

ECONOMIC REVIEW | December 2018 External Trade**Solid Economic Growth in the 4Q18 with largest Trade Surplus since 1Q10**

- *2018's trade surplus hit MIDF's target. Malaysia's trade surplus widened to RM120.3B in 2018 (2017: RM98.5B) and slightly above MIDF's forecast of RM119B as exports outperformed imports. Exports and imports in 2018 increased by 6.7%yoy (2017: 19.3%yoy) and 4.9%yoy (2017: 20.2%yoy) respectively. The lower growth of exports was a result of moderating sectoral performances. Manufactured goods, the largest contributor to exports experienced a slowdown in growth to a single digit of 9.1%yoy (2017: 18.9%yoy).*
- *Domestic exports recorded a meagre growth of 0.8%. In 2018, domestic exports grew marginally by 0.8%yoy (2017: 18.1%yoy) while re-exports which have low domestic value-added grew solidly by 39.8%yoy (2017: 26.8%yoy), showing that the headline exports growth is largely driven by re-export activities. The ratio of re-exports to total exports recorded higher at 20% (2017: 15.3%) which demonstrates that for every RM1 value of exports, 20 cents of it is re-exports.*
- *We forecast exports growth to average 3.6% in 2019. Amid higher base effects and continuous signs of easing key global indicators, we foresee exports growth to moderate further at 3.6% this year (2018: 6.7%). The moderating pace is consistent with global commodity prices, expectation of a slight slowdown in overall business performance on top of the uncertainty over Sino-US trade conflict.*

2018's trade surplus hit MIDF's target. Malaysia's trade surplus widened to RM120.3B in 2018 (2017: RM98.5B) and slightly above MIDF's forecast of RM119B as exports outperformed imports. Exports and imports in 2018 increased by 6.7%yoy (2017: 19.3%yoy) and 4.9%yoy (2017: 20.2%yoy) respectively. The lower growth of exports was a result of moderating sectoral performances. Manufactured goods, the largest contributor to exports experienced a slowdown in growth to a single digit of 9.1%yoy (2017: 18.9%yoy). Similarly, outbound shipment of mining goods grew by 7.1%yoy (2017: 23.9%yoy) while agriculture goods contracted by 14.2%yoy (2017: 10.9%yoy). For Dec-18 alone, exports growth tripled to 4.8%yoy from 1.6%yoy recorded in the previous month with value maintaining above the monthly average of RM83B. Meantime, imports growth slowed to 3-month low of 1%yoy in Dec-18. On a monthly basis, both exports and imports contracted by 1.9% and 5.4% respectively. Hence, trade surplus is recorded at RM10.4B during the month.

Imports of intermediate and capital goods shrunk. Imports of intermediate and capital goods which accounted for circa 65% of total imports contracted by -3.9%yoy (2017:+20%yoy) and 3.2%yoy (2017:+15.4%yoy) in 2018. Such low capital spending signals that manufacturers are not optimistic enough on the future demand for its products, pointing at declining activity and deteriorating confidence in the industry. This could weigh on employment opportunities and future exports. On a flip side, the fall in intermediate imports indicates rising demand for raw materials among domestic manufacturers. Meanwhile, inbound shipments of consumption goods grew by 2.5%yoy, eased from 6.1%yoy posted in 2017 yet enough to indicate that purchasing power and household consumption are still robust in Malaysia.

Table 1: Malaysia's External Trade Summary

	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	2018
Exports (RMb)	86.1	81.8	83.0	96.4	84.8	83.3	998.0
% YoY	9.4	(0.3)	6.5	17.7	1.6	4.8	6.7
% MoM	9.6	(5.0)	1.4	16.2	(12.0)	(1.9)	-
Imports (RMb)	77.8	80.2	67.7	80.1	77.2	72.8	877.7
% YoY	10.3	11.2	(2.8)	11.4	5.0	1.0	4.9
% MoM	7.2	3.0	(15.6)	18.2	(3.5)	(5.4)	-
Total Trade (RMb)	164.0	162.0	150.7	176.4	162.0	156.1	1875.8
% YoY	9.8	5.1	2.1	14.8	3.2	3.0	5.9
% MoM	8.4	(1.2)	(7.0)	17.1	(8.2)	(3.6)	-
Trade Balance (RMb)	8.3	1.6	15.2	16.3	7.6	10.4	120.3
Import Components							
Intermediate (RMb)	39.9	45.0	35.7	39.3	40.2	39.5	460.3
% YoY	(0.1)	4.2	(9.5)	1.0	(0.3)	3.1	(3.9)
Capital (RMb)	9.6	11.7	7.3	9.4	10.5	9.5	111.8
% YoY	4.7	29.4	(21.4)	(1.6)	0.4	(21.7)	(3.2)
Consumption (RMb)	6.7	7.1	5.2	6.4	6.6	6.6	72.8
% YoY	11.1	14.2	(10.0)	7.6	0.9	5.7	2.5

Note: MoM is non-seasonally adjusted figure

Source: CIEC, MIDFR

Domestic exports recorded a meagre growth of 0.8%. In 2018, domestic exports grew marginally by 0.8%yoy (2017: 18.1%yoy) while re-exports which have low domestic value-added grew solidly by 39.8%yoy (2017: 26.8%yoy), showing that the headline exports growth is largely driven by re-export activities. The ratio of re-exports to total exports recorded higher at 20% (2017: 15.3%) which demonstrates that for every RM1 value of exports, 20 cents of it is re-exports. Malaysia exports growth is expected to remain steady with the increasing contribution of re-exports which established the importance of Malaysia in global value chain. Nevertheless, domestic exports performance remains a major concern.

Sluggish demand from key markets. Malaysia's exports to most major markets moderated sharply in 2018. Sales to both the US and China increased however at a softer pace of 2.3%yoy (2017: 10.5%yoy) and 10.3%yoy (2017: 28%yoy) respectively mainly due to external factors such as the US protectionism measures and China's slowing economy on top of its rebalancing from manufacturing-driven to services-driven economy. By region, exports growth slowed in 2018 for both ASEAN (5%yoy vs 18%yoy in 2017) and the EU (3.5%yoy vs 19.4%yoy). Among ASEAN key countries, outbound shipments increased at a higher rate for Vietnam (24%yoy vs 16.1%yoy) while plunged to a negative territory of 5.6%yoy (2017: +24.5%yoy) for Indonesia in tandem with the weakening rupiah and imports tariffs imposed by the country.

Table 2: Malaysia's Exports (YoY%)

	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	2018
Total Exports (RMb)	86.1	81.8	83.0	96.4	84.8	83.3	998.0
Re-exports (RMb)	18.7	13.5	16.5	20.8	15.9	14.1	199.6
Domestic Exports (RMb)	67.5	68.3	66.4	75.5	68.9	69.2	798.4
Exports by Key Country / Region							
China	37.5	4.5	(0.6)	33.0	3.9	(0.5)	10.3
USA	6.7	(2.0)	0.1	7.6	(3.6)	13.5	2.3
Japan	(17.1)	(22.9)	(10.6)	10.2	(8.9)	(6.4)	(8.6)
India	16.3	(11.3)	1.2	17.4	(0.5)	20.0	5.1
Hong Kong	80.8	55.8	48.7	42.1	17.4	25.6	56.3
Australia	6.3	11.4	23.0	47.0	(14.1)	21.7	3.2
EU	2.2	(8.9)	3.1	8.5	(7.7)	(4.9)	3.5
ASEAN	1.2	0.6	6.2	16.0	6.4	7.3	5.0
Selected ASEAN							
Singapore	(2.0)	(2.2)	8.7	18.3	7.1	12.2	2.6
Thailand	6.0	15.6	7.5	20.8	3.7	9.7	12.4
Indonesia	4.2	(12.5)	(1.8)	(3.6)	(13.2)	(9.3)	(5.6)
Vietnam	12.8	6.9	7.5	36.3	39.0	5.1	24.0
Philippines	4.3	4.9	5.1	9.8	(0.7)	8.0	2.0

Source: CIEC, MIDFR

Sales of palm oil and LNG slipped into negative territory. In 2018, exports of palm oil and LNG contracted by 17.3%yoy and 3.1%yoy respectively compared to a solid double digit growth recorded in the prior year. The poor palm oil exports performance in particular could be due to the declining price itself on top of losing market share to our competitors such as Indonesia. Looking ahead, palm oil sales are expected to improve starting Jan-19 buoyed by higher demands from India as a result of import taxes cut on crude and refined palm oil from ASEAN countries. The duty on crude palm oil was lowered to 40% from 44%, while a tax on the refined variety was reduced to 50% from 54%. Meanwhile, E&E products which constituted about 38% of total exports continued to post positive growth of 11%yoy in 2018, lower than 19.2%yoy growth seen in 2017. This was partly due to rising low-cost manufacturing and assembly in ASEAN countries such as Vietnam which is an increasingly important global hub which poses threat to Malaysia.

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

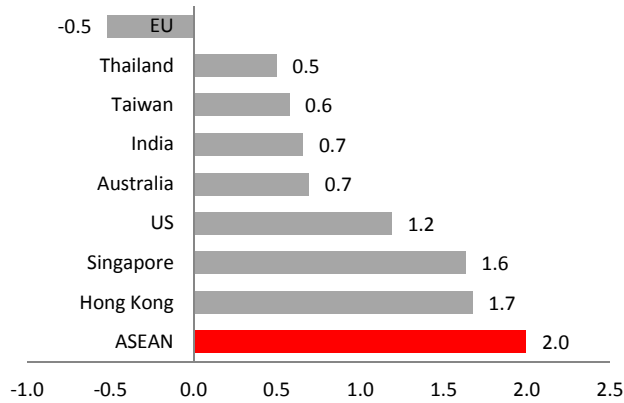
	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	2018
E&E	23.6	3.2	6.5	23.3	(1.7)	14.2	11.0
Machinery, Equipment & Parts	2.0	(7.1)	1.8	4.2	(0.4)	7.6	1.2
Optical & Scientific Equipment	9.1	7.9	17.1	10.3	10.5	14.6	12.1
Petroleum Products	(13.0)	18.0	6.8	31.2	41.2	(18.4)	6.4
Crude Petroleum	90.1	70.8	54.5	32.8	17.7	17.5	29.4
LNG	(38.4)	(20.4)	3.2	38.8	26.4	(2.7)	(3.1)
Palm Oil	(22.2)	(27.0)	(16.5)	(17.3)	(21.1)	(27.2)	(17.3)

Source: CIEC, MIDFR

Gloomy outlook for 1Q19. Exports growth for 4Q18 averaged at 8%yoy, exceeded 5.4%yoy recorded in the previous quarter. However, looking ahead to the first quarter of 2019, we expect exports to perform modestly, in line with the Malaysian Leading Index (LI) for Sep-18 which recorded negative growth on both annual (1.7%) and monthly (0.8%) basis, suggesting the economic growth to ease in the 1Q19. Based on our regional partners' trade performance in Jan-19, exports of Vietnam contracted by 1.3%yoy, its weakest in six years. In regards to manufacturing condition and activity, both global and emerging economies manufacturing PMI edged down to 51.5 and 50.3 respectively in Dec-18 (52 and 50.8 in Nov-18) whilst still maintaining their expansionary trends. On a side note, risks to the global economy remain despite the trade truce between the US and China as it does little to deal with the core sticking points of the duo's economic rivalry. China and US are expected to resume trade negotiations in the nearest time but with the duo remain sharply divided, not much concrete deals can be expected before the March 1 deadline.

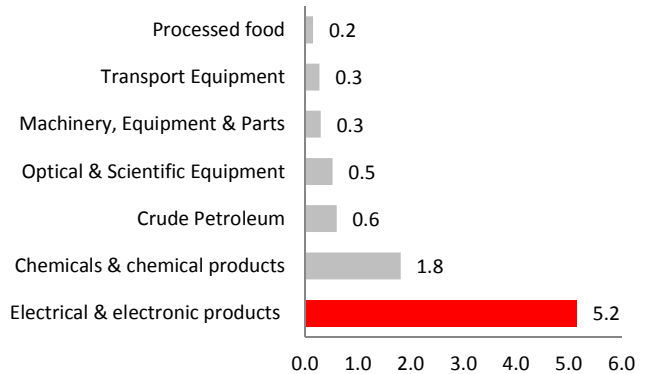
We forecast exports growth to average 3.6% in 2019. Amid higher base effects and continuous signs of easing key global indicators, we foresee exports growth to moderate further at 3.6% this year (2018: 6.7%). The moderating pace is consistent with global commodity prices, expectation of a slight slowdown in overall business performance on top of the uncertainty over Sino-US trade conflict. 

Chart 1: % Contribution to Exports Growth by Destination



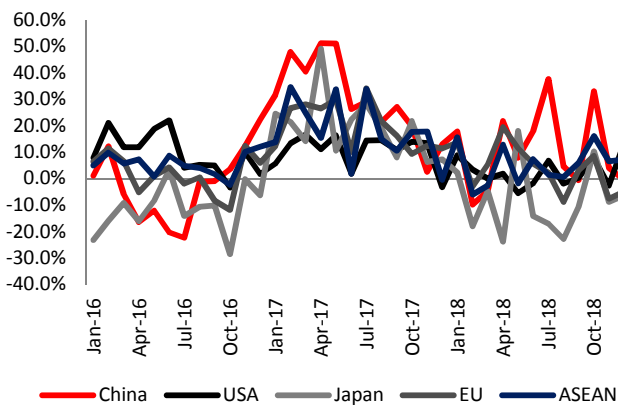
Source: CEIC; MIDFR

Chart 2: % Contribution to Exports Growth by Products



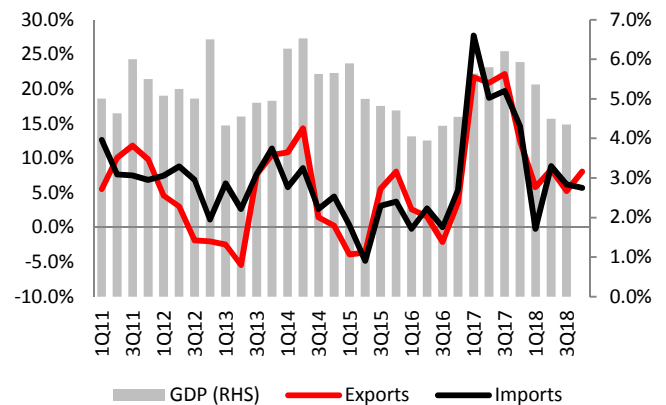
Source: CEIC; MIDFR

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



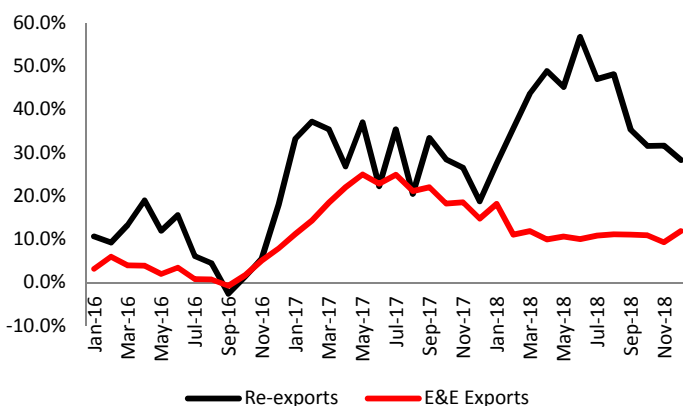
Source: CEIC; MIDFR

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



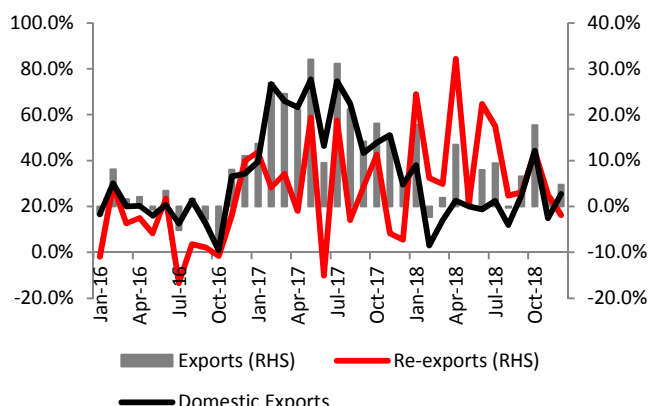
Source: CEIC; MIDFR

Chart 5: 3MMA of E&E Exports & Re-exports (%)



Source: CEIC; MIDFR

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



Source: CEIC; MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.