

ECONOMIC REVIEW | October 2019 External Trade**Record-high Trade Surplus Despite Weakening Trade Flows**

- *Record-high trade surplus. In Oct-19, Malaysia's trade surplus registered at RM 17.3b, the highest monthly surplus ever recorded. This came in despite a -6.7%yoy fall in export during the month with import declining at harder pace of -8.7%yoy. Export marked third consecutive month of negative growth due to weak performance in all major sectors. Manufacturing export which accounted for circa 85% of total exports contracted by 4.5%yoy.*
- *Export to two world's largest economies keeps deteriorating. Malaysia's export to China keeps falling for the third straight months and recorded double digit fall in Oct-19. In a similar note, export to the US although still positive but consistently moderating since June-19. This demonstrates the direct impact from US-China trade disputes. In addition, sales to most of the major ASEAN countries also fell during the month. For instance, export to Thailand recorded at more than 7-year low of -18.2%yoy due to low sale of E&E products and crude petroleum.*
- *2019 is a contraction for exports and imports. For the first ten months of the year, exports growth averaged at -1.8%yoy. In term of absolute value, monthly average of 2019 so far recorded at RM 81.9b which is still lower than RM 83.7b in 2018. Besides that, continuous decline in imports of capital and intermediate goods indicate weak prospects for future exports. With faltering trade globally derive from rising protectionism and loss of momentum in some major economies, especially in Europe, we do not foresee a huge comeback in 2H19.*

Record-high trade surplus. In Oct-19, Malaysia's trade surplus registered at RM 17.3b, the highest monthly surplus ever recorded. This came in despite a -6.7%yoy fall in export during the month with import declining at harder pace of -8.7%yoy. Export marked third consecutive month of negative growth due to weak performance in all major sectors. Manufacturing export which accounted for circa 85% of total exports contracted by 4.5%yoy. Similarly, export of mining and agriculture products declined by 24.6%yoy and 8.9%yoy respectively.

Import of all three major components plunge again. In the previous month, imports of all major components rebounded however not sustained. In Oct-19, intermediate goods which held more than half of total import contracted by -5.1%yoy. Similarly, capital goods fell harder by a double digit of -11.6%yoy. Decline in these two components suggest that the outlook for the manufacturing sector remain gloomy moving forward. Manufacturers seem to be less optimistic on the future demand for their products, in line with Business Tendency Survey which showed business confidence in this sector for 4Q19 is rather neutral as the indicator recorded at 0.2% (3Q19: 1.8%). This would weigh on future export and employment opportunities. Manufacturing sector has the second biggest share of total employment in the country at almost 20%. Meanwhile, import of consumption goods also dropped by -5%yoy.

Table 1: Malaysia's External Trade Summary

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Exports (RMb)	85.2	84.1	76.2	88.0	81.4	77.7	90.6
% YoY	1.1	2.5	(3.1)	1.7	(0.8)	(6.7)	(6.7)
% MoM	1.4	(1.2)	(9.5)	15.5	(7.5)	(4.5)	16.6
Imports (RMb)	74.3	75.1	65.9	73.7	70.5	69.4	73.3
% YoY	4.4	1.4	(9.2)	(5.9)	(12.5)	2.4	(8.7)
% MoM	6.7	1.0	(12.2)	12.3	(4.4)	(1.6)	5.6
Total Trade	159.5	159.2	142.1	161.7	151.8	147.1	163.9
% YoY	2.6	2.0	(6.0)	(1.9)	(6.6)	(2.7)	(7.1)
% MoM	3.8	(0.2)	(10.8)	14.0	(6.1)	(3.1)	11.4
Trade Balance (RMb)	10.9	9.1	10.3	14.3	10.9	8.4	17.3
Import Components							
Intermediate (RMb)	40.7	42.6	38.4	38.9	39.0	39.9	37.5
% YoY	20.3	6.4	(2.5)	(3.4)	(13.8)	11.1	(5.1)
Capital (RMb)	8.9	9.3	7.2	8.4	8.1	7.8	8.5
% YoY	5.7	(5.9)	(23.6)	(13.9)	(30.9)	7.0	(11.6)
Consumption (RMb)	6.6	6.6	5.6	6.4	6.2	5.9	6.1
% YoY	18.9	10.9	(5.4)	(5.0)	(12.8)	15.1	(5.0)

Note: MoM is non-seasonally adjusted figure

Source: CIEC, MIDFR

Domestic export on a declining trend. Domestic export dropped further to -4.6%yoy, the third consecutive month of decline and the hardest fall since Mar-18. The fall is mostly attributed to the commodity-based sectors particularly LNG, crude petroleum and palm oil which have not fully recovered. Meanwhile, re-export which have low domestic value-added continued to decline but at a softer pace of -10.2%yoy (Sep-19: -22.4%). The ratio of re-export to total export surged to nine-month high of 20.4% 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 is indeed cloudy for the remaining of the year in the event of multiple headwinds including trade tensions and slowing global economy, in addition to the higher base effects.

Export to two world's largest economies keeps deteriorating. Malaysia's export to China keeps falling for the third straight months and recorded double digit fall in Oct-19. In a similar note, export to the US although still positive but consistently moderating since June-19. This demonstrates the direct impact from US-China trade disputes. In addition, sales to most of the major ASEAN countries also fell during the month. For instance, export to Thailand recorded at more than 7-year low of -18.2%yoy due to low sale of E&E products and crude petroleum. On top of that, export to Australia, among fifteen top export destination of Malaysia, fell to 24-year low of -50.3%yoy on the back of lower shipment of crude petroleum (-73%yoy). Australia held the second largest share of Malaysia's total crude petroleum export.

Table 2: Malaysia's Exports (YoY%)

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Total Exports (RMb)	85.2	84.1	76.2	88.0	81.4	77.7	90.6
Re-exports (RMb)	13.5	12.5	12.2	17.9	13.4	12.7	18.5
Domestic Exports (RMb)	71.7	71.6	63.9	70.1	67.9	65.0	72.1
Exports by Key Country / Region							
China	(6.9)	(2.2)	(12.0)	3.8	(2.8)	(3.0)	(11.0)
USA	3.1	11.7	8.8	7.9	6.8	6.6	2.7
Japan	7.7	7.5	(13.5)	(6.3)	2.4	(1.7)	(20.1)
India	6.7	43.1	22.1	(14.9)	18.4	10.6	(12.4)
Hong Kong	0.1	3.4	(25.0)	2.5	(15.4)	(26.5)	0.1
Australia	4.2	(13.0)	(10.5)	(14.8)	(27.4)	(19.5)	(50.3)
EU	(8.6)	(6.3)	1.0	(2.8)	5.3	(10.8)	(5.2)
ASEAN	7.2	4.7	(0.2)	1.8	(1.2)	(8.6)	(2.8)
Selected ASEAN							
Singapore	11.3	2.6	(0.9)	3.1	(7.2)	(11.7)	4.1
Thailand	1.2	7.3	(4.0)	(2.4)	(8.3)	(4.3)	(18.2)
Indonesia	(3.0)	(12.4)	(4.2)	(11.2)	10.3	(11.8)	(3.1)
Vietnam	16.9	5.8	(17.0)	6.4	24.6	(5.4)	(1.9)
Philippines	(0.7)	39.9	51.2	17.0	(1.8)	(4.2)	(2.3)

Source: CIEC, MIDFR

Sales of major products remain weak. Exports of E&E products which hold circa 40% share of total exports shrunk by -3.2%yoy in Oct-19 but improved from a larger fall in the previous month. However, most of other key products continued falling harder. Sales of crude petroleum and petroleum products contracted by -50.5%yoy and -28.4%yoy, continuing its double digit fall since Jul-19 and Sep-19 respectively. Meanwhile, sales of palm oil & its products are expected to be low relatively in 4Q19 amid winter season which can easily solidify palm oil and users will opt for substitutes. In contrast, shipment of machinery, equipment & parts and optical & scientific equipment posted positive growth during the month.

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

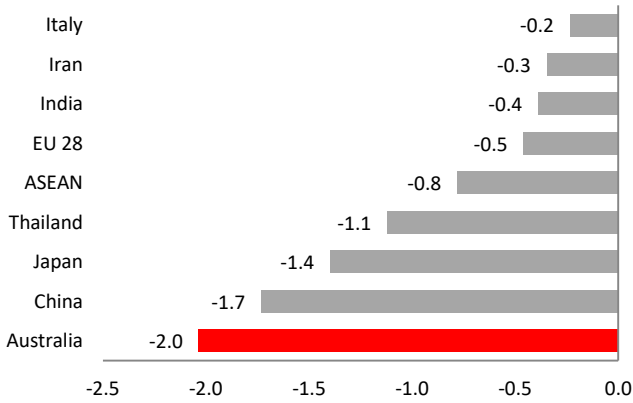
	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
E&E	3.9	0.5	(6.0)	4.5	(7.4)	(12.2)	(3.2)
Machinery, Equipment & Parts	0.8	14.9	(10.9)	6.0	7.6	6.9	3.6
Optical & Scientific Equipment	19.5	3.8	(4.9)	(2.3)	(12.3)	12.8	17.6
Petroleum Products	11.6	(14.9)	(2.4)	2.8	7.0	(13.4)	(28.4)
Crude Petroleum	(34.6)	(20.0)	31.7	(45.7)	(40.0)	(45.8)	(50.5)
LNG	26.3	(5.2)	5.5	31.3	(11.2)	(1.8)	(17.1)
Palm oil & palm oil based agriculture products	(16.7)	17.5	3.0	(11.8)	23.3	(9.4)	(9.5)

Source: CIEC, MIDFR

Cloudy outlook for 4Q19. In line with our expectation, exports growth for 3Q19 registered negative growth of -1.9%yoy (2Q19: -0.4%yoy). Looking ahead to the 4Q19, exports performance is expected to be quite vulnerable especially with the uncertainty over trade tensions. On the latest development of US-China trade deal, Trump hints on another year of trade tension with China, considering the idea of having a deal after the presidential election scheduled on November 3, 2020. This increase possibility of another round of tariffs on Chinese goods which due on December 15, 2019. Based on our regional partners' trade performance in Nov-19, South Korea's export contracted by -14.3%yoy, the sixth consecutive month of double digit fall while Vietnam's export continued to expand but at a moderating pace of 3.8%yoy, the lowest rate since Feb-19. In regards to manufacturing condition and activity, global manufacturing PMI jumped into expansionary mode after sixth straight months of contraction. Meanwhile, PMI of emerging economies stood at 51 points, unchanged from the previous two months.

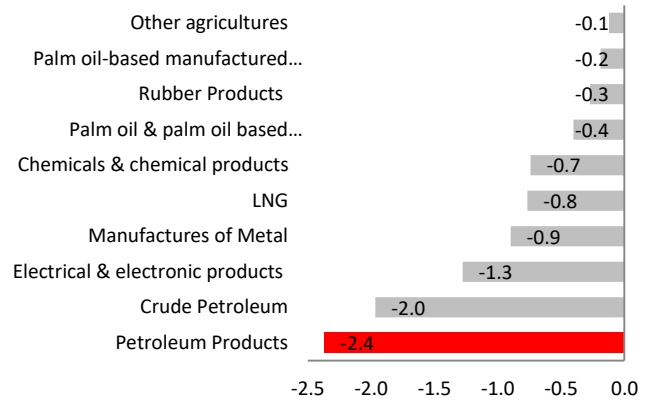
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Chart 1: % Contribution to Negative Export Growth by Destination



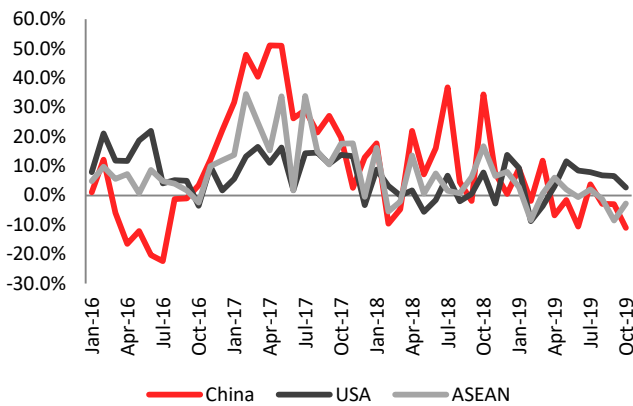
Source: CEIC; MIDFR

Chart 2: % Contribution to Negative Export Growth by Products



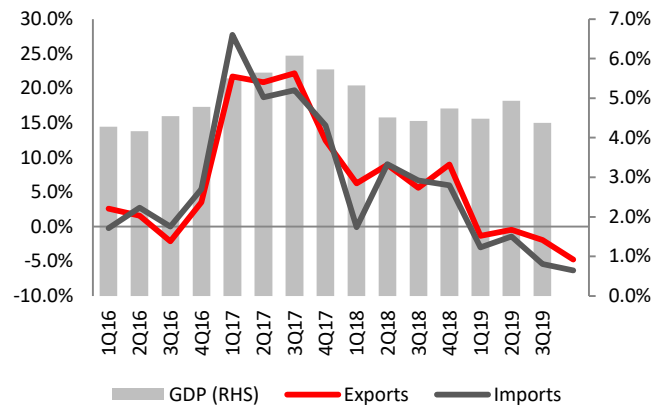
Source: CEIC; MIDFR

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



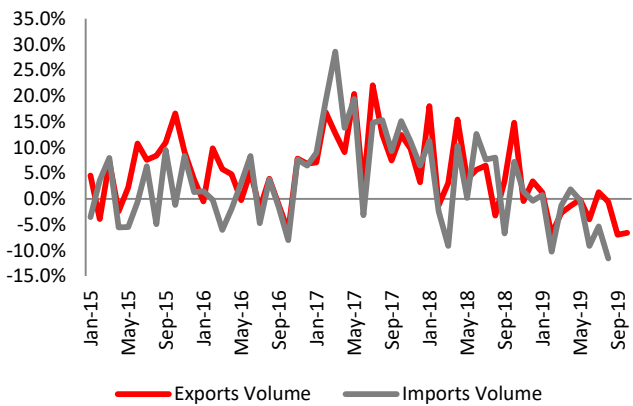
Source: CEIC; MIDFR

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



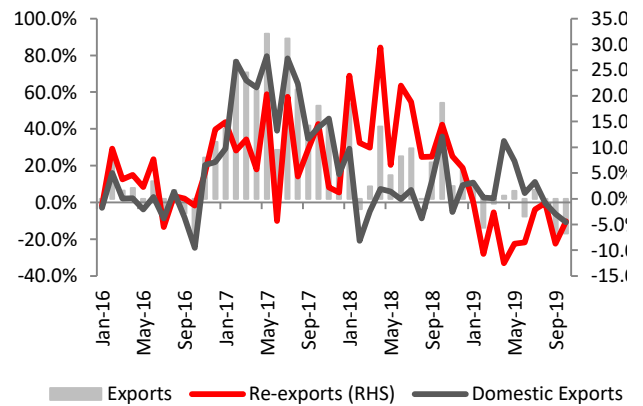
Source: CEIC; MIDFR

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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