

Valance Company, Inc.



Weekly

October 26, 2005

III

Highlights

US – Existing Home Sales volume firm, but Median Prices drop in September (page 2)

Euroland – Economic Confidence soars in October (page 8)

Japan – Demand indicators continue to appear solid (page 16)

UK – UK's first release of Q3 GDP remained below trend. (page 22)

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October 20 – October 26 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	0.05	4.50	12.50	14.00	15.00
	3.75	4.23	4.47	4.72	4.81	4.83
EU	0.00	0.02	7.50	11.00	13.50	14.50
	2.00	2.21	2.34	2.50	2.64	2.74
JN	0.00	0.00	0.50	0.50	1.00	1.50
	0.00	0.06	0.11	0.18	0.28	0.38
UK	0.00	0.03	5.00	5.00	9.00	11.00
	4.50	4.61	4.58	4.53	4.55	4.59
CA	0.00	0.02	3.50	5.00	6.00	8.00
	3.00	3.18	3.44	3.70	3.84	3.91
AU	0.00	0.00	1.00	5.00	8.00	8.00
	5.50	5.58	5.67	5.75	5.77	5.77
NZ	0.25	0.05	5.00	5.00	8.00	10.00
	7.00	7.33	7.41	7.41	7.33	7.16
SZ	0.00	0.03	5.00	10.00	14.00	17.00
	0.75	0.83	0.97	1.22	1.45	1.62

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Valance
Economic
Reports

Valance Co., Inc.

Valance Economic Report: United StatesCesar Guerra
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October 26, 2005

This week's light economic data was mostly overshadowed by the announcement of Greenspan's replacement- Ben Bernanke. The initial market reaction/ perception of Bernanke as a dove lends itself to possible steepening of the yield-curve. However, to the extent that inflation expectations are now higher and Bernanke needs to build credibility on the inflation front- more tightening should be priced-in the front-end of the curve.

Weekly Highlights

Existing Home Sales- volumes remained solid, but median prices dropped in September. (page 2)

Mortgage Purchase Applications- moved lower this week. (page 4)

Consumer Confidence- weakened in October. (page 5)

Weekly Releases**Chart of the Week: *Existing Home Sales***

Existing Home Sales volume remained at a 7.28 mln annualized rate in September- showing strength even in the aftermath of Katrina. Median prices decreased 3.6% M/M and increased 13.4% Y/Y. The supply of existing homes remained at 4.7 months, the highest since November 2003 and could signal slower price growth going forward.

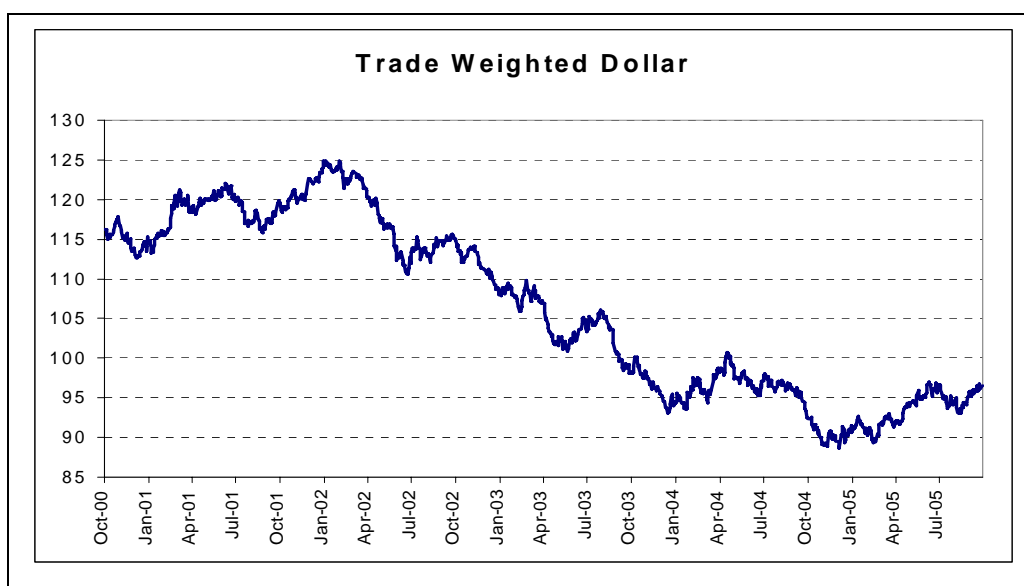
U.S. Financial Balances & Trade Weighted Dollar

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.

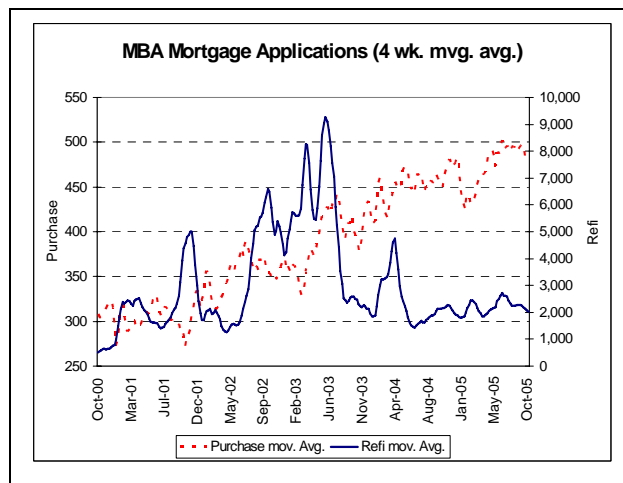
Trade Weighted Dollar



Mortgage Apps, Continuing Claims & Leading Indicators

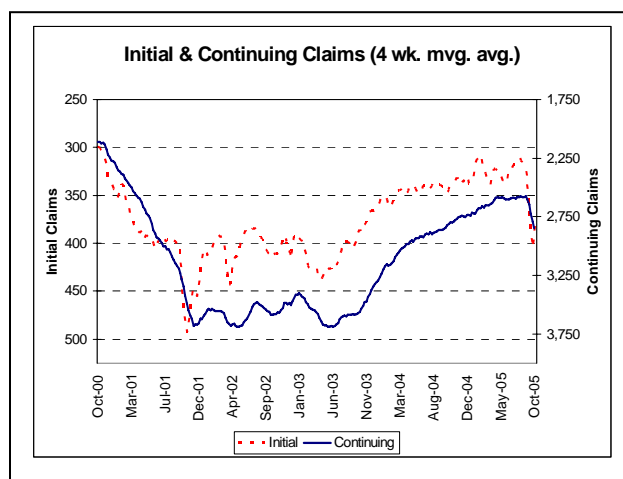
MBA Mortgage Applications

Purchase and refinancing mortgage applications decreased 7.3% and 8.5%, respectively, this week. Purchase applications dropped from 503.9 to 466.4 while the four-week moving average is now up 6.5% Y/Y.



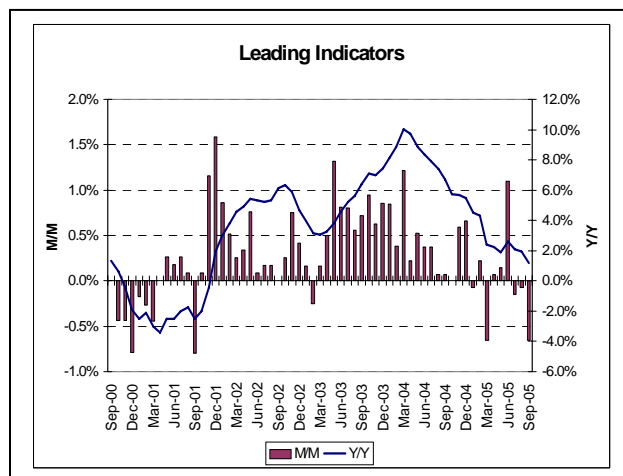
Initial & Continuing Claims

The four week moving average of initial claims dropped to 376k and continuing claims increased to 2,852k. Initial claims unrelated to the hurricanes remain healthy.



Leading Indicators

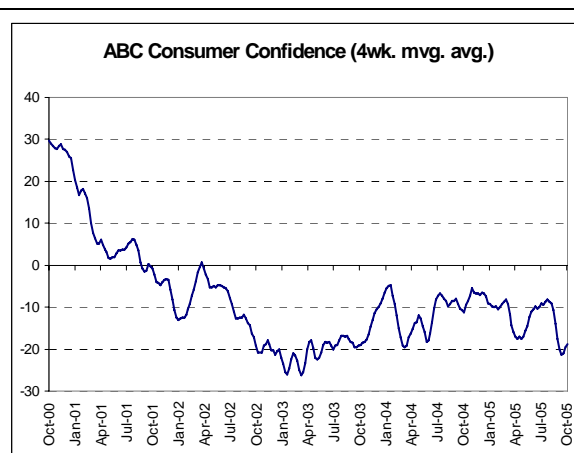
Leading Indicators decreased 0.7% M/M and increased 1.2% Y/Y in September. The largest negative contributors were the flattening yield curve and weakness in consumer expectations. Given the bias in consumer expectations after tragic events, the extreme weakness seen in Leading Indicators could prove transitory.



Consumer Confidence & Philadelphia Fed.

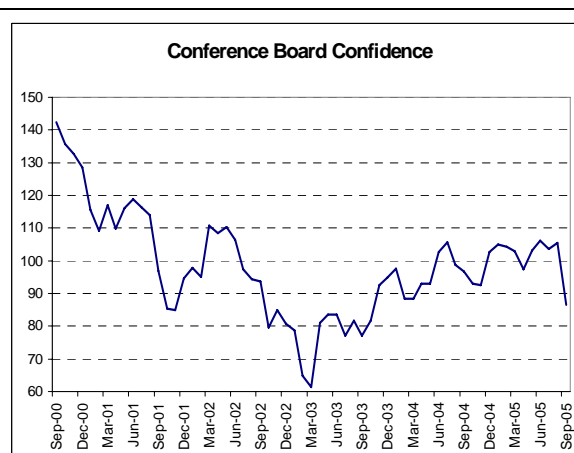
ABC Consumer Confidence

The ABC Consumer Confidence Index fell from -17 to -19. The economy and finance components remained flat at -34 and the finance component declined from 16 to 12. This is the first decline in the main index since the middle of September.

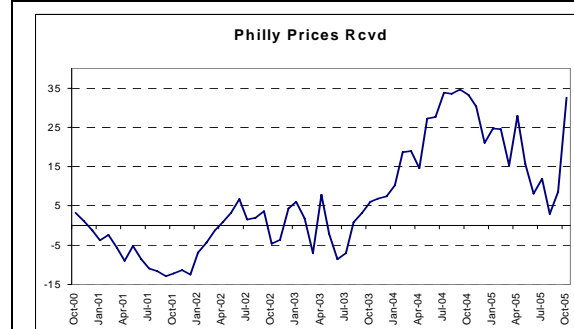
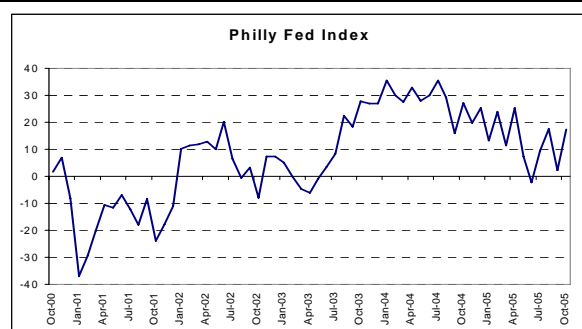


Conference Board Confidence

The Conference Board's Index of Consumer Confidence dropped from 87.5 to 85.0 in October. Expectations and people's assessment of current conditions both fell, from 72.3 to 69.5 and from 110.4 to 108.2, respectively. The job components were both relatively flat.



Philly Fed Index



The Philly Fed Index increased from 2.2 to 17.3 in October, showing a recovery in manufacturing post-Katrina. The employment component increased from 2.7 to 17.0 and the prices paid and received components both surged higher. Prices received jumped from 8.6 to 32.6.

Fed Comments

Lacker- “The proper lesson from the 1970s is not that energy price shocks induce major recessions; it is that monetary policy that reacts to energy price shocks by accommodating the rise in inflation and subsequently has to fight inflation can induce major recession.”

Guynn- “In evaluating the costs of a potential drop in the rate of output growth or an unwelcome rise in inflation, I believe that a significant acceleration of inflation would be the larger and more troubling outcome in the period ahead.”

Yellen- “While I'm certainly not predicting anything about future house price movements, I think it's obvious that the housing sector represents a serious issue for monetary policy makers to consider.”

Poole- “If confidence in price stability starts to erode and inflation expectations begin to develop, it can be painful and long to reverse those expectations.”

Bernanke- “If I am confirmed to this position my first priority will be to maintain continuity with the policies and policy strategies established during the Greenspan years.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
10/27	Durables Ex. Transportation (SEP)	0.8%	4.2%
10/27	Initial Jobless Claims (OCT 22)	340K	355K
10/27	Continuing Claims (OCT 15)	NA	2894K
10/27	Help Wanted Index (SEP)	36	35
10/27	New Home Sales (SEP)	1250K	1237K
10/28	GDP Annualized (Q3)	3.6%	3.3%
10/28	U. of Michigan Confidence (OCT)	76.0	75.4
10/31	Personal Income (SEP)	0.3%	-0.1%
10/31	Personal Spending (SEP)	0.5%	-0.5%
10/31	PCE Core (SEP) (M/M)	NA	0.2%
10/31	Chicago Purchasing Manager (OCT)	57.0	60.5
11/01	Construction Spending (SEP) (M/M)	0.6%	0.4%
11/01	ISM Manufacturing (OCT)	57.0	59.4
11/01	FOMC Rate Decision Expected (NOV 1)	4.00%	3.75%
11/01	ABC Consumer Confidence (OCT 30)	NA	-19
11/01	Total Vehicle Sales (OCT)	15.5M	16.4M
11/02	MBA Mortgage Applications (OCT 28)	NA	-7.9%

Valance Co., Inc.

Valance Economic Report: Euro Zone

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October 26, 2005

This past week in the Euro Zone added support to those in the bearish rate camp. Inflationary pressures remained elevated and confidence rose markedly in Germany, France and Italy. The ECB also maintained its "We are ready and willing to act" rhetoric, increasing rate hike expectations; however, we maintain our view that the economy is currently too weak to justify any such increases.

Weekly Highlights

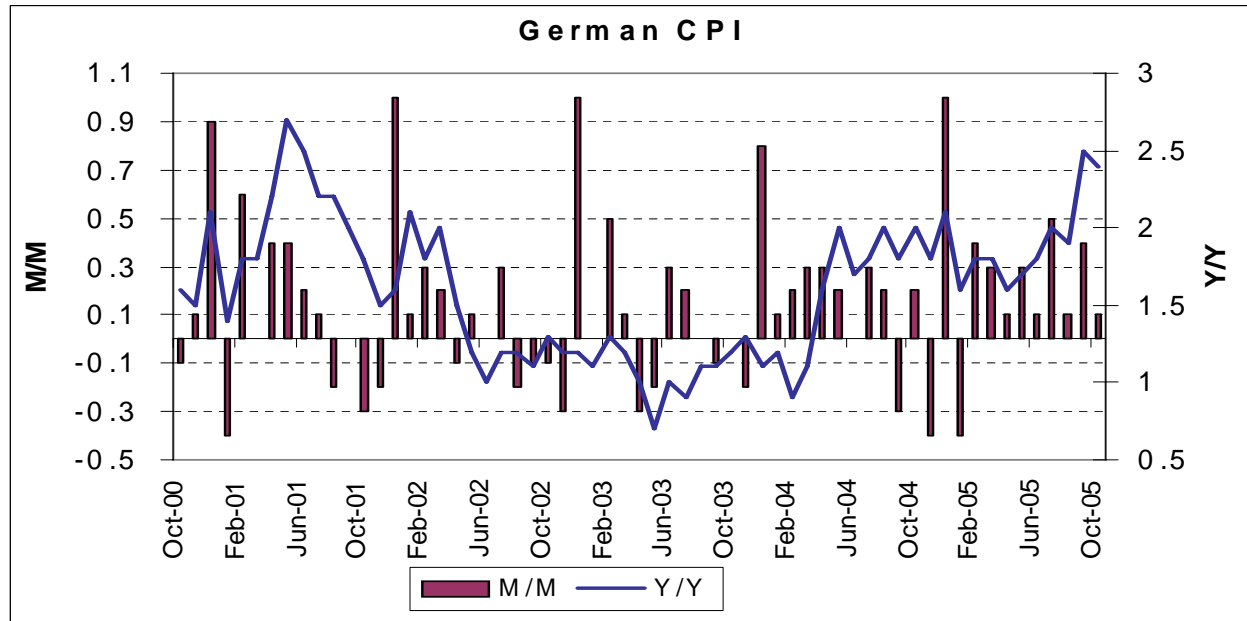
German CPI— prices remained elevated in October. (page 8)

German IFO— confidence soared in October as optimism regarding growth increased. (page 10)

French Business Confidence— September's Confidence reaches eighth month high. (page 10)

Weekly Releases & News

Chart of the Week: German CPI



Germany's October Consumer Prices increased 0.1% from September and 2.4% Y/Y, remaining near a four year high on a y/y basis. The above 2% rate continues to contribute to a perceived negative real rate, adding to ECB concerns regarding the current low level of rates.

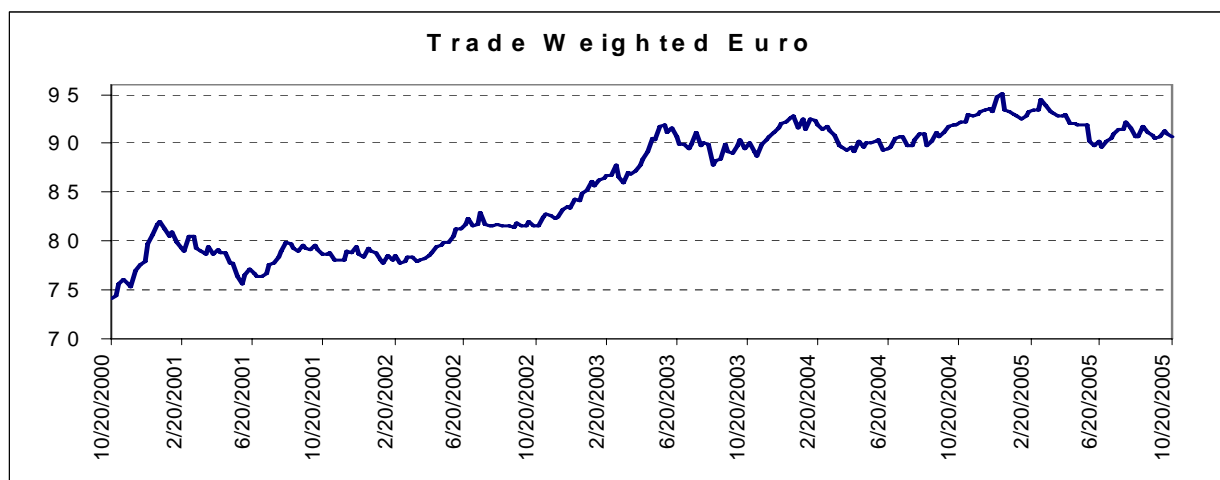
Euro Zone Financial Balances & Trade Weighted Euro

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.

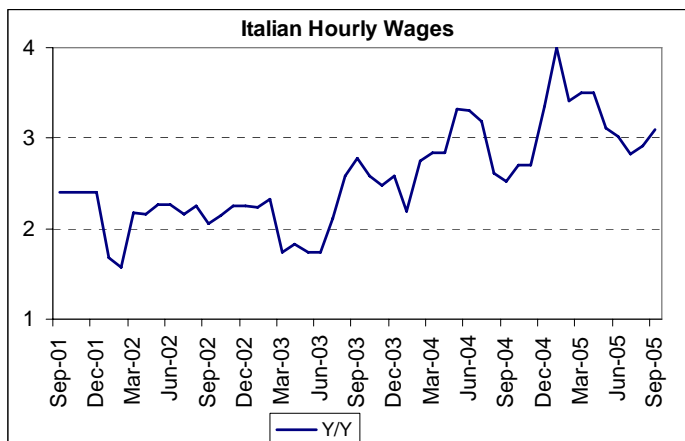
Trade Weighted Euro



Italian Wages, German IFO & French Bus. Confidence

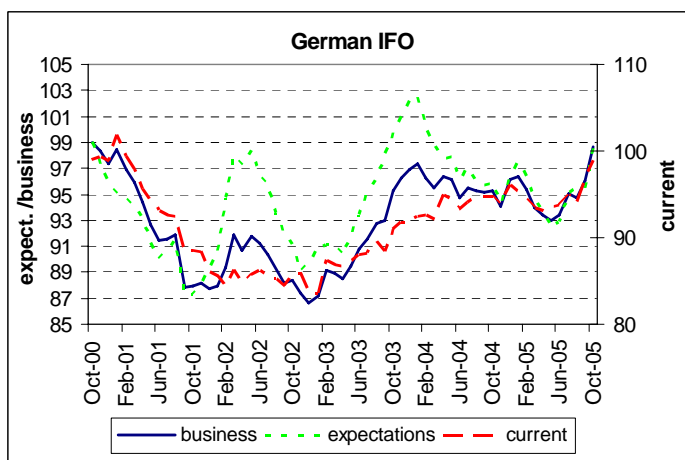
Italian Hourly Wages

Italy's September Hourly Wages increased 0.3% M/M and 3.1% Y/Y.



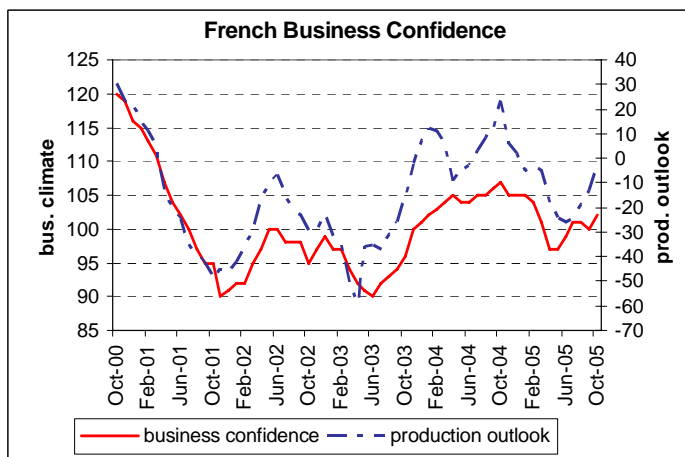
German IFO

Germany's October IFO Business Climate Index increased from 96 in September to 98.7. The Expectations Index increased from 95.5 to 98.5 while the Current Assessment Index increased from 96.5 to 98.9.



French Business Confidence

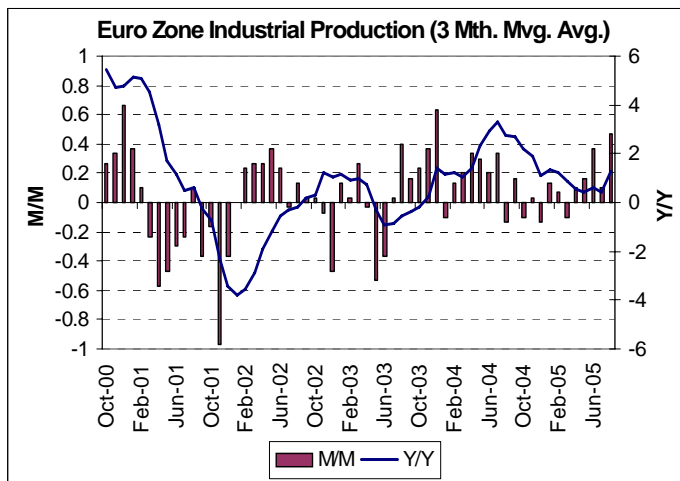
France's October Business Confidence increased from 100 in September to an eighth month high of 102. The Production Outlook Indicator increased from -13 to -2.



Euro Zone Ind. Production, Italian Con. & Bus. Confidence

Euro Zone Industrial Production

The Euro Zone's August Industrial Production increased 0.8% M/M and 2.6% Y/Y. Industrial New Orders fell 0.1% M/M while increasing 7.5% Y/Y.



Italian Consumer Confidence

Italian Consumer Confidence increased from 102.9 in September to 105.3 in October. It was the highest reading since October, 2004.



Italian Business Confidence

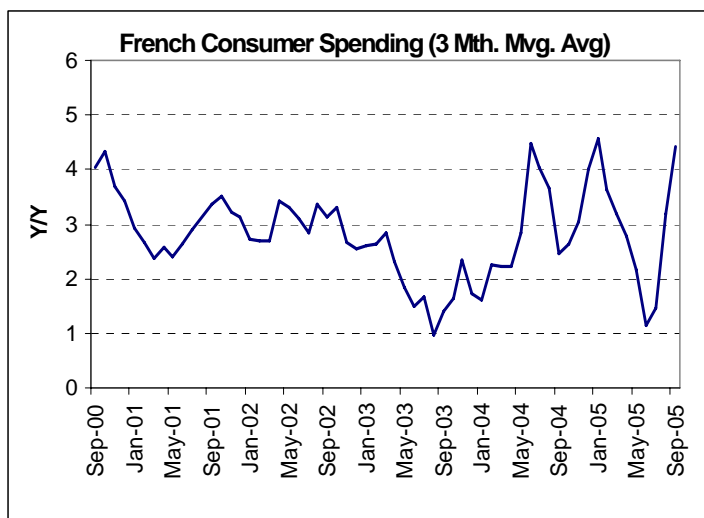
Italy's October Business Confidence increased from 89.3 in September to 89.5 despite a decrease in actual orders. The increase was led by a pickup in "selling prices outlook" and the "production outlook."



French Spending, Spanish & Italian Orders

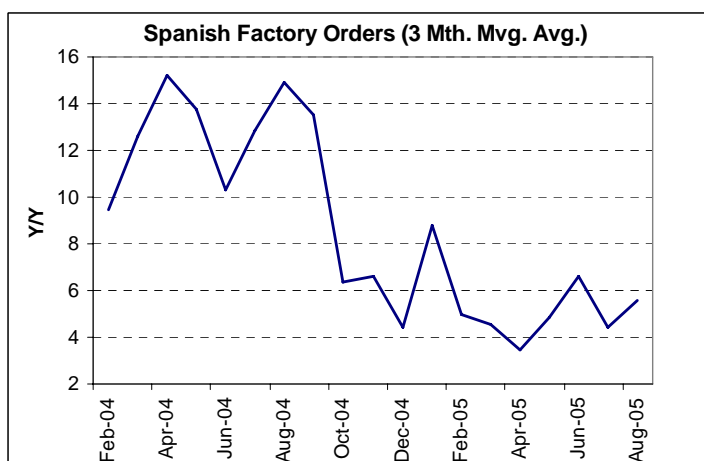
French Consumer Spending

French Consumer Spending fell for the first time in 4 months in September (on a M/M basis), declining 0.6% M/M while increasing 4.2% Y/Y.



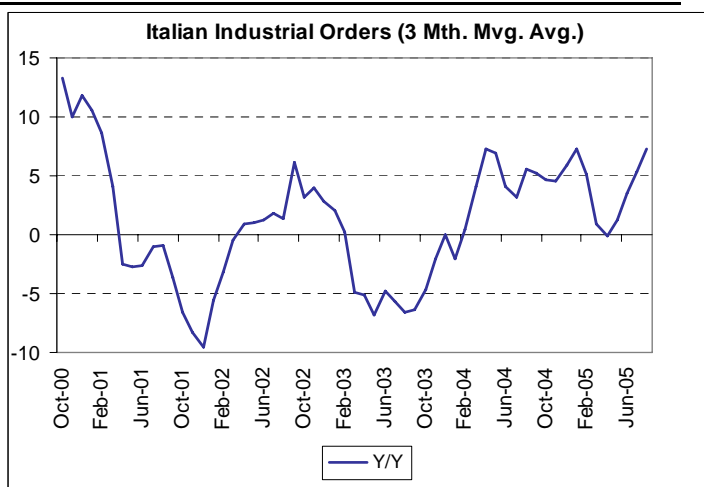
Spanish Factory Orders

Spain's August Factory Orders increased 9.3% Y/Y, led by a sharp rebound in consumer goods.



Italian Industrial Orders

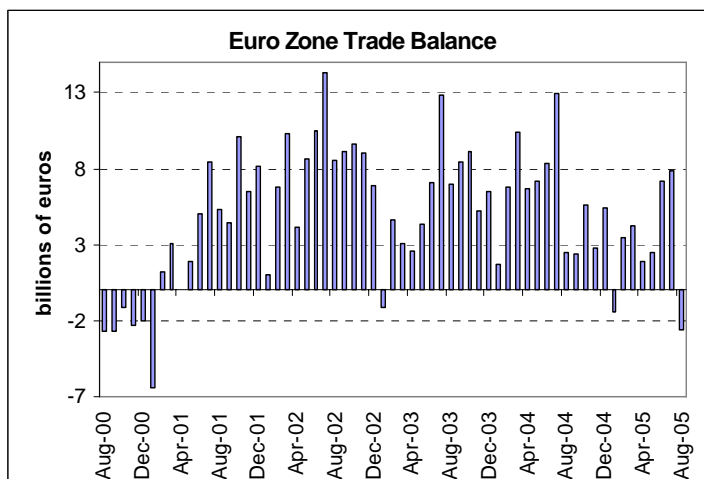
Italy's August Industrial Orders increased 1% M/M and 12.9% Y/Y. Industrial Sales also increased, rising 6.6% M/M and 11.1% Y/Y, led by strong foreign purchases.



Euro Zone Trade Balance & Italian Retail Sales

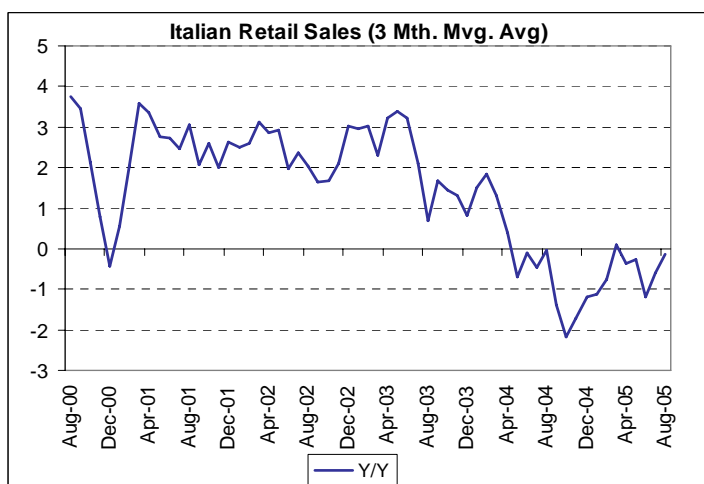
Euro Zone Trade Balance

The Euro Zone's August Trade Balance narrowed from a surplus of 7.9 bln euros in July to a deficit of 2.6 bln as exports contracted sharply. Exports fell 6.2% M/M while Imports grew 4.0%.



Italian Retail Sales

Italy's August Retail Sales increased 0.6% M/M and 2.4% Y/Y, rebounding from two consecutive months of contraction.



News

Oct. 26th – The German SPD lawmakers responsible for preparing Germany's fiscal policy announced that they opposed VAT hikes that had been proposed by the CDU party, stating, "A VAT increase in the current economic environment wouldn't be helpful." A separate report by the HDE retailer's association stated that thousands of small and medium sized retailers would be forced out of business if the VAT was increased.

Oct. 26th – A report by Le Parisien stated that French Unemployment likely fell by about 20,000 in September, lowering the jobless rate from 9.9% in August to 9.8%.

Oct. 26th – The Bank of France announced that the French economy accelerated in Q3, expanding 0.4% Q/Q. For the year, they stated that growth was around 1.4% and stated that "growth in France should remain modest in 2005".

Oct. 26th – Italian President Carlo Ciampi stated that the Italian economy was stagnating and urged businesses to cut prices to help boost consumer spending. Ciampi also noted, "Our most urgent problem is tied to lack of competitiveness. Certainly we need more contained prices."

Oct. 25th – The EU lowered their 2006 growth forecast from 2.1% to 1.9%, citing high oil prices and unemployment as the reasons for the slower growth.

Oct. 25th – ECB member Axel Weber continued the recent ECB hawkish rhetoric, stating, "There should be no doubt that we will act with determination and anticipation if that is necessary to meet our mandate. The upward risks to price stability have risen markedly."

Oct. 21st – The German Government lowered its 2006 growth forecast from 1.6% to 1.2%, stating that "consumer spending, which makes up 60% of the economy and is our Achilles' heel, will likely remain weak this year and next. Germany's six leading economic institutes also pared their forecasts, lowering 2006 growth estimates from 1.5% to 1.2%. They too cited an expected drop in consumer spending as the reason for the downgrade. In addition, they stated that the two year decline in unit labor costs may stall in 2006 as they expect hourly wages to increase by 1.5% in 2006. The German IWH institute did state, however, that Germany may experience an economic pickup from 2007 onwards.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
10/27	German GFK Confidence (OCT)	--	--
10/28	French Consumer Confidence (OCT)	-28	-29
10/28	French Unemployment Change (SEP)	-8k	-6k
10/28	Euro Zone M3 (SEP)	8.2% Y/Y	8.1% Y/Y
10/28	Euro Zone Business Climate (OCT)	0.13	0.07
10/28	Euro Zone Consumer Confidence (OCT)	-15	-15
10/28	Euro Zone CPI Estimate (OCT)	2.4% Y/Y	2.6% Y/Y

Valance Co., Inc.

Valance Economic Report: Japan

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October 26, 2005

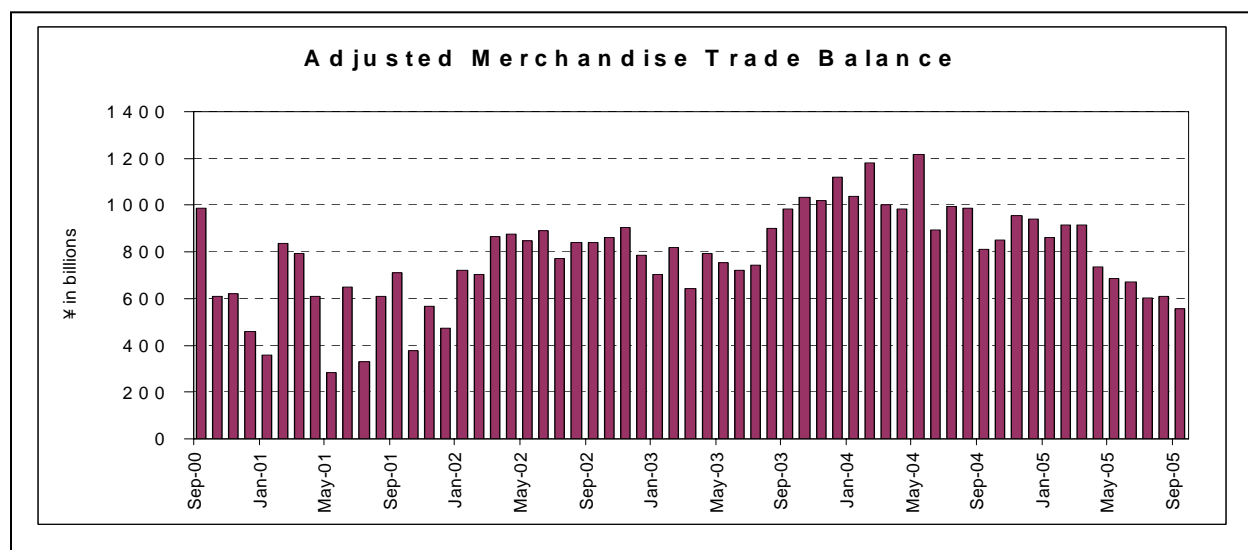
Demand indicators for September appear solid: The Merchandise Trade Balance narrowed in September on improved imports; The Tertiary and All Industry indices also improved. With corrections in IT and manufacturers inventories out of the way, Japan is poised to continue to post solid growth numbers in Q4.

Weekly Highlights

Merchandise Trade Balance— narrowed from ¥610.6 to ¥556.5 yen in September. (page 16)

Tertiary Industry Index – increased 1.7% M/M and 3.3% Y/Y in August. (page 18)

Corp. Service Prices – increased 0.3% M/M and 0.6% Y/Y in August. (page 18)

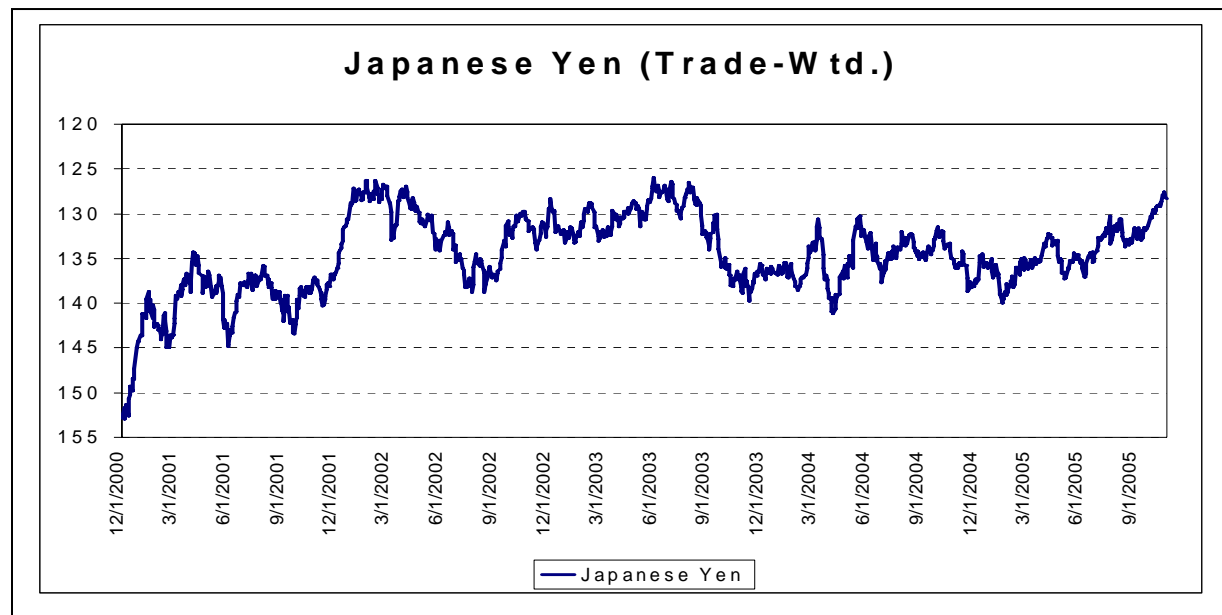
Weekly Releases & News**Chart of the Week: Trade Balance**

Japan's Merchandise Trade Balance narrowed in September, declining from ¥610.6 bln to ¥556.5 bln. Imports increased 0.8% M/M and 17.4% Y/Y. Exports declined 0.3% M/M and increased 8.8% Y/Y. The Y/Y increase in exports surpassed economists' expectations and brought shipments to a record high. The increase in imports also brought import volumes to a record high during H1 FY05 as imports increased 15.5% from the same period in FY04. The increase in imports was due in part to increasing crude oil prices. Looking forward, this data suggests that manufacturing, combined with consumer demand, will continue to drive growth

Japan's Financial Balances

Financial Balances

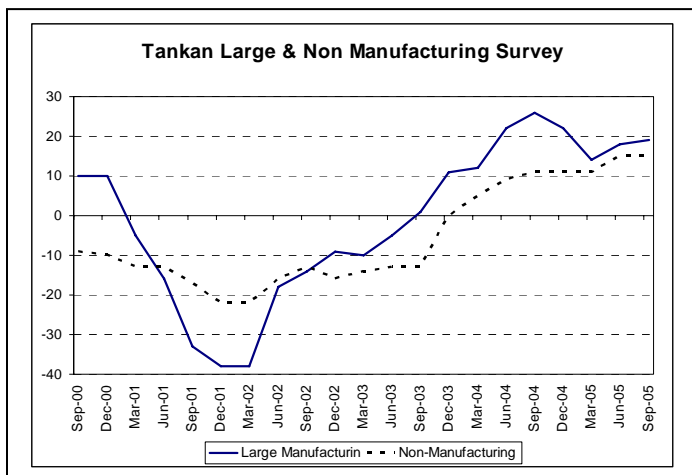
<i>Japan</i>	<i>Last period (¥trln)</i>	<i>Last 12mth. as a % of GDP</i>
Budget Balance	-3.03 (May)	-6.9%
Trade Balance	0.69 (June)	2.2%
Current Account Balance	1.50 (June)	5.2%
Private Balance	--	12.1%



Tertiary & All Industry Activity, Corp. Service Prices & Supermarket Sales

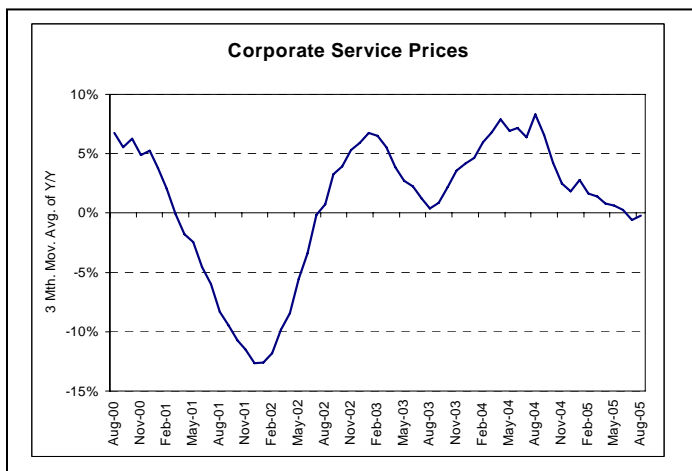
Tertiary & All Industry Activity Index

The Tertiary Industry Index increased 1.7% M/M and 3.3% Y/Y in August. The All Industry Index increased 1.1% M/M and 2.5% Y/Y in August. The increases were nearly double street M/M forecasts. Improvement in Tertiary Activities was led by the wholesale and retail trade sectors and IT consultants, although finance and insurance industries also fared well.



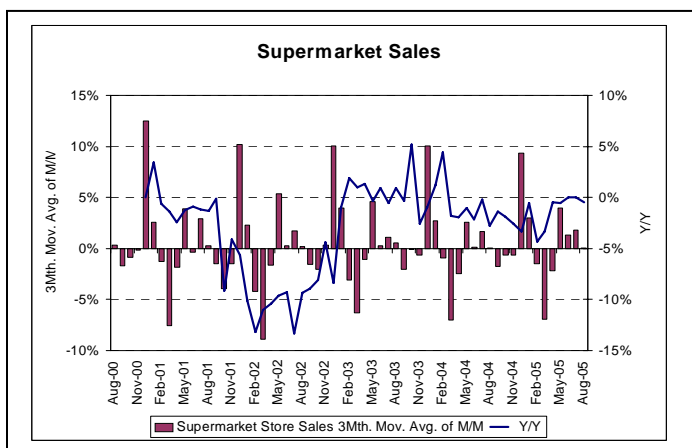
Corp. Service Prices

Corporate Service Prices increased 0.3% M/M and declined 0.6% Y/Y in September. Improvements were led by the advertising sector, while transportation and real estate declined slightly.



Supermarket Sales

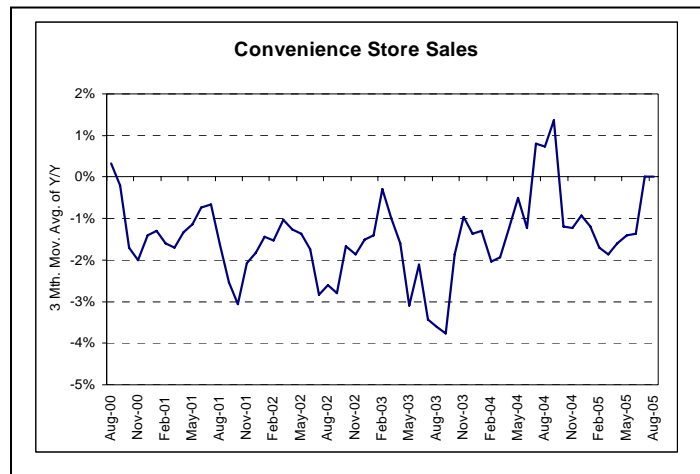
Supermarket Sales declined 5.2% M/M and 1.9% Y/Y in September.



Convenience Store Sales, Dept. Store Sales

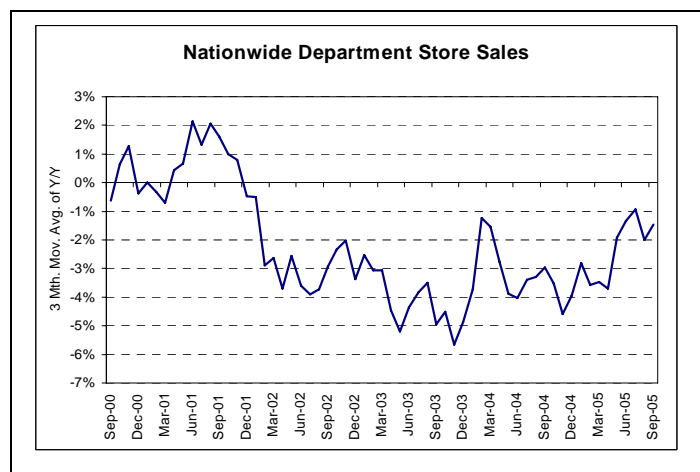
Convenience Store Sales

Convenience Store Sales improved 3.4% Y/Y in September.



Dept. Store Sales

Nationwide Department Store Sales increased 0.8% Y/Y in September.



News

BoJ's Comments

Oct 20th – BoJ's Governor Fukui commented that, "The BoJ aims to support the realization of sustained economic growth through price stability, by continuing the quantitative easing policy until on-year changes in the core nationwide consumer price index stabilize at zero percent or above." He also reiterated his view that Core CPI would likely flatten or turn slightly positive toward the end of the year, and noted that he would monitor the effects of oil prices on the economy.

Oct 20th – According to the BoJ's Osaka branch, "A wide variety of sectors expect capital expenditure to increase further, although they are concerned about higher oil prices."

Oct 25th – BoJ's Governor Fukui commented that, "Japan's long-term interest rates are at an extremely low level." The comment, which reflects the BoJ's ongoing concern over lower rates, may be aimed at preventing a severe reaction later on, as BoJ policy changes. This comment is in line with previous comments made. On one occasion, he stated that, "In the long run, outright purchases of government bonds will be reduced."

Government's Comments

Oct 24th – A LDP panel called for converting the consumption tax into a welfare tax in the future. The plan would boost the tax rate to more than 10% from the current 5%, and use the money to finance social welfare costs, which center on public pension, as well as, medical and nursing insurance programs.

Oct 25th – The MoF commented that, "the economy is continuing to recover mildly," in its July-September report on the country's 11 regional economies. The report also commented that, "the regional economies are expected to remain on a firm footing, although some caution is needed about the impact from higher oil prices." "Overall the economic situation remains unchanged. Yet, there are some good trends emerging," the MoF commented to reporters. Positive trends include expansions in production and consumption in some regions.

Oct 25th – The government's Tax Commission agreed to end income tax cuts introduced in 1999 in FY07. The cuts allowed individuals to reduce payments of national and local income taxes by as much as ¥290k every year. The idea, if realized, will effectively hike national and local income taxes by a combined ¥3.3 trln.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
10/26	Large Retailers' Sales (Sep)	-1.8%	-3.0%
10/26	Retail Trade (Sep M/M)	0.2%	1.5%
10/26	Retail Trade (Sep Y/Y)	1.5%	1.6%
10/27	Small Business Confidence (Oct)	N/A	50.4
10/27	Jobless Rate (Sep)	4.3%	4.3%
10/27	Job-Applicant Ratio	0.97	0.97
10/27	Workers Household Spending (Sep M/M)	0.8%	3.2%
10/27	Workers Household Spending (Sep Y/Y)	0.1%	-1.3%
10/27	Tokyo CPI (Oct M/M)	0.1%	0.0%
10/27	Tokyo CPI X Fresh Food (Oct M/M)	0.1%	-0.1%
10/27	Tokyo CPI (Oct Y/Y)	-0.8%	-0.6%
10/27	Tokyo CPI X Fresh Food (Oct Y/Y)	-0.2%	-0.4%
10/27	CPI (Sep M/M)	0.1%	-0.1%
10/27	CPI (Sep Y/Y)	-0.4%	-0.3%
10/27	CPI X Fresh Food (Sep M/M)	0.0%	0.1%
10/27	CPI X Fresh Food (Sep Y/Y)	-0.2%	-0.1%
10/27	Industrial Production (Sep M/M)	2.0%	1.1%
10/27	Industrial Production (Sep Y/Y)	3.0%	1.5%
10/30	BoJ's Monetary Policy Meeting	N/A	N/A
10/30	Nomura/JMMA October Manufacturing PMI	N/A	N/A
10/30	Labor Cash Earnings (Sep Y/Y)	N/A	-1.3%
10/30	Overtime Earnings (Sep Y/Y)	N/A	1.6%
10/31	Housing Starts (Sep Y/Y)	N/A	7.0%
10/31	Annualized Housing Starts (Sep)	1.254M	1.271M
10/31	Construction Orders (Sep Y/Y)	N/A	-0.4%
10/31	Official Reserve Assets (Oct)	N/A	¥843.6 bln

Valance Co., Inc.

Valance Economic Report: *United Kingdom*

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October 26, 2005

The UK economy continues to remain sluggish: Q3 GDP growth remained below trend and though Retail Sales increased, it was due in large part to heavy discounts by retailers.

Weekly Highlights

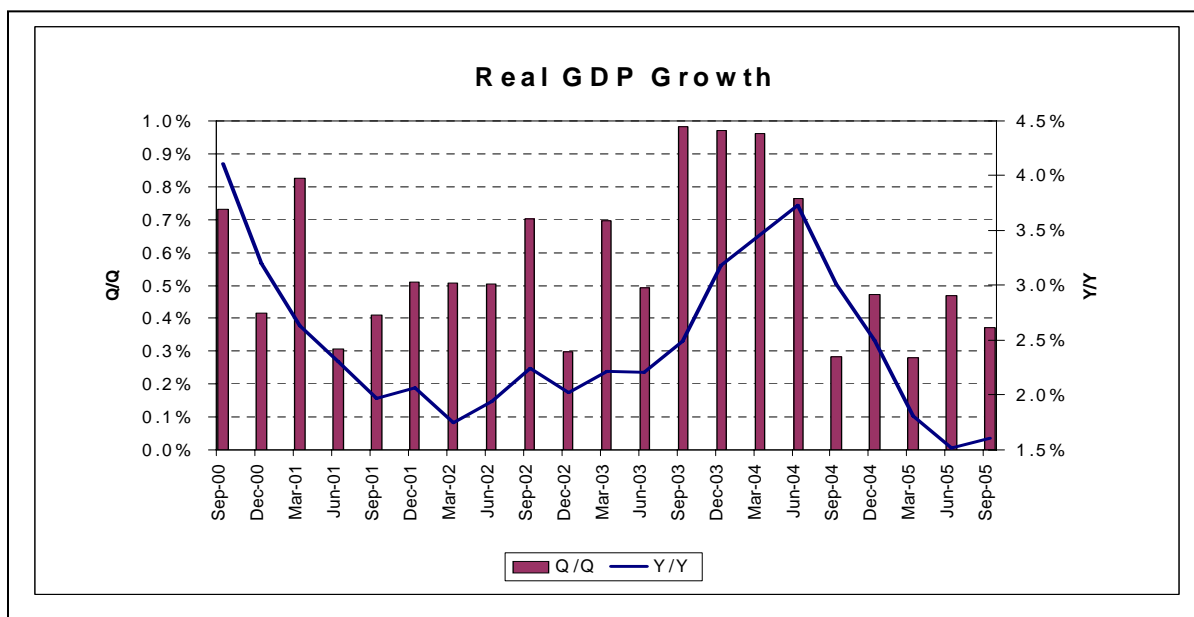
GDP- increased 0.4% Q/Q and 1.6% Y/Y in Q3, the fifth straight quarter of below-trend growth. (page 22)

Retail Sales- increased 0.7% M/M and 0.7% Y/Y in September. (page 24)

MPC Members- commented on the current state of economy (page 25)

Weekly Releases & News

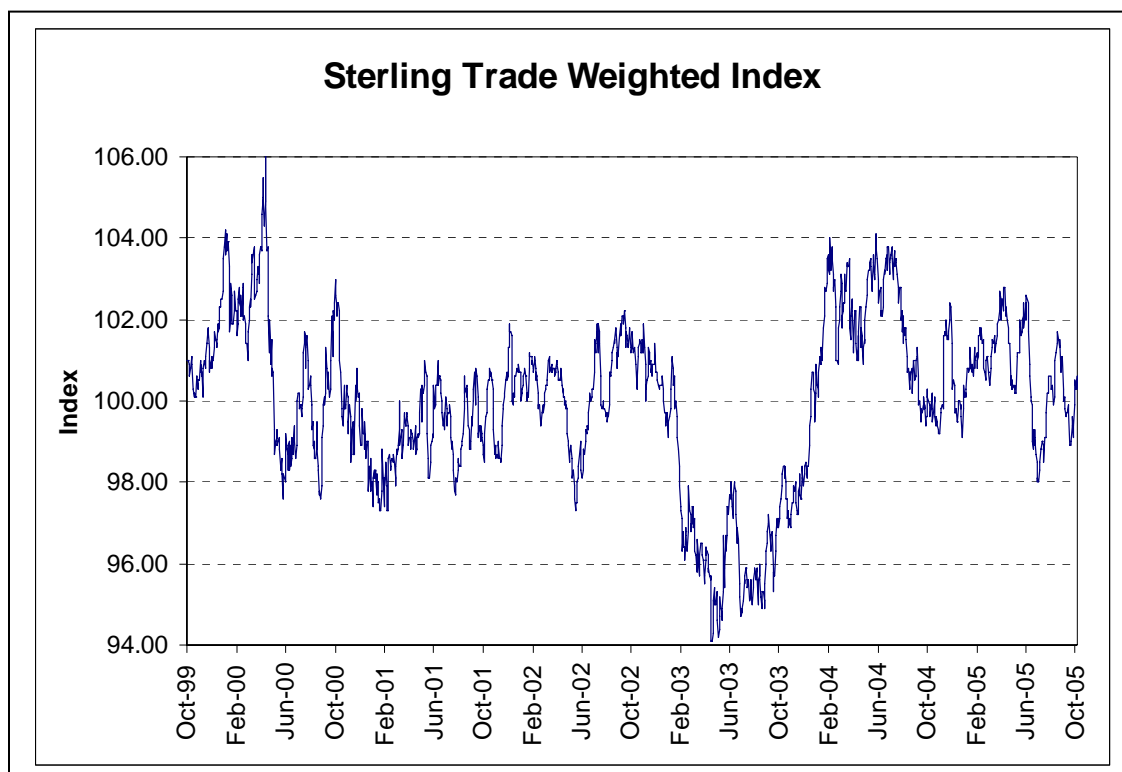
Chart of the Week: *Real GDP Growth*



GDP increased 0.4% Q/Q and 1.6% Y/Y in its first release for Q3, the fifth consecutive quarter of below-trend growth. Services growth increased 0.6% Q/Q and 2.2% Y/Y. Construction growth increased 0.5% Q/Q and 2.0% Y/Y. Total Production growth decreased 0.6% Q/Q and 1.3% Y/Y. This continued below-trend growth puts pressure on Gordon Brown to either cut spending or raise taxes to meet his “Golden Rule” of running a balanced budget. In addition, it also puts some embarrassing pressure on him to revise down his growth forecast for a second time this year. More details on the components of GDP will be known in the second revision on November 25th

Financial Balances & Trade Weighted Index

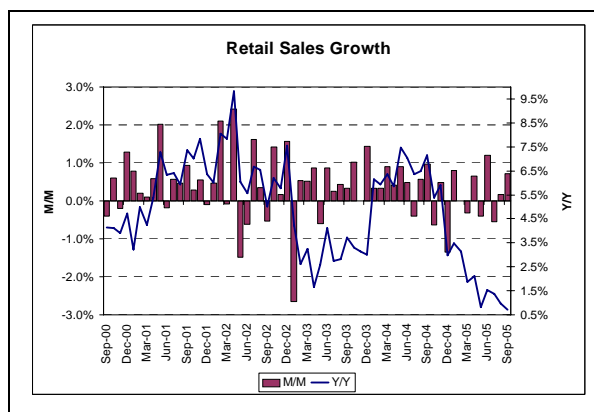
<i>U.K.</i>	<i>Last Period (blns)</i>	<i>Last 12mth. % of GDP</i>
Budget Balance (monthly)	-£5.9 (June)	+1.6%
Trade Balance (monthly)	-£3.4 (May)	-1.2%
Curr. Acct. Balance (quarterly)	-£3.1 (March)	-1.0%
Private Balance	--	-2.6%



Retail Sales Growth & Budget Surplus

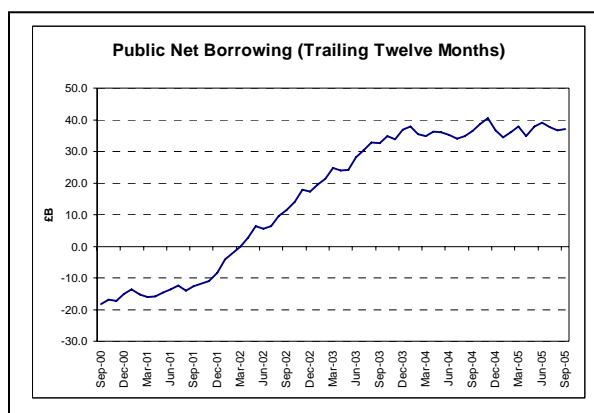
Retail Sales Growth

Retail Sales increased 0.7% M/M and 0.7% Y/Y in September, the slowest annual growth since January 1996. Food store sales increased 2.2% Y/Y while non-food store sales decreased 0.2% Y/Y. Retailers have been using heavy discounts to entice shoppers.



Budget Surplus

The Budget Surplus increased from £4.6 bln in September 2004 to £5.2 bln in September 2005.



Data & Comments

Data

Hometrack

Hometrack House Price Survey decreased 0.1% M/M and 3.7% Y/Y in September, the fifteenth consecutive month of monthly decline. Hometrack reported that the length of time a house remains on the market has increased from 5.8 weeks in September 2004 to 8.1 weeks in September 2005.

CML Mortgage Lending

The Council of Mortgage Lenders (CML) reported that mortgage lending increased 4.3% M/M and 11.0% Y/Y in September. The CML is attributing some of this strong growth to consumers taking advantage of the recent cut in rates to re-mortgage their property.

CBI Industrial Trends

The Confederation of British Industry (CBI) reported that total orders increased from -27 to -25 in October. Export orders decreased -25 to -28 as exports to the Euro area slowed. Expectations over the next three months for volume of output, decreased from +6 to +2 and expectations for average prices increased from -8 to -1.

Comments

Lambert's Comments

MPC voter Richard Lambert commented that the slowdown in consumer spending is “taking the heat” out of inflation. Lambert further stated that the monthly figures for inflation were unreliable and that businesses should not get “carried away” by raising wages which might fuel inflation. He concluded by saying the MPC is “determined to prevent oil prices from fanning inflation.”

MPC Members' Comments at the House of Lords

Mervyn King commented in testimony before a House of Lords' committee about the current economy. He stated that underlying price pressures due to the soaring cost of oil, which accounts for about half the recent pick-up in inflation, had “eased”, while pay growth remained tame. He emphasized that the Bank “would be concerned if earnings growth picked up” but that “we have so far seen earnings growth remain relatively stable.” He also underlined his view that the economy could be on a “bumpier road” and said this could mean “the nation would have to get used to slower growth in consumer spending.” In regards to consumer spending, he stated the slowdown is due “largely to the squeeze on real disposable incomes, partly in the wake of higher oil prices, and partly due to higher costs of non-discretionary items, council taxes and insurance.”

Charles Bean commented that inflation in regards to producer prices is “negligible” if energy is stripped out. However, service price inflation “has risen substantially more” and since margins can't be squeezed “indefinitely”, “we might see consumer-price inflation picking up further down the road.” Very long horizon inflation out-turns have “probably been a bit closer to the central projection than we actually expected. We've overestimated a little bit the degree of uncertainty connected with the inflation forecasts.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
10/27	BBA Mortgage Lending Data	--	--
10/31	Net Consumer Credit	--	£1.3 bln
10/31	Mortgage Approvals	--	107k
10/31	GfK Consumer Credit	--	-5
11/01	PMI Manufacturing	--	--
11/03	PMI Services	--	--

Valance Co., Inc.

Valance Economic Report: Canada

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October 26, 2005

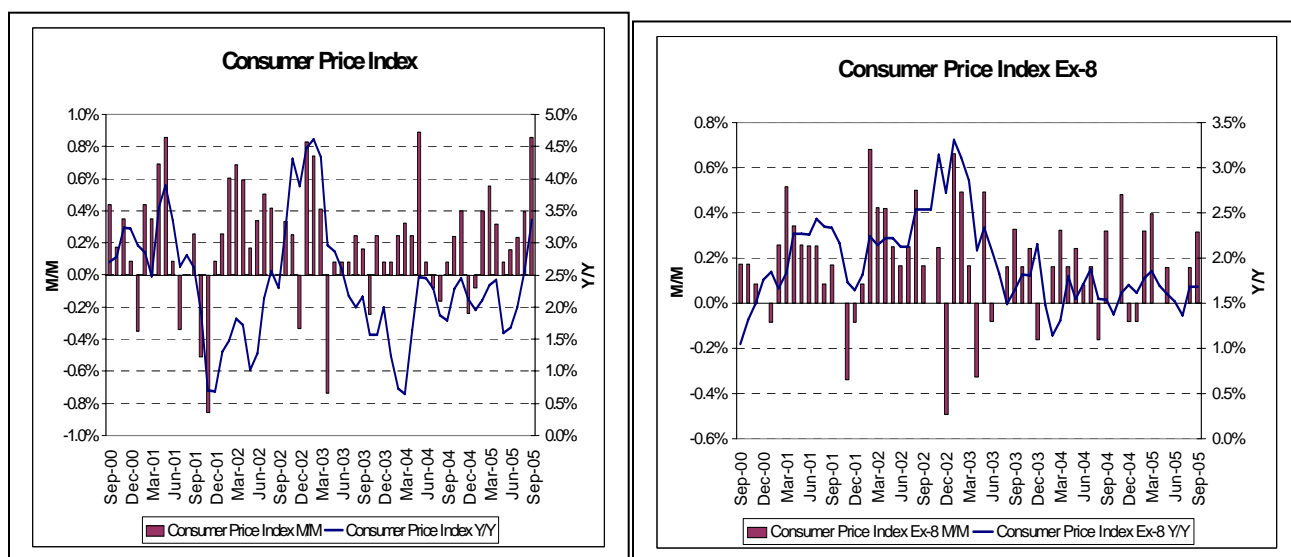
September's strong CPI advance has reinforced expectations that the Bank of Canada will continue with its rate-hike cycle.

Weekly Highlights

CPI - increased 0.9% M/M and 3.4% Y/Y in September. (page 27)

Retail Sales – decreased 0.3% M/M and increased 7.3% Y/Y in August. (page 29)

Weekly Releases & News Charts of the Week: CPI



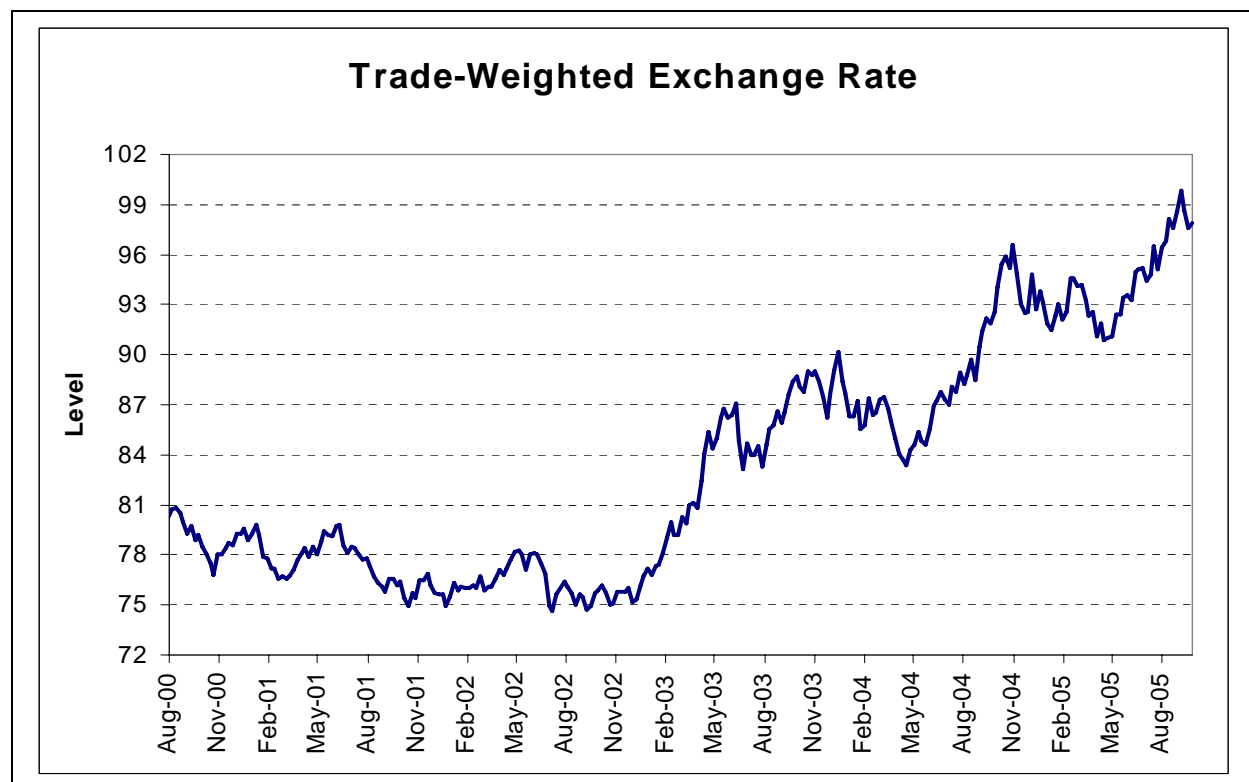
Headline CPI increased 0.9% M/M and 3.4% Y/Y in September, above expectations. The monthly increase was mostly due to higher prices for gasoline and men's and women's clothing. Core CPI increased 0.3% M/M and 1.7% Y/Y in September. The 7.5% M/M increase in women's clothing primarily contributed to the Core CPI reading. This strong increase in CPI has reinforced expectations that the BoC will continue to increase rates.

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

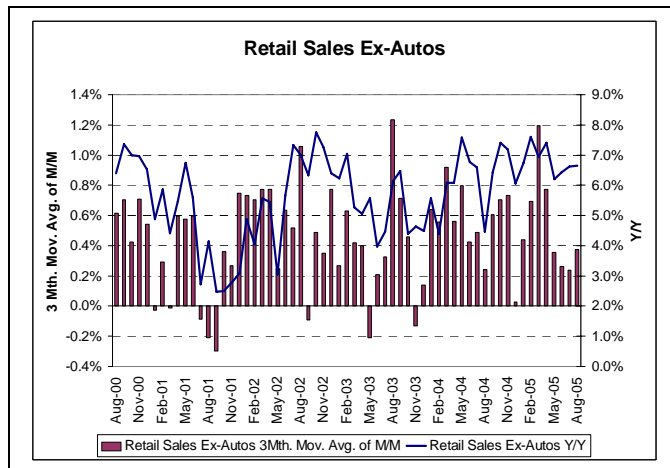
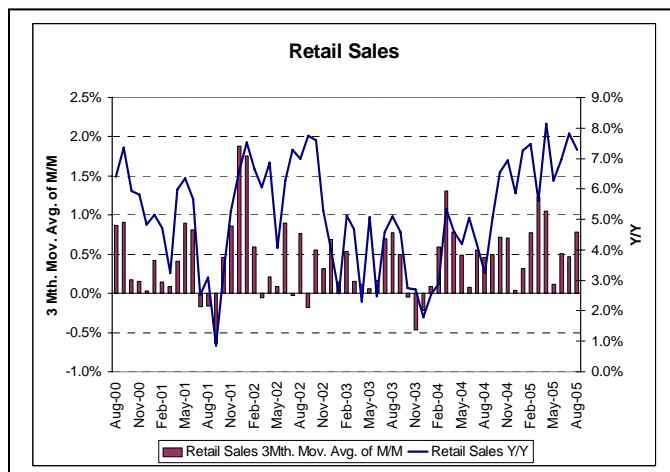


Retail Sales & News

Retail Sales

Retail Sales decreased 0.3% M/M and increased 7.3% Y/Y in August. Five of the eight retail sectors posted lower sales in August: the miscellaneous (-2.8%), clothing (-2.0%), general merchandise (-0.5%), food and beverage (-0.5%) and automotive (-0.4%) sectors.

Retail Sales, Ex-Autos, increased 0.2% M/M and 6.6% Y/Y in August.



News & Upcoming Dates

Comment from, BoC Governor, David Dodge

Oct. 25th – In response to a question about the Bank's Monetary Policy Report, Bank of Canada Governor David Dodge commented that the Bank will be very cautious with its interest rate moves. "We have been very cautious about removing that degree of monetary stimulus while we are going through this adjustment period, and we are still very cautious," he stated.

August's Employment Insurance Report

Oct 25th - The number of Canadians receiving regular Employment Insurance benefits increased 7.7% M/M in August. The number of people making initial and renewal claims was 247,050.

Canada's Martin Plans Income Tax Cuts Before Election

Oct 20th - Paul Martin, Canada's Prime Minister, plans to introduce "broad-based" personal income tax cuts before the next federal elections. Details of the tax cuts are expected to be announced in a few weeks. With Canada's budget surplus forecasted to be as much as C\$12.4 bln (\$10.5 bln) this year, tripling the government's prediction, Prime Minister Martin will have a good opportunity to cut taxes and boost spending ahead of elections.

Notes from the BoC's Monetary Report

Oct 20th – In its Monetary Policy Report the Bank outlined that, "The global and Canadian economies have continued to grow at a solid pace, and our economy now appears to be operating at full production capacity." However, due to some adjustments to global challenges and the slow growth of productivity in recent years, the Bank now predicts that the economy will grow 2.8% this year, 2.9% in 2006 and 3.0% in 2007, in line with production potential. Meanwhile, the bank noted that, "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."

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
10/27	Business Conditions Orders (OCT)	-2.5	-10.0
10/28	Industrial Product Price (M/M) (SEP)	0.5%	0.3%
10/28	Raw Materials Price Index (M/M) (SEP)	4.0%	4.4%
10/31	Gross Domestic Product (M/M) ((AUG)	0.4%	0.2%

Valance Co., Inc.

Valance Economic Report: Australia

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October 26, 2005

Australia's annual inflation rate has reached the top of the Reserve Bank's target band of 2%-3% for the first time in two and a half years, fuelled by rising energy, transport and housing costs - but data also showed core inflation safely contained within the RBA's target range.

Weekly Highlights

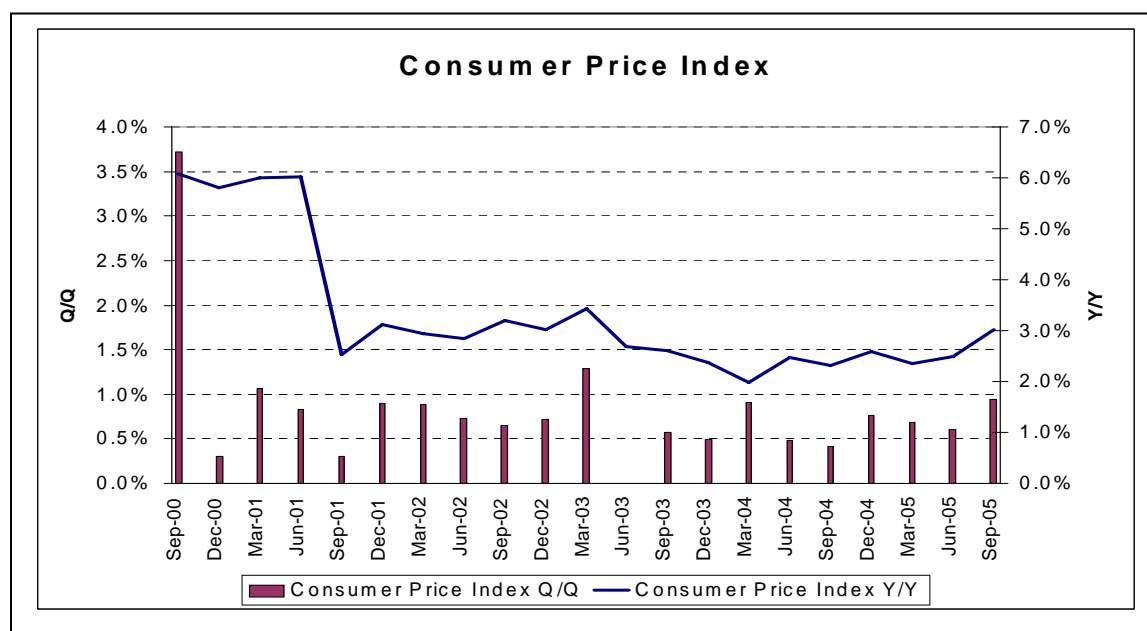
CPI – rose 0.9% M/M in Q3 and 3.0% Y/Y. (Page 31)

PPI - rose 1.5% Q/Q and 3.4% Y/Y in Q3. (Page 32)

New Vehicle Sales - increased 2.0% M/M and 5.5% Y/Y in September. (Page 32)

Weekly Releases & News

Chart of the Week: *CPI*

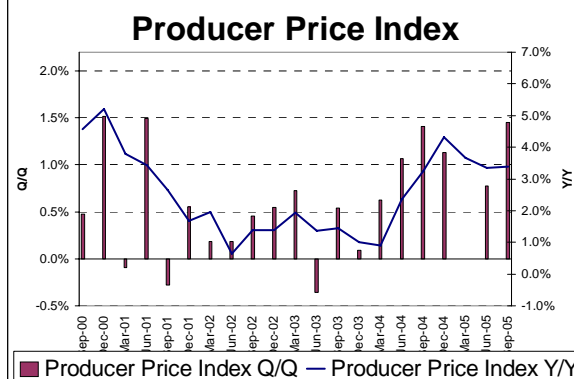


The Consumer Price Index rose 0.9% in Q3 after rising 0.6% in Q2. Prices rose 3.0% Y/Y. Core inflation rose 0.6% in the Q3 and 2.0% Y/Y in Q3. Expectations were for a 3.1% annual CPI increase.

PPI, New Vehicle Sales, Westpac Leading Index & Skilled Vacancies

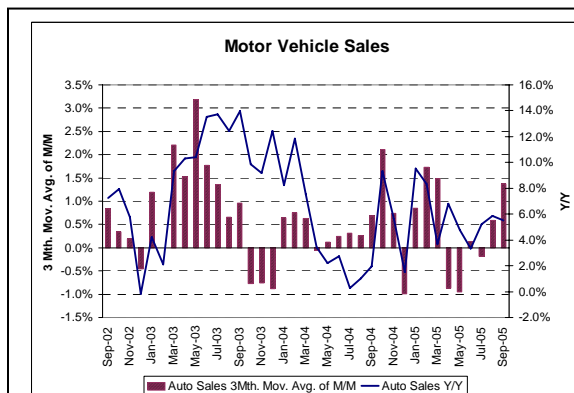
Producer Price Index

The PPI rose 1.5% Q/Q and 3.4% Y/Y in Q3. It was the largest increase in almost four years, stoked by surging oil and raw material costs. Import and Export Prices rose 2.6% and 4.7% respectively in Q3 as international fuel prices helped significantly bump up import prices.



New Vehicle Sales

Sales of New Vehicles increased 2.0% M/M and 5.5% Y/Y in September.



Westpac Leading Index

The Westpac Leading Index, a gauge of growth for the next six to nine months, rose 0.1% in August from July. The Y/Y growth rate of the index was 3.4%, less than its long-term trend of 3.7%.

Skilled Vacancies Index

An index measuring the number of jobs available for skilled workers in Australia fell 0.2% M/M in October from September. Total skilled vacancies were 7.6% lower in September than a year earlier.

News & Upcoming Dates

Australian Prime Minister John Howard on threats to economy

Australian Prime Minister John Howard said that high fuel prices were the biggest threat to the economy and that higher oil prices had so far not been inflationary, although they could be.

“We've not suggested that it won't be inflationary, it is the biggest generic threat to the economy.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
11/01	RBA Cash Target Rate(NOV)	5.50%	5.50%
11/01	Building Approvals M/M; Y/Y(SEP)	---	-8%; -11.7%
11/02	Trade Balance (SEP)	---	-1640 mln
11/11	Retail Sales (SEP)	---	0.6%

Valance Co., Inc.

Valance Economic Report: New Zealand

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October 26, 2005

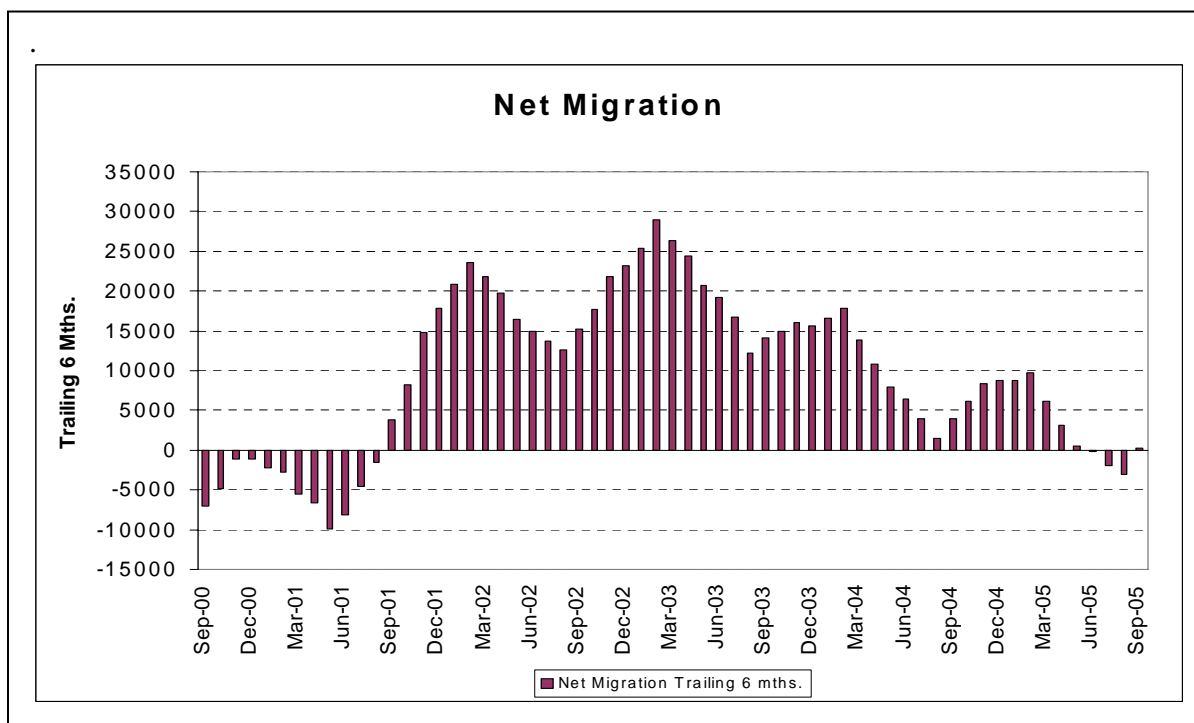
It's widely expected that the RBNZ will raise interest rates this week to curb robust growth that has fanned inflation to a five-year-high.

Weekly Highlights

Net Migration – NZ gained 64% fewer permanent migrants Y/Y in September (Page 34)

NBNZ Business Confidence – slumped 17.4% from -37.5 to -54.9 in October. (Page 35)

Q2 House Prices – rose 2.7% Q/Q and 15% Y/Y in Q2. (Page 35)

Weekly Releases & News**Chart of the Week: Net Migration**

New Zealand gained 64% fewer permanent migrants Y/Y in September, suggesting home buying and consumer spending may slow after having driven economic growth at the fastest pace in four years in 2004. Migrant arrivals exceeded departure by 460 M/M and 6,400 Y/Y.

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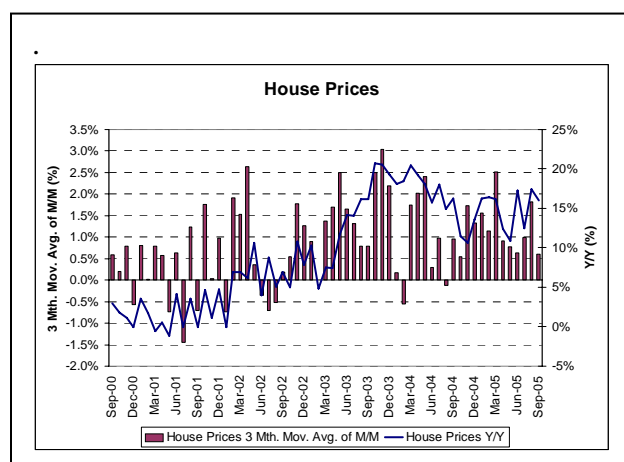
NBNZ Business Confidence, House Prices, News & Upcoming Dates

NBNZ Business Confidence

NZ's Business Confidence fell to a four-month low in October amid expectations that rising interest rates may crimp profits and may stall economic growth. The Net Index slumped 17.4% from -37.5 to -54.9 in October.

House Prices

NZ's house price inflation slowed in Q2. The National House Price Index rose 2.7% from Q1 when they increased 5.3% and rose 15% Y/Y.



News

NZ's Benchmark Stock Index had the largest weekly fall in almost 3 years:

The NZX 50 Index fell 1.5% on expectations that rising interest rates and slower economic growth would crimp company profits.

Key Dates this Week

Date	Indicator	Expectation	Previous
10/12	ANZ Job Vacancies (SEP)	---	3.1%
10/26	RBNZ Cash Rate (OCT)	7.00%	6.75%
10/27	Trade Balance (SEP)	---	-1104.8 mln
11/01	Building Permits M/M (SEP)	---	6.8%

Valance Co., Inc.

Weekly Economic Report: *China*

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October 26, 2005

The Chinese economy posted a solid performance in Q3: GDP growth was stronger than expected and inflation remains lower than expected

Weekly Highlights

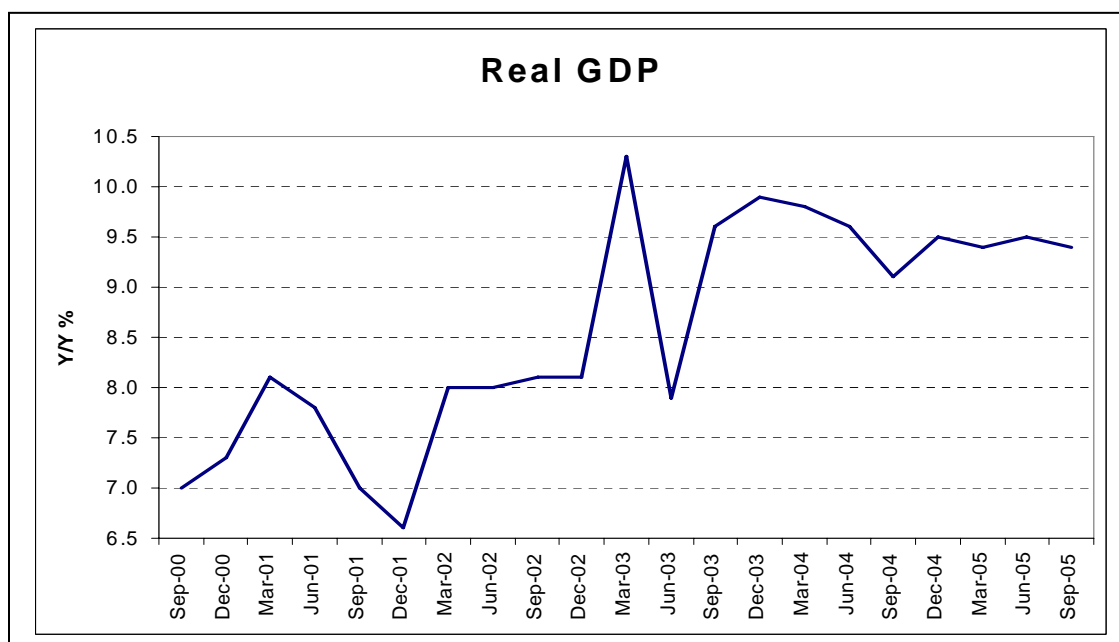
Real GDP - increased 9.4% Y/Y in Q3, above expectations of 9.2% Y/Y. (page 36)

Consumer Price growth - slowed from 1.3% Y/Y to 0.9% Y/Y in September. (page 37)

Retail Sales - increased from 12.5% Y/Y to 12.7% Y/Y in September. (page 38)

Weekly Releases & News

Chart of the Week: *Real GDP*

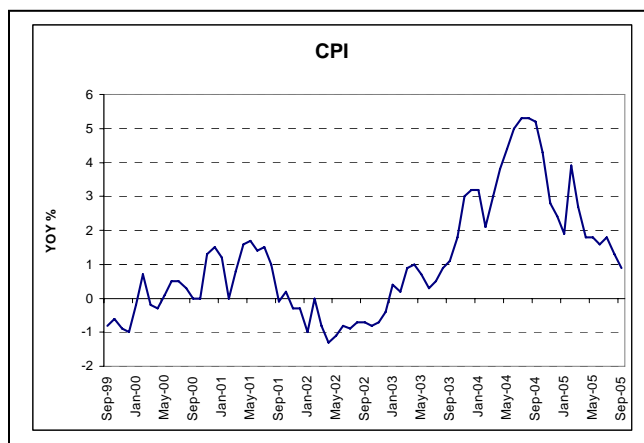


Real GDP increased 9.4% Y/Y in Q3, above expectations of 9.2% Y/Y, mostly as a result of increased investment spending. Investment totaled 54% of GDP in the first three quarters of 2005 compared to 48% in the first three quarters of 2004. Strong growth in investment spending occurred as a result of increases in coal mining (+76.8% Y/Y), oil and gas extraction (+31.3%), and railway transport (+41.1%).

CPI, PPI & Purchasing Price Index

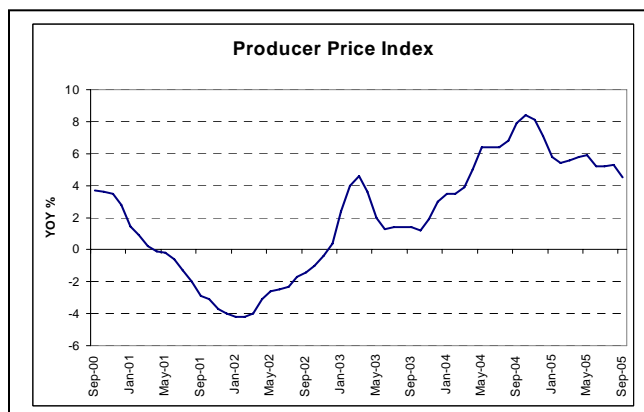
CPI

Consumer Price growth slowed from 1.3% Y/Y in August to 0.9% Y/Y in September, below expectations of 1.2% and well below the government's 4.0% target growth for 2005. The slowdown in CPI growth was due to a slowdown in food prices from 0.9% M/M to 0.4% M/M(sa). September's reading showed the slowest inflation rate since August of 2003. Core CPI edged up from 1.2% Y/Y to 1.6% Y/Y in September.



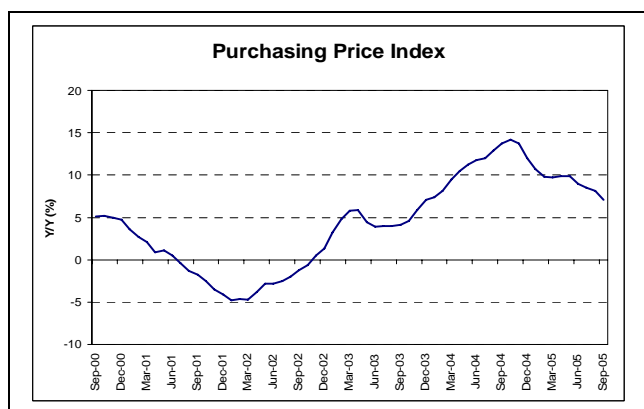
PPI

Producer Price growth slowed from 5.3% Y/Y in August to 4.5% Y/Y in September, below expectations of 5.3% Y/Y.



The Purchasing Price Index

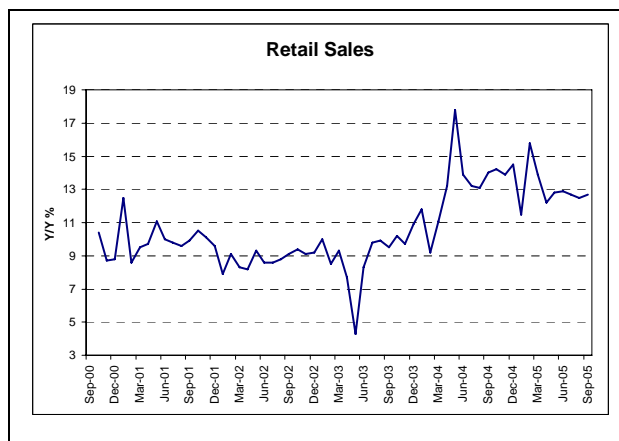
Purchasing Price Index decreased from 8.1% in August to 7.1% Y/Y in September.



Retail Sales, Value-Added Industry & Fixed Assets Investment

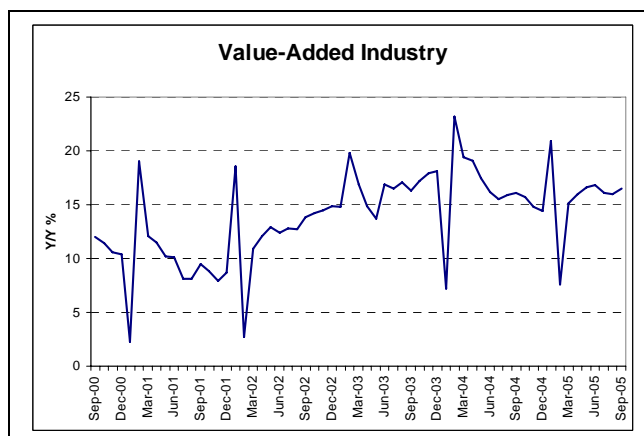
Retail Sales

Retail Sales remained firm, increasing from 12.5% Y/Y to 12.7% Y/Y in September.



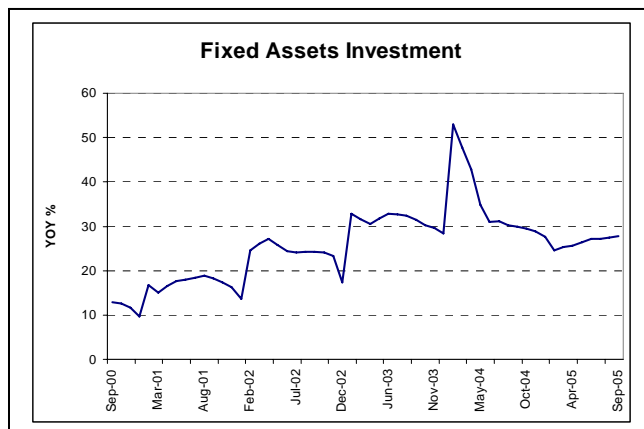
Value-Added Industry

Value Added Industry growth increased from 16% Y/Y in August to 16.5% Y/Y in September, above expectations.



Fixed Assets Investment

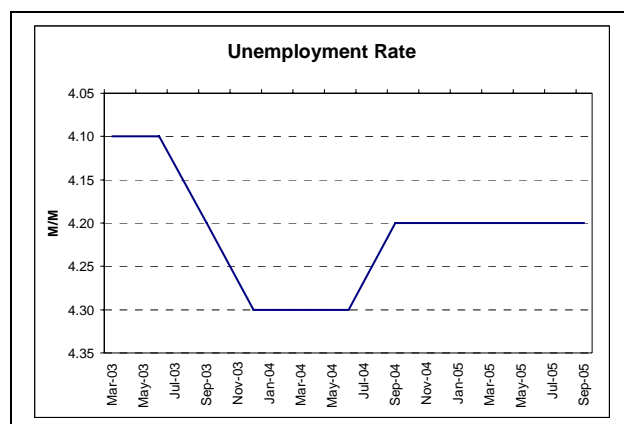
Fixed Assets Investments increased from 27.4% Y/Y to 27.7% Y/Y in September.



Unemployment Rate, Wholesale Prices & Real Estate Climate

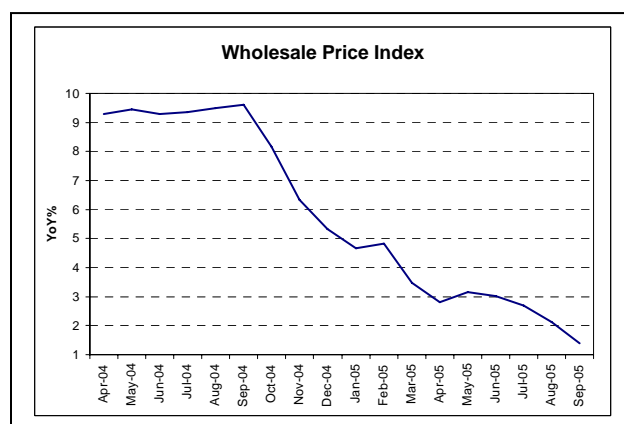
Unemployment Rate

China's Unemployment rate stood at 4.2% in Q3, remaining at the same level now for five consecutive quarters. The government has set a target to find new jobs for 9 mln people and to keep the unemployment rate below 4.6% in 2005. If this trend continues, the government should be able to fulfill its employment target for 2005.



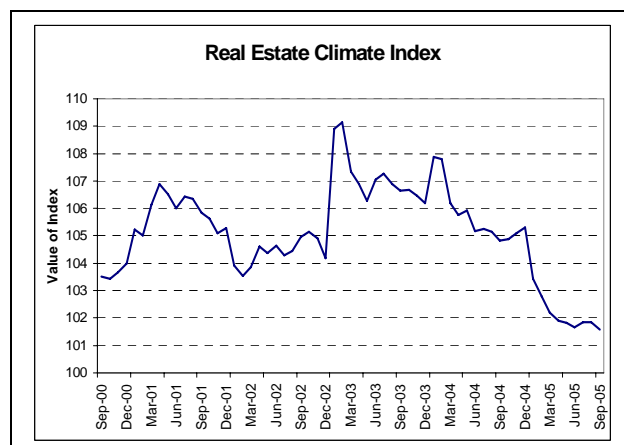
Wholesale Price Index

Wholesale Price growth fell sharply from 2.1% Y/Y in August to 1.4% Y/Y in September.



Real Estate Climate Index

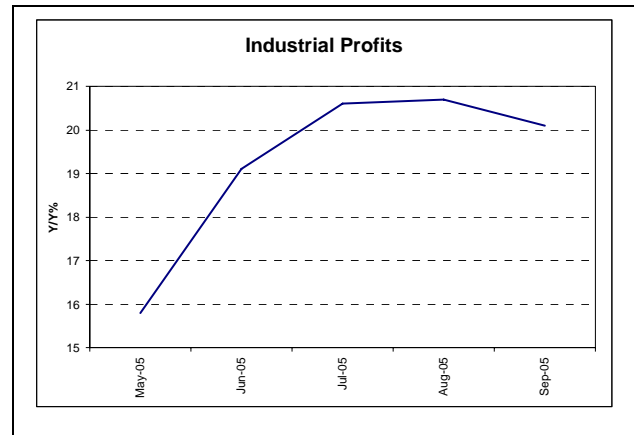
The Real Estate Climate Index decreased from 101.9 in August to 101.6 in September. Sales Prices (+1.1% M/M) and investment components (+0.03% M/M) were the only two of six components that posted increases. The Real Estate Climate Index is a composite index used to measure the well-being of the real estate industry in China; a reading above 100 indicates industry expansion, while a reading below 100 suggests contraction.



Industrial Profits & News Releases

Industrial Profits

Industrial Profits remained firm, increasing 20.1% Y/Y in September.



News Releases

October 25th – Clothing and Textile Exports Up with Little Impact - The International Labor Organization (ILO) stated that China's clothing and textile exports have improved by more than one-fifth, to 22.0% and 20.5%, respectively, in the first seven months of the year. China now accounts for 28% of world clothing exports and 15.8% its imports.

October 25th – Annual Growth Target of 7.5% Set for Next 5 Years – Commissioner of the National Development and Reform Commission, Ma Kai, stated that in an effort to improve industrial production and energy efficiency, China has set its annual economic growth target to 7.5% for the next 5 years. This will be a slowdown in growth from an average of 8.8% between 2001 and 2005.

October 25th – Growth in Industrial-Export Shipments and Retail Sales - The National Bureau of Statistics reported that industrial-export shipments and retail sales grew 28.6% Y/Y and 13.0% Y/Y, respectively, in the first nine months of the year.

October 25th – Yuan Trading Band Will Not Be Widened Anytime Soon – The PBoC Deputy Governor, Wu Xiaoling, stated that the yuan trading band against the dollar will not be widened soon. Wu added that the Bank will keep monetary policy “basically” stable.

October 24th – New Unemployment Calculation Method – Following international practices, China's government will calculate unemployment rates using a new method starting in H2 of 2006. The new method will be based on direct research and may double current unemployment levels.

October 24th – China Should Not Be “Afraid” to Let its Currency Appreciate - PBoC Advisory Member, Yu Yonding, remarked that China's economy would not suffer any disruptions should the yuan be allowed to strengthen gradually based on current economic conditions. Yu commented that “There is no need for China to be afraid of the appreciation.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
10/27-28	Coincident Index – Sep	--	100.7
10/27-28	Leading Index – Sep	--	102.9
10/27-28	Lagging Index – Sep	--	92.9
10/27-30	Government Revenue - Sep	--	205.7B
10/27-30	Government Expenditure - Sep	--	241.3B
10/31	PMI Manufacturing – Oct	--	55.1

Valance Co., Inc.

Valance Economic Report: Sweden

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October 26, 2005

This week's economic data was highlighted by the Riksbank's decision to leave its repo rate unchanged at 1.5%. Subsequently, the Bank revised its growth and inflation forecasts for 2005 through 2008. Separately, the National Debt Office has significantly revised-down its borrowing requirement forecasts for 2005-2006.

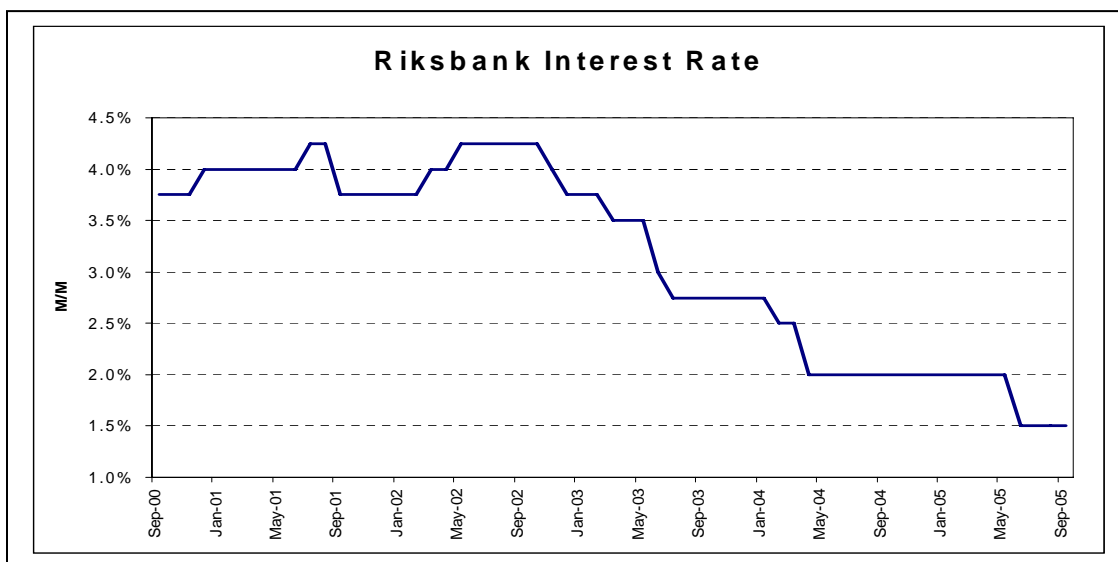
Weekly Highlights

Riksbank Interest Rate – was left unchanged at 1.5%. (page 42)

Trade Balance - widened from SEK 14.1 bln, a year earlier, to SEK 15.6 bln in September. (page 43)

Weekly Releases & News

Chart of the Week: *Riksbank Interest Rate*

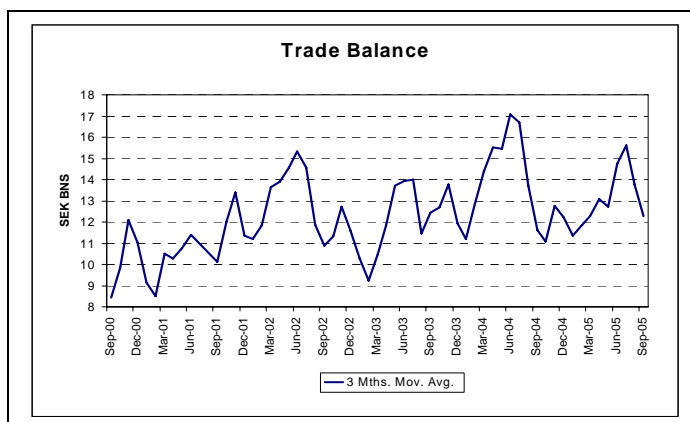


The Riksbank left its repurchase rate at 1.5%, as expected, for a second consecutive meeting. The Central Bank maintains its patience in raising its repo rate and expects that in two years, inflation will still be lower than its 2.0% target. Inflation has remained below the Bank's target since September 2003. The Central Bank also raised its 2005 growth forecast from 1.9% to 2.3% and to 3.0% in 2006. Underlying inflation is expected to be 1.8% in 2007 and 2.0% in 2008, the Bank added.

Trade Balance, Unemployment Rate & PPI

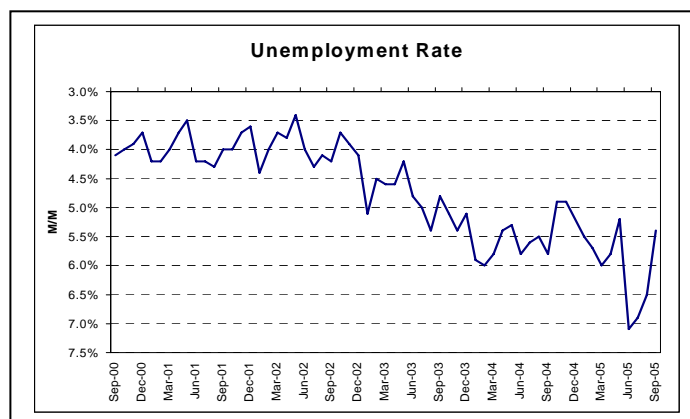
Trade Balance

The Trade Balance widened from SEK 14.1 bln, a year earlier, to SEK 15.6 bln in September, above economists' expectations of a SEK 15.0 bln surplus. Exports and imports rose 7.0% Y/Y and 6.0% Y/Y, respectively.



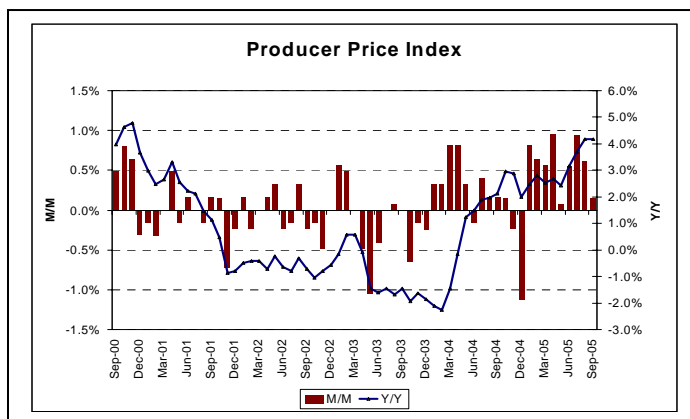
Unemployment Rate

The Unemployment Rate fell from 6.5% in August to 5.4% in September. The decrease was partly due to the government's training programs and accelerated growth in the economy. The number of persons unemployed dropped to 242K, down 62K from the month before, and the number of employed fell by 82K in the same period.



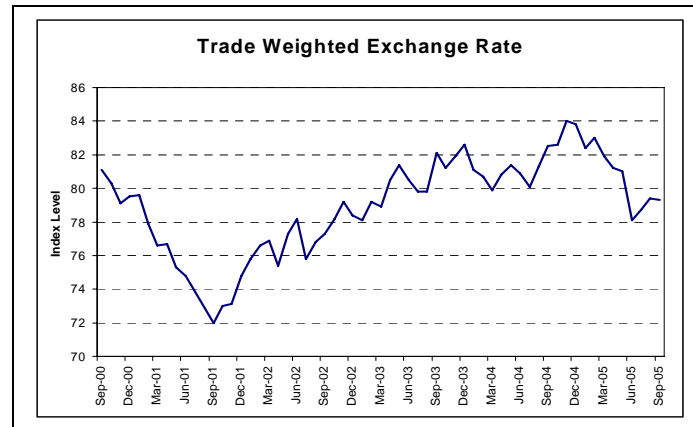
PPI

The Producer Price Index rose 0.2% M/M and 4.2% Y/Y in September, below expectations of a 0.4% M/M and 4.4% Y/Y gain. The growth was partially attributed to the increase in costs of petroleum products, iron and steel.



Trade Weighted Exchange Rate, News Releases & Upcoming Dates

Trade Weighted Exchange Rate



News Releases

October 26th – Debt Office Revises Forecasts of Debt Sales – The National Debt Office has revised-down its borrowing requirement forecasts for 2005-2006. The Office reported that Sweden's government will post a deficit of SEK 10 bln in 2005, down from an earlier forecast of SEK 31 bln. The 2006 deficit was also revised down from SEK 41 bln predicted in June to SEK 26 bln. "We are counting on higher tax revenue from corporations than earlier," the Office added.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
10/27	Manufacturing Confidence s.a. – Q3	--	-11.0
10/27	Retail Sales s.a. (M/M) - Sep	--	--

Valance Co., Inc.

Valance Economic Report: *Switzerland*

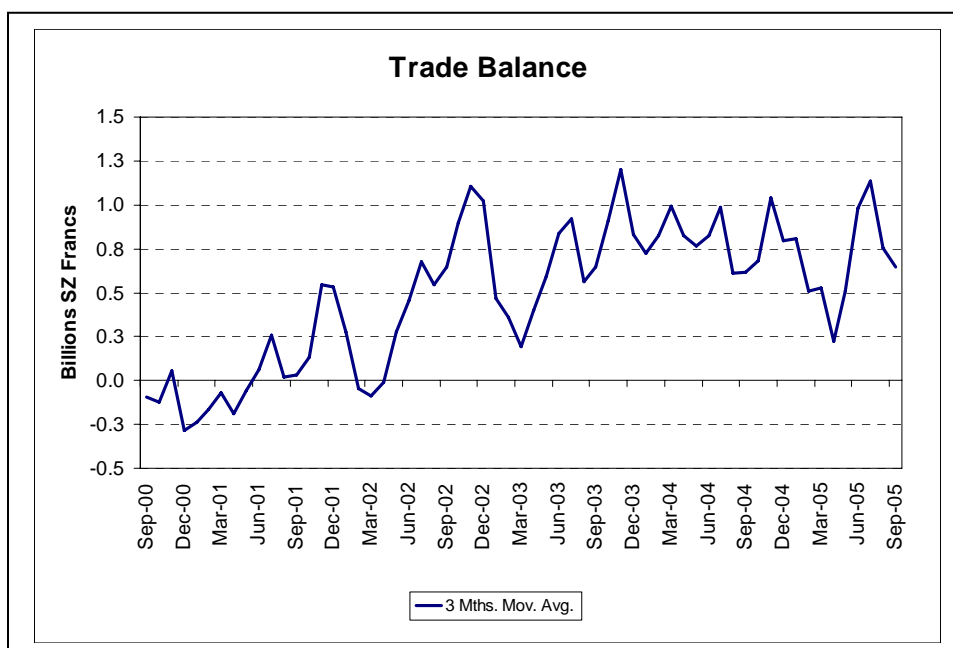
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October 26, 2005

Recent data showed an improvement in exports as well as in the UBS Consumption indicator. In other news, Central Bank President, Jean Pierre Roth, commented on Switzerland's Economy, Monetary Policy and Inflation.

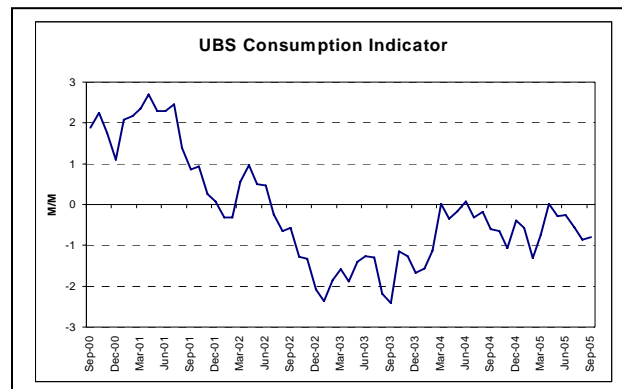
Weekly Releases & News**Chart of the Week: *Trade Balance***

Switzerland's Trade Balance improved from a deficit of 11.8 mln francs in August to a surplus of 1.3 bln francs in September, marking the largest surplus in three months. The increase was partly attributed to a rise in the exports of Swiss watches, chemicals and machinery. Exports and imports, adjusted for inflation, advanced 3.5% Y/Y and 2.7% Y/Y, respectively.

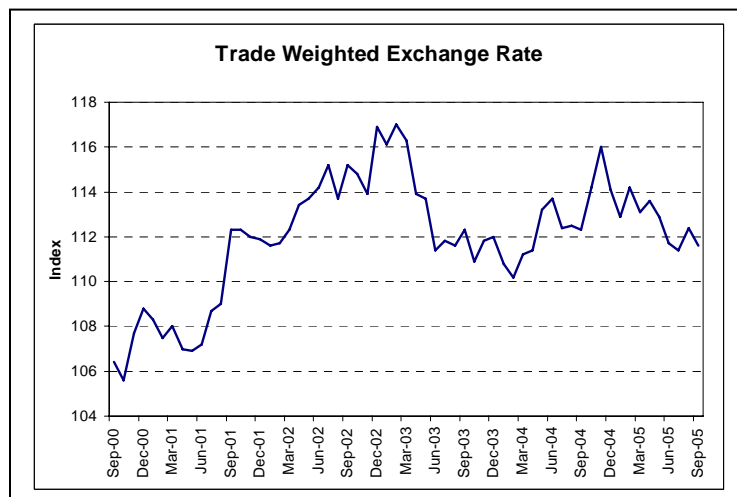
UBS Consumption Indicator & Trade Weighted Exchange Rate

UBS Consumption Indicator

The UBS Consumption Indicator rebounded from a revised -0.857 (down from -0.684) in August to -0.798 in September. The Bank maintains that “private consumption should continue to support the economy” in H2 of 2005.



Trade Weighted Exchange Rate



News Releases & Upcoming Dates

News Releases

October 20th – Swiss Central Bank President, Jean Pierre Roth Comments on Monetary Policy, the Economy and Inflation – Switzerland's Central Bank President, Jean Pierre Roth, made the following remarks in a speech to a federation of employers in Switzerland:

On SNB's Monetary Policy: "We know that current monetary conditions are too loose compared to the economic situation, which is improving." "The forecast for inflation that we published in September, after our last thorough evaluation of the economy and monetary policy, clearly states that the current level of short-term interest rates will not make it possible to contain inflation below an annual 2 percent." "The benchmark rate of 0.75 percent is not compatible with price stability if the economic situation recovers."

On the Swiss Economy: "In spite of uncertainties caused by the repeated increases in oil prices, the recovery will continue in the second half of the year on a more solid basis than one could have hoped for." "Switzerland should see growth of about 1 percent in 2005 and activity should accelerate next year." "Growth will probably range between 1.5 percent and 2 percent in 2006." "This should also lead to a correction in the labor market."

On Inflation: "In annual terms, consumer prices rose in September by 1.4 percent. Excluding the most volatile components in the consumer basket, inflation would have been 0.6 percent." "Declining prices for many imported products as well as liberalization and deregulation continue to ensure a weak rate of inflation for non-energy products."

On Risks to Swiss Economic Growth: "There is no doubt that a renewed surge in the price of crude would destabilize the situation again. In the worst case, it could even destabilize inflation expectations, thereby strongly complicating monetary policy."

Key Dates This Week

Date	Indicator	Expectation	Previous
10/28	Swiss Government Reports Oct. 2000 Economic Forecasts	--	--
10/28	SECO October 2005 Economic Forecasts	--	--
10/28	KOF Swiss Leading Indicator – Oct	--	--
11/01	SVME-Purchasing Managers' Index	--	--