

ECONOMIC REVIEW | December 2019 External Trade**Export in 2019 Fell To the Lowest Level since GFC
Mainly Due To External Factors**

- *First export growth in five months. Malaysia total trade recorded positive growth in Dec-19 at +1.9%yoy, ending a six-month contraction streak as both export and import grew. Export expanded by +2.7%yoy after four consecutive months of negative growth. Similarly, import increased tepidly by +0.9%yoy following two months of decline. For full year of 2019, total trade fell -2.5%yoy as both export and import dropped.*
- *Export growth to the US and China doubled. Malaysia export to world largest economies, the US and China, accelerated by double digit of +15.1%yoy and +17.8%yoy respectively. Sales to the US stood at more than 2-year high driven by E&E products which advanced by +16.5%yoy while those to China was mainly contributed by higher shipment of palm oil & its products and petroleum products.*
- *We forecast export to grow by 1.5%yoy in 2020. For 2020, we forecast export growth to recover slightly at +1.5%yoy. We believe uncertainties over trade crusades and loss of growth momentum in some major economies will continue to threaten our exports performance despite the latest partial trade deal. In addition, the latest coronavirus outbreak will be another potential risk factor.*

First export growth in five months. Malaysia total trade recorded positive growth in Dec-19 at +1.9%yoy, ending a six-month contraction streak as both export and import grew. Export expanded by +2.7%yoy after four consecutive months of negative growth. Similarly, import increased tepidly by +0.9%yoy following two months of decline. For full year of 2019, total trade fell -2.5%yoy as both export and import dropped. Export contracted by -1.7%yoy, slightly higher than MIDF's estimate of -1.1%yoy. It was the first contraction since GFC (-15.7%yoy in 2009), mainly due to the rising protectionism, loss of growth momentum of world's major economies and lower global commodity prices. However, its performance was not in isolation. We observed similar performance in other key economies such as Singapore, Indonesia, Thailand, South Korea and Japan which also recorded a decline in exports due to mostly externally driven issues. In particular, exports of Thailand and South Korea in 2019 went down to the levels last seen during the GFC, comparable to Malaysia.

Import of intermediate and consumption goods continued on positive note. Intermediate goods which held more than half of total import registered higher positive growth of +6%yoy, the fastest rate in seven months. Similarly, import of consumption goods also continued expanding to seven-month high of 3.2%yoy. In contrast, capital goods import registered harder fall of -10.9%yoy (Nov-19: -4.3%yoy). For full year of 2019, import of intermediate and consumption goods grew by +1.1%yoy and +1.3%yoy respectively while those of capital goods contracted by -10.8%yoy, the worst performance since 1998. As a leading indicator to export performance moving forward, weak import, particularly of capital goods, suggests that manufactures are still quite pessimistic on the future demand for their products hence are more cautious on business expansion decisions. In addition, business confidence in the sector as reflected by PMI fell into contractionary mode again in Jan-20 after touching 50 points in the previous month.

Table 1: Malaysia's External Trade Summary

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	2019
Exports (RMb)	88.0	81.4	77.7	90.6	80.8	86.4	986.4
% YoY	1.7	(0.8)	(6.7)	(6.7)	(5.5)	2.7	(1.7)
% MoM	15.5	(7.5)	(4.5)	16.6	(10.8)	6.9	-
Imports (RMb)	73.7	70.5	69.4	73.3	74.3	73.8	849.0
% YoY	(5.9)	(12.5)	2.4	(8.7)	(3.6)	0.9	(3.5)
% MoM	12.3	(4.4)	(1.6)	5.6	1.4	(0.6)	-
Total Trade (RMb)	161.7	151.8	147.1	163.9	155.1	160.2	1,835
% YoY	(1.9)	(6.6)	(2.7)	(7.1)	(4.6)	1.9	(2.5)
% MoM	14.0	(6.1)	(3.1)	11.4	(5.4)	3.3	-
Trade Balance (RMb)	14.3	10.9	8.4	17.3	6.5	12.6	137.4
Import Components							
Intermediate (RMb)	38.9	39.0	39.9	37.5	41.0	41.8	467.2
% YoY	(3.4)	(13.8)	11.1	(5.1)	1.8	6.0	1.1
Capital (RMb)	8.4	8.1	7.8	8.5	9.8	8.6	100.3
% YoY	(13.9)	(30.9)	7.0	(11.6)	(4.3)	(10.9)	(10.8)
Consumption (RMb)	6.4	6.2	5.9	6.1	6.8	6.8	74.0
% YoY	(5.0)	(12.8)	15.1	(5.0)	1.9	3.2	1.3

Note: MoM is non-seasonally adjusted figure

Source: CIEC, MIDFR

Domestic export reversed the trend. Domestic export had been declining for the past four months and the latest data in Dec-19 showed a rebound of +3.3%yoy. Meanwhile, re-export continued to decline but at a far softer pace of -0.3%yoy, the lowest fall for the year similar to Aug-19. The ratio of re-export to total export recorded at 16.6% which means for every RM1 value of exports, approximately 16sen of value is made up of re-export component. In 2019, Malaysia's export performance was dragged down by re-export activities which declined by -14.1%yoy. This was moderated by the steady +1.4%yoy growth in domestic exports which involve high value-added activities. The outlook for re-export activities in 2020 is indeed cloudy in the event of multiple headwinds. The global trading environment is still tough despite the phase on trade deal between the US and China as there is no roll back of tariffs.

Export growth to the US and China doubled. Malaysia export to world largest economies, the US and China, accelerated by double digit of +15.1%yoy and +17.8%yoy respectively. Sales to the US stood at more than 2-year high driven by E&E products which advanced by +16.5%yoy while those to China was mainly contributed by higher shipment of palm oil & its products and petroleum products. By region, export to the EU continued falling for the fourth straight months this time by -3.8%yoy while rebounded to ASEAN by +3.2%yoy after a streak of four months falls. Among ASEAN economies, exports to Indonesia, Vietnam and Philippines recorded positive gains.

Table 2: Malaysia's Exports (YoY%)

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	2019
Total Exports (RMb)	88.0	81.4	77.7	90.6	80.8	86.4	986.4
Re-exports (RMb)	17.9	13.4	12.7	18.5	13.0	14.3	815.2
Domestic Exports (RMb)	70.1	67.9	65.0	72.1	67.8	72.1	171.2
Exports by Key Country / Region							
China	3.8	(2.8)	(3.0)	(11.0)	4.1	17.8	0.3
USA	7.9	6.8	6.6	2.7	6.5	15.1	5.5
Japan	(6.3)	2.4	(1.7)	(20.1)	(16.0)	(13.9)	(7.3)
India	(14.9)	18.4	10.6	(12.4)	(1.4)	(13.6)	3.3
Hong Kong	2.5	(15.4)	(26.5)	0.1	(21.1)	(18.1)	(11.1)
Australia	(14.8)	(27.4)	(19.5)	(50.3)	(8.2)	(12.0)	(15.3)
EU	(2.8)	5.3	(10.8)	(5.2)	(4.3)	(3.8)	(2.9)
ASEAN	1.8	(1.2)	(8.6)	(2.8)	(8.8)	3.2	(1.1)
Selected ASEAN							
Singapore	3.1	(7.2)	(11.7)	4.1	(12.5)	(2.7)	(2.4)
Thailand	(2.4)	(8.3)	(4.3)	(18.2)	(14.6)	(7.3)	(2.2)
Indonesia	(11.2)	10.3	(11.8)	(3.1)	10.8	42.0	(3.4)
Vietnam	6.4	24.6	(5.4)	(1.9)	(11.0)	12.2	1.2
Philippines	17.0	(1.8)	(4.2)	(2.3)	3.7	1.4	7.3

Source: CIEC, MIDFR

Sales of major products remain weak. Exports of E&E products which hold circa 40% share of total exports shrunk by -5.4%yoy in Dec-19, smaller fall compared to the previous month. Similarly, shipment of LNG continued in negative territory. In addition, sales of crude petroleum contracted by -28.1%yoy, continuing its double digit fall since Jul-19. In contrast, sales of palm oil & its products and petroleum products rebounded to 34.2%yoy and 36.5%yoy respectively. In 2019, almost all major products recorded negative growth with E&E (the largest share of total export) fell by -2.3%yoy, the hardest fall since 2012. Looking ahead in 2020, the export outlook for E&E and palm oil & its products are still cloudy amid protectionism measures. Meanwhile, LNG sector is expected to perform well on the back of PFLNG 2.

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

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	2019
E&E	4.5	(7.4)	(12.2)	(3.2)	(11.6)	(5.4)	(2.3)
Machinery, Equipment & Parts	6.0	7.6	6.9	3.6	6.2	7.0	1.8
Optical & Scientific Equipment	(2.3)	(12.3)	12.8	17.6	11.9	11.9	5.5
Petroleum Products	2.8	7.0	(13.4)	(28.4)	(17.2)	36.5	(6.1)
Crude Petroleum	(45.7)	(40.0)	(45.8)	(50.5)	(23.4)	(24.3)	(28.1)
LNG	31.3	(11.2)	(1.8)	(17.1)	(35.9)	(21.3)	(1.9)
Palm oil & palm oil based agriculture products	(11.8)	23.3	(9.4)	(9.5)	(3.5)	34.2	(3.6)

Source: CIEC, MIDFR

More risks in 1Q20. In line with our expectation, exports growth for 4Q19 registered higher negative growth of -3.3%yoy (3Q19: -1.9%yoy). Looking ahead to the 1Q20, exports performance is expected to be quite vulnerable especially with the new outbreak of Coronavirus. On the latest development of US-China trade deal, the duo has signed phase one trade deal on January 15. The deal could have improved business sentiment but no significant materialization is expected as there are still tariffs in place. In fact, global and emerging economies manufacturing PMI remain unchanged in Jan-20 at 50.1 and 51 respectively. Based on our regional partners' trade performance in Jan-20, export of South Korea and Vietnam dropped by -6.1%yoy and -14.3%yoy respectively, providing cues on what to expect from Malaysia export performance for Jan-20.


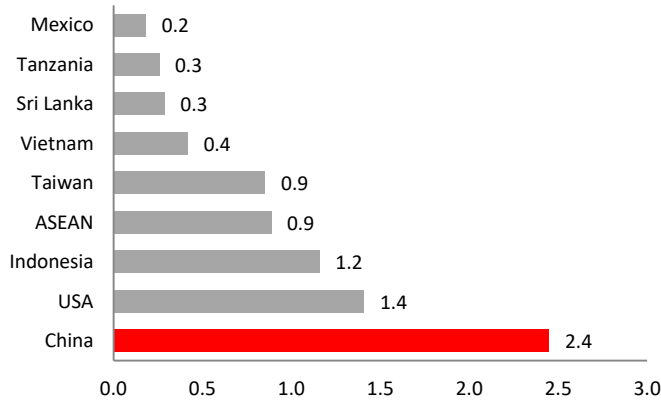
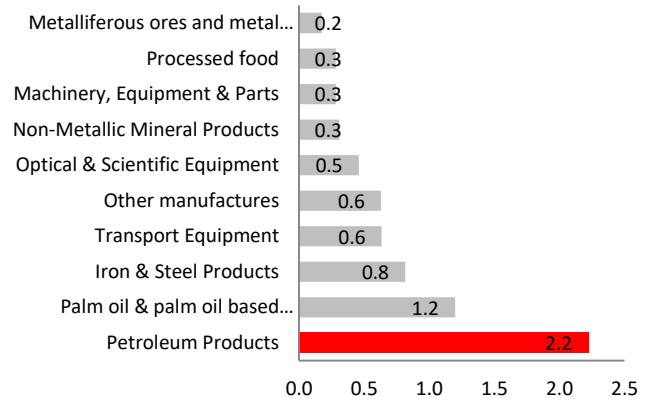
We forecast export to grow by 1.5%yoy in 2020. For 2020, we forecast export growth to recover slightly at +1.5%yoy. We believe uncertainties over trade crusades and loss of growth momentum in some major economies will continue to threaten our exports performance despite the latest partial trade deal. In addition, the latest coronavirus outbreak will be another potential risk factor. Besides that, continuous decline in imports of capital and intermediate goods in 2019 indicate weak prospects for exports in 2020. Nevertheless, we opine that commodity-based sectors particularly LNG exports to contribute to a better growth in exports especially with PFLNG 2 expected to be operational in 2020. 

Chart 1: % Contribution to Positive Export Growth by Destination



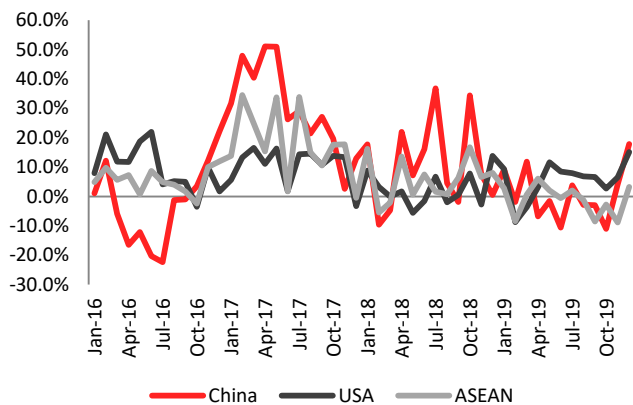
Source: CEIC; MIDFR

Chart 2: % Contribution to Positive Export Growth by Products



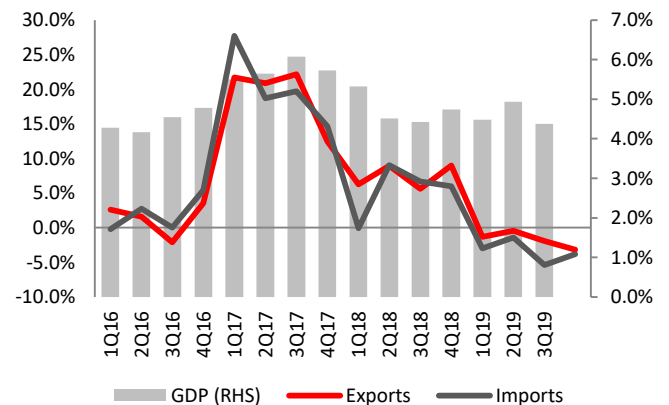
Source: CEIC; MIDFR

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



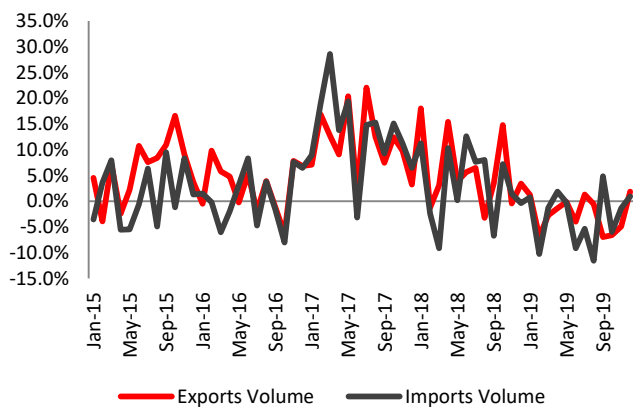
Source: CEIC; MIDFR

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



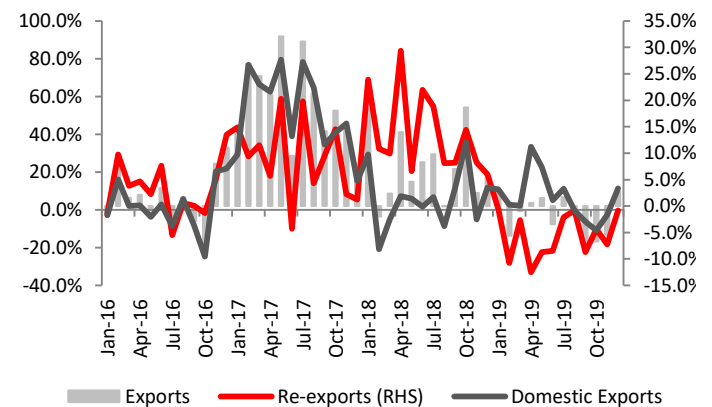
Source: CEIC; MIDFR

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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