September 9, 2016

Economics Group

Special Commentary

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Global Chartbook: September 2016

Executive Summary

One of the major developments in the global economy since the publication of our last *Global Chartbook* in early June was the June 23rd decision by voters in the United Kingdom to seek an exit from the European Union (a.k.a. "Brexit"). As we wrote in a report soon after the referendum, we believe Brexit will cause a modest and short-lived recession in the U.K. economy starting later this year (Figure 1).[1] In our view, uncertainties about the economic relationship that the United Kingdom will ultimately have with the remaining members of the European Union will weigh on U.K. investment spending, thereby producing a modest recession in that country.

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Figure 1

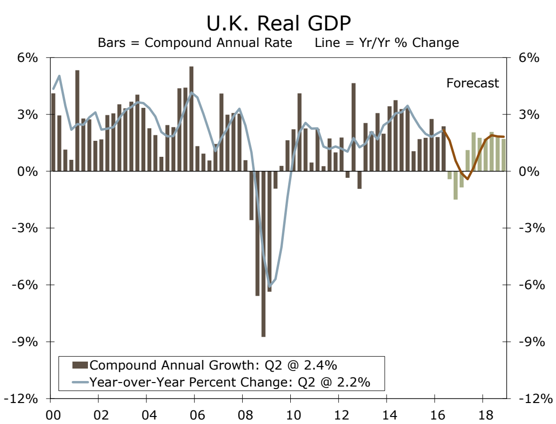
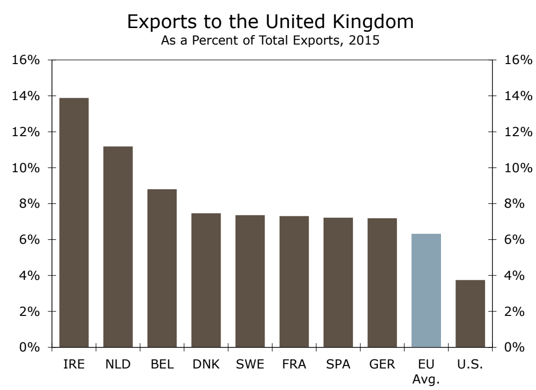


Figure 2



Source: IHS Global Insight and Wells Fargo Securities

Will Brexit have significantly negative effects on a global basis? Probably not. The United Kingdom takes in only 4 percent of total global exports, so the British economy really is not large enough to have meaningful direct effects on most other economies. Ireland may take a bit of an economic hit because of the extensive trade ties between it and its neighbor across the Irish Sea, but the rest of the European Union sends only 7 percent of its exports to the United Kingdom (Figure 2). Relative to our pre-Brexit forecast, we have reduced our Eurozone GDP forecast slightly. However, we generally expect the modest pace of expansion that has been in place in the euro area since mid-2013 to remain in place over the next few years. Specifically, we project that real GDP in the Eurozone will grow 1.6 percent this year and 1.5 percent in 2017 before picking up to 2.0 percent in 2018.

Growth in the Chinese economy continues to slow (Figure 3), but the deceleration that is underway in China does not appear to be as sharp as many investors had feared at the beginning

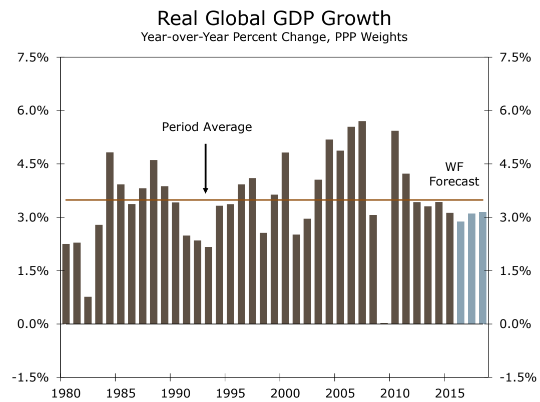
[1] **See "U.K. Recession Post-Brexit Referendum?" (July 1, 2016) which is available upon request.**

of the year. Steps by the Chinese government to ease economic policies have contributed to the apparent "soft landing" in the economy. In that regard, the amount of new "total social financing," which is a measure of all the financing available in the economy, was up more than 30 percent in the first six months of 2016 relative to the same period last year. The value of home sales jumped about 50 percent in the first half of the year. The subsequent decline in unsold housing inventory helped to pull up housing starts by more than 15 percent.

That said, a return to double-digit GDP growth rates in China is simply not in the cards. The Chinese government may tweak policies occasionally to stabilize growth, but it is not likely to sanction a return to supercharged growth rates in investment spending that has led to a large imbalance in the Chinese economy (i.e., relatively too much investment spending and too little consumer spending) and highly indebted non-financial businesses. We forecast that real GDP growth in China will slip below 6 percent by the end of next year and that it will be approaching 5 percent by the close of 2018.

Figure 3

Figure 4



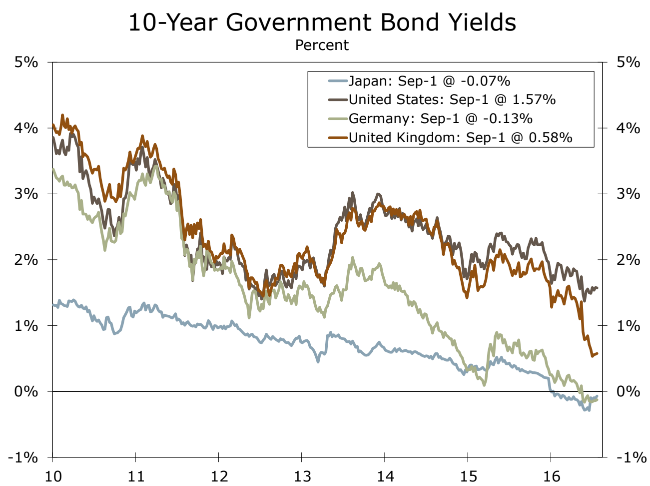
Source: IHS Global Insight, International Monetary Fund and Wells Fargo Securities

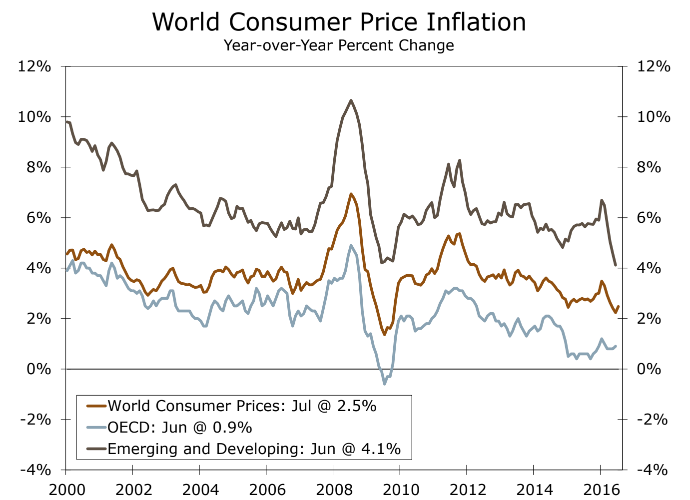
The U.S. economy has entered the seventh year of the current expansion, and we forecast that the modest pace of growth that has characterized the cycle will continue for the foreseeable future. Slow global growth and cutbacks in the energy sector have exerted headwinds on U.S. economic growth, but these factors have not been powerful enough to derail the economic expansion. We look for the Federal Reserve to raise rates further in coming quarters, but the pace of tightening that we forecast is quite slow relative to past tightening cycles.

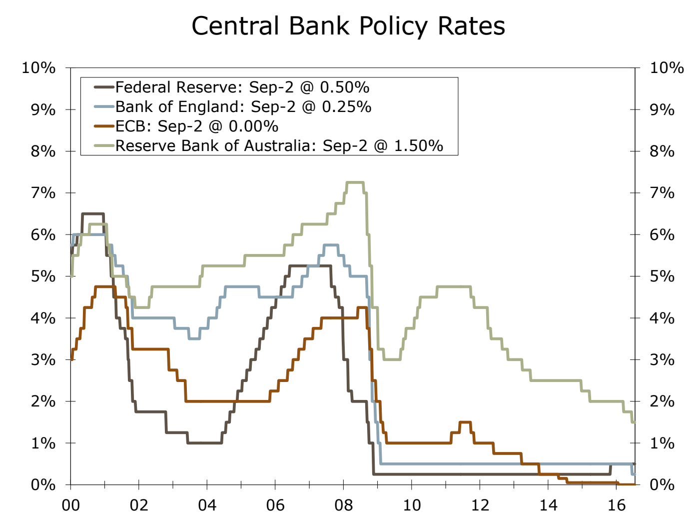
Global GDP has grown at an average rate of 3.5 percent per annum over the past 35 years (Figure 4). However, global growth has fallen short of this long-run average for the past four years, and we forecast that this sub-trend rate of growth will continue in coming years. Slow global growth should produce an environment of depressed commodity prices, benign rates of inflation and low interest rates for the foreseeable future.

World

- Global industrial production (IP) growth continued to grow at a subdued pace through the first half of 2016. Global IP has remained below 2.0 percent for 10 consecutive months, on a year-over-year basis, a trend not seen since 2012. This discouraging trend coincides with the well below-average growth in world export volumes, which have slipped into negative territory year over year.
- Despite generally dovish central banks in both developing and advanced economies, deflation continues to be a growing concern. Negative interest rates are no longer an anomaly as several European central banks and most recently Japan are sub-zero. The ECB's current rate of 0.00 percent and the BOE's 0.25 percent policy rates could potentially be next as the negative effects of Brexit become more pronounced and weigh on growth.
- Developing economies continue to face challenges, including subdued commodity prices and retreating global export growth. Central banks in these countries are hesitant to cut interest rates as past bouts of depreciation have led to run-away inflation, which subsequently weighed on economic growth.
- We expect global growth this year to grow at 2.9 percent and tick up to 3.0 percent in 2017, both rates well below the long-run average of 3.5 percent. Likewise, we expect global inflation to be 3.2 percent in 2016, before increasing 3.4 percent in 2017.



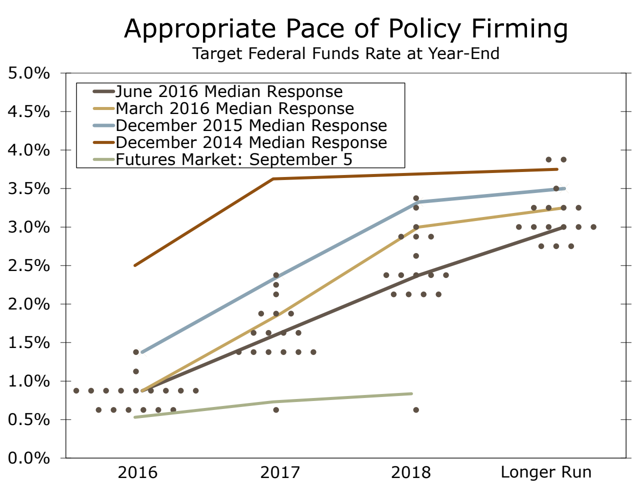


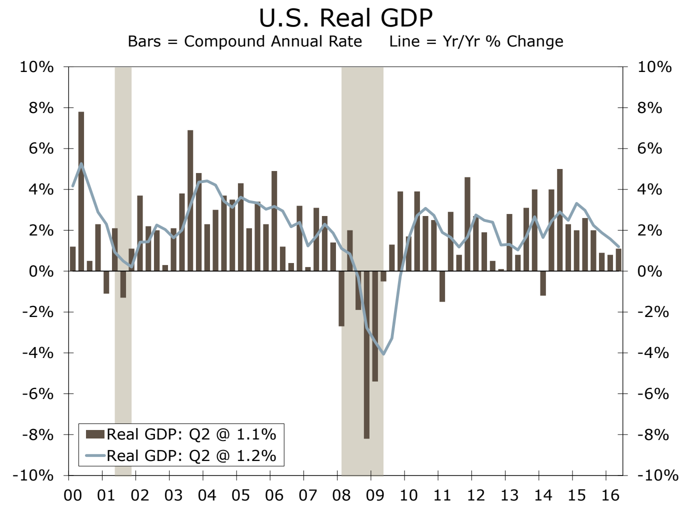


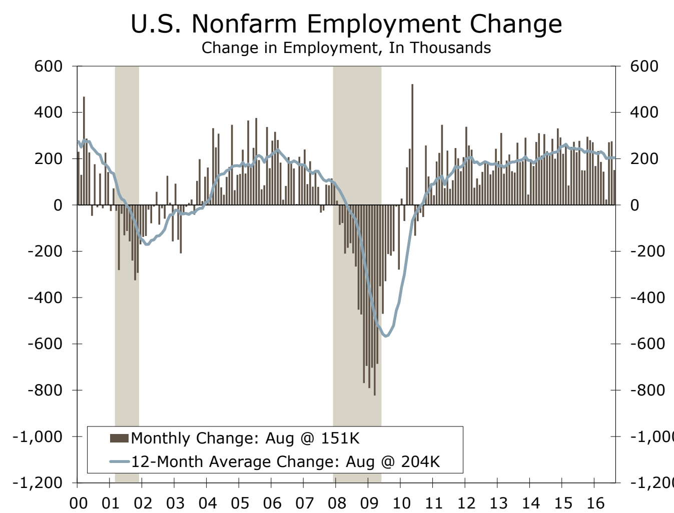
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

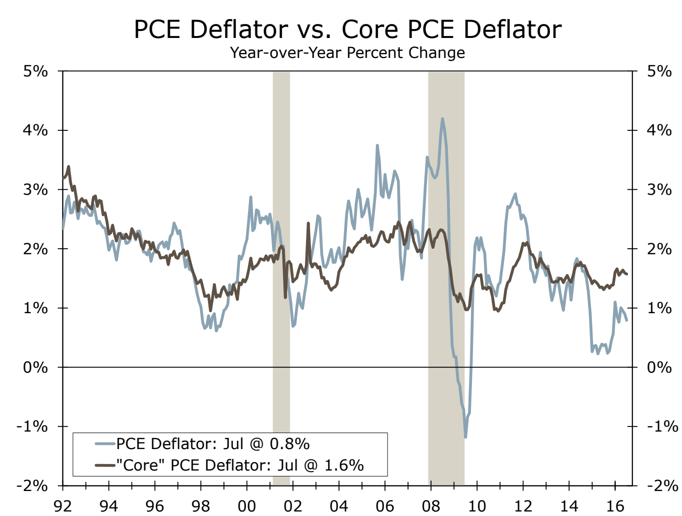
United States

- U.S. economic growth remains unspectacular, expanding a mere 1.2 percent in Q2, year over year. A strong U.S. consumer has been driving the little growth that does exist. Although the U.S. is outperforming many advanced economies, output remains well below its long-term average, even as the labor market is close to full employment. Personal consumption increased 4.4 percent in Q2, but against the backdrop of lackluster global growth, drags from net exports will continue to serve as a headwind for the headline figure.
- While inflation in the broader economy remains subdued, it is edging closer to the Federal Reserve's target of 2 percent. The PCE deflator, the Fed's preferred measure of inflation is currently up 0.8 percent on a year-over-year basis, displaying weakness that can partially be attributed to the collapse in energy prices. However, stronger readings on core PCE inflation, which is now running at 1.6 percent pace, should give the Fed confidence that headline inflation will pick up growth over the medium term.
- Despite unimpressive global growth, slowing global trade patterns and policy easing among many major central banks, the Fed appears committed to its gradual path of higher rates, a path that has proven to be dynamic and highly responsive to incoming economic data. We believe the Fed will hike rates at its December meeting.





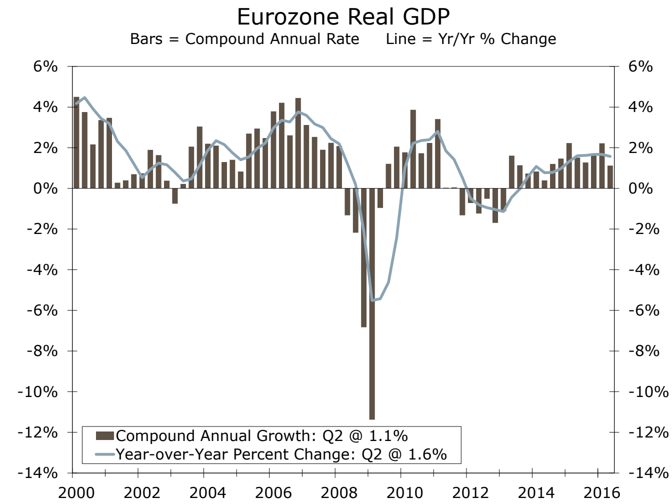


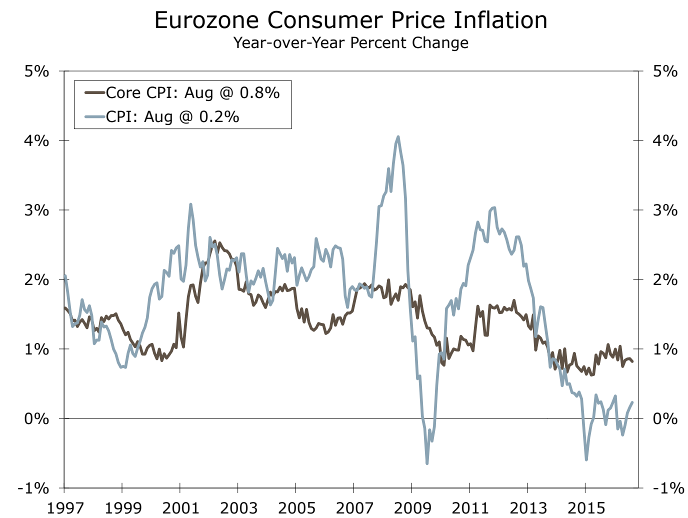


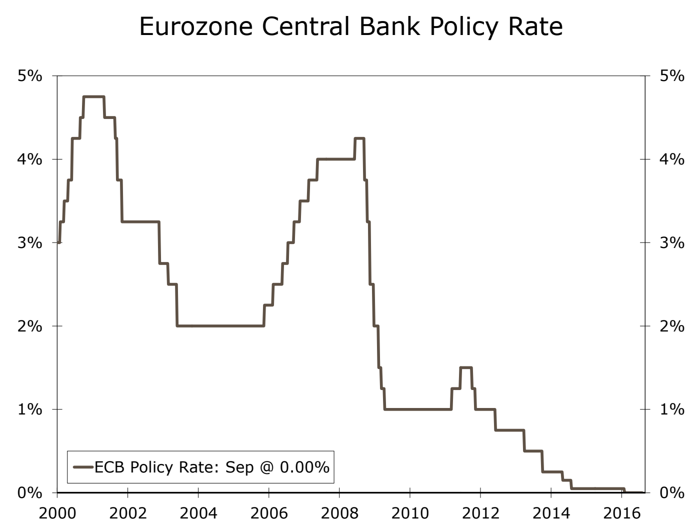
Source: U.S. Depts. of Labor and Commerce, Federal Reserve Board and Wells Fargo Securities

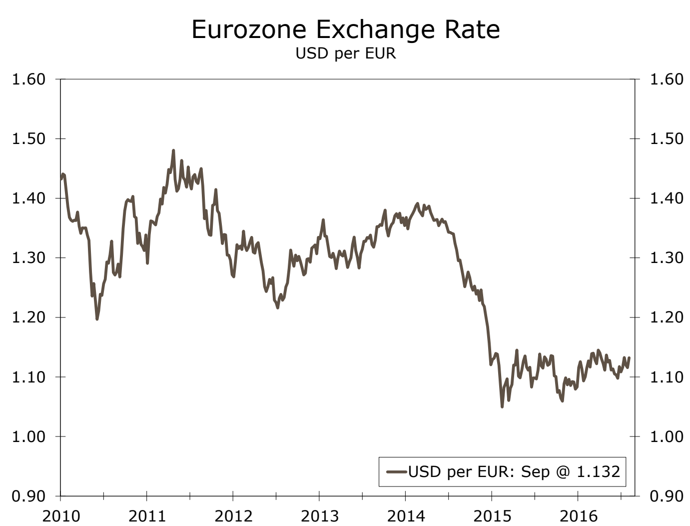
Eurozone

- Economic growth in the Eurozone remained subdued on a year-over-year basis in Q2, expanding 1.6 percent, the same rate as Q1. Construction remains weak and retail sales growth has decelerated year over year since mid-2015. Lackluster domestic demand and added uncertainly surrounding the U.K.'s decision to leave the EU reinforces our view that the Eurozone economy is not set to "break out" any time soon.
- CPI inflation continues to stagnate, slowly emerging from negative territory on a year-over-year basis in recent months. Even with the volatile components of energy and food removed the core rate of inflation remains at less than 1.0 percent, well below the ECB's target. With growth and inflation trends subdued, and confidence surveys muted, disinflationary pressures will likely persist. The unemployment rate has been slowly edging downward; however, with a rate currently at 10.1 percent, the Eurozone has a long way to go to reach pre-recession employment levels.
- In the wake of Brexit, the ECB has held off from adjusting its monetary policy, and while further easing remains a possibility, it does not appear imminent. Our currency team expects the euro to soften against the greenback in the coming quarters, especially as a 2016 Fed rate hike becomes increasingly likely. We forecast GDP growth of 1.6 percent in this year and 1.4 percent in 2017 before picking up to 2.0 percent in 2018.





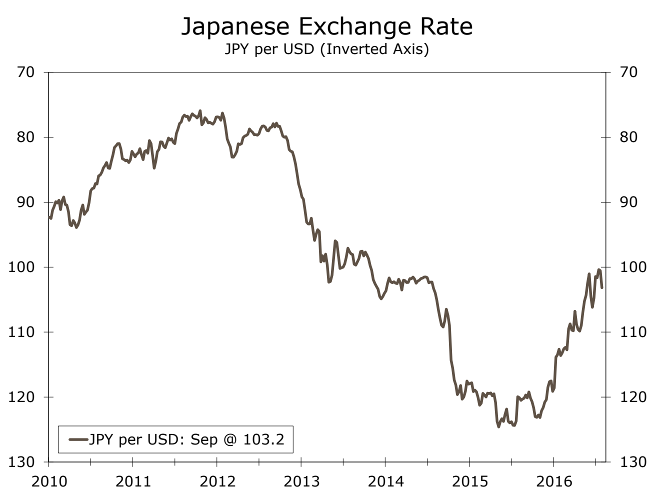


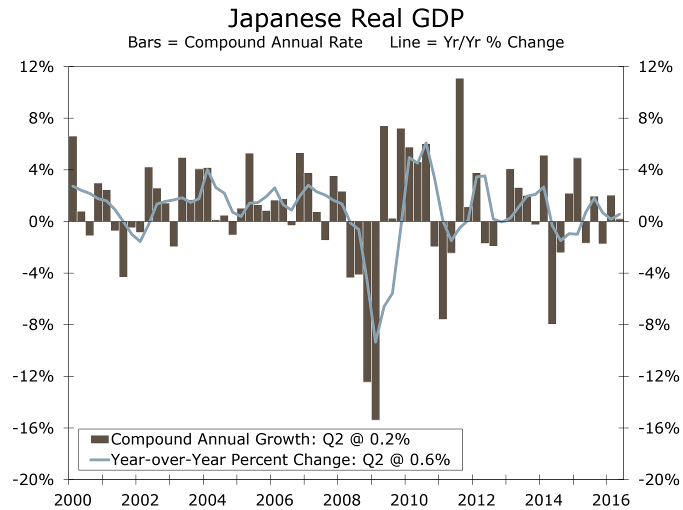


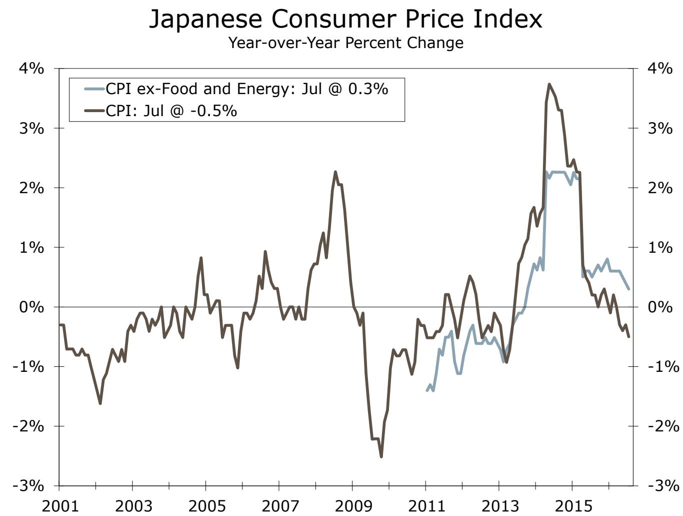
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

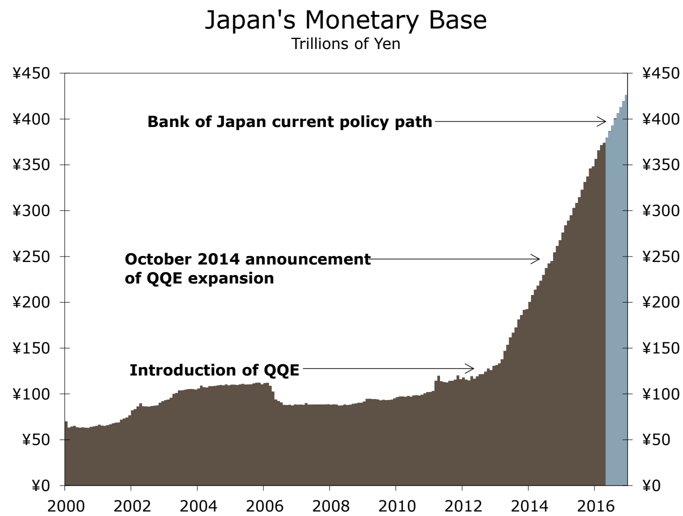
Japan

- Real GDP in Japan expanded at a scant 0.2 percent annualized rate in the second quarter as trade weighed on headline growth. Year over year, growth is not much stronger, rising by a modest 0.6 percent. Japan's economy has grown in a see-saw pattern, between expansion and contraction, since the initiation of Abenomics three years ago. As with the United States, consumer spending has been driving much of Japan's economic growth, whereas, falling imports and exports are resulting in a drag on growth. However, business fixed investment expanded for in Q2.
- At its most recent policy meeting, the Bank of Japan (BoJ) came out with only a small increase in ETF purchases. The bank also left its interest rates unchanged at -0.10 percent. This fell short of the growing expectations of the BoJ to make more drastic changes to its monetary policy accommodation. However, there is a growing view that the BoJ may have a preference to increase quantitative easing rather than negative interest rates, as resulting interest rates have become less negative. The BoJ plans to continue easing until its inflation target is met, noting price pressure concerns.
- That said, headline CPI inflation continues to slow and is down 0.5 percent year over year in June, whereas core inflation remains subdued at just 0.4 percent, reinforcing the need for further action. However, on an encouraging note, real wages are now growing at its fastest pace since 2010.





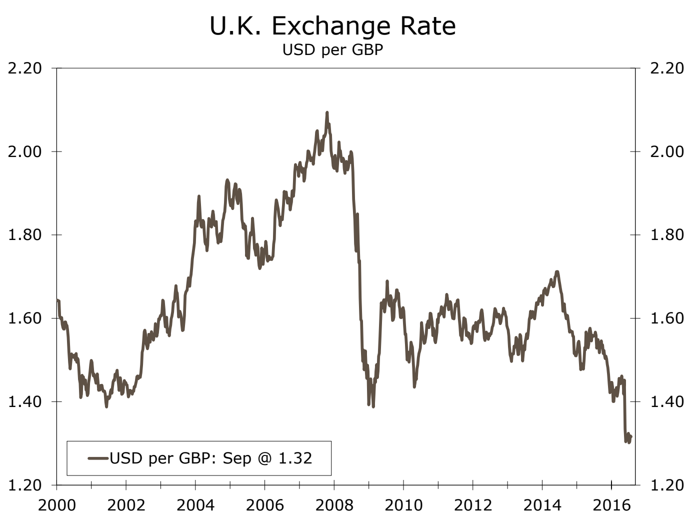


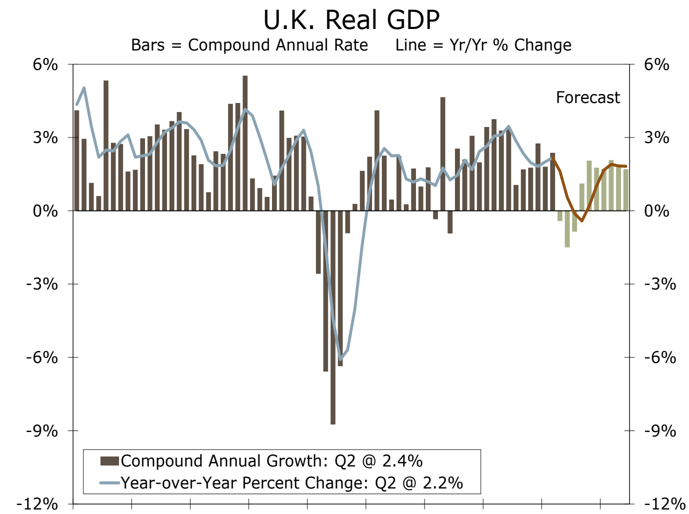


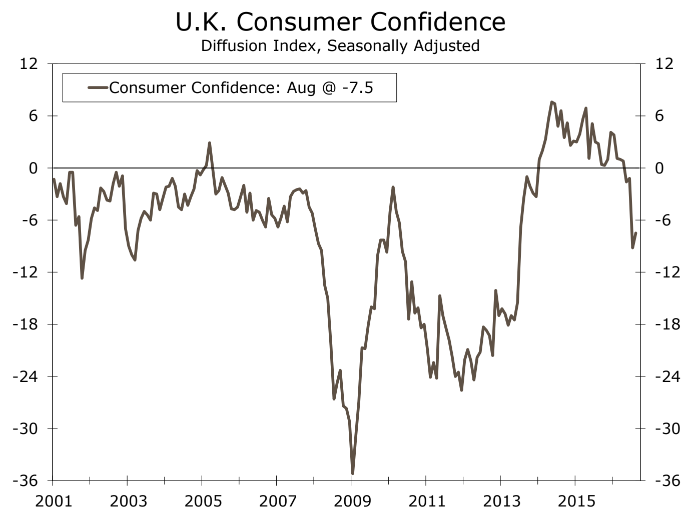
Source: IHS Global Insight, Bloomberg LP, Bank of Japan and Wells Fargo Securities

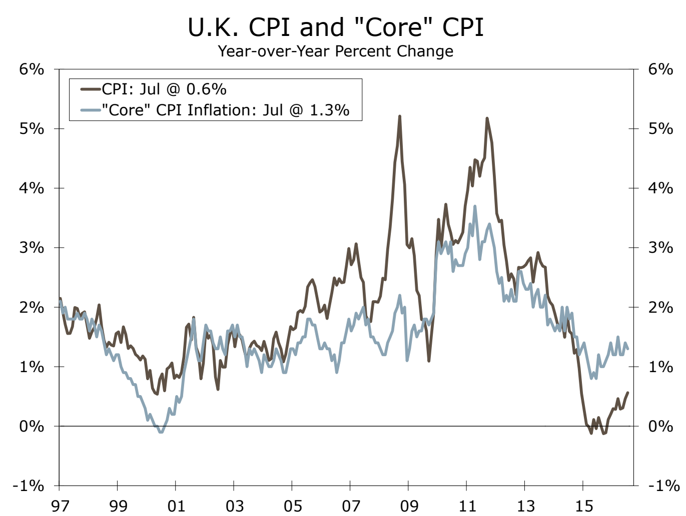
United Kingdom

- On the surface, the United Kingdom appears to have emerged from Brexit without suffering a detrimental economic setback. Real GDP grew 0.6 percent (not annualized) on a sequential basis in the second quarter. However, the economic outlook has deteriorated significantly since voters decided to leave the EU in the June 23rd referendum. Uncertainty surrounding the timing of the impending exit as well as the future of their trade agreements and immigration rules will continue to discourage investment spending in the U.K.
- In response to the deteriorating outlook, the Monetary Policy Committee (MPC) cut its benchmark policy rate by 25 bps to 0.25 percent from 0.50 percent. The MPC expanded the size of its government bond buying program, which now includes corporate bonds. The British pound, which has been under enduring pressure since the referendum result and subsequent policy rate cut, has plunged over 10 percent against the dollar. The BOE's next policy rate decision will be announced on Sept. 15. Continued accommodative monetary policy should lift the overall CPI inflation rate, at least in the near term, due to higher prices of imported goods.
- As we have written, we believe the British economy is slipping into a modest recession. We look for real GDP in the U.K. to fall a bit more than 1 percent on a peak-to-trough basis over the next three quarters as a result of a sharp pullback in investment spending.





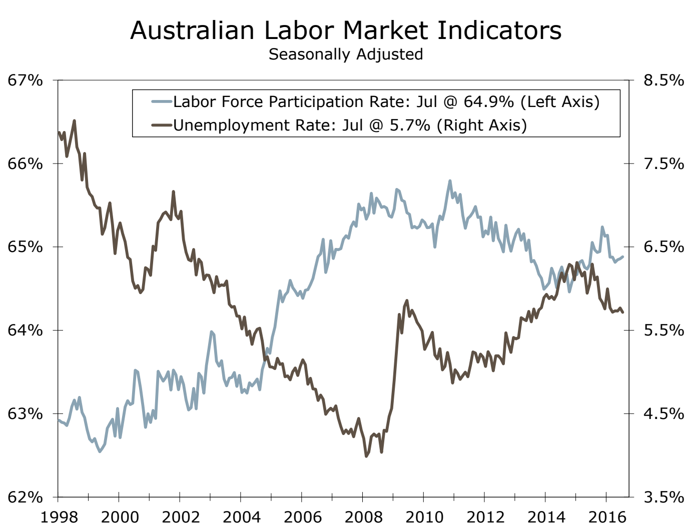


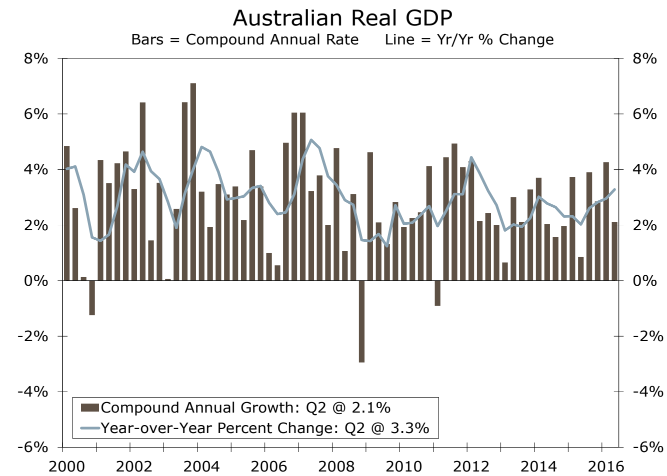


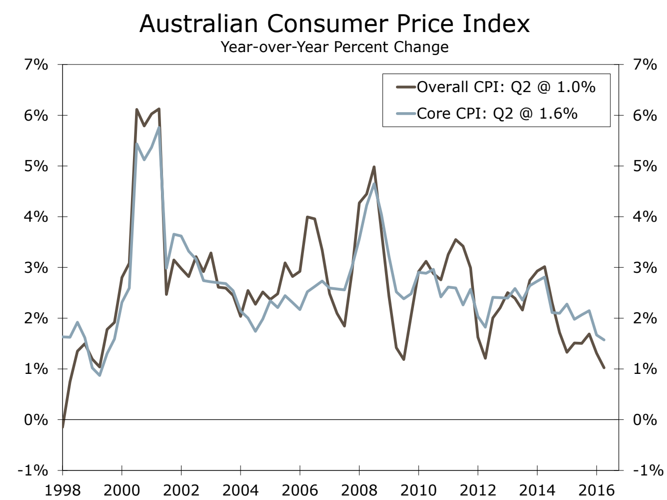
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

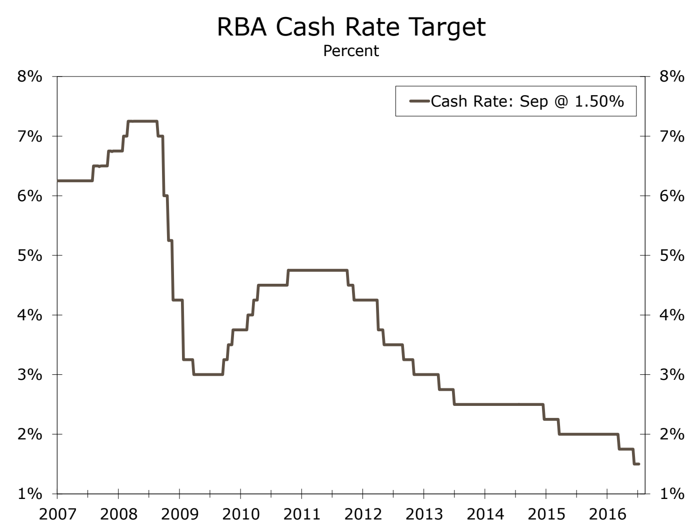
Australia

- The Australian economy grew a modest 0.5 percent on a sequential basis in Q2, marking 25 years of the economy going without a recession—a rare feat for a developed country. The economy is trying to move away from mining-dependent growth as the global slump in commodity prices has been a slight drag on GDP. Furthermore, currency pressures remain one of the largest threats to Australia's economic outlook as many of its key service sectors, such as education and tourism, are sensitive to exchange rates.
- Meanwhile, the lift in part-time employment has more than likely overstated the strength of Australia's labor market. This shift could also represent a larger structural shift in the labor force as many of the jobs created are in service-oriented occupations and have slower wage growth.
- The Reserve Bank of Australia (RBA) opted to leave its cash target rate unchanged at 1.50 percent in September. Australia's economic growth fundamentals are fairly strong, which should reduce the need for near-term central bank easing, in addition to subtle growth in labor costs and low cost pressures globally. Over time, however, the RBA will more than likely cut rates again, as policymakers contend with underwhelming growth and slower household consumption, despite a tight labor market and as the U.S. Fed increases rates. That said, the RBA's low interest rates could be beneficial in boosting demand home purchases and residential construction.





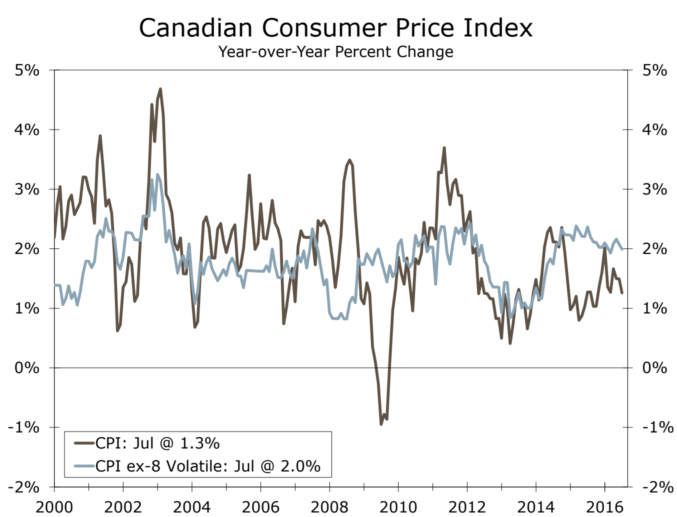


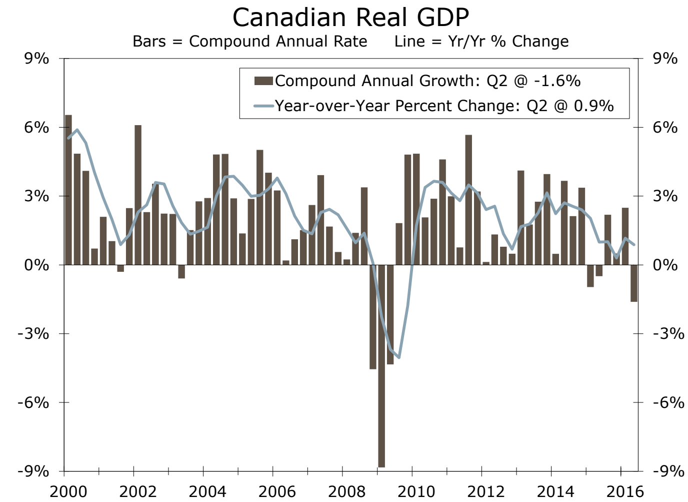


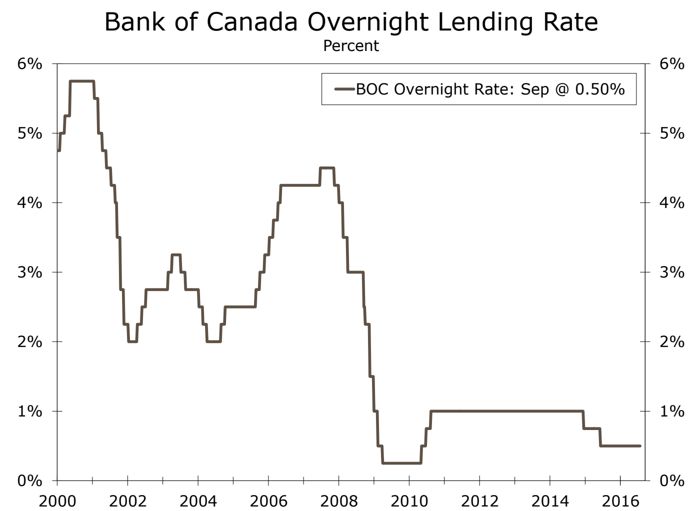
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

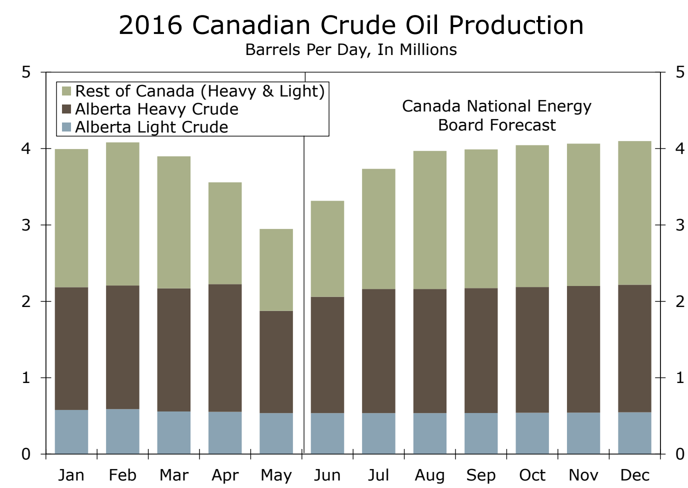
Canada

- After growing by a 2.4 percent annualized rate in Q1, the Canadian economy contracted at a weaker-than-expected annualized rate of 1.6 percent in Q2. The economy was weighed down by an enormous drag from net exports. Canadian crude oil production also remained constrained from May's wildfires in Alberta. Canada's National Energy Board forecasts crude oil productions will rebound later this year.
- Canadian consumers continued to spend in Q2. Personal consumption has been a steady growth driver this economic cycle, but might not be as sustainable as once thought as household consumer debt as a share of GDP fast approaches 100 percent—97.3 percent in Q2. The decrease in consumer demand more than likely is due to the deteriorating labor market dynamics in recent months, as multiple months of drops in full-time employment dampens growth. However, improvement in the employment component of the Ivey PMI may signal a pickup in hiring in coming months.
- Headline inflation has slowed to 1.3 percent in July, and core inflation is at 2.1 percent, still within the Bank of Canada's (BoC) target range of 1 percent and 3 percent. The BoC can leave its overnight lending rate unchanged without much pressure to move in either direction. Looking ahead, however, if the inflation rate continues its trend lower, we would not rule out the possibility of another rate cut.





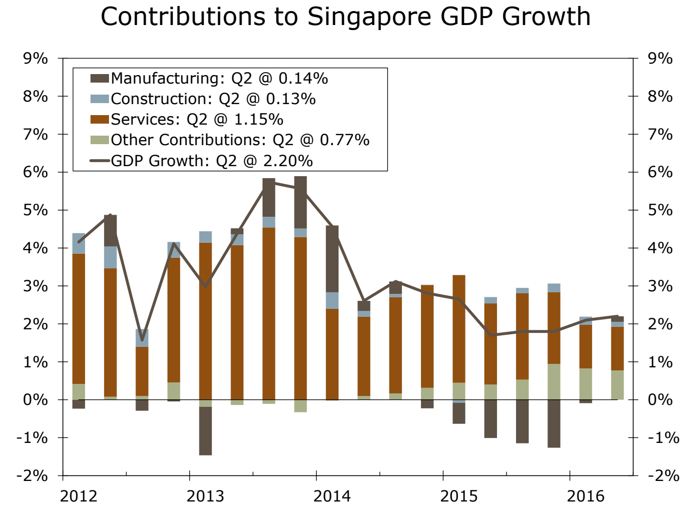


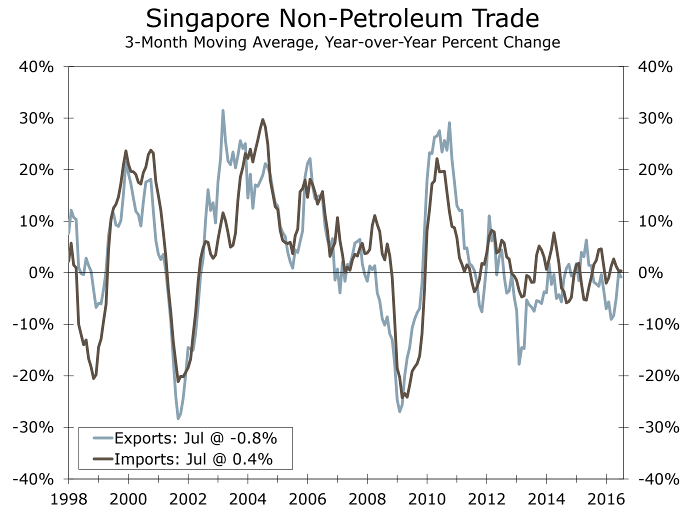


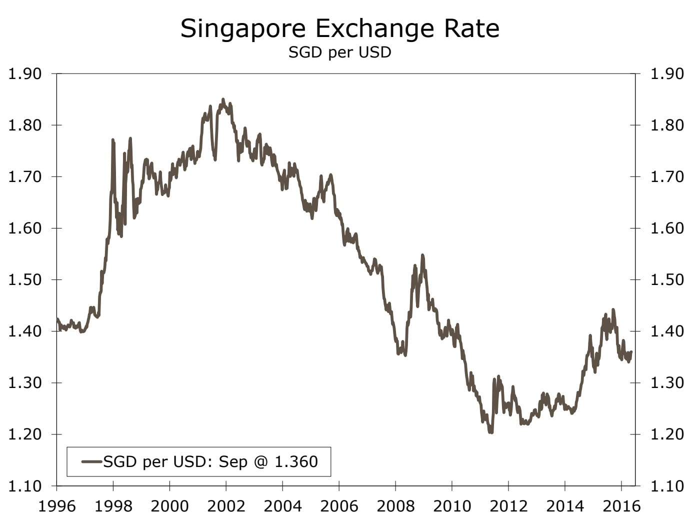
Source: IHS Global Insight, Bloomberg LP, National Energy Board and Wells Fargo Securities

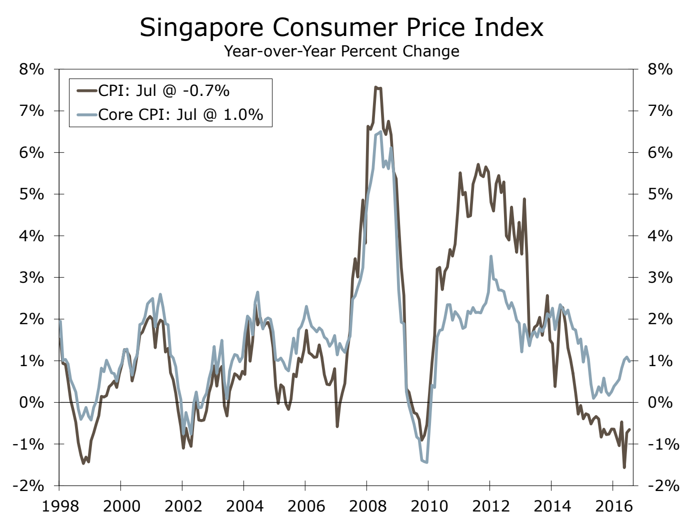
Singapore

- Real GDP in Singapore grew 2.2 percent on a sequential basis in Q2, essentially unchanged from the first-quarter rate. Real GDP has grown about 2 percent or so for the past year, and while growth does not appear to be slowing much, it does not seem to be accelerating either.
- When examining the Singaporean economy by industry sector, it is evident that the manufacturing sector is no longer acting as a drag on overall GDP growth as it had done for the previous six quarters. However, with global export activity expected to remain subdued in the coming quarters, we do not expect a significant increase in domestic manufacturing activity in the Lion City. Singapore's slow rate of economic growth has put downward pressure on the overall CPI inflation, which is presently in negative territory. The core rate of inflation has recently trended higher, but at less than 2 percent over the last two years, an inflationary breakout is doubtfully around the corner.
- The U.S. dollar is up about 8 percent versus the Singaporean dollar since mid-2016. Although the greenback has given up some of its gains vis-à-vis the Sing dollar so far this year, our currency team looks for the U.S. dollar to appreciate modestly against its Singaporean counterpart in coming quarters as the Fed's rate hikes come back on the table.





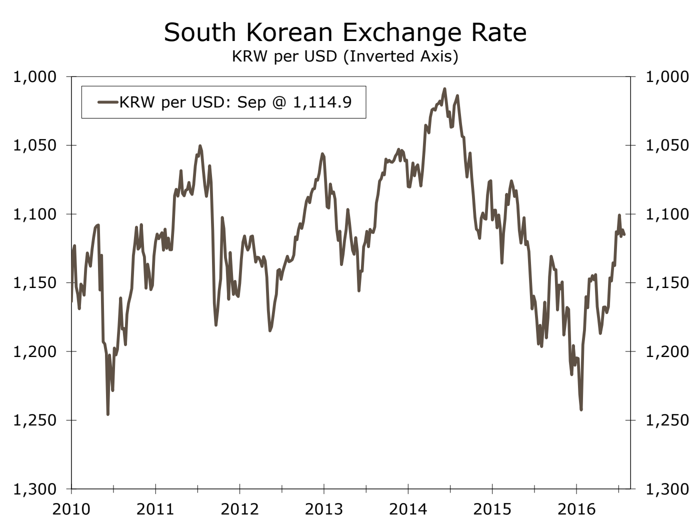


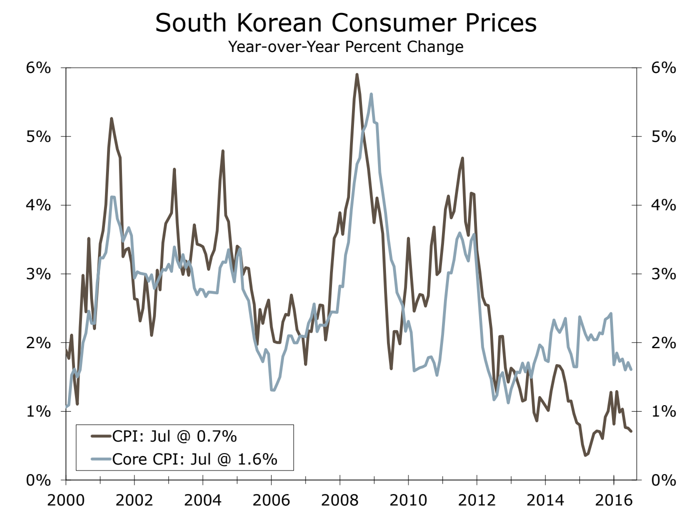


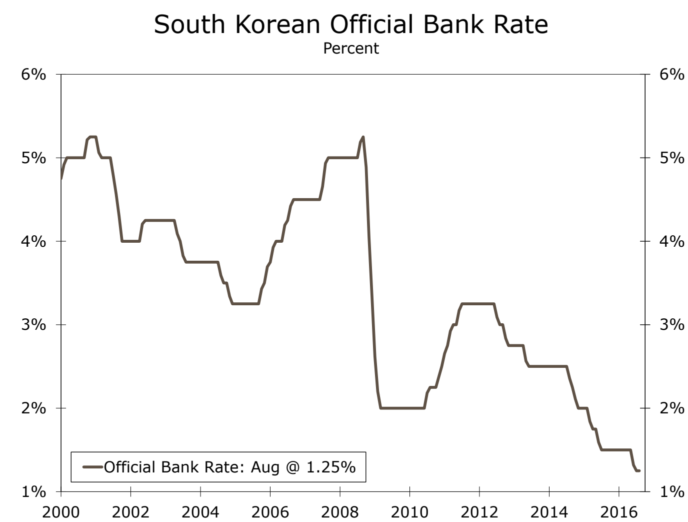
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

South Korea

- Economic growth in South Korea picked up in the second quarter, as real GDP rose 0.7 percent (2.9 percent annualized) on a sequential basis. Year over year, growth advanced to 3.1 percent from 2.8 percent in the prior quarter and remains ahead of its 2015 pace.
- Korean economic growth has been spurred by a pickup in domestic consumption and the service industry (bolstered by tourism). The country's exports registered their first increase in more than 20 months in August, on a year-ago basis. However, tepid growth in China and cheaper oil still weigh on exports.
- Inflationary pressures in South Korea remain well below the central bank's 2 percent target as core inflation held steady at 1.6 percent. Headline CPI inflation trended lower to 0.7 percent year over year, as the government unexpectedly lowered electricity fees in response to soaring energy demand from the above-average hot weather.
- At its most recent meeting in August, the Bank of Korea (BoK) kept interest rates unchanged at 1.25 percent as policymakers watch the effects of existing stimulus measures, but the current state of global trade has kept the possibility of a rate cut later this year on the table. However, meaningful and more inclusive labor market reform will need to be implemented to encourage growth and counteract an aging population and declining birthrate.



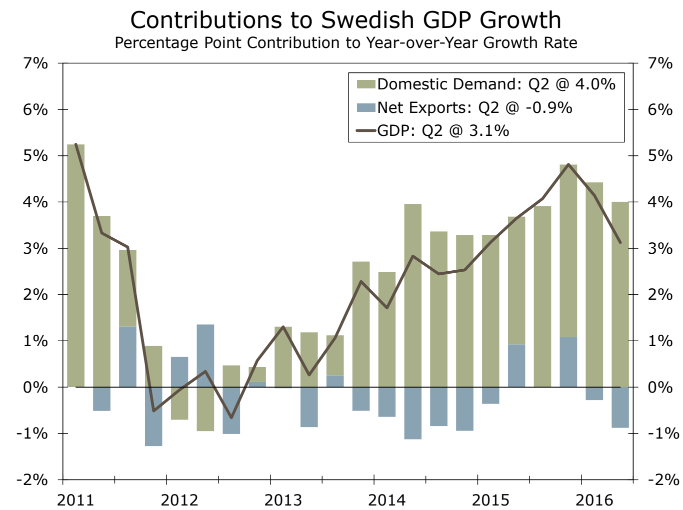


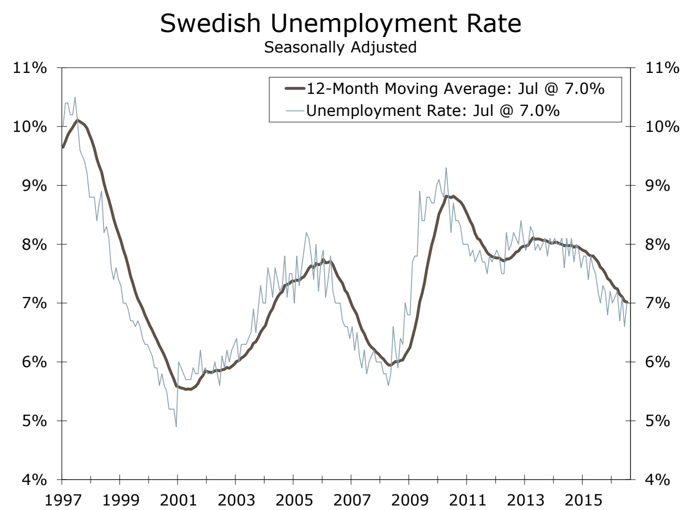


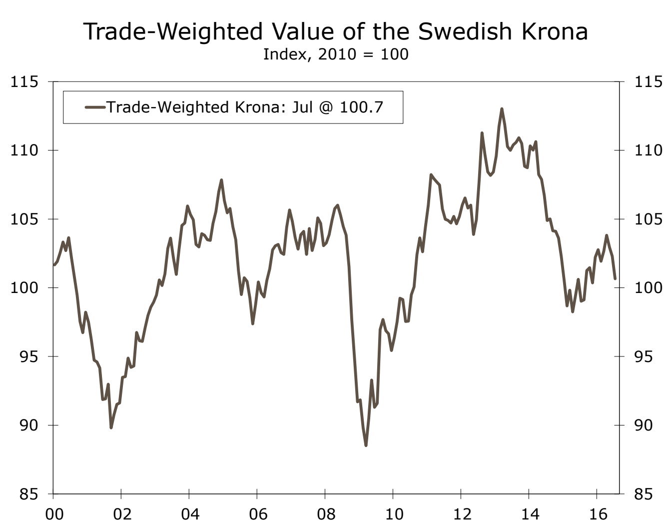
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

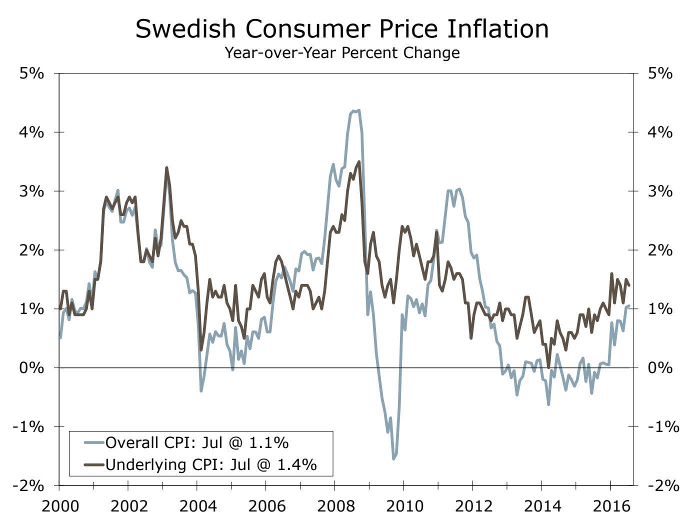
Sweden

- Real GDP in Switzerland rose 3.1 percent year over year in Q2, driven by domestic demand, which remains robust. Despite impressive year-over-year growth, real output growth has slowed for two consecutive quarters. Net exports are again a drag on Swedish economic growth and fixed investment growth came to a halt in the most recent quarter. Solid growth notwithstanding, we believe a fair amount of spare capacity exists in the economy as seen by an unemployment rate that remains elevated, at least relative to the end of the previous cycle.
- Weak inflationary pressures have continued to plague the Riksbank's ability to hit its 2 percent inflation target. However, CPI inflation has been trending upward in recent months, rising 1.0 percent year over year in June. The Riksbank's main policy rate, the repo rate, remains negative at -0.50 percent, where it has been since February of this year.
- With nominal imports equivalent to roughly 40 percent of nominal GDP, appreciation of the Swedish Krona, if sustained, could make achieving the 2 percent inflation target a trying task. However, the Riksbank has signaled its readiness to ease policy further if conditions warrant, which leads us to expect the krona to depreciate modestly versus the U.S. dollar in coming quarters, especially as positive incoming U.S. data increase the likelihood of a 2016 Fed rate hike.







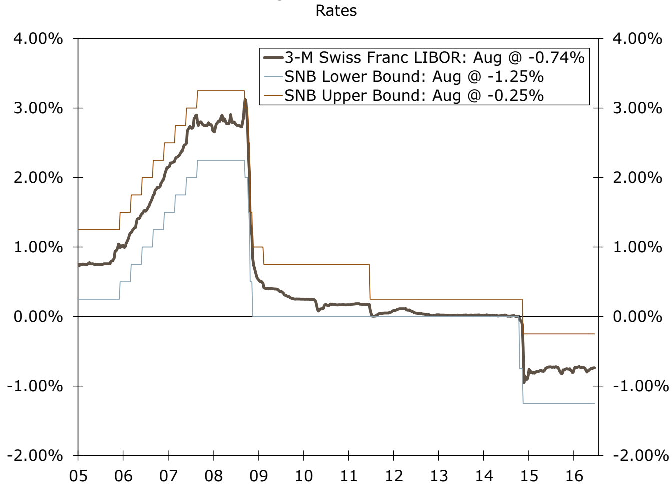


Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

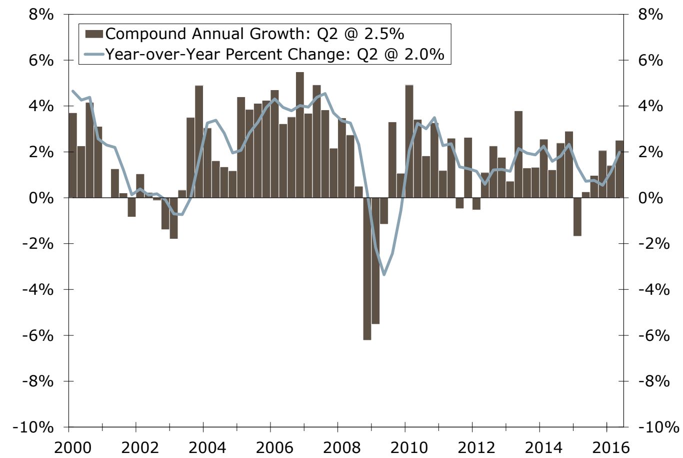
Switzerland

- Real GDP in Switzerland rose 0.6 percent (2.5 percent annualized rate) on a sequential basis in the second quarter. The impressive headline figure masks the underlying dynamics that point to weak domestic demand. Quarter-over-quarter, private consumption stagnated as household consumption was flat. Imports of services fell 1.1 percent on the quarter, which helped boost the headline growth figure but underscored weakness in domestic demand.
- Against the backdrop of weak economic growth, it comes as no surprise that inflationary pressures remain absent and deflationary effects continue to persist. The negative monthly CPI readings on a year-over-year basis since late 2014 reflect, at least in part, the collapse of energy prices. However, core CPI has slipped into negative territory over this period as well. Likewise, the Swiss franc, which is up about 10 percent on a trade-weighted basis since the end of 2014, has also added downward pressure on the overall rate of inflation.
- To combat the negative effects of a strong Swiss franc, which has proven to be a headwind for Swiss exports, the Swiss National Bank has cut its policy rates into negative territory. The central bank remains dovish, indicating space for further easing. Policymakers reiterated willingness and the ability to intervene to restrain the franc strength. Our currency team expects the Swiss franc to soften versus the euro and decline against the greenback in the coming quarters as benign global growth should decrease haven-demand for the Swiss currency.

SNB Target LIBOR Corridor
Rates

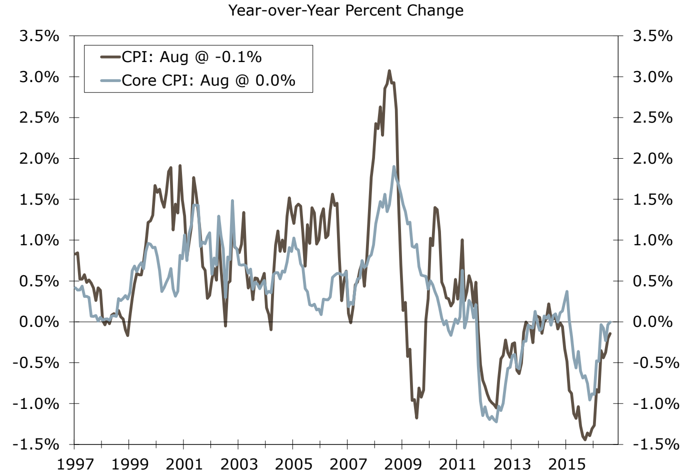


Swiss Real GDP
Bars = Compound Annual Rate, SA Line = Yr/Yr % Change, NSA



Swiss Franc Exchange Rates
Index, Jan 1, 2011 = 100

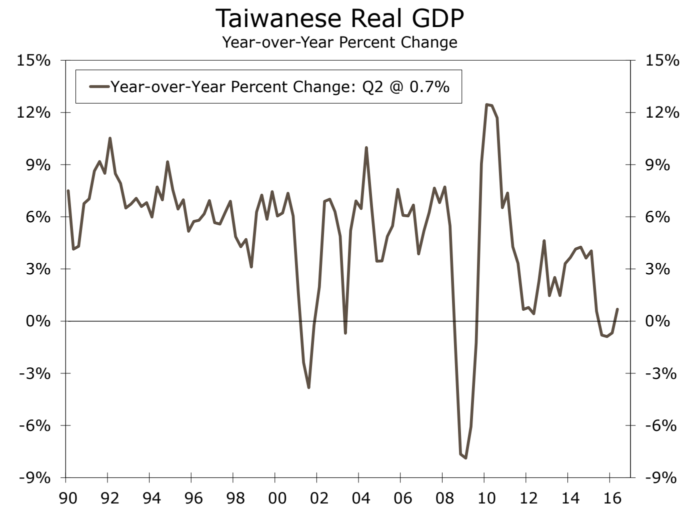
Swiss Consumer Price Index
Year-over-Year Percent Change

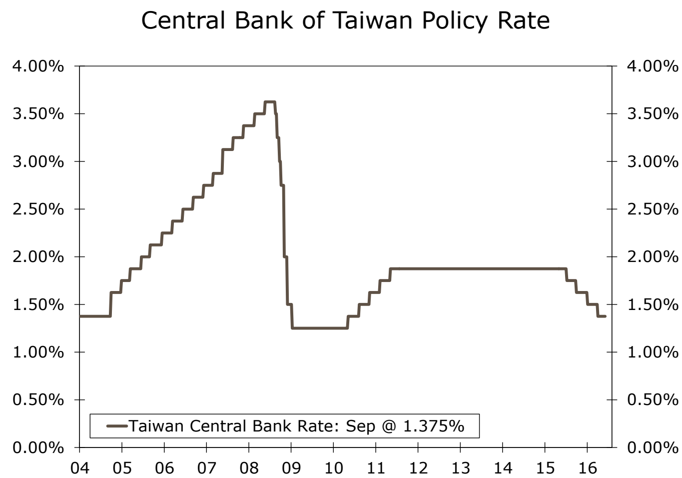


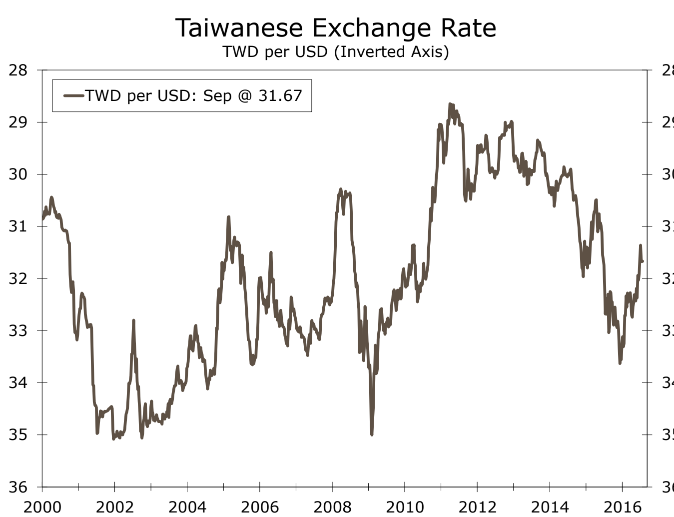
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

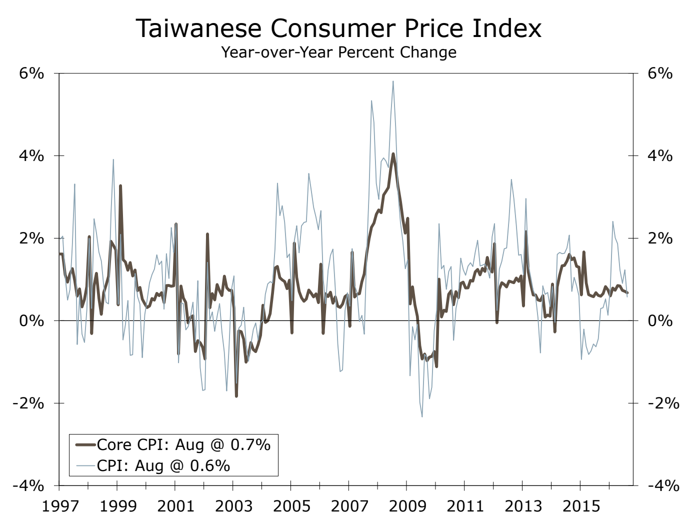
Taiwan

- Taiwan's economic performance has improved modestly with growth recently returning to positive territory after three consecutive quarters of contraction. Second-quarter GDP grew at a 0.7 percent year-over-year rate, following a decline of 0.7 percent in the previous quarter. Weak export growth, as result of sluggish global demand, contributed to Taiwan's soft growth numbers. The economic slowdown in China, Taiwan's most important trading partner, has dulled exports from Taiwan, a trend likely to continue. Fixed investment continues to stagnate in the island nation, with spending levels essentially unchanged from 2013.
- Soft domestic demand has weighed on price inflation and has given the central bank reasons for continued monetary easing. The central bank reduced its policy rate to 1.375 percent from 1.875 percent last September and maintains a dovish bias, noting increased downside risks to trade and economic growth. Despite subdued economic growth and an accommodative monetary policy, the Taiwan dollar is at its strongest level in more than a year; sizable foreign inflows into Taiwan's equity markets are driving recent currency strength. However, our currency strategy team believes the Taiwan dollar's relatively strong performance so far this year is unlikely to persist as foreign inflows become weaker.





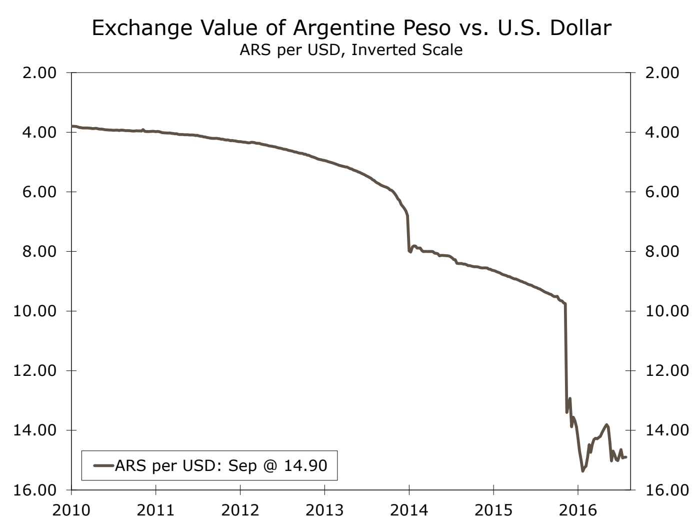


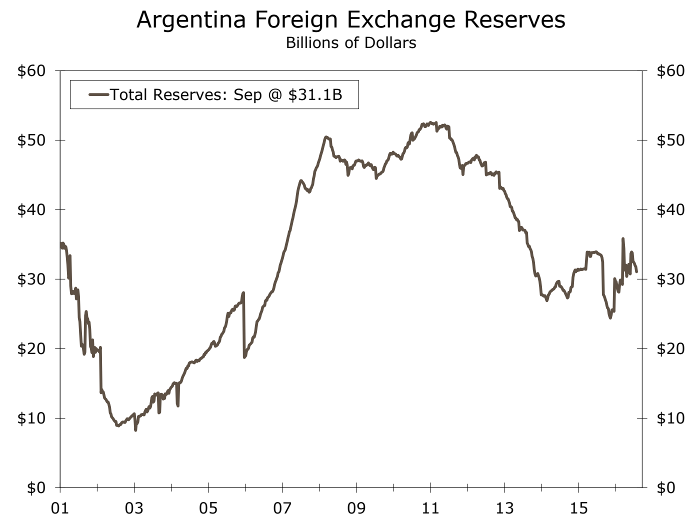


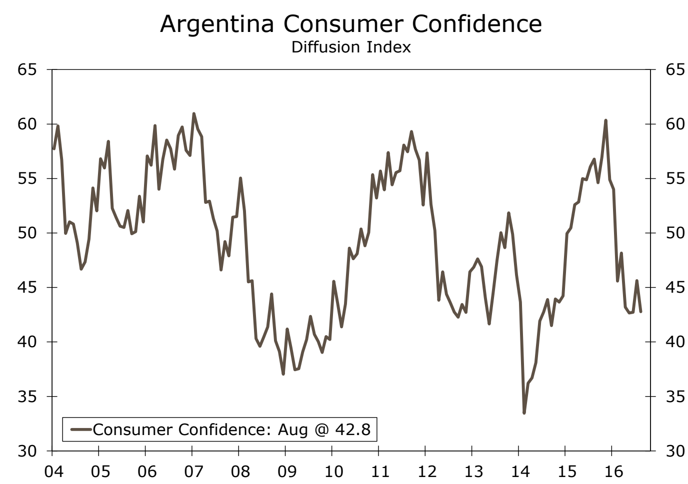
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

Argentina

- The release for first quarter GDP results for the Argentine economy also included a revision of economic numbers since the GDP series was rebased in 2004. New revisions from Argentine's statistical institute, INCDEC, showed that the country's economy was not as positive as previously reported. Furthermore, the economy grew only 0.5 percent during the first quarter of 2016 year over year, while falling 0.7 percent on a seasonally-adjusted basis compared to Q4 2015.
- The Argentine economy recorded a negative growth rate in Q2 due largely in part to the removal of subsidies for utility consumptions. The economy dropped 0.3 percent in June, compared to May, after two consecutive declines of 0.7 percent in April and May. On a year-over-year basis the economy plunged 4.3 percent in June and was down 1.3 percent during the first half of the year compared to the year-ago period.
- The Argentine peso has performed weaker than the currency of other Latin American countries. The peso's weak performance follows the swift reform of President Mauricio Macri, elected last December, including the devaluation and liberalization of the exchange rate, the elimination of most capital controls and a reduction of consumer utility and transportation subsidies. This also led the central bank to raise interest rates.



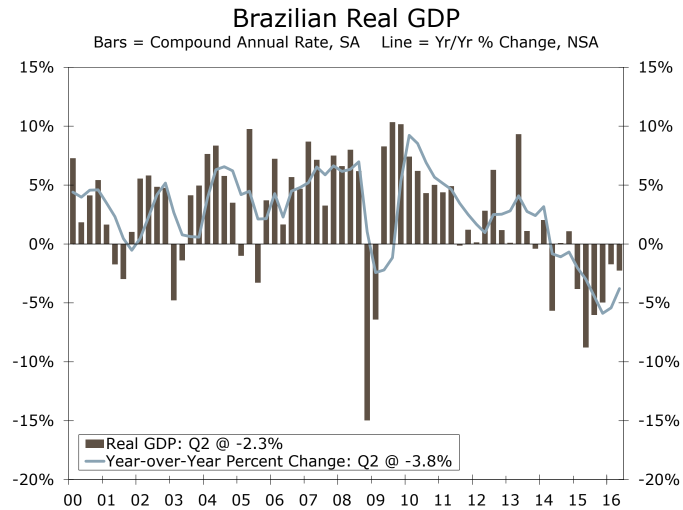


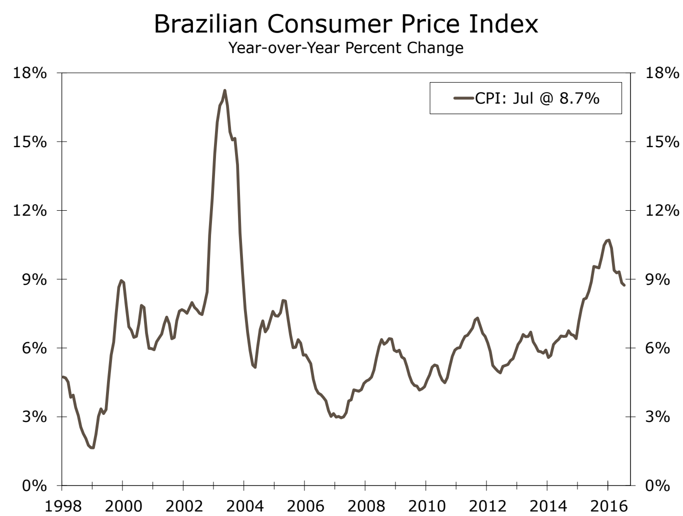


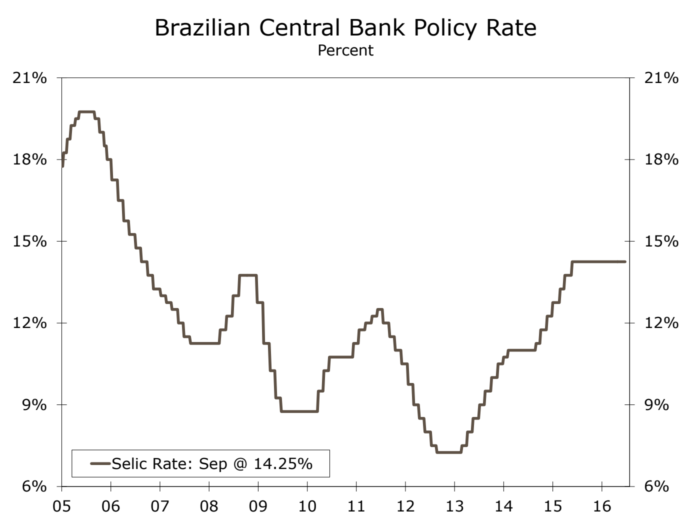
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

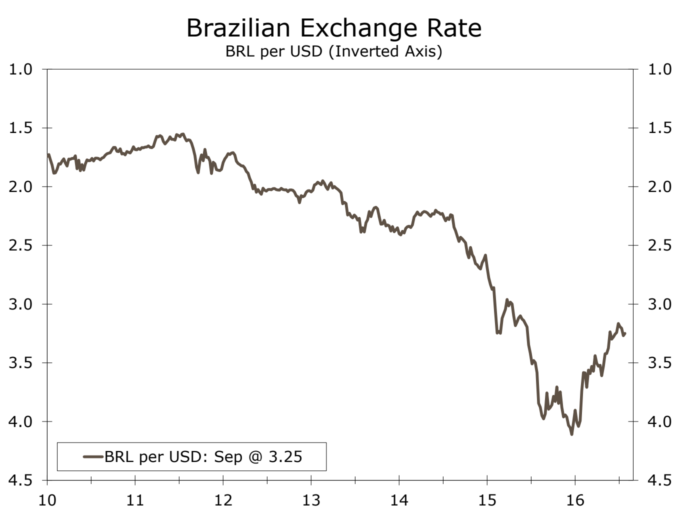
Brazil

- The Brazilian economy has been facing growing issues as a corruption scandal undermines the credibility and political stability and deepens the recession. Brazil's GDP has contracted for six consecutive quarters and is down 3.8 percent in Q2 on a year-ago basis, after shrinking 5.4 percent in Q1. Decline in growth has led to a surge in the unemployment rate and an increase in the budget deficit. However, we believe the Brazilian economy is showing signs of turning around as consumer confidence increases. That said, we are forecasting GDP growth to contract at a 3.4 percent pace in 2016 before rebounding to 1.0 percent in 2017.
- In a historic vote, Brazil's Senate elected to impeach President Dilma Rousseff, making Michel Temer the new president of Brazil (until the next election in 2018), giving him the power to enact much needed new reform.
- Brazil hosted the Olympics in Rio; however, any positive economic benefit is expected to be limited and short-lived. Even with the Olympics, the World Travel & Tourism Council still predicts that visitor traffic to Brazil will be down 1.6 percent from a year earlier as growing health concerns about the Zika virus and its long-term effects hamper tourism.
- Brazil's central bank has held its Selic rate constant at 14.25 percent under the new central bank President Goldfajn. Policymakers said that that there is no room for easing monetary policy at this time.





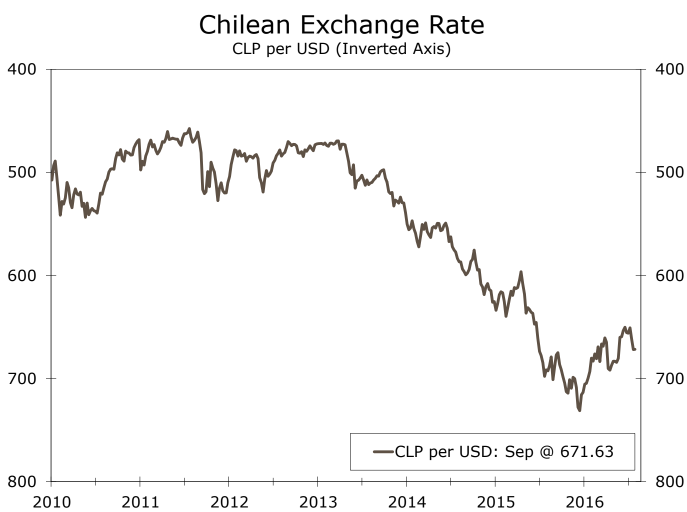


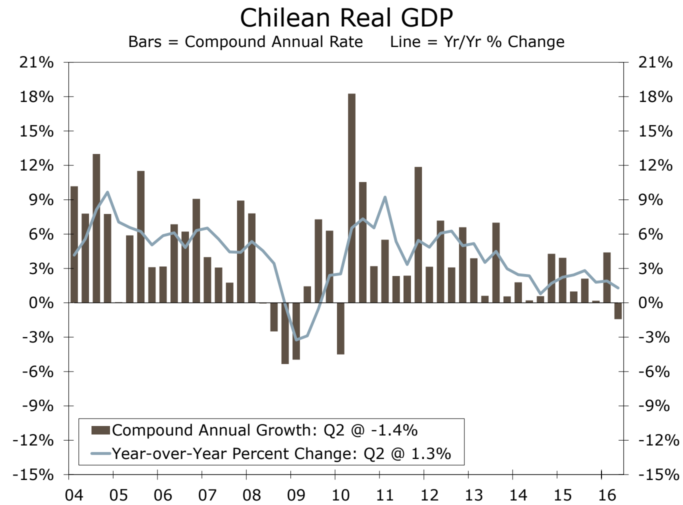


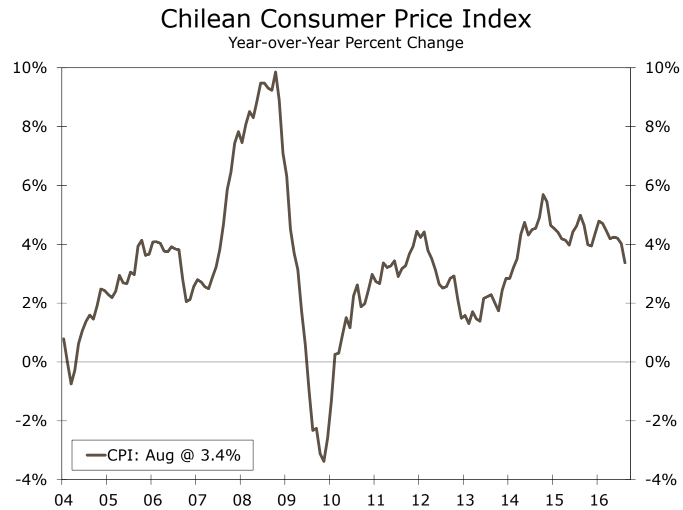
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

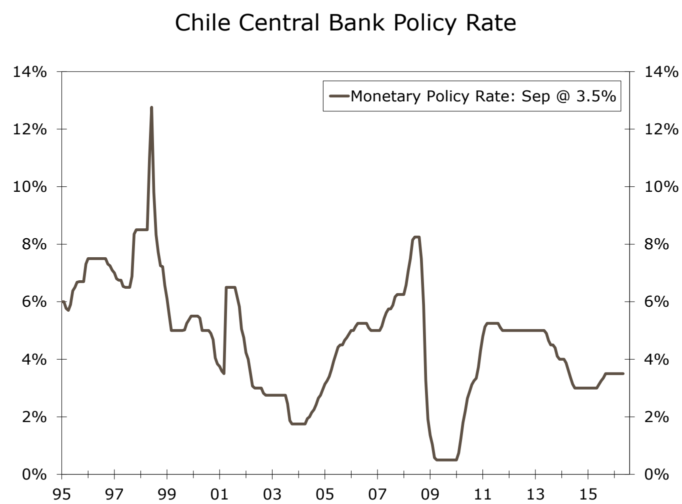
Chile

- The Chilean economy struggled in Q2 as the South American mining-dependent economy declined 0.4 percent—a low not seen since early 2010. Chile's copper exports, which account for nearly 15 percent of GDP, are down 2.4 percent year over year. Much of this is due to the large draw back in major construction projects in China. Conversely, the recent rebound in copper prices could prove to be a major boost to the economy if the rally continues.
- Rising unemployment is weighing on consumer spending, resulting in falling retail sales. Meanwhile, even as growth has been subdued, inflation has generally remained above or near the central bank's 2 percent-4 percent target range, coming in at 4.0 percent year over year in July—hurting consumers' purchasing power. Above-target inflation resulted in a rate hike by the central bank late last year to 3.5 percent. Since then, the bank has held its main policy rate constant in 2016, but has noted that future hikes may be necessary depending on the path of inflation.
- Since its launch nearly 35 years ago, Chile's privatized pension plan has seen returns dwindle over each decade, leaving many retirees with a less-than-promised or inadequate retirement income. Chile's current President, Michelle Bachelet, is proposing a hike in contributions made by employers to make up for some of fund's current short falls; however, this idea is being met with opposition.







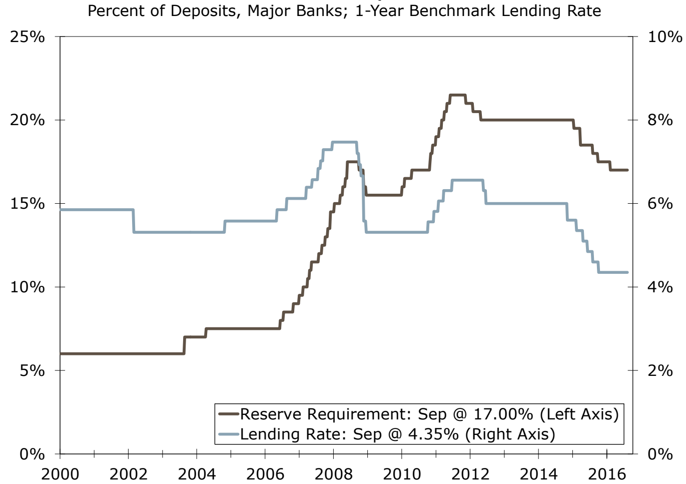


Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

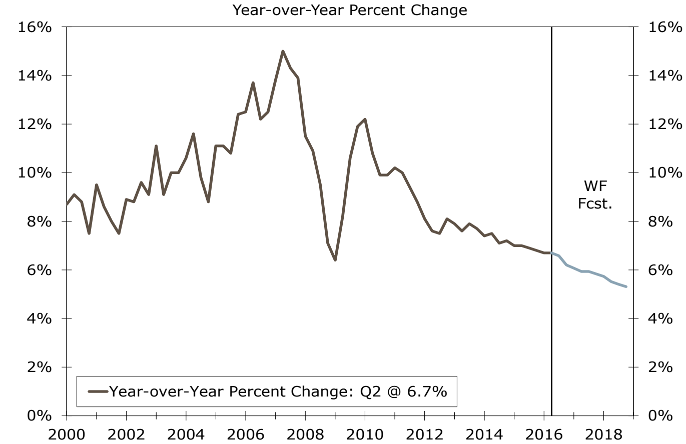
China

- Real GDP grew 6.7 percent in the second quarter on a year-over-year basis, unchanged from Q1 but surpassing the consensus forecast. Growth in the "secondary" sector, which combines the industrial and construction sectors, strengthened to 6.1 percent from 5.8 percent. The recent stability in the industrial sector appears to reflect renewed strength in Chinese exports. Moreover, consumer spending seems to have remained resilient as growth in nominal retail spending stayed above 10 percent in the second quarter. That said, growth in overall investment spending appears to have slowed further.
- Although the equity stock market collapse last fall had many analysts worried about the economic health of China, the economy seems to have achieved a "soft landing." Supercharged, double-digit economic growth rates are not likely in the foreseeable future due to continued deceleration in investment spending in China. Relative stability in the exchange rate and in the level of foreign exchange reserves in recent months suggests that the surge of capital outflows that occurred last year has slowed.
- Looking ahead, however, we remain concerned about the long-run outlook for the Chinese economy. Structural issues, such as the Chinese government's willingness to keep struggling state-owned enterprises afloat have the potential to weigh on productivity while misallocating capital to less dynamic firms. We expect Chinese economic growth to slow even further over time.

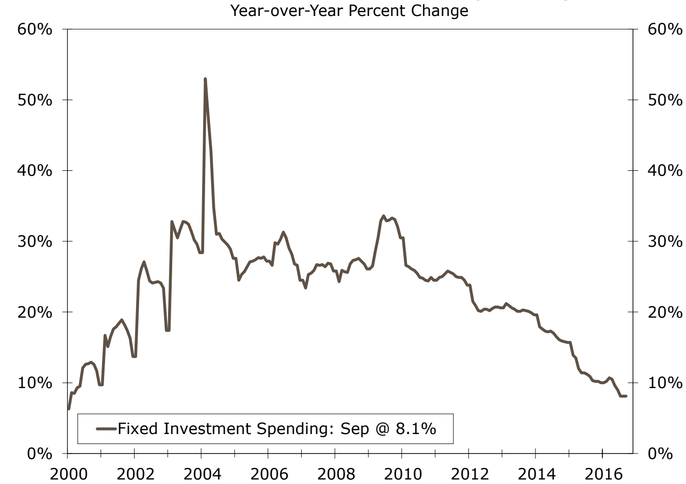
Chinese Monetary Indicators
Percent of Deposits, Major Banks; 1-Year Benchmark Lending Rate



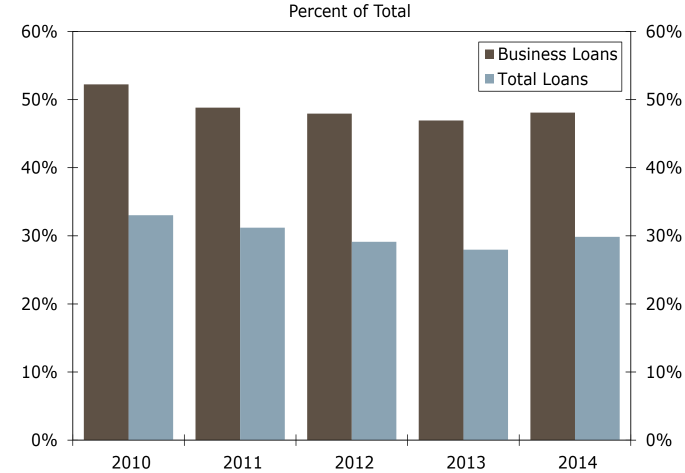
Chinese Real GDP Forecast
Year-over-Year Percent Change



Chinese Fixed Investment Spending
Year-over-Year Percent Change



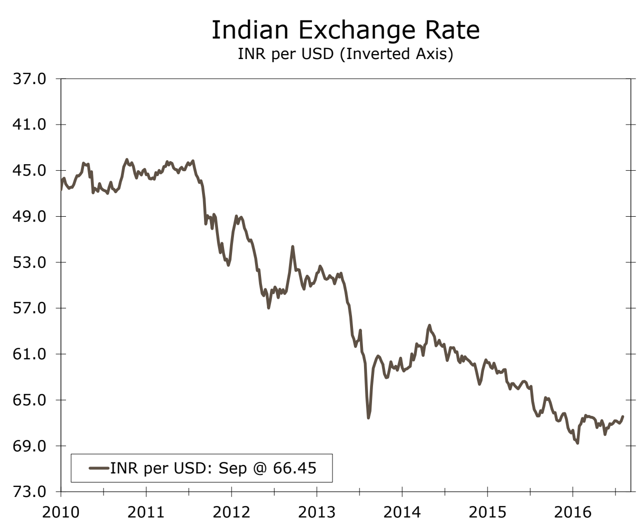
Loans to SOEs
Percent of Total

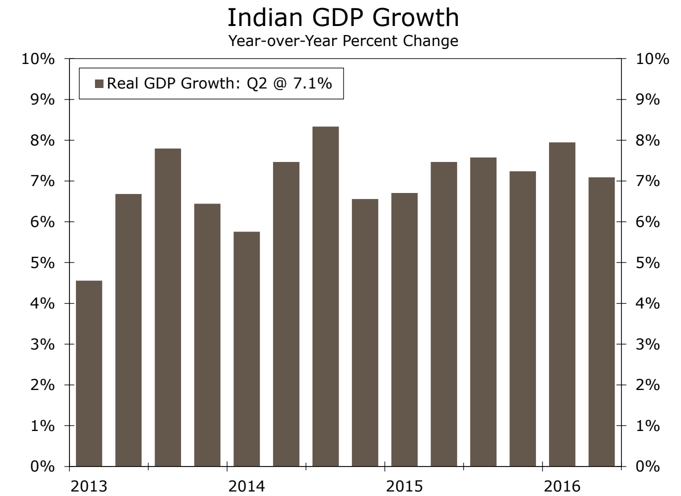


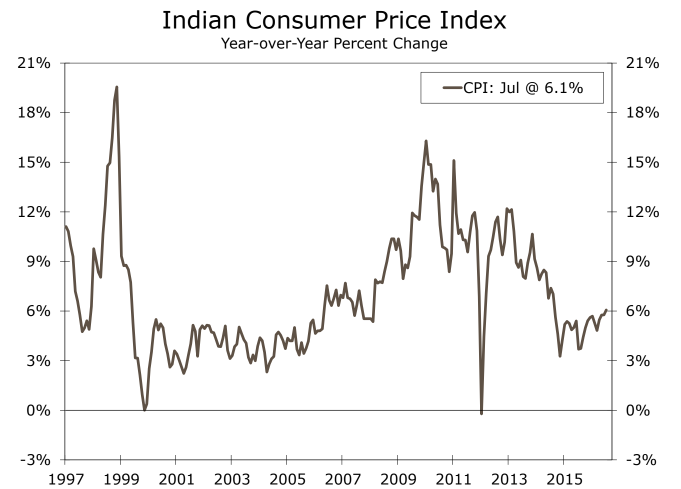
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

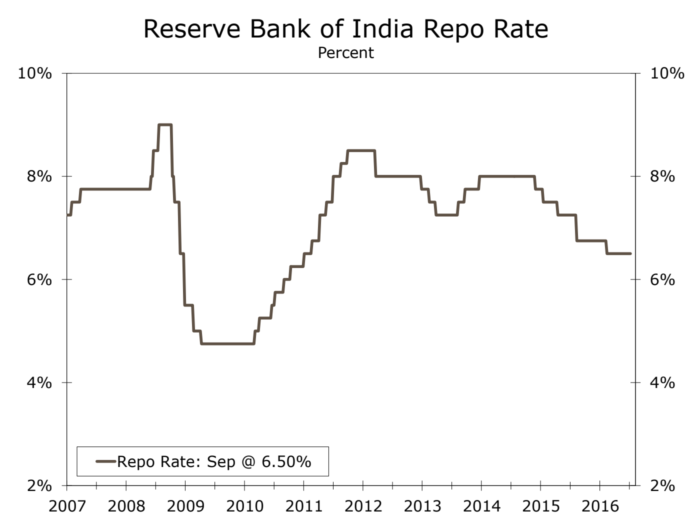
India

- Economic growth in India fell short of expectations in Q2, rising 7.1 percent, well below the 7.6 percent consensus forecast. Despite real GDP in India remaining above 7 percent for five consecutive quarters on a year-over-year basis, the underlying details of the headline figure point to some weaknesses in the economy. Growth in personal consumption expenditures, which has been a driver of overall growth, downshifted markedly to 6.7 percent in Q2 from 8.3 percent in Q1. Likewise, investment spending slipped further into negative territory, declining 3.1 percent on a year-ago basis. Furthermore, the recent weakness in imports, which helps boost GDP, reflects deceleration in domestic demand.
- Not only was Q2 growth weaker than expected, but recent inflation indicators have been disappointing as well. After trending decisively lower between 2013 and 2015, CPI inflation has edged higher again this year, much of which can be attributed to the acceleration in food and beverage prices. Until the central bank sees inflation recede, it may be slow to ease policy further.
- As with many other emerging market currencies, the Indian rupee has depreciated significantly against the U.S. dollar over the past few years. Our currency strategy team expects the rupee to remain on the defensive, but do not look for significant further depreciation in coming quarters.





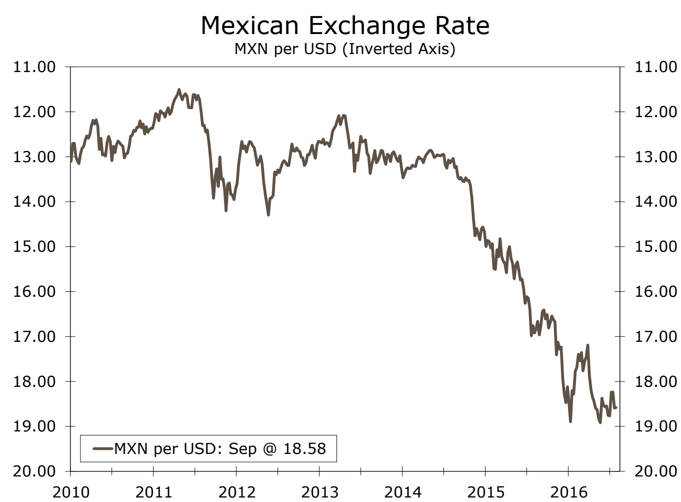


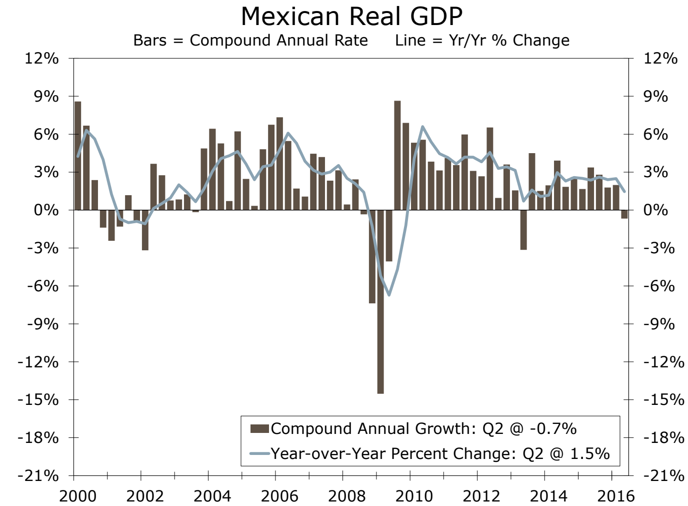


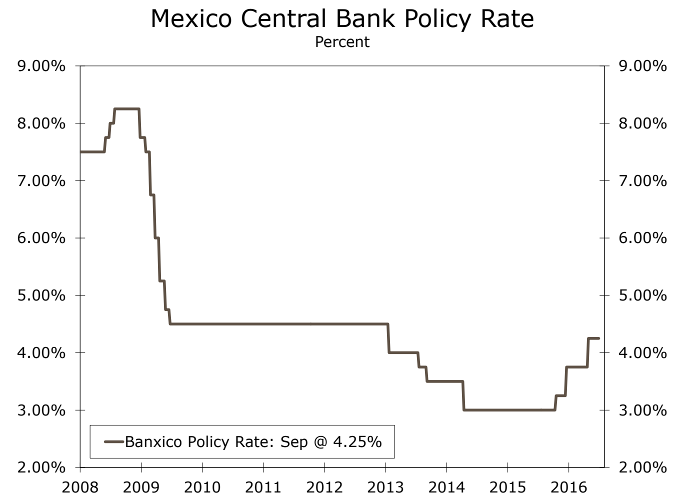
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

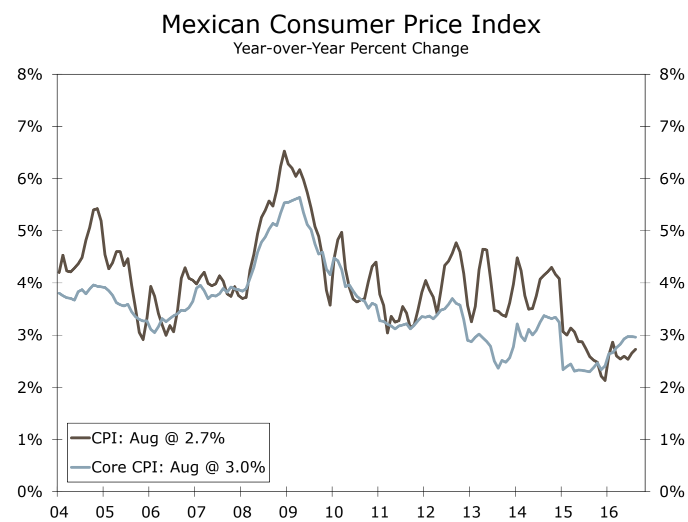
Mexico

- The Mexican economy grew 2.4 percent in Q2 year over year after posting a 2.6 percent growth rate during Q1. However, compared to the previous quarter, the economy dropped by a seasonally adjusted 0.3 percent. It is clear that the economy weakened considerably during the second quarter due to weakness reflected across sectors. Nevertheless, the service sector is still carrying the economy for the time being, posting a strong 3.2 percent growth rate.
- The economic slowdown in Mexico has given the central bank more reasons not to increase rates again. At the same time, the initial decision of the Mexican central bank to increase interest rates starting in December 2015 has affected domestic consumption. We expect, however, the central bank to take a "wait-and-see" approach and see what the U.S. Federal Reserve will do before changing its monetary policy further.
- The Mexican economy has limited exposure to trade with the European Union and even less exposure to the United Kingdom. As such, the headwinds created from Brexit will have limited impact on Mexico's exports in general.
- The weakness observed in the first half of the year is expected to carry on for the second half. We still forecast growth of 2.4 percent for the year. That said, for the forecast to improve, a stronger U.S. economy and much higher oil prices need to emerge which, today, does not seem realistic.





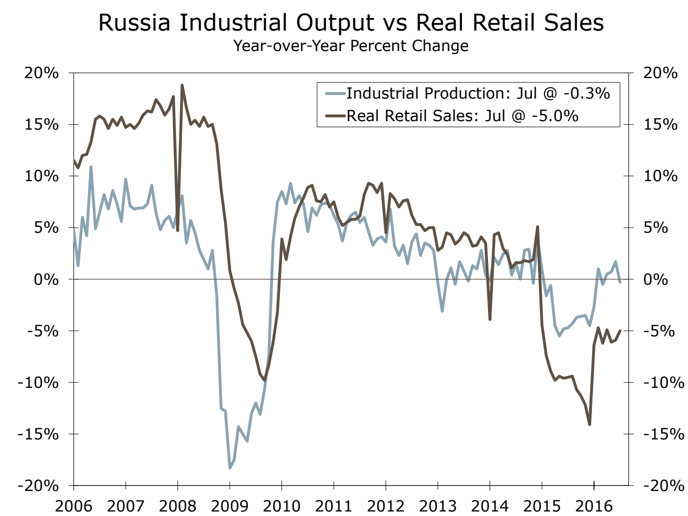


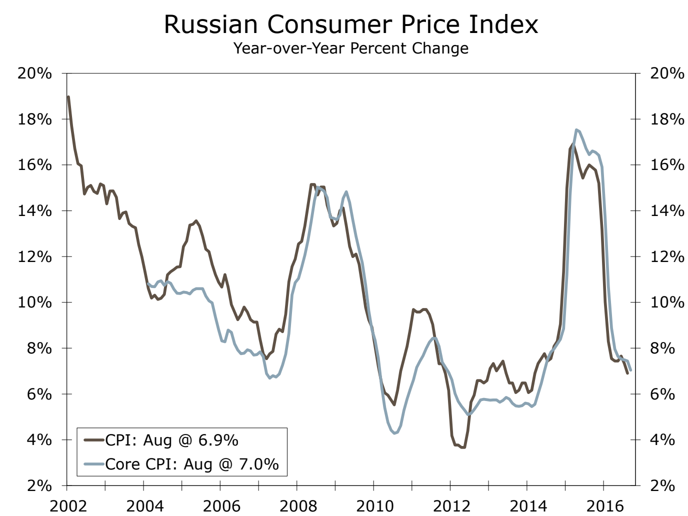


Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

Russia

- Although real GDP in Russia fell 0.6 percent on a year-ago basis in Q2-2016, the less negative reading than in previous quarters suggests that the Russian economy is starting to bottom out following the deep recession that began in 2015.
- Russia's CPI inflation rate has receded distinctly in recent months. This sudden drop in inflation has reduced the eroding effects that high inflation had on the purchasing power of consumers; consequently, retail spending appears to have stabilized after its recent plunge. The drop in inflation has allowed the central bank to slash its main policy rate from a high of 17.00 percent in early 2015 to 10.50 percent today, and most analysts look for further easing in coming quarters. Everything else equal, lower interest rates should help to support investment spending, a GDP component that declined almost 8 percentage points in 2015.
- The real effective exchange rate of the Russian ruble has tumbled about 25 percent over the past two years. The rapid depreciation has helped the international price competitiveness of Russian-made goods and services which should help boost growth in Russian non-energy exports. We look for the Russian economy to recover in coming quarters, though attaining growth rates of 7 percent and 8 percent, which were achieved during the middle years of the past decade, seems unlikely, especially with depressed energy prices today.

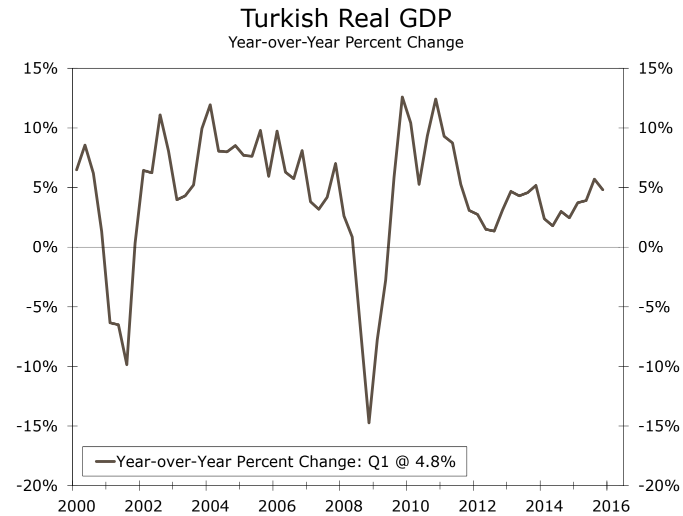


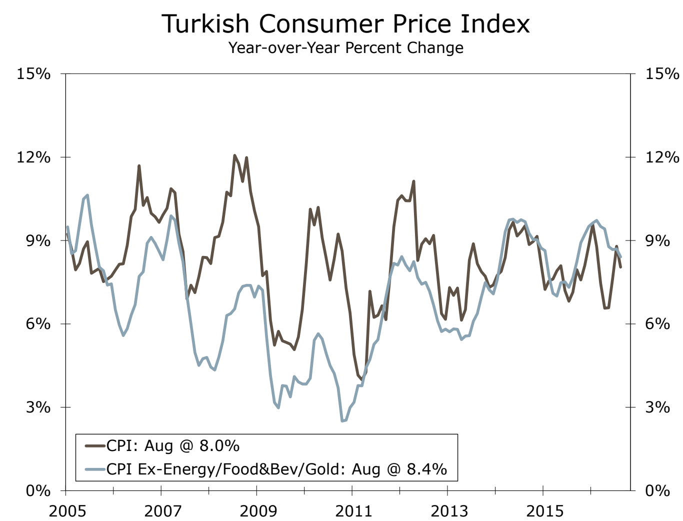


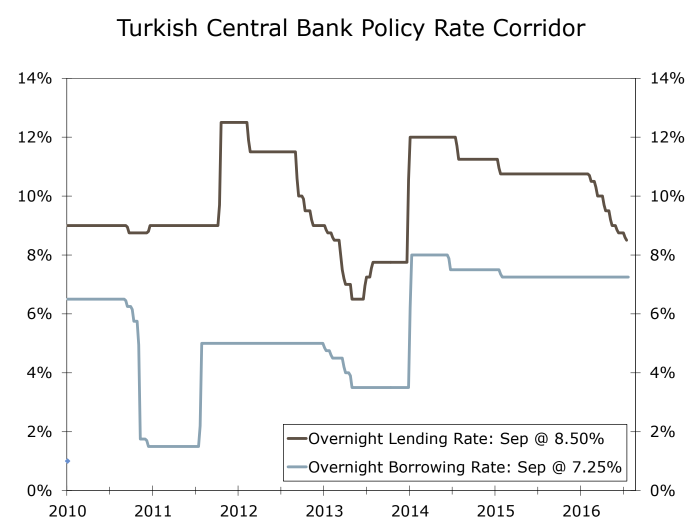
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

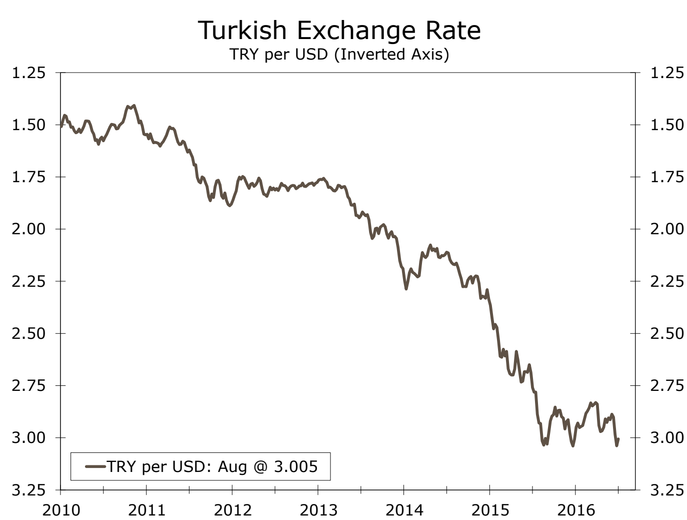
Turkey

- Real GDP in Turkey grew 4.8 percent from a year ago during the first quarter, slightly below the rate seen in the previous quarter, but still a solid print. Economic growth was led by private consumption, which grew 6.2 percent on a year-over-year basis. Fixed investment spending, on the other hand, experienced a slight contraction, slipping 0.1 percent in the first quarter from a year ago.
- While economic activity has continued to grow at a fairly healthy pace, the recent political turmoil in Turkey has raised some doubts over growth stability. The attempted military coup in mid-July caused the lira to sell off sharply, although the currency has since recovered most of those losses. July's CPI reading of 8.8 percent was a notable spike from the previous month. However, when examining the price index without the volatile components of energy, food and gold, prices have remained stable, recently. Turkey's central bank has cut its benchmark lending rate, the upper bound of its interest rate corridor, 225 bps since the beginning of the year; however it has held its other policy rates steady over this time period, thus narrowing the corridor.
- Our currency strategy team predicts a weaker lira against the greenback in coming quarters, softening at a very gradual pace. The trajectory of the lira is likely to be a key factor affecting the outlook for growth and central bank policy.





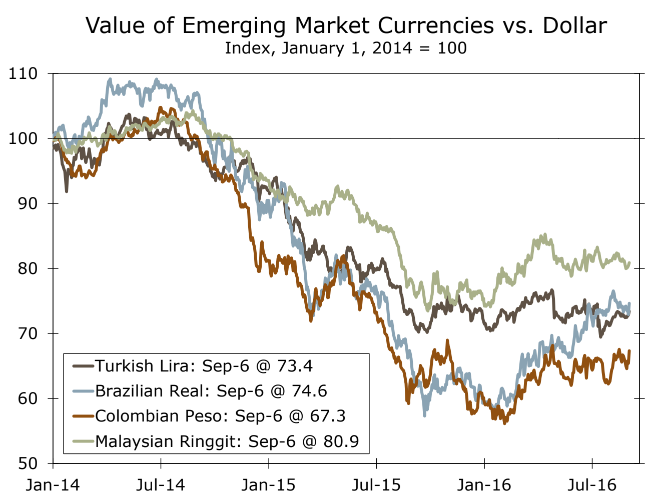


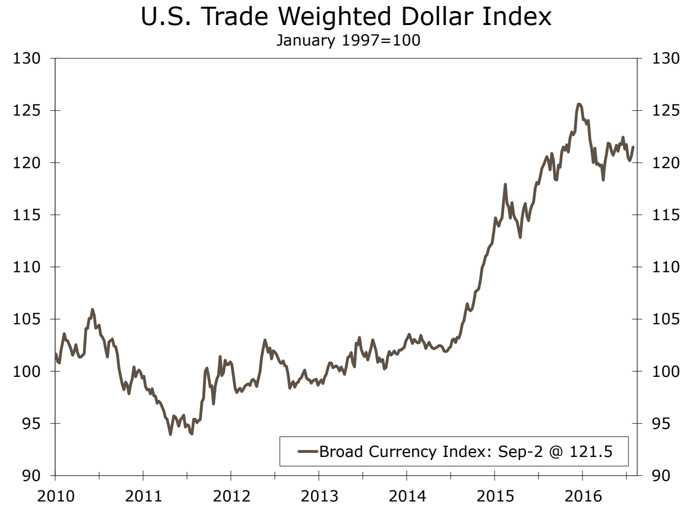


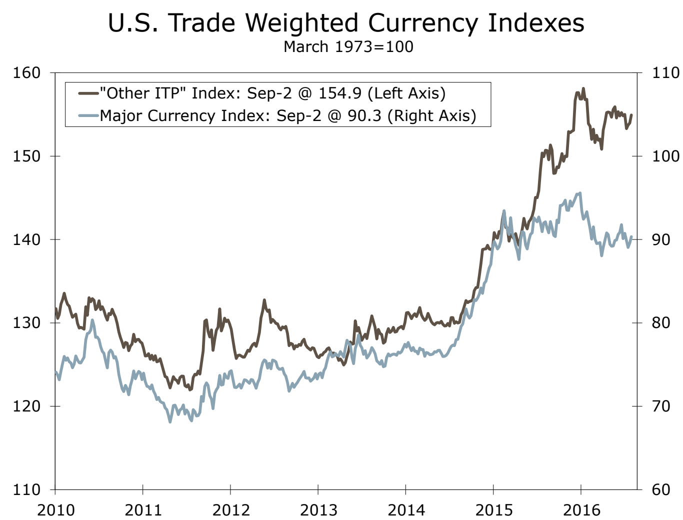
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

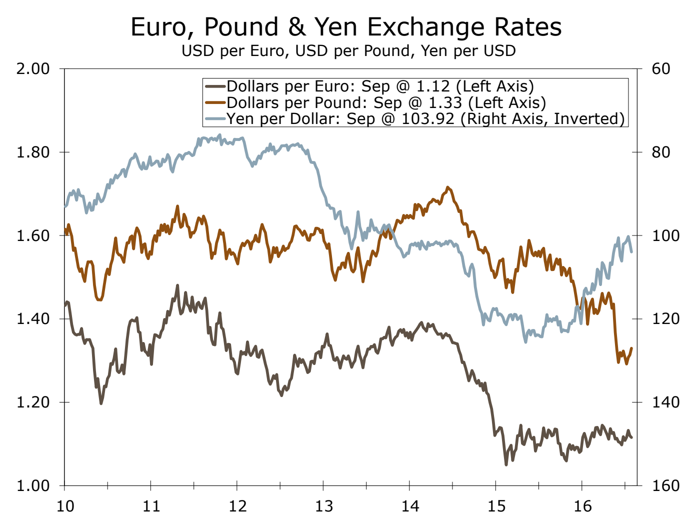
Dollar Exchange Rates

- The U.S. dollar has displayed mixed performance in recent months, with the Fed's U.S. Dollar Major Currency Index essentially unchanged since the start of Q2. Mixed economic data and cautious Fed communication have failed to pull the U.S. dollar in a definitive direction.
- Recent meetings from the other major central banks have resulted in relatively disparate decisions, and thus varying foreign currency reactions. The Bank of England's comprehensive easing measures, which exceeded market expectations, and the Bank of Japan's slight adjustment to its monetary policy, which underwhelmed the market, had opposing effects on the relative strength of the U.S. dollar against the pound and yen. However, the overall global central bank bias that still favors monetary easing, which should eventually support more consistent gains for the greenback.
- Emerging currencies have been fairly resilient against the U.S. dollar this year, with the Federal Reserve's "Other Important Trading Partners" Dollar Index little changed year to date. Going forward, we see the potential for emerging currency weakness to broaden, a view that is primarily informed by our outlook for a resumption of Federal Reserve tightening as early as the December meeting. Meanwhile, should the broader financial market backdrop become less favorable in the coming months, we could see further and more widespread weakness for emerging currencies against the greenback.





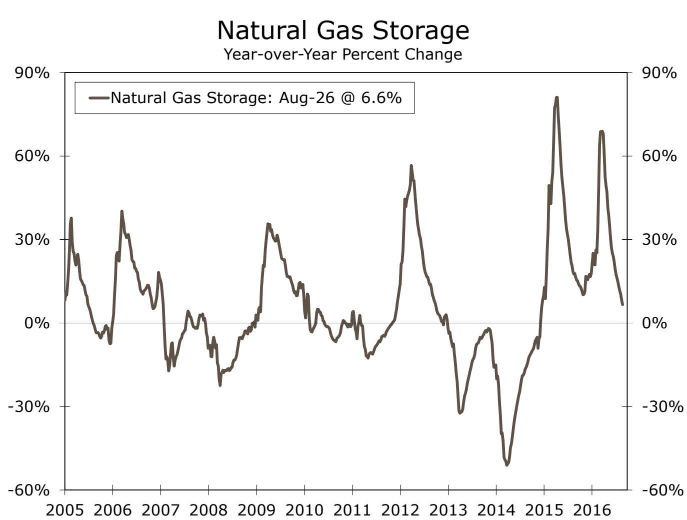


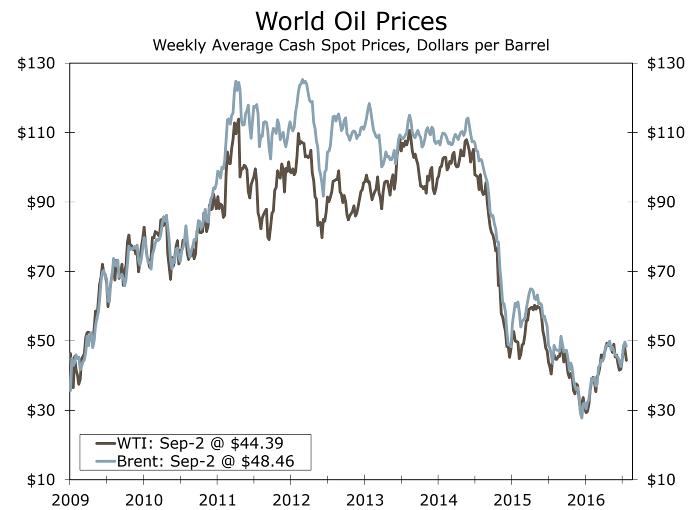


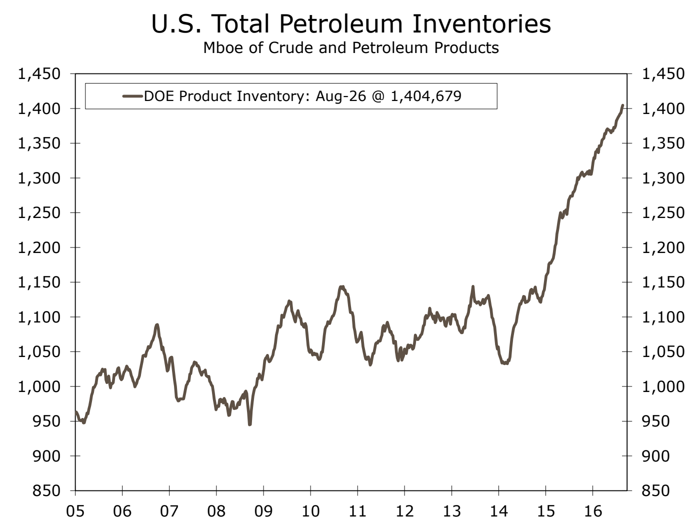
Source: Federal Reserve Board, Bloomberg LP, IHS Global Insight and Wells Fargo Securities

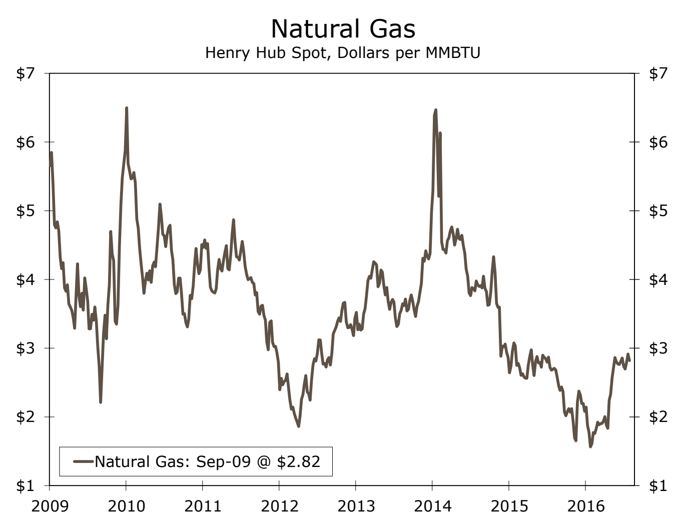
Energy

- Oil prices headed lower over the first half of the summer as a number of major supply disruptions came to an end and the summer driving season did little to put a dent in inventories. Renewed speculation that OPEC and other major producers may cap output, however, sent prices higher over August. Although prices have headed lower since late August following some strength in the dollar and rising skepticism about an OPEC agreement, prices for Brent and WTI are near year-ago levels.
- Inventories of petroleum products remain elevated, which has kept prices below levels reached earlier this year when supply outages provided a temporary boost. Despite an 8 percent drop in U.S. production since its peak at the start of the year, crude and product inventories have continued to climb, fueled in part by new record-highs in OPEC production.
- We look for oil prices to grind higher over the next year as global demand inches up and the lack of new investment over the past two years leads to meaningful reductions in inventories.
- Natural gas prices have headed up sharply since the spring. Above-average temperatures across most of the U.S. this summer have boosted the demand for electricity, a growing share of which is powered by natural gas. Inventories are now up less than 7 percent over the prior year, the weakest one-year change since 2014.





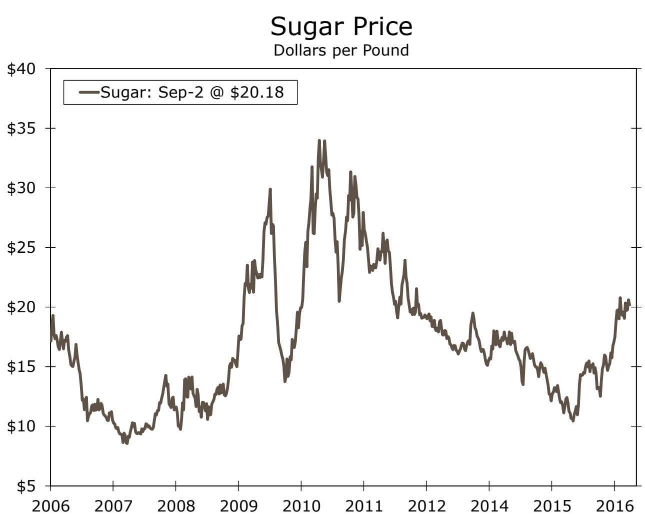


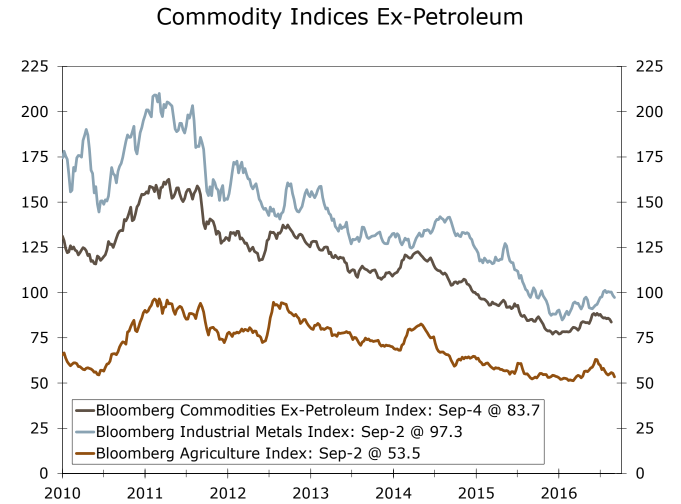


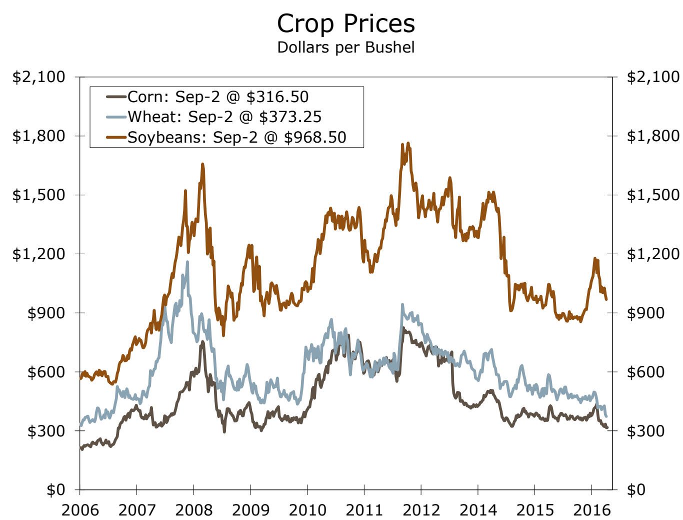
Source: IHS Global Insight, Moody's Analytics and Wells Fargo Securities

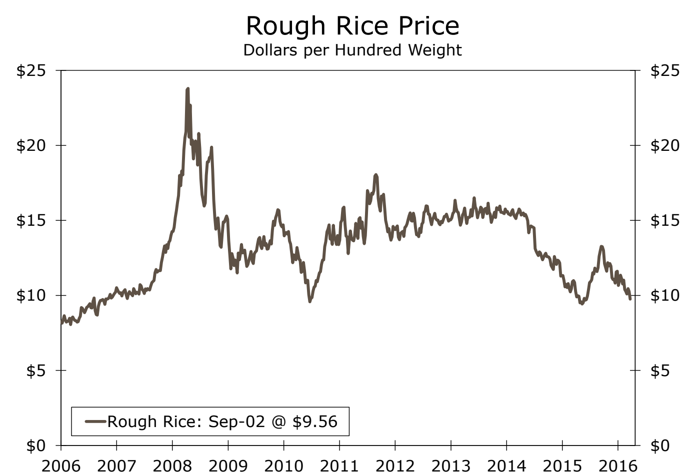
Other Commodities

- Prices for industrial metals generally climbed through the first half of the summer, but have edged down in recent weeks as the dollar has strengthened.
- With smaller movements in the dollar and a more stable global growth backdrop, supply factors have led to less correlated price movements across metals. Zinc has been the big winner in recent months, with prices nearly doubling since the start of the year as inventories have fallen. Copper inventories, on the other hand, have climbed, leading to more than a 7 percent decline in prices since July.
- Good weather has boosted the outlook for harvests across a range of agricultural goods, leading to 15 percent decline in the Bloomberg Agriculture Index since June. Wheat prices have hit a 10-year low on solid harvests around the world. Corn prices have fallen to their lowest levels since 2009, while prices for rice hover near 10-year lows. The lower costs of cereals are helping to keep global food prices in deflation territory for a fifth consecutive year.
- In contrast to the major cereals, coffee and sugar prices have continued to climb in recent months as the Brazilian real has gained against the dollar.
- Livestock prices in the United States fell further over the summer. Cattle prices are now down 25 percent since the start of the year, while lean hog prices are down about 30 percent since June.









Source: Bloomberg LP, Commodity Research Bureau and Wells Fargo Securities

Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

	GDP 2016	GDP 2017	GDP 2018	CPI 2016	CPI 2017
Global (PPP Weights)	2.9%	3.1%	3.1%	3.2%	3.4%
Global (Market Exchange Rates)	2.6%	2.8%	2.9%	3.2%	3.4%
Advanced Economies[1]	1.6%	1.8%	2.1%	0.6%	1.6%
United States	1.5%	2.2%	2.1%	1.2%	2.2%
Eurozone	1.6%	1.5%	2.0%	0.1%	0.9%
United Kingdom	1.6%	0.2%	1.8%	0.8%	2.2%
Japan	0.5%	0.5%	0.7%	-0.3%	0.5%
Korea	2.8%	2.8%	2.3%	0.8%	1.7%
Canada	1.0%	1.6%	1.8%	1.5%	1.4%
Developing Economies[1]	4.1%	4.3%	4.2%	5.7%	5.3%
China	6.5%	5.9%	5.5%	2.1%	1.9%
India[2]	7.6%	7.5%	7.4%	5.8%	5.6%
Mexico	2.4%	2.5%	2.5%	2.7%	3.1%
Brazil	-3.4%	1.0%	2.0%	9.0%	6.2%
Russia	0.0%	1.8%	2.1%	7.2%	5.9%

Forecast as of: September 07, 2016

[1]Aggregated Using PPP Weights [2]Forecasts Refer to Fiscal Year

Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)

	3-Month LIBOR							10-Year Bond						
	2016		2017				2018	2016		2017				2018
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q3	Q4	Q1	Q2	Q3	Q4	Q1
U.S.	0.80%	0.95%	0.95%	1.20%	1.20%	1.45%	1.45%	1.53%	1.56%	1.59%	1.62%	1.68%	1.73%	1.78%
Japan	-0.03%	-0.05%	-0.07%	-0.08%	-0.08%	-0.08%	-0.08%	-0.05%	-0.05%	-0.02%	0.00%	0.02%	0.05%	0.07%
Euroland[1]	-0.33%	-0.33%	-0.33%	-0.33%	-0.30%	-0.25%	-0.20%	-0.15%	-0.10%	-0.05%	0.00%	0.05%	0.10%	0.20%
U.K.	0.35%	0.25%	0.25%	0.25%	0.30%	0.35%	0.40%	0.70%	0.70%	0.75%	0.80%	0.90%	1.00%	1.10%
Canada[2]	0.90%	0.90%	0.90%	1.10%	1.15%	1.40%	1.40%	1.00%	1.05%	1.10%	1.25%	1.45%	1.60%	1.75%

Forecast as of: September 07, 2016

[1] 10-year German Government Bond Yield [2] 3-Month Canada Bankers' Acceptances

Source: International Monetary Fund and Wells Fargo Securities

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