

ECONOMIC REVIEW | May 2024 External Trade

Sustained Rise in Exports in May-24 Driven by Higher Exports of E&E and Palm Oil

- Exports expanded further +7.3%yoy in May-24. Malaysia's exports growth was sustained for the second month in a row at +7.3%yoy (Apr-24: +9.1%yoy), supported by higher E&E and palm oil exports.
- Increased exports to major markets including China and USA. By destination, Malaysia's exports to major markets including China, the US, EU and ASEAN maintained growth in May-24.
- Major source of export growth from E&E and palm oil exports. By major products, the continued rise in exports in May-24 was mainly driven by increased shipments of manufactured goods, especially E&E products due to higher demand for automatic data processing equipment and semiconductors.
- Exports and imports improved this year. We maintain our forecast that Malaysia's goods exports and imports will recover this year and grow at +5.2% (2023: -8.0%) and +4.4% (2023: -6.4%), respectively, while remaining cautious that the outlook may be constrained by geopolitical and trade tensions and potentially weaker final demand from major economies.

Exports expanded further +7.3%yoy in May-24. Malaysia's total trade rose for the 5th straight month at +10.3%yoy in May-24, underpinned by higher exports and imports. The trade surplus also widened to RM10.1b, improving from the post-pandemic low of +RM7.7b in Apr-24 as monthly growth in exports was faster (+11.8%mom) than imports (+10.3%mom). From year-on-year perspective, exports growth was sustained for the second month in a row at +7.3%yoy (Apr-24: +9.1%yoy), stronger than market expectations. Domestic exports expanded further at +13.2%yoy, sustaining growth since Jan-24 and continue to offset the continued contraction in re-exports (-14.1%yoy). By major products, the continued recovery in E&E and palm oil exports contributed more than two-thirds of the export growth in May-24. Demand from major markets continued to increase, particularly from ASEAN, the US and even continued rise in exports to China. Imports also rose faster than expected albeit moderating to +13.8%yoy (Apr-24: +15.6%yoy), contributed by higher purchases of E&E; machinery, equipment & parts; and crude petroleum. Continued growth in Malaysia external trade was generally aligned with growing regional trade. Looking at the encouraging trade numbers, we continue to expect the recovery in external demand will lend support for Malaysia's economy to grow faster this year.

Table 1: Malaysia's External Trade Summary

	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
Exports (RM b)	121.7	118.4	122.4	111.4	128.6	114.7	128.2
% YoY	(6.1)	(10.1)	8.7	(0.8)	(0.9)	9.1	7.3
% MoM	(3.5)	(2.8)	3.4	(9.0)	15.5	(10.8)	11.8
Imports (RM b)	109.5	106.6	112.2	100.1	115.8	107.0	118.1
% YoY	1.5	2.9	18.7	8.0	12.5	15.6	13.8
% MoM	(3.3)	(2.6)	5.3	(10.8)	15.7	(7.6)	10.3
Total Trade (RM b)	231.2	225.0	234.6	211.5	244.4	221.7	246.3
% YoY	(2.7)	(4.3)	13.3	3.2	5.1	12.1	10.3
% MoM	(3.4)	(2.7)	4.3	(9.9)	15.6	(9.3)	11.1
Trade Balance (RM b)	12.2	11.7	10.2	11.2	12.7	7.7	10.1

	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
Import Components							
Intermediate (RMb)	56.0	60.0	58.8	55.5	59.3	59.2	68.1
% YoY	(5.6)	10.2	21.3	13.7	10.6	30.5	24.1
Capital (RM b)	14.8	12.3	13.7	10.2	16.2	11.0	13.9
% YoY	51.3	23.7	41.5	30.0	66.3	8.6	40.5
Consumption (RM b)	9.7	9.2	10.3	8.4	9.4	9.8	10.2
% YoY	2.4	(0.7)	25.3	19.6	1.2	19.5	14.7

Note: MoM is non-seasonally adjusted figure

Source: Macrobond, MIDFR

Increased exports to major markets including China and USA. By destination, Malaysia's exports to major markets including China, the US, EU and ASEAN maintained growth in May-24. Shipments to the US rose robustly at +17.4%yoy, the fifth straight month of growth and the fastest pace early 2023. This was driven by shipments of E&E products and palm oil. Meanwhile, exports to China grew for the second month by +1.6%yoy driven by higher exports of palm oil and manufactured goods such as paper & pulp products and petroleum products. In terms of exports the EU, shipments from Malaysia rose by +7.2%yoy primarily due to demand for palm oil (both crude and processed) as companies stocking up inventories prior to the enforcement of EU Deforestation Regulation (EUDR) which will begin end of this year. To ASEAN countries, Malaysia's exports rose for the second straight month (+10.4%yoy) underpinned overwhelmingly by exports of E&E and refined petroleum products. Among ASEAN markets, Malaysia's exports to Thailand fell again by -11.5%yoy mainly due to lower shipments of crude petroleum and LNG. Generally, we learned that increased palm oil exports to several markets reflected Malaysian producers gained from weaker output in other parts of the world affected by unfavourable weather. Apart from growing demand for resource-based products, we expect continued improvement in E&E exports would support more shipments to markets such as the US and regional countries.

Table 2: Malaysia's Exports (YoY%)

	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
Total Exports (RMb)	121.7	118.4	122.4	111.4	128.6	114.7	128.2
Re-exports (RMb)	26.2	21.2	27.7	19.8	24.4	23.0	22.2
Domestic Exports (RMb)	95.5	97.2	94.7	91.5	104.1	91.7	106.0
Exports by Key Country / Region							
China	(8.4)	(1.5)	(7.4)	(0.4)	(2.1)	2.1	1.6
USA	(8.5)	(5.1)	11.9	10.1	3.0	17.3	17.4
Japan	(18.3)	(4.7)	2.8	5.7	(5.4)	(4.3)	2.4
India	(19.7)	(21.5)	18.7	26.7	15.0	7.4	26.4
Hong Kong	(14.4)	(9.1)	(7.9)	(29.2)	(5.7)	9.0	(7.5)
Australia	6.5	(11.5)	34.6	16.6	(25.2)	(20.4)	(14.8)
EU	(6.9)	(25.5)	6.4	(1.8)	10.0	11.3	7.2
ASEAN	(5.8)	(12.6)	(6.4)	(5.1)	(0.9)	11.3	10.4
Singapore	(17.0)	(24.8)	(2.7)	(15.3)	(6.9)	9.0	13.7
Thailand	(0.5)	(11.6)	(12.6)	(19.3)	(3.3)	13.6	(11.5)
Indonesia	4.9	10.7	60.6	10.7	(3.3)	(11.4)	2.6
Vietnam	40.4	(2.7)	53.7	51.9	45.9	15.8	17.6
Philippines	(1.8)	10.8	24.3	(3.2)	(13.5)	48.2	36.1

Source: Macrobond, MIDFR

Major source of export growth from E&E and palm oil exports. By major products, the continued rise in exports in May-24 was mainly driven by increased shipments of manufactured goods, especially E&E products. Exports of manufactured goods, which accounted 86.2% of total exports in May-24, rose further by +8.3%yoy. The large part of the export growth was contributed by continued growth in E&E exports (+7.6%yoy), and shipments of manufactures of metal (+27.6%yoy) and optical & scientific equipment (+26%yoy). The growth in E&E exports reflected the robust demand for automatic data processing equipment (+67.9%yoy) and semiconductors (+3.4%yoy). Meanwhile, exports of palm oil also increased strongly at +22.4%yoy following stronger sales to Bangladesh, India and China. Increased palm oil exports largely contributed to the more robust growth in agriculture exports (+22.1%yoy). Mining goods exports, on the other hand, declined by -17.2%yoy in May-24, mainly due to lower exports of LNG (-21.2%yoy) and crude petroleum (-5.2%yoy). We expect the pick-up in exports of manufactured goods to continue as the growing E&E exports shows Malaysia is also benefiting from the upcycle in the global E&E market. While petroleum products have been rather weak compared to last year, Malaysia also stands to gain from the growing global demand for commodities.

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

	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
E&E	(13.7)	(12.1)	(6.5)	(9.7)	(1.7)	0.6	7.6
Machinery, Equipment & Parts	10.3	(0.7)	35.5	22.1	12.0	34.9	11.9
Optical & Scientific Equipment	(12.7)	(8.5)	22.4	3.7	(1.7)	12.7	26.0
Palm oil & palm oil-based products	(7.0)	(26.6)	16.6	(5.8)	(20.2)	13.3	22.4
Crude Petroleum	15.6	35.1	17.7	36.9	(7.3)	64.9	(5.2)
Petroleum Products	0.4	(28.5)	16.7	(24.2)	(9.3)	(18.6)	(12.1)
LNG	(14.8)	(0.1)	(9.3)	16.5	8.4	12.7	(21.2)
Rubber products	4.6	1.4	16.1	8.2	(0.0)	30.2	18.5
Transport equipment	(42.3)	(39.3)	23.0	6.0	37.4	33.4	2.5

Source: Macrobond, MIDFR

Imports sustained double-digit growth driven by intermediate and capital goods. Imports also grew better than expected, sustained at double-digit rate of +13.8%yoy (Apr-24: +15.6%yoy). The main drivers of import growth in May-24 were intermediate (+24.1%yoy) and capital goods (+40.5%yoy). In particular, the stronger capital goods imports continued to be underpinned by higher purchases of ICT-related products on the back of growing investment into the ICT industry. Imports of consumers goods also remained robust at +14.7%yoy (Apr-24: +19.5%yoy) in line with the growing domestic consumption. By sector breakdown, import growth for all major sectors moderated but was still at double-digit pace. Agriculture imports grew at +15.5%yoy, driven by higher imports of other agricultures (+16.1%yoy) and natural rubber (+56%yoy). Mining goods imports rose by +18.6%yoy largely due to +45.7%yoy surge in crude petroleum. Imports of manufactured goods expanded +12.3%yoy, contributing 75.4% of overall import growth following strong +imports of E&E products (+26.3%yoy). We maintain our expectations that imports will continue to grow in view of the continued rise in domestic spending and investment activities.

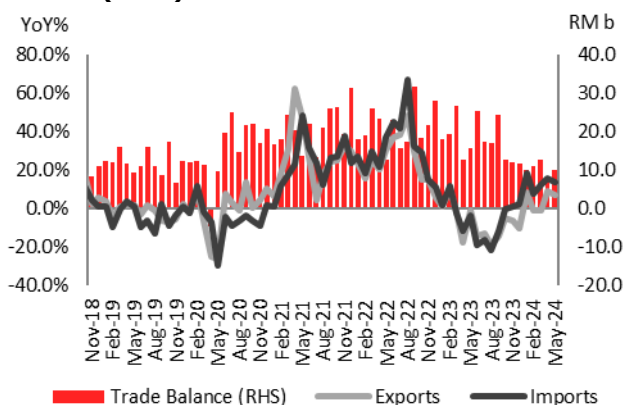
Export growth was also supported by an export price increase. The latest data as of Apr-24 continued to suggest higher export and import prices also contributed to the recent growth in external trade. Export growth of +9.1%yoy in Apr-24 was more driven by export price increase (+5.1%yoy) while volume growth was relatively slower (+3.7%yoy). Export price increases for exports of mineral fuels, lubricants & related materials were more significant, rising at +15.6%yoy in Apr-24 (Mar-24: +13.8%yoy), in line with the rise in oil prices. Export volume growth was visible for, among others, crude materials (+43.4%yoy), oils & fats (+17.5%yoy) and manufactured goods (+15.6%yoy). Imports, on the other hand, were more driven by volume growth (+13.2%yoy) for various products and, far stronger than +2.1%yoy increase in import prices. While ringgit

weakness could be factored in and push import prices higher, the bulk of import changes were still influenced by volume change. Looking at the continued rise in export and import prices, we expect external trade price increases will also support export and import growth this year, subject to fluctuations in commodity prices and margins.

The trade surplus widened from a post-pandemic low. The trade surplus rose to +RM10.1b from +RM7.7b, which was the lowest surplus in the post-pandemic period. Stronger E&E exports contributed to a larger surplus of +RM14.2b in the E&E trade (Apr-24: +RM11.4b). Widening of surpluses in the trade of other manufactures and optical & scientific equipment to +RM3b (Apr-24: +RM1.9b) and +RM2.7b (Apr-24: +RM1.7b), respectively, also contributed to the higher surplus in trade of manufactured goods. Palm oil trade remained the second largest contributor after E&E trade to the overall trade surplus, with the size of palm oil trade surplus rising to +RM8.4b in May-24 (Apr-24: +RM7.9b). On the flip side, dependence on foreign oil led to a deeper trade deficit of -RM5.2b (Apr-24: -RM1.9b) in trade of crude and processed petroleum. Other products which recorded larger trade deficits were machinery, equipment & parts (-RM4.7b) and transport equipment (-RM3.1b), limiting the upside in the monthly trade surplus. We expect the export recovery will translate into a higher trade surplus this year, consequently the current account balance would increase back to more than 3% of GDP (2023: 1.2%).

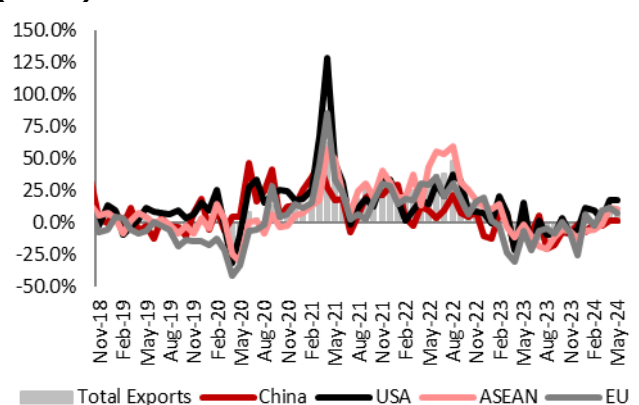
Exports and imports to improve this year. We maintain our projection that Malaysia's goods exports and imports will recover this year and grow at +5.2% (2023: -8.0%) and +4.4% (2023: -6.4%), respectively. We continue to expect the growing E&E trade and the recovering external demand will support export recovery this year. We also expect increased investment activities and inventory restocking in anticipation of the increasing demand to support imports to recover from the declines seen last year. Despite the positive outlook, we are still cautious that the ongoing geopolitical conflicts and the renewed trade tensions could affect near-term trade activities. In addition, final demand especially from major economies may weaken, constrained by the high borrowing costs and concerns over the strength of growth in China.

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



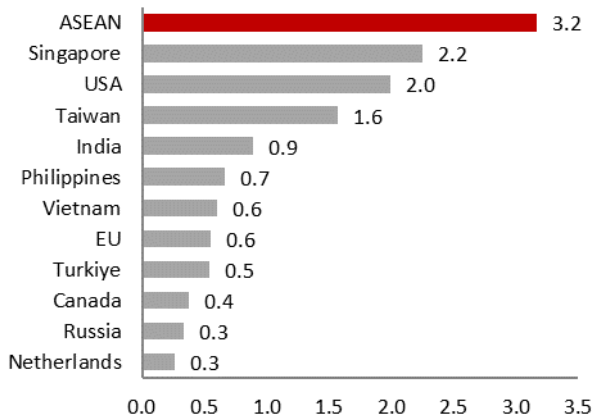
Source: Macrobond, MIDFR

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



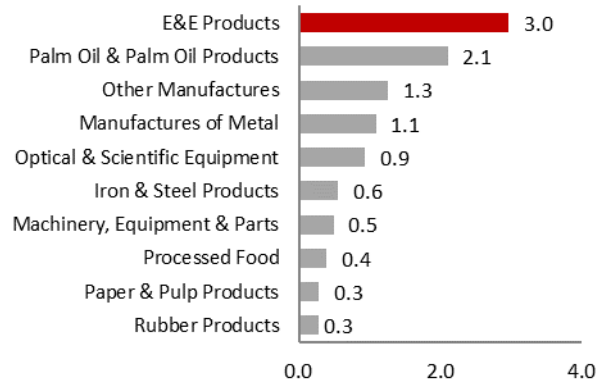
Source: Macrobond, MIDFR

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



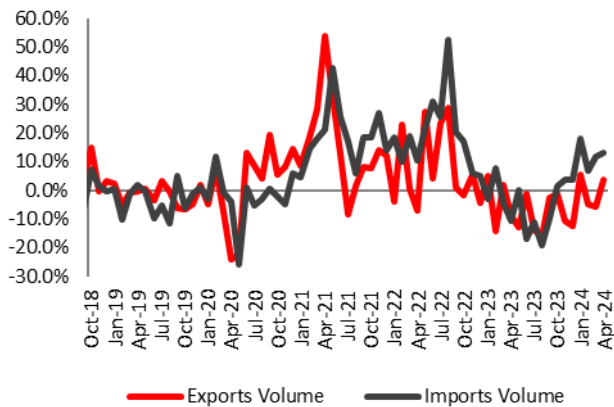
Source: Macrobond, MIDFR

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



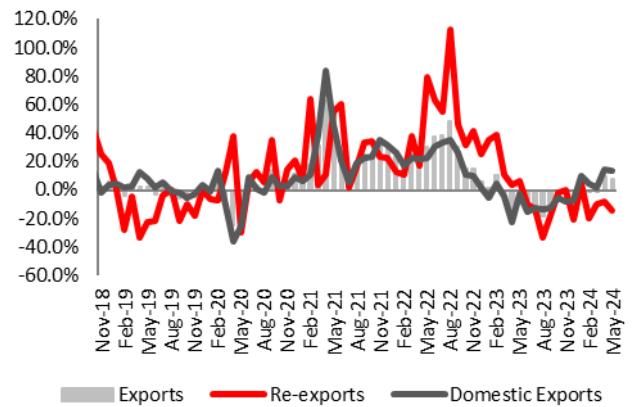
Source: Macrobond, MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



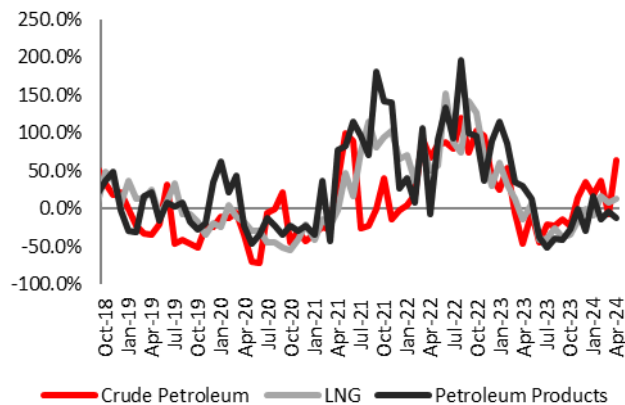
Note: Latest available data as of Apr-24
Source: Macrobond, MIDFR

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



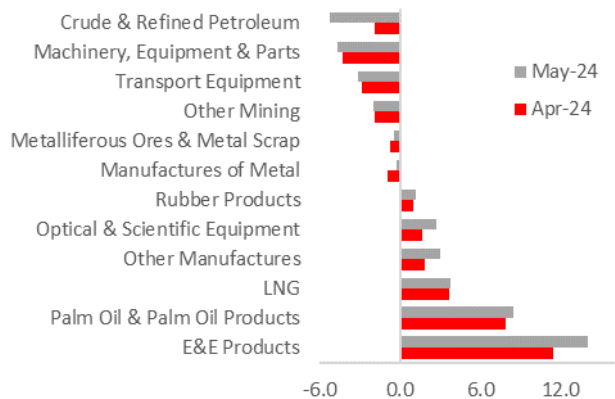
Source: Macrobond, MIDFR

Chart 7: Exports of Mining Goods (YoY%)



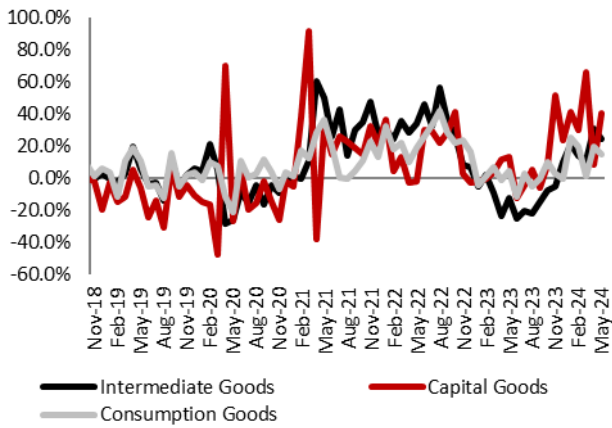
Source: Macrobond, MIDFR

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



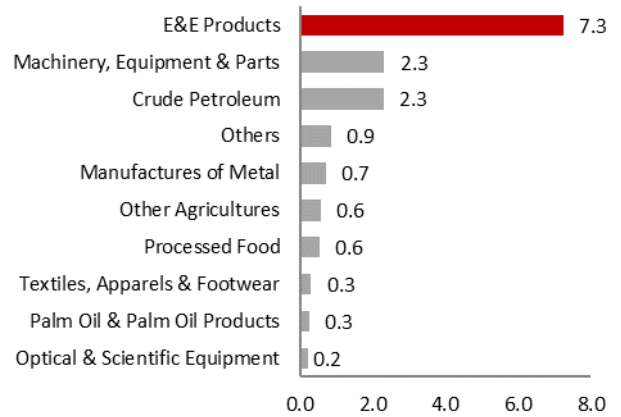
Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

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