

Valance Company, Inc.



Weekly

April 12, 2006

III

Highlights

US – Labor Market strength continues (page 2)

Euroland –German Exports soar; France struggles (page 7)

Japan – February Core Machine Orders increased more than anticipated (page 15)

UK – Employment data continues to weaken (page 22)

CA – Unemployment Rate hit a 32 year low; New House Prices increased at their fastest pace in 16 years (page 30)

Australia – Dramatic change in market expectations about the RBA (page 35)

United States

Cesar Guerra
cguerra@valance.us

Euroland

Sean O'Reilly
soreilly@valance.us

Japan

Davin Patton
dpatton@valance.us

United Kingdom

Gabe Webber
gwebber@valance.us

China

Canada

La-Toya Elizee
lelizee@valance.us

Australia

New Zealand

Milo Prochazka
mprochazka@valance.us

Sweden

Switzerland

China

Evelyn Richards
erichards@valance.us

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Valance Economic Reports

Valance Co., Inc.

Valance Economic Report: United States

Cesar Guerra
(340) 692-7710cguerra@valance.us

April 12th, 2006

This week's light economic data was highlighted by strong payroll data. Payrolls gained 211k, unemployment dropped to 4.7% and the three month annualized growth rate of average hourly earnings rose to 3.4%. The NFIB survey had a negative tone with the overall index dropping 3.5 points to 98.0. Comments from Governor Bies this week suggested the Fed was nearing the "appropriate" level of short-term rates, although Poole said 5.25% was not unreasonable.

Weekly Highlights

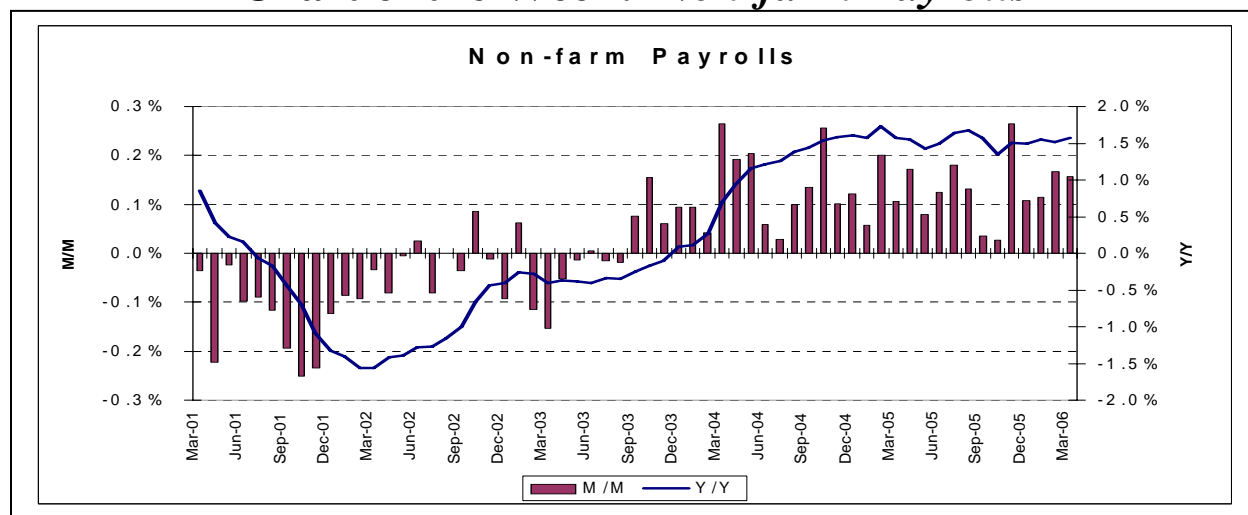
Employment- payrolls increased 211k in March. (page 2)

Average Hourly Earnings- increased 0.2% M/M and 3.4% Y/Y in March. (page 4)

Mortgage Purchase Applications- down 10.0% Y/Y on a four-week moving average basis. (page 5)

Weekly Releases

Chart of the Week: *Non-farm Payrolls*



Non-farm Payrolls increased 211k in March, above expectations of 190k; February's gain was revised down from 243k to 225k and the average gain for Q1 was 197k. The unemployment rate dropped from 4.8% to 4.7% according to the household survey, evidence of higher "resource utilization." It will be important to monitor the extent to which lower unemployment drives average wages higher. Thus far, we have seen average wages accelerate a bit as the unemployment rate has dropped below 5%.

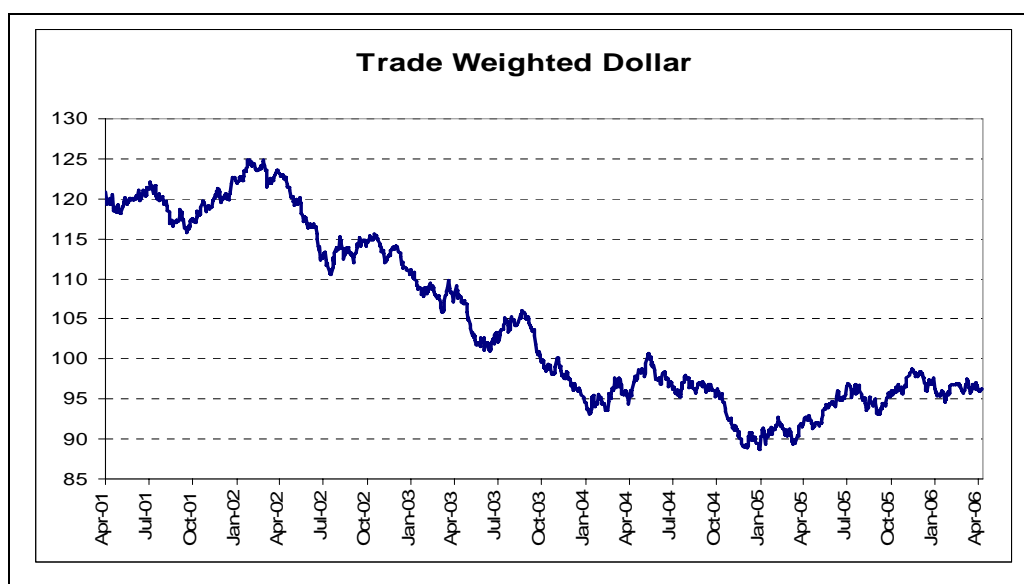
U.S. Financial Balances & Trade Weighted Dollar

Financial Balances

<i>U.S.</i>	<i>Latest period (\$blns)</i>	<i>Last 12mth. as a % of GDP</i>
Budget Balance	-119.2 (February)	-2.4%
Trade Balance	-65.7 (February)	-5.8%
Current Account Balance	-224.4 (Q4)	-6.3%
Private Balance	--	-3.9%

The budget deficit is currently at \$313 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 February is still 5.8% 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.

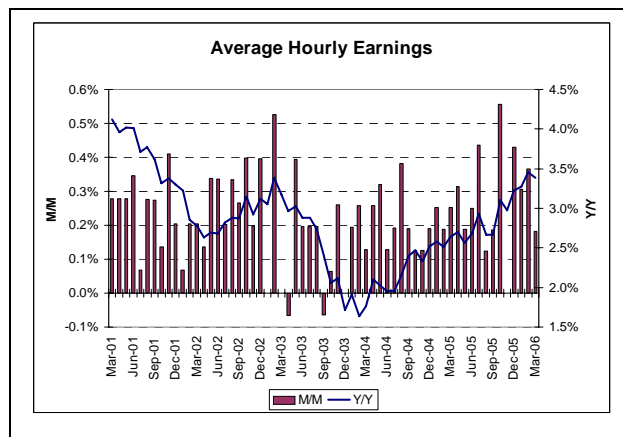
Trade Weighted Dollar



Hourly Earnings, Weekly Hours & Employment Claims

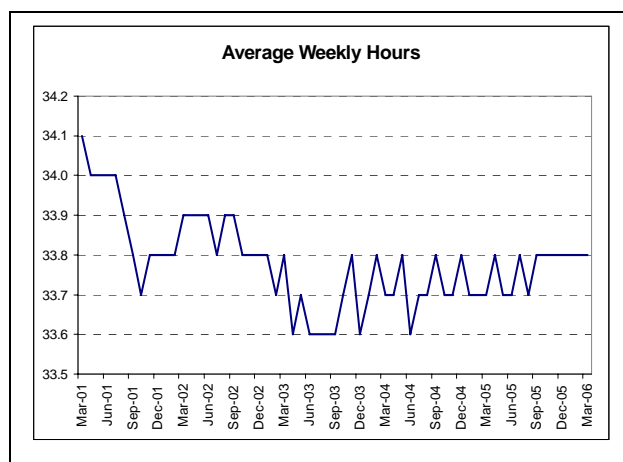
Average Hourly Earnings

Average hourly earnings grew 0.2% M/M and 3.4% Y/Y in March. The acceleration in wages over the past four months has heightened concerns that upward pressures in wages could lead to higher core inflation and keep the Fed hiking. The three month annualized rate is now 3.4%, up from 2.8% a year ago.



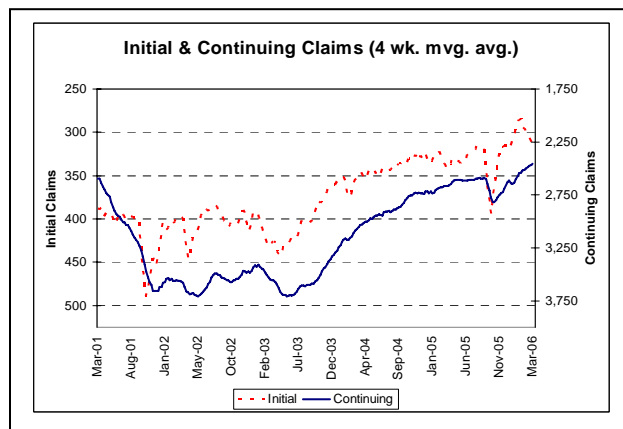
Average Weekly Hours

Average weekly hours remained at 33.8 in March. This metric continues to be flat- which suggests that some slack remains in the labor market and that productivity gains have allowed for increased production.



Initial & Continuing Claims

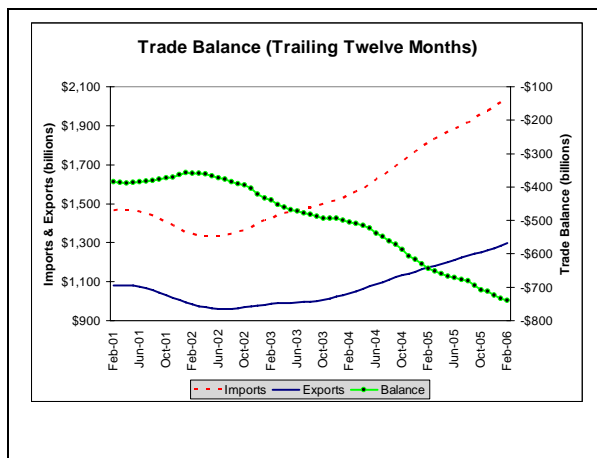
The four week moving average of initial claims decreased by 2k to 309k and continuing claims decreased by 13k to 2,455k. Claims data continues to show a healthy labor market.



Trade Balance, Mort. Apps. & Consumer Credit

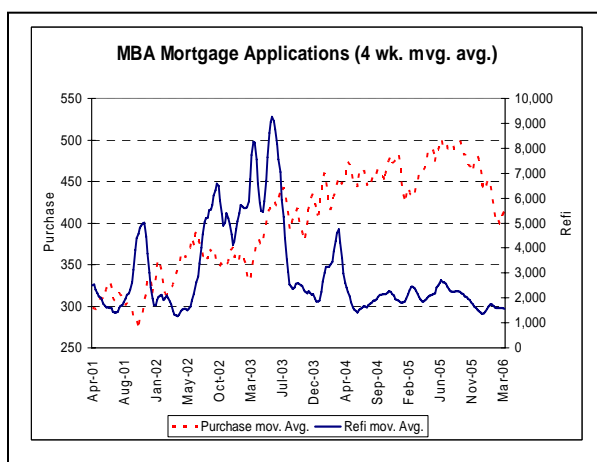
Trade Balance

The Trade Deficit narrowed from \$68.6 bln to \$65.7 bln in February. Imports decreased 2.3% M/M and increased 10.7% Y/Y and exports declined 1.2% M/M and 12.0% Y/Y. The decline in imports may have been related holidays in China and will likely reverse. The trailing twelve month trade deficit is now \$740 bln or 5.8% of GDP. The latest current account deficit reached \$224.4 bln in Q4 2005. On a trailing twelve month basis, the current account is now 6.3% of GDP.



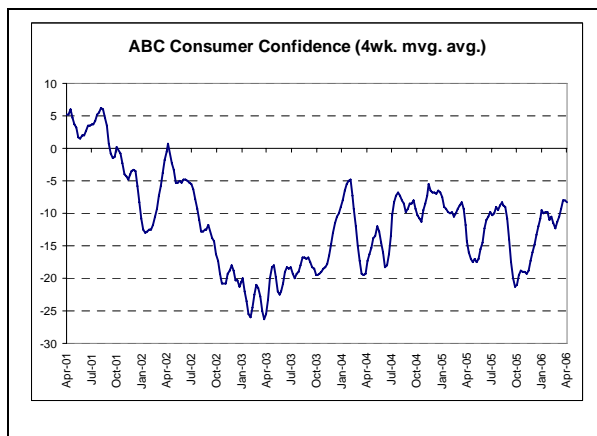
MBA Mortgage Applications

Purchase mortgage applications decreased 4.7% w/w and refi applications were down 6.6% w/w this week. The four-week moving average of purchase applications is down 10.0% Y/Y and was down 12.0% Y/Y just based on last week's reading. The slowing of the housing market is evident in mortgage application data.



ABC Consumer Confidence

The ABC Consumer Confidence Index remained at -9. The econ component declined from -16 to -20, but the buying and finance components improved from -28 and 18 to -26 and 20, respectively.



Fed Comments & Upcoming Dates

Fed Comments

Poole- "... a perfectly reasonable understanding given the information that is available."
(referring to markets pricing in 5.25% fed funds rate)

Bies- "What we're saying is that we are in a range today where we are getting closer to feeling that we've got the appropriate level of short-term interest rates relative to what we see happening in terms of inflation and the economy."

"So...it's not a slam-dunk how much further we're going."

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
04/13	Import Price Index (MAR) (M/M)	0.2%	-0.5%
04/13	Retail Sales Less Autos (MAR)	0.5%	-0.4%
04/13	Initial Jobless Claims (APR 8)	305K	299K
04/13	Continuing Claims (APR 1)	2450K	2440K
04/13	U. of Michigan Confidence (APR)	89.0	88.9
04/13	Industrial Production (MAR)	0.5%	0.7%
04/14	Capacity Utilization (MAR)	81.4%	81.2%
04/17	Empire Manufacturing (APR)	24.0	31.2
04/17	NAHB Housing Market Index (APR)	55	55
04/18	Housing Starts (MAR)	2050K	2120K
04/18	Building Permits (MAR)	2080K	2145K
04/18	Minutes of Mar. 28 th FOMC Meeting	--	--
04/18	Core PPI (MAR) M/M	0.2%	0.3%
04/18	ABC Consumer Confidence (APR 17)	NA	-9

Valance Co., Inc.

Valance Economic Report: Euro Zone

Sean O'Reilly

(340) 692-7710

soreilly@valance.us

April 12, 2006

The ECB left rates unchanged at 2.50% as expected in April, while delivering a slightly more dovish stance than expected. Although a May hike was likely taken off the table, one ECB member stated this week that June was the next “appointment”. Data wise, confidence remained strong, though future expectations have begun to tail off. Lastly, German exports continued to grow while France continued to lag behind as both exports and production fell.

Weekly Highlights

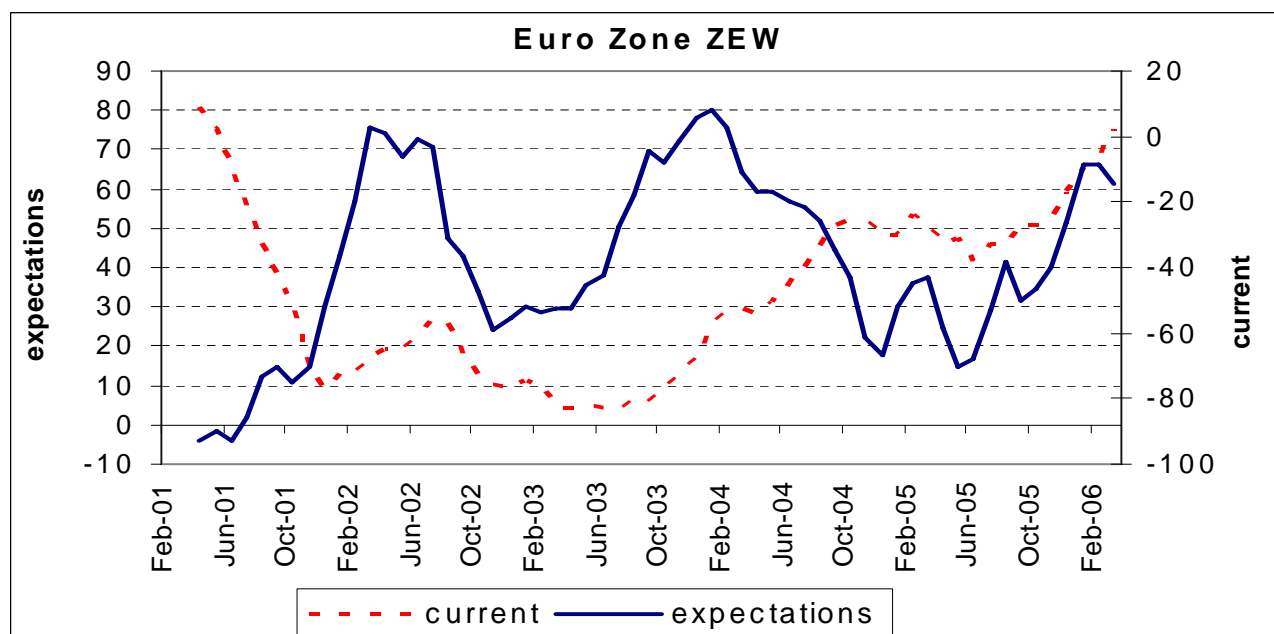
German ZEW— expectations slowed while the current situation continued to improve. (page 7)

German Exports— soared 4.6% M/M in February. (page 9)

French Industrial Production— unexpectedly slowed in February. (page 8)

Weekly Releases & News

Chart of the Week: Euro Zone ZEW



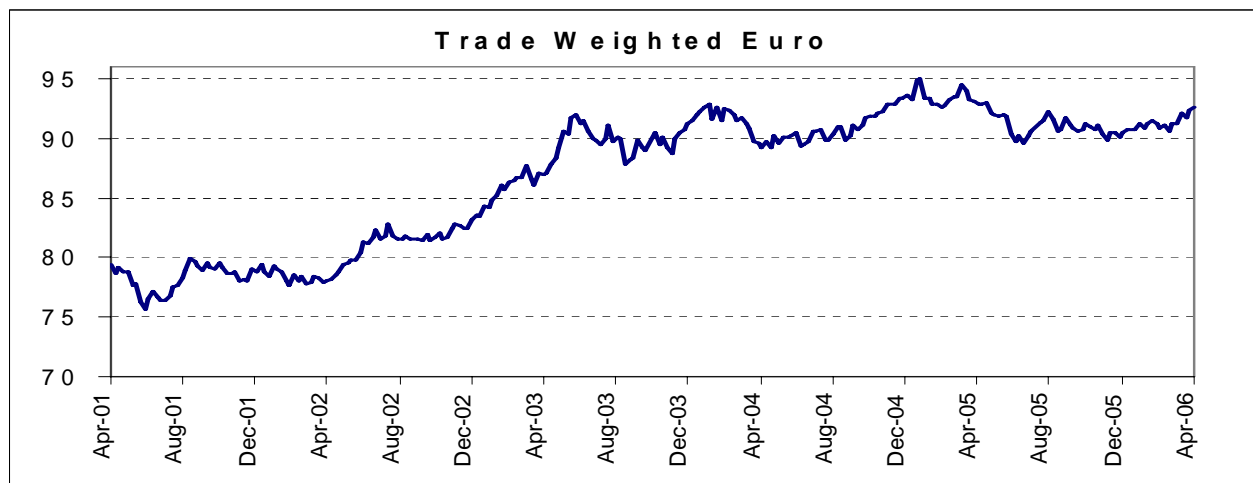
Euro Zone Investor Confidence unexpectedly slowed in April as economic expectations fell from 61.1 in March to 58.7. Current Sentiment continued to soar however, increasing from 2.0 to 14.3.

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)	-3.5% (2005)
Trade Balance	12 (Jan)	7.1%
Current Account Balance	5.2 (Jan)	3.5%
Private Savings Balance	--	7.0%
<i>France</i>		
Budget Balance	-6.7 (Jan)	-4.3%
Trade Balance	-2.4 (Jan)	-1.5%
Current Account Balance	-3.2 (Jan)	-2.1%
Private Savings Balance	--	2.2%
<i>Italy</i>		
Budget Balance	-15.7 (Mar)	-4.8%
Trade Balance	-1.9 (Feb)	-1.0%
Current Account Balance	-4.3 (Jan)	-1.3%
Private Savings Balance	--	3.5%

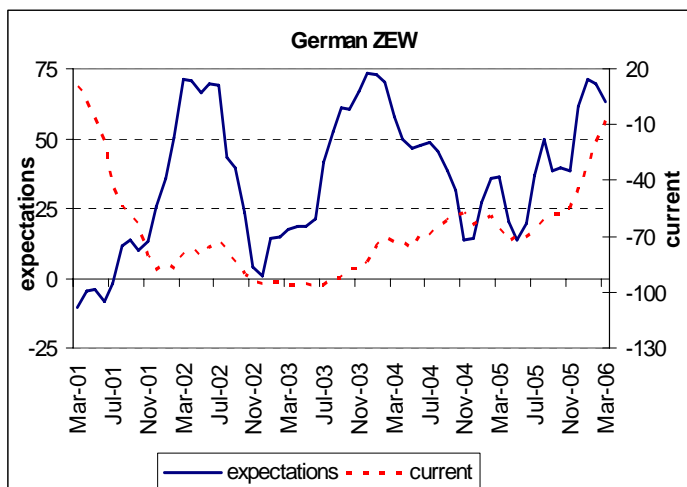
Trade Weighted Euro



German ZEW, German & French Trade

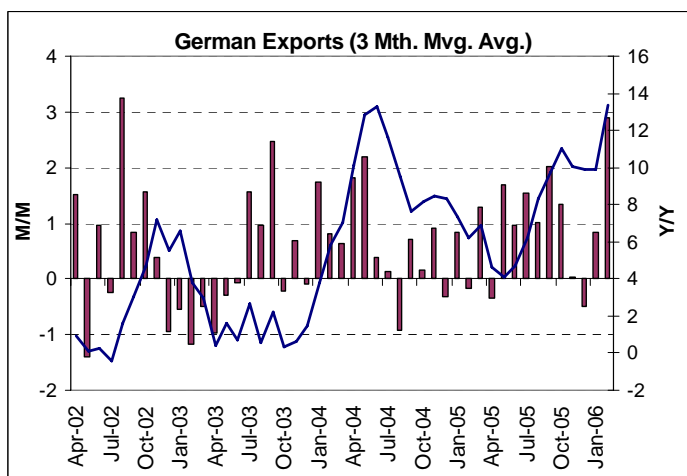
German ZEW

German Investor Confidence unexpectedly fell for the third consecutive month in April; reportedly due to a jump in energy costs. Economic expectations fell from 63.4 in March to 62.7, while Current Sentiment continued to expand, increasing from -8.4 to 2.9.



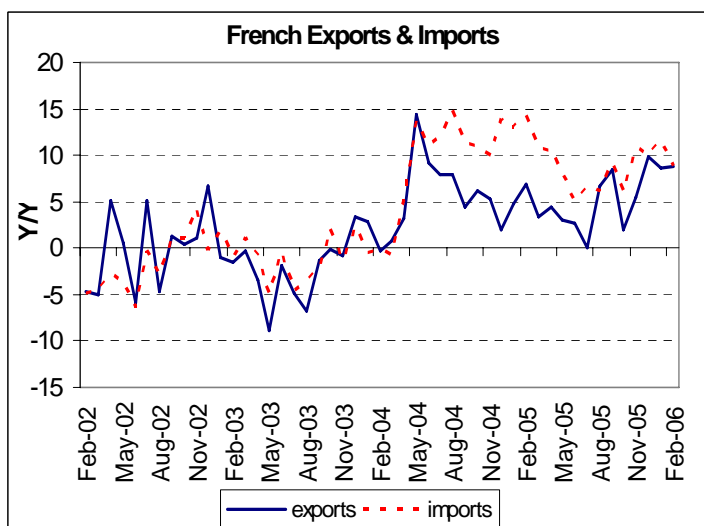
German Trade

German Exports soared above expectations in February; increasing 4.6% M/M. Imports were also robust, increasing 4.8% M/M. The trade surplus rose from 12.6 bln in January to 13.1 bln. Y/Y growth in exports now stands at 17.7%, the highest since 2001.



French Trade

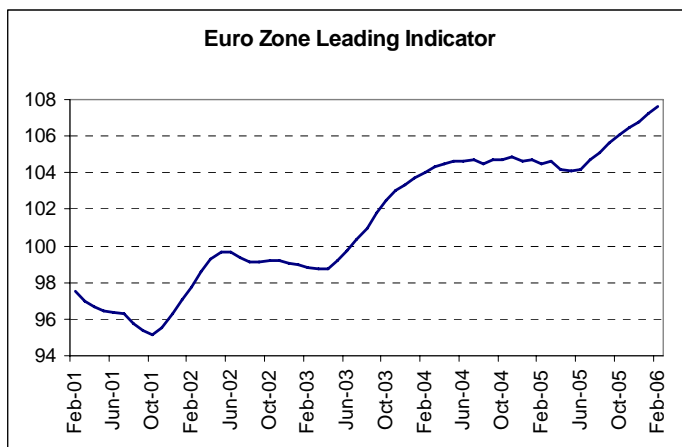
The French Trade Deficit narrowed slightly in February, decreasing from 2.4 bln euros in January to 2bln as imports of energy related products declined. Exports declined 0.5% M/M while Imports fell 1.6% Y/Y.



Euro Zone Lead. Ind., French & Italian Industrial Production

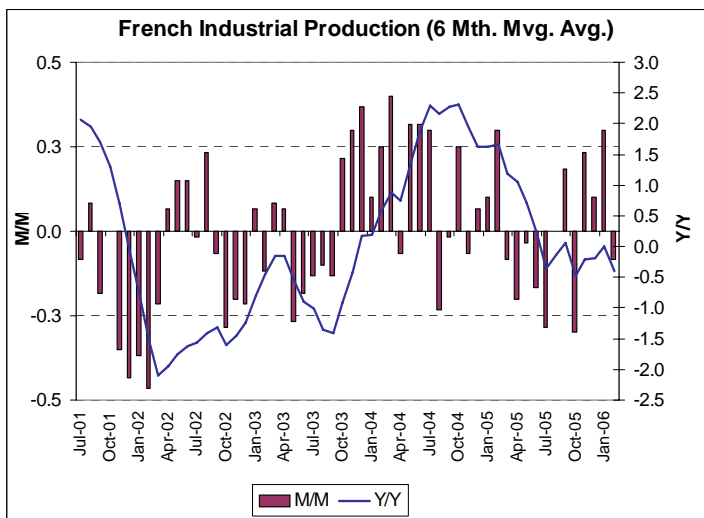
Euro Zone Leading Indicator

The OECD's Euro Zone Leading Indicator increased from 108.8 in January to 109.3 in February.



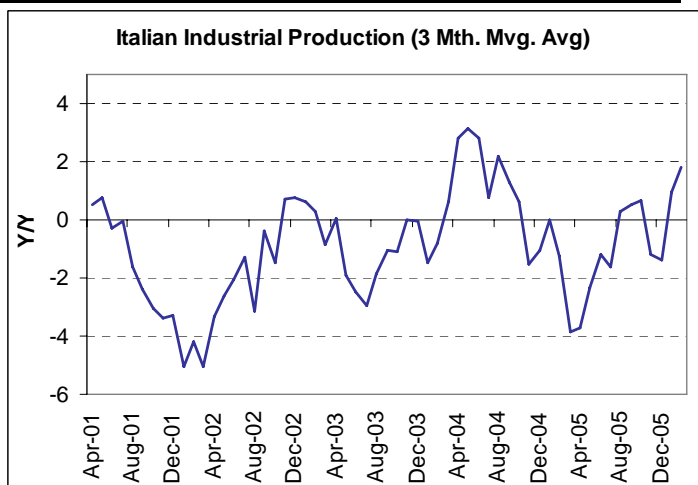
French Industrial Production

French Industrial Production unexpectedly fell 0.9% M/M and 0.6% Y/Y in February, dampening the outlook for growth this year. One French economist noted, "Companies that had the intention to hire or invest are going to do it, but not here."



Italian Industrial Production

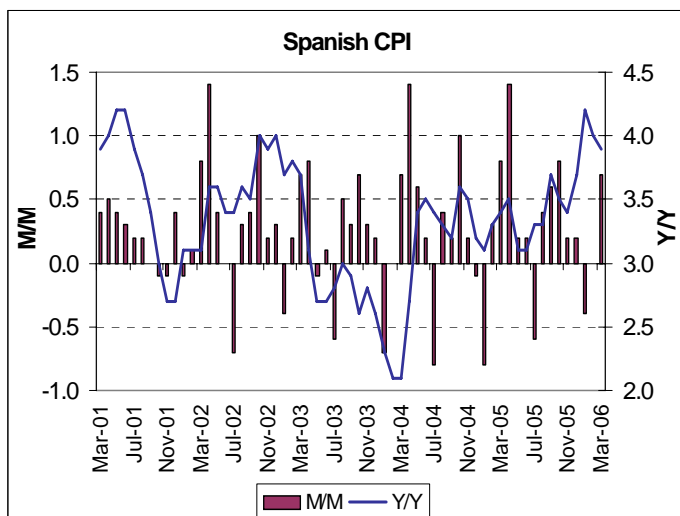
Italian Industrial Production rose for the third month in four in February, expanding 0.8% M/M and 3.4% Y/Y. Market expectations were for 0.4% M/M and 2.3% Y/Y growth.



Spanish, German CPI, Euro Zone GDP

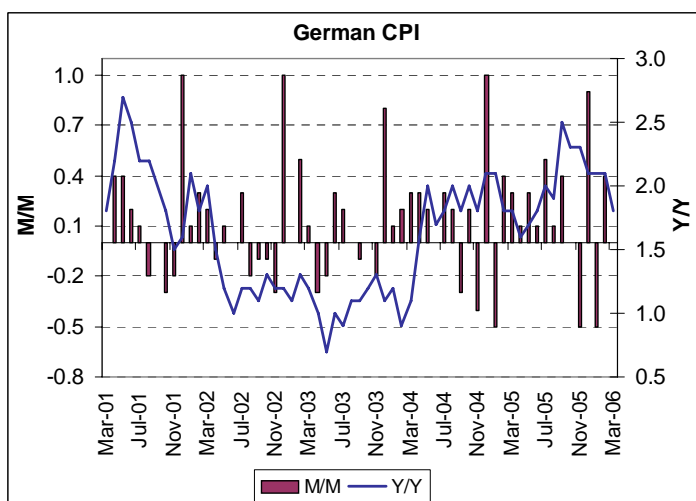
Spanish CPI

Spanish Consumer Prices increased 0.7% M/M while slowing to 3.9% Y/Y in March from 4% Y/Y in February. Core prices accelerated however, increasing from 2.9% Y/Y in February to 3.1% Y/Y, causing one analyst to comment, "We've finally seen the rise in energy prices passed on to core inflation...we should start to be worried."



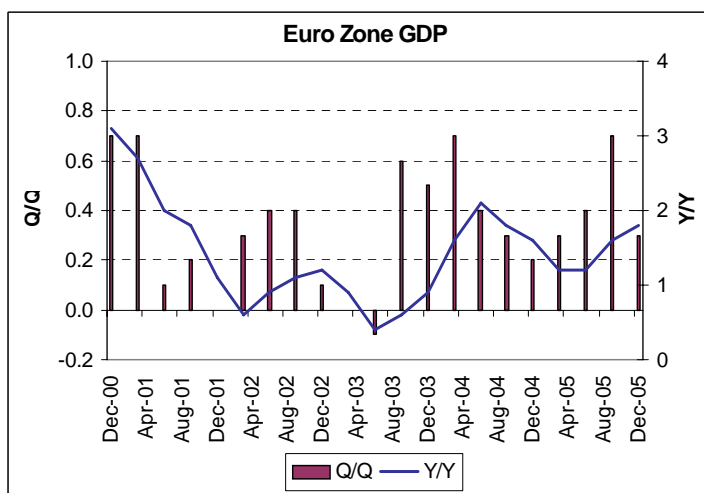
German CPI

Germany's March Consumer Prices were revised downward as prices were unchanged M/M and expanded 1.8% Y/Y (previously reported as 0.1% M/M and 1.9% Y/Y).



Euro Zone GDP

Euro Zone Q4 GDP was revised slightly, as the economy expanded 0.3% Q/Q (unchanged) and 1.8% Y/Y (up from 1.7%). Household Consumption expanded 0.1% Q/Q (up from -0.2%)



News

April 12th – **The European Commission cut their Q1, Q2 and Q3 growth forecasts** from 0.7% in each quarter to 0.6%, 0.6% and 0.5% respectively. The trimmed forecasts highlight concern regarding rising oil prices and increasing interest rates.

April 12th – **The ECB stated that rates are still “very low”** and that upside risks to price stability remain. The ECB monthly bulletin noted, “With interest rates across the whole maturity spectrums still at very low levels monetary policy remains accommodative...Risks to the outlook for price developments remain on the upside and the governing council will monitor very closely all developments.” The bank also noted that “It appears that growth is strengthening and broadening in the 1st half of 2006...conditions remain for solid growth over the coming quarters.” Other themes from the bulletin were: inflation to remain elevated in 2006-2007, low rates are fueling M3 growth, the labor market is gradually improving, credit growth remains strong, and that the latest data confirmed the need for the ECB’s March hike.

April 12th – **Prime Minister-Elect Romano Prodi stated that the results of Italy’s** national elections would stand, contrasting Prime Minister Silvio Berlusconi’s claim that the 25,000 vote victory would be overturned due to contested ballots. Berlusconi stated that there’s been “Too much cheating...I’m confident the result will change.”

April 11th – **ECB member Klaus Liebscher signaled a June hike**, stating that there is “still a need for action” and that “The next meeting is in June. If you look at the whole picture that we’ve painted, then I’d say that’s the next appointment.” Liebscher also stated that the bank would like to wait and see if strong confidence will lead to a pickup in investment and consumption, but that “The path is clearly laid out, it’s just a question of the timing.” Member Guy Quaden added that rates would rise “gradually” so as to not stifle economic growth. President Trichet added, “We have taken appropriate steps in the past and we will have to in the future too...Risks to the growth outlook are perhaps more on the upside.”

April 11th – **German Chancellor Angela Merkel’s economic advisors** increased pressure on her to cut company taxes from 36.8% to between 25 and 30%. Finance Minister Peer Steinbrueck stated that he is prepared to lower taxes but only if it does not expand the budget deficit.

April 11th – **Monster’s Index of online job advertisements for Europe** rose to its highest since its inception 16 months ago in March. The index covers employment openings in Germany, France, UK, Sweden and the Netherlands and increased from 116 in February to 117. The German only index increased from 109 to 113 while France’s fell from 122 to 118.

April 10th – **The IMF cut its forecast for German growth in 2006** from 1.5% to 1.4% while giving a more precise forecast of 1% growth in 2007 (previous forecast was between 0.75 and 1.25%). German inflation was forecasted to increase 1.9% in 2006, followed by an acceleration to 2.5% in 2007 due to tax increases. The Euro Zone economy was forecasted to expand 2% in 2006 and 1.9% in 2007.

News

April 7th – **Gernot Nerb, chief economist at Germany's IFO economic institute**, stated that the ECB won't likely increase rates above 3% this year, stating that after a June hike "I think only one more hike will follow in the course of this year. I think we'll remain at the 3% level for some time." Nerb added that at best, Euro Zone growth is "reaching trend" and that "there are signs tat inflation will slow to around 2% in the next few months."

April 7th – **Germany's 20 mln pensioners will not get an increase in their pensions** this year, the third consecutive year without an increase. Recent legislation seeks to maintain pensions if wages sink but does not mandate an increase when wages are rising.

April 6th – **The ECB left rates unchanged at 2.5% in April** while appearing slightly more dovish than expected. One key change was in describing rate hikes as normalization, as opposed to previously stating that rates hikes had not been decided upon ex-ante. They also gave the following assessments: **Overall Assessment** - "With interest rates across the whole maturity spectrum still at very low levels in both nominal and real terms, and monetary and credit growth remaining strong and liquidity ample, our monetary policy remains accommodative." "We will continue to monitor very closely all developments to ensure that risks to price stability over the medium term do not materialize."

May versus June Hike - "The present high probability which is given for an increase of rates in our next meeting [in May] does not correspond to the present sentiment of the governing council." "Vigilance is not pronounced in the introductory remarks." "The view that the ECB does not raise rates outside of Frankfurt is not valid."

Risks to Growth - "On the basis of the latest data ...it appears that growth is strengthening and broadening in the first half of 2006". "The conditions remain in place for solid growth over the coming quarters." "The risks to economic growth appear to be broadly balanced over the shorter term. Further ahead, downside risks still relate to potential increases in oil prices and ... global imbalances."

Inflation Risks - "Risks to the outlook for price developments remain on the upside and include further increases in oil prices, a possibly stronger pass-through of oil price rises into consumer prices than currently anticipated, additional increases in administered prices and indirect taxes, and – more fundamentally – stronger wage and price developments than expected due to second-round effects of past oil price increases." "Wage dynamics in the euro area have remained moderate over recent quarters and growth in wages is expected to remain contained." "Over the recent past, moderate wage trends have helped to dampen domestic inflationary pressures; looking ahead, it is crucial that the social partners continue to meet their responsibilities."

Money and Credit - "Strong monetary and credit growth in an environment of ample liquidity in the euro area continues to point to upside risks to price stability over the medium to longer term." "The stimulative impact of the low level of interest rates remains the dominant factor behind the high trend rate of monetary expansion." "Moreover, the annual growth rate of credit to the private sector has continued to increase over recent months, with borrowing by households – especially loans for house purchase – and nonfinancial corporations rising rapidly."

April 6th – **The Italian Finance Ministry** stated that Italy's debt may reach 108% of GDP (1.58 trillion euros) this year, the highest in more than 10 years.

News & Key Dates This Week

April 6th – **German Labor Unions rejected a 1.2% wage offer by engineering companies** in the country's largest state stating, "Anyone who treats staff like this is preparing the ground for a big fight." The wage offer also included a lump sum payment of 0.6% of pay for the 1st 12 months followed by a lump sum payment of 0.4% of pay for the 2nd 12 month period.

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
04/13	French CPI (MAR)	0.5% M/M	0.4% M/M
04/13	Italian Trade Balance (FEB)	-355 mln	-543 mln
04/14	Euro Zone New Car Reg's (MAR)	5.8% Y/Y	2.7% Y/Y
04/19	French Current Account (FEB)	--	-3243 mln
04/19	Euro Zone Industrial Production (FEB)	--	0.0%

Valance Co., Inc.

Valance Economic Report: Japan

Davin Patton
(340) 692-7710
dpatton@valance.us

April 12, 2006

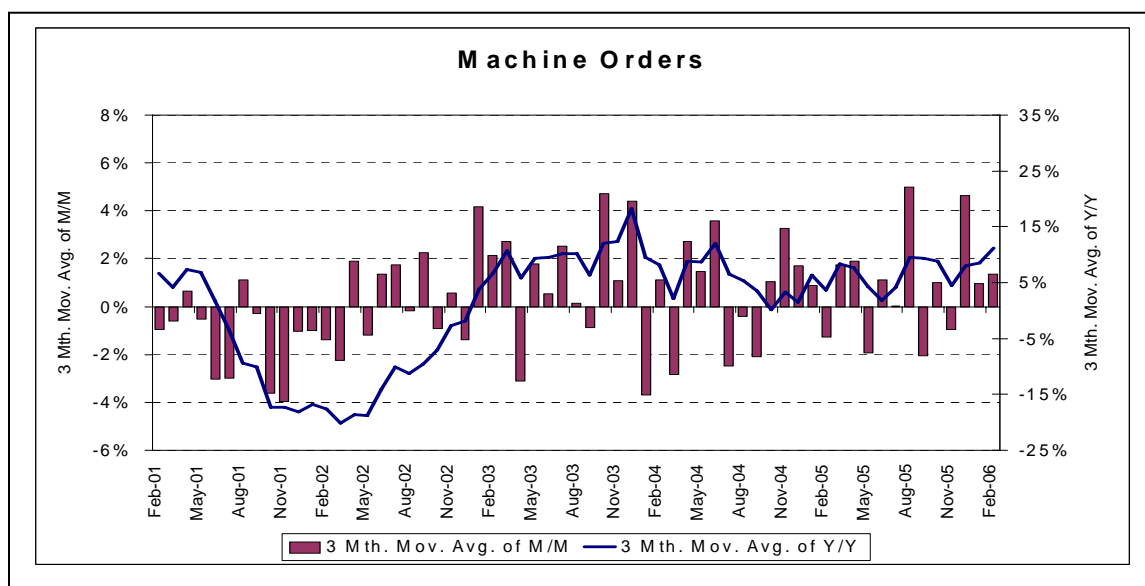
This week's data was positive. Machine Orders improved, the Current Account Surplus widened, and although the Leading Index declined, the Eco Watchers Survey improved. In light of both solid data and a solid outlook, we look for the BoJ to end its Zero Interest Rate policy as early as July.

Weekly Highlights

Machine Orders – improved 3.4% M/M and 8.2% Y/Y in February. (page 15)

Current Account Surplus – increased from ¥1493.5 bln in January to ¥1674.3 bln in February. (page 17)

Leading Index– declined from 81.8% in January to 80.0% in February. (page 17)

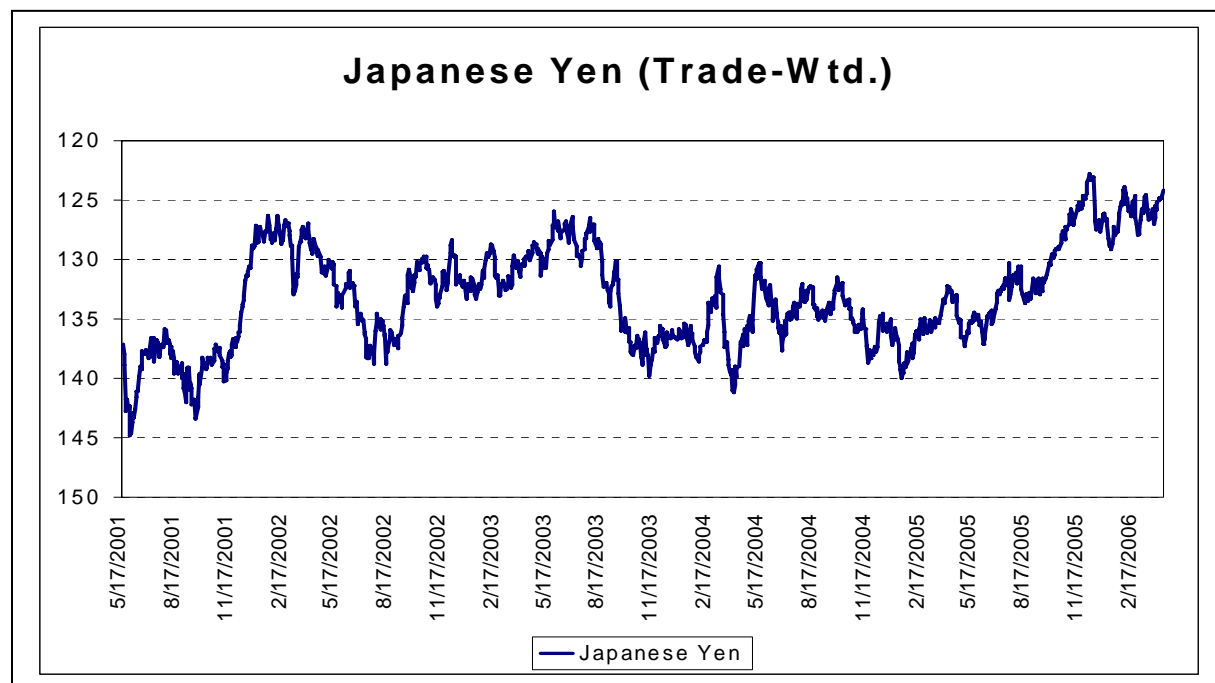
Chart of the Week: *Machine Orders*

Core Machine Orders increased 3.4% M/M and 8.2% Y/Y in February, above market expectations for an increase of 3.2% M/M. Of private orders, Manufacturers' Orders increased 3.1% M/M and non-manufacturers' orders increased 4.5% M/M. The data suggests that capex will continue to help drive growth, and supports our view that the BoJ may decide to bring an ending to its Zero Interest Rate Policy as early as July.

Japan's Financial Balances

Financial Balances

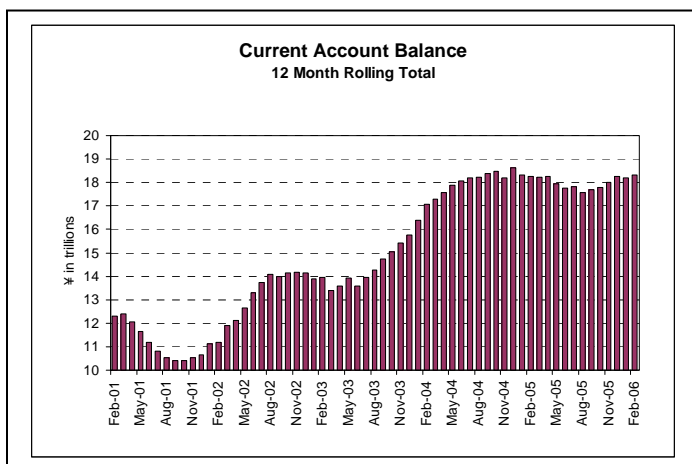
<i>Japan</i>	<i>Last period (¥trln)</i>	<i>Last 12mth. as a % of GDP</i>
Budget Balance	-3.03 (May)	-6.9%
Trade Balance	0.69 (June)	2.2%
Current Account Balance	1.50 (June)	5.2%
Private Balance	--	12.1%



Current Account Surplus, Leading & Coincident Indices

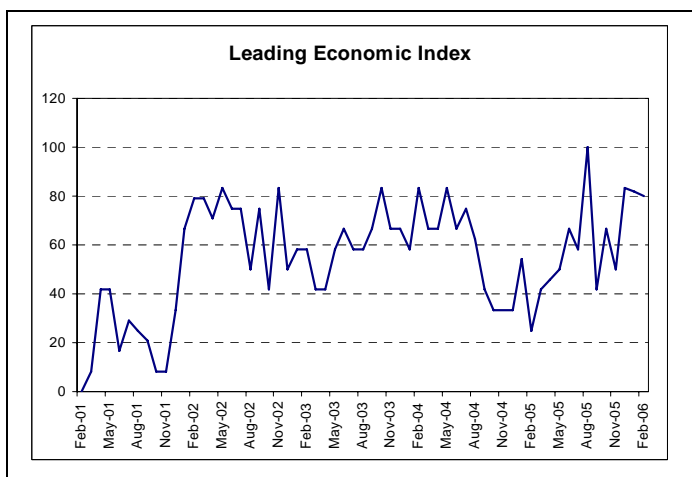
Current Account Surplus

The adjusted Current Account Balance increased from ¥1493.5 bln in January to ¥1674.3 bln in February. The Trade Balance on a Balance of Payments Basis, increased from ¥629.8 bln to ¥938.1 bln. Exports in February increased 4.6% M/M and 6.2% Y/Y. Imports declined 1.0% M/M and increased 33.2% Y/Y.

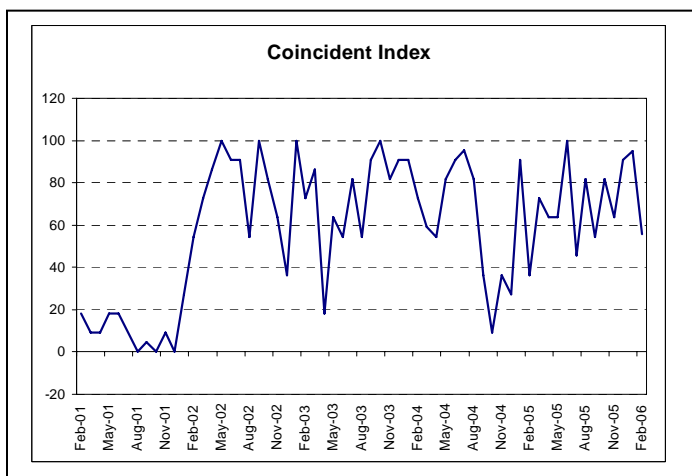


Leading Economic Index

The Leading Economic Index declined from 81.8% in January to 80.0% in February. Gains were seen in sectors such as Producers' Final Demand, New Job Offers, Consumer Durable Shipments, Consumer Sentiment, and Small Business Sales Forecasts. Declines were seen in Housing Starts and Producers' Inventory Ratios.



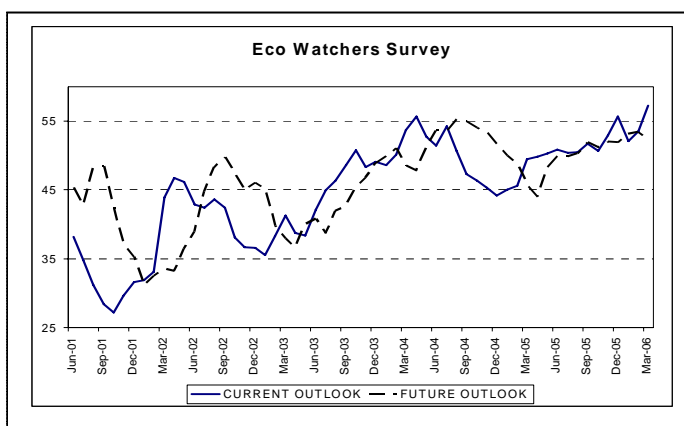
The Co-Incident Index declined from 95.0 to 55.6. Within the Coincident Index, gains in Large Firms' Power Usage, Manufacturing Overtime, Retail and Wholesale Sales were offset by declines in Industrial Production, Manufacturers' Shipments, and Capital Goods Shipments.



Eco Watchers Survey & Bank Lending

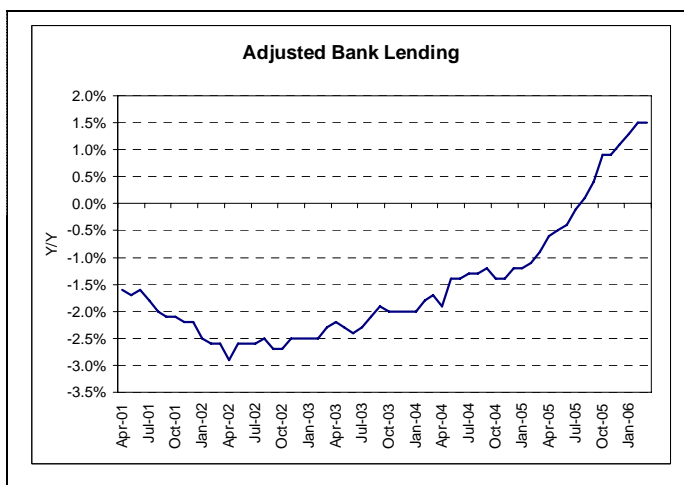
Eco Watchers Survey

In March, the Eco Watchers Survey's Current Conditions Index increased from 53.5 to 57.3, reaching an all time high. The Outlook Index edged downward from 56.6 to 56.2 in March. Within the survey, the Employment Conditions Index increased from 62.4 to 65.5 while the Employment Outlook increased from 61.0 to 61.3. The Business Conditions Index increased from 55.1 to 57.5 while the Business Conditions Outlook declined from 55.7 to 54.0 in March.



Bank Lending

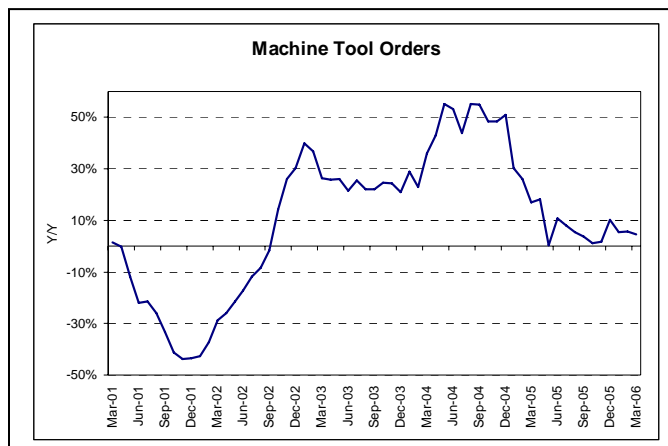
Bank Lending increased 1.5% Y/Y in March on an adjusted basis.



Machine Tool Orders & Tokyo Condominium Sales

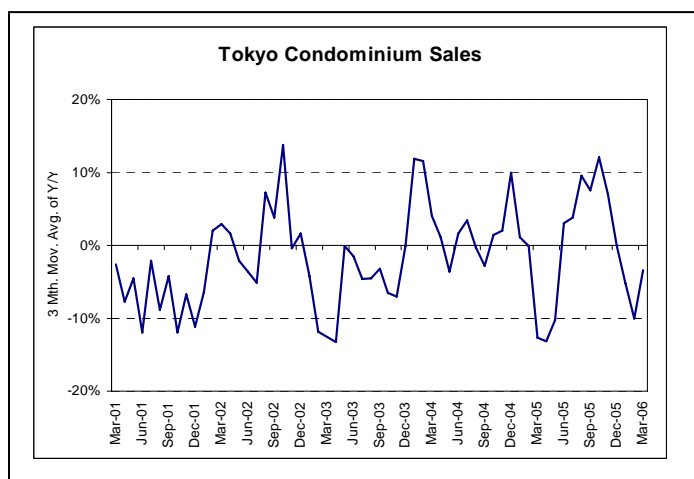
Machine Tool Orders

Preliminary March data indicates that Machine Tool Orders increased 4.5% Y/Y due to continuing firm foreign demand.



Tokyo Condominium Sales

The number of Tokyo Condominiums for sale increased 13.4% Y/Y in March. At the same time, the number of condominiums sold increased 15.3% Y/Y. The average unit price increased 7.6% Y/Y and the average price per square meter increased 6.5% Y/Y.



News

News

April 12th – BoJ Gov. Fukui commented that the recent increase in long term interest rates are “a matter of serious concern” for the central bank. On future monetary policy, Fukui commented that there is no relation between the timing of ending zero interest rates and the process of absorbing excessive liquidity in the financial market.

April 12th – According to the head of the government’s Tax Commission, a consumption tax hike of just 3 pctg pts is not feasible if Japan’s growth rate and aging population are taken into account. He also stated that he would not revise his 2003 recommendation that the current 5% rate would be “raised to two digits in the future.”

April 11th – By unanimous vote, the BoJ voted to leave interest rates at zero at its policy board meeting, as the economy continues to grow. The BoJ sees little danger of a rapid increase in CPI, even after the end of Q/E, and is aiming to accelerate the recovery by maintaining its ZIRP. The BoJ also expressed the view that the balance of current account deposits needs to decline to under ¥10 trln yen before it can give serious thought to lifting its ZIRP. Following the announcement, BoJ Gov. Fukui commented that “I don’t have any pre-judgments on monetary policy going forward...At this stage, we are completely open on policy.”

April 10th – The Balance of Current Accounts deposited at the BoJ declined to 25.71 trln, reaching its lowest level since May 2003. The balance is expected to continue to decline to the lower half of the ?? range by this month’s end.

April 9th – According to an article in the Nikkei, which cited BoJ sources, the BoJ is set to upwardly revise Japan’s potential economic growth rate from about 1% to the upper half of the 1%-2% range. The increase is due to be announced late this month.

April 7th – According to an article in the Nikkei, Household Debt increased 0.4% Y/Y as of the end of 2005, due to robust home and stock purchases fueled by the recovering economy. The increase was the first since the end of 1998.

April 6th – A Liberal Democratic Party fiscal reform study group recommended in its preliminary report that tax hikes should be kept at a minimum by realizing nominal economic growth of 4% and through spending cuts. According to the report, the government should aim to achieve a primary balance surplus by fiscal 2011, with the 5 years prior being the designated time period to focus on fiscal reform.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
04/12	Domestic CGPI (Mar M/M)	0.2%	0.4%
04/12	Domestic CGPI (Mar Y/Y)	2.8%	2.9%
04/12	Export Price Index (Mar M/M)	N/A	1.4%
04/12	Export Price Index (Mar Y/Y)	N/A	5.2%
04/12	Import Price Index (Mar M/M)	N/A	4.3%
04/12	Import Price Index (Mar Y/Y)	N/A	25.0%
04/13	April Monthly Economic Report	N/A	N/A
04/14	Bankruptcies (Mar Y/Y)	N/A	2.9%
04/14	BoJ Monetary Policy Meeting Minutes	N/A	N/A
04/14	Tokyo Dept. Store Sales (Mar Y/Y)	N/A	-0.9%
04/17	Industrial Production (Feb M/M)	N/A	-1.7%
04/17	Industrial Production (Feb Y/Y)	N/A	3.7%
04/17	Capacity Utilization (Feb)	N/A	106.1
04/17	Consumer Confidence (Mar)	N/A	49.9
04/17	Consumer Confidence Households (Mar)	N/A	49.8
04/19	Leading Economic Index (Feb)	N/A	80.0%
04/19	Co-Incident Index (Feb)	N/A	55.6%

Valance Co., Inc.

Valance Economic Report: **United Kingdom**

Gabriel Webber

(340) 692-7710

gwebber@valance.us

April 12, 2006

The Claimant Count Unemployment Rate increased to 3.0%, it's highest since October 2003 as the number of Jobless Claims doubled expectations, rising 12.5k. The majority of this increase was in the manufacturing industry which is being negatively affected by higher Producer Prices and overseas competition.

Weekly Highlights

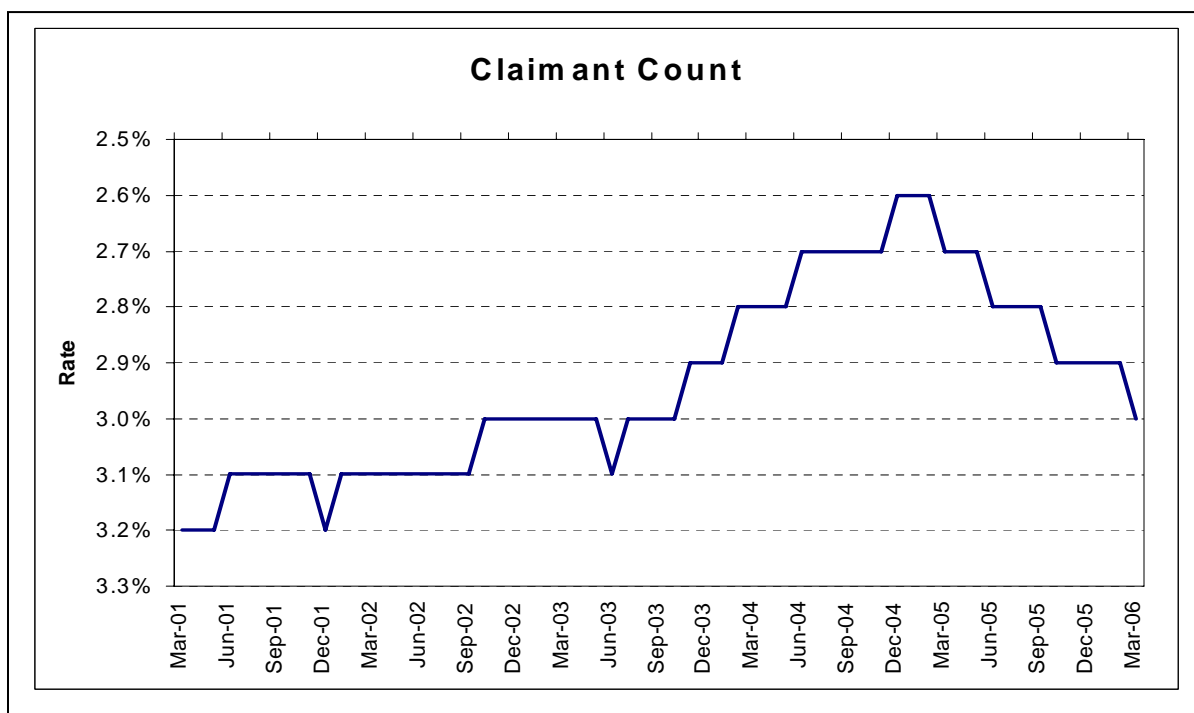
Claimant Count Unemployment Rate- increased from 2.9% to 3.0% in March, the highest since October 2003. (page 22)

Jobless Claims- jumped by 12.5k in March. (page 22)

Input Producer Prices- increased 0.3% M/M and 13.2% Y/Y in March. (page 25)

Weekly Releases & News

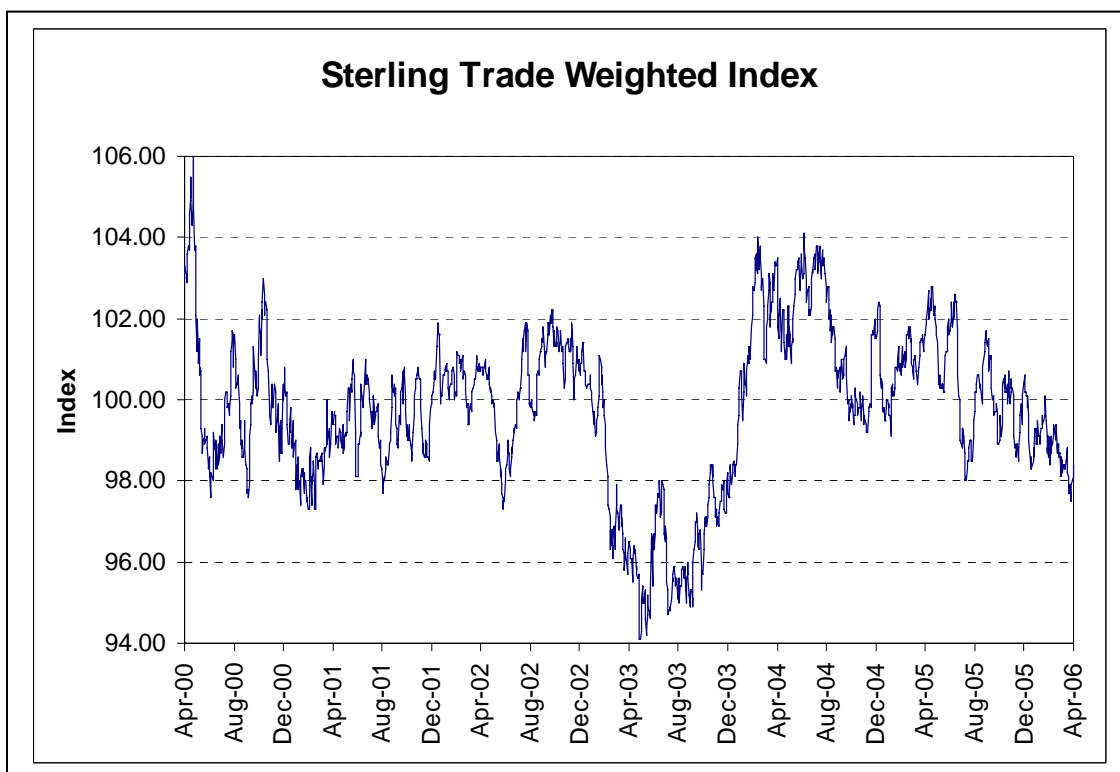
Chart of the Week: *Claimant Count*



The Claimant Count Unemployment Rate increased from 2.9% to 3.0% in March, the highest since October 2003. Jobless Claims doubled expectations as they jumped by 12.5k, mainly due to manufactures and retailers shedding jobs. February's Jobless Claims increase was revised from 14,600 to 19,900, making February the largest monthly increase since December 1992.

Financial Balances & Trade Weighted Index

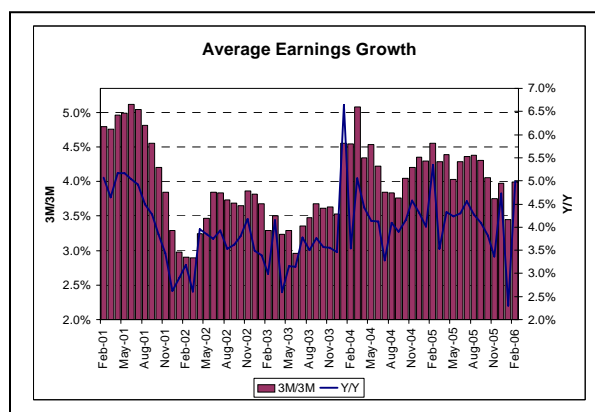
<i>U.K.</i>	<i>Last Period (blns)</i>	<i>Last 12mth. % of GDP</i>
Budget Balance (monthly)	-£2.3 (Feb)	+0.8%
Trade Balance (monthly)	-£3.8 (Jan)	-1.3%
Curr. Acct. Balance (quarterly)	-£10.9 (March)	-3.9%
Private Balance	--	-4.6%



Employment Data

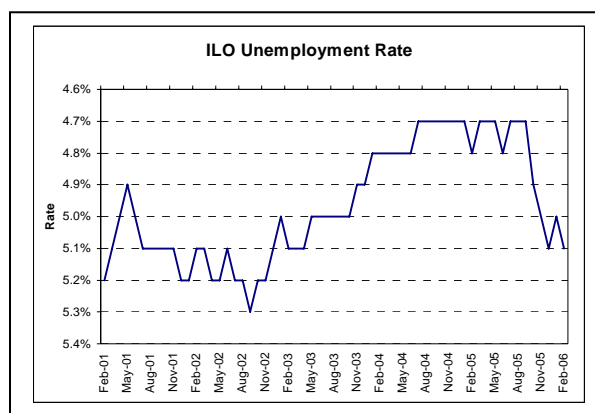
Average Earnings Growth

Average Earnings (inc. bonuses) increased 4.0% 3M/3M and 5.0% Y/Y in February as financial sector workers secured extra payments. The Private Sector increased 4.2% 3M/3M and annual growth increased from 3.0% to 5.5%. The Public Sector increased 4.3% 3M/3M and annual growth decelerated from 4.2% Y/Y to 4.1% Y/Y. Average Earnings (ex. bonuses) increased 3.8% 3M/3M and 3.9% Y/Y.



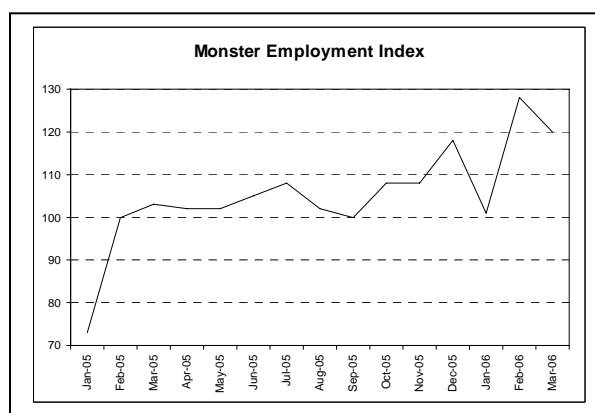
ILO Unemployment Rate

ILO Unemployment Rate increased from 5.0% to 5.1% in February.



Monster Employment Index

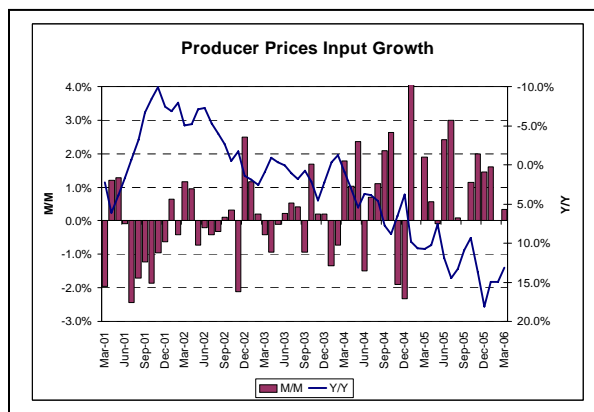
Monster Employment Index decreased from +128 to +120 in March. Monster reported that the majority of industry sectors experienced varying degrees of decline.



Producer Prices & HBOS House Price Survey

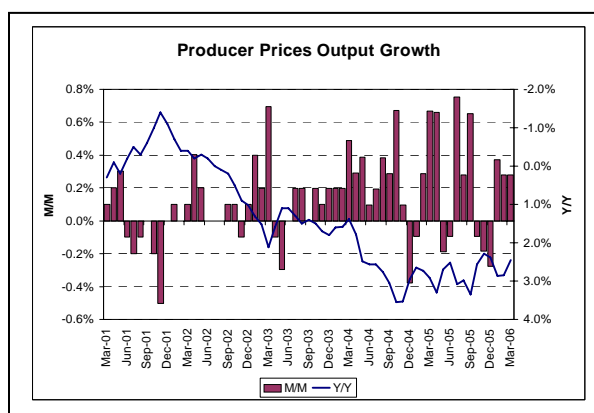
Input Producer Prices

Input Producer Prices increased 0.3% M/M and 13.2% Y/Y in March. Input Prices were driven mainly by crude oil which increased 0.4% M/M and 4.9% Y/Y. Core Input Prices increased 0.3% M/M and 10.4% Y/Y.



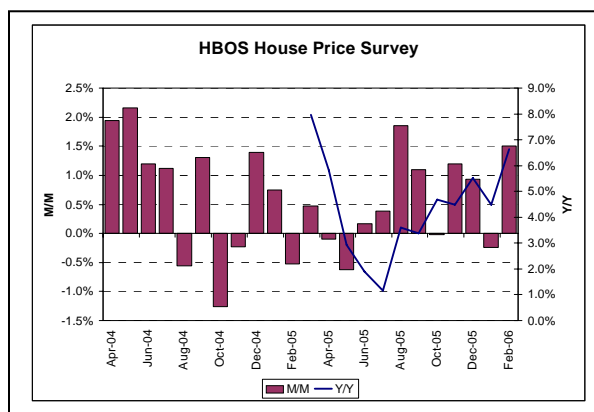
Output Producer Prices

Output Producer Prices increased 0.3% M/M and 2.5% Y/Y in March. Annual Output Prices were driven mainly by petroleum products increasing 1.0% Y/Y. Core Output Prices increased 0.3% M/M and 1.9% Y/Y.



HBOS House Prices

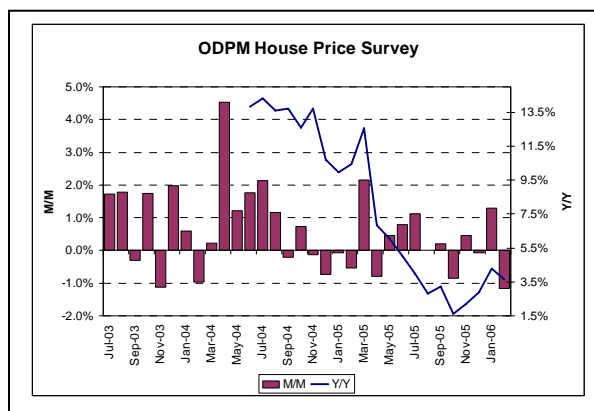
HBOS House Prices increased 1.5% M/M and 6.6% Y/Y in February.



ODPM House Price Survey & Trade Deficit Data

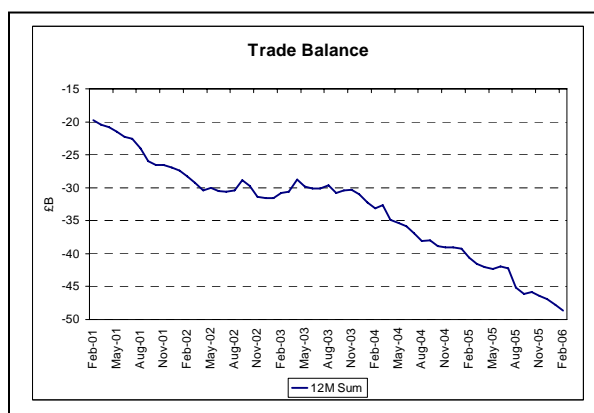
ODPM House Prices

ODPM House Prices decreased 1.2% M/M and increased 3.6% Y/Y in March. This is the largest M/M decrease in the surveys history.



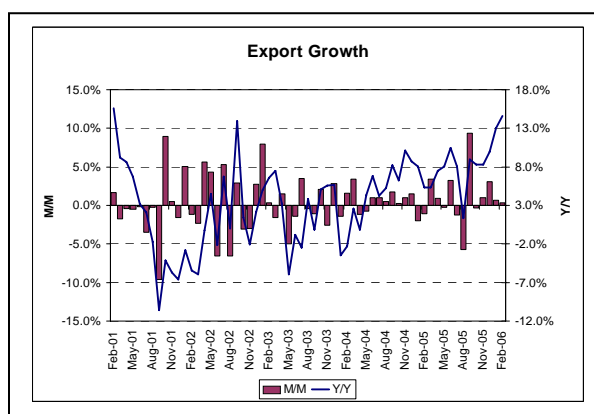
Trade Deficit

The Trade Deficit increased slightly from £4.6 bln to £4.8 bln in February due to a sharper than expected rise in imports from the Eurozone.



Export Growth

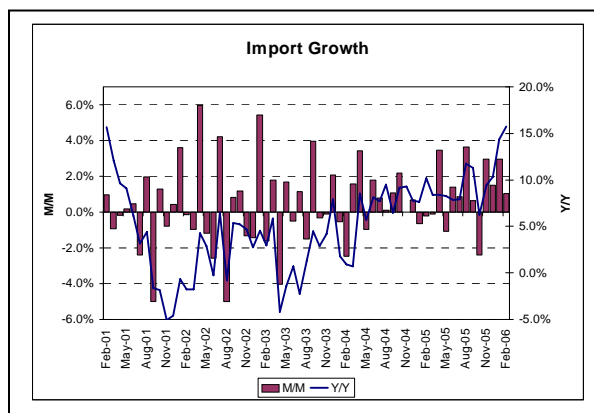
Exports Growth increased 0.4% M/M and 14.6% Y/Y in February.



Trade Deficit Data Cont'd

Import Growth

*Import Growth increased 1.0%
M/M and 15.8% Y/Y in February.*



Data & Comments & Upcoming Dates

Data

BRC Retail Sales:

BRC Retail Sales increased 0.3% 3M/3M and 1.9% Y/Y in March. The BRC reported that since Easter falls in April this year, but was in March last year, this March's sales patterns have been distorted by this and the unseasonably cold weather.

News

April 7th - U.K. Flu Pandemic Could Cost Economy 7.7 Bln Pounds, CEBR Says - A U.K. flu pandemic matching the government's basic planning scenario could cost the country 7.7 bln pounds (\$13.5 bln), or 0.6 percent of national income, estimated by the Centre for Economic and Business Research. Contingency plans for such an outbreak produced by Prime Minister Tony Blair's government offers a "base scenario" in which if 25% of the population is infected they could take up to eight days off from work. That would mean 7.7 bln pounds of lost output, equivalent to 0.6 percent of gross domestic product, said Jonathan Said, Senior Economist at CEBR, a London-based research center.

April 7th - Time for imagination on pensions - One year on from the Government's latest tranche of measures to improve pensions provision, the pensions deficit of FTSE 350 companies has improved by just 10%, says Marc Hommel of PwC. It was the Government's intention that the introduction of the Pensions Regulator and the Pensions Protection Fund a year ago would bring new light into the world of pensions and be a turning point for gaining more control of pension deficits. But 12 months on, the total deficit of UK defined pensions is only slightly lower. No one can deny that companies and trustees have been working extremely hard over the past financial year to address their pension challenges. In fact, the past year has probably been the most challenging in pensions history. But, for reasons beyond the control of most, pension schemes have made limited improvements to their deficits. Statistics from an analysis by PricewaterhouseCoopers indicate that year to date the total deficit of UK defined pension schemes for companies within the FTSE 350 is £45 billion, only 10 per cent lower than one year ago. However, a comparison taken from the start and end of the year does not reflect the changes that have occurred in the last 12 months. There has been enormous volatility in deficit levels during this time. At the start of the year, total deficits in the pension schemes of the UK FTSE 350 companies were estimated by PricewaterhouseCoopers to be £50 billion. On January 18, deficits reached their maximum level of £87 billion, a day when gilt yields fell dramatically following a sudden increase in demand from pension funds. At this point, deficits were 73 per cent higher than at the start of the year. Fortunately for companies, this huge hike in their deficits was unlikely to have had an impact on company reporting, as few have year ends of January 18. The situation may have been somewhat different if deficits had peaked on March 31. In less than three months since January, deficits have almost halved. This is due to the combined effect of annual yields and bonds having increased by 0.5 per cent and the total return on FTSE-All Share index been 8 per cent.

News & Upcoming Dates

April 6th - Treasury faces £7bn claim for tax rebates - UK-based multinational companies are on course to claw back billions of pounds in rebates from the Treasury, after winning the first round in a European court battle over their claim that the government had over-taxed dividends from foreign subsidiaries. The government warned that if Thursday's European Court of Justice's preliminary ruling was upheld – as the majorities are – it could cost the Treasury £7bln. The CBI employers' body has also warned that ramifications of the ruling could make the UK a less attractive location for multinationals. It fears that defeat for the government would force it to make fundamental changes to the way companies are taxed on their dividend income.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
04/16	Rightmove House Prices	--	0.9% M/M 4.3% Y/Y
04/17	RICS House Prices	20	17
04/19	MPC Minutes	--	--
04/20	CPI	0.5% M/M 2.1% Y/Y	0.3% M/M 2.0% Y/Y

Valance Co., Inc.

Valance Economic Report: *Canada*

La-Toya C. Elizee
(340) 692-7710
lelizee@valance.us

April 12, 2006

Economic data released in Canada this week was generally stronger than expected. In particular, the unemployment rate hit a 32 year low and new house prices increased at their fastest pace in 16 years.

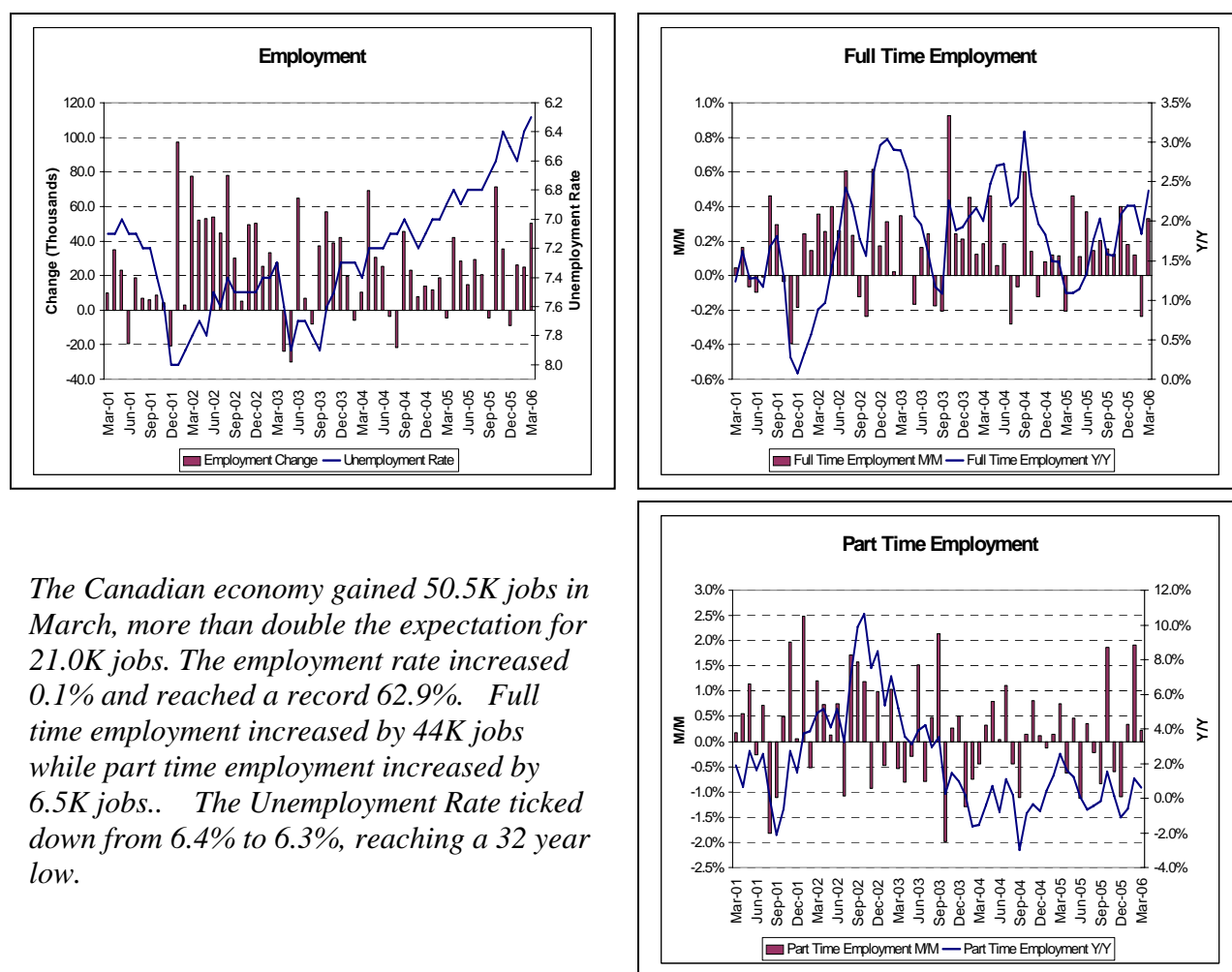
Weekly Highlights

Canadian economy - gained 50.5K jobs in March, well above expectations. (page 30)

New House Prices - increased 0.7% M/M and 7.0% Y/Y in February. (page 33)

Weekly Releases & News

Charts of the Week: *Employment Data*



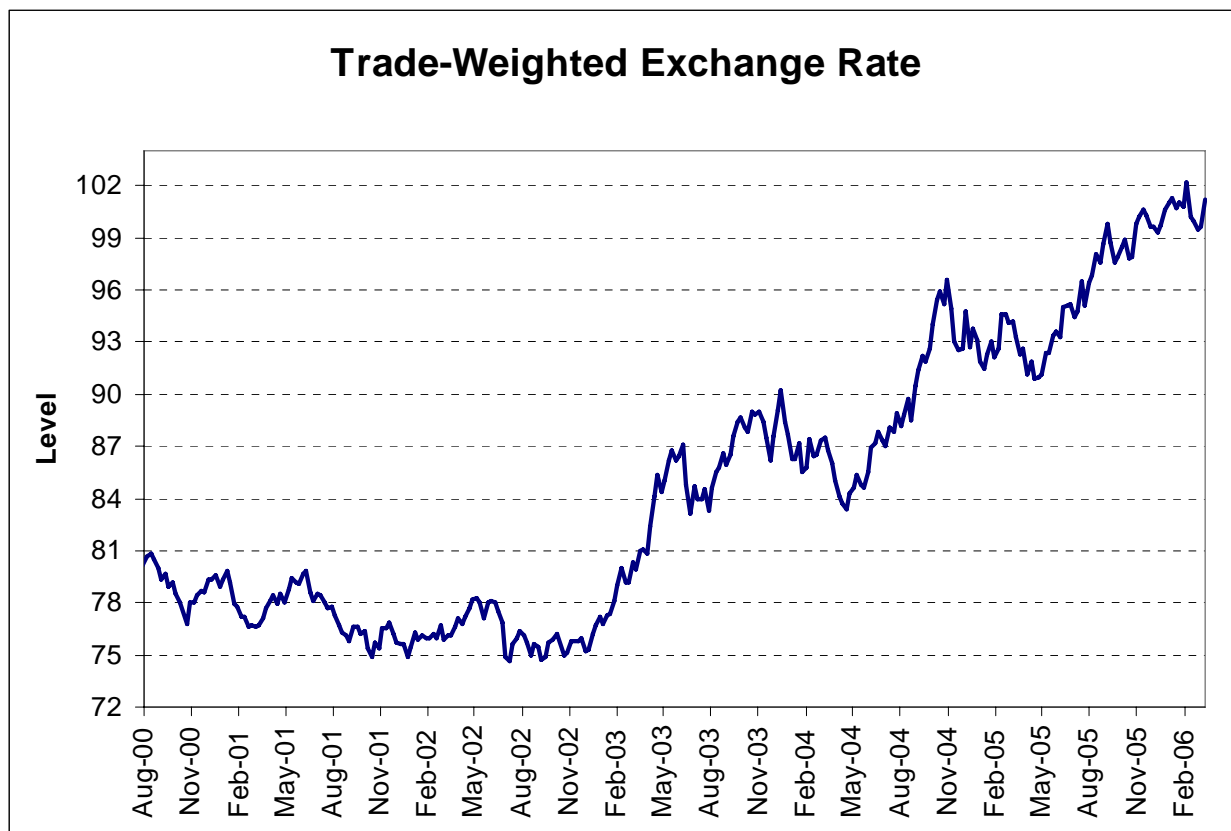
The Canadian economy gained 50.5K jobs in March, more than double the expectation for 21.0K jobs. The employment rate increased 0.1% and reached a record 62.9%. Full time employment increased by 44K jobs while part time employment increased by 6.5K jobs.. The Unemployment Rate ticked down from 6.4% to 6.3%, reaching a 32 year low.

Financial Balances & Trade Weighted Exchange Rate

Financial Balances

<i>Canada</i>	<i>Latest period (C\$bln)</i>	<i>Last 12mth. as % of GDP</i>
Budget Balance	1.6 (Jan)	0.4%
Trade Balance	6.3 (Feb)	4.8%
Current Account Balance	13.3 (Q4)	2.2%
Private Balance	--	1.8%

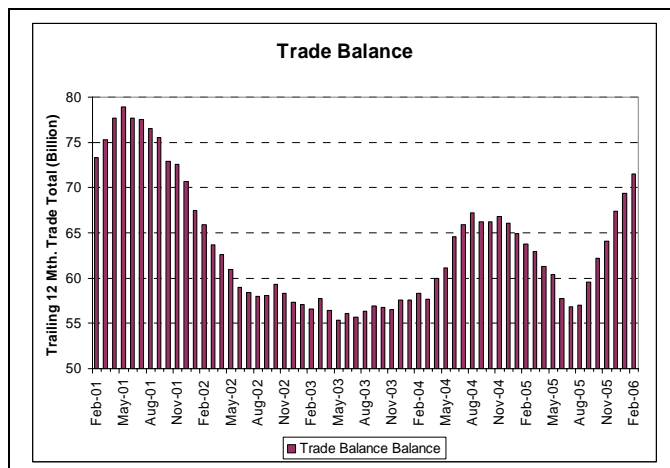
Trade-Weighted Exchange Rate



Trade Data

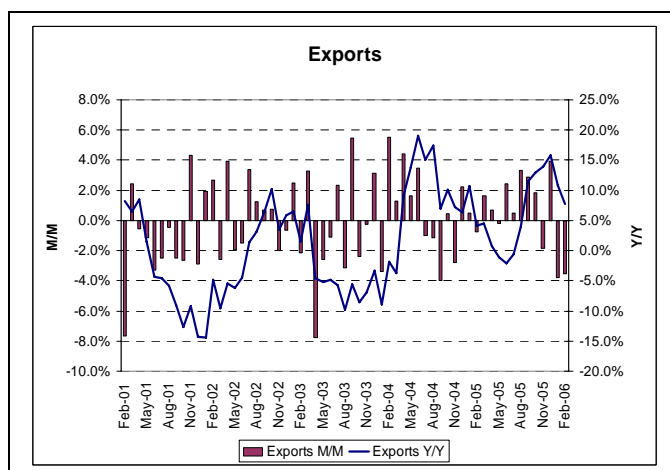
Trade Balance

Canada's Merchandise Trade Surplus increased from C\$6.2 bln in January to C\$6.3 bln in February. The Trade Surplus has been on a steady uptrend on a trailing 12 mth basis since August 2005.



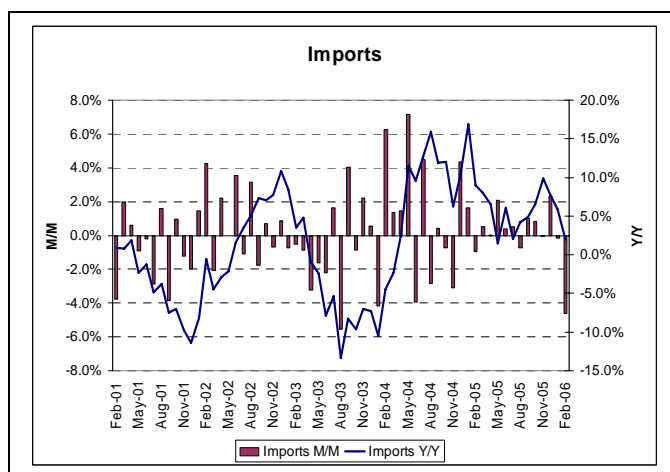
Exports

Exports decreased 3.5% M/M and increased 7.8% Y/Y in February mainly as a result of a 12.7% M/M decline in exports of passenger vehicles. The third decline in exports in the past four months is inconsistent with more upbeat data elsewhere.



Imports

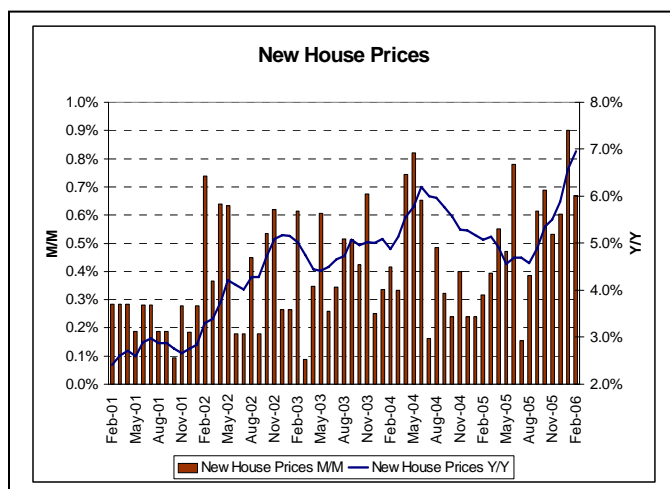
Imports decreased 4.6% M/M and increased 2.0% Y/Y in February as imports of metals and metal ores, chemicals, trucks, and industrial and agricultural machinery, which surged in the prior two months, returned to more moderate levels.



New House Prices, Housing Starts & Building Permits

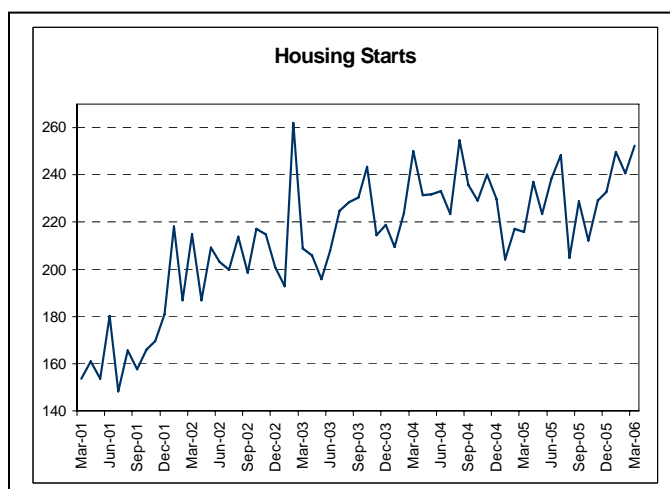
New House Prices

New House Prices increased 0.7% M/M in February and 7.0% Y/Y, their fastest annual pace in 16 years. The gain was mostly attributed to price increases for labor costs and building materials.



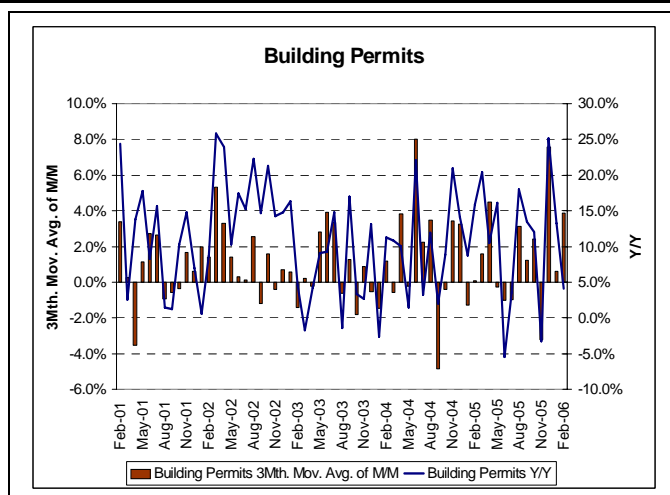
Housing Starts

Housing Starts increased 4.7% M/M and 17.0% Y/Y in March, mainly led by new apartment construction.



Building Permits

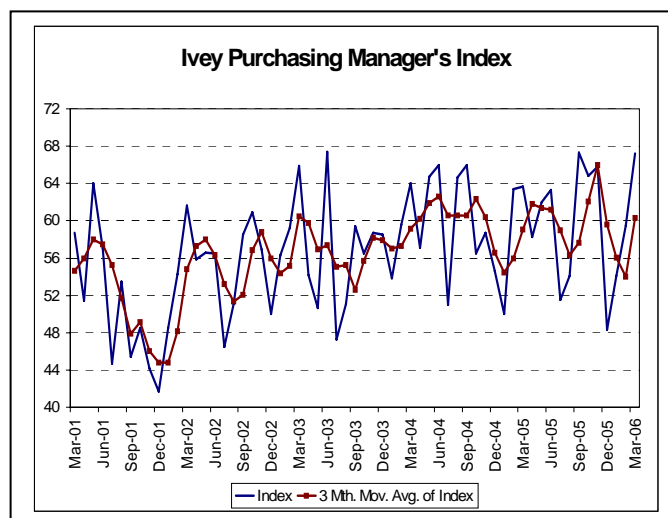
Building Permits increased 3.6% M/M and 4.1% Y/Y in February. Building Permits in the non-residential sector increased 14.4% with permits increasing in all three components: industrial, commercial and institutional. The residential sector, on the other hand, decreased 1.5%, the second consecutive month of decline following a record high, set in December.



Ivey Purchasing Managers Index, News & Upcoming Dates

Ivey Purchasing Managers Index

The Ivey Purchasing Manager's Index increased from 59.5 in February to 67.2 in March, its highest reading in seven months. Expectations were for a reading of 62. The Price Index decreased from 70.1 to 66.9. The employment measure decreased from 64.5 to 61.5 and the supplier-deliveries measure increased from 42.0 to 44.6. The inventory gauge increased from 54.1 to 62.1.



News

April 11th - Strong consumer spending forecast - The Conference Board of Canada predicts that Canadians will keep spending at exceptional levels this year, despite increasing interest rates. "I think we can look for a strong consumer from pretty much Newfoundland to British Columbia," stated Paul Darby, the Conference Board's Deputy Chief Economist. Income tax cuts initiated by the former Liberal government, coupled with an anticipated decrease in the federal goods and services tax this year, are projected to increase real disposable income growth to 5.4 % this year.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
04/13	Manufacturing Shipments (FEB) (M/M)	0.5%	-0.3%
04/18	New Motor Vehicle Sales(FEB) (M/M)	-0.5%	1.4%
04/19	Leading Indicators (MAR) (M/M)	0.3%	0.2%

Valance Co., Inc.

Valance Economic Report: Australia

Milo Prochazka

(340) 692-7710

mprochazka@valance.us

April 12, 2006

Firm employment data and a rebound in home-loan approvals have led to a sudden change in market expectations about the RBA. Consumer confidence, which was expected to rise as well, actually stalled due to a sudden rise in petrol prices.

Weekly Highlights

Unemployment Rate – decreased to 5.0% in March from 5.2% in February. (page 35)

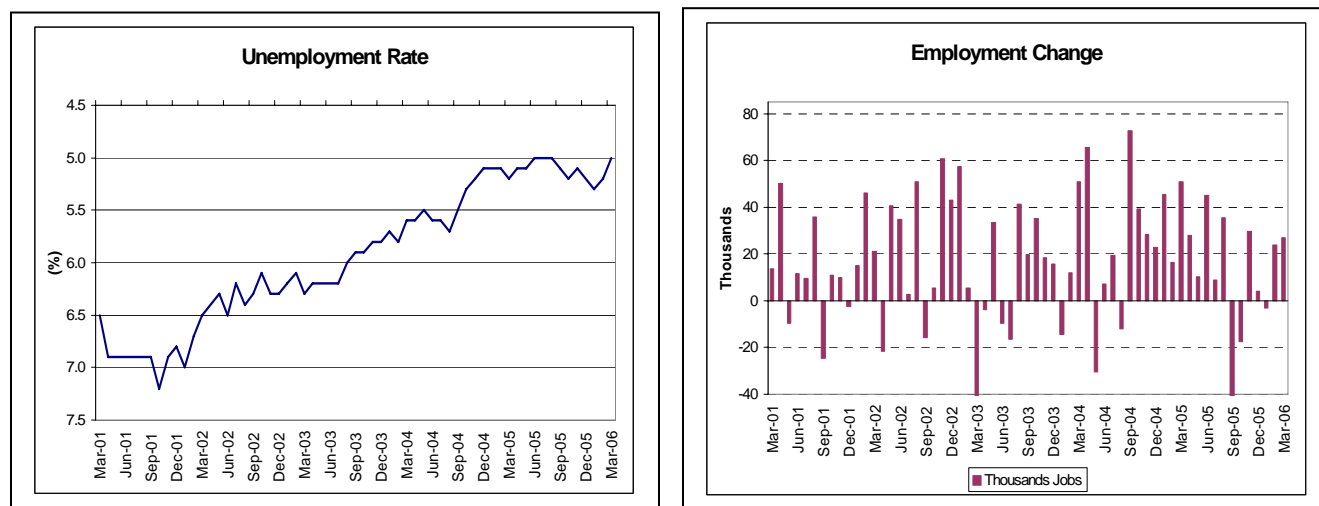
Home Loans – rose 1.1% in February from a negative 0.4% in January. (page 36)

Consumer Confidence – stayed unchanged in April. (page 36)

Business Confidence – rose to a 29-month high in March. (page 36)

Weekly Releases & News

Charts of the Week: *Unemployment*



Total jobs rose by a stronger than expected 27k in March, well above the consensus for a 12k rise. The gain was the sixteenth employment advance in the past nineteen months. Part-time jobs rebounded by 39.5k in March after 11.1k jobs were lost in the previous three months. Full-time jobs fell by 12.5k in March, after full-time jobs grew by a strong average 22k per month in the previous four months. The jobless rate fell to 5.0 % in March from 5.2% in February, which had been the highest in more than a year.

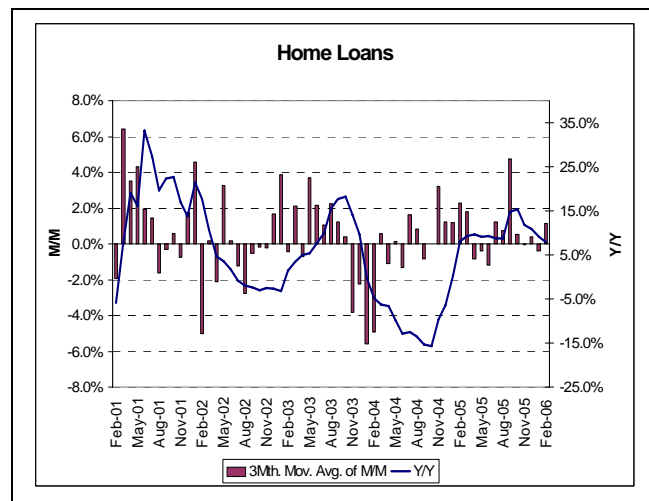
35

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Home Loans, Consumer Confidence & News

Home Loans

The number of loans granted to owner-occupiers to build or buy homes and apartments gained 1.1% in February from a revised negative 0.4% (previously flat) in January.



Westpac Consumer Confidence

The Consumer Sentiment Index stayed at 110.7 in April, according to Westpac Banking Corp. and Melbourne Institute. The flat result was due to a 4% jump in petrol prices last week, before the survey. A reading above 100 shows that optimists outnumber pessimists. The index gained 5.4% from a year ago.

News & Comments

Australian Business Confidence Rises to 29-Month High:

Australian business confidence index rose to its highest level in more than two years in March after exports reached a record and consumer spending rebounded. The confidence index rose 2 points to 17 according to a National Australia Bank Ltd. survey of 400 companies. A reading above zero means that companies expecting improved conditions outnumber those predicting deterioration. Among the factors fueling confidence are Chinese demand for mineral exports, retail sales improvement, the home-building rebound and also still rising stock prices.

Tax cuts won't dent Costello's surplus:

Many economists do not expect to see radical tax reform in the Australian Government's 2006 Budget. The Treasurer, Peter Costello, will hand down the Budget on May 9th. Economists are predicting a \$A14bln Budget surplus for 2005-06 and a strong Australian economy in the second half of 2006. A survey of 21 economists predicts that economic growth will rise to 3.25% by 2006-07.

News Cont & Upcoming Dates

It is widely expected that the Budget will contain some tax cuts and perhaps increased funding for child-care. Economists have warned that Costello is under pressure to keep tax cuts small, in order to contain consumer demand and keep inflation low.

Change of expectations about the RBA:

Twelve of 21 economists surveyed by Bloomberg last week expect the RBA to keep interest rates unchanged until the end of the year. The rest now expect rates to rise after a nearly unanimous on-hold view last month. A higher Q1 CPI, due on April 26th, could be enough to tip the RBA's hand to act in the next few month and raise rates.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
04/12	Consumer Inflation Expectations (APR)	---	---
04/13	Unemployment Expectations (APR)	---	---

Valance Co., Inc.

Weekly Economic Report: **China**

La-Toya C. Elizee
(340) 692-7710
lelizee@valance.us

April 12, 2006

Canada's Trade Surplus widened as export growth surged. The Leading Index increased while the Coincident and Lagging Indices both decreased-all were marginal changes.

Weekly Highlights

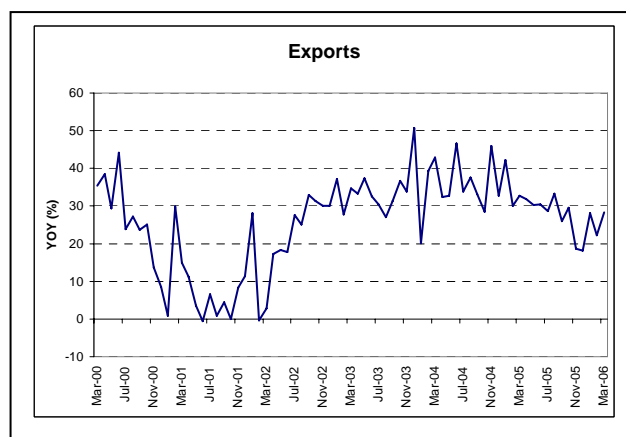
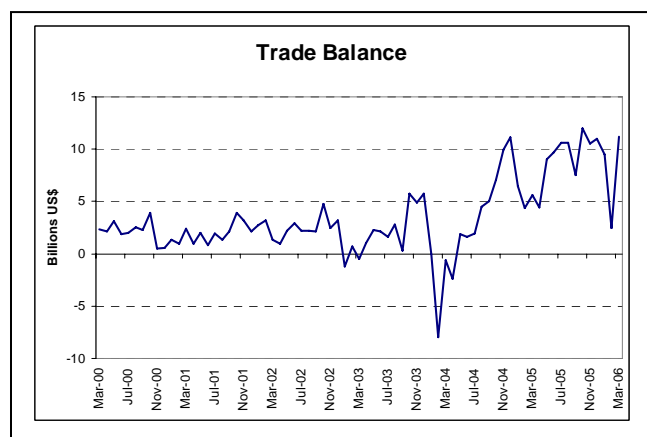
China's Trade Balance - widened from \$2.5 bln in February to 11.2 bln in March. (page 38)

Leading Index - increased from 102.4 to 102.6 in February. (page 39)

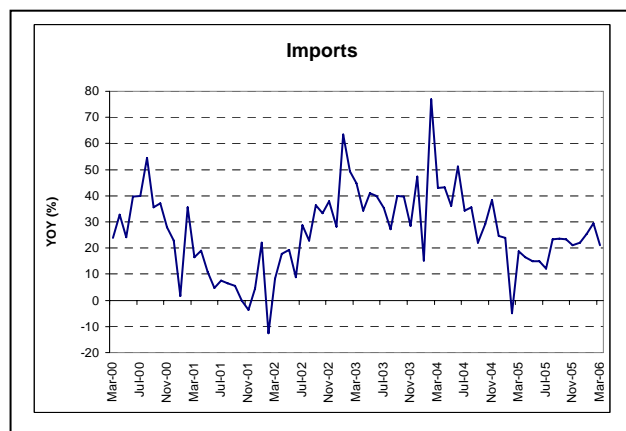
Coincident Index - decreased from 100.7 to 100.6 in February. (page 39)

Weekly Releases & News

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



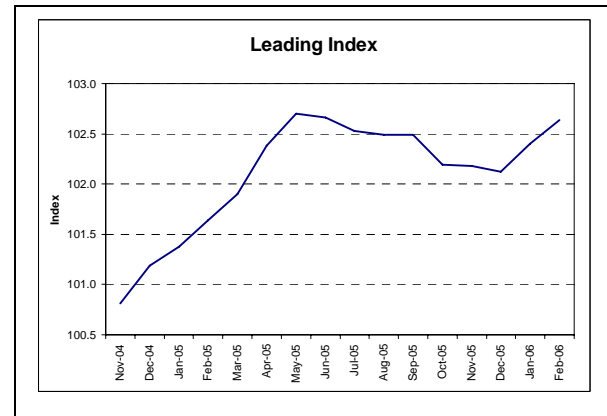
China's Trade Balance widened from \$2.5 bln in February to \$11.2 bln in March, the second highest level on record. The trade surplus to the U.S. increased 39% Y/Y to \$11 bln. Total Export growth increased from 22.3% Y/Y to 28.3% Y/Y, well above expectations of 21.5% Y/Y growth. Import growth slowed from 29.5% Y/Y to 21.1% Y/Y.



Leading, Coincident & Lagging Indices

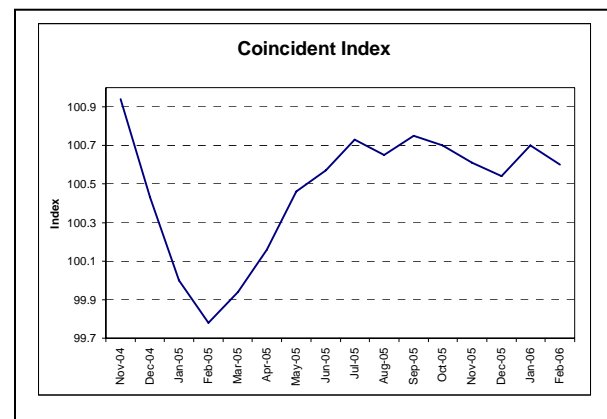
Leading Index

The Leading Index increased from 102.4 to 102.6 in February.



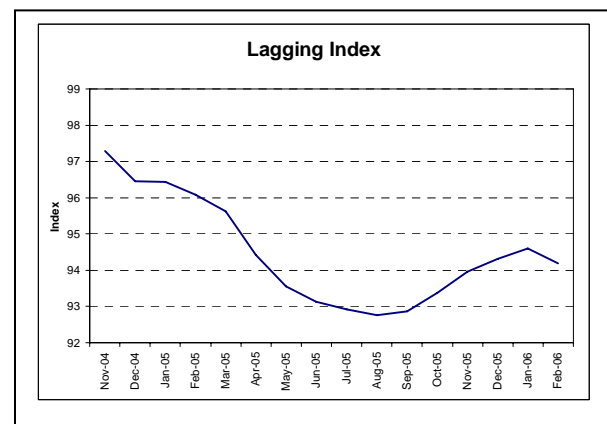
Coincident Index

The Coincident Index decreased from 100.7 to 100.6 in February.



Lagging Index

The Lagging Index decreased from 94.6 to 94.2 in February.



News Releases

April 12th - China's First-Quarter Crude Oil Imports Increase 25% - China's oil imports increased 25% Y/Y in Q1 as energy demand increased. Crude imports increased to 37.1 million metric tons (272 million barrels) in January through March according to the Beijing-based Customs General Administration of China. China's oil import bill increased 75 % to \$16 billion in Q1. As China eases curbs on fuel prices, refiners including China Petroleum & Chemical Corp. plans to increase shipments this year, with an anticipation that they will benefit

April 12th – Companies and Banks Far from Adapting to Flexible Yuan - PBoC Vice Governor, Wu Xiaoling, commented that China's companies and banks are far from adapting to a flexible yuan, and that "everyone has to adjust."

April 11th – China's Economy Expected to Grow 9.5% This Year - An Asian Development Bank report stated that China's economic growth may reach 9.5% in 2006, as manufacturing costs decrease and inflation remains at 2.0% to 3.0%.

April 10th – Bush Advises Hu to Explain China's Currency and Piracy Issues – President George Bush stated that China's President Hu should make clear how China will tackle its currency issues and protect property rights. Bush stated, "He could help the Americans understand the importance of a free-trading world if he were to maybe make a statement on his currency." Bush added, "It's important for Americans to see a society that goes from having its economic growth driven by exports to one having its economic growth more by consumer demand inside the country."

April 7th – China Should Make Currency Flexible 'Now' – In a speech to the Asia Society and the Houston Society of Financial Analysts, U.S. Treasury Undersecretary for International Affairs, Tim Adams, stated that China "has been far too cautious" in moving toward a flexible currency. Adams further added that "The obstacles are no longer technical; China could easily move more rapidly towards greater flexibility. It should do so now."

April 7th – Survey Shows Consumers Confident of Increase in Incomes - A survey by the National Bureau of Statistics showed that consumers are more confident of rising incomes. The percentage of consumers that expect an increase in incomes rose from 62.0% in September to 64.0% in March, the Bureau said.

April 6th - Tax Revenues Rose in Q1 – The State Administration of Taxation stated on its website that tax revenues in China rose 18.9% Y/Y in Q1 to 898.8 bln yuan. Last year's tax revenue rose 20.0% to 3.1 trln yuan.

April 6th – Business Confidence Rose in Q1 – The National Bureau of Statistics reported that Business Confidence grew in Q1 from 125.4 to 133.1 as companies grew more optimistic about the economy.

April 6th – ADB Says China Should Reform Banks and Social Security – The Asian Development Bank stated that China should reform its banks and social security system in order to improve consumer spending. The Bank added, "High rates of growth will be in jeopardy without further improvements in these areas."

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
04/12-14	Money Supply – M2, M1, M0 (Y/Y) – Mar	--	18.80% / 12.40% / 8.00%
04/12-14	Foreign Exchange Reserves – Jan/Feb/Mar	--	818.87B
04/12-14	Household Savings – Trin Yuan – Mar	--	15.12T
04/12-14	Actual/Contract FDI Cumulative (Y/Y) – Mar	--	7.79% / --
04/19	GDP Constant Price (Y/Y) – Q1	9.8%	9.9%
04/19	Unemployment Rate (Y/Y) – Q1	--	4.2%
04/19	Producer Price Index (Y/Y) – Mar	2.9%	3.0%
04/19	Purchasing Price Index (Y/Y) – Mar	--	6.8%
04/19	CPI (Y/Y) – Mar	1.3%	0.9%
04/19	Retail Sales Value Ind. / Accum (Y/Y) – Mar	12.6% / --	9.4% / 12.5%
04/19	Value-Added Industry (Y/Y) / Current – Mar	16.0% / --	20.1% / 547.31B
04/19	Fixed Assets Inv Urban Cum (Y/Y) – Mar	26.2%	26.6%
04/19	Industrial Profits Cum (Y/Y) – Mar	--	21.8%

Valance Co., Inc.

Valance Economic Report: Sweden

Evelyn L. Richards

(340) 692-7710

erichards@valance.us

April 12, 2006

Inflation data released in Sweden over the past week showed faster-than-expected acceleration. Industrial Orders also showed improvement, while M/M Industrial Production and the Activity Index Level fell.

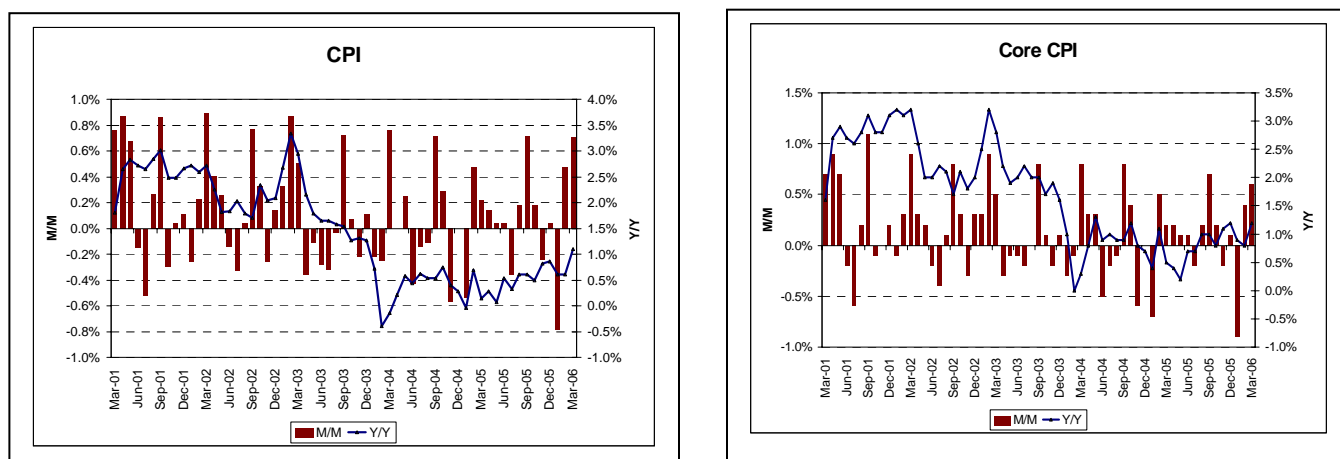
Weekly Highlights

CPI – rose 0.7% M/M and 1.1% Y/Y in March. (page 42)

Core CPI – rose 0.6% M/M and 1.2% Y/Y in March. (page 42)

Weekly Releases & News

Chart(s) of the Week: *CPI & Core CPI*

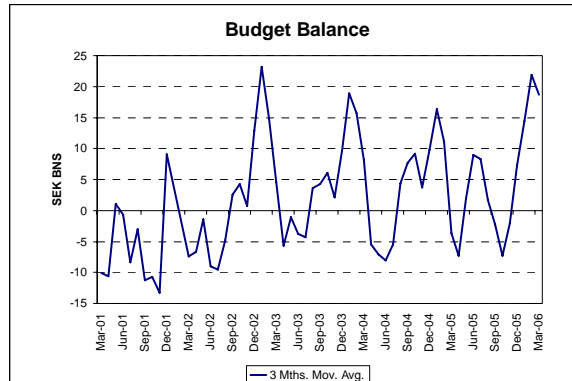


Swedish Consumer Prices rose in March on both a headline (0.7%) and core basis (0.6%). The M/M increases were spurred by rising electricity costs and rents, which pushed up housing expenses.

Budget Balance, Industrial Production & Industrial Orders

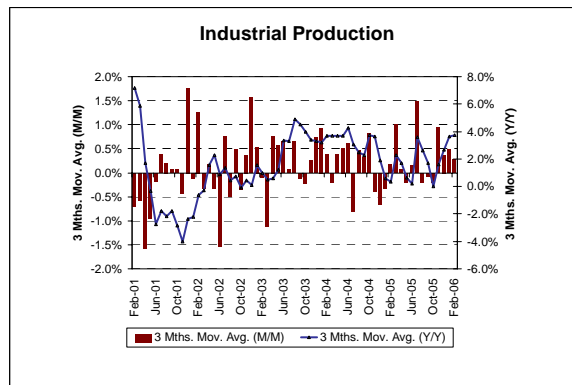
Budget Balance

Sweden experienced a larger-than-expected budget surplus of SEK 9.0 bln last month due to higher than forecasted tax revenues. The surplus was SEK 3.7 more than expected.



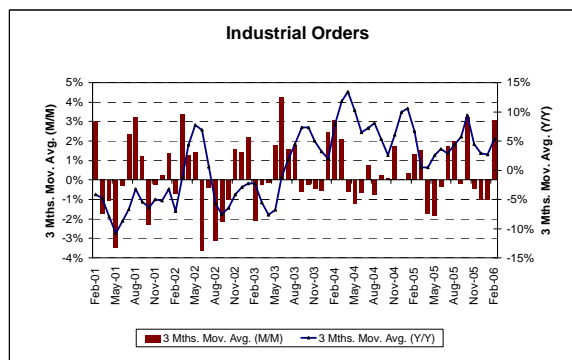
Industrial Production

Industrial Production fell 1.4% M/M and rose 1.5% Y/Y in February, below expectations. The M/M decline was led by declines in non-durable goods and energy-related products. Expectations were for a decline of 0.5% M/M and a gain of 3.3% Y/Y.



Industrial Orders

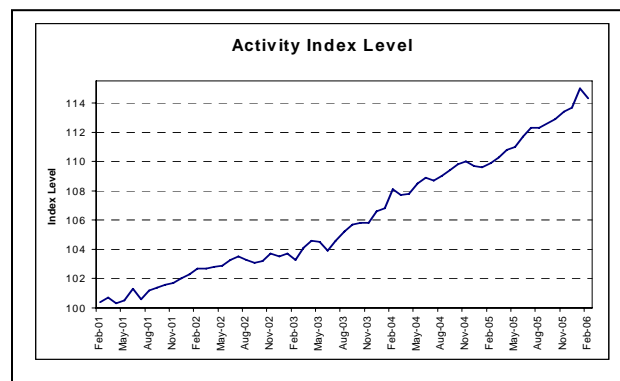
Industrial Orders rose 3.1% M/M and 8.5% Y/Y in February. The monthly increase was reflective of a 5.9% increase in export market orders and a 1.2% decrease in domestic market orders. Also, new orders in the capital goods industry increased by 5.4%, while new orders in the intermediate goods industry decreased by 0.1%.



Activity Index Level, AMS Unemployment Rate & Trade Weighted Exchange Rate

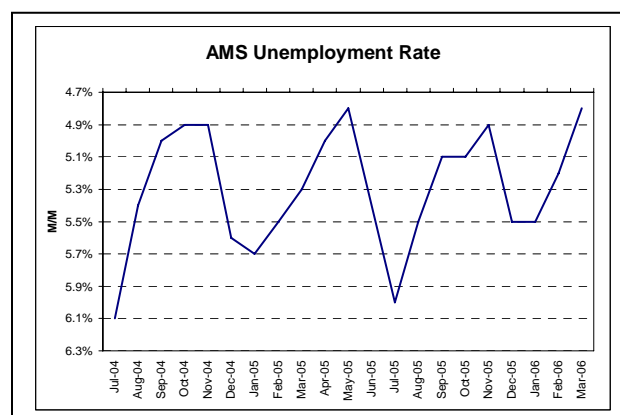
Activity Index Level

The Activity Index Level fell from a revised 115.0 (up from 114.3) in January to 114.8 in February.

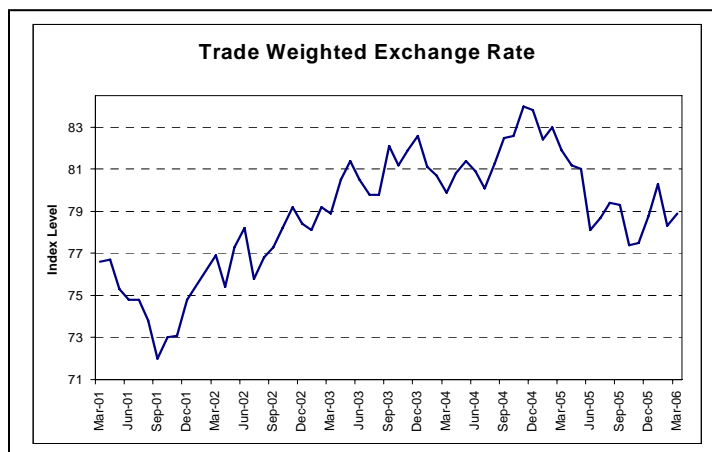


AMS Unemployment Rate

The Labor Board's un-official Unemployment Rate fell from 5.2% in February to 4.8% in March. A total of 216K Swedes were unemployed (a decrease of 17K from the month before). The number of job vacancies rose from 62K in February to 64K in March.



Trade Weighted Exchange Rate



Key Dates This Week

Nothing to report.

Valance Co., Inc.

Valance Economic Report: Switzerland

Evelyn L. Richards

(340) 692-7710

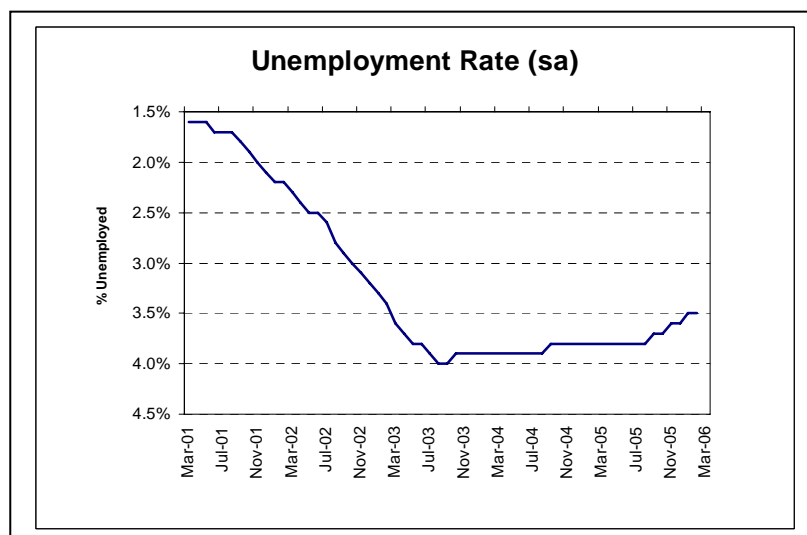
erichards@valance.us

April 12, 2006

Switzerland's Unemployment Rate, the only economic release over the past week, held at a three-year low of 3.5% in March. The SNB will raise rates "gradually" this year, amid expansion. SNB policy maker, Phillip Hildebrand, commented on transparency in monetary policy.

Weekly Releases & News

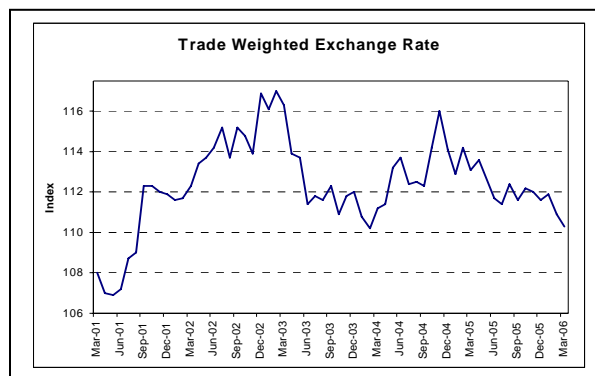
Chart of the Week: *Unemployment Rate*



As expected, Switzerland's seasonally adjusted Unemployment Rate remained unchanged at 3.5% in March. The number of job vacancies increased to 11.7K in March, while the number of job seekers dropped to 212K.

Trade Weighted Exchange Rate & News Releases

Trade Weighted Exchange Rate



News Releases

April 11th – SNB Says It Will Raise Rates ‘Gradually’ Amid Expansion - The SNB said it will raise rates “gradually” as the economy expands. In its quarterly bulletin, it indicated that “recovery will continue this year” and real GDP is expected to grow “over 2 percent.”

April 7th – Investors Expectations Should Be Considered - SNB policy maker, Philipp Hildebrand, stated that central banks must consider investors’ views about interest rate expectations. Hildebrand stated that investors “provide valuable information for central banks in determining the optimal future course of monetary policy.” “Market expectations can and should influence the setting of monetary policy,” Hildebrand added.

April 6th – Economic Institutes Raise Growth Forecasts – KOF and BAK economic institutes both raised their 2006 growth forecasts for Switzerland’s economy on consumer spending and increased investments. KOF raised its forecast from 1.5% predicted in October to 2.1%, while BAK increased its forecast from 1.8% predicted in December to 2.0%. The KOF added that inflation will average 0.9% in 2006, then slow to 0.6% in 2007.

April 7th – SNB Policy Maker Phillip Hildebrand Comments on Monetary Policy:

On Asset prices: “The area of asset prices is and will continue to be a great challenge for central banking and monetary policy. It's presumptuous for central banks to assume they have a better view of asset prices than other market participants. We don't have enough knowledge or ability to target asset prices. However we need to consider them when making monetary policy decisions.”

On the biggest challenges facing central banking: “The biggest challenge is to what extent globalization is altering price dynamics. How does globalization impact the level of prices and therefore the inflation potential. Globalization has inflationary forces like oil prices or disinflationary forces like competition and the opening up of labor markets.”

News Releases (Cont'd.)

SNB Policy Maker Phillip Hildebrand Comments on Monetary Policy (cont'd.):

On Switzerland's output gap: “We have clearly stated that the output gap is closed.”

On following market expectations: “We will not act mechanically.”

On the link between central banks and financial markets: “Monetary policy and financial markets are intrinsically linked. Central banks conduct monetary policy by directly and indirectly influencing financial market prices. Since financial market participants seek to extract profits from buying and selling securities, markets inevitably pay close attention to both words and deeds of central banks. The relationship between monetary policy and financial markets is by no means a one-way street, however. Financial market prices reflect the expectations of market participants about future economic and monetary developments. These expectations, in turn, provide valuable information for central banks in determining the optimal future course of monetary policy. Market expectations can and should influence the setting of monetary policy.”

On a monetary policy based on short-term rates: “The monetary policy instrument itself, typically a short-term interest rate, has only a limited impact on the real economy. Monetary policy impacts financial markets mainly through expectations. Let me give an example. Imagine a central bank which eases its monetary policy stance by lowering expectations about the future path of short-term interest rates. Lower expected short-term rates will directly affect bond prices and the exchange rate. They will also increase other asset prices by lowering the discount rate to be applied when discounting future proceeds. The indirect effects due to higher expected demand will raise stock and housing prices and further contribute to the total impact of monetary policy. Monetary policy primarily works through expectations about future changes in short-term interest rates. In other words, it is not so much current short-term interest rates which define the stance of monetary policy. What matters is what financial market participants expect the future path of short-term interest rates to be, as well as the consequences of that path on financial markets and ultimately on the real economy. Setting the interest rate at official board meetings is therefore only one part of conducting monetary policy. The other part relates to the release of information that affects market expectations.”

On the need for transparency by central banks: “Transparency is a crucial element of a successful monetary policy strategy. If a central bank wants to implement its monetary policy strategy efficiently, it should communicate its intentions and expectations to financial markets and to the public as clearly as possible. In other words, based on its assessment of the available data, it should lay out the likely direction of the monetary policy path as well as the expected economic effects of that path. Central bank transparency then allows markets to better anticipate the future path of short-term rates, the effect of this path on other financial market prices and ultimately the impact on the real economy.” Transparency also “reduces uncertainty and may therefore lead to lower volatility in various financial markets. If markets can better anticipate the behavior of a central bank and the effects of monetary policy, there should be less scope for monetary policy surprises, better anchored inflation expectations, less monetary policy-induced volatility in asset prices and ultimately less macroeconomic volatility.” “Less volatility should translate into a lower risk premium and may thus promote investment and positively affect economic growth.” Lower risk premiums also lead to higher asset prices. Indeed, throughout the world and for most asset classes, there seems to be a trend in recent years to higher valuations. These higher valuations can probably partly be attributed to the reduction of the risk premium due to lower expected volatility.”

News Releases (Cont'd.)

SNB Policy Maker Phillip Hildebrand Comments on Monetary Policy (cont'd.):

On the link between transparency and democracy: “Transparency is a valuable good in its own right. For good reasons, central banks are powerful and for the most part politically independent institutions. Moreover, the officials who run central banks are typically appointed for lengthy terms and are difficult to remove from their positions. Transparency is a crucial element in creating democratic legitimacy for politically independent institutions whose actions can have wide-ranging consequences for a country's citizens and its elected government.”

On the limits of transparency: “Transparency is of little use if markets and the public do not believe what a central bank says. Credibility is therefore a condition that is a sine qua non for a successful monetary policy. A long history of actually matching deeds to words, of honest communication and a reputation for delivering price stability will therefore ensure central bank credibility. In practice, only a small number of central banks can draw on a sustained history of successful monetary policy, amongst them, the Federal Reserve, the Bundesbank and the Swiss National Bank.” Transparency and credibility “cannot and should not be substitutes for action.” “It is often said that a high level of transparency in conducting monetary policy means that the central bank has less work to do, because stating clear intentions will induce financial markets to do some of the work for the central banks.”

On relying too heavily on credibility: “Ultimately, a central bank still has to do its job. A central bank should never signal an intention to do something if it does not intend to act accordingly. Market participants would in due time recognize that the emperor has no clothes and alter their expectations in line with this recognition. If a credible central bank decides to use words with the explicit aim of substituting them for action, it will risk losing credibility and, with that, its ability to guide market expectations. This does not mean that central banks should always deliver what they have signaled in the past. Central bank communication should simply reflect policy intentions based on the data and information available at the time of communication. As time progresses, new information will emerge, which may require a change in the assessment of the likely future monetary policy course. Reviewing monetary policy based on new information is not the same as deliberately deceiving financial markets.”

On the dangers of transparency: At times “financial markets look for guidance from the central bank, the central bank looks for guidance from financial markets, and both parties temporarily lose sight of the underlying factors determining inflation, namely the output gap in the short to medium-run, and money growth in the long-run. To avoid this trap, central banks should exercise due caution when making use of financial market expectations. Financial markets provide useful information for a central bank in search of the optimal monetary policy path. But, as Otmar Issing recently put it, central banks must ensure that they do ‘not end up merely executing the expectations developed in the market’.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
04/13-20	Producer & Import Prices (Y/Y) / (M/M) – Mar	--	0.3% / 1.6%