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Economics Group

Special Commentary

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Global Chartbook: December 2017

Executive Summary

The global economic rebound that has taken place in 2017 has carried its momentum into the final quarter of the year, creating a 'rising tide' effect that has helped lift growth in much of the world. Global trade and industrial production have continued to accelerate, with world export volumes rising in September at the second fastest year-over-year pace since 2011. We continue to expect real global GDP growth to register 3.5 percent in 2017, up from 3.2 percent in 2016. If realized, this would put global growth back in line with both its average since 1980 and its average over the 2012-2014 period.

Economic growth has been supported by a firming in developed and emerging market economies. In the developed economies, U.S. real GDP accelerated in Q3 to a 3.3 percent annualized rate on the heels of a 3.1 percent gain in Q2. A more balanced composition of growth between personal consumption and business investment has helped spur economic activity, but the external sector has also played a role. With three quarters in the books, net exports have been additive to growth in each quarter this year in the United States. We expect real GDP growth in the United States to strengthen a bit next year, with full-year economic growth coming in at 2.7 percent. Economic growth in the Eurozone has been similarly strong this year, up 2.6 percent year over year in Q3, the fastest pace of growth since Q1-2011. Business sentiment across the Eurozone has been robust, and the unemployment rate has fallen 0.8 percentage points to 8.8 percent through the first eleven months of the year.

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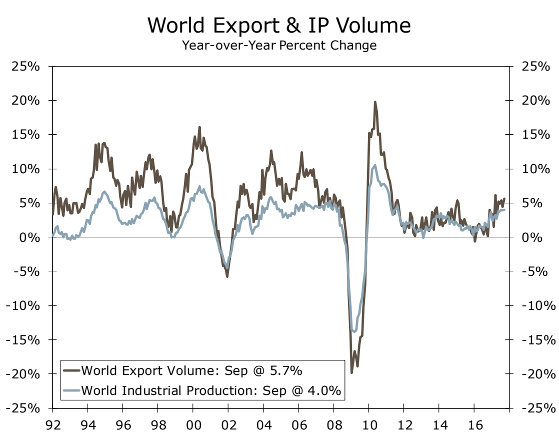
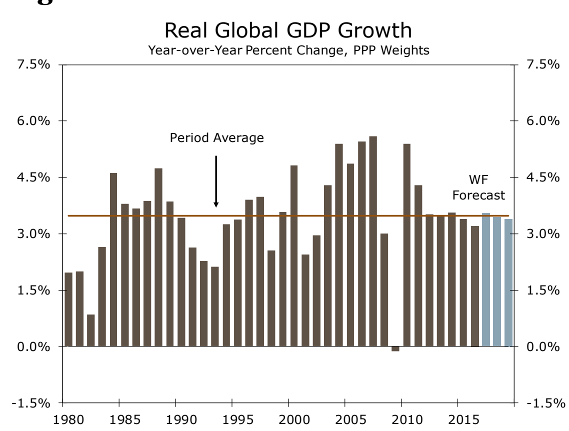


Figure 2



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

The strength in developed economies has stretched outside of the United States and Europe. The Canadian economy has benefitted from a stabilization in energy prices and stronger growth in the United States, helping to push real GDP growth to 3 percent year over year. Economic growth in

Together we'll go far

Economic growth has been supported by a firming in developed and emerging market economies.

Japan, while not wildly impressive on a relative basis, has quietly experienced the longest run of uninterrupted growth in 16 years. The United Kingdom has been one of the few 2017 laggards among the developed economies amid Brexit-related uncertainty and above-target inflation. Even there, however, industrial production has turned higher in recent months, with capital goods production in particular up over 8 percent year over year through October.

In the major emerging market economies, the biggest players continue to get back on track. The Russian and Brazilian economies have begun to emerge from deep recessions this year. Although we do not expect these countries to return to the supercharged growth rates that prevailed toward the end of the last global expansion, it is beneficial to the global economy to have these countries' economies headed in the right direction. Real GDP growth in India halted its streak of five consecutive quarters of slowing year-ago GDP growth in Q3 as demonetization effects faded and the rising global tide pulled the Indian economy up with it. China, which possesses the world's second-largest economy, has managed to stabilize economic growth in the 6.5-7.0 percent range. Structural headwinds related to demographics and financial leverage will continue to be a drag on economic growth in China, but we expect the authorities there to continue to guide the economy into a very gradual deceleration.

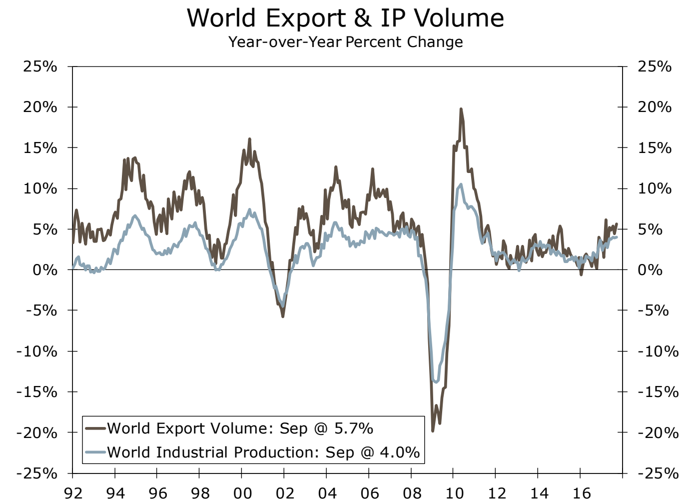
Against this backdrop, the slow but steady reversal away from monetary policy accommodation and towards monetary policy tightening is likely to continue in 2018. The Federal Reserve has led the charge on that front, with three fed funds hikes and the initiation of a balance sheet normalization program this year. The Bank of Canada has also moved to take its foot off the monetary policy accelerator this year. In Europe, the European Central Bank (ECB) refrained from ending its monthly asset purchase program in October, instead choosing to taper its purchases to €30 billion a month starting in January 2018. We expect purchases to eventually cease completely by late 2018 before an eventual slow process of rate hikes beginning in the first half of 2019. The return to monetary policy "normalization" is encouraging as it reflects an improvement in the economic fundamentals, but the removal of the extraordinary stimulus of the past few years will test the resilience of the global economic rebound. As Warren Buffet famously said, "It's only when the tide goes out that you learn who has been swimming naked."

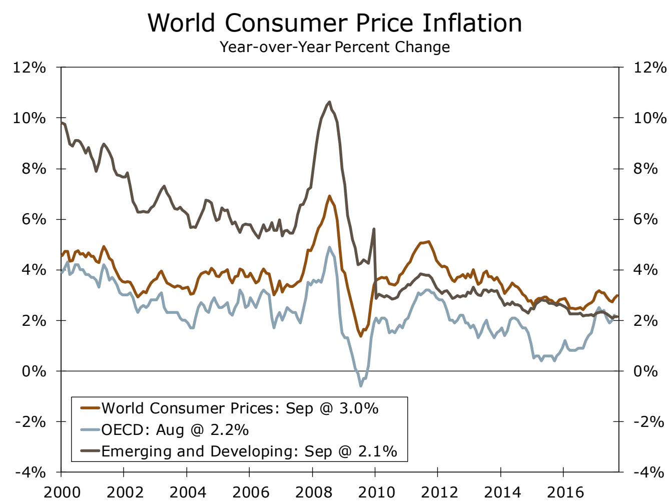
We expect real global growth to remain near its long-run average of 3.5 percent.

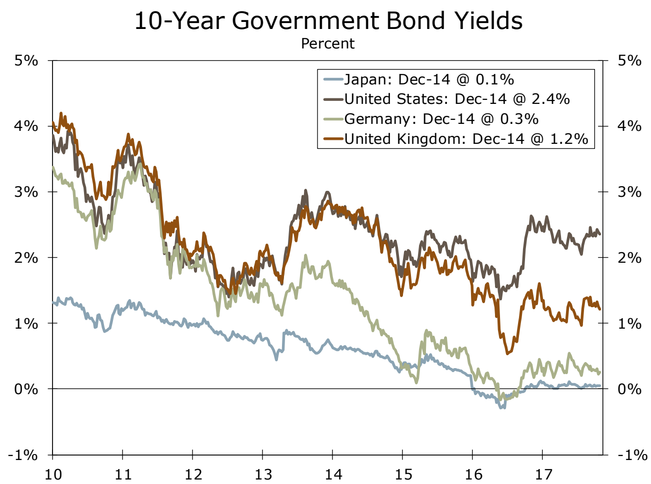
As we have highlighted previously, additional risks to our outlook next year include Chinese non-financial corporate leverage, Brexit/EU complications, disruptions related to trade agreement renegotiations and general geopolitical risk that is nearly impossible to forecast but an omnipresent potential exogenous shock. On balance, however, the global economic recovery has become increasingly self-sustaining, with most of the world's major advanced and emerging economies "pulling" on the same side of the rope for the first time in years. As a result, we expect real global growth to remain near its long-run average of 3.5 percent. Furthermore, we expect global inflation to continue to recover from its swoon in the 2015-2016 period, helping to spur further monetary policy normalization around the world next year.

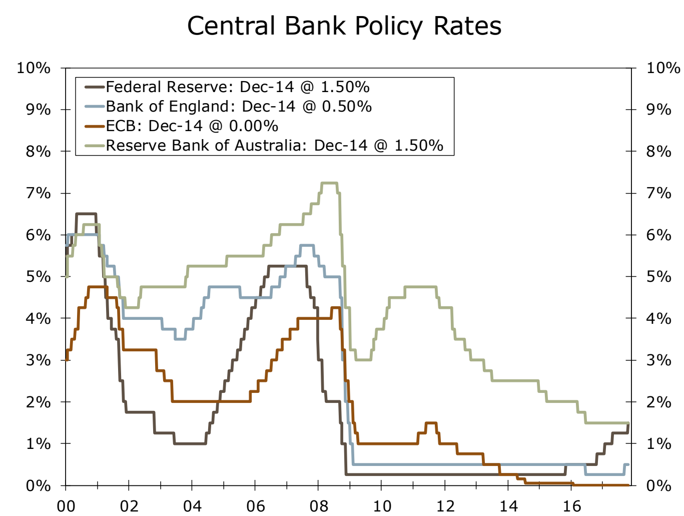
World

- The global economic expansion largely remained intact in Q3 as robust international trade and steady consumer spending boosted global demand. World industrial production and export volumes continue to accelerate and remain a good indication of strengthening global growth. That said, a return to the rapid growth rates of prior expansions is unlikely in our view. The world economy will likely maintain a more moderate pace of expansion in the coming quarters, and we see world GDP growth of 3.4 percent in 2018 and 2019.
- Consumer price inflation has edged up on a global scale, albeit at a slow pace. World CPI reached 3.0 percent in September on a year-ago basis; however, price pressures remain significantly lower than in prior expansions.
- Slowly increasing inflation coupled with strengthening global growth has pushed central banks to begin to reverse accommodative policy stances as we enter a period of monetary policy convergence. However, in our view, the reversal of policy accommodation will be gradual as central banks will likely first need to see sustained inflation that more closely matches the upward trend in GDP growth.
- While global monetary policy will likely tighten in the coming quarters, sovereign bond yields remain generally lower in the midst of sluggish inflation and central banks that are mindful of changing policy too rapidly.





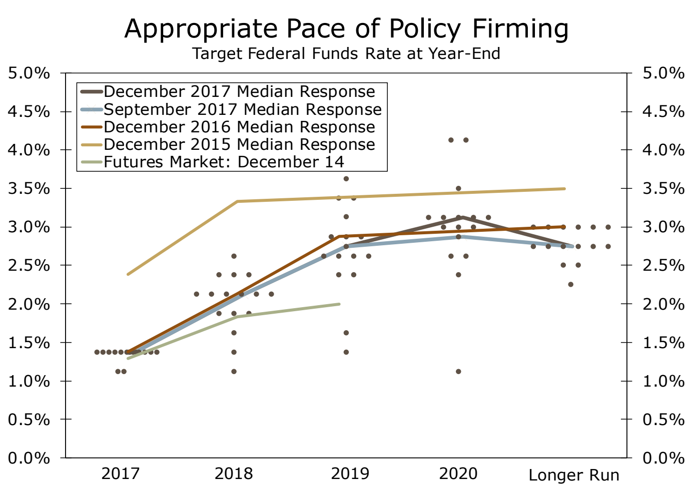


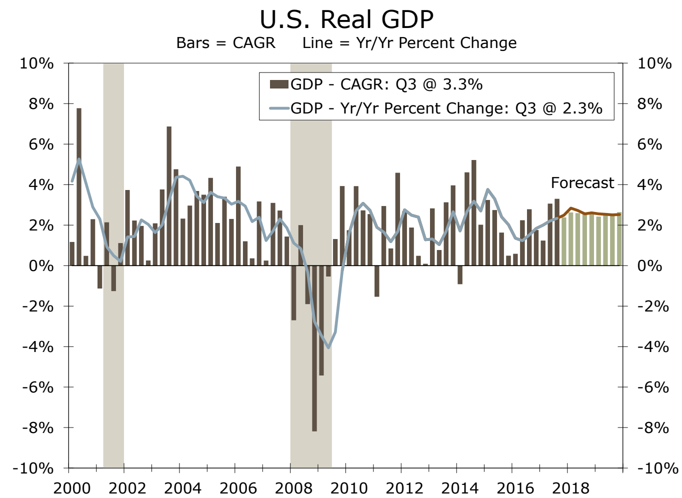


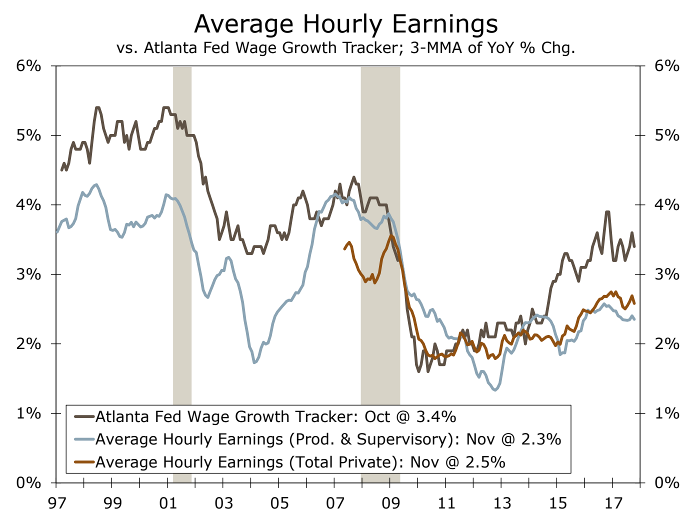
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

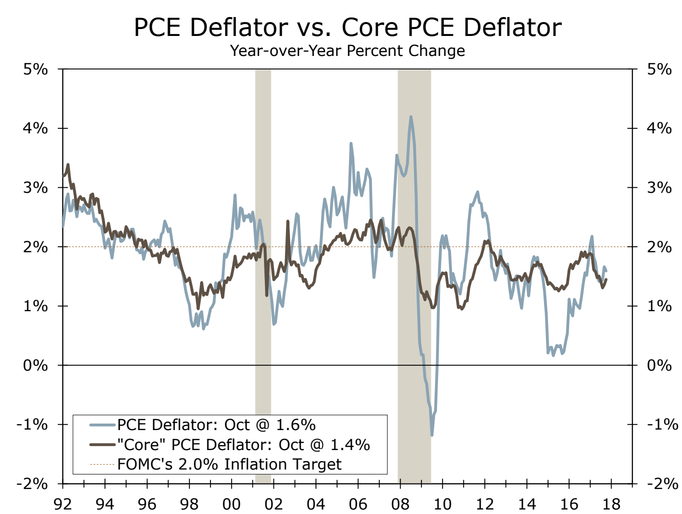
United States

- The growth momentum in the United States economy has shifted up a gear in the second half of 2017, relative to a year ago. Consumer spending and equipment investment have provided much of the gain. Real disposable income and corporate profit growth have improved over the past three quarters, while employment gains and an upturn in factory orders indicate further progress ahead.
- Employment growth has averaged roughly 174,000 jobs per month from the start of the year, with job growth being broad based across all but the information sector. With such strong gains in employment, the jobless rate currently sits at a 16-year low of just 4.1 percent. That said, lackluster growth in productivity has weighed on wage growth and will likely continue to hamper wage appreciation even with such low levels of unemployment.
- Despite starting the year strong, both headline and core inflation have moved sharply lower in March and have struggled to turn around since. We do expect inflation to rise in 2018, in part by higher labor costs exerting modest upward pressure on inflation.
- The FOMC increased its fed funds rate, by one-quarter percentage point, to 1.50 percent at its December policy meeting. We expect the committee to increase its fed funds rate three times in 2018, based on improved growth and steady inflation. Our current forecast calls for growth of 2.3 percent and 2.7 percent for full-year 2017 and 2018, respectively.





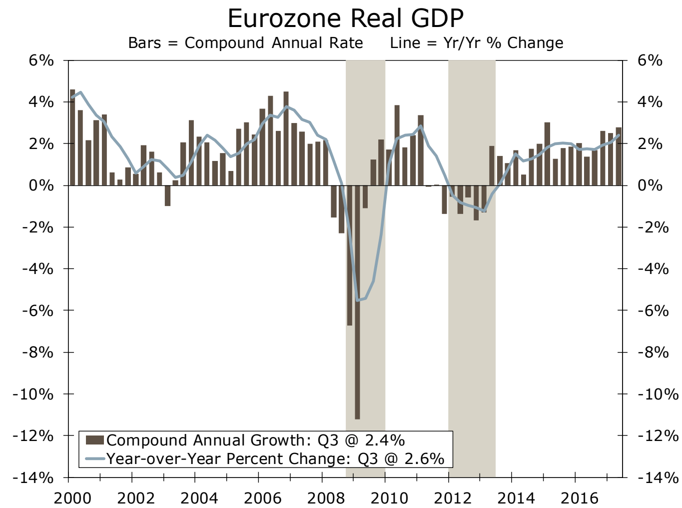


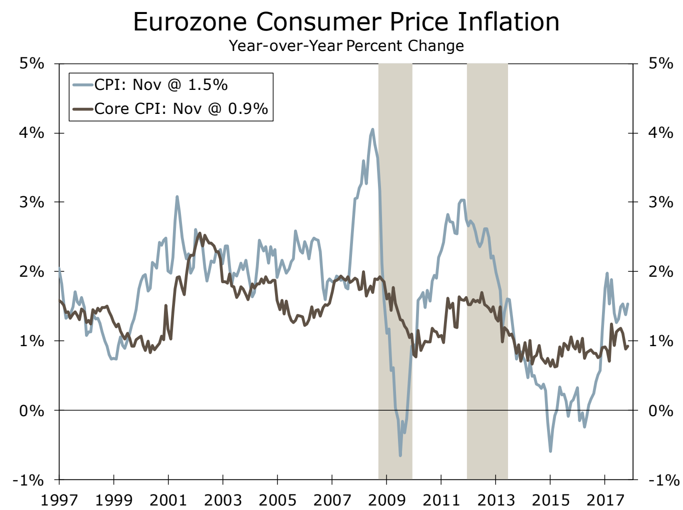


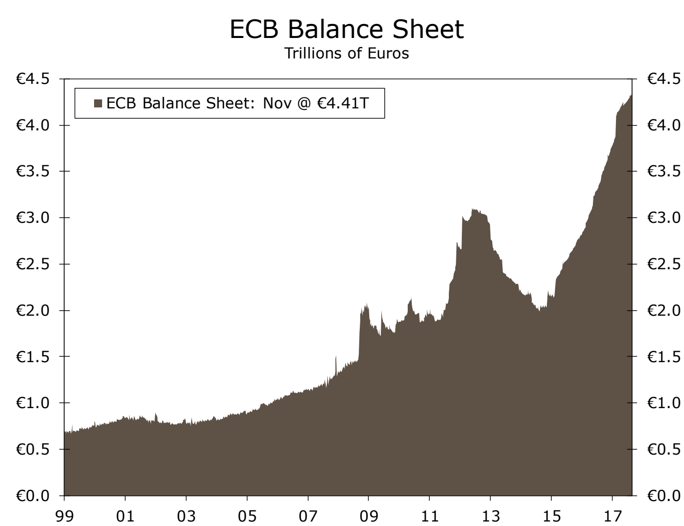
Source: U.S. Depts. of Labor and Commerce, Bloomberg LP, Federal Reserve System and Wells Fargo Securities

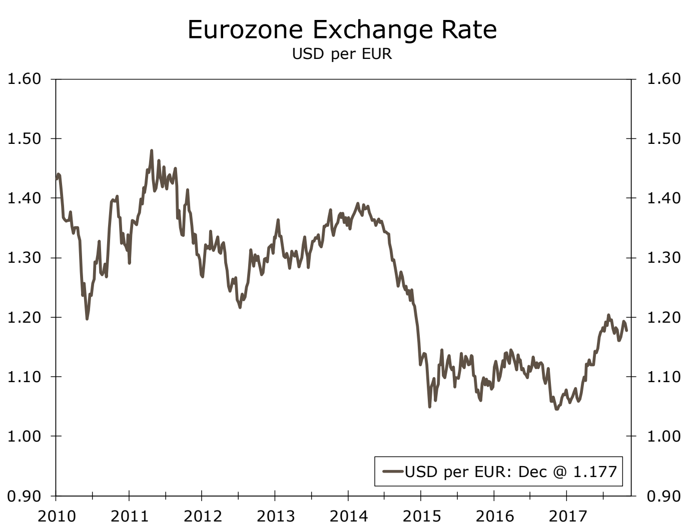
Eurozone

- The economic expansion in the Eurozone is firmly underway, with Q3 GDP growth at its fastest pace since Q1-2011, up 2.6 percent year over year. Underlying demand components show particular strength in business investment and exports, suggesting that the acceleration is increasingly self-sustaining. That said, political risks are also present, including potential fallout in Spain after the Catalonian independence movement as well as the Italian election next spring. For now, these risks are likely minimal due to the solid expansion currently in place.
- While growth has picked up, inflation is still below the European Central Bank's (ECB) 2 percent target, with core CPI hovering around 1 percent for the past two years. Low inflation and a tightening labor market have supported growth in real disposable income and consumer spending. On the production side, industrial output has increased this year, in part fueled by solid growth in exports.
- Although economic growth has strengthened, low inflation has been a driving force in the ECB's continued policy accommodation. The ECB's October decision to begin tapering asset purchases in January is a move toward less accommodation, however policy rates still remain near zero.
- We look for policymakers to end bond purchases in late 2018, although rate hikes are still likely a ways off. Our currency strategy team sees strength in the euro against the dollar, as markets closely watch for the ECB to signal future tightening moves.





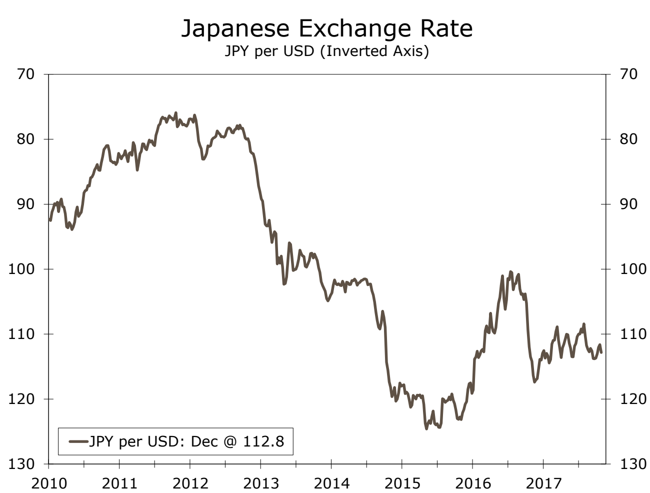


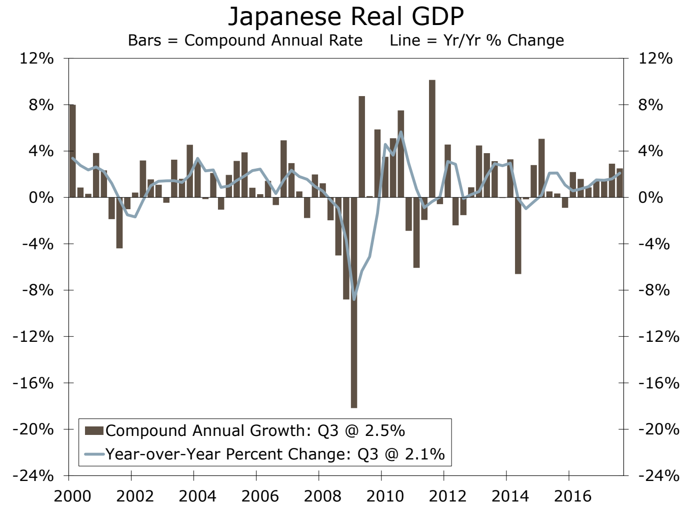


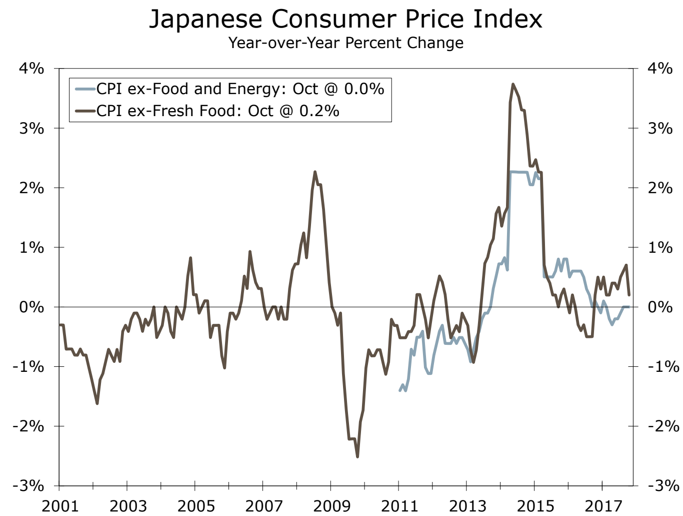
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

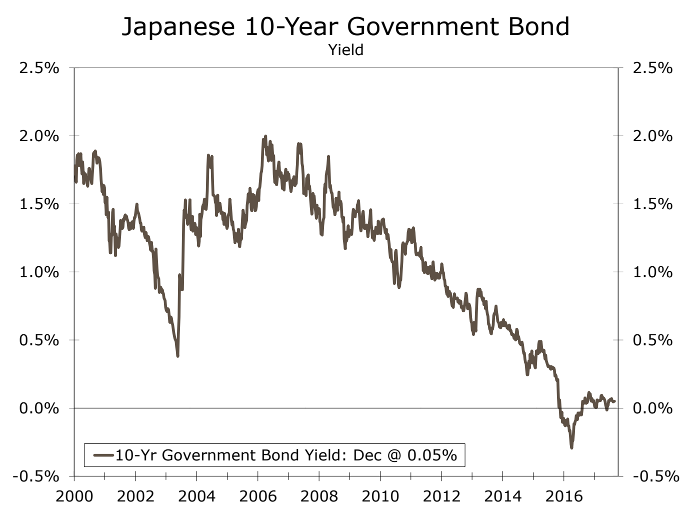
Japan

- Although the pace may be modest, the Japanese economy has quietly strung together its longest run of uninterrupted growth in 16 years. The seventh straight quarter of growth is welcomed by Prime Minister Abe, coming off of his recent victory at snap elections in October, and points to his Abenomics program which appears to have lifted growth amid this newfound stability in the Japanese economy.
- The Japanese economy continues to rely heavily on trade. Growth in Q3 was primarily driven by net exports, which is a reflection of a quickening in global growth and a weaker Japanese yen. Although personal consumption was down in the third quarter, we do not suspect such weakness in the sector to continue.
- Inflation growth continues to be muted due to non-existent wage pressures and highlights a continued concern for the Bank of Japan (BoJ), which has recently lowered its core CPI forecasts for fiscal years 2017 and 2018. An additional headwind for the Japanese economy is its significantly high levels of household debt, which could require either a decrease in consumption or a draw down in the household saving rate to reverse. Such actions pose a potential threat to long-run growth.
- The yen is expected to modestly firm over time, as the accommodative nature of the BoJ suggests limited downside risk to the currency. We expect the Japanese economy to grow 1.5 percent for full year 2017. If realized, it would mark the fastest rate of GDP growth since 2013.





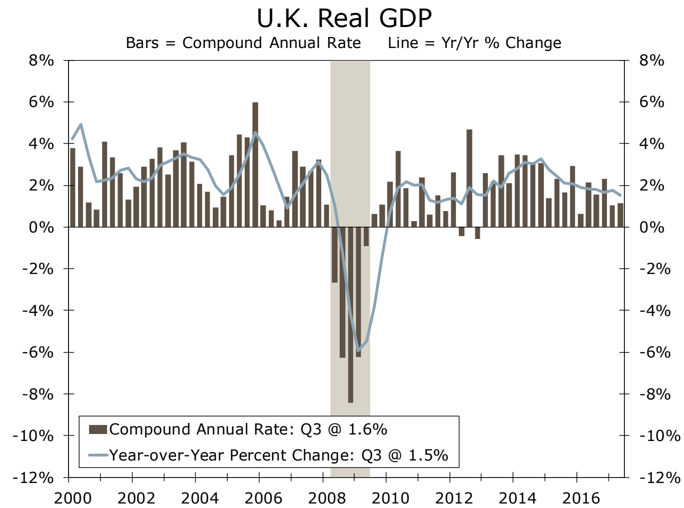


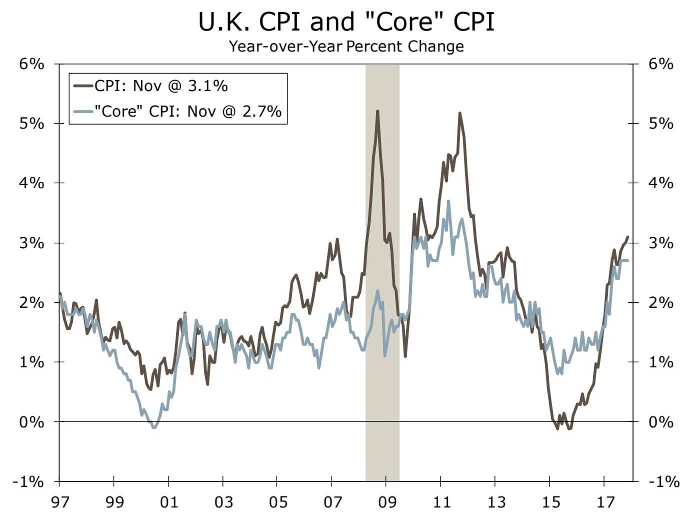


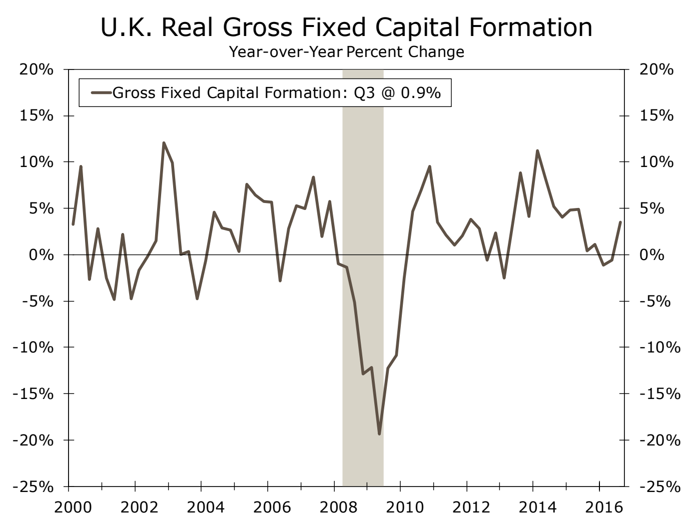
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

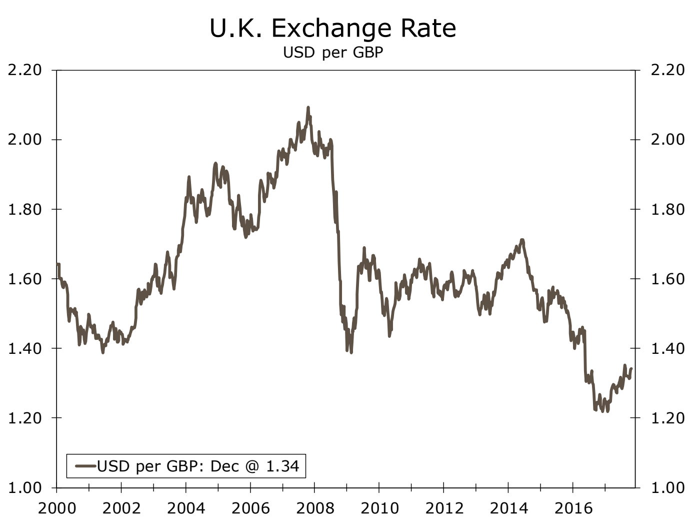
United Kingdom

- GDP growth in the United Kingdom remained lackluster in Q3, growing only 1.5 percent on a year-ago basis. Although economic growth did not slow by as much as many analysts expected in the wake of the Brexit referendum last year, uncertainty regarding the current negotiations could weigh on growth, particularly on investment spending as businesses remain wary of regulatory and financial impacts.
- Inflation in the U.K. has risen this year, and it continues to be a drag on household spending. Higher inflation coupled with negative real wage growth has likely restrained more robust economic expansion over the past several quarters, even with a tight labor market.
- Amid higher inflation and modest overall economic growth, the Bank of England's (BoE) Monetary Policy Committee voted to hike its main policy rate by 25 basis points at its November meeting, the first hike in more than 10 years. In our view, the BoE will remain on hold for the next few quarters. The committee will likely first need to see economic growth pick up, especially in the midst of potentially tense Brexit negotiations.
- Our currency strategy team looks for modest sterling appreciation, assuming the BoE continues its pace of future rate hikes. We predict inflation will slowly recede over the coming year, while economic growth should reach 1.4 percent in 2018 and 1.8 percent in 2019.





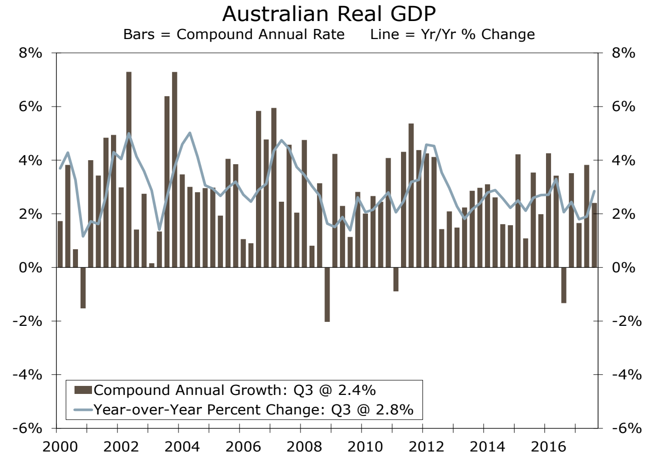


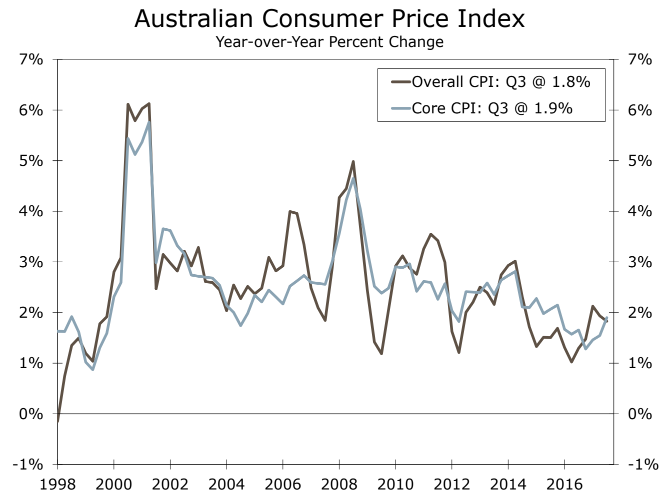


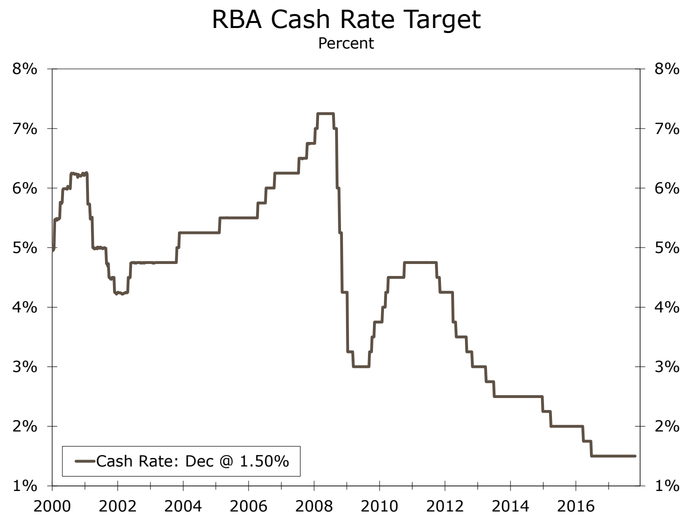
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

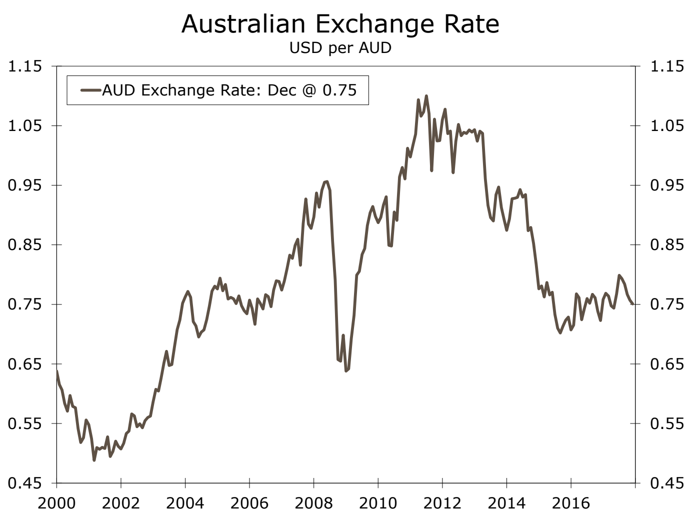
Australia

- Yearly growth in Australia continues, despite a slight slowdown in third quarter growth. Investment spending was the primary driver of continued growth in Q3, up 1.8 percent over the quarter, marking the second-fastest growth rate going back to 2012.
- The slowing in growth was largely a factor of a decrease in personal consumption, which currently sits at its lowest level since 2008. Such a slowdown in consumption is in-line with muted retail sales seen over the period. That said, the up-tick in October retail figures, signals potential improvement in future consumption.
- The Australian economy continues to grapple with high levels of household debt. Despite a continued decline in the unemployment rate, wage growth remains subdued. High levels of debt coupled with low income gains have led to weakness in the household saving rate, and point to a key risk in future growth of the Australian economy.
- As expected, the Reserve Bank of Australia (RBA) kept its cash rate at 1.50 percent at its December Policy meeting. The RBA cited improvements in the labor market and expectations of soft wage growth to eventually lift inflation, which remains below the 2-3 percent target of the RBA. A broad improvement in global growth matched with higher commodity prices should be supportive of the Australian currency. Looking further ahead, renewed trend weakness in the greenback and eventual signals from the RBA on rate hikes should signal moderate gains for the Aussie dollar in 2018.





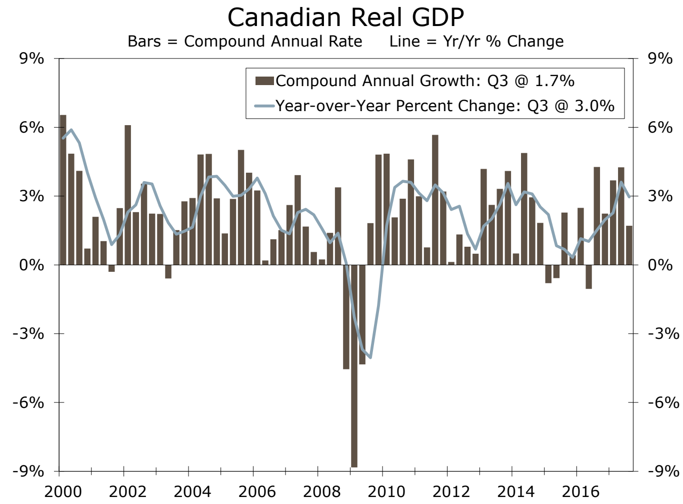


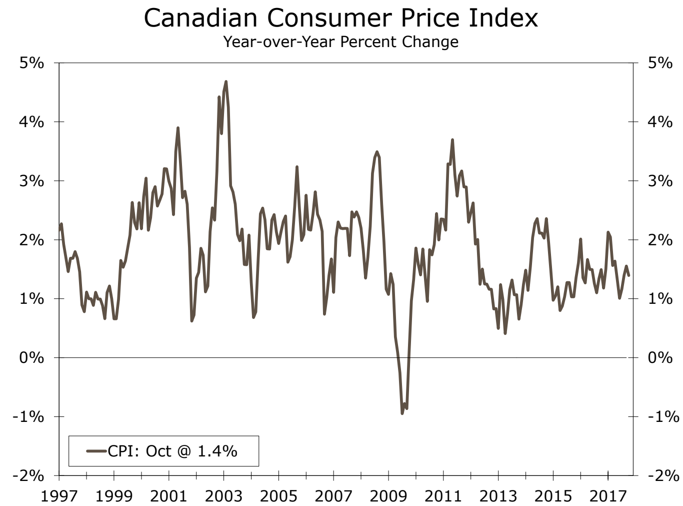


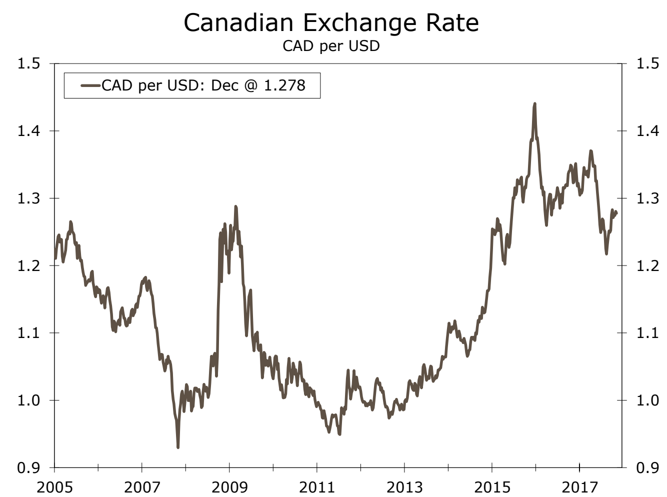
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

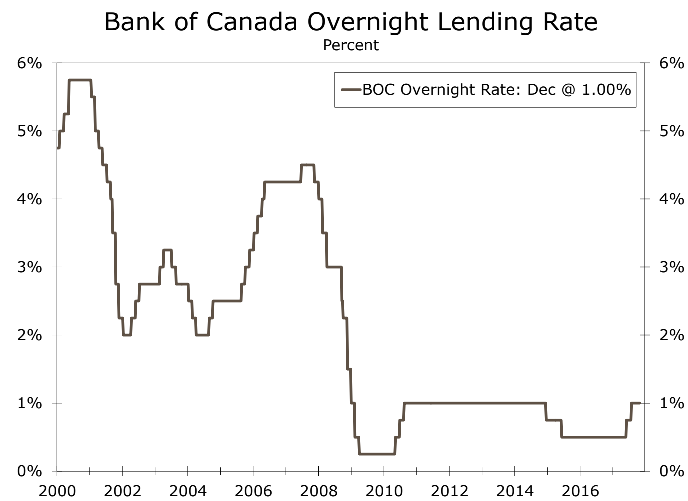
Canada

- Third quarter growth has slowed compared to the robust rates seen in the first half of the year. However, fundamentals suggest continued strength in the Canadian economy, with domestic demand remaining elevated, business activity continuing to improve and the unemployment rate currently sitting at a nine year low of just 5.9 percent.
- Consumption appears to be leading growth, with business spending having bounced back this year, after declining in seven out of the eight quarters in 2015 and 2016. Similarly, consumer spending continues to expand. However, we have been cautioning that household debt levels in Canada are getting worryingly high, which could dampen future consumption.
- Inflation remains tepid between the Bank of Canada's (BoC) 1-3 percent target. After increasing its overnight lending rate to 1.0 percent at its September meeting, the BoC has remained on hold. Despite the strong labor market, uncertainties remain around housing policies and NAFTA renegotiations, which have led the BoC to remain on hold.
- We look for the Canadian dollar to gain renewed strength and see further gains over time. Economic growth remains intact, with tight labor market trends and a slight firming of inflation. Fundamentals suggest the Canadian economy will grow 2.9 percent for full year 2017.







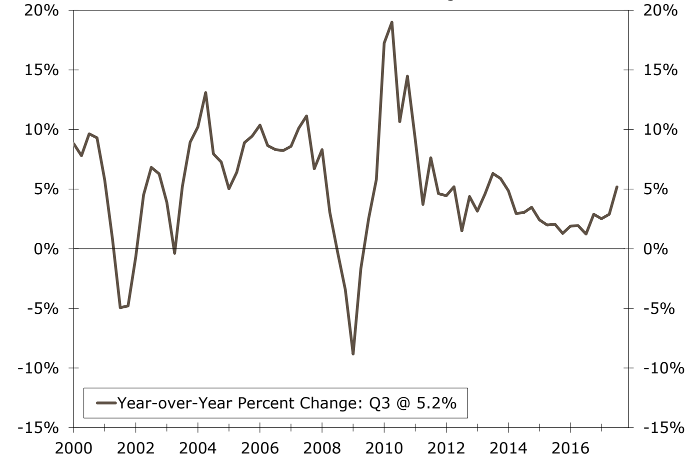


Source: IHS Global Insight, Bloomberg LP, S&P Case-Shiller and Wells Fargo Securities

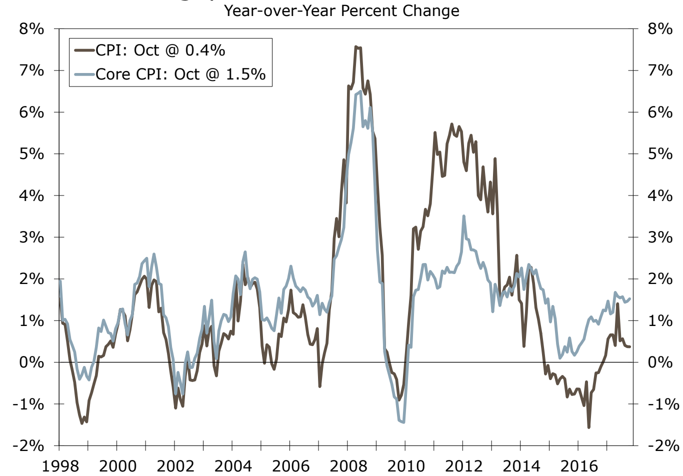
Singapore

- Growth in Singapore's economy picked up in Q3 with real GDP growing 5.2 percent year over year. This is the fastest pace of growth since Q1- 2014. Growth has mostly been driven by a rise in manufacturing output, up 18.4 percent over the year. The surge in manufacturing reflects, in part, continued strength in exports, up 11.8 percent in October on a three-month moving average basis. The acceleration in these sectors proves encouraging, as they have been the main culprits of the slower paces of growth seen over the past several years. However, construction output continues to struggle, declining 7.6 percent, year over year in the third quarter.
- The Monetary Authority of Singapore continues to be primarily concerned with the nation's exchange rate and price stability. Inflation remains low, at just 0.4 percent. However, against the U.S. dollar, the sing dollar has appreciated modestly in 2017. We expect the U.S. dollar to continue to depreciate gradually versus the sing dollar over the medium-term amid broad-based weakness in the greenback.
- Growth in the Singapore economy should remain solid due to strong fundamentals and continued global growth. That said, real GDP growth in the Lion City is unlikely to return to the rates of the last decade, when global economies were booming.

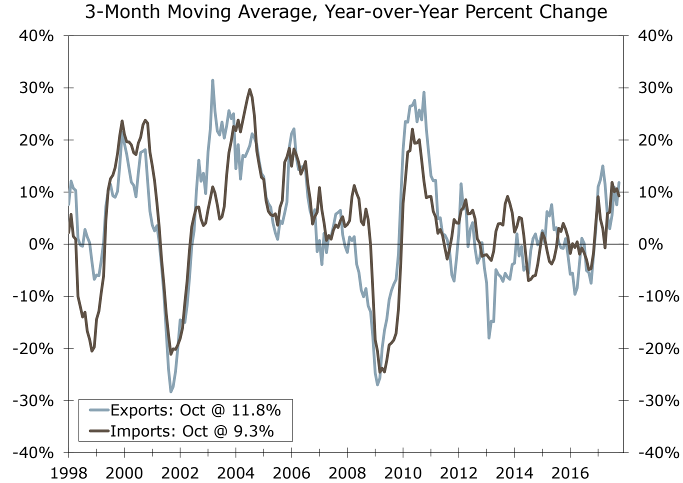
Singapore Real GDP
Year-over-Year Percent Change



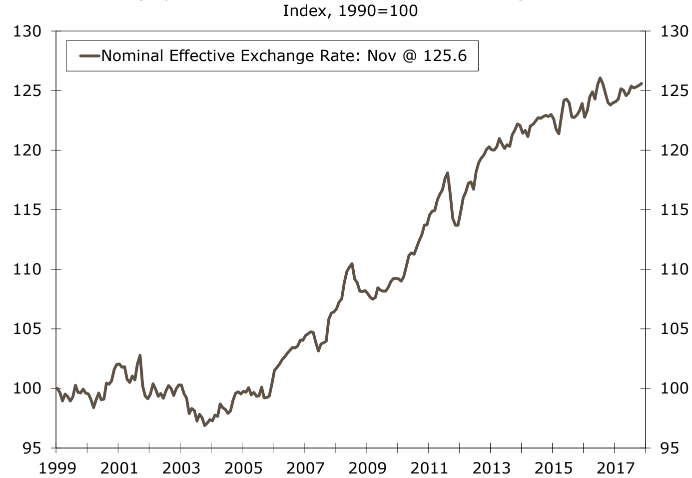
Singapore Consumer Price Index
Year-over-Year Percent Change



Singapore Non-Petroleum Trade
3-Month Moving Average, Year-over-Year Percent Change



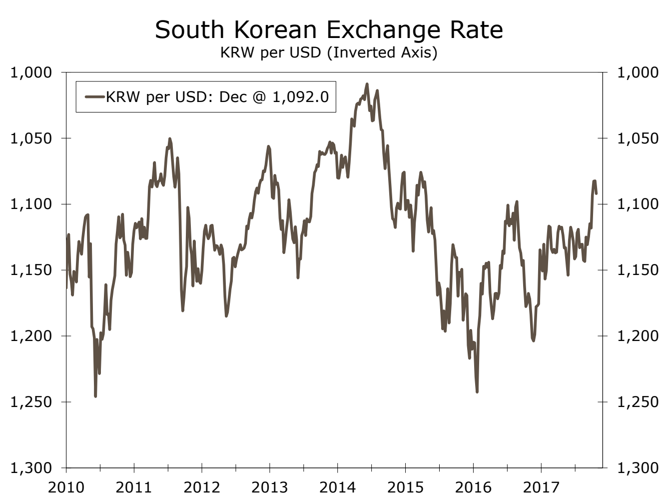
Singapore Nominal Effective Exchange Rate
Index, 1990=100

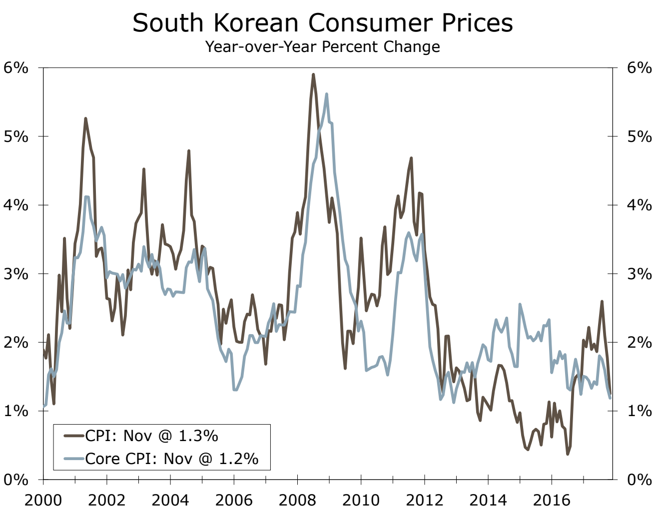


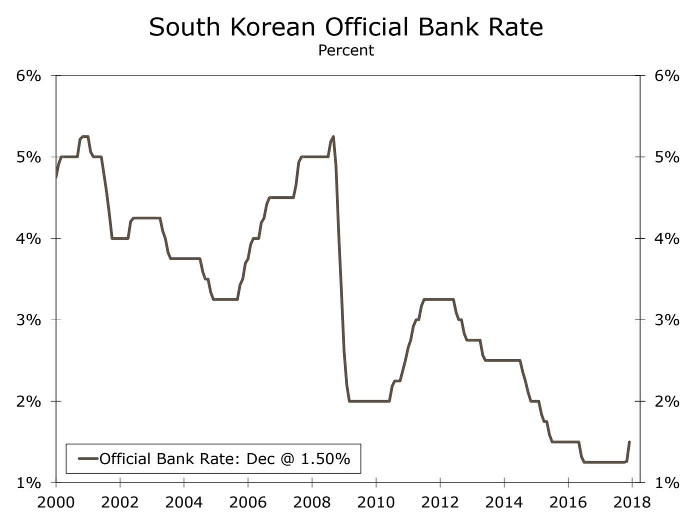
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

South Korea

- Growth in the third quarter was particularly strong in South Korea; up 3.8 percent on a year-ago basis. This marks the strongest rate of growth since Q1-2014. On a sequential basis, it was the fastest growth rate in seven years. Third quarter growth was in part driven by the firming in the global economy. As China is South Korea's most important export market, the more recent stabilization of China's economic growth has translated to improvements in South Korea's export market. Similarly, consumer spending continued to rise, although the pace of business fixed investment appears to have slowed.
- Despite relatively low inflation, the Bank of Korea (BoK), in a partially unexpected move, decided to raise its target rate from 1.25 percent to 1.50 percent, at its November policy meeting. The BoK cited a continued recovery in global growth and a solid firming on the domestic front, as lead causes of the increase in rates. That said, we highlight South Korea's aging population and historically high household debt-to-GDP ratio, which continue to be key threats to potential growth of the economy. Such risks, along with geopolitical concerns must continue to be monitored by the BoK.
- Moderate gains in the Korean won are expected over time, as the global growth environment continues to improve. We expect economic growth to continue in South Korea, with real GDP growing 3.3 percent in 2017 and 3.0 percent in 2018.



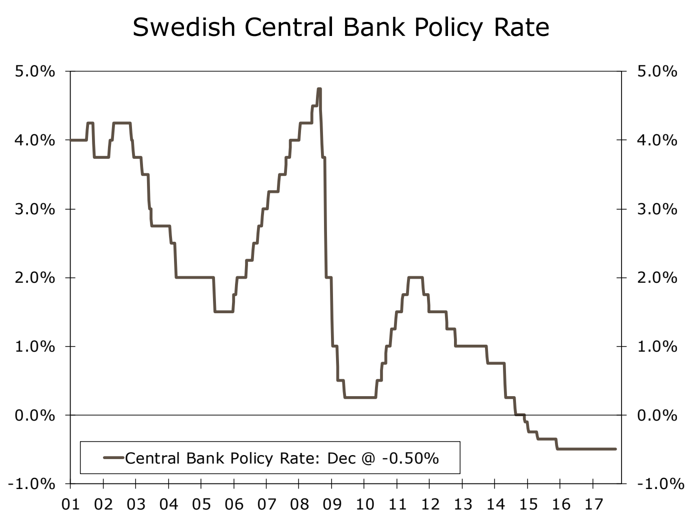


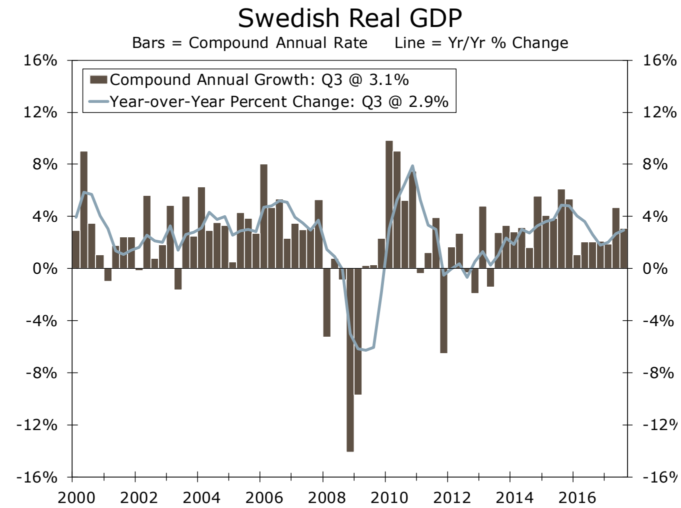


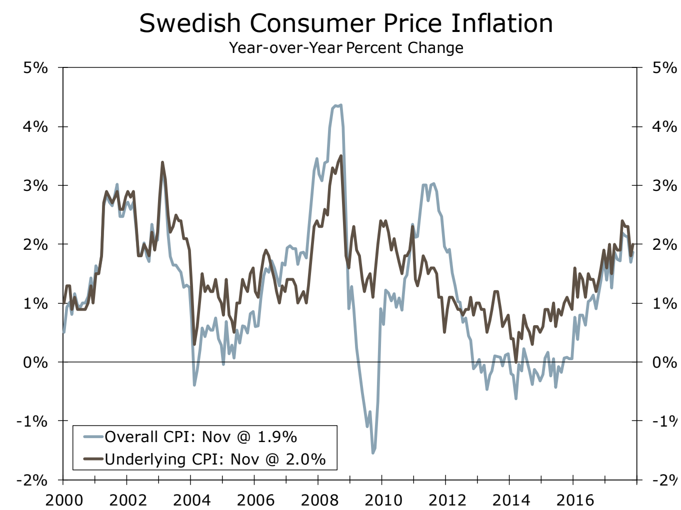
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

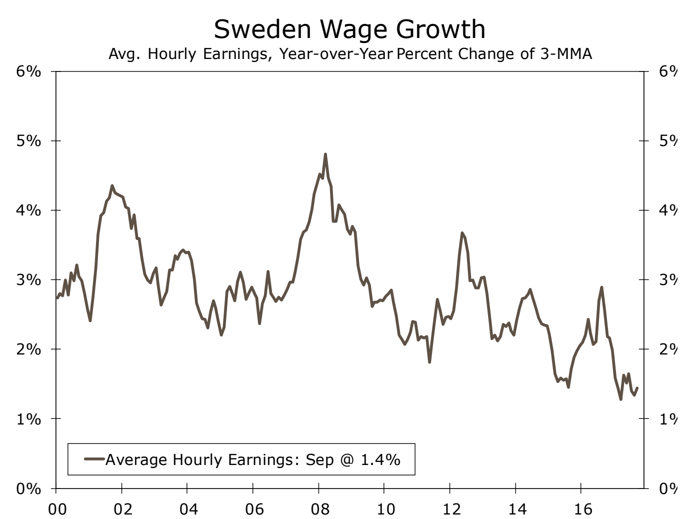
Sweden

- GDP growth in Sweden slowed slightly in Q3, but remains broadly positive, up 2.9 percent year over year. The Swedish economy was buoyed in the third quarter by solid fixed investment spending, while growth in household consumption saw a bit of a pullback after a stronger second quarter.
- Industrial output in Sweden continues to grow, especially in the mining and manufacturing sectors. However, wage growth has remained lackluster over the past year even as unemployment has receded. Although overall inflation remained just shy of the Riksbank's 2 percent target in November, it is still within the central bank's target of 1 to 3 percent.
- Amid slowly increasing inflation, the Swedish Riksbank maintained its historic low -0.50 percent policy rate and asset purchase program at its October meeting. The central bank faces a difficult decision regarding its asset purchase program at its December meeting, as other central banks have started to reverse policy accommodation. However, Swedish central bankers have noted that they do not want the krona to appreciate too rapidly as they begin to tighten policy.
- Our currency strategy team looks for the Swedish krona to appreciate in line with the gradual pace of rate hikes the central bank has signaled to begin later next year. With a solid expansion in place, the consensus looks for sustained GDP growth in 2018 in the range of 2.5 to 3.0 percent.





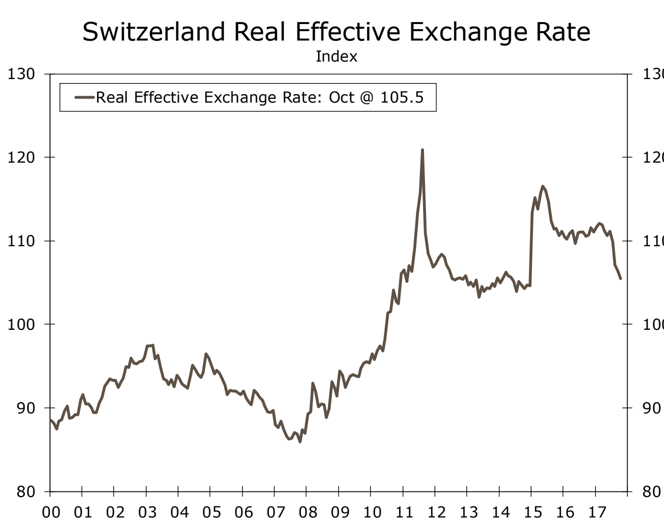


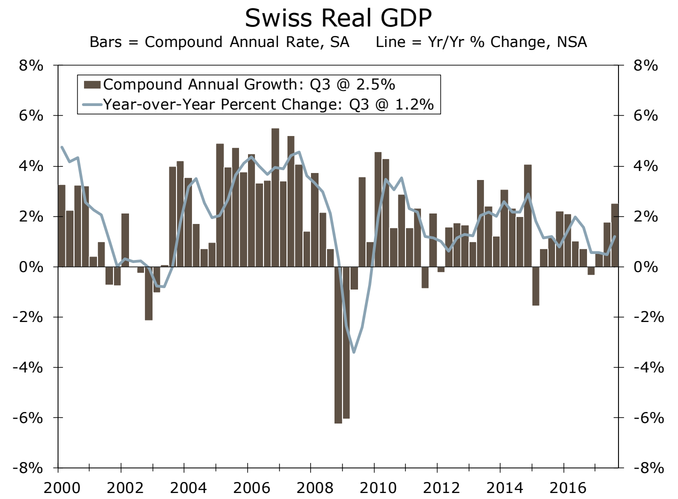


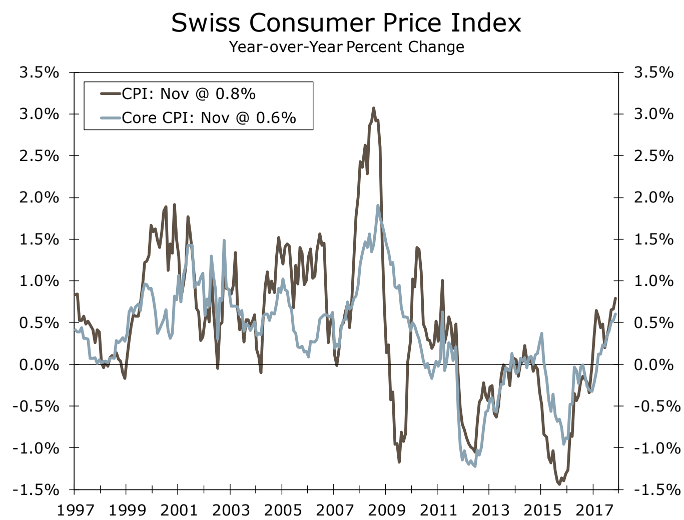
Source: IHS Global Insight and Wells Fargo Securities

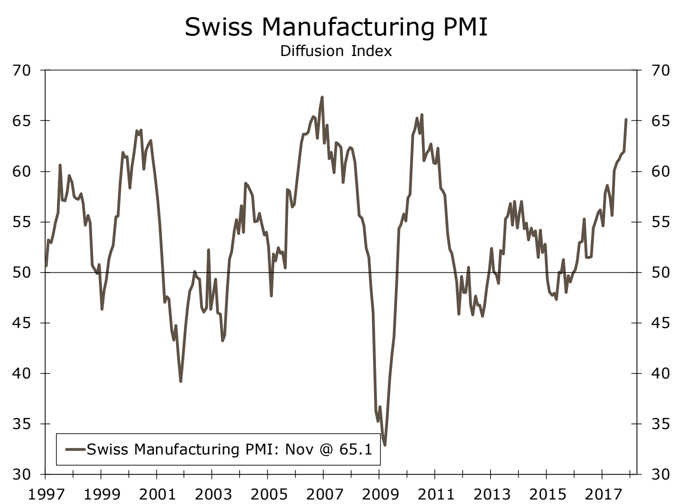
Switzerland

- Switzerland enjoyed broad-based growth in Q3, with GDP up 2.5 percent on an annualized basis. GDP growth has been more muted over the past few quarters, but the third quarter print affirms solid economic expansion across multiple sectors of the Swiss economy.
- The Swiss private sector continues to expand, and investment spending grew nearly 3 percent year over year in Q3. Stronger global demand also likely bolstered private sector growth. Goods exports firmly reversed their second quarter contraction, growing more than 6 percent on a year-ago basis in Q3. The manufacturing sector likely contributed to export growth, evidenced by the upward trajectory of the manufacturing purchasing managers' index this year.
- Although GDP is growing, inflation in Switzerland remains low, only exiting deflationary territory in 2016. The deflationary environment caused the Swiss National Bank (SNB) to actively target the exchange rate until the beginning of 2015, as well as cut its main policy rate to -0.75 percent.
- Low inflation will likely keep the SNB on hold for now. In our view, inflation should slowly increase in line with the expansion, pushing the SNB to gradually remove accommodation. The gradual timeline and still-low price pressures lead our currency strategy team to see softness in the Swiss franc against the euro, yet appreciation against the dollar as the greenback weakens against major currencies.





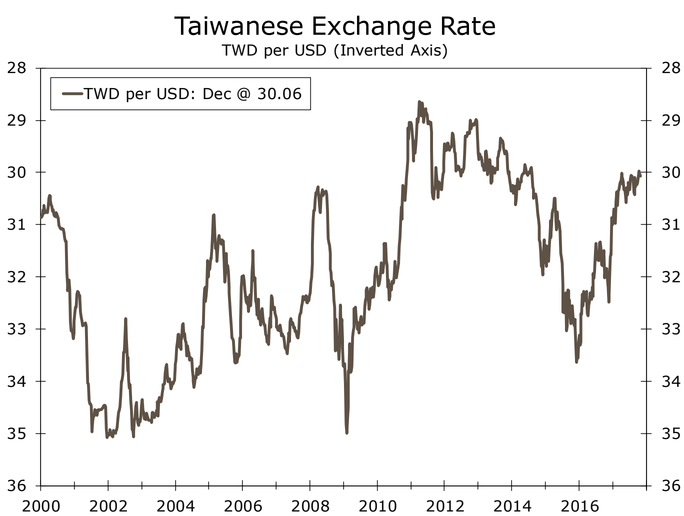


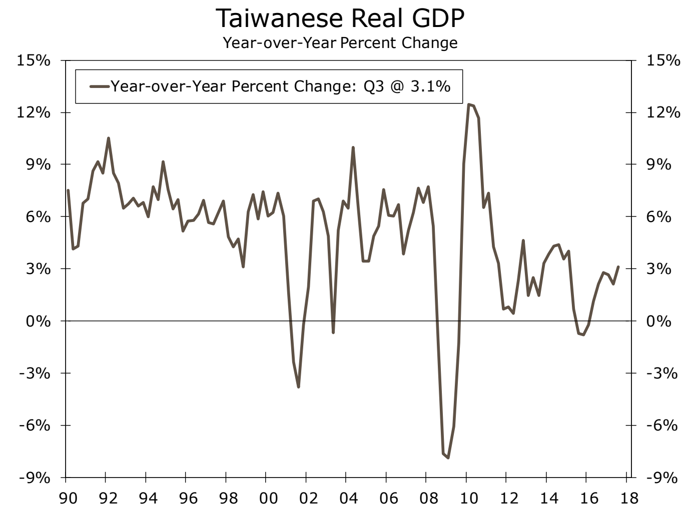


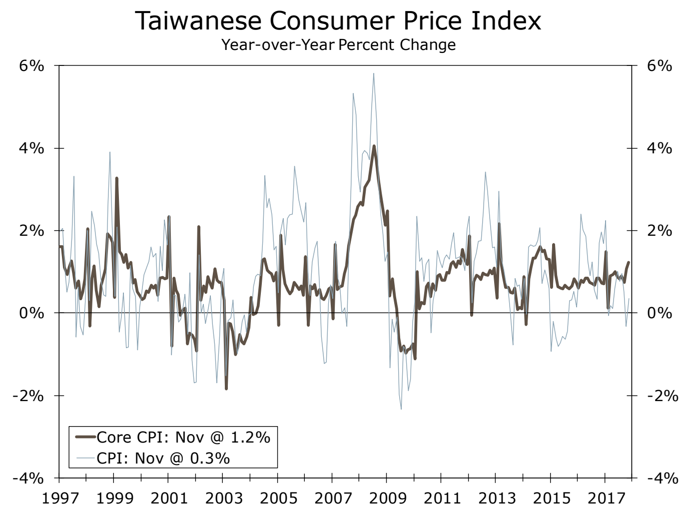
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

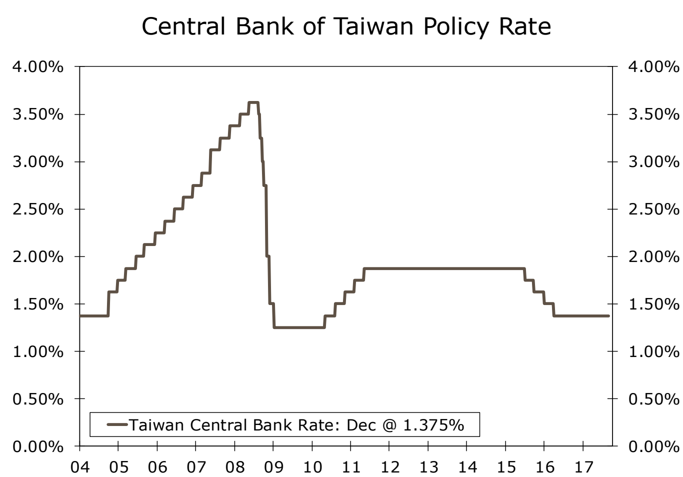
Taiwan

- Taiwan's economy accelerated in Q3, with real GDP growing 3.1 percent on a year-ago basis. The economy is largely dependent on international trade, especially with mainland China, and surging exports in the quarter contributed to the pickup.
- Trade with mainland China is crucial to Taiwan's overall growth. Exports to mainland China accounted for 30 percent of Taiwan's total exports in October. Overall exports surged more than 11 percent in Q3, the highest rate of growth since the end of 2010 even as Chinese real GDP growth slowed slightly over the period.
- While international trade has helped buoy the Taiwanese economy, domestically, inflation remains low, only improving slightly in recent months. The Taiwanese dollar has risen about 10 percent on a trade-weighted basis over the past year or so. Appreciation has made foreign goods less expensive and subsequently put downward pressure on prices. Although lower prices have likely helped domestic consumers, our currency strategy team looks for continued appreciation of the Taiwanese dollar next year, which could further weigh on inflation.
- Low inflation has kept Taiwan's central bank on hold. Policy rates have remained at 1.375 percent over the past year and a half following three rate cuts in 2015. The consensus largely expects rates to remain steady for the foreseeable future, as inflation likely will remain benign.





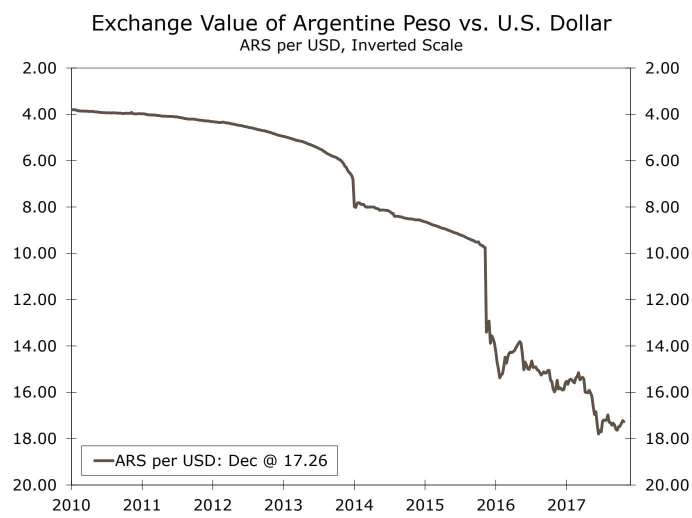




Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

Argentina

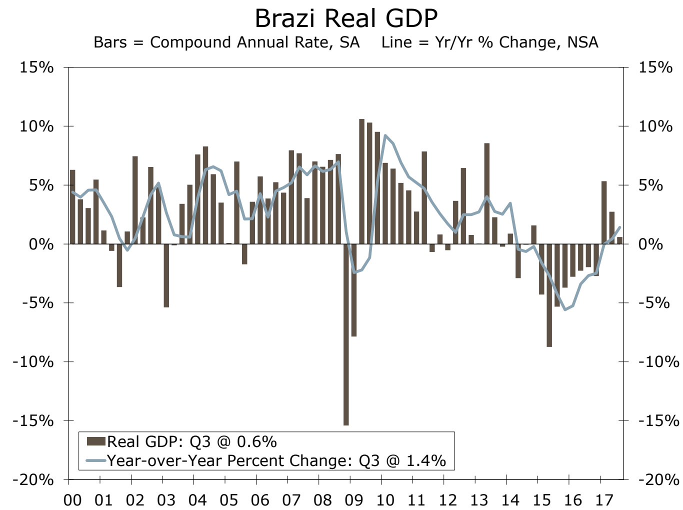
- Real GDP continues to improve in Argentina, with economic growth remaining in positive territory on a year-ago basis in Q2. Although Argentina's statistical institute will not publish GDP results for the third quarter until December 20, the economic activity index, a proxy for GDP, points to continued growth in the Argentine economy.
- The economic activity index registered growth of 4.3 percent in Q3 compared to a rate of 2.7 percent during Q2, year over year. The manufacturing sector continues to improve, although mining activity has remained in recession for almost two years. Similarly, the utilities sector continues to be negatively affected by the elimination of subsidies on electricity and natural gas consumption. However, the construction sector appears to be surging again, up 25.3 percent on a year-earlier basis in October.
- Inflation remains elevated, currently sitting at 22.3 percent. Such high levels of inflation remain a key concern of the Argentine central bank, which has continued to slowly hike rates since the start of the year. As the Argentine peso continues to fall against the U.S. dollar, it is uncertain if inflation will continue to subside.
- We remain positive on the immediate future of the Argentine economy. Despite high inflation and high interest rates, we believe growth in the Argentine economy will continue, albeit at a modest pace.

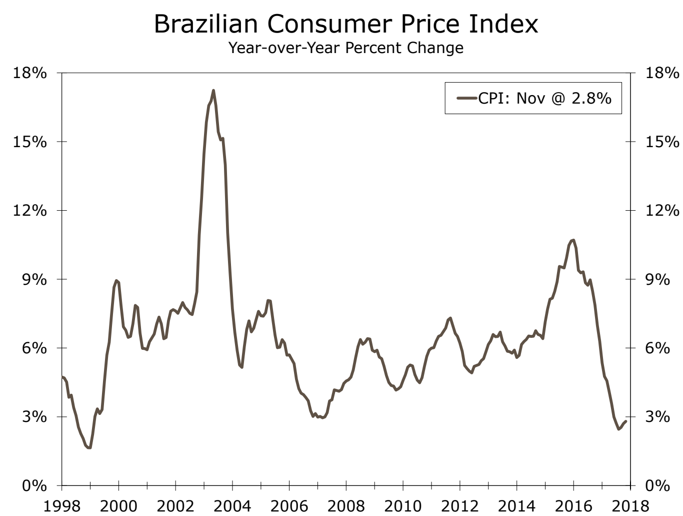


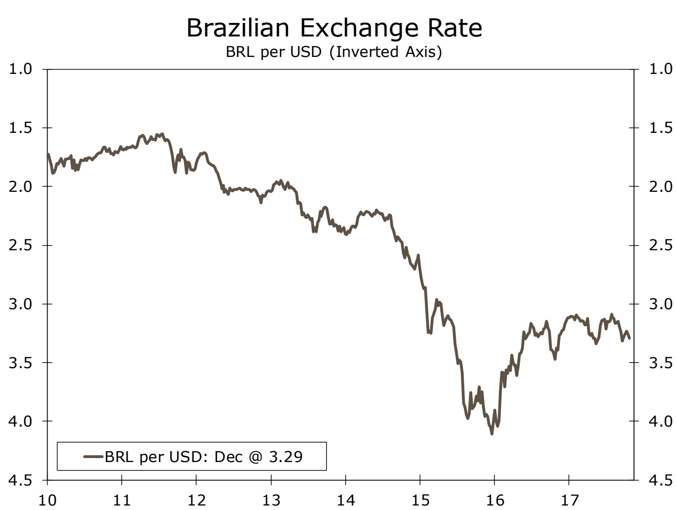
Source: IHS Global Insight and Wells Fargo Securities

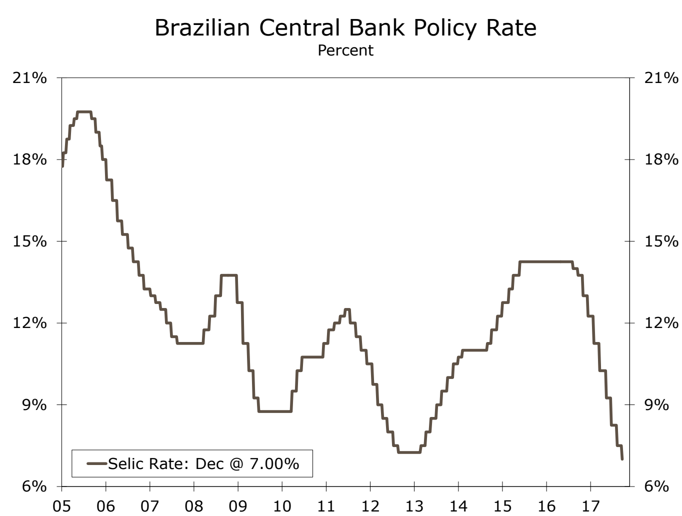
Brazil

- The Brazilian economy expanded for the third consecutive quarter in Q3, albeit at a slower pace than the preceding period. Coming off the worst recession on record, recent trends point to continued, yet gradual, economic growth in Brazil.
- The recovery continues to be driven by growth in domestic demand, with steady rises in household spending and a recent surge in real gross fixed investment in Q3. The rise in fixed investment was the first positive print in four years, pointing to the broadening of the Brazilian economic recovery. Real exports have continued to contribute to growth; however, a surge in imports in the third quarter prevented overall GDP growth from being greater.
- Inflation has inched higher on a year-over-year basis to 2.8 percent in November, yet it remains among the lowest of levels since February 1999. The Brazilian central bank reduced its policy rate to 7.0 percent at its December meeting, marking the lowest level since 1999. This tenth straight cut in interest rates continues to spur modest growth in the Brazilian economy.
- We expect the Brazilian economy to grow 1.0 percent in 2017 based on increased consumption and continued export growth. However, we remain cautious concerning the political climate in Brazil and the effects of the 2018 elections on future economic progress.





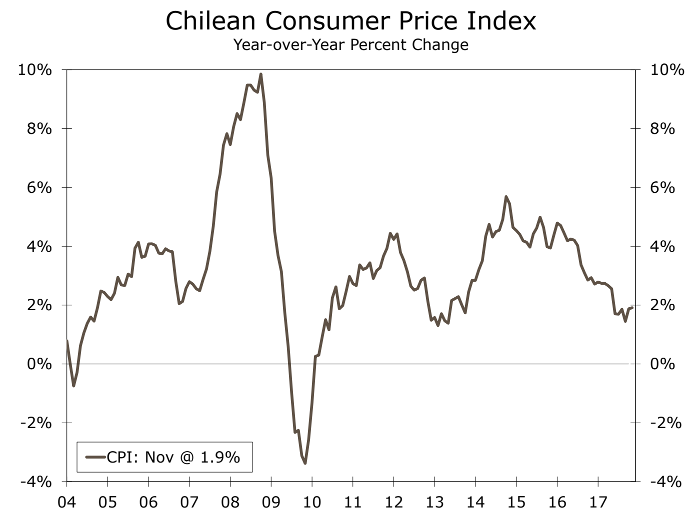


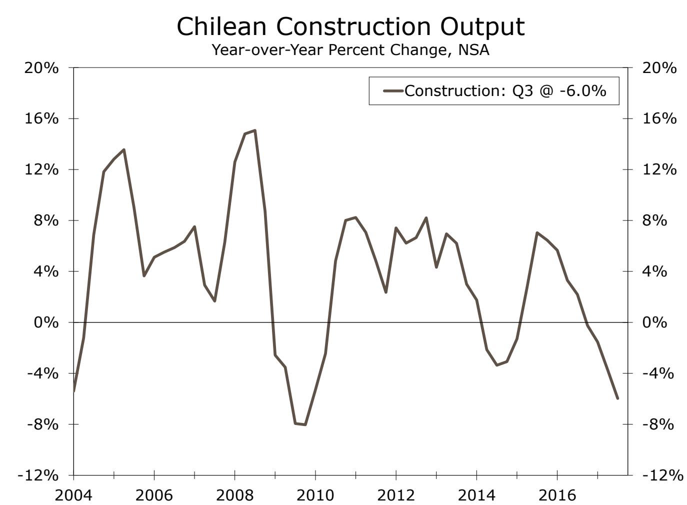


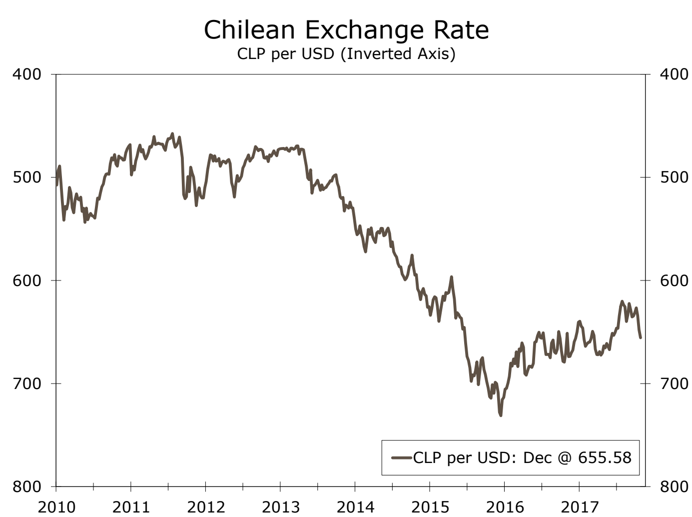
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

Chile

- The Chilean economy strengthened further in Q3, growing 2.2 percent versus a year earlier. The mining sector has come back from one of the weakest periods in recent history, up 7.5 percent versus a year earlier. Copper production led the surge, as the primary driver of growth within the mining sector. However, weakness in the construction sector continues to weigh on investment growth, and perhaps possesses the largest threat to continued improvement in Chilean economic activity.
- Spending continues to be a strong sector within the Chilean economy, with both personal and government consumption remaining elevated.
- As expected, the Central Bank of Chile decided to keep its main policy rate at 2.5 percent at its December monetary policy meeting, citing low inflation figures and consumption data in-line with expectations. Inflation remains stable, after coming down to less than 2 percent this year from close to 6 percent in mid-2014. The Chilean peso has stabilized recently, and should continue to gain modestly over time against the U.S. dollar, with mild inflation and modest growth.
- Although we do not explicitly forecast GDP growth in the Chilean economy, we expect the economy to continue to slowly improve, based on steady growth in consumption and continued improvements within the mining sector.



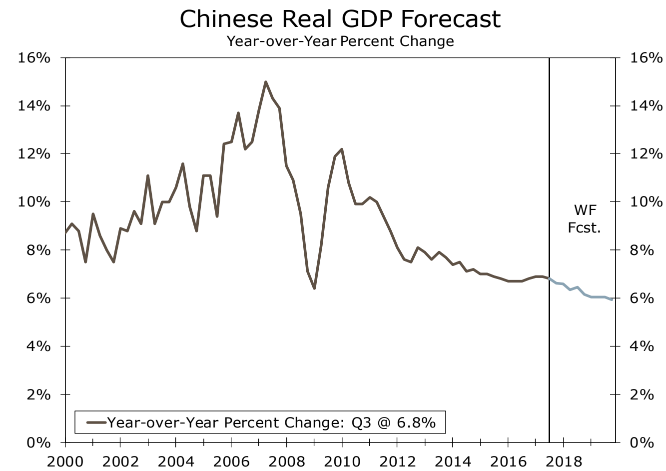


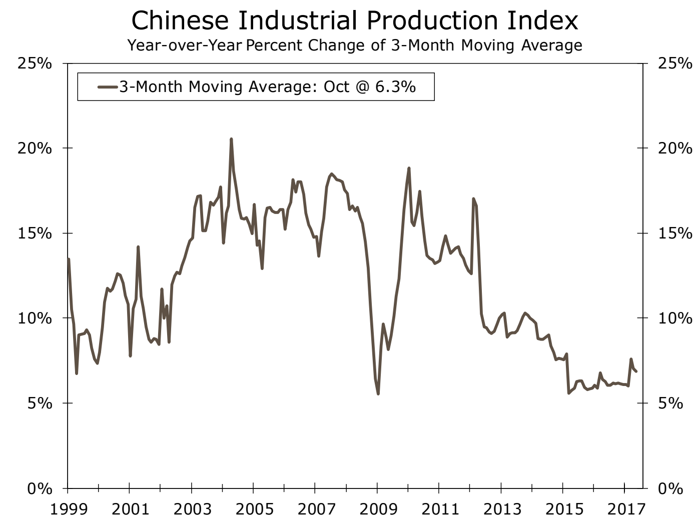


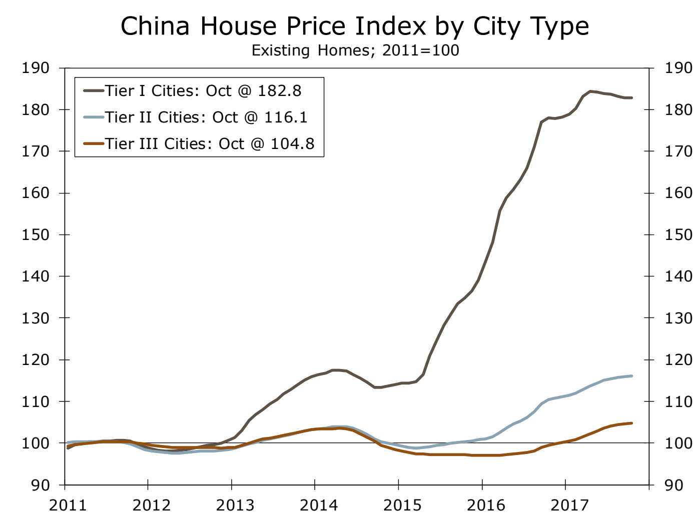
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

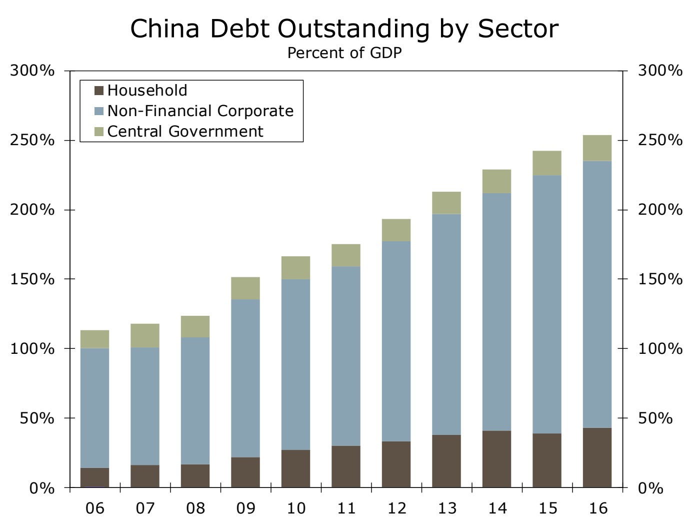
China

- Economic growth in China maintained its expansionary pace in Q3, slowing only slightly relative to Q2, at 6.8 percent year over year. That said, we forecast that real GDP growth will slow further over the next two years. Our forecast looks for GDP to grow 6.4 percent in 2018 and 6.0 percent in 2019.
- Fixed investment spending in China has notably slowed this cycle, as debt from the non-financial business sector has grown to more than 160 percent at present. In our view, elevated corporate leveraging presents a downside risk to our growth outlook; however, one that is also manageable for the foreseeable future on the part of the Chinese government.
- A slowdown in overall growth has weighed on industrial output in China, especially after the sector experienced growth rates close to 20 percent following the global recession in 2008. Real export growth has also slowed over the past few years, although it has picked up somewhat this year.
- For Chinese consumers, housing markets in the country's largest cities appear to have begun to stabilize, although house prices in these areas still remain highly elevated after their rapid acceleration beginning in 2015. Inflation has also picked up in recent months, with core CPI now firmly above 2 percent. A tight housing market and higher inflation could weigh on consumer spending. However, in our view, a pullback in growth at the expense of surging consumer debt is unlikely.





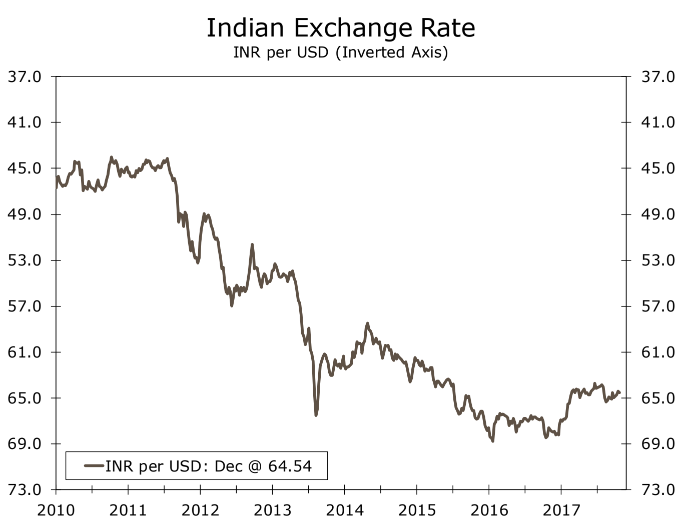


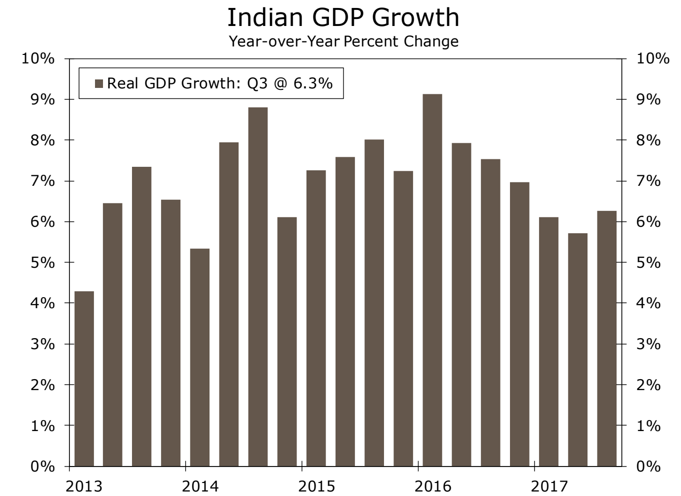


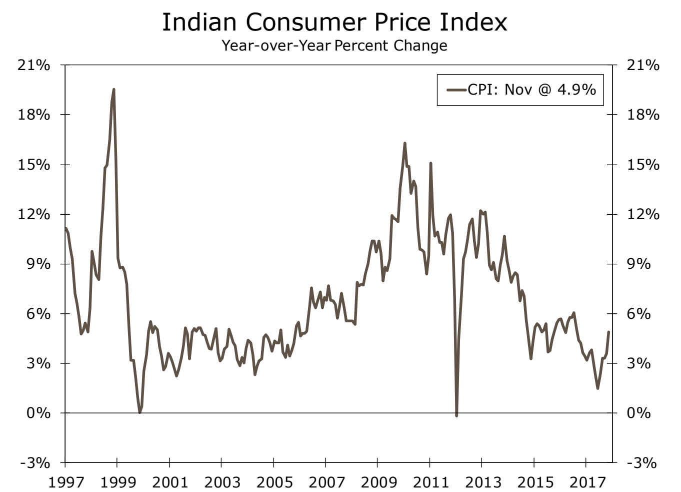
Source: IHS Global Insight, CEIC, Bloomberg LP and Wells Fargo Securities

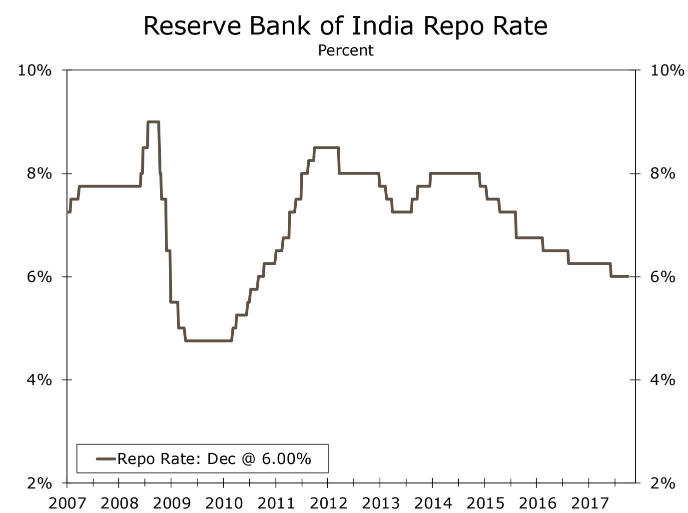
India

- GDP growth in India was a pleasant surprise in Q3, up 6.3 percent year over year, while reversing its five-quarter downward trend. India's economic growth slowed in prior quarters following demonetization in 2016 and the implementation of a goods and services tax (GST) earlier this year.
- Fixed investment spending contributed to the rebound in Q3 growth, up close to 5 percent after remaining lackluster over the past three quarters. Private consumption growth was also solid, even as inflation picked up in November above the Reserve Bank of India's (RBI) 4 percent target.
- Several sectors on the production side of the economy experienced a pickup in Q3. Notably, the mining and quarrying sector's gross value added reversed its Q2 decline, up 5.5 percent on a year-ago basis. The manufacturing sector also saw healthy growth in Q3 after concerns over the implications of the GST likely receded. The government recently announced plans to reduce the tax incidence from the GST for consumers and compliance requirements for businesses.
- The RBI kept policy rates unchanged at its December meeting, holding the repurchase rate steady at 6.0 percent after cutting it 25 bps at its August meeting. In the midst of a pickup in inflation and regulatory changes, our forecast looks for growth to continue. We predict GDP to be up 6.7 percent in FY 2018 and 7.1 percent in FY 2019.





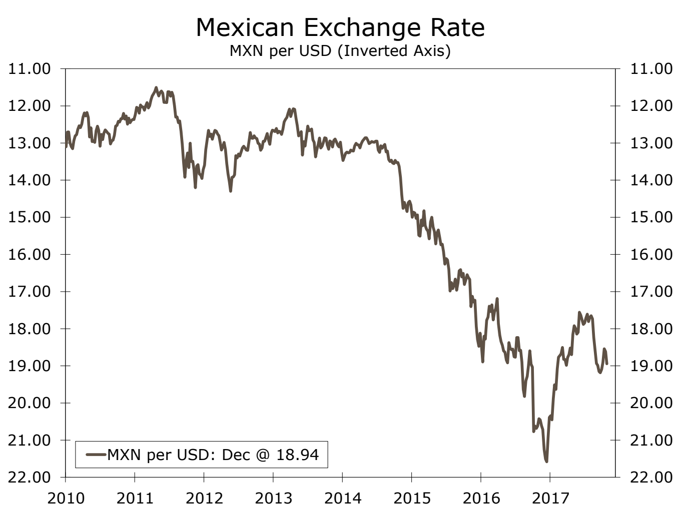


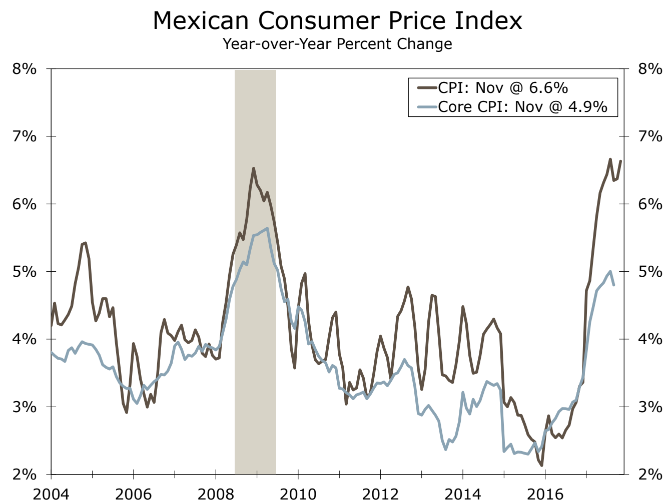


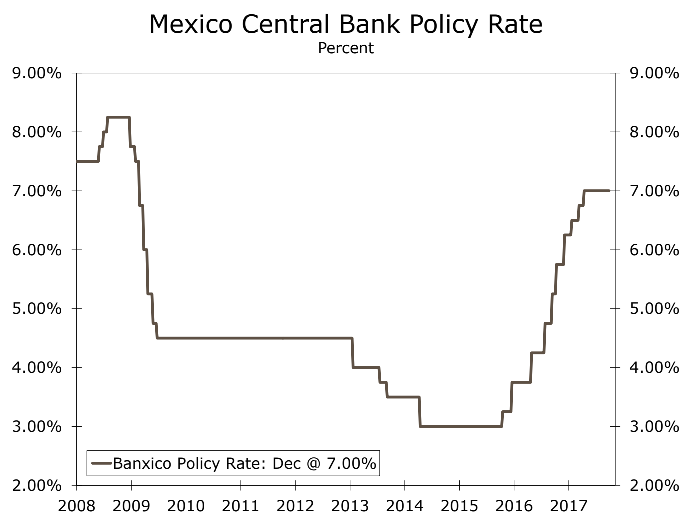
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

Mexico

- Growth in the Mexican economy remains lackluster, as hesitation still looms amid political uncertainties. Real GDP growth was up 1.5 percent year over year in Q3, but shrank 0.3 percent over the quarter. The recent slowdown in GDP has, in part, been attributed to the temporary effects of the recent earthquake and hurricanes on the oil and tourism industries.
- Investor hesitations persist in both the domestic as well as international investment markets as the re-negotiation of NAFTA continues unabated. The possible collapse of the trade agreement could pose severe risks for the Mexican economy as a whole.
- High inflation continues to be the main concern for the Bank of Mexico, which has tightened monetary policy to curb the anticipated rise in inflation. The Bank of Mexico remains cautious of the effect of its near doubling in interest rates on continued improvement in the Mexican economy.
- The Mexican peso will likely be under pressure as the current economic and political climate encompasses NAFTA re-negotiations and upcoming presidential elections. Although uncertainties persist, we expect that modest growth coupled with tight monetary policy, should decrease inflation while eventually reversing weakness in the peso. We expect growth in the Mexican economy of 2.0 percent in 2017, and 1.9 percent in 2018.



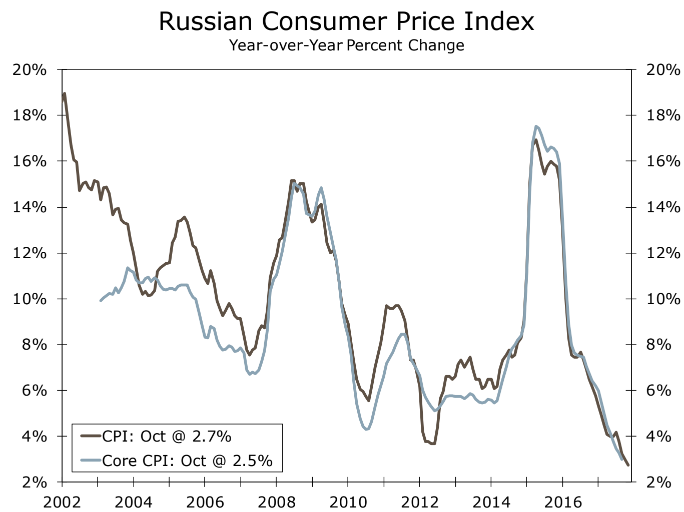


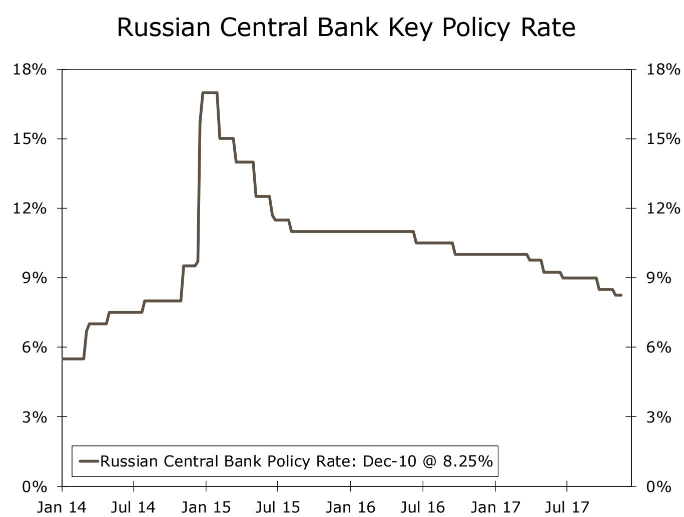


Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

Russia

- Consistently positive GDP growth in Russia is a welcome change following several years of economic downturn due to the Ukrainian crisis and oil price collapse in 2014. Although Q3 GDP growth came in lower than the previous few prints, it remains positive at 1.8 percent year over year, likely buoyed by broad-based growth in most of the demand components.
- The consumer outlook has improved markedly in Russia over the past year; unemployment has come down to roughly 5 percent at present, and Russian workers have seen a pickup in wage growth. Inflation continues to decline, dropping far below the sky-high rates seen after the nosedive of the ruble following the collapse of oil prices in 2014. Receding price pressures and a better employment outlook have bolstered retail sales and consumer spending.
- Slower GDP growth and the decline in inflation were likely factors pushing the Central Bank of Russia (CBR) to cut its main policy rate by 25 bps in October to 8.25 percent. The ruble has stabilized recently, and our currency strategy team looks for it to remain largely unchanged against the greenback next year.
- We look for modest economic growth to continue in Russia in the coming quarters, but at a rate closer to 2 percent, unlike the double digit growth rates seen in prior expansions. Low oil prices and the continued contraction in the population will likely weigh on a more rapid pace of expansion.

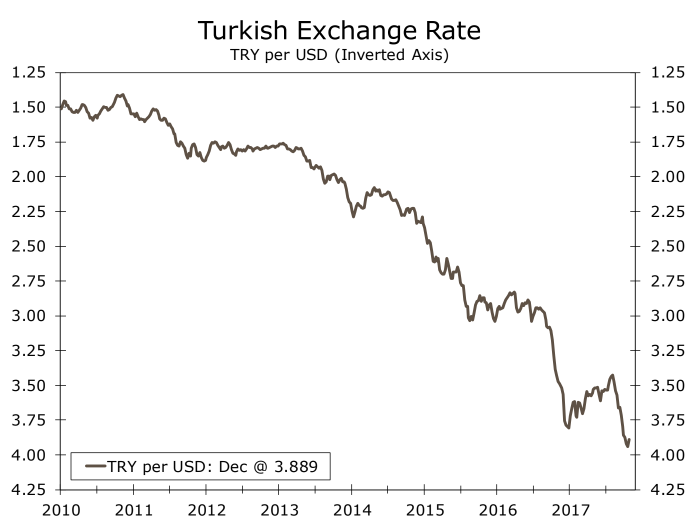


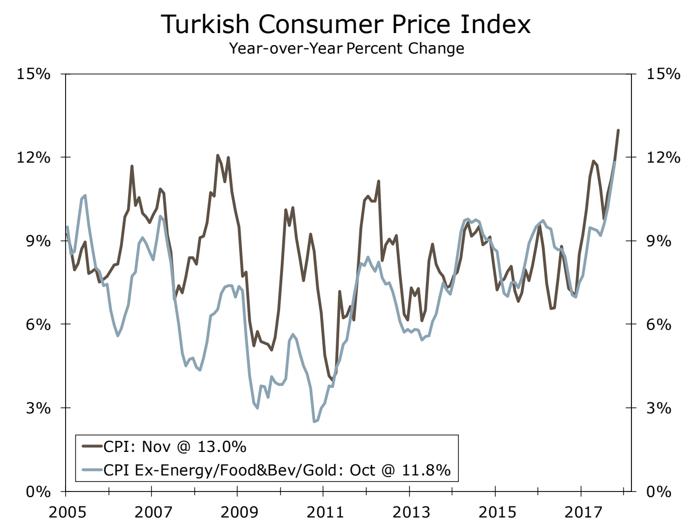


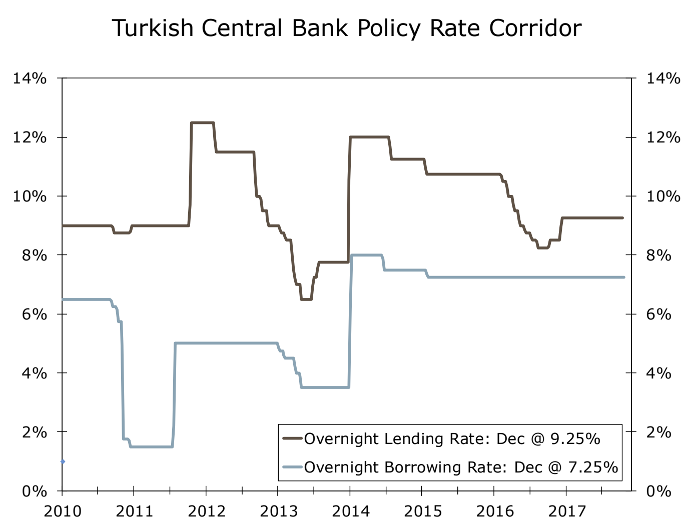
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

Turkey

- After a volatile drop in GDP in the wake of the Turkish military coup in July of last year, GDP soared in Q3, rebounding 11.1 percent on a year-ago basis. While some of this surge can be attributed to base effects from the dip last year, the Turkish economy is still clearly expanding at a solid pace, at least at present.
- On the demand side, private consumption and fixed investment both increased in Q3, up nearly 11 percent from a year ago. However, inflation has increased markedly over the past year due to sharp depreciation of the Turkish lira over the past few months. The CPI is currently up 13 percent year over year in November. The unemployment rate also remains elevated, which, coupled with higher prices, has exerted a drag on consumer spending as of late.
- The production side of the Turkish economy has also rebounded following the 2016 coup. Value add in the agricultural, construction and services sectors picked up in Q3, and industrial production growth remains well above its negative rate seen last year.
- Elevated inflation pushed the Central Bank of Turkey to hike its late liquidity lending rate by 50 bps to 12.75 percent at its December meeting. Our currency strategy team looks for the lira to appreciate against the dollar in the medium term as the greenback weakens. The consensus looks for GDP growth to stabilize between 3.5 and 4.0 percent in 2018 and 2019.



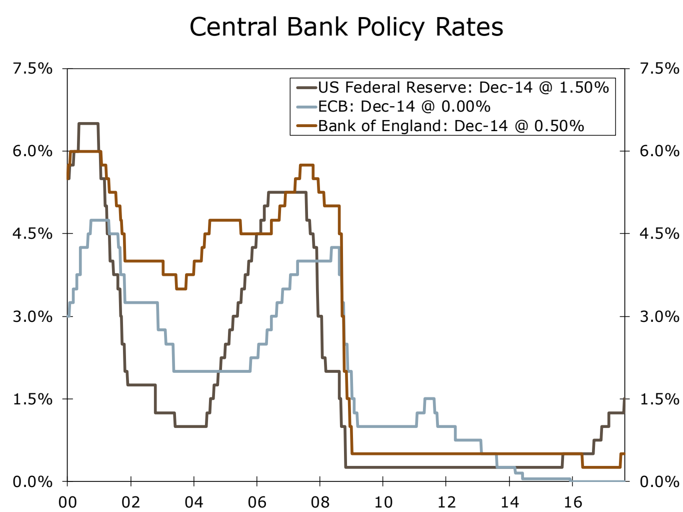


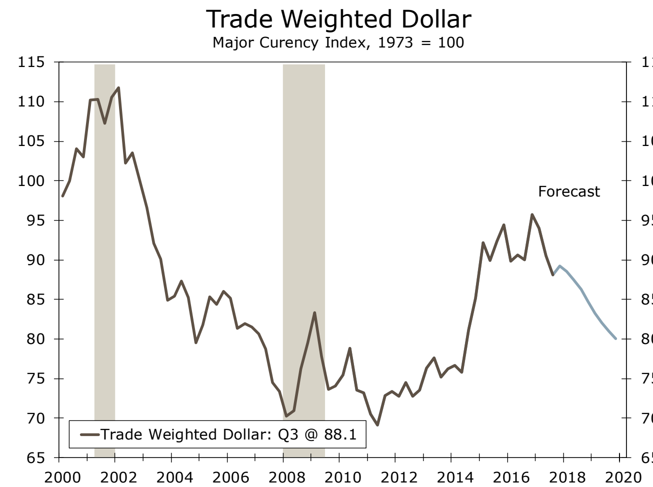


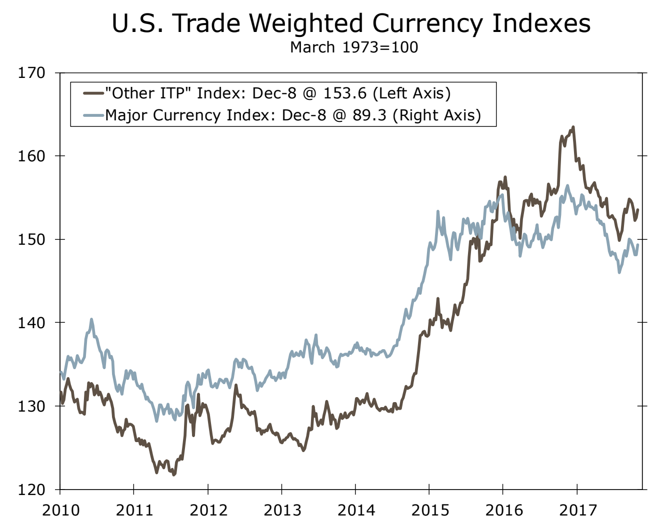
Source: IHS Global Insight, Bloomberg LP and Wells Fargo Securities

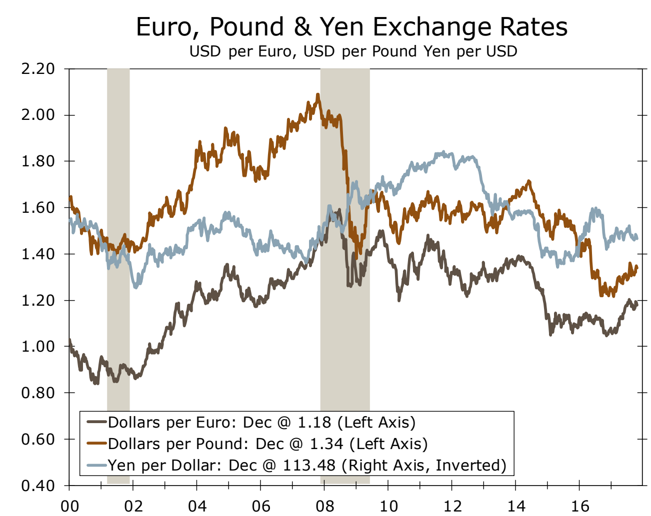
Dollar Exchange Rates

- The greenback declined this year, although it has recovered somewhat in recent months. The Federal Reserve's major currency index, a measure of the dollar on a trade-weighted basis against a basket of global currencies, is still down more than 5 percent this year.
- Central banks had been on a path of monetary policy divergence over the past several years. The Fed has gradually raised rates, while other central banks have remained firmly accommodative. However, over the past year we have seen a slow pivot toward monetary policy convergence. Global growth has surprised to the upside, and many central bankers have subsequently tightened policy amid firming economic conditions and slowly increasing inflation. The Bank of Canada hiked rates twice in recent months by a total of 50 bps, and the Bank of England reversed its post-Brexit rate cut in November, raising its target rate 25 bps.
- The path to convergence will likely be a slow one, as some countries have yet to fully reverse dovish policies. The European Central Bank is still dialing back monthly bond purchases, and the Bank of Japan's easing program will likely remain in place for the foreseeable future.
- Although tightening among the world's central banks will likely be gradual, our currency strategy team predicts sustained medium to long-term weakness in the U.S. dollar. Both emerging and advanced market currencies should see gains against the dollar as global monetary policy slowly converges over the coming years.





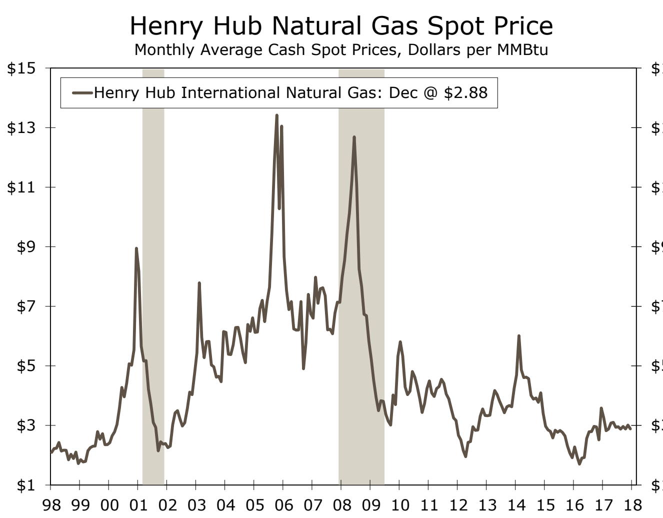


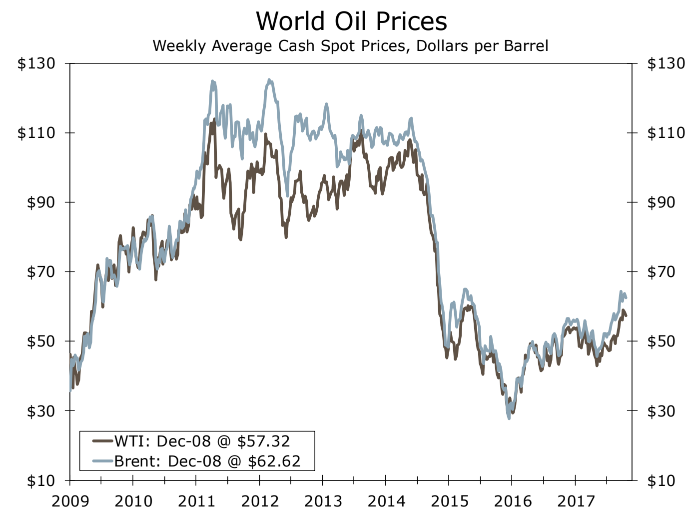


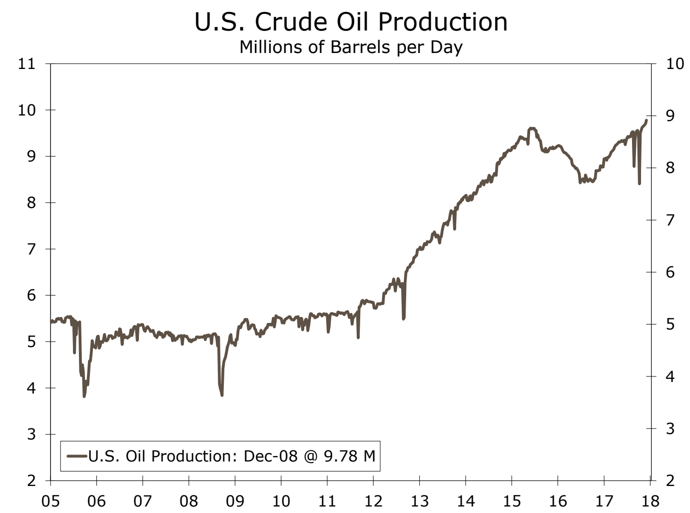
Source: Federal Reserve Board, Bloomberg LP, IHS Global Insight and Wells Fargo Securities

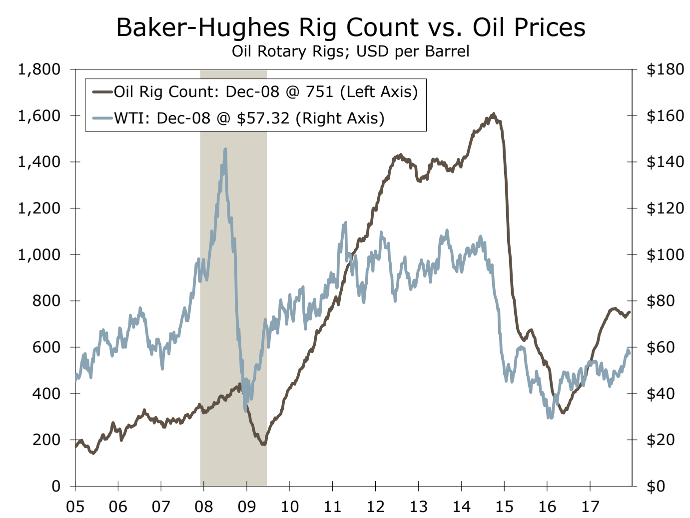
Energy

- Oil prices continue to rebound from the slowdown seen earlier this year. Brent prices have steadily risen above the $50 threshold since late July, as of this writing trading near $60. Although on the rise, oil prices remain significantly below the peak levels observed between 2011 and 2014. However, modest rebounds in prices have been supportive of improvement in rig counts. We expect oil prices to trend gradually higher.
- Market disruptions and OPEC's production cuts have and may continue to affect global supply, yet U.S. crude oil production remains on a slight rise, up 11.5 percent since the start of the year.
- Shortages of supply and increased geopolitical concerns, yet robust growth in global demand, have led to continued firming in prices. That said, the International Energy Agency (IEA) has slightly downshifted its demand forecasts for 2017 and 2018, calling for a slight reduction in global demand. The projected decrease is due partly to higher prices as well as warmer winter conditions in the northern hemisphere. The IEA is projecting a slight surplus in the global oil market to start 2018, although consumption is expected to pace closely with production over the next couple of years.
- Natural gas prices have remained relatively stable. However, with inventories currently at their lowest levels for this season since 2014, low inventory and unusually cold temperatures could potentially cause a surge in prices.





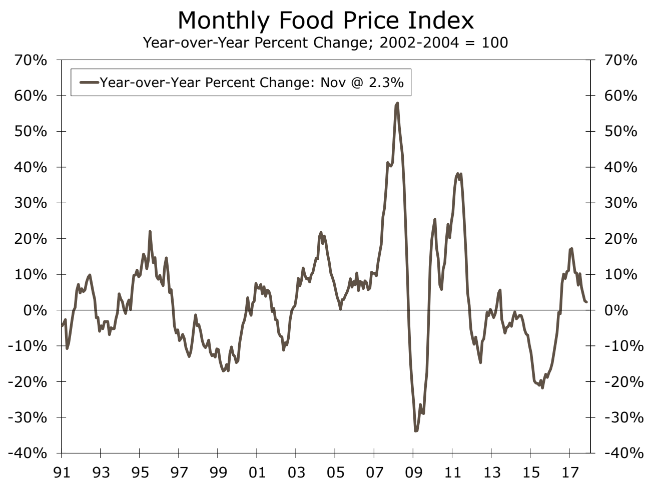


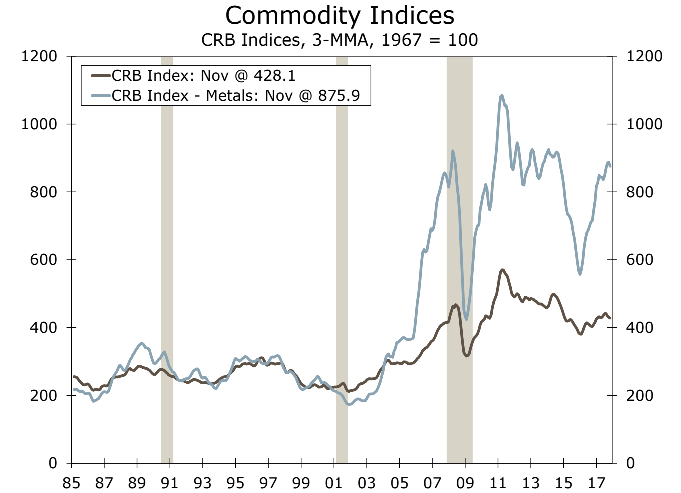


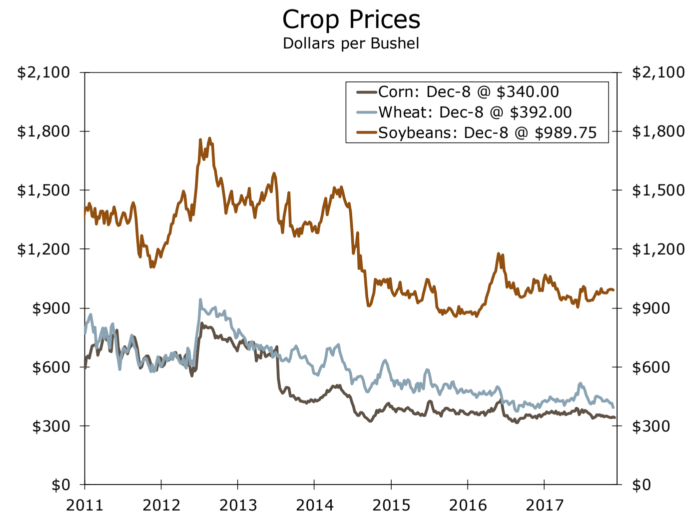
Source: IHS Global Insight, Moody's Analytics, Baker-Hughes and Wells Fargo Securities

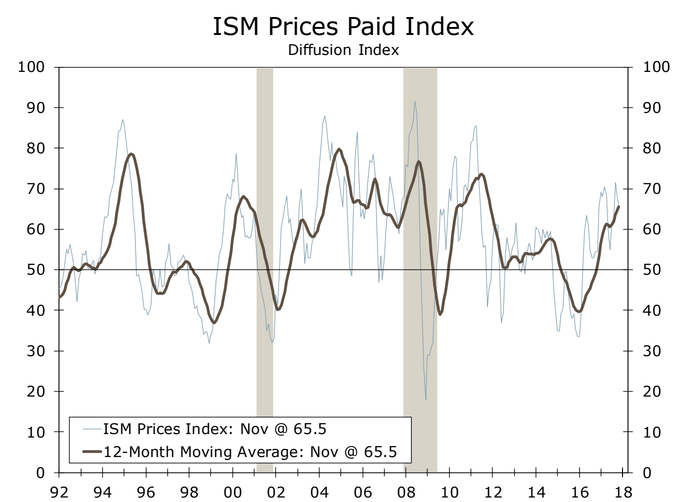
Other Commodities

- Demand for global commodities remained solid in Q3, as strengthening global growth and industrial production continue to ramp up. The Bloomberg Commodities Index is up almost 6 percent since June, and metals in particular have seen strengthening demand this year. The CRB metals index is up more than 17 percent from a year ago on a three-month moving average basis in November.
- The United Nation's Food Price Index has risen 2.3 percent over the past year. However, the dairy price index has registered its second monthly decline in November, while cereal and meat prices have remained basically unchanged over the past several months. International sugar prices rose in November, likely in part caused by a lack of supply due to decreased exports from Brazil. However, sugar prices remain well below the prices seen this time last year.
- Crop prices have moderated over the past year. Soybean and corn prices have shown the largest declines from a year ago, but have recently stabilized.
- In the United States, rising commodity prices are reflected in the upward trend of the ISM prices paid index. In November, commodities such as aluminum, corrugated boxes and hot rolled steel all posted several months of consecutive price increases. The recent trend could put upward pressure on finished goods prices in coming months.









Source: Bloomberg LP, ISM, Commodity Research Bureau, the United Nations and Wells Fargo Securities

Wells Fargo International Economic Forecast

(Year-over-Year Percent Change)

	GDP			CPI		
	2017	2018	2019	2017	2018	2019
Global (PPP Weights)	3.5%	3.4%	3.4%	3.1%	3.5%	3.5%
Global (Market Exchange Rates)	3.3%	3.3%	3.2%	3.1%	3.5%	3.5%
Advanced Economies[1]	2.4%	2.4%	2.2%	1.8%	1.9%	2.0%
United States	2.3%	2.7%	2.5%	2.1%	2.2%	2.1%
Eurozone	2.4%	2.1%	1.9%	1.5%	1.6%	1.8%
United Kingdom	1.5%	1.4%	1.8%	2.7%	2.3%	2.0%
Japan	1.5%	1.1%	1.0%	0.4%	0.9%	1.1%
Korea	3.3%	3.0%	2.6%	2.0%	1.8%	2.1%
Canada	2.9%	2.0%	1.7%	1.6%	2.0%	2.0%
Developing Economies[1]	4.7%	4.5%	4.5%	4.4%	5.0%	5.1%
China	6.6%	6.4%	6.0%	1.6%	2.2%	2.2%
India[2]	7.1%	6.7%	7.1%	3.3%	5.0%	4.7%
Mexico	2.0%	1.9%	2.9%	5.9%	5.0%	5.1%
Brazil	1.0%	2.6%	3.0%	3.5%	3.8%	4.4%
Russia	1.8%	2.1%	2.2%	3.7%	3.4%	4.5%

Forecast as of: December 14, 2017

[1]Aggregated Using PPP Weights [2]Forecast Refers to Fiscal Year

Wells Fargo International Interest Rate Forecast

(End of Quarter Rates)

	3-Month LIBOR						10-Year Bond					
	2017	2018				2019	2017	2018				2019
	Q4	Q1	Q2	Q3	Q4	Q1	Q4	Q1	Q2	Q3	Q4	Q1
U.S.	1.65%	1.90%	2.15%	2.40%	2.40%	2.65%	2.49%	2.66%	2.80%	2.90%	2.95%	3.05%
Japan	-0.02%	-0.01%	-0.01%	0.00%	0.01%	0.01%	0.03%	0.05%	0.07%	0.09%	0.12%	0.14%
Euroland[1]	-0.37%	-0.35%	-0.25%	-0.10%	0.05%	0.15%	0.35%	0.50%	0.65%	0.80%	1.00%	1.15%
U.K.	0.52%	0.52%	0.55%	0.65%	0.85%	0.90%	1.30%	1.40%	1.60%	1.75%	1.85%	1.95%
Canada[2]	1.40%	1.65%	1.75%	1.90%	2.00%	2.15%	1.90%	2.05%	2.25%	2.35%	2.45%	2.50%

Forecast as of: December 14, 2017

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

Source: IMF and Wells Fargo Securities

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