

ECONOMIC REVIEW | March 2020 External Trade**Exports Start Falling as Covid-19 Upends Global Economy**

- *Export growth at 4-month low. Total trade fell by -3.8%yoy in Mar-20 with exports and imports plunged to contraction of -4.7%yoy and -2.7%yoy respectively, the lowest since Nov-19. Trade surplus continued to record above RM12b for four straight months. All three sectors recorded negative growth in exports. Exports of manufactured goods, which hold circa 85% of total export, fell to negative territory of -4.5%yoy compared to strong growth of 13.1%yoy in the previous month.*
- *Exports of E&E continued to be in negative territory. Exports of E&E products which hold circa 34% share of total exports further declined by -13.9%yoy, continuing its negative streak for the eighth month. Exports performance of E&E products remains gloomy in upcoming months due to Covid-19 which dampened demand. Besides that, global supply chain is being affected with lockdowns and movement restrictions.*
- *Exports to contract further in 2020 at -8.3%yoy. Impact of Covid-19 has emerged as the top risk to global trade flows as it affects both supply and demand of goods. This includes Malaysia particularly with almost two months of MCO which disrupts productions and eventually exports. In addition, the threat to foreign trade has increased even more with the pandemic spreading rapidly to Europe and the US. China's latest external trade performances showed some improvement however the sustainability of it remains questionable at large.*

Export growth at 4-month low. Total trade fell by -3.8%yoy in Mar-20 with exports and imports plunged to contraction of -4.7%yoy and -2.7%yoy respectively, the lowest since Nov-19. Trade surplus continued to record above RM12b for four straight months. All three sectors recorded negative growth in exports. Exports of manufactured goods, which hold circa 85% of total export, fell to negative territory of -4.5%yoy compared to strong growth of 13.1%yoy in the previous month. Similarly, exports of agriculture and mining goods declined by -5%yoy and -4.4%yoy respectively. On a monthly basis however total trade expanded by 8.5%mom with both exports and imports grew by 7.6%mom and 9.6%mom respectively.

Import of capital goods fell to 21-year low. Capital goods imports contracted -47.5%yoy, the hardest drop since Mar-99. It has been negative for the last five months and the latest drop reflects more on the adverse impact of Covid-19 on investment. Weak capital goods imports suggest that manufacturers are very pessimistic on the future demand for their products hence are more cautious on business expansion decisions. With looming risks and uncertainties resulting from Covid-19, imports of capital goods would continue to be pressured moving forward. Meanwhile, imports of intermediate and consumption goods managed to record positive growth albeit at moderating pace of 2%yoy and 7%yoy respectively.

Table 1: Malaysia's External Trade Summary

	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Exports (RMb)	77.7	90.6	80.8	86.4	84.1	74.5	80.1
% YoY	-6.7	-6.7	-5.5	2.7	-1.5	11.8	-4.7
% MoM	-4.5	16.6	-10.8	6.9	-2.7	-11.5	7.6
Imports (RMb)	69.4	73.3	74.3	73.8	72.1	61.8	67.8
% YoY	2.4	-8.7	-3.6	0.9	-2.4	11.3	-2.7
% MoM	-1.6	5.6	1.4	-0.6	-2.4	-14.2	9.6
Total Trade (RMb)	147.1	163.9	155.1	160.2	156.7	136.3	147.9
% YoY	-2.7	-7.1	-4.6	1.9	-2	11.6	-3.8
% MoM	-3.1	11.4	-5.4	3.3	-2.6	-12.7	8.5
Trade Balance (RMb)	8.4	17.3	6.5	12.6	12	12.6	12.3
Import Components							
Intermediate (RMb)	39.9	37.5	41	41.8	38.9	38.4	38.9
% YoY	11.1	-5.1	1.8	6	3.7	20.4	2
Capital (RMb)	7.8	8.5	9.8	8.6	7.6	5.5	4.6
% YoY	7	-11.6	-4.3	-10.9	-15	-16.9	-47.5
Consumption (RMb)	5.9	6.1	6.8	6.8	6.5	5.1	6.3
% YoY	15.1	-5	1.9	3.2	-1	10.1	7

Note: MoM is non-seasonally adjusted figure

Source: CIEC, MIDFR

Re-export activities at over 1-year high. Re-exports, which had been in negative territory since Feb-19, finally recorded an expansion of 13.4%yoy in Mar-20. The ratio of re-export to total export recorded at close to 21.5%, the highest since Jul-18. It simply means for every RM1 value of exports, approximately 21sen of value is made up of re-export component. However, domestic exports which involved high value-added activities declined -8.7%yoy, the hardest fall since Oct-16 driven by deteriorating performances of commodity-based sectors.

Export performance weakened to the world's two largest economies. Exports to the US and China decreased by -3.6%yoy and -6.1%yoy respectively mainly dragged down by E&E products. Similarly, exports to the EU contracted by -14.1%yoy. In contrast, export to ASEAN advanced by 3%yoy as shipments to Singapore, Indonesia and Philippines expanded, with Indonesia chalked the highest growth (100.5%yoy) propelled by sales of transport equipment and petroleum products. Meanwhile, exports to Thailand and Vietnam contracted by -37.4%yoy and -31.4%yoy respectively.

Table 2: Malaysia's Exports (YoY%)

	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Total Exports (RMb)	77.7	90.6	80.8	86.4	84.1	74.5	80.1
Re-exports (RMb)	12.7	18.5	13	14.3	16.3	9.8	17.3
Domestic Exports (RMb)	65	72.1	67.8	72.1	67.8	64.7	62.9
Exports by Key Country / Region							
China	-3	-11	4.1	17.8	-5.7	11	-6.1
USA	6.6	2.7	6.5	15.1	9.5	25.5	-3.6
Japan	-1.7	-20.1	-16	-13.9	-1.6	3.7	-0.5
India	10.6	-12.4	-1.4	-13.6	5.8	-9.3	-40.6
Hong Kong	-26.5	0.1	-21.1	-18.1	-14	1	-12.6
Australia	-19.5	-50.3	-8.2	-12	7.8	-6.8	-2
EU	-10.8	-5.2	-4.3	-3.8	-7.4	-12.7	-14.2
ASEAN	-8.6	-2.8	-8.8	3.2	-4.1	14.6	3
Selected ASEAN							
Singapore	-11.7	4.1	-12.5	-2.7	0.9	22.5	8.6
Thailand	-4.3	-18.2	-14.6	-7.3	-19.8	-12.3	-37.4
Indonesia	-11.8	-3.1	10.8	42	10.8	21.6	100.5
Vietnam	-5.4	-1.9	-11	12.2	-16.7	14.5	-31.4
Philippines	-4.2	-2.3	3.7	1.4	7.8	34.3	15

Source: CIEC, MIDFR

Exports of E&E continued to be in negative territory. Exports of E&E products which hold circa 34% share of total exports further declined by -13.9%yoy, continuing its negative streak for the eighth month. Exports performance of E&E products remains gloomy in upcoming months due to Covid-19 which dampened demand. Besides that, global supply chain is being affected with lockdowns and movement restrictions. Similar to E&E, most of other major products recorded a decline including LNG which returned to negative ground of -13.4%yoy from 7.1%yoy growth in the preceding month. Nevertheless, petroleum products continued to expand (22.7%yoy) for the fourth consecutive months, providing some buffer to the overall negative export performance.

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

	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
E&E	-12.2	-3.2	-11.6	-5.4	-5.5	-2.7	-13.9
Machinery, Equipment & Parts	6.9	3.6	6.2	7	5.7	23	-17.6
Optical & Scientific Equipment	12.8	17.6	11.9	11.9	0.2	50.9	-9.1
Petroleum Products	-13.4	-28.4	-17.2	36.5	45.8	17	22.7
Crude Petroleum	-45.8	-50.5	-23.4	-24.3	-10.9	-11.7	-4.2
LNG	-1.8	-17.1	-35.9	-21.3	-22.8	7.1	-13.4
Palm oil & palm oil based agriculture products	-9.4	-9.5	-3.5	34.2	0.5	17.1	-0.3

Source: CIEC, MIDFR

Weak performance anticipated in 2Q20. Exports growth for 1Q20 averaged at 1.9%yoy (4Q19: -3.2%yoy) despite the outbreak of Covid-19 which forced factories shutdowns in China, causing disruption in the global supply chain. While most of the Chinese factories have resumed their operation in Mar-20, more countries are restricting movement of its people and even impose lockdowns as Covid-19 flared globally which includes Malaysia. The pandemic is spreading fast in key trading partners such as the US and the Europe, forcing businesses to shut down or limit operations. Hence, exports performance is expected to deteriorate in 2Q20.


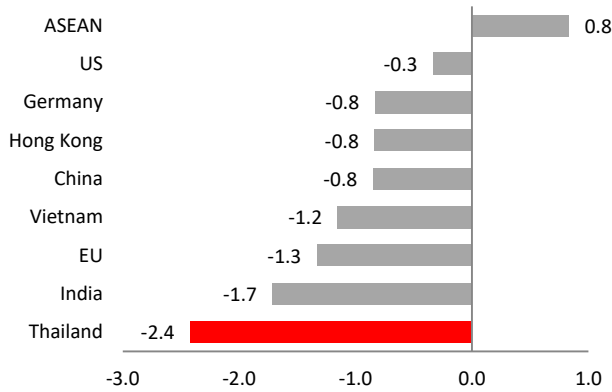
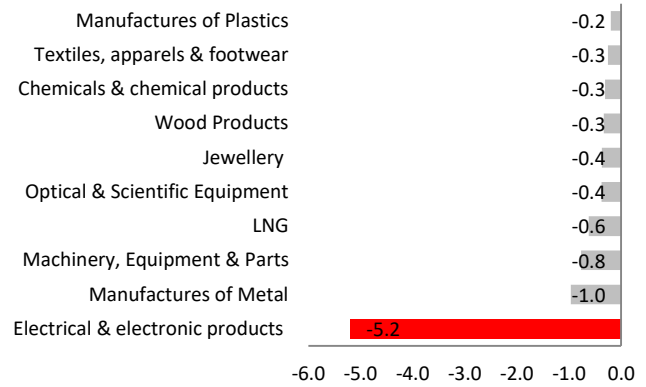
Exports to contract further in 2020 at -8.3%yoy. Impact of Covid-19 has emerged as the top risk to global trade flows as it affects both supply and demand of goods. This includes Malaysia particularly with almost two months of MCO which disrupts productions and eventually exports. In addition, the threat to foreign trade has increased even more with the pandemic spreading rapidly to Europe and the US. China's latest external trade performances showed some improvement however the sustainability of it remains questionable at large. Hence, we forecast both exports and imports growth to contract further in 2020 at -8.3%yoy (2019: -1.7%yoy) and -7.8%yoy (-3.5%yoy) respectively. Uncertainties to global trade flows will remain even when Covid-19 is contained due to the fact that existing tariffs imposed between China and US are still largely in place. The US presidential election and protectionism possibly resurfacing during the election campaign. Besides that, Green Deal by the EU and oil price war will also affect Malaysian exports. 

Chart 1: % Contribution to Negative Export Growth by Destination



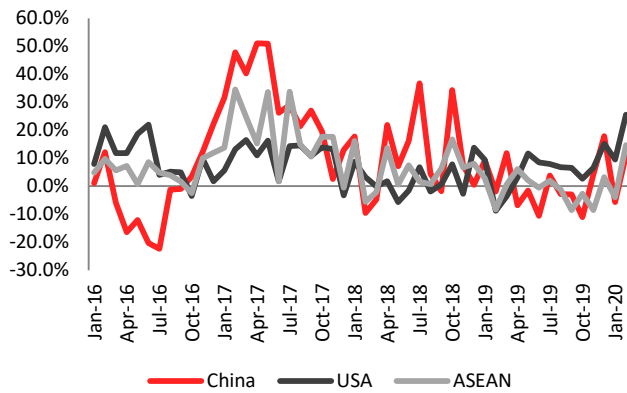
Source: CEIC; MIDFR

Chart 2: % Contribution to Negative Export Growth by Products



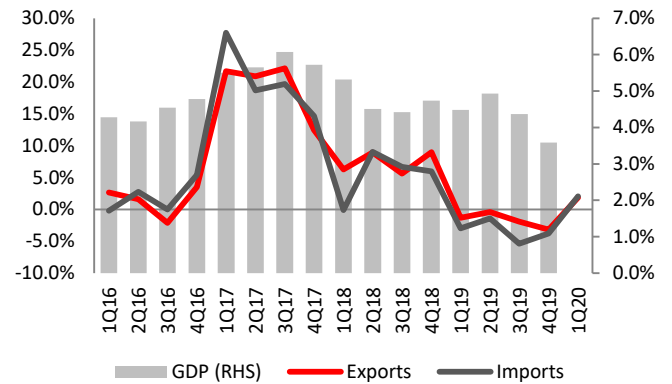
Source: CEIC; MIDFR

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



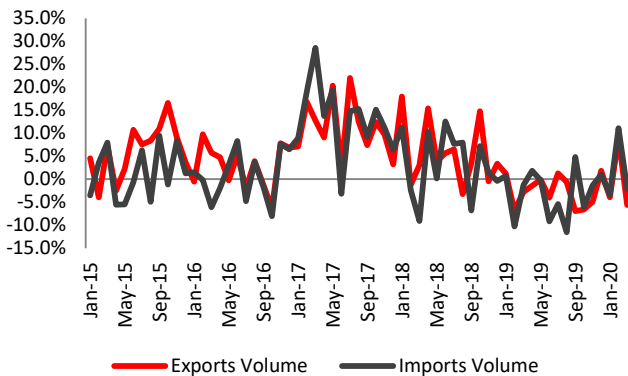
Source: CEIC; MIDFR

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



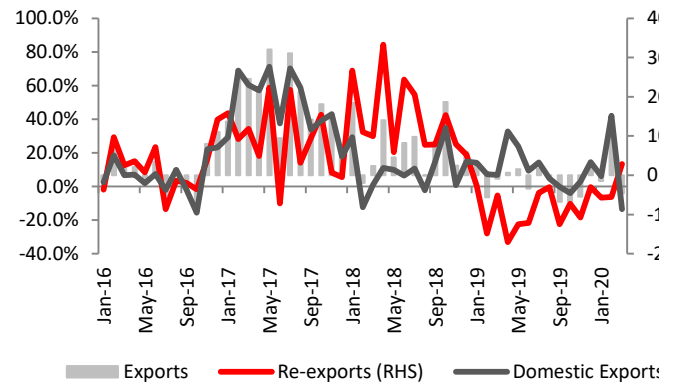
Source: CEIC; MIDFR

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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