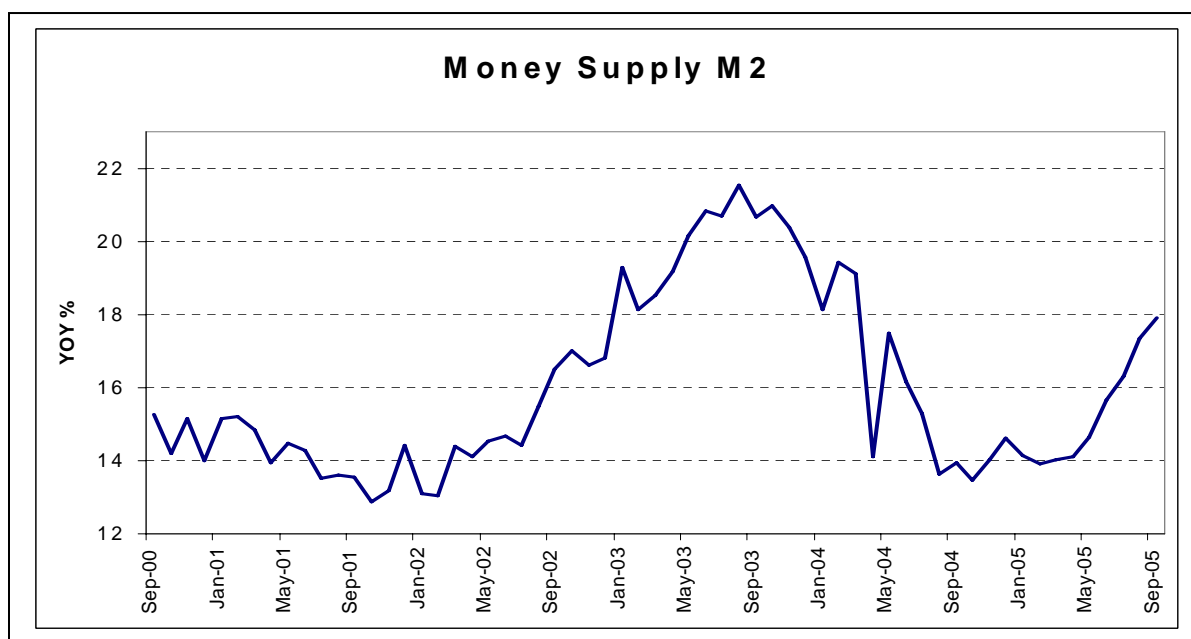
Money Supply M2 - increased from 17.3% Y/Y in August to 17.9% Y/Y in September. (page 36)

Foreign Capital Via Signed Agreements - increased from 20.7% Y/Y in August to 21.8% Y/Y in September. (page 38)

Household Savings - increased 1.3% M/M and 18% Y/Y in September. (page 38)

Weekly Releases & News

Charts of the Week: *Money Supply M2*

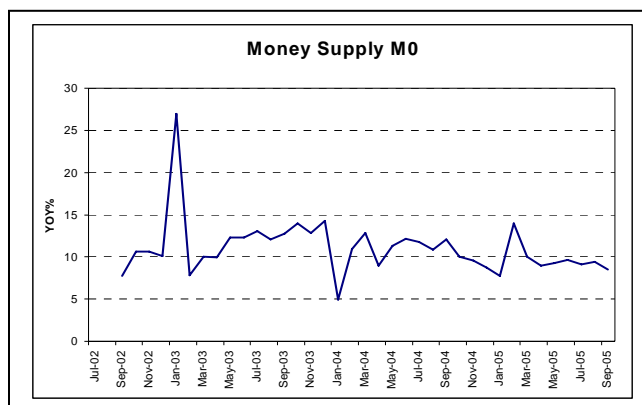


Money Supply M2 increased from 17.3% Y/Y in August to 17.9% Y/Y in September, above market expectations of 17% Y/Y. Money Supply M2 exceeded the PBoC's 15% target for the fourth consecutive month. This increase in the money supply, however, could be viewed as a technical adjustment by the PBOC to control any impact from the tightening of the Yuan's appreciation, instead of loosening signs of the Bank's monetary policy.

Money Supply & Foreign Exchange Reserves

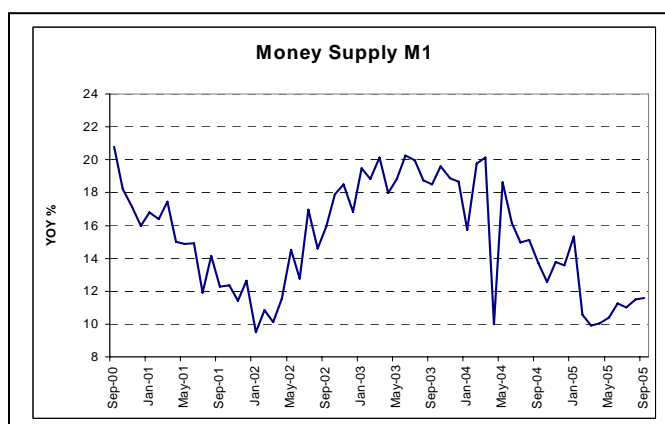
Money Supply – M0

Money Supply M0 growth slowed from 9.4% Y/Y in August to 8.5% Y/Y in September.



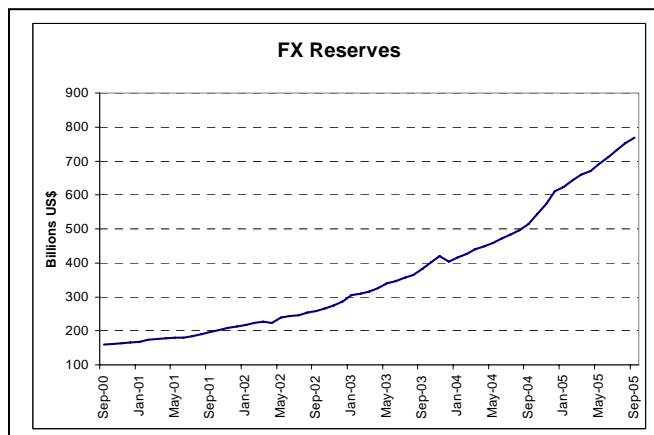
Money Supply – M1

Money Supply M1 growth increased from 11.5% Y/Y in August to 11.6% Y/Y in September.



Foreign Exchange Reserves

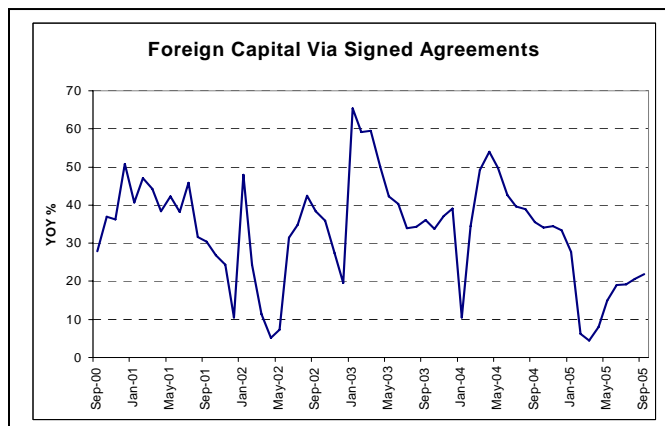
China's Foreign Exchange Reserves increased 2.1% M/M and 49.5% Y/Y to reach \$769 bln in September.



Foreign Capital & Household Savings

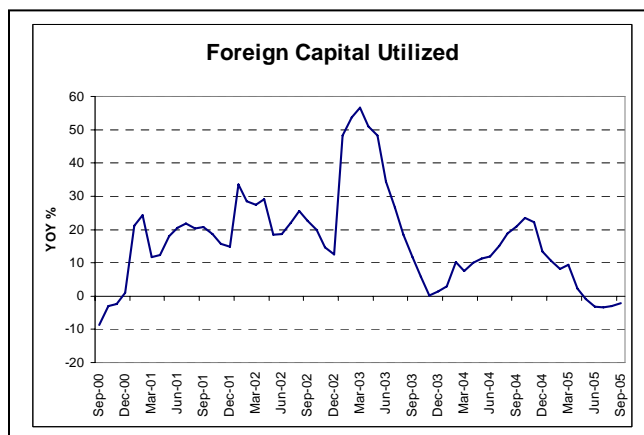
Foreign Capital Via Signed Agreements

Foreign Capital Via Signed Agreements (investment pledged, but not yet used) increased from 20.7% Y/Y in August to 21.8% Y/Y in September. Steady increases in this series bode well for increases in Foreign Capital Utilized.



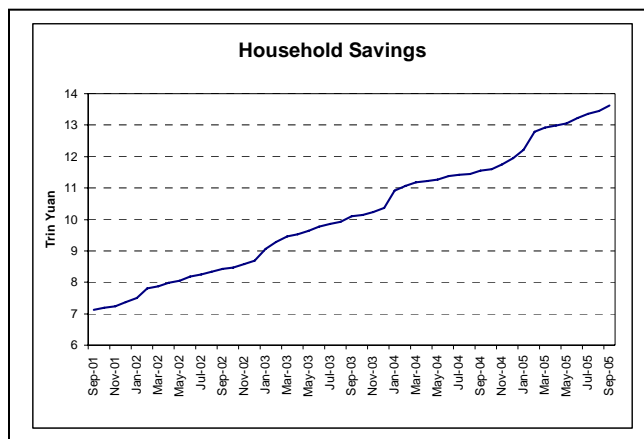
Foreign Capital Utilized

Foreign Capital Utilized decreased 2.1% Y/Y in September. This series has been on a weakening trend since November of 2004, but is now showing signs of stabilizing or bottoming out. With steady increases in Foreign Capital Via Signed Agreements, growth in Foreign Capital Utilized should begin to show improvement.



Household Savings

Household Savings increased 1.3% M/M and 18% Y/Y in September. Zhou Xiaochuan, the Central Bank's Governor, has commented that China needs to create more avenues that will encourage Chinese to spend instead of save. "We hope our economy will be driven by domestic consumption," Xiaochuan said in a speech this week.



News Releases

October 19th – GDP to Reach 15 Trillion Yuan This Year - In a meeting with the Central Committee of the Communist Party of China, Premier Wen Jiabao announced that China's GDP will reach an estimated 15 trillion yuan in 2005. Wen stated that progress is being made in areas such as strategic economic restructuring, agriculture, energy, transportation and raw materials.

October 18th – China Should Boost Consumption - China should try to encourage consumers to spend instead of save, remarked the Central Bank's Governor, Zhou Xiaochuan, in a speech. Zhou stated, "We hope our economy will be driven by domestic consumption." Additionally, Zhou encouraged consumers to spend, which would have a "far greater" impact on China's high trade surplus than the appreciation of the Yuan.

October 18th – GDP Possibly Slowed to 9.2% in Q3 - A Bloomberg survey of 17 economists showed that China's GDP may have expanded slower-than-expected to 9.2% Y/Y in Q3 – a drop from 9.5% Y/Y in Q2.

October 16th – Fitch Raised China's Debt Ratings –Fitch raised China's long-term foreign and local currency ratings from A- to A and from A to A+, respectively. The improvement was attributed to a growing trade surplus and the reduction in the amount of bad loans by China's banks. Fitch remarked, "The upgrade is based on China's exceptionally strong balance of payments performance."

October 14th – China Will Move When Ready – Finance Minister, Jin Renqing, stated that China will move to a more flexible currency system when it is ready and will not be pressured into doing so. Jin commented, "We will go step by step, in accordance with China's set target." "We won't be pushed by other countries," Jin added. Other comments relative to yuan reform are as follows:

- **October 18th – U.S. Secretary of the Treasury, John Snow** – "We recognize that's going to take some time. China is clearly taking steps to put those mechanisms in place."
- **October 14th - IMF Managing Director, Rodrigo de Rato** – "We see the need for the Chinese currency to be responding more to market forces." "I am convinced it would be in the interest of China to use its capacities to move to a more balanced pattern of growth and to establish a flexible economy to be able to absorb more external shocks."

October 13th – U.S. – China Talks Fail Again – After four rounds of meetings, China and the U.S. have once again failed to reach an agreement relative to China's textile exports. Special Textile Negotiator from the U.S. Trade Representative's Office, David Spooner stated, "We have not come to an agreement that meets the needs of our domestic manufacturers and retailers." He added, "The U.S. has been using its right under China's WTO accession agreement to invoke safeguards in cases of market disruption or the threat of market disruption, and we will continue to do so as appropriate." On the other hand, China feels that the U.S. has overstepped its bounds in dealing with this issue. Mei Xinyu, Chinese Academy of International Trade and Economic Cooperation, remarked that, "The U.S. side has politicized the trade issue and largely neglected international practices, which makes it very difficult for people to expect any substantial results from the talks."

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
10/23-28	Leading Index	--	102.9
10/24-28	Coincident Index	--	100.7
10/24-28	Lagging Index		92.9
10/24	GDP Constant Price (Y/Y) – Q3	9.2%	9.5%
10/24	PPI (Y/Y) – Sep	--	5.3%
10/24	Purchasing Price Index - Sep	--	8.1%
10/24	CPI – Sep	1.5%	1.3%
10/24	Retail Sales Value Indiv (Y/Y)/ Accum (Y/Y) – Sep	12.3% / --	12.5% / 13.0%
10/24	Value-Added Industry (Y/Y) / Current –Sep	16.0% / --	16.0% / 596.80B
10/24	Fixed Assets Inv Urban Cum (Y/Y) - Sep	27.3%	27.4%
10/24	Industrial Profits Cum (Y/Y) - Sep	--	20.7%

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Valance Economic Report: Sweden

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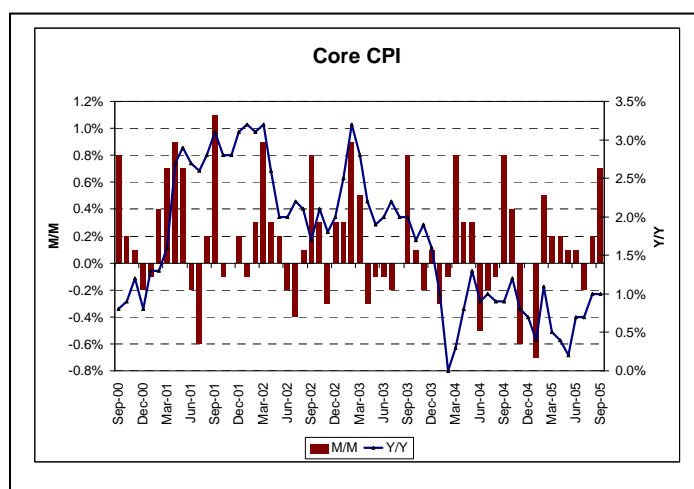
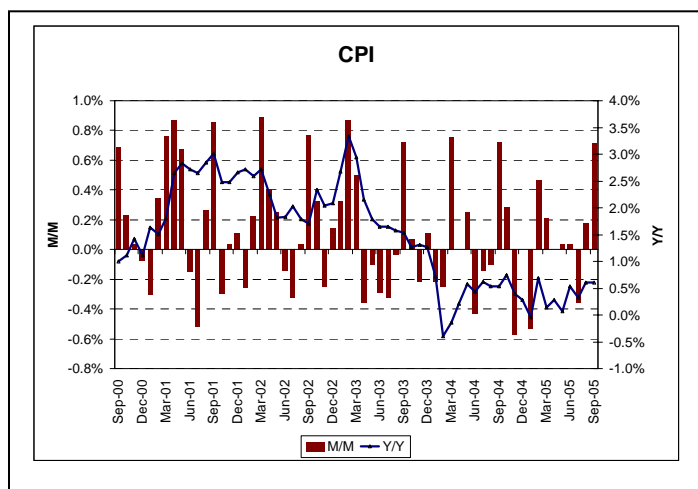
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October 19, 2005

A sharp M/M pickup in inflation (though expected) was the highlight of this week's Swedish data. Sweden's CPI and Core CPI both rose 0.7% M/M in September, while Y/Y growth remained unchanged at 0.6% and 1.0%, respectively. Central Bank Governor, Lars Heikensten, stated there's no "hurry" to raise rates, but it is forthcoming if the current state of the economy remains the same. Separately, the NIER revised its August 2005 economic growth forecast from 2.2% to 2.5% and its 2006 forecast from 2.9% to 3.2%.

Weekly Releases & News

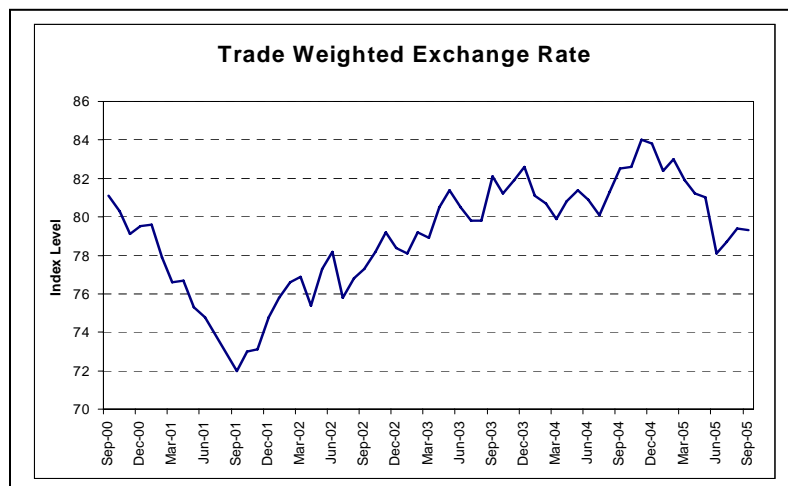
Charts of the Week: CPI



Swedish Consumer Prices rose 0.7% M/M in September. Underlying Inflation also increased 0.7% M/M in September, on rising clothing costs. The Y/Y growth remained unchanged at 1.0%, once again remaining below the Bank's 2.0% target rate since September of 2003.

Trade Weighted Exchange Rate & News Releases

Trade Weighted Exchange Rate



News Releases

October 13th – Governor Heikensten Says Bank In No Hurry To Raise Rates – Lars Heikensten, Riksbank Governor, stated in a speech posted on the Bank's website, "I don't think that there is any immediate hurry to raise the repo rate..." He added, "But it is clear nonetheless that this is the next natural step if the current outlook remains unchanged." Heikensten also commented that there is reason to believe that inflation may move toward its 2.0% target "one or two years ahead."

October 13th – NIER's August Predictions Revised - The National Institute of Economic Research has revised its August predictions for economic growth for 2005 from 2.2% to 2.5% while its 2006 forecast was changed from 2.9% to 3.2%. The NIER also forecasts that Core CPI will increase 1.5% in 2006 and 1.4% in 2007. Unemployment will average 5.9% this year, 5.0% in 2006 and 4.7% in 2007, the NIER added.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
10/20	Riksbank Interest Rate	--	1.5%
10/20	Unemployment Rate - Sep	--	6.5%
10/25	Trade Balance – Sep	--	7.2B
10/25	PPI – M/M / Y/Y	--	0.6% / 4.2%

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Valance Economic Report: Switzerland

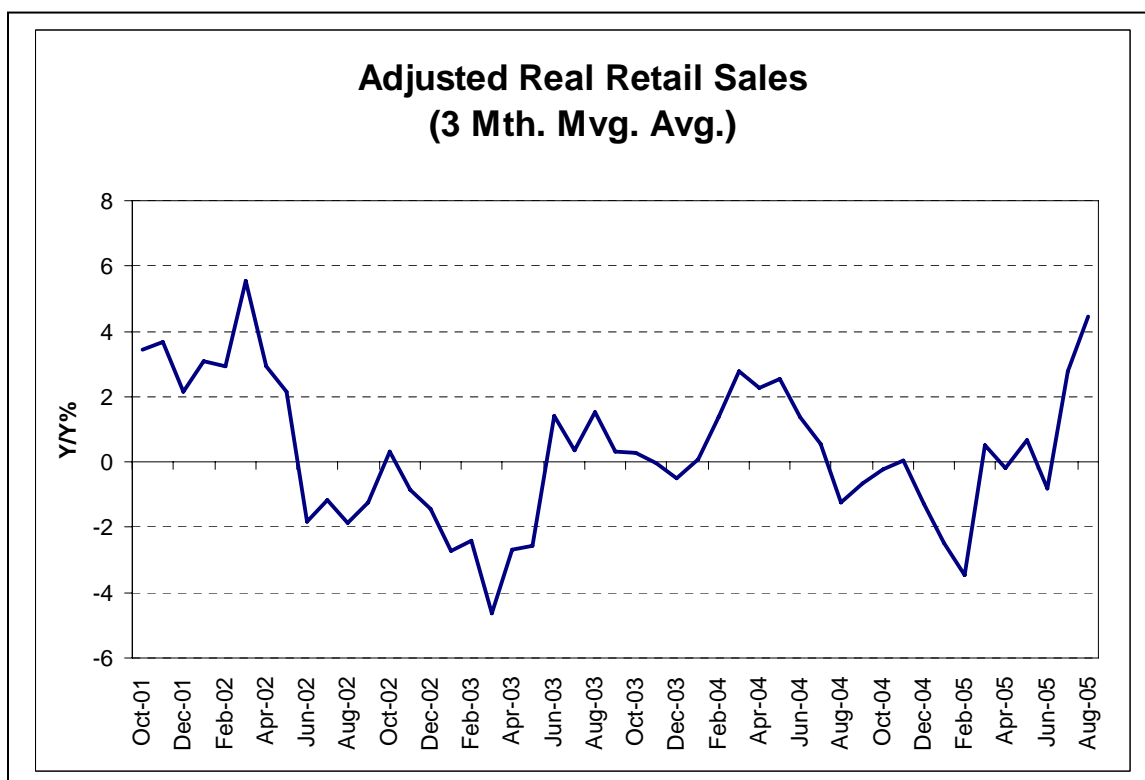
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October 19, 2005

Switzerland's economy continued to show signs of strengthening as Retail Sales and Producer and Import Prices improved. In other news, BAK Economic Research Institute predicted that Switzerland's GDP will expand 1.2% this year, 1.5% in 2006 and 1.8% in 2007.

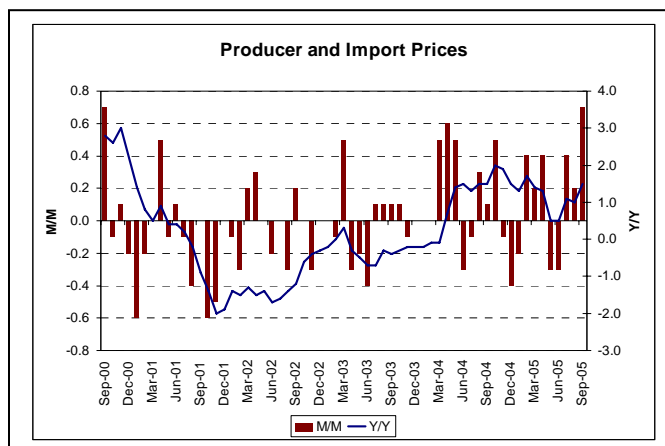
Weekly Releases & News**Chart of the Week: *Adjusted Retail Sales***

Switzerland's Adjusted Real Retail Sales rose 4.7% Y/Y in July, when adjusted for inflation and shopping days. The increase is the largest in over three years. This data suggests that oil prices have not necessarily crimped consumer spending.

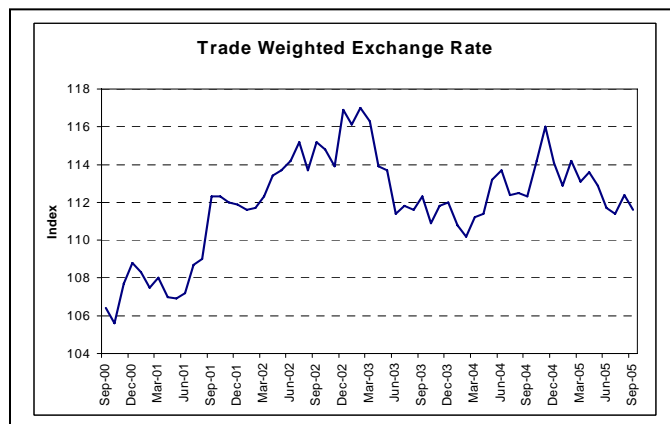
Producer and Import Prices, Trade Weighted Exchange Rate & News

Producer and Import Prices

Producer & Import Prices increased from 0.2% M/M and 1.0% Y/Y in August to 0.7% M/M and 1.5% Y/Y in September, mostly due to rising oil prices. The M/M increase marked the largest gain in five years.



Trade Weighted Exchange Rate



News

October 17th – BAK Predicts GDP to Pickup – Switzerland's BAK Economic Research Institute stated it expects the Swiss economy to expand 1.2% this year, 1.5% in 2006 and 1.8% in 2007. This expansion is likely to be attributed to a rise in consumer spending fueled by an increase in employment.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
10/25	Trade Balance - Sep	--	0.08B
10/25	UBS Consumption Indicator – Sep	--	--