

ECONOMIC REVIEW | May 2019 External Trade**Exports Growth at 4-Month High Buoyed By Higher Sales in Manufacturing and Agriculture Products**

- *Continuous positive momentum in exports. Exports growth doubled to 2.5%yoy in May-19 from 1.1%yoy in Apr-19, continuing the gradual recovery since Mar-19. In contrast, imports expanded at a softer pace of 1.4%yoy (Apr-19: 4.4%yoy). Hence, trade surplus widened to RM 9.1b (May-18: RM 8.1b) but narrowed compared to last month. Sector wise, manufacturing exports (84.2% share) advanced at a higher rate of 3.1%yoy (Apr-19: 2.7%yoy).*
- *Domestic exports at high single digit growth. Domestic exports expanded by 8.8%yoy however moderating from a double digit growth of 11.9%yoy in the prior month. Nevertheless, the sixth consecutive months of positive growth indicates a good momentum for this year and provides brighter outlook for GDP growth in 2Q19 as domestic exports involve high value-added activities.*
- *We reiterate our forecast exports growth to average 3.6% in 2019. Due to higher base effects and continuous signs of faltering trade globally derive from rising protectionism and a loss of momentum in some major economies, especially in Europe, we foresee exports growth to moderate further at 3.6% this year (2018: 6.7%), unchanged from our earlier forecast. The moderating pace is consistent with global commodity prices, expectation of a slight slowdown in overall business performance on top of the uncertainty over trade conflicts.*

Continuous positive momentum in exports. Exports growth doubled to 2.5%yoy in May-19 from 1.1%yoy in Apr-19, continuing the gradual recovery since Mar-19. In contrast, imports expanded at a softer pace of 1.4%yoy (Apr-19: 4.4%yoy). Hence, trade surplus widened to RM 9.1b (May-18: RM 8.1b) but narrowed compared to last month. Sector wise, manufacturing exports (84.2% share) advanced at a higher rate of 3.1%yoy (Apr-19: 2.7%yoy). Furthermore, agriculture exports (7.5% share) rebounded sharply to a double digit positive growth of 15.3%yoy (Apr-19: -9.3%yoy). Meanwhile, mining goods exports (7.5% share) growth continued to be in negative territory of -10.9%yoy).

Capital goods purchases fell again. Imports of capital goods contracted by -5.9%yoy after recorded a positive growth in the previous month. In a similar note, both imports growth of intermediate and consumption goods moderated to 6.4%yoy and 10.9%yoy respectively. This could be partly due to Ringgit depreciation which we have notified in our previous month's trade report. Ringgit depreciates abruptly following the rate cut in early May-19 and hit RM4.19 against the USD by the end of the month. This could have made imports more expensive for some local buyers who did not manage to hedge the risk. In line, PMI edged down to 48.8 in May-19. The latest data in June-19 showed it went down even further to 47.8.

Table 1: Malaysia's External Trade Summary

	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Exports (RMb)	84.8	83.5	85.4	66.6	84.0	85.2	84.1
% YoY	1.6	5.1	3.1	(5.3)	(0.5)	1.1	2.5
% MoM	(12.0)	(1.6)	2.2	(22.0)	26.2	1.4	(1.2)
Imports (RMb)	77.2	72.9	73.9	55.5	69.7	74.3	75.1
% YoY	5.0	1.0	1.0	(9.4)	(0.1)	4.4	1.4
% MoM	(3.5)	(5.4)	1.4	(24.8)	25.4	6.7	1.0
Total Trade	162.0	156.4	159.3	122.1	153.7	159.5	159.2
% YoY	3.2	3.2	2.1	(7.2)	(0.3)	2.6	2.0
% MoM	(8.2)	(3.4)	1.9	(23.3)	25.9	3.8	(0.2)
Trade Balance (RMb)	7.6	10.7	11.5	11.1	14.4	10.9	9.1
Import Components							
Intermediate (RMb)	40.2	39.4	37.5	31.9	38.0	40.7	42.6
% YoY	(0.3)	2.8	(0.8)	(2.8)	3.2	20.3	6.4
Capital (RMb)	10.5	9.5	9.0	6.6	8.4	8.9	9.3
% YoY	0.4	(21.8)	(3.3)	(14.9)	(11.8)	5.7	(5.9)
Consumption (RMb)	6.6	6.6	6.5	4.6	5.9	6.6	6.6
% YoY	0.9	5.7	3.3	(11.6)	10.6	18.9	10.9

Note: MoM is non-seasonally adjusted figure

Source: CIEC, MIDFR

Domestic exports at high single digit growth. Domestic exports expanded by 8.8%yoy however moderating from a double digit growth of 11.9%yoy in the prior month. Nevertheless, the sixth consecutive months of positive growth indicates a good momentum for this year and provides brighter outlook for GDP growth in 2Q19 as domestic exports involve high value-added activities. In contrast, re-exports which have low domestic value-added contracted for the fourth consecutive month at -23.1%yoy. Meanwhile, the ratio of re-exports to total exports recorded lower at 14.8% which demonstrates that for every RM1 value of exports, approximately 15sen of it is re-exports. Re-exports activities are expected to remain weak throughout the year mainly due to higher base effects besides external headwinds.

Exports to the US grew higher, to China recover marginally. Malaysia's exports to the US (9.3% share) expanded by a double digit growth of 11.7%yoy after a rebound of 3.1%yoy in the preceding month. Meanwhile, exports to China (13.4% share) continued to register negative growth but at a slower rate of -2.2%yoy (Apr-19: -6.9%yoy). By region, exports to ASEAN (29.4% share) grew 4.7%yoy but eased from 7.2%yoy growth in Apr-19. Among ASEAN countries, sales increased to all key countries except Indonesia. In particular, shipments to Philippines soared by 39.9%yoy, the highest growth since Dec-17.

Table 2: Malaysia's Exports (YoY%)

	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Total Exports (RMb)	84.8	83.5	85.4	66.6	84.0	85.2	84.1
Re-exports (RMb)	15.9	14.4	17.5	10.5	15.2	13.5	12.5
Domestic Exports (RMb)	68.9	69.2	67.9	56.2	68.8	71.7	71.6
Exports by Key Country / Region							
China	3.9	(0.5)	9.1	(1.6)	11.8	(6.9)	(2.2)
USA	(3.6)	13.5	9.4	(8.9)	(3.6)	3.1	11.7
Japan	(8.9)	(6.4)	(5.0)	(2.9)	(11.3)	7.7	7.5
India	(0.5)	20.0	(0.6)	(4.9)	(3.0)	6.7	43.1
Hong Kong	17.4	25.6	(7.3)	(13.8)	(11.5)	0.1	3.4
Australia	(14.1)	21.7	(10.3)	(0.4)	2.9	4.2	(13.0)
EU	(7.7)	(4.9)	4.3	3.7	(5.0)	(8.6)	(6.3)
ASEAN	6.4	7.3	3.4	(7.8)	1.3	7.2	4.7
Selected ASEAN							
Singapore	7.1	12.2	5.4	(2.9)	(6.9)	11.3	2.6
Thailand	3.7	9.7	17.1	(4.1)	15.6	1.2	7.3
Indonesia	(13.2)	(9.3)	(13.8)	(24.7)	(9.4)	(3.0)	(12.4)
Vietnam	39.0	5.1	(8.6)	(20.5)	16.7	16.9	5.8
Philippines	(0.7)	8.0	(7.6)	3.4	0.7	(0.7)	39.9

Source: CIEC, MIDFR

Sales of palm oil & its products skyrocketed. Exports of palm oil & its products (5.1% share) climb sharply by posting 17.5%yoy growth after 16 months been in negative territory. This was mainly due to higher sales to India (Malaysia's biggest palm oil buyer) which rose rapidly by 305.8%yoy despite the USD 5 per tonne increase in base import price of crude palm oil. Malaysia will continue to benefit from the preferential tariff agreement with India compared to other ASEAN exporting countries include Indonesia on top of the MOU signed between Malaysia and China to buy additional 1.9 million tonne of palm oil in the span of 5 years (2019-2023). Meanwhile, exports of E&E which account for the largest share of total exports expanded by tepid 0.5%yoy. Besides that, exports of crude petroleum, petroleum products and LNG contracted.

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

	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
E&E	(1.7)	14.2	8.2	4.9	(1.9)	3.9	0.5
Machinery, Equipment & Parts	(0.4)	7.4	(1.5)	(6.6)	(9.0)	0.8	14.9
Optical & Scientific Equipment	10.5	14.6	7.1	(17.4)	19.2	19.5	3.8
Petroleum Products	41.2	(18.4)	(24.1)	(32.6)	26.2	11.6	(14.9)
Crude Petroleum	17.7	17.5	(1.1)	(21.8)	(33.5)	(34.6)	(20.0)
LNG	26.4	(2.7)	37.5	8.6	17.2	26.3	(5.2)
Palm oil & palm oil based agriculture products	(21.1)	(27.2)	(19.5)	(16.9)	(13.7)	(16.7)	17.5

Source: CIEC, MIDFR

Better outlook for 2Q19. Exports growth for 1Q19 averaged at -0.9%yoy. However, looking ahead to the 2Q19, we expect exports to register positive growth. Exports growth for the first two months of 2Q19 averaged at 1.8%yoy. Steady economic performances in the two largest economies in the world on top of Ringgit depreciation are expected to provide support to Malaysia's export performance. Based on our regional partners' trade performance in June-19, Vietnam's exports grew 8.5%yoy while South Korea's shrunk -13.5%yoy. This could provide cues on what to expect from Malaysia's exports in upcoming month. In regards to manufacturing condition and activity, both global and emerging economies manufacturing PMI fell below 50 points. However, we believe it will return to expansionary mode in upcoming months as US-China trade crusade has been put on hold.


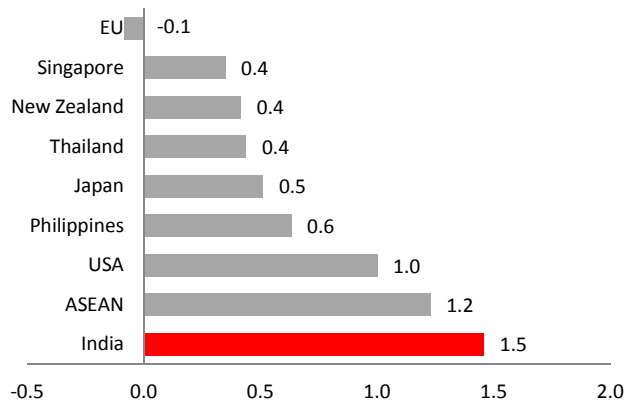
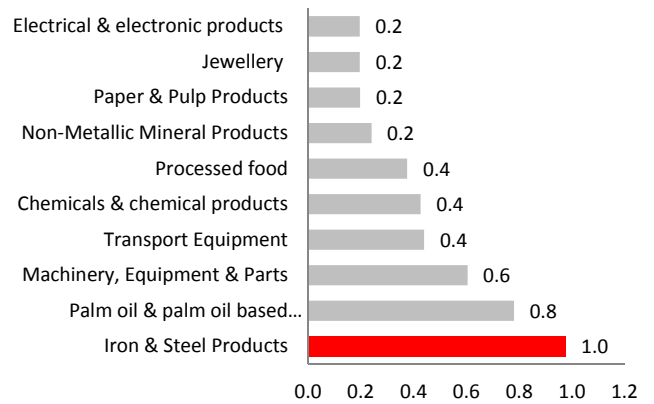
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Chart 1: % Contribution to Exports Growth by Destination



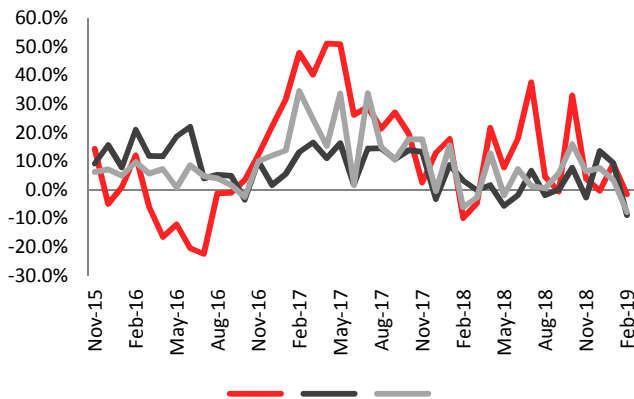
Source: CEIC; MIDFR

Chart 2: % Contribution to Exports Growth by Products



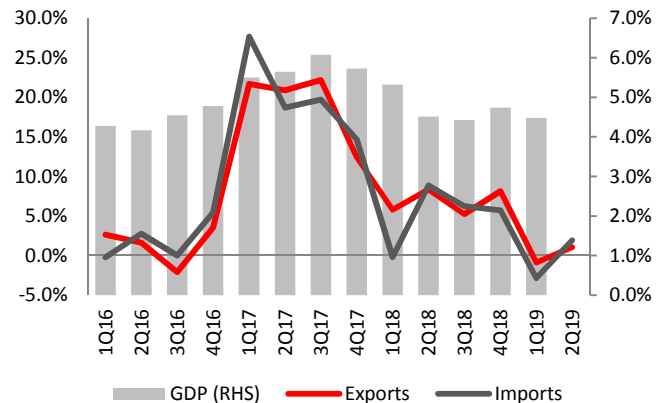
Source: CEIC; MIDFR

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



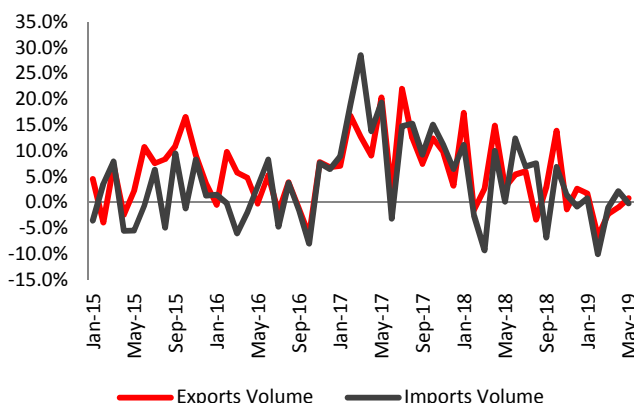
Source: CEIC; MIDFR

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



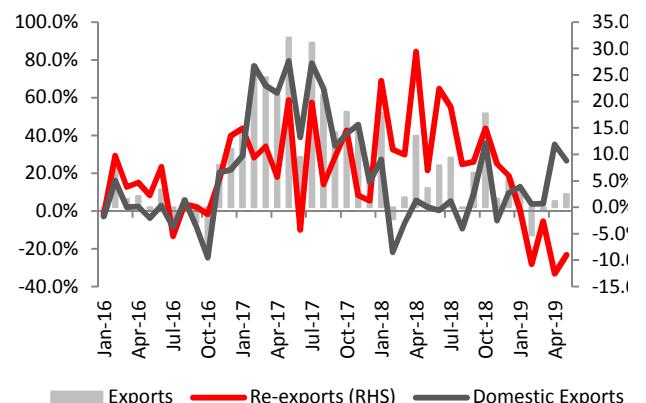
Source: CEIC; MIDFR

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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