

U.S. Overview

Economic Recovery: Unusual Shape, Unusual Style

Despite the volatility of monthly economic releases and policy prescriptions, surprisingly little in the outlook has deviated from the pattern of the recovery as outlined in our annual outlook published last December. Economic recovery is expected to start later this year. Weakness in consumer spending has begun to give way to gradual improvement. Business spending continues to decline. Housing remains weak. A significant inventory correction in early 2009, combined with a gradual recovery in final sales, produces an improvement in aggregate demand. Inflation remains low while corporate profits remain weak. Federal Reserve policy has kept short rates low while long Treasury rates are expected to rise.

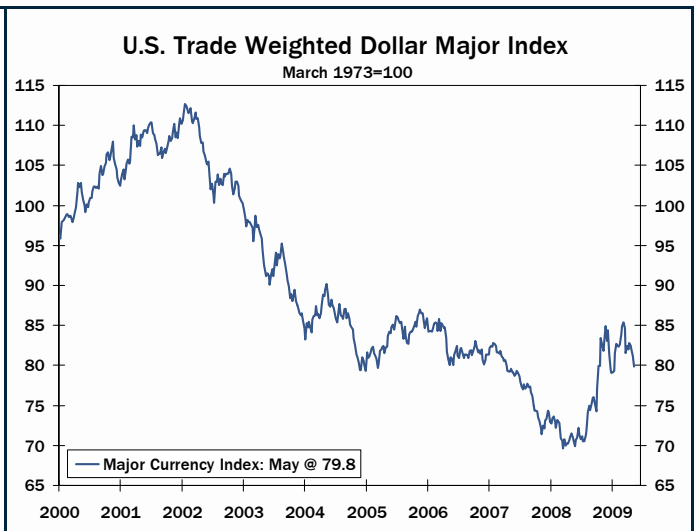
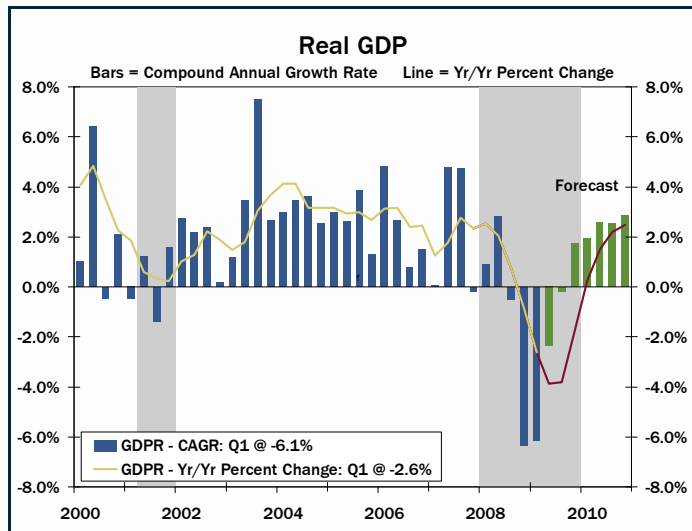
While this recovery has followed traditional patterns, we continue to see that the recovery will differ in both character (less diversified) and strength (weaker) relative to past recoveries. The recovery will disappoint both citizens and policymakers, which will mean more difficult decisions. A subpar recovery in output, employment and consumer incomes will mean consumer, housing, commercial real estate and government spending will not return to what many would perceive as normal. An ongoing economic and psychological adjustment to a new, lower equilibrium long-run growth rate for the economy will drive choices on the limits of our economic resources to meet our aspirations in a global economy.

International Overview

Is the Dollar's Rally Over?

The dollar has recently moved to the bottom of the trading range that it has respected versus most major currencies since the beginning of the year. Since the middle of last year there has been a tight correlation between the value of the dollar and risk aversion. When risk aversion rises, the dollar tends to strengthen and vice versa. The recent rise in stock markets and the tightening of credit spreads has been associated with the depreciation of the dollar over the past few weeks. However, the correlation between risk aversion and the greenback has not always been so tight, and we expect that the effects of economic fundamentals on the value of the dollar will sooner or later reassert themselves. Because we expect that the United States will show signs of economic stabilization and eventual recovery sooner than other foreign countries, we look for the dollar's uptrend to resume after this short-run correction runs its course. We are not ready to throw in the towel on the greenback.

In our view, the recent depreciation of the dollar does not reflect unease among foreign investors. Not only have there been no new developments on the U.S. fiscal front, but government bond yields in many foreign economies have risen more or less in line with Treasury yields lately. Rather, the recent rise in government bond yields in most major economies seems to reflect stronger-than-expected economic data that have raised hopes of economic stabilization and eventual recovery in many major economies.



Cyclical Recovery

Consumer and government spending, along with a moderation of the drag from housing, provide the basis for an improvement in aggregate demand leading to recovery in the second half of this year. Consumer spending, which dropped sharply in the prior two quarters, grew modestly in the first quarter. Consumer sentiment has improved, but weakness in the job market and income growth will limit spending. Saving rates will rise and remain higher as many households seek to rebuild their wealth. Government purchases are expected to be a significant plus for the economy in the short run. Finally, housing has shown some evidence of improvement as sales of existing homes have been stable and affordability has improved. Mortgage rates remain low and unsold housing inventory has declined.

Yet weakness remains evident for business fixed investment. Orders remain weak relative to shipments. This is consistent with declining profits, high levels of unused plant capacity and a downshift in the pace of expected future sales. Commercial real estate will remain moribund due to high vacancy rates and limited credit. As in traditional economic cycles, the reduction in business inventories over the last two quarters with the rise in final sales sets the internal dynamic of the economy on its path towards recovery. Unfortunately, net exports, which added to growth in the prior expansion, remain weak and we expect they will actually detract from growth in the second half of this year.

The Problem of Reinventing the Past

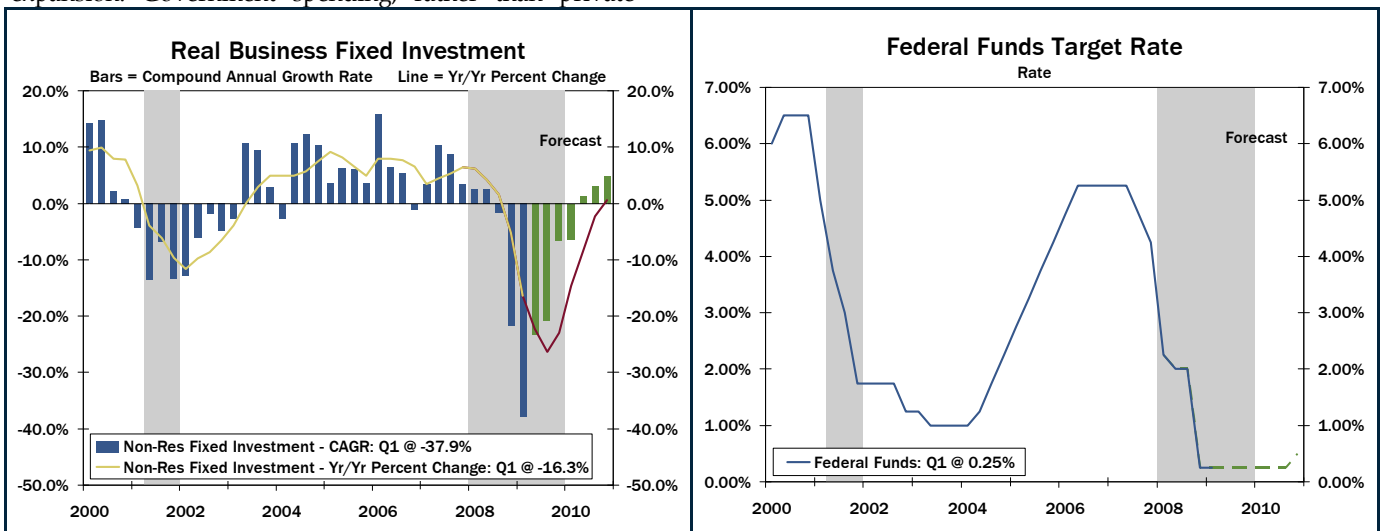
Decision-makers, however, must recognize that the cyclical recovery this time is accompanied by secular changes that will give a different character to the expansion. Government spending, rather than private

spending, will be the primary source of aggregate demand. Attempts to “get us back to where we were” would entail policy actions that would sustain spending above the long-run trend. This will force spending, employment and fiscal deficits above the new long-run equilibrium. Higher taxes, more regulation and greater trade protectionism are not pro-growth policies, and if enacted, would offset much of the macro stimulus while also leading to distortions in economic allocation.

Inflation, Credit and Interest Rates

While we look for continued low inflation for the rest of this year, our expectations for a steeper yield curve continue to be corroborated by the market. The issue is not one of inflation but rather the twin forces of a diminishing flight-to-quality premium and rising federal deficit concerns. At the short-end of the credit markets there has been improvement in the interbank and commercial paper markets where the Federal Reserve has developed a number of specialized programs. Fed intervention in the mortgage and asset-backed securities markets has also been helpful. Yet tight credit conditions and risk aversion remain an issue for markets where the Fed intervention has been more muted. Yes, corporate bond markets have improved—however, during the recovery ahead credit will be less available and only at a higher price than in the prior expansion.

While we see the recession ending, our forecast is not optimistic. Our outlook remains at the lower end of the range of forecasts in the latest Blue Chip Economic Forecast. We do not see a consumer/housing led “V-shaped” recovery as some suggest. Instead we are sticking to a more sluggish recovery with higher, structural unemployment that will disappoint.



Wachovia U.S. Economic Forecast

| | Actual | | | | | | | | | | | | | | | | Forecast | | | | | | | | | | | | | | |
|--------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|--------|--------|---------|---------|--------|--------|--------|---------|---------|--------|--------|--------|---------|---------|
| | 2007 | | | | 2008 | | | | 2009 | | | | 2010 | | | | 2006 | | | 2007 | | | 2008 | | | 2009 | | | 2010 | | |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 2006 | 2007 | 2008 | 2009 | 2010 | 2006 | 2007 | 2008 | 2009 | 2010 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Real Gross Domestic Product (a) | 0.1 | 4.8 | 4.8 | -0.2 | 0.9 | 2.8 | -0.5 | -6.3 | -6.1 | -2.4 | -0.2 | 1.7 | 1.9 | 2.6 | 2.6 | 2.9 | 2.8 | 2.0 | 1.1 | -3.0 | 1.6 | 2.8 | 2.0 | 1.1 | -3.0 | 1.6 | 2.8 | 2.0 | 1.1 | -3.0 | 1.6 |
| Personal Consumption | 3.9 | 2.0 | 2.0 | 1.0 | 0.9 | 1.2 | -3.8 | -4.3 | 2.2 | 0.1 | 1.2 | 1.3 | 1.5 | 1.5 | 1.5 | 1.6 | 3.0 | 2.8 | 0.2 | -0.5 | 1.3 | 3.0 | 2.8 | 0.2 | -0.5 | 1.3 | 3.0 | 2.8 | 0.2 | -0.5 | 1.3 |
| Business Fixed Investment | 3.4 | 10.3 | 8.7 | 3.4 | 2.4 | 2.5 | -1.7 | -21.7 | -37.9 | -23.3 | -20.9 | -6.6 | -6.3 | 1.1 | 3.0 | 4.9 | 7.5 | 4.9 | 1.6 | -21.9 | -6.6 | 7.5 | 4.9 | 1.6 | -21.9 | -6.6 | 7.5 | 4.9 | 1.6 | -21.9 | -6.6 |
| Equipment and Software | 0.0 | 6.9 | 3.6 | 1.0 | -0.6 | -5.0 | -7.5 | -28.1 | -33.8 | -20.6 | -16.3 | -0.9 | 9.0 | 3.6 | 4.9 | 6.1 | 7.2 | 1.7 | -3.0 | -21.7 | -0.1 | 7.2 | 1.7 | -3.0 | -21.7 | -0.1 | 7.2 | 1.7 | -3.0 | -21.7 | -0.1 |
| Structures | 11.2 | 18.3 | 20.5 | 8.5 | 8.6 | 18.5 | 9.7 | -9.4 | -44.2 | -38.0 | -34.0 | -24.0 | -15.0 | -8.0 | -4.0 | 0.0 | 8.2 | 12.7 | 11.2 | -25.5 | -18.2 | 8.2 | 12.7 | 11.2 | -25.5 | -18.2 | 8.2 | 12.7 | 11.2 | -25.5 | -18.2 |
| Residential Construction | -16.2 | -11.6 | -20.6 | -27.0 | -25.0 | -13.3 | -16.1 | -22.7 | -38.0 | -24.0 | -9.5 | 0.5 | 3.0 | 4.0 | 5.0 | 5.5 | -7.1 | -17.9 | -20.8 | -23.1 | -0.5 | -7.1 | -17.9 | -20.8 | -23.1 | -0.5 | -7.1 | -17.9 | -20.8 | -23.1 | -0.5 |
| Government Purchases | 0.9 | 3.9 | 3.8 | 0.8 | 1.9 | 3.9 | 5.8 | 1.3 | -3.9 | 3.6 | 3.4 | 3.7 | 3.7 | 3.5 | 3.0 | 2.3 | 1.7 | 2.1 | 2.9 | 1.5 | 3.4 | 1.7 | 2.1 | 2.9 | 1.5 | 3.4 | 1.7 | 2.1 | 2.9 | 1.5 | 3.4 |
| Net Exports | -618.6 | -571.2 | -511.8 | -484.5 | -462.0 | -381.3 | -353.1 | -364.5 | -308.4 | -312.1 | -325.4 | -354.5 | -361.6 | -366.3 | -366.1 | -354.2 | -615.7 | -546.5 | -390.2 | -325.1 | -362.0 | -615.7 | -546.5 | -390.2 | -325.1 | -362.0 | -615.7 | -546.5 | -390.2 | -325.1 | -362.0 |
| Pct. Point Contribution to GDP | -1.2 | 1.7 | 2.0 | 0.9 | 0.8 | 2.9 | 1.1 | -0.2 | 2.0 | -0.1 | -0.5 | -1.0 | -0.2 | -0.2 | 0.0 | 0.4 | 0.0 | 0.6 | 1.4 | 0.6 | -0.3 | 0.0 | 0.6 | 1.4 | 0.6 | -0.3 | 0.0 | 0.6 | 1.4 | 0.6 | -0.3 |
| Inventory Change | -15.0 | -2.8 | 16.0 | -8.1 | -10.2 | -50.6 | -29.6 | -25.8 | -103.7 | -112.0 | -77.5 | -27.5 | -2.5 | 20.5 | 34.5 | 42.5 | 42.3 | -2.5 | -29.1 | -80.2 | 23.8 | 42.3 | -2.5 | -29.1 | -80.2 | 23.8 | 42.3 | -2.5 | -29.1 | -80.2 | 23.8 |
| Pct. Point Contribution to GDP | -1.1 | 0.5 | 0.7 | -1.0 | 0.0 | -1.5 | 0.8 | -0.1 | -2.8 | -0.3 | 1.2 | 1.8 | 0.9 | 0.8 | 0.5 | 0.3 | 0.0 | -0.4 | -0.2 | -0.4 | 0.9 | 0.0 | -0.4 | -0.2 | -0.4 | 0.9 | 0.0 | -0.4 | -0.2 | -0.4 | 0.9 |
| Nominal GDP | 4.3 | 6.9 | 6.4 | 2.3 | 3.5 | 4.1 | 3.4 | -5.8 | -3.5 | -3.0 | 0.1 | 2.3 | 3.0 | 3.8 | 4.0 | 4.4 | 6.1 | 4.8 | 3.3 | -1.7 | 2.5 | 6.1 | 4.8 | 3.3 | -1.7 | 2.5 | 6.1 | 4.8 | 3.3 | -1.7 | 2.5 |
| Real Final Sales | 1.1 | 4.3 | 4.0 | 0.8 | 0.9 | 4.4 | -1.3 | -6.2 | -3.4 | -2.3 | -1.4 | 0.0 | 1.0 | 1.8 | 2.1 | 2.6 | 2.8 | 2.4 | 1.4 | -2.6 | 0.7 | 2.8 | 2.4 | 1.4 | -2.6 | 0.7 | 2.8 | 2.4 | 1.4 | -2.6 | 0.7 |
| Retail Sales (b) | 2.6 | 3.0 | 3.1 | 4.4 | 2.6 | 2.3 | 0.4 | -8.0 | -8.9 | -8.9 | -7.3 | 0.1 | 2.5 | 3.2 | 3.7 | 3.7 | 5.3 | 3.3 | -0.7 | -6.4 | 3.3 | 5.3 | 3.3 | -0.7 | -6.4 | 3.3 | 5.3 | 3.3 | -0.7 | -6.4 | 3.3 |
| Inflation Indicators (b) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| "Core" PCE Deflator | 2.3 | 2.1 | 2.0 | 2.2 | 2.2 | 2.3 | 2.3 | 1.9 | 1.8 | 1.5 | 0.9 | 0.8 | 0.7 | 0.8 | 1.0 | 1.1 | 2.3 | 2.2 | 2.2 | 1.2 | 0.9 | 2.3 | 2.2 | 2.2 | 1.2 | 0.9 | 2.3 | 2.2 | 2.2 | 1.2 | 0.9 |
| Consumer Price Index | 2.4 | 2.6 | 2.3 | 4.0 | 4.2 | 4.3 | 5.2 | 1.5 | -0.2 | -1.4 | -2.7 | -0.3 | 0.5 | 1.0 | 1.2 | 1.4 | 3.2 | 2.9 | 3.8 | -1.2 | 1.0 | 3.2 | 2.9 | 3.8 | -1.2 | 1.0 | 3.2 | 2.9 | 3.8 | -1.2 | 1.0 |
| "Core" Consumer Price Index | 2.6 | 2.3 | 2.1 | 2.3 | 2.4 | 2.3 | 2.5 | 2.0 | 1.7 | 1.4 | 0.8 | 0.8 | 0.7 | 0.8 | 1.0 | 1.2 | 2.5 | 2.3 | 2.3 | 1.2 | 0.9 | 2.5 | 2.3 | 2.3 | 1.2 | 0.9 | 2.5 | 2.3 | 2.3 | 1.2 | 0.9 |
| Producer Price Index | 1.9 | 3.4 | 3.6 | 6.8 | 7.2 | 7.6 | 9.5 | 1.4 | -2.2 | -5.6 | -7.5 | -2.2 | -0.1 | 1.5 | 1.8 | 1.9 | 2.9 | 3.9 | 6.4 | -4.4 | 1.3 | 2.9 | 3.9 | 6.4 | -4.4 | 1.3 | 2.9 | 3.9 | 6.4 | -4.4 | 1.3 |
| Employment Cost Index | 3.5 | 3.3 | 3.3 | 3.3 | 3.3 | 3.1 | 2.9 | 2.6 | 2.1 | 2.0 | 1.9 | 2.0 | 2.2 | 2.1 | 2.1 | 2.2 | 3.1 | 3.4 | 3.0 | 2.0 | 2.1 | 3.1 | 3.4 | 3.0 | 2.0 | 2.1 | 3.1 | 3.4 | 3.0 | 2.0 | 2.1 |
| Real Disposable Income (a) | 4.4 | -0.6 | 3.1 | 0.6 | -0.7 | 10.7 | -8.5 | 2.7 | 6.2 | 8.5 | 4.5 | -1.8 | 1.4 | 1.5 | 1.6 | 1.9 | 3.5 | 2.8 | 1.3 | 3.6 | 1.7 | 3.5 | 2.8 | 1.3 | 3.6 | 1.7 | 3.5 | 2.8 | 1.3 | 3.6 | 1.7 |
| Nominal Personal Income (b) | 6.4 | 6.1 | 6.1 | 5.8 | 4.2 | 5.0 | 3.8 | 2.2 | 0.9 | 1.5 | 5.2 | 3.5 | 4.4 | 3.0 | 0.3 | 3.5 | 7.1 | 6.1 | 3.8 | 2.8 | 2.8 | 7.1 | 6.1 | 3.8 | 2.8 | 2.8 | 7.1 | 6.1 | 3.8 | 2.8 | 2.8 |
| Industrial Production (a) | 1.8 | 2.4 | 2.1 | 0.8 | 0.2 | -4.6 | -9.0 | -12.7 | -20.0 | -16.2 | -4.8 | 0.1 | 0.7 | 2.6 | 3.0 | 8.5 | 2.3 | 1.5 | -2.2 | -12.6 | -0.2 | 2.3 | 1.5 | -2.2 | -12.6 | -0.2 | 2.3 | 1.5 | -2.2 | -12.6 | -0.2 |
| Capacity Utilization | 80.6 | 80.6 | 80.7 | 80.4 | 80.1 | 78.9 | 76.9 | 74.3 | 70.3 | 66.3 | 64.8 | 64.2 | 64.2 | 64.4 | 64.6 | 64.9 | 80.9 | 80.6 | 77.6 | 66.4 | 64.5 | 80.9 | 80.6 | 77.6 | 66.4 | 64.5 | 80.9 | 80.6 | 77.6 | 66.4 | 64.5 |
| Corporate Profits Before Taxes (b) | -1.0 | -0.5 | -2.7 | -2.0 | -1.5 | -8.3 | -9.2 | -21.5 | -30.0 | -28.0 | -26.0 | -10.0 | 0.5 | 4.5 | 8.0 | 8.0 | 15.2 | -1.6 | -10.1 | -24.2 | 5.3 | 15.2 | -1.6 | -10.1 | -24.2 | 5.3 | 15.2 | -1.6 | -10.1 | -24.2 | 5.3 |
| Corporate Profits After Taxes | -0.9 | -0.2 | -0.8 | -0.6 | 1.8 | -6.4 | -7.9 | -15.0 | -23.0 | -21.0 | -18.0 | -10.0 | 3.5 | 8.0 | 10.5 | 11.0 | 16.0 | -0.6 | -6.9 | -18.3 | 8.2 | 16.0 | -0.6 | -6.9 | -18.3 | 8.2 | 16.0 | -0.6 | -6.9 | -18.3 | 8.2 |
| Federal Budget Balance (c) | -178.0 | 137.5 | -40.6 | -106.8 | -205.9 | 26.9 | -168.9 | -332.5 | -448.9 | -421.6 | -622.0 | -611.5 | -572.5 | -240.0 | -326.0 | -333.0 | -248.2 | -161.5 | -454.8 | -1825.0 | -1750.0 | -248.2 | -161.5 | -454.8 | -1825.0 | -1750.0 | -248.2 | -161.5 | -454.8 | -1825.0 | -1750.0 |
| Current Account Balance (d) | -196.9 | -194.1 | -173.0 | -167.2 | -176.9 | -182.2 | -181.3 | -132.8 | -88.0 | -95.0 | -100.0 | -105.0 | -105.0 | -110.0 | -110.0 | -110.0 | -788.1 | -731.2 | -673.3 | -388.0 | -435.0 | -788.1 | -731.2 | -673.3 | -388.0 | -435.0 | -788.1 | -731.2 | -673.3 | -388.0 | -435.0 |
| Trade Weighted Dollar Index (e) | 80.5 | 78.7 | 74.4 | 73.3 | 70.3 | 71.0 | 76.1 | 79.4 | 82.5 | 83.3 | 86.5 | 89.0 | 89.8 | 88.7 | 86.7 | 85.0 | 81.5 | 73.3 | 79.4 | 89.0 | 85.0 | 81.5 | 73.3 | 79.4 | 89.0 | 85.0 | 81.5 | 73.3 | 79.4 | 89.0 | 85.0 |
| Nonfarm Payroll Change (f) | 133 | 82 | 2 | 167 | -113 | -153 | -208 | -553 | -707 | -493 | -363 | -233 | -80 | 61 | 140 | 170 | 178 | 96 | -257 | -449 | 73 | 178 | 96 | -257 | -449 | 73 | 178 | 96 | -257 | -449 | 73 |
| Unemployment Rate | 4.5 | 4.5 | 4.7 | 4.8 | 4.9 | 5.4 | 6.1 | 6.9 | 8.1 | 9.2 | 9.8 | 10.3 | 10.6 | 10.6 | 10.5 | 10.4 | 4.6 | 4.6 | 5.8 | 9.3 | 10.5 | 4.6 | 4.6 | 5.8 | 9.3 | 10.5 | 4.6 | 4.6 | 5.8 | 9.3 | 10.5 |
| Housing Starts (g) | 1.45 | 1.46 | 1.30 | 1.15 | 1.05 | 1.03 | 0.88 | 0.66 | 0.52 | 0.48 | 0.51 | 0.55 | 0.63 | 0.69 | 0.77 | 0.86 | 1.81 | 1.34 | 0.90 | 0.51 | 0.74 | 1.81 | 1.34 | 0.90 | 0.51 | 0.74 | 1.81 | 1.34 | 0.90 | 0.51 | 0.74 |
| Light Vehicle Sales (h) | 16.3 | 16.1 | 15.9 | 16.0 | 15.2 | 14.1 | 12.9 | 10.3 | 9.5 | 9.5 | 10.1 | 10.4 | 10.8 | 11.1 | 11.4 | 11.5 | 16.5 | 16.1 | 13.1 | 9.9 | 11.2 | 16.5 | 16.1 | 13.1 | 9.9 | 11.2 | 16.5 | 16.1 | 13.1 | 9.9 | 11.2 |
| Crude Oil - WTI - Front Contract (i) | 58.16 | 65.03 | 75.38 | 90.68 | 97.90 | 123.98 | 117.98 | 58.74 | 43.08 | 56.32 | 59.33 | 58.00 | 59.00 | 61.00 | 63.00 | 65.00 | 66.22 | 72.31 | 99.65 | 54.18 | 62.00 | 66.22 | 72.31 | 99.65 | 54.18 | 62.00 | 66.22 | 72.31 | 99.65 | 54.18 | 62.00 |
| Quarter-End Interest Rates | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Federal Funds Target Rate | 5.25 | 5.25 | 4.75 | 4.25 | 2.25 | 2.00 | 2.00 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 5.25 | 4.25 | 0.25 | 0.25 | 0.50 | 5.25 | 4.25 | 0.25 | 0.25 | 0.50 | 5.25 | 4.25 | 0.25 | 0.25 | 0.50 |
| 3 Month LIBOR | 5.35 | 5.36 | 5.23 | 4.70 | 2.69 | 2.78 | 4.05 | 1.43 | 1.19 | 0.80 | 0.70 | 0.60 | 0.60 | 0.60 | 0.70 | 0.80 | 5.36 | 4.70 | 1.43 | 0.60 | 0.80 | 5.36 | 4.70 | 1.43 | 0.60 | 0.80 | 5.36 | 4.70 | 1.43 | 0.60 | 0.80 |
| Prime Rate | 8.25 | 8.25 | 7.75 | 7.25 | 5.25 | 5.00 | 5.00 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 | 3.50 | 8.25 | 7.25 | 3.25 | 3.25 | 3.50 | 8.25 | 7.25 | 3.25 | 3.25 | 3.50 | 8.25 | 7.25 | 3.25 | 3.25 | 3.50 |
| Conventional Mortgage Rate | 6.16 | 6.66 | 6.38 | 6.10 | 5.97 | 6.32 | 6.04 | 5.33 | 5.13 | 5.00 | 5.10 | 5.10 | 5.10 | 5.20 | 5.30 | 5.30 | 6.14 | 6.10 | 5.33 | 5.10 | 5.30 | 6.14 | 6.10 | 5.33 | 5.10 | 5.30 | 6.14 | 6.10 | 5.33 | 5.10 | 5.30 |
| 3 Month Bill | 5.04 | 4.82 | 3.82 | 3.36 | 1.38 | 1.90 | 0.92 | 0.11 | 0.21 | 0.30 | 0.40 | 0.40 | 0.40 | 0.50 | 0.70 | 0.90 | 5.02 | 3.36 | 0.11 | 0.40 | 0.90 | 5.02 | 3.36 | 0.11 | 0.40 | 0.90 | 5.02 | 3.36 | 0.11 | 0.40 | 0.90 |
| 2 Year Note | 4.58 | 4.87 | 3.97 | 3.05 | 1.62 | 2.63 | 2.00 | 0.76 | 0.81 | 1.00 | 1.20 | 1.20 | 1.40 | 1.50 | 1.60 | 1.70 | 4.82 | 3.05 | 0.76 | 1.20 | 1.70 | 4.82 | 3.05 | 0.76 | 1.20 | 1.70 | | | | | |

Is the Dollar's Rally Over?

Recently, the dollar has moved to the bottom of the trading range that is has respected versus most major currencies since the beginning of the year (see graph on the front page). Does this mean that the dollar uptrend that has been in place since the middle of last year has come to an end?

Before we start writing the dollar's obituary, it is useful to recall why it strengthened starting in the summer of 2008. As we wrote in "The U.S. Balance of Payments and the Dollar Outlook," the dollar's appreciation since last July reflects, at least in part, risk aversion among investors. (The report is posted on our website.) Specifically, massive purchases by foreign central banks and investors of U.S. Treasury securities, which are considered the safest assets in the world, helped to propel the dollar higher.

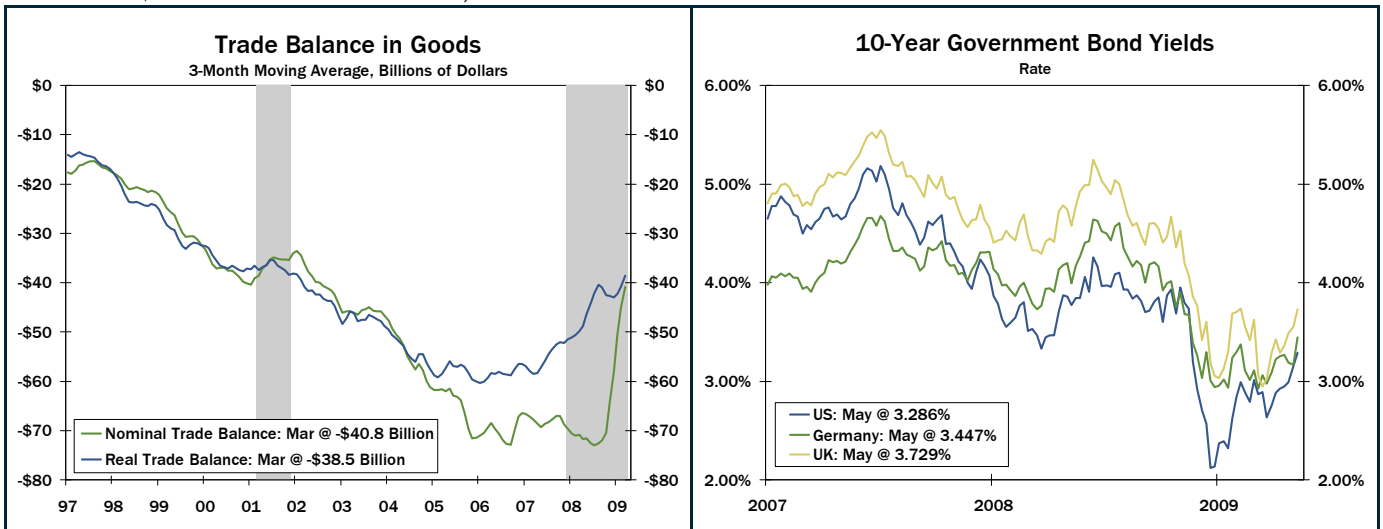
Over the last few weeks, the high correlation between the dollar and risk has continued. That is, the dollar has tended to strengthen when risk aversion has risen, and it has generally weakened when investors have been more willing to take on risk. With the stock market on the rise over the past few weeks and with credit spreads tightening, the dollar has depreciated versus most major currencies. However, the tight correlation between the dollar and risk aversion is a relatively recent phenomenon. Prior to last summer, the correlation between the dollar and the stock market and credit spreads was rather low. Sooner or later, economic fundamentals will reassert themselves and, in our view, the fundamentals are still in place for further dollar strength.

For example, the U.S. current account deficit should continue to narrow, which will exert less pressure on the value of the dollar. Indeed, we forecast that the current account deficit will decline from about \$670 billion in 2008 to less than \$400 billion in 2009. Moreover, as we wrote in

"The Global Economy: Who Gets Out of the Gate First?" we project that the U.S. economy will stabilize and show signs of positive, albeit sluggish, growth before most other major foreign economies do. Rates of return should rise faster in the United States than in most other major economies, thereby leading to stronger capital inflows that should be supportive for the dollar.

Some analysts have attributed the dollar's depreciation over the past few weeks to investor nervousness over the outlook for the U.S. federal deficit. However, we do not find this explanation for the dollar's recent depreciation to be particularly compelling. First, there have been very few new developments on the U.S. fiscal front over the past few weeks. Yes, the yield on the 10-year Treasury security is up roughly 70 bps since the middle of March. However, comparable yields in some of our major trading partners have risen by roughly similar amounts over that period (see chart below). In our view, stronger-than-expected economic data from many countries recently have more to do with the back-up in government bond yields than do concerns over an imminent fiscal train wreck.

In that regard, "commodity" currencies have done very well recently. The Aussie dollar and the Canadian dollar have risen about 10 percent versus the greenback over the past month or so, exceeding the gains registered by major European currencies. Expectations of global economic stabilization and eventual recovery have lifted commodity prices recently, helping to boost "commodity" currencies. The currencies of many developing economies, many of which are sensitive to global trade, have also strengthened recently. Therefore, we are not ready to throw in the towel on the dollar. Although the correlation between risk aversion and the dollar may continue in the near term, we look for the greenback to eventually resume its upward trend versus most major currencies.



May 13, 2009

| Wachovia International Economic Forecast | | | | | | |
|--|-------|-------|-------|------|-------|-------|
| (Year-over-Year Percentage Change) | | | | | | |
| | GDP | | | CPI | | |
| | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
| Global | 3.2% | -1.0% | 3.0% | 6.0% | 1.1% | 1.7% |
| Major Economies | | | | | | |
| United States | 1.1% | -3.0% | 1.6% | 3.8% | -1.2% | 1.0% |
| Eurozone | 0.7% | -3.9% | 1.1% | 3.3% | 0.0% | 0.4% |
| Germany | 1.0% | -4.6% | 0.9% | 2.8% | -0.2% | 0.1% |
| France | 0.8% | -3.0% | 1.2% | 3.2% | -0.1% | 0.4% |
| Italy | -1.0% | -4.6% | 0.4% | 3.5% | 0.2% | 0.0% |
| UK | 0.7% | -3.8% | 1.2% | 3.6% | 1.1% | 0.2% |
| Japan | -0.7% | -7.2% | -0.2% | 1.4% | -1.0% | -0.7% |
| Canada | 0.5% | -2.3% | 2.4% | 2.4% | 0.3% | 1.0% |
| Developing Economies | | | | | | |
| China | 9.1% | 7.7% | 8.5% | 5.9% | -1.0% | 0.3% |
| India | 6.0% | 5.1% | 7.0% | 7.8% | 7.4% | 5.0% |
| Mexico | 1.3% | -3.4% | 1.7% | 5.1% | 5.2% | 3.1% |
| Brazil | 5.1% | -2.1% | 3.1% | 5.7% | 4.7% | 3.9% |

¹Data as of: May 13, 2009

| Wachovia Currency Forecast | | | | | | | |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|
| (End of Quarter Rates) | | | | | | | |
| | 2009 | | | 2010 | | | |
| | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Major Currencies | | | | | | | |
| Euro (\$/€) | 1.33 | 1.28 | 1.24 | 1.22 | 1.24 | 1.26 | 1.28 |
| U.K. (\$/£) | 1.48 | 1.44 | 1.40 | 1.38 | 1.42 | 1.44 | 1.46 |
| U.K. (£/€) | 0.90 | 0.89 | 0.89 | 0.88 | 0.87 | 0.88 | 0.88 |
| Japan (¥/\$) | 100 | 105 | 110 | 112 | 114 | 112 | 111 |
| Other Industrialized | | | | | | | |
| Canada (C\$/US\$) | 1.19 | 1.23 | 1.25 | 1.24 | 1.22 | 1.18 | 1.15 |
| Switzerland (CHF/\$) | 1.12 | 1.16 | 1.20 | 1.24 | 1.22 | 1.18 | 1.14 |
| Norway (NOK/\$) | 6.70 | 7.00 | 7.25 | 7.25 | 7.00 | 6.80 | 6.60 |
| Sweden (SEK/\$) | 8.00 | 8.40 | 8.70 | 8.70 | 8.40 | 8.10 | 7.90 |
| Australia (US\$/A\$) | 0.73 | 0.71 | 0.70 | 0.70 | 0.72 | 0.75 | 0.78 |
| Developing Economies | | | | | | | |
| Mexico (MXN/\$) | 13.25 | 13.75 | 14.00 | 14.00 | 13.50 | 13.00 | 12.50 |
| Brazil (BRL/\$) | 2.15 | 2.25 | 2.30 | 2.25 | 2.15 | 2.10 | 2.00 |
| Poland (PLN/\$) | 3.30 | 3.50 | 3.60 | 3.60 | 3.45 | 3.30 | 3.20 |
| Russia (RUB/\$) | 32.50 | 33.00 | 33.25 | 33.00 | 32.00 | 31.00 | 30.00 |
| Turkey (TRY/\$) | 1.57 | 1.60 | 1.62 | 1.60 | 1.57 | 1.54 | 1.50 |
| South Africa (ZAR/\$) | 8.70 | 9.00 | 9.15 | 9.00 | 8.80 | 8.60 | 8.40 |
| China (CNY/\$) | 6.82 | 6.80 | 6.78 | 6.75 | 6.70 | 6.65 | 6.60 |
| India (INR/\$) | 49.50 | 49.75 | 50.00 | 50.00 | 49.60 | 49.20 | 48.75 |
| Korea (KRW/\$) | 1300 | 1325 | 1350 | 1325 | 1300 | 1275 | 1250 |
| Singapore (S\$/US\$) | 1.48 | 1.50 | 1.52 | 1.52 | 1.51 | 1.50 | 1.48 |
| Taiwan (TWD/\$) | 33.25 | 33.50 | 33.75 | 33.75 | 33.50 | 33.00 | 32.50 |

¹Data as of: May 13, 2009

| Wachovia International Interest Rate Forecast | | | | | | | | | | | | | | |
|---|---------------|-------|-------|-------|-------|-------|-------|---------------------------|-------|-------|-------|-------|-------|-------|
| (End of Quarter Rates) | | | | | | | | | | | | | | |
| | 3-Month LIBOR | | | | | | | 10-Yr Government Security | | | | | | |
| | 2009 | | | 2010 | | | | 2009 | | | 2010 | | | |
| | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| United States | 0.80% | 0.70% | 0.60% | 0.60% | 0.60% | 0.70% | 0.80% | 3.20% | 3.40% | 3.40% | 3.40% | 3.60% | 3.70% | 3.70% |
| Japan | 0.50% | 0.40% | 0.25% | 0.25% | 0.25% | 0.25% | 0.25% | 1.40% | 1.50% | 1.60% | 1.70% | 1.80% | 1.90% | 1.95% |
| Euroland | 1.20% | 1.15% | 1.15% | 1.15% | 1.20% | 1.75% | 2.25% | 3.40% | 3.50% | 3.70% | 4.00% | 4.30% | 4.40% | 4.50% |
| U.K. | 1.30% | 1.00% | 0.75% | 0.75% | 0.75% | 1.00% | 1.50% | 3.60% | 3.75% | 4.00% | 4.25% | 4.50% | 4.60% | 4.70% |
| Canada | 0.75% | 0.60% | 0.50% | 0.50% | 0.50% | 1.00% | 2.00% | 3.20% | 3.50% | 3.80% | 4.00% | 4.25% | 4.40% | 4.45% |

¹Data as of: May 13, 2009

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