

Valance Company, Inc.



Weekly

May 17, 2006

III

Highlights

US – Core CPI heating up & housing cooling down (page 2)

Euroland –Euro zone inflation accelerates: ECB remains “extremely vigilant” (page 10)

Japan – Corporate Goods Prices increased while Machine Orders declined (page 20)

UK – Average Earnings and Core CPI both remained very subdued (page 29)

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Valance Economic Reports

Valance Co., Inc.

Valance Economic Report: United States

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May 17, 2006

This week's mix of economic data highlighted the opposing forces on the future path of rates. A number of housing indicators showed weakness that the Fed highlighted would be a driver of moderating growth, but also a core CPI reading that brings the three month annualized rate to 3.2%. The recent up-tick in inflation expectations could tip the scales towards at least one more hike given the importance of the Fed's credibility.

Weekly Highlights

Core CPI- increased 0.3% M/M and 2.3% Y/Y in April. (page 2)

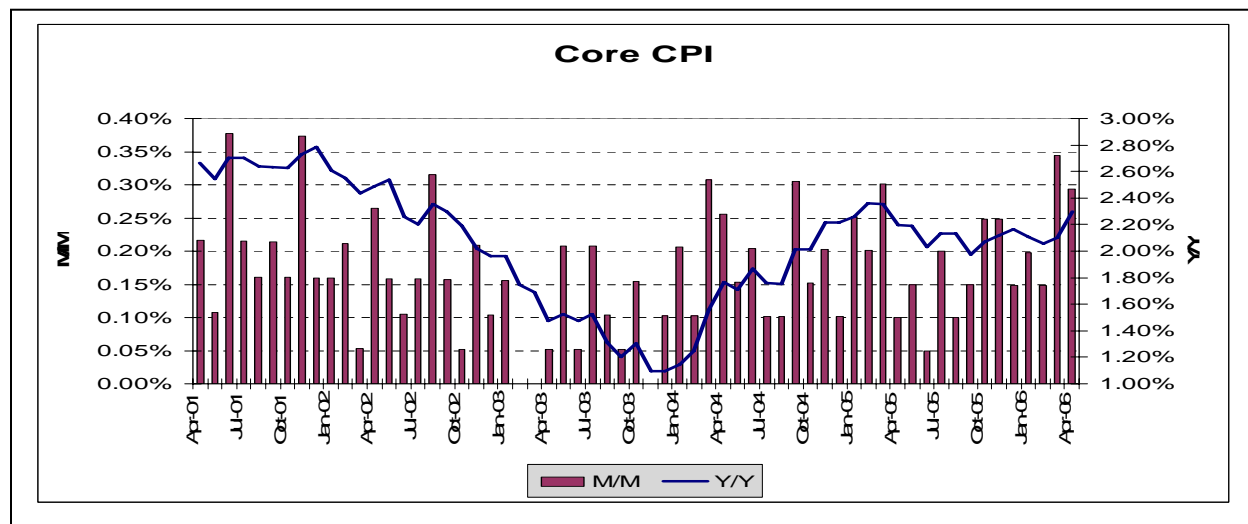
Housing Starts- down three straight months and 11.1% Y/Y in April. (page 4)

Retail Sales ex. Autos- increased 0.7% M/M and 8.6% Y/Y in April. (page 5)

Capacity Utilization- reached 81.9% in March. (page 7)

Weekly Releases

Chart of the Week: Core CPI



Core CPI increased 0.293% M/M and 2.3% Y/Y in April; the annualized 3-month rate of growth is currently at 3.2%, up from 2.8% last month. The current pace of growth of core CPI will likely keep the Fed hiking, especially with measures of inflation expectations starting to increase. Owner's equivalent rent, 30% of core CPI, was up 0.4% M/M and could put upward pressure on core CPI in the future as rents catch-up to the large gains in home purchase prices in recent years.

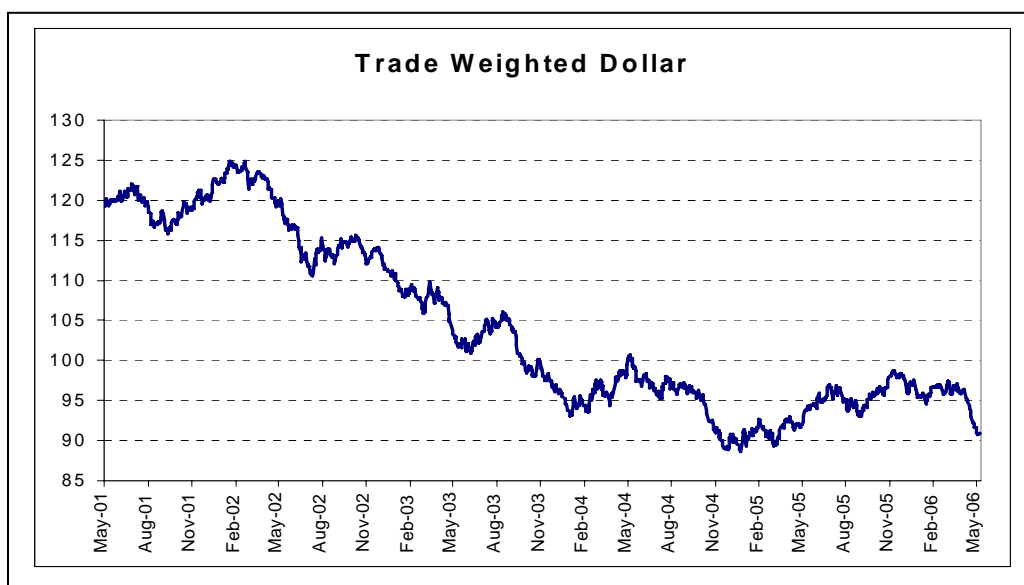
U.S. Financial Balances & Trade Weighted Dollar

Financial Balances

<i>U.S.</i>	<i>Latest period (\$blns)</i>	<i>Last 12mth. as a % of GDP</i>
Budget Balance	118.9(April)	-2.0%
Trade Balance	-62.0 (March)	-5.7%
Current Account Balance	-224.4 (Q4)	-6.3%
Private Balance	--	-4.3%

The budget deficit is currently at \$266 bln on a trailing twelve month basis and forecasts see the budget deficit increasing to \$375 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 March is still 5.7% 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.

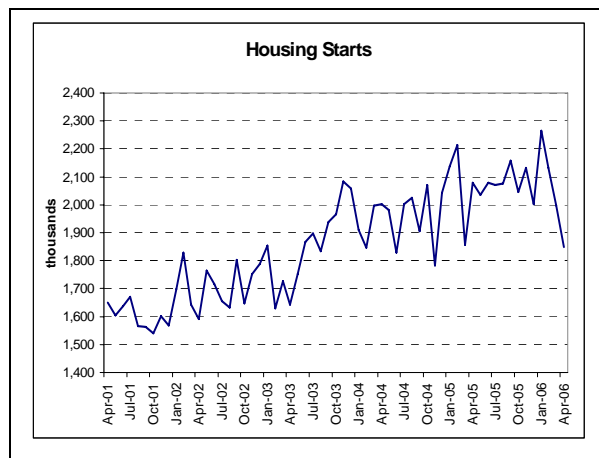
Trade Weighted Dollar



Housing

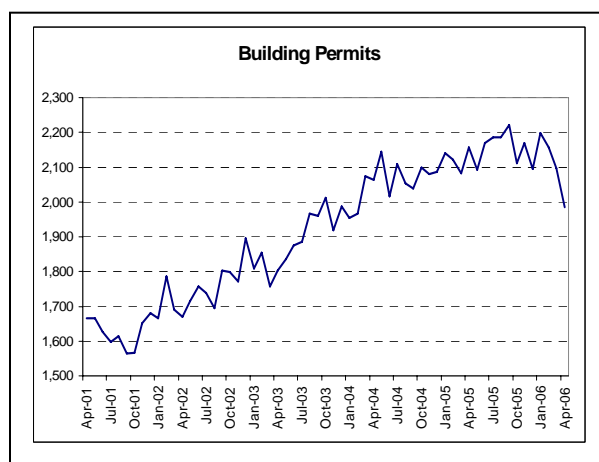
Housing Starts

Housing Starts decreased from 1,996k to 1,840k on a seasonally adjusted annualized basis in April. This series fell 7.4% M/M and is down 11.1% Y/Y. April is the third consecutive month of declines in housing starts and is clearly showing a meaningful slowdown.



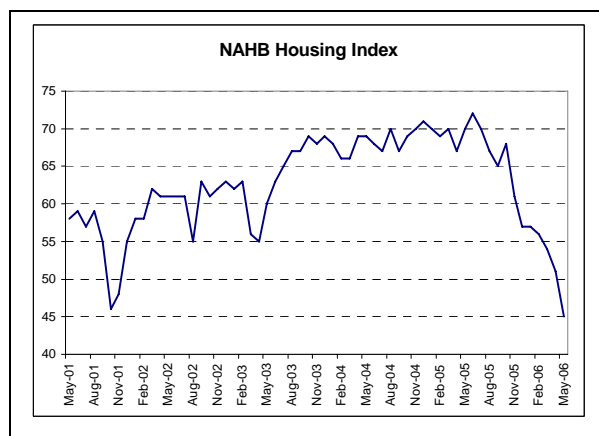
Building Permits

Building Permits decreased from 2,097k to 1,984k in April on a seasonally adjusted annualized basis. Permits declined 5.4% M/M and are now down 8.0% Y/Y, showing more weakness in the housing market.



NAHB Housing Market Index

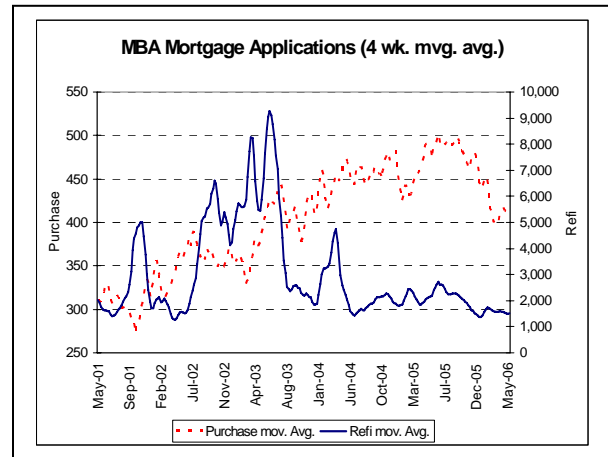
The NAHB Housing Market Index decreased from 51 to 45 in May. The present sales index declined from 55 to 50 and the future sales index declined from 59 to 54. This series was below expectations and continues to indicate a softening housing market.



MBA Mort. Apps., Retail Sales & Employment Claims

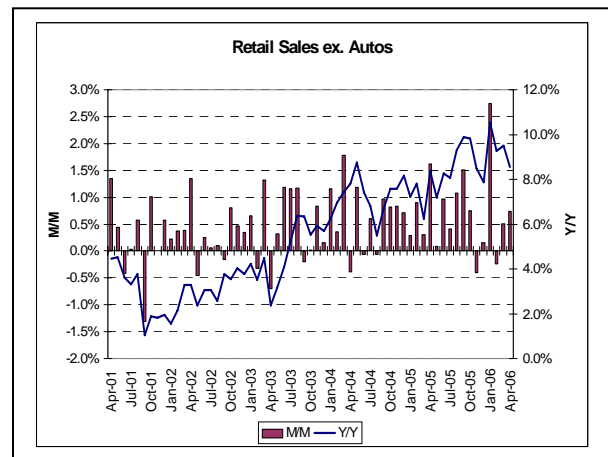
MBA Mortgage Applications

Purchase mortgage applications increased 2.4% W/W and refi applications were up 8.4% W/W this week. The four-week moving average of purchase applications is down 15.0% Y/Y and was down 9.1% Y/Y just based on last week's reading. This series continues to confirm a soft housing market.



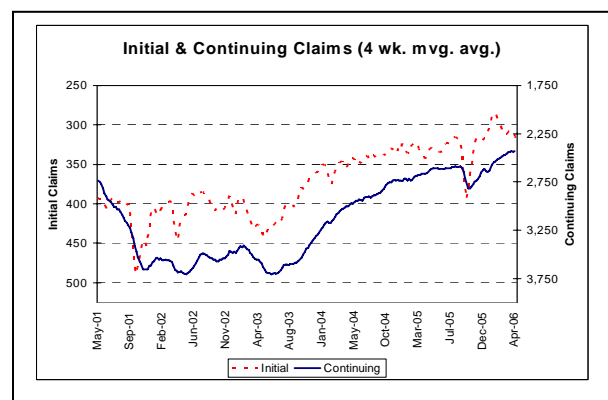
Retail Sales ex. Autos

Retail Sales, excluding autos, increased 0.7% M/M and increased 8.6% Y/Y in April, below high expectations. Retail Sales, excluding both autos and gas, were up 0.2% M/M and excluding autos, gas, and building materials, up 0.4% M/M.



Initial & Continuing Claims

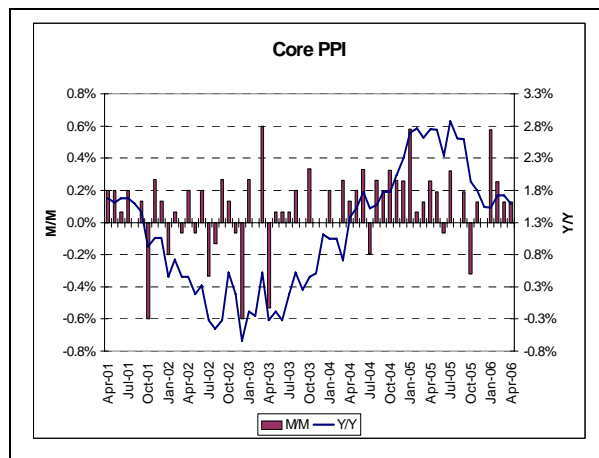
The four week moving average of initial claims increased by 2k to 317k while continuing claims decreased by 8k to 2,425. After a large decline in continuing claims, the four week moving average is back to its lowest point since early 2001.



Core PPI, Import Prices & Trade Balance

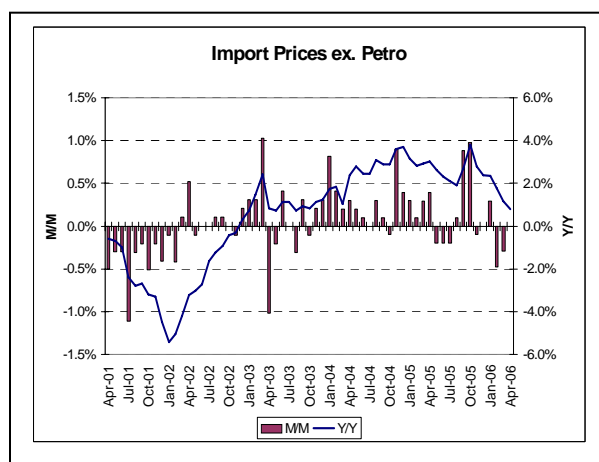
Core PPI

Core PPI increased 0.1% M/M and 1.5% Y/Y in April. Core intermediate goods increased 0.4% M/M and core crude goods were up 4.7% M/M. Early pipeline price pressures continue to build.



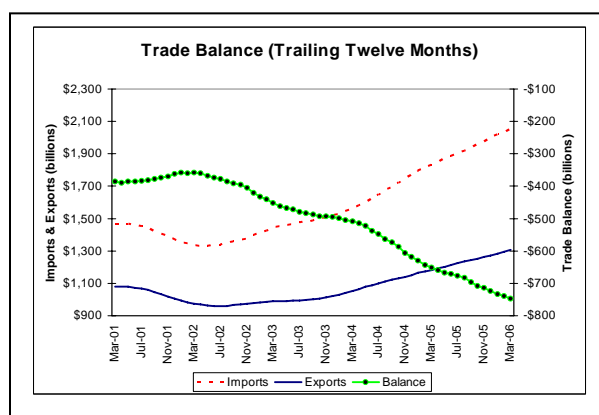
Import Prices ex. Petro

Import Prices, excluding petroleum, were flat M/M and increased 0.8% Y/Y in April. Excluding all fuel, Import Prices gained 0.1% M/M and 0.6% Y/Y. However, the weakening dollar could begin to put upward pressure on import prices going forward.



Trade Balance

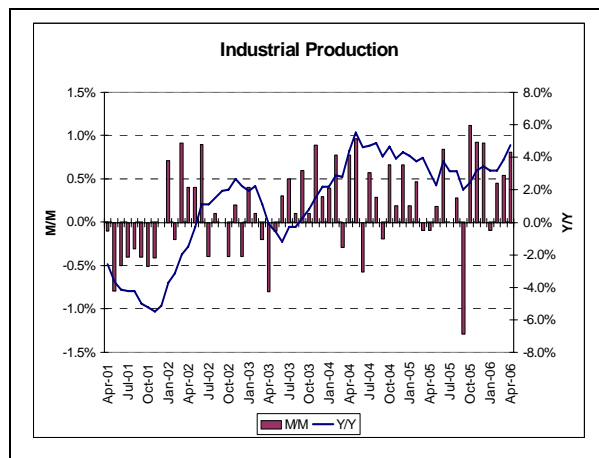
The Trade Deficit narrowed from \$65.6 bln to \$62.0 bln in March. Imports increased 0.8% M/M and increased 12.9% Y/Y and exports grew 1.9% M/M and 11.6% Y/Y. The trailing twelve month trade deficit is now \$747.7 bln or 5.7% of GDP. The latest current account deficit reached \$224.4 bln in Q4 2005. On a trailing twelve month basis, the current account is 6.3% of GDP.



Industrial Production, Cap. Utilization & Confidence

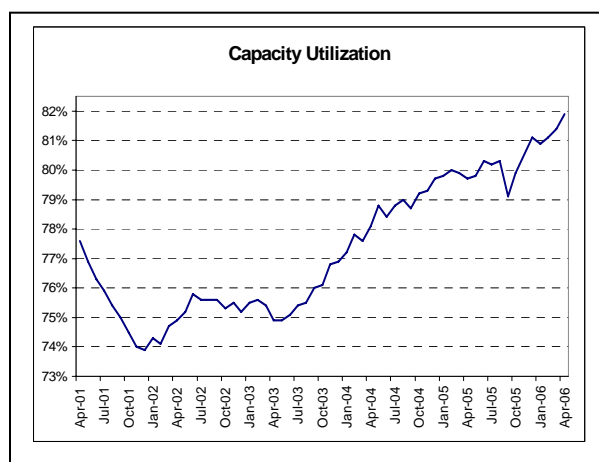
Industrial Production

Industrial Production increased 0.8% M/M and 4.8% Y/Y in April. The strength was widespread by sector and suggests that manufacturing is doing quite well. A weaker dollar may be helping this sector.



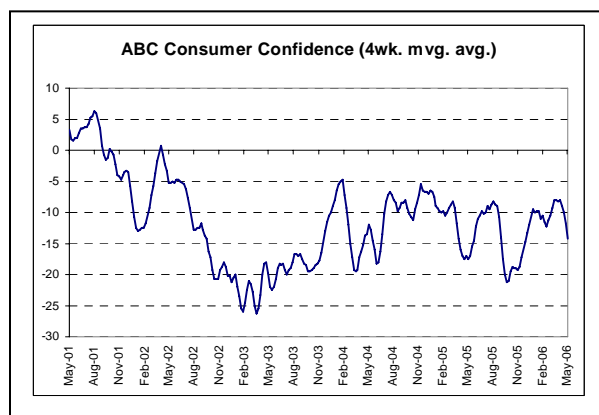
Capacity Utilization

Capacity Utilization increased from 81.4% to 81.9% in April. Capacity Utilization continues to trend higher and shows tighter levels of resource utilization. This indicator suggests that the Fed still has some more work to do.



ABC Consumer Confidence

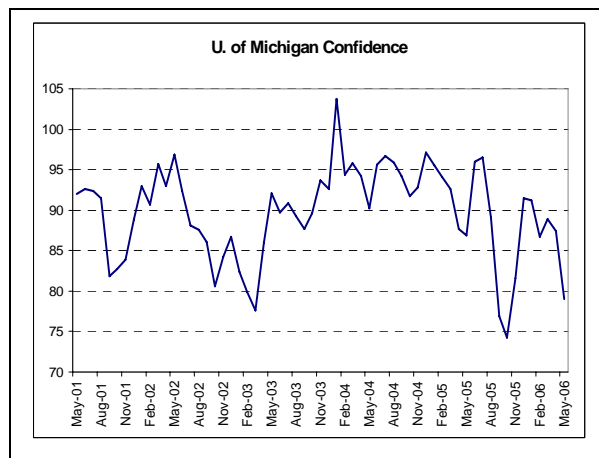
The ABC Consumer Confidence Index decreased from -16 to -17. The finance and buying intention components remained flat, but the economy component dropped from -30 to -34. Higher gas prices seem to be having an impact on consumer confidence.



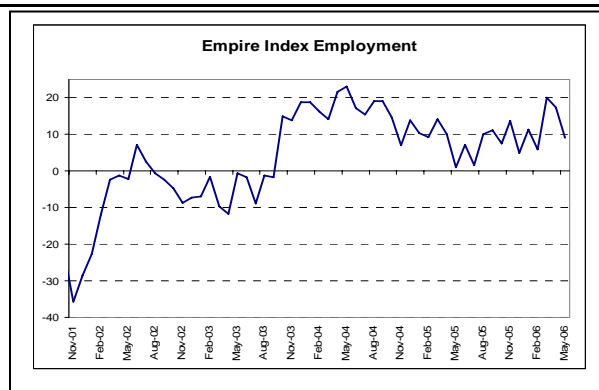
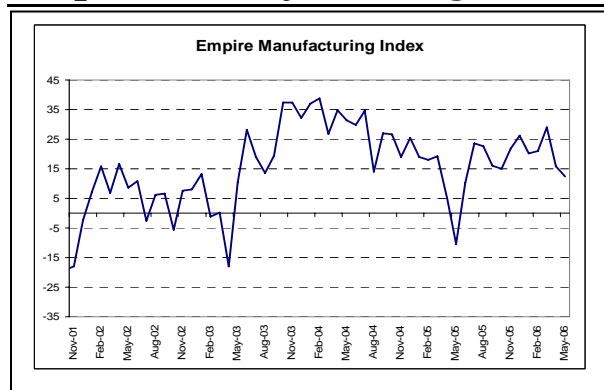
Confidence, Empire Index & Fed Comments

U. Mich. Confidence

U. of Mich. Confidence survey fell from 87.4 to 79.0 in May, the weakest reading since post Katrina readings. However, excluding the impact of one-off events, confidence hit lows for over a decade. The assessment of current conditions decreased from 109.2 to 96.2 and expectations declined from 73.4 to 68.0. Inflation expectations over the next 12 months jumped from 3.3% to 3.9%, suggesting short-term inflation expectations may no longer be contained. Expectations for 5-10 years were unchanged at 3.1%.



Empire Manufacturing Index



The Empire Manufacturing Index dropped from 15.81 to 12.40 in May. Employment fell significantly from 17.41 to 9.11. Prices paid jumped from 37.9 to 42.62, but prices received only increased a bit from 14.52 to 14.75, compressing margins. Orders rose from 14.11 to 16.41.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/18	Initial Jobless Claims (MAY 13)	318K	324K
05/18	Continuing Claims (MAY 6)	2420K	2392K
05/18	Leading Indicators (APR)	0.1%	-0.1%
05/18	Philadelphia Fed (MAY)	12.5	13.2
05/23	ABC Consumer Confidence (MAY 22)	--	-17
05/24	MBA Mortgage Applications (MAY 19)	--	4.6%
05/24	Durables ex. Transpo (APR)	0.5%	2.8%
05/24	New Home Sales (APR)	1150K	1213K
05/25	GDP Annualized (Q1)	5.3%	4.8%

Valance Co., Inc.

Valance Economic Report: Euro Zone

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May 17, 2006

This week's data in the Euro Zone was mixed, with sentiment declining and inflationary pressures increasing. Of most interest were the developments on the price front, as headline and core consumer prices accelerated and French wages expanded. Q1 growth figures were in line with expectations as the Euro Zone economy expanded 0.6% Q/Q. Euro Zone confidence did wane however, as future expectations fell sharply in May.

Weekly Highlights

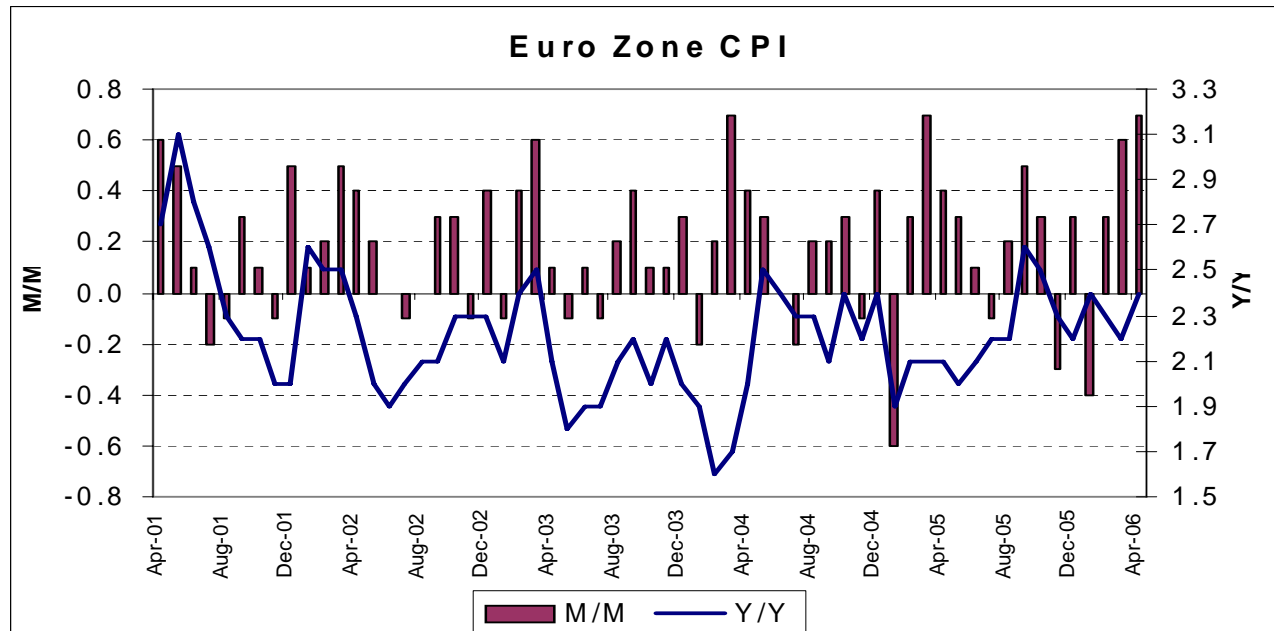
Euro Zone CPI – signs of price pressures? (page 10)

French Wages– Q1 wages accelerated Q/Q. (page 14)

Euro Zone ZEW– current sentiment remained strong while expectations dampened. (page 15)

Weekly Releases & News

Chart of the Week: *Euro Zone CPI*



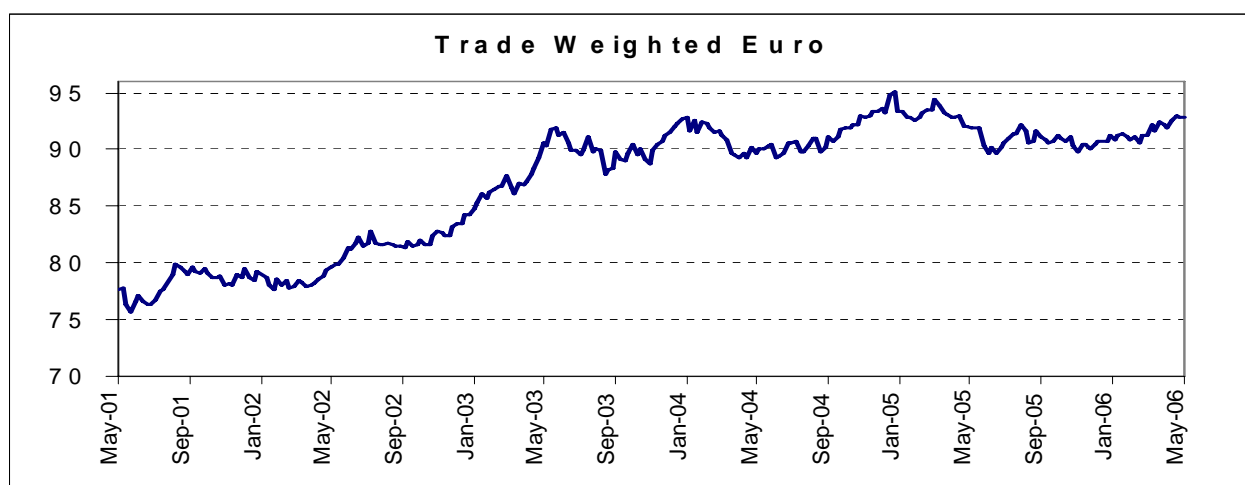
Euro Zone Consumer Prices accelerated in April, expanding 0.7% M/M and 2.4% Y/Y. Core prices also accelerated, increasing from 1.3% Y/Y in March to 1.5% Y/Y. Two large monthly increases in a row diminish the timing of late Easter this year as a factor behind the April gains.

Euro Zone Financial Balances & Trade Weighted Euro

Financial Balances

<i>Germany</i>	<i>Last period (\$blns euros)</i>	<i>Last 12mth. as a % of GDP</i>
Budget Balance	-80.3 (12/04)	-3.6%
Trade Balance	12.1 (May)	7.1%
Current Account Balance	5.2 (May)	3.6%
Private Savings Balance	--	7.2%
<i>France</i>		
Budget Balance	-5.15 (May)	-3.4%
Trade Balance	-1.25 (May)	-1.3%
Current Account Balance	-2.87 (May)	-1.0%
Private Savings Balance	--	2.4%
<i>Italy</i>		
Budget Balance	-3.4 (July)	-3.5%
Trade Balance	-0.36 (May)	0.4%
Current Account Balance	-3.2 (May)	1.2%
Private Savings Balance	--	4.7%

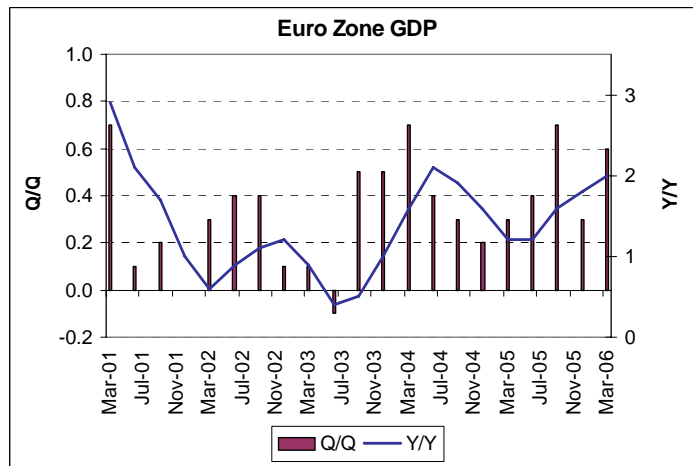
Trade Weighted Euro



Euro Zone, German & Spanish GDP

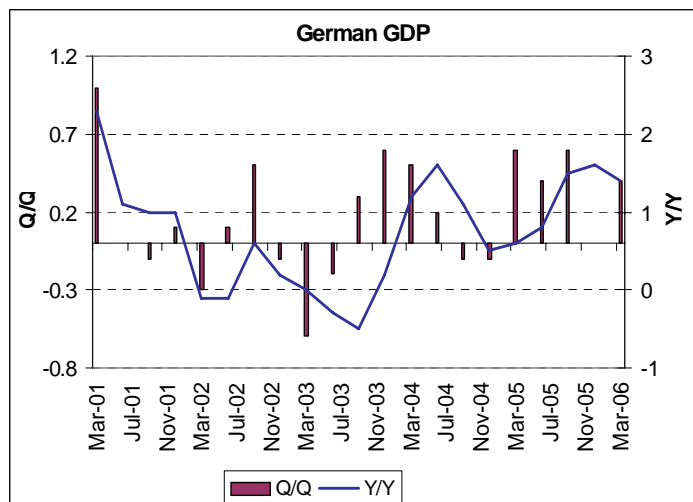
Euro Zone GDP

Euro Zone GDP expanded 0.6% Q/Q and 2% Y/Y in Q1, in line with expectations.



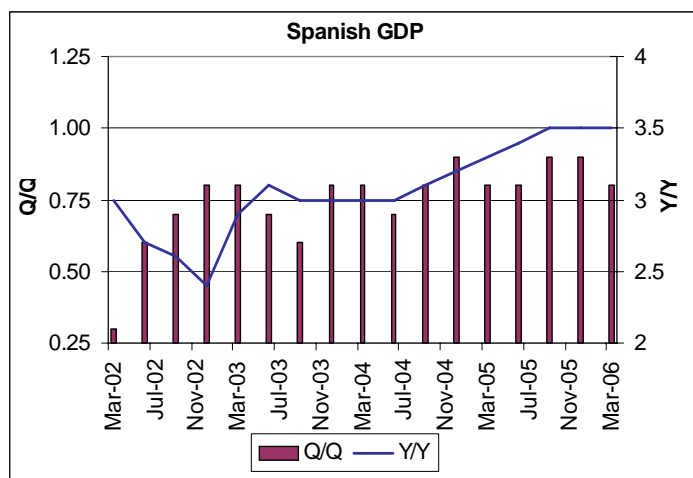
German GDP

German GDP expanded 0.4% Q/Q and 1.4% Y/Y in Q1, slightly below market expectations.



Spanish GDP

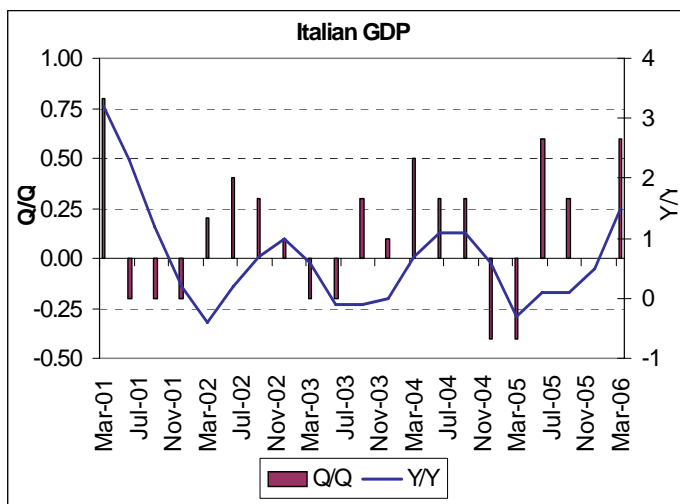
The Spanish economy expanded 0.8% Q/Q and 3.5% Y/Y in Q1, in line with market expectations.



Italian GDP, Euro Zone & Italian Ind. Production

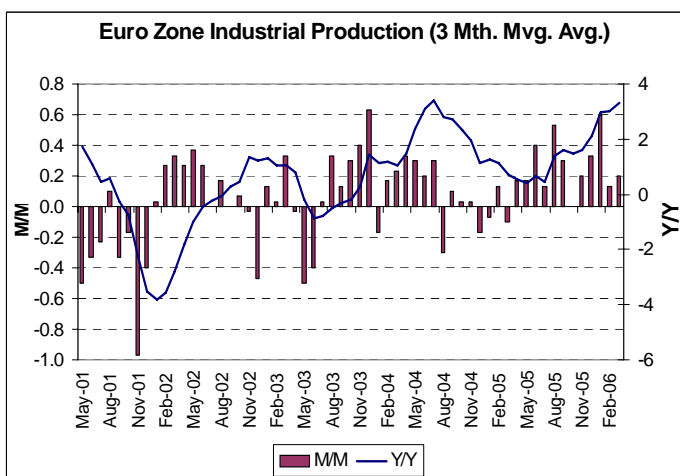
Italian GDP

Italian GDP expanded more strongly than expected in Q1, growing 0.6% Q/Q and 1.5% Y/Y.



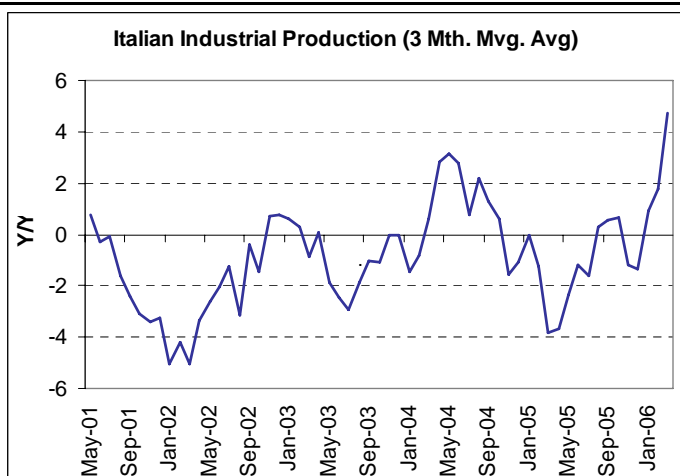
Euro Zone Industrial Production

Euro Zone Industrial Production expanded 0.4% M/M and 3.8% Y/Y in March, led by strong intermediate goods sales.



Italian Industrial Production

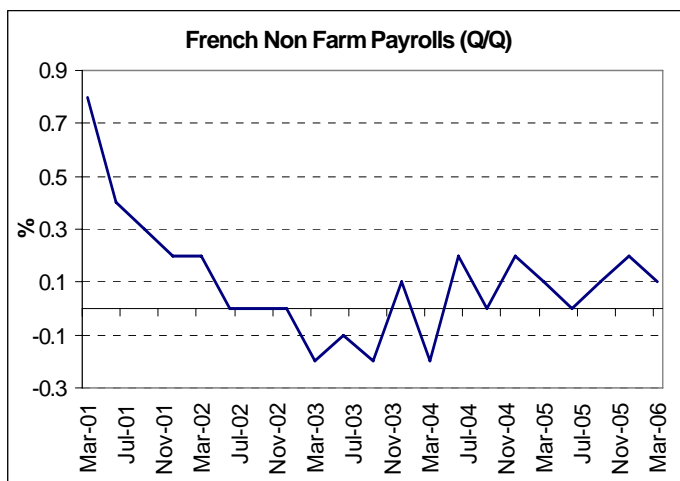
Italian Industrial Production unexpectedly declined in March, contracting 0.1% M/M while expanding 4.2% Y/Y.



French Payrolls, Wages & Consumer Prices

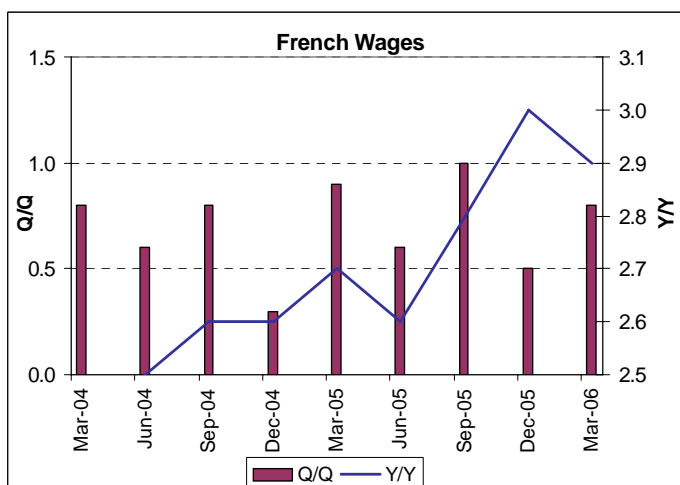
French Non Farm Payrolls

French Non Farm Payrolls increased 0.1% Q/Q and 0.3% Y/Y in Q1, in line with expectations. Q4 2005 payrolls were revised upward from 0.1% Q/Q to 0.2% Q/Q. 21,000 jobs were added.



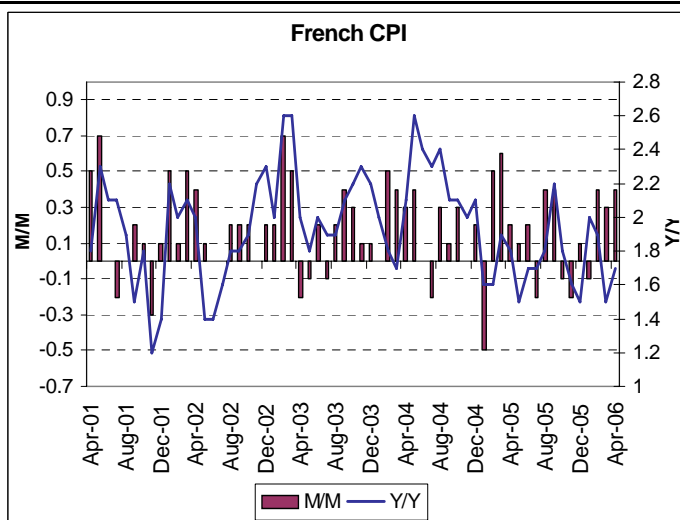
French Wages

French Wages accelerated in Q1, expanding 0.8% Q/Q and 2.9% Y/Y. Wages picked up 1.3% Q/Q in the construction sector and 0.7% Q/Q in the services sector.



French Consumer Prices

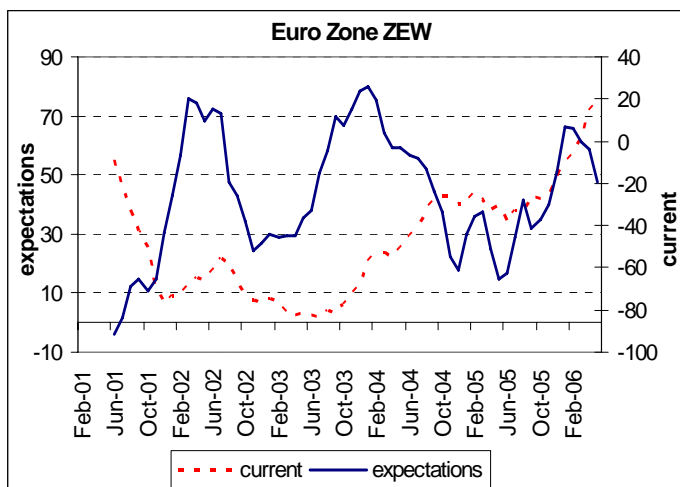
French Consumer Prices accelerated in April, rising 0.4% M/M and 1.7% Y/Y.



Euro Zone & German ZEW, Euro Zone Car Registrations

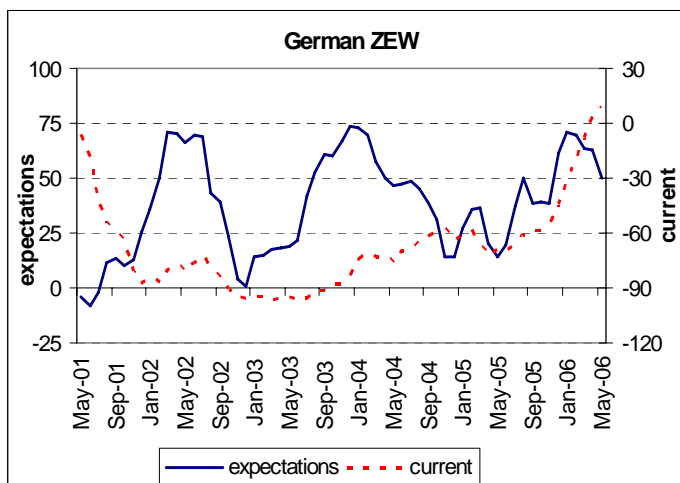
Euro Zone ZEW

Euro Zone Investor Confidence cooled somewhat in May as economic sentiment declined from 58.7 in April to 47.7. Current sentiment increased from 14.3 to 18.3. A strong currency and high oil prices played a large role in the decline.



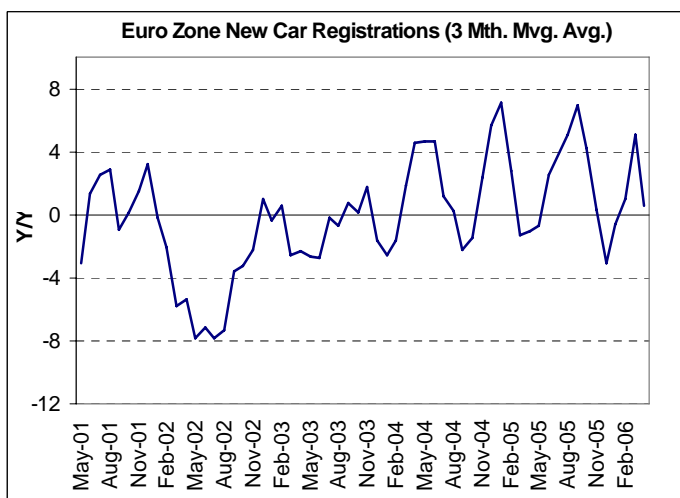
German ZEW

German Investor Confidence declined in May as economic sentiment declined from 62.7 in April to 50. The Current Situation Sentiment continued to expand, increasing from 2.9 to 8.7.



Euro Zone New Car Registrations

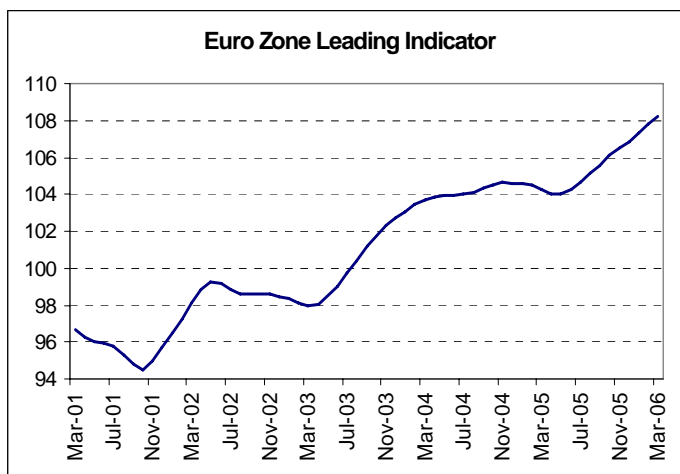
Euro Zone New Car Registrations contracted 7.3% Y/Y in April. The Easter holiday cut 2-3 business days out of the month.



Euro Zone Lead Indicator & French Trade

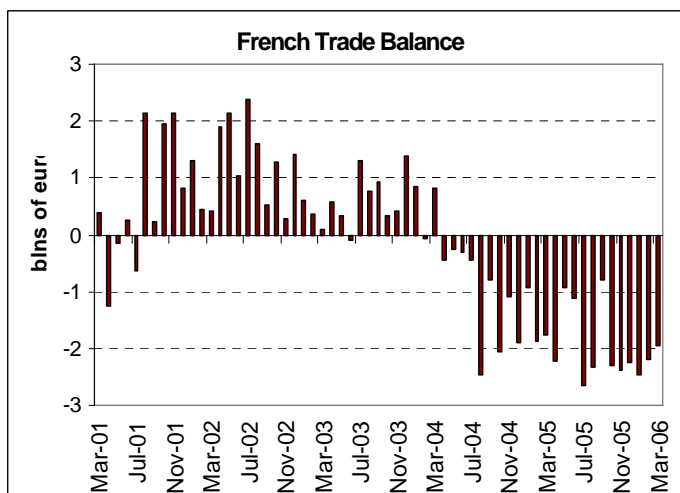
Euro Zone Leading Indicator

The Euro Zone's OECD Leading Indicator increased from 108.6 in February to 109.0 in April.



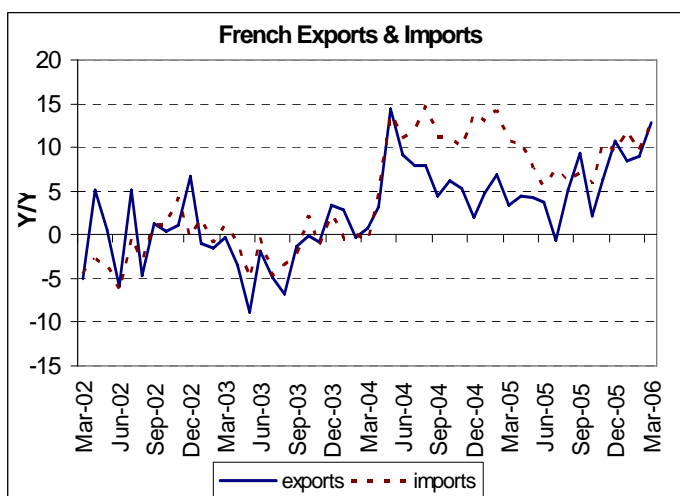
French Trade Balance

France's March Trade deficit narrowed slightly, decreasing from 2.2 bln euros to 2 bln as imports of energy products fell and exports increased.



French Trade

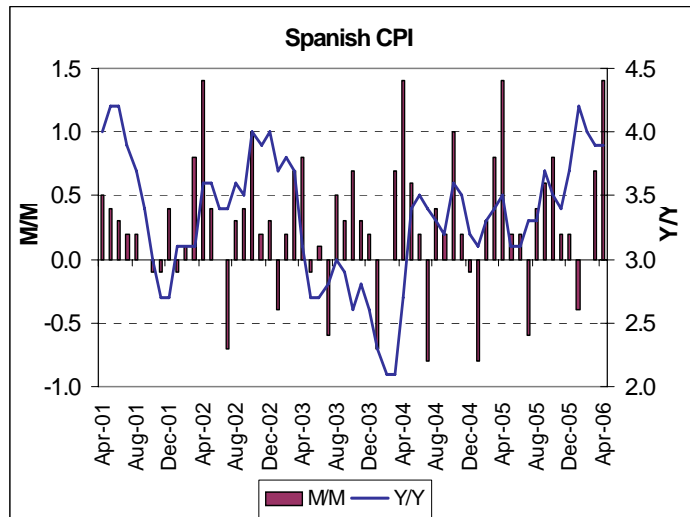
French Exports increased 0.8% M/M and 12.9% Y/Y while imports were unchanged M/M and increased 12.8% Y/Y.



Spanish Consumer Prices

Spanish CPI

Spanish Consumer Prices accelerated in April, increasing 1.4% M/M and 3.9% Y/Y. Core inflation remained unchanged at 3.1% Y/Y.



News

May 17th – **The German Ministry stated that German export** growth would likely be setback if the euro's appreciation against the dollar lasted much longer. They noted that export demand was the main pillar of the country's economic recovery and that if the appreciation lasts longer it would have a "dampening effect on exports."

May 17th – **French manufacturers held their capital spending plans for 2006** at an 18 month high of 5% according to a government survey. Investments had declined by 3% in 2005.

May 16th – **ECB member Christian Noyer commented on the euro zone economy** and rates, stating, "It's clear that with strengthening growth, monetary policy needs to be exactly adjusted to the economy's needs...which means that we need to readjust interest rates from time to time." He also noted that he wasn't concerned about oil but that it did require them to be "very vigilant." Noyer also noted that the bank's stance was "well understood by the market" and that the euros appreciation has consequences that need to be taken into account. Member Issing added that rates should be increased while member Bini Smaghi added, "The progressive increase of interest rates is coherent with the recovery that is underway, especially following a period of very low rates, and with the need to counter inflationary pressures." Member Jose Manuel Gonzalez-Paramo also echoed these sentiments, stating that "extreme vigilance" was needed to prevent inflation. Member Nout Wellink made the most hawkish statements, saying that "you need more than an increase of 0.25% points. Right now 0.25% points is in style, but if you look back in history 0.5% was very normal...It is clear that rates will eventually have to rise above 2.75%."

May 16-**ECB Member Liebscher downplayed the stronger Euro vs the US\$** by saying, "'If you take the appreciation of the effective exchange rate, it is much lower. The UK is a more important trading partner for the euro area than the United States is."

May 15th - **German doctors began their largest walkout ever**, stating that the lack of successful wage talks will lead to a disruption of health services during June's World Cup of soccer. The union is seeking a 30% raise.

May 11th – **ECB President Trichet commented on rates, stating**. "Monetary policy has proved very successful in maintaining price stability...As a consequence, the anchoring of inflation expectations has been remarkably solid." Trichet also noted that "interest rates are still at very low levels in both nominal and real terms...and medium to long term inflation expectations are incorporating a low level of inflation expectations."

May 11th – **The German government raised its tax revenue forecast** by 70 billion euros for the years 2006-2009, stating that accelerating growth has led to a pickup in revenue.

May 11th – **The ECB monthly report published this week noted the following**: inflation risks have increased due to oil, inflation will remain elevated in 2006 and 2007, particular vigilance is of the essence, credit growth remains very dynamic, price risks remain on the upside, wage moderation is dampening inflation pressures, consumption to strengthen as the job market improves, business confidence is particularly buoyant, conditions are in place for growth in the coming quarters, the ECB must ensure that price expectations remain anchored, and that data has confirmed their previous assessment on prices and growth.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/18	Italian Trade Balance (MAR)	-220mln	-388mln
05/19	French GDP (Q1)	0.6% Q/Q	0.4% Q/Q
05/19	Spanish Factory Orders (MAR)	--	15.2% Y/Y
05/19	Italian Industrial Sales (MAR)	0.2% M/M	1.9% Y/Y
05/22	Euro Zone Trade Balance (MAR)	--	-3.1mln
05/23	French Business Confidence (MAY)	--	108
05/23	French Consumer Spending (APR)	--	-0.6% M/M

Valance Co., Inc.

Valance Economic Report: Japan

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May 17, 2006

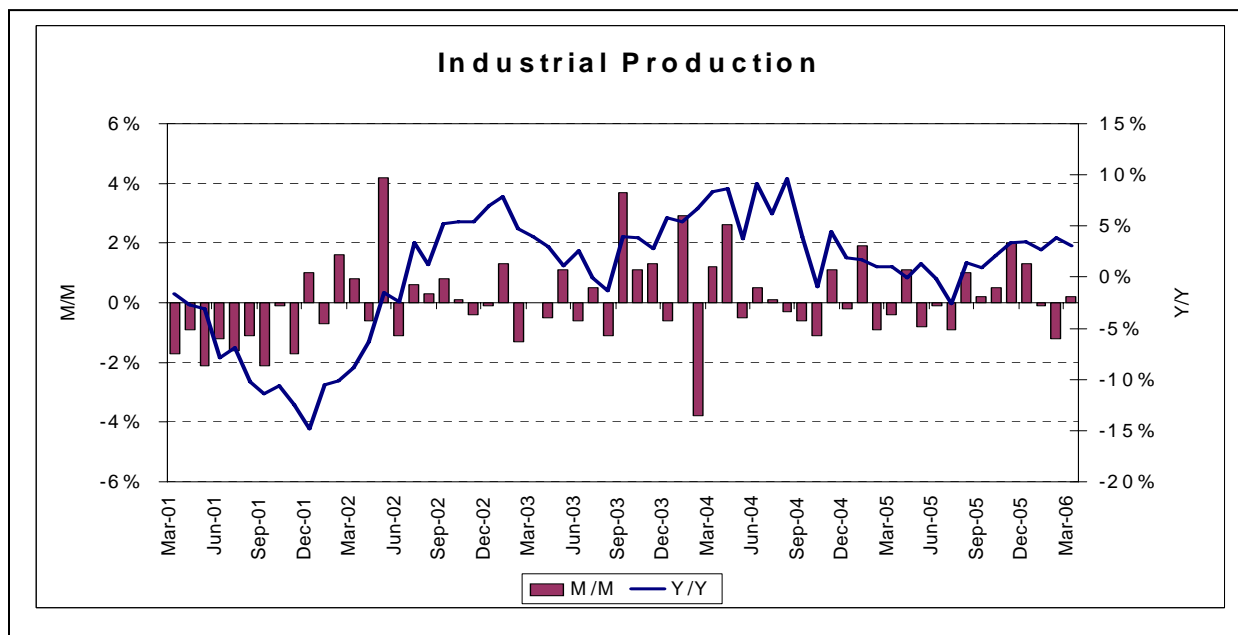
This week's data was positive. Industrial Production, Corporate Goods Prices, and the Current Account Surplus improved. Although some data suggests upcoming softness in consumer demand and capex, consumer confidence remains resilient while foreign demand has been solid. The BoJ remained optimistic in its assessment of the economy, maintaining that the economy is recovering, but noting that a reduction in the balance of current accounts does not necessarily imply an immediate ending to its Zero Interest Rate Policy. We continue to look for its ZIRP to end in Q3 2006.

Weekly Highlights

Industrial Production – increased 0.2% M/M and 3.1% Y/Y in March. (page 20)

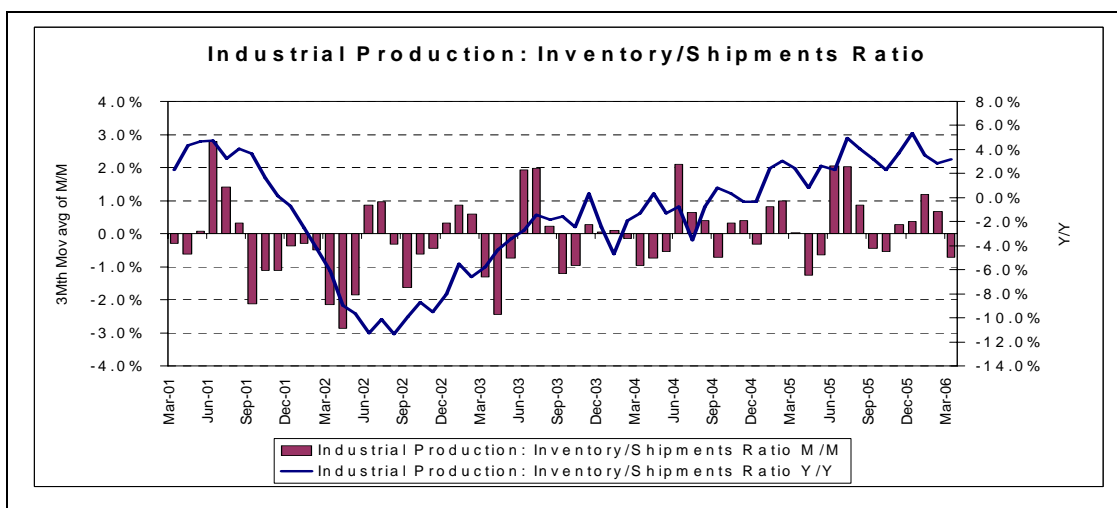
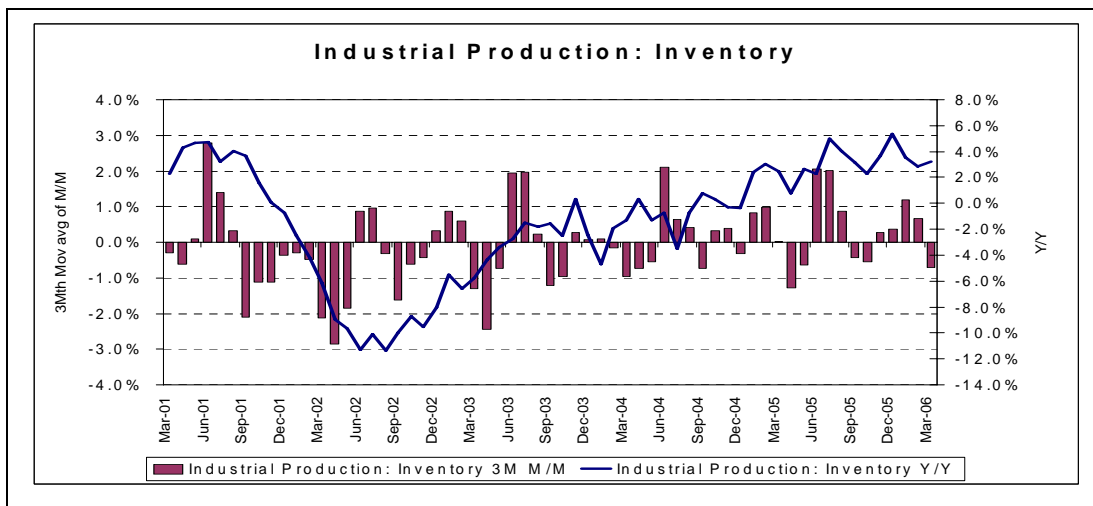
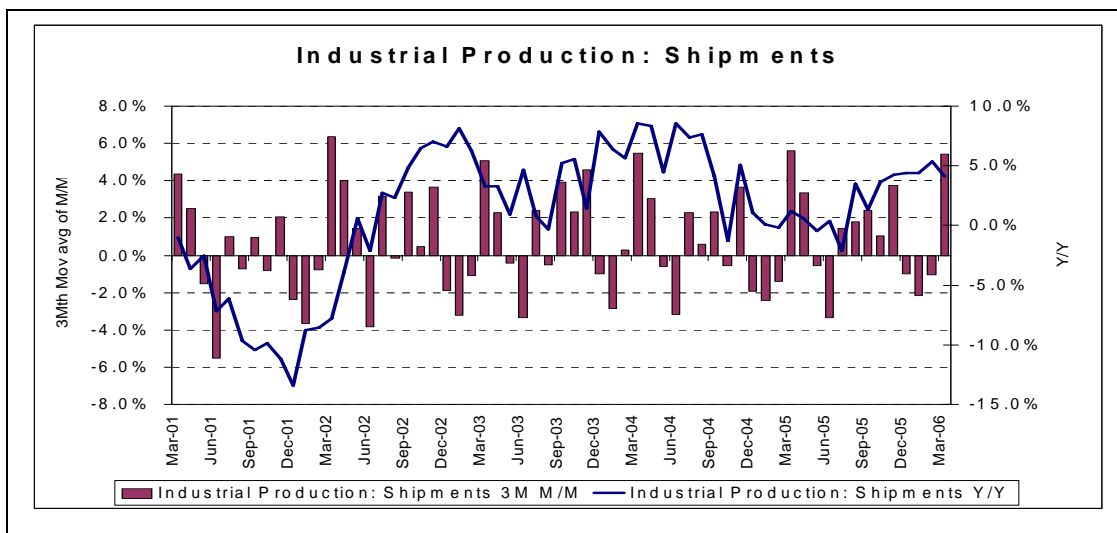
CGPI – increased 0.5 M/M and 2.5% Y/Y in April. (page 23)

Machine Orders – declined 5.2% M/M and 1.6% Y/Y in March. (page 24)

Chart of the Week: *Industrial Production*

Final data on Industrial Production in March indicated an increase of 0.2% M/M and of 3.1% Y/Y, relatively unchanged from the original estimate – with transport equipment, electronics parts and devices, and pulp, paper, and paper products industries, in that order, contributing the most to the increase. Overall, Industrial Production remains on a moderate upward trend. Looking forward, manufacturers expect production to continue to improve in the coming months.

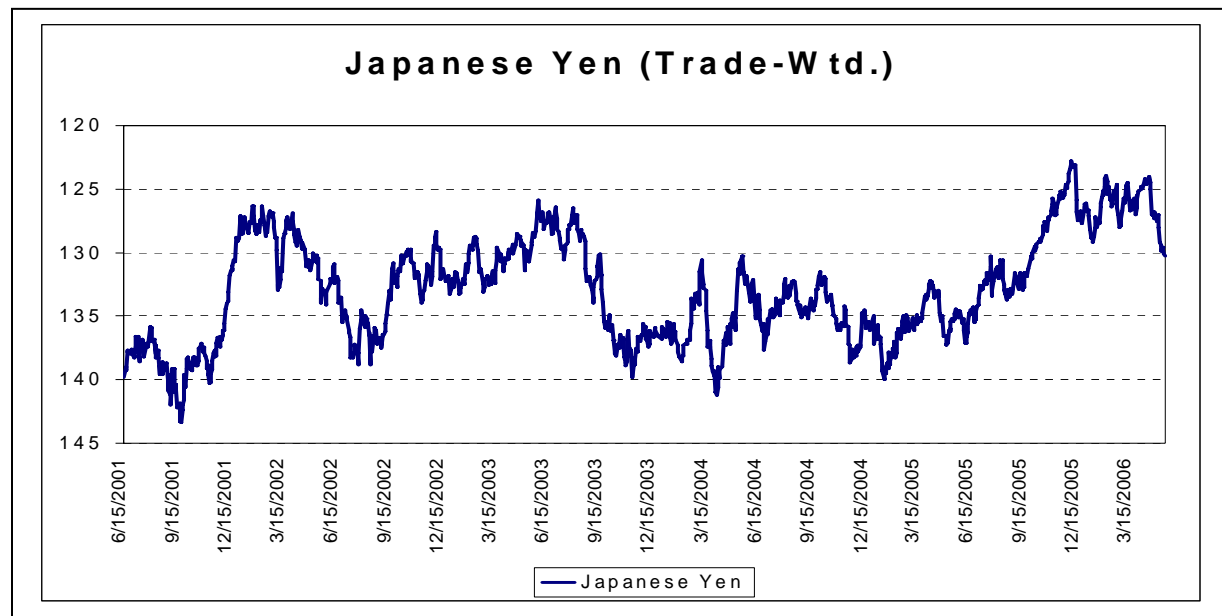
Industrial Production



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%

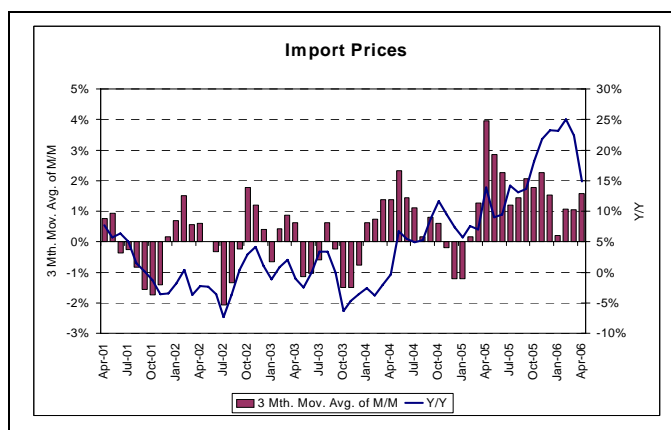
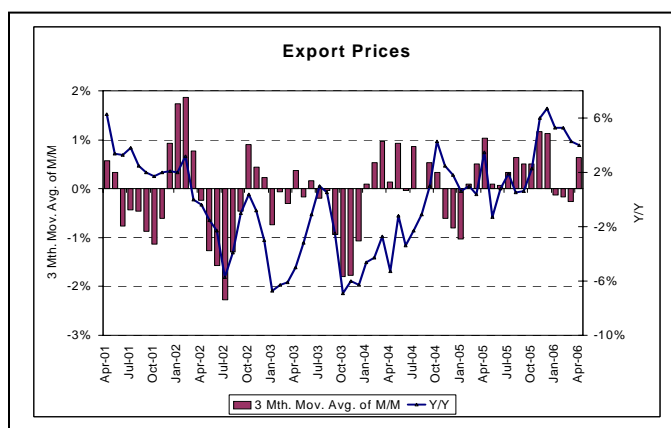
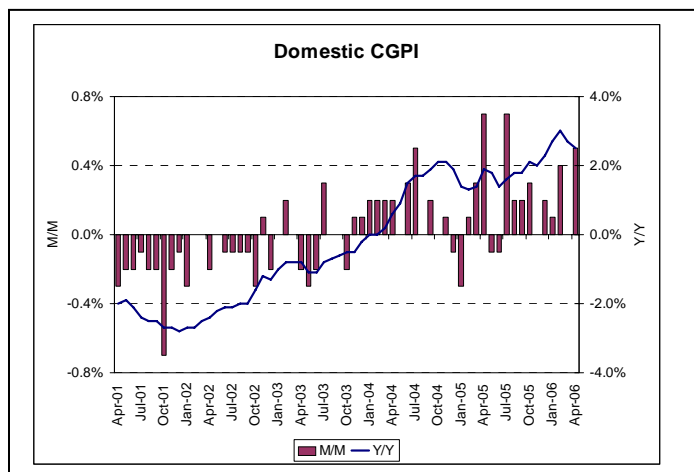


CGPI, Export & Import Prices

Japan's CGPI Index increased 0.5% M/M and 2.5% Y/Y in April, above market expectations for a 0.4% M/M and 2.3% Y/Y increase. The increase in Y/Y prices has largely been driven by increases in energy and metal costs.

Export prices increased 0.7% M/M and 4.0% Y/Y in March. The Y/Y increase in export prices was driven by the metal, precision instrument, and transportation equipment industries.

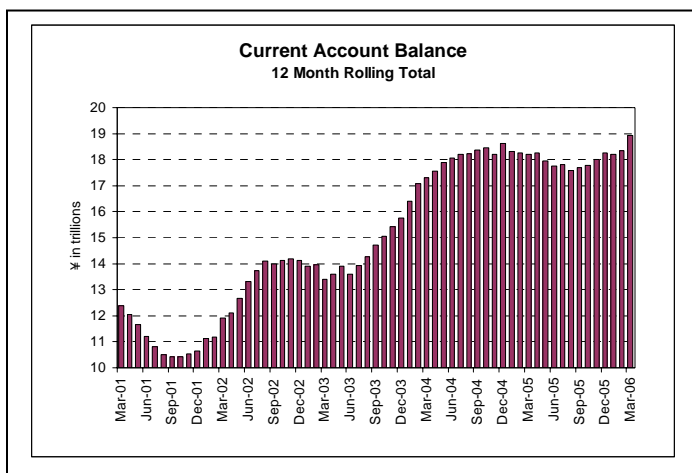
Import prices increased 0.8% M/M and 14.9% Y/Y. The Y/Y increase was driven by the metal, wood/lumber, and chemical industries.



Current Account, Machine Orders & Machine Tool Orders

Current Account Surplus

The adjusted Current Account Balance increased from a revised ¥1613.6 bln in February to ¥1690.7 bln in March. The Trade Balance on a Balance of Payments Basis, increased from ¥1090.9 bln to ¥1108.6 bln.

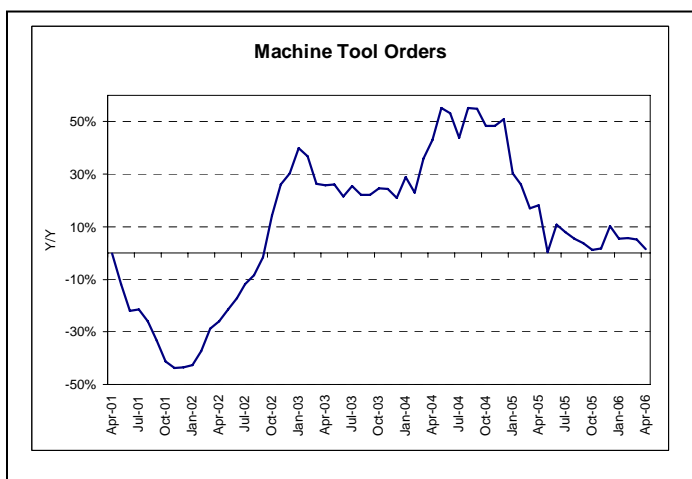
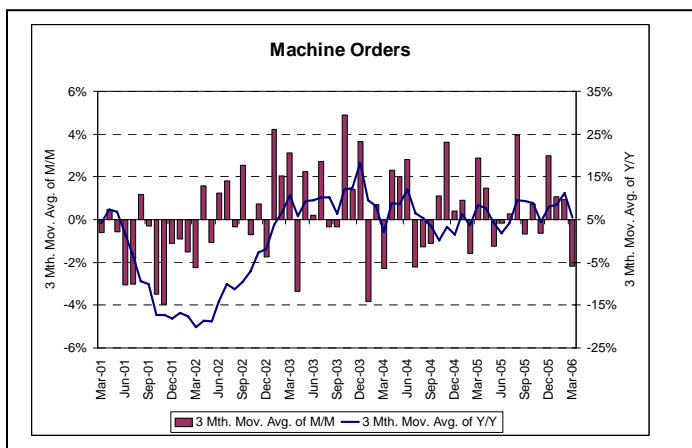


Machine Orders & Machine Tool Orders

Core Machine Orders declined 5.2% M/M and 1.6% Y/Y in March, below market expectations for a 0.4% M/M and 6.5% Y/Y increase.

The Y/Y decline was the first such decline since May 2005 and came as companies in the energy and steel industries scaled back capex plans. Although the overall trend remains positive, capital spending may begin to slow in the coming months, following rapid growth last quarter.

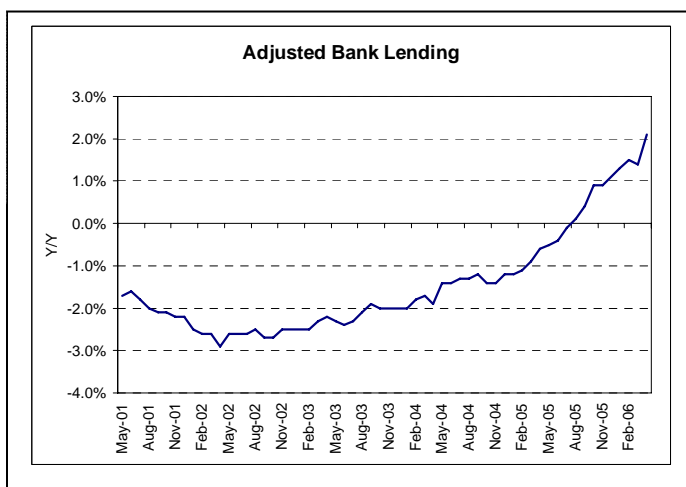
Machinery Tool Orders increased 1.4% Y/Y in April, due to continuing strength in foreign demand.



Bank Lending, Bankruptcies & Eco Watchers Survey

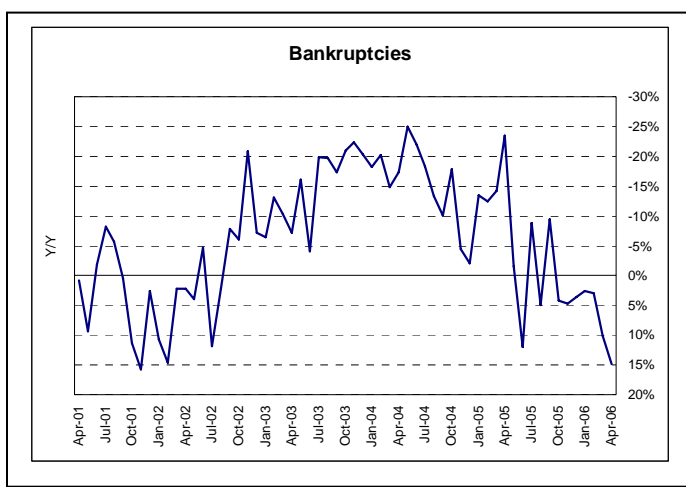
Bank Lending

Bank Lending increased 2.1% Y/Y in March, the 9th and largest consecutive M/M increase.



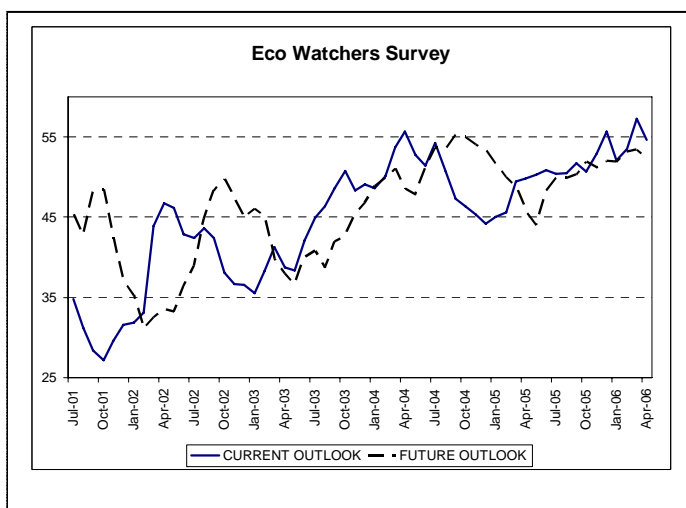
Bankruptcies

Corporate Bankruptcies declined 13.4% M/M and increased 14.9% Y/Y in April as the finance/insurance sector saw large Y/Y increases in bankruptcies.



Eco Watchers Survey

In April, the Eco Watchers Survey's Current Conditions Index declined from 56.0 to 53.1, moving downward from its all time high. The Outlook Index edged downward from 56.2 to 55.0 in March. Within the survey, the Employment Conditions Index declined from 65.5 to 64.4 while the Employment Outlook declined from 61.3 to 59.1. The Business Conditions Index declined from 57.5 to 54.7 while the Business Conditions Outlook declined from 54.0 to 53.5.

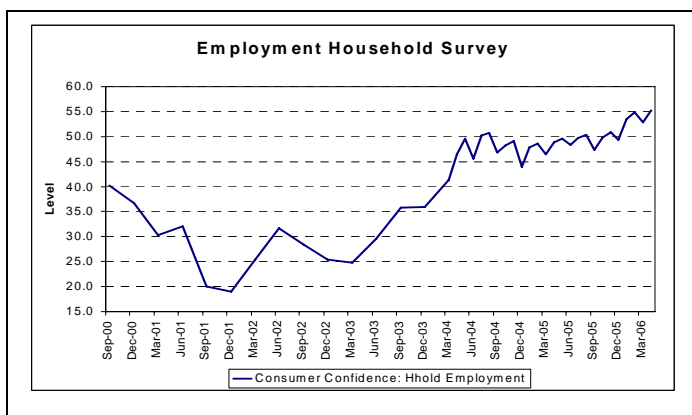
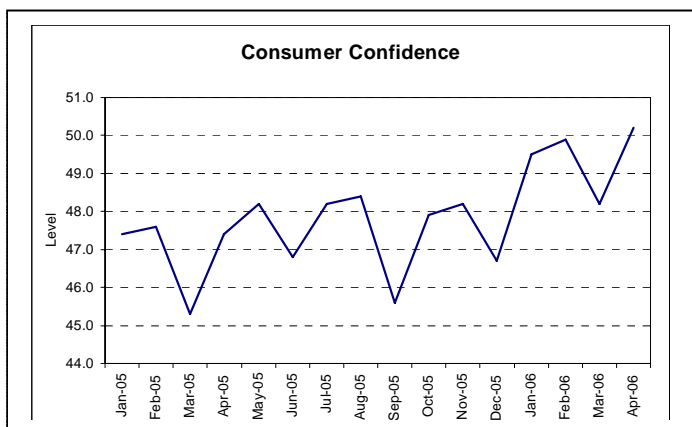


Consumer Confidence & Tokyo Condominium Sales

Consumer Sentiment

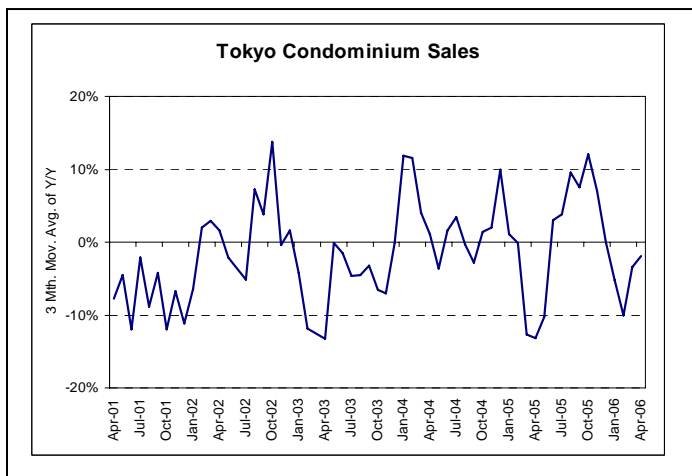
In April, Consumer Confidence increased from 48.2 to 50.2. The employment component of the index increased from 52.9 to 55.2. The willingness to buy durable goods increased from 50.0 to 51.6. Income growth increased from 43.5 to 46.2.

Among households, the increase puts consumer confidence on the optimistic side for the first time in 15 years.



Tokyo Condominium Sales

The number of Tokyo Condominiums for sale declined 2.5% Y/Y in April. At the same time, the number of condominiums sold increased 1.3% Y/Y. The average unit price increased 16.1% Y/Y and the average price per square meter increased 4.4% Y/Y.



News

News

May 16th – BoJ Gov. Fukui commented on rising rates and speculation regarding the end of ZIRP, stating that, “Completing the reduction in the balance of accounts and ending the zero interest policy are two separate issues...(the interest rate hike) will be decided strictly on economic and consumer price factors.” On the economy, he commented that it “will mature and the rate of its expansion will slow down.” He also added that, “The corporate sector has been stocking up on facilities at a rate faster than the estimated increase in total demand.” On the consumer side, he made clear that “Employment and wage conditions are improving against the backdrop against higher corporate profits and the emerging sense of labor shortage.”

May 16th – The Government maintained its optimistic assessment of the Japanese economy for the third consecutive month, stating that the economy “is recovering.” In its report, the government also dropped the word “moderately” from its assessment of increasing imports, highlighting the country’s domestic demand led growth.

May 15th – BoJ Gov. Fukui commented that “Lowering the current account deposit balance and the end of zero-interest-rate policy are a completely separate matter...the central bank will continue to reduce the current account deposit balance with closely monitoring the short term financial market conditions, while interest rate levels will be determined by economic and price conditions in the future.”

May 15th – An article in the Nikkei noted that the balance of sales of publicly offered stock investment trusts reached a record ¥45.6 trln as of the end of April, about ¥50 bln more than the level at the 1989 peak of the bubble period. They noted that much of the growth was fueled by individual investors, who shifted funds from their bank deposits to investment trusts amid low interest rates and a recovering stock market.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/17	Tokyo Condominium Sales (Apr Y/Y)	N/A	13.4%
05/17	Industrial Production (Mar M/M)	0.2%	0.2%
05/17	Industrial Production (Mar Y/Y)	3.1%	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
05/18	Tokyo Dept. Store Sales (Apr)	N/A	1.4%
05/18	Nationwide Dept. Store Sales (Apr)	N/A	2.0%
05/18	GDP (Q1 Q/Q)	0.3%	1.3%
05/18	GDP Annualized (Q1 Q/Q)	1.1%	5.4%
05/18	GDP Deflator (Q1 Y/Y)	-1.3%	-1.6%
05/18	BoJ Monetary Policy Announcement	N/A	N/A
05/19	Leading Economic Index (Mar)	54.5%	60.0%
05/19	Coincident Index (Mar)	10.0%	11.1%
05/19	BoJ Monthly Report	N/A	N/A
05/22	Convenience Store Sales (Apr Y/Y)	N/A	-2.5%
05/23	Tertiary Industry Index (Mar M/M)	N/A	-1.5%
05/23	All Industry Activity Index (Mar M/M)	N/A	-0.9%
05/24	BoJ Monetary Policy Meeting Minutes	N/A	N/A

Valance Co., Inc.

Valance Economic Report: *United Kingdom*

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May 17, 2006

Average Earnings and Core CPI both remained very subdued this week in the face of firming Headline CPI, Manufacturing Production, and RICS and Rightmove housing data. This week underlying trend in core inflation measures should keep the MPC on hold for an extended period of time.

Weekly Highlights

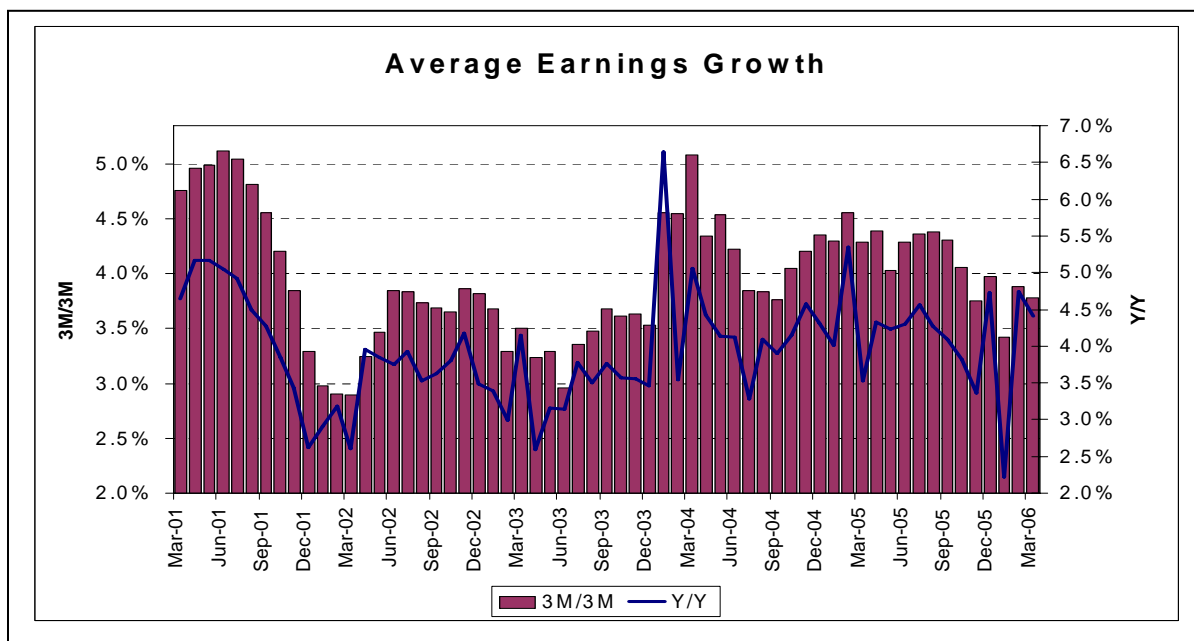
Average Earnings (inc. bonuses) - decelerated to 3.8% 3M/3M and 4.4% Y/Y in March. (page 29)

Core CPI- increased 0.4% M/M and 1.3% Y/Y in April. (page 31)

MPC Members- voted 6-1-1 to leave rates unchanged at 4.50%. (page 36)

Weekly Releases & News

Chart of the Week: *Average Earnings Growth*

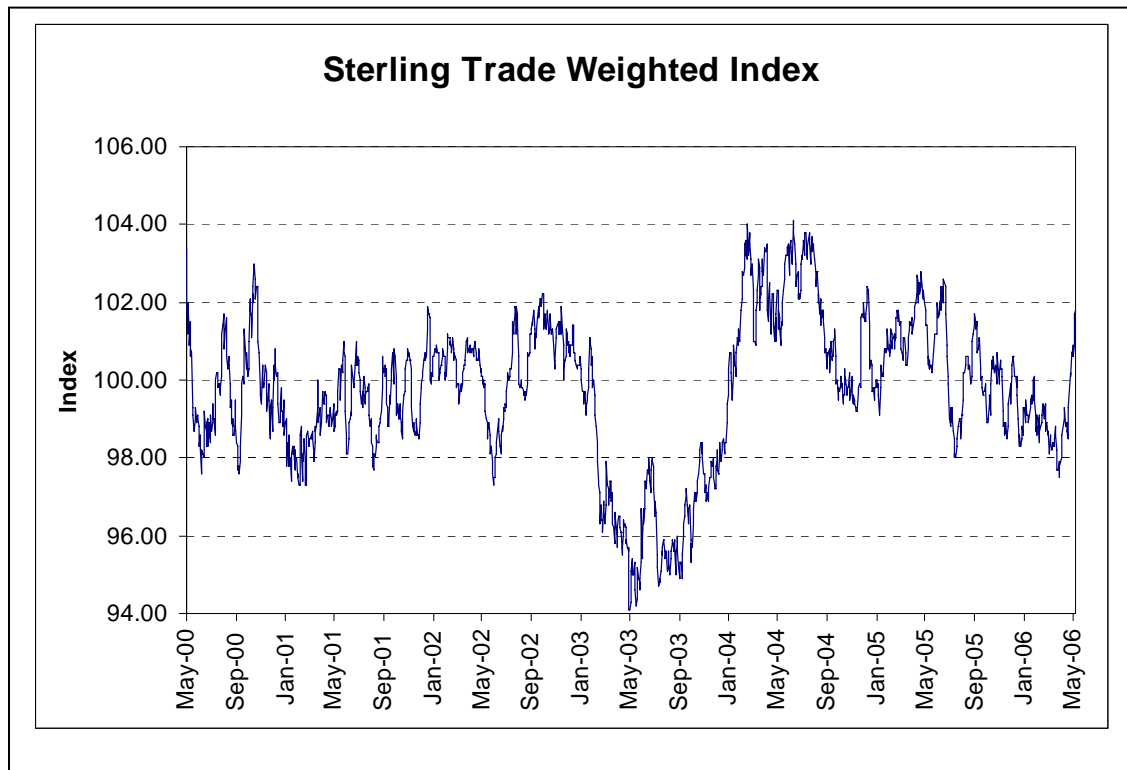


Average Earnings (inc. bonuses) decelerated from 3.9% 3M/3M and 4.7% Y/Y to 3.8% 3M/3M and 4.4% Y/Y in March. Private Sector earnings increased 3.6% 3M/3M and decelerated from 4.9% Y/Y to 4.5% Y/Y. Public Sector earnings increased 4.3% 3M/3M and 4.4% Y/Y. Average Earnings (ex. bonuses) increased 3.8% 3M/3M and decelerated from 3.9% Y/Y to 3.7% Y/Y.

29

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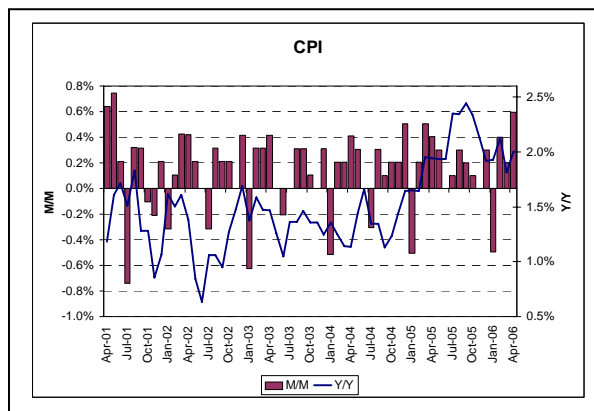
<i>U.K.</i>	<i>Last Period (blns)</i>	<i>Last 12mth. % of GDP</i>
Budget Balance (monthly)	£6.9 (Mar)	+2.4%
Trade Balance (monthly)	-£4.8 (Feb)	-1.7%
Curr. Acct. Balance (quarterly)	-£11.0 (Dec)	-3.9%
Private Balance	--	-6.3%



CPI Growth

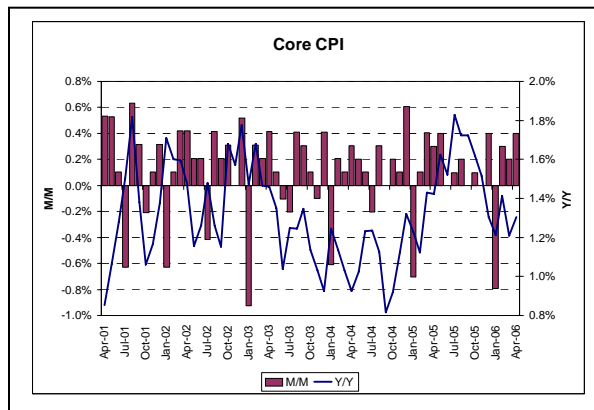
CPI Growth

CPI growth increased 0.6% M/M and 2.0% Y/Y in April. The largest upward pressure came from transport, which rose 1.5% M/M and 4.4% Y/Y as airfares jumped due to the timing of the price collection period in relation to Easter. Additional upward pressure came from gas and electricity; gas prices increased 6.3% M/M and 24.8% Y/Y while electricity prices increased 4.3% M/M and 17.3% Y/Y. April CPI is seasonally high due to the levy of new tax increases at the start of the new fiscal year.



Core CPI Growth

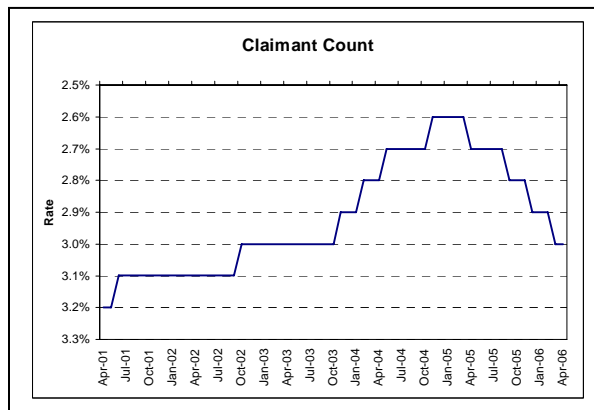
Core CPI increased 0.4% M/M and 1.3% Y/Y in April, slightly more subdued than expected. The annual rate equals its five year average.



Employment Data

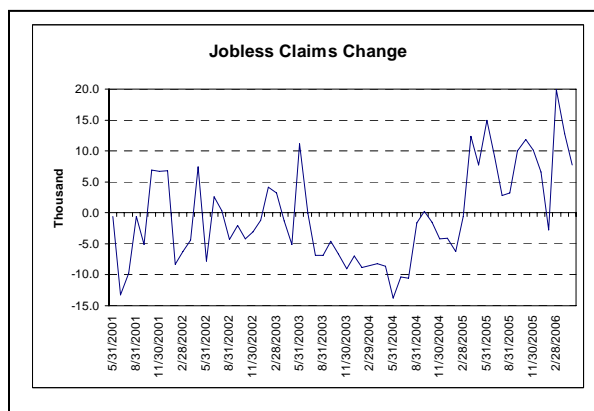
Claimant Count Rate

The Claimant Count Unemployment Rate remained at 3.0% for the second consecutive month in April.



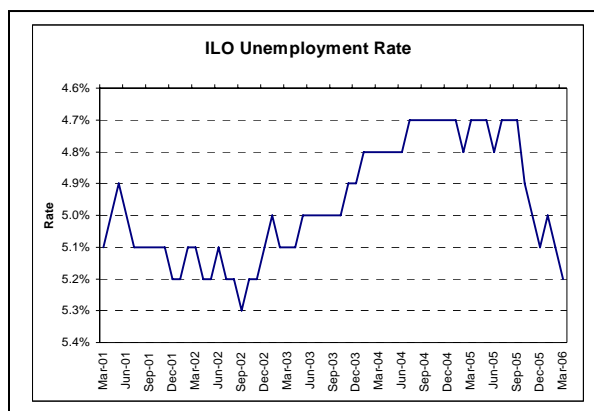
Jobless Claims

Jobless Claims increased by 7.7k, for an average monthly increase of 9.1k over the last six months, mainly due to the manufacturing sector cutting jobs.



ILO Unemployment Rate

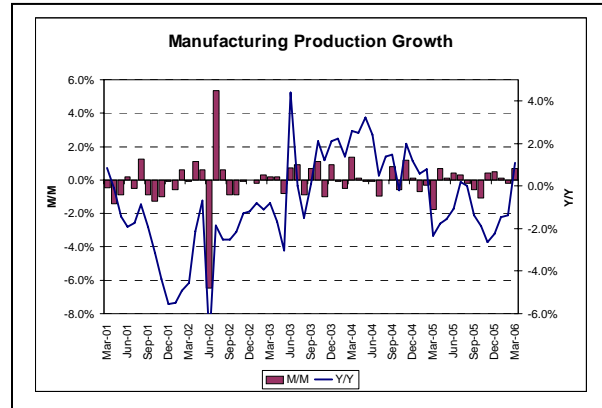
The ILO Unemployment Rate increased from 5.1% to 5.2% in March, the highest since November 2002.



Manufacturing & Industrial Production

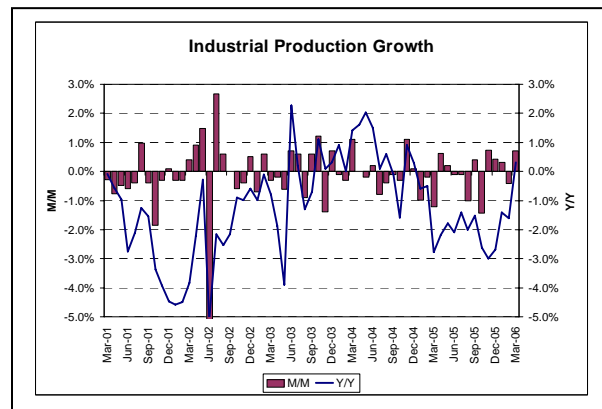
Manufacturing Production

Manufacturing Production increased 0.7% M/M and 1.1% Y/Y in March, higher than expected and the largest M/M increase in eleven months. Ten of the thirteen sub-sector posted gains. Output in the transport equipment industries increased 4.3% M/M.



Industrial Production

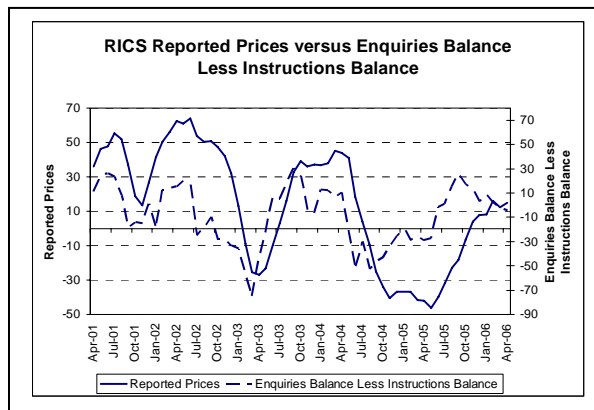
Industrial Production, which excludes mining and quarrying, increased 0.7% M/M and 0.3% Y/Y in March.



RICS House Price Survey

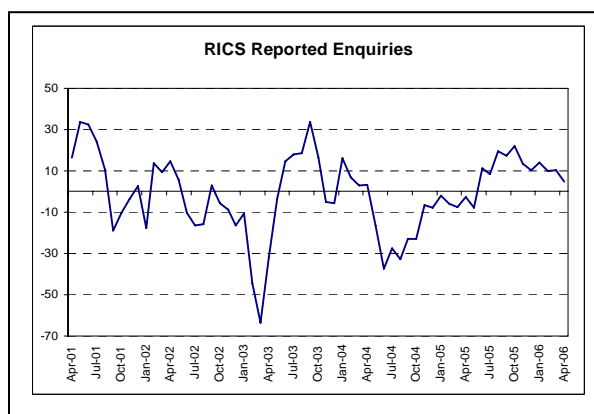
RICS House Prices

RICS House Prices increased from +12 to +15 in April, its sixth consecutive increase, fueled by demand for larger homes. Scotland and London remain the strongest housing markets.



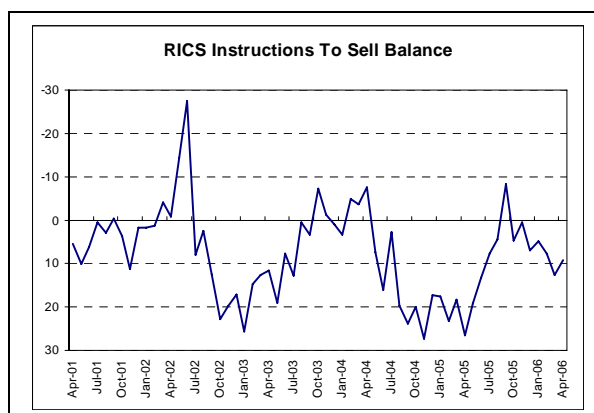
RICS New Buyer Enquiries

New Buyer Enquiries decelerated from +10 to +5 in April, the slowest pace of growth since June 2005.



RICS New Instructions to Sell

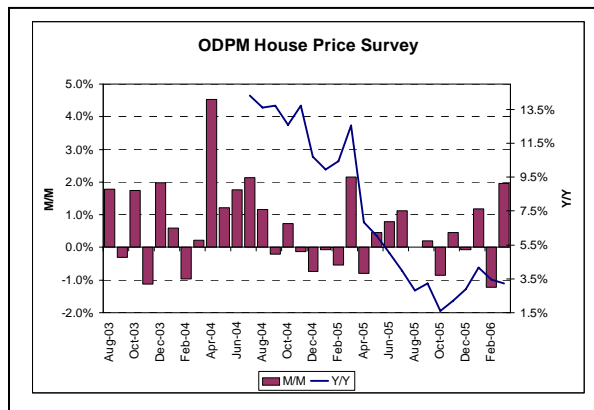
New Instructions to Sell decelerated from +13 to +9 in April. RICS commented that rising unemployment has contributed to an increase in the number of forced sellers of property.



ODPM House Price Survey & Leading/Coincident Indicators

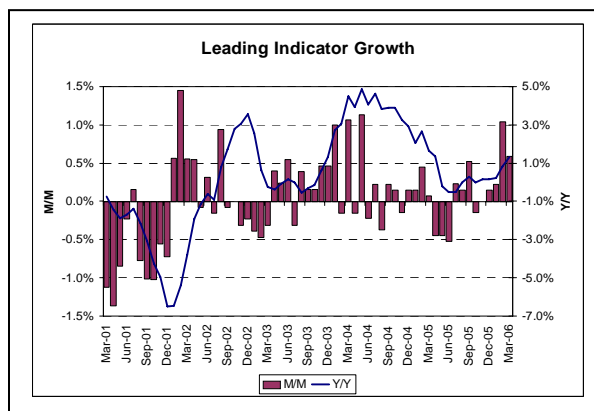
ODPM House Price Survey

ODPM House Prices (now DCJG, The Dept. of Communities and Local Gov't) increased 2.0% M/M and 3.2% Y/Y in March. Regional data showed a jump in London house prices from 1.5% Y/Y to 4.0% Y/Y. However, six of the other eight regions decreased.



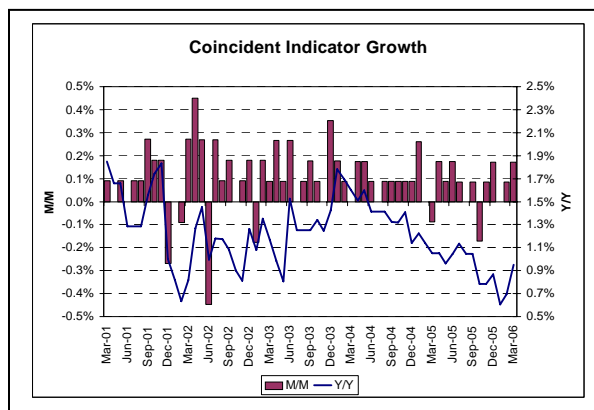
Leading Indicator

The Leading Indicator increased 0.6% M/M and 1.3% Y/Y in March. Components for Consumer Confidence decreased 15.2% M/M and New Orders increased 0.3% M/M.



Coincident Indicator

The Coincident Indicator increased 0.2% M/M and 1.0% Y/Y in March.



MPC Minutes

MPC Minutes show that members voted 6-1-1 to leave rates unchanged at 4.50%. Stephen Nickell continued to vote for a 25bp rate cut while David Walton surprisingly voted for a 25bp rate hike; this is the first 3 way split since August 1998. Members discussed the case for both rate hikes and rate cuts, but “On balance, most members felt there was no need to stimulate demand at this time given the signs of a pickup in growth and the near-term risks to inflation from higher energy prices. Equally, there appeared to be no pressing need to tighten policy given the continued weakness of domestically generated inflation.” This was Stephen Nickell’s last meeting and David Blanchflower, an economist from Dartmouth College in the U.S. will replace him.

Arguments for rate hikes included:

- *A broad range of business surveys indicated that the pace of output growth had now risen above trend and that the prospects for exports and investment were improving.*
- *There remained considerable uncertainty about the amount of spare capacity in the economy, especially following the large rise in energy prices, but it was likely to be small.*
- *Part of the recent increase in unemployment might have been related to structural factors.*
- *There was also a risk of higher inflation stemming from stronger commodity and import prices than assumed in the Committee’s central projection.*

Arguments for rate cuts included:

- *There remains a risk that consumption growth would come in somewhat weaker than had been assumed in the central projection owing to the negative effects on post-tax labor income of weak wage and employment growth, higher energy prices, and the projected gradual increase in the effective tax rate.*
- *While the pickup in recent investment and export surveys was encouraging, similar strength had not yet been observed in the official data.*
- *Consequently, it seemed more likely that growth would be maintained at, or a little below, its long-run average and that some degree of spare capacity in the economy would be maintained throughout the forecast period. This spare capacity would keep downward pressure on domestically generated inflation.*
- *Although commodity prices were likely to remain high and volatile in the short-term, their impact on inflation would dissipate unless they continued to rise at a rapid rate. There remained no signs of any second-round impact onto wages from higher energy prices. UK inflation might, therefore, fall below the target once commodity and energy prices stabilized.*

Data & Comments

Data

Rightmove House Price Survey

Rightmove House Prices increased 2.0% M/M and 5.9% Y/Y in May. Rightmove revised their 2006 annual growth forecast from 5.0% Y/Y to 8.0% Y/Y as property shortages have driven up asking prices. This forecast makes Rightmove one of the most bullish house price surveys.

FT House Price Survey

FT House Prices increased 0.5% M/M and 4.3% Y/Y in April. FT stated that London house prices have “stalled” allowing prices in other regions to catch up with the capital.

NIESR GDP Estimate

The NIESR’s GDP estimate remained at 0.6% 3M/3M for the second consecutive month in April.

Comments

MPC Member David Walton commented that a pickup has taken hold in the U.K. economy, which will continue to expand “close to its target.” “We have more confidence that the recovery is established and that the economy will continue to grow at close to its target, I think we have a clearer picture of the economy than we did a few months ago.” Continuing, he said “through the first half of last year it was very weak, but things did pick up in the second half and by the final quarter it seemed to have got back towards its long-term growth rates.”

News & Upcoming Dates

News

May 14th - U.K. Government Cutting Fewer Jobs Than Planned - British government ministries are cutting fewer jobs than planned as a part of a £21.5 bln cost-cutting program. The Department for Work and Pensions has about 17,000 more employees than called for in a July 2004 report by Peter Gershon calling for 104,000 civil service jobs to be shed. Public sector employment has risen by 555,000 in five years, or 10.5%, prompting criticism from the main opposition Conservative Party that Chancellor of the Exchequer, Gordon Brown, is failing to take the action needed to curb government spending.

May 14th - Bank is told rates hike will harm UK - Britain's recovery remains fragile and the Bank of England should not contemplate higher interest rates, according to a forecast to be released this week by the British Chambers of Commerce. The body, which represents small and medium-sized firms, said business is being held back by the "vast and relentless regulatory burden" and by rising taxation. It predicts 2.2% growth this year, edging up to 2.5% in 2007, but warns this is not guaranteed. Household spending will remain subdued, with no guarantee that exports and investment will rise to take up the slack.

May 11th - U.K. Sells 40-Year Gilts for First Time Since 1978 at Auction - The U.K. sold £2.25 bln of 40-year government bonds, the first auction of the gilts in almost 30 years. The 4.25% bonds maturing in December 2046 were sold at an average yield of 4.24%, and received bids worth 1.94 times the amount on offer.

May 11th - Brown: Public Sector Pay Must Fit With Inflation Target - Future U.K. public sector pay deals must fit with the official headline inflation target of 2%, U.K.'s Chancellor of the Exchequer Gordon Brown said. Wage inflation for public sector employees have often been seen as being out of step with private sector wages. Last year, a pension's deal reached between the Department for Trade and Industry and public sector unions for government employees provoked the ire of many in the private sector. It allows current members of the generous government pensions plan to retire with full benefits at the age of 60 while future workers will have to work until the age of 65 before they can receive full benefits. This comes at a time when reforms to government pension's policies could see private sector employees having to work longer before they would start receiving the state pension paid by the government.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/18	Retail Sales	0.5% M/M 2.6% Y/Y	0.7% M/M 2.6% Y/Y
05/19	Public Sector Net Borrowing	£0.6 bln	£7.0 bln
05/19	CML, BBA Mortgage Lending Data	--	--
05/24	CBI Industrial Trends Report	--	--

Valance Co., Inc.

Valance Economic Report: Canada

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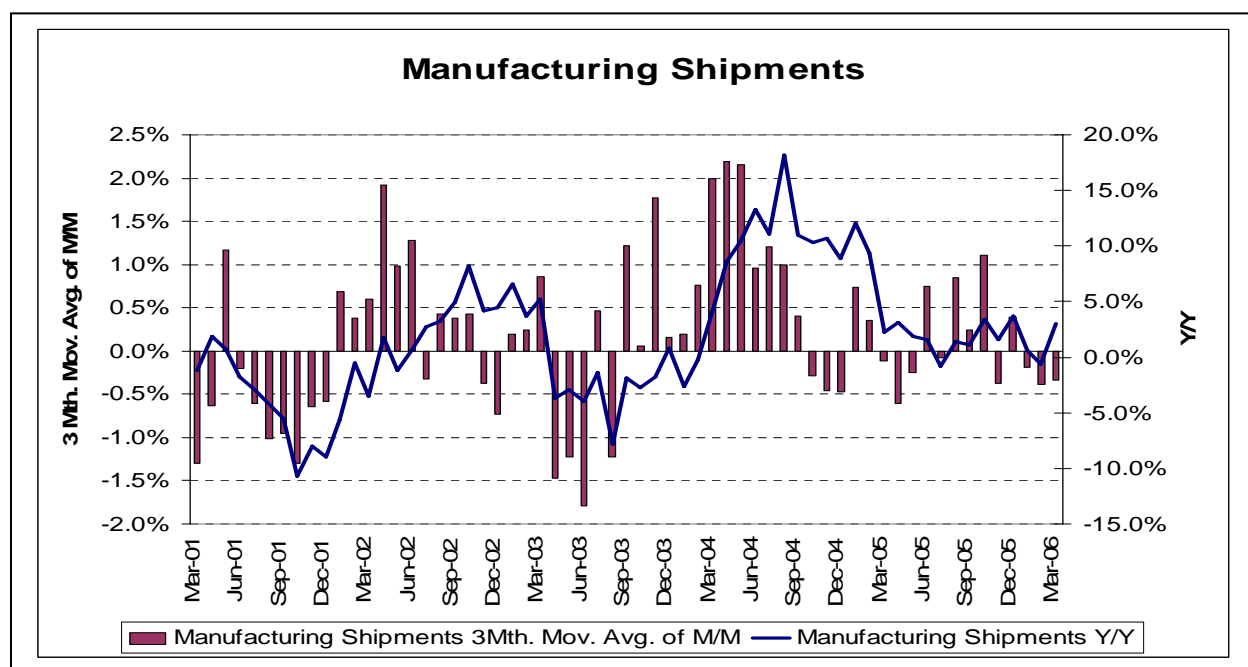
May 17, 2006

Canada continues to display solid economic performance. Manufacturing Shipments, New Motor Vehicle Sales and Wholesale Sales, all increased above expectations this past week. The Trade Surplus remains elevated. On the back of strong economic releases, we maintain our view for a 25 bps interest rate hike by the BoC's at its next meeting on May 24th. The market is pricing a 50/50 probability of a move on that date.

Weekly Highlights

Manufacturing Shipments - increased 1.6% M/M and 3.0% Y/Y in March. (page 39)

Canada's Merchandise Trade Surplus - decreased from C\$5.9 bln in February to C\$5.1 bln in March. (page 42)

Weekly Releases & News**Chart(s) of the Week: *Manufacturing Shipment***

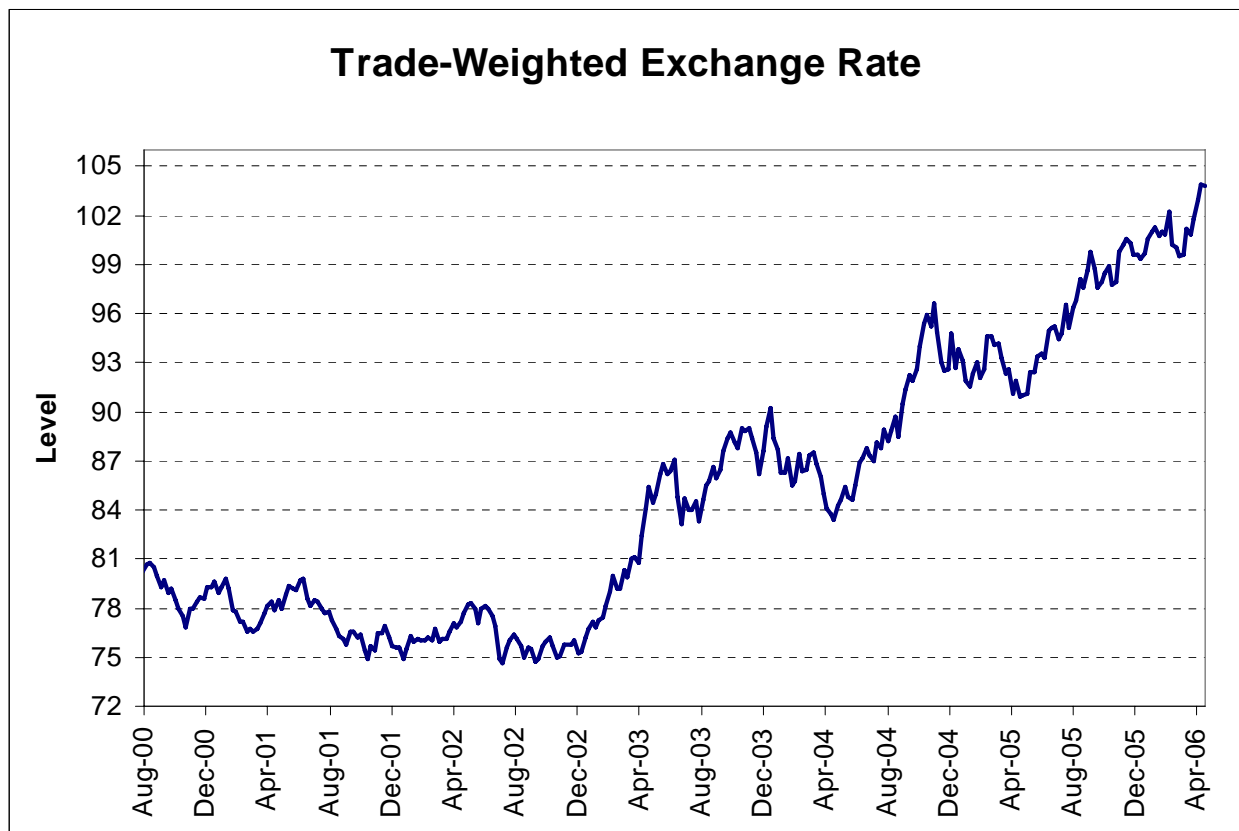
Manufacturing Shipments increased 1.6% M/M and 3.0% Y/Y in March. Following two months of declines, the M/M reading was the highest in seven months. 17 of the 21 industries, which account for 92% of total shipments, posted gains. The increase was mainly attributed to a surge in aerospace production and a rebound in shipments of petroleum products.

Financial Balances & Trade Weighted Exchange Rate

Financial Balances

<i>Canada</i>	<i>Latest period (C\$bbln)</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%

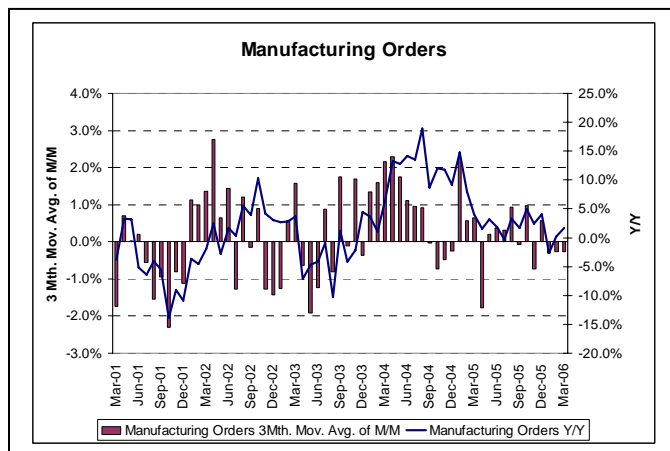
Trade-Weighted Exchange Rate



Manufacturing Data

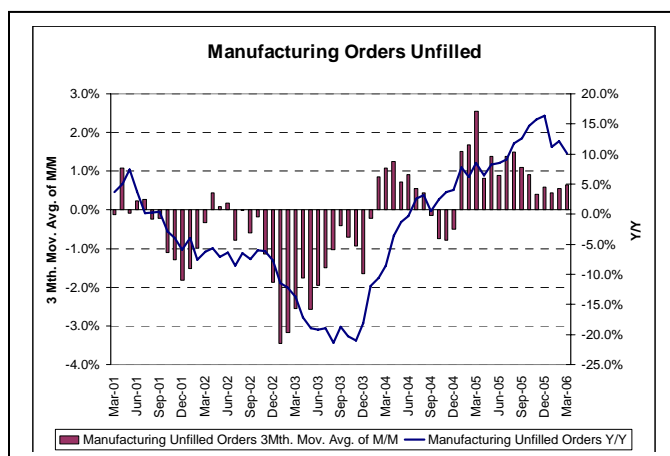
Manufacturing Orders

Manufacturing Orders increased 1.4% M/M and 1.6% Y/Y in March as a result of gains in the aerospace and machinery industries.



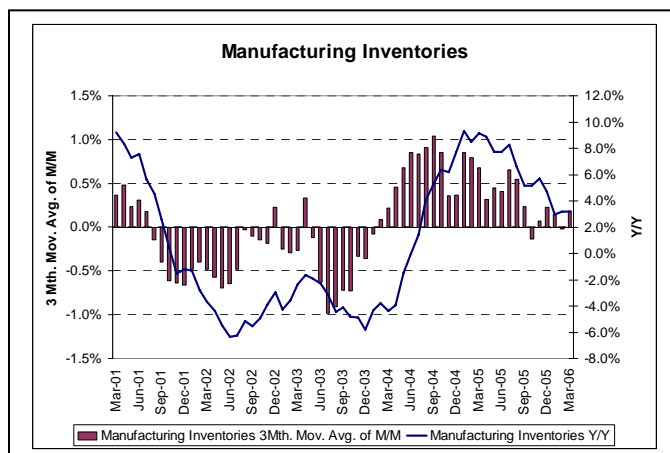
Unfilled Manufacturing Orders

Unfilled Manufacturing Orders increased 0.5% M/M and 10.1% Y/Y in March, the sixth consecutive M/M increase. New orders increased 1.4% M/M and 1.6% Y/Y in March.



Manufacturing Inventories

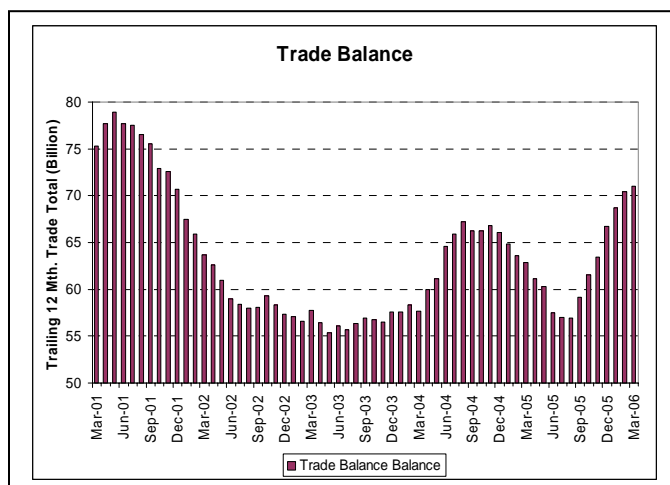
Manufacturing Inventories increased 0.4% M/M and 3.2% Y/Y in March. On trend terms, however, inventories have been trending down and may indicate future increases in production.



Trade Data

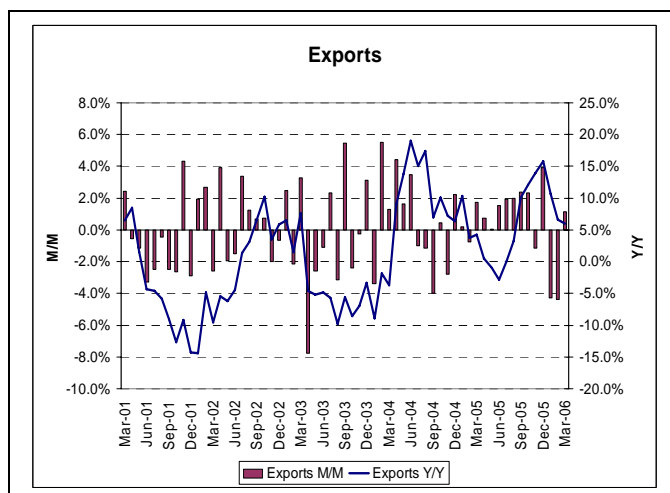
Trade Balance

Canada's Merchandise Trade Surplus decreased from C\$5.9 bln in February to C\$5.1bln in March, as imports increased more than exports. The Trade Surplus, however, has been on a steady uptrend on a trailing 12 mth basis since August 2005, and on this basis it is at its highest level since November 2001.



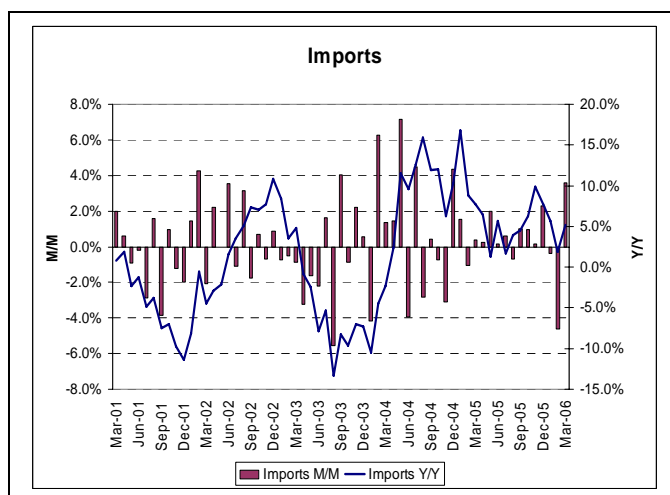
Exports

Exports increased 1.1% M/M and 6.0% Y/Y in March, mainly as a result of an increase in machinery and equipment.



Imports

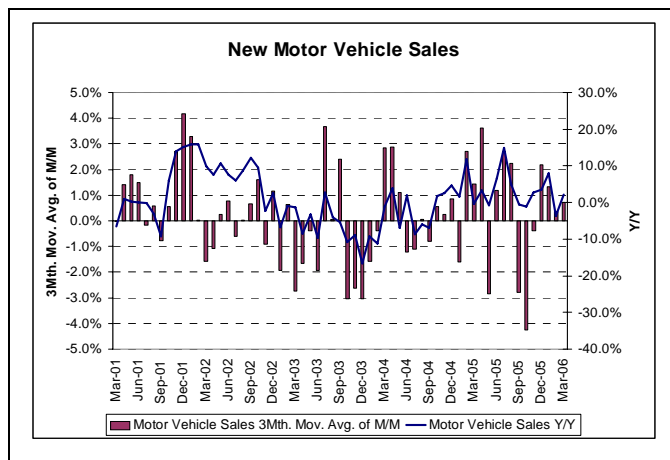
Imports increased 3.6% M/M and 5.2% Y/Y in March as imports of crude petroleum, machinery and equipment, consumer goods and automotive goods all increased.



New Motor Vehicle Sales & News

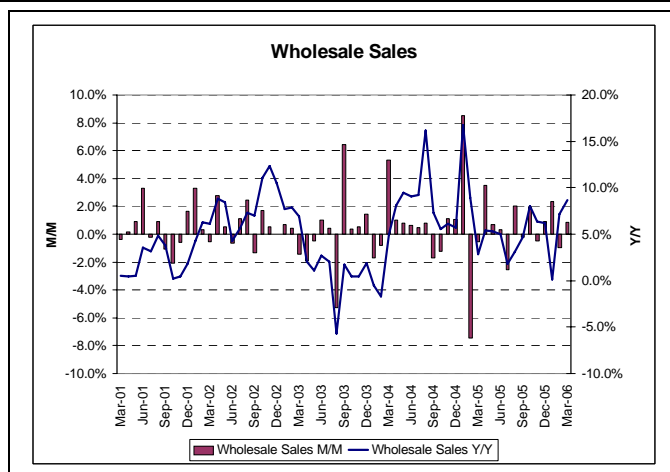
New Motor Vehicle Sales

New Motor Vehicles Sales increased 1.1% M/M and 2.1% Y/Y in March. Both passenger car and truck sales increased.



Wholesale Sales

Wholesale Sales increased 0.8% M/M and 8.6% Y/Y in March, as five of the seven sectors posted gains. The gain was mostly attributed to stronger sales of personal and household goods (+3.6%) and of machinery and electronic equipment (+3.3%). The Y/Y gain was the highest in over a year.



News

May 15th – Business Conditions Survey – According to the Business Conditions Survey for the Travel Accommodation Industries, Canada's hotel operators remain optimistic for Q2, despite labor shortage concerns. 32% of hoteliers indicated they are experiencing a shortage of unskilled labor, versus 15% of hotel managers who recorded a shortage of unskilled laborers a year ago. 45% of hoteliers expect an increase in room rates in Q2, while only 12% feel they will drop.

May 12th - Non-residential Building Construction Price Index - The Composite Price Index for non-residential building construction increased 1.4% Q/Q and 6.3% Y/Y in Q1, to reach 138.6. The Q/Q increase was mainly attributed to increases in material and labor costs and a strong market for non-residential building construction.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/18	Consumer Price Index (M/M) APR	0.5%	0.5%
05/18	Consumer Price Index (Y/Y) APR	2.4%	2.2%
05/18	Core CPI (M/M) (APR)	0.2%	0.4%
05/18	Core CPI (Y/Y) (APR)	1.8%	1.7%
05/19	Retail Sales (M/M) (MAR)	0.6%	-0.4%
05/19	Retail Sales Less Autos (M/M) (MAR)	0.7%	0.3%
05/24	Leading Indicators (M/M) (APR)	0.4%	0.6%
05/24	Bank of Canada Rate MAY 24	4.255	4.00%

Valance Co., Inc.

Valance Economic Report: Australia

Milo Prochazka

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May 17, 2006

The RBA announced personal income tax cuts last week, which may boost consumer spending and help to offset record gasoline prices and higher borrowing costs. Home loans growth moderated. Wages gained less than expected while consumer confidence dropped to a 7-month low.

Weekly Highlights

Unemployment Rate – increased to 5.1% in April from 5.0% in March. (page 45)

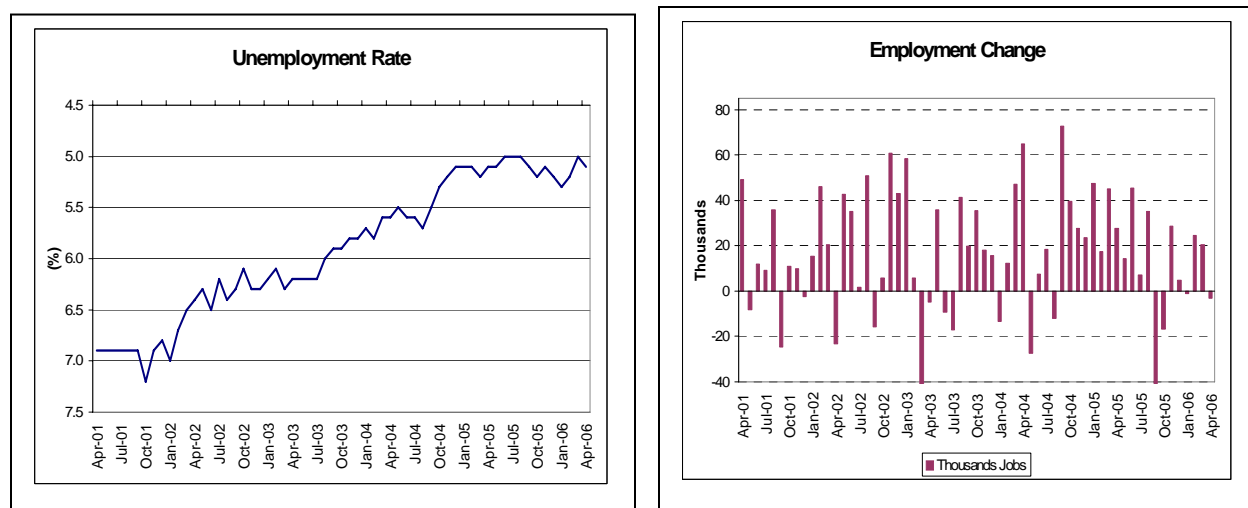
Home Loans – rose 0.7% in March after a 1.4% gain in February. (page 46)

Wage Cost Index – rose 0.9% Q/Q and 4.0% Y/Y in Q1. (page 46)

Consumer Confidence – dropped 6 points to a 7-month low in May. (page 46)

Weekly Releases & News

Chart(s) of the Week: *Unemployment*

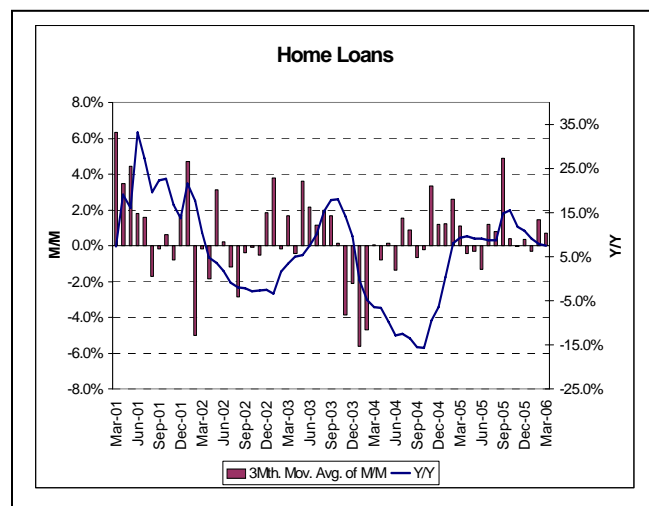


Total jobs dropped by 3.2k in April after climbing a revised 20.4k (previously 27k) in March, increasing the unemployment rate to 5.1% in April from 5.0% in March. Full-time jobs rebounded by 22.7k and part-time jobs dropped by 25.9k in April. The pick up in employment growth in the past couple of months may have overstated the strength of the labor market, which was supported by the Commonwealth Games.

Home Loans, Wage Cost Index & Consumer Confidence

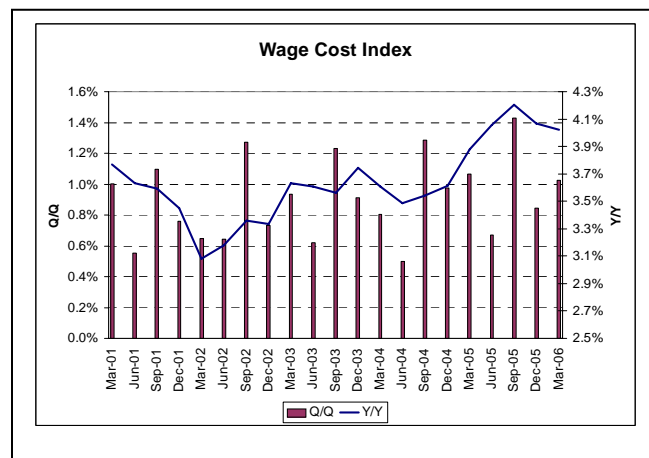
Home Loans

The number of loans granted to owner-occupiers to build or buy homes and apartments gained 0.7% in March after a 1.4% gain in February. Economists expected a 0.5% gain.



Wage Cost Index

The Wage Price Index, which measures hourly rates of pay, excluding bonuses, rose 0.9% in Q1, matching the gain in Q4. The median forecast was for a 1.0% gain. Wages climbed 4.0% in Q1 from a year earlier. Surging gasoline prices may curb companies' ability to pay higher wages and new labor laws may restrain workers' demands, allowing the RBA to keep borrowing costs unchanged.



Westpac Consumer Confidence

The Consumer Sentiment Index fell to 104.1 in May, the lowest since October last year, from 110.7 in April, according to Westpac Banking Corp. and Melbourne Institute. The result was mainly due to persistently high petrol prices. A reading above 100 shows that optimists outnumber pessimists.

Comments

Comments

Australian Treasury Secretary, Ken Henry's Speech entitled "The Fiscal and Economic Outlook" (My 16th) – summary:

- "If Australia's recent macroeconomic performance is any guide, the economic environment is remarkably benign.
- "The world economy is also doing well, having grown above trend for three years.
- "Yet despite this apparent macroeconomic stability, there are forces acting on the Australian and global economies that are both powerful and long lasting.
- "China's re-emergence may also be accompanied by periods of volatility.
- "Commodity price developments are affecting all economies. For some, like our own, the immediate consequence is extraordinarily high terms-of-trade.
- "Other economies are having their terms-of-trade hammered. High terms-of-trade should be good news. But it is the sort of good news that has policy makers sitting on the edge of their seats. And for good reason: earlier terms-of-trade booms have not always been comfortable times for Australian policy makers.
- "One of the Treasury's interests is in understanding how the terms-of-trade boom might be affecting the budget - more generally, what is the likely impact of the terms-of-trade boom on present and prospective budgets and how is it affecting the stance of fiscal policy?
- "There is a risk that if we were to publish a judgment about the future direction of, say, the exchange rate or interest rates, we might be interpreted as taking a view on what these things should be as opposed to what we think they might be. Better, we think, simply not to be seen to be taking a view at all.
- "Clearly fiscal policy is relatively tight, especially by international standards. Should it be tighter? Some think it should, because there is the potential for the terms-of-trade to fall sharply and for income growth to slow.
- "Over the recent period, the real economy has been growing at around trend, with output close to full capacity. Furthermore, we have had no significant increase in inflation in this period – no rapid acceleration in prices -- with little change in monetary policy settings.
- "It remains the case that our potential growth rate will be lower in the future because of the impact on population and participation of the demographic changes.
- "The unemployment rate is already at the level projected for the next 40 years in the 2002-03 Intergenerational Report. And productivity growth appears currently to be back to the long run trend rate projected in that document.
- "While I have developed this argument on an assumption that the terms-of-trade stay well above historical average levels for a sustained period, the case is only stronger if the present commodity price boom turns out, after all, to be just another spike."

Comments Cont. & Key Dates This Week

Details on the Tax Cuts and Budget:

- Australia cut income taxes by A\$36.7 bln for the third year in a row while forecasting a budget surplus of A\$10.8 bln (1.1% of GDP) in the fiscal year starting July 1.
- Budget Surplus of 14.8bln (1.5% of GDP) expected in 2005/2006.
- The RBA forecast economic growth will accelerate to 3.25% from 2.5% this fiscal year.
- The top income-tax rate will be cut to 45% from 47% and the threshold at which it starts to be effective raised to A\$150,000 a year from A\$95,000.
- The government forecasts the current account deficit will widen to 6.25% of GDP next fiscal year from 6% this year.

Upcoming Dates

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/17	Average Weekly Wages (Q1)	---	0.4%
05/21	New Car Sales M/M: Y/Y (APR)	---	-2.0%;-2.8%
05/23	Westpac MI Leading Index (MAR)	---	---
05/23	DEWR Skilled Vacancies (MAY)	---	1.3%
05/23	Construction Work Done (Q1)	---	0.1%

Valance Co., Inc.

Valance Economic Report: New Zealand

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May 17, 2006

Retail Sales, manufacturing and house sales all showed signs of moderation with the Q1 unemployment rate also increasing. But latent strength in wage inflation, and pressure from a lower NZD and high oil prices leave the RBNZ with little room to start the easing cycle until late 2006, at the earliest.

Weekly Highlights

Employment – employers added 23k workers; the Unemployment Rate increased to 3.9% in Q1 from 3.6% in Q4. (page 49)

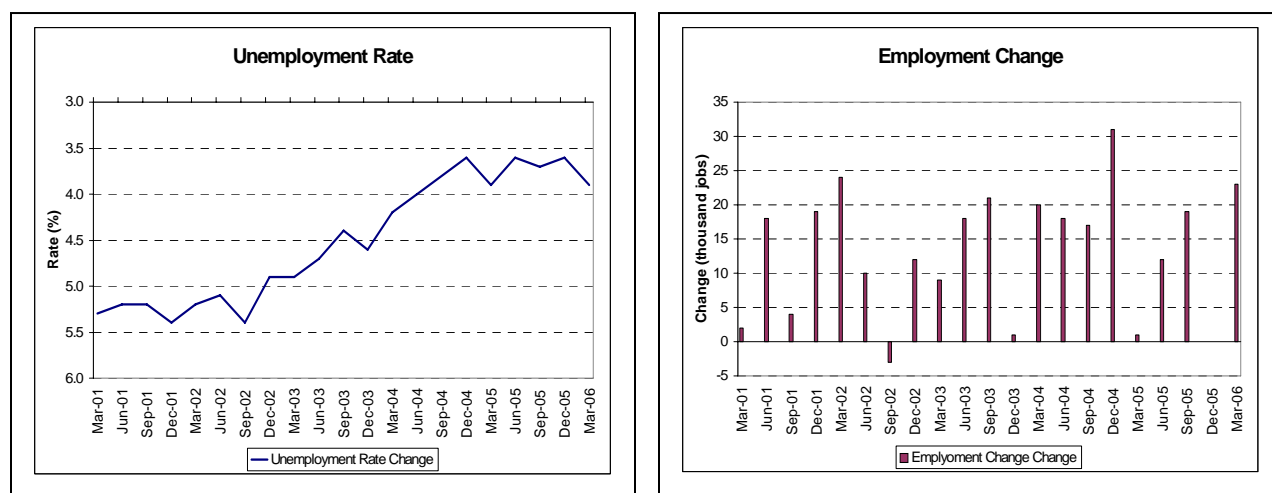
Retail Sales – fell 1.0% M/M and rose 1.0% (ex-inflation) Q/Q in March. (page 50)

ANZ Job Advertisements – fell 0.1% in Q1. (page 51)

ANZ NZ PMI – fell to 53.1 in April from 53.5 in March. (page 52)

Weekly Releases & News

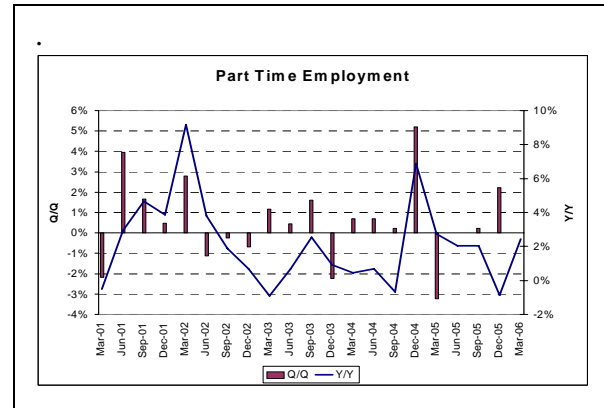
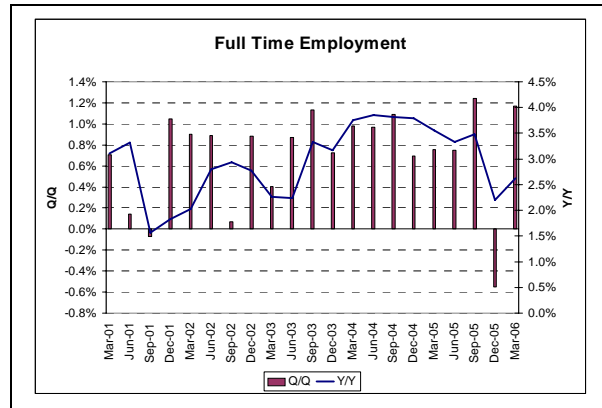
Chart(s) of the Week: *Employment*



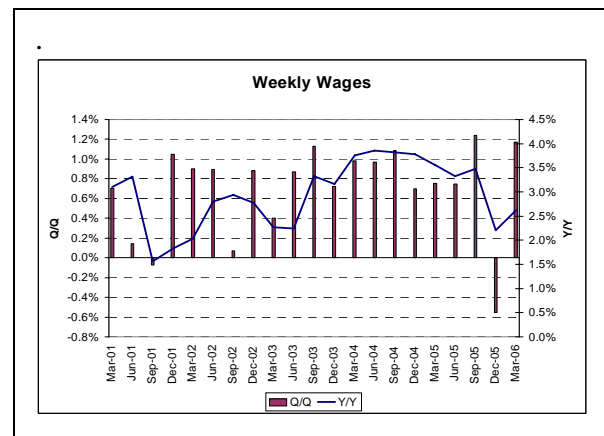
Businesses added 23,000 jobs in Q1 and the Unemployment Rate increased to 3.9% from 3.6% in Q4 as a record number of people sought work, outpacing new hiring. The median forecast was for 4,000 jobs created and an unemployment rate of 3.7%. Full-time employment rose 1.2% Q/Q and gained 2.7% Y/Y in Q1. Part-time employment declined 0.1% Q/Q and increased 2.3% Y/Y in Q1. The jobless rate rose to its highest level in almost two years. 49

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Employment, Weekly Wages & Retail Sales

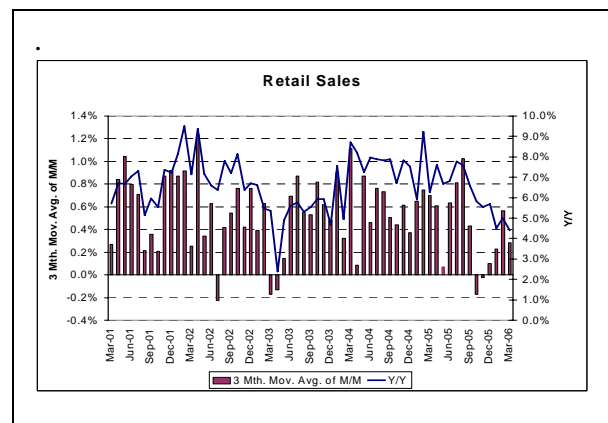


As expected, wages rose 0.7% Q/Q and 3.0% Y/Y (non-government workers, excluding overtime) in Q1. This was the fastest pace since the series began in Q4 1992. Including overtime, wages for non-government workers rose 0.6% Q/Q in Q1 and 3% from a year earlier.



Retail Sales

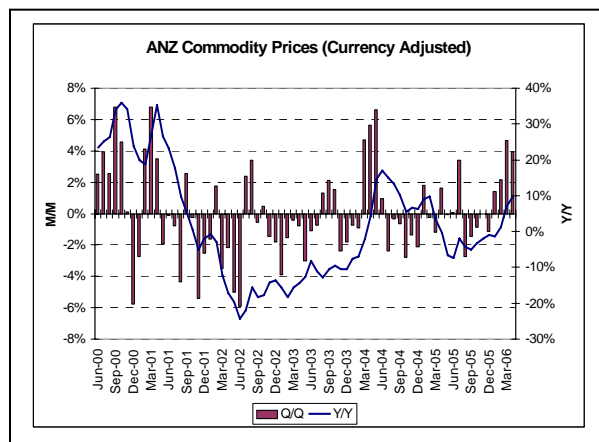
New Zealand's Retail Sales declined in March, led by weakness in auto sales (down 2.8% after rising 4.5% in February). Auto sales have fallen in five of the past seven months. Overall Retail Sales fell 1.0% from February when they jumped 1.9% and rose 4.4% Y/Y in March. Sales gained 1% Q/Q in Q1. Ex-Auto sales fell 0.4% M/M and rose 0.9% Q/Q in March.



ANZ Commodity Prices, ANZ Jobs & New Home Sales

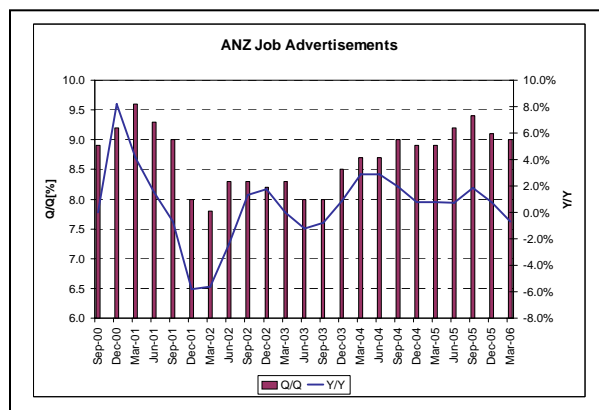
ANZ Commodity prices

New Zealand's Commodity Export Price Index gained 1.6% M/M and rose 9.5% Y/Y in April led by increases in prices of apples, aluminum and beef.



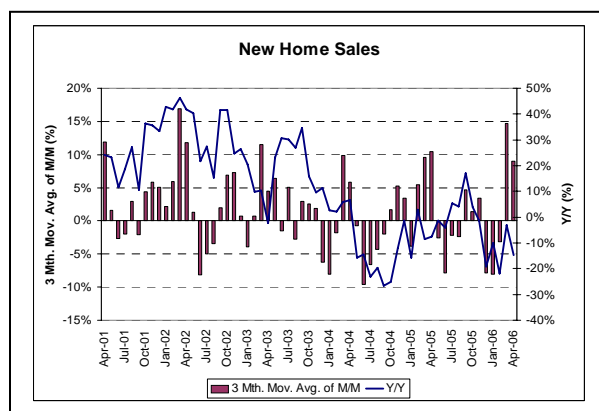
ANZ Job Advertisements

New Zealand's job vacancy rate fell in Q1 as employers, faced with a record number of people seeking work, kept their advertising little changed. The rate, which measures job advertisements as a proportion of employment, fell to 9.0% in Q1 from 9.1% in Q4.



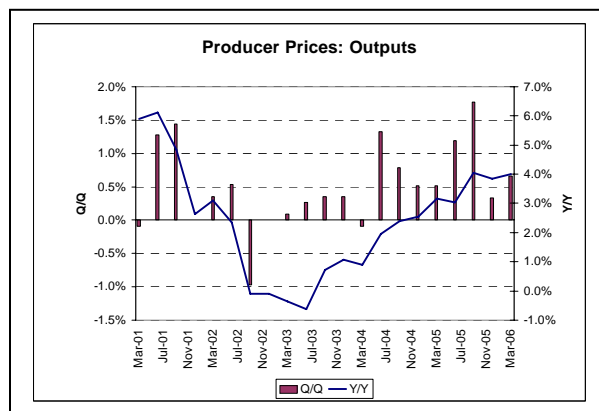
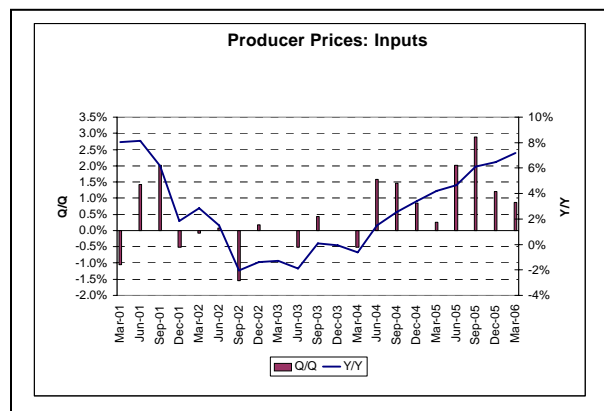
New Home Sales

New Zealand house sales fell for the first time in three months in April because public holidays reduced the number of working days from 23 in March to 17 in April. Sales fell 25 % to 7,576 in April from 10,094 in March. The median price paid for a house advanced to a record NZ\$305,000 in April from NZ\$302,000 in March. From a year earlier, the average price rose 12.0%. The time it took to sell a house was 34 days in April compared with 33 in March and 28 in April of last year.



Producer Prices, ANZ PMI & News

Producer Prices



Producer Input Prices rose 0.9% Q/Q and surged 7.2% Y/Y, the largest annual increase in five years, in Q1. Output Prices gained 0.7% Q/Q and gained 4.0% Y/Y in Q1. Higher generation costs, including rising natural gas prices, boosted an index of power prices 8.8% in the quarter. From a year earlier, power prices rose 47%. Crude oil prices and the cost of construction services also increased. Prices received by dairy companies surged 10% from the year-earlier quarter. Prices that farmers received for livestock fell 9.3% in the quarter, the largest decline since the series began in the second quarter of 1994.

ANZ Business PMI

New Zealand's Manufacturing PMI fell to 53.1 in April from 53.5 in March, in part due to a Q1 decline in consumer confidence, which has crimped orders. A reading below 50 indicates manufacturing is contracting.

News

N.Z. Won't Offer Income Tax Cuts Like Australia

New Zealand's Finance Minister Michael Cullen announced that he won't cut taxes in this week's budget, fueling concern that more workers will seek better incomes in countries such as Australia. Cullen says his critics are wrong to predict a mass exodus from New Zealand because of his tax policies.

- "There's not much spare room at all. There aren't tax cuts."
- "Australian workers aren't as better off as it appears because of indirect costs and other taxes, including a medical health insurance levy, capital gains tax and duties on property purchases."

News Cont. & Upcoming Dates

- “There are cost-of-living considerations as well. People look at a range of things, not just income. You can pay A\$100 a week living in parts of Sydney and Melbourne for road tolls.”
- “There has never been great evidence that workers move simply because they will pay less tax.”

Bollard ‘Not Uncomfortable’ With N.Z. Dollar Fall:

(Central bank and Treasury Department officials last year met Japanese bankers to discuss the risks associated with buying New Zealand dollar bonds. More than NZ\$27 billion of bonds were sold to individual Japanese and European investors last year, helping boost the currency to a record in December)

The RBNZ’s Governor Alan Bollard said he isn’t uncomfortable with the decline in the New Zealand dollar, Reuters reported, citing an interview.)

- “As it happens it’s been followed up with fewer Uridashi issuances and we’re not uncomfortable with that.”
- “I want a ‘soft landing’ for the economy.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/16	Producer Prices Inputs/Outputs Q/Q (Q1)	---	1.2%/0.3%
05/18	Visitors Arrivals (APR)	---	0.1%

Valance Co., Inc.

Weekly Economic Report: **China**

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May 17, 2006

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This past week, China released mixed economic data. The Trade Surplus narrowed while growth slowed for both the Producer Price and the Purchasing Price indices. On a stronger note, CPI and Retail Sales both increased and Money Supply growth remained elevated.

Weekly Highlights

China's Trade Balance - narrowed from \$11.2 bln in March to \$10.5 bln in April (page 54)

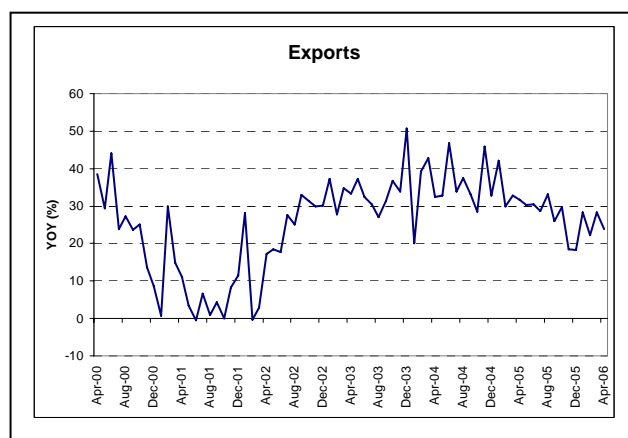
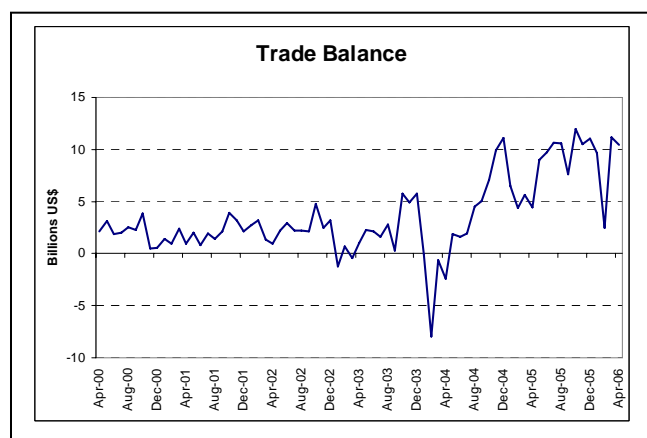
Consumer Price growth - increased from 0.8% Y/Y to 1.2% Y/Y in April. (page 55)

Money Supply M2 - growth increased from 18.8% Y/Y to 18.9% Y/Y in April. (page 56)

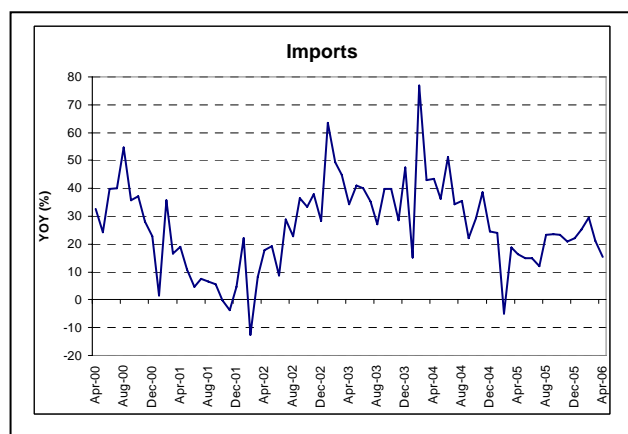
Retail Sales growth - increased from 13.5% Y/Y in March to 13.6% Y/Y in April. (page 58)

Weekly Releases & News

Chart(s) of the Week: *Trade Data*



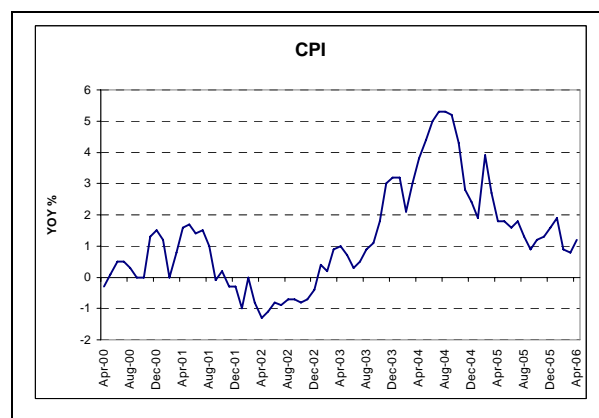
China's Trade Balance narrowed from \$11.2 bln in March to \$10.5 bln in April, above expectations for a reading of \$7.8 bln. Total Export growth increased 23.9% Y/Y, below expectations for a reading of 26.6% Y/Y and below last month's reading of 28.3% Y/Y. Import growth slowed from 21.1% Y/Y to 15.3% Y/Y in April, below expectations.



CPI, Producer Price Index & Purchasing Price Index

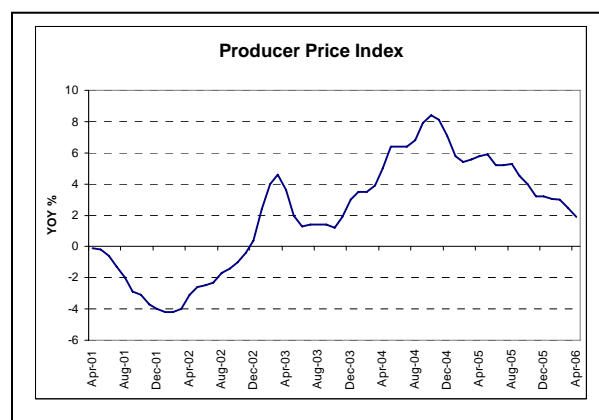
CPI

Consumer Price growth increased from 0.8% Y/Y to 1.2% Y/Y in April. The prices of food and consumer products increased 1.8% Y/Y and 1.1% Y/Y, from 0.8% Y/Y and 0.6% Y/Y, respectively. The prices of service items increased 1.7% Y/Y from 1.6% Y/Y. The People's Bank of China has forecast inflation to increase by 3% this year, compared to 1.8% in 2005 and 3.9% in 2004.



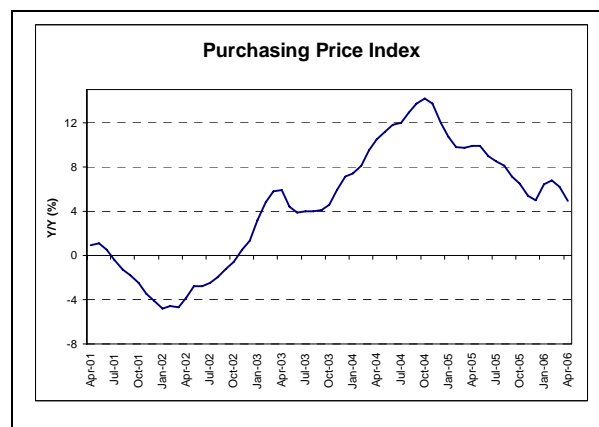
Producer Price Index

Producer Price growth decreased from 2.5% Y/Y to 1.9% Y/Y in April. Producer Prices have slowed from a peak of 8.4% in October 2004, and is now at its slowest rate in over two years. The consumer goods component of the PPI decreased 0.3% Y/Y.



Purchasing Price Index

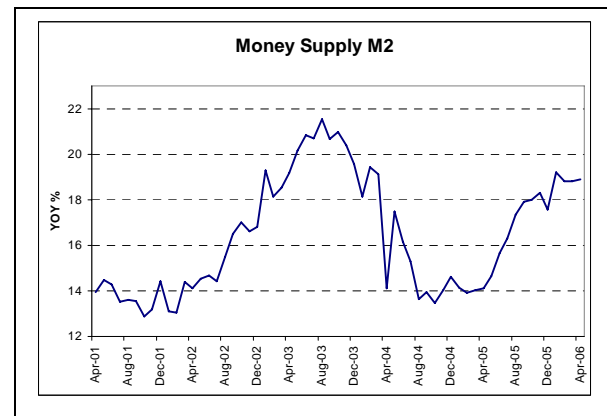
The Purchasing Price Index slowed from 6.2% Y/Y in March to 4.9% Y/Y in April. Fuels and Non-Ferrous Metals posted increases in prices while declines were seen in Ferrous Metals and Chemicals.



Money Supply

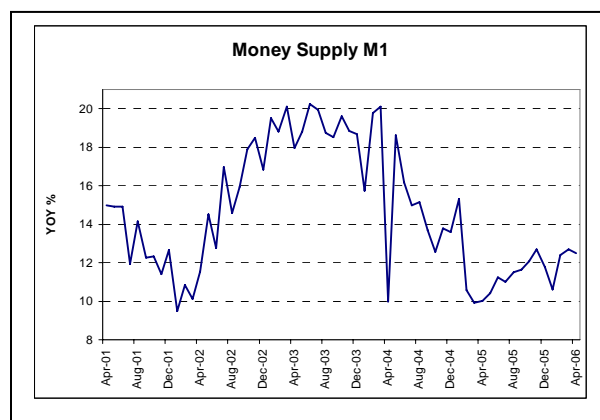
M2

Money Supply M2 growth increased from 18.8% Y/Y to 18.9% Y/Y in April. The PBoC expects M2 Money Supply to grow by 16% Y/Y in 2006; however, Money Supply M2 has exceeded the Central Bank's official target for eleven consecutive months.



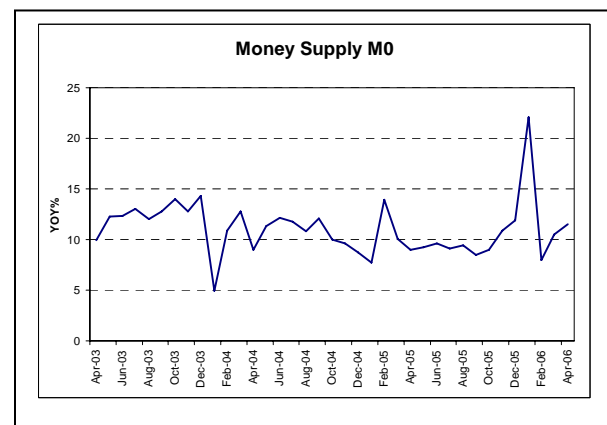
M1

Money Supply M1 growth slowed from 12.7% Y/Y in March to 12.5% in April. The PBoC expects M1 to increase by 14% Y/Y in 2006.



M0

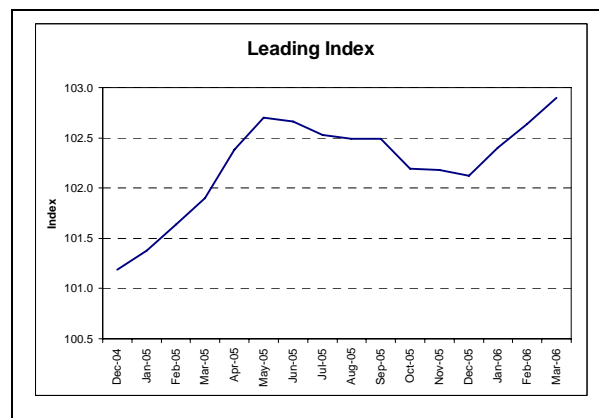
Money Supply M0 growth increased from 10.5% Y/Y to 11.5% Y/Y in April.



Leading, Coincident & Lagging Indices

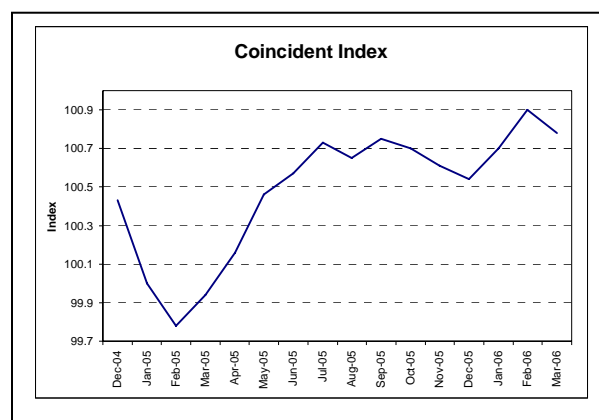
Leading Index

The Leading Index increased from 102.6 in February to 102.9 in March.



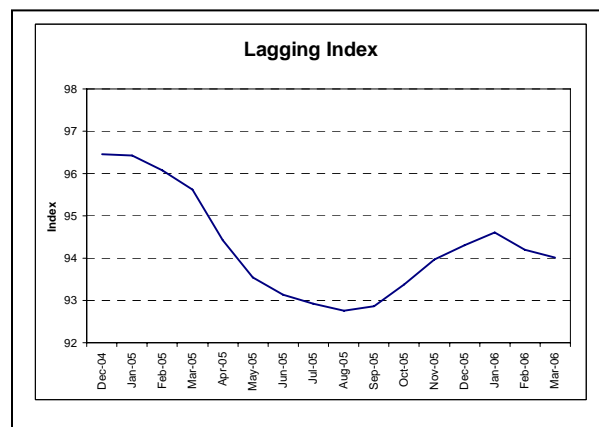
Coincident Index

The Coincident Index decreased from 100.9 in February to 100.8 in March.



Lagging Index

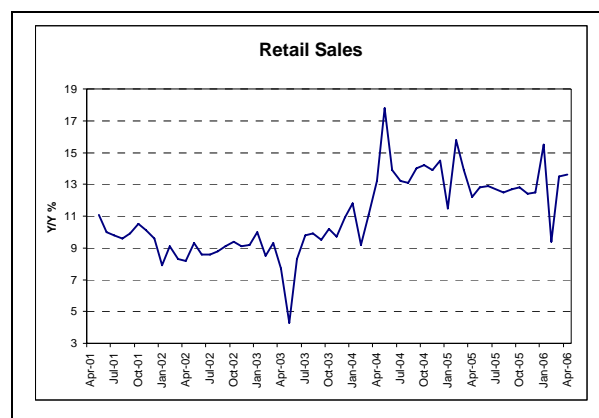
The Lagging Index decreased from 94.6 in February to 94.0 in March.



Retail Sales, Foreign Capital Utilized & Household Savings

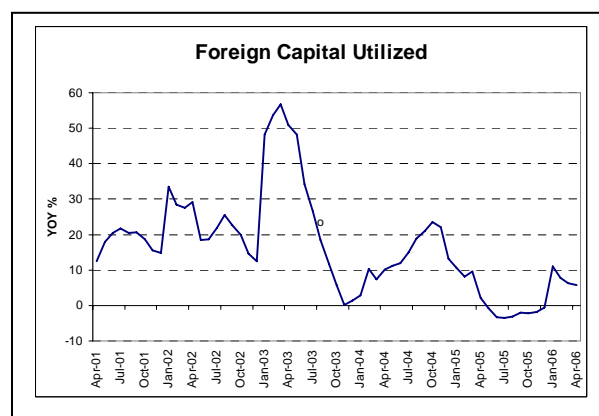
Retail Sales

Retail Sales growth, an important indicator of Chinese consumer demand, increased from 13.5% Y/Y in March to 13.6% Y/Y in April.



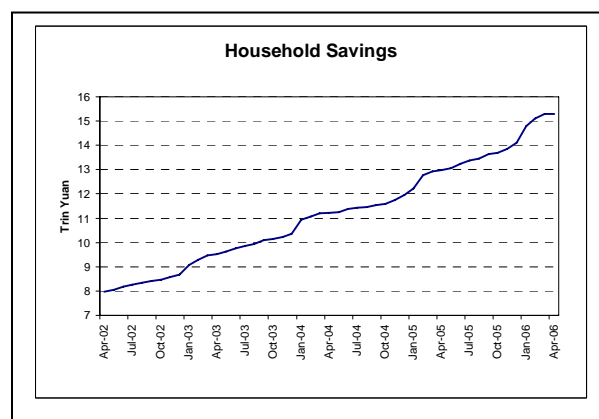
Foreign Capital Utilized

Foreign Capital Utilized slowed from 6.4% Y/Y in March to 5.8% Y/Y in April. China is expected to see about \$60 bln of new foreign direct investment this year, as areas such as telecommunications are made more accessible to overseas companies.



Household Savings

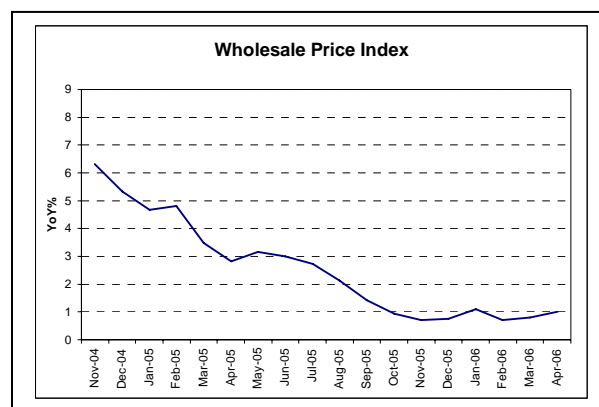
Household Savings growth increased 0.1% M/M and 18% Y/Y to reach 15.3 trln Yuan.



Wholesale Prices, Value-Added Industry & News Releases

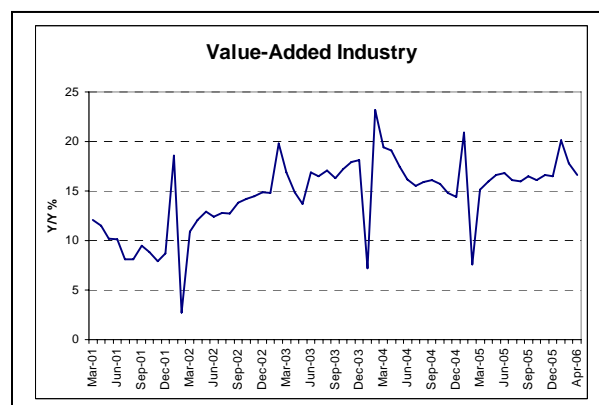
Wholesale Prices

Wholesale Price growth edged up from 0.8% Y/Y in March to 1.0% Y/Y in April. This series, which the People's Bank of China created to track the trading prices among companies in the first phase of the wholesale process, appears to be bottoming out.



Value-Added Industry

Value Added Industry growth slowed from 17.8% Y/Y in March to 16.6% Y/Y in April. Market consensus was for a 17.0% Y/Y gain. Strong annual increases continue to be led by the automobile, non-metal mineral product, crude steel and coal industries.



News Releases

May 17th – More Measures To Cool Property Prices – China Central Television (CCTV) reported that Premier Wen Jiabao stated that China needs to do more to cool property prices so that the majority of the population can afford low to moderately priced housing. The CCTV said the government will institute measures to “correct” distortions in the market. It also said that the market needs “more order.”

May 15th – China May Raise Rates In H2 - The China Securities Journal reported that Economist, Wang Xiaoguang of the National Development and Reform Commission, said that China may raise rates in H2 of this year if money supply growth, loans and investments don't slow. Xiaoguang also stated that the Central Bank may raise its required reserve deposit ratio.

News Releases (Cont'd.)

May 14th – Comments on Outlook of Yuan:

United Overseas Bank's, Head of Treasury, Jimmy Koh - "The U.S. may be taking a soft approach on China, which is probably the right approach. It's to provide breathing space for China to respond. If the Treasury calls China a currency manipulator, there are a lot more ramifications. It would give the Senators the right to implement the protectionist measures. This is probably a start of more adjustment on the yuan. But the most important thing is, has the market significantly changed its expectation of the extent of yuan appreciation this year? No. The broad-based dollar decline helped the yuan strengthen." Last week, the yuan had not risen any higher, "because the dollar's decline may not be permanent against other currencies," prompting the PBoC to restrain its currency appreciation.

Bank of America's, Senior Currency Strategist, Qing Wang – "The Treasury not citing China a currency manipulator clears a political hurdle for the yuan to appreciate faster. I do expect the yuan to appreciate faster against the dollar, especially now that the U.S. currency is showing broad weakness. The emerging Asian currencies are under pressure to appreciate, given the U.S. dollar's weakness. If at this particular junction, the Chinese authorities allow the yuan to appreciate faster, it will trigger another round of Asian currency appreciation. This would put additional pressure for the yuan to appreciate. The authorities may try to make this process as smooth and orderly as possible."

May 13th – Central Bank Denies Report To Increase Down Payments – China's Central Bank referred to a report released on May 11th by China's 21st Century Business Herald as "irresponsible." The report claimed that the PBoC is expected to ask lenders to raise payments from 20% to 50%. The Bank stated, "Real estate is a cornerstone of China's economy." "Like other government departments, we always hope that the industry can develop in a healthy, orderly manner," the Bank further stated.

May 11th – Interest Rates To Be Used As Instrument To Smooth Volatility - The Xinhua News Agency reported that Vice Finance Minister, Li Yong, stated that interest rates will be adjusted more frequently whenever necessary to smooth volatility. Yong mentioned that the Central Bank is trying to cool over-investment in areas such as real estate and steel.

May 11th – Yuan Policy is "Of Concern" – A Senior U.S. Treasury Official stated that China's yuan policy is "of concern." The official stated, "We don't see any technical reasons why China can't move today to a more flexible regime." He commented that "China has an exchange rate policy that is of concern. We are not satisfied with the pace of the reform." "We think China can do a lot more to move towards a more flexible regime. The markets should determine the exchange rate," the official added.

News Releases (Cont'd.) & Upcoming Dates

May 11th – China Not a Manipulator – A semi-annual report released by the U.S. Department of the Treasury stated that China is not a currency manipulator, but claimed that the country has made “far too little progress.” It stated that China’s forex system has not operated for the purpose of “preventing adjustments in China’s balance of payments or gaining China an unfair competitive advantage in international trade.” The Department says it will continue to monitor the country and urges it to “quicken the pace of renminbi flexibility.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/17	Fixed Assets Investment Urban Cum Y/Y – Apr	29.1%	29.8%

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Valance Economic Report: Sweden

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May 17, 2006

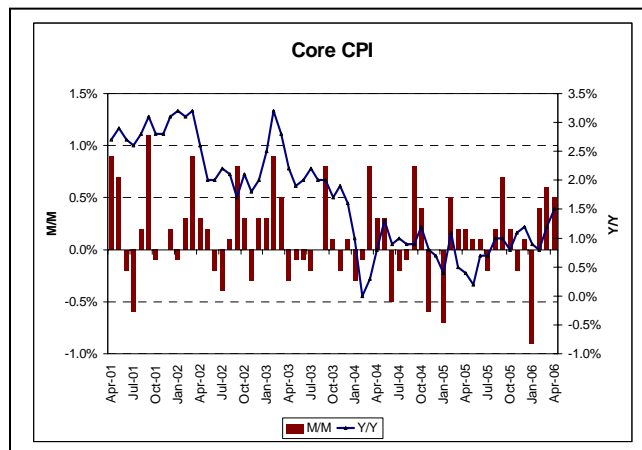
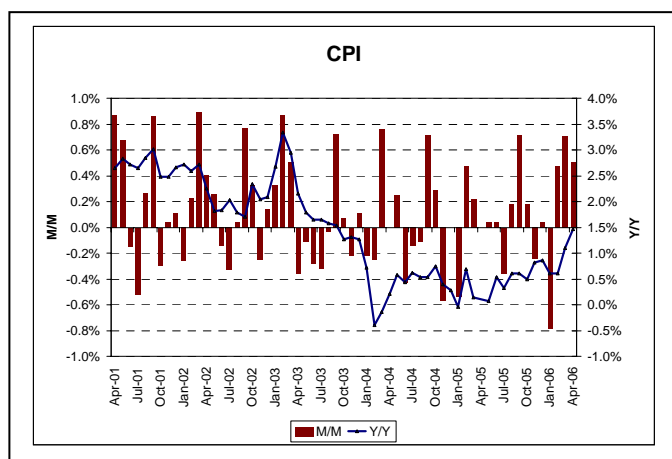
Swedish inflation accelerated on both a headline and core basis in April. Riksbank Deputy Governor, Kristina Persson stated that growth in Sweden's economy is "robust" and that rates will need to be raised further to control inflation.

Weekly Highlights

CPI & Core CPI – rose by 0.5% M/M and 1.5% Y/Y in April. (page 62)

Weekly Releases & News

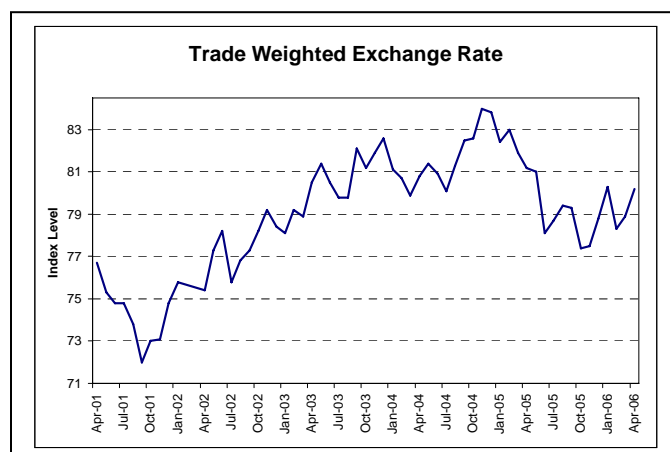
Chart(s) of the Week: CPI & Core CPI



Swedish April Consumer Prices rose 0.5% M/M and 1.5% Y/Y on both a headline and core basis. The increases were spurred by rising energy and electricity costs. The data suggests that the Central Bank may raise rates for a third time this year. The Bank's next rate announcement is scheduled for June 20th.

Trade Weighted Exchange Rate, News Releases & Upcoming Dates

Trade Weighted Exchange Rate



News Releases

May 12th – Riksbank Deputy Governor, Kristina Persson Comments on Rate Increases and Inflation – “Growth in the world economy and in the Swedish economy is robust and our assessment is therefore that inflation will increase gradually towards the 2 percent target, reaching it a couple of years from now. This development assumes that the repo rate will be increased, as otherwise inflation will exceed the target.” Unemployment was still “high” and the bank can’t “yet see any inflationary pressures stemming from wages.” Still, prospects for jobs “look much brighter now than they did one year ago.”

May 11th – Riksbank’s Policy Makers Unanimous on Unchanged Rates Last Month – Minutes of the Riksbank’s April 27th meeting showed that the Bank’s six policy makers voted unanimously to keep the benchmark interest rate unchanged. One policy maker stated that “all members were agreed that an unchanged repo rate was the most reasonable decision at present, although the discussion had shown that this was by no means self-evident.” The minutes also showed that one member said that it wasn’t an “obvious” decision, another had some “hesitation”, while another said there was “reason for considerable vigilance.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/24	PPI (M/M) / (Y/Y) – Apr	--	--
05/24	Unemployment Rate – Apr	--	-

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Valance Economic Report: Switzerland

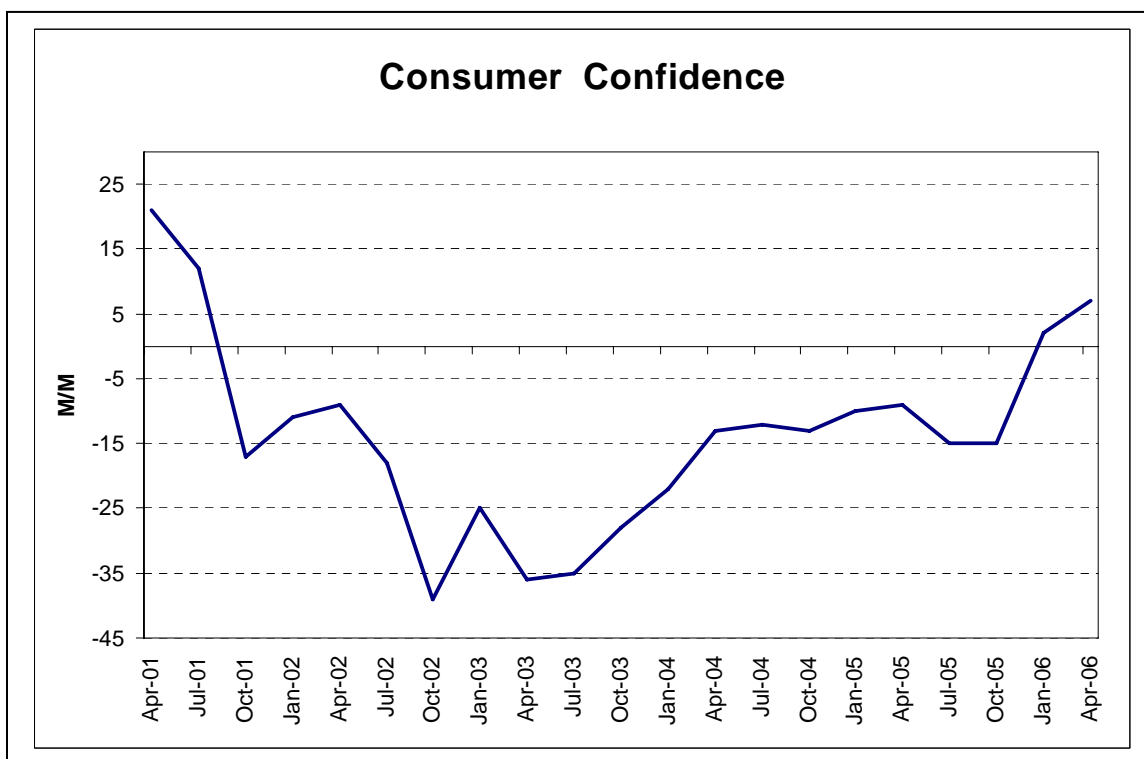
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May 17, 2006

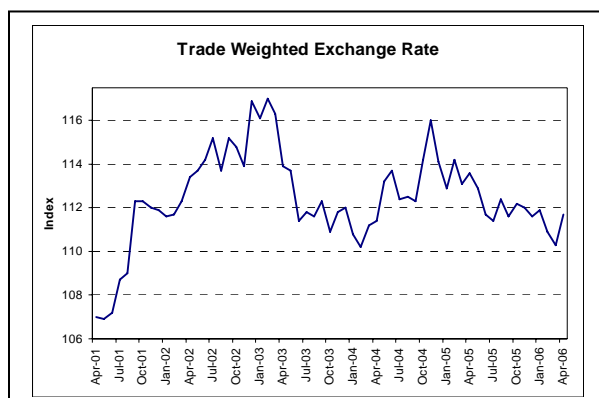
Switzerland's Consumer Confidence index, the only economic release over the past week, improved in April, to its highest level in almost five years. SNB President, Jean-Pierre Roth stated that he expects more interest rate increases.

Weekly Releases & News**Chart(s) of the Week: Consumer Confidence**

Switzerland's Consumer Confidence Index, driven by economic expansion and declining unemployment, rose from 2 in January to 7 in April. This marks the highest level for the index since July 2001. Expectations were for an outcome of 6.

Trade Weighted Exchange Rate, News Releases & Upcoming Dates

Trade Weighted Exchanged Rate



News Releases

May 12th – KOF Survey Reveals Economic Expansion To Continue – A KOF Survey of 7,300 companies showed that economic expansion in Switzerland is expected to continue “unabated” as companies increase production and hiring to meet demand. Construction companies were particularly upbeat.

May 11th – More Interest Rate Increases Expected – SNB President, Jean-Pierre Roth, stated in a meeting with students in Bulgaria's capital, that he expects the Bank to continue increasing rates. Roth said, “We are in a phase of rates increase that is not over yet.” He added that “The normalization process is going to continue.” “The economy has improved since 2004 and continues to improve” and “If this trend was to continue, it's normal for our level of interest rate to be corrected gradually to its level of neutrality, which in Switzerland hasn't been met yet,” Roth said.

Key Dates This Week

Date	Indicator	Expectation	Previous
05/19	Producer & Import Prices (M/M) / (Y/Y) – Apr	0.3% / 1.4%	0.1% / 1.6%
05/22	Adjusted Real Retail Sales (Y/Y) – Mar	--	0.4%
05/23	Trade Balance – Apr	--	0.61B
05/23	UBS Consumption Indicator – Apr	--	1.743
05/24	Employment Level / Y/Y – Q1	--	3.640M / 0.3%