

## ECONOMIC REVIEW | October 2015 External Trade

### Highest Trade Surplus Since November 2011

- Malaysia recorded a 4-years high trade balance in October at RM12.2 billion supported by strong growth in exports. Exports increased to RM75.8 billion (16.7%yoy) while imports marginally decreased to RM63.7 billion (-0.4%yoy).
- Almost all of the sectors are having double digit growth in exports, with the exception of commodity related products. Exports to China surged by RM1.89 billion (25.9%yoy), followed by the US by RM1.71 billion (30.5%yoy) and Singapore by RM1.14 billion (12.2%yoy).
- We maintain our exports forecast for year 2015 at 0.0-1.0% and 4.0-5.0% for year 2016.

**Record trade balance in October at RM12.2 Billion.** October's trade balance figure tops previous high in August with strong performance in October at RM12.2 billion. Malaysia's exports continued to surge past the RM70 billion mark with RM75.8 billion (16.7%yoy), registering its first double digit increase during the year while imports marginally declined to RM63.7 billion (-0.4%yoy). On a seasonally adjusted basis, both exports and imports increase on month-on-month basis by 4.9%mom and 1.2%mom respectively. The stronger exports performance compared to imports has led to the highest trade balance in 48 months.

**Exports to US expanded at the fastest pace in 2015, China remains as key driver.** Exports to US, India and Australia were the top three in terms of growth in October, expanding by RM2.8 billion (30.5%yoy), RM1.0 billion (29.1%yoy) and RM0.3 billion (28.9%yoy) respectively. Trade with China continued to be solid which increased by RM3.6 billion (20.9%yoy). The growth was mainly driven by the good demand in the E&E sector (US:35.7%yoy, India:56.0%yoy) particularly for the exports of transistors and valves. On the other hand, exports to other major markets such as China and Singapore remained strong. Exports to Singapore passed the RM10 billion mark for the first time since trade data was recorded at RM10.5 billion (12.2%yoy) while exports to China also recorded solid growth at RM9.2 billion (25.9%yoy).

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

	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Jan-Oct 15
<b>Exports (RMb)</b>	60.4	60.5	64.3	63.2	66.5	70.2	75.8	644.0
% YoY	(8.8)	(6.7)	5.0	3.5	4.1	8.8	16.7	1.5
%MoM	(9.2)	0.1	6.3	(1.6)	5.2	5.5	8.1	
<b>Imports (RMb)</b>	53.5	55.0	56.3	60.9	56.3	60.5	63.7	568.0
% YoY	(7.0)	(7.2)	(1.5)	5.9	(6.1)	9.6	(0.4)	(0.7)
%MoM/QoQ	(8.8)	2.7	2.4	8.1	(7.4)	7.3	5.3	
<b>Total Trade</b>	113.9	115.4	120.5	124.1	122.9	130.6	139.5	1,212.0
% YoY	(8.0)	(6.9)	1.9	4.6	(0.8)	9.1	8.2	0.5
%MoM	(9.0)	1.3	4.5	2.9	(1.0)	6.3	6.8	
<b>Trade Balance (RMb)</b>	6.9	5.5	8.0	2.4	10.2	9.7	12.2	72.1
<b>Import Components</b>								
<b>Consumption (RMb)</b>	5.4	5.8	5.3	4.8	5.7	15.7	5.8	44.5
% YoY	27.2	36.8	25.7	13.7	43.2	26.5	34.1	27.5
<b>Capital (RMb)</b>	8.0	7.3	7.5	7.4	9.0	23.8	9.2	70.6
% YoY	(5.0)	(16.5)	3.2	(13.9)	29.9	(5.6)	18.8	(3.2)
<b>Intermediate (RMb)</b>	31.7	32.8	36.7	32.5	32.7	101.8	37.1	295.1
% YoY	(8.4)	(2.4)	5.7	(13.7)	(6.5)	5.3	(9.5)	3.8

Source: Department of Statistics, Malaysia; MIDF Research

**High double digit exports growth to top three destinations.** Exports to the top three destinations i.e. Singapore, China and United States again recorded double digit growth, expanding by 12.2%yoy, 25.9%yoy and 30.5%yoy respectively. The effect of lower Ringgit continued to boost exports to these countries as most trade transactions are done in foreign currency. In tandem with the lower Ringgit, imports from these countries have also increased (China:17.2%yoy US:26.6%yoy) except Singapore which saw imports decreased by 5.2%yoy. The lesser gain of imports from these countries relative to the increase in exports could suggest the quantum of local sourcing was getting more prevalent as substitute to imports.

**Manufactured exports grew by 22.2%yoy, led by electrical and electronic products.** Manufactured goods grew by 22.2%yoy in October, accounting for 80.4% of Malaysia's total exports. Agricultural goods rebounded by 6.4%yoy backed by strong exports of palm and palm oil based products. On the other hand, mining goods exports continued to contract by 7.6%yoy following the decline of crude oil price in October (Crude Brent: USD48.3). Electrical and electronic products grew by 22.7%yoy and remained as the major contributor with 34.6% share of our total exports.. Due to the persistent slowdown in China's industrial sector, E&E exports to China continued its contraction on month-on-month basis in October, declining by 4.0%mom, after contracting by 19.2%mom in September.

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

	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
<b>Total Exports (RMb)</b>	60.5	64.3	63.2	66.5	70.2	75.8
<b>Exports by Key Country / Region</b>						
China	5.7	49.3	32.7	32.4	13.1	25.9
Hong Kong	(6.2)	4.3	(5.5)	0.0	2.6	(0.8)
USA	(4.8)	9.5	20.2	24.2	16.5	30.5
Japan	(30.4)	(25.1)	4.4	(16.2)	(8.2)	5.1
India	(16.1)	11.3	1.7	(22.3)	(20.5)	29.1
Australia	(3.9)	(29.9)	(7.7)	(36.8)	(21.0)	28.9
EU	(4.0)	15.6	3.9	13.5	23.7	27.0
ASEAN	(0.7)	6.4	(2.6)	7.9	11.5	12.2
<b>Selected ASEAN</b>						
Singapore	(1.0)	3.8	(12.5)	4.3	10.4	12.2
Thailand	17.3	11.9	9.5	16.1	16.2	17.5
Indonesia	(16.5)	(7.6)	13.5	(5.3)	(10.3)	(6.4)
Philippines	(14.6)	10.6	(7.7)	24.6	70.8	11.2
Vietnam	36.8	33.1	28.6	28.1	26.8	28.2

Source: Department of Statistics, Malaysia; MIDF Research

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

	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
E&E	(0.6)	13.5	12.1	16.7	13.6	22.7
Chemicals & Chemical Products	(1.2)	15.1	19.9	0.7	17.8	18.5
Crude Petroleum	(21.9)	(34.1)	(25.4)	(40.6)	(12.2)	(8.8)
LNG	(47.9)	(45.2)	(23.6)	(42.3)	(33.3)	(16.1)
Palm Oil	(5.0)	21.6	0.2	4.0	(7.3)	3.6
Petroleum Products	(21.9)	(9.6)	(34.4)	(7.1)	(10.1)	(21.2)

Source: Department of Statistics, Malaysia; MIDF Research

**Imports of capital and consumption goods continued to surge and intermediate goods still declined.**

Imports of consumption goods grew by 34.1%yoy while capital goods expanded by 18.8%yoy. In contrary, the shift to local sourcing could have caused imports of intermediate goods to decline, contracting by 9.5%yoy after last month's drop of 6.5%yoy.

**We maintain our exports growth forecast of 0.0-1.0% for year 2015 and 4.0-5.0% for year 2016.**

We maintain our expectation that the weaker Ringgit will help to offset the negative exports growth in the first half of 2015. Malaysia's exports are expected to continue its positive growth in the coming months, led by the E&E sector and stronger US economy. We are also expecting that trade balance will continue to be sizable for the coming months, contributed by the weaker Ringgit and relatively lower volume for the imports.



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