

Valance Company, Inc.



Weekly

July 12, 2006

III

Highlights

US – Payrolls weaker than ADP inflated expectations (page 2)

EU – Industrial Production remains strong in May (page 8)

JN – CGPI, Machinery Orders, and Bank Lending all post solid Y/Y improvements (page 15)

UK – More signs of job market weakness (page 23)

United States

Cesar Guerra
cguerra@valance.us

Euroland

Sean O'Reilly
soreilly@valance.us

Japan

Davin Patton
dpatton@valance.us

United Kingdom

Gabe Webber
gwebber@valance.us

China

Canada

La-Toya Elizee
lelizee@valance.us

Australia

New Zealand

Milo Prochazka
mprochazka@valance.us

Sweden

Switzerland

China

Evelyn Richards
erichards@valance.us

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Valance Economic Reports

Valance Co., Inc.

Valance Economic Report: United States

Cesar Guerra

(340) 692-7710

cguerra@valance.us

July 12, 2006

This week's economic data was highlighted by payrolls that came in below ADP inflated expectations and are trending lower along with the ISM reports released last week. However, some details of the jobs report were mixed with some signs of strength and tightness in the labor market still visible. Also of note, was the release of the Financial Obligations Ratio data for Q1 which showed fragility increasing in the economy as a whole. The current FOR levels reached 18.70%, a high for the current cycle and almost reaching 18.76%, the peak of the previous cycle.

Weekly Highlights

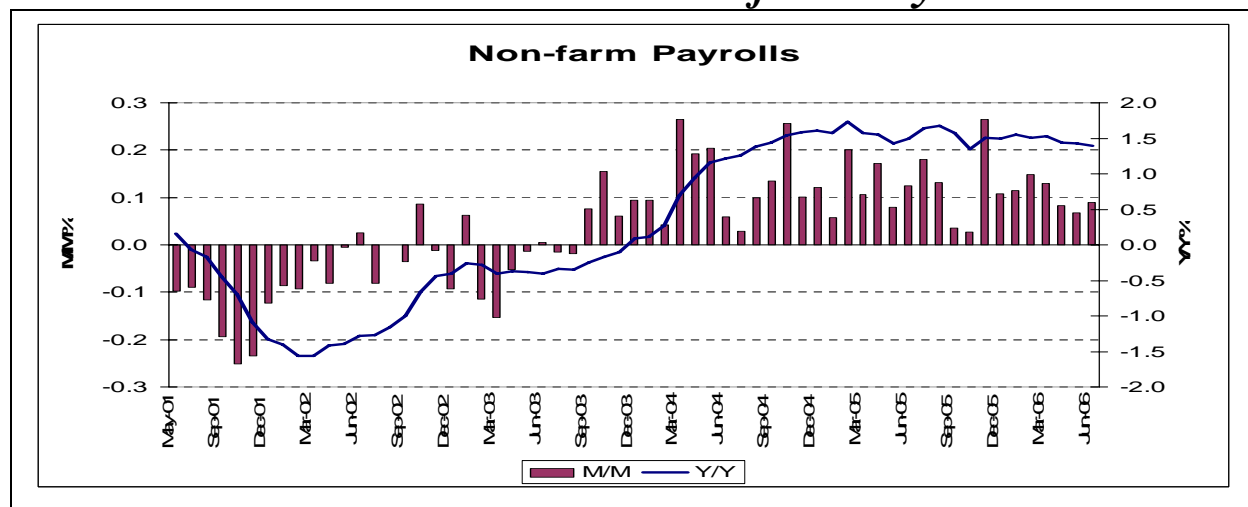
Payrolls- +121k in June, well below ADP inflated expectations. (page 2 & 4)

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

ISM - headlines declined, but remain at healthy absolute levels. (page 6)

Weekly Releases

Chart of the Week: *Non-farm Payrolls*



Non-farm Payrolls increased 121k in June, below expectations and well below the well publicized ADP payroll reading. The trend softness in payrolls supports the Fed's moderating economy thesis, but is challenged by the acceleration in average hourly earnings, gains in average weekly hours and an unemployment rate still at 4.6%. The level of weakness seen in June's payroll data, in and of itself, is likely not enough for the Fed to pause on.

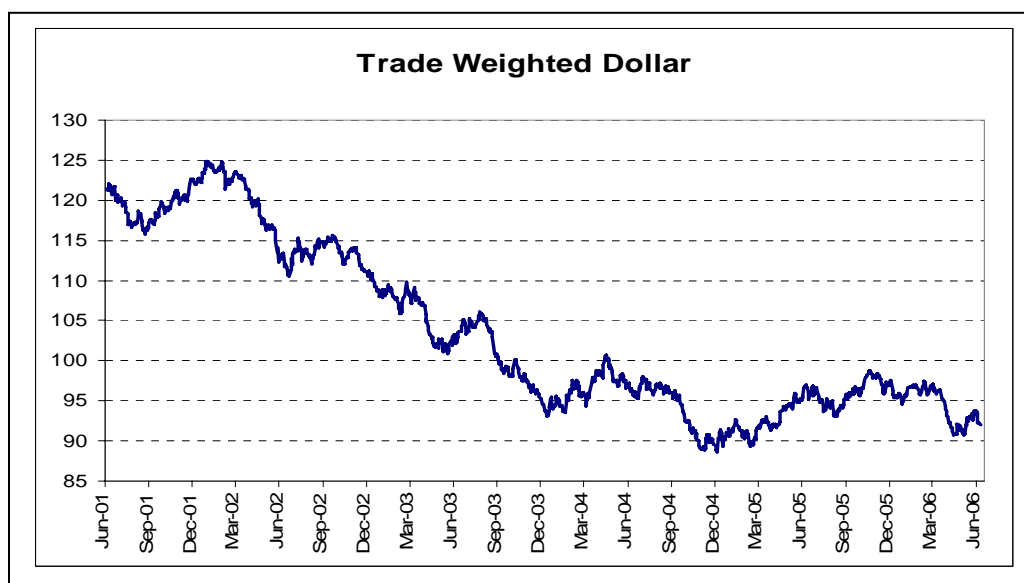
U.S. Financial Balances & Trade Weighted Dollar

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	-63.8 (May)	-5.8%
Current Account Balance	-208.7 (Q1)	-6.4%
Private Balance	--	-4.3%

The budget deficit is currently at \$273 bln on a trailing twelve month basis and forecasts see the budget deficit increasing to \$300 bln with Katrina related spending in fiscal year 2006. The larger budget deficit will stimulate the economy in the short-run, but the trade deficit as of May is still 5.8% of GDP, with no clear signs of narrowing quickly. The budget deficit will remain too small to support a robust and sustained expansion, given the size of the current account deficit. As mortgage equity extraction slows and debt service levels increase, fragility in the economy should become more evident.

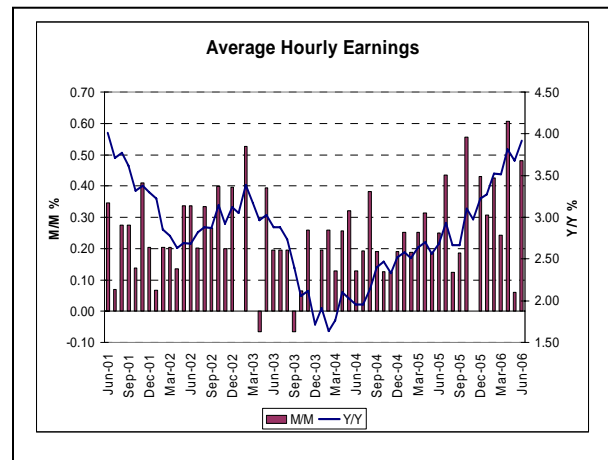
Trade Weighted Dollar



Hourly Earnings, Weekly Hours & Employment Claims

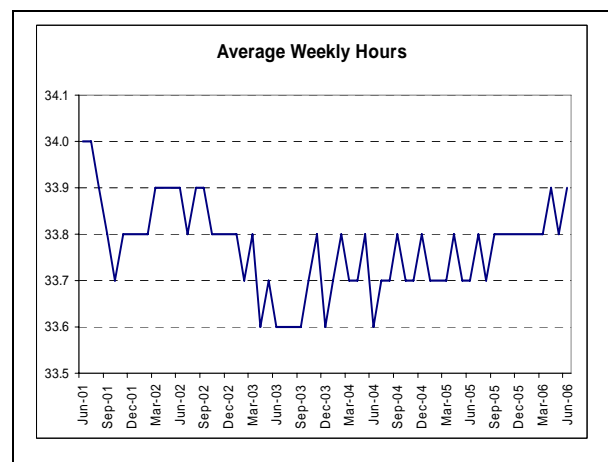
Average Hourly Earnings

Average hourly earnings grew 0.5% M/M and 3.9% Y/Y in June. The Y/Y growth rate has accelerated from 2.7% last year to 3.9% and heightens concerns of core inflationary pressures building. However, broader wage measures that are favored by the Fed such as the ECI, remain very tame.



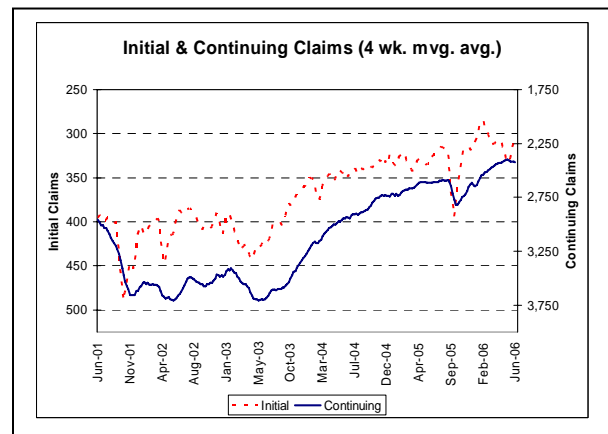
Average Weekly Hours

Average weekly hours increased from 33.8 to 33.9 in June. This reverses the .1 decline in May and suggests a reasonably firm economy. Aggregate hours also showed strength- gaining 0.4% M/M.



Initial & Continuing Claims

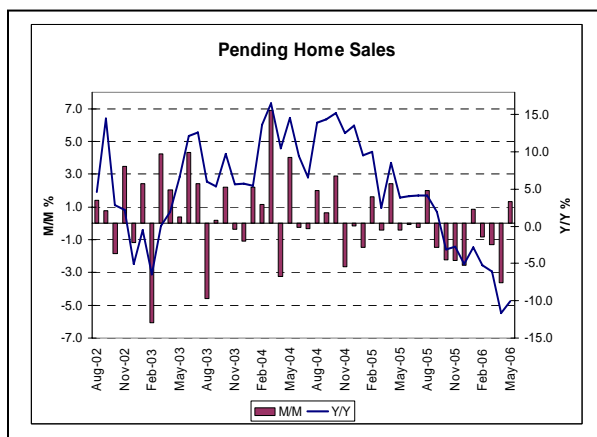
The four week moving average of initial claims increased by 3k to 309k and continuing claims increased by 12k to 2,426k. Claims data remain at healthy levels and do not yet show evidence of a moderating economy.



Home Sales, Mort. Apps. & ISM Non-Manufacturing

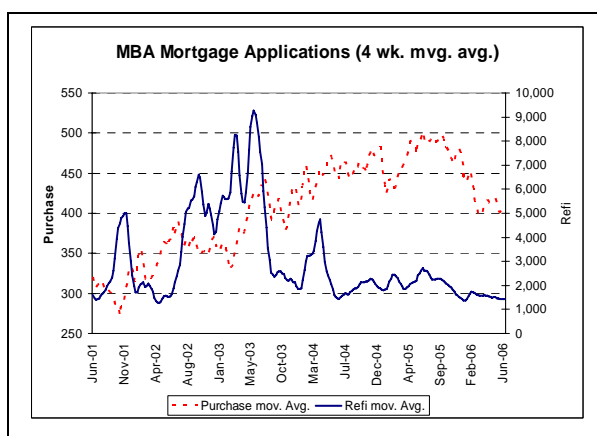
Pending Home Sales

Pending Home Sales increased 1.3% M/M and declined 10.1% Y/Y in May. Despite the up-tick, this series continues to show significant weakness and provides more evidence of a weakening housing market.

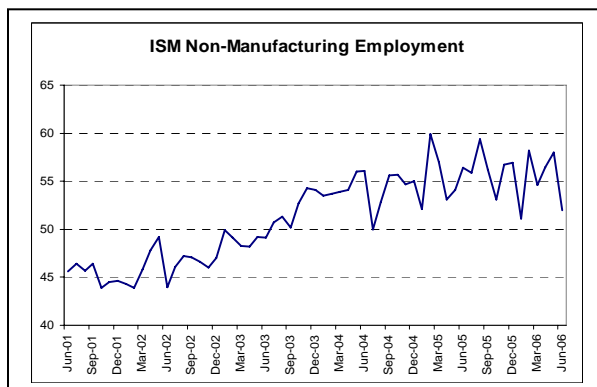
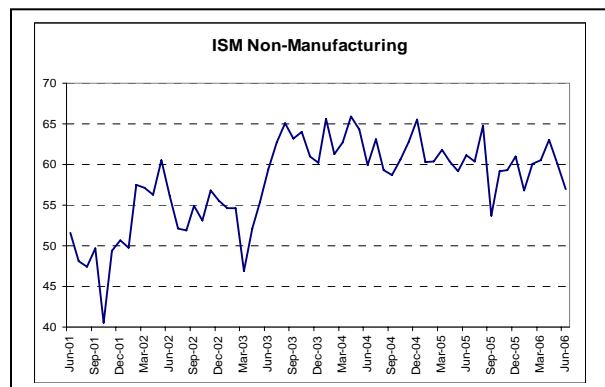


MBA Mortgage Applications

Purchase mortgage applications were up 6.5% W/W and refi applications were up 5.0% W/W this week. The four-week moving average of purchase applications is down 18.7% Y/Y and was down 20.5% Y/Y just based on last week's reading. Purchase applications continue to show weakness in the housing market, but have been steady at current levels for over a month.



ISM Non-Manufacturing

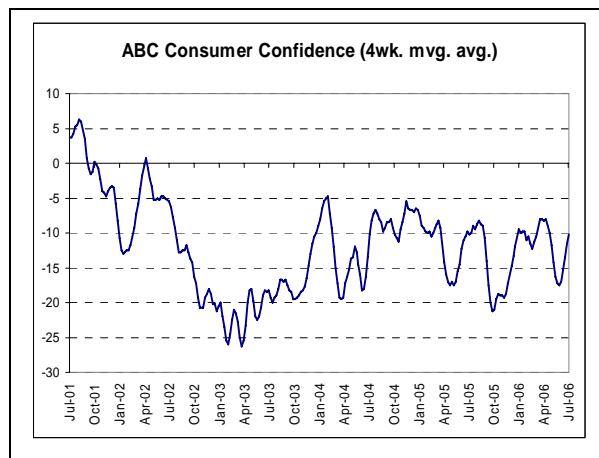


The ISM Non-Manufacturing Index fell from 60.1 to 57.0 in June. The price and employment components decreased from 77.5 and 58.0, to 73.9 and 52.0, respectively. The backlog component increased from 52.0 to 55.5.

Consumer Confidence & Trade Balance

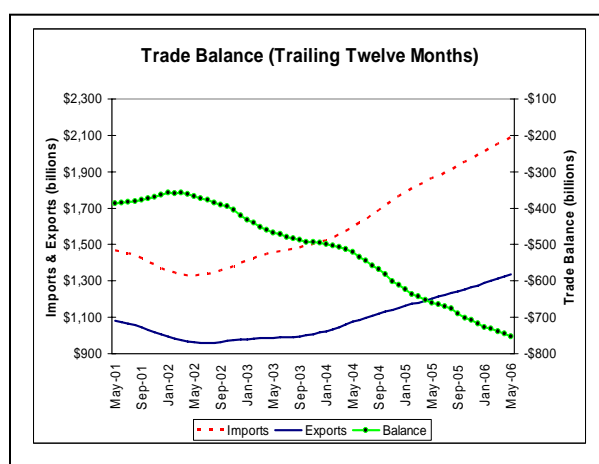
ABC Consumer Confidence

The ABC Consumer Confidence Index declined from -9 to -10 this week. The buying component deteriorated significantly from -22 to -29. The finance component remained flat and the economy component improved from -22 to -21. Consumer confidence remains at weak absolute levels and the sharp fall in the buying climate component could be a sign of future weakness.



Trade Balance

The Trade Deficit widened from \$63.3 bln to \$63.8 bln in May. Imports increased 1.9% M/M and 12.7% Y/Y and exports increased 2.6% M/M and increased 12.6% Y/Y. The trailing twelve month trade deficit is now \$753.0 bln or 5.8% of GDP. The weakening dollar is helping drive export growth along with the economic recovery of US trading partners.



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/13	Initial Jobless Claims (JUL 8)	320K	313K
07/13	Continuing Claims (JUL 1)	2425K	2455K
07/13	Monthly Budget Statement (JUN)	\$20.0B	\$22.9B
07/14	Import Price Index (JUN) (M/M)	0.2%	1.8%
07/14	Retail Sales ex. Autos (JUN)	0.4%	0.5%
07/14	U. of Michigan Confidence (JUL)	85.5	84.9
07/17	Empire Manufacturing (JUL)	21.8	29.0
07/17	Industrial Production (JUN)	0.4%	-0.1%
07/17	Capacity Utilization (JUN)	81.9%	81.7%
07/18	PPI ex. Food & Energy (JUN) (M/M)	0.2%	0.3%
07/18	NAHB Housing Market Index (JUL)	41	42
07/18	ABC Consumer Confidence (JUL 17)	--	-10

Valance Co., Inc.

Valance Economic Report: Euro Zone

Sean O'Reilly

(340) 692-7710

soreilly@valance.us

July 12, 2006

The past week was rather quiet in the Euro Zone as Industrial Production showed modest gains across the board. The Euro Zone economy was slightly stronger than expected in Q1, as domestic demand continues to account for nearly all of the gains in real GDP growth.. Most focus will remain on next week's Consumer Price data as the ECB has once again ratcheted up its hawkish rhetoric as Trichet stated this week that "oil prices call for great attention from the ECB".

Weekly Highlights

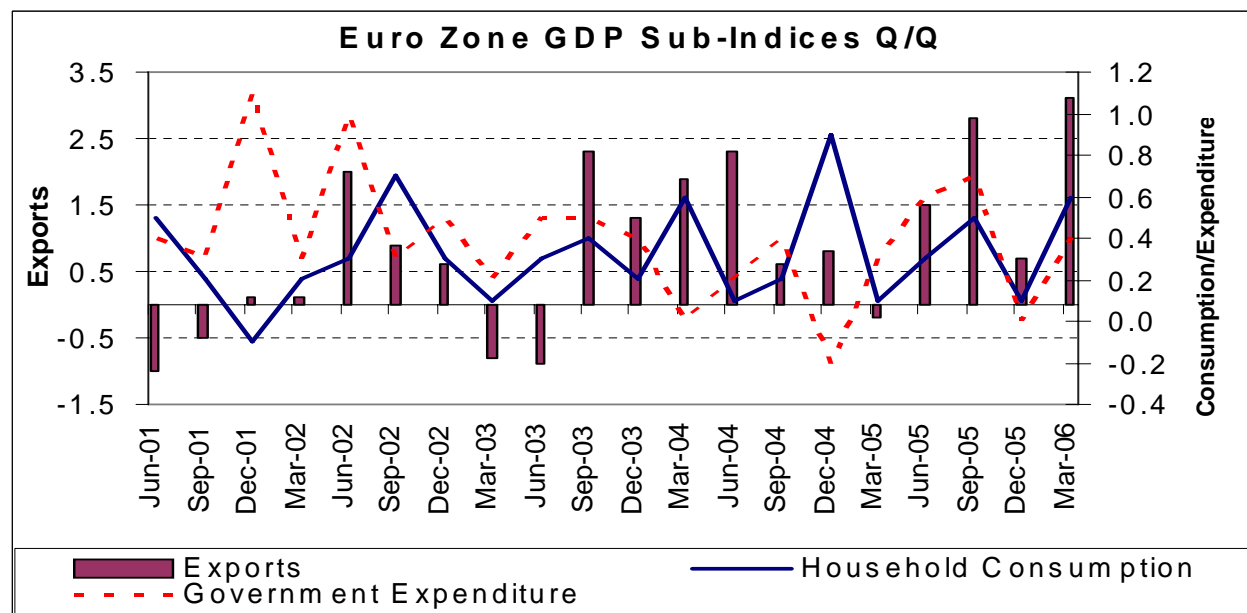
Euro Zone GDP– economy expanded 0.6% Q/Q in Q1. (page 8)

German Industrial Production– expanded 1.5% M/M in May. (page 10)

German Exports– contracted 1.5% M/M in May. (page 11)

Weekly Releases & News

Chart of the Week: Euro Zone GDP



The Euro Zone economy expanded 0.6% Q/Q and 2% Y/Y in Q1, roughly in line with the initial reporting. Household Spending was slightly weaker than expected, 0.6% Q/Q vs. 0.7%; Government Spending was 0.4% Q/Q vs. 0.5%; Gross Fixed Capital was much stronger than expected, 0.9% Q/Q vs. 0.3%; Exports expanded 3.8% Q/Q vs. 3.1% and Imports expanded 2.9% Q/Q vs. 2.5%. On an annual basis, real GDP is up 2.0%, real final domestic demand is up 2.1%, net exports are unchanged, and inventories are down 0.1%.

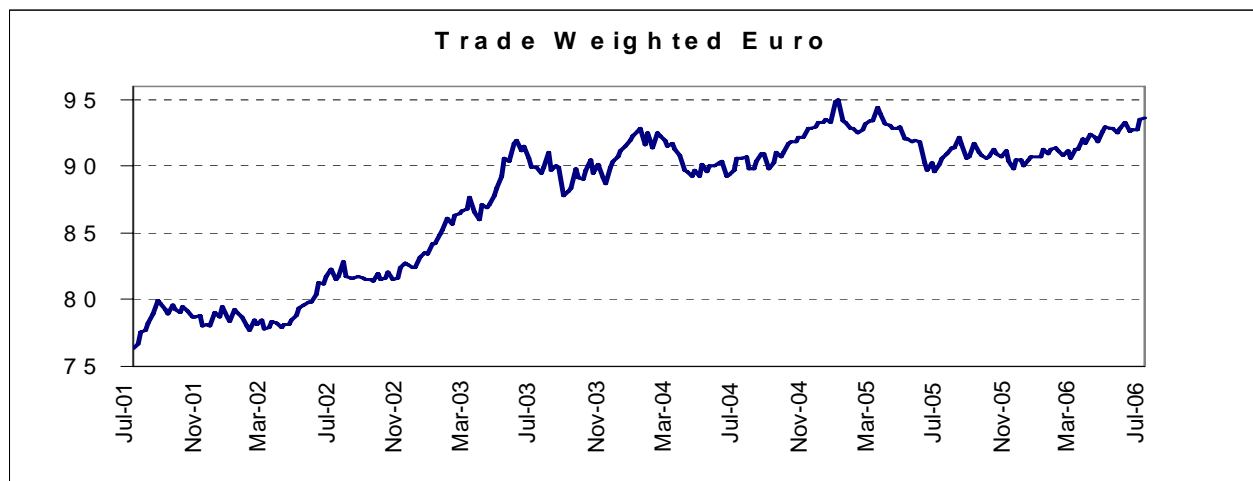
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Euro Zone Financial Balances & Trade Weighted Euro

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	5.7 (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 (April)	-1.0%
Private Savings Balance	--	3.7%
<i>Italy</i>		
Budget Balance	-3.4 (July)	-3.5%
Trade Balance	-2.0 (April)	-1.2%
Current Account Balance	-3.5 (April)	-1.5%
Private Savings Balance	--	3.8%

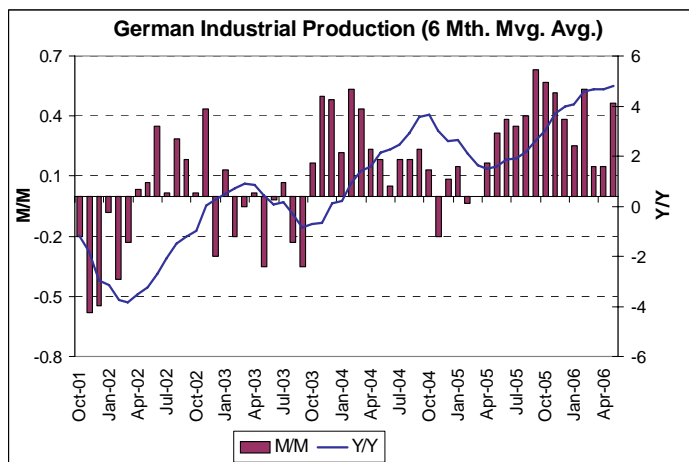
Trade Weighted Euro



German, French & Italian Industrial Production

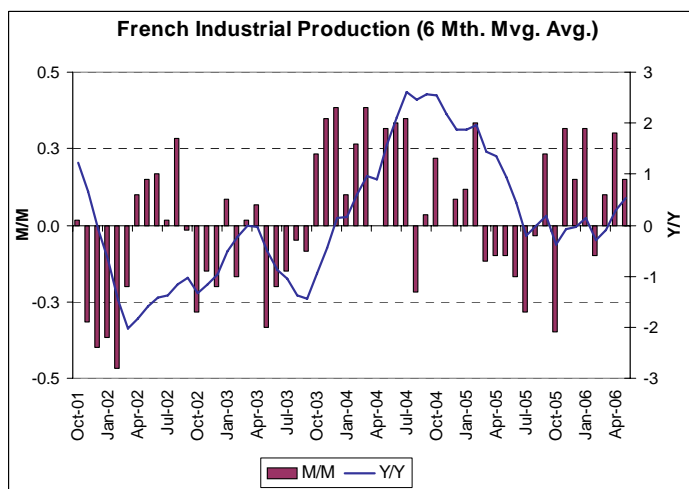
German Industrial Production

German Industrial Production increased the most in a year in May, increasing 1.5% M/M and 5.9% Y/Y. The Economy and Technology Ministry noted, "In view of the positive developments in orders, the development in industrial production should continue to trend higher in coming months."



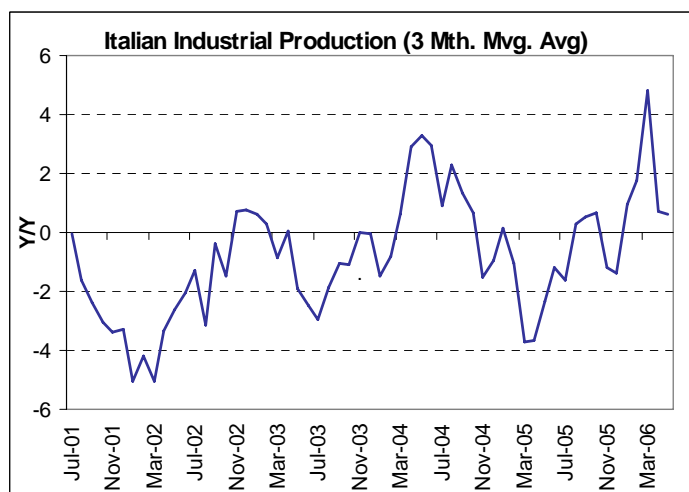
French Industrial Production

French Industrial Production expanded more than expected in May, increasing 2.0% M/M and 2.7% Y/Y. The pickup was a "normalization" from a few disappointing months.



Italian Industrial Production

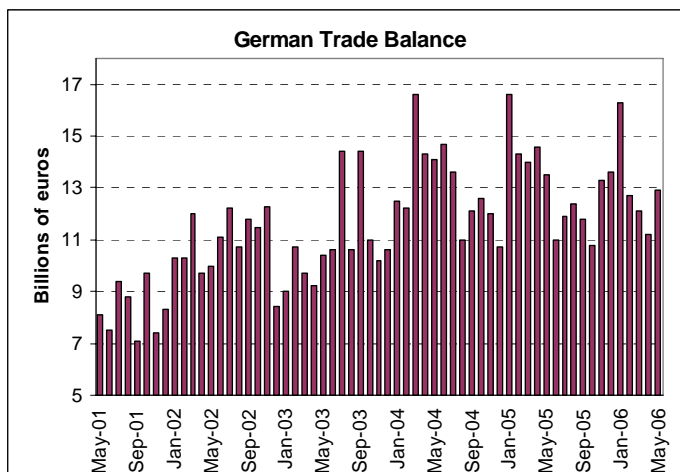
Italian Industrial Production increased 0.9% M/M and 2.9% Y/Y in May after having contracted the two months prior.



German & French Trade

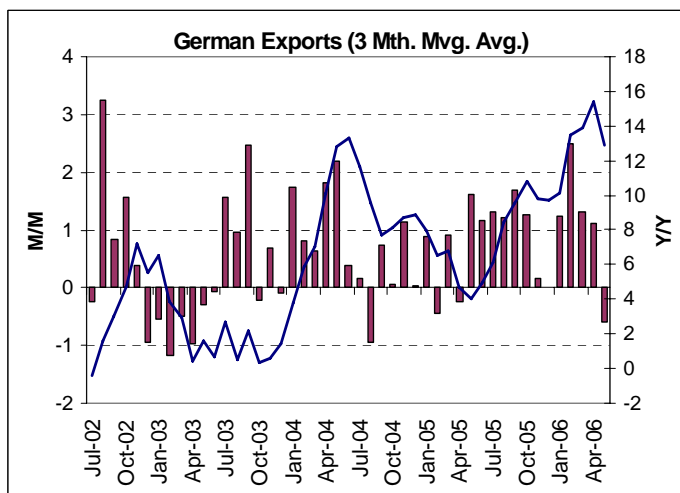
German Trade Balance

The German Trade Surplus widened from 11.2 bln euros in April to 12.9 bln in May as import growth slowed more than that of exports.



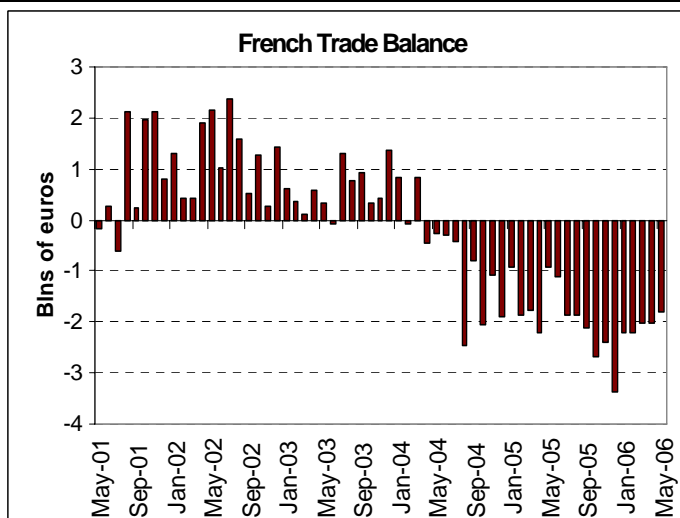
German Exports

German Exports contracted 1.5% M/M and expanded 14.3% Y/Y in May while Imports contracted 2.6% M/M and expanded 16% Y/Y. April's M/M growth figures were also revised downward from 4.3% to 2.0% (exports) and from 2.5% to 1.0% (imports). A Lehman economist noted that it's not unusual to see some volatility but that the "best might be over for exports."



French Trade Balance

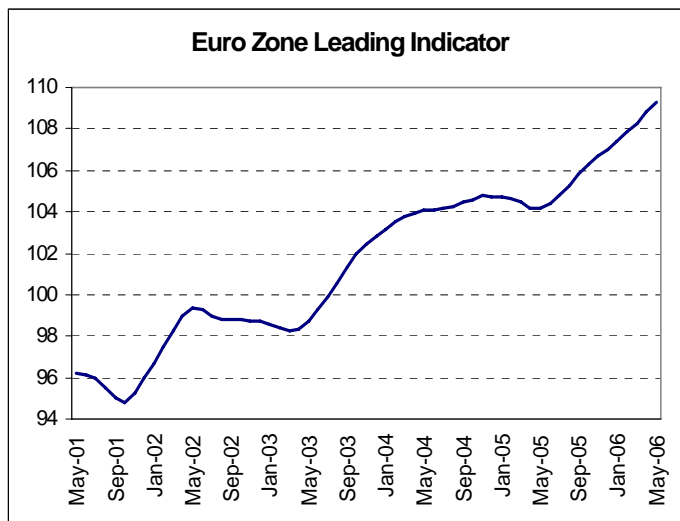
France's May Trade Deficit narrowed slightly from 2.3 bln euros in April to 1.8 bln as exports jumped partly due to the sale of 20 planes by Airbus SAS. Exports increased 1.9% M/M and 8.4% Y/Y while Imports increased 1.2% M/M and 11% Y/Y.



Euro Zone OECD Leading Indicator & News

Euro Zone OECD Leading Indicator

The Euro Zone's May OECD Leading Indicator increased from 109.8 in April to 109.9.



News

July 12th - **The European Commission said persistently high oil prices** and the risk of a sudden plunge in the dollar may dent growth next year after the economy notches its best performance in six years in 2006. The 12-nation euro-area economy may outpace this year's official 2.1 percent growth forecast, while growth may lag in the "medium term" due to threats to global financial stability, the commission said. "Risks to the outlook are on the upside in the short term, but more on the downside over the medium term," the commission said.

July 12th - **The German economy expanded 0.7 percent** in the second quarter the DIW economic research group said. "Compared with orders from abroad, domestic demand is showing signs of accelerating," the institute said. "Private consumption is likely to be one of the cornerstones of the German economy." The DIW on July 4 raised its 2006 growth forecast for Europe's largest economy to 1.8 percent from a January prediction of 1.5 percent and lifted its forecast for next year to 1.4 percent from 1 percent. DIW's second-quarter growth forecast is unrevised and seasonally adjusted.

July 12th - **European Central Bank council member John Hurley** said the bank will show "strong vigilance" against inflation, suggesting the bank is ready to raise its benchmark lending rate as soon as next month. "Risks to the outlook for price developments remain on the upside," said Hurley at a briefing in Dublin today. Inflation risks "relate to the potential for further increases in oil prices, stronger pass-through into consumer prices than expected or further increases in administered prices or indirect taxes."

News

July 12 - **The economy of the dozen-nation euro area will grow at the fastest pace** in two years in 2006, led by consumer spending and gains in exports, three European economic institutes forecast. "Real GDP growth has gained momentum in spring 2006," Germany's IFO, France's Insee and Italy's Isae economic institutes said in an e-mailed report. "The prospects of economic activity remain promising." The institutes predict the \$10 trillion economy grew 0.6 percent in the second quarter and said growth will slow to 0.5 percent in the third quarter and accelerate to 0.6 percent in the final three months. Inflation is likely to slow to 2.2 percent and 2.1 in the third and fourth quarter respectively, "on the assumption that oil prices stabilize around \$70 and that the dollar/euro exchange rate fluctuates between \$1.26 and \$1.30," the institutes said.

July 11th - **European Central Bank council member Axel Weber said the ECB** would to react to any signs record oil prices or increases in value-added tax rates are fueling inflation across the dozen euro nations, Die Welt said, citing an interview. Weber said the German government's plans to raise VAT in Europe's largest economy next year "irritate" a central bank whose focus is on curbing inflation, the newspaper reported. Weber said growth in Germany is "moderate" at present and the "positive mood" after the country's success holding the soccer World Cup over the past month is a "short-term" phenomenon, according to Die Welt. Weber also said he signs "the first signs" that Germany's jobs market is starting to recover, said Welt.

July 10th - **Prime Minister Romano Prodi's government approved measures** that will slash the budget deficit by half a percent within a year. Prime Minister Romano Prodi told a news conference in Rome that the interim measures, worth euro7 billion (US\$8.8 billion), would raise money by fighting tax evasion and keeping spending under control, without raising personal income tax. Economics Minister Tommaso Padoa-Schioppa said the moves were a "step toward" bringing the budget deficit below 3 percent as pledged to the European Union. Just 0.1 percent of the cut in the deficit will be realized in 2006, while Italy had committed to bringing it down by 0.8 percent of GDP this year, Padoa-Schioppa said. The rest will be in 2007.

July 8th - **Jean-Claude Trichet, ECB president, announced that the bank's rate-setting council** would take the exceptional step of meeting in Frankfurt on August 3, rather than by the usual summer holiday teleconference. The central bank was exercising "strong vigilance", he said - code words used to signal interest rate increases in the pipeline. Mr. Trichet gave no indication that the ECB would maintain the brisker pace of increases beyond August 3, saying the bank did "not decide ex ante on any kind of sequencing". The ECB would "progressively" withdraw the boost that low interest rates give to economic growth, and there was no "sentiment" in favor of a larger-than-usual half percentage point rise.

July 8th - **A survey by the BdB Federation of German Banks**, conducted every two years, found that 35 percent of those polled believe the situation in Europe's largest economy will improve, compared with 18 percent in 2004. Just 22 percent of those surveyed said the situation would deteriorate, compared with 30 percent in 2004. Regarding Germany's current economic state, 12 percent said they thought it was good, up from 8 percent in 2004. Fifty-four percent said the picture was mixed, up from 50 percent in 2004.

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Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/13	French Consumer Prices (JUN)	0.1% M/M	0.4% M/M
07/14	Euro Zone New Car Registrations (MAY)	--	-0.7 bln
07/14	Spanish Consumer Prices (JUN)	0.2% M/M	0.4% M/M
07 /14	Spanish Current Account (APR)	--	-9.3 bln
07/17	German Producer Prices (JUN)	0.2% M/M	0.1% M/M
07/18	Euro Zone ZEW Econ. Sentiment (JUL)	--	37.3
07/17	Euro Zone CPI (JUN)	--	0.3% M/M

Valance Co., Inc.

Valance Economic Report: Japan

Davin Patton
(340) 692-7710
dpatton@valance.us

June 12, 2006

This week's data was mixed. Consumer Confidence declined M/M along with CGPI and Machine Orders. Most series remain on a positive trend however, with CGPI, Machinery Orders, and Bank Lending all posting solid Y/Y improvements. All told, the data gives the BoJ enough room to end its Zero Interest Rate Policy at its next meeting on July 13th.

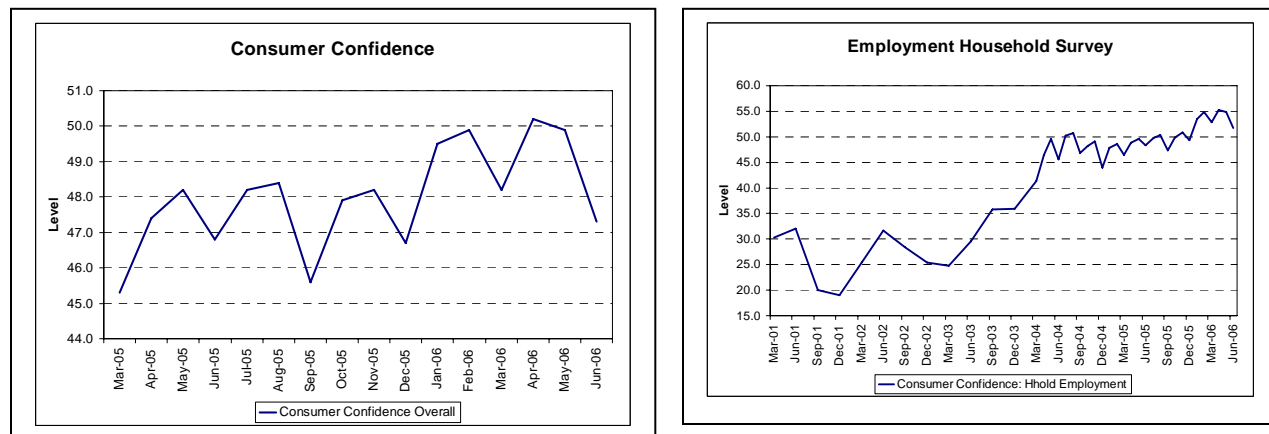
Weekly Highlights

Consumer Confidence – declined from 49.9 to 47.3 in June. (page 15)

CGPI – declined 0.1% M/M and increased 3.3% Y/Y in June. (page 17)

Machine Orders – declined 2.1% M/M and increased 15.8% Y/Y in May. (page 18)

Charts of the Week: *Consumer Confidence*

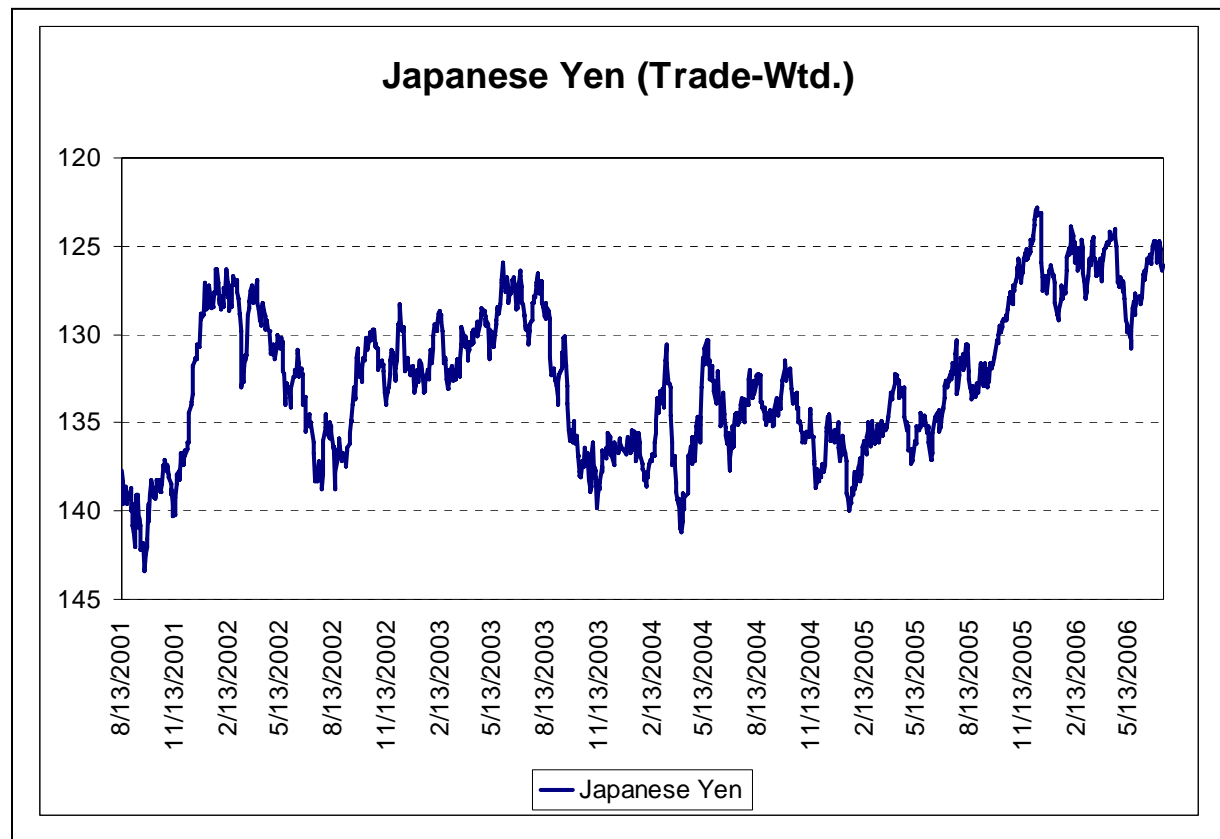


Japan's Consumer Confidence Index declined from 49.9 to 47.3 in June. The overall livelihood index declined from 46.7 to 44.8. The income growth component of the index declined from 46.3 to 43.3. The employment component of the index declined from 54.9 to 51.7. The willingness to buy durable goods component declined from 51.2 to 48.8. Despite the decline, the overall trend remains positive. The sharp increase in the number of pessimists was attributed to concerns that prices will increase faster than wages in the coming months.

Japan's Financial Balances

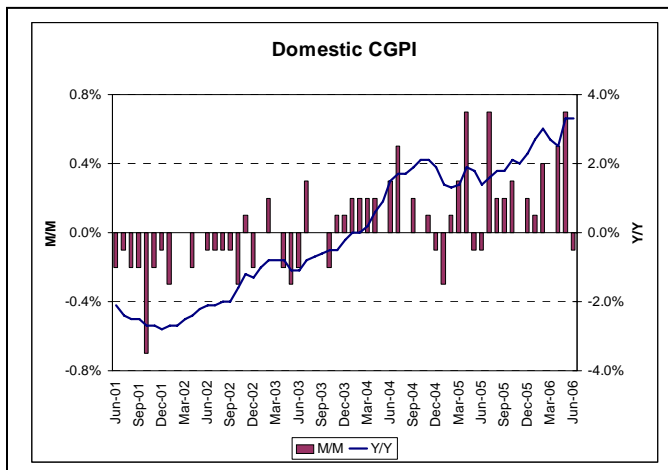
Financial Balances

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

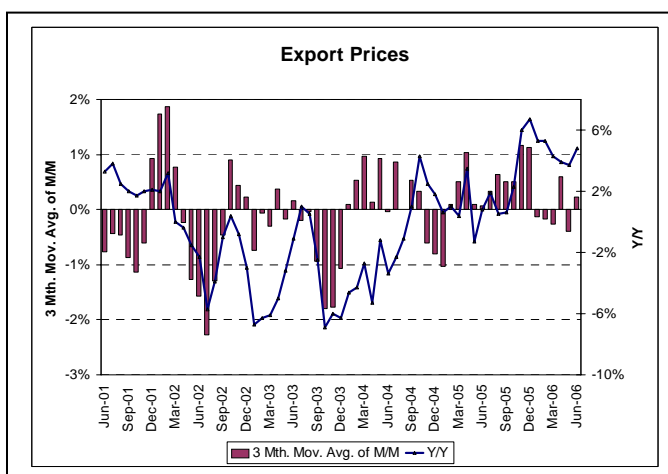


CGPI, Export & Import Prices

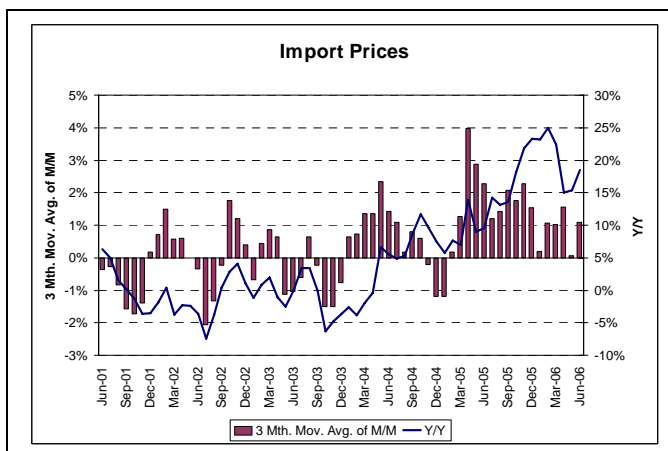
Japan's CGPI Index declined 0.1% M/M and increased 3.3% Y/Y in June, below market expectations for a 0.1% M/M and 3.4% Y/Y increase. The M/M decline was caused by declines in commodity prices as well as declines in textiles and electrical machinery. Despite the M/M decline, the series saw its 28th consecutive month of Y/Y increases and remains near its 25 year high on an annual basis.



Export prices increased 1.6% M/M and 4.8% Y/Y in June. The Y/Y increase in export prices was driven by increases in the metals, chemicals, and textiles sectors.



Import prices increased 2.7% M/M and 18.5% Y/Y in June. The Y/Y increase was largely driven by the metals and petroleum sectors.



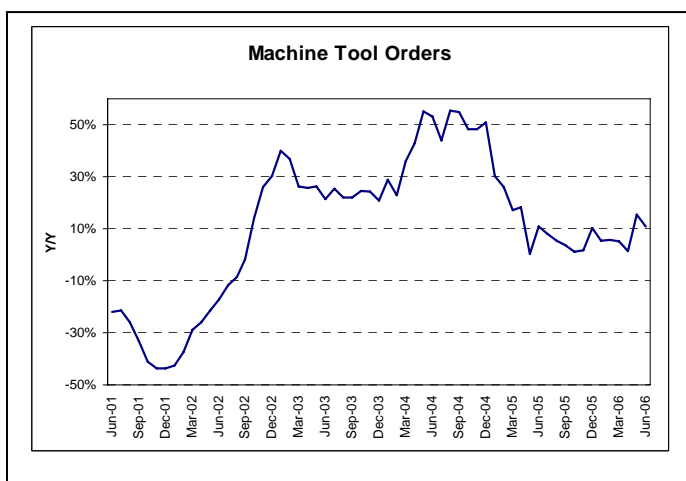
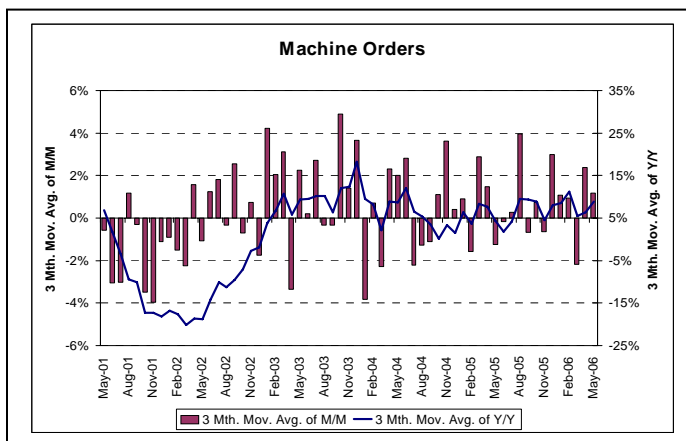
Machine Orders & Machine Tool Orders

Core Machine Orders declined 2.1% M/M and increased 15.8% Y/Y in May, well ahead of market expectations for a 5.0% M/M decline and 12.4% Y/Y increase.

Although orders placed by manufacturers declined 5.5% M/M, orders placed by non-manufacturers declined 1.2% M/M, with the transport and agriculture sectors increasing their orders.

Machinery Tool Orders increased 3.0% M/M and 10.9% Y/Y in June, with the M/M increase led by increases in domestic orders.

On balance, the data suggests that Machinery Orders, which tend to reflect capex, will continue at a solid pace in the coming months; so long as machinery orders in June do not decline by more than 16.9%, Q2 orders will exceed Q1 orders.

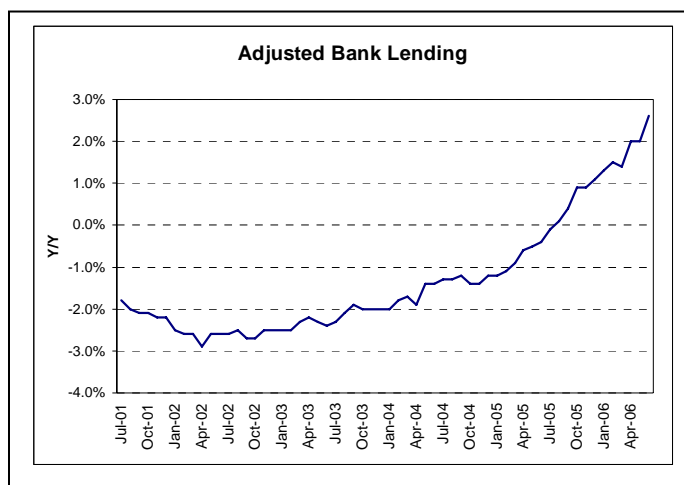


Bank Lending & Eco Watchers Survey

Bank Lending

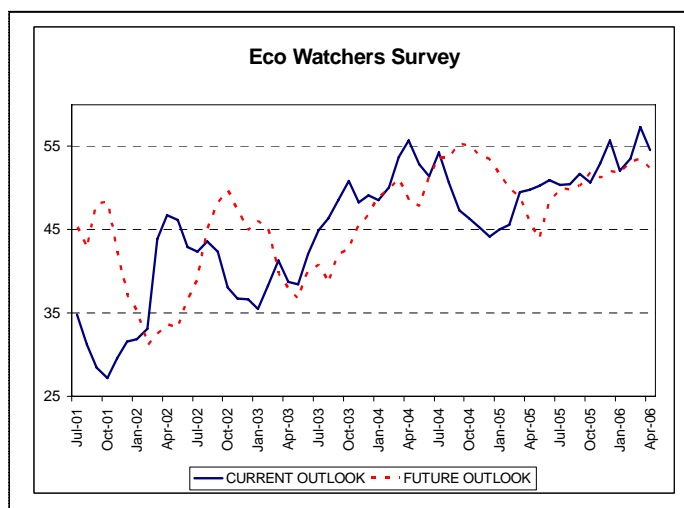
The amount of loans outstanding increased 2.6% Y/Y in June. Among all banks, including city, regional, and shinkin banks, lending increased 1.7% Y/Y in June, above the 1.5% Y/Y increase economists were looking for.

The increase in lending was the largest increase since March 1996, and falls in line with reports of improved corporate balance sheets and plans of continued capex expansion in the coming months.



Eco Watchers Survey

In June, the Eco Watchers Survey's Current Conditions Index declined from 51.5 to 49.1. The Outlook Index declined from 53.8 in May to 51.8 in June. Within the survey, the Employment Conditions Index declined from 59.6 to 58.2 while the Employment Outlook declined from 58.4 to 57.4. The Business Conditions Index declined from 50.6 to 50.1 while the Business Conditions Outlook declined from 52.0 to 50.7. Despite the widespread declines in April, the overall series remains on an upward trend and the number of optimists continue to outnumber the number of pessimists.



News

News

July 11th - Finance Minister Tanigaki commented that the BoJ should maintain near-zero rates, stating that, "Given that there's little concern about inflation, I think zero interest rates are desirable" for the economy.

He also commented that "I want the BOJ to make a judgment after carefully examining economic and market developments...we're keenly watching movements in interest rates...we hope (the BoJ) will examine them sufficiently and make a decision."

July 11th - Economy Minister Yosano reiterated his view that, "I want (the BOJ) to make a proper assessment (of whether global markets have stabilized and the direction of the US economy) in deciding various things."

July 10th - Vice Finance Minister Hosokawa commented at a regular news conference that, "As we've been saying, it's necessary (for the BoJ) to support the economy if we're to make economic growth sustainable. Hosokawa did not, however, reiterate his view that the BoJ should maintain its ZIRP, suggesting that the ministry has eased its stance against a rate increase by the BoJ.

July 10th - Chief Cabinet Secretary Abe called on the BoJ to maintain its ZIRP, stating that, "It's desirable(for the BoJ) to stick to zero interest rates for some time, from the standpoint of supporting the economy on the financial front." He also commented that although the BOJ has jurisdiction over monetary policy, he felt that it should continue to work with the government to ensure that the country escapes deflation and doesn't relapse to an era of price declines.

July 10th - According to the Nihon Keizai Shimbun, a 1pctg pt rate increase would boost net interest income at households by ¥6.2 trln while reducing corporate profits by as much as ¥3 trln. Such a rate increase would increase housing loans and other financial burdens on households by about ¥2.5 trln. This increase would be offset by a ¥8.8 trln increase in interest income from deposits however. The calculations are based on the assumption that the economy "will continue making steady strides toward pulling out of deflation". The increase in household interest income is expected to boost consumer spending by ¥1.2 trln.

On the business side, such a hike would dampen corp. profits by ¥1.67 trln among big companies and ¥1.4 trln among smaller, sub-¥100 mln capitalized, companies. To offset this profit decline of ¥3.1 trln, companies would either need to raise prices or sales volume by 1.2% or cut fixed costs - such as labor expenses, by the same margin.

The article noted that banks would be both positively and negatively affected by the hike. Such a hike would increase revenues by an estimated ¥700 bln, but would also cause them to incur valuation losses on their holdings of JGBs.

News

News

July 10th - The Cabinet Office upgraded its FY06 GDP forecast by 0.2pt from the start of the year to indicate 2.1% real growth in FY06. The cabinet office also noted that it expects FY07 GDP to show real growth of around 2%, suggesting that they expect prices to grow at a steady pace following the end of deflation.

July 7th - The Japanese Cabinet approved the government's 2006 economic policy guideline featuring spending cuts worth ¥11.4 trln to ¥14.3trln in the next 5 years, also overhauling the nation's tax system.

The spending cuts would cover 69-87% of an estimated revenue shortfall of ¥16.5 trln in FY11, by which time the gov't aims to achieve a surplus in the primary balance at both national and local levels.

The remaining shortage of ¥2.2 trln - ¥5.1 trln is expected to be covered via tax increases including a possible increase in the consumption tax from the current 5%.

July 7th - BoJ Gov. Fukui commented that, "The economy is moving largely in line with our report so far," comparing recent data with the BoJ's predictions released in its April Report.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/12	Adjusted Current Account Total (May)	¥1621.0 Bln	¥1136.0 Bln
07/12	Trade Balance (BoP Basis)	¥570.0 Bln	¥755.6 Bln
07/13	Tokyo Condominium Sales (June Y/Y)	N/A	-18.6%
07/13	Industrial Production (May M/M)	N/A	-1.0%
07/13	Capacity Utilization (may)	N/A	106.6
07/13	BoJ Monetary Policy Meeting	N/A	N/A
07/14	BoJ Monthly Report	N/A	N/A
07/17-21	Tokyo Dept. Store Sales (June Y/Y)	N/A	-0.3%
07/17-21	Nationwide Dept. Sales (June Y/Y)	N/A	-1.1%
07/17	Tertiary industry Index (May M/M)	N/A	1.3%
07/18	Bankruptcies (June Y/Y)	N/A	1.0%
07/18	Leading Economic Index (May)	N/A	75.0%
07/18	Coincident Index (may)	N/A	77.8%
07/19	Machine Tool Orders (June Y/Y)	N/A	10.9%

Valance Co., Inc.

Valance Economic Report: *United Kingdom*

Gabriel Webber

(340) 692-7710

gwebber@valance.us

July 12, 2006

Mostly weaker economic data was released over the past week in U.K. Average Earnings and Claimant Count Unemployment posted weaker results, while Producer Input Prices posted results below expectations.

Weekly Highlights

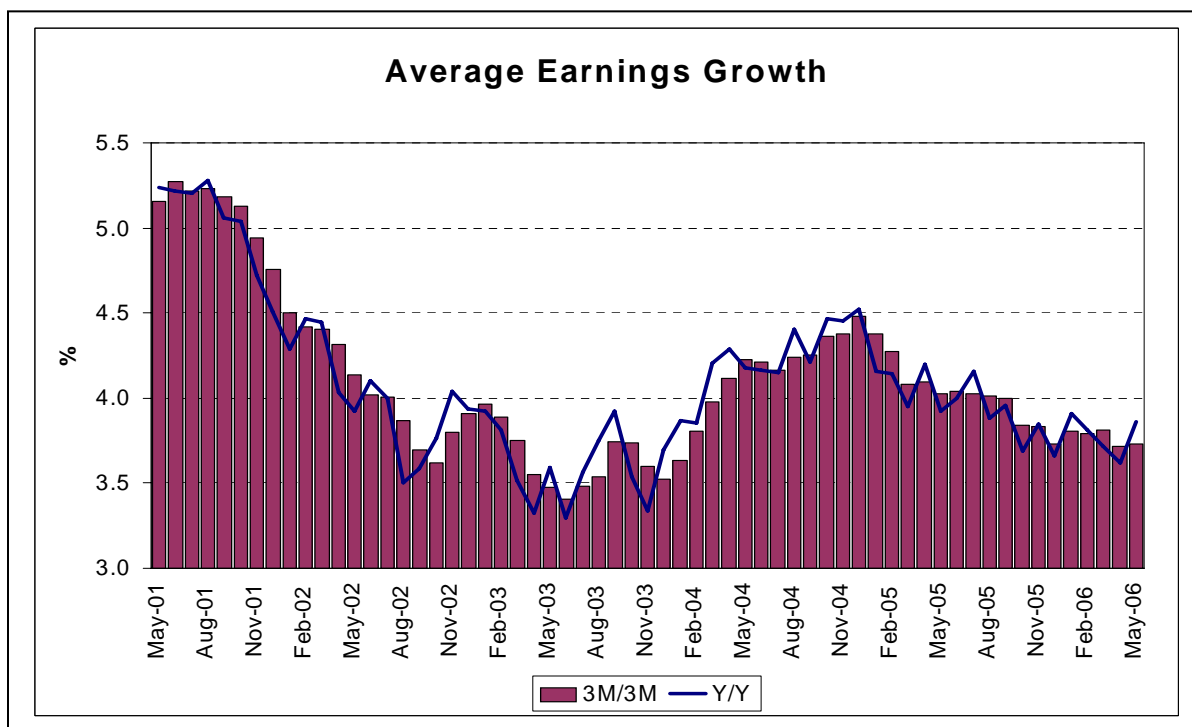
Jobless Claims - reached their highest level since 2002. (page 25)

DCLG House Prices - increased 1.0% M/M and 5.6% Y/Y in May. (page 25)

Input Producer Prices - decreased 0.2% M/M and increased 10.9% Y/Y in June. (page 26)

Weekly Releases & News

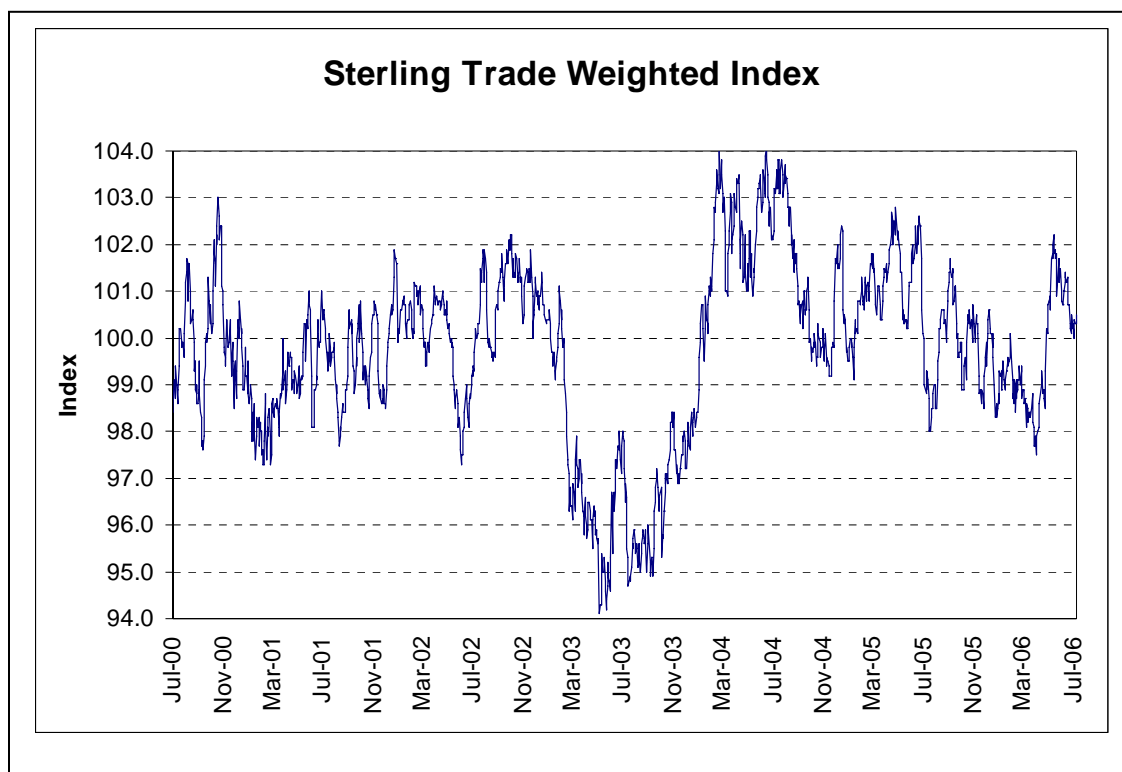
Chart of the Week: *Average Earnings Growth*



Average Earnings excluding Bonus increased 3.8% (3mth Avg Y/Y) in May. Average Earnings (Inc bonus) slowed from 4.4% to 4.1% (3mth Avg Y/Y). Public Sector Earnings increased 3.1% Y/Y and Private Sector Earnings increased 4.6% Y/Y.

Financial Balances & Trade Weighted Index

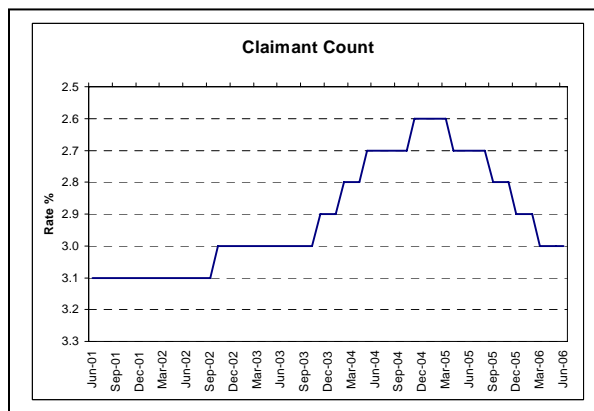
<i>U.K.</i>	<i>Last Period (blns)</i>	<i>Last 12mth. % of GDP</i>
Budget Balance (monthly)	-£10.4 (May)	-3.5%
Trade Balance (monthly)	-£4.0 (April)	-1.4%
Curr. Acct. Balance (quarterly)	-£8.3 (Mar)	-2.8%
Private Balance	--	0.6%



Unemployment and Housing Data

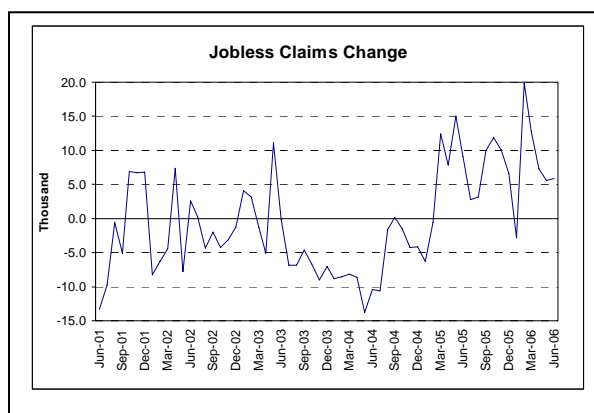
Claimant Count

The Claimant Count Rate remained at 3.0% for the fourth consecutive month in June.



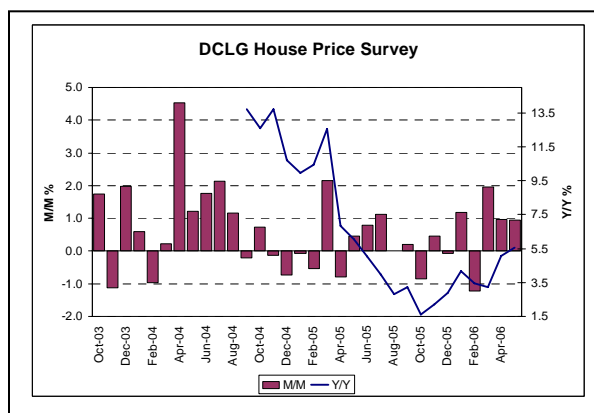
Jobless Claims Change

Jobless Claims increased by 5,800 to 956,000 in June, the highest level since 2002.



DCLG House Price Survey

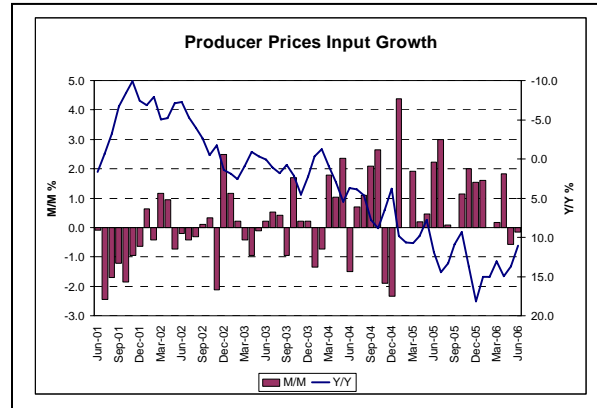
Department for Communities and Local Government (DCLG) House Prices increased 1.0% M/M and 5.6% Y/Y in May.



Producer Prices

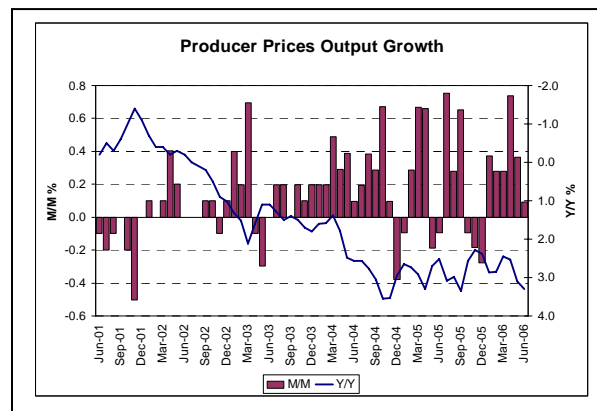
Producer Prices Input Growth

Input Producer Prices decreased 0.2% M/M and increased 10.9% Y/Y in June. Fuel prices declined 4.2%.



Producer Prices Output Growth

Output Producer Prices increased 0.1% M/M and 3.3% Y/Y in June. Core Output prices increased 0.3% M/M and 2.9% Y/Y in June.



Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/17	RICS House Price Balance	--	--
07/18	CPI	--	0.5% M/M 2.2% Y/Y
07/19	MPC Minutes	--	--

Valance Co., Inc.

Valance Economic Report: *Canada*

La-Toya C. Elizee
(340) 692-7710
lelizee@valance.us

July 12, 2006

The Bank of Canada held its key interest rate at 4.25%, citing the outlook for economic growth and inflation in Canada is largely unchanged from its April's Report, but that downside risks increased for 2007 and 2008. On the data front, employment declined, though the Unemployment Rate stood pat at a 32 year low, Housing Starts increased above expectations, and New House Prices posted their strongest M/M gain since 1989.

Weekly Highlights

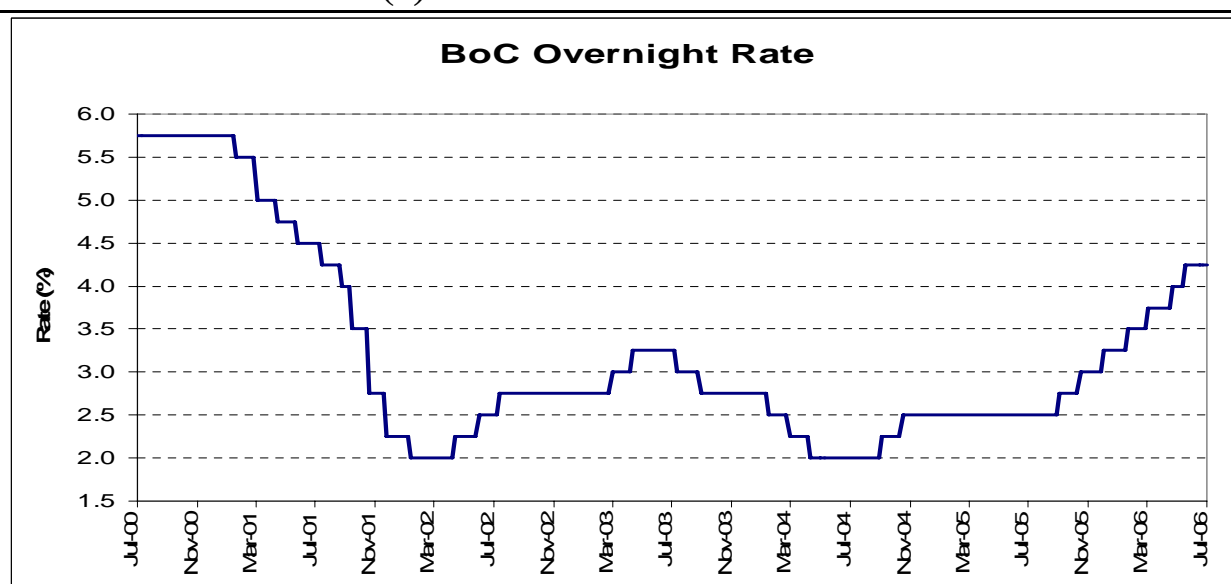
Canada's Unemployment Rate – remained at a 32 year low. (page 28)

New House Prices - posted their fastest M/M increase since March 1989. (page 31)

Merchandise Trade Surplus - widened from C\$3.9 bln in April to C\$4.1 bln in May. (page 32)

Weekly Releases & News

Chart(s) of the Week: *BoC O/N Rate*



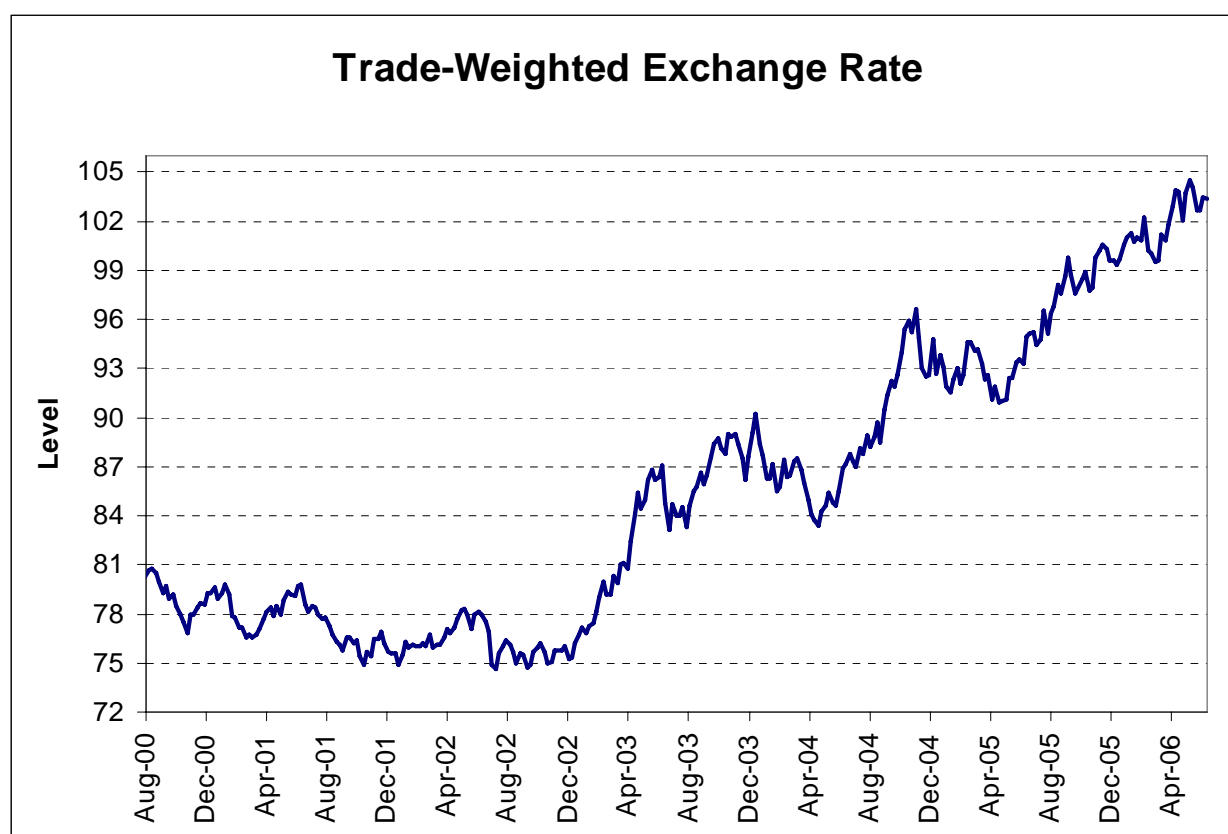
The Bank of Canada (BoC) voted to keep interest rates at 4.25%, the first time in 8 meetings they did not raise rates. They cited the 2006 outlook for economic growth and inflation was largely unchanged from its April Monetary Policy Report. "Growth in Canada in the first half of 2006 appears to have been a little stronger ... Total CPI inflation has remained above the 2 per cent target, mainly because of increases in consumer energy prices, while core inflation moved up to 2 per cent slightly sooner than expected. All factors considered, the Canadian economy is currently judged to be operating just above its production capacity," the Bank stated. The BoC also pointed to weaker growth in 2007 and 2008 as well as concerns for the export sector due to a strong C\$ and a weaker U.S. economy. The Bank's decision to keep rates at 4.25% was in line with our view; however, the extremely dovish statements following the rate decision came as a surprise as we expected the BoC to keep its options open for at least one more rate hike before year end.

Financial Balances & Trade Weighted Exchange Rate

Financial Balances

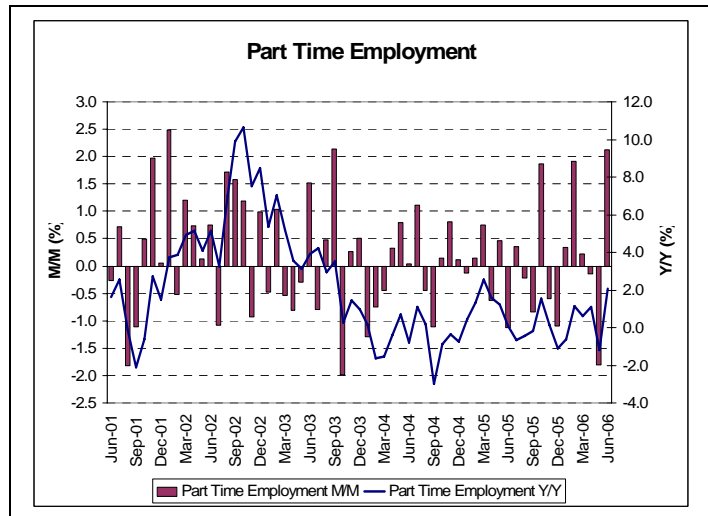
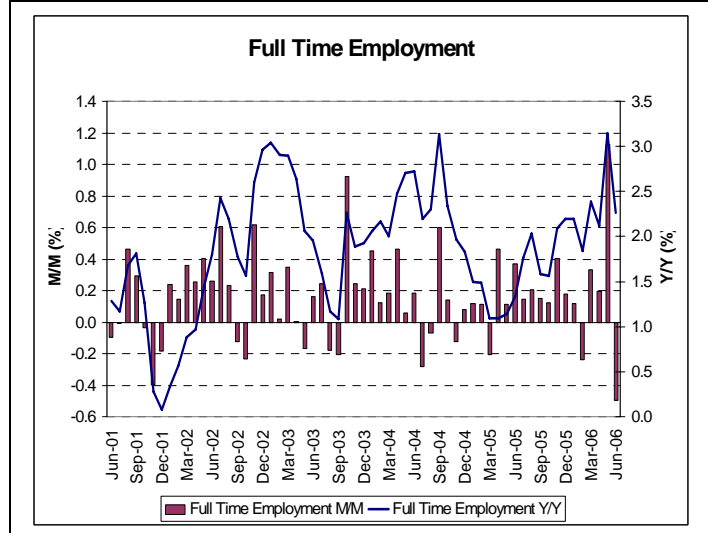
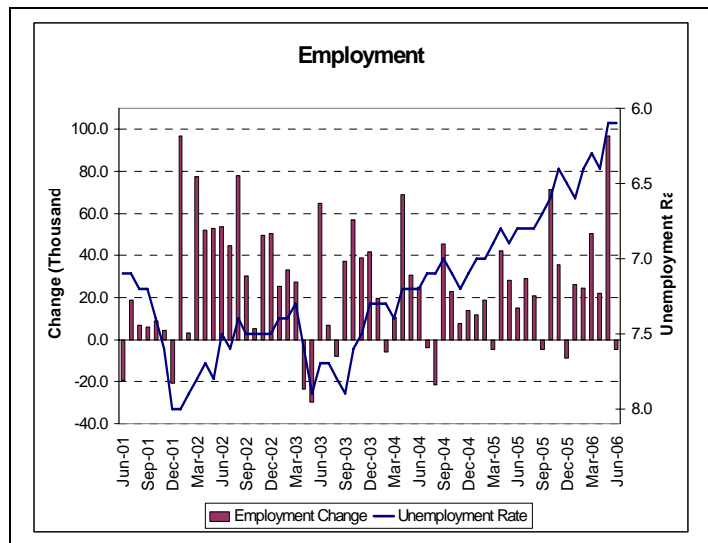
<i>Canada</i>	<i>Latest period (C\$bln)</i>	<i>Last 12mth. as % of GDP</i>
Budget Balance	2.6 (Apr)	0.8%
Trade Balance	4.1 (Apr)	5.0%
Current Account Balance	10.7 (Q1)	2.7%
Private Balance	--	1.9%

Trade-Weighted Exchange Rate



Employment Data

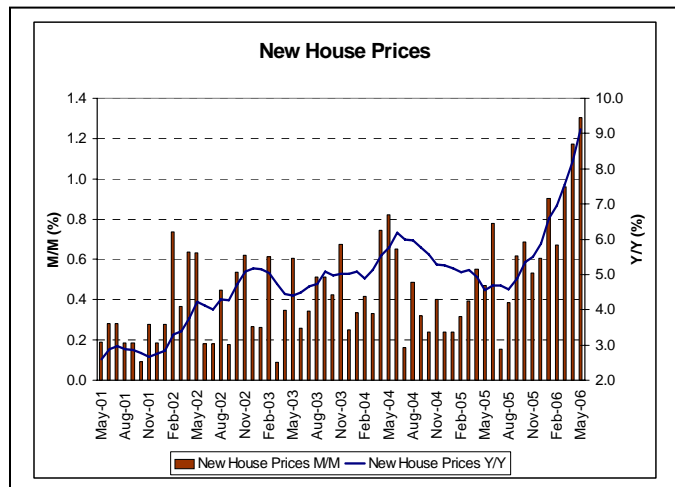
The Canadian economy lost 4.6K jobs in June, following a huge gain of 96.7K jobs in May. Expectations were for a small increase of 10K. Full time employment decreased by 67.1K jobs, while part time employment increased by 62.5K jobs. The Unemployment Rate stood pat at a 32 year low at 6.1%. Despite the decline in employment for the month of June, employment was up 1.3% or 216K for the first half of this year, more than twice the growth seen in the first half of 2005.



New House Prices & Housing Starts

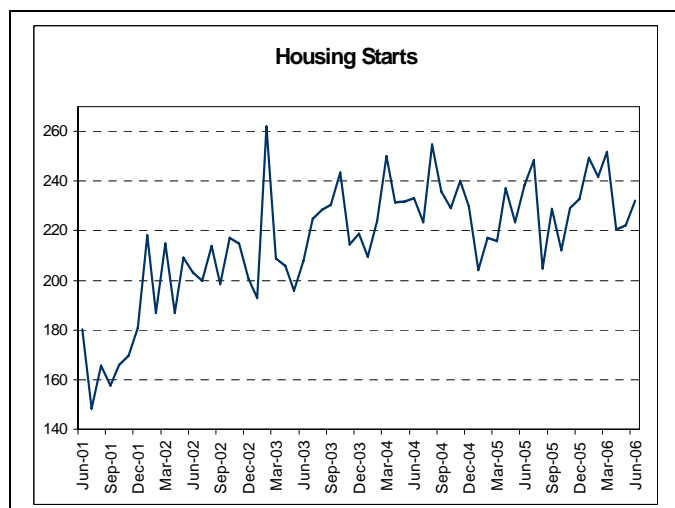
New House Prices

New House Prices increased 1.3% M/M and 9.1% Y/Y in May, the fastest M/M increase since March 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

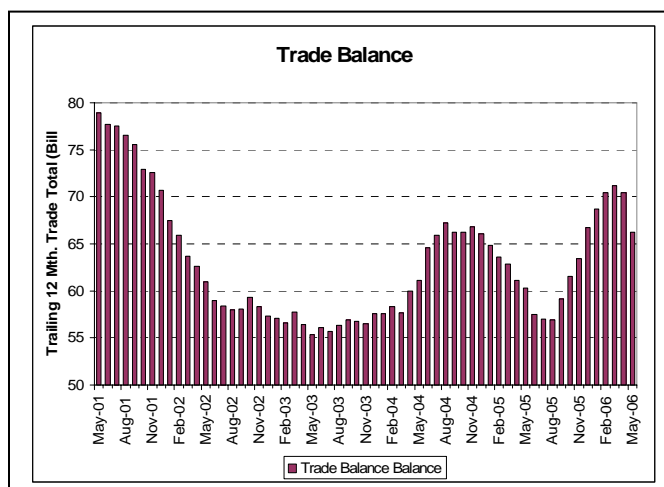
Housing Starts increased 4.5% M/M in June, as work on apartment and condominium project increased. Y/Y growth decreased 2.6% Y/Y. Increasing wages bodes well for further increases in demand for new houses.



Trade Data

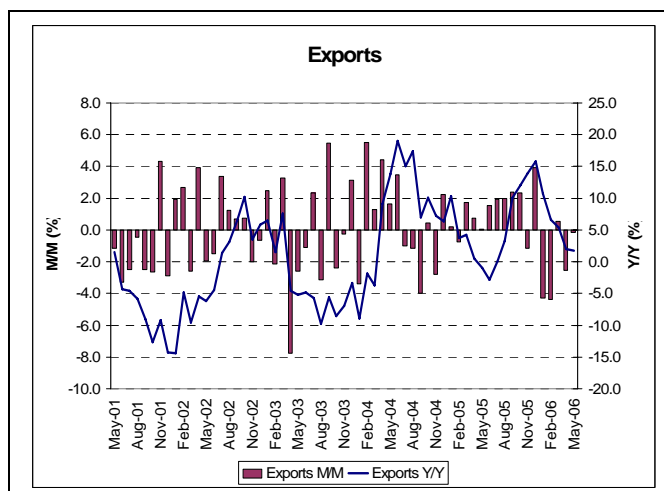
Trade Balance

Canada's Merchandise Trade Surplus widened from C\$3.9 bln in April to C\$4.1 bln in May. Canada's merchandise trade surplus with the United States inched down from \$8.3 bln to \$8.2 bln; this was attributed to a slightly larger decrease in exports than imports. The deficit with countries other than the United States decreased to \$4.2 bln from a revised \$4.4 bln.



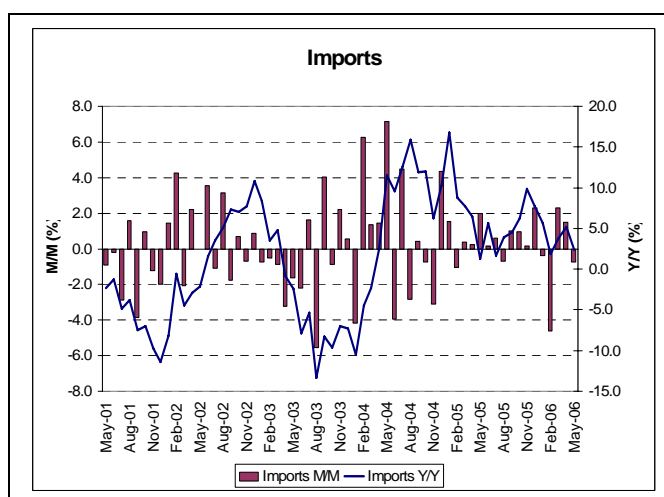
Exports

Exports decreased 0.2% M/M in Ma; the decline was shallow but broadly based. Decreases were posted in the energy products, agricultural and fishing products, forestry products, and the machinery and equipment sectors. Y/Y growth increased 1.7%. In recent months, the volatility in prices has caused energy exports to play a major role in the movements of total exports. Excluding energy exports, total exports would have increased 0.9% M/M in May.



Imports

Imports decreased 0.8% M/M and increased 2.4% Y/Y in May. Imports of motor vehicle parts, the largest component, decreased 4.8% M/M.



News

July 11th – Investment in non-residential building construction - Investment in non-residential building construction reached a record high for the 13th consecutive quarter in Q2. Investment in the three non-residential components combined (industrial, commercial and institutional) reached \$8.7 bln, an increase of 0.9% from Q1. Nationwide, investment reached a new record in two of the three components: commercial and institutional. Q2's investment in commercial buildings increased 0.7% to \$4.9 bln, while institutional investment increased 3.5% to \$2.3 bln. Investment in the industrial component declined 2.7% to \$1.4 bln.

July 11th - Market views on BoC's decision to keep rates at 4.25% - The Globe and Mail, in its article, "Dodge's bold rate move draws fire," reported that many leading economists suggest that Governor Dodge is being too soft on inflation, and is placing too much emphasis on the possible effects of fundamentally volatile international trade.

- "It's a risky move," said Craig Wright, chief economist of Royal Bank of Canada. "They didn't move as prudently as I had hoped." "I'm surprised at the apparent confidence in their view," Mr. Wright added. "[In] our view and with our outlook on growth, they should be prepared to do a bit more."
- "We see core inflation going higher," said Warren Jestin, chief economist at the Bank of Nova Scotia. According to the article, Jestin commented that the BoC is too worried about the potential weakness on the trade sector of Canada's economy rather than future inflation pressures. "Our view is exactly the opposite," Jestin added.
- Douglas Porter, senior economist at BMO Nesbitt Burns Inc., commented that "[He's] a little perplexed that they haven't given themselves an escape hatch," Mr. Porter said, referring to the confident tone in the Bank's statement that interest rates are as high as they need to go. "It almost seems like some of the cries of anguish from industry have been heard."
- "The bank referred twice to the Canadian dollar being stronger than expected," said David Wolf, chief strategist for Merrill Lynch Canada Inc. "You really have to squint to make that true. ... Putting emphasis on that is pretty odd."

The article noted that the decision to keep interest rates at 4.25% was also favoured by some.

- Avery Shenfeld, a senior economist at CIBC World Markets Inc. stated, "I think it's very comforting that the Bank of Canada isn't obsessed with every twitch in the data."

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/14	Manufacturing Shipments (M/M) (MAY)	0.7%	-1.5%
07/17	New Motor Vehicle Sales (M/M) (MAY)	-0.7%
07/19	Leading Indicators (M/M) (JUN)	0.3%

Valance Co., Inc.

Valance Economic Report: Australia

Milo Prochazka

(340) 692-7710

mprochazka@valance.us

July 12, 2006

Home Loans increased well above expectations in May while Job Advertisements declined. Consumer Confidence improved, though Business Confidence remained unchanged.

Weekly Highlights

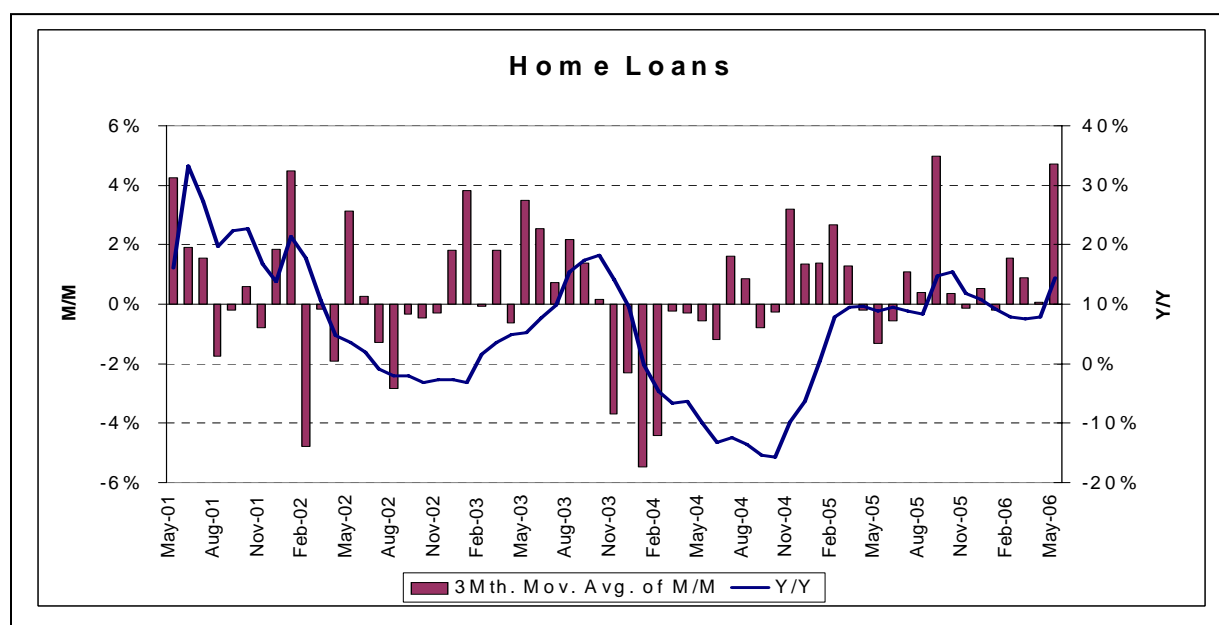
Home Loans – increased 4.7% Y/Y in May. (page35)

ANZ Job Advertisement – declined 3.2% M/M in June. (page36)

Westpac Consumer Sentiment – increased from 103.9 to 107.4 in July. (page 36)

Weekly Releases & News

Chart of the week: *Home Loans*

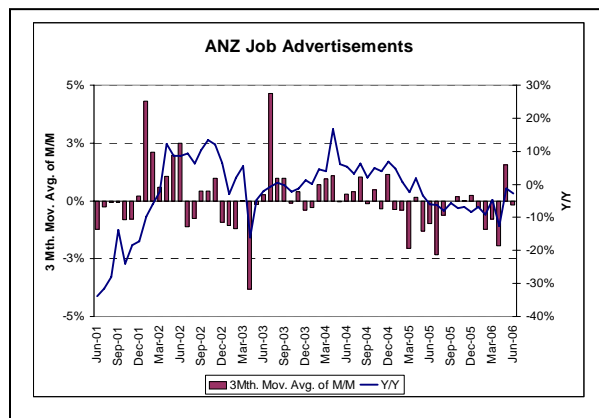


Australia's home-loan approvals improved 4.7% M/M in May, the fourth consecutive monthly increase. Details were equally strong: construction loans improved 1.2% M/M while new home purchases improved 5.6% M/M, and existing home purchases improved 5.0% M/M. Ex-Refinancing, the number of loans improved 4.8% M/M. The increase surpassed the market's 0.8% M/M expected improvement, and brings the series to its highest level in eight months.

ANZ Job Advertisement, Westpac Consumer Confidence

ANZ Job Advertisement

The number of jobs advertised in Australian newspapers fell 3.2% M/M and 2.7% Y/Y in June. The decline was attributed to record fuel costs reducing corporate spending. On balance, labor conditions in Australia remain relatively tight.



Westpac Consumer Confidence

The Westpac Consumer Confidence Index increased 3.5% to 107.4% in July, following two previous months of declines. The improvement beyond 100%, which delineates the point where optimists outnumber pessimists, was accompanied by improvements in family finances, consumers' views on the economy, willingness to buy household goods, consumers' views on current conditions, and consumer expectations.

National Australia Bank Business Confidence

Australian Business Confidence remained unchanged at 9 in June, according to the National Australia Bank's Business Confidence Survey. The positive reading indicates more companies still expect conditions to improve rather than worsen in the coming months. "Business Confidence is going sideways. The economy is fine overall, but some of the sectors that are sensitive to an interest rate increase are now reacting to it," commented Alan Oster, Chief Economist at National Australia Bank.

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/12	Unemployment Rate (JUN) *	---	4.9%
07/12	RBA Deputy Governor Stevens on MP	---	---
07/13	Trade Balance (MAY)	---	1093mn
07/18	Westpac MI Leading Index (MAY)	---	---

* Will be released late at night

Valance Co., Inc.

Weekly Economic Report: **China**

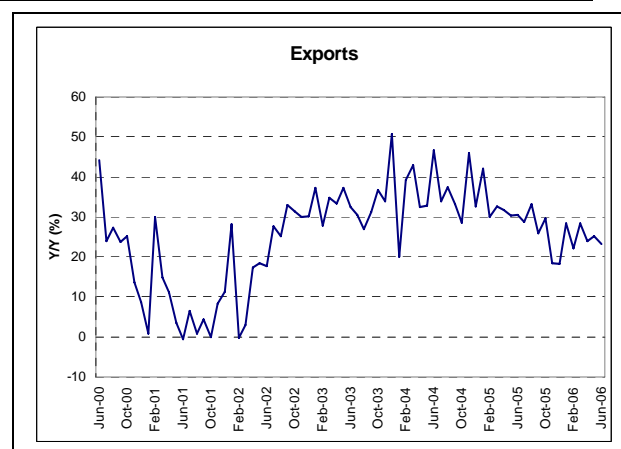
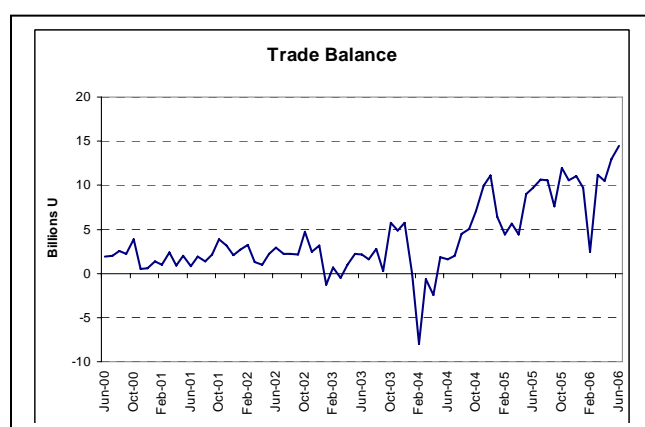
La-Toya C. Elizee
 (340) 692-7710
lelizee@valance.us

July 12, 2006

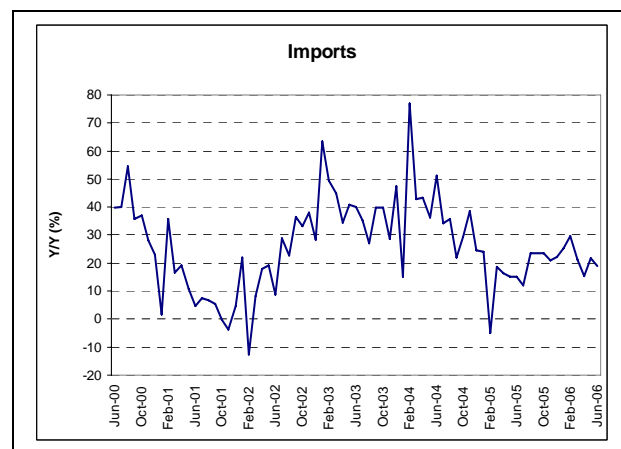
China's Trade Balance widened from \$13.0 bln in May to \$14.5 bln in June, well above expectations.

Weekly Releases & News

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



China's Trade Balance widened from \$13.0 bln in May to \$14.5 bln in June, above expectations of \$12.8 bln. Total Export growth slowed from 21.7% Y/Y to 18.9% Y/Y. Import growth slowed from 21.7% Y/Y to 18.9% Y/Y. The report has re-fueled calls for faster RMB appreciation.



News Releases

July 12th – Overseas Investors May Double Spending on Chinese Real Estate - Jones Lang LaSalle Inc., a property consultant, stated that overseas investors, Morgan Stanley and Goldman Sachs Group, Inc., may double their real estate investments in China to approximately \$7 bln. Michael Hart, Director of Chinese Research stated, “Overseas institutions are keen on long-term returns, so it's good time to enter the market now, with some negative information damping prices and buying interest. Some domestic developers are tending to sell at lower prices now under the government's measures.”

July 12th – China's Foreign Trade Grew Steadily in H1 - China's General Administration of Customs reported that China's foreign trade in H1 grew by 20.9% Y/Y – with the EU remaining the country's largest trade partner and the U.S. its second.

July 12th – Bank Loans Down in June - The Xinhua News Agency reported that new local currency loans totaled RMB 360 bln in June, down RMB 102.7 bln from the same period in 2005, signaling that the government's efforts to cool the economy may be working.

July 11th – Economy May Have Grown 10.5% in H1 - The China Daily reported that a research note by the State Information Center stated that China's economy may have grown 10.5% in H1 and may rise by 10.4% for the entire year. The Center also mentioned that CPI may have increased 1.3% in H1 and may rise 1.5% for the full year. Additionally, fixed asset investments may have risen 30.6% through June and may reach 29.0% for the entire year. The Center added that China's trade surplus may widen to \$133.6 bln by the end of this year.

July 11th – China May Raise Rates Instead of Letting the Yuan Appreciate - The China Securities Journal reported that China may raise rates instead of allowing the yuan to rise, in an attempt to “reduce liquidity” and contain investment.

July 11th – “Significant” Yuan Gain Necessary to Prevent Trade Surplus from Widening - Senior Economist, Sebastien Barbe of Calyon, commented that a “significant” yuan gain is necessary to contain China's trade surplus. Barbe stated that, “[the] yuan gains will push up export prices and narrow the trade gap.” He further added that, “Signs are accumulating that the yuan appreciation pressure has no reason to fade by itself. One way to calm the capital inflows entering the Chinese economy would be to give the market what it has been to some extent expecting – a significant yuan appreciation.”

July 10th – Exchange Rates Usage Should Be Increased to Balance Trade - The Beijing Morning Post reported that Deputy Director-General, Long Guoqiang of the Foreign Economic Relations Department, stated that China's use of exchange rates is “insufficient” and should be increased to balance its trade surplus.

News Releases (Cont'd.) & Upcoming Dates

News Releases (Cont'd.)

July 7th – China May Receive Higher Credit Rating - Moody's Investors Service improved China's A2 credit rating from stable to positive, on its long-term foreign-currency bonds. The Service expects to increase China's rating even further once the country repays its debts, boosts its reserves, and helps banks. Economist, Tim Condon at the ING Bank, explained that "China does deserve the positive debt outlook, with the massive trade surplus and foreign exchange reserves. In fact, the market already viewed China as A1."

Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
07/12-14	Foreign Exchange Reserves – Apr, May, Jun	--	\$875.07B / -- / --
07/12-14	Money Supply – M2, M1, M0 (Y/Y) – Jun	--	19.10% / 14.00% / 12.80%
07/12-14	Household Savings – Trin Yuan – Jun	--	15.40T
07/12-14	Actual / Contract Foreign Investment (Y/Y) – Jun	--	2.78% / --
07/19	GDP Constant Price (Y/Y) – Q2	10.4%	10.3%
07/19	Unemployment Rate (Y/Y) – Q2	--	4.2%
07/19	Producer Price Index (Y/Y) – Jun	2.7%	2.4%
07/19	Purchasing Price Index (Y/Y) – Jun	--	5.5%
07/19	Consumer Price Index (Y/Y) – Jun	1.5%	1.4%
07/19	Retail Sales (Y/Y) / YTD (Y/Y) – Jun	14.0% / --	14.2% / 13.2%
07/19	Industrial Production (Y/Y) / (Yuan) – Jun	17.0% / --	-- / 706.0B
07/19	Fixed Assets Inv Urban YTD (Y/Y) – Jun	30.0%	30.3%
07/19	Industrial Profits YTD (Y/Y) – Jun	--	25.5

Valance Co., Inc.

Valance Economic Report: Sweden

Evelyn L. Richards

(340) 692-7710

erichards@valance.us

July 12, 2006

Data released this past week showed some softness as annual Inflation slowed on both a headline and core basis in June, M/M Industrial Orders fell, and the AMS Unemployment Rate rose. Industrial Production and the Activity Index level both improved.

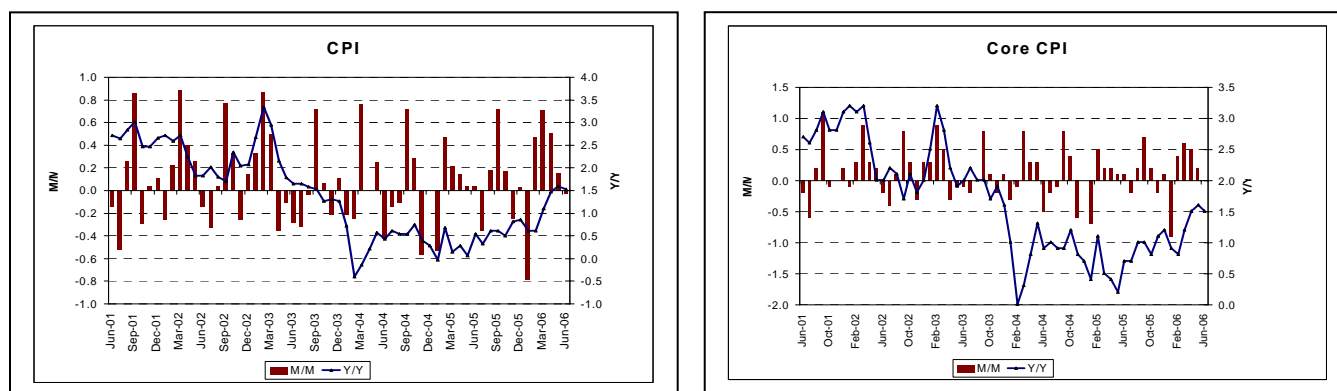
Weekly Highlights

CPI & Core CPI – both were unchanged in the month and slowed to 1.5% Y/Y in June. (page 41)

Industrial Production – rose 0.8% M/M and 6.3% Y/Y in May. (page 42)

Weekly Releases & News

Chart(s) of the Week: CPI

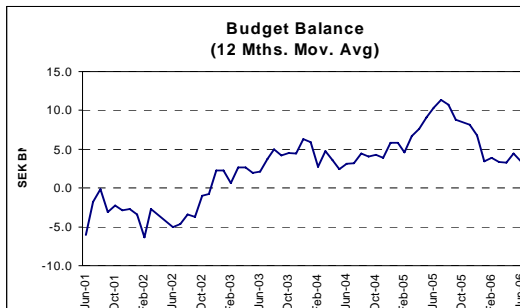


Swedish June Consumer Prices were unchanged in the month and slowed to 1.5% Y/Y on both a headline and core basis -- marking the first annual decline since February. The annual slow-down was spurred by falling clothing costs which stemmed from summer sales.

Budget Balance, Industrial Production & Industrial Orders

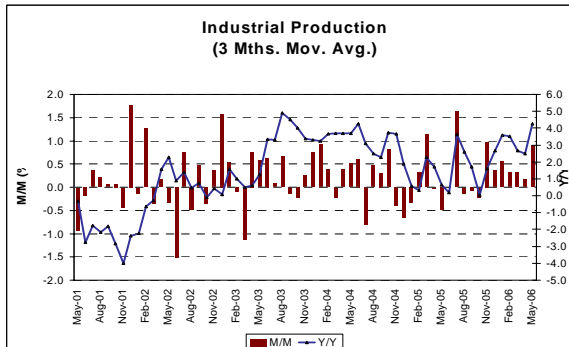
Budget Balance

Sweden experienced a smaller-than-expected budget deficit of SEK 1.1 bln in June, on higher-than-forecast tax revenue. The deficit was SEK 8.9 bln smaller-than-expected.



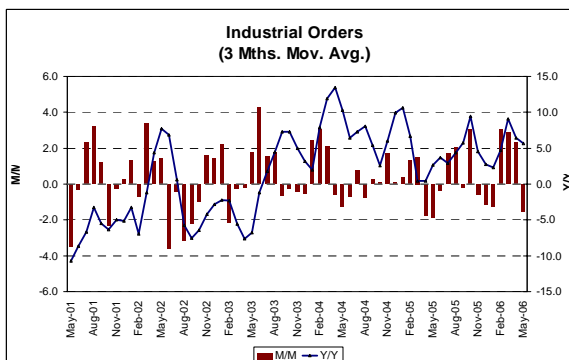
Industrial Production

Industrial Production rose 0.8% M/M and 6.3% Y/Y in May, above expectations. The monthly gain was led by textile and machinery manufacturing.



Industrial Orders

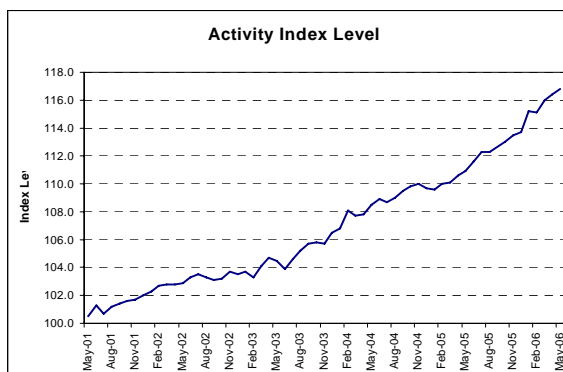
Industrial Orders fell 7.8% M/M and rose 5.2% Y/Y in May. The monthly loss was reflective of declines in both the export and domestic market, as orders fell by 12.4% and 0.6%, respectively. Also, new orders in the capital and intermediate goods industries decreased by 12.1% and 2.7%, respectively.



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

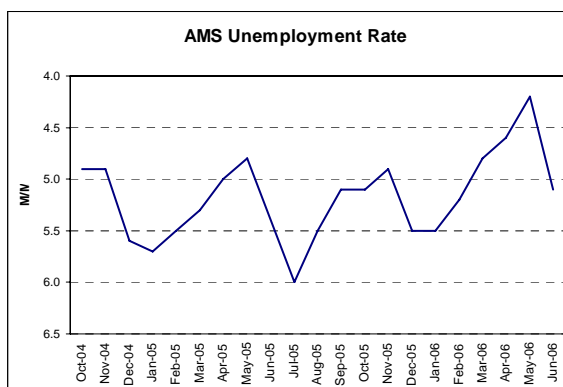
Activity Index Level

The Activity Index Level rose from 116.4 in April to 116.8 in May.

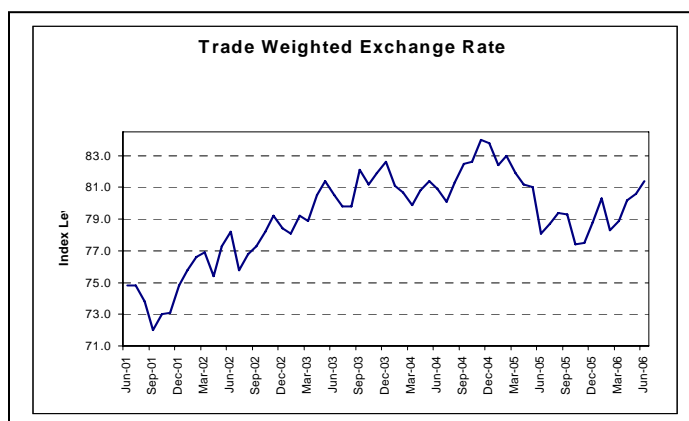


AMS Unemployment Rate

The Labor Board's un-official Unemployment Rate rose from 4.2% in May to 5.1% in June.



Trade Weighted Exchange Rate



Key Dates This Week

Nothing to report.

Valance Co., Inc.

Valance Economic Report: Switzerland

Evelyn L. Richards

(340) 692-7710

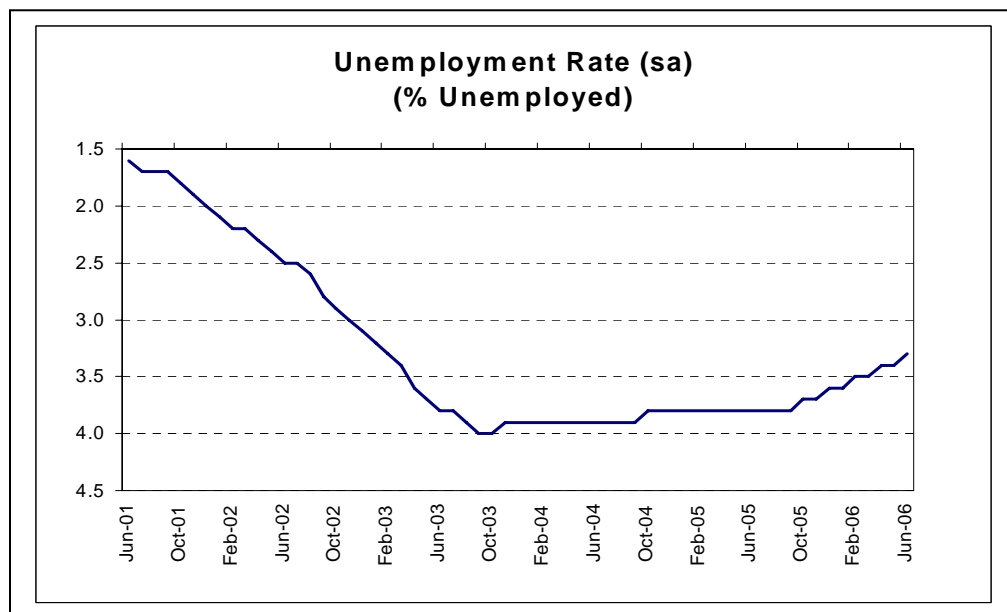
erichards@valance.us

July 12, 2006

Switzerland's Unemployment Rate, the only economic indicator released this past week, fell to its lowest level in three years.

Weekly Releases & News

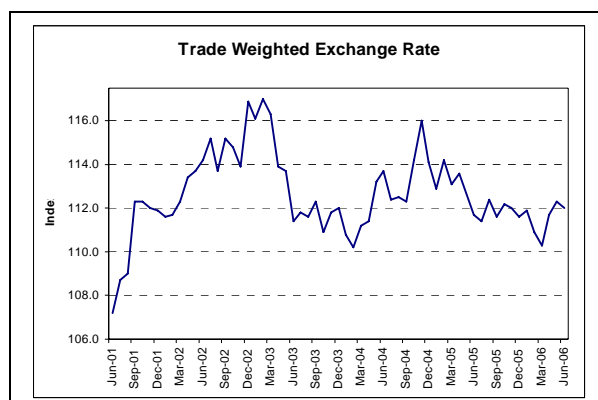
Chart(s) of the Week: *Unemployment Rate*



As expected, Switzerland's seasonally adjusted Unemployment Rate fell from 3.4% in May to 3.3% in June – falling to its lowest level since February 2003.

Trade Weighted Exchange Rate, News Releases & Upcoming Dates

Trade Weighted Exchanged Rate



News Releases

July 12th - Company Insolvencies Rose 11% in June – Creditreform stated that the number of companies reporting insolvencies rose 11.0% Y/Y in June -- from 410 a year ago to 455. Managing Director of Creditreform, Claude Federer stated, “Fluctuations on a month-by-month basis are nothing unusual, and don't overly concern us. Big swings are common in single months and the long-term trend is still positive.”

Key Dates This Week

Date	Indicator	Expectation	Previous
07/14-20	Producer & Import Prices (Y/Y) / (M/M) – Jun	2.8% / -0.3%	2.8% / 0.6%
07/18	Adjusted Real Retail Sales (Y/Y) – May	--	12.2%