Valance Company, Inc.

Weekly

October 5, 2011

Valance Economic Reports

Highlights

US – Personal income fell for the first time in nearly two years

EU – Italy downgraded

JN – Data improves but remains weak

UK – Q2 GDP close to stalling

CA – Second positive GDP in a row

AU – Will RBA cut rates?

NZ – Double downgraded

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Valance Economic Report: United States

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October 5, 2011

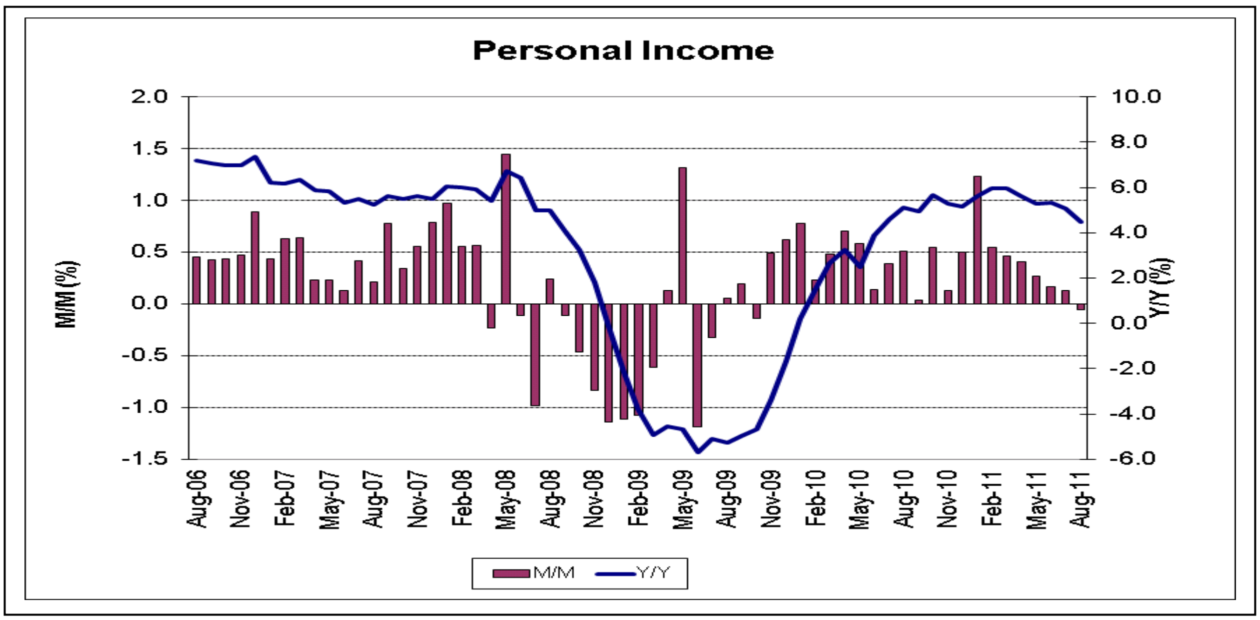
Confidence surveys in manufacturing, services and amongst consumers came in above expectations this week. Though, alarmingly, personal income fell for the first time in nearly two years and personal spending stagnated. Markets remain focused on the European crisis scenarios.

Weekly Highlights

Personal Income – decreased for the first time since October 2009. (US 1)
ISM Manufacturing – rose from 50.6 to 51.6 in September. (US 4)
ISM Services - decreased from 53.3 to 53.0 in September. (US 4)

Weekly Releases

Chart of the Week: *Personal Income*



Personal Income decreased 0.1% M/M and increased 4.5% Y/Y in August. This is the first time Personal income has decreased since October 2009. The wage and salary component was down 0.2% M/M but up 3.3% Y/Y.

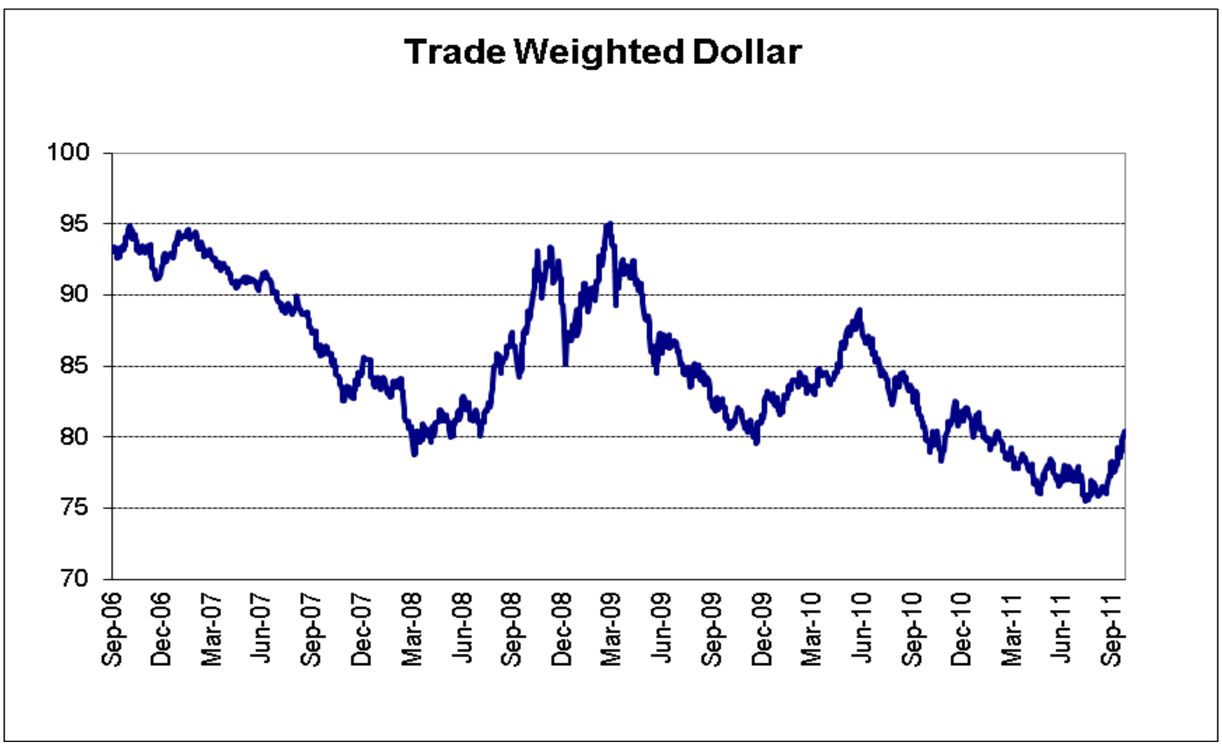
U.S. Financial Balances & Trade Weighted Dollar

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	-118.0B (Q2)	*-3.1%*
Private Balance	--	*5.3%*

The budget deficit on a trailing twelve month basis as of August 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.

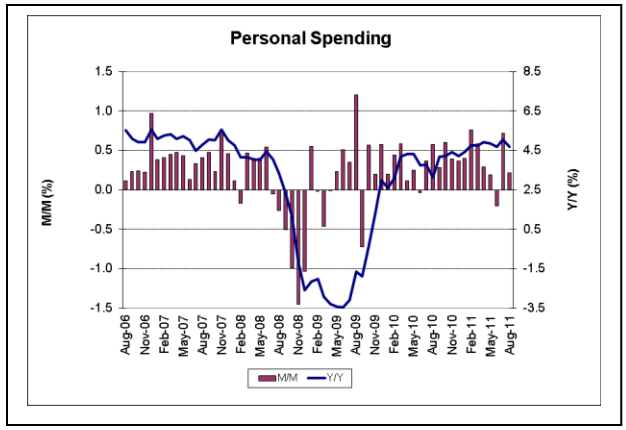
Trade Weighted Dollar



Personal Spending, Core PCE, & GDP

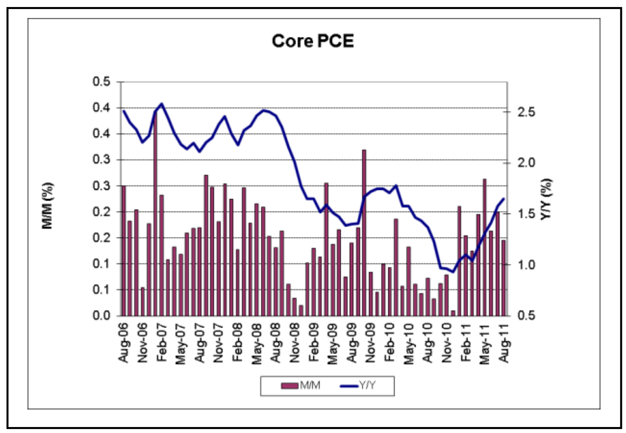
Personal Spending

Personal Spending remained unchanged M/M and gained 1.8% Y/Y in August. It gained 0.2% M/M in real terms; the three month annualized rate is now at 1.7% from 2.3% last month.



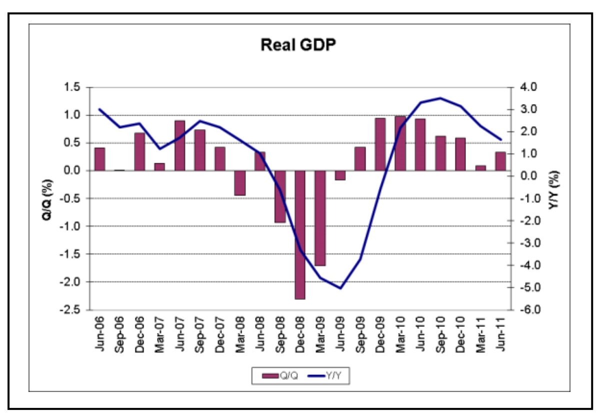
Core PCE

Core PCE rose 0.1% M/M and increased to 1.6% Y/Y in August. The three month annualized rate decelerated to 2.4% from 2.5%. Headline PCE increased 0.2% M/M and 2.9% Y/Y. The three month annualized rate has fallen below 2.0% for the first time this year, as it now sits at 1.7%.



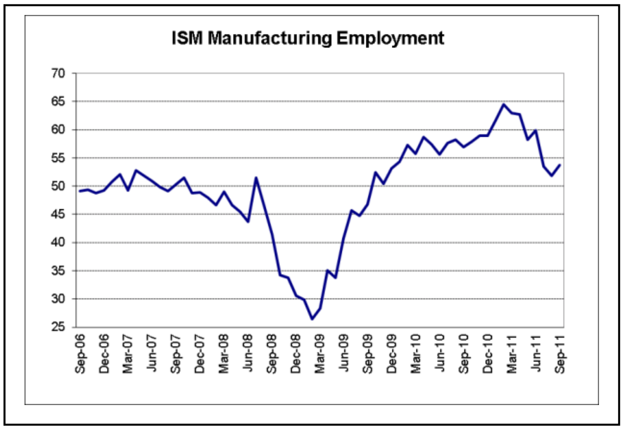
Annualized GDP

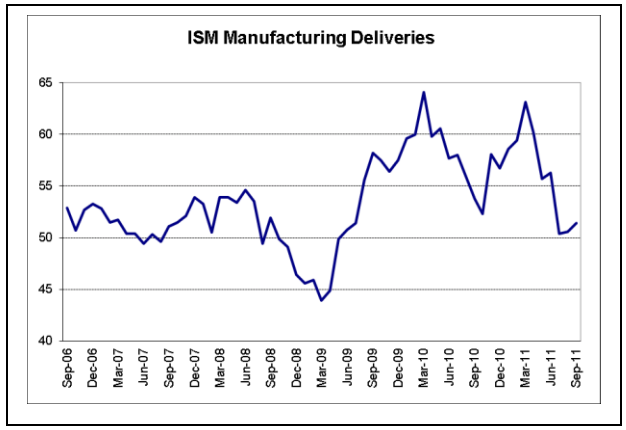
Q2 Real GDP was revised upward from 1.0% to 1.3%. This was above expectations of 1.2%. Exports and spending on services drove the upwards revision, moving from 3.1% and 1.4% to 3.6% and 1.9% Q/Q growth, respectively.



ISM

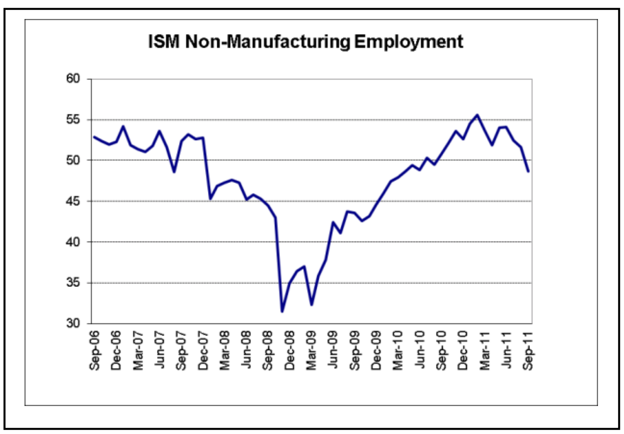
ISM Manufacturing

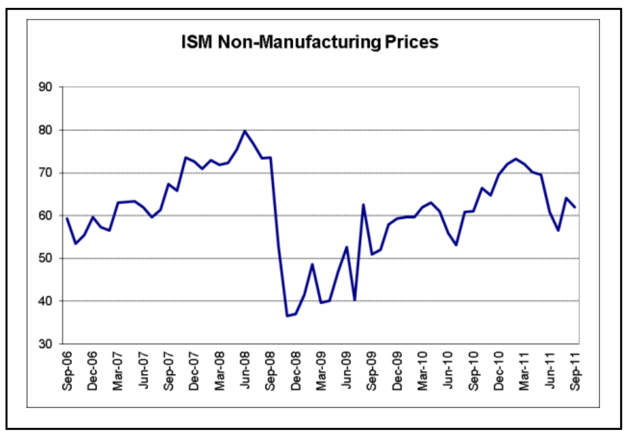




The ISM Manufacturing Index rose from to 50.6 to 51.6 in September. New Orders were flat M/M. The employment component increased from 51.8 to 53.8. Prices paid improved from 55.5 to 56.0. Delivery times increased from 50.6 to 51.4.

ISM Non-Manufacturing

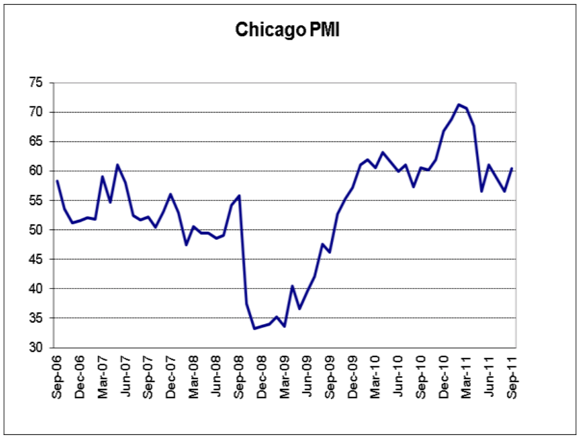


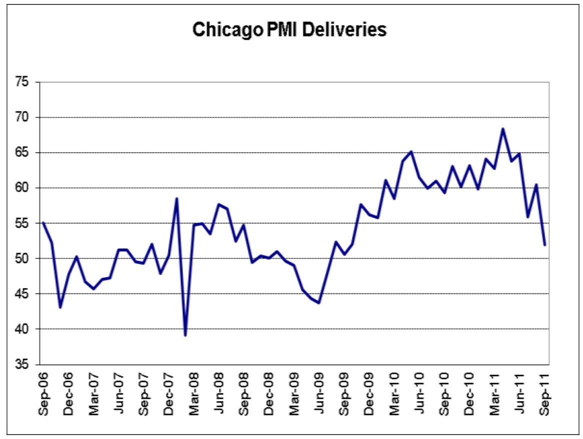


The ISM Non-Manufacturing Index decreased from 53.3 to 53.0 in September. New Orders increased for the second straight month from 52.8 to 56.5 and the employment component dropped from 51.6 to 48.7. The price component decreased from 64.2 to 61.9.

Chicago PMI, Initial & Continuing Sales

Chicago PMI

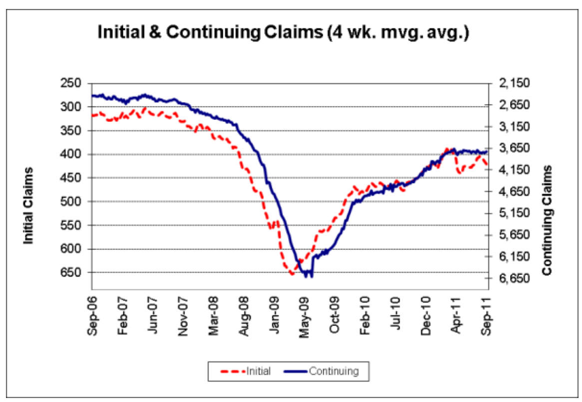




The Chicago PMI rose from 56.5 to 60.4 in September, better than the expected drop to 55.0. The New Orders component increased from 56.9 to 65.3. Production improved from 57.8 to 63.9. The Inventories component increased from 52.9 to 60.3. The employment component improved from 52.1 to 60.6.

Initial & Continuing Claims

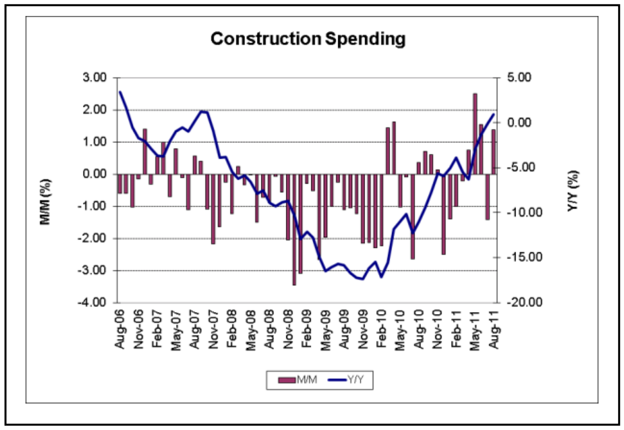
Initial Claims decreased from 423k to 391k, far lower than market expectations of 420k. The BLS attributed the move to a 'mistiming' of seasonal adjustment factors. The four week moving average of Initial Claims decreased to 417k. Continuing Claims rose from a revised 3727k to 3729k.



Construction Spending & Sales

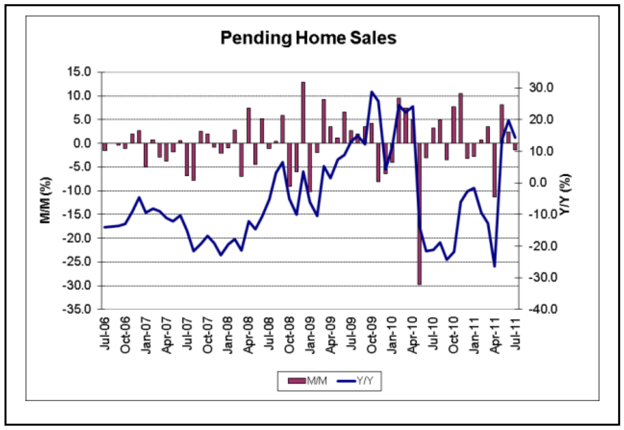
Construction Spending

Construction Spending improved 1.4% M/M and 0.9% Y/Y in August. Market expectations were for a reading of -0.2% M/M. Residential Spending increased 0.9% M/M and 2.9% Y/Y. Non-residential spending rose 1.6% M/M and has improved to 0.1% Y/Y.



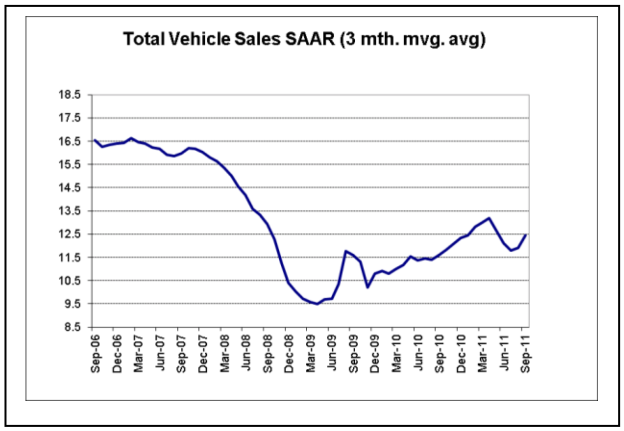
Pending Home Sales

Pending Home Sales fell 1.2% M/M, though they have risen 13.1% Y/Y. Market expectations were for readings of -2.0% M/M and 6.4% Y/Y. The acceleration of foreclosures processing, strict regulation, and high unemployment rates are causing an oversupply of housing which continues to keep home sales down, despite record low interest rates.



Total Vehicle Sales

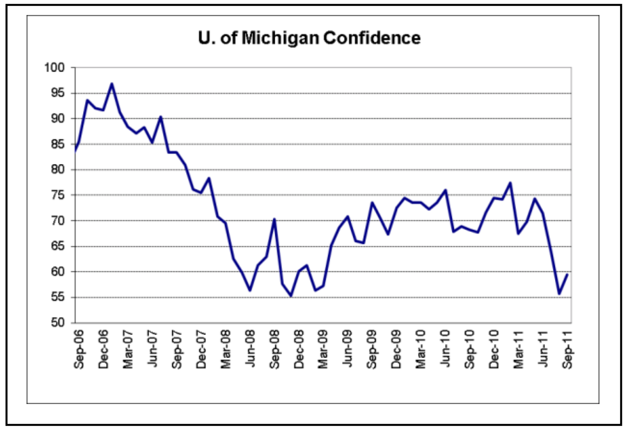
Total Vehicle Sales improved from 12.10MM to 13.04MM seasonally adjusted annualized units in September. Market expectations were for a reading of 12.60MM.



Confidence & Mortgage Applications

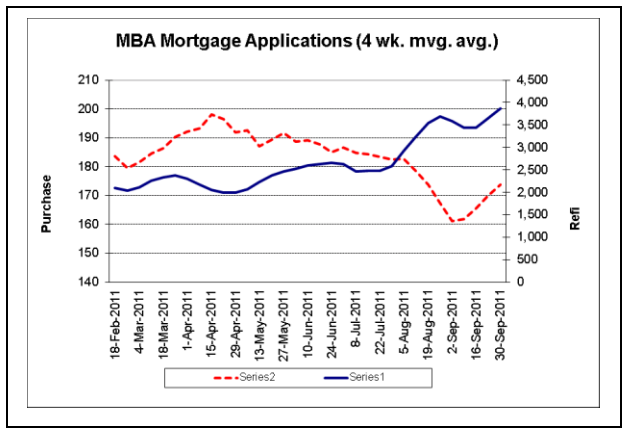
University of Michigan Confidence

The University of Michigan Confidence Index increased from 57.8 earlier in September to a finalized figure of 59.4 for September. Market expectations were for confidence to remain unchanged. The current conditions component increased from 74.5 to 74.9 and the expectations component also rose, from 47.4 to 49.4. Inflation expectations over five years fell from a preliminary reading of 3.0% to a finalized 2.9% in September.



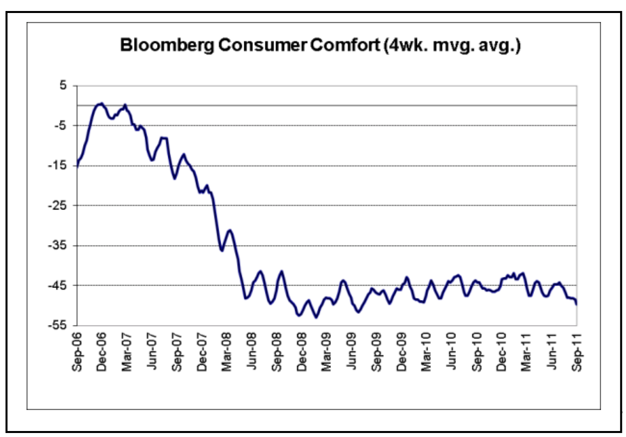
MBA Mortgage Applications

Purchase Mortgage Applications fell 4.3% W/W, after gaining 9.3% W/W in the last full week of September. Refi applications fell 5.2% W/W this week.



Bloomberg Consumer Comfort

The Bloomberg Consumer Comfort Index fell from -52.1 to -53.0. Markets were expecting consumer comfort to increase to -51.0. The state of the economy component improved from -88.9 to -86.4. The buying climate fell from -59.9 to -61.0 and personal finances also fell from -7.5 to -11.6.



Key Dates This Week

Date	*Indicator*	*Month*	*Expectation*	*Previous*
10/6	Initial Jobless Claims	1-Oct	410K	391K
10/6	Continuing Claims	24-Sep	3725K	3729K
10/6	Bloomberg Consumer Comfort	2-Oct	-52.0	-53.0
10/7	Change in Nonfarm Payrolls	SEP	56K	0K
10/7	Change in Private Payrolls	SEP	100K	17K
10/7	Change in Manufact. Payrolls	SEP	-5K	-3K
10/7	Unemployment Rate	SEP	9.10%	9.10%
10/7	Avg Hourly Earning MOM All Emp	SEP	0.20%	-0.10%
10/7	Avg Weekly Hours All Employees	SEP	34.2	34.2
10/11	Minutes of FOMC Meeting	--	--	--
10/11	Monthly Budget Statement	SEP	-64.9B	-$134.2B
10/11	MBA Mortgage Applications	7-Oct	- -	-4.3%

Valance Economic Report: Euro Zone

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October 5, 2011

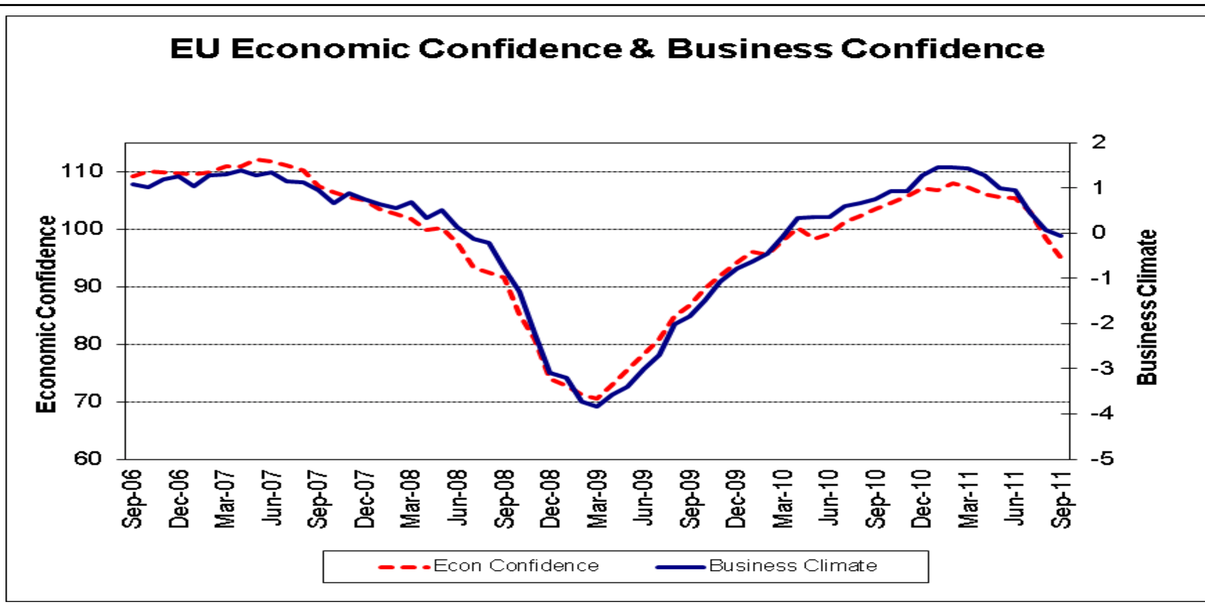
With no word from Europe's governing bodies, investors remain uncertain what and when action will be taken next on the sovereign debt crisis. This drama is likely to continue until December, when a large Greek debt payment may next force the politician's hands. Moody's has downgraded Italian bonds, stating only the strongest euro areas will retain their current rating. Confidence, PMI's, employment and retail sales all declined, clear evidence on how the debt crises is seeping into the real economy.

Weekly Highlights

Euro-Zone Economic Confidence – fell to 95.0 in September from 98.3. *(*EU 1)
Euro-Zone Retail Sales – decreased 0.3% M/M in August. (EU 3)
German Retail Sales – fell 2.9% M/M in August. (EU 5)

Weekly Releases & News

Chart of the Week: *EU Economic Confidence*



The EC Economic Confidence survey fell from 98.3 in August to 95.0 in September, versus market expectations for a reading of 96.0. The Business Climate Index fell from 0.07 to -0.06. Market expectations were for a reading of -0.12. Even though confidence has fallen sharply this year, it is encouraging that the level remains well off the 2008 lows.

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	10.4 (July)	2.0%
Current Account Balance	7.5 (July)	6.9%
Private Savings Balance		-3.6%
France		
Budget Balance		-2.7%
Trade Balance	-6.5 (July)	-4.9 %
Current Account Balance	-4.5 (July)	-3.9%
Private Savings Balance		-1.2%
Italy		
Budget Balance		-3.9 %
Trade Balance	-2.3 (August)	-7.7%
Current Account Balance	1.7 (July)	5.5%
Private Savings Balance		-4.5

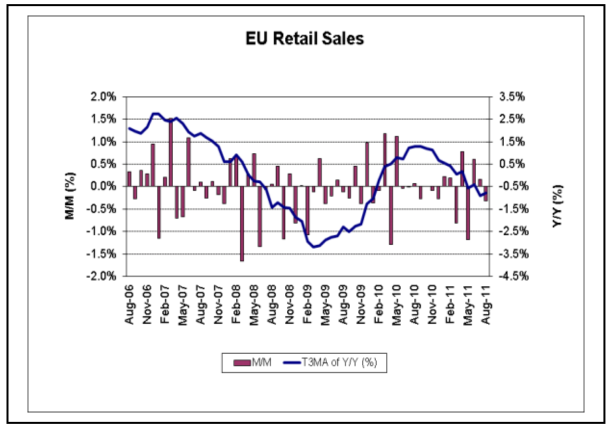
**Budget Balance as of year end 2010 – Source OECD*

Trade Weighted Euro

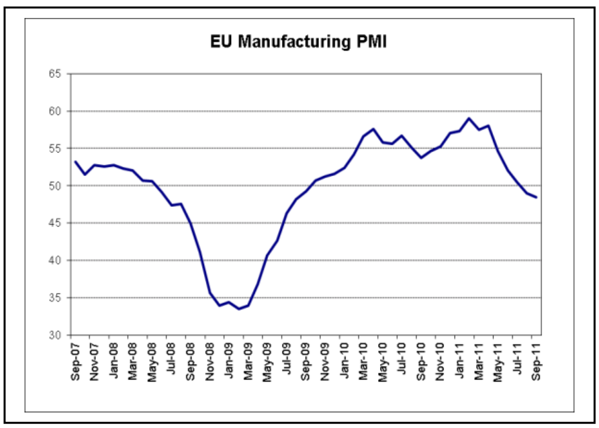
Euro Retail Sales & PMI

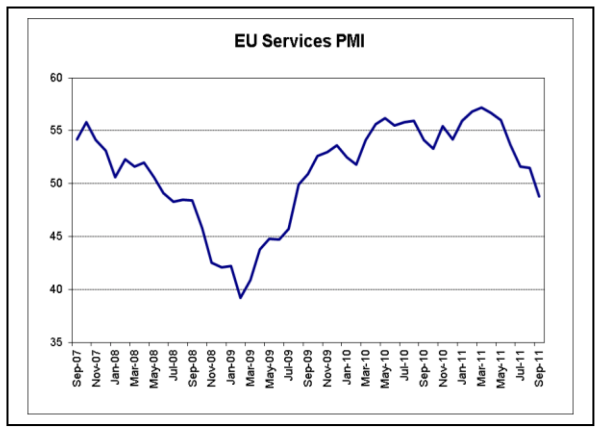
Euro-Zone Retail Sales

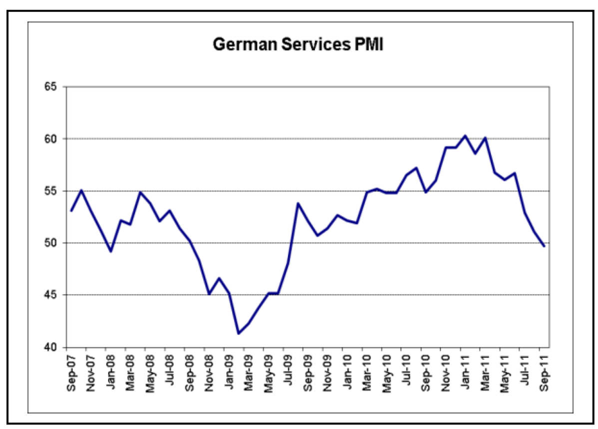
EU Retail Sales decreased 0.3% M/M and 1.0% Y/Y in August. Market expectations were for retail sales to fall 0.3% M/M and 0.7% Y/Y.



Euro-Zone PMI





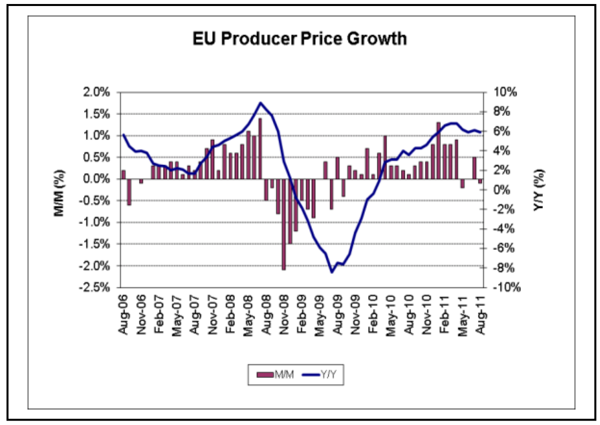


Final EU Manufacturing PMI fell from 49.0 in August to 48.5 in September. The Services PMI fell from 49.1 to 48.8 and the Composite Index decreased from 49.2 to 49.1. German Manufacturing decreased from 50.9 to 50.3 in September. German Services PMI fell from 51.1 to 49.7.

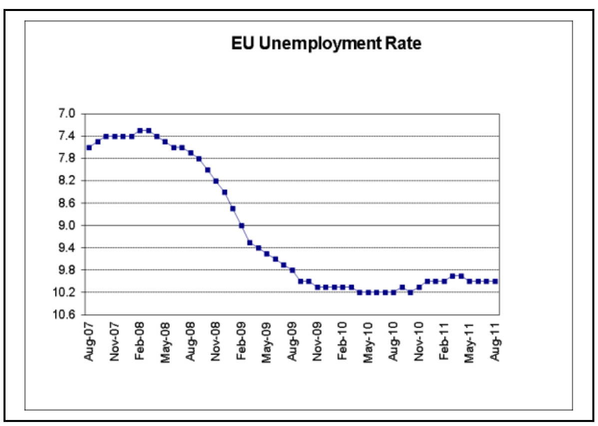
Euro PPI, Euro & German Unemployment Rates

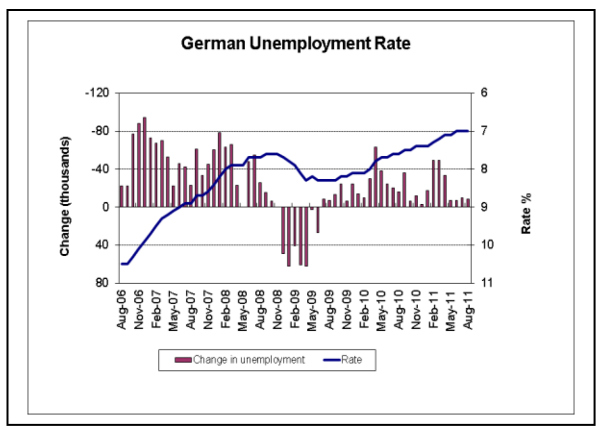
Euro-Zone Producer Prices

EU PPI decreased 0.1% M/M and increased 5.9% Y/Y in August, with energy prices decreasing 0.7% M/M. PPI, ex energy, increased 0.1% M/M and 3.9% Y/Y.



Euro-Zone and German Unemployment Rate





The Euro Zone's Unemployment Rate remained unchanged at 10.0% in August. The seasonally adjusted German Unemployment Rate fell to 6.9% in September, below market expectations of 7.0% and a new 20yr low. The number of people unemployed fell by 26K.

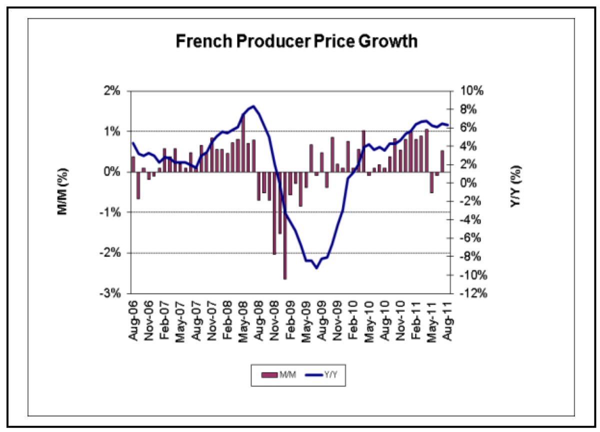
German Retail Sales, French & Italian PPI

German Retail Sales

Retail Sales unexpectedly fell 2.9% M/M and increased 2.2% Y/Y in August. Market expectations were for -0.5% M/M and -1.0% Y/Y.

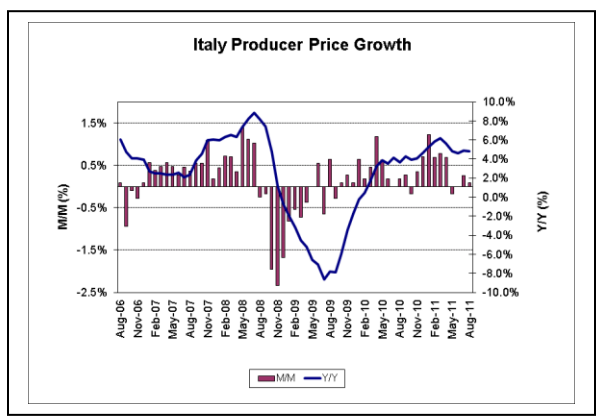
French Producer Prices

As expected, French Producer Prices remained unchanged M/M and increased 6.3% Y/Y in August. The coke and refinery sector provided the most downward pressure with a 2.2% M/M decline.



Italian Producer Prices

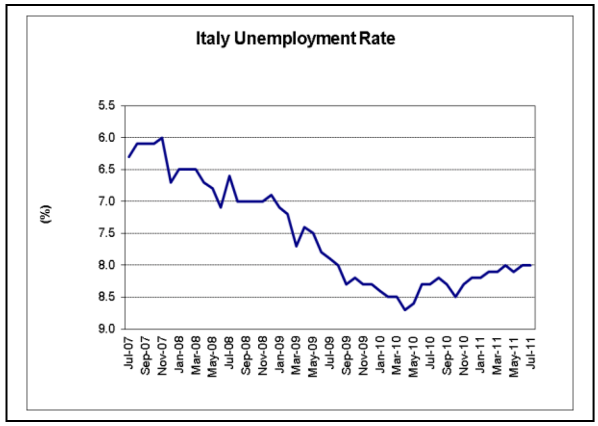
Italian PPI rose 0.1% M/M and 4.8% Y/Y in August.



Italian Unemployment, Italian & Spanish CPI

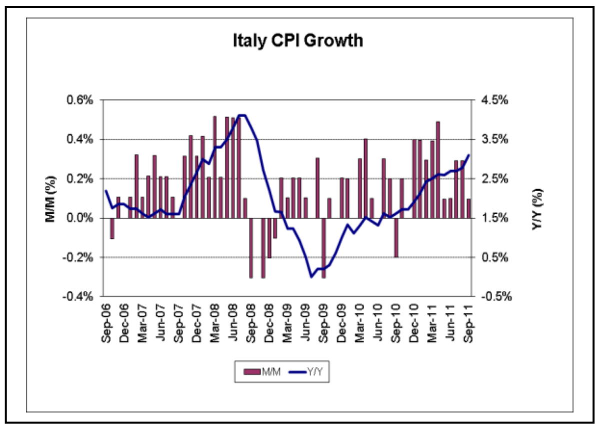
Italian Unemployment Rate

Italy's Unemployment Rate dropped from 8.1% to 8.0% in Q2, in line with market expectations.



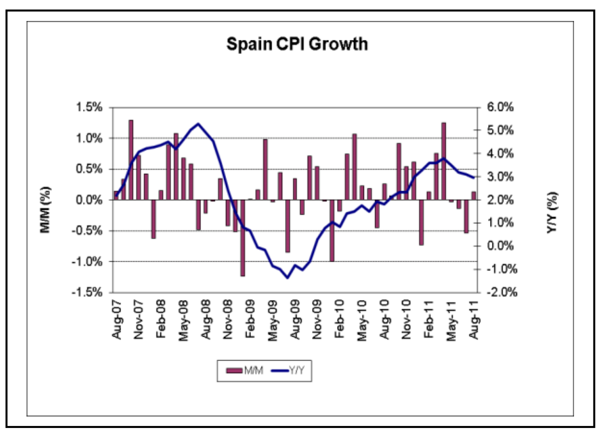
Italian Consumer Prices

Preliminary data shows that Italian CPI increased 0.1% M/M and 3.1% Y/Y in September. CPI, calculated using a harmonized European Union method, increased 3.5% Y/Y.



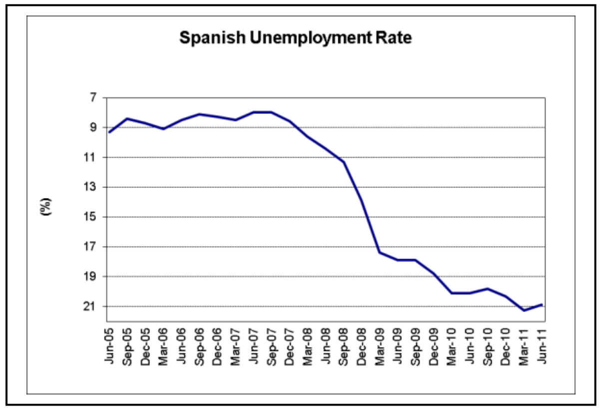
Spanish Consumer Prices

Preliminary Spanish Consumer Prices increased 3.0% Y/Y in September. CPI, calculated using a harmonized European Union method, rose 3.1% Y/Y.



Spanish Unemployment

Spanish Unemployment rose by 95.8k in September after increasing 51.2K in August. Expectations were only for a 42.1k increase in unemployment. This is the second straight month of rising unemployment after 4 straight months of decreases.



News

Oct 5th - European Banks' Dollar Funding Costs Fall Amid Support Optimism (Bloomberg) **-** The one-year cross-currency basis swap, the rate banks pay to convert euro payments into dollars, was at 73 basis points below the euro interbank offered rate as of 10 a.m. in London, from 75 yesterday. The three-month cross-currency basis swap was 106.5 basis points under Euribor. The cost was 112.5 basis points under Euribor on Sept. 12, when the swap was the most expensive since December 2008. The Euribor-OIS spread, the difference between the borrowing benchmark and overnight index swaps, was 82 basis points from 79 yesterday. The gap increased to 89 basis points on Sept. 23, the widest since March 2009.

Oct 5th - Trichet rejects ECB role as lender of last resort (FT) **-** ECB President Jean-Claude Trichet rejected the idea of the ECB acting as lender of last resort to governments. “It is their (political leaders) responsibility, individually and collectively, to ensure financial stability. It is the way Europe has been constructed and it is the way, it seems to all of us, we must proceed. If it is not done by governments it will not be credible,” said Mr Trichet. He said the ECB’s offers of unlimited liquidity were “the most important, by far” of the ECB’s non-standard measures. Mr Trichet repeated that the aim of the government bond buying program was merely to ensure financial markets functioned and “transmitted” its monetary policy decision to the real economy.

Oct 5th - IMF Renews Call for ECB to Step Up Response If Crisis Worsens (Bloomberg) **-** The ECB "should lower its policy rate if downside risks to growth and inflation persist," the IMF said in its biannual regional economic outlook for Europe. "The ECB might need to reinstate some of its longer-term liquidity provision operations if stresses on interbank markets intensify further" and make an "explicit commitment" to buy government bonds "for as long as necessary," the IMF said. "Crisis management in the euro area needs to go beyond its current approach to secure success," it said. "Euro-area leaders need to spell out and recommit to a common vision of how the euro area is expected to function in the future. This is essential to anchor market expectations and dispel the prevailing uncertainty."

Oct 5th - EU ministers look at bank aid plans (FT) **-** “There is an increasingly shared view that we need a concerted, co-ordinated approach in Europe while many of the elements are done in the member states,” Olli Rehn, European commissioner for economic affairs, told the Financial Times. “There is a sense of urgency among ministers and we need to move on.” Wolfgang Schäuble, the German finance minister, said Berlin could, if necessary, reactivate support mechanisms it put in place in 2008 to recapitalize the banks. The mechanisms had expired and the German government had until now insisted they were not needed. “Everyone said the big concern is that worrying developments on the financial markets will escalate into a banking crisis,” Mr Schäuble said at a press conference.

News/Comments/Data Cont'd.

Oct 5th - Merkel Says Those Advocating Crisis Endgame Have 'No Clue' (Bloomberg) **-** The euro area has to resolve "that the time of living above our means is over once and for all" and pursue debt reduction that will stretch over "many years," German Chancellor Angela Merkel said in a speech. She said that issuance of shared debt by euro countries isn't the solution to the problem spilling from Greece, even though some may long for the "big bang" to end the debt crisis. Merkel said that her "entire council" of economic advisers says Greek debt should be restructured, advice that she is not prepared to take. "If we tell a country 'We cancel half of your debt,' that's a great deal," she said. "Then the next guy will immediately show up and say he wants the same."

Oct 5th - Most of Europe Faces Downgrade After Italy Lowered, Moody's Says (Bloomberg) **-** "All but the strongest euro-area sovereigns are likely to face sustained negative pressure on their ratings," Moody's said in a statement late yesterday. "Consequently, Moody's expects fewer countries below Aaa to retain high ratings." "There has been a profound loss of confidence in certain European sovereign debt markets, and Moody's considers that this extremely weak market sentiment will likely persist," the ratings company said in yesterday's statement. "It is no longer a temporary problem that might be addressed through liquidity support, and several euro-area governments are increasingly affected by the loss of confidence.

Oct 4th - ECB bond purchases modest again last week (AP) - The European Central Bank announced Monday that its purchases of government bonds slipped slightly last week to a little under euro3.8 billion ($5.1 billion). The ECB restarted its bond purchase program on Aug. 8. Monday's figure of euro3.795 billion, compared with euro3.952 billion a week earlier, when bond purchases were down substantially.

Oct 4th - ECB's Draghi Not Against Giving EFSF Bank Licence, Spiegel Says (Bloomberg) **-** Incoming European Central Bank President Mario Draghi is not opposed to granting the euro area's temporary rescue fund a banking license, giving it access to the ECB's refinancing operations, Der Spiegel reported. Draghi's Austrian colleague Ewald Nowotny and ECB Vice President Vitor Constancio are also in favor of the proposal, the paper said.

Oct 4th - Merkel, Sarkozy to meet Sunday in Berlin (AP) **-** The German government says Chancellor Angela Merkel will meet French President Nicolas Sarkozy on Sunday amid efforts to stem the eurozone debt crisis. A government statement Monday said that the meeting's aim was to prepare for Oct. 17-18 meetings of European leaders in Brussels. Sarkozy said last Friday that he would meet Merkel in Germany "in the coming days" to discuss further accelerating the eurozone's economic integration. Both leaders met Greek Prime Minister George Papandreou last week.

Oct 4th - Ministers Grapple With Greek Deficit (WSJ) **-** Euro-zone finance ministers reached a deal to provide collateral to Finland in exchange for future aid to Greece. Finance ministers delayed their most immediate task: approving an €8 billion ($10.7 billion) payment to Greece under its initial bailout plan. Instead, Jean-Claude Juncker, the Luxembourg premier who presides over gatherings of finance ministers, said he expected the decision would be made "in the course of October"—but likely not on Oct. 13, as had previously been suggested. Under what the bailout fund's chief executive, Klaus Regling, called a "complicated financial structure," the collateral would be investments funded by Greek government bonds routed through Greek banks—and only released after as much as 30 years.

Oct 3th - ECB Says Banks' Overnight Deposits Reach Highest Since July 2010 (Bloomberg) - The European Central Bank said financial institutions increased overnight deposits to the highest in more than a year. Banks parked 199.6 billion euros ($266 billion) with the ECB on Sept. 30, up from 161.4 billion euros a day earlier, according to data published by the Frankfurt-based central bank today. That's the highest since July 2010. Overnight borrowing at the marginal rate of 2.25 percent almost doubled to 1.4 billion euros from 765 million euros, it said. Banks are borrowing more from the ECB in regular refinancing operations as the region's debt crisis intensifies, leaving lenders with excess cash that they return to the central bank in overnight deposits rather than pass it on to other institutions. Banks tend to front-load their ECB borrowings to ensure they have enough cash to meet reserve maintenance requirements.

Oct 3th - EU Ministers to Debate More Stimulus (WSJ) **-** European Union finance ministers this week will discuss whether governments with the strongest public finances can provide some budget stimulus to help support flagging economic growth in the 27-nation bloc. The debate, set for a meeting on Tuesday, could signal a small reversal of a policy adopted by ministers in October 2009 that calls on all EU countries to start cutting their deficits in 2011. The

News/Comments/Data Cont'd.

Oct 3th - EU Ministers to Debate More Stimulus (WSJ) **-** European Union finance ministers this week will discuss whether governments with the strongest public finances can provide some budget stimulus to help support flagging economic growth in the 27-nation bloc. The debate, set for a meeting on Tuesday, could signal a small reversal of a policy adopted by ministers in October 2009 that calls on all EU countries to start cutting their deficits in 2011. The EU is under pressure from the International Monetary Fund and the U.S. to consider more stimulus. The European Commission sought to debate the idea at the meeting. The idea is that countries not violating the EU's deficit limit of 3% of gross domestic product could allow their "automatic stabilizers" to operate without restrictions.

Oct 3th - Merkel to Host Trichet, Lagarde, Baroin in Debt-Crisis Talks (Bloomberg) **-** German Chancellor Angela Merkel will host European Central Bank President Jean-Claude Trichet and International Monetary Fund chief Christine Lagarde Oct. 6 as pressure mounts to stem the euro-region debt crisis. German Finance Minister Wolfgang Schaeuble, French Finance Minister Francois Baroin and Angel Gurria, secretary general of the Organization for Economic Cooperation and Development, will participate in the talks, which also include World Bank President Robert Zoellick. The Berlin talks precede an Oct. 14-15 meeting of G-20 finance ministers in Paris. That gathering will be followed by a summit of European Union leaders on Oct. 17-18. G-20 leaders descend on Cannes, France Nov. 3-4.

Oct 3th - Greece to miss deficit targets for 2011-2012 (AP) **-** Greece won't meet 2011-2012 deficit targets imposed by international lenders as part of the country's bailout, the Finance Ministry said Sunday. The country's deficit this year is expected to reach 8.5 percent of gross domestic product, or euro18.69 billion ($25.2 billion) -- higher than the targeted euro17.1 billion ($23.1 billion), which would have been 7.8 percent of GDP, the ministry said. The Finance Ministry said the missed target was because of a deeper-than-expected recession, with the economy contracting by 5.5 percent instead of the 3.8 percent estimate made in May. It implied the deficit could even exceed this level by the end of the year unless all new austerity measures were implemented.

Key Dates This Week

Date	*Country*	*Indicator*	*Month*	*Expectation*	*Previous*
10/06	EC	ECB Announces Interest Rates	6-Oct	1.50%	1.50%
10/06	GE	Factory Orders M/M (sa)	AUG	0.00%	-2.80%
10/07	GE	Industrial Production M/M (sa)	AUG	-2.00%	4.00%
10/07	FR	Central Govt. Balance (Euros)	AUG	-105.0B	-86.6B
10/07	FR	Trade Balance (Euros)	AUG	-5950M	-6460M
10/10	EC	Sentix Investor Confidence	OCT	- -	-15.4
10/10	GE	Exports SA (M/M)	AUG	- -	-1.90%
10/10	GE	Imports SA (M/M)	AUG	- -	-0.50%
10/10	GE	Current Account (EURO)	AUG	- -	7.5B
10/10	GE	Trade Balance	AUG	- -	10.4B
10/10	FR	Bank of France Bus. Sentiment	SEP	- -	98
10/10	FR	Industrial Production (M/M)	AUG	- -	1.50%
10/10	FR	Manufacturing Production (M/M)	AUG	- -	1.40%
10/10	IT	Industrial Production sa (M/M)	AUG	- -	-0.70%
10/11	SP	Consumer Price Index (M/M)	SEP	- -	0.10%
10/12	EC	Euro-Zone Ind. Prod. sa (M/M)	AUG	- -	0.90%
10/12	FR	Consumer Price Index (M/M)	SEP	- -	0.50%
10/12	FR	Current Account (EURO)	AUG	- -	-4.5B

Valance Co., Inc.

Valance Economic Report: Japan

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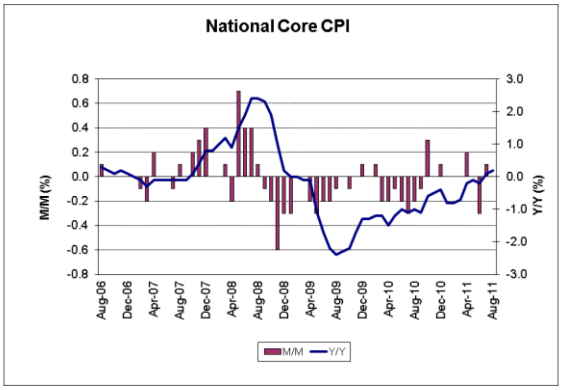
October 5th 2011

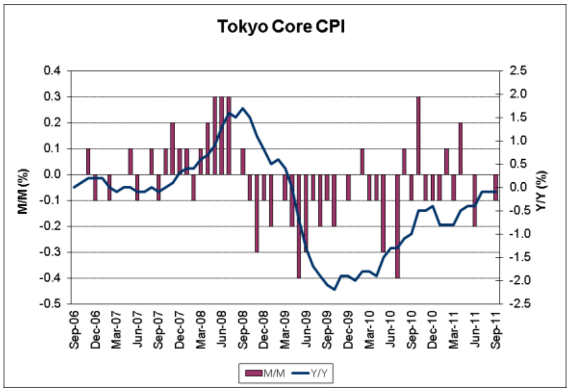
This week's data was on the weaker side. Core-Core CPI continued its Y/Y decline. Although Production improved and the Unemployment Rate declined, the Production data missed expectations while the size of the labor force declined.

Weekly Highlights

Core CPI – unchanged M/M and increased 0.2% Y/Y in August. (JN 1)
Industrial Production – improved 0.8% M/M and 0.6% Y/Y in August. (JN 3)
Retail Trade – dropped 1.7% M/M and 2.6% Y/Y in August. (JN 6)

Charts of the Week: *CPI*





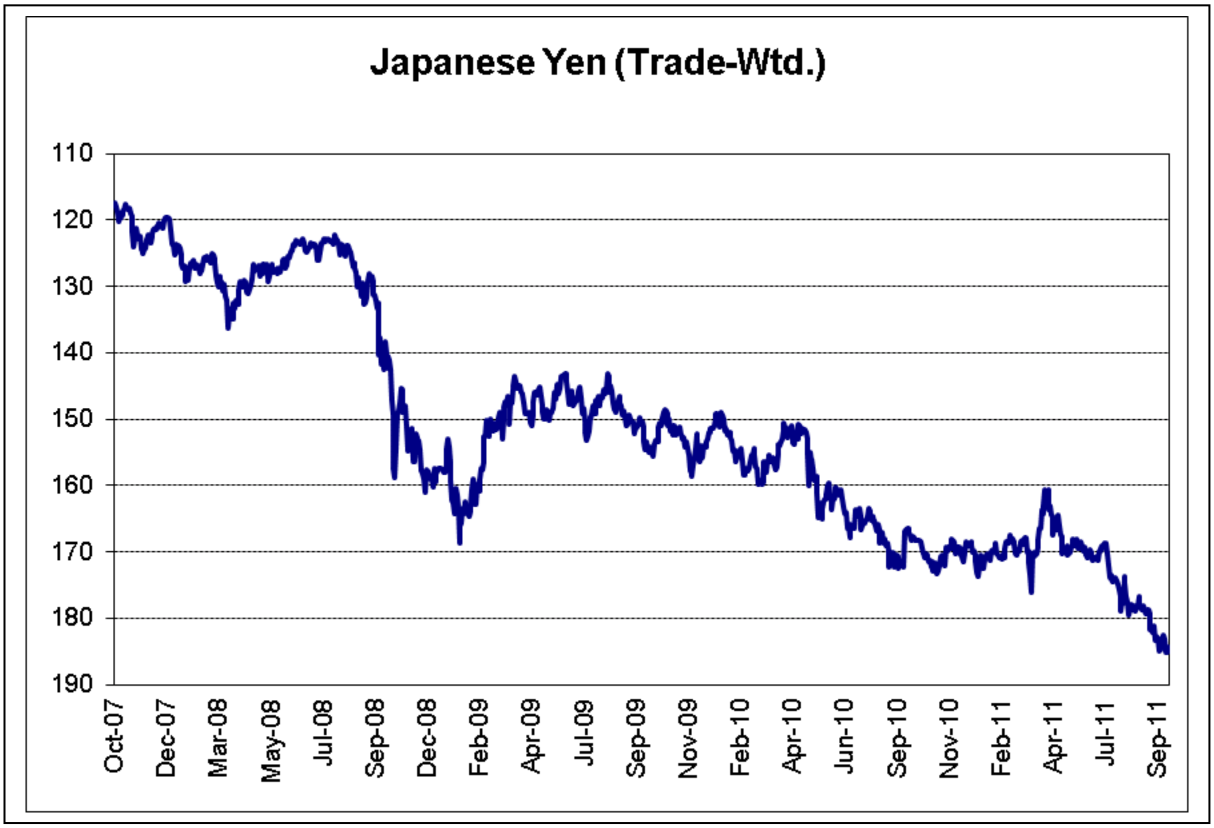
Nationwide Core CPI was unchanged M/M and increased 0.2% Y/Y in August, against market expectations for a 0.1% Y/Y increase. Core-Core CPI was unchanged M/M as well although it dropped 0.5% Y/Y against expectations for a 0.6% Y/Y drop. Monthly price changes were attributed to increases in prices in utilities, transport/communication, and entertainment while household goods, clothing/footwear, medical care, and housing prices declined.

Within Tokyo, Core CPI declined 0.1% M/M and 0.1% Y/Y. Core-Core CPI within Tokyo was unchanged M/M and declined 0.4% Y/Y.

Japan's Financial Balances

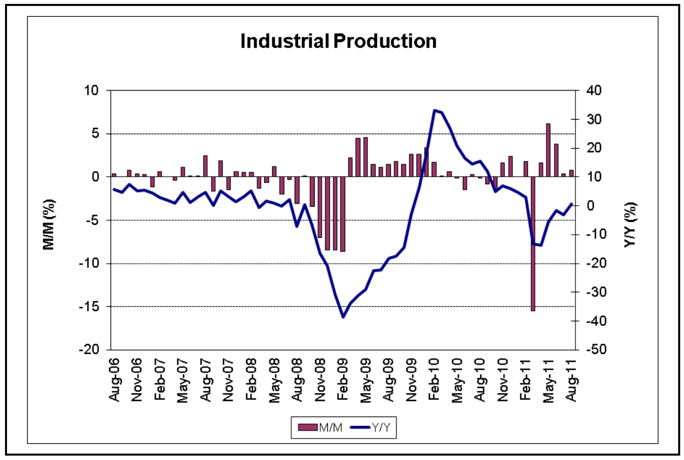
Financial Balances

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%



Industrial Production

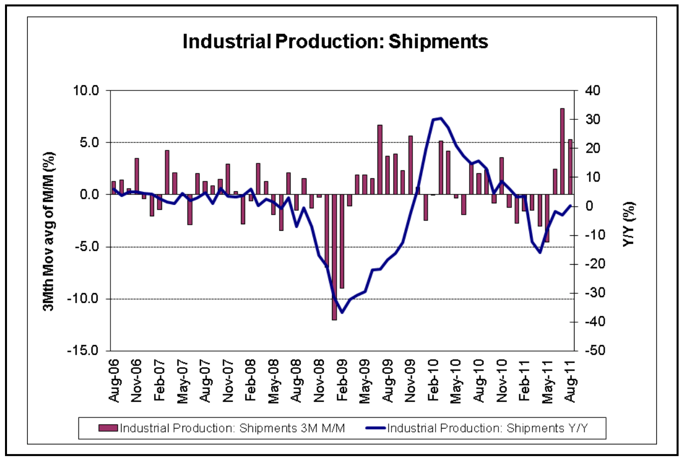
According to the preliminary report for Industrial Production in August, Production improved 0.8% M/M and 0.6% Y/Y due to sector improvements in transport equipment, iron & steel, and electronics parts & devices.

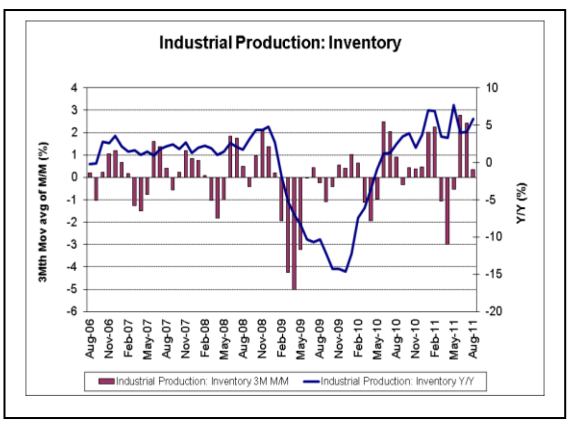


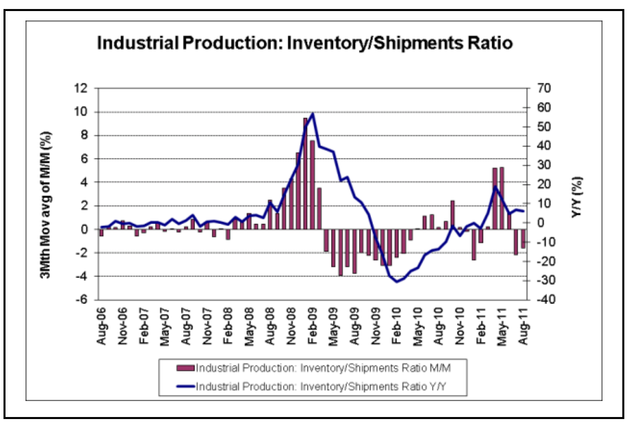
Although production increased, the improvement missed market expectations for a 1.5% M/M and 1.1% Y/Y improvement

Within the details, shipments increased 0.3% M/M and Y/Y. Inventories increased 2.1% M/M and 5.8% Y/Y. The Inventory Ratio declined 1.5% M/M and increased 6.1% Y/Y.

In the forward looking survey, producers expect production to drop 2.5% M/M in September and 3.8% M/M in October. This compares with the prior survey's call for a 2.4% M/M drop in September.





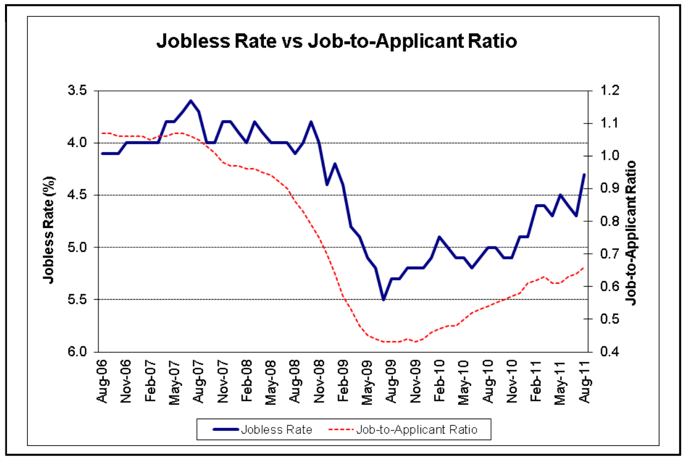


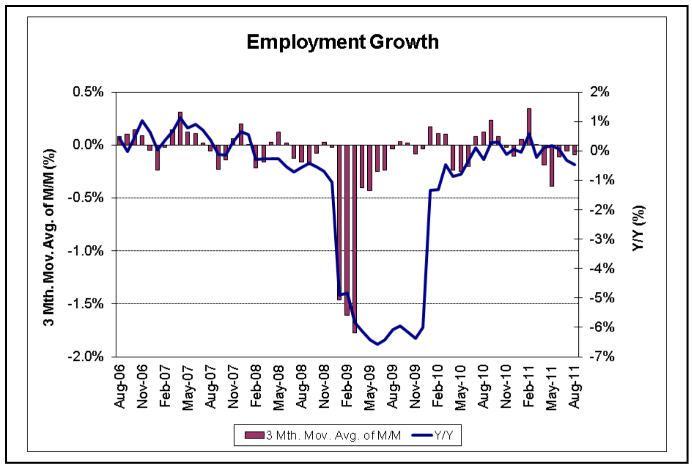
Employment Data

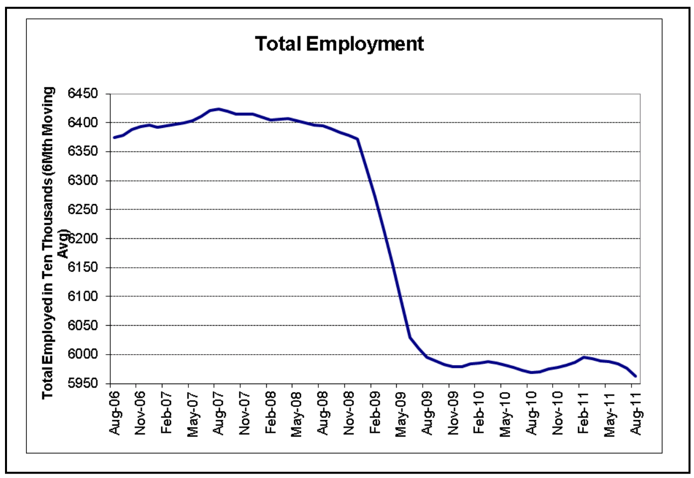
Employment

The Unemployment Rate saw a sharp drop in August, falling from 4.7% to 4.3% against expectations for no change. The decline occurred as the number of employed dropped by 160K while the number of unemployed dropped by 240k and the labor force dropped by 420k. The non-labor force increased in size by 200k.

The Job-Applicant Ratio increased from 0.64 to 0.66 against market expectations for an increase to 0.65.







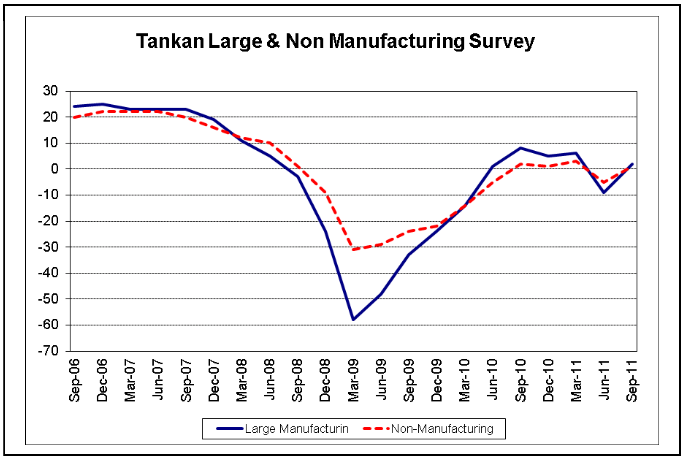
Tankan Survey

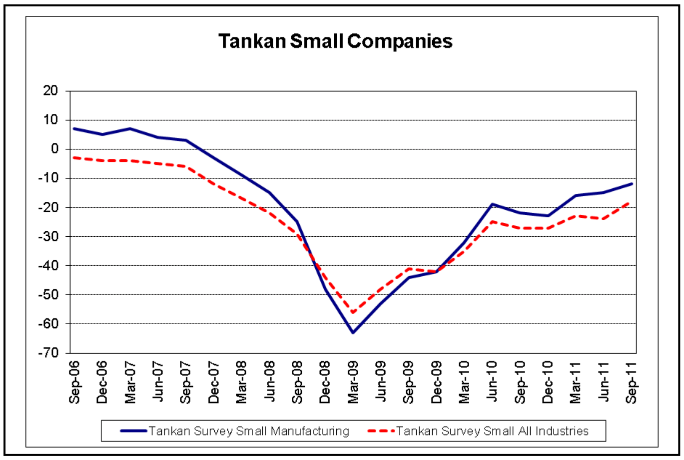
Large Manufacturing Sentiment improved from -9 to +2 in Q3, in line with market expectations. Among non-manufacturers, conditions improved from -5 to +1 against an expected gain to +2. On the small business side, conditions improved from -21 to -11 for manufacturers and -26 to -19 for small non-manufacturers.

Large Firm employment conditions dropped from +7 to +4 while small firm employment conditions dropped from +9 to +3. Across all enterprises, employment conditions dropped from +8 to +3.

Within the outlook data, large manufacturers' outlooks improved from -2 to +4 against expectations for an improvement to +3. Non-manufacturing outlook improved from -2 to +1 against expectations for an improvement to +2.

The Capex component for large industries slowed from 4.2% Y/Y to 3.0% Y/Y, missing expectations for an improvement to 4.3% Y/Y.





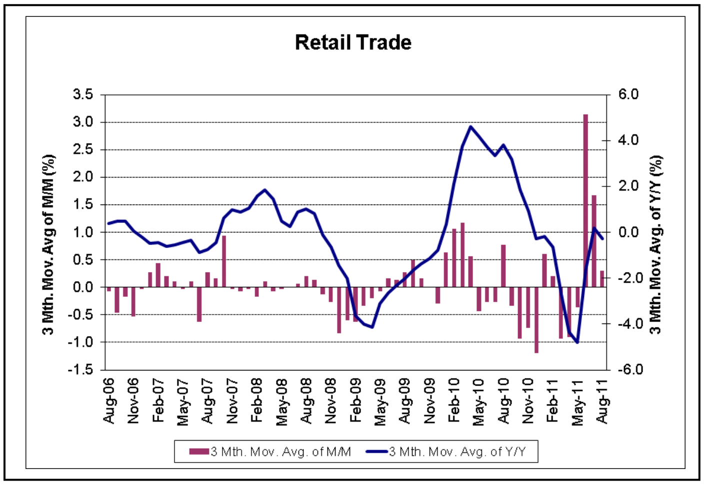
Retail Trade & Household Spending

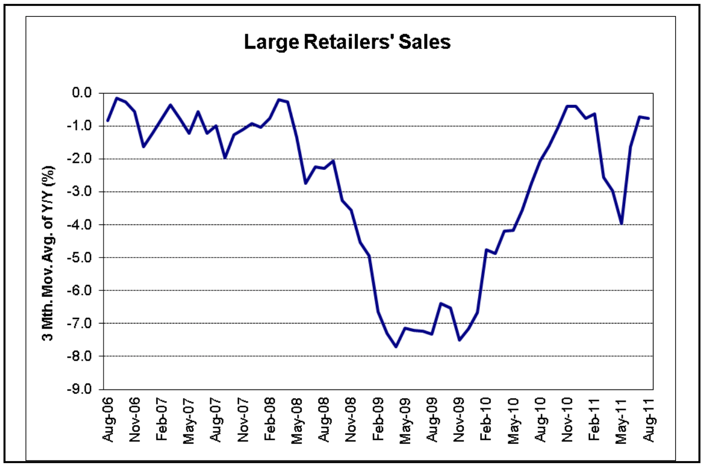
Retail Trade

Retail Trade dropped 1.7% M/M and 2.6% Y/Y in August, missing expectations for a 0.8% Y/Y decline.

Within the details, declines were widespread as general merchandise, food, fabrics/apparel, and household machines all declined, although motor vehicle sales improved.

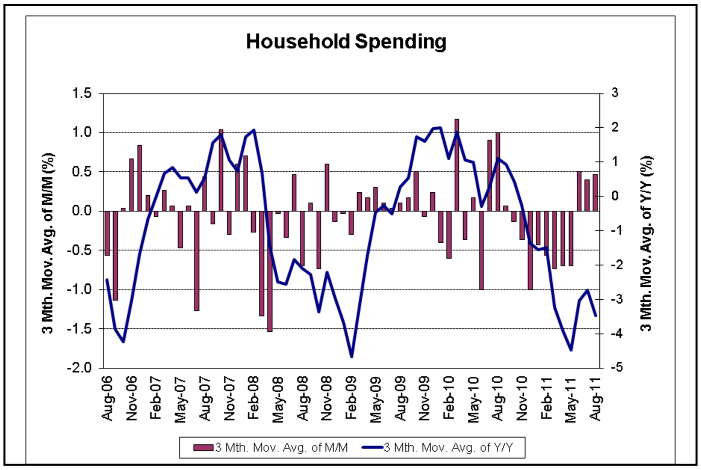
Large Retail Sales declined 1.2% M/M and 2.6% Y/Y against expectations for a 0.6% Y/Y decline.





Household Spending

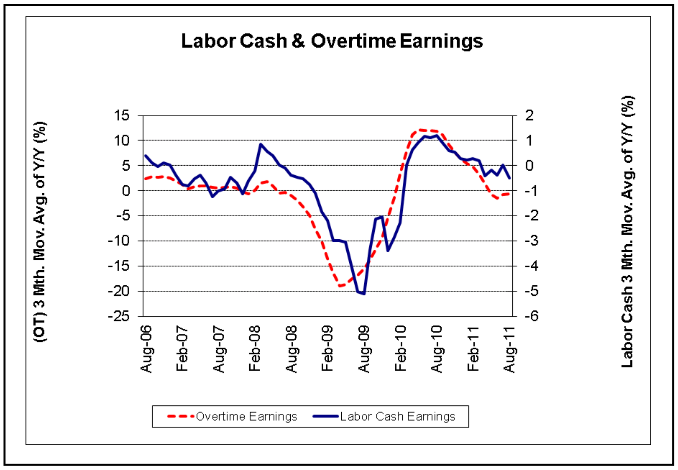
Household Spending dropped 0.1% M/M and 4.1% Y/Y in August against expectations for a 2.8% Y/Y decline. Real workers' spending increased 0.2% M/M and dropped 4.7% Y/Y.



Labor Cash Earnings, Vehicle Sales & Production

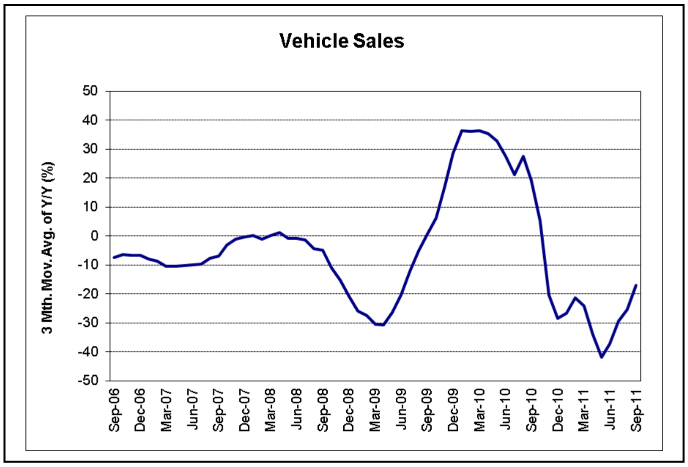
Labor Cash Earning

Labor Cash Earnings dropped 0.6% Y/Y in August as July's 0.1% Y/Y decline was revised downward to -0.2% Y/Y.
Within the survey, contracted earnings declined 0.2% Y/Y as regular earnings dropped 0.1% Y/Y while overtime earnings dropped 2.2% Y/Y. Bonus earnings dropped 6.0% Y/Y.



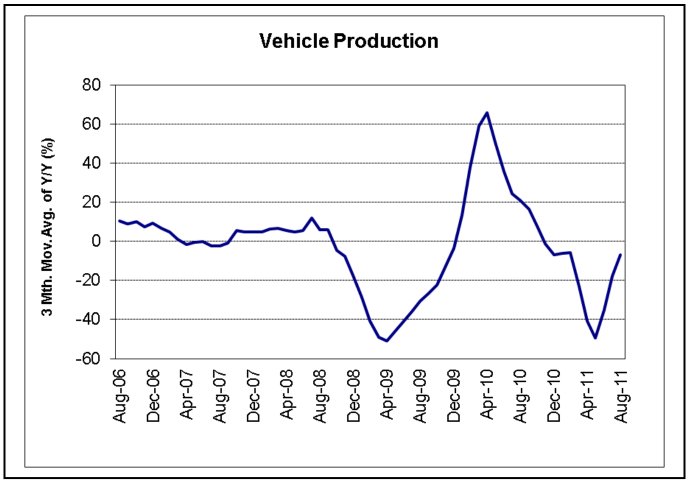
Vehicle Sales

Vehicle Sales increased 1.7% Y/Y in September.



Vehicle Production

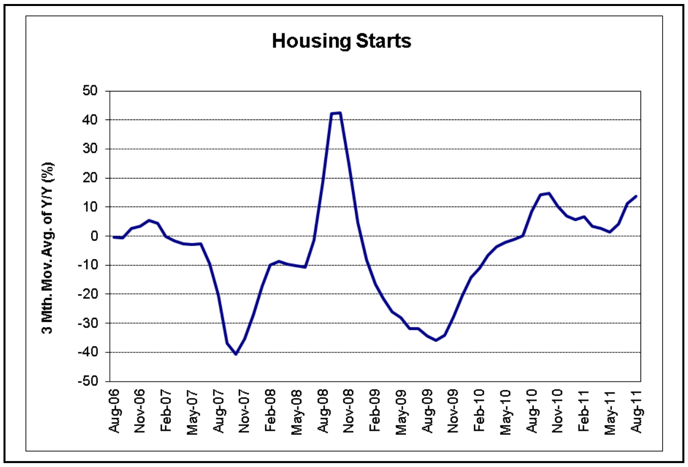
Vehicle Production increased 1.8% Y/Y in August.



Housing Starts & Construction Orders

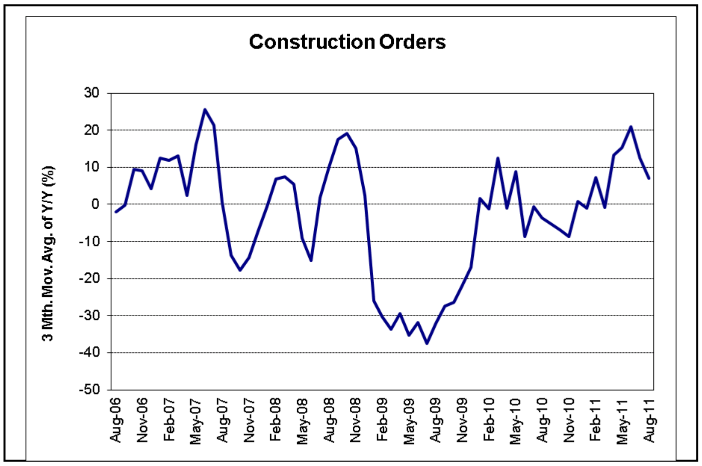
Housing Starts

At an annualized rate, starts declined from 0.955 mln units to 0.934 mln units in August, against expectations for a decline to 0.860 mln units. This represented a 14.0% Y/Y improvement, ahead of market expectations for a 4.5% Y/Y improvement.



Construction Orders

Construction Orders increased 9.3% Y/Y in August.



News

October 6th – Japan May Boost EUR Bail Out Bond Purchases – Chief Cabinet Secretary Fujimura commented that the government "would like to consider" buying more bonds from the European financial stability facility to help stabilize the region. "Europe's fiscal problem is also very important for Japan in terms of restoring market confidence, and the Europeans are grappling with this" Fujimura commented.

October 6th – Business Sentiment Improved in September – According to a survey conducted by Teikoku Databank Ltd, Business Sentiment improved for the first time in two months in September, with the DI improving 0.3pts M/M to 35.5. The improvement was noted to have occurred as manufacturing and wholesale sectors improved while the retail sector saw a decline.

Key Dates This Week

Date	*Indicator*	*Expectation*	*Previous*
10/07	Coincident Index CI	107.4	107.1
10/07	Leading Index CI	103.5	104.6
10/10	Current Account Total	N/A	¥990.2B
10/10	Adjusted Current Account Total	N/A	¥752.5B
10/10	Current Account Balance (Y/Y%)	N/A	-42.40%
10/10	Trade Balance - BOP Basis	N/A	¥123.3B
10/10-10/14	Machine Tool Orders (Y/Y)	N/A	15.20%
10/11	Bankruptcies (Y/Y)	N/A	-3.60%
10/11	Consumer Confidence	N/A	37
10/11	Eco Watchers Survey: Current	N/A	47.3
10/11	Eco Watchers Survey: Outlook	N/A	47.1
10/11	Machine Orders (M/M)	N/A	-8.20%
10/11	Machine Orders (Y/Y%)	N/A	4.00%
10/12	Bank Lending Ex-Trusts (Y/Y)	N/A	-0.50%
10/12	Bank Lending incl Trusts (Y/Y)	N/A	N/A
10/12	Tertiary Industry Index (M/M)	N/A	-0.10%

Valance Co., Inc.

Valance Economic Report: United Kingdom

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October 5, 2011

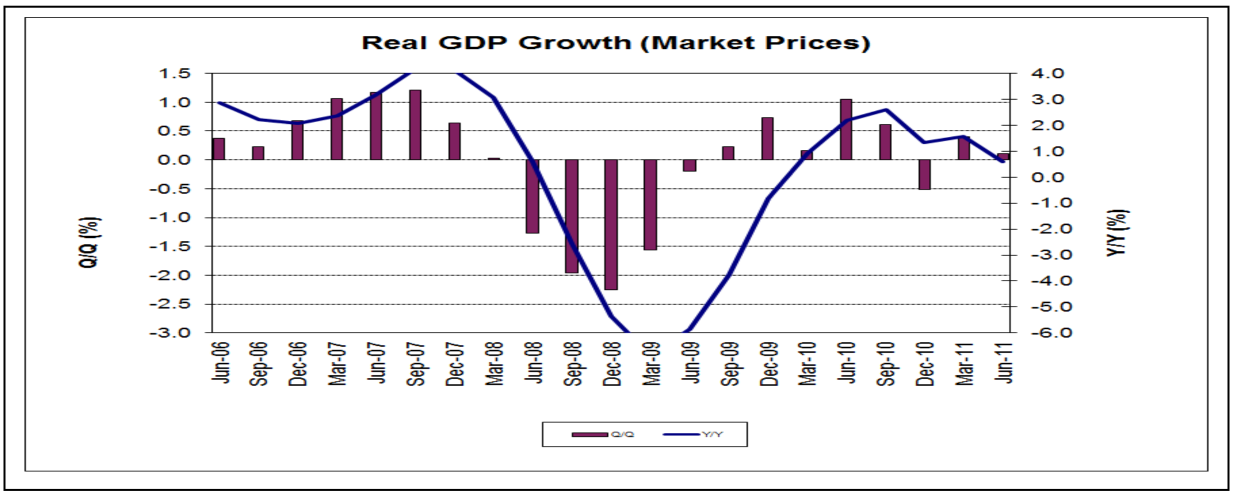
Q2 Real GDP grew a meager 0.1% Q/Q, less than the 0.2% previously expected. Manufacturing growth rose in September, but New Export Orders fell sharply. Consumer Confidence rose for the first time in four months in September.

Weekly Highlights

Q2 Real GDP – rose 0.1% Q/Q and 0.6% Y/Y in Q2. (UK 1)
BoE Mortgage Approvals – rose by 2.8k from in August. (UK 3)
GfK Consumer Confidence – improved from -31 to -30 in September. (UK 3)

Weekly Releases & News

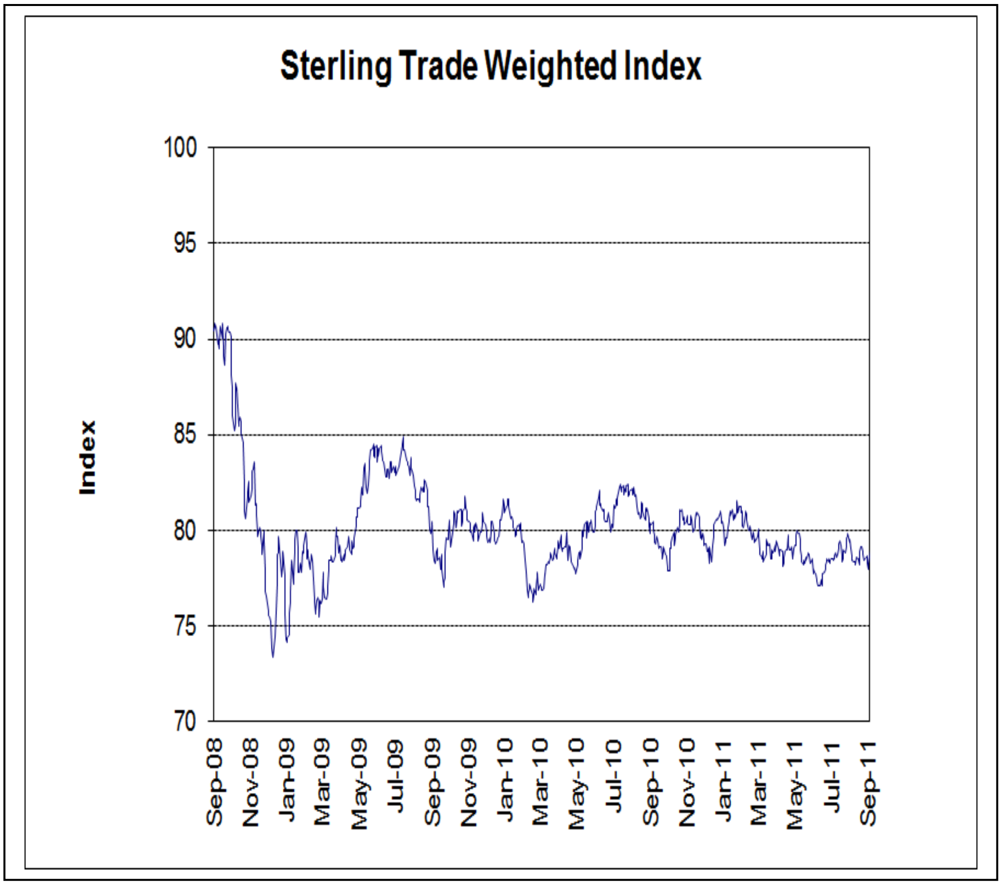
Chart of the Week: *Real GDP*



Q2 Real GDP rose 0.1 % Q/Q ,less than the 0.2% Q/Q previously expected, and 0.6% Y/Y. According to the statistics office, Consumer Spending plunged 0.8% Q/Q, the most since Q1 2009. Government Spending rose 1.1% Q/Q from Q1, when it increased 0.8% Q/Q. Exports fell 1.3% Q/Q after rising 1.5% in Q1, and Imports fell 0.3% Q/Q. Company investment jumped 1.7% Q/Q, the most since Q1 2010. The ONS said that "the recession is still estimated to have begun in Q2 2008 but lasted for five quarters instead of six" and "the downturn was shorter, but steeper and deeper."

Financial Balances & FX

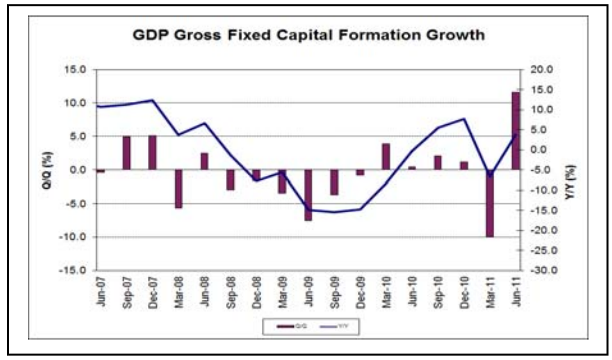
U.K.	*Last Period (blns)*	*Last 12mth. % of GDP*
Budget Balance (monthly/total)	+£12.0 (June)	+10.6%
Curr. Acct. Balance (quarterly)	-£9.4(Mar)	-2.5%
Private Balance	+£2.6	+8.1%



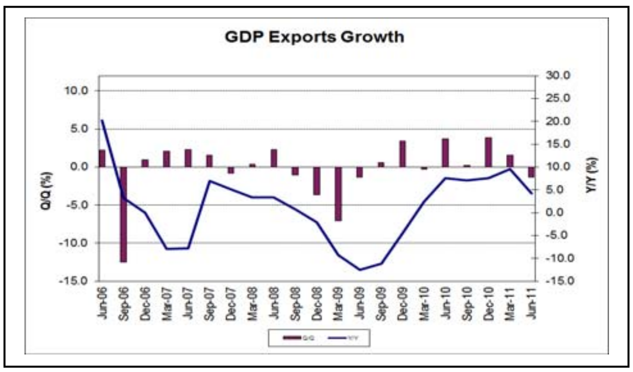
GDP Details & PMIs

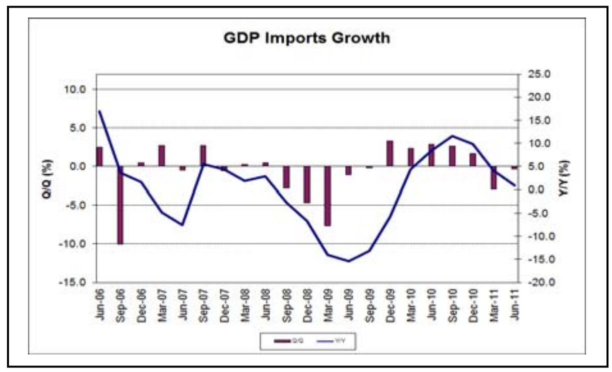
Household Consumption Growth

Total Business Investment growth surged 11.6% Q/Q and 3.8% Y/Y in Q2.



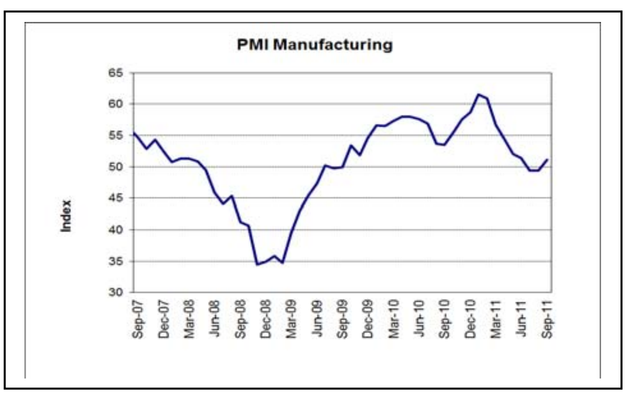
Exports & Imports

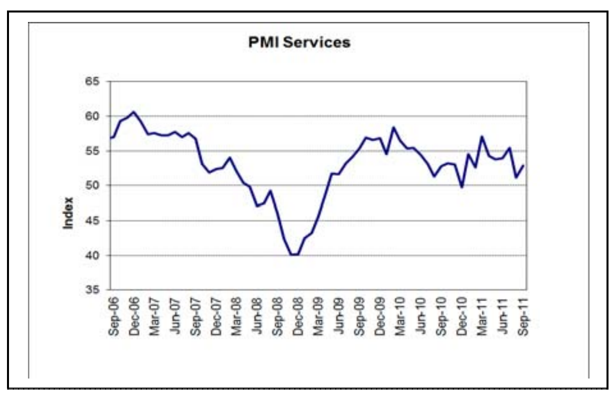




Total Exports fell 1.3% Q/Q and rose 4.3% Y/Y in Q2. Total Imports fell 0.3% Q/Q and rose 0.9% Y/Y.

Manufacturing & Services PMIs





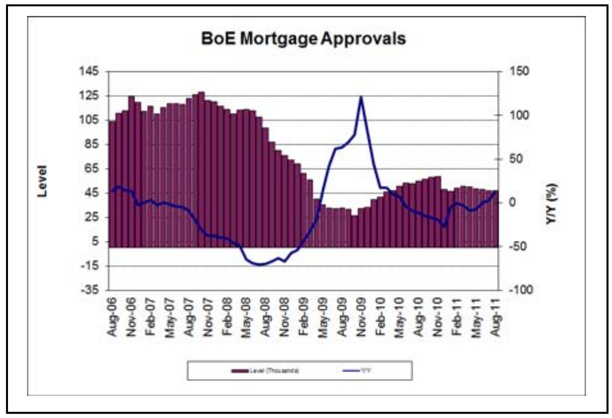
PMI Index of Manufacturing rose 0.7pts to 51.1 in September, better than the 48.5 expected. Levels of new export business contracted at the fastest pace since May 2009. The index was at a 17-year low level of 34.5 in November 2008.

The PMI Index of Services rose from 51.1 in August to 52.9 in September.

BoE Loans, GfK Cons. Confidence & N'wide House Prices

BoE Mortgage Approvals

Lenders granted 52.4k mortgages in August, up from 49.6k in July. This is the most since December 2009. Economists expected 49.7k.

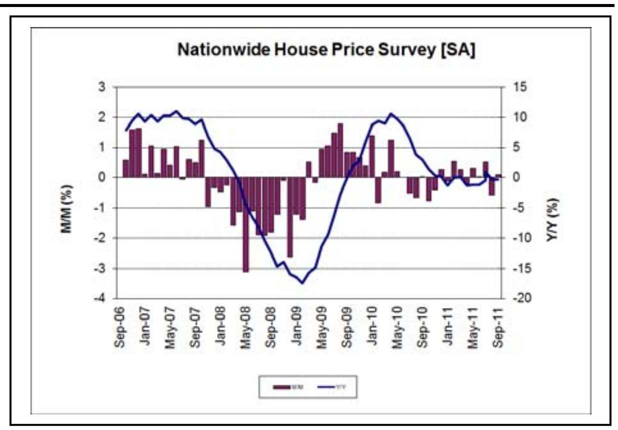


GfK Consumer Confidence Survey

The GfK Consumer Confidence Index improved slightly from -31 in August, to -30 in September. Expectations for the overall index were for -33. The worst level on record (-48) was reached in January 2009. Expectations for the general economic situation over the coming 12 months improved 4pts to -27. The climate for major purchases gauge improved 3pts to -28.

Nationwide Home Prices

U.K.'s September Home Prices rose 0.1% M/M and improved from -0.4% Y/Y to -0.3% Y/Y. Economists predicted a flat monthly result in September. Nationwide commented that "downside risks to the property market have increased as economic prospects weaken. There is also a risk that, if the euro-zone situation continues to deteriorate, it could affect the cost and availability of credit."



Data & Comments

PMI Construction – According to the Markit Economics and the Chartered Institute of Purchasing and Supply, a gauge of building activity based on a survey of purchasing managers dropped from 52.6 in August to 50.1 in September. This is mainly due to the level of new business dropping for the first time since February 2010.

***Hometrack House Prices* (Bloomberg) -** U.K. house prices fell for the fifth month in September and the pace of the decline may accelerate in the coming months, property researcher Hometrack Ltd. said. The average cost of a home slipped 0.1% from August and was down 3.5% from a year earlier. Prices based on Hometrack's measure have fallen in every month but one since July 2010. New property listings rose 22% in the nine months through September, double the pace of demand growth, Hometrack said. On the month, new buyers registering with real-estate agents fell 2.6% from August. London was one of only two regions tracked by Hometrack to record an increase in values in September. Prices increased by 0.2%.

***Oct. 4th - U.K. Unveils New Stimulus Plan Amid Cuts (WSJ)* -** The U.K. Treasury is planning a new initiative to buy billions of pounds of corporate bonds issued by small and midsize companies to free up capital for struggling firms unable to tap banks for loans. Chancellor of the Exchequer George Osborne unveiled the new "credit easing" initiative during his address to the Conservative Party's annual conference on Monday. An aide later said the Treasury would sell gilts and use the proceeds to buy corporate bonds issued by such businesses. The credit-easing system could be run by the Bank of England, acting as an agent on behalf of the Treasury, or by a newly created institution that would be run at arm's length to the government, an aide said.

***Sep. 29th - U.K. Wage Growth Unchanged in Quarter Through August, IDS Says (Bloomberg)* -** U.K. wage growth was unchanged in the three months through August as public-sector pay remained frozen amid the government's budget squeeze, according to Incomes Data Services. The median pay settlement held at 2.5%, matching wage growth in the previous three months. The data cover 60 deals for 565,524 workers. Employers plan to "slightly" increase the average pay rise in 2012 from 2.5% in 2011, IDS said, citing a survey of human resource professionals. "If the recession recedes, there may be pressure for higher awards, particularly at firms where increases were lower or zero before," Ken Mulkearn, editor of the IDS Pay Report, said.

***Sep. 29th - U.K. September Inflation Expectations at 3.5%, Citigroup Says (Bloomberg)* -** Britons' inflation expectations for the coming year were unchanged at 3.5% in September compared with the previous month, Citigroup Inc. said, citing a YouGov Plc survey. Consumers' longer-term inflation expectations for the next five to ten years increased to 3.8% from 3.7% in August, Citigroup said. "Trends in inflation expectations are not in our view alarming enough to prevent" the Bank of England's Monetary Policy Committee from extending their so-called quantitative easing program "in response to the clear signs of sharp economic slowdown," Citigroup economist Michael Saunders said.

Key Dates This Week

Date	*Indicator*	*Month*	*Expectation*	*Previous*
10/05	Halifax House Price 3Mths/Year	SEP	- -	-2.60%
10/06	BoE Housing Equity Withdrawal	2Q	- -	-£5.8B
10/06	Index of Services (M/M)	JUL	- -	-0.10%
10/07	BOE ANNOUNCES RATES	OCT 6	0.50%	0.50%
10/08	New Car Registrations (Y/Y)	SEP	- -	7.30%
10/09	PPI Input NSA (M/M)	SEP	1.40%	-1.90%
10/10	PPI Output n.s.a. (M/M)	SEP	0.20%	0.10%
10/11	PPI Output Core NSA (M/M)	SEP	0.10%	0.20%
10/12	BRC Sales Like-For-Like (Y/Y)	SEP	- -	-0.60%
10/13	RICS House Price Balance	SEP	- -	-23%
10/14	Nationwide Consumer Confidence	SEP	- -	48
10/15	DCLG UK House Prices (Y/Y)	AUG	- -	-1.50%
10/16	Industrial Production (M/M)	AUG	- -	-0.20%
10/17	Industrial Production (Y/Y)	AUG	- -	-0.70%
10/18	Manufacturing Production (M/M)	AUG	- -	0.10%
10/19	Manufacturing Production (Y/Y)	AUG	- -	1.90%
10/22	Total Trade Balance (GBP/Mln)	AUG	- -	-£4450
10/23	NIESR GDP Estimate	SEP	- -	0.20%
10/24	Claimant Count Rate	SEP	- -	4.90%
10/25	Jobless Claims Change	SEP	- -	20.3K
10/26	Average Weekly Earnings 3M/Y/Y	AUG	- -	2.80%
10/27	Weekly Earnings exBonus 3M/Y/Y	AUG	- -	2.10%
10/28	ILO Unemployment Rate (3mths)	AUG	- -	7.90%

Valance Co., Inc.

Valance Economic Report: Canada

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October 5, 2011

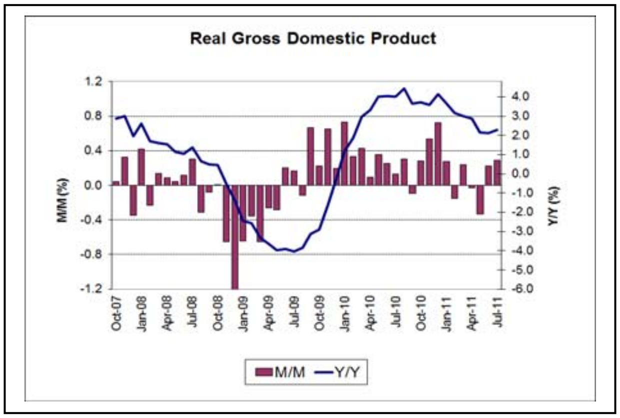
Real GDP expanded 0.3% M/M in July, in line with market forecasts. In August, Industrial Product Prices surprised to the upside, while Raw Material Prices fell more than expected. Despite the second consecutive month of GDP growth, the CAD fell to 1-year low vs. the USD, on global economic growth concerns.

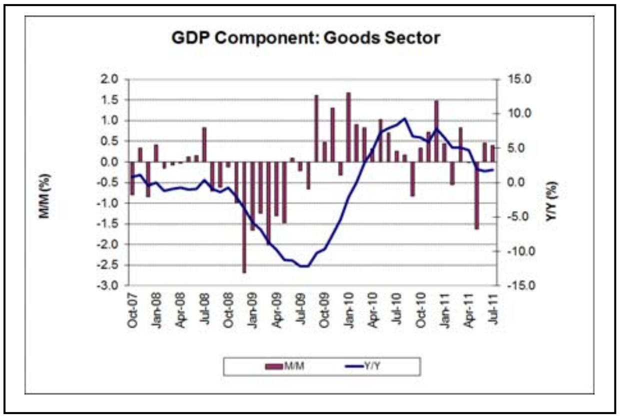
Weekly Highlights

Real GDP – expanded 0.3 % M/M and 2.3% Y/Y in July. (CA 1)
Raw Materials Price Index – dropped 3.2% M/M (-2.5% exp.) in August. (CA 3)
Industrial Product Price Index – rose 0.5% M/M (-0.5 % exp.) in August. (CA 3)

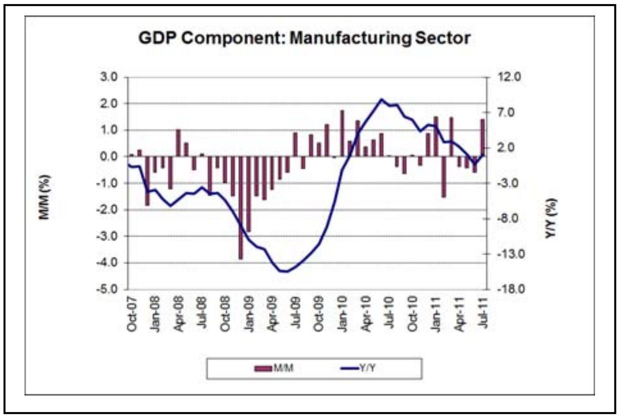
Weekly Releases & News

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





Real GDP expanded 0.3 % M/M in July, after expanding 0.2% M/M in June. Y/Y growth quickened from 2.1% to 2.3%. Expectations were for 0.3% M/M growth and +2.3% Y/Y. The mining, oil and gas extraction sector fell 0.3% M/M, while excluding oil and gas extraction, mining output grew 2.9% M/M. Manufacturing production jumped 1.4% M/M in July after a 0.9% M/M contraction in June. Goods-producing industries rose 0.4% M/M, the utilities sector surged 1.5% M/M, and Mining and Construction sectors both fell 0.3% M/M.

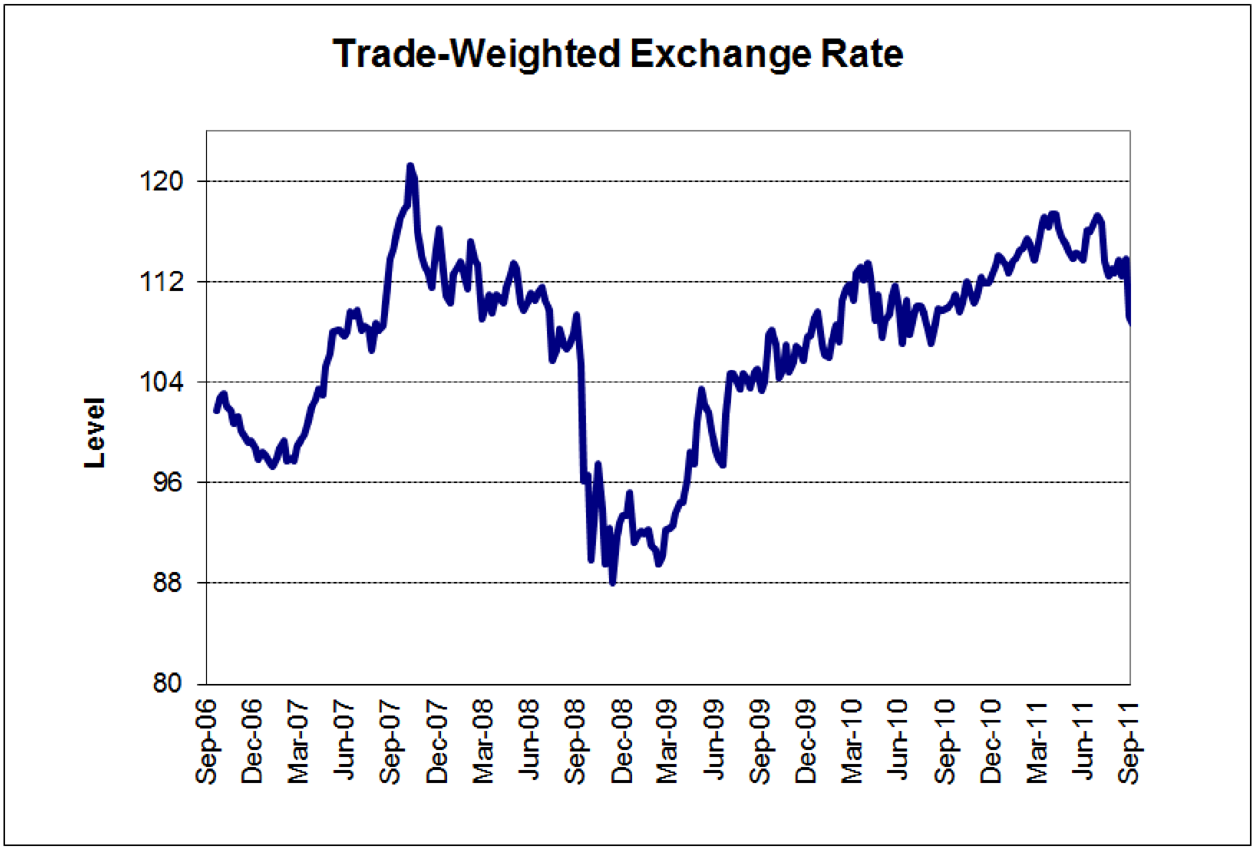


Financial Balances & Trade Weighted Exchange Rate

Financial Balances

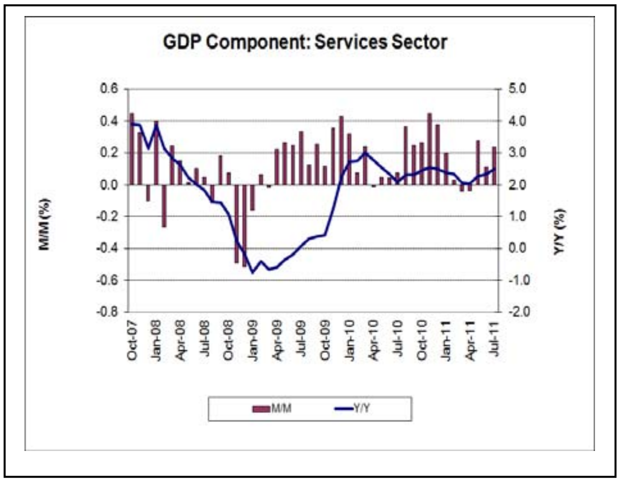
Canada	*Latest period (C$bln)*	*Last 12mth. as % of GDP*
Budget Balance	-0.9 (Feb)	-2.3%
Trade Balance	-0.75 (Jul)	-1.6%
Current Account Balance	-15.3 (Q2)	-7.3%
Private Balance	--	-5.0%

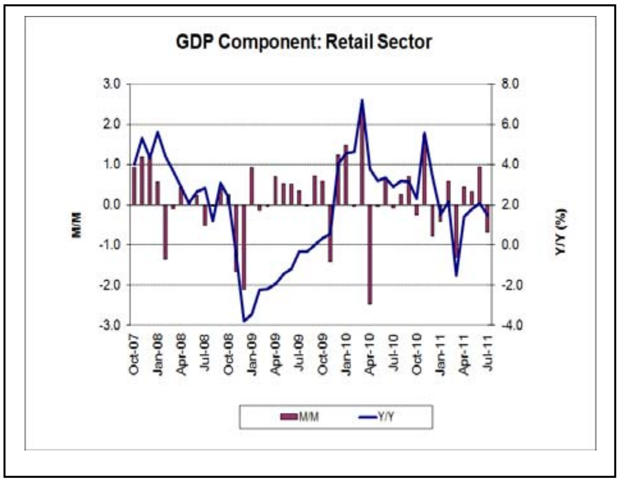
Trade-Weighted Exchange Rate



The CAD fell to 1-year low of C$ 1.0457 per U.S. dollar on Economic Growth Concerns.

GDP Data Cont'd., RMPI & IPPI

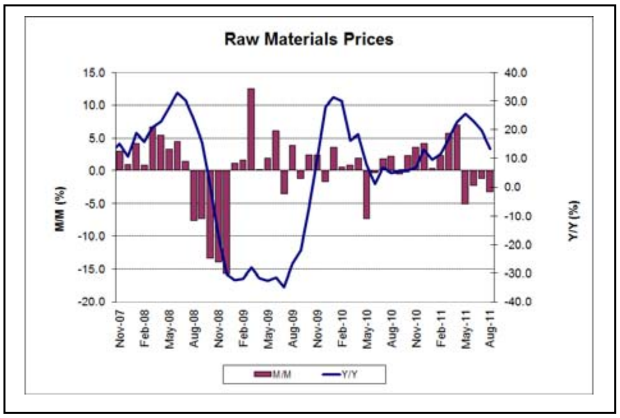




Retail Trade in July fell 0.7% M/M as car sales fell significantly, while the service sector gained 0.2% M/M.

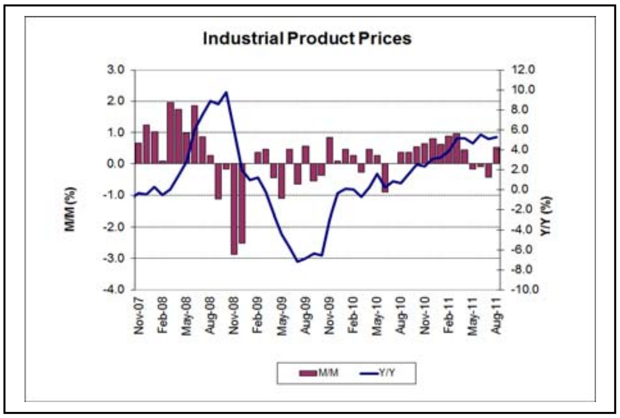
Raw Materials Price Index

Raw Materials Prices fell 3.2% M/M in August after – 1.1% M/M in July. The market expected a 2.5% M/M decline. This monthly decline was driven by mineral fuels (-7.0%). Ex-mineral fuels, prices gained 0.3% M/M. Y/Y growth for the overall RMPI was 13.3%.



Industrial Product Price Index

Industrial Product Prices rose 0.5% M/M in August after dropping a downwardly revised 0.4% M/M (-0.3% prev.) in July. Expectations were for a 0.5% M/M decline. Ex-petroleum/coal products, the IPPI gained 0.7% M/M. Y/Y growth for the overall IPPI was 5.2% and ex. petro/coal it was 2.4%.



News & Upcoming Dates

News

Oct. 4th - Bank of Canada Buys C$1.21 Bln of Securities for One Day (Bloomberg) - The Bank of Canada made C$1.21 bln ($1.14 bln) in one-day purchases of securities, under a program that aims to keep overnight lending rates close to its 1% target. Earlier, the central bank said it had purchased C$750 mln under the program. Today's total is similar to yesterday's C$1.215 bln of transactions. The Ottawa-based bank also also said it made C$111 mln in one-day loans of securities under a separate program that aims to boost the supply of government bonds and treasury bills in the market when demand is high. The bank also increased the amount of settlement balances in the Large Value Transfer System to C$1.132 bln from the regular daily target of C$25 mln. The funds are used to help settle payments between banks and brokers, and a higher amount can also encourage lower interest rates on interbank loans.

Sep. 30th - Canada's Dollar Falls to 1-Year Low on Economic Growth Concern (Bloomberg) - Canada's dollar depreciated for the third day versus its U.S. counterpart, falling to the lowest in more than a year, on concern a slowdown in the global economy will crimp exports and weaken the nation's balance sheet. The currency was headed for weekly, monthly and quarterly losses even after a report showed Canada's gross domestic product rose for a second month in July on gains in manufacturing and wholesaling. Investors sold the Canadian dollar for U.S. currency to rebalance portfolios that have lost value due to equity declines, according to Steve Butler of Scotia Capital."It's been a rough month and quarter for the markets," said Butler, managing director of foreign-exchange trading at in Toronto in the Bank of Nova Scotia unit, in an e-mail message. "A lot of portfolio rebalancing is hurting the Canadian dollar." The Canadian currency dropped 1% to C$1.0457 per U.S. dollar at 9:47 a.m. in Toronto, compared with C$1.0359 yesterday. It touched C$1.0467, the weakest level since Sept. 8th, 2010. One Canadian dollar buys 95.58 U.S. cents. Canada's currency is headed for a 1.8% drop this week versus the greenback, the third-worst performance among the world's 16 most-traded currencies after New Zealand's dollar and the Mexican peso. It's down 6.5% this month and 7.9% in the quarter.

Key Dates This Week

Date	*Indicator*	*Month*	*Expectations*	*Previous*
10/06	Building Permits (M/M)	AUG	--	-0.6%
10/06	Ivey Purchasing Managers Index	SEP	--	56.4
10/07	Unemployment Rate	SEP	--	7.3%
10/07	Employment Change	SEP	--	-5.5k
10/11	Housing Starts	SEP	--	184.6k
10/12	New House Price Index (M/M)	AUG	--	+0.1%

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Valance Economic Report: Australia

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October 5, 2011

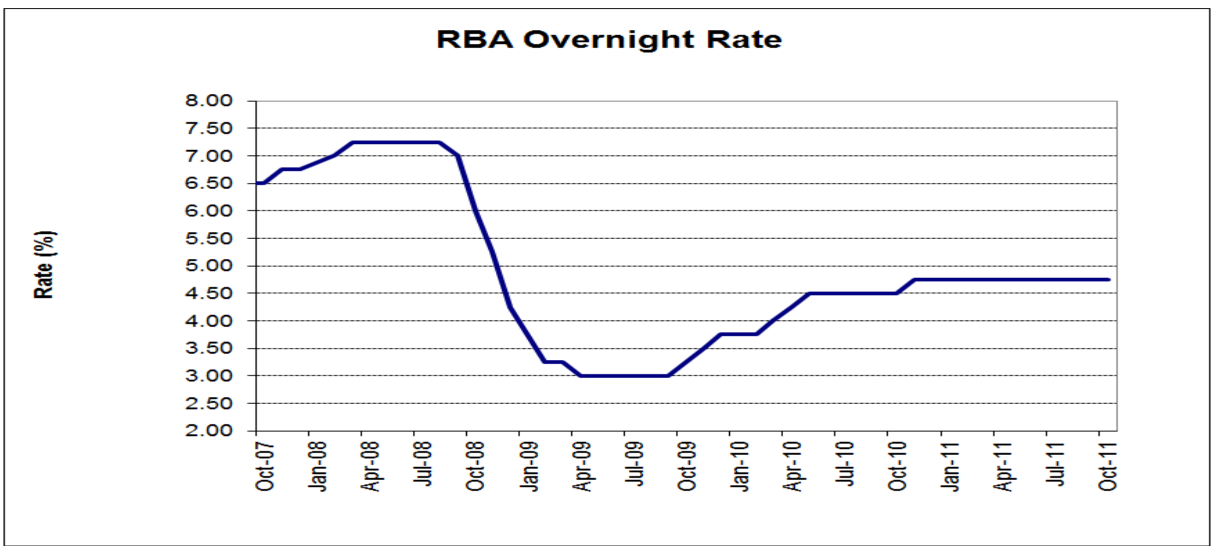
As expected, the RBA kept its target rate on hold, citing "an improved inflation outlook would increase the scope for monetary policy to provide some support to demand, should that prove necessary." In August, Retail Sales increased more than expected, while the Trade Surplus increased sharply.

Weekly Highlights

Cash Target Rate – remained at 4.75%. (AU 1)
Retail Sales – rose 0.6% M/M in August. (AU 2)
AiG Manufacturing Index – eased 1.0pt to 42.3 in September. (AU 3)

Weekly Releases & News

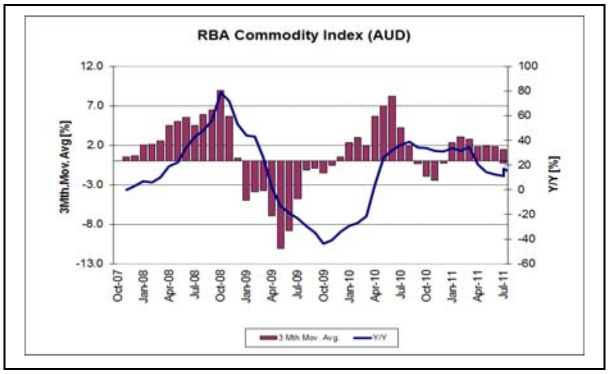
Chart of the Week: *RBA Target Rate*



As generally expected, the RBA kept its target rate at 4.75%, but it appears that the RBA dropped its hints of the possibility to hike rates which appeared as recently as the August board meeting, and adopted an easing bias.

RBA Commodity Index, Retail Sales & Building Approvals

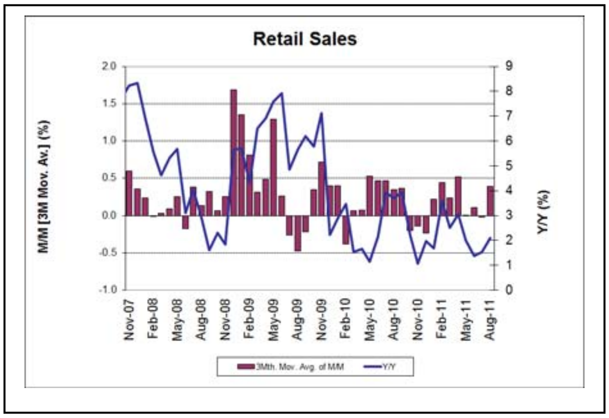
RBA Commodity Index & AUD



The RBA's July's Commodity Price Index (SDR terms) rose 1.0% M/M and 26.6% Y/Y. In AUD terms, the index rose 1.9% M/M and 19.8% Y/Y. The AUD sank as low as 94.56 U.S. cents, the least since September 2010.

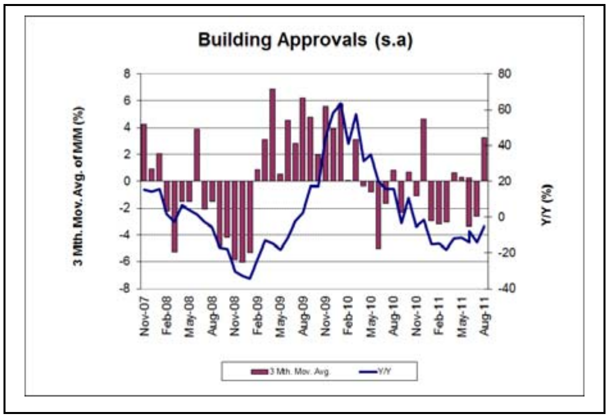
Retail Sales

August's Retail Sales rose by 0.6% M/M (+0.6% previously) against a 0.2% expected gain. The largest increase was recorded in Household Goods (+1.7% M/M), followed by Restaurants (+1.2% M/M).



Building Approvals

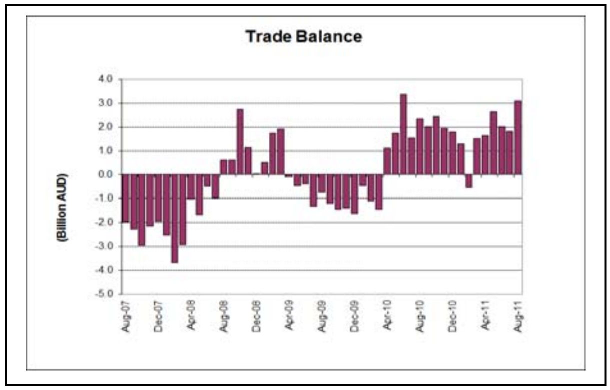
August's Building Approvals surged 11.4% M/M, compared to the 1.8% M/M gain in July. Expectations were for a 1.0% M/M gain. On an annual basis, permits were down 5.5%, following 14.3% previously.



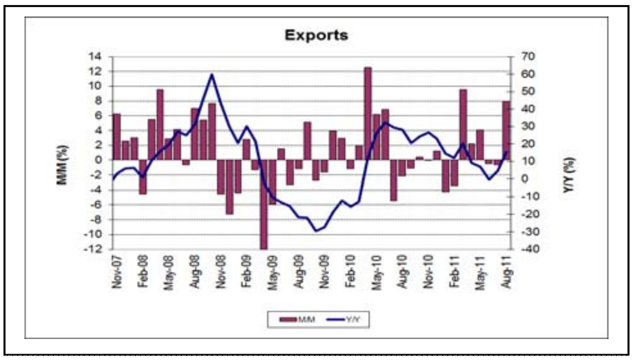
Trade Balance & Data

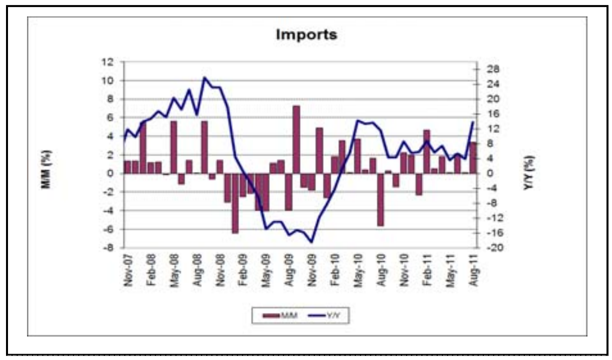
Trade Balance

The Trade Surplus widened from A$ 1.8 bln in July to A$ 3.1 bln in August as coal exports surged .This is the second widest monthly surplus on record.



Exports & Imports





Total Exports surged 8.0% M/M and rose 15.5% Y/Y in August. Total Imports rose 3.3% M/M and 13.7% Y/Y.

Data

AiG Performance of Manufacturing Index - The Performance of Manufacturing Index eased from 43.3 in September to 42.3 in August. A reading above 50 indicates the sector is expanding.

AiG Services Index - The Australian Industry Group/Commonwealth Bank Performance of Services Index (PSI) fell from 52.1 to 50.3 in September. This compares to the level of 45.6 a year ago. The overall survey is similar to the U.S. Non-manufacturing ISM Index.

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 continued to be very unsettled, *with uncertainty increasing about both the prospects for resolution of the sovereign debt and banking problems in Europe, and the outlook for global economic growth. While temporary impediments that had contributed to a slowing in growth in some countries over recent months are lessening, recent data suggest a continuing period of soft economic conditions in both Europe and the United States. Moreover, the uncertainty and financial volatility have reduced confidence, which could result in more cautious behaviour by firms and households in major countries.*

It will take more time for evidence of any effects of the recent European and US financial turbulence on economic activity in other regions to emerge. *Thus far, indications are that economic activity is continuing to expand in China and most of Asia. Nonetheless, recent events have led forecasters to reduce their estimates for global GDP growth, which is now expected to be about average this year and next. Prices for commodities have declined over recent weeks, though in general they remain high.*

Australia's terms of trade are very high, which has increased national income considerably. 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 earlier rise in the exchange rate have had a noticeable dampening effect. ***The impetus from earlier Australian Government spending programs is now also abating, as had been intended.*** *While there remain good reasons to expect solid growth over the medium term, the indications are that the pace of near-term growth is unlikely to be as strong as earlier expected, due both to local and global factors, including the financial turmoil and related effects on business confidence.*

Underlying inflation stopped falling and began to increase earlier this year. *The Board has been concerned about the prospect of a further pick-up over the period ahead, but over recent months has been weighing the question of whether a period of weaker than expected conditions would contain that pick-up in inflation. Recently revised data show a pick-up to date in the underlying pace of price rises that was less sharp than initially indicated. Moreover, with labour market conditions now a little softer and households more concerned about the possibility of unemployment rising, the likelihood of a significant acceleration in labour costs outside the resources and related sectors is lessening.*

Taking into account all the recent information, the path for inflation may now be more consistent with the 2–3 per cent target in 2012 and 2013*, abstracting from the impact of the carbon pricing scheme. This assessment will be reviewed on receipt of further data on prices ahead of the Board's next meeting.* ***An improved inflation outlook would increase the scope for monetary policy to provide some support to demand, should that prove necessary.***

The Board noted that financial conditions have been easing somewhat, with interest rates for some housing and business loans declining slightly due to increased competition and the fall in some funding costs in financial markets. ***The exchange rate has also declined from the very high levels of a few months ago. Credit growth remains low, however, and asset prices have declined.***

At today's meeting the Board judged the current cash rate remained appropriate. As always, the Board will continue to assess carefully the evolving outlook for growth and inflation.

Key Dates This week

Date	*Indicator*	*Month*	*Expectation*	*Previous*
10/11	Home Loans (M/M)	AUG	--	+1.0%
10/06	AiG Construction Index	SEP	--	32.1
10/09	ANZ Job Ads (M/M)	SEP	--	-0.6%
10/10	NAB Business Confidence	SEP	--	-8
10/11	Westpac Consumer Confidence (M/M)	OCT	--	+8.1%

Valance Co., Inc.

Valance Economic Report: New Zealand

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October 5, 2011

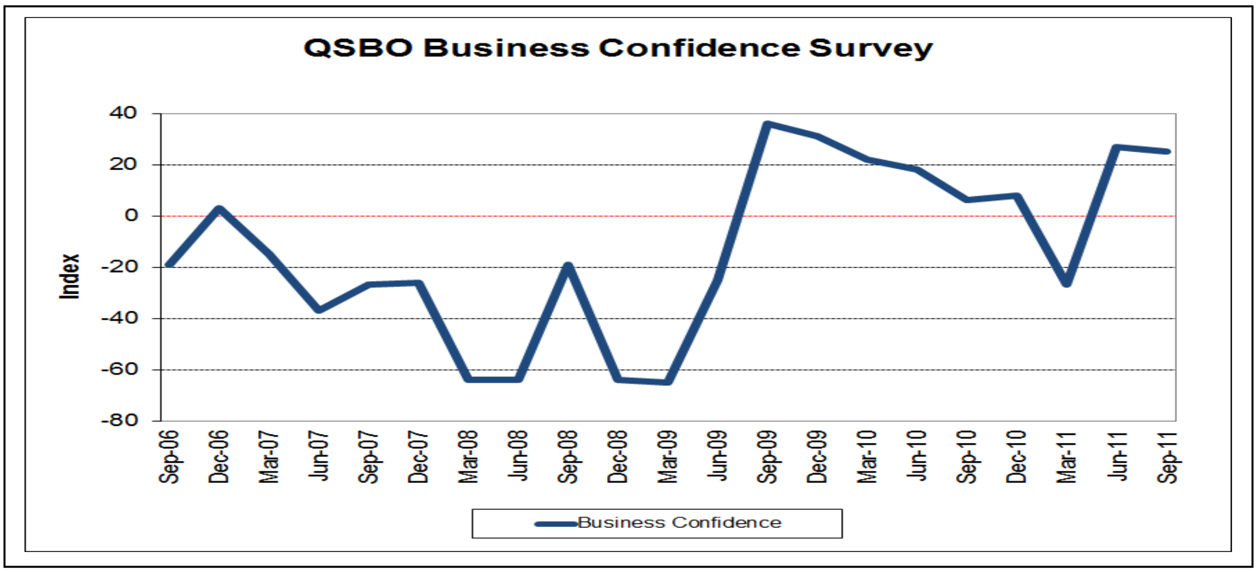
The NZIER QSBO Survey fell modestly in Q3, while the NBNZ Business Confidence continued to moderate in September. The ANZ Commodity World Price Index declined for the fourth straight month in September. Both Standard & Poor's and Fitch downgraded New Zealand's sovereign debt rating.

Weekly Highlights

NZIER Quarterly Survey of Business Opinion – slipped 2pts to +25 in Q3. (NZ 1)
NBNZ Business Confidence – fell 4.1pts to 30.3 in September. (NZ 3)

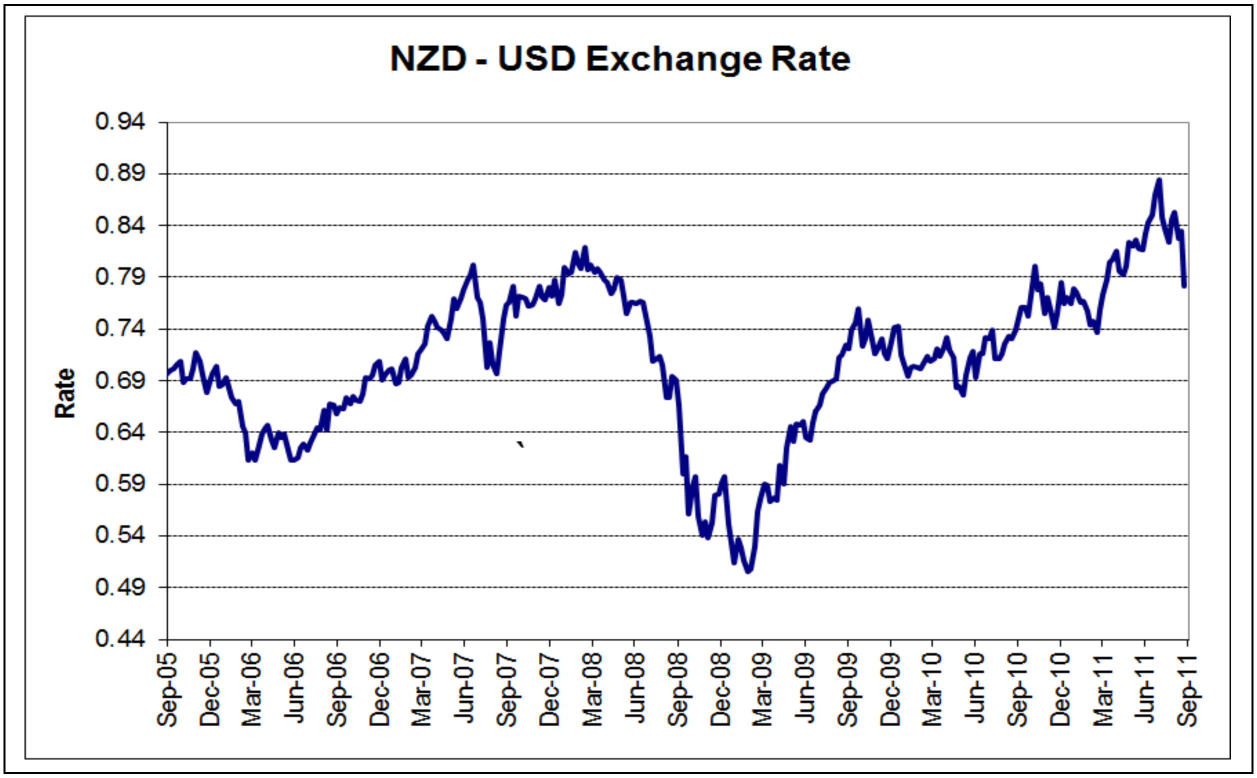
Weekly Releases & News

Chart of the Week: *NZIER Business Confidence Survey*



The NZIER Business Confidence Survey fell from +27 in Q2 to +25 in Q3. This translates into a net 25% of the 790 companies surveyed in Q3 that expect the general economy to improve over the next 6 months, down from the 27% in the previous survey. Businesses' own activity for the past quarter fell slightly from 4% to 2% in Q3, still the second-highest level since 2008. See details of this survey in the data section below.

FX



The NZD fell to its lowest level in six months against the USD after Standard & Poor's joined Fitch Ratings in cutting New Zealand's credit rating. Fitch has had New Zealand on a negative outlook since July 2009.

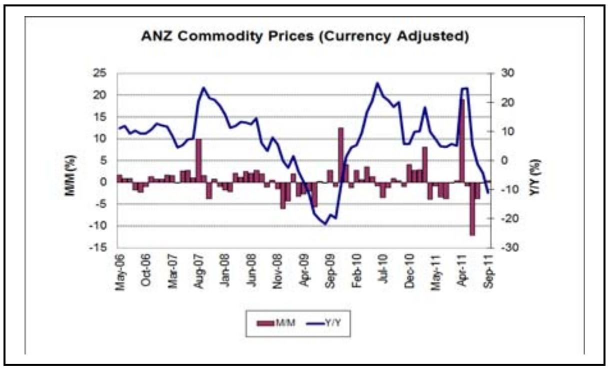
ANZ Commodity Prices, Building Permits & Business Conf.

Building Permits

Home-Building Approvals surged 12.5% M/M in August, after increasing 14.3% M/M in July. Ex-apartments, approvals increased 16.9% M/M after increasing 6.7% M/M previously. Y/Y, approval growth was up 18.1%.

ANZ Commodity Prices

September's Commodity Export Price Index fell 1.3% M/M and rose 17.3% Y/Y. This was the fourth straight monthly decline. Dairy Product prices fell 0.8% M/M and rose 9.9% Y/Y. Prices rose 0.4% M/M and fell 11.0% Y/Y in local currency terms.



NZIER & NBNZ Business Sentiment Surveys

Q3 Business Confidence Details **-** According to the New Zealand Institute of Economic Research, a net 25% of 790 companies surveyed expect the economy will improve over the next six months, from a net 27% in the previous survey, the New Zealand Institute of Economic Research said today in Wellington. The net figure is calculated by subtracting the proportion of pessimists from optimists. Weak consumer demand is weighing on sentiment after the Feb. 22nd earthquake struck the nation's second-largest city, wrecking businesses, houses and roads, and killing 181 people. The survey responses indicate annual economic growth of about 1.5% last quarter, the same expansion as the second quarter. The NZIER Institute commented as follows:

- *Demand remains the handbrake. About 70% of firms say things are flat.*
- *About 85 % of responses were received before September.*
  15th, when Bollard signaled that rates would be unchanged for longer, and before a slump in global sentiment led Standard & Poor's and Fitch Ratings to cut New Zealand's sovereign credit rating.
- *Economic conditions in Q3 are similar to the April-June period.*

NBNZ Business Confidence **-** The March NBNZ Business Confidence Index (broader economy survey) fell from 34.4 in August to 30.3 in September. The Activity Outlook measure fell from 43.3 in August to 35.4 in September. The ANZ said that "a second measure of expectations for companies' sales and earnings declined to 35.4%, compared with 43.3% last month, pointing to annual growth of 4.5% by early 2012." The ANZ also said that "the survey of 474 companies showed more hiring plans and increased export intentions."

News

Sep. 29th - English Says N.Z. Growth Forecasts May Be Lower in Coming Years (Bloomberg) - New Zealand's economic growth in the next two years may be slower than forecast in May's budget, Finance Minister Bill English said. "Its quite likely given the international circumstances that growth forecasts two and three years out might be a bit lower," English said in response to a question in parliament. Still, 2011 growth is likely to be stronger than forecast and "we've yet to see what that adds up to," he said.

Sep 29th - Bollard Says New Zealand in Monetary Policy 'Sweet' Spot (Bloomberg) - New Zealand's central bank is better positioned to weather any fallout from the European and U.S. debt crises than many of its counterparts, according to Governor Alan Bollard. "From a monetary policy point of view, New Zealand is in a reasonably sweet sort of spot because we can move rates when we need to," Bollard told Radio New Zealand's Nine-to-Noon today. "We're comfortable where things are. We think we are going to have to push them up as we get more housing sector recovery but we've got time to wait and watch on that." Bollard on Sept. 15th held the official cash rate at a record-low 2.5% for the fourth straight meeting, saying worsening global economic and financial risks made it prudent to stay on hold. Twelve of 17 economists surveyed by Bloomberg News expect the rate will be unchanged until next year. The outlook for the nation's economy, boosted by rebuilding of earthquake-devastated Christchurch and continued growth in the economies of trading partners like China and Australia, means New Zealand doesn't need to lower borrowing costs, Bollard signaled in the radio interview. "It looks like China has managed a soft landing and is still growing strongly," he said. "We do still think there's a lot of growth in China and in some other east and south Asian countries and other emerging markets. That keeps Australia going and that keeps commodity prices high and that's good for us. Commodity prices fell for a third month in August "but so has the New Zealand dollar," Bollard said. "That means we are still getting good returns from our exports and that's an important driver." The local currency remained over-valued even after recent falls, Bollard said, declining to say what would be a fair value. The central bank forecasts the economy will grow 3.3% this year and 2.9% in 2012. "In a pretty mediocre world, New Zealand still looks quite attractive simply from a growth point of view," he said.

Sep. 29th - Fitch Downgrades New Zealand to AA from AAA - Fitch Ratings has downgraded New Zealand's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'AA' from 'AA+', and Long-Term Local-Currency IDR to 'AA+' from 'AAA'. The Outlook on bot ratings is Stable. The Country Ceiling has been affirmed at 'AAA', and the Short-Term Foreign-Currency IDR at 'F1+'. "New Zealand's high level of net external debt is an outlier among rated peers a key vulnerability that is likely to persist as the current account deficit is projected to widen again, reflecting a structural savings/investment imbalance, said Andrew Colquhoun, Fitch's Head of Asia-Pacific Sovereigns. "Nonetheless, New Zealand remains well placed among the world's highly-rated sovereign credits, with its creditworthiness supported by moderate public indebtedness, fiscal prudence, and strong public institutions." New Zealand's net external debt of 83% of GDP on a USD basis (78% in NZD terms) by end-2010 was well above the 10% median for 'AA' range credits, but had reached 70% of GDP in NZD terms by June 2011. The economy's high net external indebtedness reflects a persistent current account deficit, peaking at 8.9% of DP in 2008. The deficit corrected sharply amid recession in 2009-2010, but itch projects it will widen again to 4.9% in 2012 and 5.5% in 2013 as domestic demand recovers. Fitch views New Zealand's high net external indebtedness as a key vulnerability, particularly in a global environment that has remained volatile since the ratings were assigned a Negative Outlook in 2009. The downgrade partly reflects Fitch's view that the sustained shift in the domestic savings/investment ratio required to narrow the deficit sustainably is unlikely within the forecast period. New Zealand remains in the club of advanced economies with high household indebtedness - around 150% of household disposable income, similar to levels in Australia (157%) and the UK (159%), and above the S (116%). Unlike the UK and US, New Zealand has seen no meaningful reduction in his ratio since 2008. Fitch acknowledges that the government has implemented policies designed to facilitate a shift in savings, including raising KiwiSaver contribution rates, but the agency cautions that changing deep-seated behaviour is likely to be difficult.

News Cont'd. & Upcoming Dates

New Cont'd.

Sep. 29th - N.Z.'s English Says New Zealand Less Vulnerable Than in 2008 (Bloomberg) - New Zealand Finance Minister, Bill English, said that the country's finances were less vulnerable than in 2008, in a Television New Zealand interview. He was commenting after Fitch Ratings cut New Zealand's credit rating by one step to AA.

Key Dates This Week

Date	*Indicator*	*Month*	*Expectation*	*Previous*
10/10	QV House Prices (Y/Y)	SEP	-	+0.1%
10/10	Card Spending (M/M)	SEP	-	-0.5%

Valance Co., Inc.

Weekly Economic Report: ***China***

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October 5, 2011

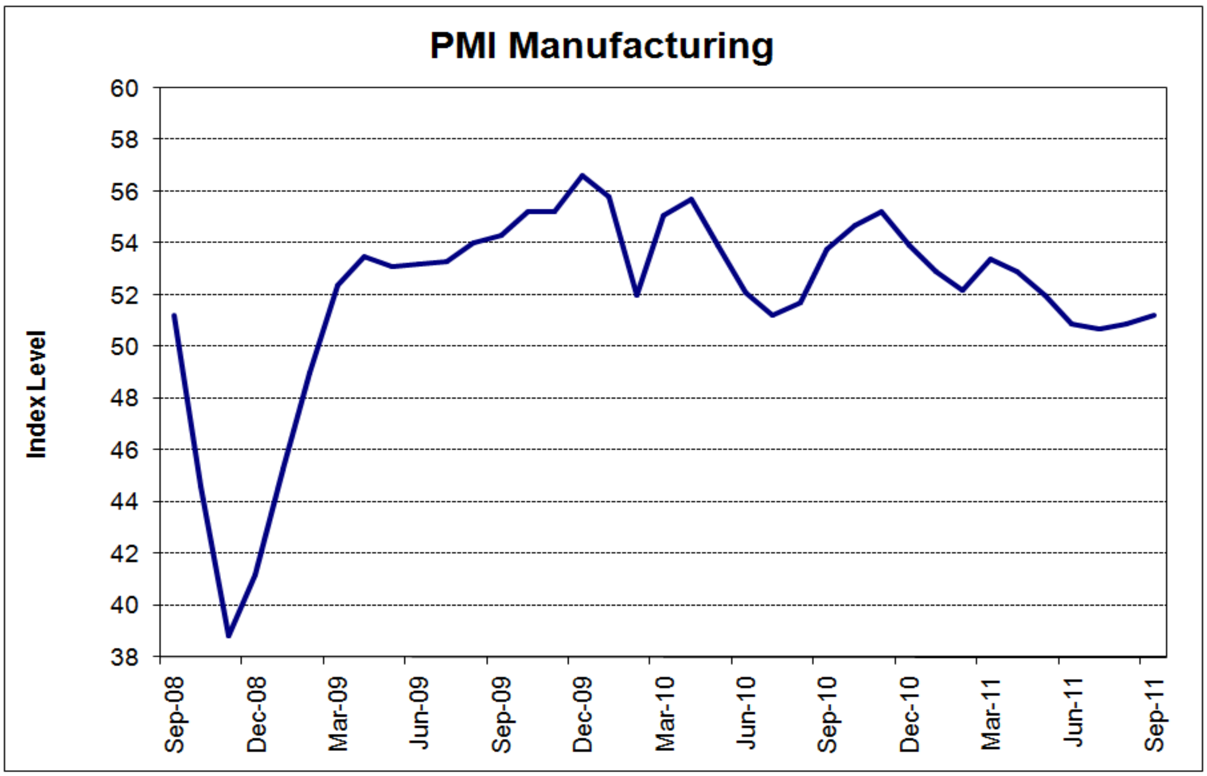
China's PMI Manufacturing improved for the second consecutive month, while the HSBC manufacturing PMI remained steady.

Weekly Highlights

PMI Manufacturing – rose from 50.9 in August to 51.2 in September. (CH 1)
HSBC Manufacturing PMI – remained unchanged at 49.9 in September. (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 50.9 in August to 51.2 in September, driven by an increase in new export orders. The Index was forecast to reach 51.1. The Index has not fallen below 50 since February 2009. See PMI Manufacturing Results on the following page.

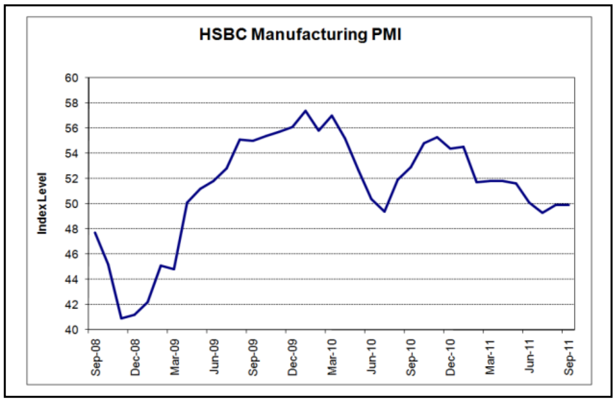
PMI Manufacturing Results, HSBC & Non Manufacturing

PMI Manufacturing Results

	Sep 2011	Aug 2011	July 2011	June 2011	May 2011	Apr 2011	Mar 2011	Feb 2011
Manufacturing PMI	**51.2**	50.9	50.7	50.9	52.0	52.9	53.4	52.2
Output	**52.7**	52.3	52.1	53.1	54.9	55.3	55.7	53.8
New Orders	**51.3**	51.1	51.1	50.8	52.1	53.8	55.2	54.3
New Export Orders	**50.9**	48.3	50.4	50.5	51.1	51.3	52.5	50.9
Backlogs of Work	**48.9**	47.6	46.5	45.9	47.7	50.7	51.4	46.6
Inventories of Finished Goods	**49.9**	48.9	49.2	51.0	50.0	50.8	51.3	46.4
Purchases Quantity	**51.5**	51.2	52.0	51.5	53.6	53.8	54.1	54.5
Imports	**50.1**	49.7	49.1	48.7	50.5	50.6	52.0	53.9
Input Prices	**56.6**	57.2	56.3	56.7	60.3	66.2	68.3	70.1
Inventories of Raw Materials	**49.0**	48.8	47.6	48.5	49.5	52.0	51.6	49.5
Employment	**51.0**	50.4	50.5	50.2	50.9	51.8	51.8	48.9
Supplier Delivery Times	**49.5**	49.9	50.3	49.8	49.9	50.6	50.4	48.2

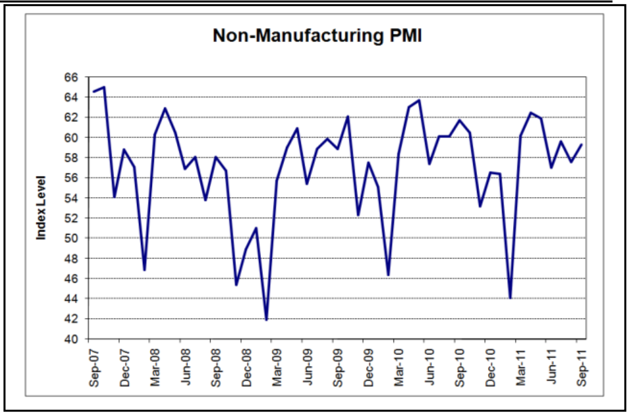
HSBC Manufacturing PMI

The HSBC Manufacturing PMI remained unchanged at 49.9 in September. Qu Hongbin, Chief HSBC Economist remarked, "[Today's data] suggests the slowdown in China's manufacturing sector is stabilizing. Slowing global demand will start to weigh on growth soon, but resilient domestic consumption and investment should prevent a sharp output slowdown."



Non-Manufacturing PMI

The Non-Manufacturing Purchasing Managers' Index rose from 57.6 in August to 59.3 in September, driven by retail spending.



News

October 5th (Reuters) - China's Wen sees progress in inflation fight – Xinhua News Agency reported citing Chinese Premier Wen Jiabao:

[China's economy is] basically in good shape. [China had tilted fiscal policy more toward cooling price rises and has] tentatively contained the trend toward excessively fast price rises, with the economy maintaining stable and relatively fast growth.

Small and medium-sized businesses play an irreplaceable role in expanding employment and promoting growth.

Raise the level of tolerance of non-performing loans from small and medium-sized enterprises.

We must strengthen oversight of private lending, and leading it into the daylight so that it can develop in a regulated way and play its positive role.

Vigorously clean up to restore financial order, and take effective measures to stamp out the trend toward usurious loans, and use the law to attack illegal fund collection.

October 4th (Bloomberg) - China's Li Daokui Says Yuan Appreciation Won't Help U.S. Economy – PBoC Adviser, Li Daokui made the following comments at a conference in Santiago, Chile:

Many writers in the U.S. are saying that globalization is creating problems for the U.S. and that the U.S. has to rethink globalization. The exchange rate dispute is only the tip of the iceberg, and under the iceberg is the huge issue of globalization.

There is no way for the U.S. economy to go back to a manufacturing base. Manufacturing accounts for less than 10 percent of their employment. Their main employment is from service and construction. However, American politicians aren't doing their homework. They easily blame China and the exchange rate for their unemployment problem. This is a challenge for us.

Even if the currency exchange rate appreciates rapidly it will not help the U.S. economy. It only means the U.S. will import from other countries more, and in a very short time the U.S. will not have the option from importing from other countries but from importing from China at higher prices, that will translate into inflation.

October 4th (Bloomberg) - U.S. Legislation Targeting China Yuan Hits Republican Opposition – The following were remarks made in response to the United States' legislation that would punish China for being an alleged currency manipulator:

Erin Ennis, V.P. of the U.S. - China Business Council: *It seems like they have some extreme reservations on the bill. It doesn't achieve the goals of what the sponsors say it would by creating jobs in the U.S. or reducing the trade deficit.*

News (Cont'd.)

(Cont'd.) October 4th (Bloomberg) - U.S. Legislation Targeting China Yuan Hits Republican Opposition -

John Boehner, Speaker of the House and Ohio Republican: *This is well beyond, I think, what the Congress ought to be doing. While I've got concerns about how the Chinese have dealt with their currency, I'm not sure this is the way to fix it.*

U.S. Senator Charles Schumer: *I'm aghast at that notion. There is nothing else Congress should be doing except rising to defend American jobs.*

Ben Bernanke, Fed Chairman*: ...a more normal recovery, more balanced recovery would have some more demand being shifted away from the emerging markets toward the industrial economies. The Chinese currency policy is blocking that process and is certainly a negative.*

Doug Guthrie, Dean of GWU School of Business: "This is a lot of posturing, and I don't know why. Rather than dealing with our own problems with job creation, we can just say there is another problem; we can say the economic pain is because China manipulates its currency.

Jay Carney, White House Press Secretary: We share the concern of members about the valuation of the Chinese currency. We also are concerned that any action that might be taken would be effective and consistent with our international obligations.

October 2nd – HSBC Service PMI (SF Gate) – rose from a record low 50.6 in August to 53.0 in September. HSBC's Chief China Economist, Qu Hongbin remarked, "September's HSBC Services PMI rebounded meaningfully, pointing to a possible bottoming out of the services economy towards the end of the year. Combined with an improvement in the manufacturing PMI, this implies that despite the global slowdown China is still well on track for a soft landing."

September 30th (Xinhua via COMTEX) - China's central bank to continue prudent monetary policy - The PBoC remarked:

China's economy is growing in a stable and rapid manner.

Inflationary pressure has eased somewhat but still runs at a high level.

[...the exchange rate of the Chinese currency must be kept] basically stable at a reasonable and balanced level.

Key Dates This Week

Date	*Indicator*	*Month*	*Expectation*	*Previous*
10/09-15	Actual FDI	SEP	--	11.1%
10/10-15	Foreign Exchange Res	SEP	--	--
10/10-15	New Yuan Loans	SEP	550.0B	548.5B
10/10-15	Money Supply – M0/1/2	SEP	-- / 12.0% / 14.2%	14.7% / 11.2% / 13.5%
10/12	Business Climate Index	Q3	--	135.6
10/12	Entrepreneur Confidence Index	Q3	--	132.4
10/12	Trade Balance	SEP	$16.40B	$17.76B
10/12	Exports / Imports	SEP	20.0% / 23.2%	24.5% / 30.2%

Valance Co., Inc.

Valance Economic Report: Sweden

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October 5, 2011

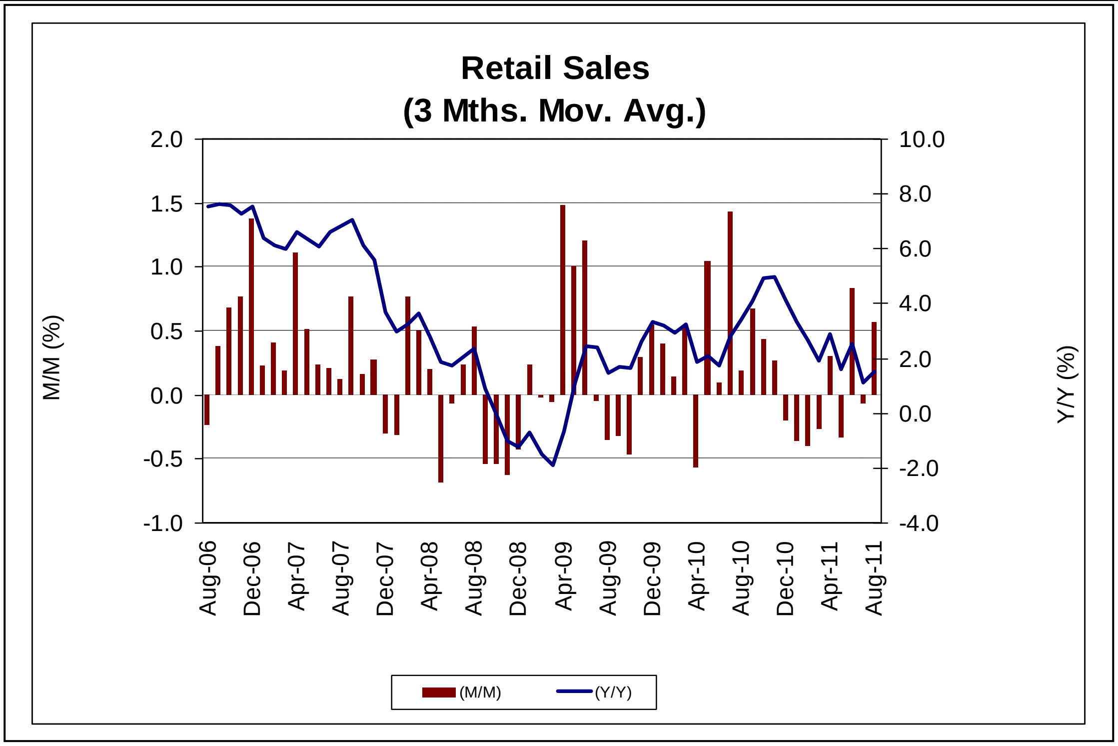
Data released this week suggests growth may be slowing. Swedish Retail Sales fell for the second consecutive month in August. Swedbank's PMI Index fell below its expansion mark of 50 for the second time in over 2 years in September.

Weekly Highlights

Retail Sales – fell 0.3% M/M and rose 0.2% Y/Y in August. (SW 1)
PMI – fell from 48.7 in August to 48.1 in September. (SW 2)

Weekly Releases & News

Chart(s) of the Week: *Retail Sales*

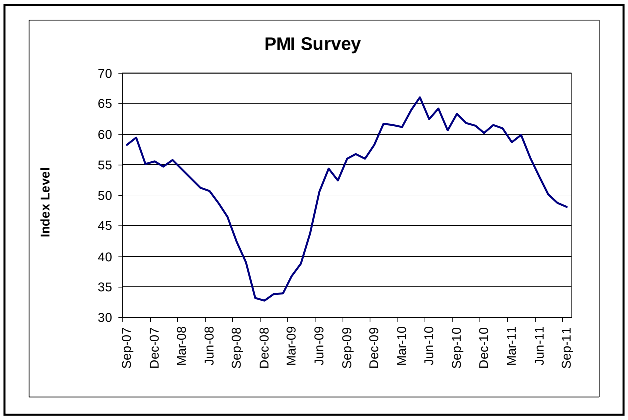


Retail Sales fell 0.3% M/M and rose 0.2% Y/Y in August, compared with -0.8% M/M and 1.1% Y/Y in July. Sales were forecast to be flat on the month and gain 0.9% Y/Y. Additionally, Retail Sales for consumables and durables increased by 0.2% Y/Y and 0.3% Y/Y, respectively.

PMI &Trade Weighted Exchange Rate

PMI

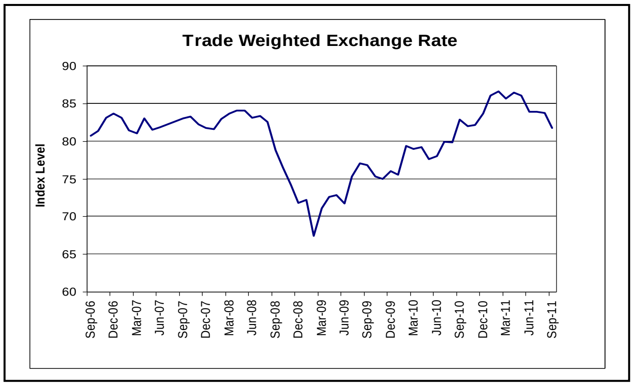
Sweden's Purchasing Managers' Index contracted from 48.7 in August to 48.1 in September, dropping below 50 for the second time since May 2009. It was expected to reach 47.5. Seven of the Index's 10 subcomponents also dropped below the expansion mark of 50. See below for PMI results.



PMI Results

	Sep 2011	Aug 2011	July 2011	June 2011	May 2011	Apr 2011	Mar 2011	Feb 2011	Jan 2011	Dec 2010	Nov 2010
PMI	**48.1**	48.7	50.1	52.9	56.1	59.8	58.6	60.9	61.5	60.2	61.3
Orders	**46.5**	47.0	45.4	52.3	55.4	61.5	56.1	59.5	64.2	63.6	60.4
Production	**58.9**	48.6	49.4	54.0	59.8	61.9	61.4	65.0	64.9	62.8	64.2
Employment	**50.0**	50.9	53.7	51.3	54.4	57.7	58.3	61.1	57.7	57.1	60.2
Delivery Times	**47.5**	49.1	54.4	58.1	61.0	65.1	66.0	67.2	64.6	64.5	67.2
Stocks	**52.0**	51.5	50.1	51.4	55.6	54.6	52.0	64.4	51.9	55.5	50.2
Export Orders	**48.3**	48.0	46.9	52.5	52.8	58.3	54.7	58.8	61.9	60.5	58.9
Domestic Orders	**46.2**	42.3	43.4	48.8	56.4	56.9	54.0	56.3	62.1	63.6	56.3
Stocks of Orders	**47.0**	47.9	49.1	51.0	55.3	57.3	54.3	58.0	60.2	59.5	58.2
Raw Material Prices	**47.0**	47.4	51.5	60.5	63.5	74.5	79.8	77.1	77.1	71.9	70.8
Import Prices	**45.8**	48.5	50.4	52.2	56.2	58.5	58.9	60.2	58.6	59.7	61.4

Trade Weighted Exchange Rate



News

October 4th (Xinhua via COMTEX) - Swedish GDP growth stands at 4.9 percent in Q2 – Statistics Sweden stated that Sweden's GDP growth rose by 4.9% Y/Y in Q2. The Statistics office said, "Household consumption and fixed gross investment made a strong contribution to growth." The office continued, "This rise in service exports coupled with a more subdued trend in imports was the main reason why net exports made a positive contribution to GDP growth in the second quarter." "Job vacancies went in the opposite direction, however, rose substantially and were at their highest level for ten years. Even vacancies in the private sector were at their highest level for ten years," the Office added.

October 4th (RTTNews) - S&P Confirms Sweden's Rating, Outlook Stable - Standard & Poor's announced that Sweden's sovereign ratings reached AAA/A-1+. "The 'AAA/A-1+' rating reflects high wealth level as well as long-standing commitment to sound public finances. It also indicates economy's competitiveness and proven flexibility."

September 30th (Bloomberg) - Swedish Riksbank Won't Offer Liquidity Below Market Rates - Riksbank Deputy Governor, Lars Nyberg said in a Bloomberg interview:

If they borrow from us, it should be as a last resort.

It will be more expensive than what they can buy on the markets.

We allowed the banks to borrow at pretty good rates during the crisis that followed Lehman. That has even been said by a bank to a newspaper: that we borrowed from the Riksbank not because we had to but because it was cheaper than borrowing from someone else. It's not meant to be like that.

Septmber 29th (Bloomberg) -Sweden May Borrow More Than Needed to Maintain Bond Liquidity – Sweden's debt office remarked:

The surplus from such extra borrowing could be invested with low risk and yet yield a return that would be enough to cover the cost of the borrowing.

The option to keep a certain yearly borrowing volume should constitute a cheap insurance against the risk that liquidity and infrastructure deteriorate.

...an asset portfolio can function as a buffer and provide a certain protection in the short run during, if any, future crises.

Key Dates This Week

Date	*Indicator*	*Month*	*Expectation*	*Previous*
10/06	Service Production	AUG	-0.1% / 3.9%	-0.1% / 4.4%
10/07	Budget Balance	SEP	--	8.8B
10/10	IP	AUG	--	2.8% 8.2%
10/10	IO	AUG	--	0.6% / 0.4%
10/11	CPI – HR	SEP	--	0.0% / 3.4%
10/11	CPI – CPIF	SEP	--	0.0% / 1.6%
10/11	CPI Level	SEP	--	311.23

Valance Co., Inc.

Valance Economic Report: Switzerland

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October 5, 2011

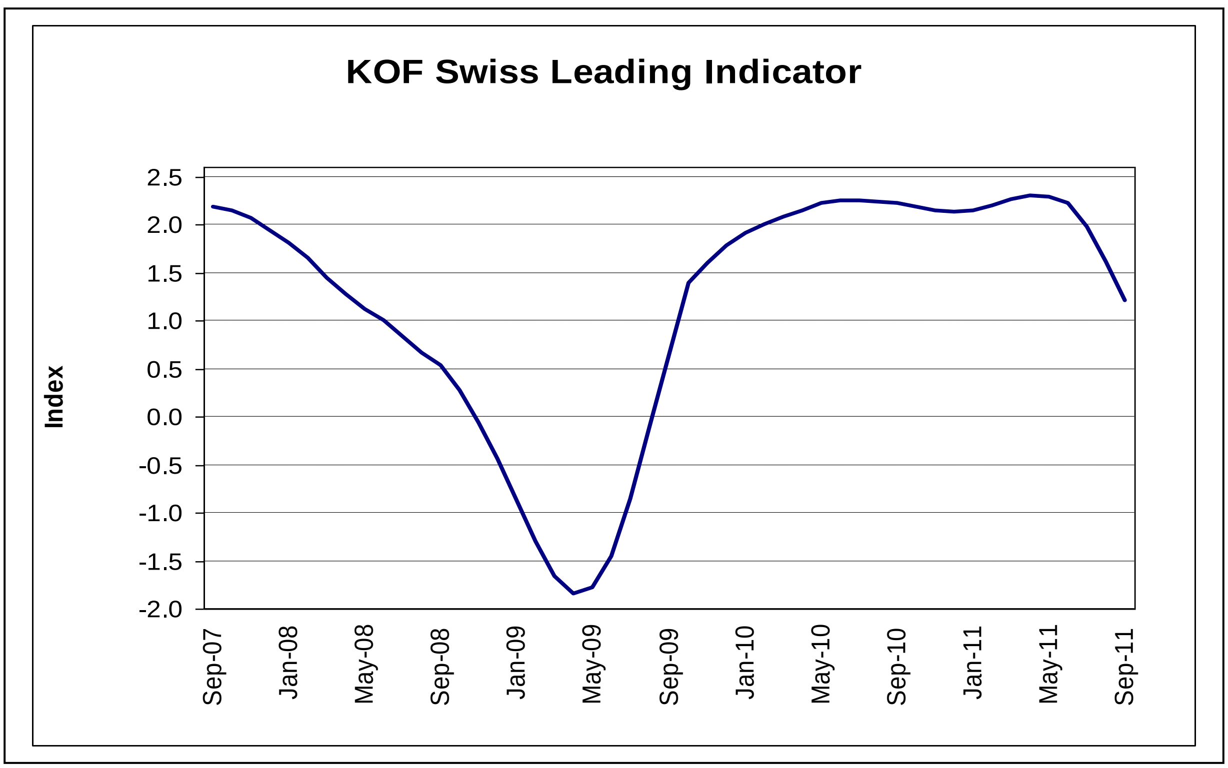
Switzerland's economy continued to show signs of sharp slowing: In September, the KOF Economic Indicator fell to its lowest level in two years and Swiss Manufacturing Output fell below its expansion mark of 50. In August, Real Retail Sales fell below expectations.

Weekly Highlights

KOF Swiss Leading Indicator – fell from 1.61 in August to 1.21 in September. (SZ 1)
Real Retail Sales – fell from +2.9% Y/Y in July to -1.9% Y/Y in August. (SZ 2)
PMI – fell from 51.7 in August to 48.2 in September. (SZ 2)

Weekly Releases & News

Chart(s) of the Week: *KOF Swiss Leading Indicator*

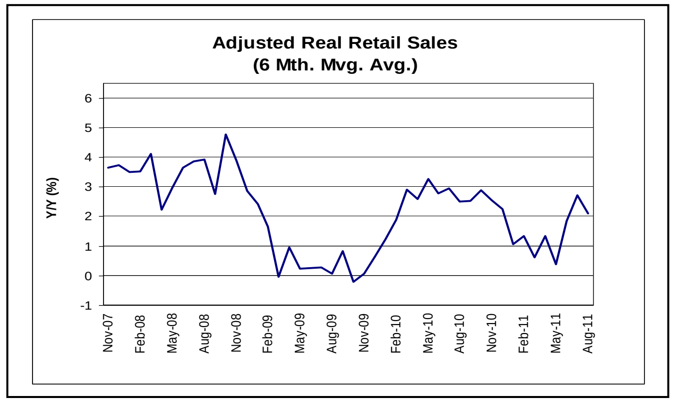


The monthly aggregate of indicators retreated from 1.61 in August to 1.21 in September – its lowest since September 2009. The KOF remarked, "The Swiss economy is likely to continue growing, albeit at a much slower pace." The Indicator was expected to reach 1.30.

Retail Sales & PMI

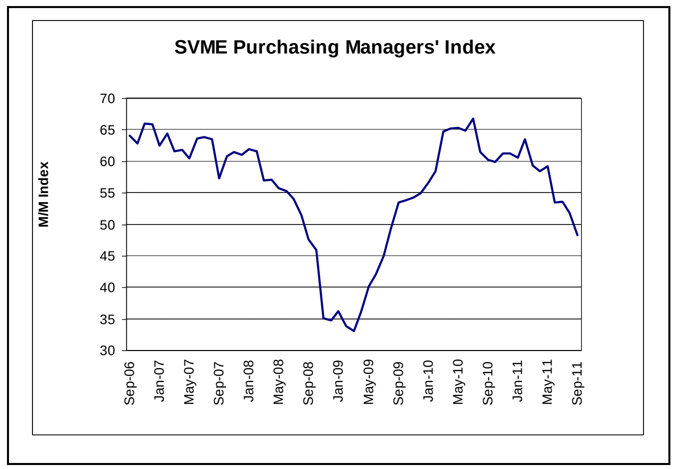
Retail Sales

August Real Retail Sales fell 3.9% MM and 1.9% Y/Y, compared with -2.7% M/M and +2.9% Y/Y the previous month. A 4.5% increase was expected annually.



PMI

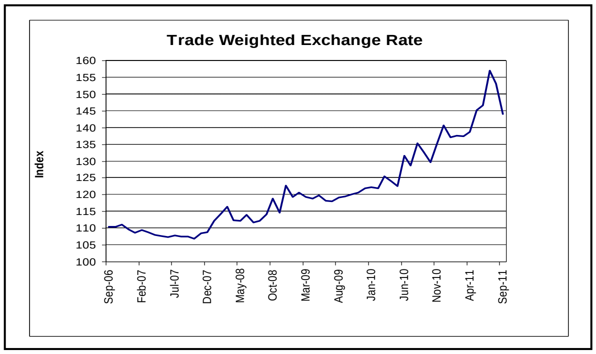
Switzerland's Purchasing Managers' Index unexpectedly fell from 51.7 in August to 48.2 in September. The index was expected to reach 50.5. Two of the index's eight subcomponents posted increases, while six fell below the expansion mark of 50. Credit Suisse remarked, "The 'summer shock,' in which we saw the Swiss franc appreciate to near-parity with the euro, the collapse of the stock markets and a steady stream off crisis reports from the euro zone evidently had a paralyzing effect on the real economy. Companies chose to run down their inventories of purchased goods." See PMI Survey Results



PMI Results

	Sep 2010	Aug 2011	July 2011	June 2011	May 2011	Apr 2011	Mar 2011	Feb 2011	Jan 2011	Dec 2010	Nov 2010
PMI s.a.	**48.2**	51.7	53.5	53.4	59.2	58.4	59.3	63.5	60.5	61.2	61.8
Output	**46.5**	54.3	51.5	46.6	61.1	57.3	59.3	64.7	60.6	65.3	64.2
Backlog of Orders	**44.9**	46.4	45.6	48.8	57.0	55.2	57.8	67.1	64.2	59.0	62.2
Quantity of Purchase	**40.1**	46.1	42.8	46.7	55.5	56.4	61.7	64.4	62.1	59.6	60.0
Purchase Prices	**36.7**	34.6	46.2	51.8	60.2	69.2	75.4	76.1	70.0	72.1	63.1
Suppliers Delivery Times	**55.6**	60.0	67.8	69.2	66.8	68.8	68.6	59.2	58.7	60.3	64.6
Stocks of Purchases	**47.1**	51.0	57.1	50.9	51.9	55.2	52.6	56.1	54.1	52.2	56.6
Stocks of Finished Goods	**46.7**	50.7	54.0	51.3	49.9	52.5	50.3	52.4	53.8	52.1	50.2
Employment	**50.6**	50.3	55.4	58.2	57.9	58.2	58.2	63.7	59.5	56.4	58.8
PMI NSA	**50.7**	50.5	51.9	55.7	59.4	60.2	61.1	62.7	60.0	55.7	61.7

Trade Weighted Exchange Rate



News

September 30th (Bloomberg) - Hildebrand Says SNB Will Defend Franc Cap With All Measures – SNB President, Philipp Hildebrand remarked:

The ceiling is there and it will be defended.

The Swiss currency had shown an absurd overvaluation.

Today, there's absolutely no risk of inflation and that's why this ceiling is this credible.

The SNB is a transparent central bank.

September 29th (Bloomberg) - SNB Franc Ceiling of 1.20 Is 'Very Credible'- SNB Vice President, Thomas Jordan made the following comments at an event in Basel:

Our policy is crystal clear.

The Swiss National Bank introduced a minimum exchange rate versus the euro and we will use all measures to defend it. This very clear commitment has led to us being taken very seriously in the market. We're not afraid of markets.

..a central bank cannot become illiquid…

Yet, even with the minimum exchange rate, our balance sheet remains vulnerable to valuation changes.

Unfortunately, the risks have not disappeared. Losses could still occur on other currencies, or on gold. The amounts involved can build up rapidly, owing to the size of the balance sheet.

This extensive use of monetary-policy tools was, and remains, necessary to ensure the fulfillment of our legal mandate. [It] enabled the SNB to weather the effects of the recent crisis relatively successfully [even if the measures] have taken a considerable toll on our balance sheet and our income statement.

Key Dates This Week

Date	*Indicator*	*Month*	*Expectation*	*Previous*
10/06	Foreign Currency Reserves	SEP	--	253.4B
10/06	CPI	SEP	0.1% / 0.3%	-0.3% / 0.2%
10/06	CPI – EU Harmonized	SEP	--	-0.6% / -0.3%
10/07	Unemployment Rate / sa	SEP	2.8% / 3.0%	2.8% / 3.0%