

2Q16 Japan Economic Outlook

“Lack of Booster”

Japan Economic Forecast

	2012	2013	2014	2015F	2016F
BoJ	1.5%	1.5%	0.1%	1.1%	1.5%
IMF				0.6%	1.0%
World Bank				0.8%	1.3%
OECD				0.4%	0.8%
Bloomberg Consensus				0.5%	0.7%

Source: Various, M&A Securities

Positive catalysts:

- 1) Sluggishness in global commodity prices - less pressure on cost and economy
- 2) Yen may deflate further

Negative catalysts:

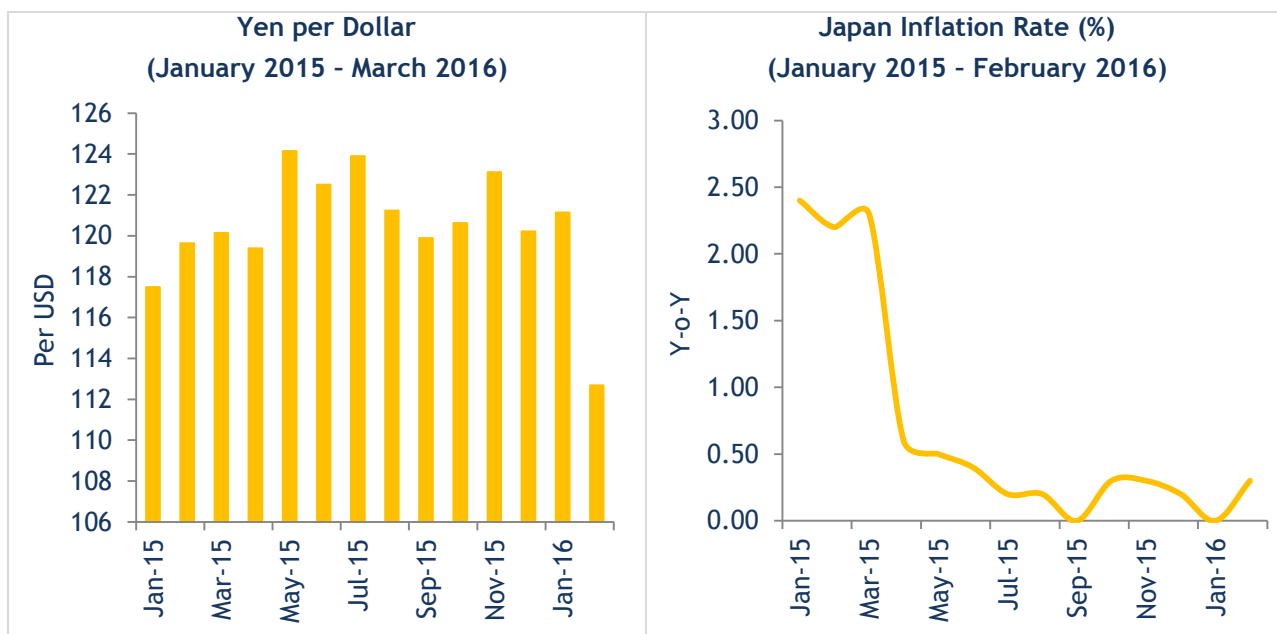
- 1) Disappointing economic prospects
- 2) Impact of consumption tax increase in 2014 to continue to be felt
- 3) Dim prospect of inflationary pressure
- 4) Negligible impact from Abe’s 3-arrow reforms

Rapid spending for Olympic 2020 and the prospects of weaker Yen could be Japan’s only bright spots. Other than that, we think that Japan will continue to be saddled with debilitating structural problems. Even the depressed global commodity prices cannot help Japan.

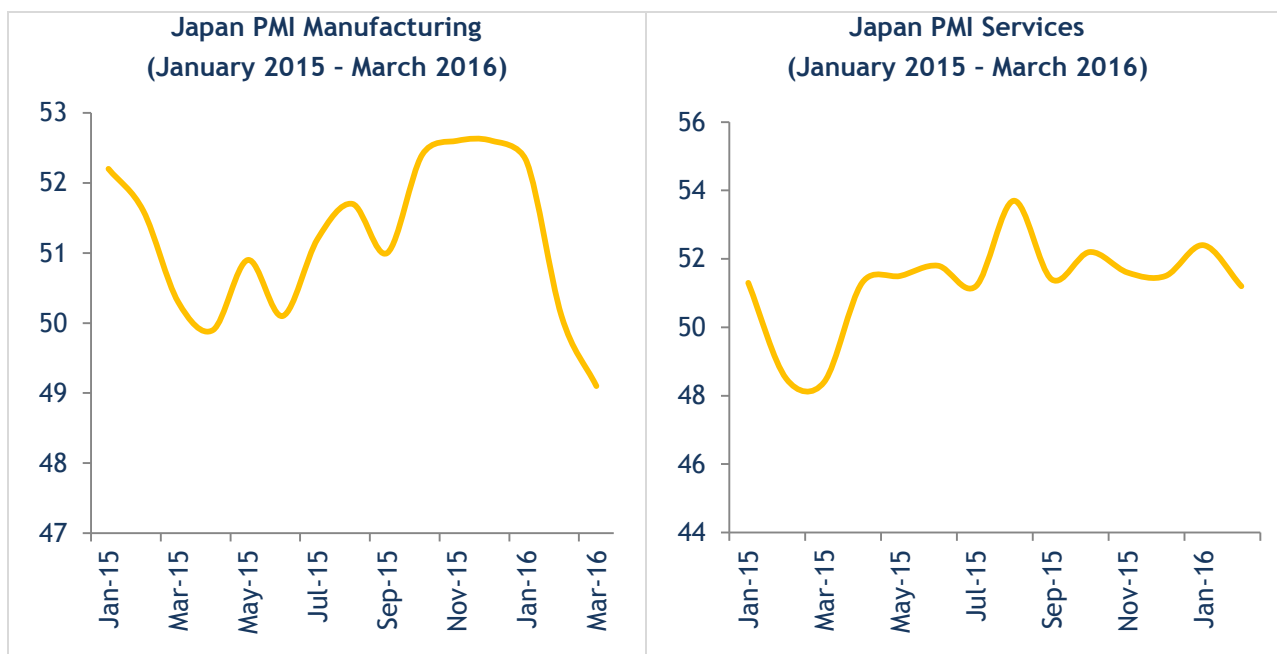
Recall that Japan’s prime minister, Shinzo Abe, had unleashed 3-arrow strategy the monetary, fiscal and structural plans to re-ignite growth. Aside from noticeable weakness in Yen, we have yet to see some magic coming out from Abe’s plan. In fact, Japan growth prospects seem to be lower than in the prior years. We suspect the recent consumption tax adjustment in 2015 has pounded on Japan’s growth prospect and noticeably, its private consumption and investment are still reeling over this. We think the recovery period from the adjustment in Japan’s consumption tax from 5% to 8% in 2015 will take years to normalize. It may not be any different in 2016 especially when Abe is mulling for second adjustment in consumption tax after the first.

As mentioned, the bright spots in Japan could be Japan’s spending for Olympic 2020. With massive spending on the plate including 30 trillion Yen (USD249 billion) until 2020, Bank of Japan expects construction spending triggered by the Games and increasing numbers of foreign tourists will help to expand gross domestic product by 0.2-0.3% point on annual average basis from 2014 to 2020. The secondary impact, nonetheless, can be huge in our view. Japan will definitely use this window to shore up growth and hence, the re-ignition of private consumption and investment in the nation. Another bright spot will be the prospect of weakening Yen, thanks to the strength of USD. This will be a booster that could re-start Japan’s export.

All in, we don't expect Japan to shine this year. It will continue to weigh on global growth particularly when its labor imbalance (i.e. structural problems) still persist including lack of female labour participation, sizeable elderly population, minute birth rate and diminishing fighting spirit. In sum, Japan will continue to weigh on global economy.



Source: Bloomberg, M&A Securities



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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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