

**ECONOMIC REVIEW | October 2018 External Trade****Largest Ever Recorded Trade Surplus as Exports Value Hit Near RM100B**

- *Exports growth at second highest of the year. Exports growth in Oct-18 accelerated on both annually and monthly basis at 17.7% and 16.2% respectively, reaching a new high above RM90B. The second highest annual exports growth of the year was a result of better sectoral performances. Manufactured goods, the largest contributor to exports grew further by a double digit of 19.9%yoy (7.9%yoy in Sep-18).*
- *Imports rebounded as intermediate and consumption goods recovered. Two out of three main categories of imports which are intermediate and consumption goods bounced back to a positive territory in Oct-18. Intermediate goods, the largest share of total imports (49.1%), grew by 1%yoy to RM39.3B while consumption goods expanded by 7.6%yoy.*
- *We forecast exports growth to average 7.3% in 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 ten months which registered at 7.5% compared to a double digit growth of 21.2% in the same period last year. The moderating pace is consistent with global commodity prices, expectation of a slight slowdown in overall business performance on top of the uncertainty over Sino-US trade conflict.*

**Exports growth at second highest of the year.** Exports growth in Oct-18 accelerated on both annually and monthly basis at 17.7% and 16.2% respectively, reaching a new high above RM90B. The second highest annual exports growth of the year was a result of better sectoral performances. Manufactured goods, the largest contributor to exports grew further by a double digit of 19.9%yoy (7.9%yoy in Sep-18). In addition, outbound shipment of mining goods continued climbing by a double digit growth of 29.6%yoy (17%yoy in Sep-18). Meanwhile, October's imports rebounded by 11.4%yoy and 18.2%mom (-2.8%yoy and -15.6%mom in Sep-18), back to RM80B level. As exports outperformed imports, trade surplus widened to RM16.3B, the largest excess in record up to date. For the first ten months, trade surplus (RM102B) has already hit 85% of our full-year target of RM119.9B.

**Imports rebounded as intermediate and consumption goods recovered.** Two out of three main categories of imports which are intermediate and consumption goods bounced back to a positive territory in Oct-18. Intermediate goods, the largest share of total imports (49.1%), grew by 1%yoy to RM39.3B while consumption goods expanded by 7.6%yoy. In contrast, inbound shipments of capital goods continued to be in a negative zone at 1.6%yoy however improved from a double digit negative growth of 21.6%yoy registered in the previous month. Falling demand for capital goods on top of tepid demand for raw materials point at weak confidence in the manufacturing industry. In line, the latest Malaysia manufacturing PMI for Nov-18 dipped to 48.2 (49.2 in Oct-18) in which a PMI below than 50 points denotes contraction in the manufacturing sector. Meantime, solid increased in the imports of consumer goods signals that purchasing power and household consumption are strengthening in Malaysia.

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

	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
<b>Exports (RMb)</b>	<b>84.2</b>	<b>82.1</b>	<b>78.7</b>	<b>86.1</b>	<b>81.8</b>	<b>83.0</b>	<b>96.4</b>
% YoY	14.0	3.4	7.6	9.4	(0.3)	6.5	17.7
% MoM	(0.3)	(2.5)	(4.2)	9.6	(5.0)	1.4	16.2
<b>Imports (RMb)</b>	<b>71.2</b>	<b>74.0</b>	<b>72.6</b>	<b>77.8</b>	<b>80.2</b>	<b>67.7</b>	<b>80.1</b>
% YoY	9.1	0.1	14.9	10.3	11.2	(2.8)	11.4
% MoM	2.0	3.9	(1.9)	7.2	3.0	(15.6)	18.2
<b>Total Trade</b>	<b>155.4</b>	<b>156.1</b>	<b>151.3</b>	<b>164.0</b>	<b>162.0</b>	<b>150.7</b>	<b>176.4</b>
% YoY	11.7	1.8	11.0	9.8	5.1	2.1	14.8
% MoM	0.8	0.4	(3.1)	8.4	(1.2)	(7.0)	17.1
<b>Trade Balance (RMb)</b>	<b>13.1</b>	<b>8.1</b>	<b>6.0</b>	<b>8.3</b>	<b>1.6</b>	<b>15.2</b>	<b>16.3</b>
<b>Import Components</b>							
<b>Intermediate (RMb)</b>	<b>33.8</b>	<b>40.1</b>	<b>39.4</b>	<b>39.9</b>	<b>45.0</b>	<b>35.7</b>	<b>39.3</b>
% YoY	(11.9)	(5.3)	3.1	(0.1)	4.2	(9.5)	1.0
<b>Capital (RMb)</b>	<b>8.4</b>	<b>9.8</b>	<b>9.4</b>	<b>9.6</b>	<b>11.7</b>	<b>7.3</b>	<b>9.4</b>
% YoY	4.8	(0.7)	14.1	4.7	29.4	(21.4)	(1.6)
<b>Consumption (RMb)</b>	<b>5.6</b>	<b>6.0</b>	<b>5.9</b>	<b>6.7</b>	<b>7.1</b>	<b>5.2</b>	<b>6.4</b>
% YoY	(1.8)	(10.2)	4.9	11.1	14.2	(10.0)	7.6

*Note: MoM is non-seasonally adjusted figure*

Source: CIEC, MIDFR

**Domestic exports growth doubled.** In Oct-18, domestic exports advanced by 12.1%yoy to RM75.6B following a 2.7%yoy rise in the preceding month. It is the highest growth since Dec-17, suggesting that domestic exports could have gained some momentum. Meantime, re-exports which have low domestic value-added soared by 43.8%yoy (22%yoy in Sep-18) to RM20.8B. The ratio of re-exports to total exports recorded higher at 21.6%yoy which demonstrates that for every RM1 value of exports, approximately 22 cents of it is re-exports. Malaysia exports growth is expected to remain steady with the increasing contribution of re-exports which established the importance of Malaysia in global value chain. With the US's existing protectionism measures against its key global partners, we foresee that Malaysia's re-exports performance is likely to maintain as the country could be used to avoid that sanctions.

**Exports to China picked up sturdily.** Malaysia's exports to China rebounded strongly in Oct-18, climbing by 33%yoy from a decline of 0.6%yoy in the previous month buoyed by significant increases in the sales of E&E products, petroleum products, chemicals & chemical products and LNG. In addition, exports to the US registered a higher growth of 7.6%yoy (0.1%yoy in Sep-18) on the back of higher shipments of E&E and rubber products, among others. By region, the upward trend of exports continued for both the EU (8.5%yoy) and ASEAN (16%yoy). Among ASEAN countries, outbound shipments expanded to all major countries except Indonesia and Myanmar. Exports to Indonesia fell by 3.6%yoy in Oct-18 in tandem with the imports tariffs imposed by the country to support rupiah.

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

	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
<b>Total Exports (RMb)</b>	<b>84.2</b>	<b>82.1</b>	<b>78.7</b>	<b>86.1</b>	<b>81.8</b>	<b>83.0</b>	<b>96.4</b>
<b>Re-exports (RMb)</b>	<b>20.1</b>	<b>16.3</b>	<b>15.7</b>	<b>18.7</b>	<b>13.5</b>	<b>16.5</b>	<b>20.8</b>
<b>Domestic Exports (RMb)</b>	<b>64.1</b>	<b>65.6</b>	<b>62.9</b>	<b>67.5</b>	<b>68.3</b>	<b>66.4</b>	<b>75.5</b>
<b>Exports by Key Country / Region</b>							
China	22.0	7.4	16.9	37.5	4.5	(0.6)	33.0
USA	1.7	(5.6)	(1.9)	6.7	(2.0)	0.1	7.6
Japan	(21.4)	16.0	(14.5)	(17.1)	(22.9)	(10.6)	10.2
India	4.9	(3.9)	(7.9)	16.3	(11.3)	1.2	17.4
Hong Kong	113.8	34.8	64.4	80.8	55.8	48.7	42.1
Australia	(14.5)	(6.9)	(4.7)	6.3	11.4	23.0	47.0
EU	19.5	11.4	5.6	2.2	(8.9)	3.1	8.5
ASEAN	13.6	(1.9)	7.4	1.2	0.6	6.2	16.0
<b>Selected ASEAN</b>							
Singapore	3.7	(9.8)	(0.3)	(2.0)	(2.2)	8.7	18.3
Thailand	32.4	18.4	13.2	6.0	15.6	7.5	20.8
Indonesia	2.1	(20.1)	24.0	4.2	(12.5)	(1.8)	(3.6)
Vietnam	44.2	41.3	30.6	12.8	6.9	7.5	36.3
Philippines	13.6	(4.1)	(9.3)	4.3	4.9	5.1	9.8

Source: CIEC, MIDFR


**LNG, Petroleum and E&E products boosted exports growth.** Exports of E&E products which constituted 37% of total exports rose by 23.3%yoy to RM38.4B in Oct-18 compared to 6.5%yoy growth in the previous month. In addition, outbound shipments of LNG recorded a solid double growth of 38.8%yoy in Oct-18 following a subdued growth of 3.2%yoy in Sep-18. Meanwhile, palm oil shipments continued to post negative growth at 17.3%yoy as a result of falling demand from both China and India. Looking ahead, in spite of the recent US-China trade truce, export performance of the key products remains uncertain due to import tariffs imposed by Indonesia and India in order to protect their currencies.

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

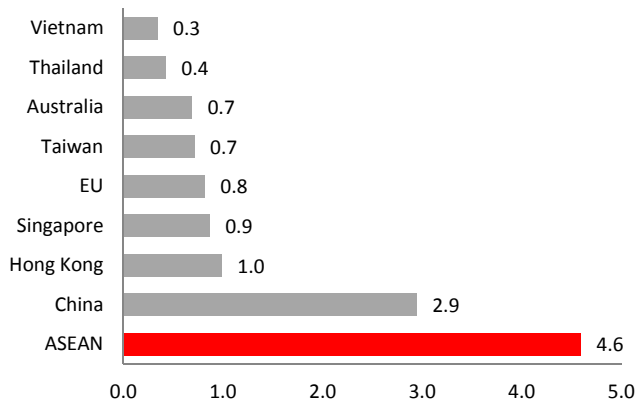
	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
E&E	21.2	2.1	6.9	23.6	3.2	6.5	23.3
Machinery, Equipment & Parts	6.2	(11.5)	10.4	2.0	(7.1)	1.8	4.2
Optical & Scientific Equipment	7.7	13.4	30.9	9.1	7.9	17.1	10.3
Petroleum Products	16.7	1.7	33.9	(13.0)	18.0	6.8	31.2
Crude Petroleum	22.7	45.8	25.3	90.1	70.8	54.5	32.8
LNG	(12.5)	61.0	(31.2)	(38.4)	(20.4)	3.2	38.8
Palm Oil	(0.8)	(24.7)	(26.8)	(22.2)	(27.0)	(16.5)	(17.3)

Source: CIEC, MIDFR

**Better outlook for 4Q18.** Exports growth for 3Q18 averaged at 5.3%yoy (the lowest gain in seven quarters) from 8.4%yoy in 2Q18. However, looking ahead to the final quarter of 2018, we expect exports to perform better than the earlier three quarters, in line with our yearly forecast of 7.3%yoy. Based on our regional partners' trade performance in Nov-18, exports growth of South Korea eased to 4.5%yoy, following a 22.7%yoy surge in the previous month. In addition, Vietnam exports grew 7.8%yoy in the same month. Hence, it could provide similar waves to Malaysia's upcoming trade numbers for Nov-18. In regards to manufacturing condition and activity, global manufacturing PMI maintained at 52 points while those of emerging economies edged up to 50.8 points in Nov-18, both on an expansionary trend. On a side note, risks to the global economy remain despite recent trade truce between the US and China as it does little to deal with the core sticking points of the duo's economic rivalry.

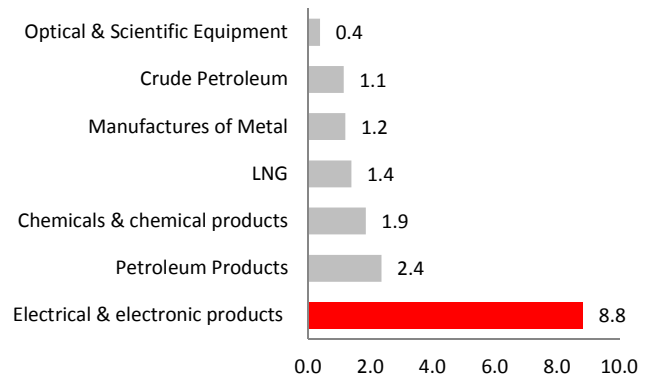
**We forecast exports growth to average 7.3% in 2018.** Amid higher base effects and signs of easing key global indicators, we foresee exports to expand by 7.3% this year (18.9% in 2017). This is supported by lower exports growth for the first ten months which registered at 7.5% compared to a double digit growth of 21.2% in the same period last year. The moderating pace is consistent with global commodity prices, expectation of a slight slowdown in overall business performance on top of the uncertainty over Sino-US trade conflict. 

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



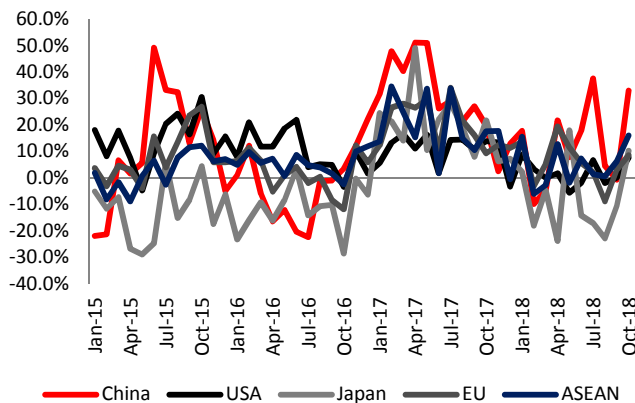
Source: CEIC; MIDFR

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



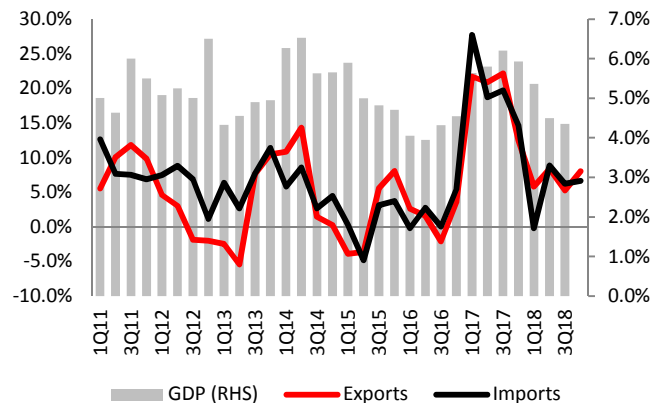
Source: CEIC; MIDFR

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



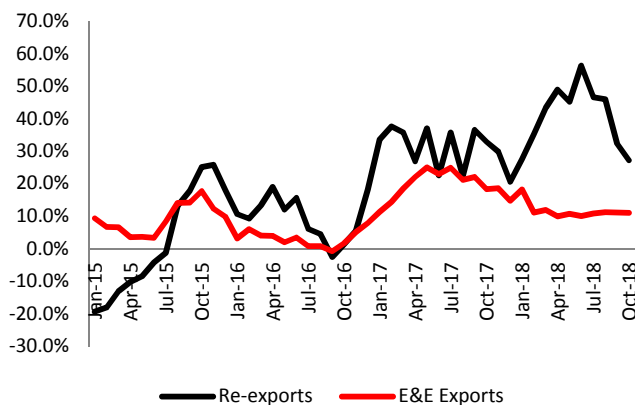
Source: CEIC; MIDFR

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



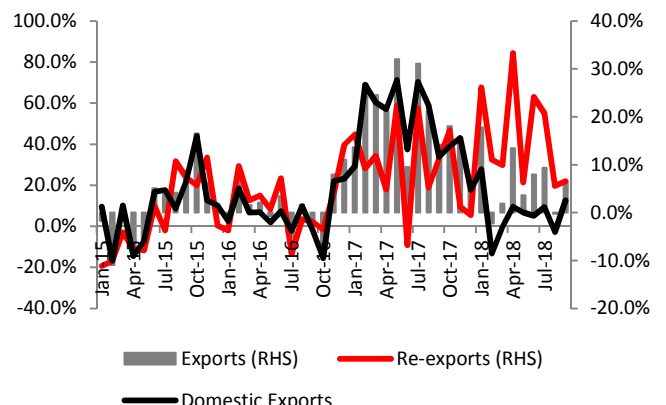
Source: CEIC; MIDFR

**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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