May 13, 2010

Economics Group

Special Commentary

Global Chartbook: May 2010

Executive Summary: Is Global Recovery Still in the Cards?

The seizing of financial markets that followed Lehman Brothers' failure in September 2008 caused the global economy to fall into its deepest recession in decades. By the spring of 2009 industrial production (IP) in the 30 countries that comprise the Organisation for Economic Cooperation and Development (OECD) had plunged more than 15 percent from year-earlier levels (Figure 1). But the policy response—unprecedented monetary easing, expansionary fiscal policy, and the shoring up of private sector balance sheets—led to stabilization in economic activity in mid-2009 that subsequently morphed into global recovery. By early this year, the year-over-year rate of IP growth in the OECD countries had turned positive again. However, another financial crisis, in the form of sovereign debt problems in the Euro-zone, could be a distinct possibility. Will the global recovery continue, or does another global recession loom?

Figure 1

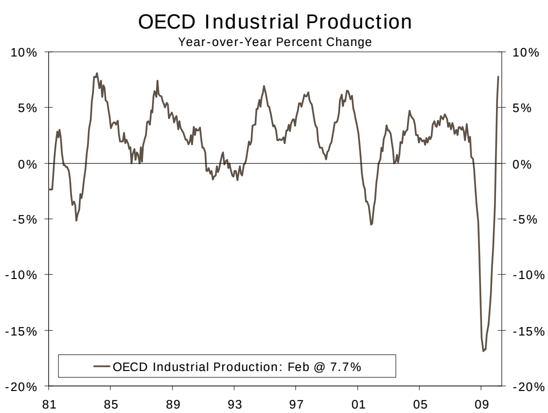

Figure 2

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

Let's start with the good news. Among the major regions of the world, economic growth in Asia has been strongest to date. For example, real GDP in China increased nearly 12 percent on a year-ago basis in the first quarter of 2010. However, 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. What makes Asia so special? The financial systems of most Asian economies were not nearly as leveraged as those of 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. Because self-sustaining economic recoveries have taken hold, most Asian governments are beginning to remove emergency stimulus measures that were put in place when the outlook was bleak. However, we believe it will be quite some time before economic policies turn restrictive in most Asian countries.

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North American economies are growing again as well. The U.S. economy has expanded for three consecutive quarters, and a self-sustaining recovery appears to be underway in Canada. The temporary effects of fiscal stimulus certainly played a role in stabilizing the U.S. economy, but recent increases in core measures of retail sales and capital spending indicate that there is more to the story than simply fiscal stimulus. In our view, the U.S. economic recovery will remain intact this year, but the pace of the upturn will likely remain frustratingly slow. Due to slow economic growth and benign inflation, the Federal Reserve will likely refrain from hiking rates until late this year.

Europe is the Achilles' heel of the global economy. The economy has stabilized, but the pace of recovery remains very slow. Moreover, the outlook for real GDP growth in the overall euro area over the next few years appears to be bleak. Many countries in the Euro-zone (e.g., Greece, Portugal and Spain) need to cut their budget deficits significantly, which will exert powerful headwinds on economic growth for the next few years. In our view, the European Central Bank (ECB) will be on hold for the foreseeable future.

When it recently became apparent that the Greek debt crisis was about to morph into a generalized financial crisis, European leaders came up with a three-pronged strategy to deal with the issue including a €500 billion lending facility. The IMF agreed to kick in an additional €250 billion, the ECB began to purchase government bonds to re-liquefy those markets, and the Federal Reserve re-authorized swap lines that foreign central banks could use to provide dollar funding to their respective banking systems. So far, the market response to the plan has been favorable. Indeed, the aim of the program is to entice investors to continue financing governments who have encountered liquidity problems. In a best-case scenario, the funds that have been committed by European governments will never be needed. Simply by committing to provide a backstop, leaders hope to give investors confidence to continue to provide financing.

Assuming that markets settle down and that another full-blown financial crisis does not engulf major economies again, the global economic recovery should continue. However, there are some longer run issues to keep in mind in regards to the plan put forward by European leaders. First, money may eventually need to flow, and parliaments could balk at approving the funds. If so, financial markets probably would come under selling pressure again. Second, many European countries face a bleak economic future even if the crisis is gone for good. Significant fiscal retrenchment will exert powerful headwinds on growth over the next few years that could very well lead to reform fatigue in some European Countries. Although the crisis may have subsided for now, we fear that the issues that caused it in the first place have not gone away completely.

The Dollar Should Appreciate Modestly versus Major Currencies

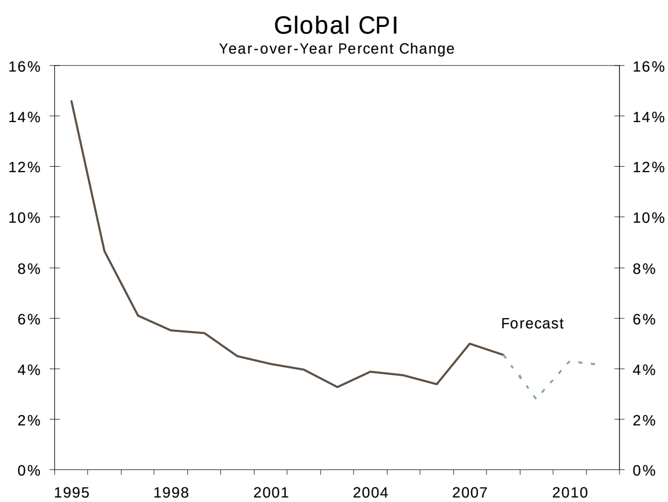
The U.S. dollar trended lower throughout most of 2009, as the recovery in the global economy caused the greenback to lose its safe-haven appeal. However, the dollar has gotten off to a strong start in 2010, especially against the euro and other European currencies. U.S. economic data have generally been stronger than expected, while the upturn on the other side of the Atlantic has been disappointing thus far. Concerns about the European debt situation have clearly weighed on the euro as well.

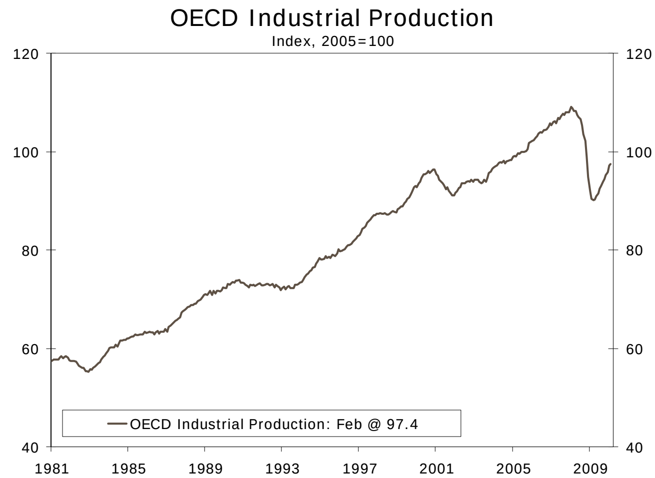
Looking ahead, our view, and that of the currency strategy team at Wells Fargo, is that the dollar will continue to trend higher against most major currencies. As the U.S. recovery gathers steam, foreign investment flows into long-term securities (e.g., corporate bonds and equities) and direct investment inflows should continue to strengthen, helping to lift the greenback. In addition, the diminished U.S. current account deficit will exert fewer headwinds on the greenback than it did earlier this decade.

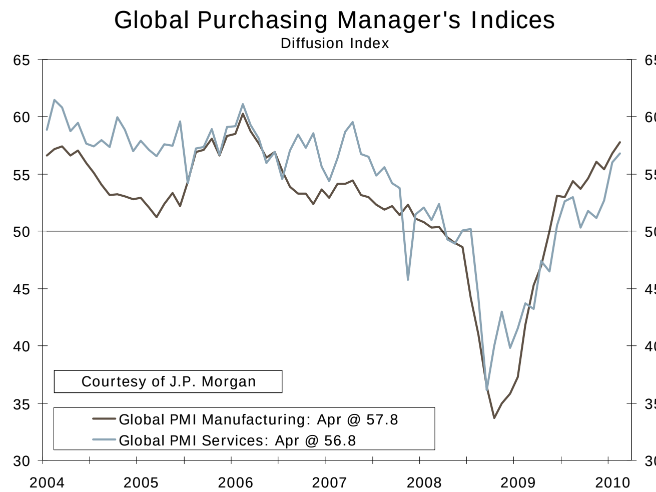
However, most "commodity" and emerging market currencies should strengthen further versus the greenback in the quarters ahead. The global recovery will likely cause most commodity prices to drift higher, which should help to support "commodity" currencies (e.g., the Aussie dollar). In addition, rising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

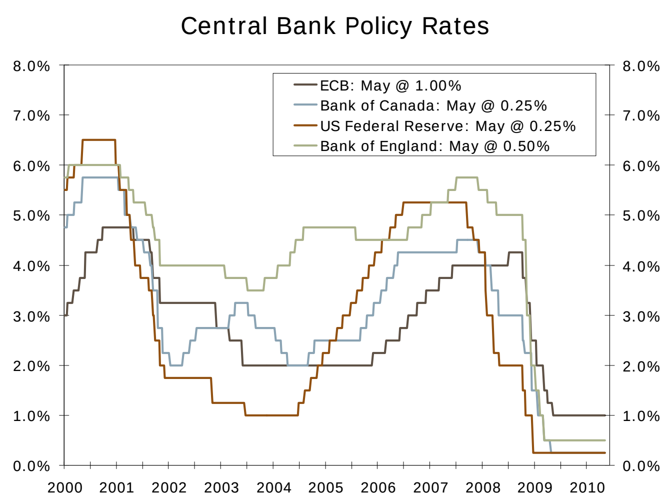
World

- The global economy is bouncing back from its deepest recession in decades, though industrial production in the OECD nations remains well below the peak that was reached in early 2008. Purchasing manager indices have generally remained in expansion territory, suggesting that the global recovery remains intact. Most regions of the world are growing again, with Asia clearly in the vanguard.
- The major governments of the world averted catastrophe in the fall of 2008 by taking steps to prevent the global financial system from collapsing. More recently, another financial crisis has been averted by the timely lending package assembled by the European Union.
- Not only have interest rates been reduced to unprecedented lows, but major central banks have enacted “quantitative easing” programs via unconventional purchases of private sector assets. Central banks in some countries (e.g., Australia and Norway) have started to hike rates again, but the Fed, the ECB and the Bank of Japan remain firmly on hold.
- Deep global recession and the collapse in commodity prices caused inflationary pressures to recede significantly. Commodity prices have risen off their lows, but elevated unemployment rates have kept a lid on wage inflation. We forecast that CPI inflation rates will trend higher this year, but runaway global inflation à la the 1970s does not seem likely.





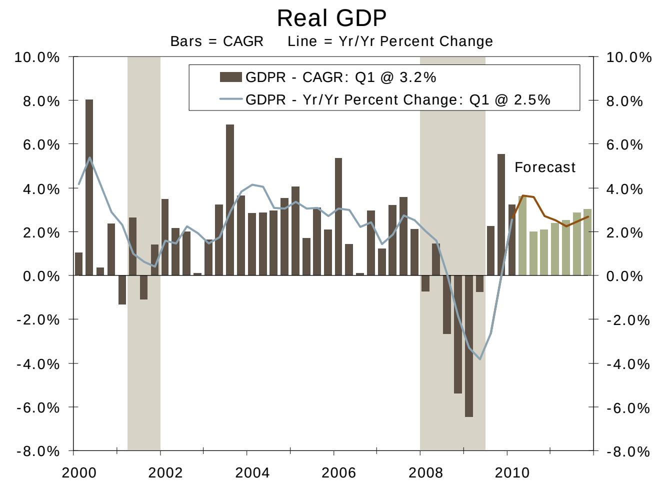


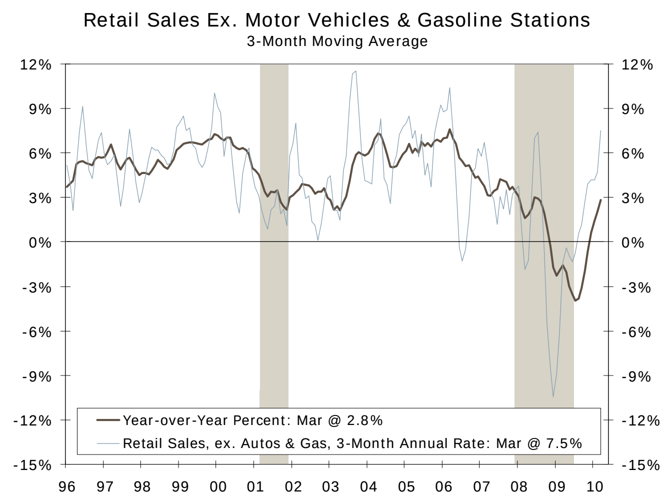


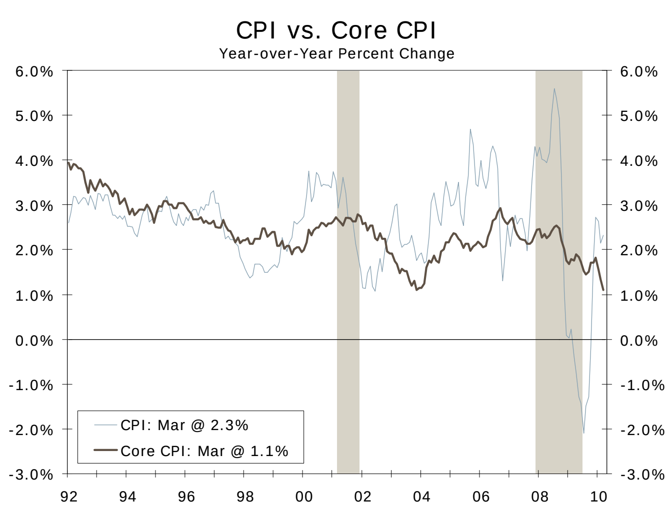
Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities, LLC

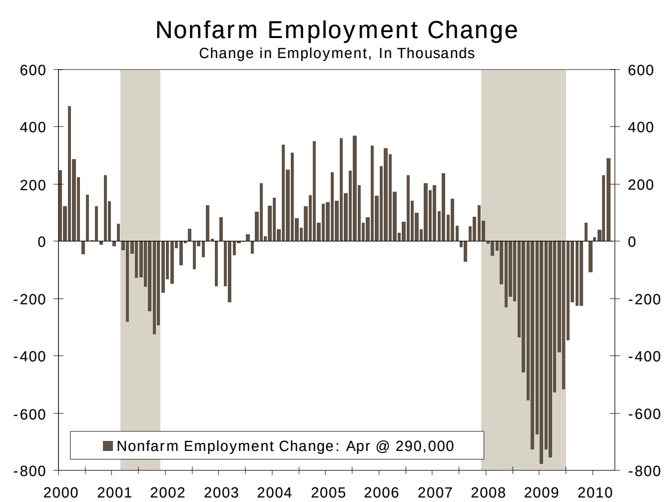
United States

- After enduring its deepest recession in decades, the U.S. economy has posted positive growth rates for the past three quarters and monthly indicators point to continued growth in the second quarter. Some of the growth reflects the temporary effects of government stimulus, and the transient inventory swing that occurred in the fourth and first quarters overstates the underlying strength of the economy at present.
- It would be incorrect, however, to claim that the rise in GDP over the past few quarters is due entirely to stimulus. Core measures of consumer spending and business spending have posted solid gains over the past few months.
- The labor market is finally starting to recover as payrolls have risen in five out of the last six months. That said, it will take years to fully recover the 8.4 million jobs lost during the downturn, and the unemployment rate, which currently stands at 9.9 percent, will likely remain elevated for the foreseeable future.
- Core measures of inflation are very benign at present, which allows the Federal Reserve to keep rates low "for an extended period." Although the Fed has started to remove some emergency measures that were put in place more than a year ago, we do not look for an increase in the fed funds rate until late this year.





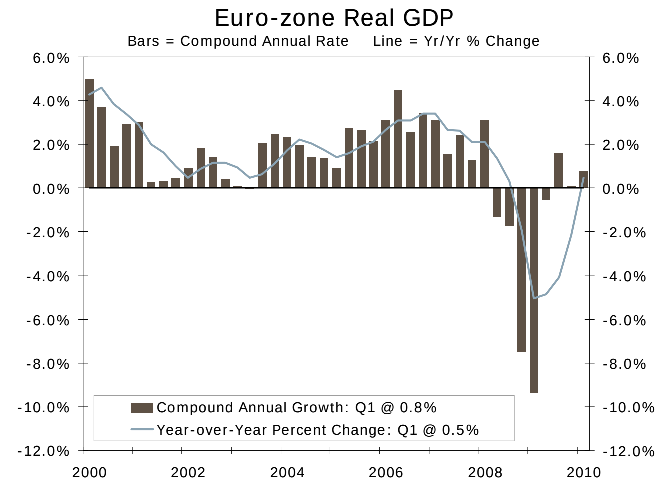


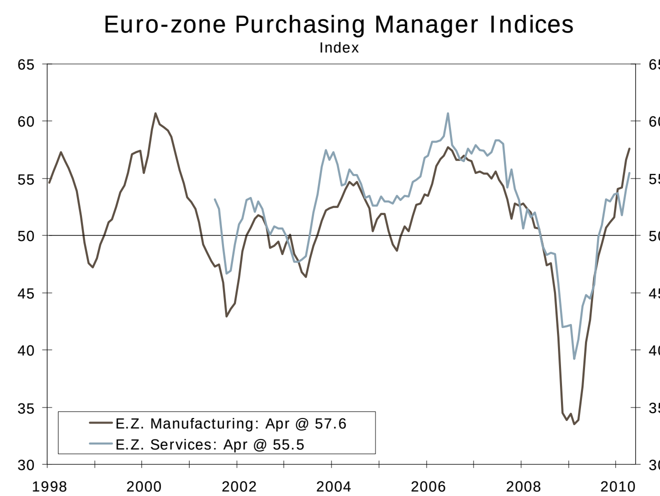


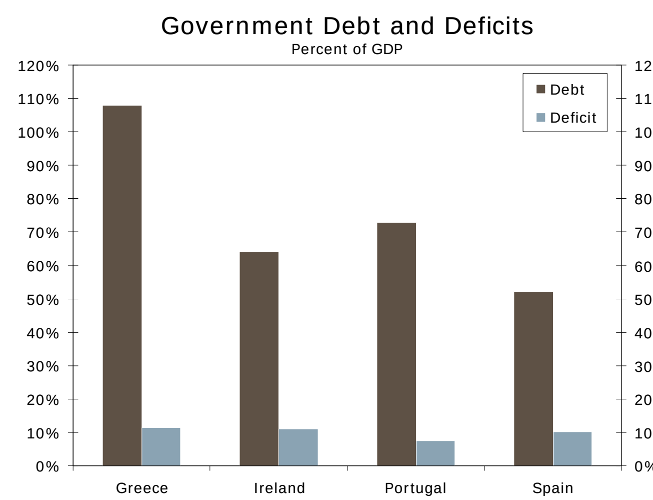
Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities, LLC

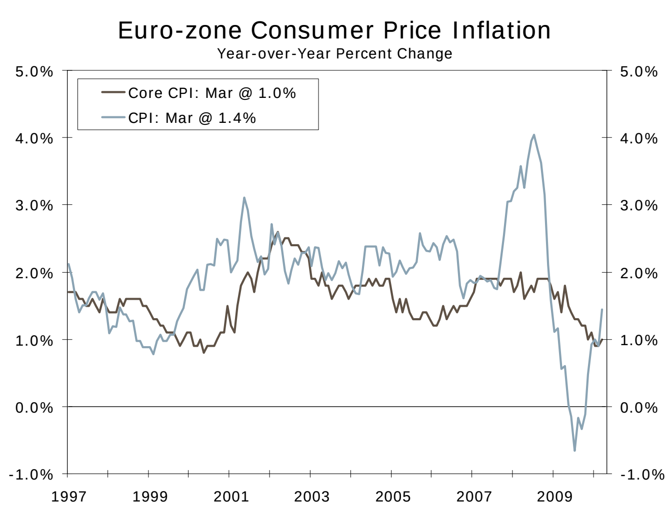
Eurozone

- Following its 5 percent contraction between early 2008 and mid-2009, the Euro-zone economy has started to recover. However, the pace of the recovery remains painfully slow with real GDP up only 0.6 percent since the nadir in Q2 2009. Recently released data showed that real GDP rose at an annualized rate of 0.8 percent in the first quarter, and available monthly indicators point to continued growth in the second quarter.
- However, the recovery in the Euro-zone is hardly self-sustaining at present as growth in private domestic demand (consumer spending and business fixed investment spending) has remained sluggish. The recovery is being driven largely by net exports at present.
- Another global financial crisis, stemming this time from the debt problems of some European government, seems to have been averted, at least for now (see page 2 for details). However, some economies in the euro area face a bleak economic future. Much-needed austerity measures will exert powerful headwinds on growth over the next few years.
- Weak growth and benign inflation imply that the European Central Bank can keep monetary policy accommodative for an extended period. Indeed, we believe that the ECB will keep its main policy rate at 1 percent, where it has been maintained since May 2009, well into 2011.





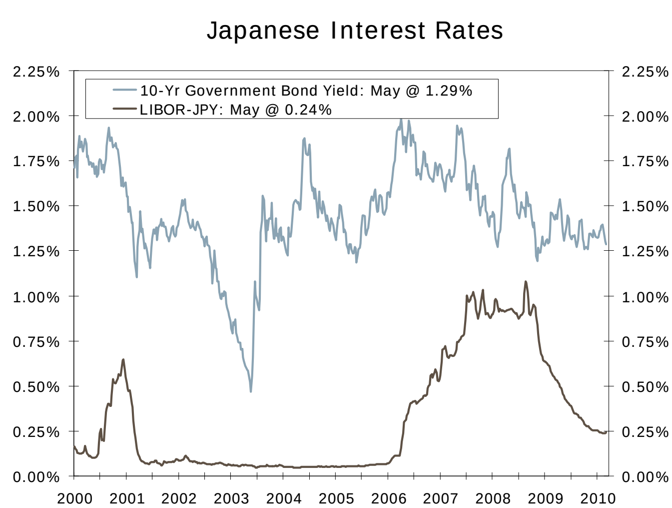


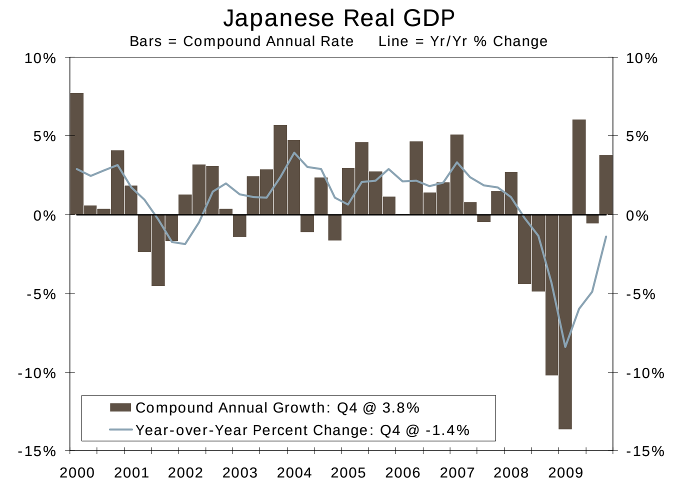


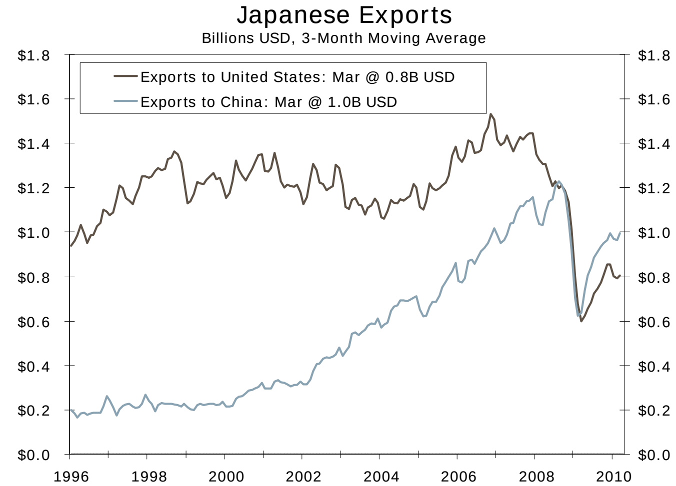
Source: Bank of England, EuroStat, IHS Global Insight, Statistics Canada and Wells Fargo Securities, LLC

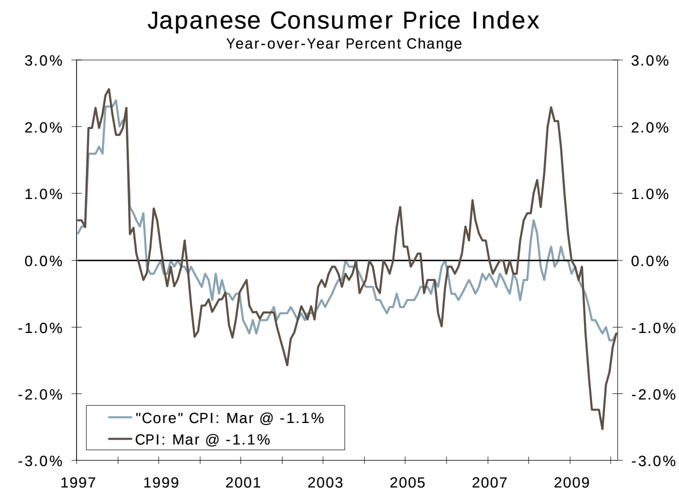
Japan

- Japan's fourth quarter GDP was revised lower to 3.8 percent at a seasonally adjusted annual rate, from the 4.6 percent rate initially reported, keeping concerns about the durability of the expansion on center stage. The downward revision in GDP growth was primarily due to less non-residential fixed investment growth and a modest drawdown of business inventories. Nevertheless, the economic recovery remains intact with government, consumer spending and net exports leading the expansion.
- Deflation remains the primary economic threat. National CPI is still declining at a 1.1 percent pace year-on-year through March, though that is an improvement over the record low of -2.5 percent year-over-year decline recorded last October. Deflation will continue to limit companies' pricing power, and real wages are expected to fall further.
- Heightened fears of a sovereign debt crisis in Greece and Europe is leading to a flight to safety move into the Japanese yen and the safety of Japanese bonds. This is pushing Japanese long-term interest rates lower, and could even intensify deflation pressures as import prices fall in relative terms.
- Despite the fact that Japan has its own sovereign debt problem, with gross public debt expected to rise above 213 percent of GDP by the end of 2014, the country has yet to be targeted by investors as a problem.





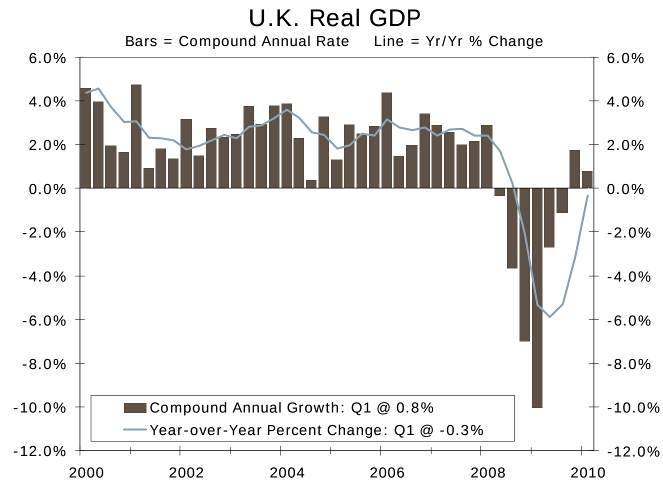


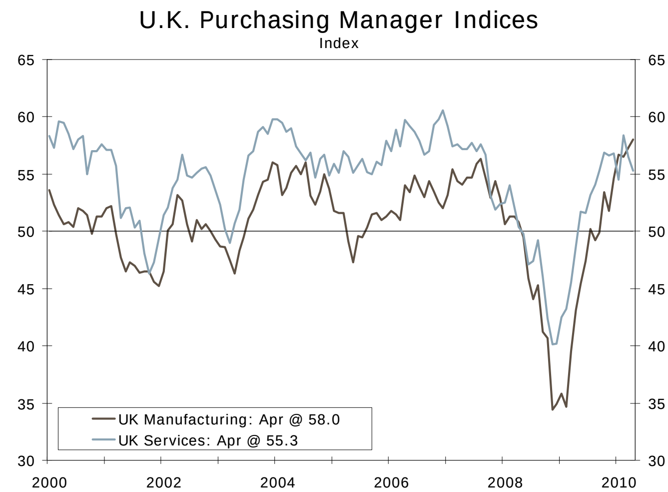


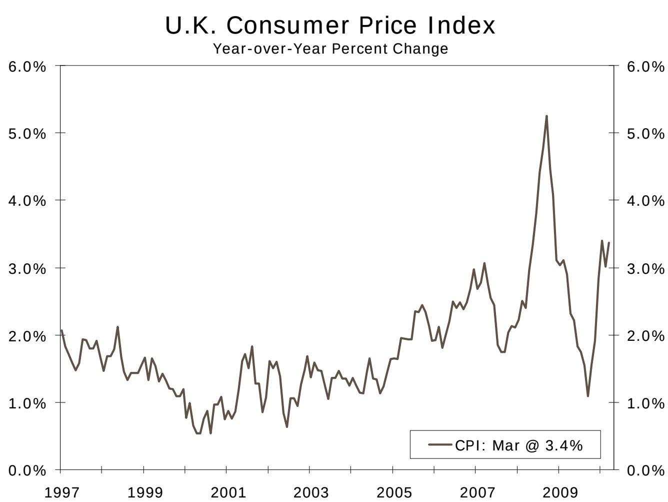
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

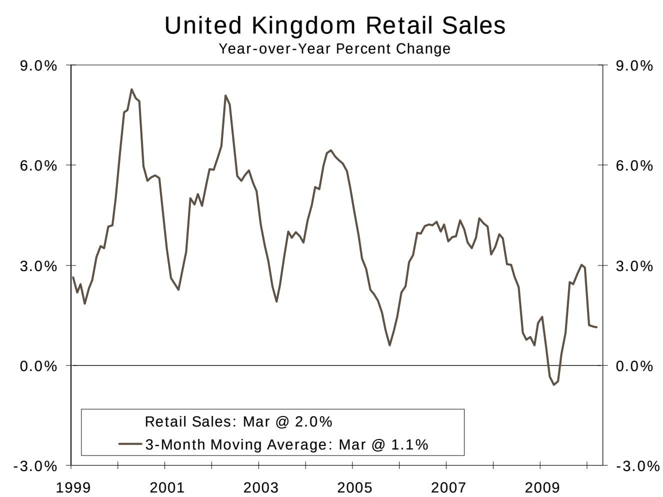
United Kingdom

- After six consecutive quarters of contraction in which real GDP fell more than 6 percent, economic growth in the United Kingdom has returned to positive territory again. However, the recovery remains frustratingly slow, with GDP up only 0.7 percent over the past two quarters.
- Consumer spending has strengthened since the middle of last year, although the trajectory of spending has been affected by the increase in the VAT on Jan. 1. However, capital spending remains weak. It appears that businesses may be unwilling to commit to capex as long as uncertainties regarding the economic outlook remain high.
- In our view, the U.K. economy will expand throughout 2010. However, continued deleveraging by the household sector will likely exert headwinds on consumer spending growth. In addition, fiscal tightening will also weigh on overall economic growth.
- The overall rate of CPI inflation is well above the Bank of England's target of 2 percent at present. However, CPI inflation has been pushed up in recent months by some temporary factors including the hike in the value-added tax. We forecast that inflation will retreat in the coming months, which will give the Bank of England the wherewithal to remain on hold until early next year.





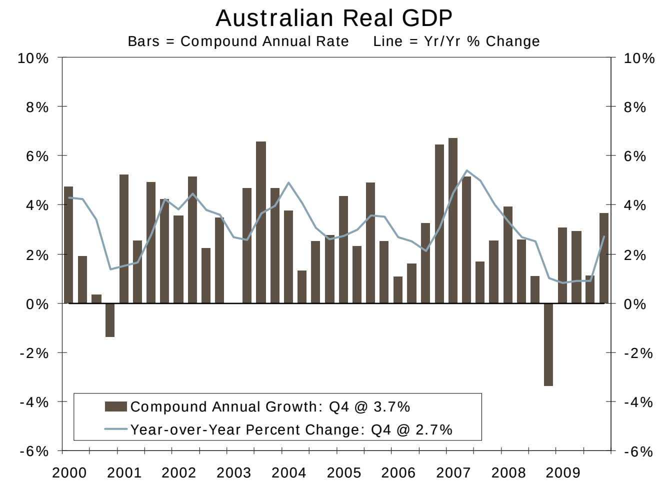


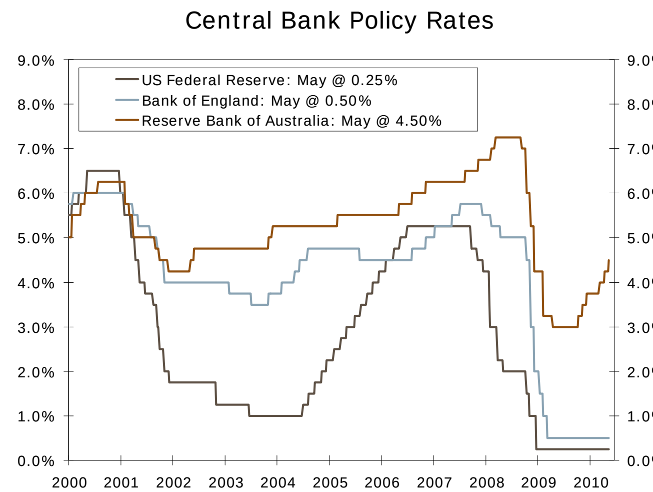


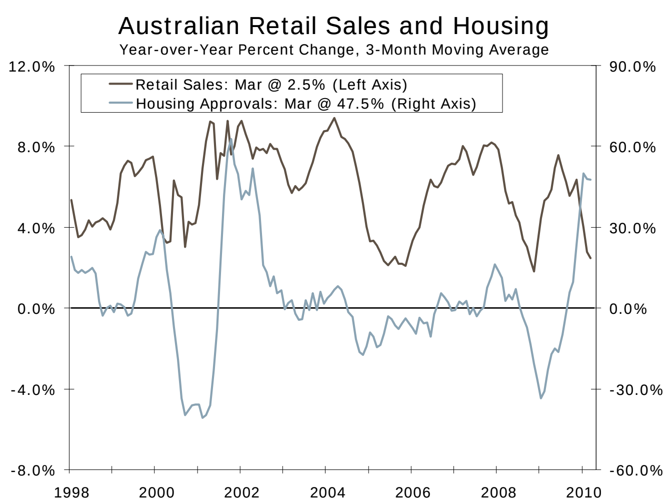
Source: Bank of England, EuroStat, IHS Global Insight, Bloomberg, LP and Wells Fargo Securities, LLC

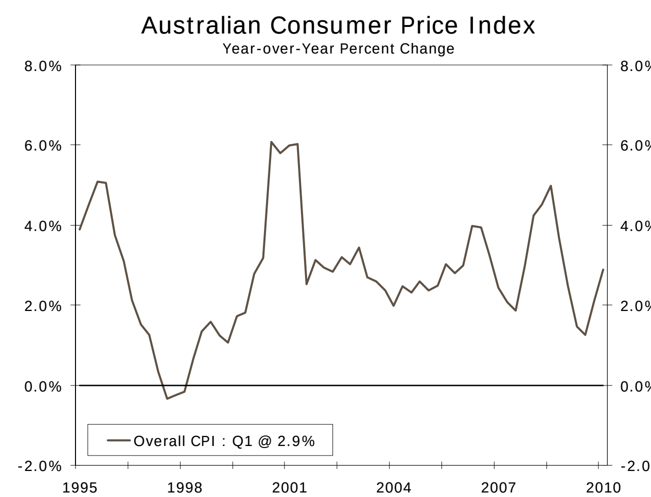
Australia

- The Australian economy was among the few developed economies to avoid getting drawn into the financial crisis and the global recession. GDP growth picked up speed at the end of last year, and while first-quarter data are not yet available, most measures of economic activity point to continued recovery into 2010.
- Indeed, the Reserve Bank of Australia (RBA) in its official policy statement in early May noted that "output growth over the year ahead is likely to exceed that seen last year." The RBA has been at the forefront of central banks willing to dial back monetary stimulus as it has raised its key lending rate 150 bps since this past October. With inflation currently in the upper half of the bank's target range, we think the RBA will likely take a breather at its June meeting before considering another rate hike.
- The Australian economy added roughly 75,000 jobs in the first quarter of 2010, which helped stabilize the unemployment rate at 5.3 percent. Despite the relative strength in the job market, consumers are still reticent to spend too much. Retail sales have been roughly flat so far in 2010, with the 0.3 percent growth in March falling short of the larger gain that the consensus expected. This may mean that consumption did not add much to GDP growth in Q1. But the housing sector has shown signs of strength recently including a 15.3 percent jump in building approvals in March.





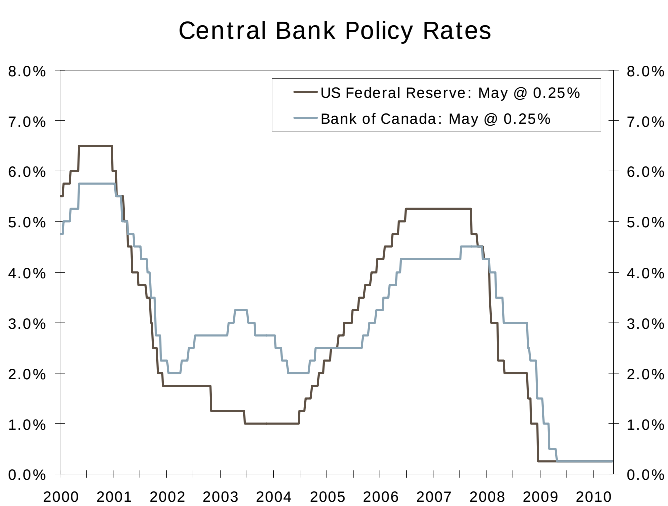


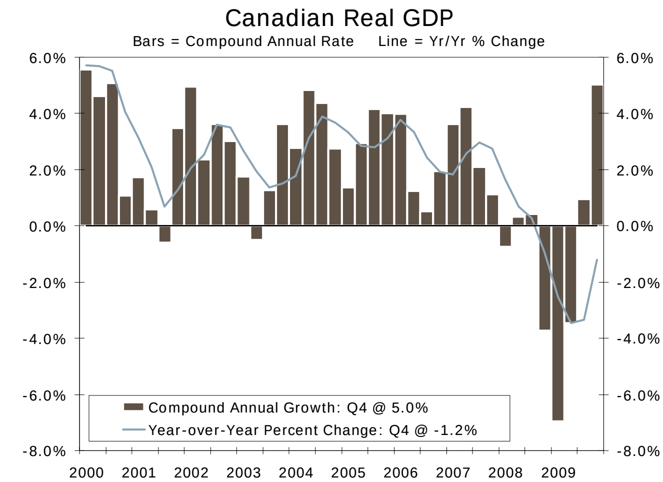


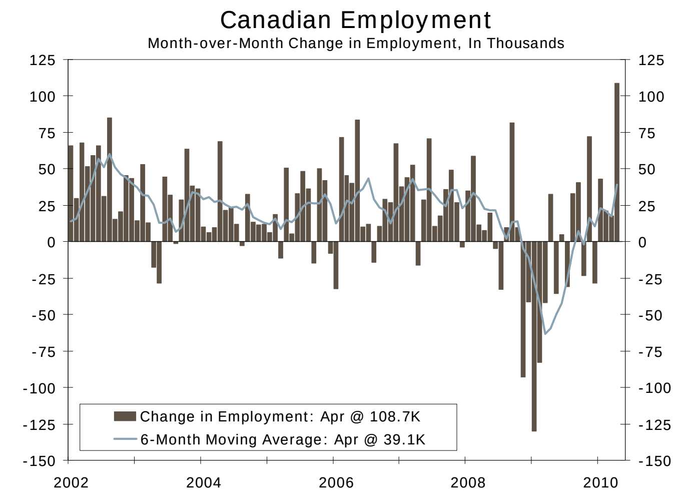
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

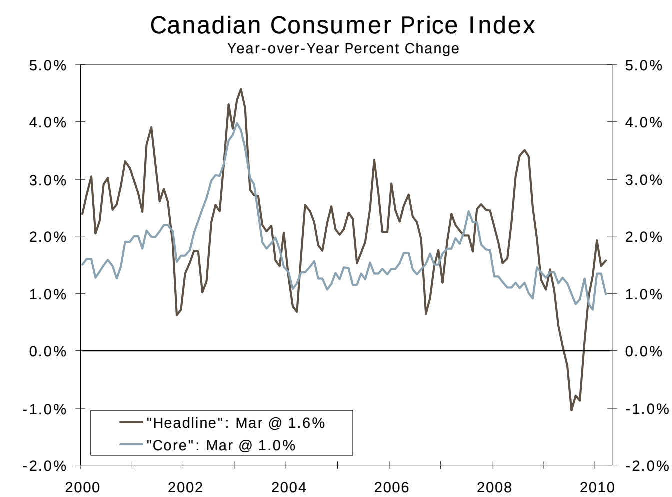
Canada

- After weathering the biggest contraction since 1982, the Canadian economy has snapped back to life. The economy expanded at a 5.0 percent annual pace in the fourth quarter—the fastest sequential growth rate since the third quarter of 2000. Yet it appears the economy is just getting warmed up. With GDP data for January and February already reported, the Canadian economy likely grew at an even faster pace in the first quarter of 2010.
- Nearly half of the growth in the fourth quarter came from the quickening pace of consumer spending. But growth was broad-based in the quarter, with positive contributions coming from business and government spending.
- While the Canadian job market has been gradually recovering since midsummer 2009, payrolls jumped more than anyone was expecting in April, adding more than 108,000 jobs. It was the largest monthly gain on record. Monthly jobs data are famously choppy in Canada but even the six-month moving average is at a multi-year high.
- The Bank of Canada (BoC) recently backed away from its conditional intention to leave the target rate unchanged through the second quarter of 2010. Though the core rate of inflation remains near the bottom of BoC's target range of 1 to 3 percent, the vigorous pace of economic recovery and the stellar April jobs number likely mean a 25 bps hike when the BoC meets in June.





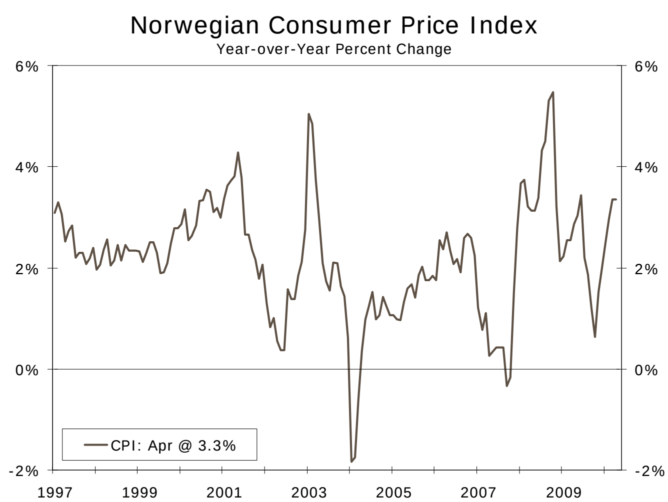


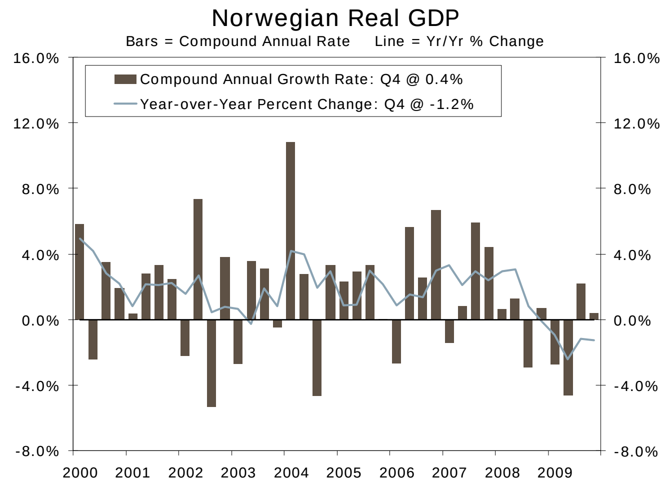


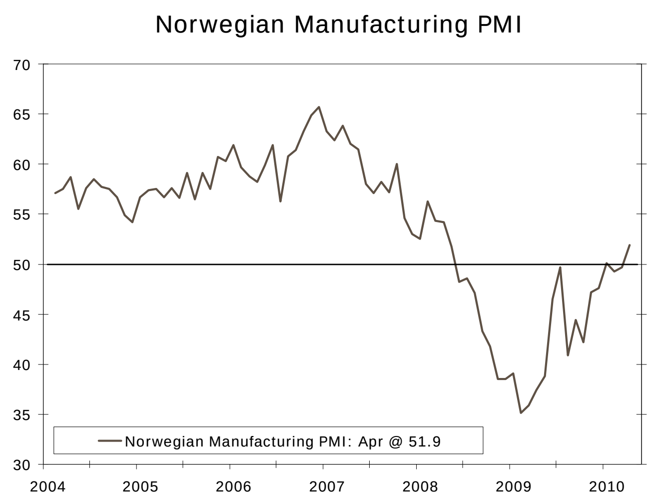
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

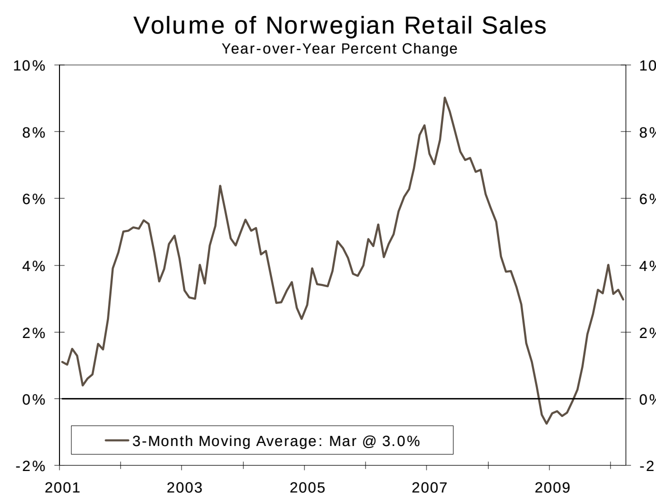
Norway

- Norway experienced a mild recession in 2008/2009. Although growth has returned to positive territory, the pace of the expansion to date remains tepid. Real GDP data for the first quarter are not yet available but the weak growth rate in industrial production—less than 3 percent at an annualized rate—suggests that the overall rate of GDP growth remained slow. Only in April did the manufacturing PMI edge above "50."
- Growth in consumer spending has generally been solid with the year-over-year growth rate in real retail sales running around 3 percent at present. However, investment spending is very weak and export growth returned to positive territory only recently.
- The overall rate of CPI inflation is above 3 percent at present, although the core rate of inflation is lower at 1.7 percent. However, the unemployment rate is only 3 percent at present, and inflation could rise further going forward if growth strengthens.
- Norges Bank, the country's central bank, has slowly raised its main policy rate to 2.00 percent at present from 1.25 percent last October, the last rate hike occurring on May 5. Although the Bank will probably hike rates further in the months ahead, the pace of monetary tightening will likely remain quite slow if economic growth does not strengthen and inflation remains benign.





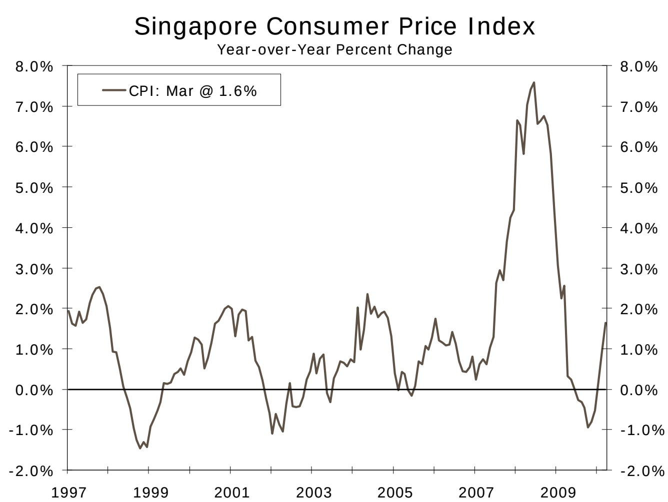


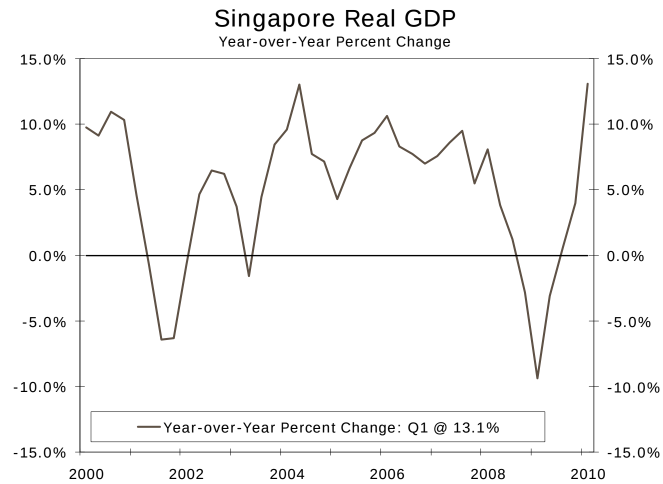


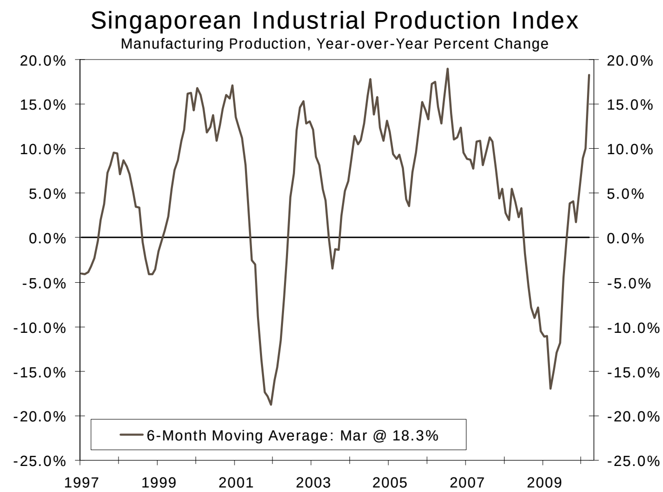
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

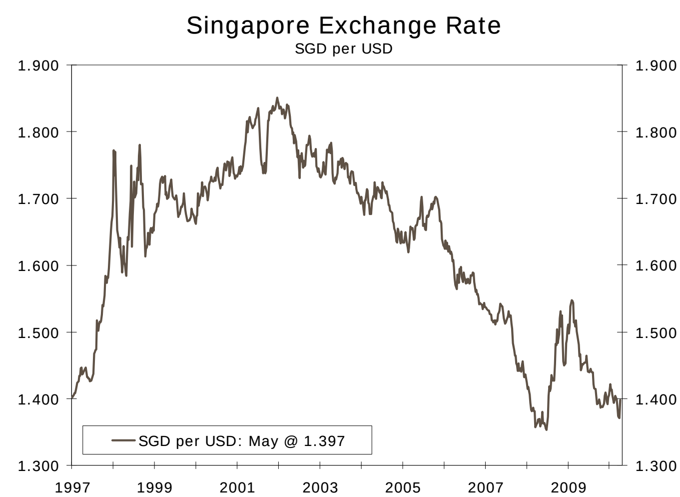
Singapore

- Singapore's economy is in the middle of a turbo-charged V-shaped recovery. First-quarter GDP spiked 32.1 percent at a seasonally adjusted annual rate, far exceeding consensus expectations. GDP is now 13.1 percent above a year ago.
- Singapore's manufacturing expansion was on fire in the first quarter, surging 139 percent from the fourth quarter at a seasonally adjusted annual rate. Manufacturing production is now 43 percent above a year ago. Singapore's March industrial production slipped 1.5 percent, following February's robust 5.2 percent monthly gain. Electronics and biomedical manufacturing are leading Singapore's manufacturing recovery.
- The Monetary Authority of Singapore (MAS) chose in April to re-center the policy band within which the Singapore dollar is permitted to trade, adopting a new policy stance that allows gradual appreciation of the local currency. This is how the MAS conducts monetary policy. An appreciation of the Singapore dollar is an effective tightening of monetary policy, making Singapore's exports relatively more expensive, slowing export growth and tamping down import inflation.
- With economic growth roaring back and with higher electricity tariffs and food and commodity prices, overall CPI inflation is expected to increase in 2010.





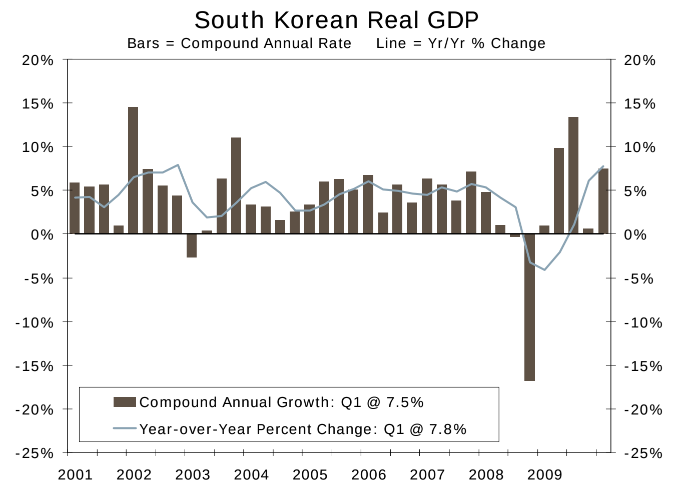


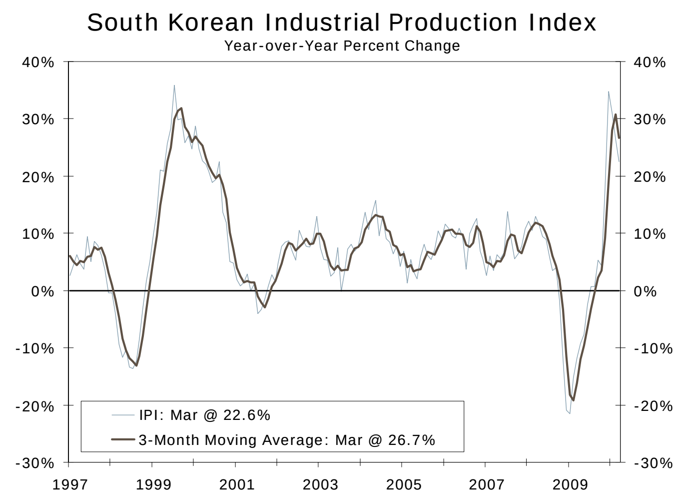


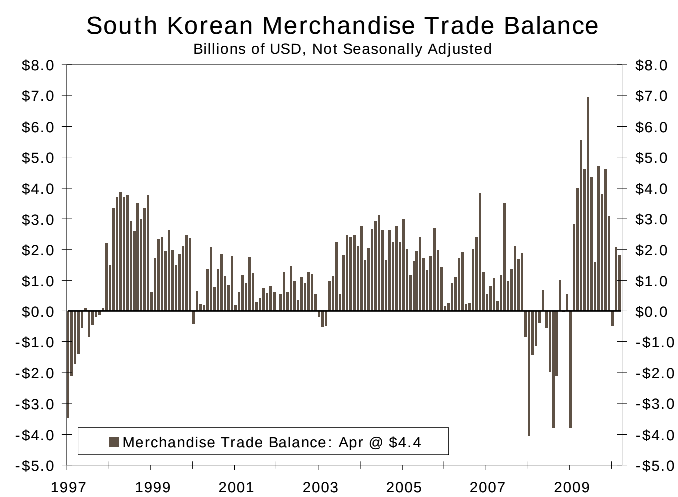
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

South Korea

- South Korea's first-quarter GDP grew at a robust annualized rate of 7.5 percent (7.8 percent in year-over-year terms). The economic recovery remains broad-based with little sign of a near-term slowdown, yet political and economic risks remain high, as South Korea mulls a response to the alleged North Korean sinking of one of its naval ships.
- South Korea's industrial production jumped another 1.6 percent in March to a new record high. Industrial production is now 22.6 percent higher than a year ago, largely due to a resurgence of exports.
- Exports have spiked 31.5 percent from a year ago in April, though that was a slight moderation from March's 34.3 percent advance. Korean growth remains highly dependent on strong growth continuing among its Asian neighbors. So far Asian demand for electronics, vehicles, and shipbuilding remains robust. An unexpected slowdown in Chinese demand due to Chinese monetary tightening or a property bubble collapse is another real downside risk. Mainland Chinese stock prices have been falling so far this year, and the Chinese PMI weakened a bit in April.
- South Korea does not face any of the sovereign debt issues plaguing much of the developed world. South Korea's budget deficit is expected to widen, but the level of public debt to GDP is low at only 25.6 percent.



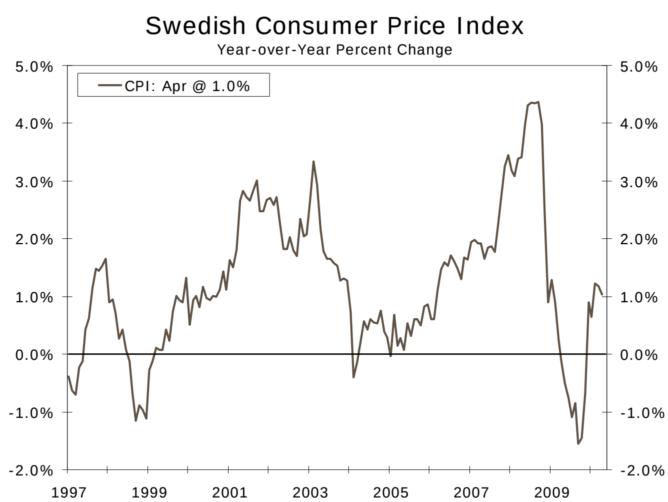


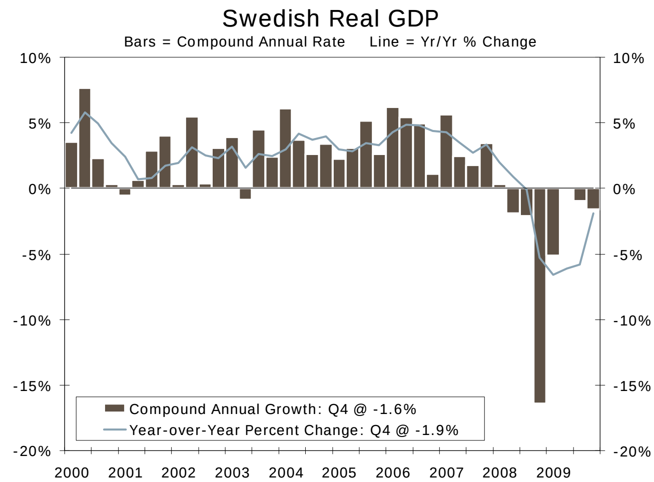


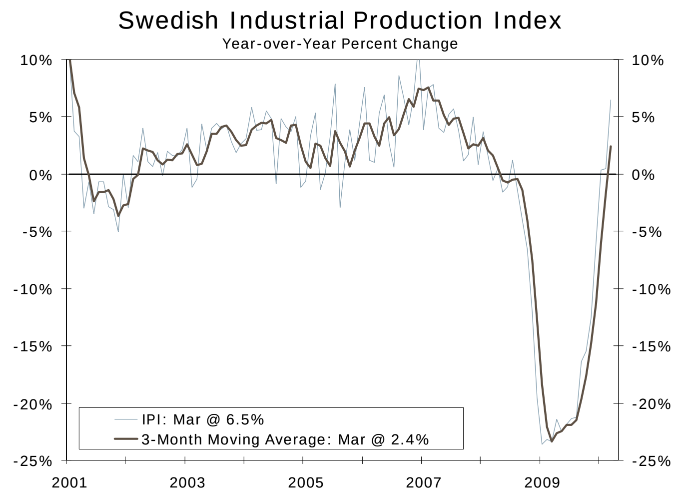
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

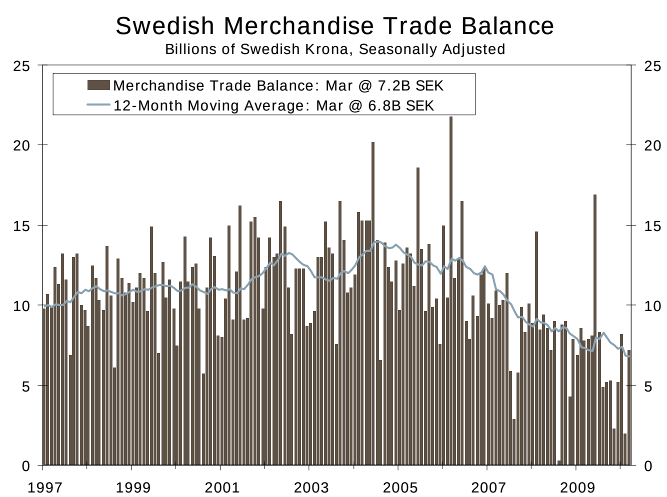
Sweden

- Although growth has returned to most other areas of the world, the Swedish economy continues to contract. Relative to its peak in early 2008, real GDP has declined about 7 percent. However, the modest increase in industrial production in the first quarter and the recent surge in the manufacturing PMI suggests that real GDP growth may finally have turned positive again.
- About 60 percent of the country's exports are destined for the European Union and another 10 percent to go to emerging Europe. Both regions have lagged the global upturn, which has weighed on Swedish exports. In addition, weakness in the labor market—unemployment has risen to the highest rate in more than 10 years—is weighing on consumer spending.
- Due to the rise in energy prices over the past year the overall inflation rate returned to positive territory in December, and it will likely trend a bit higher in the months ahead. That said, a major inflationary outbreak in Sweden does not seem likely due to the weakness in the economy.
- The Riksbank (the country's central bank) cut its main policy rate to only 0.25 percent last summer, where it has subsequently been maintained. Although the Riksbank may begin to raise rates later this year, the pace of tightening will likely remain gradual until the Swedish economy shows more obvious signs of strength.





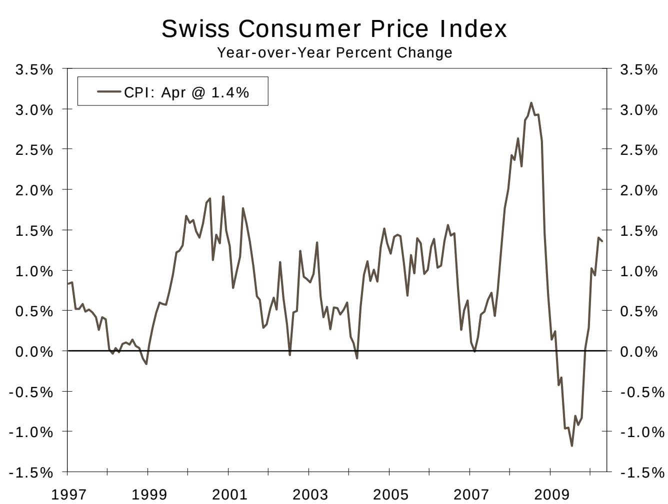


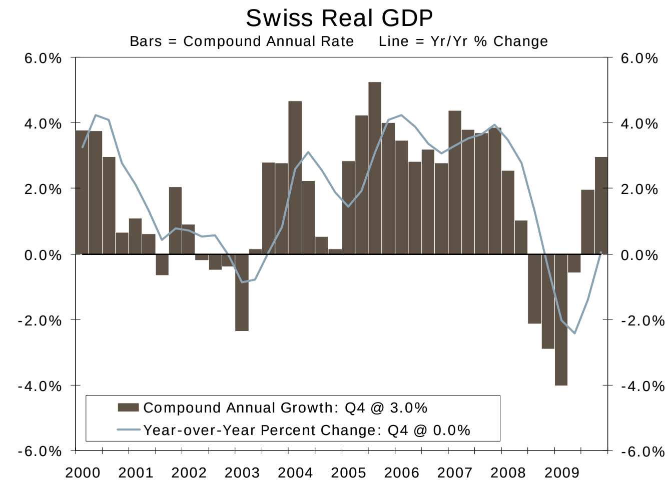


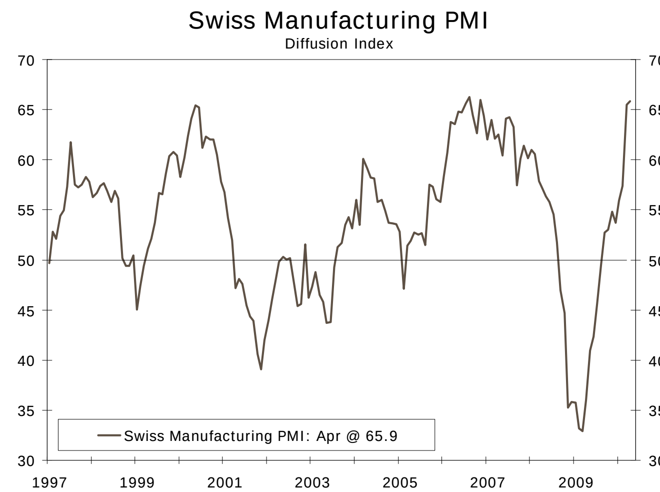
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

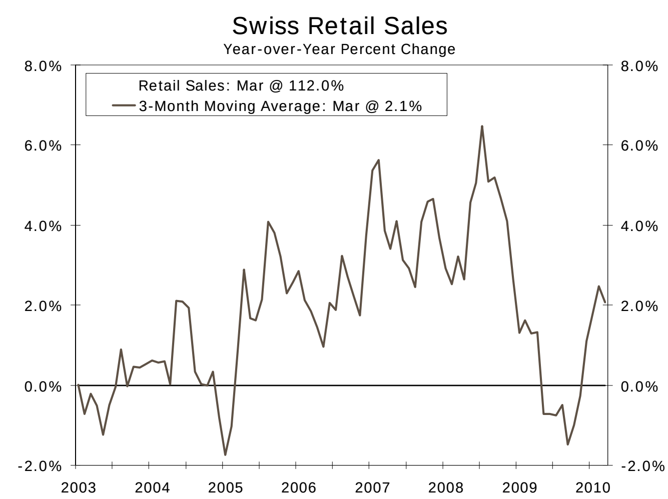
Switzerland

- Switzerland experienced a mild recession in late 2008/early 2009, but the economy is growing again. Real GDP rose at a solid rate in the second half of last year, and monthly indicators, including the manufacturing PMI and retail sales, suggest that growth has strengthened further this year.
- House prices in most parts of Switzerland did not get overly inflated during the past decade, so the economy is not suffering from the hangover of a burst housing bubble. Real consumer spending has turned up over the past few quarters, and investment spending has also strengthened. Unless global economic activity lurches lower again, which is not our base-case forecast, a self-sustaining expansion appears to be taking hold in Switzerland.
- CPI inflation is in positive territory again as energy prices have rebounded. As measured by the core rate of CPI inflation, however, there are few inflationary pressures in the economy at present. The core rate of inflation is currently 0.3 percent, which is more than a full percentage point lower than in late 2008.
- The Swiss National Bank (SNB) has maintained its target for the Swiss franc LIBOR at the very low rate of only 0.25 percent since March 2009. Given the uncertainties surrounding the economic outlook in the Euro-zone, to which most of Swiss exports are destined, the SNB will likely remain on hold for the foreseeable future.





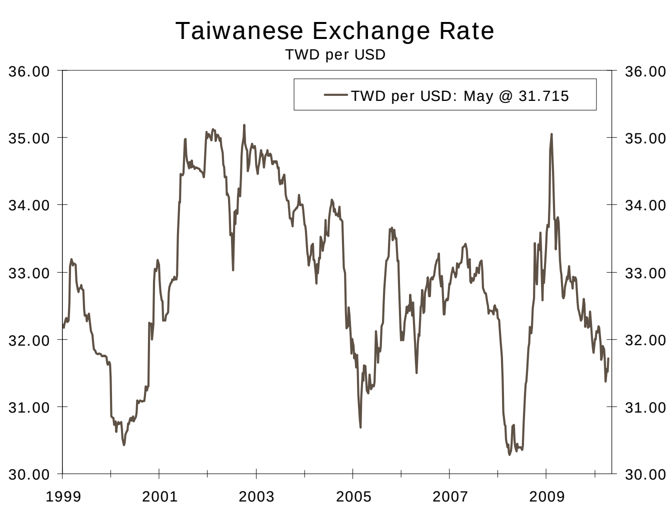


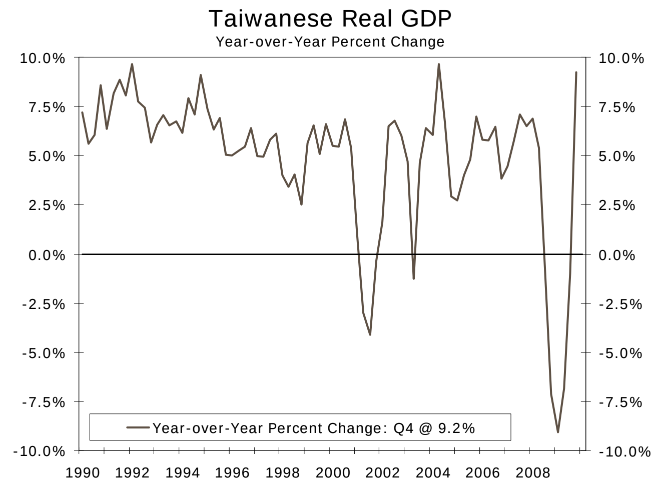


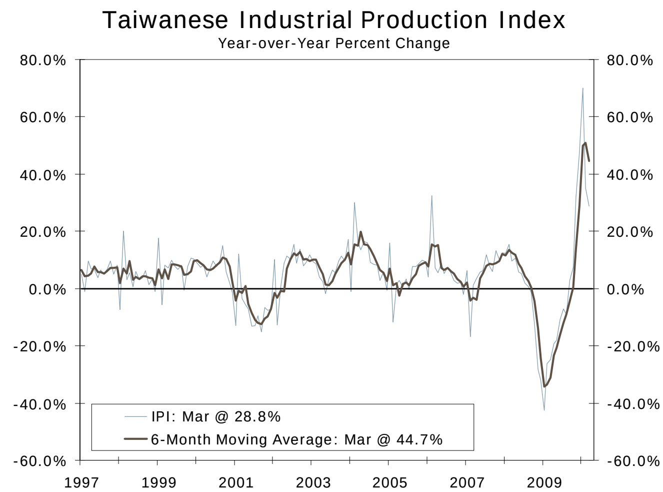
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

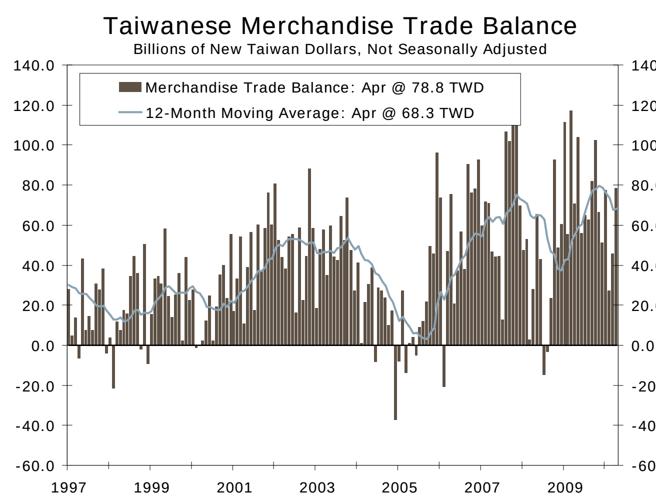
Taiwan

- Taiwan's economic expansion continues to strengthen. March industrial production bounced back from a year ago. Exports continue to lead the charge, rising 43.7 percent from a year ago.
- Moreover, there is little sign of a near-term pause in economic activity. Taiwan's leading economic index increased 0.3 percent in March to a new high, the 14th consecutive monthly increase.
- President Ma of the ruling Kuomintang (KMT) has a strong mandate to govern, which is helped by the fact that the KMT also controls the Legislative Yuan. The government is looking to improve relations and strengthen economic ties with mainland China. The president of Taiwan is seeking an Economic Cooperation Framework Agreement with the mainland that is a de facto free-trade agreement. The opposition is playing on fears that greater rapprochement with China could lead to a loss of sovereignty for Taiwan.
- Taiwan's strengthening economic outlook, and moves by other countries in the region to allow their currencies to appreciate, is making the New Taiwan dollar more attractive.
- Taiwan's central bank announced in March that it would leave its main policy rate unchanged at 1.25 percent, although it acknowledged there were signs of improvement in the domestic economy. Official interest rates could start to rise as early as the next policy meeting in June if the recovery remains at its current pace.





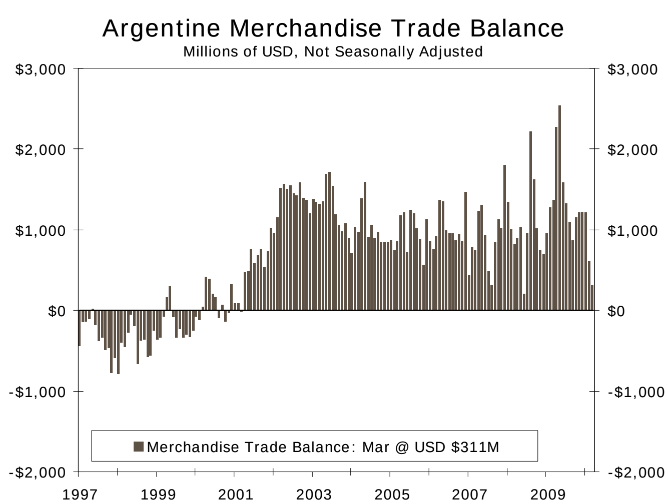


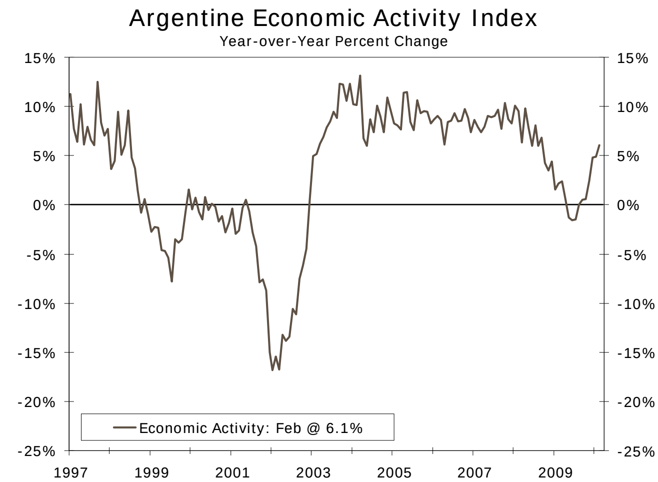


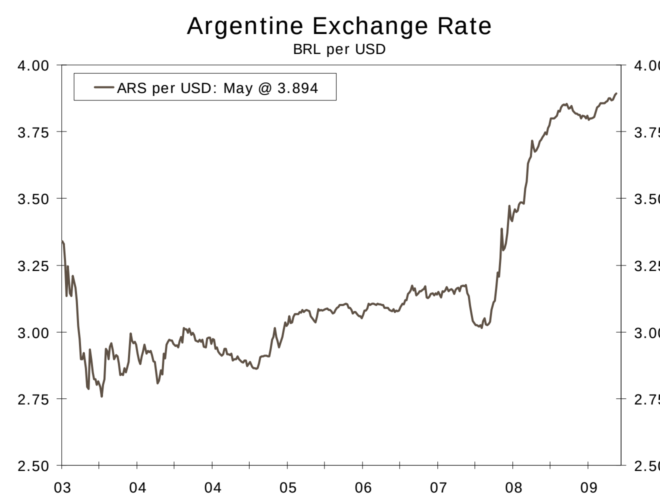
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

Argentina

- The Argentine minister of economics has started a "road show" to introduce the recently launched offer to holdout bondholders from the 2005 restructuring of the country's debt. The government is expecting at least an 80 percent acceptance of the new offer, which includes a "haircut" for institutional investors of 66.3 percent, which is larger than that offered on for the original 2005 restructuring.
- After the slowdown in economic activity in 2009 due to the international financial meltdown, the Argentine economy has resumed its strong growth. According to the index of economic activity, the Argentine economy grew by 6.1 percent in February compared to the same month a year earlier.
- It seems that even the intervened statistical institute is not able to "keep" inflation under tabs. Argentina's inflation rate has been accelerating during the first months of this year. Cumulative inflation for the first quarter of the year was 3.3 percent compared to a rate of 1.6 percent during the same period a year earlier.
- Industrial production remained very strong in March, growing by 10.6 percent on a year-earlier basis after posting 11.0 percent growth during the previous month. It is clear that industrial production as well as higher prices for the country's commodities is doing the trick. On the downside, the rift with China may affect the country's exports.



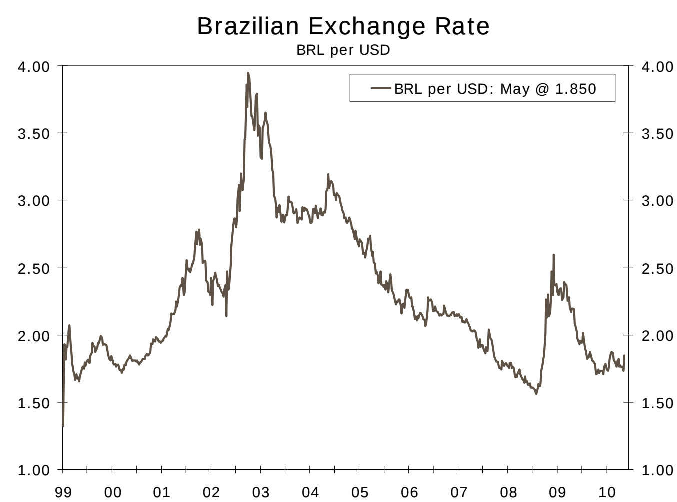


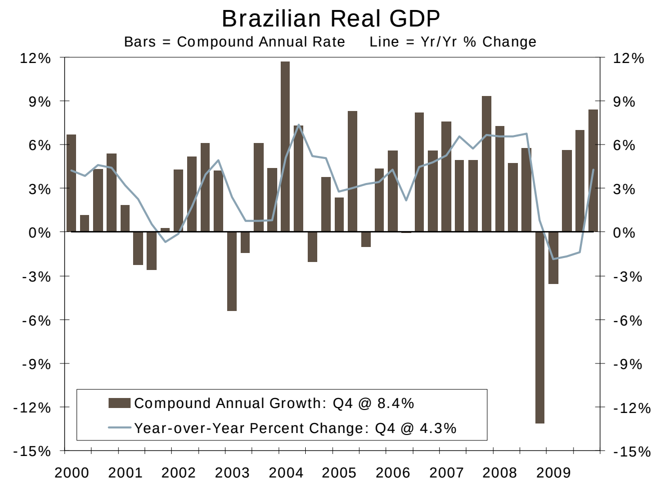


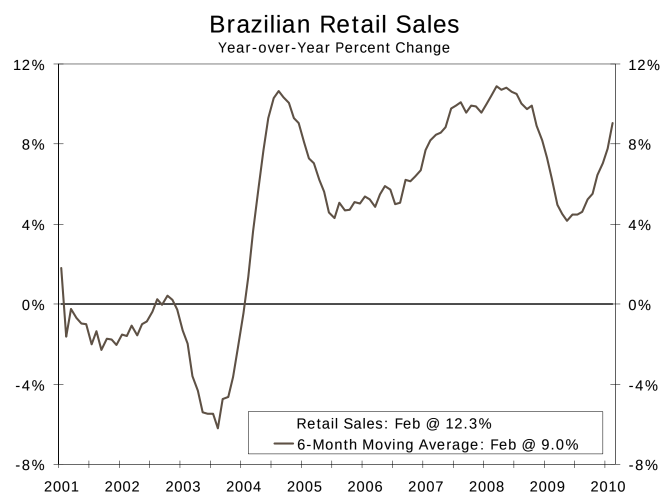
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

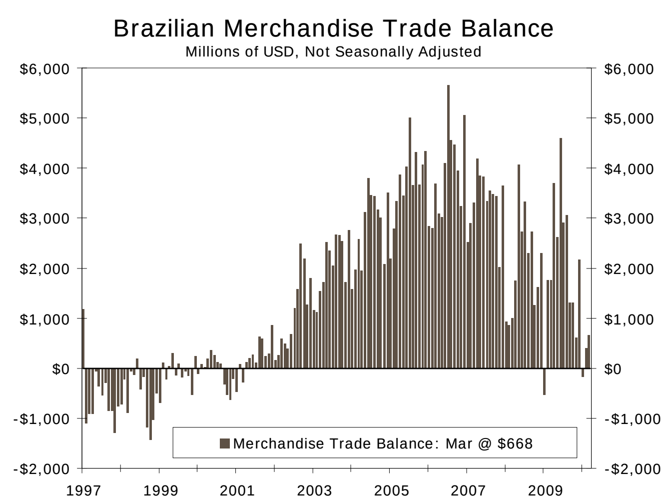
Brazil

- The Brazilian economic recovery is in full swing and the markets, as well as central bankers, are taking note. The Brazilian economy, after suffering the impact of the worldwide financial crisis and the collapse in world demand, is once again booming.
- The economic recovery is broad-based and very strong. Industrial production surged by 19.7 percent in March compared to the same month a year earlier, with automobile production surging by 36.6 percent after a 36.3 percent rate in February.
- This growth is translating into a very strong recovery in the country's trade sector. Exports increased by 23.0 percent (year-over-year) in April after surging by 33.2 percent during March. But Brazilians are also importing a lot of goods from other countries, reflected in the strong rebound in imports since late last year. Thus, imports grew at an even higher rate, by 60.9 percent in April and by 49.8 percent in March.
- Surging domestic consumption is pushing up inflation, which has prompted the central bank to increase the Selic overnight interest rate to 9.50 percent from 8.75 percent. However, the market fears that the central bank is already behind the curve and will have to play catch-up in the coming monetary policy meetings. The talk of the town is that the next increase in rates will be 100 basis points.





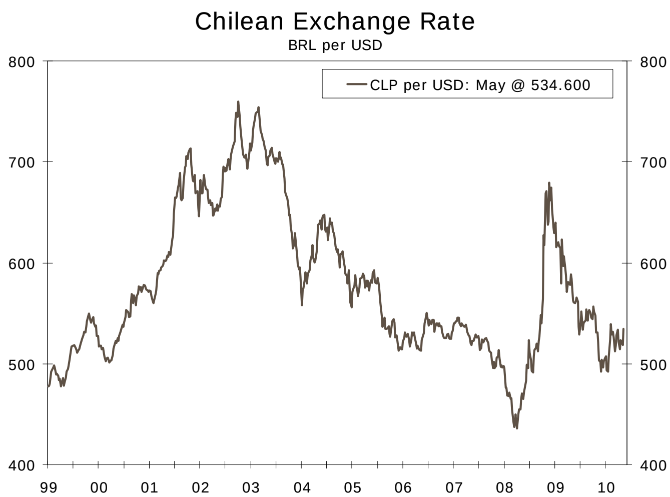


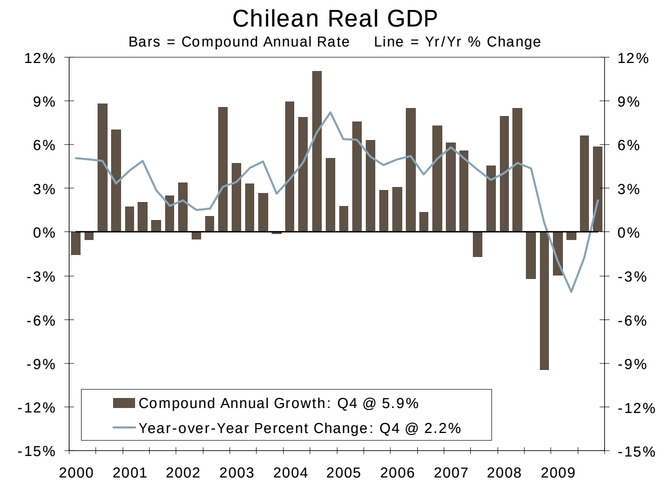


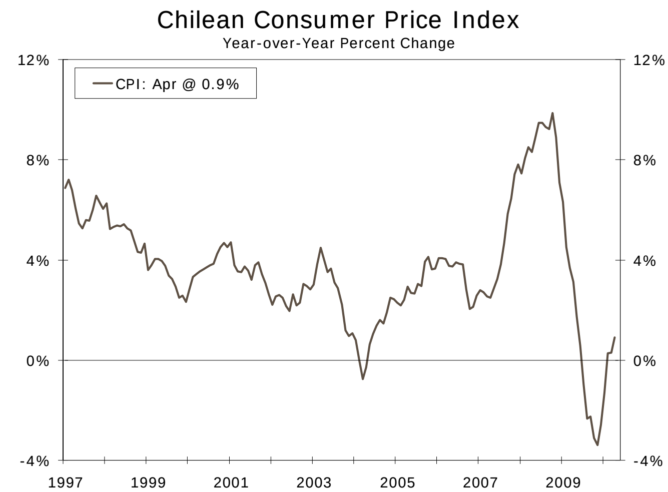
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

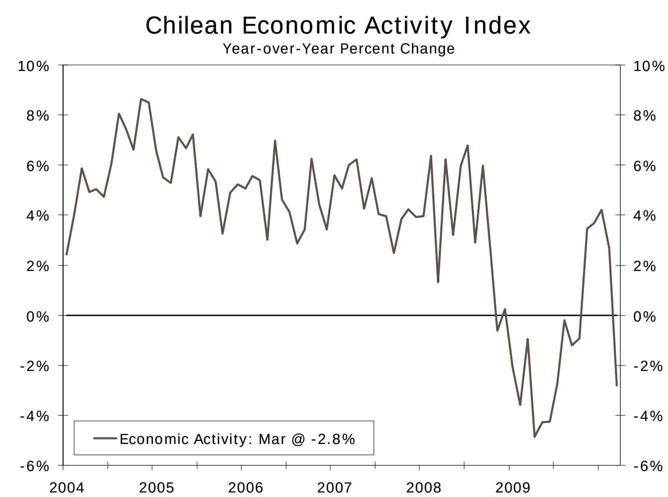
Chile

- The effects of the Chilean earthquake have started to appear on the country's economic releases. Industrial production plunged by 17.4 percent during March compared to the same month a year ago, according to the INE, the country's statistical institute. The severity of the drop is augmented if we recall that industrial production dropped by 7.0 percent in March of last year, as the country was affected by the worldwide financial crisis.
- Chilean exporters have had a wild ride over the last few years. Between the peak in March of 2008 and the trough hit in February 2009 after the financial crisis, Chilean exports fell by roughly half. But as foreign economies began to recover, global trade began to pick up as well. Chilean exports have retraced more than half of the losses from the last cycle, leaving exports roughly 20 percent off their 2008 highs. For now, the good news is it appears that the earthquake of February 27 is not having much of an impact on trade activity.
- Chilean consumer prices were up by 0.9 percent in April compared to the same month a year earlier. Wholesale prices remained in deflationary territory during the first quarter of this year, even though the index did not change during March from the previous month. On a year-over-year basis wholesale prices are down 6.3 percent. Thus, monetary policy will remain expansive this year.





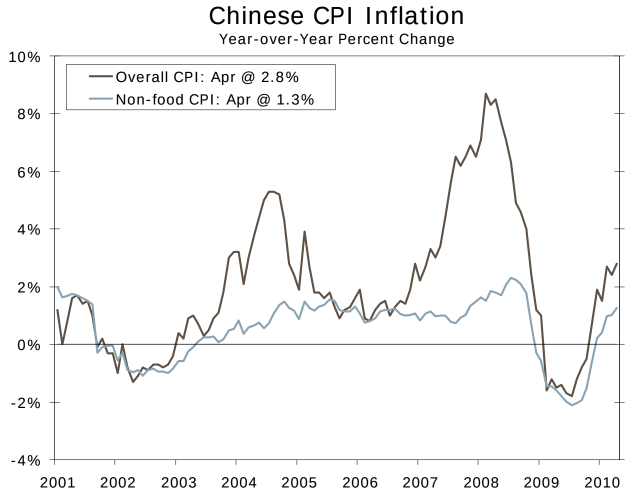


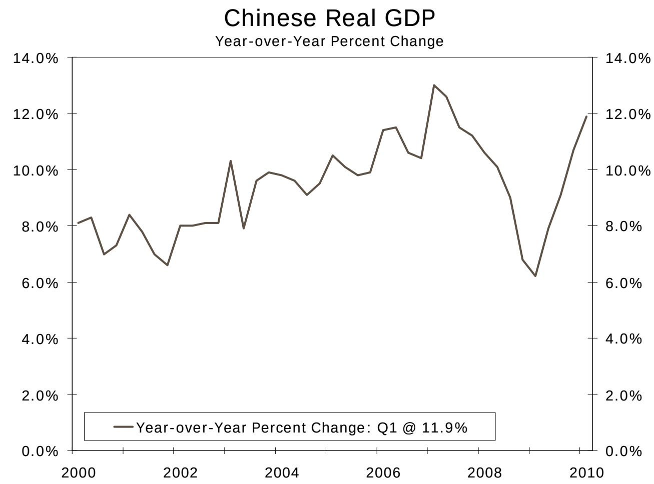


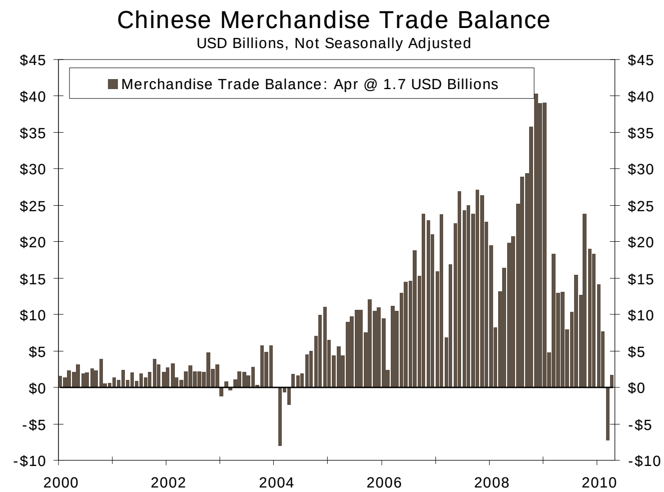
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

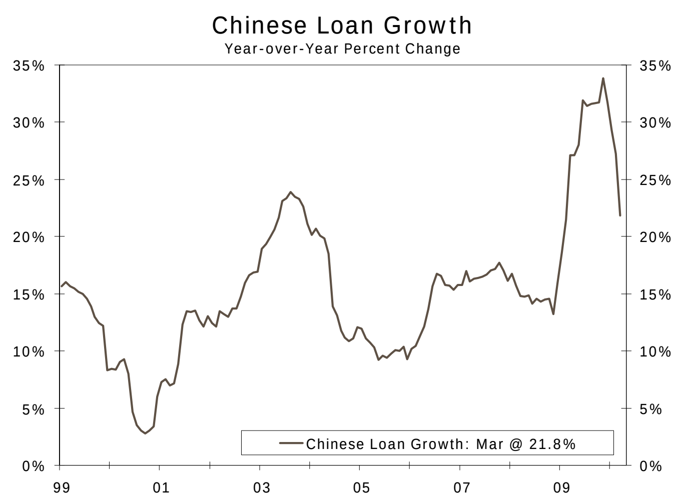
China

- Real GDP growth in China has rebounded sharply in recent quarters. Because Chinese banks were not overly leveraged, the government directed them to increase lending aggressively. In addition, the government stimulated the economy via acceleration of planned infrastructure spending.
- Growth in domestic demand has been solid. For example, the value of retail sales is currently growing nearly 18 percent on a year-over-year basis. In contrast, the decline in the Chinese trade balance in recent quarters suggests that net exports have been a slight drag on growth.
- Now that the economy is firmly back on track, the government is directing banks to slow down the pace of credit creation before inflation becomes an issue. Most indicators point in the direction of continued strong growth in the second quarter but, as the recent decline in the manufacturing PMI suggests, the pace of growth may slow somewhat going forward.
- Will Chinese authorities tighten too much? Probably not, because inflation largely remains benign. That said, both the overall rate and the core rate of CPI inflation have trended up recently. Although economic policies will become less accommodative in the months ahead, we do not expect Chinese authorities to slam on the brakes.





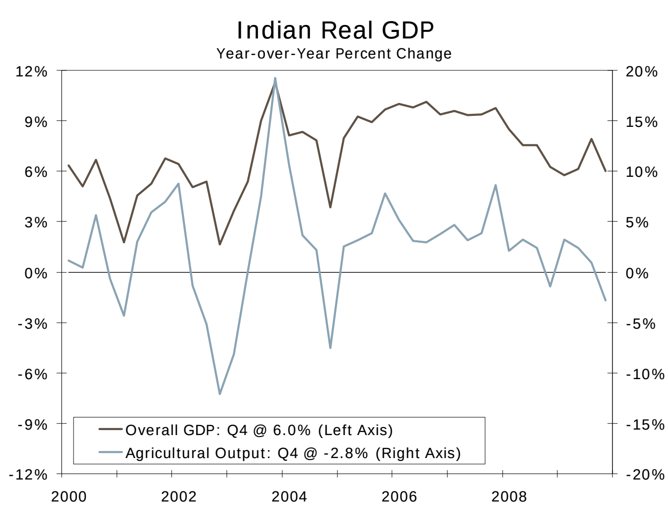


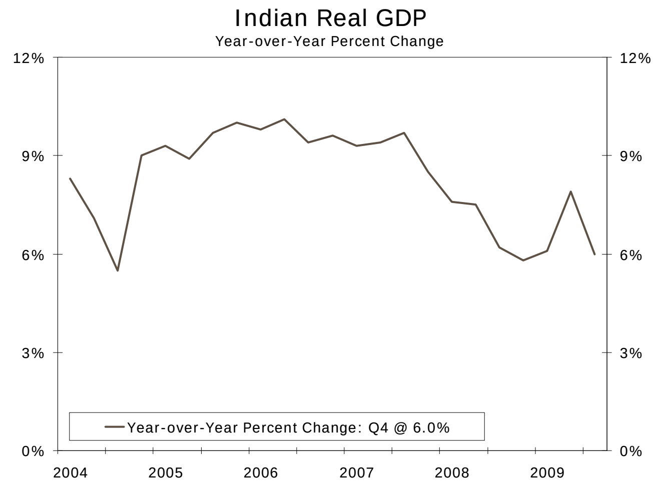


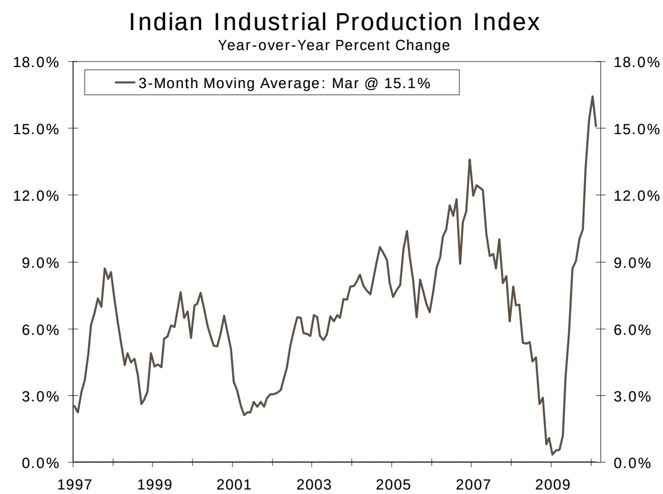
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

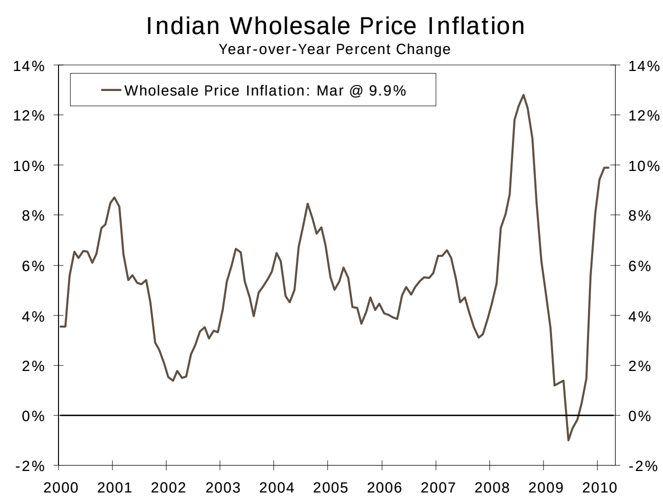
India

- Real GDP growth in the Indian economy has fluctuated over the past year or so. After slowing in the wake of the global recession, growth bounced back up in mid-2009. However, overall GDP growth weakened again in the fourth quarter as agricultural output, which accounts for nearly 20 percent of Indian GDP, fell because of the effects of last year's drier-than-normal monsoon.
- Despite the fluctuations in the overall rate of GDP growth, the underlying state of the Indian economy remains relatively strong at present. Growth in industrial production was very strong in the first quarter, and the manufacturing PMI remained well above "50" in April, suggesting that growth has remained solid in the current quarter.
- Strong growth in automobile sales shows that consumer spending generally remains solid. In addition, exports have accelerated with the year-over-year growth rate in the value of Indian exports surging to 54 percent (admittedly off a low base) in March.
- Wholesale price inflation, which is the benchmark inflation gauge in India, has shot up over the past few months. In response to strong growth and the potential for inflation to move higher, the Reserve Bank of India has started to take back some of its previous rate cuts by hiking its main policy rate by 50 bps over the past two months.





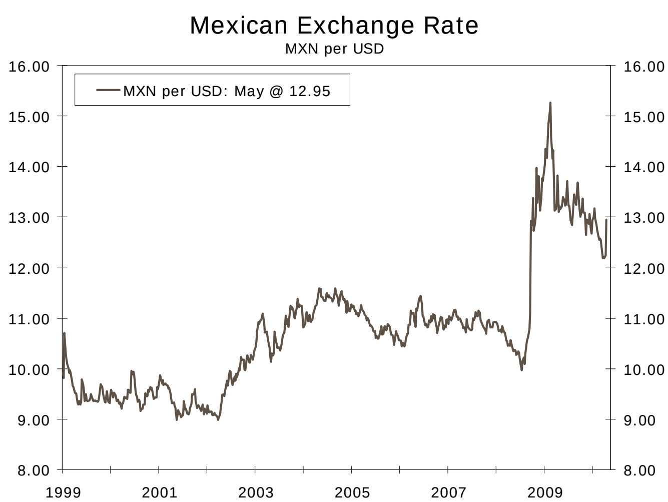


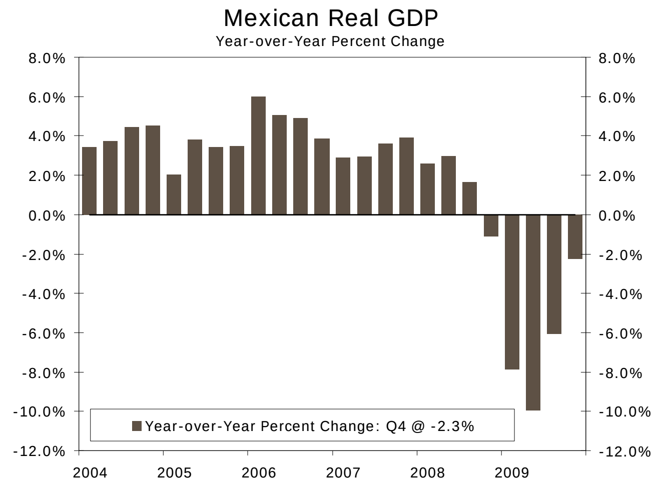


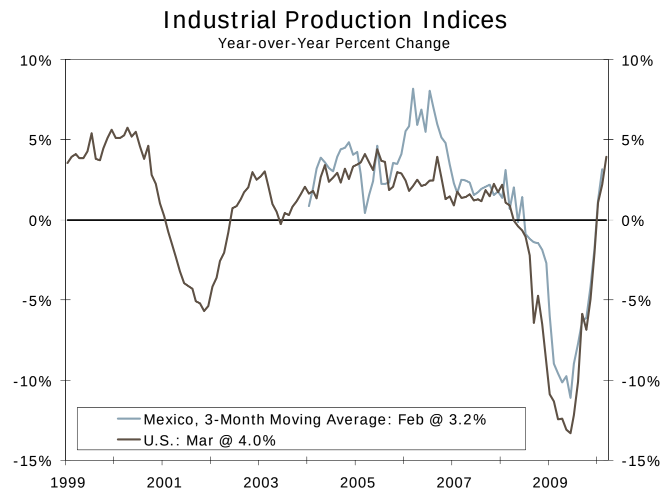
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

Mexico

- The recovery of the Mexican economy is taking a very different path than the recovery of other Latin American economies, because the reasons for the Mexican recession were different from the others. The strong economic linkages between the Mexican and U.S. economy weighed heavily on the Mexican economy during the crisis. Although the Mexican economy is recovering, the rate of this recovery is very mild compared to, say, Brazil.
- According to the Global Index of Economic Activity (IGAE), the Mexican economy grew by 3.4 percent during the second month of the year compared to the same month a year earlier, and up from a growth of 2.4 percent in January. On a seasonally adjusted basis, the index increased by 0.5 percent after falling by 1.0 percent during January, which tends to show the still relative weakness of this recovery.
- Mexican trade is also turning the corner but the pace is also very slow. Exports increased by 39.0 percent in March on a year-earlier basis, while imports posted a 38.6 percent increase. However, since exports and imports were down by 25 and 22 percent, respectively, in March of last year, the recovery is not as strong as in previous recovery processes.
- Mexican interest rates remain at all-time lows, and we should expect these levels to remain there for some time, as inflation has to be in the rear mirror of central bankers.



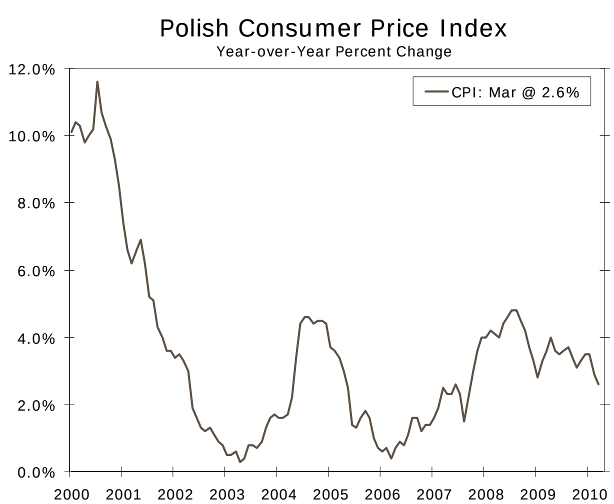


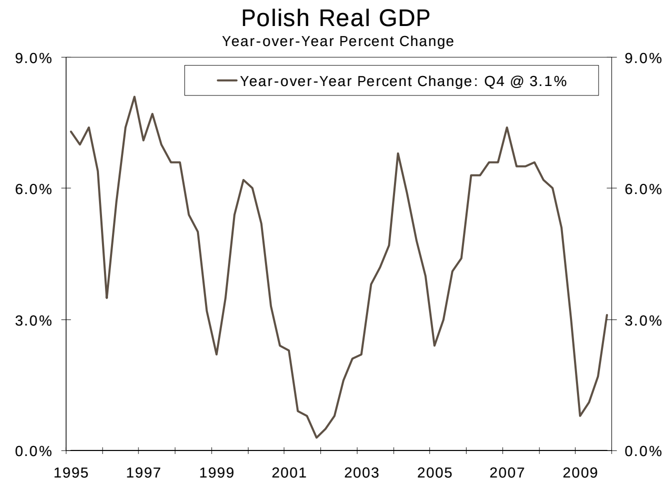


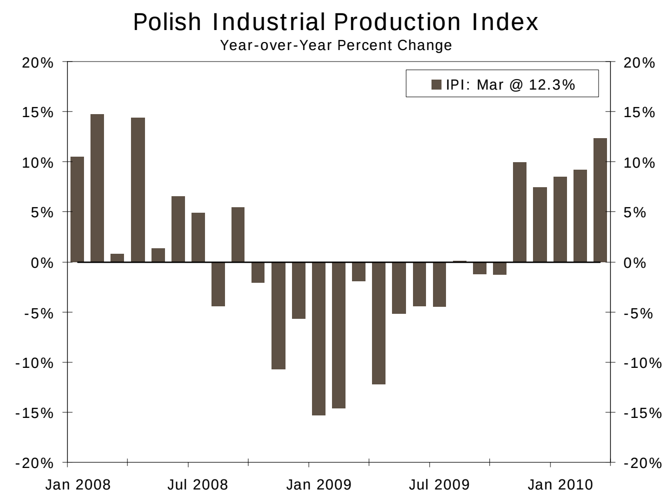
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

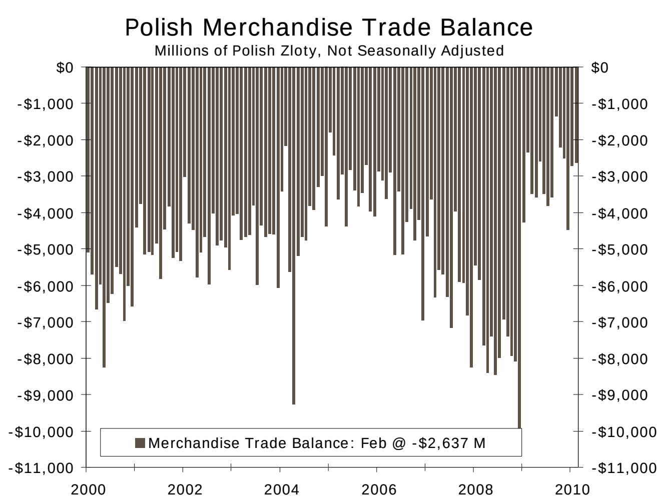
Poland

- April 10, 2010, was among the saddest days in Poland's history as the country lost its president and many political and military leaders in the plane crash near Smolensk, Russia. Since the president's role in Poland is mainly ceremonial, the crash will not cause much political instability in the near term. However, it will necessitate an early election to elect a new president, which will be held on June 20. Prime Minister Donald Tusk's Civic Platform Party, which is pro-business and pro-European Union, has the inside edge, with acting President Bronislaw Komorowski the party's nominee.
- Poland's economy grew 1.2 percent in Q4 2009 from the previous quarter, and 3.1 percent from the same quarter a year ago. Trade led the way, while inventory replenishment also supported growth. Private consumption growth slowed during the quarter. For all of 2009, real GDP rose 1.7 percent. First-quarter data were not available as of this writing.
- On a year-ago basis, industrial production is rebounding. However, the trade deficit has widened since September as exports have slowed more than imports. Weak European growth and the weak euro pose risks for Poland's exports and manufacturing.
- Rising unemployment, weak wage growth, the zloty's appreciation against the euro and favorable base effects have all recently contributed to a moderation in inflation.





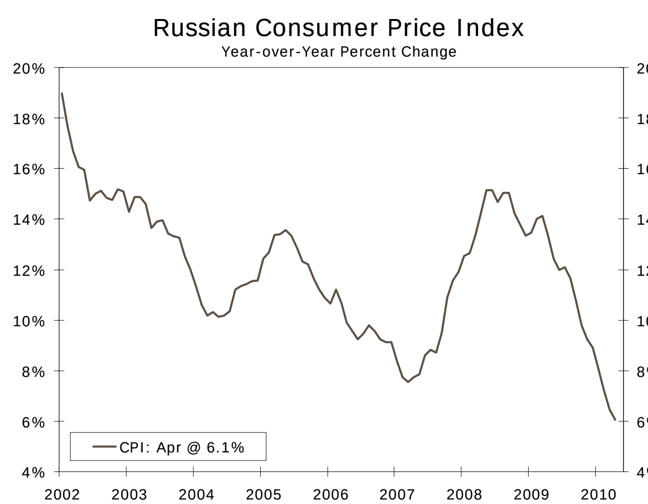




Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

Russia

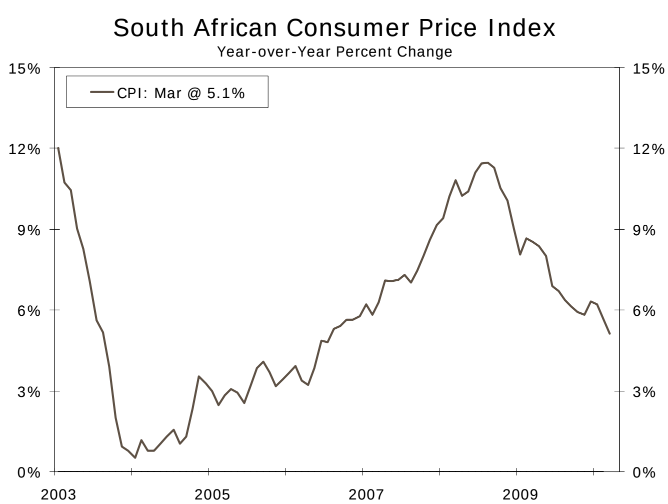
- Russian real GDP was down 3.8 percent year 0ver year in Q4 2009, an improvement over the 7.7 percent drop in Q3. A rise in the trade surplus, bolstered by rising oil prices, was a primary driver. Continued improvement in consumer spending added further support.
- The continuing global economic recovery has led to further increases in demand for oil, natural gas and metals, the vast majority of Russian exports. Exports were up a whopping 64.7 percent from a year ago in February, while imports were up a respectable but smaller 14.8 percent. This has led to a further widening of the trade surplus since the fourth quarter, contributing to the 0.6 percent quarter-over-quarter growth estimate for first-quarter GDP that the government released on April 28.
- Retail sales have improved further since our last report, rising 9.6 percent in March from a year ago, as real wage growth continues to accelerate, while the unemployment rate is down slightly from year-ago levels. However, credit remains tight, preventing consumers from contributing more to economic growth.
- Although the domestic economy is rebounding, spending growth remains well below average. This, along with the ruble's sharp rebound over the past year, has led to a further slowing in annual inflation to 6.1 percent in April, the lowest in over a decade. With inflation low, the central bank cut the refinancing rate again in April to a record-low 8.0 percent.

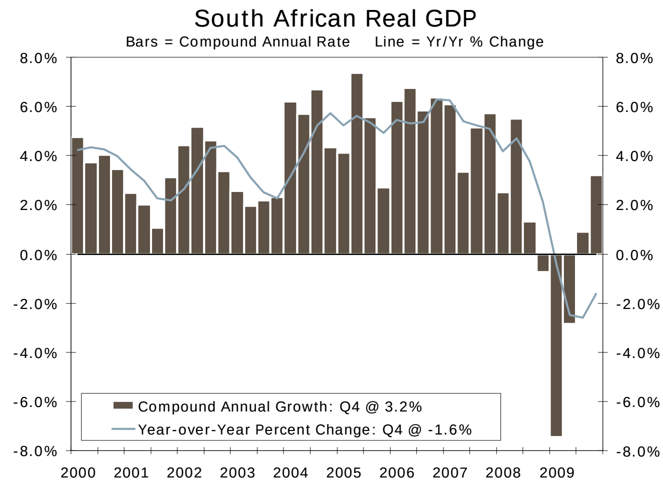


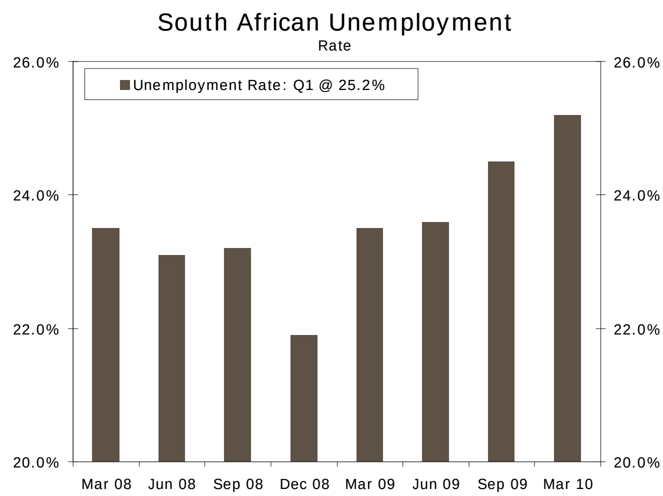
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

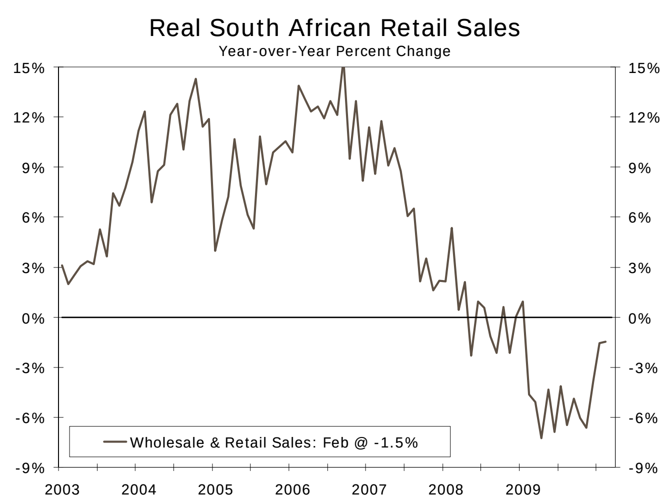
South Africa

- For the full-year 2009, the South African economy contracted 1.8 percent. But like many foreign economies it ended the year on an up-note rising at a 3.2 percent annualized pace in the fourth quarter. In recent public comments South African Finance Minster Gordhan noted the economy may indeed recover faster than budget estimates.
- Despite the finance minister's optimism, the unemployment rate in South Africa is among the highest in the world. Recently released employment data suggest the situation is continuing to deteriorate, as the economy shed another 171,000 jobs in the first quarter of 2010, leaving one in four people in the South African workforce looking for work. There are 1.8 million South Africans who have given up looking for work. Including these discouraged workers, the unemployment rate is a staggering 35.4 percent.
- With one in three consumers either out of work or having thrown in the towel on their job search, consumer activity continues to wither. Retail sales fell for the 13th straight month in February.
- A dip in CPI inflation gave the South African Reserve Bank (SARB) cover to cut its benchmark interest rate 50 bps in March to 6.5 percent. But in recent public comments, Reserve Bank Governor Gill Marcus signaled the target rate would likely remain unchanged "for some time to come."





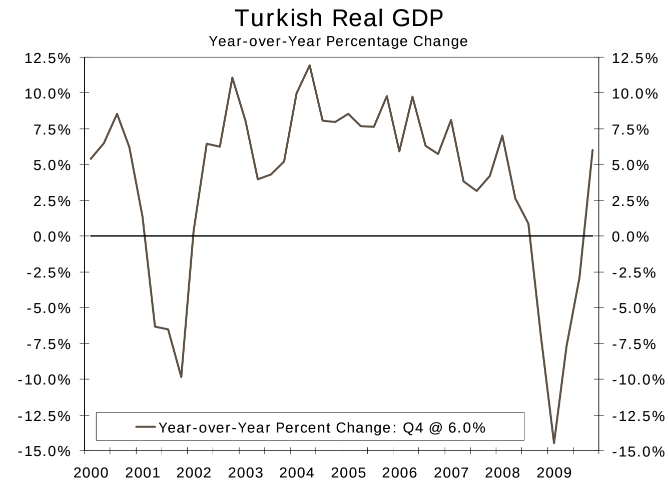


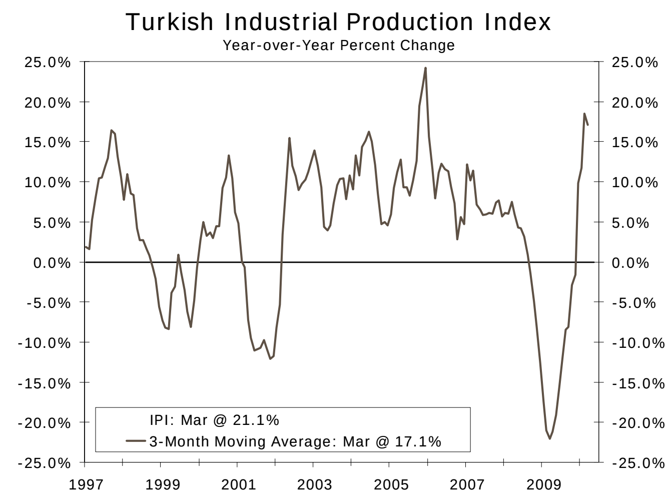


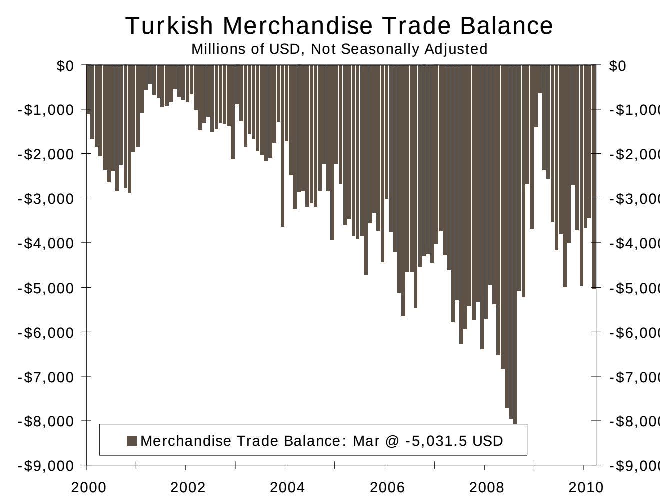
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

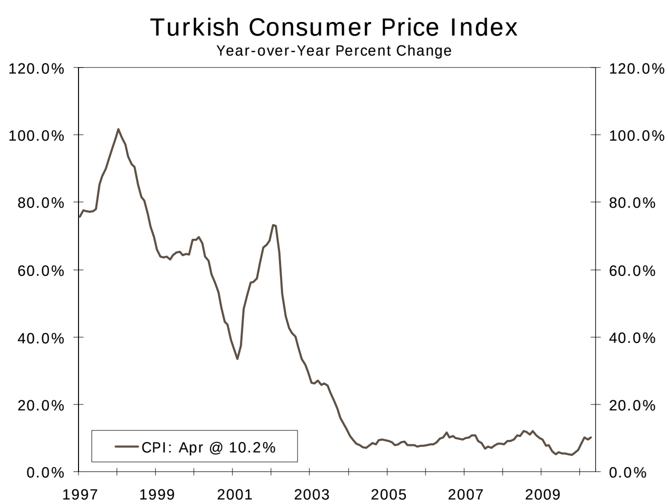
Turkey

- Turkey's economy has turned the corner, growing 6.0 percent in the fourth quarter from the previous year, the first positive reading in five quarters, and second only to China's 10.7 percent growth. Strong rebounds in private consumption and business investment, along with a surge in government spending, drove growth. Trade had little effect on growth as the trade deficit was little changed from a year prior. The government is expecting double-digit GDP growth in the first quarter.
- Industrial production has rebounded strongly. Production was up 21.1 percent in March from a year ago as auto production soared 57 percent and textile production rose 26 percent. Along with improved demand, the extremely low base of comparison is also contributing to the strong numbers.
- Inflation has been inching higher in recent months, coming in at 10.2 percent year over year in April. A rebound in demand and a low base of comparison are contributing to the increase. Despite rising inflation, the central bank plans to keep rates low as it believes the price spike is temporary. However, rising producer prices suggest further price pressures are building. This, along with continued growth, will keep the central bank vigilant.
- Political instability persists in Turkey, as the ruling AKP party has proposed amendments that would restructure the judicial system and increase civilian control of the military.





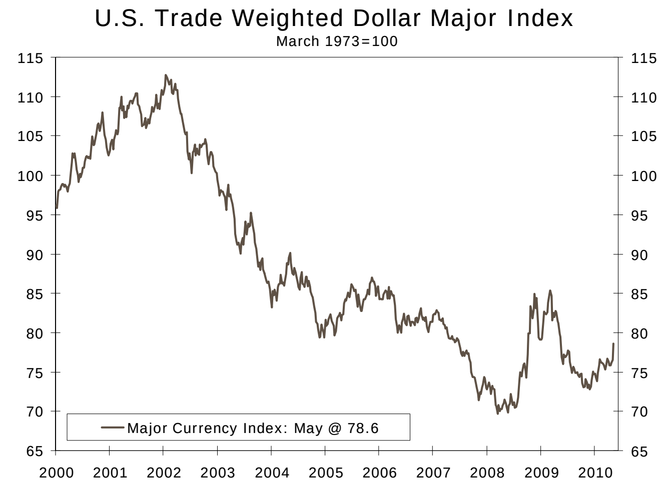


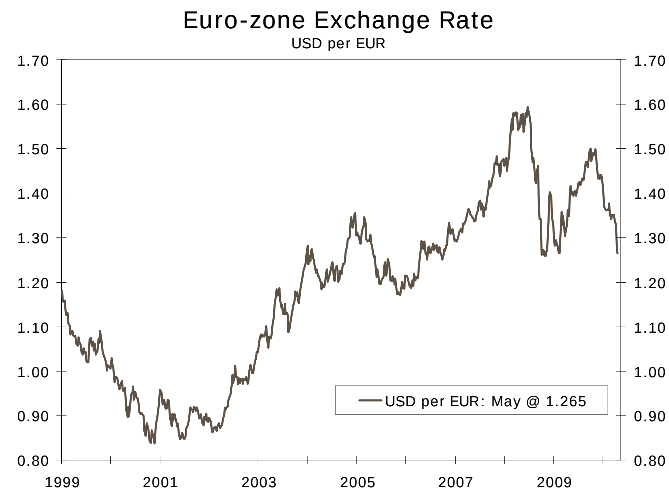


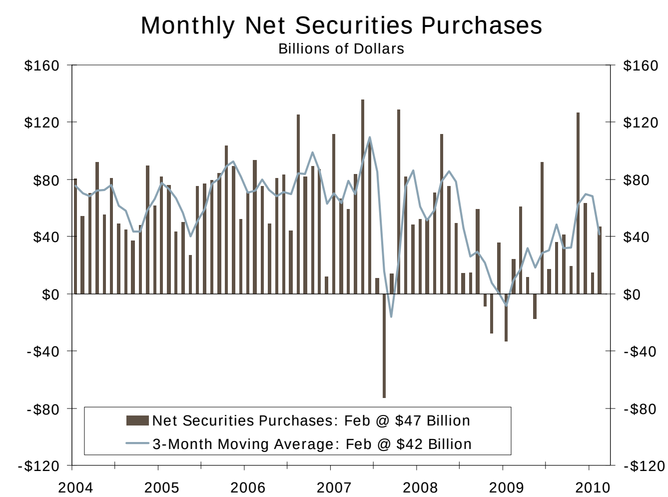
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

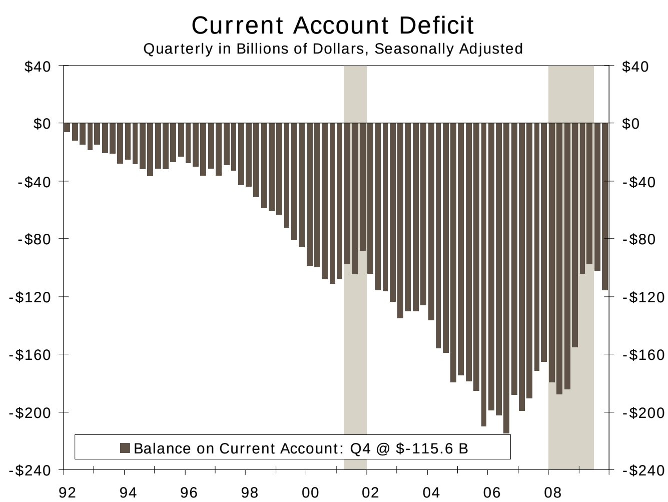
Dollar Exchange Rates

- The weighted-average value of the dollar has been trended higher this year. Some of the greenback's biggest gains have come at the expense of the euro and other European currencies. In contrast, the dollar has lost value on balance versus many emerging market currencies so far this year.
- The appreciation of the dollar versus European currencies this year reflects the stronger economic upturn to date in the United States than on the other side of the Atlantic Ocean. In addition, the Euro-zone's widely publicized fiscal problems have reduced the attractiveness of euro assets in the eyes of many investors.
- The United State's current account deficit has narrowed considerably over the past few years, which exerts fewer headwinds on the dollar. At the same time, net capital inflows into the United States have trended higher over the past year or so, which have also helped boost the greenback.
- Wells Fargo projects the dollar will appreciate modestly over the next few quarters versus most major currencies, as the U.S. economic recovery continues to prompt foreign buying of higher yielding U.S. assets. However, "commodity" and emerging market currencies will likely 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.





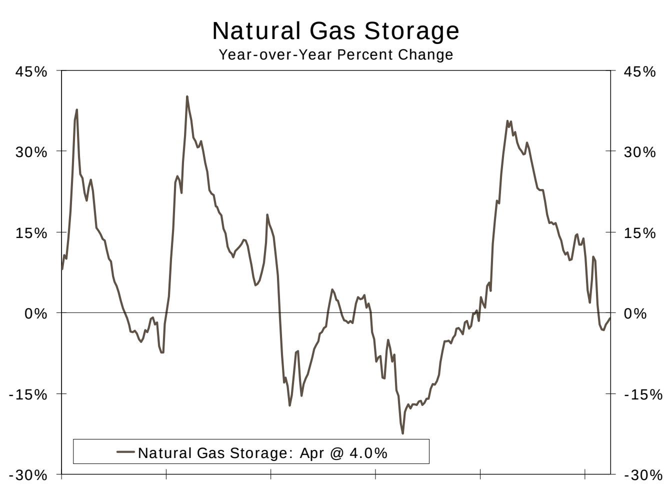


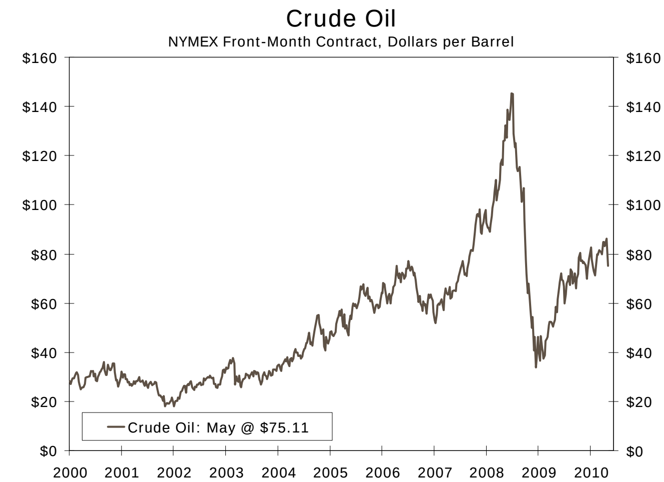


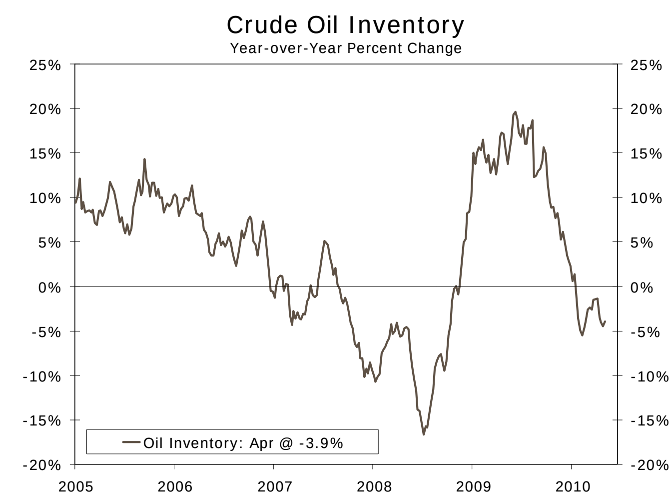
Source: Bloomberg LP, Federal Reserve Board, IHS Global Insight, Intl. Monetary Fund and Wells Fargo Securities, LLC

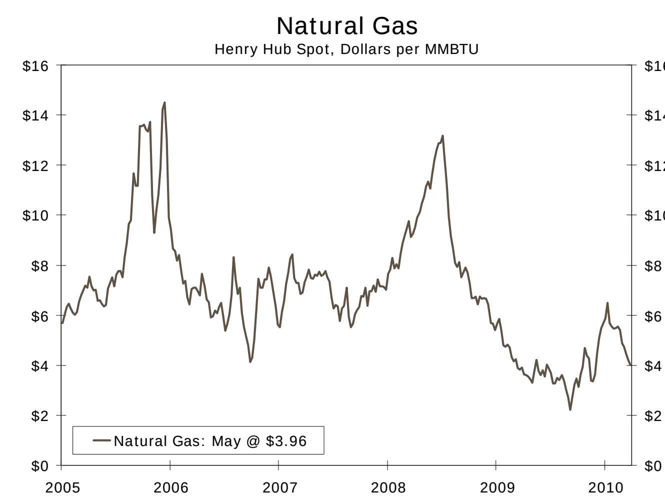
Energy

- After a very strong recovery in oil prices during April, the international environment changed considerably during the first week of May, as the Greek financial situation and the prospects for a quick and positive resolution seemed to evaporate, at least temporarily. The price for the West Texas Intermediate hit $86.17 dollars per barrel on May 3 and was down $10 dollars per barrel by May 6, when the U.S. stock market collapsed and then partially recovered.
- We still believe that current world growth is supportive of higher oil prices, and although the current crisis is putting downward pressure on prices, the international scenario will calm down in the near future and oil prices will start increasing again. We are still keeping our forecast of a slow-but-steady recovery in oil prices during the rest of this year.
- Oil inventories have come down considerably from the peaks achieved during the previous cycle. We should expect crude oil inventories to remain low in the coming quarters, as worldwide economic growth continues to accelerate.
- Natural gas prices continue to defy the economic recovery, and while they increased somewhat during the last part of 2009, they have come down once again. On a positive side, natural gas inventories have continued to go down and that should help natural gas prices going forward.





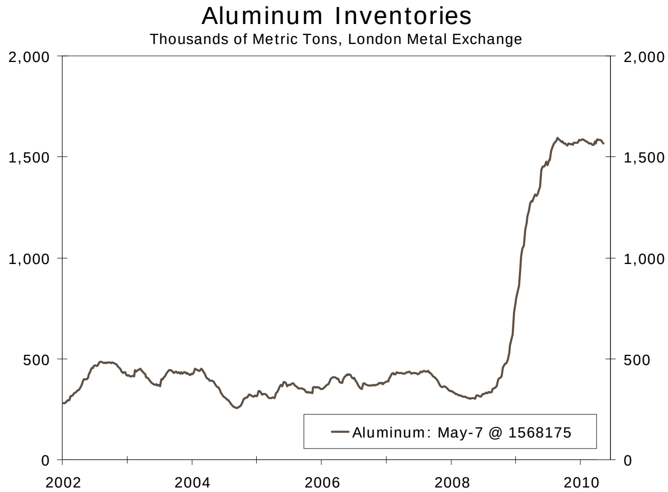


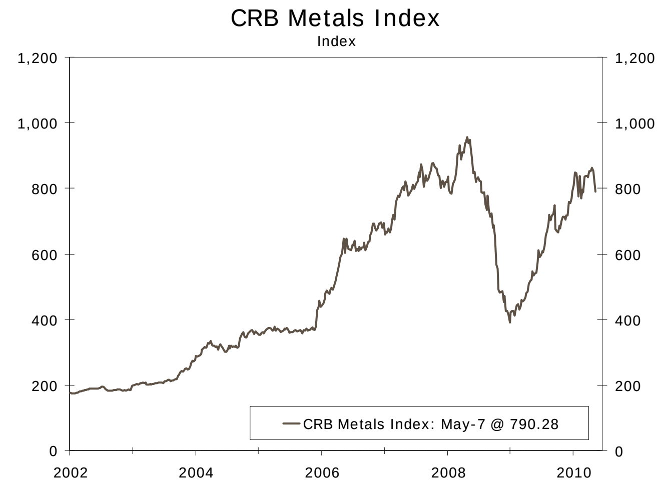


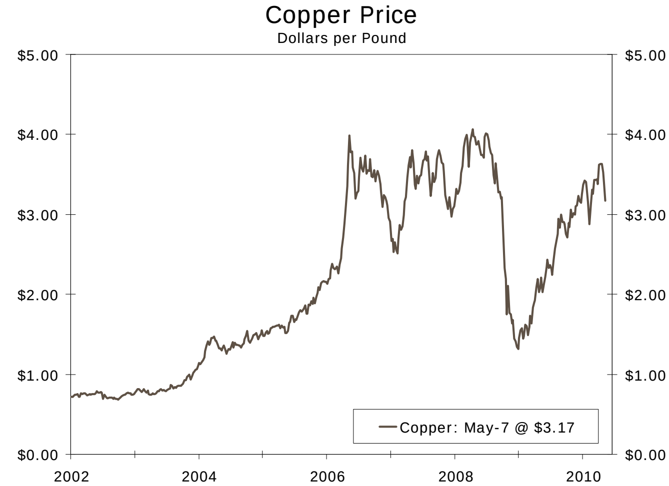
Source: Bloomberg LP, IHS Global Insight and Wells Fargo Securities, LLC

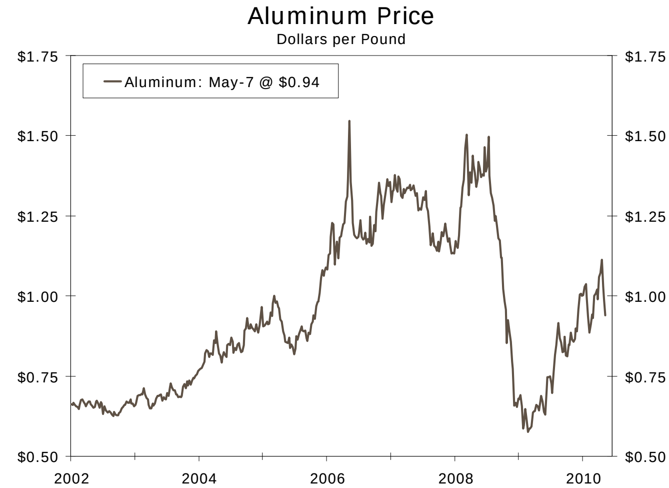
Metals

- The recovery in overall metals prices has been swift and steady after the collapse produced by the worldwide financial crisis, as shown by the CRB Metals Index graph. The biggest threat today for metal prices, other than the current Greek debt crisis, has to be related to the level of inventories, which have recovered handsomely as the world economy left the recession at the end of 2009.
- Still, inventory replenishment is something that we should see during a recovery, which is what the world metals market is experiencing right now. The problem, however, is that if there is a new shock to the economy in the coming quarters due to foreseen or unforeseen events, then prices could collapse again as they did after the financial crisis.
- Even copper inventories, which have remained very low since the mid-2000, have increased considerably since early 2009. Meanwhile, aluminum inventories have skyrocketed since late 2008, from approximately 400,000 metric tons to 1.6 million metric tons, which could become a problem for aluminum prices going forward.
- Thus, the equilibrium between supply and demand of metals will remain the best indicator of the future path of metals prices. So far, demand is outstripping supply in many of these markets, and we should expect prices to remain strong as long as economic growth remains sustainable across the world.









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)	-0.8%	4.6%	4.1%	2.8%	4.3%	4.1%
Global (Market Exchange Rates)	-2.0%	3.4%	2.9%	n/a	n/a	n/a
Advanced Economies[1]	-3.3%	2.5%	2.3%	-0.3%	1.5%	1.3%
United States	-2.4%	3.0%	2.5%	-0.3%	2.3%	2.4%
Eurozone	-4.0%	1.1%	1.5%	0.3%	1.4%	1.0%
United Kingdom	-4.9%	1.1%	2.5%	2.2%	3.0%	1.6%
Japan	-5.2%	2.6%	1.7%	-1.3%	-0.7%	0.1%
Korea	0.2%	5.7%	3.6%	2.8%	2.7%	3.0%
Canada	-2.6%	3.7%	3.1%	0.3%	2.2%	2.3%
Developing Economies[1]	2.4%	7.1%	6.1%	6.5%	7.6%	7.5%
China	8.5%	10.9%	9.0%	-0.7%	2.7%	3.6%
India	6.8%	8.0%	7.8%	11.4%	12.6%	8.0%
Mexico	-6.5%	3.6%	3.5%	5.3%	5.4%	5.9%
Brazil	-0.2%	5.4%	5.3%	4.9%	5.5%	5.9%
Russia	-7.9%	4.0%	4.2%	11.8%	6.7%	8.7%

Forecast as of: May 12, 2010
[1] Aggregated Using PPP Weights

Wells Fargo Bank Currency Strategy Group Forecast

(End of Quarter Rates)

	2010			2011		
	Q2	Q3	Q4	Q1	Q2	Q3
Major Currencies						
Euro ($/€)	1.27	1.27	1.24	1.22	1.19	1.17
U.K. ($/£)	1.49	1.50	1.49	1.47	1.44	1.42
U.K. (£/€)	0.85	0.84	0.83	0.83	0.83	0.82
Japan (¥/$)	93	94	96	99	101	103
Canada (C$/US$)	1.00	0.99	1.01	1.03	1.06	1.08
Switzerland (CHF/$)	1.11	1.11	1.13	1.16	1.19	1.22
Other Currencies						
Australia (US$/A$)	0.91	0.94	0.93	0.90	0.88	0.87
China (CNY/$)	6.79	6.69	6.59	6.49	6.39	6.29
South Korea ($/KRW)	1133	1117	1092	1067	1042	1033
Singapore ($/SGD)	1.38	1.35	1.35	1.34	1.33	1.33
Taiwan ($/TWD)	31.63	31.42	31.17	30.92	30.67	30.50
Mexico ($/MXN)	12.43	12.33	12.13	11.93	11.73	11.60
Norway (NOK/$)	6.10	6.05	6.09	6.14	6.22	6.40
Sweden (SEK/$)	7.52	7.47	7.54	7.62	7.72	7.92

Forecast as of: May 12, 2010

Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)

	3-Month LIBOR						10-Year Bond					
	2010			2011			2010			2011		
	Q2	Q3	Q4	Q1	Q2	Q3	Q2	Q3	Q4	Q1	Q2	Q3
U.S.	0.40%	0.40%	0.65%	1.40%	2.15%	2.65%	3.80%	3.80%	3.90%	4.00%	4.20%	4.30%
Japan	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	1.35%	1.35%	1.35%	1.45%	1.50%	1.60%
Euroland	0.60%	0.60%	0.80%	1.10%	1.50%	2.25%	3.10%	3.15%	3.40%	3.70%	3.80%	4.00%
U.K.	0.65%	0.65%	0.65%	1.25%	2.00%	3.00%	4.00%	4.10%	4.50%	4.70%	4.80%	4.85%
Canada	0.40%	0.50%	1.00%	2.00%	3.00%	3.50%	3.60%	3.90%	4.10%	4.30%	4.40%	4.45%

Forecast as of: May 12, 2010

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