

## ECONOMIC REVIEW | July 2015 External Trade

### Exports Continue to Grow Amid Global Uncertainty

- Exports continue to grow by 3.5%yoy, higher than the July 2014 growth of 0.8%. The higher export despite challenging global condition is reflecting Malaysia's economic resilience towards global volatility.
- Trade balance moderated to RM2.4 billion in July due to higher imports, particularly due to imports of petroleum products and crude petroleum, down from the previous 5-months high of RM8.0 billion in June. However lower trade balance in July could be seasonal, as the same pattern could be observed in past years.
- Despite economic slowdown in China, exports to China continue to become the main contributor of exports growth in July. Exports to China improved by RM2.3 billion (32.7%) in July on YoY basis, followed by the US with RM1.0 billion (20.2%).
- Overall, exports contracted by 2.2% from Jan-Jul 2015 relative to the same period last year, while imports fell by 1.4%. Both the contraction in exports and imports are mainly due to the fall in commodity prices.
- We revise our exports forecast upward for year 2015 to 0.0-1.0%.

**Exports grew by 3.5%yoy in July 2015 against 0.8% in 2014.** The continued growth in Malaysia exports in July after a positive surprise in June is showing that Malaysia's trade is recovering from the Feb-May trade slowdown. Despite the fact that there are still a lot of uncertainties in the global market, Malaysia's exports proved to remain resilient towards global uncertainty by being the fastest country among ASEAN 5 to rebound its exports figure positively. Currently the other ASEAN 5 is still having negative exports growth, except for Thailand which rebounded marginally to 0.1% in July 2015.

**Year-to-date, exports contracted by 2.2% relative to last year.** Despite the contraction in year-to-date figure, most of the reductions are mainly due to the falling commodity prices. By taking out the 5 commodities i.e. oil, LNG, palm oil, rubber and tin, our exports actually grew by 6.4% year-to-date and 13.6% in July on YoY basis. The growth is sizable considering there is a global economic slowdown coming from China and other emerging markets.

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

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Jan-Jul 15
<b>Exports (RMb)</b>	63.6	53.2	66.5	60.4	60.5	64.3	63.2	431.6
% YoY	(0.6)	(9.7)	2.3	(8.8)	(6.7)	5.0	3.5	(2.2)
%MoM	(6.0)	(16.4)	25.0	(9.2)	0.1	6.3	(1.6)	-
<b>Imports (RMb)</b>	54.6	48.6	58.6	53.5	55.0	56.3	60.9	387.5
% YoY	(5.3)	0.3	5.8	(7.0)	(7.2)	(1.5)	5.9	(1.4)
% MoM	(6.5)	(11.0)	20.6	(8.8)	2.7	2.4	8.1	-
<b>Total Trade</b>	118.2	101.8	125.1	113.9	115.4	120.5	124.1	819.1
% YoY	(2.7)	(5.2)	3.9	(8.0)	(6.9)	1.9	4.6	(1.8)
% MoM	(6.3)	(13.9)	22.9	(9.0)	1.3	4.5	2.9	-
<b>Trade Balance (RMb)</b>	9.0	4.6	7.8	6.9	5.5	8.0	2.4	44.1
<b>Import Components</b>								
<b>Consumption (RMb)</b>	4.4	3.9	4.4	4.9	5.4	5.8	5.3	34.0
% YoY	2.0	13.2	0.4	12.4	27.2	36.8	25.7	16.7
<b>Capital (RMb)</b>	8.1	6.9	9.5	7.0	8.0	7.3	7.5	54.3
% YoY	2.1	6.6	15.6	(16.0)	(5.0)	(16.5)	3.2	-2.0
<b>Intermediate (RMb)</b>	33.1	29.3	34.5	31.8	31.7	32.8	36.7	229.9
% YoY	(3.0)	5.9	6.7	(3.0)	(8.4)	(2.4)	5.7	0.1

Source: Department of Statistics, Malaysia; MIDF Research

**Exports to China remained strong with 32.7%yoy growth.** It seems like June's higher exports growth led by China was not a fluke as exports to the country persist at RM9.4 billion in July 2015 compared to RM7.1 billion in 2014. The sectors which experienced the highest growth YoY on exports to China are E&E products (+RM0.81 bn, +23.7%), petroleum products (+RM0.65 bn, +148%) and metalliferous ores and metal scrap (RM0.42 bn, +326.5%). Other than commodity-related sectors, all of the sectors are experiencing positive exports growth to China except for beverages and tobacco, although the figure is negligible.

**US continue to become the main contributor of exports growth for 2015.** Exports to the US grew by 10.7%ytd on YoY basis from the same period last year. The strengthening of US economy has become the main support of our exports this year, amid the slowdown in China and emerging markets including ASEAN countries. We are expecting that Malaysia's exports to the US will continue to grow positively in the coming months particularly as Malaysia benefits from the weaker Ringgit against the USD. Contrary to China, even commodity-related exports are experiencing positive growth to the US in July on YoY basis. The most significant increase is experienced by the E&E sector with RM0.58 billion (19.7%) increase to RM3.5 billion.

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

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
<b>Total Exports (RMb)</b>	63.6	53.2	66.5	60.4	60.5	64.3	63.2
<b>Exports by Key Country / Region</b>							
China	(21.9)	(21.3)	6.6	1.9	5.7	49.3	32.7
Hong Kong	0.1	(5.1)	25.6	(20.2)	(6.2)	4.3	(5.5)
USA	18.1	8.2	17.8	7.6	(4.8)	9.5	20.2
Japan	(0.9)	(6.2)	(0.3)	(24.9)	(30.4)	(25.1)	4.4
India	14.7	(13.8)	43.7	(16.1)	(16.1)	11.3	1.7
Australia	(14.5)	(10.9)	(23.2)	(6.4)	(3.9)	(29.9)	(7.7)
EU	3.7	(3.2)	4.5	3.1	(4.0)	15.6	3.9
ASEAN	1.8	(8.2)	(1.6)	(8.9)	(0.7)	6.4	(2.6)
<b>Selected ASEAN</b>							
Singapore	0.9	(4.9)	(3.3)	(14.9)	(1.0)	3.8	(12.5)
Thailand	12.5	0.1	0.5	(0.2)	17.3	11.9	9.5
Indonesia	(19.4)	(28.7)	(17.8)	1.5	(16.5)	(7.6)	13.5
Philippines	33.3	(15.7)	23.4	(31.1)	(14.6)	10.6	(7.7)
Vietnam	26.0	0.4	20.2	17.2	36.8	33.1	28.6

Source: Department of Statistics, Malaysia; MIDF Research

**Japan's LNG export is back.** Due to the nature of the LNG market which is usually in the forms of long term-contracts with restricted shipping terms, it took some time for Japan to increase its imports of LNG amid significantly lower price since April this year. Although the LNG exports to Japan still experienced a marginal decline of 4.7% in July on YoY basis, it rebounded considerably by 61.6%mom. The higher value of LNG exports to Japan in July lead to the first positive YoY exports growth to Japan with 4.4% growth.


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

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
E&E	7.6	(0.3)	14.6	(3.0)	(0.6)	13.5	12.1
Chemicals & Chemical Products	8.0	(6.2)	6.5	2.4	(1.2)	15.1	19.9
Crude Petroleum	1.3	(20.9)	(28.3)	(44.3)	(21.9)	(34.1)	(25.4)
LNG	0.3	(5.5)	15.5	(40.1)	(47.9)	(45.2)	(23.6)
Palm Oil	(11.3)	(22.6)	(7.0)	(19.8)	(5.0)	21.6	0.2
Petroleum Products	(42.2)	(27.3)	(30.8)	(36.6)	(21.9)	(9.6)	(34.4)

Source: Department of Statistics, Malaysia; MIDF Research

**Increase in Petroleum imports induced smaller trade balance in July.** Imports of petroleum products increased by RM2.8 billion (59.5%) in July to RM7.4 billion on MoM basis while crude petroleum imports surged by RM0.9 billion (95.4%) to RM1.9 billion. The higher imports are perceived as strategical move by oil companies due to the expected gradual depreciation of Ringgit in the coming months. Despite that there is a possibility that the higher imports were caused by lower domestic production. The next trade data will confirm whether the hike was due to strategic reason or lower domestic production.

**Imports of consumption goods moderated at RM5.3 billion in July.** After three consecutive months of reaching record high level, imports of consumption goods moderated slightly to RM5.3 billion in July relative to RM5.8 billion in June. Despite the moderation, we perceive that the July level is still considerably high which increased by 25.7%yoy. The increase in consumption goods from April-June are mostly driven by semi-durable goods, which has doubled the value compared to the March figure by approximately RM0.85 billion to RM1.5 billion. As long as there is a considerable growth in consumption imports, expect the private consumption to remain as the main driver of Malaysia economic growth in the third quarter.

**We revise our exports growth forecast to 0.0-1.0% for year 2015.** The higher forecast for our exports figure are mostly contributed by the significant depreciation of Ringgit in August and on the expectation that it will gradually depreciate further in the coming months. The weaker Ringgit will boost our exports value and helped to cushion the impact of low commodity prices. The forecast is also based on the expectation that the current momentum in global trade activity will continue and there will not be an unanticipated slowdown in the second half of 2015. 

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

## **DISCLOSURES AND DISCLAIMER**

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.