

ECONOMIC REVIEW | May 2018 External Trade

Exports Growth Slows to 3.4%yoy amid Heighten Global Trade Spat

- *Exports growth slowed to single digit again. Exports expanded by 3.4%yoy to RM82.1b in May-18, following a double digit growth in the preceding month. Slowdown in exports was mainly due to continuous and larger contraction in agriculture goods (-21.9%yoy). However, manufactured and mining goods continue to expand by 3.2%yoy and 40%yoy respectively.*
- *Re-exports a new trend. In May-18, re-exports amounted to RM16.3b with ratio of re-exports to total exports recorded at 19.8%. This demonstrates that for every RM1 value of exports, about 20 cents of it are re-exports. The ratio however has been on upward trend with double digit growth since 2013.*
- *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.*

Exports growth slowed to single digit again. Exports expanded by 3.4%yoy to RM82.1b in May-18, following a double digit growth in the preceding month. Slowdown in exports was mainly due to continuous and larger contraction in agriculture goods (-21.9%yoy). However, manufactured and mining goods continue to expand by 3.2%yoy and 40%yoy respectively. Meanwhile, imports still booked a growth however at a tepid pace of 0.1%yoy during the same month. Exports growth continued to outperform imports for the fifth consecutive month, resulting in a trade surplus of RM8.1b. Moving forward, Malaysia's export performance will maintain on upbeat momentum in upcoming months amid of zero-rated GST, tax holiday period till SST implementation in Sep-18 and stable retail fuel price which will support our exports as it will reduce business cost and eventually increase competitiveness. In fact, slowdown in May's exports growth could be due to hold back in purchases by foreign countries in order to enjoy the spillover benefits of tax holiday starting June-18. Nevertheless, protectionism threats remain a concern to the economy.

Imports went down as consumption goods fell harder. Imports of all three main components fell in May-18 but consumption goods dropped the hardest as it fell for third consecutive months by 10.2%yoy due to lower imports of semi-durable goods particularly articles of plastics. Similarly, imports of intermediate goods continue to dip for sixth consecutive months by 5.3%yoy. Meanwhile, imports of capital goods plunged into a negative territory at 0.7%yoy from a positive growth in the preceding month. While the continuous fall in intermediate goods in particular pointing at declining activity and confidence in the manufacturing industry, other indicators such as industrial production and manufacturing sales still signal expansions. For the first four months of 2018, IPI and manufacturing sales registered an average growth of 4.1%yoy and 7%yoy respectively.

Table 1: Malaysia's External Trade Summary

	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Exports (RMb)	83.5	79.3	82.9	70.3	84.5	84.2	82.1
% YoY	14.4	4.7	17.9	(2.0)	2.2	14.0	3.4
% MoM	1.5	(5.0)	4.4	(15.1)	20.1	(0.3)	(2.5)
Imports (RMb)	73.6	72.1	73.2	61.3	69.8	71.2	74.0
% YoY	15.2	7.9	11.6	(2.8)	(9.6)	9.1	0.1
% MoM	2.4	(2.0)	1.5	(16.2)	13.8	2.0	3.9
Total Trade	157.1	151.4	156.0	131.7	154.2	155.4	156.1
% YoY	14.8	6.2	14.9	(2.4)	(3.5)	11.7	1.8
% MoM	1.9	(3.6)	3.0	(15.6)	17.1	0.8	0.4
Trade Balance (RMb)	9.9	7.3	9.7	9.0	14.7	13.1	8.1
Import Components							
Intermediate (RMb)	40.4	38.3	37.7	32.8	36.9	33.8	40.1
% YoY	13.8	(0.7)	(1.7)	(14.7)	(14.4)	(11.9)	(5.3)
Capital (RMb)	10.3	12.1	9.3	7.7	9.4	8.4	9.8
% YoY	12.2	35.2	(3.1)	6.0	(30.5)	4.8	(0.7)
Consumption (RMb)	6.6	6.2	6.3	5.2	5.3	5.6	6.0
% YoY	6.6	(2.6)	9.8	12.6	(12.4)	(1.8)	(10.2)

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

Re-exports a new trend. In May-18, re-exports amounted to RM16.3b with ratio of re-exports to total exports recorded at 19.8%. This demonstrates that for every RM1 value of exports, about 20 cents of it are re-exports. The ratio however has been on upward trend with double digit growth since 2013. The surging re-exports ratio is partly due to the rise in e-commerce and the present of regional distribution hubs in Malaysia which reflects the importance of Malaysia in global value chain and trade activities. On a different note, rising of such entrepot trade which breached the RMK-11 2020 target of 15.7% is a bit of concern towards Malaysia's exports as it only involves low value-added processes. Particularly, increase in domination of low-skill jobs such as elementary occupation and operators & assemblers is a spill-over effects of the rising ratio. On top of that, external trade contribution to GDP would be impacted amid declining significance of contribution from high headline exports figure boosted by re-export.

Exports to Japan rebounded by double digit growth. Malaysia's exports to Japan rebounded by a double digit growth of 16%yoy in May-18 from three consecutive months of negative growth, mainly driven by higher shipments of LNG. However, exports to most of other major countries such as USA, Australia and India declined. For instance, exports to the USA contracted by 5.6%yoy due to lower shipments of E&E and petroleum products. By region, exports to EU grew by 11.4%yoy however declined by 1.9%yoy to ASEAN. Among ASEAN countries, outbound shipments to Singapore, Indonesia and Philippines recorded a contraction of 9.8%yoy, 20.1%yoy, and 4.1%yoy respectively. 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%)

	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Total Exports (Rmb)	83.5	79.3	82.9	70.3	84.5	84.2	82.1
Re-exports	12.9	12.1	17.4	14.5	16.1	20.1	16.3
Domestic Exports	70.6	67.2	65.4	55.8	68.4	64.1	65.6
Exports by Key Country / Region							
China	3.3	12.8	17.9	(9.7)	(4.7)	22.0	7.4
USA	13.4	(3.1)	8.7	3.3	(0.1)	1.7	(5.6)
Japan	6.7	5.8	3.3	(17.2)	(3.5)	(21.4)	16.0
India	(4.1)	(6.1)	19.1	1.1	10.3	4.9	(3.9)
Hong Kong	56.4	43.2	129.9	61.2	62.1	113.8	34.8
Australia	22.0	(9.6)	(19.6)	15.8	(11.8)	(14.5)	(6.9)
EU	12.4	11.4	13.6	(3.0)	5.3	19.5	11.4
ASEAN	18.3	(0.5)	15.6	(5.8)	(2.7)	13.6	(1.9)
Selected ASEAN							
Singapore	16.8	(3.3)	8.5	(6.0)	(4.3)	3.7	(9.8)
Thailand	18.2	(3.9)	16.8	(3.1)	9.5	32.4	18.4
Indonesia	34.8	(6.8)	25.7	(26.4)	(5.5)	2.1	(20.1)
Vietnam	5.0	27.4	64.5	24.8	(3.6)	44.2	41.3
Philippines	41.2	4.2	7.1	(5.1)	(10.4)	13.6	(4.1)

Source: CIEC, MIDFR

LNG and crude petroleum drove exports growth. Exports of LNG rebounded sharply with a double digit growth of 61%yoy in May-18 following three consecutive months of contraction since Feb-18 partly due to higher shipment to Japan. However, we expect a slowdown in the LNG shipments in coming month amid a logjam of vessels stuck outside port due to technical issues impacting Malaysia's Bintulu LNG export plant. Besides LNG, shipments of crude petroleum also soared by a double digit growth of 45.8%yoy in May-18. Meanwhile, exports of palm oil continue to decline at 24.7%yoy mainly due to weaker demand from India (yoy growth: 12.8% in Apr-18; -47.3% in May-18) though this was partially offset by stronger demand from China (yoy growth: 5.5%yoy in Apr-18; 32.3% in May-18). 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 plus with the recovery in commodity prices.

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

	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
E&E	21.0	6.2	27.1	(0.1)	8.7	21.2	2.1
Machinery, Equipment & Parts	8.5	4.8	11.5	(6.1)	4.9	6.2	(11.5)
Optical & Scientific Equipment	15.2	5.5	18.0	11.7	(0.2)	7.7	13.4
Petroleum Products	0.2	(6.2)	2.1	57.7	5.7	16.7	1.7
Crude Petroleum	(3.1)	6.9	0.1	3.0	18.4	22.7	45.8
LNG	7.5	4.8	14.0	(11.8)	(3.3)	(12.5)	61.0
Palm Oil	(5.2)	(8.6)	9.4	(24.0)	(7.5)	(0.8)	(24.7)

Source: CIEC, MIDFR

Steady stance for 2Q18. Looking at our regional partner's, Vietnam's exports in June-18 increased by 10.4%yoy while South Korea's exports decreased by 0.1%yoy. Based on manufacturing condition and activity, both global and emerging economies manufacturing PMI figures declined to 53.1 points and 51.1 points respectively however still maintain on expansionary trend. For instance, PMI of USA went down to 54.6 points in June-18, the slowest growth in factory activity since Mar-18 as both output and new orders expanded at the slowest rates since Nov-17. Similarly, PMI of China decreased slightly to 51 points. We predict global trade activities in 2Q18 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.


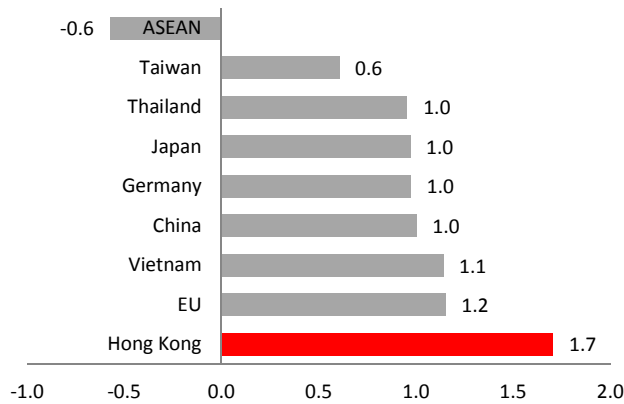
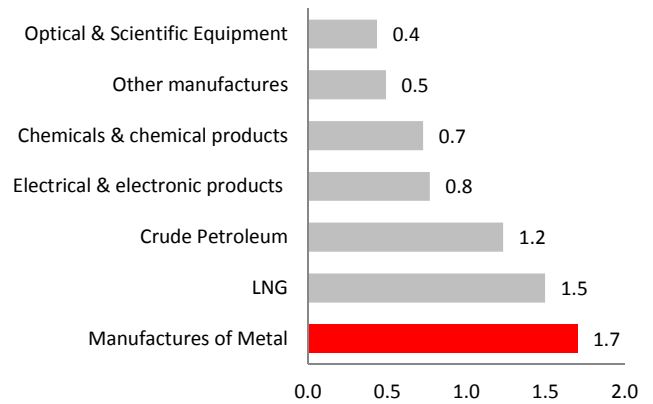
We forecast exports growth to average 9.3% in 2018. Underpinned by optimistic signs of key global indicators, and gradual recovery in commodities prices, we foresee Malaysia's exports will expand by 9.3% this year. The moderating pace is mainly due to higher base effect and in tandem with the expectation of slight slowdown in overall business performance. Nevertheless, brewing trade tensions between the U.S and not only China but also Europe on top of escalating geopolitical tension could be a headwind to global trade including Malaysia. 

Chart 1: % Contribution to Exports Growth by Destination



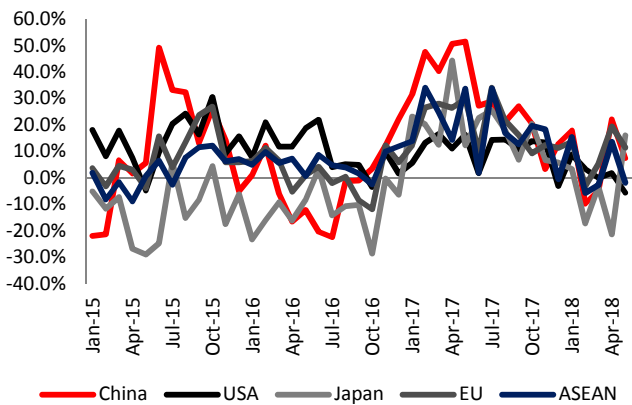
Source: CEIC; MIDFR

Chart 2: % Contribution to Exports Growth by Products



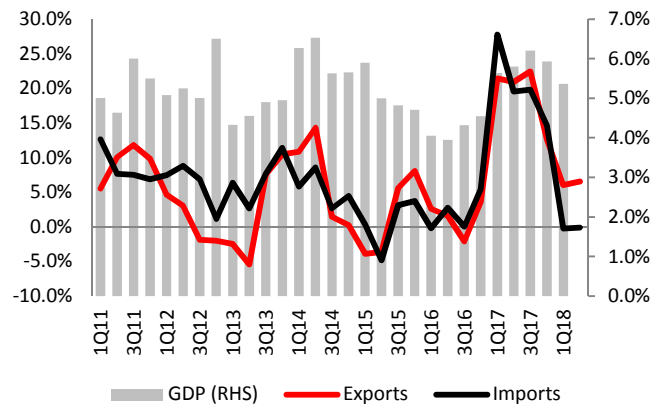
Source: CEIC; MIDFR

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



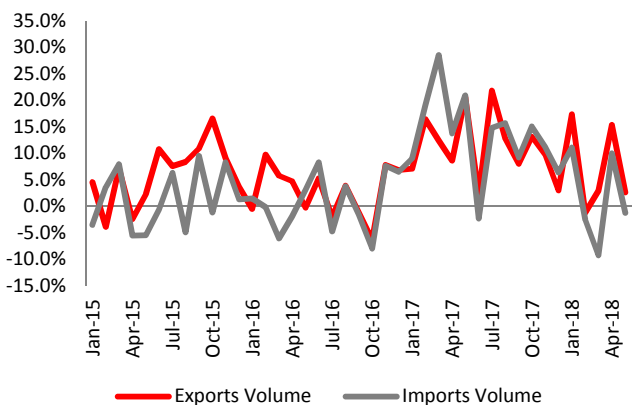
Source: CEIC; MIDFR

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



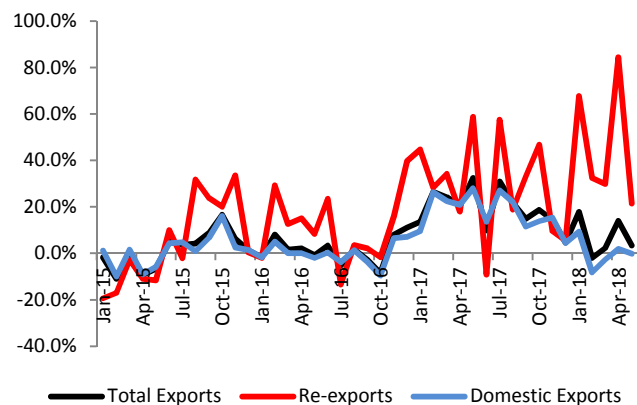
Source: CEIC; MIDFR

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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