

ECONOMIC REVIEW | February 2016 External Trade

Exports Jumped by 6.7% on Low Base Effect and Favorable Festival Timing

- Total trade increased in February by 4.2% to RM106.1 billion from RM101.8 billion in the previous year while exports rose by 6.7%yoy to RM56.7 billion. Imports eases to 1.6%yoy at RM49.4 billion, down from 3.3% in the previous month. Subsequently, trade balance widened to RM7.4 billion or 61.4% higher than last year's February.
- The better performance is owed to favorable timing and low base effect.
- We maintained our expectation that exports to expand by 3.9% in 2016, 2.2% and 5.9% in 1Q16' and 2Q16' respectively.

February's exports rose by 6.7% on low base effect and favourable Chinese New Year (CNY) timing.

Total trade increased in February by 4.2% to RM106.1 billion from RM101.8 billion in the previous year while exports rose by 6.7%yoy to RM56.7 billion. Imports eases to 1.6%yoy at RM49.4 billion, down from 3.3% in the previous month. As exports increased faster than imports, trade balance widened to RM7.4 billion or 61.4% higher than last year's February. We opine better trade performance owed highly to favourable festival timing and low base effect. Due to the seasonal fluctuations, February's export performance had mostly exceeded consensus expectation.

Exports performances are heading towards worst quarterly record since 2007. Exports rose 1.5% for the first two months of the year year-on-year basis. Should exports expand marginally in March, we are technically heading towards worst quarterly external trade performance since 2007 (1Q17': 1.5%)

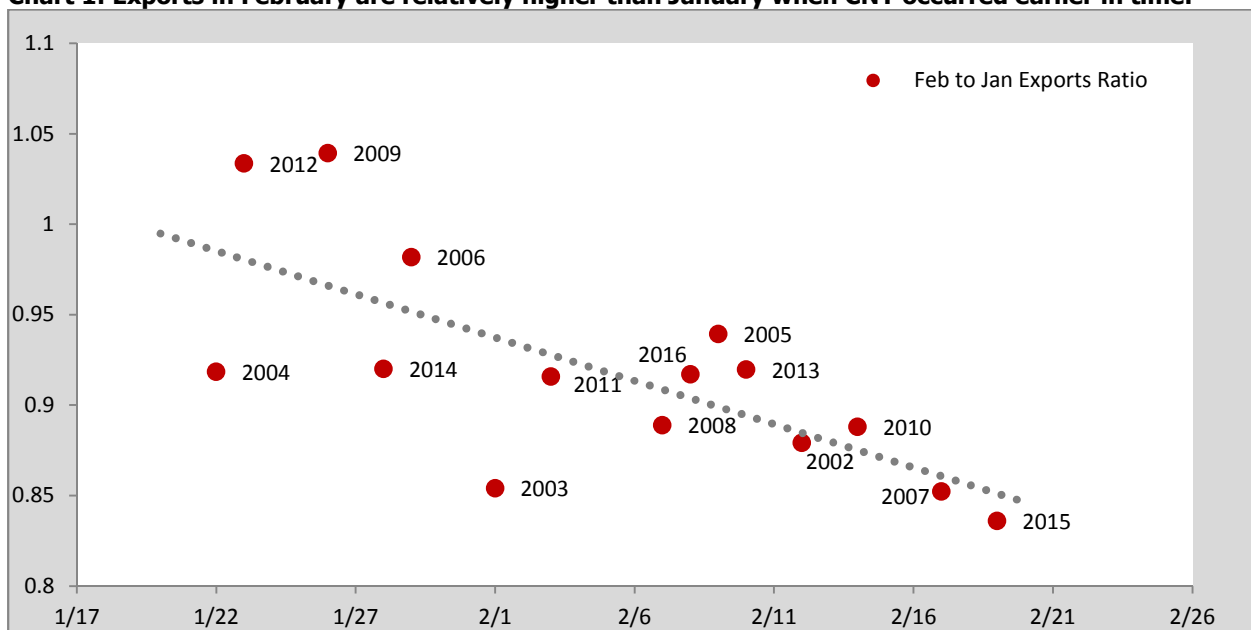
Table 1: Malaysia's External Trade Summary

| | Oct-15 | Nov-15 | Dec-15 | Jan-16 | Feb-16 | Jan-Feb 16 |
|----------------------------|--------|--------|--------|--------|--------|------------|
| Exports (RMb) | 75.8 | 67.6 | 68.3 | 61.9 | 56.7 | 118.6 |
| % YoY | 16.7 | 6.3 | 1.4 | -2.8 | 6.7 | 1.5 |
| %MoM | 8.1 | -10.8 | 1.0 | -9.4 | -8.3 | - |
| Imports (RMb) | 63.7 | 57.4 | 60.3 | 56.5 | 49.4 | 105.8 |
| % YoY | -0.4 | 9.1 | 3.2 | 3.3 | 1.6 | 2.5 |
| %MoM | 5.3 | -9.8 | 5.1 | -6.0 | -12.6 | - |
| Total Trade | 139.5 | 125 | 128.6 | 118.3 | 106.1 | 224.40 |
| % YoY | 8.2 | 7.6 | 2.2 | 0.1 | 4.2 | 2.0 |
| %MoM | 6.8 | -10.4 | 2.9 | -7.8 | -10.3 | - |
| Trade Balance (RMb) | 12.2 | 10.2 | 8.0 | 5.4 | 7.4 | 12.7 |
| Import Components | | | | | | |
| Consumption (RMb) | 5.8 | 5.8 | 6.3 | 5.8 | 4.6 | 10.4 |
| % YoY | 34.1 | 43.8 | 37.8 | 33.1 | 17.9 | 25.9 |
| Capital (RMb) | 9.2 | 8.2 | 8.1 | 7.1 | 7.0 | 14.1 |
| % YoY | 18.8 | 2.6 | -15.2 | -13.2 | 1.7 | -6.4 |
| Intermediate (RMb) | 37.1 | 31.8 | 35.4 | 34.7 | 27.4 | 62.2 |
| % YoY | -9.5 | 1.5 | 5.9 | 5.1 | -6.6 | -0.4 |

Source: Department of Statistics, Malaysia; MIDF Research

The Lunar New Year celebration timing caused aberration on February's trade performance. Clearly, the February's trade performance is often dictated by seasonal fluctuations due to the different timing of the CNY festival which either falls in late January, early or mid-February. For example, this year's festival fell on February 8, a week earlier compared to 2015 which began on February 19 and fell on 28 January in 2014. Thus, our following commentary will concentrate on the performance for the first two months of the year to eliminate the monthly aberration. **Chart 1** illustrates the effect of the different timing of the CNY festival to February's exports performance relative to January since 2002.

Chart 1: Exports in February are relatively higher than January when CNY occurred earlier in time.



Source: MIDF Research

Growth of exports to China and USA moderated, weighed by January's financial market volatility.

For the first two months of the year, exports to China moderated to 6.2%yoy compared to the 10.0%yoy average achieved in 2015. Similarly, exports to USA eased to 13.9%yoy from average of 21.0%yoy recorded last year. The volatility of the financial market in January especially in these two countries has caused negative sentiments in the global market. The prevailing off-putting sentiment in return seems to affect global trade performance as traders adopt wait and see attitude. However, as financial markets have largely recouped its January losses in March, traders and consumers could turn more positive. Improving sentiment could be the driving factor to higher exports performance in March.

Meanwhile, EU expanded marginally faster while ASEAN improved significantly.

Exports to ASEAN and EU grew positively for the first two months by 8.7%yoy and 7.0%yoy respectively (2015, EU: 8.4%yoy, ASEAN 2.8%yoy). EU countries in general were recovering at slower pace, however Germany and Netherlands were expanding healthily and in return saw higher trade with Malaysia. Meanwhile, the better performance of trade with ASEAN countries could signal a switch to regional sourcing due to depreciation against the US dollar while underlining improving local market conditions of these trading countries despite being hit by lower commodity prices. Most notably, exports to Philippines and Vietnam expanded double-digit by 24.5% and 16.3% respectively.

Exports of machinery, equipment and parts surpassed palm oil in February.

Exports of machinery, equipment and parts grew by 30.2% in February to RM2.9 billion, marginally surpassing that of palm oil to be the new number five most exported product. Exports of machinery, equipment and parts have been increasingly important and expanding at double-digit since 2014 (2014: 10.8%, 2015: 20.5%). In 2015, sub-item machinery for specialised industries grew the most by 35.1%yoy while other sub-items increased significantly in double digit except for metal working based machinery which declined by 7.8%yoy.

Table 2: Malaysia's Exports (%YoY)

| | 2015 | Nov-15 | Dec-15 | Jan-16 | Feb-16 | Jan-Feb 16 |
|--|--------|--------|--------|--------|--------|------------|
| Total Exports (RMb) | 780.0 | 67.6 | 68.3 | 61.9 | 56.7 | 118.6 |
| Exports by Key Country / Region | | | | | | |
| China | 10.0 | 14.2 | (5.0) | 1.0 | 12.0 | 6.2 |
| Hong Kong | (0.5) | (3.0) | 6.5 | (10.7) | 14.0 | (0.3) |
| USA | 14.4 | 9.2 | 15.6 | 7.9 | 21.0 | 13.9 |
| Japan | (10.7) | (17.4) | (6.4) | (26.0) | (20.6) | (23.4) |
| India | (0.7) | 5.7 | (8.5) | 10.5 | (5.4) | 2.7 |
| Australia | (14.8) | (9.4) | (1.1) | (17.3) | (6.8) | (12.5) |
| EU | 8.4 | 5.9 | 5.8 | 6.4 | 11.3 | 8.7 |
| ASEAN | 2.8 | 6.2 | 7.1 | 4.8 | 9.7 | 7.0 |
| Selected ASEAN | | | | | | |
| Singapore | (0.2) | 2.3 | 1.1 | 3.5 | 1.5 | 2.6 |
| Thailand | 10.5 | 9.5 | 14.5 | 6.0 | 8.0 | 6.9 |
| Indonesia | (8.4) | (6.5) | 12.8 | (5.2) | 26.3 | 7.4 |
| Philippines | 9.4 | 40.3 | 13.8 | 19.1 | 30.6 | 24.5 |
| Vietnam | 21.3 | 5.6 | 11.2 | 5.4 | 29.8 | 16.3 |

Source: Department of Statistics, Malaysia; MIDF Research

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

| | 2015 | Nov-15 | Dec-15 | Jan-16 | Feb-16 | Jan-Feb 16 |
|-------------------------------|--------|--------|--------|--------|--------|------------|
| E&E | 8.5 | 0.6 | 7.3 | 2.6 | 8.9 | 5.5 |
| Chemicals & Chemical Products | 7.2 | 24.7 | 3.6 | 3.4 | 11.7 | 7.4 |
| Crude Petroleum | (20.3) | (2.6) | (19.6) | (38.2) | (14.1) | (28.5) |
| LNG | (26.2) | (20.5) | (6.1) | (48.2) | (34.0) | (41.9) |
| Machinery, Equipment & Parts | 20.5 | 17.4 | 26.1 | 21.9 | 30.2 | 25.7 |
| Palm Oil | (5.5) | 7.2 | (3.5) | 9.2 | 6.6 | 8.0 |
| Petroleum Products | (22.5) | 24.7 | (39.2) | (15.6) | (18.4) | (17.1) |

Source: Department of Statistics, Malaysia; MIDF Research

Imports of intermediate goods fell marginally by 0.4 percent in January-February. Intermediate goods imports increased by 0.4%yoy in January-February, while consumption goods were expanding by 25.9 percent in the same period. A positive growth of imports of intermediate goods is often indication of better industrial production in the coming quarters and vice-versa.

We maintained our exports forecast of 3.9% for 2016, 2.2% and 5.9% in 1Q16' and 2Q16' respectively. We reiterate our expectation for the exports performance for 2016 at 3.90%. Admittedly, the downside risk remains elevated to the global trade thus there exists a possibility for downward revisions in future.



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