20 September 2022

ECONOMIC REVIEW | August 2022 External Trade

External Trade Performance was Stronger than Expected in Aug-22

- *Robust external trade in Aug-22. External trade maintained another month of robust expansion in Aug-22. Malaysia's total trade grew strongly by +56.5%yoy to RM265.7b. Exports growth picked up to +47.9%yoy, the strongest increase in 16 months partly because of the lower base in Aug-21. Close to 81% of the exports growth in Aug-22 was attributable to sustained foreign demand for E&E, oil & gas and palm oil products.*
- *Benefiting from continued rise in exports of E&E and oil & gas. Looking at exports by major sectors, Malaysia continues to gain from the growing demand for E&E products and commodities. Exports of manufactured goods rose faster at +47.7%yoy, backed by surging demand for refined petroleum products (+180.3%yoy) and E&E (+48.5%yoy).*
- *Upgrade our growth forecast for exports and imports to +22.4% and +29.5%, respectively. We raise our 2022 growth projection for both exports and imports to +22.4% and +29.5%, respectively, in view of the more robust performance until Aug-22.*

Aug-22 trade performance was better than expected. External trade maintained another month of robust expansion in Aug-22. Malaysia's total trade grew strongly by +56.5%yoy to RM265.7b, as both exports and imports increased from previous month. Exports growth picked up to +47.9%yoy, the strongest increase in 16 months and higher than our and market expectations partly because of the lower base in Aug-21. The robust growth in Aug-22 also suggests correction in commodity prices and concerns about sluggish recovery in China have yet to affect Malaysia's trade performance. In fact, close to 81% of the exports growth in Aug-22 was attributable to sustained foreign demand for E&E, oil & gas and palm oil products. We noticed the lower base in Aug-21 resulted in +111.2%yoy surge in re-exports, while domestic exports rose by +34.6%yoy which was the fastest expansion since Nov-21. Meanwhile, imports growth even jumped to +67.7%yoy, the fastest monthly growth on record and maintaining double-digit pace from Feb-21, driven by increased demand in the post-Covid recovery as Malaysia transitioned into endemic phase this year.

Higher trade surplus at RM16.9b. Trade surplus was higher at RM16.9b in Aug-22 (Jul-22: RM15.6b) because of larger monthly rise in exports (+5.4%mom) in contrast to imports (+5%mom). By sector, larger surplus in trade of manufactured goods (+RM16.4b) more than offset the smaller surplus in agriculture trade (+RM4.1b) and larger deficit in trade of mining goods (-RM2.2b). For the manufactured goods, despite the higher imports of processed petroleum products, the sustained surplus in manufacturing goods trade was largely linked to higher surplus in E&E trade (+RM16.1b) and smaller deficit in transport equipment trade (-RM3.1b). For agriculture trade, the lower surplus mainly reflects weaker trade of palm oil compared to previous month. For mining trade, the larger deficit was particularly due to larger imports of crude oil. Despite the larger import bills for both refined and crude petroleum, the higher surplus in Aug-22 indicates Malaysia's gaining from increased external demand. However, the combined size of trade surplus in Jul-22 and Aug-22 was relatively lower than the same period last year (-7.5%yoy; 2QCY22: +3%yoy). In other words, we may expect smaller current account surplus in 3QCY22 due to faster rise in imports.

Stronger imports of intermediate and consumption goods. Imports expanded at a more rapid pace of +67.7%yoy in Aug-22 (Jul-22: +41.8%yoy), underpinned by higher growth in purchases of foreign-made

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

intermediate goods. This again reflects the increased imports of materials and inputs as local businesses increased their activities to cope with recovering demand. In addition, in line with increased consumer spending, consumption goods imports also grew faster during the month. Imports of capital goods, however, increased at moderate pace of +23.9%yoy in Aug-22, but signals continued rise in capital spending on the back of economic reopening. By sector, close to 60% of the annual expansion in imports in Aug-22 was due to sharp rise in imports of petroleum products (+271.5%yoy); E&E products (+38.6%yoy); crude oil (+583.6%yoy); LNG (+2,408.5%yoy); and, transport equipment (+90.3%yoy).

Table 1: Malaysia's External Trade Summary

	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Exports (RMb)	105.6	131.6	127.6	120.5	146.0	134.1	141.3
% YoY	20.6	25.3	20.8	30.5	38.4	38.0	47.9
% MoM	(4.9)	24.6	(3.0)	(5.6)	21.2	(8.2)	5.4
Imports (RMb)	82.5	104.9	104.1	107.8	124.2	118.5	124.4
% YoY	18.4	29.9	22.1	37.2	49.2	41.8	67.7
% MoM	(10.8)	27.2	(0.8)	3.5	15.2	(4.6)	5.0
Total Trade (RMb)	188.1	236.5	231.7	228.3	270.2	252.6	265.7
% YoY	19.6	27.3	21.4	33.6	43.2	39.8	56.5
% MoM	(7.6)	25.7	(2.0)	(1.5)	18.4	(6.5)	5.2
Trade Balance (RMb)	19.8	26.6	23.5	12.7	21.9	15.6	16.9
Import Components							
Intermediate (RMb)	47.4	58.9	59.7	63.1	64.4	61.8	66.4
% YoY	23.6	35.0	28.4	34.4	47.2	32.1	56.6
Capital (RMb)	7.9	9.4	9.1	8.8	11.1	10.9	10.3
% YoY	4.3	13.5	(2.4)	(1.8)	30.0	29.1	23.9
Consumption (RMb)	7.0	8.7	8.3	8.5	9.3	8.5	9.1
% YoY	18.2	22.3	9.9	19.0	25.8	33.1	43.2

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

Broad improvement in exports to major destinations. By destination, we noticed a broad improvement in exports performance to all major markets, particularly China, the US, regional Asian countries like Japan, Hong Kong, and ASEAN. The major contributor to Malaysia's exports to the US was E&E products. Meanwhile, despite the recent tension with Taiwan, the faster rise in shipments to China was primarily backed by E&E and LNG. Looking at trade with ASEAN, the stronger exports was mainly due to petroleum products (both crude and refined), E&E products and iron & steel products. Similarly, we noticed increased exports to EU was driven by E&E and refined petroleum. We foresee Malaysia's exports to major markets will continue to be driven by E&E on the back of increased activities in the global supply chain and continued rise in global demand.

Table 2: Malaysia's Exports (YoY%)

	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Total Exports (RMb)	**105.6**	**131.6**	**127.6**	**120.5**	**146.0**	**134.1**	**141.3**
Re-exports (RMb)	18.0	24.7	24.1	24.3	35.5	32.0	34.9
Domestic Exports (RMb)	87.6	106.9	103.4	96.1	110.6	102.1	106.5
Exports by Key Country / Region							
China	19.2	10.7	12.4	10.0	4.2	9.8	21.6
USA	4.0	10.2	18.0	15.4	30.4	20.5	38.2
Japan	15.8	30.6	24.3	14.8	51.5	30.8	44.6
India	22.9	25.4	37.9	12.9	39.2	51.6	49.6
Hong Kong	5.4	5.3	20.7	53.6	41.5	41.6	57.1
Australia	10.8	44.9	57.7	18.3	40.8	37.7	29.5
EU	18.3	17.7	31.1	30.1	38.9	21.1	30.8
ASEAN	20.1	37.6	14.3	44.2	53.7	55.5	59.2
Singapore	14.4	34.0	9.1	40.9	69.5	57.1	55.6
Thailand	34.7	32.5	23.8	37.9	24.0	39.4	47.8
Indonesia	25.8	50.7	24.1	60.7	74.5	67.0	109.6
Vietnam	43.3	21.3	26.5	24.9	16.4	23.0	9.6
Philippines	1.2	63.8	10.8	61.4	27.5	74.8	33.0

Source: CEIC, MIDFR

Benefiting from continued rise in exports of E&E and oil & gas. Looking at exports by major sectors, Malaysia continues to gain from the growing demand for E&E products and commodities. Exports of manufactured goods rose faster at +47.7%yoy, backed by surging demand for refined petroleum products (+180.3%yoy) and E&E (+48.5%yoy). E&E exports alone contributed to more than one-third (or approximately 36.2%) of the exports growth in Aug-22, largely due to demand for semiconductors and telecommunication equipment & parts. For the mining sector, although exports grew at slower pace of +59.1%yoy, major drivers were still LNG and crude petroleum.

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

	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
E&E	25.8	32.9	27.5	45.5	38.3	35.2	48.5
Machinery, Equipment & Parts	16.2	13.7	15.8	12.6	56.7	56.9	43.6
Optical & Scientific Equipment	13.8	16.8	15.7	11.7	25.7	36.4	51.3
Palm oil & palm-oil based products	57.6	50.6	46.0	59.4	42.5	26.5	39.7
Crude Petroleum	21.5	92.5	64.5	52.8	83.1	74.0	107.6
Petroleum Products	8.1	106.2	(6.3)	91.4	144.3	80.3	180.3
LNG	45.7	100.5	60.9	60.6	153.1	82.0	72.9
Rubber products	(59.2)	(60.5)	(59.5)	(62.9)	(63.4)	(52.1)	(50.2)

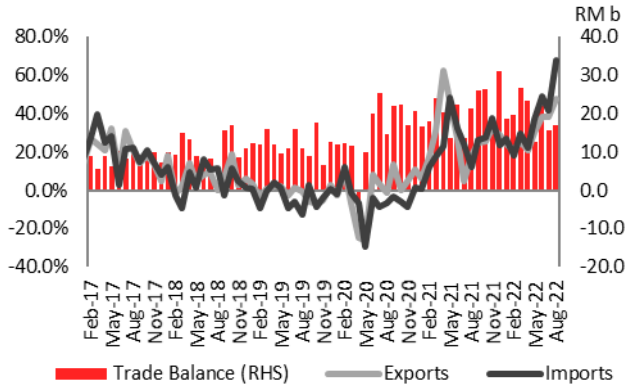
Source: CEIC, MIDFR

Signs of diversification to new markets for palm oil exports. For the agriculture sector, although the sector's exports growth accelerated to +47.9%yoy, thanks to lower base, the monthly decline in exports of palm oil and palm oil-based agriculture products can be explained by the price correction and supply constraints. We

expect the relatively lower prices will limit the sector's exports growth, but possible diversification to new markets may help to support palm oil exports. For example, the Aug-22 trade data shows sharp monthly spikes in palm oil exports to countries such as Italy (+4,637.9%mom), Greece (+1,597.7%mom), Nigeria (+582.2%mom), Vietnam (+459%mom), Germany (+363.5%mom), Senegal (+123.6%mom), Taiwan (+110.6%mom), and UAE (+365.5%yoy). Although the values of exports to each country may not be so significant, this still suggests possible signs of diversification.

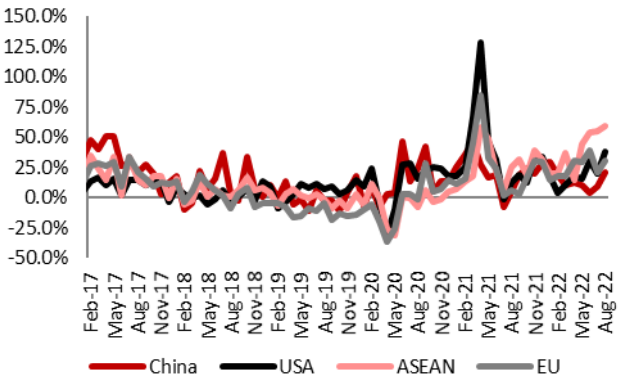
Upgrade our growth forecast for exports and imports to +22.4% and +29.5%, respectively. We raise our 2022 growth projection for both exports and imports to +22.4% and +29.5%, respectively, in view of the more robust performance until Aug-22. For the first 8 months this year, exports growth was at +30.8%yoy while imports growth was at +36.7%yoy. The moderate growth for the whole year basically reflects the fading base effect moving towards end-year. Overall, we maintain our assumption that elevated commodity prices and growing external demand for E&E and commodities (i.e. petroleum and palm oil) support exports growth this year, while the reopening of the economy and increased domestic demand contribute to the surge in imports. Nevertheless, we are cautious that trade outlook may be constrained by several downside risks such as weaker global economic growth amid rising global inflation, possible recession in the US and Europe, sluggish recovery in China, and intensified geo-political tensions.

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



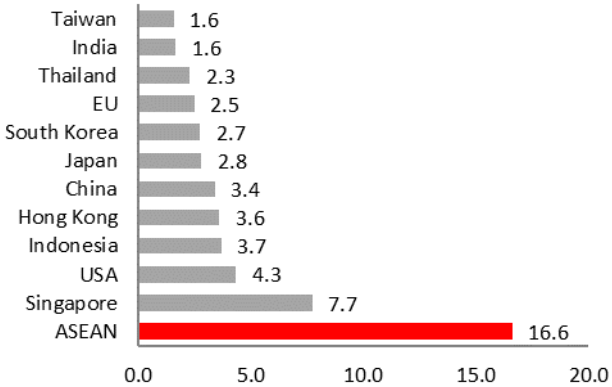
Source: CEIC, MIDFR

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



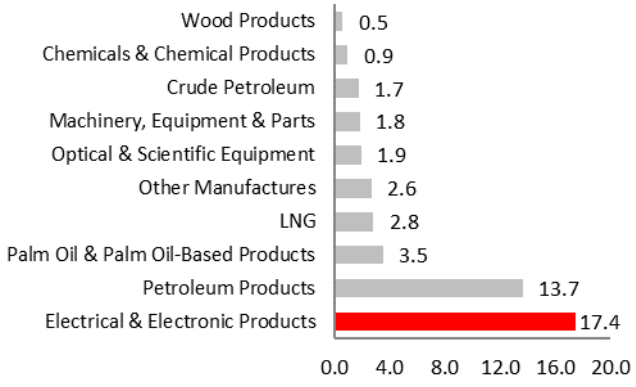
Source: CEIC, MIDFR

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



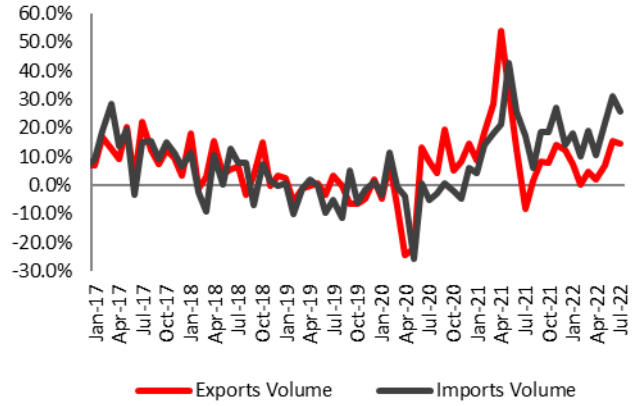
Source: CEIC, MIDFR

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



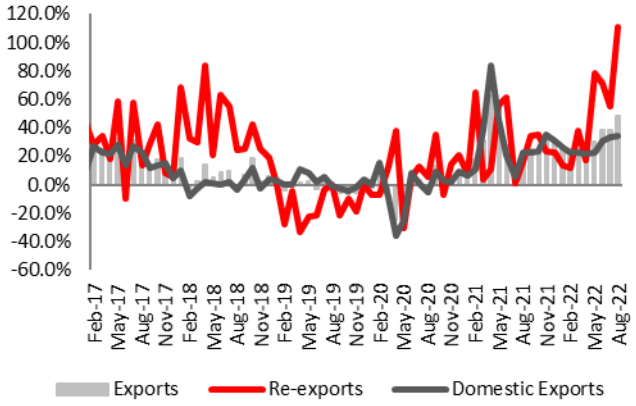
Source: CEIC, MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



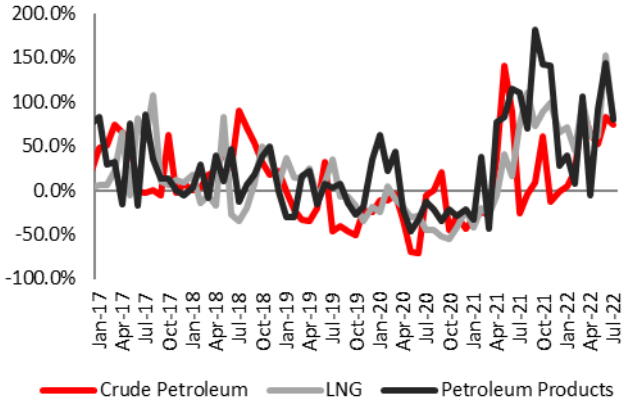
Note: Latest available data as of Jul-22
Source: CEIC, MIDFR

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



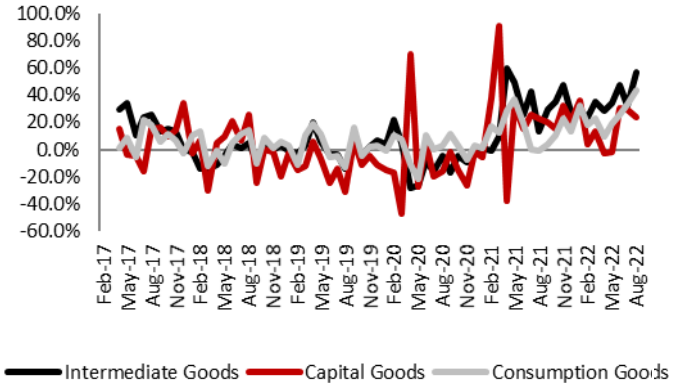
Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

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



Source: CEIC, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad 197501002077 (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.