

Valance Company, Inc.



Weekly

May 31, 2006

III

Highlights

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

Euroland –Positive signs for the German consumer (page 9)

Japan – April Unemployment unchanged while Core CPI, Industrial Production, and Earnings improved (page 18)

UK – The housing market revival may be short lived (page 29)

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Valance Economic Reports

Valance Co., Inc.

Valance Economic Report: United States

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May 31, 2006

This week's data confirmed two large macroeconomic trends- housing is cooling and core inflationary pressures are running high. Comments from Fed members continue to indicate that June's move is uncertain and continues to be "data dependent." The two key data-points that will influence the rate decision at the end of June will be May's core CPI and May's employment report, with the former likely being the most important.

Weekly Highlights

Core PCE- up 0.2497% M/M in April. (page 2)

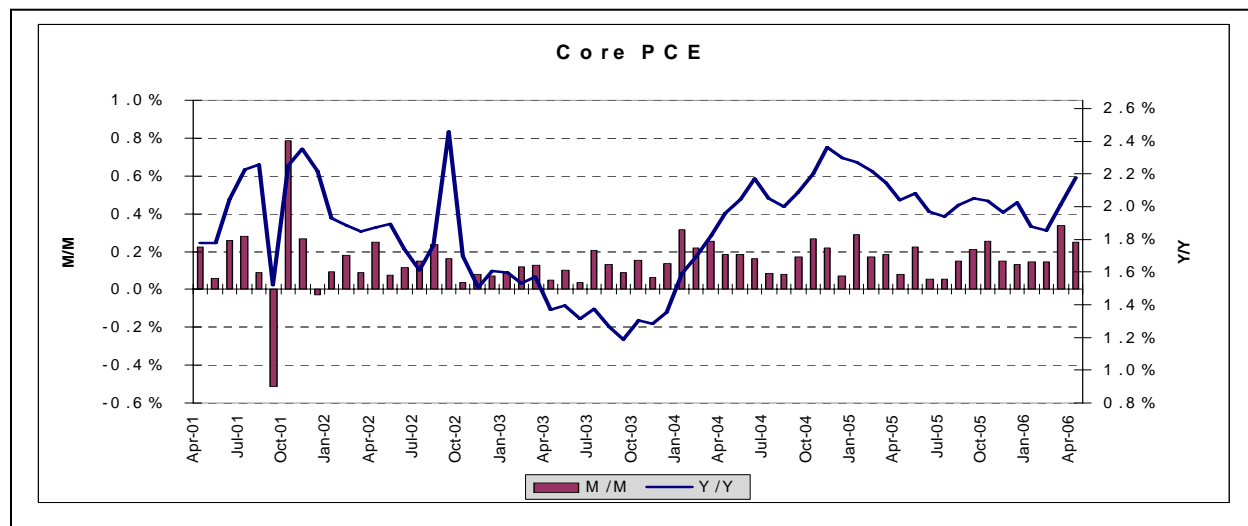
Existing Home Sales- showed housing is cooling. (page 5)

Mortgage Purchase Applications- down 15.7% Y/Y on a four-week moving average basis. (page 5)

ABC Consumer Confidence- improved last week after over a month of declines. (page 7)

Weekly Releases

Chart of the Week: Core PCE



Core PCE increased 0.2497% M/M and 2.1% Y/Y in April. The six month annualized rate is at 2.3% and the six month annualized rate at 2.9%- confirming that the Fed's favorite measure of inflation is outside the range with which they feel comfortable. The Fed will have to have a great deal of conviction in their forecast to pause in the face of these inflation measures.

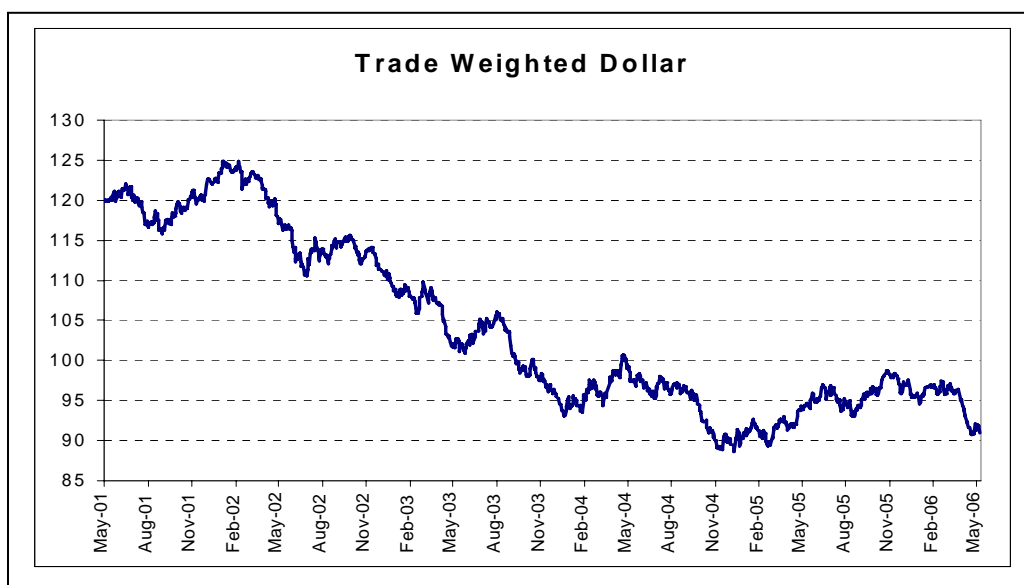
U.S. Financial Balances & Trade Weighted Dollar

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.

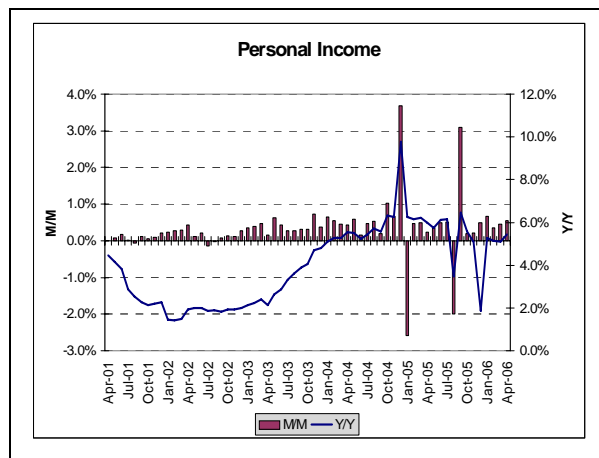
Trade Weighted Dollar



Personal Income, Personal Spending & Employment Claims

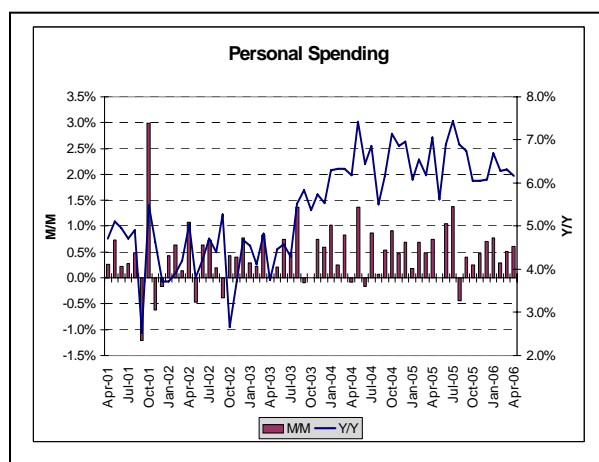
Personal Income

Personal Income increased 0.5% M/M and 5.4% Y/Y in April. The wage and salary component increased 0.9% M/M and 5.3% Y/Y. Income gains still remain healthy and should allow for spending growth to remain firm, at least in the short-term, barring a major adjustment in saving rates.



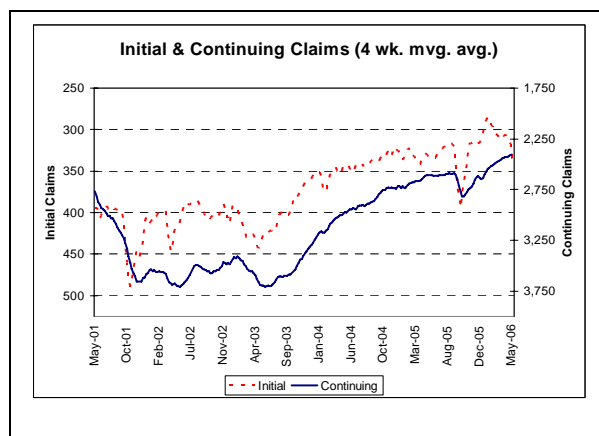
Personal Spending

Personal Spending increased 0.6% M/M and 6.2% Y/Y in April. Once again spending outpaced income growth, a dynamic that should reverse as debt servicing burdens build.



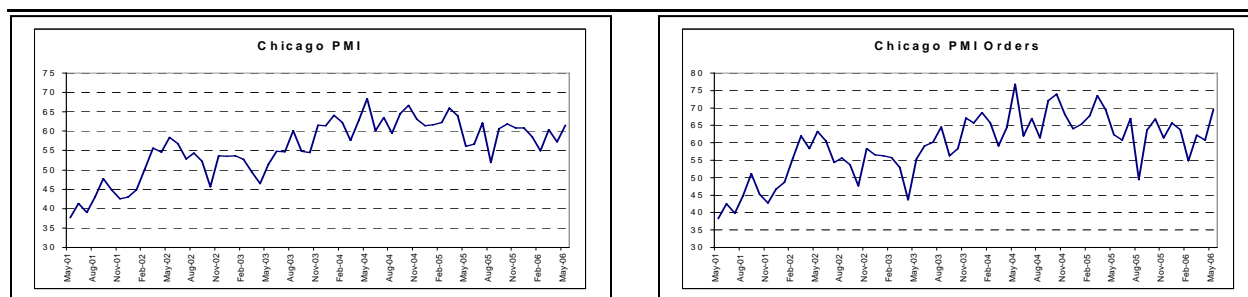
Initial & Continuing Claims

The four week moving average of initial claims increased by 3k to 337k while continuing claims decreased by 5k to 2,406k. Initial claims, adjusted for one-time items, and continuing claims continue to suggest solid payroll gains in May.



Chicago PMI, Existing Home Sales, Mortgage Applications

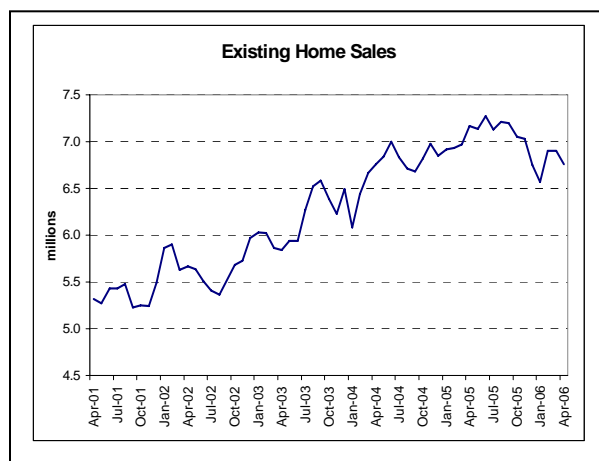
Chicago PMI



The Chicago PMI increased from 57.2 to 61.5 in May, above expectations that called for a decline in the series. The new orders component jumped from 60.8 to 69.6 along with the employment component that moved from 47.2 to 52.8. The price component moderated a bit with a decline from 77.2 to 76.9.

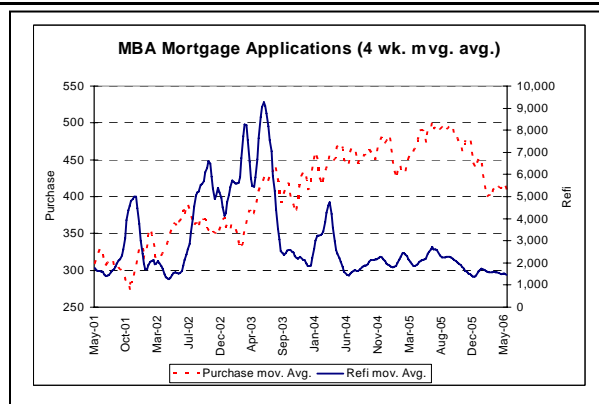
Existing Home Sales

Existing Home Sales decreased from 6.90mln to 6.76mln on a seasonally adjusted annualized basis in April. The number of home sales was down 2.0% M/M and 5.7% Y/Y. Median prices were up 2.3% M/M and 4.2% Y/Y. Y/Y price gains have slowed considerably from 16.8% gains experienced in October 2005. Inventories remained at historical highs, 6.0 months, likely putting downward pressure on prices going forward. The housing market is clearly cooling.



Mort. Applications

Purchase mortgage applications decreased 0.2% W/W and refi applications were down 4.8% W/W this week. The four-week moving average of purchase applications is down 15.7% Y/Y and was down 14.5% Y/Y just based on last week's reading. This series continues to confirm a soft housing market.



GDP Revision

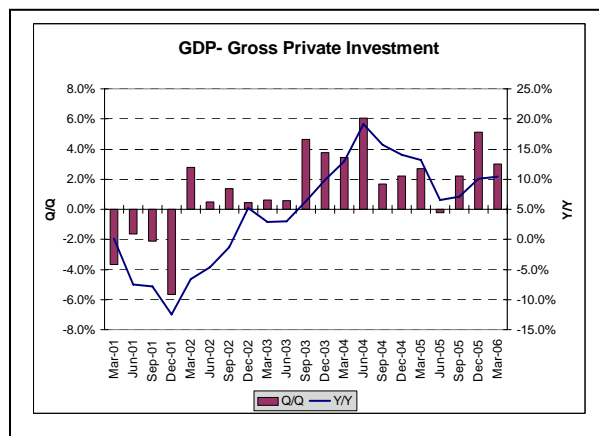
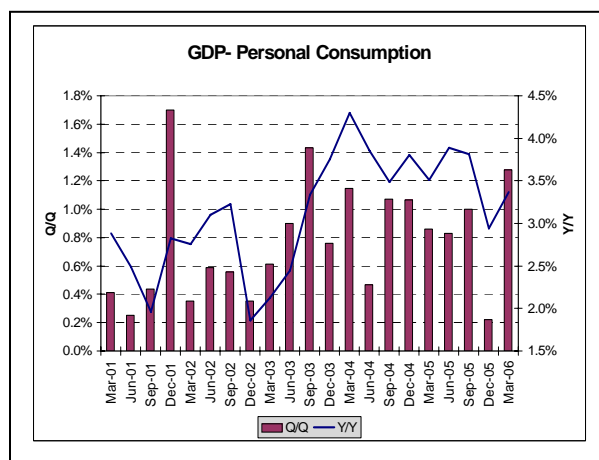
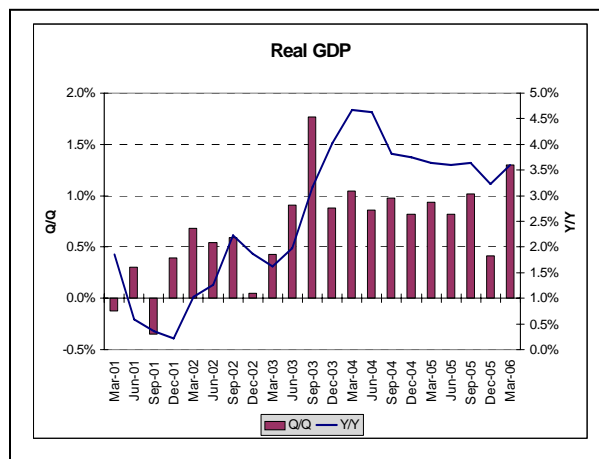
GDP

Q1 GDP annualized Q/Q growth was revised up to 5.3% from 4.8% and up from 1.7% in Q4 of 2005. The two quarters average to 3.5% growth and give a better indication of trend growth.

Personal Consumption was revised down from 5.5% to 5.2% on an annualized basis, but significantly higher than Q4's result of 0.9% growth, due in part to the snap-back in motor vehicle sales.

Gross private investment was revised up from 6.5% to 8.3% on an annualized basis, but was still down from 16.1% in Q4 2005. Equipment & Software's contribution was revised down from 1.24% to 1.05%

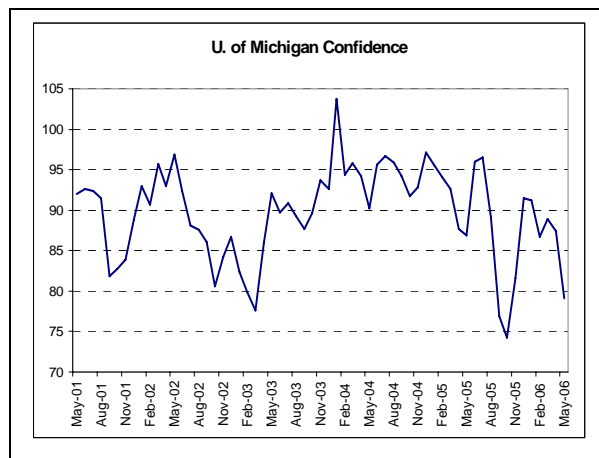
Changes in inventories and net exports were also a smaller drag on GDP in the revised Q1 GDP data and contributed towards the upside revision of headline GDP.



Consumer Confidence

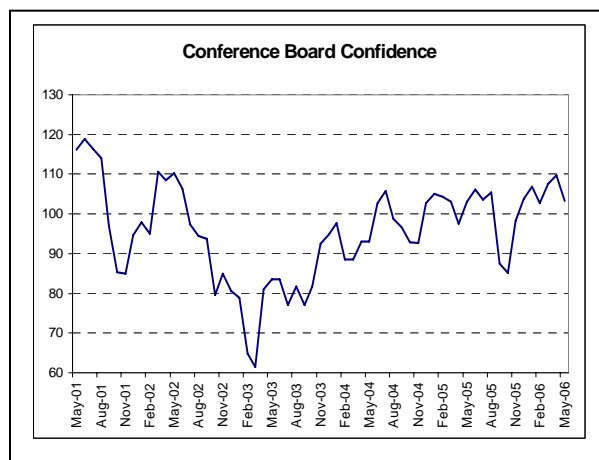
U. Mich. Confidence

The University of Michigan Confidence Index decreased from 87.4 to 89.1 in May. The current conditions component fell from 109.2 to 96.1 and the expectations component dropped from 73.4 to 68.2. Inflation expectations moved higher: one year expectations increased from 3.3% to 4.0% and long-term expectations increased from 3.1% to 3.2%.



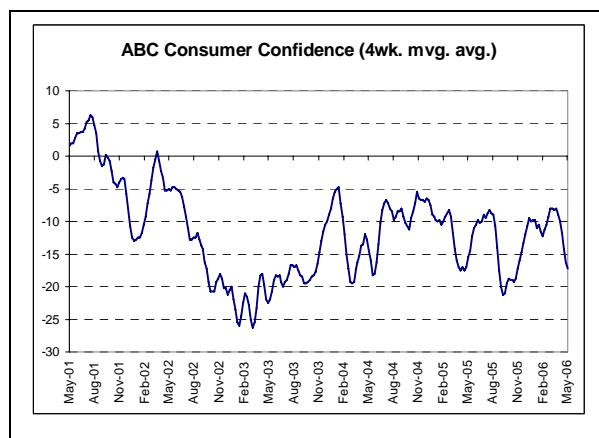
Conference Board Confidence

The Conference Board's Index of Consumer Confidence decreased from 109.8 to 103.2 in May. Expectations declined from 92.3 to 83.7 and people's assessment of current conditions dropped, from 136.2 to 132.5. The job plentiful component fell from 29.4 to 28.6 and jobs hard to get, increased slightly from 19.7 to 20.5.



ABC Confidence

The ABC Consumer Confidence Index improved from -19 to -17. The latest reading reversed six straight weeks of declines in this series. All the components (buying, finance & economy) also increased by two.



Fed Comments Cont'd & Upcoming Dates

Bernanke (in a letter dated 5/24/06)- “Inflation expectations contained.” “Core inflation stable.”

Moskow (in CNBC interview)- “Every FOMC member agrees data to determine policy.” “I favor moving towards 1.5% target (of core PPCE versus range of 1% to 2%).”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/01	Non-farm Productivity (Q1)	3.9%	3.2%
06/01	Unit Labor Costs (Q1)	1.8%	2.5%
06/01	Initial Jobless Claims (MAY 27)	320K	329K
06/01	Continuing Claims (MAY 20)	2395K	2420K
06/01	Construction Spending (APR)	0.0%	0.9%
06/01	Pending Home Sales (APR) (M/M)	-1.0%	-1.2%
06/01	ISM Manufacturing (MAY)	55.6	57.3
06/01	Total Vehicle Sales (MAY)	16.5M	16.7M
06/02	Non-farm Payrolls (MAY)	170K	138K
06/02	Unemployment Rate (MAY)	4.7%	4.7%
06/02	Average Hourly Earnings (MAY) (M/M)	0.3%	0.5%
06/02	Average Weekly Hours (MAY) (Y/Y)	33.8	33.9
06/02	Factory Orders (APR)	-2.1%	4.2%
06/05	ISM Non-Manufacturing (MAY)	60.3	63.0
06/06	ABC Consumer Confidence (JUN 5)	--	--
06/07	MBA Mortgage Applications (JUN 2)	--	-1.9%
06/07	Consumer Credit (APR)	\$4.0B	\$2.5B

Valance Co., Inc.

Valance Economic Report: Euro Zone

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May 31, 2006

The Euro Zone domestic economy showed further signs of improvement this week as German and French Unemployment both fell markedly and German Retail Sales rebounded strongly after 2 consecutive disappointing months. Data on the price front remains mixed as Euro Zone CPI is forecasted to accelerate in May and money supply/private loan growth continued to accelerate in April. German and Italian CPI remained relatively contained however.

Weekly Highlights

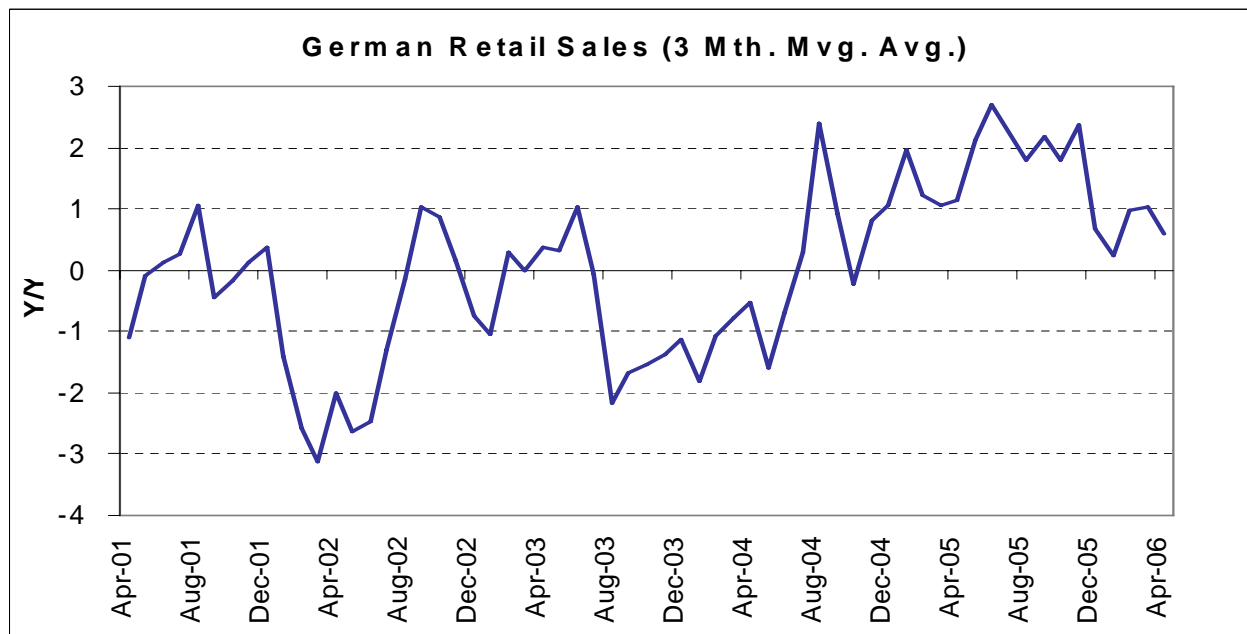
German Retail Sales – sales increased strongly after 2 months of contraction. (page 9)

German Unemployment – total unemployed dropped markedly in May. (page 11)

German CPI– prices slowed slightly in May; inflation rate now at 1.9% Y/Y. (page 12)

Weekly Releases & News

Chart of the Week: *German Retail Sales*



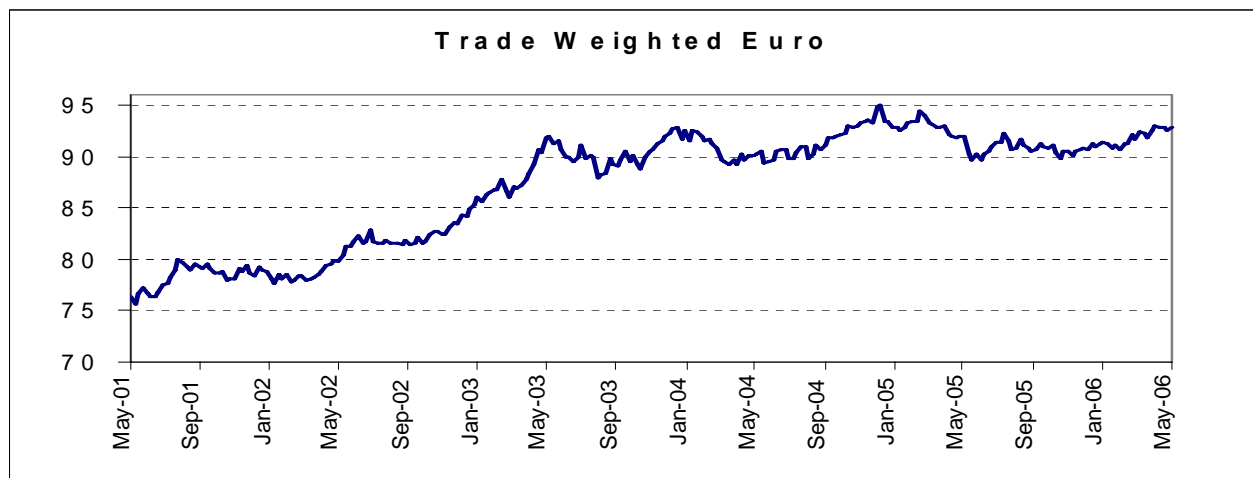
German Retail Sales expanded 2.8% M/M while contracting 1% Y/Y in April. Easter holiday contributed to the increase. Consumers also stated that they brought forward large purchases to avoid next year's increase in VAT. The statistics office also stated that the figures may be revised upward as many businesses will not report until later in the month. It was the first M/M expansion in 3 months.

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%

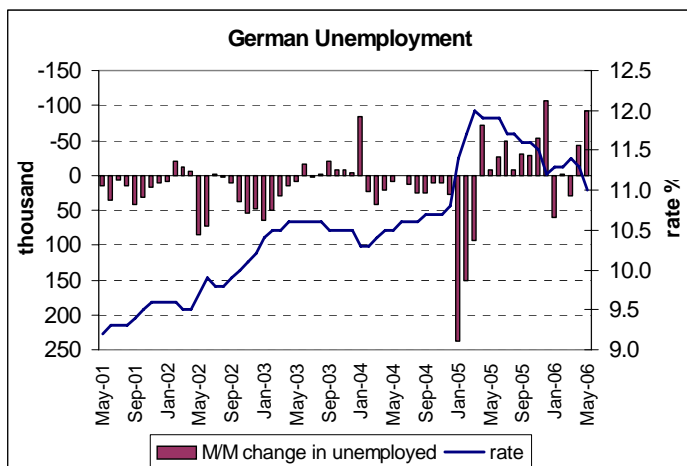
Trade Weighted Euro



German, French Unemployment & Spanish Retail Sales

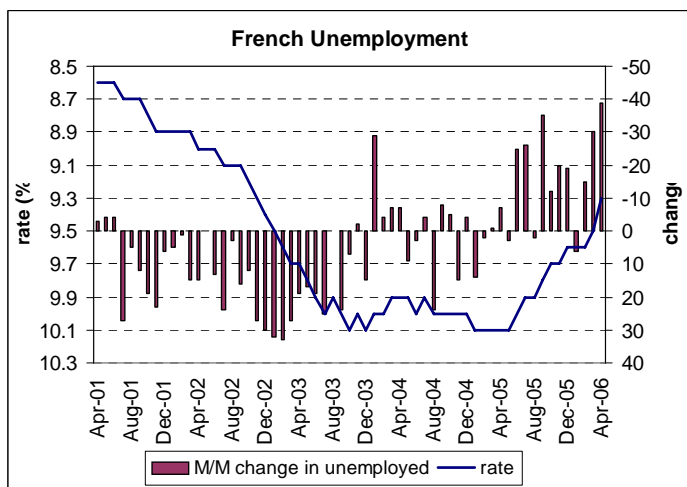
German Unemployment

German Unemployment fell by 93k in May, bringing the Unemployment Rate down from 11.3% in April to 11.0% in May.



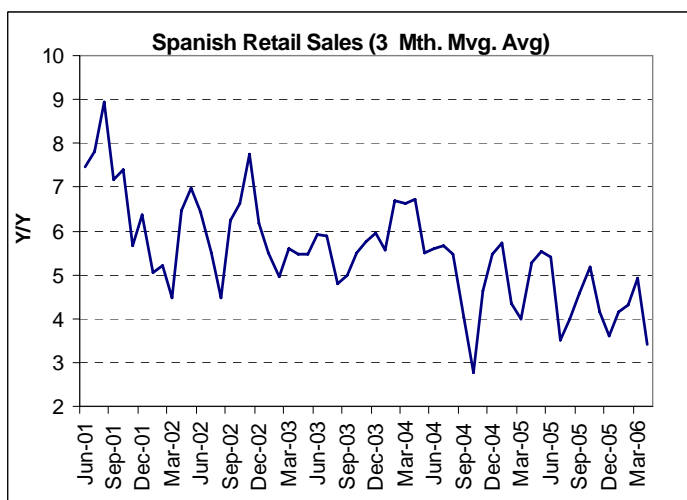
French Unemployment

The French Unemployment Rate declined from 9.5% in March to 9.3% in April as the total unemployed fell by 39k.



Spanish Retail Sales

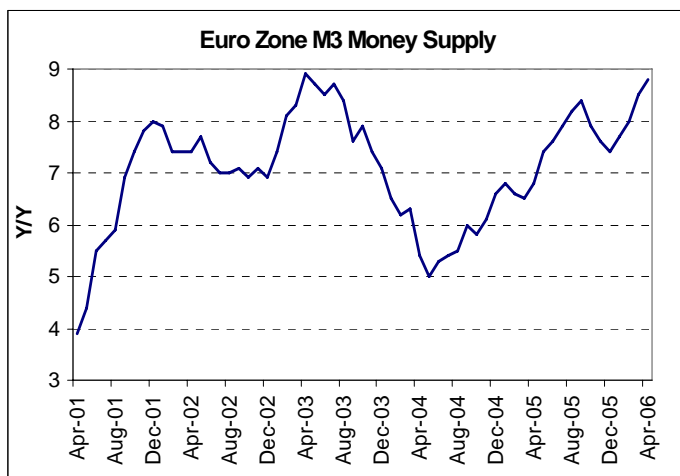
Spanish Retail Sales unexpectedly contracted 3.3% Y/Y in April after expanding 2% Y/Y in March.



Euro Zone M3, Euro Zone & German CPI

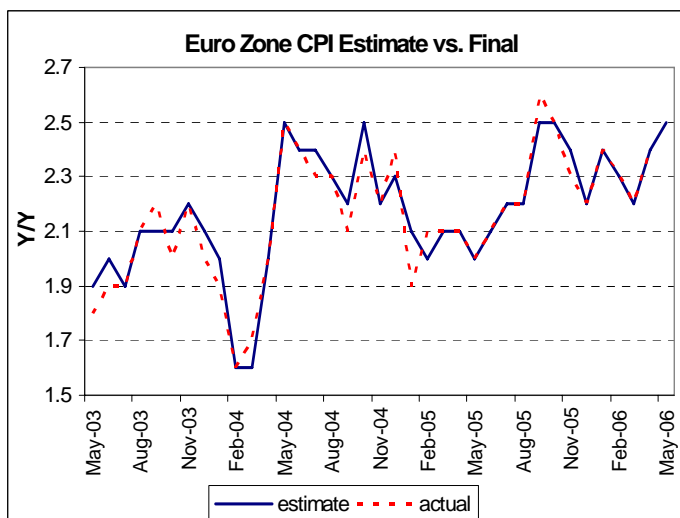
Euro Zone M3

Euro Zone M3 growth accelerated from 8.5% Y/Y in March to 8.8% Y/Y in April; the fastest expansion in nearly 3 years. Private Sector loans expanded from 10.8% Y/Y to 11.3% Y/Y.



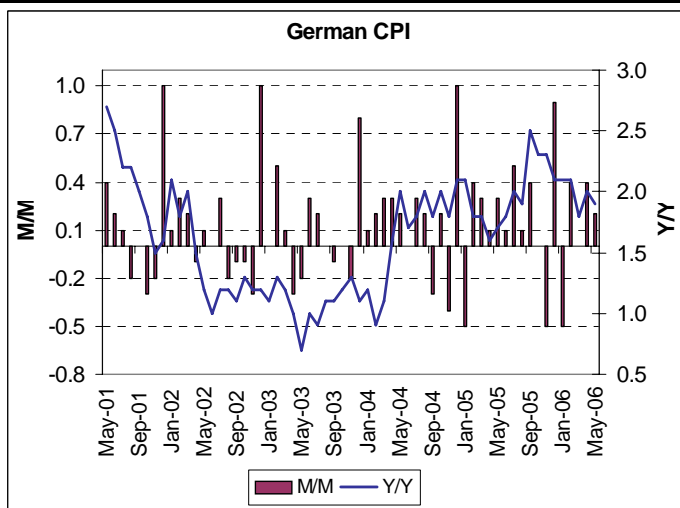
Euro Zone CPI

The Euro Zone May CPI Estimate accelerated from 2.4% in April to 2.5%.



German CPI

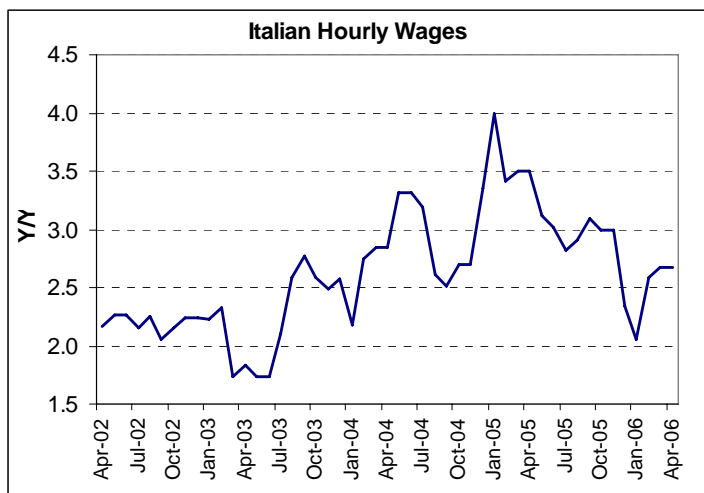
German Consumer Prices slowed slightly in May as prices increased 0.2% M/M and 1.9% Y/Y; down from 2.0% Y/Y in April.



Italian Wages, CPI & Retail Sales

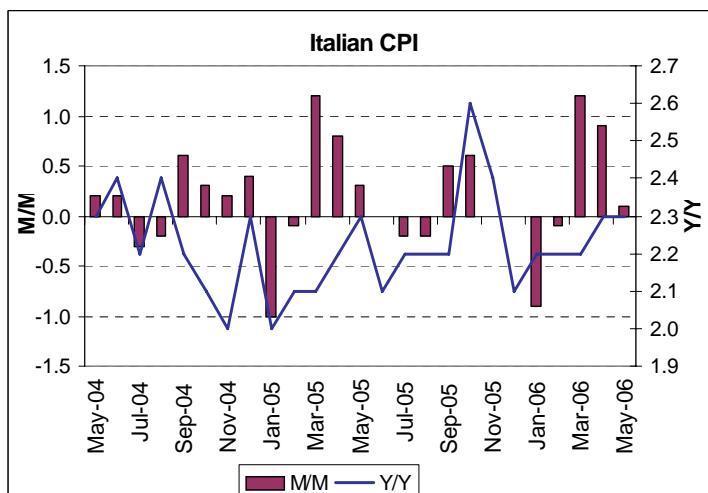
Italian Hourly Wages

Italian Hourly Wages expanded 0.2% M/M and 2.7% Y/Y in April.



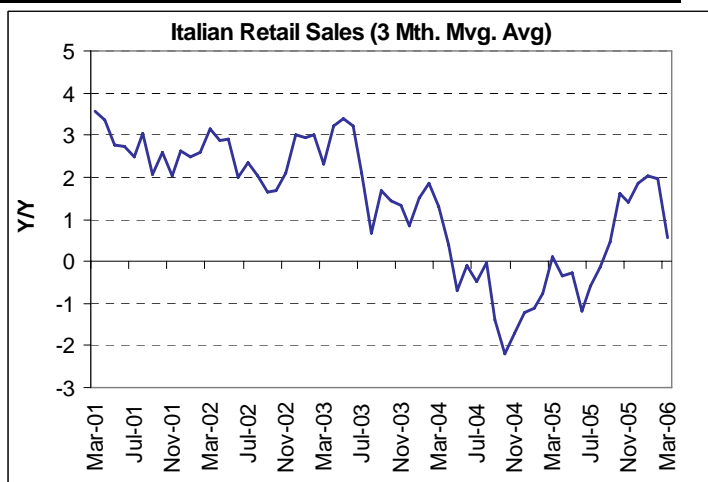
Italian CPI

Italian Consumer Prices increased 0.3% M/M in May while the Y/Y inflation rate remained unchanged at 2.3%.



Italian Retail Sales

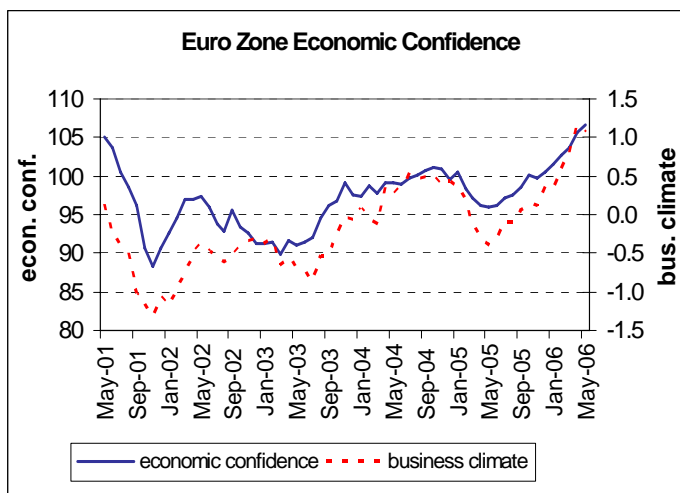
Italian Retail Sales contracted in March, declining 0.4% M/M and 1.8% Y/Y.



Euro Zone, French & Italian Confidence

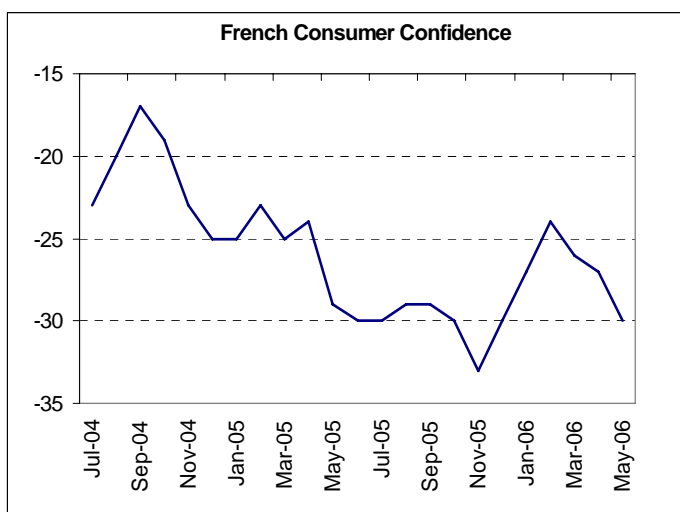
Euro Zone Confidence

The Euro Zone Business Climate Index contracted from 1.16 in April to 1.06 in May, while Consumer Confidence expanded from -10 to -9 and Economic Confidence increased from 105.7 to 106.7.



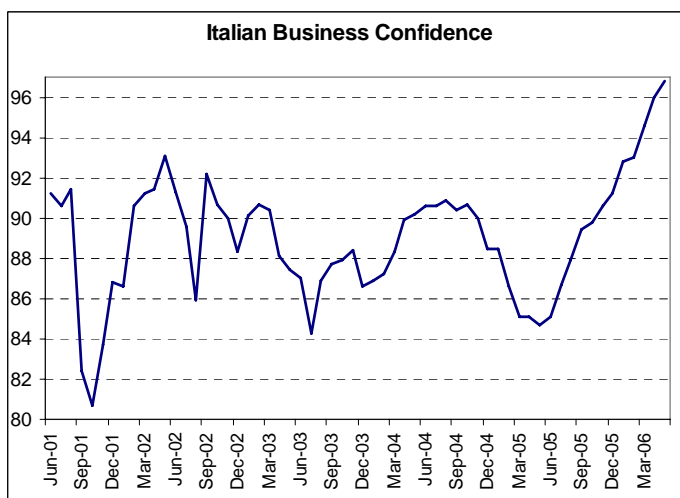
French Consumer Confidence

French Consumer Confidence unexpectedly contracted for the third consecutive month in May, falling from -27 in April to -30.



Italian Business Confidence

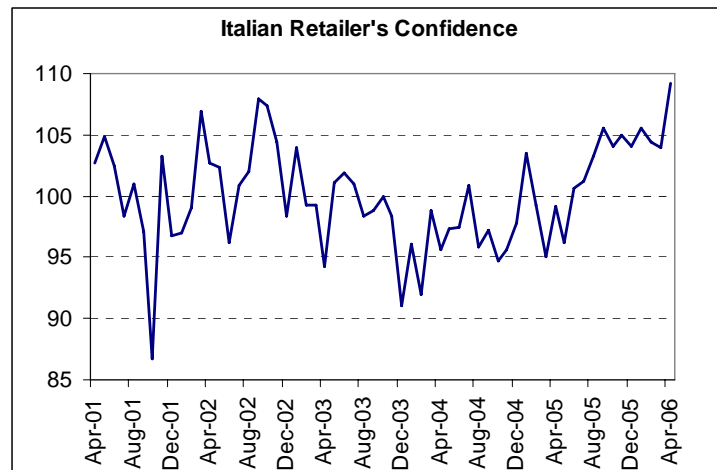
Italian Business Confidence increased in May, rising from 96 in April to 96.8, its highest reading in 5 years. The head of Italy's employers lobby commented that he is seeing the first signs of an economic recovery.



French Ind. Production, Exports & Spanish Household Exp.

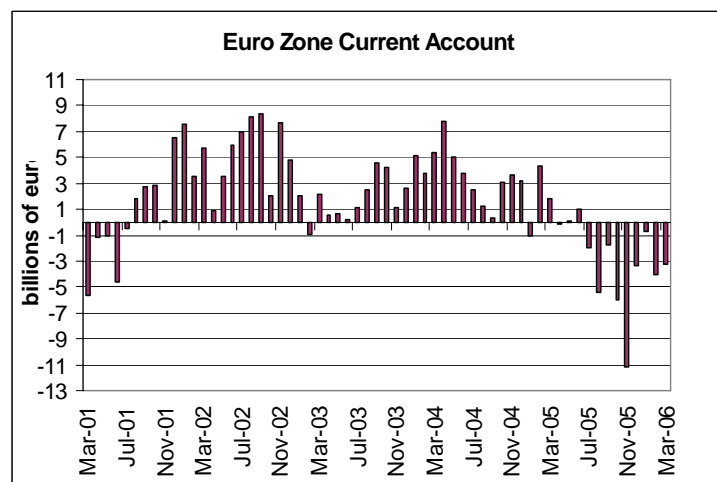
Italian Retailer's Confidence

Italian Retailer's Confidence increased from 103.9 in March to 109.2 in April. The Current Sales sub index increased from 2 to 9 while the Sales Outlook increased from 9 to 12.



Euro Zone Current Account

The Euro Zone Current Account deficit narrowed slightly from 4bln euros in February to 3.2 bln in March as the goods surplus expanded from 1.1 bln to 2.4 bln.



News

May 31st – **ECB member Nout Wellink commented on rates** stating that the rates need to be increased because of rising inflation expectations and concern about money growth. Wellink stated, “what is definitely clear is that we should tighten monetary policy in the period ahead.” Member John Hurley reiterated the view stating that “In view of these circumstances (price developments), and most certainly if these circumstances are being confirmed, the direction of interest rates is upward.”

May 30th – **The Italian Isae Institute revised their 2006 growth** forecast upward from 1.3% to 1.5% as consumer spending accelerates. Growth is forecasted to slow to 1.3% in 2007.

May 30th – **The Italian March Large Company Employment Index** suggests that Italian employment contracted 0.2% M/M and 0.6% Y/Y in March. The third consecutive month of contraction.

May 30th – **The OECD urged German Chancellor Angela Merkel** to cut costs more strongly and improve work placements for the unemployed to cure the budget deficit. They stated that Merkel’s anti deficit course of “relying to a relatively large extent on revenue increases raises important issues.”

May 30th – **According to a report by the German FTD, German** companies are increasing capital investment this year at the fastest pace in six years. Companies will increase investments 4.3% Y/Y in 2006 according to the survey.

May 26th – **EU commissioner Joaquin Almunia stated that economic** growth continues to be “insufficient”. The potential growth rate of the Euro Zone economy could increase by 0.5% a year if changes to capital, labor and goods markets are intensified, Almunia said.

May 26th – **The German DGB Labor Union stated that they desire** a minimum wage law of 7.50 euros/hr to be instated this year. Chancellor Merkel stated that she is “open toward a debate about minimum wage”.

May 25th – **Fitch Ratings threatened to cut Italy’s credit** rating in the next 3-5 months if more actions aren’t taken to curb the deficit. S&P also commented that Italy risked a downgrade if the government didn’t begin to “quickly” lower their debt.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/01	Euro Zone Manufacturing PMI (MAY)	56.4	65.7
06/01	Euro Zone Unemployment Rate (APR)	8.1%	8.1%
06/01	Euro Zone GDP (Q1)	0.6% Q/Q	0.3% Q/Q
06/01	Italian New Car Registrations (MAY)	--	-6.3% Y/Y
06/02	Spanish Unemployment Rate (MAY)	--	-72.9
06/05	Spanish Industrial Production (APR)	--	10.9% Y/Y

Valance Co., Inc.

Valance Economic Report: Japan

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May 31, 2006

Recent data from Japan continues to indicate accelerating growth. The Unemployment Rate remained unchanged while earnings improved, in line with a still tight labor market. Core CPI also continued to increase Y/Y and Industrial Production improved. Amid these conditions, our outlook remains unchanged for an end to the BoJ's Zero Interest Rate Policy as early as early Q3 2006.

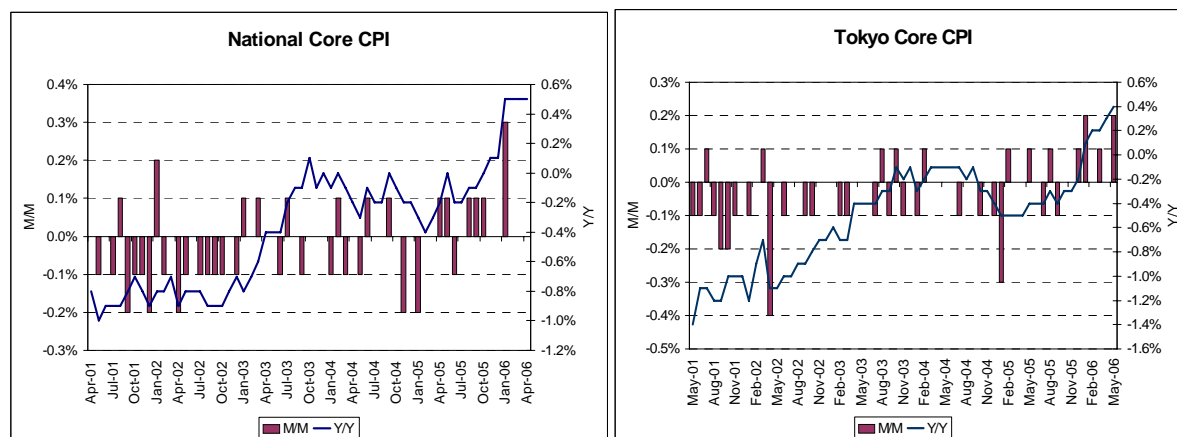
Weekly Highlights

Core CPI – unchanged M/M and increased 0.5% Y/Y in April. (page 18)

Employment – Jobless Rate remained unchanged at 4.1% in April. (page 20)

Industrial Production – increased 1.5% M/M and 3.18% Y/Y in April. (page 21)

Charts of the Week: CPI

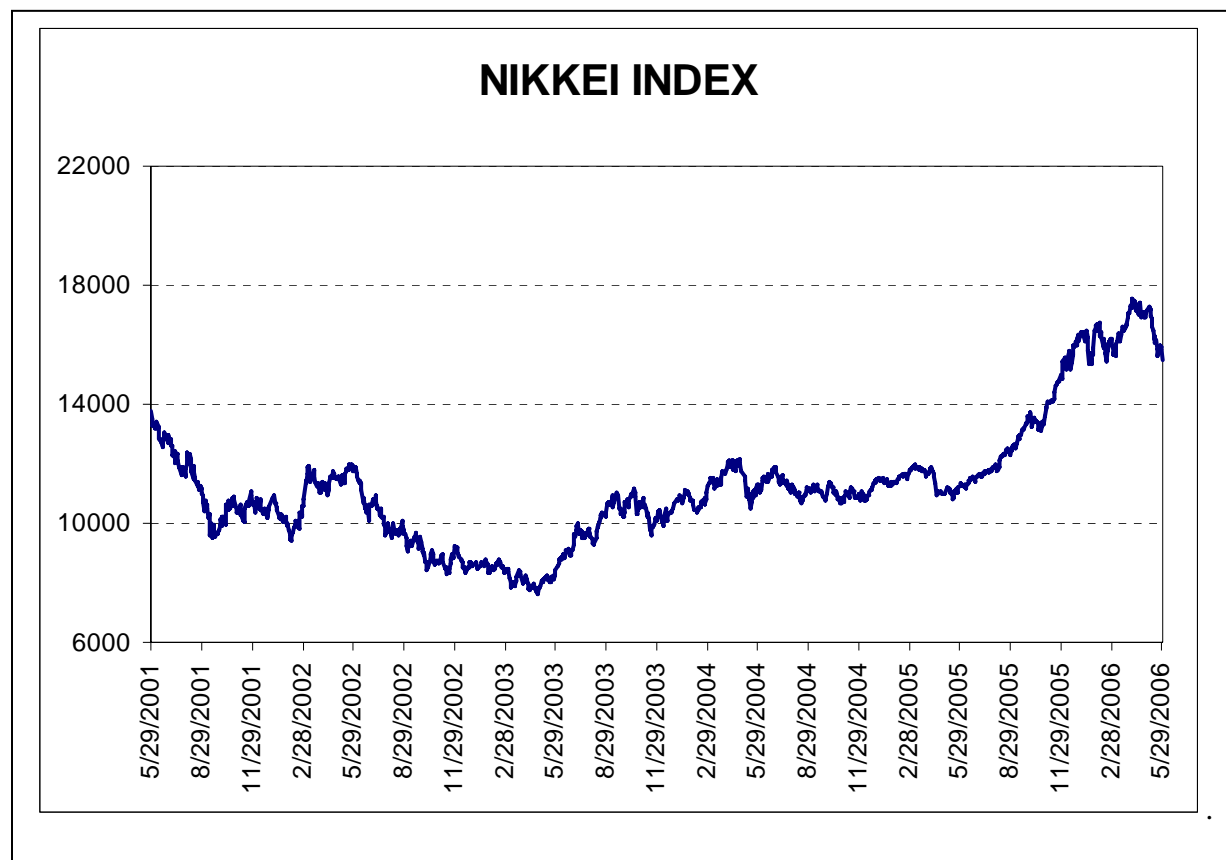


Core Prices in Japan were unchanged M/M and increased 0.5% Y/Y in April, meeting market expectations. In Tokyo, Core Prices increased 0.2% M/M and 0.4% Y/Y in April, ahead of market expectations for a 0.1% M/M decline and a 0.3% Y/Y increase. The increase in national prices came as a result of strength in the clothing/footwear, education, and entertainment sectors. Within Tokyo, price increases were more broadly based, with clothing/footwear, entertainment, and transport/communication sectors seeing solid gains. On a whole, with consumer prices consistently improving and meeting expectations, we continue to look for an end to the BoJ's Zero Interest Rate Policy as early as early Q3 2006.

Japan's Financial Balances

Financial Balances

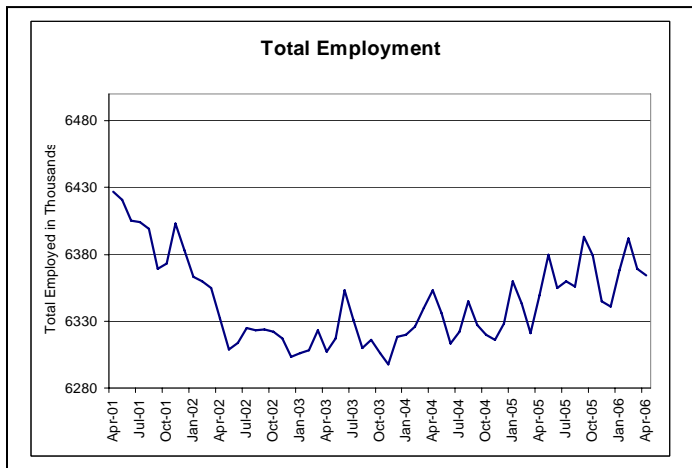
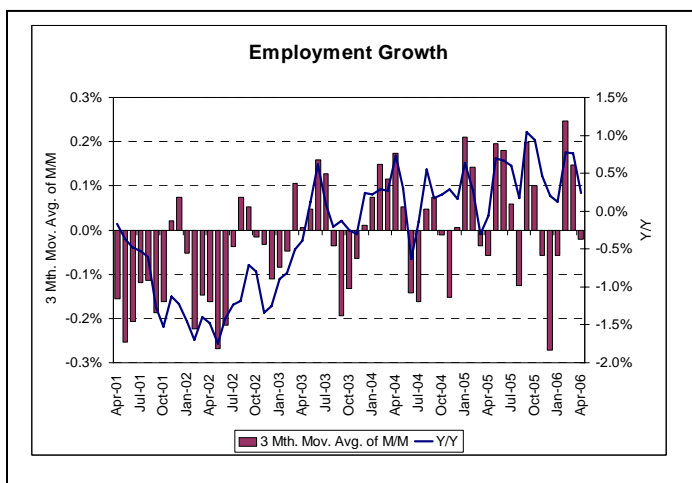
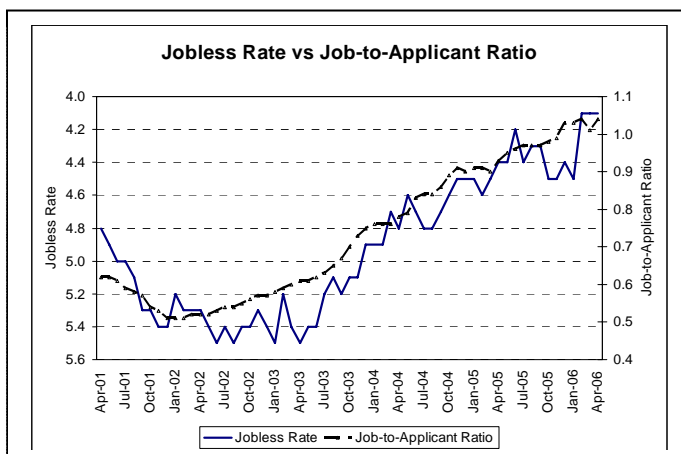
<i>Japan</i>	<i>Last period (¥trln)</i>	<i>Last 12mth. as a % of GDP</i>
Budget Balance	-3.50 (Dec)	-6.9%
Trade Balance	0.58 (Dec)	1.5%
Current Account Balance	1.87 (Dec)	3.5%
Private Balance	--	11.6%



Employment Data

Employment

The Unemployment Rate in Japan remained unchanged at 4.1% in April as the labor force decreased in size by 110k, total employment decreased by 50k, and the number of unemployed declined by 50k. April's unemployment remained at its lowest level since July 1998, meeting expectations. Also in the report, the Job-Applicant Ratio, increased from 1.01 in March to 1.04 in April, matching February's 13 year high and exceeding market expectations for an increase to 1.02. On the balance, the employment sector continues to remain tight. Looking forward, unemployment is widely expected to continue to decline on the back of demand from the manufacturing sector as well as increasing numbers of retirees.

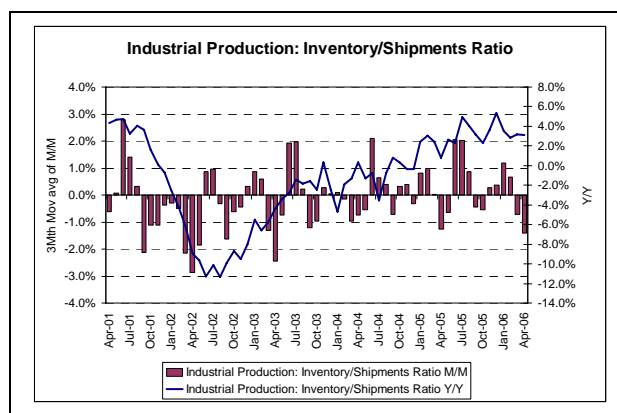
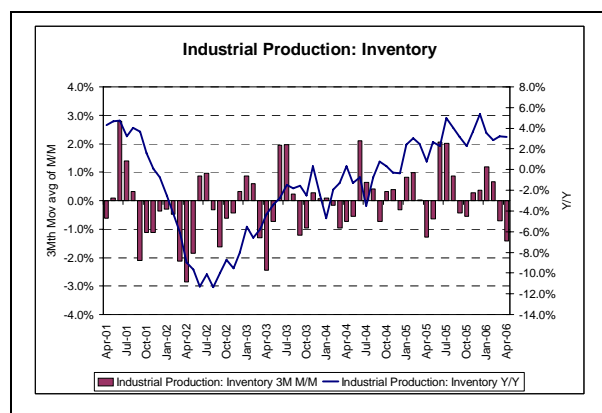
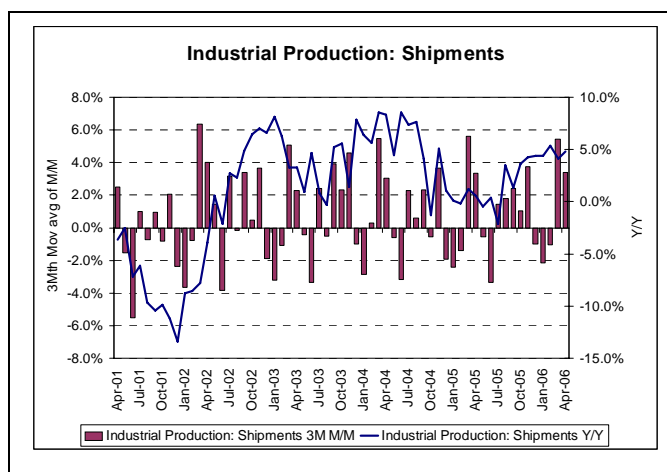
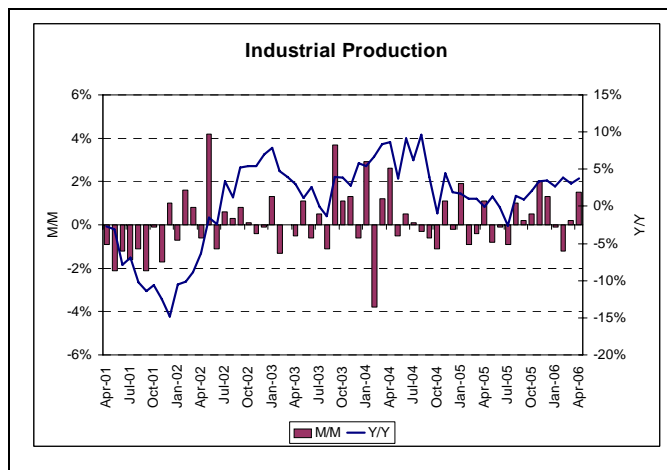


Industrial Production

Preliminary data on Industrial Production in April indicated an increase of 1.5% M/M and 3.8% Y/Y. The M/M increase was the second consecutive increase and the Y/Y increase was the second largest since November 2004. Industries that contributed the most to the increase, in order, were the general machinery, transport equipment, and fabricated metals industries.

Among the subcomponents, Shipments increased 2.6% M/M and 4.8% Y/Y. Inventories declined 0.1 % M/M and increased 3.1% Y/Y. The Inventory Shipments ratio declined 0.5% M/M.

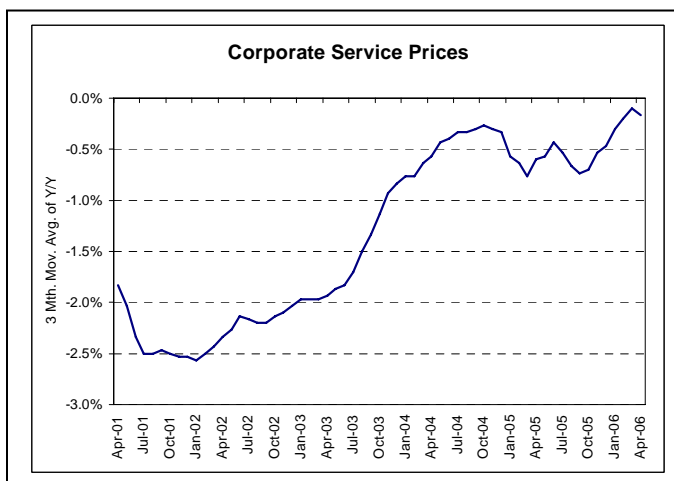
Industrial Production remains on a moderate upward trend. Looking forward, manufacturers expect production to improve 0.2% M/M in May and 1.3% Y/Y in May, which is improved from the 0.5% M/M decline forecasted for May last month.



Corp. Service Prices & Small Business Confidence

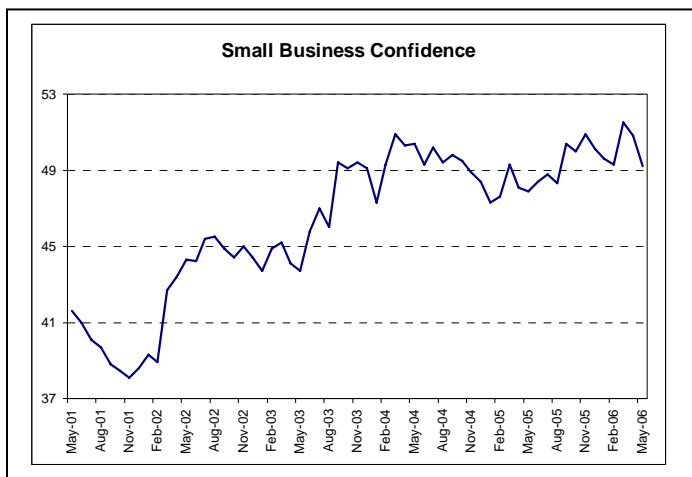
Corp. Service Prices

Corporate Service Prices declined 0.4% M/M and 0.3% Y/Y in March. The declines were led by declines in real estate, transportation and advertising sectors pricing. At the same time, prices in finance/insurance and leasing/renting improved, while prices in IT and communications sectors were stable. Although the series has been declining for some time, the index as a whole is nearing stabilization.



Small Business Confidence

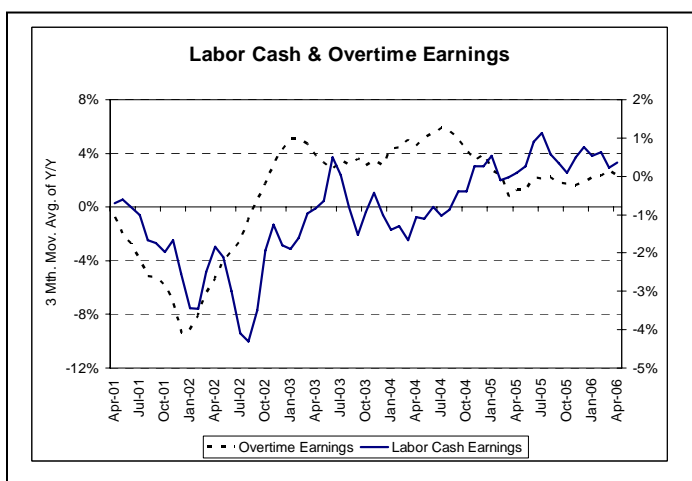
Small Business Confidence declined from 50.8 in April to 49.2 in May. The manufacturing component of the index declined from 50.4 to 48.6 while the non-manufacturing component declined from 51.1 to 49.6. The pessimism is only temporary however, as businesses expect the series to improve to 50.5 in June for All Industries, 50.8 for Manufacturers and 50.2 for Non-Manufacturers.



Labor Earnings, Housing Starts & Construction Orders

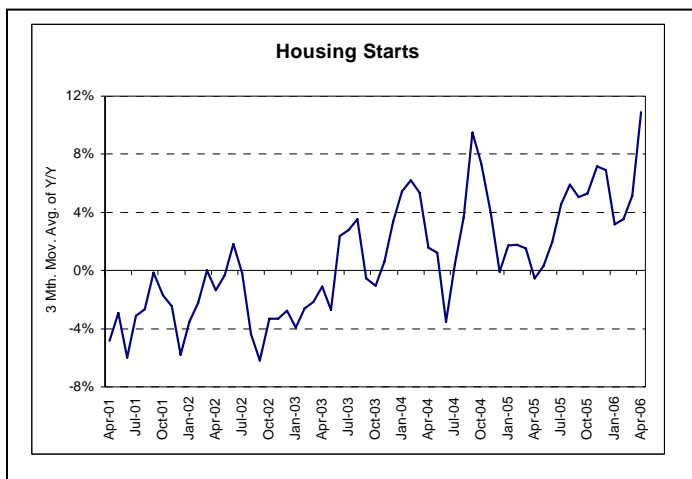
Labor Earnings

Labor Cash Earnings increased 0.3% Y/Y in April while Overtime Earnings improved 1.6% Y/Y in April. Overtime hours worked increased 2.8% Y/Y. Bonuses increased 6.8% Y/Y. Overall, labor conditions remain very positive as earnings have increased in 14 of the last 18 months, after declining for 4 years.



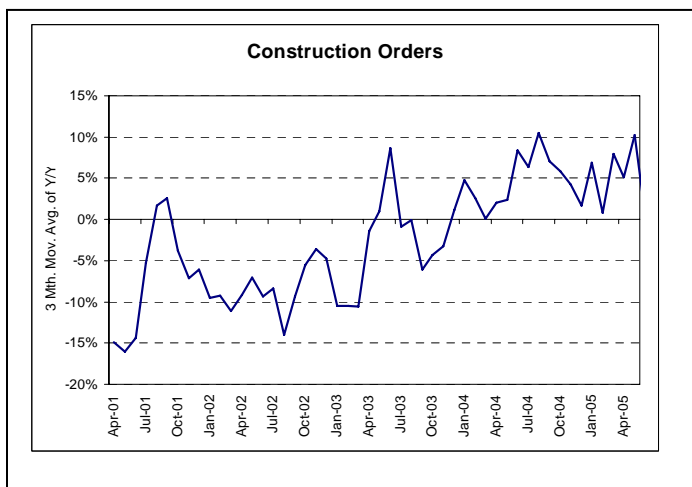
Housing Starts

Housing Starts in Japan increased 9.1% M/M and 15.0% Y/Y in April, above market expectations for a 5.8% Y/Y increase. On an annualized basis, the number of housing starts increased from 1.224 mln to 1.335 mln in April, above the 1.234 mln expected.



Construction Orders

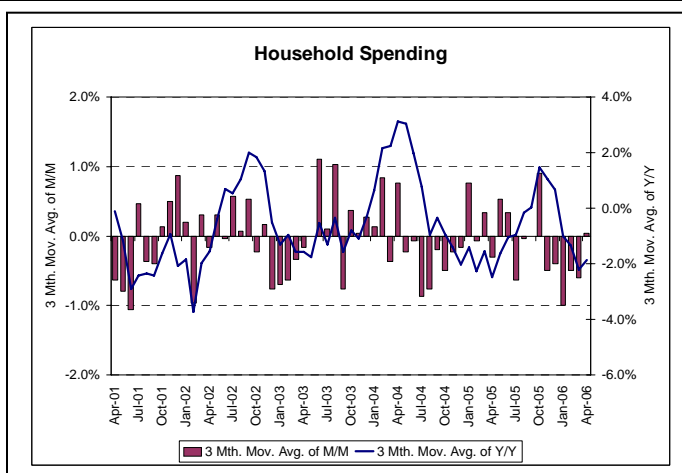
Construction Orders increased 2.7% Y/Y in April. The increase was led by increases in government, private manufacturing, and foreign orders.



Household Spending, Retail Trade & Large Retailers Sales

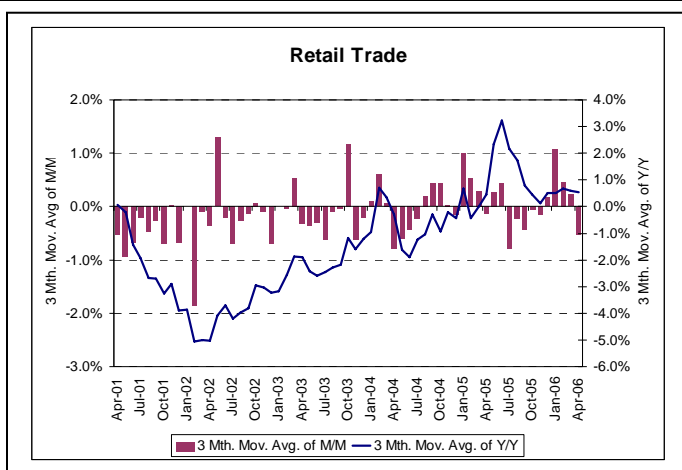
Household Spending

Overall Household Spending increased 0.3% M/M and declined 2.0% Y/Y in April.



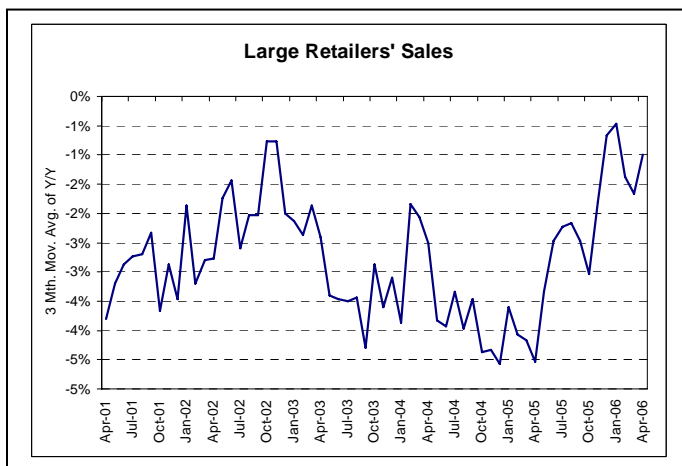
Retail Trade

Preliminary data on Retail Sales indicates a 0.1% M/M increase and a 0.6% Y/Y decline in April. The decline was expected and was widely attributed to colder and wetter than usual weather. Looking forward, the trend is expected to remain positive as wages and employment continue to remain solid.



Large Retailers Sales

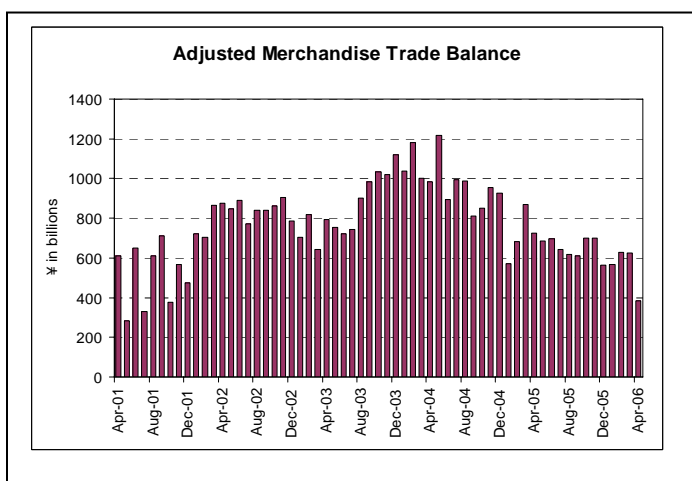
Large Retailers' Sales increased 0.3% M/M and declined 0.8% Y/Y on a same store basis.



Merchandise Trade Balance, Vehicle Sales & Production

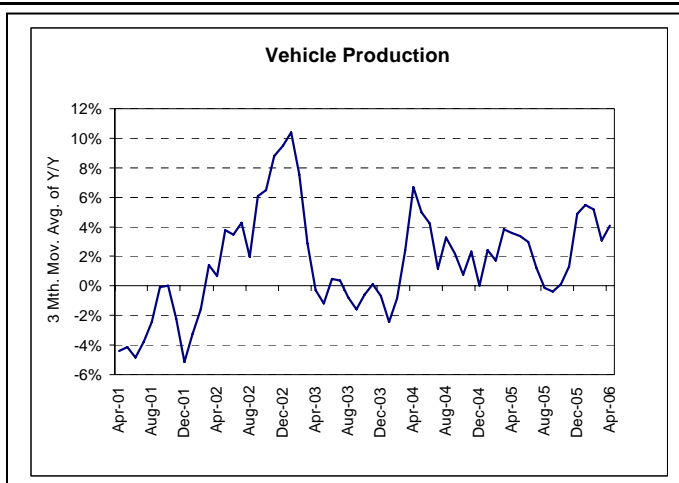
Merchandise Trade Balance

The Adjusted Merchandise Trade Balance declined from a revised ¥625.7 bln to ¥383.8 bln in April, against market expectations for a decline to ¥620.0 bln. The decline was greater than anticipated and was caused by increases in oil prices and domestic demand. Imports increased 4.1% M/M and 20.2% Y/Y while exports declined 0.4% M/M and increased 11.2% Y/Y.



Vehicle Production

Vehicle Production increased 3.9% Y/Y in April.



News

News

May 31 – BoJ's Gov. Fukui commented that, "I'm not sure whether we can reduce the balance to required-reserve levels of ¥6 trn over a short period of time due to issues including how well transactions within the financial market will adjust," effectively changing his view on targeting a reduction in the balance of current accounts deposited with the BoJ.

May 31 - Direct Foreign Investments by Japanese companies increased 32% Y/Y to ¥5.08 trln in FY05, the first ¥5.0+ trln level in 15 years. The increase resulted from increases in retained earnings at overseas subsidiaries of Japanese firms. At the same time, outflows of new funds from Japan for corporate acquisitions or the establishment of new local companies increased 17% Y/Y in FY05 to ¥2.99 trln.

May 30 - According to an article in the Nikkei, the government intends on reducing the number of public servants by 19,600 or about 6% of all civil servants over 5 years. The plan is a part of a structural reform initiative being pursued by the cabinet of PM Koizumi to achieve a slimmer and more efficient government.

May 30 - Japan's Banking and Economy Minister Yosano commented on BoJ policy, noting that:

"The principle of monetary policy is to tighten when there is an inflation risk and to loosen when economic stimulus is needed. Given this principle, the BoJ's policy freedom is currently limited because there's no room to lower interest rates."

May 30 – BoJ's Gov. Fukui commented that, "We have no preconceptions on the timing of ending the zero interest rate policy, as it will be up to future economy and price conditions." He also commented that "over the longer-term, monetary policy should continue moving in a direction toward normalizing from ultra-low rates." He also commented that the BoJ's decision to end its ZIRP would be unrelated to the progress it makes in removing excess liquidity left over from its previous quantitative easing policy.

May 30 - According to a set of panelists at an economic forum held by Nihon Keizai Shimbun Inc. and the Japan Center for Economic Research, Japan is expected to achieve 2% real growth during FY06 due to strong personal spending and capital investments. Some of the panelists expected the BoJ to end its ZIRP as early as July, but doubted that the BoJ would increase its key overnight rate by 25bps every quarter as the market expects.

News Cont'd

News

May 30 - According to the preliminary GDP figures for Q1 2006, the GDP gap has increased to 0.3% from 0.2% in Q4 2005. This marks the first time since Q1 1997, that demand has increased prior to a consumption tax hike, and the gap has been positive two quarters in a row.

May 30 - In response to the uncollateralized overnight call rate climbing to 0.1%, the BoJ injected the money market with ¥1.5 trln. The increase, the highest ever for a single day, resulted as it sought to lower the increasing target interest rate.

The BoJ is expected to provide an additional ¥2 trln in its open-market operations to help ease upward pressures on interest rates. As a result of these operations, the balance of current accounts deposited at the bank increased by approximately ¥1.4 trln yen to ¥13.5 trln this week, on a week/week basis. The increase also coincides with the highest level of borrowing from the Bank under the Lombard-type lending facility, which allows firms to borrow at the official discount rate.

May 29 - According to a survey conducted by Nihon Keizai Shimbun Inc., private sector firms intend on increasing capital investments by 14.5% Y/Y in FY06, the third consecutive year of double digit increases and also the highest level since the 15.4% recorded in FY1989. The increase was driven by electronics and materials firms, which expect to increase capital spending by 17%. Non-manufacturers expect a 10.3% rise, the first double digit increase in 15 years.

May 25 - According to a survey of 15 private sector research institutes conducted by The Nikkei, Japan's real GDP is expected to grow 2.6% in FY06 while nominal GDP is expected to grow 2.1%. They expect a real GDP increase of 2.1% in FY07 as private sector demand continues to drive growth. They also look for personal consumption to climb 2.1%, marking its second consecutive year of growth.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/01	Vehicle Sales (May Y/Y)	N/A	-7.8%
06/01	Capital Spending (Q1)	N/A	8.8%
06/01	Capital Spending Incl Software (Q1)	N/A	9.5%
06/07	Leading Economic Index (Apr)	N/A	54.5%
06/07	Coincident Index (Apr)	N/A	10.0%
06/07	Machine Tool Orders (May Y/Y)	N/A	1.4%
06/07	Broad Liquidity (May Y/Y)	N/A	2.3%
06/07	Bank Lending (May Y/Y)	N/A	1.2%
06/08	Eco Watchers Survey: Current (May)	N/A	54.6
06/08	Eco Watchers Survey: Outlook (May)	N/A	55.0
06/09	Machine Orders (Apr M/M)	N/A	-5.2%
06/09	Machine Orders (Apr Y/Y)	N/A	-1.6%

Valance Co., Inc.

Valance Economic Report: **United Kingdom**

Gabriel Webber

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May 31, 2006

The housing market revival may be short lived as the Nationwide House Price Survey came in significantly below expectations, BOE Mortgage Approvals were weak, and GfK Consumer Confidence reported a decrease. The second release of Real GDP for Q1 had no major surprises and was in line with expectations.

Weekly Highlights

Nationwide House Prices- increased 0.2% M/M and 4.6% Y/Y in May. (page 29)

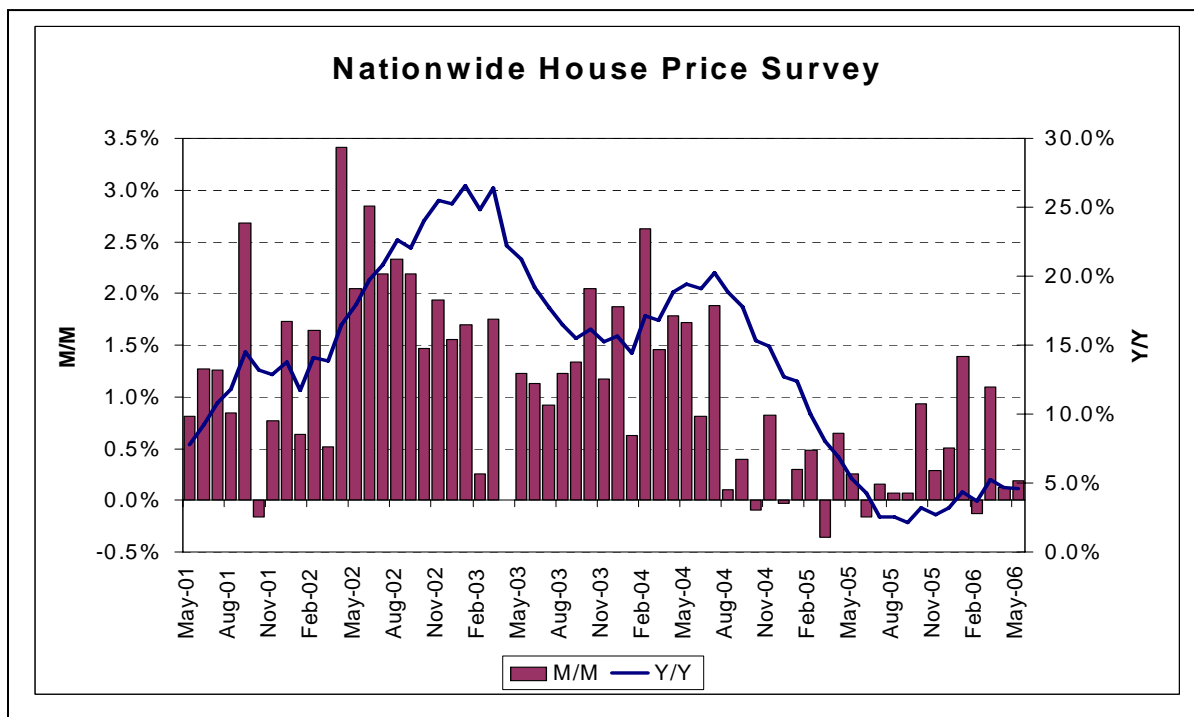
Real GDP- remained at 0.6% Q/Q and 2.2% Y/Y in its second release for Q1 2006. (page 31)

GfK Consumer Confidence- unexpectedly decreased from -4 to -5 in May. (page 32)

BOE Mortgage Approvals- decreased 7.5% M/M and increased 10.4% Y/Y in April. (page 33)

Weekly Releases & News

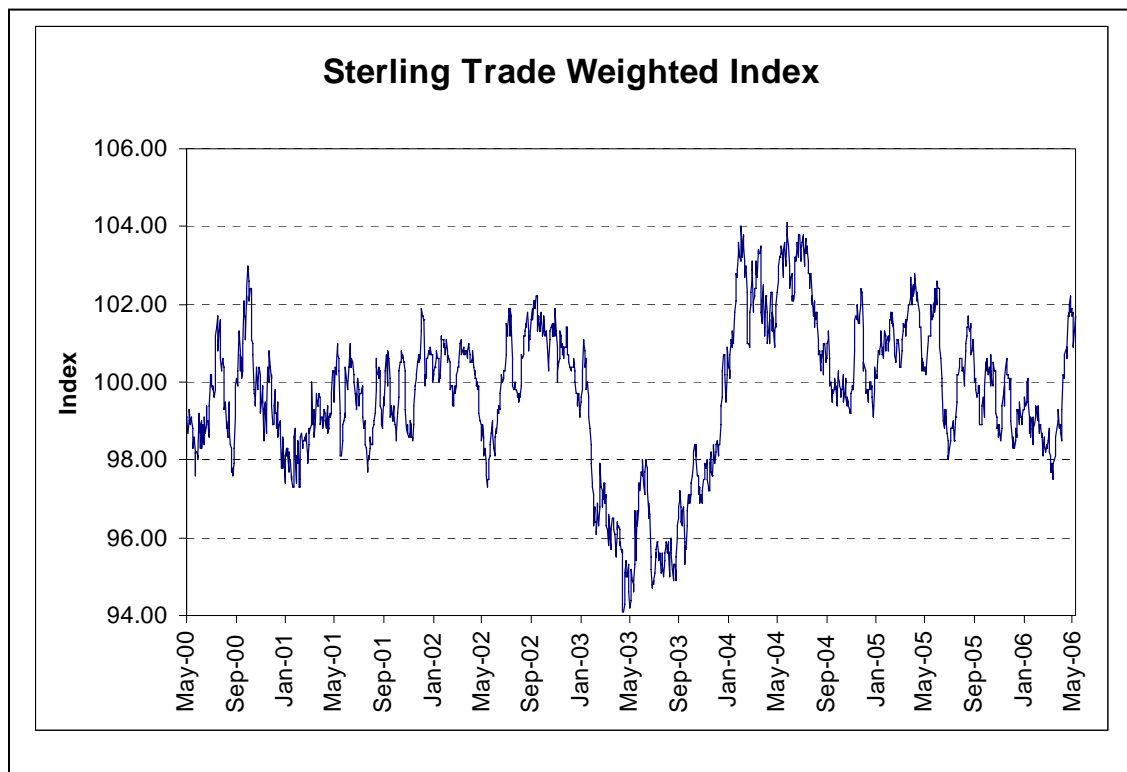
Chart of the Week: *Nationwide House Price Survey*



Nationwide House Prices increased 0.2% M/M and 4.6% Y/Y in May, the second consecutive month of sluggish growth and significantly below expectations of 0.7% M/M and 5.1% Y/Y. Nationwide forecasts mortgage approvals to slow through the summer to their long term average.

Financial Balances & Trade Weighted Index

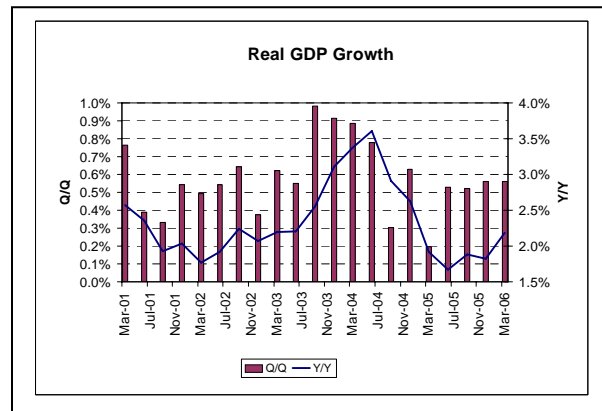
<i>U.K.</i>	<i>Last Period (blns)</i>	<i>Last 12mth. % of GDP</i>
Budget Balance (monthly)	-£1.4 (Apr)	-0.5%
Trade Balance (monthly)	-£3.8 (Mar)	-1.3%
Curr. Acct. Balance (quarterly)	-£11.0 (Dec)	-3.8%
Private Balance	--	-3.3%



Real GDP Growth & Components

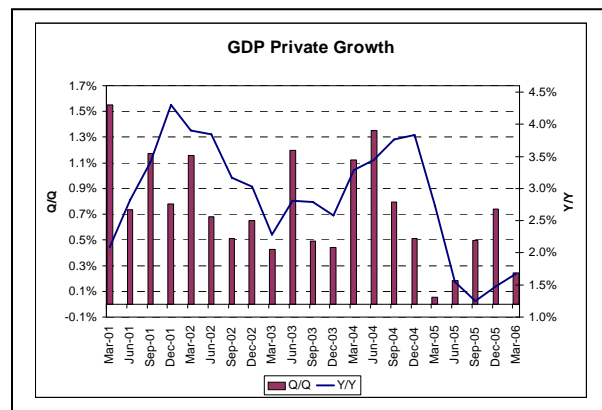
Real GDP Growth

Real GDP growth remained at 0.6% Q/Q and 2.2% Y/Y in its second release for Q1 2006. Overall, the release had few surprises and was in line with expectations.



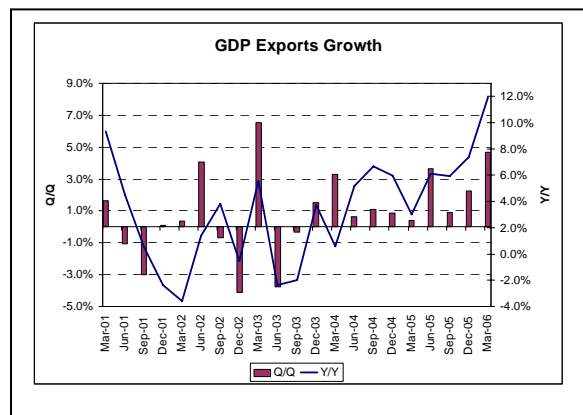
GDP Private Consumption Growth

GDP Private Consumption growth increased 0.2% Q/Q and 1.7% Y/Y in Q1 2006, weaker than expectations of 0.5% Q/Q and 1.9% Y/Y.

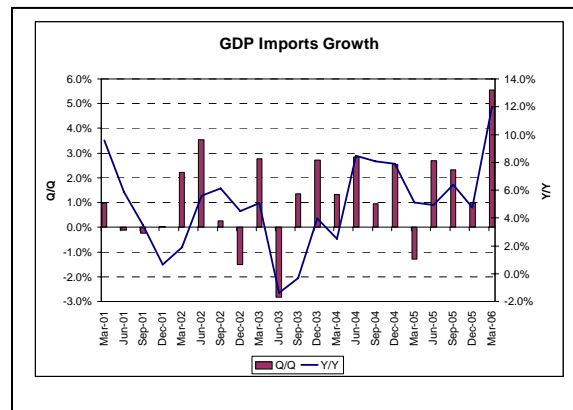


GDP Components & GfK Consumer Confidence

GDP Exports and Imports Growth



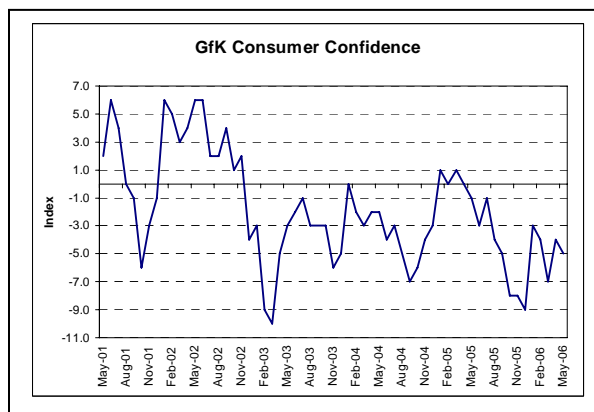
GDP Exports increased 4.7% Q/Q and 11.9% Y/Y in Q1 2006.



GDP Imports increased 5.5% Q/Q and 12.0% Y/Y in Q1 2006.

GfK Consumer Confidence

GfK Consumer Confidence unexpectedly decreased from -4 to -5 in May. A gauge of Personal Finances for next year decreased from +14 to +12 and the climate for major purchases decreased from +11 to +8, the lowest in five months. A measure of the Economic Situation in the next 12 months decreased from -28 to -30.



Data & Comments

Data

BOE Mortgage Approvals

BOE Mortgage Approvals decreased 7.5% M/M and increased 10.4% Y/Y in April. The monthly level of 106,000 was the lowest level since September and below the six month average of 115,000.

BBA Mortgage Approvals

BBA Mortgage Approvals decreased 22.0% M/M and 12.0% Y/Y in April. However, the BBA attributed much of the decline to the lower number of working days in April than in March, after a late Easter holiday this year. It added that the number of approvals remain in line with recent trends.

CBI Retail Sales Survey

The CBI Retail Sales Survey increased from +2 to +9 in May, the highest since December 2004. Retail Employment decreased from -26 in the three months through February to -29 in the three months through May, the lowest level in two years.

Comments

MPC Member, Paul Tucker, commented that, “the natural real rate may be unobservable but there is no ducking the fact that a policymaker needs to form a view on whether its policy stance is stimulating or restraining demand.” On the risks of dislodging inflation expectations, he said “as the recent slight tick up in some measures [of expectations] illustrates, we have to be constantly vigilant.” He added that, “we absolutely have to attend to indicators of medium-term nominal trends...it is why the ECB and others, including the Bank of England, track the monetary aggregates as a cross check, a potential amber light alerting us to medium-term risks.”

MPC Member, Kate Barker, commented that, “we have seen these big rises in energy prices and that has put a squeeze on what people have to spend. But we haven't seen that translate into inflationary pressure in the labor market.” In addition, she commented that energy prices have “risen for longer than we anticipated. I don't think it would be right to stop being concerned. We have to look forward with our policy because if we see pressures then we want to act early.” In regards to the stock market strength this year, the bank was “surprised” before it “rapidly reversed.” “In percentage terms I don't feel that the decline is a problem but if we were to see the markets continue to decline then we might become more concerned because falling markets make it more difficult for firms to invest. We want investment to improve.”

MPC Member, Stephen Nickell, commented that there's no clear explanation why people in France and Germany work less than those in the U.K., the U.S. or Scandinavian countries. France and Germany have lower employment rates and employees work fewer hours a week than in other countries. “The incentives embedded in the tax and social security systems of the different countries are clearly important and explain many features of the pattern. But they are far from being the whole story.” The number of hours worked a week has dropped more in Germany and France than in most of Scandinavia, while hours have increased in the U.S. and the U.K. Scandinavian countries, even with higher taxes and more holidays, still have higher rates of employment than most other OECD countries.

Comments Cont'd & News

The Bank of England's Chief Economist, Charles Bean, said expectations for higher interest rates may be too high. When asked if the U.K. benchmark rate is going up eventually, Bean stated, "Commentators and the press have a tendency to get ahead of themselves." Bean further commented that consumer demand "is somewhat sluggish. Things have gotten a little better for manufacturers because world demand is pretty strong. They're starting to benefit from that, particularly because the euro area has picked up."

News

May 31st - UK Inflation Expectations Surged In May - U.K. consumers expect prices to rise more rapidly during the next 12 months, according to a survey released by the European Commission. In its monthly survey of sentiment across the 25 countries that make up the bloc, the Commission said the measure of expected future price rises in the U.K. rose to +16 from +12 in April, above the recent high of +14 in February.

May 30th - BOE's Blanchflower Wins Lawmakers' Backing to Be Policy Maker - David Blanchflower won backing from a panel of lawmakers for his three-year term on the central bank's rate setting committee. "We are satisfied that Professor Blanchflower fulfils our criteria for appointments of personal independence and professional competence," Parliament's Treasury Committee said. Blanchflower, 54, an Economics Professor at Dartmouth College in the U.S., overcame criticism from lawmakers about his plan to commute across the Atlantic Ocean each month to work at the Bank. Members of the panel, which have no power to block his appointment, questioned whether his split residence could interfere with his grasp of the U.K. economy.

May 29th - London Property Price Boom to Decline in 2006 - A first-half boom in London house prices will drop off in the second half of 2006 due to nervousness in the stock market and concerns about interest rate rises, according to Hometrack. The 1.2% M/M increase in house prices in the U.K., compared with a 0.6% M/M average increase across the rest of the country, will probably be the last increase this year as demand declines. "The London effect has been flattering the overall picture of a relatively buoyant housing market. This latest survey shows that outside London house prices remained static across two-thirds of all postcode areas."

May 25th - Barclaycard hit by bad debt jump- The £1 trln British consumer debt bubble returned to haunt Barclays as the international banking group warned investors of rising problems with debt in its credit card department, Barclaycard, and increased loan repayment difficulties among individual customers. In an otherwise extremely bullish trading update to the City, Barclays said that "very strong income growth" at Barclaycard in the first quarter was being offset by higher impairment charges, increased bad consumer debt and a greater investment in the business. The Bank said that, as a result of its booming operations elsewhere, income growth would be "significantly ahead of the current market consensus," as well as, impairment charges and expenses.

News Cont'd & Upcoming Dates

May 25th – RICS says UK Rents Rise To Five-Year High In April - U.K. rental demand remained solid in April, with rents rising at the fastest pace in five years, a report from the Royal Institution of Chartered Surveyors. The report said that first-time buyers are continuing their struggle to get into the housing market, while high inward migration also played a part in the continued strong level of rental demand in the U.K. A balance of +19 surveyors reported increased tenant demand for rental property between February and April, compared with +27 in the previous three-month period. Although the balance declined, RICS said that it showed signs of a more normal rental demand. “Tenant demand for rental property was solid for the quarter to April, but showed signs of normalization having grown rapidly during the previous quarter. The rise reflects stronger economic conditions at the turn of the year. Moreover, the renewed upturn in property prices is squeezing potential buyers into renting.” The RICS report also shows that rents continued to rise for the second consecutive three-month period. A balance of +20 surveyors reported an increase in average rents between February and April compared with +18 in the previous three-month period.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/01	PMI Manufacturing	53.5	54.1
06/02	PMI Construction	54.0	53.7
06/05	HBOS House Price Survey	--	8.0% M/M 2.0% Y/Y
06/05	PMI Services	--	59.7
06/05	BRC Retail Sales Monitor	--	--

Valance Co., Inc.

Valance Economic Report: *Canada*

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May 31, 2006

Canada posted its highest quarterly annualized real GDP growth since Q3 2004. Current Account, Industrial Product Prices and Raw Materials Prices, all posted readings above expectations.

Weekly Highlights

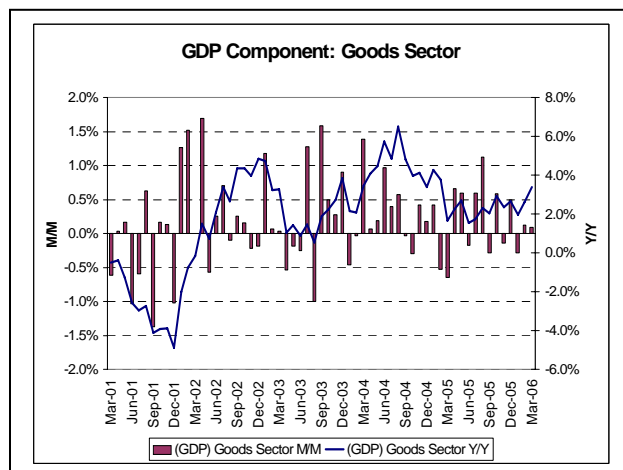
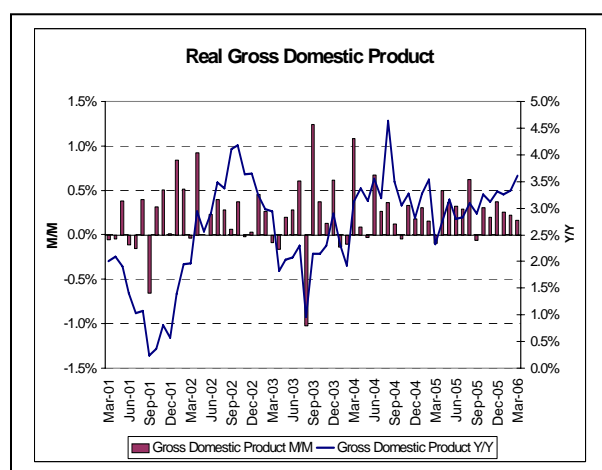
Real GDP - increased 0.2% M/M and 3.6% Y/Y in March. (page 36)

Canada's Current Account Surplus - narrowed from C\$13.3 bln in Q4 to C\$10.7 bln in Q1. (page 40)

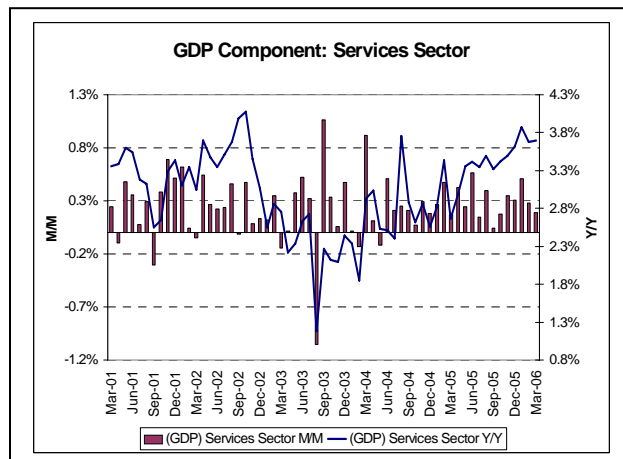
Industrial Product Prices - increased 1.3% M/M and 2.2% Y/Y in April. (page 40)

Weekly Releases & News

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



Real GDP increased 0.2% M/M and 3.6% Y/Y in March, as a result of continued strength in investment and personal expenditure. Output in the Services Sector increased 0.2% M/M and 3.7% Y/Y as retail and wholesale trade, finance, insurance and real estate, all advanced. Output in the Goods Sector increased at a slower pace of 0.1% M/M and 3.4% Y/Y as manufacturers continue to cope with the rapidly appreciation of the Canadian dollar, and increasing international competition. On a quarterly annualized basis, real GDP increased 3.8% in Q1, its highest gain since Q3 2004.

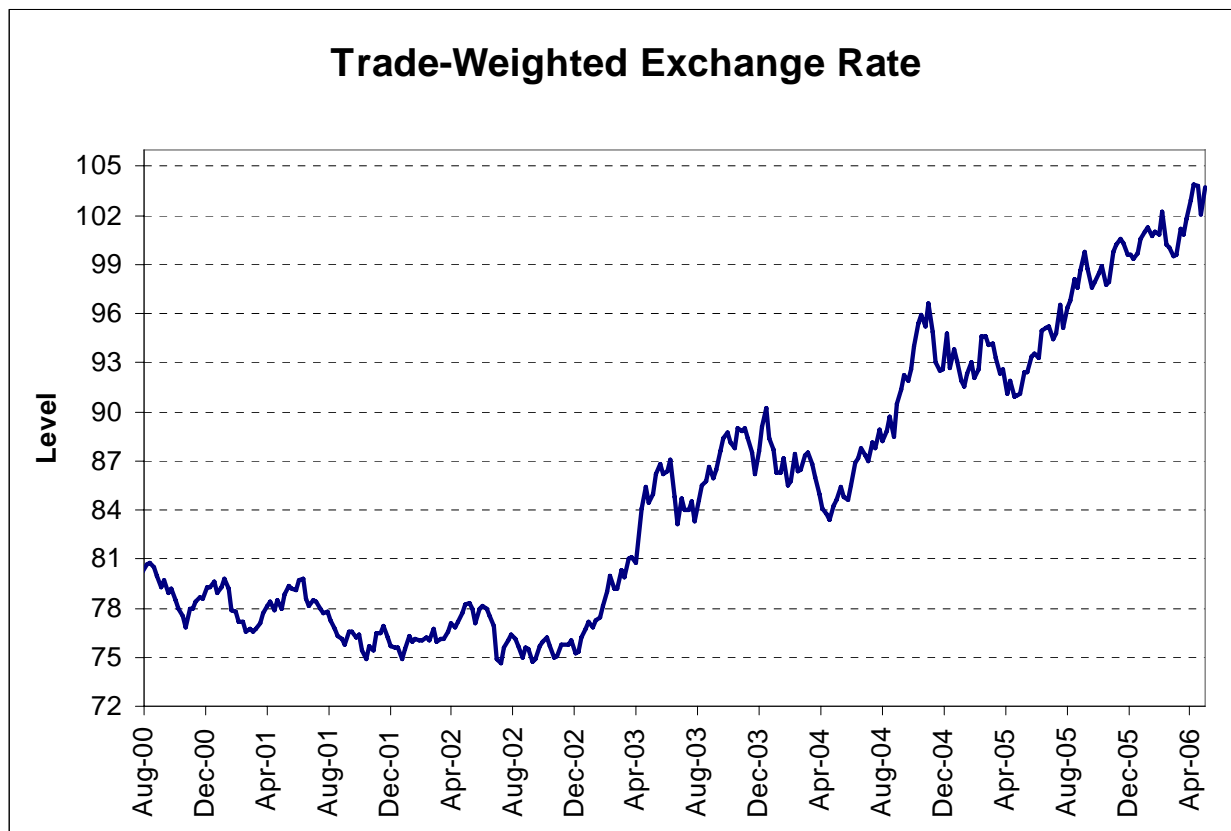


Financial Balances & Trade Weighted Exchange Rate

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	10.7 (Q1)	2.2%
Private Balance	--	1.8%

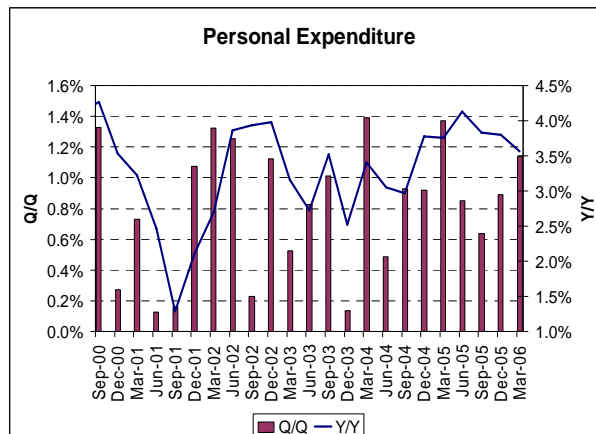
Trade-Weighted Exchange Rate



GDP Data (Cont'd)

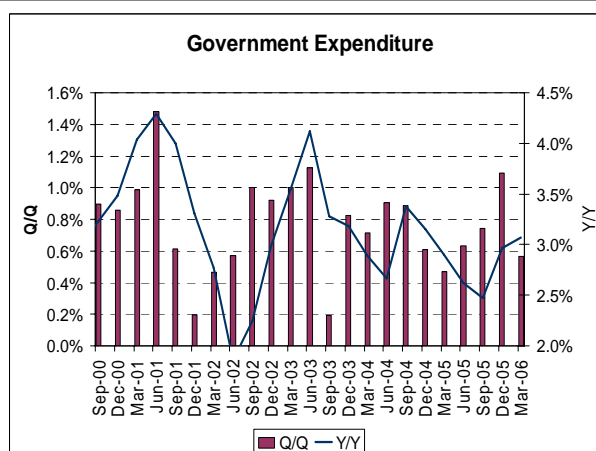
Private Expenditure

Private Expenditure increased 1.1% Q/Q and 3.1% Y/Y in Q1 compared to Q4's reading of 0.9% Q/Q and 3.5% Y/Y.



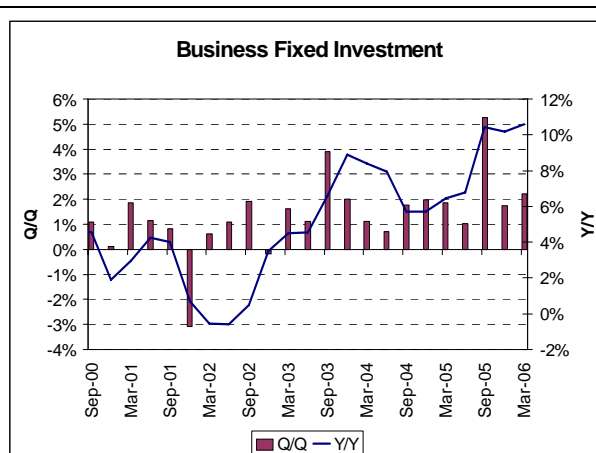
Government Expenditure

Government Expenditure increased 0.6% Q/Q and 4.3% Y/Y in Q.



Business Fixed Investment

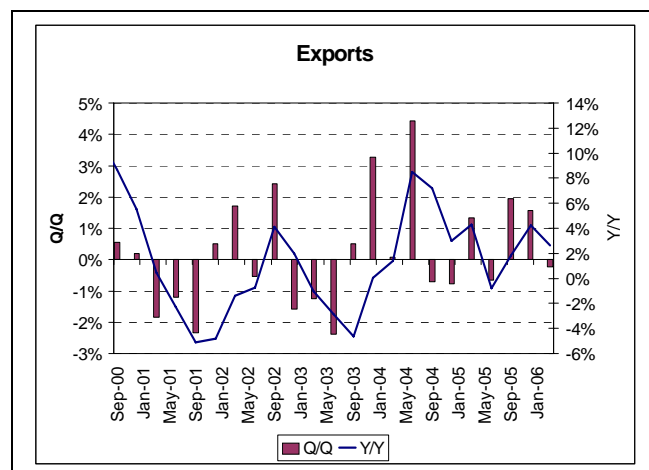
Business Fixed Investment increased from 1.7% Q/Q and 10.2% Y/Y to 2.2% Q/Q and 10.6% Y/Y. The Y/Y growth continues to trend up and is now at cyclical highs.



GDP Data (Cont'd)

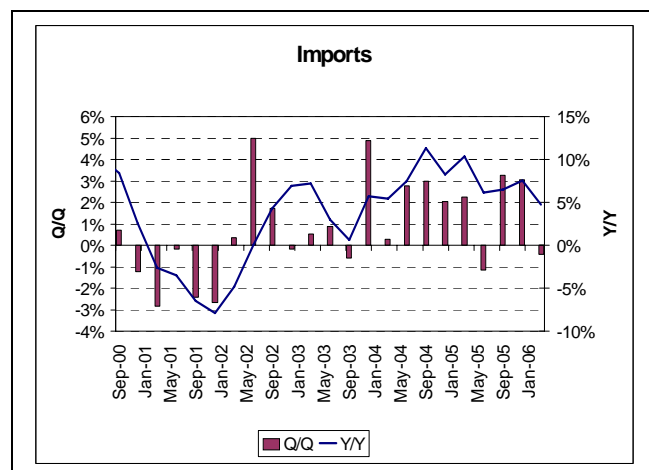
Exports

Exports growth decreased 0.2% Q/Q and increased 2.6% Y/Y in Q1. Despite the slowdown in exports, Y/Y growth is still at a solid level.



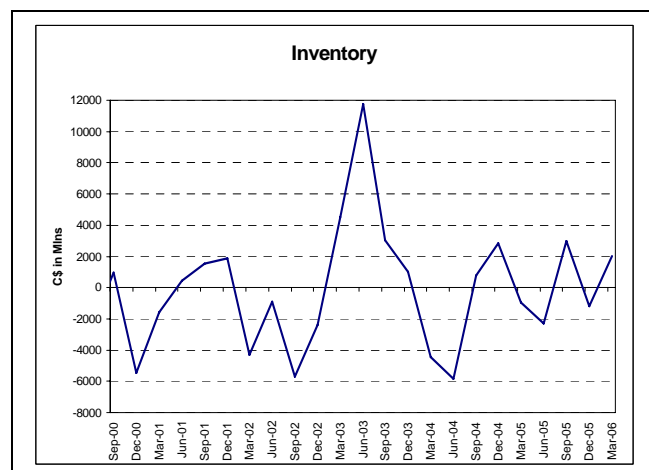
Imports

Imports growth decreased 0.4% Q/Q and increased 4.7% Y/Y in Q1. In the previous quarter, imports increased 3.0% Q/Q and 7.5% Y/Y.



Change in Inventories

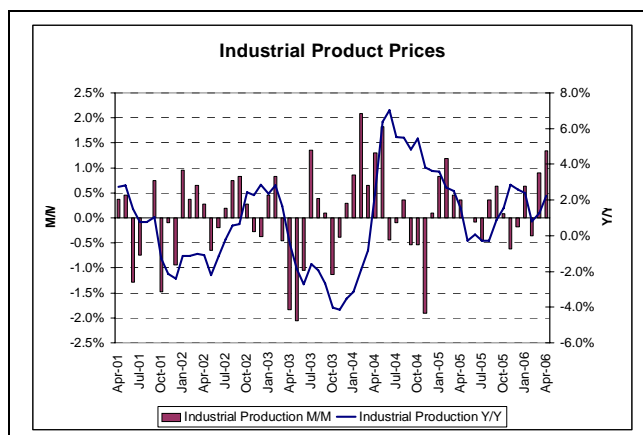
Inventories increased by C\$0.82 mln in Q1. The majority of this increase came as a result of a buildup in retail inventories which posted a second quarter of strong accumulation.



Industrial Product & Raw Material Prices and Business Conditions Orders

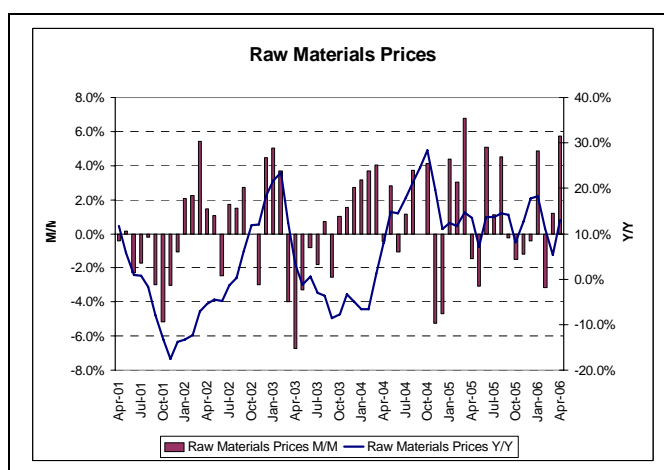
Industrial Product Prices

Industrial Product Prices increased 1.3% M/M and 2.2% Y/Y in April, as a result of higher prices for petroleum and primary metal products.



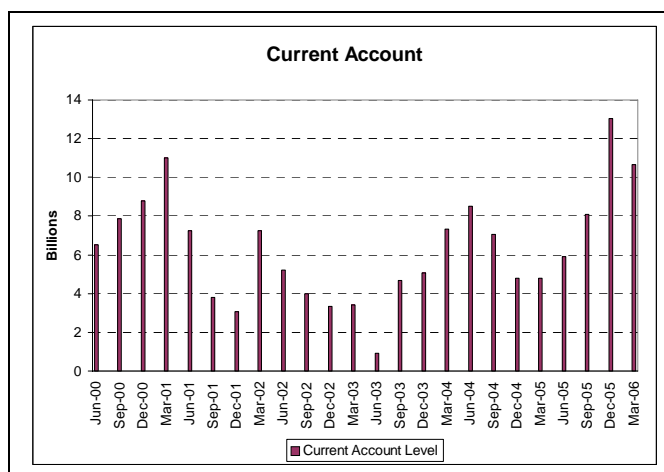
Raw Materials Prices

Raw Materials Prices increased 5.7% M/M and 13% Y/Y in April as a result of higher prices for non-ferrous metals. Prices for intermediate and final goods increased 1.6% M/M and 0.6% M/M, respectively.



Current Account Balance

Canada's Current Account Surplus narrowed from C\$13.3 bln in Q4 to C\$10.7 bln in Q1. The first quarter's decrease resulted from a decline in the value of energy exports. Exports and Imports decreased 4.0% and 1.5% Q/Q, respectively, in Q1.



News & Upcoming Dates

May 30th, 2006 - Comments from David Dodge, Governor of the Bank of Canada, made to the House of Commons Standing Committee on Industry, Science and Technology

On Manufacturing – “Our surveys have highlighted three areas that are posing problems for manufacturers—labour shortages, the appreciation of the Canadian dollar, and competition from Asia. Let me say a few words about each of these areas. Our surveys have shown that the key problem for some manufacturers, like firms in other sectors, has been a shortage of skilled labour. But despite the difficulty in attracting skilled labour, our most recent survey showed that hiring intentions remain strong across most sectors and all regions. Many of the workers who will be hired to alleviate labour shortages in expanding sectors are those who are being released from sectors that are growing less rapidly.”

On exchange rate – “A key element of our monetary policy framework is the floating exchange rate. Let me be clear: we do not have a target or preferred exchange rate for the Canadian dollar. But it is an important relative price in our economy. In terms of the Bank's monetary policy, exchange rate movements give us information about economic developments that may be having a direct impact on demand in the Canadian economy. And the movements themselves have their own effect on demand, by changing relative prices for Canadian goods and services and by shifting demand between domestic and foreign products. The challenge for the Bank is to evaluate these movements, together with other data, and set a course for monetary policy that works to keep demand and supply in balance and inflation on target.”

Key Dates This Week

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

Valance Co., Inc.

Valance Economic Report: Australia

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May 31, 2006

Exports received healthy gains in April after a recent slowdown due to the port damaging cyclones back in February. Retail sales rose nearly five times of the expected number while the housing market showed a considerable slowdown.

Weekly Highlights

Trade Deficit – narrowed to A\$1.1bln in April from A\$1.51bln in March. (page 42)

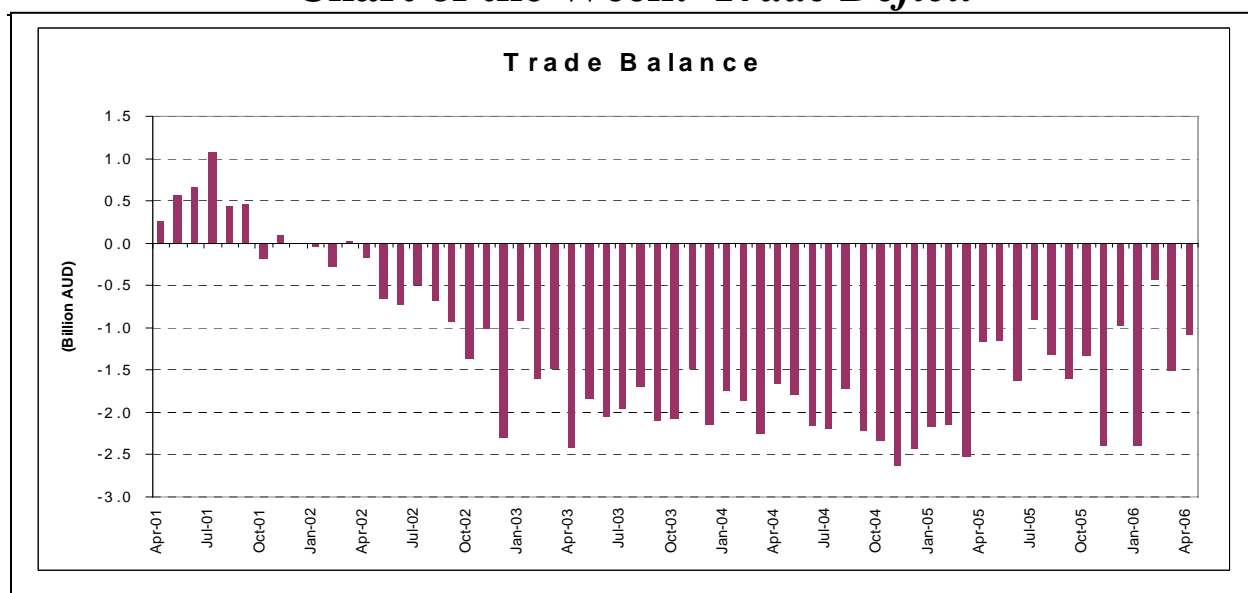
Retail Sales – rose 1.4% in April. (page 43)

Building Approvals – fell 3.4% M/M and fell 7.5% Y/Y in April. (page 43)

New Home Sales - fell 6.5% M/M in April. (page 44)

Weekly Releases & News

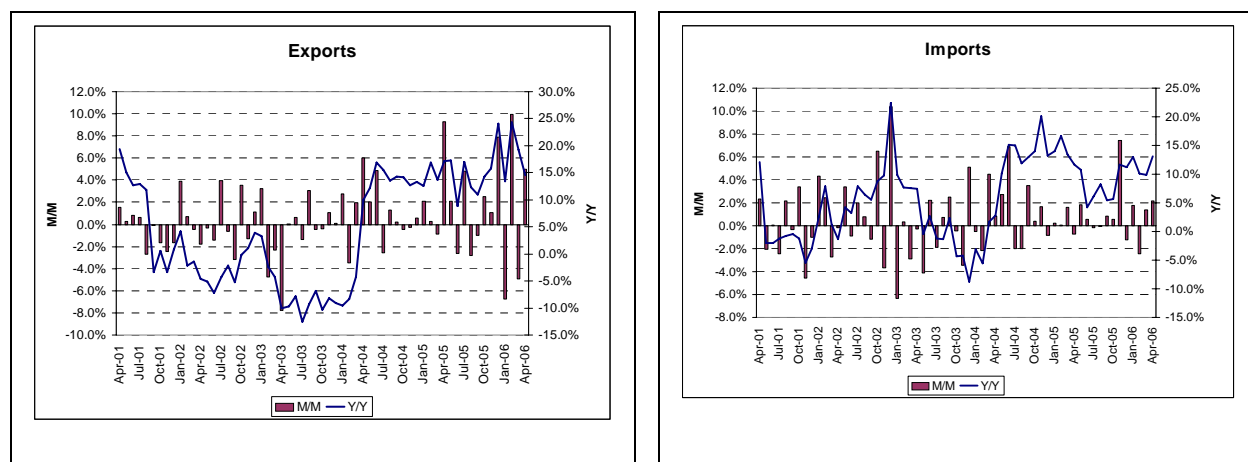
Chart of the Week: *Trade Deficit*



The trade gap narrowed to A\$1.1bln in April from a revised A\$1.51bln (previously A\$1.55bln) in March. Imports rose 2.2% M/M and rose 13.1% Y/Y in April. Exports rose 5.0% M/M and rose 14.6% Y/Y in April. The fall in the size of the deficit was not unexpected, as March's trade figures were distorted by cyclones in Queensland and Western Australia. Farm exports, such as meat, sugar, wheat and wool, fell 2% as drought gripped much of the country. Shipments of non-rural goods, which include minerals, soared 8%.

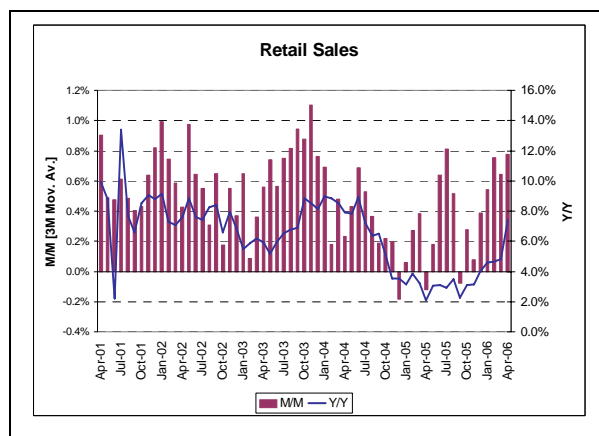
Exports, Imports, Retail Sales & Building Approvals

Exports & Imports



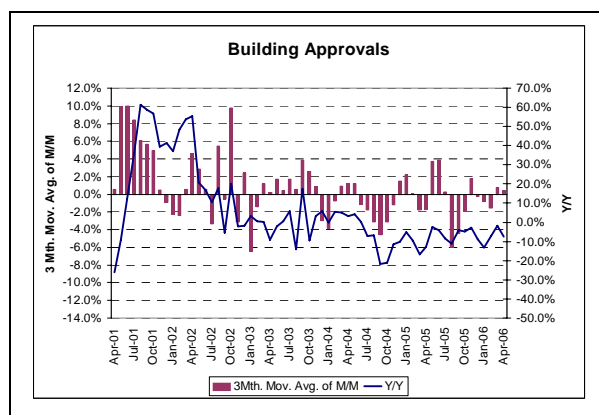
Retail Sales

Retail Sales in April rose 1.4% from March, when they gained a revised 0.2% (previously 0.3%) and rose 7.4% Y/Y in April. Sales of clothing gained 2.7% in April and spending on recreational goods such as toys and cameras climbed 2%. Another driver of April sales may have been heavy discounting by big stores in response to unusually warm autumn weather.



Building Approvals

Home-building approvals fell 3.4% M/M and fell 7.5% Y/Y in April. Approvals to build private houses rose 0.3%. Approvals granted for apartments and renovations dropped 12%.



New Home Sales & Comments

New Home Sales

Sales of newly built homes fell 6.5% M/M in April signaling that the housing market may not deliver a previously expected boost to economic growth this year. Sales of new houses declined 6.9% M/M and sales of apartments dropped 3.8% M/M in April.

Comments

Nobel Economist Edward Prescott on Australian Economy, Tax Cuts (5/30/06):

Edward Prescott, co-winner of the 2004 Nobel prize for economics and a professor at Arizona State University, commented on the Australian economy. Prescott spoke at a media briefing in Sydney:

- “The Australian economy is doing well. That is no reason not to do better.”
- “Australia has room for tax cuts. When you move to a savings rather than a tax-and-transfer system, you reduce government expenditures.”
- “I believe earnings in an Australian superannuation fund are subject to a 15% tax. That discourages saving, which makes future consumption more expensive in terms of current consumption.”
- “I think we should worry about the tax system, get a good one and make that permanent and well designed.”
- “I will convey to Australian Treasurer Peter Costello what modern economic theory says about the design of an efficient tax system that achieves what society wants at the least cost to the people. Health savings accounts should be fostered. I would encourage additional saving in retirement accounts and for that to grow tax free.”

Australian Treasurer Peter Costello on Retail Sales (05/30/06):

- “Retail sales figures released today showed robust consumer growth.”
- “Housing most probably will continue to detract from growth through the course of 2006-07.”

Australian Treasurer Peter Costello on Trade Balance (05/31/06):

- “This will lead to an increase in export volumes over the course of the year and into next year.”
- “The prospects for the Australian economy are strong.”

Private Credit (05/31/06):

Private sector credit rose further in April but lending is expected to slow in the second half of the year as the latest interest rate rise takes effect. Figures from the RBA showed that total credit provided to the private sector by financial intermediaries rose by 1.3% in April, following a rise of 1.2% in March. The median market forecast for April was for total credit growth of 1.1%. Over the year to April, total credit rose by 14.1%.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/04	ANZ Job Advertisement (MAY)	---	-5.0%
06/05	Home Loans (APR)	---	0.7%
06/05	Current Account Deficit (Q1)	---	-14,447mln
06/06	RBA Cash Target (JUN)	---	5.75%
06/06	GDP Q/Q; Y/Y (Q1)	---	0.5%; 0.7%

Valance Co., Inc.

Valance Economic Report: New Zealand

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May 31, 2006

New Zealand posted another trade surplus in April as overseas sales of dairy products surged. As a result, the commodity export price index rose in April, halting the longest slide in seven years indicating a revival of export companies and thus a possible increase in consumer spending. This may help to keep inflation above the RBNZ's comfort level for some time to come.

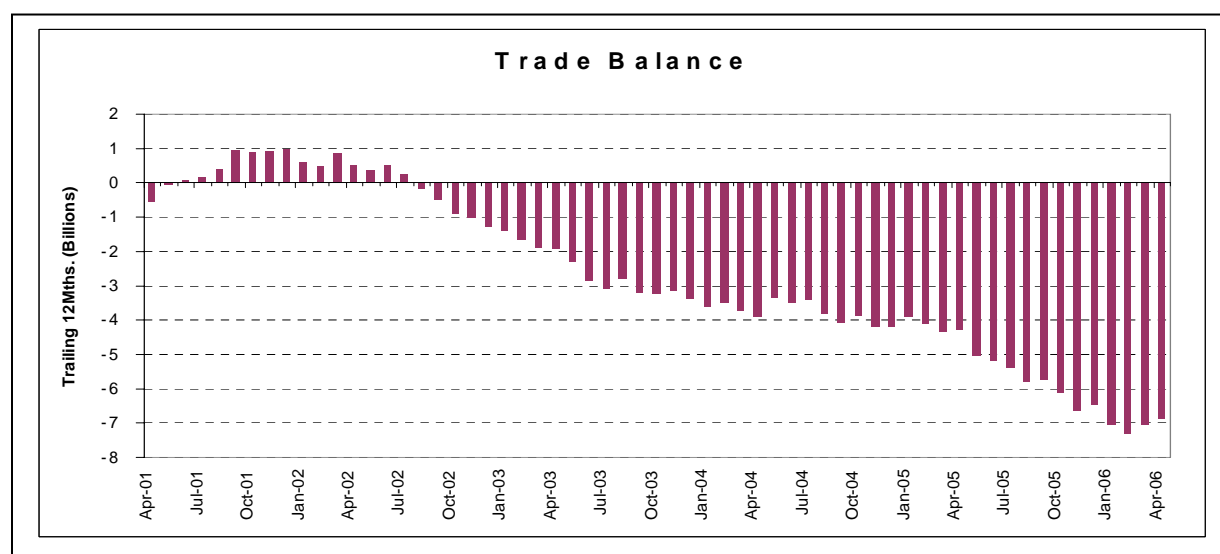
Weekly Highlights

Trade Surplus – fell to NZ\$18.6mln in April from NZ\$75.2mln in March. (page 46)

Building Permits – fell 6.0% M/M and rose 12.4% Y/Y in April. (page 48)

NBNZ Business Confidence – fell in May from a seven-month high in April. (page 48)

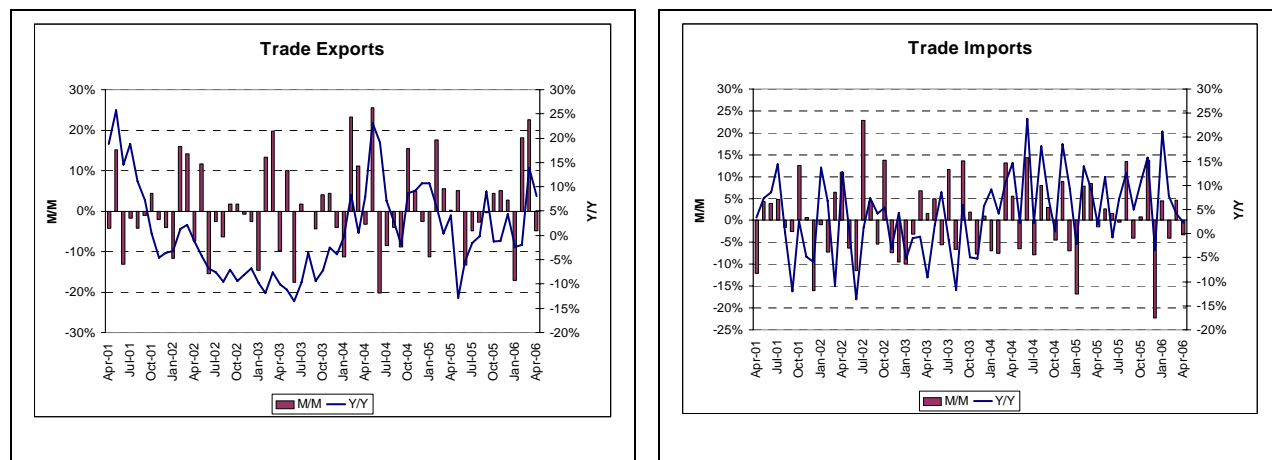
Chart of the Week: *Trade Balance*



There was a monthly Trade Surplus of NZ\$18.6mln in April compared to the upwardly revised surplus of NZ\$75.2mln (prior NZ\$59.1mln) in March. The average trade balance in April over the past 10 years has been a NZ\$18mln surplus. Exports declined 4.9% M/M and rose 8% Y/Y as the falling \$NZ buoyed sales of milk powder, cheese and wool. Imports declined 3.2% M/M and rose 2.3% Y/Y in April. Y/Y import growth is the smallest this year. Economists expected imports up 8.9% Y/Y. The trade balance, on a trailing 12 month basis, in April was a deficit of NZ\$6.9bln.

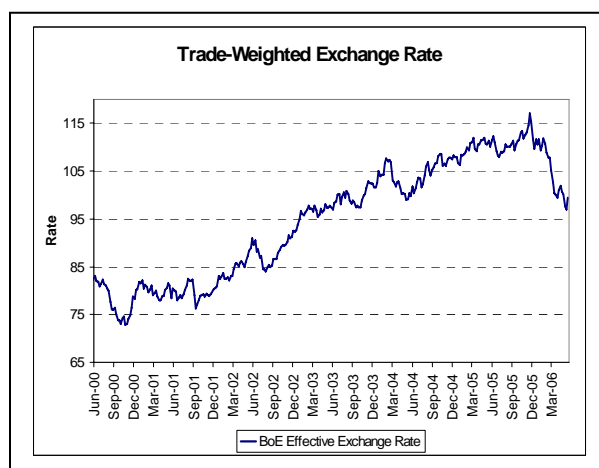
Exports, Imports & Exchange Rate

Exports & Imports



Trade-Weighted Exchange Rate

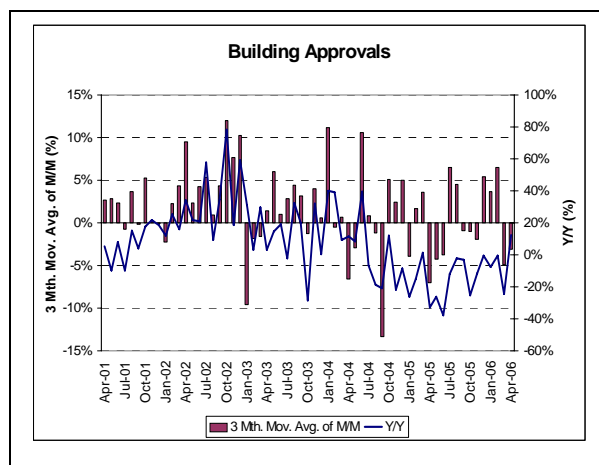
The New Zealand dollar's 11% decline the past year has increased the cost of imports, making retailers and farmers more pessimistic. Annual inflation, which already exceeds the 1% to 3% range that the RBNZ is required to target, may accelerate as more companies plan to raise prices.



Building Permits, NBNZ Business Confidence, News & Dates

Building Permits

Adding to signs that economic growth is slowing, home-building approvals fell 6.0% M/M and rose 12.4% Y/Y in April.



NBNZ Business Confidence

New Zealand business confidence fell in May from a seven-month high in April amid speculation the rising cost of imported gasoline, computers and fertilizer will fan inflation and crimp profits. Roughly 31% of companies surveyed this month expect sales to improve in the coming year compared with 33% in April and 21% predict they will decline. 48 % anticipate no change.

News

New Zealand April Consumer Borrowing Rises 14.2% From Year Ago (05/29/06):

New Zealand consumer borrowing for housing and consumption rose 14.2% in April from a year earlier, the slowest annual pace since September 2003. Lending to households by all financial institutions rose to NZ\$136.92bln in April, according to the figures published on the RBNZ's web site.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/07	RBNZ Official Cash Rate	7.25%	7.25%

Weekly Economic Report: *China*

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May 31, 2006

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China's Government Revenue growth increased while Expenditure growth slowed. Industrial Profits growth remained solid.

Weekly Highlights

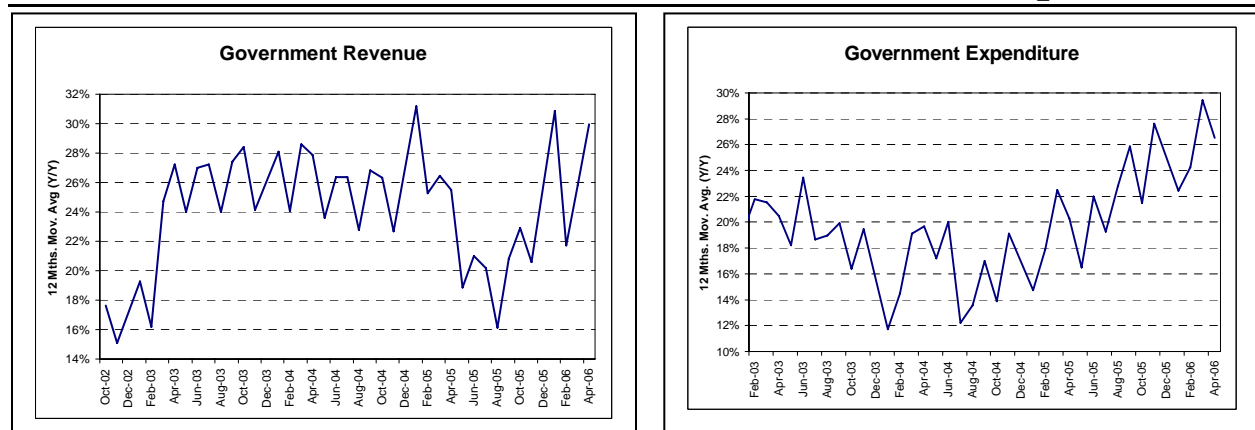
Government Revenue - increased from 25.8% Y/Y on a 12mth mov. avg. to 29.9% Y/Y in April. (page 50)

Government Expenditure - slowed from 29.5% Y/Y on a 12mth mov. avg. to 26.5% Y/Y, in April. (page 50)

Industrial Profits growth remained solid at 22.1% Y/Y in April. (page 51)

Weekly Releases & News

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

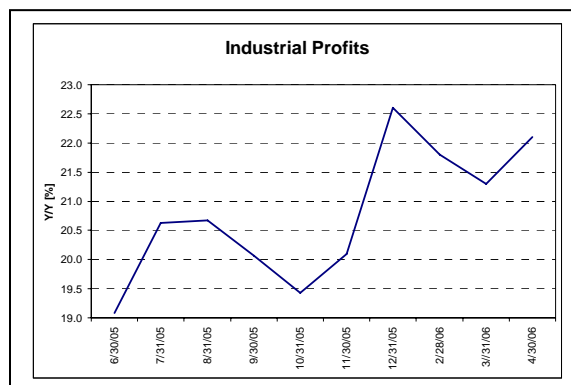


Government Revenue increased from 25.8% Y/Y on a 12mth mov. avg. to 29.9% Y/Y in April. Government Expenditure slowed from 29.5% Y/Y on a 12mth mov. avg. to 26.5% Y/Y. The increased in revenue resulted in a ¥154.2 bln Budget Surplus in April.

Industrial Profits & News Releases

Industrial Profits

Industrial Profits growth remained solid at 22.1% Y/Y in April.



News Releases

May 31st – Economy May Expand 10% This Year - The Central Bank stated that China's economy is expected to expand about 10.0% this year, citing excessive investment in factories and real estate. China's economy expanded 9.9 % in 2005.

May 31st – China Not A Currency Manipulator - Bo Xilai, China's Commerce Minister, maintains that China is not a currency manipulator and says that requests for more appreciation of the yuan are "groundless." Xilai also stated that the "Trade imbalance between China and the U.S. is a complicated issue, and the yuan's value is not the main element." He added, "The yuan's value is already decided by the market and has the ability and room to go upward or downward."

May 31st – Imports May Rise to \$1 Trillion in 2010 – The China Securities Journal reported that Bo Xilai, China's Commerce Minister, stated that imports may probably rise to more than \$1 trln in 2010. The Journal added that services imports are expected to reach \$200 bln by the same year. China posted a \$10.5 bln trade surplus in April.

May 31st – Central Bank to Add Measures to Slow Lending - The Central Bank said in its Q1 monetary report that "We should pay great attention to the investment growth that is rising too rapidly, imbalances in the foreign trade structure, excessive liquidity and the risk that global imbalances could bring to China this year." On the currency market, the report stated, "The frequency and strength of the central bank's open market currency operations will gradually weaken and be phased out."

May 30th – China Takes Measures To Curb Speculation - In an effort to curb speculation and surging prices, the State Council stated that it will increase down payments on housing from 20% to 30% on apartments larger than 90 square meters and impose a transaction tax of 5.5% on real estate properties that are re-sold within five years of purchase beginning June 1st.

May 26th – Efforts to Narrow the Wealth Gap - The Xinhua News Agency reported that the politburo (China's highest executive body of the Communist party) plans to increase subsidies and salaries and improve protection for retirees in an attempt to narrow the wealth gap.

News Releases (Cont'd.) & Upcoming Dates

News Releases (Cont'd.)

May 26th – Chairman of China Banking Regulatory Commission, Liu Mingkang Comments On Measures to Curb Increases In Housing Loans:

“Commercial banks need to keep a close watch on borrower’s repayment ability and their credit status.”

“Banks should greatly promote loans for first-time home owners, but stop granting mortgages for anyone other than the home owner.”

“It should significantly increase down payments for those buying anything more than their first home and for expensive properties, villas, commercial properties and speculative purchases.”

May 26th – U.S. Should Loosen Controls And Increase High-Tech Exports - Wei Jianguo, a China’s Ministry of Commerce official, stated in a meeting with U.S. Under Secretary of Commerce, David McCormick, that the U.S. should loosen controls and expand high-tech exports to China. Jianguo said that the trade is very important and beneficial to both countries.

May 25th – Survey Shows Growth In Property Prices - A survey by the National Development and Reform Commission of China’s 70 largest cities, showed that real estate prices on residential and commercial properties rose 0.4% M/M and 5.6% Y/Y in April. The survey also noted a climb in new house prices by 6.4% Y/Y in April.

May 25th – More Measures to Curb Lending - James McCormack of Fitch Ratings stated that China’s government will institute measures to slow money supply to curtail lending and investment. McCormack also said, “The central bank could raise interest rates again which we expect they may do, raise banks’ reserve requirements, which we expect they probably will do, provide window guidance to banks, which they have already done, or allow exchange rate appreciation.” Curbing liquidity growth in the financial system “is going to be difficult. It's quite a tough thing for the central bank to do and it's a big challenge,” McCormack added.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
05/31	PMI Manufacturing – May	--	58.1
06/01-02	Leading, Coincident & Lagging Indices – May	--	102.9 / 100.8 / 94.0

Valance Co., Inc.

Valance Economic Report: Sweden

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May 31, 2006

Data released over the past week in Sweden was mostly strong. The Trade Surplus widened, annual Retail Sales rose to a record high and Consumer Confidence improved. On the weaker side, Manufacturing Confidence fell below expectations. Riksbank Deputy Governor, Svante Oeberg, commented that interest rates should be raised to a “normal” level.

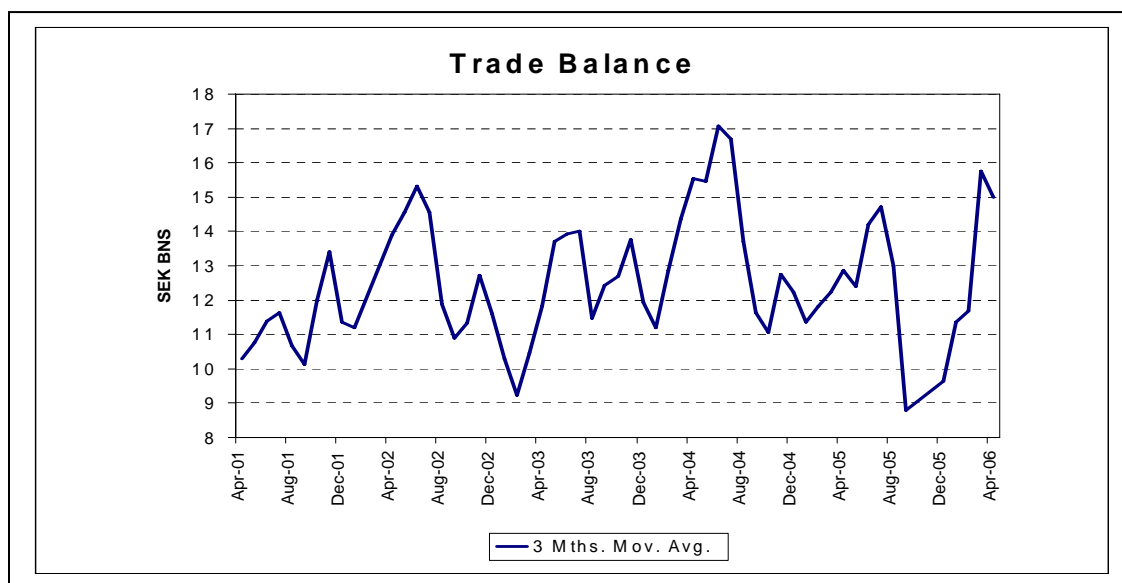
Weekly Highlights

Trade Balance – widened from a surplus of SEK 11.6 bln a year earlier to SEK 13.1 bln in April. (page 52)

Retail Sales - rose 1.8% M/M and a record 12.5% Y/Y in April. (page 53)

Weekly Releases & News

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

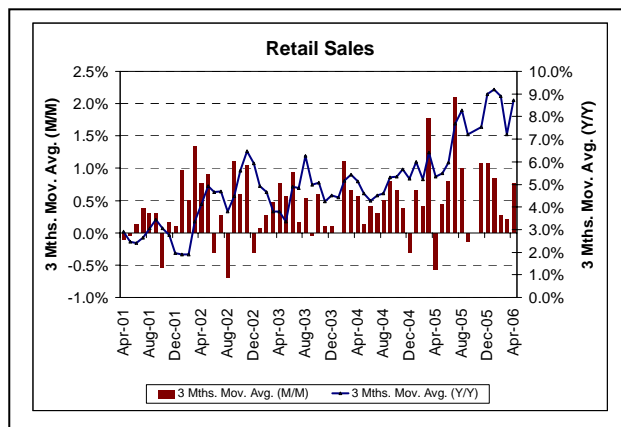


The Trade Balance widened from a surplus of SEK 11.6 bln a year earlier to SEK 13.1 bln in April. Expectations were for a surplus of SEK 14.3 bln. Exports and imports advanced 4.0% Y/Y and 2.0% Y/Y, respectively.

Retail Sales, Consumer Confidence & Manufacturing Confidence

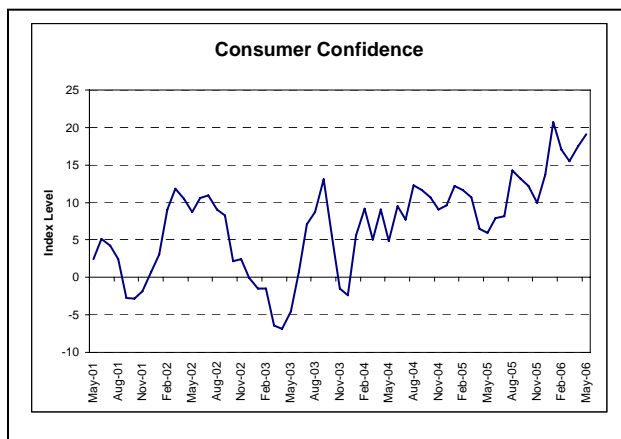
Retail Sales

Retail Sales rose 1.8% M/M and a record 12.5% Y/Y in April. The M/M increase was led by a pick-up in sales of clothing and furniture. Expectations were for an increase of 0.4% M/M and 9.2% Y/Y.



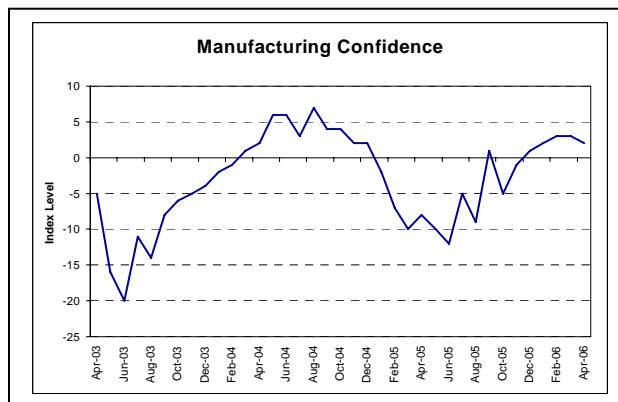
Consumer Confidence

Consumer Confidence rose from 17.5 in April to 19.1 in May, on improvements in the labor market and accelerating growth. Expectations were for a 16.8 outcome.



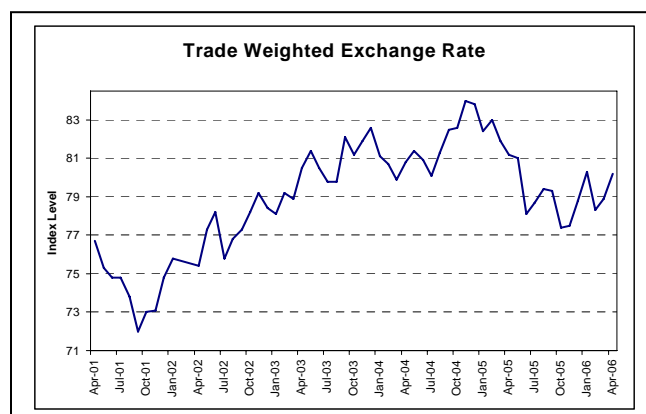
Manufacturing Confidence

Manufacturing Confidence fell from 3.0 in April to 2.0 in May, below expectations.



Trade Weighted Exchange Rate, News Releases & Upcoming Dates

Trade Weighted Exchange Rate



News Releases

May 30th – Rates Must Rise To “Normal” Level – Riksbank Deputy Governor, Svante Oeberg, commented that interest rates should be raised to a “normal” level to manage inflation. Oeberg stated, “The policy rate is still below what can be regarded as an average figure over a long period of time.” “The question is at what pace it should be raised to a more normal level. This will in turn depend on how the economy develops,” Oeberg added. He also said that there may be “some risk that an expansionary monetary policy will overly reinforce the economic upswing and allow domestic prices and costs to rise. It could have more long-term consequences for price-setting and wage formation.”

May 30th – Q1 Current Account Surplus Widened – The Riksbank indicated, on its website, that Sweden’s Q1 current-account surplus widened from SEK 16.6 bln last year to SEK 58.3 bln this year, as the trade surplus expanded.

May 30th – Unemployment to Drop This Year And Next – The Direkt reported that the National Labor Market Board stated that unemployment will fall 5.3% this year and 4.6% in 2007, with the creation of 73K and 58K jobs, respectively.

Key Dates This Week

Date	Indicator	Expectation	Previous
06/01	Swedbank PMI Survey – May	--	59.9
06/05	GDP s.a. (Q/Q) / n.s.a. (Y/Y) – Q1		0.7% / 2.9%

Valance Co., Inc.

Valance Economic Report: Switzerland

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May 31, 2006

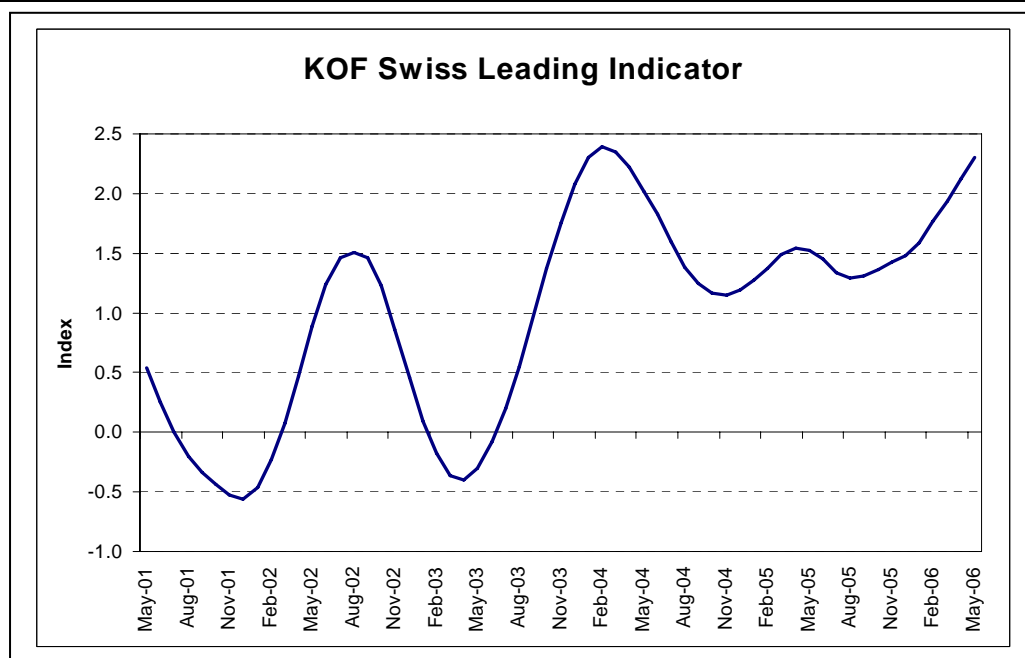
The KOF Swiss Leading Indicator, the only economic indicator released this past week, increased to 2.30 in May -- its highest level in over two years. SNB President, Jean-Pierre Roth, commented on joining the Euro Region.

Weekly Highlights

KOF Swiss Leading Indicator – increased from 2.12 in April to 2.30 in May. (page 55)

Weekly Releases & News

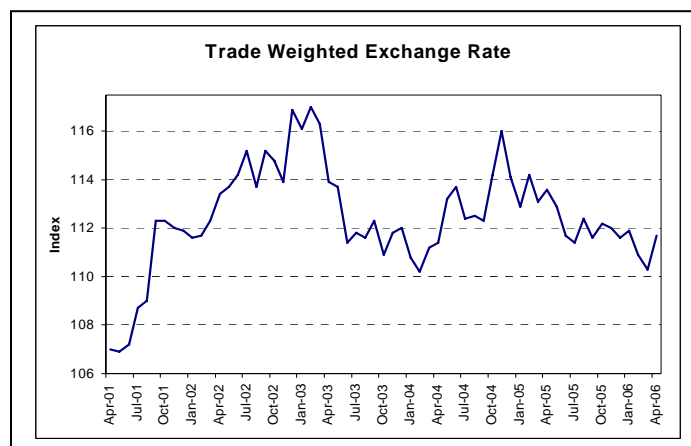
Chart of the Week: *KOF Swiss Leading Indicator*



The monthly aggregate of indicators increased from a revised 2.12 (up from 2.03) in April to 2.30 in May. This marked the highest level in over two years. The pickup continues to be led by exports. Expectations were for a 2.10 outcome.

Trade Weighted Exchange Rate, News Releases & Upcoming Dates

Trade Weighted Exchange Rate



News Releases

May 28th – SNB President, Jean-Pierre Roth, Comments on Joining Euro Region -

“If Switzerland were to give up its monetary independence by pegging the franc to the euro or by joining the euro area, it would lose its privileged status. Swiss interest rates would increase to European levels. Since higher interest rates mean lower asset prices and lower levels of investment, and also higher mortgage rates, the Swiss are understandably not keen on giving up their national currency.” Swiss voters are “highly unlikely” to approve euro membership “in the near future.” “Being able to set our own monetary policy has meant that we could react to country-specific shocks. Had we joined the euro area, we would not have had this flexibility.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/01	CPI (M/M) / (Y/Y) – May	--	0.8% / 1.1%
06/01	GDP (Q/Q) / (Y/Y) – Q1 - May	--	0.5% / 2.7%
06/01	SVME PMI – May	--	63.8