

Valance Company, Inc.



Weekly

December 7, 2005

III

Highlights

US – Inflation Restrained, Employment healthy & Housing Mixed (page 2)

Euroland – Relatively strong data this week, but will it last? (page 11)

Japan – Capex remained strong in Q3 (page 18)

UK – Consumer activity rebounded (page 26)

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December 1 – December 7 Short Term Interest Rates

Country	Change in BPs		(3Mth. Futures Contracts Yields)			
	Official Rate	3 Mth. LIBOR	Dec-05	Mar-06	Jun-06	Sep-06
US	0.00	0.04	0.50	-1.50	0.00	1.50
	4.00	4.46	4.50	4.77	4.89	4.88
EU	0.25	-0.02	-6.00	-7.00	-6.50	-5.00
	2.25	2.45	2.46	2.65	2.80	2.88
JN	0.00	0.00	0.50	0.00	1.50	1.50
	0.00	0.07	0.09	0.14	0.22	0.31
UK	0.00	0.01	1.00	5.00	10.00	11.00
	4.50	4.63	4.62	4.63	4.68	4.72
CA	0.00	0.03	-1.50	-1.00	3.00	5.00
	3.00	3.42	3.48	3.92	4.09	4.12
AU	0.00	0.00	2.00	6.00	5.00	5.00
	5.50	5.58	5.63	5.65	5.66	5.68
NZ	0.00	0.02	-3.00	-7.00	-7.00	-9.00
	7.00	7.65	7.61	7.57	7.46	7.26
SZ	0.00	0.03	-1.00	-4.00	-4.00	-1.00
	0.75	1.04	1.07	1.41	1.63	1.80

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Valance Economic Reports

Valance Co., Inc.

Valance Economic Report: United States

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December 7, 2005

This week's economic data showed mixed signals on housing, restrained core inflation and healthy payroll growth. Overall, the economy appears quite strong and is likely to keep the Fed hiking at least three more times given some of the upside inflation risks that exist. Also, the language transition in the Fed Statement mentioned in the Minutes is likely to add more short-term volatility than the actual Chairmanship transition.

Weekly Highlights

Employment- payrolls increased 215k in November. (page 2)

Average Hourly Earnings- up 3.7% on a three month annualized basis. (page 4)

Core PCE- up 0.1% M/M and 1.8 Y/Y in October. (page 5)

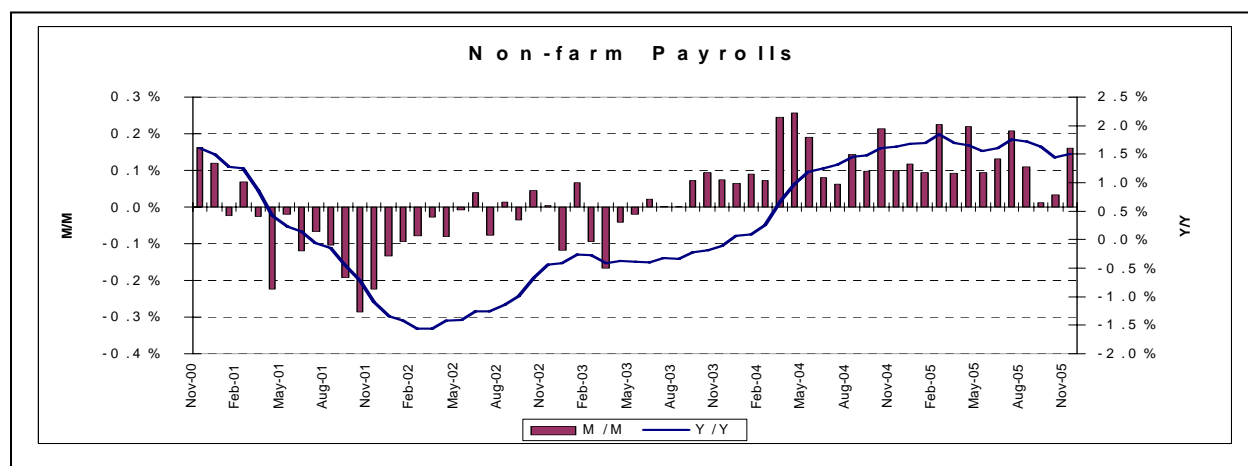
Mortgage Purchase Applications- increased 1.4% Y/Y on a four-week moving average basis. (page 7)

Pending Home Sales- dropped 3.2% M/M on an annualized basis in October. (page 7)

Productivity- gained 4.3% on an annualized basis in Q3 2005. (page 8)

Weekly Releases

Chart of the Week: *Non-farm Payrolls*



Non-farm Payrolls increased 215k in November after gaining a revised 44k in October. The diffusion index increased from 51.6 to 62.4, a signal that gains were widespread, and a good sign of economic strength. However, this month also included some Katrina related effects that are unlikely to be sustained. The BLS highlighted 37k gains in construction, and restaurant and drinking places added 39k after declining 69k in the last two months. The Household Survey also indicated that 56k hurricane victims found jobs in November.

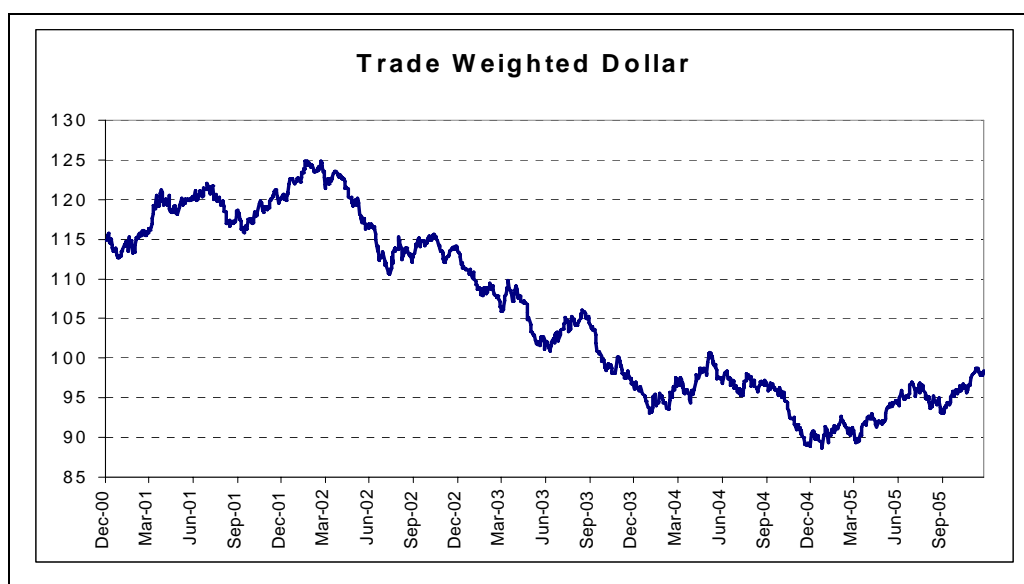
U.S. Financial Balances & Trade Weighted Dollar

Financial Balances

<i>U.S.</i>	<i>Latest period (\$blns)</i>	<i>Last 12mth. as a % of GDP</i>
Budget Balance	-47.2 (October)	-2.4%
Trade Balance	-66.1 (September)	-5.6%
Current Account Balance	-195.7 (Q2)	-6.0%
Private Balance	--	-3.6%

The budget deficit is currently at \$308 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 September is still 5.6% of GDP, with no clear signs of narrowing quickly. The budget deficit will remain too small to support a robust and sustained expansion, given the size of the current account deficit. As mortgage equity extraction slows and debt service levels increase, fragility in the economy should become more evident.

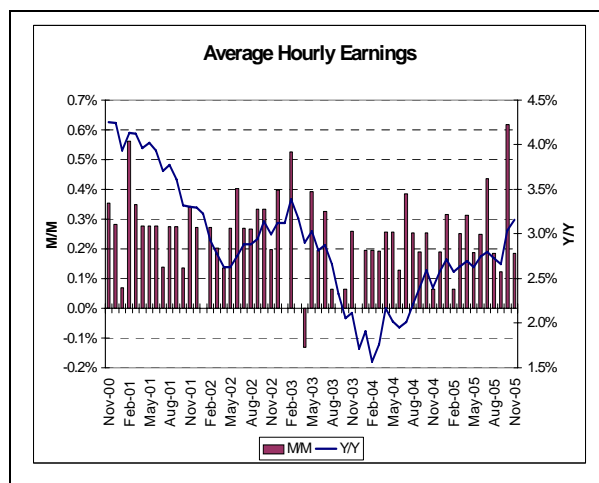
Trade Weighted Dollar



Employment

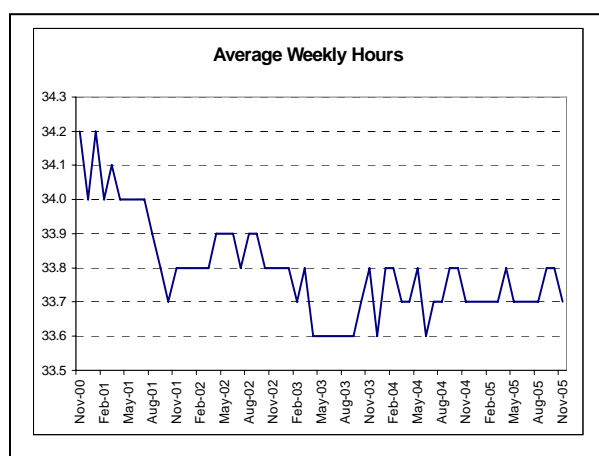
Average Hourly Earnings

Average hourly earnings grew 0.2% M/M and 3.2% Y/Y in November. The three month annualized rate of growth has accelerated from 2.3% at the beginning of the year to 3.7%. The Fed will continue to monitor for signs of pass-through to core inflation.



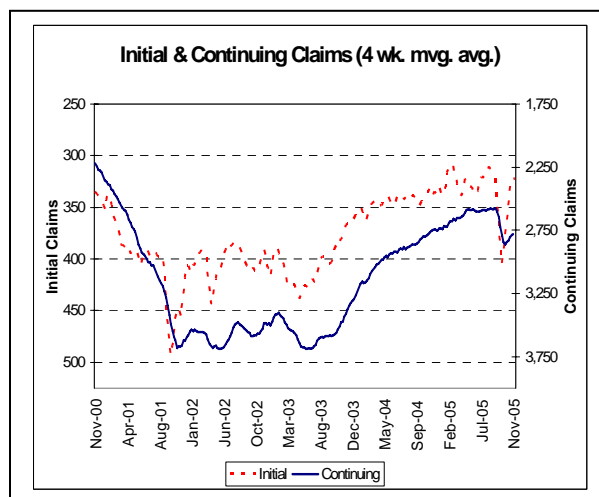
Average Weekly Hours

Average weekly hours slipped to 33.7 in November. This metric continues to be relatively flat in absolute terms, which suggests that some slack remains in the labor market and productivity gains have allowed for increased production.



Initial & Continuing Claims

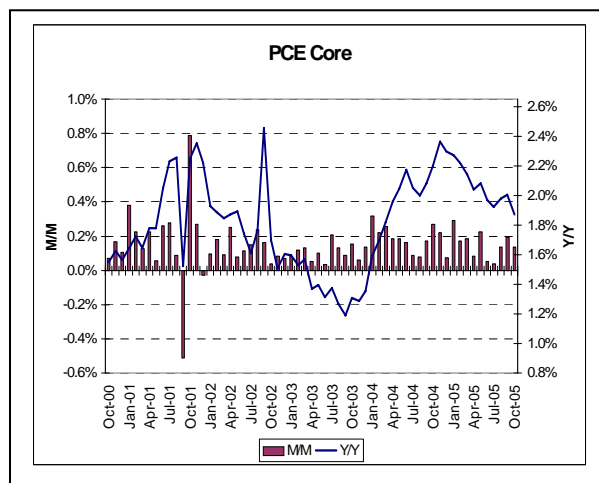
The four week moving average of initial claims and continuing claims dropped to 323 and 2,778k, respectively. Continuing claims are 100k lower than their peak after Katrina, but remain about 200k higher than pre-Katrina levels. Initial claims have returned to pre-Katrina levels.



PCE Core, Personal Income & Spending

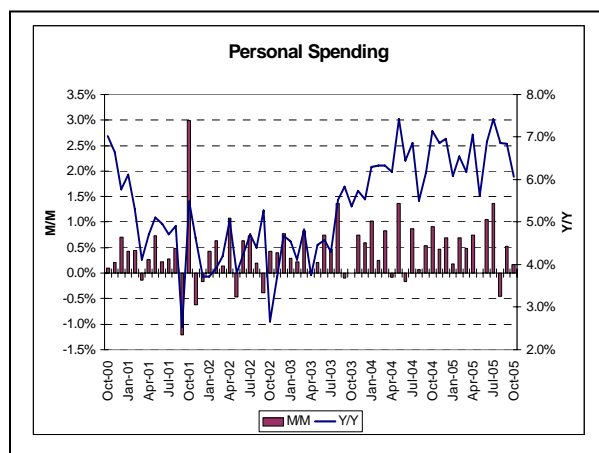
PCE Core

The PCE Core deflator was up 0.1% M/M and 1.8% Y/Y in October. Measures of current inflation continue to remain restrained. However, upside inflation risks from energy, wages and possibly rents catching-up to home prices, will keep the Fed vigilant.



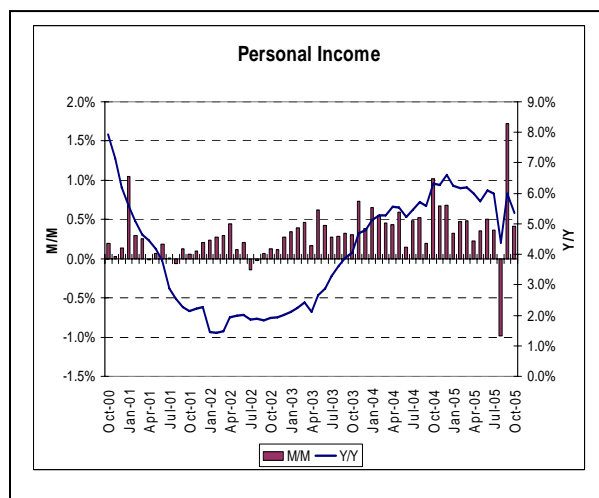
Personal Spending

Personal Spending increased 0.2% M/M and 6.1% Y/Y in October. Another decline in durable goods has offset strength in non-durables and services. Spending on durable goods has declined for three straight months on a M/M basis and is now down 2.0% Y/Y.



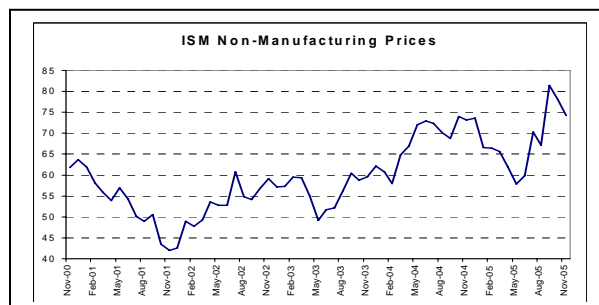
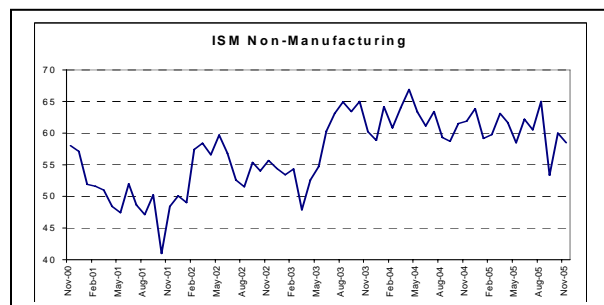
Personal Income

Personal Income increased 0.4% M/M and 5.3% Y/Y in October. The compensation and wage components increased 0.6% M/M. Income gains still remain healthy and should allow for spending growth to continue short-term, barring a major adjustment in saving rates.



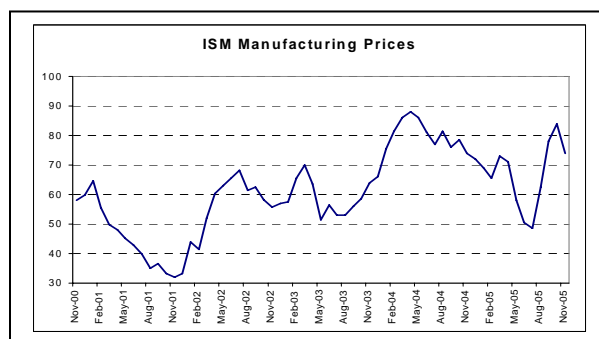
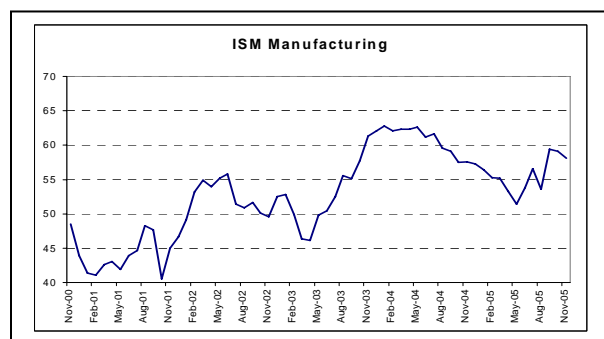
ISM's & Total Vehicle Sales

ISM Non-Manufacturing



The ISM Non-Manufacturing Index decreased from 60 to 58.5 in November. The price component dropped from 78.0 to 74.2, but remains elevated. The employment and order components increased from 52.9 to 57 and from 58.2 to 59.5.

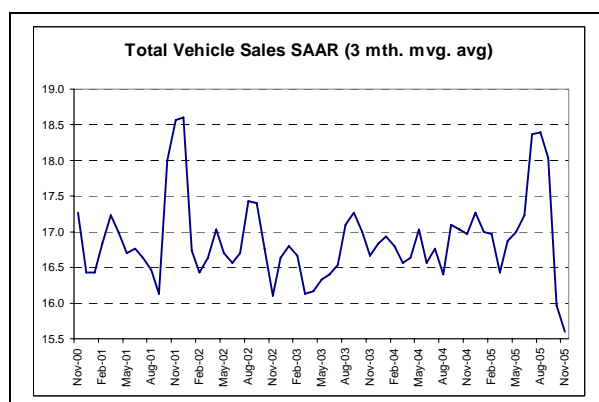
ISM Manufacturing



The ISM Manufacturing Index decreased from 59.1 to 58.1 in November. The price component dropped from 84 to 74, but remains at elevated levels. The Employment component improved slightly from 55.0 to 56.6 and the orders component decreased from 61.7 to 59.8.

Total Vehicle Sales

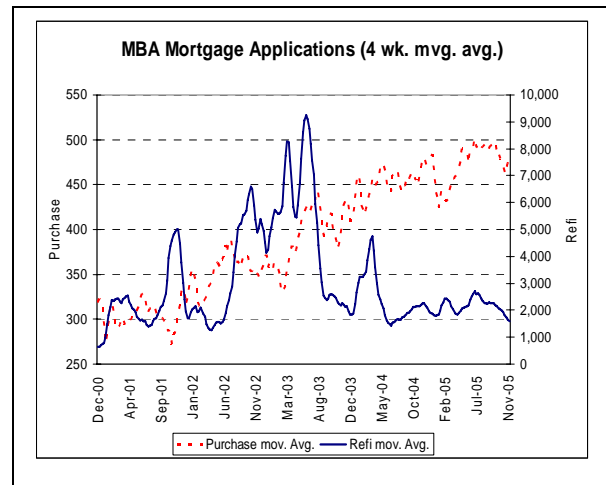
The seasonally adjusted annual rate of total vehicle sales increased from 14.7 mln to 15.7 mln in November. Despite the M/M rebound the absolute levels of sales is relatively soft. Domestic producers continue to lose market share to overseas competitors like Toyota.



Mort. Apps, Pending Home Sales & Confidence

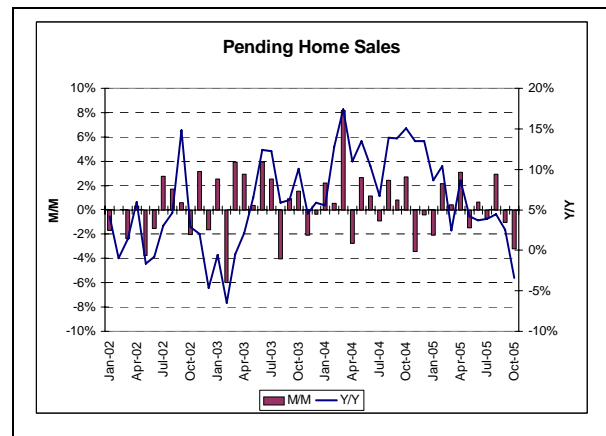
MBA Mortgage Applications

Purchase and refinancing mortgage applications increased 4.0% and 7.6%, respectively, this week. The four-week moving average for purchases is now up 1.4% Y/Y. The rebound in purchase applications suggests that the housing market is still strong.



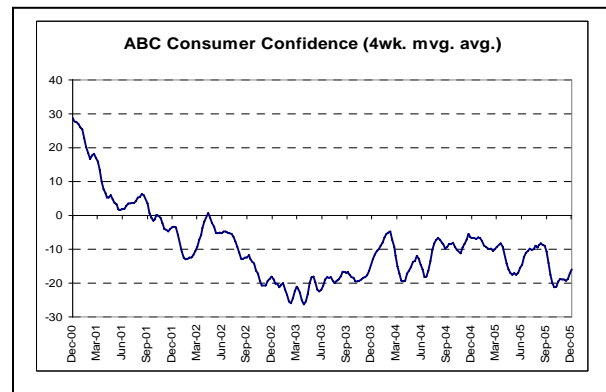
Pending Home Sales

Pending Home Sales declined 3.2% M/M and 3.4% Y/Y in October. This series has shown two straight months of meaningful weakness and could portend more softness in the housing market.



ABC Consumer Confidence

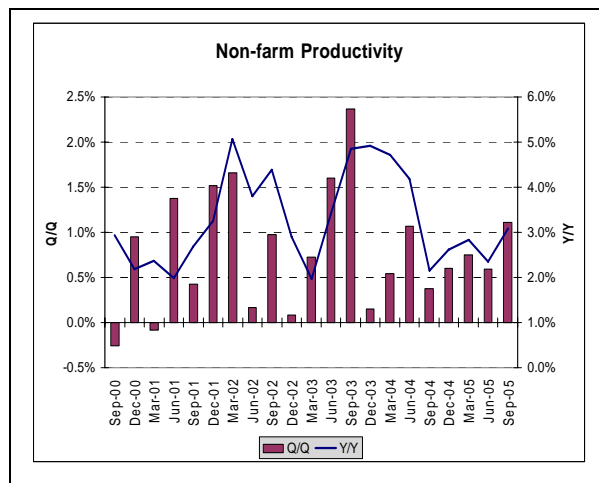
The ABC Consumer Confidence Index improved from -15 to -14. This is the fifth week in a row of gains in overall confidence. The economy and finance components remained flat at -28 and 12, respectively. The buying component improved from -28 to -26.



Non-farm Productivity, Unit Labor Costs & Const. Spending

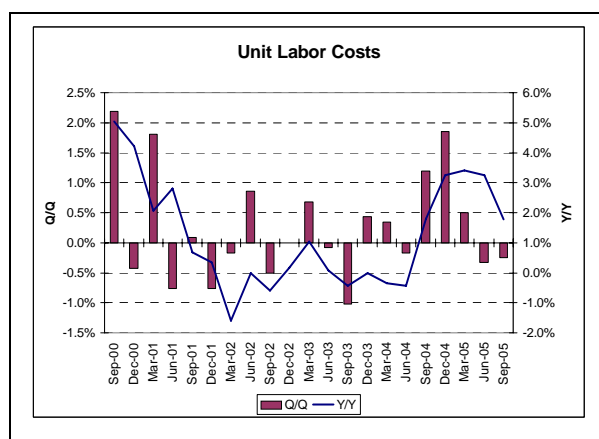
Non-farm Productivity

Non-farm Productivity increased 1.1% Q/Q and 3.1% Y/Y in Q3 of 2005. Productivity accelerated this quarter despite expectations that productivity growth would start to slow. Productivity gains so far have kept inflationary pressures from wages contained.



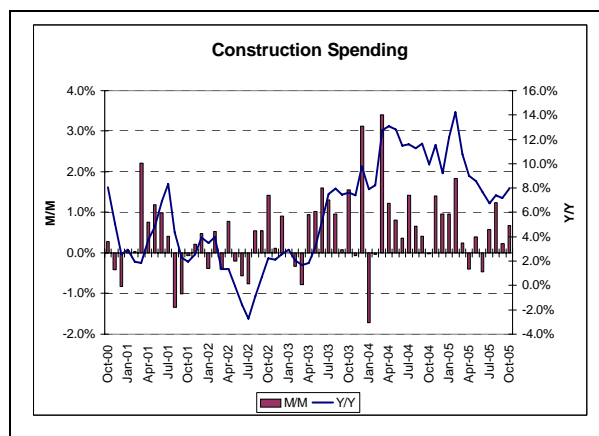
Unit Labor Costs

Unit labor costs decreased 0.2% Q/Q and increased 1.8% Y/Y in Q3 of 2005. This series has declined on a Q/Q basis for the second quarter in a row. Muted wage gains combined with productivity have driven this recent decline in unit labor costs, as has a correction from strong levels earlier in the year that were due to options-related income.



Construction Spending

Construction Spending increased 0.7% M/M and 7.9% Y/Y in October. We are most likely starting to see some post Katrina spending beginning to impact this series.



Fed Comments

“If the currently disturbing drift toward protectionism is contained and markets remain sufficiently flexible, changing terms of trade, interest rates, asset prices, and exchange rates will cause U.S. saving to rise, reducing the need for foreign finance and reversing the trend of the past decade toward increasing reliance on it. If, however, the pernicious drift toward fiscal instability in the United States and elsewhere is not arrested and is compounded by a protectionist reversal of globalization, the adjustment process could be quite painful for the world economy.” –Greenspan

“If you look at the minutes from the November meeting, you will see that the statement is currently a subject of discussion. Two phrases in particular are at issue: "remove accommodation" and "at a measured pace." While it seems unlikely that the end of the current tightening phase is yet at hand, there obviously will come a time when these two phrases are no longer appropriate, and other changes to the statement may be needed as well. As the November minutes suggest, going forward, the Committee will pay close attention to incoming data and weigh options carefully in assessing the stance of policy and the wording of the statement.”- Yellen

“It is the duty of the Fed to refrain from the slightest temptation to monetize deficits or embrace any other inflationary policy. In the Volcker and Greenspan eras, the Fed has done quite well in this regard, and it can be expected to continue countering inflationary pressures should they arise.”- Fisher

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/08	Initial Jobless Claims (NOV 3)	318K	320K
12/08	Continuing Claims (NOV 26)	2745K	2767K
12/09	U. of Michigan Confidence (DEC)	85.0	81.6
12/09	Wholesale Inventories (OCT)	0.5%	0.6%
12/12	Monthly Budget Statement (NOV)	-\$61.0B	-\$57.9B
12/13	Retail Sales Less Autos (NOV)	0.1%	0.9%
12/13	Business Inventories (OCT)	0.5%	0.5%
12/13	FOMC Rate Decision Expected (DEC 13)	4.25%	4.00%
12/13	ABC Consumer Confidence (DEC 11)	NA	-14
12/14	MBA Mortgage Applications (DEC 9)	NA	5.2%
12/14	Trade Balance (OCT)	-\$63.0B	-\$66.1B
12/14	Import Price Index (NOV) (M/M)	-0.5%	-0.3%

Valance Co., Inc.

Valance Economic Report: Euro Zone

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December 7, 2005

As expected, the ECB increased rates from 2.0% to 2.25% this week while indicating a lack of bias in either direction. The general market expectation is for an additional 2 or more hikes in 2006. Given that the ECB's actions will be governed by their continued assessment of inflation and growth data, we fail to see the macroeconomic strength needed to justify the consensus view. The domestic sector remains weak, inflationary pressures remain muted, and the manufacturing sector, though strong, was still only capable of producing sub 2% growth this year: any slowdown may be disastrous.

Weekly Highlights

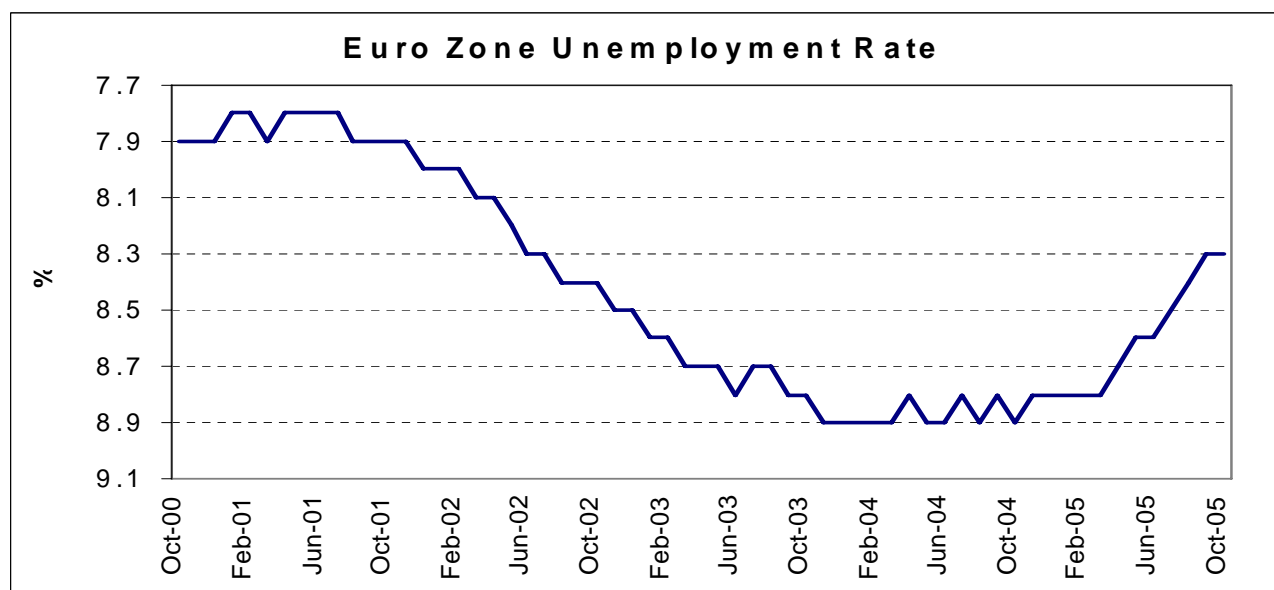
Euro Zone Unemployment Rate— remained at its 3yr low in October. (page 11)

German Unemployment— fell for the 7th month in eight in November. (page 13)

Euro Zone Manufacturing PMI— rose in November. (page 15)

Weekly Releases & News

Chart of the Week: *Euro Zone Unemployment Rate*



The Euro Zone's Unemployment Rate remained unchanged at 8.3% Y/Y in October as the September figures were revised downward from 8.4% to 8.3%. Manufacturing growth has remained buoyant and structural changes have made it easier to hire and fire part-time employees.

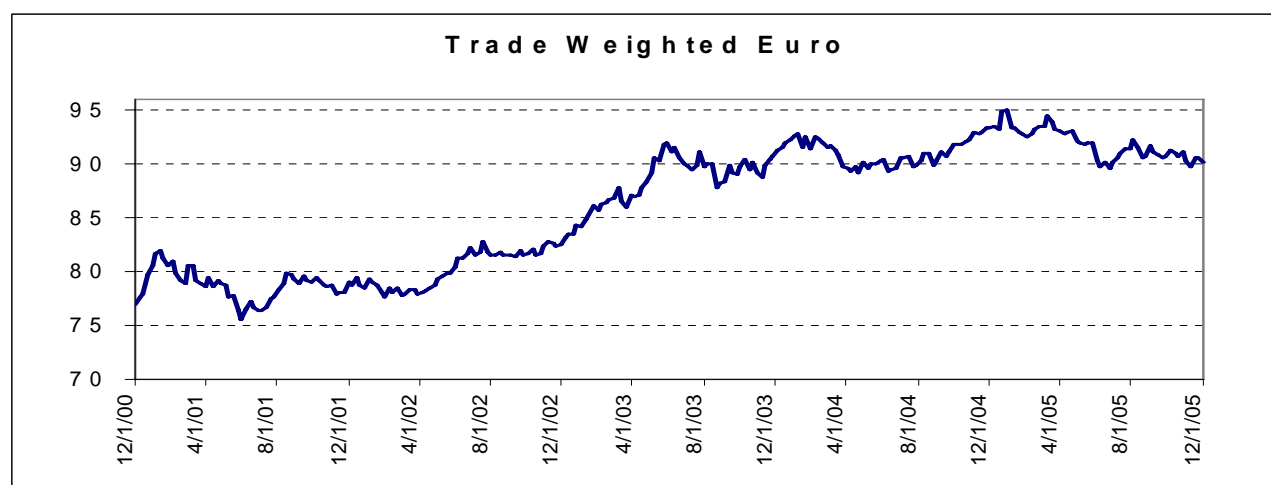
Euro Zone Financial Balances & Trade Weighted Euro

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.

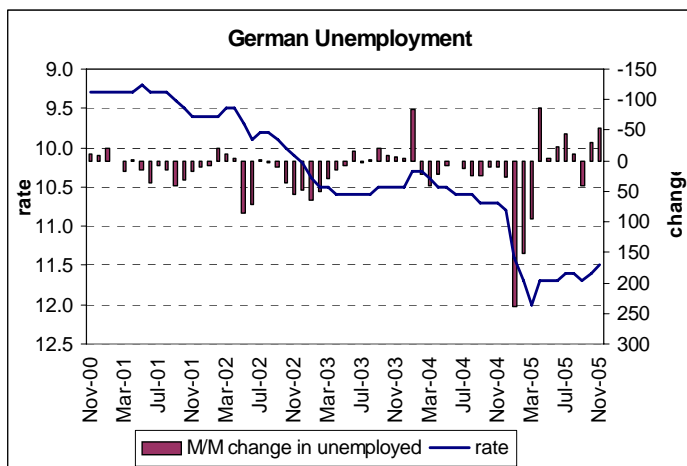
Trade Weighted Euro



German, Spanish Unemployment & Euro Zone Retail Sales

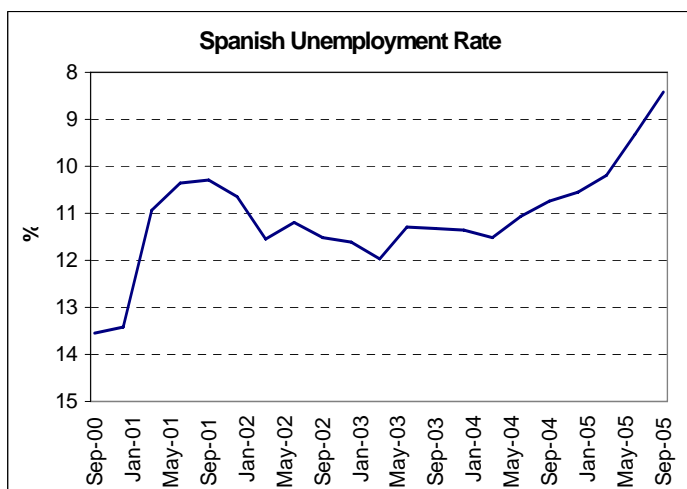
German Unemployment

German Unemployment fell in November as the total unemployed fell by 53,000, bringing the Unemployment Rate down from 11.6% in October to 11.5%. Most of the growth remains in the part-time sector.



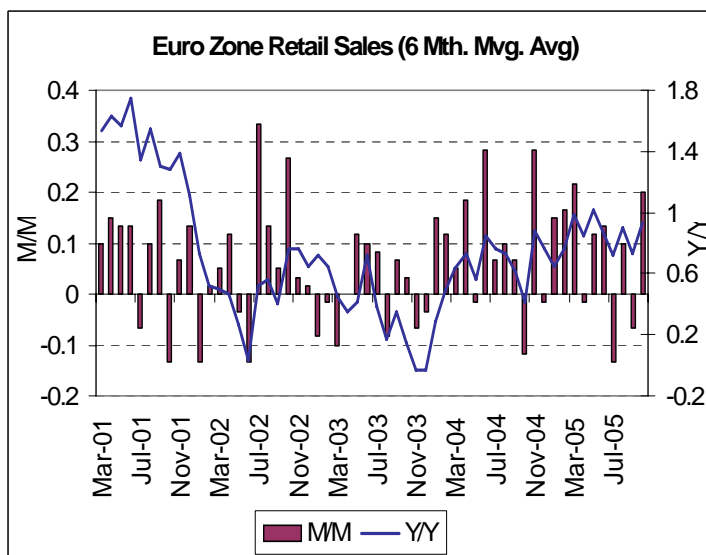
Spanish Unemployment

Spain's Total Unemployed increased by 43,000 in November after climbing 40,000 in October.



Euro Zone Retail Sales

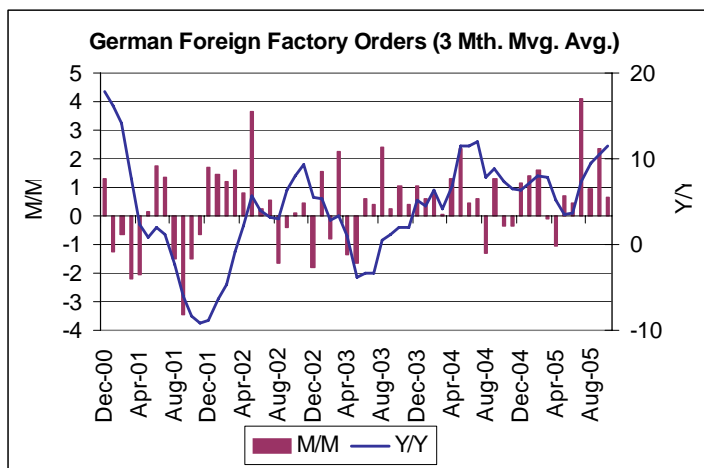
The Euro Zone's October Retail Sales increased 0.5% M/M and 0.4% Y/Y, after declining in October (M/M).



German Orders, Spanish Production & Italian Car Registrations

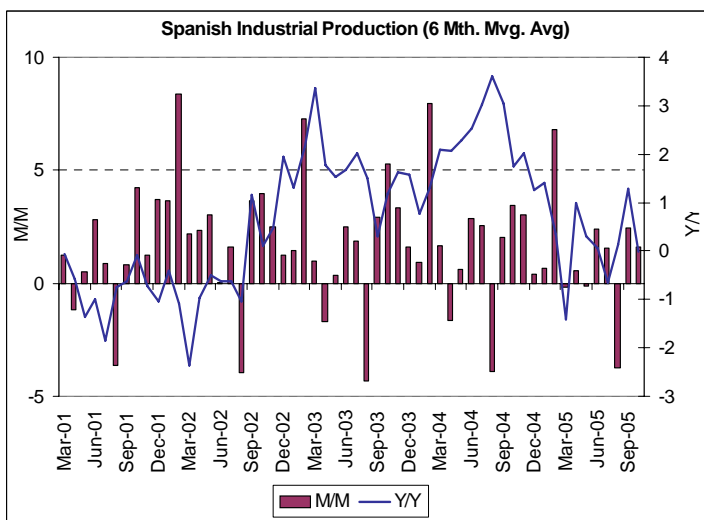
German Factory Orders

Germany's October Factory Orders increased 2.0% M/M and 5.4% Y/Y, above expectations. Foreign orders increased 2.8% M/M while domestic demand expanded 1.2%.



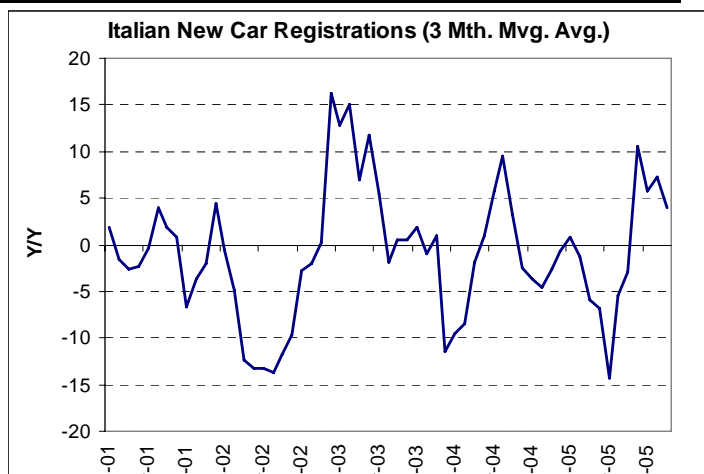
Spanish Industrial Production

Spain's October Industrial Production unexpectedly contracted, declining 3.5% M/M and 0.4% Y/Y. Market expectations were for a 1.7% Y/Y increase.



Italian New Car Registrations

Italy's November New Car Registrations rose 3.1% Y/Y, the sixth consecutive month of growth.



Euro Zone Manufacturing & Services PMI

Euro Zone Manufacturing PMI

The Euro Zone's November Manufacturing PMI Index rose from 52.7 in October to 52.8. Germany's PMI fell from 53.1 to 52.7; France's PMI fell from 52.5 to 51.8; Spain's PMI rose from 52.2 to 52.4; and Italy's PMI rose from 52 to 53.1. (Numbers above 50 indicate expansion while numbers below 50 indicate contraction). Improvement was modest, but was across most subcomponents.

<i>Euro-12 Manufacturing PMI:</i>	<i>Nov</i>	<i>Oct</i>	<i>Sep</i>	<i>Aug</i>	<i>July</i>	<i>June</i>	<i>May</i>	<i>Apr</i>	<i>Mar</i>	<i>Feb</i>
<i>Overall Index</i>	52.8	52.7	51.7	50.4	50.8	49.9	48.7	49.2	50.4	51.9
<i>Output</i>	54.8	54.3	53.8	51.8	52.8	51.0	50.0	50.3	51.6	53.4
<i>Employment</i>	49.9	49.9	48.9	48.3	47.8	48.2	47.5	47.6	48.8	49.3

Euro Zone Services PMI

The Euro Zone's November Services PMI rose from 54.9 in October to 55.2. The German Services PMI fell from 55.2 to 54.8, France's PMI rose from 56.6 to 56.5, and Italy's PMI increased from 52.8 to 54.6.

<i>Euro -12 Services PMI:</i>	<i>Nov</i>	<i>Oct</i>	<i>Sep</i>	<i>Aug</i>	<i>July</i>	<i>June</i>	<i>May</i>	<i>Apr</i>	<i>Mar</i>	<i>Feb</i>
<i>Overall:</i>	55.2	54.9	54.7	53.4	53.5	53.1	53.5	52.8	53.0	53.0
<i>Employment:</i>	51.5	51.6	51.6	50.8	50.4	50.3	50.6	50.9	51.0	50.6
<i>New Business:</i>	53.5	54.2	54.0	52.5	52.9	52.3	52.6	52.7	51.4	52.0
<i>Business Expectations:</i>	64.8	64.5	63.4	63.3	62.8	63.1	64.4	63.5	67.5	64.3

News

Dec. 7th – ECB members continued to reiterate that there are no more predetermined hikes as member Lorenzo Bini Smaghi stated, “We don’t plan to follow a strategy of a series of increases similar to that of the Federal Reserve because there isn’t as strong a recovery in the European economy as there is in the U.S. We must wait and see what other signals come out of the European economy before taking any other decisions.”

Dec. 5th – European Finance Ministers continued to urge the ECB to maintain low rates, warning against a large increase in rates. Austrian Finance Minister Karl-Heinz Grasser noted, “I don’t see any reason for another rate increase. Inflation is under control.”

Dec. 5th – The German BDA employers’ association stated that wage increases next year should be no larger than 1.5%, much lower than the 4.5-5% increase that IG Metall labor union may seek. The BDA stated, “Everything in the coming wage rounds that exceeds the increase in productivity will without doubt destroy jobs. The productivity increase this year will range between 1 and 1.5%.” They also noted that some engineering companies will struggle to meet the demands for higher wages.

Dec. 3rd – ECB President Jean Claude Trichet defended the ECB’s decision to raise interest rates stating that consumers demand price stability. Trichet stated, “Households rely very naturally on us to deliver price stability”, governments “know pretty well what the people of Europe are asking for.” Finance Ministers have expressed that the 25bp move will not likely hurt growth, though they remain wary over a continued series of hikes. German Finance Minister Peer Steinbrueck added, “My impression is that the increase in interest rates by 25bp won’t impact company investments in such a way as to give reason for concern.”

Dec. 1st – The ECB increased interest rates by 25bp in an attempt to prevent further acceleration of inflation, stating, “Our decision will contribute to keeping medium to long term inflation expectations in the Euro Zone solidly anchored at level consistent with price stability.” Trichet also made it clear that there was no “ex ante” decision to start a series of rate hikes: a sentiment that would be repeated numerous times throughout the week. Regarding inflation, Trichet made it clear that the ECB will focus on headline and not core CPI, stating that history has not shown that core CPI was a better gauge of price pressures. Regarding the ECB’s decision to lift rates Trichet added, “The council was unanimous in its decision to raise rates. We have various views inside the governing council. You exchange all possible sentiments, arguments. Some perhaps could have imagined rates would have been higher. Others would’ve thought we could wait still. But after the discussion those who wanted to go higher considered it was correct to have 25bps.”

Growth and inflation forecasts were also released with growth expected to be between 1.4 and 2.4% in both 2006 and 2007 and inflation expected to be between 1.6 and 2.6% in 2006 and between 1.4 and 2.4% in 2007.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/08	German Industrial Production (OCT)	0.5% M/M	1.5% M/M
12/09	German Current Account (OCT)	7.0B	7.4B
12/09	German Exports (OCT)	-0.1% M/M	2.5% M/M
12/09	French Industrial Production (OCT)	0.2% M/M	0.2% M/M
12/09	Italian Private Consumption (Q3)	0.2% Q/Q	0.7% Q/Q

Valance Co., Inc.

Valance Economic Report: Japan

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December 7, 2005

This week's data from Japan was mostly upbeat. Capex continues to be a driving force behind growth as corporate capital spending rose more than expected in Q3. With household spending and the leading economic index both increasing as well, the sustainability of growth in Japan appears to be getting stronger. The BoJ's case for a change in policy by early FY06 is also strengthening.

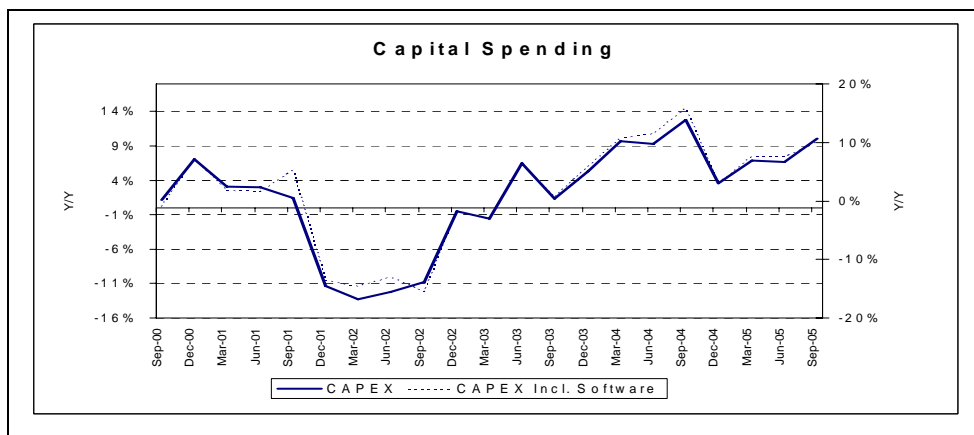
Weekly Highlights

CAPEX – increased 10.6% Y/Y in Q3. (page 18)

Real Household Spending – increased 0.1% M/M and 2.0% Y/Y in October. (page 20)

Leading Economic Index – increased from 41.7 in September to 80.0 in October. (page 20)

Chart of the Week: *Capital Spending*



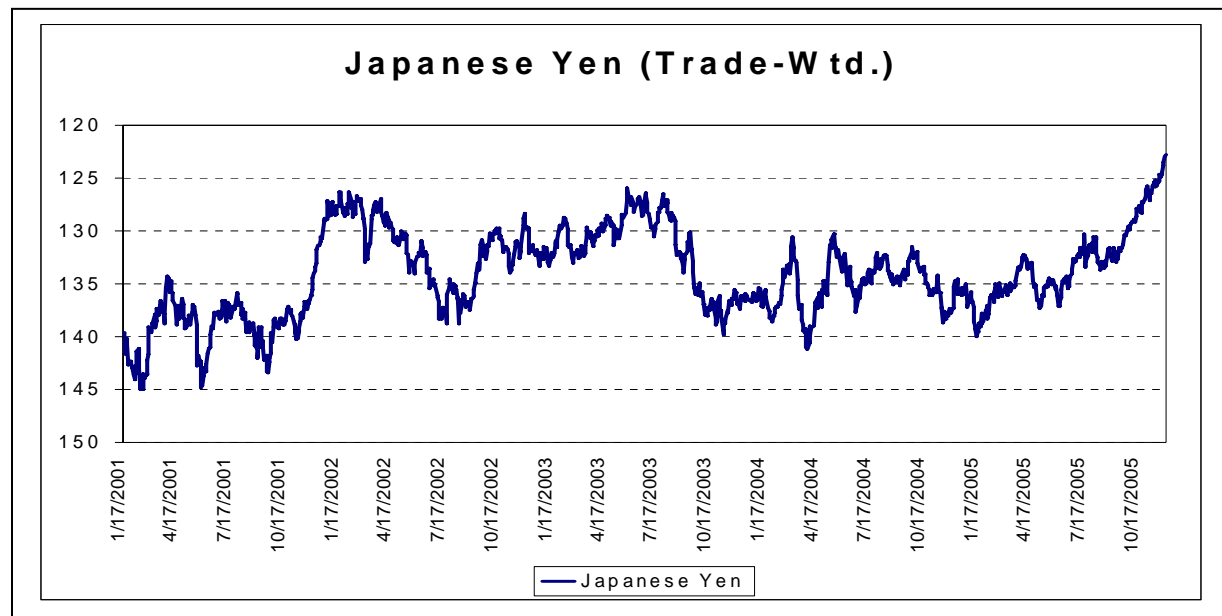
In Q3, Headline capex increased 10.6% Y/Y, while capex, including software, increased 9.6% Y/Y. This is particularly strong data for a couple of reasons. Firstly, many economists expected the data to be on the softer side as Q3 has tended to be a softer quarter for capex (although this trend has been changing lately). Secondly, Q2's data was on the stronger side as well- it had increased 6.7% Y/Y and 7.3% Y/Y, respectively- so many did not expect growth to accelerate (market consensus was 6.0% Y/Y and 6.8% Y/Y, respectively).

Details were also positive: Manufacturing capex, which had improved 19.7% Y/Y in Q2, improved 19.3% Y/Y in Q3. Non manufacturing, which improved 0.9% Y/Y in Q2, improved 6.0% Y/Y in Q3. The overall gain was the 10th consecutive on a Y/Y basis, and continues to suggest that companies are doing well.

Japan's Financial Balances

Financial Balances

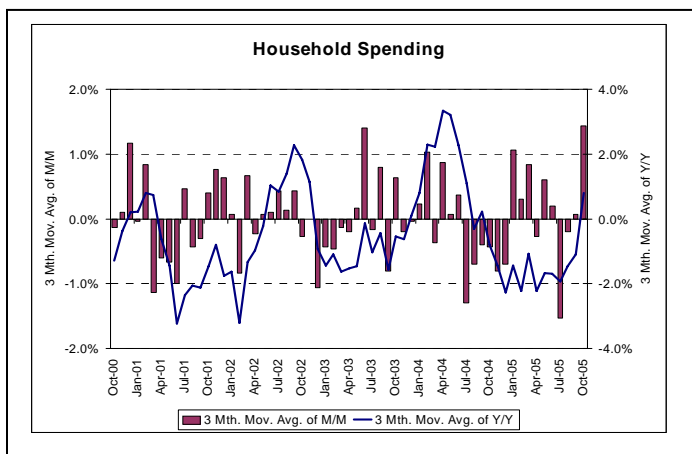
<i>Japan</i>	<i>Last period (¥trln)</i>	<i>Last 12mth. as a % of GDP</i>
Budget Balance	-3.03 (May)	-6.9%
Trade Balance	0.69 (June)	2.2%
Current Account Balance	1.50 (June)	5.2%
Private Balance	--	12.1%



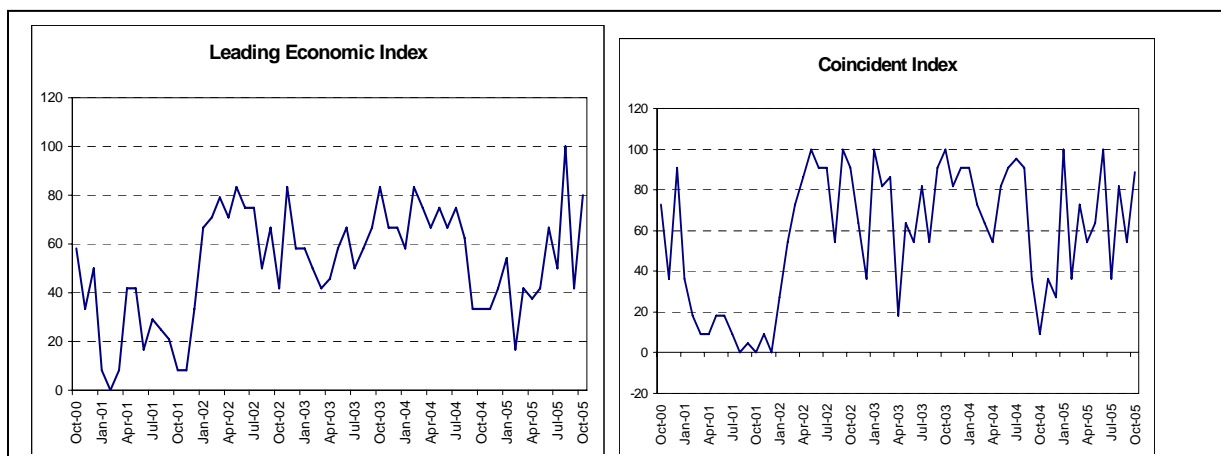
Household Spending, Leading Index & Coincident Index

Household Spending

Real Household Spending declined 0.1% M/M and increased 2.0% Y/Y in October.



Leading Index & Coincident Index

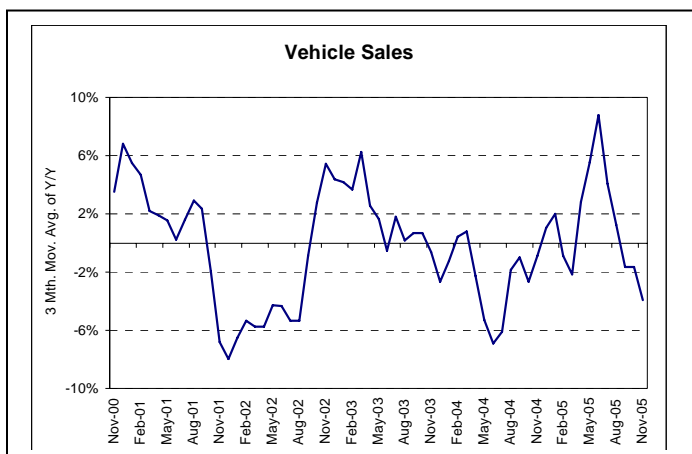


Japan's Leading Economic Index increased from 41.7 in September to 80.0 in October. The Coincident Index increased from 54.5 in September to 88.9 in October. The numbers are both positive, as a number above 50 suggests that the economy will probably expand. Improvement was widespread on both indices. In the Leading Index, every component, with the exception of housing starts and consumer sentiment, improved. In the Coincident index, every component except retail sales values increased. These increases met market expectations amid higher corporate profits, investments, consumer wages, and spending.

Vehicle Sales & News

Vehicle Sales

Vehicle Sales declined 8.2% Y/Y in November.



Expressway Agency To Issue Japan's 1st 40-Year Bonds

The Japan Expressway Holding and Debt Repayment Agency, which has control over the assets and debts of four public highway corporations, decided to issue 40 year bonds, totaling tens of billions of yen, in order to avoid future rate fluctuations. This marks the first time that a Japanese entity has issued bonds with a 40 year maturity. The agency, which was established on October 1st, must repay debts totaling about ¥37.4 trln within 45 years, using income earned through leasing the assets to the privatized firms. The agency has 95% of its debt maturing in less than 10 years however, and attempts to refinance eventually.

LDP Panel Eyes Flat 10% Resident Tax, 6 Progressive Income Tax Rates

The LDP's tax panel on Thursday has considered changing the tax rate on local residents to a flat 10%, while increasing the number of national income brackets to six from the current four. This measure is part of a plan designed to transfer approximately ¥3 trln in tax revenue from the national government to local authorities.

Stocks: Nikkei Jumps To End Above 15,000 For 1st Time In 5 Years

Improved investor confidence and corporate sentiment sent the Nikkei Stock Index to end above 15,000 on Thursday, the first such closing since December 13th, 2000. The Tokyo Stock Price Index of all First Section issues on the Tokyo Stock Exchange closed at its highest level since July 17th, 2000. This strength in equities adds evidence to the solidity behind the recovery Japan is currently undergoing.

News

BoJ Mizuno: Unsure if Need Easy Policy for Fiscal Reform

BoJ Board Member Mizuno commented that, “It is unclear whether Japan would fail to achieve fiscal and structural reforms without the BoJ maintaining its quantitative easing policy.” This statement, doubting the necessity of maintaining the BoJ's ultra-easy policy, supports views that the BoJ will be ready for a change in policy in the near term, provided that economic data, particularly core prices, continue to improve.

High Crude Prices Seen Helping Lift Jan-March CPI 0.4%

According to a report compiled by the Cabinet Office, CPI excluding perishables, will increase by as much as 0.4% in Q1 2006 due to increases in petroleum product prices and electricity costs resulting from high crude oil prices. The report also predicts a slowdown in the decline of rice prices and fixed line phone service charges, both of which have contributed to the decline in CPI. The Cabinet Office maintains that these items (petroleum products, electricity, rice, and fixed line phone service charges) are all considered special factors, and that they must all be factored out before one can determine whether or not the country has emerged from deflation.

November Saw Most Acute Labor Shortage In 13 Years: Survey

A recent survey conducted by the Ministry of Health, Labor, and Welfare found that companies faced their most severe labor shortage in 13 years in November. Firms in the transportation industry experienced the largest shortages and were followed by the IT industry and the financial and insurance services sector.

BOJ Likely To End Ultra-Loose Policy Next Year: Muto

BoJ Deputy Governor, Toshiro Muto, commented that, “The possibility of changing the current policy framework is expected to increase over the course of fiscal 2006.” This comment, which was made during a speech in Tokyo, was in line with the BoJ's biannual economic outlook last released on October 31st. It represents a slight departure from Muto's normally dovish views however, and supports views that the BoJ may be changing policy in the earlier part of FY2006, as opposed to later in the year.

News

Recovering Corporate Spending Brings Relief To Service Industry

According to an article in The Nikkei, improved corporate spending has been providing strength to the service industry. As more companies start spending money on entertaining clients, prices for various services - including things like golf club memberships in Tokyo, have been recovering sharply. According to Sakura Golf Corp, which is a major golf club membership dealer, the average price of membership will likely increase for the first time in 16 years in 2005. Hotels have also been benefiting, as some major chains reported 11-12% improvements in monthly sales from 6 months before.

Japan's Bull Run Beginning To Resemble Bubble Economy: Okuda

Japan Business Federation Chairman, Hiroshi Okuda, warned on Monday that, "I feel that all of Japan is falling into a mood similar to that of the bubble period." "Japan is becoming a country that chases profits, and I hope the economy won't become the second bubble." His warnings resulted from concerns that businesses were chasing profits at an unsustainable rate. His warning also extended to the earthquake proofing data scandal, where an architect faked the preconstruction assessments on the structural strengths of buildings.

Back Taxes On Imported Goods Top ¥10bn For 1st Time

According to the Finance Ministry, the amount of back taxes levied on imported goods totaled ¥10.8 bln in the year through June 2005, up 42.6% from the same period last year. This marked the first time that the figure exceeded ¥10 bln since 1968, when the ministry first began tracking the data. Back taxes, which represent additional import duties and consumption tax, are imposed when import prices, country of origin, and other data are not properly reported, and have increased as more Japanese manufacturing operations have moved overseas.

BoJ Haru - Chances of Ending Easy Policy to Increase in FY06

BoJ Board Member, Hidehiko Haru, commented on Wednesday that the probability of the BoJ ending its policy of quantitative easing would grow in FY06 as consumer prices are likely to increase. He commented that, "On year changes in the core consumer price index will likely rise toward the end of the year, and increase further in the January-March period. Recent CPI moves have matched (the BoJ) view reported in October." On the account balances, he noted that, "Lowering the account balance target under the quantitative easing framework is one future option, depending on developments in economic and financial conditions." He added however, that the BoJ must be cautious about lowering its target as the policy has been in place since March 2001. He also mentioned that the supply demand gap has been improving, and that the improvement indicates that core CPI will likely keep rising, allowing the BoJ to end its easy policy. On exports, he added that, "Japan's exports will likely keep rising on the back of the growth of overseas economies and the recent weak yen."

News

Cabinet OKs Budget Outline With Spending, Bond Issuance Cuts

The cabinet approved a budget with a goal of limiting new bond issuances in FY2006 to around ¥30 trln. The outline for the new budget specified cutting general expenditures from FY05's ¥47.28 trln and thereby reducing more than the ¥82 trln budget for the first time in four years.

MOF To Address FY08 'Problem' With Early Rollovers, Buybacks

The Ministry of Finance said on Tuesday that it could most likely handle a large amount of government bond redemptions, expected in FY07, by moving up bond rollovers and other measures, such as continuing to buy back and retiring bonds. The comment was aimed at concerns that a large amount of bonds maturing that year could cause turmoil in the bond market.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/07	Bank Lending (Nov Y/Y)	-0.2%	-0.6%
12/08	Machine Orders (Oct M/M)	6.0%	-10.0%
12/08	Machine Orders (Oct Y/Y)	10.2%	4.8%
12/08	Machine Tool Orders (Nov Y/Y)	N/A	1.1%
12/08	Eco Watchers Survey: Current (Nov)	N/A	50.7
12/08	Eco Watchers Survey: Outlook (Nov)	N/A	53.4
12/08	GDP (Q3 Q/Q) Final	0.5%	0.4%
12/08	GDP Annualized (Q3) Final	2.1%	1.7%
12/11	Domestic CGPI (Nov M/M)	0.0%	0.2%
12/11	Domestic CGPI (Nov Y/Y)	1.8%	1.9%
12/11	Export Price Index (Nov Y/Y)	N/A	2.4%
12/11	Import Price Index (Nov Y/Y)	N/A	18.3%
12/11	Adjusted Current Account Total (Oct)	N/A	¥1624.3 Bln
12/11	Trade Balance – BoP Basis (Oct)	N/A	¥1111.7 Bln
12/12	Consumer Confidence Households (Nov)	N/A	47.9
12/12	Industrial Production (Oct M/M) Final	N/A	N/A
12/12	Industrial Production (Oct Y/Y) Final	N/A	3.0%
12/12	Capacity Utilization (Oct) Final	N/A	103.2
12/13	Tankan large Manufacturers Index (Q4)	23	19
12/13	Tankan Large Manufacturers Outlook (Q4)	23	18
12/13	Tankan Non-Manufacturing (Q4)	17	15
12/13	Tankan Non-Manufacturing Outlook (Q4)	18	16
12/13	Tankan All Industries Capex (Q4)	10.1	9.3
12/14- 12/15	BoJ Monetary Policy Meeting	N/A	N/A

Valance Co., Inc.

Valance Economic Report: United Kingdom

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December 7, 2005

Consumer activity has rebounded a bit as both HBOS House Prices and the BRC Retail Sales survey showed a healthy bounce, 1.2% M/M and 4.6% M/M, respectively. Retail Sales on the other hand, may be increasing at the cost of business profits as the BRC reported that shop prices have decreased 0.8% Y/Y. Manufacturing Production unexpectedly decreased in October.

Weekly Highlights

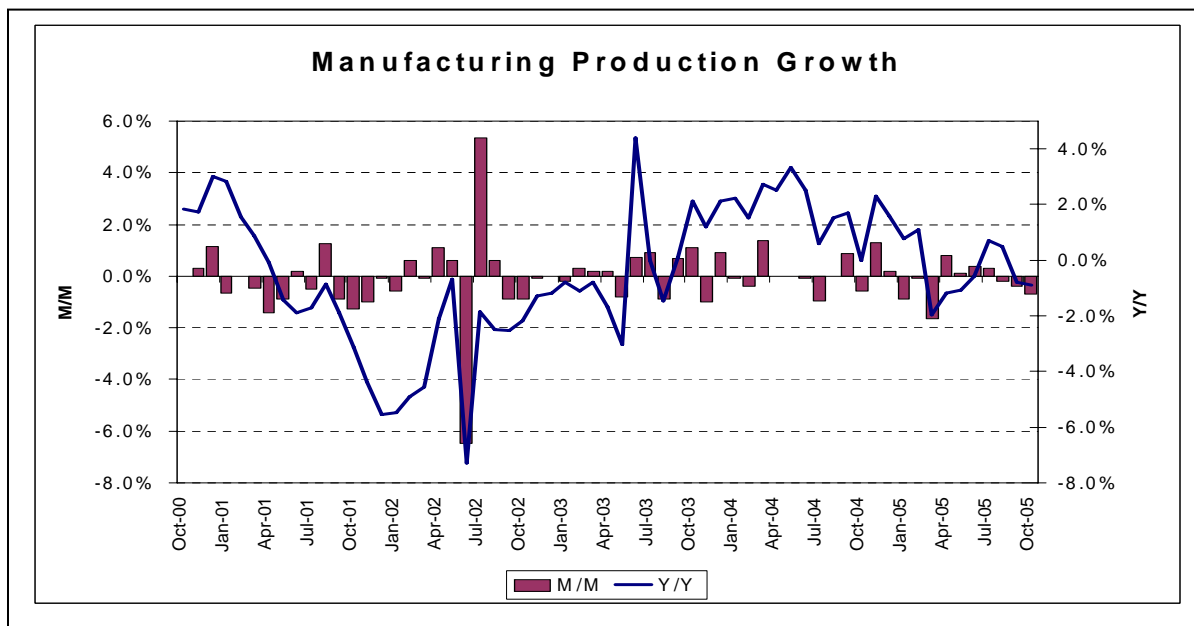
Manufacturing Production- decreased 0.7% M/M and 0.9% Y/Y in October. (page 26)

HBOS House Prices- increased 1.2% M/M and 4.5% Y/Y in November. (page 28)

Brown's Pre-Budget Report- reveals the largest reductions in Brown's economic forecasts since he took office. (page 29)

Weekly Releases & News

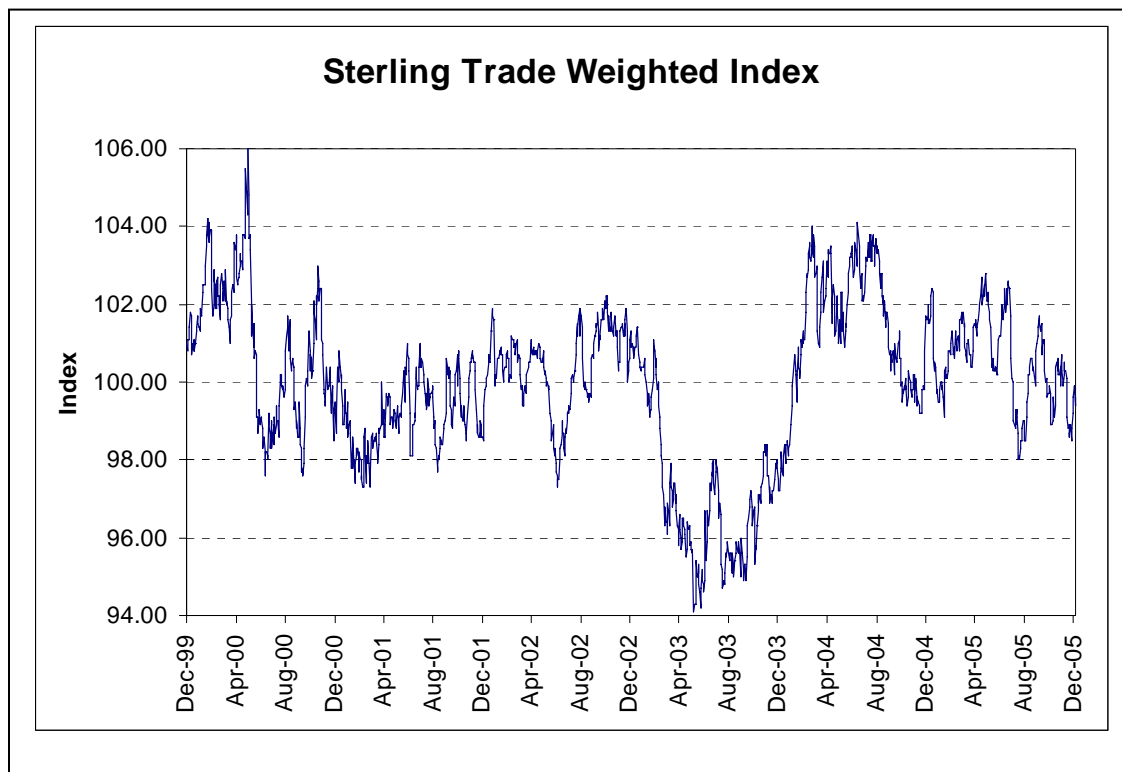
Chart of the Week: *Manufacturing Production Growth*



Manufacturing Production decreased 0.7% M/M and 0.9% Y/Y in October, the largest decrease in nine months. Ten of the thirteen sub-sectors decreased. This decline was led by the transport equipment sub-sector which decreased 2.7% M/M. At the same time, the electrical and optical equipment sub-sector decreased 1.8% M/M and the paper, printing and publishing sub-sector decreased 1.2% M/M.

Financial Balances & Trade Weighted Index

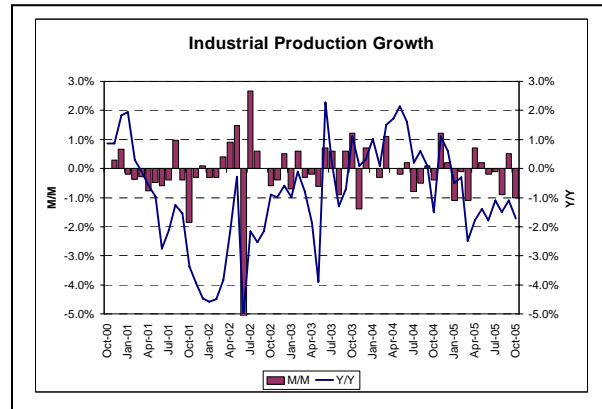
<i>U.K.</i>	<i>Last Period (blns)</i>	<i>Last 12mth. % of GDP</i>
Budget Balance (monthly)	-£2.2(Oct)	+3.1%
Trade Balance (monthly)	-£3.9 (Sept)	-2.1%
Curr. Acct. Balance (quarterly)	-£3.1 (June)	-1.6%
Private Balance	--	-4.7%



Industrial Production & HBOS House Price Survey

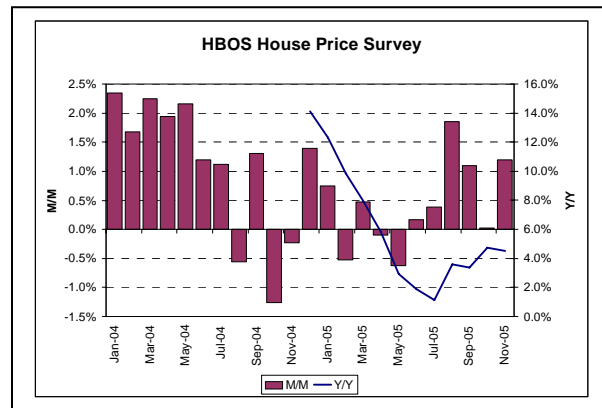
Industrial Production Growth

Industrial Production, which excludes mining and quarrying, decreased 1.0% M/M and 1.7% Y/Y in October.



HBOS House Price Survey

HBOS House Prices increased 1.2% M/M and 4.5% Y/Y in November.



Data

Pre-Budget Report:

Gordon Brown released his annual Pre-Budget Report in which he made the largest reductions in his economic forecasts since he took office, blaming it on high oil prices and competition from Asia.

Highlights from the report include:

- Cut 2005 GDP forecast from 3-3.5% to 1.75%.
- Cut 2006 GDP forecast from 3.0% to 2.0-2.5%.
- Forecasts 2007 growth to be 2.75%-3.25%.
- Forecasts 2005-06 Current Budget Deficit of £10bln.
- Forecasts 2006-07 Current Budget Deficit of £4bln.
- Forecasts 2007-08 Current Budget Deficit of £0bln.
- Increased taxes on oil companies by £6.5 bln pounds.
- Government spending, excluding capital investment, will fall from 39.3% of GDP in the next fiscal year, the highest since 1995, to 38.6% by 2010.
- The Treasury estimates the current cycle will now last 11 years and finish in March 2009, three years later than it forecast in the March budget. This will allow Brown to meet his Golden Rule with £16 bln to spare.

CIPS Services

CIPS Services PMI decreased from 56.1 to 55.8 in November. Outstanding new business decreased from 50.3 to 49.9 and employment decreased from 51.9 to 51.2, a nine month low.

CIPS Construction

CIPS Construction PMI increased from 53.9 to 54.2 in November. New orders rose to 58.4. Future business activity also rose to 75.1.

BRC Retail Sales

The British Retail Consortium (BRC) reported that Retail Sales increased 4.6% M/M and 3.8% 3M/3M in November, the first increase in eight months. Cooler weather has helped clothing stores and department stores sell more cold weather clothes.

BRC Shop Price Index

The British Retail Consortium (BRC) reported that Shop Prices increased 0.4% M/M and decreased 0.8% Y/Y in November, the largest annual decrease since January. Retailers are relying on heavy discounts to entice shoppers during the holiday season. Non-food items decreased 1.6% Y/Y and food prices increased 0.5% Y/Y.

Nationwide Consumer Confidence

Nationwide Consumer Confidence increased from 92 to 101 in November, the largest increase in nineteen months and more in line with its long-term average of 102.

NIESR GDP Estimate

The NIESR estimated that GDP increased from 0.3% Q/Q in October to 0.4% Q/Q in November.

Comments & Upcoming Dates

Comments

Gordon Brown commented that “we have had a doubling of oil prices and we have also had a slowdown in domestic demand in Europe, which has affected our exports. We have also been trying to control the slowdown of a house price boom. We have had governments in the past predicting growth and then had a recession. We have simply got slower growth. Over the next years, because we have got inflation down, we will be able to grow.”

He also mentioned why he increased taxes for oil companies, “People know that because prices have shot up, the oil companies and producers have made a lot of money and you have to get the balance right with consumers.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/08	MPC Announces Rates	4.50%	4.50%
12/09	Trade Balance	-£5.2 bln	-£5.4 bln
12/11	Rightmove House Prices	--	0.8% M/M 4.0% Y/Y
12/12	PPI Input	--	0.3% M/M 7.7% Y/Y
12/12	PPI Output	--	-0.1% M/M 2.6% Y/Y
12/12	ODPM House Prices	--	3.3% Y/Y
12/13	CPI	--	0.1% M/M 2.3% Y/Y
12/14	Claimant Count Rate	--	2.8%
12/14	Average Earnings	--	4.1% 3M/Y
12/14	ILO Unemployment Rate	--	4.7%
12/14	Leading Indicator	--	0.3% M/M
12/14	Coincident Indicator	--	0.2% M/M
12/15	Retail Sales	--	0.2% M/M 1.5% Y/Y

Valance Co., Inc.

Valance Economic Report: *Canada*

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December 7, 2005

The Bank of Canada increased its overnight rate by 25 bps to 3.25% as expected. Also last week, the Canadian economy posted strong employment gains coupled with an over 30 year low Unemployment Rate.

Weekly Highlights

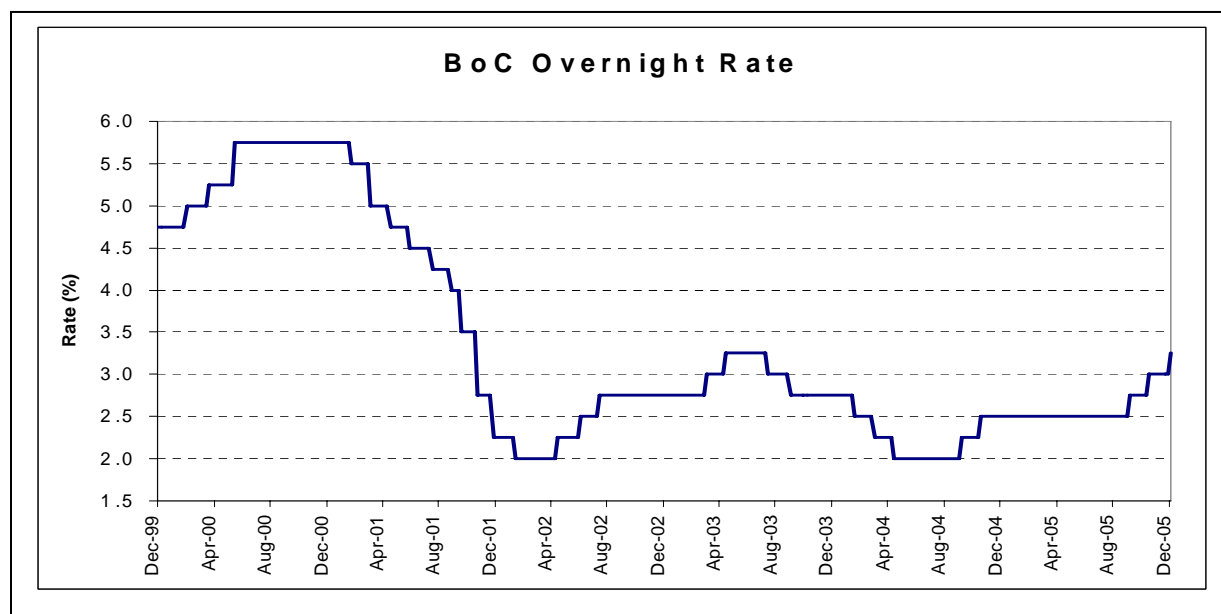
BoC- increased its overnight rate by 25bps to 3.25% as expected. (page 31)

The Canadian economy - gained 30.6K jobs in November. (page 33)

The Ivey Purchasing Manager's (IPM) Index – increased from 64.8 in October to 65.8 in November. (page 34)

Weekly Releases & News

Chart of the Week: *BoC Overnight Rate*



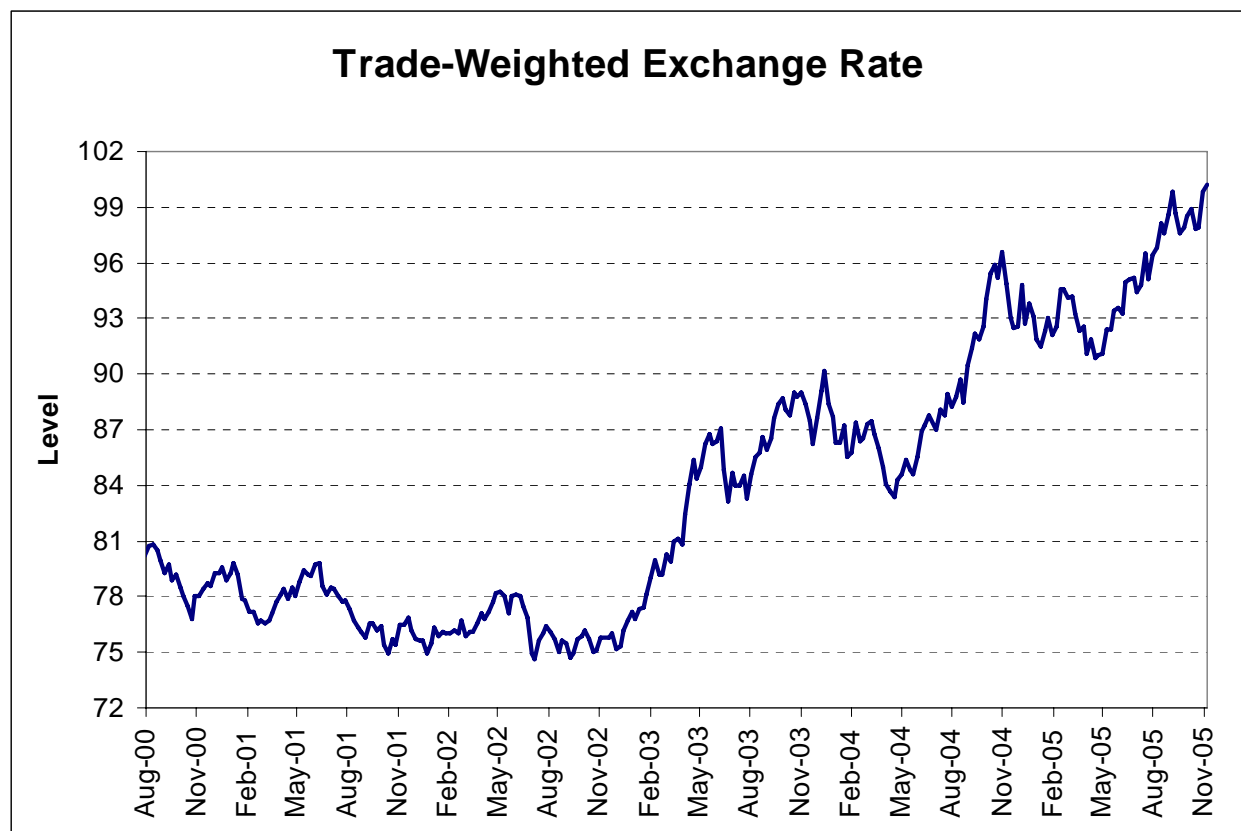
The Bank of Canada increased its overnight rate by 25bps to 3.25% as expected. On a soft tone, the Bank noted that Total CPI inflation, which was at 2.6% in October, “has come down more quickly than expected,” due to a decline in gasoline prices. However, the Bank stated that overall its “outlook for the economy and inflation through 2006 and 2007 is broadly unchanged from October.” On that note, the Bank stated that it will continue “to judge that the risks to the outlook are balanced over the short term, but are tilted to the downside through 2007 and beyond. In line with the outlook, some further reduction in monetary stimulus will be required to maintain a balance between aggregate supply and demand over the next four to six quarters and keep inflation on target.” The Bank of Canada's next scheduled date for announcing its overnight rate target is January 24th, 2006.

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	7.0 (Sept)	4.9%
Current Account Balance	9.3 (Q3)	2.2%
Private Balance	--	2.0%

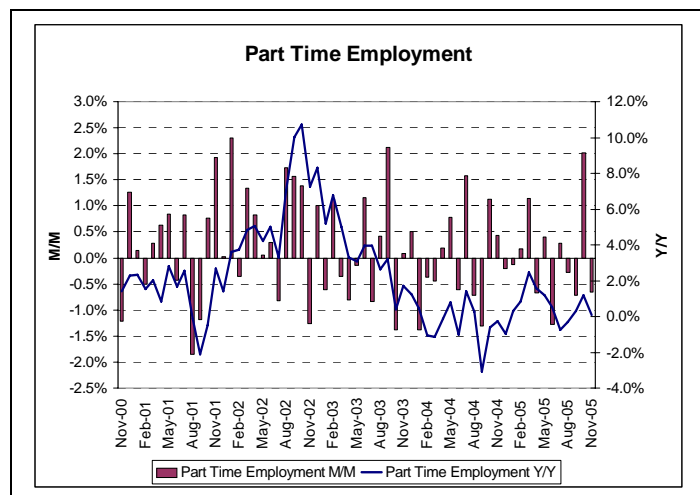
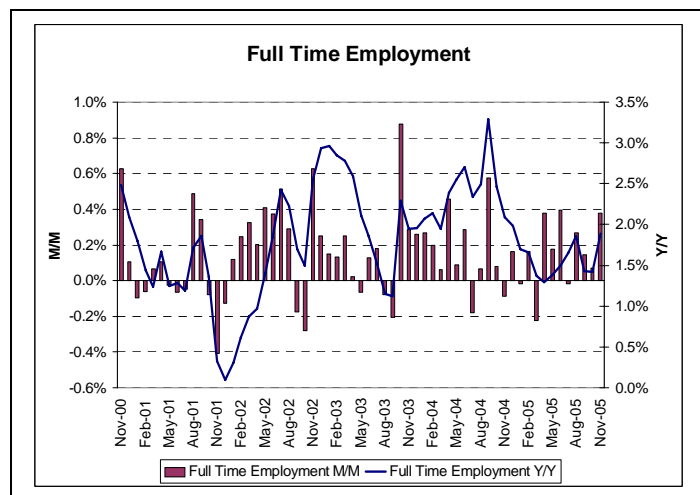
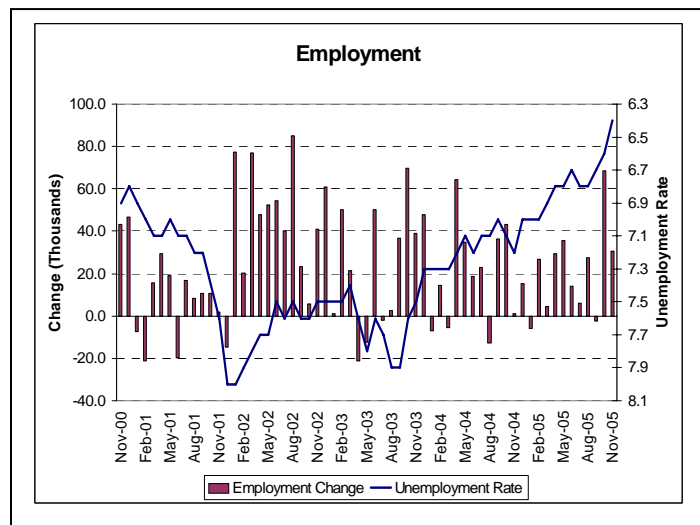
Trade-Weighted Exchange Rate



Employment Data

Employment Data

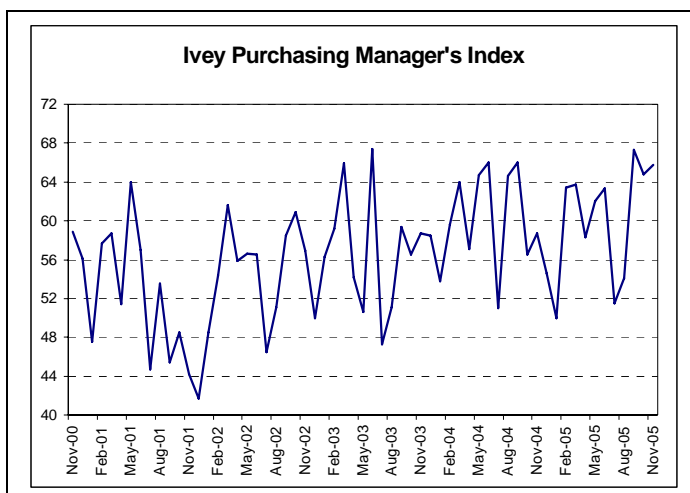
The Canadian economy gained 30.6K jobs in November, above market expectations for an increase of 20.0K jobs. Employment growth in November was led by a gain of 24K jobs in the construction sector. Full time employment increased 0.4% M/M and 1.9% Y/Y. Part time employment decreased 0.7% M/M and increased 0.1% Y/Y. The Unemployment Rate decreased from 6.6% to 6.4% to the lowest level in the current series, since it began in 1976.



Ivey Purchasing Managers Index and Building Permits

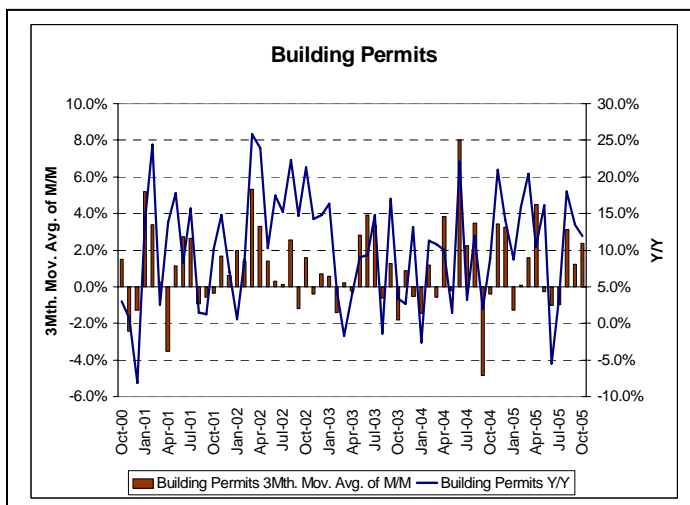
Ivey Purchasing Managers Index

The Ivey Purchasing Manager's (IPM) posted an upside surprise increasing from 64.8 in October to 65.8 in November, compared to market expectations for a reading of 61. The IPM has remained above or at the expansion level for 28 consecutive months.



Building Permits

Building Permits increased 1.2% M/M in October after declining 4.6% M/M in September. Expectations were for a flat reading. The increase occurred as a result of increases in permits in the residential and non-residential sectors.



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/08	Housing Starts (NOV)	215.0	206.7K
12/08	New Housing Price Index (M/M) (OCT)	0.4%	0.6%
12/09	Capacity Utilization Rate 3Q	87.2%	86.7%
12/9	Labor Productivity (Q/Q) (3Q)	0.5%	0.0%
12/18	New Motor Vehicle Sales (M/M) (OCT)	3.0%	-7.9%
12/13	Leading Indicators (M/M) (NOV)	0.4%	0.5%
12/14	Int'l Merchandise Trade (OCT)	C\$6.9	C\$7.0
12/14	Manufacturing Shipments (M/M)	0.3%	-0.5%

Valance Co., Inc.

Valance Economic Report: Australia

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December 07, 2005

Falling House Prices, stagnating Building Approvals and slower than expected economic growth in Q3 have reinforced the RBA's decision to set aside inflationary concerns and leave rates unchanged at this time.

Weekly Highlights

Current Account Deficit – widened to A\$13.5bln in the Q3 from a revised A\$12.0bln in Q2. (page 36)

Trade Deficit – narrowed to A\$1.33bln in October from a revised A\$1.56bln in September. (page 37)

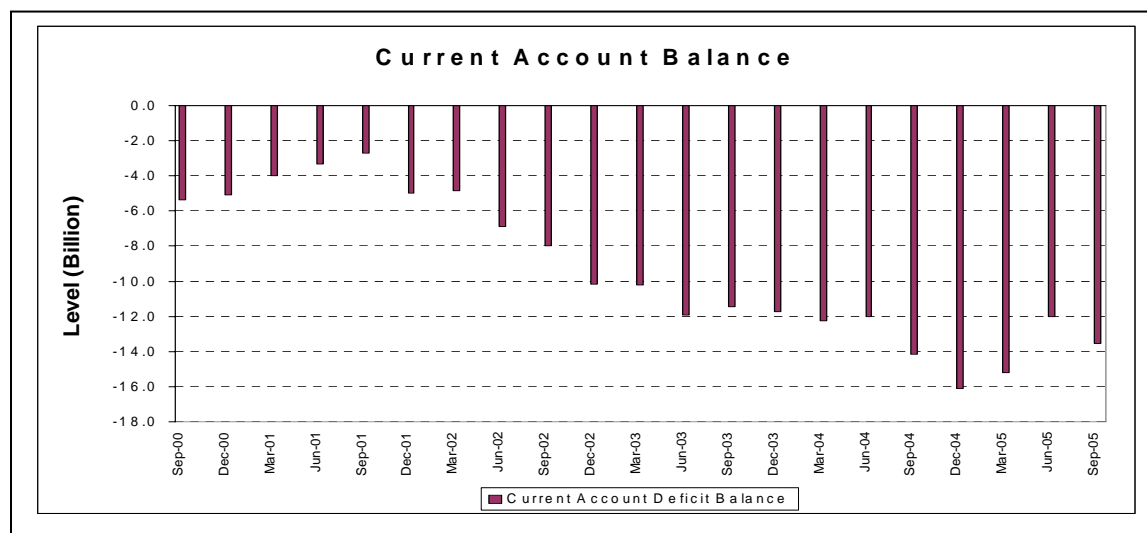
RBA Cash Target Rate – stays at 5.5% in December. (page 37)

House Prices – declined 1.1% Q/Q and rose 1.0% Y/Y in Q3. (page 38)

Building Approvals – unchanged M/M and declined 6.3% Y/Y in October. (page 38)

Weekly Releases & News

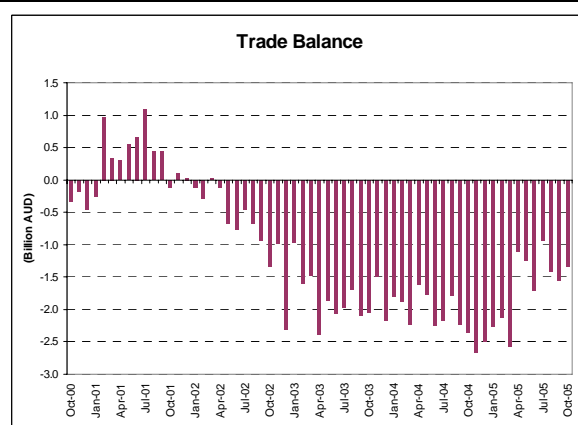
Chart of the Week: Current Account Deficit



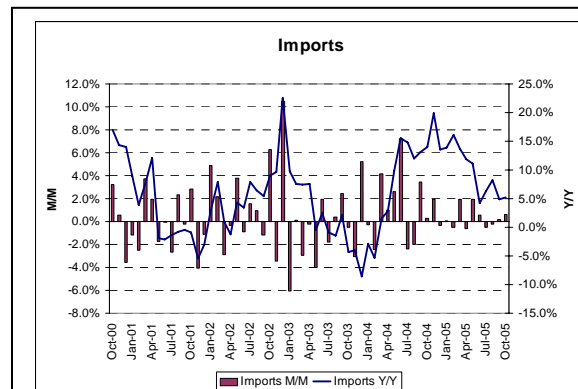
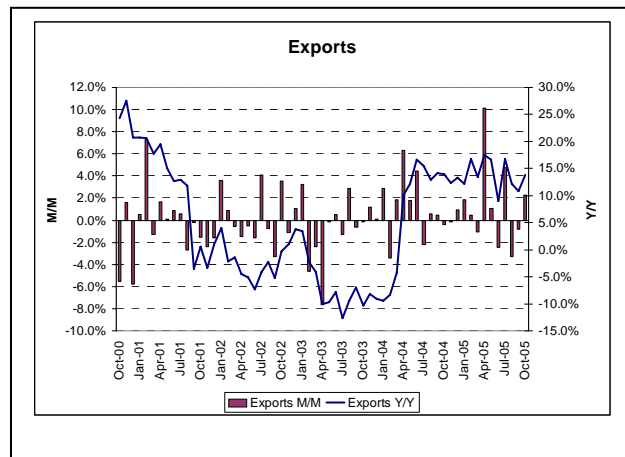
Australia's Q3 Current Account Deficit widened more than expected to A\$13.53bln from a revised A\$12.02bln in the Q2 (Prior A\$12.64bln) as fuel imports rose, farm exports dropped and offshore investors earned more from their holdings in local companies. Australia's Current Account shortfall rose to about 5.9% of GDP in Q3 from 5.7% in Q2.

Trade Balance, Exports & Imports & RBA Target Rate

Australia's Trade Deficit narrowed to A\$1.33bln in October from a revised A\$1.56bln in September (previous A\$1.62bln) as exports rose by 2.25% M/M to the second highest on record in October, led by commodity shipments to China. Imports rose by 0.6% M/M in October.

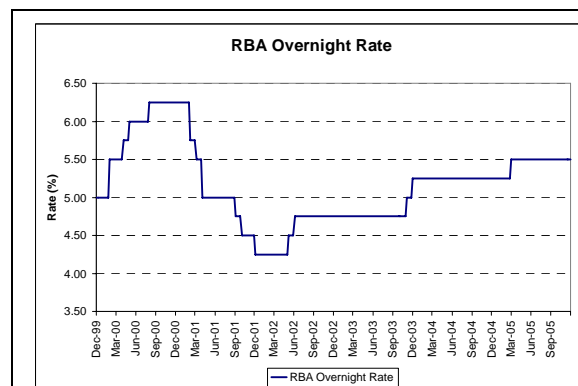


Exports & Imports



RBA Cash Target Rate

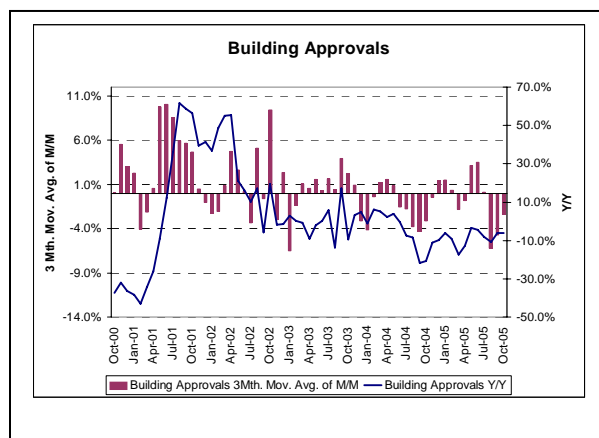
The RBA left its key interest rate unchanged at 5.5%.



Building Approvals, Home Loans & House Prices

Building Approvals

Approvals granted to build houses and apartments or to begin renovations were unchanged M/M in October from a revised 0.9% M/M in September (previous 1.8%).



Home Loans

Australia's Home-Loan Approvals increased for the fourth month in October as rising wages and job gains helped fuel a pickup in demand for property. The number of loans granted to owner-occupiers to build or buy homes and apartments rose 1.1% after increasing 4.3% in September.

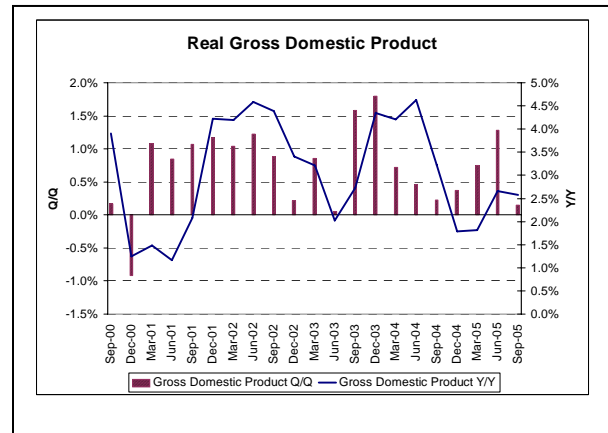
House Prices

The Q3 House Price Index had the largest decline since Q2 2004. Prices declined 1.0% Q/Q from a revised 0.7% (prior -0.1%) and rose 1.0% Y/Y from a revised 2.0% (prior -0.1%) in Q3. Together with unchanged M/M building approvals in October the housing market appears to be slowing.

GDP, ANZ Job Advertisement & Manufacturing

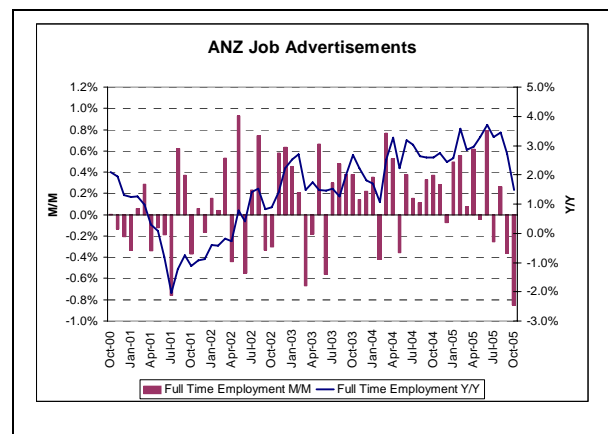
GDP

Q3 GDP rose by 0.2% Q/Q, well below the market forecasts of 0.5%. This was the slowest pace in a year as the government cut spending and exports fell. Y/Y growth was 2.6%.



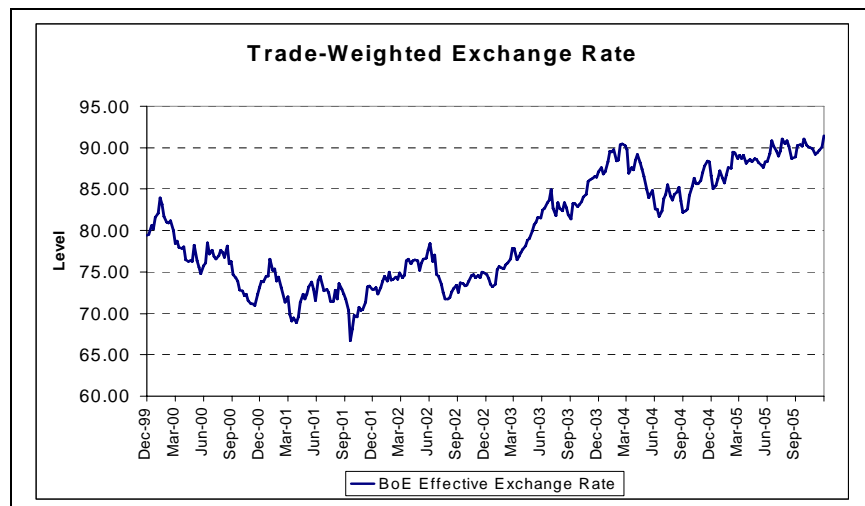
ANZ Job Advertisement

The number of jobs advertised in Australian newspapers rose 0.4% M/M, and declined 6.3% Y/Y in July.



Trade-Weighted Exchange Rate & News

Trade-Weighted Exchange Rate



News

Australian Treasurer Peter Costello commented on economic growth and exports this week:

“There was modest economic growth in the third quarter.”

“Three percent growth for the year is achievable.”

“Higher petrol prices and a waning of the housing boom contributed to the recent moderation in household consumption growth.”

“The outlook is for household consumption to grow at a moderate rate.”

“Exports have been disappointing.”

Australian Manufacturing Index

Comment by Heather Ridout, chief executive of the Australian Industry Group:

“It is clear that the industry is restructuring in the face of competition and cost pressures and this does not auger well for employment growth.”

Australia's manufacturing industry contracted in November for a fourth month in five as weaker housing reduced demand for metal products and construction materials. The index that measures Australian manufacturing production fell to 44.2 in November from October's 47.8.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/07	Unemployment Rate (NOV)	5.2%	5.2%
12/13	RBA Governor MacFarlane speaks: ABZ Conference	---	---
12/13	Westpac Consumer Confidence (DEC)	---	107.6

Valance Co., Inc.

Weekly Economic Report: **China**

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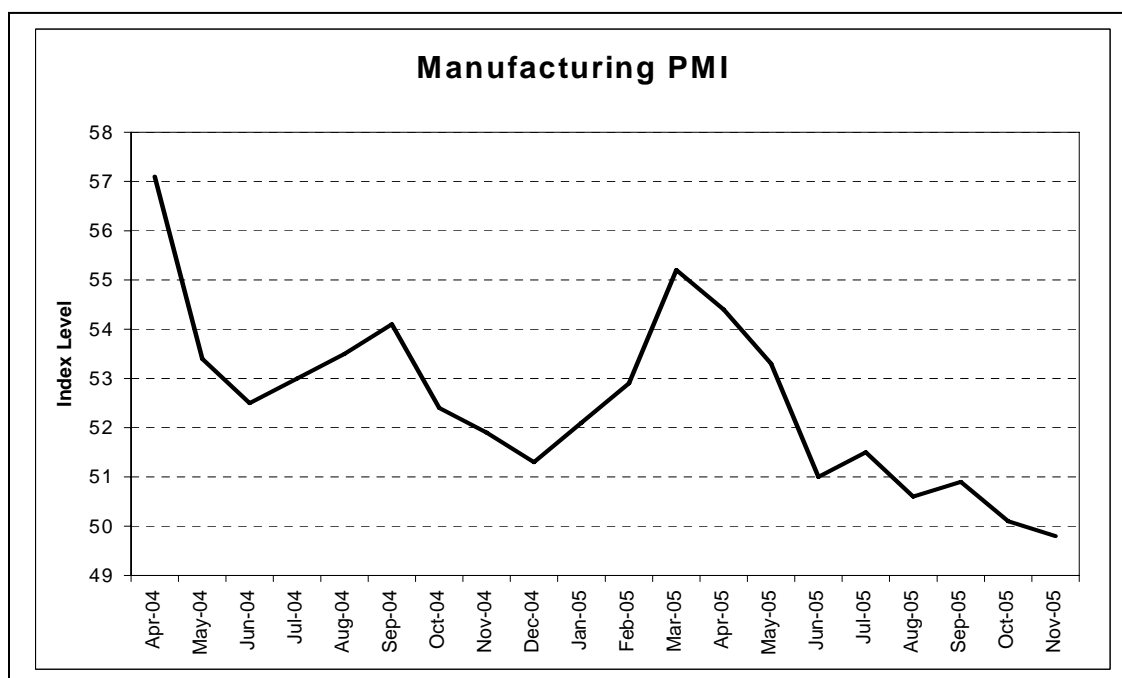
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December 7, 2005

The Manufacturing PMI decreased from 50.1 in October to 49.8 in November, to reach its lowest level since the series began in April 2004.

Weekly Releases & News

Chart of the Week: *Manufacturing PMI*



The Manufacturing PMI decreased from 50.1 in October to 49.8 in November. The index decreased in six of the eleven components: output, new orders, backlog of work, output prices input prices and quantity of purchases. The Input Prices component declined the most by 5.3 points. The following page displays the breakdown of the PMI Survey.

PMI Survey Results

PMI Survey Results

The PMI is a composite index with the following weightings: New Orders (30%), Output (25%), Employment (20%), Supplier Delivery Times (15%) and Stocks of Items Purchased (10%).

	Nov 2005	Oct 2005	Sept 2005	Aug 2005	Jul 2005	Jun 2005	May 2005	Apr 2005	Mar 2005	Feb 2005	Jan 2005	Dec 2004	Nov 2004
Seasonally Adjusted Index													
PMI	49.8	50.1	50.9	50.6	51.5	51.0	53.3	54.4	55.2	52.9	52.1	51.3	51.9
Output	49.9	50.2	51.8	51.4	53.2	51.3	55.4	56.1	56.6	54.6	53.9	53.2	54.5
New orders	50.9	51.0	52.6	52.2	52.5	51.6	55.1	58.0	59.4	55.5	54.9	53.0	53.7
New export orders	51.9	51.1	52.3	52.5	51.6	51.1	55.6	57.1	58.6	54.8	55.6	55.1	56.0
Backlog of work	51.4	52.0	54.4	52.5	52.8	53.3	56.5	59.2	61.6	56.8	56.9	54.0	55.9
Finished goods	49.9	49.4	47.3	49.9	50.5	48.9	49.2	47.5	47.8	49.4	49.0	46.9	48.9
Employment	49.5	49.1	49.4	49.1	50.5	50.3	50.6	50.4	51.5	50.2	49.5	49.2	49.8
Output prices	48.6	49.4	49.9	49.2	47.1	47.5	51.0	54.1	56.0	51.7	49.5	50.1	54.2
Input prices	46.8	52.1	56.3	52.1	47.9	46.1	54.4	69.2	71.3	59.6	56.0	59.1	64.0
Supplier deliveries	52.5	50.9	49.7	50.1	50.2	49.5	49.3	48.2	47.3	48.8	49.0	48.8	48.7
Quan. of purchases	52.0	52.7	53.4	53.4	53.7	52.8	54.8	56.9	57.4	55.0	54.6	52.5	53.8
Stocks of purchases	50.3	50.2	47.0	48.3	48.7	51.0	51.7	50.8	50.4	48.4	46.6	45.1	45.8

News Releases

December 5th – Auto Exports Surpass Imports - Ma Kai, Minister of the National Development and Reform Commission, announced for the first time that auto exports have surpassed auto imports. Exports doubled to 135K units, while imports slowed to 128K units. Additionally, Ma warned of an industry overcapacity, which currently stands at two mln units.

December 5th – Morgan Stanley Revised Its 2006-2007 Growth Forecasts – Morgan Stanley announced that it has revised its economic growth forecast for 2006 to 7.8%, following a previous prediction of 6.7% as a result of strong exports and falling oil prices. The bank also expects the 2007 forecast to be slightly lower than that of 2006 citing a slowdown in fixed asset investments from 20% to 10% in 2005.

December 5th – China's Economy Expected to Expand in 2006 – Economist, Zhang Liquan of the Development Research Center, expects the Chinese economy to grow between 9.2% and 9.4% in 2005 and 9.2% in 2006 as a result of export growth and investment.

December 5th – Stronger Yuan May Lead To Increase in Bad Loans – The PBoC stated that adjusting China's currency may increase bad loans as companies and exporters with extensive amounts of forex assets would be unable to pay off their debt. "The adjustment of the foreign-exchange rate has a direct and severe impact on export companies," the Central Bank stated. The Bank also added that, "Banks should change the credit limit accordingly to avoid a new batch of bad loans."

December 4th – China's Economy Expected to Grow 9.4% in 2005 – Spokesperson, Ma Kai of the State Development and Reform Commission, stated that China's economy is expected to grow by 9.4% this year, following an average growth rate of 9.5% over the past two years. Ma also made the following 2005 predictions: Fixed Asset Investment is expected to rise 25.0%; Retail Sales will increase 13.0%; and CPI will increase 2.0%.

November 30th – Stronger Yuan Won't Have Significant Impact on U.S. Deficit - The PBoC stated that adjusting China's currency will not have that big of an impact on the U.S.' trade deficit. The Central Bank further stated that, "Low household savings and growing fiscal deficits are the fundamental reasons for the widening U.S. trade deficit with China." "Only by taking measures to encourage savings, reduce the budget deficit and remove trade barriers can U.S. improve its worsening trade situation," the Bank added.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/08	Produce Price Index (Y/Y) - Nov	3.7%	4.0%
12/08	Purchasing Price Index – Nov	--	6.5%
12/11-16	Ttl Export / Import – Ind. (Y/Y) - Nov	26.3% / 25.0%	29.7% / 23.4%
12/11-16	Trade Surplus - Nov	12.00B	12.01B
12/11-16	Money Supply M2 / M1 / M0 (Y/Y) - Nov	17.60% / -- / --	18.00% / 12.10% / 9.0%
12/11-16	Household Savings –Trin Yuan - Nov	--	13.68T
12/11-16	Foreign Exchange Reserves Oct / Nov	--	769.00B / --
12/11-16	Wholesale Prices (Y/Y) - Nov	--	0.9%
12/11-16	Actual / Contract FDI Cumulative (Y/Y)	-- / --	-2.12% / 22.53%
12/11	CPI (Y/Y) - Nov	1.4%	1.2%
12/12	Retail Sales Value Ind. / Accum. (Y/Y) - Nov	12.8% / --	12.8% / 13.0%
12/13	Value Added Industry (Y/Y) / Current - Nov	16.1% / --	16.1% / 632.00B
12/14	Fixed Assets Inv. Urban Cum (Y/Y) - Nov	27.6%	27.6%

Valance Co., Inc.

Valance Economic Report: Sweden

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December 7, 2005

This week's economic news was highlighted by the Riksbank's decision to leave its repo rate unchanged at 1.5%. Separately, Real GDP growth advanced from 0.8% Q/Q and 2.2% Y/Y in Q2 to 1.0% Q/Q and 3.4% Y/Y in Q3.

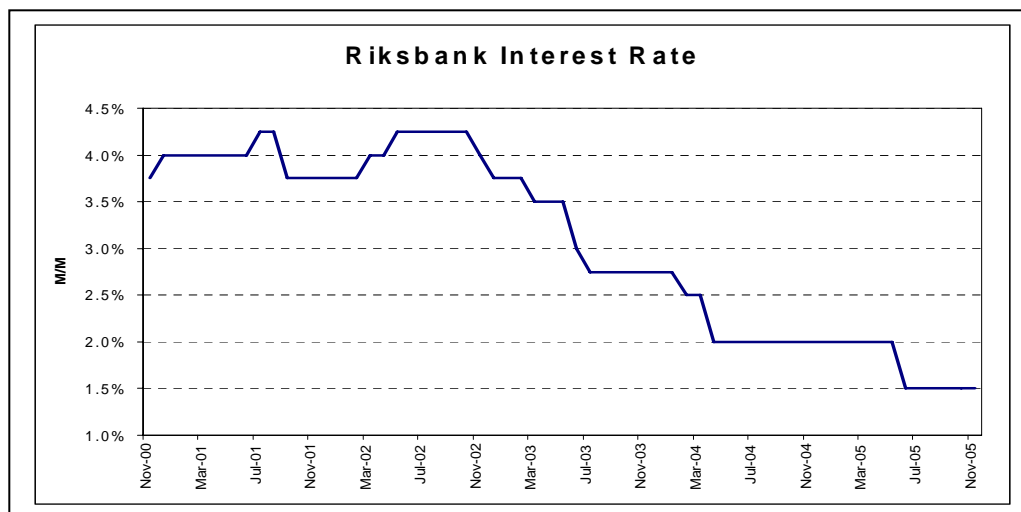
Weekly Highlights

Riksbank Interest Rate - left its repurchase rate at 1.5%. (page 46)

Real GDP - advanced from 0.8% Q/Q to 1.0% Q/Q in Q3 and Y/Y growth rose from 2.2% in Q2 to 3.4% in Q3. (page 47)

Weekly Releases & News

Chart of the Week: Riksbank Interest Rate

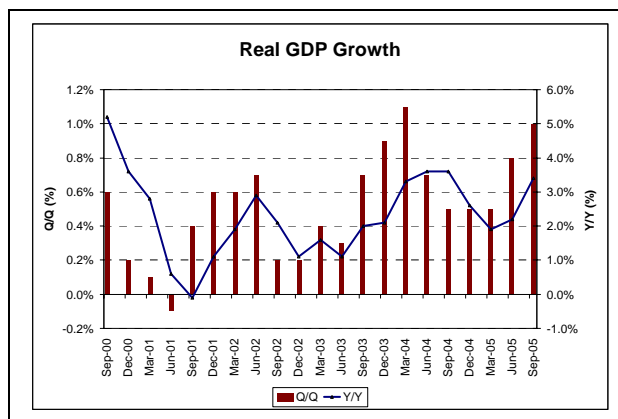


The Riksbank left its repurchase rate at 1.5%, as expected. The Central Bank maintains its patience in raising its repo rate and expects that in two years, inflation will still be lower than its 2.0% target. Inflation has remained below the Bank's target since September 2003. Central Bank Governor, Lars Heikensten remarked, "The Swedish economy is a bit stronger than we judged it to be in October." Heikensten also added, "The rates are low and the economy is expanding at a fast pace, so it is entirely natural that rates will be increased in the future. Households and companies should prepare for this." The Bank revised its 2007 underlying annual inflation forecast from an earlier 1.9% to 2.0%.

Real GDP, Household Consumption & Gross Fixed Consumption

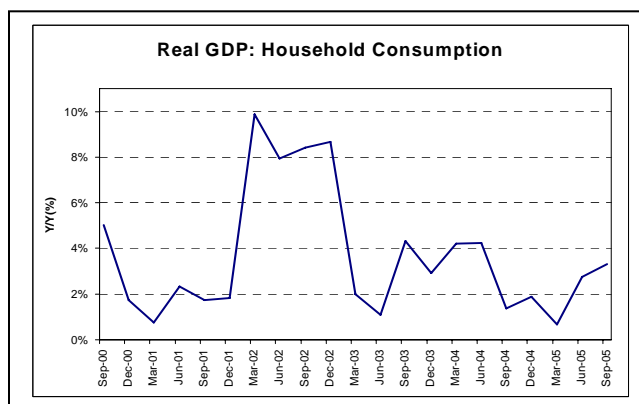
Real GDP

Real GDP Growth advanced from a revised 0.8% Q/Q (up from 0.6%) to 1.0% Q/Q in Q3 and Y/Y growth rose from a revised 2.2% (down from 2.3%) in Q2 to 3.4% in Q3. Growth was spurred by increased consumer and corporate spending.



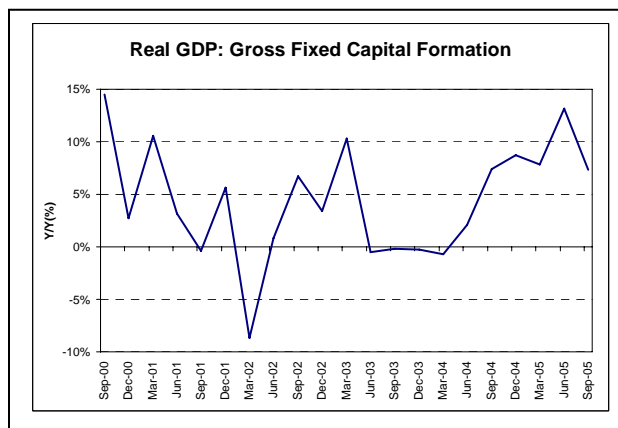
Household Consumption

Real Household Consumption growth increased from 2.7% Y/Y in Q2 to 3.3% Y/Y in Q3. Conversely, Q/Q growth slowed from 5.7% in Q2 to -1.9% in Q3.



Gross Fixed Consumption

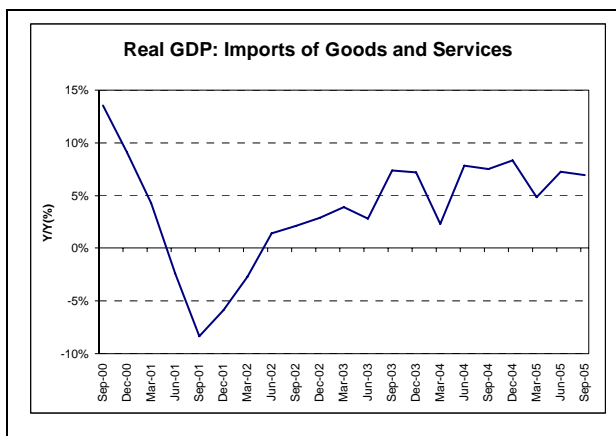
Gross Fixed Capital Formation growth slowed from 4.2% Q/Q in Q2 to -17.5% Q/Q in Q2, and from 13.1% Y/Y in Q2 to 7.4% Y/Y in Q3.



Imports and Exports of Goods and Services & Budget Surplus

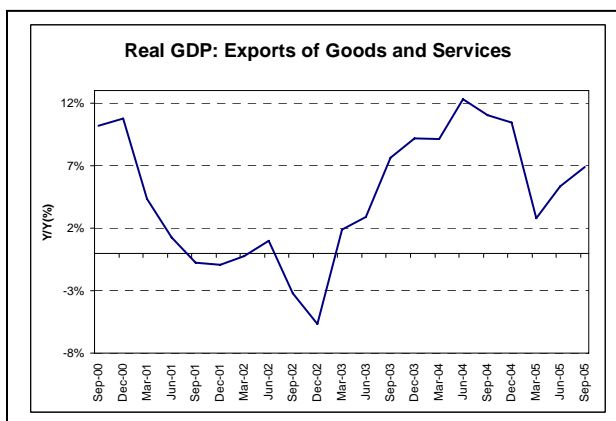
Imports of Goods & Services

Imports of Goods and Services fell from 7.3% Q/Q in Q2 to -2.8% Q/Q in Q3 and from 7.2% Y/Y in Q2 to 7.0% Y/Y in Q3.



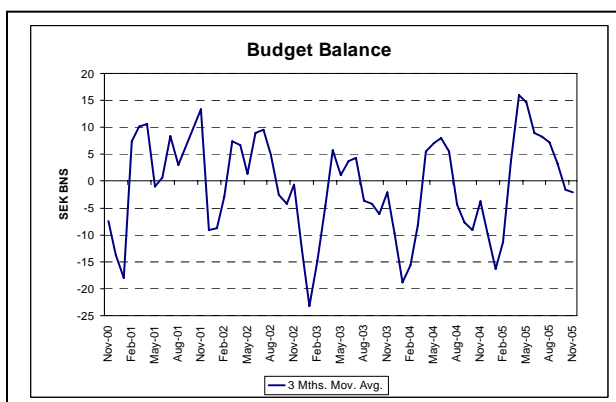
Exports of Goods & Services

Exports of Goods and Services increased from 5.4% Y/Y in Q2 to 6.9% Y/Y in Q3. Conversely, the Q/Q growth slowed from 10.6% in Q2 to -4.9% in Q3.



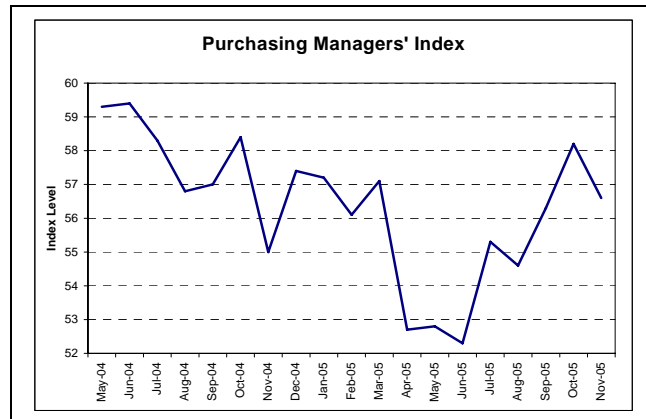
Budget Surplus

Sweden experienced a budget surplus of SEK 7.2 bln in November.

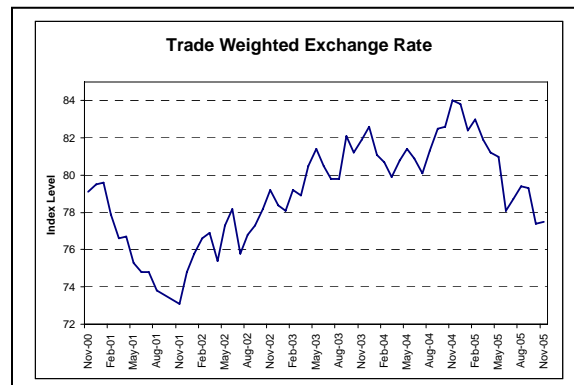


Swedbank PMI Survey, Trade Weighted Exchange Rate & Upcoming Dates

Sweden's Purchasing Managers' Index fell from 57.7 in October to 56.1 in November. Production (58.63) and Orders (59.52) both fell from 62.3 and 61.2, respectively. Conversely, Employment (52.6) rose from 52.5.



Trade Weighted Exchange Rate



Key Dates This Week

Date	Indicator	Expectation	Previous
12/08	Industrial Production s.a. (M/M) / n.s.a (Y/Y) - Oct	0.6% / 0.9%	1.9% / 0.0%
12/08	Industrial Orders s.a. (M/M) / n.s.a. (Y/Y) - Oct	--	-2.8% / 2.3%
12/08	Activity Index Level - Oct	--	112.0
12/09	AMS Unemployment Rate - Nov	4.9%	5.1%
12/13	CPI – Headline Rate (M/M) / (Y/Y) – Nov	--	-
12/13	CPI – Underlying Inflation (M/M) / (Y/Y) - Nov	--	--

Valance Co., Inc.

Valance Economic Report: Switzerland

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December 7, 2005

Strong economic growth in Switzerland was the highlight of this week's data. Real GDP expanded from 0.6% Q/Q in Q2 to 1.0% Q/Q in Q3. The Y/Y growth increased from 1.1% Y/Y in Q2 to 2.3% Y/Y in Q3. The Unemployment Rate remained unchanged at 3.7% in November after falling a month earlier for the first time in a year. In other news, the SNB's Chief Economist, Ulrich Kohli, commented on the Swiss economy.

Weekly Highlights

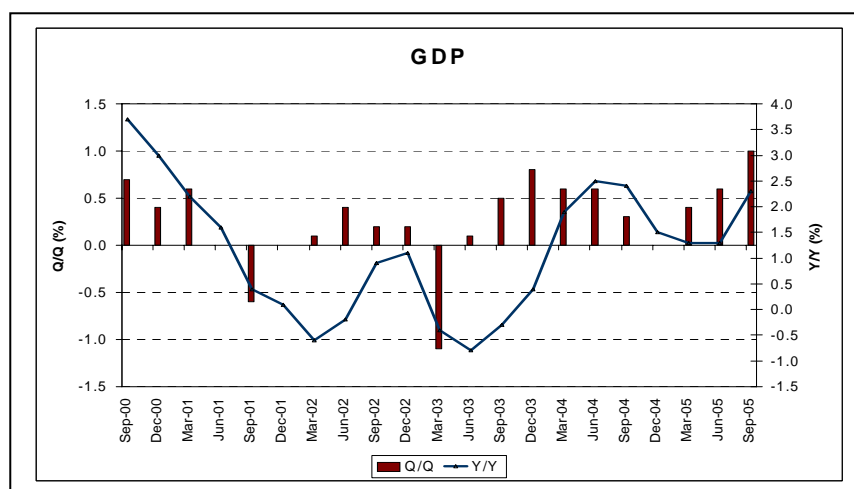
Real GDP - expanded from a revised 0.6% Q/Q and 1.1% Y/Y to 1.0% Q/Q and 2.3% Y/Y in Q3. (page 50)

Unemployment Rate – remained unchanged at 3.7% in November. (page 52)

PMI - rose from 56.8 in October to 57.8 in November indicating expansion. (page 52)

Weekly Releases & News

Charts of the Week: Real GDP

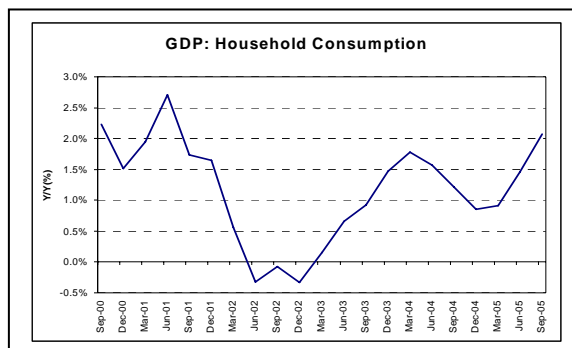


Switzerland's Real GDP expanded from a revised 0.6% Q/Q (up from 0.3%) to 1.0% Q/Q in Q3. Similarly, the Y/Y growth increased 1.1% in Q2 to 2.3% in Q3. Growth has been facilitated by export demand and the franc's 13.0% decline against the dollar this year. This data suggests that a rate increase may be forthcoming. Economist, Roland Klaeger of Credit Suisse, also agreed and stated that the current GDP data makes "the 25 basis point increase in December definite and you can even speculate about a 50-point rise." "We think there will be further 25-point steps taken in the first and second quarters," Klaeger added.

Household Consumption, Gross Fixed Capital & Total Imports & Exports

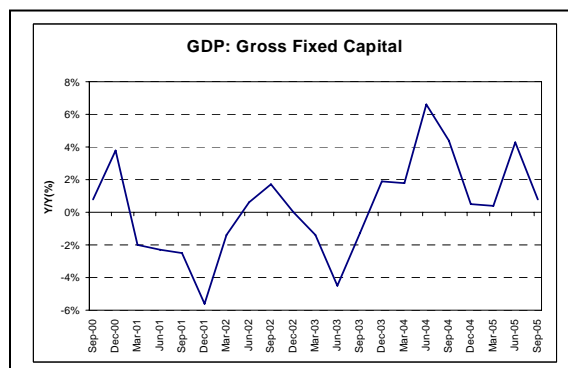
Household Consumption

Real Household Consumption growth slowed from 1.0% Q/Q in Q2 to 0.9% Q/Q in Q3. Conversely, Y/Y growth increased from 1.5% in Q2 to 2.1% in Q3.

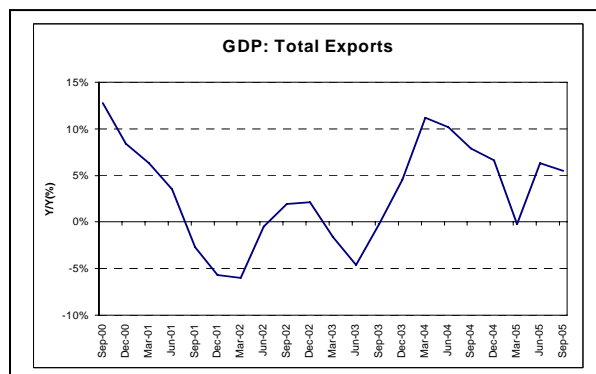
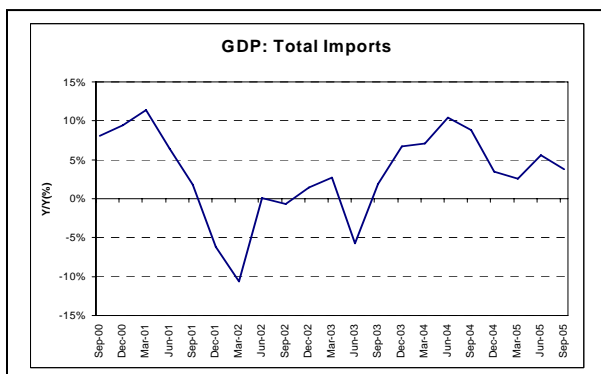


Gross Fixed Capital

Gross Fixed Capital growth slowed from 5.2% Q/Q in Q2 to -2.4% Q/Q in Q3. Y/Y growth also slowed from 4.3% Y/Y in Q2 to 0.8% Y/Y in Q3.



Total Imports & Exports

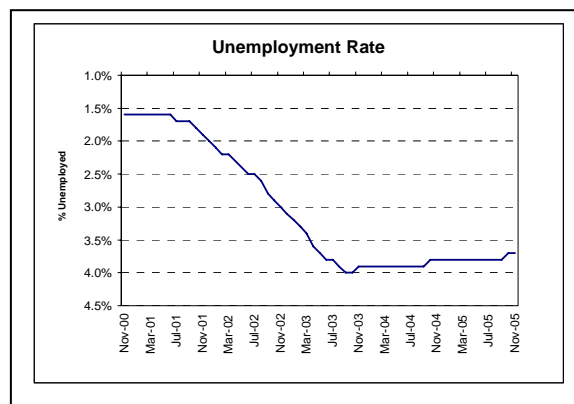


Total Imports fell from 5.7% Q/Q and 5.6% Y/Y in Q2 to -0.4% Q/Q and 3.8Y/Y in Q3. Similarly, Total Exports also slowed from 6.7% Q/Q and 6.3% Y/Y to 0.2% Q/Q and 5.5% Y/Y

Unemployment Rate, SVME Purchasing Managers' Index & PMI Results

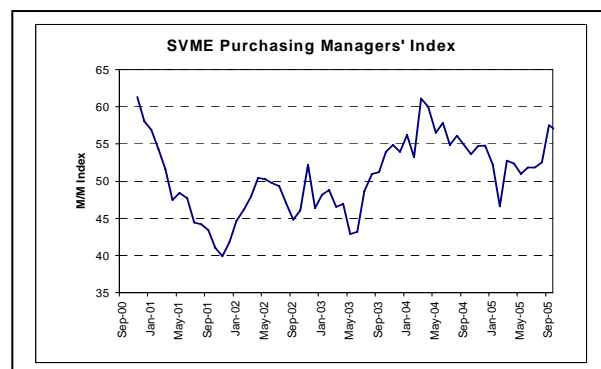
Unemployment Rate

The Unemployment Rate was unchanged at 3.7% in November, as expected, after falling a month earlier for the first time in almost a year.



SVME Purchasing Managers' Index

Switzerland's Purchasing Managers' Index rose from 56.8 in October to 57.8 in November. As illustrated in the PMI table below, the index increased in four out of eight components. November's reading was the highest level since June.

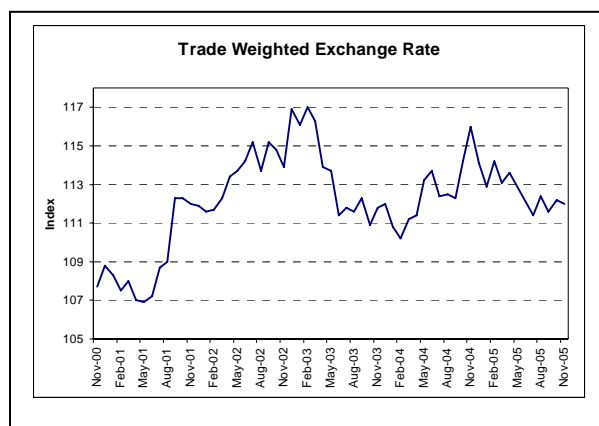


PMI Results

	Nov 2005	Oct 2005	Sep 2005	Aug 2005	Jul 2005	Jun 2005	May 2005	Apr 2005	Mar 2005
PMI s.a.	57.8	56.8	57.5	52.5	51.8	51.8	51.0	52.4	52.8
Output	62.0	55.0	60.2	54.1	51.2	55.9	52.0	53.3	54.3
Backlog of Orders	59.4	63.7	62.7	54.1	53.7	52.7	55.2	54.5	53.1
Quantity of Purchase	56.1	58.3	54.9	50.4	54.8	49.2	49.0	55.8	47.7
Purchase Prices	62.3	64.9	59.6	57.4	49.8	47.6	46.4	55.2	56.4
Suppliers Delivery Times	57.7	57.8	54.7	54.9	58.3	51.8	50.8	49.6	42.2
Stocks of Purchases	51.9	46.8	46.7	46.6	49.1	46.3	40.5	45.9	49.1
Stocks of Finished Goods	50.1	46.6	45.2	45.6	42.3	46.1	46.3	51.3	49.4
Employment	53.1	52.7	54.2	49.2	46.1	48.4	49.0	53.6	52.6
PMI NSA	56.2	57.3	59.6	49.4	49.9	54.1	52.3	53.9	54.5

Trade Weighted Exchange Rate & SNB News

Trade Weighted Exchange Rate



SNB News

December 7th – SNB's Chief Economist Kohli Comments on Economy – SNB Chief Economist, Ulrich Kohli, made the following comments on the Swiss economy:

On economic growth in Switzerland: "Switzerland regularly shows up at the bottom of international rankings. According to the OECD, it has now been surpassed by Ireland in terms of real income per capita. If current trends continue, Switzerland will eventually become one of the poorest countries of Western Europe. For some analysts, Switzerland has been in a great depression for the past thirty years."

On why growth slowed in Switzerland: "The 1990s have witnessed a number of shocks that have had a negative impact on activity and on capital formation in Switzerland," including "the restrictive monetary policy of the early 1990s that was made necessary by the increase in inflation in the late 1980s, the bursting of the housing bubble that had an adverse impact on household consumption," rising health insurance costs, which "severely amputated disposable income," and "the burden of German reunification and the restrictive European fiscal policies," which hurt Swiss exports.

On Switzerland's reputation for high prices: "The high prices we pay for the goods and services we consume reflect a lack of competition, rigidities, administrative hurdles, and inefficiencies that afflict our domestic market. They also "reflect the high wages that we enjoy. Our country is well endowed with capital and scarce in labor and land. Consequently, returns on capital are relatively low and real wages are high by international standards."

On protectionism within the economy: "There seems to be no end to Swiss creativity when it comes to devising exotic taxes and duties. Some new levies are probably on the drawing board as we speak."

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
12/13	Adjusted Real Retail Sales (Y/Y) - Sep	--	4.7%
12/14-20	PIP (M/M) / (Y/Y) - Nov	--	0.0% / 1.0%
12/14	SNB 3-Month Libor Rate	1.00%	0.75%
12/14	Swiss National Bank Holds Monetary Policy Assessment	--	--