

**Economics Group**

**Special Commentary**

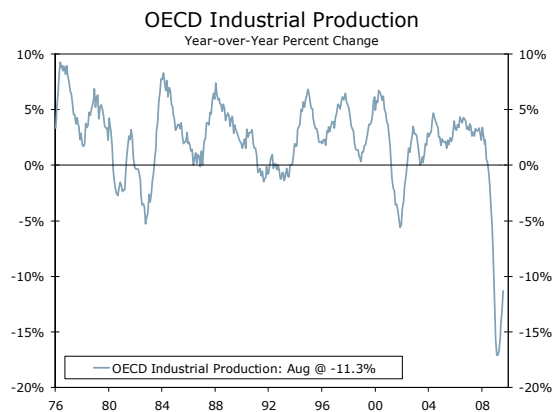
**Global Chartbook: November 2009**

**Executive Summary: The Worst Is Behind Us. Now What?**

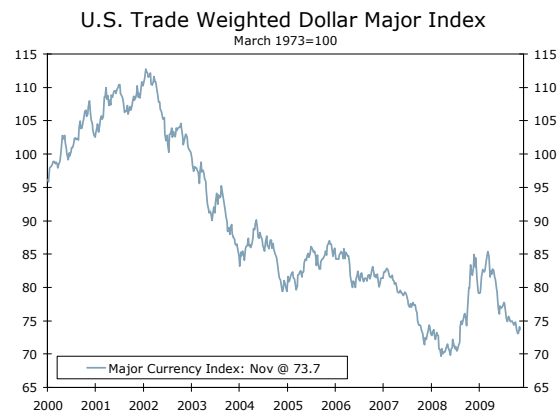
The global economy plunged into its deepest recession in decades last autumn as financial markets seized up in the wake of Lehman Brothers’ failure. By early this year industrial production in the 30 countries that comprise the Organisation for Economic Cooperation and Development was down more than 15 percent from year-earlier levels (Figure 1).

It could have been far worse, however. The governments of the world’s major countries averted catastrophe last year by taking steps to prevent a wholesale collapse of their financial systems via recapitalization, loan guarantees and increased deposit insurance. In addition, governments responded to the crisis with stimulative economic policies. Major central banks slashed policy rates to unprecedented levels, and governments in most major countries opened the fiscal taps.

**Figure 1**



**Figure 2**



**Source: IHS Global Insight, Organisation for Economic Cooperation and Development, Bloomberg LP and Wells Fargo Securities, LLC**

There are signs that the medicine is having its desired effects and that growth is returning to most economies. The global recovery is being led by Asia where growth turned positive again earlier this year. The financial systems of most Asian economies were not nearly as levered as their western counterparts, so banks in the region were able to ramp up lending again. In addition, most Asian governments responded to the crisis with expansionary fiscal policy. The year-over-year GDP growth rate in China rebounded to a strong 9 percent in the third quarter of 2009, but the expansion is not confined to only China. Many other countries in the region, including the large economies of Japan, Korea and Taiwan, are posting positive growth rates again.

Major economies appear to be stabilizing as well. The U.S. economy expanded at an annualized rate of 3.5 percent in the third quarter. The temporary effects of fiscal stimulus certainly played a role in the positive outturn in the third quarter, but increases in consumer purchases of

<u>Contents</u>	<u>Page</u>
World .....	3
United States .....	4
Euro-zone .....	5
Japan.....	6
United Kingdom .....	7
Australia.....	8
Canada .....	9
Norway.....	10
Singapore .....	11
South Korea .....	12
Sweden.....	13
Switzerland .....	14
Taiwan .....	15
Argentina .....	16
Brazil.....	17
Chile .....	18
China.....	19
India.....	20
Mexico.....	21
Poland .....	22
Russia.....	23
South Africa .....	24
Turkey .....	25
Dollar .....	26
Energy.....	27



nondurable goods and business spending on equipment and software indicate that there is more to the story than simply fiscal stimulus. Monthly indicators suggest that real GDP growth in the Euro-zone turned positive as well in the third quarter. The Japanese economy probably posted its second consecutive quarter of growth in the third quarter.

Will the global economy slip back into recession again? Probably not. Production was slashed much faster than final demand in most economies, which led to sharp declines in inventories. The unprecedented liquidation of inventories appears to be coming to an end, and producers should continue to boost production to bring output back into alignment with final sales. In that regard, stimulus measures enacted late last year and earlier this year are helping to boost activity. Most western economies should post positive growth rates over the next few quarters. That said, the modest global upturn that appears to be underway remains fragile, and self-sustaining recoveries, especially in most advanced economies, have not yet been firmly established.

On a purchasing power parity basis, we forecast global GDP will decline about one percent in 2009. Although our projection may not sound “bad,” global GDP has never contracted, at least not since the International Monetary Fund began calculating the series in 1970. We project that the global economy will grow close to its long-run average of 3.6 percent in 2010 before accelerating to roughly 4 percent in 2011. Relative to 2004-2007, however, when global GDP grew nearly 5 percent per annum, the global recovery that we project over the next few years may seem a bit sluggish. Indeed, we project that growth in the United States and in some western European economies will be held back by slow growth in consumer spending as individuals attempt to delever and repair battered balance sheets.

Inflation rates in most countries shot higher in the first half of 2008 and commodity prices went through the roof. On a global basis, CPI inflation rose to 6 percent in 2008, the highest rate in about 10 years. However, the global downturn caused commodity prices to collapse, and global inflation has receded significantly this year. Despite unprecedented amounts of monetary stimulus, inflation should not really be an issue until the global economy truly strengthens. Due to the slow recovery that we project, we believe that inflation in most countries will largely remain benign over the next few years.

### **The Dollar Should Appreciate Modestly versus Major Currencies**

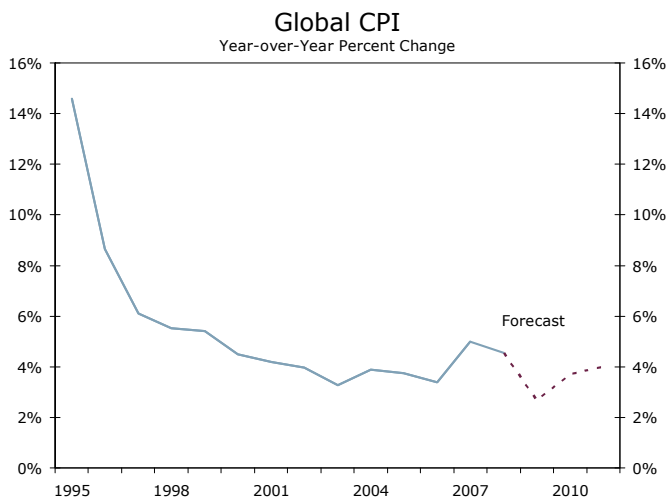
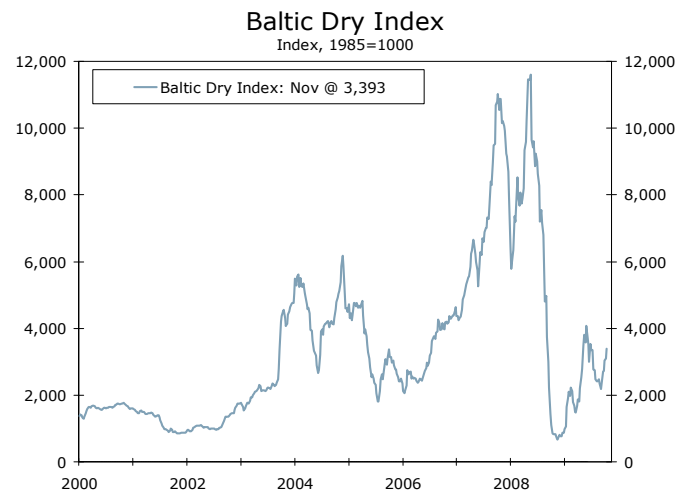
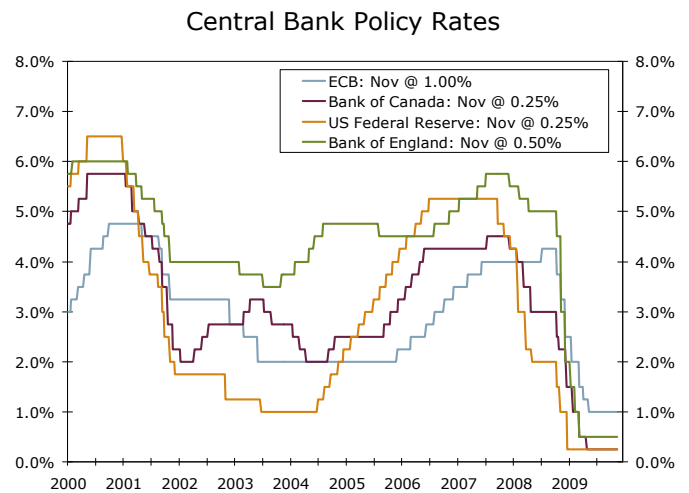
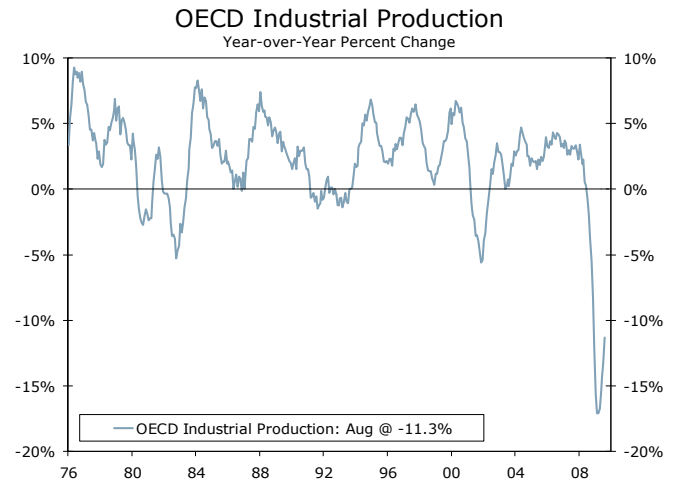
The dollar strengthened significantly last autumn as risk aversion spiked. U.S. Treasury securities are considered to be the safest assets in the world, and massive buying of U.S. government bonds by foreign investors contributed to the dollar’s strength. However, the greenback has given up most of its gains over the past few months as investors have turned less risk averse. With stock markets rising in most countries and corporate bonds rallying, the safety of low-yielding U.S. Treasury securities is not as compelling as it was only a few months ago when worst-case scenarios did not seem farfetched.

Looking ahead, the currency strategy team of Wells Fargo projects that the dollar will trend modestly higher against most major currencies. Investors expect that most major central banks, including the Federal Reserve, the European Central Bank and the Bank of England, will be on hold until well into next year. Therefore, expected changes in short-term interest rates will not have as much of an influence on exchange rates as in the past. As the U.S. recovery gathers steam, foreign investment flows into long-term securities (e.g., corporate bonds and equities) and direct investment inflows should resume, helping to lift the greenback. In addition, the decline in the U.S. current account deficit will exert less headwinds on the greenback than it did earlier this decade when the dollar was trending lower.

However, most “commodity” and emerging market currencies should continue to trend higher versus the greenback in the quarters ahead. The global recovery should cause most commodity prices to drift higher, which should help to support “commodity” currencies (e.g., the Aussie dollar). In addition, rising levels of risk tolerance should cause capital to flow to “risky” developing countries, which should put upward pressure on many of those currencies.

## World

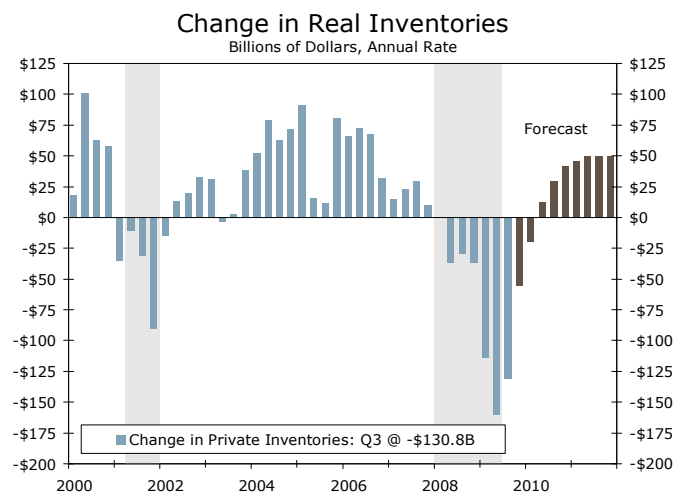
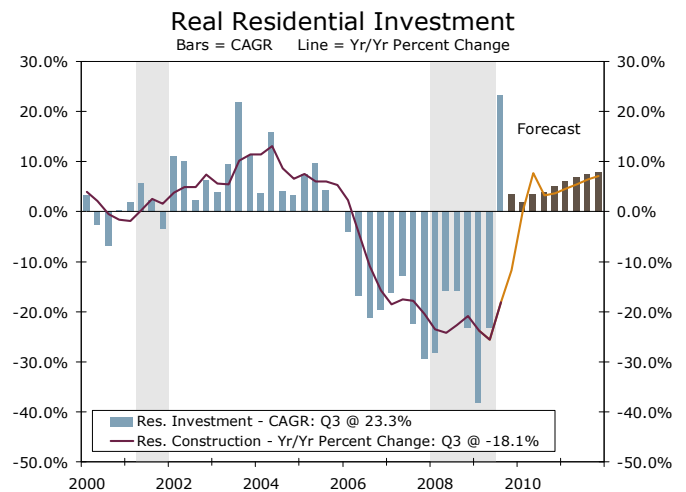
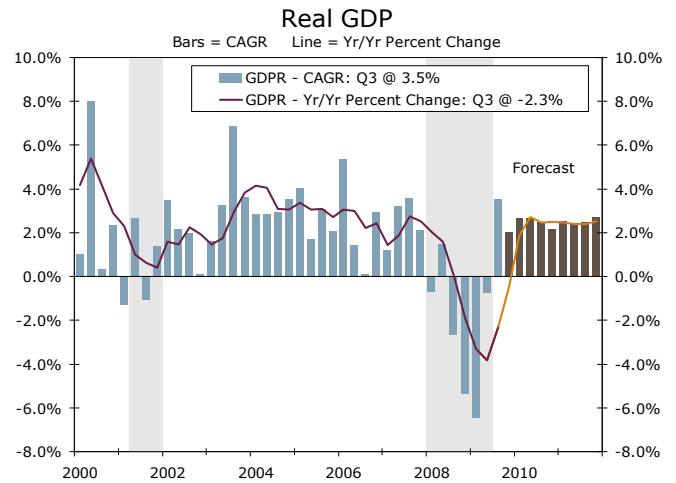
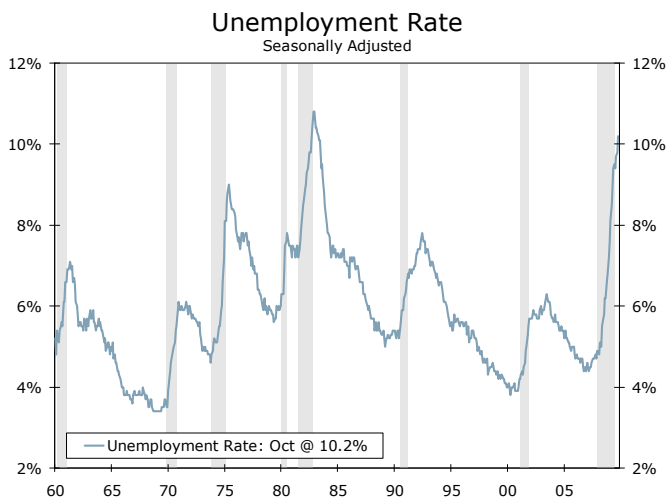
- The global economy fell into its deepest recession in decades as capital markets locked up in the wake of the Lehman Brothers bankruptcy. Fortunately, the central banks and governments of the major economies of the world averted disaster by slashing interest rates, undertaking fiscal stimulus and taking steps to support the global financial system.
- There are clear indications that the global economy is starting to recover, although levels of activity remain well below year-earlier levels in many countries. Commodity prices are off their cyclical lows and the rise in the Baltic Dry index, which measures international shipping prices of dry bulk cargoes, suggests that global trade is starting to pick up again. Moreover, “hard” data show that industrial production is beginning to expand in most economies.
- Asia, which did not have overly leveraged financial systems heading into the crisis, is leading the world out of recession. However, both the United States and the euro area appear to be turning the corner as well.
- Inflation rates were pushed up last year by strong growth and the sharp rise in commodity prices. However, the deep global recession has caused inflationary pressures to recede significantly. Although monetary tightening has commenced in some small countries, most major central banks (e.g., the Fed and the ECB) will not begin to hike rates until well into 2010.



Source: Bloomberg LP, Federal Reserve Board, IHS Global Insight, International Monetary Fund and Wells Fargo Securities, LLC

## United States

- The United States recently endured its deepest recession in decades. Between Q2 2008 and Q2 2009, the economy contracted about 4 percent. However, real GDP rebounded in the third quarter, rising at an annualized rate of 3.5 percent.
- Some of the lift in the third quarter reflects the temporary effects of government stimulus. “Cash for Clunkers” contributed to the 22 percent jump in durable goods purchases, and home building was stimulated by the first-time home buyer tax credit. However, growth in other areas of private spending, such as consumer purchases of non-durable goods and services and business spending on machinery and software, shows there was more to overall GDP growth in the third quarter than simply government stimulus.
- Despite the rise in real GDP in the third quarter, a self-sustaining recovery has not yet truly taken hold. Unemployment has shot up to the highest rate since the early 1980s, and it will likely climb a bit further in the months ahead.
- The pace of growth probably will remain very slow for the next year or so. Many consumers need to de-lever further, which will likely constrain growth in consumer spending for the foreseeable future. The Fed has acknowledged that it will be on hold “for an extended period,” and we do not look for it to begin normalizing policy until the second half of 2010, at the earliest.

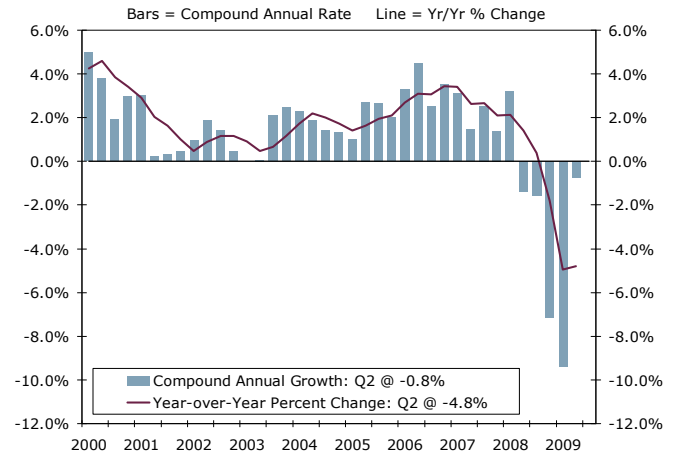


Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities, LLC

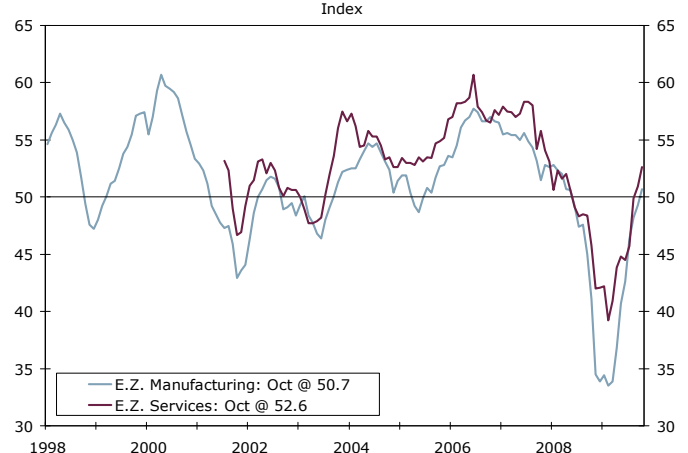
## Euro-zone

- Since peaking in the first quarter of 2008, real GDP in the Euro-zone has contracted more than 5 percent, making the current downturn the worst in decades. Not only did exports take a sizable hit, but domestic demand weakened as well as credit markets ground to a halt in the wake of the Lehman Brothers bankruptcy.
- Official GDP data have not been released yet, but there are indications that growth turned positive again in the third quarter. The purchasing managers' indices for the manufacturing and service sectors moved into expansion territory during the quarter, and "hard" data show that industrial production grew at a solid rate in the first two months of the third quarter.
- Although the worst may be over, we believe that the recovery in the Euro-zone will prove to be frustratingly slow. There are a few important economies in which consumers became highly geared. In our view, sluggish growth in consumer spending in these economies will restrain the overall GDP growth rate in the Euro area. In addition, economic weakness in eastern Europe should constrain growth in exports from the Euro-zone.
- The European Central Bank slashed its main policy rate to 1.00 percent in May, and it has been on hold subsequently. With a fragile recovery and with few inflationary pressures at present, we project that the ECB will refrain from tightening policy until the second half of next year.

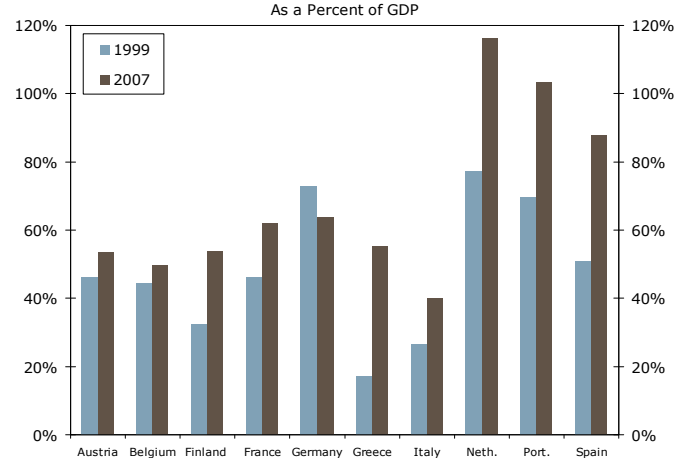
Euro-zone Real GDP



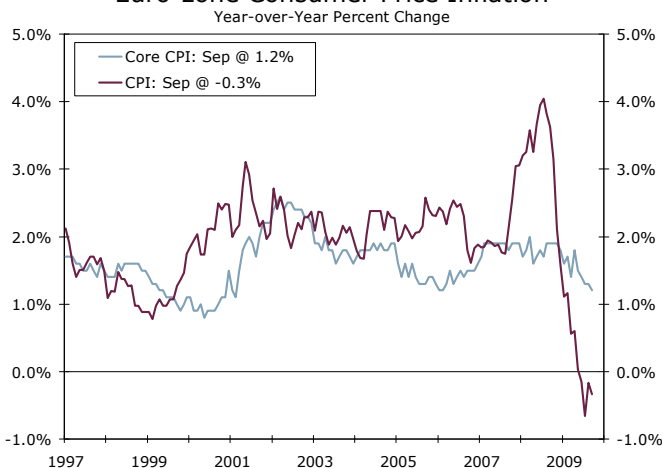
Euro-zone Purchasing Manager Indices



Household Liabilities in the Euro-zone



Euro-zone Consumer Price Inflation

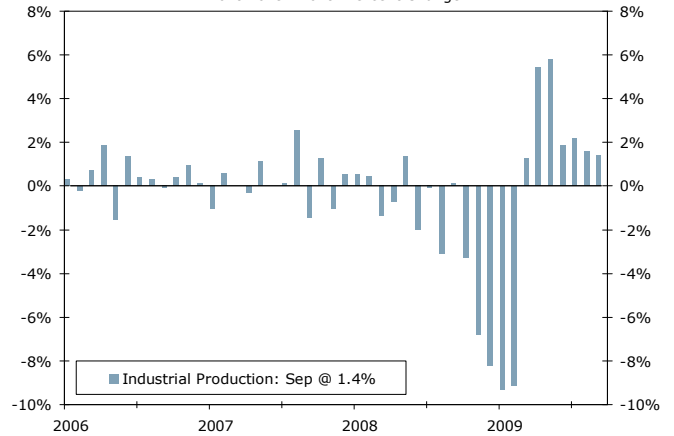


Source: Bank of England, EuroStat, IHS Global Insight, Statistics Canada and Wells Fargo Securities, LLC

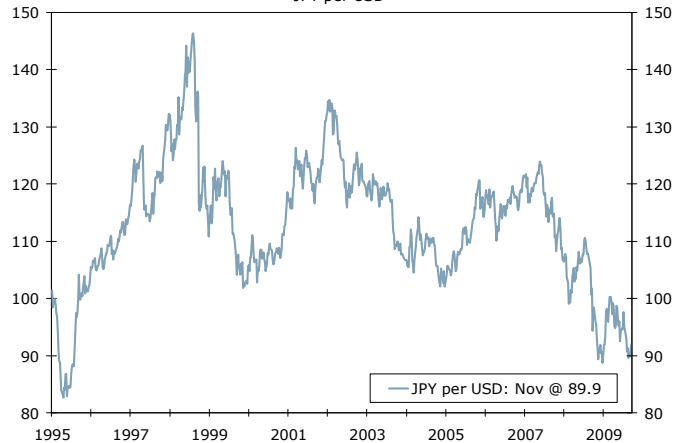
## Japan

- Japan's economy started growing again in the second quarter, and growth continued into the third quarter. The most visible sign of expansion is the rebound in Japan's industrial production. Industrial production rose another 1.4 percent month-over-month in September, extending the rebound to seven consecutive months. Japan's industrial production has already retraced about half of the amount that was lost over the prior five months. September inventories were the lowest in five years, suggesting that production gains are sustainable.
- The strong yen may be denting Japan's export performance, however. Japan's export growth has struggled to advance at the same pace as its Asian neighbors such as China, South Korea, and Taiwan. On a seasonally adjusted basis, Japan's exports have slipped for three consecutive months, back down to April levels.
- Deflation is still firmly entrenched in Japan. The national core CPI edged up 0.1 percent in September relative to the previous month, but the overall CPI is down -2.3 percent from a year ago.
- The Bank of Japan is slowly removing its monetary accommodation as it acknowledges the economy is recovering. It will let its quantitative easing programs of buying commercial paper and corporate bonds expire at the end of the year, but remains in no hurry to raise its policy rate, expressing concern about downside risks to the economy and prices.

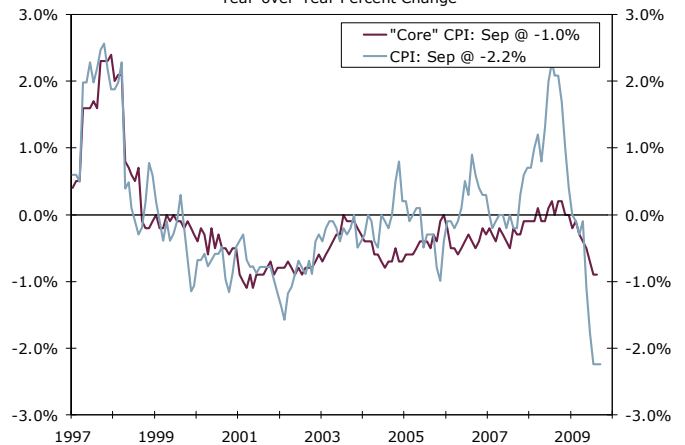
Japanese Industrial Production  
Month-over-Month Percent Change



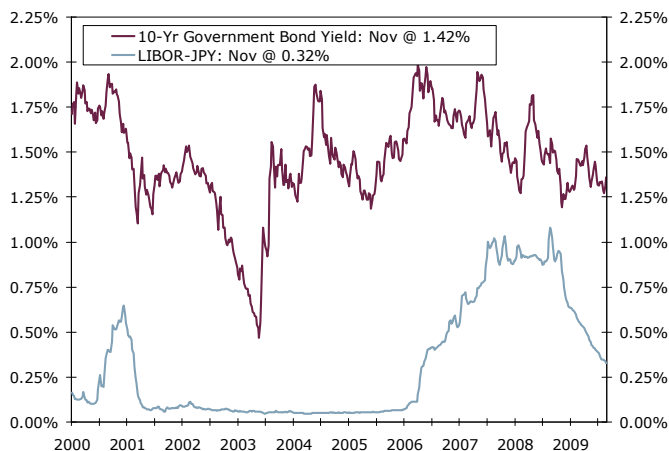
Japanese Exchange Rate  
JPY per USD



Japanese Consumer Price Index  
Year-over-Year Percent Change



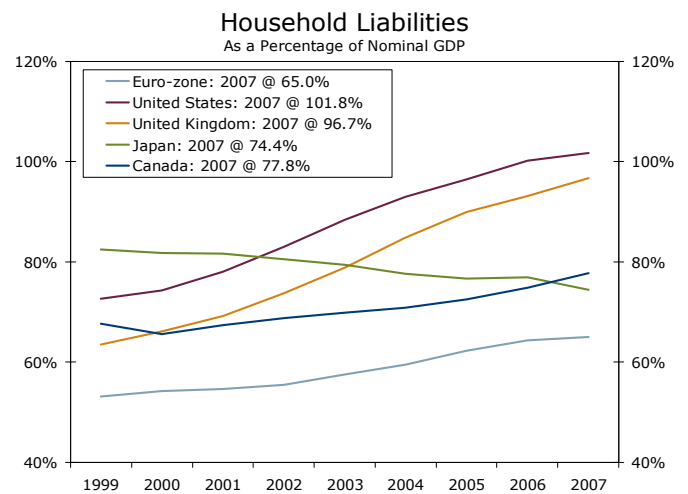
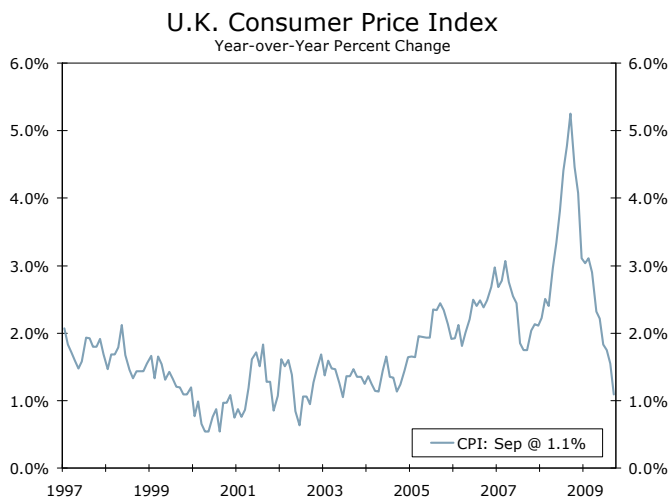
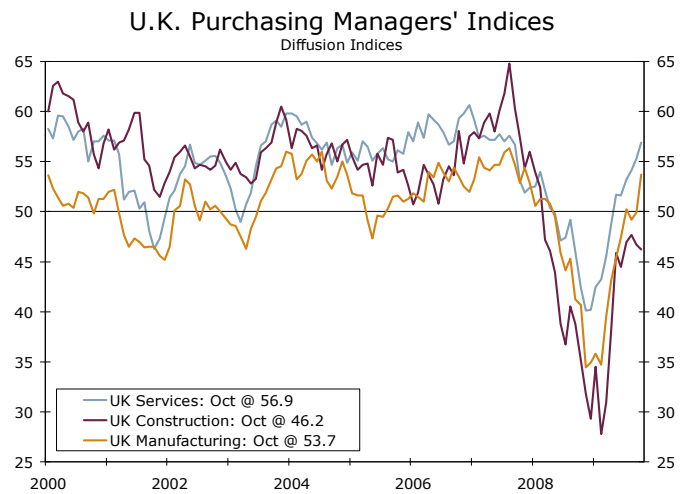
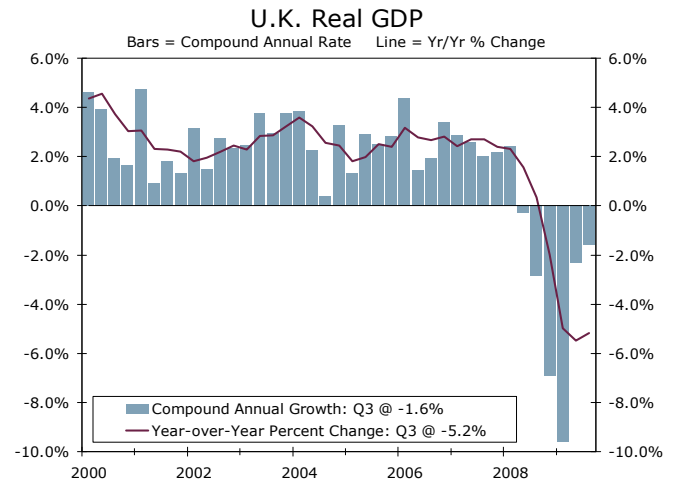
Japanese Interest Rates



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

## United Kingdom

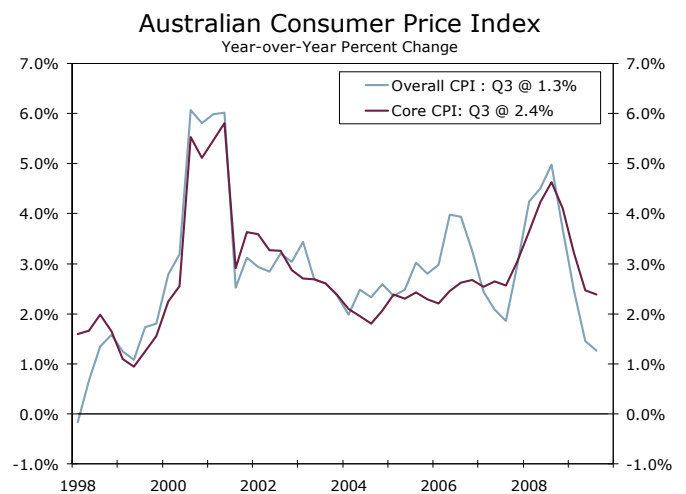
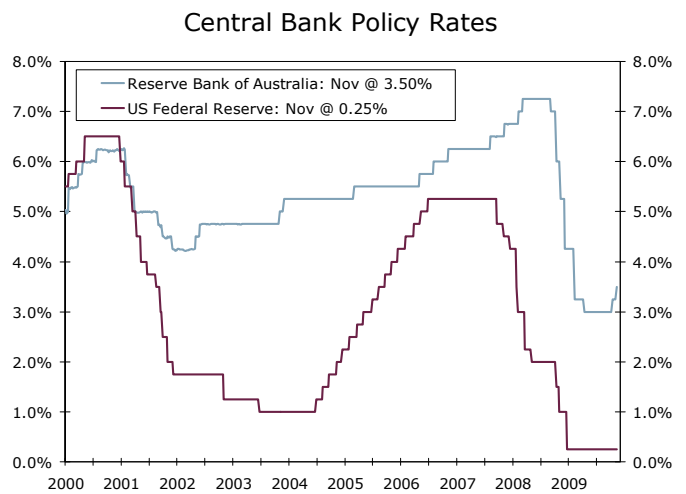
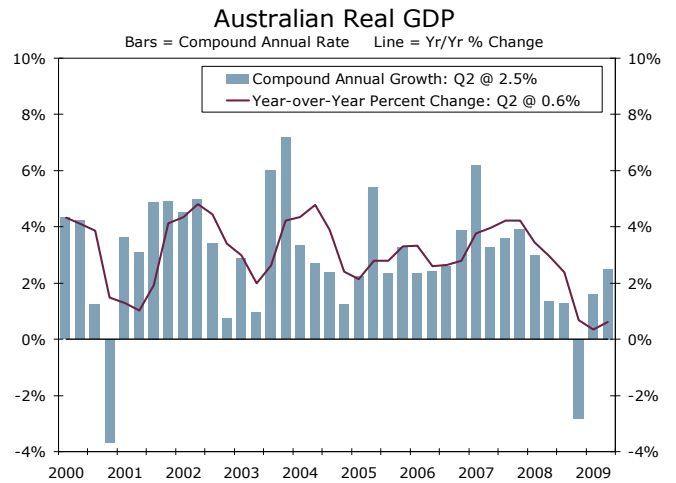
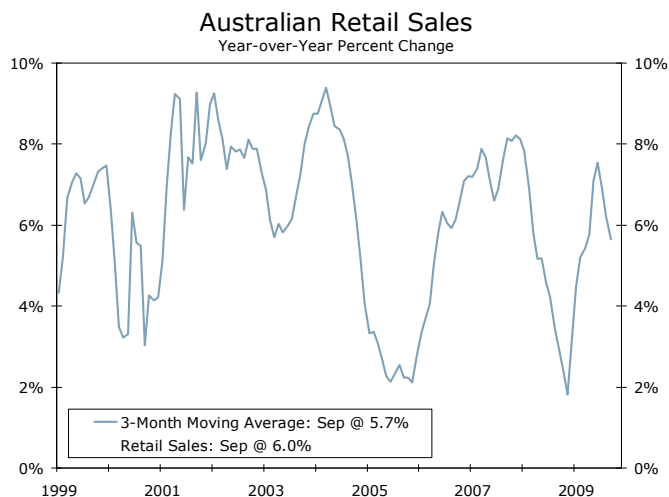
- Real GDP in the United Kingdom has declined for six consecutive quarters. Since peaking in the first quarter of 2008 British real GDP has plunged 6 percent, making the current slump as deep as the horrendous downturn in the late 1970s/early 1980s. Not only have exports tanked, but domestic demand has taken a sizable hit as well.
- There are some signs that the worst may be over. The purchasing managers' indices for the manufacturing and service sectors have moved into expansion territory, although "hard" data on industrial production have yet to confirm the upturn in manufacturing activity. Most indices of house prices have risen from their lows of earlier this year.
- As with their counterparts in the United States, British consumers have built up their leverage over the past decade or so, and it seems likely that a period of consumer retrenchment is in store. Therefore, we project that the upturn will prove to be very slow due, at least in part, to sluggish growth in consumer spending.
- The Bank of England has reduced its policy rate to only 0.50 percent and it is taking other steps, such as purchasing assets directly from the banking system, to support the economy. In our view, the recovery in the British economy will be very slow, at least over the next year or so, and inflation will remain benign. Therefore, we expect the Monetary Policy Committee to refrain from raising rates until well into 2010.



Source: Bank of England, EuroStat, IHS Global Insight, Statistics Canada, Bloomberg, LP and Wells Fargo Securities, LLC

## Australia

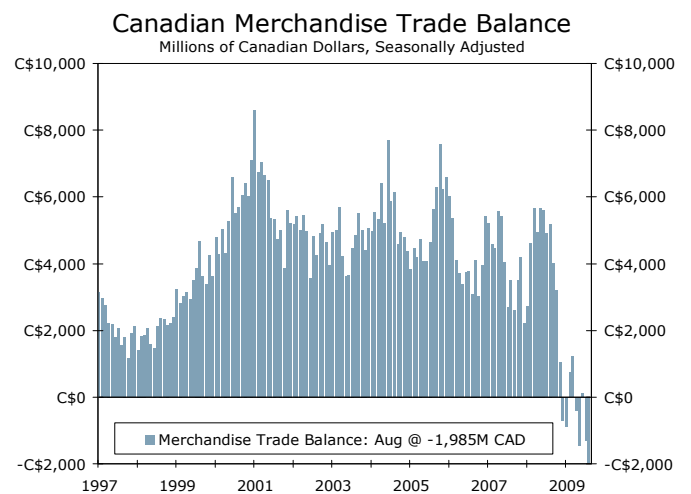
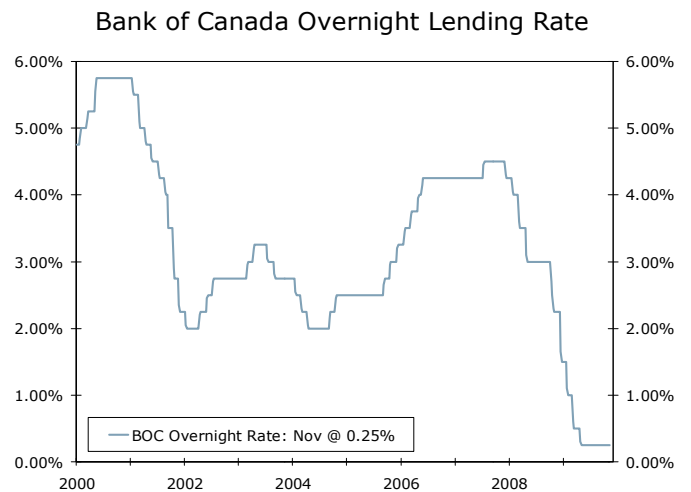
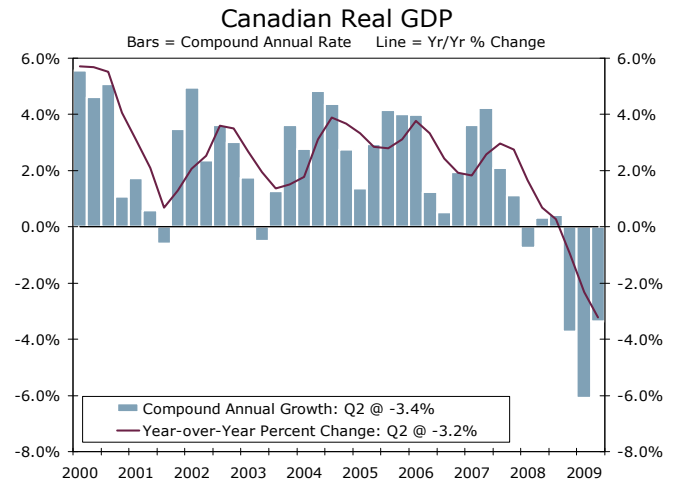
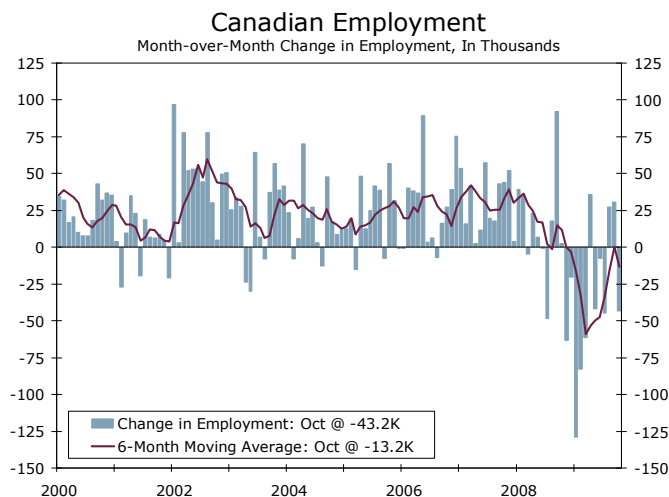
- Despite a global recession, Australia managed to avert a deep contraction in its economy. After a mild decline in real GDP of 2.2 percent in Q4 2008, growth returned to positive territory in the first and second quarters.
- The Royal Bank of Australia (RBA) is among the first foreign central banks to begin tightening monetary policy in this cycle. It lifted the cash rate by 25 bps to 3.25 percent in October, and then another 25 bps to 3.50 percent in November. In the RBA's accompanying statement, it noted that the "considerable downside risks" present when the bank decided to take the cash rate from 7.25 percent to 3.00 percent had abated and that the Australian economy now seems well on the way to recovery.
- Whether or not the RBA will continue to hike rates will depend on the inflation outlook and the pace of economic growth in Australia. Since the run-up in oil and other commodity prices in the summer of 2008, CPI inflation has come down in Australia, giving the RBA cover to continue to tighten if the bank sees fit.
- While the Australian economy has been resilient to the global slowdown, it has not been without its share of problems. Retail sales fell two out of three months in the third quarter, raising doubts about Australian consumers' willingness to spend without the help from the government incentives that fueled spending earlier this year. A choppy job market may also be weighing on consumers.



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

## Canada

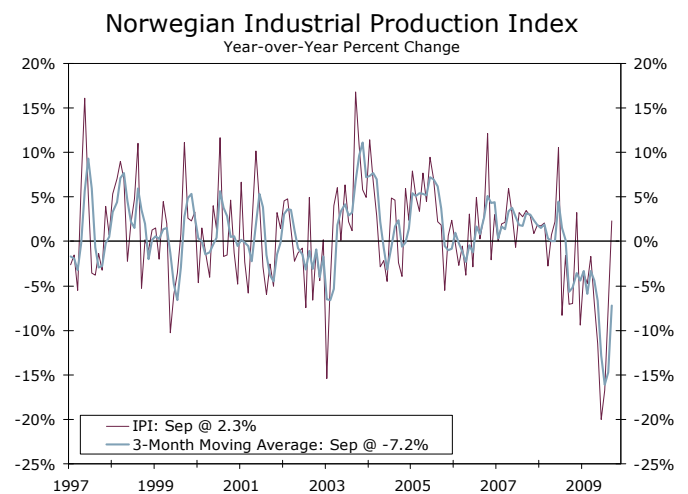
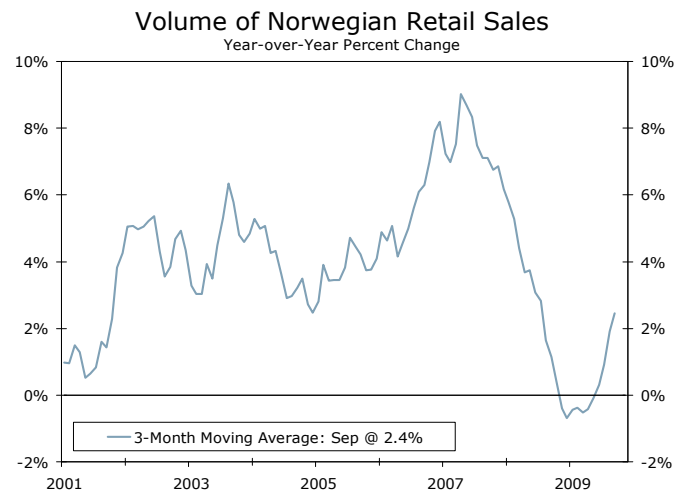
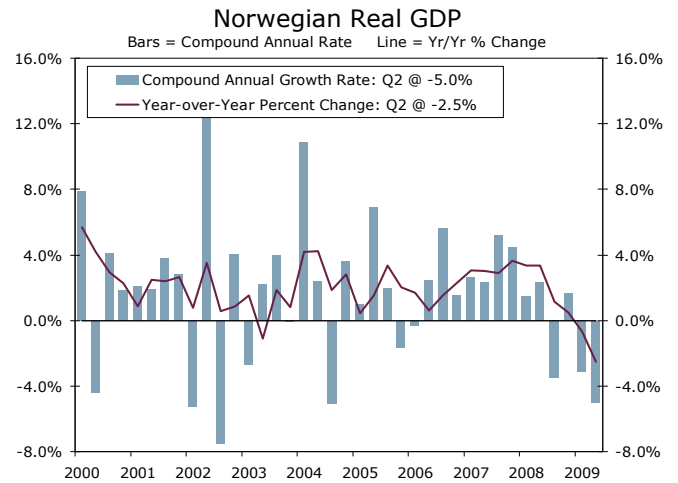
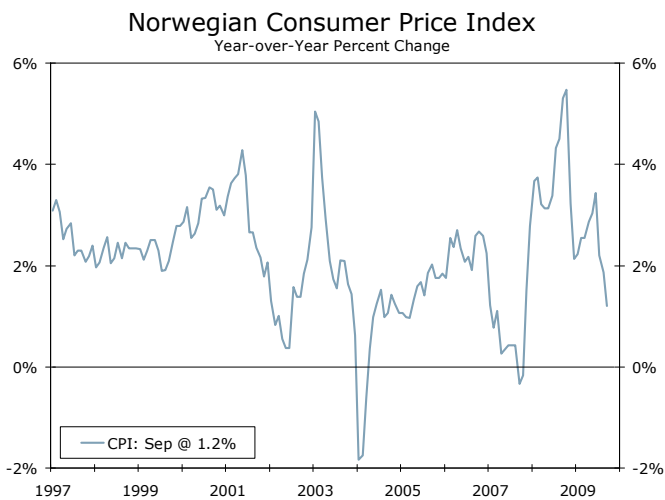
- Canadian GDP contracted at a 3.4 percent annualized pace in the second quarter as net exports of goods and services exerted the largest drag on growth. Monthly GDP data for the first two months of the third quarter suggest that the Canadian economy probably continued to contract in the third quarter, though it likely did so at a slower pace.
- There is still hope for a positive quarterly GDP number. Indeed, Bank of Canada (BoC) Governor Carney believes the recession has ended and expects positive growth for Q3. Real GDP would need to rise at least 0.5 percent in September, barring a revision to previous data, for him to be right. The BoC has also reiterated its conditional commitment to keep its target rate at 0.25 percent through the second quarter of 2010.
- Although net exports exerted a significant drag on growth in the second quarter, various indicators of global trade suggest that international commerce is beginning to pick back up. As long as the strong Canadian dollar does not make goods too expensive for foreigners, the economy may actually receive a boost from net exports in the coming months.
- The Canadian job market continues to be choppy. Canada added jobs in August and September, only to give up ground again in October. A sustainable recovery in employment is necessary to be supportive of the level of consumer spending that would be consistent with lasting recovery in the broader economy.



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

## Norway

- Due to its large petroleum sector, real GDP growth in Norway can be inherently volatile. That said, the 2.5 percent year-over-year decline in overall GDP that the economy registered in the second quarter is the steepest contraction in decades.
- However, there are indications that the economy rebounded in the third quarter. For starters, the volume of retail sales rose 1.1 percent (not annualized) relative to the previous quarter, and the value of exports edged higher. The combination of stronger consumer spending and exports led to a 0.3 percent rise in industrial production during the quarter.
- The overall rate of CPI inflation has declined to 1.2 percent. However, the core rate of inflation has been more stubborn; it currently is running at 2.4 percent, which is slightly above the central bank's target. With the unemployment rate remaining relatively low (2.6 percent at present) wage inflation could pick up as the economy strengthens.
- Norges Bank, the country's central bank, slashed its main policy rate from 5.75 percent last autumn to 1.25 percent in June. However, stating that "activity in the Norwegian economy has picked up more rapidly than expected," the central bank began a new tightening cycle with a 25 bps rate hike on Oct. 28. Further rate hikes, albeit at a gradual pace of tightening, probably lie ahead.

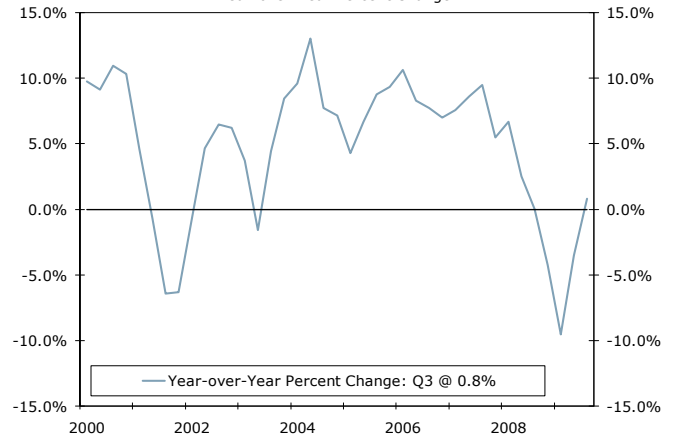


Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

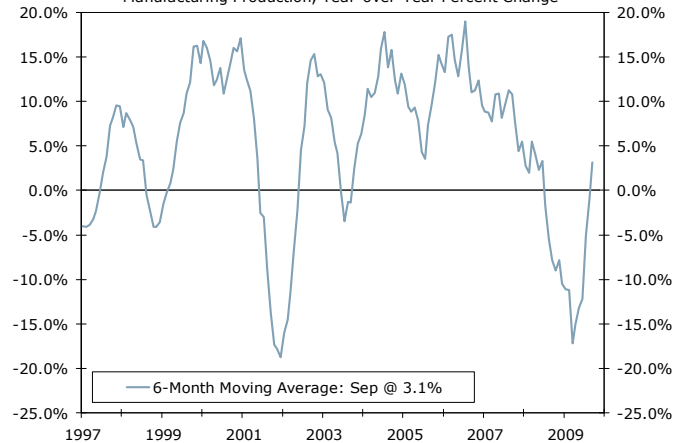
## Singapore

- Singapore's economy is bouncing back rapidly from the shocking collapse in activity late last year. Real GDP shot up at an annualized rate of 25 percent in the third quarter, which follows the 23 percent rise that was registered in the previous quarter. Singapore's GDP is now up 0.8 percent from a year ago. It appears that Singapore's economy will slightly outperform official projections of a 2.0 percent to 2.5 percent annual decline in GDP in 2009. These GDP growth estimates are nearly twice as good as officials expected back in March of this year, when they anticipated declines of between 4.0 percent and 6.0 percent of GDP in 2009.
- We have seen recent signs of weakness reemerging in industrial production and manufacturing surveys, suggesting that economic recovery will be two steps forward and one step back for awhile. Nothing at this point implies a return to recession, just a moderation in the pace of expansion we witnessed after the first quarter of this year.
- Singapore's industrial production index fell 9.1 percent in September and has declined for two consecutive months, following a strong summer rebound. Production has been held back by the volatile biomedical sector. Strong export growth, however, suggests that this hiccup in production will be short-lived and unsustainable.
- Singapore's consumers are back in the stores. Retail sales jumped 5.1 percent in August relative to the previous month.

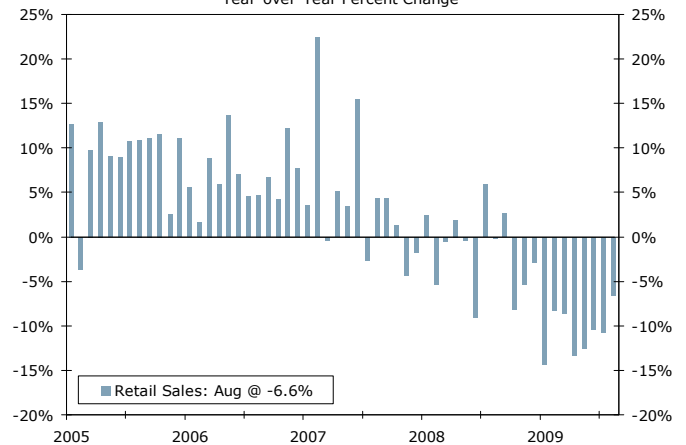
Singapore Real GDP  
Year-over-Year Percent Change



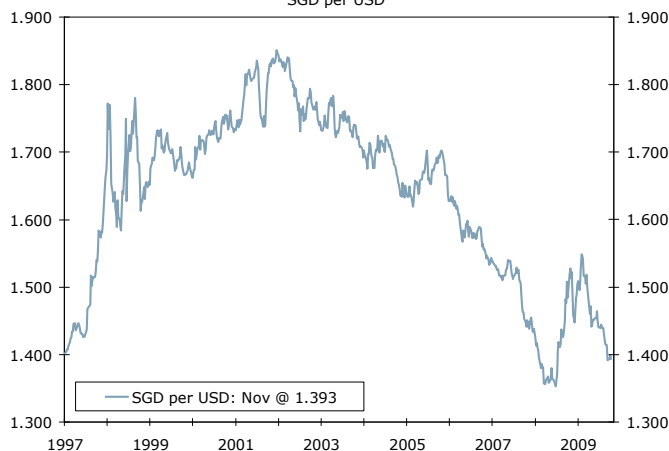
Singaporean Industrial Production Index  
Manufacturing Production, Year-over-Year Percent Change



Singapore Retail Sales  
Year-over-Year Percent Change



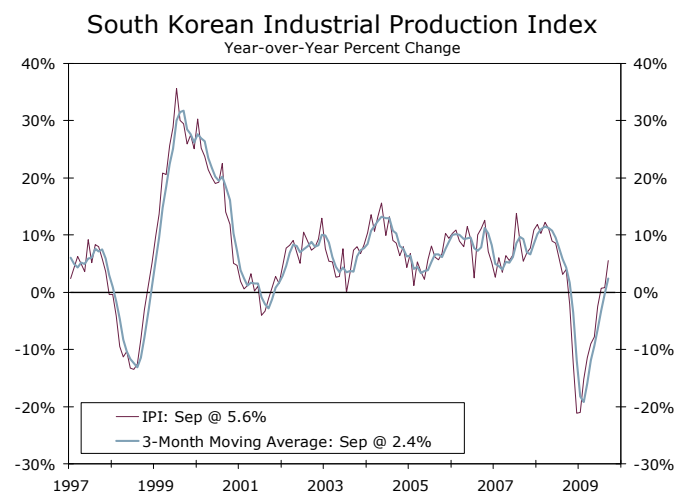
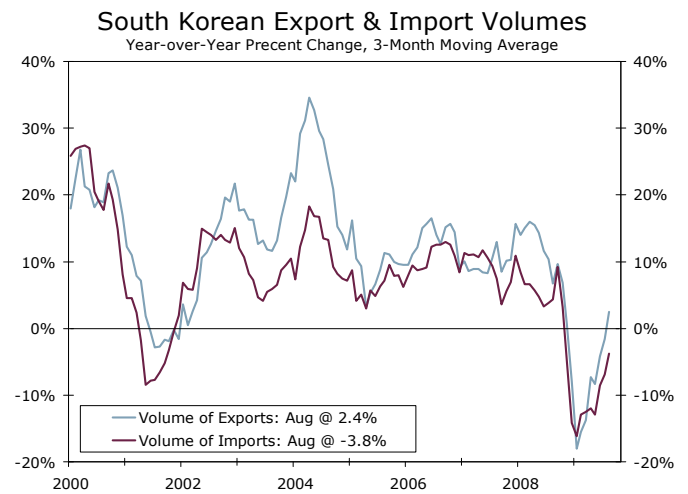
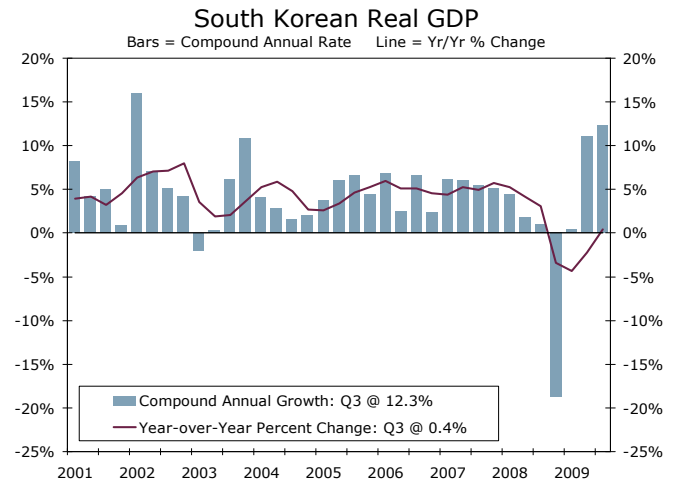
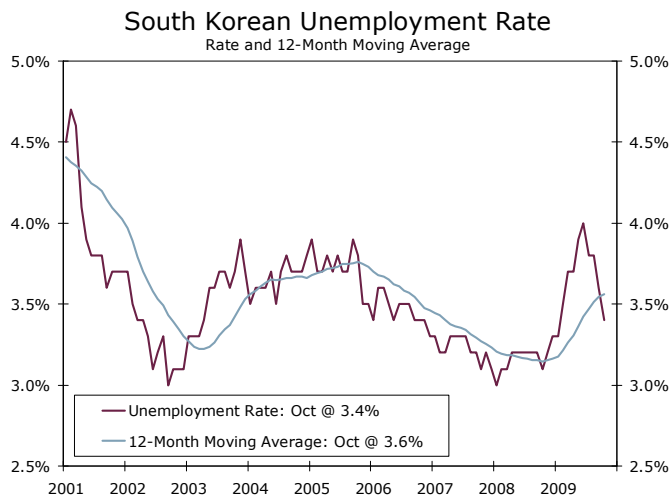
Singapore Exchange Rate  
SGD per USD



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

## South Korea

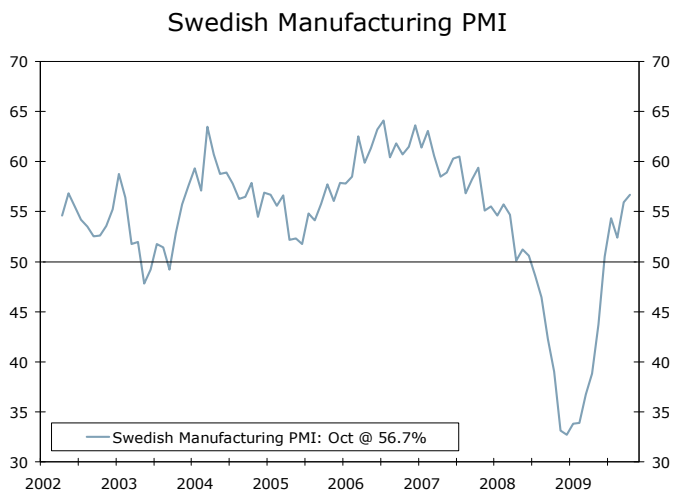
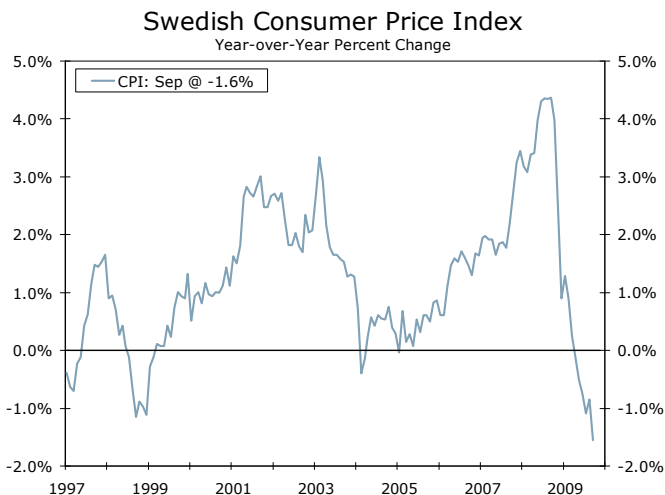
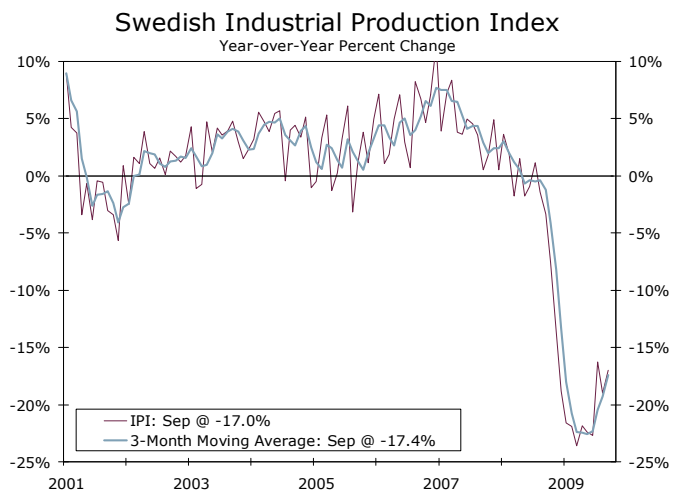
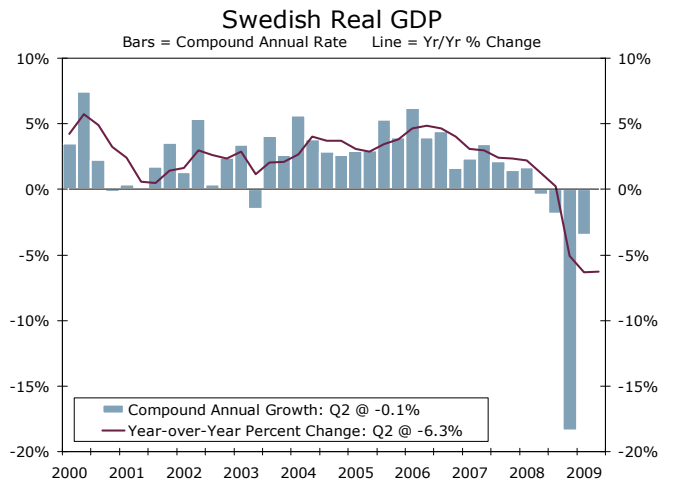
- South Korea's economy continues to rebound at a blistering pace from last year's stunning declines, leading to another round of forecast upgrades. Third-quarter GDP shot up at an annualized rate of 12.3 percent, which was much stronger than expected. These gains built on the second quarter's 11.0 percent gain. South Korea's GDP growth is now positive on a year-over-year basis. Broad-based gains are occurring in exports, domestic consumption, and business investment.
- South Korea's export gains are outpacing the region as global and regional trade recovers from depression-like levels. Key product markets, such as electronics and vehicle production, have bounced back smartly, and shipbuilding backlogs remain supportive.
- Korean industrial production continues to outperform expectations. Not only has the year-over-year growth rate in production returned to positive territory, but the level of IP is now more than 30 percent above the January low.
- Korea's labor market is visibly improved with unemployment easing to 3.4 percent in October from 4.0 percent in June, the highest level in eight years. Employment is up 0.4 percent from a year ago, but monthly job gains remain sluggish.
- The Bank of Korea kept its repo rate at 2.00 percent at the October policy meeting. It is possible that Korea will start raising rates around the turn of the year if the current pace of expansion continues.



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

## Sweden

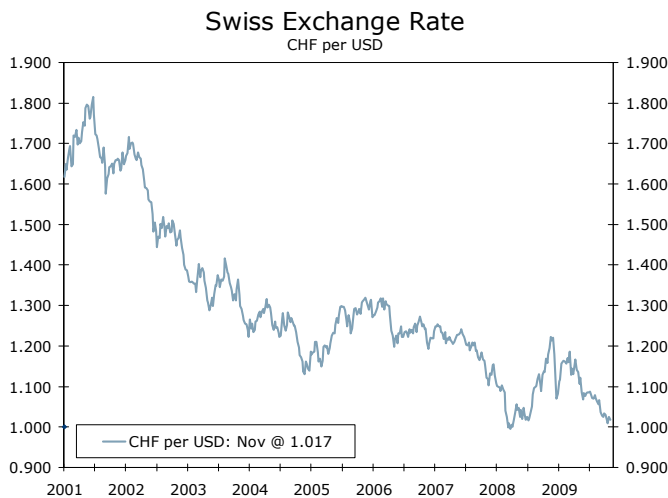
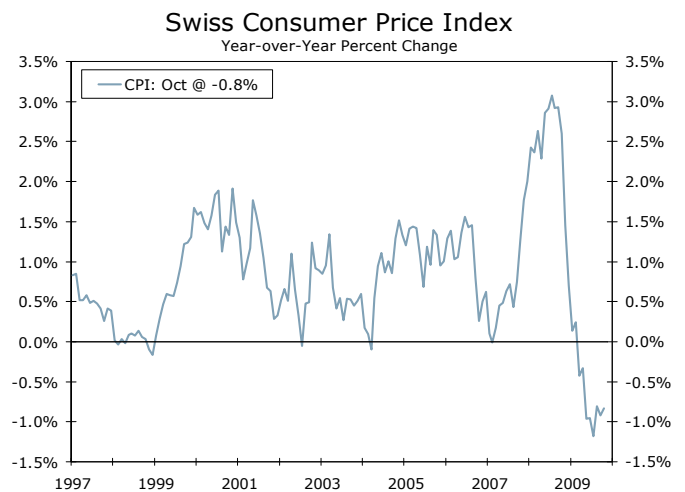
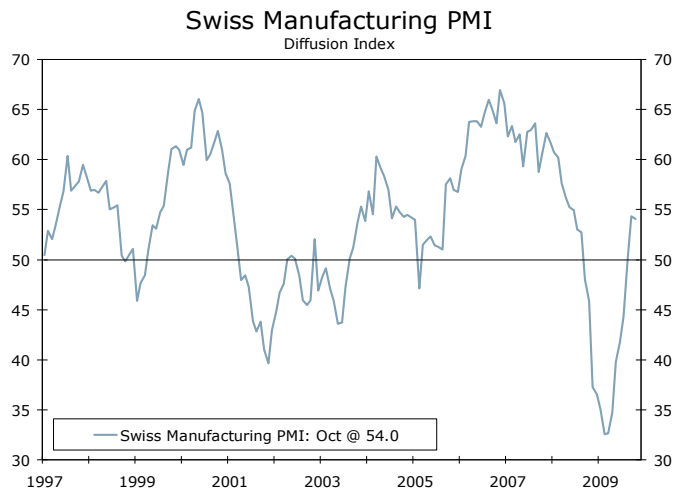
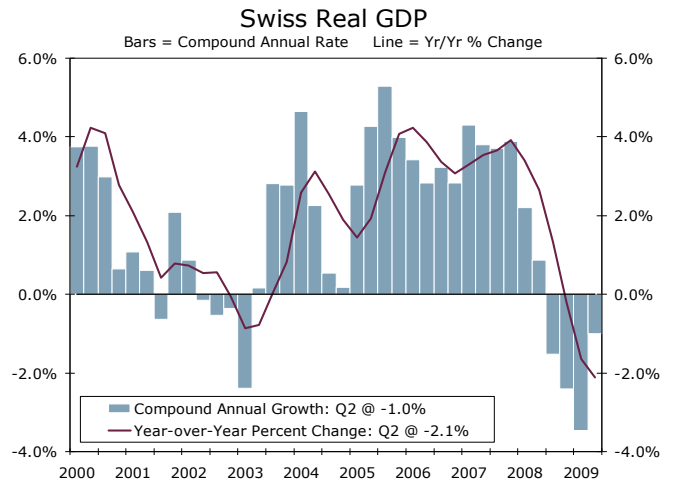
- The Swedish economy tanked last year, plunging more than 6 percent between the first quarter of 2008 and the first quarter of this year. Although real GDP was roughly flat in the second quarter, there is more to the outcome than meets the eye. The neutral growth rate occurred because imports contracted faster than exports. Most components of domestic demand remained weak.
- More recent data are mixed. The manufacturing PMI has rebounded quite sharply, and “hard” data show that industrial production rose 3.7 percent in the third quarter relative to the previous quarter. Although consumer spending is starting to strengthen, exports remain depressed. Because exports are equivalent to about 50 percent of Swedish GDP, the weakness in the export sector is exerting a drag on the entire economy.
- There are few inflationary pressures in Sweden at present. The overall rate of CPI inflation has dropped into negative territory, and the core rate of inflation has fallen to only 1.0 percent at present.
- The Swedish Riksbank (the country’s central bank) slashed its main policy rate to only 0.25 percent in July, where it has subsequently been maintained. With the recovery not truly self-sustaining yet and inflation benign, the Riksbank has publicly stated that it expects to be on hold until the autumn of next year.



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

## Switzerland

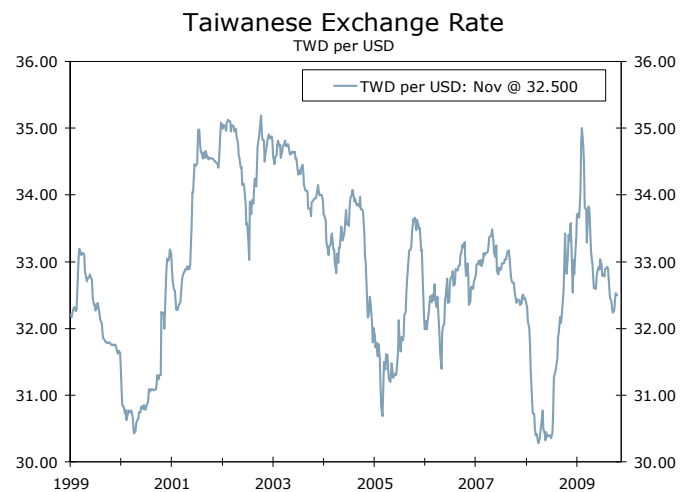
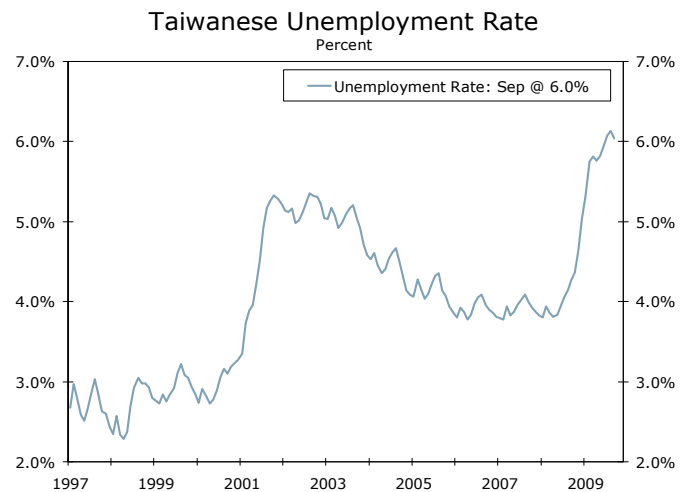
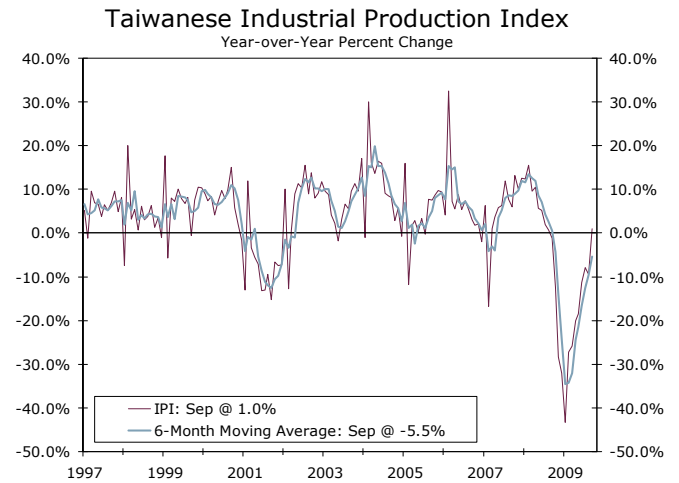
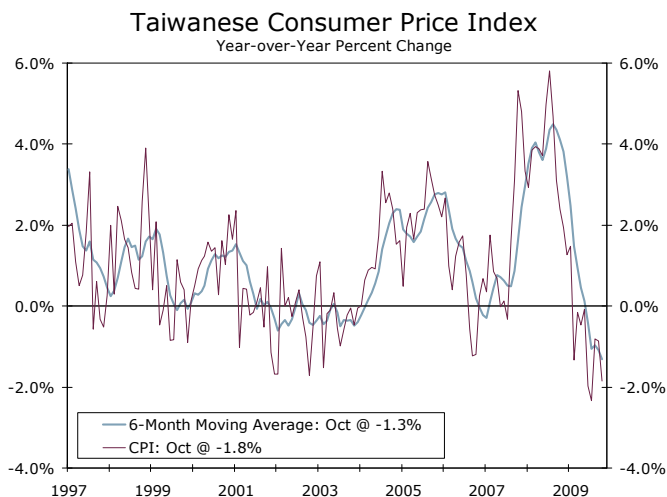
- Real GDP in Switzerland has declined for four consecutive quarters. Relative to the 5 percent contraction that the euro area has endured, the 2 percent decline in Swiss GDP seems mild. However, the current downturn is the deepest recession that Switzerland has experienced in at least 30 years.
- Because it is a small economy that is surrounded by many large neighbors, exports are very important to Switzerland. Consequently, the collapse in global trade last year caused industrial production to weaken significantly. Recent indicators suggest that the economy is starting to stabilize. For example, the value of Swiss exports has stopped declining, and the purchasing managers' index for the manufacturing sector has moved clearly into expansion territory.
- The rate of CPI inflation is negative at present. As in most other countries, however, the decline in the overall CPI is overstated by the collapse in petroleum prices over the past year. The core rate of inflation is still positive, although it has fallen below 1 percent recently.
- Because exports are so important to the Swiss economy, authorities play particularly close attention to the value of the Swiss franc. Indeed, the Swiss National Bank (SNB) intervened in the currency markets earlier this year to counter upward pressure on the franc. The SNB likely would intervene again if the currency were to strengthen, especially vis-à-vis the euro.



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

## Taiwan

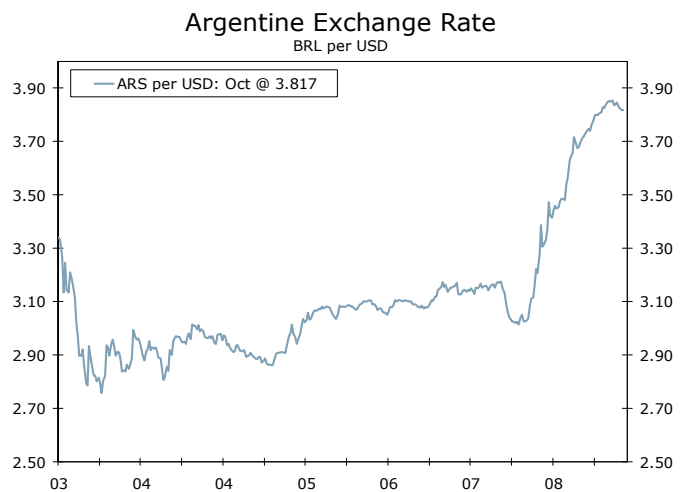
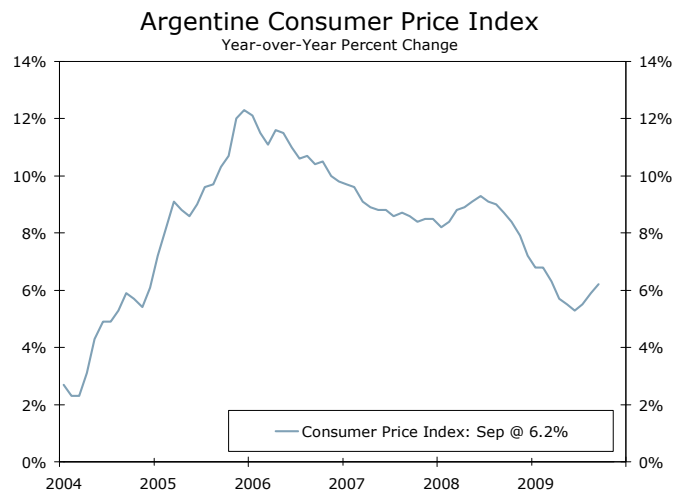
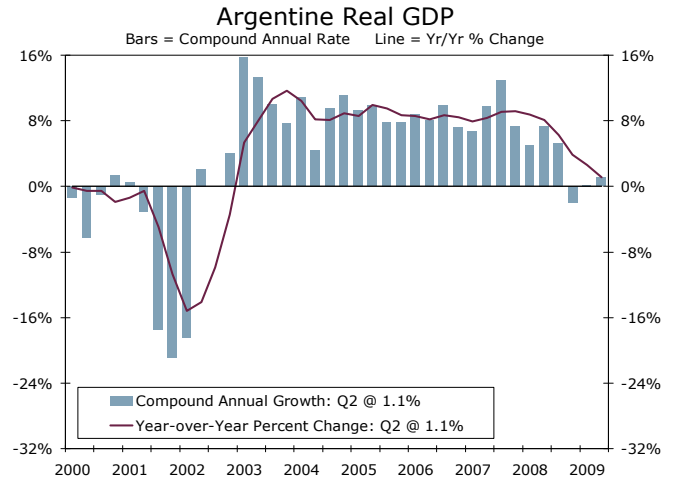
- Taiwan's leading economic indicators suggest a sustained recovery is well underway in Taiwan. The leading index rose another 1.7 percent in September, the eighth straight month of improvement, and the best level for this index since June 2008.
- Taiwan's industrial production continues to advance and is now above year-ago levels by about 1.0 percent. Strong export growth was driven primarily by a revival in global demand.
- Taiwan's exports have risen about 40 percent from their December bottom, retracing about half of their 50 percent plunge at the end of last year. Sales to China and Hong Kong are on the rise, and a strong increase in technology and electronic shipments bodes well for the sustainability of growth into 2010.
- Taiwan's labor market remains weak, however. The country's unemployment rate rose to 6.1 percent in August, the highest level in 30 years of data. Still, modest employment is beginning to emerge, and a peak in Taiwan's unemployment rate appears imminent.
- Taiwan's foreign exchange reserves have jumped as the central bank has been actively intervening to slow the Taiwan dollar's ascent against the greenback.
- Deflationary pressures are still clearly evident as a temporary spike in food prices from this summer's tsunami dissipates. The overall CPI is down 1.8 percent from a year ago.



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

## Argentina

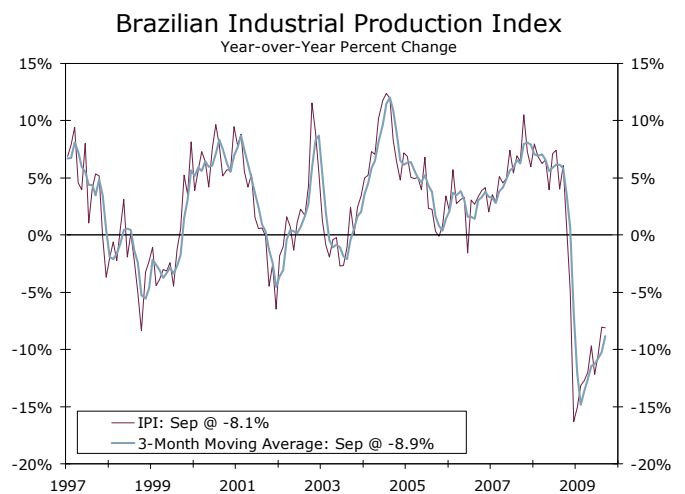
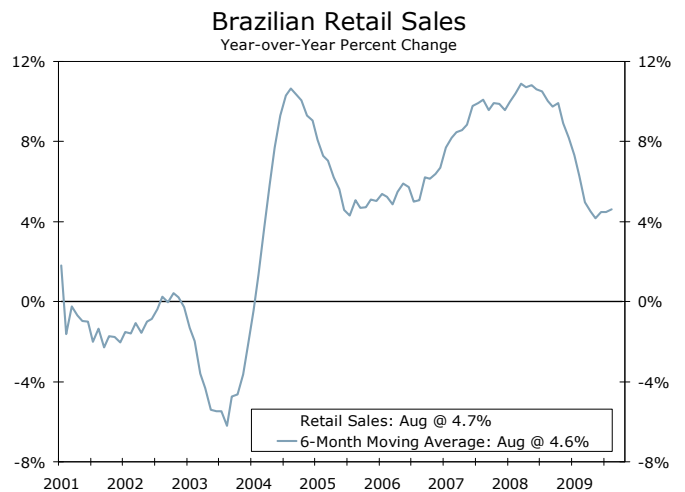
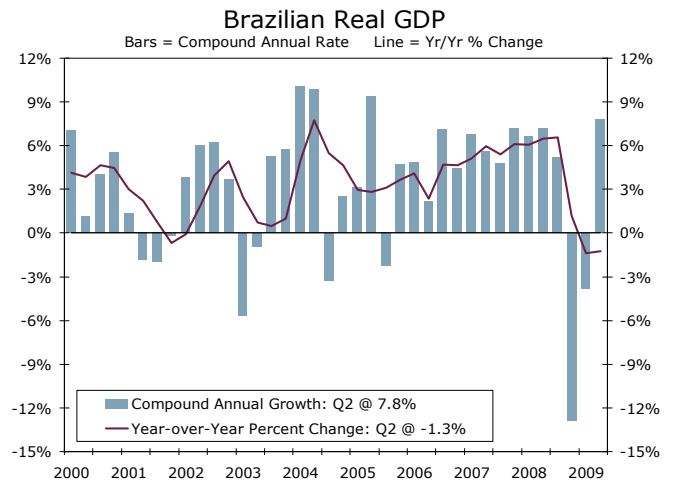
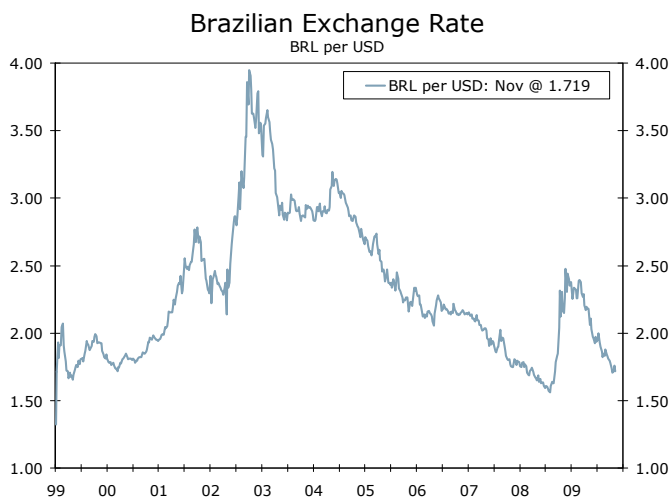
- According to the monthly Index of Economic Activity, the Argentine economy grew on a year-over-year basis by 0.1 percent in August, although it contracted 0.5 percent relative to July. Both measures are pointing to recovery after a one quarter dip in economic activity.
- Consumer prices increased by 0.7 percent in September, bringing the year-over-year rate to 6.2 percent. Private sector analysts continue to accuse the Fernández-Kirchner administration of tampering with the inflation numbers. Wholesale prices in September were up by 6.6 percent relative to the same month in 2008.
- If the economy is recovering as the numbers seem to suggest, growth would have to come from the internal market because exports are not showing much of an improvement. Argentine exports dropped by 34.4 percent in September, and while imports were down 31.1 percent.
- The Argentine government, strapped for cash and sources of financing, has started the process of mending fences with international capital markets. The first measure has been to change a Congressional law that disallowed the country to negotiate with debt default holdouts—as approved by the Lower House of Congress—as well as sending Economy Minister Boudou to start negotiations with the IMF for some sort of agreement with, according to the government, “minimum account revisions requirements.” It seems that the \$20 billion or so taken from private pension funds was not enough.



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

## Brazil

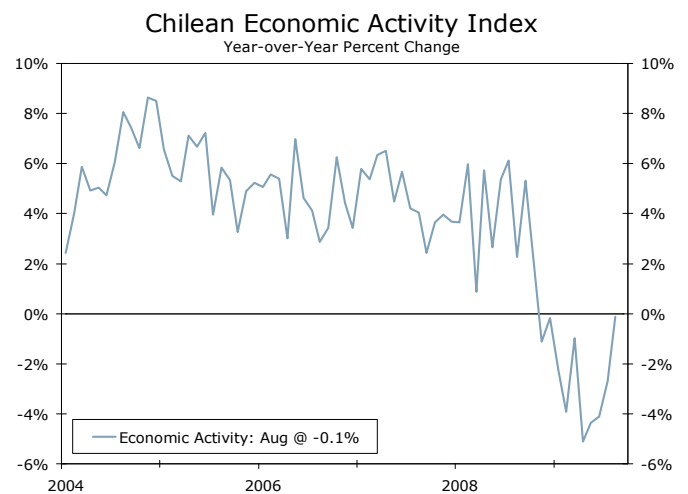
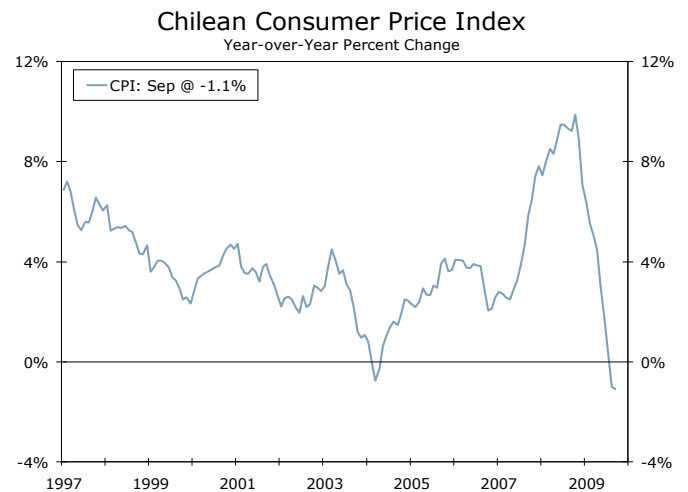
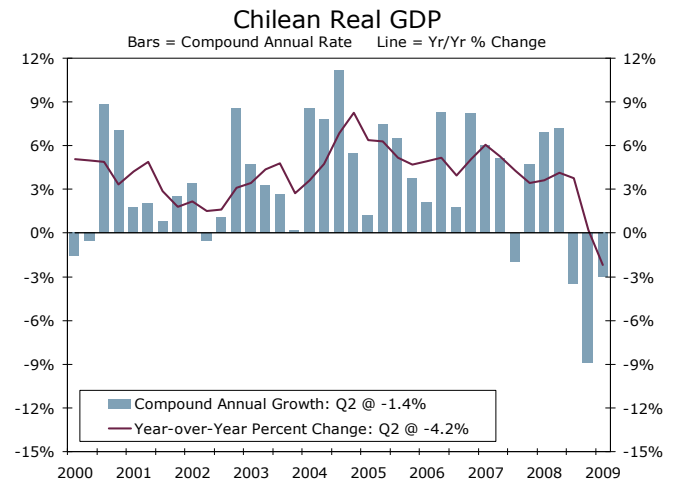
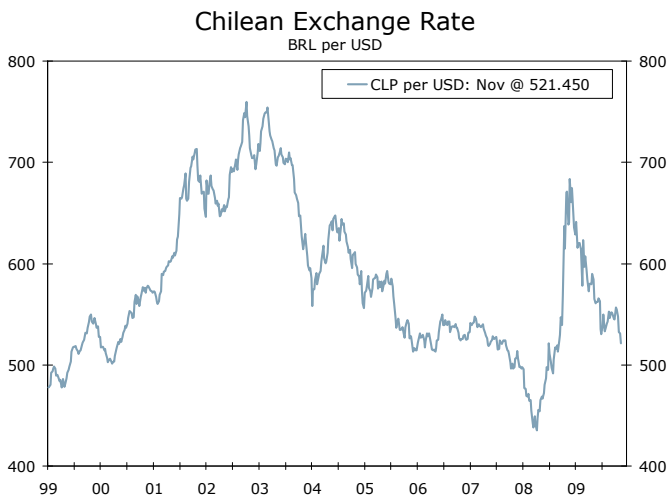
- While the Brazilian economy continues to recover, the speed of the recovery has faltered somewhat during the past couple of months. Industrial production accelerated its drop in September, falling by 7.7 percent, year over year, after posting a 7.2 percent drop the previous month. Thus, we are concerned that the recovery may not be sustainable, especially if exports don't pick up speed.
- Brazilian exports are slowing down, and our previous upbeat sentiment regarding the Brazilian economy's recovery prospects may also falter if trade does not recover. Brazilian exports dropped more than 40 percent in October after falling by "only" 30 percent in September. While typically Brazilian exports slow down during the last quarter of the year, this year's slowdown seems to be ahead of the curve and stronger than in previous years.
- The Brazilian government imposed a 2 percent financial transactions fee in an attempt to slow down portfolio investment in the country, which, according to the administration, is at the helms of the fast appreciating domestic currency.
- The financial transactions fee of 2 percent does not apply to foreign direct investment, that is, long-term investments; it only applies to portfolio investments, i.e., investments in bonds and stocks, which are short-term investments. As has been the case in the past, the measure probably won't be effective against the appreciating currency.



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

## Chile

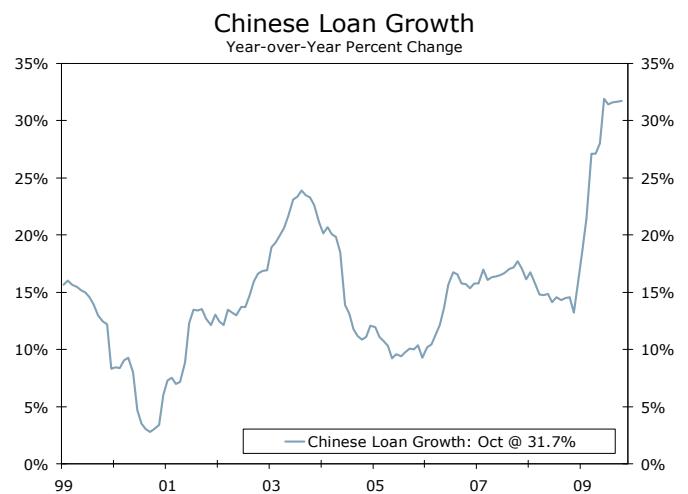
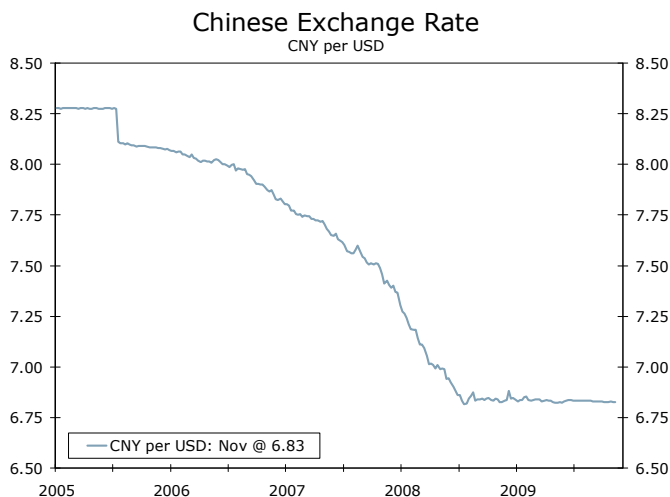
- The monthly economic activity index, the IMACEC, was down 1.1 percent in September on a year-over-year basis. Although the economy has recovered somewhat compared to earlier in the year, the index was 0.3 percent lower in September than in August and is another indication that the recovery is not as robust as originally thought.
- Chilean consumer prices accelerated considerably during September, rising by 1.0 percent for the month after dropping 0.4 percent in August. However, the year-over-year rate remained in deflationary territory, down 0.1 percent compared to a 1.0 percent drop recorded during the 12 months ended in August. Consumer price changes will probably remain positive due to the increase in the price of oil and gasoline.
- The Chilean peso has continued to appreciate, a trend observed in almost all of the Latin American countries as commodity prices have recovered during the past several months and the appetite for risk has increased one year after the world economy was almost on the brink of collapse.
- The prospects for the Chilean economy remain positive but will depend on the sustainability of high copper prices. As the largest producer and exporter of the metal, the Chilean economy is highly dependent on this metal. Thus, as long as copper prices remain high, the currency will continue its recovery process.



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

## China

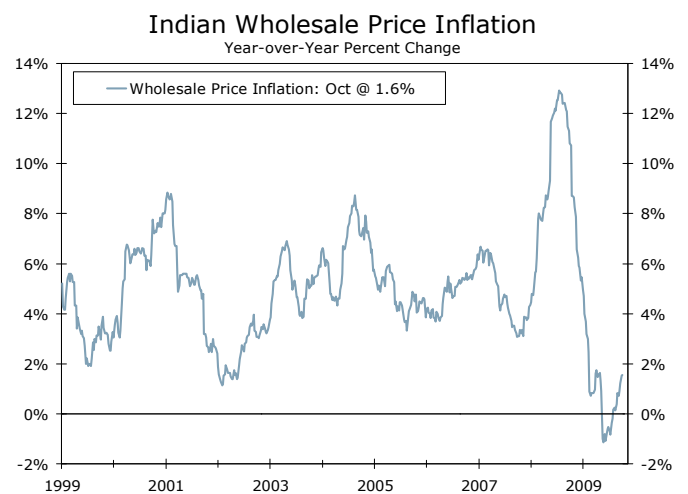
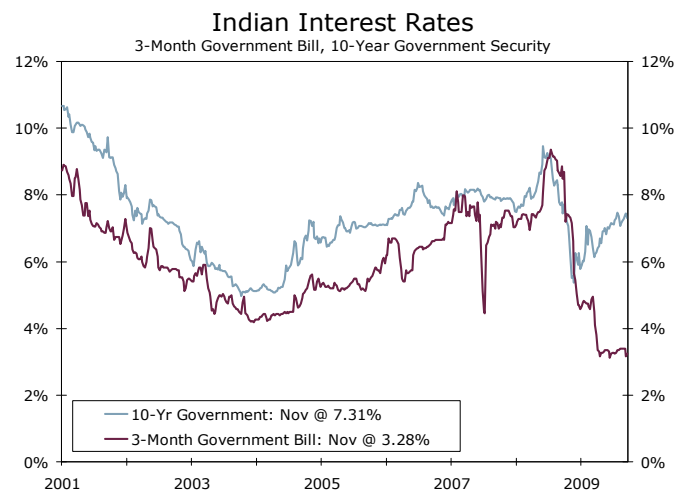
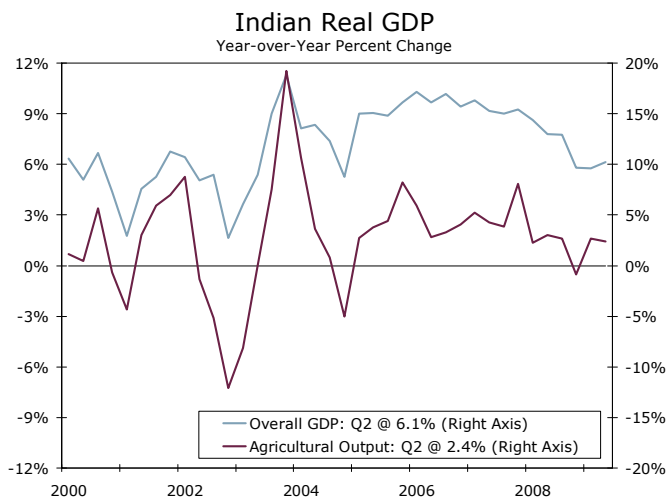
- China escaped relatively unharmed from the global financial meltdown. Although real GDP growth slowed to only 6 percent earlier this year, the year-over-year growth rate has subsequently rebounded to about 9 percent. Available monthly indicators, such as industrial production and retail spending, point to further acceleration in economic activity in the fourth quarter.
- Unlike most western countries, China's financial system was not overly leveraged in the years leading up to the global credit meltdown. Therefore, Chinese banks had the ability to continue lending, and the Chinese government removed most lending restrictions that were put in place when inflation was seen as Public Enemy #1. In addition, the government stimulated the economy via acceleration of planned infrastructure spending.
- Consumer prices are currently down 0.5 percent on a year-over-year basis. With inflation nonexistent and the global recovery still fragile, Chinese authorities are in no hurry to slam on the brakes. That said, the economy no longer needs the excess amounts of stimulus, so the Chinese government probably will start to tighten in early 2010.
- Since the global credit crunch hit in earnest last summer, the Chinese government has held the value of the renminbi stable against the dollar. Until Chinese exports start growing again at "normal" rates, the government will likely maintain an essentially fixed exchange rate.



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

## India

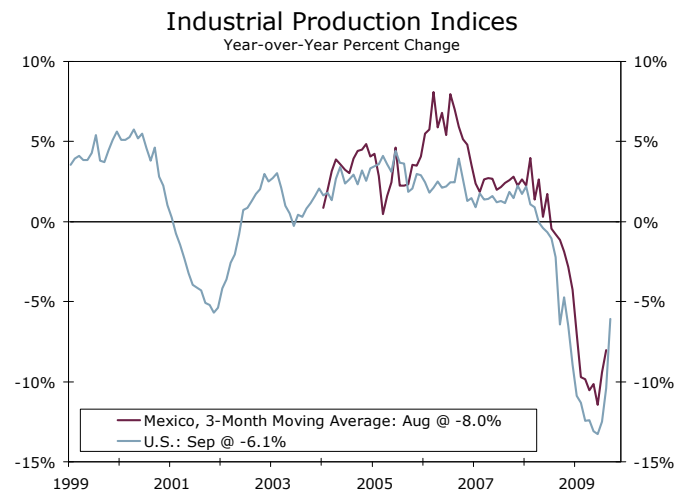
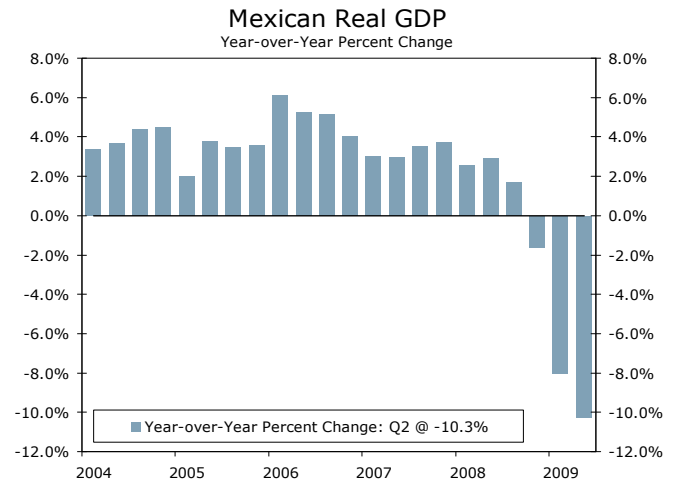
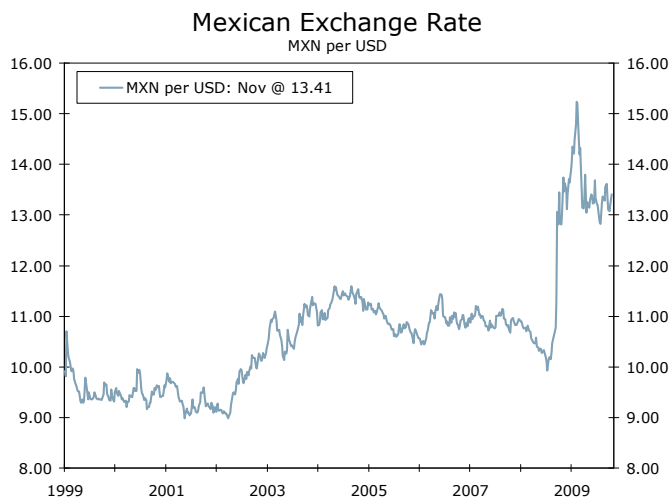
- As in most other countries, real GDP growth in India has slowed over the past two years. However, the uptick in the year-over-year growth rate—from 5.8 percent in the first quarter to 6.1 percent in the second quarter—shows that the economy is beginning to recover, and recent data suggest that the expansion continued into the third quarter. For example, growth in industrial production rose from 3.8 percent (year-over-year) in the second quarter to 9.1 percent in the third quarter.
- A rebound in exports is playing a role in the acceleration in the Indian economy. However, domestic demand is doing its part as well. Indian authorities responded to the global financial crisis last autumn with expansionary macroeconomic policies. The Reserve Bank of India (RBI) cut its main policy rate to the lowest level in years.
- Wholesale price inflation, which is the benchmark inflation gauge in India, has moved back into positive territory. With recovery taking hold and inflation starting to trend higher, the RBI will probably start to take back some of its rate cuts in the near term.
- Agricultural output, which accounts for nearly 20 percent of Indian GDP, will be depressed by the drier-than-normal monsoon this year. Although the bad monsoon is probably not enough to derail the entire economy, the year-over-year GDP growth rate could be restrained a bit over the next few quarters.



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

## Mexico

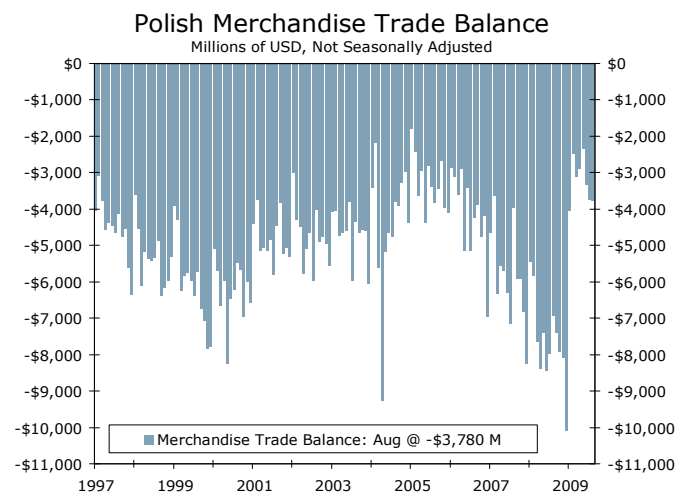
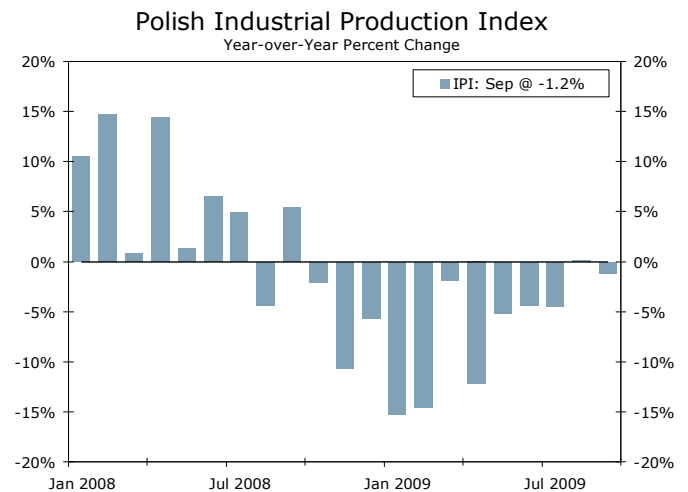
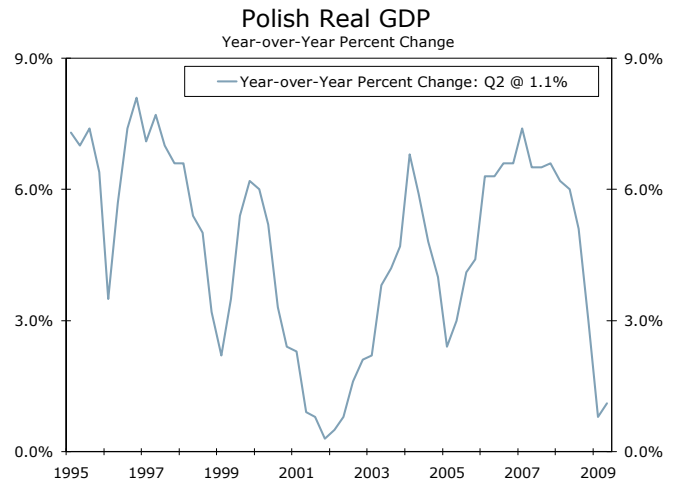
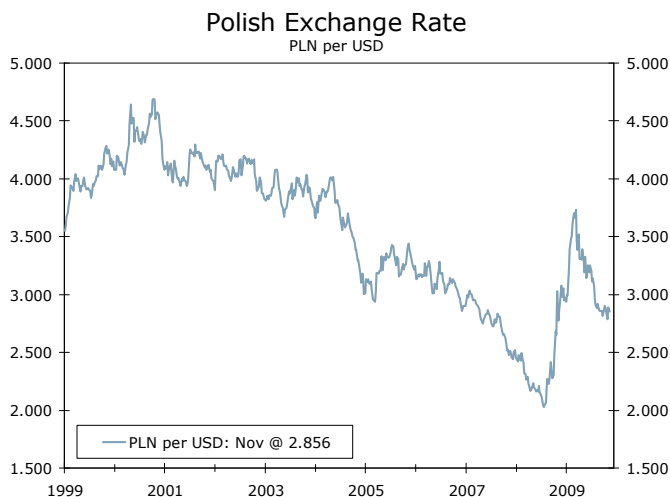
- As the saying in Spanish goes, “the Mexican economy has had to dance with the ugliest” of the party. The Mexican economy’s strong dependency on the U.S. economy has dealt this strategy very good returns in the past, but those results are being put in doubt today as U.S. consumption demand continues to falter.
- While Mexican exports were relatively better in September than during the previous month, they still dropped by 17.3 percent, year over year, compared to a drop of 24.9 percent during the previous month. The relative improvement was probably due to the increase in the price of petroleum rather than a real improvement in demand coming from the U.S. economy.
- On a monthly basis, consumer prices have increased for five consecutive months. However, the year-over-year rate has dropped below 5 percent for the first time since May 2008 and will continue to trend downwards in the coming months. That said, we don’t believe the central bank is going to be able to hit the 3.0 percent target any time soon.
- The Mexican peso has been on a “roller coaster” lately and seems to be following all the news coming from the U.S. economy. While the majority of the Latin American currencies have consistently appreciated versus the U.S. dollar during the past several months, the Mexican peso has been on a wild run, appreciating and depreciating wildly during that period, depending on news coming from the U.S. economy.



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

## Poland

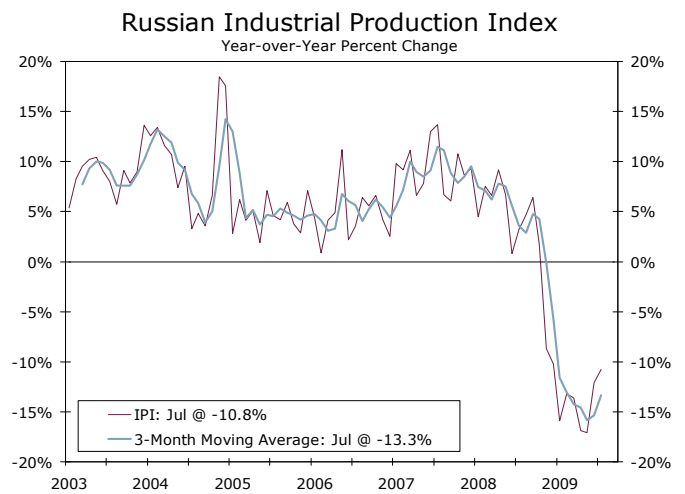
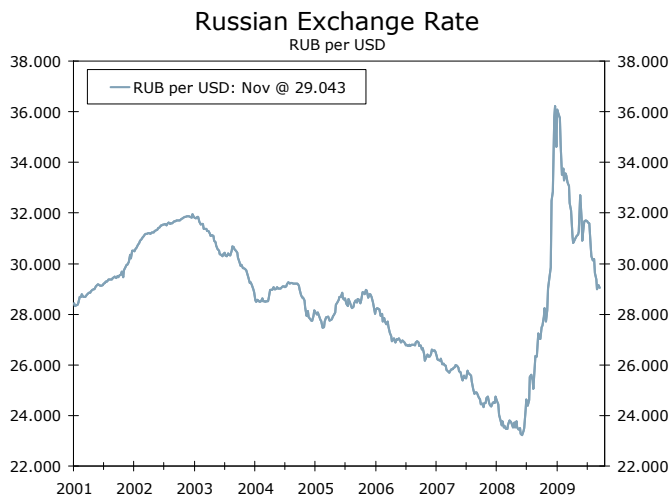
- Polish real GDP surprised to the upside in the second quarter, rising 1.1 percent from a year earlier following a 0.8 percent increase in Q1. Thus, unlike most other European countries, it appears as though Poland will avoid a recession during this global downturn. Net exports boosted growth, but that was only due to further erosion in imports, as the year-over-year contraction in exports remained unchanged at 14.6 percent. However, high unemployment, stagnant real wage growth and sluggish recovery prospects in Poland's EU trading partners pose near-term headwinds for Poland's economy.
- Industrial production in September was down 1.2 percent on a year-over-year basis, which represents a marked improvement over the double digit declines seen earlier this year. More recently, the manufacturing PMI rose to 48.8 in October, a 17-month high, as new orders moved into expansion territory. Industrial production is being supported by improving domestic demand and the zloty's weakness versus the euro.
- Inflation has held fairly steady recently, rising 3.4 percent in September. While this is within the target range of 1.5 to 3.5 percent, upward pressure on fuel and housing rents, as well as signs of a budding recovery, have led the central bank to refrain from lowering its main policy rate, currently at 3.50 percent.
- Retail sales rose 2.5 percent in September after two months of greater than five percent growth. Joblessness will remain an obstacle for sales.



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

## Russia

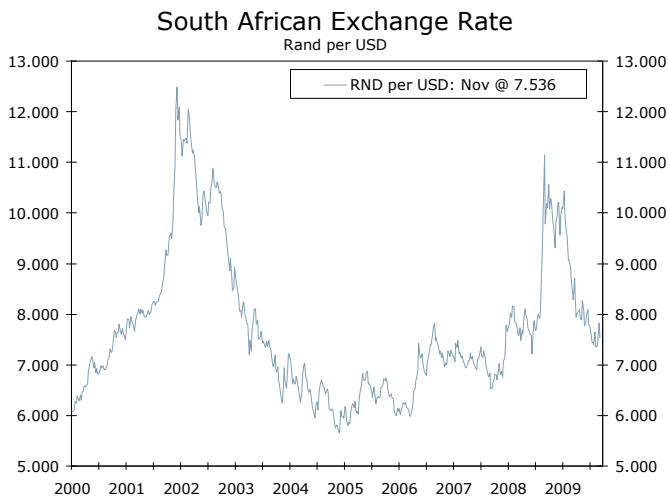
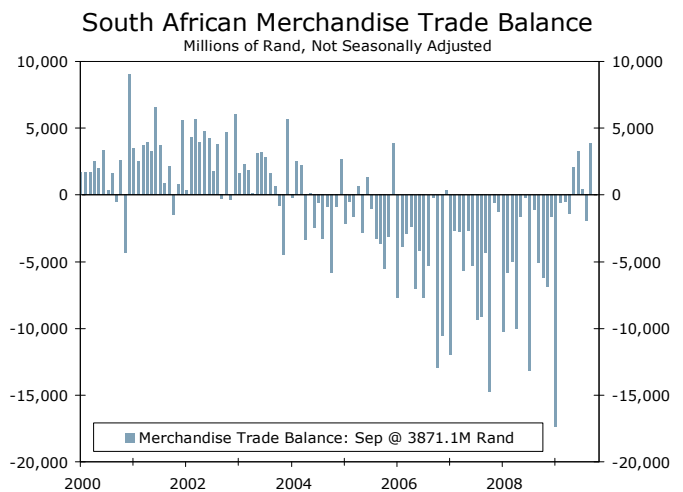
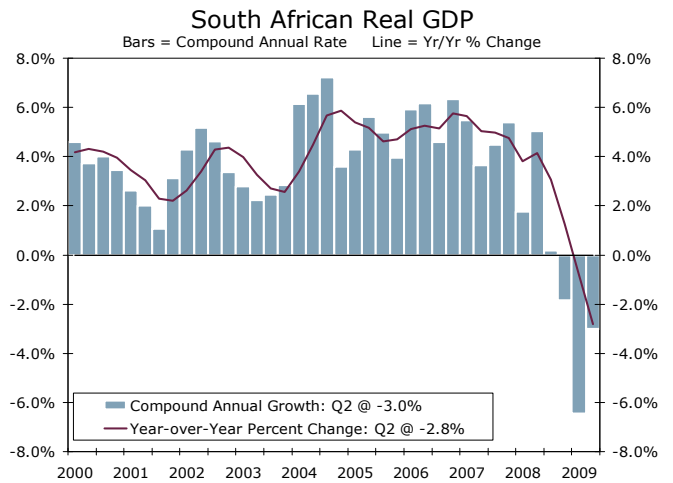
- Russian real GDP contracted 8.9 percent, year over year, in the Q3, a slight improvement from the 10.9 percent drop seen in the second quarter. While the details are not yet available, judging by continued weakness in retail sales growth through September, we can surmise that consumer spending remained a drag on growth. Similarly, trade most likely added to growth again as the trade balance continued to improve through September, driven in part by stronger oil production as the global economy rebounds.
- The manufacturing sector seems to be improving. Industrial production was down only 9.5 percent in September, the smallest year-over-year decline since November 2008. However, after rising to 51.96 in September, which was the first expansionary reading since July 2008, the manufacturing PMI fell to 49.6 in October, and the report's employment indicator contracted further.
- Fortunately, rising input prices have not yet seeped into consumer prices, as the CPI was unchanged for the third consecutive month in October. The year-over-year CPI inflation rate fell to 9.7 percent from 10.7 percent the prior month.
- Slowing inflation has allowed the central bank to cut interest rates 350 bps since April. The rate currently stands at 9.50 percent. However, commercial lending rates remain high as banks are still leery of deteriorating credit quality. This will continue to restrain the consumer spending contribution to GDP.



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

## South Africa

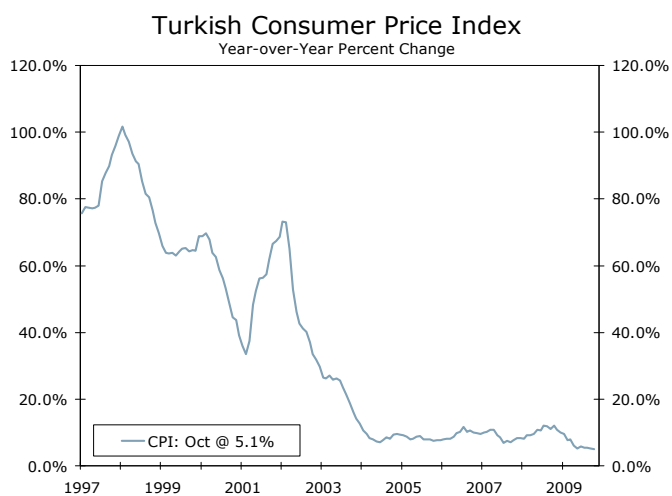
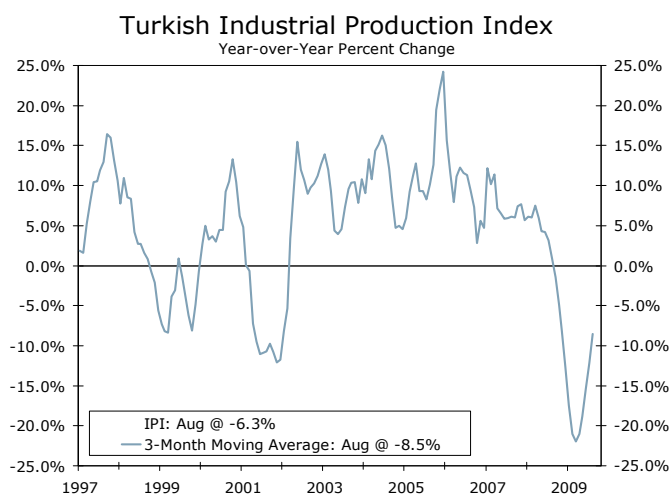
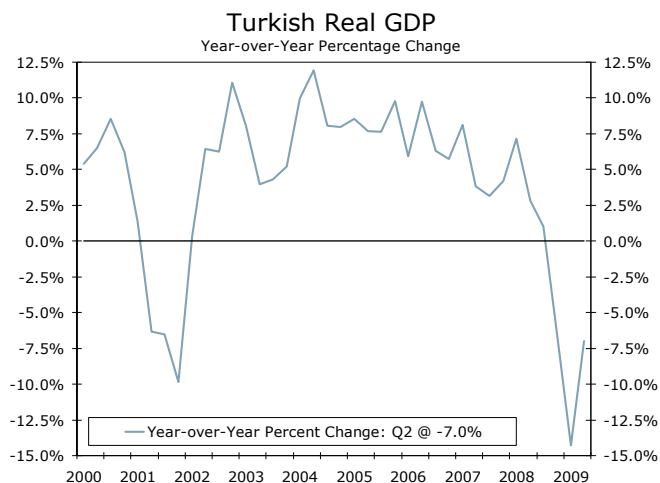
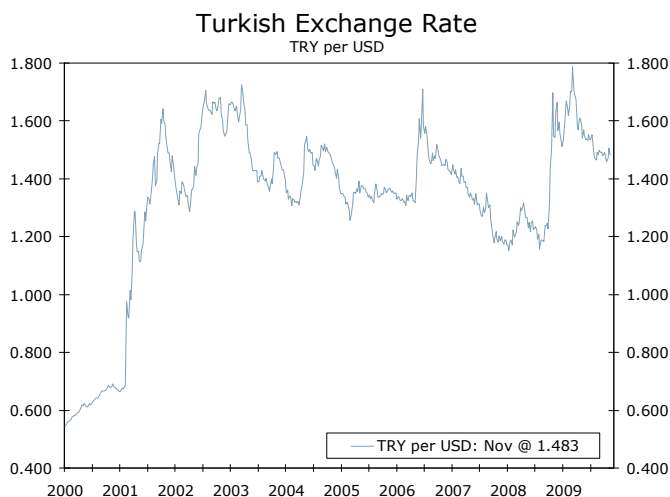
- Real GDP in South Africa fell at an annualized rate of 3.0 percent in the second quarter of 2009 relative to the previous quarter. This decline came on the heels of the sharpest rate of contraction in 25 years in the first quarter. With business confidence falling for 12 straight months, there is little hope for a swift turnaround in the third quarter.
- As global trade dried up late last year and early this year, South African exports collapsed. Exports contracted in the second quarter, while imports shrank at an even faster pace, resulting in a positive contribution from trade to the overall GDP number for the quarter. More recently, South Africa posted its largest trade surplus in nearly six years in September as mineral exports surged.
- Despite the strength in exports, the rest of the economy is rather weak at present. Consumer spending was a significant drag on second quarter GDP growth. Year-over-year retail sales numbers have been in negative territory since February of this year. With the unemployment rate climbing to 24.5 percent, President Zuma is now confronted by civil unrest and violent protests staged by unskilled laborers looking for work.
- With CPI inflation receding somewhat, the South African Reserve Bank (SARB) cut rates by 500 bps between December and August, but it has subsequently left its policy rate at 7.00 percent. The SARB expects inflation to recede further due to the global economic downturn.



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

## Turkey

- Real GDP dropped 7.0 percent in the second quarter, but the decline was much less than the record 14.3 percent year-over-year plunge in the first quarter. Tax suspensions on new cars, appliances and homes, along with interest rate cuts, spurred consumption, which fell 1.2 percent versus a 10.2 percent drop in the first quarter. Government spending growth slowed to a mere 0.5 percent. Exports continued to drop, but imports fell more. With the economy still operating well-below capacity, fixed capital formation plunged 24.6 percent.
- Industrial production fell 6.3 percent in August, the smallest year-over-year decline in 10 months, and well-off the low of -23.8 percent in February. The slowing pace of decline was due in large part to base effects, as production actually dropped from the prior month. Continued weakness in exports is hampering production, and the end of tax incentives could lead to a renewed production slowdown.
- A record-low 5.1 percent inflation rate in October, along with a rebound in the lira over the past few months, suggests further rate cuts are likely.
- For now, Turkey is eschewing any help from the IMF, believing the country can stand on its own two feet. However, there is ongoing concern about the widening fiscal deficit. While an IMF agreement would help to finance government operations, it would likely entail deep austerity measures that could limit the government's ability to help spur economic growth.



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

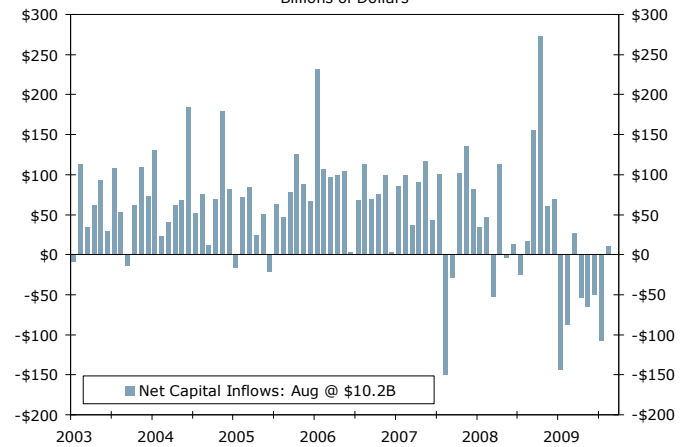
## Dollar Exchange Rates

- The dollar strengthened significantly last autumn as risk aversion spiked. Massive foreign buying of U.S. government bonds, considered to be the safest assets in the world, caused the dollar to strengthen. In addition, repatriation of foreign investments by American investors also contributed to the appreciation of the dollar.
- The greenback has given up most of its gains over the past few months as investors have turned less risk averse. With stock markets rising in most countries and corporate bonds rallying, the safety of low-yielding U.S. Treasury securities is not as compelling as it was earlier this year.
- The widening of the U.S. current account deficit between 2002 and 2006 exerted significant downward pressure on the greenback during that period. However, the current account deficit has narrowed considerably since last summer. Not only have petroleum imports declined sharply, but non-oil imports have also weakened because of the deep recession.
- Wells Fargo projects that the dollar will appreciate modestly over the next few quarters versus most major currencies as the U.S. economic recovery prompts foreign buying of higher yielding U.S. assets. However, “commodity” and emerging market currencies likely will appreciate further on a trend basis as commodity prices continue to grind higher and as increasing levels of risk tolerance causes capital to flow to those countries.

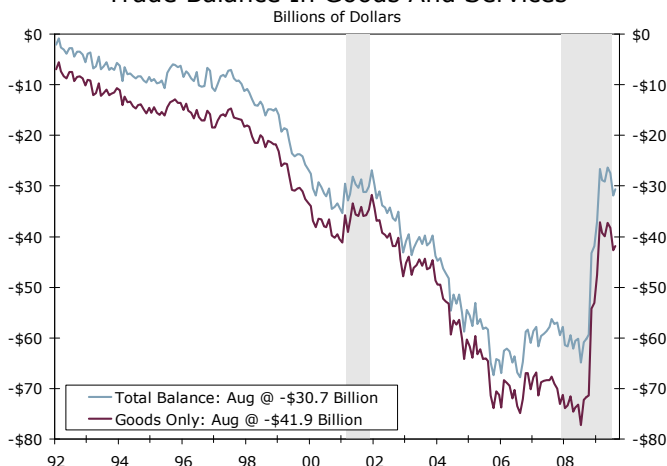
U.S. Trade Weighted Dollar Major Index  
March 1973=100



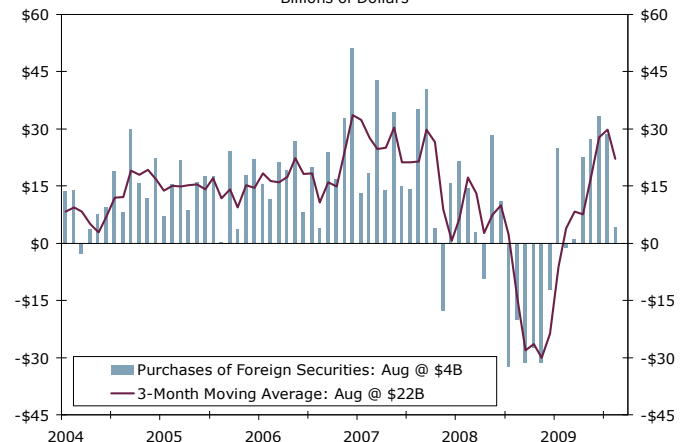
U.S. Total Net Capital Inflows  
Billions of Dollars



Trade Balance In Goods And Services  
Billions of Dollars



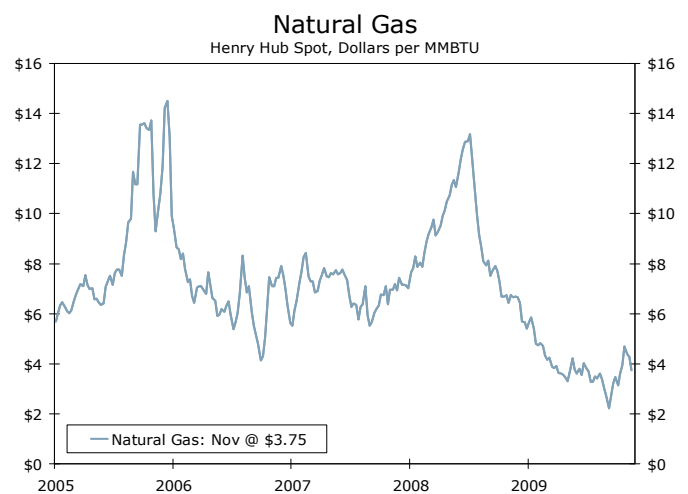
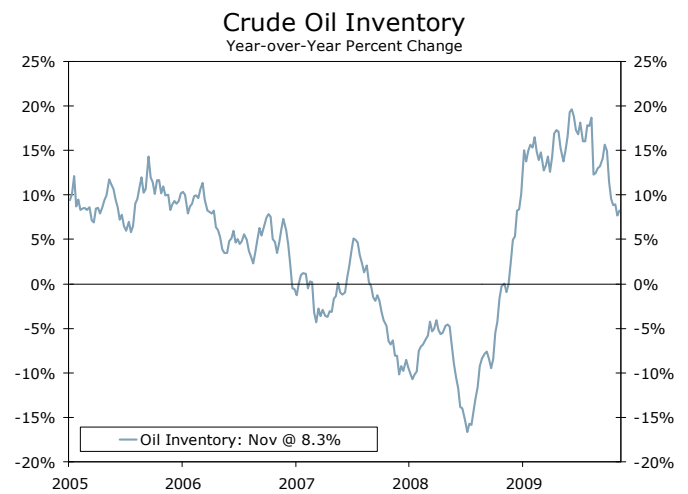
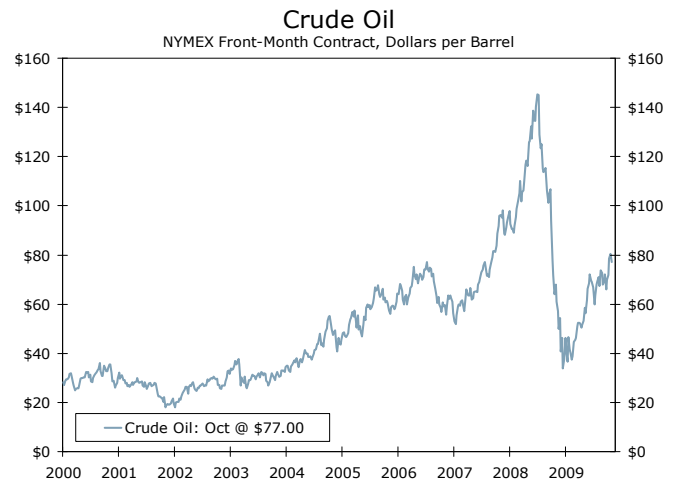
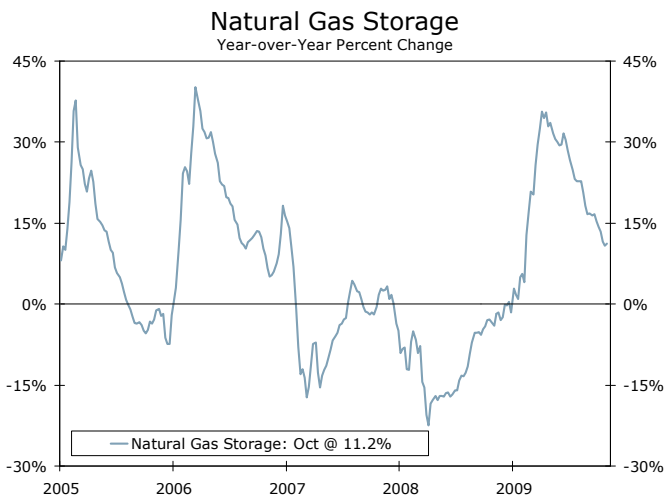
U.S. Purchases of Foreign Securities  
Billions of Dollars



Source: Bloomberg LP, Federal Reserve Board, IHS Global Insight, Intl. Monetary Fund and Wells Fargo Securities, LLC

## Energy

- Oil prices, which surged to an all-time high of \$150/barrel in July 2008, collapsed last autumn as the credit crunch caused the global economy to fall into its deepest recession in decades. However, petroleum prices are up about \$40/barrel from their lows earlier this year as global economic prospects have improved.
- The global recovery is helping to push petroleum prices higher, but ample inventories are working in the other direction to restrain price increases. Indeed, stocks of crude oil are more than 5 percent higher than they were a year ago. Inventories of gasoline are also up 5 percent relative to last year, and distillate stocks stand about 30 percent higher than they did last year.
- We project that oil prices will grind slowly higher in the quarters ahead. Oil demand should rise as the global economy continues to recover. On the other hand, however, ample inventories should prevent a runaway increase in petroleum prices.
- The sharp downturn in economic activity also led to a collapse in natural gas prices. Although gas prices have risen from their multi-year lows reached in September, they remain depressed relative to the standards of the past few years. Ample supplies—storage is currently 10 percent higher than it was a year ago—are helping to restrain price increases.



Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)	GDP			CPI		
	2009	2010	2011	2009	2010	2011
Global (PPP weights)	-1.0%	3.7%	4.0%	2.7%	3.7%	4.0%
Global (Market Exchange Rates)	-2.2%	2.5%	2.8%	n/a	n/a	n/a
Advanced Economies <sup>1</sup>	-3.4%	2.3%	2.5%	-0.4%	1.2%	1.7%
United States	-2.5%	2.4%	2.4%	-0.4%	1.8%	2.0%
Eurozone	-3.8%	1.9%	2.5%	0.3%	1.0%	1.5%
United Kingdom	-4.7%	1.7%	2.2%	2.1%	2.1%	1.6%
Japan	-5.8%	1.9%	1.6%	-1.3%	-0.7%	0.5%
Korea	0.2%	5.1%	3.6%	2.7%	2.6%	2.9%
Canada	-2.6%	2.2%	2.7%	0.2%	1.5%	1.9%
Developing Economies <sup>1</sup>	2.0%	5.2%	5.7%	6.4%	6.6%	6.8%
China	8.2%	8.8%	9.1%	-0.8%	1.9%	2.5%
India	5.8%	7.3%	8.0%	11.0%	9.9%	7.7%
Mexico	-7.2%	2.2%	2.5%	5.3%	3.7%	4.1%
Brazil	-0.1%	2.6%	3.5%	4.9%	4.8%	4.9%
Russia	-8.1%	2.3%	3.0%	11.9%	7.5%	9.2%

Forecast as of: November 11, 2009

<sup>1</sup>Aggregated Using PPP Weights

Wells Fargo Bank Currency Strategy Group Forecast

(End of Quarter Rates)	2009				2010				2011	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Major Currencies										
Euro (\$/€)	1.50	1.48	1.42	1.36	1.31	1.30				
U.K. (\$/£)	1.66	1.64	1.61	1.57	1.55	1.52				
U.K. (£/€)	0.90	0.90	0.88	0.86	0.85	0.86				
Japan (¥/\$)	90	91	98	99	103	107				
Canada (C\$/US\$)	1.05	1.06	1.08	1.11	1.13	1.12				
Switzerland (CHF/\$)	1.01	1.02	1.07	1.12	1.17	1.19				
Other Currencies										
Australia (US\$/A\$)	0.93	0.94	0.93	0.89	0.87	0.86				
China (CNY/\$)	6.82	6.81	6.79	6.75	6.65	6.55				
South Korea (\$/KRW)	1152	1142	1117	1092	1067	1050				
Singapore (\$/SGD)	1.39	1.39	1.37	1.37	1.39	1.40				
Taiwan (\$/TWD)	32.28	32.17	31.92	31.67	31.42	31.25				
Mexico (\$/MXN)	13.10	12.92	12.67	12.50	12.42	12.25				
Norway (NOK/\$)	5.56	5.56	5.66	5.81	6.04	6.18				
Sweden (SEK/\$)	6.80	6.87	7.09	7.33	7.51	7.54				

Forecast as of: November 11, 2009

Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)	3-Month LIBOR				10-Year Bond					
	2009		2010		2009		2010		2011	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
U.S.	0.30%	0.35%	0.35%	0.40%	0.65%	1.40%	3.60%	3.60%	3.70%	3.90%
Japan	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	1.40%	1.50%	1.60%	1.80%
Euroland	0.65%	0.65%	1.00%	1.40%	2.00%	2.75%	3.30%	3.90%	4.25%	4.45%
U.K.	0.60%	0.60%	0.65%	0.90%	1.45%	2.20%	3.70%	4.20%	4.50%	4.75%
Canada	0.50%	0.50%	0.60%	1.00%	2.00%	3.00%	3.40%	4.00%	4.30%	4.45%

Forecast as of: November 11, 2009

## Wells Fargo Securities, LLC 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
Scott Anderson, Ph.D.	Senior Economist	(612) 667-9281	scott.a.anderson@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(612) 667- 0168	eugenio.j.aleman@wellsfargo.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
Ed Kashmarek	Economist	(612) 667-0479	ed.kashmarek@wellsfargo.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

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wachovia Bank N.A., Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, and Wells Fargo Securities International Limited. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2009 Wells Fargo Securities, LLC.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

**WELLS  
FARGO**

SECURITIES