

3Q15 Japan Economic Outlook

“Same Old Same Old”

Japan Economic Forecast

	2012	2013	2014	2015F	2016F
BoJ	1.5%	1.5%	0.1%	0.6%	n.a
IMF				0.6%	0.8%
World Bank				1.2%	1.6%
OECD				1.3%	1.3%
Bloomberg Consensus				1.0%	1.4%

Source: Various, M&A Securities

Positive catalysts:

- 1) Sluggishness in global commodity prices - less pressure on cost and economy
- 2) Shinzo Abe full mandate and grip to lead Japan

Negative catalysts:

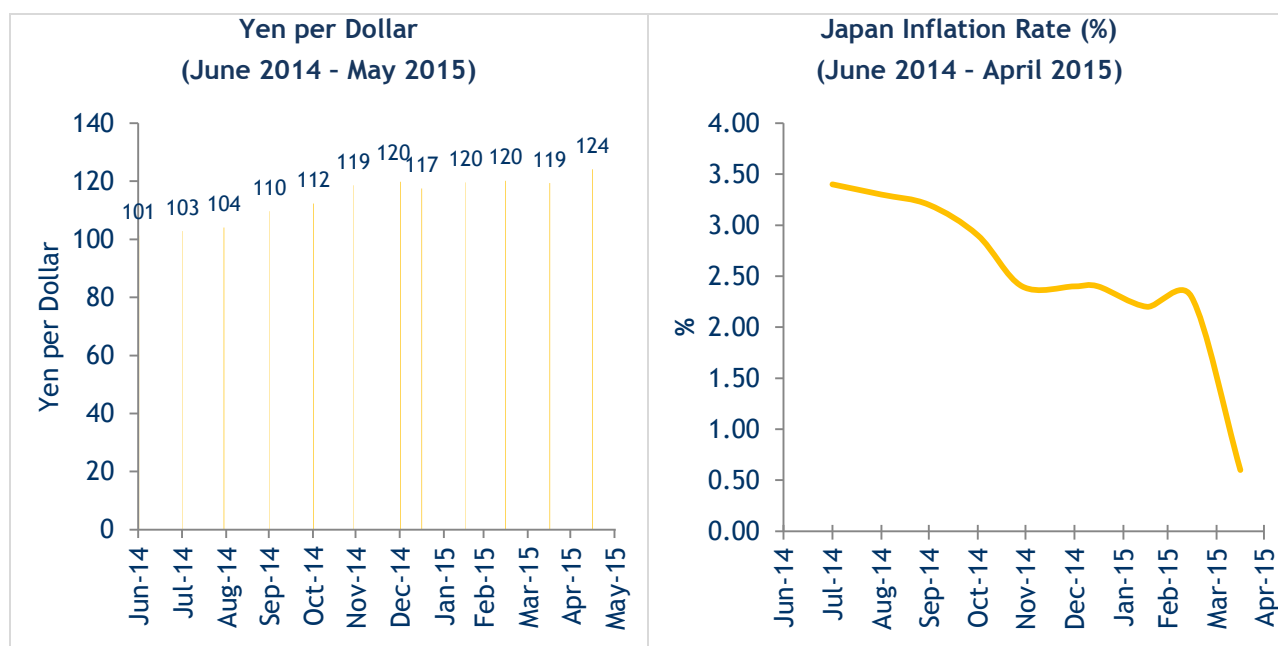
- 1) Yen may gain strength
- 2) Disappointing economic prospects
- 3) Impact of consumption tax increase in 2014 to continue to be felt
- 4) Dim prospect of inflationary pressure
- 5) Negligible impact from Abe’s 3-arrow reforms

Japan is unlikely to grow in smashing record this year. In adverse, it may likely generate a lukewarm economic growth despite the fact that oil has remained fairly depressed for the year. Even with much pomp and pageantry, Shinzo Abe has failed to revive Japan’s economic momentum with its 3-arrow reforms. In line with our expectation, it is the structural impediments that weighing on Japan’s engine of growth and no amount of fiscal and monetary arsenal can help them. Japan’s economic growth will continue to be derailed by 1) ageing population (note: Japan’s population average age is about 50 years old vs. Europe’s in the 34 years vs. China’s 29 years old. With that, productivity will get a hit and consumers spending will remain lethargic. Last year’s sales tax increase will only add to their spending withdrawals.

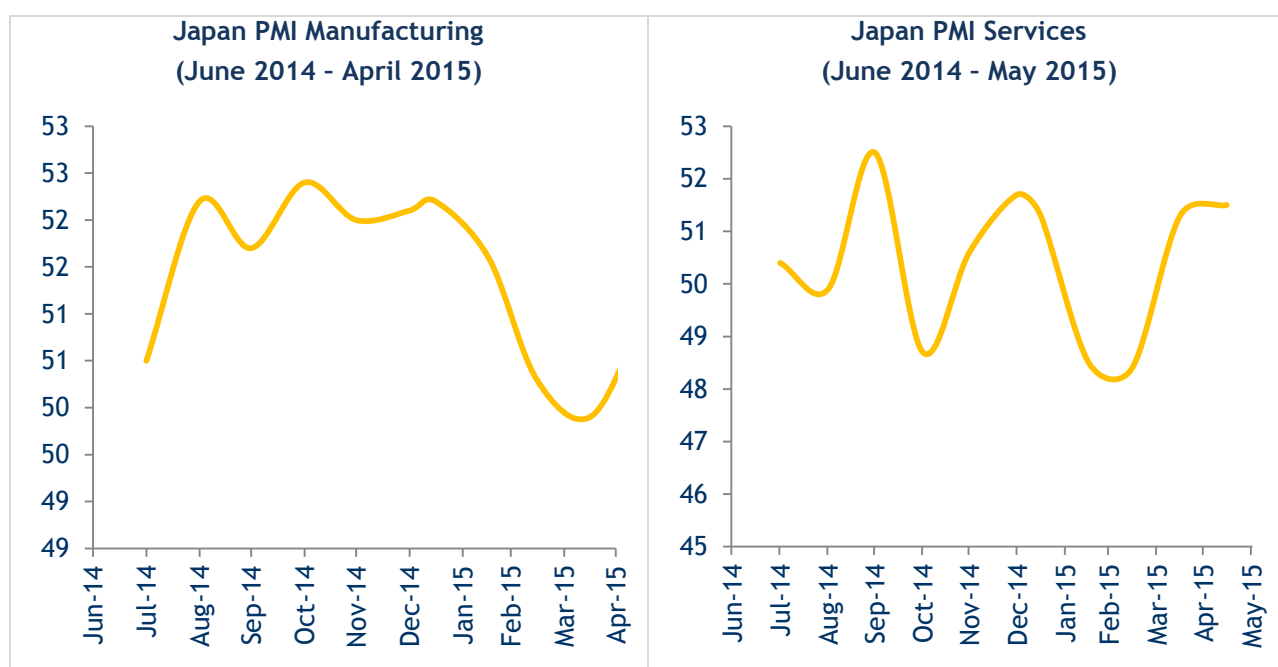
Despite Bank of Japan massive bond purchase programme, Japan’s economy has yet to show sign of breathing and expect it to be as such in the next few years. The only reprieve for the economy now is 1) depress oil price and 2) Tokyo 2020 Olympic spending. As many are aware, Japan has zero oil resources and hence, the movement of oil will impact the nation directly. Japan should take the advantage of a fairly soft oil price but failed to do so. In adverse, Japan has been pushed to the verge of deflation given its May inflation of 0.1%. This is very far from BoJ’s 2.0% inflation target. Failure to induce inflation means companies will not hire new employees in big numbers and consumers spending will remain weak, a vicious spiral for Japan who has been in hibernation for over 20 years.

Another dilemma facing Japan is the prospect of Yen to gain in value, mainly due to the virtue of Yen being safe haven currency alongside USD and Swiss Franc. During a period of uncertainty where rapid capital outflow will heighten risk premia, we opine that investors may accumulate these safe haven assets, a precursor for Yen to gain traction further. This will hurt Japan’s export revival and hence, Japan’s economy as a whole.

As mentioned, the only reprieve for Japan now is the structural spending ahead of Tokyo Olympic 2020 and soft oil prices. If Japan fails to capitalize on that, then expect Japan economy to be on a prolong period of hibernation. Again, we still think that structural issue will not be easy to mend, just like what Japan is showing us.



Source: Bloomberg, M&A Securities



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# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

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

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