

ECONOMIC REVIEW | July 2019 External Trade

Exports Rebounded in July but Brace for More Challenges Ahead

- *Exports return to positive territory. Exports rebounded in July-19 by 1.7%yoy from -3.1%yoy growth registered in the previous month. Meanwhile, imports continued to decline however at an improving rate of -5.9%yoy (June-19: -9.2%yoy). As a result of positive exports and negative imports, trade surplus hit four-month high at RM 14.3b.*
- *Robust domestic exports. Domestic exports expanded by 3.3%yoy, higher than 1.7%yoy gain in the previous month. The eighth consecutive months of positive growth indicates a good momentum for this year and provides brighter outlook for GDP growth in 3Q19 as domestic exports involve high value-added activities. In contrast, re-exports which have low domestic value-added contracted for the sixth consecutive month but at a far improving rate of -3.9%yoy (June-19: -22.3%yoy).*
- *We revise down our exports growth forecast to 1.7% in 2019. For the first seven months of the year, exports growth averaged at -0.4%yoy. In term of absolute value, monthly average of 2019 so far recorded at RM 81.4b which is still lower than RM 83.7b in 2018. In addition, continuous decline in imports of capital and intermediate goods indicate weak prospects for future exports. With faltering trade globally derive from rising protectionism and loss of momentum in some major economies, especially in Europe, we do not foresee a huge comeback in 2H19.*

Exports return to positive territory. Exports rebounded in July-19 by 1.7%yoy from -3.1%yoy growth registered in the previous month. Meanwhile, imports continued to decline however at an improving rate of -5.9%yoy (June-19: -9.2%yoy). As a result of positive exports and negative imports, trade surplus hit four-month high at RM 14.3b. Sector wise, manufacturing exports which accounted for more than 80% of total exports rebounded by 3.8%yoy (June-19: -5%yoy). In contrast, mining and agriculture exports contracted by -11.6%yoy and -9.3%yoy respectively.

Majority of goods purchases extend contraction. All three main categories of imports continued to decline for second consecutive month. Intermediate goods which constitute about 53% of total imports contracted by -3.4%yoy. In a similar note, imports of both capital and consumption goods fell by 13.9%yoy and 5%yoy respectively. Weak intermediate and capital spending signal that manufacturers are not optimistic on the future demand for its products. However, the outlook moving forward seems to be a bit brighter as Business Tendency Index for the manufacturing sector released last month showed confidence stood at 3-month high. In addition, the Malaysia PMI fell further to 47.4 in Aug-19 from 47.6 in the previous month but business confidence strengthened to its highest level since Oct-13 boosted by planned promotional activity, new products, work in the pipeline and forecasts of improve domestic and external demand.

Table 1: Malaysia's External Trade Summary

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Exports (RMb)	85.4	66.6	84.0	85.2	84.1	76.2	88.0
% YoY	3.1	(5.3)	(0.5)	1.1	2.5	(3.1)	1.7
% MoM	2.2	(22.0)	26.2	1.4	(1.2)	(9.5)	15.5
Imports (RMb)	73.9	55.5	69.7	74.3	75.1	65.9	73.7
% YoY	1.0	(9.4)	(0.1)	4.4	1.4	(9.2)	(5.9)
% MoM	1.4	(24.8)	25.4	6.7	1.0	(12.2)	12.3
Total Trade	159.3	122.1	153.7	159.5	159.2	142.1	161.7
% YoY	2.1	(7.2)	(0.3)	2.6	2.0	(6.0)	(1.9)
% MoM	1.9	(23.3)	25.9	3.8	(0.2)	(10.8)	14.0
Trade Balance (RMb)	11.5	11.1	14.4	10.9	9.1	10.3	14.3
Import Components							
Intermediate (RMb)	37.5	31.9	38.0	40.7	42.6	38.4	38.9
% YoY	(0.8)	(2.8)	3.2	20.3	6.4	(2.5)	(3.4)
Capital (RMb)	9.0	6.6	8.4	8.9	9.3	7.2	8.4
% YoY	(3.3)	(14.9)	(11.8)	5.7	(5.9)	(23.6)	(13.9)
Consumption (RMb)	6.5	4.6	5.9	6.6	6.6	5.6	6.4
% YoY	3.3	(11.6)	10.6	18.9	10.9	(5.4)	(5.0)

Note: MoM is non-seasonally adjusted figure

Source: CIEC, MIDFR

Robust domestic exports. Domestic exports expanded by 3.3%yoy, higher than 1.7%yoy gain in the previous month. The eighth consecutive months of positive growth indicates a good momentum for this year and provides brighter outlook for GDP growth in 3Q19 as domestic exports involve high value-added activities. In contrast, re-exports which have low domestic value-added contracted for the sixth consecutive month but at a far improving rate of -3.9%yoy (June-19: -22.3%yoy). Hence, the ratio of re-exports to total exports recorded higher at six-month high of 20.3% (for every RM1 value of exports, approximately 20sen of it is re-exports). Re-exports activities are expected to remain weak throughout the year mainly due to higher base effects besides external headwinds.

Exports expand to top three trading partners. Malaysia's exports to China (15% share) picked up by 3.8%yoy after three straight months of negative growth. Similarly, exports to Singapore also rebounded by 3.1%yoy from -0.9%yoy in the preceding month. Meanwhile, exports to the US continued its positive momentum for the third consecutive month. By region, exports to ASEAN registered positive growth of 1.8%yoy while those to EU fell into negative territory again.

Table 2: Malaysia's Exports (YoY%)

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
Total Exports (RMb)	85.4	66.6	84.0	85.2	84.1	76.2	88.0
Re-exports (RMb)	17.5	10.5	15.2	13.5	12.5	12.2	17.9
Domestic Exports (RMb)	67.9	56.2	68.8	71.7	71.6	63.9	70.1
Exports by Key Country / Region							
China	9.1	(1.6)	11.8	(6.9)	(2.2)	(12.0)	3.8
USA	9.4	(8.9)	(3.6)	3.1	11.7	8.8	7.9
Japan	(5.0)	(2.9)	(11.3)	7.7	7.5	(13.5)	(6.3)
India	(0.6)	(4.9)	(3.0)	6.7	43.1	22.1	(14.9)
Hong Kong	(7.3)	(13.8)	(11.5)	0.1	3.4	(25.0)	2.5
Australia	(10.3)	(0.4)	2.9	4.2	(13.0)	(10.5)	(14.8)
EU	4.3	3.7	(5.0)	(8.6)	(6.3)	1.0	(2.8)
ASEAN	3.4	(7.8)	1.3	7.2	4.7	(0.2)	1.8
Selected ASEAN							
Singapore	5.4	(2.9)	(6.9)	11.3	2.6	(0.9)	3.1
Thailand	17.1	(4.1)	15.6	1.2	7.3	(4.0)	(2.4)
Indonesia	(13.8)	(24.7)	(9.4)	(3.0)	(12.4)	(4.2)	(11.2)
Vietnam	(8.6)	(20.5)	16.7	16.9	5.8	(17.0)	6.4
Philippines	(7.6)	3.4	0.7	(0.7)	39.9	51.2	17.0

Source: CIEC, MIDFR

Sales of E&E products rebound. Exports of E&E products which holds circa 40% share of total exports rebounded by 4.5%yoy from -6%yoy in June-19. Similarly, sales of other major manufacturing products including petroleum products, chemicals and machinery, equipment & parts also rebounded. Meanwhile, LNG exports continued its upward momentum at a double digit growth of 31.3%yoy. Despite strong sales of LNG, the overall mining sector declined as crude petroleum fell harder by -45.7%yoy, mainly due to lower global crude oil price. Likewise, sales of palm oil & its products fell by -11.8%yoy after maintaining positive growth for two straight months. Palm oil shipment to India (Malaysia's biggest palm oil buyer) grew by 113%yoy but declined by -55%yoy to China.

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

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
E&E	8.2	4.9	(1.9)	3.9	0.5	(6.0)	4.5
Machinery, Equipment & Parts	(1.5)	(6.6)	(9.0)	0.8	14.9	(10.9)	6.0
Optical & Scientific Equipment	7.1	(17.4)	19.2	19.5	3.8	(4.9)	(2.3)
Petroleum Products	(24.1)	(32.6)	26.2	11.6	(14.9)	(2.4)	2.8
Crude Petroleum	(1.1)	(21.8)	(33.5)	(34.6)	(20.0)	31.7	(45.7)
LNG	37.5	8.6	17.2	26.3	(5.2)	5.5	31.3
Palm oil & palm oil based agriculture products	(19.5)	(16.9)	(13.7)	(16.7)	17.5	3.0	(11.8)

Source: CIEC, MIDFR

Cloudy outlook for 3Q19. Exports for 1H19 registered marginal negative growth of -0.2%yoy. Looking ahead to the 3Q19, exports performance is expected to be quite vulnerable especially with the latest round of tit-for-tat tariffs between the US and China. With the new tariffs in place, it could add more risks to the global economy including Malaysia due to the supply chain factor. E&E sector is likely to be impacted the most. Nevertheless, we expect commodity-based sector products particularly LNG exports to offset the less favourable impact from trade war. Based on our regional partners' trade performance in Aug-19, Vietnam's exports growth moderated to six-month low while South Korea's shrunk further by -13.6%yoy). This could provide cues on what to expect from Malaysia's exports in upcoming month. In regards to manufacturing condition and activity, global manufacturing PMI still positioned under 50 points while those of emerging economies continued to recover to 50.4 points.


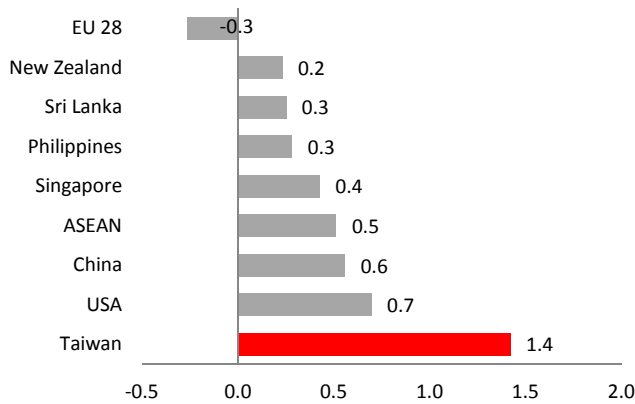
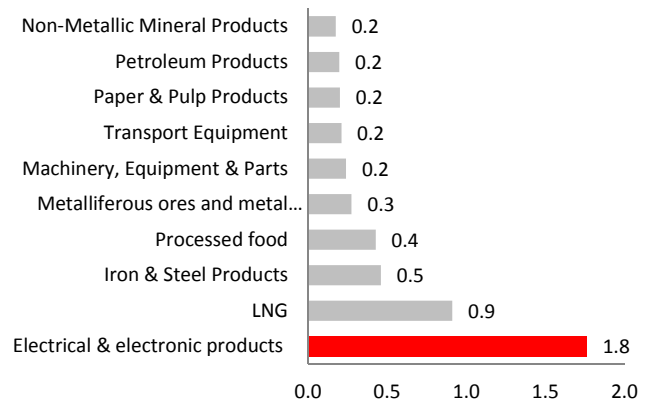
We revise down our exports growth forecast to 1.7% in 2019. For the first seven months of the year, exports growth averaged at -0.4%yoy. In term of absolute value, monthly average of 2019 so far recorded at RM 81.4b which is still lower than RM 83.7b in 2018. In addition, continuous decline in imports of capital and intermediate goods indicate weak prospects for future exports. With faltering trade globally derive from rising protectionism and loss of momentum in some major economies, especially in Europe, we do not foresee a huge comeback in 2H19. Hence, we revised down our exports growth forecast for 2019 to 1.7%yoy from our earlier estimate of 3.6%yoy. Nevertheless, we opine that commodity-based sectors particularly LNG exports to contribute to a better growth in exports for 2H19. In addition, Ringgit depreciation could also provide support to the estimate. 

Chart 1: % Contribution to Exports Growth by Destination



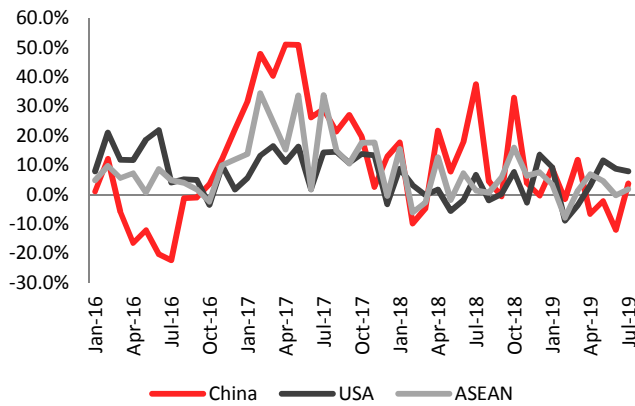
Source: CEIC; MIDFR

Chart 2: % Contribution to Exports Growth by Products



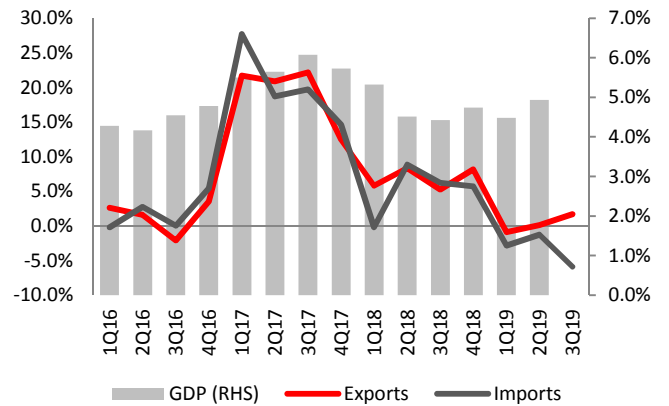
Source: CEIC; MIDFR

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



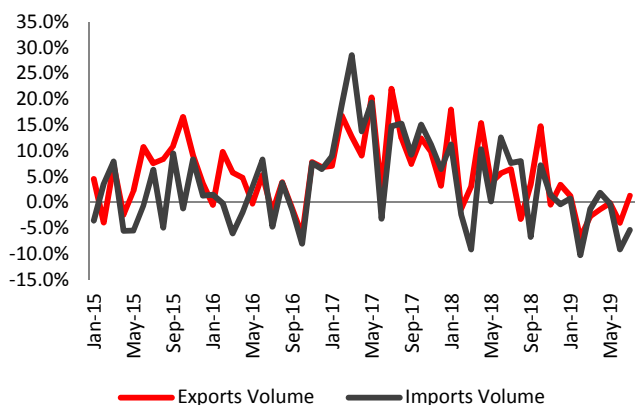
Source: CEIC; MIDFR

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



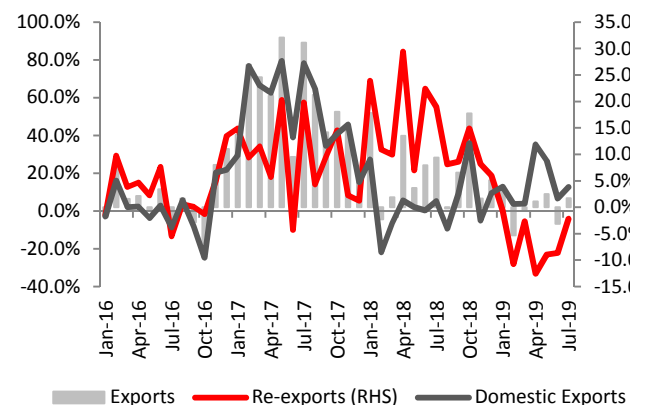
Source: CEIC; MIDFR

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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