



SPECIAL COMMENTARY

May 23, 2007

Mexican Chartbook May 2007

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- Growth in Mexico, like growth in the United States and elsewhere, has slowed in recent quarters. The downshift in Mexican growth, however, has been pronounced in recent quarters ([Exhibit 1](#)). We expect growth in Mexico in coming quarters to pick-up, continuing through 2008 ([Exhibit 9](#)). There are, however, some downside risks to Mexican growth in the near-term.
- Mexican data point to slowing growth across a number of sectors. In recent months, industrial production in has slowed ([Exhibit 3](#)), as has retail sales growth ([Exhibit 4](#)). Furthermore, while the unemployment rate has held relatively stable around 4 percent ([Exhibit 5](#)), slowing growth across sectors could result in a rise in the unemployment rate.
- Recent inflationary pressures in Mexico have been relatively contained historically ([Exhibit 2](#)). The combination of slower growth and moderate inflationary pressures has kept Mexican long- and short-rates flat ([Exhibit 6](#)).
- Because there is often discussion of the correlation between the Mexican peso and commodities, analysts often look at the CRB index as a proxy. However, we have found that the correlation with MXN is not that strong ([Exhibit 7](#)).
- To better gauge what moves MXN, we did some regression analyses and found that about 90 percent of daily peso variation can be explained by the daily price moves of (in order of importance) silver, crude oil and lead ([Exhibit 8](#)). This makes sense, since Mexico is the world's second largest producer of silver, fifth largest producer of crude oil and fifth largest producer of lead. These commodities are key drivers for Mexico, which wields significant weight as a primary resource exporter.
- Because the Fed is likely to remain on hold for the rest of the year, and the U.S. has a wide current account deficit, we see gradual dollar depreciation against most major currencies in coming quarters - including the Mexican peso ([Exhibit 9](#)). Downside risks to the peso and the Mexican economy lie with an unanticipated slowing of the global economy and fall in commodity prices, neither of which we are forecasting.

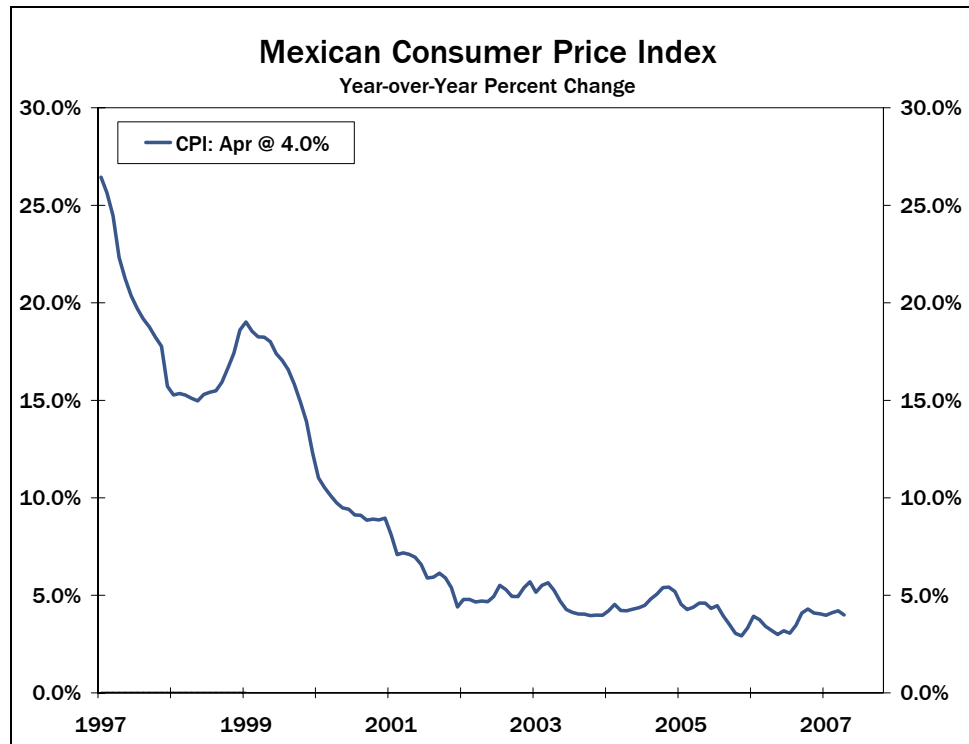
Exhibit 1



Source: Global Insight and Wachovia Corporation

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Exhibit 2



Source: Global Insight and Wachovia Corporation

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Exhibit 3



Source: Global Insight and Wachovia Corporation

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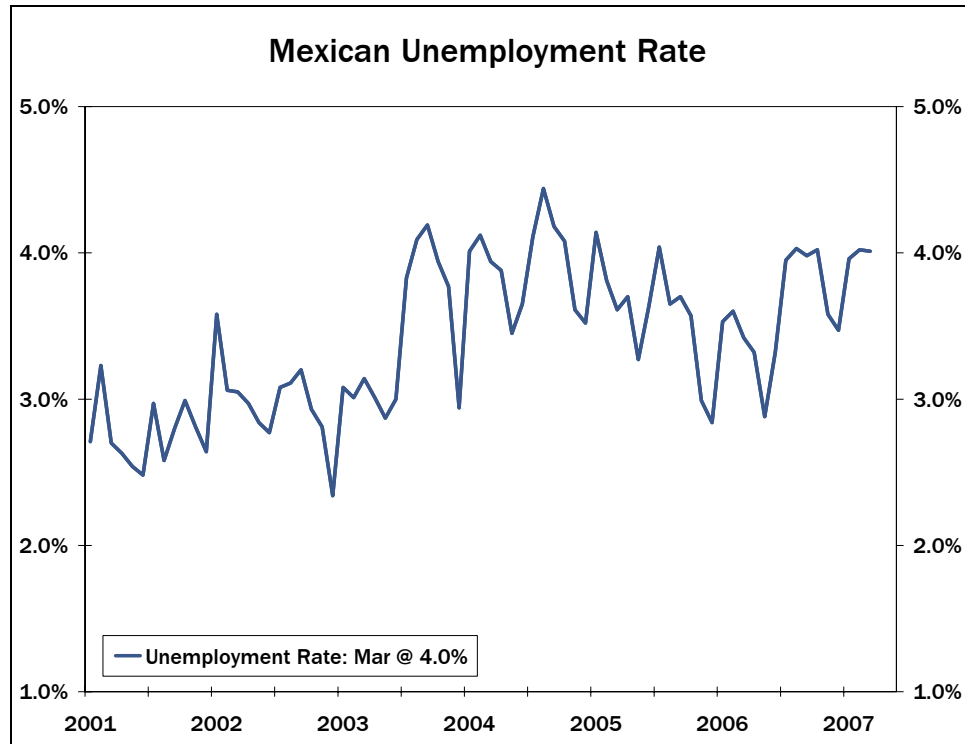
Exhibit 4



Source: Global Insight and Wachovia Corporation

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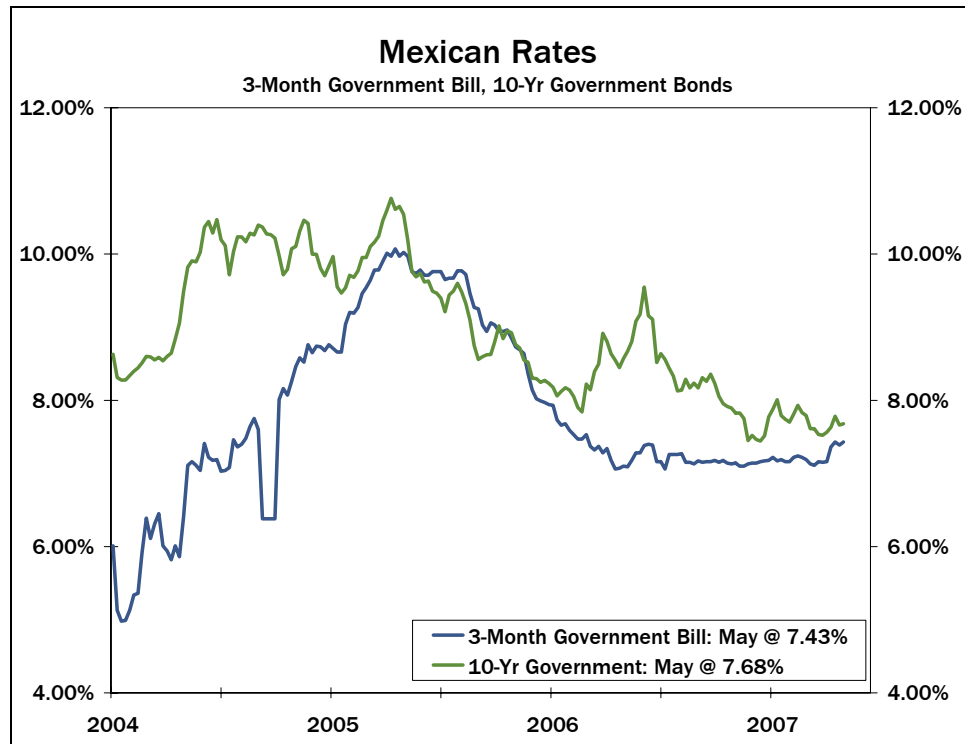
Exhibit 5



Source: Global Insight and Wachovia Corporation

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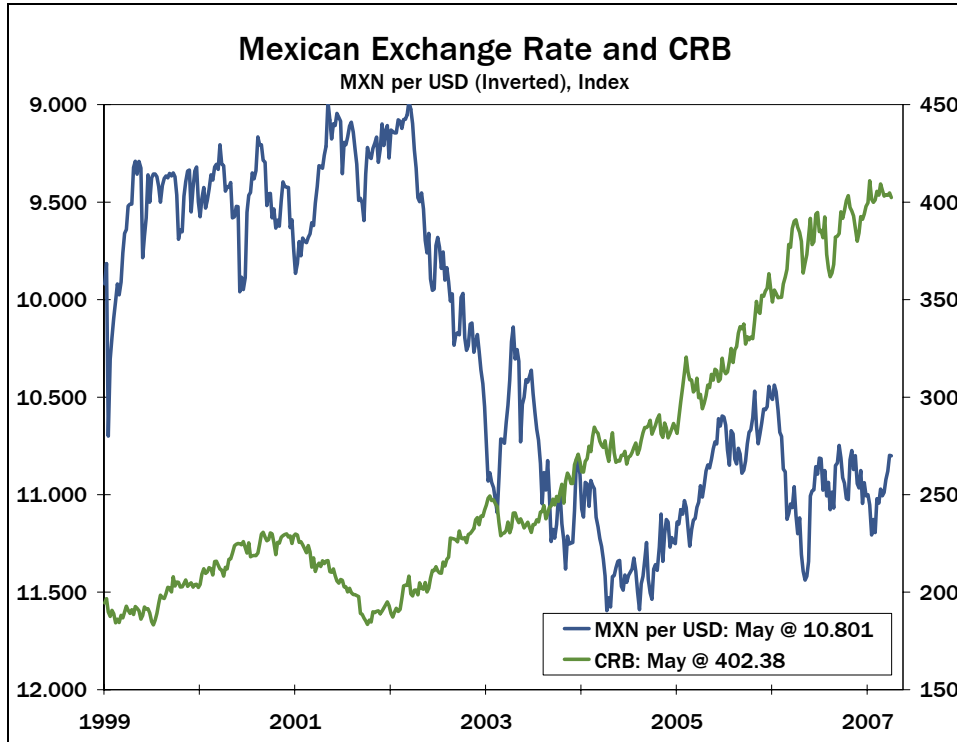
Exhibit 6



Source: Bloomberg L.P. and Wachovia Corporation

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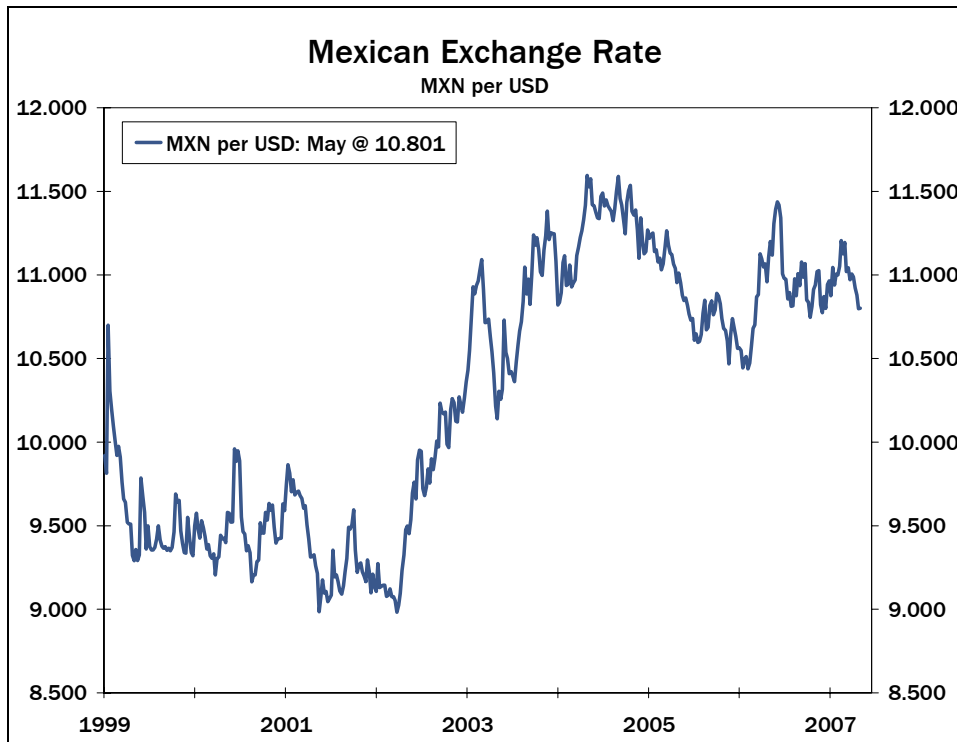
Exhibit 7



Source: Bloomberg L.P. and Wachovia Corporation

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Exhibit 8



Source: Bloomberg L.P. and Wachovia Corporation

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Exhibit 9

	<u>07-Q1</u>	<u>07-Q2</u>	<u>07-Q3</u>	<u>07-Q4</u>	<u>08-Q1</u>	<u>08-Q2</u>	<u>08-Q3</u>	<u>08-Q4</u>
GDP Growth (year-over-year)	2.6*	3.3	3.0	3.0	3.1	3.4	3.7	3.9
Exchange Rate (C\$/US\$)	11.05*	10.80	10.60	10.50	10.40	10.30	10.20	10.10

Source: Wachovia Corporation, as of May 9, 2007

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