

ECONOMIC REVIEW | March 2019 External Trade**Optimistic Trade Outlook for 2Q19 as Exports Recover**

- *Trade surplus at 5-month high. Trade surplus recorded at RM14.4b in Apr-19, the largest gain since Oct-18. Exports contracted for the second consecutive month in Mar-19 however at a far lower pace of -0.5%yoy compared to -5.3%yoy in the previous month, gaining back the momentum as CNY holidays end. Similarly, imports posted a marginal drop of -0.1%yoy (Feb-19: -9.4%yoy). Sector wise, manufacturing exports rebounded to a positive growth of 1.5%yoy (Feb-19: -4.3%yoy).*
- *Better outlook for 2Q19. Exports growth for 1Q19 declined by -0.9%yoy following 8.2%yoy recorded in the previous quarter. However, looking ahead to the 2Q19, we expect exports to rebound. Upcoming events including US and China trade deal, steady economic performance in the two largest economies on top of palm oil purchase being including in the ECRL deals are expected to provide support to Malaysia's export performance.*
- *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 trade conflicts.*

Trade surplus at 5-month high. Trade surplus recorded at RM14.4b in Apr-19, the largest gain since Oct-18. Exports contracted for the second consecutive month in Mar-19 however at a far lower pace of -0.5%yoy compared to -5.3%yoy in the previous month, gaining back the momentum as CNY holidays end. Similarly, imports posted a marginal drop of -0.1%yoy (Feb-19: -9.4%yoy). Sector wise, manufacturing exports rebounded to a positive growth of 1.5%yoy (Feb-19: -4.3%yoy) while agriculture posted smaller negative growth of -10.4%yoy (Feb-19: -13.7%yoy). In contrast, mining sector exports recorded a larger negative growth of -7.4%yoy (Feb-19: -5.5%yoy).

Imports of intermediate and consumption goods rebound. Imports of both intermediate and consumption goods in Apr-19 returned to a positive territory of 3.2%yoy and 10.6%yoy respectively. Meanwhile, capital goods continue to post negative growth for the seventh straight month at -11.8%yoy. 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. Nevertheless, we expect imports of both intermediate and capital goods to improve further in upcoming months, in tandem with the latest PMI of 49.4 in Apr-19, the highest since Sep-18.

Table 1: Malaysia's External Trade Summary

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
Exports (RMb)	83.0	96.4	84.8	83.5	85.4	66.6	84.0
% YoY	6.5	17.7	1.6	5.1	3.1	(5.3)	(0.5)
% MoM	1.4	16.2	(12.0)	(1.6)	2.2	(22.0)	26.2
Imports (RMb)	67.7	80.1	77.2	72.9	73.9	55.5	69.7
% YoY	(2.8)	11.4	5.0	1.0	1.0	(9.4)	(0.1)
% MoM	(15.6)	18.2	(3.5)	(5.4)	1.4	(24.8)	25.4
Total Trade	150.7	176.4	162.0	156.4	159.3	122.1	153.7
% YoY	2.1	14.8	3.2	3.2	2.1	(7.2)	(0.3)
% MoM	(7.0)	17.1	(8.2)	(3.4)	1.9	(23.3)	25.9
Trade Balance (RMb)	15.2	16.3	7.6	10.7	11.5	11.1	14.4
Import Components							
Intermediate (RMb)	35.7	39.3	40.2	39.4	37.5	31.9	38.0
% YoY	(9.5)	1.0	(0.3)	2.8	(0.8)	(2.8)	3.2
Capital (RMb)	7.3	9.4	10.5	9.5	9.0	6.6	8.4
% YoY	(21.4)	(1.6)	0.4	(21.8)	(3.3)	(14.9)	(11.8)
Consumption (RMb)	5.2	6.4	6.6	6.6	6.5	4.6	5.9
% YoY	(10.0)	7.6	0.9	5.7	3.3	(11.6)	10.6

Note: MoM is non-seasonally adjusted figure
Source: CIEC, MIDFR

Domestic exports continue growing. In Mar-19, domestic exports grew by 0.7%yoy, four consecutive months 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 contracted for the second consecutive month at -5.4%yoy but better than a double digit drop in the prior month. Meanwhile, the ratio of re-exports to total exports recorded at 18.1% which demonstrates that for every RM1 value of exports, approximately 18sen 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 recover. Malaysia's exports to China expanded by 11.8%yoy in Mar-19, rebounded from -1.6%yoy in the month earlier as shipments of all three main sectors recorded an increase. Similarly, exports to ASEAN bounced back to positive zone of 1.3%yoy (Feb-19: -7.8%yoy). Among ASEAN key countries, sales grew to Thailand, Vietnam and Philippines. Sales to Singapore dropped further by -6.9%yoy partly due to IBM Tampines plant shutting down which generally imports E&E products from Malaysia. E&E products shipment to Singapore plunged -8.2%yoy in Mar-19 (Feb-19: 6%yoy). Meanwhile, exports to the US remained in negative territory at -3.6%yoy but improved from -8.9%yoy in Feb-19. By sector, sales of agricultural products rebounded while those of manufacturing and mining improved despite remained negative.

Table 2: Malaysia's Exports (YoY%)

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
Total Exports (RMb)	83.0	96.4	84.8	83.5	85.4	66.6	84.0
Re-exports (RMb)	16.5	20.8	15.9	14.4	17.5	10.5	15.2
Domestic Exports (RMb)	66.4	75.5	68.9	69.2	67.9	56.2	68.8
Exports by Key Country / Region							
China	(0.6)	33.0	3.9	(0.5)	9.1	(1.6)	11.8
USA	0.1	7.6	(3.6)	13.5	9.4	(8.9)	(3.6)
Japan	(10.6)	10.2	(8.9)	(6.4)	(5.0)	(2.9)	(11.3)
India	1.2	17.4	(0.5)	20.0	(0.6)	(4.9)	(3.0)
Hong Kong	48.7	42.1	17.4	25.6	(7.3)	(13.8)	(11.5)
Australia	23.0	47.0	(14.1)	21.7	(10.3)	(0.4)	2.9
EU	3.1	8.5	(7.7)	(4.9)	4.3	3.7	(5.0)
ASEAN	6.2	16.0	6.4	7.3	3.4	(7.8)	1.3
Selected ASEAN							
Singapore	8.7	18.3	7.1	12.2	5.4	(2.9)	(6.9)
Thailand	7.5	20.8	3.7	9.7	17.1	(4.1)	15.6
Indonesia	(1.8)	(3.6)	(13.2)	(9.3)	(13.8)	(24.7)	(9.4)
Vietnam	7.5	36.3	39.0	5.1	(8.6)	(20.5)	40.6
Philippines	5.1	9.8	(0.7)	8.0	(7.6)	3.4	0.7

Source: CIEC, MIDFR

E&E sales drop to almost 3-year low. As of Mar-19, exports of E&E fell -1.9%yoy, the worst drop since Jul-16 as shipments to key markets such as Singapore, the US and Hong Kong declined. In contrast, LNG sales continue to perform by expanding at a double digit of 17.2%yoy during the month. Meanwhile, palm oil and its based products continue to improve at -13.7%yoy, attributable to a rebound in shipments to China (1.1%yoy vs -16.4%yoy in Feb-19). 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. However, with palm oil purchase being included in the ECRL deal, it could be supportive to our exports.

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

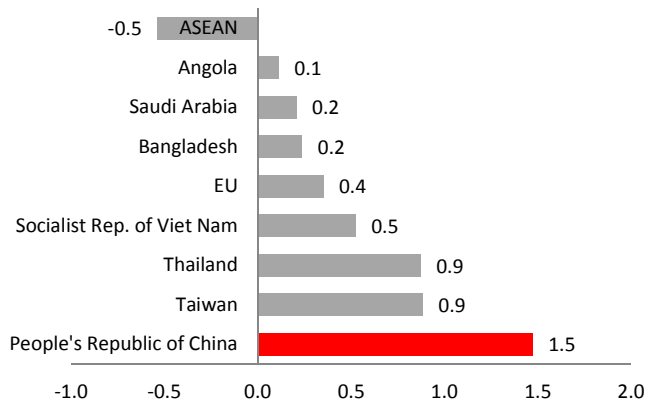
	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
E&E	6.5	23.3	(1.7)	14.2	8.2	4.9	(1.9)
Machinery, Equipment & Parts	1.8	4.2	(0.4)	7.4	(1.5)	(6.6)	(9.0)
Optical & Scientific Equipment	17.1	10.3	10.5	14.6	7.1	(17.4)	19.2
Petroleum Products	6.8	31.2	41.2	(18.4)	(24.1)	(32.6)	26.2
Crude Petroleum	54.5	32.8	17.7	17.5	(1.1)	(21.8)	(33.5)
LNG	3.2	38.8	26.4	(2.7)	37.5	8.6	17.2
Palm oil & palm oil based agriculture products	(16.5)	(17.3)	(21.1)	(27.2)	(19.5)	(16.9)	(13.7)

Source: CIEC, MIDFR

Better outlook for 2Q19. Exports growth for 1Q19 declined by -0.9%yoy following 8.2%yoy recorded in the previous quarter. However, looking ahead to the 2Q19, we expect exports to rebound. Upcoming events including US and China trade deal, steady economic performance in the two largest economies on top of palm oil purchase being including in the ECRL deals are expected to provide support to Malaysia's export performance. Based on our regional partners' trade performance in Apr-19, Vietnam's exports grew 7.5%yoy while South Korea's shrunk -2%yoy however improved from previous month's performance. This could provide cues on what to expect from Malaysia's exports in upcoming month.

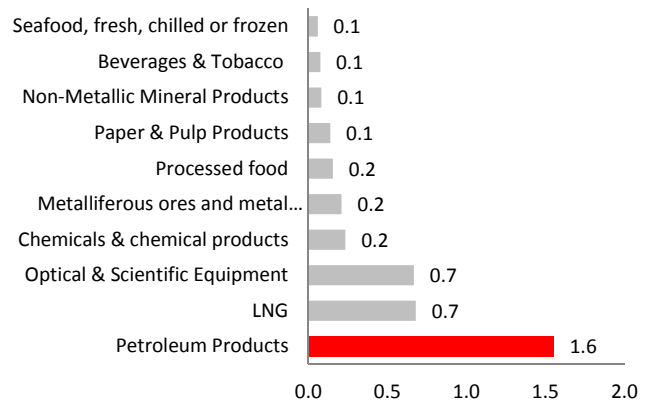
We forecast exports growth to average 3.6% in 2019. Amid higher base effects and continuous signs of easing key global indicators, we foresee exports growth to moderate further at 3.6% this year (2018: 6.7%). The moderating pace is consistent with global commodity prices, expectation of a slight slowdown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

Chart 1: % Contribution to Exports Growth by Destination



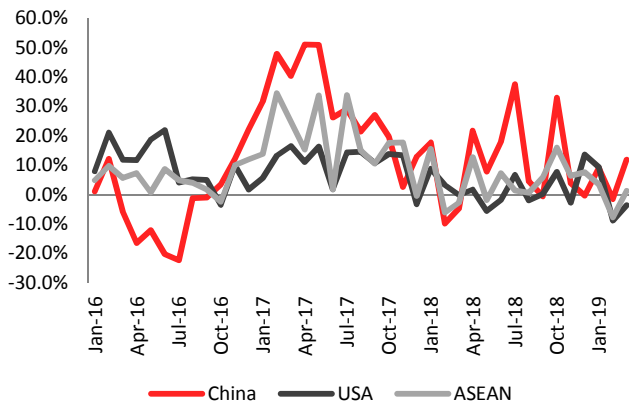
Source: CEIC; MIDFR

Chart 2: % Contribution to Exports Growth by Products



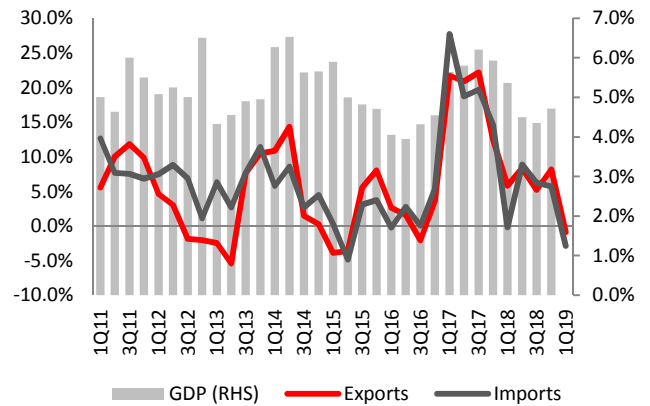
Source: CEIC; MIDFR

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



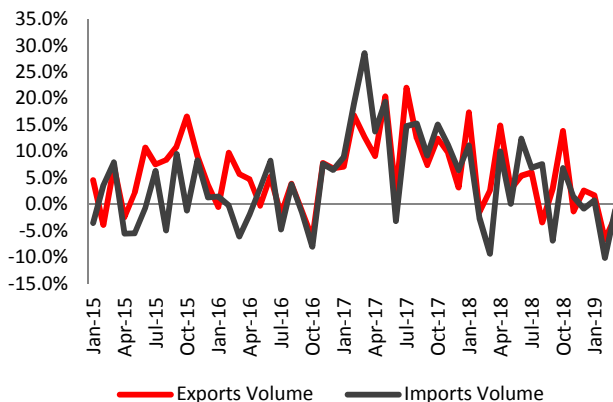
Source: CEIC; MIDFR

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



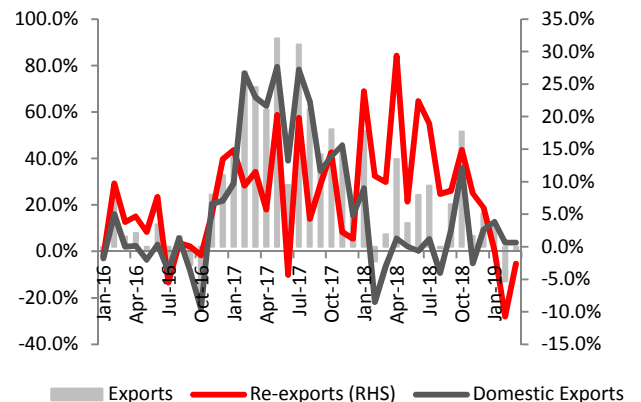
Source: CEIC; MIDFR

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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