

ECONOMIC REVIEW | February 2024 External Trade

Exports Fell -0.8%yoy in Feb-24 Dragged Down by Weaker Exports of E&E and Palm Oil

- Exports contracted again by -0.8%yoy in Feb-24. Malaysia's exports fell again by -0.8%yoy due to lower re-exports. By major products, the decline in Feb-24 was attributable to lower shipments of E&E, petroleum products and palm oil.
- Weak exports to ASEAN and EU overshadowed improvements to other destinations. By destination, the decline in overall exports in Feb-24 mainly reflected the weaker exports to ASEAN, EU and Hong Kong, which more than offset improvements in exports to other major markets like the US and China
- Robust mining goods exports unable to offset weakness in E&E and palm oil exports. By sector, export growth in Feb-24 was mainly supported by the robust growth in mining goods exports (+16.8%yoy). However, decline in overall exports was due to weakness in exports of manufactured goods (-2.4%yoy) and agriculture goods (-4.8%yoy).
- Exports would rebound this year at +5.2%. We maintain our projection that Malaysia's goods exports and imports will rebound this year and grow at +5.2% (2023: -8.0%) and +4.4% (2023: -6.4%), respectively.

Exports contracted again by -0.8%yoy in Feb-24. Malaysia's total trade continued to grow albeit at moderate pace of +3.3%yoy in Feb-24, the second straight month of expansion in 12 months. The slower annual growth was mainly due to monthly declines in both exports (-9.1%mom) and imports (-10.5%mom). consequently, trade surplus widened to RM10.9b as a result of the sharper fall in imports. From the year-on-year perspective, exports fell again by -0.8%yoy after 1 month of annual growth in Jan-24, weaker than ours and market expectations. We anticipated for the softer export growth in Feb-24 due to the CNY seasonal effect and slower export growth reported by regional countries. The decline in exports was mainly due to lower re-exports (Feb-24: -20.2%yoy; Jan-24: +4.1%yoy), while domestic exports grew slower at +4.7%yoy (Jan-24: +10.1%yoy). By major products, the decline in Feb-24 was attributable to lower shipments of E&E, petroleum products and palm oil. From month-on-month perspective, exports dropped by -9.1%mom primarily dragged down by lower external demand for manufactured goods (-10.2%mom), especially petroleum products (-28.8%mom) and E&E products (-9.2%mom). Meanwhile, imports growth moderated to +7.8%yoy in Feb-24 (Jan-24: +18.7%yoy), mainly supported by increased purchases of E&E, chemicals & chemical products and petroleum products. We believe the slower growth in Feb-24 was mainly influenced by the effect of shorter working days following the Chinese New Year holidays, which caused both exports and imports to fall sequentially from Jan-24. On that note, we foresee external trade to pick up in the coming months in line with growing regional exports and stabilisation in global production activities.

Table 1: Malaysia's External Trade Summary

	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
Exports (RM b)	115.0	124.3	126.1	121.7	118.4	122.4	111.3
% YoY	(18.7)	(13.8)	(4.5)	(6.1)	(10.1)	8.7	(0.8)
% MoM	(1.5)	8.1	1.4	(3.5)	(2.8)	3.4	(9.1)
Imports (RM b)	97.8	99.9	113.2	109.5	106.6	112.2	100.5
% YoY	(21.2)	(11.1)	(0.3)	1.5	2.9	18.7	8.4
% MoM	(1.6)	2.1	13.3	(3.3)	(2.6)	5.3	(10.5)

	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
Total Trade (RM b)	212.9	224.2	239.3	231.2	225.0	234.6	211.8
% YoY	(19.9)	(12.6)	(2.5)	(2.7)	(4.3)	13.3	3.3
% MoM	(1.6)	5.3	6.7	(3.4)	(2.7)	4.3	(9.7)
Trade Balance (RM b)	17.2	24.4	12.9	12.2	11.7	10.2	10.9
Import Components							
Intermediate (RMb)	51.5	49.7	55.7	56.0	60.0	58.8	55.8
% YoY	(22.5)	(15.2)	(8.1)	(5.6)	10.1	21.3	14.3
Capital (RM b)	10.7	10.8	12.7	14.8	12.4	13.7	10.2
% YoY	5.3	(6.4)	8.6	51.3	24.6	41.5	30.3
Consumption (RM b)	8.5	8.8	9.4	9.7	9.2	10.3	8.4
% YoY	(5.5)	(0.5)	9.9	2.4	(0.7)	25.3	19.7

Note: MoM is non-seasonally adjusted figure

Source: Macrobond, MIDFR

Import growth also moderated. Import growth also moderated in Feb-24, expanding at +8.4%yoy in Jan-24 (Jan-24: +18.7%yoy), underpinned by higher purchases albeit at slower pace of growth for all major types of import products: intermediate goods (+14.3%yoy), capital goods (+30.3%yoy) and consumer goods (+19.7%yoy). By sector, 75.6% of the increase in Feb-24 imports was due to increased purchases of foreign-made E&E products; machinery, equipment & parts; and processed petroleum products. All this contributed to the +11%yoy rise in manufactured goods imports. Meanwhile, imports of agriculture goods also expanded by +8.1%yoy, with higher purchases of natural rubber (+67.8%yoy) and other agriculture goods (+15.7%yoy) more than offset the -61.3%yoy decline in import of palm oil & palm oil-based agriculture products. On the other hand, imports of mining goods dropped by -11.3%yoy in Feb-24 primarily due to lower purchases of crude petroleum (-26.9%yoy). While the increase in imports of intermediate and capital goods indicated positive business development as companies prepare for growing future demand and expanding business capacity, we expect the sustained rise in domestic demand will continue to support consumption goods imports going forward.

Weak exports to ASEAN and EU overshadowed improvements to other destinations. By destination, the decline in overall exports in Feb-24 mainly reflected the weaker exports to ASEAN, EU and Hong Kong, which more than offset improvements in exports to other major markets like the US and China. The -5.2%yoy contraction in exports to ASEAN was mainly dragged down by lower shipments of E&E products (mainly to Singapore), while the -1.7%yoy drop in shipments to EU was due to lower demand for manufactures of metal and petroleum products. To Hong Kong, Malaysia's exports decreased by -29.2%yoy also due to reduced E&E exports. In contrast, Malaysia's exports to the US grew further by +10.1%yoy, underpinned by demand for manufactured goods, especially E&E products and machinery, equipment & parts. Exports to Japan grew faster at +5.6%yoy driven by shipments of LNG and crude petroleum. Meanwhile, exports to China continued to improve albeit falling slower and marginally at -0.4%yoy, where reduced demand for E&E exports was partly offset by increased purchases of LNG and paper products. While the Lunar New Year holiday affected exports to ASEAN and Hong Kong, we find it encouraging that improvement in exports to China was in line with China's reporting better external performance in Jan-Feb-24. We expect further recovery in demand from major markets like China and the USA to support external trade performance this year, though we remained cautious the prolonged high-interest rate setting could affect final demand from the advanced economies.

Table 2: Malaysia's Exports (YoY%)

	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
Total Exports (RMb)	115.0	124.3	126.1	121.7	118.4	122.4	111.3
Re-exports (RMb)	23.1	27.6	29.8	26.2	21.2	27.7	19.8
Domestic Exports (RMb)	91.9	96.7	96.3	95.5	97.2	94.7	91.5
Exports by Key Country / Region							
China	(20.3)	(17.3)	(7.0)	(8.4)	(1.5)	(7.4)	(0.4)
USA	(9.7)	(9.3)	4.0	(8.5)	(5.1)	11.9	10.1
Japan	(19.4)	(25.5)	(23.4)	(18.3)	(4.7)	2.8	5.6
India	(17.6)	(12.4)	4.6	(19.7)	(21.5)	18.7	26.8
Hong Kong	(33.4)	(12.0)	5.9	(14.4)	(9.1)	(7.9)	(29.2)
Australia	12.6	(26.2)	(8.1)	6.5	(11.5)	34.6	16.4
EU	(4.6)	(8.3)	0.7	(6.9)	(25.5)	6.4	(1.7)
ASEAN	(20.6)	(10.9)	(5.7)	(5.8)	(12.6)	9.4	(5.2)
Singapore	(19.4)	(12.0)	(8.2)	(17.0)	(24.8)	(2.7)	(15.3)
Thailand	(22.5)	4.8	(21.3)	(0.5)	(11.6)	(12.6)	(19.9)
Indonesia	(40.3)	(31.8)	(10.1)	4.9	10.7	60.6	10.7
Vietnam	23.4	12.1	11.6	40.4	(2.7)	53.7	51.9
Philippines	8.9	(11.1)	20.4	(1.8)	10.8	24.3	(3.2)

Source: Macrobond, MIDFR

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

	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
E&E		(5.6)	(2.4)	(13.7)	(12.1)	(6.5)	(9.8)
Machinery, Equipment & Parts	(11.5)	(5.2)	6.6	10.3	(0.7)	35.5	23.6
Optical & Scientific Equipment	(13.3)	(7.4)	1.2	(12.7)	(8.5)	22.4	3.7
Palm oil & palm oil-based products	(29.7)	(24.7)	(5.4)	(7.1)	(26.6)	16.5	(5.7)
Crude Petroleum	(22.5)	(13.9)	(22.3)	15.6	35.1	17.7	36.3
Petroleum Products	(39.9)	(41.3)	(28.1)	8.2	(22.2)	24.2	(14.0)
LNG	(26.0)	(37.8)	(34.9)	(14.8)	(0.1)	(9.3)	16.5
Rubber products	(26.0)	(17.8)	(5.2)	4.6	1.4	16.1	8.2
Transport equipment	(6.6)	(10.8)	24.9	(42.3)	(39.3)	23.0	6.1

Source: Macrobond, MIDFR

Robust mining goods exports unable to offset weakness in E&E and palm oil exports. By sector, export growth in Feb-24 was mainly supported by the robust growth in mining goods exports (+16.8%yoy) due to the strong rise in outward shipments of LNG (+16.5%yoy) and crude petroleum (+36.3%yoy). However, overall exports registered a decline during the month because of weakness in exports of manufactured goods (-2.4%yoy) and agriculture goods (-4.8%yoy). The sharper fall of -9.8%yoy in E&E exports (mainly due to lower semiconductor exports) and large -14%yoy contraction in exports of processed petroleum products were the major contributors to the weaker manufacturing exports. In contrast, other manufactured products like machinery, equipment & parts; rubber products; and transport equipment registered another month of positive export growth. For the agriculture sector, the weak exports was largely explained by the fall in palm oil exports, in addition to lower exports of saw logs & timber as well as seafood. Apart from growing external demand for

commodities and resource-based products, we reiterate our expectations exports will recover this year underpinned by pick-up in E&E trade, given the recent rise in global chip sales.

Trade performance continued to be influenced by volume change. Based on the latest data as of Jan-24, volume change remained the main driver to the performance of both imports and exports. The latest monthly data shows the +8.7%yoy growth in exports was underpinned by the +5.4%yoy increase in export volume, while unit price of exports also increased but at smaller pace of +2%yoy. Export volume for all major commodities namely foods; beverages & tobacco; oils & fats; and manufactured goods & articles registered double-digit growth, rebounding from declines in Dec-23. Similarly, the stronger growth of +18.7%yoy in imports in Jan-24 was driven by +18.5%yoy rise in import volume, in contrast to import value which continued to drop by -0.8%yoy during the month. The import price declines were mainly registered in the inedible crude materials and mineral fuels, lubricants & related materials. On the other hand, most major import products (such as imported foods, crude materials, mineral fuels & lubricants, and manufactured goods including machinery & transport equipment) recorded robust double-digit rise in import volume. Going forward, as price changes have relatively limited impact on overall trade performance, we opine volume changes to be the main driver for most export and import products. In other words, the expected recovery in external trade would come with growing trade volume.

Overall trade surplus widened despite lower surplus in E&E trade. Trade surplus rose to +RM10.9b in Feb-24 (Jan-24: +RM10.2b), but still the second smallest monthly surplus since Jun-20. E&E remained the main contributor to overall surplus, but the amount shrank to +RM10.3b (Jan-24: +RM11.1b), mainly explained by the -9.2%mom fall in E&E exports. Apart from lower E&E trade surplus, large decline of -28.8%mom in petroleum product exports contributed to the shift in petroleum trade balance to deficit of -RM3.4b (Jan-24: +RM3.1b), largely resulted in the lower surplus in the overall manufacturing goods trade (Feb-24: +RM8.2b; Jan-24: +RM10.1b). Agriculture goods trade also reported lower surplus of +RM1.1b (Jan-24: +RM1.4b) mainly because of weaker palm oil exports. The increase in overall trade balance was, however, attributable to the surplus in trade of mining goods (Feb-24: +RM2.5b; Jan-24: -RM0.2b) due to the higher surplus in LNG trade (Feb-24: +RM5.5b; Jan-24: +RM5.2b) and smaller deficit in trade of crude petroleum (Feb-24: -RM0.7b; Jan-24: -RM3.1b). We continue to expect E&E, palm oil and LNG to remain as the large contributors to overall trade surplus. We opine the surplus level will increase again, in line with the recovery in exports and foreign demand. On the other hand, the size of surplus could shrink due to import dependency for products like transport equipment, machinery, agriculture products (especially foods) and even petroleum.


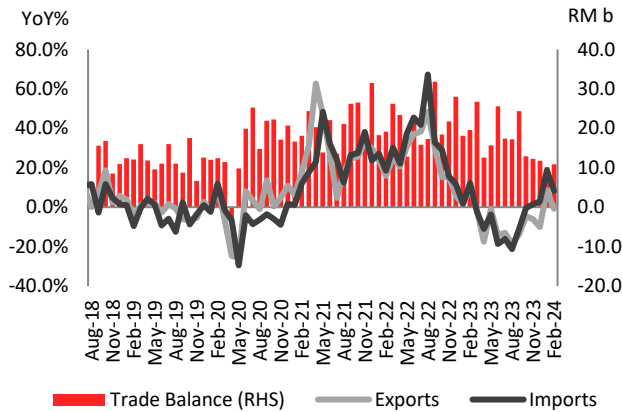
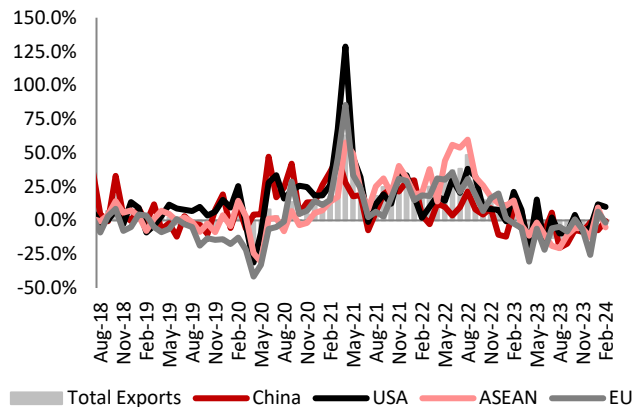
Exports would rebound this year at +5.2%. We maintain our projection that Malaysia's overall goods exports will rebound this year and grow at +5.2% (2023: -8.0%). Although the E&E exports remained sluggish, the expected turnaround in the E&E trade is one of the factors that will support external trade recovery this year. Although Feb-24 was weaker than anticipated, exports managed to grow +3.9%yoy in Jan-Feb-24, rebounding from -6.9%yoy in 4QCY23. Being one of the players in the global production chain, the trend in Malaysia's exports also closely tracked the movement in regional countries' external trade performance; and, we noticed an encouraging turnaround in exports for South Korea and Taiwan in the recent months. While Malaysia will benefit from the pick-up in global demand, downside risks could still negatively affect trade outlook. These include risks such as worsening of geopolitical and trade tensions, sharp economic slowdown in major trading partners and prolonged weakness in global production activities. Similar to exports, we expect Malaysia's imports to pick up this year and rebound to +4.4% (2023: -6.4%), on the back of expanding domestic demand as well as increased activities in the manufacturing sector. 

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



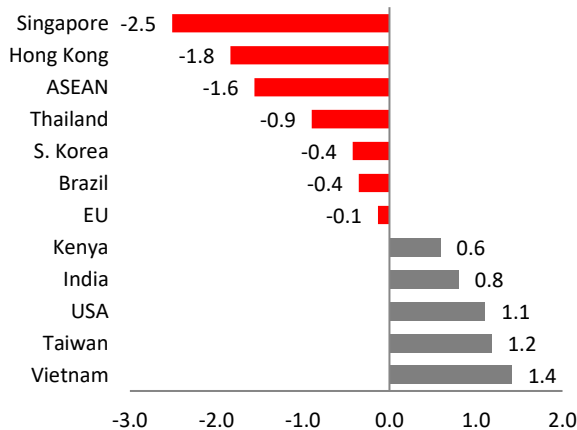
Source: Macrobond, MIDFR

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



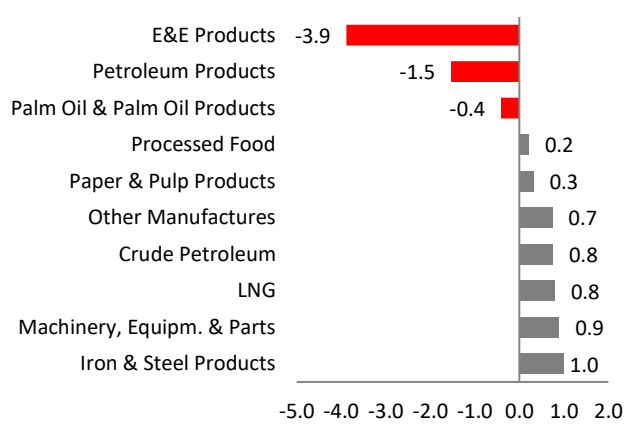
Source: Macrobond, MIDFR

Chart 3: Contribution to Total Exports Growth in Feb-24 by Destinations (%-points)



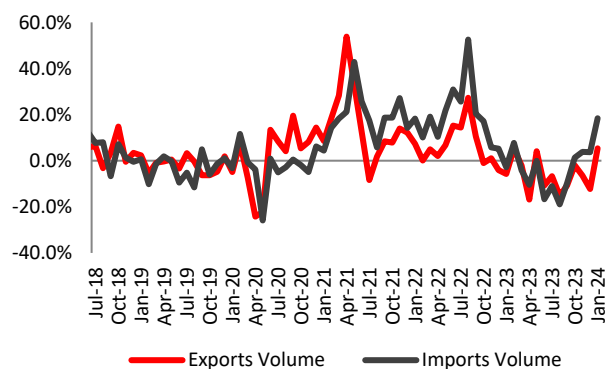
Source: Macrobond, MIDFR

Chart 4: Contribution to Total Exports Growth in Feb-24 by Key Products (%-points)



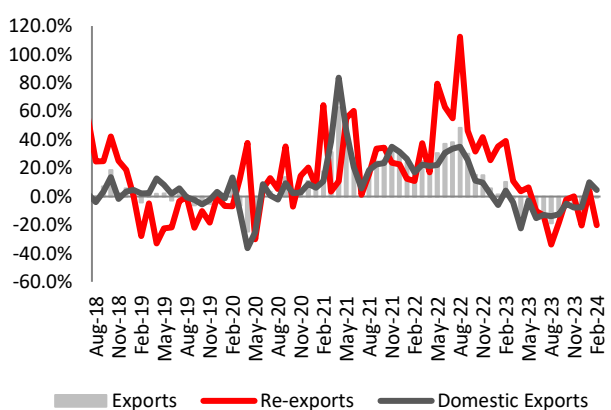
Source: Macrobond, MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



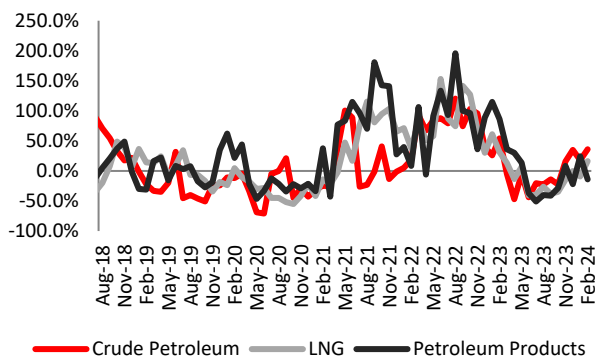
Note: Latest available data as of Jan-24
Source: Macrobond, MIDFR

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



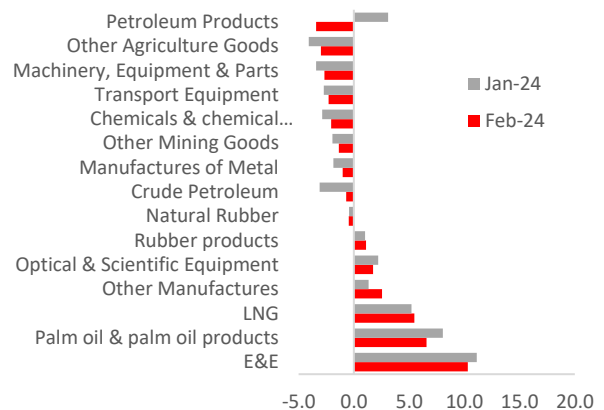
Source: Macrobond, MIDFR

Chart 7: Exports of Mining Goods (YoY%)



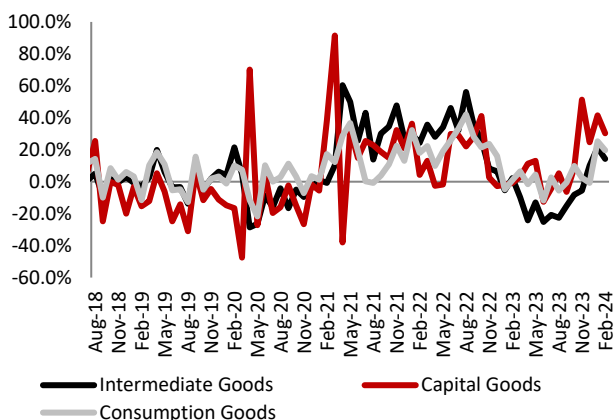
Source: Macrobond, MIDFR

Chart 8: Trade Balance for Selected Products (RM b)



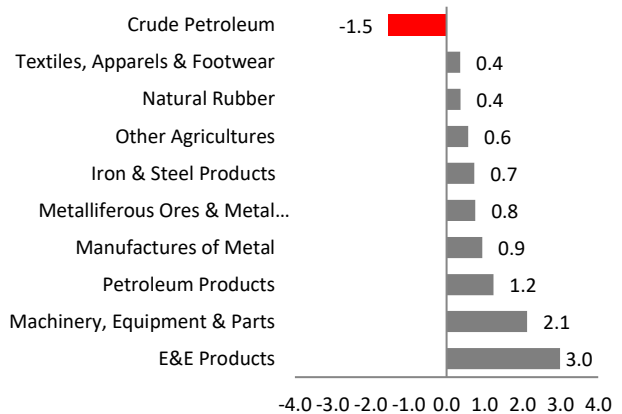
Source: Macrobond, MIDFR

Chart 9: Imports of Goods by End Use (YoY%)



Source: Macrobond, MIDFR

Chart 10: Contribution to Total Imports Growth in Jan-24 by Key Products (%-points)



Source: Macrobond, MIDFR

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