

ECONOMIC REVIEW | April 2020 External Trade**Record High Trade Deficit to Contribute Negatively to Economic Growth in 2Q20**

- *Export performance at over 10-year low. Malaysia's exports dived -23.8%yoy in Apr-20, the hardest fall since Sep-09, manifesting the impact of a full month of MCO. Similarly, imports contracted by -8%yoy but at a far slower pace than exports mainly due to lumpy purchases of transport equipment particularly floating structures pertaining to PFLNG2 project. Imports of transport equipment soared by +232.7%yoy during the month (Mar-20: -44.2%yoy). As a result, Malaysia's 269 consecutive months of trade surplus had shifted to a deficit of RM3.5b in Apr-20. It is the largest trade deficit on record thus far.*
- *Re-export activities at 1-1/2-year high. Re-exports continued to record expansion in Apr-20 at +38.2%yoy, the highest since Oct-18, mitigating the contraction in overall exports. The growth was driven by re-exports of E&E (+58%yoy) and petroleum products (+42.5%yoy). Re-exports of transport equipment (+530.9%yoy) had also contributed to the surge as Malaysian carrier returned few units of aircraft to Indonesia. The ratio of re-export to total export recorded at 28.7%, the highest on record.*
- *Exports to contract by -8.3%yoy in 2020. Impact of Covid-19 has emerged as the top risk to global trade flows as it affects both supply and demand of goods. This include Malaysia particularly with almost two months of MCO which disrupts productions and eventually exports. China's latest external trade performances showed some improvement however the sustainability of it remains questionable at large. In addition, the re-escalation of US-China tension poses more threat to foreign trades. This will hinder most of the countries' effort to restart their respective economies amid Covid-19 pandemic.*

Export performance at over 10-year low. Malaysia's exports dived -23.8%yoy in Apr-20, the hardest fall since Sep-09, manifesting the impact of a full month of MCO. Similarly, imports contracted by -8%yoy but at a far slower pace than exports mainly due to lumpy purchases of transport equipment particularly floating structures pertaining to PFLNG2 project. Imports of transport equipment soared by +232.7%yoy during the month (Mar-20: -44.2%yoy). As a result, Malaysia's 269 consecutive months of trade surplus had shifted to a deficit of RM3.5b in Apr-20. It is the largest trade deficit on record thus far. On a monthly basis, exports plunged -19%mom while imports grew marginally by +0.9%mom.

Momentary surge in growth of capital goods imports. Capital goods imports advanced by +68.9%yoy, the fastest rate since Mar-17 mainly contributed by one-off imports of floating structures for PFLNG2 project. Fundamentally, imports of capital goods remain weak along with those of intermediate and consumption goods. Intermediate and consumption goods imports plunged by -30.6%yoy and -12%yoy respectively. Weak purchases of intermediate and capital goods suggest that manufacturers are very pessimistic on the future demand for their products hence are more cautious on business decisions. With looming risks and uncertainties resulting from Covid-19 and re-escalation of US-China tensions, imports of capital goods in particular is expected to continue to be pressured moving forward.

Table 1: Malaysia's External Trade Summary

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Exports (RMb)	90.6	80.8	86.4	84.1	74.5	80.1	64.9
% YoY	-6.7	-5.5	2.7	-1.5	11.8	-4.7	-23.8
% MoM	16.6	-10.8	6.9	-2.7	-11.5	7.6	-19
Imports (RMb)	73.3	74.3	73.8	72.1	61.8	67.8	68.4
% YoY	-8.7	-3.6	0.9	-2.4	11.3	-2.7	-8
% MoM	5.6	1.4	-0.6	-2.4	-14.2	9.7	0.9
Total Trade (RMb)	163.9	155.1	160.2	156.7	136.3	147.9	133.3
% YoY	-7.1	-4.6	1.9	-2	11.6	-3.8	-16.4
% MoM	11.4	-5.4	3.3	-2.6	-12.7	8.5	-9.9
Trade Balance (RMb)	17.3	6.5	12.6	12	12.6	12.3	-3.5
Import Components							
Intermediate (RMb)	37.5	41	41.8	38.9	38.4	38.9	28.3
% YoY	-5.1	1.8	6	3.7	20.4	2	-30.6
Capital (RMb)	8.5	9.8	8.6	7.6	5.5	4.3	15
% YoY	-11.6	-4.3	-10.9	-15	-16.9	-47.5	68.9
Consumption (RMb)	6.1	6.8	6.8	6.5	5.1	6.3	5.8
% YoY	-5	1.9	3.2	-1	10.1	7	-12

Note: MoM is non-seasonally adjusted figure

Source: CIEC, MIDFR

Re-export activities at 1-1/2-year high. Re-exports continued to record expansion in Apr-20 at +38.2%yoy, the highest since Oct-18, mitigating the contraction in overall exports. The growth was driven by re-exports of E&E (+58%yoy) and petroleum products (+42.5%yoy). Re-exports of transport equipment (+530.9%yoy) had also contributed to the surge as Malaysian carrier returned few units of aircraft to Indonesia. The ratio of re-export to total export recorded at 28.7%, the highest on record. It simply means for every RM1 value of exports, approximately 29sen of value is made up of re-export component. On the other hand, domestic exports which involved high value-added activities declined to a record low of -35.4%yoy, dragged down by deteriorating performances of commodity-based sectors and E&E.

Export fell to all major countries except China. Exports to China managed to record +4.2%yoy growth in Apr-20 driven by E&E (+4.4%yoy), iron & steel (+658.1%yoy), palm oil (+21%yoy) and rubber products (+14.4%yoy). However, outbound shipments to other key countries including the US, Japan and ASEAN countries contracted during the month. Exports to the US in particular declined by -31.1%yoy due to lower sales of major products including E&E and optical & scientific equipment. Nevertheless, sales of rubber and palm oil products to the country recorded expansion of +22.8%yoy and +201.7%yoy respectively.

Table 2: Malaysia's Exports (YoY%)

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Total Exports (RMb)	90.6	80.8	86.4	84.1	74.5	80.1	64.9
Re-exports (RMb)	18.5	13	14.3	16.3	9.8	17.3	18.6
Domestic Exports (RMb)	72.1	67.8	72.1	67.8	64.7	62.9	46.3
Exports by Key Country / Region							
China	-11	4.1	17.8	-5.7	11	-6.1	4.2
USA	2.7	6.5	15.1	9.5	25.5	-3.6	-31.1
Japan	-20.1	-16	-13.9	-1.6	3.7	-0.5	-28.4
India	-12.4	-1.4	-13.6	5.8	-9.3	-40.6	-70.6
Hong Kong	0.1	-21.1	-18.1	-14	1	-12.6	-8.2
Australia	-50.3	-8.2	-12	7.8	-6.8	-2	-28.9
EU	-5.2	-4.3	-3.8	-7.4	-12.7	-14.2	-35.7
ASEAN	-2.8	-8.8	3.2	-4.1	14.6	3	-24.1
Selected ASEAN							
Singapore	4.1	-12.5	-2.7	0.9	22.5	8.6	-16.3
Thailand	-18.2	-14.6	-7.3	-19.8	-12.3	-37.4	-37.9
Indonesia	-3.1	10.8	42	10.8	21.6	100.5	-2.3
Vietnam	-1.9	-11	12.2	-16.7	14.5	-31.4	-37
Philippines	-2.3	3.7	1.4	7.8	34.3	15	-41.2

Source: CIEC, MIDFR

Exports of all key products declined. Outbound shipments of major sectors fell in Apr-20 as mining chalked the hardest drop (-31.6%yoy). Key products under mining sector: crude petroleum and LNG contracted by double digit. Similarly, E&E which hold the biggest share of total exports, further declined by -21.7%yoy, continuing its negative streak for the ninth month. Exports performance of E&E products remains gloomy in upcoming months not only due to Covid-19 but the recent escalation of US-China spat. Meanwhile, palm oil & its products declined by -1.5%yoy, smaller fall compared to other key products, driven by robust sales to the US (201.7%yoy) and China (21%yoy).

Table 3: Malaysia's Exports by Major Products (YoY%)

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
E&E	-3.2	-11.6	-5.4	-5.5	-2.7	-13.9	-21.7
Machinery, Equipment & Parts	3.6	6.2	7	5.7	23	-17.6	-53.3
Optical & Scientific Equipment	17.6	11.9	11.9	0.2	50.9	-9.1	-34.8
Petroleum Products	-28.4	-17.2	36.5	45.8	17	54.5	-23.2
Crude Petroleum	-50.5	-23.4	-24.3	-10.9	-11.7	-4.2	-33.8
LNG	-17.1	-35.9	-21.3	-22.8	7.1	-13.4	-20.5
Palm oil & palm oil based agriculture products	-9.5	-3.5	34.2	0.5	17.1	-0.3	-1.5

Source: CIEC, MIDFR

Weak performance anticipated in 2Q20. Exports growth for 1Q20 averaged at 1.9%yoy (4Q19: -3.2%yoy) despite the outbreak of Covid-19 which forced factories shutdowns in China, causing disruption in the global supply chain. While most of the Chinese factories have resumed their operation in Mar-20, more countries are restricting movement of its people and even impose lockdowns particularly in Apr-20 as Covid-19 flared globally which include Malaysia. Malaysia had one full month of MCO in Apr-20 and conditional MCO in May-20 hence exports performance is expected to deteriorate in 2Q20.


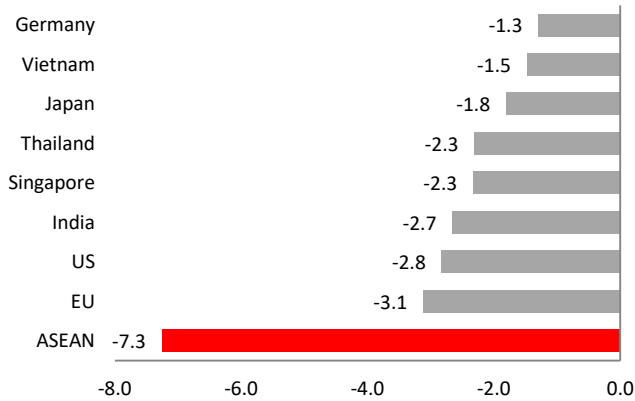
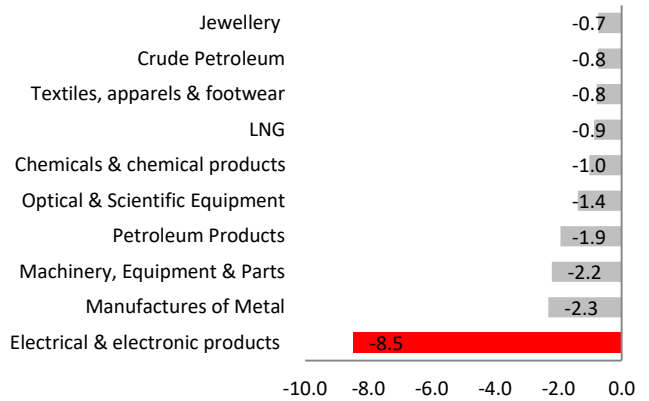
Exports to contract by -8.3%yoy in 2020. Impact of Covid-19 has emerged as the top risk to global trade flows as it affects both supply and demand of goods. This include Malaysia particularly with almost two months of MCO which disrupts productions and eventually exports. China's latest external trade performances showed some improvement however the sustainability of it remains questionable at large. In addition, the re-escalation of US-China tension poses more threat to foreign trades. This will hinder most of the countries' effort to restart their respective economies amid Covid-19 pandemic. Hence, we reiterate that exports growth will contract further in 2020 at -8.3%yoy (2019: -1.7%yoy). 

Chart 1: % Contribution to Negative Export Growth by Destination



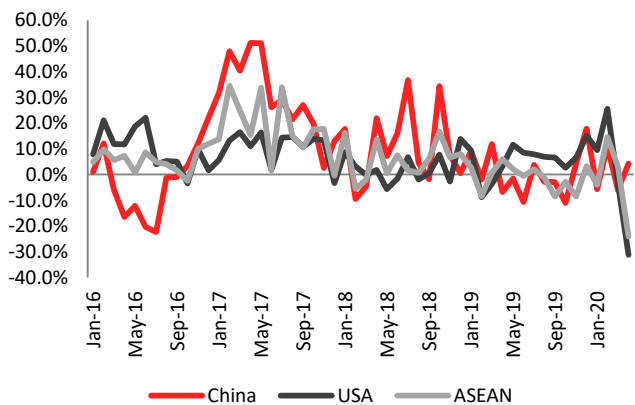
Source: CEIC; MIDFR

Chart 2: % Contribution to Negative Export Growth by Products



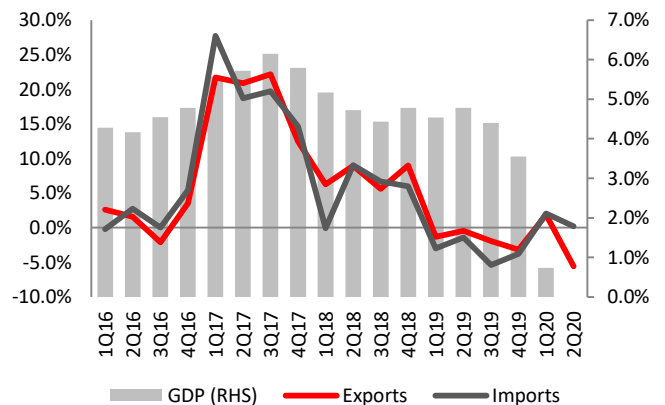
Source: CEIC; MIDFR

Chart 3: Exports Growth (YoY%) by Major Destination



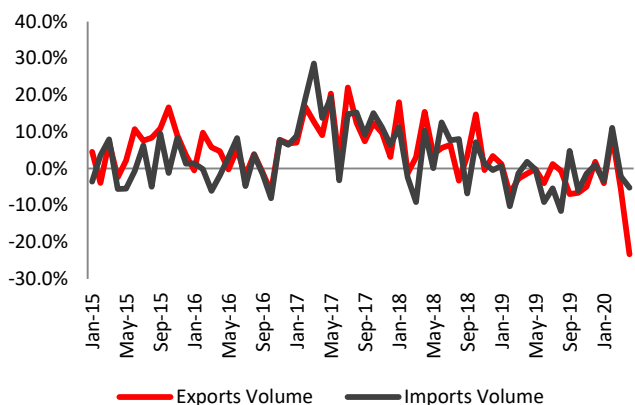
Source: CEIC; MIDFR

Chart 4: External Trade vs GDP, (YoY%)



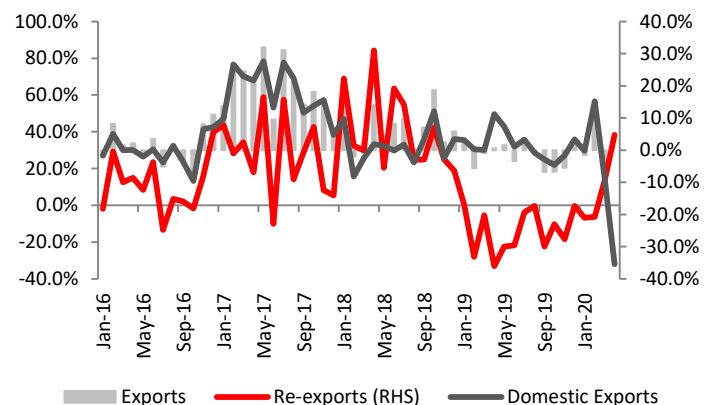
Source: CEIC; MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



Source: CEIC; MIDFR

Chart 6: Total Exports: Domestic vs Re-exports (YoY%)



Source: CEIC; MIDFR

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