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ECONOMIC REVIEW | June 2022 External Trade

More Robust Exports in Jun-22 Driven by E&E and Petroleum Products

- *Another month of stronger-than-expected growth. Malaysia's total trade grew for the 19th straight month, rising faster by +43.3%yoy to a new record high of RM270.3b in Jun-22. Exports growth quickened again to +38.6%yoy (May-22: +30.5%yoy), higher than our estimate and market consensus. Meanwhile, the jump in imports was also stronger than anticipated, expanding at +49.3%yoy in Jun-22 (May-22: +37.2%yoy) which is the fastest growth since Feb-98.*
- *Robust exports of E&E and petroleum. Exports for all major sectors registered higher growth in Jun-22. In particular, mining goods exports surged (Jun-22: +116.3%; May-22: +54.9%yoy) due to stronger exports of LNG (+153.1%yoy) and crude petroleum (+82.2%yoy). Manufacturing goods exports grew faster in Jun-22 (+33.8%yoy: May-22: +27.3%yoy), primarily due to robust exports of refined petroleum (+104.1%yoy) and sustained rise in E&E exports (+40.9%yoy).*
- *Upgrade our forecast for exports and imports to +20.9% and +25.6%, respectively. Given the better-than-expected external trade numbers in 1HCY22, we upgrade our growth forecast for both exports and imports to +20.9% and +25.6%, respectively. However, we remained cautious about the possibility of slower global growth that may affect future trade activity.*

Another month of stronger-than-expected growth. Malaysia's total trade grew for the 19th straight month, rising faster by +43.3%yoy to a new record high of RM270.3b in Jun-22. The sustained increase in Jun-22 brings total trade to RM1.36t in 1HCY22, or 28.6% higher than 1H last year. Exports growth quickened again to +38.6%yoy (May-22: +30.5%yoy), higher than our estimate and market consensus. The higher exports was underpinned by stronger growth in domestic exports (Jun-22: +30.5%yoy; May-22: +22.2%yoy), on the back of increased demand for E&E, petroleum, palm oil and LNG. Meanwhile, the jump in imports was also stronger than anticipated, expanding at +49.3%yoy in Jun-22 (May-22: +37.2%yoy) which is the fastest growth since Feb-98. While this indicates improved growth momentum in line with further reopening of the economy, it also reflects normalization in domestic economic activities after the nationwide lockdown one year ago.

Trade surplus increased from 2-year low in May-22. Trade surplus in Jun-22 was higher at RM21.9b, an increase from the 2-year low of RM12.7b in May-22. The wider surplus was due to sharper rise of +21.3%mom in monthly exports value, compared to +15.2%mom increase in imports. Looking at trade balance by sector, higher surplus was recorded in trade of manufactured goods (Jun-22: RM16.7b; May-22: RM10b) and agriculture goods (Jun-22: RM6.9b; May-22: RM4.7b). For the manufactured goods, the surplus mainly reflects the wider surplus (and stronger exports) in the E&E sector, while higher surplus in trade of palm oil products contributed to increased trade surplus in agriculture sector. For mining sector, the surplus was marginally unchanged at RM0.6b (May-22: RM0.5b) because the higher surplus in LNG trade was offset by the deficit in crude petroleum trade. The data also shows that there was a larger increase in Malaysia's imports, both crude and processed petroleum, on due to elevated global oil prices and weak ringgit.

The fastest imports growth in 24 years. The surge in imports by +49.3%yoy in Jun-22 was contributed by increased purchases in all types of goods: intermediate (+47.3%yoy), capital (+30.4%yoy) and consumption (+25.6%yoy) goods. Capital goods imports rebounded to positive growth after 2 months of contraction. This

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shows businesses are investing to expand their capacity given better business outlook. Meanwhile, the value of monthly imports for intermediate and consumption goods rose to new record highs of RM64.4b and RM9.2b, respectively, following continued improvement in domestic spending activity. By sector, nearly two-thirds (or 63.9%) of Jun-22 imports growth are due to purchases of E&E products (+37.4%yoy), refined petroleum (+104.1%yoy); crude petroleum (+82.2%yoy); and, transport equipment (+88.2%yoy). Despite being an oil-producing nation, this indicates Malaysia's imports was also impacted by the high oil and commodity prices. The higher imports of transport equipment, on the other hand, signals improved global supply chain activity.

Table 1: Malaysia's External Trade Summary

	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Exports (RMb)	123.8	111.1	105.6	131.6	127.6	120.5	146.2
% YoY	29.2	23.9	20.6	25.3	20.8	30.5	38.6
% MoM	10.4	(10.3)	(4.9)	24.6	(3.0)	(5.6)	21.3
Imports (RMb)	92.9	92.5	82.5	104.9	104.1	107.8	124.2
% YoY	23.6	26.7	18.4	29.9	22.1	37.2	49.3
% MoM	(0.4)	(0.4)	(10.8)	27.2	(0.8)	3.5	15.2
Total Trade (RMb)	216.7	203.6	188.1	236.5	231.7	228.3	270.4
% YoY	26.8	25.2	19.6	27.3	21.4	33.6	43.3
% MoM	5.5	(6.1)	(7.6)	25.7	(2.0)	(1.5)	18.4
Trade Balance (RMb)	31.0	18.6	19.8	26.6	23.5	12.7	21.9
Import Components							
Intermediate (RMb)	51.1	50.5	47.4	58.9	59.7	63.1	64.4
% YoY	27.1	28.3	23.6	35.0	28.4	34.4	47.3
Capital (RMb)	10.2	9.9	7.9	9.4	9.1	8.8	11.2
% YoY	21.0	36.3	4.3	13.5	(2.4)	(1.8)	30.4
Consumption (RMb)	8.0	8.7	7.0	8.7	8.3	8.5	9.2
% YoY	13.1	32.4	18.2	22.3	9.9	19.0	25.6

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

Stronger shipments to major markets except China. By destination, exports to most major markets except China accelerated in Jun-22. Exports to ASEAN jumped to +53.8%yoy, the fastest growth in 14 months, on the back of strong demand for petroleum and E&E products. Exports to Singapore and Indonesia even jumped to more than +70%yoy. This was driven by increased shipments of E&E, refined petroleum and machinery & equipment to Singapore, and a surge in refined petroleum exports to Indonesia. Malaysia's exports to advanced markets like the US, Japan and EU also expanded faster in Jun-22. Shipment to the US was backed largely by exports of E&E and refined petroleum, while major products shipped to the EU were mainly E&E, manufacturers of metal and palm oil products. The moderation in exports to China is more or less in line with our expectations because we anticipated some impact from the lockdown in China on international trade. Malaysia's exports to China grew at slower rate of +4.2%yoy (May-22: +10%yoy), the slowest growth in 11 months. Although higher shipments of E&E (+30.9%yoy), other manufactured goods (+89.9%yoy) and LNG (+36.1%yoy) contributed to the rise in exports to China, but the growth was dragged down by reduced exports of refined petroleum products (-88.4%yoy) and iron & steel (-86.6%yoy).

Table 2: Malaysia's Exports (YoY%)

	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Total Exports (RMb)	**123.8**	**111.1**	**105.6**	**131.6**	**127.6**	**120.5**	**146.2**
Re-exports (RMb)	21.1	19.9	18.0	24.7	24.1	24.3	35.6
Domestic Exports (RMb)	102.7	91.1	87.6	106.9	103.4	96.1	110.6
Exports by Key Country / Region							
China	28.8	29.7	19.2	10.7	12.4	10.0	4.5
USA	33.4	17.6	4.0	10.2	18.0	15.4	30.6
Japan	11.9	11.6	15.8	30.6	24.3	14.8	51.6
India	18.7	78.3	22.9	25.4	37.9	12.9	39.1
Hong Kong	21.0	13.3	5.4	5.3	20.7	53.6	41.5
Australia	65.0	1.4	10.8	44.9	57.7	18.3	40.9
EU	29.2	15.0	18.3	17.7	31.1	30.1	39.4
ASEAN	31.4	19.7	20.1	37.6	14.3	44.2	53.8
Singapore	21.8	16.5	14.4	34.0	9.1	40.9	70.9
Thailand	18.4	21.2	34.7	32.5	23.8	37.9	24.0
Indonesia	63.6	31.7	25.8	50.7	24.1	60.7	74.5
Vietnam	53.0	19.5	43.3	21.3	26.5	24.9	16.4
Philippines	45.6	15.3	1.2	63.8	10.8	61.4	27.5

Source: CEIC, MIDFR

Robust exports of E&E and petroleum. By sector, exports for all major sectors registered higher growth in Jun-22. In particular, mining goods exports surged (Jun-22: +116.3%; May-22: +54.9%yoy) because of stronger exports of LNG (+153.1%yoy) and crude petroleum (+82.2%yoy). Manufacturing goods exports grew faster in Jun-22 (+33.8%yoy: May-22: +27.3%yoy), primarily due to robust exports of refined petroleum (+104.1%yoy) and sustained rise in E&E exports (+40.9%yoy). We believe the robust trade of petroleum products was feasible with the restart of refinery operations in Pengerang, while the E&E sector continued to benefit from growing external demand. Agriculture exports also increased in Jun-22 (+46.8%yoy; May-22: +43.9%yoy), driven by sustained exports of palm oil products and higher shipments of sawn timber & moulding, natural rubber, other agriculture products, and seafood.

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

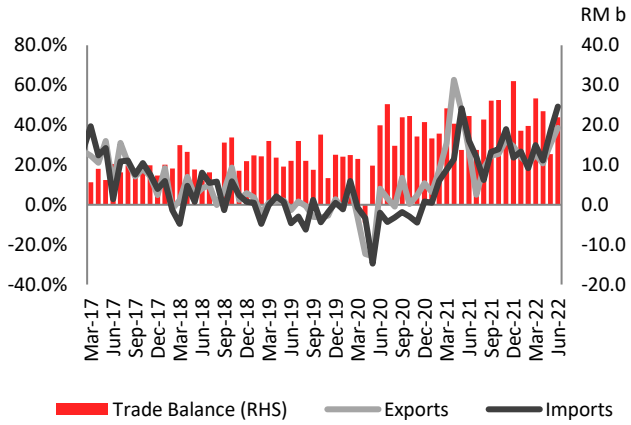
	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
E&E	36.1	22.4	25.8	32.9	27.5	45.5	40.9
Machinery, Equipment & Parts	37.3	36.5	17.0	13.7	15.8	20.9	35.0
Optical & Scientific Equipment	25.8	14.6	13.8	16.8	15.7	11.7	24.6
Palm oil & palm-oil based products	50.3	92.8	57.6	50.6	46.0	59.4	42.8
Crude Petroleum	(1.2)	5.2	21.5	92.5	64.5	52.8	82.2
Petroleum Products	27.7	40.0	8.1	106.2	(6.3)	112.6	104.1
LNG	52.2	71.9	45.7	100.5	60.9	60.6	153.1
Rubber products	(39.5)	(53.4)	(59.2)	(60.5)	(59.5)	(62.9)	(63.4)

Source: CEIC, MIDFR

External trade grew faster in 2QCY22. External trade performance in 2QCY22 is more robust compared to the earlier quarter with exports growing faster at +29.9%yoy (1QCY22: +23.4%yoy). Being part of the global production network, Malaysia stands to benefit from the growing demand for manufactured goods, particularly E&E. The stronger exports performance in 2QCY22 also shows how the increase in commodity prices supported the sustained growth in commodity exports, particularly palm oil and petroleum products. On the other hand, we expect the goods exports would be smaller contribution to GDP growth in 2QCY22 as the relatively faster imports (2QCY22: +36.1%yoy; 1QCY22: +25.2%yoy) will be a larger drag to the economic growth during the quarter. Further reopening of the economy and stronger consumption activity basically led to the stronger imports during the quarter. As a result, trade surplus declined to RM58.1b in 2QCY22 (1QCY22: RM65b).

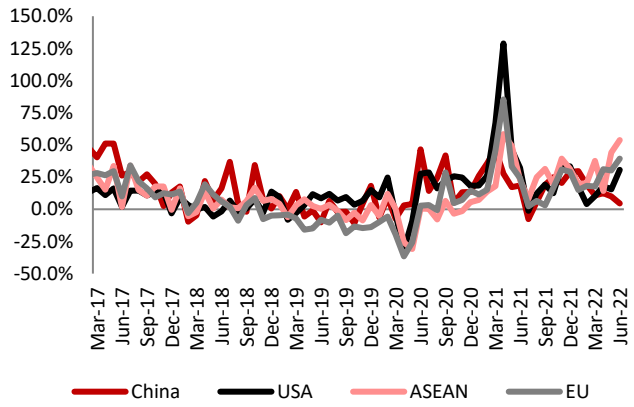
Upgrade our forecast for exports and imports to +20.9% and +25.6%, respectively. Given the better-than-expected external trade numbers in 1HCY22, we upgrade our growth forecast for both exports and imports to +20.9% and +25.6%, respectively. We expect growing external demand for E&E and commodities, particularly palm oil and petroleum products, to drive overall exports growth this year, and the firm imports growth will continue on the back of continued improvement in domestic economic activities. However, we remained cautious about the possibility of slower global growth that may affect future trade activity. The downside risks to trade outlook could come from weaker global demand amid rising inflation globally, possible sharp slowdown in the US due to aggressive monetary policy tightening, and weak recovery in China after the Covid-19 lockdown earlier this year.

Chart 1: Exports & Imports (YoY%) vs Trade Balance (RM b)



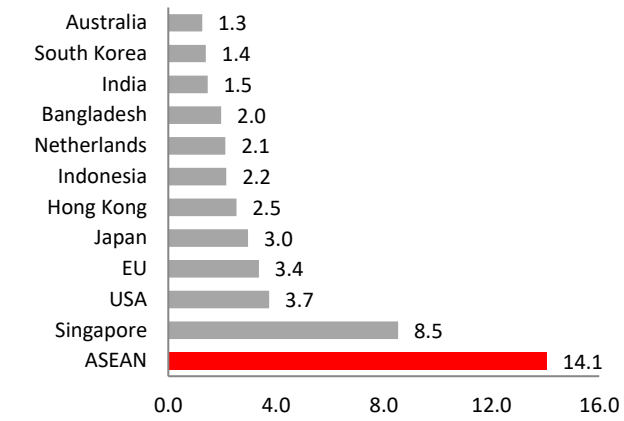
Source: CEIC, MIDFR

Chart 2: Exports Growth by Major Destination (YoY%)



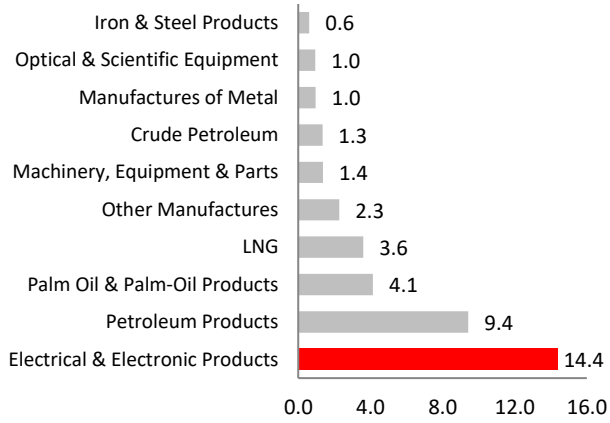
Source: CEIC, MIDFR

Chart 3: %-point Contribution to Total Exports Growth in Jun-22 by Major Destination



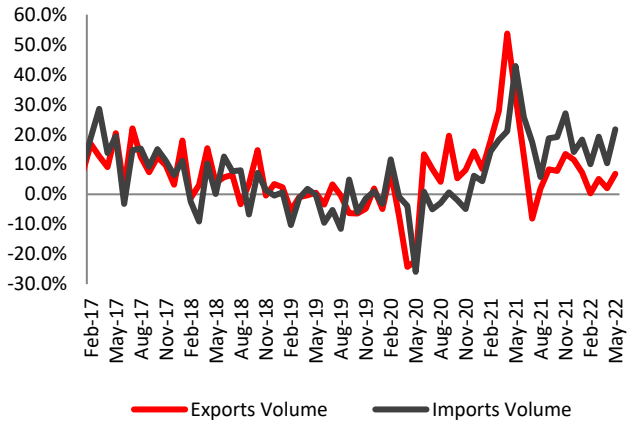
Source: CEIC, MIDFR

Chart 4: %-point Contribution to Total Exports Growth in Jun-22 by Key Products



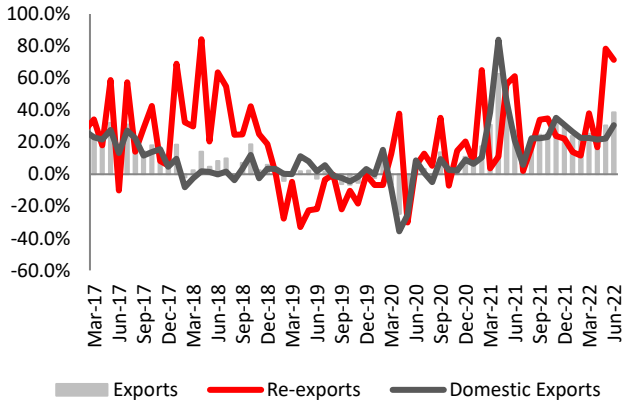
Source: CEIC, MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



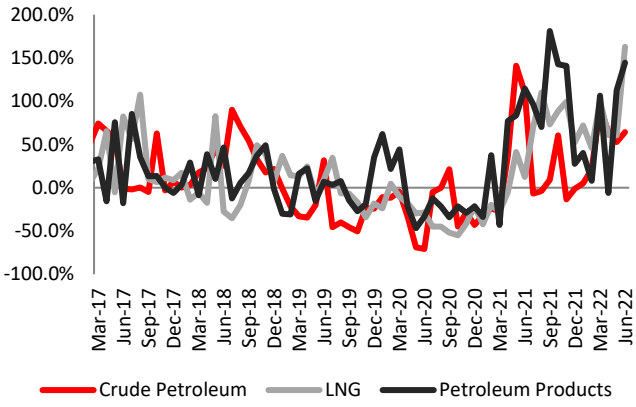
Note: Latest available data as of May-22
Source: CEIC, MIDFR

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



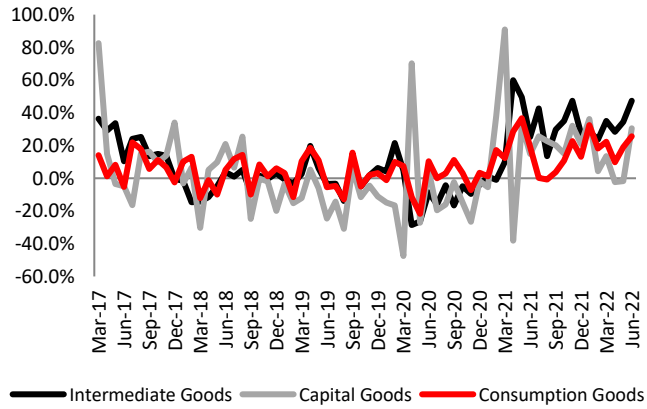
Source: CEIC, MIDFR

Chart 7: Exports of Selected Mining Goods (YoY%)



Source: CEIC, MIDFR

Chart 8: Imports of Goods by Use (YoY%)



Source: CEIC, MIDFR

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