

MALAYSIA

October External Trade – stronger than expected decline in exports pushed trade surplus lower

- October's trade balance narrowed significantly led by surge in imports on the back of decline in exports.
- Exports decline was mainly led by a huge drop of 19.1% in exports of petroleum products, and 4.5% in exports of E&E. Year-on-year, exports of LNG and crude petroleum were up but on a monthly basis, crude petroleum declined due to falling oil prices.
- Lower trade surplus will put pressure on the Ringgit although the impact on exports may not be as significant.
- The pick-up in imports for intermediate goods, however, should be viewed positively as it indicates an imminent pick up in manufacturing production and in turn, exports. However, with Capital Goods imports continuing to decline, that signal a tapering off in Fixed Investments going forward.

Exports declined significantly but imports surged October's export declined for first time since July 2013 by 3.1% yoy (Sep 14: +2.0% yoy; Consensus: -0.3% yoy) while imports growth surged to 9.1% yoy (Sep 14: +1.1% yoy; Consensus: -0.4% yoy), resulting in a significantly lower trade surplus of RM1.2b (Sep 14: RM9.3b; Consensus: RM8.8b). Although the decline in exports was due to the high base effect where exports in October 2013 was at RM67.2b, the highest monthly export ever recorded, the yoy drop was too significant to be dismissed as it was broad-based. Imports for October were the highest recorded for this year at RM63.9b mainly led by Intermediate Goods (21.1%). In terms of monthly growth, exports decelerated to +0.9% mom (Sep 14: +1.0% MoM). At the same time imports rebounded to surged at +15.8% mom (Sep 14: -8.0% mom).

Trade for the first ten months performed better than the year before. Total trade for the period between January to October 2014 was up by +6.6% yoy (YTD 2013: +3.3% yoy) due exports growing at 7.3% yoy versus imports growth of +5.9% yoy which led to a trade surplus of RM62.8b (YTD 2013: RM51.6b). Growth in the first ten months was driven by export of manufactured goods which expanded by 7.6% yoy (contributed by higher exports of E&E products by 7.5% yoy) and exports of mining goods which rose 8.9% yoy.

Table 1: Malaysia-External Trade Summary

	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	YTD 2014	2013
Exports (RMb)	66.2	64.9	61.2	61.1	63.9	64.5	65.1	634.7	719.8
% YoY	18.7	16.3	7.9	0.6	1.6	2.0	(3.1)	7.3	2.4
% MoM	2.0	(2.0)	(5.7)	(0.2)	4.5	1.0	0.9		
Imports (RMb)	57.5	59.2	57.3	57.5	60.0	55.2	63.9	571.9	649.1
% YoY	5.0	11.9	9.2	(0.7)	7.6	1.1	9.1	5.9	7.0
% MoM	3.7	2.9	(3.3)	0.4	4.4	(8.0)	15.8		
Total Trade (RMb)	123.7	124.1	118.5	118.6	123.9	119.7	129.0	1,206.7	1368.9
% YoY	11.9	14.1	8.4	0.0	4.4	1.6	2.6	6.6	4.5
% MoM	2.8	0.3	(4.5)	0.1	4.5	(3.4)	7.7		
Trade Balance (RMb)	8.9	5.7	4.0	3.6	3.9	9.3	1.2	62.8	70.7
Import Components									
Consumption (RMb)	4.3	4.2	4.3	4.2	4.2	4.0	4.3	41.7	47.5
% YoY	8.9	4.9	7.6	(8.9)	8.5	(1.0)	5.9	6.7	8.7
Capital	8.3	8.4	8.8	7.3	8.6	6.9	7.8	78.6	98.8
% YoY	4.3	8.5	15.1	(18.7)	9.7	(19.4)	(1.5)	(2.7)	2.8
Intermediate	32.8	34.6	33.7	34.7	37.6	35.0	41.1	343.4	379.2
% YoY	(3.9)	10.4	2.7	2.8	19.8	11.2	21.1	7.6	4.3

Source: DOS, MIDFR

Exports for October led down by manufactured products, mainly petroleum products and E&E. October's manufacturing exports declined by 3.7% yoy led dragged down by further sharp decline in petroleum products of 11.8% yoy (Sep 14: -5.3% yoy) marking the third consecutive month of decline mainly on the sharp pullback in exports volume (-13.6%) and unit value (-6.3%). This was followed by exports of E&E products of 4.5% yoy (Sep 14: +5.5% yoy). Exports of agricultural goods decreased by -6.9% yoy to RM6 billion due to the decline in exports of crude natural rubber and palm oil on the back of lower prices and export volumes. Export of mining goods went up by 3.5% yoy due to better performance in exports of LNG at +9.7% yoy (Sep 14: +2.7% yoy), the third consecutive month of growth. Exports of crude petroleum rebounded to +2.5% yoy that was attributed to higher volumes. Nonetheless, on a month-on-month basis, exports of crude petroleum declined by 6.1% mom (Sep 14: 2.4% mom) on the back of falling oil prices.

Demand for Malaysia's goods continues to be uneven reflective of the uneven global economy. Exports to the major economies are still mixed, with **China's** appetite of Malaysian goods continues to contract for sixth time in a row at a larger pace of 17.9% yoy (Sep 14: -8.4% yoy). This is due mainly to lower exports of manufactures of metal, E&E and commodities primarily palm oil, crude natural rubber as well as crude petroleum. However, surprisingly, exports of petroleum products to China increased by RM196.3m. Exports to **Japan** decreased sharply by 4.7% yoy (Sep 14: -1.6% yoy), attributed mainly to lower exports of E&E products, petroleum products and LNG. However, exports of chemicals & chemical products, crude petroleum and palm oil recorded growth. Exports to the EU declined by 3.8% yoy (Sep 14: +2.2% yoy) the first decline since June 2013 due to lower exports of petroleum products by RM262.5m mainly to Italy and the Netherlands as well as due to a higher base recorded in October 2013 (Oct 13: RM6.7b). Despite the decrease in exports to the EU, exports of palm oil and E&E products rose by +26.3% yoy and +1.5% yoy, respectively. Exports to **the USA** registered a moderate growth of +7.5% yoy (Sep 14: +16.2% yoy). E&E products continue to be the main driver of exports at +10.2% yoy followed by Optical & Scientific Equipment at +17.4% yoy. Growth was dragged by mining goods by -91.1% yoy and petroleum products at -92.4% yoy.

Table 2: Malaysia-Exports (% YoY)

	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
Total Exports	58.9	65.0	66.2	64.8	61.2	61.1	63.9	64.5	65.1
Exports by Key Country/Region									
ASEAN	5.7	10.9	17.5	14.2	9.6	1.7	1.2	3.3	0.9
USA	8.4	5.2	17.1	13.8	9.5	4.5	6.3	16.2	7.5
EU	15.8	14.1	20.7	23.4	3.9	8.9	5.7	2.2	(3.8)
Japan	17.5	(0.9)	16.5	11.4	(2.6)	(22.1)	9.9	(1.6)	(4.7)
China	23.6	(1.8)	13.1	(0.4)	(1.9)	(14.4)	(21.8)	(8.4)	(17.9)
Hong Kong	41.9	15.5	58.5	40.3	27.0	18.0	14.9	4.2	(8.0)
Indonesia	(19.8)	9.2	11.7	28.2	4.7	(34.6)	(21.3)	17.0	(8.9)
Australia	13.1	46.0	28.0	58.8	11.1	16.7	7.5	10.8	(14.4)
India	18.9	(1.6)	4.8	41.5	13.9	36.2	63.1	56.2	41.5
Taiwan	46.2	41.6	44.6	24.7	70.7	23.0	(12.1)	(4.6)	24.7
Republic of Korea	(4.1)	10.1	26.8	4.6	10.6	(0.8)	9.1	(7.4)	11.7
Exports by Major Products									
E&E	18.1	6.2	22.0	12.4	5.5	(1.0)	3.9	5.5	(4.5)
Chemicals & Chemical Prod.	12.0	11.0	(8.5)	9.0	(6.3)	(7.0)	1.4	(7.0)	7.8
Crude Petroleum	(8.2)	(6.6)	37.1	73.4	24.5	26.2	21.4	(9.0)	2.5
LNG	18.8	3.2	31.8	17.3	11.2	(22.9)	1.9	2.7	9.7
Palm Oil	0.1	3.6	(4.0)	17.2	5.3	16.7	(0.8)	22.1	(0.4)
Petroleum Products	(6.5)	35.2	40.9	50	12.3	31.2	(24.7)	(5.3)	(11.8)

Source: DOS, MIDFR

ASEAN is still the top export destination but growth is moderating. Exports to ASEAN was up in October and accounts for 28.1% of total exports (Sep 14: 27.7%), followed by China at 11.2% (Sep 14: 12.4%) and Japan at 10.2% (Sep 14: 10.1%). Exports to ASEAN expanded moderately to +0.9% yoy (Sep 14: +3.3% yoy). Growth

was driven mainly by higher exports of petroleum products, chemicals & chemical products and crude petroleum. Exports to ASEAN moderate due to moderate exports growth to Singapore and the decline in exports to Indonesia drag by lower exports of petroleum products.

Table 3: Malaysia-Exports on selected ASEAN Countries

	Jul-14		Aug-14		Sep-14		Oct-14	
	RMb	% YoY	RMb	% YoY	RMb	% YoY	RMb	% YoY
Singapore	9.9	16.6	9.3	7.5	9.0	8.7	9.4	2.0
Thailand	2.9	(16.2)	3.6	4.8	3.2	(14.1)	3.5	0.9
Indonesia	2.1	(34.6)	2.5	(21.3)	3.0	17.0	2.7	(8.9)
Philippines	1.3	56.6	0.9	35.2	0.9	1.5	1.0	25.1
Vietnam	1.1	0.6	1.1	(3.0)	1.3	(11.8)	1.3	1.4

Source: DOS, MIDFR

Imports of intermediate goods surged higher led by Intermediate Goods. Imports were bolstered by strong growth in imports of intermediate and consumption goods, which accelerated faster to +21.1% yoy (Sep 14: 11.2% yoy) and +5.9% yoy (Sep 14: -1.0% yoy), respectively. The surge in Imports of Intermediate Goods should be viewed positively as that indicates an upturn in Manufacturing production and in turn exports. However, Capital goods continue to decline at by 2.7% yoy (Sep 14: -1.5% yoy), reflecting a tapering off in growth for Fixed Investments.


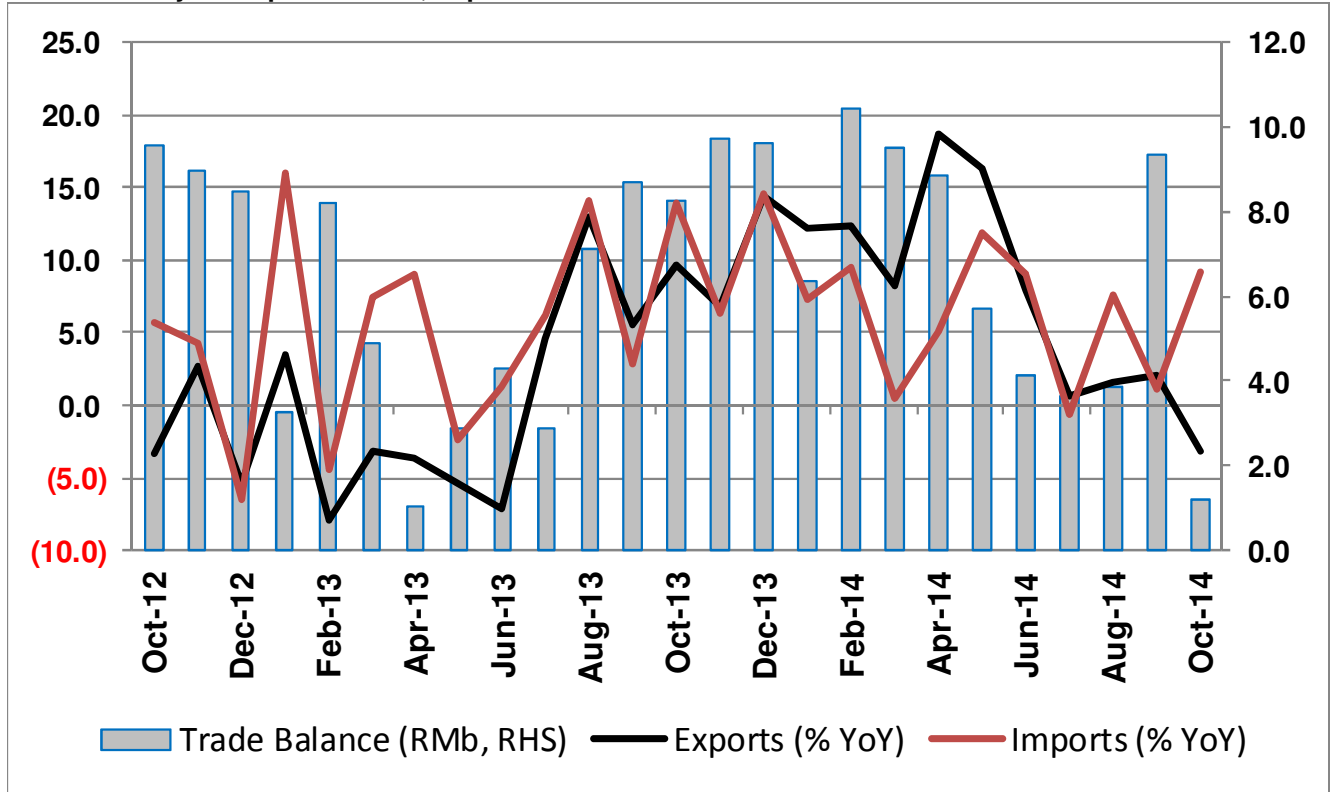
Global economy still uneven and will likely to remain so for the rest of the year. Global manufacturing-hence trade growth momentum remains mixed. Slowdown seemed to be the theme for most of the major economies with Brazil, Korea and Indonesia seemed to be contracting whilst Eurozone, Japan, China and USA seemed to be slowing down. With uneven dynamics in the global trade, Malaysia's trade momentum seemed to be uneven and there is a possibility that exports would continue to face downward pressure going forward. 

Table 4: Global Manufacturing PMI

	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
Global	52.4	51.9	52.2	52.6	52.5	52.6	53.6	52.2	51.8
US (ISM)	53.7	54.9	55.4	55.3	57.1	59	56.6	59.0	58.7
US (Markit)	55.5	55.4	56.4	57.3	55.8	57.9	57.5	55.9	54.8
Eurozone (Markit)	53.5	53.9	52.2	51.8	51.8	50.7	50.3	50.6	50.1
Japan (Markit)	53.9	49.4	49.9	51.5	50.5	52.2	51.7	52.8	52.0
China (HSBC)	48	48.1	49.4	50.7	51.7	50.2	53.5	50.4	50.0
China (NBI)	50.3	50.4	50.8	51	51.7	51.1	51.1	50.8	50.3
Brazil (HSBC)	50.6	49.3	48.8	48.7	49.1	50.2	49.3	49.1	48.7
India (HSBC)	51.3	51.3	51.4	51.5	53	52.4	51	51.6	53.3
Russia	48.3	48.5	48.9	49.1	51	51	50.4	50.3	51.7
S.Korea	50.4	50.2	49.5	48.4	49.3	50.3	48.8	48.7	49.0
Taiwan (HSBC)	52.7	52.3	52.4	54	55.8	56.1	53.3	52	51.4
Singapore	50.8	51.1	50.8	50.5	51.5	49.7	50.5	51.9	51.8
Indonesia (HSBC)	50.1	51.1	52.4	52.7	52.7	49.5	50.7	49.2	48.0

Source: Bloomberg, Trading Economics

Chart 1: Malaysia-Export Growth, Import Growth & Trade Balance



Source: DOS, MIDFR

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