

SPECIAL COMMENTARY

May 14, 2009

Global Chartbook: May 2009



Contents

World.....	6
Dollar Exchange Rates.....	7
United States.....	8
Euro-zone.....	9
Germany.....	10
France.....	11
Italy.....	12
Japan.....	13
United Kingdom.....	14
Canada.....	15
Australia.....	16
Norway.....	17
Sweden.....	18
Switzerland.....	19
Brazil.....	20
China.....	21
India.....	22
Mexico.....	23
Poland.....	24
Russia.....	25
Singapore.....	26
South Africa.....	27
South Korea.....	28
Taiwan.....	29
Turkey.....	30
Energy Markets.....	31

Executive Summary

Global Economy is in Deepest Recession in Decades

The heady days of 2004-2007, when global GDP growth averaged about five percent per annum, seem like a distant memory now. Growth in most countries slowed in the first half of 2008 due in part to monetary tightening, the unprecedented rise in energy prices and dislocations in credit markets. However, global economic activity went into freefall in the fourth quarter of 2008 as credit markets froze up in the wake of Lehman Brothers failure, and the sharp downturn in major economies has extended into this year. Industrial production in the OECD countries (i.e., the thirty most developed economies in the world) plunged 17 percent in February, by far the sharpest year-over-year rate of contraction since records began in 1975.

We forecast global GDP will decline one percent this year. Although our projection may not sound “bad,” global GDP has never contracted, at least not since the International Monetary Fund (IMF) began calculating the series in 1970. The G-7 countries are in the midst of their worst recessions in decades. Developing economies are hardly immune to the sharp reduction in global trade that has transpired, and a sharp slowdown has occurred in the emerging world. Developing economies that had over-leveraged financial sectors have been especially hard hit, and countries such as Belarus, Hungary, Iceland, Latvia, Pakistan and Ukraine have already gone to the IMF with hat in hand.

Not only has the IMF been very busy since last autumn, but national governments have also been hard at work in responding to the crisis. First, governments have taken steps to shore up their respective financial systems via recapitalization, loan guarantees, and increased deposit insurance. Although the global financial system is hardly back to normal, some segments of the credit markets are starting to function again. In addition, most central banks have cut policy interest rates to unprecedented levels, and national governments have enacted fiscal stimulus programs of varying sizes.

There are tentative signs that the efforts of policymakers are starting to bear some fruit. Data from the second quarter is rather limited at this point but it appears that most major economies continue to contract, albeit at rates that are much slower than over the past two quarters. In addition, there have been some bona fide “green shoots” of recovery spotted in some major developing economies. The manufacturing PMI in China has moved above the demarcation line that separates expansion from contraction, and industrial production in Brazil, Korea and Taiwan are well off the lows that were set early this year. Although it would be premature to state that the overall global economy has stabilized, we probably are at or near an inflection point where the rate of decline starts to slow. By the end of the year, global economic activity should be growing again on a sequential basis.

Global growth should be stronger in 2010 than in 2009, but it will probably fall short of its long-run average of 3.7 percent per annum. Thus, the global upturn that we are expecting will probably be sluggish, at least initially. The eventual U.S. recovery probably will be held back by slow growth in consumer spending as individuals attempt to de-lever and repair battered balance sheets. Policy response in Europe and Japan have generally been less aggressive than in the United States, so both the Euro-zone and Japan are probably looking at a slow recoveries as well.

The sharp downturn in global economic activity that began in the fourth quarter of 2008 has extended into this year.

Global GDP will probably contract in 2009, the first year of negative growth since records began in 1970.

There are tentative signs that the efforts of policymakers are starting to bear some fruit.

The global upturn that we are expecting will probably be sluggish, at least initially.

Underlying all of our projections is our assumption that policymakers will take the necessary steps to prevent the global financial system from locking up again à la last autumn. If credit markets completely shut down again, however, global economic activity would go into a renewed freefall. In other words, the global economy is clearly not out of the woods yet. The vulnerability of the global economy at present to shocks was driven home earlier this month by the swine flu paranoia.

We do not believe the world will experience generalized deflation.

Inflation rates in most countries shot higher in the first half of 2008 and commodity prices went through the roof. However, the global downturn has caused commodity prices to collapse. After rising to six percent in 2008, which is the highest rate in about ten years, global inflation should recede to around one percent this year. Although we do not believe the world will experience generalized deflation, some individual countries could experience a period of mild price declines this year. A slow global upturn also means that commodity prices will probably grind higher, but another moonshot à la 2007-08 does not seem likely.

Dollar Appreciation Should Continue in Near Term

After following a downward trend between 2002 and mid-2008, the trade-weighted value of the U.S. dollar is up about fifteen percent on balance since last July. Not only did the greenback benefit from the marked decline in the U.S. current account deficit—the trade deficit has been cut in half since the third quarter of 2008—but massive safe-haven purchases of U.S. Treasury securities by both foreign investors and foreign central banks also boosted the dollar at the expense of most foreign currencies.

The dollar should appreciate further in the near term.

In our view, the dollar should continue to grind higher, at least in the near term. U.S. authorities are generally taking more aggressive steps to stimulate the economy via aggressive monetary and fiscal easing than their counterparts in most other countries. Consequently, signs (or at least expectations) of stabilization and subsequent recovery should show up in the United States before they do in most other economies. Expectations of recovery should be conducive for further dollar strength.

Foreign currencies should stabilize versus the greenback later this year as most foreign economies find bottom.

However, the problems facing the U.S. economy are generally more serious than the problems that confront many other economies. Although growth in the United States should turn positive again later this year, the recovery we project will probably be very sluggish. As foreign economies begin to find bottom later this year, most foreign currencies should stabilize versus the U.S. dollar. The greenback could even begin to give up some of its gains next year as the reality of a very slow U.S. economic recovery becomes painfully clear to investors.

Forecasts as of May 13, 2009

Wachovia International Economic Forecast

(Year-over-Year Percentage Change)

	GDP			CPI		
	2008	2009	2010	2008	2009	2010
Global	3.2%	-1.0%	3.0%	6.0%	1.1%	1.7%
Major Economies						
United States	1.1%	-3.0%	1.6%	3.8%	-1.2%	1.0%
Eurozone	0.7%	-3.9%	1.1%	3.3%	0.0%	0.4%
Germany	1.0%	-4.6%	0.9%	2.8%	-0.2%	0.1%
France	0.8%	-3.0%	1.2%	3.2%	-0.1%	0.4%
Italy	-1.0%	-4.6%	0.4%	3.5%	0.2%	0.0%
UK	0.7%	-3.8%	1.2%	3.6%	1.1%	0.2%
Japan	-0.7%	-7.2%	-0.2%	1.4%	-1.0%	-0.7%
Canada	0.5%	-2.3%	2.4%	2.4%	0.3%	1.0%
Developing Economies						
China	9.1%	7.7%	8.5%	5.9%	-1.0%	0.3%
India	6.0%	5.1%	7.0%	7.8%	7.4%	5.0%
Mexico	1.3%	-3.4%	1.7%	5.1%	5.2%	3.1%
Brazil	5.1%	-2.1%	3.1%	5.7%	4.7%	3.9%

¹Data as of: May 13, 2009

Wachovia Currency Forecast

(End of Quarter Rates)

	2009			2010			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Major Currencies							
Euro (\$/€)	1.33	1.28	1.24	1.22	1.24	1.26	1.28
U.K. (\$/£)	1.48	1.44	1.40	1.38	1.42	1.44	1.46
U.K. (£/€)	0.90	0.89	0.89	0.88	0.87	0.88	0.88
Japan (¥/\$)	100	105	110	112	114	112	111
Other Industrialized							
Canada (C\$/US\$)	1.19	1.23	1.25	1.24	1.22	1.18	1.15
Switzerland (CHF/\$)	1.12	1.16	1.20	1.24	1.22	1.18	1.14
Norway (NOK/\$)	6.70	7.00	7.25	7.25	7.00	6.80	6.60
Sweden (SEK/\$)	8.00	8.40	8.70	8.70	8.40	8.10	7.90
Australia (US\$/A\$)	0.73	0.71	0.70	0.70	0.72	0.75	0.78
Developing Economies							
Mexico (MXN/\$)	13.25	13.75	14.00	14.00	13.50	13.00	12.50
Brazil (BRL/\$)	2.15	2.25	2.30	2.25	2.15	2.10	2.00
Poland (PLN/\$)	3.30	3.50	3.60	3.60	3.45	3.30	3.20
Russia (RUB/\$)	32.50	33.00	33.25	33.00	32.00	31.00	30.00
Turkey (TRY/\$)	1.57	1.60	1.62	1.60	1.57	1.54	1.50
South Africa (ZAR/\$)	8.70	9.00	9.15	9.00	8.80	8.60	8.40
China (CNY/\$)	6.82	6.80	6.78	6.75	6.70	6.65	6.60
India (INR/\$)	49.50	49.75	50.00	50.00	49.60	49.20	48.75
Korea (KRW/\$)	1300	1325	1350	1325	1300	1275	1250
Singapore (S\$/US\$)	1.48	1.50	1.52	1.52	1.51	1.50	1.48
Taiwan (TWD/\$)	33.25	33.50	33.75	33.75	33.50	33.00	32.50

¹Data as of: May 13, 2009

Wachovia International Interest Rate Forecast

(End of Quarter Rates)

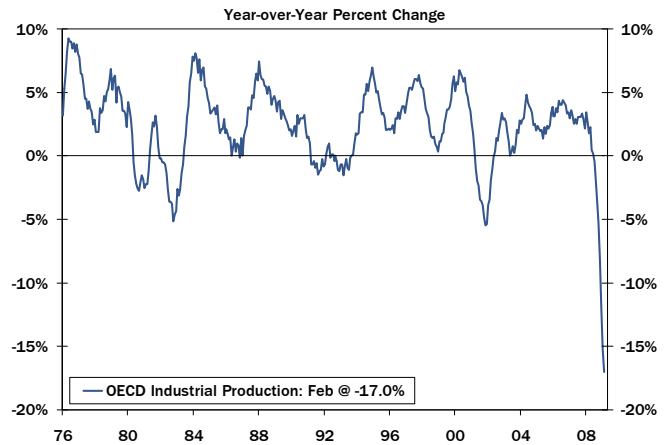
	3-Month LIBOR							10-Yr Government Security						
	2009			2010				2009			2010			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q2	Q3	Q4	Q1	Q2	Q3	Q4
United States	0.80%	0.70%	0.60%	0.60%	0.60%	0.70%	0.80%	3.20%	3.40%	3.40%	3.40%	3.60%	3.70%	3.70%
Japan	0.50%	0.40%	0.25%	0.25%	0.25%	0.25%	0.25%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	1.95%
Euroland	1.20%	1.15%	1.15%	1.15%	1.20%	1.75%	2.25%	3.40%	3.50%	3.70%	4.00%	4.30%	4.40%	4.50%
U.K.	1.30%	1.00%	0.75%	0.75%	0.75%	1.00%	1.50%	3.60%	3.75%	4.00%	4.25%	4.50%	4.60%	4.70%
Canada	0.75%	0.60%	0.50%	0.50%	0.50%	1.00%	2.00%	3.20%	3.50%	3.80%	4.00%	4.25%	4.40%	4.45%

¹Data as of: May 13, 2009

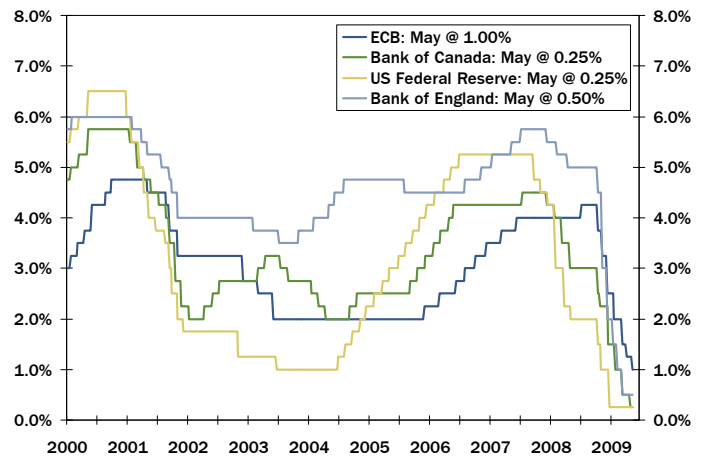
World

- Global economic activity weakened significantly last autumn as credit markets froze in the wake of the Lehman Brothers' default. The global economy has fallen into its deepest recession in decades with industrial production plunging at double digit rates in most countries.
- However, the major governments of the world averted a catastrophe by taking bold steps to support the global financial system. Many major economies have also announced fiscal stimulus measures that will eventually help to backstop economic activity. Indeed, there are some signs that the global economy is nearing an inflection point if it has not reached it already. That is, most economies continue to contract, but less rapidly than just a few months ago.
- Developing countries where economic fundamentals are not sound (e.g., many economies in Eastern Europe) have plunged into very deep recessions. However, the recent commitment by the G-20 countries to pony up more funds for the IMF is good news for these economies.
- The remarkable run-up in commodity prices between 2003 and the first half of 2008 led to generalized inflation fears. However, commodity prices have essentially collapsed as global recession has taken hold. Economic weakness and the collapse of commodity prices should cause inflation rates in most countries to decline significantly in 2009. Some countries may even experience mild deflation this year.

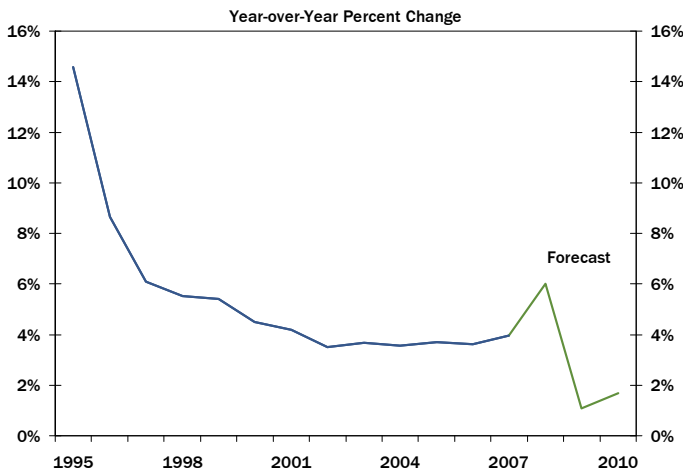
OECD Industrial Production



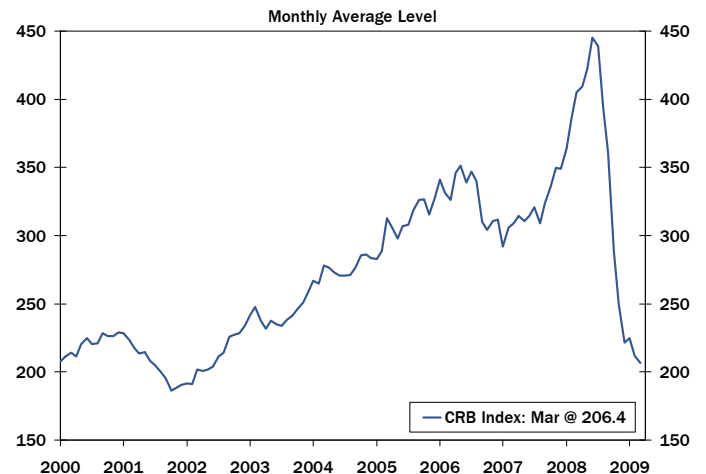
Central Bank Policy Rates



Global CPI



CRB Index

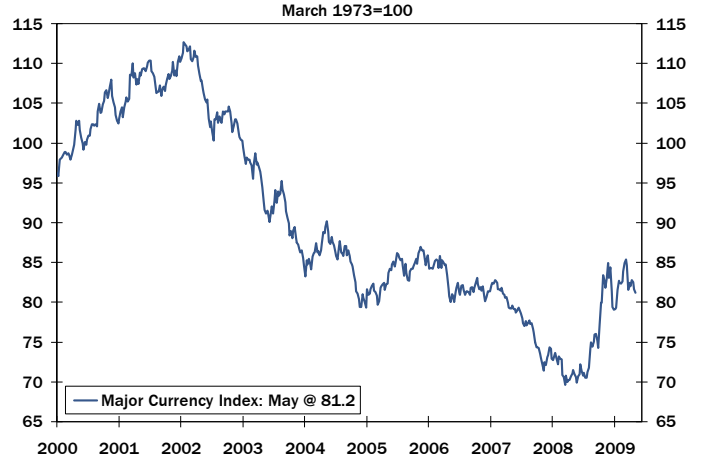


Source: Bloomberg LP, Federal Reserve Board, IHS Global Insight, International Monetary Fund and Wachovia

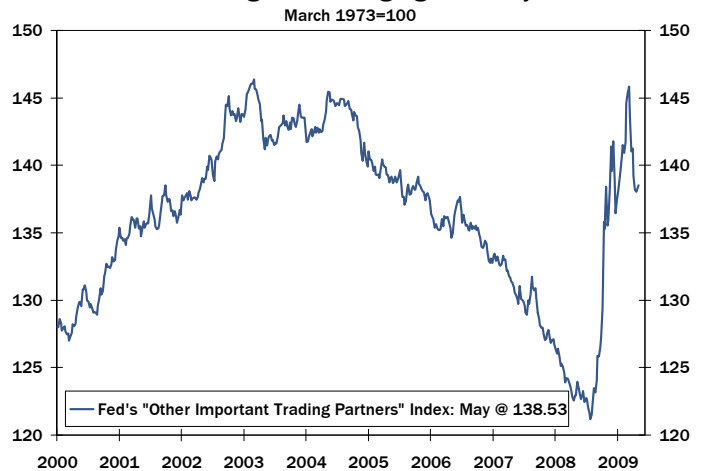
Dollar Exchange Rates

- Since bottoming last summer, the dollar has risen more than 15% on a trade-weighted basis against other major currencies. The greenback has also registered impressive gains versus the currencies of most developing countries as well.
- The dollar's appreciation reflects a number of factors. First, the U.S. current account deficit has declined significantly over the past two quarters. Although the improvement largely reflects the collapse in oil prices—the United States is the largest importer of oil in the world—the decline in the current account deficit placed less downward pressure on the dollar.
- The greenback also benefited from net capital inflows. U.S. investors repatriated more than \$100 billion of assets in the second half of 2008 as risk aversion spiked. Although foreign investors dumped riskier U.S. assets like equities and corporate bonds, foreign purchases of U.S. Treasury securities surged as investors sought the safety of the world's most liquid asset.
- We project that the trade weighted dollar will continue to trend higher in the near term. Signs of stabilization and eventual recovery will likely show up first in the United States, which should benefit the greenback. However, the eventual recovery in the United States will probably prove to be frustratingly slow. Returns on U.S. assets likely will remain relatively low, which would not be conducive to strong inflows of capital over time. We project that the dollar will stabilize later this year or early next year before depreciating somewhat.

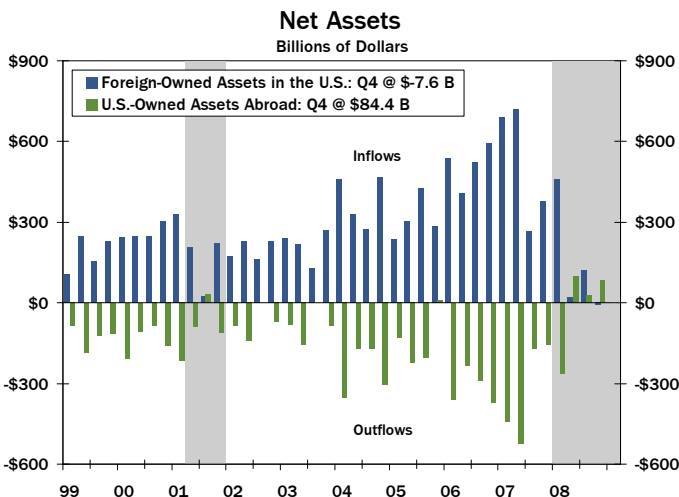
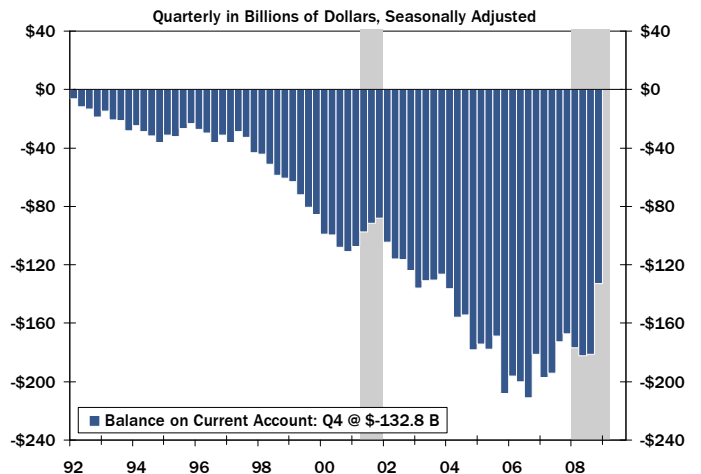
U.S. Trade Weighted Dollar Major Index



US Trade Weighted Emerging Currency Index



Current Account Deficit

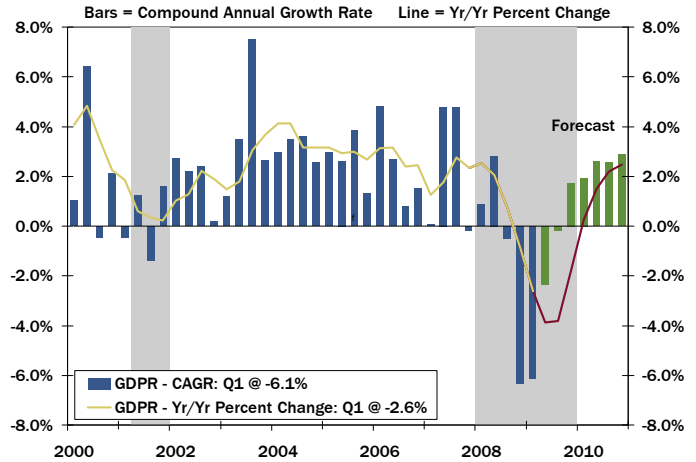


Source: Bloomberg LP, Federal Reserve Board, IHS Global Insight, International Monetary Fund and Wachovia

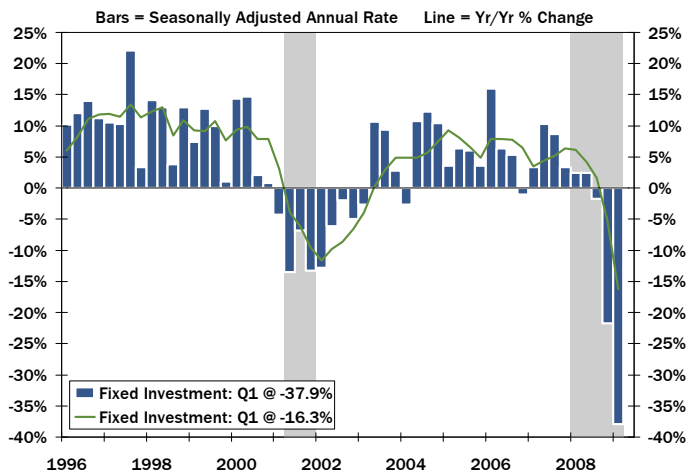
United States

- We are in the 17th month of the recession, but we expect a recovery to come later on this year. The severity of the contraction reflects the effects of the credit crunch compounded by the collapse in global growth. This should mark the largest contraction in the U.S. economy in the post-World War II era.
- In both the fourth quarter of 2008 and the first quarter of 2009, the U.S. economy contracted at more than a six percent annualized rate. A massive drawdown in inventories exacerbated the contraction in the first quarter but helps set the stage for a turnaround by the end of this year. Capital spending continues to fall sharply and economic weakness in the rest of the world has caused U.S. exports to fall off a cliff.
- The decline in energy prices since last summer has brought down the overall rate of CPI inflation, bringing the year-over-year rate into negative territory in March. The core rate of inflation is receding as well, but not as quickly as the overall CPI inflation rate.
- The Public Private Investment Program and other measures that have been put in place by the U.S. Treasury and the Fed have helped to stabilize the financial system, and thereby have reduced a large downside risk to U.S. economic prospects. However, the financial system is not out of the woods yet, and lending likely will remain very constrained until banks are able to rebuild their capital bases. Therefore, the recovery that should begin in late 2009 likely will be muted.

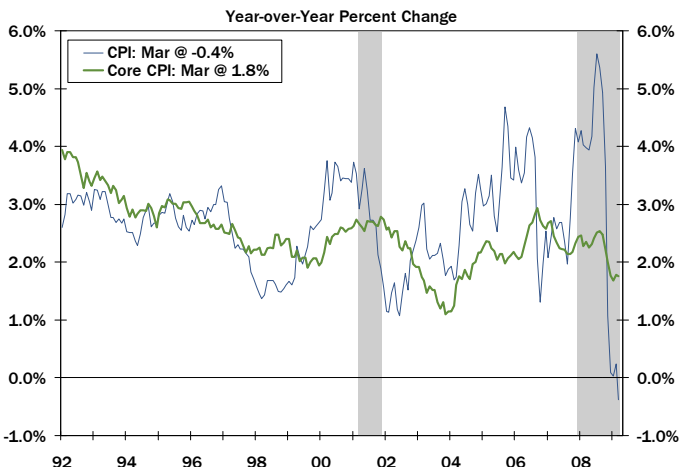
Real GDP



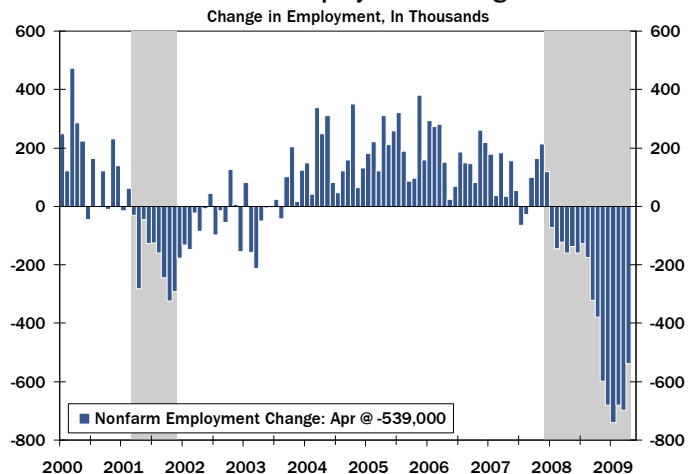
Real NonResidential Business Fixed Investment



CPI vs. Core CPI



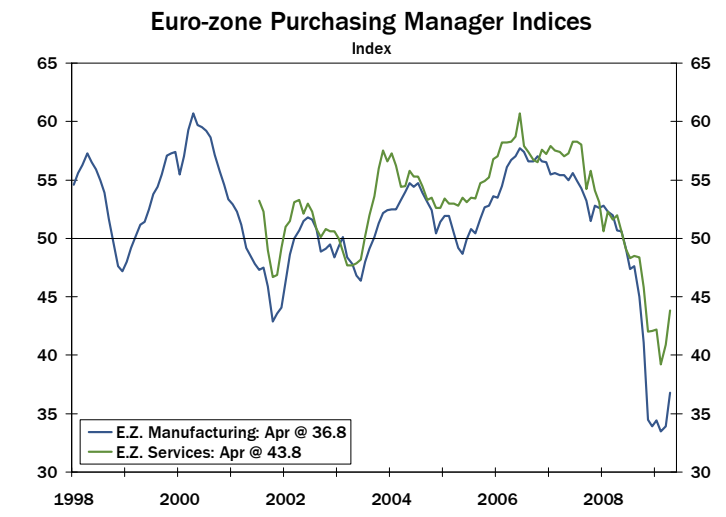
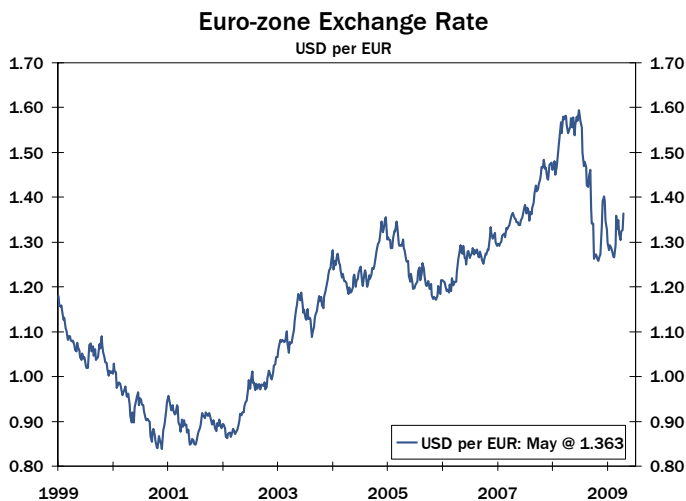
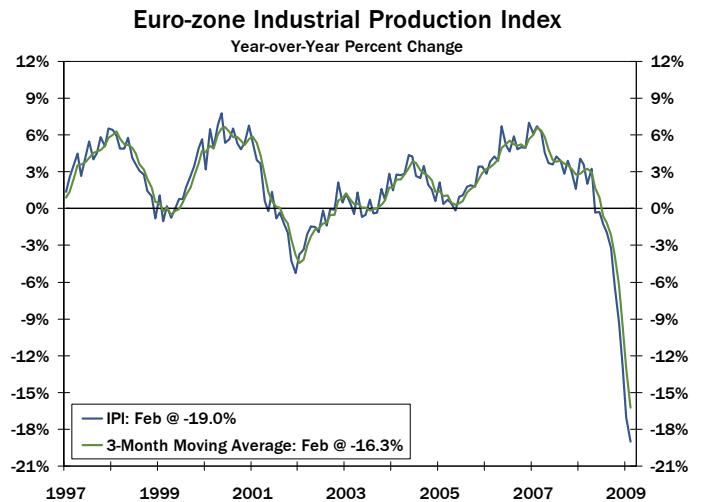
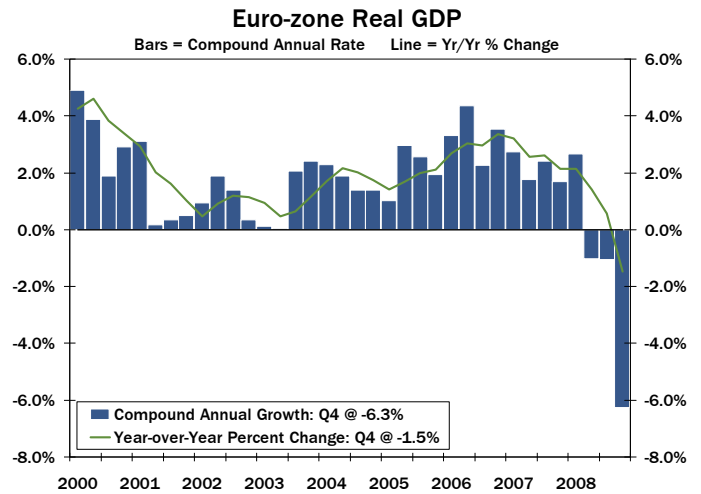
Nonfarm Employment Change



Source: U.S. Department of Commerce, U.S. Department of Labor and Wachovia

Euro-zone

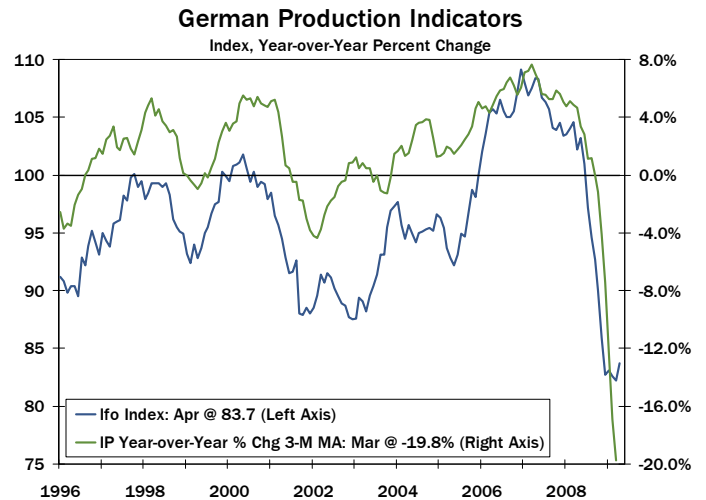
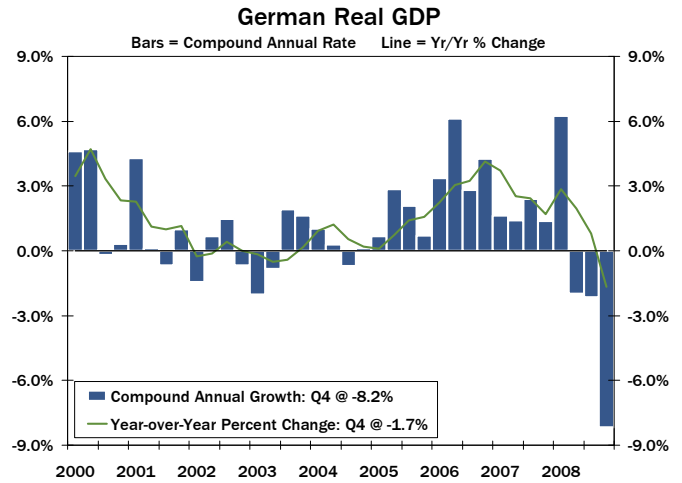
- Economic growth in the Euro-zone contracted in the fourth quarter of 2008 and by many measures appears to have gotten worse in the first quarter of 2009. The 16-country economy contracted at a 5.8% annual rate in the fourth quarter.
- Industrial production (IP) has fallen off a cliff in the first quarter, raising concerns that first quarter GDP could show substantial contraction in the Euro-zone. IP has been a reliable indicator of economic growth over the past several years. On a year-over-year basis, IP dropped 19% in February.
- There is some hope for relief as Euro-zone purchasing managers' indices have recovered somewhat in recent months. That said, these signs of life simply suggest a slowing pace of decline at this point, and not yet a recovery. Consumer spending is likely to remain under pressure as unemployment is now over eight percent and consumer confidence is also at a record low. Business spending remains weak, and the ongoing global recession will keep a lid on export growth for much of this year.
- After dropping more than twenty percent from its highs last summer, the euro has stabilized recently, remaining in a trading band between 1.25 and 1.40 against the dollar for most of 2009. We project that the euro will trend lower against the greenback over the next few months as investors begin to get a sense that the U.S. economy is bouncing back faster than economies in Europe.



Sources: IHS Global Insight, Bloomberg LP and Wachovia

Germany

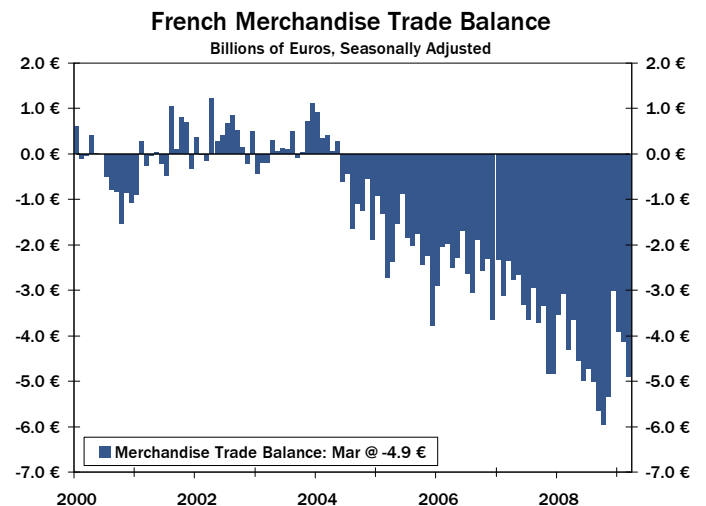
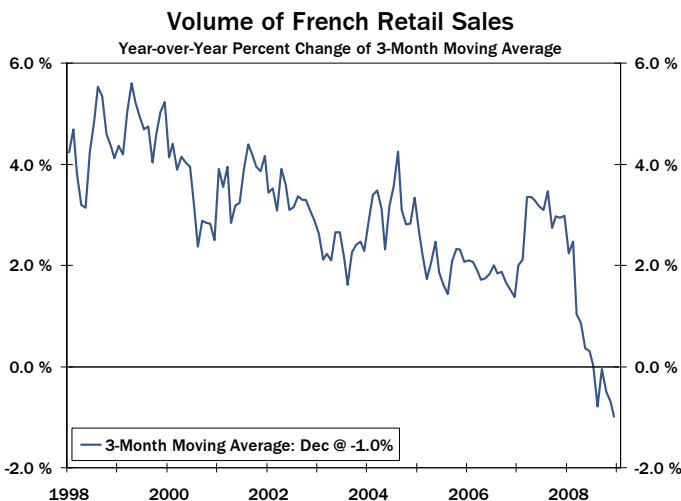
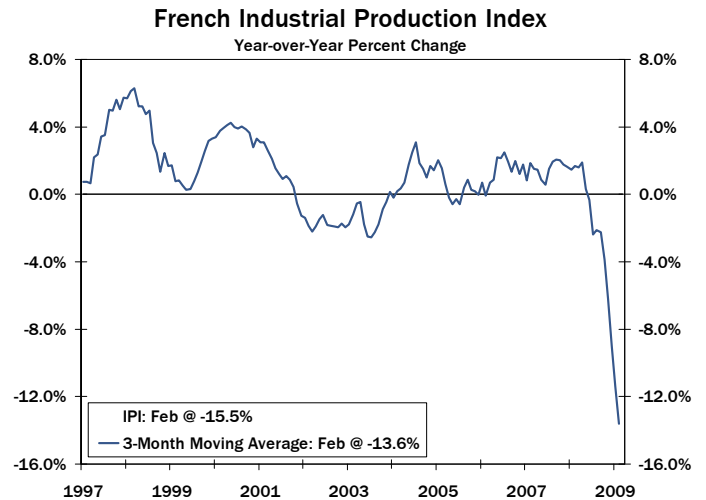
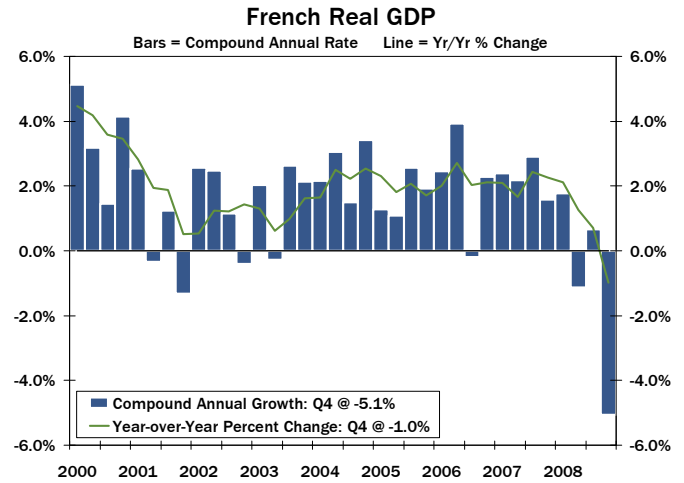
- Real GDP in Germany contracted at an annualized rate of 8.2% in the fourth quarter, the largest quarterly decline on record. (The pan-German series goes back to 1991.) The German economy is in the throes of what we expect will be a peak-to-trough decline in real GDP of more than six percent.
- By most measures, the economy continued to contract in the first quarter. The Ifo index of German business sentiment, which is highly correlated with growth in industrial production, rose in April from an all time low. Industrial production in March plunged 20.4% relative to the same month in 2008, the fastest pace of contraction since at least 1992.
- The recent freefall in the economy caused significant contraction in the job market in recent months. In March, the unemployment rate jumped to 8.3%. Although the weakness in the labor market may keep a lid on consumer spending, government incentive programs may help bolster domestic demand.
- There are some signs of hope. Exports for March posted a surprise increase, fueling speculation of a turnaround. Germany is an important supplier of capital goods to Central and Eastern Europe. But with these areas in deep recession, German exports have been falling off a cliff in recent months, making the hope of a turnaround so enticing.



Source: IHS Global Insight, Bloomberg LP and Wachovia

France

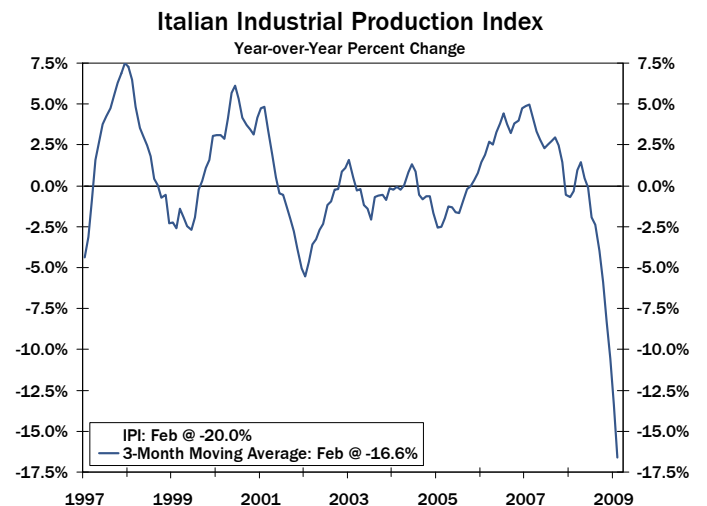
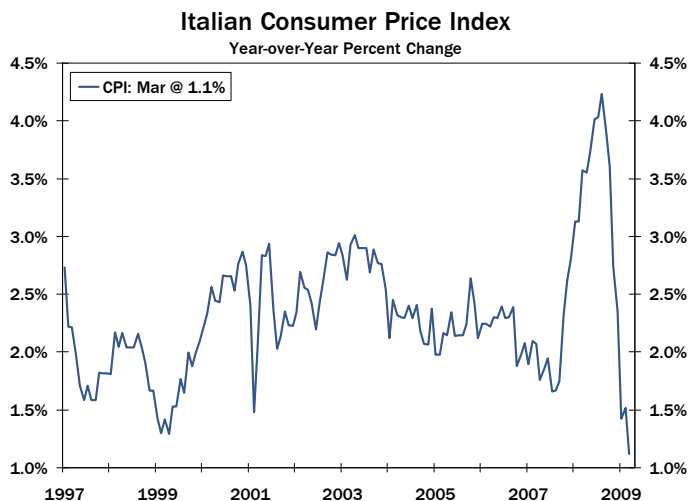
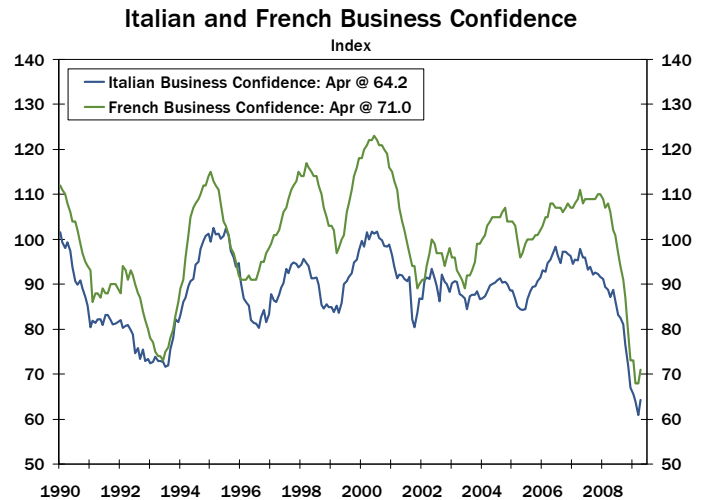
- After side-stepping consecutive quarters of contraction earlier in the year, French GDP fell apart in the fourth quarter, contracting at an annualized rate of 5.1%. It was the worst quarterly contraction in more than 30 years.
- By most measures, things are only getting worse in the first quarter. Industrial production has fallen off a cliff so far in 2009. The trade deficit widened further in March as exports fell to a four-year low as global trade dries up. Weak exports are weighing heavily on French industrial production, and will likely be a major headwind for first quarter real GDP as well.
- An unexpected bright spot has emerged in domestic demand as French consumers loosened the purse strings in March as consumer spending increased 1.1 percent for the month. Still, the pop in March may have had to do with a decrease of an even larger magnitude in the previous month that set March up for an increase by comparison. Going forward, we do not expect sustained strength from the consumer as the global recession and its associated financial market turmoil have caused consumer sentiment to weaken substantially.
- On a peak-to-trough basis, we project that real GDP in France will contract nearly four percent, which if realized, would be France's worst recession in decades.



Source: IHS Global Insight, Bloomberg LP and Wachovia

Italy

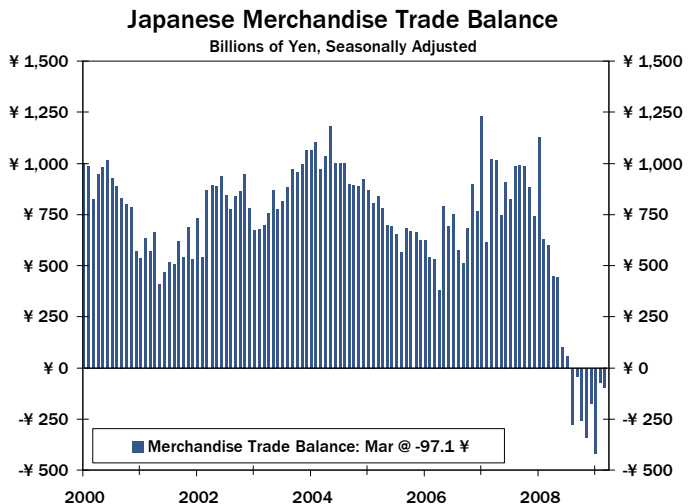
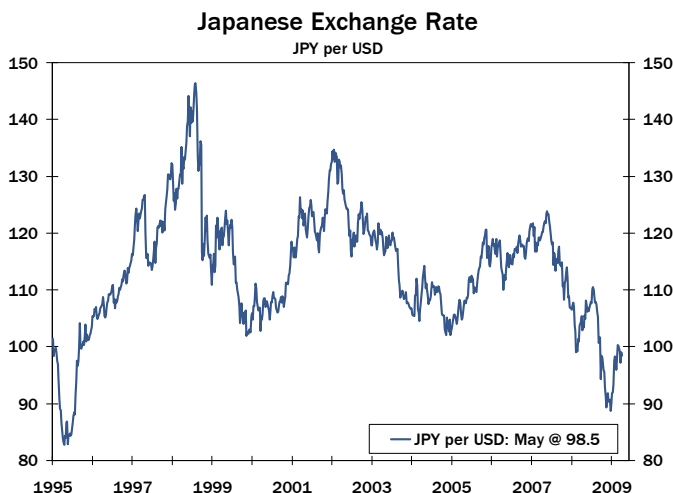
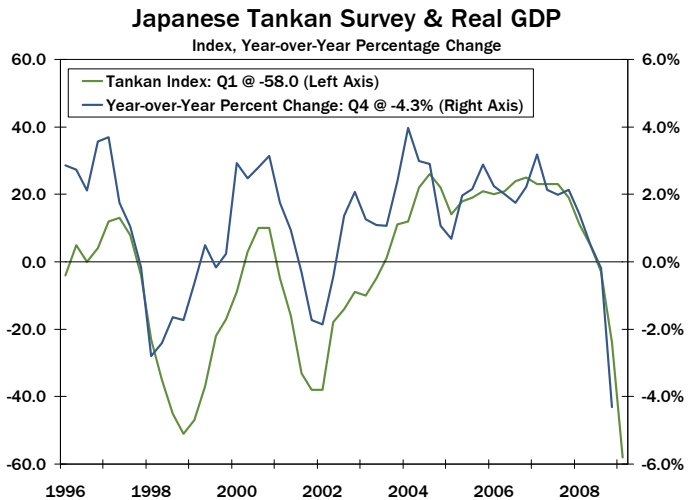
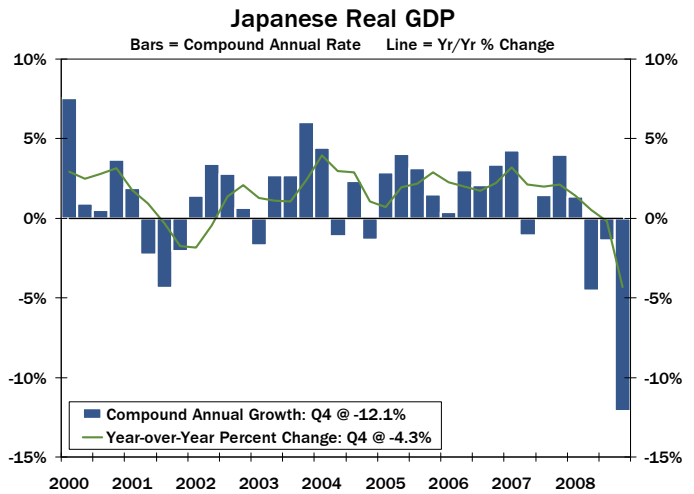
- Real GDP contracted at an annualized rate of 7.5% in the fourth quarter - the worst contraction in growth in at least 27 years. While other European countries have plans for big government spending to help underpin their economies, Italy has no substantial stimulus plan in the works. With a debt-to-GDP ratio north of 100 percent, the Italian government has fewer options than some of its less-leveraged European neighbors.
- A widely followed index of Italian business confidence has slumped sharply over the past few months, but hooked up slightly in April suggesting that economic weakness could be showing signs of fading as we enter the second quarter.
- So far there are no indications of a slowing pace of decline when it comes to data for industrial production, which in February fell more than twenty percent, year over year. In addition to struggles in manufacturing, weak domestic demand has been a drag on growth for the last few years. Retail sales have been falling on trend since late 2006, and the pace of decline is picking up speed.
- On a peak-to-trough basis, we project that the Italian economy will contract more than six percent, which, if realized, would be the worst downturn in Italy in decades. Although the economy will not continue to contract forever, the ensuing upturn probably will be muted.



Source: IHS Global Insight, Bloomberg LP and Wachovia

Japan

- By the time this global recession has run its course, we anticipate the economy will contract about nine percent on a peak-to-trough basis. If so, Japan would clearly be in its deepest recession since the end of the Second World War. Real GDP in Japan plunged at an annualized rate of 12.1% in the fourth quarter, the steepest rate of contraction in 35 years.
- The Tankan index of Japanese business sentiment plunged from a reading of -24 in the fourth quarter of last year to -58 in the first quarter, edging out the all-time low set in the deep recession of 1975. As the nearby chart shows, the Tankan tracks closely with GDP.
- The sharp downturn in exports has caused the Japanese trade balance, which has been in chronic surplus over the past few decades, to swing to a modest deficit. However exports fell at a slower pace in March, suggesting the worst of the slowdown in exports may be behind us.
- After rising to a 14-year high against the dollar earlier this year, the Japanese yen has given up some of its gains over the past few weeks as investors have become a bit less risk averse. However, we look for the yen to depreciate further over the course of the year and into next year as eventual stabilization in global economic activity causes risk aversion to subside.

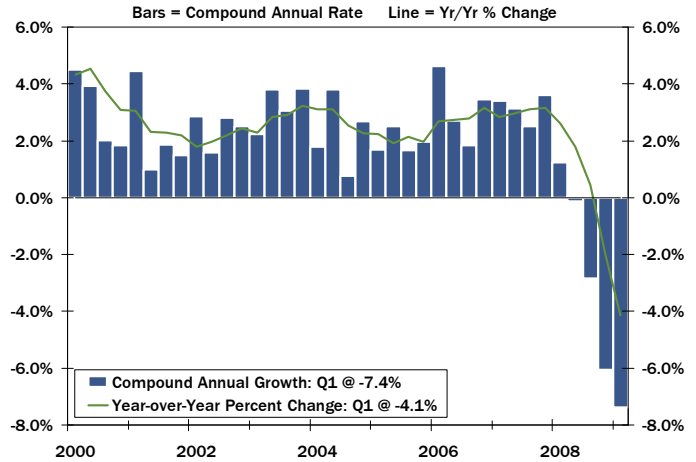


Source: IHS Global Insight, Bloomberg LP and Wachovia

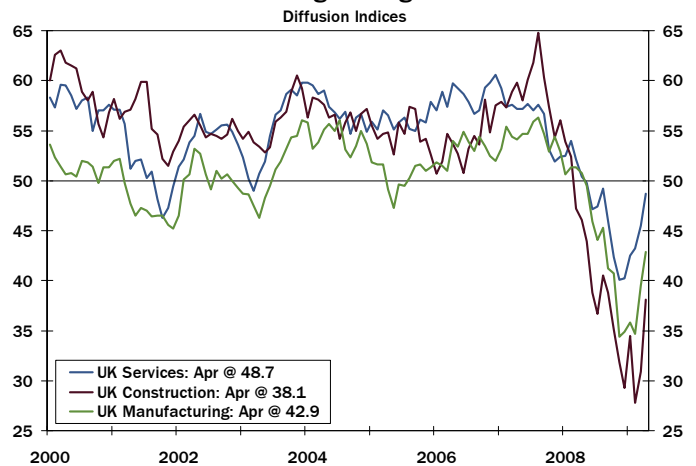
United Kingdom

- Real GDP in the United Kingdom contracted at an annualized rate of 7.4% in the first quarter, the sharpest rate of contraction since the third quarter of 1979. Purchasing managers' indices have recovered somewhat in recent months but still remain firmly in contraction territory, indicating that the economy still faces headwinds going into the second quarter.
- We look for the peak-to-trough decline in U.K. real GDP to total nearly five percent, which would make the current downturn more severe than the recession in the early 1990s. The sharp rise in house prices over the past decade has led to a significant build-up in consumer debt, and these imbalances will need to be worked off over the next few years. Thus, the upturn, when it comes, will likely be muted.
- Despite the upturn in the various PMIs, the declines in economic activity are not showing signs of slowing as we head into the second quarter. Industrial production, for example, fell 12.4% in March versus the same month last year.
- Sterling has stumbled versus the greenback over the past few months as the British economic outlook has deteriorated. Looking ahead to the next few quarters, we project that sterling will weaken a bit further against the dollar as the British economy remains in the doldrums. Further out, however, sterling should stabilize and eventually begin to strengthen against the dollar due to a very sluggish U.S. economic recovery.

U.K. Real GDP



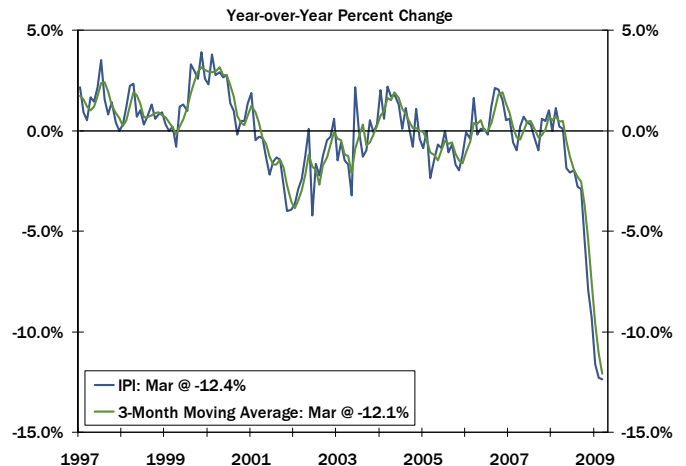
U.K. Purchasing Managers' Indices



U.K. Exchange Rates



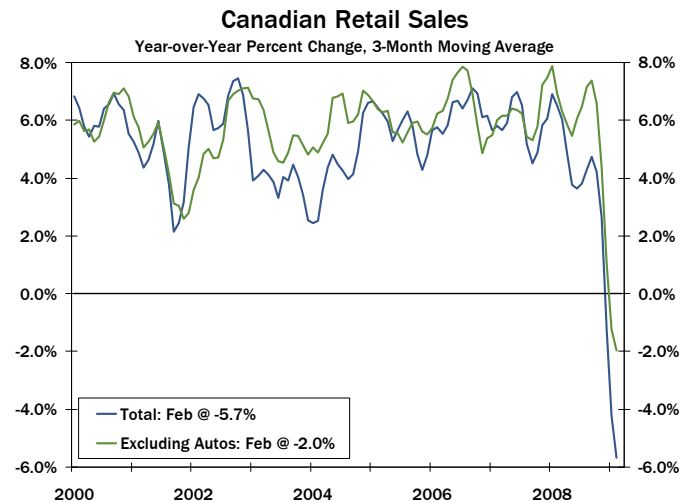
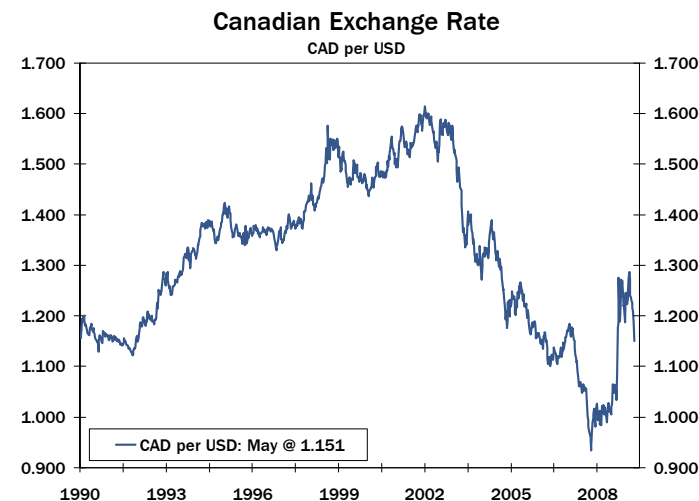
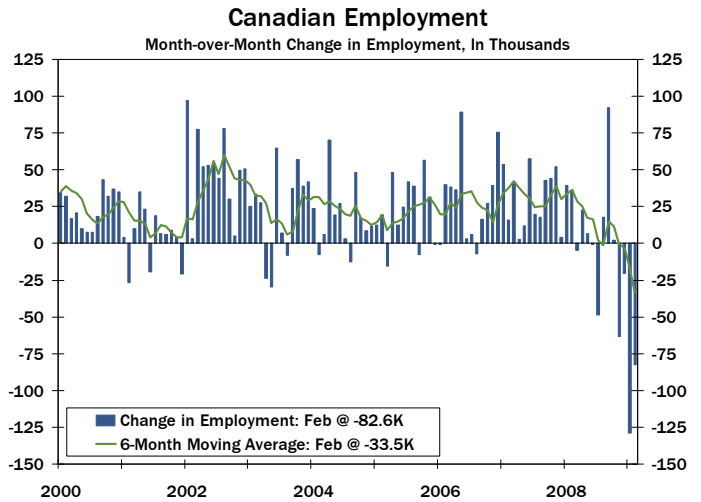
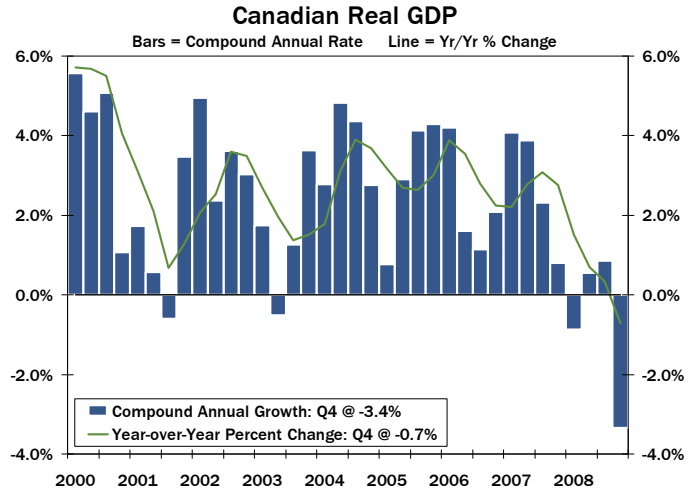
U.K. Industrial Production Index



Source: IHS Global Insight, Bloomberg LP and Wachovia

Canada

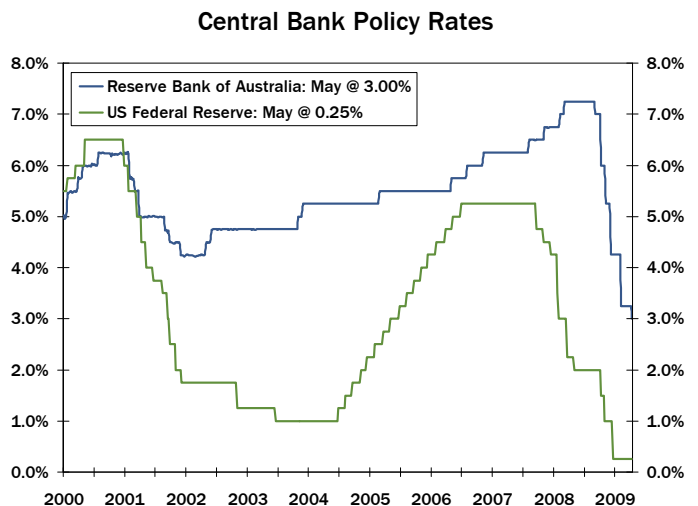
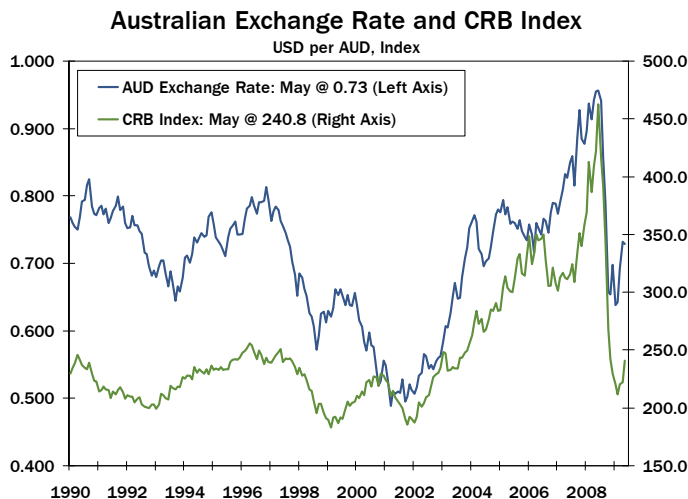
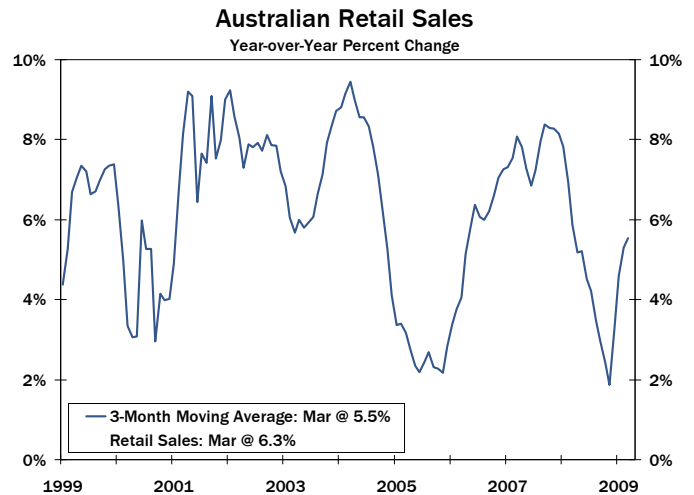
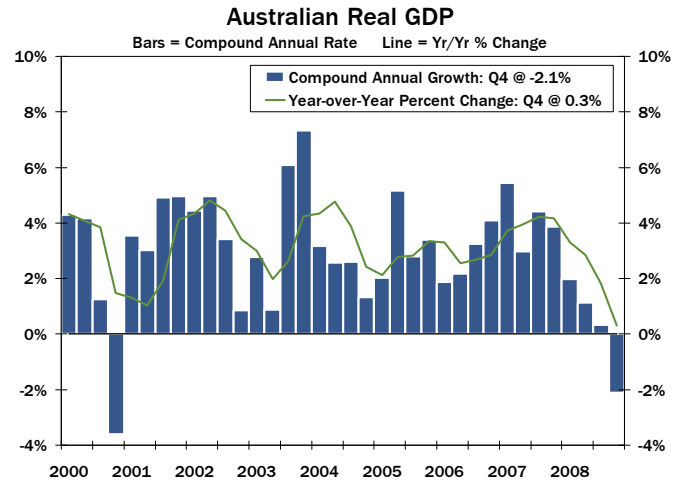
- Canadian real GDP fell at an annualized rate of 3.4% in the fourth quarter, and with most of the rest of the world in recession, it appears likely that the economy shrank at a faster rate in the first quarter. Growth in Canada's export-heavy economy is at least partly dependent on a turnaround in global growth.
- After months of layoffs, the Canadian economy added 35.9K jobs in April. From month to month, there can be some statistical "noise" in employment numbers. In order to filter out the noise, it is useful to look at a six month moving average to get a better sense of the underlying trend in the job market. By this measure, the labor situation in Canada is still in as challenging a condition as we have seen in years.
- That said, there is plenty of evidence that the winds may be changing for the better in the Canadian economy. The Ivey Purchasing Managers' Index posted a much better-than-expected reading of 53.7 in April. A number above 50 is associated with economic growth; the consensus was only expecting a reading in the low 40s.
- After depreciating more than twenty percent since last summer, the Canadian dollar has turned around and gained value versus the greenback. We do not expect the recent rally to hold, and look for the loonie to trend lower through the rest of this year as global economic conditions remain very weak. Further out, however, the loonie should stabilize as global growth picks up in 2010.



Source: IHS Global Insight, Bloomberg LP and Wachovia

Australia

- Like every other major economy in the world, Australia experienced negative GDP growth at the end of last year. Australian exports have been whacked by the global recession, and Australian producers are liquidating inventories very rapidly like their counterparts in most other major economies.
- Consumer spending has clearly decelerated over the past year or so, but growth has generally held up fairly well. Indeed, the 2.2% increase in retail spending in March relative to the previous month was a pleasant surprise. In sum, the Australian economy is clearly weak at present. However, it appears to be faring better than most other major economies.
- The Reserve Bank of Australia (RBA) has cut its policy rate from 7.25% last September to 3.00% in April. With the global economy expected to stabilize later this year and with fiscal stimulus in the pipeline down-under, the RBA appears to be on hold, at least for now.
- The Australian dollar depreciated sharply last year as global growth prospects fell apart, but it has risen 20% versus the greenback since early March as the global economic outlook has turned less grim. The Aussie dollar has appreciated a fair amount in a short period of time so some pullback is inevitable, especially when investors begin to question the sustainability of the global economic recovery. However, the Aussie dollar should trend higher again next year as the global economic recovery gains traction.

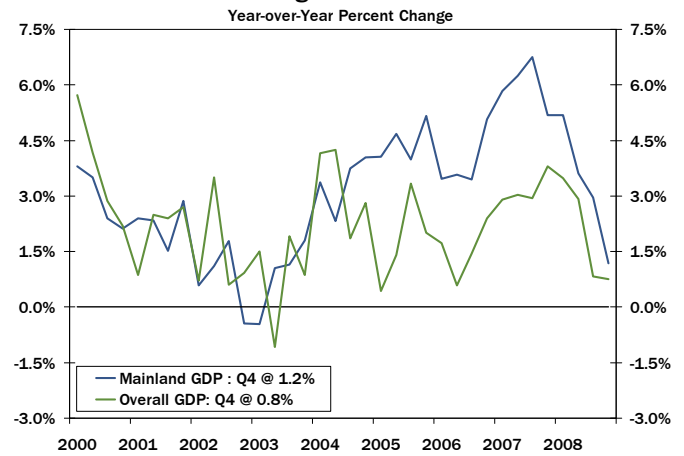


Source: IHS Global Insight, Bloomberg LP and Wachovia

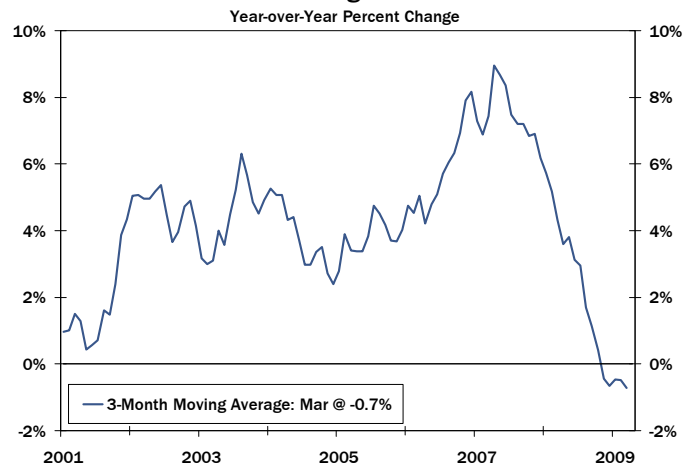
Norway

- The year-over-year growth rate of Norwegian real GDP slowed considerably over the course of 2008 as “mainland” GDP growth, which excludes the oil sector, rose only 1.2% in the fourth quarter, the slowest rate in five years. Unfortunately, manufacturing production fell at an annualized rate of 11% in the first quarter, faster than the 7.5% contraction registered in the fourth quarter. Thus, the economy appears to have weakened further in the first quarter.
- Not only have Norwegian exports been hit, but domestic demand has weakened as well. For example, the volume of retail sales in the first quarter was down nearly 1% on a year-over-year basis.
- Norges Bank has cut its main policy rate from 5.75% in mid-October to only 1.50% at present. When it announced its most recent 50 bps rate cut on May 6, Norges Bank acknowledged that “the current global economic downturn is the deepest in the post-war period.” However, it also said that “there are also some signs of improvement.” Therefore, Norges Bank will probably be on hold for the foreseeable future.
- The Norwegian krone depreciated last year as oil prices collapsed. Although the currency has recouped some of its losses over the past few weeks, we look for the krone to weaken a bit over the next few months as investors begin to question the vigor of the global upturn. However, the krone should strengthen anew later this year/early next year as the global recovery gains traction.

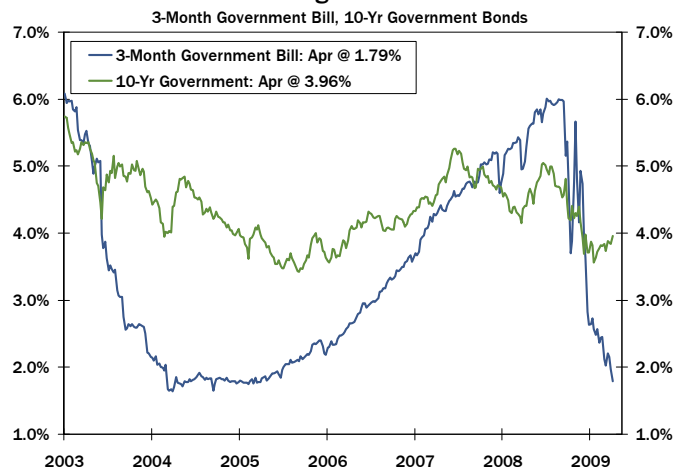
Norwegian Real GDP



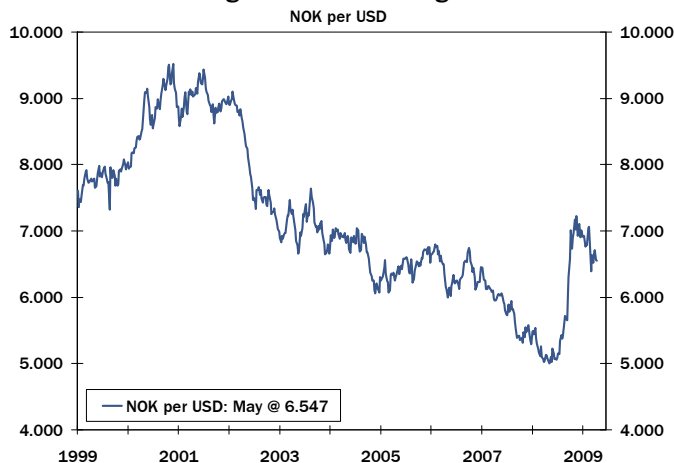
Volume of Norwegian Retail Sales



Norwegian Rates



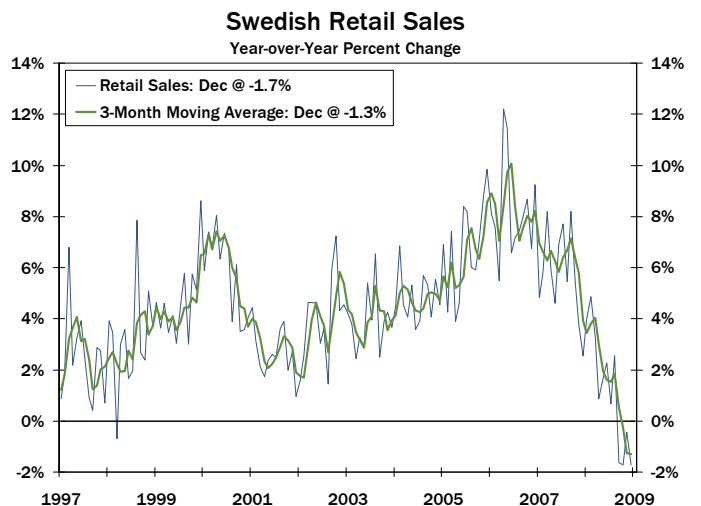
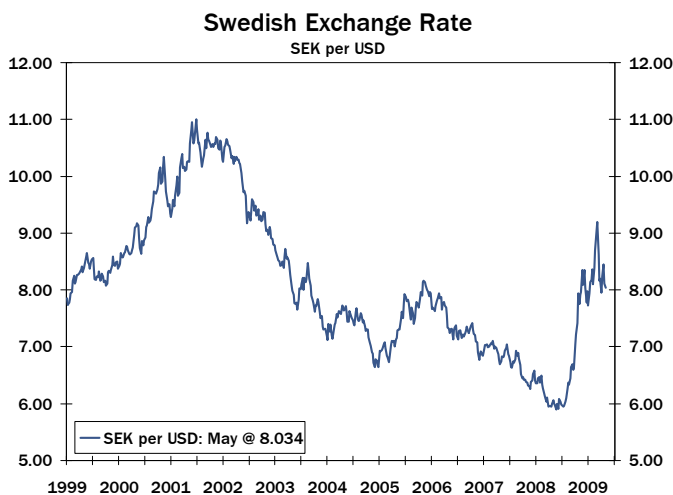
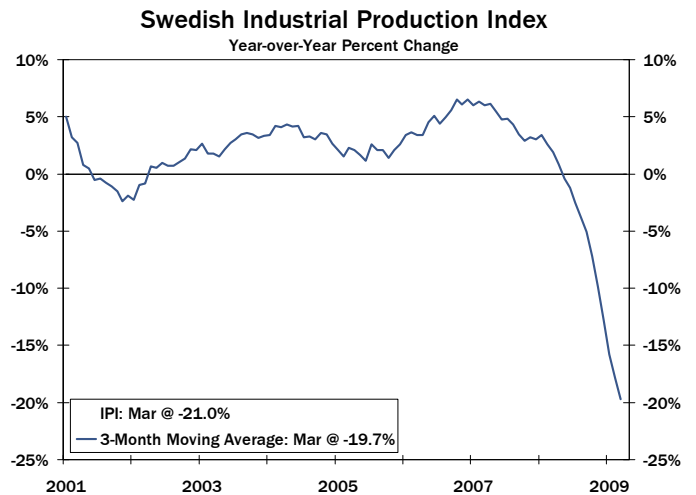
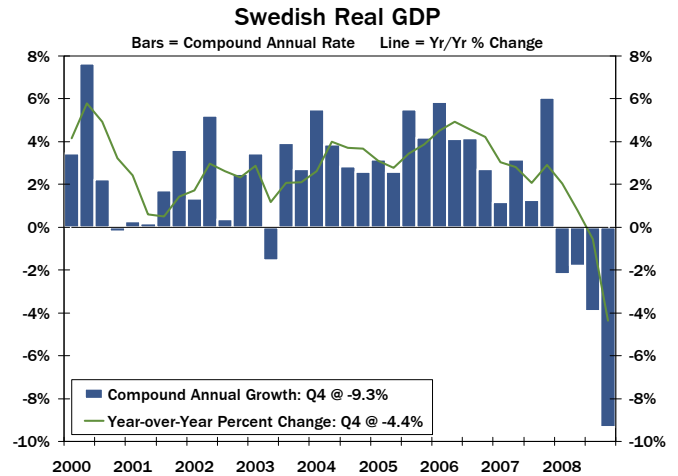
Norwegian Krone Exchange Rate



Source: IHS Global Insight, Bloomberg LP and Wachovia

Sweden

- Real GDP in Sweden plunged at an annualized rate of 9.3% in the fourth quarter, the sharpest sequential rate of contraction in at least 15 years. Although official GDP data for the first quarter have not yet been published, it appears that the economy has contracted further. For example, industrial production declined 20 percent in the first quarter on a year-over-year basis.
- Not only have Swedish exports taken it on the chin, but domestic demand is very weak as well. Growth in real consumer spending has weakened significantly over the past year. Retail sales are clearly in steep decline and weakness in the labor market—the unemployment rate has risen from about 5% last summer to more than 8.0% at present—does not bode well for the near-term outlook for consumer spending.
- The Swedish Riksbank has slashed its policy rate from 4.75% last October to only 0.50% at present. The Riksbank has not ruled out further rate cuts, although the scope to cut further is rather limited, and it has said that the policy rate is likely to remain at a low level until 2011.
- The Swedish krona depreciated significantly in the second half of last year as the outlook for the Swedish economy fell apart. The krona has recouped some of its losses over the past two month, but we look for it to weaken somewhat versus the dollar through the end of the year as prospects for eventual recovery begin to appear stronger in the United States than in most European countries.

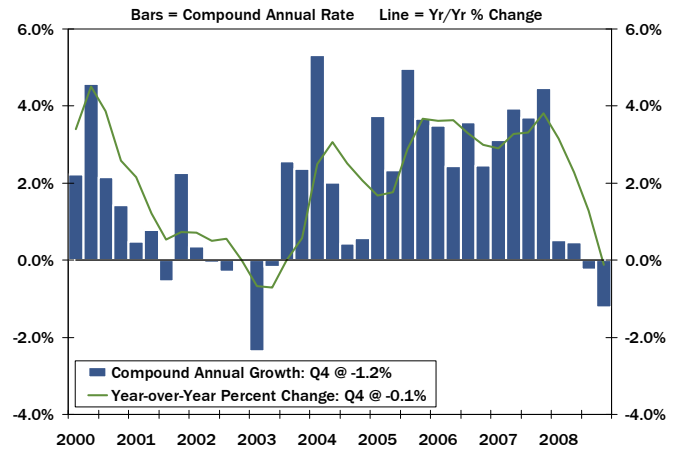


Source: IHS Global Insight, Bloomberg LP and Wachovia

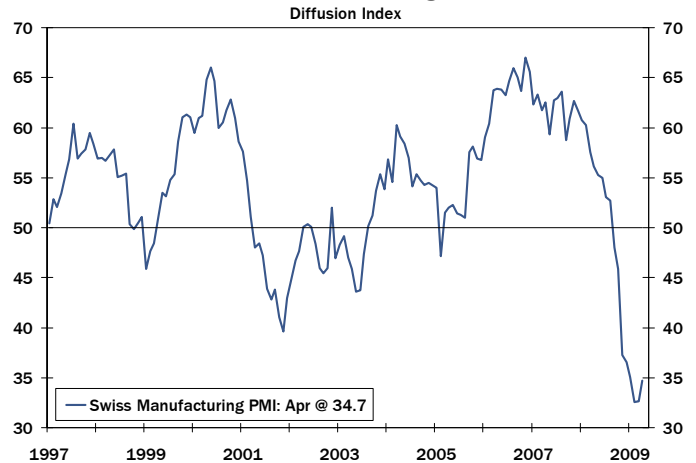
Switzerland

- In the fourth quarter of 2008, a time when real GDP in the Euro-zone contracted at an annualized rate of 5.7%, Swiss GDP declined at an annualized rate of only 1.2%. However, the build-up of inventories in the fourth quarter sets the stage for unwinding and potentially deeper declines in overall Swiss GDP in the quarters ahead as unwanted stocks are worked down.
- Indeed, there are signs that the Swiss economy ran into an air pocket in the first quarter. The Swiss manufacturing PMI fell off a cliff in the first three months of the year, although it edged up a bit in April. "Hard" data on industrial production in the first quarter are not yet available, but the depressed level of the PMI in conjunction with weakness in exports and retail spending in the first quarter suggest that IP must have slumped significantly.
- The overall rate of CPI inflation recently turned negative, although the core rate of inflation is roughly 1% at present. The Swiss National Bank has cut its target for the 3-month LIBOR rate to only 0.25%, and it has intervened in the currency market to resist upward pressure on the Swiss franc. Currency appreciation adds to deflationary forces in the economy.
- Although the Swiss franc has appreciated over the past few weeks, we look for it to trend lower against the dollar in the months ahead. Signs of economic recovery should show up sooner in the United States than they do in Switzerland, which should benefit the dollar.

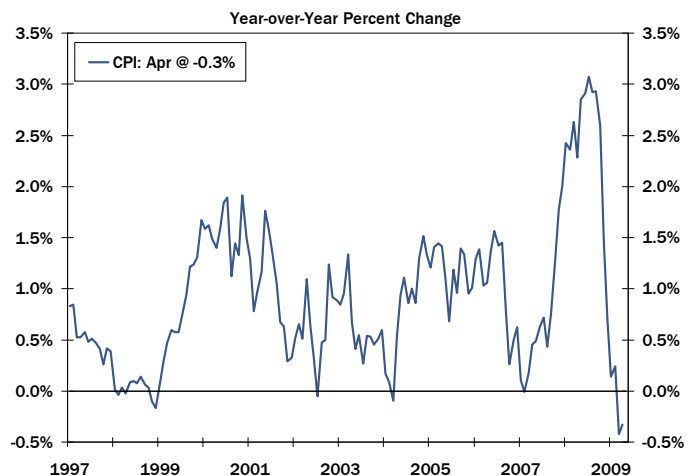
Swiss Real GDP



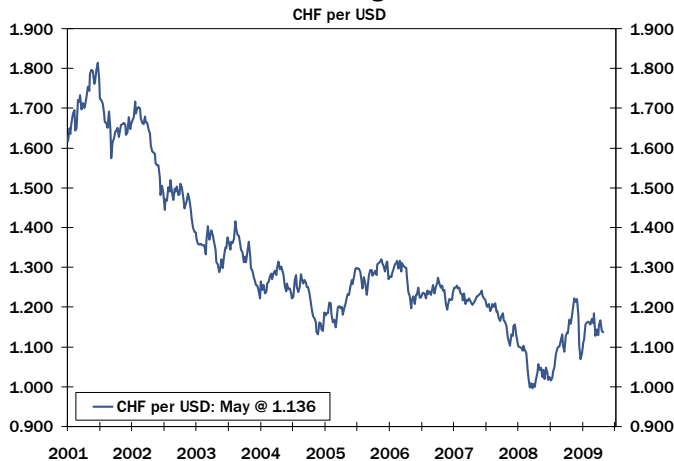
Swiss Manufacturing PMI



Swiss Consumer Price Index



Swiss Exchange Rate

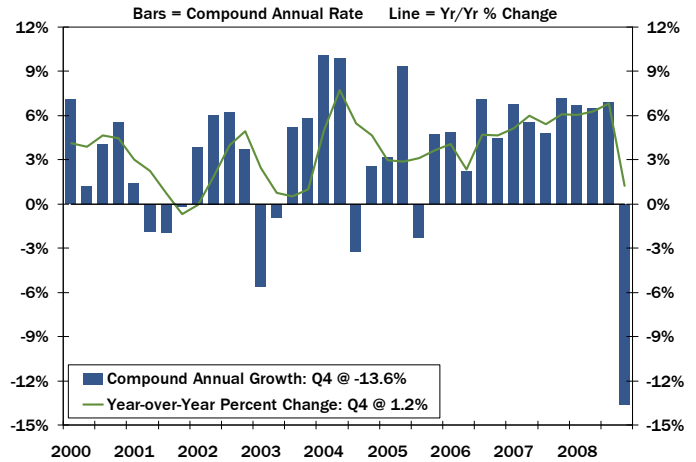


Source: IHS Global Insight, Bloomberg LP and Wachovia

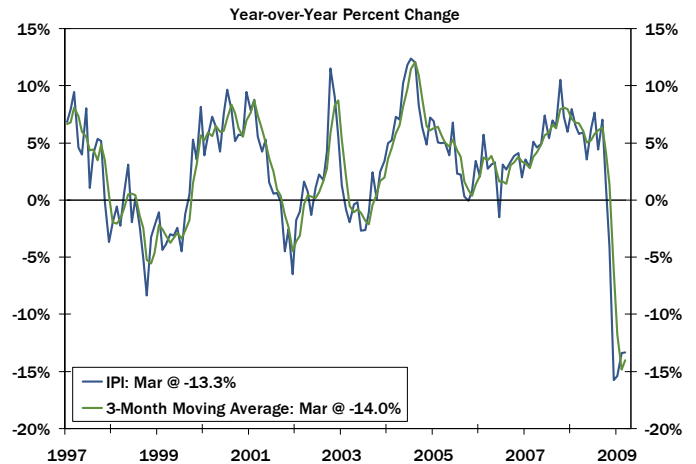
Brazil

- Real GDP in Brazil fell at an annualized rate of roughly 14 percent in the fourth quarter, the sharpest contraction on record. Not only did the global recession affect the Brazilian economy—real exports dropped 11 percent—but domestic demand weakened significantly as well.
- Recent indicators suggest that the economy remains weak, but the rate of contraction is probably not nearly as sharp as in the fourth quarter. Industrial production in March was up 4.8% relative to its December low, but it remains 13% below its level in March 2008. After hitting bottom in February, exports rose in both March and April. Auto sales fell off a cliff last autumn, but they have rebounded so far this year due in part to temporary reductions in auto taxes.
- Rising food and oil prices pushed up the rate of CPI inflation in 2008. However, inflation is now slowly starting to recede due to the collapse in energy prices since last summer and slowing growth in Brazil. The central bank has cut its policy rate by 350 bps since January, and further easing in the months ahead seems likely.
- The Brazilian real was pummeled last autumn as risk aversion spiked, but it has subsequently recouped some of its losses as the global growth outlook has become less dire. We project that the real will depreciate somewhat versus the dollar in the quarters ahead as the global economy remains sluggish. However, the real should strengthen later this year or early next year as global growth prospects begin to slowly improve.

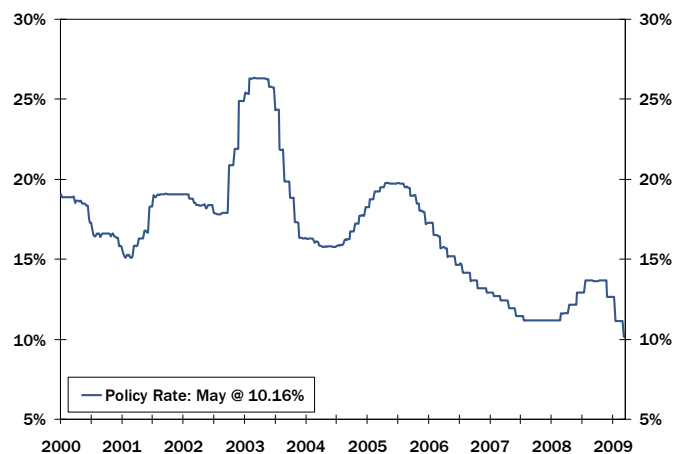
Brazilian Real GDP



Brazilian Industrial Production Index



Brazilian Policy Rate



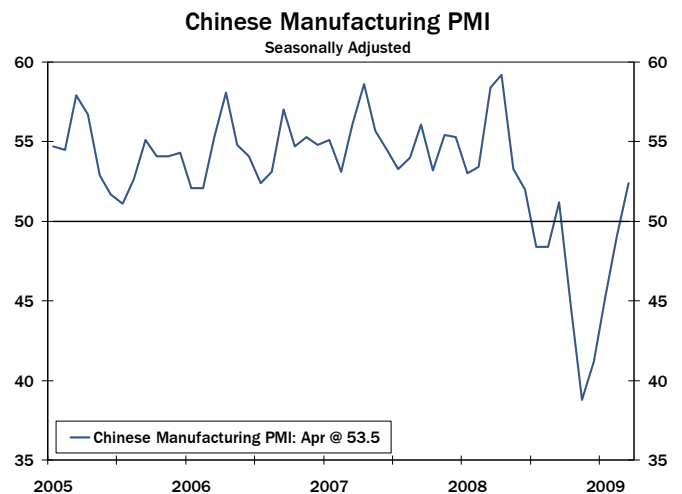
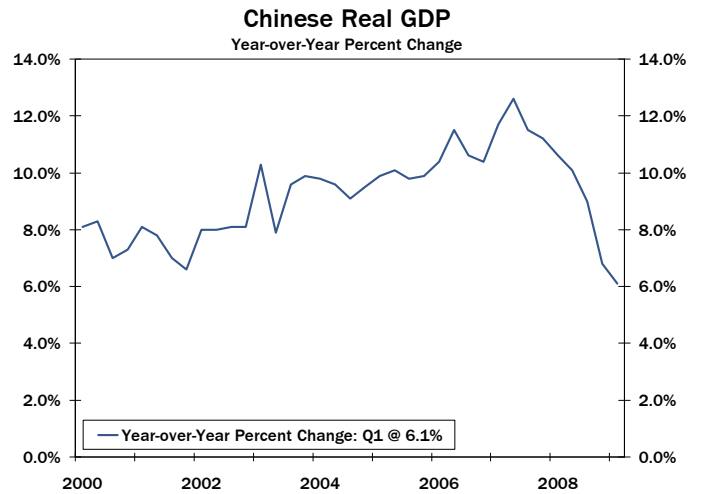
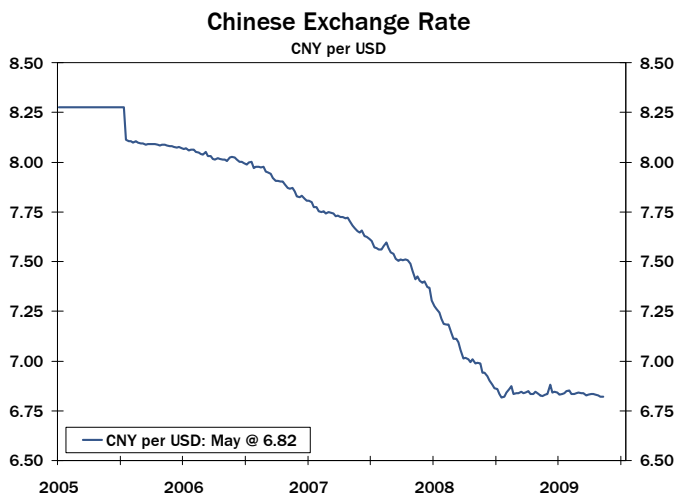
Brazilian Exchange Rate



Source: IHS Global Insight, Bloomberg LP and Wachovia

China

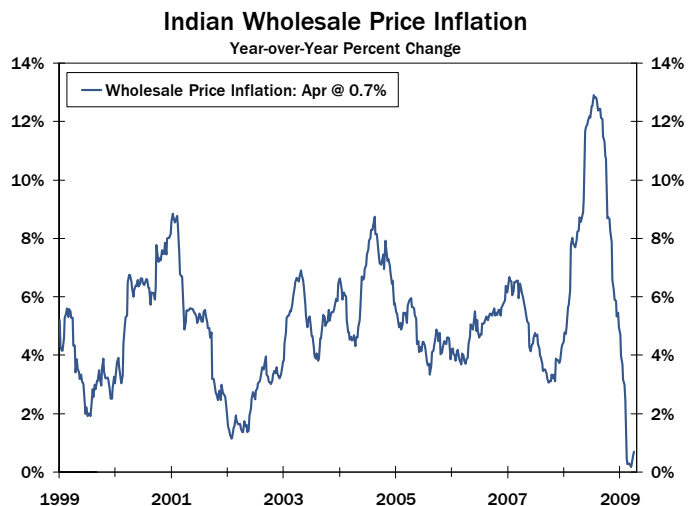
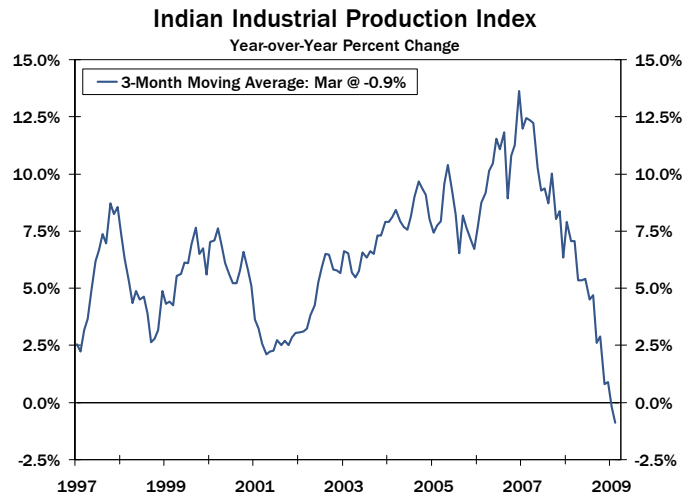
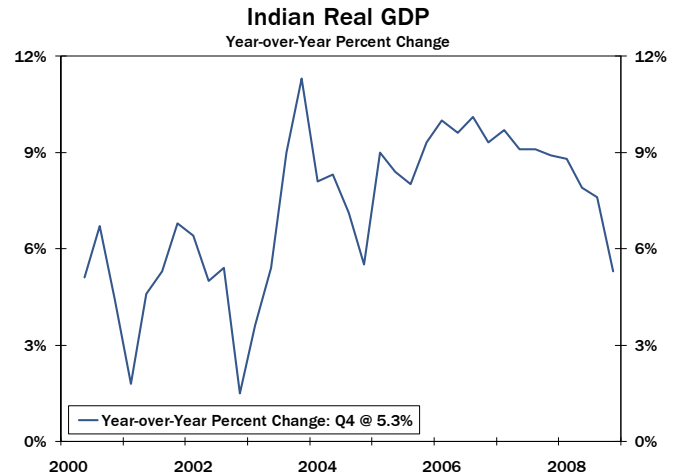
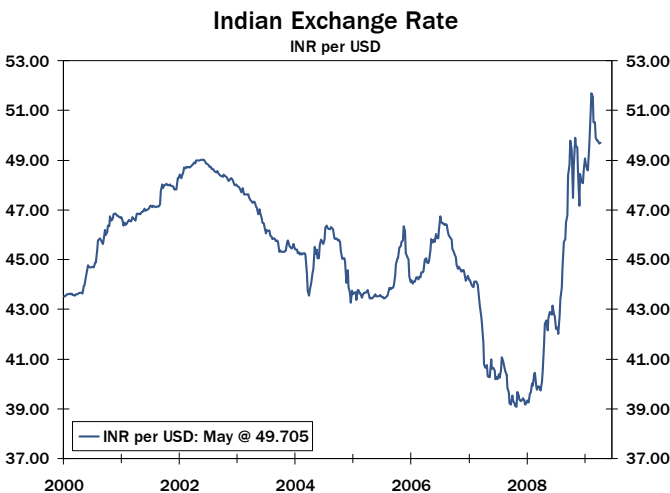
- The Chinese economy has slowed noticeably over the past six quarters. From a 13-year high of 12.8% in the second quarter of 2007, the year-over-year growth rate slowed to only 6.1% in the first quarter of 2009, the slowest rate in nine years. Much of the recent slowdown in China can be traced to the global downturn. Indeed, the value of Chinese exports in the first quarter was down 14% relative to the same period last year.
- However, the government responded to the slowdown with an aggressive fiscal response, and monetary policy has also been eased significantly. There are some signs that the government's efforts are starting to bear fruit. Construction activity appears to have strengthened and growth in consumer spending has remained resilient. The manufacturing PMI has been in expansion territory for two consecutive months.
- CPI inflation was the foremost issue in China last year, but the collapse in energy prices and the slowdown in China has caused inflation, both the overall rate and the core rate, to turn slightly negative. If the government makes a policy mistake in this environment, it will tend to over-stimulate the economy rather than not stimulate enough.
- The Chinese renminbi, which had gradually strengthened versus the dollar starting in mid-2005, has been essentially stable since last July. We believe that Chinese authorities will permit very little appreciation of the renminbi between now and the end of the year. However, the Chinese currency likely will resume its appreciation next year as the Chinese economy begins to strengthen.



Source: IHS Global Insight, Bloomberg LP and Wachovia

India

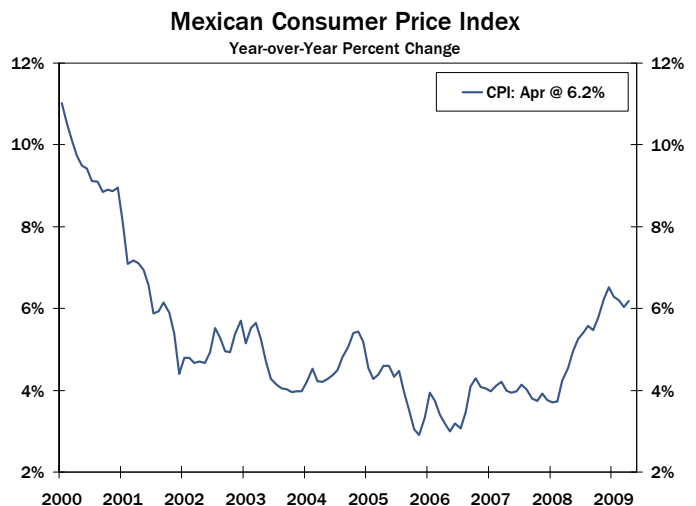
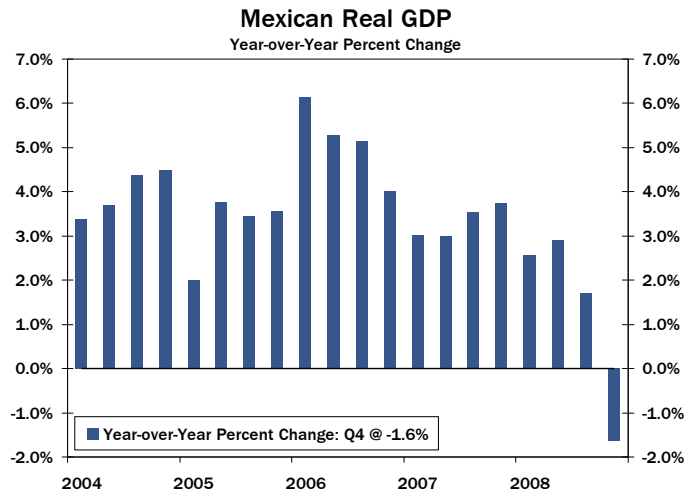
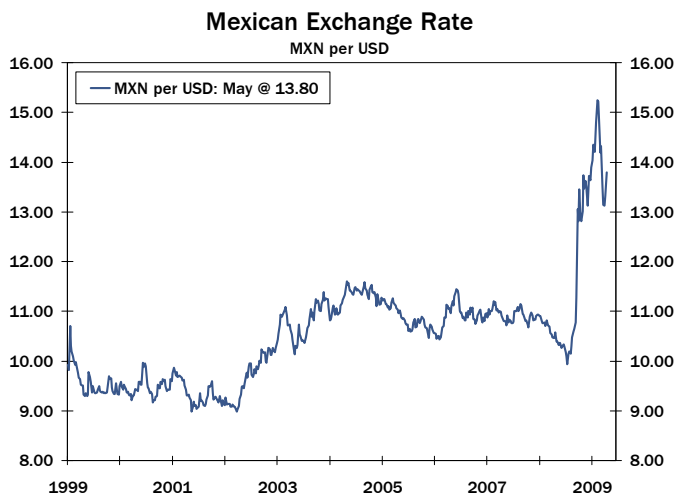
- Economic growth in India has slowed markedly over the last few quarters. The 5.3% GDP growth rate registered in the fourth quarter was the slowest pace of expansion in more than five years. Unfortunately, it appears that growth has slowed even further recently. Industrial production was down about one percent in the first quarter of the year relative to the same period in 2008.
- The downturn in the rest of the world has weighed on the Indian economy. Indeed, the value of Indian exports fell more than 20 percent in the first quarter. If the drop in auto sales in the first quarter is any indication then consumer spending has weakened as well.
- Wholesale price inflation, which is the benchmark measure of inflation in India, has receded sharply over the past few months as commodity prices have collapsed and the Indian economy has slowed. In response to receding inflationary pressures, the Reserve Bank of India has slashed rates by 425 bps since mid-October. The main policy rate now stands at 4.75%, the lowest rate in at least nine years.
- The Indian rupee plunged to an all-time low versus the dollar in early March as risk aversion spiked, but it has subsequently ground higher as tensions in financial markets have eased up somewhat. We expect that the rupee will remain weak over the months ahead as the global economic outlook remains clouded. However, the rupee could begin to claw its way back later this year as economic growth in India begins to strengthen.



Source: IHS Global Insight, Bloomberg LP and Wachovia

Mexico

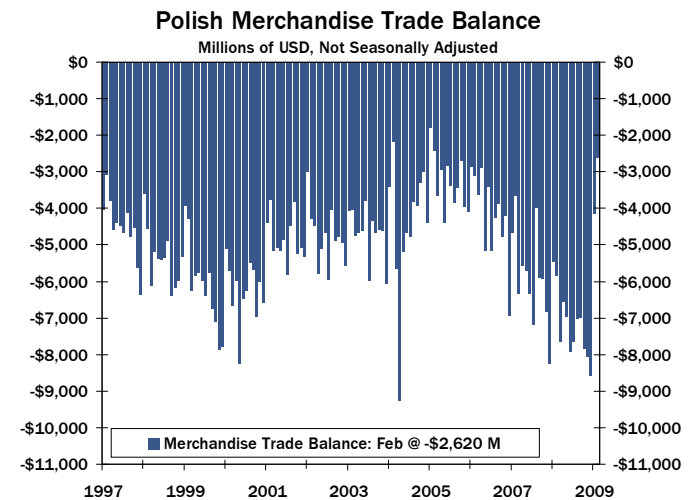
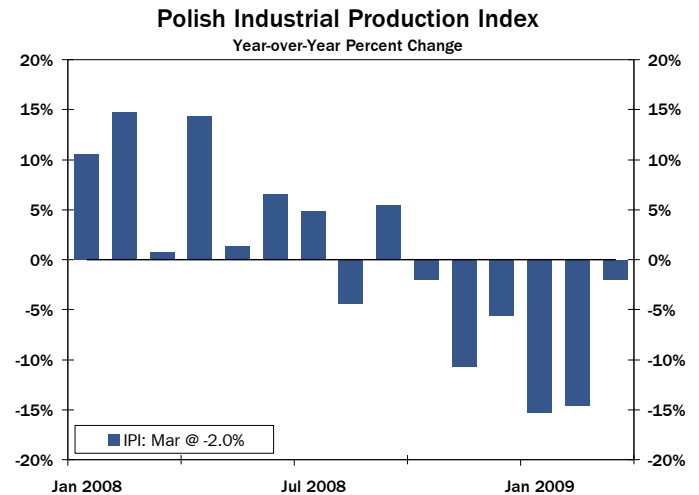
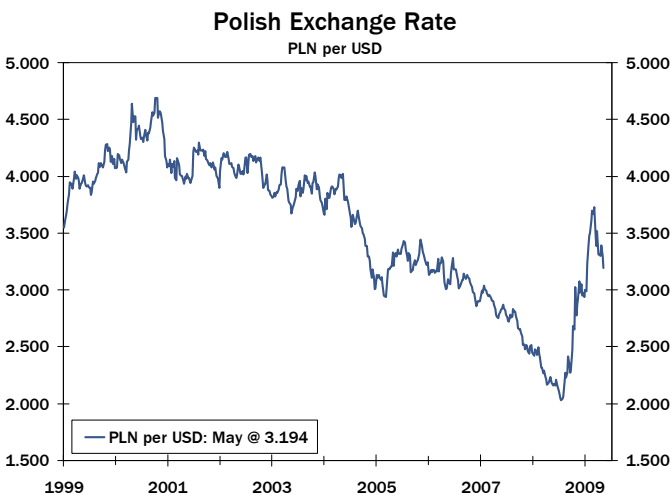
- Mexican real GDP fell 1.6% in the fourth quarter, the first negative reading for the year-over-year growth rate since the recession in the early years of this decade. Recent indicators suggest that the downturn intensified in the first quarter as industrial production tumbled 13% in February relative to the same month in 2008. Moreover, the swine flu epidemic, which essentially shut down the country in early May, will cause the economy to weaken further in the second quarter.
- The Mexican economy is extensively tied to the U.S. economy, and the deep recession in El Norte has imparted a significant negative shock to Mexico. The value of Mexican exports was down about 30 percent in the first quarter. However, the weakness in the Mexican economy does not stop with exports. Car sales are down roughly 30 percent in the first four months of 2009 relative to the same period last year.
- The overall rate of CPI inflation has edged down over the past few months, but is well above the Bank of Mexico's target of 3%. The Bank was reluctant to ease significantly at first, but it has cut rates by 225 bps since late November as the economy has gone into a tailspin.
- The Mexican peso plunged to an all-time low in early March, but it has subsequently rallied as risk aversion has subsided a bit and as the government arranged a back-stopping loan through the IMF. Although the peso could give up some of its gains in the months ahead, it probably will strengthen in late 2008 or early 2009 as the Mexican economic outlook improves.



Source: IHS Global Insight, Bloomberg LP and Wachovia

Poland

- Real GDP growth in Poland slipped to 2.9% in the fourth quarter. Although positive, the outturn was the slowest year-over-year growth rate in nearly four years. Unfortunately, it appears that the deep global recession caught up to Poland in the first quarter. The value of Polish exports was down more than 25% in the first two months of the year relative to the same period in 2008, and industrial production tumbled about 10 percent in the first quarter.
- As in most countries, the overall rate of CPI inflation shot higher in 2008, which led the National Bank of Poland (NBP) to tighten monetary policy. However, CPI inflation has receded to only 3.6% currently, and further declines seem likely due to global economic weakness. The NBP has cut its main policy rate by 225 bps since late November.
- The current account deficit swelled from less than 2% of GDP in 2005 to roughly 4% currently. Foreign direct investment has financed much of Poland's current account deficit over the past few years, but it seems likely that FDI will weaken somewhat in the quarters ahead with the global economy slipping into its worst recession in decades.
- The Polish zloty was hammered last autumn as risk aversion spiked, but it has subsequently recouped some of its losses. In our view, the zloty will weaken somewhat in the months ahead. However, the zloty should begin to turn around early next year as Polish economic prospects begin to improve.



Source: IHS Global Insight, Bloomberg LP and Wachovia

Russia

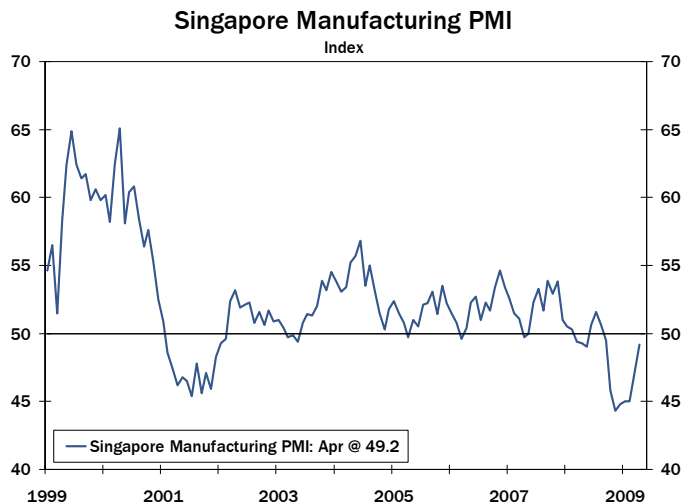
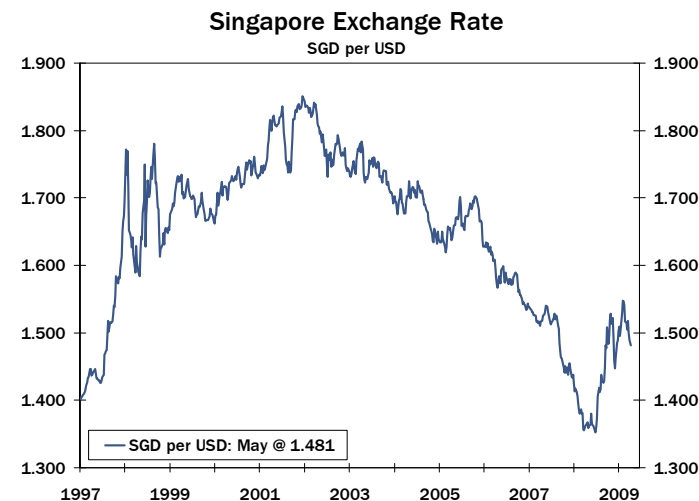
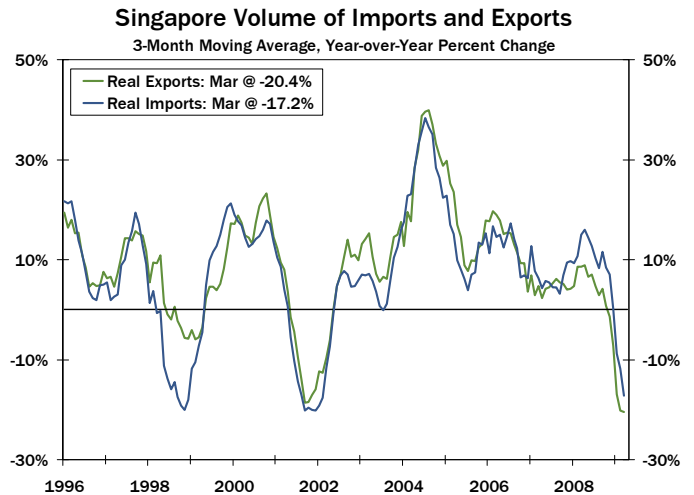
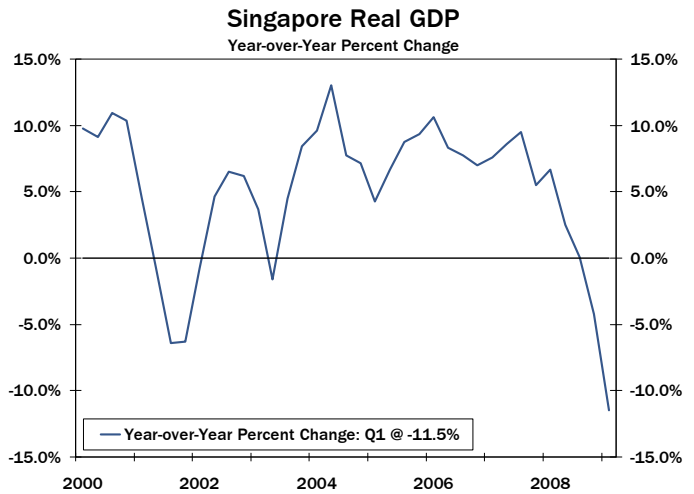
- Real GDP in Russia rose only 1.2% in the fourth quarter of 2008, the weakest year-over-year growth rate since the Russian economy blew up in the late 1990s in the wake of that country's debt default. Unfortunately, the sharp drop in industrial production in the first quarter – IP was down 13% relative to the same quarter in 2008 – suggests that overall GDP growth dipped into negative territory as well.
- Not only is Russia suffering from the fallout of the global downturn, but it is experiencing yet another financial crisis. During the oil price run-up, the Russian economy was booming. Russian banks became very leveraged and funded themselves via capital inflows from abroad. However, the global credit crunch led to significant strains in the Russian banking system that has contributed to the sharp downturn in the country's economy.
- Despite the recession and the collapse of energy prices, CPI inflation in Russia remains stubbornly high. The depreciation of the ruble is contributing to inflation via its effect on import prices. The Russian central bank raised its policy rate by 200 bps last autumn in an attempt to stabilize the exchange rate. The ruble has subsequently recouped some of its losses, which has allowed the central bank to cut rates by 100 bps since mid-April.
- We forecast that the ruble will weaken a bit over the next few months as economic prospects in Russia and in the world more broadly remain clouded. In our view, however, a retest of the lows is not in the cards, and we look for the ruble to strengthen next year as growth prospects improve.



Source: IHS Global Insight, Bloomberg LP and Wachovia

Singapore

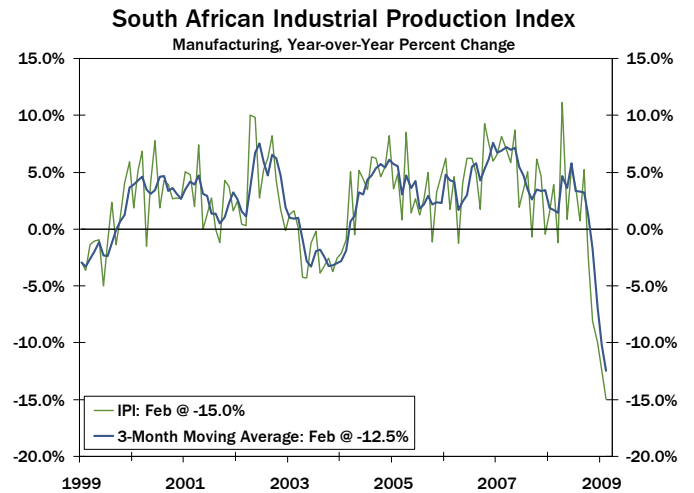
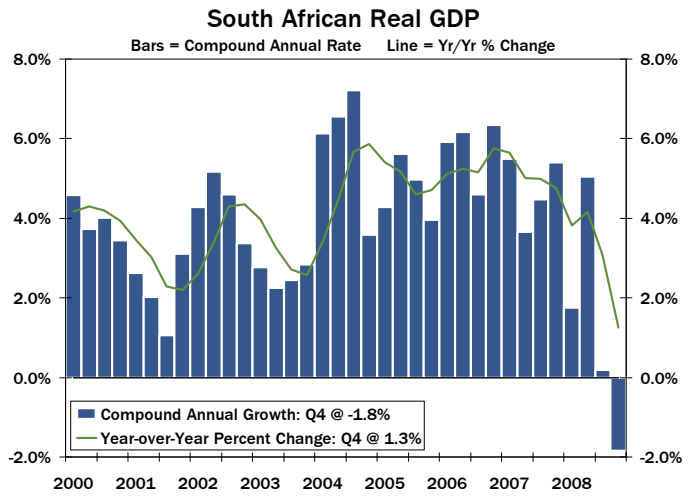
- Real GDP in Singapore plunged nearly 12% in the first quarter of the year relative to the same quarter in 2008, the deepest downturn on record. Singapore is one of the most open economies in the world, and the deep global recession has imparted a major shock to the domestic economy via a significant downturn in exports. That said, domestic demand is also weak. Retail spending was off about 9 percent in the first two months of the year on a year-over-year basis.
- It appears that the rate of contraction may be slowing in the second quarter. The manufacturing PMI rose in April, although it is still in contraction territory. Exports were up about 10% in March relative to February on a seasonally adjusted basis.
- CPI inflation shot up last year, but it is not much of an issue anymore. The overall rate of CPI inflation has receded to less than two percent, and economic weakness means that further declines in inflation lie in store.
- Because the city-state is such an open economy, the Monetary Authority of Singapore manages the exchange value of the Singapore dollar versus a basket of currencies. The generalized rise of the U.S. dollar since last summer has translated into an appreciation of the greenback vis-à-vis the Singapore dollar. We believe this strengthening trend of the greenback versus the Sing dollar will remain in place for the next few quarters. Next year the Sing dollar likely will appreciate somewhat versus the greenback, in line with other currencies.



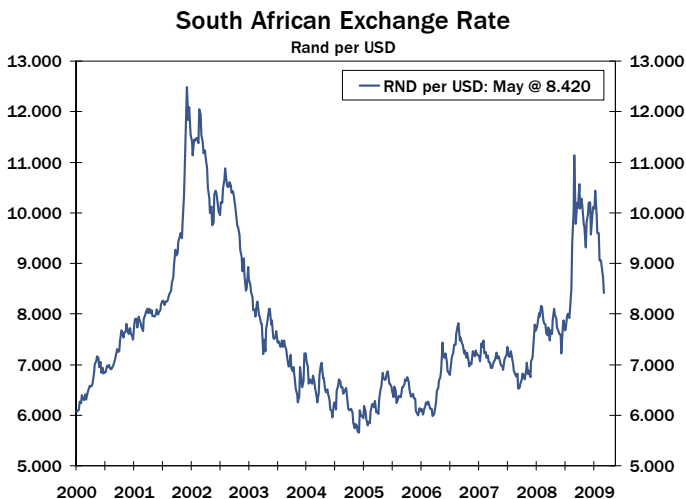
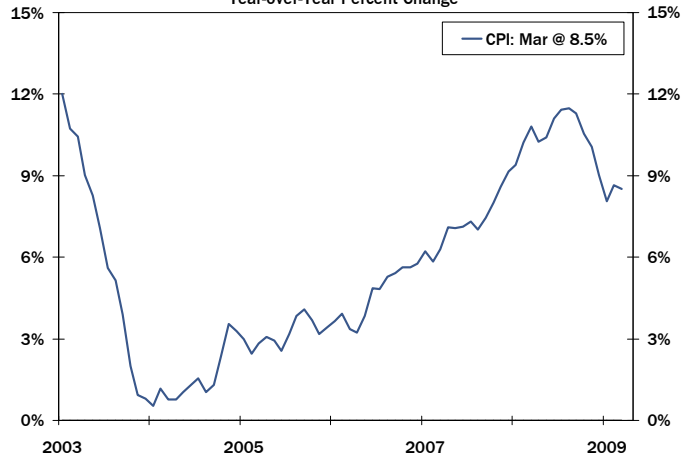
Source: IHS Global Insight, Bloomberg LP and Wachovia

South Africa

- Real GDP in South Africa fell at an annualized rate of 1.8% in the fourth quarter of 2008 relative to the previous quarter, the first sequential decline in ten years. The marked decline in industrial production in the first three months of the year suggests that real GDP contracted again in the first quarter.
- The downturn in exports is one reason why the South African economy has gone into a slump. However, the rise in inflation over the past few years has eroded real income, thereby weighing on consumer spending. Real retail spending in the first quarter was down about three percent relative to the same period last year.
- After peaking last summer the overall CPI inflation rate has receded somewhat, allowing the South African Reserve Bank (SARB) to cut rates by 350 bps since early December. Although inflation is currently above the target range of 3 percent to 6 percent, the SARB expects that inflation will recede further due to the global economic downturn. Therefore, the SARB probably will ease again in the months ahead.
- The South African rand weakened sharply last autumn as the global credit crunch intensified, but it has subsequently recouped most of its losses as the outlook for global growth has become less dire. In our view, the rand probably will weaken a bit in the quarters ahead as global economic conditions remain very weak. However, the rand likely will strengthen later this year or early next year as global growth prospects begin to brighten somewhat.



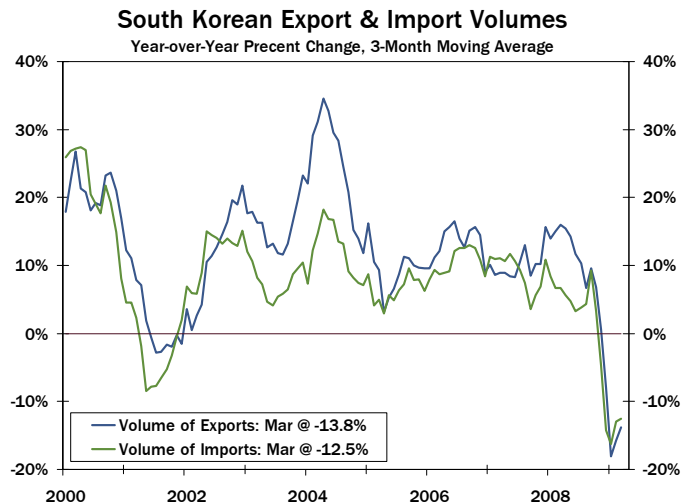
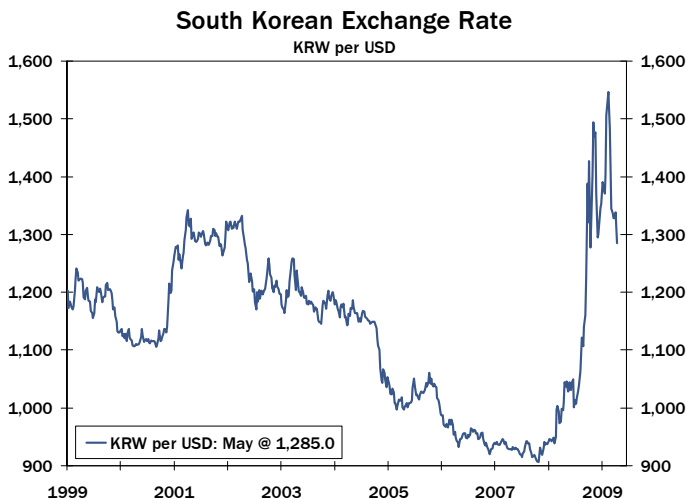
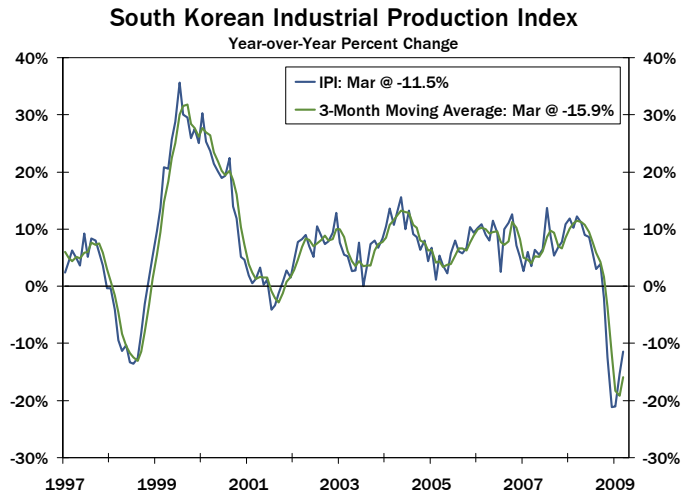
South African Consumer Price Index
 Year-over-Year Percent Change



Source: IHS Global Insight, Bloomberg LP and Wachovia

South Korea

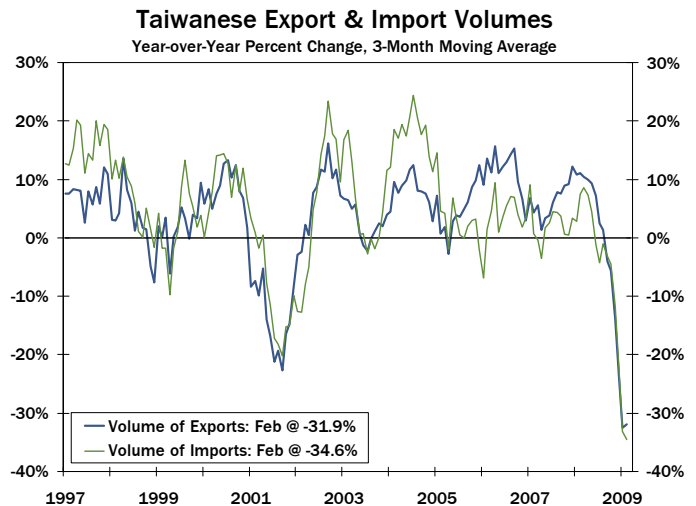
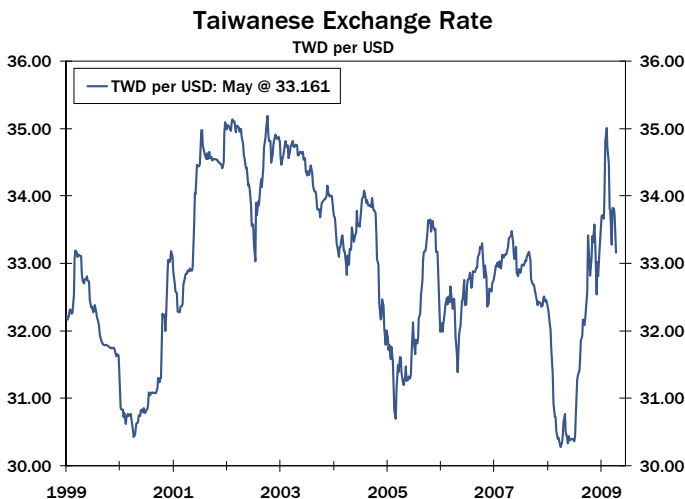
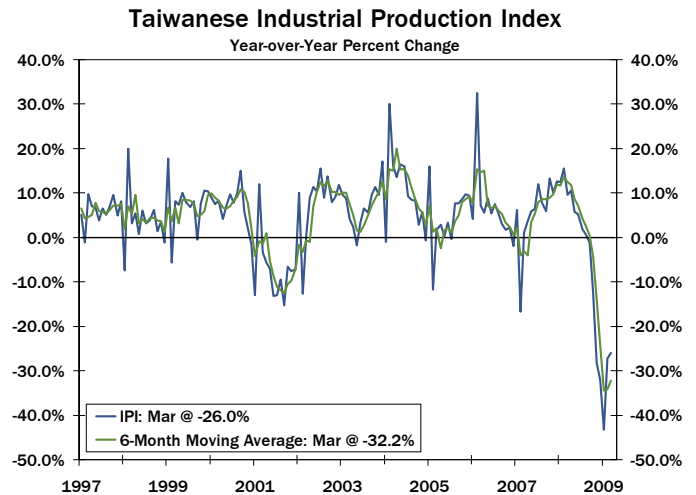
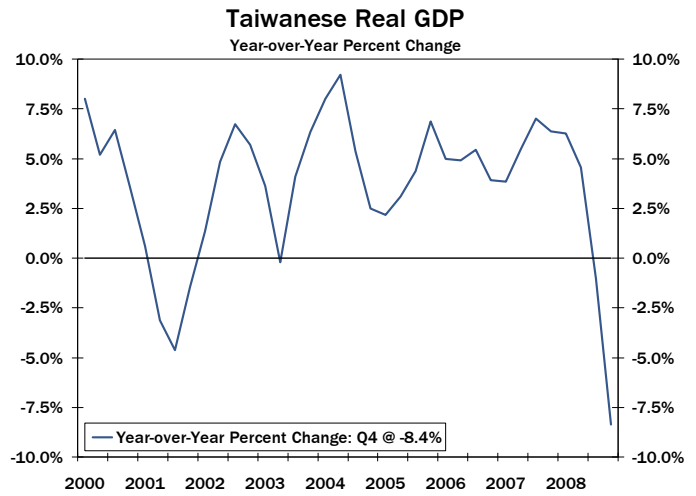
- After falling off a cliff in the fourth quarter of 2008, real GDP in Korea was roughly flat in the first quarter. Exports, which helped to pull down the Korean economy in the fourth quarter, continued to contract early this year. However, the major components of domestic demand rebounded somewhat in the first quarter.
- The Korean government implemented a fiscal stimulus package last year that has helped to stabilize real GDP. In addition, stronger growth in some of Korea's major trading partners over the past few months, especially in China, has also contributed to the increase in industrial production so far this year. The value of Korean exports in April was up more than 40 percent relative to the low that was reached in January.
- CPI inflation, which rose to a 10-year high of 5.9% in July, has subsequently receded to 3.6% as energy prices have collapsed and as the economy has weakened. The Bank of Korea slashed its policy rate rates by 325 bps between October and February, but it has subsequently been on hold as the economy has shown signs of stabilizing.
- The Korean won tumbled to an 11-year low versus the dollar in early March, but it has subsequently recouped most of its losses as Korean growth prospects have improved. The won likely will weaken a bit over the next few months or so, but we look for it to stabilize and move higher later this year as global growth prospects start to improve.



Source: IHS Global Insight, Bloomberg LP and Wachovia

Taiwan

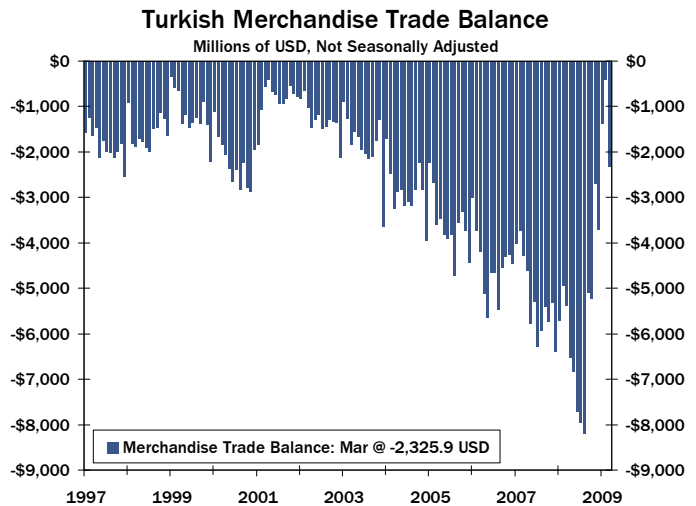
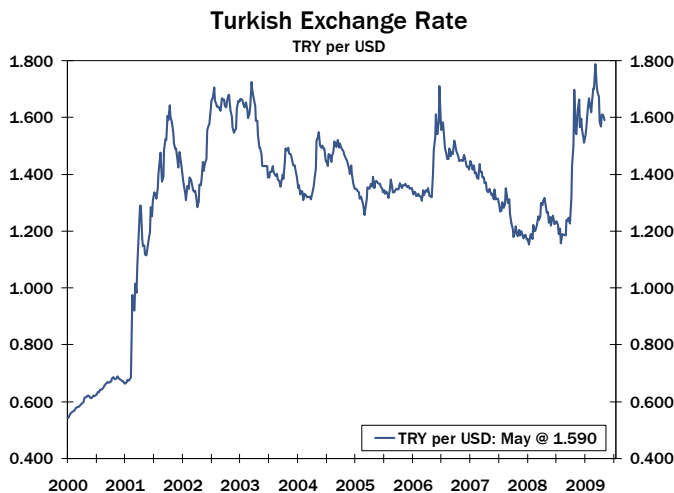
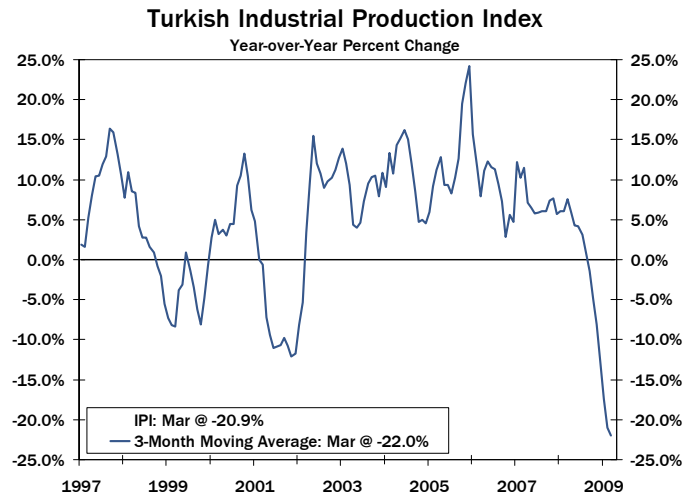
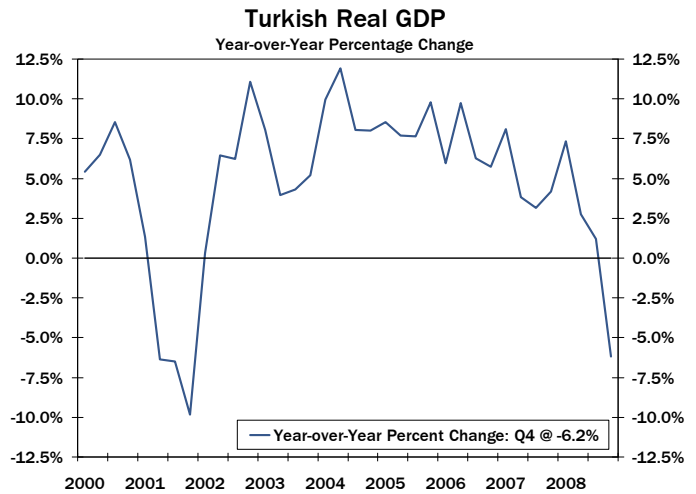
- Real GDP in Taiwan plunged 8.4% in the fourth quarter of 2008, the weakest year-over-year growth rate on record (the series begins in 1962). However, more recent indicators suggest that the economy may be stabilizing. Although industrial production in the first quarter was down about 30 percent relative to the same period last year, it appears that IP is posting solid growth on a sequential basis.
- Growth in Taiwan has been driven by exports over the past few years, and the sharp downturn in the global economy has imparted a nasty shock to the Taiwanese economy. However, exports have strengthened a bit over the past few months as the Chinese economy has shown signs of stronger growth. In addition, the government enacted a fiscal stimulus program to counteract the effects of the global downturn. However, consumer spending, which was not very strong before the global credit crunch, remains in the doldrums.
- CPI inflation, which rose to nearly six percent last summer, has turned slightly negative recently. The central bank has cut its main policy rate to only 1.25% at present.
- The Taiwanese dollar declined to an all-time low versus the U.S. dollar in early March. The currency has recouped most of its losses recently, but we look for it to weaken slightly vis-à-vis the greenback over the next few quarters as global growth prospects remain clouded. Further out, however, the Taiwanese dollar should strengthen anew as the global recovery gets on firmer footing.



Source: IHS Global Insight, Bloomberg LP and Wachovia

Turkey

- Real GDP tumbled 6.2% in the fourth quarter, the sharpest year-over-year contraction since the deep recession in the wake of the country's balance-of-payments crisis in 2001. Industrial production weakened even further in the first three months of 2009, suggesting that the economy contracted even more in the first quarter. The value of Turkish exports is currently down nearly 30% relative to last year.
- Inflation was the big issue throughout most of 2008, but overall CPI inflation has subsequently receded to the lowest rate in decades (6.1% currently) due to economic weakness and the swoon in energy prices. The central bank, which had been tightening policy earlier in 2008, has slashed rates by 700 bps since mid-November. More easing likely will occur in the months ahead.
- Turkey continues to post a current account deficit, but the red ink in the country's external account is much smaller than it was just a few quarters ago. Although the improvement in the current account makes the country less reliant on foreign capital inflows, the value of Turkish assets likely will remain vulnerable, at least in the near term, to the whims of foreign investors.
- The Turkish lira dropped to an all-time low against the dollar in early March as risk aversion spiked. The lira has strengthened in recent weeks, but we look for it to depreciate over the next few quarters as global economic conditions remain very weak. However, the lira should begin to appreciate on a trend basis next year as the global economy begins a slow process of recovery.

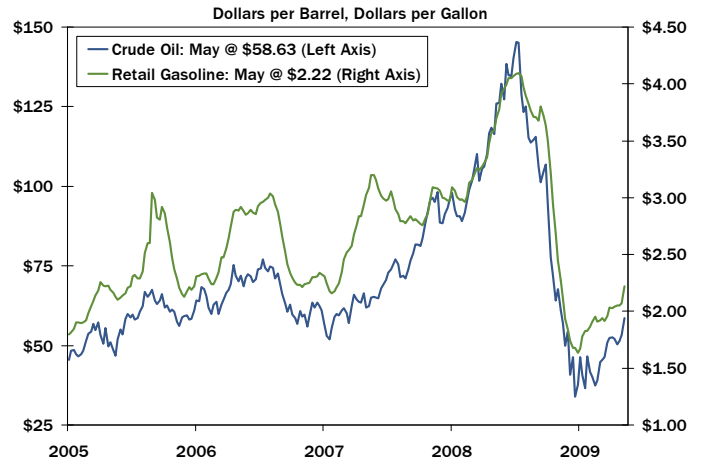


Source: IHS Global Insight, Bloomberg LP and Wachovia

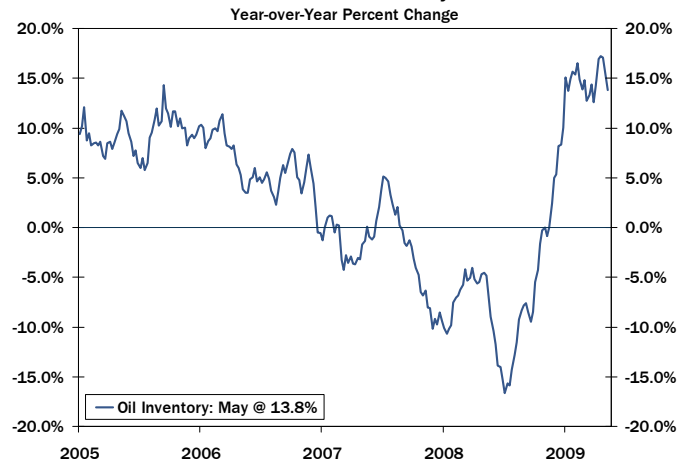
Energy Markets

- Petroleum prices fell sharply last year as the global economy weakened significantly in the wake of the credit crunch. Crude prices have risen somewhat over the past few months on signs that the freefall in global economic activity may be starting to level out. Further price increases may be constrained, however, by elevated inventories. U.S. stocks of crude oil are up about 15 percent above their levels at this time last year, and distillate stocks have shot up about 30 percent over the past year.
- In contrast, gasoline inventories are leaner at present—they are flat on a year-over-year basis. Refiners are attempting to rebuild their margins, which became squeezed last year when oil prices collapsed, by cutting back production of gasoline. Gasoline prices have risen relative to crude prices recently as inventories of the former have declined.
- Natural gas has not been immune to the same forces that have driven oil prices over the past year. Indeed, the price of natural gas in the United States is down roughly 70 percent from its peak last July as gas in storage is up 30%. The collapse in industrial production has eaten sharply into the industrial use of natural gas.
- It is hard to envision another moonshot in energy prices until global economic activity starts to strengthen significantly. Crude prices should drift higher this year and into 2010 as modest growth returns to the global economy.

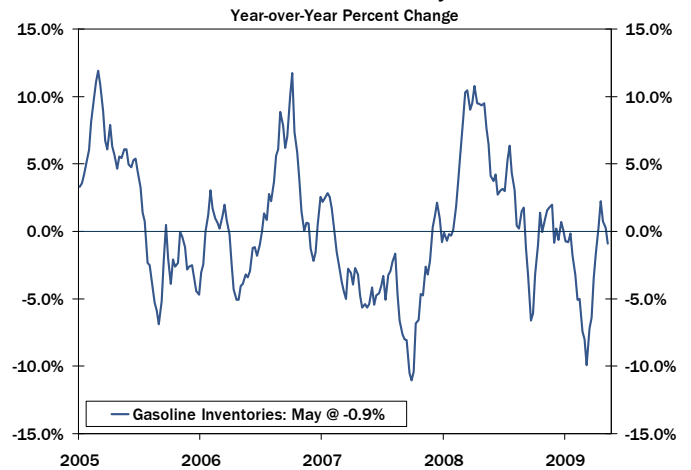
Crude Oil & Gasoline Prices



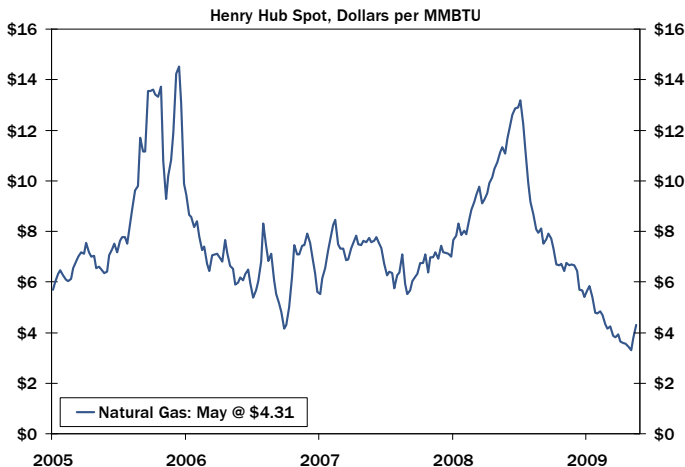
Crude Oil Inventory



Gasoline Inventory



Natural Gas



Source: Moody's Economy.com and Wachovia

Wachovia Economics Group

Diane Schumaker-Krieg	Global Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@wachovia.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wachovia.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wachovia.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wachovia.com
Gary Thayer	Senior Economist	(314) 955-4277	gary.thayer@wachovia.com
Sam Bullard	Economist	(704) 383-7372	sam.bullard@wachovia.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wachovia.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wachovia.com
Adam G. York	Economist	(704) 715-9660	adam.york@wachovia.com
Tim Quinlan	Economic Analyst	(704) 374-4407	tim.quinlan@wachovia.com
Kim Whelan	Economic Analyst	(704) 715-8457	kim.whelan@wachovia.com
Yasmine Kamaruddin	Economic Analyst	(704) 374-2992	yasmine.kamaruddin@wachovia.com
Samantha King	Economic Research Analyst	(314) 955-2635	samantha.king1@wachovia.com

Wachovia Economics Group publications are published by Wachovia Capital Markets, LLC ("WCM"). WCM is a US broker-dealer registered with the US Securities and Exchange Commission and a member of the New York Stock Exchange, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal, or the entity that provided this report to them, if they desire further information. The information in this report has been obtained or derived from sources believed by Wachovia Capital Markets, LLC, to be reliable, but Wachovia Capital Markets, LLC, does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of Wachovia Capital Markets, LLC, at this time, and are subject to change without notice. © 2009 Wachovia Capital Markets, LLC.

