

ECONOMIC REVIEW | January 2019 External Trade

Exports Beat Market Expectation amid Recovery in LNG Performance

- *Trade surplus at 3-month high. Malaysia's trade surplus widened to RM11.5B in Jan-19 (Dec-18: RM10.7B) as exports growth outperformed those of imports. Exports expanded by 3.1%yoy in Jan-19 (Dec-18: 5.1%yoy) higher than 1%yoy growth (Dec-18: 1%yoy) recorded in imports. Exports expansion was mainly contributed by a double-digit growth of mining goods at 23.5%yoy, compared to a negative growth of -1.5%yoy in the previous month, besides continuous growth of manufactured goods at 2.9%yoy, which nevertheless slowed from preceding month's 7.9%yoy rise.*
- *Domestic exports growth at 3-month high. In Jan-19, domestic exports grew further by 3.9%yoy (Dec-18: 2.7%yoy), indicating a good start for this year as it only recorded a meagre growth of 0.8% in 2018. With the expected recovery in mining and agriculture goods, we expect domestic exports to continue its upward trend moving forward. Meanwhile, re-exports which have low domestic value-added grew marginally by 0.4%yoy, the lowest gain since Jun-17 mainly due to higher base 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.*

Trade surplus at 3-month high. Malaysia's trade surplus widened to RM11.5B in Jan-19 (Dec-18: RM10.7B) as exports growth outperformed those of imports. Exports expanded by 3.1%yoy in Jan-19 (Dec-18: 5.1%yoy) higher than 1%yoy growth (Dec-18: 1%yoy) recorded in imports. Exports expansion was mainly contributed by a double-digit growth of mining goods at 23.5%yoy, compared to a negative growth of -1.5%yoy in the previous month, besides continuous growth of manufactured goods at 2.9%yoy, which nevertheless slowed from preceding month's 7.9%yoy rise. Besides that, outbound shipments of agriculture goods posted lower negative growth at -13.6%yoy in Jan-19 compared to -19.1%yoy in Dec-18. On a monthly basis, both exports and imports advanced by 2.2% and 1.4% respectively.

Imports of capital goods shrunk for the 5th consecutive month. Imports of capital goods contracted by -3.3%yoy in Jan-19, the fifth straight month of negative growth. Similarly, imports of intermediate goods fell marginally by -0.8%yoy (Dec-18: +2.8%yoy). Low capital spending signals that manufacturers are not optimistic enough 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. Such weak performance is in line with the latest PMI of Feb-19 which extended its contractionary trends to 47.6. Meanwhile, inbound shipments of consumption goods grew by 2.5%yoy, eased from 5.7%yoy posted in Dec-18, which 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	Jan-19
Exports (RMb)	86.1	81.8	83.0	96.4	84.8	83.5	85.4
% YoY	9.4	(0.3)	6.5	17.7	1.6	5.1	3.1
% MoM	9.6	(5.0)	1.4	16.2	(12.0)	(1.6)	2.2
Imports (RMb)	77.8	80.2	67.7	80.1	77.2	72.9	73.9
% YoY	10.3	11.2	(2.8)	11.4	5.0	1.0	1.0
% MoM	7.2	3.0	(15.6)	18.2	(3.5)	(5.4)	1.4
Total Trade	164.0	162.0	150.7	176.4	162.0	156.4	159.3
% YoY	9.8	5.1	2.1	14.8	3.2	3.2	2.1
% MoM	8.4	(1.2)	(7.0)	17.1	(8.2)	(3.4)	1.9
Trade Balance (RMb)	8.3	1.6	15.2	16.3	7.6	10.7	11.5
Import Components							
Intermediate (RMb)	39.9	45.0	35.7	39.3	40.2	39.4	37.5
% YoY	(0.1)	4.2	(9.5)	1.0	(0.3)	2.8	(0.8)
Capital (RMb)	9.6	11.7	7.3	9.4	10.5	9.5	9.0
% YoY	4.7	29.4	(21.4)	(1.6)	0.4	(21.8)	(3.3)
Consumption (RMb)	6.7	7.1	5.2	6.4	6.6	6.6	6.5
% YoY	11.1	14.2	(10.0)	7.6	0.9	5.7	3.3

Note: MoM is non-seasonally adjusted figure

Source: CIEC, MIDFR

Domestic exports growth at 3-month high. In Jan-19, domestic exports grew further by 3.9%yoy (Dec-18: 2.7%yoy), indicating a good start for this year as it only recorded a meagre growth of 0.8% in 2018. With the expected recovery in mining and agriculture goods, we expect domestic exports to continue its upward trend moving forward. Meanwhile, re-exports which have low domestic value-added grew marginally by 0.4%yoy, the lowest gain since Jun-17 mainly due to higher base effect. Nevertheless, the ratio of re-exports to total exports recorded higher at 20.5% (Dec-18: 17.2%) which demonstrates that for every RM1 value of exports, approximately 20sen 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 China rebounded. Malaysia's exports to China rebounded from a drop of -0.5%yoy in Dec-18 to 9.1%yoy in Jan-19 on the back of higher exports of LNG, chemicals and palm oil, among others. Sales to the US increased however at a softer pace of 9.4%yoy (Dec-18: 13.5%yoy). By region, exports growth slowed for ASEAN to 3.4%yoy (Dec-18: 7.3%yoy) while rebounded for the EU at 4.3%yoy (Dec-18: -4.9%yoy). Manufactured goods including those of palm-oil based dominated shipments to the EU. Among ASEAN key countries, sales increased at a higher rate for Thailand to 17.1%yoy (Dec-18: 9.7%yoy) while plunged to a negative territory of -8.6%yoy and -7.6%yoy for Vietnam and Philippines. Meanwhile, shipments to Indonesia remain negative for the sixth consecutive month in tandem with the weak 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	Jan-19
Total Exports (RMb)	86.1	81.8	83.0	96.4	84.8	83.5	85.4
Re-exports (RMb)	18.7	13.5	16.5	20.8	15.9	14.4	17.5
Domestic Exports (RMb)	67.5	68.3	66.4	75.5	68.9	69.2	67.9
Exports by Key Country / Region							
China	37.5	4.5	(0.6)	33.0	3.9	(0.5)	9.1
USA	6.7	(2.0)	0.1	7.6	(3.6)	13.5	9.4
Japan	(17.1)	(22.9)	(10.6)	10.2	(8.9)	(6.4)	(5.0)
India	16.3	(11.3)	1.2	17.4	(0.5)	20.0	(0.6)
Hong Kong	80.8	55.8	48.7	42.1	17.4	25.6	(7.3)
Australia	6.3	11.4	23.0	47.0	(14.1)	21.7	(10.3)
EU	2.2	(8.9)	3.1	8.5	(7.7)	(4.9)	4.3
ASEAN	1.2	0.6	6.2	16.0	6.4	7.3	3.4
Selected ASEAN							
Singapore	(2.0)	(2.2)	8.7	18.3	7.1	12.2	5.4
Thailand	6.0	15.6	7.5	20.8	3.7	9.7	17.1
Indonesia	4.2	(12.5)	(1.8)	(3.6)	(13.2)	(9.3)	(13.8)
Vietnam	12.8	6.9	7.5	36.3	39.0	5.1	(8.6)
Philippines	4.3	4.9	5.1	9.8	(0.7)	8.0	(7.6)

Source: CIEC, MIDFR

Palm oil and its products posted negative sales growth for a year. As of Jan-19, exports growth of palm oil and its based products have been in a negative territory for twelve consecutive months. Sales of the products contracted by -19.5%yoy in Jan-19 (Dec-18: 27.2%yoy). Despite lower prices and reduced import tariffs, palm oil exports to India, one of our top buyers dropped by -15.4%yoy (Dec-18: 59.8%yoy), attributable to oversupply in the previous month and rising domestic oilseed production which reduce their dependence on imported ones. Looking ahead, palm oil purchases by India in the near term are likely to be capped due to winter which limits the usage in northern areas. In addition, the potential military escalations between India and Pakistan are downside risks to the estimate. In contrast, palm oil shipments to China increased 49.4%yoy in the same month. Nevertheless, uncertainty over Chinese palm demand persists as China is likely to purchase more US soybeans as an effort to reduce the trade tensions. On the other hand, LNG exports growth rebounded in Jan-19 to 37.5%yoy (Dec-18: -2.7%yoy) while those of crude petroleum registered a contraction of -1.1%, first negative growth in over a year. Meanwhile, E&E products which constituted circa 40% of total exports continued to post positive growth of 8.2%yoy in Jan-19 however lower than 14.2%yoy growth seen in the previous month.

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

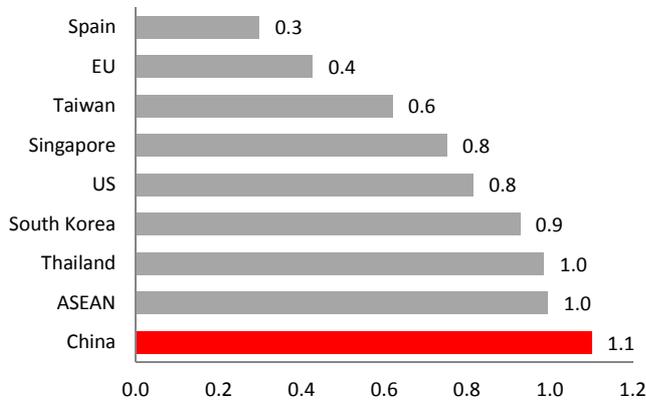
	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
E&E	23.6	3.2	6.5	23.3	(1.7)	14.2	8.2
Machinery, Equipment & Parts	2.0	(7.1)	1.8	4.2	(0.4)	7.4	(1.5)
Optical & Scientific Equipment	9.1	7.9	17.1	10.3	10.5	14.6	7.1
Petroleum Products	(13.0)	18.0	6.8	31.2	41.2	(18.4)	(24.1)
Crude Petroleum	90.1	70.8	54.5	32.8	17.7	17.5	(1.)
LNG	(38.4)	(20.4)	3.2	38.8	26.4	(2.7)	37.5
Palm oil & palm oil based agriculture products	(22.2)	(27.0)	(16.5)	(17.3)	(21.1)	(27.2)	(19.5)

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, 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 Feb-19, exports growth of Vietnam moderated to 1.6%yoy (Jan-19: 8.9%yoy) while South Korea's exports shrunk -11.1%yoy, larger compared to -5.9%yoy in Jan-19. In regards to manufacturing condition and activity, global PMI edged down to 50.6 in Feb-19 (Jan-19: 50.8) whilst still maintaining on expansionary trends. Meanwhile, emerging economies manufacturing PMI recovered to 50.6 in Feb-19 after plunged into contractionary trend of 49.5 in the preceding month. On a side note, risks resulting from US-China trade spat to the global economy remain as the duo failed to reach an agreement before the March 1 deadline and currently looking for an extension.

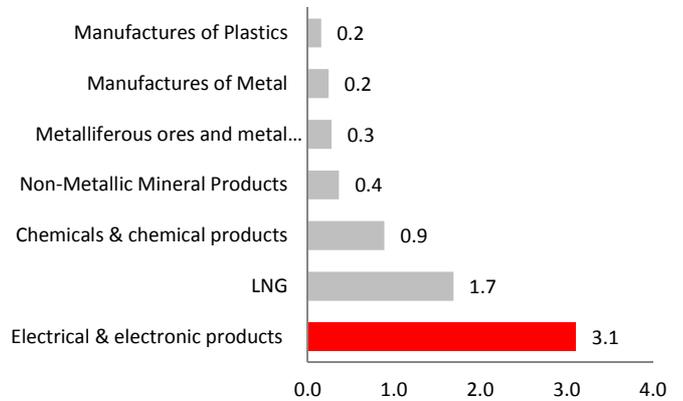
We forecast exports growth to average 3.6% in 2019. Amid higher base effects and continuous signs of easing key global indicators, we foresee exports growth to moderate further at 3.6% this year (2018: 6.7%). The moderating pace is consistent with global commodity prices, expectation of a slight slowdown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

Chart 1: % Contribution to Exports Growth by Destination



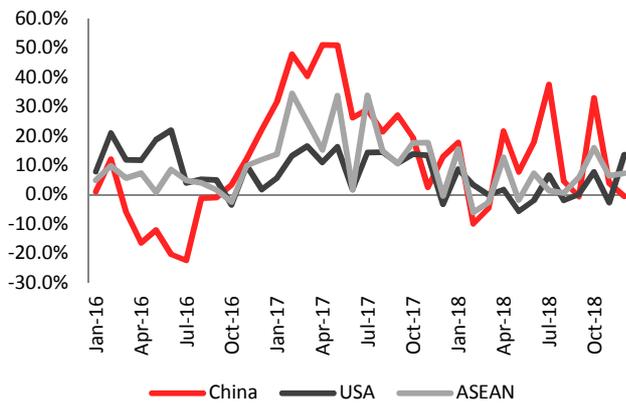
Source: CEIC; MIDFR

Chart 2: % Contribution to Exports Growth by Products



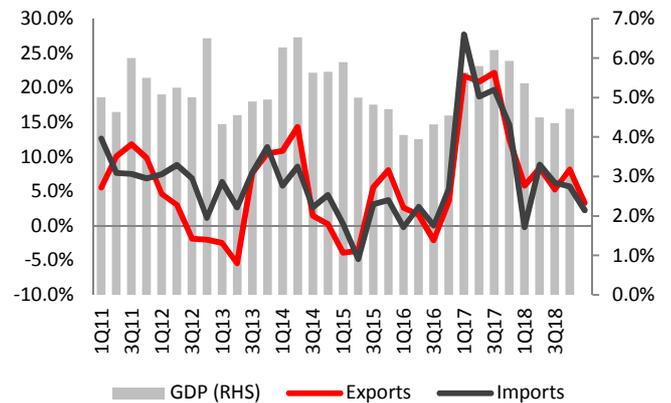
Source: CEIC; MIDFR

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



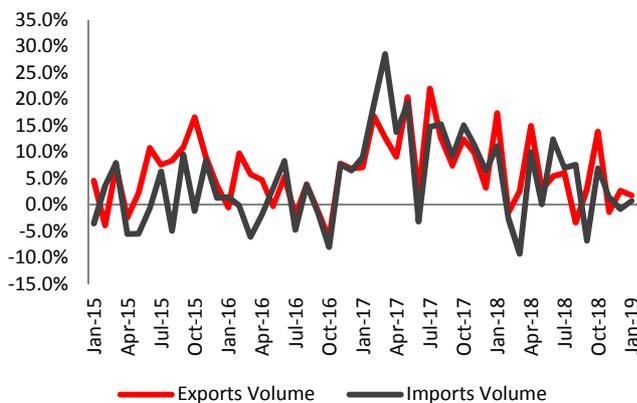
Source: CEIC; MIDFR

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



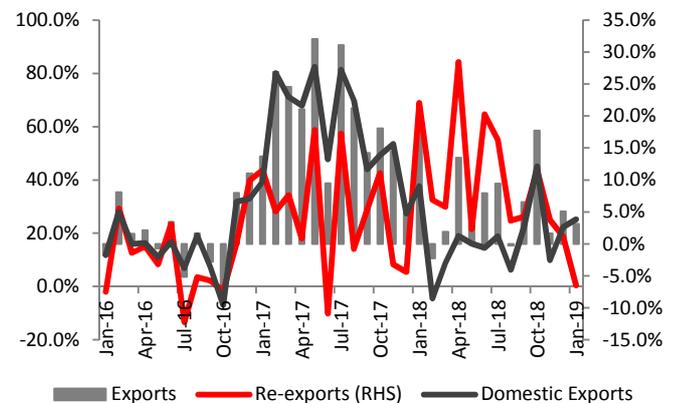
Source: CEIC; MIDFR

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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