

## ECONOMIC REVIEW | September 2015 External Trade

### Trade Balance Remains Sizable

- Malaysia's exports reached an all-time high in September at RM70.2 billion (8.8%yoy), while imports increased to RM60.5 billion (9.6%yoy). Trade balance remains sizable at RM9.7 billion, leading to highest trade balance in quarterly basis for the year at RM22.2 billion.
- As most trade transactions are done in foreign currencies, the weaker Ringgit have caused the value for both exports and imports to increase. The weaker Ringgit may also have contributed to higher volume for our exports and lower volume for our imports, leading to an overall higher trade balance in August and September relative to the prior months.
- We maintain our exports forecast for year 2015 at 0.0-1.0% and 4.0-5.0% for year 2016.

**Exports and Imports surged in September.** Both Malaysia's exports and imports surged in September with exports passed the RM70 billion mark to reach RM70.2 billion (8.8%yoy) and imports increased to RM60.5 billion (9.6%yoy) in September. The increase in both exports and imports value could be contributed to the weakening of Ringgit and recovery in global trade activity as can be seen in most country's trade data for September. Despite the higher increase in imports on year-on-year basis, trade balance remains sizable at RM9.7 billion.

**For the third quarter, exports had its first year-on-year growth for year 2015.** Exports grew by 5.5%yoy in the third quarter of 2015, significantly increase after contracted by 2.5%yoy and 3.7%yoy respectively in the first and second quarter. Imports grew slightly lower by 2.9%yoy, leading to a much higher trade balance in 3Q15 at RM22.2 billion relative to 3Q14 at RM16.8 billion. On a quarterly basis, exports and imports grew by 8.0%qoq and 7.8%qoq respectively. Due to the higher trade balance in 3Q15, we are expecting that the balance of goods and services in the GDP component would be much better in the 3Q15 compared to the previous quarters in 2015.

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

	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	3Q15	Jan-Sep 15
<b>Exports (RMb)</b>	60.4	60.5	64.3	63.2	66.5	70.2	199.9	568.2
% YoY	(8.8)	(6.7)	5.0	3.5	4.1	8.8	5.5	(0.2)
%MoM/QoQ	(9.2)	0.1	6.3	(1.6)	5.2	5.5	8.0	
<b>Imports (RMb)</b>	53.5	55.0	56.3	60.9	56.3	60.5	177.7	504.3
% YoY	(7.0)	(7.2)	(1.5)	5.9	(6.1)	9.6	2.9	(0.7)
%MoM/QoQ	(8.8)	2.7	2.4	8.1	(7.4)	7.3	7.8	
<b>Total Trade</b>	113.9	115.4	120.5	124.1	122.9	130.6	377.5	1,072.5
% YoY	(8.0)	(6.9)	1.9	4.6	(0.8)	9.1	4.2	(0.5)
%MoM/QoQ	(9.0)	1.3	4.5	2.9	(1.0)	6.3	7.9	
<b>Trade Balance (RMb)</b>	6.9	5.5	8.0	2.4	10.2	9.7	22.2	63.9
<b>Import Components</b>								
<b>Consumption (RMb)</b>	4.9	5.4	5.8	5.3	4.8	5.7	15.7	44.5
% YoY	12.4	27.2	36.8	25.7	13.7	43.2	26.5	27.5
<b>Capital (RMb)</b>	7.0	8.0	7.3	7.5	7.4	9.0	23.8	70.6
% YoY	(16.0)	(5.0)	(16.5)	3.2	(13.9)	29.9	(5.6)	(3.2)
<b>Intermediate (RMb)</b>	31.8	31.7	32.8	36.7	32.5	32.7	101.8	295.1
% YoY	(3.0)	(8.4)	(2.4)	5.7	(13.7)	(6.5)	5.3	3.8

Source: Department of Statistics, Malaysia; MIDF Research

**Exports to the top three destinations grew by double digit.** Exports to the top three destinations i.e. Singapore, China and United States grew by 10.4%yoy, 13.1%yoy and 16.5%yoy respectively. However, the increases in exports value to the three destinations are partly contributed by the weakening of Ringgit which began in August and continues lower in September, leading to higher value of our exports in Ringgit. The lower Ringgit also could have caused our exports to be more competitive relative to our competitors, boosting up the value of our exports. However, our imports from the three countries grew even higher with imports from Singapore grew by 15.0%yoy, China by 22.6%yoy and United States by 25.2%yoy. The high increase in imports value, despite the higher price of imported products is reflecting that our domestic demand remains resilient despite the weaker Ringgit.

**Manufactured goods continue to boost our exports figure.** Manufactured goods grew by 15.5%yoy in September, contributing as much as 80.9% of Malaysia's total exports. On the other hand, both agricultural and mining goods contracted by 2.8%yoy and 21.7%yoy respectively, particularly due to the decline in commodity prices. Electrical and electronic products continue to become the main contributor of our exports with 37.2% of our total exports, and grew by 13.6%yoy. Almost all of non-commodity exports value grew on year-on-year basis in September, however E&E exports to China contracted by 16.3%yoy and 19.2%mom. This was in line with China's low industrial production index in September, as China's slowdown in the industrial sector was yet to bottom in September. However, we are expecting that China's industrial sector should start to stabilise in the 4Q15.

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

	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
<b>Total Exports (RMb)</b>	60.4	60.5	64.3	63.2	66.5	70.2
<b>Exports by Key Country / Region</b>						
China	1.9	5.7	49.3	32.7	32.4	13.1
Hong Kong	(20.2)	(6.2)	4.3	(5.5)	0.0	2.6
USA	7.6	(4.8)	9.5	20.2	24.2	16.5
Japan	(24.9)	(30.4)	(25.1)	4.4	(16.2)	(8.2)
India	(16.1)	(16.1)	11.3	1.7	(22.3)	(20.5)
Australia	(6.4)	(3.9)	(29.9)	(7.7)	(36.8)	(21.0)
EU	3.1	(4.0)	15.6	3.9	13.5	
ASEAN	(8.9)	(0.7)	6.4	(2.6)	7.9	
<b>Selected ASEAN</b>						
Singapore	(14.9)	(1.0)	3.8	(12.5)	4.3	10.4
Thailand	(0.2)	17.3	11.9	9.5	16.1	16.2
Indonesia	1.5	(16.5)	(7.6)	13.5	(5.3)	(10.3)
Philippines	(31.1)	(14.6)	10.6	(7.7)	24.6	70.8
Vietnam	17.2	36.8	33.1	28.6	28.1	26.8

Source: Department of Statistics, Malaysia; MIDF Research

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

	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
E&E	(3.0)	(0.6)	13.5	12.1	16.7	13.6
Chemicals & Chemical Products	2.4	(1.2)	15.1	19.9	0.7	17.8
Crude Petroleum	(44.3)	(21.9)	(34.1)	(25.4)	(40.6)	(12.2)
LNG	(40.1)	(47.9)	(45.2)	(23.6)	(42.3)	(33.3)
Palm Oil	(19.8)	(5.0)	21.6	0.2	4.0	(7.3)
Petroleum Products	(36.6)	(21.9)	(9.6)	(34.4)	(7.1)	(10.1)

Source: Department of Statistics, Malaysia; MIDF Research

**Imports of capital and consumption goods surged, but intermediate goods contracted.** Imports of capital goods grew by 29.9%yoy while consumption goods grew by 43.2%yoy. However, intermediate goods contracted by 6.5%yoy. This figures are worrying as it could reflect that moving forward, our exports may start to slowdown while our imports could continue to increase, leading to a lower trade balance in the future. The high surge of imports in capital goods was mostly due to the imports of cellular phones, which should be temporary as it was the time when both Apple and Samsung launched their new flagship model.

**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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