

## ECONOMIC REVIEW | May 2020 External Trade

### Exports to Improve Gradually in Upcoming Months as Key Countries Slowly Reopen

- *Export performance at 11-year low. Malaysia's exports dived -25.5%yoy in May-20, the hardest fall since May-09, suggesting a prolonged impact of the pandemic on export-reliant economies. Malaysia is not the sole one as other neighboring countries like Indonesia and Thailand also experienced contraction above -20%yoy in their exports. Similar to exports, Malaysia's imports contracted by -30.4%yoy, the largest drop since Jan-09. Nevertheless, as imports fell harder than exports, trade balance shifted to a surplus of RM10.4b, in line with our expectation.*
- *Export fell to all major countries except China. Exports to China continued recording growth for second straight month at 4.5%yoy driven by petroleum products (96%yoy) and palm oil (48.8%yoy), among others. However, outbound shipments to other key countries including the US, Japan, EU and ASEAN region remained in negative territory. Exports to the US and EU declined by -9.3%yoy and -25.4%yoy respectively but improved compared to previous month while those to Japan and ASEAN got worse.*
- *Exports to contract by -8.3%yoy in 2020. 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. China's latest external trade performances showed some improvement however the remaining key players' performance remains questionable at large. In addition, the rising protectionism measures particularly the re-escalation of US-China tension poses more threat to foreign trades.*

**Export performance at 11-year low.** Malaysia's exports dived -25.5%yoy in May-20, the hardest fall since May-09, suggesting a prolonged impact of the pandemic on export-reliant economies. Malaysia is not the sole one as other neighboring countries like Indonesia and Thailand also experienced contraction above -20%yoy in their exports. Similar to exports, Malaysia's imports contracted by -30.4%yoy, the largest drop since Jan-09. Nevertheless, as imports fell harder than exports, trade balance shifted to a surplus of RM10.4b, in line with our expectation. On a monthly basis, both exports and imports contracted by -3.2%mom and -23.6%mom respectively.

**Three major categories of imports tumbled.** Intermediate goods purchases which hold the biggest share of imports continued declining in May-20 albeit at a softer pace of -27.8%yoy. Similarly, imports of consumption goods fell -21.9%yoy, the hardest fall since Dec-98, could be attributed to lower purchasing power amid Covid-19. Meanwhile, imports growth of capital goods returned to negative territory of -27.8%yoy from solid growth in the preceding month. Weak purchases of intermediate and capital goods suggest that manufacturers are very pessimistic on the future demand for their products hence are more cautious on business decisions. With looming risks and uncertainties resulting from Covid-19 and rising protectionism measures especially between US-China, imports of capital goods in particular is expected to continue to be pressured moving forward.

**Table 1: Malaysia's External Trade Summary**

	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
<b>Exports (RMb)</b>	<b>80.8</b>	<b>86.4</b>	<b>84.1</b>	<b>74.5</b>	<b>80.1</b>	<b>64.8</b>	<b>62.7</b>
% YoY	-5.5	2.7	-1.5	11.8	-4.7	-23.9	-25.5
% MoM	-10.8	6.9	-2.7	-11.5	7.6	-19.1	-3.2
<b>Imports (RMb)</b>	<b>74.3</b>	<b>73.8</b>	<b>72.1</b>	<b>61.8</b>	<b>67.8</b>	<b>68.4</b>	<b>52.3</b>
% YoY	-3.6	0.9	-2.4	11.3	-2.7	-8	-30.4
% MoM	1.4	-0.6	-2.4	-14.2	9.7	0.9	-23.6
<b>Total Trade (RMb)</b>	<b>155.1</b>	<b>160.2</b>	<b>156.7</b>	<b>136.3</b>	<b>147.9</b>	<b>133.2</b>	<b>114.9</b>
% YoY	-4.6	1.9	-2	11.6	-3.8	-16.5	-27.8
% MoM	-5.4	3.3	-2.6	-12.7	8.5	-9.9	-13.7
<b>Trade Balance (RMb)</b>	<b>6.5</b>	<b>12.6</b>	<b>12</b>	<b>12.6</b>	<b>12.3</b>	<b>-3.6</b>	<b>10.4</b>
<b>Import Components</b>							
<b>Intermediate (RMb)</b>	<b>41</b>	<b>41.8</b>	<b>38.9</b>	<b>38.4</b>	<b>38.9</b>	<b>28.3</b>	<b>30.8</b>
% YoY	1.8	6	3.7	20.4	2	-30.6	-27.8
<b>Capital (RMb)</b>	<b>9.8</b>	<b>8.6</b>	<b>7.6</b>	<b>5.5</b>	<b>4.3</b>	<b>15</b>	<b>6.7</b>
% YoY	-4.3	-10.9	-15	-16.9	-47.5	68.9	-27.8
<b>Consumption (RMb)</b>	<b>6.8</b>	<b>6.8</b>	<b>6.5</b>	<b>5.1</b>	<b>6.3</b>	<b>5.8</b>	<b>5.2</b>
% YoY	1.9	3.2	-1	10.1	7	-12.1	-21.9

*Note: MoM is non-seasonally adjusted figure*

Source: CIEC, MIDFR

**Domestic exports declined for third consecutive month.** Domestic exports which involved high value-added activities continued falling but at a softer pace of -24.7%yoy, contributed by some improvement in E&E and machinery, equipment & parts on top of strong sales of rubber products. Re-exports which managed to maintain positive growths for two months despite the health crisis, stumbled in May-20 with -30%yoy contraction, the worst drop since Apr-19. The ratio of re-export to total export went down to 14% from record high in Apr-20, which implies for every RM1 value of exports, approximately 14sen of value is made up of re-export component.

**Export fell to all major countries except China.** Exports to China continued recording growth for second straight month at 4.5%yoy driven by petroleum products (96%yoy) and palm oil (48.8%yoy), among others. However, outbound shipments to other key countries including the US, Japan, EU and ASEAN region remained in negative territory. Exports to the US and EU declined by -9.3%yoy and -25.4%yoy respectively but improved compared to previous month while those to Japan and ASEAN got worse. Among key members of ASEAN, Philippines chalked the hardest drop of -48.6%yoy followed by Thailand (-40%yoy).

**Table 2: Malaysia's Exports (YoY%)**

	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
<b>Total Exports (RMb)</b>	<b>80.8</b>	<b>86.4</b>	<b>84.1</b>	<b>74.5</b>	<b>80.1</b>	<b>64.8</b>	<b>62.7</b>
<b>Re-exports (RMb)</b>	<b>13</b>	<b>14.3</b>	<b>16.3</b>	<b>9.8</b>	<b>17.3</b>	<b>18.6</b>	<b>8.8</b>
<b>Domestic Exports (RMb)</b>	<b>67.8</b>	<b>72.1</b>	<b>67.8</b>	<b>64.7</b>	<b>62.9</b>	<b>46.2</b>	<b>54</b>
<b>Exports by Key Country / Region</b>							
China	4.1	17.8	-5.7	11	-6.1	4.2	4.5
USA	6.5	15.1	9.5	25.5	-3.6	-31.1	-9.3
Japan	-16	-13.9	-1.6	3.7	-0.5	-28.4	-33
India	-1.4	-13.6	5.8	-9.3	-40.6	-70.6	-81.1
Hong Kong	-21.1	-18.1	-14	1	-12.6	-8.2	-23.5
Australia	-8.2	-12	7.8	-6.8	-2	-28.9	-37.7
EU	-4.3	-3.7	-7.3	-12.7	-13.4	-41.6	-25.4
ASEAN	-8.6	3.2	-3.9	14.6	3	-24.7	-30.6
<b>Selected ASEAN</b>							
Singapore	-11.9	-2.7	1.1	22.5	8.6	-17.4	-21.9
Thailand	-14.6	-7.3	-19.8	-12.3	-37.4	-38	-40
Indonesia	10.8	42	10.8	21.6	100.5	-2.3	-37.5
Vietnam	-11	12.2	-16.7	14.5	-31.4	-37	-34.1
Philippines	3.7	1.3	7.8	34.3	15	-41.2	-48.6

Source: CIEC, MIDFR

**Exports of all key products declined.** Outbound shipments of major sectors fell in May-20 as mining chalked the hardest drop (-49.1%yoy). Key products under mining sector: crude petroleum and LNG contracted further to -69%yoy and -30.7%yoy respectively. Similarly, E&E which hold the biggest share of total exports, declined by -19.9%yoy. It continues its negative streak for the tenth month but at a slightly slower pace than Apr-20. Exports performance of E&E products remains gloomy in upcoming months not only due to Covid-19 but the escalation of US-China spat. Meanwhile, palm oil & its products declined at a faster pace of -15.6%yoy but likely to improve in upcoming months as India gradually reopens its economy (greater demand from the HORECA industry) and also on the back of India-Malaysia palm oil deal to be shipped in June and July-20.

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

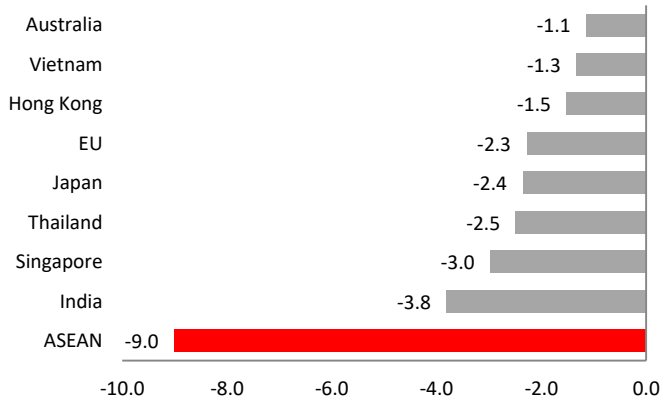
	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
E&E	-11.6	-5.4	-5.5	-2.7	-13.9	-21.7	-19.9
Machinery, Equipment & Parts	6	6.9	5.7	23	-17.6	-53.3	-29.6
Optical & Scientific Equipment	11.9	12	-0.1	50.9	-9.1	-34.8	-11.3
Petroleum Products	-19	34.9	62	21.7	44.3	-17	-42.7
Crude Petroleum	-23.4	-24.3	-10.9	-11.7	-4.2	-33.8	-69
LNG	-35.9	-21.3	-22.8	7.1	-13.4	-20.5	-30.7
Palm oil & palm oil based agriculture products	-3.5	34.2	0.5	17.1	-0.3	-1.5	-15.6

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 particularly in Apr-20 as Covid-19 flared globally which include Malaysia. Malaysia had one full month of MCO in Apr-20 and conditional MCO in May-20 hence exports performance is expected to deteriorate in 2Q20.

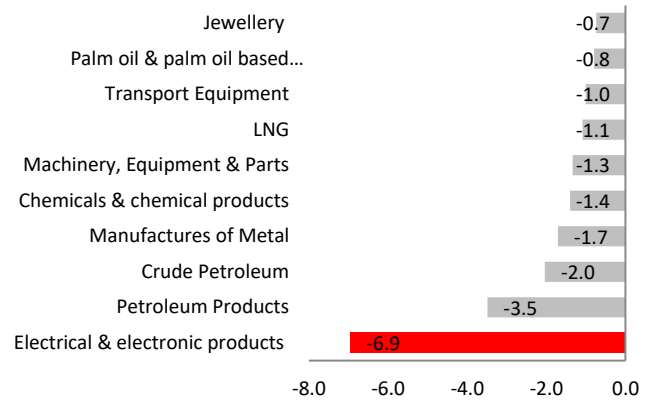
**Exports to contract by -8.3%yoy in 2020.** Impact of Covid-19 has emerged as the top risk to global trade flows as it affects both supply and demand of goods. This includes Malaysia particularly with almost two months of MCO which disrupts productions and eventually exports. China's latest external trade performances showed some improvement however the remaining key players' performance remains questionable at large. In addition, the rising protectionism measures particularly the re-escalation of US-China tension poses more threat to foreign trades. This will hinder most of the countries' effort to restart their respective economies amid Covid-19 pandemic. Hence, we reiterate that exports growth will contract further in 2020 at -8.3%yoy (2019: -1.7%yoy). 

**Chart 1: % Contribution to Negative Export Growth by Destination**



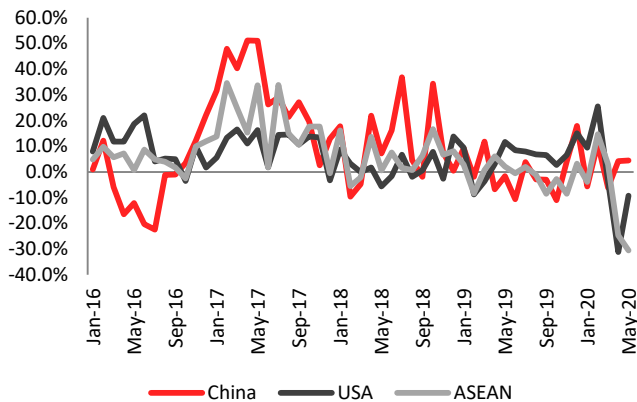
Source: CEIC; MIDFR

**Chart 2: % Contribution to Negative Export Growth by Products**



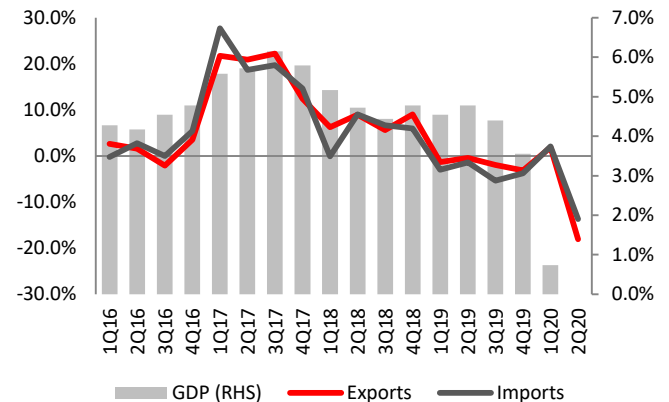
Source: CEIC; MIDFR

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



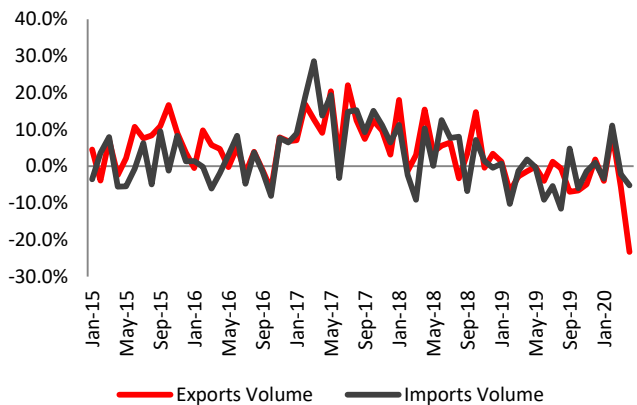
Source: CEIC; MIDFR

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



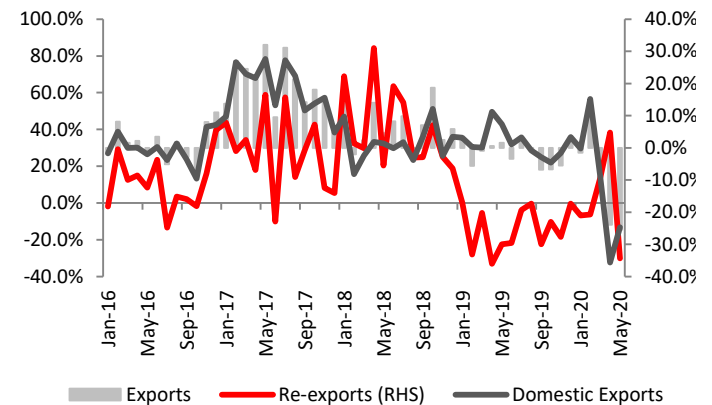
Source: CEIC; MIDFR

**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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