

ECONOMIC REVIEW | June 2020 External Trade**Continuous Momentum in Exports Performance May Quiver as Headwinds Loom**

- *Record high trade surplus. Malaysia recorded trade surplus of RM20.9bil in June-20, the highest ever recorded as exports rebounded to positive territory for the first time since MCO was implemented while imports remained in negative territory. Exports expanded 8.8%yoy whereas imports contracted at a softer pace of -5.6%yoy. Alongside, neighboring countries like Indonesia and Vietnam also experienced a rebound in their exports, in time with easing global restrictions and recovery in China's economy.*
- *Export soared to top 5 export destinations. Thus far this year, Singapore, China, US, Japan and Hong Kong hold the largest share of Malaysia's total exports. In June-20, exports increased to all these top 5 countries with China chalked the fastest growth of 46.8%yoy boosted by outbound shipment of palm oil (271.2%yoy), petroleum products (231.4%yoy), manufactures of metal (193.9%yoy) and E&E products (7.6%yoy).*
- *Better performance anticipated in 2H20. In line with our expectation, exports growth for 2Q20 averaged at -14.3%yoy, deteriorated from 1.1%yoy in 1Q20 as Malaysia had strict restrictions on economic activities due to the Covid-19 outbreak. Furthermore, most of the key countries globally also had firm lockdowns or restrictions during this period. For the 1H20, exports growth averaged at -6.8%yoy and moving forward, we foresee the performance to improve in 2H20. The expectation was constructed based on reopening of global economies in phases which will increase demand, resulting in better trade flows.*

Record high trade surplus. Malaysia recorded trade surplus of RM20.9bil in June-20, the highest ever recorded as exports rebounded to positive territory for the first time since MCO was implemented while imports remained in negative territory. Exports expanded 8.8%yoy whereas imports contracted at a softer pace of -5.6%yoy. Alongside, neighboring countries like Indonesia and Vietnam also experienced a rebound in their exports, in time with easing global restrictions and recovery in China's economy. On a monthly sequential basis, both exports and imports of Malaysia grew by 32.3%mom and 18.6%mom respectively.

Imports advanced for capital and consumption goods. Purchase of consumption goods rose 9%yoy in June-20 after two consecutive months of double digit contraction, an indication of improved consumers' well-being. Similarly, imports of capital goods grew by 2.8%yoy buoyed by higher purchase of electrical machinery, equipment and parts. However, intermediate goods purchases which hold the biggest share of imports continued declining albeit at a softer pace of -10.8%yoy. Weak purchases of intermediate goods suggest that manufacturers are not running at full capacity yet or probably securing industrial inputs from local sources.

Table 1: Malaysia's External Trade Summary

	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Exports (RMb)	86.4	84.1	74.5	80.1	64.8	62.7	82.9
% YoY	2.7	-1.5	11.8	-4.7	-23.9	-25.5	8.8
% MoM	6.9	-2.7	-11.5	7.6	-19.1	-3.2	32.3
Imports (RMb)	73.8	72.1	61.8	67.8	68.4	52.3	62.0
% YoY	0.9	-2.4	11.3	-2.7	-8.0	-30.4	-5.6
% MoM	-0.6	-2.4	-14.2	9.6	0.9	-23.6	18.6
Total Trade (RMb)	160.2	156.7	136.3	147.9	133.2	114.9	144.9
% YoY	1.9	-2.0	11.6	-3.8	-16.5	-27.8	2.2
% MoM	3.3	-2.6	-12.7	8.5	-9.9	-13.7	26.0
Trade Balance (RMb)	12.6	12	12.6	12.3	-3.6	10.4	20.9
Import Components							
Intermediate (RMb)	41.8	38.9	38.4	38.9	28.3	30.8	34.1
% YoY	6.0	3.7	20.4	2.0	-30.6	-27.8	-10.8
Capital (RMb)	8.6	7.6	5.5	4.6	15	6.7	7.3
% YoY	-10.9	-15	-16.9	-47.5	68.9	-27.9	2.8
Consumption (RMb)	6.8	6.5	5.1	6.3	5.8	5.2	6.1
% YoY	3.2	-1.0	10.1	7.0	-12.1	-21.9	9.0

Note: MoM is non-seasonally adjusted figure

Source: CEIC, MIDFR

Domestic exports returned to positive ground. Domestic exports which involved high value-added activities rebounded to a 4-month high of 9.5%yoy in June-20. The expansion was propelled by increase in sales of E&E, palm oil, machinery, optical & scientific equipment and rubber products, among others. Similarly, re-exports managed to grow by 5.3%yoy while the ratio of it to total export went up to 15.5% from 14% in the preceding month. However, for the 1H20, domestic exports contracted -8.7%yoy but re-exports grew by 2.8%yoy.

Export soared to top 5 export destinations. Thus far this year, Singapore, China, US, Japan and Hong Kong hold the largest share of Malaysia's total exports. In June-20, exports increased to all these top 5 countries with China chalked the fastest growth of 46.8%yoy boosted by outbound shipment of palm oil (271.2%yoy), petroleum products (231.4%yoy), manufactures of metal (193.9%yoy) and E&E products (7.6%yoy). By region, exports advanced for both ASEAN (1.3%yoy) and EU (3.3%yoy). Among key members of ASEAN, Vietnam marked the highest growth of 21.7%yoy lifted by petroleum products (131.5%yoy), machinery (76.2%yoy) and E&E (25.3%yoy).

Table 2: Malaysia's Exports (YoY%)

	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Total Exports (RMb)	86.4	84.1	74.5	80.1	64.8	62.7	82.9
Re-exports (RMb)	14.3	16.3	9.8	17.3	18.6	8.7	12.9
Domestic Exports (RMb)	72.1	67.8	64.7	62.9	46.2	54.0	70.0
Exports by Key Country / Region							
China	17.8	-5.7	11.0	-6.1	4.2	4.5	46.8
USA	15.1	9.5	25.5	-3.6	-31.1	-9.3	27.6
Japan	-13.9	-1.6	3.7	-0.5	-28.4	-33.1	9.8
India	-13.6	5.8	-9.3	-40.6	-70.6	-81.1	-40.7
Hong Kong	-18.1	-14.0	1.0	-12.6	-8.2	-23.6	31.0
Australia	-12.0	7.8	-6.8	-2.0	-28.9	-37.7	-18.4
EU	-3.8	-7.4	-12.7	-21.7	-41.6	-32.9	3.3
ASEAN	3.2	-4.1	14.6	-84.1	-24.7	-30.6	1.3
Selected ASEAN							
Singapore	-2.7	0.9	22.5	8.6	-17.4	-21.9	3.7
Thailand	-7.3	-19.8	-12.3	-37.4	-38.0	-40.0	-10.2
Indonesia	42.0	10.8	21.6	100.5	-2.3	-37.7	-4.1
Vietnam	12.2	-16.7	14.5	-31.4	-37.0	-34.1	21.7
Philippines	1.4	7.8	34.3	15.0	-41.2	-48.6	-2.7

Source: CEIC, MIDFR

Exports of E&E at 20-month high. Manufacturing sector escalated 13.7%yoy in June-20 as outbound shipments of E&E which hold the biggest share of total exports, returned to positive growth of 15.9%yoy after 10 months of contraction. However, sustainability of this performance is a concern particularly due to the intensification of US-China spat. In addition, other key manufacturing sub-sectors such as machinery and optical & scientific equipment rebounded to positive zone. Similar to manufacturing, agriculture sector soared 30%yoy driven by palm oil & its products which shot up 45.4%yoy. Exports of palm oil are likely to continue improving in upcoming months due to seasonal factors and also on the back of India-Malaysia palm oil deal. In contrast, mining continued to decline by -45.6%yoy as its key sub-sectors: LNG & crude petroleum plunged.

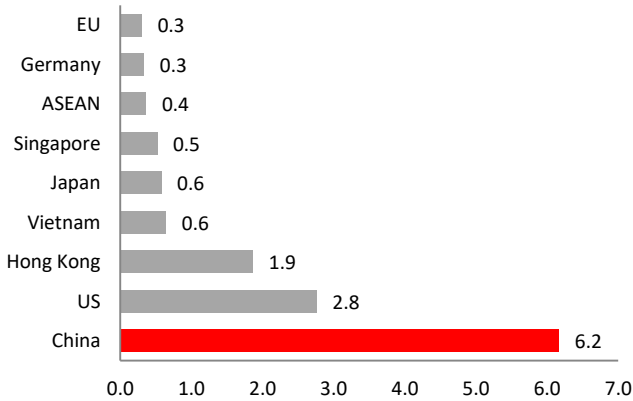
Table 3: Malaysia's Exports by Major Products (YoY%)

	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
E&E	-5.4	-5.5	-2.7	-13.9	-21.7	-17.2	15.9
Machinery, Equipment & Parts	7.0	5.7	23.0	-17.6	-53.3	-29.6	29.4
Optical & Scientific Equipment	11.9	0.2	50.9	-9.1	-34.8	-11.4	35.6
Petroleum Products	36.5	45.8	17.0	54.5	-17.0	-34.5	-26.0
Crude Petroleum	-24.3	-10.9	-11.7	-4.2	-33.8	-69.0	-70.9
LNG	-21.3	-22.8	7.1	-13.4	-20.5	-30.7	-24.5
Palm oil & palm oil based agriculture products	34.2	0.5	17.1	-0.3	-1.5	-15.6	45.4

Source: CEIC, MIDFR

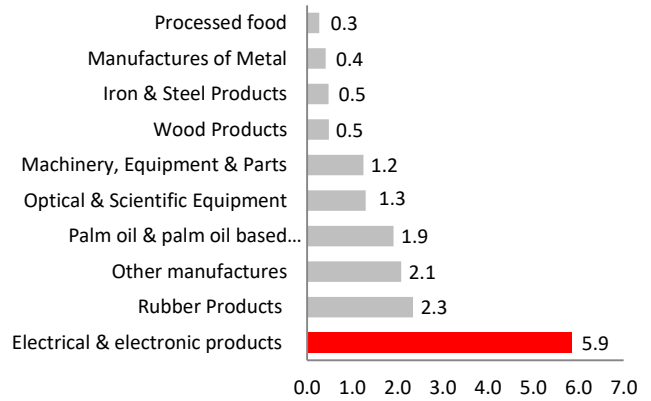
Better performance anticipated in 2H20. In line with our expectation, exports growth for 2Q20 averaged at -14.3%yoy, deteriorated from 1.1%yoy in 1Q20 as Malaysia had strict restrictions on economic activities due to the Covid-19 outbreak. Furthermore, most of the key countries globally also had firm lockdowns or restrictions during this period. For the 1H20, exports growth averaged at -6.8%yoy and moving forward, we foresee the performance to improve in 2H20. The expectation was constructed based on reopening of global economies in phases which will increase demand, resulting in better trade flows. The rebound in China's economy added support to our expectation as the country is our largest trading partner hence recovery in their economy would mean demand for our products will continue to increase. Nevertheless, there are multiple downside risks to the estimate including new wave of Covid-19 and rising protectionism as it will hinder most of the countries' effort to restart their respective economies. We maintain our forecast of exports growth at -8.3%yoy for this year (2019: -1.7%yoy). 

Chart 1: % Contribution to Positive Export Growth by Destination



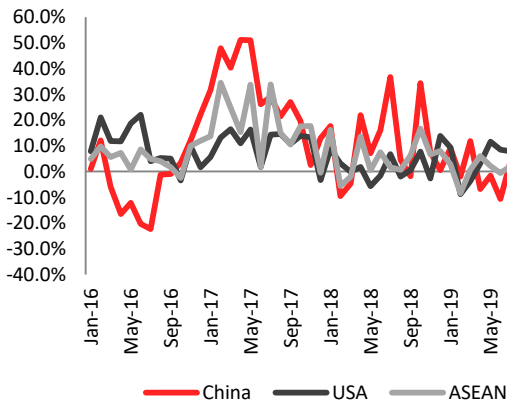
Source: CEIC; MIDFR

Chart 2: % Contribution to Positive Export Growth by Products



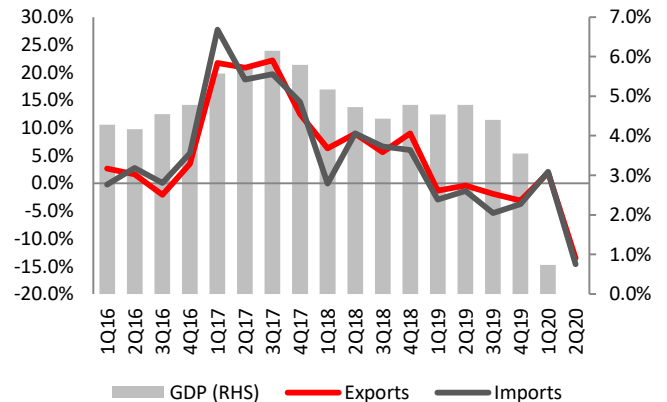
Source: CEIC; MIDFR

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



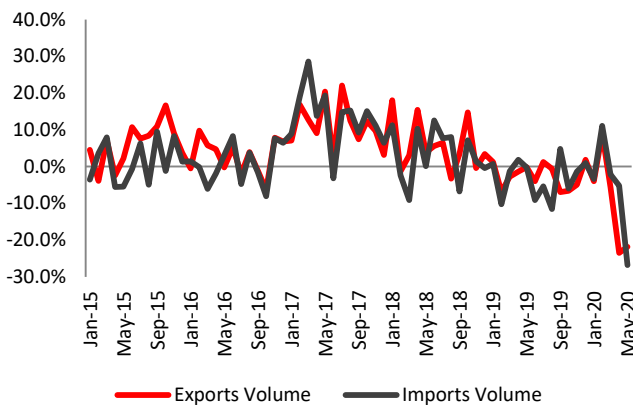
Source: CEIC; MIDFR

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



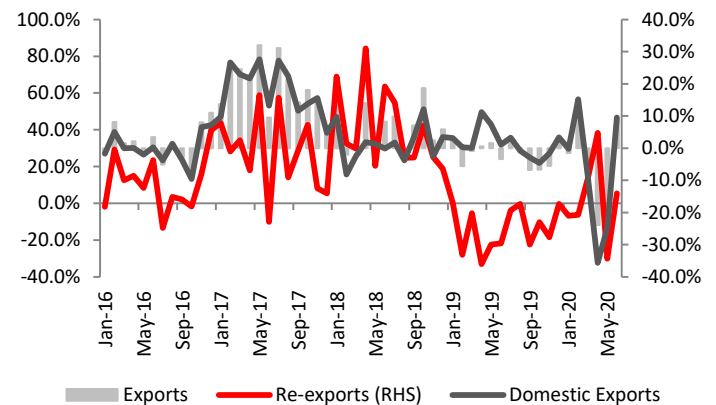
Source: CEIC; MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



Note: Data as of May-20
Source: CEIC; MIDFR

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



Source: CEIC; MIDFR

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