

ECONOMIC REVIEW | June 2018 External Trade**Re-exports Pushes Exports Growth to 7.6%yoy Amid Escalating Trade Tension**

- *Exports growth doubled. Exports growth expanded by 7.6%yoy in Jun-18, improved from 3.4%yoy gain registered in the preceding month. However, exports value dropped back to below RM80b. The expansion was mainly impelled by continuous and larger growth in manufactured goods (12.7%yoy).*
- *Re-exports a new trend. In Jun-18, re-exports soared by 63.1%yoy to RM15.7b with ratio of re-exports to total exports recorded at 20%. This demonstrates that for every RM1 value of exports, 20 cents of it are re-exports.*
- *We forecast exports growth to average 9.3% in 2018. Underpinned by optimistic signs of key global indicators and gradual recovery in commodities prices, we foresee Malaysia's exports will expand by 9.3% this year (18.9% in 2017). In fact, for 1H18, exports growth is recorded at 7%yoy which is far lower than 20.9%yoy registered in 1H17.*

Exports growth doubled. Exports growth expanded by 7.6%yoy in Jun-18, improved from 3.4%yoy gain registered in the preceding month. However, exports value dropped back to below RM80b. The expansion was mainly impelled by continuous and larger growth in manufactured goods (12.7%yoy). However, mining goods returned to negative territory in Jun-18 by shrinking 10.9%yoy after a stellar performance of 40%yoy in May-18 while agriculture goods continued to decrease by 18.7%yoy. Meanwhile, imports growth surged to 14.9%yoy during the same month compared to merely 0.1%yoy growth in May-18. For the first time this year, imports growth outperformed exports, resulting in a lesser trade surplus of RM6b. In upcoming month, we foresee Malaysia's exports to remain positive on the back of zero-rated GST, tax holiday period and stable retail fuel price. Nevertheless, protectionism and trade tension remain a concern to the economy.

Rebound in all goods boosted imports. Imports of capital goods rebounded by 14.1%yoy in Jun-18 from a fall of 0.7%yoy in the previous month. Similarly, imports of consumption goods recovered by 4.9%yoy compared to -10.2%yoy in May-18. Remarkably, imports of intermediate goods make a comeback of 3.1%yoy after six consecutive months of negative growth. The robust performance of intermediate goods in particular, points at rising activity and confidence in the manufacturing industry. In addition, industrial production and manufacturing sales also signal expansions. For the first five months of 2018, IPI and manufacturing sales registered an average growth of 3.8%yoy and 6.7%yoy respectively.

Table 1: Malaysia's External Trade Summary

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	1H18
Exports (RMb)	82.9	70.3	84.5	84.2	82.1	78.7	482.6
% YoY	17.9	(2.0)	2.2	14.0	3.4	7.6	7.0
% MoM	4.4	(15.1)	20.1	(0.3)	(2.5)	(4.2)	-
Imports (RMb)	73.2	61.3	69.8	71.2	74.0	72.6	422.1
% YoY	11.6	(2.8)	(9.6)	9.1	0.1	14.9	3.4
% MoM	1.5	(16.2)	13.8	2.0	3.9	(1.9)	-
Total Trade	156.0	131.7	154.2	155.4	156.1	151.3	904.7
% YoY	14.9	(2.4)	(3.5)	11.7	1.8	11.0	5.3
% MoM	3.0	(15.6)	17.1	0.8	0.4	(3.1)	-
Trade Balance (RMb)	9.7	9.0	14.7	13.1	8.1	6.0	60.6
Import Components							
Intermediate (RMb)	37.7	32.8	36.9	33.8	40.1	39.4	220.6
% YoY	(1.7)	(14.7)	(14.4)	(11.9)	(5.3)	3.1	(7.6)
Capital (RMb)	9.3	7.7	9.4	8.4	9.8	9.4	54.2
% YoY	(3.1)	6.0	(30.5)	4.8	(0.7)	14.1	(4.3)
Consumption (RMb)	6.3	5.2	5.3	5.6	6.0	5.9	34.2
% YoY	9.8	12.6	(12.4)	(1.8)	(10.2)	4.9	(0.4)

Note: MoM is non-seasonally adjusted figure

Source: CIEC, MIDFR

Re-exports a new trend. In Jun-18, re-exports soared by 63.1%yoy to RM15.7b with ratio of re-exports to total exports recorded at 20%. This demonstrates that for every RM1 value of exports, 20 cents of it are re-exports. While the surging re-exports reflects the importance of Malaysia in global value chain and trade activities, concern rises on the performance of domestic exports. Domestic exports declined further by 0.8%yoy in Jun-18 which could shakes up the real impact of external trade to GDP.

Exports growth to China doubled. Malaysia's exports to China grew by 16.9%yoy in Jun-18, doubled from 7.4%yoy recorded in a month earlier. It is the third consecutive months of growth driven by higher exports of chemicals & chemical products, manufactures of metal, LNG and optical & scientific equipment. However, exports to most of other major countries such as USA, Japan and India declined. For instance, exports to the USA contracted by 1.9%yoy due to lower exports of E&E products and palm oil & palm oil-based agriculture products. By region, exports expanded to both EU and ASEAN by 5.6%yoy and 7.4%yoy respectively. Among ASEAN countries, outbound shipments increased to all key countries except Singapore and Philippines. The latest second-round trade tensions between the two biggest economies (China and US) pose a bigger concern to Malaysian trade performance besides indecisive trade integrations such Regional Comprehensive Economic Partnership (RCEP) and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Table 2: Malaysia's Exports (YoY%)

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	1H18
Total Exports (Rmb)	82.9	70.3	84.5	84.2	82.1	78.7	482.6
Re-exports	17.4	14.5	16.1	20.1	16.3	15.7	100.1
Domestic Exports	65.4	55.8	68.4	64.1	65.6	62.9	382.5
Exports by Key Country / Region							
China	17.9	(9.7)	(4.7)	22.0	7.4	16.9	8.0
USA	8.7	3.3	(0.1)	1.7	(5.6)	(1.9)	0.8
Japan	3.3	(17.2)	(3.5)	(21.4)	16.0	(14.5)	(7.0)
India	19.1	1.1	10.3	4.9	(3.9)	(7.9)	3.6
Hong Kong	129.9	61.2	62.1	113.8	34.8	64.4	74.9
Australia	(19.6)	15.8	(11.8)	(14.5)	(6.9)	(4.7)	(8.3)
EU	13.6	(3.0)	5.3	19.5	11.4	5.6	8.6
ASEAN	15.6	(5.8)	(2.7)	13.6	(1.9)	7.4	4.0
Selected ASEAN							
Singapore	8.5	(6.0)	(4.3)	3.7	(9.8)	(0.3)	(1.6)
Thailand	16.8	(3.1)	9.5	32.4	18.4	13.2	14.2
Indonesia	25.7	(26.4)	(5.5)	2.1	(20.1)	24.0	(4.0)
Vietnam	64.5	24.8	(3.6)	44.2	41.3	30.6	31.2
Philippines	7.1	(5.1)	(10.4)	13.6	(4.1)	(9.3)	(1.4)

Source: CIEC, MIDFR

Petroleum products drove exports growth. Exports of petroleum products registered a double digit growth of 33.9%yoy in Jun-18, following a single digit growth of 1.7%yoy in May-18. The 4-month highest rate is partly due to higher shipment to ASEAN countries such as Vietnam. Similarly, exports of optical & scientific equipment surged to 30-month high of 30.9%yoy growth. In contrast, LNG shipments returned to negative territory in Jun-18 at -31.2%yoy as we expected earlier partly caused by a logjam of vessels stuck outside port due to technical issues impacting Malaysia's Bintulu LNG export plant. Meanwhile, exports of palm oil continue to decline at 26.8%yoy mainly due to weaker demand from India as a result of their higher import duty on top of rupee depreciation which makes shipments to their country more expensive. Looking ahead, we believe that export performance of the key products shall stay on uptick level given that economic environment in major economies are still sanguine, both from consumer and business level.

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

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	1H18
E&E	27.1	(0.1)	8.7	21.2	2.1	6.9	10.8
Machinery, Equipment & Parts	11.5	(6.1)	4.9	6.2	(11.5)	10.4	1.1
Optical & Scientific Equipment	18.0	11.7	(0.2)	7.7	13.4	30.9	12.9
Petroleum Products	2.1	57.7	5.7	16.7	1.7	33.9	6.1
Crude Petroleum	0.1	3.0	18.4	22.7	45.8	25.3	18.4
LNG	14.0	(11.8)	(3.3)	(12.5)	61.0	(31.2)	(2.6)
Palm Oil	9.4	(24.0)	(7.5)	(0.8)	(24.7)	(26.8)	(12.7)

Source: CIEC, MIDFR

Positive outlook for 3Q18. Looking at our regional partner's, exports of Vietnam and South Korea in Jul-18 increased by 10.2%yoy and 6.2%yoy respectively. Based on manufacturing condition and activity, both global and emerging economies manufacturing PMI went down to 52.7 points and 51 points respectively however still maintain on expansionary trend. For instance, PMI of USA inched down to 5-month low of 55.3 points in Jul-18. Despite easing slightly, US manufacturing firms still signalled a strong improvement in operation conditions. Similarly, PMI of China hits an 8-month low of 50.8 points during the same month as new export orders fell hard. However, the reading is still above 50 which signal an expansion in the sector. We predict global trade activities in 3Q18 to remain on an upbeat momentum albeit at a moderating pace, in tandem with easing global manufacturing PMI. In addition, protectionism threat remains as global downside risks.


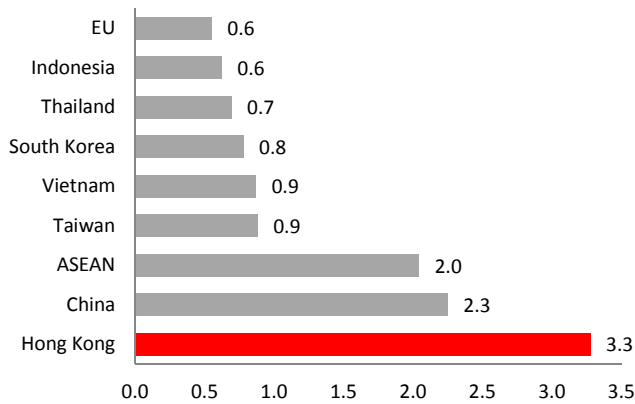
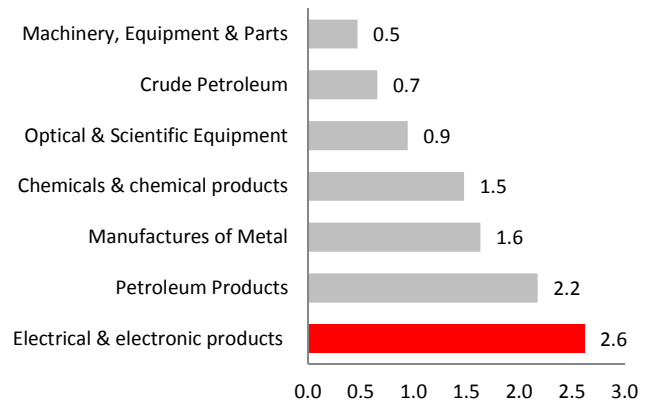
We forecast exports growth to average 9.3% in 2018. Underpinned by optimistic signs of key global indicators and gradual recovery in commodities prices, we foresee Malaysia's exports will expand by 9.3% this year (18.9% in 2017). In fact, for 1H18, exports growth is recorded at 7%yoy which is far lower than 20.9%yoy registered in 1H17. The moderating pace is mainly due to higher base effect and in tandem with the expectation of slight slowdown in overall business performance. Nevertheless, brewing trade tensions between the U.S and not only China but also some other countries on top of escalating geopolitical tension could be a headwind to global trade including Malaysia. 

Chart 1: % Contribution to Exports Growth by Destination



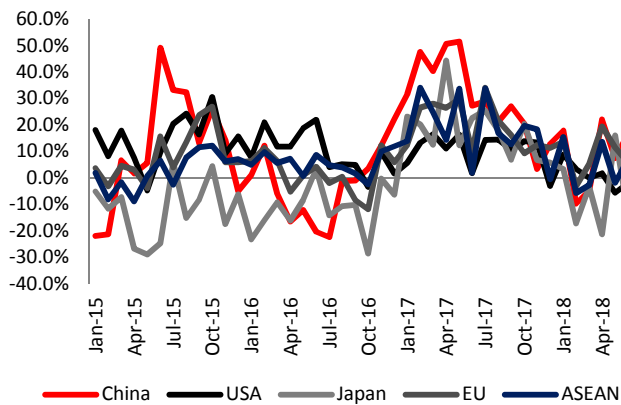
Source: CEIC; MIDFR

Chart 2: % Contribution to Exports Growth by Products



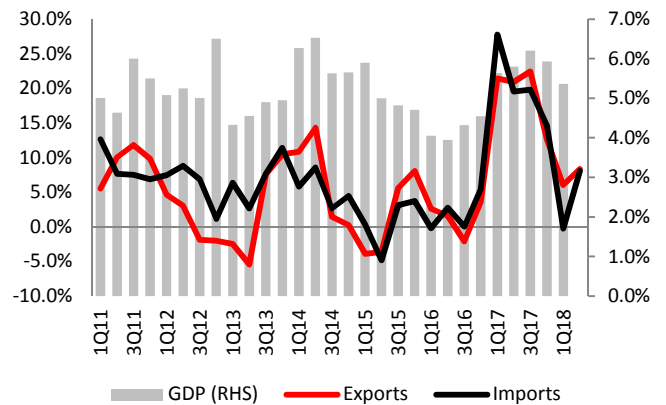
Source: CEIC; MIDFR

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



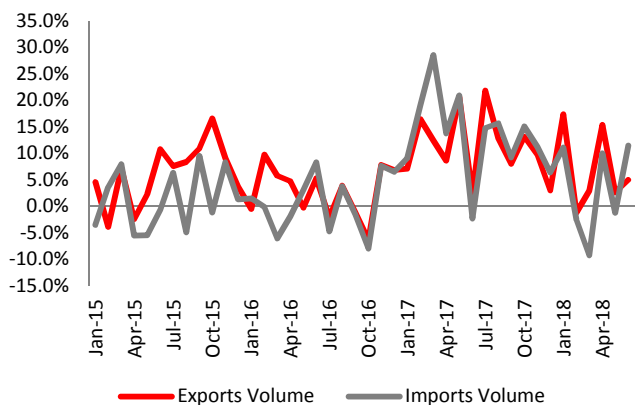
Source: CEIC; MIDFR

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



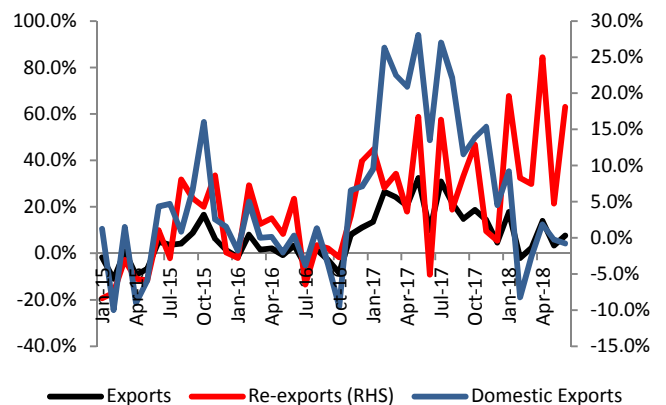
Source: CEIC; MIDFR

Chart 5: Exports vs Imports Volumes (YoY%)



Source: CEIC; MIDFR

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



Source: CEIC; MIDFR

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