

2Q16 Eurozone Economic Outlook

“Same Old Same Old”

Euro Area Economic Forecast

	2012	2013	2014	2015F	2016F
IMF	-0.7%	-0.4%	0.8%	1.5%	1.7%
ECB				1.5%	1.4%
World Bank				1.5%	1.7%
OECD				1.5%	1.7%
Bloomberg Consensus				1.6%	1.5%

Source: Various, M&A Securities

Positive catalysts:

- 1) Quantitative easing measure to shore up growth
- 2) Sluggish global commodity prices: breathing space

Negative catalysts:

- 1) The scary prospect of deflation
- 2) Limited policy space - almost zero
- 3) Nagging structural problems
- 4) Fiscal lethargic
- 5) Germany to oppose kicking start of inflationary drive
- 6) Negative interest rate environment

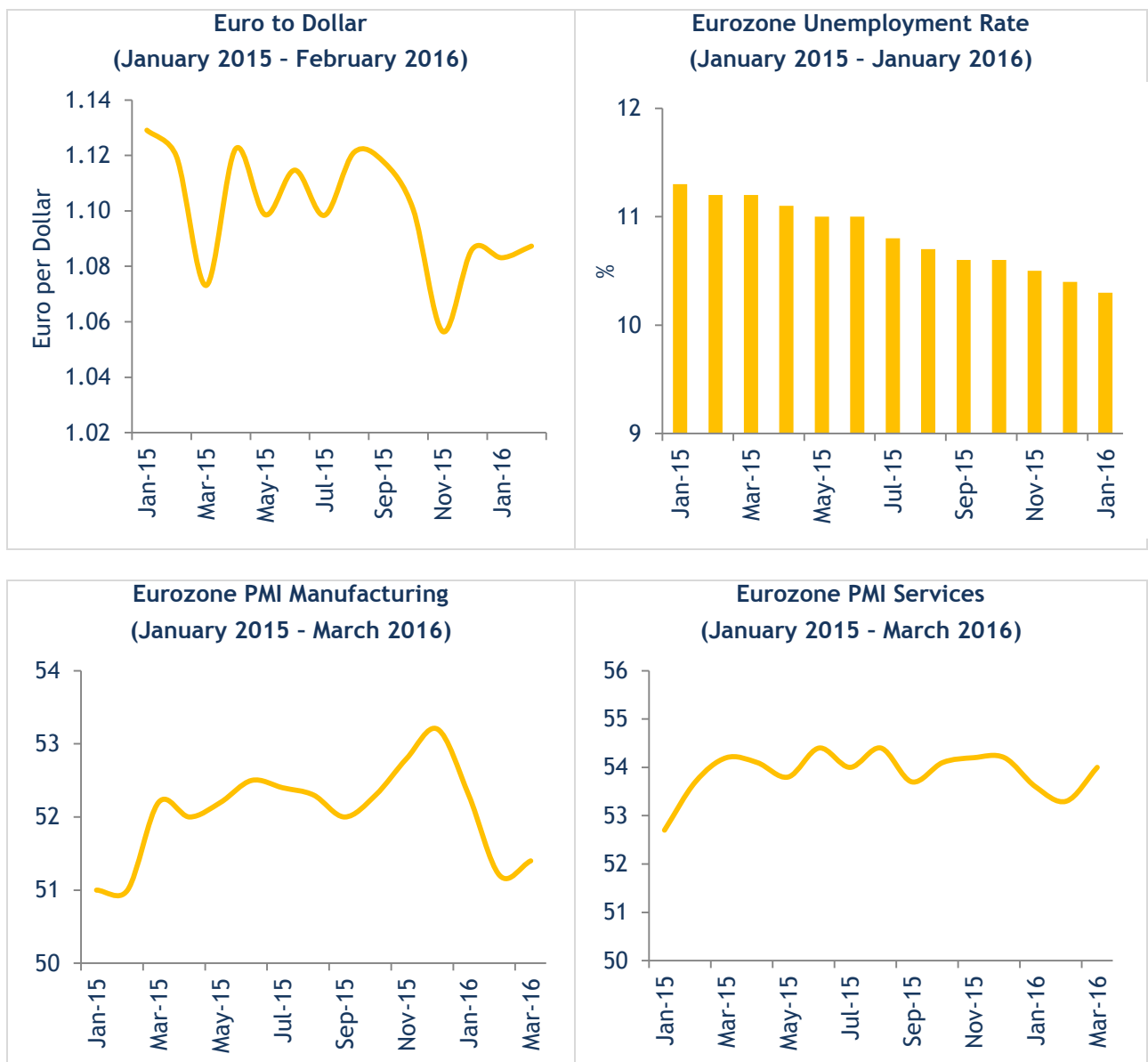
The stars are aligned for Eurozone in 2016. Challenges are aplenty and most are structural issues that require not only time but strong effort to overcome. We are still baffled why the Eurozone cannot grow beyond the 2% range when its quantitative easing measures (QEM) have been going on for a number of years (note: since 2008). The US, adverse to Eurozone, has managed to get its house in order, of which its QEM has officially ended last year. Therefore, it is suffice to say that the Eurozone is suffering from structural issues which will take time to heal.

To begin with, its labour market is still on the sick bed. With consistent double digits unemployment rate since 2008, there are a lot of labour scarring and loss of skill which may take generations to normalize. We think that rapid deleveraging process in the Eurozone is the culprit whereby private consumption ability to spend is still limited, which explains the lethargic inflationary impulse of the pact. Despite the fact that the European Central Bank (ECB) has maintained almost 0% interest rate for some time and now in negative interest rate environment in addition to massive liquidity being pumped in under the QEM, Eurozone failed to show convincing economic recovery. In sum, we think that Eurozone will continue to disappoint in 2016 with minute growth.

Nonetheless, a few bright spots are there for the pact including the likely weakness of the Euro against the Dollar and the protracted weakness of the global commodity prices. These are the catalysts that may give power of growth in the Eurozone. Note that Euro has reached year low of \$1.13 per Dollar in February and it may fall further. This could re-start the dwindling export

momentum of the Eurozone. In addition, with the low oil price, Eurozone could get a breathing space as its energy cost will be kept at bay.

2016 will not be any different for Eurozone as long as its structural problems are not settled. The pact is also running out of monetary option to re-start growth now that it is in deep negative interest rate environment. Notwithstanding that, we think that Eurozone is a tale of two-city. The ECB is keen to see inflation to be up and running but this will be vehemently opposed by Germany. Therefore, we don't think that inflation will be heading north anytime soon more so when the global commodity prices to remain weak. The only solace to the pack is the solid economic prospects of the UK (part of Euro area) that could support Eurozone export. Other than that, we find it difficult to support the conviction that Eurozone will grow convincingly this year. Hence, expect Eurozone economic standings to remain status quo.



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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