

ECONOMIC REVIEW | February 2019 External Trade**Trade Balance Stays above RM11B Mark Despite Seeing a 2-year Low Exports Growth**

- *CNY holidays affect trade performances. Exports dropped 5.3%yoy in Feb-19, the lowest in more than 2 years primarily due to a short calendar month on top of long Chinese New Year (CNY) holidays. Meanwhile, imports fell more than exports at 9.4%yoy. During this holiday, all Chinese factories were shut down with most of them closed one or two weeks prior to the festive holidays. As the celebration put a halt to mass production, it disrupted global supply chain resulting in a weak trade performance.*
- *Domestic exports continue growing. In Feb-19, domestic exports grew slightly by 0.6%yoy, third consecutive month of positive growth which indicates a good momentum for this year. With the expected recovery in mining and agriculture goods, we expect domestic exports to continue its upward trend moving forward. In contrast, re-exports which have low domestic value-added posted a double digit contraction, worst since Aug-14, reflecting CNY holidays effect.*
- *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.*

CNY holidays affect trade performances. Exports dropped 5.3%yoy in Feb-19, the lowest in more than 2 years primarily due to a short calendar month on top of long Chinese New Year (CNY) holidays. Meanwhile, imports fell more than exports at 9.4%yoy. During this holiday, all Chinese factories were shut down with most of them closed one or two weeks prior to the festive holidays. As the celebration put a halt to mass production, it disrupted global supply chain resulting in a weak trade performance. All sectors recorded a negative exports growth: agriculture (-13.7%yoy), manufacturing (-4.3%yoy) and mining (-5.5%yoy). Despite the poor exports and imports figures, trade surplus maintain above RM11B in Feb-19. On a monthly basis, both exports and imports contracted by 22% and 24.8% respectively.

All three imports components drop. Imports of both intermediate and capital goods continue to post negative growth in Feb-19 at 2.8%yoy and 14.9%yoy respectively. Meanwhile, consumption goods plunged into a negative territory of 11.6%yoy after four consecutive months of positive growth, largely affected by CNY holidays. Nevertheless, capital spending momentum signals that manufacturers are not optimistic on the future demand for its products which points at declining activity and deteriorating confidence in the industry. This could weigh on employment opportunities and future exports. Looking ahead, imports of the duo are likely to remain weak, in line with the latest PMI of Mar-19 which extended its contractionary trends to 47.2.

Table 1: Malaysia's External Trade Summary

| | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Jan-19 | Feb-19 |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Exports (RMb) | 81.8 | 83.0 | 96.4 | 84.8 | 83.5 | 85.4 | 66.6 |
| % YoY | (0.3) | 6.5 | 17.7 | 1.6 | 5.1 | 3.1 | (5.3) |
| % MoM | (5.0) | 1.4 | 16.2 | (12.0) | (1.6) | 2.2 | (22.0) |
| Imports (RMb) | 80.2 | 67.7 | 80.1 | 77.2 | 72.9 | 73.9 | 55.5 |
| % YoY | 11.2 | (2.8) | 11.4 | 5.0 | 1.0 | 1.0 | (9.4) |
| % MoM | 3.0 | (15.6) | 18.2 | (3.5) | (5.4) | 1.4 | (24.8) |
| Total Trade | 162.0 | 150.7 | 176.4 | 162.0 | 156.4 | 159.3 | 122.1 |
| % YoY | 5.1 | 2.1 | 14.8 | 3.2 | 3.2 | 2.1 | (7.2) |
| % MoM | (1.2) | (7.0) | 17.1 | (8.2) | (3.4) | 1.9 | (23.3) |
| Trade Balance (RMb) | 1.6 | 15.2 | 16.3 | 7.6 | 10.7 | 11.5 | 11.1 |
| Import Components | | | | | | | |
| Intermediate (RMb) | 45.0 | 35.7 | 39.3 | 40.2 | 39.4 | 37.5 | 31.9 |
| % YoY | 4.2 | (9.5) | 1.0 | (0.3) | 2.8 | (0.8) | (2.8) |
| Capital (RMb) | 11.7 | 7.3 | 9.4 | 10.5 | 9.5 | 9.0 | 6.6 |
| % YoY | 29.4 | (21.4) | (1.6) | 0.4 | (21.8) | (3.3) | (14.9) |
| Consumption (RMb) | 7.1 | 5.2 | 6.4 | 6.6 | 6.6 | 6.5 | 4.6 |
| % YoY | 14.2 | (10.0) | 7.6 | 0.9 | 5.7 | 3.3 | (11.6) |

Note: MoM is non-seasonally adjusted figure

Source: CIEC, MIDFR

Domestic exports continue growing. In Feb-19, domestic exports grew slightly by 0.6%yoy, third consecutive month of positive growth which indicates a good momentum for this year. With the expected recovery in mining and agriculture goods, we expect domestic exports to continue its upward trend moving forward. In contrast, re-exports which have low domestic value-added posted a double digit contraction, worst since Aug-14, reflecting CNY holidays effect. Similarly, the ratio of re-exports to total exports recorded lower at 15.7% (Jan-19: 20.4%) which demonstrates that for every RM1 value of exports, approximately 16sen 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.

Exports to major countries decline. Malaysia's exports to China and the US fell into a negative territory of -1.6%yoy and -8.9%yoy respectively in Feb-19 from positive figures registered in the preceding month. Total exports for two out of three main sectors to China declined. Only mining exports grew by 1.2%yoy. Meanwhile, all three main sectors to the US posted negative growth, led by mining goods at -63.7%yoy. By region, exports to the EU rose 3.7%yoy while those to ASEAN contracted 7.8%yoy. Among ASEAN key countries, sales dropped to all key economies except the Philippines which grew by 3.4%yoy.

Table 2: Malaysia's Exports (YoY%)

| | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Jan-19 | Feb-19 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total Exports (RMb) | 81.8 | 83.0 | 96.4 | 84.8 | 83.5 | 85.4 | 66.6 |
| Re-exports (RMb) | 13.5 | 16.5 | 20.8 | 15.9 | 14.4 | 17.5 | 10.5 |
| Domestic Exports (RMb) | 68.3 | 66.4 | 75.5 | 68.9 | 69.2 | 67.9 | 56.2 |
| Exports by Key Country / Region | | | | | | | |
| China | 4.5 | (0.6) | 33.0 | 3.9 | (0.5) | 9.1 | (1.6) |
| USA | (2.0) | 0.1 | 7.6 | (3.6) | 13.5 | 9.4 | (8.9) |
| Japan | (22.9) | (10.6) | 10.2 | (8.9) | (6.4) | (5.0) | (2.9) |
| India | (11.3) | 1.2 | 17.4 | (0.5) | 20.0 | (0.6) | (4.9) |
| Hong Kong | 55.8 | 48.7 | 42.1 | 17.4 | 25.6 | (7.3) | (13.8) |
| Australia | 11.4 | 23.0 | 47.0 | (14.1) | 21.7 | (10.3) | (0.4) |
| EU | (8.9) | 3.1 | 8.5 | (7.7) | (4.9) | 4.3 | 3.7 |
| ASEAN | 0.6 | 6.2 | 16.0 | 6.4 | 7.3 | 3.4 | (7.8) |
| Selected ASEAN | | | | | | | |
| Singapore | (2.2) | 8.7 | 18.3 | 7.1 | 12.2 | 5.4 | (2.9) |
| Thailand | 15.6 | 7.5 | 20.8 | 3.7 | 9.7 | 17.1 | (4.1) |
| Indonesia | (12.5) | (1.8) | (3.6) | (13.2) | (9.3) | (13.8) | (24.7) |
| Vietnam | 6.9 | 7.5 | 36.3 | 39.0 | 5.1 | (8.6) | (20.5) |
| Philippines | 4.9 | 5.1 | 9.8 | (0.7) | 8.0 | (7.6) | 3.4 |

Source: CIEC, MIDFR

E&E and LNG sales remain steady. As of Feb-19, exports of E&E and LNG expanded by 4.9%yoy and 8.6%yoy respectively. Meanwhile, palm oil and its based products continue to be in a negative territory as sales contracted by 16.9%yoy but improved compared to the prior month. The recovery could be attributable to 40.7%yoy exports growth of the product to India, one of our top buyers, buoyed by reduced import tariffs. In contrast, palm oil shipments to China decreased 16.4%yoy in the same month. Uncertainty over Chinese palm oil demand persists as China is likely to purchase more US soybeans as an effort to reduce the trade tensions. In the latest development, the US and China are crafting a deal which would give the latter until 2025 to meet commitments on commodity purchases, with a big chunk of the purchases to be front-load in the first two years of the agreement.

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

| | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Jan-19 | Feb-19 |
|--|--------|--------|--------|--------|--------|--------|--------|
| E&E | 3.2 | 6.5 | 23.3 | (1.7) | 14.2 | 8.2 | 4.9 |
| Machinery, Equipment & Parts | (7.1) | 1.8 | 4.2 | (0.4) | 7.4 | (1.5) | (6.6) |
| Optical & Scientific Equipment | 7.9 | 17.1 | 10.3 | 10.5 | 14.6 | 7.1 | (17.4) |
| Petroleum Products | 18.0 | 6.8 | 31.2 | 41.2 | (18.4) | (24.1) | (32.6) |
| Crude Petroleum | 70.8 | 54.5 | 32.8 | 17.7 | 17.5 | (1.1) | (21.8) |
| LNG | (20.4) | 3.2 | 38.8 | 26.4 | (2.7) | 37.5 | 8.6 |
| Palm oil & palm oil based agriculture products | (27.0) | (16.5) | (17.3) | (21.1) | (27.2) | (19.5) | (16.9) |

Source: CIEC, MIDFR

Gloomy outlook for 1Q19. Exports growth for 4Q18 averaged at 8.2%yoy, exceeded 5.2%yoy recorded in the previous quarter. However, looking ahead to the first quarter of 2019, we expect exports to perform modestly. Exports growth for the first two months of 2019 averaged at -1.1%yoy, far below previous quarter's gain. In line with this, the Malaysian Leading Index (LI) for Sep-18 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 1Q19, exports growth of Vietnam moderated to 3.7%yoy (4Q18: 6.3%yoy) while those of South Korea shrunk -8.6%yoy, total opposite to a growth of 8.1%yoy in the previous quarter. We expect a similar trend for Malaysia's exports. In regards to manufacturing condition and activity, global manufacturing PMI was seen at at 50.6 while emerging economies' improved slightly to 51 (Feb-19: 50.6). On a side note, risks resulting from US-China trade spat to the global economy remain as the duo have not finalized any agreement.


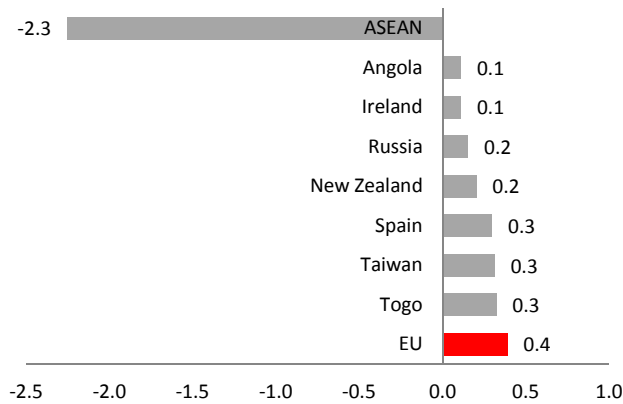
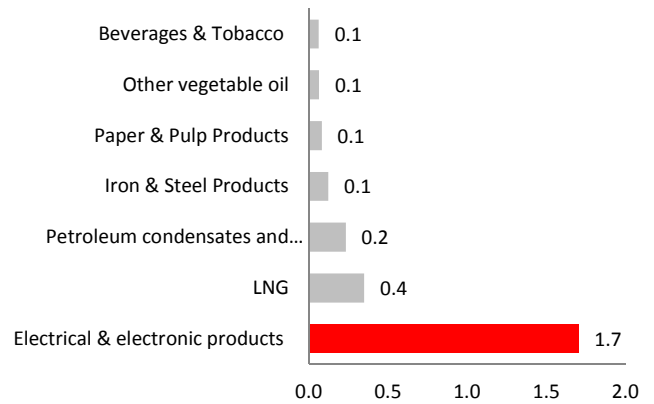
We forecast exports growth to average 3.6% in 2019. Amid higher base effects and continuous signs of easing key global indicators, we foresee exports growth to moderate further at 3.6% this year (2018: 6.7%). The moderating pace is consistent with global commodity prices, expectation of a slight slowdown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

Chart 1: % Contribution to Exports Growth by Destination



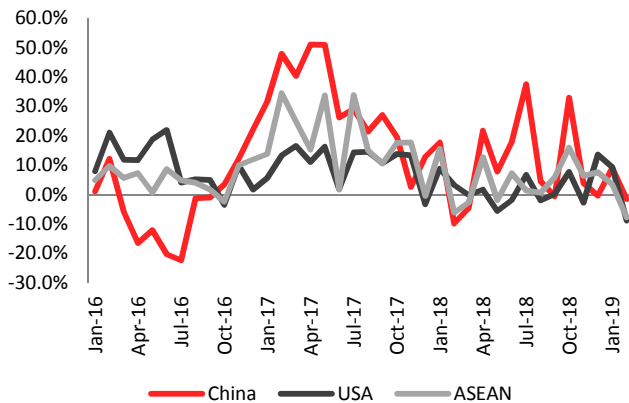
Source: CEIC; MIDFR

Chart 2: % Contribution to Exports Growth by Products



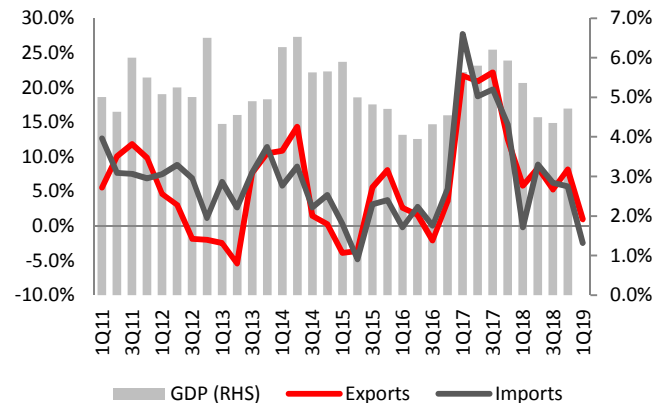
Source: CEIC; MIDFR

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



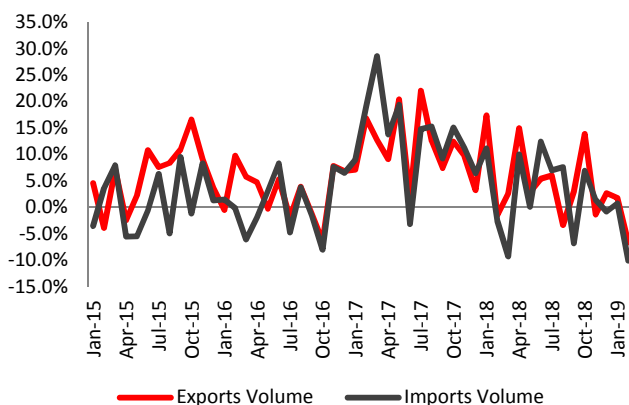
Source: CEIC; MIDFR

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



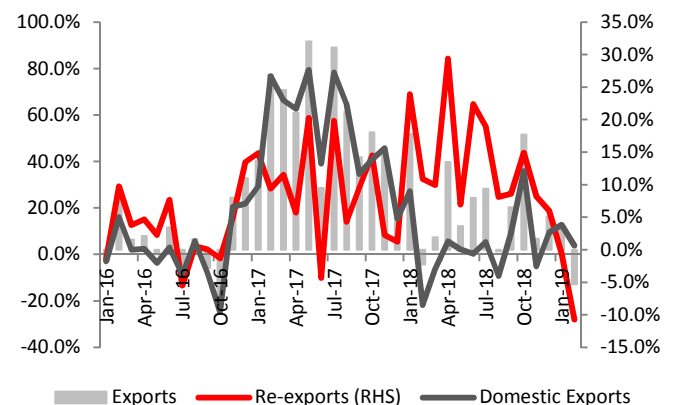
Source: CEIC; MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



Source: CEIC; MIDFR

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



Source: CEIC; MIDFR

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