19 August 2022

ECONOMIC REVIEW | July 2022 External Trade

E&E and Petroleum Supported Exports to Expand 38%yoy in Jul-22

- *External trade still robust in Jul-22. Malaysia's total trade continued to grow in Jul-22. Total trade stood at RM252.6b, the second highest after record high RM270.1b in Jun-22. Exports growth in particular was sustained at +38%yoy (Jun-22: +38.4%yoy), higher than our estimate, driven by demand for major products such as E&E, petroleum (both processed and crude), palm oil and LNG. Imports growth remained positive but moderated to +41.9%yoy (Jun-22: +49.2%yoy).*
- *Exports of E&E and petroleum remained the main source of growth. By sector, E&E exports moderated to +35.2%yoy but remained the major contributor (+12.6ppt) to overall exports growth in Jul-22, mainly due to rising demand for semiconductors. Another source of exports growth comes from petroleum exports, both crude and refined petroleum products.*
- *Maintain our 2022 growth forecast for exports and imports. We maintain our forecast for exports and imports to grow at +20.9% and +25.6%, respectively, this year. While trade outlook may be adversely impacted by weaker global growth, we foresee sustained recovery in the global economy will continue to drive external demand or manufactured goods (i.e. E&E and refined petroleum) and primary commodities.*

External trade still robust in Jul-22. Malaysia's total trade continued to grow in Jul-22. Total trade stood at RM252.6b, the second highest after record high RM270.1b in Jun-22. Exports growth in particular was sustained at +38%yoy (Jun-22: +38.4%yoy), somewhat higher than our estimate. We anticipated recent correction in commodity prices and weaker demand from China would start to hit exports performance. The official number is better than expected, also due to lower base in Jul-21 which explained the stronger expansion in domestic exports at +33.4%yoy (Jun-22: +30.5%yoy). Re-exports, on the other hand, moderated to +55.1%yoy (Jun-22: +70.9%yoy). Overall, exports growth in Jul-22 was driven by major products such as E&E, petroleum (both processed and crude oil), palm oil and LNG. Meanwhile, imports growth remained positive but moderated to +41.9%yoy (Jun-22: +49.2%yoy). Increased imports, which has been growing at double-digit pace in the last 18 months, reflects the improving domestic economic activities as Malaysia transitioned into endemic phase.

Trade surplus shrank to RM15.5b. Trade surplus dropped to RM15.5b in Jul-22 (Jun-22: RM21.9b) due to larger monthly decline in exports (-8.2%mom) vis-à-vis imports (4.5%mom). By sector, smaller surplus was recorded in trade of manufactured goods (RM14.9b) and agriculture goods (RM4.3b). For the manufactured goods, the reduction comes from lower surplus in E&E trade, but it was partly offset by trade of refined petroleum which turned to surplus mainly because of slower imports of petroleum products. For agriculture trade, the lower surplus largely reflects smaller surplus in trade of crude palm oil. Meanwhile, trade of mining goods turned to deficit (-RM1.6b) as higher imports resulted in larger deficits for crude petroleum and other mining commodities. Looking at the reduced surplus in palm oil trade and larger deficit in crude petroleum trade, we believe the changes reflect the impact of lower commodity prices during the month.

Moderation in intermediate goods imports. Imports expanded further albeit at slower pace of +41.9%yoy in Jul-22 (Jun-22: +49.2%yoy). The robust growth was underpinned by higher growth in consumption goods imports (+33.2%yoy), which is the fastest expansion since May-21. This was in line with the more robust domestic spending on the back of relaxation of Covid-19 SOPs and increased mobility. While the growth in capital

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goods imports maintained at healthy double-digit pace of 29.6%yoy, the moderation in overall imports was mainly attributable to moderate +32.3%yoy expansion in imports of foreign-made intermediate goods. By sector, more than two-thirds (or 69.1%) of Jul-22 imports growth were from higher purchases of refined petroleum (+108%yoy); E&E products (+29%yoy); other mining commodities (+195.2%yoy); crude petroleum (+105.8%yoy); and, transport equipment (+85.7%yoy).

Table 1: Malaysia's External Trade Summary

	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
Exports (RMb)	111.1	105.6	131.6	127.6	120.5	146.0	134.1
% YoY	23.9	20.6	25.3	20.8	30.5	38.4	38.0
% MoM	(10.3)	(4.9)	24.6	(3.0)	(5.6)	21.2	(8.2)
Imports (RMb)	92.5	82.5	104.9	104.1	107.8	124.2	118.6
% YoY	26.7	18.4	29.9	22.1	37.2	49.2	41.9
% MoM	(0.4)	(10.8)	27.2	(0.8)	3.5	15.2	(4.5)
Total Trade (RMb)	203.6	188.1	236.5	231.7	228.3	270.2	252.6
% YoY	25.2	19.6	27.3	21.4	33.6	43.2	39.8
% MoM	(6.1)	(7.6)	25.7	(2.0)	(1.5)	18.4	(6.5)
Trade Balance (RMb)	18.6	19.8	26.6	23.5	12.7	21.9	15.5
Import Components							
Intermediate (RMb)	50.5	47.4	58.9	59.7	63.1	64.4	61.8
% YoY	28.3	23.6	35.0	28.4	34.4	47.2	32.2
Capital (RMb)	9.9	7.9	9.4	9.1	8.8	11.1	11.0
% YoY	36.3	4.3	13.5	(2.4)	(1.8)	30.0	29.6
Consumption (RMb)	8.7	7.0	8.7	8.3	8.5	9.3	8.5
% YoY	32.4	18.2	22.3	9.9	19.0	25.8	33.2

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

Higher exports growth to Asia. By destination, exports to Asian countries such as ASEAN, China and India rose faster. In particular, exports to ASEAN increased at +55.6%yoy, mainly due to a jump in shipments to Philippines and stronger exports to Thailand and Vietnam. Meanwhile, exports to Singapore grew further at +57.1%yoy, albeit not as fast as Jun-22 but the increase was driven by higher exports of E&E and refined petroleum. Although exports to China picked up (+9.8%yoy) with higher shipments of E&E and LNG, we are still cautious of weaker demand from China. The Jul-22 trade data already shows reduced exports of crude palm oil, iron & steel and petroleum products to China, in line with the sluggish China's imports performance in the recent months. To other destinations i.e. Japan, the US, and EU, exports growth moderated during the month. But, continued expansion in shipment to Japan was underpinned by exports of LNG and E&E. Exports to the US in Jul-22 was driven entirely by E&E exports; while exports to EU countries was supported by E&E and various manufactured goods such as petroleum products, manufactures of metal, and machinery, equipment & parts.

Table 2: Malaysia's Exports (YoY%)

	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
Total Exports (RMb)	111.1	105.6	131.6	127.6	120.5	146.0	134.1
Re-exports (RMb)	19.9	18.0	24.7	24.1	24.3	35.5	32.0
Domestic Exports (RMb)	91.1	87.6	106.9	103.4	96.1	110.6	102.1
Exports by Key Country / Region							
China	29.7	19.2	10.7	12.4	10.0	4.2	9.8
USA	17.6	4.0	10.2	18.0	15.4	30.4	20.5
Japan	11.6	15.8	30.6	24.3	14.8	51.5	30.8
India	78.3	22.9	25.4	37.9	12.9	39.2	51.6
Hong Kong	13.3	5.4	5.3	20.7	53.6	41.5	41.4
Australia	1.4	10.8	44.9	57.7	18.3	40.8	37.7
EU	15.0	18.3	17.7	31.1	30.1	38.9	21.2
ASEAN	19.7	20.1	37.6	14.3	44.2	53.7	55.6
Singapore	16.5	14.4	34.0	9.1	40.9	69.5	57.1
Thailand	21.2	34.7	32.5	23.8	37.9	24.0	39.4
Indonesia	31.7	25.8	50.7	24.1	60.7	74.5	67.0
Vietnam	19.5	43.3	21.3	26.5	24.9	16.4	23.0
Philippines	15.3	1.2	63.8	10.8	61.4	27.5	74.8

Source: CEIC, MIDFR

Exports of E&E and petroleum remained the main source of growth. By sector, manufactured goods exports registered sustained growth at +35.4%yoy, supported by stronger growth in exports of chemicals & chemical products, manufactures of metal, and optical & scientific equipment. Although E&E exports moderated to +35.2%yoy, E&E remained the major contributor (+12.6ppt) to overall exports growth in Jul-22, mainly due to rising demand for semiconductors, telecommunication equipment & parts, and electronic machines. Another source of exports growth comes from petroleum exports, with the combined contribution of +9.7ppt from crude and refined petroleum products. Exports performance for the mining sector still remained strong at +100.4%yoy, albeit slower than previous month due to moderation in LNG and crude oil exports. Exports of agriculture goods also moderated to +24.1%yoy in Jul-22, primarily linked to the slower growth in exports of crude palm oil. This indicates the lower commodity prices, such as the decline in CPO prices from the recent peak in early Jun-22, already affected external trade performance.

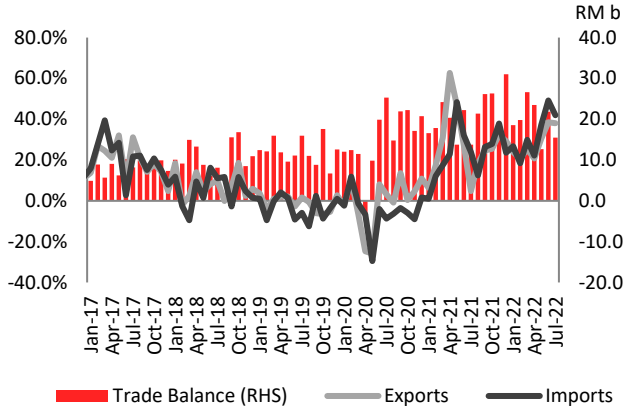
Table 3: Malaysia's Exports by Major Products (YoY%)

	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
E&E	22.4	25.8	32.9	27.5	45.5	38.3	34.2
Machinery, Equipment & Parts	36.5	16.2	13.7	15.8	12.6	56.7	67.7
Optical & Scientific Equipment	14.6	13.8	16.8	15.7	11.7	25.7	36.3
Palm oil & palm-oil based products	92.8	57.6	50.6	46.0	59.4	42.5	26.5
Crude Petroleum	5.2	21.5	92.5	64.5	52.8	83.1	74.0
Petroleum Products	40.0	8.1	106.2	(6.3)	91.4	144.3	80.3
LNG	71.9	45.7	100.5	60.9	60.6	153.1	82.0
Rubber products	(53.4)	(59.2)	(60.5)	(59.5)	(62.9)	(63.4)	(52.1)

Source: CEIC, MIDFR

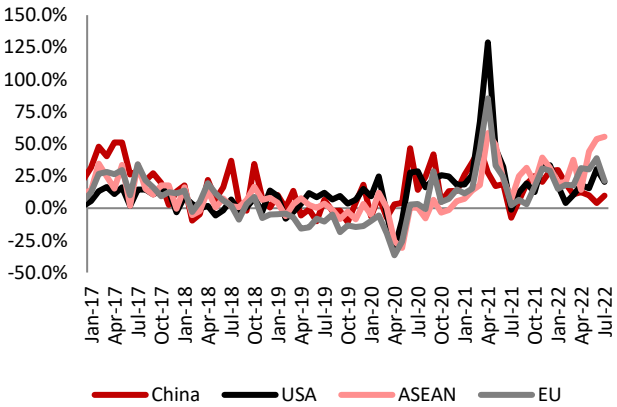
Maintain our growth forecast for exports and imports at +20.9% and +25.6%, respectively. Although the Jul-22 numbers were better than expected, we maintain our forecast for exports and imports to grow at +20.9% and +25.6%, respectively, this year. Trade outlook may be adversely impacted by weaker global growth in view of downside risks from higher global inflation, possible recession in the US, sluggish recovery and strict zero-Covid policy in China, ongoing war in Ukraine, and recent escalation of geo-political tension between China and Taiwan. Nevertheless, we foresee sustained recovery in the global economy, as countries reopen their economies and ease Covid-19 restrictions, will continue to drive external demand for manufactured goods (i.e. E&E and refined petroleum) and primary commodities. Meanwhile, we expect imports to expand further in the coming months as growth momentum in the domestic economy is expected to continue in the latter part of the year.

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



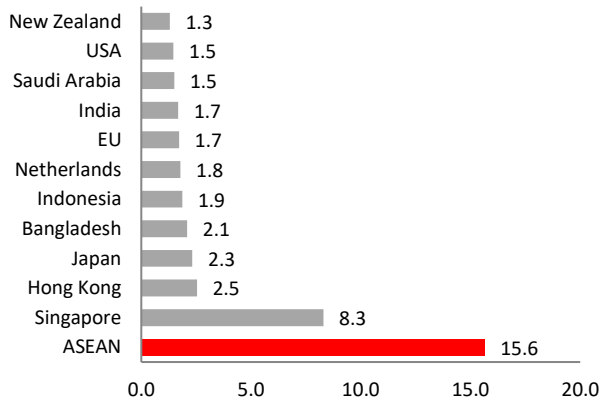
Source: CEIC, MIDFR

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



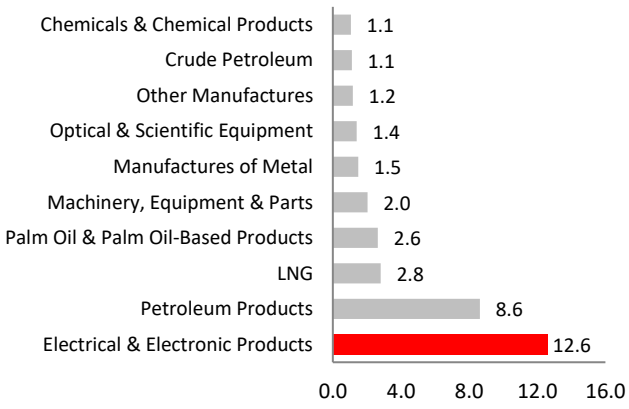
Source: CEIC, MIDFR

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



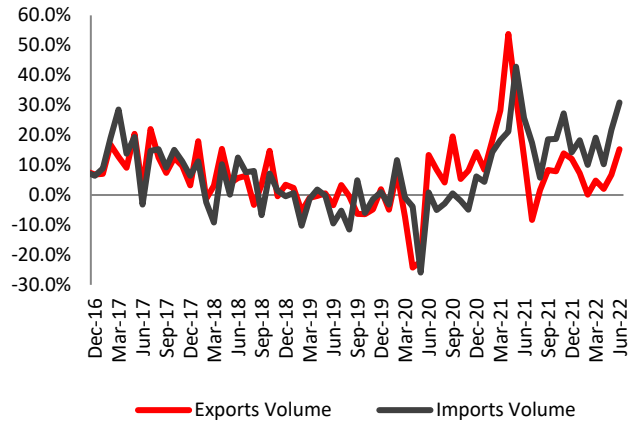
Source: CEIC, MIDFR

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



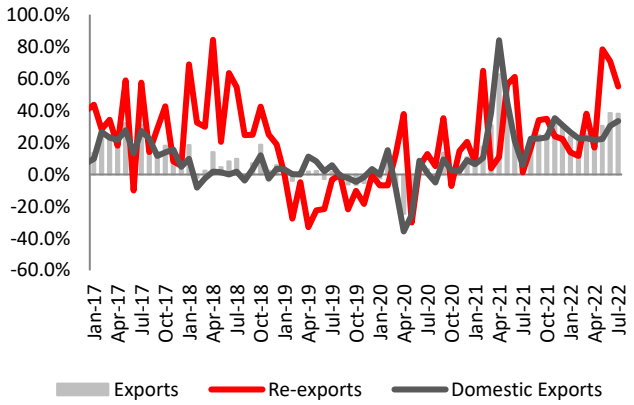
Source: CEIC, MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



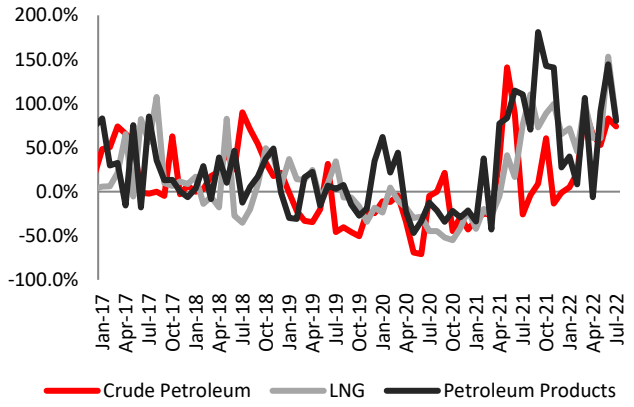
Note: Latest available data as of Jun-22
Source: CEIC, MIDFR

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



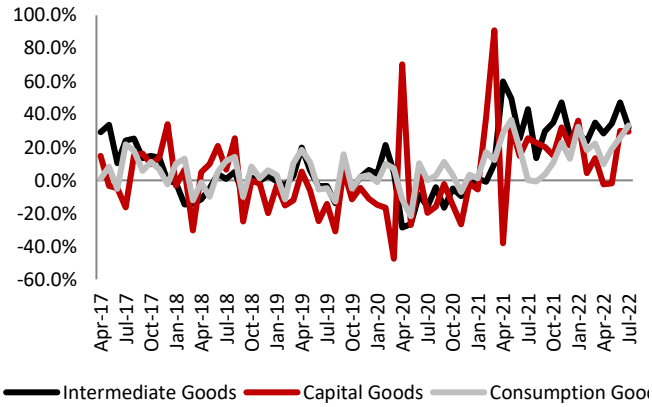
Source: CEIC, MIDFR

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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