

2Q16 Global Economic Outlook

“Volatility in Global Financial Markets May Continue”

IMF: Global Economic Statistics

	2014A	2015F	2016F	2017F
World Output	3.3%	3.1%	3.4%	3.6%
- Advanced Economies	1.8%	1.9%	2.1%	2.1%
- Emerging and Developing	4.4%	4.0%	4.3%	4.7%
World Trade Volume	3.1%	2.6%	3.4%	4.1%

Source: IMF, M&A Securities

Positive catalysts:

- 1) US will grow cautiously (IMF 2016F: 2.6%; IMF 2017F: 2.6%)
- 2) Sluggish global commodity prices - breathing space for resources deficit country
- 3) Sluggish global commodity prices - opportunity to correct imbalance and fiscal reforms - a huge opportunity
- 4) Continuation of quantitative easing measures from Japan and the Eurozone

Negative catalysts:

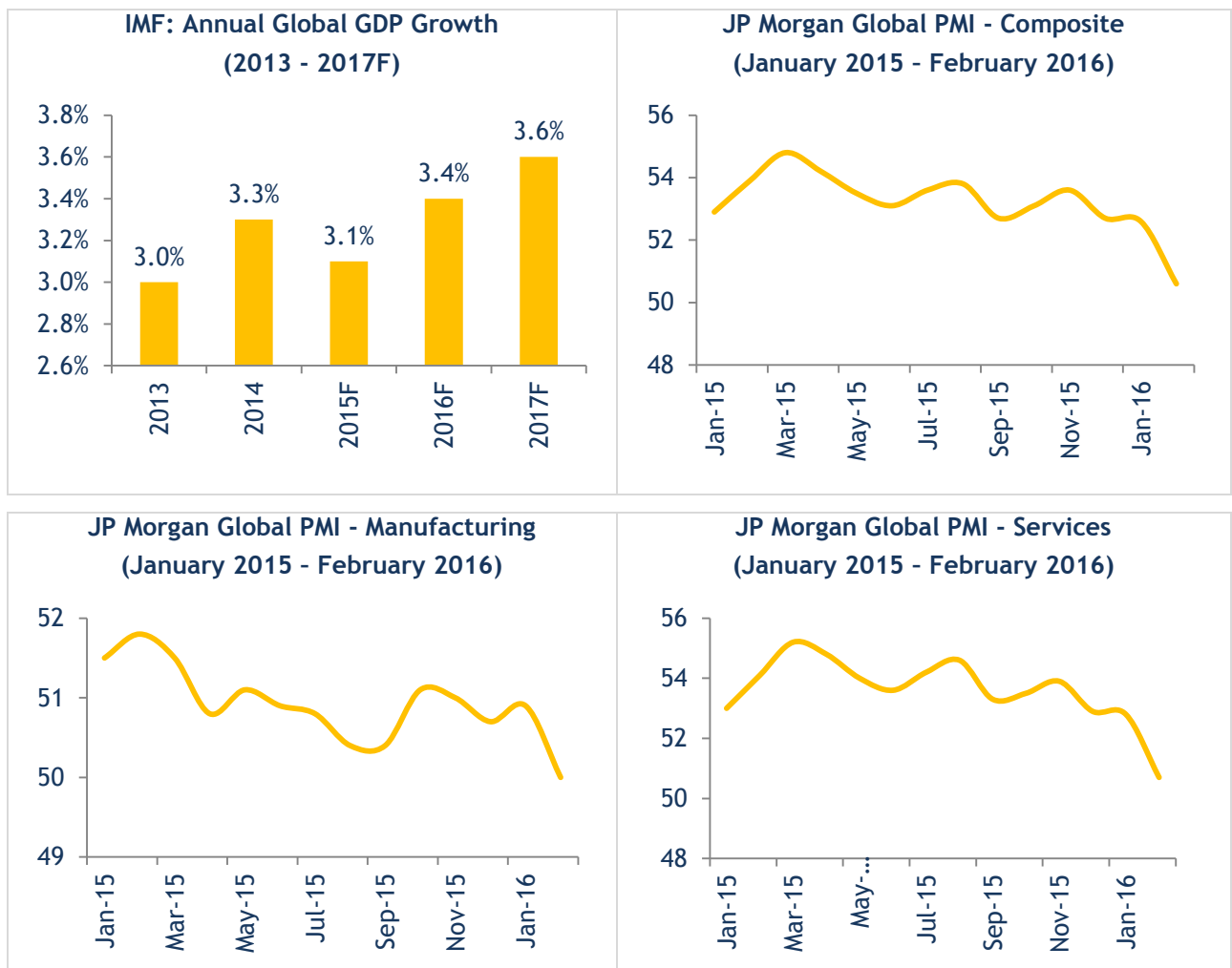
- 1) Economic challenges in China, Japan, and the Eurozone
- 2) Sluggish global commodity prices - rich resources country economy will get pounded
- 3) US policy rate hike - financial instability and policy response to defend currency
- 4) Rapid capital movement emanating from policy rate hikes

Several stress points may weigh on global growth including 1) the pace of US interest rate adjustments 2) China and Eurozone sluggish economic prospects and 3) the uncertain global economic outlook. Frankly, the prognosis is less-than-upbeat. Apart from the above, rising geo-political risks in the Middle East (ME) could also weigh on outlook.

To begin with, the US has officially reached full employment at the end of December after hitting unemployment rate of 5.0% vs. its long term unemployment rate from 1986-2015 of 6.08%. The unemployment level could only get better (read: drop further) especially when the housing market in the US has healed, consumers spending and sentiment are rising, jobs creations are healthy. That means that the US Federal Reserve (FR) will not hesitate to adjust the Federal Funds rate (FRR). The prediction is that the US will be adjusting about 2x of the FRR this, likely in a small dose of 25 basis points. That will equate to a large uncertainty and nervousness in global capital market. At the current FRR rate of 0.25%-0.5%, for 25 basis points adjustment each, FFR may reach only 1.00%, very far from the US normalize interest rate level of about 5%. Note that the FR did say that the adjustments will be in gradual manner but did not commit on the number of increase as that will hinge on the economic conditions and prospects. All in, we think two adjustments is fair. Note that from 1971 until 2015 interest rate in the United States averaged 5.93%, reaching an all-time high of 20% in March of 1980 from a record low of 0.25% in December of 2008. Hence, expect a steady adjustments in FFR in this 2-3 years that could result in heighten volatility of global equity market.

Elsewhere, China is predicted to struggle this year given the on-going economic rebalancing activity. With private investment is fast losing steam due to rising bad debts and exports momentum still murky due to economic doldrums in Japan and Eurozone, we think bad news from China will cause tremor especially when the economic deceleration in China will drag the other engine growth, namely the ASEAN economies. The slow moving China economy will also weigh on global commodity outlook particularly oil and CPO. Nonetheless, we do believe that China has a lot of monetary weapons at their disposal including their strong war chest forex reserve of >USD3 trillion. The government can also defuse the momentum of Yuan in order to re-reignite the economy. At this stage, PBoC expects China to grow at 6.7% in 2016 from 6.9% in 2015 before decelerating further to 6.5% in 2017. All in, expect slower ship maneuvering from China this year.

Various factors may dampen the global commodity prices this year, chiefly the US interest rate adjustment and slower China's economy. Until and unless the US is clear on its policy rate game, we think that catalysts to global commodity prices are sorely small. With rising stocks and sapping demand (due to China) and the Dollar factor, the prospects for both are dimmed. This will of course weigh on the global oil producers economy, mainly key emerging economies like Russia, Brazil, Australia, Canada, Malaysia, Indonesia, to name a few. In sum, expect 2016 to be a challenging year for the global economy.



M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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