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ECONOMIC REVIEW | September 2022 External Trade

Trade Surplus Increased to New High in Sep-22

- *More normalized growth. Malaysia's external trade performance was still robust in Sep-22, although the annual growth was relatively slower than Aug-22. Exports grew further at +30.1%yoy (Aug-22: +48.1%yoy), underpinned by external demand for E&E and oil & gas products.*
- *Continued support from higher demand for E&E and oil & gas. By major sectors, Malaysia's exports continued to benefit from rising global demand for E&E and oil & gas products. Exports of manufactured goods (share: 84.5% of total exports) rose by +28.7%yoy in Sep-22 (Aug-22: +47.7%yoy), still backed by surging demand for refined petroleum products (+83.3%yoy) and E&E (+39.8%yoy).*
- *Upgrade our forecast: exports and imports to grow at +26% and +30.5%, respectively. We upgrade our projection for exports and imports to grow at +26% and +30.5%, respectively. Based on the latest data, external demand remained robust despite concerns over slowing global growth.*

More normalized growth. Malaysia's external trade performance was still robust in Sep-22, although from an annual growth perspective it was relatively slower than Aug-22. Growth in total trade was more moderate at +31.4%yoy in Sep-22, but the total trade value remained above RM250b for the fourth straight month. Exports grew further at +30.1%yoy (Aug-22: +48.1%yoy), maintaining double-digit growth for the 14th consecutive month. Although the pace of growth in Sep-22 was lower than market consensus, the moderation was expected given the higher base in Sep-21. Nearly half (or 48.9%) of the increase in exports in Sep-22 was underpinned by demand for E&E, and another 38.9% of the export growth was from higher shipments of oil & gas products (especially refined petroleum and LNG). On another note, growth in re-exports remained relatively stronger at +46.4%yoy (Aug-22: +112.4%yoy) vis-à-vis domestic export growth which moderated to +25.9%yoy (Aug-22: +34.8%yoy). Similarly, import growth slowed to +33%yoy in Sep-22 (Aug-22: +67.4%yoy). Nevertheless, the continued double-digit import growth since Feb-21 suggests the positive effect from economic reopening and growing domestic demand.

Record monthly surplus at RM31.7b. Monthly trade surplus rose to new high at RM31.7b in Sep-22 (Aug-22: RM17b) as a result of continued increment in exports (+2.2%mom) and lower imports (-9.4%mom). The jump in surplus was from larger surplus of RM30.6b in trade of manufactured goods, mainly due to stronger exports of E&E and surge in surplus in trade of refined petroleum. Agriculture goods trade also registered surplus, but higher imports of palm oil products and other agriculture goods resulted in smaller surplus than Aug-22. Meanwhile, deficit in mining goods trade shrank to -RM0.9b, attributable to stronger LNG exports and smaller deficit in crude oil trade. While the continued crude oil trade deficit indicates continued reliance on crude imports, we believe this was driven by higher downstream activities either for exports (as shown by continued surplus in refined petroleum trade) or domestic oil consumption. Overall, we expect trade surplus will be sustained in anticipation of lower imports (due to correction in commodity prices) and continued expansion in external demand. For the 3 months to Sep-22, trade balance rose to RM64.3b, +10.8%qoq higher than 2QCY22 and +5.6%yoy more than 3QCY21. We opine this indicates stronger external trade contribution to Malaysia's GDP growth in 3QCY22.

Stronger imports of capital goods. The sharp moderation in imports to +33%yoy in Sep-22 was mainly due to slower growth in imports of intermediate and consumption goods. Nevertheless, the sustained growth in intermediate goods imports was driven by higher imports of processed industrial supply; and expansion in

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consumptions goods imports was backed by demand for processed F&B products. Capital goods imports, on the other hand, strengthened to +30.5%yoy (Aug-22: +22%yoy), driven by purchases of machineries and capital goods (excluding transport equipment). By sector, more than 61% of the imports growth in Sep-22 was contributed by imports of E&E products (+19.3%yoy); crude oil (+290%yoy); petroleum products (+40.1%yoy); transport equipment (+119.5%yoy), and LNG (+72.9%yoy). In particular, the faster rise in imports of transport equipment was in line with stronger demand and sales of motor vehicles in Sep-22 amid high order backlogs.

Table 1: Malaysia's External Trade Summary

	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Exports (RMb)	131.6	127.6	120.5	146.0	134.1	141.3	144.3
% YoY	25.0	20.8	30.4	38.7	38.0	48.1	30.1
% MoM	28.6	(3.0)	(5.6)	21.2	(8.2)	5.4	2.2
Imports (RMb)	104.9	104.1	107.8	124.2	118.5	124.2	112.6
% YoY	29.9	22.1	37.2	49.2	41.8	67.4	33.0
% MoM	27.2	(0.8)	3.5	15.2	(4.6)	4.8	(9.4)
Total Trade (RMb)	236.5	231.7	228.3	270.2	252.6	265.5	256.9
% YoY	27.1	21.4	33.5	43.3	39.8	56.6	31.4
% MoM	28.0	(2.0)	(1.5)	18.4	(6.5)	5.1	(3.2)
Trade Balance (RMb)	26.6	23.5	12.7	21.9	15.6	17.0	31.7
Import Components							
Intermediate (RMb)	58.9	59.7	63.1	64.4	61.8	66.4	58.6
% YoY	34.7	28.1	34.2	46.8	32.2	56.1	35.1
Capital (RMb)	9.4	9.1	8.8	11.1	11.0	10.2	11.8
% YoY	13.1	(2.6)	(1.8)	29.9	29.6	22.0	30.5
Consumption (RMb)	8.7	8.3	8.5	9.3	8.5	9.0	8.8
% YoY	22.3	9.9	19.0	25.8	33.2	42.2	28.2

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

Moderate export growth to most major destinations. Exports to ASEAN and other destinations like the US and EU remained strong although the pace of growth mostly moderated in Sep-22, again indicating a more normalized growth. Supply of E&E and palm oil products covered 61.6% of exports to ASEAN, while the continued rise in exports to ASEAN contributed more than one-quarter (or +8.6ppt) to Sep-22 export growth. Slightly more than 60% of exports to the US was due to increased demand for E&E products, while 61.6% of goods shipped to the EU was mainly E&E and palm oil products. Meanwhile, shipments to selected countries such as Japan and Australia grew faster. The major contributor to stronger trade with Japan were refined petroleum and LNG, while crude and refined petroleum covered more than half of shipments to Australia. We foresee the fading low base effect will lead to more normalized growth in the coming months, and in general the sustained demand for E&E and commodities would support Malaysia's exports to major countries.

Table 2: Malaysia's Exports (YoY%)

	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Total Exports (RMb)	**131.6**	**127.6**	**120.5**	**146.0**	**134.1**	**141.3**	**144.3**
Re-exports (RMb)	24.7	24.1	24.3	35.5	32.0	34.9	33.8
Domestic Exports (RMb)	106.9	103.5	96.1	110.6	102.1	106.4	110.5
Exports by Key Country / Region							
China	10.7	12.4	10.0	4.2	9.8	21.6	8.0
USA	10.2	18.0	15.4	30.4	20.5	38.1	32.5
Japan	30.6	24.3	14.8	51.5	30.8	44.6	74.6
India	25.4	37.9	12.9	39.2	51.6	49.5	5.7
Hong Kong	5.3	20.7	53.6	41.5	41.4	57.1	30.4
Australia	44.9	57.7	18.3	40.8	37.7	29.4	120.1
EU	17.7	31.1	30.1	38.9	21.2	30.7	19.0
ASEAN	37.6	14.3	44.2	53.7	55.6	59.0	31.5
Singapore	34.0	9.1	40.9	69.5	57.1	55.5	29.1
Thailand	32.5	23.8	37.9	24.0	39.4	47.2	4.6
Indonesia	50.7	24.1	60.7	74.5	67.0	109.6	53.3
Vietnam	21.3	26.5	24.9	16.4	23.0	9.6	65.8
Philippines	63.8	10.8	61.4	27.5	74.8	33.0	21.1

Source: Macrobond, MIDFR

Continued support from higher demand for E&E and oil & gas. By major sectors, Malaysia's exports continued to benefit from rising global demand for E&E and oil & gas products. Exports of manufactured goods (share: 84.5% of total exports) rose by +28.7%yoy in Sep-22 (Aug-22: +47.7%yoy), still backed by surging demand for refined petroleum products (+83.3%yoy) and E&E (+39.8%yoy). E&E exports alone contributed nearly half (or +14.7ppt) of the +30.1%yoy total exports growth in Sep-22, largely due to robust demand for semiconductors and followed by telecommunication equipment & parts. Meanwhile, exports of mining goods grew faster at +89%yoy (Aug-22: +59.1%yoy), boosted mainly by stronger LNG exports (+142%yoy). Crude oil exports also maintained robust growth, albeit slowing to +74.3%yoy. Meanwhile, growth of agriculture goods exports slowed sharply to +8%yoy (Aug-22: +42.6%yoy), primarily due to weaker growth in palm oil exports, partly because of lower CPO prices and also lower demand from India, Pakistan, and Netherlands.

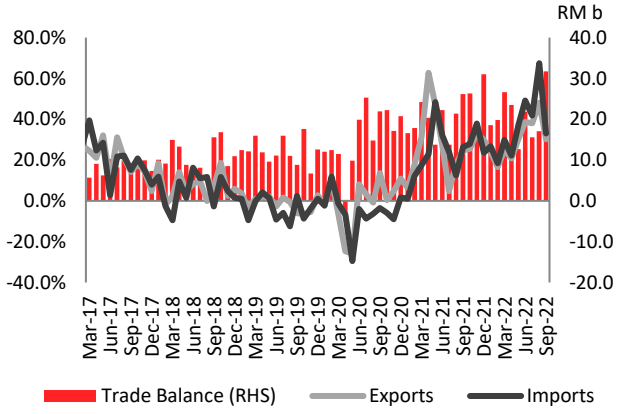
Table 3: Malaysia's Exports by Major Products (YoY%)

	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
E&E	32.9	27.5	45.5	38.3	34.2	49.4	39.8
Machinery, Equipment & Parts	13.7	15.8	12.6	56.7	67.7	42.2	28.9
Optical & Scientific Equipment	16.8	15.7	11.7	25.7	36.3	44.0	32.2
Palm oil & palm-oil based products	50.6	46.0	59.4	42.5	26.5	39.5	9.7
Crude Petroleum	92.5	64.5	52.8	83.1	74.0	65.2	74.3
Petroleum Products	106.2	(6.3)	91.4	144.3	80.3	210.8	83.3
LNG	100.5	60.9	60.6	153.1	82.0	77.2	142.0
Rubber products	(60.5)	(59.5)	(62.9)	(63.4)	(52.1)	(50.2)	(45.7)

Source: Macrobond, MIDFR

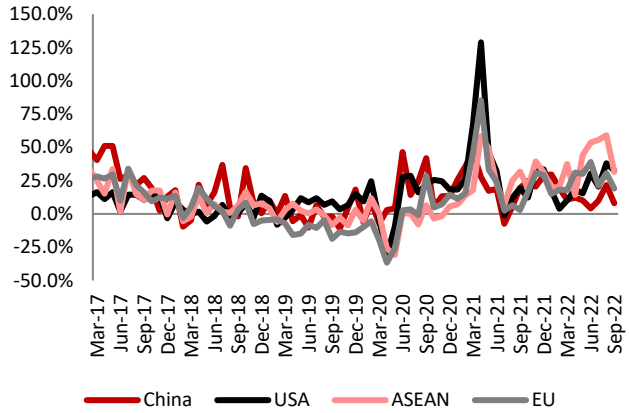
Upgrade our forecast: exports and imports to grow at +26% and +30.5%, respectively. We upgrade our projection for exports and imports to grow at +26% and +30.5%, respectively. Based on the latest data, external demand remained robust despite concerns over slowing global growth. We expect more moderate growth rates for both exports and imports in the final few months of 2022 as low-base effect diminishes. Thus far, exports and imports rose by +30.3%yoy and +36.2%yoy, respectively, in first 9 months of 2022. Trade sector stands to benefit from elevated commodity prices, growing external demand for E&E and commodities (i.e. petroleum and palm oil), and continued rise in global production and international trade activities. Imports would expand further on the back of growing domestic demand, and increased business activities and consumer spending. Nevertheless, we opine there are several risks to near-term trade outlook, mostly from external uncertainties such as deterioration in global growth outlook, weaker final demand (as a result of rising inflation and borrowing costs), and escalation of geo-political tensions.

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



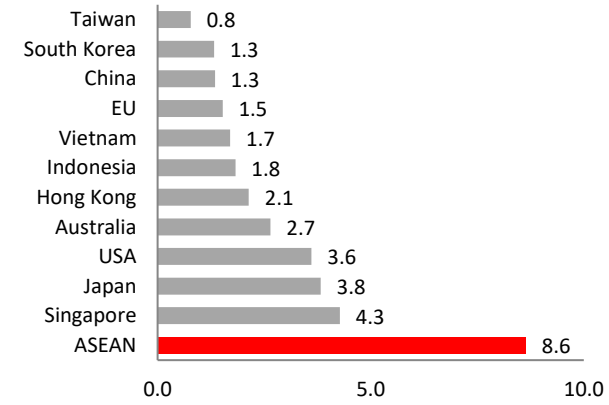
Source: Macrobond, MIDFR

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



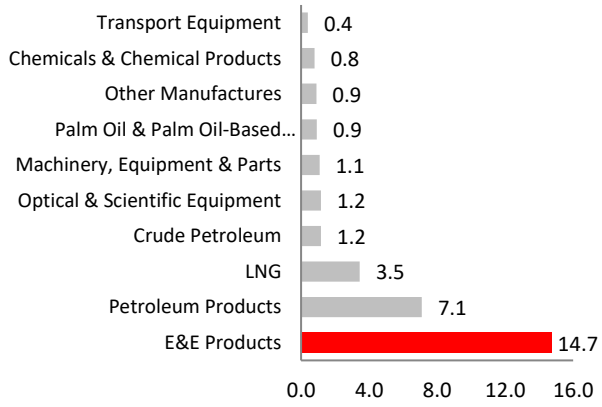
Source: Macrobond, MIDFR

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



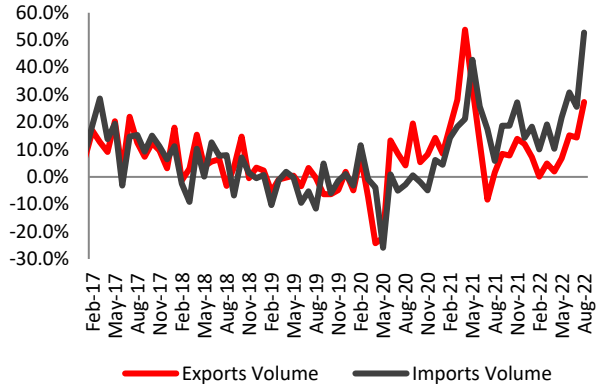
Source: Macrobond, MIDFR

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



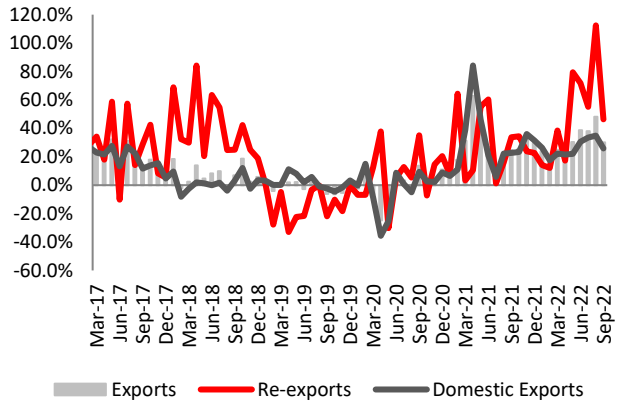
Source: Macrobond, MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



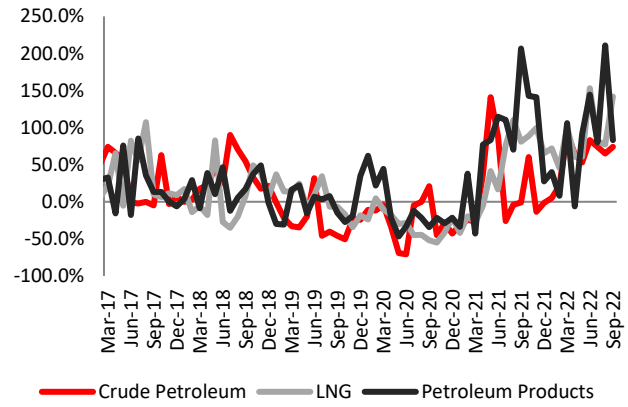
Note: Latest available data as of Aug-22
Source: Macrobond, MIDFR

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



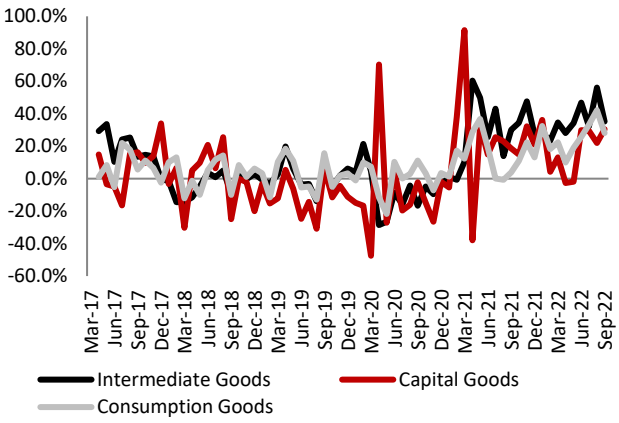
Source: Macrobond, MIDFR

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



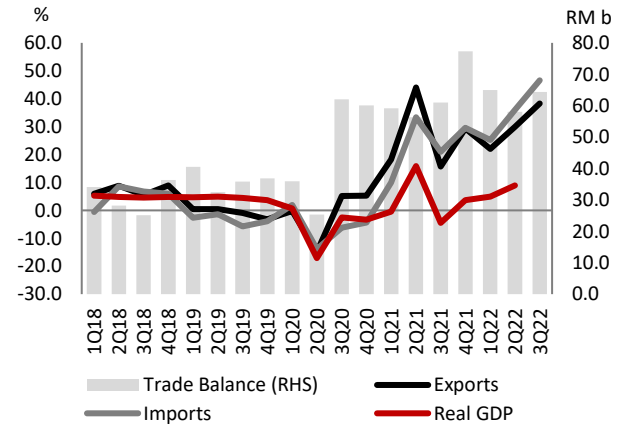
Source: Macrobond, MIDFR

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



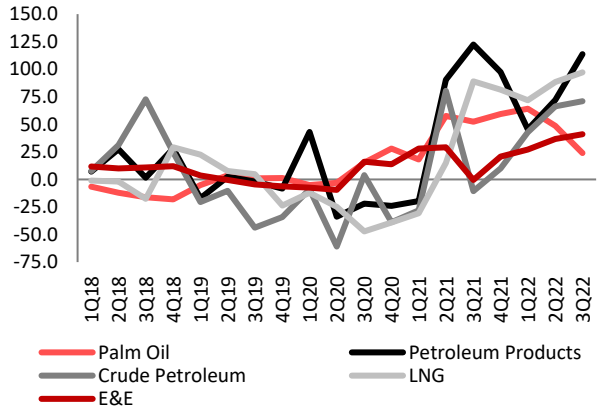
Source: Macrobond, MIDFR

Chart 7: Quarterly External Trade vs. GDP (YoY%)



Source: Macrobond, MIDFR

Chart 8: Quarterly Exports of Selected Goods (YoY%)



Source: Macrobond, MIDFR

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