

3Q15 Global Economic Outlook

“Embrace Protracted Volatility”

IMF: Global Economic Statistics

	2013A	2014A	2015F	2016F
World Output	3.0%	3.3%	3.5%	3.7%
- Advanced Economies	1.3%	1.8%	2.4%	2.4%
- Emerging and Developing	4.7%	4.4%	4.3%	4.7%
World Trade Volume	3.4%	3.1%	3.8%	5.3%

Source: IMF, M&A Securities

Positive catalysts:

- 1) US will grow convincingly (IMF 2015F: 3.6%; IMF 2016F: 3.3%)
- 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) Quantitative easing measures from Japan and the Eurozone

Negative catalysts:

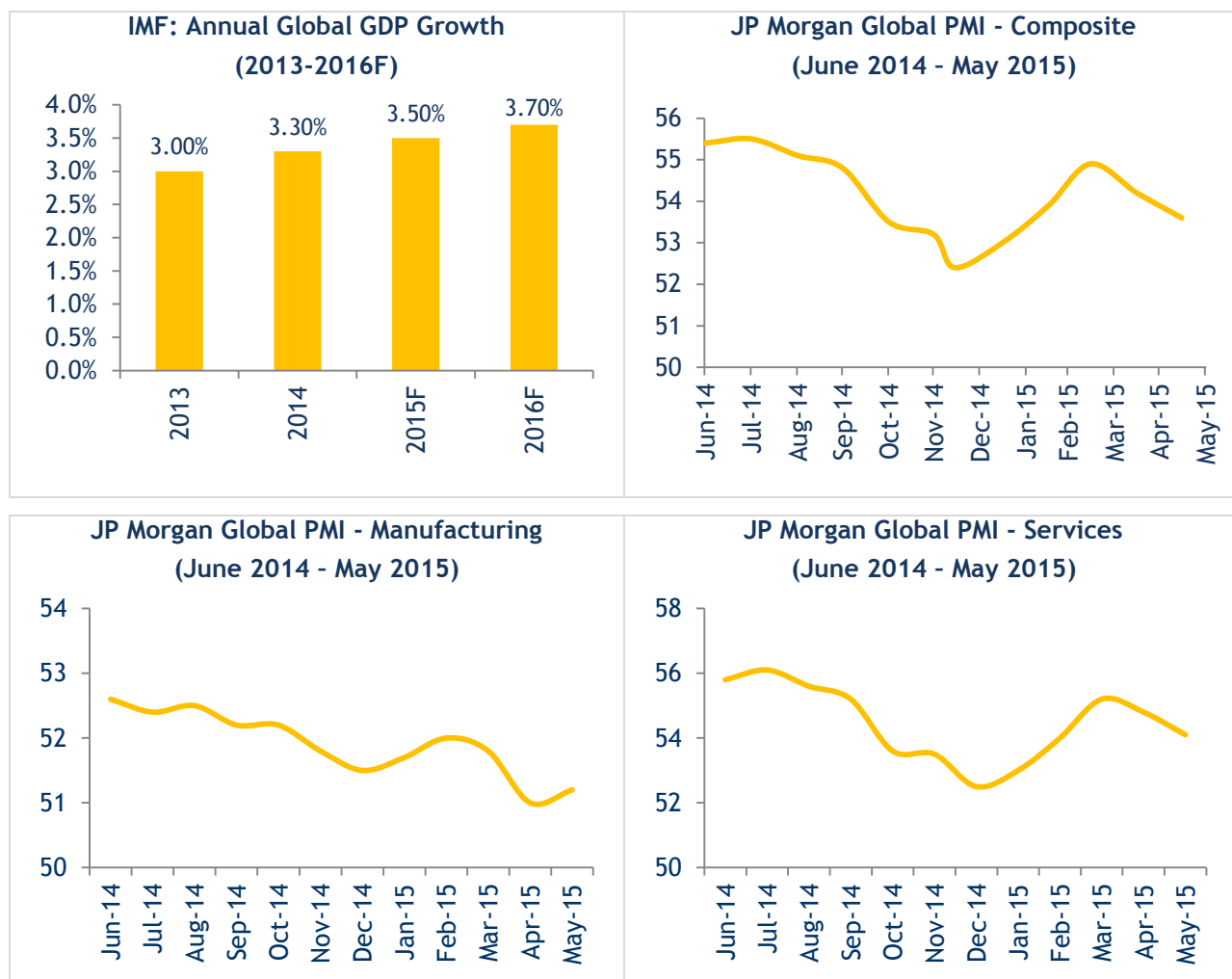
- 1) Economic challenges in China, Japan, and the Eurozone
- 2) Sluggish global commodity prices - rich resources country economy will get pounded
- 3) US policy rate hike - financial instability and policy response to defend currency
- 4) Rapid capital movement emanating from the US policy rate hikes

The world will be facing protracted volatility in 3rd quarter this year and possibly spilling into 4th quarter no thanks to 1) US impending interest rate adjustment, 2) headwinds from Greece debt debacle and 3) China challenging economic outlook. At the moment, the boiling thermostat coming from Greece could be earth shifting as Greece is due for sizeable debt repayment to the tune of €3.1 billion in June and another big sum in July. The failure of Greece to meet its debt repayment in these both months sparks fresh concern that Greece may want to be independent from Eurozone. This rising possibility will raise systematic risk chiefly due to the fact that Germany, France and Cyprus are all big holders of Greece debt. Greece has said that it does not have the money in addition to the fact that it refuses to go for another fiscal consolidation.

All in all, should negotiation on this fails, Greece may be independent from Eurozone and hence, have its own monetary independence. It proves that the exit mechanism from Eurozone do exist after all. On the flip side, Greece will be in uncharted water and opens the door for other trouble nations such as Portugal, Ireland, Italy and may be Spain to consider the same path of opting out. There may be a domino effect that can lead to the Eurozone to crumble and hence, raising the tail risk to reach 3-standard deviation scenario. Although it may be remote at this juncture but we think the Greeks are tired of all the severe tightening measures and crimping fiscal target and they per se may vote to be independent. This will be one of the brewing headache facing global economy and financial market in 3rd quarter.

Apart from that, US looming interest rate adjustment, widely said and speculated to be in 2H15, may cause shifting sand for the global economy. The spark of this will be precursor for exchange rate volatility to heighten. It has started well in advance in 2H14. But, the official validation of this will unleash a fresh volatility in the already volatile currency market and the chief brunt of this will be the commodity producing countries as capital outflow could be more severe. The accompanying weakening of commodity prices will be a source of nervousness that will be precursor for investors to continue taking their funds out of these countries. This will hammer their currency along the way. Malaysia, Brazil, Russia and Indonesia are among those that are vulnerable.

The likely adjustment in the US interest rate in 2H15 will only add to the strength of the USD. We think that the US will start adjusting its Federal Funds rate in earnest although we think that the adjustment in the beginning will be modest, in the range of 25-50 basis points in first 1-2 FOMC sitting before starting to reach in full blown in 2016. As the adjustment until the US reaches its normalization level of 4%++ could be sizeable given the current FFR rate of 0.25%, we expect the global financial market volatility could prolong and get protracted well into 2016 and 2017 and hence, we think that the nervousness of global financial market will. Until then, expect rapid capital movement along the way which may inevitably hammer the currency and economy of commodity producing countries.



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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