midf RESEARCH

8 May 2014

MALAYSIA

March trade – Losing traction

March exports and imports data surprised on the downside, most notably imports which grew by just 0.5% YoY - the slowest pace since June 2013. That however failed to boost trade surplus which eased by 8.1% from Feb '14 as exports growth cooled off rather markedly to 8.4% during the month from 12.3% in the previous month. Much of the slowdown came from the lost momentum (more than halved the pace) in E&E. There is no clear trend even within commodity grouping, signalling not only divergent trends in external demand across our export markets but also performance of commodities more reflecting fundamentals. Nonetheless, imports of productive items, i.e. imports of intermediate and capital goods declined but that of Consumption Goods soared faster, raising concerns of the quality of growth going forward. Note too that exports to China have started to decline. Trade surplus in the 1Q 14 declined by 4.2% QoQ but surged by 61.3% YoY, but taking into account Income and Services, Current Account surplus and hence Net Exports contribution to GDP would not be as huge.

Exports of E&E rose by 6.2% YoY in March after growth touching an almost 4-year high of 18.1% in the previous month, signalling some correction that we had been expecting earlier. In the 1Q 14, exports of E&E rose by 13% YoY; relatively unchanged from the 13.1% pace seen in the 4Q 13.. 3. E&E which accounts for about 32.26% of total exports in March 2014 contributed about 24.5% or 1.9p.p;. to growth in exports in February. Looking at the trend; the ongoing slowdown in China as well as the much slower growth in imports of intermediate goods we can deduce that the growth in E&E exports could have peaked in the 4Q 13 – 1Q 14 period. However, on MoM basis, exports of E&E rose by 12.1%, rebounding from the decline of 9.5% in February and the series of MoM declines since September 2013. We believe that there is still momentum in the E&E exports going forward, but it is unlikely broad-based across the components and markets, as such we expect growth to stay modest going forward.

There is no clear trend even within commodity grouping, signalling not only divergent trends in external demand across our export markets but also performance of commodities more reflecting fundamentals. The manufactured exports, which are increasingly influenced by natural resources based showed varying performance, even as most of the item are going to China as the key market. One notable development that illustrates this, exports of refined petroleum products which swung from a decline of 6.3% in February to a growth of 30.85 in March and this item is highly volatile, posting huge jumps and declines intermittently without clear trend. Exports of palm oil posted slight improvement of 4.0% (Feb: 3.1%), but if we include the palm oil-based items, growth was actually much stronger at 8.0%, which was about the same pace recorded in February of 8.2%. Nonetheless, LNG exports slumped to rise by just 3.2% (Feb: 18.8%) after 5 months of strong double-digit growth. Meanwhile, exports of crude petroleum contracted again by 6.7% (Feb 14: -8.2%), marking the third month of contraction.

imports of productive items, i.e. imports of intermediate and capital goods declined but that of Consumption Goods soared faster, raising concerns of the quality of growth going forward. Imports of intermediate goods declined by 3.4% during the month (Feb 14: 9.4%) - the first contraction in 10 months and as these are the components for close to 70% of our exports, this raise concern that a sustained decline or mediocre growth signals that exports may slow down much faster than just a normalization pace that we have been expecting. At the same time, imports of capital goods contracted by 8.8% (Feb 14: -11.9%) during the month and while we can argue that this type of imports have volatile trends due to its lumpy nature in only certain months, the fact that it had lost much steam since 2012 – 2013 when the economy was gearing up for ETP and other infrastructure-related projects, the easing trend may indicate that infrastructure projects are plateauing. Nonetheless, imports of consumption goods surged faster by 18.95 YoY (Feb: 17.9%), despite the widely held view that consumers are feeling the pinch of higher cost of living and may tighten their purse strings.

China's slowdown finally showing impact. Exports to China had begun to decline, by 1.8% (Feb 14: +25%), but imports declined faster by 10.5% during the month (Feb: 4.8%), which explained that the strong increase in total trade (+8.7%) was much fuelled by the trade in the first 2 months of the year before it cooled off in March. We need to see more months of data to tell us the likely coming trend.

Chart 1: Trade performance on monthly basis

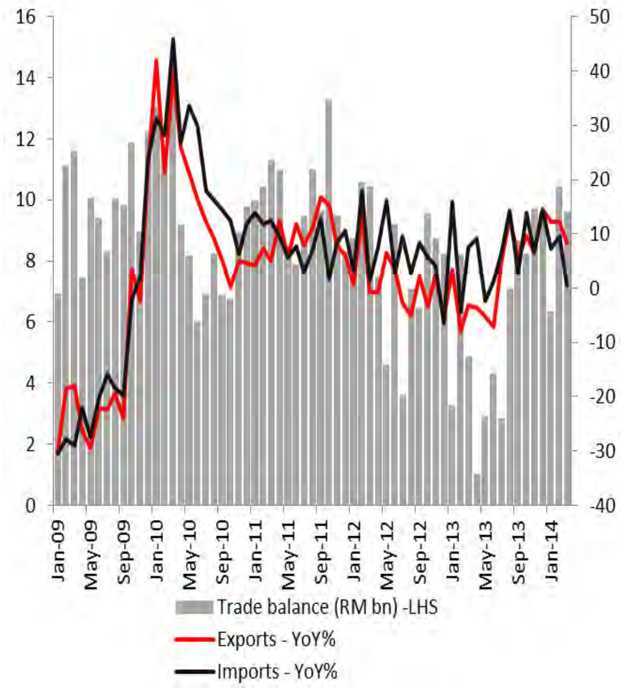


Chart 2: Exports perfromance increasingly influenced by volatile items

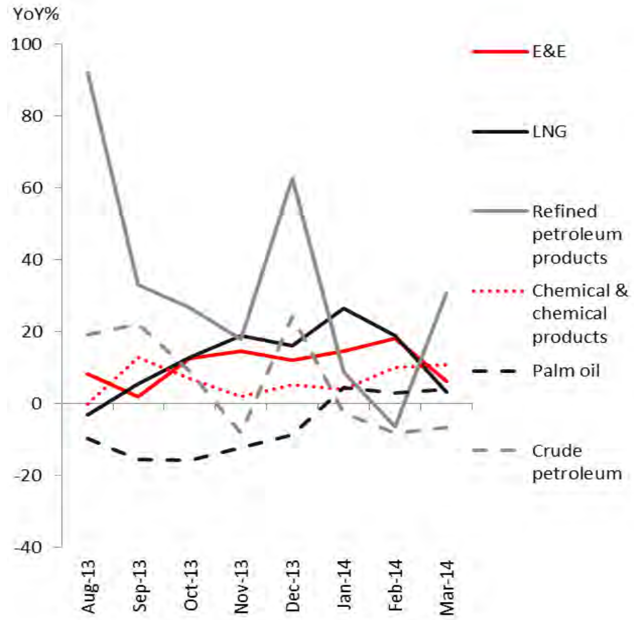


Chart 3: Exports slowdown further dragged down by major commodities

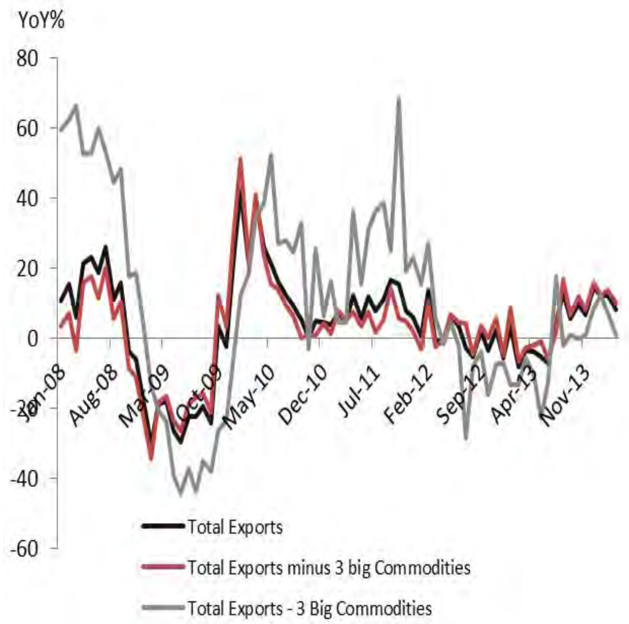


Chart 4: Imports of productive items sluming – what's in store for the future

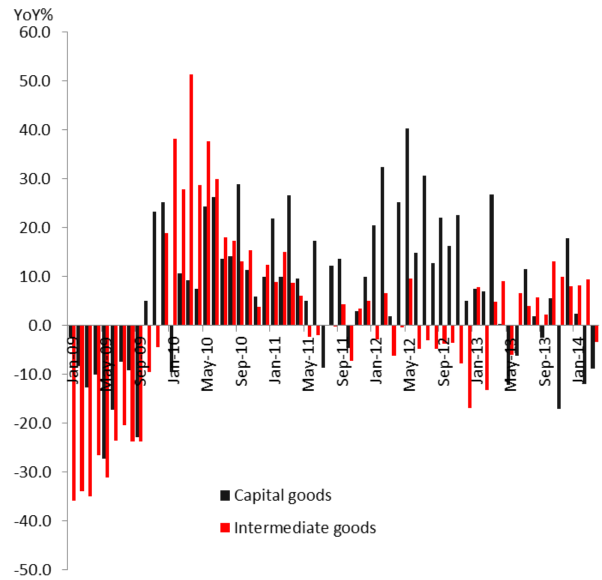


Chart 5: What consumer spending slowdown?

Chart 6: Our total trade with key markets edged up

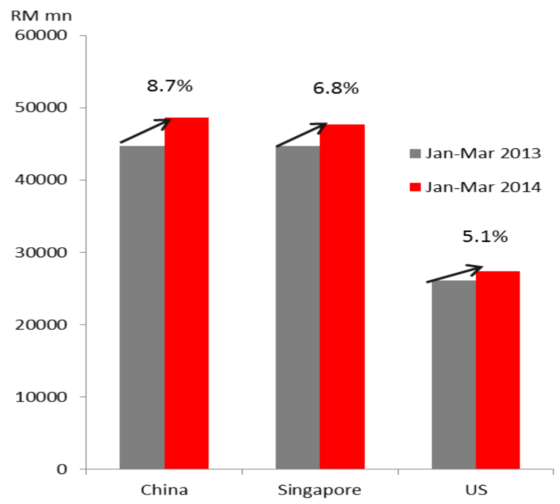
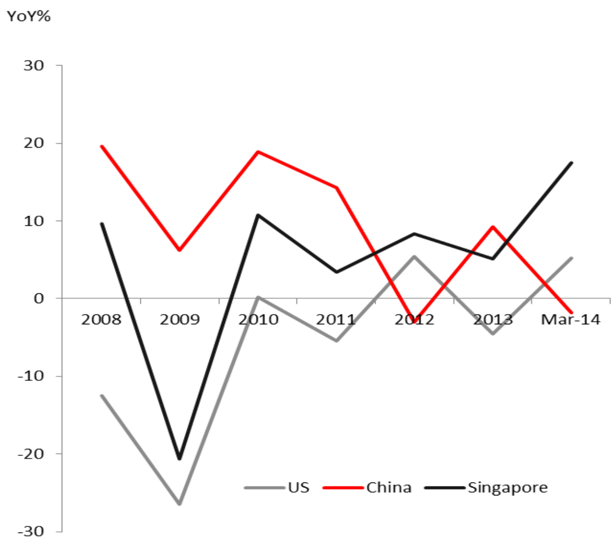


Chart 7: But exports to China have started to pull back



Source for all charts: DoS, BNM

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	*Negative* total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.