

ECONOMIC REVIEW | February 2020 External Trade**Gloomy Outlook for Exports As Covid-19 Flares Globally**

- *Exports growth at 14-month high. Exports and imports in Feb-20 soared by double digit growth of 11.8%yoy and 11.3%yoy respectively, the fastest pace since Oct-18. Trade surplus continued to record above RM 12b for three straight months. The rebound in exports was contributed by manufacturing and agriculture sectors. Exports of manufactured goods, which hold circa 85% of total export, grew by 13.1%yoy.*
- *Solid rebound in domestic export. Domestic exports advanced 15.2%yoy, rebounding from -0.2%yoy fall in the preceding month. It was driven by better performances of commodity-based sectors which involve high value added activities. Meanwhile, re-export continued to decline at -6.3%yoy. The ratio of re-export to total export recorded at close to 13.1%, the lowest since Jul-17. It simply means for every RM1 value of exports, approximately 13sen of value is made up of re-export component.*
- *Exports to contract further in 2020 at -2.6%yoy. Initially, we anticipated modest growth of 0.6%yoy for exports in 2020. However, impact of Covid-19 emerged as the top risk to global trade flows now. This includes Malaysia as China is our largest trading partner. The threat to foreign trade has increased even more with the pandemic spreading rapidly to Europe and the US. RMO in Malaysia and also in a number of key countries have a negative knock-on effect to export and import activities as most businesses shut down temporarily. Furthermore, delayed investment decisions may be chipping away some impetus in trade.*

Exports growth at 14-month high. Exports and imports in Feb-20 soared by double digit growth of 11.8%yoy and 11.3%yoy respectively, the fastest pace since Oct-18. Trade surplus continued to record above RM 12b for three straight months. The rebound in exports was contributed by manufacturing and agriculture sectors. Exports of manufactured goods, which hold circa 85% of total export, grew by 13.1%yoy compared to tepid expansion of 1.1%yoy in the previous month. In addition, exports of agriculture goods rebounded by 15.8%yoy from -4.2%yoy in Jan-20. Meanwhile, mining exports continued to be in negative territory but at a way softer pace of -3%yoy (-20.1%yoy).

Import of intermediate goods expanded by double digit. Intermediate goods which held more than half of total import increased by 20.4%yoy, the highest growth seen in two and half years. Similarly, purchases of consumption goods also grew by double digit of 10.1%yoy. However, capital goods imports continued to be weaker at -16.9%yoy. Weak capital goods suggest that manufacturers are still pessimistic on the future demand for their products hence are more cautious on business expansion decisions. With looming risks and uncertainties resulting from Covid-19, imports of capital goods would continue to be pressured moving forward. In line, business confidence in the manufacturing sector reflected by PMI deteriorated further in Mar-20.

Table 1: Malaysia's External Trade Summary

	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Exports (Rmb)	81.4	77.7	90.6	80.8	86.4	84.1	74.5
% YoY	(0.8)	(6.7)	(6.7)	(5.5)	2.7	(1.5)	11.8
% MoM	(7.5)	(4.5)	16.6	(10.8)	6.9	(2.7)	(11.5)
Imports (Rmb)	70.5	69.4	73.3	74.3	73.8	72.1	61.8
% YoY	(12.5)	2.4	(8.7)	(3.6)	0.9	(2.4)	11.3
% MoM	(4.4)	(1.6)	5.6	1.4	(0.6)	(2.4)	(14.2)
Total Trade (Rmb)	151.8	147.1	163.9	155.1	160.2	156.7	136.3
% YoY	(6.6)	(2.7)	(7.1)	(4.6)	1.9	(2.0)	11.6
% MoM	(6.1)	(3.1)	11.4	(5.4)	3.3	(2.6)	(12.7)
Trade Balance (Rmb)	10.9	8.4	17.3	6.5	12.6	12.0	12.6
Import Components							
Intermediate (Rmb)	39.0	39.9	37.5	41.0	41.8	38.9	38.4
% YoY	(13.8)	11.1	(5.1)	1.8	6.0	3.7	20.4
Capital (Rmb)	8.1	7.8	8.5	9.8	8.6	7.6	5.5
% YoY	(30.9)	7.0	(11.6)	(4.3)	(10.9)	(15.0)	(16.9)
Consumption (Rmb)	6.2	5.9	6.1	6.8	6.8	6.5	5.1
% YoY	(12.8)	15.1	(5.0)	1.9	3.2	(1.0)	10.1

Note: MoM is non-seasonally adjusted figure

Source: CIEC, MIDFR

Solid rebound in domestic export. Domestic exports advanced 15.2%yoy, rebounding from -0.2%yoy fall in the preceding month. It was driven by better performances of commodity-based sectors which involve high value added activities. Meanwhile, re-export continued to decline at -6.3%yoy. The ratio of re-export to total export recorded at close to 13.1%, the lowest since Jul-17. It simply means for every RM1 value of exports, approximately 13sen of value is made up of re-export component. The outlook for re-export activities moving forward is indeed cloudy in the event of multiple headwinds mainly Covid-19.

Export increased to key countries. Malaysia exports increased to major partners such as China, the US and ASEAN. Sales to both China and the US recorded at double digit growth of 11%yoy and 25.5%yoy (the highest in more than 4 years) respectively. Robust sales to the US recorded in E&E products, rubber products, optical & scientific equipment, wood products and machinery, equipment & parts, among others. By region, exports to ASEAN expanded 14.6%yoy while to the EU fell -12.7%yoy. Among ASEAN key economies, exports registered positive growth in all but Thailand.

Table 2: Malaysia's Exports (YoY%)

	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Total Exports (RMb)	81.4	77.7	90.6	80.8	86.4	84.1	74.5
Re-exports (RMb)	13.4	12.7	18.5	13.0	14.3	16.3	9.8
Domestic Exports (RMb)	67.9	65.0	72.1	67.8	72.1	67.8	64.7
Exports by Key Country / Region							
China	(2.8)	(3.0)	(11.0)	4.1	17.8	(5.7)	11.0
USA	6.8	6.6	2.7	6.5	15.1	9.5	25.5
Japan	2.4	(1.7)	(20.1)	(16.0)	(13.9)	(1.6)	3.7
India	18.4	10.6	(12.4)	(1.4)	(13.6)	5.8	(9.3)
Hong Kong	(15.4)	(26.5)	0.1	(21.1)	(18.1)	(14.0)	1.0
Australia	(27.4)	(19.5)	(50.3)	(8.2)	(12.0)	7.8	(6.8)
EU	5.3	(10.8)	(5.2)	(4.3)	(3.8)	(7.4)	(12.7)
ASEAN	(1.2)	(8.6)	(2.8)	(8.8)	3.2	(4.1)	14.6
Selected ASEAN							
Singapore	(7.2)	(11.7)	4.1	(12.5)	(2.7)	0.9	22.5
Thailand	(8.3)	(4.3)	(18.2)	(14.6)	(7.3)	(19.8)	(12.3)
Indonesia	10.3	(11.8)	(3.1)	10.8	42.0	10.8	21.6
Vietnam	24.6	(5.4)	(1.9)	(11.0)	12.2	(16.7)	14.5
Philippines	(1.8)	(4.2)	(2.3)	3.7	1.4	7.8	34.3

Source: CIEC, MIDFR

Positive growth in LNG after six months. Exports of LNG grew 7.1%yoy following six consecutive months of contraction. We expect the performance to continue on positive note especially with PFLNG2 coming into operational in 2Q20. Shipment of palm oil & its products and petroleum products continued expanding in Feb-20. In contrast, crude petroleum continued weakening with -11.7%yoy fall. Meanwhile, exports of E&E products which hold circa 40% share of total exports shrunk by -2.7%yoy, continuing its negative streak for the seventh month. Looking ahead, the export outlook for E&E is still cloudy amid Covid-19 which disrupts supply chain especially with more lockdowns and movement restrictions globally.

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

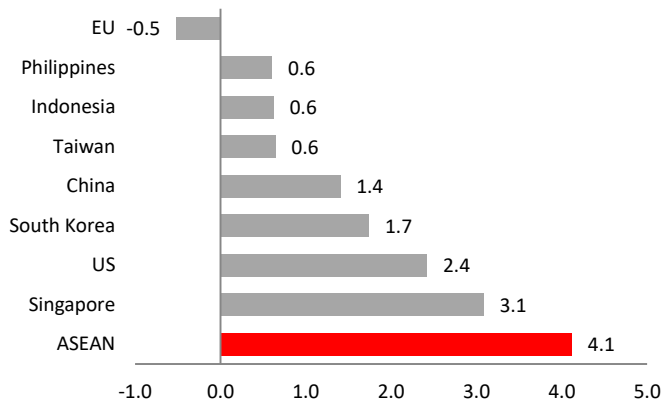
	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
E&E	(7.4)	(12.2)	(3.2)	(11.6)	(5.4)	(5.5)	(2.7)
Machinery, Equipment & Parts	7.6	6.9	3.6	6.2	7.0	5.7	23.0
Optical & Scientific Equipment	(12.3)	12.8	17.6	11.9	11.9	0.2	50.9
Petroleum Products	7.0	(13.4)	(28.4)	(17.2)	36.5	45.8	17.0
Crude Petroleum	(40.0)	(45.8)	(50.5)	(23.4)	(24.3)	(10.9)	(11.7)
LNG	(11.2)	(1.8)	(17.1)	(35.9)	(21.3)	(22.8)	7.1
Palm oil & palm oil based agriculture products	23.3	(9.4)	(9.5)	(3.5)	34.2	0.5	17.1

Source: CIEC, MIDFR

Uncertainty in 1Q20. Exports growth for 4Q19 registered higher rate of decline of -3.3%yoy (3Q19: -1.9%yoy). For 1Q20, exports performance is expected to be quite vulnerable especially with the outbreak of Covid-19 as factories shutdown operations in China and caused disruption in the supply chain. For the first two months of 1Q20, exports growth averaged at 5.1%yoy particularly due to solid rebound in Feb-20. However, the impact from lockdown in China is expected to be reflected in Mar-20's performance. While most of the Chinese factories have resumed their operation in Mar-20, more countries are restricting movement of its people and even impose lockdowns as Covid-19 flared globally which includes Malaysia. The pandemic is spreading fast in key trading partners such as the US, forcing businesses to shut down or limit operations. In fact, global and emerging economies manufacturing PMI remain in contractionary mode in Mar-20. Based on our regional partners' trade performance in Mar-20, export of South Korea and Vietnam contracted by -0.2%yoy and -12.1%yoy respectively, providing cues on what to expect from Malaysia export performance for Mar-20.

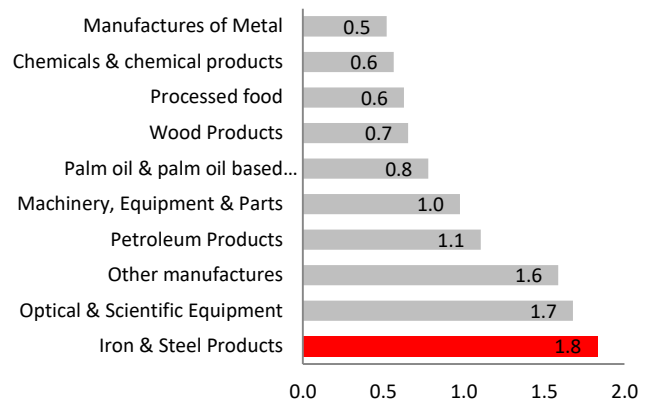
Exports to contract further in 2020 at -2.6%yoy. Initially, we anticipated modest growth of 0.6%yoy for exports in 2020. However, impact of Covid-19 emerged as the top risk to global trade flows now. This includes Malaysia as China is our largest trading partner. The threat to foreign trade has increased even more with the pandemic spreading rapidly to Europe and the US. RMO in Malaysia and also in a number of key countries have a negative knock-on effect to export and import activities as most businesses shut down temporarily. Furthermore, delayed investment decisions may be chipping away some impetus in trade. Hence, we forecast exports to contract further in 2020 at -2.6%yoy (2019: -1.7%yoy). Uncertainties to global trade flows will remain even when Covid-19 is contained. This was due to the fact that existing tariffs imposed between China and US are still largely in place regardless of the phase one trade deal. The US presidential election and protectionism possibly resurfacing during the election campaign. Besides that, Green Deal by the EU, Saudi-Russia oil war and Malaysia-India spat will also affect Malaysian exports. 

Chart 1: % Contribution to Export Growth by Destination



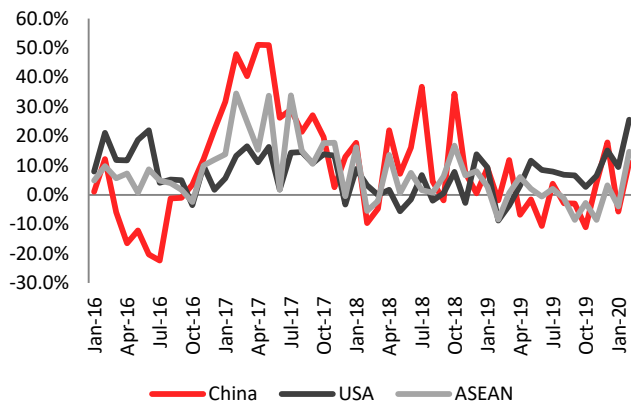
Source: CEIC; MIDFR

Chart 2: % Contribution to Export Growth by Products



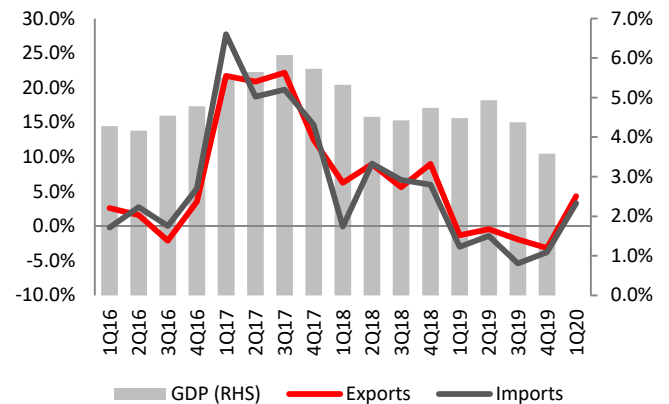
Source: CEIC; MIDFR

Chart 3: Exports Growth (YoY%) by Major Destination



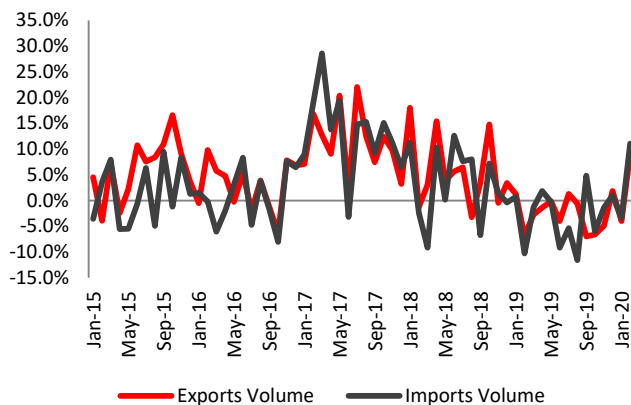
Source: CEIC; MIDFR

Chart 4: External Trade vs GDP, (YoY%)



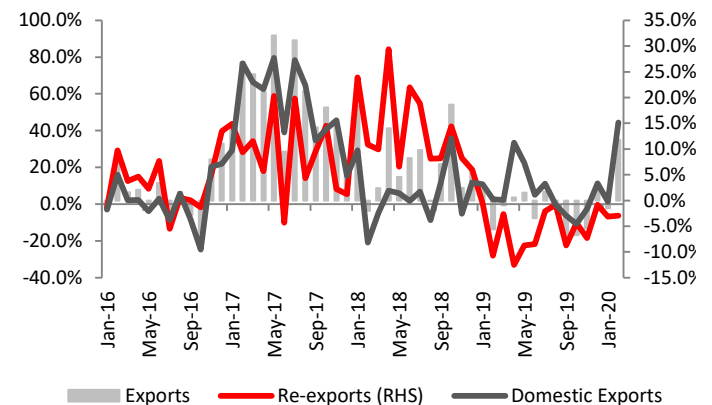
Source: CEIC; MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



Source: CEIC; MIDFR

Chart 6: Total Exports: Domestic vs Re-exports (YoY%)



Source: CEIC; MIDFR

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