

ECONOMIC REVIEW | August 2019 External Trade**Weakening Imports Hints at Gloomy Economic Outlook for 1H20**

- *Imports performance is at its worst since GFC. In Aug-19, imports contracted further, this time to the lowest level seen since the Global Financial Crisis while exports growth slipped into negative territory again. Imports fell by -12.5%yoy, the worst performance since Sep-09 and exports declined marginally by -0.8%yoy following a positive growth of 1.7%yoy in the previous month. Hence, trade surplus recorded at RM 10.9b.*
- *First fall in domestic exports. Domestic exports slipped by -0.8%yoy, the first fall of the year. It had been growing positively for the past eight months. We believe this is just a temporary glitch and domestic exports will pick up again on the back of LNG exports in particular. Meanwhile, re-exports which have low domestic value-added continued to decline however at a far smaller rate of -0.3%yoy. Re-exports activities have been constantly improving since May-19.*
- *We maintained our exports growth forecast at 1.7% in 2019. For the first eight months of the year, exports growth averaged at -0.2%yoy. In term of absolute value, monthly average of 2019 so far recorded at RM 81.4b which is still lower than RM 83.7b in 2018. In addition, continuous decline in imports of capital and intermediate goods indicate weak prospects for future exports. With faltering trade globally derive from rising protectionism and loss of momentum in some major economies, especially in Europe, we do not foresee a huge comeback in 2H19.*

Imports performance is at its worst since GFC. In Aug-19, imports contracted further, this time to the lowest level seen since the Global Financial Crisis while exports growth slipped into negative territory again. Imports fell by -12.5%yoy, the worst performance since Sep-09 and exports declined marginally by -0.8%yoy following a positive growth of 1.7%yoy in the previous month. Hence, trade surplus recorded at RM 10.9b. Sector wise, manufacturing exports which accounted for circa 84% of total exports grew by a tepid pace of 0.1%yoy while agriculture (7.4% share) rose solidly by 13%yoy, rebounding from -9.3%yoy falls in the preceding month. On the other hand, mining exports declined by -20.7%yoy.

Capital goods imports plunged to 16-year low. Capital goods which constitute about 11% of total imports declined sharply by -31%yoy, the biggest fall since Apr-03. This was mainly due to high base effect last year as Equanimity, the luxury super yacht owned by Jho Low involving funds from 1MDB was brought back to Malaysia during the month before sold to Genting in Apr-19. Besides that, intermediate goods which held the largest share of total imports contracted to 16-month low at -13.9%yoy also partially due to high base effect. Despite the high base factor, intermediate and capital spending are indeed weak as the performance had been deteriorating for some months, signaling that manufacturers are not optimistic on the future demand for its products. This could weigh on employment opportunities and future exports. Meantime, imports of consumption goods also fell by -12.8%yoy, the sharpest fall since Jan-09, attributable to Ringgit depreciation.

Table 1: Malaysia's External Trade Summary

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Exports (RMb)	66.6	84.0	85.2	84.1	76.2	88.0	81.4
% YoY	(5.3)	(0.5)	1.1	2.5	(3.1)	1.7	(0.8)
% MoM	(22.0)	26.2	1.4	(1.2)	(9.5)	15.5	(7.5)
Imports (RMb)	55.5	69.7	74.3	75.1	65.9	73.7	70.4
% YoY	(9.4)	(0.1)	4.4	1.4	(9.2)	(5.9)	(12.5)
% MoM	(24.8)	25.4	6.7	1.0	(12.2)	12.3	(4.4)
Total Trade	122.1	153.7	159.5	159.2	142.1	161.7	151.8
% YoY	(7.2)	(0.3)	2.6	2.0	(6.0)	(1.9)	(6.6)
% MoM	(23.3)	25.9	3.8	(0.2)	(10.8)	14.0	(6.1)
Trade Balance (RMb)	11.1	14.4	10.9	9.1	10.3	14.3	10.9
Import Components							
Intermediate (RMb)	31.9	38.0	40.7	42.6	38.4	38.9	39.0
% YoY	(2.8)	3.2	20.3	6.4	(2.5)	(3.4)	(13.9)
Capital (RMb)	6.6	8.4	8.9	9.3	7.2	8.4	8.1
% YoY	(14.9)	(11.8)	5.7	(5.9)	(23.6)	(13.9)	(31.0)
Consumption (RMb)	4.6	5.9	6.6	6.6	5.6	6.4	6.2
% YoY	(11.6)	10.6	18.9	10.9	(5.4)	(5.0)	(12.8)

Note: MoM is non-seasonally adjusted figure

Source: CIEC, MIDFR

First fall in domestic exports. Domestic exports slipped by -0.8%yoy, the first fall of the year. It had been growing positively for the past eight months. We believe this is just a temporary glitch and domestic exports will pick up again on the back of LNG exports in particular. Meanwhile, re-exports which have low domestic value-added continued to decline however at a far smaller rate of -0.3%yoy. Re-exports activities have been constantly improving since May-19. The ratio of re-exports to total exports recorded at 16.5% (for every RM1 value of exports, approximately 17sen of it is re-exports). Despite the improvement, the outlook for re-export activities is rather gloomy for the remaining of the year in the event of multiple headwinds besides higher base effects. Slowing global economy and reckless trade crusades are beginning to bite.

Exports to Indonesia grew after a year. Malaysia's exports to Indonesia grew for the first time after a year of negative growth. Indonesia raised import tariffs targeting consumption goods in Sep-18 in attempt to curb imports and support weak rupiah. Stabilising rupiah in recent times could have provided support for more imports. However, exports to ASEAN as whole declined by -1.2%yoy as a number of members including Singapore and Thailand recorded negative growth. Similarly, exports to largest trading partner, China fell to negative territory again at -2.8%yoy after recorded a positive growth in the prior month. In contrast, exports to the US expanded by 6.8%yoy, continuing its positive momentum for the fifth consecutive month.

Table 2: Malaysia's Exports (YoY%)

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Total Exports (RMb)	66.6	84.0	85.2	84.1	76.2	88.0	81.4
Re-exports (RMb)	10.5	15.2	13.5	12.5	12.2	17.9	13.4
Domestic Exports (RMb)	56.2	68.8	71.7	71.6	63.9	70.1	67.9
Exports by Key Country / Region							
China	(1.6)	11.8	(6.9)	(2.2)	(12.0)	3.8	(2.8)
USA	(8.9)	(3.6)	3.1	11.7	8.8	7.9	6.8
Japan	(2.9)	(11.3)	7.7	7.5	(13.5)	(6.3)	2.4
India	(4.9)	(3.0)	6.7	43.1	22.1	(14.9)	18.4
Hong Kong	(13.8)	(11.5)	0.1	3.4	(25.0)	2.5	(15.4)
Australia	(0.4)	2.9	4.2	(13.0)	(10.5)	(14.8)	(27.4)
EU	3.7	(5.0)	(8.6)	(6.3)	1.0	(2.8)	5.3
ASEAN	(7.8)	1.3	7.2	4.7	(0.2)	1.8	(1.2)
Selected ASEAN							
Singapore	(2.9)	(6.9)	11.3	2.6	(0.9)	3.1	(7.2)
Thailand	(4.1)	15.6	1.2	7.3	(4.0)	(2.4)	(8.3)
Indonesia	(24.7)	(9.4)	(3.0)	(12.4)	(4.2)	(11.2)	10.3
Vietnam	(20.5)	16.7	16.9	5.8	(17.0)	6.4	24.6
Philippines	3.4	0.7	(0.7)	39.9	51.2	17.0	(1.8)

Source: CIEC, MIDFR

Sales of E&E products are at more than 6-year low. Exports of E&E products which holds circa 40% share of total exports shrunk by -7.4%yoy, the biggest fall since Feb-13 amid slowing global economy and trade tension which dampened demand. Similarly, other major products including crude petroleum and LNG also posted declines. Meanwhile, sales of palm oil & its products rebounded to a double digit growth of 23.3%yoy this month from -11.8%yoy drop in the preceding month due to surge in shipments to both India and China by 212%yoy and 103%yoy respectively. We could expect a continuous positive momentum in upcoming months for palm oil sales particularly to India (Malaysia's biggest palm oil buyer) in preparation to Diwali festival.

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

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
E&E	4.9	(1.9)	3.9	0.5	(6.0)	4.5	(7.4)
Machinery, Equipment & Parts	(6.6)	(9.0)	0.8	14.9	(10.9)	6.0	7.6
Optical & Scientific Equipment	(17.4)	19.2	19.5	3.8	(4.9)	(2.3)	(12.3)
Petroleum Products	(32.6)	26.2	11.6	(14.9)	(2.4)	2.8	7.0
Crude Petroleum	(21.8)	(33.5)	(34.6)	(20.0)	31.7	(45.7)	(40.0)
LNG	8.6	17.2	26.3	(5.2)	5.5	31.3	(11.2)
Palm oil & palm oil based agriculture products	(16.9)	(13.7)	(16.7)	17.5	3.0	(11.8)	23.3

Source: CIEC, MIDFR

Cloudy outlook for 3Q19. Exports for 1H19 registered marginal negative growth of -0.2%yoy. Looking ahead to the 3Q19, exports performance is expected to be quite vulnerable especially with the unresolved trade tensions. For the first two months of 3Q19, exports averaged at 0.5%yoy. We expect commodity-based sector products particularly LNG exports to offset the less favourable impact from trade war in 2H19. Based on our regional partners' trade performance in Sep-19, Vietnam's exports growth moderated further to 9%yoy while South Korea's continued to decline but at a softer pace of -11.7%yoy. In regards to manufacturing condition and activity, global manufacturing PMI inched up to 49.7 but still under 50 expansion points while those of emerging economies continued to recover to 51 points, indicating a slightly better outlook for the sector.


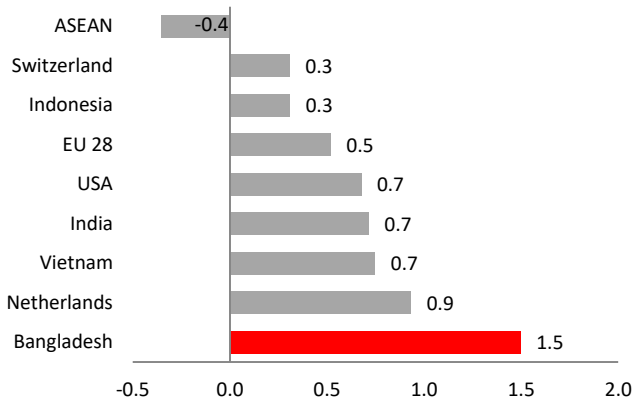
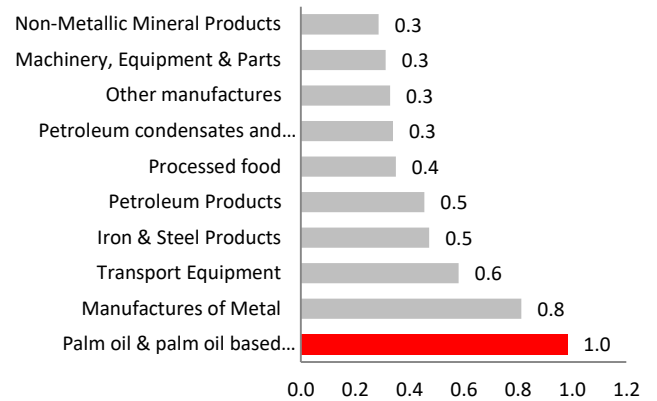
We maintained our exports growth forecast at 1.7% in 2019. For the first eight months of the year, exports growth averaged at -0.2%yoy. In term of absolute value, monthly average of 2019 so far recorded at RM 81.4b which is still lower than RM 83.7b in 2018. In addition, continuous decline in imports of capital and intermediate goods indicate weak prospects for future exports. With faltering trade globally derive from rising protectionism and loss of momentum in some major economies, especially in Europe, we do not foresee a huge comeback in 2H19. Nevertheless, we opine that commodity-based sectors particularly LNG exports to contribute to a better growth in exports for 2H19. In addition, Ringgit depreciation could also provide support to the estimate. 

Chart 1: % Contribution to Exports Growth by Destination



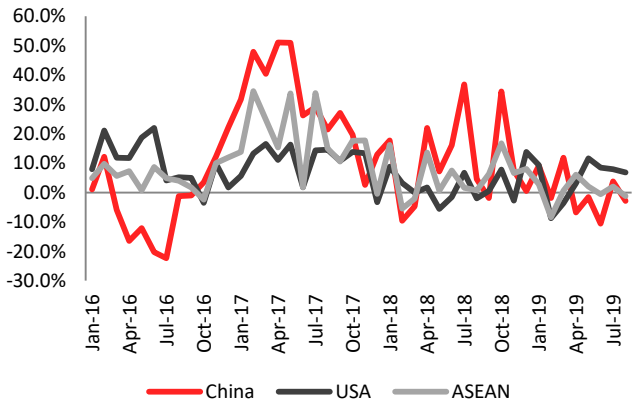
Source: CEIC; MIDFR

Chart 2: % Contribution to Exports Growth by Products



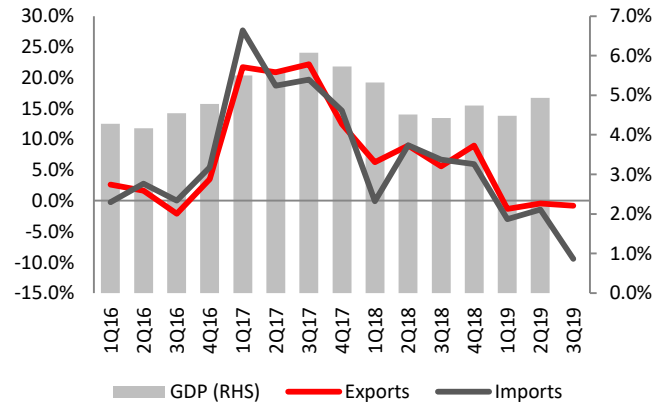
Source: CEIC; MIDFR

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



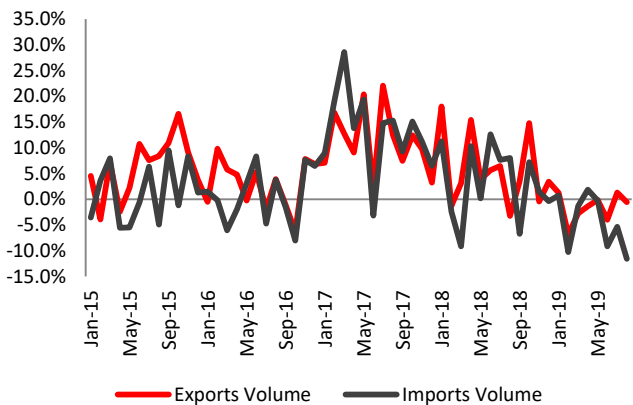
Source: CEIC; MIDFR

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



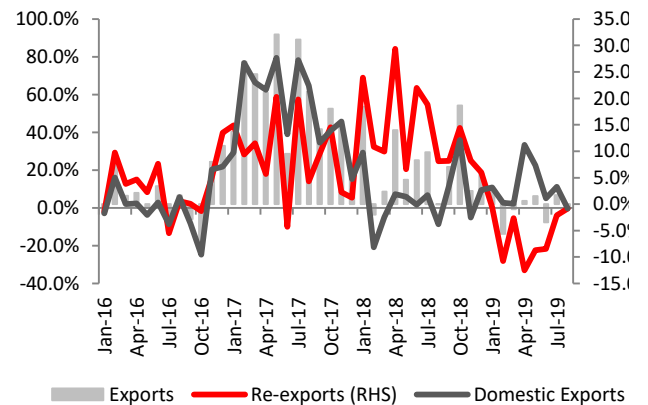
Source: CEIC; MIDFR

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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