

ECONOMIC REVIEW | July 2016 External Trade

Huge Demand Pullback from China Lend to July's Exports Woes

- Exports declined more than expected, the sharpest contraction in 14 months. Exports figure again surprised economists as it dived sharply in July, plunging by 5.3%yoy against a median expansion expectation surveyed by Bloomberg of 3.4%yoy. We have earlier forecast a decline of 2.1% as we see global demand remain weak and June's good figure would not have the momentum to hold.
- E&E exports fell for the first time in 13 months amid huge pullback from China's demand. E&E exports fell by 6.0%yoy after recording strong gain in June by 4.9%, largely due to huge demand drawbacks from China which plummeted by 25.4%yoy. The fall contributed nearly 80% of the overall decline in total E&E as China is the 3rd biggest destination for such exports.
- We have anticipated that last month's good figure lacks the momentum to sustain as global demand remains weak thus we maintain our expectation of a slight contraction of exports for 2016 by 0.5%. While the BNM did not conduct an interest rate cut today, we believe another 25bps is in the offing in November to support the local economy.

Exports declined more than expected, the sharpest contraction in 14 months. Exports figure again surprised economists as it dived sharply in July, plunging by 5.3%yoy against a median expansion expectation surveyed by Bloomberg of 3.4%yoy. We have earlier forecast a decline of 2.1% as we see global demand remain weak and June's good figure would not have the momentum to hold. On seasonally adjusted basis, exports declined 9.9%mom, almost erasing the 10.9%mom gain in June. Year-to-date, exports growth narrowed to 0.3% from 1.2% last month. Imports contracted during the month but by lesser margin at 4.8%yoy amid broad-based decline in all categories except for capital imports which surged by 46.6% - the biggest jump since May 2012.

Table 1: Malaysia's External Trade Summary

| | Mar-16 | Apr-16 | May-16 | Jun-16 | Jul-16 | YTD |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Exports (RMb) | 66.9 | 61.3 | 59.9 | 66.4 | 59.9 | 432.7 |
| % YoY | 0.2 | 1.6 | (0.9) | 3.4 | (5.3) | 0.3 |
| %MoM | 17.4 | (7.9) | (2.3) | 10.9 | (9.9) | - |
| Imports (RMb) | 55.4 | 52.3 | 56.7 | 60.9 | 57.9 | 389.0 |
| % YoY | (5.5) | (2.3) | 3.1 | 8.3 | (4.8) | 0.4 |
| %MoM | 12.2 | (5.6) | 8.4 | 7.5 | (4.9) | - |
| Total Trade | 122.0 | 113.6 | 116.6 | 127.4 | 117.8 | 821.8 |
| % YoY | (2.5) | (0.2) | 1.0 | 5.7 | (5.1) | (0.8) |
| %MoM | 15.0 | (6.8) | 2.6 | 9.2 | (7.5) | - |
| Trade Balance (RMb) | 11.2 | 9.1 | 3.2 | 5.5 | 1.9 | 43.7 |
| Import Components | | | | | | |
| Intermediate (RMb) | 32.0 | 29.7 | 31.6 | 34.7 | 32.1 | 221.9 |
| % YoY | (8.3) | (6.8) | (0.2) | 5.7 | (11.8) | (3.3) |
| Capital (RMb) | 7.4 | 7.0 | 9.3 | 8.2 | 11.0 | 56.9 |
| % YoY | (22.2) | 0.0 | 17.2 | 12.8 | 46.6 | 4.8 |
| Consumption (RMb) | 5.3 | 5.6 | 6.1 | 5.9 | 4.9 | 38.4 |
| % YoY | 21.9 | 15.3 | 13.6 | 1.8 | (6.8) | 12.8 |

Source: Department of Statistics, Malaysia; MIDF Research

E&E exports fell for the first time in 13 months amid huge pullback from China's demand. E&E exports fell by 6.0%yoy after recording strong gain in June by 4.9%, largely due to huge demand drawbacks from China which plummeted by 25.4%yoy. The fall contributed nearly 80% of the overall decline in total E&E as China is the 3rd biggest destination for such exports. We were proven right to be cautious of the strong performance of the sector displayed last month as there are only few markets that are doing well i.e demand from the US, Singapore and Germany. In July, exports of E&E to the US expanded only by 1.2%yoy compared to 29.0% recorded in June while demand from Singapore and Germany continued to be robust at 10.0% and 12.1% respectively.

Exports to China plunged in July, the worse contraction since May 2009. Exports to China fell sharply by 22.3%yoy and this marked the fifth successive months of declining exports to the country. The second largest economy's worldwide demand for imports continue to wane in July, recording a -6.4% decline – the fourth straight months of contraction. We believe this highlights the rebalancing transition of Chinese economy which strived to shift its focus to a more service-led economy, reducing its dependence on the manufacturing sector. However, we have to reiterate that this would undeniably have a negative consequence on Malaysia as an exporting country of mainly intermediate items.

Table 2: Malaysia's Exports (%YoY)

| | 2015 | Apr-16 | May-16 | Jun-16 | Jul-16 | YTD |
|--|--------|--------|--------|--------|--------|--------|
| Total Exports (RMb) | 780.0 | 61.3 | 59.9 | 66.5 | 59.9 | 432.7 |
| Exports by Key Country / Region | | | | | | |
| China | 10.0 | (16.6) | (12.2) | (20.3) | (22.3) | (11.0) |
| USA | 14.4 | 11.7 | 18.7 | 22.0 | 4.1 | 13.6 |
| Hong Kong | (0.5) | 8.5 | (2.3) | 2.5 | (6.2) | (1.0) |
| Japan | (10.7) | (18.7) | (7.3) | 2.4 | (14.5) | (15.5) |
| India | (0.7) | 7.6 | 2.4 | (10.9) | (22.4) | (3.0) |
| Australia | (14.8) | (5.3) | (8.4) | 22.7 | (16.8) | (3.9) |
| EU | 8.4 | (5.3) | 0.9 | 4.1 | (2.0) | 3.0 |
| ASEAN | 2.8 | 7.2 | 0.5 | 8.5 | 4.7 | 5.8 |
| Selected ASEAN | | | | | | |
| Singapore | (0.2) | 15.4 | (4.1) | 12.7 | 5.9 | 5.3 |
| Thailand | 10.5 | (12.4) | (5.9) | (1.4) | 11.1 | 1.1 |
| Indonesia | (8.4) | (10.1) | (5.7) | (27.2) | (11.2) | (7.7) |
| Vietnam | 21.3 | 44.7 | 52.6 | 76.6 | 24.7 | 40.1 |
| Philippines | 9.4 | 14.4 | 6.8 | 7.5 | (14.2) | 8.6 |

Source: Department of Statistics, Malaysia; MIDF Research


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

| | 2015 | Apr-16 | May-16 | Jun-16 | Jul-16 | YTD |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| E&E | 8.5 | 2.1 | 3.2 | 4.9 | (6.0) | 2.1 |
| Chemicals & Chemical Products | 7.2 | 2.5 | 11.8 | 7.1 | 0.0 | 5.6 |
| Petroleum Products | (22.5) | 34.4 | (13.8) | 14.5 | (7.4) | (1.7) |
| Machinery, Equipment & Parts | 20.5 | 17.2 | 7.3 | 6.9 | (2.0) | 13.5 |
| Palm Oil | (5.5) | 9.4 | (5.0) | (20.3) | (5.4) | (1.3) |
| LNG | (26.2) | (32.4) | (29.3) | (29.2) | (25.0) | (36.9) |
| Crude Petroleum | (20.3) | (25.8) | (40.3) | (7.3) | 8.7 | (19.6) |

Source: Department of Statistics, Malaysia; MIDF Research

ASEAN market lends support to the exports figure – led by Vietnam. Vietnam maintains its position as the fastest growing market for Malaysia in the region. Exports to the country again grew by double-digit at 24.7%yoy, bringing YTD gains by 40.1% and could usurp Indonesia ranking as No.8 in the next few months. Surge in petroleum products demand were the major factor of exports to the country and Vietnam is already Malaysia's third biggest customer for the item behind China and Singapore. The latter meanwhile saw its demand shrank further in July by 11.2%yoy. We note that exports to Singapore have continued to expand in July, gaining by 5.9% during the month despite moderating from June's figure of 12.7%. Exports to Thailand rebounded remarkably, expanding by 11.1%yoy after recording 3 months of straight contraction. Philippines made a surprise by

Imports of consumption goods turned negative in July, declining by 6.8%. Consumption goods imports decline for the first time in 19 months by 6.8%yoy after demand sharply deteriorated on month-on-month basis by 17.2%. Recall that demand has already softened last month, declining 3.7%mom thus we highlighted our concern as this could mean domestic demand is fading. On the other hand, the rebound in intermediate inputs imports in June proves to be transient as demand fell again in July by 11.8%yoy.

The grim exports figure means it is a live possibility of another of OPR cut in November. We have anticipated that last month's good figure lacks the momentum to sustain as global demand remains weak thus we maintain our expectation of a slight contraction of exports for 2016 by 0.5%. While BNM did not conduct an interest rate cut today, we believe another 25bps is in the offing in November to support the local economy amid weak global trade. 

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