

ECONOMIC REVIEW | June 2024 External Trade

Exports Expanded Modestly at +1.7%yoy in Jun-24 Weighed Down by Weak E&E Exports

- *Weaker-than-expected exports growth at +1.7%yoy in Jun-24. Malaysia's export growth moderated steeper than expected to +1.7%yoy (May-24: +7.1%yoy) due to a sharper fall in re-exports and slower growth in domestic exports. Higher exports of non-E&E products offset the renewed decline in E&E exports.*
- *Exports to USA rose further but declined to China and EU. By destination, Malaysia's exports to the US rose further for the 6th straight month by +14%yoy (May-24: +17.4%yoy) largely supported by demand for manufactured goods such as E&E products and machinery, equipment & parts. However, exports to China fell by -2%yoy, ending 2 months of growth, among others due to lower shipments of E&E products, manufactures of metal and processed petroleum products.*
- *Higher exports of mining goods offset weakness in E&E exports. The sustained export growth in Jun-24 was underpinned by a strong rebound in mining goods exports (+15.1%yoy), driven by double-digit growth in exports of LNG (+23.7%yoy) and crude petroleum (+15.4%yoy).*
- *Upgrade forecast for 2024 import growth higher. We maintain our projection that Malaysia's goods exports will recover and grow at +5.2% this year (2023: -8.0%) but we upgrade import growth forecast to +11.2% (2023: -6.4%), anticipating a quicker turnaround given the more robust import growth in 1HCY24.*

Weaker-than-expected exports growth at +1.7%yoy in Jun-24. Malaysia's total trade continued to grow at +8.7%yoy in Jun-24, sustaining expansion since in Jan-24 due to increases in both exports and imports. The trade balance improved to +RM14.3b (May-24: +RM10b) as imports recorded a sharper monthly decline of (-5.4%mom). Although exports also fell by -1.6%mom from the previous month, the moderation in year-on-year growth was steeper than expected, growing modestly at +1.7%yoy (May-24: +7.1%yoy). The moderation was linked to a sharper fall in re-exports (-15.1%yoy) and slower growth in domestic exports (+7.1%yoy). By major products, the sustained growth was anchored by higher shipments of non-E&E products (mainly machinery, equipment & parts; LNG; palm oil and palm oil products; and other manufactures), which offset declines in exports of petroleum products, E&E and iron & steel products. In contrast, imports grew faster at +17.8%yoy (May-24: +13.4%yoy) driven by imports of manufactured goods mainly E&E products. Despite the renewed decline in E&E exports and softer export growth in Jun-24, we continue to expect the momentum for export growth to improve in the latter part of the year. We anticipate the recovery in E&E exports would be more encouraging in 2HCY24 as Malaysia benefits from the improvement in the global E&E market.

Table 1: Malaysia's External Trade Summary

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Exports (RM b)	118.4	122.4	111.4	128.6	114.7	128.0	126.0
% YoY	(10.0)	8.6	(1.2)	(0.9)	9.1	7.1	1.7
% MoM	(2.6)	3.3	(9.0)	15.5	(10.8)	11.6	(1.6)
Imports (RM b)	106.6	112.2	100.1	115.8	107.0	118.1	111.8
% YoY	2.9	18.8	8.0	10.9	14.0	13.4	17.8
% MoM	(2.6)	5.3	(10.8)	15.7	(7.7)	10.4	(5.4)
Total Trade (RM b)	225.1	234.6	211.5	244.4	221.6	246.1	237.8
% YoY	(4.3)	13.3	3.0	4.4	11.4	10.1	8.7
% MoM	(2.6)	4.3	(9.9)	15.6	(9.3)	11.0	(3.4)
Trade Balance (RM b)	11.8	10.2	11.2	12.7	7.7	10.0	14.3

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Import Components							
Intermediate (RMb)	60.0	58.8	55.5	59.3	59.2	68.1	60.8
% YoY	10.3	21.3	13.7	7.6	27.0	23.4	37.2
Capital (RM b)	12.3	13.7	10.2	16.2	11.0	13.9	12.0
% YoY	23.7	41.5	29.9	66.3	8.6	40.3	23.5
Consumption (RM b)	9.2	10.3	8.4	9.4	9.8	10.2	9.2
% YoY	(0.7)	25.3	19.6	1.0	19.5	14.8	13.5

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

Exports to USA rose further but declined to China and EU. By destination, Malaysia's exports to the US rose further for the 6th straight month, growing by +14%yoy (May-24: +17.4%yoy) largely supported by higher exports of E&E products and machinery, equipment & parts. However, exports to China fell by -2%yoy, ending 2 months of growth, among others due to lower shipments of E&E products, manufactures of metal and petroleum products. Exports to Japan fell steeply by -18.6%yoy particularly due to lower exports of E&E products (-23%yoy) and LNG (-38.6%yoy). By major region, exports to the EU contracted by -8.2%yoy also due to lower exports of E&E products. Meanwhile, exports to ASEAN eased but grew for the third consecutive month at +2.1%yoy as strong exports of mining goods (i.e. LNG and crude petroleum) more than offset the decline in E&E exports (largely reduced shipments to Singapore). Although exports grew slower in Jun-24, we expect demand from major trading partners like the US, China and ASEAN countries will continue to grow on the back sustained and positive economic growth in these economies.

Table 2: Malaysia's Exports (YoY%)

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Total Exports (RMb)	118.4	122.4	111.4	128.6	114.7	128.0	126.0
Re-exports (RMb)	21.2	27.7	19.8	24.4	23.0	22.2	25.6
Domestic Exports (RMb)	97.3	94.7	91.5	104.1	91.7	105.8	100.4
Exports by Key Country / Region							
China	(1.5)	(7.4)	(0.4)	(2.1)	2.1	1.6	(2.0)
USA	(5.3)	11.9	10.1	3.0	17.3	17.4	14.0
Japan	(4.7)	2.8	5.7	(5.4)	(4.3)	0.4	(18.6)
India	(21.5)	18.7	26.7	15.0	7.4	26.4	10.9
Hong Kong	(9.1)	(7.9)	(29.2)	(5.7)	9.0	(7.5)	(2.3)
Australia	(11.5)	34.6	16.6	(25.2)	(20.4)	(14.8)	(0.9)
EU	(25.5)	6.4	(1.8)	10.0	11.3	6.9	(8.2)
ASEAN	(12.6)	(6.4)	(5.1)	(0.9)	11.3	10.3	2.1
Singapore	(25.0)	(2.7)	(15.3)	(6.9)	9.0	13.6	(3.0)
Thailand	(11.9)	(12.6)	(19.3)	(3.3)	13.6	(11.3)	28.7
Indonesia	10.6	60.6	10.7	(3.3)	(11.4)	2.6	(6.9)
Vietnam	(2.7)	53.7	51.9	45.9	15.8	17.6	15.1
Philippines	10.8	24.3	(3.2)	(13.5)	48.2	36.1	(9.0)

Source: Macrobond, MIDFR

Higher exports of mining goods offset weakness in E&E exports. The sustained export growth in Jun-24 was underpinned by strong rebound in mining goods exports (+15.1%yoy), driven by double-digit growth in exports of LNG (+23.7%yoy) and crude petroleum (+15.4%yoy). Manufacturing exports still managed to record small growth of +1%yoy as the declines in E&E exports (-1.6%yoy) and petroleum products (-7.3%yoy) were

offset by the strong exports of machinery, equipment & parts (+25.1%yoy) and other manufactures (+24%yoy). Exports of palm oil & palm oil-based products also sustained growth at +6.4%yoy, extending expansion since Apr-24, mainly supported by higher shipments of palm oil-based manufactured products. In contrast, agriculture exports grew modestly at +1.7%yoy largely explained by the reduction in palm oil exports (-4.2%yoy) to markets like Kenya, Saudi Arabia, Turkiye and China. We foresee the continued rise in global demand will play a key factor affecting the performance of exports of primary commodities i.e. agriculture and mining goods. Despite the still weak E&E exports in Jun-24, we expect the upcycle in the global E&E market and recovery in global production activities will support manufactured goods exports to grow going forward.

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

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
E&E	(12.1)	(6.5)	(9.7)	(1.7)	0.6	7.6	(1.6)
Machinery, Equipment & Parts	(0.7)	35.5	22.1	12.0	73.6	11.6	25.1
Optical & Scientific Equipment	(8.5)	22.4	3.7	(1.7)	12.7	22.4	6.7
Palm oil & palm oil-based products	(26.6)	16.6	(5.8)	(20.2)	13.4	22.4	6.4
Crude Petroleum	35.1	17.7	36.9	(7.3)	64.9	(5.7)	15.4
Petroleum Products	(28.5)	16.7	(24.2)	(9.3)	(26.5)	(12.1)	(7.3)
LNG	(0.1)	(9.3)	16.5	8.4	12.7	(21.2)	23.7
Rubber products	1.4	16.1	8.2	(0.0)	30.2	18.5	18.8
Transport equipment	(39.3)	23.0	6.0	37.4	33.4	3.1	(26.1)

Source: Macrobond, MIDFR

Imports sustained double-digit growth at +17.8%yoy. Excluding Feb-24, Malaysia's imports has been growing at double-digit growth since Jan-24. In Jun-24, imports grew faster at +17.8%yoy (May-24: +13.4%yoy), particularly due to stronger imports of intermediate goods (+37.2%yoy). Although imports of consumer goods and capital goods moderated to +13.5%yoy and 23.5%yoy, respectively, the robust double-digit growth was in line with the sustained rise in domestic spending and business activities. By sector, nearly 82% or +14.5%-point of the overall import growth in Jun-24 was due higher purchases of manufactured goods, largely E&E products (+33%yoy) and machinery, equipment & parts (+26.5%yoy). From our check, the increased imports of E&E products include purchases of equipment for the construction of data centres. Mining imports added +1.7%-point to Jun-24 import growth, mostly due to higher imports of crude petroleum (+35.4%yoy). For the agriculture sector, the contribution to overall imports was smaller (only +0.7%-point); with higher imports of other agricultural goods (+24.7%yoy), natural rubber (+65.2%yoy) and other vegetable oil (+68.1%yoy) which offset lower imports of palm oil-based agricultural products (-54%yoy). While the robust import growth in a way was attributable to the low base effect due to weak trade activity last year, we opine the robust import growth would continue the back of growing household and investment spending.

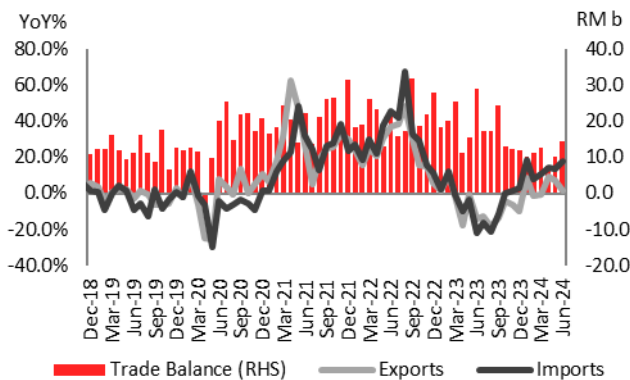
Rising prices also helped to push exports and imports higher. The latest data as of May 24 continued to suggest an uptrend in export and import prices. Unit price for exports rose faster at +6.1%yoy (Apr-24: +5.1%yoy) reflecting higher export prices for products such as mineral fuels, lubricants & related materials; foods, beverages & tobacco; and crude inedible materials. This closely reflected the annual rise in Brent crude oil and CPO prices which rose +9.4%yoy to USD83.00pb and +2.9%yoy to RM3,911.7/tonne, respectively, in May-24, based on the average prices. In other words, export growth in May-24 was more influenced by the price increase as volume growth for exports was smaller at +1.2%yoy (Apr-24: +3.7%yoy) dragged down by lower export volume for mineral fuels, lubricants & related materials (-30.4%yoy) and beverages & tobacco (-12.8%yoy). Import volume continued to be the main driver for growth, with the volume growing steadily at +11.1%yoy in May-24 (Apr-24: +13.2%yoy). In comparison, import prices also rose faster but still at relatively

modest pace of +2.4%yoy (Apr-24: +2.1%yoy), rising for the 5th straight month and the fastest since Mar-23. We expect the elevated prices will also drive a trade recovery, subject to the movement in global commodity prices. In terms of volume, we foresee the quantity of purchases to be on the rise, in line with the positive domestic demand outlook.

Lower trade surplus remains a drag to 2QCY24 GDP growth. Net exports of goods continued to be a downward drag to the overall trade balance and GDP growth in 2QCY24. The size of surplus shrank -42.7%yoy to +RM32b in 2QCY24 (1QCY24: +RM34.1b; 2QCY23: +RM55.8b) because import growth (2QCY24: +15%yoy; 1QCY24: +12.5%yoy) continued to outpace export growth (2QCY24: +5.8%yoy; 1QCY24: +2.0%yoy). Nevertheless, we expect the continued recovery in the tourism sector will support further improvement in services trade balance. On that note, we are optimistic that external trade recovery will support stronger economic growth this year as we anticipate the goods trade to continue recovering and improving in 2HCY24.

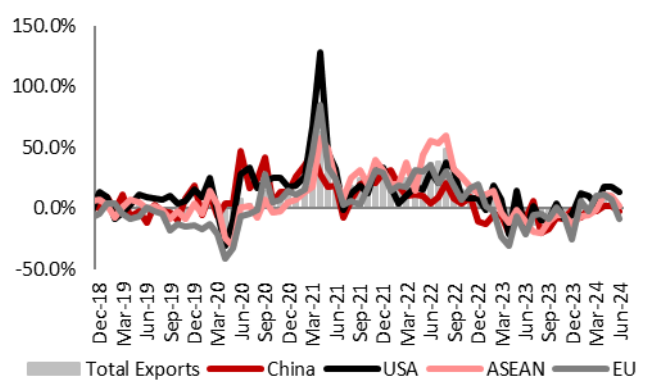
Upgrade forecast for 2024 import growth higher. We maintain our projection that Malaysia's goods exports will recover and grow at +5.2% this year (2023: -8.0%). However, we upgrade import growth forecast to +11.2% (2023: -6.4%), a quicker turnaround given the more robust import growth at +13.8%yoy in 1HCY24 vis-à-vis exports at +3.9%yoy. We foresee the turnaround in global E&E trade and the broad improvement in external demand to support overall export recovery this year. Meanwhile, the continued growth in domestic economic and investment activities will support imports to continue growing robustly this year. Although we anticipate trade would recover, we remain cautious that the ongoing geopolitical conflicts and trade tensions and weak growth outlook in major markets (such as USA and China) would negatively impact trade outlook. 📉

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



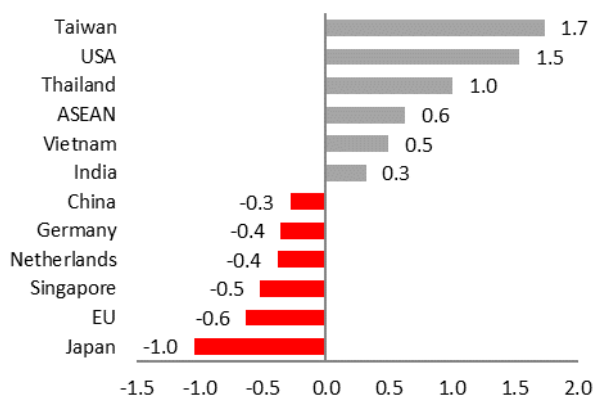
Source: Macrobond, MIDFR

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



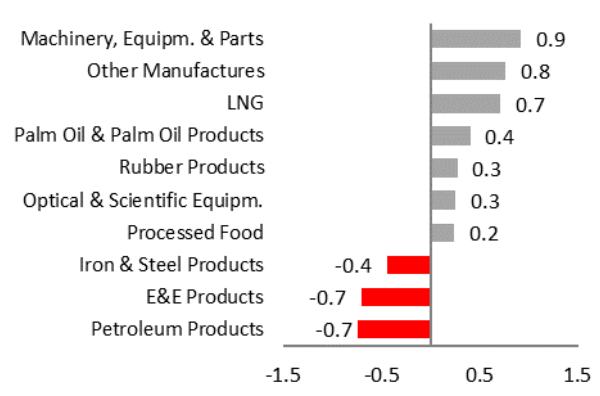
Source: Macrobond, MIDFR

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



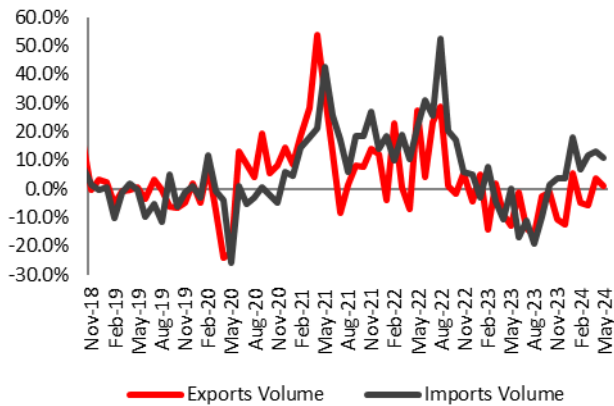
Source: Macrobond, MIDFR

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



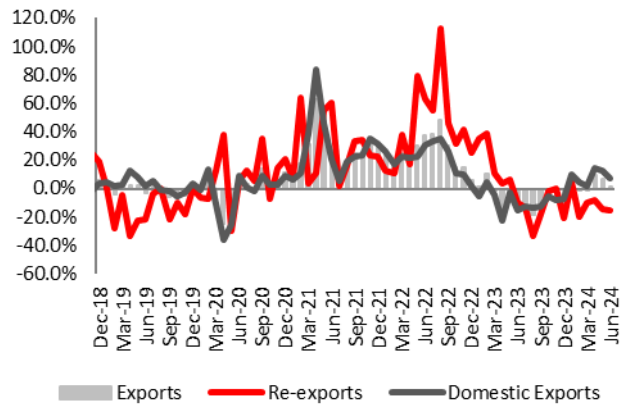
Source: Macrobond, MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



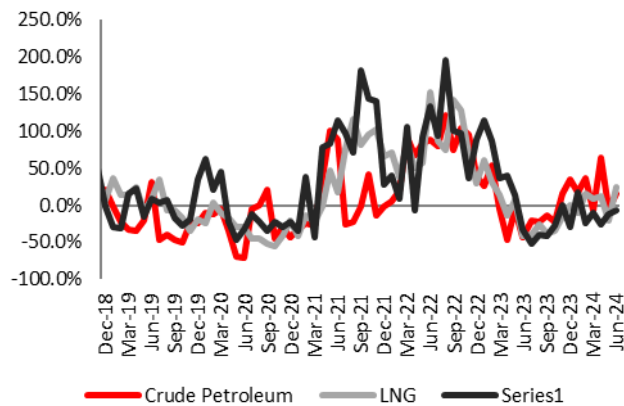
Note: Latest available data as of May-24
Source: Macrobond, MIDFR

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



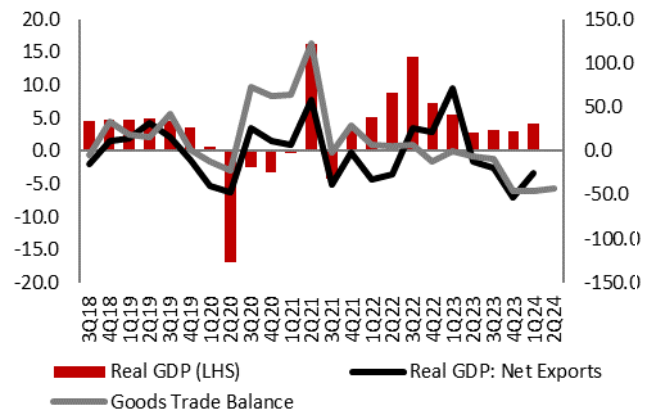
Source: Macrobond, MIDFR

Chart 7: Exports of Mining Goods (YoY%)



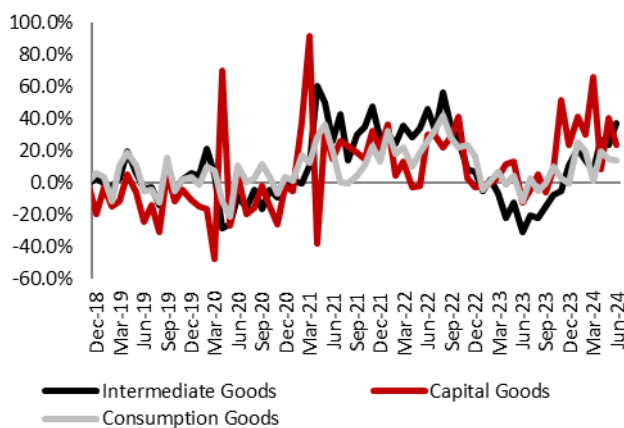
Source: Macrobond, MIDFR

Chart 8: Quarterly Trade Balance vs. Real GDP: Net Exports (YoY%)



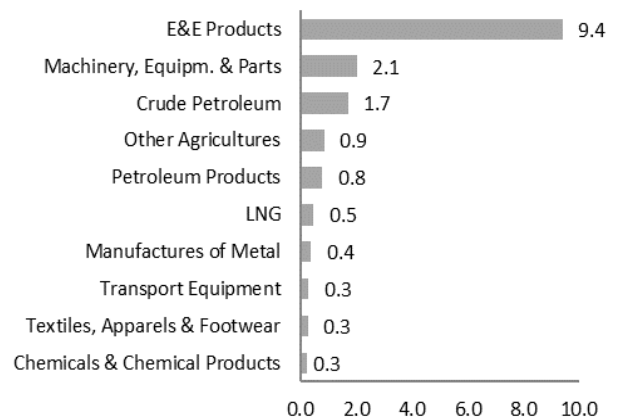
Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

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