

ECONOMIC REVIEW | November 2019 External Trade**Weakening Trade Flows despite News of the US-China Trade Deal**

- *Continuous decline in total trade. Malaysia's total trade declined for the sixth consecutive month with the latest drop in Nov-19 at -4.6%yoy amid slowing global demand and trade spats. Similarly, both exports and imports continued trending downward, contracted by -5.5%yoy and -3.6%yoy respectively. Export marked a streak of four straight falls due to weak performance in all major sectors. Manufacturing export which accounted for circa 85% of total exports contracted by -2.8%yoy.*
- *Export to ASEAN market keeps deteriorating. Malaysia's export to ASEAN region which has become increasingly important export destination as reflected in the growing share to total export currently at circa 29%, continued weakening for the fourth consecutive month. Shipment to key ASEAN economies such as Singapore, Thailand and Vietnam fell by -12.5%yoy, -14.6%yoy and -11%yoy respectively. Surprisingly, export to Indonesia recorded positive growth of +10.8%yoy.*
- *We forecast export to grow by 1.5%yoy in 2020. For the first eleven months of 2019, exports growth averaged at -2.1%yoy and likely to end that year with contraction. For 2020, we forecast export growth to recover at +1.5%yoy. We believe uncertainties over trade crusades and loss of growth momentum in some major economies will continue to threaten our exports performance. In addition, continuous decline in imports of capital and intermediate goods in 2019 indicate weak prospects for exports in 2020.*

Continuous decline in total trade. Malaysia's total trade declined for the sixth consecutive month with the latest drop in Nov-19 at -4.6%yoy amid slowing global demand and trade spats. Similarly, both exports and imports continued trending downward, contracted by -5.5%yoy and -3.6%yoy respectively. Export marked a streak of four straight falls due to weak performance in all major sectors. Manufacturing export which accounted for circa 85% of total exports contracted by -2.8%yoy. Similarly, export of mining and agriculture products declined by -28.7%yoy and -4.2%yoy respectively. Trade surplus during the month narrowed to RM 6.5b, the lowest since Aug-18. On monthly basis, export fell by -10.8%yoy, the hardest fall in nine months while import grew marginally by +1.4%yoy.

Import of intermediate and consumption goods recovered. Intermediate goods which held more than half of total import registered positive growth of +1.8%yoy (Oct-19: -5.1%yoy). Similarly, import of consumption goods also expanded by +1.9%yoy, reversing the -5%yoy fall in the preceding month. In contrast, capital goods import continued to decline but at a softer pace of -4.3%yoy (Oct-19: -11.6%yoy). As a leading indicator to export performance moving forward, weak import, particularly of capital goods, suggests that manufactures are still quite pessimistic on the future demand for their products hence are more cautious on business expansion decisions. Nevertheless, business confidence in the sector as reflected by PMI hit 50 point for the first time in Dec-19, after 15 months under contractionary mode.

Table 1: Malaysia's External Trade Summary

	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
Exports (RMb)	84.1	76.2	88.0	81.4	77.7	90.6	80.8
% YoY	2.5	(3.1)	1.7	(0.8)	(6.7)	(6.7)	(5.5)
% MoM	(1.2)	(9.5)	15.5	(7.5)	(4.5)	16.6	(10.8)
Imports (RMb)	75.1	65.9	73.7	70.5	69.4	73.3	74.3
% YoY	1.4	(9.2)	(5.9)	(12.5)	2.4	(8.7)	(3.6)
% MoM	1.0	(12.2)	12.3	(4.4)	(1.6)	5.6	1.4
Total Trade	159.2	142.1	161.7	151.8	147.1	163.9	155.1
% YoY	2.0	(6.0)	(1.9)	(6.6)	(2.7)	(7.1)	(4.6)
% MoM	(0.2)	(10.8)	14.0	(6.1)	(3.1)	11.4	(5.4)
Trade Balance (RMb)	9.1	10.3	14.3	10.9	8.4	17.3	6.5
Import Components							
Intermediate (RMb)	42.6	38.4	38.9	39.0	39.9	37.5	41.0
% YoY	6.4	(2.5)	(3.4)	(13.8)	11.1	(5.1)	1.8
Capital (RMb)	9.3	7.2	8.4	8.1	7.8	8.5	9.8
% YoY	(5.9)	(23.6)	(13.9)	(30.9)	7.0	(11.6)	(4.3)
Consumption (RMb)	6.6	5.6	6.4	6.2	5.9	6.1	6.8
% YoY	10.9	(5.4)	(5.0)	(12.8)	15.1	(5.0)	1.9

Note: MoM is non-seasonally adjusted figure

Source: CIEC, MIDFR

Domestic export on a declining trend. Domestic export dropped by -1.7%yoy, the fourth consecutive month of decline but the softest fall in three months. The fall is mostly attributed to the commodity-based sectors particularly LNG, crude petroleum and palm oil. Meanwhile, re-export which have low domestic value-added continued to decline at a higher pace of -18.4%yoy (Oct-19: -10.2%yoy). The ratio of re-export to total export recorded at five-month low of 16.1% which means for every RM1 value of exports, approximately 16sen of value is made up of re-export component. The outlook for re-export activities in 2020 is indeed cloudy in the event of multiple headwinds including trade tensions and slowing global economy.

Export to ASEAN market keeps deteriorating. Malaysia's export to ASEAN region which has become increasingly important export destination as reflected in the growing share to total export currently at circa 29%, continued weakening for the fourth consecutive month. Shipment to key ASEAN economies such as Singapore, Thailand and Vietnam fell by -12.5%yoy, -14.6%yoy and -11%yoy respectively. Surprisingly, export to Indonesia recorded positive growth of +10.8%yoy buoyed by sales of petroleum products besides machinery, equipment & parts. Meanwhile, shipment to the two world largest economies showed better growth: +6.5%yoy to the US and +4.1%yoy to China. Nevertheless, export to other key trading partners including Hong Kong and Japan fell.

Table 2: Malaysia's Exports (YoY%)

	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
Total Exports (RMb)	84.1	76.2	88.0	81.4	77.7	90.6	80.8
Re-exports (RMb)	12.5	12.2	17.9	13.4	12.7	18.5	13.0
Domestic Exports (RMb)	71.6	63.9	70.1	67.9	65.0	72.1	67.8
Exports by Key Country / Region							
China	(2.2)	(12.0)	3.8	(2.8)	(3.0)	(11.0)	4.1
USA	11.7	8.8	7.9	6.8	6.6	2.7	6.5
Japan	7.5	(13.5)	(6.3)	2.4	(1.7)	(20.1)	(16.0)
India	43.1	22.1	(14.9)	18.4	10.6	(12.4)	(1.4)
Hong Kong	3.4	(25.0)	2.5	(15.4)	(26.5)	0.1	(21.1)
Australia	(13.0)	(10.5)	(14.8)	(27.4)	(19.5)	(50.3)	(8.2)
EU	(6.3)	1.0	(2.8)	5.3	(10.8)	(5.2)	(4.3)
ASEAN	4.7	(0.2)	1.8	(1.2)	(8.6)	(2.8)	(8.8)
Selected ASEAN							
Singapore	2.6	(0.9)	3.1	(7.2)	(11.7)	4.1	(12.5)
Thailand	7.3	(4.0)	(2.4)	(8.3)	(4.3)	(18.2)	(14.6)
Indonesia	(12.4)	(4.2)	(11.2)	10.3	(11.8)	(3.1)	10.8
Vietnam	5.8	(17.0)	6.4	24.6	(5.4)	(1.9)	(11.0)
Philippines	39.9	51.2	17.0	(1.8)	(4.2)	(2.3)	3.7

Source: CIEC, MIDFR

Sales of major products remain weak. Exports of E&E products which hold circa 40% share of total exports shrunk by -11.6%yoy in Nov-19, larger fall compared to the previous month. Similarly, shipment of LNG continued falling harder. In addition, sales of crude petroleum and petroleum products contracted by -23.4%yoy and -17.2%yoy, continuing its double digit fall since Jul-19 and Sep-19 respectively. Meanwhile, sales of palm oil & its products are expected to be relatively low in 4Q19 amid winter season which can easily solidify palm oil and users will opt for substitutes. In contrast, shipment of machinery, equipment & parts and optical & scientific equipment posted positive growth during the month.

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

	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
E&E	0.5	(6.0)	4.5	(7.4)	(12.2)	(3.2)	(11.6)
Machinery, Equipment & Parts	14.9	(10.9)	6.0	7.6	6.9	3.6	6.2
Optical & Scientific Equipment	3.8	(4.9)	(2.3)	(12.3)	12.8	17.6	11.9
Petroleum Products	(14.9)	(2.4)	2.8	7.0	(13.4)	(28.4)	(17.2)
Crude Petroleum	(20.0)	31.7	(45.7)	(40.0)	(45.8)	(50.5)	(23.4)
LNG	(5.2)	5.5	31.3	(11.2)	(1.8)	(17.1)	(35.9)
Palm oil & palm oil based agriculture products	17.5	3.0	(11.8)	23.3	(9.4)	(9.5)	(3.5)

Source: CIEC, MIDFR

Cloudy outlook for 4Q19 numbers. In line with our expectation, exports growth for 3Q19 registered negative growth of -1.9%yoy (2Q19: -0.4%yoy). Looking ahead to the 4Q19, exports performance is expected to be quite vulnerable especially with the uncertainty over trade tensions. On the latest development of US-China trade deal, the duo is expected to sign the partial deal on January 15. Based on our regional partners' trade performance in Dec-19, South Korea's export contracted by -5.2%yoy, the first single digit fall after six consecutive month of double digit. Meanwhile, Vietnam's export continued to expand, this time at three-month high of +10.1%yoy. In regards to manufacturing condition and activity, global and emerging economies manufacturing PMI maintain under expansionary mode.


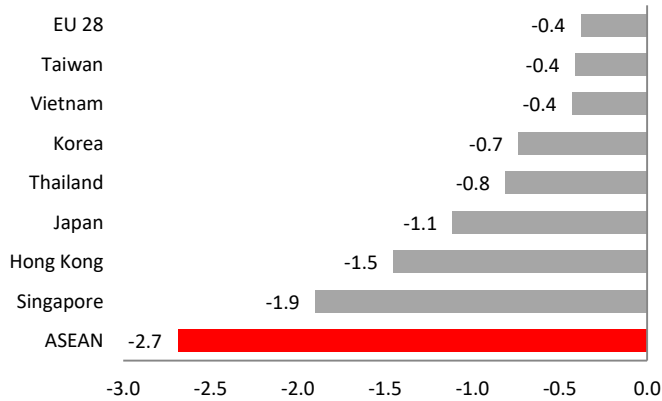
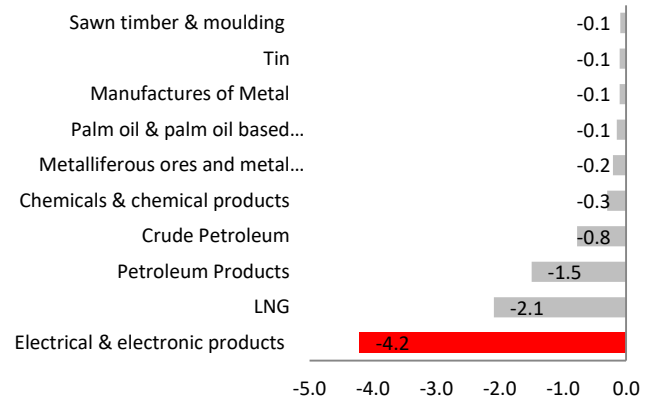
We forecast export to grow by 1.5%yoy in 2020. For the first eleven months of 2019, exports growth averaged at -2.1%yoy and likely to end that year with contraction. For 2020, we forecast export growth to recover at +1.5%yoy. We believe uncertainties over trade crusades and loss of growth momentum in some major economies will continue to threaten our exports performance. In addition, continuous decline in imports of capital and intermediate goods in 2019 indicate weak prospects for exports in 2020. Nevertheless, we opine that commodity-based sectors particularly LNG exports to contribute to a better growth in exports especially with Petronas's second floating liquefied natural gas named PFLNG 2 expected to be operational in 2020. 

Chart 1: % Contribution to Negative Export Growth by Destination



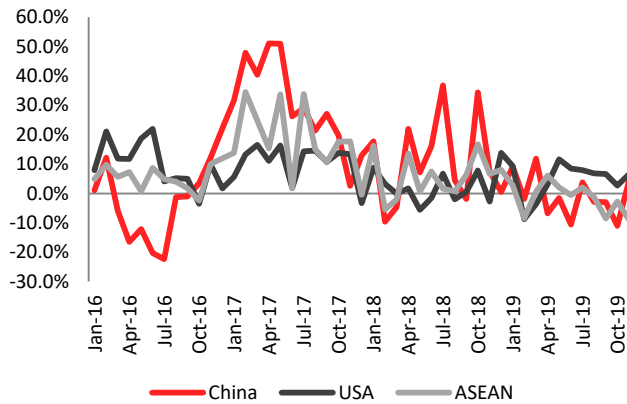
Source: CEIC; MIDFR

Chart 2: % Contribution to Negative Export Growth by Products



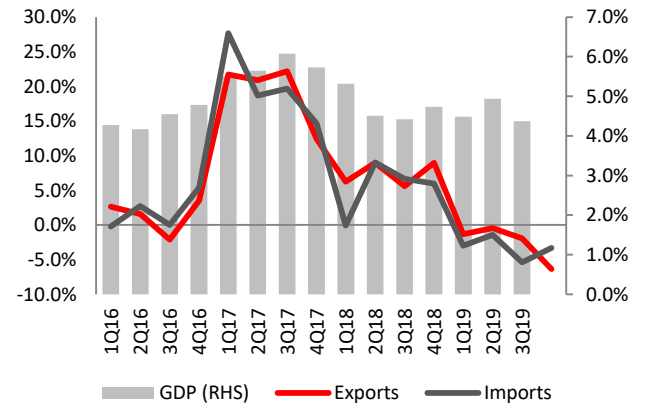
Source: CEIC; MIDFR

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



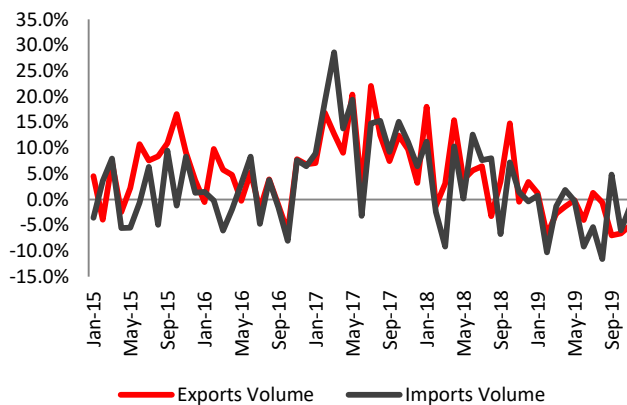
Source: CEIC; MIDFR

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



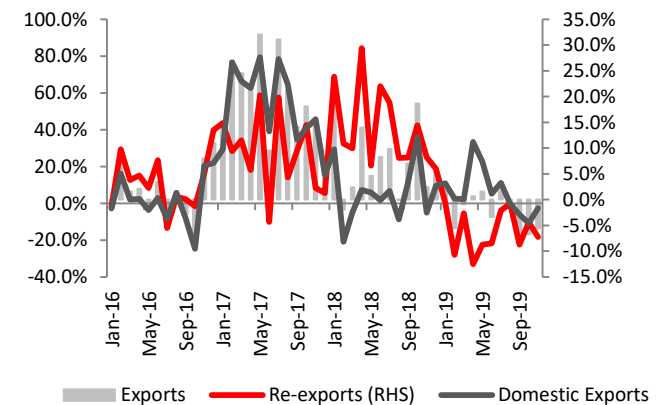
Source: CEIC; MIDFR

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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