Going to 2015, What to Expect?



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Agenda

Discuss the outlook of 4 major economies;
 US, Europe, Japan and China

Local economy outlook

Appetizer for commodities in 2015

Conclusion







Diverging World Economies

Global Quarterly Real GDP Growth (% YoY)

	1Q 2013	2Q 2013	3Q 2013	4Q 2013	1Q 2014	2Q 2014	3Q 2014	
WORLD	2.6	3.0	3.5	4.0	3.8	3.7	3.6	
US	1.7	1.8	2.3	3.1	1.9	2.6	2.4	
Eurozone	(1.2)	(0.6)	(0.3)	0.4	1.1	0.8	0.8	
Japan	0.5	1.4	2.2	2.3	2.5	(0.3)	(1.3)	
UK	8.0	1.7	1.7	2.7	2.9	3.2	3.0	
China	7.7	7.5	7.8	7.7	7.4	7.5	7.3	
Russia	0.8	1.0	1.3	2.0	0.9	0.8	0.7	
Brazil	1.9	3.5	2.4	2.2	1.9	(0.9)	(0.2)	
India	4.4	4.7	5.2	4.6	4.6	5.7	5.3	
S. Korea	2.1	2.7	3.4	3.7	3.9	3.5	3.2	
Hong Kong	2.9	3.0	3.0	2.9	2.6	1.8	2.7	
Taiwan	1.4	2.6	1.5	3.4	3.4	3.9	3.6	
Singapore	1.5	4.0	5.0	4.9	4.8	2.3	2.8	
Indonesia	6.0	5.8	5.6	5.7	5.2	5.1	5.0	
Thailand	5.4	2.9	2.7	0.6	(0.5)	0.4	0.6	
Malaysia	4.2	4.5	5.0	5.1	6.2	6.5	5.6	
Philippines	7.7	7.9	7.0	6.3	5.6	6.4	5.3	
Vietnam	4.8	5.0	5.5	6.0	5.1	5.4	6.2	

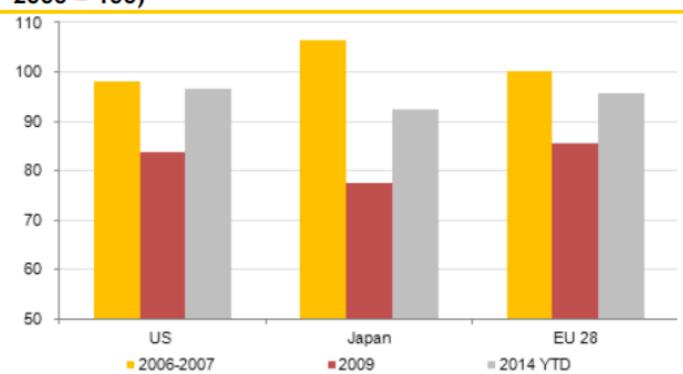
Sources: Bloomberg, CEIC, Maybank KE estimate (for Global GDP Growth)

Note: Our internal calculation of global real GDP growth has an over-estimation bias of between +0.2ppt to +0.3ppt versus actual numbers based on IMF figures



Only US is recovering

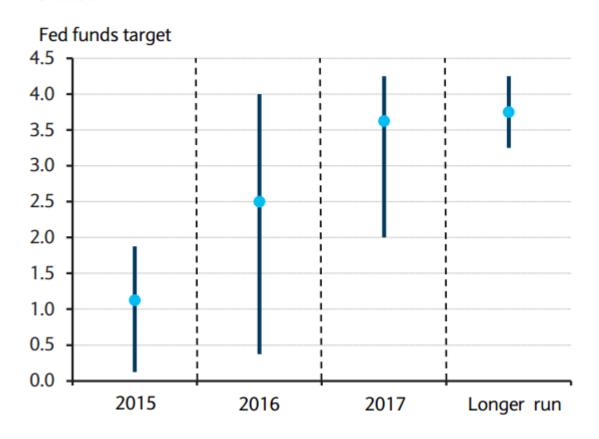
Capacity Utilisation Rate in US, Japan, Europe (Index, June 2000 = 100)





Let The Tightening Begins

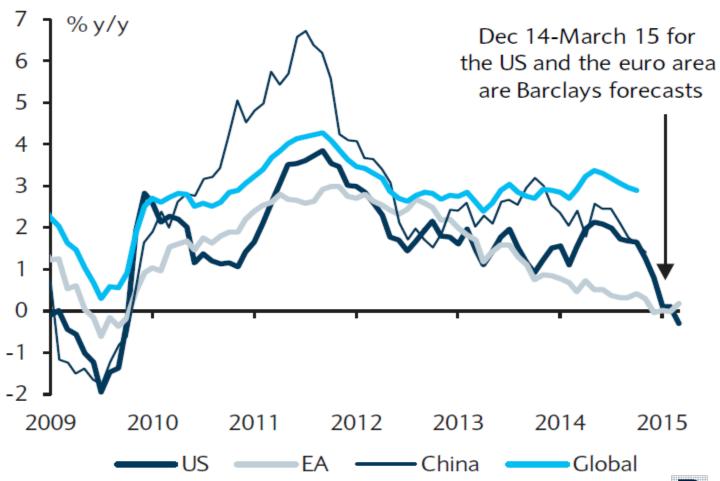
Uncertainty about the pace of policy firming in 2016 remains elevated





Risk of Deflation in 2015

Headline inflation % y/y



Source: Eurostat, CEIC, BLS, Barclays Research



Deflation Risk Imminent Prompting Further Actions in 2015

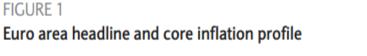




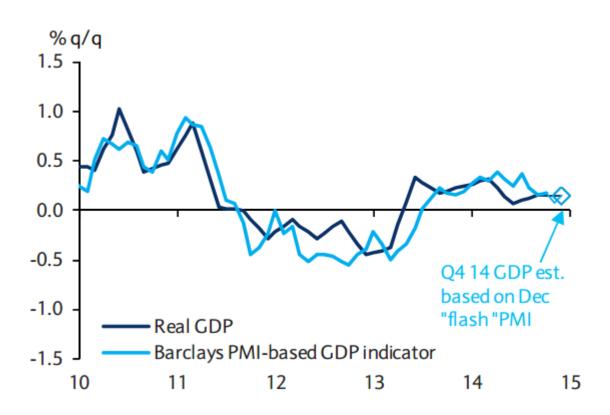
FIGURE 2
Inflation pressures from labour remain subdued





Anticipate Subdued Growth in Euro Region in 2015

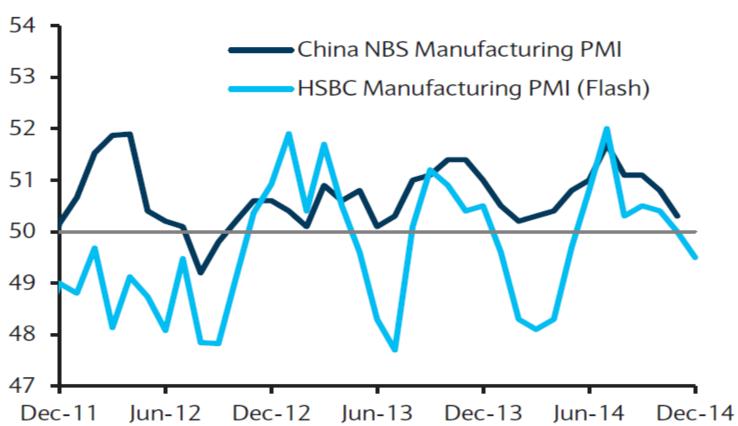
Euro area PMIs in line with our Q4 forecast





Weaker Dragon Economy

Index, 50+ = expansion

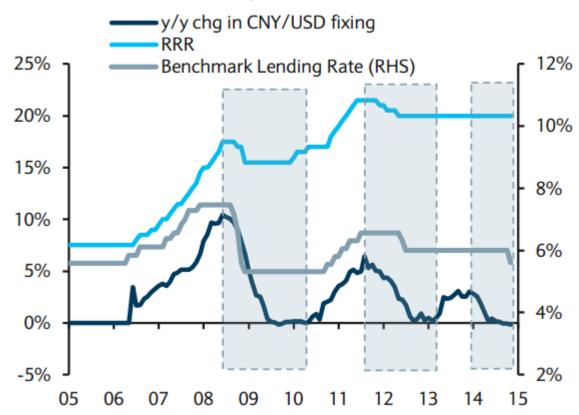


Source: Haver Analytics, Barclays Research



Rate Cut A Positive Step

The pace of CNY appreciation broadly moves in the same direction as other monetary tools





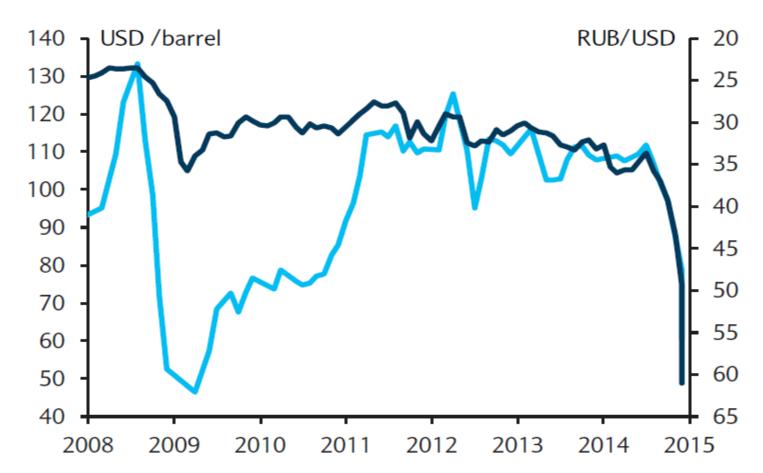
Slower Growth for China Is Expected in Years to come



Your Partner In Finance

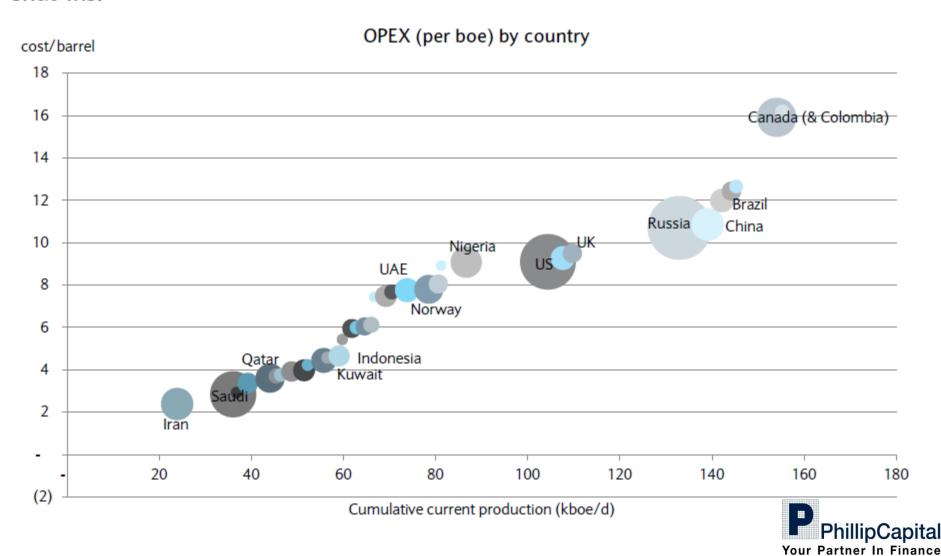
Russia Is Suffering

Oil prices and ruble monthly prices





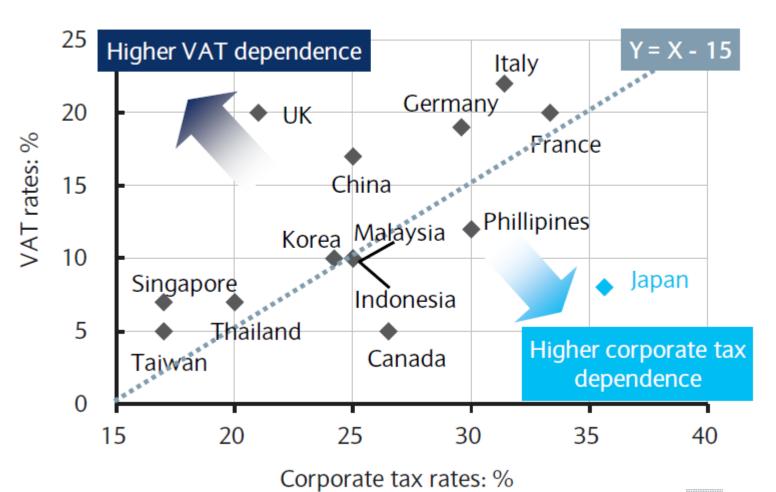
OPEX per barrel of oil equivalent is extremely low for many producing countries. Even though these costs do not include government take (taxes and royalties), which could add \$10-20, prices would have to fall to \$30-40/bbl and stay there to see significant shut-ins.





Tax Balancing in Japan

Comparison of VAT and corporate tax rates





Abenomics?

begin

self-defense)

y/y CPI target?

2015 (cont'd)

Apr: Corp. tax rate cuts

Apr-May: Diet deliberates

Mid-vear: Bol to reach 2%

national security act (to

permit use of collective

Summer (Jul): Plan for

balance surplus in 2020

election (PM Abe likely to

regional primary balance

deficit/GDP ratio to be

reduced to half of FY10

achieving primary

to be announced

be re-elected)

Sep: LDP presidential

Within FY: National-

2014

<u>Jun</u>: Revised growth strategy announced

Oct 31: BoJ PB votes 5-4 to ease further (QQE2)

Nov 18: PM decides to postpone Oct 2015 VAT hike

Nov 21: Lower house dissolved

<u>Dec 2</u>: Lower house general election officially announced

<u>Dec 14</u>: Lower house election results (PM says victory if ruling parties keep

majority)

<u>Late-Dec</u>: Extraordiary Diet session convened (PM and lower house chair elected), Cabinet formed

End-Dec: Gov't draft of FY14 supplementary budet compiled

<u>Dec</u>: Final TPP accord difficult

2015-16 (critical stage for PM Abe)

2015

Early Ian (?): Cabinet adopts FY14 supplementary budget Late Jan (?): Cabinet adopts FY15 initial budget Mid-Jan: Ordinary Diet session begins, runs 150 days until June in the absence of an extension Late-lan (?): FY14 supplementary budget passed Jan-Feb (?): Sendai nuclear power plant restarted Feb 16: First preliminary GDP data for Q4 > expect rapid real growth By end-Mar (?): Bill to delay VAT hike discussed, passed as budget

legislation

budget

By end-Mar (?): Gov't

aims to pass FY15 initial

April: Unified nationwide

regional elections

2016

<u>Jul</u>: Upper house election <u>Aug</u>: CPI rebased to 2015 from 2010 ⇒ Downside CPI surprise?

2018

Abenomics Phase 2

Mar: Terms end for BoJ Deputy Gov's Iwata and Nakaso

Apr: BoJ Gov. Kuroda's term ends

<u>Sep</u>: LDP presidential election ⇒ Abe unable to run (LDP rules only allow two consecutive terms)

<u>Dec</u>: Lower house terms end

Within year: Current account surplus to

structurally disappear? <u>Within year</u>: Casinos to open in Japan?

Within FY: Rice acreage reduction program scrapped

> PM Abe's term ends

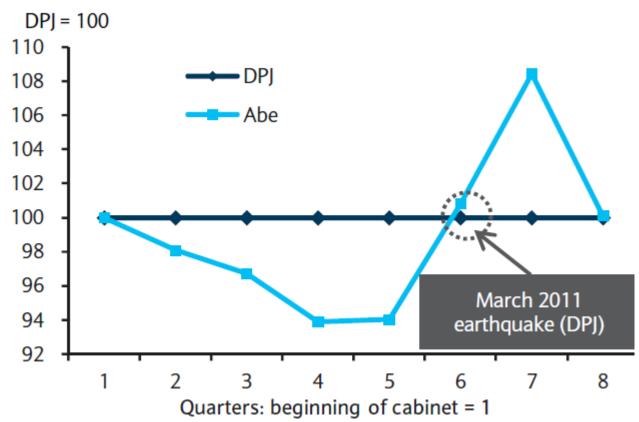
Post-2018 questions

Who follows Abe? Who follows Kuroda? LDP still ruling party?



Is Abenomic Really Working?

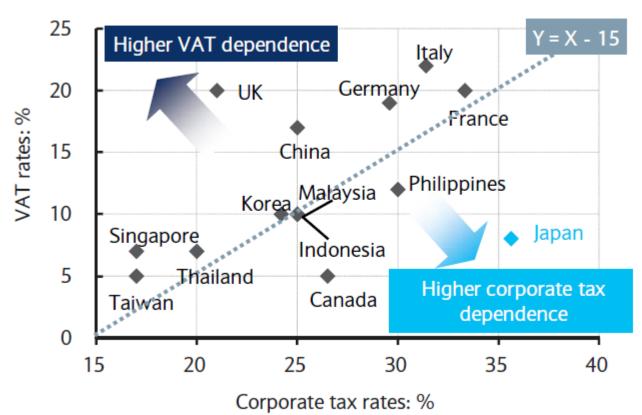
Comparison of real exports (goods, serivces)





Tax Divergence in Japan

Comparison of VAT and corporate tax rates



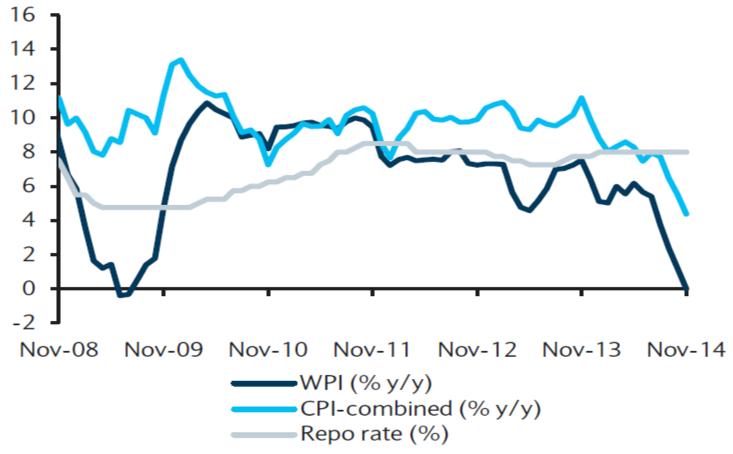






Lower Inflations Seems to work

India: Inflation continues to decline...

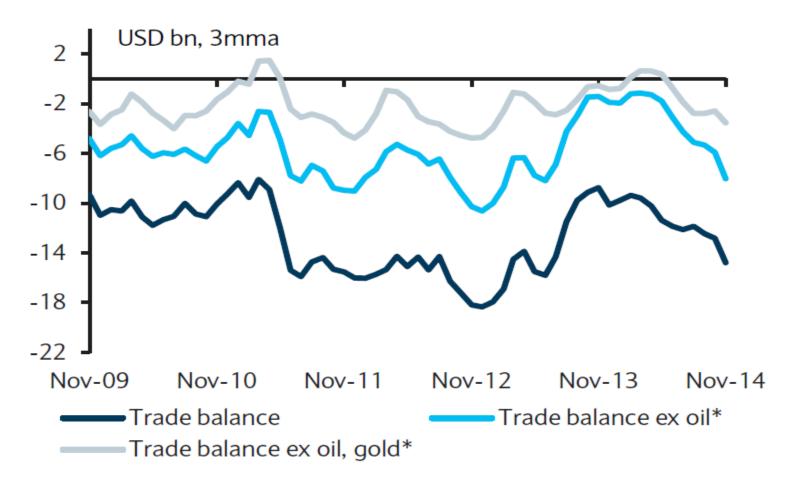


Source: Haver Analytics, Barclays Research



But Gold Importing Remains High

India: ... but wider trade deficit raises concerns











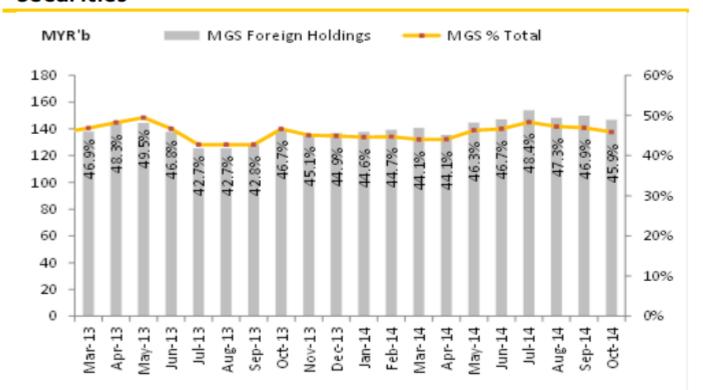
2014, Mixed Performance



Your Partner In Finance

Is not the Equity market we should be worry, it's the bond market

Malaysia: Foreign Holdings of Malaysian Government Securities





Fiscal Impact

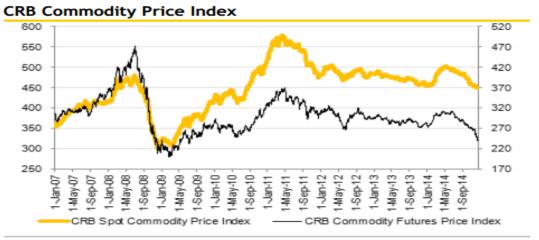
Figure 2: Sensitivity of fiscal balance to different global oil prices

95	85	75	70	65	60	55
-9.5	-19.0	-28.6	-33.3	-38.1	-42.9	-47.6
5.0	7.5	12.0	12.0	12.0	12.0	12.0
-2.5	-5.0	-7.5	-8.8	-10.0	-11.3	-12.5
2.5	2.5	4.5	3.3	2.0	0.8	-0.5
0.2	0.2	0.4	0.3	0.2	0.1	0.0
0.0	0.0	-2.0	-3.0	-3.0	-4.0	-5.0
2.5	2.5	2.5	0.3	-1.0	-3.3	-6.2
0.2	0.2	0.2	0.0	-0.1	-0.3	-0.5
	-9.5 5.0 -2.5 2.5 0.2 0.0 2.5	-9.5 -19.0 5.0 7.5 -2.5 -5.0 2.5 2.5 0.2 0.2 0.0 0.0 2.5 2.5	-9.5 -19.0 -28.6 5.0 7.5 12.0 -2.5 -5.0 -7.5 2.5 2.5 4.5 0.2 0.2 0.4 0.0 0.0 -2.0 2.5 2.5 2.5	-9.5 -19.0 -28.6 -33.3 5.0 7.5 12.0 12.0 -2.5 -5.0 -7.5 -8.8 2.5 2.5 4.5 3.3 0.2 0.2 0.4 0.3 0.0 0.0 -2.0 -3.0 2.5 2.5 2.5 0.3	-9.5 -19.0 -28.6 -33.3 -38.1 5.0 7.5 12.0 12.0 12.0 -2.5 -5.0 -7.5 -8.8 -10.0 2.5 2.5 4.5 3.3 2.0 0.2 0.2 0.4 0.3 0.2 0.0 0.0 -2.0 -3.0 -3.0 2.5 2.5 2.5 0.3 -1.0	-9.5 -19.0 -28.6 -33.3 -38.1 -42.9 5.0 7.5 12.0 12.0 12.0 12.0 -2.5 -5.0 -7.5 -8.8 -10.0 -11.3 2.5 2.5 4.5 3.3 2.0 0.8 0.2 0.2 0.4 0.3 0.2 0.1 0.0 0.0 -2.0 -3.0 -3.0 -4.0 2.5 2.5 2.5 0.3 -1.0 -3.3

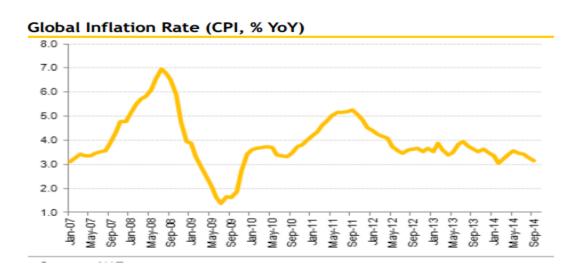
SOURCES: CIMB RESEARCH



Deflation, A key risk driven by low Commodities Prices

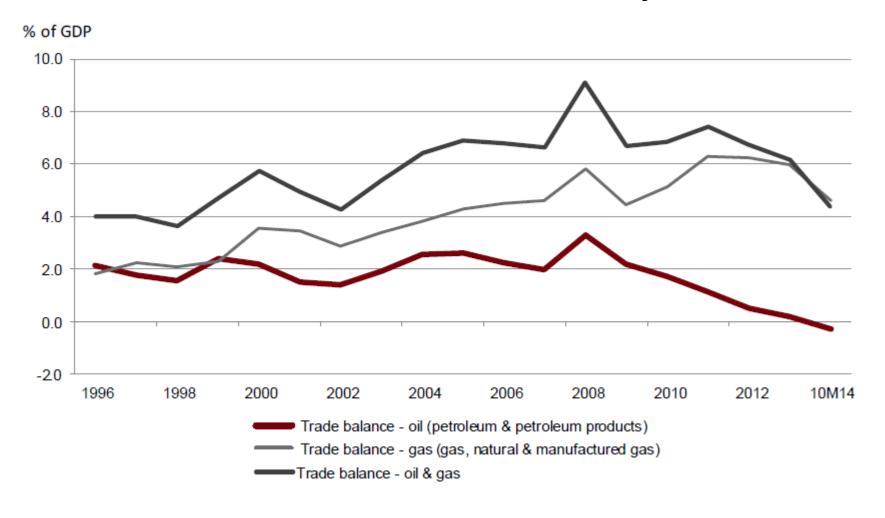


Source: Bloomberg



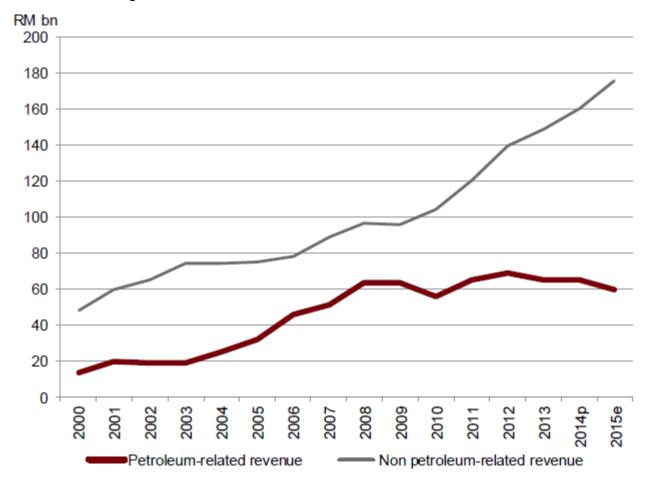


Substantial Gas Player



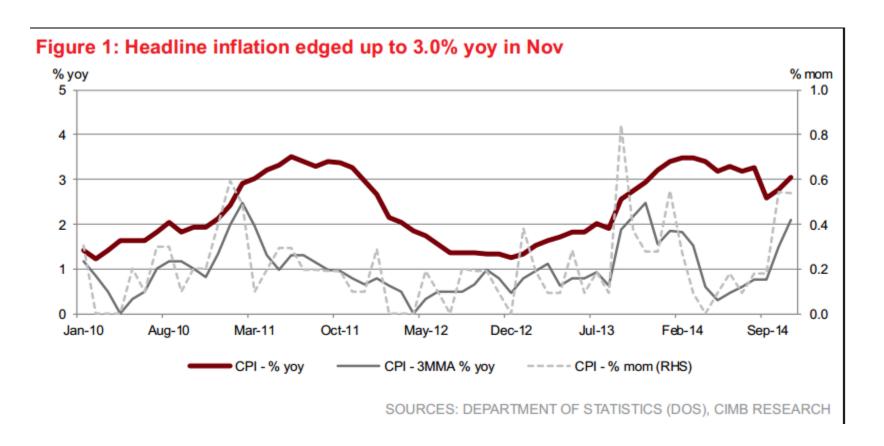


Still Dependent on Oil Revenue



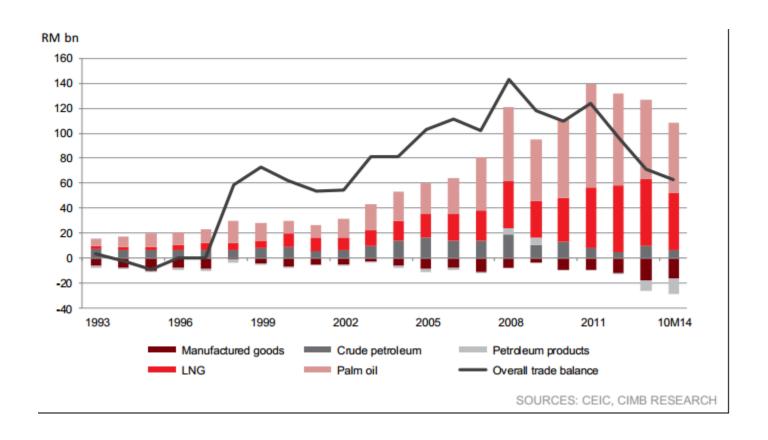


Rising Price Despite Lower Crude Oil Price



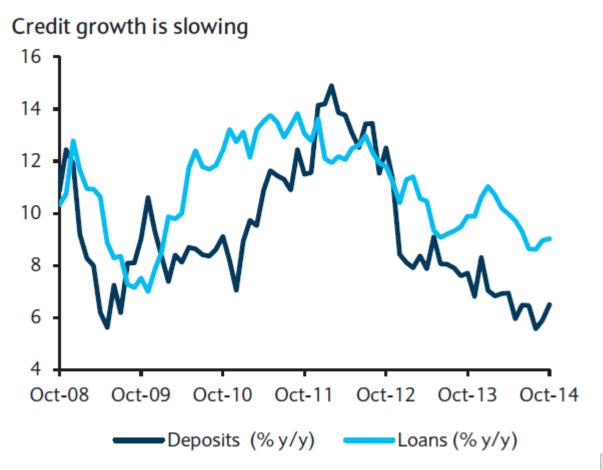


Trade Balance Deficit





Cautious Consumer or Tighter Restrictions ?





Barometer of Risk in Malaysia CDS Market



PhillipCapital

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Conclusion

Risk premia definitely increase in recent times

Be cautious on any tell tale signs

Tough year for Malaysians

Still there's opportunity but be very selective





