

Valance Company, Inc.



Weekly

May 10, 2006

III

Highlights

US – Employment data mixed, Mortgage Purchase Applications weak (page 2)

Euroland – ECB leaves rates unchanged, signals further moves despite recent consumer data. (page 10)

Japan – The Leading Economic Index declined in March (page 17)

UK – The Quarterly Inflation Report was more dovish in tone than expected (page 21)

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Valance Economic Reports

Valance Co., Inc.

Valance Economic Report: United States

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May 10, 2006

This week's light economic data was highlighted by mixed employment data and another weak mortgage applications data-point. However, the market is completely focused on the Fed's statement for guidance on the path of rates in the short-term. Various inflation indicators suggest that the Fed has more work to do, but comments from Fed members indicate that a pause after a hike to 5% is on the table.

Weekly Highlights

Payrolls- up 138k in April. (page 2)

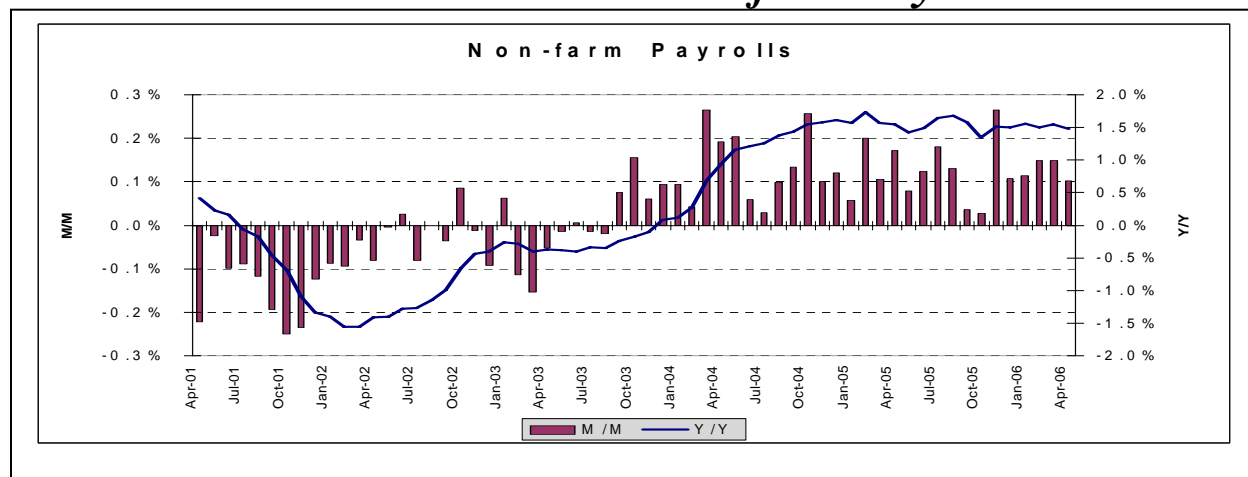
Average Hourly Earnings- increased 0.5% M/M in April. (page 4)

Average Weekly Hours- up to 33.9 in April. (page 4)

Mortgage Purchase Applications- down 15.9% Y/Y on a four-week moving average basis. (page 5)

Weekly Releases

Chart of the Week: *Non-farm Payrolls*



Non-farm Payrolls increased 138k in April, below expectations and last month's reading of 200k. However, the unemployment rate remained at 4.7% according to the household survey, and combined with the behavior of hourly earnings and average weekly hours, it suggests that the labor market is still getting tighter. Claims data after the survey period indicates some softening of the labor market, but still healthy levels on an absolute basis.

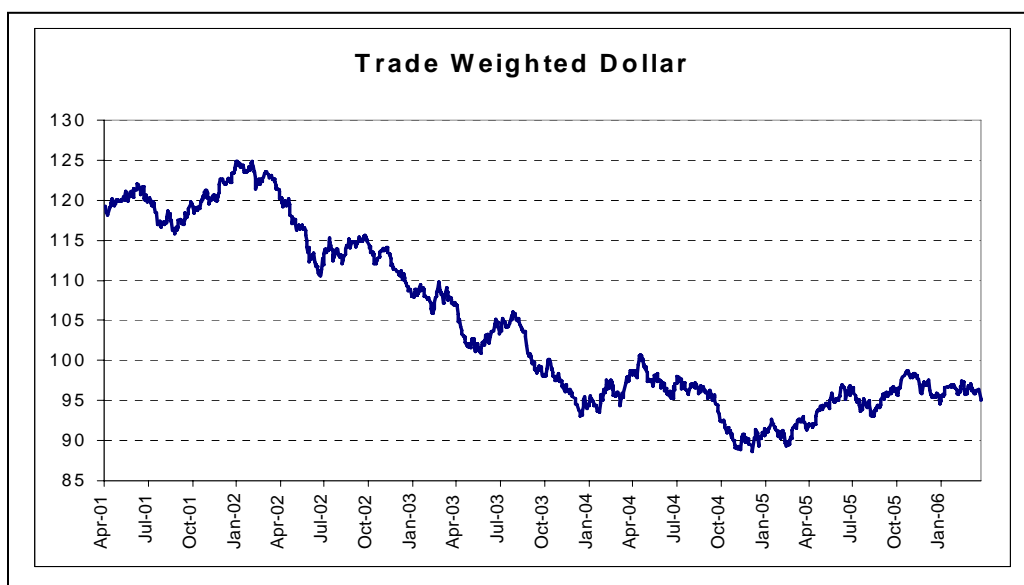
U.S. Financial Balances & Trade Weighted Dollar

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.

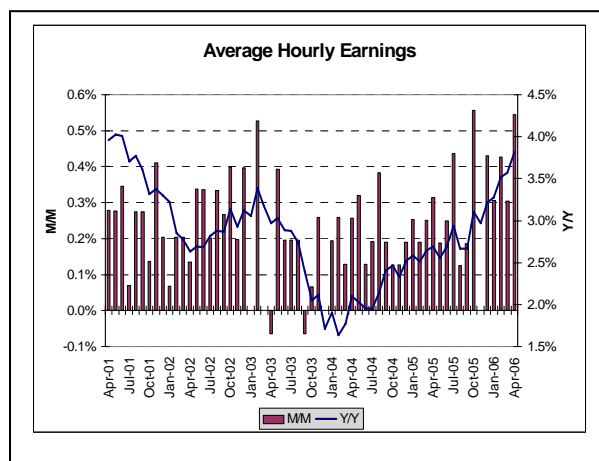
Trade Weighted Dollar



Hourly Earnings, Weekly Hours & Employment Claims

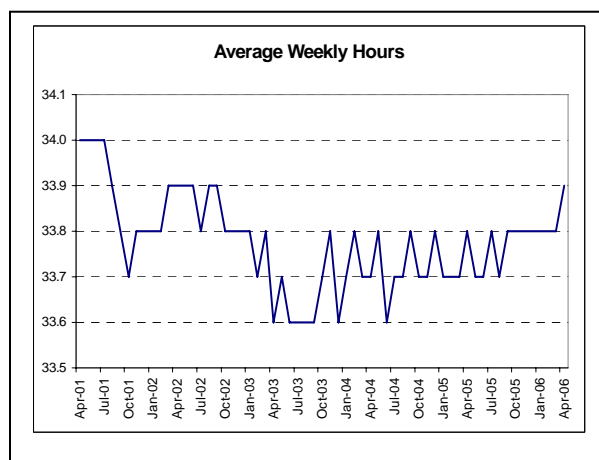
Average Hourly Earnings

Average hourly earnings grew 0.5% M/M and 3.8% Y/Y in April. The acceleration in wages heightened concerns that upward pressures in labor costs could lead to higher core inflation and keep the Fed hiking. The three month annualized rate is now 5.1% up from 3.0% a year ago.



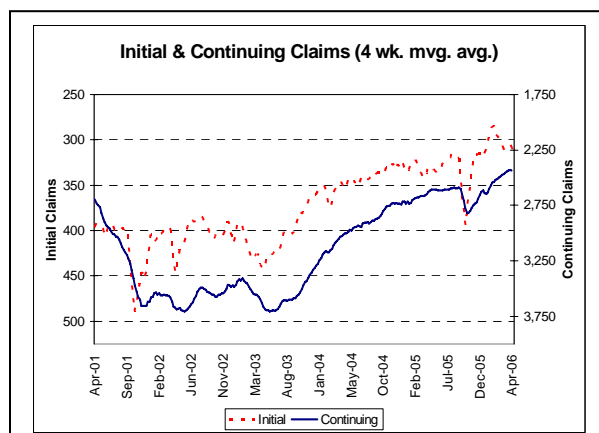
Average Weekly Hours

Average weekly hours increased from 33.8 to 33.9 in April. This reduction in slack is equivalent to 400k in payroll gains. This series has not been at this level since 2002 and may signal to some Fed members that more wage pressure is just around the corner.



Initial & Continuing Claims

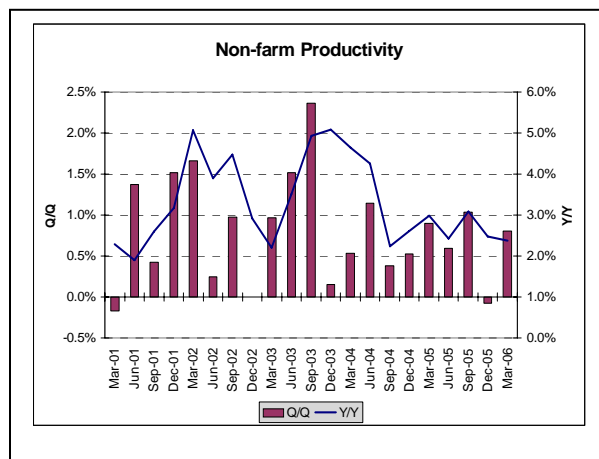
The four week moving average of initial claims increased by 5k to 314k and continuing claims increased by 8k to 2,438. Continuing claims increased for the first time on a four week moving average basis since the end of 2005.



Non-farm Productivity, Unit Labor Costs & Mort. Apps.

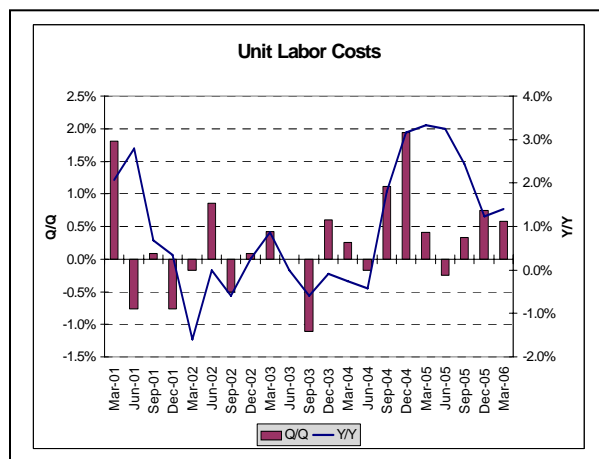
Non-farm Productivity

Non-farm Productivity increased 0.8% Q/Q and increased 2.4% Y/Y in Q1 of 2006 after experiencing Q/Q declines in Q4 of 2005. Despite the snap-back in productivity gains, unit labor costs still increased 2.5% on an annualized basis in the first quarter.



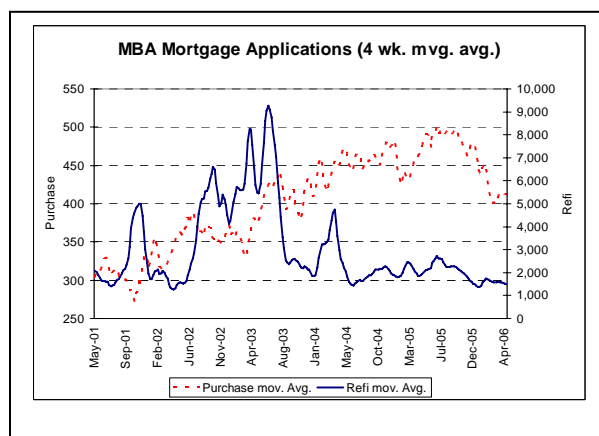
Unit Labor Costs

Unit Labor Costs increased 0.6% Q/Q and 1.4% Y/Y in Q1 2006. The annualized rate for the quarter was 2.5% after registering 3.0% in Q4 of 2005. This is a volatile series, but it appears that unit labor costs are on an upward trend after a tame first three quarters of 2005.



MBA Mortgage Applications

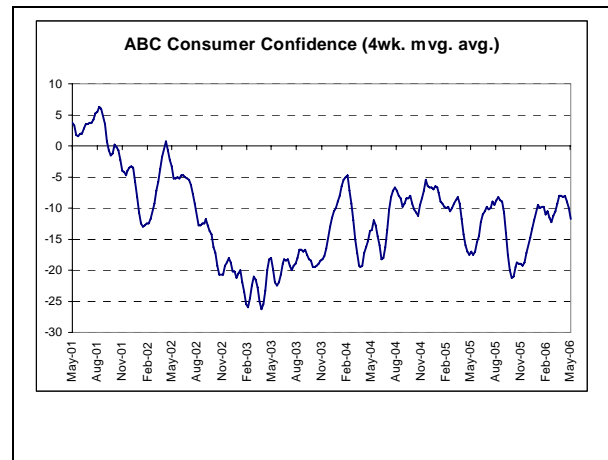
Purchase mortgage applications decreased 3.9% W/W and refi applications were down 8.8% W/W this week. The four-week moving average of purchase applications is down 15.9% Y/Y and was down 20.8% Y/Y just based on last week's reading.



Confidence

ABC Consumer Confidence

The ABC Consumer Confidence Index decreased from -13 to -16. The economy and buying components both dropped four points to -30 and -34, respectively. The finance component remained at 16. Higher gas prices may have stemmed the gains in consumer confidence.



Earnings Quotes

Toll Brothers- “For the sixth month period, record-homebuilding revenues of approximately \$2.78 billion increased 25%, while signed contracts of approximately \$2.70 billion declined 26% versus fiscal '05's record six-month results.”

"We are entering our ninth month of slower sales in most of our markets. While we do our best not to sell to speculators and while we build very few spec homes, we have certainly been impacted by the overall increase in supply. Speaking of the market in general, it is clear that speculative buyers are no longer fueling demand, that's for sure. Instead, they're putting the homes they've recently acquired back on the market, or are canceling contracts on homes being built, turning those homes into specs.”

“Ordinary demand has also slackened as the typical buyer worries about the direction of home prices. In addition, based on the high cancellation rates reported by other builders, nonspec buyer cancellations are also adding to supply in the market. Much of the oversupply described above is now being aggressively discounted by others. We are not sitting on many unsold homes, so we are not driven to heavily discount, though we are discounting in some places. We do not believe this slower market is the beginning of hard times. That is too inconsistent with our sales in several markets and in several new community openings, where we have had to hold lotteries, raise prices, or shut down in order to control demand. We believe the excess supply in the market -- excuse me, currently is a short-term phenomenon and that relatively soon the imbalance between tight supply and growing demand will return.”

Accenture- “The strength of our business is broad based with local currency revenue growth across all five of our operating groups. We also saw strong revenue growth in all of our geographic regions with the Americas growing at nearly 20% for the third straight quarter.”

IBM- “To provide the best view of our ongoing geographic performance, I will focus my comments on our results without PCs at constant currency. Looking at the geographies, at 6% the Americas delivered its best growth rate in six quarters. Led by software and services performance, all regions grew with continued solid performance in the United States.”

Intel- “Our view of the end markets and overall economic conditions leads us to believe we will see continued improvements in customer inventory levels in the second quarter and allow us to return to a normal seasonal patterns for our business in the second half of this year.”

“As Paul stated, we have begun the year competing for orders and holding share, adapting to lower expectations for the overall year by trimming spending and continuing to push forward to insure we have new products to support a stronger second half.”

Washington Mutual- “Our Home Loans management team is intensely focused on quickly and effectively adjusting our operations to improve profitability in this more-challenging, lower lending volume environment. This means taking actions to lower our expenses, improve our efficiency, and increase productivity. These strategies include focusing on the cross business opportunities we have identified, targeting the most profitable products, as well as consolidating

Earnings Quotes Cont.

real estate and moving back office functions to lower-cost domestic and offshore locations, such as the consolidation of our Home Loans processing offices from 26 to 16 offices during the first quarter, which resulted in elimination of approximately 2,500 jobs.”

Beazer Homes- “In a number of markets across the country we've seen the pace of sales decline and price appreciation moderate relative to that experience over the past several years. This is evidenced by the lower net orders this quarter although we do maintain a substantial backlog of 9227 homes with a sales value of \$2.8 billion, representing an average sales price of over \$300,000 for the first time in the Company's history.”

General Electric- “We had a strong quarter in a good economy in the first quarter of 2006. The GE business fundamentals remain positive. Our first-quarter orders were up 33% and we saw strength across the portfolio, a very strong performance on orders. Equipment backlog grew 22% as did our CSA backlog.”

Bank of America- “Over the past four quarters, home equity loans and outstanding home equity credit lines across the businesses have increased 22% on a pro forma basis with consistent growth each quarter. We have the number one market share in home equity and intend to continue our growth through sales process improvements and product and pricing enhancements.”

Caterpillar- “We have a positive view of the overall world economy and for the industries we serve and continue to expect sales and revenues of about \$40 billion for the year. That is up about 10% from 2005. Inflation remains low in most countries, and should help keep interest rates worldwide at relatively low levels, and should support continued growth in the world economy, with overall growth in 2006 similar to that of 2005. We expect continued strength from most of the industries we serve; notably, mining, road building and paving, infrastructure development, nonresidential construction, and engines for petroleum, electric power, marine, and on-highway applications. Overall, the fundamental for the industries we serve look good. That said, we know there a number of uncertainties and risks that face Caterpillar and the economy as a whole.”

Whirlpool- “We have seen around the world that consumer demand remains strong, and is trending slightly ahead of our expectations for the year. Our overall results reflect solid global performance from all regions around the world. The strong earnings momentum that we saw in the second half of last year accelerated during the first quarter. We had record unit shipments, sales growth, positive product mix combined with productivity improvements, which drove and increase in operating profit of 12%.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/11	Retail Sales Less Autos (APR)	0.9%	0.4%
05/11	Initial Jobless Claims (MAY 6)	315K	322K
05/11	Continuing Claims (APR 29)	2450K	2462K
05/12	Trade Balance (MAR)	-\$67.0B	-\$65.7B
05/12	Import Price Index (APR)	5.3%	4.5%
05/12	U. of Michigan Confidence (MAY)	86.0	87.4
05/15	Empire Manufacturing (MAY)	15.0	15.8
05/15	NAHB Housing Market Index (MAY)	50	50
05/16	PPI Ex. Food & Energy (APR)	0.2%	0.1%
05/16	Housing Starts (APR)	1955K	1960K
05/16	Building Permits (APR)	2050K	1960K

Valance Co., Inc.

Valance Economic Report: Euro Zone

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May 10, 2006

The ECB left rates unchanged at 2.50% at their May meeting this week while paving the way for an expected June hike. Poor weather and faulty seasonal adjustments led to weak German data for March, which then fed through into poor Euro zone data. As a result, there remains downside risk to market expectations of a 0.6% Q/Q expansion for the Euro Zone.

Weekly Highlights

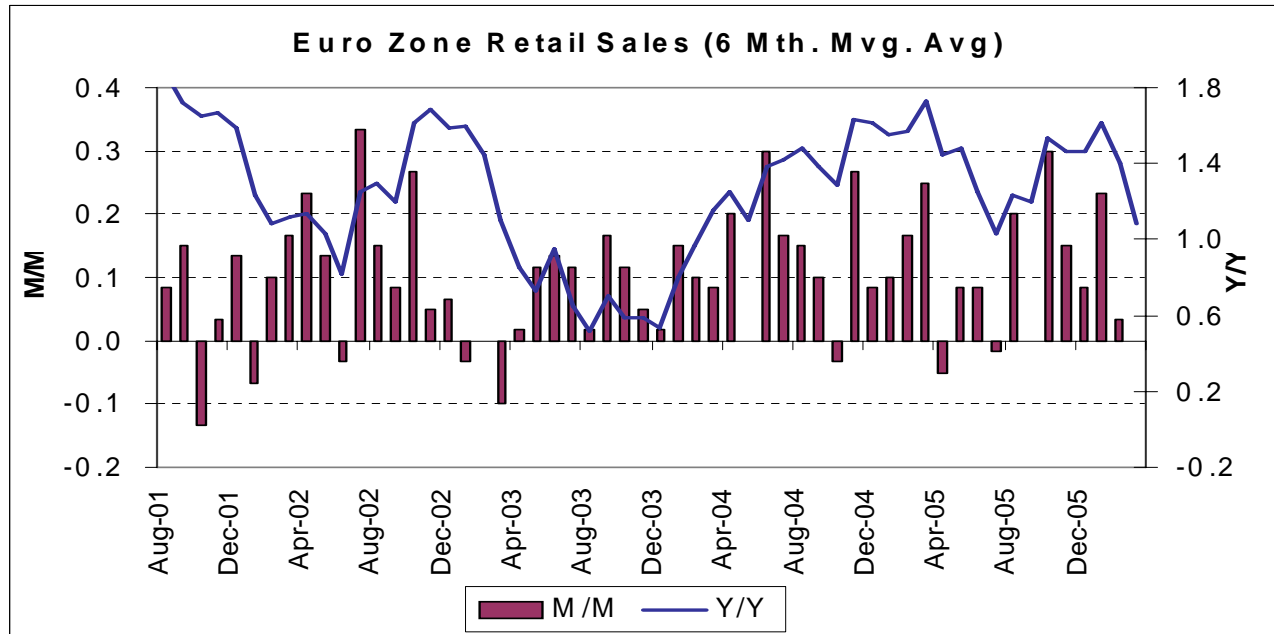
Euro Zone Retail Sales— contracted for the 2nd consecutive month in March. (page 10)

German Exports— contracted more than expected in March. (page 12)

French Industrial Production— rebounded in March after a dismal February. (page 13)

Weekly Releases & News

Chart of the Week: Euro Zone Retail Sales



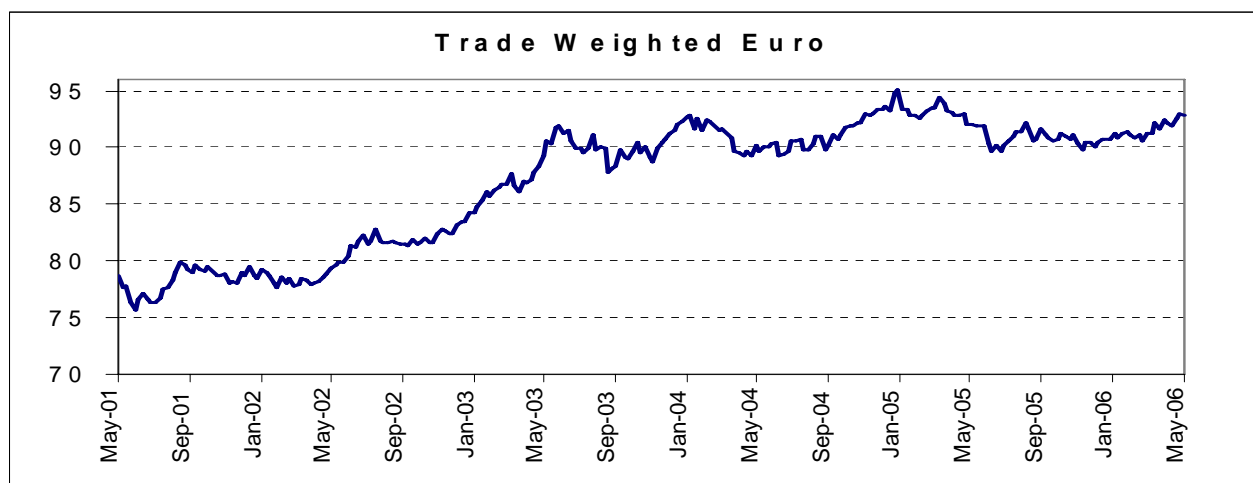
Euro Zone Retail Sales contracted M/M for the 2nd consecutive month in March, declining 0.8% M/M and 0.2% Y/Y.

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%

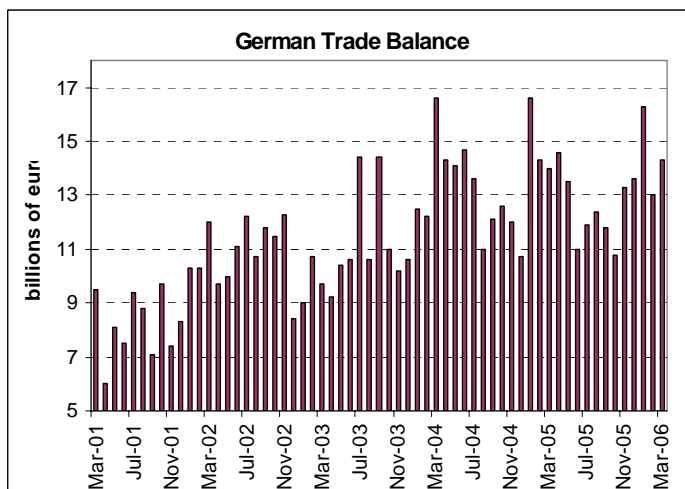
Trade Weighted Euro



German Trade & Industrial Production

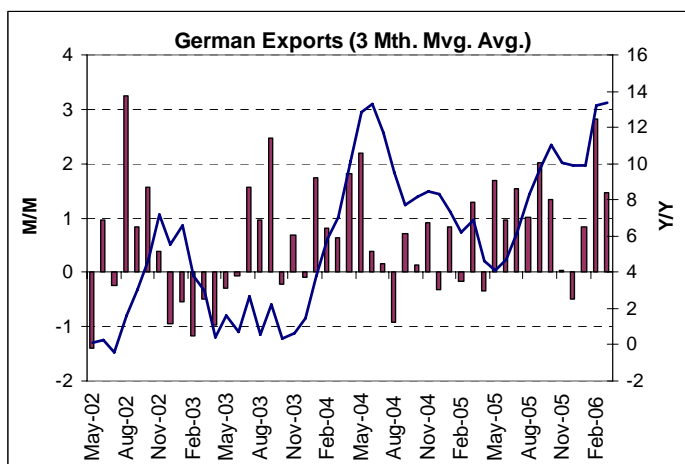
German Trade Balance

The German Trade Surplus expanded from 13 bln euros in February to 14.3 bln euros in March. The Current Account surplus narrowed from 11 bln euros to 9 bln.



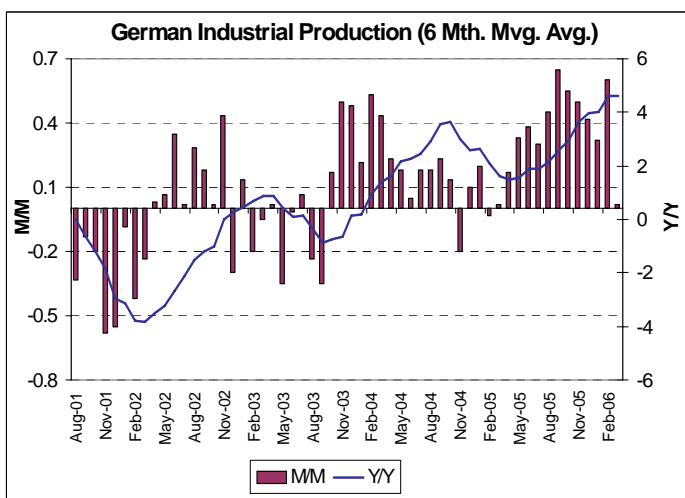
German Exports

German Exports fell more than expected in March, falling 3.2% M/M while expanding 12% Y/Y. The decline is partly due to a strong euro and partly a correction from the previous strong data. Imports fell 1.5% M/M while expanding 23% Y/Y.



German Industrial Production

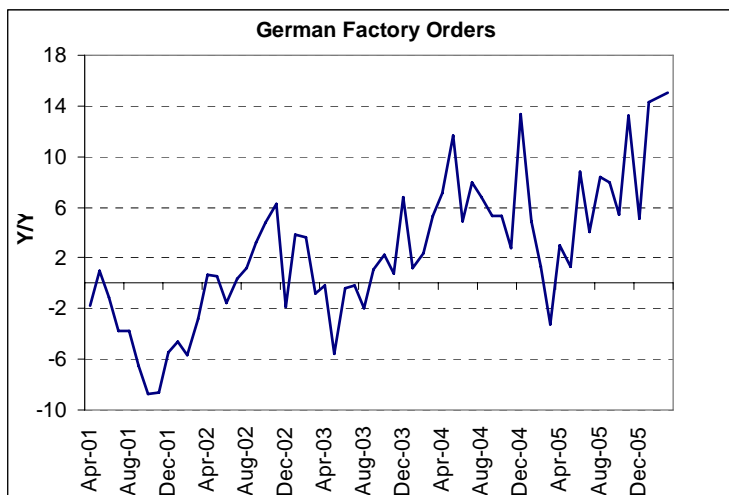
German Industrial Production contracted 2.4% M/M while expanding 3.7% Y/Y in March.



German Factory Orders, French & Spanish Ind. Production

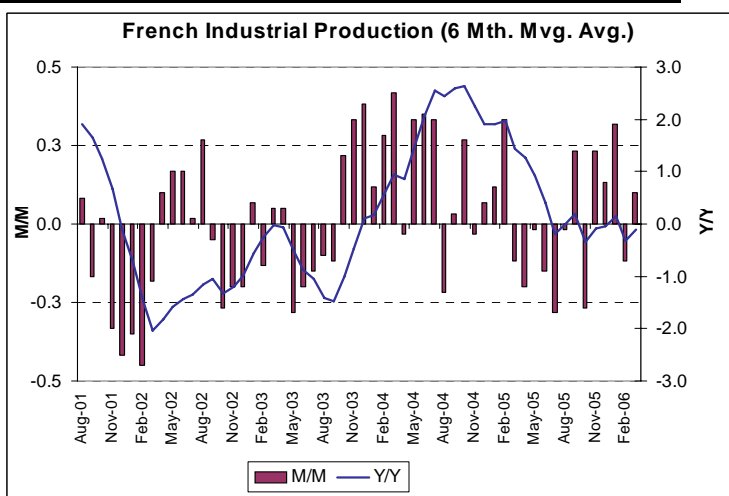
German Factory Orders

German Factory Orders expanded 15% Y/Y in March. The German Economy Ministry stated that no data breakdown was possible this month.



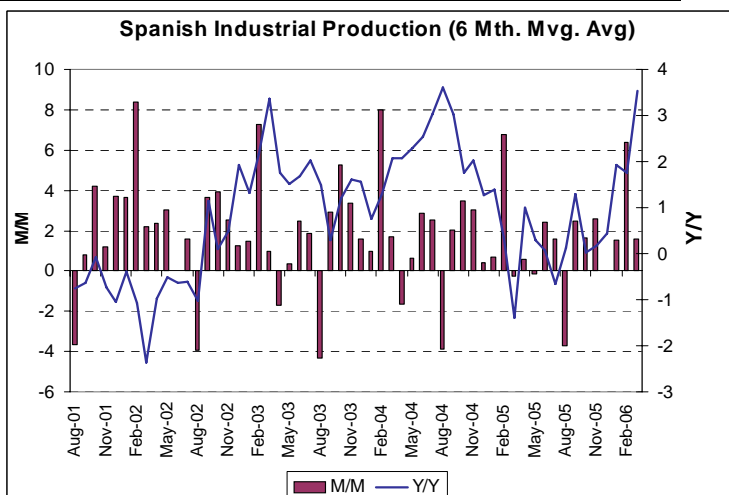
French Industrial Production

French Industrial Production expanded 1.6% M/M and 1.9% Y/Y in March, after contracting in February. German growth is aiding exports and production.



Spanish Industrial Production

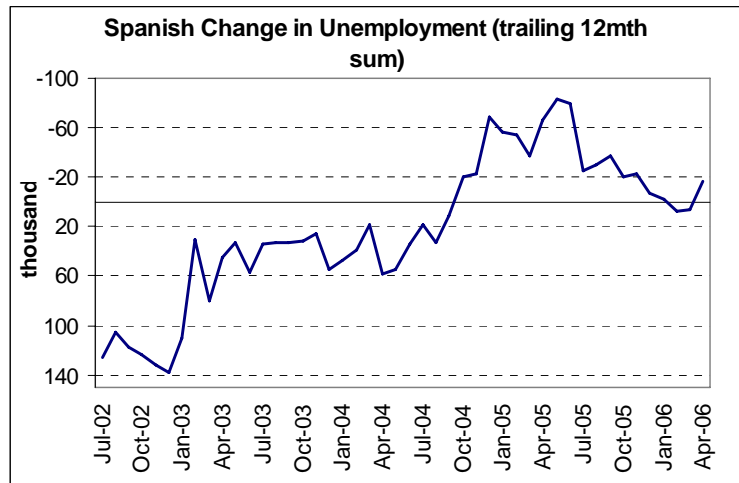
Spanish Industrial Production expanded 13.2% M/M and 10.9% Y/Y in March, the fifth consecutive month of expansion. Capital goods led the expansion.



Spanish Unemployment & Euro Zone PMI

Spanish Unemployment

Spain's Total Unemployed fell by 3.4% M/M or 72.9k in April, the third consecutive monthly decline. Spain created 2/3rds of all new jobs in the Euro Zone last year.



Euro Zone Services PMI

The Euro Zone's April Services PMI remained increased from 58.2 in March to 58.3 in April. The German Services PMI rose from 56.6 to 57.3, France's PMI fell from 60.4 to 59.4, Spain's PMI rose from 56.2 to 56.5 and Italy's PMI rose from 59 to 59.5. All components of the PMI increased.

Euro -12 Services PMI:	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	July	June
Overall:	58.3	58.2	58.2	57.0	56.8	55.2	54.9	54.7	53.4	53.5	53.1
Employment:	54.6	54.1	53.1	52.6	52.6	51.5	51.6	51.6	50.8	50.4	50.3
New Business:	57.7	56.8	56.4	55.8	55.2	53.5	54.2	54.0	52.5	52.9	52.3
Business Expectations:	66.5	65.9	66.9	69.9	66.2	64.8	64.5	63.4	63.3	62.8	63.1

News

May 10th – **Germany's DIW Institute stated that European growth** is accelerating as the export led expansion is prompting companies to spend more on equipment. The institute also raised its Q1 growth forecast from 0.3% Q/Q to 0.5% while predicting a 0.6% Q/Q expansion in Q2.

May 10th – **ECB Member Axel Weber commented that the ECB** must raise interest rates at least 25 bp to curb inflation, stating, “The monetary policy stance is still very accommodative and some further interest rate adjustments, at least 25 bp, are required with regard to the medium term outlook” Weber said that it is too early to talk about the size of any move in June. Weber also stated that he sees German growth of 1.5% this year, he sees inflation above tolerance level in the next 2 years, and that there are risks of inflation expectations becoming “unanchored”. Chief Economist Otmar Issing reiterated the comments, stating that interest rates “are extremely low, at historical lows and its unlikely that such a level continues. But where the process ends, and the speed, will depend on data. We have no fixed target and no fixed calendar.” ECB member Bini Smaghi also commented, stating that while banks should have a transparent communication policy, clear signals about interest rate movements should only be given in “exceptional circumstances.” ECB member Nicholas Garganas added that rates need to rise, that the size of the June meeting is not determined, and that they mustn't worry about the euro's impact on exports.

May 9th – **Italy's deficit may increase to 5.1% of GDP this year** according to a report by the Ref Institute. The deficit will fall to 5% next year according to the report. The Italian government had promised a deficit of 3.4% this year followed by a sub 3% figure in 2007. The report went as far as stating that in the global scenario, “Italy is in the worst shape.”

May 8th – **The EU commented that the risks to growth next year in the Euro Zone** are “tilted to the downside, with the uncertainties linked to the evolution of oil prices particularly weighing on the growth and inflation outlook.” The EU forecasted euro area growth of 2.1% in 2006 and 1.8% in 2007, unemployment at 8.4% in 2006 and 8.4% in 2007, employment up 0.9% in 2006 and 0.8% in 2007, inflation at 2.2% in both 2006 and 2007, and personal consumption up 1.7% in 2006.

May 8th – **German doctors threatened that this may be the “very last chance”** that employers have to avert strikes. The union has been asking for a 30% pay raise, better working conditions, more regular working hours, and overtime pay. Germany's doctors work 50 mln hours per year of unpaid overtime.

May 5th – **ECB member Axel Weber commented on a change to the ECB's forecasting** method that will take place in June. In June short term market interest rate expectations will be taken into account when making its growth and inflation forecasts. He noted the CIR (constant short term interest rate) assumptions do not commit the bank to follow the assumed rate path.

May 4th – **The German economy will be able to “absorb” next year's VAT hike** according to Ifo President Hans Werner Sinn. Sinn stated that the economy will continue to “grow strongly” in 2007 and probably 2008.

News & Key Dates This Week

May 4th - **The ECB left rates unchanged as expected in the May meeting** while confirming that the June hike is still on track. Trichet made the following comments:

On second-round effects:

“We have to prevent this risk from materializing, be ahead of the curve. We still don't have second-round effects materializing. That's a good thing.” I don't see at the present moment a materialization of second-round effects but we have to remain very, very vigilant.”

On inflation expectations:

“Our surveys are steady in confirming the 1.9 percent inflation rate in the medium-term basis. That's good from the standpoint of anchoring expectations. We're also looking carefully at information we can extract from financial markets. We noted a tendency to go up. It has to be looked after carefully. It's one of the reasons why we remain vigilant.”

On rate increases:

“No data is triggering a mechanistic response from us.”

On consumer spending:

“It's clear that we still have mixed signals in domestic consumption. We trust that there are very good reasons for the German and the euro-region economy to progressively have more sustainable consumer spending.”

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/11	German GDP (Q1)	0.6% Q/Q	0.0% Q/Q
05/11	Euro Zone GDP (Q1)	0.6% Q/Q	0.3% Q/Q
05/11	Spanish GDP (Q1)	0.8% Q/Q	0.9% Q/Q
05/11	Italian GDP (Q1)	0.5% Q/Q	0.0% Q/Q
05/12	French CPI (APR)	0.4% M/M	0.3% M/M
05/12	French Trade Balance (MAR)	-2.2 bln euros	-2 bln euros
05/12	Euro Zone OECD Leading Indicator (MAR)	--	108.4
05/12	Spanish CPI (APR)	1.5% M/M	0.7% M/M

Valance Co., Inc.

Valance Economic Report: Japan

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May 10, 2006

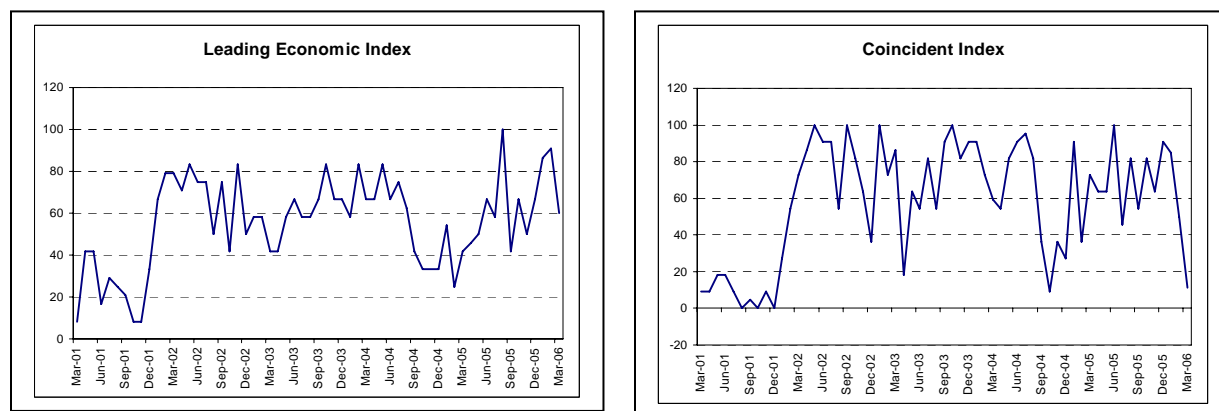
Although there were no first-tier data releases this week in Japan, indicators released suggested conditions continue to trend positive. Although the Leading Index declined, it still suggests the economy will grow in the coming months. With the balance of current account deposits held with the BoJ expected to decline below the ¥10 trln level as early as this month, we continue to look for the BoJ to end its Zero Interest Rate Policy in early Q3 2006.

Weekly Highlights

Leading Economic Index – declined from 90.9 to 60.0 in March (page 17)

Machine Tool Orders – increased 1.4% Y/Y in April (page 19)

Chart(s) of the Week: *Leading & Coincident Indices*



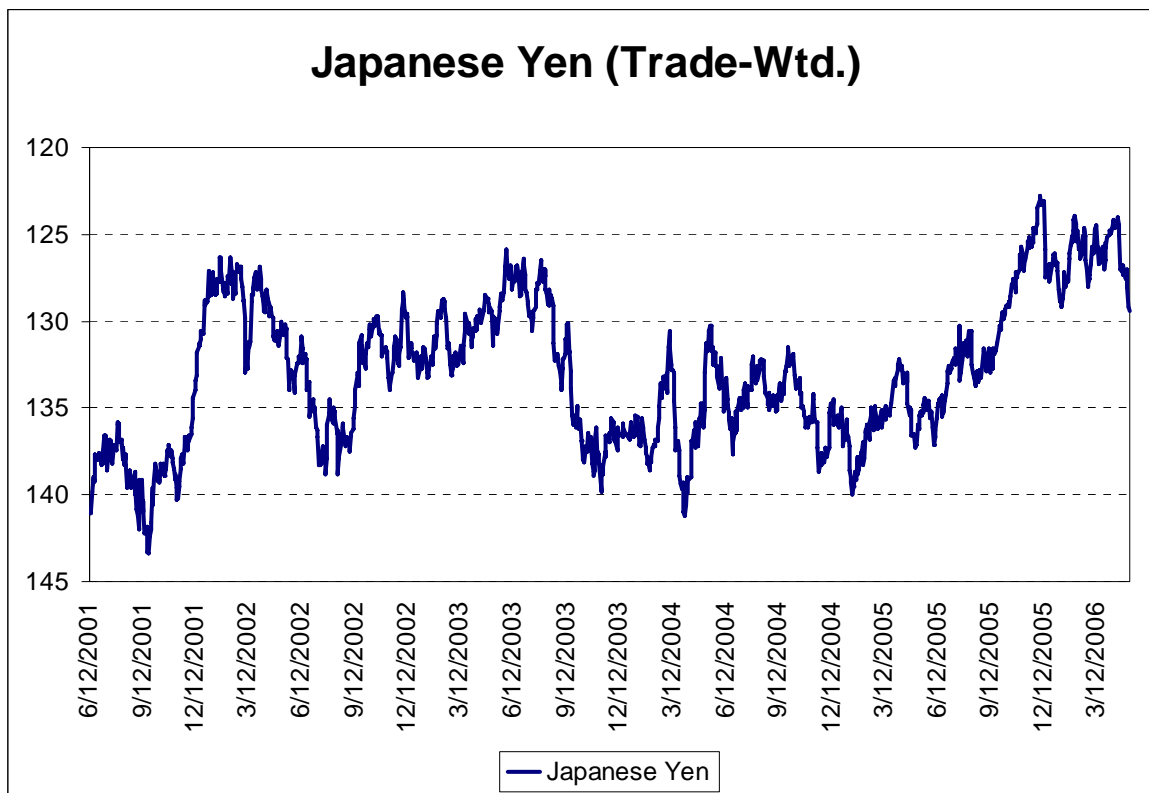
Preliminary data indicates that the Leading Economic Index in Japan declined from 90.0 in February to 60.0 in March. The Coincident Index declined from 50.0 in February to 11.1 in March. Declines in the Leading Indicator, which is derived by dividing the number of positive components by all available components, were seen in new job offers, producers' final demand, and small business sales forecasts. Declines in the Coincident Index, which tracks indicators that measure current economic activity, were seen across most sectors with the exception of manufacturing overtime, which improved. Declines in both indices met market expectations, and although the Leading Index declined, its 60.0 level suggests that the economy will continue to grow in the coming months.

Japan's Financial Balances

Financial Balances

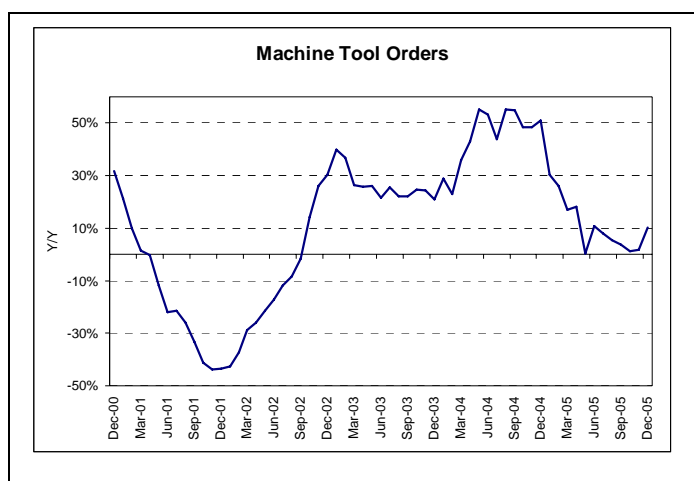
<i>Japan</i>	<i>Last period (¥trln)</i>	<i>Last 12mth. as a % of GDP</i>
Budget Balance	-3.50 (Dec)	-6.9%
Trade Balance	0.58 (Dec)	1.5%
Current Account Balance	1.87 (Dec)	3.5%
Private Balance	--	11.6%

Japanese Yen (Trade-Wtd.)



Machine Tool Orders & News

Preliminary data indicates that Machine Tool Orders increased 1.4% Y/Y in April, due to increasing foreign demand.



News

May 10th – Finance Minister Tanigaki commented on currencies, stating that “we hope to closely watch moves in the foreign exchange market...sharp rises in interest rates could have an adverse effect on the economy...recent interest rate rises have been a bit sharp.”

May 9th – According to an article released by the Nikkei, the Current Account Balance held at the BoJ may decline to ¥6-10 trln within the next few weeks, allowing the BoJ to raise its key policy rate as early as June. The Jiji Press news agency reported that the BoJ is also considering upgrading its assessment of the economy in its monthly report, due May 19th, to state that, for the first time in nearly 15 years, the economy is “expanding.” Governor Fukui commented that he will keep an open mind, stating that, “I have no predetermined notions or plans.”

May 9th – The MoF auctioned ¥1.719 trln 10-year JGBs at the lowest price of 100.25 to yield 1.969%, the highest yield in seven years.

May 8th – The total value of land in Japan increased ¼% Y/Y in 2005, the first increase in 15 years according to the BoJ. The increase was due to increasing commercial land value, which improved 4.0% Y/Y due to solid demand for office space in and near large cities. Residential land prices declined 0.9% Y/Y however.

May 4th – Asking prices for rented space in existing buildings in Tokyo and Osaka increased for the first time in two years, according to a survey conducted by Nihon Keizai Shimbun Inc. The index for existing Tokyo office rents, which sets the average asking rent in February 1985 at 100, increased from 125.78 to 137.77 in April. In Osaka, the index increased from 139.26 to 140.4 in April.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/10	Bank Lending (Apr Y/Y)	N/A	0.4%
05/12	Eco Watchers Survey: Current (Apr)	N/A	57.3
05/12	Eco Watchers Survey: Outlook (Apr)	N/A	56.2
05/14	Domestic CGPI (Apr M/M)	N/A	0.0%
05/14	Domestic CGPI (Apr Y/Y)	N/A	2.7%
05/14	Export Price Index (Apr M/M)	N/A	-0.3%
05/14	Export Price Index (Apr Y/Y)	N/A	4.3%
05/14	Import Price Index (Apr M/M)	N/A	-0.5%
05/14	Import Price Index (Apr Y/Y)	N/A	22.3%
05/14	Current Account Total (Mar)	N/A	¥2208.78 Bln
05/14	Ad. Current Account Total (Mar)	N/A	¥1674.3 Bln
05/14	Trade Balance – BoP Basis	N/A	¥1090.9 Bln
05/15	Machine Orders (Mar M/M)	N/A	3.4%
05/15	Machine Orders (Mar Y/Y)	N/A	8.2%
05/16	May Monthly Economic Report	N/A	N/A
05/16	Consumer Confidence (Apr)	N/A	48.2
05/16	Consumer Confidence Households (Apr)	N/A	47.9
05/16	Machine Tool Orders (Apr)	N/A	1.4%
05/17	Tokyo Condominium Sales (Apr Y/Y)	N/A	13.4%
05/17	Industrial Production (Mar M/M)	N/A	0.2%
05/17	Industrial Production (Mar Y/Y)	N/A	3.1%
05/17	Capacity Utilization (Mar)	N/A	104.4
05/17	Bankruptcies (Apr Y/Y)	N/A	10.0%
05/17	BoJ Monetary Policy Meeting	N/A	N/A

Valance Co., Inc.

Valance Economic Report: United Kingdom

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May 10, 2006

The Quarterly *Inflation Report* was more dovish in tone than expected as the near and mid-term growth forecasts were balanced and though the MPC increased their near-term inflation forecast due to increases in oil and utility prices. House Prices continue to rebound as the HBOS measure surged to record levels, though the BoE cited that house prices are likely to moderate over the summer.

Weekly Highlights

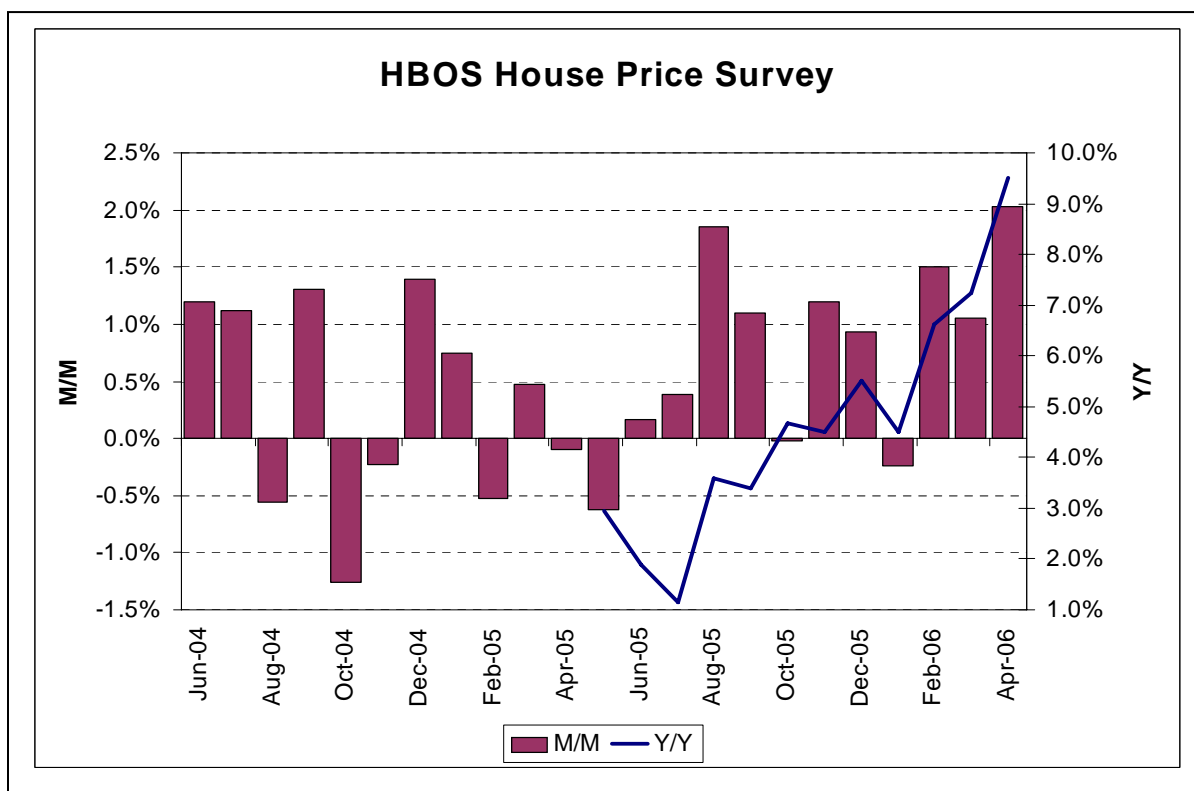
HBOS House Prices- surprisingly increased 2.0% M/M and 9.5% Y/Y in April. (page 21)

PMI Services- jumped from 57.4 to 59.7 in April with broad strength in the subcomponents. (page 25)

BoE Quarterly Inflation Report. (page 25)

Weekly Releases & News

Chart of the Week: *HBOS House Price Survey*



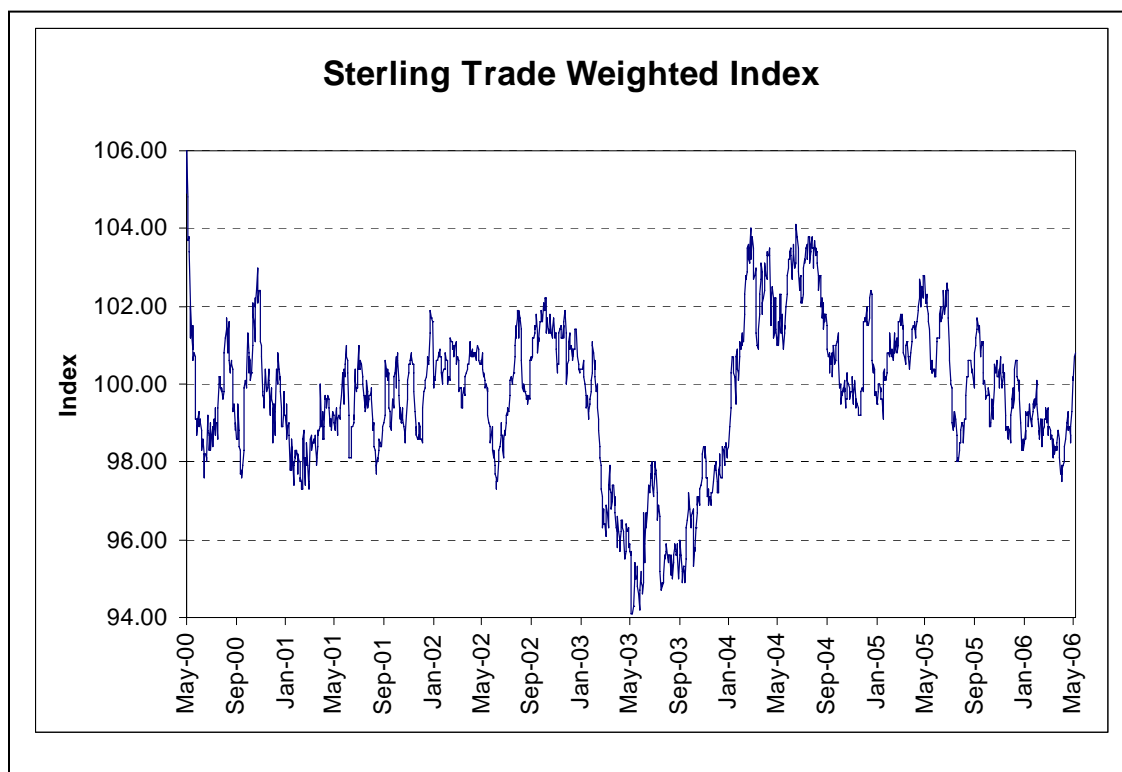
HBOS House Prices surprisingly increased 2.0% M/M and 9.5% Y/Y in April, though the BoE forecasts house price growth to moderate in the second half of the year.

21

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Financial Balances & Trade Weighted Index

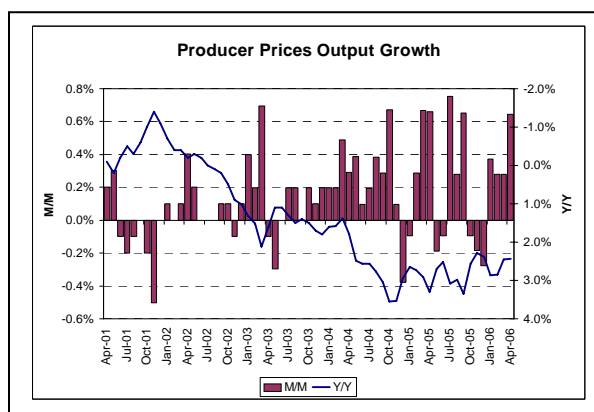
<i>U.K.</i>	<i>Last Period (blns)</i>	<i>Last 12mth. % of GDP</i>
Budget Balance (monthly)	£6.9 (Mar)	+2.4%
Trade Balance (monthly)	-£4.8 (Feb)	-1.7%
Curr. Acct. Balance (quarterly)	-£11.0 (Dec)	-3.9%
Private Balance	--	-6.3%



Producer Prices & Overnight Rate

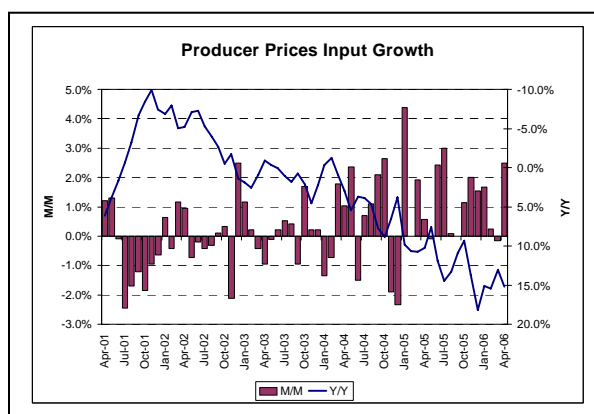
Output Producer Prices

Output Producer Prices increased 0.6% M/M and decelerated from 2.5% Y/Y to 2.4% Y/Y in April. The ONS attributes some of the annual deceleration to changes in duty taxes in the last Budget Report that have not come into full effect as yet. Core Output Prices increased 0.4% M/M and 2.3% Y/Y.



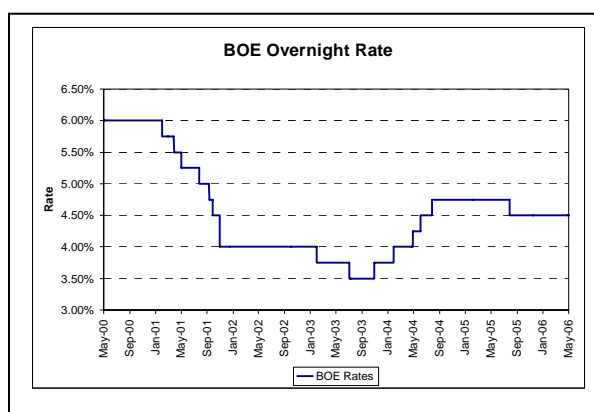
Input Producer Prices

Input Producer Prices increased 2.5% M/M and 15.2% Y/Y in April, its largest M/M increase in nine months. Crude oil prices surged 10.6% M/M and imported metal prices increased 4.4% M/M, the sharpest increase in two years. Core Input Prices increased 0.3% M/M and 10.2% Y/Y.



BoE Overnight Rate

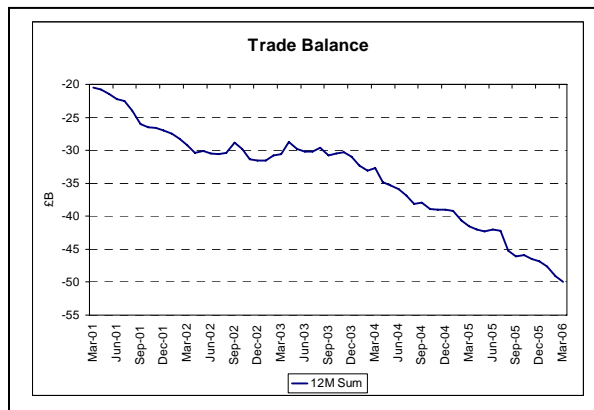
The MPC voted to leave rates unchanged at 4.50% for the ninth consecutive month in May.



Trade Deficit

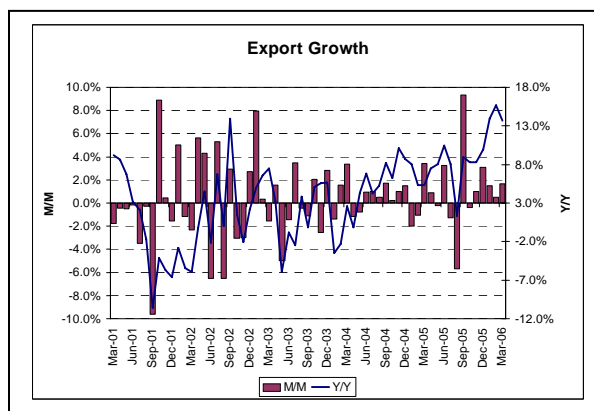
Trade Deficit

The Trade Deficit decreased from £5.4 bln to £3.8 bln in March, the first decrease in five months as exports of cars and oil increased.



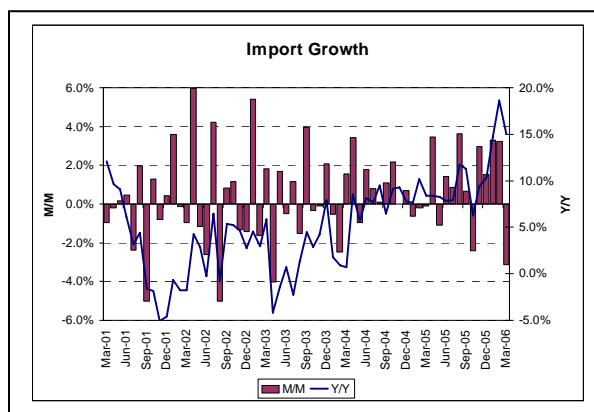
Export Growth

Exports increased 1.7% M/M and 13.7% Y/Y in March.



Import Growth

Imports decreased 3.1% M/M and increased 15.0% Y/Y in March.



Data & Quarterly Inflation Report & Comments

Data

PMI Services

PMI Services jumped from 57.4 to 59.7 in April with broad strength in the subcomponents. New Business increased from 57.2 to 58.8, a two year high as outstanding business increased from 51.4 to 52.6. Employment increased from 52.1 to 52.8, its highest level in nine months and business expectations increased from 72.9 to 74.3.

BRC Retail Sales

BRC Retail Sales increased 2.9% 3M/3M and 9.8% Y/Y in April as the timing of Easter this year and warmer weather boosted mainly the clothing and DIY sectors. BRC stated that discounts continue to drive housing-related and big-ticket items.

Net Lending Secured on Dwellings

BoE Net Lending Secured on Dwellings increased 0.9% M/M and 10.8% Y/Y in March, the highest annual rate since November 2003.

BoE Mortgage Approvals

BoE Mortgage Approvals increased 1.8% M/M and 27.4% Y/Y in March, the sharpest annual increase in over a year.

BoE Quarterly Inflation Report

The BoE released their *Quarterly Inflation Report* which was more dovish than expected in tone. The Bank's growth forecasts stand at 2.4% in 2006 and 2.8% in 2007/2008. In their forecast, consumer spending growth was modest due to real incomes being reduced from higher energy prices and some additional downside risks from higher debts. The Bank increased its near-term inflation forecast to 2.3%-2.4% Y/Y in Q4 2006/Q1 2007 due to large increases in oil and utility prices. However, they did not change their medium-term forecast of CPI remaining at 2.0% from early 2008 thru mid-2009 under the assumption that a fall in energy price inflation will be offset by higher "domestically generated non-energy" inflation.

Comments

BoE Governor Mervyn King

BoE's Governor Mervyn King commented that, "given the overall outlook, the Committee decided last week to leave interest rates at their present level. But it remains ready to take whatever action is necessary in order to keep inflation on track to meet the target in the medium term." In addition, he commented that, "there are downside risks stemming from uncertainty about the speed and extent of any fall in inflation as energy prices stabilize. And there is continuing uncertainty about the extent of any spare capacity in the economy." In regards to the housing market, King stated, "It's not something...which is a major factor, but if it were to rise further then it would become one."

News

May 9th - Monster Employment Index - Online job recruitment activity and related employment opportunities across the United Kingdom decreased in April, as the U.K Monster Employment Index. revealed a decline in online hiring activity for the second month running. The Index fell five points to 115 this month, mostly due to fewer opportunities for workers across a variety of sectors including IT, public sector, defense and community, as well as sales. Nevertheless, Y/Y growth in the UK is up 13 points.

May 9th - England, Wales Q1 House Price Growth Accelerates - House price increases in England and Wales quickened in the first quarter, adding to signs that a revival in the \$6 trln property market is strengthening. The average cost of homes rose 5% in the three months ending March 31st from a year earlier to £192,745 (\$358,000), compared with a 4.6% in the fourth quarter, the government's Land Registry office said today.

May 5th - Individual Bankruptcies Rose 13% to All-Time High in First Quarter - Personal bankruptcies in England and Wales rose 13% in Q1 from the previous three months as a credit binge left a record number of people unable to service their debts. Individual insolvencies in the three months through March totaled 23,351, up 73% Y/Y and the highest since records began in 1960, the Department of Trade and Industry's insolvency agency said.

May 5th - U.K. April New Car Sales Fall 9.1% M/M - U.K.'s New Car Sales fell 9.1% M/M in April after higher fuel costs and slowing economic growth discouraged potential buyers, the carmakers' association said.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/11	Industrial Production	0.2% M/M 0.0% Y/Y	-0.3% M/M -1.5% Y/Y
05/11	NIESR GDP Estimate	--	0.6%
05/14	Rightmove House Price Survey	--	1.1% M/M 4.1% Y/Y
05/15	ODPM House Price Survey	--	3.6% Y/Y
05/15	Leading Indicator	--	--
05/15	Coincident Indicator	--	--
05/15	RICS House Price Survey	--	13%
05/16	CPI		0.2% M/M 1.8% Y/Y
05/17	MPC Minutes	--	--
05/17	Claimant Count	--	3.0%
05/17	Jobless Claims Change	--	12.6k
05/17	Average Earnings	--	4.2% 3M/3M 3.8% Y/Y

Valance Co., Inc.

Valance Economic Report: *Canada*

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May 10, 2006

Canada's economic data continues to surprise to the upside. Employment growth increased above expectations, leaving the unemployment rate hovering around a 30 year low. Moreover, New House Prices posted its strongest annual growth since 1990. However, a decline in Housing Starts and the steady appreciation of the CAD against the USD, over the past week, have left the market puzzled on the BoC's future interest rate moves. On the back of solid economic data, we expect a 25 bp hike this month and our view remains tilted towards another hike before year end.

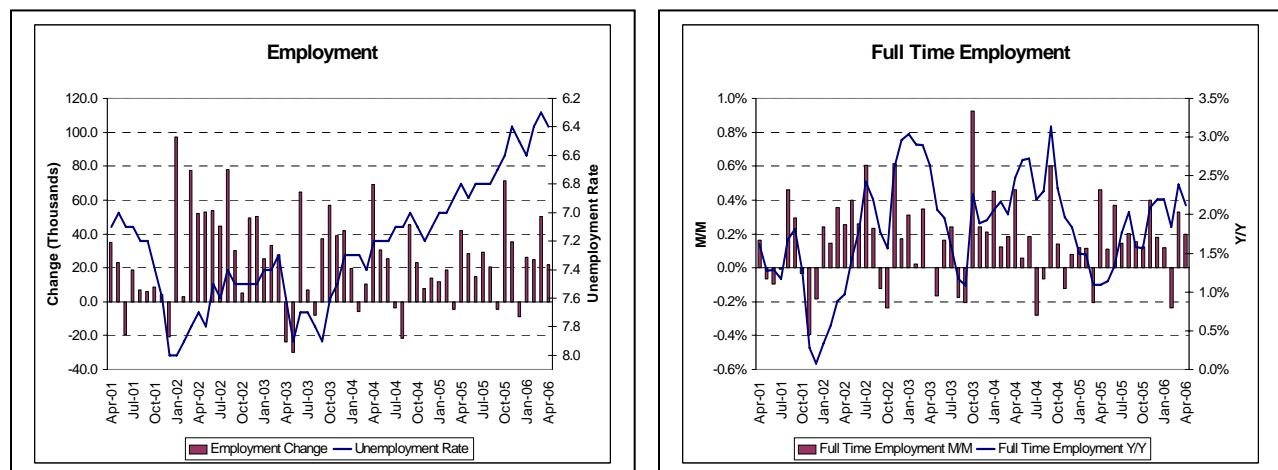
Weekly Highlights

Canadian economy - gained 22.0K jobs in April, above expectations. (page 28)

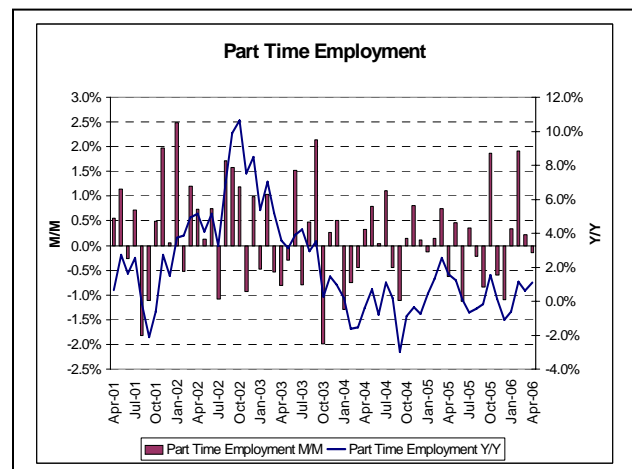
New House Prices - increased 1.0% M/M and 7.6% Y/Y in March. (page 30)

Weekly Releases & News

Chart(s) of the Week: *Real GDP*



The Canadian economy gained 22.0K jobs in April, above expectation for 15.0K jobs. The employment rate remained at a record 62.9%. Full time employment increased by 26.4K jobs, while part time employment decreased by 4.5K jobs. The Unemployment Rate ticked up from a 32 year low of 6.3% to 6.4%, as more people entered the labor force. This level, however, is still at a 30 year low. So far during 2006, employment has been up 124K or 0.8%, compared to employment growth seen in the first four months of last year.

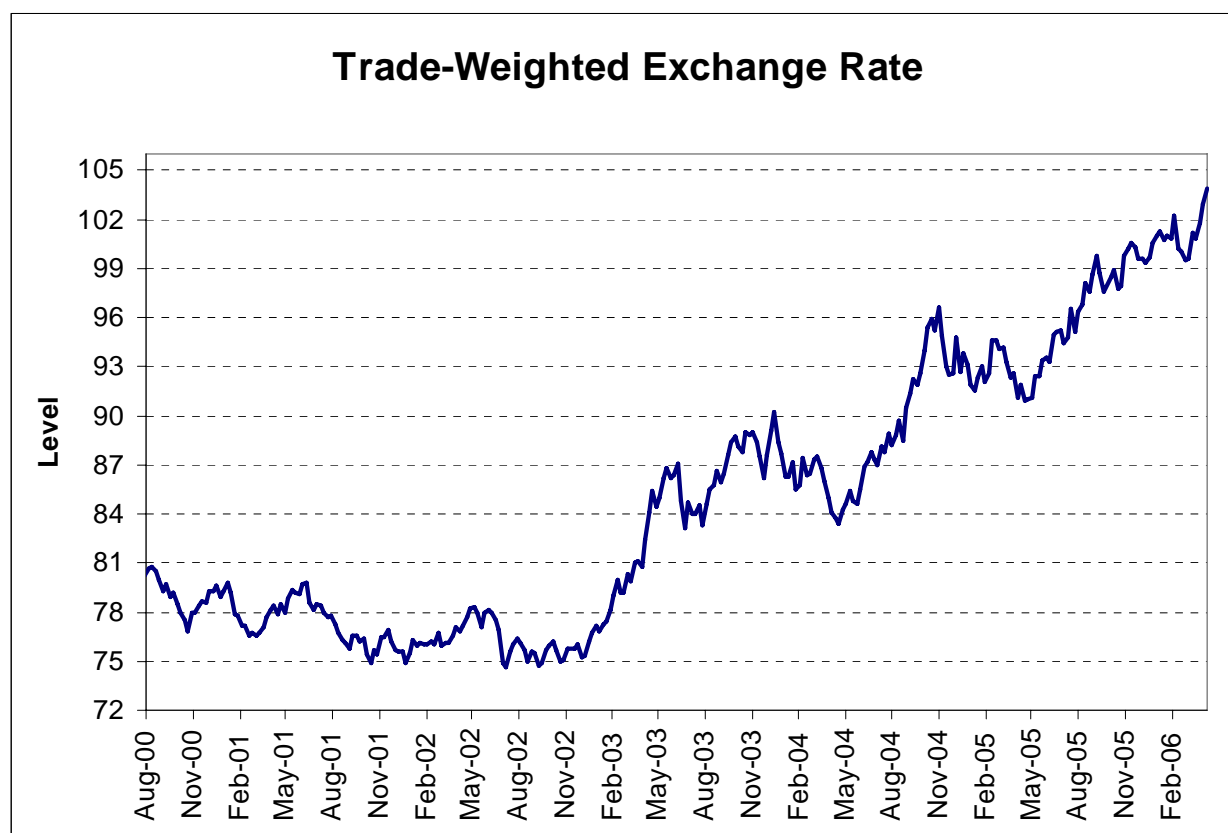


Financial Balances & Trade Weighted Exchange Rate

Financial Balances

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

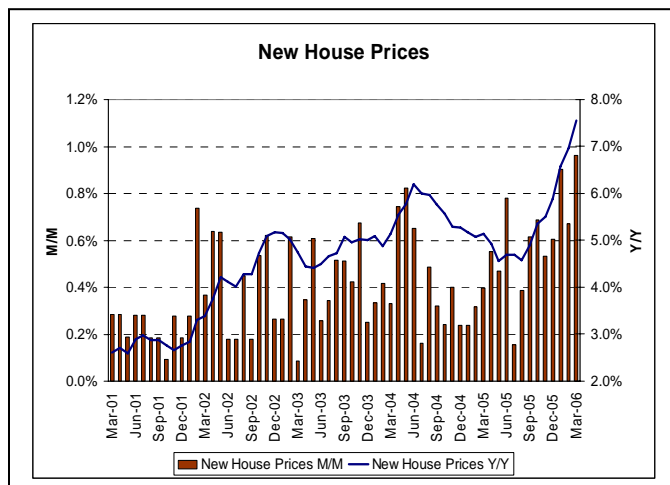
Trade-Weighted Exchange Rate



New House Prices, Housing Starts & Building Permits

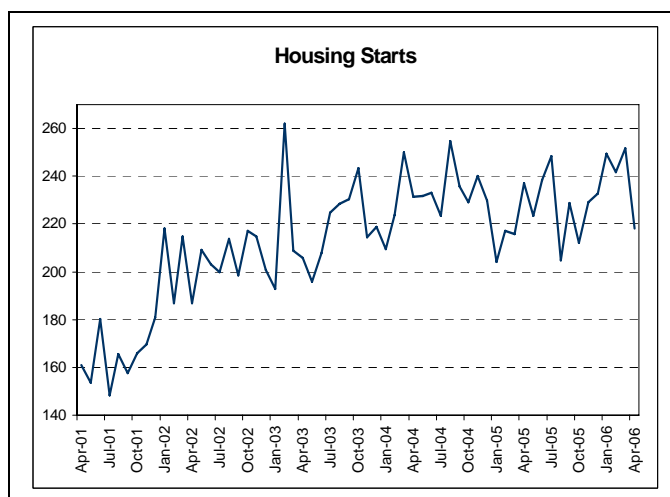
New House Prices

New House Prices increased 1.0% M/M and 7.6% Y/Y in March, their fastest annual pace in 16 years. The gain was mostly attributed to high demand for new housing, coupled with higher material and labor costs. A shortage of serviced lots was also cited as a reason for the strong increase in New House Price growth.



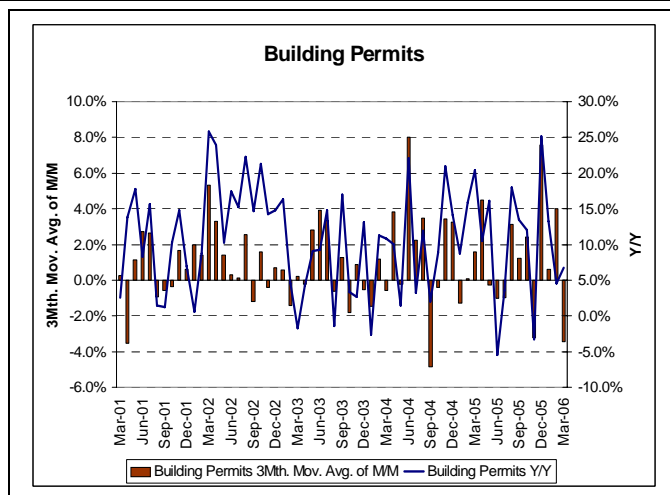
Housing Starts

Housing Starts decreased 13.8% M/M and 8.1% Y/Y in April, as builders curtailed apartment and condominium projects. However, this decline follows the best quarter for housing construction in 18 years. Housing Starts are expected to bounce back as increasing wages and solid job market support an increase in demand for new houses.



Building Permits

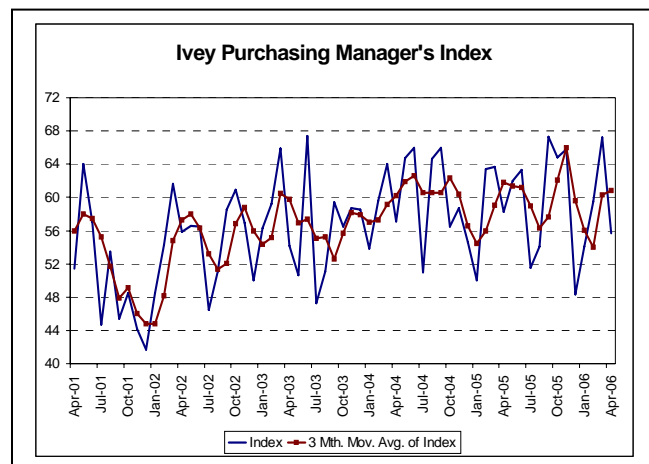
Building Permits increased 5.3% and 6.7% Y/Y in March, as construction intentions remained high in the non-residential sector.



Ivey Purchasing Managers' Index & News

Ivey Purchasing Managers' Index

The Ivey Purchasing Manager's Index decreased from 67.2 in March to 55.7 in April. Expectations were for a reading of 59. The Price Index increased from 66.9 to 72. The employment measure increased 61.5 to 63.3 and the supplier-deliveries measure increased from 44.6 to 44.8. The inventory gauge decreased from 62.1 to 59.8. Despite this slowdown, the index remained above the 50 mark expansion level.



News

May 9th – Strong productivity gains in 2005 – Canada's labor productivity increased a solid 2.2% in 2005, twice the average annual productivity growth in the 2000 to 2005 period. The number of hours worked in the manufacturing sector decreased 3.4% in 2005, while productivity increased 5.7%.

May 3rd - Interest Rates May Rise Further, BoC's Governor Dodge Says – The Bank of Canada's Governor, David Dodge, reiterated that "Some modest further increase in the policy interest rate may be required to keep aggregate supply and demand in balance and inflation on target over the medium term." Dodge noted that Canada's economy is operating "at capacity or maybe slightly above." On further appreciation of the Canadian dollar versus the U.S. Dollar, Dodge commented that "Markets often tend to overshoot but in our experience market analysts are prone to much greater overshooting than markets themselves." He repeated that there will be a "gradual" depreciation of the U.S. dollar and the Canadian dollar will only make up a "small fraction" of the gains that other currencies will make against the U.S. dollar.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/12	Int'l Merchandise Trade (MAR)	C\$5.1	C\$5.3
05/15	New Motor Vehicle Sales (M/M) (MAR)	1.0%	-0.4%
05/15	Manufacturing Shipments (M/M) (MAR)	0.6%	-2.2%
05/17	Wholesale Sales (M/M) (MAR)	0.7%	-1.1%

Valance Co., Inc.

Valance Economic Report: Australia

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May 10, 2006

Exports received a setback and retail sales moderated in March. Job ads fell and the government delivered its 3rd straight year of tax cuts.

Weekly Highlights

Trade Deficit – expanded to A\$1.55bln in March from A\$415mln in February. (page 33)

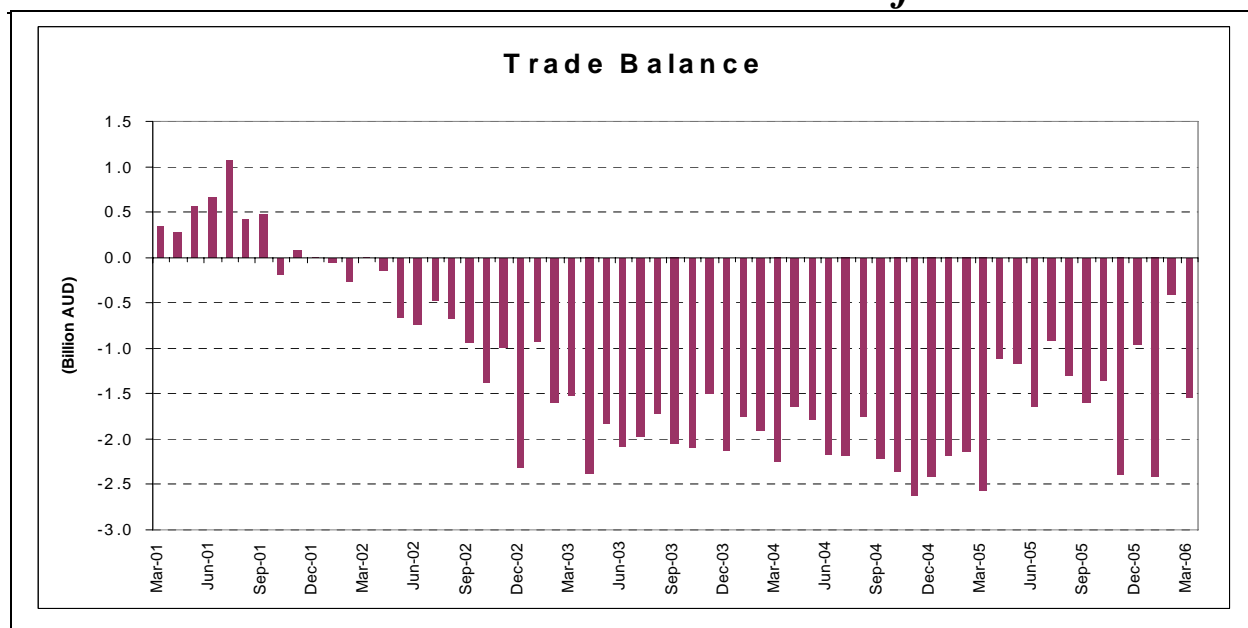
Retail Sales – rose 0.3% in March. (page 34)

Building Approvals – rose 2.0% M/M and fell 8.4% Y/Y in March. (page 34)

ANZ Job Advertisements – fell 5.0% M/M and 12.6% Y/Y in March. (page 35)

Weekly Releases & News

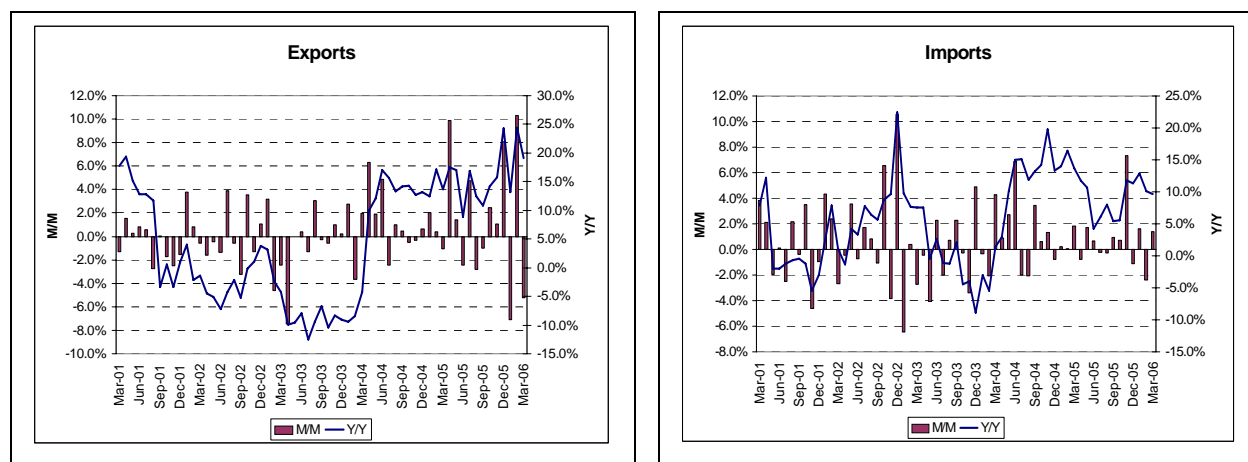
Chart of the Week: *Trade Deficit*



The trade gap expanded to A\$1.55bln in March from a revised A\$415mln (previously A\$595mln) in February. Imports rose 1.4% M/M and rose 9.7% Y/Y in March. Exports fell 5.2% M/M and rose 19.2% Y/Y in March. Exports have still been recovering from the cyclones that disrupted ore and coal mines, oil rigs and ports back in February. Farm exports, such as meat, sugar, wheat and wool, rose 7% in March. Shipments of non-rural goods, which include minerals, fell 9%.

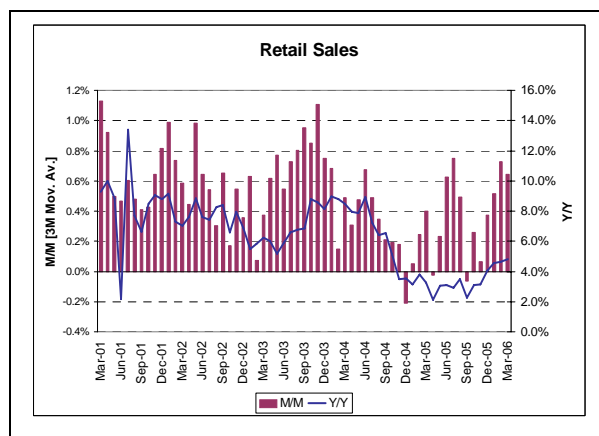
Exports, Imports, Retail Sales & Building Approvals

Exports & Imports



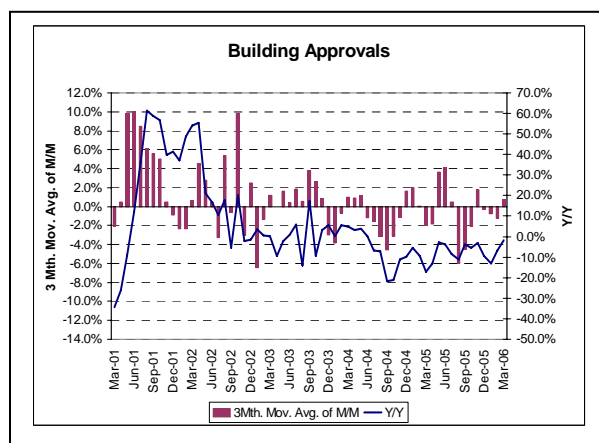
Retail Sales

Retail Sales in March rose 0.3% from February, when they gained 0.7% and 4.8% Y/Y.



Building Approvals

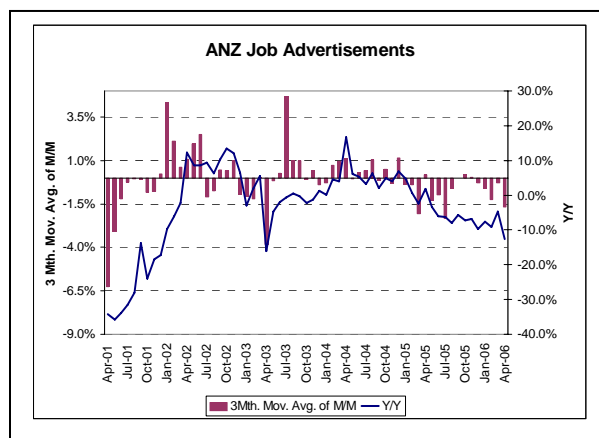
Home-building approvals gained 2.2% M/M and fell 1.7% Y/Y in March. An index indicating whether consumers think that currently it's a good time to buy a house gained 29.2% in March from a year earlier.



ANZ Job Advertisements, RBA Cash Target & Comments

ANZ Job Advertisements

The number of jobs advertised in Australian newspapers declined 5.0% M/M, and 12.6% Y/Y in April. This is the lowest figure in three years, suggesting that the unemployment rate may increase.



Comments

Australian Income Taxes cut A\$36.7bln (05/09/2006):

- Australia cut income taxes by A\$36.7bln (\$28bln) to help households, whose spending power has been curbed by higher gasoline prices and mortgage rates.
- Treasurer Peter Costello cut taxes for the third consecutive year while forecasting a budget surplus of A\$10.8bln in the fiscal year starting on July 1st. He forecast economic growth to accelerate to 3.25% from 2.5% this fiscal year.
- Peter Costello said the tax cuts won't force the RBA to increase interest rates again, reasoning that the net effect of the Australian budget, because it is saving rather than borrowing, is that it puts downward pressure on interest rates, not upward.
- Costello also said that he didn't see much fiscal stimulus at all in this package and that it's quite consistent with solid growth, but certainly not unsustainable growth."

Comments from Australian Treasurer Peter Costello (05/07/2006):

On the government budget and interest rates:

- "We've got to keep the bottom line strong, that's a big part of keeping interest rates in Australia low."
- "If we have a budget in surplus, that means the government isn't borrowing, the government isn't driving up interest rates, the government is saving. The Australian government is doing its bit."
- "The budget will be aimed squarely at the future, the future for families."

On March Retail Sales:

- "Retail sales were a little softer than was expected."
- "It shows the economy is still ticking along, but not ticking along in any unsustainable way."
- "Consumption is a little weaker in Australia than it has been for some years and that's actually a welcome thing."

Comments Cont. & Upcoming Dates

The RBA Says Rate Rise to Damp Prices (05/05/2006):

The RBA basically repeated what it said with the release of the Cash rate last Wednesday. The main message was that its first interest-rate increase in 14 months will help damp inflation, suggesting that it may refrain from raising borrowing costs again before Governor Ian Macfarlane retires in September. The RBA kept its forecast for core inflation unchanged at 2.75% after boosting its benchmark interest rate to a five-year high. The bank said that economic growth will accelerate to between 3% and 3.5% this year and next.

- “Taking into account the expected dampening effect of the May policy tightening, the forecast for underlying inflation is broadly unchanged at 2.75.”
- “Inflation risks had increased sufficiently to warrant an increase in the cash rate. The board will continue to monitor developments and make such adjustments as required.”
- “The combination of strong global conditions, tight capacity and solid demand growth in the domestic economy has added to inflationary pressures.”
- “GDP growth is forecast to accelerate to an annual rate of 3% to 3.5% over the forecast period to the end of 2007, helped by stronger export growth.”
- “There are some signs that consumer spending may be starting to pick up. Employment has picked up recently, which should support household incomes.”

Note:

Stoking demand for the nation's commodities, China's economy expanded 10.2% in Q1 from a year earlier. Australia supplies 43% of China's iron ore and more than 40% of its coal.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/10	Unemployment Rate (APR)	---	5.0%
05/11	Home Loans (MAR)	---	1.1%
05/11	Investment Landing (MAR)	---	2.0%
04/11	Westpac Consumer Confidence (APR)	---	110.7

Weekly Economic Report: *China*

La-Toya C. Elizee

May 10, 2006

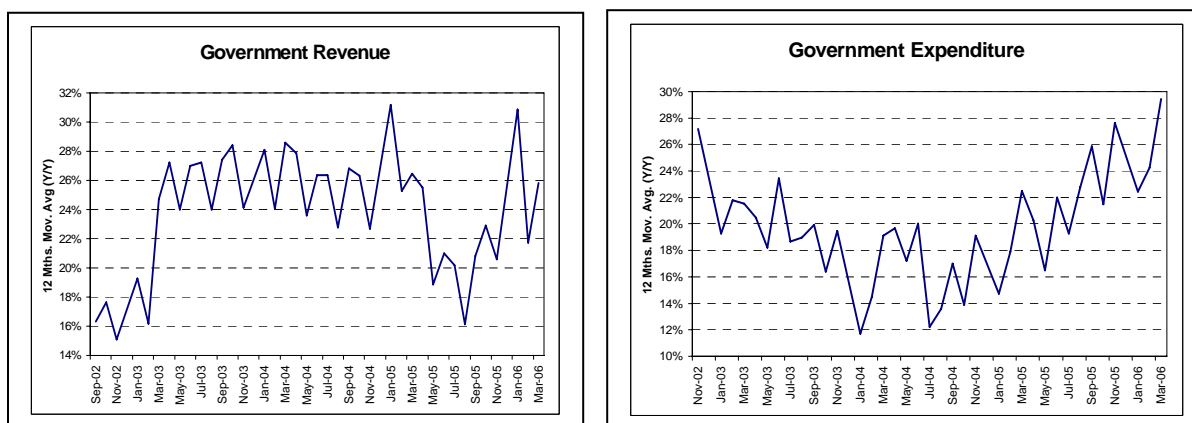
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China's Government Revenue and Expenditure both increased in March. The World Bank, in its quarterly report, raised its 2006 growth estimate for China from 9.2% to 9.5%. Meanwhile, the IMF called for China to allow its currency more flexibility to help reduce imbalances and to implement monetary policy.

Weekly Releases & News

Chart(s) of the Week: *Government Revenue & Expenditure*



Government Revenue increased from 21.7% Y/Y to 25.8% Y/Y on a 12mth. mov. avg. in March. For the same month, Government Expenditure increased from 24.3% Y/Y to 29.5% Y/Y on a 12mth. mov. avg.

News Releases

May 10th – World Bank Raises Its 2006 Growth Estimate - The World Bank, in its quarterly report, raised its 2006 growth estimate for China from 9.2% to 9.5%, for the second time in two months. It had predicted an 8.7% growth rate in March. The Bank is also encouraging China's government to control investment in areas such as real estate. "More policy action is needed to keep credit and investment growth in check, mitigate external imbalances and to entrench rebalancing of growth patterns," the Bank said in its report. The Bank left its 2007 growth forecast unchanged at 8.5%, with expectations of "a slowdown to set in toward the middle of this year," stated Louis Kuijs, World Bank Senior Economist.

May 10th – State Information Centre Predictions for Q2 & Q3 - A report published by the State Information Centre stated that China's economic growth is expected to maintain its fast pace in 2006. The Centre predicts growth of 9.8% Y/Y in Q2 and 10.0% in Q3 suggesting that China's economy may be in danger of overheating. The Centre also reported that export growth will experience a slowdown in Q2 and Q3, while import growth will pick-up. China's trade surplus is also expected to grow \$29.1 bln in Q2 and \$32.8 bln in Q3. Fixed Asset Investment is forecast to remain strong at 27.0% in Q2 and 26.7% in Q3. The Centre added that CPI will rise 1.5% in Q2, 1.7% in Q3 and 1.5% for the entire year.

May 9th – CPI Predictions - China Securities Journal reported that the National Development and Reform Commission (NDRC) expects consumer prices to rise at a slower pace, to less than 1.0% in Q2 due to lower food prices. The Journal also stated that the yuan's appreciation will lead to lower prices of imported goods which will further slow consumer prices.

May 8th – IMF States That China Should Allow More Flexibility in Yuan - The IMF stated that China should allow its currency more flexibility to help reduce imbalances and to implement monetary policy. Assistant Director of the IMF, Josh Felman, commented, "China should increase its exchange-rate flexibility." Felman added, "More flexibility will lead to the appreciation of the yuan." "The problem with very limited exchange rate flexibility is that you lose the ability to implement monetary policy" and "It is very hard to raise interest rates to control investments because if you do that there will be more capital inflows," Felman remarked.

May 8th – Finance Minister's Comments at Annual ADB Meeting - China's Deputy Minister of Finance, Li Yong, stated at the yearly meeting of the Asian Development Bank, that he expects China's economy to grow by 9.5% in 2006. Yong also mentioned that China's government is considering raising interest rates for a second time this year to prevent the economy from overheating. Yong added that China is "quite concerned" about global imbalances and that investment in pension and other social security programs should encourage consumption and "gradually" eliminate the imbalances.

News Releases (cont'd.)

May 4th – Comments from the Asian Development Bank's Chief Economist, Ifzal Ali, on China's Currency, Trade Surplus –

On faster yuan appreciation: “Last year we did a simulation. We looked at the effect of a 10- or 20 percent appreciation in China's currency, not only on rest of Asia but the U.S. What we found was that a

sharp currency appreciation in China of 10-20 percent would cut down their trade balance marginally, but this would immediately [be] compensated by [an] increase in exports from [the] rest of Asia to the U.S. and it would do nothing to their trade balance. When we are talking of global imbalances, one country changing its exchange rate won't do anything to the issue. So we come back to dealing with the real sector of the economy, this has to be done across all parties.”

On whether Asia is doing enough to address global imbalances: “If you look at what happened in 2005 and what may happen in 2006 and 2007, in the context of higher oil prices, the current account surpluses of Asian countries are already beginning to come down in absolute terms and also as a percentage of GDP. The exception of course is China, because its trade surplus went up very sharply last year. With the end of multi-fiber agreement their garment exports shot up significantly. What happened is import growth slowed significantly, leading to increase in trade surplus. This is one-off because in [the] second half we saw restraints being put on Chinese exports. So we will have to see how it works out this year.”

On China's efforts to increase consumption: “China's five-year plan will have an impact in 3- to 5 years time. They will, I think, slow their growth rate. Second, with emphasis on improvements in rural areas and in the quality of life in those areas, we will see an increase in the share of domestic consumption compared to what it is now, so the balance between consumption and investment, which is totally out of sync at the moment, will probably come back. They will mover gradually, putting medium-to-longer terms solutions in place.”

On need for a more flexible Chinese currency: “While greater flexibility in exchange rate is desirable it cannot be done independently of these other measures that they have to take. Together we will eventually see some unwinding of some of their current account surplus.”

On the risk of abrupt adjustment to global imbalances: “The risk has been there for three or four years. The disorderly adjustments may occur due to movements in the financial markets and financial market movements are, to a very large extent, driven by expectations. So far the expectations have favored the U.S., but expectations can change very quickly. And what will trigger a change? Your guess is as good as mine. “If you have real sectors of the economy involved, rather than financial markets, then the adjustments will be smoother.”

On why global imbalances are a concern: “Global imbalance are a big concern primarily because there will be a trigger point when the financial markets' expectations will change -- because of concern over what would happen to the U.S. economy due to its twin deficits and that these could lead to a recession. Or, if there is any doubt that the rest of the world would stop financing these deficits. That could lead to very significant changes. It is for that reason that it is something to avoid, but something for which countries should also be prepared.”

News Releases (Cont'd.) & Upcoming Dates

News Releases (Cont'd.)

May 4th – Comments from U.S. Treasury Undersecretary for Internal Affairs, Tim Adams on Chinas' Exchange Rate Policy and the U.S. Fiscal Deficit –

On pace of China's foreign exchange mechanism changes: “There is the risk on the political side of protectionism around the world and frustration in many capitals, not just in Washington. This is not a U.S. versus China phenomenon. Look at the G7 communiqué, and communiqué,s and statements from a lot of other multilateral institutions and other countries. The concern is of a protectionist backlash against a China being perceived as not playing by the rules of the global financial game. I think they also run risks over the pace of growth in the economy. We saw the most recent numbers marked up. Any notion that this small revaluation we saw last July had a deleterious effect on their economy went out the window when we see that the economy is growing at over 10 percent. We see credit conditions very accommodative toward growth. This is an economy that’s booming. There is the potential for internal imbalances to be exacerbated by credit conditions in China and one way of addressing that is letting the currency become more flexible, so that the distortions that are currently in place, allocating capital toward the export sector, and is helping create reserve accumulation, which plays into the monetary phenomenon.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/10	PPI (Y/Y) – Apr	2.6%	2.5%
05/10	Purchasing Price Index – Apr	--	6.2%
05/11-15	Ttl Export / Import (Individual) Y/Y – Apr	26.6% / 24.0%	28.3% / 21.1%
05/11-15	Trade Surplus – Apr	7.35B	11.19B
05/11-15	Money Supply – M2 / M1 / M0 (Y/Y) - Apr	18.50% / -- / --	18.80% / 12.70% / 10.50%
05/11-15	Household Savings – Trin Yuan – Apr	--	--
05/11-15	Actual / Contract FDI Cumulative (Y/Y) – Apr	--	6.4% / --
05/11-15	Leading / Coincident / Lagging Indices – Mar	--	102.6 / 100.6 / 94.2
05/11	CPI (Y/Y) – Apr	1.2%	0.8%
05/14	Retail Sales Ind / Accum (Y/Y) – Apr	--	13.5% / 12.8%
05/15-19	Wholesale Prices (Y/Y) – Apr	--	0.8%
05/16	Value-Added Industry (Y/Y) / Current – Apr	--	17.8% / 668.00B
05/17	Fixed Assets Inv Urban Cum (Y/Y) – Apr	--	29.8%

Valance Co., Inc.

Valance Economic Report: Sweden

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May 10, 2006

Data released over the past week showed some acceleration in activity. Sweden's Budget Balance, Industrial Production, Activity Index Level and Unemployment Rate all improved, though M/M Industrial Orders fell.

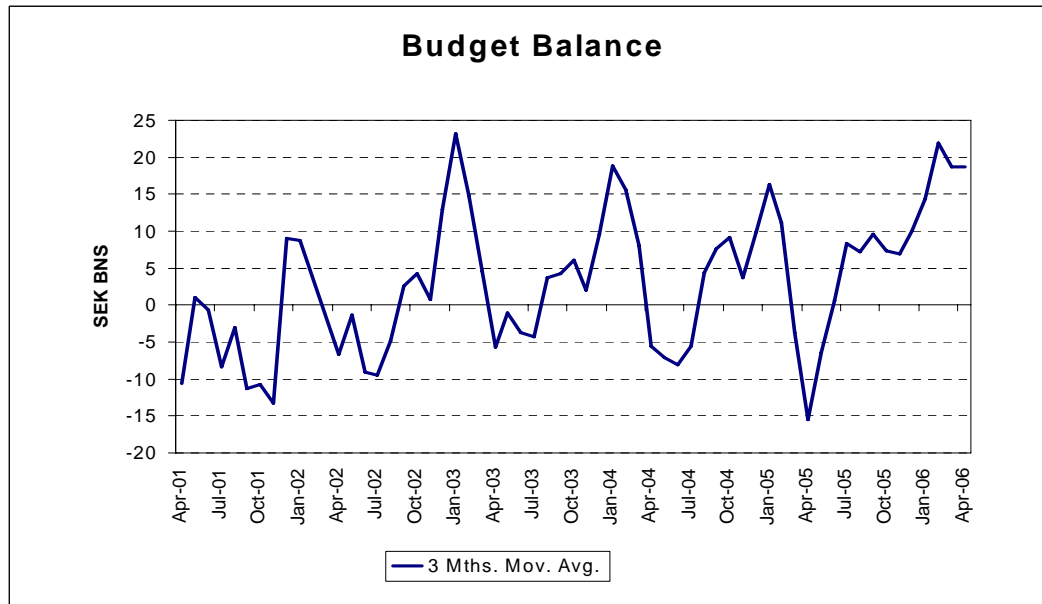
Weekly Highlights

Budget Balance – widened to a surplus of SEK 17.5 bln in April. (page 41)

Industrial Production - rose 0.2% M/M and 0.4% Y/Y in March. (page 42)

Weekly Releases & News

Chart(s) of the Week: *Budget Balance*

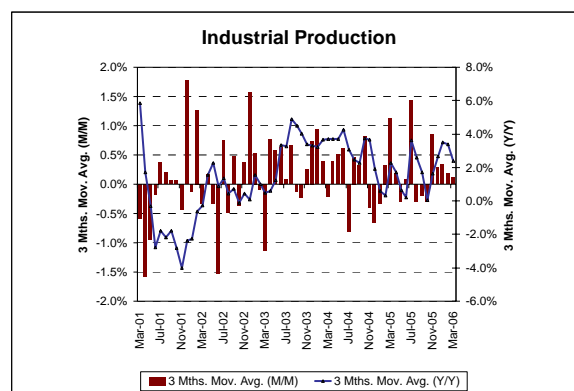


Sweden experienced a larger-than-expected budget surplus of SEK 17.5 bln in April, due to tax revenues that were more-than-expected and interest payments that were less-than-forecast. The surplus was SEK 800 mln more than expected.

Industrial Production, Industrial Orders & Activity Index Level

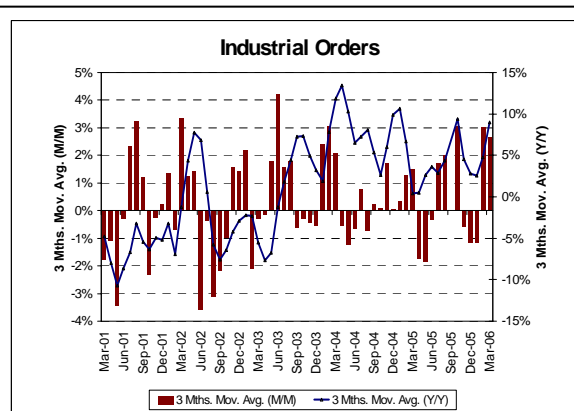
Industrial Production

Industrial Production rose 0.2% M/M and 0.4% Y/Y in March, below expectations. Expectations were for gains of 0.5% M/M and 1.8% Y/Y.



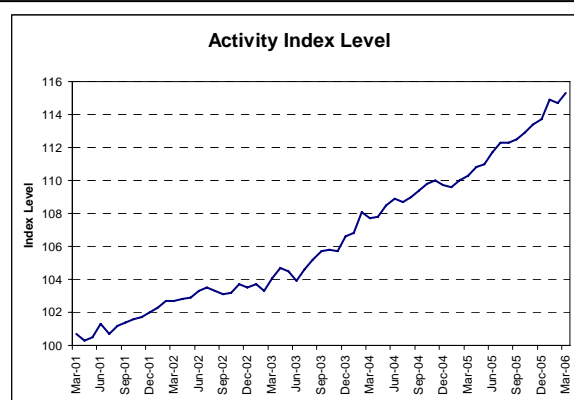
Industrial Orders

Industrial Orders fell 5.2% M/M and rose 9.7% Y/Y in March. The monthly decline was reflective of a 7.1% decrease in export market orders and a 2.1% decrease in domestic market orders. Also, new orders in the capital goods industry decreased by 11.5%, while new orders in the intermediate goods industry increased by 3.2%.



Activity Index Level

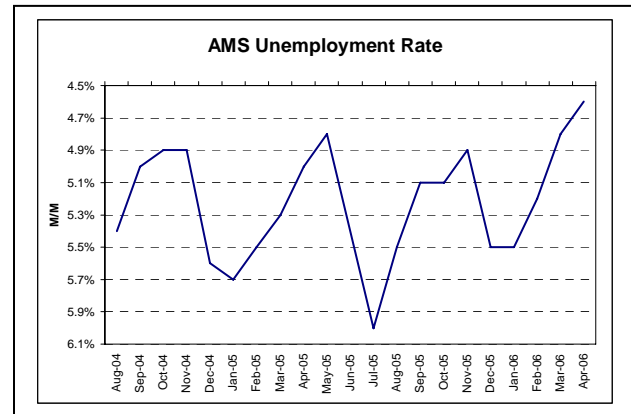
The Activity Index Level rose from a revised 114.7 (revised down from 114.8) in February to 115.3 in March. The increase in the Index can be attributed to strong export performance in March.



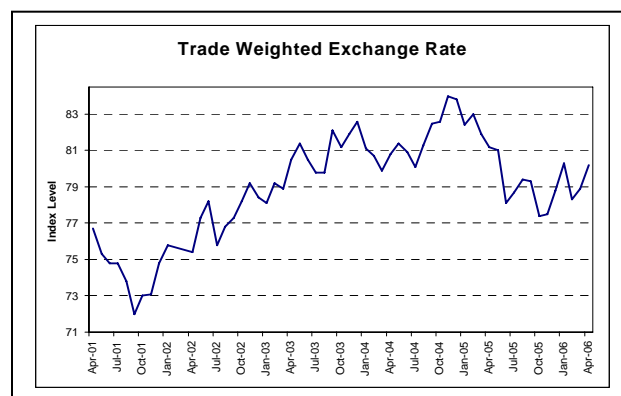
AMS Unemployment Rate, Trade Weighted Exchange Rate & Upcoming Dates

AMS Unemployment Rate

The Labor Board's un-official Unemployment Rate fell, for a third consecutive month, from 4.8% in March to 4.6% in April. A total of 204K Swedes were unemployed (a decrease of 12K from the month before). The National Labor Board said that the government has increased spending on jobs programs and companies are seeking more workers to meet rising demand.



Trade Weighted Exchange Rate



Key Dates This Week

Date	Indicator	Expectation	Previous
05/11	CPI-Headline Rate - M/M / Y/Y – Apr	0.3% / 1.3%	0.7% / 1.1%
05/11	CPI-Underlying Inflation - M/M / Y/Y – Apr	0.4% / 1.4%	0.6% / 1.2%

Valance Co., Inc.

Valance Economic Report: Switzerland

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May 10, 2006

Switzerland's Headline inflation accelerated in April for a third month in four, driven by rising oil prices. Core inflation also picked up. SNB Vice President, Niklaus Blattner commented on rates and growth outlook.

Weekly Highlights

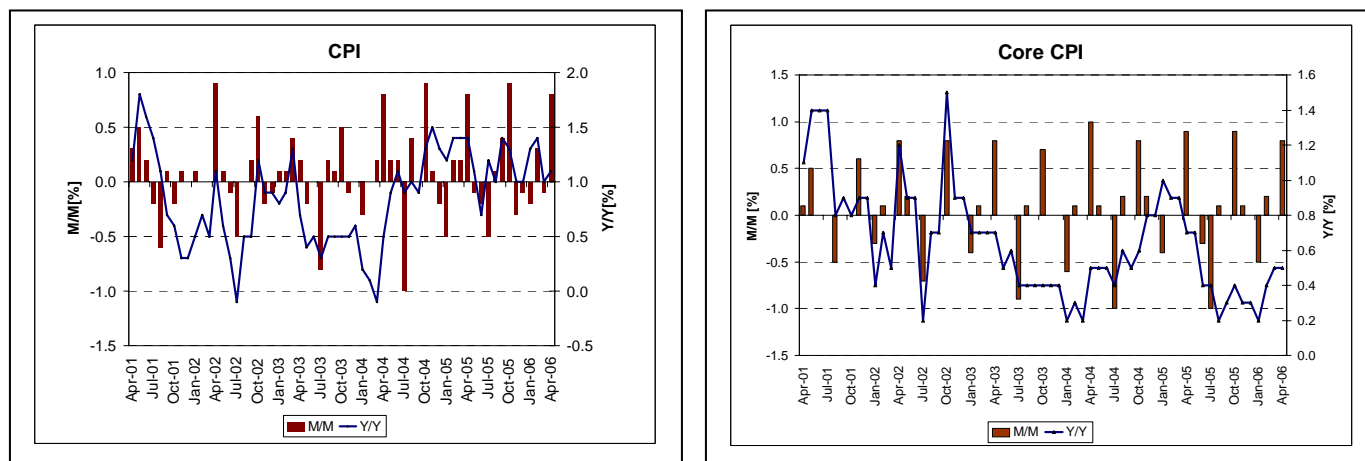
CPI – rose by 0.8% M/M and 1.1 Y/Y in April. (page 44)

Core CPI – increased by 0.8% M/M and 0.5% Y/Y in April. (page 44)

Unemployment Rate - fell to 3.4% in April. (page 45)

Weekly Releases & News

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

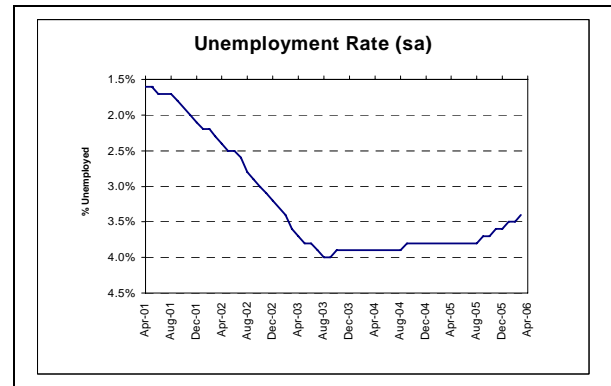


Swiss Consumer Prices rose, for a third month in four, by 0.8% M/M and 1.1 Y/Y in April. The increase was driven by rising oil prices. Similarly, Core CPI also increased by 0.8% M/M and 0.5% Y/Y in April.

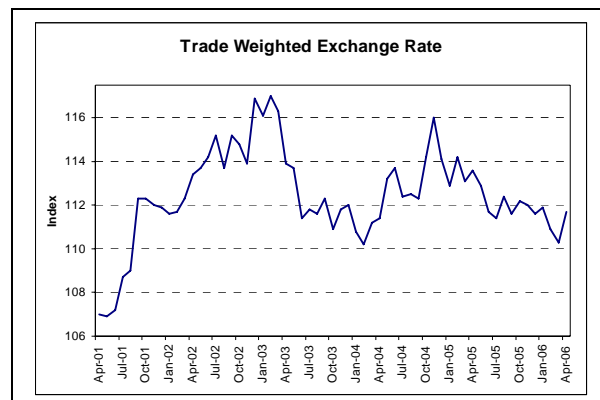
Unemployment Rate & Trade Weighted Exchange Rate

Unemployment Rate

As expected, Switzerland's seasonally adjusted Unemployment Rate fell to 3.4% from March to April, as the export-driven economy expands, boosting hiring and investment. Not adjusted for seasonal swings, the jobless rate fell from 3.6% in March to 3.5% in April.



Trade Weighted Exchange Rate



News Releases

May 5th – SNB Vice President, Niklaus Blattner Commented On Rates, Growth Outlook:

On monetary policy: The bank will continue to aim “for the middle of the target range,” of 0.75 percent to 1.75 percent. “That means a rate of 1.25 percent. At this level monetary policy remains expansive and supports the economy. The current low level of rates is not compatible with long-term price stability. If you look beyond the latest increase in oil prices, the outlook for the economy has tended to improve even more since the last assessment” in March by the SNB. “If the economic development runs as expected, the National Bank will gradually continue its monetary policy adjustment.”

On inflation: “The economic recovery poses no danger to price stability, at least in the short term. In March inflation was 1 percent, and excluding crude oil products, was 0.4 percent. For the rest of the year, inflation will remain moderate.”

On how the bank conducts its monetary policy: “Monetary policy that is only focused on past and present economic and price developments would be poor monetary policy. Policy works with a delay. For this reason every monetary authority must look forward, which is to say it must orient itself towards expected economic developments.”

On the Swiss economy: “Growth is robust and broadly supported, the signs of a recovery on the jobs market are increasing, and inflation is within tight bounds. At least in the short term, there is no danger for price stability. At first glance, the National Bank finds itself in a comfortable position.” The SNB will continue to “orient itself to its goal of price stability, and, through this, not lose sight of economic developments.” At the SNB's last “monetary policy assessment in March, the Swiss National Bank reported it expects growth this year of a good 2 percent.” “Activity in the industrial sector is presently very strong, while goods exports also rose in the first quarter. The robust global economy has resulted in strengthened international demand for investment goods. In recent months, the confidence of companies has increased. The investment environment once again appears fundamentally improved amid a background of good sales numbers, healthy company balance sheets, as well as the latest increases in capacity utilization. We're therefore expecting companies to increasingly invest in their production systems in the near future -- both for technical and personnel capacities.”

On the jobless rate and consumption: “The recovery will continue. This is a particularly positive signal for private households. As a result, we expect private consumption will continue its role as a pillar for the economy. The willingness to hire among companies in Switzerland's northwestern region, which includes Basel, has clearly risen and led here and there to the first signs of shortages. Specialists, in both technical and industrial fields, as well as services, are in demand and are hardly being found in Switzerland.”

On the U.S. economy: “In the USA, the economy clearly gathered speed in the first quarter, after a temporary weakening at the end of 2005. The U.S. Fed's policy of raising borrowing costs “should lead to a soft-landing of the American economy in coming quarters. In particular, we're assuming that private consumption in the U.S. will be somewhat less dynamic in future. Evidence of this includes the expected cooling of property prices and increases in private savings. We don't see any risks of a collapse in consumer demand given the state of the jobs market and the related increases in wages.”

On Asia, China, Japan and the rest of Europe: “Asia continues to remain extraordinary strong. So far there have been hardly any signs of a cooling in China. The Chinese boom is influencing the east Asian tigers, and above all, Japan. And at last, the recovery in Europe appears to be increasingly finding its feet. Symbolic of the new economic optimism on the old continent is the case of Germany. In recent times economic actors in our northern neighbor have become increasingly optimistic.” A German “growth rate in the region of 2 percent to 2.5 percent appears realistic for 2006.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/11	SECO Consumer Climate – Apr	7	2
05/15-19	Producer & Import Prices (Y/Y) / (M/M) – Apr	--	1.6% / 0.1%