

ECONOMIC REVIEW | January 2020 External Trade**Recovery in Exports for 2020 to Be Modest Amid COVID-19**

- *Exports stumbled again. Exports in Jan-20 declined again, by -1.5%yoy, and could not sustain the growth (2.7%yoy) in Dec-19. Note that Dec-19's growth was after four straight months of decline. Similarly, imports dropped but at a faster pace of -2.4%yoy. As both exports and imports declined, total trade contracted by -2%yoy while trade surplus recorded at RM12b. By sector, exports of manufactured goods, which hold circa 85% of total export, managed to record marginal expansion of 1.1%yoy.*
- *Export increased to the US but fell to China. Malaysia export to the US expanded at a moderating pace of 9.5%yoy while those to China dropped -5.7%yoy. Sales to the US was driven by E&E products which advanced by 11%yoy followed by rubber products (9.7%yoy) and optical & scientific equipment (8.9%yoy). In contrast, the decline in exports to China was dragged by E&E products which contracted by -5.3%yoy followed by chemicals & chemical products (-30.6%yoy) and petroleum products (-2.1%yoy).*
- *We revised downward export growth forecast to 0.6%. Initially, we anticipated exports to grow by 1.5%yoy in 2020, rebounding from -1.7%yoy fall in 2019 on the back of US-China phase one trade deal besides lower base effects. However, with more threats to global trade flows emerging especially COVID-19, we foresee the recovery to be modest at 0.6%yoy. In addition, uncertainties over trade issues and loss of growth momentum in some major economies will continue to threaten our exports performance.*

Exports stumbled again. Exports in Jan-20 declined again, by -1.5%yoy, and could not sustain the growth (2.7%yoy) in Dec-19. Note that Dec-19's growth was after four straight months of decline. Similarly, imports dropped but at a faster pace of -2.4%yoy. As both exports and imports declined, total trade contracted by -2%yoy while trade surplus recorded at RM12b. By sector, exports of manufactured goods, which hold circa 85% of total export, managed to record marginal expansion of 1.1%yoy. However, exports of commodity-based sectors continued to be weak. Mining and agriculture goods declined -20.1%yoy and -4.2%yoy respectively, wiping out the gain seen in the manufacturing sector.

Import of intermediate goods continued on positive note. Intermediate goods which held more than half of total import continued to grow albeit at moderating pace of 3.7%yoy. In contrast, capital and consumption goods decreased by -15%yoy and -1%yoy respectively. As a leading indicator to export performance moving forward, weak import, particularly of capital goods, suggests that manufacturers are still quite pessimistic on the future demand for their products hence are more cautious on business expansion decisions. Positive sentiment arose from the US-China phase one trade deal is overpowered by concerns of COVID-19 outbreak. In line, business confidence in the manufacturing sector reflected by PMI deteriorated further in Feb-20.

Table 1: Malaysia's External Trade Summary

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
Exports (RMb)	88.0	81.4	77.7	90.6	80.8	86.4	84.1
% YoY	1.7	(0.8)	(6.7)	(6.7)	(5.5)	2.7	(1.5)
% MoM	15.5	(7.5)	(4.5)	16.6	(10.8)	6.9	(2.7)
Imports (RMb)	73.7	70.5	69.4	73.3	74.3	73.8	72.1
% YoY	(5.9)	(12.5)	2.4	(8.7)	(3.6)	0.9	(2.4)
% MoM	12.3	(4.4)	(1.6)	5.6	1.4	(0.6)	(2.4)
Total Trade (RMb)	161.7	151.8	147.1	163.9	155.1	160.2	156.7
% YoY	(1.9)	(6.6)	(2.7)	(7.1)	(4.6)	1.9	(2.0)
% MoM	14.0	(6.1)	(3.1)	11.4	(5.4)	3.3	(2.6)
Trade Balance (RMb)	14.3	10.9	8.4	17.3	6.5	12.6	12.0
Import Components							
Intermediate (RMb)	38.9	39.0	39.9	37.5	41.0	41.8	38.9
% YoY	(3.4)	(13.8)	11.1	(5.1)	1.8	6.0	3.7
Capital (RMb)	8.4	8.1	7.8	8.5	9.8	8.6	7.6
% YoY	(13.9)	(30.9)	7.0	(11.6)	(4.3)	(10.9)	(15.0)
Consumption (RMb)	6.4	6.2	5.9	6.1	6.8	6.8	6.5
% YoY	(5.0)	(12.8)	15.1	(5.0)	1.9	3.2	(1.0)

Note: MoM is non-seasonally adjusted figure

Source: CIEC, MIDFR

A slip in domestic export. Domestic export declined marginally by -0.2%yoy from a rebound in the previous month, could be driven by weakening commodity-based sectors performances which involve high value added activities. Meanwhile, re-export continued to decline at a faster pace of -6.7%yoy. The ratio of re-export to total export recorded at close to 20% which means for every RM1 value of exports, approximately 20sen of value is made up of re-export component. The outlook for re-export activities moving forward is indeed cloudy in the event of multiple headwinds. COVID-19 emerges as new threat to global trade and China's commitment towards phase one trade deal with the US is at stake following the epidemic. Nonetheless, exports of commodity-based sectors are likely to improve starting 2Q20 with the opening of PFLNG2.

Export increased to the US but fell to China. Malaysia export to the US expanded at a moderating pace of 9.5%yoy while those to China dropped -5.7%yoy. Sales to the US was driven by E&E products which advanced by 11%yoy followed by rubber products (9.7%yoy) and optical & scientific equipment (8.9%yoy). In contrast, the decline in exports to China was dragged by E&E products which contracted by -5.3%yoy followed by chemicals & chemical products (-30.6%yoy) and petroleum products (-2.1%yoy). By region, exports to both ASEAN and the EU fell by -4.1%yoy and -7.4%yoy respectively. Among ASEAN key economies, exports fell to Thailand and Vietnam.

Table 2: Malaysia's Exports (YoY%)

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
Total Exports (RMb)	88.0	81.4	77.7	90.6	80.8	86.4	84.1
Re-exports (RMb)	17.9	13.4	12.7	18.5	13.0	14.3	16.3
Domestic Exports (RMb)	70.1	67.9	65.0	72.1	67.8	72.1	67.8
Exports by Key Country / Region							
China	3.8	(2.8)	(3.0)	(11.0)	4.1	17.8	(5.7)
USA	7.9	6.8	6.6	2.7	6.5	15.1	9.5
Japan	(6.3)	2.4	(1.7)	(20.1)	(16.0)	(13.9)	(1.6)
India	(14.9)	18.4	10.6	(12.4)	(1.4)	(13.6)	5.8
Hong Kong	2.5	(15.4)	(26.5)	0.1	(21.1)	(18.1)	(14.0)
Australia	(14.8)	(27.4)	(19.5)	(50.3)	(8.2)	(12.0)	7.8
EU	(2.8)	5.3	(10.8)	(5.2)	(4.3)	(3.8)	(7.4)
ASEAN	1.8	(1.2)	(8.6)	(2.8)	(8.8)	3.2	(4.1)
Selected ASEAN							
Singapore	3.1	(7.2)	(11.7)	4.1	(12.5)	(2.7)	0.9
Thailand	(2.4)	(8.3)	(4.3)	(18.2)	(14.6)	(7.3)	(19.8)
Indonesia	(11.2)	10.3	(11.8)	(3.1)	10.8	42.0	10.8
Vietnam	6.4	24.6	(5.4)	(1.9)	(11.0)	12.2	(16.7)
Philippines	17.0	(1.8)	(4.2)	(2.3)	3.7	1.4	7.8

Source: CIEC, MIDFR

Sales of major products remain weak. Exports of E&E products which hold circa 40% share of total exports shrunk by -5.5%yoy in Jan-20, marginally bigger fall compared to the previous month. Similarly, shipment of LNG and crude petroleum continued in negative territory. Meanwhile, palm oil managed to register positive growth of 0.5%yoy but way lower than double digit growth in Dec-19. In addition, petroleum products, machinery, equipment & parts and optical & scientific equipment posted increases. Looking ahead, the export outlook for E&E is still cloudy amid COVID-19 which disrupts supply chain while 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	Jan-20
E&E	4.5	(7.4)	(12.2)	(3.2)	(11.6)	(5.4)	(5.5)
Machinery, Equipment & Parts	6.0	7.6	6.9	3.6	6.2	7.0	5.7
Optical & Scientific Equipment	(2.3)	(12.3)	12.8	17.6	11.9	11.9	0.2
Petroleum Products	2.8	7.0	(13.4)	(28.4)	(17.2)	36.5	45.8
Crude Petroleum	(45.7)	(40.0)	(45.8)	(50.5)	(23.4)	(24.3)	(10.9)
LNG	31.3	(11.2)	(1.8)	(17.1)	(35.9)	(21.3)	(22.8)
Palm oil & palm oil based agriculture products	(11.8)	23.3	(9.4)	(9.5)	(3.5)	34.2	0.5

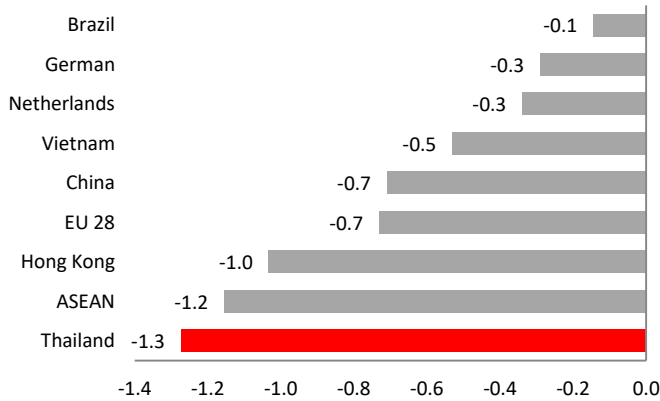
Source: CIEC, MIDFR

More risks in 1Q20. Exports growth for 4Q19 registered higher rate of decline of -3.3%yoy (3Q19: -1.9%yoy). Looking ahead to the 1Q20, exports performance is expected to be quite vulnerable especially with the outbreak of COVID-19 as factories shutdown operations in China and caused disruption in the supply chain. In addition, the US-China phase one trade deal is likely to be less successful as China's commitment to the deal is at stake due to the epidemic. In fact, global manufacturing PMI plunged into contractionary mode in Feb-20 while those emerging economies remain unchanged at 50.1. Based on our regional partners' trade performance in Feb-20, export of South Korea and Vietnam rebounded 4.5%yoy and 34%yoy respectively, providing cues on what to expect from Malaysia export performance for Feb-20.

We revised downward export growth forecast to 0.6%. Initially, we anticipated exports to grow by 1.5%yoy in 2020, rebounding from -1.7%yoy fall in 2019 on the back of US-China phase one trade deal besides lower base effects. However, with more threats to global trade flows emerging especially COVID-19, we foresee the recovery to be modest at 0.6%yoy. In addition, uncertainties over trade issues and loss of growth momentum in some major economies will continue to threaten our exports performance. Besides that, continuous decline in imports of capital and slowdown in purchases of intermediate goods in Jan-20 indicate weak prospects for exports in upcoming months. 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 2Q20.

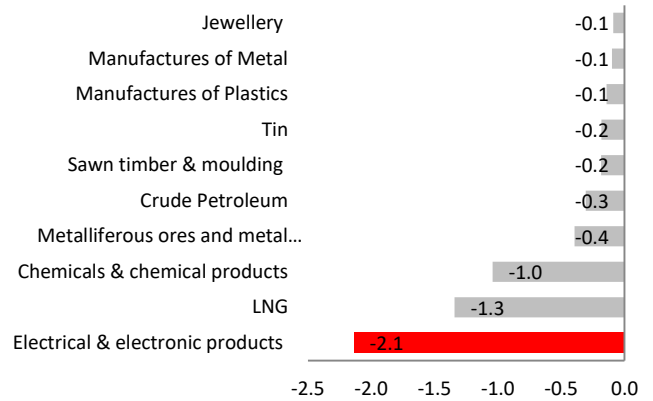


Chart 1: % Contribution to Negative Export Growth by Destination



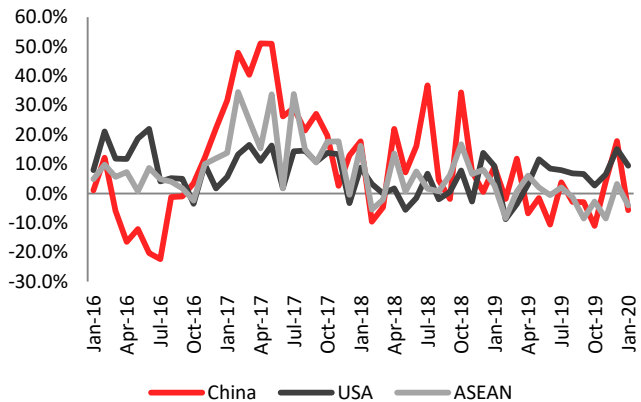
Source: CEIC; MIDFR

Chart 2: % Contribution to Negative Export Growth by Products



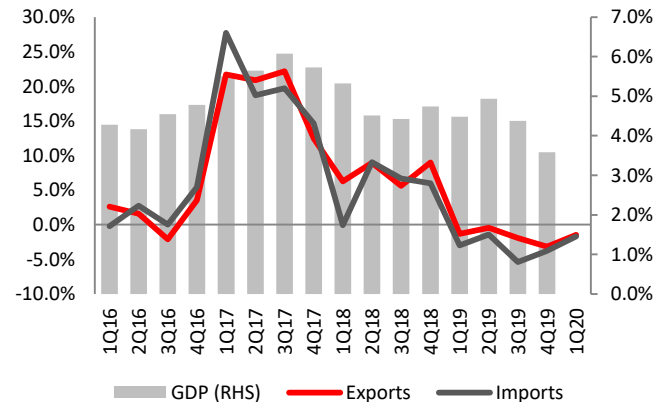
Source: CEIC; MIDFR

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



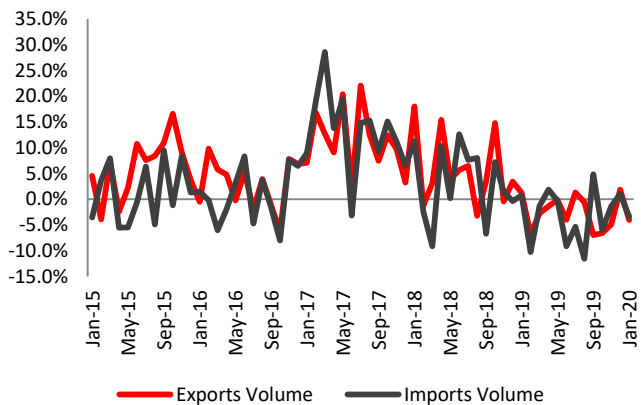
Source: CEIC; MIDFR

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



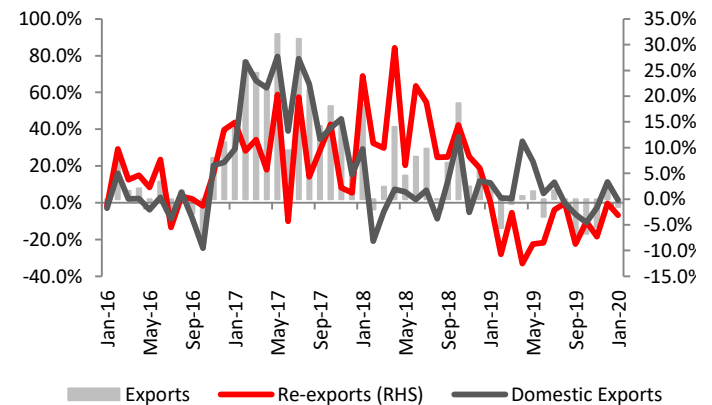
Source: CEIC; MIDFR

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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