

DAILY GLOBAL
COMMENTARY

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International Trade: Reduction in Exports Partly Related to Boeing Strike

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The trade deficit of the U.S. economy narrowed to \$56.5 billion in September from \$59.1 billion in August. The 6.0% drop in exports was partly related to the Boeing strike which held back exports of aircraft. As the strike has ended, a rebound in exports of aircraft is nearly certain. In addition, the decline in imported oil in September was due to a lower price (price fell 10.3% and value of imported oil dropped -21.4%) and a smaller quantity (-12.8%) of imported oil.

Table 1 International Trade – September 2008

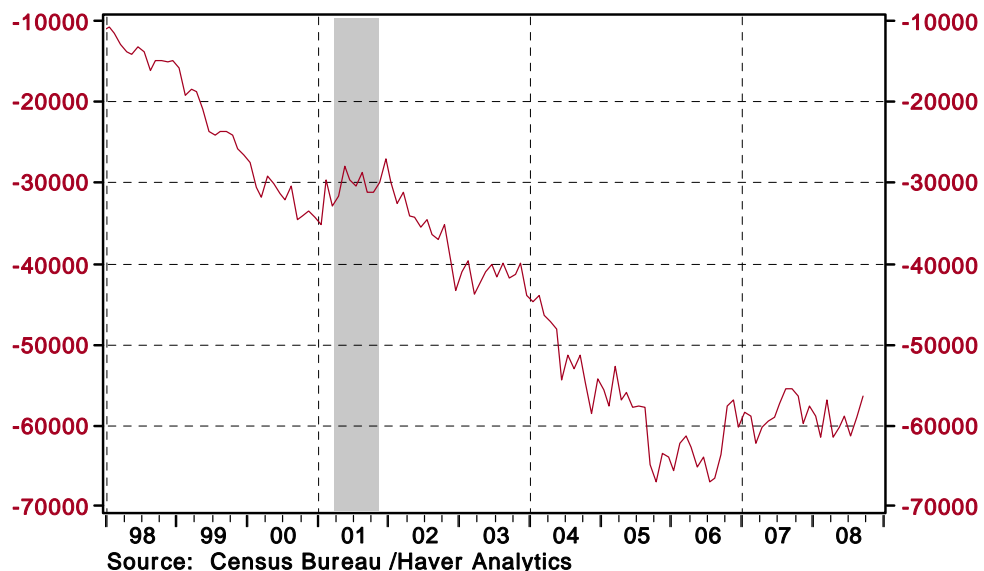
	Trade Balance			Exports (m-o-m % change)		Imports (m-o-m % change)	
	Goods & Services	Goods	Goods - 2000\$	Goods & Services	Goods - 2000\$	Goods & Services	Goods - 2000\$
Mar-08	-57.0	-68.4	-47.2	-1.9	-5.5	-3.4	-6.2
Apr-08	-61.5	-73.0	-47.0	3.6	5.6	4.8	3.4
May-08	-60.2	-72.1	-44.0	1.2	0.3	0.2	-2.0
Jun-08	-58.8	-71.3	-40.5	3.7	3.6	2.1	-0.2
Jul-08	-61.3	-74.1	-41.2	3.3	2.0	3.5	1.9
Aug-08	-59.1	-71.1	-39.4	-1.7	0.1	-2.2	-1.3
Sep-08	-56.5	-69.6	-42.1	-6.0	-7.8	-5.6	-3.6

Inflation adjusted exports declined 7.8% in September, while inflation adjusted imports dropped 3.6%. The trade deficit of goods, after adjusted for inflation, widened to \$42.1 billion compared with \$39.4 billion in August.

Chart 1

Trade Balance: Goods and Services, BOP Basis

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Despite the improvement in the trade deficit in August and September, in the first nine months of the year, the trade deficit has widened to \$534.5 billion from \$526.5 billion in the first nine months of 2008. The trade deficit vis-à-vis China and Canada is larger in 2008 compared with the trade gap in the first nine months of 2007; the trade deficit is smaller vis-à-vis the Euro area, Japan, and Mexico in the same time period. The trade weighted value of the dollar at 83.39 (as of November 13) has risen 20.4% from its record low on March 17, 2008 (69.28). The strengthening of the dollar and weakening of global economic activity are factors that will restrain growth of exports in the months ahead.

Chart 2

Nominal Trade-Weighted Exch Value of US\$ vs Major Currencies

3/73=100 (I)



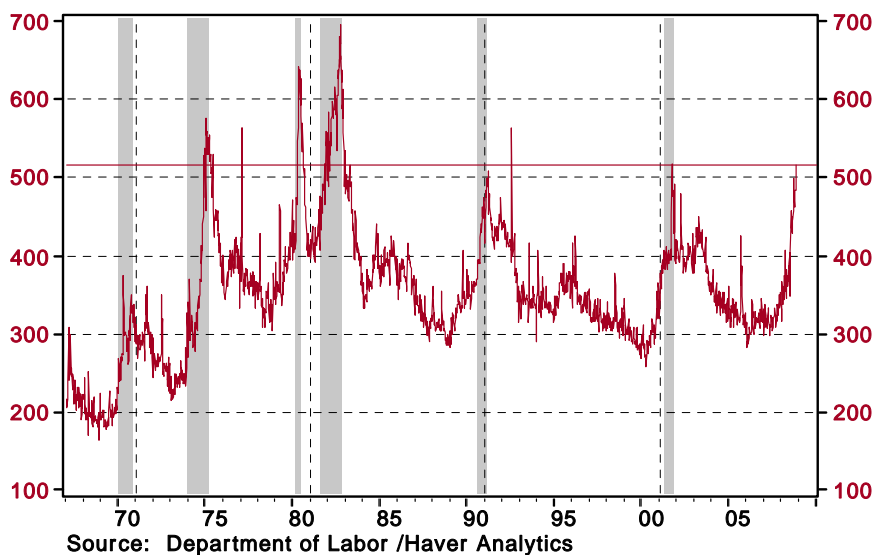
Jobless Claims: The Sharp Jump Is Alarming

Initial jobless claims rose 32,000 to 516,000 during the week ended November 8. This is the highest level of initial claims since the 1981-82 recession (see chart 3). The one time gains seen in 2001 was following the September 11 attacks (517,000 initial jobless claims) and the large increase in July 1992 was a GM strike-related event when initial jobless claims rose to 564,000. The latest jobless claims readings indicate a significantly weak labor market.

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Chart 3
Unemployment Insurance: Initial Claims, State Programs

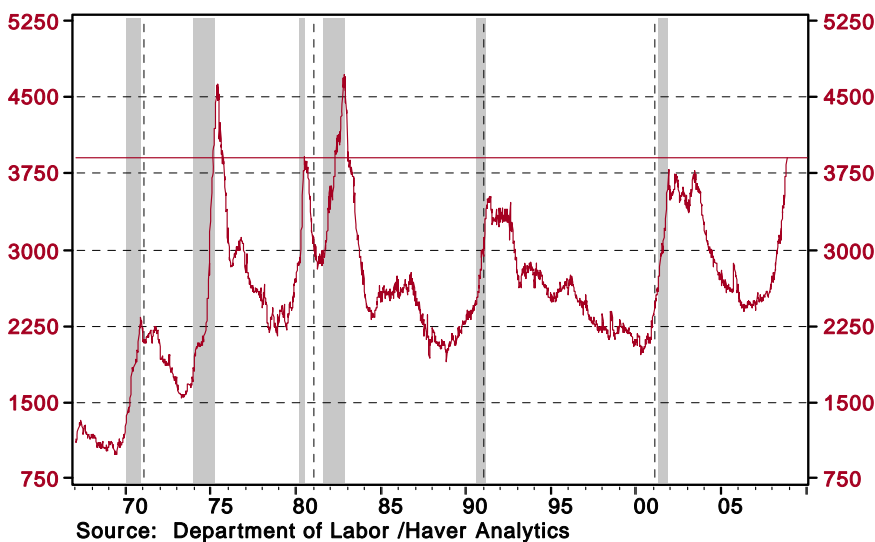
SA, Thous



Continuing claims, which lag initial claims by one week, advanced 65,000 to 3.897 million, also the highest level since the 1981-82 recession (see chart 4). The insured unemployment rate has held at 2.9% for two straight weeks.

Chart 4
Insured Unemployment, State Programs

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The S&P 500 and Business Cycles - Update

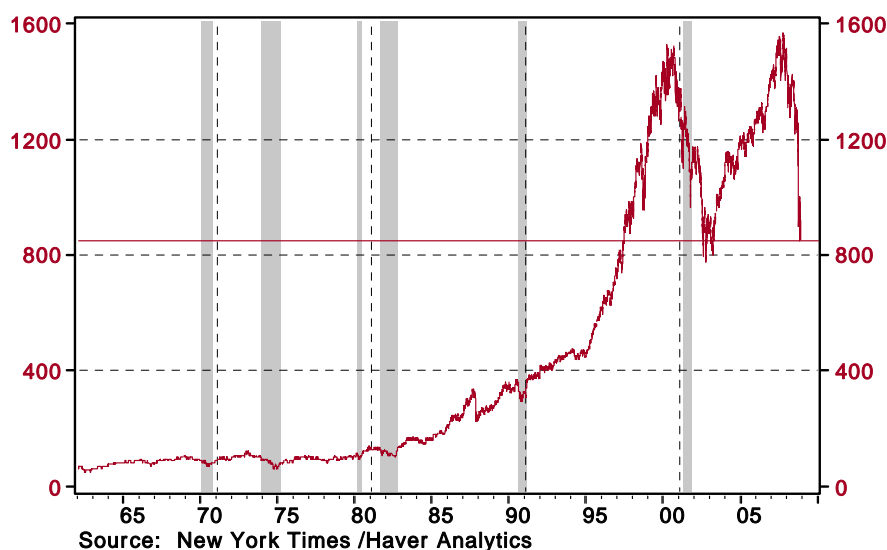
The decline in equity prices is something we hear about and read about everyday and many of us hesitate to open the quarterly 401(K) statements. As of this writing, equity prices have recovered after the Dow Jones industrials hit an intra-day low below 8,000 and the S&P 500 touched below 820. Putting the current developments in perspective, the close of the S&P 500 on October 27, 2008 (848.92, the low for the current business cycle) is 45.8% below the cycle high of 1565.15 recorded on October 9, 2007. Chart 5 shows that the S&P 500 is trading at levels seen in 1997, excluding the brief period in 2002.

Table 2 S&P 500 Across Business Cycles

Business Cycle Peak Trough	Peak of S&P 500		Lead(+)/Lag (-1) months	Trough of S&P 500		Lead (+)/Lag (-1) months	S&P 500 Peak to Trough % change
	Date	Level		Date	Level		
Jul-53 May-54	Jan-53	26.18	(+6)	Sep-53	23.27	(+8)	-11.12%
Aug-57 Apr-58	Jul-57	48.51	(+1)	Dec-57	40.33	(+4)	-16.86%
Apr-60 Feb-61	Dec-59	59.06	(+4)	Oct-60	53.73	(+4)	-9.02%
Dec-69 Nov-70	May-69	104.62	(+7)	Jun-70	75.59	(+5)	-27.75%
Nov-73 Mar-75	Jan-73	118.42	(+10)	Dec-74	67.07	(+3)	-43.36%
Jan-80 Jul-80	Feb-80	115.34	(-1)	Apr-80	102.97	(+3)	-10.72%
Jul-81 Nov-82	Apr-81	134.43	(+3)	Jul-82	109.38	(+3)	-18.63%
Jul-90 Mar-91	Jun-90	360.35	(+1)	Oct-90	307.12	(+5)	-14.77%
Mar-01 Nov-01	Aug-00	1485.46	(+7)	Oct-02	854.63	(+2)	-42.47%
	Oct-07	1539.66		Oct. 27, 2008	848.92		-44.86%
				Nov. 3-12, 2008	928.89		-39.67%

Note: Monthly averages of the S&P 500 are used in table 2, with exception of the October 27, 2008 reading and Nov. 3-12, 2008 average

Chart 5
Standard & Poor's 500 Stock Price Index
1941-43=10



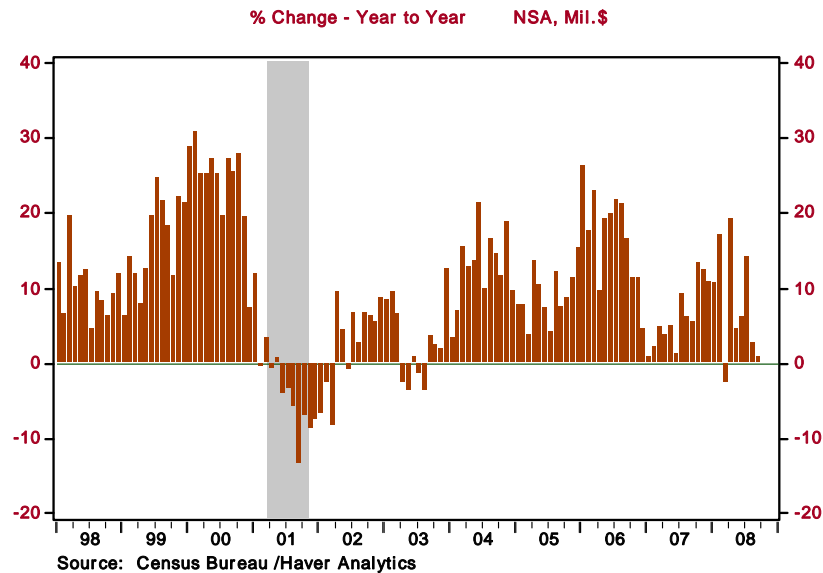
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Mexico's Oil Trouble

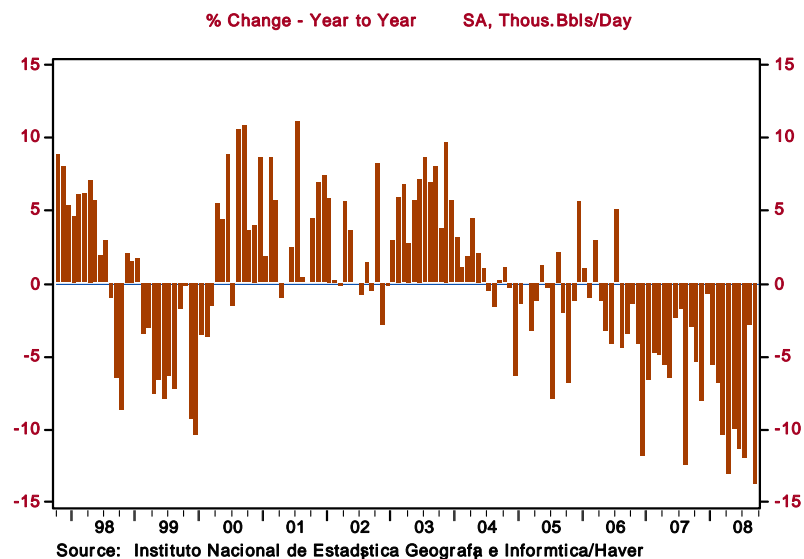
The sixth-largest oil producer in the world has been hit by the perfect storm. The first element: a US recession leading to anemic Mexican export levels. (Keep in mind that the US imports about 80% of *all* of Mexico's exports, and that Mexico's exports make up about 22% of GDP.)

Chart 6
US Imports from Mexico: Customs Value



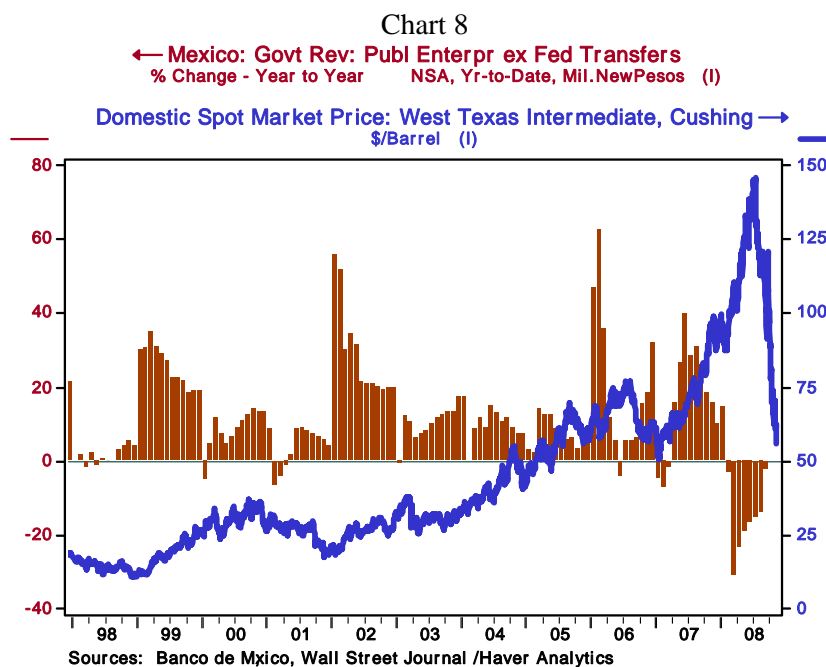
The second element: petroleum production (currently at a 13-year low) ailing from years of “strategic sector” protectionism and thus, gross underinvestment.

Chart 7
Mexico: Production of Crude Petroleum



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And the third: oil at \$60 per barrel and falling. (Keep in mind that some 40% of government revenues come from domestic oil production by Mexico's state-owned and sole oil producer, Pemex.)



The only thing that could make this situation worse for Mexican oil production would be an actual storm. The Mexican government, seeing the same warnings we are, has finally passed a much-contested and watered-down energy reform bill to get the sector back in shape by allowing foreign investment – though some fear that it is too little too late. The concern is that the weak legislation is not nearly enough to reverse the strong, downward trends of the oil sector. The justification: Pemex posted a \$1.3 billion loss in Q3 as crude production fell almost 10% from a year ago. Clearly, it's going to take a lot of foreign investment to turn Pemex around, and a lot of time. The real question is, will any private firm invest now that oil has fallen below \$60 pb, the credit markets have all but seized up, *and* Mexican security conditions have worsened?

Thus, on Wednesday, Mexico became the latest to announce a fiscal stimulus package, joining an expanding list of countries attempting to spend their way out of this global slump. The budget passed for 2009 is allowing its first budgetary deficit since 2005 at 1.8% of GDP. Security is set to receive the largest increase in expenditure from 2008's budget (34% increase), followed by social spending (16%), and infrastructure (14%) including a new refinery. Day-to-day government spending has been cut to partly offset the increased tab. Moreover, the lawmakers, in quite an astute maneuver, hedged the future price of their crude exports at around \$70 pb in an effort to shield public finances from a further slide in petrol prices.

Will all of this be enough to avoid outright recession and/or problems servicing its sovereign debt? For now, these issues remain too close to call. However, with its target rate held steady at 8.25% since August after a cycle of tightening, we feel that the Banco de México's time to shine may be fast approaching. November 28 to be exact.

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