

**ECONOMIC REVIEW | August 2018 External Trade****Moderating External Sector as Palm Oil & LNG Performance Continue to Deteriorate**

- *Exports growth in Aug-18 tumbled on both annually and monthly basis at 0.3%yoy and 5%mom respectively however value remains above RM80b. The fall was partly due to fewer working days as a result of Eid al-adha and Merdeka holidays besides weaker sectoral performances.*
- *Equanimity lifted capital goods imports. Imports of capital goods soared by 29.4%yoy in Aug-18, the highest growth so far in 2018 particularly due to Equanimity, the luxury super yacht owned by Jho Low involving funds from 1MDB which was brought back to Malaysia during the month and seized under the Malaysian laws.*
- *Exports growth forecast revised to 7.3% for 2018. Amid higher base effects and signs of easing key global indicators, we foresee exports to expand by 7.3% this year (18.9% in 2017). This is supported by lower exports growth for the first eight months which registered at 6.3% compared to a double digit growth of 22.5% in the same period last year.*

**Exports growth turned negative.** Exports growth in Aug-18 tumbled on both annually and monthly basis at 0.3%yoy and 5%mom respectively however value remains above RM80b. The fall was partly due to fewer working days as a result of Eid al-adha and Merdeka holidays besides weaker sectoral performances. Manufactured and mining goods grew lesser at 1.8%yoy and 5.5%yoy respectively compared to previous month's figures while agriculture worsened at -20.8%yoy. Despite fewer working days, August imports increased 11.2%yoy and 3%mom to a new high of RM80.2b. As exports still outperformed imports in terms of value, we managed to record a trade surplus of RM1.6b yet the lowest gain in 46 months.

**Equanimity lifted capital goods imports.** Imports of capital goods soared by 29.4%yoy in Aug-18, the highest growth so far in 2018 particularly due to Equanimity, the luxury super yacht owned by Jho Low involving funds from 1MDB which was brought back to Malaysia during the month and seized under the Malaysian laws. Besides that, imports of intermediate goods rebounded by 4.2%yoy from -0.1%yoy in Jul-18 and those of consumption goods continued to expand at 14.2%yoy (11.1%yoy in Jul-18). Increasing demand for raw materials and capital goods point at rising activity and confidence in the manufacturing industry, which should impact positively on employment opportunities and future exports. Meantime, high imports of consumer goods signals purchasing power and household consumption are strengthening in Malaysia.

**Table 1: Malaysia's External Trade Summary**

	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
<b>Exports (RMb)</b>	<b>70.3</b>	<b>84.5</b>	<b>84.2</b>	<b>82.1</b>	<b>78.7</b>	<b>86.1</b>	<b>81.8</b>
% YoY	(2.0)	2.2	14.0	3.4	7.6	9.4	(0.3)
% MoM	(15.1)	20.1	(0.3)	(2.5)	(4.2)	9.6	(5.0)
<b>Imports (RMb)</b>	<b>61.3</b>	<b>69.8</b>	<b>71.2</b>	<b>74.0</b>	<b>72.6</b>	<b>77.8</b>	<b>80.2</b>
% YoY	(2.8)	(9.6)	9.1	0.1	14.9	10.3	11.2
% MoM	(16.2)	13.8	2.0	3.9	(1.9)	7.2	3.0
<b>Total Trade</b>	<b>131.7</b>	<b>154.2</b>	<b>155.4</b>	<b>156.1</b>	<b>151.3</b>	<b>164.0</b>	<b>162.0</b>
% YoY	(2.4)	(3.5)	11.7	1.8	11.0	9.8	5.1
% MoM	(15.6)	17.1	0.8	0.4	(3.1)	8.4	(1.2)
<b>Trade Balance (RMb)</b>	<b>9.0</b>	<b>14.7</b>	<b>13.1</b>	<b>8.1</b>	<b>6.0</b>	<b>8.3</b>	<b>1.6</b>
<b>Import Components</b>							
<b>Intermediate (RMb)</b>	<b>32.8</b>	<b>36.9</b>	<b>33.8</b>	<b>40.1</b>	<b>39.4</b>	<b>39.9</b>	<b>45.0</b>
% YoY	(14.7)	(14.4)	(11.9)	(5.3)	3.1	(0.1)	4.2
<b>Capital (RMb)</b>	<b>7.7</b>	<b>9.4</b>	<b>8.4</b>	<b>9.8</b>	<b>9.4</b>	<b>9.6</b>	<b>11.7</b>
% YoY	6.0	(30.5)	4.8	(0.7)	14.1	4.7	29.4
<b>Consumption (RMb)</b>	<b>5.2</b>	<b>5.3</b>	<b>5.6</b>	<b>6.0</b>	<b>5.9</b>	<b>6.7</b>	<b>7.1</b>
% YoY	12.6	(12.4)	(1.8)	(10.2)	4.9	11.1	14.2

*Note: MoM is non-seasonally adjusted figure*

Source: CIEC, MIDFR

**Re-exports eased, domestic exports fell.** In Aug-18, re-exports maintained a double digit growth of 24.7%yoy to RM13.5b despite moderating from a 54.8%yoy gain in the previous month. The ratio of re-exports to total exports recorded lower at 16.5% which demonstrates that for every RM1 value of exports, approximately 17 cents of it is re-exports. In contrast, domestic exports declined by 4.1%yoy, the largest drop since Mar-18. While re-exports is good as it established the importance of Malaysia in global value chain, the deteriorating performance of locally produced goods and services is alarming.

**Vapid exports growth to major countries.** Malaysia's exports to China increased 4.5%yoy in Aug-18, down sharply from a remarkable growth of 37.5%yoy registered in a month earlier due to a plunge in both agriculture (Aug-18: -19.3%yoy vs Jul-18: 25.2%yoy) and manufacturing sectors (Aug-18: 0.5%yoy vs Jul-18: 37.1%yoy). On the other hand, exports to the US declined by 2%yoy in the same month (Jul-18: +6.7%yoy). By region, exports contracted to the EU by 8.9%yoy and slowed further at 0.6%yoy to ASEAN. Among ASEAN countries, outbound shipments to Thailand and Philippines improved further. Exports to Indonesia dropped 12.5%yoy amid weakening rupiah. Moving forward, we foresee exports to Indonesia to continue declining as the country recently imposed import tariffs on 1k-plus goods to support rupiah.

**Table 2: Malaysia's Exports (YoY%)**

	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
<b>Total Exports (RMb)</b>	<b>70.3</b>	<b>84.5</b>	<b>84.2</b>	<b>82.1</b>	<b>78.7</b>	<b>86.1</b>	<b>81.8</b>
<b>Re-exports (RMb)</b>	<b>14.5</b>	<b>16.1</b>	<b>20.1</b>	<b>16.3</b>	<b>15.7</b>	<b>18.7</b>	<b>13.5</b>
<b>Domestic Exports (RMb)</b>	<b>55.8</b>	<b>68.4</b>	<b>64.1</b>	<b>65.6</b>	<b>62.9</b>	<b>67.5</b>	<b>68.3</b>
<b>Exports by Key Country / Region</b>							
China	(9.7)	(4.7)	22.0	7.4	16.9	37.5	4.5
USA	3.3	(0.1)	1.7	(5.6)	(1.9)	6.7	(2.0)
Japan	(17.2)	(3.5)	(21.4)	16.0	(14.5)	(17.1)	(22.9)
India	1.1	10.3	4.9	(3.9)	(7.9)	16.3	(11.3)
Hong Kong	61.2	62.1	113.8	34.8	64.4	80.8	55.8
Australia	15.8	(11.8)	(14.5)	(6.9)	(4.7)	6.3	11.4
EU	(3.0)	5.3	19.5	11.4	5.6	2.2	(8.9)
ASEAN	(5.8)	(2.7)	13.6	(1.9)	7.4	1.2	0.6
<b>Selected ASEAN</b>							
Singapore	(6.0)	(4.3)	3.7	(9.8)	(0.3)	(2.0)	(2.2)
Thailand	(3.1)	9.5	32.4	18.4	13.2	6.0	15.6
Indonesia	(26.4)	(5.5)	2.1	(20.1)	24.0	4.2	(12.5)
Vietnam	24.8	(3.6)	44.2	41.3	30.6	12.8	6.9
Philippines	(5.1)	(10.4)	13.6	(4.1)	(9.3)	4.3	4.9

Source: CIEC, MIDFR


**E&E products dragged exports growth.** Exports of E&E products which constituted 39% of total exports rose by 3.2%yoy to RM32b in Aug-18 compared to a double digit growth of 23.6%yoy in the previous month. The 3-month low rate is partly due to sharp reduction in shipment to China. In contrast, outbound shipments of petroleum products rebounded to a double digit growth of 18%yoy, following a negative growth in Jul-18. Meanwhile, LNG and palm oil shipments continued to post negative growth at 20.4%yoy and 27%yoy in Aug-18. Looking ahead, export performance of the key products seen cloudy amid escalating US-China trade tensions on top of import tariffs imposed by Indonesia and India in order to protect their currency woes.

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

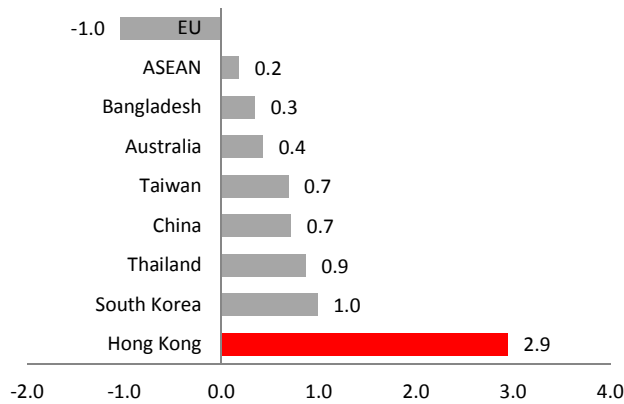
	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
E&E	(0.1)	8.7	21.2	2.1	6.9	23.6	3.2
Machinery, Equipment & Parts	(6.1)	4.9	6.2	(11.5)	10.4	2.0	(7.1)
Optical & Scientific Equipment	11.7	(0.2)	7.7	13.4	30.9	9.1	7.9
Petroleum Products	57.7	5.7	16.7	1.7	33.9	(13.0)	18.0
Crude Petroleum	3.0	18.4	22.7	45.8	25.3	90.1	70.8
LNG	(11.8)	(3.3)	(12.5)	61.0	(31.2)	(38.4)	(20.4)
Palm Oil	(24.0)	(7.5)	(0.8)	(24.7)	(26.8)	(22.2)	(27.0)

Source: CIEC, MIDFR

**Gloomy outlook for 3Q18.** Based on our regional partners' trade performance in Sep-18, exports growth of Vietnam went down to a single digit of 6.2%yoy after four straight month of double digit growth. In addition, South Korea exports contracted 8.2%yoy in the same month. Hence, it could provide similar waves to Malaysia's upcoming trade numbers for Sep-18. In regards to manufacturing condition and activity, both global and emerging economies manufacturing PMI edged down but still maintain on expansionary trend at 52.2 points and 50.3 points in Sep-18. With a weak August data plus possibilities of similar patterns of September data from our regional partners, exports growth for 3Q18 is expected to be lower than the earlier two quarters of 2018, in line with easing global manufacturing PMI. Furthermore, protracted trade rows between the two largest economies remains global downside risks.

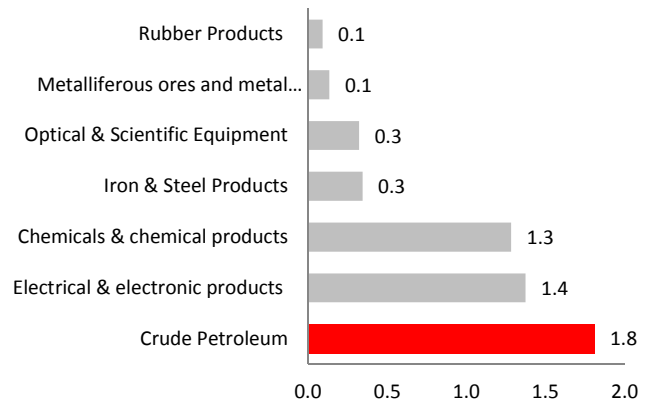
**Exports growth forecast revised to 7.3% for 2018.** Amid higher base effects and signs of easing key global indicators, we foresee exports to expand by 7.3% this year (18.9% in 2017). This is supported by lower exports growth for the first eight months which registered at 6.3% compared to a double digit growth of 22.5% in the same period last year. The moderating pace is consistent with gradual rise in global commodity prices, expectation of slight slowdown in overall business performance on top of the heating Sino-US trade conflict. 

**Chart 1: % Contribution to Exports Growth by Destination**



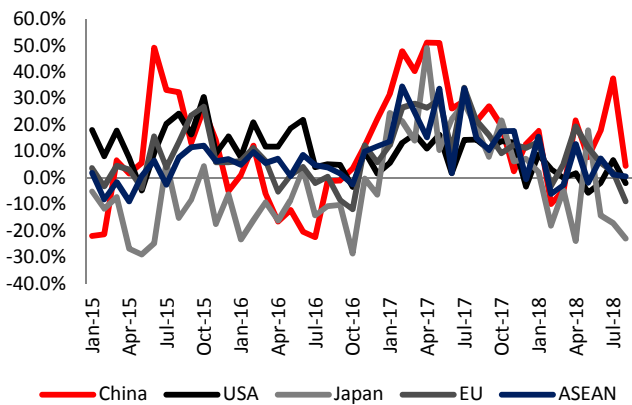
Source: CEIC; MIDFR

**Chart 2: % Contribution to Exports Growth by Products**



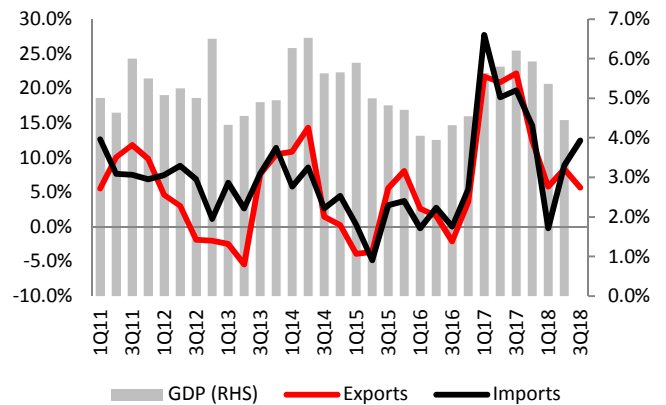
Source: CEIC; MIDFR

**Chart 3: Exports Growth (YoY%) by Major Destination**



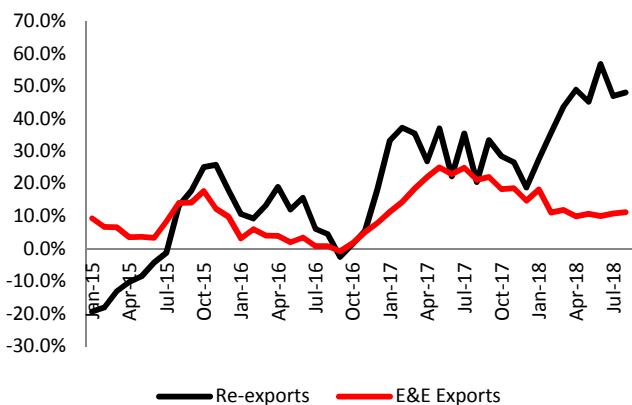
Source: CEIC; MIDFR

**Chart 4: External Trade vs GDP, (YoY%)**



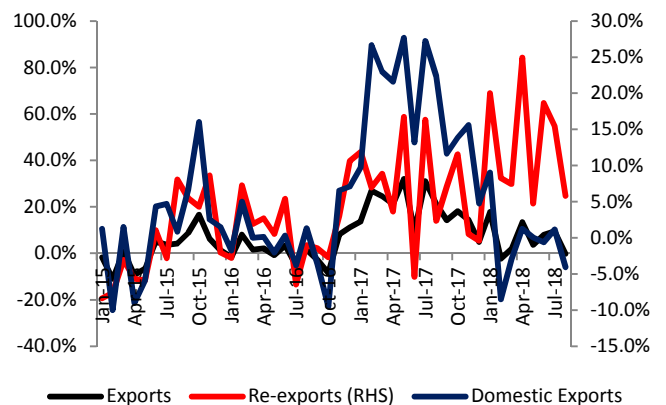
Source: CEIC; MIDFR

**Chart 5: 3MMA of E&E Exports & Re-exports (%)**



Source: CEIC; MIDFR

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



Source: CEIC; MIDFR

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