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ECONOMICS GROUP

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SPECIAL COMMENTARY

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Global Chartbook: January 2009

This report is available on www.wachovia.com/economics and on Bloomberg at WBEC

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Executive Summary

Global Economy Probably in its Deepest Recession in Decades

The heady days of 2004-2007, when global GDP growth averaged about 5% per annum, seem like a distant memory now. Growth in most countries slowed in the first half of 2008 due in part to monetary tightening, the unprecedented rise in energy prices and dislocations in credit markets. Although most countries have not yet reported real GDP data for the fourth quarter of 2008, it appears that global economic activity contracted sharply at the end of last year as credit markets froze up in the wake of Lehman Brothers' failure.

This year will probably be the worst year for global GDP growth in decades.

Looking forward, we project global GDP will be essentially flat in 2009, which would be the slowest year of global GDP growth in decades. Every G-7 economy is in recession at present and they likely will remain so over the next few quarters. Although not every developing country will experience outright recession, growth in the developing world will slow significantly this year. Growth in most major economies probably will turn positive again in the second half of the year as lower interest rates and fiscal stimulus start to bear fruit. Global growth should be stronger in 2010 than in 2009, but it will probably fall short of its long-run average (3.7% per annum). Underlying all of our projections is our assumption that policymakers will take the necessary steps to prevent the global financial system from locking up again. If that assumption proves to be overly optimistic, then global economic growth would end up even weaker than our already grim outlook projects.

The recession that is unfolding in the United States will be as severe as the downturns of the mid-1970's and the early 1980's.

It appears that U.S. real GDP in the fourth quarter contracted very sharply (5% to 6% at an annualized rate), and growth likely will remain negative for at least the first half of 2009. The recession that is unfolding in the United States will probably be as severe as the downturns of 1973-75 and 1981-82. Indeed, we project that the United States will experience its deepest recession since the 1981-82 downturn. Unlike the strong recoveries that followed those recessions, however, we project that the upturn that will begin later this year will be rather weak, at least initially, as consumers continue to repair battered balance sheets. We project that U.S. real GDP will grow only 1% in 2010, well below the 3% annual growth rate the economy averaged between 1992 and 2007.

Deep recessions are underway in other major economies as well.

Deep recessions appear to be underway in other major economies as well. Real GDP in Canada, the Euro-zone, Japan and the United Kingdom likely contracted at very sharp rates in the fourth quarter, and further declines over the next few quarters seem nearly certain. On a peak-to-trough basis, real GDP in most major economies will probably drop 2 to 3%. which are deep recessions by any measure. Foreign central banks have eased policy recently in response to the marked deterioration in the economic outlook. The European Central Bank has cut its policy rate by 225 bps since early October, and the Bank of England has slashed rates by 350 bps over that period. We look for more rate cuts in the months ahead as major economies contract further.

Most developing countries will experience sharply slower growth this year.

Economic growth in the developing world has also slowed recently. For example, real GDP in China grew at a double digit rate between 2005 and early 2008, but it appears that growth ended last year below 8 percent. The current year will probably be the slowest year for Chinese GDP growth since the early 1990s. Slower growth in other developing countries appears to be almost certain as well. Although some individual developing countries will experience recession, the emerging world in general will probably continue to experience positive economic growth, albeit at a rate that is significantly slower than the average of the past few years. The International Monetary Fund recently signaled its intention to support growth in the developing world by extending loans to Hungary, Iceland, Pakistan and Ukraine. Further IMF lending programs could be forthcoming in the months ahead. The Fed has also supported important trading partners through its provision of swap lines to central banks in Brazil, Korea, Mexico and Singapore.

Global inflation should recede significantly this year.

Inflation rates in most countries shot higher in the first half of 2008 and commodity prices went through the roof. However, commodity prices have subsequently collapsed as economic growth has slowed sharply. Indeed, if there is a silver lining to slower global growth, it is that global inflation should recede significantly this year, giving most central banks scope to cut rates further. After rising to nearly 6% in 2008, which is the highest rate in about 10 years, global inflation should recede to roughly 2% this year.

Dollar Appreciation Should Continue in Near Term

After following a downward trend between 2002 and mid-2008, the trade-weighted value of the U.S. dollar is up about 15% on balance since last July. The dollar's recent appreciation is not a reflection of a positive near-term outlook for the U.S. economy. Rather, the prognosis for many foreign economies has deteriorated more rapidly than for the U.S. economy since mid-summer. Whereas many investors had expected most foreign economies to avoid recession, it has become obvious in recent months that those economies will experience their own downturns.

We project the dollar will continue to trend higher against most major currencies in the near term.

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

The dollar could give up its gains later this year as the reality of a very slow U.S. economic recovery become painfully clear to investors.

However, the problems facing the U.S. economy are generally more serious than the problems that confront many other economies. Although growth in the United States should turn positive again later this year, the recovery we project will probably be very sluggish. We are usually loath to forecast turning points in exchange rates at some point in the future, but sustained dollar strength against the backdrop of very slow U.S. economic growth does not seem to be very credible. Therefore, the dollar could give up its gains and begin to depreciate later this year or early next year as the reality of a very slow U.S. economic recovery becomes painfully clear to investors.

Forecasts as of January 14, 2009

Wachovia Currency Forecast

(End of Quarter Rates)

	2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Major Currencies								
Euro ($/€)	1.26	1.18	1.14	1.12	1.12	1.18	1.24	1.30
U.K. ($/£)	1.42	1.38	1.36	1.36	1.40	1.44	1.48	1.52
U.K. (£/€)	0.89	0.86	0.84	0.82	0.80	0.82	0.84	0.86
Japan (¥/$)	96	102	105	108	110	105	102	100
Other Industrialized								
Canada (C$/US$)	1.25	1.28	1.30	1.30	1.25	1.20	1.15	1.10
Switzerland (CHF/$)	1.18	1.25	1.30	1.34	1.34	1.30	1.25	1.20
Norway (NOK/$)	7.30	7.60	7.80	7.70	7.50	7.20	6.90	6.70
Sweden (SEK/$)	8.40	8.80	9.00	9.00	8.80	8.50	8.20	7.80
Australia (US$/A$)	0.66	0.65	0.64	0.63	0.65	0.70	0.75	0.80
Developing Economies								
Mexico (MXN/$)	14.00	14.25	14.50	14.50	14.00	13.50	13.00	12.50
Brazil (BRL/$)	2.40	2.50	2.60	2.60	2.50	2.30	2.15	2.00
Poland (PLN/$)	3.20	3.40	3.50	3.50	3.40	3.30	3.20	3.10
Russia (RUB/$)	34.00	38.00	39.00	38.00	36.00	34.00	31.00	29.00
Turkey (TRY/$)	1.62	1.65	1.68	1.70	1.68	1.62	1.55	1.50
South Africa (ZAR/$)	10.25	10.50	10.75	10.90	10.80	10.50	10.20	10.00
China (CNY/$)	6.85	6.82	6.80	6.75	6.60	6.50	6.40	6.30
India (INR/$)	49.00	49.50	50.00	49.00	48.00	47.00	46.00	45.00
Korea (KRW/$)	1425	1450	1475	1475	1400	1350	1300	1250
Singapore (S$/US$)	1.52	1.56	1.58	1.60	1.56	1.52	1.48	1.44
Taiwan (TWD/$)	33.50	33.70	33.80	33.80	33.50	33.00	32.75	32.50

[1]Data as of: January 14, 2009

Wachovia International Economic Forecast

(Year-over-Year Percentage Change)

	GDP			CPI		
	2008	2009	2010	2008	2009	2010
Global	3.3%	0.2%	3.1%	5.7%	2.1%	2.8%
Major Economies						
United States	1.2%	-2.3%	1.0%	3.9%	0.0%	2.5%
Eurozone	0.8%	-1.8%	1.4%	3.3%	0.9%	1.3%
Germany	1.2%	-1.8%	1.5%	2.8%	0.6%	1.2%
France	0.8%	-1.1%	1.8%	3.2%	0.9%	1.3%
Italy	-0.6%	-2.0%	1.2%	3.5%	0.9%	1.0%
UK	0.7%	-2.1%	1.4%	3.6%	1.5%	1.4%
Japan	-0.1%	-2.0%	1.4%	1.4%	-0.1%	0.1%
Canada	0.6%	-1.5%	2.1%	2.4%	0.9%	1.4%
Developing Economies						
China	9.3%	6.8%	8.7%	6.0%	0.1%	1.2%
India	6.5%	5.0%	7.3%	7.8%	6.8%	4.5%
Mexico	1.5%	-1.3%	2.3%	5.1%	4.8%	3.2%
Brazil	6.7%	2.4%	3.2%	5.7%	4.6%	3.9%

[1]Data As of: January 14, 2009

Wachovia International Interest Rate Forecast

(End of Quarter Rates)

	3-Month LIBOR								10-Yr Government Security							
	2009				2010				2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
United States	1.00%	0.80%	0.60%	0.50%	0.70%	1.10%	1.30%	1.50%	2.70%	3.00%	3.10%	3.10%	3.20%	3.40%	3.60%	3.80%
Japan	0.60%	0.40%	0.20%	0.20%	0.20%	0.30%	0.45%	0.50%	1.35%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.00%
Euroland	1.80%	1.15%	1.15%	1.20%	1.70%	2.50%	3.00%	3.20%	2.95%	2.90%	3.20%	3.80%	4.00%	4.25%	4.40%	4.50%
U.K.	1.30%	0.90%	0.65%	0.65%	1.00%	1.50%	1.70%	2.20%	3.10%	3.00%	3.25%	3.75%	3.90%	4.10%	4.20%	4.25%
Canada	1.00%	0.90%	0.90%	1.20%	1.75%	2.50%	3.25%	3.70%	2.75%	2.90%	3.50%	3.75%	3.90%	4.10%	4.30%	4.50%

[1]Data As of: January 14, 2009

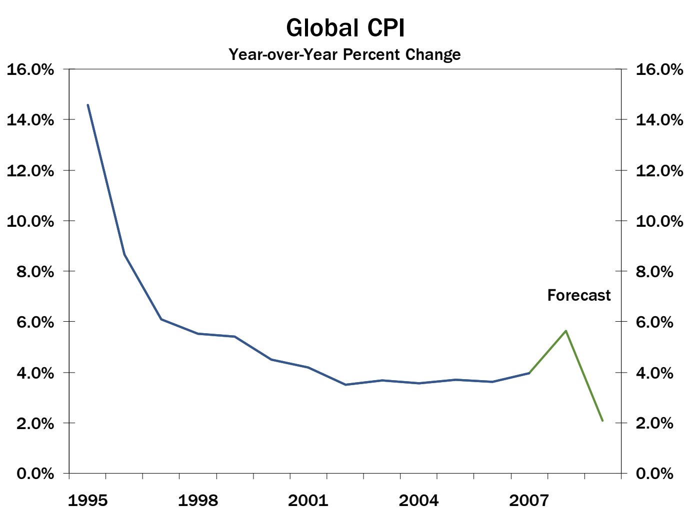
World

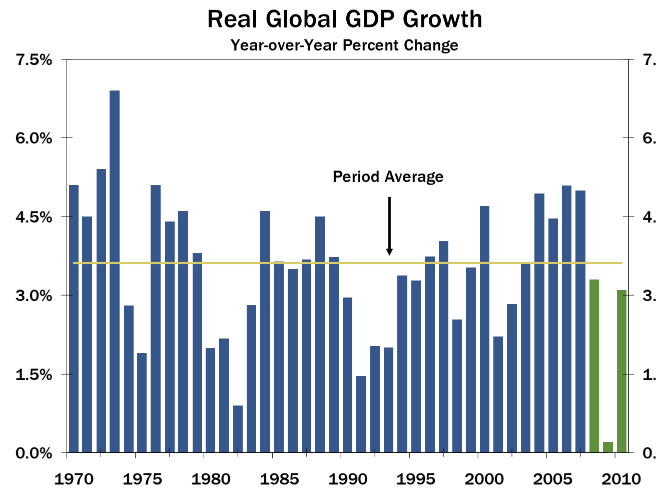
- The effects of the credit crunch caused global growth to slow significantly last year. Indeed, it appears that economic activity in many countries contracted sharply in the fourth quarter of 2008. We forecast that global GDP will be essentially flat in 2009, which would be the slowest year for global growth since records began in 1970.

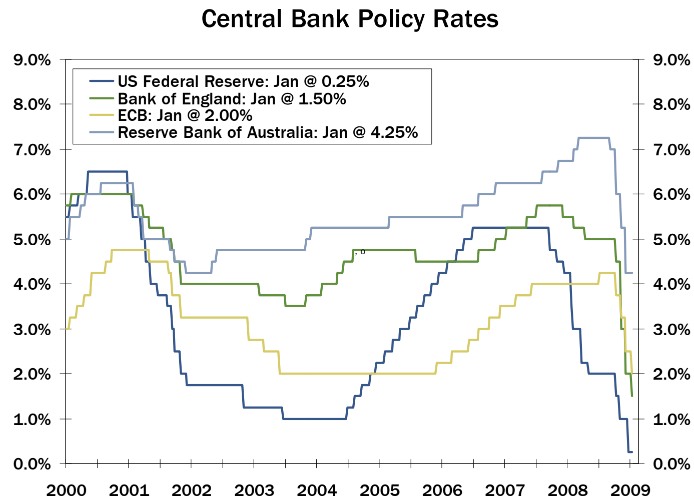
- In our view, every G-7 country will experience deep recession over the next few quarters. Indeed, the current recession in every G-7 economy will probably be as least as painful as the downturns of the mid-1970's and the early 1980's. However, the major governments of the world have averted a catastrophe by taking bold steps to support the global financial system. Many major economies have also announced fiscal stimulus measures that will help backstop economic activity.

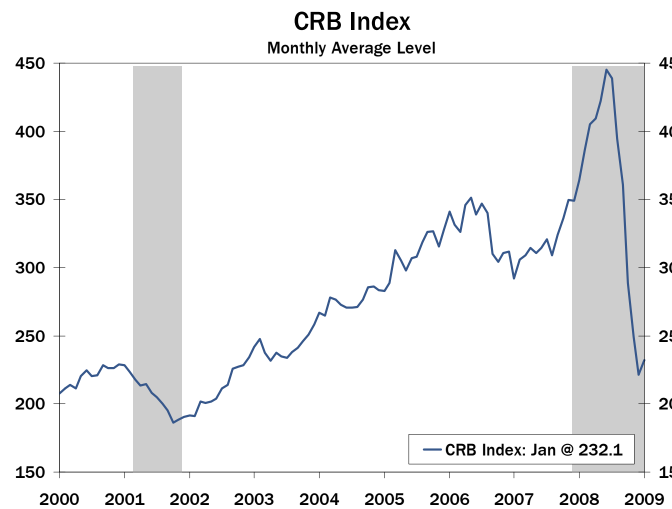
- The developing world will also experience significantly slower economic growth this year. Developing countries where economic fundamentals are not sound will probably experience deep recession as capital flows reverse. Indeed, some developing countries have already come to the IMF seeking adjustment assistance.

- The remarkable run-up in commodity prices between 2003 and the first half of 2008 led to generalized inflation fears. However, commodity prices have essentially collapsed as global recession has taken hold. Economic weakness and the collapse of commodity prices should cause inflation rates in most countries to decline significantly this year.





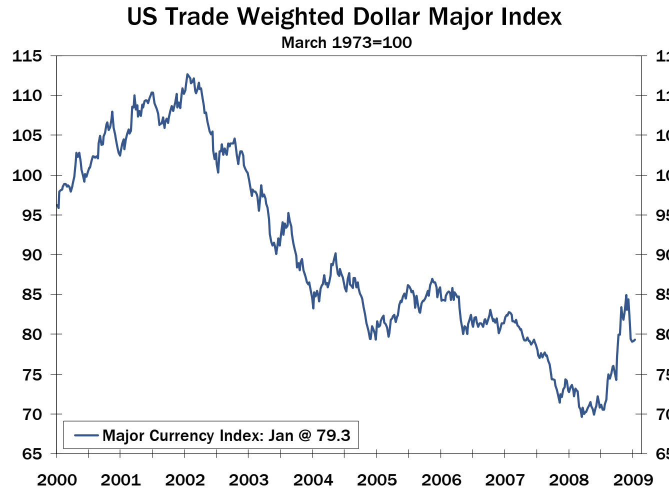


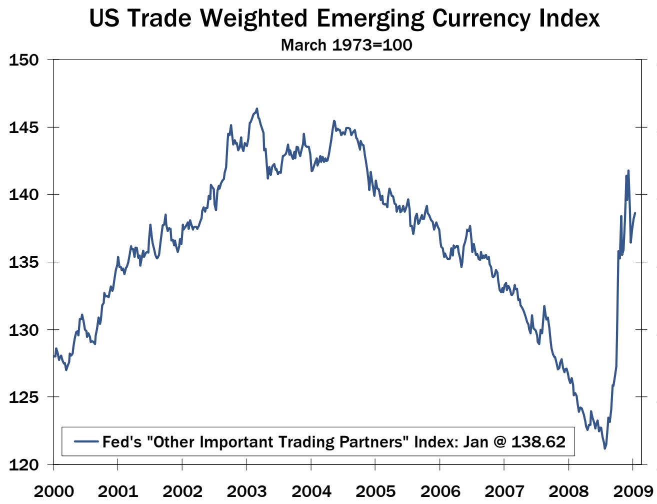


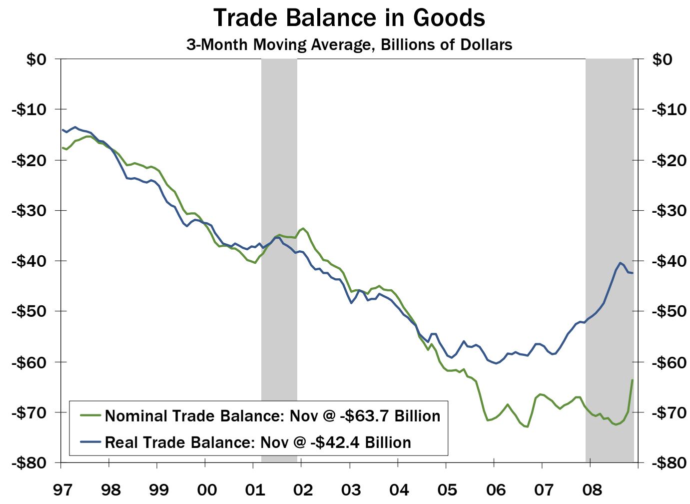
Source: Bloomberg L.P., Federal Reserve Board, Global Insight, International Monetary Fund and Wachovia

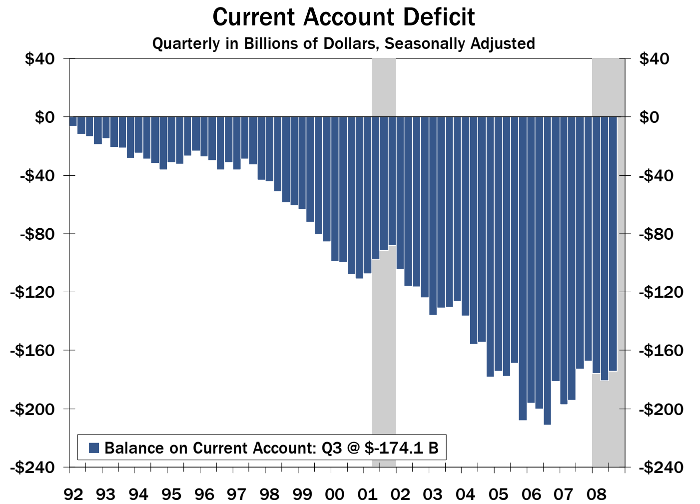
Dollar Exchange Rates

- The trade-weighted value of the U.S. dollar fell nearly 40% between February 2002 and March 2008. A major factor depressing the value of the dollar was the sharp increase in the U.S. current account deficit. In addition, dislocations in credit markets have caused foreign investors to buy fewer U.S. securities.
- However, the dollar has rallied significantly since mid-July, not only vis-à-vis many major currencies but against most emerging currencies as well. Rather than reflecting newfound optimism regarding the outlook for the U.S. economy, the depreciation of foreign currencies vis-à-vis the greenback is consistent with significantly weaker growth prospects in many foreign economies.
- Looking forward, we project that the dollar will continue to strengthen, at least in the near term. For starters, the U.S. current account deficit should continue to narrow. In addition, deep recessions abroad should lead foreign central banks to cut rates further, which should help to boost the dollar.
- Looking a few quarters out, however, we don't believe the dollar's strength will be sustained. The recovery that will eventually take hold in the United States likely won't be very robust, at least not initially. In our view, the Fed will ultimately tighten at a slower pace than most major central banks. As interest rate differentials move against the dollar, the greenback likely will give up its gains and begin to depreciate.









Source: Bloomberg L.P., Federal Reserve Board, Global Insight, International Monetary Fund and Wachovia

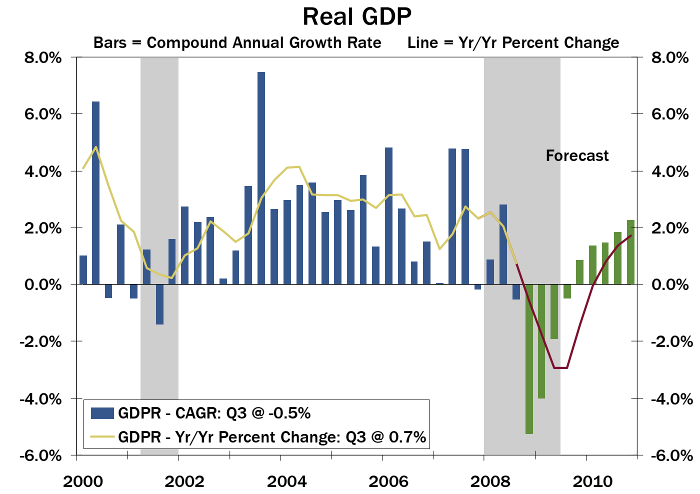
United States

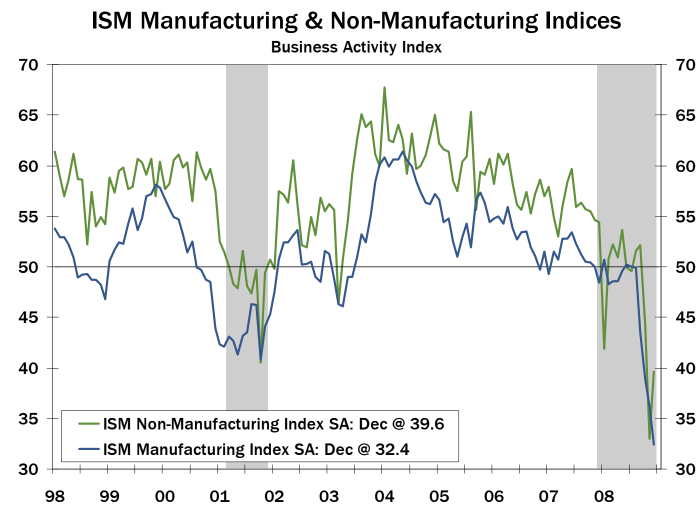
- U.S. real GDP edged down 0.5% at an annualized rate in the third quarter, and more recent indicators, including the ISM indices and the change in non-farm payrolls, show that real GDP is probably contracting in the current quarter at its most rapid pace since the early 1980s.

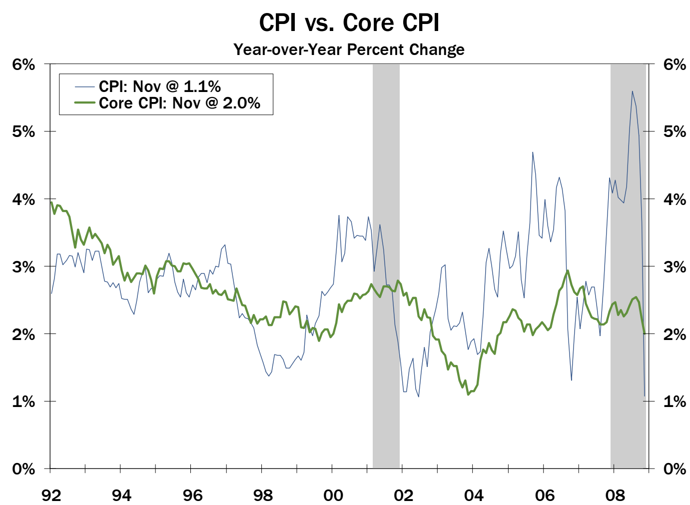
- The U.S. economy could very well be in the midst of its deepest recession in the post-World War II era. Investment spending likely will weaken due to the effects of the deepening credit crunch, and residential construction, which has been in free fall since late 2005, will decline further. Consumer confidence has collapsed, and mounting job losses will weigh on consumer spending. Exports will probably fall further due to recessions in many of America's most important trading partners.

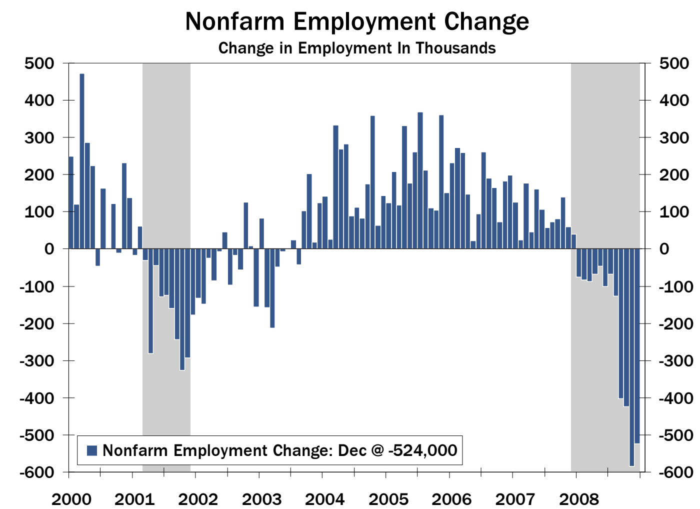
- Although the Fed has cut its policy rate to essentially zero percent, it is not "out of bullets." The Fed has put in place a number of direct lending programs, and it could have more tricks up its sleeve in terms of unorthodox monetary policy.

- The direct lending programs that have been put in place by the U.S. Treasury and the Fed have helped to stabilize the financial system and, thereby, have reduced a large downside risk to U.S. economic prospects. However, the financial system is not out of the woods yet, and lending likely will remain very constrained until banks begin to rebuild their capital bases. Therefore, the recovery that should begin in the second half of 2009 likely will be muted.









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

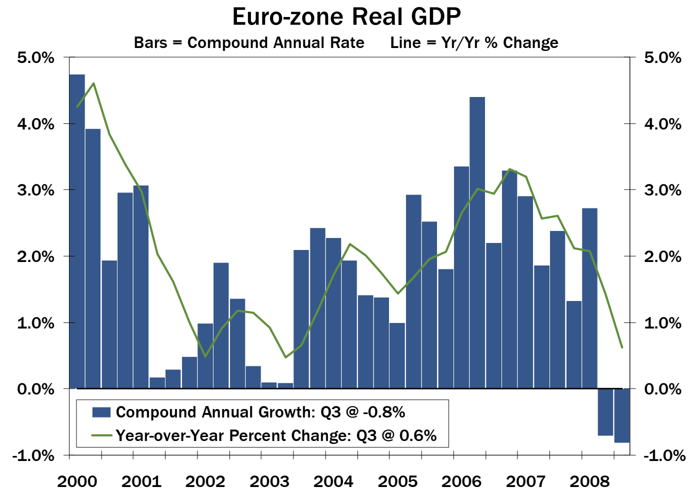
Euro-zone

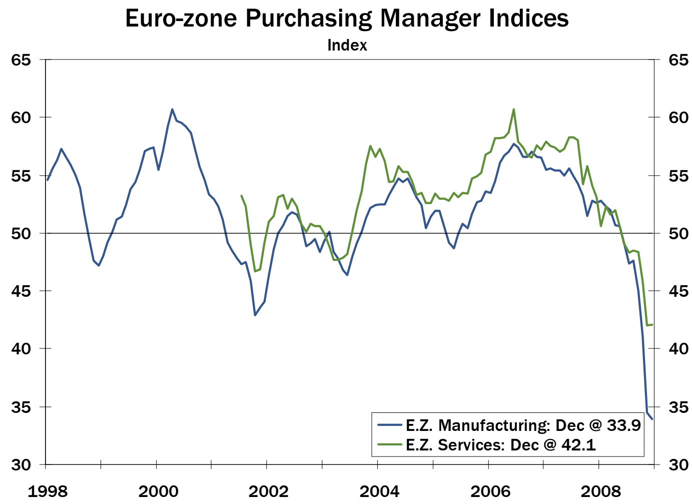
- Real GDP in the Euro-zone has declined for two consecutive quarters, indicating that the economy is in recession. Moreover, the pace of contraction appears to have quickened in the fourth quarter as the purchasing managers' indices for the manufacturing and service sectors plunged to all-time lows. (The series begin in 1997.) Our forecast projects that the Euro-zone economy will remain in recession through the first half of this year, and the peak-to-trough decline in real GDP will exceed 2%.

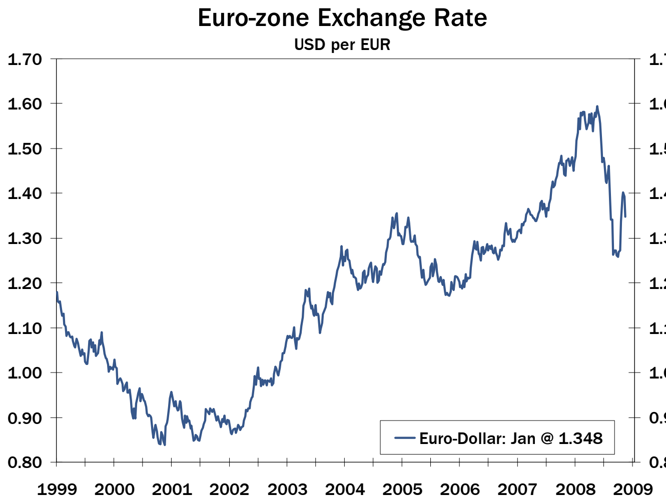
- Most components of demand appear to be in full-blown retreat at present. Consumer spending, the Achilles heel of the Euro-zone economy, is contracting and business fixed investment spending is also heading south. Export growth is also weakening.

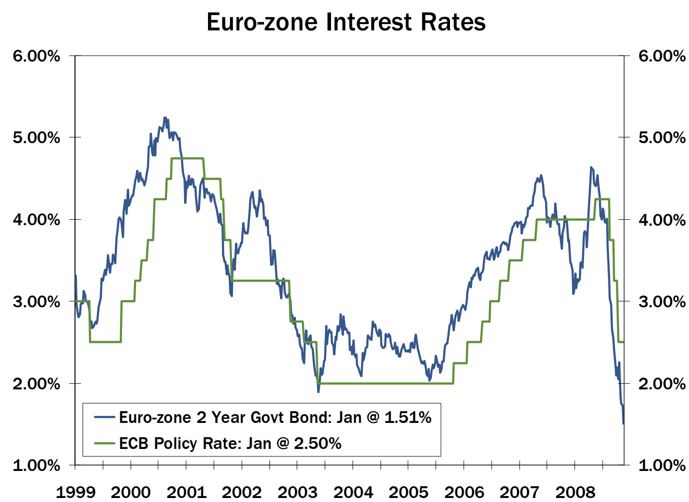
- The overall rate of CPI inflation in the Euro-zone shot up to 4% this summer. However, CPI inflation is receding quickly, which has given the ECB scope to ease monetary policy. Indeed, the ECB has slashed rates by 175 bps since October 8, and we look for it to cut its main policy rate to only 100 bps by summer.

- The previously high-flying euro has declined sharply against the dollar as the outlook for the Euro-zone economy has deteriorated significantly. Looking ahead to the next few quarters, we project that the euro will slump further against the greenback as the ECB continues to cut rates. Further out, however, the euro could stage a comeback against the dollar as sluggish economic growth in the United States keeps U.S. interest rates very low for an extended period.









Sources: Global Insight, Bloomberg L.P. and Wachovia

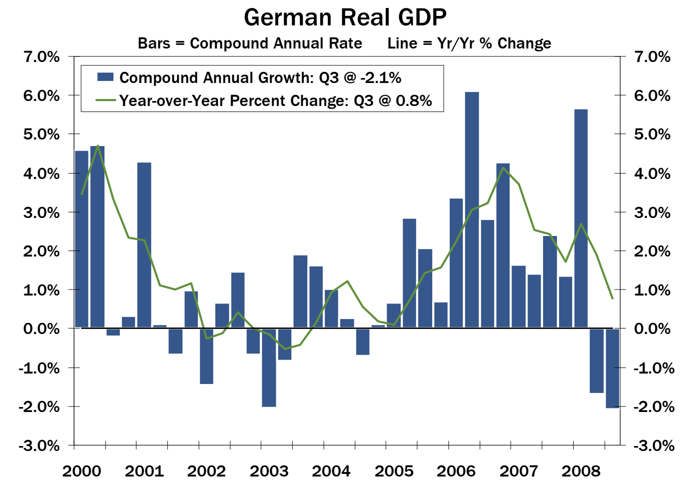
Germany

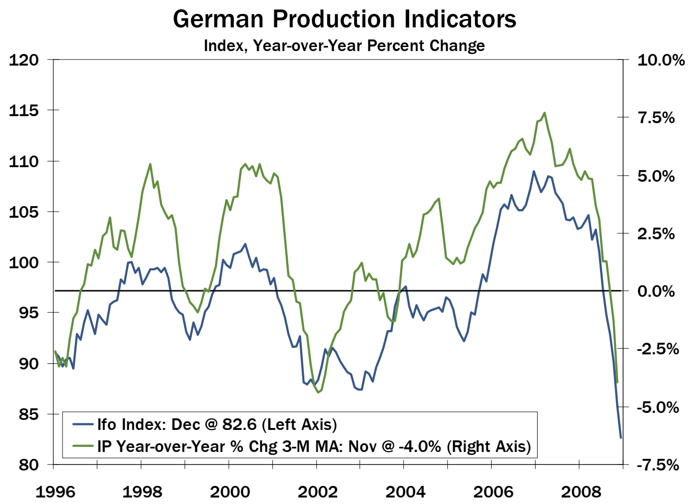
- After contracting at an annualized rate of 1.7% in the second quarter, real GDP in Germany declined 2.1% in the third quarter, the largest quarterly decline in twelve years. In short, the German economy is definitively in recession.

- The downturn appears to have accelerated in the fourth quarter. The Ifo index of German business sentiment, which is highly correlated with growth in industrial production, plunged to an all-time low in December. (The pan-German series begins in 1991.) "Hard" data on industrial production show that industrial production in November fell more than 6% relative to the same month in 2007, the fastest pace of contraction since the deep recession of the early 1990s. We look for a peak-to-trough decline in real GDP of nearly 3% in the current cycle, a deep recession by any measure.

- Unemployment has trended lower in this cycle, dropping to its lowest rate since the early 1990s. However, the recent freefall in the economy should show up in rising unemployment in the months ahead. Therefore, consumer spending, which has been the Achilles heel of the German economy anyway, probably will weaken in the quarters ahead.

- Germany is an important supplier of capital goods to central and eastern Europe. Unfortunately, most emerging European economies have also slipped into recession. Indeed, the value of German exports dropped 9% in November relative to the same month in 2007.





Source: Global Insight, Bloomberg L.P. and Wachovia

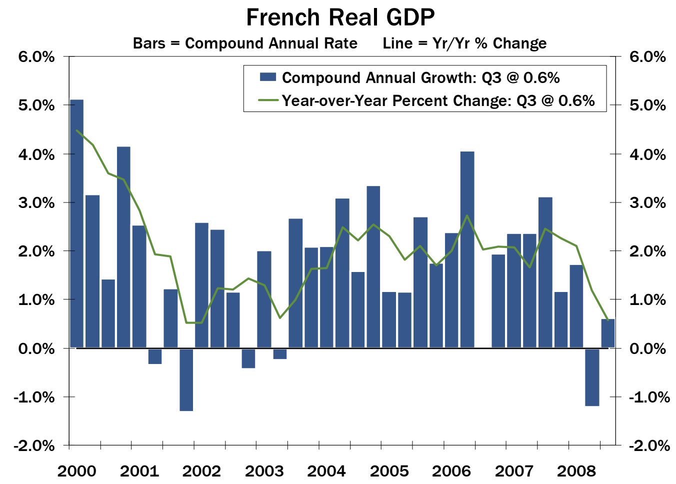
France

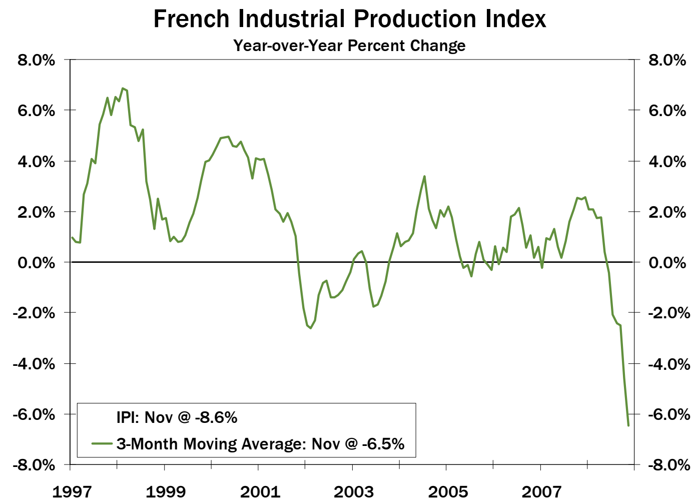
- Real GDP contracted at an annualized rate of 1.2% in the second quarter, but growth returned to positive territory, albeit barely, in the third quarter. However, the contraction gathered force in the fourth quarter. Indeed, industrial production in the first two months of the last quarter plunged 8.5% relative to the same period in 2007, the fastest pace of contraction in decades.

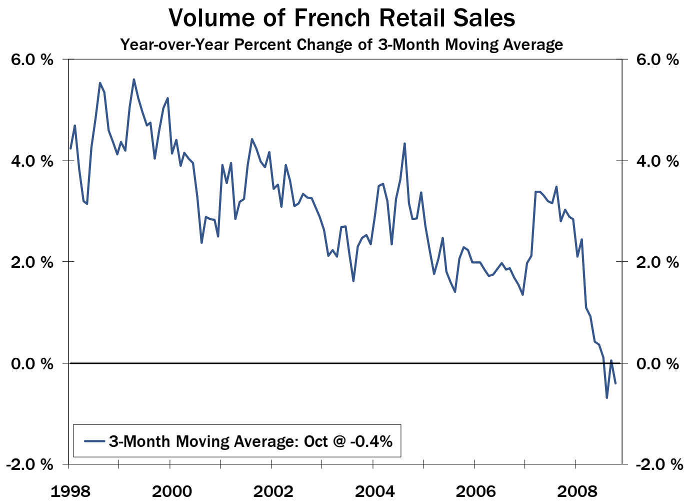
- There is an external element to the downturn in France. In general, French businesses have not been as aggressive as their German counterparts in restructuring. Consequently, unit labor costs have risen in France over the past few years, which have reduced the relative price competitiveness of French goods. Consequently, the trade balance in France has deteriorated over the past few years, and real net exports have exerted a modest drag on growth.

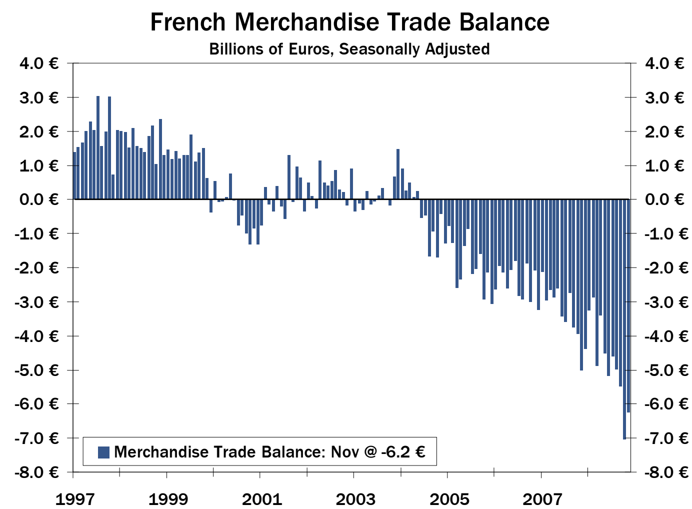
- There is also an internal element to the downturn as well. Growth in consumer spending weakened earlier this year in response to the sharp rise in energy prices. The recent credit crunch and its associated financial market turmoil have caused consumer sentiment to weaken, which has weighed on retail spending. Recent deterioration in the labor market likely will weigh on consumer spending over the next few quarters.

- On a peak-to-trough basis, we project that real GDP in France will contract about 2%. which, if realized, would be France's worst recession in decades.





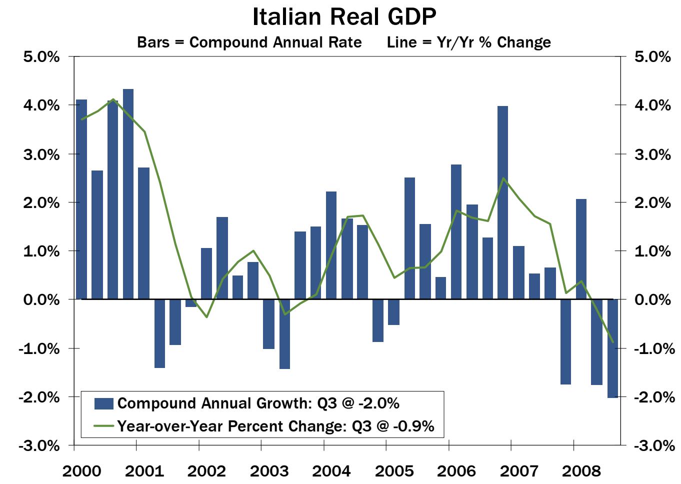


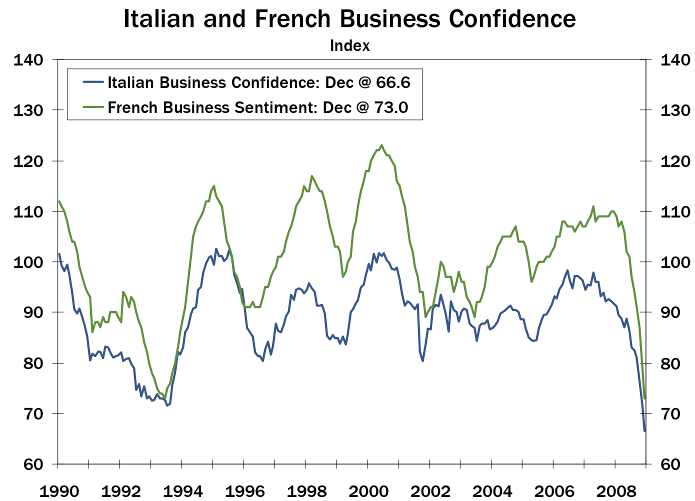


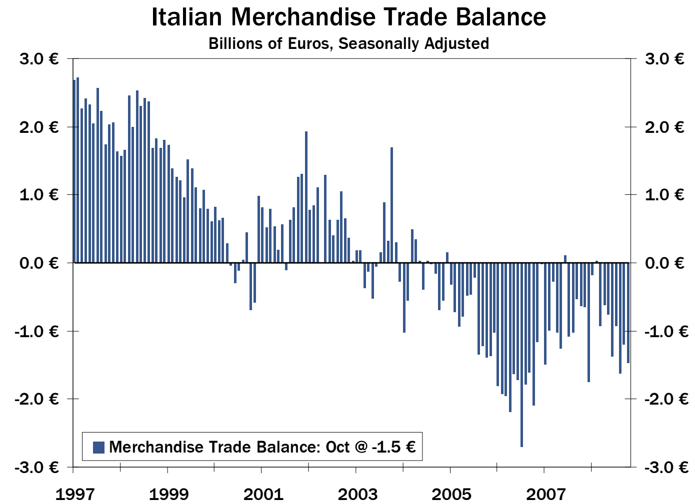
Source: Global Insight, Bloomberg L.P. and Wachovia

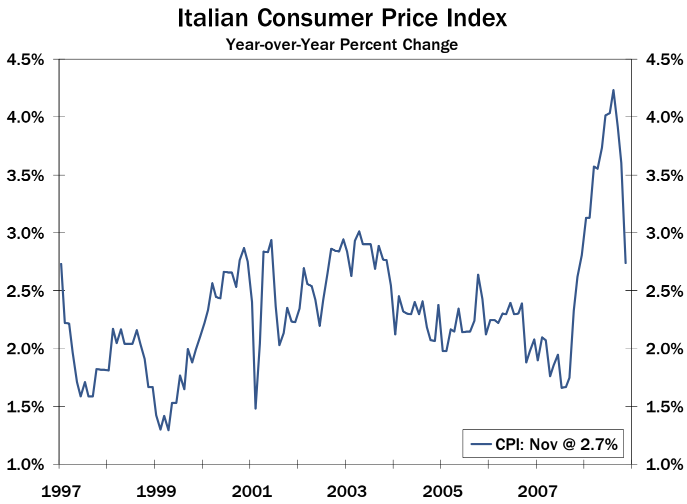
Italy

- Real GDP growth in Italy was negative in three out of the last four quarters. In short, Italy has slipped into recession, and available indicators suggest that the pace of contraction accelerated at the end of last year. A widely followed index of Italian business confidence has slumped sharply over the past few months, which is consistent with the 12% drop in industrial production in November relative to the same month in 2007.
- Not only are the credit crunch and associated global downturn weighing on Italian GDP growth, but Italy also faces a number of structural impediments. Like their counterparts in France, Italian businesses have generally not restructured aggressively over the past few years, which has led to rising unit labor costs that have reduced the relative price competitiveness of Italian goods. If not for sluggish growth in domestic demand, which has helped to keep import growth constrained, the trade deficit would have widened even further than it did.
- An aging population and weak growth in real income have conspired to keep growth in consumer spending weak over the past few years. Indeed, real growth in personal consumption expenditures has not exceeded 2% per annum since 2000.
- On a peak-to-trough basis, we project that the Italian economy will contract about 3%, which, if realized, would be the worst downturn in Italy in decades. Although the economy will not continue to contract forever, the ensuing upturn probably will be muted.









Source: Global Insight, Bloomberg L.P. and Wachovia

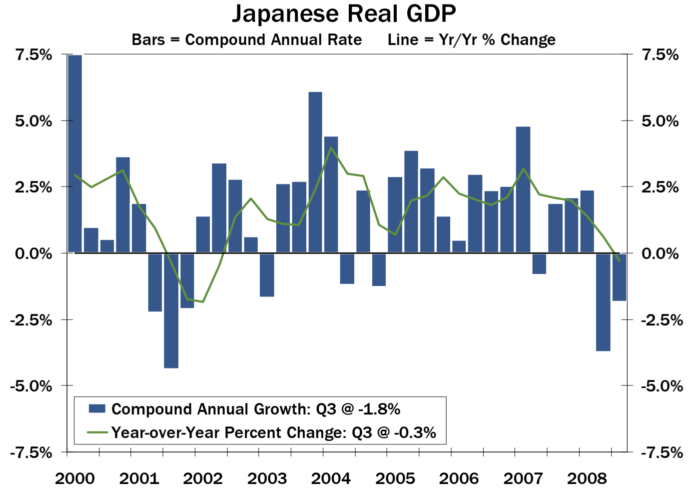
Japan

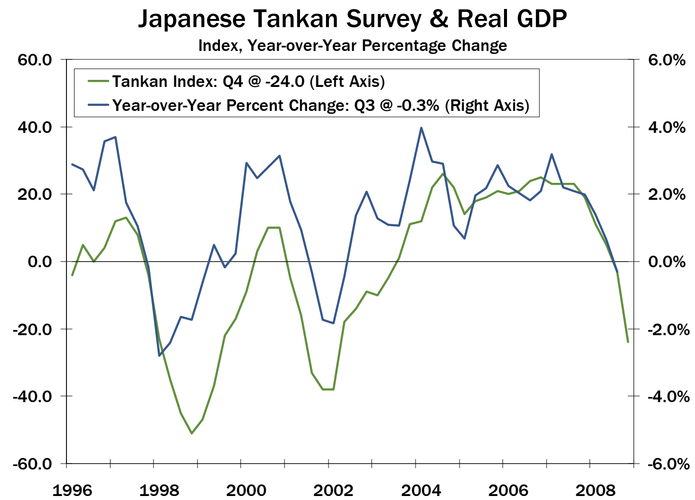
- Real GDP in Japan contracted in both the second and third quarters of 2008, indicating that the Japanese economy, like its other G-7 counterparts, has slipped into recession. Unfortunately, it appears that the economy contracted further in the fourth quarter because the Tankan index of business sentiment, which is highly correlated with Japanese real GDP growth, declined further. By the time the downturn ends in the middle of the year, the peak-to-trough contraction in real GDP economy will likely exceed 3%.

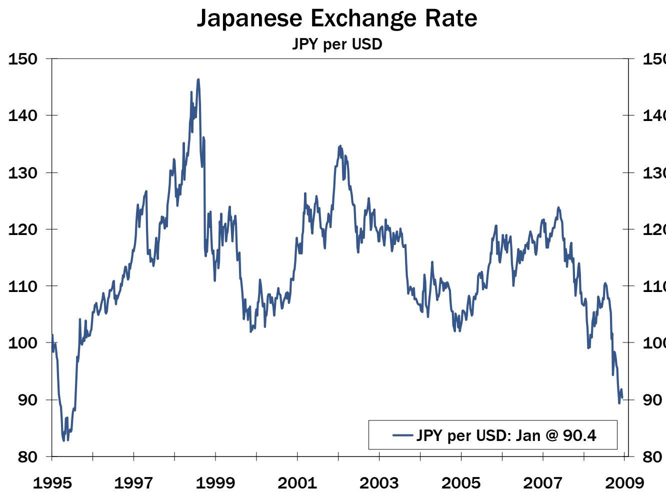
- The sources of the downturn are numerous. Japan's trade balance has slipped into a modest deficit as export growth has plunged due to the global recession. Recent data on "core" machinery orders indicate that capital spending has also weakened sharply. Growth in consumer spending, which has not been very strong over the past few years, appears to have weakened as well.

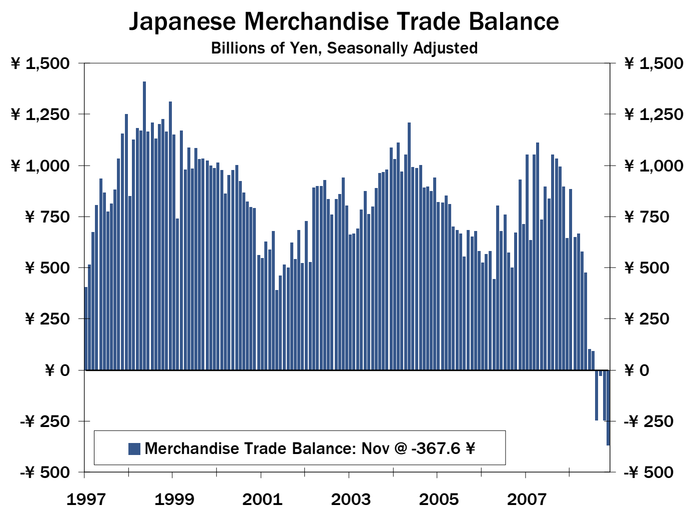
- Inflation is not an issue in Japan. Indeed, the year-over-year rate of CPI inflation, which rose as high as 2.3% in July when oil prices surged, receded to only 1.0% in November. Indeed, inflation likely will turn negative again in the next few months.

- The Japanese yen generally continues to be strong as risk aversion remains acute. We project the greenback will appreciate versus the yen over the next few quarters as investors anticipate a U.S. economic recovery. However, the yen could strengthen anew, probably in late 2009 or early 2010, as the muted nature of the recovery becomes evident.









Source: Global Insight, Bloomberg L.P. and Wachovia

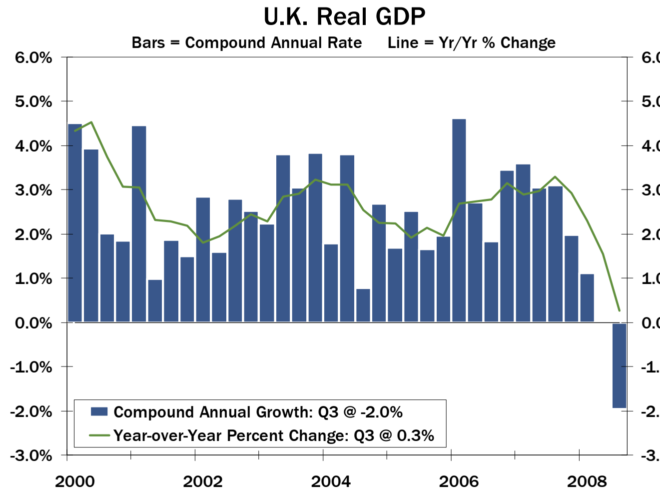
United Kingdom

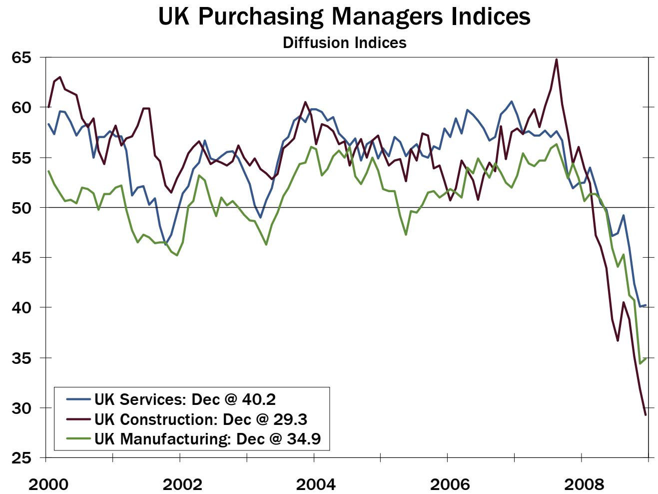
- Real GDP in the United Kingdom contracted at an annualized rate of 2.0% in the third quarter, the first quarter of negative growth since 1992. Unfortunately, record declines in the purchasing managers' indices in the fourth quarter suggest the pace of contraction has intensified.

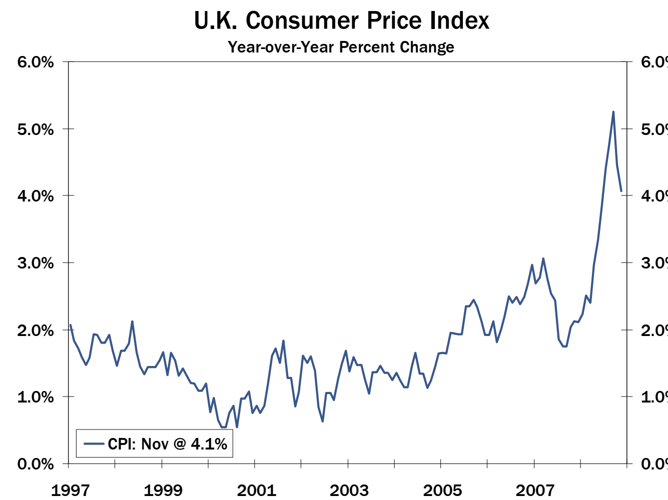
- We look for the peak-to-trough decline in U.K. real GDP to total 3%, larger than the 2.5% contraction that occurred in the early 1990s. The sharp rise in house prices over the past decade has led to a significant build-up in consumer debt, and these imbalances will need to be worked off over the next few years. Thus, the upturn, when it comes, will likely be rather muted.

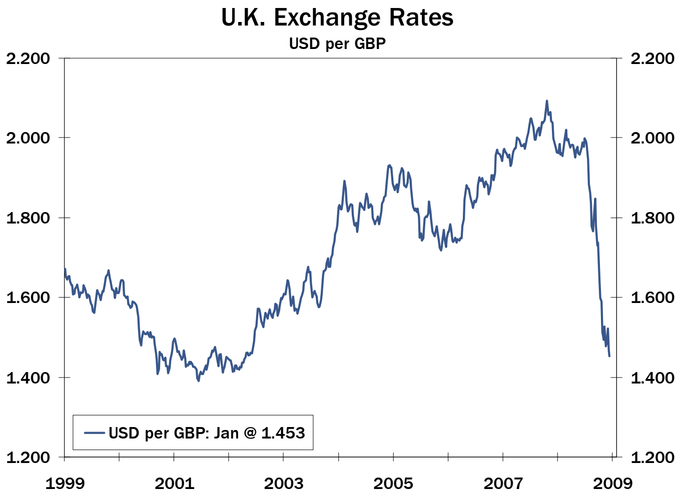
- At 4.1% currently, CPI inflation is well above the 2% target the Bank of England (BoE) is mandated to achieve in the "medium term." However, inflation is receding quickly and it should fall well below target by mid-year due to the severity of the economic downturn that is underway. In our view, the BoE will cut its main policy rate to only 0.50% by spring.

- Sterling has tumbled vis-à-vis the greenback over the past few months as the British economic outlook has deteriorated. Looking ahead to the next few quarters, we project that sterling will weaken a bit further against the greenback as the BoE continues to cut rates. Further out, however, sterling could stage a comeback against the dollar as sluggish economic growth in the United States keeps U.S. interest rates very low for an extended period.









Source: Global Insight, Bloomberg L.P. and Wachovia

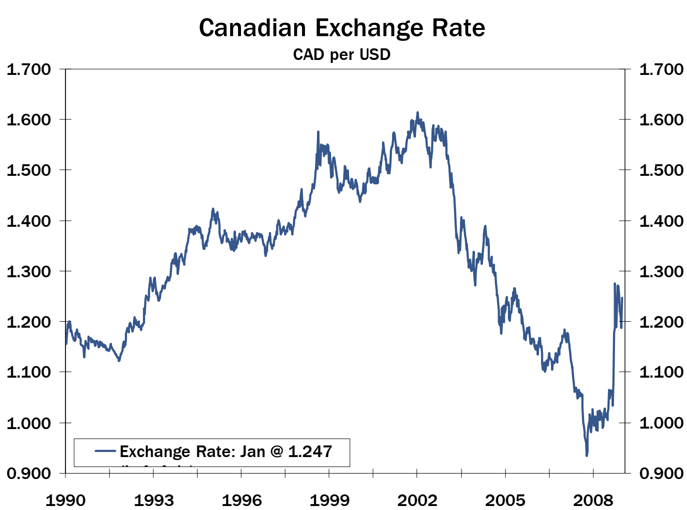
Canada

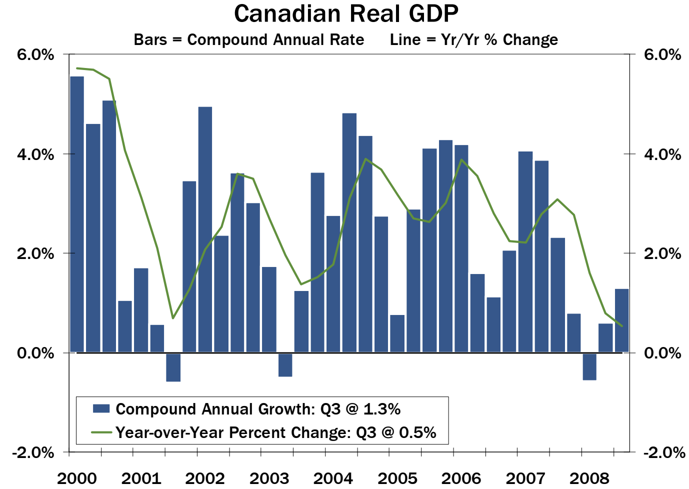
- Real GDP in Canada grew at a stronger-than-expected rate of 1.3% in the third quarter. But monthly GDP data for October showed a modest contraction in growth. Though Canada has been largely resilient to the economic woes that are troubling most other major economies, we remain concerned the export-driven economy will eventually succumb to the broader global recession.

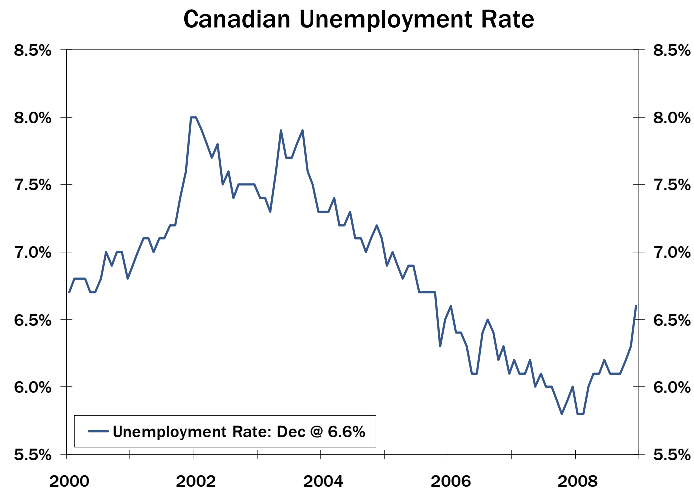
- Net exports in Canada have declined for five consecutive quarters. We do not foresee a turn-around in that trend as Canada's trading partners (particularly the U.S.) struggle with deep recessions.

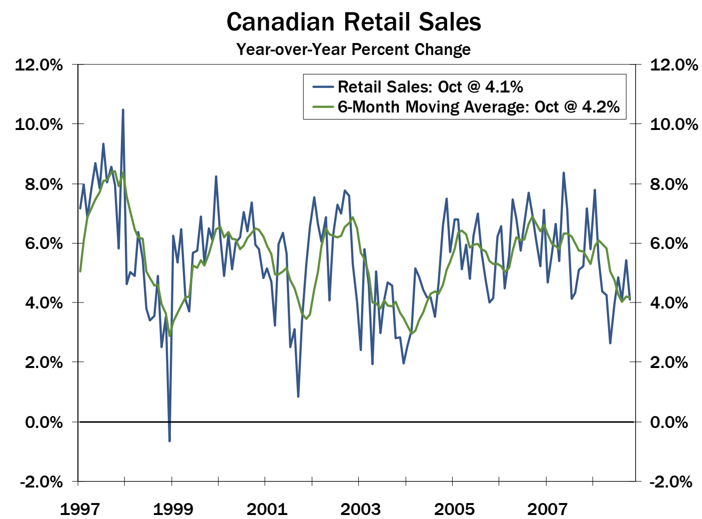
- Domestic demand in Canada, which had been stronger than many analysts expected in recent months, is finally showing signs of cracking. Canadian retail sales declined nearly 1% in October – the fastest rate of monthly decline in over two years. The Canadian consumer is now feeling the pressure from the tighter job market. Job losses for November and December both came in far worse than expected and the unemployment rate, at 6.6%, is climbing.

- The Canadian dollar has been up and down in value versus the U.S. dollar in recent weeks. But on trend the loonie has declined about 20% since July when commodity prices cracked. In the next few quarters, we project the Canadian dollar will weaken a bit further against the greenback as the BoC continues to cut rates. Further out, however, the loonie could stage a comeback against the U.S. dollar as sluggish economic growth in the United States keeps U.S. interest rates very low for some time.









Source: Global Insight, Bloomberg L.P. and Wachovia

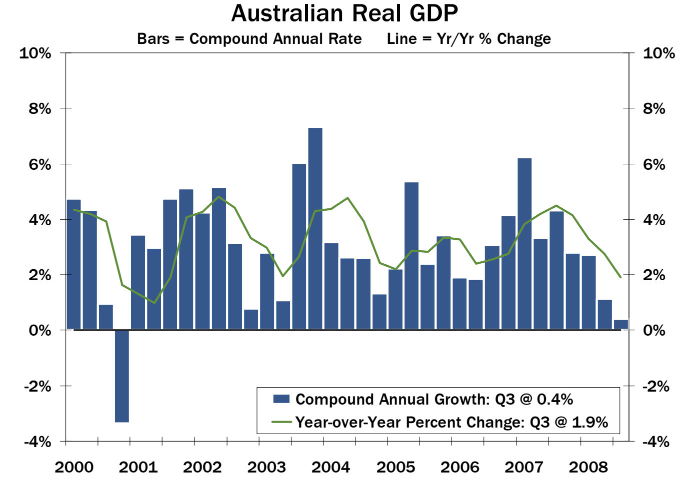
Australia

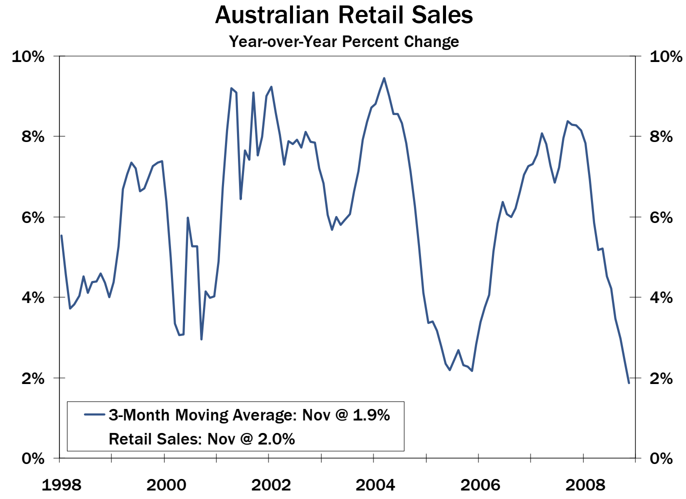
- The Australian economy has grown continuously since 2001. Australia is more dependent on the extraction of natural resources than most other major economies. The significant increase in commodity prices between 2003 and 2008 improved the country's terms of trade, which boosted growth in real income. The decline in unemployment, which fell in 2008 to the lowest rate in decades, helped to underpin strong growth in consumer spending.

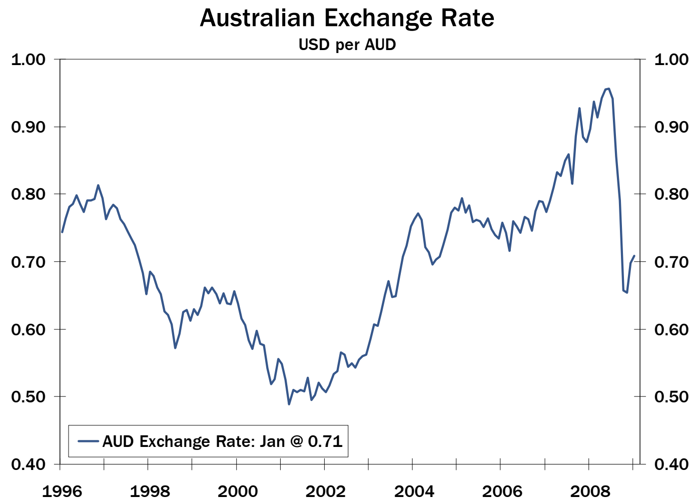
- However, real GDP growth down-under slowed over the course of 2008. Not only have net exports weighed on real GDP growth over the past few quarters, but growth in retail sales has also slowed significantly.

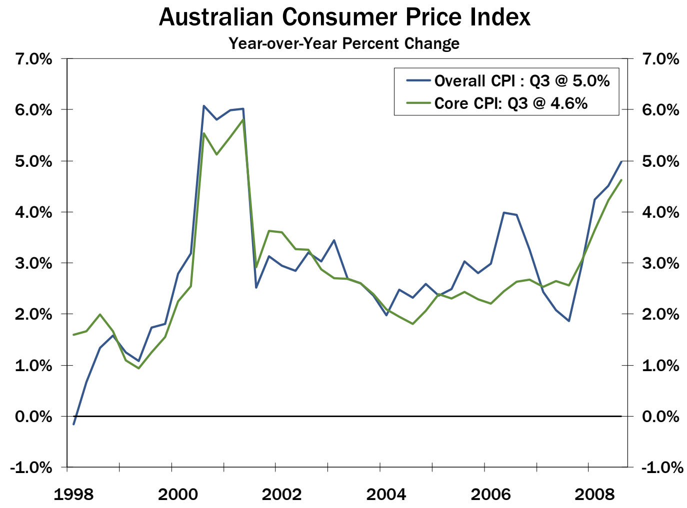
- The Reserve Bank of Australia (RBA) tightened policy in 2007 and early 2008 due to rising inflation. However, the sharp deterioration in the global economy will cause CPI inflation in Australia to recede in the quarters ahead. Consequently, the RBA has slashed its main policy rate by 300 bps since early September, and further monetary easing in the months ahead seems likely.

- The Australian dollar has dropped about 30% against the greenback since mid-summer as commodity prices have collapsed. In the near term, the Aussie dollar likely will weaken a bit further as the RBA continues to ease policy. Looking further out, however, the Aussie dollar could strengthen anew as investors begin to feel better about global growth prospects.









Source: Global Insight, Bloomberg L.P. and Wachovia

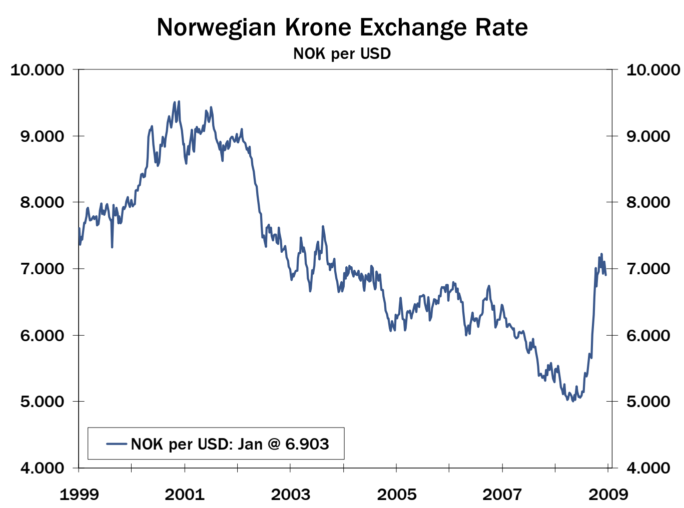
Norway

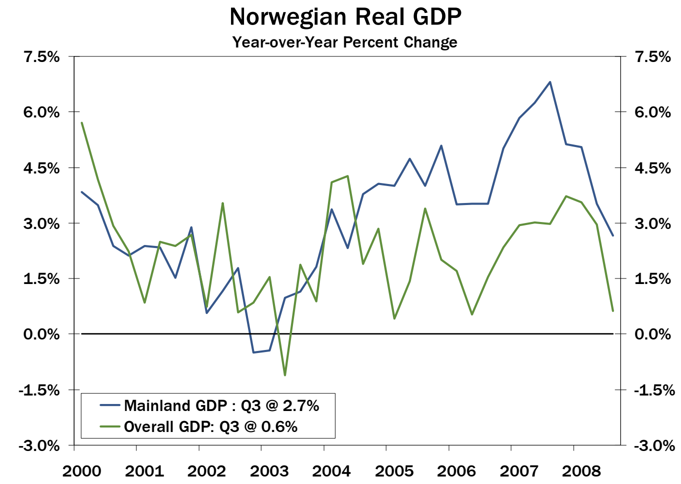
- Real GDP in Norway contracted at an annualized rate of 2.8% between the second and third quarters, the first negative outturn in more than two years. Norway is a major producer of crude oil, and export volumes fell sharply in the third quarter. In addition, consumer spending plummeted 2.5%, the largest quarterly decline since the first quarter of 2003. Most monthly indicators suggest that the economy probably contracted further in the fourth quarter.

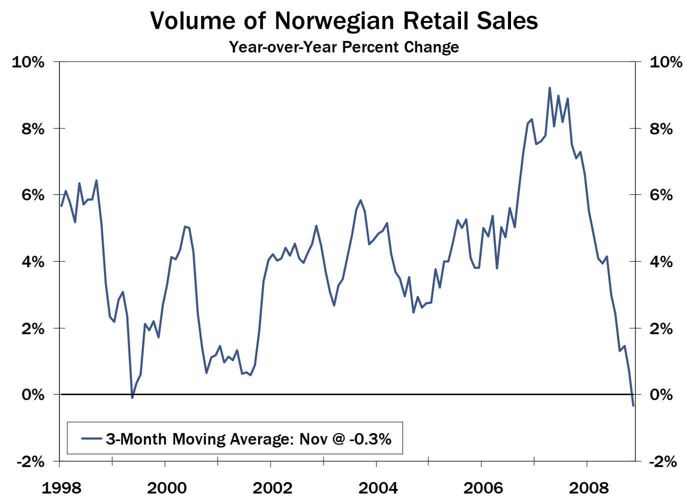
- Strong economic growth in 2006 and 2007 caused overall CPI inflation to rise to a 20-year high last year. However, the year-over-year rate of CPI inflation is starting to recede, and it should fall further in the months ahead due to the weak economy and the sharp decline in oil prices.

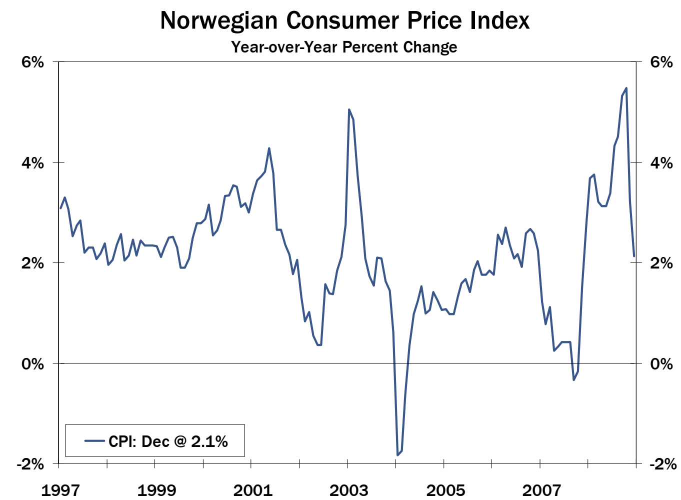
- Norges Bank, the country's central bank, has cut rates by 275 bps since mid-October, taking its main policy rate to 3.00%. Not only does the central bank expect inflation to subside further, but it also acknowledged that "the risk of a pronounced downturn in the Norwegian economy has increased." Therefore, further easing in the months ahead seems likely.

- The Norwegian krone has depreciated about 30% versus the U.S. dollar since mid-summer, and we look for the krone to weaken further in the first half of the year as the Norwegian economy slogs through recession and oil prices remain depressed. However, the krone could begin to strengthen later this year as investors begin to anticipate global recovery.









Source: Global Insight, Bloomberg L.P. and Wachovia

Sweden

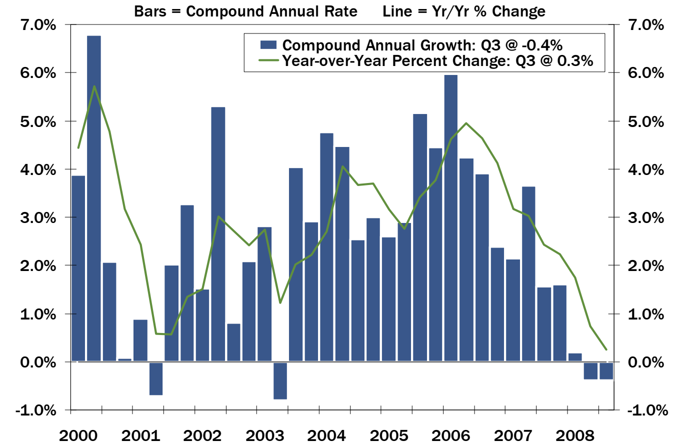
- Swedish real GDP contracted modestly in the second and third quarters of 2008, suggesting that the economy slipped into recession last year. Unfortunately, it appears that the economy contracted at a much faster pace in the fourth quarter. For example, industrial production in November dropped nearly 11%, the most severe year-over-year rate of contraction in decades.

- Not only have exports taken a hit, but consumer spending is weakening as well. The value of retail sales in the October-November period fell 1.4% (not annualized) relative to the third quarter average. The unemployment rate, which dropped below 6% in the first half of 2008, rose to 7% in November.

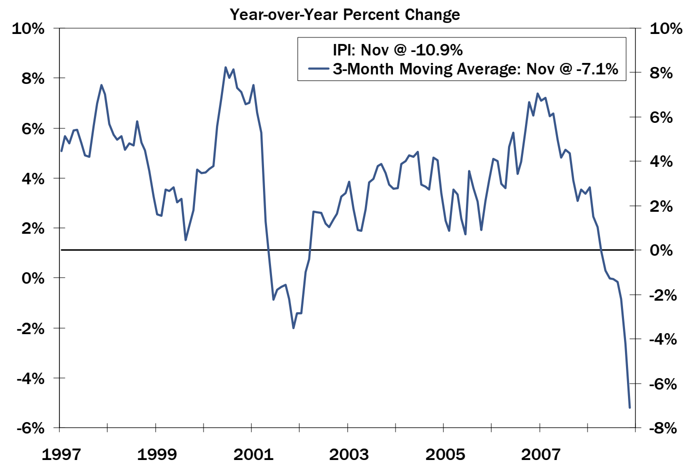
- The Swedish Riksbank, the country's central bank, has cut rates by 275 bps since mid-October. Although the Riksbank tried to get "ahead of the curve" by slashing its main policy rate by 175 bps in early December, it may need to ease policy further if, as seems likely, the economy remains in the doldrums.

- The Swedish krona has weakened about 30% against the U.S. dollar since mid-July due to the sharp deterioration in the Swedish economic outlook that has occurred since then. Looking forward, we project that the krona will weaken a bit further versus the greenback as the Swedish economy remains mired in recession. However, the krona could begin to strengthen later this year vis-à-vis the dollar due to the sluggish nature of the U.S. economic recovery that we project.

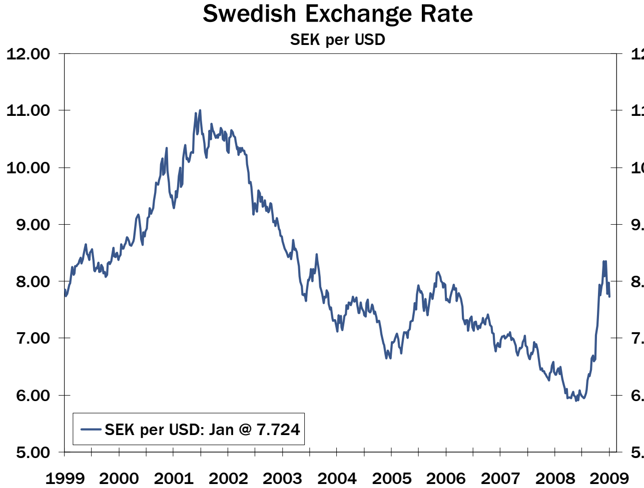
Swedish Real GDP



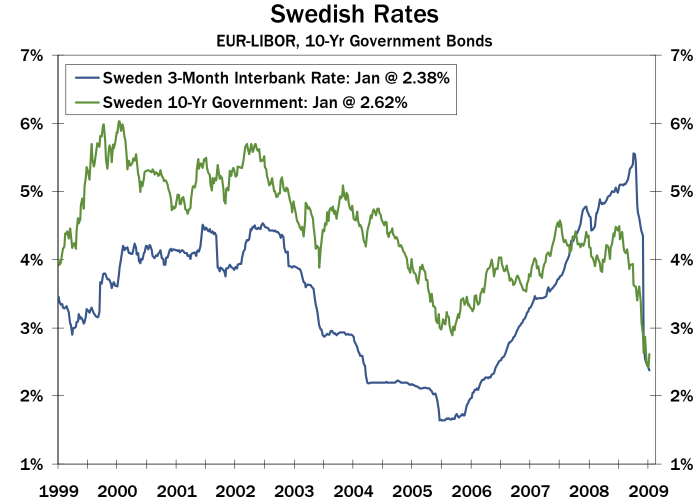
Swedish Industrial Production Index



Swedish Exchange Rate



Swedish Rates



Source: Global Insight, Bloomberg L.P. and Wachovia

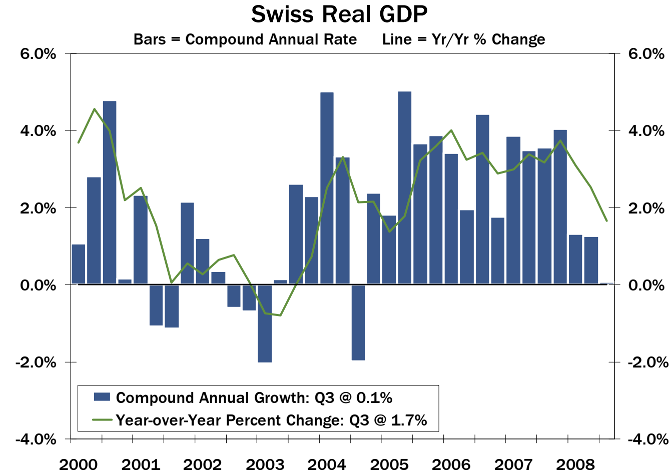
Switzerland

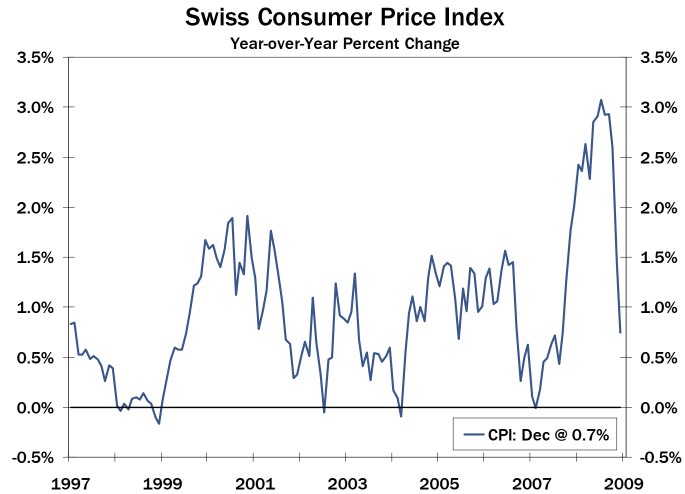
- Real GDP in Switzerland was essentially flat in the third quarter relative to the previous quarter. However, it would be premature to claim that Switzerland has escaped the fate of most other major economies, namely, recession. Indeed, the manufacturing PMI fell off a cliff at the end of last year, suggesting that overall GDP growth likely turned negative.

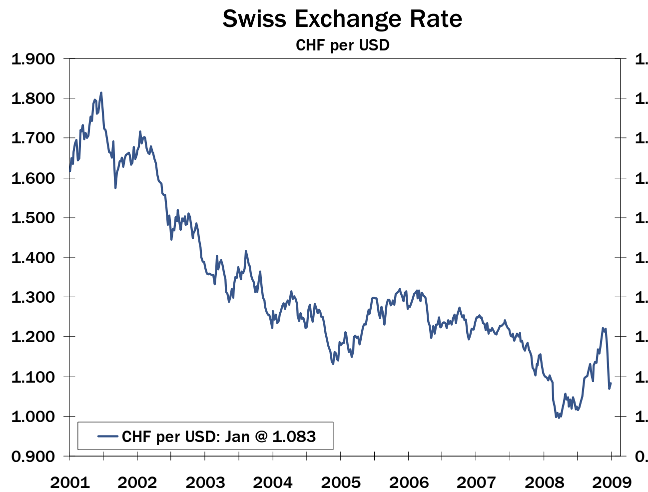
- Exports have fallen sharply over the past few months. At this point, it appears that consumer spending is holding up fairly well. However, the unemployment rate rose from a 6-year low of 2.5% last summer to 2.8% in December. With labor market conditions deteriorating, it seems only a matter of time before consumer spending weakens as well.

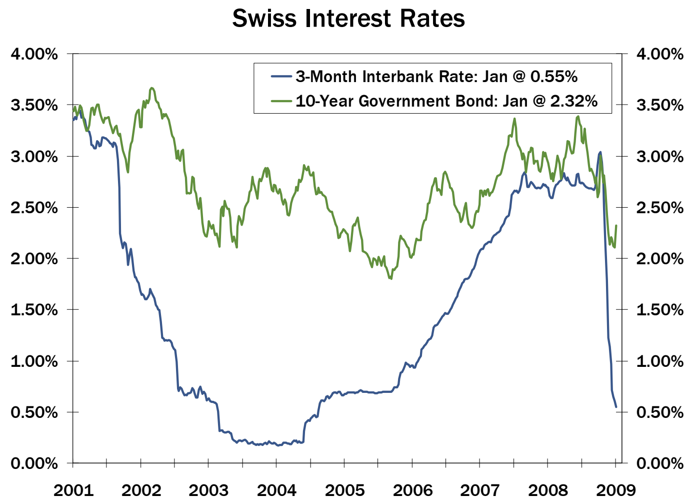
- CPI inflation in Switzerland has receded sharply over the past few months, giving the Swiss National Bank (SNB) scope to cut rates by 225 bps since early October. Indeed, the SNB's target for the 3-month LIBOR rate stands at only 0.50% at present.

- The Swiss franc has depreciated about 10% on balance against the dollar since mid-summer as the outlook for the Swiss economy has deteriorated. In the near term, the dollar probably will strengthen further as investors anticipate recovery in the U.S. economy. However, we believe the greenback will give up its gains further out in our forecast period as the sluggish nature of the U.S. recovery becomes painfully apparent.









Source: Global Insight, Bloomberg L.P. and Wachovia

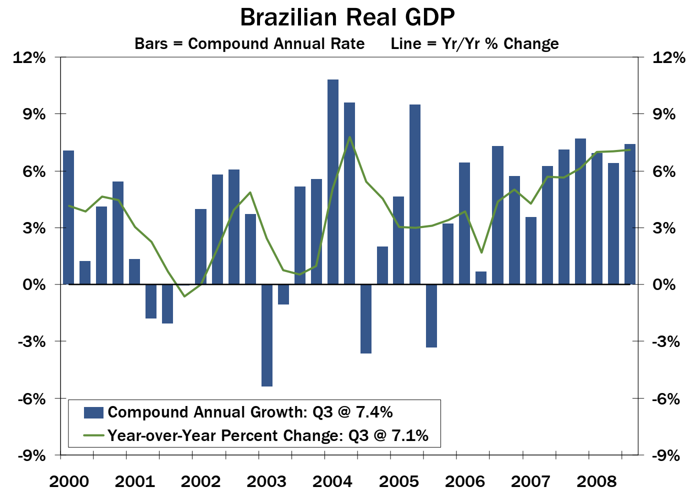
Brazil

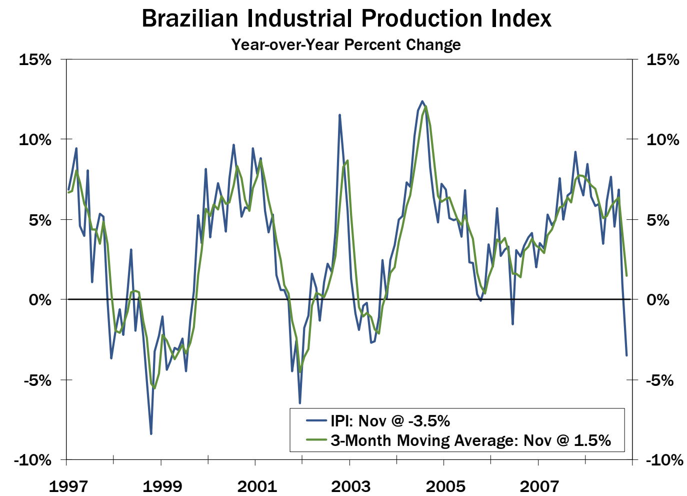
- The Brazilian economy bucked the global trend of weakening growth in the third quarter. Indeed, real GDP in Brazil expanded at an annualized pace of 7.4% in the third quarter, up from 6.4% in the second quarter. A breakdown of real GDP into its underlying demand components shows that growth in consumer spending and investment spending was very robust in the third quarter. If not for the 2.6% decline in exports, overall GDP growth would have been even stronger.

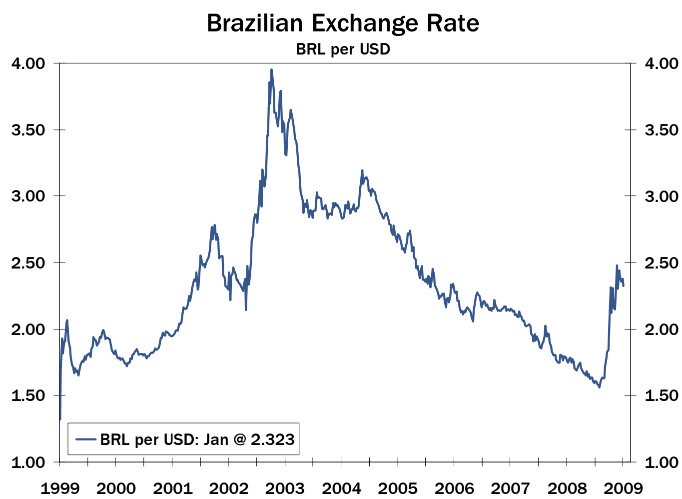
- However, it doesn't seem likely that Brazil can remain an oasis of prosperity if the rest of the world is in recession. Indeed, the fourth quarter appears to be much weaker. Industrial production in November fell more than 6% from a year earlier, the biggest year-over-year decline in about seven years.

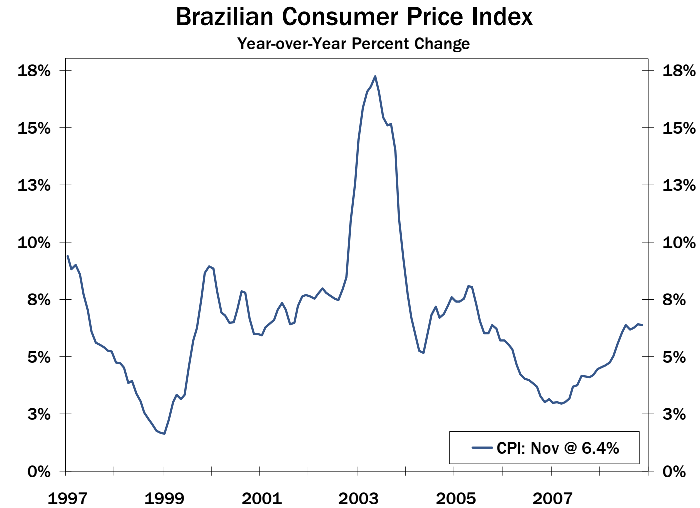
- Rising food and oil prices pushed up the rate of CPI inflation earlier this year, and it remains stubbornly high. Concerned that it might lose its hard-won battle against inflation, the central bank has not cut rates yet, although many other central banks have eased policy aggressively.

- The Brazilian real has depreciated more than 30% since it rose to a nine-year high versus the dollar in August. Looking to the foreseeable future, we project that the real will weaken further vis-à-vis the greenback as the outlook for the Brazilian economy remains clouded. However, the real could strengthen anew later this year as the Brazilian economy recovers at a faster rate than the U.S. economy.









Source: Global Insight, Bloomberg L.P. and Wachovia

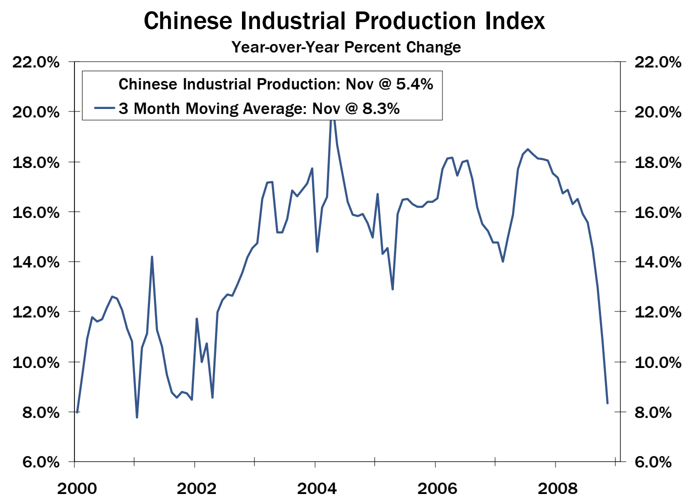
China

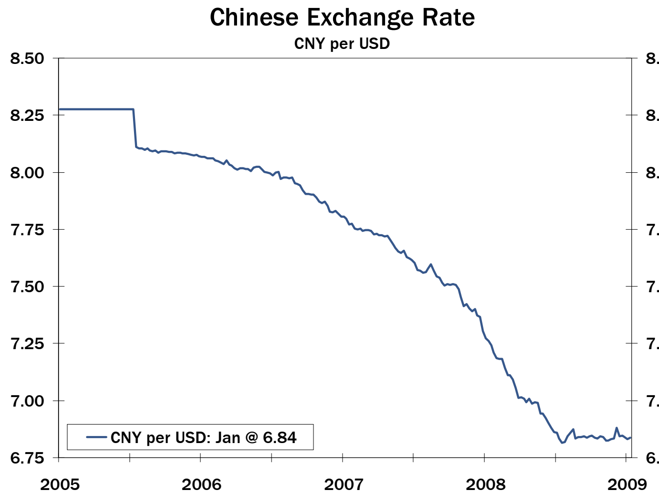
- The year-over-year rate of Chinese real GDP growth has slowed from 12.6% in the second quarter of 2007 to 9% in the third quarter of this year. The fourth quarter appears to have been significantly weaker as the growth rate of industrial production dropped sharply.

- Monthly indicators show that the dollar value of Chinese exports fell more than 2% on a year-over-year basis in both November and December. Clearly the downturn in the rest of the world is exerting a significant slowing effect on the Chinese economy. Even with oil and food prices down significantly since summer, however, growth in the value of Chinese retail sales continues to clip along at a 20% rate.

- The Chinese economy will likely expand in 2009 at its slowest pace in almost 20 years. However, policymakers have been quick to respond to the obvious slowdown in the economy. The central bank has cut its benchmark lending rate by more than 200 bps since mid-September, and the central government has announced plans to accelerate infrastructure spending. Expansionary macroeconomic policy should help to support economic activity.

- The Chinese renminbi, which had gradually strengthened versus the dollar starting in mid-2005, has been essentially stable since last July. We believe that Chinese authorities will permit very little appreciation of the renminbi between now and the end of the year. However, the Chinese currency likely will resume its appreciation next year as the Chinese economy begins to strengthen.





Source: Global Insight, Bloomberg L.P. and Wachovia

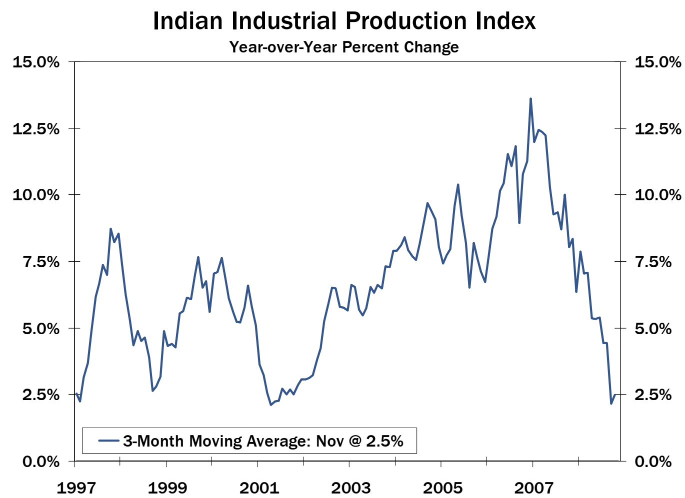
India

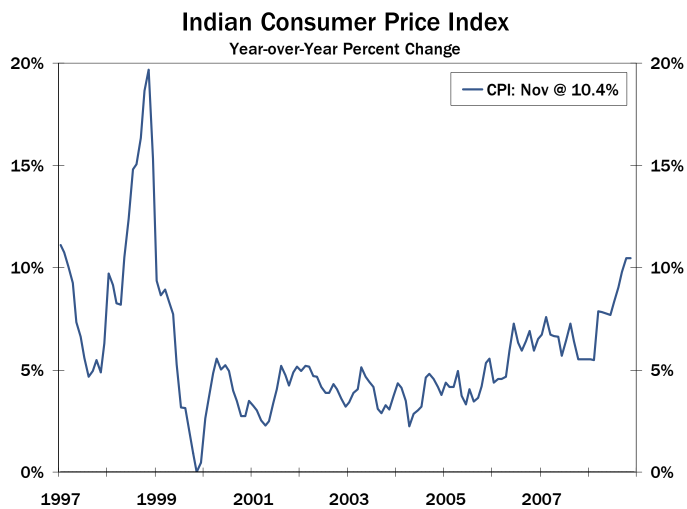
- Economic growth in India has moderated over the last few quarters. The 7.6% GDP growth rate registered in the third quarter was the slowest pace of expansion in four years, and the marked decline in industrial production growth in October and November suggests that overall GDP growth slowed further at the end of last year.

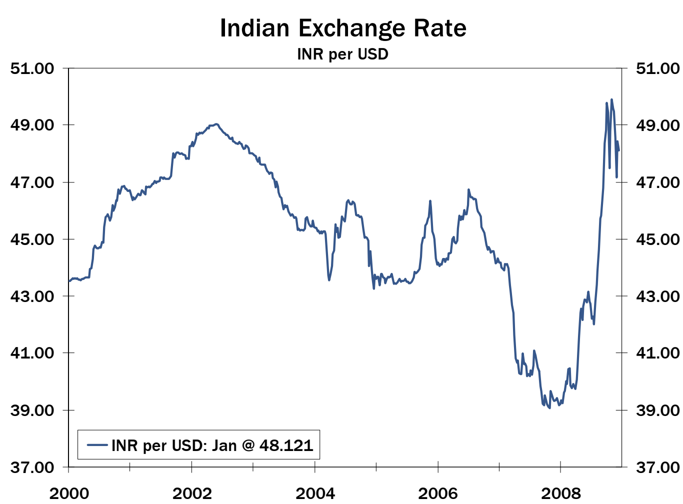
- India is not a manufacturing powerhouse like China, but Indian producers have been hit hard by the global downturn. The value of Indian exports in October and November was off more than 10% relative to the same period in 2007. In addition, it appears that consumer spending weakened in the fourth quarter as well. For example, auto sales in December dropped to a 4-year low.

- Sharp increases in food and energy prices earlier this year helped to push up CPI inflation, which has yet to recede. However, wholesale price inflation has tumbled sharply since last summer, meaning that a decline in CPI inflation is probably not far behind. In response to slower economic growth and easing inflationary pressures, the Reserve Bank of India has cut its main policy rate by 350 bps since mid-October.

- The Indian rupee fell to an all-time low versus the dollar late last year as the global credit crunch intensified. In the near term, the rupee will probably weaken a bit more as prospects for the Indian economy, and more broadly the global economy, remain clouded. However, the rupee could begin to claw its way back later this year as economic growth in India begins to strengthen.







Source: Global Insight, Bloomberg L.P. and Wachovia

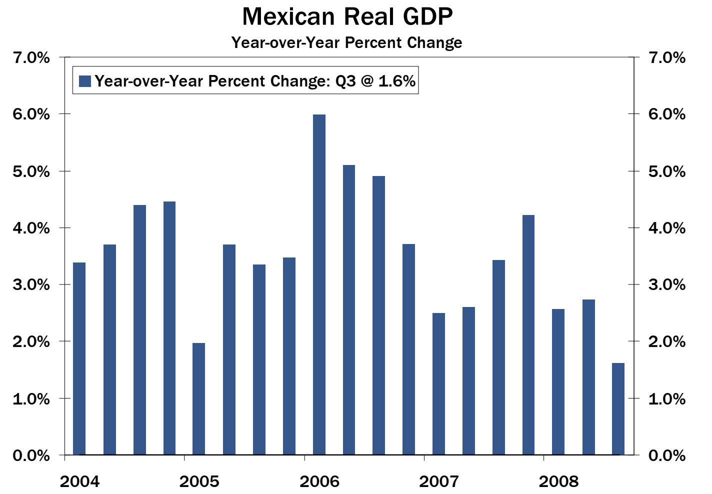
Mexico

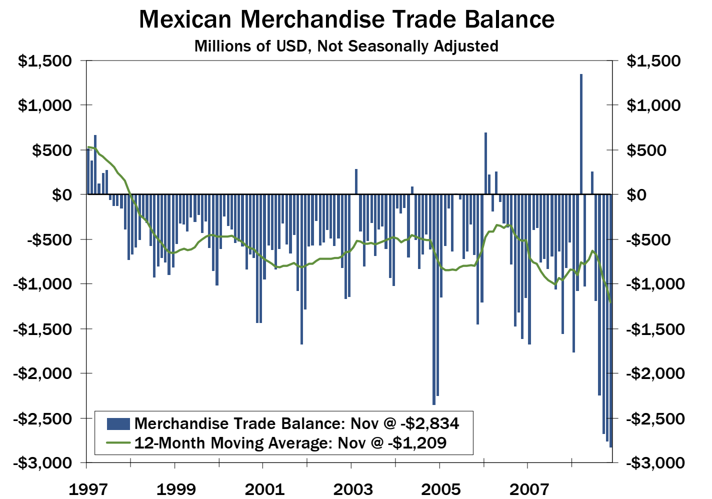
- Mexican real GDP rose only 1.6% in the third quarter, the slowest year-over-year growth rate since the recession in the early years of this decade. Data from the fourth quarter suggest that the year-over-year rate of GDP growth may have turned negative.

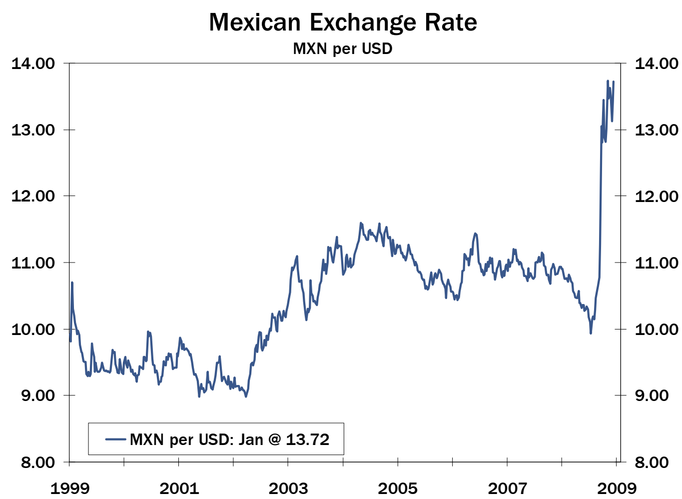
- The slowdown in the United States, to which 85% of Mexico's exports are destined, is a primary reason why the Mexican economy appears to be sliding into recession. Total Mexican exports tumbled 16% in November. In addition, fewer remittances by Mexican workers in the United States may also be exerting a slowing effect on the Mexican economy.

- The overall rate of CPI inflation has breeched 6% for the first time in seven years. Consequently, the Bank of Mexico, which hiked its main policy rate by 75 bps between mid-May and mid-August, has not yet cut rates despite the obvious slowdown in the economy. Until the Bank is confident that the overall rate of CPI inflation will soon recede, it likely will refrain from cutting rates.

- The Mexican peso plunged to an all-time low versus the dollar in October as investors turned extremely risk averse and leveraged peso positions were unwound, and it remains weak today. In our view, the peso will depreciate further versus the dollar in the near term. However, we look for the peso to begin to recoup some of its losses later this year as the outlook for the Mexican economy starts to brighten somewhat.







Source: Global Insight, Bloomberg L.P. and Wachovia

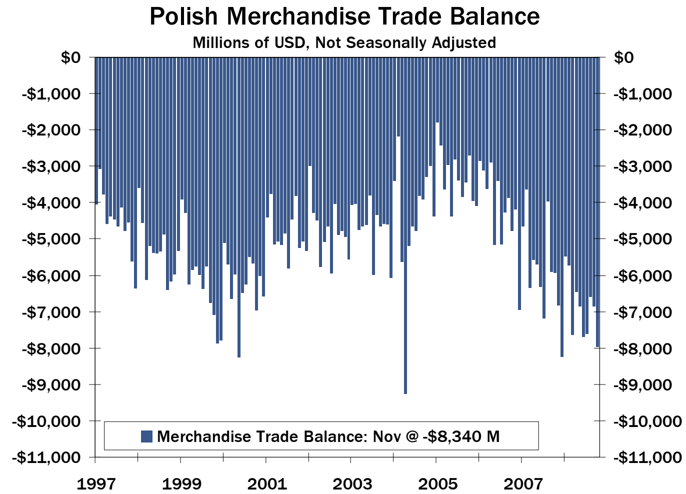
Poland

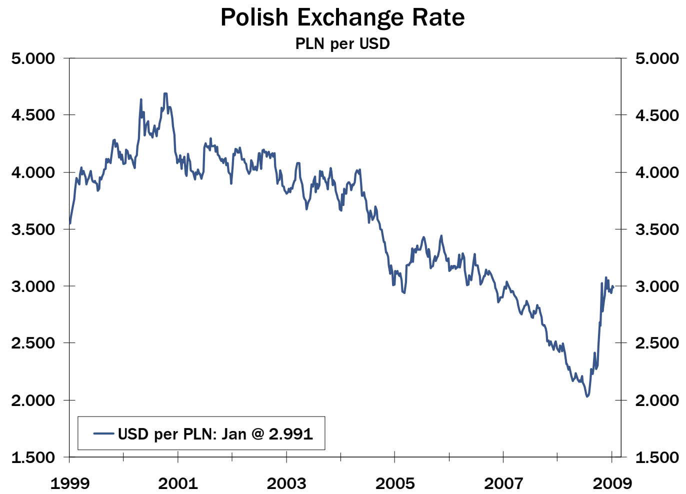
- Real GDP growth in Poland slipped to 4.8% in the third quarter, the slowest year-over-year growth rate in about 3 years, and the sharp downturn in industrial production in October and November suggests that overall real GDP growth probably slowed even further in the fourth quarter.

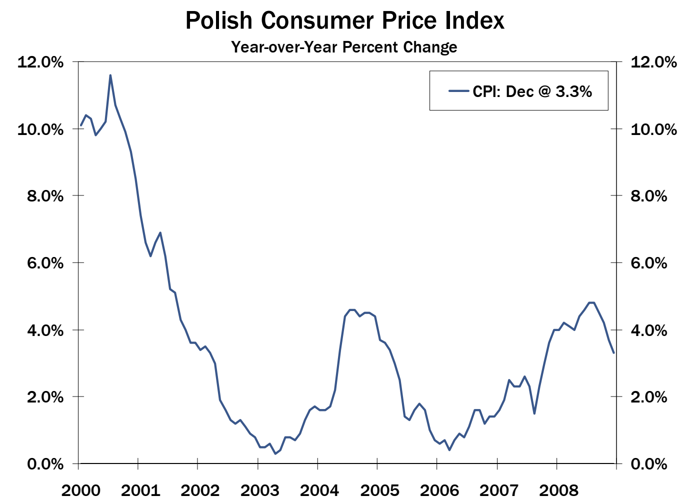
- As in most countries, the overall rate of CPI inflation shot higher this year, which led the National Bank of Poland (NBP) to tighten monetary policy. However, CPI inflation has receded over the past few months, and further declines seem likely due to the sharp drop in energy prices and economic weakness. In response, the NBP has cut its main policy rate by 100 bps since late November.

- Poland continues to incur a significant trade deficit. The current account deficit has swelled from less than 2% of GDP in 2005 to roughly 4% currently. Foreign direct investment, which is a stable source of finance, has financed much of Poland's current account deficit over the past few years, but it appears to be slowing somewhat. With the global economy slipping into its worst recession in decades, it seems likely that FDI will weaken further.

- The Polish zloty has lost more than 30% of its value against the dollar since mid-July as the Polish economic outlook has deteriorated. We forecast that the zloty will depreciate further in the near term. However, the zloty could rebound versus the greenback later this year as Polish economic prospects begin to improve.







Source: Global Insight, Bloomberg L.P. and Wachovia

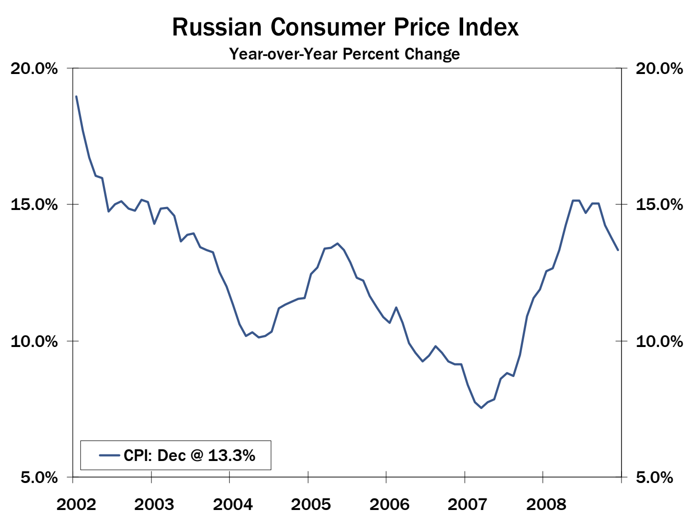
Russia

- The sharp rise in oil prices between 2003 and mid-2008 fueled very strong growth in the Russian economy. (The country produces about 9 million barrels of crude oil per day.) However, real GDP growth slipped to 6.2% in the third quarter, the slowest year-over-year growth rate in about three years, and the 8.7% decline in industrial production in November relative to the same month in 2007 suggests that overall GDP growth slowed even further in the fourth quarter.

- The run-up in oil prices between 2002 and mid-2008 caused Russia to rack up huge trade surpluses that led to a sharp increase in the country's foreign exchange reserves. Now that oil prices have virtually collapsed, the trade surplus is in the process of shrinking markedly. The central bank has spent $160 billion of the country's foreign exchange reserves (it had $600 billion in early August) in an effort to slow the rate of depreciation of the currency.

- CPI inflation, which shot up to a six-year high last summer, is starting to recede.

- The Russian ruble, which is in the process of retesting its all-time lows, has lost 30% of its value against the dollar since mid-July. Concerns about the leveraged nature of the Russian banking system are contributing to the ruble's woes. In our view, the Russian currency will fall even further in the near term. Sooner or later, however, the currency will bounce, and we look for the ruble to gradually appreciate later this year.



Source: Global Insight, Bloomberg L.P. and Wachovia

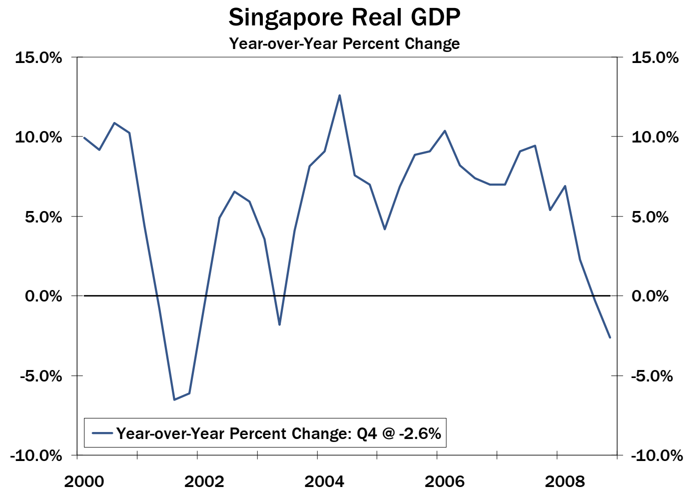
Singapore

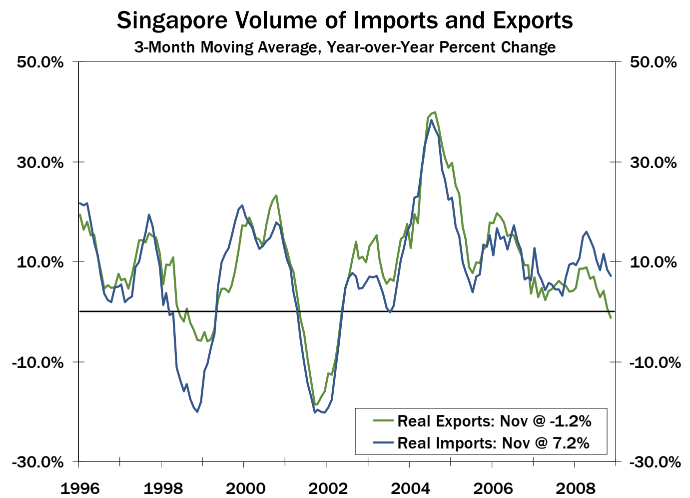
- Real GDP in Singapore fell 2.6% in the fourth quarter, the sharpest rate of contraction since the "tech" recession earlier this decade. A break down of real GDP in the fourth quarter into its underlying demand components is not yet available. However, monthly data show that growth in export volumes slipped into negative territory during the fourth quarter for the first time in seven years. Singapore has one of the most open economies in the world, and slower export growth weighs significantly on economic activity in the city-state.

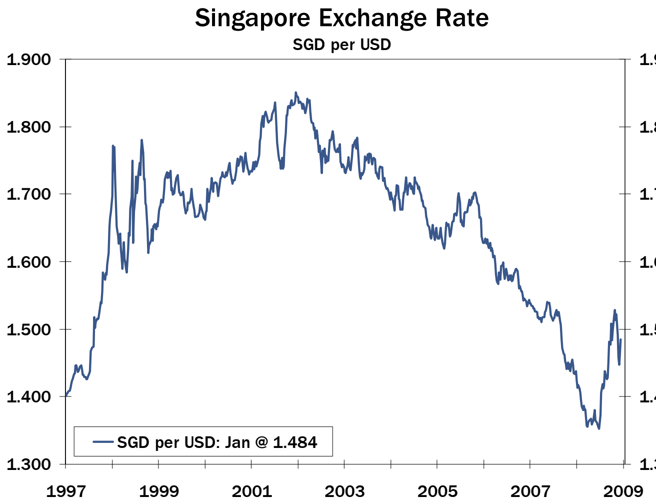
- The downturn in export growth has caused the unemployment rate to rise modestly over the past few months. Although growth in real consumer spending showed few signs of slowing through the third quarter of last year, deterioration in labor market conditions should lead to weaker growth in consumer spending over the next few quarters.

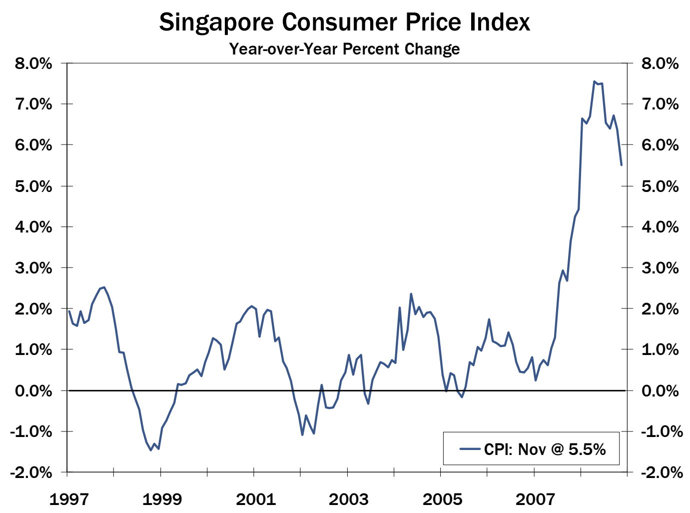
- CPI inflation shot up earlier this year due to the combination of an increase in the goods and service tax and higher food and energy prices. However, the year-over-year rate of CPI inflation is now starting to recede.

- The Monetary Authority of Singapore (MAS) manages the exchange value of the Singapore dollar versus a basket of currencies. The recent strength of the U.S. dollar has translated into an appreciation of the greenback vis-à-vis the Singapore dollar. Although the greenback probably will strengthen further in the near term, we look for the Sing dollar to regain its footing later this year.









Source: Global Insight, Bloomberg L.P. and Wachovia

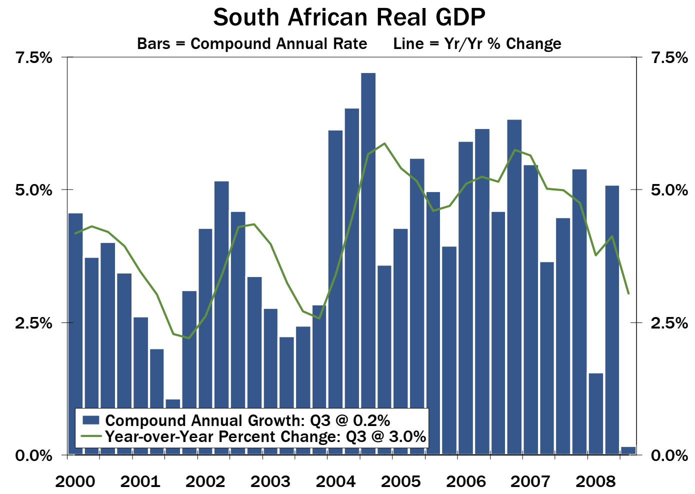
South Africa

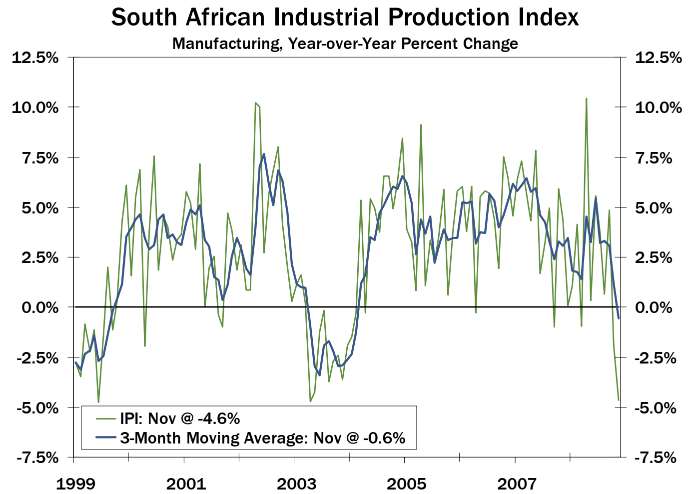
- Real GDP in South Africa rose only 3.0% in the third quarter, the slowest year-over-year growth rate in five years. Industrial production data through November suggest that overall economic growth probably slowed even further in the fourth quarter. Although export growth has slowed over the past few years, the most important source of the slowdown in South Africa has been consumer spending. The sharp rise in CPI inflation over the past year or so may be contributing to slower growth in real consumer spending via its deleterious effect on real income growth. Indeed, growth in real retail sales has turned negatively recently.

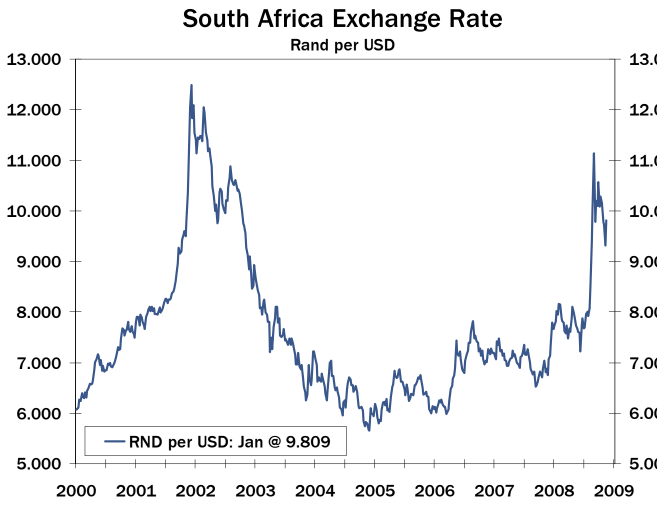
- Although CPI inflation has receded recently, it remains in double digit territory. The South African Reserve Bank, which had been raising rates, has subsequently started to ease on the expectation that inflation will decline further.

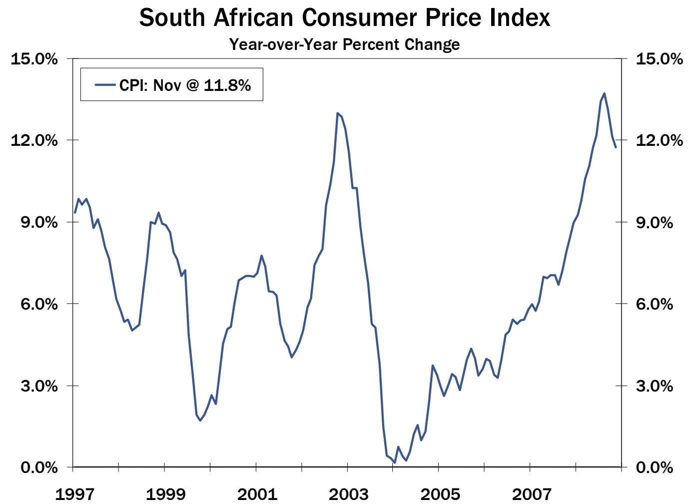
- South Africa is incurring a sizeable current account deficit at present (about 8% of GDP). That, along with the previous rise in inflation, are signs that the economy was running too hot. Significant real exchange rate appreciation over the past few years has also contributed to the blowout in South Africa's current account deficit.

- The South African rand weakened sharply last autumn as the global credit crunch intensified. We believe that the rand will trend lower in the near term, but project that it will regain its footing later this year or early next year as global growth prospects begin to improve.









Source: Global Insight, Bloomberg L.P. and Wachovia

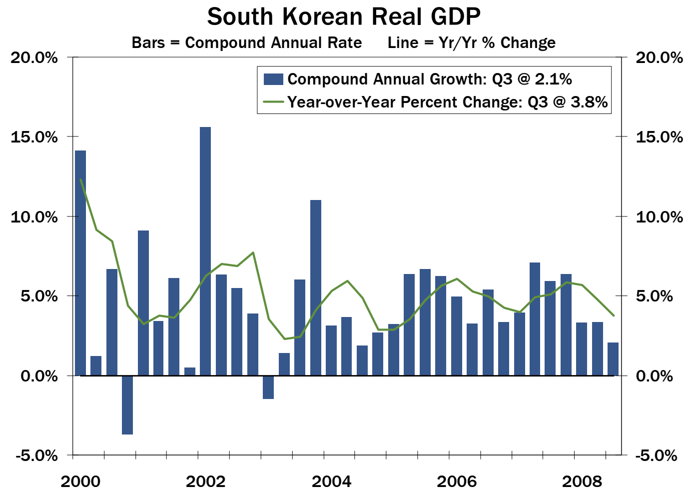
South Korea

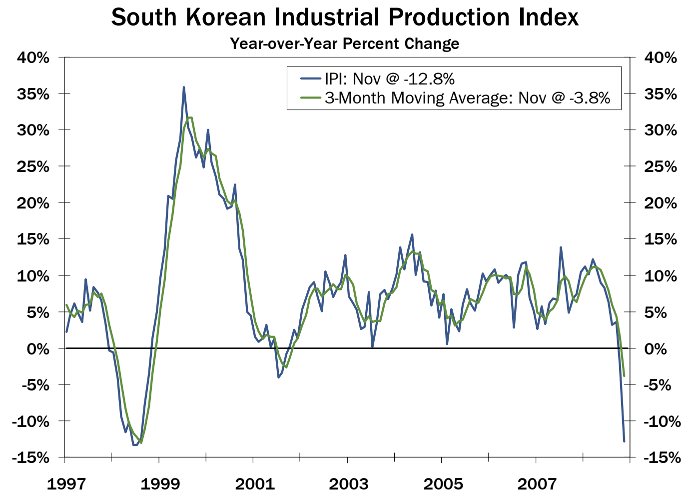
- Real GDP in Korea continues to expand, albeit at a less rapid pace than last year. Real GDP rose at an annualized rate of only 2.1% in the third quarter relative to the previous quarter, the slowest pace of growth in four years. The sharp contraction in industrial production in recent months suggests that the economy weakened markedly in the fourth quarter.

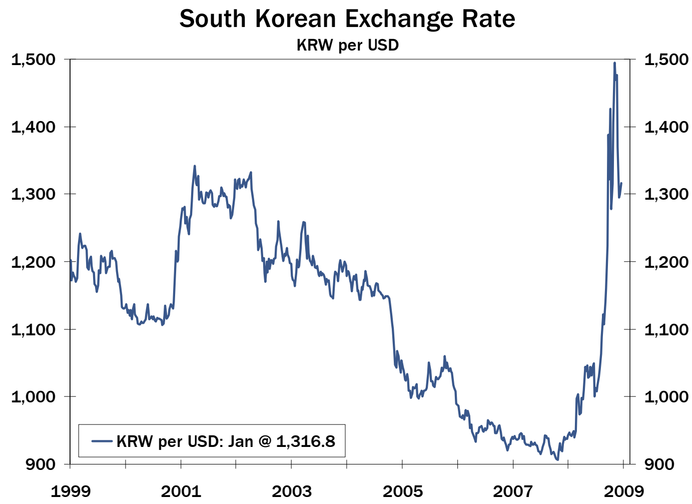
- Not only has the downturn in exports weighed on overall GDP growth, but domestic demand has weakened as well. Like their American counterparts, Korean consumers are rather leveraged and growth in Korean consumption expenditures has weakened over the past few quarters. Indeed, the volume of retail sales fell 5.6% in November relative to the same month in 2007.

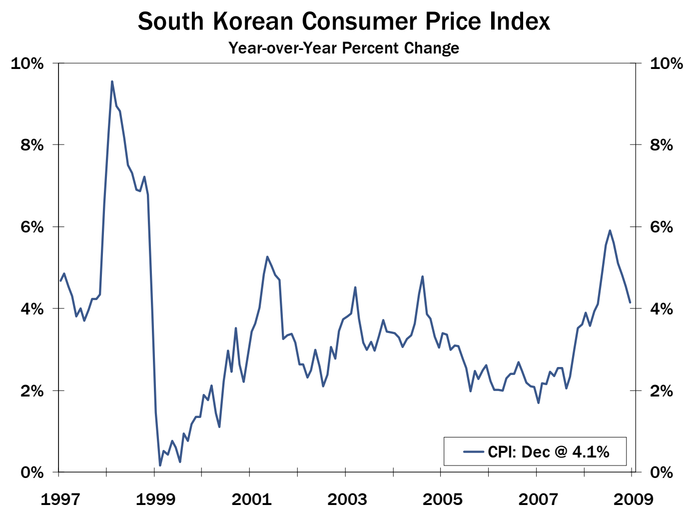
- CPI inflation has receded recently, giving the Bank of Korea scope to ease policy. Indeed, the Bank has slashed rates by 275 bps since early October, taking its main policy rate to an all-time low of 2.50%. Further rate cuts seem likely.

- The won tumbled to a 10-year low versus the dollar last autumn as the global credit crunch intensified. The won has stabilized recently, but we project it will retest its lows at some point in the near term. That said, the won could regain its footing and begin to strengthen later this year or early next year as Korean growth prospects begin to improve.









Source: Global Insight, Bloomberg L.P. and Wachovia

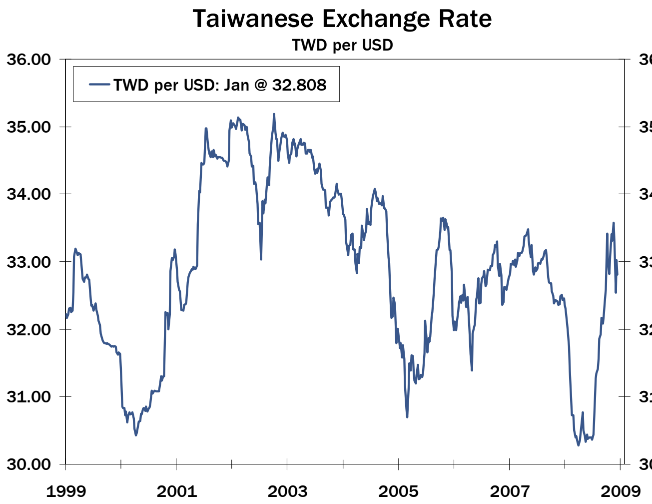
Taiwan

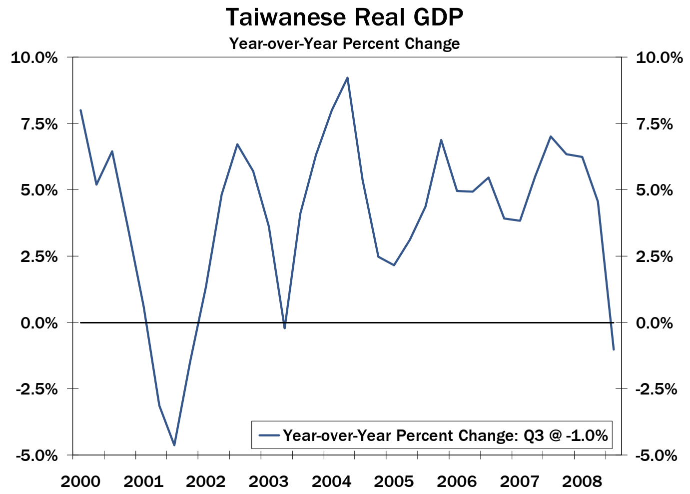
- Real GDP growth in Taiwan plunged from 4.6% in the second quarter to -1.0% in the third quarter, the first time the year-over-year growth rate has turned negative since the SARS epidemic ravaged growth in Asia in 2003. Moreover, the collapse in industrial production growth over the past few months suggests that the economy weakened sharply in the fourth quarter.

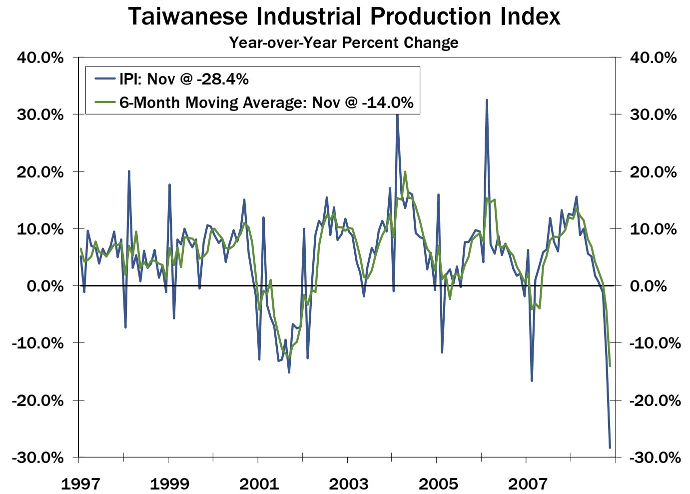
- Growth in Taiwan has been driven by exports over the past few years, and the sharp downturn in the global economy has imparted a nasty shock to the Taiwanese economy. In addition, growth in domestic demand, which already had been rather lackluster, has weakened further recently.

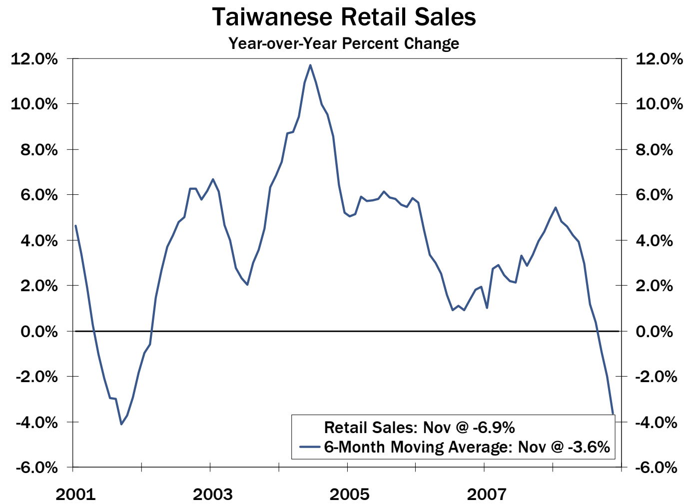
- CPI inflation, which shot up to a 14-year high of 5.8% in July, has fallen sharply over the past few months to only 1.2% currently. The central bank has cut its main policy rate by more than 200 bps since late September (it currently stands at only 1.50%), and further easing seems likely in the months ahead. In addition, the government has announced some fiscal stimulus measures that may reduce the rate of deterioration in the economy

- The Taiwanese dollar has lost about 10% of its value against the U.S. dollar since mid-July as the Taiwanese economic outlook deteriorated sharply. In the near term, we project that the Taiwanese dollar will continue to trend gradually lower. However, the Taiwanese dollar could begin to strengthen modestly later this year as the Taiwanese economy stabilizes and starts to grow again.









Source: Global Insight, Bloomberg L.P. and Wachovia

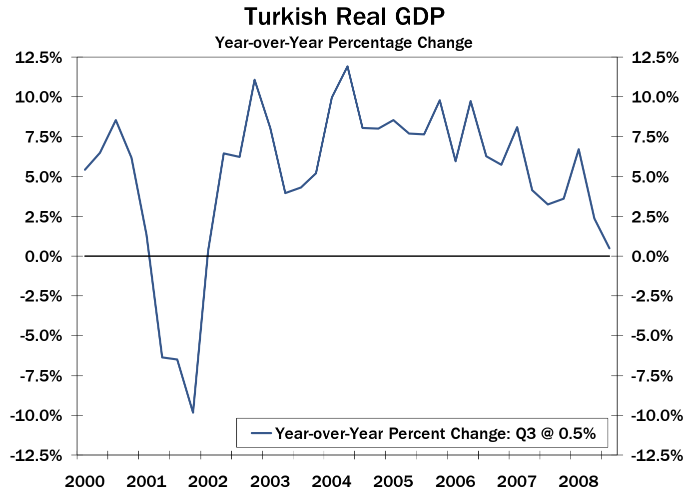
Turkey

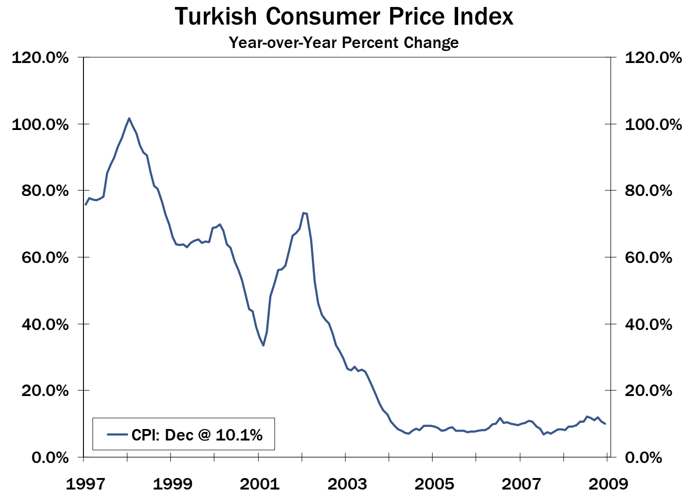
- Real GDP growth in Turkey barely expanded in the third quarter, rising only 0.5% relative to the same period in 2007. Overall GDP growth probably slipped into negative territory in the fourth quarter judging by the 13.9% decline in industrial production in November. Not only has export growth turned negative recently, but consumer spending and investment spending have both turned down in the past few quarters.

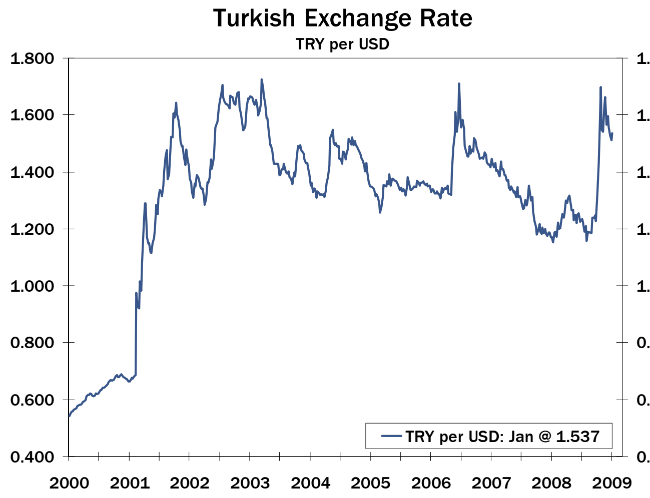
- Inflation was the big issue throughout most of 2008, but the year-over-year rate has receded somewhat in recent months due to economic weakness and the collapse in energy prices. The central bank, which had been tightening policy earlier in 2008, has cut rates by 375 bps since mid-November.

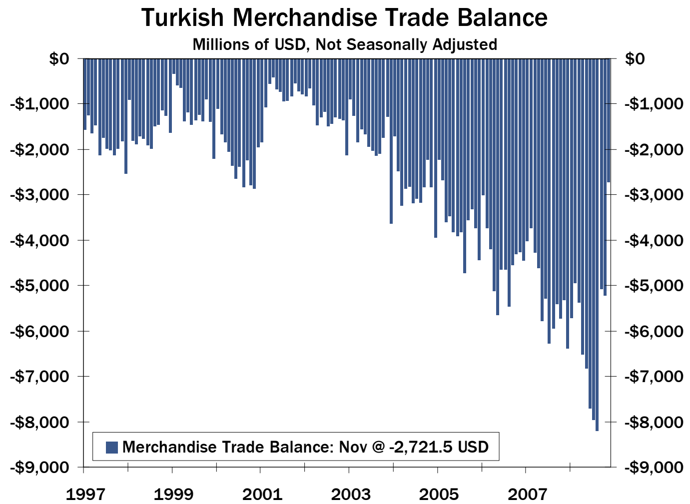
- Turkey's external accounts have deteriorated over the past few years. The country's current account deficit currently exceeds 5% of GDP, the highest ratio in decades. Large current account deficits, which must be financed by capital inflows from abroad, make the country vulnerable to the whims of risk-averse investors.

- The Turkish lira rose to a seven-year high versus the greenback in early August, but it has subsequently lost about 30% of its value against the dollar as the global economic outlook has deteriorated significantly. We project that the lira will weaken further against the greenback, at least in the near term, as Turkish growth prospects remain poor. However, the lira could begin to appreciate against the dollar later this year as investors begin to anticipate economic recovery in Turkey.









Source: Global Insight, Bloomberg L.P. and Wachovia

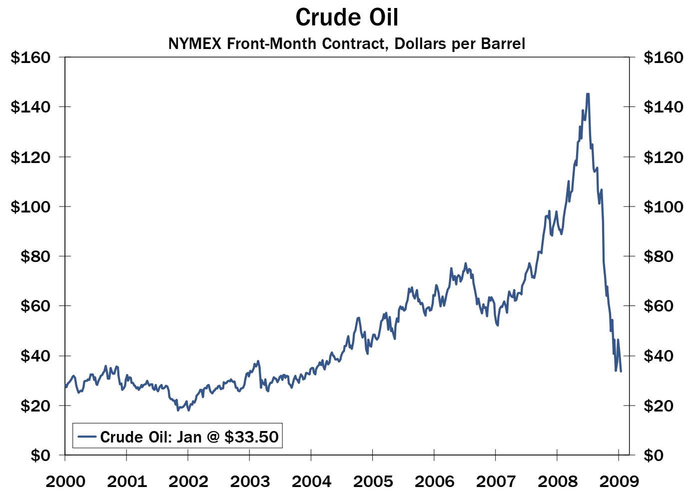
Energy Markets

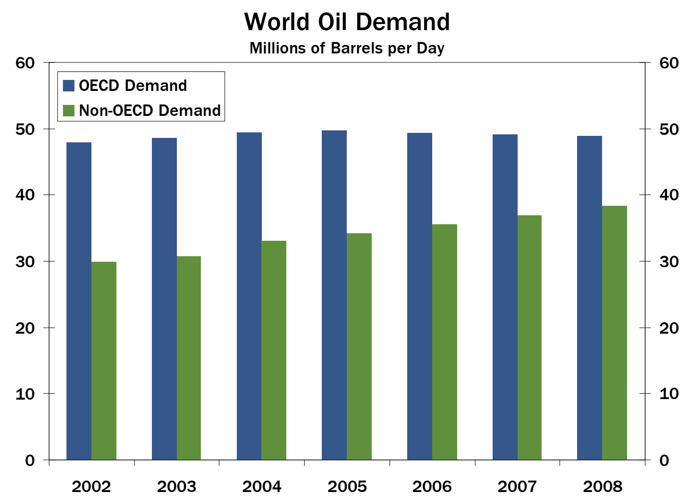
- The price of crude oil went ballistic in the first half of 2008. Strong global economic growth, especially in the developing world, significantly increased oil demand, leading to the trend rise in oil prices since 2003. Adding to the upward pressure on petroleum prices were decline in the value of the dollar, geopolitical uncertainties and speculative demand from investors who historically have not been players in petroleum markets.

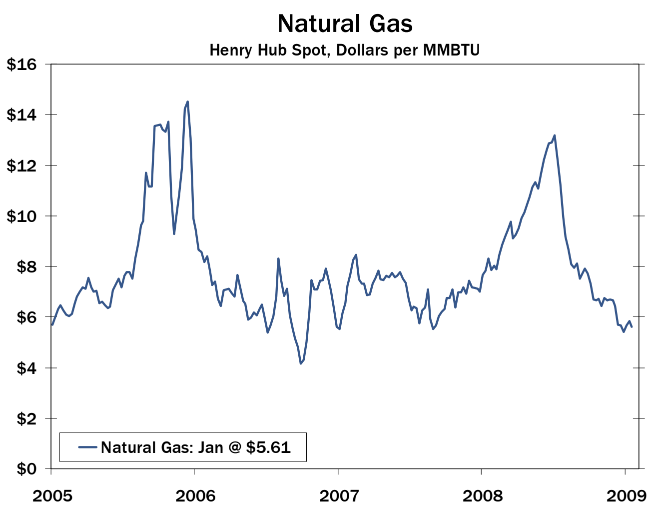
- However, petroleum prices have collapsed since mid-July as the credit crunch has led to a deep global recession. Not only did the previous spike in the price of oil encourage conservation among consumers, but the sharp downturn in industrial production that is underway is causing industry to demand less oil.

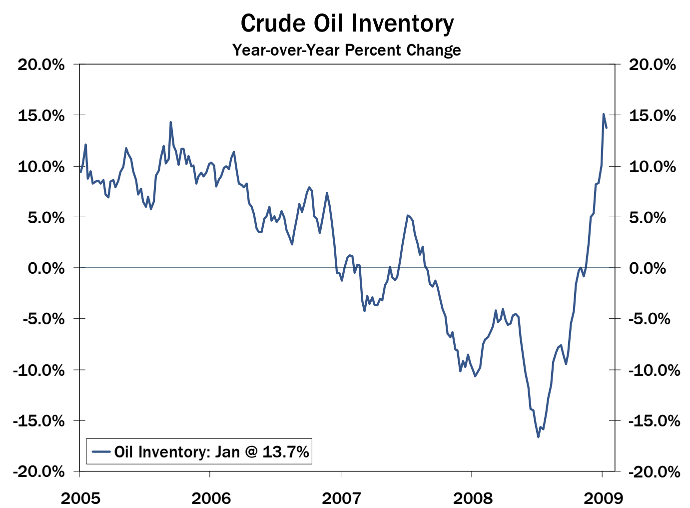
- Adding to the downward pressure on crude price is the sharp run-up in oil stocks over the past few months. Indeed, inventories of crude in the United States are currently 15% higher than last year at this time. Although gasoline inventories are about flat on a year-over-year basis, distillate stocks are also elevated at present.

- Natural gas has not been immune to the same forces that have driven oil prices over the past year. Indeed, the price of natural gas in the United States is down more than 60% from its peak last July. Although there is not an over-abundance of gas in storage, it is hard to envision a significant rise in natural gas prices (and in crude oil prices) as long as economic activity remains very weak.









Source: Moody's Economy.com and Wachovia

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