

Valance Company, Inc.



Weekly

June 14, 2006

III

Highlights

US – Core Inflation to heat up (page 2)

EU – ECB hikes, data remains mixed (page 8)

JN – Q1 Real GDP revised higher on Capex data (page 16)

UK – Widening Inflation pressure appears likely to remain contained as annual Core CPI decelerated (page 27)

AU - Australian Employment soared by 56k – four times the forecast (page 42)

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Valance Economic Reports

Valance Co., Inc.

Valance Economic Report: United States

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June 14, 2006

This week's light economic data was highlighted by strong evidence of inflation and inflationary pressures in CPI, PPI, and import prices, and locks in at least a 25 bps hike in June. The Fed now faces the challenge of making sure the economy is weak enough to bring inflation back down to normal levels while facing accelerating core CPI on a three month annualized basis.

Weekly Highlights

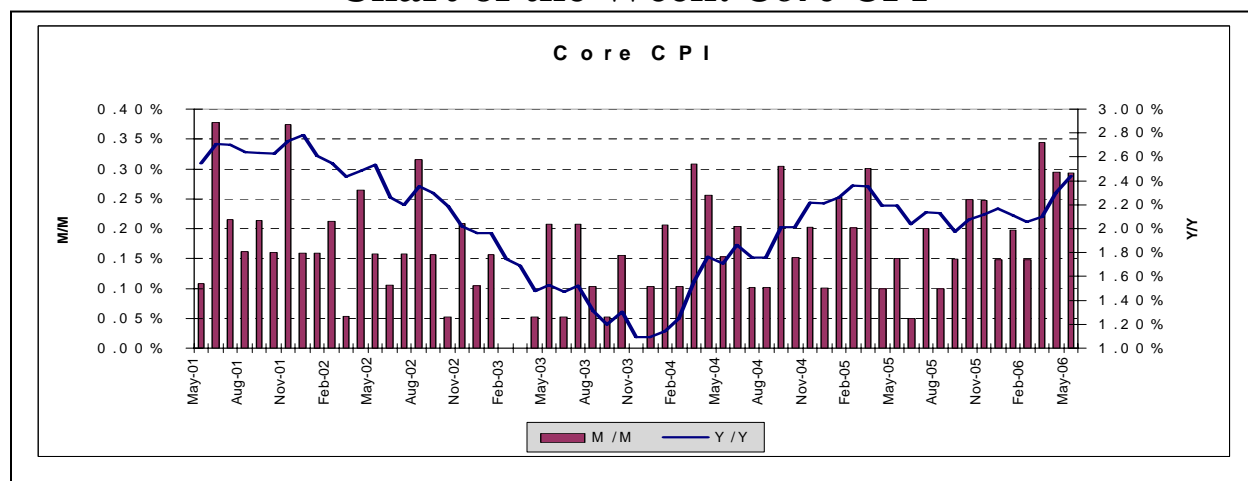
Core CPI- increased 0.3% M/M and 2.4% Y/Y in May. (page 2)

Core PPI- increased 0.3% M/M and 1.6% Y/Y in May. (page 4)

Retail Sales ex. Autos- increased 0.5% M/M and 9.1% Y/Y in May. (page 4)

Weekly Releases

Chart of the Week: *Core CPI*



Core CPI increased 0.293% M/M and 2.4% Y/Y in May; the annualized 3-month rate of growth is currently at 3.7%, up from 3.1% last month. This CPI reading guarantees at least a 25 bps hike in June and certainly increases the chance of hikes in August and September. Owner's equivalent rent, 30% of core CPI, was up 0.6% M/M and could continue to drive core CPI higher.

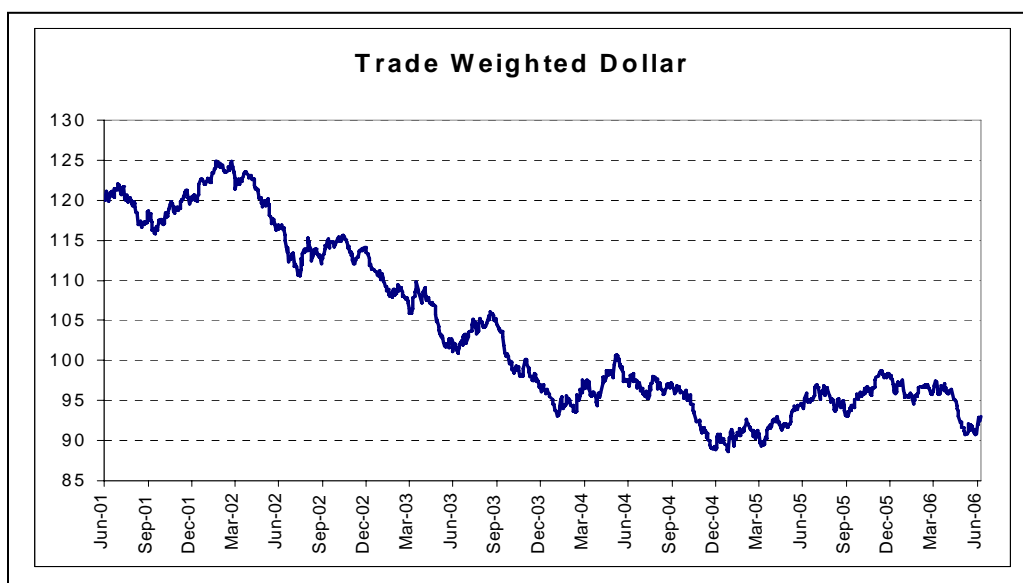
U.S. Financial Balances & Trade Weighted Dollar

Financial Balances

<i>U.S.</i>	<i>Latest period (\$blns)</i>	<i>Last 12mth. as a % of GDP</i>
Budget Balance	-42.8 (May)	-2.1%
Trade Balance	-63.4 (April)	-5.7%
Current Account Balance	-224.4 (Q4)	-6.2%
Private Balance	--	-4.1%

The budget deficit is currently at \$273 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 April 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.

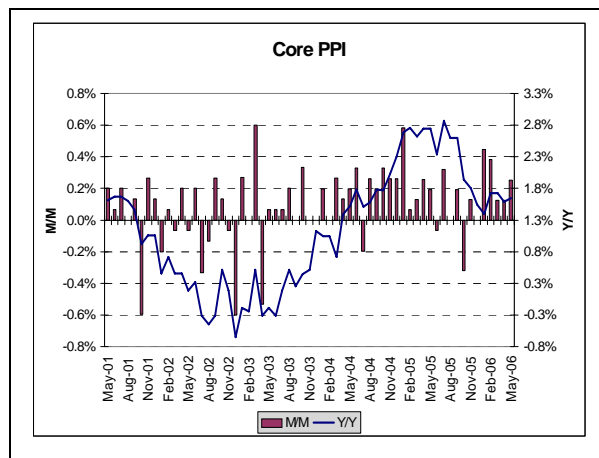
Trade Weighted Dollar



PPI, Import Prices & Retail Sales

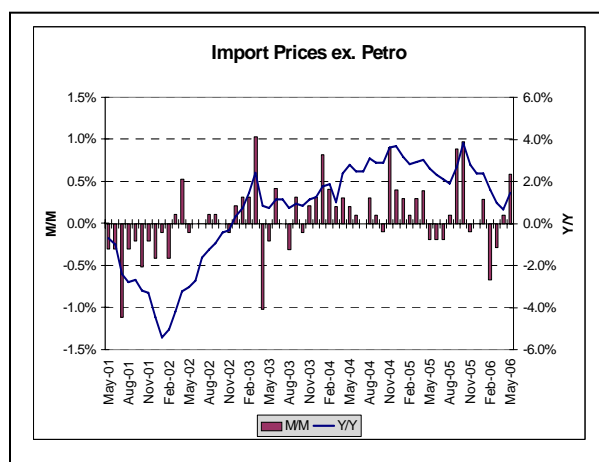
Core PPI

Core PPI increased 0.3% M/M and 1.6% Y/Y in May. Core intermediate goods increased 1.1% M/M and core crude goods were up 6.2% M/M. Early pipeline price pressures continue to build.



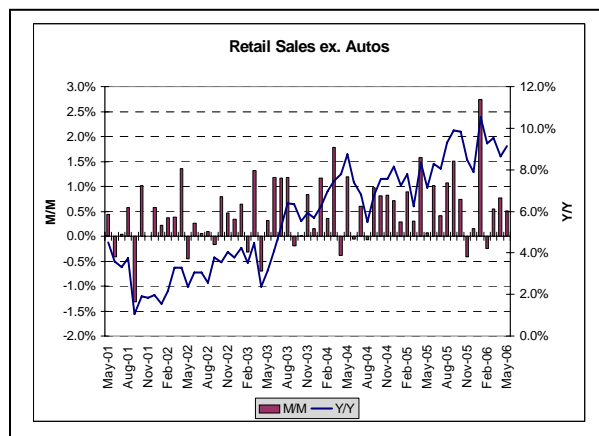
Import Prices ex. Petro

Import Prices, excluding petroleum, were up 0.6% M/M and increased 1.5% Y/Y in May. Excluding all fuel, Import Prices still gained 0.7% M/M and 1.4% Y/Y. We could be seeing the early signs of the impact of the weakening dollar.



Retail Sales ex. Autos

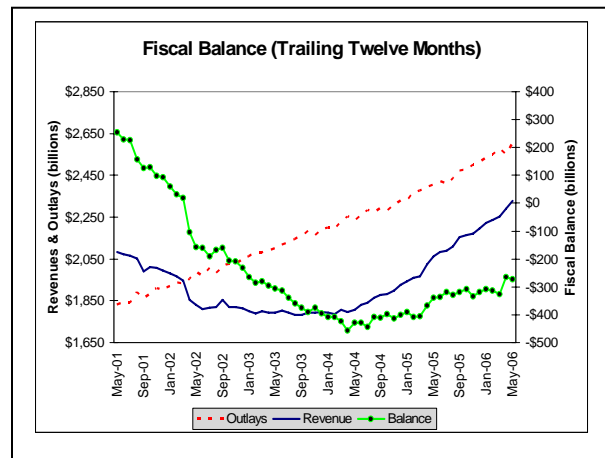
Retail Sales, excluding autos, increased 0.5% M/M and increased 9.1% Y/Y in May. Retail Sales, excluding both autos and gas, were up only 0.1% M/M, but excluding autos, gas, and building materials, were up 0.4% M/M. Real retail sales may prove quite weak in Q2.



Fiscal Balance, Trade Balance & Mort. Apps.

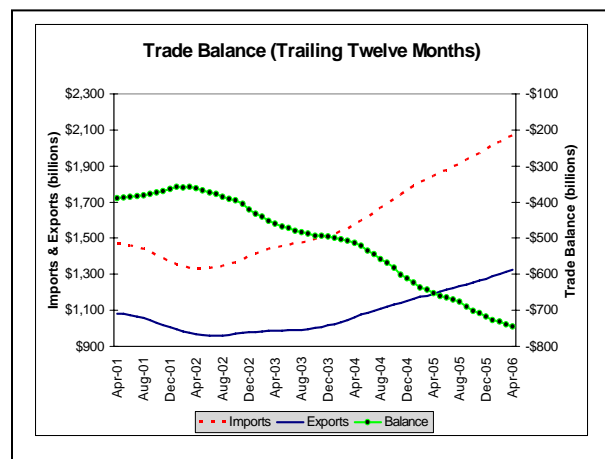
Fiscal Balance

The Fiscal Balance in May posted a deficit of \$42.8 bln versus a deficit of \$35.4 bln in May 2005. On a trailing twelve month basis, the deficit expanded from \$266 bln to \$273 bln. The budget deficit is now 2.1% of GDP on a trailing twelve month basis. Government revenues have increased 26% on a Y/Y basis.



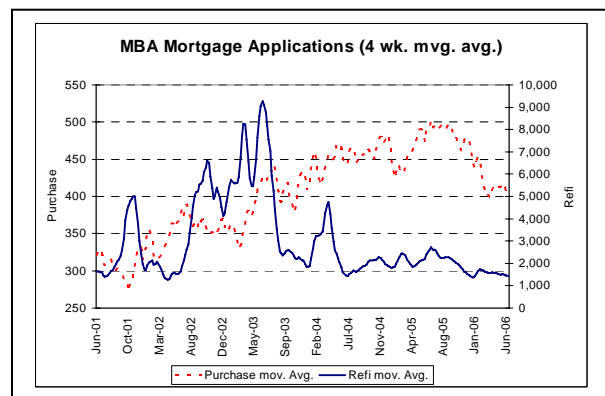
Trade Balance

The Trade Deficit widened from \$61.9 bln to \$63.4 bln in April. Imports increased 0.7% M/M and 10.3% Y/Y and exports dropped 0.2% M/M and increased 9.8% Y/Y. The trailing twelve month trade deficit is now \$745.8 bln or 5.7% of GDP. A surprising fall in oil imports drove the lower than expected deficit, suggesting the number may be revised or the following month shows a stronger rebound in imports.



MBA Mortgage Applications

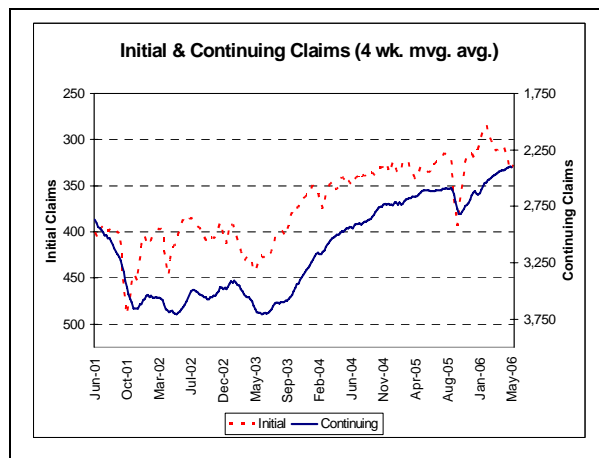
Purchase mortgage applications were up 4.8% W/W and refi applications were up 10.6% W/W this week. The four-week moving average of purchase applications is still down 18.0% Y/Y and was down 21.7% Y/Y just based on last week's reading.



Employment Claims & Confidence

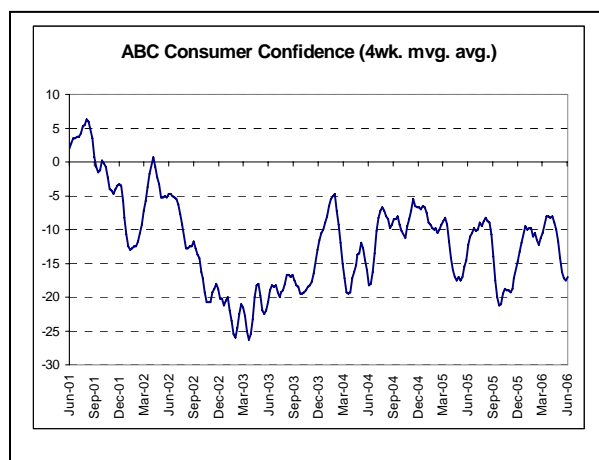
Initial & Continuing Claims

The four week moving average of initial claims decreased by 6k to 328k and continuing claims increased by 9k to 2,408k. Initial claims showed a significant decline to 302k last week, but the data may have been distorted by the Memorial Day weekend.



ABC Consumer Confidence

The ABC Consumer Confidence Index improved to -15 this week. The economy and buying components both improved, from -30 and -32 to -28 and -26, respectively. The finance component remained flat at 10. Consumer confidence appears to be recovering a bit after more than a month of weakness.



Fed Comments & Upcoming Dates

Pianalto- “Consumers have sustained their spending during the past several years, in part, by cashing out some of their home-equity dollars. This extra source of financing is likely to slow down in a softening housing market. Fortunately, though, I expect to see enough employment and income growth coming out of the labor market to keep consumer spending advancing at a moderate rate.”

“The so-called core rate - that is, the CPI excluding food and energy - hasn't risen as much: It rose slightly more than 2 percent during the past year. But the core CPI has increased at an annualized rate of more than 3 percent during the past three months. This inflation picture, if sustained, exceeds my comfort level. Fortunately, the public is, for the most part, looking at this disappointing inflation news as a transitory development. Measures of long-term inflation expectations have been mixed lately, but, on the whole, I regard them as remaining contained. The FOMC's challenge is to make sure that they stay contained.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/15	Initial Jobless Claims (JUN 10)	320K	302K
06/15	Continuing Claims (JUN 3)	2425K	2415K
06/15	Empire Manufacturing (JUN)	11.0	12.4
06/15	Industrial Production (MAY)	0.2%	0.8%
06/15	Capacity Utilization (MAY)	82.0%	81.9%
06/15	Philadelphia Fed (JUN)	11.0	14.4
06/16	Current Account Balance (Q1)	-\$222.0B	-\$224.9B
06/16	U. of Michigan Confidence (JUN)	79.0	79.1
06/19	NAHB Housing Market Index (JUN)	45	45
06/20	Housing Starts (MAY)	1870K	1849K
06/20	Building Permits (MAY)	1961K	1984K

Valance Co., Inc.

Valance Economic Report: Euro Zone

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June 14, 2006

The ECB increased rates from 2.50% to 2.75%, as expected, this week. ECB Governor Trichet also clearly stated that further hikes will likely be needed, but that an acceleration to the pace of tightening is unlikely. After a few weeks of strong data, indicators turned mixed this week as Euro Zone investor expectations continued to decline and current optimism fell for the first time in 7 months. April's Industrial Production was also weak in France and Italy. Strong IP data was posted in Germany and export data for both France and Germany was strong in April.

Weekly Highlights

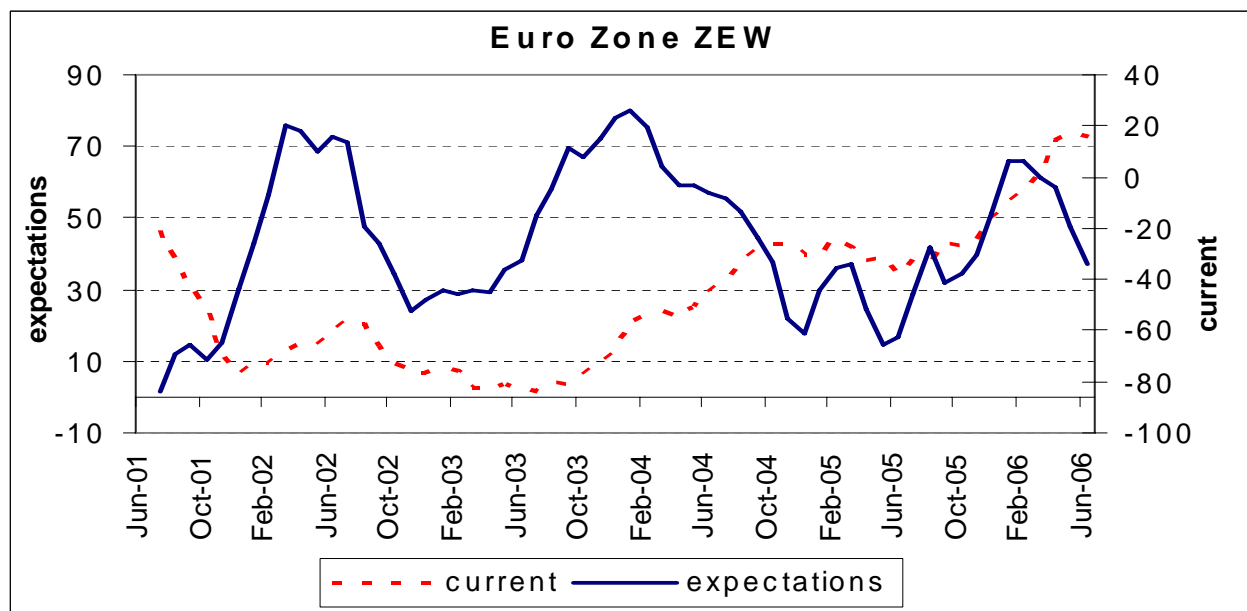
Euro Zone ZEW— optimism declined for the first month in seven in June. (page 7)

German Industrial Production— production rebounded strongly in April. (page 9)

French CPI— May prices accelerated more than expected. (page 8)

Weekly Releases & News

Chart of the Week: *Euro Zone ZEW*



Euro Zone Investor Expectations declined for the fifth consecutive month in June, falling from 47.7 in May to 37.3. Oil prices, higher borrowing costs and recent stock market volatility, are thought to be lowering growth and profit expectations. The Current Assessment Index also declined, contracting for the first time in seven months. The index fell from 18.3 to 15.5.

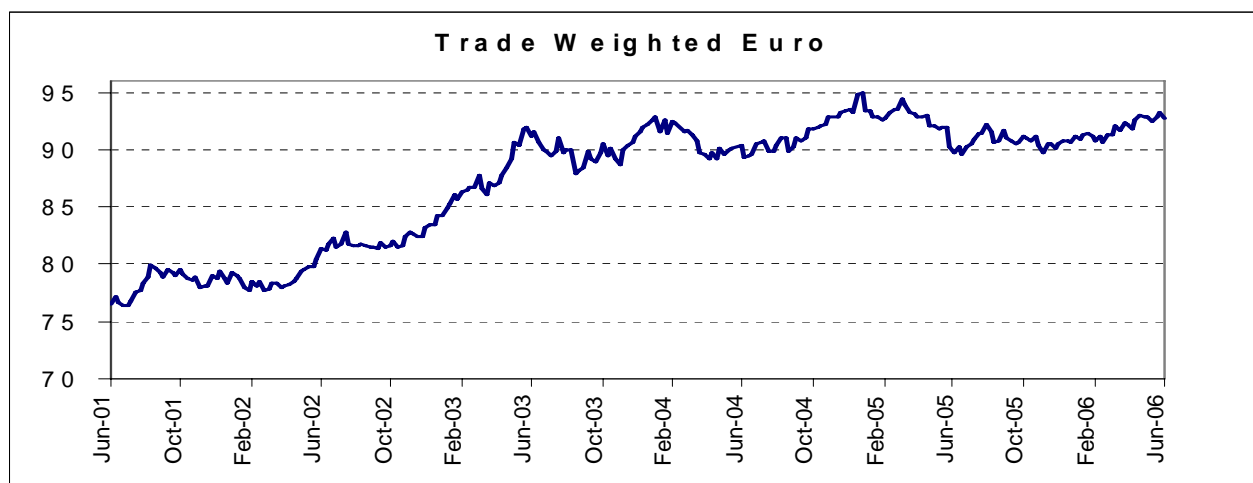
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Euro Zone Financial Balances & Trade Weighted Euro

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	11.2 (April)	7.1%
Current Account Balance	57 (April)	3.6%
Private Savings Balance	--	7.2%
<i>France</i>		
Budget Balance	-5.15 (May)	-3.4%
Trade Balance	-2.3(April)	-1.3%
Current Account Balance	-1.8 (May)	-1.0%
Private Savings Balance	--	3.7%
<i>Italy</i>		
Budget Balance	-3.4 (July)	-3.5%
Trade Balance	-2.0 (March)	-1.2%
Current Account Balance	-2.0 (March)	-1.5%
Private Savings Balance	--	3.8%

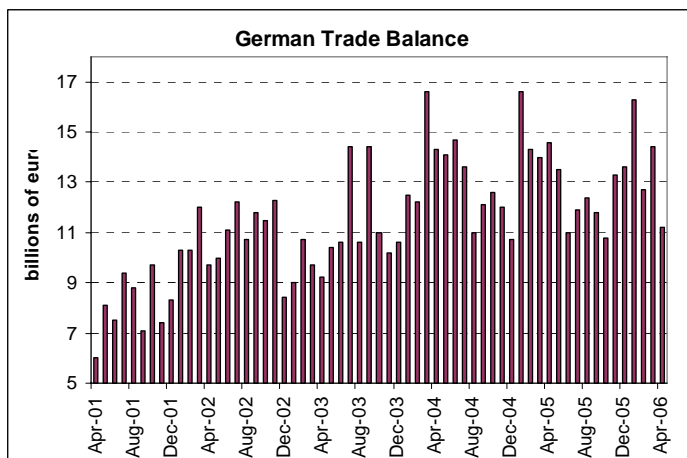
Trade Weighted Euro



German & French Trade

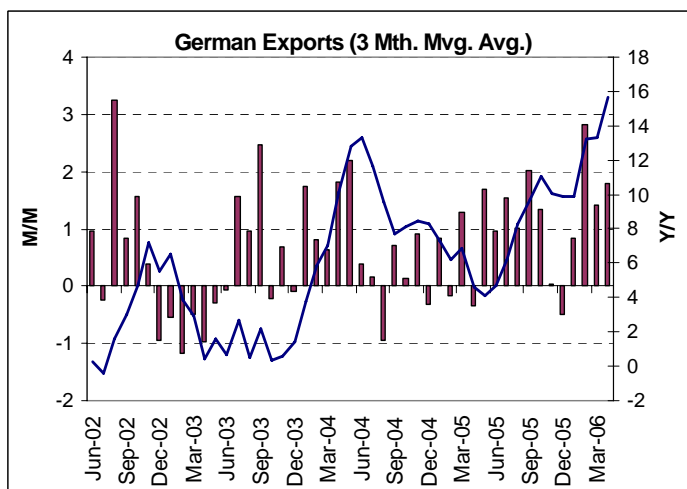
German Trade Balance

Germany's April Trade surplus narrowed from 14.4 bln euros in March to 11.2 bln.



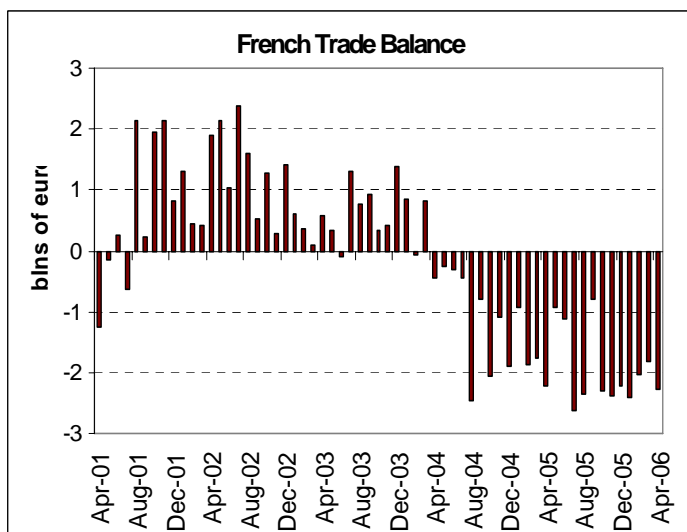
German Exports

German Exports rebounded in April after having contracted the month prior. Exports expanded 4.3% M/M and 17% Y/Y while Imports expanded 2.5% M/M and 22% Y/Y.



French Trade Balance

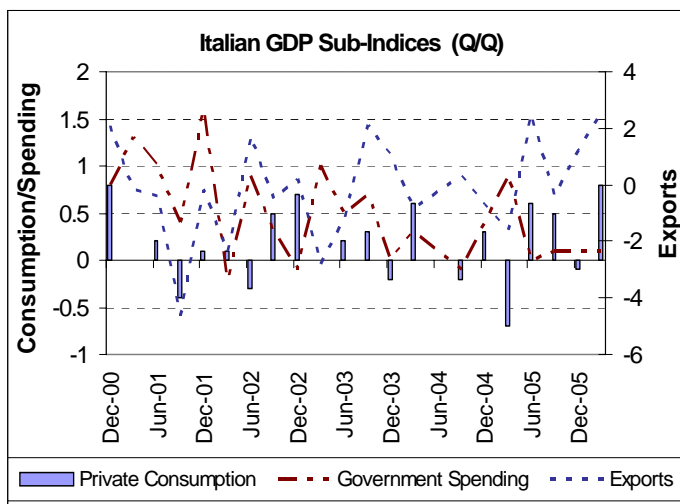
France's April Trade deficit widened from 1.8 bln euros in March to 2.3 bln as French consumers increased purchases of foreign vehicles and electronics. Exports increased 2.8% M/M and 12% Y/Y while Imports expanded 4% M/M and 11% Y/Y.



Italian GDP, German & French Industrial Production

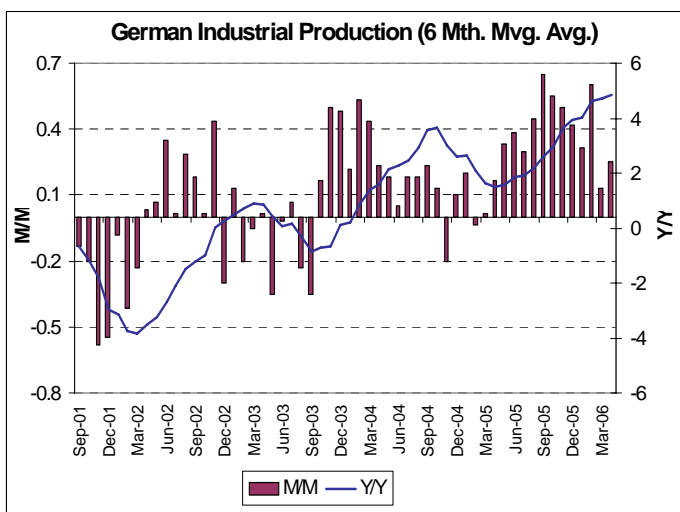
Italian GDP

The Italian economy expanded 0.6% Q/Q and 1.5% Y/Y in Q1. Private Consumption expanded a stronger than expected 0.8% Q/Q, Government Spending expanded 0.1% Q/Q, Exports grew 2.5% Q/Q, and Imports rose 1.6% Q/Q.



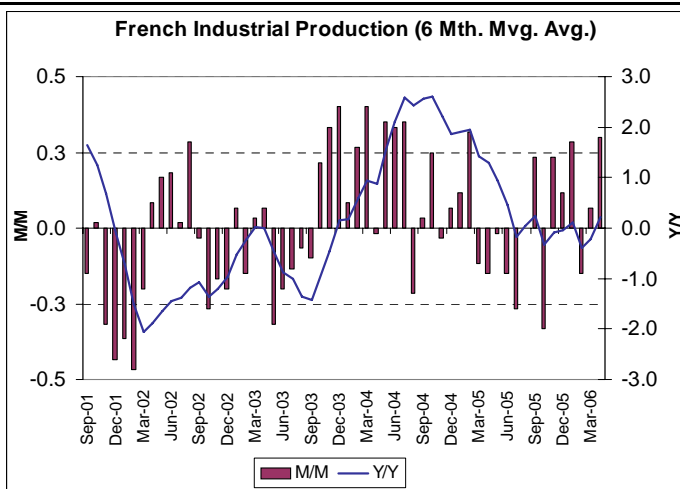
German Ind. Production

German Industrial Production expanded the most in 2 years in April, rising 1.6% M/M and 4.6% Y/Y. The Chief Economist of the VDMA Industry Association commented, "Orders are rolling in."



French Ind. Production

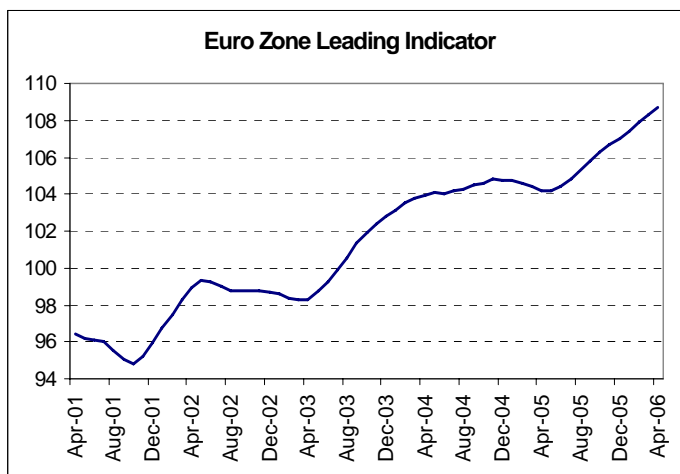
French Industrial Production unexpectedly contracted in April, declining 1.4% M/M and 0.3% Y/Y. Expectations were for a 0.2% M/M increase.



Euro Zone Lead. Indicator, German ZEW & Italian Ind. Pro.

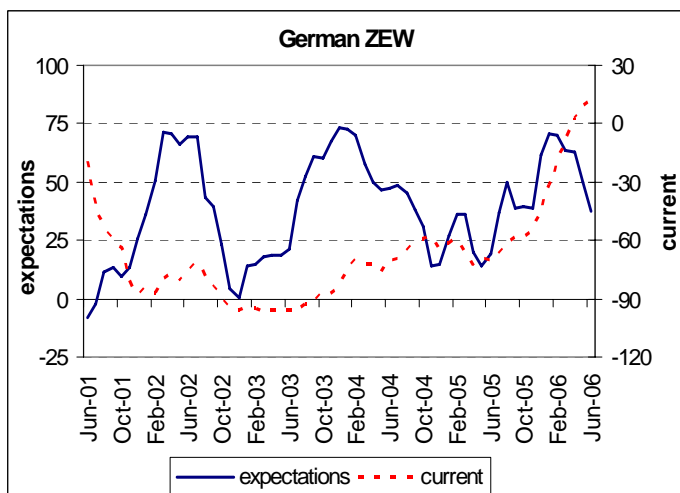
Euro Zone OECD Leading Indicator

The Euro Zone's OECD Leading Indicator increased from 108.8 in March to 109.3 in April.



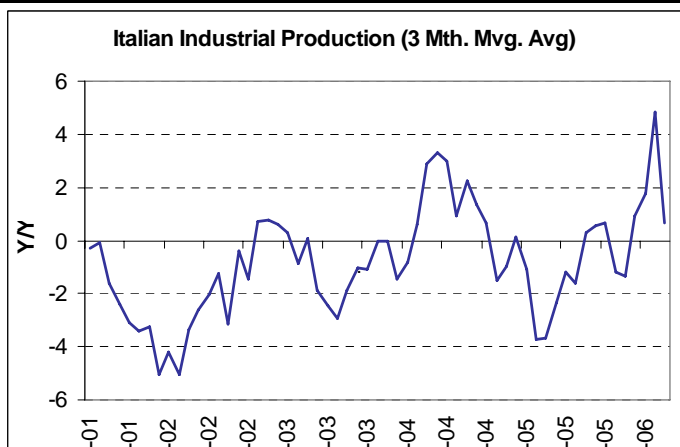
German ZEW

German Investor Expectations contracted for the fifth consecutive month in June, plummeting from 50.0 in May to 37.8. The Current Situation Assessment continued to increase however, rising from 8.7 in May to 11.9.



Italian Industrial Production

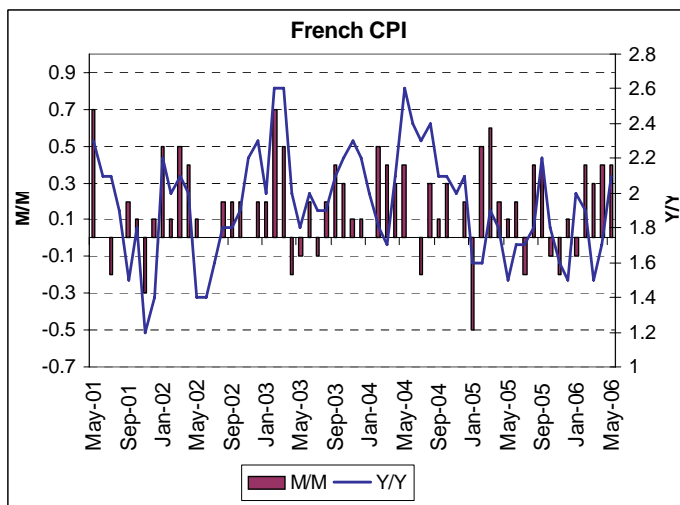
Italian Industrial Production unexpectedly contracted for the second consecutive month in April, declining 1% M/M and 2.6% Y/Y.



French CPI, Spanish CPI & Euro Zone Current Account

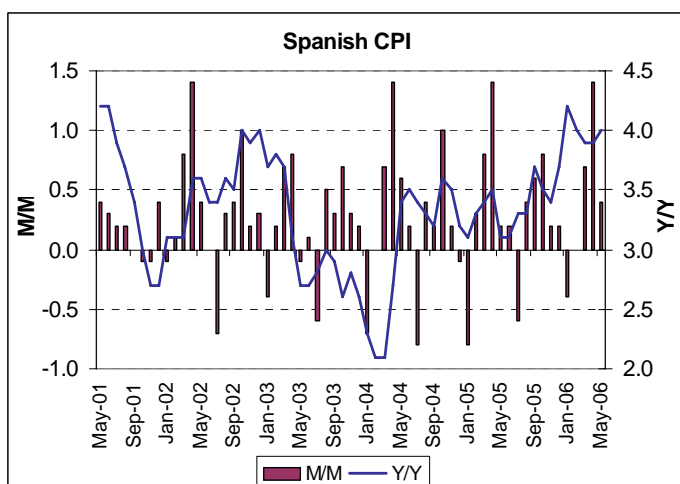
French CPI

French Inflation accelerated from 1.7% Y/Y in April to 2.1% Y/Y in May, as energy costs increased. Prices rose 0.4% M/M.



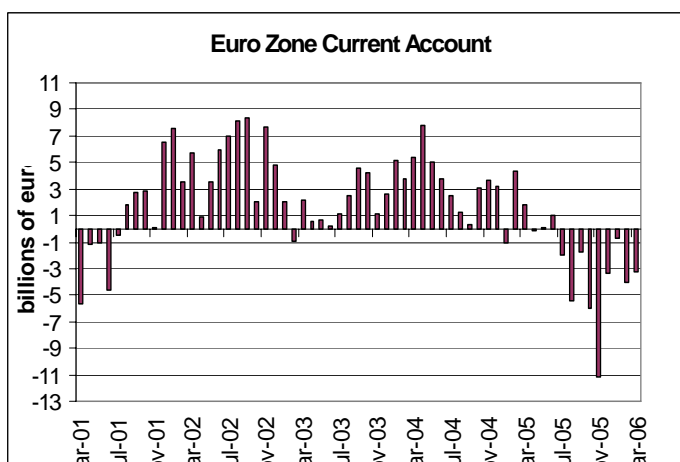
Spanish CPI

Spain's May Consumer Prices increased 0.4% M/M while accelerating from 3.9% Y/Y in April to 4.0% Y/Y.



Euro Zone Current Account

The Euro Zone's Q1 Current Account deficit narrowed slightly, from 12.3 bln euros in Q4 2005 to 11.4 bln euros. The deficit, as a % of GDP remained unchanged at 0.6%.



News

June 14th – **The EU statistics office stated that employment in the Euro Zone** rose 0.3% Q/Q in Q1 as economic activity increased. Employment rose 0.3% Q/Q in Q4 of 2005 as well.

June 14th – **Germany's Kiel Institute reiterated their 2.1% German growth forecast**, stating that neither the euro nor higher interest rates would dampen economic expansion. Growth was forecasted to slow to 1.2% in 2007.

June 14th – **France's new work contract which loosened the rules for the firing of employees** by small companies created a net 44,000 new jobs since August 2005. The economy added 440,000 new jobs in the time period with 10% being due to the contract changes.

June 13th – **The German Q3 Manpower Employment Outlook Survey** stated that German employment will increase 1% in Q3, after increases of 5% and -4% in Q2 and Q1 respectively. The French Q3 Manpower Employment Outlook Survey stated that French employment will increase 4% in Q3 after increases of 4% and 0% in Q2 and Q1 respectively.

June 13th – **ECB member Yves Mersch reiterated President Trichet's comments** on the bank rate, stating, "The level of interest rates is still on a historically low level, liquidity remains ample and monetary policy stays accommodative." Mersch also noted that though wage pressures would remain muted, oil prices could possibly have a "significant impact on inflation." Member Guy Quaden commented that, "If the risks for inflation persist, if the economic activity of the euro area remains close to or even above potential growth, we will continue to withdraw the monetary accommodation which is still included in our current rate."

June 13th – **The German Social Democratic party approved Finance Minister Peer Steinbrueck's corporate tax reform plans** which will lower corporate tax from 25% to between 12 and 16% by 2008. The plan will also keep the total corporate tax liability below 30% (currently 39%).

June 13th – **The French Government plans to increase government spending by 0.8%** in 2007, 1% less than the forecasted inflation rate. The "reduction" will be used to finance the tax cuts announced last September. Prime Minister Dominique de Villepin also plans to cut the number of civil servants by 15,000 resulting in a savings of 500-600 mln euros.

June 9th – **Germany's Halle Institute stated that due to soaring tax revenue** the German budget deficit will fall below 2% in 2007, for the first time since 2000. The deficit was forecasted to fall from 2.8% of GDP in 2006 to 1.9% in 2007. The institute also cited the extra revenues from 2007's VAT hike as a main contributor to the falling deficit.

Key Dates This Week

June 8th – **The ECB increased interest rates from 2.50% to 2.75% in their June meeting.** Trichet noted that “all the main indicators of economic activity that have recently become available are positive.” Trichet also noted that “Progressive withdrawal of monetary accommodation would be warranted” if the ECB’s forecasts for growth and inflation are confirmed.

The ECB also revised up the midpoint of their forecast for inflation in 2006 slightly from 2.2% to 2.3% and left the 2007 forecast unchanged at 2.2%. They kept the midpoint of their 2006 GDP forecast unchanged at 2.1% while decreasing the 2007 forecast from 2.0% to 1.8%. Trichet stated that the changes reflect mostly the impact of higher oil prices. the ECB once again stated "we will continue to monitor closely" all risks to price stability but refrained from expressing a need for “strong vigilance”.

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/15	Euro Zone New Car Registrations (MAY)	--	-7.3% Y/Y
06/15	French Non Farm Payrolls (Q1 F)	0.1% Q/Q	0.2% Q/Q
06/15	ECB publishes June monthly report		
06/15	Spanish Current Account (MAR)	--	-8.4 bln
06/15	Euro Zone CPI (MAY)	2.5% Y/Y	2.4% Y/Y
06/16	Euro Zone Labor Costs (Q1)	2.5% Y/Y	2.4% Y/Y
06/16	Euro Zone Industrial Production (APR)	0.4% M/M	0.4% M/M

Valance Co., Inc.

Valance Economic Report: Japan

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June 14, 2006

This week's data was largely upbeat. Q1 Real GDP was revised higher due to strength in Capex. Industrial Production and CGPI both improved as well. Although some data suggests softness in consumer confidence, business conditions and labor indicators appear solid. With the government recently upgrading its view on the economy, we continue to look for the BoJ to end its ZIRP later in Q3 2006.

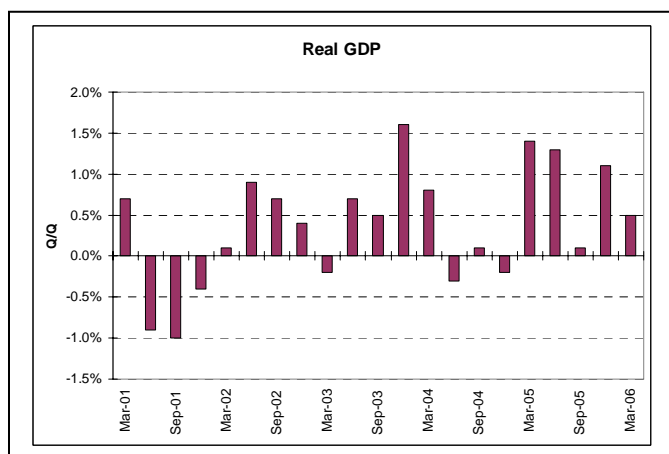
Weekly Highlights

Real GDP – revised higher from 0.5% Q/Q to 0.8% Q/Q in Q1. (page 16)

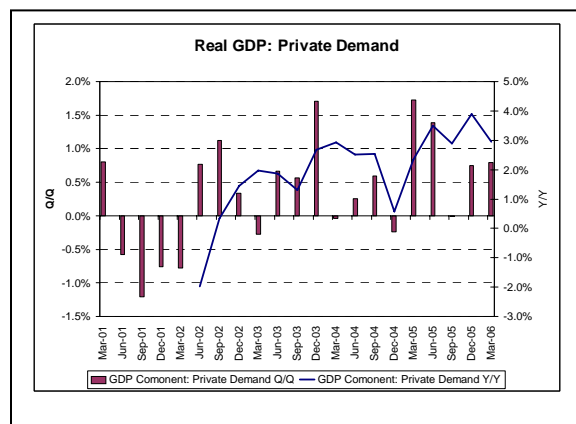
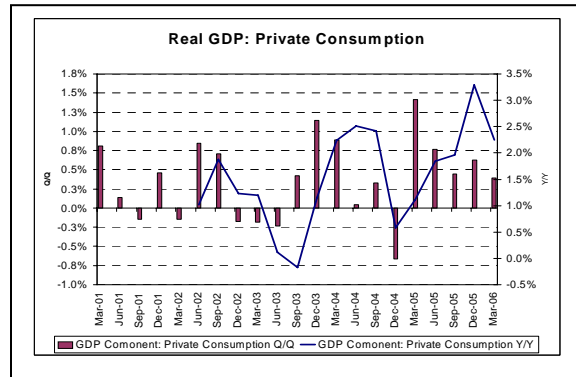
Industrial Production – increased 1.4 M/M and 3.6% Y/Y in April. (page 19)

CGPI – increased 0.7 M/M and 3.3% Y/Y in May. (page 20)

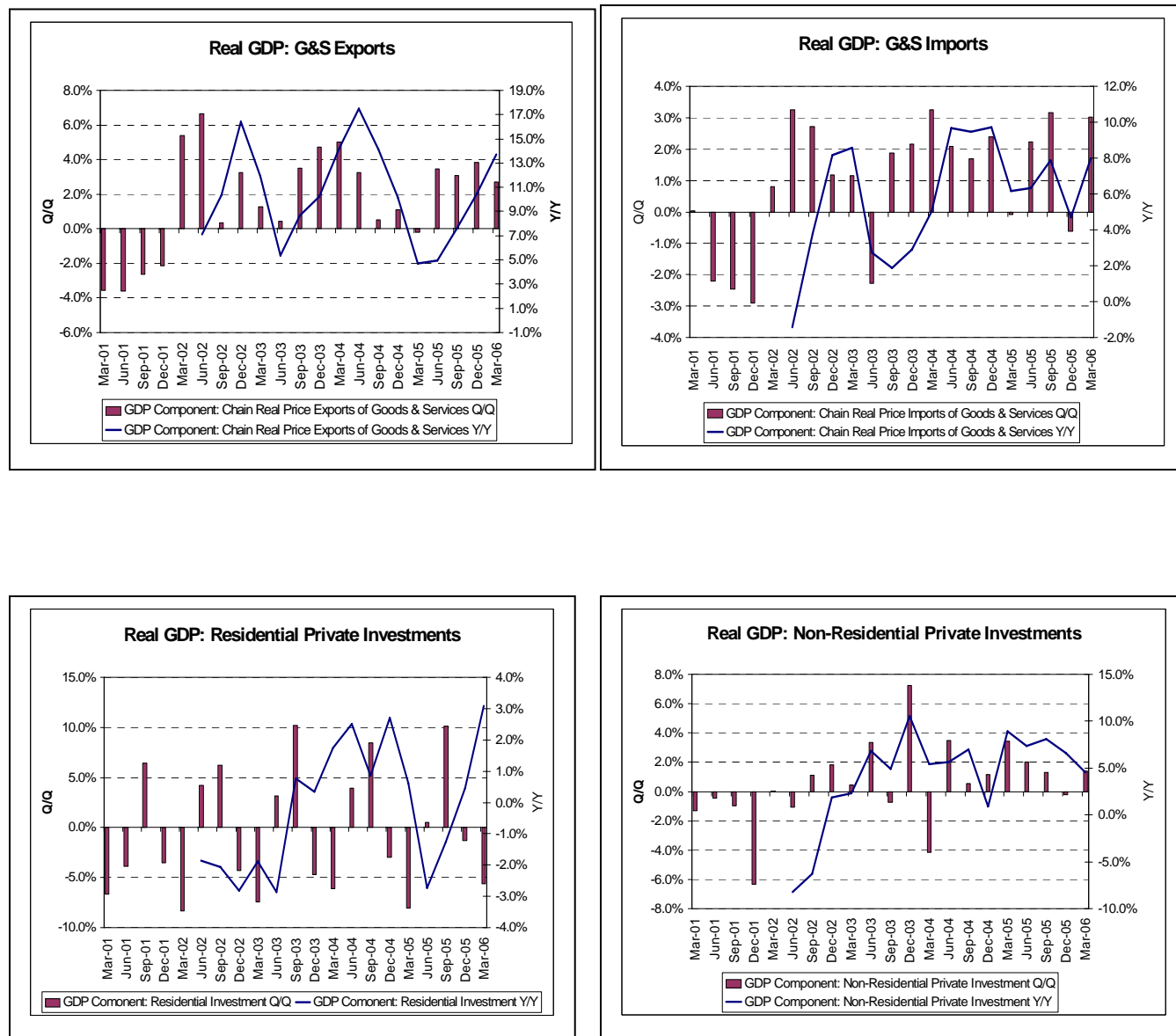
Chart(s) of the Week: Gross Domestic Product



Japan's Real GDP data for Q1 was revised higher, from a 0.5% Q/Q improvement to a 0.8% Q/Q improvement. The annualized rate increased from 1.9% to 3.1%. The GDP Deflator increased from -1.3% to -1.2% Y/, and the private demand deflator turned positive. The revision was largely expected and resulted from strength in Q1's capital expenditures. With continued strength in corporate spending driving the economy, we continue to look for a change in rates from the BoJ in late Q3.



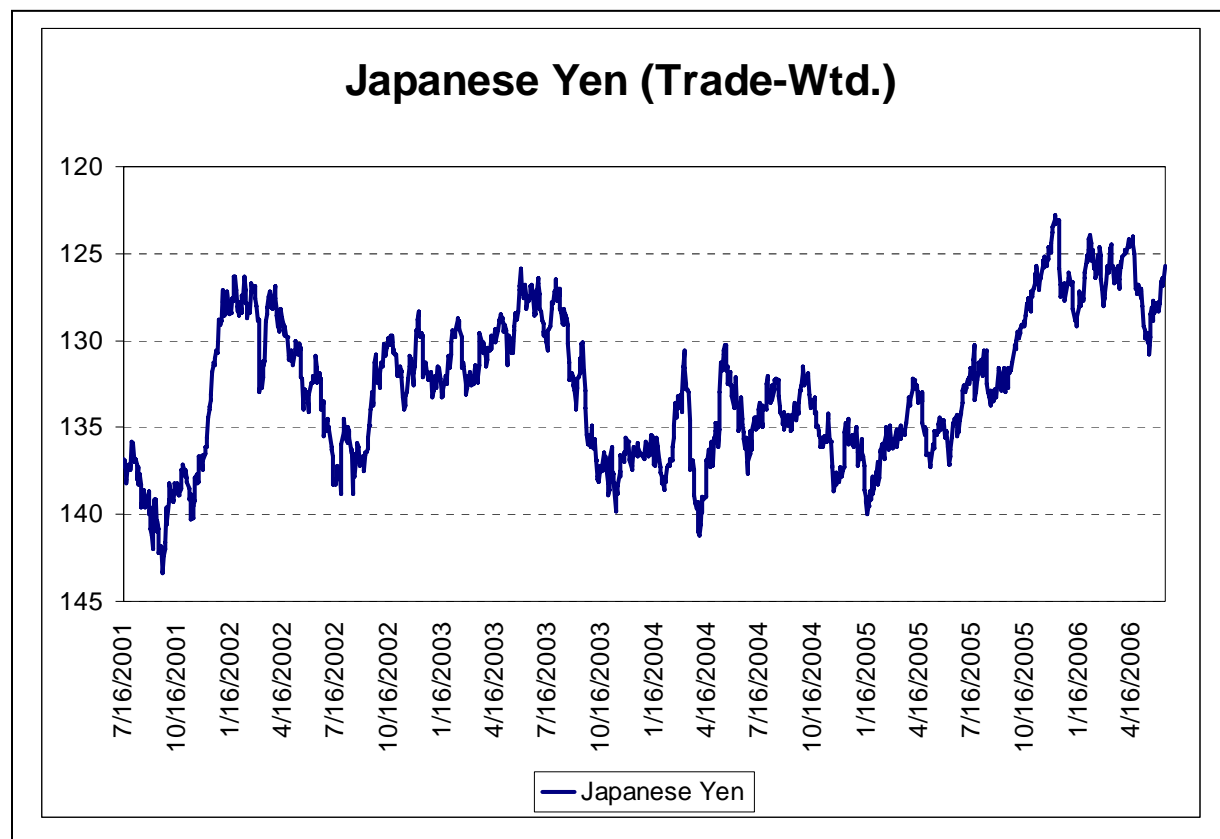
Gross Domestic Product



Japan's Financial Balances

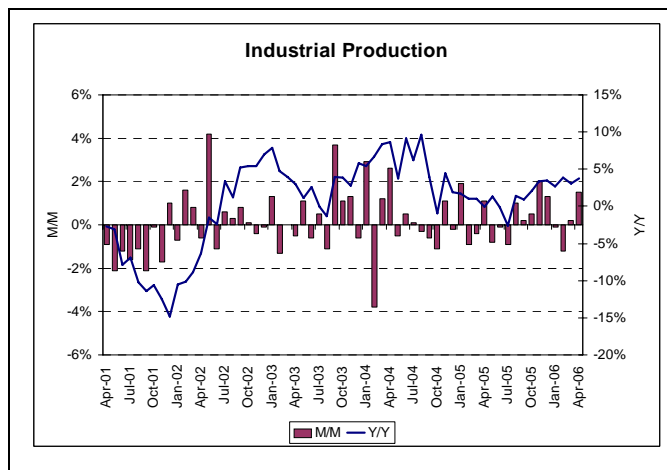
Financial Balances

<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%



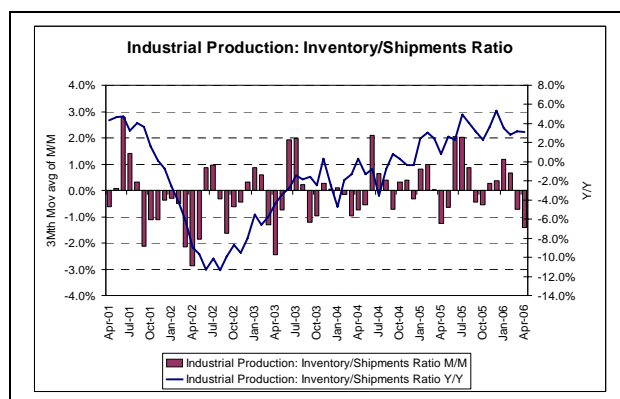
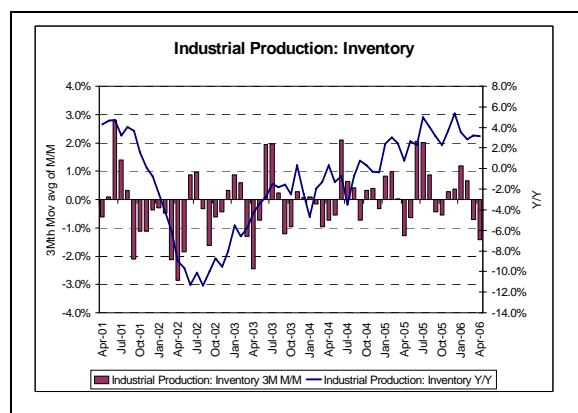
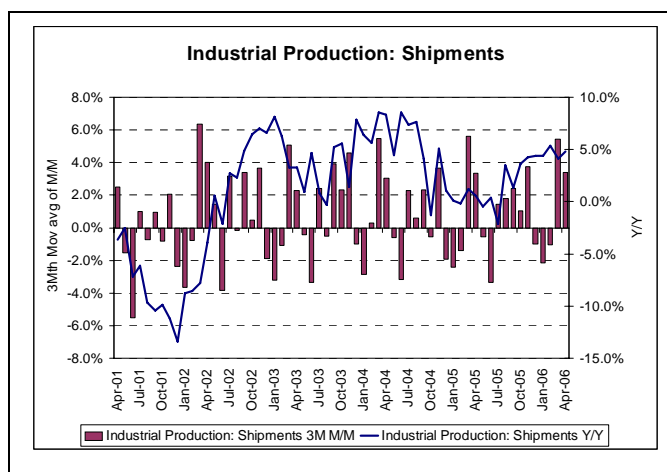
Industrial Production

Final data on Industrial Production in April indicated an increase of 1.4% M/M and 3.6% Y/Y, slightly below the previously estimated 1.5% M/M and 3.8% Y/Y increase. 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, as originally estimated. Inventories declined 0.2 % M/M and increased 3.0% 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 June, which is improved from the 0.5% M/M decline forecasted for May last

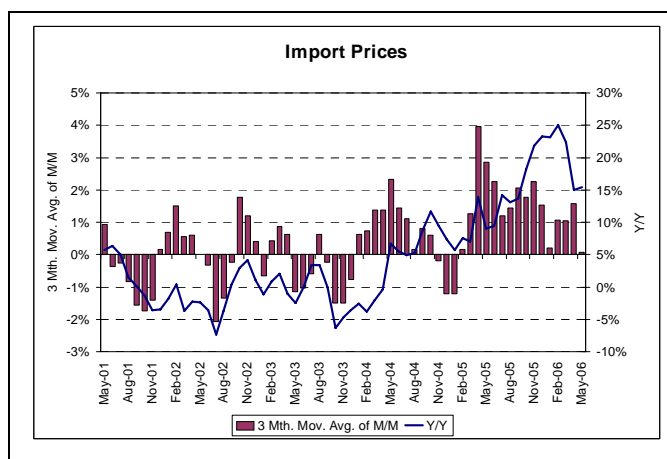
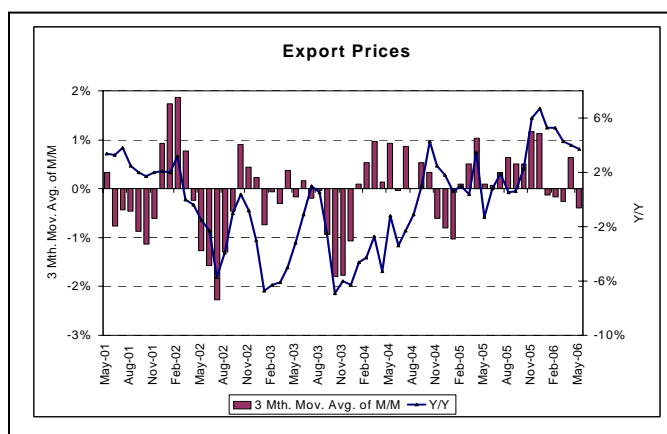
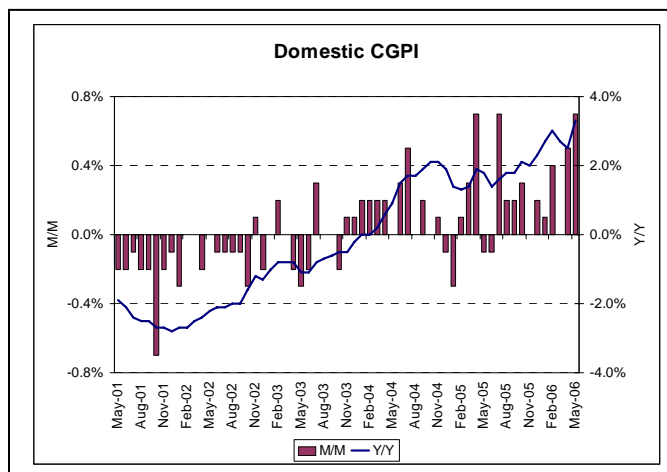


CGPI, Export & Import Prices

Japan's CGPI Index increased 0.7% M/M and 3.3% Y/Y in May, above market expectations for a 0.2% M/M and 2.8% Y/Y increase. The increase in Y/Y prices has largely been driven by increases in prices in the manufacturing and, scrap/waste sectors due largely to increases in fuel prices. The Y/Y increase was the largest in over 25 years.

Export prices declined 1.6% M/M and increased 3.7% Y/Y in May. The Y/Y increase in export prices was largely driven by the metal industry.

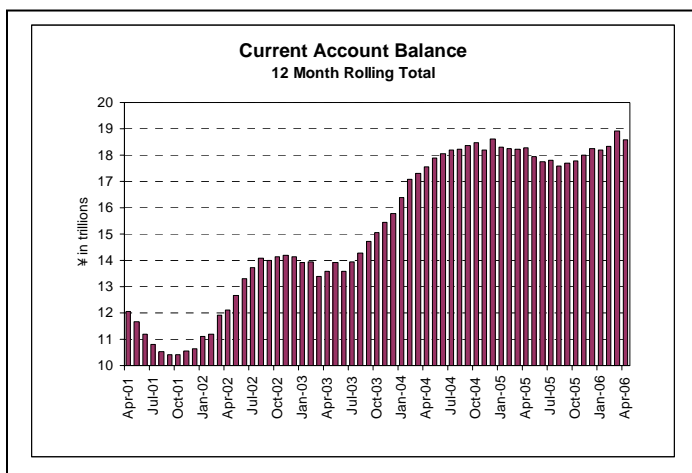
Import prices declined 0.2% M/M and increased 15.4% Y/Y. The Y/Y increase was driven by the energy, metal, and wood/lumber industries.



Current Account, Machine Orders & Machine Tool Orders

Current Account Surplus

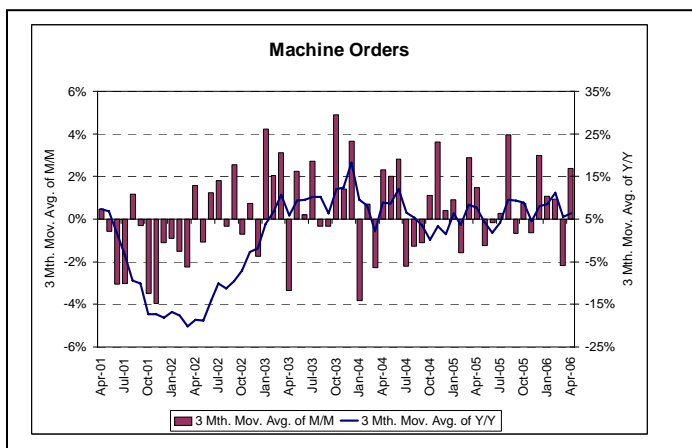
The adjusted Current Account Balance declined from ¥1690.7 bln in April to ¥1136.0 bln in May. The Trade Balance on a Balance of Payments Basis, declined from ¥1108.6 bln to ¥755.6 bln. Exports declined 1.2% M/M and increased 11.4% Y/Y. Imports increased 4.4% M/M and 23.2% Y/Y.



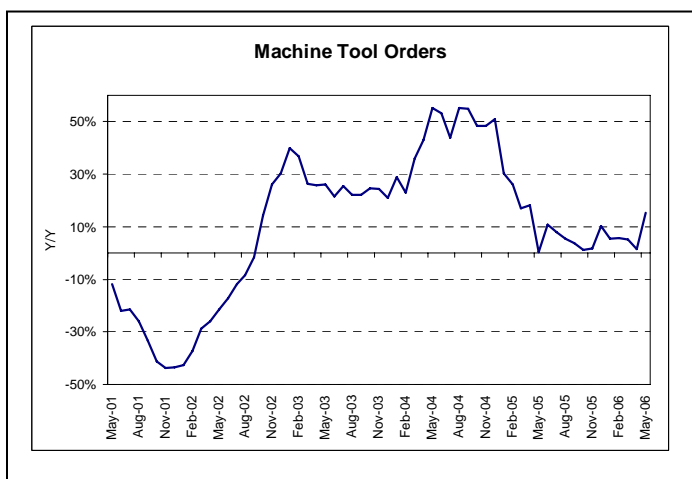
Machine Orders & Machine Tool Orders

Core Machine Orders increased 10.8% M/M and 12.2% Y/Y in April, well ahead of market expectations for a 3.5% M/M and 4.4% Y/Y increase.

The Y/Y increase was the fastest in nearly three years, and resulted from a rebound in non-government orders



Machinery Tool Orders increased 15.3% Y/Y in May, due to continuing strength in foreign demand.

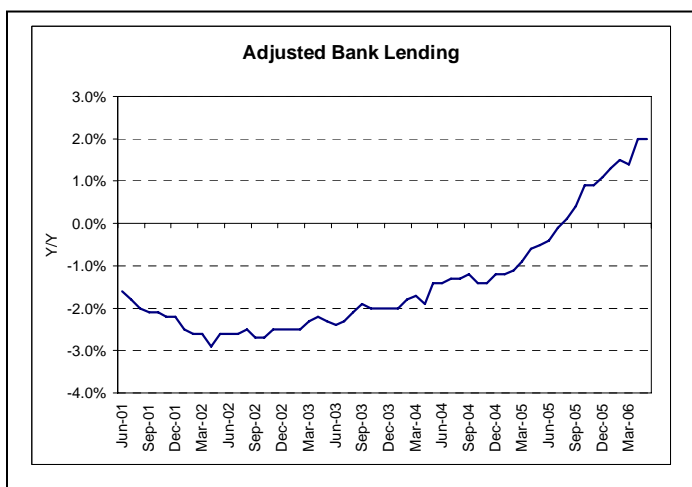


Bank Lending, Bankruptcies & Eco Watchers Survey

Bank Lending

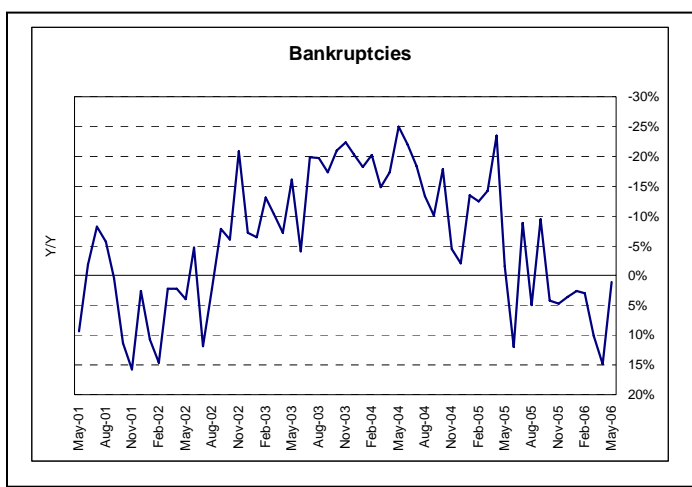
Bank Lending increased 1.2% Y/Y in May, slightly below the 1.3% Y/Y increase economists expected. The amount of loans outstanding increased 2.0% Y/Y in May.

The increase in lending comes as banks continue to respond to rising demand for loans.



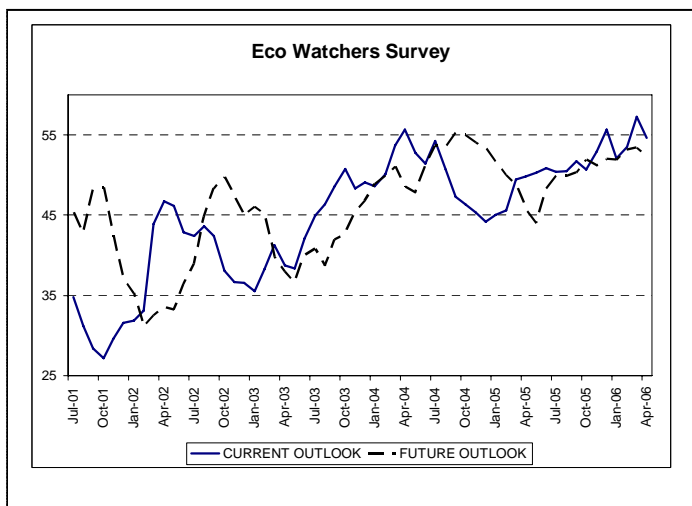
Bankruptcies

Corporate Bankruptcies declined 0.4% M/M and increased 1.0% Y/Y in May as the finance/insurance sector and real estate sector increased, while primary industry declined.



Eco Watchers Survey

In May, the Eco Watchers Survey's Current Conditions Index declined from 54.6 to 51.5, below market expectations for 55.0. The Outlook Index declined from 55.0 to 53.8 in May. Within the survey, the Employment Conditions Index declined from 64.4 to 59.6 while the Employment Outlook declined from 59.1 to 58.4. The Business Conditions Index declined from 54.7 to 50.6 while the Business Conditions Outlook declined from 53.5 to 52.0.

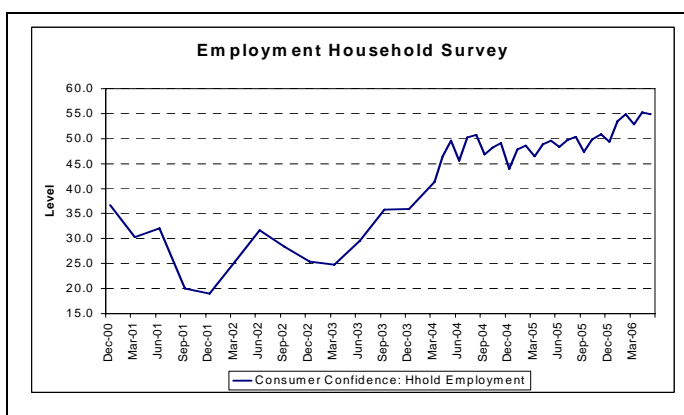
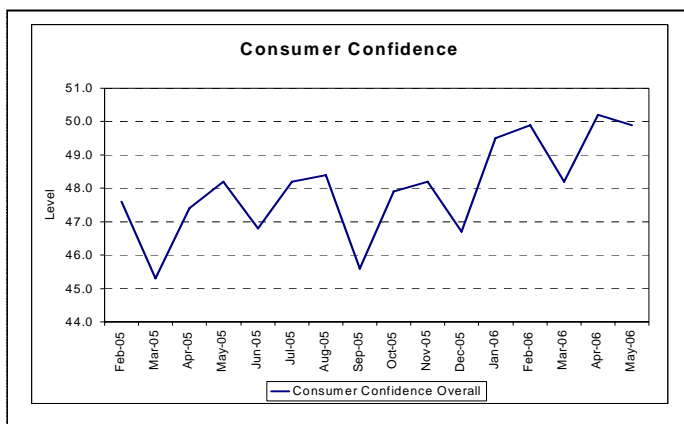


Consumer Confidence & Tokyo Condominium Sales

Consumer Sentiment

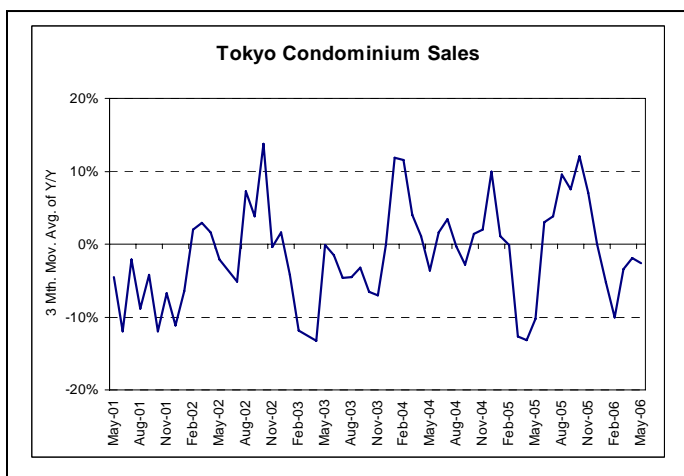
In May, Consumer Confidence fell from 50.2 to 49.9. The employment component of the index increased from 56.7 to 57.0. The willingness to buy durable goods declined from 53.4 to 52.6. Income growth increased from 44.5 to 46.2.

The decline in headline confidence was widely attributed to concerns that wages may not rise as quickly as prices.



Tokyo Condominium Sales

The number of Tokyo Condominiums for sale declined 18.6% Y/Y in May. At the same time, the number of condominiums sold declined 24.5% Y/Y. The average unit price declined 3.8% Y/Y and the average price per square meter declined 2.0% Y/Y.



News

News

June 14th - In its June Report, the government upgraded its assessment on deflation for the first time in three months, while maintaining its view on the overall economy for the fourth consecutive month. In describing consumer price movements, the report stated that although Japan "remains in a deflationary phase of continuous price decline, improvements are seen." This is an upgrade from its prior statement that "although improvements are seen, it is in a mild deflation."

June 14th - Finance Minister Tanigaki commented that he sees no legal problems with BoJ's Gov. Fukui's investment into the fund ran by Murakami, who was arrested on insider trading charges. He stated that "Based on the facts that I've learned so far, I don't think there are any problems such as law violations."

June 13th - BoJ's Gov. Fukui told the upper house fiscal and financial affairs committee that he contributed ¥10 mln to the Murakami fund when it was established in 1999. Yoshiaki Muakami, the fund's creator, established the fund in 1999 and was recently arrested on suspected insider trading activities.

Fukui stated that he never cashed in his shares in the fund, and that he paid all the requisite taxes when he filed his tax returns every year. He also stated that when Murakami launched the fund in 1999, "He asked me to provide all manner of advice...I advised him from time to time on the condition that I would not do so on specific investment activities, and I never received compensation for it." Fukui added that he quit his advisory job when he assumed his current post.

June 13th - According to an article in the Nikkei, the balance of current account deposits held at the BoJ is expected to decline to ¥9.6 trln over the coming days, its lowest level since December 2001. It was noted that the weighted average of unsecured overnight call rates remains stable at around 0.03%, but that if this rate started to increase rapidly, the BoJ may begin to inject funds through open market operations.

June 13th - Economic and fiscal policy minister Kaoru Yosano commented that Japan may be out of deflation, stating that: "Although we say verbally we are in a situation in which prices continue to fall, very few people in business circles say such a thing....I believe a gap is growing between the government description and the reality in business circles."

News

News

June 12th - Economic and fiscal policy minister Yosano commented on lower global stock prices, stating that, "There are few data that suggest the Japanese economy will deteriorate....rather, a common view is that a prolonged good condition will last for some time."

June 12th - A recent article in the Nikkei highlighted possible discrepancies between economic data being reported by the government and reality. An example of this was consumer spending, where the monthly household survey conducted by the MIC, indicated consumption fell 1.6% Y/Y in April. In contrast, nationwide retail sales saw a significantly smaller 0.6% Y/Y decline, according to METI. They noted that Q1's numbers showed a larger gap as household spending declined 1.8% Y/Y while retail sales increased 0.6% Y/Y. The article noted that the Cabinet Office sees consumer spending as growing gradually. If this is accurate, the article noted that the household survey does not reflect the true conditions of consumer spending. The article suggested that the situation could be explained by older respondents being surveyed in the household survey, who may be spending less and pushing down the overall spending data. It was also suggested that fewer Japanese families are willing to cooperate, allowing the data to further diverge from reality.

June 12th - IMF Asia-Pacific Region Director Ariyoshi commented that, "For all practical purposes, given that for most price indices the numbers are showing year on year positive numbers, deflation is over." He noted that the recent decline in their stock market was part of a "global correction" to asset prices, and added that "Asia's emerging economies are fundamentally strong."

June 12th - MoF's Official, Chikahisa Sumi, commented that Japan's Finance Ministry isn't "too worried" about higher interest rates and noted that an increase in bond yields will probably only have a small effect on the nation's debt management policy. "Higher interest rates, if associated with higher economic growth, isn't entirely bad news for us," he commented.

News & Upcoming Dates

News

June 9th – BoJ's Deputy Gov. Iwata commented on the recent declines in stock prices affecting the timing of a change in policy, noting that, "there are no changes in the economic fundamentals of major countries, for example, in the finances of the corporate sector...It is basically a process of adjustment in investors' positions. Before long, they will regain their equilibrium and stability." He also commented that, "There are no major changes in economic fundamentals" and that "we will gradually adjust interest rates as the overall economy returns to normal. The process will not change."

June 8th - Finance Minister Tanigaki commented on the recent decline in Japanese share prices, stating that they "(don't) mean the economy is in bad shape...People in the markets say there's little sense of direction (in financial markets) now, and that's probably why (the equity market) is prone to react sharply when something happens."

June 8th - According to data released by Impress Holdings Inc., the percentage of Japanese households with broadband internet connections increased 5.2% Y/Y to 41.4% in February, rising above 40% for the first time. The overall population of net users, including those with slower connections, increased 5.1% Y/Y according to the report.

June 8th - According to the May Diffusion Index on employment conditions, the shortage of labor remained at a 13 year high in May. The survey also found that businesses are expanding their hiring programs and that a large ratio of respondents plan to take on more college, high school, and other graduates next spring than they did this time around, increasing for the third consecutive year.

June 8th – BoJ's Deputy Gov. Iwata commented on reducing excess reserves prior to raising rates, stating that, "When ending quantitative easing, we said that we will lower the account balance to the required level over a few months...the reduction of the current balance is in line with our operations and we are definitely not accelerating the pace of reduction to rush an interest rate increase." Iwata was also upbeat on the economy, commenting that Japan is now "in the process of normalizing from deflation."

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/15	Leading Economic Index (Apr)	54.5%	50.0%
06/19	Tokyo Dept. Store Sales (May Y/Y)	N/A	-0.5%
06/19	Nationwide (May Y/Y)	N/A	-0.6%
06/20	BoJ Monetary Policy Meeting Minutes	N/A	N/A
06/20	Convenience Store Sales (May Y/Y)	N/A	-4.9%
06/20	BSI Large Manufacturing (Q2 Q/Q)	N/A	3.1
06/20	BSI All Industry (Q2 Q/Q)	N/A	6.1

Valance Co., Inc.

Valance Economic Report: *United Kingdom*

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June 14, 2006

This week's data showed that even though Headline CPI growth accelerated, widening inflation pressure appears likely to remain contained as Core CPI and Average Earnings growth both decelerated and employment data was weak.

Weekly Highlights

CPI- increased 0.5% M/M and 2.2% Y/Y in May. (page 27)

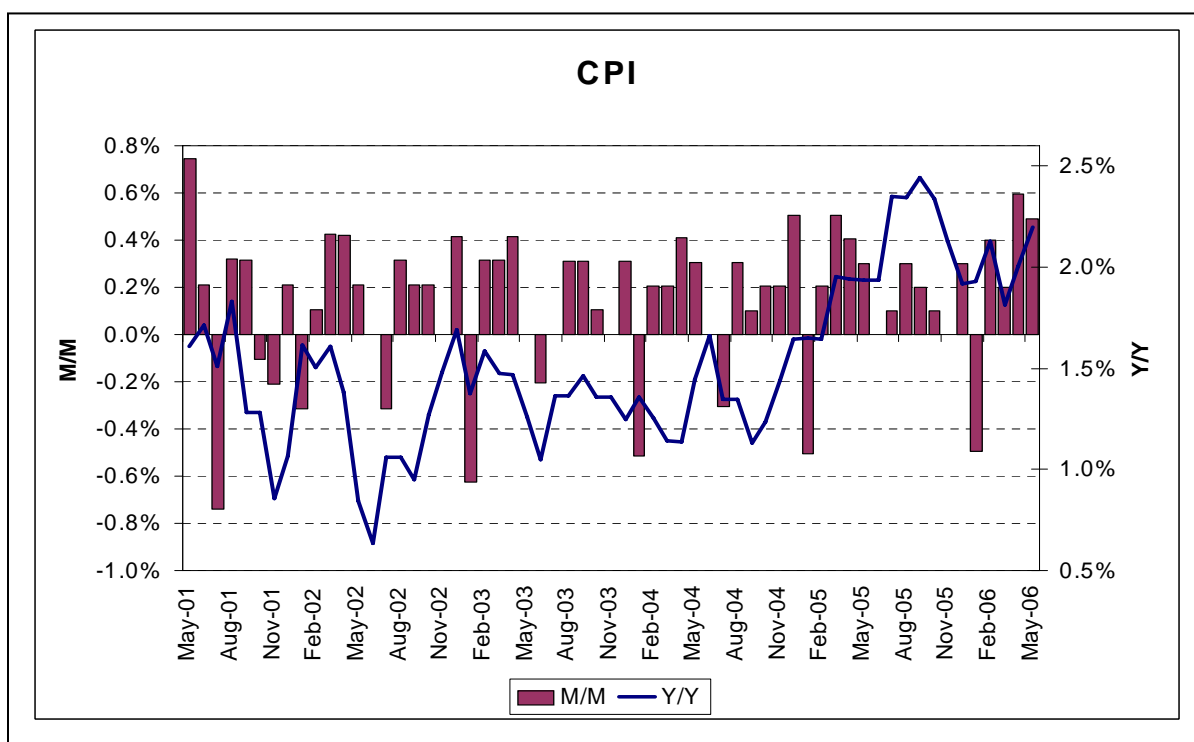
Core CPI- decelerated to 0.1% M/M and 1.0% Y/Y in May. (page 29)

Average Earnings- (ex bonus) decelerated to 3.7% 3M/3M and 3.6% Y/Y in April. (page 29)

ILO Unemployment Rate- increased from 5.2% to 5.3% in April. (page 30)

Weekly Releases & News

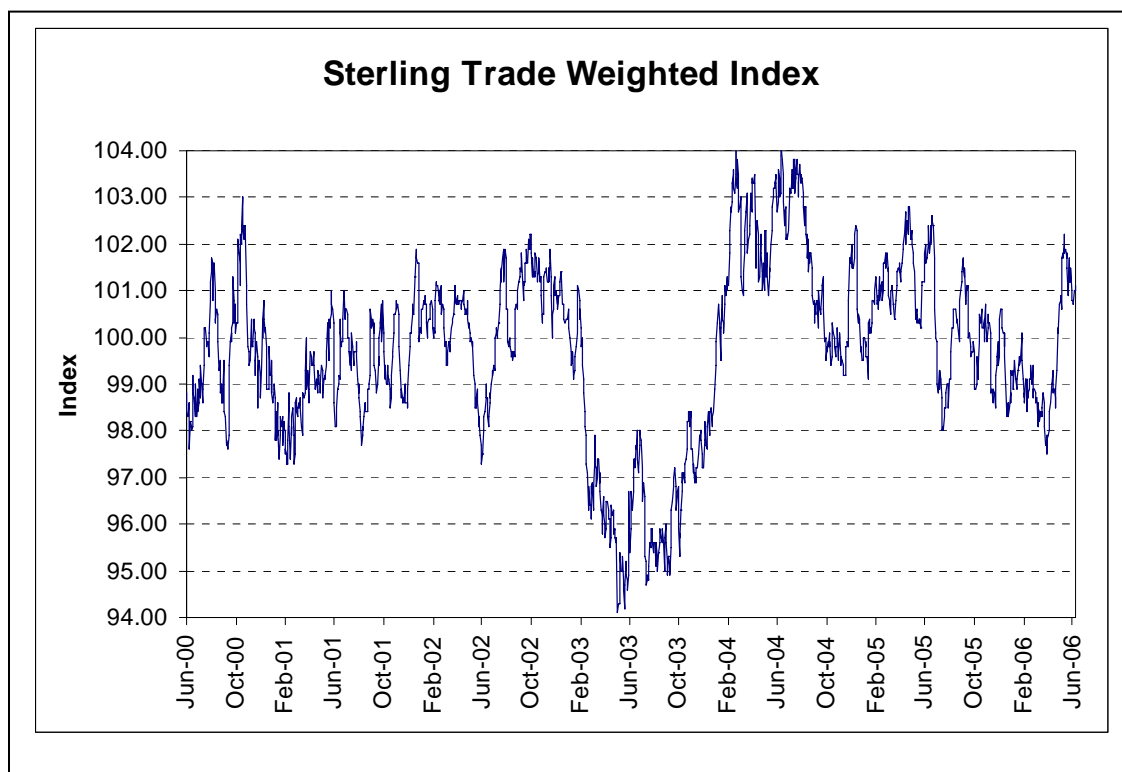
Chart of the Week: *CPI Growth*



CPI increased 0.5% M/M and 2.2% Y/Y in May, largely due to electricity bills rising 4.2% M/M and 21.9% Y/Y and gas bills increasing 6.0% M/M and 31.8% Y/Y; this partly reflects the phasing in of recent tariff increases from major suppliers.

Financial Balances & Trade Weighted Index

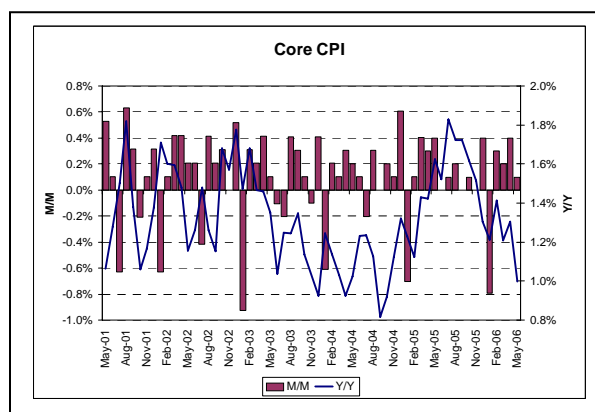
<i>U.K.</i>	<i>Last Period (blns)</i>	<i>Last 12mth. % of GDP</i>
Budget Balance (monthly)	-£1.4 (Apr)	-0.5%
Trade Balance (monthly)	-£3.8 (Mar)	-1.3%
Curr. Acct. Balance (quarterly)	-£11.0 (Dec)	-3.8%
Private Balance	--	-3.3%



Core CPI, Average Earnings & O/N Rate

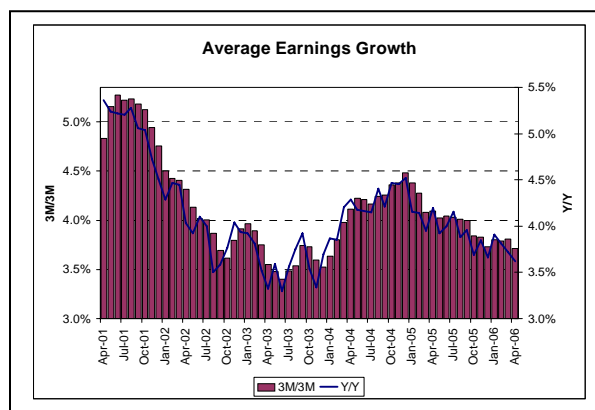
Core CPI

Core CPI decelerated from 0.4% M/M and 1.3% Y/Y to 0.1% M/M and 1.0% Y/Y in May, its lowest annual rate in eighteen months.



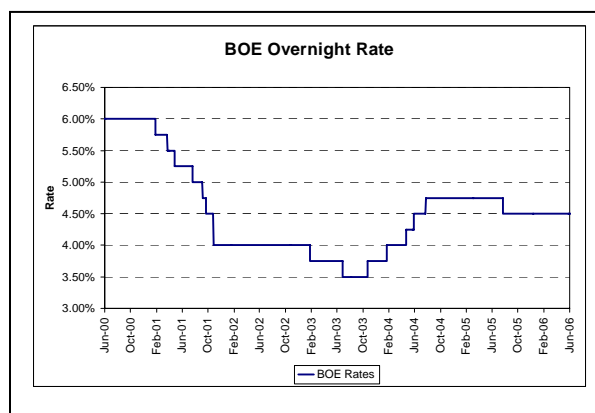
Average Earnings

Average Earnings (ex bonus) decelerated from 3.8% 3M/3M and 3.7% Y/Y to 3.7% 3M/3M and 3.6% Y/Y in April. Private Sector Earnings remained at 3.8% 3M/3M and accelerated from 3.7% Y/Y to 3.9% Y/Y. Public Sector Earnings decelerated from 3.9% 3M/3M and 4.0% Y/Y to 3.5% 3M/3M and 2.7% Y/Y. Average Earnings (inc bonus) increased 3.8% 3M/3M and 3.7% Y/Y.



O/N Rate

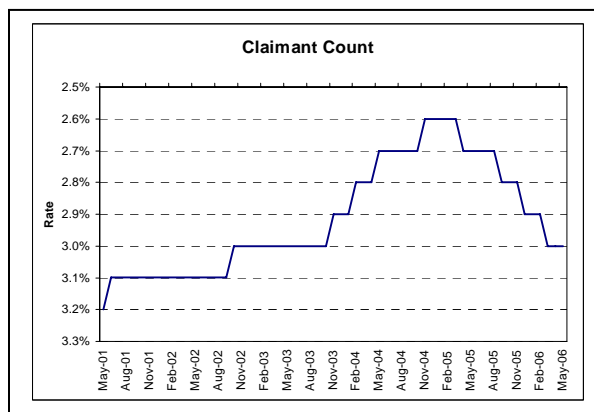
The MPC voted to leave its overnight rate at 4.50% for the 10th consecutive month.



Employment Data

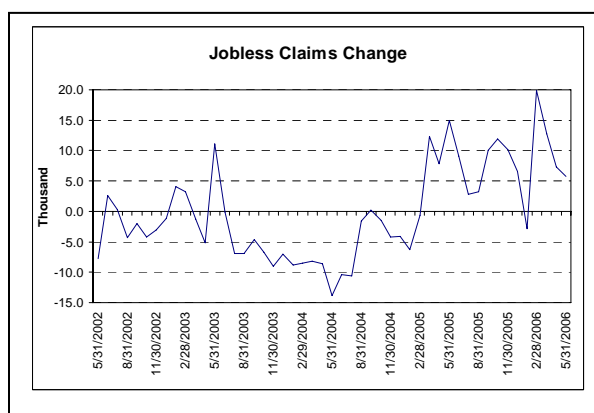
Claimant Count Rate

The Claimant Count Rate remained at 3.0% for the third consecutive month in May.



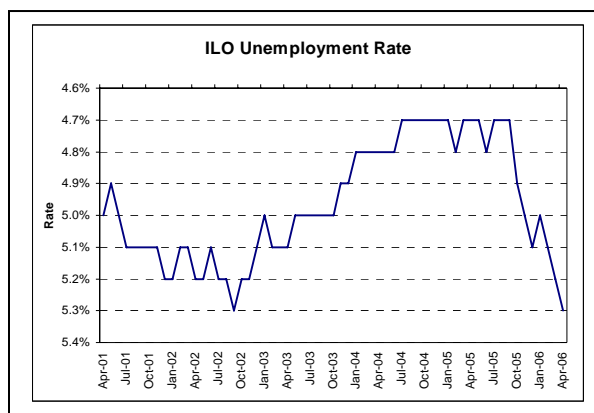
Jobless Claims

Jobless Claims in May increased by 5,800, to their highest level since April 2002.



ILO Unemployment Rate

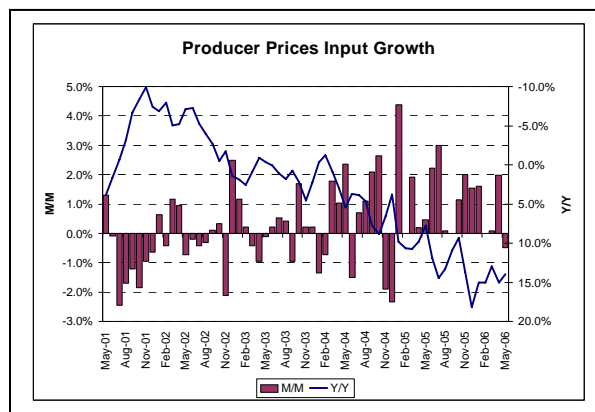
The ILO Unemployment Rate increased from 5.2% to 5.3% in April, its highest rate since September 2002.



Producer Prices

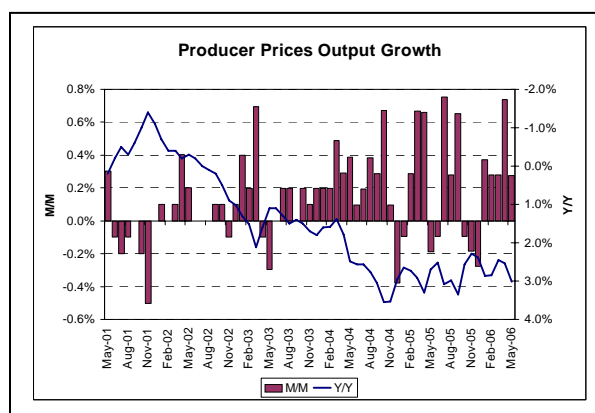
Input Producer Prices

Input Producer Prices decreased 0.5% M/M and increased 13.9% Y/Y in May, driven by crude oil decreasing 3.2% M/M and gas prices decreasing 3.0% M/M. Core Input Prices decreased 0.5% M/M and increased 8.6% Y/Y.



Output Producer Prices

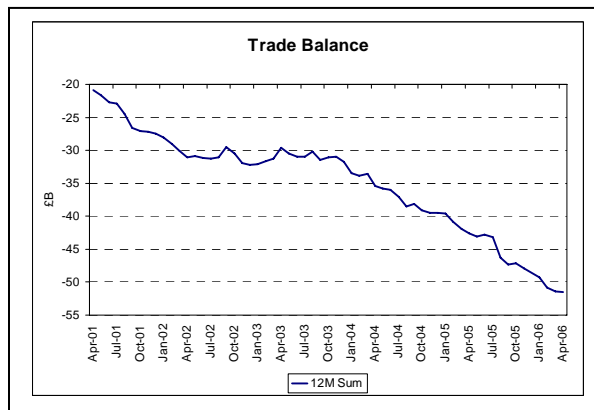
Output Producer Prices increased 0.3% M/M and 3.0% Y/Y in May. Core Output Prices increased 0.2% M/M and 2.4% Y/Y.



Trade Deficit Data

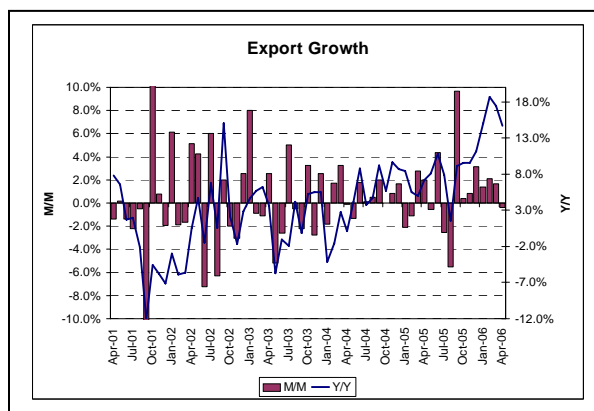
Trade Deficit

The Trade Deficit increased from -£5.1 bln to -£5.2 bln in April. Over the last 12m, the deficit stands at -1.4% of GDP.



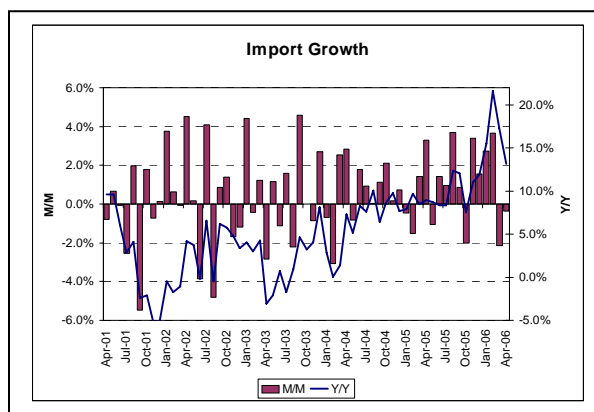
Export Growth

Exports decreased 0.4% M/M and increased 14.7% Y/Y in April.



Import Growth

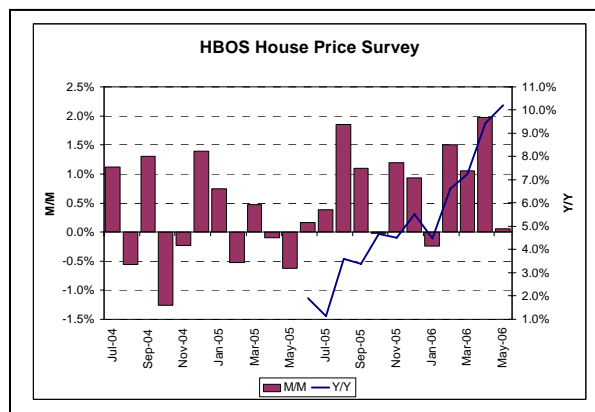
Imports decreased 0.4% M/M and decelerated to 13.2% Y/Y in April.



HBOS & DCLG House Price Surveys

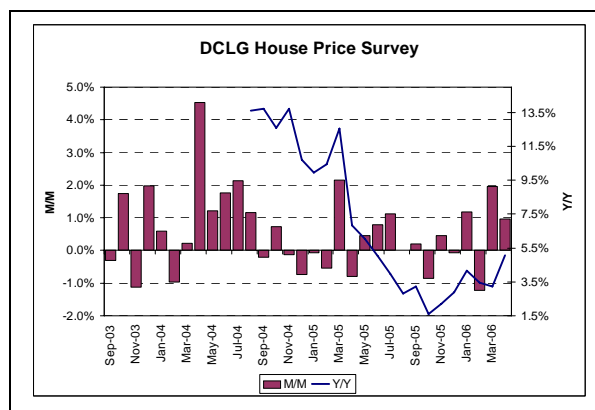
HBOS House Prices

HBOS House Prices increased 0.1% M/M and 10.2% Y/Y in May, the lowest M/M level in four months and the highest annual growth in the survey's brief history.



DCLG House Prices

DCLG House Prices increased 1.0% M/M and 5.1% Y/Y in April as the three month underlying trend decreased to 1.9%.3M/3M.



Data & Comments

Data

NIESR GDP

NIESR estimated that GDP increased from 0.5% in the three months thru April to 0.6% in the three months thru May.

FT House Prices

Financial Times House Prices increased 0.5% M/M and 5.4% Y/Y in May.

Comments

June 13th - UK's Brown Says Will Maintain Anti-Inflation Vigilance - Gordon Brown commented that U.K. policymakers would keep a close watch on inflationary pressures, after the latest official data showed the headline inflation figure rising above the government's target. The chancellor said the U.K. would be “resolute in our anti-inflation discipline. Let me say that even as we cope with a doubling of oil prices and the rises in utility prices we will maintain our vigilance against inflation.” In addition, he commented that, “this is a period of fast-moving change for all economies; and as the Governor of the Bank of England said, a time of inflationary pressure.”

June 12th – UK's Bank Chief Warns on Imported Inflation - Mervyn King, Governor of the Bank of England, warned that global inflation is rising, and further added that threats and opportunities from abroad were now more important for UK's inflation than domestic economic issues. “There are some signs of inflationary pressures in the main industrial countries,” he said in a reference to the extremely low interest rates that have prevailed in the US and Europe until recently and the zero rate that still exists in Japan. He made clear that higher import prices, and not just oil prices, were one of his main concerns. “Even in China, with its growing manufacturing base and large pool of labor, some indicators are showing upward pressures on export prices, and in turn that is raising our import prices, over and above the increases resulting from higher energy costs.”

News & Upcoming Dates

News

June 14th - Borrowing at record high for first-time buyers - First-time buyers borrowed an average of £106,400 in April, the highest level of debt ever taken on by people taking a first step on to the property ladder. These record levels of borrowing, the previous high of £105,000, was reached in December of last year, have forced many first-time buyers to borrow close to maximum lending limits, typically just under four times their salary, to purchase their first home. According to figures released by the Council of Mortgage Lenders, loan-to-income multiples for first-time buyers averaged 3.21 in April, the highest multiples ever recorded. A decade ago, first-time buyer loans averaged less than £40,000 on loan-to-income multiples of less than 2.4 times.

June 8th - UK loses share of foreign direct investors - France is catching up fast with Britain in the European race to attract international investments, a report showed. Britain remains the leading destination for foreign direct investments (FDI) in Europe, driven largely by multinationals' projects from the United States and Japan. However, they are losing ground to continental countries as cross-border activity inside the European Union intensifies. The annual study by Ernst & Young, an accounting group, recorded 3,066 FDI projects in Europe in 2005, the highest total since the survey began in 1997. Of those, 559 went to Britain and 538 went to France. Germany was in third place, with 181 projects. Britain's share of investments was down slightly from 2004, while France's share was up by 9.8 percentage points.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/15	Retail Sales	0.5% M/M	0.6% M/M
		3.6% Y/Y	3.0% Y/Y
06/18	Rightmove House Prices	--	2.0% M/M 5.9% Y/Y
06/20	Public Sector Net Borrowing	--	‑£1.4 bln

Valance Co., Inc.

Valance Economic Report: *Canada*

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June 14, 2006

Canada's economic data continues to surprise to the upside for the most part. Employment growth increased well above expectations last month, pushing the unemployment rate down to a 32 year low. Moreover, New House Prices posted their strongest annual growth since 1989. However, Housing Starts growth continues to retreat and Manufacturing Shipments and exports declined.

Weekly Highlights

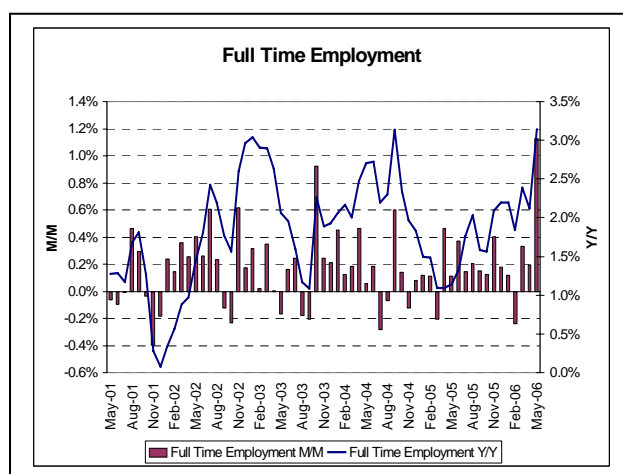
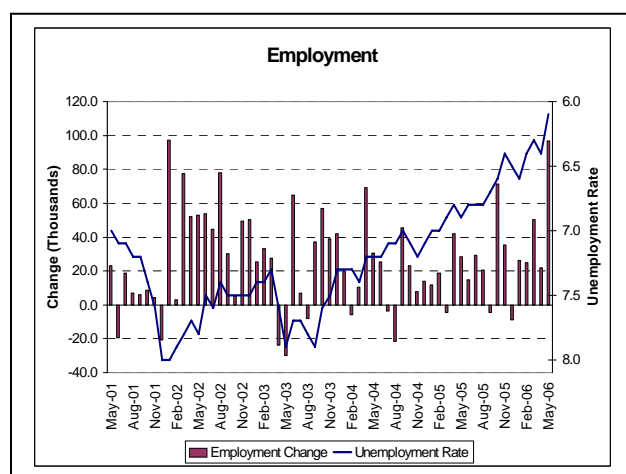
Canadian economy – gained 96.7K jobs in May. (page 36)

New House Prices - posted their fastest M/M increase since April 1989. (page 39)

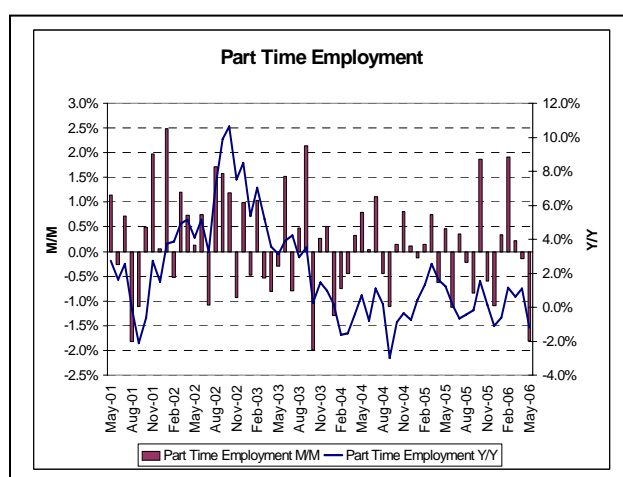
Manufacturing Shipments - decreased 1.5% M/M in April. (page 40)

Weekly Releases & News

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



The Canadian economy gained 96.7K jobs in May, well above expectation for 20.0K jobs. The huge gain in employment pushed the employment rate to an all-time high of 63.2%. Full time employment increased by 150.8K jobs, while part time employment decreased by 54.2K jobs. The Unemployment Rate decreased from 6.4% to 6.1%, a 32 year low. So far during 2006, employment has been up 1.4% compared to employment growth seen in the first five months of last year. Wage growth increased from 3.1% Y/Y to 3.8% Y/Y.

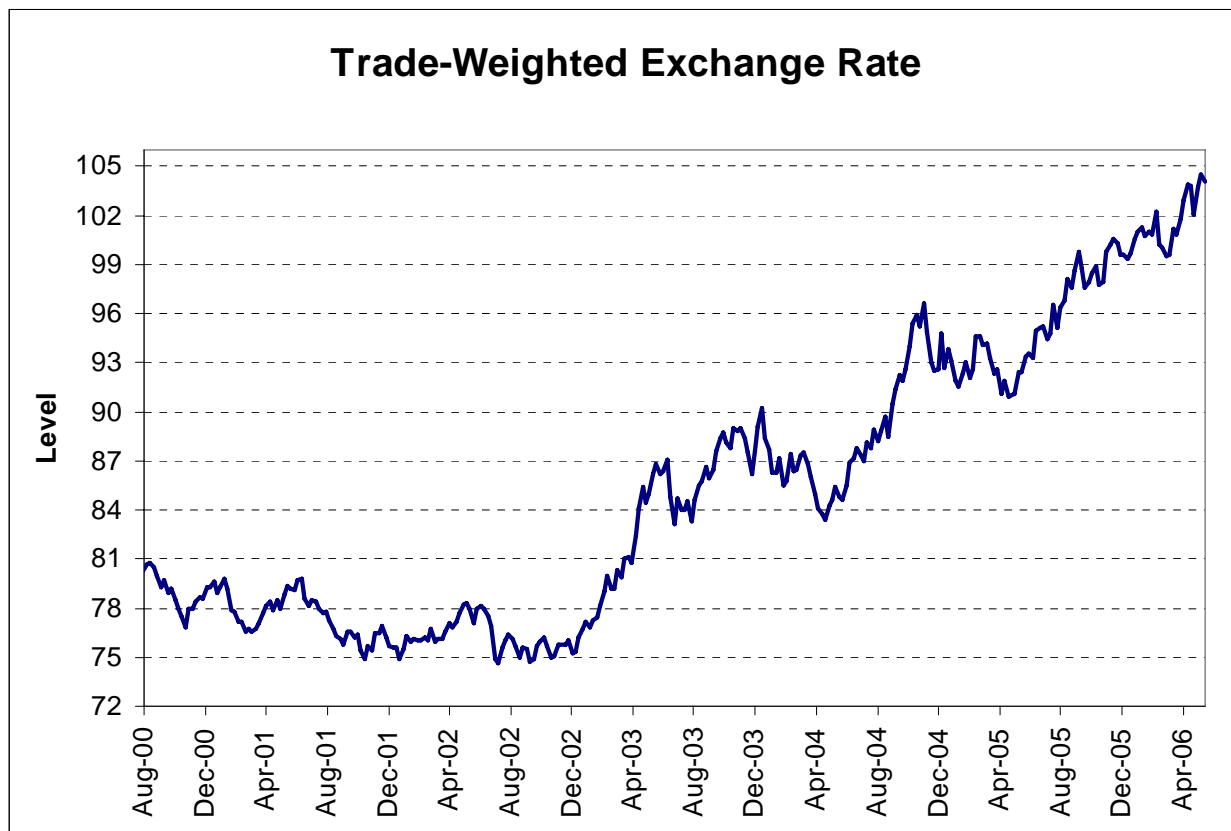


Financial Balances & Trade Weighted Exchange Rate

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	4.1 (Apr)	5.0%
Current Account Balance	10.7 (Q1)	2.7%
Private Balance	--	1.9%

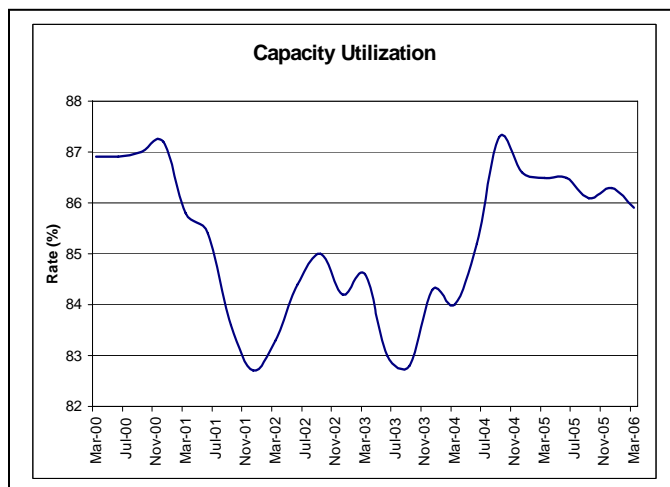
Trade-Weighted Exchange Rate



Capacity Utilization, Labor Productivity

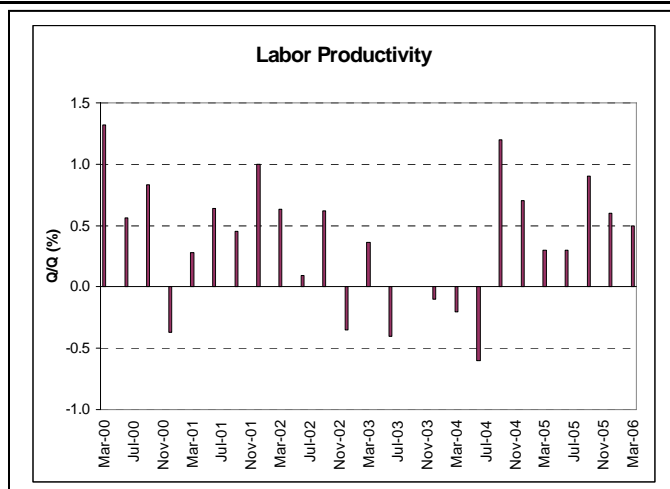
Capacity Utilization

Capacity Utilization decreased from 86.1% Q4 to 85.9% in Q1, in light of the rising C\$ and a decline in foreign demand for some manufactured goods. Despite the decline, Capacity Utilization remains near cyclical highs and is only 1.5% below the peak of 87.6% reached in Q1 of 1988.



Labor Productivity

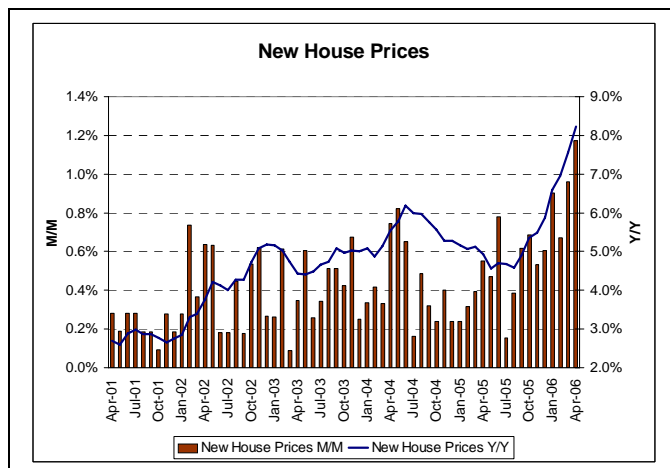
Labor Productivity posted its seventh consecutive increase in Q1, increasing 0.5% Q/Q.



New House Prices, Housing Starts & Motor Vehicle Sales

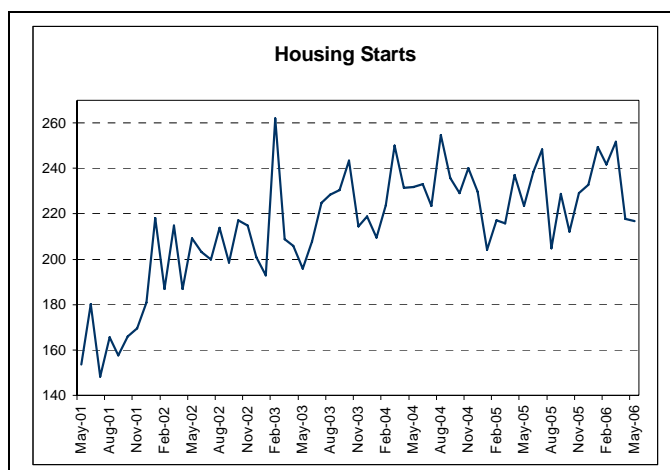
New House Prices

New House Prices increased 1.2% M/M and 8.2% Y/Y in April, the fastest M/M increase since April 1989. The gain was mostly attributed to high demand for new housing, coupled with higher material and labor costs, and increased land values.



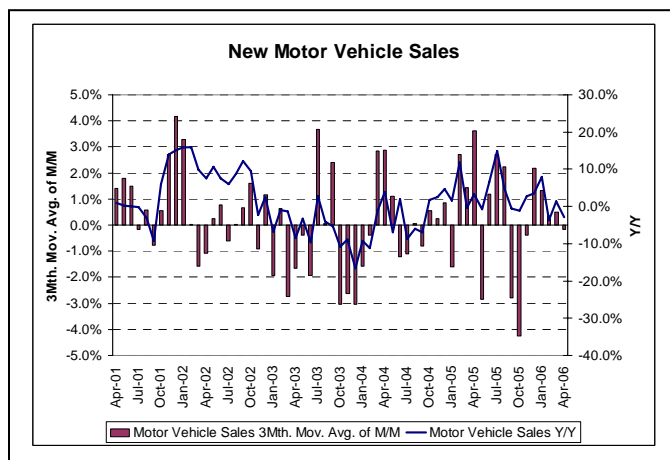
Housing Starts

Housing Starts decreased 0.5% M/M and 3.0% Y/Y in May, as starts of urban single-family houses decreased 1.3%. Starts in urban multiple-family units such as condominiums increased 0.1%. Housing Starts are expected to bounce back as increasing wages and a solid job market support an increase in demand for new houses.



New Motor Vehicle Sales

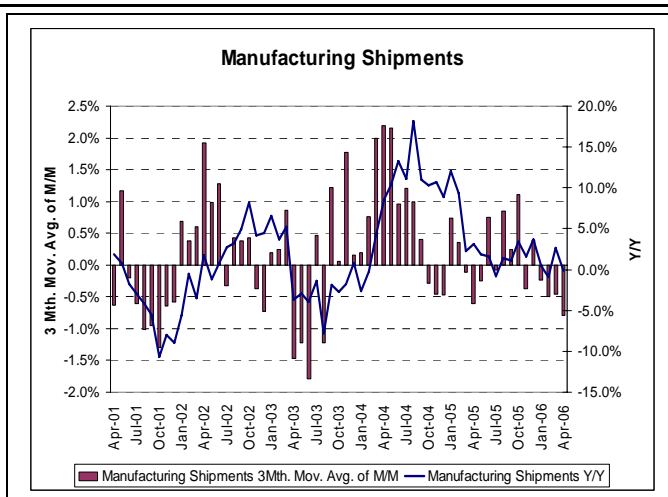
New Motor Vehicles Sales decreased 0.7% M/M and 2.8% Y/Y in April. Sales of both passenger cars and trucks declined in April. Based on preliminary figures from the auto industry, new motor vehicle sales decreased 1% in May.



Manufacturing Data

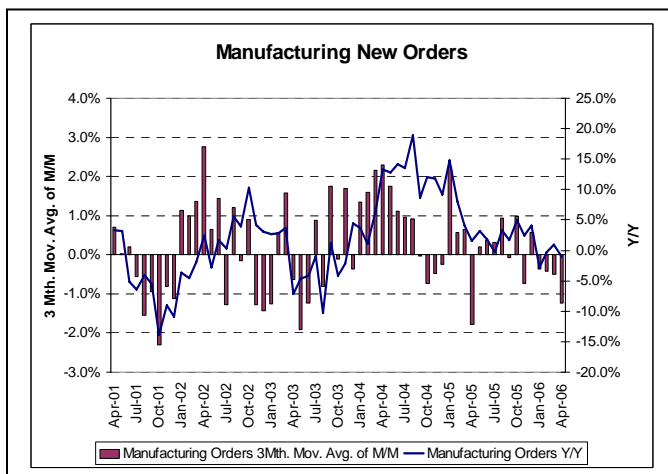
Manufacturing Shipments

Manufacturing Shipments decreased 1.5% M/M and 0.2% Y/Y in April. A substantial decline in the production of aerospace products and parts largely contributed to the M/M decline. Excluding the aerospace industry, shipments declined a more modest 0.4%.



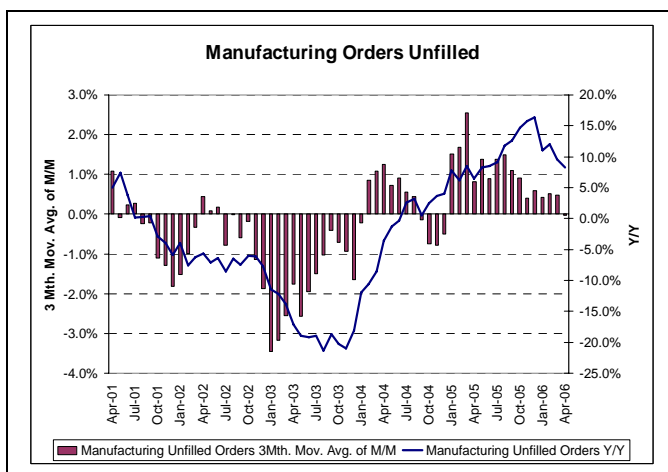
Manufacturing New Orders

Manufacturing Orders decreased 2.3% M/M and 1.1% Y/Y in April, mainly as a result of a large decline in orders in the aerospace industry.



Unfilled Manufacturing Orders

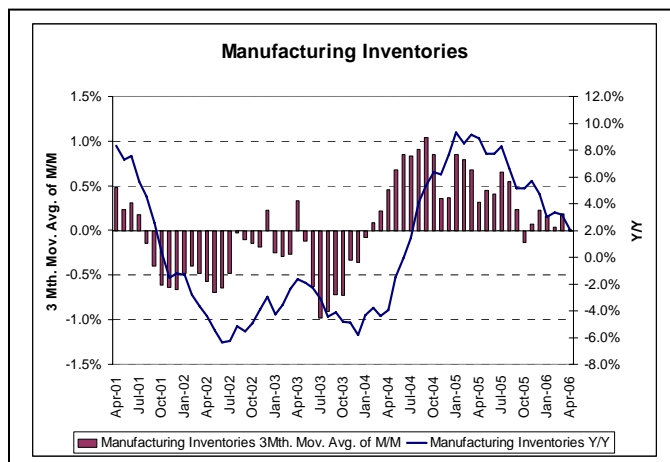
Unfilled Manufacturing Orders decreased 0.9% M/M and increased 8.3% Y/Y in April. April's slowdown was only the second decline in unfilled orders in the last eight months.



Manufacturing Data Cont'd & Trade Data

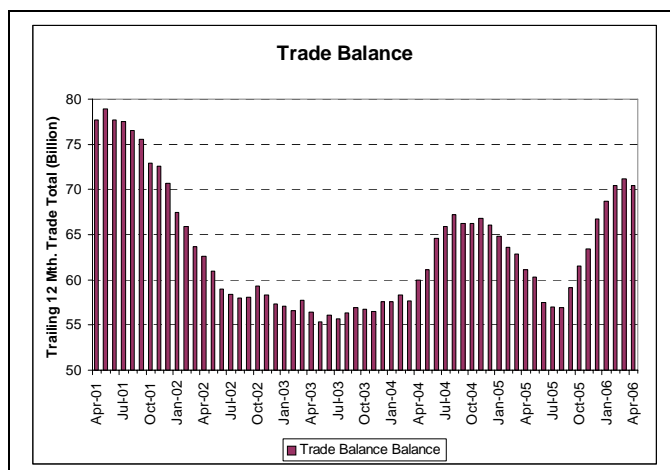
Manufacturing Inventories

Manufacturing Inventories decreased 0.5% M/M and 2.1% Y/Y in April. A decline of 11.6% in the aerospace industry was the main contributor to April's M/M decline. On trend terms, however, inventories have been trending down and may indicate future increases in production.



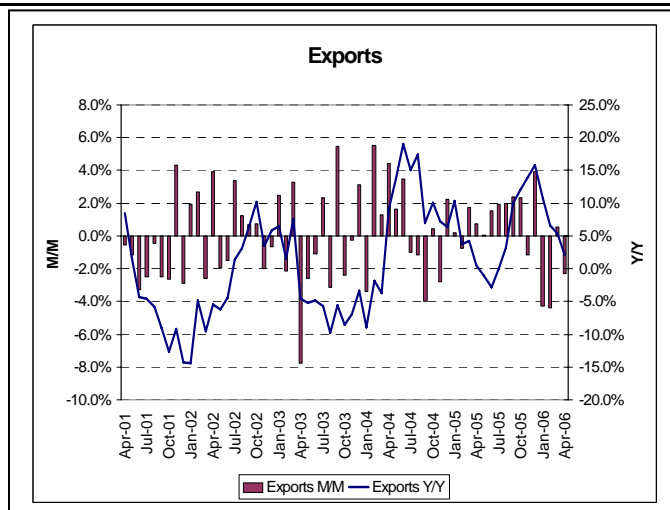
Trade Balance

Canada's Merchandise Trade Surplus decreased from C\$5.3 bln in March to C\$4.1 bln in April, as exports for cars and trucks decreased. Imports from the United States remained flat while exports declined 1.5%. Canada's trade surplus with the United States narrowed from \$8.3 bln to \$7.9 bln. The trade deficit with countries other than the United States increased from \$3.0 bln to \$3.8 bln.



Exports

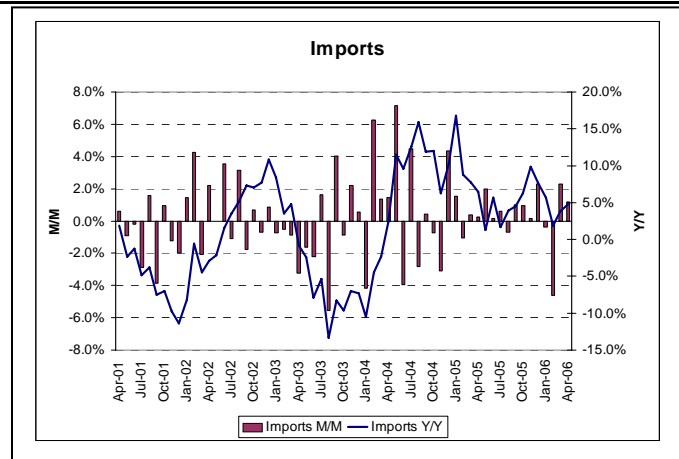
Exports decreased 2.3% M/M and increased 2.2% Y/Y in April, mainly as a result of a decrease in automotive products, where exports fell 8.4% M/M, and machinery and equipment which decreased 3.2% M/M.



Trade Data Cont'd & Upcoming Dates

Imports

Imports increased 1.2% M/M and 4.8% Y/Y in April. Imports of energy products, which increased 14.1% M/M, accounted for the majority (90%) of the net growth in total imports in April.



Key Dates This Week

Date	Indicator	Expectation	Previous
06/19	Wholesale Sales (MM) (APR)	0.4%	0.8%
06/20	Consumer Price Index (M/M) (MAY)	0.3%	0.5%
06/20	Consumer Price Index (Y/Y) (MAY)	2.7%	2.4%
06/20	Core CPI (M/M) (MAY)	0.2%	-0.1%
06/20	Core CPI (Y/Y) (MAY)	1.7%	1.6%
06/21	Retail Sales (M/M) (APR)	0.3%	1.5%
06/21	Retail Sales (Y/Y) (APR)	0.5%	0.7%
06/21	Leading Indicators (M/M) (MAY)	0.4%	1.5%

Valance Co., Inc.

Valance Economic Report: Australia

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June 14, 2006

Australian employment soared by 56k in May as builders and retailers hired staff. This data may increase pressure on the RBA to lift interest rates further this year, but both Business and Consumer Confidence declined in June.

Weekly Highlights

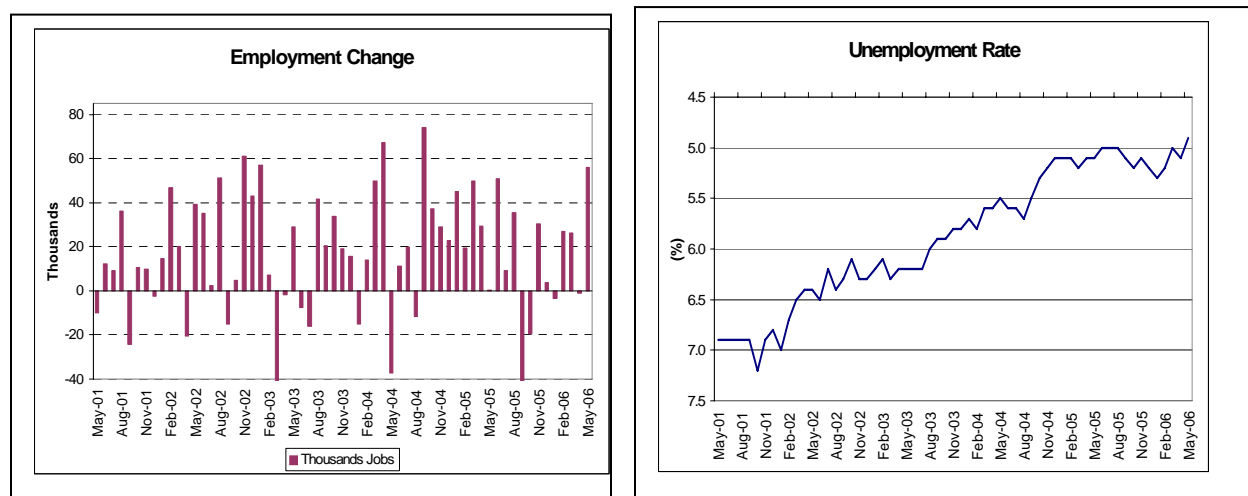
Unemployment Rate – decreased to 4.9% in May from 5.1% in April. (page 42)

Business Confidence – declined to a reading of 9 in May versus 11 in April. (page 43)

Consumer Confidence – fell to an eight-month low in June. (page 43)

Weekly Releases & News

Chart(s) of the Week: *Unemployment*



Total jobs climbed by 56k in May after falling a revised 1.2k (previously -3.2k) in April, lowering the unemployment rate to 4.9% in May from 5.1% in April. Full-time jobs rebounded by 55.8k and part-time jobs, common in industries such as retail and hotels, were unchanged in May.

Business and Consumer Confidence & Comments

NAB Business Confidence

Australian business confidence declined in May after the RBA hiked interest rates to a five-year high to curb inflation. An index of business confidence fell 2 points to a reading of 9 in May versus 11 in April, according to the National Australia Bank Ltd. survey of almost 400 companies. A reading above zero signals companies expecting their industry will improve outnumber those predicting deterioration.

Westpac Consumer Confidence

The Consumer Sentiment Index fell to 103.8 in June from 104.1 in May, according to Westpac Banking Corp. and Melbourne Institute. This 0.3% drop was mainly due to record gasoline prices and higher interest rates that pressured household budgets. A reading above 100 shows that optimists outnumber pessimists.

Comments

Australian Senate Passes A\$36.7 Billion of Income Tax Cuts (06/13/2006):

- The Australian Upper House Senate passed A\$36.7 bln (1.6% of GDP) in tax cuts for the nation's 10 mln workers over four years from July 1st. Treasurer Peter Costello announced the tax cuts as part of his budget on May 9th. The tax cuts came on top of A\$36.4 bln in relief Costello announced in the previous two years. The Liberal-National government has control of both houses of parliament. The top tax rate will now apply to people earning A\$150,000 (up from A\$95,000), three times the average weekly wage. The 42% tax rate will be lowered to 40% and apply to incomes of more than A\$75,000.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/20	Westpac MI Leading Index (APR)	---	0.8%
06/20	DEWR Skilled Vacancies (JUN)	---	1.8%

Valance Co., Inc.

Valance Economic Report: New Zealand

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June 14, 2006

The RBNZ kept its benchmark interest rate at 7.25%, again stating that it is unlikely to cut rates this year because the slowing economy has yet to reduce inflation risks brought about by a weaker NZ\$ and higher energy prices. In other data, the Terms of Trade Index increased in Q1. Retail sales surprisingly fell in April.

Weekly Highlights

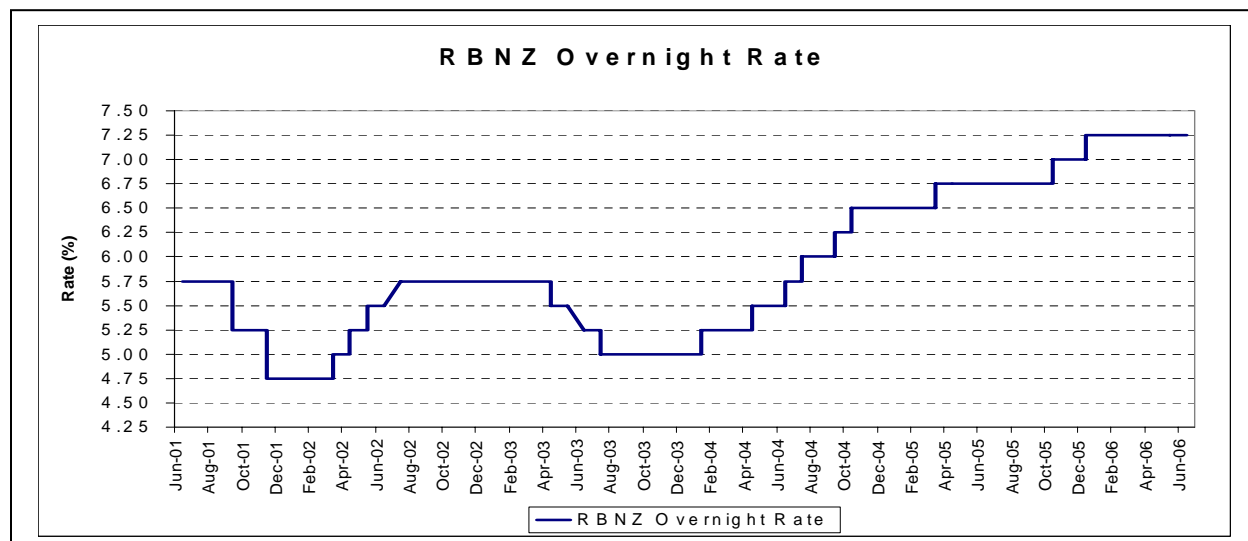
RBNZ Cash Rate – stayed unchanged at 7.25% in June. (page 44)

Retail Sales – declined 0.1% in April after a revised 0.9% drop in March. (page 45)

Terms of Trade – increased 1.1% Q/Q in Q1. (page 45)

Weekly Releases & News

Chart of the Week: *RBNZ Cash Rate*

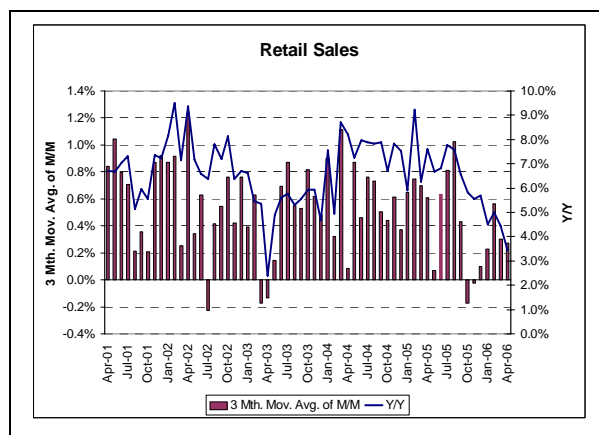


The RBNZ kept its OCR at 7.25% in March as it [RBNZ] remains concerned that inflation pressures are not abating sufficiently to achieve its medium-term target of 1% - 3%. The RBNZ stated again, that “we don’t expect to be in the position to ease policy this year”. The RBNZ also stated that the economy was weaker than they expected at their last review three months ago.

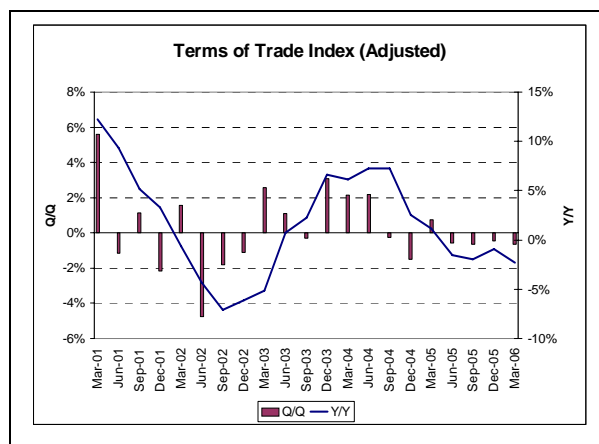
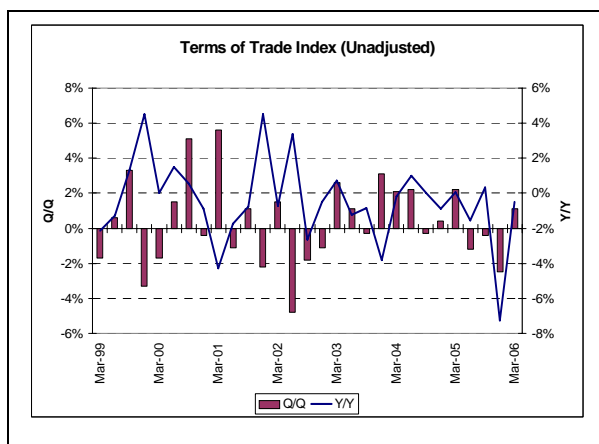
Retail Sales & Terms of Trade

Retail Sales

New Zealand retail sales unexpectedly fell 0.1% in April (versus +0.5% median expectation) from a revised negative 0.9% (previously - 1.0%) in March. Ex-auto (core) sales fell by a similar amount, down 0.2%.



Terms of Trade



The merchandise terms of trade rose 1.1 % in Q1 due to merchandise export prices rising (up 3.2%) more than merchandise import prices (up 2.1%). Economists expected a 1.0% fall. The largest contributor to the rise in export prices was a 22.6% increase in aluminum prices. Import prices were bolstered by a 4% increase in the cost of gasoline and diesel. Seasonally adjusted merchandise export volumes fell 2.4%, while seasonally adjusted merchandise import volumes rose 0.5% in Q1. This makes the seasonally adjusted terms of trade Q/Q figure a negative 0.7% in Q1. The median forecast was for a 2.2% increase in exports and 4.1% increase in imports.

House Building & RBNZ's MPS

House Building

New Zealand's house-building and renovation work rose for a second straight quarter in Q1. The value of residential construction rose a seasonally adjusted 2.8% Q/Q. Non-residential construction gained 11% in Q1. Excluding inflation, residential building rose 1.8% and non-residential building gained 8.8% from Q4. The numbers suggest that the surge in building approvals late in 2005 spilled over into Q1 construction.

RBNZ's MPS Statement (June 8th, 2006)

The Official Cash Rate (OCR) will remain at 7.25 per cent.

Reserve Bank Governor Alan Bollard said:

"Recent economic activity has been weaker than projected in the March *Monetary Policy Statement*. However, the short-term inflation outlook has worsened.

"Growth is expected to remain low through 2006, before recovering in 2007. The much awaited economic rebalancing from domestic spending to exports commenced in late 2005, and is expected to continue over the next two years. Export growth will recover as a result of the lower exchange rate and buoyant demand in world markets. At the same time, household spending will be constrained by a continued weakening in the housing market, high petrol prices and a slowdown in employment growth.

"While weaker economic activity will reduce medium-term inflation pressures, the short-term inflation outlook has deteriorated. The sharp decline in the exchange rate over March and April will lead to higher prices on imported goods, although weak domestic demand and foreign exchange hedging by importers may dampen this increase. In addition, oil prices have risen by around 20 per cent since the March *Statement*, leading to higher prices for petrol and other transport items. These two effects together are now expected to keep headline CPI inflation above 3 per cent well into 2007.

"Given the unavoidable nature of these price shocks, it would be inappropriate for monetary policy to try to counteract their short-term inflation effects. However, it is essential that monetary policy hold the line against any second-round effects that could be felt in wages, prices and inflation expectations. A failure to do so would risk inflation becoming entrenched at a higher level, ultimately delaying a return to stronger growth.

"We do not expect to tighten policy in response to the high headline inflation in the short term. But, equally, we cannot afford to ease policy until we have more certainty that future inflation outcomes will be trending down comfortably below 3 per cent. Given this situation, we see no scope for an easing of the OCR this year."

Comments & Upcoming Dates

Finance Minister Michael Cullen on Consumer Spending (06/12/2006):

- “It is important to acknowledge we are entering a period of slow growth. Firms servicing the domestic economy are slowing their rate of investment and we are anticipating some reduction in total hours worked.”
- “We have a healthy, if somewhat stressed economy. The outlook is for a period of slower growth lasting some 18 months or so before we embark upon what we expect to be another marathon period of high growth.”

Finance Minister Michael Cullen on the outlook for growth and inflation (06/13/2006):

On the outlook for economic growth:

- “The economy started to slow from the middle of last year in response particularly to monetary policy tightening. It is expected to be bumping along at about 1 percent growth in the current year before picking up during 2007.
- “What we can be clear about is the prediction that we would have a technical recession now looks to be extraordinarily unlikely. It's likely the first quarter of this year has some modest level of growth. On the other hand, retail figures for April were pretty weak, so it is quite possible we're looking at a relatively weak second quarter.
- “We can expect to see those quarterly figures bouncing around at relatively low levels for the next year.”

On forecasts inflation will accelerate to 4 percent:

- “The Reserve Bank would probably tell you there's a risk it could go slightly over that mark.
- “Inflation is coming off a fall in the dollar, which itself is to be welcomed. We're back within the upper end of a comfort range from the export community's perspective, and therefore from the more general interest of the New Zealand economy's perspective, so we can't bemoan that fact.
- “It's important for me to back the messages from the central bank governor, and to simply say to people that you can't expect wage and salary increases to compensate you for what are major shifts in relative prices over which we ourselves have no control.
- “If we try to compensate ourselves for those there is a serious risk that we move into a more strongly inflationary cycle. Those are realities we have to face.”

On the operation of monetary policy:

- “The previous policy targets agreement led the governor to an excessively hawkish approach to lifting interest rates. Alan Bollard has followed a more moderate approach and that has allowed economic growth to be sustained at a somewhat better rate than might otherwise have occurred.
- “But he is clearly signaling to people that the bank is concerned about inflationary pressures, and that they don't see any short-term prospect of policy loosening it.
- “While I never comment on whether the governor is right or wrong in such matters, nevertheless I'm fully understanding of the governor's statements in that respect.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
06/15	ANZ-Business NZ PMI (MAY)	--	53.1
06/20	Visitors Arrivals (MAY)	--	2.1%
06/21	Current Account Balance (1Q)	--	-3.857 bln
06/21- 06/28	Westpac/McDermott Miller Consumer Confidence (MAY)	--	109.3 (March Q)

Valance Co., Inc.

Weekly Economic Report: **China**

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June 14, 2006

This week's economic data posted improvement across the board. The Trade Surplus widened, Consumer Prices ticked up and Retail Sales, Money Supply and Household Savings growth all continued to surge.

Weekly Highlights

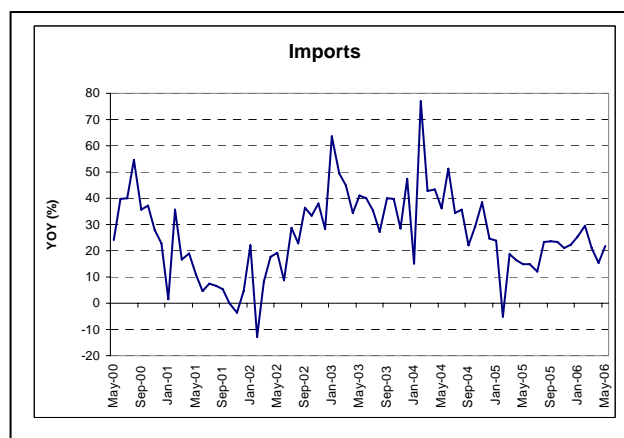
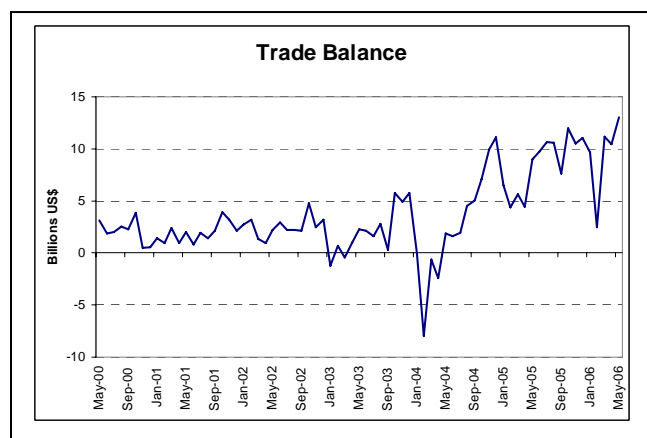
China's Trade Balance - widened from \$10.5 bln in April to \$13.0 bln in May. (page 49)

Consumer Price growth - increased from 1.2% Y/Y in April to 1.4% Y/Y in May. (page 50)

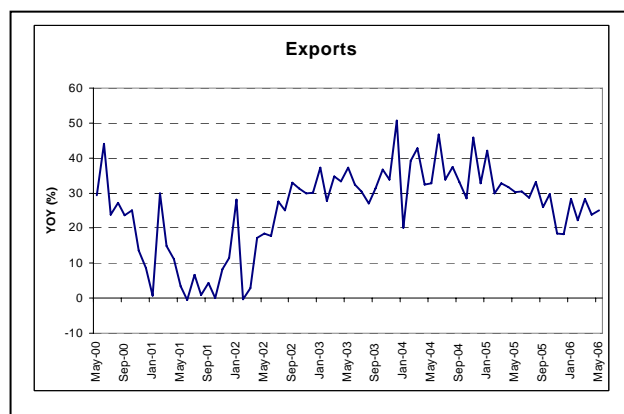
Retail Sales growth - increased from 13.6% Y/Y in April to 14.2% Y/Y in May. (page 52)

Weekly Releases & News

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



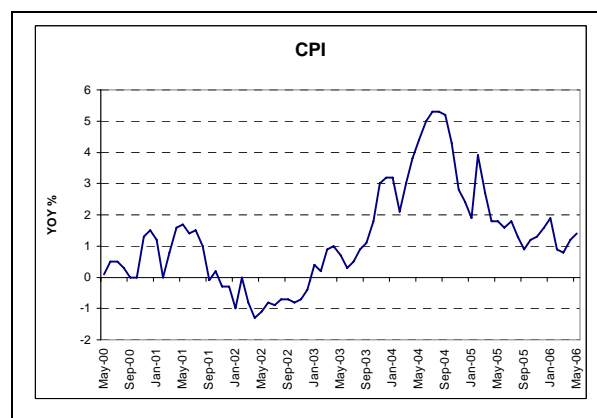
China's Trade Balance widened from \$10.5 bln in April to \$13.0 bln in May, above expectations of \$12.0 bln. Total Export growth increased from 23.9% Y/Y to 25.1% Y/Y. Import growth increased from 15.3% Y/Y to 21.7% Y/Y.



CPI, Producer Price Index & Purchasing Price Index

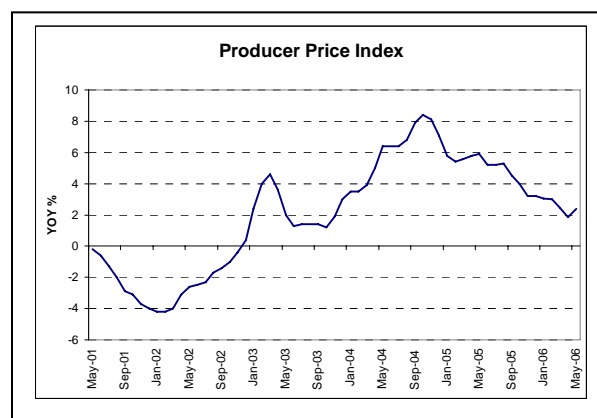
CPI

Consumer Price growth increased from 1.2% Y/Y in April to 1.4% Y/Y in May, its fastest pace in four months as the cost of gasoline and food increased. The prices of food and consumer products increased 1.9% Y/Y and 1.2% Y/Y, from 1.8% Y/Y and 1.1% Y/Y, respectively. The prices of service items increased 2.0% Y/Y from 1.7% Y/Y.



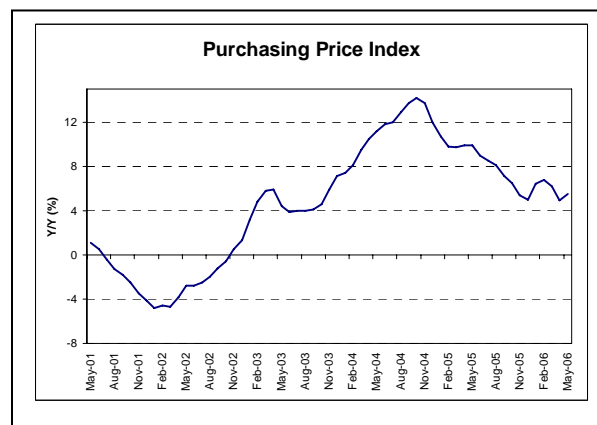
Producer Price Index

Producer Price growth increased from 1.9% Y/Y to 2.4% Y/Y in May as an increase in demand resulted in an increase of prices for raw materials and energy. The producer goods component of the PPI increased from 2.6% Y/Y to 3.4%. The consumer goods component decreased 0.4% Y/Y, the same result as the previous month.



Purchasing Price Index

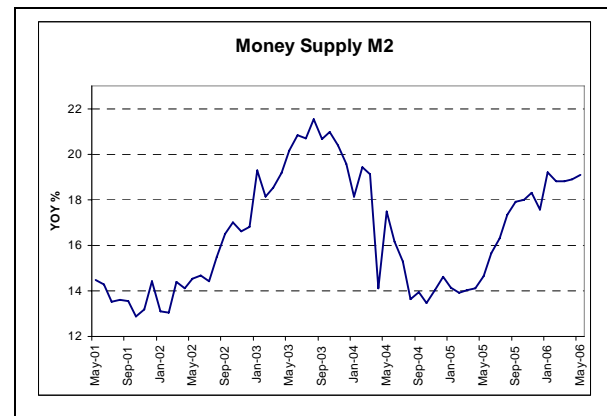
The Purchasing Price Index increased 4.9% Y/Y in April to 5.5% Y/Y in May. Fuels, Ferrous Metals and Chemicals all posted increases in prices while a decline was seen in Non-Ferrous Metals.



Money Supply

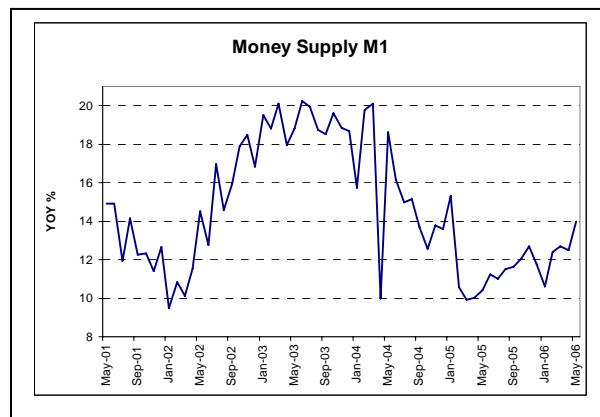
M2

Money Supply M2 growth increased from 18.9% Y/Y in April to 19.1% Y/Y in May. Money supply has been on an uptrend since January 2005.



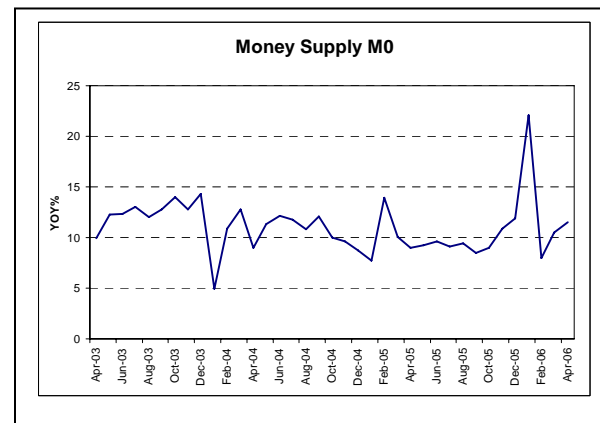
M1

Money Supply M1 growth increased from 12.5% Y/Y in April to 14.0% Y/Y in May.



M0

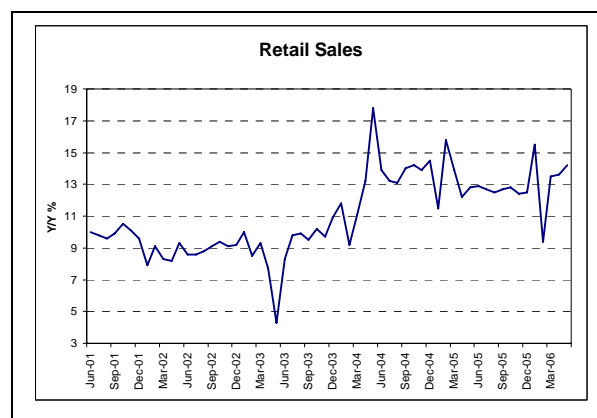
Money Supply M0 growth increased from 11.5% Y/Y to 12.8% Y/Y in May.



Retail Sales, Industrial Production & Wholesale Prices

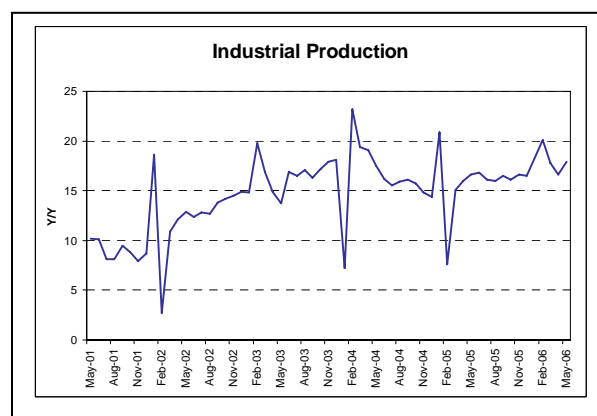
Retail Sales

Retail Sales growth, an important indicator of Chinese consumer demand, increased from 13.6% Y/Y in April to 14.2% Y/Y in May.



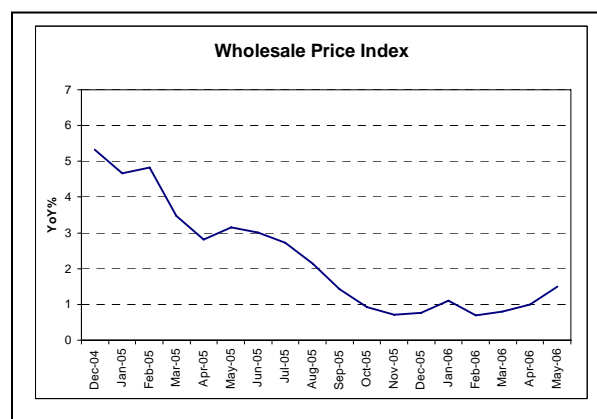
Industrial Production

Industrial Production increased from 16.6% Y/Y to 17.9% Y/Y in May. Total vehicle output increased 28.4% Y/Y. Steel output increased 19.6% and production of telecommunications equipment, computers and other electronic goods increased 22.9% Y/Y.



Wholesale Prices

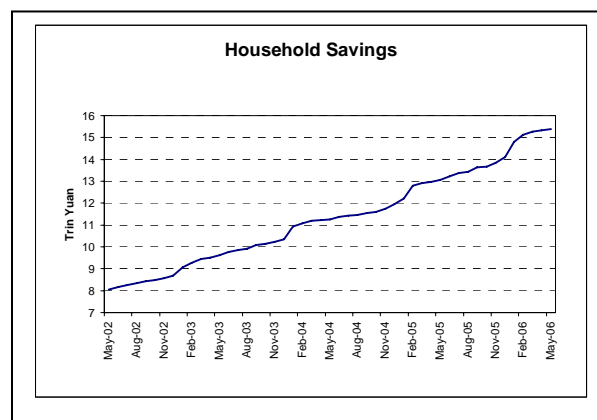
Wholesale Price growth increased from 1.0% Y/Y in April to 1.5% Y/Y in May. This series, which the People's Bank of China created to track the trading prices among companies in the first phase of the wholesale process, appears to have bottomed out.



Household Savings & News Releases

Household Savings

Household Savings growth increased 0.4% M/M and 15.2% Y/Y to reach 15.4 trln Yuan in May.



News Releases

June 13th – China's Forex Reserves Exceed \$900 Bln - A senior government official stated that China's forex reserves have exceeded \$900 bln due to the country's increasing trade surplus.

June 12th – Home Weighting in CPI May Be Raised in Five Years - The China Business News reported that National Bureau of Statistics Director, Qiu Xiaohua, stated that home weighting costs in CPI will probably be raised from 13.2% to 20.0% in five years. Six years ago the weighting was 6.7%.

June 10th – Foreign Investment Rose 48.0% in Q1 - The Xinhua News Agency reported that Researcher, Jin Bosheng of the Ministry of Commerce, stated that foreign investments in China have risen 48.0% Y/Y in Q1. The increase is attributed to investors' purchasing property in major cities, despite the government's limits on luxury properties.

June 8th – Presently No Plans to Raise Rates – PBoC Governor, Zhou Xiaochuan, announced that there are presently no plans to hike rates. Xiaochuan stated, "It takes time to see the result of the policy that has been taken and we need to be patient." He added, "We have not got the data of May and the beginning of June therefore it is hard to say whether the policy has worked."

Upcoming Dates

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
6/14	Fixed Assets In. Urban YTD (Y/Y) – May	29.0%	29.6%
6/15-16	Actual / Contract Foreign Investment (Y/Y) - May	--	5.76% / --
6/21	Industrial Profits YTD (Y/Y) – May	--	22.1%

Valance Co., Inc.

Valance Economic Report: Sweden

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June 14, 2006

Data released over the past week showed inflation accelerated on both a headline and core basis in May, and all other economic releases improved. Riksbank Deputy Governor, Irma Rosenberg, commented that it's time for a "further step" to be taken toward containing inflation.

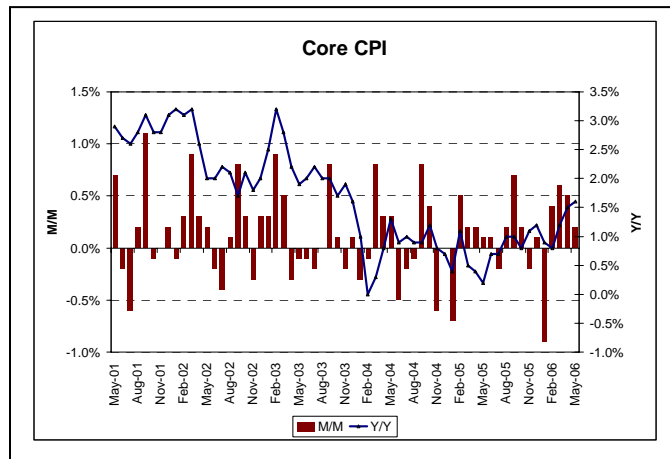
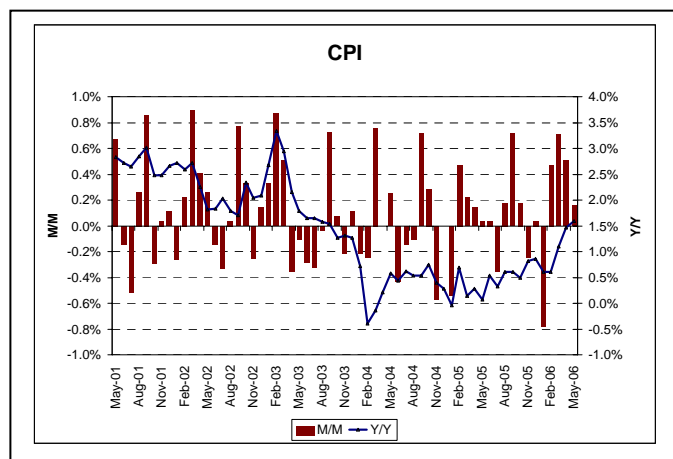
Weekly Highlights

CPI & Core CPI – both rose 0.2% M/M and 1.6% Y/Y in May. (page 55)

Industrial Production – rose 1.6% M/M and 6.2% Y/Y in April. (page 56)

Weekly Releases & News

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

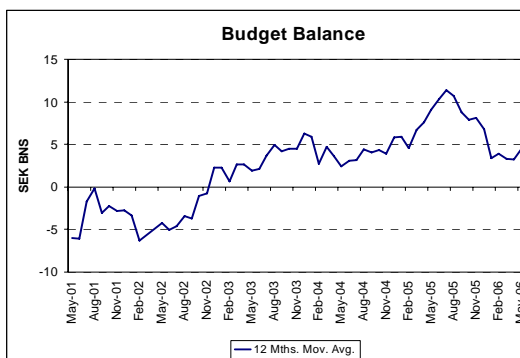


Swedish May Consumer Prices rose 0.2% M/M and 1.6% Y/Y on both a headline and core basis -- marking the highest yearly increase since December 2003. The increases were spurred by rising energy prices.

Budget Balance, Industrial Production & Industrial Orders

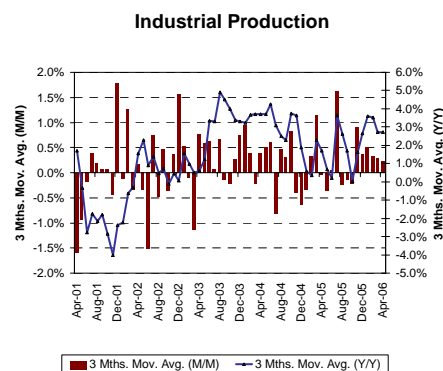
Budget Balance

Sweden experienced a smaller-than-expected budget surplus of SEK 27.0 bln in May on higher-than-forecast interest payments. The surplus was SEK 1.8 bln smaller-than-expected.



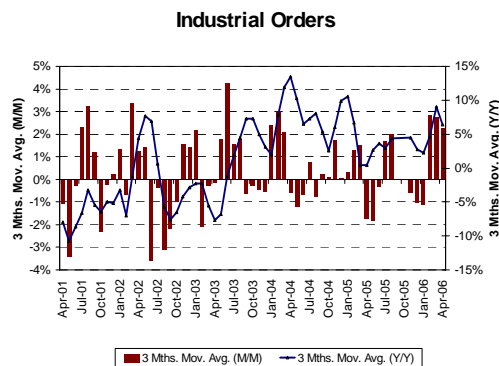
Industrial Production

Industrial Production rose 1.6% M/M and 6.2% Y/Y in April, above expectations. The monthly gain was led by an increase in the output of telecommunications equipment and orders. Expectations were for gains of 0.8% M/M and 3.7% Y/Y.



Industrial Orders

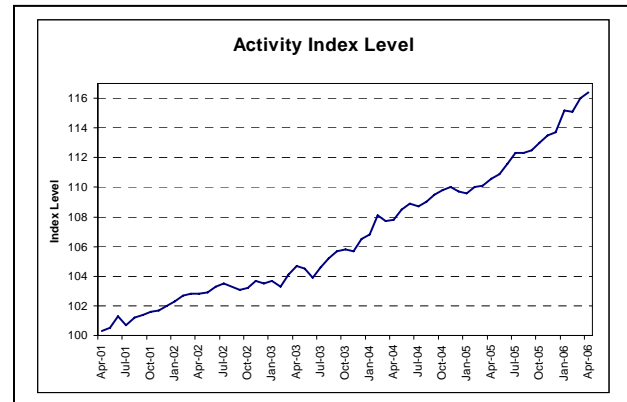
Industrial Orders rose 8.1% M/M and 1.7% Y/Y in April. The monthly gain was reflective of increases in both the export and domestic market, as orders grew by 10.6% and 4.4%, respectively. Also, new orders in the capital and intermediate goods industries increased by 13.9% and 2.1%, respectively.



Activity Index Level, AMS Unemployment Rate & Trade Weighted Exchange Rate

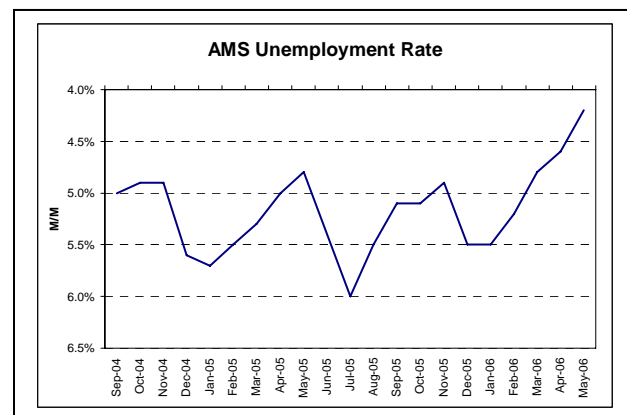
Activity Index Level

The Activity Index Level rose from a revised 116.0 (revised up from 115.3) in March to 116.4 in April.

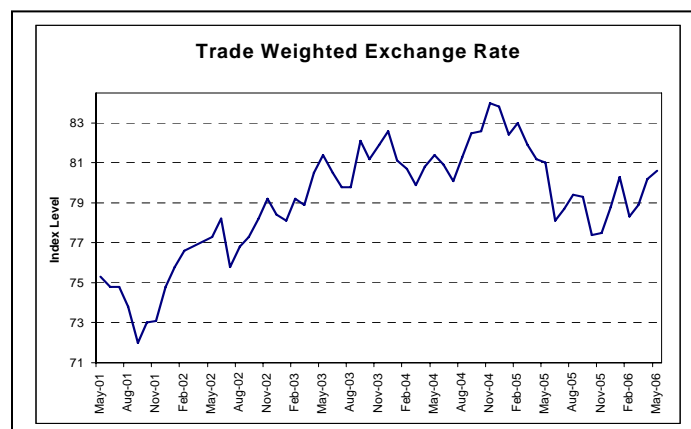


AMS Unemployment Rate

The Labor Board's un-official Unemployment Rate fell for a fourth consecutive month, from 4.6% in April to 4.2% in May. A total of 187K Swedes were unemployed (a decrease of 17K from the month before). The National Labor Board said that the government continues to increase spending on jobs programs and companies are seeking more workers to meet rising demand.



Trade Weighted Exchange Rate



News Releases & Upcoming Dates

New Releases

June 8th – Time for “Further Step” To Be Taken - Riksbank Deputy Governor, Irma Rosenberg, stated that a “further step” should be taken to control inflation. Rosenberg said, “Now may be the time to take a further step toward less expansionary monetary policy to ensure that inflation remains on target and that we have balanced growth in the real economy.” “This also agrees well with the prevailing market expectations,” she added.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
6/20	Riksbank Interest Rate – Jun 20	--	--
6/21	Unemployment Rate – May	--	--

Valance Co., Inc.

Valance Economic Report: Switzerland

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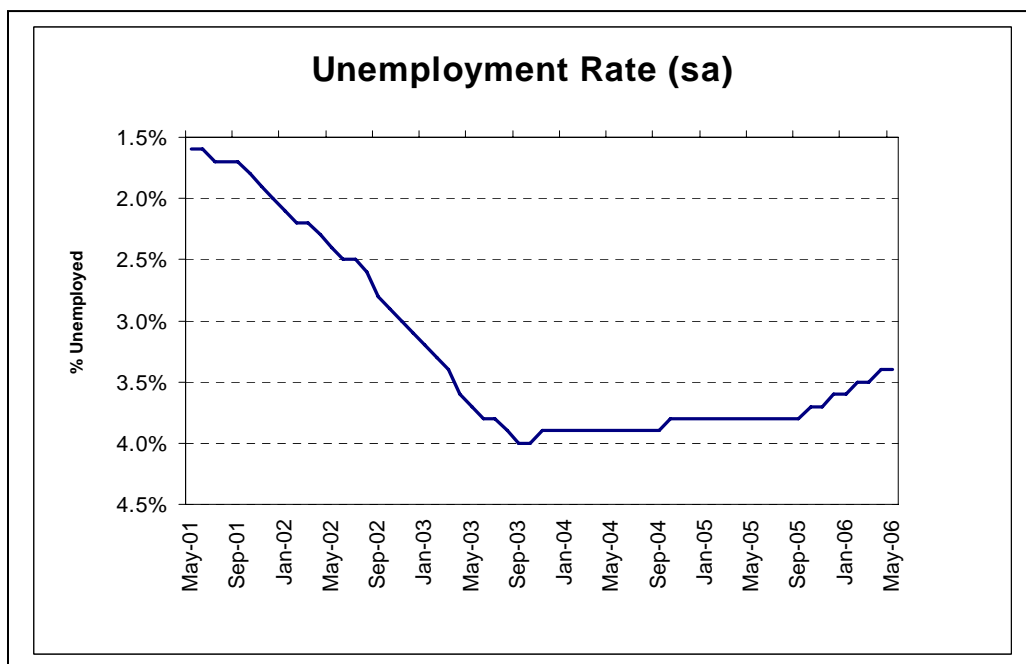
erichards@valance.us

June 14, 2006

Switzerland's Unemployment Rate, the only economic indicator released this past week, held at its lowest level in three years at 3.4% in May. The IMF, Credit Suisse and UBS revised up their growth forecasts for Switzerland's economy for 2006 and 2007.

Weekly Releases & News

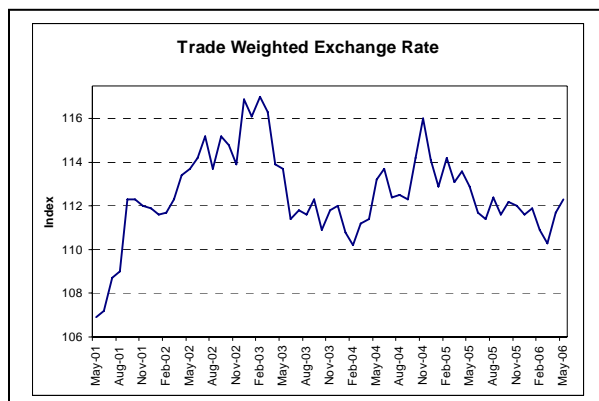
Chart(s) of the Week: *Unemployment Rate*



As expected, Switzerland's seasonally adjusted Unemployment Rate held at 3.4% from April to May – marking its lowest level in three years.

Trade Weighted Exchange Rate & News Releases

Trade Weighted Exchanged Rate



News Releases

June 14th – UBS Raises Switzerland’s Growth Forecasts – Economist, Karin Schefer of UBS stated, in an interview, that UBS raised its growth forecasts for 2006 from 2.3% to 3.0% and for 2007 from 1.3% to 1.4%. Schefer said, “Most economic indicators suggest that the prospects for the current year remain good.” “Domestic demand in the neighboring European countries is also robust so exports are likely to remain an important source of growth,” Schefer added.

June 13th - Credit Suisse Raises Growth Forecasts – Senior Economist, Patrick Muhl of Credit Suisse stated, in a report to investors, that Switzerland’s economy may expand 2.8% in 2006 – above the 2.1% forecast in March -- and 2.1% next year. Muhl stated, “The impulses from abroad are substantial.” He also predicted that exports will surge 8.1% this year; inflation will average 1.4% in 2006 and 2007; and expects the SNB to increase its main lending rate to 2.0% by the end of the year.

June 13th – Survey Shows Fewer Firms Plan To Increase Hiring - A survey of 753 Swiss employers conducted by Manpower, Inc., showed that 10.0% expect to hire, 5.0% will eliminate positions and 82.0% expect no changes. Manpower’s jobs barometer fell from 9.0% to 5.0%. Manpower stated, even though the index has “fallen slightly” it still remains the “second-best result since it was introduced to Switzerland in June 2005.”

June 12th – IMF Revises Switzerland’s 2006 GDP Forecast – The IMF stated in its annual report that Switzerland’s economy will probably expand to 2.2% this year – up from 1.9% predicted in April. The IMF said the economy is “showing some spark” and short-term risks are “contained.” The IMF added, “The current recovery presents an opportunity for Switzerland to advance with ambitious economic reforms in order to boost potential growth.”

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
6/15	SNB 3 Month Libor Target Rate – Jun 15	--	1.25%
6/15	Swiss National Bank Holds Mid-Year Monetary Policy Assessment		
6/17-20	Producer and Import Prices (Y/Y) / (M/M) – May	--	1.9% / 0.8%
6/18-26	Adjusted Real Retail Sales (Y/Y) – Apr	--	-6.8%
6/19	Industrial Production (Q/Q) / (Y/Y) – Q1	--	6.9% / 3.9%