

Valance Company, Inc.



Weekly

June 7, 2006

III

Highlights

US - Fed talks tough while economy softens (page 2)

EU - Euro zone consumer stronger than expected? (page 11)

JN - Capex accelerated more than anticipated in Q1 (page 18)

UK - Nationwide consumer confidence remains near 6 month lows (page 24)

AU - Australian economy expanded more than expected in Q1 (page 33)

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Valance Economic Reports

Valance Co., Inc.

Valance Economic Report: United States

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June 07, 2006

This week's economic data showed an economy that is clearly starting to slow. More evidence of a cooling housing market was released in addition to a weak payroll report and softening ISM data. However, the market was completely driven by hawkish Fed comments that significantly raised the odds of a hike in June. It seems that if core CPI for May is above a reading of 0.1% M/M, the Fed will hike at its next meeting.

Weekly Highlights

Payrolls- +75k in May, and overall a soft report. (page 2 & 4)

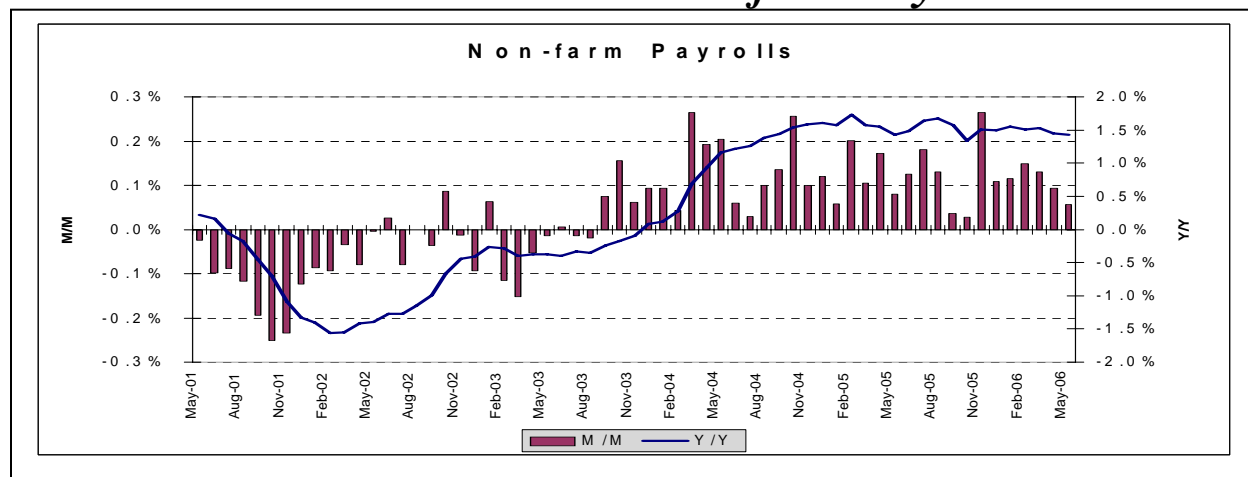
Housing- pending home sales and mortgage applications show cooling market. (page 5)

ISM's- headlines decline, but they remain at healthy absolute levels. (page 6)

Productivity- was revised higher in Q1 lowering unit labor costs to 1.6% annualized rate. (page 7)

Weekly Releases

Chart of the Week: *Non-farm Payrolls*



Non-farm Payrolls increased 75k in May, below expectations and last month's reading of 126k. Overall revisions were a net negative of 130k and other components of the payroll report such as average hourly earnings and average weekly hours were soft. However, the unemployment rate dropped to 4.6%, according to the household survey. With elevated core inflation and hawkish Fed rhetoric, the latest payroll report is not enough to cause the Fed to pause.

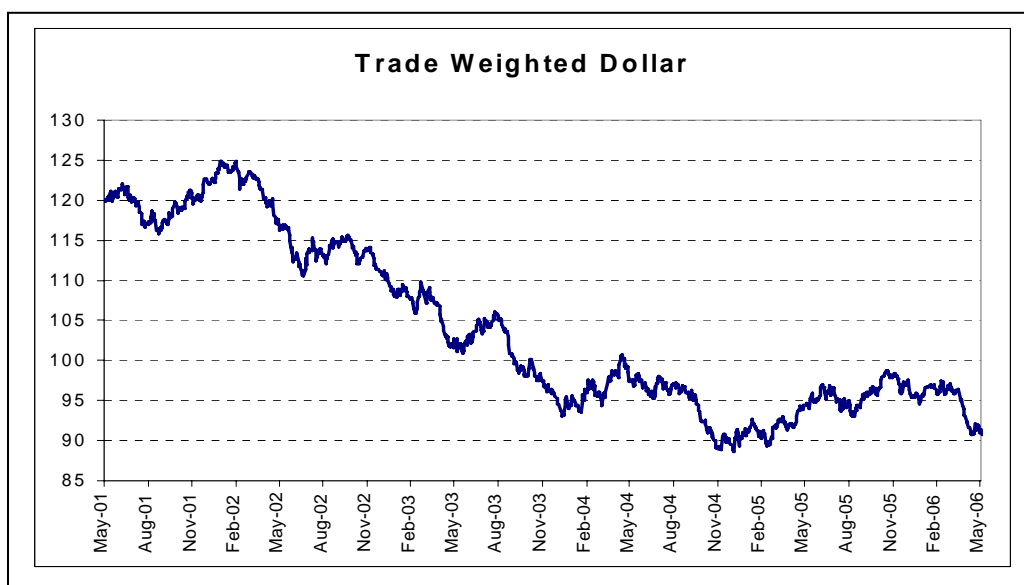
U.S. Financial Balances & Trade Weighted Dollar

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.

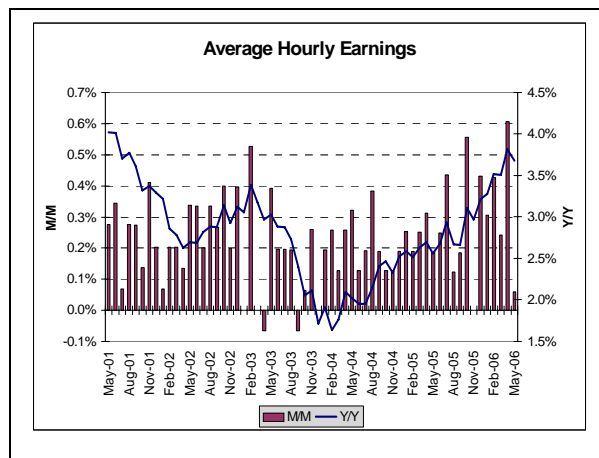
Trade Weighted Dollar



Hourly Earnings, Weekly Hours & Employment Claims

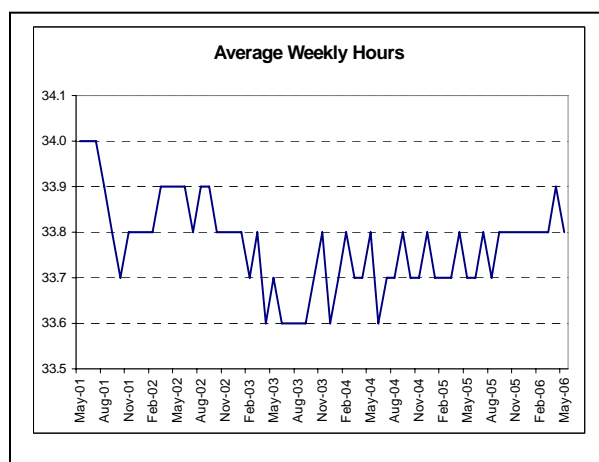
Average Hourly Earnings

Average hourly earnings grew 0.1% M/M and 3.7% Y/Y in May. The small M/M gain was just one part of an overall weak payroll report. Despite Y/Y levels remaining firm, the Fed will be comforted that inflationary wage pressures based on this measure appear to be moderating a bit. Broader wage measures such as the ECI, remain very tame.



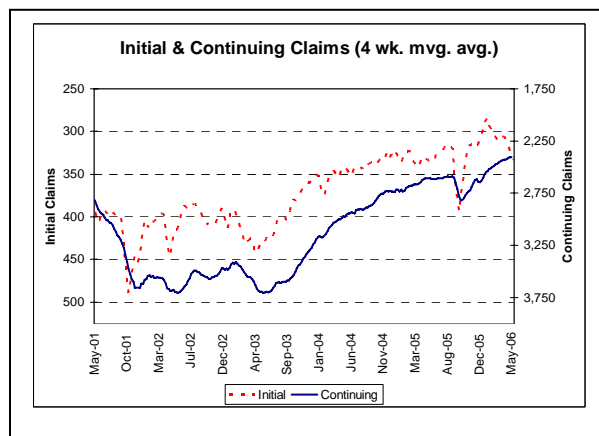
Average Weekly Hours

Average weekly hours decreased from 33.9 to 33.8 in May. This gave back the .1 gain experienced in April and suggested some softening in the labor market as well as output.



Initial & Continuing Claims

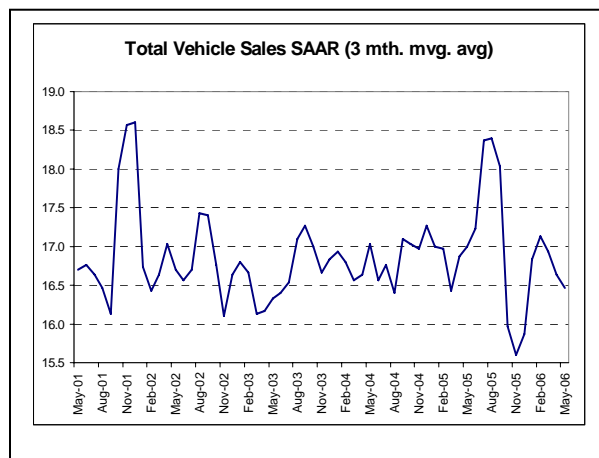
The four week moving average of initial claims increased by 3k to 334k and continuing claims decreased by 2k to 2,403k. Initial and continuing claims are now both starting to creep higher.



Vehicle Sales, Pending Home Sales & Mort. Applications

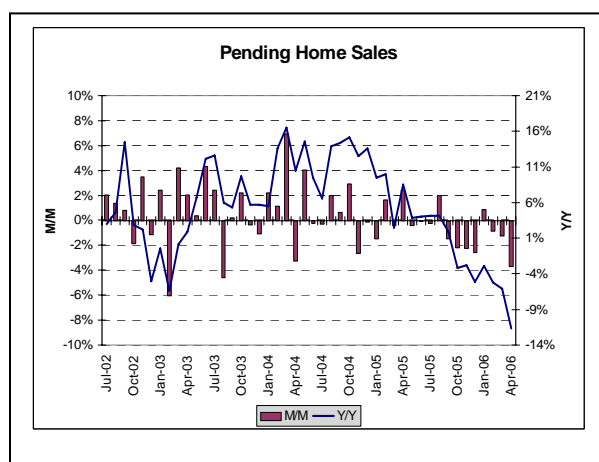
Vehicle Sales

The seasonally adjusted annual rate of Total Vehicle Sales declined from 16.7mln to 16.1mln in May. Vehicle Sales averaged 16.9mln in Q1 2006, but are only averaging 16.4 for two months of Q2- causing a drag on Q2 GDP.



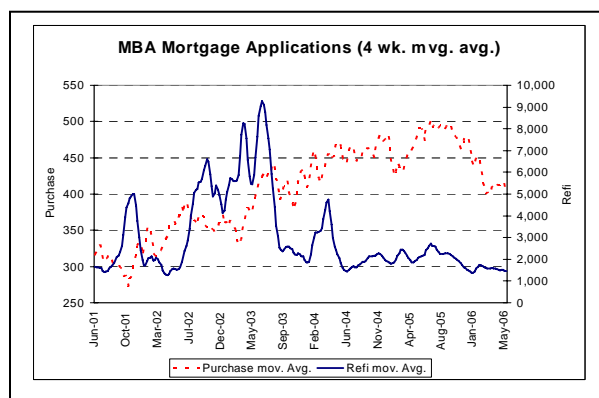
Pending Home Sales

Pending Home Sales declined 3.7% M/M and 11.7% Y/Y in April. This series continues to show significant weakness and provides more evidence of a weakening housing market.



MBA Mortgage Applications

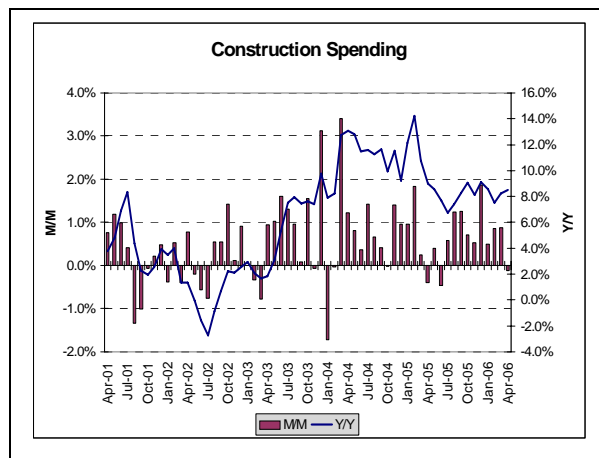
Purchase mortgage applications were flat W/W and refi applications were down 3.8% W/W this week. The four-week moving average of purchase applications is still down 14.8% Y/Y and was down 17.5% Y/Y just based on last week's reading.



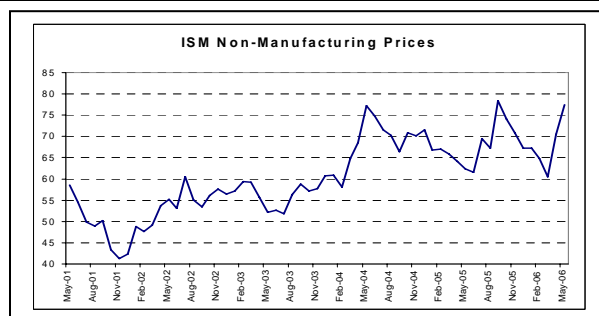
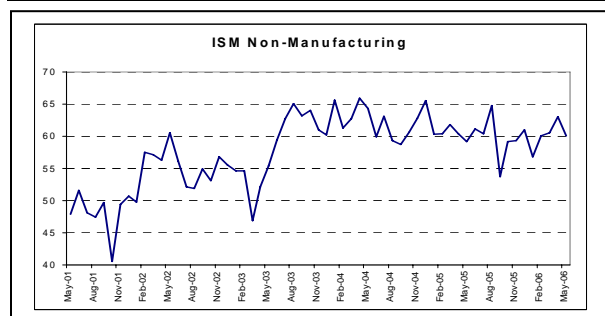
Construction Spending & ISMs

Construction Spending

Construction Spending fell 0.1% M/M and 8.5% Y/Y in April. This is the first M/M decline in construction spending since June 2005, but the Y/Y trend remains firm. Residential construction confirmed the softness seen in other housing indicators with a 1% M/M decline.

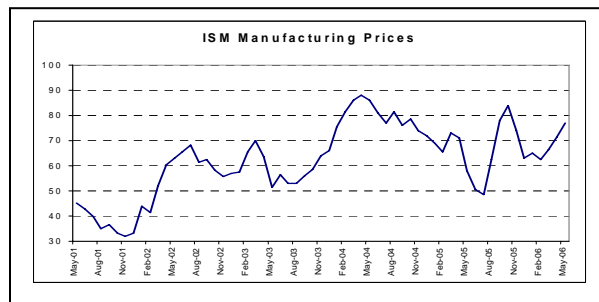
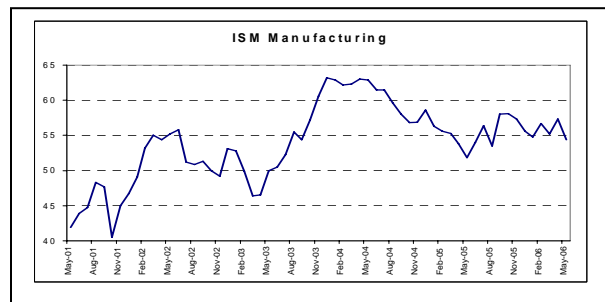


ISM Services



The ISM Non-Manufacturing Index fell from 63.0 to 60.1 in May. The price and employment components increased from 70.5 and 56.5 to 77.5 and 58.0, respectively. The new orders component declined from 64.6 to 59.6.

ISM Manufacturing

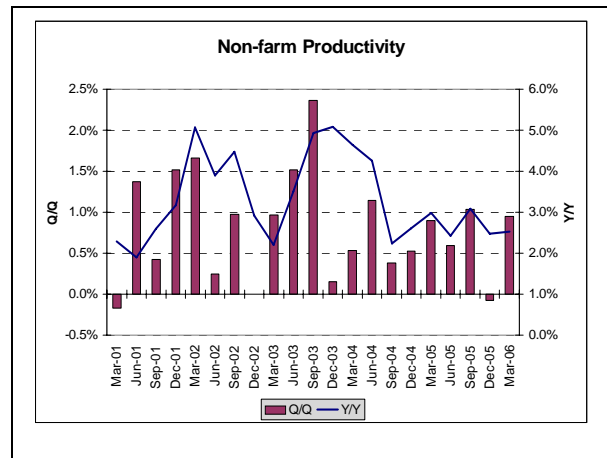


The ISM Manufacturing Index decreased from 57.3 to 54.4 in May. The prices component increased from 71.5 to 77.0, but the new orders and employment components dropped from 57.6 and 55.8 to 53.7 and 52.9, respectively.

Non-farm Productivity, Unit Labor Costs & ABC Confidence

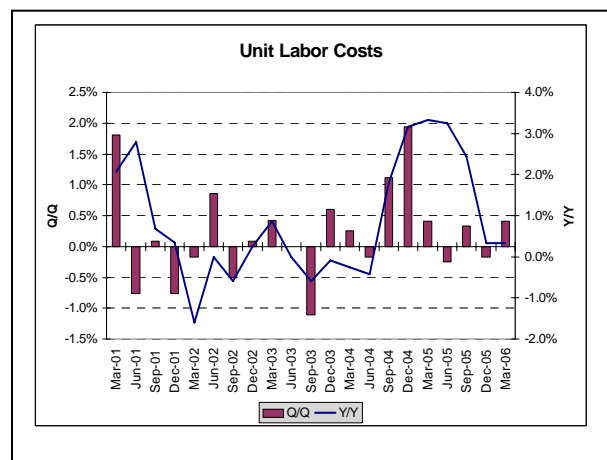
Non-farm Productivity

Non-farm Productivity increased 1.0% Q/Q and increased 2.5% Y/Y in Q1 of 2006 after experiencing a Q/Q decline in Q4 2005. This series was revised up 0.5% on an annualized basis from the initial reading. The gains in productivity eased concerns about building inflationary pressures reaching wages.



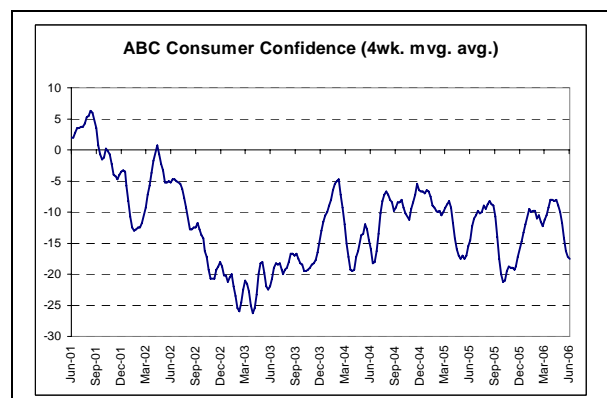
Unit Labor Costs

Unit Labor Costs increased 0.4% Q/Q and 0.3% Y/Y in Q1 2006. The annualized rate for the quarter was 1.6%, down from the initial reading of 2.5% and lower than the 3.0% in Q4 of 2005. This is a volatile series subject to meaningful revisions, but Unit Labor Costs appear contained.



ABC Consumer Confidence

The ABC Consumer Confidence Index remained at -17 this week. The economy and buying components both improved two points to -30 and -32, respectively. The finance component dropped from 14 to 10. Consumer confidence appears to be stabilizing at a low level after five straight weeks of decline.



Fed Comments

Bernanke- “Real gross domestic product grew rapidly in the first quarter of this year, **but the anticipated moderation of economic growth seems now to be under way.** Consumer spending, which makes up more than two-thirds of total spending, has decelerated noticeably in recent months. One source of this deceleration is higher energy prices, which have had an adverse impact on real household incomes and weighed on consumer attitudes. As had been expected, recent readings also indicate that the housing market is cooling, partly in response to increases in mortgage rates.”

“Consumer price inflation has been elevated so far this year, due in large part to increases in energy prices. Core inflation readings--that is, measures excluding the prices of food and energy--have also been higher in recent months. **While monthly inflation data are volatile, core inflation measured over the past three to six months has reached a level that, if sustained, would be at or above the upper end of the range that many economists, including myself, would consider consistent with price stability and the promotion of maximum long-run growth.** For example, at annual rates, core inflation as measured by the consumer price index excluding food and energy prices was 3.2 percent over the past three months and 2.8 percent over the past six months. For core inflation based on the price index for personal consumption expenditures, the corresponding three-month and six-month figures are 3.0 percent and 2.3 percent. **These are unwelcome developments.**”

“**With the economy now evidently in a period of transition, monetary policy must be conducted with great care and with close attention to the evolution of the economic outlook as implied by incoming information.** Given recent developments, the medium-term outlook for inflation will receive particular scrutiny. There is a strong consensus among the members of the Federal Open Market Committee that maintaining low and stable inflation is essential for achieving both parts of the dual mandate assigned to the Federal Reserve by the Congress. In particular, the evidence of recent decades, both from the United States and other countries, supports the conclusion that an environment of price stability promotes maximum sustainable growth in employment and output and a more stable real economy. **Therefore, the Committee will be vigilant to ensure that the recent pattern of elevated monthly core inflation readings is not sustained.**”

Moskow- “With overall population growth continuing to slow and labor force participation not expected to rise, we probably need to adjust our benchmarks for what level of employment growth is consistent with economic growth near potential and a steady unemployment rate. It used to be that increases in payroll employment that averaged 150,000 per month were consistent with flat unemployment. Now that number may be closer to 100,000. These developments also imply that, in the absence of changes in productivity growth, our estimates of potential GDP growth should be revised down 2 or 3 tenths of a percentage point to a range of 3 to 3-1/4 percent.”

“The readings on the core price index for personal consumption expenditures, the Fed's preferred measure of inflation, have stayed low, relative to my early years on the FOMC in the mid-1990s.

Fed Comments Cont'd

Nonetheless, for most of the past year core PCE inflation has been running close to 2 percent, which is at the upper end of the range that I feel is consistent with price stability.”

“Many estimates place the natural rate of unemployment around 5 percent. While there is a great deal of uncertainty surrounding these estimates, an unemployment rate of 4.6 percent likely indicates a vibrant labor market in which more firms may begin to bid up wages to attract and retain workers.”

“Still, given that the economy is operating close to potential, we need to be careful to monitor for the emergence of any economy-wide strains on resource utilization. Such strains would have the potential to increase inflationary pressures, which can have long-lasting consequences. Inflation in the US tends to exhibit inertia. That is, it has a pronounced tendency to stay near whatever level it has been in the recent past. So, when economic developments occur that would eventually cause inflation to change, the actual price adjustments tend to be slow to emerge. However, once in place, the effects are very persistent.”

“Inflation inertia has important implications for monetary policy. It might naively be considered a good thing. If the economy started to overheat, inertia means that we would initially see only a small run-up in inflation. But inflation inertia is a double-edged sword. If underlying inflation were to rise significantly above levels associated with price stability, it would have a strong tendency to stay at high levels absent a commensurate policy response. In order to avoid such a scenario, monetary policy needs to remain vigilant for signs of incipient inflation and adjust its stance accordingly.”

“The 12-month change in core PCE has been running close to 2 percent for the past several months. Personally, my comfort zone for core inflation is between 1 and 2 percent—that's the range of inflation rates I consider to be consistent with price stability. But that doesn't mean that I view the 1 to 2 percent range as a "zone of indifference." I think it's better to be in the middle of the range. In fact, some research suggests that an inflation figure of about 1.5 percent strikes a good balance between avoiding the negative effects of inflation with the value of being able to push short-term real rates into negative territory in periods when the economy is weak.”

“But, don't mistake uncertainty about the near-term policy path for any weakening in our resolve to achieve price stability and sustainable growth. The credibility of the Federal Reserve is an important factor in the economy's long-term health, and it is an asset that we do not treat lightly.”

Poole- “If inflation turns out to exceed our expectations, our target range, I do not believe we can count on a slowing economy to bring inflation down, by itself, quickly.”

“inflation expectations ... trump the gap. If inflation expectations were to rise, that development by itself would tend to drag the inflation rate up ... and it might take a very long time before the (output gap) would be able to offset what's going on with inflation expectations.”

Bies- “Uncomfortable with inflation above 2%”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/08	Initial Jobless Claims (JUN 3)	330K	336K
06/08	Continuing Claims (MAY 27)	2424K	2433K
06/08	Wholesale Inventories (APR)	0.5%	0.2%
06/09	Trade Balance (APR)	-\$65.0B	-\$62.0B
06/09	Import Price Index (APR)	5.3%	4.5%
06/12	Monthly Budget Statement (MAY)	-\$31.4B	-\$35.4B
06/13	PPI Ex Food & Energy (MAY) (M/M)	0.2%	0.1%
06/13	Retail Sales Less Autos (MAY)	0.5%	0.7%
06/13	Business Inventories (APR)	0.5%	0.7%

Valance Co., Inc.

Valance Economic Report: Euro Zone

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June 7, 2006

A slow week of data in the Euro Zone continued to show some signs of economic improvement. The Euro Zone consumer was stronger than expected in Q1 and retail sales were strong in April. Unemployment continues to tick down across most of the region and Manufacturing PMIs continue to trend higher.

Weekly Highlights

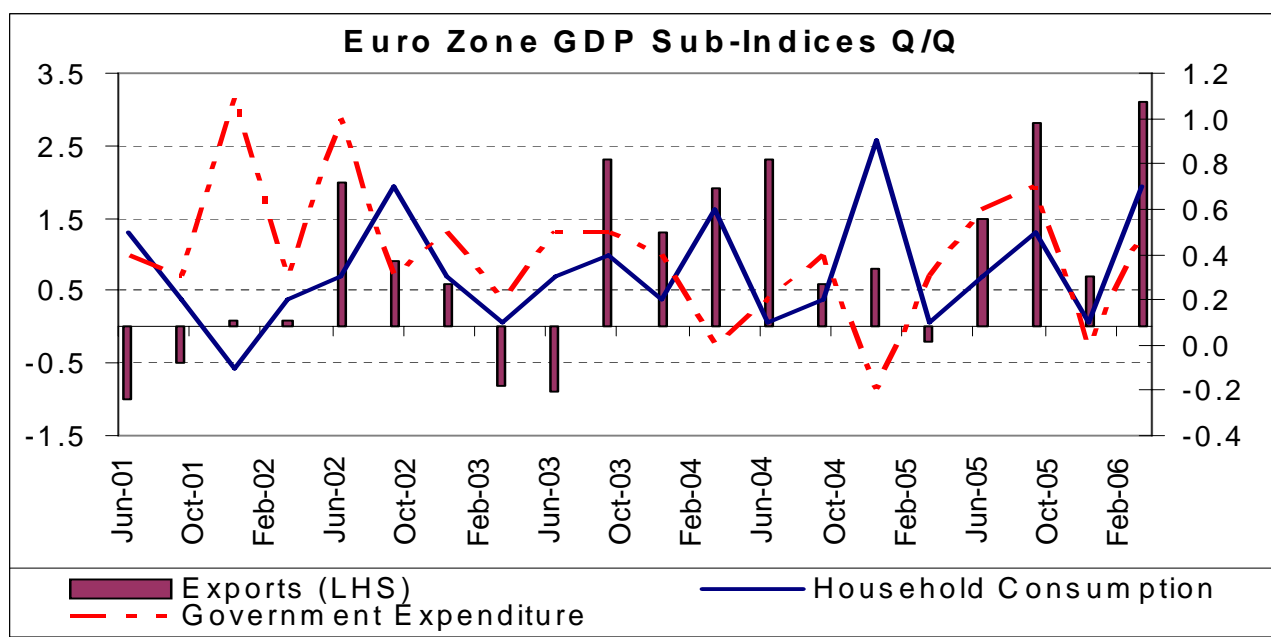
Euro Zone Q1 GDP— household consumption stronger than expected in Q1. (page 11)

Euro Zone Retail Sales— sales rebounded in April after a weak March. (page 13)

Euro Zone Unemployment— unemployment rate holds steady at 8.0% in April. (page 13)

Weekly Releases & News

Chart of the Week: Euro Zone GDP



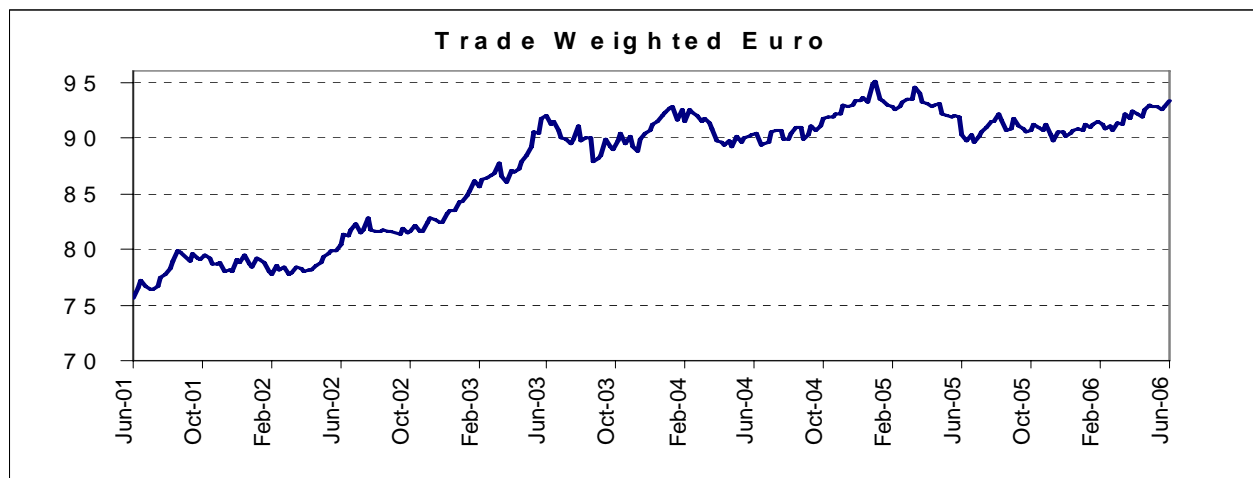
Euro zone Q1 GDP expanded 0.6% Q/Q and 1.9% Y/Y, as expected. Government Expenditures expanded 0.5% Q/Q, Exports expanded 3.1% Q/Q, Domestic Demand expanded 0.3% Q/Q, and Household Consumption expanded a stronger than expected 0.7% Q/Q.

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%

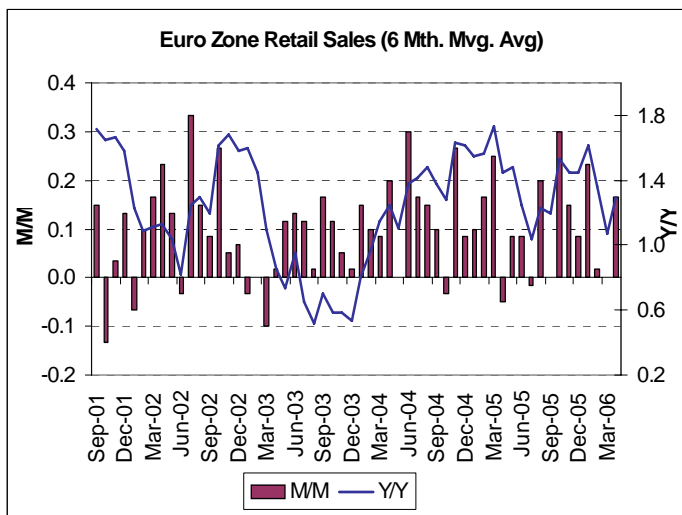
Trade Weighted Euro



Euro Zone Retail Sales, Euro Zone & Spanish Unemployment

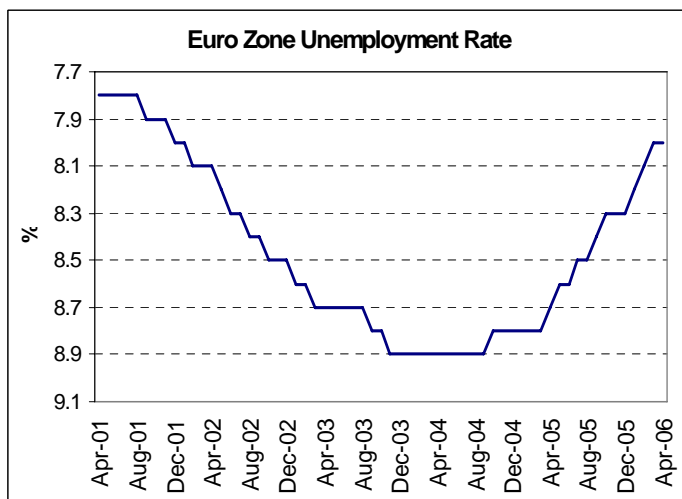
Euro Zone Retail Sales

Euro Zone Retail Sales expanded a stronger than expected in April, increasing 1.4% M/M and 2.8% Y/Y after contracting the month prior. The timing of Easter likely had an effect.



Euro Zone Unemployment

The Euro Zone Unemployment Rate remained unchanged at 8.0% in April.



Spanish Unemployment

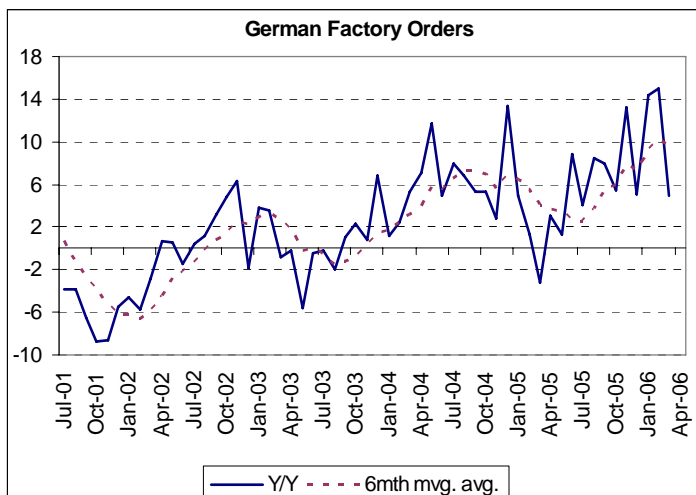
Spanish Unemployment fell by 71.1k in May. The Unemployment Rate likely declined from 9.07% in March to 8.5% in May.



German Orders, Spanish Production & Italian Car Reg's

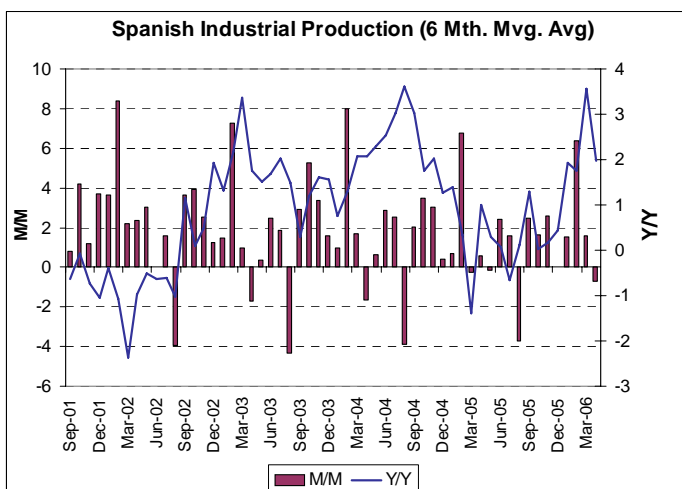
German Factory Orders

German Factory Orders slowed to 4.9% Y/Y in April, down from 15% Y/Y in March. The series is not seasonally adjusted.



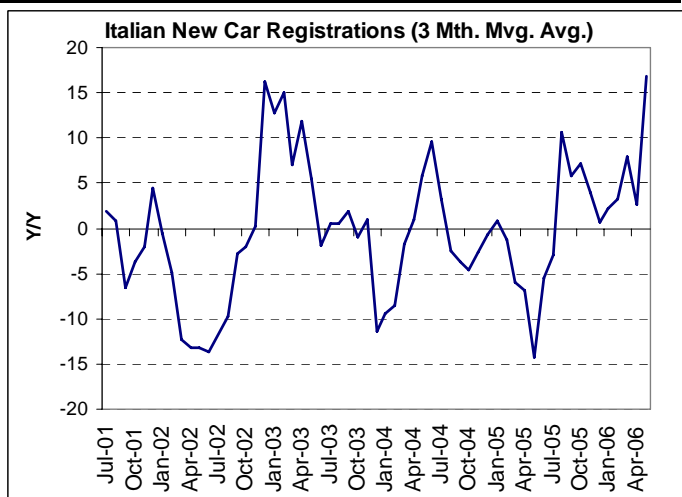
Spanish Industrial Production

Spanish Industrial Production rose by 1.2% on a y/y basis in April, down from 1.7% in March. Weakness in construction was behind the decline.



Italian Car Registrations

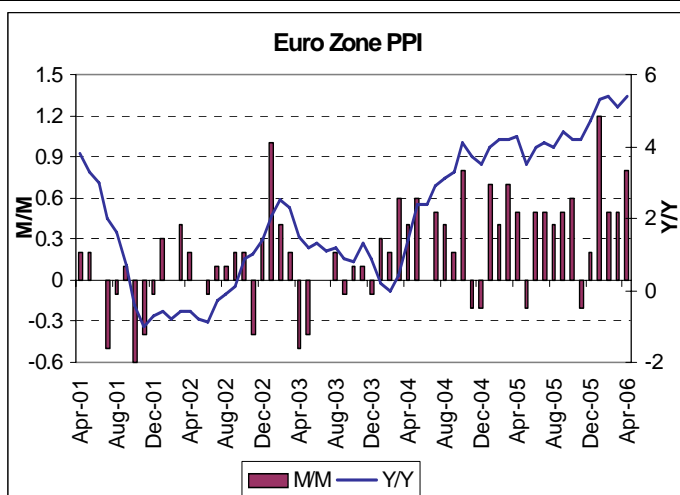
Italian New Car Registrations expanded 22% M/M and 49.5% Y/Y in May, after contracting 26% M/M and 6.5% Y/Y in April.



Euro Zone PPI, French Deficit & Euro Zone PMI

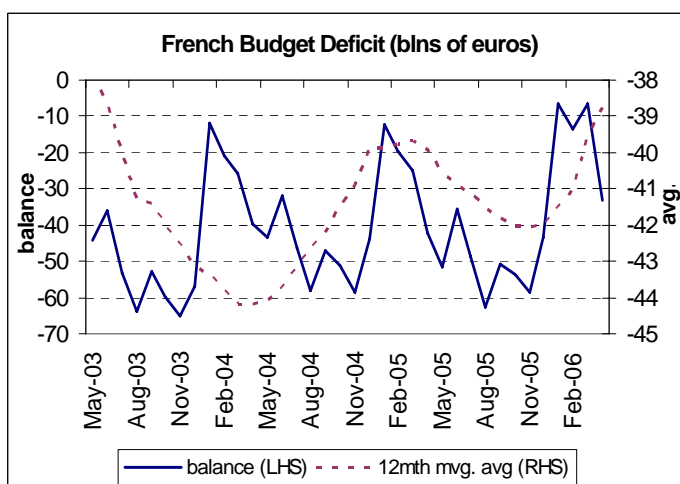
Euro Zone PPI

The Euro Zone's April Producer Prices increased 0.8% M/M and 5.4% Y/Y. Energy expanded 2.1% M/M, its fastest expansion in 3 months.



French Budget Deficit

France's April budget deficit increased from 6.7 bln euros in March to 33.2 bln.



Euro Zone Manufacturing PMI

The Euro Zone's May Manufacturing PMI Index increased from 56.7 in April to 57.0 in May. Germany's PMI rose from 58.1 to 58.5; France's PMI rose from 55.3 to 56.1; Spain's PMI rose from 54.7 to 55.5; and Italy's PMI fell from 57 to 56.6 (Numbers above 50 indicate expansion while numbers below 50 indicate contraction).

Euro-12 Manufacturing PMI:	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	July
Overall Index	57.0	56.7	56.1	54.5	53.5	53.6	52.8	52.7	51.7	50.4	50.8
Output	59.5	59.3	59.0	57.0	55.9	55.8	54.8	54.3	53.8	51.8	52.8
Employment	52.1	51.8	50.9	49.7	49.6	50.3	49.9	49.9	48.9	48.3	47.8

Euro Zone PMI & News

Euro Zone Services, Retail PMI

The Euro Zone's May Services PMI increased from 58.3 in April to 58.7 in May. The German Services PMI fell from 57.3 to 56.7, France's PMI rose from 59.4 to 60.6, Spain's PMI fell from 56.5 to 54.7 and Italy's PMI rose from 59.6 to 61.8.

Euro -12 Services PMI:	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	July
Overall:	58.7	58.3	58.2	58.2	57.0	56.8	55.2	54.9	54.7	53.4	53.5
Employment:	55.0	54.6	54.1	53.1	52.6	52.6	51.5	51.6	51.6	50.8	50.4
New Business:	58.0	57.7	56.8	56.4	55.8	55.2	53.5	54.2	54.0	52.5	52.9
Business Expectations:	65.6	66.5	65.9	66.9	69.9	66.2	64.8	64.5	63.4	63.3	62.8

The Euro Zone's May Retail PMI increased from increased from 54.6 in April to 56.3, led by a large pickup in automobile and household goods sales.

News

June 7th – **Germany's Peter Bofinger, member of the German government's** panel of economic advisors, stated that the ECB should not raise interest rates further because of its effects on the euro. France's Xavier Musca, director of the French Treasury, stated that the euro has not been a problem for France, "as yet".

June 7th – **French Retail Sales increased the most in 29 months in May** according to the Bloomberg PMI. Sales rose from 55.2 in April to 56.9 in May.

June 6th – **The German IW Institute stated that companies** will pay 6.9% more tax in 2006 than 2005 as economic growth picks up. Tax revenues will jump from 87.4 bln euros in 2005 to 93.4 bln in 2006.

June 6th – **The European June Sentix Investor Confidence** fell from 29.8 in May to 22.2. The Current Situation Index fell from 38.75 to 33.25 and the Expectations Index fell from 21.25 to 11.75.

June 5th – **The Italian Finance Ministry will cut 10%** from the 2006 budget in an attempt to constrain the deficit. A report by Corriere Della Serra stated that the deficit will likely be between 4.2 and 4.7% this year, without citing sources.

June 2nd – **The IMF cautioned the ECB about further interest rate** increases, stating, "Some further withdrawal of monetary accommodation appears warranted. However, the conditions for continued and thus more substantial tightening do not seem in place." However, former ECB member Otmar Issing, also commented, stating "Don't let the inflation monster out of the pickle jar where we've imprisoned it", implying that the ECB may need to take an even more aggressive stance on inflation.

June 1st – **The EU raised its Euro Zone growth forecast**, stating that the economy would expand about 0.7% Q/Q for Q2 and Q3. The previous forecast was for 0.6% Q2 and 0.5% Q3 expansion.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/08	ECB Announces Interest Rates (JUN)	2.75%	2.50%
06/09	German Trade Balance (APR)	12.3 bln	14.3 bln
06/09	French Industrial Production (APR)	0.2% M/M	1.6% M/M
06/09	French Trade Balance (APR)	-2.2 bln	-2.0 bln
06/09	Italian Private Consumption (Q1)	0.4% Q/Q	-0.3% Q/Q
06/09	Euro Zone OECD Leading Indicator (APR)	--	109
06/09	German Industrial Production (APR)	2% M/M	-2.4% M/M

Valance Co., Inc.

Valance Economic Report: Japan

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June 7, 2006

This week's data was positive. CAPEX saw strong gains and the Coincident Index improved. The BoJ began to inject funds into the money market to counter an increasing overnight call rate and reiterated their patience regarding ending their zero interest rate policy. With a rebound in manufacturing data added to the existing evidence of a stronger labor market and strength in the consumer, we continue to look for a change in policy from the BoJ within the next three months.

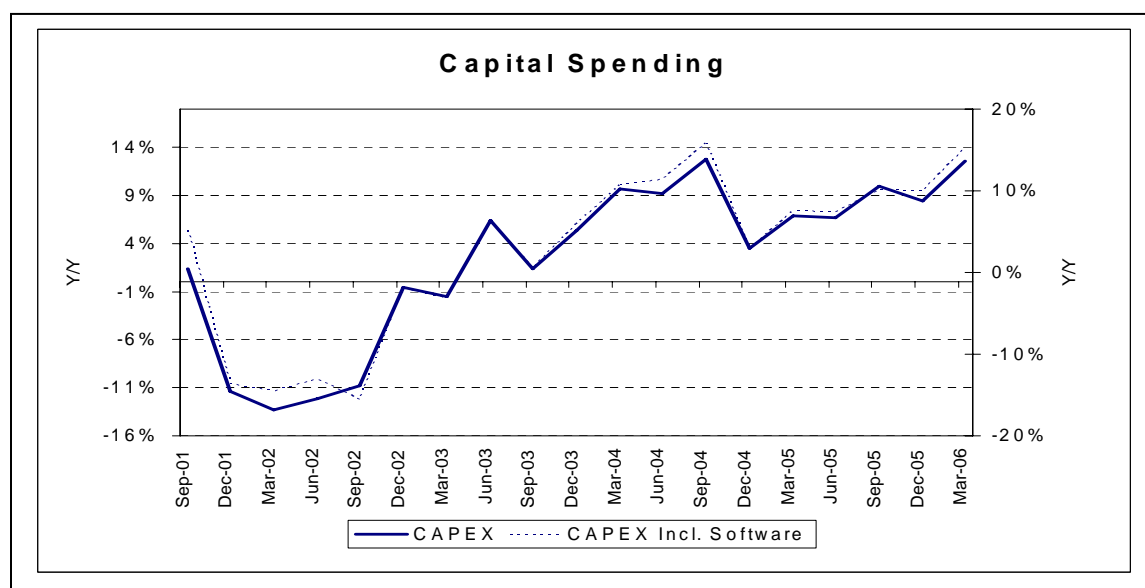
Weekly Highlights

CAPEX – increased 13.6% Y/Y in Q1. (page 18)

Leading Index – remained unchanged at 50.0% in April. (page 20)

Coincident Index –increased to 77.8% in April. (page 20)

Chart of the Week: *Capital Spending*

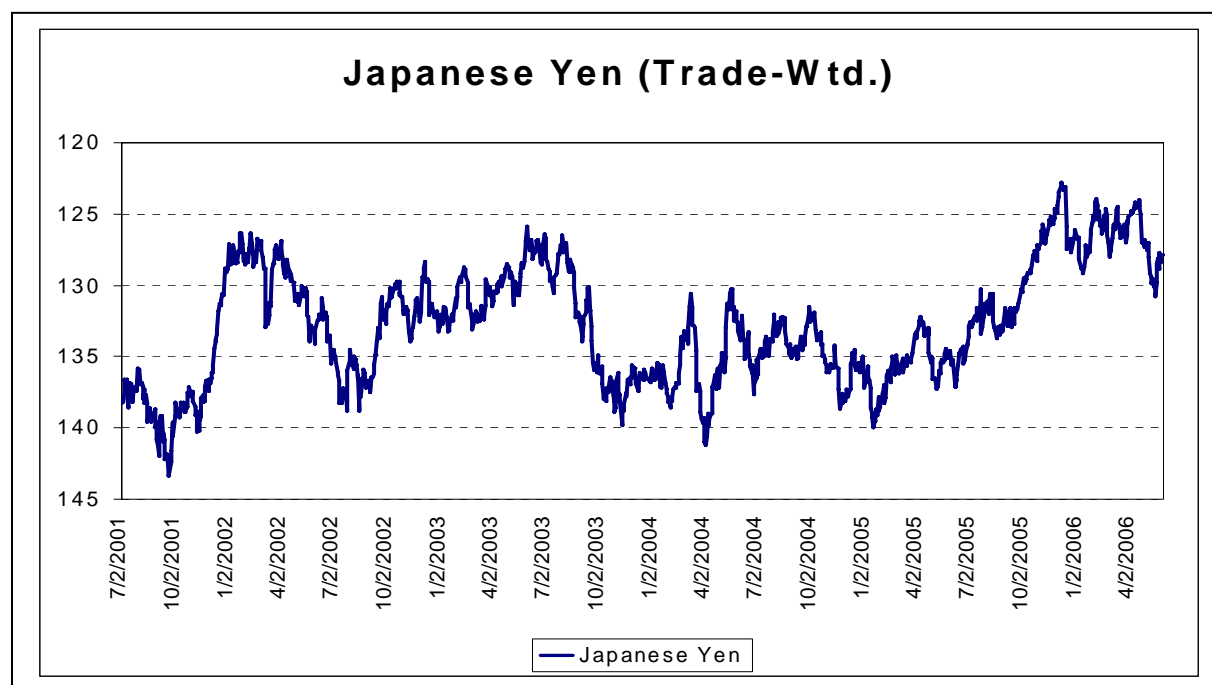


Corporate Investments increased 13.6% Y/Y in Q1. Including software, investments increased 13.9% Y/Y, nearly double market expectations. Within the manufacturing sector, CAPEX growth was particularly strong, accelerating 20.9% Y/Y and 6.5% Q/Q. Among Non-Manufacturing, CAPEX improved 10.1% Y/Y. Among all sectors, Sales increased 5.0% Y/Y and Profits increased 4.1% Y/Y. The data suggests that Q1 GDP will likely be revised higher to around 0.8% when the new number is released on June 12.

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%



Leading/Coincident Index & Machine Tool Orders

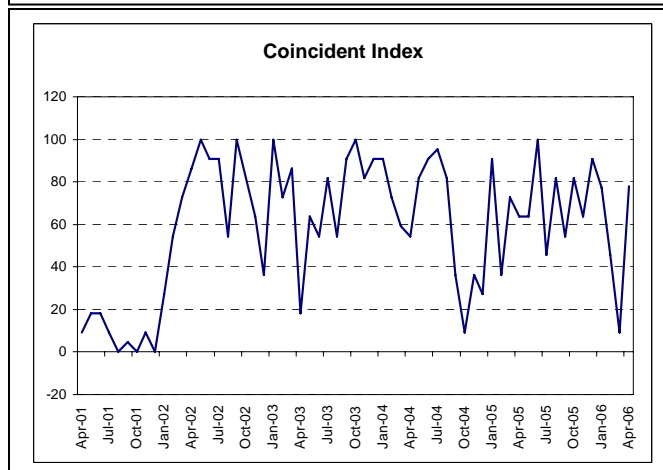
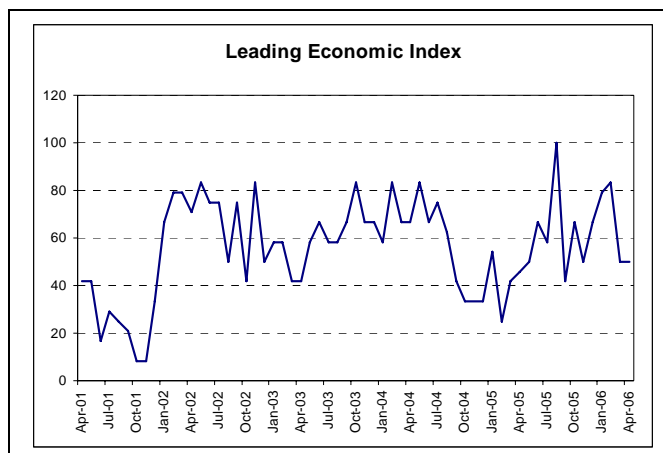
Leading Index

Preliminary data on the Leading Economic Index indicates that the index remained unchanged at 50.0% in April. The March Index was revised lower from 54.5% to 50.0%.

The Coincident Index improved from 9.1% to 77.8%, ahead of market expectations for an increase to 66.7%. 50.0% delineates expansion vs. contraction.

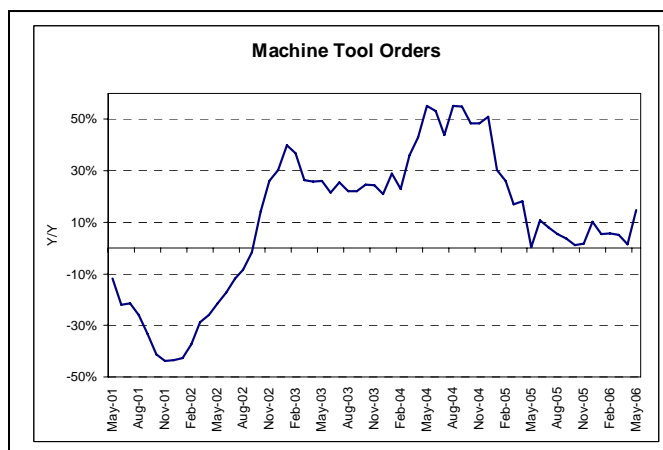
Within the Leading Index, Producers' Components were negative while consumer sentiment, Topix change, and interest rate spreads were positive.

Within the Coincident Index, all components saw improvement, with the exception of retail sales and wholesale sales.



Machine Tool Orders

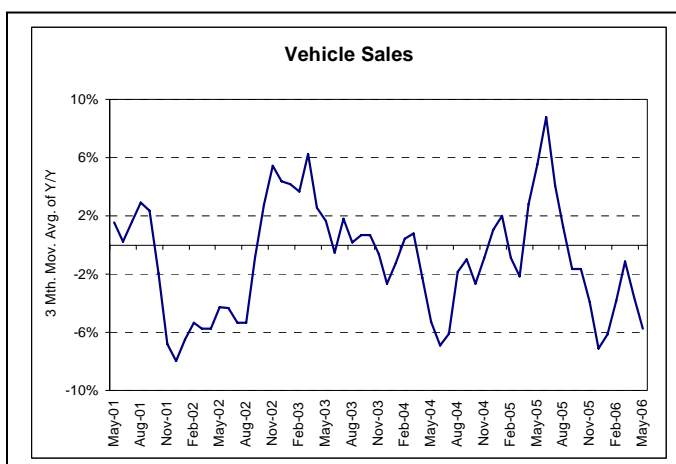
May's preliminary data indicates that Machine Tool Orders increased 14.8% Y/Y, primarily due to continuing firm foreign demand.



Vehicle Sales & News

Vehicle Sales

Vehicle Sales declined 7.8% Y/Y in May, the second consecutive decline. The decline was widespread among manufacturers and was centered around cars and buses while truck sales increased Y/Y. Some economists attribute the decline in sales to consumers spending more money on traveling instead of on cars; a record number of people traveled overseas during the country's Golden Week in late April/early May.



News

June 7th – Despite the cumulative budget gap being initially estimated to be ¥20 trln by 2011, the gov't is seeking to reduce the projected budget gap to ¥15-17 trln. Strong economic growth and smaller projected expenditures are expected to help make this happen, and the gov't is also working to achieve a positive primary balance by FY11.

June 7th – According to the Japan Finance Corp.'s May Monthly Small Business Survey, Sales declined, but remained positive, decreasing from 2.7 to 0.5 in May. Sales Forecasts increased from 17.6 to 18.6 in May. Among other components, Manufacturing Employment increased from 8.6 in April to 9.2 in May. Production Capacity also improved in the month, increasing from 2.6 to 4.8.

June 7th – The May TDB Business Confidence Index declined 0.6pts from April to May. The decline resulted from small and medium business conditions, which declined from -0.8pts from April. Large business conditions were unchanged in May. Among the subcomponents, Real Estate gains were offset by widespread declines in sectors including agriculture, wholesale, retail, and transportation.

June 7th – 283.6k new subscribers signed up for cell phone service in May, marking an 8.2% M/M decline, partly offsetting the 9.7% M/M increase recorded in May.

June 6th – Anne Krueger, deputy Managing Director of the IMF, commented that Japan is overcoming deflation, but noted that its gov't should quicken its efforts to slow the expansion of public debt.

June 6th – Finance Minister Tanigaki commented that deflation isn't over and that the BoJ should use caution in changing policy. He noted that it would be undesirable for interest rates to increase sharply amid deflation. He also commented that there is a "misunderstanding" in the currency market that the G-7 has said the dollar should be weakened.

News

News

June 6th – According to an article in the Nikkei, The Ministry of Labor and Welfare is making plans to reduce the FY07 premium rate for the gov't unemployment insurance program, as the number of beneficiaries decreases with an improving economy. Currently 1.6% of an employee's salary is paid as a premium for the insurance, and this is expected to decline to 1.4% or less. The number of recipients with unemployment insurance benefits has declined in recent years, totaling 544k in April, about half of the 1.16 mln seen in FY01.

June 5th – BoJ's Deputy Gov. Muto commented that, "Accommodative financial conditions resulting from very low interest rates can be maintained for some time." He continued, that the BOJ will "adjust the level of interest rates gradually" as it gauges the prospects for inflation and economic growth in the coming months. He also commented that, "All in all, our outlook is something benign." On CAPEX, he noted that, "Acceleration in investment will lift growth in the very short time, but the backlash may have serious implications...we may see substantial fluctuation in the rate of inflation as well. Those are still distinct risks, nevertheless, a central banker will have to be cautious of the risks."

June 2nd – Tax revenue for FY05 is expected to exceed ¥49 trln, ahead of the prior estimate for ¥47 trln, as the Finance Ministry announced that FY05 tax receipts as of April 30th were 6.8% higher Y/Y. This increase resulted from total income taxes and customs duties being higher than anticipated. Corporate taxes are also expected to improve well ahead of estimates.

June 2nd – BoJ member Hidehiko Haru commented on its ZIRP stating that, "We intend to continue maintaining zero interest rate policy for some time to come...the risk of an excessive stimulus is currently limited." Haru noted the positive and negative factors contained in the Outlook for Economic Activity and Prices, but suggested there is no immediate need for monetary policy action.

June 1st – BoJ's Gov. Fukui commented that Quantitative Easing has helped the Japanese Economy recover, stating that, "The ample funds provided by the Bank of Japan helped satisfy financial institutions' demand for liquidity and prevented a recurrence of the severe credit crunch witnessed in 1997 and 1998." He also commented that quantitative easing also supported the corporate sector by keeping down credit spreads on fund raising.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/07	Bank Lending (May Y/Y)	1.3%	1.2%
06/08	Eco Watchers Survey: Current (May)	55.0	54.6
06/08	Eco Watchers Survey: Outlook (May)	N/A	55.0
06/09	Machine Orders (Apr M/M)	3.3%	-5.2%
06/09	Machine Orders (Apr Y/Y)	4.4%	-1.6%
06/11	GDP (Q1 Q/Q)	0.8%	0.5%
06/11	GDP Annualized (Q1)	3.2%	1.9%
06/11	GDP Deflator (Q1 Y/Y)	-1.3%	-1.3%
06/11	Domestic CGPI (May M/M)	N/A	0.5%
06/11	Domestic CGPI (May Y/Y)	N/A	2.5%
06/11	Export Price Index (May M/M)	N/A	0.7%
06/11	Export Price Index (May Y/Y)	N/A	4.0%
06/11	Import Price Index (May M/M)	N/A	0.8%
06/11	Import Price Index (May Y/Y)	N/A	14.9%
06/11	Adj Current Account Total (Apr)	N/A	¥1690.7 Bln
06/11	Trade Balance BoP Basis (Apr)	N/A	¥1108.6 Bln
06/12	Consumer Confidence Households (May)	N/A	50.0
06/12	Japan's 3 rd Quarter 2006 Manpower Employment Outlook	N/A	N/A
06/13	Industrial Production (Apr M/M)	N/A	1.5%
06/13	Industrial Production (Apr Y/Y)	N/A	3.8%
06/13	Capacity Utilization (Apr)	N/A	104.1
06/13	Machine Tool Orders (May Y/Y)	N/A	14.8%
06/13	June Monthly Economic Report	N/A	N/A
06/13	BoJ Monetary Policy Meeting	N/A	N/A
06/14	Tokyo Condominium Sales (May Y/Y)	N/A	-2.5%
06/14	Bankruptcies (May Y/Y)	N/A	14.9%

Valance Co., Inc.

Valance Economic Report: *United Kingdom*

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June 7, 2006

This week's data was moderate at best. Nationwide Consumer Confidence increased slightly, but remained near 6-month lows. PMI Services and Manufacturing continued to remain above the expansion threshold of 50.0; though both experienced a decrease in their pace of growth.

Weekly Highlights

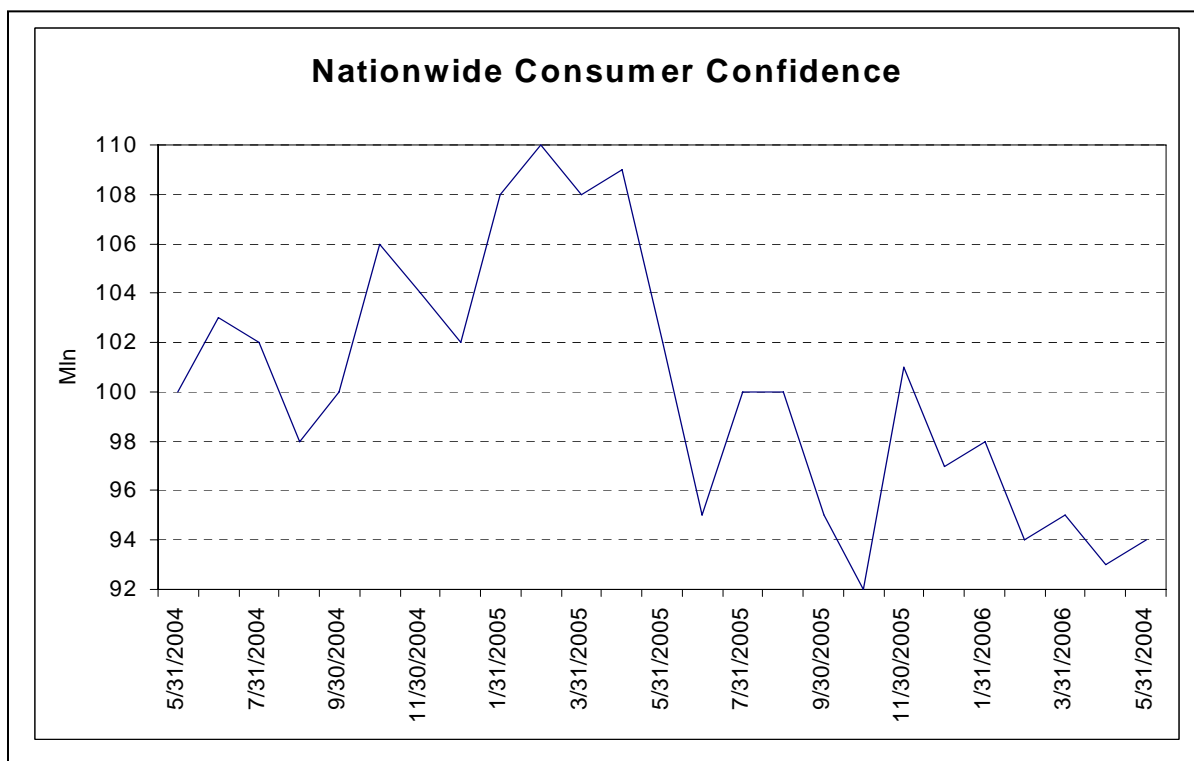
Nationwide Consumer Confidence- increased slightly from 93 to 94 in May. (page 24)

PMI Services- decreased from 59.7 to 59.2 in May. (page 26)

PMI Manufacturing- decreased from 54.0 to 53.2 in May. (page 26)

Weekly Releases & News

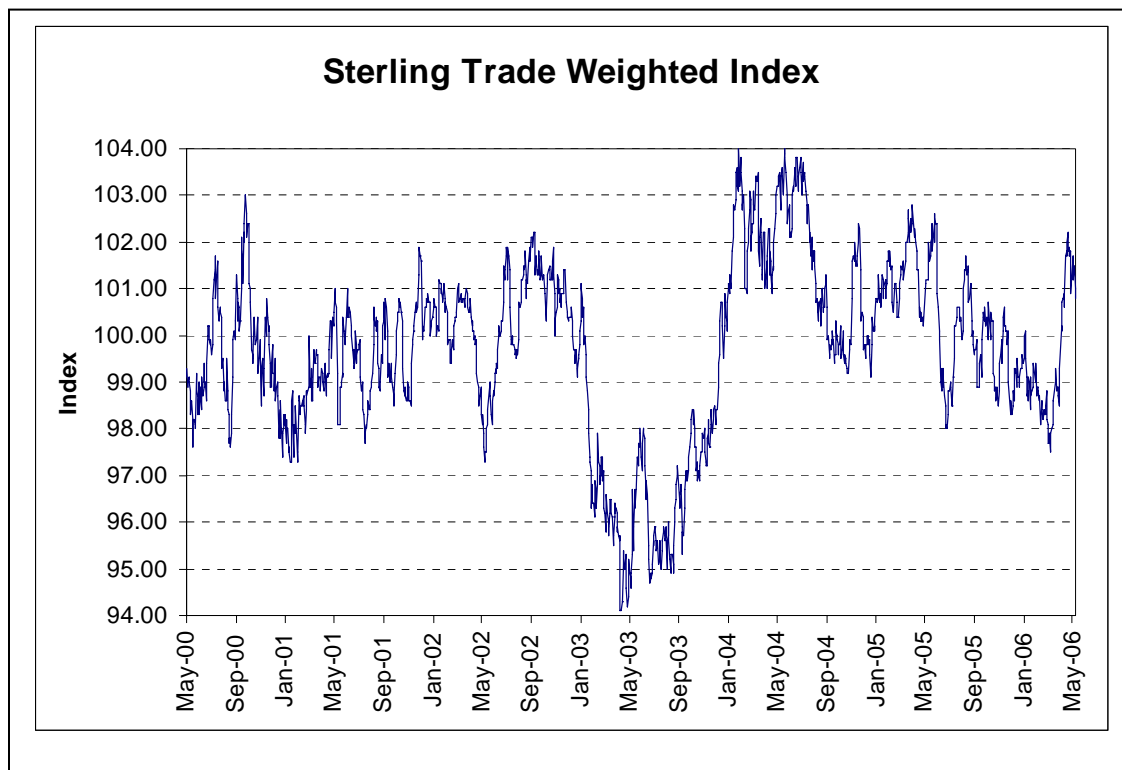
Chart of the Week: *Nationwide Consumer Confidence*



Nationwide Consumer Confidence increased slightly from 93 to 94 in May, though it remains near a six month low. Expectations about future economic conditions increased from 95 to 96, though some feel this may be affected by the World Cup Soccer hype.

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%



Data & News

Data

PMI Services

PMI Services decreased from 59.7 to 59.2 in May. New Business decreased from 58.8 to 58.3 as Outstanding Business decreased from 52.6 to 51.2. Input Prices decreased from 61.8 to 60.3 and Prices Charged decreased slightly from 54.7 to 54.6. Employment increased from 52.8 to 53.7. Overall, the series remains near two year highs, but the pace of growth has started to slow.

PMI Manufacturing

PMI Manufacturing decreased from 54.0 to 53.2 in May. The series continues to be driven largely by global demand for UK exports as Export Orders increased from 52.9 to 54.8, the highest level since January 2004. However, New Orders decreased slightly from 55.9 to 55.5 and Output decreased from 56.6 to 55.9. Employment fell from 50.6 to 49.1. Output Prices increased from 52.0 to 53.7 and Input Prices increased from 64.0 to 67.4.

PMI Construction

PMI Construction decreased from 53.7 to 52.7 in May. New Orders increased from 53.6 to 54.7.

BRC Shop Price Index

The British Retail Consortium (BRC) Shop Price Index increased 0.4% M/M and decreased 0.5% Y/Y in May. Non-food prices increased 0.4% M/M, the first M/M increase this year. Food prices increased 0.5% M/M, the first M/M increase in three months.

BRC Retail Sales

The British Retail Consortium (BRC) reported that same store Retail Sales increased 2.7% 3M/3M and 3.6% Y/Y in May.

News

June 7th - U.K. House Prices to Increase 7% This Year, CML Says - U.K. House Prices will increase 7% Y/Y, this year, the Council of Mortgage Lenders said, raising its prediction from 2% Y/Y. The forecast was raised because the number of home sales this year will be higher than previously expected at 1.2 mln instead of 970,000, the CML said. Prices will also rise more than expected next year, by 3% instead of 2%. The CML predicted borrowing costs will end 15 basis points higher in 2006, and will remain at that level through 2007. This will also lead to a higher number of mortgages in arrears and of repossessions, it said. The council raised its forecast for the number of mortgages in arrears over three months to 130,000 by the end of 2007, up from 120,000. It estimated there will be 15,000 repossessions in 2006 and the same number in 2007, up from a previous prediction of 12,000.

News Cont'd

June 6th - UK's Brown Wants More Value for the Money in Public Services - U.K.'s Chancellor of the Exchequer, Gordon Brown, signaled an end to sharp annual rises in public sector expenditure and called for greater cost effectiveness in the delivery of public services. The chancellor said that the government's current spending plans assumed public spending would henceforth rise 2% a year on average rather than the 5% seen since the turn of the century. He commented that the U.K., like other major economies, now faces a "challenge for value for money." "An era of more limited fiscal resources (will) force governments to review their public sector responsibilities and secure the greatest cost effectiveness," Brown stated. Brown reiterated his call for public sector pay bodies to keep a lid on wage settlements over the next three years. He said that pay rises should be set in accordance with the government's consumer price inflation target of 2.0%. "With this year's public sector pay settlements averaging just 2.25% we are maintaining vigilance in the fight against inflation, and next year and the year after that we will maintain this discipline of low overall settlements," the chancellor said. Brown said that part of the answer to the problem of how to achieve better value for money in public services, would be to delegate more spending powers to local authorities.

June 5th - Construction faces tall order on jobs - Construction companies, many of which have resorted to hiring east European migrants to fulfill contracts, will need to recruit a further 348,000 workers by 2010 to meet a big increase in orders, according to industry forecasts and Construction-Skills. Construction output by the sector is expected to rise by almost 13% over the next 3½ years, boosted by a series of large, high profile projects. The number of people working in the construction industry, Britain's largest sector, is forecast to rise to 2.8mln workers by 2010, a trend which will require an extra 87,000 new recruits a year. Contractors are already struggling to fill vacancies for craftsmen and laborers and have resorted to hiring large numbers of migrant workers, particularly from countries such as Poland.

June 5th - Consumers cut back borrowing - Debt-laden consumers are finally taking steps to pare back their unsecured borrowing, according to figures from Alliance & Leicester. The Bank's borrowing monitor found that stocks of outstanding personal loans, which hit a record £135.9 bln at the end of 2005, had fallen by £360 mln by the end of April, the first reduction in seven years. Credit card debt fell by £900 mln in the first four months of the year. The reductions came after household debt doubled between 1998 and 2003, leading to a tripling of personal insolvencies between 2002 and 2005. However, the value of outstanding mortgage debt is continuing to rise by £9 bln a month, hitting £999.2 bln by the end of April, meaning it is now likely to have topped the £1,000 bln mark for the first time.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/08	Manufacturing Production	0.3% M/M 0.7% Y/Y	0.7% M/M 1.1% Y/Y
06/08	NIESR GDP Estimate	--	0.6%
06/09	Trade Balance	-£5.8 bln	-£5.5 bln
06/12	PPI Input	--	2.5% M/M 15.7% Y/Y
06/12	PPI Output	--	0.6% M/M 2.4% Y/Y
06/12	ODPM House Price Survey	--	3.3% M/M
06/12	CPI	--	0.6% M/M 2.0% Y/Y

Valance Co., Inc.

Valance Economic Report: Canada

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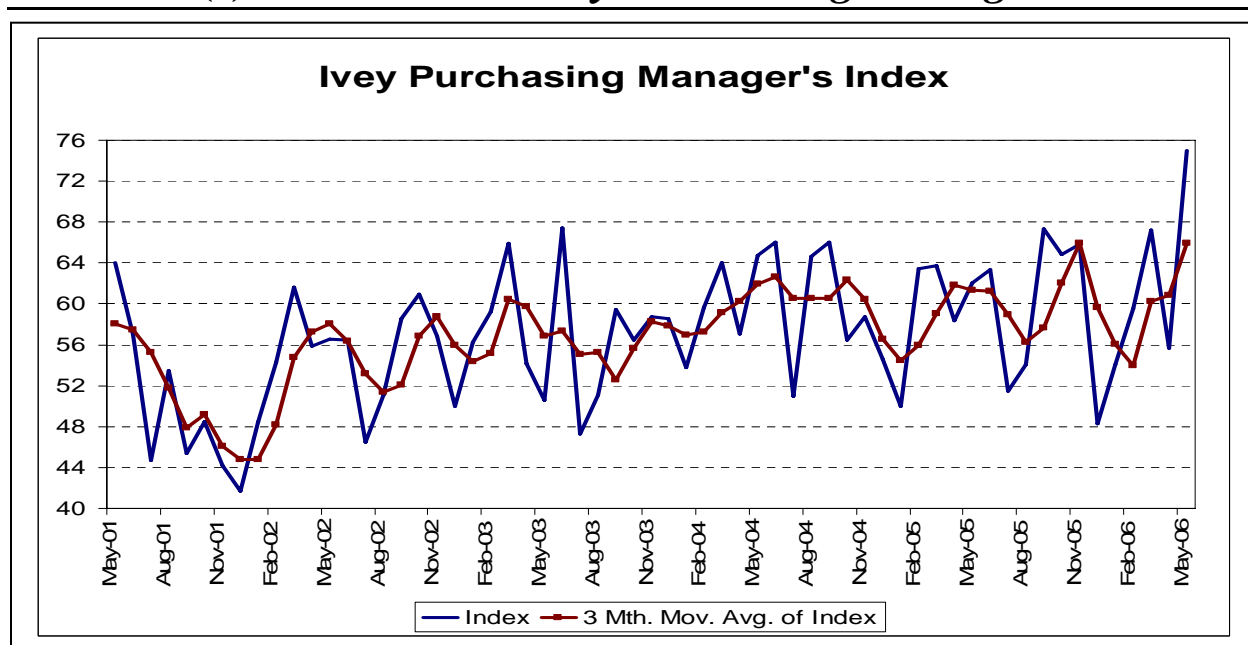
June 7, 2006

The Ivey Purchasing Manager's Index jumped to a record high in May, reflecting solid momentum in Canada's economy. Meanwhile, building permits posted its lowest M/M reading in five months in April. Both series are typically very volatile.

Weekly Highlights

The Ivey Purchasing Manager's Index – increased to a record high. (page 29)

Building Permits - decreased 10.6% M/M and 1.5% Y/Y in April. (page 31)

Weekly Releases & News**Chart(s) of the Week: *Ivey Purchasing Managers Index***

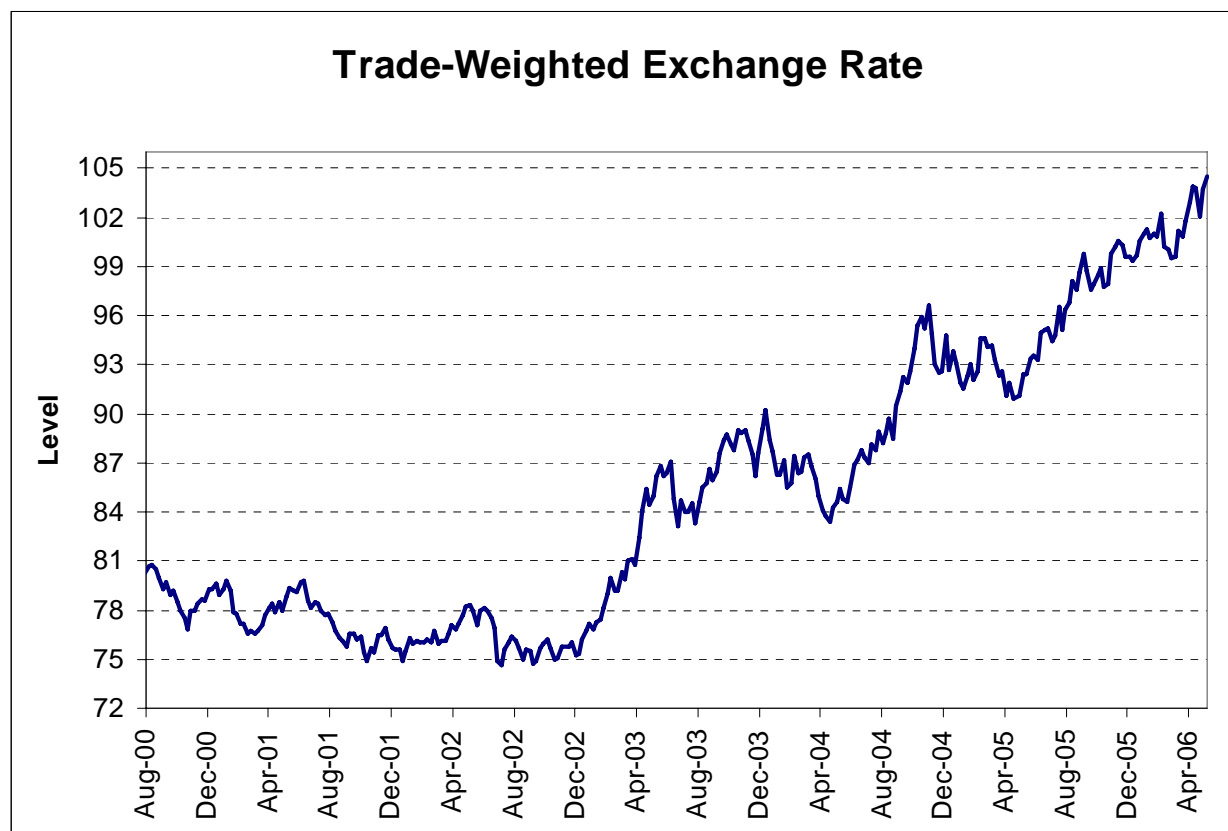
The Ivey Purchasing Manager's Index reached a record high, increasing from 55.7 in April to 75.0 in May, above expectations for a reading of 58. Although this series tends to be very volatile, May's reading showed a pick up in momentum in Canada's economy. The Price Index decreased from 72 to 70.3, while the employment measure increased from 63.3 to 64.4, and the supplier-deliveries measure increased from 44.8 to 47.4. The inventory gauge increased from 59.8 to 64.

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	-1.1 (Mar)	0.8%
Trade Balance	5.1 (Mar)	5.0%
Current Account Balance	10.7 (Q1)	2.7%
Private Balance	--	1.9%

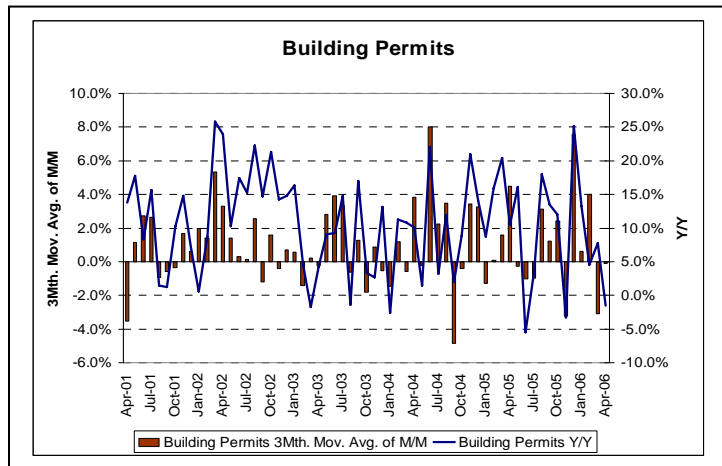
Trade-Weighted Exchange Rate



Building Permits & News

Building Permits

Building Permits decreased 10.6% M/M in April, following the second highest level on record as construction intentions in both the residential and non-residential sectors cooled. The Y/Y growth decreased 1.5%



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/08	Housing Starts (MAY)	222.3K	217.9K
06/08	New Housing Price Index (M/M)	0.5%	1.0%
06/08	Labor Productivity (Q/Q) (Q1)	0.4%	0.5%
06/09	Unemployment Rate (MAY)	6.4%	6.4%
06/09	Net Change in Employment (MAY)	20.0K	22.0K
06/09	Int'l Merchandise Trade (APR)	C\$5.5	C\$5.1
06/12	Capacity utilization Rate (Q1)	86.5%	86.3%
06/14	New Motor Vehicle Sales (M/M) (APR)	-1.0%	1.1%
06/14	Manufacturing Shipments (M/M) (APR)	-0.5%	1.0%

Valance Co., Inc.

Valance Economic Report: Australia

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June 7, 2006

Australia's Current Account Deficit narrowed in Q1, mainly due to surging Asian demand for minerals and metals. The economy expanded more than expected in Q1 as mining companies doubled their investment in Q1 from a year earlier. Raising investment is expected to be one of the main drivers of growth this year and next. However, the terms of trade fell in Q1, as did the implicit price deflator. The RBA kept its target cash rate unchanged.

Weekly Highlights

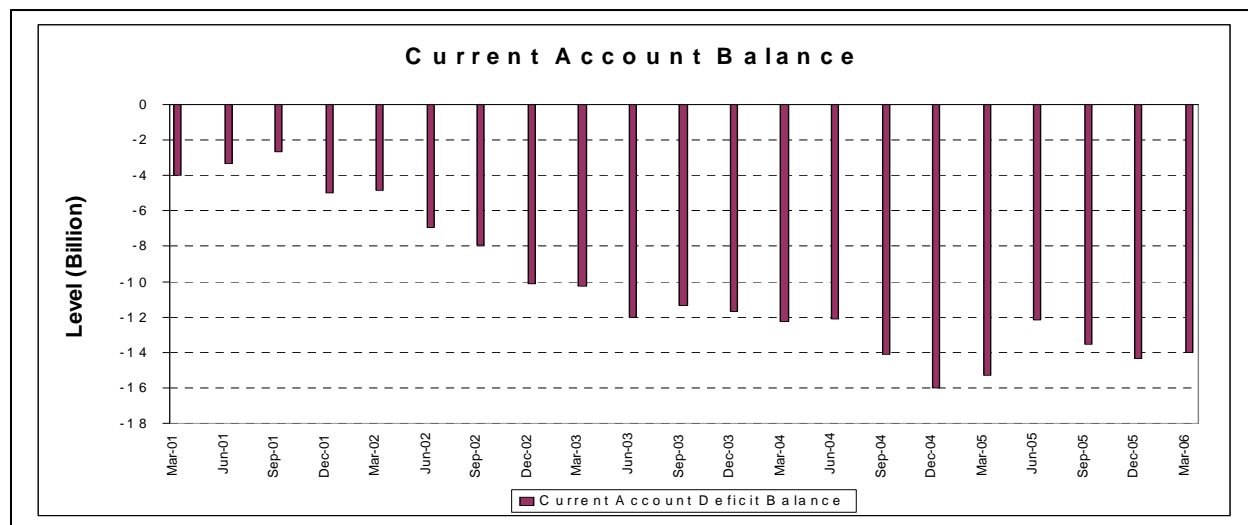
Current Account Deficit – narrowed to A\$14bln in Q1 from A\$14.33bln in Q4. (page 33)

GDP – advanced 0.9% in Q1 from 0.7% in Q4. (page 34)

Home Loans – fell 0.5% M/M and rose 7.3% Y/Y in April. (page 38)

Weekly Releases & News

Chart of the Week: *Current Account Deficit*



Australia's Q1 Current Account Deficit narrowed to A\$14bln from a revised A\$14.3bln in Q4 (prior A\$14.5bln) as rising import bills and cyclone-disrupted export shipments did not help to materially curb the deficit. Australia's Current Account Deficit remains high at near 6% of GDP.

Real GDP

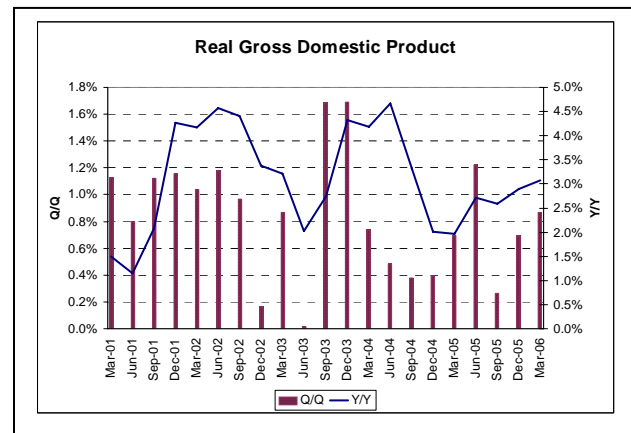
Main March Figures

GDP (Chain volume measure)	Q/Q	Y/Y
Trend	0.6%	2.8%
Seasonally adjusted	0.9%	3.1%
Final consumption expenditure (Chain volume measure)		
Trend	0.7%	2.6%
Seasonally adjusted	0.6%	2.7%
Gross fixed capital formation (Chain volume measure)		
Trend	1.6%	9.9%
Seasonally adjusted	1.3%	12.0%
GDP chain price index		
Original	0.9%	4.9%
Terms of trade		
Seasonally adjusted	-0.9%	10.7%
Real net national disposable income		
Trend	0.7%	4.4%
Seasonally adjusted	1.1%	5.3%

Note: trend is defined as the 'long term' movement in a time series without calendar related and irregular effects, and is a reflection of the underlying level.

Real GDP

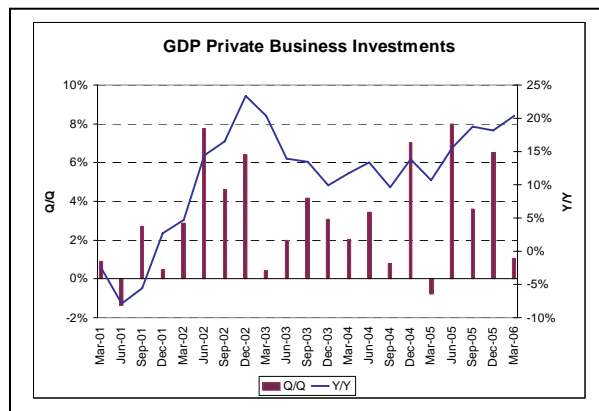
Q1 Real GDP gained 0.9% Q/Q from Q4, when it rose a revised 0.7% (previously 0.5%). Y/Y growth was 3.1% from a revised 2.9% (previously 2.7%) in Q4. Economists expected quarterly and annual growth of 0.8% and 2.8% respectively. The economy's expansion, now in its 15th year, was held by back by a 2.5% decline in home building in the quarter, which subtracted 0.2% from growth.



Private Capital Expenditure & Company Operating Profit

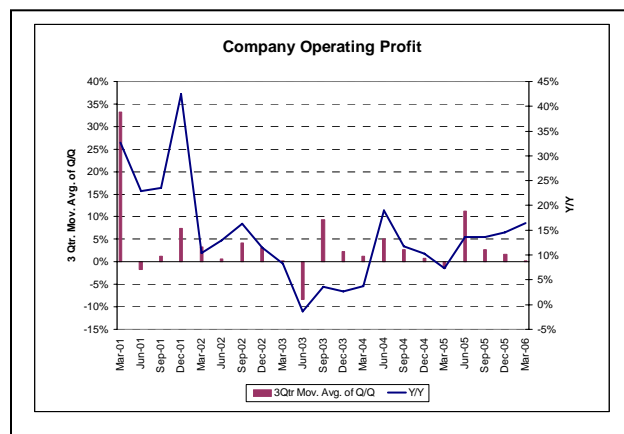
Private Capital Expenditure

Capital spending on equipment, buildings and plants increased 0.6% Q/Q in Q1 from the upwardly revised 13.0% (previously 9.2%) in Q4. The Y/Y gain was a record 28.9% as soaring demand from China and economic recovery in Japan have prompted exporters to expand mines, ports and oil fields.



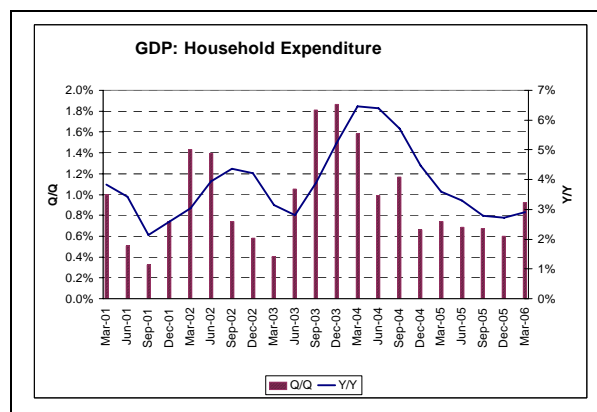
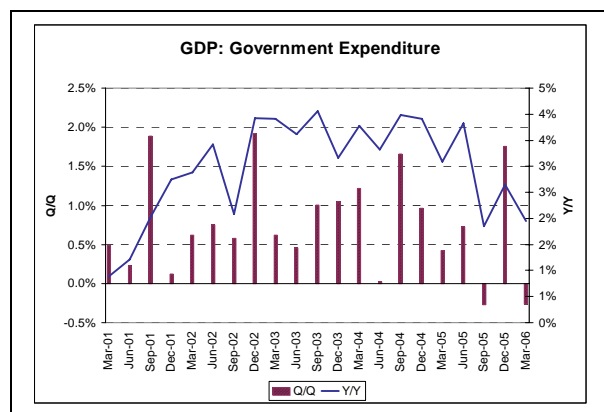
Company Operating Profit

Gross Company Operating Profits rose a modest 0.1 % Q/Q in Q1 from a revised 1.7% (previously 0.8%) in Q4. Q1 growth was 16.4% from a year earlier. Inventories rose 0.7% in Q1 from a revised 0.7% (previously 0.2%) in Q4. Q1 growth was 3.3% from a year earlier.



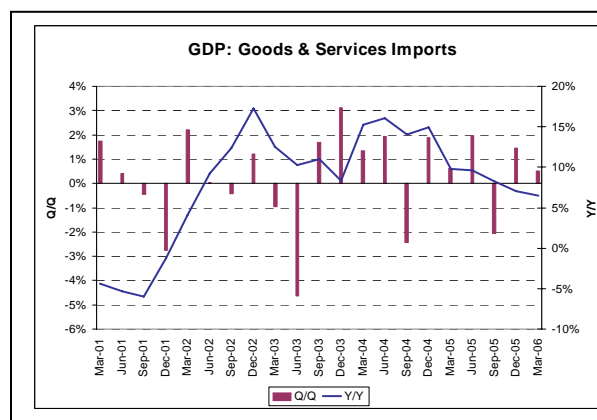
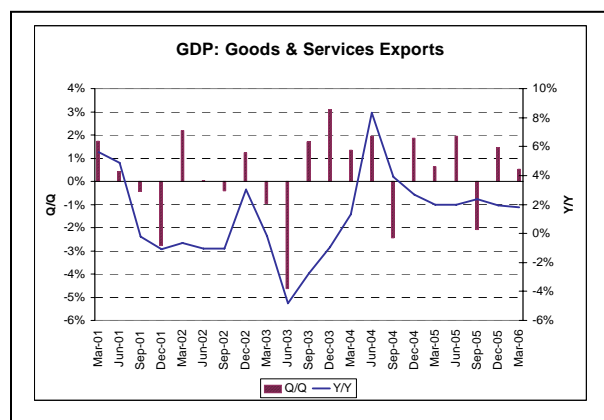
GDP Components

Government & Household Expenditure



Government Consumption Expenditure declined 0.3% Q/Q and rose 1.9% Y/Y in Q1. Household Expenditure grew 0.9% Q/Q and 2.9% Y/Y in Q1.

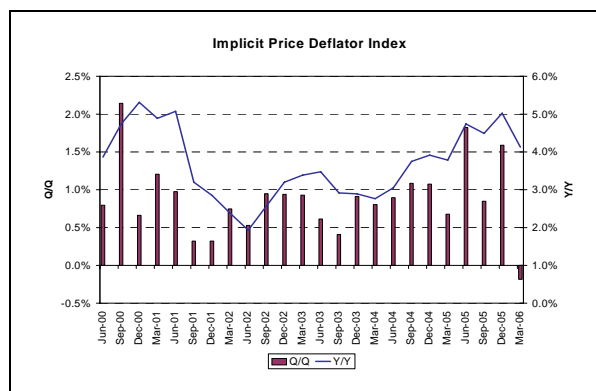
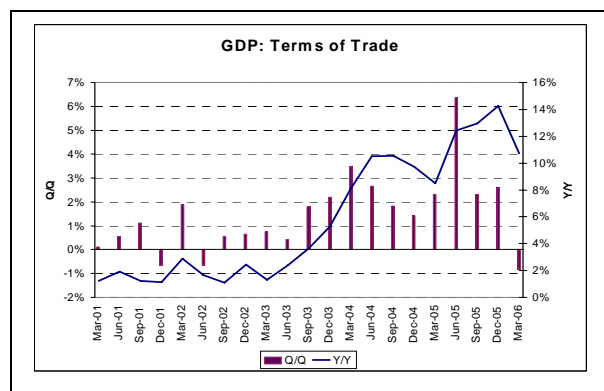
Goods & Services Exports and Imports



Exports of Goods and Services rose 0.5% Q/Q and 1.8% Y/Y in Q1. Imports rose 0.4% Q/Q and 6.5% Y/Y in Q1.

GDP Components Cont. & ANZ Job Advertisements

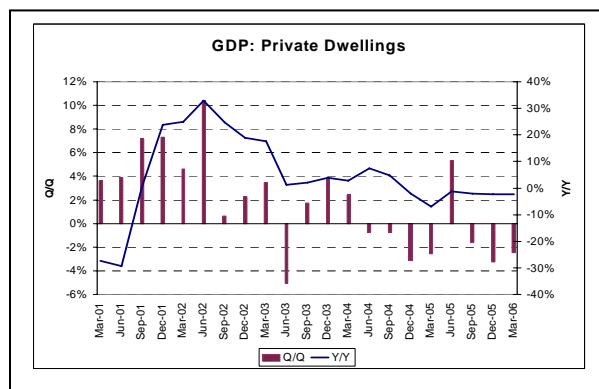
Terms of Trade & Implicit Price Deflator Index



The Q1 saw a 1.2% increase in trend terms to a record high (122.9) in the Terms of Trade Index. Seasonally adjusted terms of trade fell 0.9% versus Q4. This was the first seasonally adjusted decline since June 2002. The Implicit Price Deflator Index fell to 108.5 in Q1 from 108.7 in Q4. The Index fell 0.2% Q/Q and gained 4.1% Y/Y in Q1.

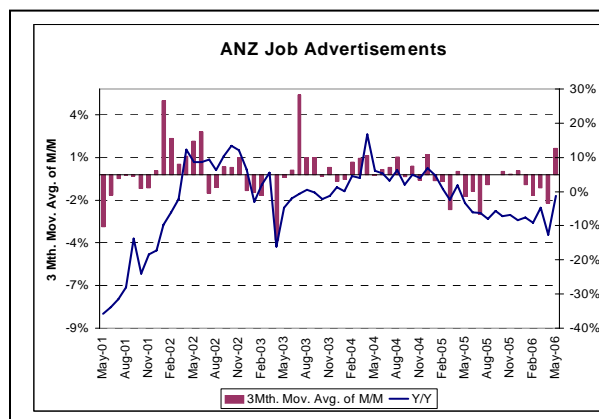
Private Dwellings

One of the largest detractors from growth came from Private Dwelling investments, which fell 2.5% Q/Q and grew 2.3% Y/Y in Q1.



ANZ Job Advertisements

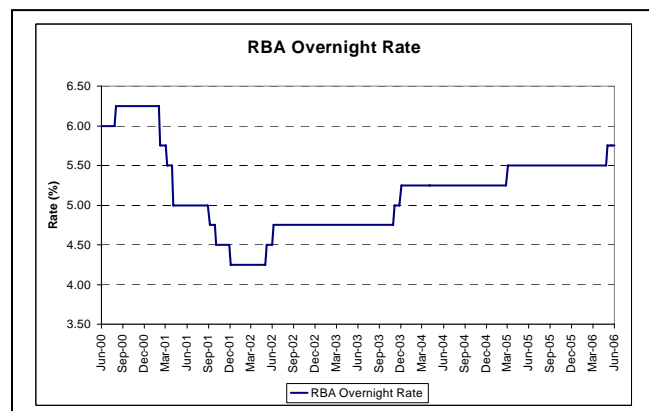
The number of jobs advertised in Australian newspapers gained 7.7% in May, up from April's -5.0%. This gain was a six-month high as expanding mining companies have been hiring workers.



RBA Cash Target rate, Home Loans & FX Rates

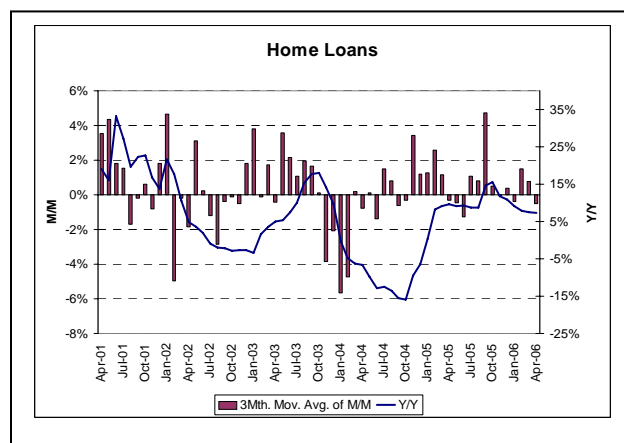
RBA Cash Target Rate

The RBA decided against following up its controversial rise in official interest rates in May with a second immediate move. The rate was kept at 5.75%.

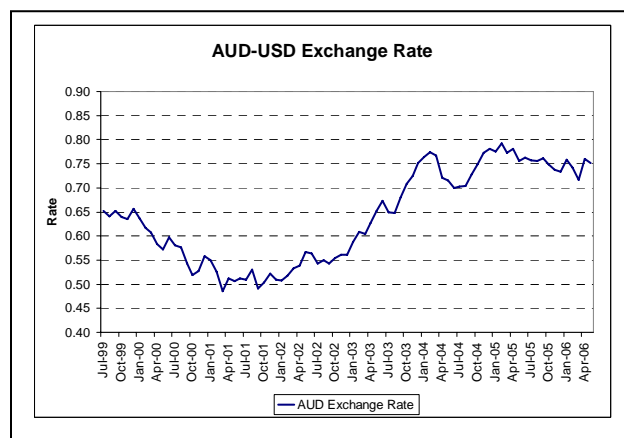
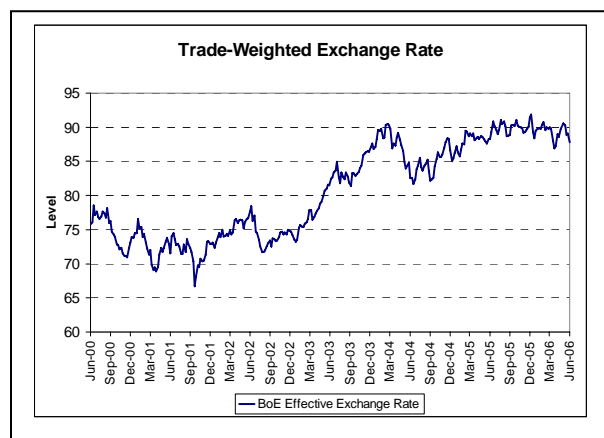


Home Loans

The number of loans to owner-occupiers to build or buy homes and apartments fell 0.5% M/M and rose 7.3% Y/Y in April. Economists expected a 0.8% gain M/M in April.



Trade-Weighted Exchange Rate & AUD-USD Exchange Rate



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/07	Unemployment Rate (MAY)	5.1%	5.1%
06/13	Westpac Consumer Confidence (JUN)	---	104.1

Weekly Economic Report: *China*

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June 7, 2006

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Data remains generally firm. The Manufacturing PMI edged up as seven of the eleven components posted increases. The Leading and Coincident Indices both remained elevated. PBoC Governor, Zhou Xiaochuan, remarked that there are no “immediate” plans to raise rates. The bank unexpectedly raised its benchmark one-year lending rate on April 28 for the first time in 19 months by 27 bps to 5.85%.

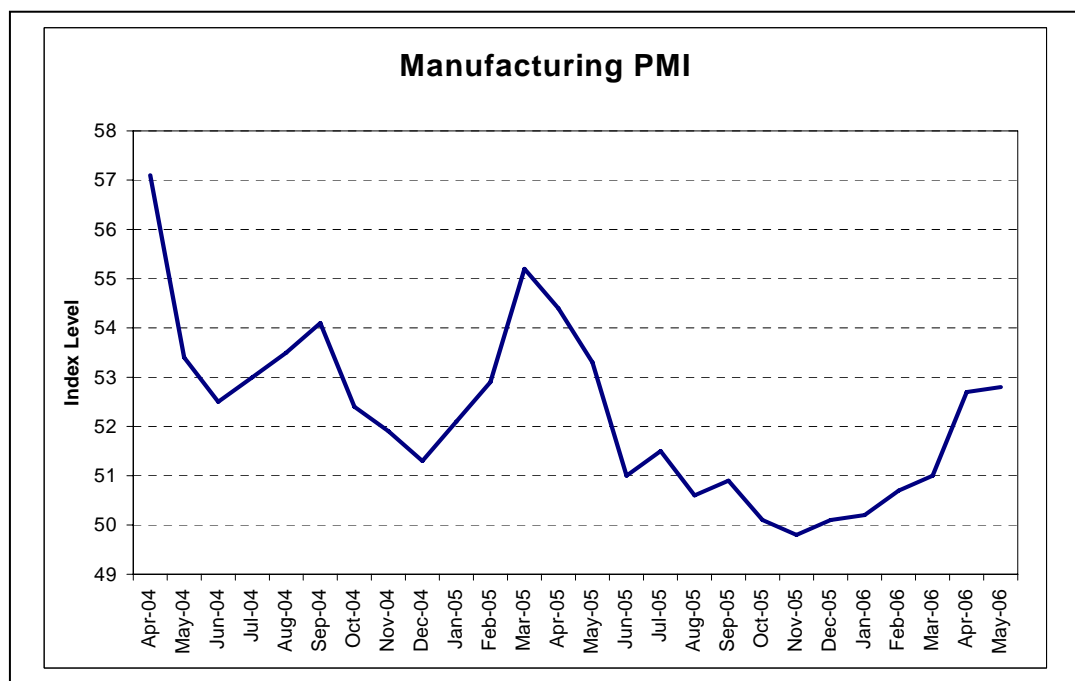
Weekly Highlights

The Manufacturing PMI - increased from 52.7 in April to 52.8 in May. (page 40)

The Leading Index- decreased from 102.6 to 102.4 in April. (page 41)

Weekly Releases & News

Chart of the Week: *Manufacturing PMI*



The Manufacturing PMI increased from 52.7 in April to 52.8 in May. The index increased in seven of the eleven components. Input Prices increased the most (20.4%), followed by Output Prices (6.5%). The index is at its highest level in twelve months.

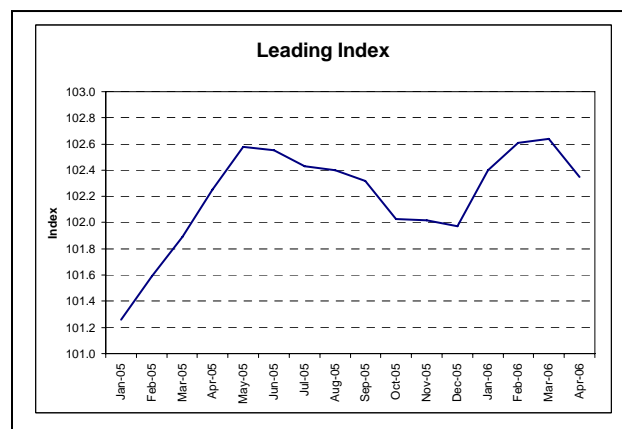
PMI Survey Results, Leading Index & Coincident Index

PMI Survey Results

	May 2006	Apr 2006	Mar 2006	Feb 2006	Jan 2006	Dec 2005	Nov 2005	Oct 2005	Sept 2005	Aug 2005	Jul 2005	Jun 2005	May 2005
Seasonally Adjusted Index													
PMI	52.8	52.7	51.0	50.7	50.2	50.1	49.8	50.1	50.9	50.6	51.5	51.0	53.3
Output	53.6	53.8	51.7	51.3	50.2	50.3	49.9	50.2	51.8	51.4	53.2	51.3	55.4
New orders	55.2	54.6	52.0	51.7	51.0	51.9	50.9	51.0	52.6	52.2	52.5	51.6	55.1
New export orders	55.3	54.9	52.9	52.6	50.8	52.7	51.9	51.1	52.3	52.5	51.6	51.1	55.6
Backlog of work	51.9	50.5	50.2	49.8	50.1	52.1	51.4	52.0	54.4	52.5	52.8	53.3	56.5
Finished goods	49.1	49.5	49.1	47.8	48.7	49.2	49.9	49.4	47.3	49.9	50.5	48.9	49.2
Employment	50.5	50.8	49.8	49.9	49.5	49.3	49.5	49.1	49.4	49.1	50.5	50.3	50.6
Output prices	55.9	52.5	49.8	49.2	48.6	46.3	48.6	49.4	49.9	49.2	47.1	47.5	51.0
Input prices	70.7	58.7	53.0	51.1	47.8	44.3	46.8	52.1	56.3	52.1	47.9	46.1	54.4
Supplier deliveries	48.9	49.1	49.4	49.7	50.0	52.4	52.5	50.9	49.7	50.1	50.2	49.5	49.3
Quan. of purchases	55.9	55.1	52.7	52.3	51.5	52.4	52.0	52.7	53.4	53.4	53.7	52.8	54.8
Stocks of purchases	51.1	50.9	48.7	48.2	49.6	49.8	50.3	50.2	47.0	48.3	48.7	51.0	51.7

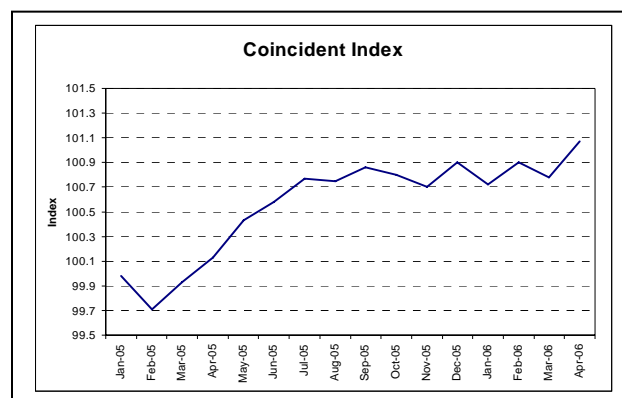
Leading Index

The Leading Index decreased from 102.6 to 102.4 in April. The Leading Index is a composite index based on the following eight components: the Hang Seng Mainland Freefloat Index, industrial product sales, M2 money supply, new fixed-asset investments, the logistics index, FDI contract value, the consumer expectation's index, and spread over treasury.



Coincident Index

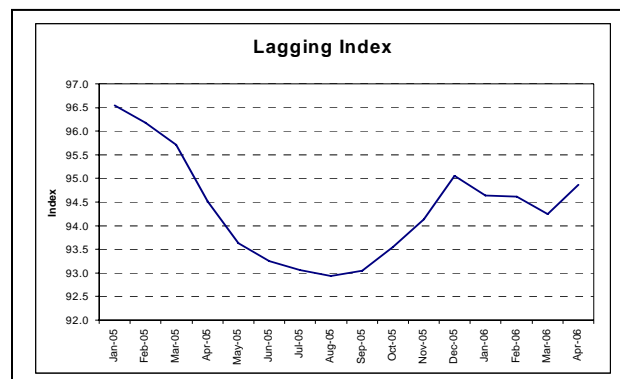
The Coincident Index increased from 100.8 in March to 101.1 in April. The Coincident Index is a composite index based on the following four components: the social income index (corporate profits, tax income, and personal income), the industrial production index, the demand index (investment, retail sales and trade), and industrial employment.



Lagging Index & News Releases

Lagging Index

The Lagging Index increased from 94.0 in March to 94.8 in April. The Lagging Index is a composite index based on the following five components: fiscal expenditure, household savings, CPI, non-agricultural short-term loans, and industrial inventories.



News Releases

June 7th – China’s Economy Susceptible to Banking Industry Deficiencies - A Fitch Ratings report showed that China’s economy is susceptible to weaknesses in the banking industry, i.e., corruption and bad loans. Director, Charlene Chu of Fitch’s Financial Institution, stated that, “The Chinese banking system remains one of the weakest in the world.” Chu added, “Key weaknesses include widespread corruption and ineffectual corporate governance, and underdeveloped risk management and internal control systems.”

June 7th – Most Recent Land Acquisitions are Illegal - The Ministry of Land and Resources stated on its website that over 60% of land acquisitions since September 2004 lack official approval and are illegal. Likewise, in some cities, over 90% acquired for construction purposes is illegal. The Ministry added that as a result, officials may not be allowed to approve changes in land use.

June 6th – Tax Rebates May Be Cut to Reduce Trade Surplus -The Shanghai Morning Post reported, citing an official from the state tax bureau, that tax rebates for steel and textile exports may be cut by about 2% to help reduce the trade surplus. China reduced tax rebates on all exports by an average of three percentage points to 12% in 2003.

News Releases (Cont'd.)

June 6th – No “Immediate” Plans to Raise Rates – PBoC Governor, Zhou Xiaochuan remarked that there are no “immediate” plans to raise rates. Zhou stated, “We are still monitoring the results of the last interest rate increase, and there won’t be any further measures immediately.” He added, “We have to be patient. The interest rate increase won’t be effective immediately.”

June 5th – Raise Capital Gains Tax to Curb Speculation – Researcher, Wang Xiaoguang of the National Development and Reform Commission, stated that China should increase capital gains taxes on the sale of second homes up to 50%. Xiaoguang remarked, the “government must adopt more severe measures to curb overheated investment in property.” He added, “The increasing capital inflows into the property market will curb consumption and investment in other fields. That will eventually cause a slowdown in the nation’s economy.”

June 2nd – China-US Trade “Mutually Beneficial” – Commerce Minister, Bo Xilai, still maintains his position to not be pressured by the U.S. or other countries to revalue its currency. Xilai stated that, “China-US trade deficit [is] structural, movable and mutually beneficial.” He added, “If the U.S. does not import from China, it needs to import from other countries at even higher prices, which will result in a bigger trade deficit.”

June 1st – Fixed Asset Investments Climbed in Q1 - The State Statistics Bureau reported that fixed asset investments totaled 27.7% Y/Y in Q1 of this year. In addition, urban fixed asset investments increased by 29.8% Y/Y. Likewise, rural fixed asset investments increased by 18.1% Y/Y.

June 1st – China Should Buy Gold, Oil With Forex Reserves – Central Bank Advisor, Yu Yongding, commented that China should buy gold and oil with its forex reserves. Compared to the U.S.’ 70%, China has only 1.0% of its reserves in gold. Yongding stated, “China has more than enough foreign-exchange reserves. While they cannot be reduced sharply all at once, China has decided to take measures to curb their growth rate and diversify investment of its reserves.” He added, “We don’t want to cause dramatic fluctuations in the foreign-exchange and securities markets.”

News Releases (Cont'd.) & Upcoming Dates

News Releases (Cont'd.)

June 1st – Delay Plans to Tighten Monetary Policy - The China Securities Journal reported that the National Development and Reform Commission stated in an analysis that the PBoC should delay plans to further tighten monetary policy until May and June's economic data is released. The Commission further stated that the effects of May's increase in lending rates and other measures should be taken into consideration before any further tightening.

Key Dates This Week

Date	Indicator	Expectation	Previous
06/08-14	Trade Balance – May	\$12.00B	\$10.46B
06/08-14	Exports/Imports (Y/Y) – May	23.8% / 22.2%	23.9% / 15.3%
06/08	Produce Price Index (Y/Y) – May	2.0%	1.9%
06/08	Purchasing Price Index (Y/Y) – May	--	4.9%
06/09-15	Money Supply – M2/M1/M0 (Y/Y) – May	18.6% / -- / --	18.9% / 12.5% / 11.5%
06/09-15	Household Savings – Yuan – May	--	15.30T
06/09-15	Actual / Contract FDI Cumulative YTD - Y/Y – May	--	5.76% / --
06/11	CPI (Y/Y) – May	1.3%	1.2%
06/12	Retail Sales / YTD (Y/Y) – May	13.5% / --	13.6% / 13.0%
06/13-19	Wholesale Prices (Y/Y) – May	--	1.0%
06/13	Industrial Production (Y/Y) / (Yuan) - May	16.5% / --	16.6% / 682.0B
06/14	Fixed Assets Investment Urban YTD (Y/Y) – May	29.1%	29.6%

Valance Co., Inc.

Valance Economic Report: Sweden

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June 7, 2006

Real GDP growth in Q1 accelerated at its fastest pace since 2000, posting a broad-based advance. Manufacturing indicators also picked up in May, with stronger employment readings.

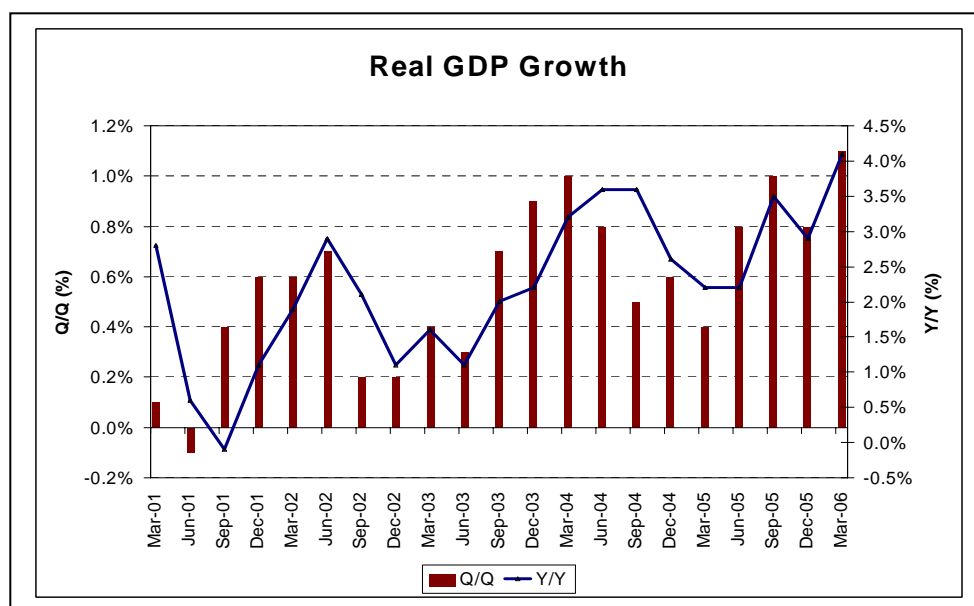
Weekly Highlights

Real GDP - accelerated from 0.8% Q/Q in Q4 to 1.1% Q/Q in Q1; Y/Y growth rose from 2.9% in Q4 to 4.1% in Q1. (page 45)

Manufacturing PMI - rose from 59.9 in April to 61.3 in May. (page 47)

Weekly Releases & News

Chart of the Week: *Real GDP*

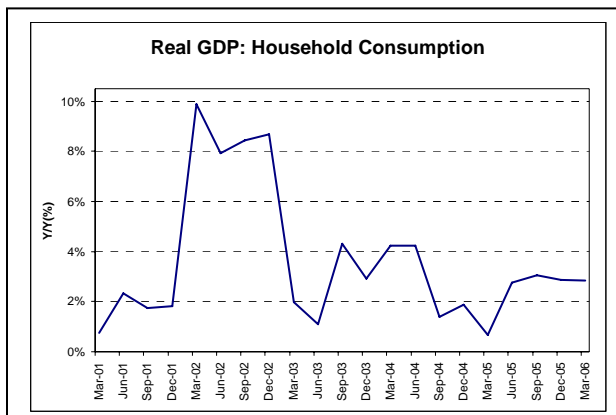


Real GDP Growth advanced from 0.8% Q/Q (revised up from 0.7%) in Q4 to 1.1% Q/Q in Q1. Y/Y growth rose from 2.9% in Q4 to 4.1% in Q1. Growth was spurred by a surge in company investments and exports.

Household Consumption, Gross Fixed Consumption & Imports of Goods & Services

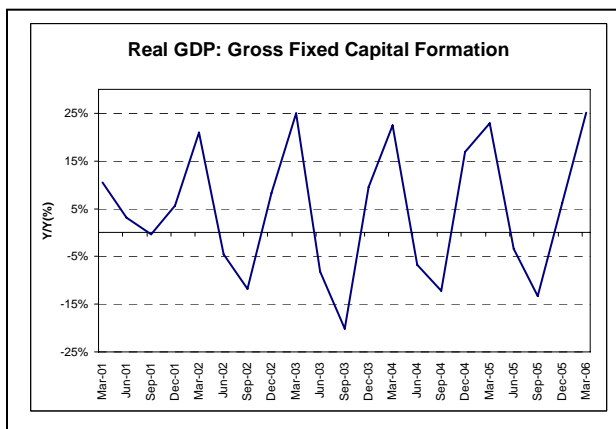
Household Consumption

Real Household Consumption growth remained unchanged at 0.6% Q/Q, and rose from 2.7% Y/Y to 3.1% Y/Y from Q4 to Q1.



Gross Fixed Consumption

Gross Fixed Capital Formation growth rose from 1.8% Q/Q and 7.5% Y/Y in Q4, to 3.6% Q/Q and 10.6% Y/Y in Q4.



Imports of Goods & Services

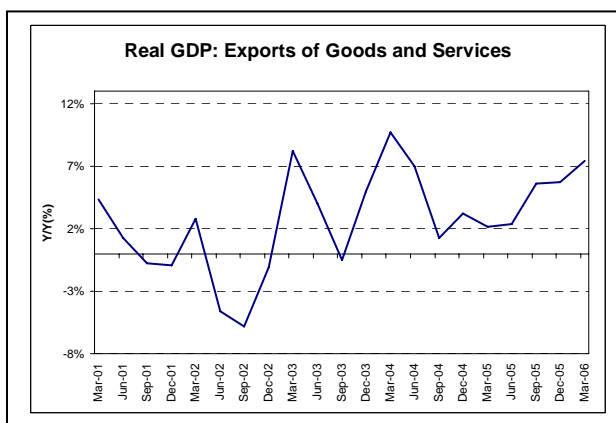
Imports of Goods and Services fell from 2.1% Q/Q in Q4 to -0.1% Q/Q in Q1, and rose from 7.1% Y/Y in Q4 to 7.6% Y/Y in Q1.



Exports of Goods & services, Swedbank PMI Survey & Trade Weighted Exchange Rate

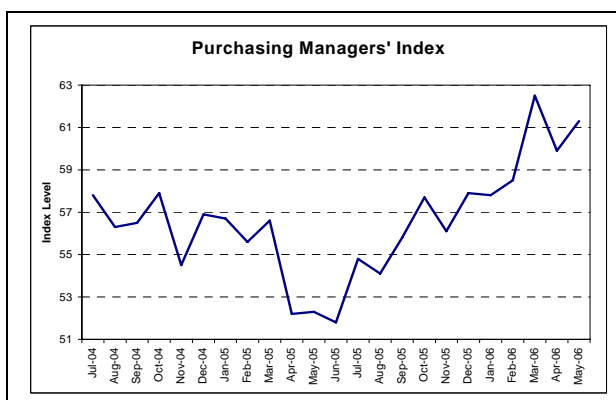
Exports of Goods & Services

Exports of Goods and Services rose from 1.6% Q/Q in Q4 to 2.1% Q/Q in Q1. Y/Y growth increased from 7.9% in Q4 to 11.0% in Q1.

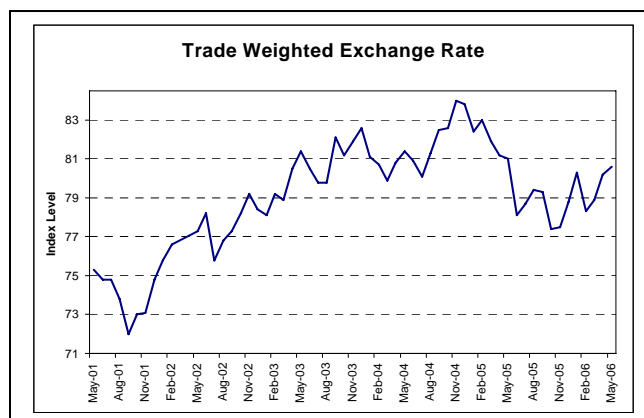


Swedbank PMI Survey

Sweden's Purchasing Managers' Index rose from 59.9 in April to 61.3 in May, as the production and employment components climbed. The Orders Index slipped from 62.8 to 62.4.



Trade Weighted Exchange Rate



News Releases & Upcoming Dates

News Releases

June 2nd – Government to Post A Deficit in 2006 - The National Financial Management Authority reported that Sweden's budget deficit may total SEK 700mln in 2006 due to one-time pension costs. However, the Authority expects to post surpluses of SEK 400 mln in 2007, SEK 5.9 bln in 2008 and SEK 27.5 bln in 2009.

June 1st – Riksbank to Raise Rates More Than Previously Expected - SEB Merchant Banking stated that the Riksbank is expected to raise its rates three more times this year (June, August, October) to a level of 2.75% -- modifying an earlier forecast of two increases. Chief Bond Strategist, Henrik Mitelman stated, "Although the inflation outlook remains benign, we doubt the Riksbank -- or markets -- will be able to tolerate the Swedish boom without moving rates higher."

May 31st – Interest Rate at 2.9% by Year-End, Survey Shows - A survey by Prospera Research AB showed that investors and executives expect the Riksbank to raise its benchmark rate to 2.9% by 2007 and to 5.3% in two years. The survey also showed that annual inflation will be 1.9% in one year and 2.1% in two years.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/08	Budget Balance – May	--	17.5B
06/09	Industrial Prod. s.a (M/M) / n.s.a. (Y/Y) – Apr	--	0.2% / 0.4%
06/09	Industrial Orders s.a. (M/M) / (Y/Y) – Apr	--	-5.2% / 9.7%
06/09	Activity Index Level – Apr	--	115.3
06/12	AMS Unemployment – May	--	4.6%

Valance Co., Inc.

Valance Economic Report: Switzerland

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June 7, 2006

Stronger economic growth in Switzerland was the highlight of this week's data. Real GDP expanded to its fastest annual pace in almost six years, led by export demand, and Consumer Prices accelerated above expectations. The PMI slowed for a second month in May. SNB Policy Maker, Phillip Hildebrand, commented on the Swiss economy and interest rates.

Weekly Highlights

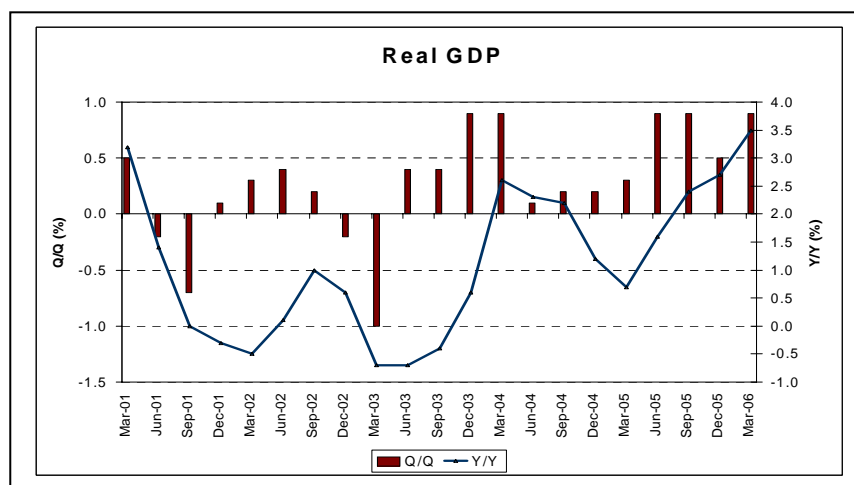
Real GDP - expanded from 0.7% Q/Q in Q4 to 0.9% Q/Q in Q1 and from 2.7% Y/Y in Q4 to 3.5% Y/Y in Q1. (page 49)

CPI – rose 0.2% M/M and 1.4 Y/Y in May. (page 51)

Core CPI – rose 0.1% M/M and 0.5% Y/Y in May. (page 51)

Weekly Releases & News

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

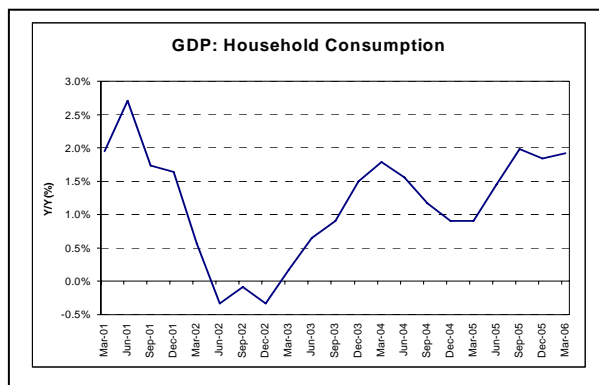


Switzerland's Real GDP expanded from 0.7% Q/Q in Q4 (revised up from 0.5%) to 0.9% Q/Q in Q1. Similarly, the Y/Y growth increased from 2.7% in Q4 to 3.5% in Q1. Growth continues to be led by export demand, but is broadening. See comments starting on page 52.

Household Consumption, Gross Fixed Capital & Total Imports & Exports

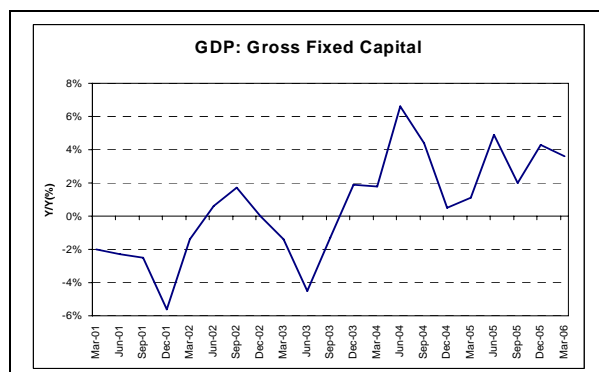
Household Consumption

Real Household Consumption growth increased from 0.1% Q/Q in Q4 to 0.6% Q/Q in Q1. Y/Y growth increased from 1.8% in Q4 to 2.0% in Q1.

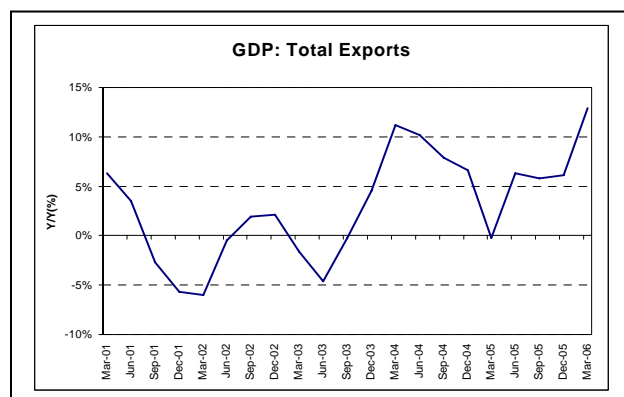
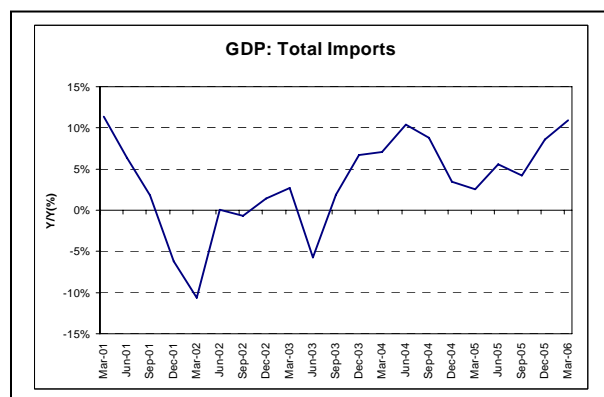


Gross Fixed Capital

Gross Fixed Capital growth increased from 0.3% Q/Q in Q4 to 0.7% Q/Q in Q1. Y/Y growth slowed from 4.3% Y/Y in Q4 to 3.6% Y/Y in Q1.



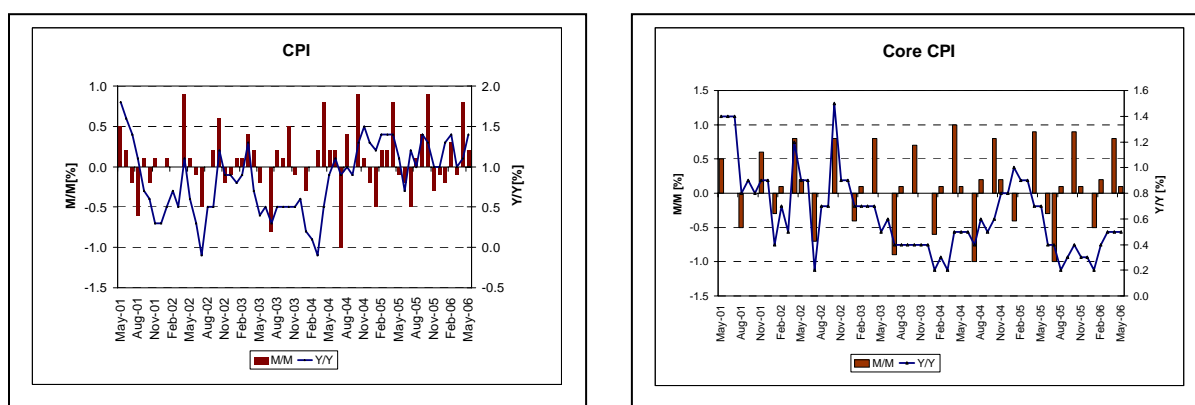
Total Imports & Exports



Total Imports slowed from 3.2% Q/Q in Q4 to 2.5% Q/Q in Q1. However, Y/Y growth rose from 8.6% Y/Y in Q4 to 10.9% Y/Y in Q1. Total Exports increased on a quarterly and yearly basis from 1.3% Q/Q and 6.1% Y/Y in Q4 to 4.3% Q/Q and 12.9% Y/Y in Q1.

CPI, SVME Purchasing Managers' Index & PMI Results

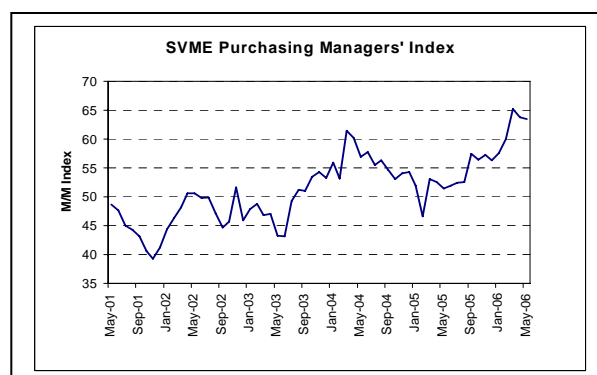
CPI



Swiss Consumer Prices rose by 0.2% M/M and 1.4 Y/Y in May, above expectations. The increase was driven by rising oil prices. Core CPI also increased in May, by 0.1% M/M and 0.5% Y/Y.

SVME Purchasing Managers' Index

Switzerland's Purchasing Managers' Index fell from 63.8 in April to 63.5 in May. As illustrated in the PMI table below, the index increased in six of its eight components. May's reading marked the second consecutive month of slowdown.

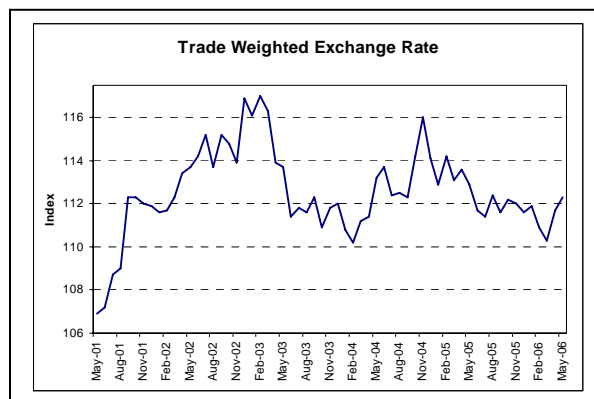


PMI Results

	May 2006	Apr 2006	Mar 2006	Feb 2006	Jan 2006	Dec 2005	Nov 2005	Oct 2005	Sep 2005
PMI s.a.	63.5	63.8	65.2	60.0	57.6	56.9	57.8	56.8	57.5
Output	67.0	64.0	68.0	63.7	59.1	63.1	62.0	55.0	60.2
Backlog of Orders	65.4	70.8	72.4	63.2	60.1	58.3	59.4	63.7	62.7
Quantity of Purchase	62.8	64.7	68.0	62.7	58.5	55.7	56.1	58.3	54.9
Purchase Prices	74.6	69.5	67.8	65.9	65.7	63.4	62.3	64.9	59.6
Suppliers Delivery Times	70.7	68.1	66.1	61.3	57.5	56.3	57.7	57.8	54.7
Stocks of Purchases	50.8	47.0	54.3	50.8	46.7	48.4	51.9	46.8	46.7
Stocks of Finished Goods	47.8	44.1	50.7	48.7	51.0	41.1	50.1	46.6	45.2
Employment	57.0	58.1	55.9	54.1	57.4	51.6	53.1	52.7	54.2
PMI NSA	64.3	65.0	66.7	61.3	58.8	51.6	56.2	57.3	59.6

Trade Weighted Exchange Rate & News Releases

Trade Weighted Exchange Rate



News Releases

June 7th – Economist, Thomas Herrmann of Credit Suisse Comments on Interest Rates:

“Inflation pressure remains low” in Switzerland. That's why the Swiss National Bank has little reason to act. We believe the SNB will continue in September with its gradual rate increases and then pause in an environment of weaker global growth.” The Swiss franc should stay “approximately at its current level” versus the euro because “we have a similar development at the European Central Bank and the SNB in terms of rate increases.”

June 6th – Economist, Klaus Papenbrock of Deutsche Bank AG Comments on Growth, Rates:

On Swiss economic growth: “It's very robust growth generally. We think the upward trend in the labor market will continue.”

On whether the SNB will raise rates faster: “To me the signs the SNB has sent don't signify a 50-basis-point increase. I personally see no reason for more than 25 basis points. Although growth is very robust at the moment we see no sign that inflation is out of hand. We see no reason for the SNB to react more strongly.”

News Releases (Cont'd.) & Upcoming Dates

June 6th – SNB Governing Board Member, Phillip Hildebrand Comments on Swiss Economy, Interest Rates:

“As a result of the last policy assessment on March 16, the SNB communicated an expected GDP growth rate of a good 2 percent, and an expected annual inflation rate of 1 percent. Since then many economic indicators, among them a clear increase in employment and a decline in the jobless rate, an increase in consumer confidence, a robust export dynamic, a strong PMI, a strong KOF economic barometer, and last but not least, today's quarterly GDP report, suggest real GDP growth could be higher this year,” than expected. “It's no surprise then that the OECD in its latest forecast for Switzerland expects growth of 2.4 percent this year. The average inflation rate for this year could also end up slightly above the 1 percent rate forecast in March because of rising apartment rents and higher crude oil prices. **The so-called output gap should by now have closed. As a result, the first capacity shortages are becoming visible. This is prompting producers to raise their capacities, which should lead to higher employment, higher equipment investment and at the least, a temporary increase in growth. At the same time, we expect inflationary pressure from the labor market to remain moderate. Because over a certain time-span it's clearly possible that our labor market, as it opens up to our European neighbors, will continue to ensure subdued wage pressures, even with” a falling jobless rate. “Nonetheless, we continue to regard our current monetary policy as too expansive and a further monetary policy normalization, amid ongoing positive economic developments, as necessary to ensure mid-term and long-term price stability.”**

On risks to growth: “In the last few months there have been developments which could have a tendency to slow the Swiss economy. Capital market rates and raw material prices have climbed and the U.S. dollar has clearly weakened. Moreover, it's possible that the latest increase in volatility, in stock markets as well as currency markets, and the linked increase in global risk premiums won't pass by the real economy unnoticed. Furthermore, it can't be ruled out that the U.S. economy could slow. **Because of these risks, and given the fact that the current inflation rate remains at a low level, a gradual normalization of the degree of monetary restriction seems reasonable.”**

On the need for ongoing structural reforms: “Switzerland is enjoying an economic upswing. But those who consider the data a little more carefully quickly discover that this acceleration has until now been carried above all by rapidly rising exports as a result of the booming global economy. It concerns me that amid this encouraging cyclical upswing the domestic reforms which were forged during the last economic downturn will again disappear in various political drawers.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/08	Unemployment Rate / sa – May	--	3.5% / 3.4%
06/14	Swiss National Bank Holds Mid-Year Monetary Policy Assessment		