

ECONOMIC REVIEW | November 2018 External Trade**Exports Growth Eased to 3-Month Low as Sales of E&E Products Plunged to 2-year Low**

- *Exports growth at 3-month low. Exports growth in Nov-18 eased to 1.6%yoy from a double digit growth of 17.7%yoy recorded in the previous month. However, the value still maintain above the monthly year-to-date average of RM83B. The lower growth was a result of moderating sectoral performances. Manufactured goods, the largest contributor to exports experienced a slowdown in growth to a single digit of 2.2%yoy (19.9%yoy in Oct-18). Similarly, outbound shipment of mining goods grew by 16.1%yoy (29.6%yoy in Oct-18) while agriculture goods contracted further at 17.6%yoy (-12.3%yoy in Oct-18).*
- *Sales of E&E products plunged to 2-year low. Exports of E&E products which constituted about 37% of total exports shrunk by 1.7%yoy to RM31.2B in Nov-18, the first decline since Mar-18 and the lowest since Aug-16 partly due to rising competitions. The rise of low-cost manufacturing and assembly in ASEAN countries such as Vietnam which is an increasingly important global hub poses threat to Malaysia.*
- *We forecast exports growth to average 3.6% in 2019. Amid higher base effects and continuous signs of easing key global indicators, we foresee exports growth to moderate further at 3.6% this year (7.3% estimated for 2018). For the first eleven months of 2018, exports growth is averaged at 7%yoy. The moderating pace is consistent with global commodity prices, expectation of a slight slowdown in overall business performance on top of the uncertainty over Sino-US trade conflict.*

Exports growth at 3-month low. Exports growth in Nov-18 eased to 1.6%yoy from a double digit growth of 17.7%yoy recorded in the previous month. However, the value still maintain above the monthly year-to-date average of RM83B. The lower growth was a result of moderating sectoral performances. Manufactured goods, the largest contributor to exports experienced a slowdown in growth to a single digit of 2.2%yoy (19.9%yoy in Oct-18). Similarly, outbound shipment of mining goods grew by 16.1%yoy (29.6%yoy in Oct-18) while agriculture goods contracted further at 17.6%yoy (-12.3%yoy in Oct-18). Meantime, November's imports increased by 5%yoy, returning to below RM80B level. On a monthly basis, both exports and imports contracted by 12% and 3.5% respectively. As exports outperformed imports, trade surplus is recorded at RM7.6B, the lowest in three months. For the first eleven months, trade surplus (RM110B) has already hit 91% of our full-year target of RM119.9B.

Imports of capital goods recovered. Imports of capital goods posted a positive growth of 0.4%yoy in Nov-18 after two consecutive months of negative growth, a sign that manufacturer expects growth or at least steady demand for its products. This points at rising activity and rising confidence in the manufacturing industry, which should impact positively on employment opportunities and future exports. Similarly, inbound shipments of consumption goods grew by 0.9%yoy, signals that purchasing power and household consumption are still robust in Malaysia. In contrast, imports of intermediate goods, the largest share of total imports (52.1%), contracted by 0.3%yoy (+1%yoy in Oct-18), and could indicate rising demand for raw materials among domestic manufacturers.

Table 1: Malaysia's External Trade Summary

	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
Exports (RMb)	82.1	78.7	86.1	81.8	83.0	96.4	84.8
% YoY	3.4	7.6	9.4	(0.3)	6.5	17.7	1.6
% MoM	(2.5)	(4.2)	9.6	(5.0)	1.4	16.2	(12.0)
Imports (RMb)	74.0	72.6	77.8	80.2	67.7	80.1	77.2
% YoY	0.1	14.9	10.3	11.2	(2.8)	11.4	5.0
% MoM	3.9	(1.9)	7.2	3.0	(15.6)	18.2	(3.5)
Total Trade	156.1	151.3	164.0	162.0	150.7	176.4	162.0
% YoY	1.8	11.0	9.8	5.1	2.1	14.8	3.2
% MoM	0.4	(3.1)	8.4	(1.2)	(7.0)	17.1	(8.2)
Trade Balance (RMb)	8.1	6.0	8.3	1.6	15.2	16.3	7.6
Import Components							
Intermediate (RMb)	40.1	39.4	39.9	45.0	35.7	39.3	40.2
% YoY	(5.3)	3.1	(0.1)	4.2	(9.5)	1.0	(0.3)
Capital (RMb)	9.8	9.4	9.6	11.7	7.3	9.4	10.5
% YoY	(0.7)	14.1	4.7	29.4	(21.4)	(1.6)	0.4
Consumption (RMb)	6.0	5.9	6.7	7.1	5.2	6.4	6.6
% YoY	(10.2)	4.9	11.1	14.2	(10.0)	7.6	0.9

Note: MoM is non-seasonally adjusted figure
 Source: CIEC, MIDFR

Domestic exports dropped. In Nov-18, domestic exports fell by 2.6%yoy to RM68.9B in contrast to a 12.1%yoy rise in the preceding month. The first fall in three months suggest that domestic exports have yet to gain a momentum. Meantime, re-exports which have low domestic value-added grew solidly by 24.5%yoy (43.8%yoy in Oct-18). The ratio of re-exports to total exports recorded lower at 18.7%yoy which demonstrates that for every RM1 value of exports, approximately 19 cents of it is re-exports. Malaysia exports growth is expected to remain steady with the increasing contribution of re-exports which established the importance of Malaysia in global value chain.

Exports to major markets waned. Malaysia's exports to major markets such as the US and Japan decreased by 3.6%yoy and 8.9%yoy respectively on the back of sluggish demand for manufactured goods namely E&E products. In contrast, exports to China registered a positive growth of 3.9%yoy driven by higher sales of chemicals & chemical products and petroleum products however far lower than a strong double digit growth of 33%yoy recorded in the prior month. By region, the upward trend of exports continued for ASEAN (6.4%yoy) but not for the EU as it dropped by 7.7%yoy in Nov-18. Among ASEAN countries, outbound shipments to Indonesia continued to decline for the fourth continuous month in tandem with the imports tariffs imposed by the country to support rupiah.

Table 2: Malaysia's Exports (YoY%)

	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
Total Exports (RMb)	82.1	78.7	86.1	81.8	83.0	96.4	84.8
Re-exports (RMb)	16.3	15.7	18.7	13.5	16.5	20.8	15.9
Domestic Exports (RMb)	65.6	62.9	67.5	68.3	66.4	75.5	68.9
Exports by Key Country / Region							
China	7.4	16.9	37.5	4.5	(0.6)	33.0	3.9
USA	(5.6)	(1.9)	6.7	(2.0)	0.1	7.6	(3.6)
Japan	16.0	(14.5)	(17.1)	(22.9)	(10.6)	10.2	(8.9)
India	(3.9)	(7.9)	16.3	(11.3)	1.2	17.4	(0.5)
Hong Kong	34.8	64.4	80.8	55.8	48.7	42.1	17.4
Australia	(6.9)	(4.7)	6.3	11.4	23.0	47.0	(14.1)
EU	11.4	5.6	2.2	(8.9)	3.1	8.5	(7.7)
ASEAN	(1.9)	7.4	1.2	0.6	6.2	16.0	6.4
Selected ASEAN							
Singapore	(9.8)	(0.3)	(2.0)	(2.2)	8.7	18.3	7.1
Thailand	18.4	13.2	6.0	15.6	7.5	20.8	3.7
Indonesia	(20.1)	24.0	4.2	(12.5)	(1.8)	(3.6)	(13.2)
Vietnam	41.3	30.6	12.8	6.9	7.5	36.3	39.0
Philippines	(4.1)	(9.3)	4.3	4.9	5.1	9.8	(0.7)

Source: CIEC, MIDFR

Sales of E&E products plunged to 2-year low. Exports of E&E products which constituted about 37% of total exports shrunk by 1.7%yoy to RM31.2B in Nov-18, the first decline since Mar-18 and the lowest since Aug-16 partly due to rising competitions. The rise of low-cost manufacturing and assembly in ASEAN countries such as Vietnam which is an increasingly important global hub poses threat to Malaysia. Such an alarming situation would need the local E&E players to transform the industry towards higher value added segments in order for them to remain competitive in the global supply chain. Meanwhile, palm oil shipments continued to post larger negative growth at 21.1%yoy in Nov-18 (-17.3%yoy in Oct-18) as a result of falling demand from both China and India. Looking ahead, palm oil sales are expected to improve starting Jan-19 buoyed by higher demands from India as a result of import taxes cut on crude and refined palm oil from ASEAN countries. The duty on crude palm oil was lowered to 40% from 44%, while a tax on the refined variety was reduced to 50% from 54%.

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

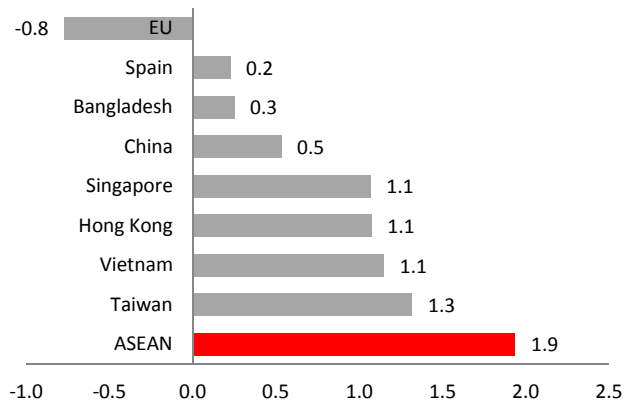
	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
E&E	2.1	6.9	23.6	3.2	6.5	23.3	(1.7)
Machinery, Equipment & Parts	(11.5)	10.4	2.0	(7.1)	1.8	4.2	(0.4)
Optical & Scientific Equipment	13.4	30.9	9.1	7.9	17.1	10.3	10.5
Petroleum Products	1.7	33.9	(13.0)	18.0	6.8	31.2	41.2
Crude Petroleum	45.8	25.3	90.1	70.8	54.5	32.8	17.7
LNG	61.0	(31.2)	(38.4)	(20.4)	3.2	38.8	26.4
Palm Oil	(24.7)	(26.8)	(22.2)	(27.0)	(16.5)	(17.3)	(21.1)

Source: CIEC, MIDFR

Better outlook for 4Q18. Exports growth for 3Q18 averaged at 5.3%yoy (the lowest gain in seven quarters) from 8.4%yoy in 2Q18. However, looking ahead to the final quarter of 2018, we expect exports to perform better than the earlier three quarters, in line with our yearly forecast of 7.3%yoy. Based on our regional partners' trade performance in Dec-18, exports growth of Vietnam eased to 6.5%yoy, following a 8.5%yoy rise in the previous month. In contrast, South Korea's exports contracted by 1.2%yoy in the same month. In regards to manufacturing condition and activity, both global and emerging economies manufacturing PMI edged down to 51.5 and 50.3 respectively in Dec-18 (52 and 50.8 in Nov-18) however maintained on an expansionary trend. On a side note, risks to the global economy remain despite recent trade truce between the US and China as it does little to deal with the core sticking points of the duo's economic rivalry.

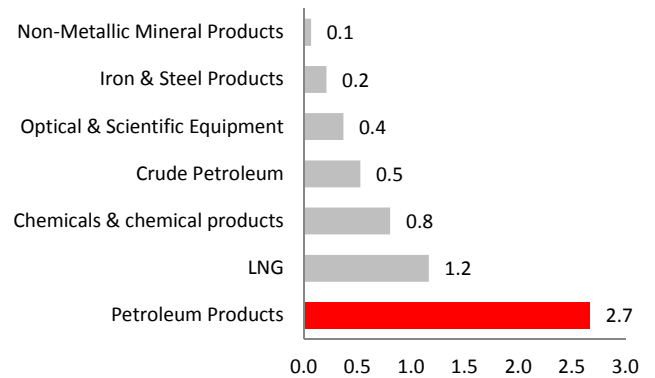
We forecast exports growth to average 3.6% in 2019. Amid higher base effects and continuous signs of easing key global indicators, we foresee exports growth to moderate further at 3.6% this year (7.3% estimated for 2018). For the first eleven months of 2018, exports growth is averaged at 7%yoy. The moderating pace is consistent with global commodity prices, expectation of a slight slowdown in overall business performance on top of the uncertainty over Sino-US trade conflict. 

Chart 1: % Contribution to Exports Growth by Destination



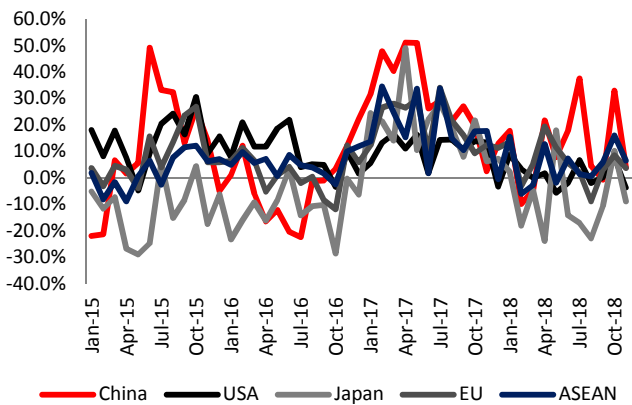
Source: CEIC; MIDFR

Chart 2: % Contribution to Exports Growth by Products



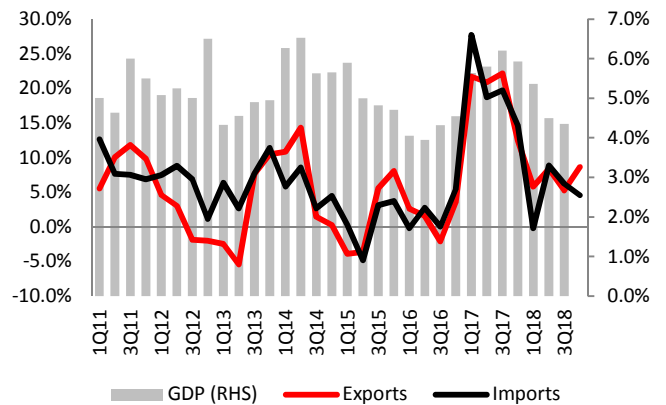
Source: CEIC; MIDFR

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



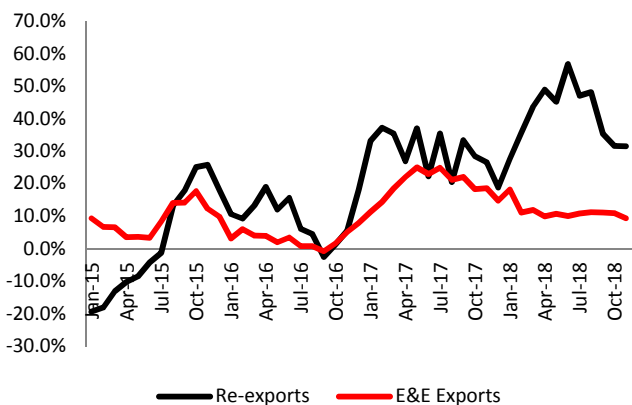
Source: CEIC; MIDFR

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



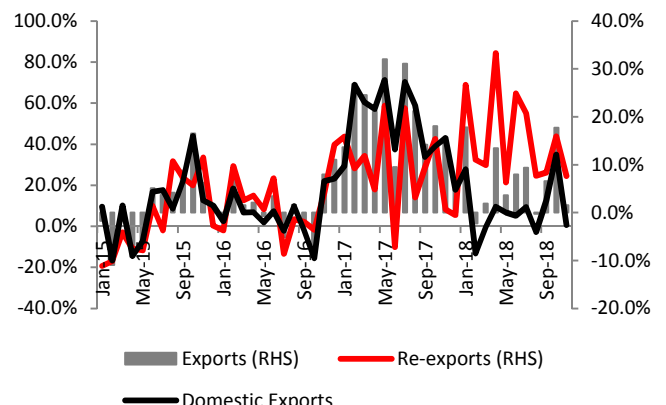
Source: CEIC; MIDFR

Chart 5: 3MMA of E&E Exports & Re-exports (%)



Source: CEIC; MIDFR

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



Source: CEIC; MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.