Valance Company, Inc.

Weekly

September 7, 2011

Valance Economic Reports

Highlights

US – Weak payrolls

EU – Confidence eroding

JN – Capex declined unexpectedly in Q2

UK – Austerity still being defended

CA – BoC left its Overnight Rate at 1.00%

AU – Q2 GDP reversed Q1 contraction, gaining 1.2% Q/Q

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Valance Economic Report: United States

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September 7, 2011

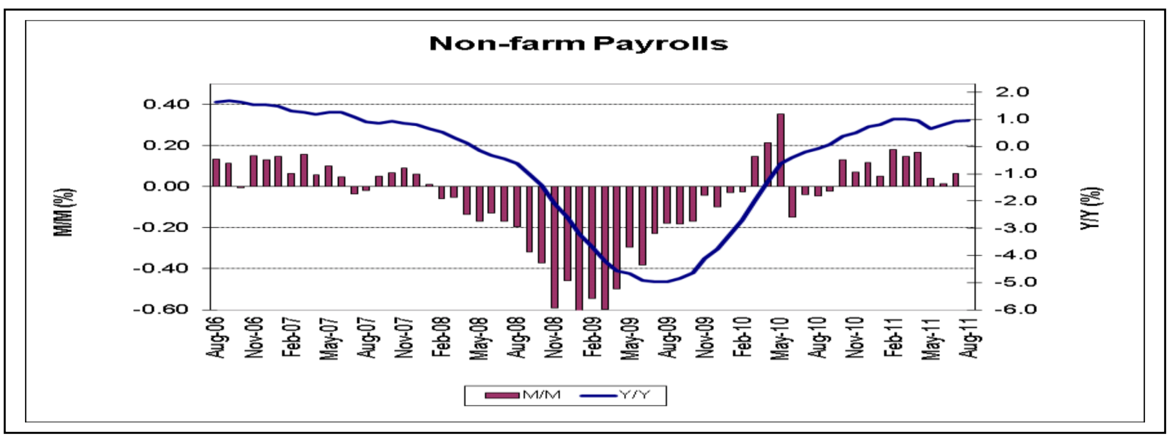
The August payroll report was exceptionally poor this week, even after accounting for 46k striking Verizon workers. While layoffs are not exceedingly high, new hiring remains anemic and is pushing the Fed towards more monetary easing actions, most likely an operational twist focusing on the back end of the curve. Obama's job speech is Thursday night, with a $300 bln package comprised of spending increases and tax cuts being rumored. Encouragingly, both ISM surveys remain expansionary and initial claims remain in the low 400k range.

Weekly Highlights

Non-farm Payrolls – were unchanged in August, private payrolls gained 17k (US 1)
ISM Non-Manufacturing Index – surprisingly increased from 52.7 to 53.3 (US 4)

Weekly Releases

Chart(s) of the Week: *Non-Farm Payrolls*



Non-farm Payrolls were unchanged in August, short of expectations for a gain of 68k, though the Verizon strike adversely affected the report by 46k jobs. July was revised lower from 117k to 85k. Although private payrolls increased 17k, the 95k expectations were not met. Manufacturing payrolls fell from 24k to -3k in August. The Unemployment Rate remained constant at 9.1%, reflecting. The diffusion index declined from 57.7 to 52.2. This was another clear setback and any momentum from first half job growth has faded.

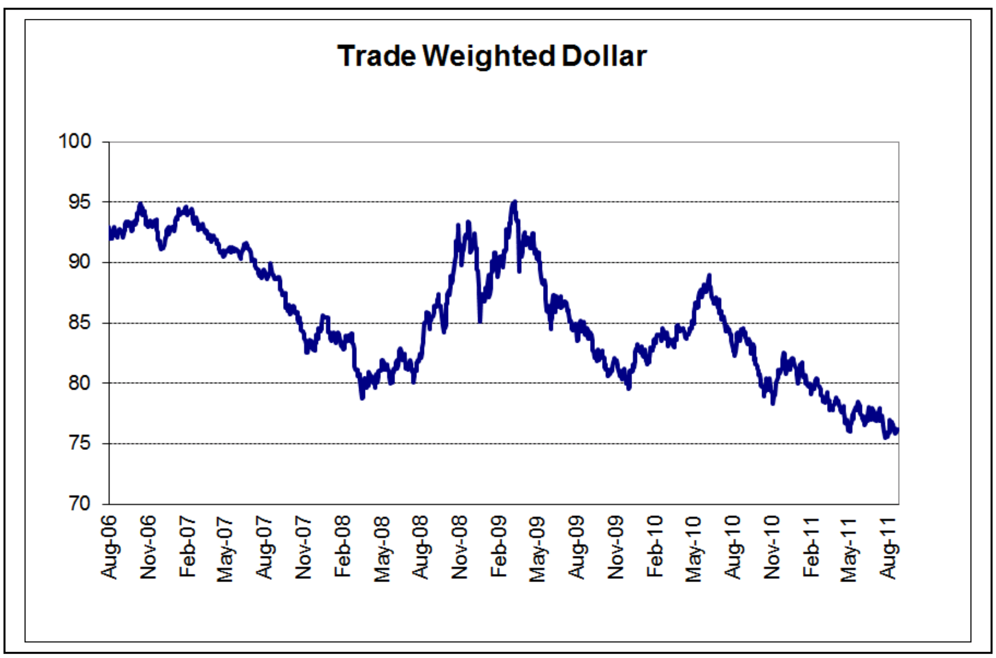
U.S. Financial Balances & Trade Weighted Dollar

Financial Balances

U.S.	*Latest period ($blns)*	*Last 12mth. as a % of GDP*
Budget Balance	-129.4 (July)	*-8.1%*
Trade Balance	-53.0 (June)	*-3.6%*
Current Account Balance	-119.3B (Q1)	*-3.1%*
Private Balance	--	*5.3%*

The budget deficit on a trailing twelve month basis as of July is 8.1% of GDP. The trade deficit as of June is 3.6% of GDP. The budget deficit is quite large and should remain that way due to tax cuts, high expenditures and revenues that are just starting to turn upwards. The large budget deficit will help private balances build and support an economic recovery.

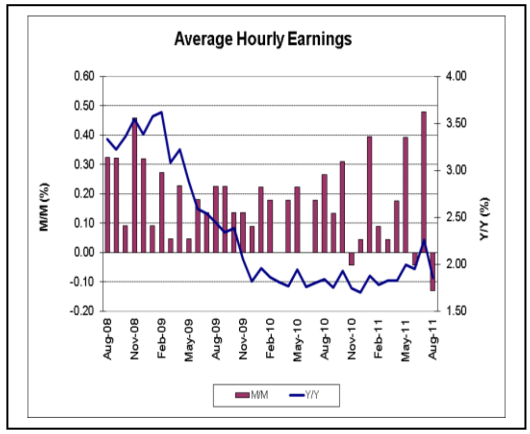
Trade Weighted Dollar



Hourly Earnings, Weekly Hours & Unemployment Claims

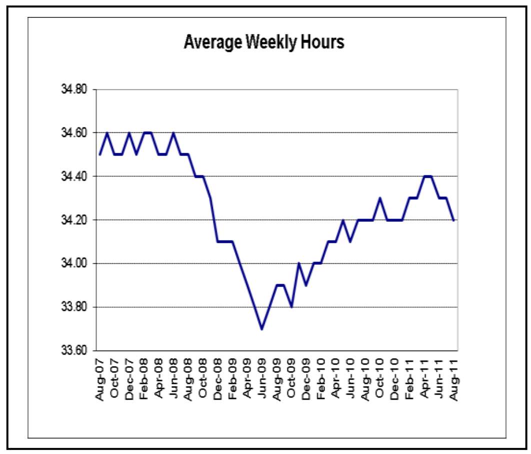
Average Hourly Earnings

Average Hourly Earnings dropped 0.1% M/M and gained 1.9% Y/Y in August. Y/Y growth in wages has slowed from 3.5% at the start of 2009 to a lower range due to labor market slack.



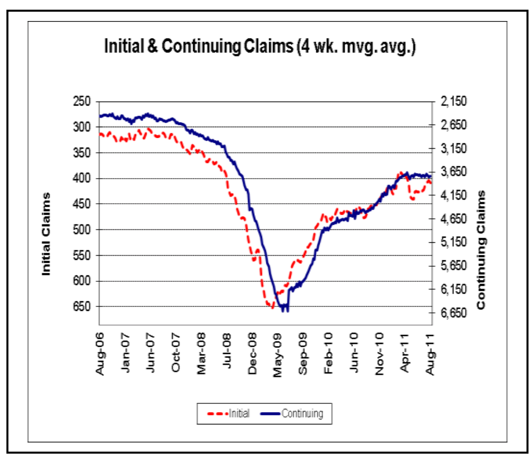
Average Weekly Hours

Average Weekly Hours declined 0.1 hours to 34.2 in August. Aggregate hours stood at 34.2 a year ago.



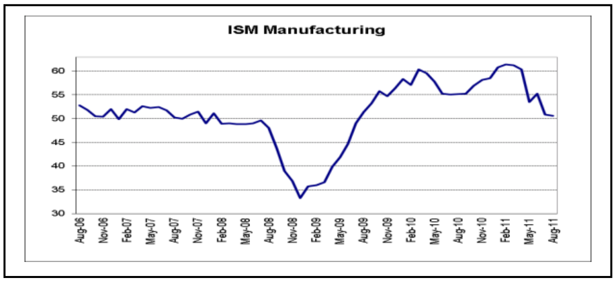
Initial & Contining Claims

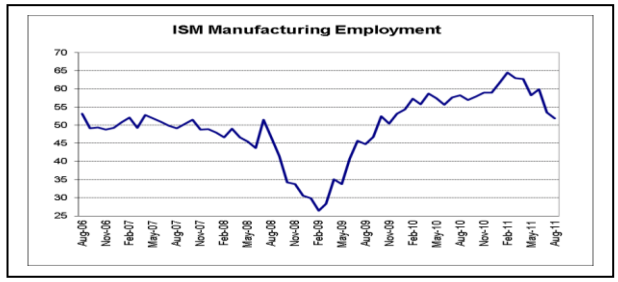
Initial Claims increased fell from 417k to 409k. The four week moving average of Initial Claims remained at 407k and Continuing Claims fell from a revised 3753k to 3735k. Initial Claims have trended down from 500k in the summer of 2010 and after improving in the beginning of 2011 are once again approaching those lows.



ISM's & Construction Spending

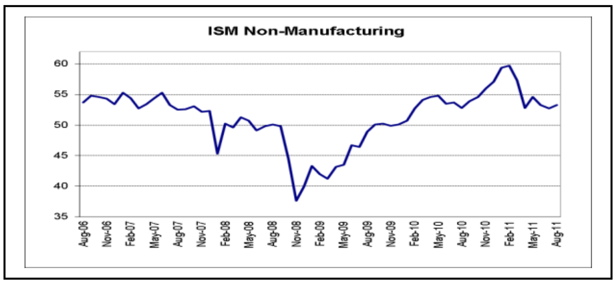
ISM Manufacturing

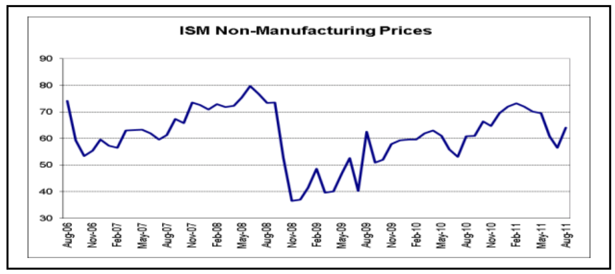




The ISM Manufacturing Index fell from to 50.9 to 50.6 in August.. New orders improved from 49.2 to 49.6. However, the employment component declined from 53.5 to 51.8. Prices paid declined from 59.0 to 55.5. Deliveries increased from 50.4 to 50.6.

ISM Non-Manufacturing

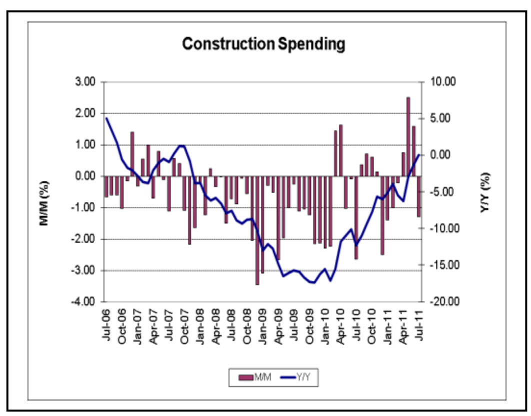




The ISM Non-Manufacturing Index surprisingly increased from 52.7 to 53.3 in August. New Orders made a slight come back from 51.7 to 52.8 and the employment component dropped from 52.5 to 51.6. The price component increased from 56.6 to 64.2, the highest since May.

Construction Spending

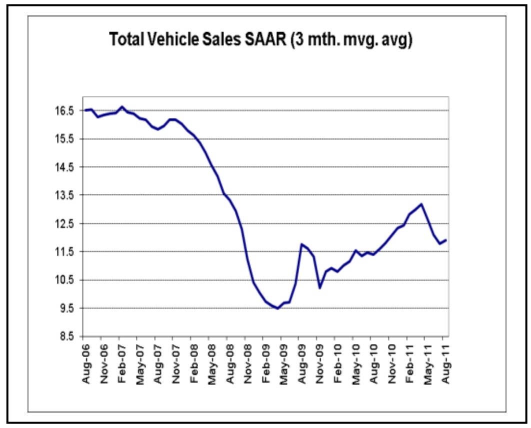
Construction Spending declined 1.3% M/M in July and increased 0.1% Y/Y. Residential Spending declined 1.6% M/M but is up 4.1% Y/Y. Non-residential spending fell 1.1% M/M and is now down 1.7% Y/Y.



Vehicle Sales, Mortgatge Applications & Confidence

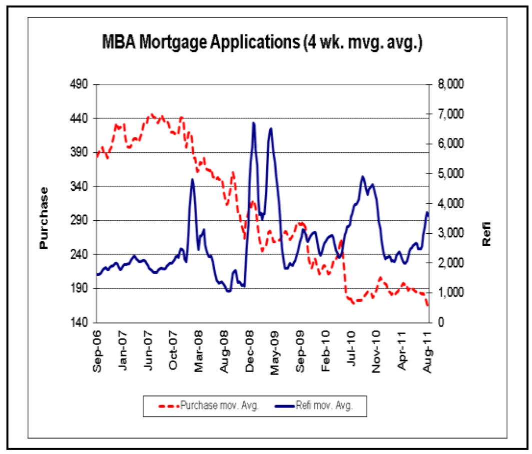
Total Vehicle Sales

As expected, total Vehicle Sales declined from 12.20M to 12.10M seasonally adjusted annualized units in August.



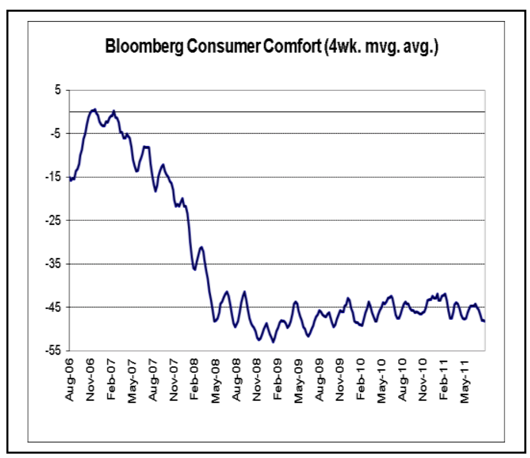
MBA Mortgage Applications

Purchase Mortgage Applications gained 0.2% W/W, the first consecutive week increase in over a month. Refi applications fell 6.3% W/W this week.



Bloomberg Consumer Confidence

The Bloomberg Consumer Comfort Index fell from -47.0 to -49.1. The Index was only expected to fall to -47.7. The state of the economy component dropped from -84.3 to -87.3 and the buying climate from -52.4 to -54.0. The personal finance component also fell from -4.5 to -6.1.



Key Dates This Week

Date	*Indicator*	*Month*	*Expectation*	*Previous*
09/08	Trade Balance	JUL	-$51.0B	-$53.1B
09/08	Initial Jobless Claims	3-Sep	405K	409K
09/08	Bloomberg Consumer Comfort	4-Sep	- -	-49.1
09/13	Import Price Index (M/M)	AUG	-0.70%	0.30%
09/13	Monthly Budget Statement	AUG	- -	- -
09/14	MBA Mortgage Applications	9-Sep	- -	-4.90%
09/14	Producer Price Index (M/M)	AUG	-0.10%	0.20%
09/14	PPI Ex Food & Energy (M/M)	AUG	0.20%	0.40%
09/14	Advance Retail Sales	AUG	0.20%	0.50%
09/14	Retail Sales Less Autos	AUG	0.20%	0.50%

Valance Economic Report: Euro Zone

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September 7, 2011

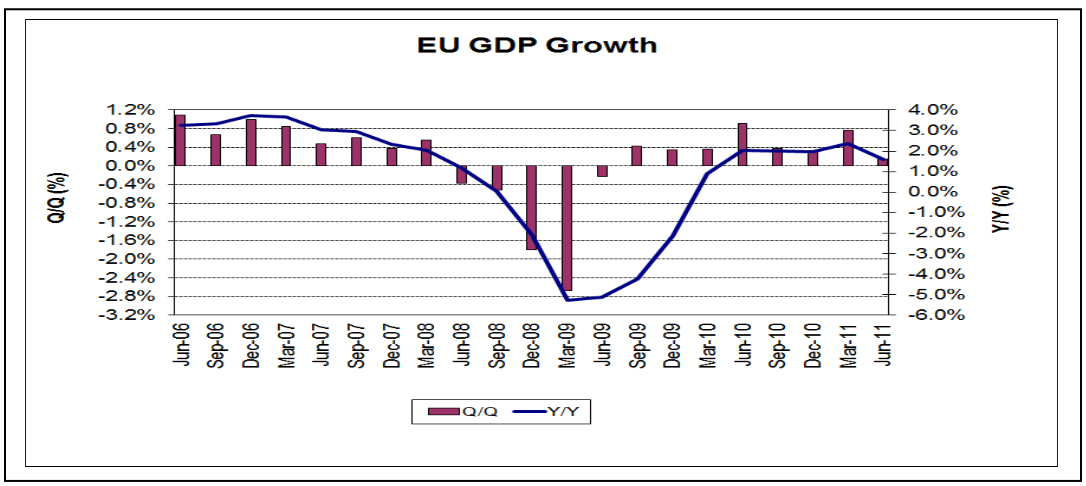
The ongoing debt turmoil continues to erode confidence and is flowing into the hard data with the ECB interest rate announcement taking place tomorrow. Spanish and Italian politicians are making aggressive austerity adjustments while the top German court rejects challenges to the bailouts constitutionality. Greek two year debt is now trading at over 50% yield.

Weekly Highlights

EU GDP – increased 0.2% Q/Q and 1.6% Y/Y in Q2 (EU 1)
Euro Zone Retail Sales – increased 0.2% M/M in July but are down 0.2% Y/Y (EU 3)
Composite PMI – decreased from 51.1 in July to 50.7 in August (EU 4)
German Industrial Production – increased 4.0% M/M (0.5% exp.) in July (EU 5)

Weekly Releases & News

Chart(s) of the Week: *Euro Zone GDP*



EU GDP increased 0.2% Q/Q and 1.6% Y/Y in Q2, in line with market expectations. Household Consumption decreased 0.2% Q/Q and increased 0.5% Y/Y. Government Expenditure decreased 0.2% M/M and increased 0.3% Y/Y.

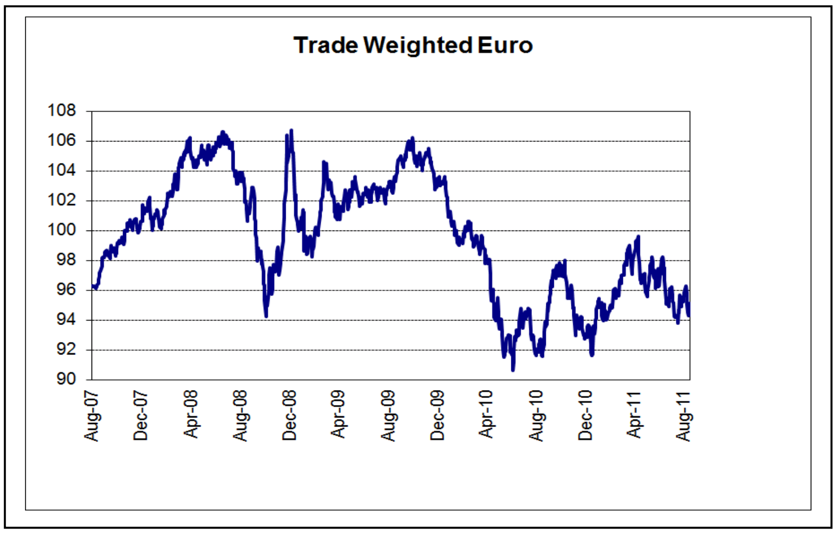
Euro Zone Financial Balances & Trade Weighted Euro

Financial Balances

Germany	*Last period ($blns euros)*	*Last 12mth. as a % of GDP**
Budget Balance		-3.3%
Trade Balance	14.8 (May)	2.0%
Current Account Balance	6.9 (May)	5.6%
Private Savings Balance		8.9%
France		
Budget Balance		-7.0%
Trade Balance	-7.4 (May)	-4.7 %
Current Account Balance	-5.5 (May)	-2.2%
Private Savings Balance		4.8%
Italy		
Budget Balance		-4.5 %
Trade Balance	-2.4 (May)	-0.6%
Current Account Balance	-5.1 (May)	-3.5%
Private Savings Balance		1.0

**Budget Balance as of year end 2010 – Source OECD*

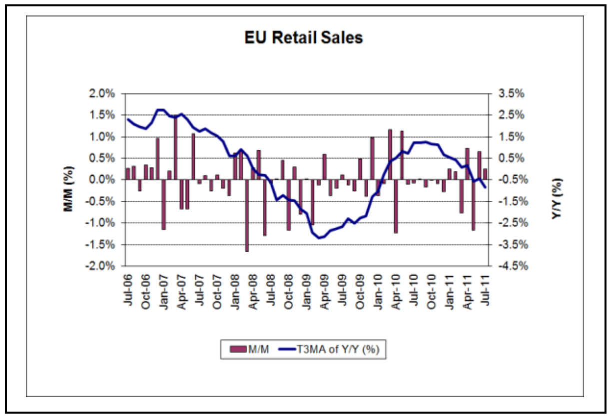
Trade Weighted Euro



EU Retail Sales, PPI & Sentix Investor Confidence

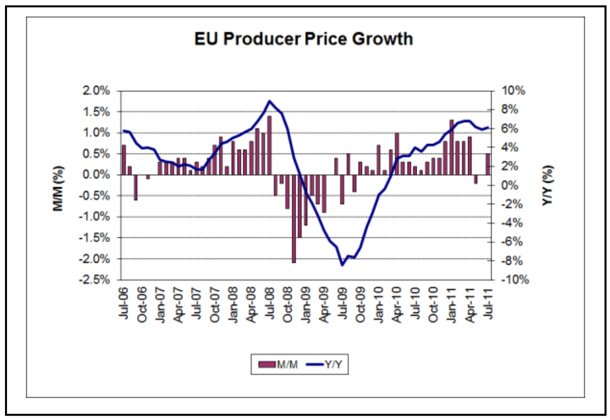
Euro Zone Retail Sales

Euro Zone Retail Sales increased 0.2% M/M in July. Retail Sales fell 0.2% Y/Y. Market expectations were for M/M Retail Sales to remain unchanged and a 1.0% decrease in Y/Y.



Euro Zone PPI

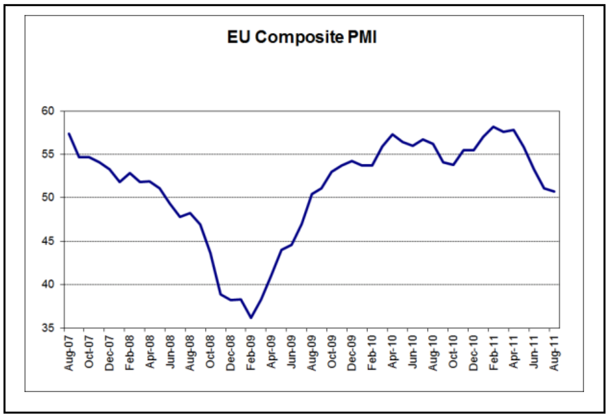
EU PPI increased 0.5% M/M and 6.1% Y/Y, with energy prices increasing to 1.5% M/M. The lack of change in June followed a 0.2% M/M drop in May and a 0.9% M/M improvement in April. Y/Y growth increased 5.9%. PPI, ex energy, increased 1.5% M/M and 4.2% Y/Y.

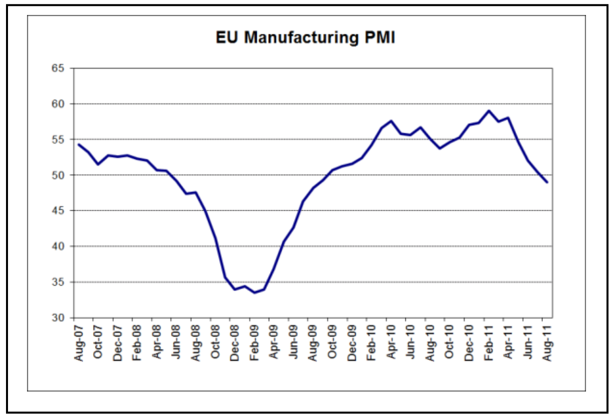


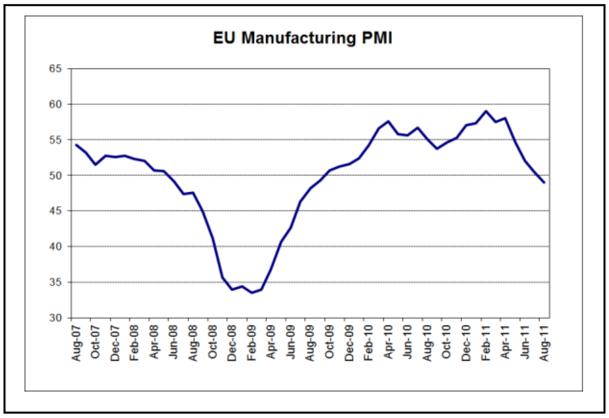
Sentix Investor Confidence

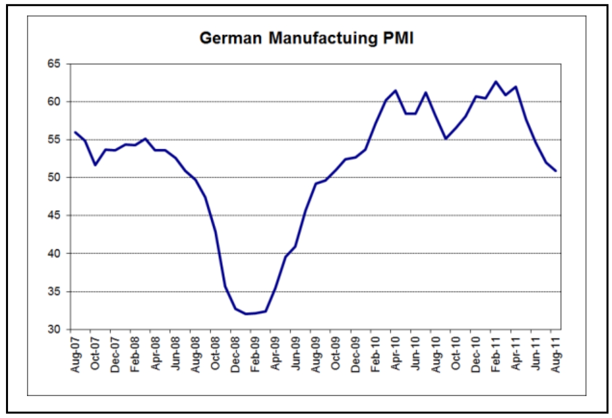
European Sentix Investor Confidence fell from -13.5 in August to -15.4 in September. Market expectations were for a reading of -26.75.

EU/German PMI's

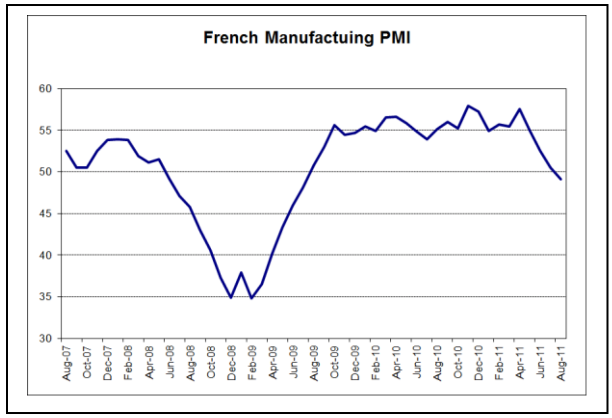








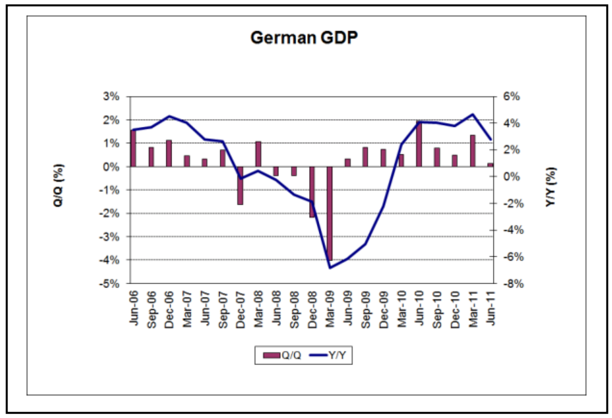
The Composite PMI decreased from 51.1 in July to 50.7 in August. The Index was expected to fall to 50.9. The Manufacturing PMI remained fell from 50.4 to 49.0, and the Services PMI remained unchanged at 51.4. German Manufacturing PMI remained constant at 59.0 in August after it was revised in July from 52.0 down to 50.9.



German GDP, Exports & Industrial Production

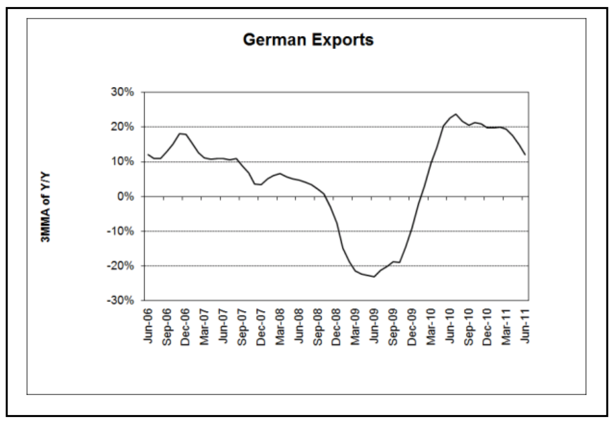
German GDP

Final figures show that German GDP increased 0.1% Q/Q and 2.8% Y/Y in Q2 as was estimated. Private Consumption fell 0.7% Q/Q and increased 1.4% Y/Y. Government Spending increased 0.2% Q/Q and 1.3% Y/Y. Exports increased 2.3% Q/Q and 7.7% Y/Y in Q2 and Imports increased 3.2% Q/Q and 7.3% Y/Y, respectively.



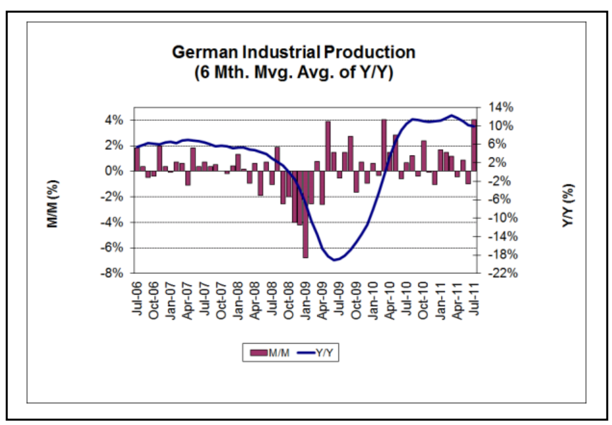
German Exports

Exports increased 2.3% Q/Q and 7.7% Y/Y in Q2 and Imports increased 3.2% Q/Q and 7.3% Y/Y, respectively.



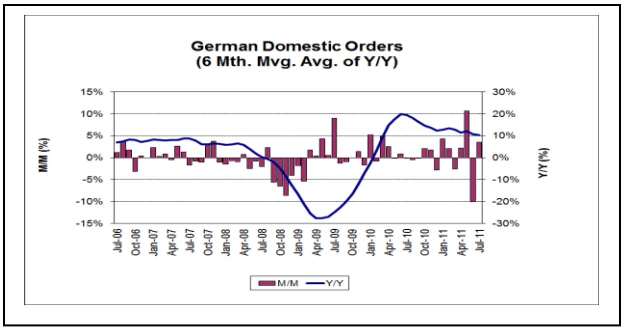
German Industrial Production

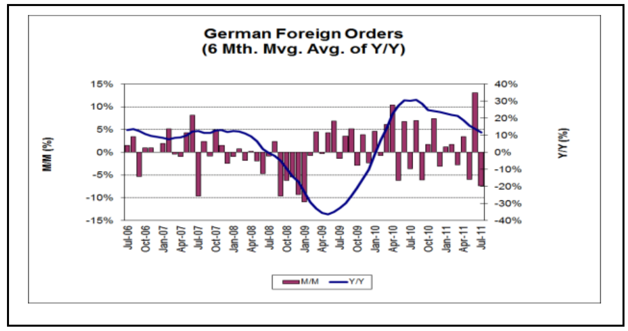
German Industrial Production increased 4.0% M/M (0.5% exp.) and 10.1% Y/Y in July. Details show that Construction increased 3.2% M/M and 6.5% Y/Y and Manufacturing & Mining increased 4.5% M/M and increased 12.3% Y/Y. Energy decreased 1.0% M/M and fell 9.0% Y/Y.



German Factory Orders, French/Spanish Unemployment

German Factory Orders

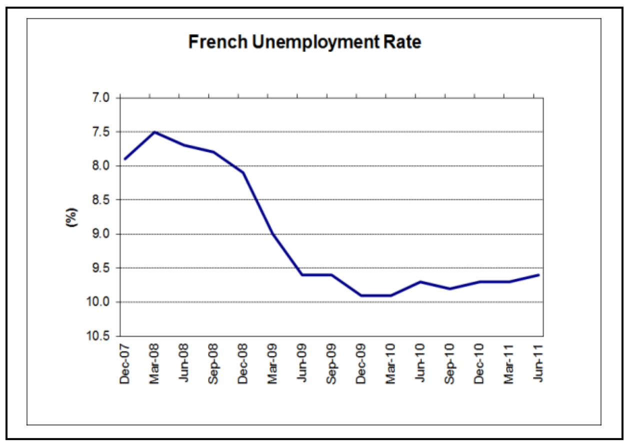




German Factory Orders fell from 1.8% to -2.8% M/M and from 9.5% to 8.7% Y/Y in August versus market expectations of -1.5% M/M and an increase of 9.8% Y/Y. Domestic Orders increased 3.6% M/M and increased 9.3% Y/Y. Foreign Orders fell 7.4% M/M and increased 8.3% Y/Y.

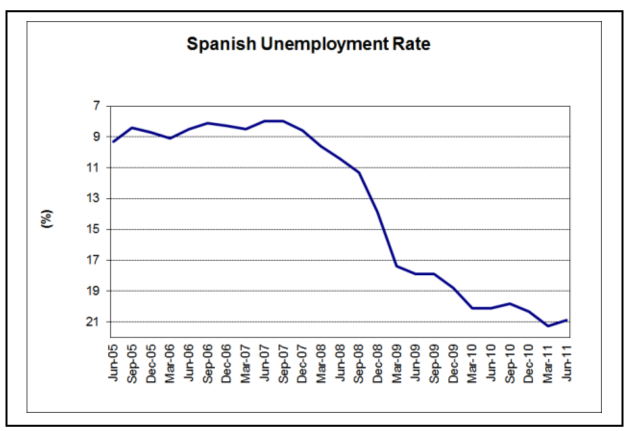
French Unemployment Rate

French Unemployment Rate fell .11% to 9.6% in Q2. Market expectations were for the unemployment rate to remain unchanged at 9.7%.



Spanish Unemployment

Spanish Unemployment rose by 51.2K in August, its first rise after four straight months of decline.



News/Comments/Data

Sept. 7th - German Bunds Fall as Court Backs Euro Rescue; Greek Yields Rise (Bloomberg) - German bunds fell the most in a week after the country's top court rejected constitutional challenges to the nation's participation in the euro-rescue funds, reducing demand for the region's safest assets. Two-year notes dropped for a second day as European stocks advanced from a two-year low. Greek 10-year bond yields climbed to a euro-era record as finance chiefs from three of the euro area's AAA rated countries failed to break a deadlock over Finland's demands for collateral in return for aiding the nation. Portugal plans to sell as much as 1 billion euros ($1.4 billion) of 105-day bills. Spanish and Italian bonds gained for a second day. "This could have been a hurdle for approval of the European Financial Stability Facility," said Norbert Aul, aEuropean interest-rates strategist at RBC Capital Markets in London. The court decision "offers short-term support to peripherals," he said referring to bonds from the euro-region's most indebted nations.

Sept. 6th - European Central Bank Said to Be Buying Spanish Government Bonds (Bloomberg) - The European Central Bank bought Spanish government bonds today, according to three people with knowledge of the transactions, who declined to be identified because the deals are confidential. A spokesman for the Frankfurt-based ECB declined to comment.

Sept. 6th - ECB Urges Faster Bailout Action (WSJ) - ECB President Jean-Claude Trichet and his incoming successor Mario Draghi said euro nations must press ahead with structural reforms to strengthen the bloc's economic and fiscal governance to prevent future crises. "There is an immediate and imperative need for [July 21] measures to be implemented," Mr. Trichet said. "The incompleteness of the euro area has suddenly become very crucial," Mr. Draghi said, adding that "broad changes" in euro-zone treaties are needed to address it. Mr. Trichet suggested that in the longer term the euro area should have a single finance minister in charge of enforcing fiscal discipline. Mr. Trichet said he agreed with EU lawmakers on the need to make sanctions for countries flouting the euro zone's debt and deficit rules automatic.

Sept. 6th - Draghi Says ECB Bond Buys Shouldn't Be Taken for Granted (Bloomberg) - European Central Bank Governing Council member Mario Draghi, who will become ECB president on Nov. 1, said the bank's program of purchasing government bonds should not be taken for granted. "It cannot be used to circumvent the fundamental principle of budgetary discipline," Draghi, who is head of Italy's central bank, said. "It should not be taken for granted by member states," he said, adding the program is "temporary." Draghi said the bond purchases and the provision of unlimited funds to banks don't undermine the ECB's ability to deliver price stability. "We will never deflect from this goal," he said. "It's in the best interests of all member countries and necessary to maintain appropriate conditions to foster sustainable growth."

News/Comments/Data Cont'd.

Sept. 6th - Euro bond would get weakest member's rating: S&P (Reuters) - A joint bond issue by euro zone countries would get the weakest member's rating if the issue was jointly guaranteed, the head of Standard & Poor's European sovereign ratings said on Saturday. Moritz Kraemer, managing director, EMEA sovereign ratings, said his understanding was that joint euro bonds would be structured along the lines of Germany's jumbo bonds, in which federal states team up to issue debt and each guarantees its own bit. "If the euro bond is structured like this and we have public criteria out there then the answer is very simple. If we have a euro bond where Germany guarantees 27 percent, France 20 and Greece 2 percent then the rating of the euro bond would be CC, which is the rating of Greece," he said.

Key Dates This Week

Date	*Country*	*Indicator*	*Month*	*Expectation*	*Previous*
09/08	FR	Non-Farm Payrolls (Q/Q)	2Q F	0.40%	0.40%
09/08	GE	Exports SA (M/M)	JUL	0.50%	-1.20%
09/08	GE	Imports SA (M/M)	JUL	0.30%	0.30%
09/08	GE	Current Account (EURO)	JUL	10.0B	11.9B
09/08	GE	Labor Costs Workday Adj (Y/Y)	2Q	- -	2.80%
09/08	GE	Trade Balance	JUL	11.5B	12.7B
09/08	FR	Bank of France Bus. Sentiment	AUG	97	98
09/08	FR	Trade Balance (Euros)	JUL	-5800M	-5598M
09/08	SP	Industrial Output WDA (Y/Y)	JUL	-3.10%	-2.00%
09/08	EC	ECB Announces Interest Rates	8-Sep	1.50%	1.50%
09/09	GE	CPI - EU Harmonised (M/M)	AUG F	-0.10%	-0.10%
09/09	GE	Wholesale Price Index (M/M)	AUG	- -	-0.60%
09/09	FR	Industrial Production (M/M)	JUL	0.40%	-1.60%
09/09	FR	Manufacturing Production (M/M)	JUL	0.60%	-1.90%
09/09	IT	GDP sa and wda (Q/Q)	2Q F	0.30%	0.30%
09/12	IT	Industrial Production sa (M/M)	JUL	- -	-0.60%
09/13	FR	CPI - EU Harmonised (M/M)	AUG	- -	-0.50%
09/13	FR	Current Account (EURO)	JUL	- -	-3.4B
09/13	SP	CPI (EU Harmonised) (M/M)	AUG	- -	-1.20%
09/14	EC	Euro-Zone Ind. Prod. sa (M/M)	JUL	- -	-0.70%

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Valance Economic Report: Japan

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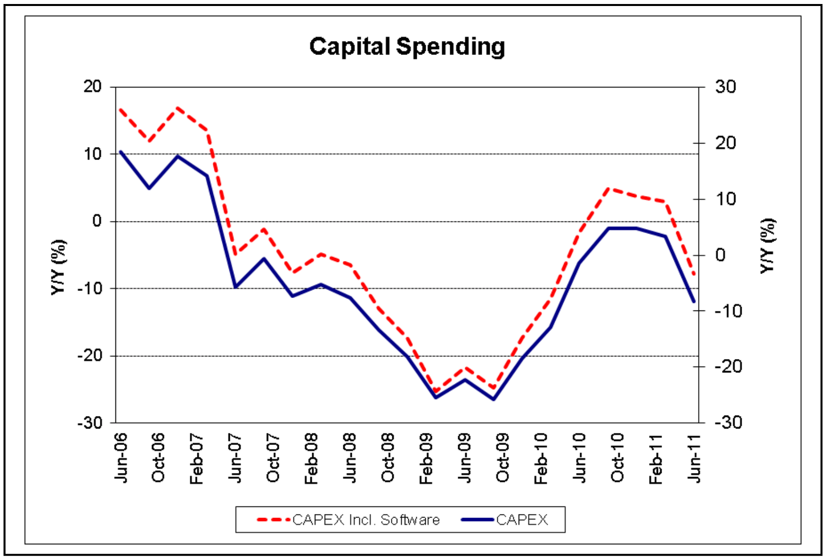
September 7, 2011

Capital Spending saw an unexpected decline in Q2 and the Coincident Index declined M/M for the first time in 4mths in July. The BoJ left its key overnight rate unchanged while the Ministry of Finance quashed any idea it would follow Switzerland's drastic currency intervention.

Weekly Highlights

Capital Spending – unexpectedly declined 6.6% Q/Q in Q2. (JN 1)
Leading Economic Index – increased 2.7pts to 106.0 in July. (JN 3)

Chart of the Week: *Capital Spending*



Capital Spending unexpectedly declined 6.6% Q/Q and 7.8% Y/Y in Q2. Excluding software, capex saw an 8.2% Y/Y decline. Among manufacturers, capex declined 10.9% Q/Q and 2.0% Y/Y. Among non-manufacturers, capex declined 4.1% Q/Q and 10.7% Y/Y. This has negative implications for the previously released 1.3% contraction in Q2 GDP.

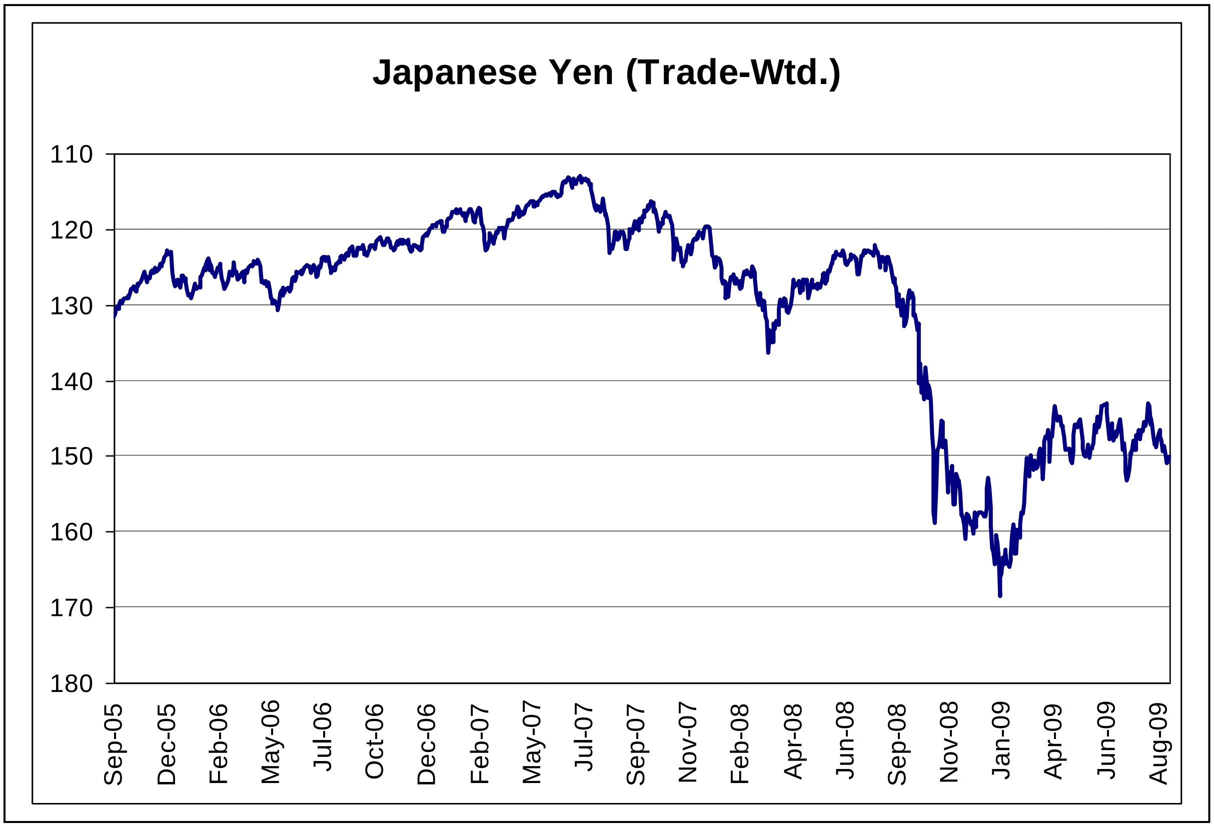
Also within the data, profits declined 11.9% Q/Q and 14.6% Y/Y as both manufacturing and non-manufacturing profits dropped. Sales saw a 5.1% Q/Q and 11.6% Y/Y decline as both manufacturing and non-manufacturing sales declined.

The slowdown in spending was unexpected and suggests companies are becoming more pessimistic regarding economic growth and business conditions, following the Yen's advances against the dollar and slowing global growth.

Japan's Financial Balances

Financial Balances

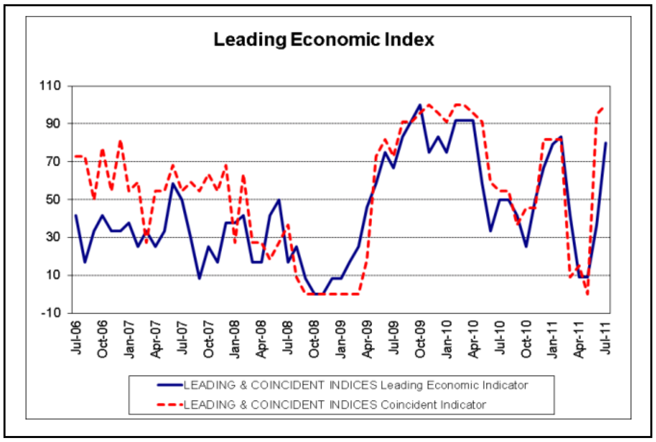
Japan	*Last period (¥trln)*	*Last 12mth. as a % of GDP*
Budget Balance	-3.03 (May)	-6.9%
Trade Balance	0.69 (June)	2.2%
Current Account Balance	1.50 (June)	5.2%
Private Balance	--	12.1%



Leading Economic Index, Vehicle Sales & News

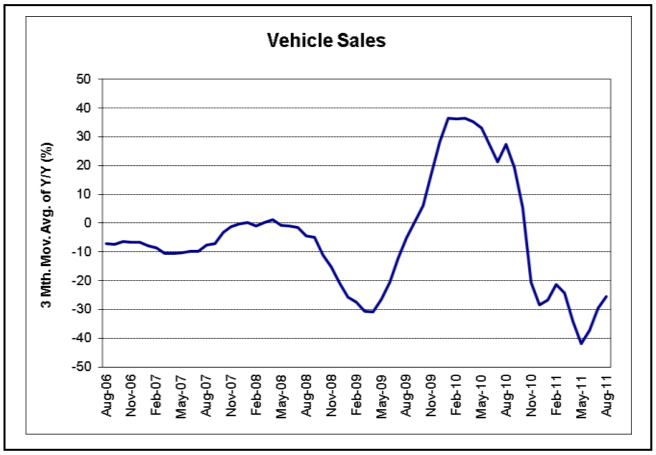
Leading Economic Index

Preliminary data indicates that the Leading Economic Index increased 2.7pts to 106.0 in July while the Coincident Index dropped 0.3pts to 109.0, its first decline in four months. In DI terms, the Leading Index improved from 36.4 to 80.0 while the Coincident Index improved from 95.0 to 100.0.



Vehicle Sales

Motor Vehicle Sales dropped 25.5% Y/Y in August as car and bus sales saw continued declines while truck sales improved for the month.



News

<u>September 7th – BoJ Leaves Policy Unchanged</u> – Amid rumors of additional easing, the BoJ left its key economic rate unchanged at its September monetary policy meeting. BoJ Gov Shirakawa commented after the meeting that he would continuously monitor the impact of the high yen, particularly on business sentiment, but noted that he didn't see an impact on the economy yet. He did acknowledge however, that uncertainties regarding the global economy had become "somewhat higher" compared with August.

<u>September 6th – Trade Minister Hachiro on Mandatory Power Savings</u> – The new trade minister, Yoshio Hachiro, commented at a cabinet meeting that, "The government's policy is to avoid such (mandatory power savings) measures as far as possible." He noted that the final decision on the potentially mandatory measures will be made after looking at the supply vs demand balance later this year.

Key Dates This Week

Date	Indicator	Expectation	Previous
9/07	Bank Lending Ex-Trusts (Y/Y)	N/A	-0.60%
9/07	Bank Lending incl Trusts (Y/Y)	N/A	-0.50%
9/07	Current Account Total	¥1175.8B	¥526.9B
9/07	Adjusted Current Account Total	¥990.8B	¥922.8B
9/07	Current Account Balance (Y/Y%)	-32.50%	-50.20%
9/07	Trade Balance - BOP Basis	¥149.1B	¥131.5B
9/07	Machine Orders (M/M)	-4.20%	7.70%
9/07	Machine Orders (Y/Y%)	8.30%	17.90%
9/08	Bankruptcies (Y/Y)	N/A	1.40%
9/08	Eco Watchers Survey: Current	N/A	52.6
9/08	Eco Watchers Survey: Outlook	N/A	48.5
9/08	GDP Deflator (Y/Y)	-2.20%	-2.20%
9/08	Nominal GDP (Q/Q)	-1.60%	-1.40%
9/08	GDP Annualized	-2.10%	-1.30%
9/08	Gross Domestic Product (Q/Q)	-0.50%	-0.30%
9/09	Consumer Confidence	N/A	37
9/11	BSI Large All Industry (Q/Q)	N/A	-22
9/11	BSI Large Manufacturing (Q/Q)	N/A	-23.3
9/11	Tertiary Industry Index (M/M)	N/A	1.90%
9/11	Domestic CGPI (M/M)	N/A	0.20%
9/11	Domestic CGPI (Y/Y)	N/A	2.90%
9/11-9/16	Nationwide Dept. Sales (Y/Y)	N/A	-0.10%
9/11-9/16	Tokyo Dept. Store Sales (Y/Y)	N/A	-1.30%
9/11-9/16	Machine Tool Orders (Y/Y)	N/A	34.80%
9/12	Japan Manpower Survey	N/A	8
9/14	Tokyo Condominium Sales (Y/Y)	N/A	-1.30%
9/14	Industrial Production (M/M)	N/A	0.60%
9/14	Industrial Production (Y/Y%)	N/A	-2.80%

Valance Co., Inc.

Valance Economic Report: United Kingdom

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September 7, 2011

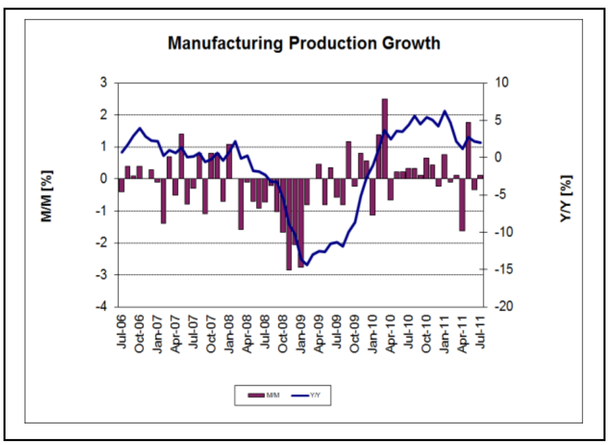
Poor data this week left even less room for optimism. Osborne is increasing defending his austerity plan while pressing the BoE into more action and blaming over-regulation. GDP is trending ever closer to contraction.

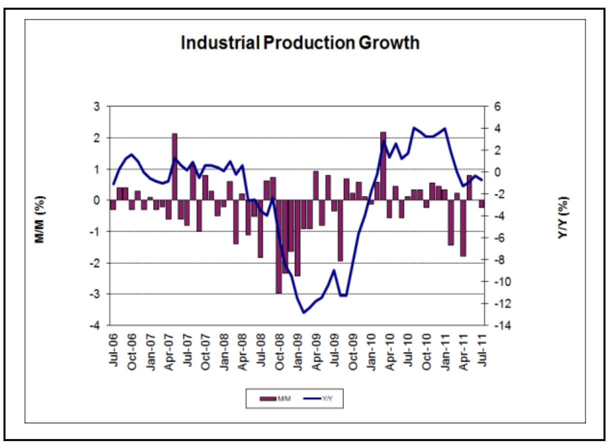
Weekly Highlights

Factory Output – increased 0.1% M/M in July. (UK 1)
PMI Services – contracted from 55.4 in July to 51.4 in August. (UK 3)

Weekly Releases & News

Chart(s) of the Week: *Mfg. & Industrial Production*

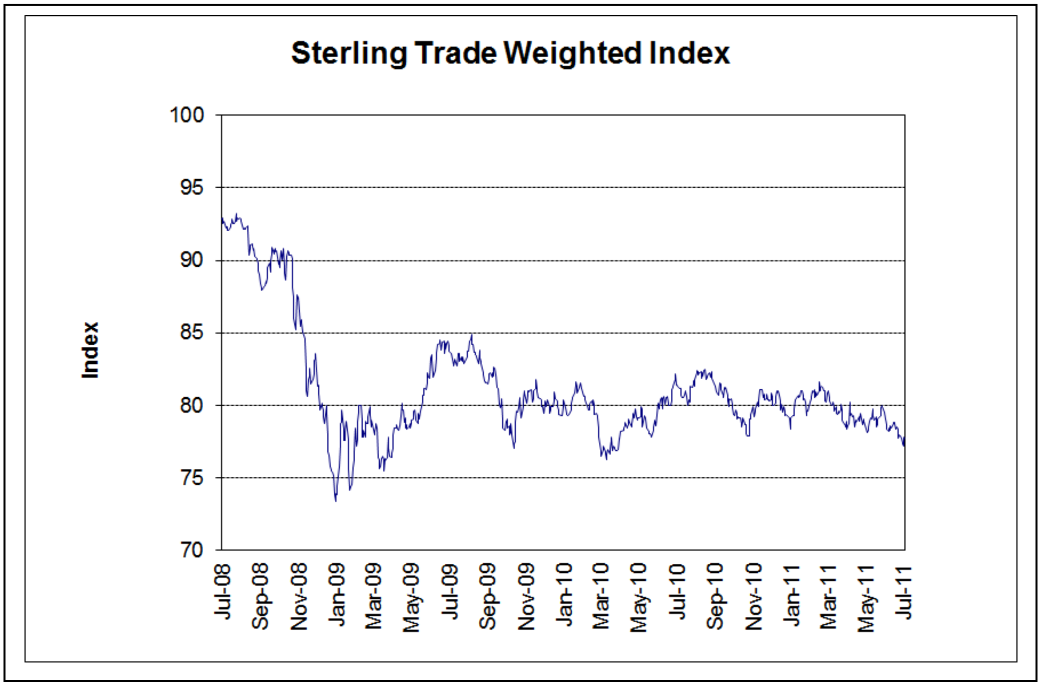




July's Factory Output increased 0.1% M/M (-0.4% prev.) and rose 1.9% Y/Y. The monthly increase was led by electrical and optical equipment, refined petrol and nuclear fuels, and food. Industrial Production fell 0.2% M/M and fell 0.7% Y/Y. The market expected constant M/M for Manufacturing and 0.2% M/M gains in Industrials.

Financial Balances & FX

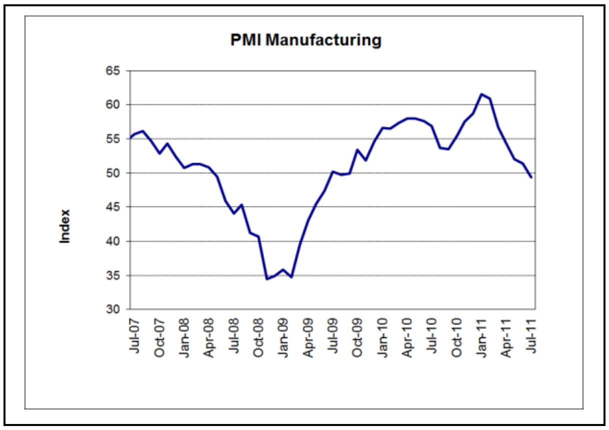
U.K.	*Last Period (blns)*	*Last 12mth. % of GDP*
Budget Balance (monthly/total)	+£12.0 (June)	+10.6%
Curr. Acct. Balance (quarterly)	-£9.4(Mar)	-2.5%
Private Balance	+£2.6	+8.1%



PMIs and Halifax Housing Survey

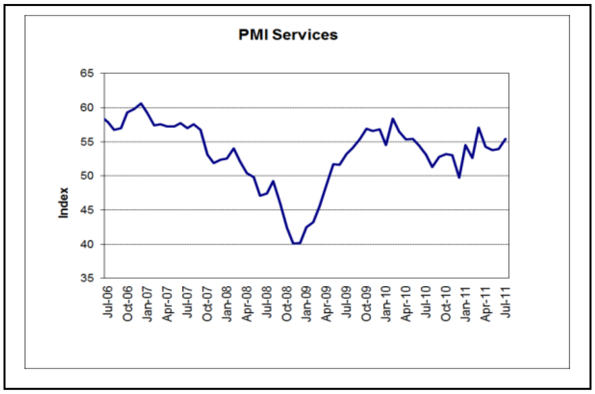
PMI Manufacturing

PMI Index of Manufacturing contracted 0.4pts to 49.0 in August, the lowest level since June 2009. This is on par with expectations. The index was at a 17-year low level of 34.5 in November 2008.



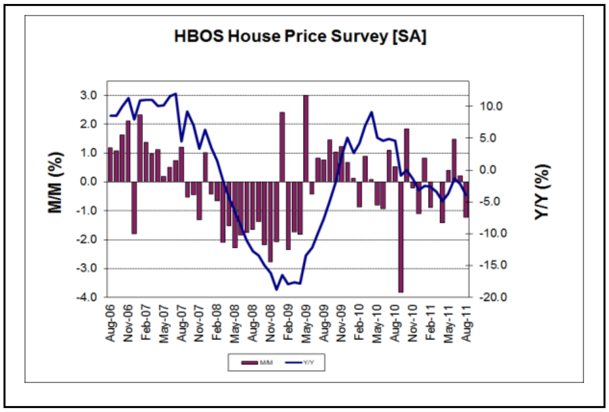
PMI Services

The PMI Index of Services fell significantly from 55.4 in July to 51.1 in August, far below expectations of 54.0. CIPS commented that, "U.K. services index fell the most since April 2001 last month as the weakening economic recovery and riots in London and other cities curbed activity."



Halifax Housing Survey

HBOS House Prices fell 1.2% M/M in August, after increasing 0.3% M/M in July. This is the first monthly decrease in four months. On a 3Mth avg., prices fell an annual 2.6% (1.0% Q/Q), remaining unchanged from last month's yearly percentage change. From a year earlier, prices fell 3.9%. Halifax said "overall, we expect broad stability in both prices and activity over the coming months."



Data & Comments

Data & News

Q2 NIESR GDP Estimate - According to the National Institute of Economic and Social Research (NIESR), U.K. economic growth slowed in the three months through August as "further weakness may prompt the Bank of England to restart quantitative easing." Gross domestic product probably expanded 0.2% down from 0.6% growth in the quarter through July. NIESR commented as follows:

- *The government's fiscal budget and the ongoing euro-crisis threaten the economic recovery seen in the quarter through July.*
- *If slow economic growth continues in the months to follow, the MPC will likely implement another round of quantitative easing to stimulate the growth seen in prior months.*

New Car Registrations - According to the Society of Motor Manufacturers and Traders, New Car Registration increased 7.3% Y/Y in August, compared to the -3.5% Y/Y in July.

PMI Construction - The PMI Index of Construction fell 0.9 pt to 52.6 in August. Economists expected a reading of 53.2.

BRC Retail Inflation – According to the British Retail Consortium, U.K. shop-price growth accelerated last month to its third fastest pace since October 2008 as rising commodity costs and a decline in the pound boosted inflation. Retail Prices rose 2.7 % from a year earlier after advancing 2.8 % in July and 2.9% in June. On the month, prices rose 0.1% after idecreasing 0.2% in July.

Comments

Sept. 7th - Julius Says BOE May Favor Extending Stimulus 'Gradually' (Bloomberg) - Former Bank of England policy maker DeAnne Julius said officials may choose to extend monetary stimulus "gradually" as above-target inflation deters some from voting for more asset purchases. "I'd be surprised," Julius said in an interview with Maryam Nemazee on Bloomberg Television's "The Pulse" program in London today when asked if the Bank of England's Monetary Policy Committee will extend stimulus at a meeting tomorrow. "Inflation is an issue here, so that will prevent a number of members on the MPC from voting for additional stimulus." "I imagine they'd do it gradually," Julius said when asked how she saw the bank expanding its emergency 200-billion pound ($320 billion) bond-purchase program. "They'd put in another 50 billion pounds. They'd wait and see" and may add more when they publish new quarterly economic forecasts.

Comments Cont'd.

Sept. 7th - Osborne Says U.K. Cuts Pave Way for 'Monetary Activism' (Bloomberg) - Chancellor of the Exchequer George Osborne said his five-year program to eliminate Britain's budget deficit has provided space for the Bank of England to practise "monetary activism" to keep borrowing costs down. The plan for the biggest cuts in public spending since World War II is "flexible enough" to withstand economic shocks even as growth struggles to gather momentum, Osborne said in a speech last night to Lloyd's of London, the world's oldest insurance market. He suggested government growth forecasts will be lowered. The U.K. has "a plan for fiscal responsibility" that was introduced "so that monetary activism can allow interest rates to stay lower for longer," Osborne said. Osborne acknowledged the economy is expanding more slowly than predicted in March, suggesting the Office for Budget Responsibility may cut its forecast of 1.7 percent growth in 2011 when it publishes its economic and fiscal outlook Nov. 29.

Sept. 4th - Cameron Says Nothing Is Taboo as U.K. Tries to Boost Economy (Bloomberg) - Prime Minister David Cameron said "nothing should be taboo" as the government considers extra measures this fall to boost Britain's flagging economic growth. "We haven't gone far enough," Cameron wrote in an article for today's Mail on Sunday newspaper. "My order to Whitehall this autumn is to think even more boldly about what we can do to put the turbo-boosters on Britain's economy." The government will if necessary tackle lobby groups "that are defending every last bit of the regulation that crushes business," Cameron wrote. "And yes, if it means putting even more pressure on the banks so they lend more to small businesses, then we'll do that too."

Sept. 1st - Sentance Says He Would Still Argue for BOE Rate Increase (Bloomberg) - Former Bank of England policy maker Andrew Sentance said he would still be voting for an interest- rate increase if he was on the Monetary Policy Committee. "I think the majority on the MPC has been focusing too much on some of the short-term indicators of growth and not on the medium-term prospects of inflation," Sentance said on BBC Radio today. "The concern I would have -- and I hear many people in the business world and the City comment on this -- is the Bank of England seem to have suspended the inflation target and are not focusing on it as they should." He also said that while it's "probably a bit more difficult now to start raising interest rates because of issues of confidence, but I still think over a number of months it's the right thing to do."

Key Dates This Week

Date	*Indicator*	*Month*	*Expectation*	*Previous*
09/08	BoE Rates	SEP	0.50	0.50
09/09	PPI Input/Output (M/M)	AUG	-	+0.6%/0.2%
09/12	RICS	AUG	-	-22%
09/09	Trade Balance	JUL	-	-4496 bln
09/13	DCLG House Prices (Y/Y)	JUL	-	-2.0%
09/13	CPI (M/M)	AUG	-	0.0%
09/14	Jobless Claims Change	AUG	-	37.1k
09/14	ILO Unemployment Rate (3mths)	JUL	-	7.9%

Valance Economic Report: Canada

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September 7, 2011

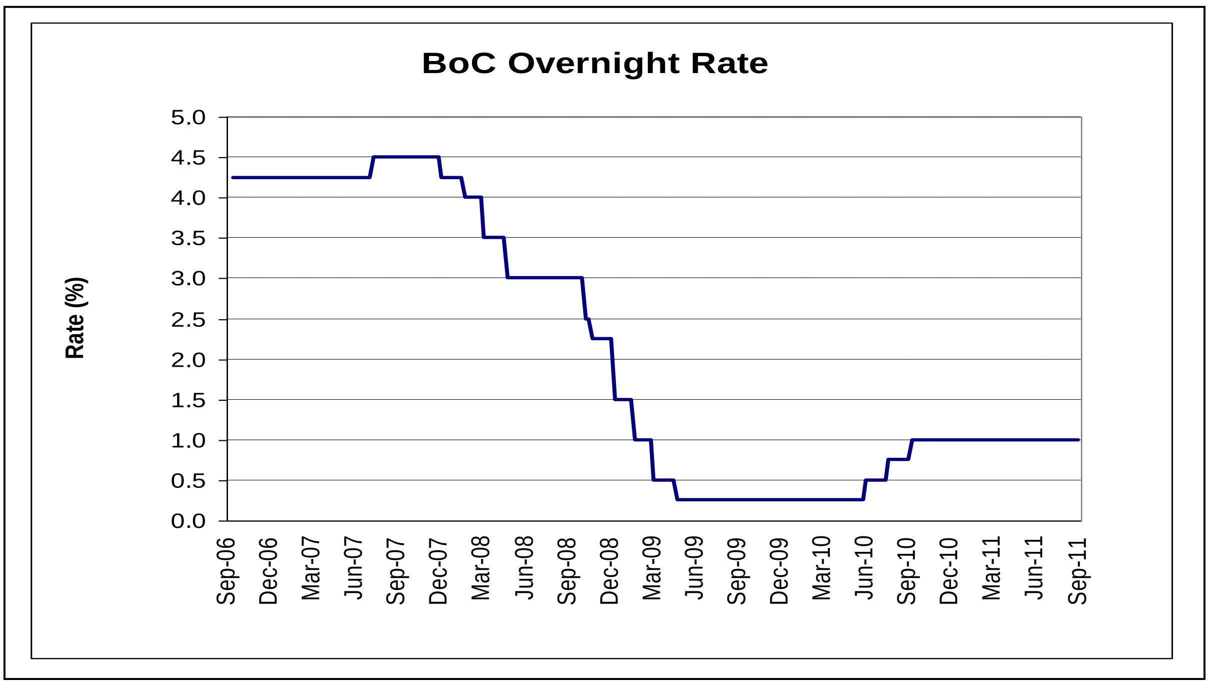
As expected, the BoC left its Overnight Rate at 1.00%, citing a "diminished" need for an increase, due to the global economic slowdown and financial risks from Europe. The Ivey PMI rose more than expected in August.

Weekly Highlights

BoC Overnight Rate – remained at 1.0%. (CA 1)
Ivey Purchasing Managers Index – rose 9.6pts to 56.4 in August. (CA 4)

Weekly Releases & News

Chart(s) of the Week: *BoC Overnight Rate*



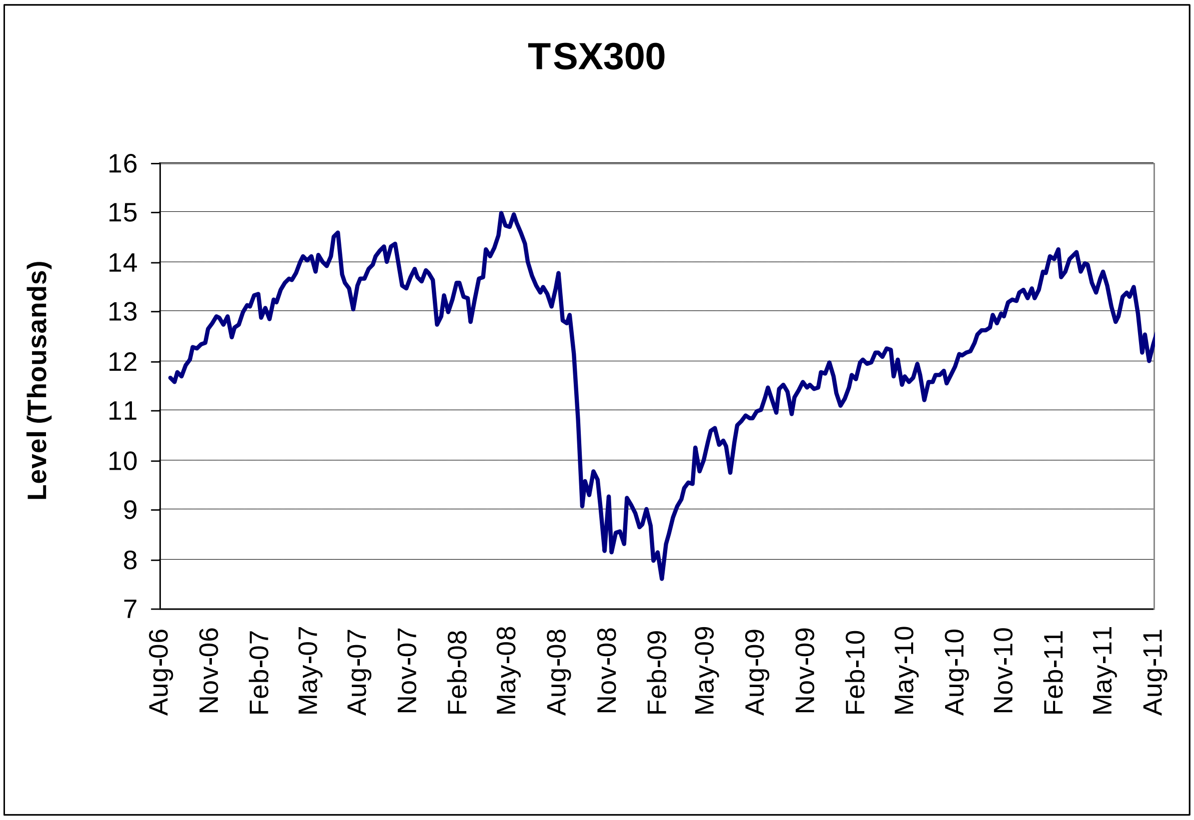
The Bank of Canada left its Overnight Rate at 1.00% for an eighth meeting. Governor Mark Carney remarked, "In light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished." The BoC remarked that it expects the economy to pick-up in H2 of this year.

Financial Balances & Trade Weighted Exchange Rate

Financial Balances

Canada	*Latest period (C$bln)*	*Last 12mth. as % of GDP*
Budget Balance	-3.3 (Feb)	-2.3%
Trade Balance	-7.95 (June)	-6.3%
Current Account Balance	-15.3 (Q2)	-4.3%
Private Balance	--	-3.3%

Trade-Weighted Exchange Rate



BoC Rate Decision Statement

September 7th - Bank of Canada maintains overnight rate target at 1 per cent

The Bank of Canada today announced that it is maintaining its target for the overnight rate at 1 per cent. The Bank Rate is correspondingly 1 1/4 per cent and the deposit rate is 3/4 per cent.

The global economic outlook has deteriorated in recent weeks as several downside risks to the projection in the Bank's July Monetary Policy Report *(MPR) have been realized. The European sovereign debt crisis has intensified, a broad range of data has signalled slower global growth, and financial market volatility has increased sharply. Recent benchmark revisions show that the U.S. recession was deeper and its recovery has been shallower than previously reported. In combination with recent economic data, this implies that U.S. growth will be weaker than previously anticipated. The Bank expects that American household spending will be even more subdued in the face of high personal debt burdens, large declines in wealth and tough labour market conditions. Fiscal stimulus in the United States will also soon turn into material fiscal drag. Acute fiscal and financial strains in Europe have triggered a generalized retrenchment from risk-taking and could prompt more severe dislocations in global financial markets. Resolution of these strains will require additional significant initiatives by European authorities. Growth in emerging-market economies has been robust, although its rate and composition will be affected by weakness in major advanced economies. While commodity prices have declined owing to diminished global growth prospects, they remain relatively high.*

Largely due to temporary factors, Canadian economic growth stalled in the second quarter. The Bank continues to expect that growth will resume in the second half of this year, led by business investment and household expenditures, although lower wealth and incomes will likely moderate the pace of investment and consumption growth. The supply and price of credit to businesses and households remain very stimulative. However, financial conditions in Canada have tightened somewhat and could tighten further in the event that global financial conditions continue to deteriorate. Net exports are now expected to remain a major source of weakness, reflecting more modest global demand and ongoing competitiveness challenges, in particular the persistent strength of the Canadian dollar.

Slower global economic momentum will dampen domestic resource utilization and inflationary pressures. The Bank expects total CPI inflation to continue to moderate as temporary factors, such as significantly higher food and energy prices, unwind. Core inflation is expected to remain well-contained as labour compensation growth stays modest, productivity recovers, and inflation expectations remain well-anchored.

Reflecting all of these factors, the Bank has decided to maintain the target for the overnight rate at 1 per cent. In light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The Bank will continue to monitor carefully economic and financial developments in the Canadian and global economies, together with the evolution of risks, and set monetary policy consistent with achieving the 2 per cent inflation target over the medium term.

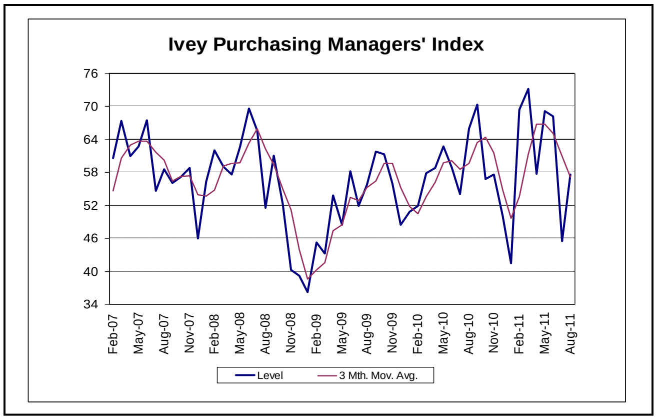
Ivey PMI, News & Upcoming Dates

Ivey Purchasing Managers' Index

The Ivey Purchasing Managers' Index (S.A.) rose from 46.8 in July to 56.4 in August, above expectations for 52.3.

On a non-seasonally adjusted basis, the index rose 12.2pts to 57.6 in August.

The Employment component eased 3.3pts to 52.5, Prices rose 1.8pts to 64.0, and Inventories rose 0.6pts to 57.9.



News

<u>September 6th - Canada's AAA Bond Rating Affirmed by Fitch on Fiscal Policy</u> – Director Lucila Broide of Fitch Ratings Sovereign Group confirmed Canada's AAA rating and cited a "culture of conservative policymaking." Broide continued, "An effective fiscal stimulus and proactive monetary policy, as well as a commodity-price revival, helped Canada recover more quickly than its developed-nation peers, posting 3.2 percent gross-domestic-product expansion in 2010."

Key Dates This Week

Date	*Indicator*	*Month*	*Expectation*	*Previous*
09/08	Building Permits (M/M)	JUL	-1.5%	+2.1%
09/08	New House Price Index (M/M)	JUL	0.3%	+0.3%
09/08	Trade Balance	JUL		-1.56bln
09/09	Employment Change (M/M)	AUG	-	+7.1k
09/09	Housing Starts	AUG	200.0K-	205.1
09/09	Labor Productivity (Q/Q)	Q2	-0.7%	+0.4%

Valance Co., Inc.

Valance Economic Report: Australia

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September 7, 2011

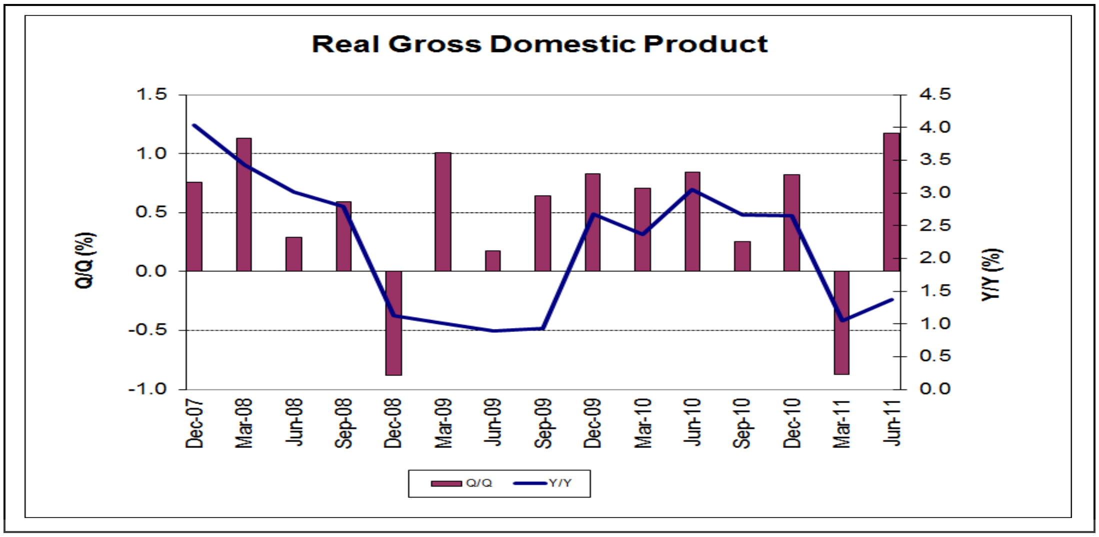
Q2 Real GDP increased slightly more than expected in Q1. Company profits and capital spending also improved, beating expectations.

Weekly Highlights

Q1 Real GDP – increased 1.2% Q/Q. (AU 1)
Q1 Current Account Deficit – declined from $11.1 to $7.4bln. (AU 2)
Q1 CAPEX – increased 4.9% Q/Q. (AU 3)

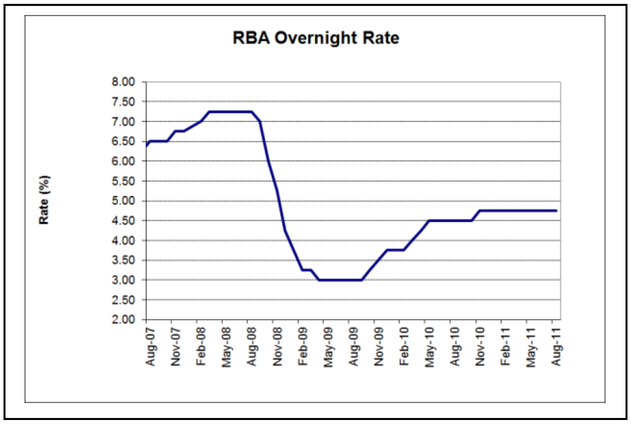
Weekly Releases & News

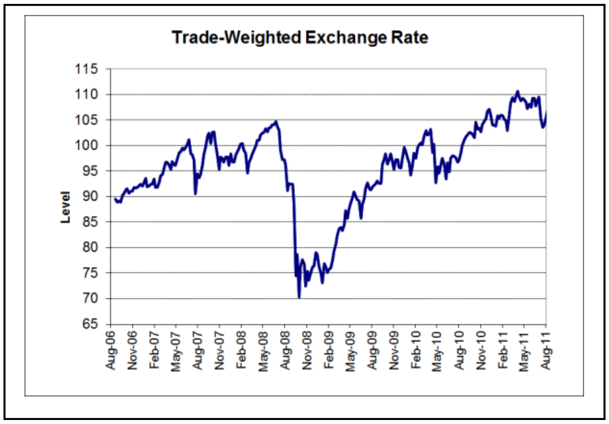
Chart of the Week: *Real GDP*



Q2 Real GDP increased 1.2% Q/Q from an upwardly revised -0.9% Q/Q (previously -1.2%) decline in Q1. Y/Y growth was 1.4%, up from 1.0% in Q4. Economists expected a 1.0% M/M and 0.7% Y/Y increase. The GDP deflator rose 1.6% Q/Q in Q2 after 1.5% Q/Q in Q1 2011.

RBA Target, FX & Current Account

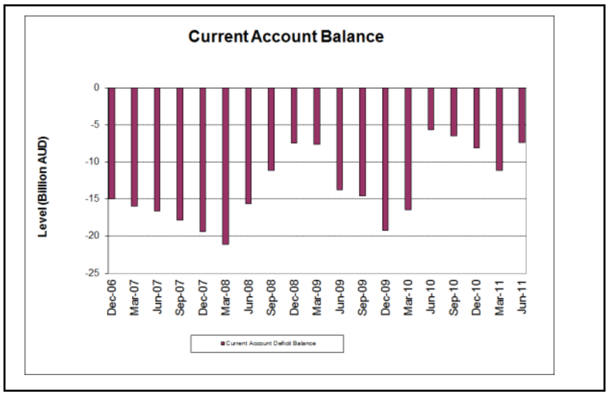




As expected, the RBA kept its target rate at 4.75% for the 9th consecutive meeting. Following the meeting, RBA Gov. Glenn Stevens commented that "periods of sudden increases in anxiety within international financial markets are moments when, if at all possible, it is good to be in a position to be able to maintain steady settings." He also commented that households watching global and local events "may continue their precautionary behavior for longer than otherwise" and help weaken demand compared with the RBA's August forecasts. He noted that if that happens, they may act to "curtail the upward trend in inflationary pressures that has, up to this point, appeared to be in prospect."

Current Account Deficit

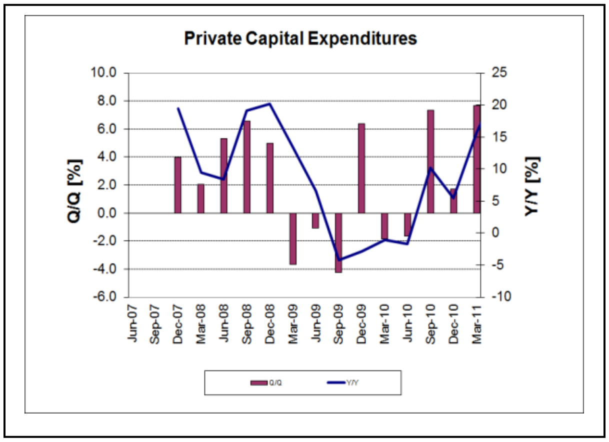
The Current Account Deficit declined from 11.115 bln in Q1 to 7.419 bln in Q2 against an expected decline to 7.1 bln. This decline in the deficit was largely caused by a rebound in mining exports, following floods in Q1.



CAPEX & Company Operating Profit

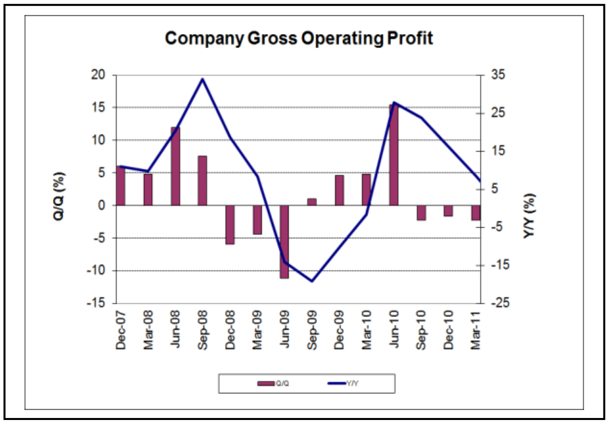
Private Capital Expenditure

CAPEX rose by 4.9% Q/Q, compared to the upwardly revised 7.7% (previously 3.4% Q/Q) in Q2. This is the fourth straight quarterly increase. The forecast was for a 4.0% quarterly gain. Y/Y CAPEX increased 23.3%. Spending on Buildings and Structures rose 7.3% Q/Q, while investment on new plant and equipment rose 2.2% Q/Q.



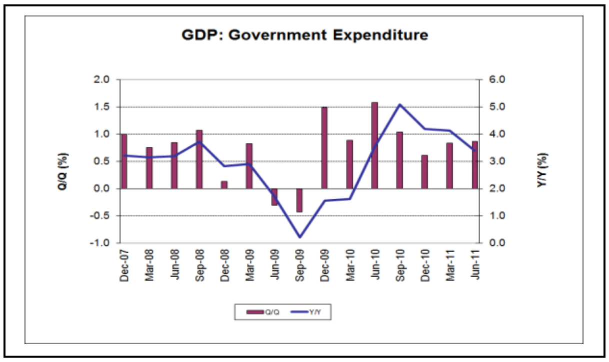
Company Gross Operating Profits

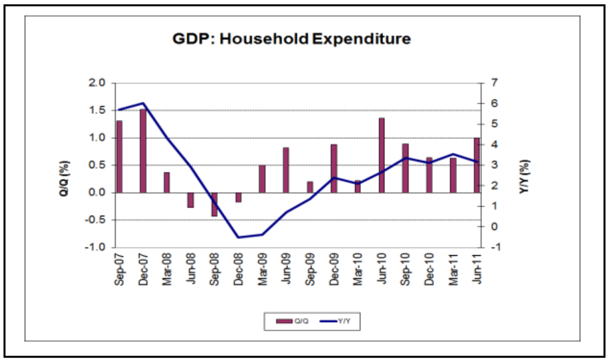
Company Gross Operating Profits increased 6.7% Q/Q in Q2, from a downwardly revised -2.2% (previously -2.0%) in Q1.



GDP Components

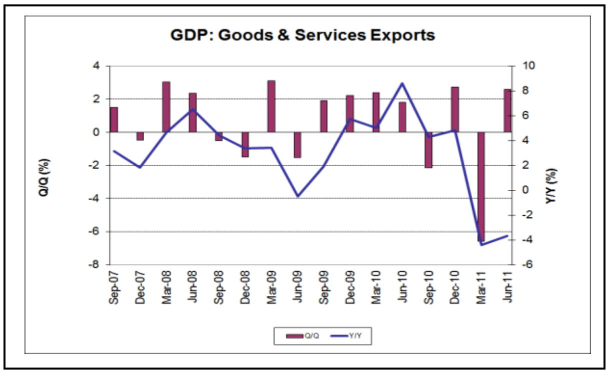
Government & Household Expenditure

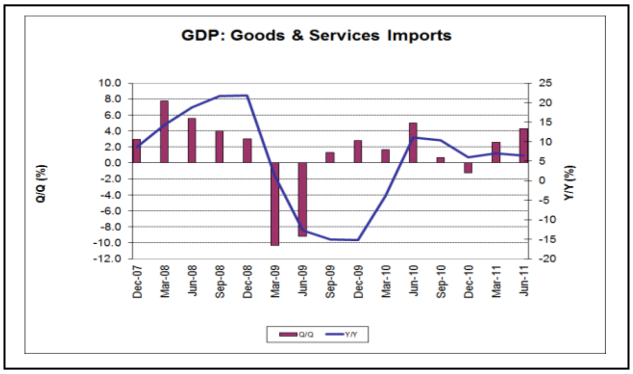




Government Spending increased 0.9% Q/Q and Household Spending increased 1.0% Q/Q in Q2.

Goods & Services Exports and Imports



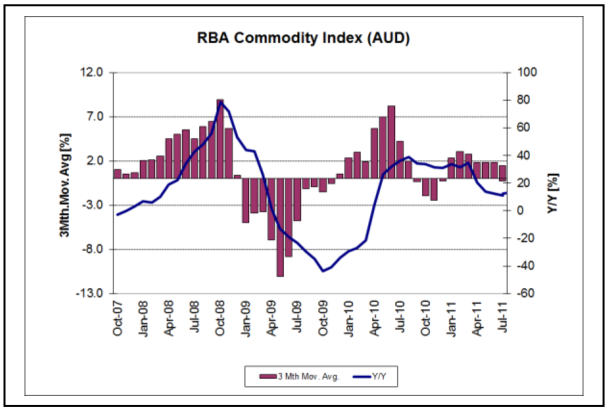


Exports of Goods and Services increased 2.6% Q/Q while the Imports of Goods and Services increased 4.3% Q/Q in Q2.

RBA Commodity Index, Retail Sales & Building Approvals

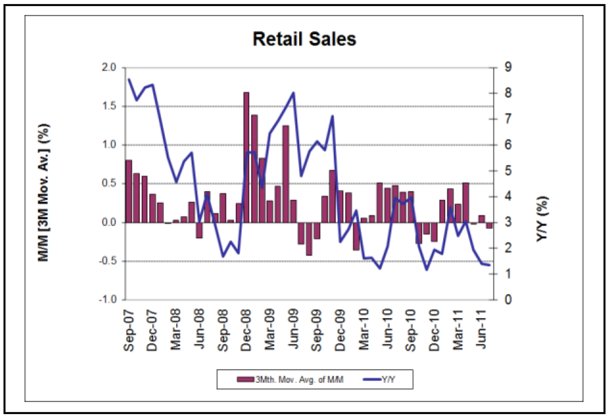
RBA Commodity Index

The RBA'sCommodity Price Index (SDR terms) increased 25.2% Y/Y in August.



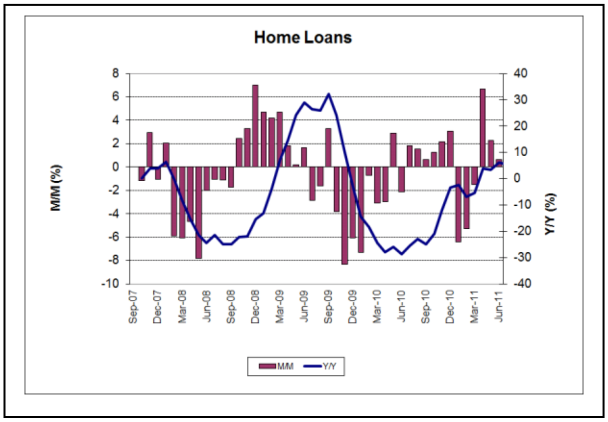
Retail Sales

July's Retail Sales increased 0.5% M/M, following June's 0.1% M/M drop against a 0.3% expected gain. Within the details, increases were strongest among department stores, other retailing, cafes/restaurants and food. The sale of apparels declined for the month.



Home Loans

In July, the number of Home Loan Approvals increased 1.0 M/M after increasing 0.6% M/M in June. The market expected a 1.5% M/M gain. During the month, refinancing increased 2.5% M/M, construction declined 0.8% M/M, new home purchases declined 0.9% M/M, and existing home purchases increased 1.3% M/M.



RBA Rate Decision Statement - Summary

At its meeting today, the Board decided to leave the cash rate unchanged at 4.75 per cent.

Conditions in global financial markets have been very unsettled over recent weeks, as participants have confronted uncertainty about both the resolution of sovereign debt problems and the prospects for economic growth in Europe and the United States. As a result, the outlook for the global economy is less clear than it was earlier in the year. Some temporary impediments that had contributed to a slowing in growth in some countries over recent months, such as the supply-chain disruptions from the Japanese earthquake and the dampening effects of rising commodity prices, are lessening. But the uncertainty and financial volatility is reducing confidence and may result in more cautious behaviour by firms and households in major countries. A number of forecasters have scaled back their global growth estimates over the past couple of months.

At this stage, little evidence is available to gauge any effects of the European and US problems on other regions. Prices for key Australian commodities have remained very high thus far, with growth in China continuing to look solid. As a result, Australia's terms of trade are now at very high levels and national income has been growing strongly. Investment in the resources sector is picking up very strongly and some related service sectors are enjoying better than average conditions. In other sectors, cautious behaviour by households and the high level of the exchange rate are having a noticeable dampening effect. The impetus from earlier Australian Government spending programs is now also abating, as had been intended. Overall, the near-term growth outlook continues to look somewhat weaker than was expected a few months ago. Beyond the near term, growth is still likely to be at trend or higher, unless the world economic outlook continues to deteriorate.

Growth in employment has been moderate this year and the unemployment rate has been little changed, near 5 per cent, for some time now. Reports of skills shortages remain confined to the resources and related sectors. After the significant decline in 2009, growth in wages has returned to rates seen prior to the downturn, though productivity growth has been weak.

Year-ended CPI inflation should start to decline towards the end of the year, as temporary weather-related effects reverse. But measures of underlying inflation have been increasing this year, after declining for the previous two years. While they have, to date, remained consistent with the 2–3 per cent target on a year-ended basis, the Board remains concerned about the medium-term outlook for inflation. A key question will be the extent to which softer global and domestic growth will work, in due course, to contain inflation.

Most financial indicators suggest that monetary policy has been exerting a degree of restraint. Credit growth has declined over recent months and is very subdued by historical standards, even with evidence of greater willingness to lend. Most asset prices, including housing prices, have also softened. The exchange rate is high. Each of these variables is affected by other factors as well, but together they point to financial conditions being tighter than normal.
At today's meeting, the Board judged that it was prudent to maintain the current stance of monetary policy. In future meetings, the Board will continue to assess carefully the evolving outlook for growth and inflation.

News & Upcoming Dates

News

AiG Performance of Manufacturing Index - The Performance of Manufacturing Index dropped from 43.4 in July to 43.3 in August. This is a 2-year low, and compares to a reading of 50.9 a year ago. A reading above 50 indicates the sector is expanding.

AiG Performance of Construction Index **-** The Performance of Construction Index dropped 4.0pts to 32.1 in August. This compares to the 43.2 level reached a year ago.

AiG Services Index - The Australian Industry Group/Commonwealth Bank Performance of Services Index (PSI) increased 3.3pts to 52.1 in August. This was the 2nd consecutive increase and compares with last year's reading of 47.5. The overall survey is similar to the U.S. Non-manufacturing ISM index.

Key Dates This Week

Date	*Indicator*	*Month*	*Expectation*	*Previous*
09/07	Employment Change	AUG	-	-0.1k
09/11	Trade Balance	JUL	-	2052M
09/12	NAB Business Confidence	AUG	-	+2
09/13	Westpac Consumer Confidence	SEP	-	-3.5%
09/13	DEWR Vacancies	AUG	-	-

Valance Co., Inc.

Valance Economic Report: New Zealand

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September 7, 2011

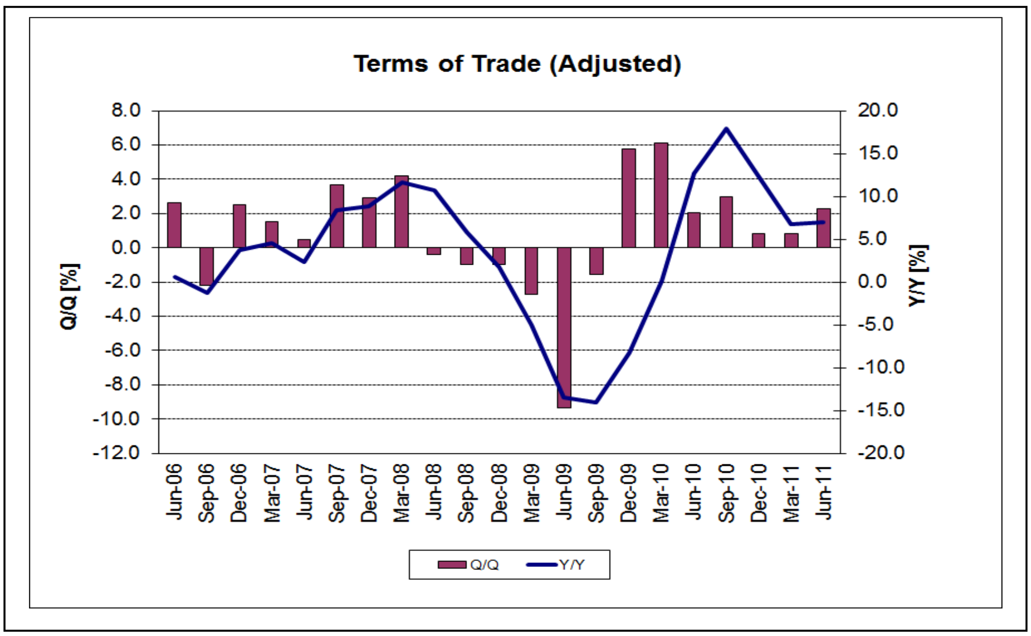
The Terms of Trade Index increased for the seventh consecutive quarter in Q2 while the Commodity Export Price Index dropped.

Weekly Highlights

Terms of Trade Index – rose 2.3% Q/Q in Q2. (NZ 1)

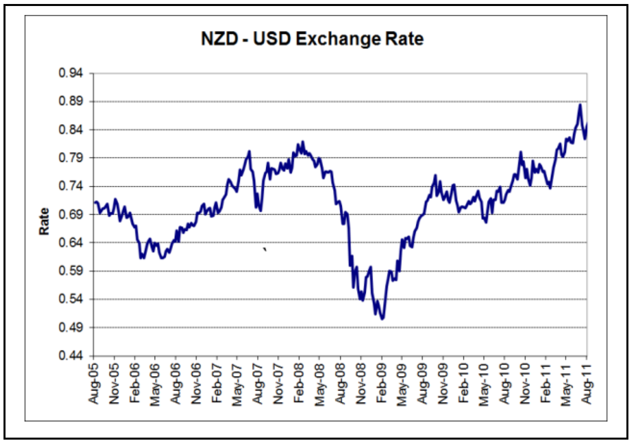
Weekly Releases & News

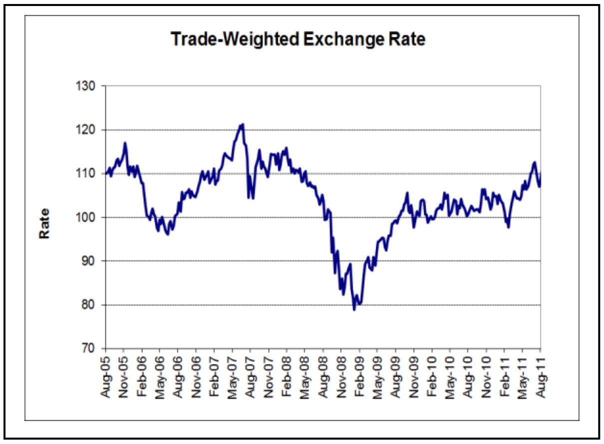
Chart of the Week: *Terms of Trade Index*



The Terms of Merchandise Trade Index increased 2.3% Q/Q in Q2, after increasing 0.8% Q/Q in Q1 and against market expectations for a 2.5% Q/Q gain. This is the 7th quarterly increase in a row. Y/Y, Terms of Trade increased 7.1%, after increasing 6.8% in Q1 and 12.3% in Q4. Export prices increased 1.8% Q/Q and 8.8% Y/Y while Import prices fell 0.5% Q/Q and rose 1.6% Y/Y.

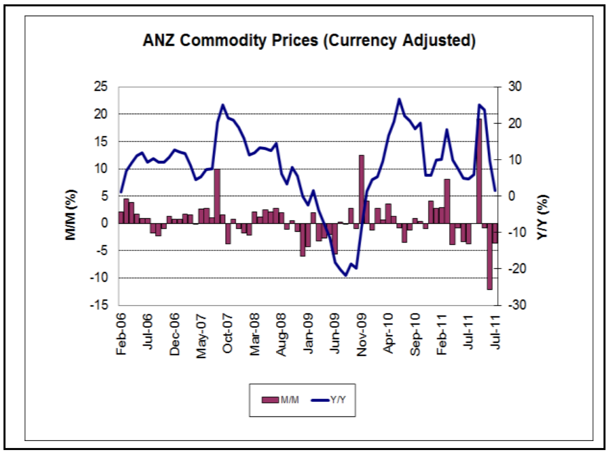
FX & ANZ Commodity Prices





ANZ Commodity Prices

August's Commodity Export Price Index dropped 1.2% M/M and increased 22.1% Y/Y. This is the 3rd consecutive monthly decline. Dairy Product Prices dropped 4.4% M/M and increased 15.9% Y/Y. Prices were unchanged M/M and increased 5.9% Y/Y.



News & Upcoming Dates

Sept. 5th - N.Z. Treasury Says Global Developments Damp Growth Outlook (Bloomberg) - New Zealand's growth prospects have been damped by global developments and downgrades in the outlook for the economies of the nation's trading partners, according to the Treasury Department.

Forecasts for trading partner growth are lower than assumed in the budget released in May and are likely to be reduced further before an economic update is published prior to the November election, the department said in a report on its website. The monthly analysis doesn't contain new forecasts.

"This weaker international outlook will be taken into account in our forecasts of the New Zealand economy," the Treasury said. "To some degree it may be offset by the stronger domestic economy, but some impact on export volumes and commodity prices can be expected."

Commodity prices fell for a third month in August, crimping exports, which contribute 30 percent of gross domestic product. Household spending and the labor market have been stronger than budget forecasts in the first half of the year, the Treasury said.

Households are relying on income growth to support spending rather than increased credit, it said.

Key Dates This Week

Date	Indicator	Month	Expectation	Previous
09/07	Mfg. Activity (Q/Q)	Q2	-	+2.9%
09/12	Food Prices (M/M)	AUG	-	--
09/13	Manpower Survey (Q/Q)	Q4	-	+17.0%

Valance Co., Inc.

Weekly Economic Report: ***China***

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September 7, 2011

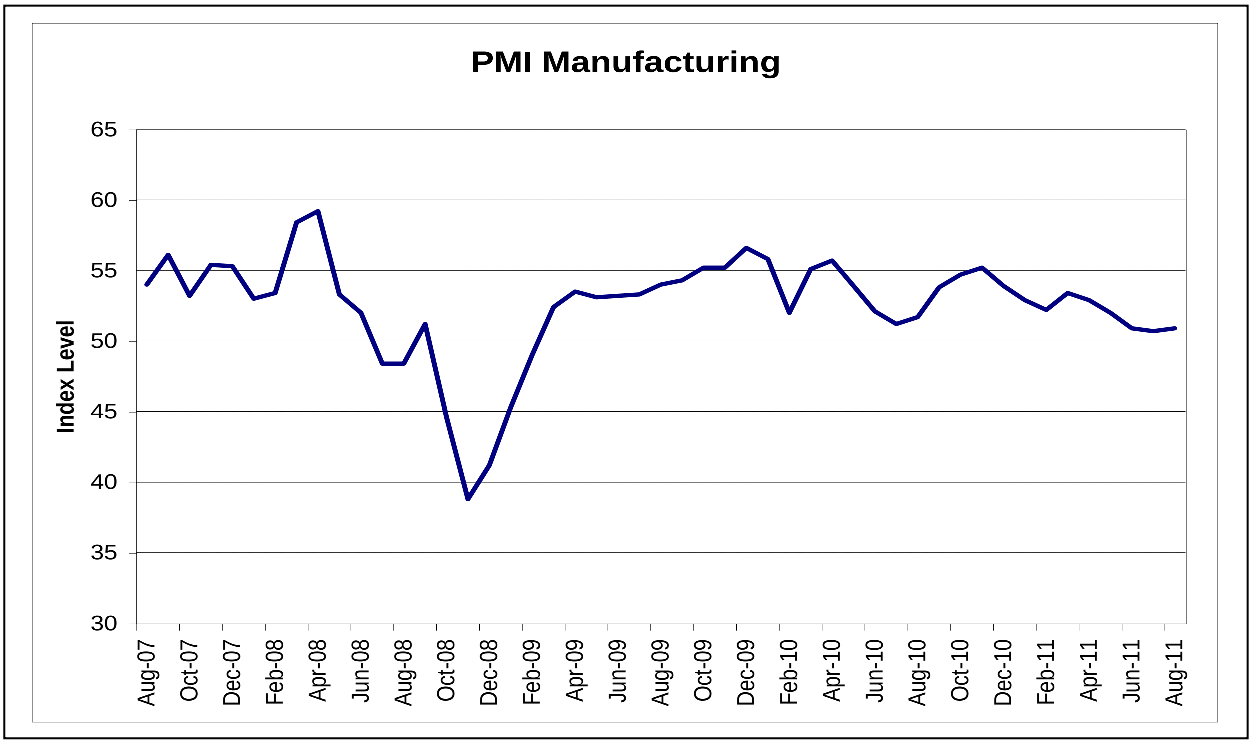
China's Non-Manufacturing PMI remained well in expansionary territory in August, while the manufacturing sector rebounded.

Weekly Highlights

PMI Manufacturing – rose from 50.7 in July to 50.9 in August. (CH 1)
HSBC Manufacturing PMI – rose from 49.3 in July to 49.9 in August. (CH 2)

Weekly Releases & News

Chart(s) of the Week: *PMI Manufacturing*



According to the China Federation of Logistics and Purchasing, the Purchasing Managers' Index rose from 50.7 in July to 50.9 in August. See PMI Manufacturing Results on the following page.

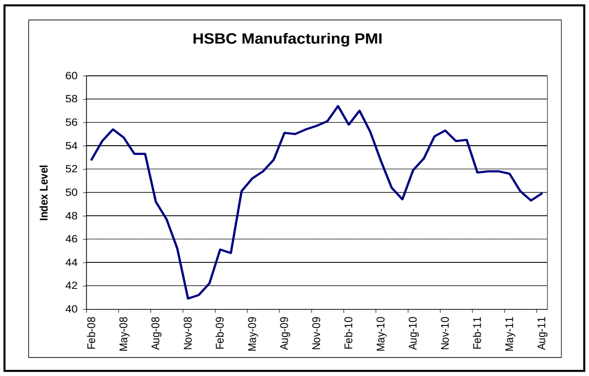
PMI Manufacturing Results, HSBC & Non Manufacturing

PMI Manufacturing Results

	Aug 2011	July 2011	June 2011	May 2011	Apr 2011	Mar 2011	Feb 2011	Jan 2011
Manufacturing PMI	**50.9**	50.7	50.9	52.0	52.9	53.4	52.2	52.9
Output	**52.3**	52.1	53.1	54.9	55.3	55.7	53.8	55.3
New Orders	**51.1**	51.1	50.8	52.1	53.8	55.2	54.3	54.9
New Export Orders	**48.3**	50.4	50.5	51.1	51.3	52.5	50.9	50.7
Backlogs of Work	**47.6**	46.5	45.9	47.7	50.7	51.4	46.6	46.5
Inventories of Finished Goods	**48.9**	49.2	51.0	50.0	50.8	51.3	46.4	47.9
Purchases Quantity	**51.2**	52.0	51.5	53.6	53.8	54.1	54.5	57.7
Imports	**49.7**	49.1	48.7	50.5	50.6	52.0	53.9	53.0
Input Prices	**57.2**	56.3	56.7	60.3	66.2	68.3	70.1	69.3
Inventories of Raw Materials	**48.8**	47.6	48.5	49.5	52.0	51.6	49.5	52.0
Employment	**50.4**	50.5	50.2	50.9	51.8	51.8	48.9	49.0
Supplier Delivery Times	**49.9**	50.3	49.8	49.9	50.6	50.4	48.2	49.5

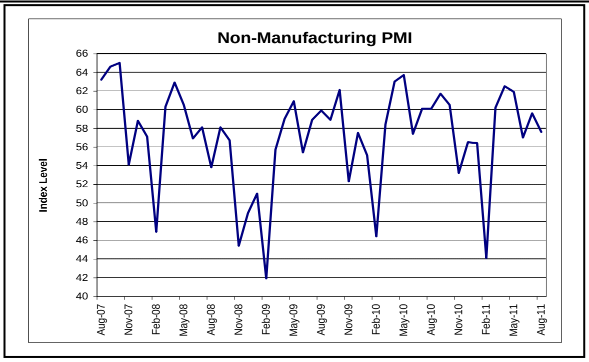
HSBC Manufacturing PMI

The HSBC Manufacturing PMI rose from 49.3 in July to 49.9 in August. Qu Hongbin, Chief HSBC Economist remarked, "The August final manufacturing PMI reading edged up marginally from the flash reading, almost close to the break-even level. Both output and employment rebounded to above the 50 line for the first time in three months. These data confirm our view that China will only see growth moderation in the coming months, rather than a hard landing."



Non-Manufacturing PMI

The Non-Manufacturing Purchasing Managers' Index fell from 59.6 in July to 57.6 in August. The China Federation of Logistics and Purchasing remarked, "Investments on railways have fallen and the impact of slowing growth of infrastructure investments in some sectors has started to show." See results below.



News

September 7th (Xinhua) - China's GDP growth likely to fall below 9 pct in 2012 – China Daily reported, citing Chief Economist, Huang Guobo at the State Administration of Foreign Exchange, as saying that the country's economy will likely grow less than 9.0% in 2012, partly attributed to wavering economic recovery.

September 5th (Bloomberg) - Calls for Easing Monetary Policy – Secretary General, Wang Jian, of the China Society of Macroeconomics told Hexun.com:

We've come to the turning point in macroeconomic policy where we need to shift to protecting growth from combating inflation. If you keep pouring cold water over yourself while the temperature outside keeps falling, you'll freeze to death.

A slump in growth can't be avoided even if the government were to adjust its policies right now.

We've come to a point where growth momentum is weakening sharply because we've placed too much emphasis on fighting inflation.

September 1st (Bloomber) - China to Curb Home Prices in Smaller Cities – Chinese Premier Wen Jiabao said in an essay:

We must unswervingly curb irrational housing demand, continue to strictly implement differential housing loans, tax policies and restriction on purchases.

At the same time, we need to focus on suppressing overly rapid price gains in second- and third-tier cities, to promote a return to reasonable house prices.

September 1st (Google) - Chinese growth machine waning: World Bank chief - World Bank President Robert Zoellick said in an article published on the World Bank's website:

The drivers of China's meteoric rise are waning.

By 2030, if China reaches a per capita income of $16,000 -- a reasonable possibility -- the effect on the world economy would be equivalent to adding 15 of today's South Koreas.

It is hard to see how that expansion could be accommodated within an export and investment-led growth model.

The challenge is 'how' to do it.

A critical question is how China can complete its transition to a market economy. A broad agenda needs to include redefining the role of the government and the rule of law, expanding the private sector, promoting competition, and deepening reforms in the land, labor, and financial markets.

What happens in China is as important as Europe, Japan, or the United States.

Key Dates This Week

Date	*Indicator*	*Month*	*Expectation*	*Previous*
08/08	PPI	JUL	7.5%	7.1%
08/08	IP	JUL	14.3% / 14.8%	14.3% / 15.1%
08/08	CPI	JUL	6.3%	6.4%
08/08	Fixed Assets	JUL	25.5%	25.6%
08/08	Retail Sales YTD / Y/Y	JUL	17.0% / 17.7%	16.8% / 17.7%
08/09	Trade Balance	JUL	$27.40B	$22.27B
08/09	Exports / Imports	JUL	17.0% / 22.5%	17.9% / 19.3%
08/09-15	Actual FDI	JUL	--	2.8%

Valance Co., Inc.

Valance Economic Report: Sweden

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September 7, 2011

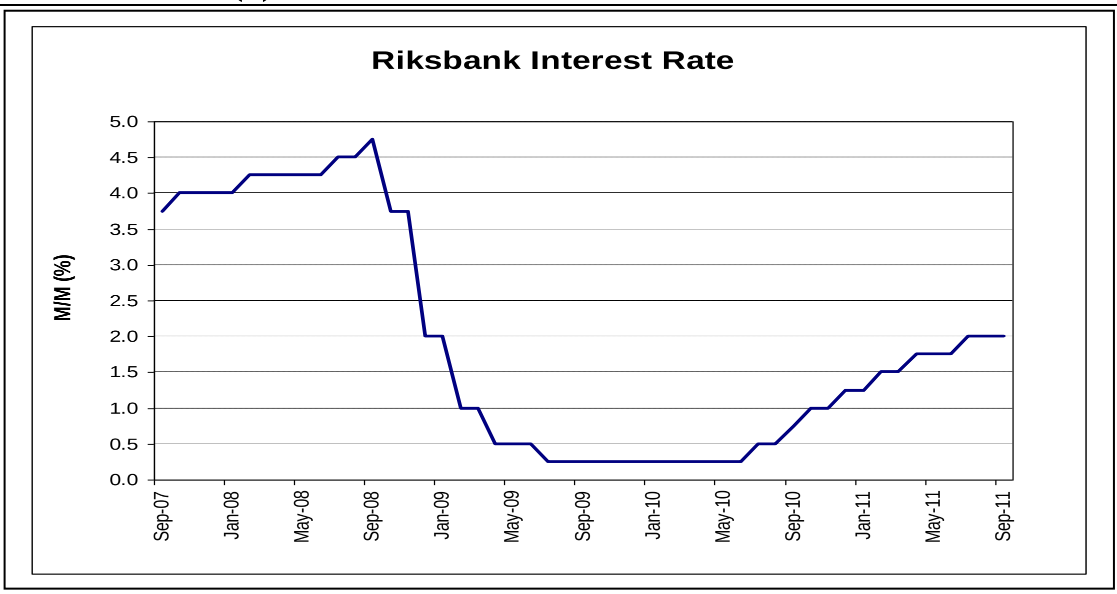
As expected, the Riksbank kept its repo rate unchanged at 2.0% and lowered its forecast for the projected rate path. In August, Swedbank's PMI Index fell below its expansion level of 50 for the first time in over 2 years and Sweden rebounded to a Budget Surplus of SEK 8.8 bln. Service Production fell below expectations in July.

Weekly Highlights

Riksbank Interest Rate – was unchanged at 2.0%. (SW 1)
Budget Surplus – widened to SEK 8.8 bln in August. (SW 2)
PMI – fell from 50.1 in July to 48.7 in August. (SW 2)
Service Production – fell 0.1% M/M and rose 4.4% Y/Y in July. (SW 2)

Weekly Releases & News

Chart(s) of the Week: *Riksbank Interest Rate*

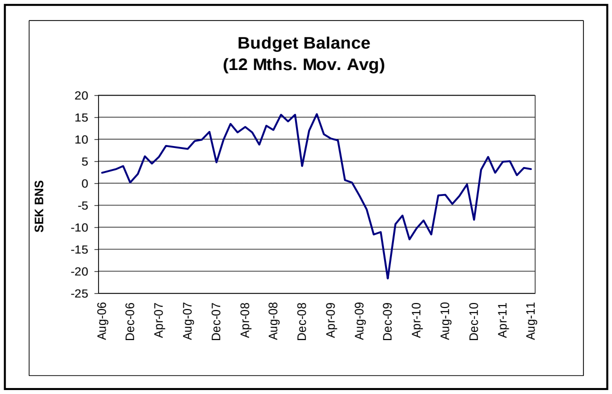


As expected, the Riksbank held its repo rate at 2.0%, following seven consecutive increases since July of 2010. The Bank remarked, "The concern over public finances abroad has increased and global growth prospects have deteriorated. The slowdown in the Swedish economy is thus expected to be more pronounced than was forecast in July." The Bank has now predicted that they will likely postpone slight increases for now. It added, the rate will likely average 2.4% in Q3 of next year (from an earlier forecast of 2.9) and 3.0% in Q4 of 2013 (compared with 3.4% predicted earlier). On the rate path, Deputies Lars E. O. Svensson and Karolina Ekholm, preferred a rate path of 2.0% from now until mid 2013, followed by 3.0% after the forecast period. The Bank also remarked on its GDP growth outlook saying that it will reach 4.5% in 2011 and 1.7% in 2012 (from a previous forecast of 2.2%).

Budget Surplus & PMI

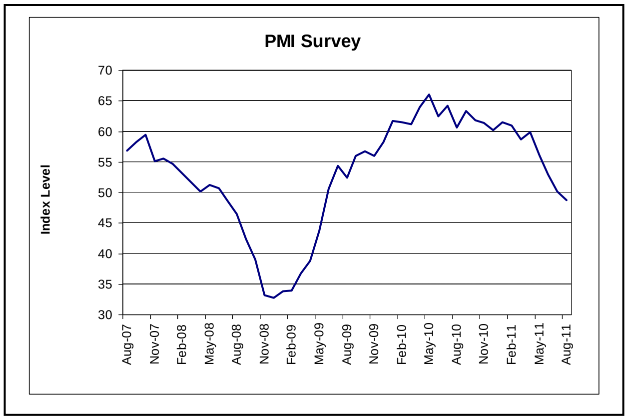
Budget Surplus

Sweden posted a Budget Surplus of SEK 8.8 bln in August, above the deficit of SEK 3.7 bln posted the previous month, and SEK 8.4 bln in August 2010. Interest rates on central government debt were SEK 3.9 bln higher than expected, disbursements matched expectations, and tax income was SEK 3.7 bln lower than calculated. On a 12-mth. mov. avg. basis, the budget balance weakened from a surplus of SEK 3.42 bln in July to a surplus of SEK 3.14bln in August.



PMI

Sweden's Purchasing Managers' Index contracted from 50.1 in July to 48.7in August, dropping below 50 for the first time since May 2009. It was expected to reach 49.8. Eight of the Index's 10 subcomponents also dropped below the expansion zone. Delivery Times and Employment were the largest negative contributors, dropping 5.3 and 2.8 points, respectively. See below for PMI results.

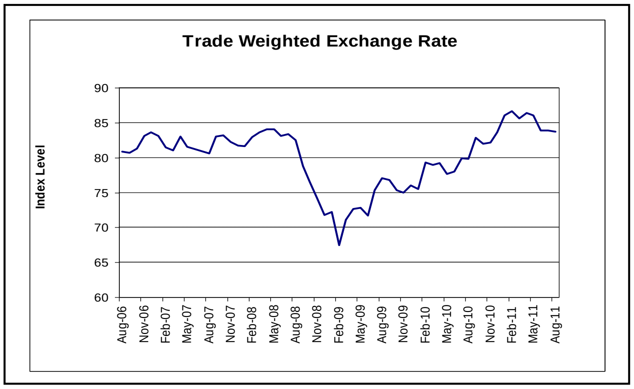


PMI Results

	Aug 2011	July 2011	June 2011	May 2011	Apr 2011	Mar 2011	Feb 2011	Jan 2011	Dec 2010	Nov 2010	Oct 2010
PMI	**48.7**	50.1	52.9	56.1	59.8	58.6	60.9	61.5	60.2	61.3	61.8
Orders	**47.0**	45.4	52.3	55.4	61.5	56.1	59.5	64.2	63.6	60.4	63.0
Production	**48.6**	49.4	54.0	59.8	61.9	61.4	65.0	64.9	62.8	64.2	63.5
Employment	**50.9**	53.7	51.3	54.4	57.7	58.3	61.1	57.7	57.1	60.2	59.0
Delivery Times	**49.1**	54.4	58.1	61.0	65.1	66.0	67.2	64.6	64.5	67.2	66.8
Stocks	**51.5**	50.1	51.4	55.6	54.6	52.0	64.4	51.9	55.5	50.2	47.9
Export Orders	**48.0**	46.9	52.5	52.8	58.3	54.7	58.8	61.9	60.5	58.9	61.6
Domestic Orders	**42.3**	43.4	48.8	56.4	56.9	54.0	56.3	62.1	63.6	56.3	58.2
Stocks of Orders	**47.9**	49.1	51.0	55.3	57.3	54.3	58.0	60.2	59.5	58.2	61.7
Raw Material Prices	**47.4**	51.5	60.5	63.5	74.5	79.8	77.1	77.1	71.9	70.8	66.4
Import Prices	**48.5**	50.4	52.2	56.2	58.5	58.9	60.2	58.6	59.7	61.4	59.3

Trade Weighted Exchange Rate, News & Upcoming Dates

Trade Weighted Exchange Rate



News

<u>September 6th - Service Production</u> – fell 0.1% M/M (sa) and rose 4.4% Y/Y (wda) in July, compared with 0.3% M/M and 6.2% Y/Y the previous month. Notably, Art/Entertainment rose 16.0% Y/Y (wda) and Telecommunications/Education increased by 11.6% Y/Y and 9.6% Y/Y, respectively.

Key Dates This Week

Date	*Indicator*	*Month*	*Expectation*	*Previous*
09/09	IP	JUL	0.4% / 3.7%	-3.3% / 6.4%
09/09	IO	JUL	0.4% / --	-3.4% / 1.6%
09/13	CPI – HR	AUG	--	0.0% / 3.3%
09/13	CPI – CPIF	AUG	--	-0.25 / 1.6%
09/13	CPI Level	AUG	--	311.13
09/13	PES Unemployment Rate	AUG	--	4.2%

Valance Co., Inc.

Valance Economic Report: Switzerland

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September 7, 2011

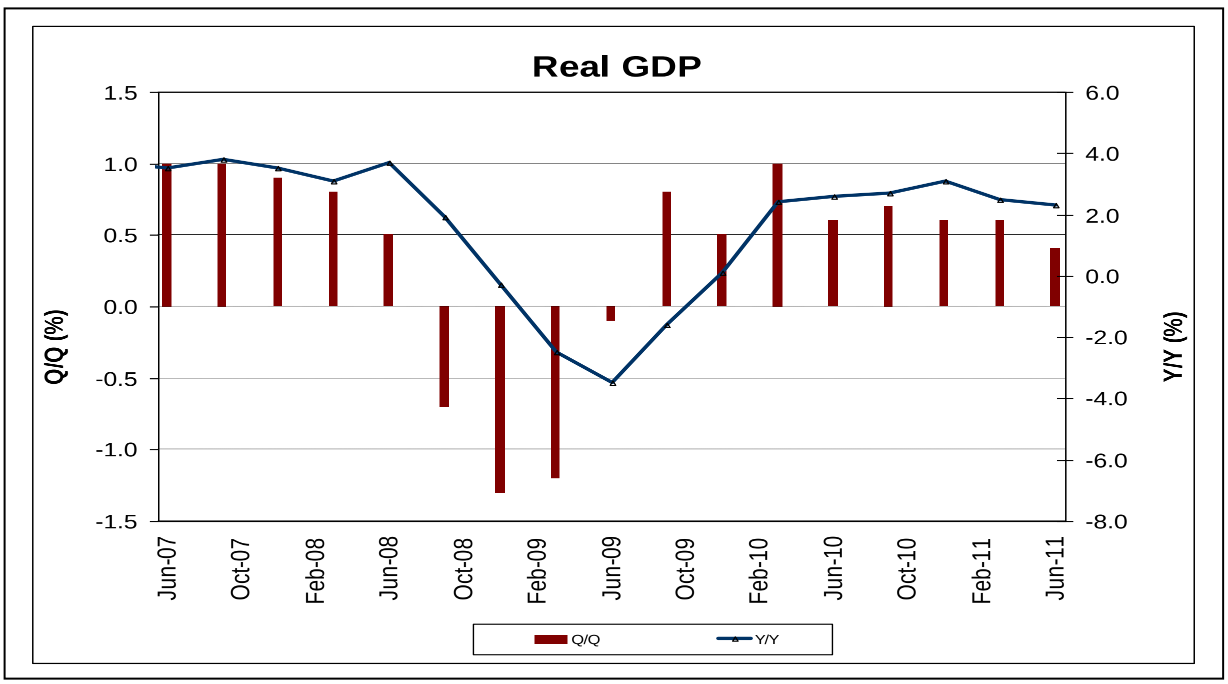
The SNB pegged the franc to the Euro this week at 1.20. Q2 GDP growth rose in line with expectations, but expanded at its weakest pace since the economy rebounded in Q3 2009. In August, Swiss Inflation unexpectedly slowed and Manufacturing growth contracted, but remained above 50.

Weekly Highlights

Real GDP Growth – rose 0.4% Q/Q and 2.3% Y/Y in Q2. (SZ 1)
CPI – fell 0.3% M/M and rose 0.2% Y/Y in August. (SZ 3)
Core CPI – fell 0.6% M/M and 0.3% Y/Y in August. (SZ 3)
PMI – fell from 53.5 in July to 51.7 in August. (SZ 3)

Weekly Releases & News

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

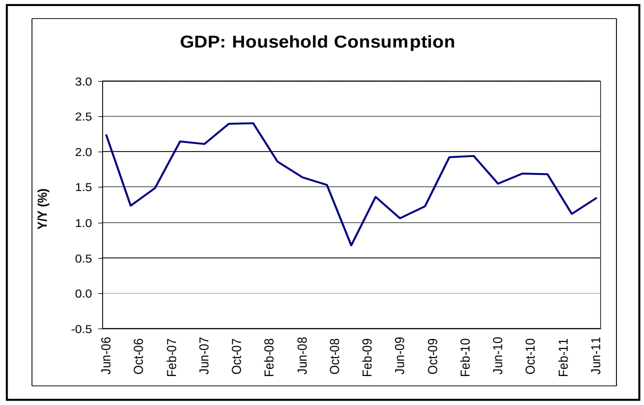


As expected, Real GDP growth rose 0.4% Q/Q and 2.3% Y/Y in Q2, compared with 0.6% Q/Q and 2.5% Y/Y growth in Q1. See GDP components below.

GDP Components

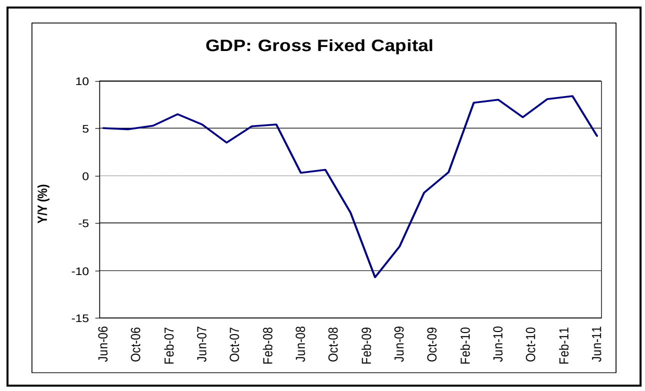
Household Consumption

Real Household Consumption rose from 0.1% Q/Q and 1.1% Y/Y in Q1 to 0.2% Q/Q and 1.3% Y/Y in Q2.

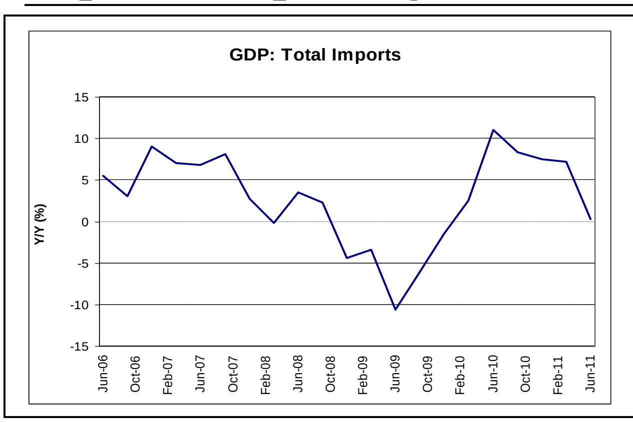


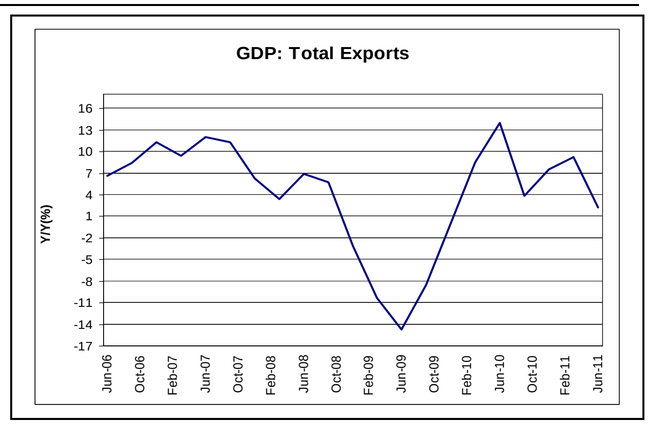
Gross Fixed Consumption

Gross Fixed Capital Formation slowed from 1.1% Q/Q and 8.4% Y/Y in Q1 to -2.0% Q/Q and 4.2% Y/Y in Q2.



Imports / Exports of Goods & Services



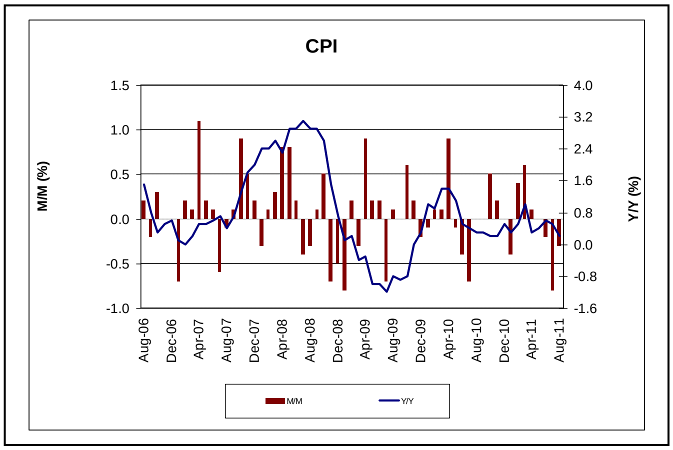


Imports of Goods and Services fell from 1.8% Q/Q and 7.2% Y/Y in Q1 to -1.7% Q/Q and 0.3% Y/Y in Q2; and Exports of Goods and Services slowed from 3.4% Q/Q and 9.2% Y/Y in Q1 to -1.3% Q/Q and 2.2% Y/Y in Q2.

CPI, Retail Sales & PMI

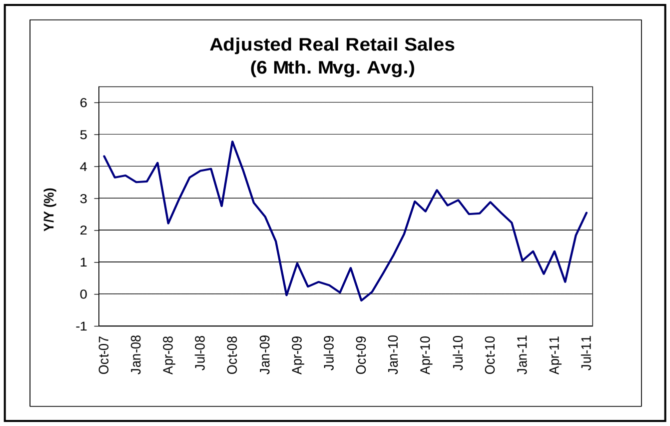
CPI

August Consumer Prices fell 0.3% in the month, below expectations of -0.2% M/M, compared with -0.8% M/M the previous month. On an annual basis, prices were up 0.2%, lower than the 0.58% growth posted the month before; in contrast to an expected annual reading of 0.3%. Additionally, Core Consumer Prices fell 0.6% M/M and 0.3% Y/Y in August, compared with -0.8% M/M and +0.3% Y/Y the previous month.



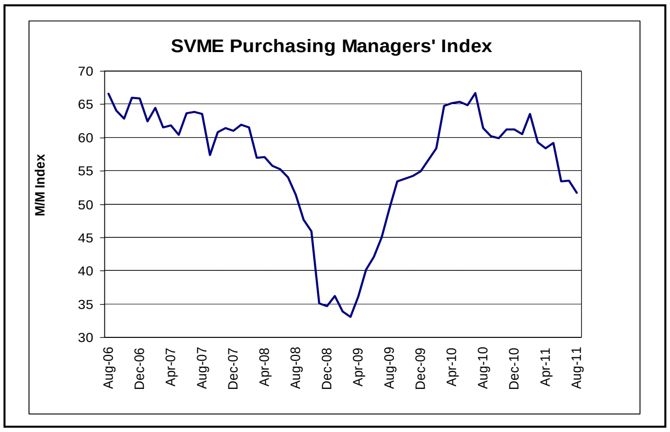
Retail Sales

July Real Retail Sales fell 3.4% MM and rose 1.9% Y/Y (following a 7.9% Y/Y gain the previous month).



PMI

Switzerland's Purchasing Managers' Index unexpectedly fell from 53.5 in July to 51.7 in August. The index was expected to reach 51.0. Three of the index's eight subcomponents posted increases. Credit Suisse remarked, "A degree of consolidation of the index was to be expected after two years of rapid growth. An additional factor is the Swiss franc. Overvalued for a year now, it is likely to further damp economic activity." See PMI Survey Results below.

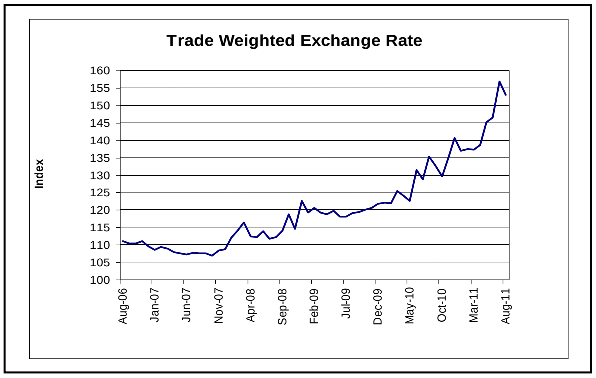


PMI Results, Trade Weighted Exchange Rate & News

PMI Results

	Aug 2011	July 2011	June 2011	May 2011	Apr 2011	Mar 2011	Feb 2011	Jan 2011	Dec 2010	Nov 2010	Oct 2010
PMI s.a.	**51.7**	53.5	53.4	59.2	58.4	59.3	63.5	60.5	61.2	61.8	59.2
Output	**54.3**	51.5	46.6	61.1	57.3	59.3	64.7	60.6	65.3	64.2	56.9
Backlog of Orders	**46.4**	45.6	48.8	57.0	55.2	57.8	67.1	64.2	59.0	62.2	60.4
Quantity of Purchase	**46.1**	42.8	46.7	55.5	56.4	61.7	64.4	62.1	59.6	60.0	55.1
Purchase Prices	**34.6**	46.2	51.8	60.2	69.2	75.4	76.1	70.0	72.1	63.1	58.9
Suppliers Delivery Times	**60.0**	67.8	69.2	66.8	68.8	68.6	59.2	58.7	60.3	64.6	69.7
Stocks of Purchases	**51.0**	57.1	50.9	51.9	55.2	52.6	56.1	54.1	52.2	56.6	48.4
Stocks of Finished Goods	**50.7**	54.0	51.3	49.9	52.5	50.3	52.4	53.8	52.1	50.2	47.1
Employment	**50.3**	55.4	58.2	57.9	58.2	58.2	63.7	59.5	56.4	58.8	57.8
PMI NSA	**50.5**	51.9	55.7	59.4	60.2	61.1	62.7	60.0	55.7	61.7	60.7

Trade Weighted Exchange Rate



News

<u>September 7th (Bloomberg) - UBS Lowers Swiss Economic Growth Forecasts on 'Strong' Franc</u> - UBS AG lowered its economic growth forecasts for Switzerland from 2.7% in 2011 and 2.2% in 2012 to 2.0% and 1.3%, respectively. The revision was based on the franc's appreciation.

<u>September 6th (Bloomberg) - SNB Imposing Franc Ceiling for First Time in Three Decades</u> – The SNB announced, in an emailed statement, that it imposed a ceiling on the franc's exchange rate for the first time in more than 30 years. The Bank said it is "aiming for a substantial and sustained weakening of the franc. It added, "With immediate effect, it will no longer tolerate a euro-franc exchange rate below the minimum rate of 1.20 francs and is prepared to buy foreign currency in unlimited quantities." Economist, Fabian Heller of Credit Suisse Group remarked, "The SNB has committed itself to creating unlimited amounts of francs and selling them versus the euro to defend the currency's level. They will follow through on their commitment as otherwise their credibility would be clearly damaged and speculation would start again, most likely leading to renewed franc gains."

News (Cont'd)

September 6th (Bloomberg) - SNB Franc Action an 'Endurance Race' – The following are comments made by Strategists relative to the SNB's announcement that it would set a minimum rate for the franc against the euro:

Paul Mackel, a senior currency analyst at HSBC Holdings Plc in Hong Kong:
The SNB's move today is somewhat sudden and aggressive. However, it needs to be aggressive to turn the tide for the franc and to take the shine off its safe-haven status. So, this is an endurance contest whereby the SNB needs to fight hard against a market that could soon test its resolve. Putting euro-franc at 1.20 today is the easy part. Keeping it there or significantly above will be difficult if the world still looks like a gloomy place.

Geoffrey Yu, a foreign-exchange strategist at UBS AG in London:
If the experience of the 1978 peg is anything to go by, the SNB should be successful in defending this level. However, the risks for this strategy are great and the SNB will need to carefully calibrate its money-market operations, not only to maintain its current stance penalizing franc holdings via negative implied and outright yields, but also to prevent inflationary pressures from accumulating. In announcing a floor, the SNB has tacitly acknowledged that its money-market options have largely been exhausted.

Paul Meggyesi, a managing director of currency strategy at JPMorgan Chase & Co. in London:
The SNB's strategy is a high-risk one. It will succeed for now and doubtless in coming weeks. The question is how much more intervention the SNB is willing to conduct. There are also longer-term doubts about how much inflation the SNB is willing to tolerate. In 1978 the SNB pushed inflation from 1 percent to 5 percent within a year, and shortly after that the currency peg was suspended. The SNB's legal mandate is to ensure price stability – it is questionable whether a peg that required inflation will last longer than it did in 1978. These though are longer-term issues that matter little for the next few weeks. For now the SNB can reflect on a successful strike.

Kit Juckes, head of foreign-exchange research at Societe Generale SA in London:
Let's see how that works. The currency wars are heating up. The Swiss will do the euro some good, which it needs – badly as confidence is very poor indeed.

August 31st (Bloomberg) - Swiss Government Pledges $1.1 Billion to Fight Franc Impact - Economy Minister Johann Schneider-Ammann said at a briefing:

The package supports the Swiss economy in an extraordinary situation.

We'll probably have to live with the strong franc for a longer period of time.

The situation hasn't calmed down. Volatility remains high.

It's an extraordinary situation, which calls for extraordinary measures.

Key Dates This Week

Date	*Indicator*	*Month*	*Expectation*	*Previous*
09/08	Unemployment Rate	AUG	2.8% / 3.0%	2.8% / 3.0%
09/14	Producer & Import Prices	AUG	--	-0.7% / -0.6%