

Valance Company, Inc.



Weekly

May 3, 2006

III

Highlights

US – Core PCE grew 2.3% on 6 mo. annualized rate basis in March (page 2)

Euroland – Sentiment continues to improve; ECB remains hawkish (page 12)

Japan – Prices and Production increased Y/Y in March while the Unemployment Rate remained unchanged (page 21)

UK – GfK and Nationwide Consumer Confidence surveys diverged (page 30)

Australia - The RBA has finally settled the rate-rise debate and raised its benchmark interest rate to 5.75%. (page 40)

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Valance Economic Reports

Valance Co., Inc.

Valance Economic Report: United States

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May 3, 2006

This week's economic data was overshadowed by the market influence of Bernanke's official comments to Congress followed by the revelation of his communications with Maria Bartiromo over the weekend. Net-Net, the Fed is still data-dependent and if April's readings of Core PCE and CPI remain elevated at March levels, the Fed is unlikely to pause in June.

Weekly Highlights

Core PCE- increased 0.32% M/M and increased 2.3% on a 6 mo. annualized basis in March. (page 2)

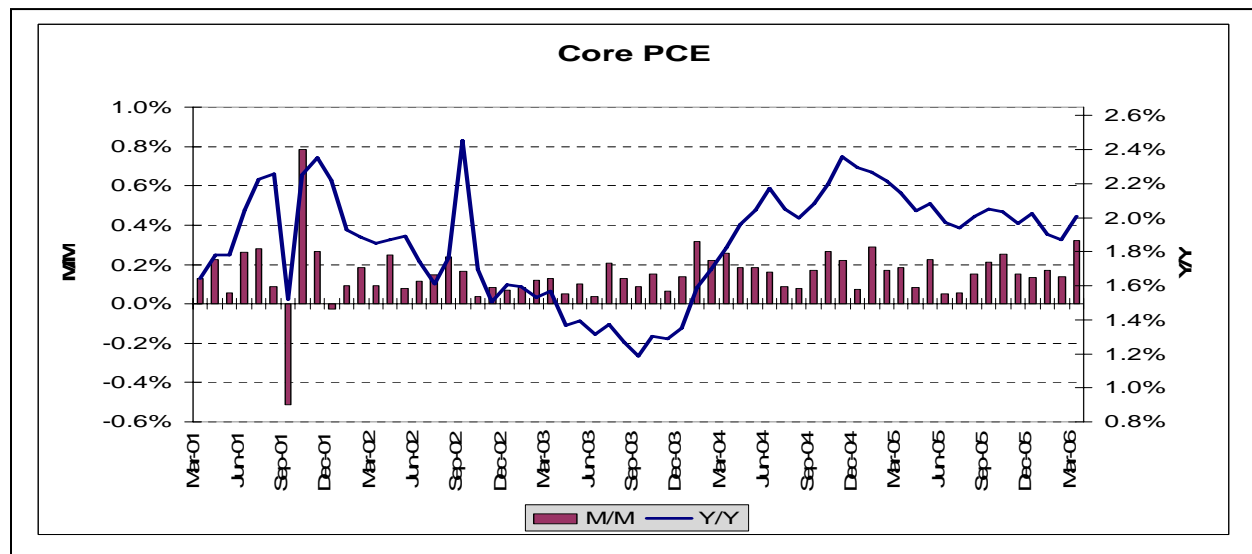
GDP- increased 4.8% in Q1 2006 and averaged with weak Q4 2005 is 3.25%. (page 4)

Employment Cost Index- increased 0.6% Q/Q and 2.8% Y/Y in Q1 2006. (page 5)

ISM Non-Manufacturing- price component increased from 60.5 to 70.5 in April. (page 5)

Weekly Releases

Chart of the Week: Core PCE



Core PCE increased 0.32% M/M and 2.0% Y/Y in March. The six month annualized rate is at 2.3%- confirming that the Fed's favorite measure of inflation remains at the high-end of the range with which they feel comfortable. If April's Core PCE and CPI remain elevated like the March readings the Fed is unlikely to pause in June.

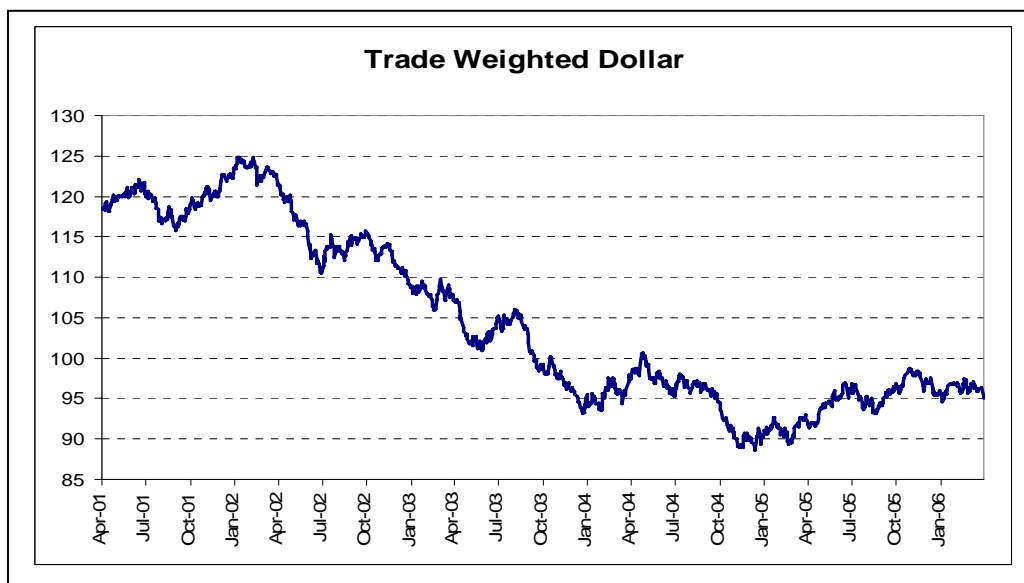
U.S. Financial Balances & Trade Weighted Dollar

Financial Balances

<i>U.S.</i>	<i>Latest period (\$blns)</i>	<i>Last 12mth. as a % of GDP</i>
Budget Balance	-85.5 (March)	-2.6%
Trade Balance	-65.7 (February)	-5.8%
Current Account Balance	-224.4 (Q4)	-6.3%
Private Balance	--	-3.7%

The budget deficit is currently at \$327 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



GDP

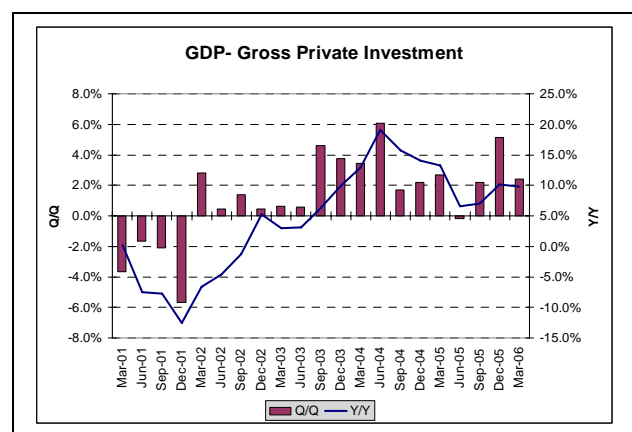
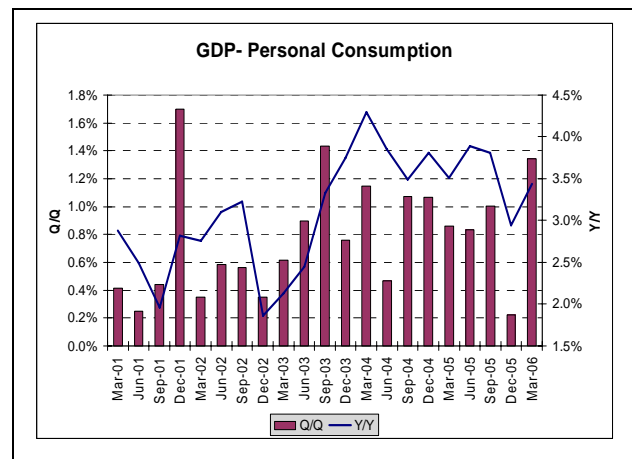
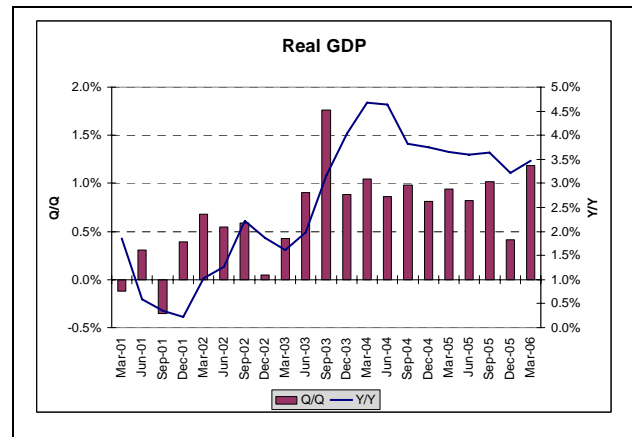
GDP

Q1 GDP annualized Q/Q growth was 4.8%, up from 1.7% in Q4 of 2005. The two quarters average to 3.25% growth and give a better indication of trend growth.

Personal Consumption grew 5.5% on an annualized basis due in part to the snap-back in motor vehicle sales.

Gross private investment grew 6.5% on an annualized basis, down from 16.1% in Q4 2005. Residential investment grew at 2.6% compared to 2.8% last quarter and equipment and software grew at a 16.4% rate in Q1 and contributed 1.24% to overall growth in the quarter.

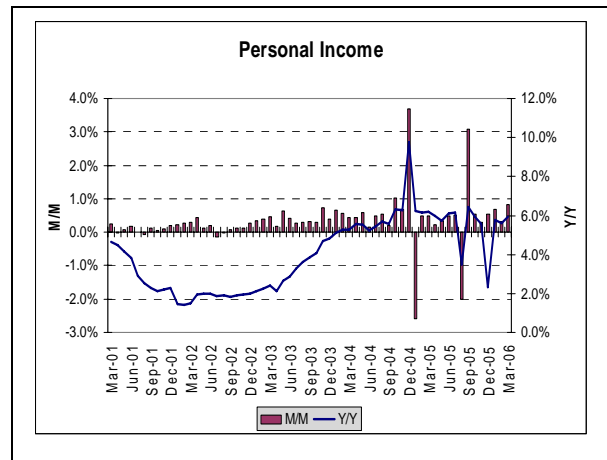
Inventories subtracted .52% (after contributing 1.89% in Q4 2005) from Q1 growth).



Personal Income and Spending & Employment Cost Index

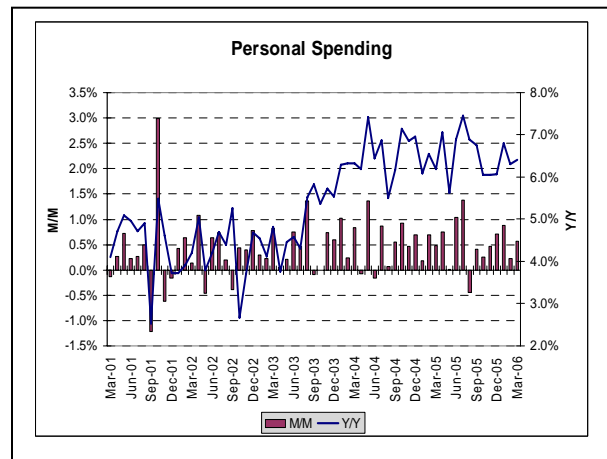
Personal Income

Personal Income increased 0.8% M/M and 6.0% Y/Y in March. The wage and salary component increased 0.4% M/M and 5.0% Y/Y. Income gains still remain healthy and should allow for spending growth to remain firm at least in the short-term, barring a major adjustment in saving rates.



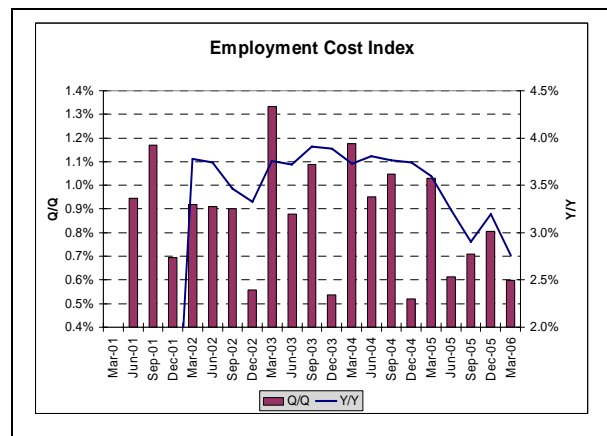
Personal Spending

Personal Spending increased 0.6% M/M and 6.4% Y/Y in March. Spending grew at a slower rate than income for the second straight month, but is still growing at a robust absolute level.



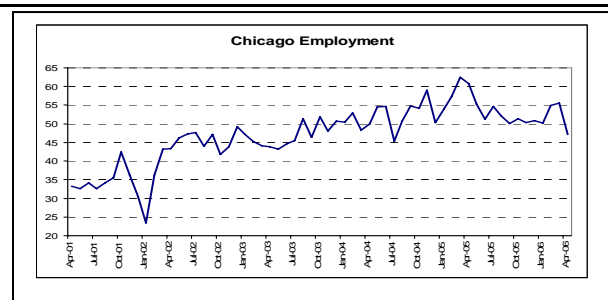
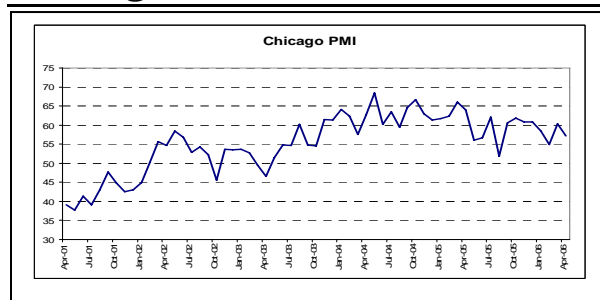
Employment Cost Index

The Employment Cost Index increased 0.6% Q/Q on a seasonally adjusted basis and 2.8% Y/Y in the first quarter of 2006. Employment costs on a Y/Y basis moderated from 3.1% putting less pressure on the Fed. The growth of benefits slowed from 4.5% to 3.4%, but wage and salary growth accelerated from 2.6% to 2.7%, the highest since December 2003.



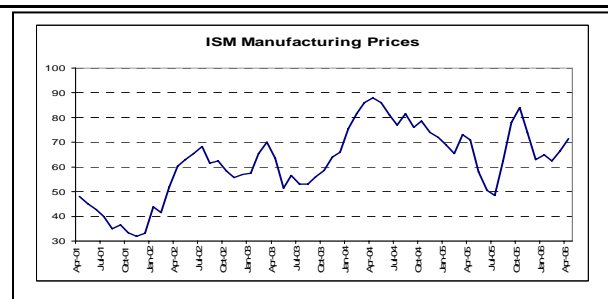
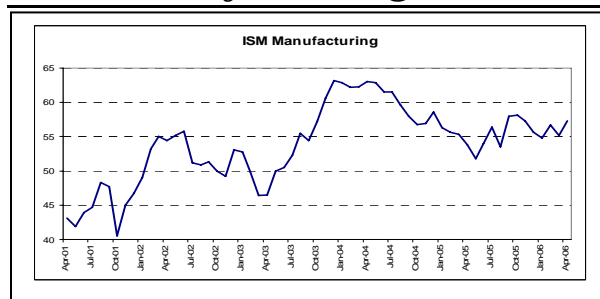
Chicago PMI & ISMs

Chicago PMI



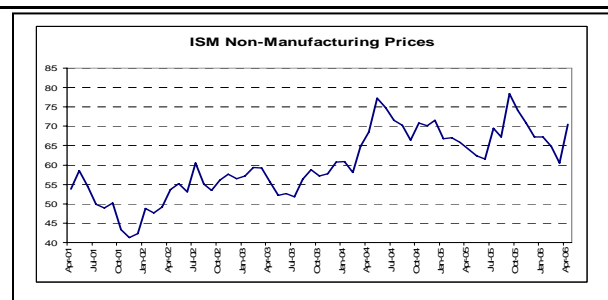
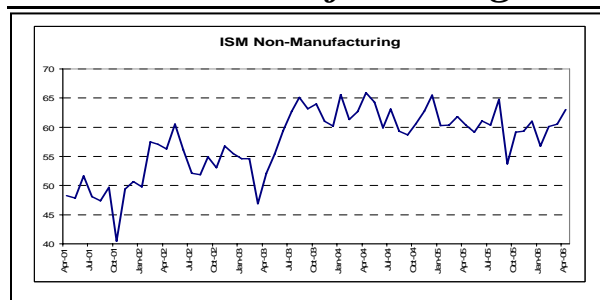
The Chicago PMI decreased from 60.4 to 57.2 in April. The employment component fell from 55.6 to 47.2. The orders component fell from 62.2 to 60.8. The price component rose from 71.1 to 77.2.

ISM Manufacturing



The ISM Manufacturing Index increased from 55.2 to 57.3 in April. The price and employment components also increased from 66.5 to 71.5 and from 52.5 to 55.8, respectively. The orders component also dropped from 58.4 to 57.6. The Manufacturing sector seems to be decelerating a bit, but continues to expand.

ISM Non-Manufacturing



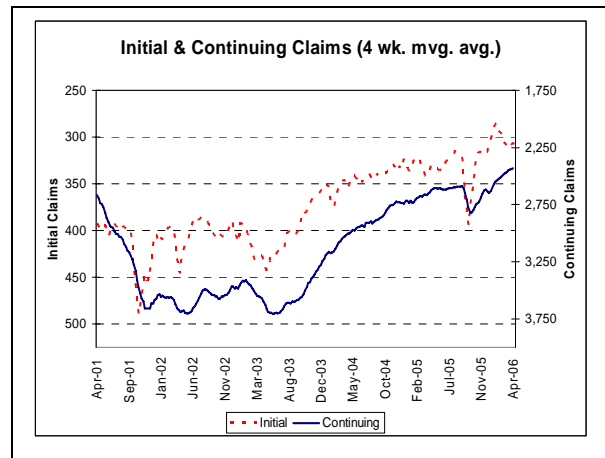
The ISM Non-Manufacturing Index improved from 60.5 to 63.0 in April. The new orders and price components increased from 59.5 to 64.6 and from 60.5 to 70.5, respectively. The employment component also increased a bit from 54.6 to 56.5.

Unemployment Claims, Vehicle Sales & Factory Orders

Initial & Continuing Claims

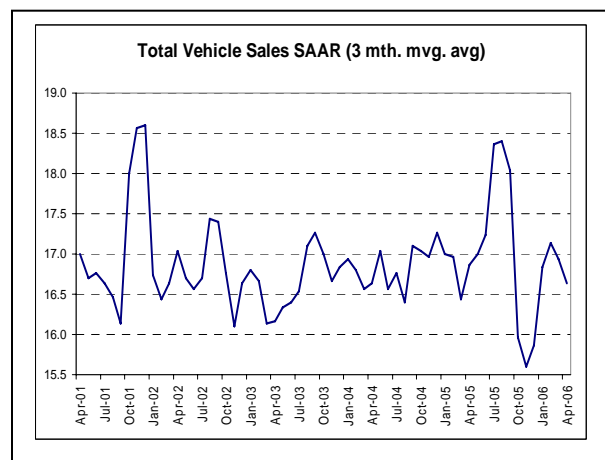
The four week moving average of initial claims increased by 3k to 309k, while continuing claims decreased by 4k to 2,432k.

Claims data continues to suggest a strong labor market that is likely to put downward pressure on the unemployment rate and this seems to be confirmed by the new ADP payroll data.



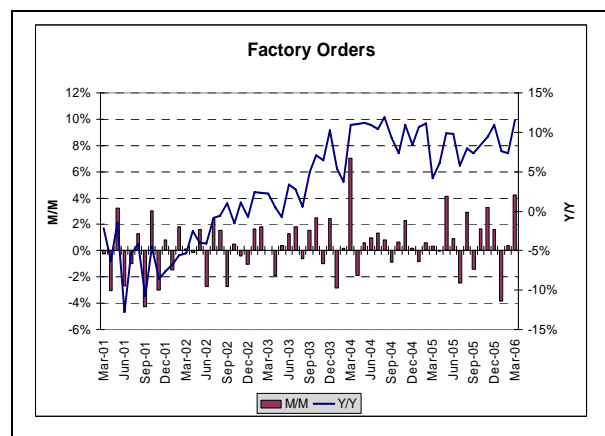
Total Vehicle Sales

The seasonally adjusted annual rate of Total Vehicle Sales declined from 16.9mln to 16.6mln in April. Vehicle Sales averaged 16.9mln in Q1 2006, but only registered 16.7mln in April- a weak start to Q2 vehicle growth.



Factory Orders

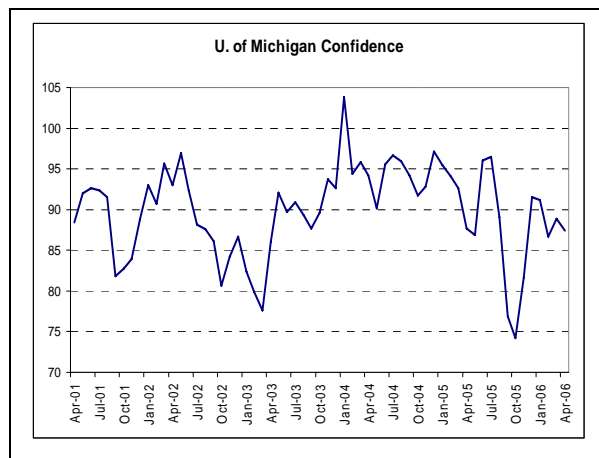
Factory Orders decreased 4.2% M/M and increased 11.6% Y/Y in March. Monthly movements have been volatile, but Y/Y growth is once again at healthy levels.



Confidence & Mort. Apps.

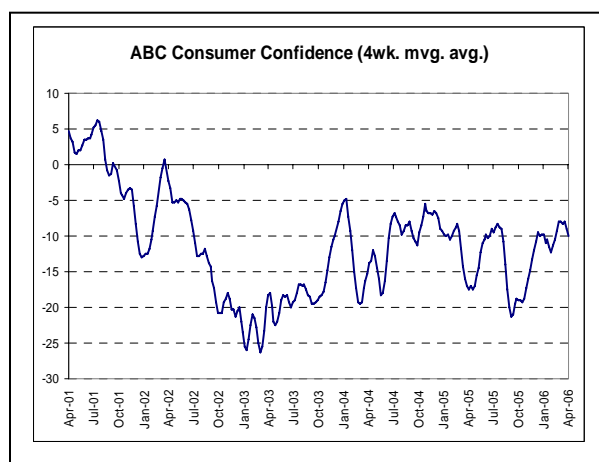
U. of Michigan Confidence

The University of Michigan Confidence Index decreased from 88.9 to 87.4 in April. The current conditions component improved a bit from 109.1 to 109.2 and the expectations component dropped from 76.0 to 73.4. Inflation expectations inched up a bit: one year expectations increased from 3.0% to 3.3% and long-term expectations increased from 2.9% to 3.1%.



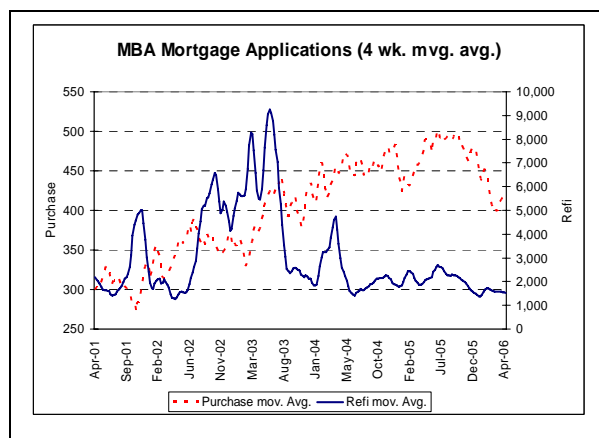
ABC Consumer Confidence

The ABC Consumer Confidence Index decreased from -11 to -13. The economy, finance and buying components all declined at least two points for the second straight week.



MBA Mortgage Applications

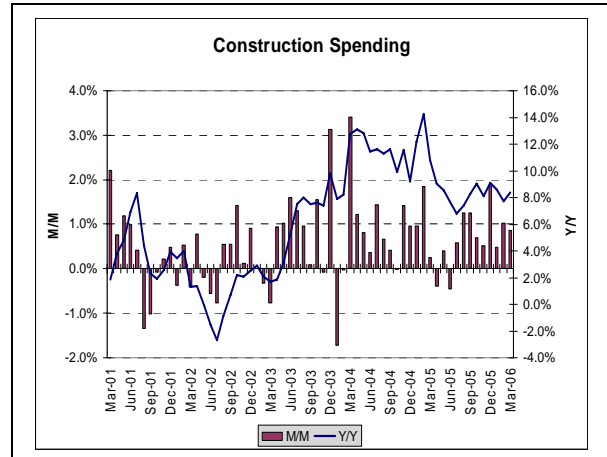
Purchase mortgage applications increased 11.3% W/W and refi applications were up 5.1% W/W this week. The four-week moving average of purchase applications is still down 13.5% Y/Y and was down 10.2% Y/Y just based on last week's reading.



Construction Spending & Pending Home Sales

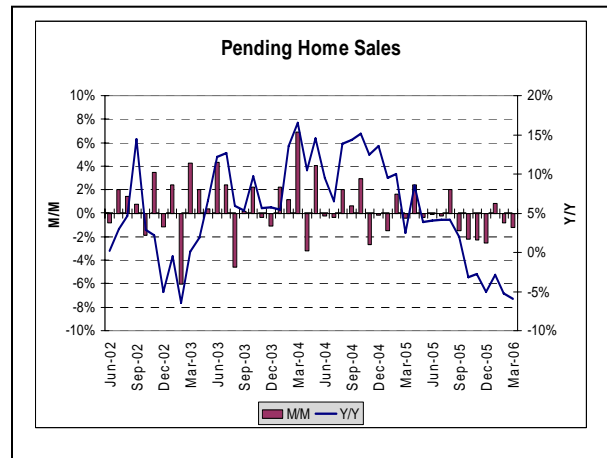
Construction Spending

Construction Spending increased 0.9% M/M and 8.4% Y/Y in March. This data is consistent with the resilience seen in housing starts.



Pending Home Sales

Pending Home Sales declined 1.2% M/M and 6.0% Y/Y in March. This series continues to show weakness and provides more evidence of a slowing housing market.



Fed Comments

Bartirromo on Bernanke- “Remarks misunderstood last week”

Bernanke- “The FOMC will continue to monitor the incoming data closely to assess the prospects for both growth and inflation. In particular, even if in the Committee's judgment the risks to its objectives are not entirely balanced, at some point in the future the Committee may decide to take no action at one or more meetings in the interest of allowing more time to receive information relevant to the outlook. Of course, a decision to take no action at a particular meeting does not preclude actions at subsequent meetings, and the Committee will not hesitate to act when it determines that doing so is needed to foster the achievement of the Federal Reserve's mandated objectives.”

“Rising energy prices pose risks to both economic activity and inflation. If energy prices stabilize this year, even at a high level, their adverse effects on both growth and inflation should diminish somewhat over time. However, as the world has little spare oil production capacity, periodic spikes in oil prices remain a possibility.”

“And, while unusually mild weather gave a lift to new housing starts earlier this year, the reading for March points to a slowing in the pace of homebuilding as well. House prices, which have increased rapidly during the past several years, appear to be in the process of decelerating, which will imply slower additions to household wealth and, thereby, less impetus to consumer spending. At this point, the available data on the housing market, together with ongoing support for housing demand from factors such as strong job creation and still-low mortgage rates, suggest that this sector will most likely experience a gradual cooling rather than a sharp slowdown. However, significant uncertainty attends the outlook for housing, and the risk exists that a slowdown more pronounced than we currently expect could prove a drag on growth this year and next. The Federal Reserve will continue to monitor housing markets closely.”

“The outlook for inflation is reasonably favorable but carries some risks. Increases in energy prices have pushed up overall consumer price inflation over the past year or so. However, inflation in core price indexes, which in the past has been a better indicator of longer-term inflation trends, has remained roughly stable over the past year. Among the factors restraining core inflation are ongoing gains in productivity, which have helped to hold unit labor costs in check, and strong domestic and international competition in product markets, which have restrained the ability of firms to pass cost increases on to consumers. The stability of core inflation is also enhanced by the fact that long-term inflation expectations--as measured by surveys and by comparing yields on nominal and indexed Treasury securities--appear to remain well-anchored. Of course, inflation expectations will remain low only so long as the Federal Reserve demonstrates its commitment to price stability. As to inflation risks, I have already noted that continuing growth in aggregate demand in excess of increases in the economy's underlying productive capacity would likely lead to increased inflationary pressures. In addition, although pass-through from energy and commodity price increases to core inflation has thus far been limited, the risk exists that strengthening demand for final products could allow firms to pass on a greater portion of their cost increases in the future.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/04	Non-Farm Productivity (Q1)	2.8%	-0.5%
05/04	Unit Labor Costs (Q1)	1.2%	3.3%
05/04	Initial Jobless Claims (APR 29)	310K	315K
05/04	Continuing Claims (APR 22)	2450K	2449K
05/05	Change in Non-farm Payrolls (APR)	200K	211K
05/05	Unemployment Rate (APR)	4.7%	4.7%
05/05	Average Hourly Earnings (APR) (M/M)	0.3%	0.2%
05/05	Average Weekly Hours (APR)	33.8	33.8
05/05	Consumer Credit (MAR)	\$4.1B	\$3.3B
05/09	Wholesale Inventories (MAR)	0.5%	0.8%
05/09	ABC Consumer Confidence (MAY 8)	NA	-13
05/10	MBA Mortgage Applications (MAY 5)	NA	8.8%
05/10	Monthly Budget Statement (APR)	\$68.0B	-\$85.5B
05/10	FOMC Rate Decision Expected (MAY 10)	5.00%	4.75%

Valance Co., Inc.

Valance Economic Report: Euro Zone

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May 3, 2006

Economic Confidence continued to gain traction this past week as Euro Zone and Italian Business Confidence set recent highs. Unemployment also decreased across the board, except for Spain, though whether or not actual jobs are being created has yet to be seen (German Labor Agency's Weise commented that full time jobs are no longer decreasing, but are not increasing either). Short term inflation expectations also picked up, likely due to oil price concerns. A hawkish ECB can be expected, despite most recent indicators of consumer demand (German and Euro Zone Retail Sales) continuing to contract M/M.

Weekly Highlights

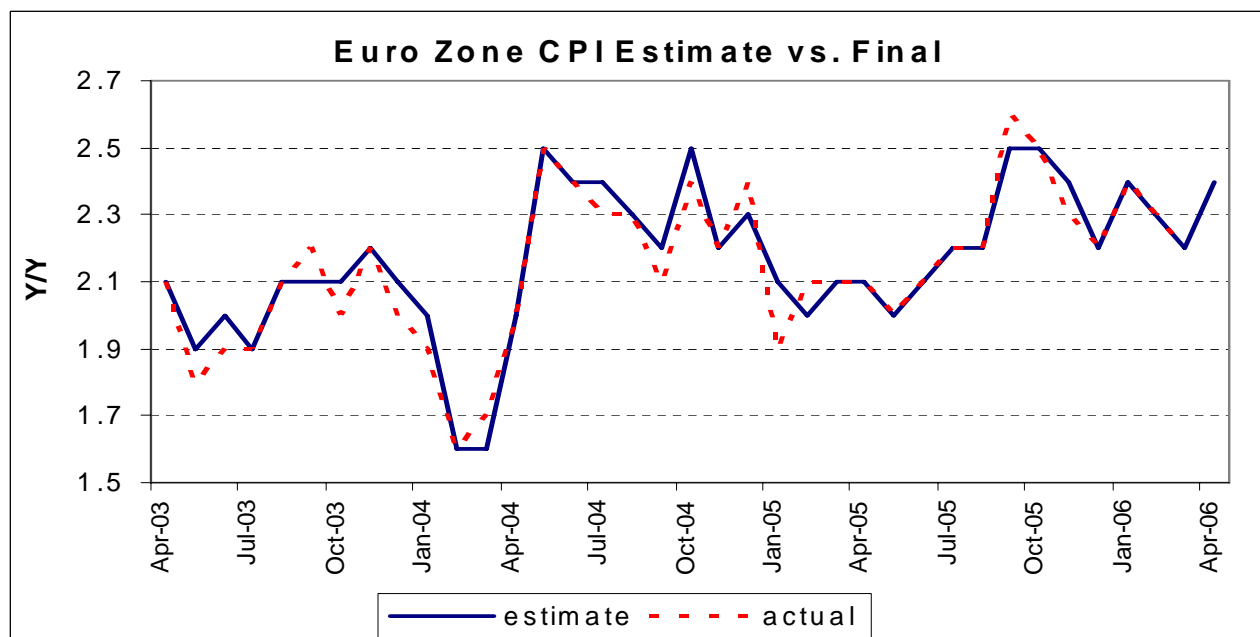
German Unemployment– declined by 40k in April. (page 14)

German Retail Sales– fell for the 2nd consecutive month in March. (page 15)

Euro Zone Business Confidence– reached a 5yr high in April (page 17)

Weekly Releases & News

Chart of the Week: Euro Zone CPI Estimate



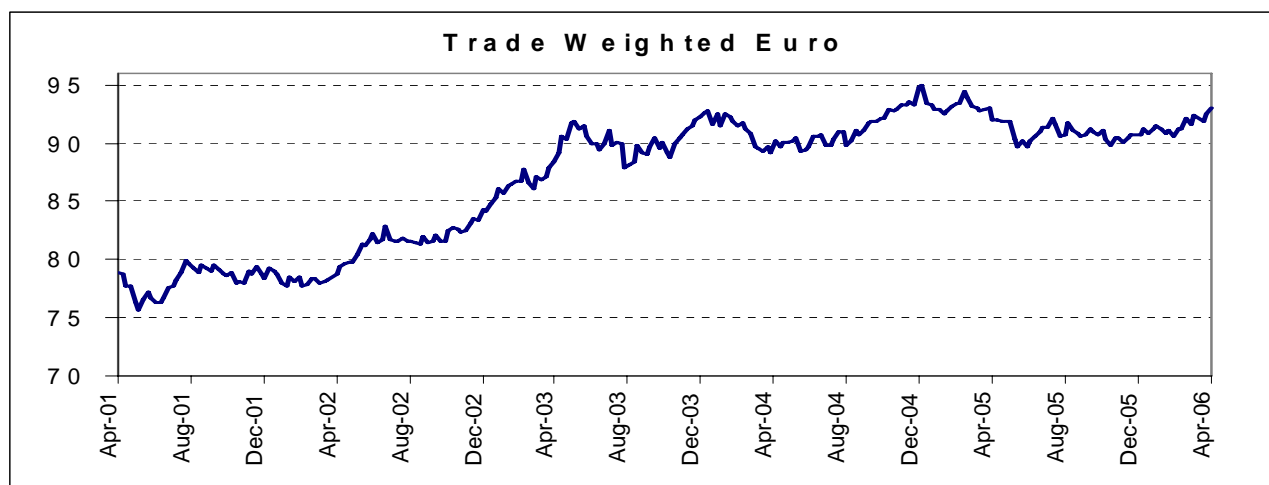
The Euro Zone's April CPI Estimate increased more than expected, accelerating from 2.2% Y/T to 2.4% Y/Y.

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%

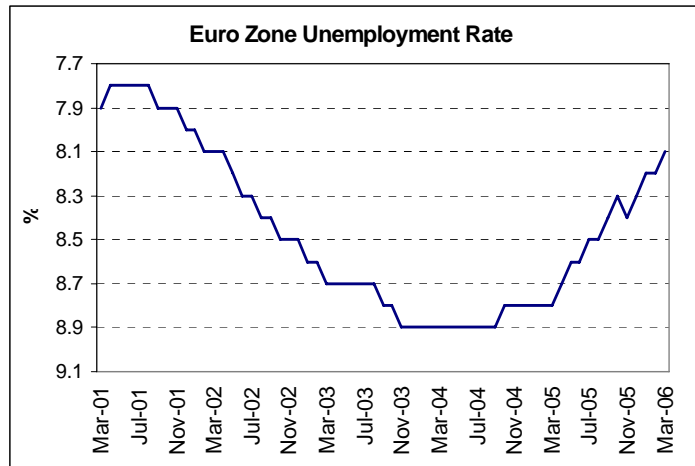
Trade Weighted Euro



Euro Zone, German & French Unemployment

Euro Zone Unemployment

The Euro Zone's Unemployment Rate declined to a four year low of 8.1% Y/Y in March, declining from 8.2% in February.



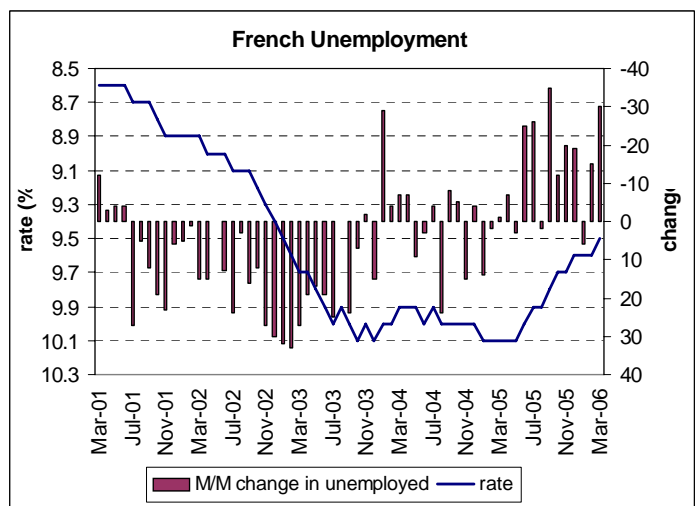
German Unemployment

German Unemployment fell by 40k in April, lowering the Unemployment Rate from 11.4% to 11.3%, in line with expectations. Warmer weather resulted in increased hiring for construction.



French Unemployment

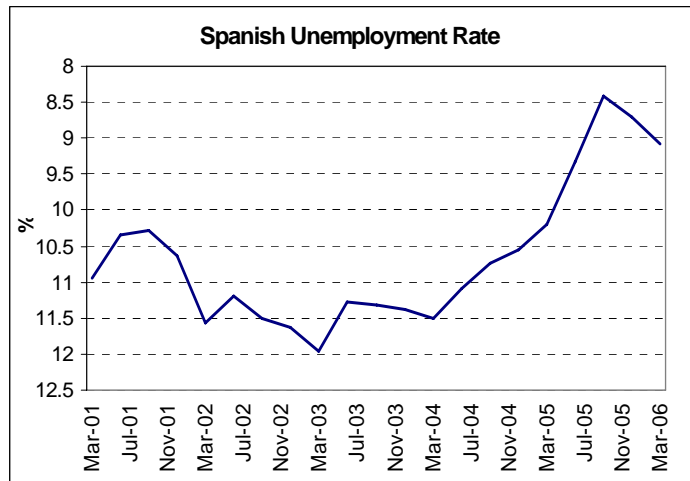
French Unemployment fell by more than expected in March, decreasing by 30k. The Unemployment Rate decreased from 9.6% to 9.3%.



Spanish Unemployment, German & Spanish Retail Sales

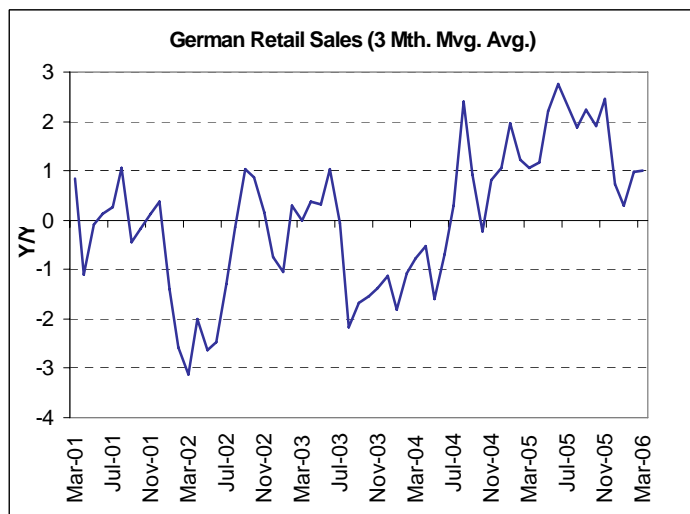
Spanish Unemployment

Spain's Q1 Unemployment Rate increased from 8.70% to 9.07%. The increase is "thought" to be due to an increase in job seekers due to recent increases in incomes. The number of jobs rose 4.9% Y/Y.



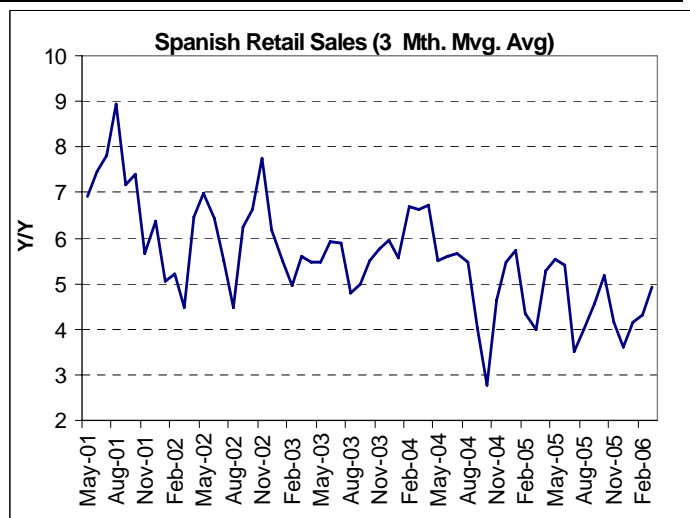
German Retail Sales

German Retail Sales unexpectedly decreased for the 2nd consecutive month in March, declining 2.7% M/M and 1.2% Y/Y. Expectations still remain that German consumers will increase purchases in the middle-to-end of '06 ahead of 2007's VAT tax increase.



Spanish Retail Sales

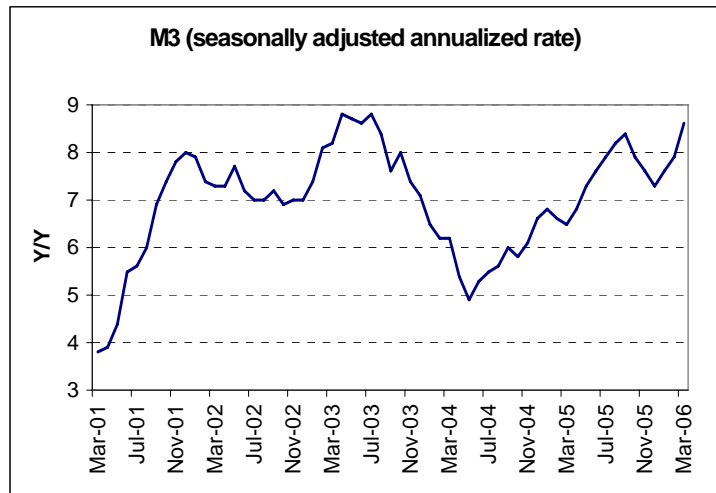
Spanish Retail Sales rebounded in March after contracting M/M in February. Sales increased 12.5% M/M and 6.1% Y/Y.



Euro Zone M3, Italian CPI & Hourly Wages

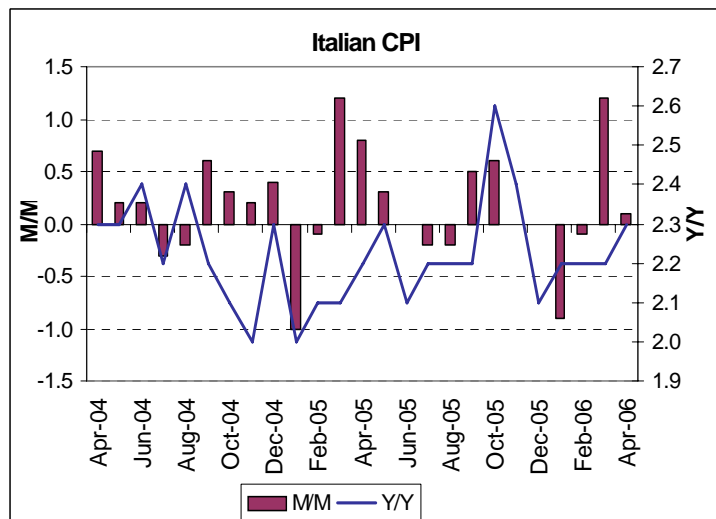
Euro Zone M3

Euro Zone M3 accelerated once again in March, expanding 8.6% Y/Y. It is the fastest pace of expansion in nearly 3 years.



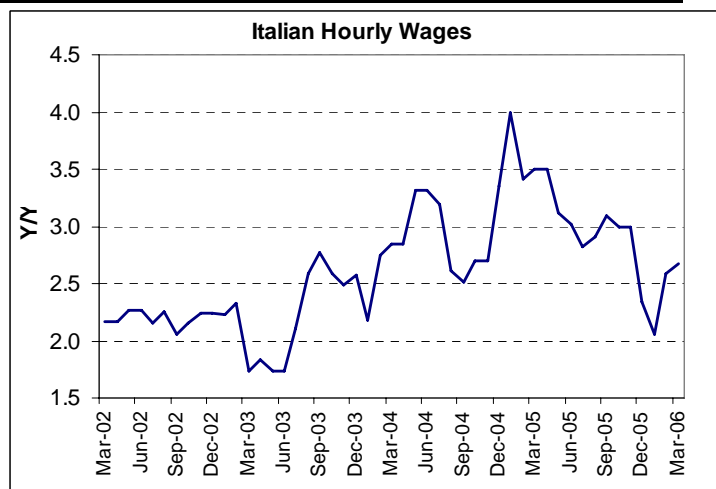
Italian CPI

Italian Consumer Prices increased 0.3% M/M and 2.3% Y/Y in April. The energy components made up a large percentage of the gain.



Italian Hourly Wages

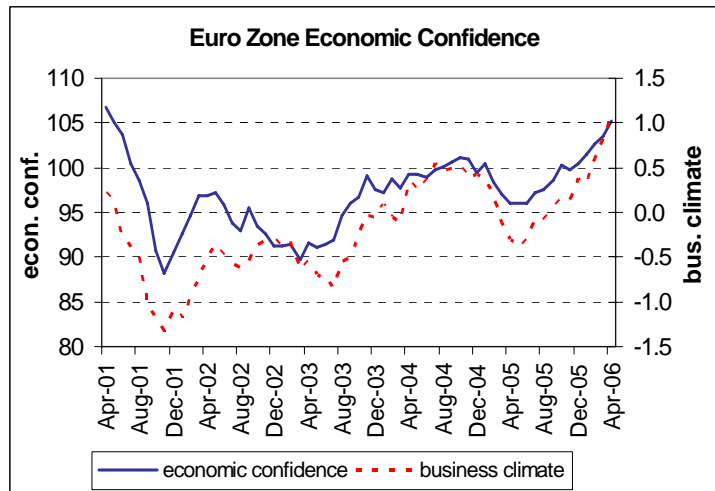
Italian Hourly Wages increased 0.3% M/M and 2.7% Y/Y in March; a slight acceleration from 2.6% Y/Y in February.



Euro Zone & French Confidence

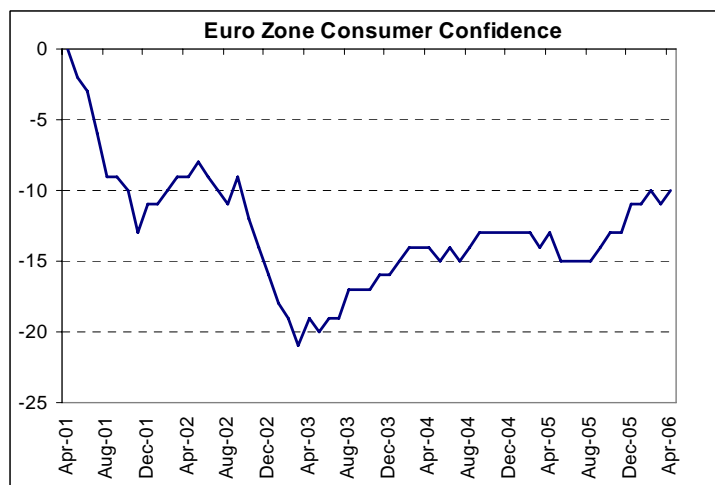
Euro Zone Business/ Economic Confidence

Euro Zone Confidence increased to 5yr highs in April as Business Confidence increased from 0.81 in March to 1.12 and Economic Confidence increased from 103.5 to 105.3. Both numbers were above expectations.



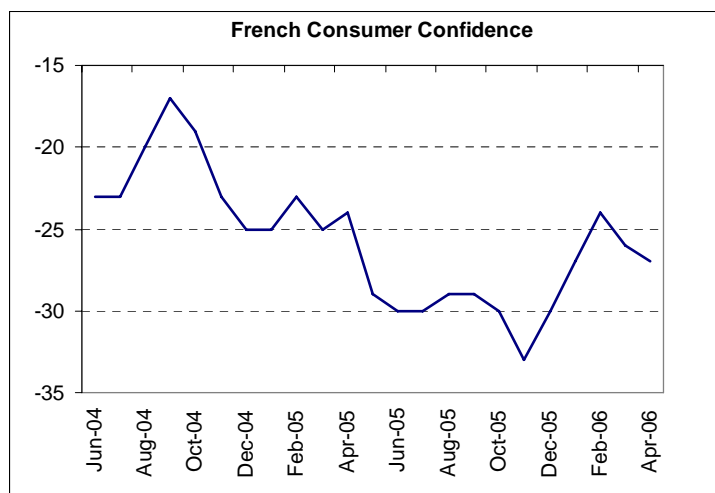
Euro Zone Consumer Confidence

Euro Zone Consumer Confidence unexpectedly increased from -11 in March to -10 in April.



French Consumer Confidence

French Consumer Confidence unexpectedly fell in April, declining from -26 in March to -27. Oil Prices, unemployment, and recent protests all contributed to the decline.



Italian Business & Retailer's Confidence & New Car Regis'

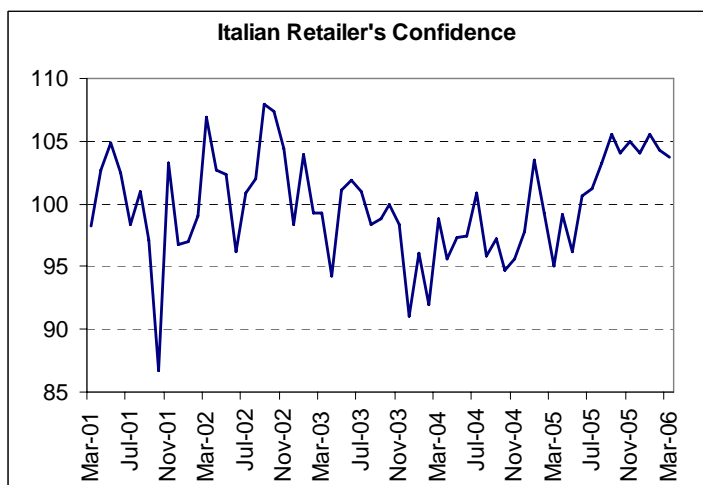
Italian Business Confidence

Italian Business Confidence rose to a five year high in April, rising from 94.5 in March to 96.1.



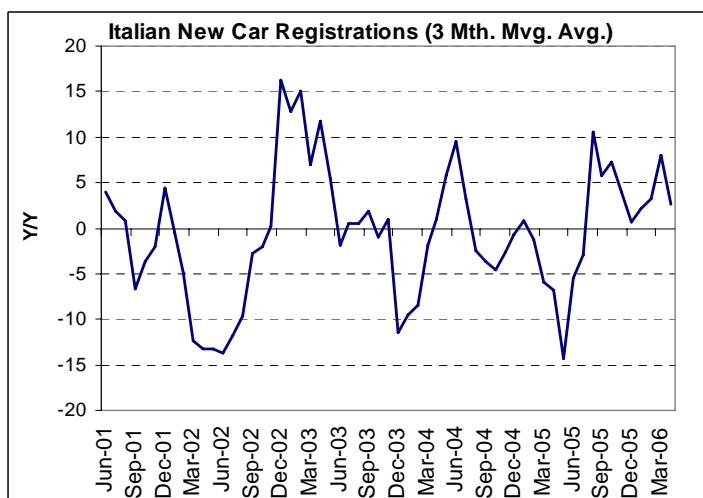
Italian Retailer's Confidence

Italy's March Retailer's Confidence decreased for the 2nd consecutive month, falling from 104.3 in February to 103.7.



Italian New Car Registrations

Italian New Car Registrations declined 6.3% Y/Y in April as consumer confidence declined.



Euro Zone Manufacturing PMI & News

The Euro Zone's April Manufacturing PMI Index rose from 56.1 in March to 56.7. Germany's PMI remained unchanged at 58.1; France's PMI rose from 54.5 to 55.3; Spain's PMI rose from 52.8 to 54.7; and Italy's PMI fell from 55.5 to 54.33 (Numbers above 50 indicate expansion while numbers below 50 indicate contraction). It now stands above the U.S. PMI for the first time in 3 years.

Euro-12 Manufacturing PMI:	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	July	June
Overall Index	56.7	56.1	54.5	53.5	53.6	52.8	52.7	51.7	50.4	50.8	49.9
Output	59.3	59.0	57.0	55.9	55.8	54.8	54.3	53.8	51.8	52.8	51.0
Employment	51.8	50.9	49.7	49.6	50.3	49.9	49.9	48.9	48.3	47.8	48.2

News

May 3rd – **German Finance Minister Peer Steinbrueck stated that Germany** may bring forward proposed cuts in company taxes from 2008 to 2007. The tax rate will be lowered from 39% to 30%. At the same time the tax rate for wealthy Germans (singles earning 250,000+ and couples earning 500,00+) is being increased from 42% to 45%. Germany's Bundesbank called on the government to cut spending rather than increase taxes, stating, "Consolidation strategies based on tax increases are not as successful as spending related measures.

May 3rd – **The German economy may expand 2% this year according to the IW Institute.** The previous forecast was for 1.5% but increased exports and corporate investments led to the upward revision. The German government increased their growth forecast from 1.4% to 1.6%. Germany's six leading institutes as a whole raised their growth forecast from 1.2% to 1.8%, citing stronger than expected exports.

May 2nd – **Silvio Berlusconi resigned as Italian Prime Minister**, almost a month after losing in the past election, allowing Prime Minister elect Prodi to begin forming his government. Prodi's coalition only holds a two seat majority in the Senate, making large reforms a difficult task.

April 28th – **ECB Member Axel Weber stated that long term inflation expectations** continue to be low, which reflects the fact that the ECB "is increasing transparency, predictability and the credibility of the Euro system." ECB member Nicholas Garganas also commented, stating, "We have to expect more interest rate increases." Current rates are at a "historically excessively low level and far from the normal level," Garganas said. He also added that no one could predict how high rates will go and that the pace of increases will depend on economic development.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/04	Spanish Unemployment (APR)	--	-20.7k
05/04	Euro Zone Service PMI (APR)	58.6	58.2
05/04	ECB Announces Interest Rates (APR)	2.50%	2.50%
05/04	Euro Zone Retail Sales (MAR)	0.1% M/M	-0.2% M/M
05/05	Spanish Industrial Production (MAR)	2.0% Y/Y	2.3% Y/Y
05/08	German Factory Orders (MAR)	--	1.4% M/M
05/09	German Industrial Production (MAR)	--	1.0% M/M

Valance Co., Inc.

Valance Economic Report: Japan

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May 3, 2006

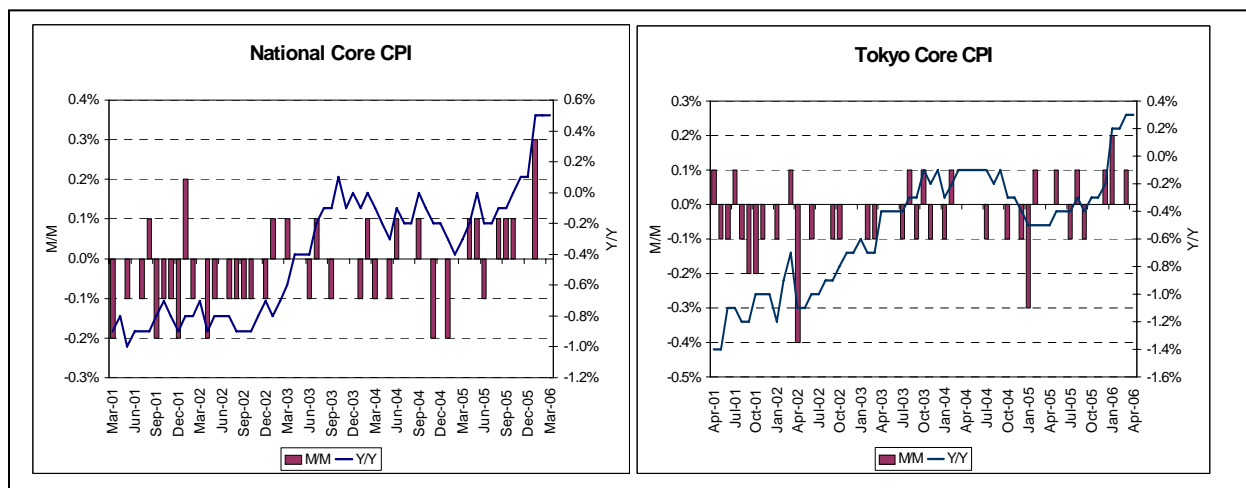
Recent data from Japan continued to be mostly positive. Core CPI continued to increase Y/Y in March. Although the Unemployment Rate remained unchanged at 4.1% in March, Industrial Production increased M/M for the first time this year. With relatively solid data and an optimistic BoJ, our outlook remains unchanged for an end to the BoJ's Zero Interest Rate Policy as early as early Q3 2006.

Weekly Highlights

Core CPI – unchanged M/M and increased 0.5% Y/Y in March. (page 21)

Employment – Jobless Rate remained unchanged at 4.1% in March. (page 23)

Industrial Production – increased 0.2% M/M and 3.1% Y/Y in March. (page 24)

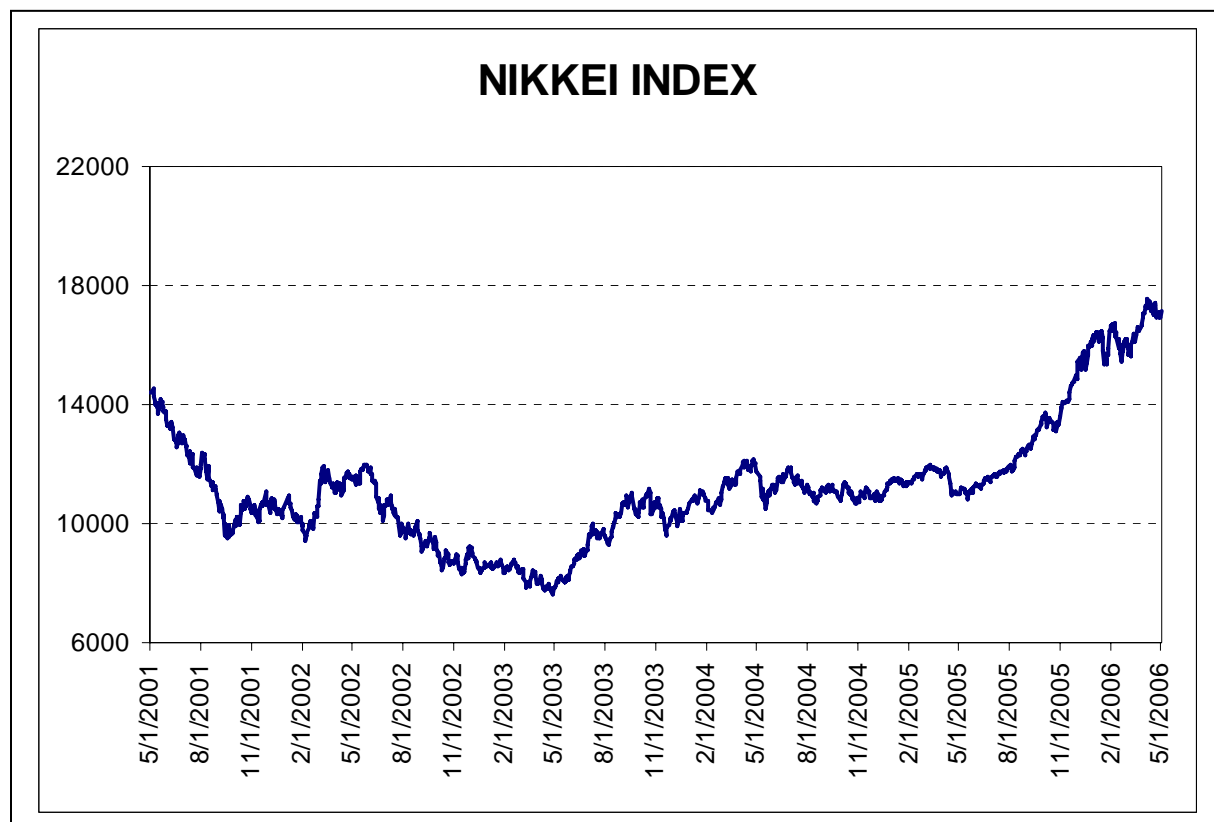
Charts of the Week: CPI

Core Prices in Japan were unchanged M/M and increased 0.5% Y/Y in March, below the market expectations for a 0.1% M/M and 0.6% Y/Y increase. In Tokyo, Core Prices were unchanged M/M and increased 0.3% Y/Y in April, ahead of market expectations for a 0.1% M/M decline and a 0.2% Y/Y increase. The increase in national prices came on strength in clothing/footwear, utilities, and entertainment. Within Tokyo, price increases were more broadly based, with clothing/footwear, housing, and entertainment seeing solid gains. On the whole, with consumer prices consistently improving and meeting expectations, we continue to look for an end to the BoJ's Zero Interest Rate Policy as early as early Q3 2006.

Japan's Financial Balances

Financial Balances

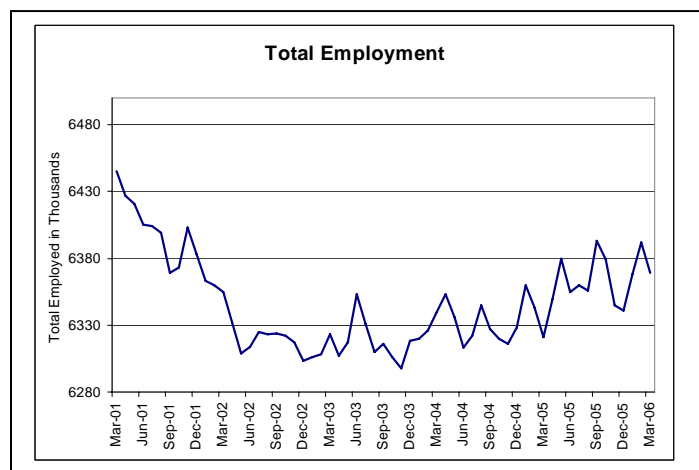
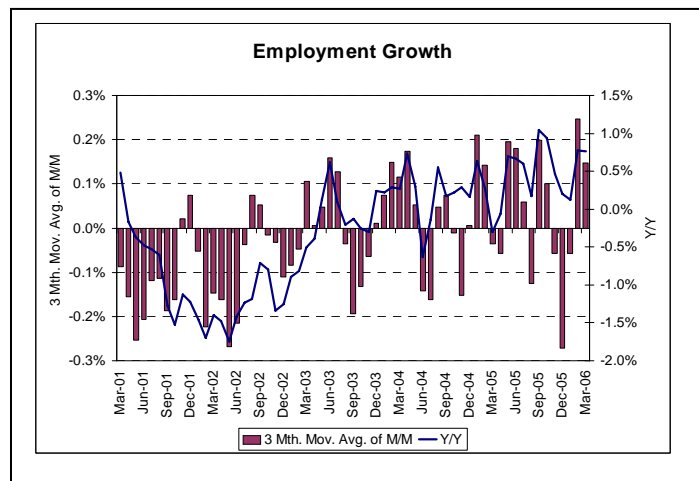
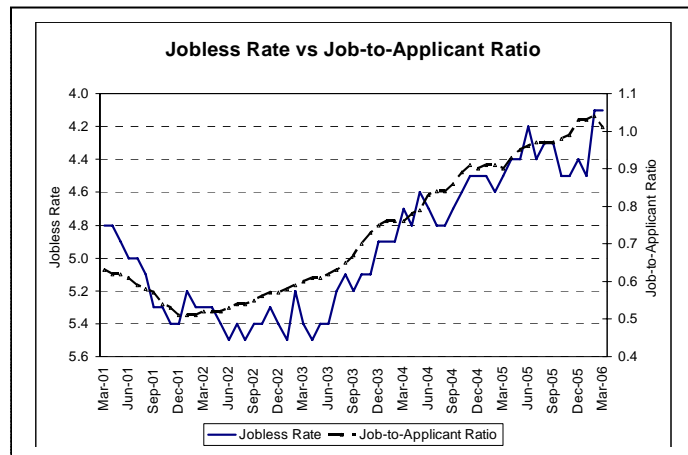
Japan	Last period (¥trln)	Last 12mth. as a % of GDP
Budget Balance	-3.50 (Dec)	-6.9%
Trade Balance	0.58 (Dec)	1.5%
Current Account Balance	1.87 (Dec)	3.5%
Private Balance	--	11.6%



Employment Data

Employment

The Unemployment Rate in Japan remained unchanged at 4.1% in March as the labor force increased in size by 270k, total employment decreased by 230k, and the number of unemployed declined by 20k. The increase in the labor pool was the first gain in eight years, as improvements in the economy encouraged women and retirees to re-enter the job market. March's unemployment remained at its lowest level since July 1998, meeting expectations. Also in the report, the Job-Applicant Ratio, declined from 1.04 in February to 1.01 in March. On the balance, the employment sector remains tight and looking forward, unemployment is widely expected to continue to decline as new jobs are created and unprecedented numbers of baby boomers begin to retire.

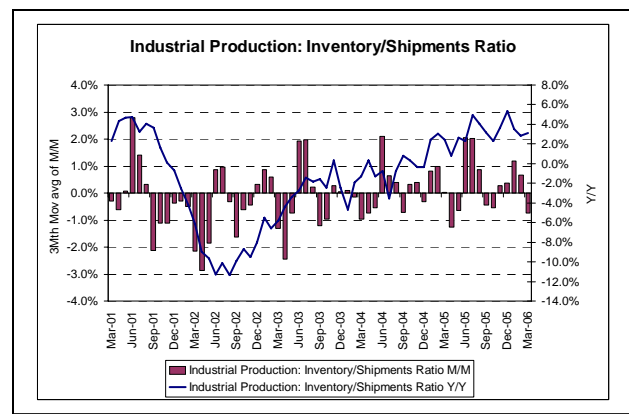
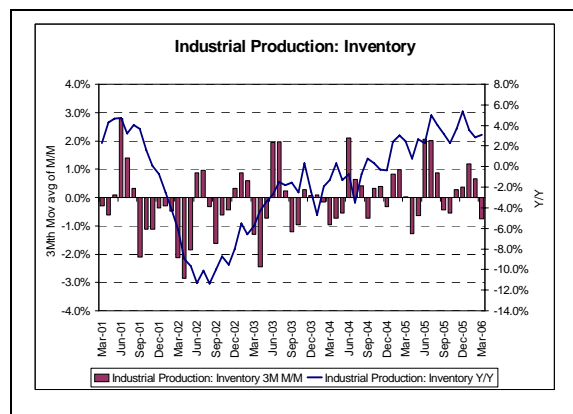
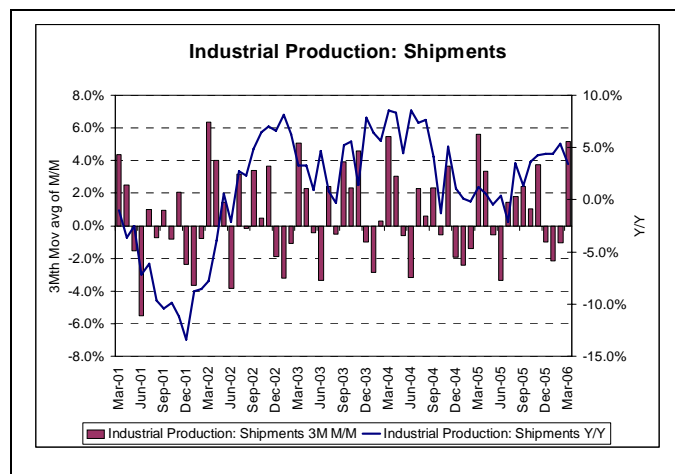
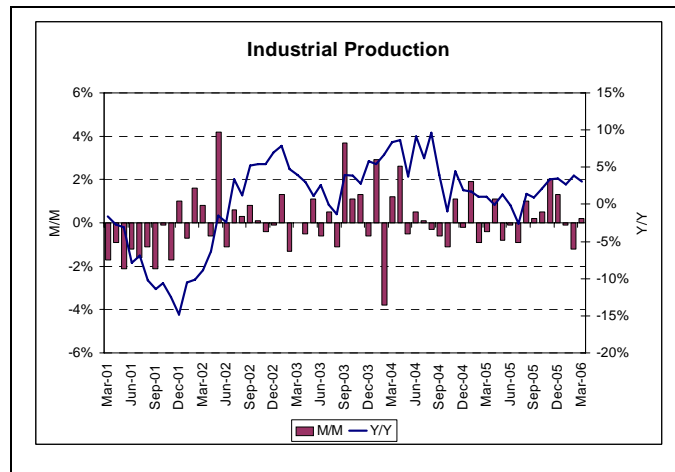


Industrial Production

Preliminary data on Industrial Production in March indicated an increase of 0.2% M/M and 3.1% Y/Y. The increase was the first for the year and was roughly in line with the 0.1% M/M and 3.2% Y/Y increases the market anticipated. Industries that contributed the most to the increase, in order, were the transport equipment, electronics parts and devices, and pulp, paper, and paper products industries.

Among the subcomponents, Shipments increased 0.2% M/M and 3.4% Y/Y. Inventories increased 0.1 % M/M and 3.1% Y/Y. The Inventory Shipments ratio declined 0.3% M/M.

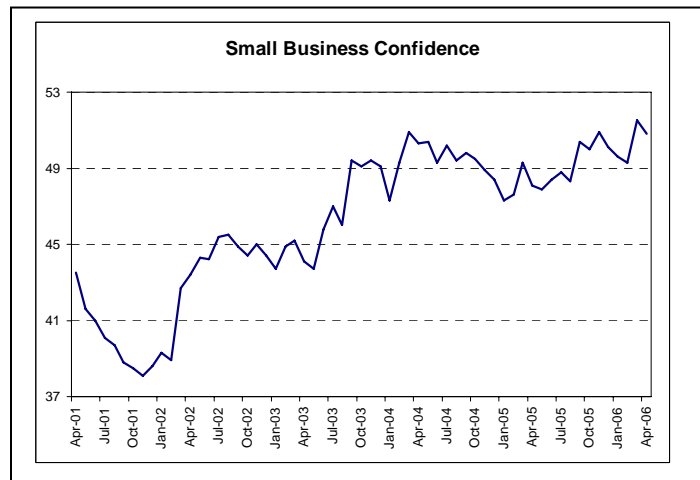
Industrial Production remains on a moderate upward trend. Looking forward, manufacturers expect production to improve 3.8% Y/Y in April and decline 0.5% Y/Y in May.



Small Business Confidence, Vehicle Sales & Production

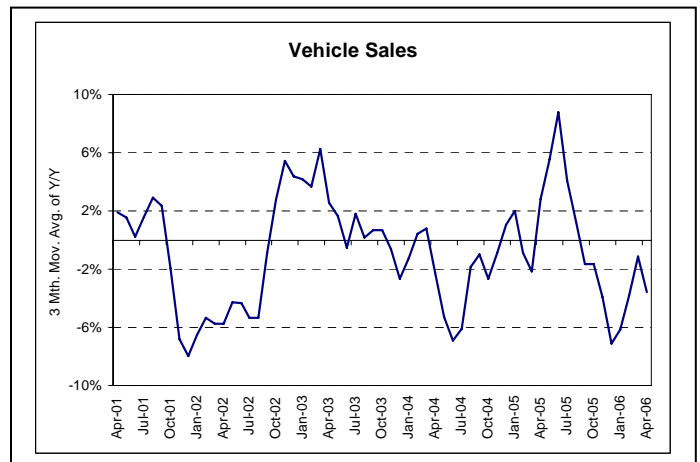
Small Business Confidence

Small Business Confidence declined from 51.5 in March to 50.8 in April. The manufacturing component of the index declined from 51.9 to 50.4 while the non-manufacturing component remained unchanged.



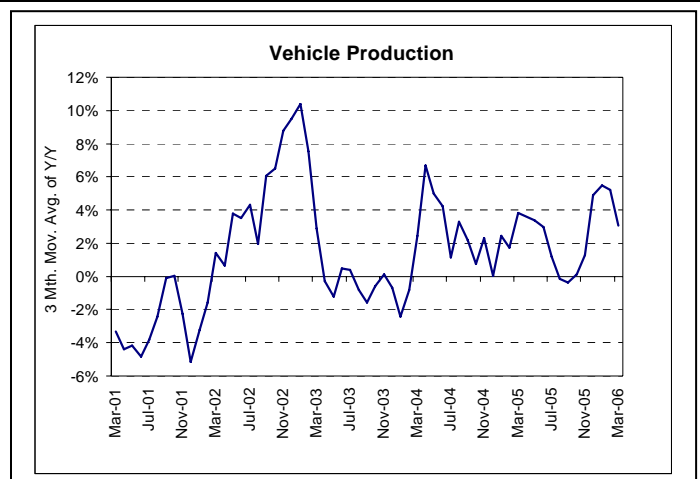
Vehicle Sales

Vehicle Sales declined 7.8% Y/Y in April. The decline was widespread among manufactures and not helped by the fact that Japanese are starting to drive their cars longer than ever before; in the year ending on March 31st, consumers drove their vehicles for an average of 6.8 yrs before they replaced them with newer ones, 0.3 yrs longer than those who bought cars in the year ended on March 31st, 2004.



Vehicle Production

Vehicle Production increased 5.4% Y/Y in March.



Labor Earnings, Housing Starts & Construction Orders

Labor Earnings

Labor Cash Earnings declined 0.2% Y/Y in March while Overtime Earnings improved 1.9% Y/Y in March.

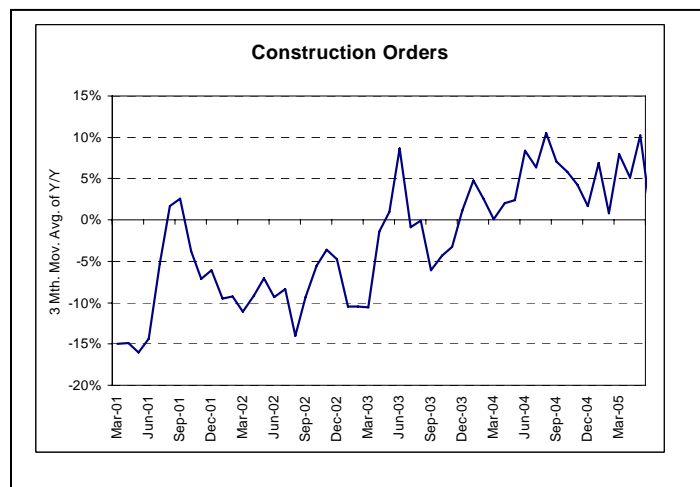
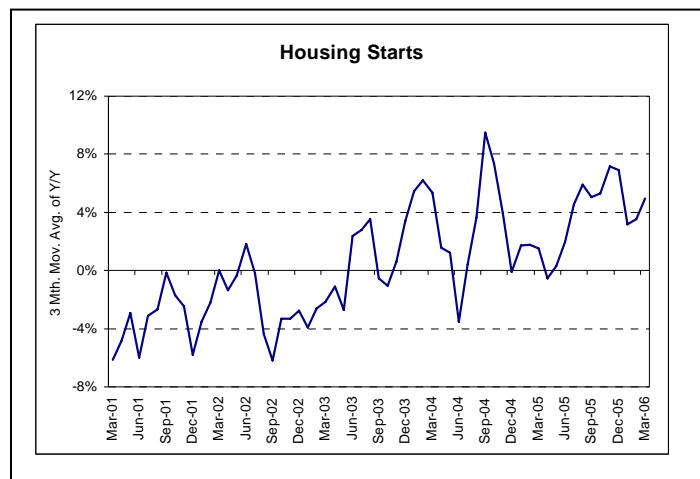
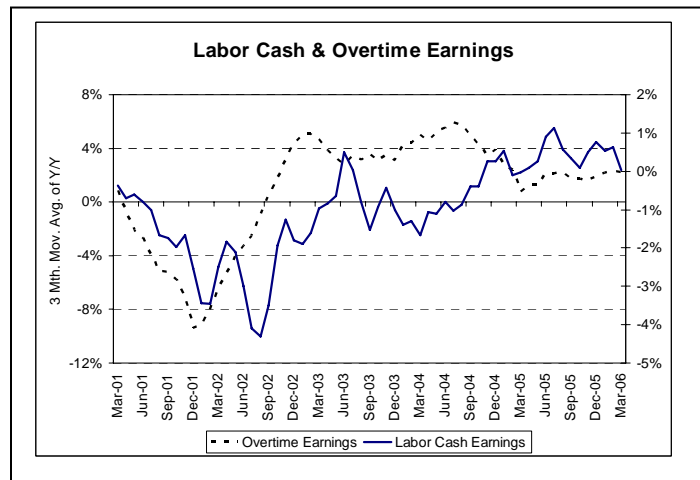
Overtime hours worked increased 2.8% Y/Y. Among manufacturers, O/T earnings increased 4.3% Y/Y, the sixth consecutive increase. Overall, labor conditions remain positive; however as the data represents a minimal change, the labor market is expected to continue to tighten in the coming months.

Housing Starts

Housing Starts in Japan declined 8.8% M/M and increased 3.3% Y/Y in March. On an annualized basis, the number of housing starts declined from 1.334 mln to 1.217 mln in March, below the 1.271 mln units the market expected.

Construction Orders

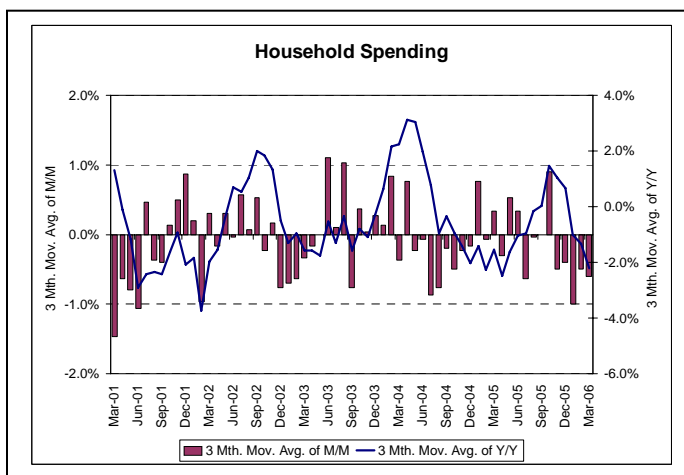
Construction Orders declined 15.7% Y/Y in March. Although manufacturing and non-manufacturing sectors saw improvements, the government sector saw large declines, leading the index to miss the market's expected 2.3% Y/Y increase.



Household Spending, Retail Trade & Large Retailers Sales

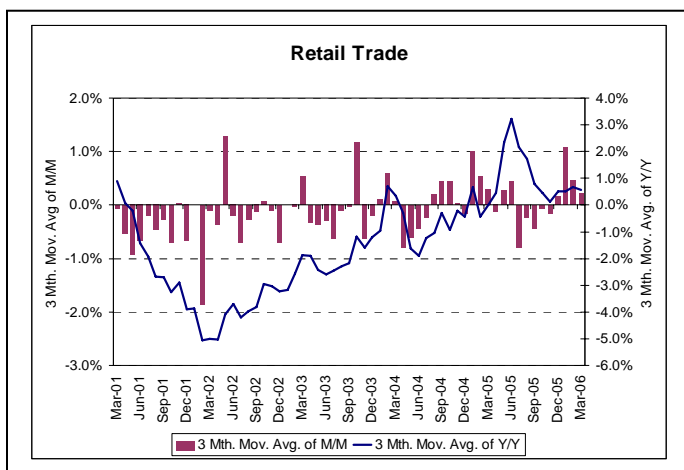
Household Spending

Overall Household Spending declined 0.4% M/M and 2.1% Y/Y in March.



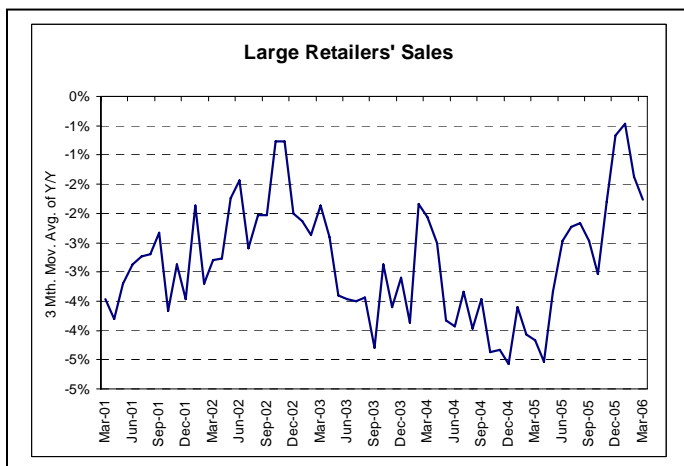
Retail Trade

Preliminary data on Retail Sales indicates a decline of 0.3% M/M and a 1.0% Y/Y increase in March.



Large Retailers Sales

Large Retailers' Sales declined 1.2% M/M, and 0.6% Y/Y in March on a same store basis.



News

News

May 3rd – The BoJ announced that it has revised how it calculates the output gap to bring the measure closer to that used by international institutions and the cabinet office. Previously, the BoJ had calculated the potential GDP as the output that would result from facilities and labor at full capacity. With demand never exceeding the potential GDP, the gap was always negative. Now potential GDP will be based on facilities and labor at average capacity.

May 3rd – The index export volume declined 0.1 points M/M in March to 124.2, according to the Cabinet Office. The figure was the first decline in six months and resulted from a decline in exports to Asia, despite an increase in exports to the U.S. and Europe.

May 3rd – According to a survey by the Ministry of Economy, Trade & Industry, more companies are having success in passing on the sharp increases in crude oil prices. Of the companies surveyed, 40% indicated that they were able to do so, 10% point higher than those who said the same in February. The companies that responded, noting that they faced “difficulty” or “some difficulty” passing on higher oil prices, declined from 60% to 50%. At the same time however, project effects on earnings for the current FY improved slightly.

May 2nd – Corp free cash flow declined about ¥800 bln to ¥20.2 trln in 2005, the first decline in four years, based on data from the Finance Ministry statistics on financial statements. The decline resulted from increases in business investments into facilities, despite recently strong earnings.

May 1st – In its semi-annual Outlook for Economic Activity and Prices, the BOJ upgraded its assessment of the economy’s potential growth rate from 1% to 1.5-2% in light of increasing capital investments and productivity. As a result of the change, the output gap was narrowed, in line with the BoJ’s view that the economy is gradually recovering from deflation.

Also in the report, the BoJ noted that it expects CPI to increase 0.6% in the current FY and 0.8% in FY07. On the timing for upcoming rate hikes, Fukui commented that, “We cannot be hasty, or too slow.” The report also stated that the economy over the next two years is “likely to experience a sustained period of expansion, with domestic and external demand” in balance. The BoJ looks for the Output Gap to slowly turn positive as well. On growth, the report indicated that the median forecast of the BoJ’s nine members was for real GDP to improve 2.4% in FY06 and 2.0% in FY07.

News & Upcoming Dates

News

May 1st – According to Finance Minister Tanigaki, Japan's consumption tax must be increased by more than 3pctg pts due to limits on how much social security expenses can be reduced. Tanigaki added that “the amount of social insurance spending must be determined” to compute the exact size of the envisioned tax. He also commented that the government “must also deal with movements in interest rates.”

April 28th – According to a survey conducted by Nihon Keizai Shimbun Inc, nearly 30% of firms increased their starting monthly salaries for university graduates. It was noted that most of these firms had refrained from pay hikes since 2001. Among the firms include Aeon Co., which offered its first increase in 12 years. Department store operators, Daimaru Inc. and Takashimaya Co., both offered pay increases as well. On the energy side, Cosmo Oil Co. and Yokogawa Electric Corp. both offered increases, and among manufacturers, Toyota Motor Corp. offered its first increase in six years, while Hitachi, Toshiba, and Matsushita all offered increases as well. In a separate survey also conducted by Nihon Keizai Shimbun, overall monthly wage levels for all employees increased by 1.65% Y/Y as of April 4th, a 0.07 pctg pt increase from the year before.

April 28th – According to an article in the Nikkei, the Ministry of Finance is considering increasing this FY's offerings of long term 30y JGBs by about ¥300 bln. Previously the MoF had planned on offering ¥2 trln in 30y JGBs, but now plans are instead to offer an additional ¥100 bln in each of the remaining three auctions. The ministry would then reduce the floating rate 15y JGBs so that the overall JGB public offerings would be held at ¥118 trln.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/09	Official Reserve Assets (Apr)	N/A	\$852.0 Bln
05/10	Leading Economic Index (Mar)	60.0%	90.9%
05/10	Coincident Index (Mar)	11.1%	50.0%
05/10	Machine Tool Orders (Apr)	N/A	5.2%

Valance Co., Inc.

Valance Economic Report: *United Kingdom*

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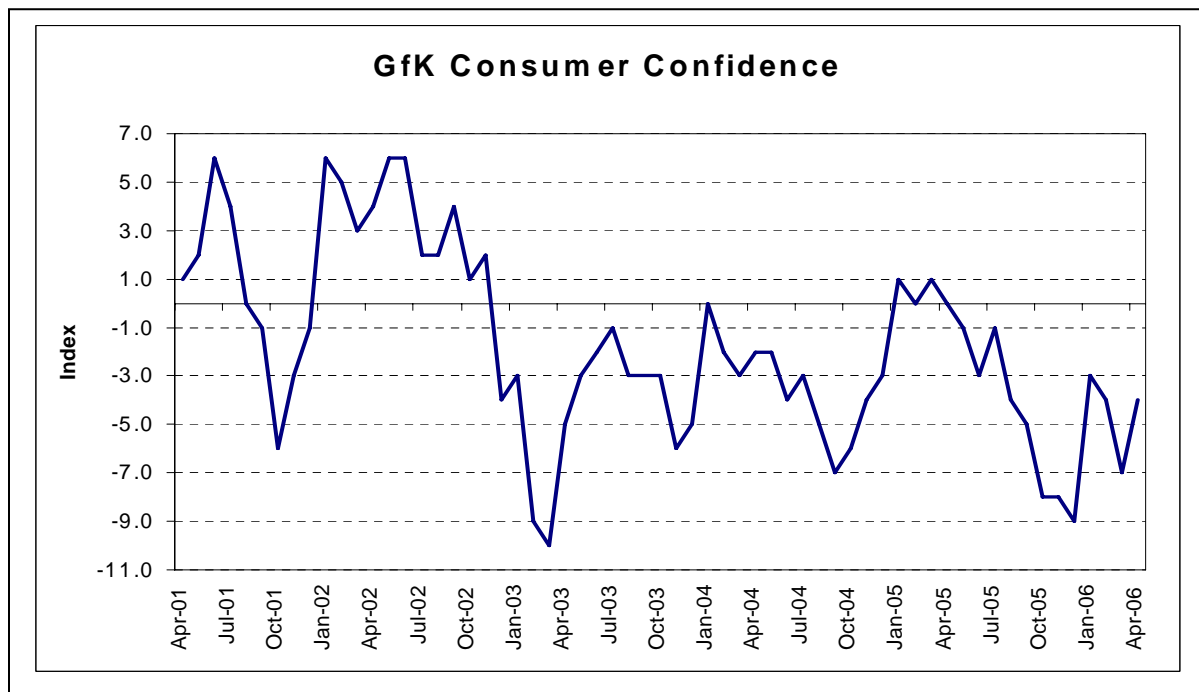
May 3, 2006

The direction of the consumer remains unclear as GfK and Nationwide revealed conflicting data. Manufacturing PMI has picked up some of this slack by reaching a one-and-a-half year high.

Weekly Highlights

GfK Consumer Confidence- increased from -7 to -4 in April. (page 30)

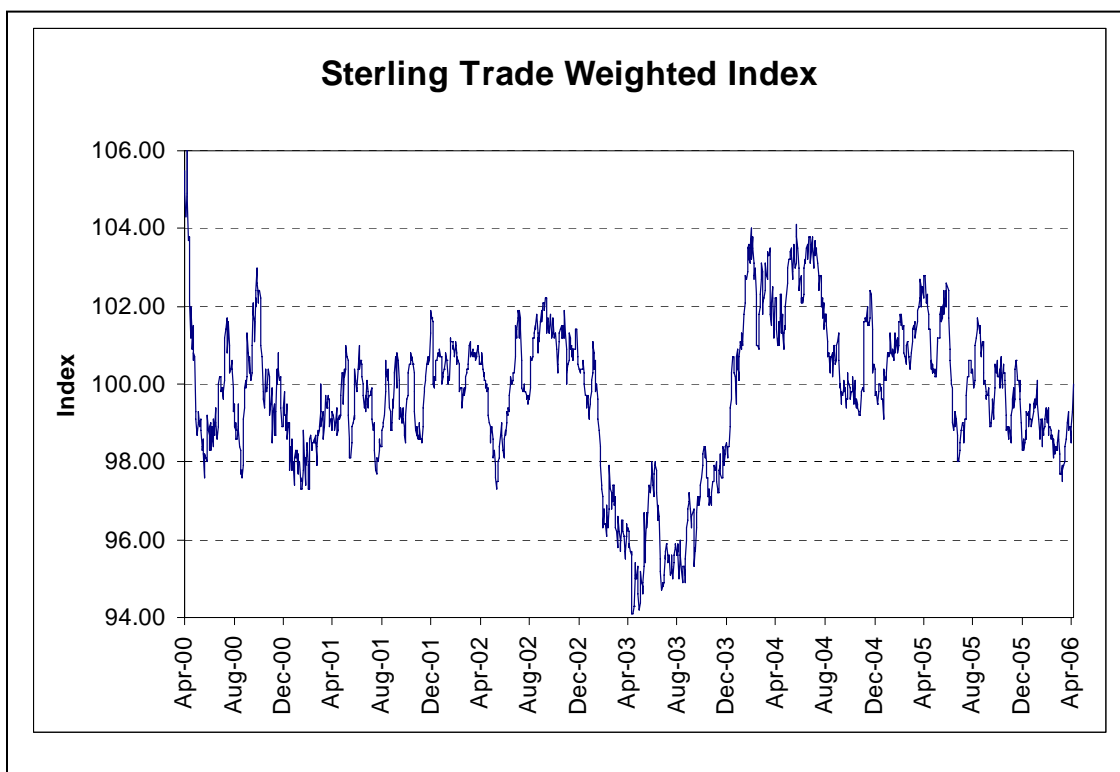
Manufacturing PMI- increased from 51.0 to 54.1 in April. (page 33)

Weekly Releases & News**Chart of the Week: *GfK Consumer Confidence***

GfK Consumer Confidence increased from -7 to -4 in April, the first increase in three months. Confidence of personal finances for the next twelve months increased from +7 to +14 as consumers' economic situation for the next twelve months increased from -20 to -18.

Financial Balances & Trade Weighted Index

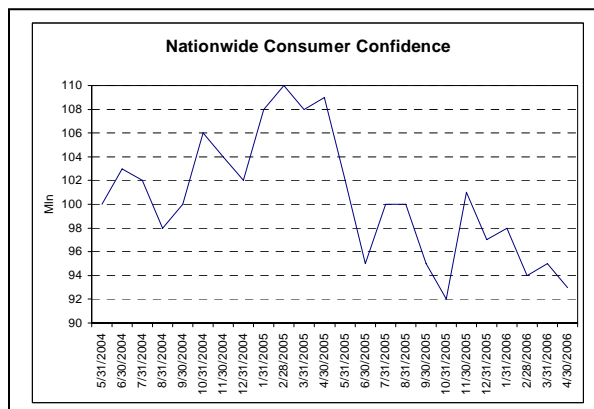
U.K.	<i>Last Period (blns)</i>	<i>Last 12mth. % of GDP</i>
Budget Balance (monthly)	£6.9 (Mar)	+2.4%
Trade Balance (monthly)	-£4.8 (Feb)	-1.7%
Curr. Acct. Balance (quarterly)	-£11.0 (Dec)	-3.9%
Private Balance	--	-6.3%



Nationwide House Price Survey & Consumer Confidence

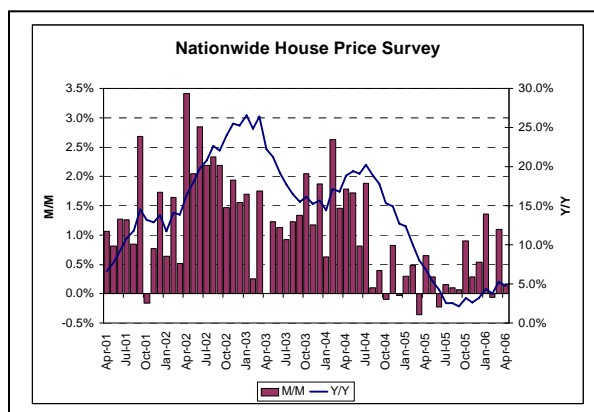
Nationwide Consumer Confidence

Nationwide Consumer Confidence decreased from 95.0 to 93.0 in April. Consumer's perceptions of the current situation for the economy decreased from 92.0 to 90.0. Expectations for the economy, jobs and household income over the next six months decreased from 97.0 to 95.0. Consumer's willingness to buy increased from 106.0 to 107.0.



Nationwide House Price Survey

Nationwide House Prices increased 0.2% M/M and 4.7% Y/Y in April. Nationwide commented that the house supply is still at a relatively low level and that activity will fall towards its long term average over the coming months.



Data & Comments

Data

Manufacturing PMI

CIPS Manufacturing PMI increased from 51.0 to 54.1 in April, its highest level in 1 ½ years. Output prices increased from 51.5 to 56.5, a 17-month high. New orders increased from 52.3 to 56.4, its fastest pace of expansion in two years. Export orders increased from 50.6 to 52.5.

Construction PMI

CIPS Construction PMI decreased from 54.7 to 53.7 in April. New Orders decreased from 56.5 to 53.6 as Future Business Activity increased slightly from 75.7 to 76.1.

BRC Shop Price Index

The BRC Shop Price Index decreased 0.10% M/M and decreased 1.28% Y/Y in April, the lowest rate of annual growth since January 2005. Non-food prices decreased 0.10% M/M, the fourth consecutive decrease. Food prices decreased 0.10% M/M.

CBI

The Confederation of British Industry (CBI) reported that retail sales increased from -16 to +2 in April. Volume of orders increased from -25 to -4. Expected sales increased from -7 to +1.

BBA

The British Bankers Association (BBA) reported that mortgage approvals increased 30.0% M/M and 15.0% Y/Y in March. However, the BBA cites that approvals data are related to the number of working days in a month and March's 23 working days consequently inflated the total. The approvals numbers show that mortgage activity is running at a higher level than at this time last year.

Hometrack House Prices

Hometrack House Prices increased 0.6% M/M and 0.9% Y/Y in April, the largest M/M increase in two years. Prices were driven mainly by gains in London and the Southeast.

Comments

MPC Member Kate Barker commented that she sees no “pressing need” to cut U.K. interest rates. “I don't feel a great pressing need to reduce rates to stop the economy falling away. While I can see cutting rates might improve things a bit, the risk of sparking a wage price spiral that would be very difficult to get rid of is the reason for holding our fire,” she said. In addition, she commented that, “generally you might think that this is an environment where we would think of reducing rates further but for me the reason we're not is that the price pressures from energy are not being felt in wages.”

News & Upcoming Dates

News

May 1st - Migrants preferred over local laborers, says study - Many employers providing low-skilled, low-wage jobs prefer migrants to British nationals who some describe as lazy, according to a Joseph Rowntree Foundation's study published today. The survey of more than 1,000 migrant workers and employers by the social policy research organization reported that three-quarters of employees believed that European enlargement has been good business, "with migrant workers doing jobs under employment conditions that UK nationals are not prepared to accept." The foundation said many employers "were prepared to bend the rules or turn a blind eye to breaches of conditions attached to immigration status" to hire migrant workers, many of whom were over-qualified for the work they were doing.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/04	Net Lending Secured on Dwellings	£8.6 bln	£8.1 bln
05/04	BoE Mortgage Approvals	117k	115k
05/04	MPC Announces Rates	4.5%	4.5%
05/08	PPI Input	--	0.3% M/M 13.1% Y/Y
05/08	PPI Output	--	0.3% M/M 2.5% Y/Y
05/10	Trade Balance	--	-£6478
05/10	BoE Quarterly Inflation Report	--	--

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Valance Economic Report: Canada

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May 3, 2006

Real GDP increased 0.2% M/M in February, in line with expectations. Canadian Finance Minister, Jim Flaherty, released the ministry's first budget which indicated that consumer spending will improve by more than C\$5 bln.

Weekly Highlights

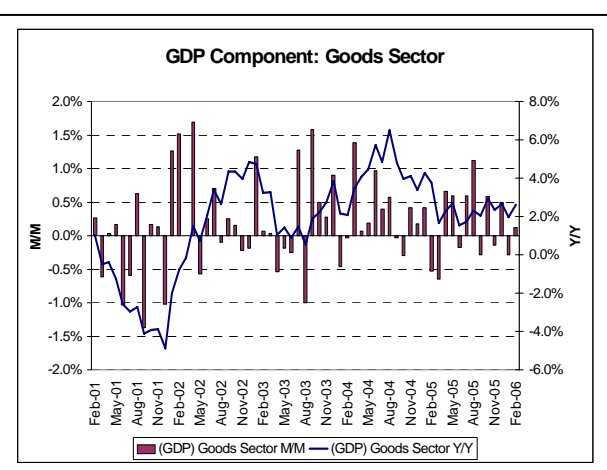
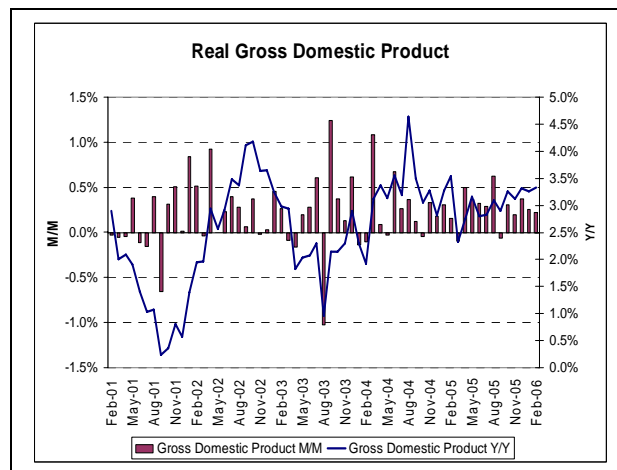
Real GDP - increased 0.2% M/M and 3.3% Y/Y in February. (page 35)

Industrial Product Prices - increased 0.8% M/M and 1.2% Y/Y in March. (page 37)

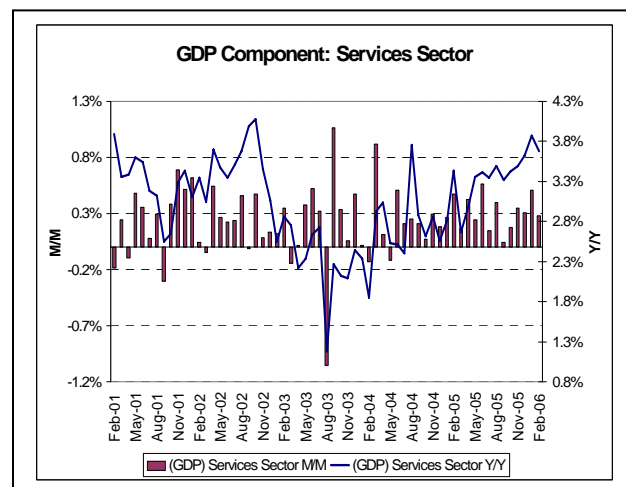
Business Conditions Orders - decreased from 0 to -5 in April. (page 37)

Weekly Releases & News

Chart(s) of the Week: Real GDP



Real GDP increased 0.2% M/M and 3.3% Y/Y in February, mostly due to a rebound in utilities and strong gains in the wholesale sales, finance and construction sectors. Output in the Goods Sector increased 0.1% M/M and 2.6% Y/Y. Services Sector output increased 0.3% M/M and 3.7% Y/Y. The 0.2% M/M increase in real GDP was in line with expectations.

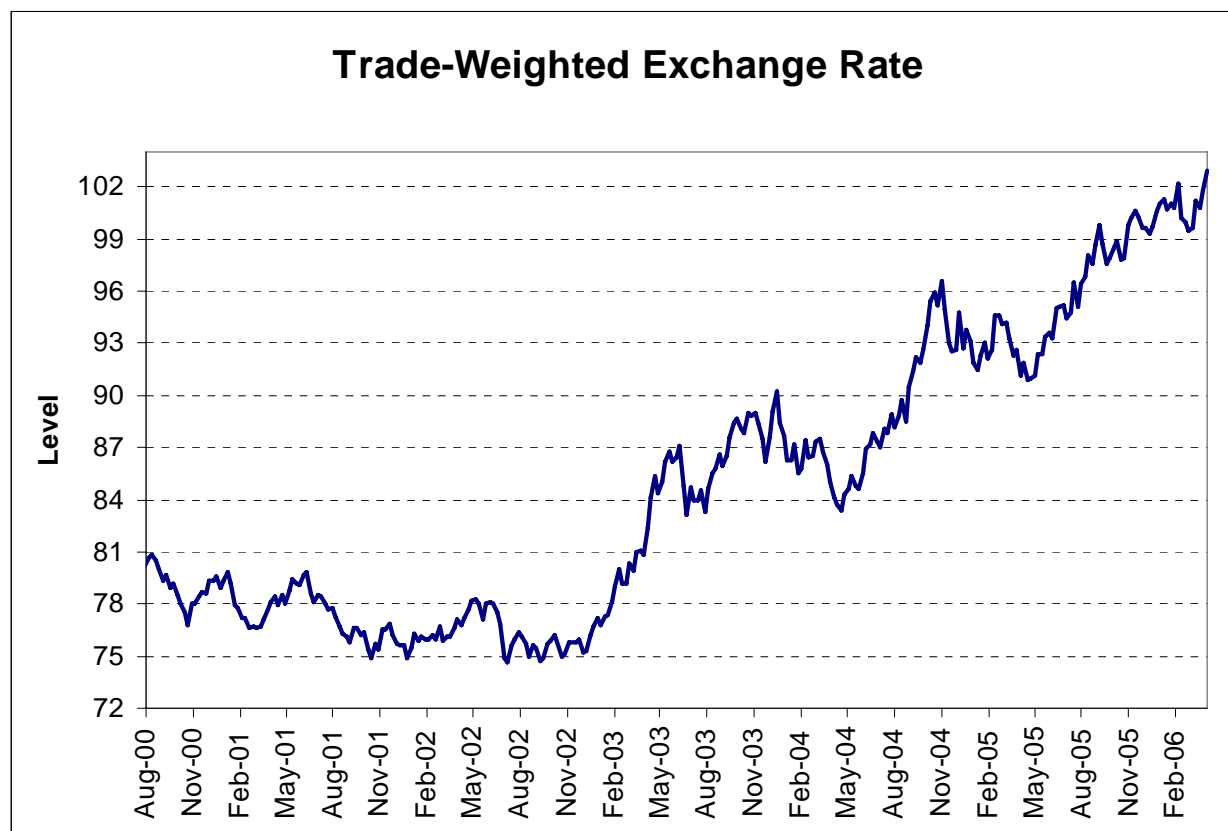


Financial Balances & Trade Weighted Exchange Rate

Financial Balances

Canada	Latest period (C\$bln)	Last 12mth. as % of GDP
Budget Balance	4.1 (Feb)	0.4%
Trade Balance	6.3 (Feb)	4.8%
Current Account Balance	13.3 (Q4)	2.2%
Private Balance	--	1.8%

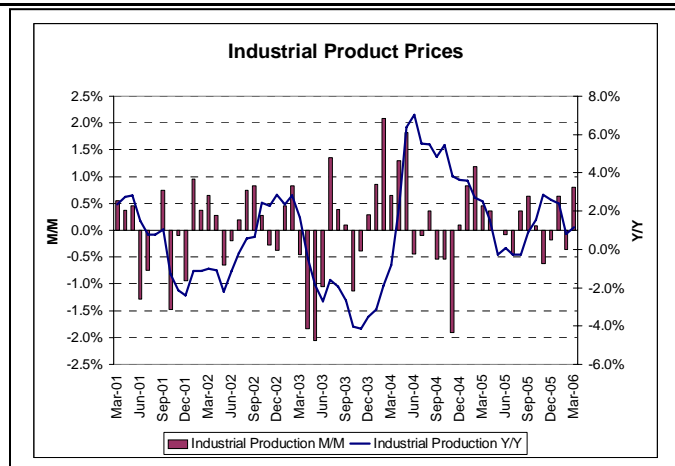
Trade-Weighted Exchange Rate



Industrial Product & Raw Material Prices and Business Conditions Orders

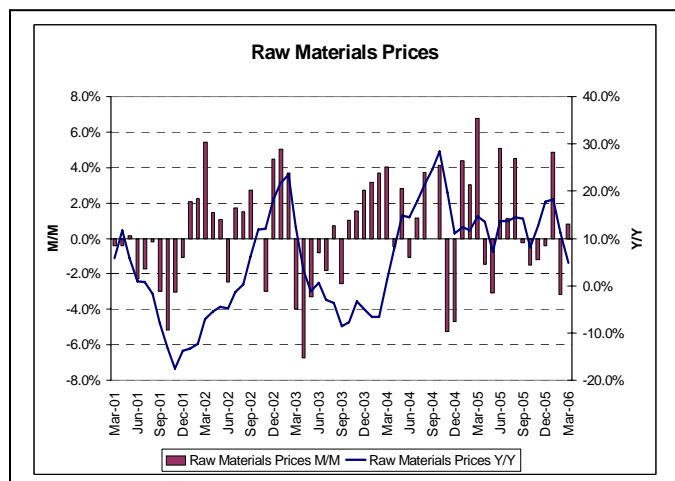
Industrial Product Prices

Industrial Product Prices increased 0.8% M/M and 1.2% Y/Y in March, as a result of higher gasoline and oil prices.



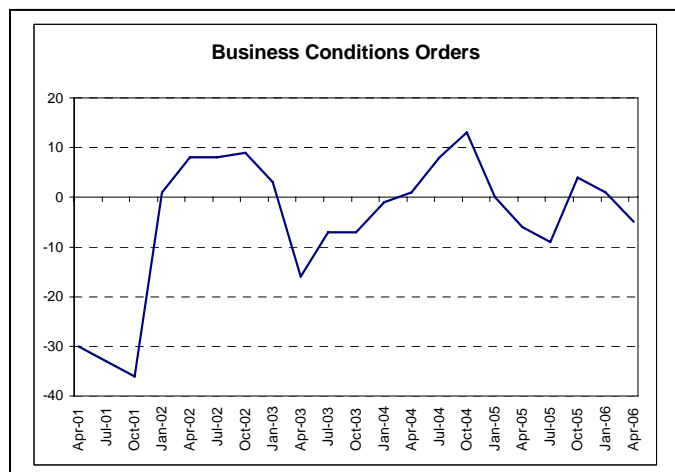
Raw Materials Prices

Raw Materials Prices increased 0.8% M/M and 4.9% Y/Y in March as a result of higher prices for non-ferrous metals. Prices for intermediate and final goods increased 0.8% M/M and 0.9% M/M, respectively.



Business Conditions Orders

Business Conditions Orders decreased from 0 to -5 in April. This decline occurred as manufacturers are concerned about their lower level of orders, the effects of the higher Canadian dollar, and large increases in the price of crude oil and other raw material inputs.



News

May 2nd - Highlights from Canada's 2006 Budget Report

This budget proposes a comprehensive tax relief for individuals, valued at almost \$20 bln over the next two years—more than the last four budgets combined.

The goods and services tax (GST) will be reduced by 1 percentage point as of July 1st, 2006.

In addition to reducing the GST, Budget 2006 proposes to reduce personal income taxes for all taxpayers through the following:

- The new Canada Employment Credit—a tax credit on employment income of up to \$500, effective July 1st, 2006, to help working Canadians. The eligible amount will double to \$1,000 as of January 1st, 2007.
- A permanent legislated reduction in the lowest tax rate to 15.5 per cent from 16 per cent as of July 1st, 2006. The budget also confirms that the lowest tax rate will be 15 per cent from January 1st, 2005 until June 30th, 2006.
- Increases in the basic personal amount—the amount that all Canadians can earn without paying federal income tax—above its currently legislated level for 2005, 2006 and 2007.
- As a result of these personal income tax and GST reductions, families earning between \$15,000 and \$30,000 a year will be better off by almost \$300 in 2007. Families earning between \$45,000 and \$60,000 will save almost \$650.

To create an environment for jobs and growth, Budget 2006 proposes to make Canada's tax system more internationally competitive by:

- Reducing the general corporate income tax rate to 19% from 21% by 2010.
- Eliminating the corporate surtax for all corporations as of January 1st, 2008.
- Eliminating the federal capital tax as of January 1st, 2006, two years ahead of schedule.

To support the growth of small business, Budget 2006 proposes to:

- Increase the amount of small business income eligible for the 12% tax rate to \$400,000 from \$300,000 as of January 1st, 2007.
- Reduce the 12% tax rate applying to qualifying small business income to 11.5% in 2008 and 11% in 2009.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/04	Building Permits (M/M) (MAR)	2.0%	3.6%
05/04	Ivey Purchasing Managers Index (APR)	59.0	67.2
05/05	Unemployment Rate (APR)	6.3%	6.3%
05/05	Net Change in Employment (APR)	15.0K	50.5K
05/08	Housing Starts (APR)	230.0K	252.3K
05/10	New Housing Price Index (M/M) (MAR)	0.6%	0.7%

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Valance Economic Report: Australia

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May 3, 2006

The RBA has finally settled the rate-rise debate and raised its benchmark interest rate a quarter percentage point to the highest in more than five years to stem inflation.

Weekly Highlights

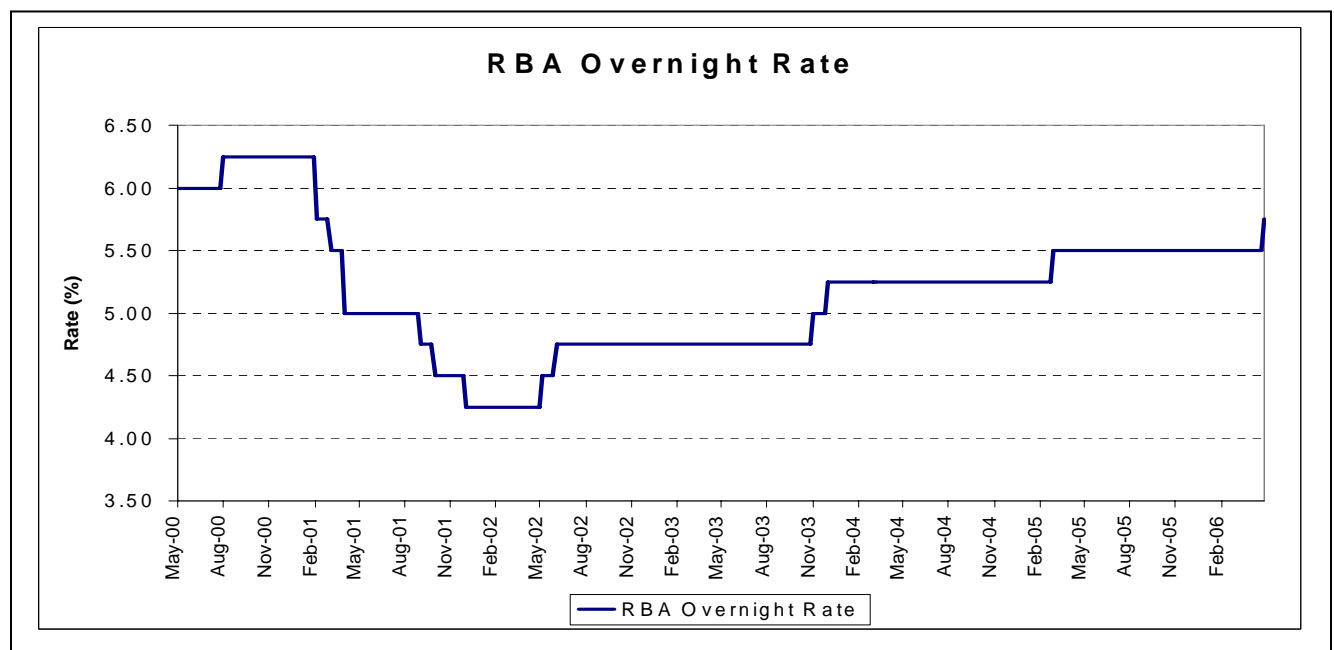
RBA CASH Target Rate – was raised to 5.75% in May. (page 40)

New Home Sales – rose 5.2% M/M in March. (page 41)

Performance of Manufacturer's Index – fell from 51.9 to 50.3 in April. (page 41)

Weekly Releases & News

Charts of the Week: *RBA CASH Target*



The RBA increased its overnight cash rate target for the first time in 14 months to 5.75%. The RBA's board judged that inflationary risks had increased sufficiently to warrant the increase. Housing and business activity remain the key momentum drivers of the overall economy. (See more details in the full MPS and the comment section)

New Home Sales, PMI, Business Conditions Index & MPS

New Home Sales

Sales of newly built homes rose 5.2% M/M in March supporting expectations of a rate hike. Sales of new houses gained 4.2% and sales of apartments rose 13.5% in March.

Manufacturing Index

The performance of manufacturers' index dropped from 51.9 in March to 50.3 in April as factories cut output of metal products and building materials. A reading above 50 indicates manufacturing production is expanding.

Business Condition Index

The Business Conditions Index rose from 11 to a reading of 15 in Q1 2006, the highest since December 2004. The index measuring Australian companies' sales, hiring and profits climbed in Q1 for the first time in almost two years as miners and builders expanded production and hired workers. A reading above zero signals companies saying hiring, sales and profits were good in the quarter outnumber those saying they were poor.

MPS by the Governor, MR Ian MacFarlane

Following a decision taken by the Board at its meeting yesterday, the Bank will be operating in the money market this morning to increase the cash rate by 25 basis points, to 5.75 per cent.

International developments are continuing to provide stimulus to growth in Australia. The world economy is growing at an above-average pace for the fourth successive year and, significantly, forecasts have recently been revised upwards. Commodity prices have been increasing strongly for some time, and they have risen further in the year to date. This suggests a strengthening in the outlook for Australia's export earnings, with consequent expansionary effects on incomes and spending.

In Australia, domestic spending has been growing at a solid pace recently and prevailing conditions suggest that this is likely to continue. High profitability and rising share prices are indicative of a favourable business environment in which investment growth is likely to remain strong. There are also signs that the dampening effects of household balance-sheet adjustment on consumer spending are starting to wane. Recent trends in credit growth indicate that households and businesses have continued to find it attractive to borrow at prevailing interest rates. After touching a low point in the September quarter, the growth of household credit has picked up over the two most recent quarters. Business credit growth has continued to trend upwards.

MPS Cont., Comments and Upcoming Dates

As a consequence, although the cash rate has been close to its historical average, interest rates paid by borrowers have remained below average. These domestic and international trends have added to inflationary pressures in an economy that has been operating for some time with rather limited spare capacity and low unemployment. Wages growth, though not accelerating further recently, is higher than it was a year ago, and businesses are continuing to report that suitable labour is scarce. Raw materials costs continued to increase strongly in the March quarter, reflecting the general strength in global commodity prices. Consumer price inflation has picked up to around 3 per cent in recent quarters. While this partly reflected rising fuel costs, underlying consumer price inflation also increased in the March quarter, to around 2¾ per cent, a rate it had not been expected to reach until the second half of the year.

Taking all of these developments into account, the Board judged at its May meeting that inflationary risks had increased sufficiently to warrant an increase in the cash rate.

Treasurer Peter Costello on the rate decision (05/03/2006):

- “Today’s rate increase will have a dampening effect on consumption.”
- “Strong global growth prompted the bank to increase borrowing costs.”
- “It was a line-ball call taken by the independent bank. We are probably at the peak of the cycle for inflation.”
- “The government will deliver a responsible budget. It will be consistent with keeping the economy growing, keeping business profitable and helping families.”

Prime Minister Howard comments on Australian Rates Increase (05/03/2006):

- “It's fair to say though that the Reserve Bank obviously saw some signs of inflationary pressure and it decided to take pre-emptive action. I think that is the context in which the bank is making the decision.”
- “I think what the Reserve Bank is saying is that there are some inflationary pressures and pre-emptive action now will mean less action later on.”
- “Petrol prices are obviously painful for everybody and I understand that.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/04	Building Approvals M/M; Y/Y (MAR)	1.0%/---	2.2%/-6.3%
05/04	Trade Balance (MAR)	-1300mn	-595mn
05/07	Retail Sales (MAR)	---	0.7%

Valance Co., Inc.

Valance Economic Report: New Zealand

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May 3, 2006

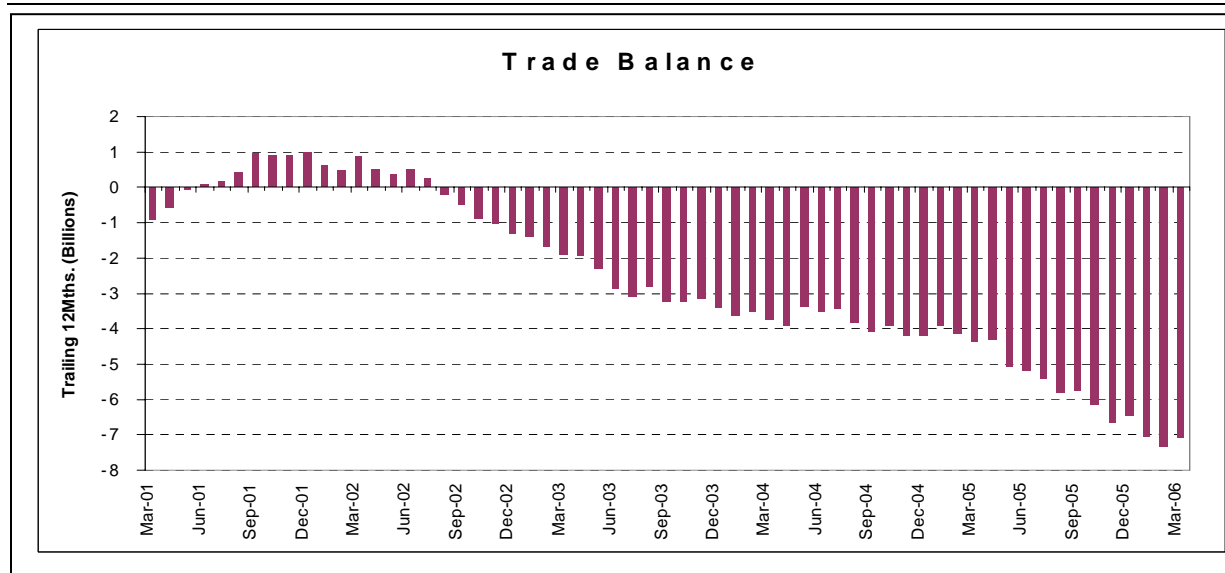
The Official Cash Rate was left at 7.25%, as anticipated. The RBNZ reiterated its hawkish rhetoric suggesting that inflation probably won't abate enough to allow the RBNZ to cut rates this year. In March, there was a trade surplus of NZ\$59mln, the first surplus in 22 months. March building approvals dropped 14.1%, killing any hint of the housing market getting its "3rd wind".

Weekly Highlights

Trade Balance – there was a trade surplus of NZ\$59 million in March. (page 43)

RBNZ OCR – was left at 7.25% in April. (page 44)

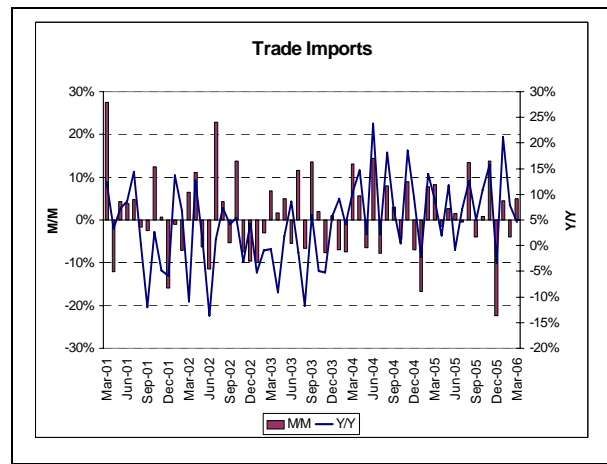
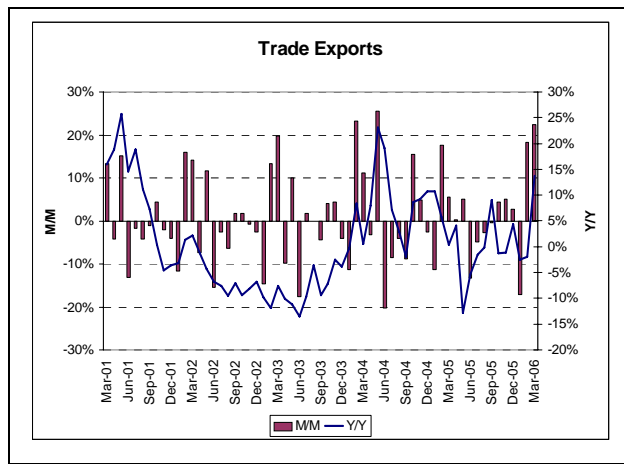
Home Building Approvals – fell 14.1% M/M and an unadjusted 22.2% Y/Y in March. (page 44)

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

There was a monthly Trade Surplus of NZ\$59.1mn in March compared to the upwardly revised deficit of NZ\$372mn (prior NZ\$257mn) in February. Exports rose 22.4% M/M and 13.8% Y/Y as sales of milk powder, butter and cheese boosted exports to a 22-month high offsetting a decline in overseas sales of meat and fruit. Imports rose 5.1% M/M and 4.6% Y/Y in March as gasoline, jet fuel and crude oil imports jumped. The trade balance for the year ended in March was a deficit of NZ\$7.07bn.

Exports, Imports, OCR & Building Permits

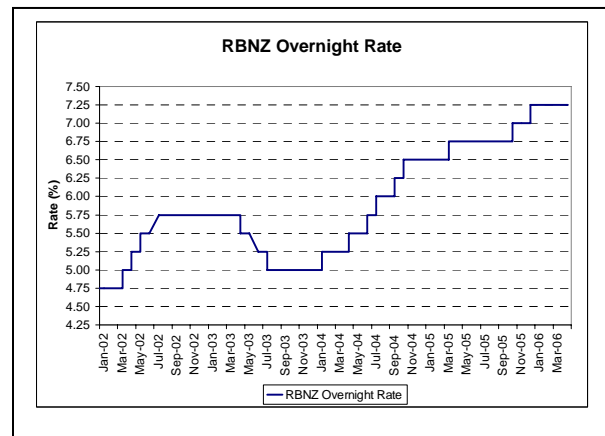
Exports & Imports



RBNZ Official Cash Rate

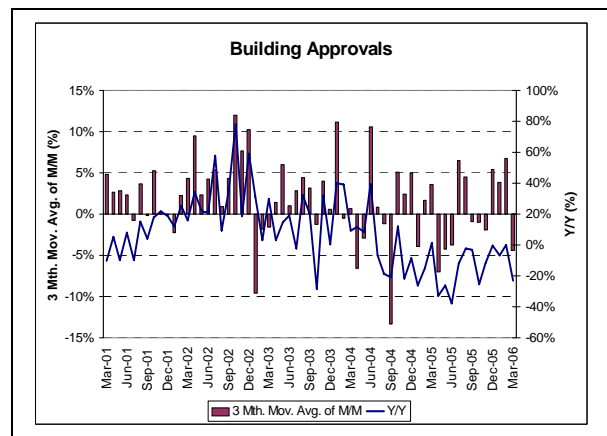
As the short-term inflation outlook has worsened, the RBNZ saw no scope for a cut in the official cash rate this year at its April meeting.

(See more details in the comment section)



Building Approvals

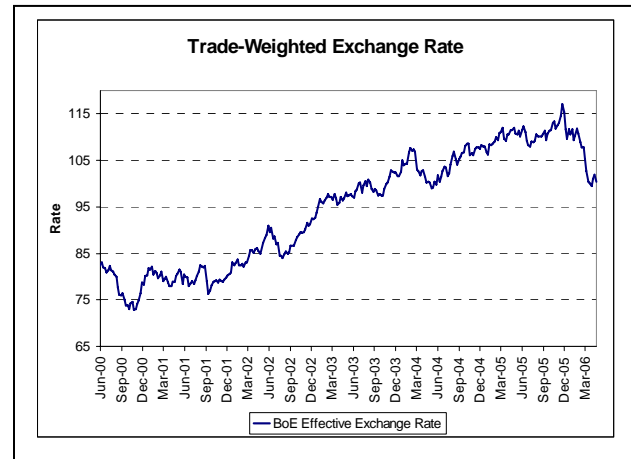
NZ Building Approvals for new dwellings fell 14.1% M/M in March, more than repaying the 12.4% M/M increase in February. The Y/Y drop was 22.2% in March from a slight increase in February. This may be a blessing for the RBNZ, as the rebound in NZ building approvals was getting to a point where there was a hint of a "third wind" in the housing market - which would have put more tightening pressures on the RBNZ.



Exchange Rate, Stock Market & Comments

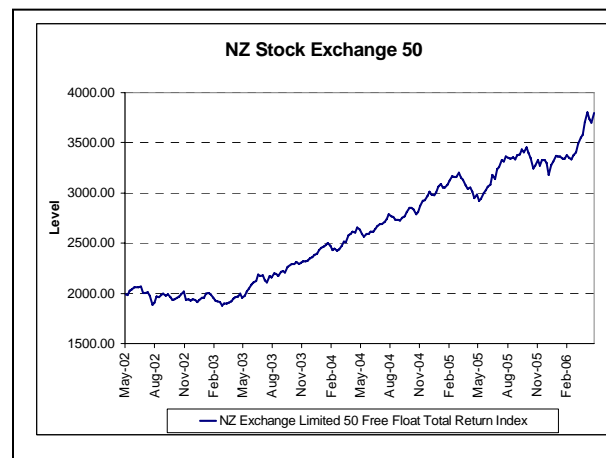
Trade-Weighted Exchange Rate

The New Zealand currency has already tumbled 7.4% this year, making it the world's worst performing major currency, amid speculation that the economy pace is slowing enough to spur the RBNZ to kick off their easing cycle. Some economists see the Kiwi about 7.5% overvalued and expect it to decline further as investors focus on the nation's slowing economic growth and record current account deficit (NZ\$13.69 bln in the year ended Dec. 31).



NZ Stock Market

New Zealand's stock market has surged 13% this year. The main driver has been corporate activity as well as, the very sharp decline in the currency over the past 6 months. The consensus is that the downturn probably started a little earlier than anticipated. The Stock Market is expected to be strong due to the awaited rate cuts that are priced to start in September and continue throughout 2007.



Comments

The RBNZ's Statement (March 26th, 2006):

The RBNZ's Governor Alan Bollard said: "Data since our March Monetary Policy Statement (MPS) indicate that, while the economy has weakened faster than expected, short-term inflation pressures have intensified."

"The anticipated slowdown in domestic demand commenced in the latter part of 2005 and is projected to continue through this year. This will be partly offset by growth in exports and import substitution, reinforced by the recent decline in the exchange rate. Recent economic indicators suggest the economy will continue to grow modestly through 2006."

Comments Continued & Upcoming Dates

“Despite the easing in resource pressures, the short-term inflation outlook has worsened. The exchange rate drop will boost import prices. We also expect significant further price rises over coming quarters as a result of the ongoing world oil shock. These effects are expected to keep annual CPI inflation above 3 per cent for longer than previously projected and risk putting upward pressure on inflation expectations.”

“Monetary policy remains focused on ensuring that inflation settles back within the 1-3 per cent target band over the medium term. As we have stated previously, policy will not try to counteract the one-off boost to prices from the exchange rate and oil price shocks. In this regard, we still do not expect to raise interest rates again in this cycle. However, monetary policy must remain vigilant against these price shocks spilling over into inflation expectations, and price and wage-setting behavior. Given the current outlook, we maintain our March *MPS* view and continue to see no scope for a cut in the OCR this year.”

Finance Minister Michael Cullen on the unlikely recession (April 27th, 2006):

On Economy and Rates:

- “Business is certainly not in the mood which suggests there is a likelihood of a serious recession.”
- “The RBNZ was making it reasonably clear it didn't expect the first quarter was likely to have been a negative quarter.”
- “The easing we have seen to this point has been very much welcomed by the exporting sector.”
- “The level of the OCR is the top end of the cycle.”
- “The expectation in the market is that we'll be entering an easing cycle.”

On Currency:

- “The range of 60 cents to 63 cents is probably within most economists' estimates of an equilibrium value range.”

CPI Revision:

After the OCR announcement, the Statistics New Zealand (Government department and New Zealand's national statistical office) took an unusual step of revising the Q1 CPI down by 0.1% to 0.6% Q/Q and 3.3% Y/Y after a computational error was discovered in the measurement of childcare costs.

Key Dates This Week

No Data Scheduled to be Released.

Weekly Economic Report: China

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May 3, 2006

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The People's Bank of China unexpectedly increased its one year lending rate from 5.58% to 5.85%. Other economic releases showed, the Manufacturing PMI increasing and Unemployment Rate remaining flat at previous level.

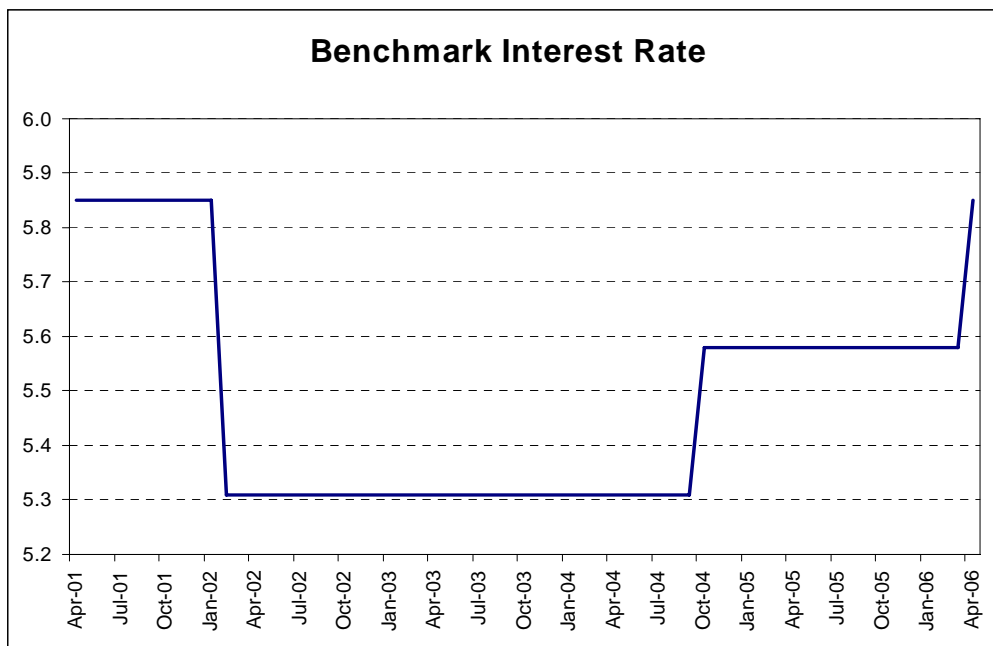
Weekly Highlights

The People's Bank of China - unexpectedly increased its one year lending rate from 5.58% to 5.85%. (page 47)

The Manufacturing PMI - increased from 51.0 in March to 52.7 in April. (page 48)

Weekly Releases & News

Chart of the Week: *Benchmark Interest Rate*

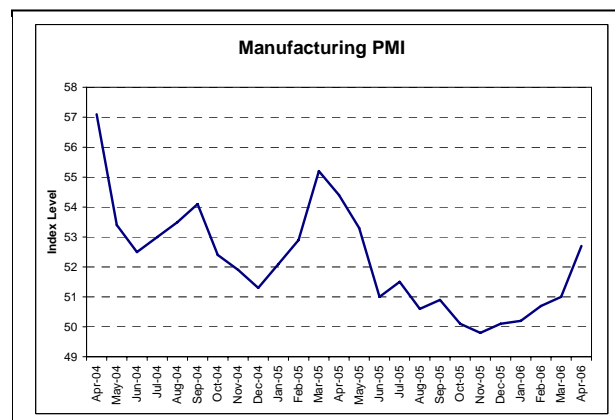


The People's Bank of China unexpectedly increased its one year lending rate from 5.58% to 5.85%, to help cool fixed investment and loan growth. This was the first hike since October 2004.

Manufacturing PMI, PMI Survey Results & Unemployment Rate

PMI Manufacturing

The Manufacturing PMI increased from 51.0 in March to 52.7 in April. The index increased in ten of the eleven components. Input Prices increased the most (5.7%) followed by Output Prices (2.7%). The index is at its highest level in twelve months.

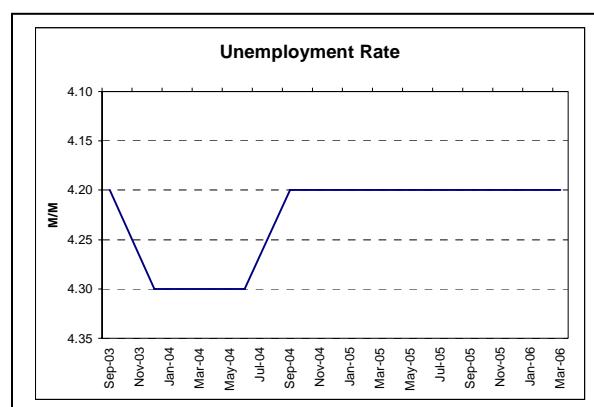


PMI Survey Results

	Apr 2006	Mar 2006	Feb 2006	Jan 2006	Dec 2005	Nov 2005	Oct 2005	Sept 2005	Aug 2005	Jul 2005	Jun 2005	May 2005	Apr 2005
Seasonally Adjusted Index													
PMI	52.7	51.0	50.7	50.2	50.1	49.8	50.1	50.9	50.6	51.5	51.0	53.3	54.4
Output	53.8	51.7	51.3	50.2	50.3	49.9	50.2	51.8	51.4	53.2	51.3	55.4	56.1
New orders	54.6	52.0	51.7	51.0	51.9	50.9	51.0	52.6	52.2	52.5	51.6	55.1	58.0
New export orders	54.9	52.9	52.6	50.8	52.7	51.9	51.1	52.3	52.5	51.6	51.1	55.6	57.1
Backlog of work	50.5	50.2	49.8	50.1	52.1	51.4	52.0	54.4	52.5	52.8	53.3	56.5	59.2
Finished goods	49.5	49.1	47.8	48.7	49.2	49.9	49.4	47.3	49.9	50.5	48.9	49.2	47.5
Employment	50.8	49.8	49.9	49.5	49.3	49.5	49.1	49.4	49.1	50.5	50.3	50.6	50.4
Output prices	52.5	49.8	49.2	48.6	46.3	48.6	49.4	49.9	49.2	47.1	47.5	51.0	54.1
Input prices	58.7	53.0	51.1	47.8	44.3	46.8	52.1	56.3	52.1	47.9	46.1	54.4	69.2
Supplier deliveries	49.1	49.4	49.7	50.0	52.4	52.5	50.9	49.7	50.1	50.2	49.5	49.3	48.2
Quan. of purchases	55.1	52.7	52.3	51.5	52.4	52.0	52.7	53.4	53.4	53.7	52.8	54.8	56.9
Stocks of purchases	50.9	48.7	48.2	49.6	49.8	50.3	50.2	47.0	48.3	48.7	51.0	51.7	50.8

Unemployment Rate

China's Unemployment Rate stood at 4.2% in Q4, remaining at the same level now for seven consecutive quarters.



News Releases

May 3rd - Figures Show That China's Property Market May Be In Danger of Overheating The National Bureau of Statistics indicated that 17.07% of disposable income was spent on housing in 2005, while the Ministry of Construction showed 1.42 trln was spent on buying homes. A lack of investment options is partially to blame for the influx of money into real estate.

May 2nd - Consumer Spending Unlikely to Reduce Trade Deficit - The Wall Street Journal reported that it is improbable that China's consumer spending will reduce its trade deficit. The Journal stated that the Chinese spend most of their savings on education and housing and that average incomes are so low that spending instead of saving won't do much for households.

May 1st - China May Avoid Being Labeled Currency Manipulator - Bank of America doesn't expect China to be labeled as a currency manipulator, when the U.S. Treasury releases its report on exchange rates. Currency Strategist, Qing Wang, stated, "There's now a multilateral approach in dealing with the general issue of exchange-rate misalignment globally, specifically on the yuan." Wang added, "The U.S. prefers this multilateral approach instead of the bilateral approach, so this lowers the probability of China being named."

April 29th - China's 2005 Capital Account Narrows, Current Account Surplus Widens - The State Administration of Foreign Exchange reported that the country's 2005 capital account surplus (money flows through investments and securities) narrowed to \$63 bln, while its current account surplus (forex flows through goods and services) doubled to \$160.82 bln. The large current account surplus was due in part to a \$124.8 bln goods and services trade surplus.

April 27th - China Needs To Cool Its Economy - The PBoC has asked China's banks to contain lending in hopes of slowing the economy. The Central Bank said that lending is increasing "too fast". The National Development and Reform Commission (NDRC) is also warning against over-investment in certain industries, including steel, aluminum and other metals. In addition to the PBoC's increase of its benchmark rates, economists anticipate the following economic-tightening measures to be employed: increase borrowing costs again, open-market operations to use up liquidity from the money market, requiring banks to keep more of their funds locked up on deposit, the NDRC to make it harder for projects to be approved, and administrative measures to constrain property developers by making it difficult to convert land to new purposes.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/08-12	Government Revenue / Expenditure – Mar	--	253.5B / 156.0B
05/08-12	Leading/Coincident/Lagging Indices – Mar	--	102.6 / 100.6 / 94.2
05/09-15	Ttl Export /Import Individual (Y/Y) – Apr	26.4% / 25.0%	28.3% / 21.1%
05/09-15	Trade Surplus in US\$ Billion – Apr	6.90B	11.19B
05/09-15	Money Supply – M2/ M1 / M0 (Y/Y) – Apr	18.80% / -- / --	18.80% / 12.70% / 10.50%
05/09-15	Household Savings – Trin Yuan- Apr	--	--
05/09-15	Actual / Contract FDI Cumulative (Y/Y) – Apr	--	6.40% / --
05/10	Producer Price Index – Apr	2.7%	2.5%
05/10	Purchasing Price Index – Apr	--	6.2%

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Valance Economic Report: Sweden

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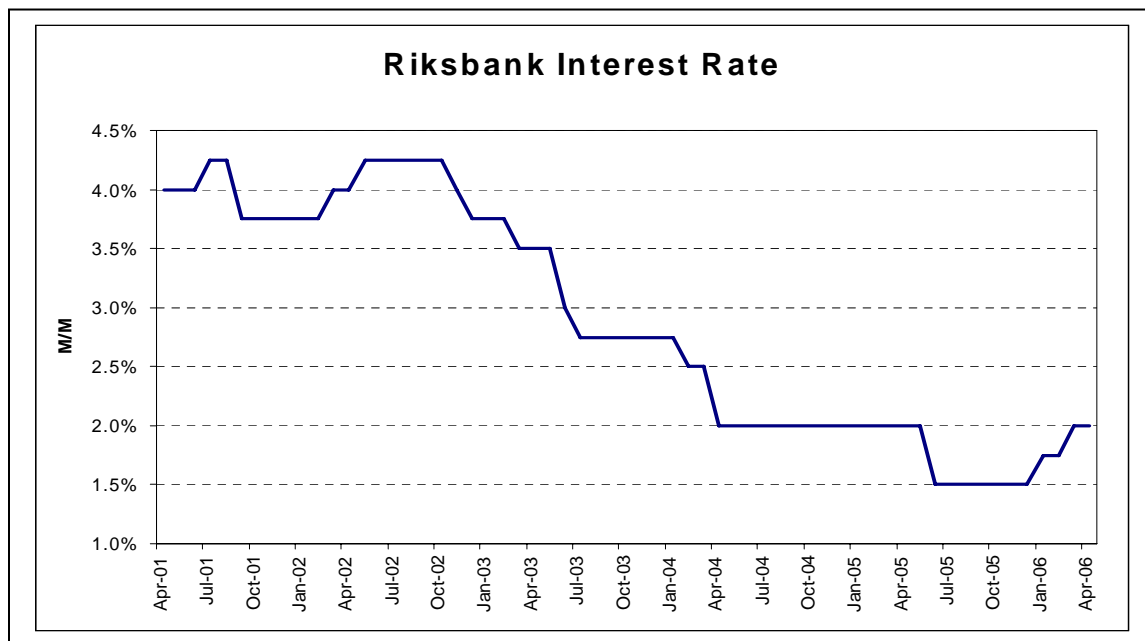
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May 3, 2006

This week's economic data was highlighted by the Riksbank's decision to hold its repo rate at 2.0%, following two increases this year. Annual Retail Sales, PPI and Consumer and Manufacturing Confidences all showed increases, while monthly Retail Sales and the PMI Survey fell.

Weekly Highlights

Riksbank Interest Rate – was left unchanged at 2.0%. (page 51)

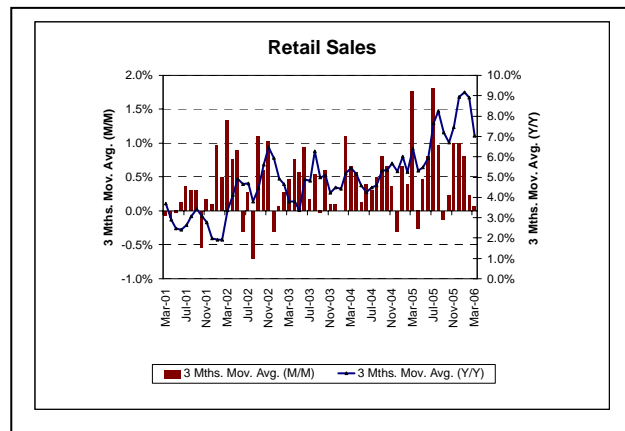
Weekly Releases & News**Chart of the Week: Riksbank Interest Rate**

As expected, the Riksbank left its repurchase rate at 2.0%, following two increases this year. The Bank stated, "The outlook for economic activity and inflation indicates that it will soon be appropriate to bring monetary policy onto a less expansionary path, roughly as the market has expected in recent weeks." It reiterated that inflation will be 1.8% in two years -- close to its 2.0% target. It also stated that it expects the economy to expand 3.5% this year, led by consumer spending and falling unemployment. The Bank also suggested that rates will be raised again soon to control inflation as growth accelerates.

Retail Sales, PPI & Consumer Confidence

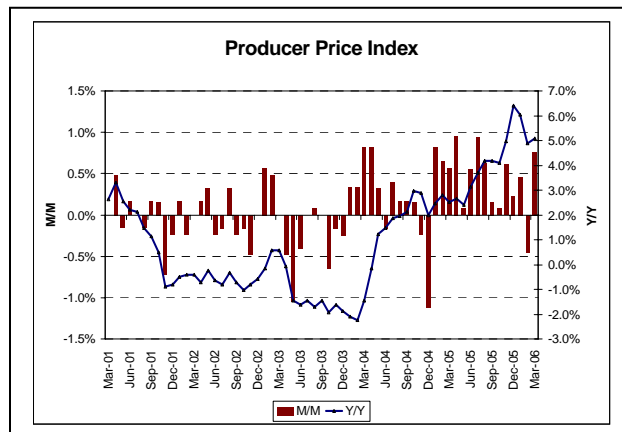
Retail Sales

Retail Sales fell 0.1% M/M and rose 5.1% Y/Y in March. The Y/Y increase was driven by gains in food and durables sales. Expectations were for an increase of 0.1% M/M and 6.3% Y/Y.



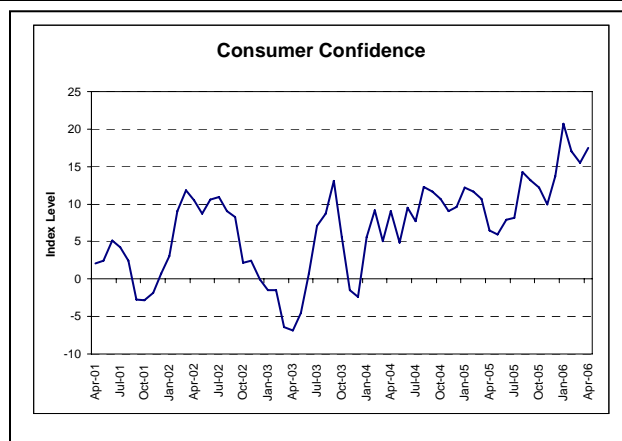
PPI

The Producer Price Index rose 0.8% M/M and 5.1 Y/Y in March, above expectations. The M/M rise was led by an increase in the costs of petroleum and metals products. Expectations were for a 0.5% M/M and 4.8% Y/Y gain.



Consumer Confidence

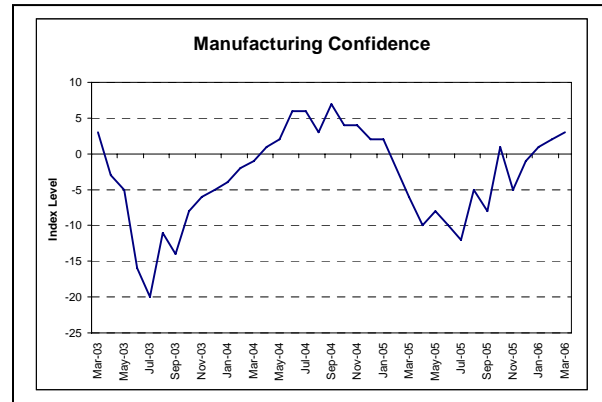
Consumer Confidence rose from 15.5 in March to 17.5 in April, on falling unemployment and accelerating growth. This marked the first monthly gain since January. Expectations were for a 15.0 outcome.



Manufacturing Confidence, Swedbank PMI Survey & Trade Weighted Exchange Rate

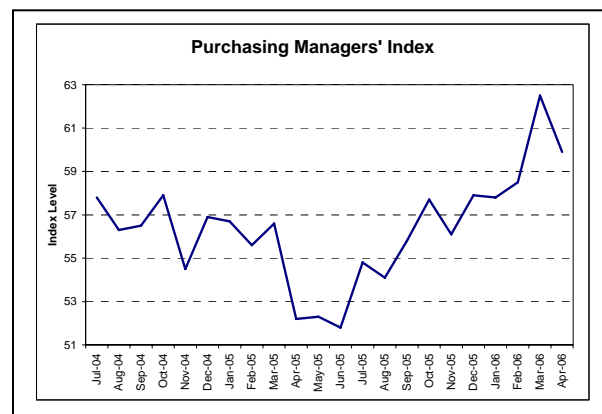
Manufacturing Confidence

As expected, Manufacturing Confidence improved from 3.0 in February to 4.0 in March.

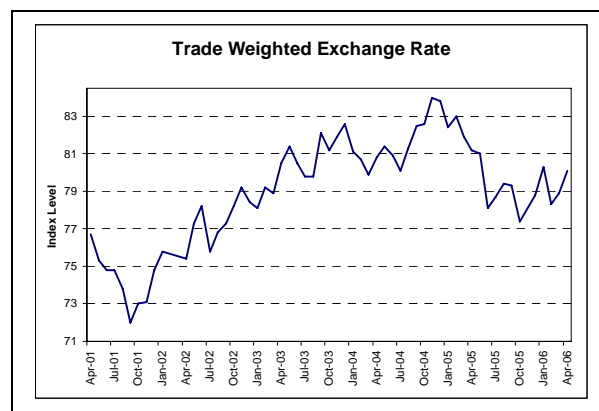


Swedbank PMI Survey

Sweden's Purchasing Managers' Index fell from 62.5 in March to 59.9 in April, as orders and production slowed. The Employment Index also slipped from 55.8 to 54.8 in April.



Trade Weighted Exchange Rate



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/08	Budget Balance – APR	--	9.0B
05/10	Industrial Prod. s.a. (M/M) / n.s.a. (Y/Y) – Mar	-0.5% / 3.3%	-1.4% / 1.5%
05/10	Industrial Orders s.a. (M/M) / n.s.a. (Y/Y) – Mar	--	3.1% / 8.5%
05/10	Activity Index Level – Mar	--	114.8
05/10	AMS Unemployment Rate – Apr	--	4.8%

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Valance Economic Report: Switzerland

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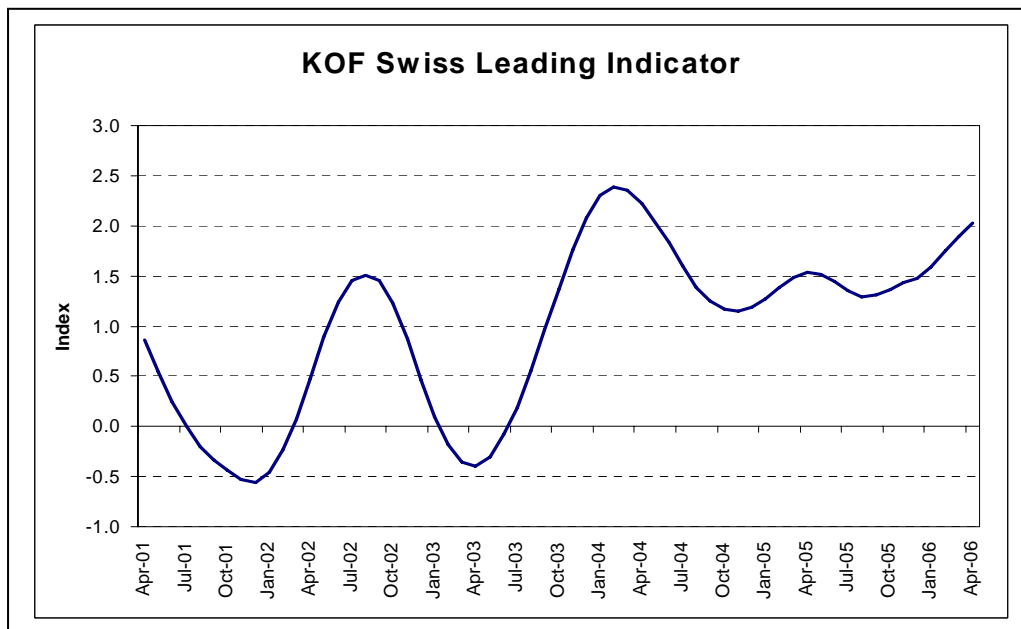
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May 3, 2006

The KOF Swiss Leading Indicator increased to its highest level in almost two years, while the PMI fell for the first time in four months. SNB President, Jean-Pierre Roth, commented on interest rates and growth.

Weekly Highlights

KOF Swiss Leading Indicator – increased from 1.90 in March to 2.03 in April. (page 55)

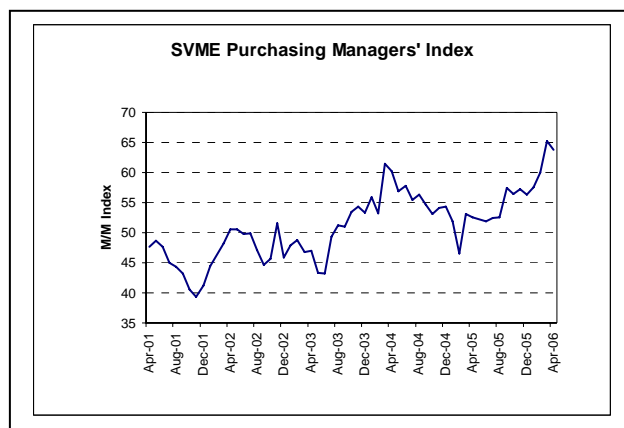
Weekly Releases & News**Chart of the Week: KOF Swiss Leading Indicator**

The monthly aggregate of indicators increased from a revised 1.90 (up from 1.30) in March to 2.03 in April. This marked the highest level in almost two years. The pickup continues to be led by exports. Expectations were for a 1.32 outcome. See KOF's Jan-Egbert Sturm's comments on page 59.

SVME PMI, PMI Results & Trade Weighted Exchange Rate

SVME Purchasing Managers' Index

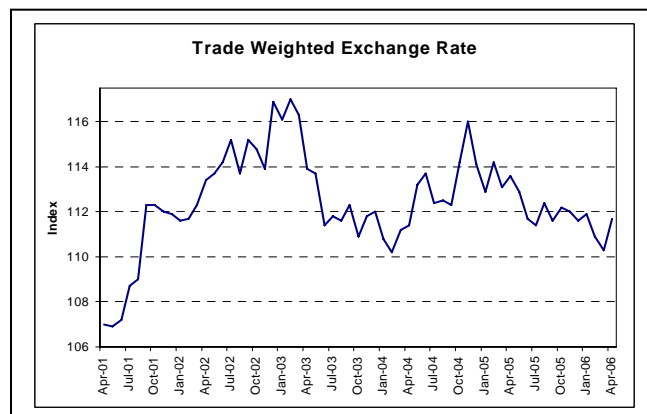
Switzerland's Purchasing Managers' Index fell from 65.2 in March to 63.8 in April – marking the first slowdown in four months. Five out of eight components in the PMI table below experienced declines. Despite the slowdown, April's reading marked the 15th consecutive month above 50. The Index was expected to remain unchanged.



PMI Results

	Apr 2006	Mar 2006	Feb 2006	Jan 2006	Dec 2005	Nov 2005	Oct 2005	Sep 2005	Aug 2005	Jul 2005	Jun 2005
PMI s.a.	63.8	65.2	60.0	57.6	56.9	57.8	56.8	57.5	52.5	51.8	51.8
Output	64.0	68.0	63.7	59.1	63.1	62.0	55.0	60.2	54.1	51.2	55.9
Backlog of Orders	70.8	72.4	63.2	60.1	58.3	59.4	63.7	62.7	54.1	53.7	52.7
Quantity of Purchase	64.7	68.0	62.7	58.5	55.7	56.1	58.3	54.9	50.4	54.8	49.2
Purchase Prices	69.5	67.8	65.9	65.7	63.4	62.3	64.9	59.6	57.4	49.8	47.6
Suppliers Delivery Times	68.1	66.1	61.3	57.5	56.3	57.7	57.8	54.7	54.9	58.3	51.8
Stocks of Purchases	47.0	54.3	50.8	46.7	48.4	51.9	46.8	46.7	46.6	49.1	46.3
Stocks of Finished Goods	44.1	50.7	48.7	51.0	41.1	50.1	46.6	45.2	45.6	42.3	46.1
Employment	58.1	55.9	54.1	57.4	51.6	53.1	52.7	54.2	49.2	46.1	48.4
PMI NSA	65.0	66.7	61.3	58.8	51.6	56.2	57.3	59.6	49.4	49.9	54.1

Trade Weighted Exchange Rate



SNB Comments

April 28th – SNB President, Jean-Pierre Roth, Comments on Interest Rates and Growth -

On growth in 2005: “An economic slow-down became apparent from autumn 2004, but the lost ground was more than regained in 2005 thanks to the strength of our exports. From January to August, the price of crude oil surged by 50 percent to reach a peak level of some \$65 before a partial correction set in. As a result, business and consumer confidence was shaken. Not until the second half of 2005 did unmistakable buoyancy in economic activity become apparent. To a large extent, the Swiss economy escaped the European lethargy due to its relatively diversified export markets. Our foreign trade sagged in the first quarter of 2005 but returned to a strongly expansionary course thereafter. Consumption was relatively firm even if the rate of growth remained extremely modest. Investments failed to show the strength exhibited in 2004 because of the hesitations about the soundness of the recovery.”

On monetary policy: “In the uncertain economic environment that prevailed in 2005, the Swiss National Bank did not continue with the normalization of interest rates which it had embarked on in spring 2004. Not until the end of the year, when the indications of economic recovery had been clearly confirmed, did we decide to resume the gradual normalization of interest rates. This rate now stands at 1.25 percent, which is comparable to the current rate of increase in prices. In other words, it remains extremely attractive, given the healthy state of the economy.”

On price stability in 2005 and need for vigilance: “Despite the increase in oil product prices, 2005 was again a year of price stability. Indeed, it was the twelfth in succession, since the annual rise in consumer prices in Switzerland has remained below 2 percent since 1994. Consequently, the SNB has fulfilled its mandate. Nevertheless, this favorable constellation should not cause us to relax our vigilance with respect to inflationary phenomena.”

On the outlook for 2006: “The prospects for the Swiss economy in 2006 are good, although the most recent rise in oil prices constitutes a new source of uncertainty. The world economy continues to grow and the U.S. economy remains robust despite the interest rate hikes by the Fed and the slight softening in the property market that ensued. The Asian economies are deriving increasing benefits from China's vitality. An economic upturn is also visible in Europe, especially in Germany, even though it is still moderate. In addition, the fact that world growth is generating more demand for investment goods is creating a particularly favorable situation for our exports. We may expect a positive spin-off from this good foreign trade performance for all areas of the Swiss economy – in production as in employment. To date, the rise in sales abroad has been handled through substantial gains in productivity, but we may hope that this will now be followed by a resumption of investment in equipment, along with increased recruitment. Consequently, the overall economic climate in Switzerland is likely to continue improving over the next few months, thereby supporting consumption. We project growth of slightly over 2 percent for the year as a whole.”

On the outlook for price stability: “This return to growth does not constitute a threat to price stability. Our forecasts indicate that average inflation for this year is likely to be about 1 percent, and the outlook remains just as favorable for 2007.”

On monetary policy in 2006: “The inflation forecast we published in March clearly indicates that the current interest rate level is incompatible with long-term price stability. Consequently, we will continue to implement the strategy of monetary normalization pursued since June 2004. We will be doing so in the conviction that a preventive approach is much less painful for our economy than belated corrective measures.”

SNB Comments (Cont'd.)

On the need for higher growth: “While the resumption of growth is heartening, we should not rest on our laurels since the expected figures are still lower than those needed to cope with the increasing financial requirements of our aging population. Much still needs to be done to raise potential growth in our economy. Given the healthy state of our economy, the timing is excellent for pursuing a program of economic reform. We would be making a grave mistake if we declared ourselves content with the results we have already achieved.”

On the Swiss currency: In 2005, “the exchange rate of the euro against the Swiss franc fluctuated within a narrow range, thereby reflecting the strong convergence of fundamentals in Switzerland and the euro area. Over the past few months, the Swiss franc has even trended downward - a decline that is hard to explain given the low rate of Swiss inflation as compared to the rest of Europe. If this trend were to accelerate and give rise to an excessive relaxation in monetary conditions with respect to economic developments, a normalization of interest rates would become even more essential.”

On risks to growth: “The world economy is still characterized by profound imbalances, such as the deficit in US external accounts and the lack of flexibility in the Chinese monetary system. It is still possible that the continued indebtedness of some countries -- due to the substantial disparity in national savings efforts -- could dangerously weaken financial markets in the event of a crisis of confidence. There are still major underlying risks and there is no justification for diminishing our vigilance as regards possible market instability. Meanwhile, companies need to remain cautious about exchange rate risks, despite the fact that the volatility of the Swiss franc has been low over the past few years.”

On the SNB's independence: “Credibility is not merely a matter of legal independence. It also depends on the political environment within which a central bank operates, since markets are concerned about more than just the formal autonomy of the monetary authorities. They also pay attention to the degree of political acceptance of central bank decisions. If monetary affairs are subject to permanent political debate, this can become a hindrance to credibility.”

On the SNB's monetary reserves: “The SNB holds an appropriate level of monetary reserves in the form of gold and foreign exchange for the conduct of monetary policy. Bearing in mind the economic importance of our country, however, our level of currency reserves does not place us in a leading position amongst the group of the best endowed countries. Far from it, in fact. In 1950, our reserves amounted to 30 percent of GDP. This percentage has now fallen to 12.5 percent, situating us in a respectable middle position on the international scale - along with the Scandinavian countries. If we bear in mind that, unlike these nations, Switzerland is also an important international banking centre, we cannot reasonably conclude that our current monetary reserves are excessive.”

On proposals to use excess reserves to fund Switzerland's state pension scheme: “By creating a direct relationship between our profits and the funding of an important element in our system of social security, the initiative would establish a dangerous link, since it would certainly place the SNB under constant pressure to distribute more profits in the future. Higher profit distribution would only be possible if we took bigger investment risks or if we reduced our monetary reserves. Markets would start to ask themselves whether the SNB's goal was to ensure the monetary stability of the country or to generate profits. As I pointed out before, there is a risk that constant debate on this topic could sap market perception of our independence. This would damage our credibility and hamper our monetary policy. At the end of the day, implementation of this initiative would undermine confidence in the Swiss franc.” The “initiative is playing with fire. It constitutes a permanent invitation to press never-ending financial demands. It places the SNB at the centre of a permanent political debate which threatens both its credibility and the effectiveness of its policies. That is why good sense dictates that it be rejected.”

News Releases & Upcoming Dates

News Releases

April 28th – KOF's, Managing Director, Jan-Egbert Sturm Comments on Switzerland's Economy

On the Swiss economic outlook: “Developments in industry are better than expected, the outlook is also very positive. Sales expectations are good, trade is developing well. Construction is also doing very well. We should continue to feel very positive about things until the autumn. The domestic economy is very robust, there are very good developments. By and large, growth next year is expected to be as strong as this year.”

On prospects for Swiss interest rates: “The franc's is trading weakly against the euro. But the economy is doing well. Therefore, we see reason for the Swiss central bank to move toward a neutral policy stance. We see three more rate increases this year. The franc may rather trend upward, especially if the Swiss central bank raises interest rates more often than the European Central Bank. We expect the SNB to raise rates once more than the ECB.”

On the Swiss labor market: “The situation has looked clearly more positive already in the past months. The labor market is picking up, perhaps more slowly than expected but positive signs are there.”

April 27th – Swiss Wages Fell In 2005 - The Neuchatel Federal Statistics office reported that in 2005, Swiss wages fell an inflation-adjusted 0.2% Y/Y, while nominal wages rose 1.0%. The decline was led by rising energy costs.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/04	CPI (M/M) / (Y/Y) – Apr	0.9% / 1.1%	-0.1% / 1.0%
05/08	Unemployment Rate / s.a. – APR	--	3.6% / 3.5%