

ECONOMIC REVIEW | September 2018 External Trade

Trade Balance Hit 10-Year High as Imports Fell to 7-Month Low

- *Exports growth rebounded. Exports growth in Sep-18 rebounded on both annually and monthly basis at 6.7% and 1.5% respectively, sustaining value above RM80b despite fewer working days. The improvement was mainly due to better sectoral performances. Manufactured goods, the largest contributor to exports grew further by 7.9%yoy (1.8%yoy in Aug-18).*
- *Imports fell as all main categories contracted. The three main categories of imports which are capital, intermediate and consumption goods plunged to a negative territory in Sep-18. Intermediate goods, the largest share of total imports (52.8%) decreased by 9.3%yoy to RM35.8b. Similarly, the imports of both capital and consumption goods declined by 21.6%yoy and 10%yoy respectively.*
- *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 nine months which registered at 6.5% compared to a double digit growth of 21.6% 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.*

Exports growth rebounded. Exports growth in Sep-18 rebounded on both annually and monthly basis at 6.7% and 1.5% respectively, sustaining value above RM80b despite fewer working days. The improvement was mainly due to better sectoral performances. Manufactured goods, the largest contributor to exports grew further by 7.9%yoy (1.8%yoy in Aug-18). In addition, outbound shipment of mining goods soared by double digit growth of 17%yoy (5.5%yoy in Aug-18). In contrast, September's imports contracted 2.7%yoy and 15.5%mom to RM67.8b. As exports outperformed imports, trade surplus recorded at 10-year high of RM15.3b. For the first nine months, trade surplus (RM85.7b) has already hit 71% of our full-year target of RM119.9b.

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Table 1: Malaysia's External Trade Summary

	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Exports (RMb)	84.5	84.2	82.1	78.7	86.1	81.8	83.0
% YoY	2.2	14.0	3.4	7.6	9.4	(0.3)	6.7
% MoM	20.1	(0.3)	(2.5)	(4.2)	9.6	(5.0)	1.5
Imports (RMb)	69.8	71.2	74.0	72.6	77.8	80.2	67.8
% YoY	(9.6)	9.1	0.1	14.9	10.3	11.2	(2.7)
% MoM	13.8	2.0	3.9	(1.9)	7.2	3.0	(15.5)
Total Trade	154.2	155.4	156.1	151.3	164.0	162.0	150.8
% YoY	(3.5)	11.7	1.8	11.0	9.8	5.1	2.3
% MoM	17.1	0.8	0.4	(3.1)	8.4	(1.2)	(6.9)
Trade Balance (RMb)	14.7	13.1	8.1	6.0	8.3	1.6	15.3
Import Components							
Intermediate (RMb)	36.9	33.8	40.1	39.4	39.9	45.0	35.8
% YoY	(14.4)	(11.9)	(5.3)	3.1	(0.1)	4.2	(9.3)
Capital (RMb)	9.4	8.4	9.8	9.4	9.6	11.7	7.3
% YoY	(30.5)	4.8	(0.7)	14.1	4.7	29.4	(21.6)
Consumption (RMb)	5.3	5.6	6.0	5.9	6.7	7.1	5.2
% YoY	(12.4)	(1.8)	(10.2)	4.9	11.1	14.2	(10.0)

Note: MoM is non-seasonally adjusted figure

Source: CIEC, MIDFR

Domestic exports recovered. In Sep-18, domestic exports grew 2.7%yoy to RM66.5b, recovered from a negative growth in the preceding month. Meantime, re-exports maintained its double digit growth with a slight improvement at 22%yoy to RM16.5b. The ratio of re-exports to total exports recorded higher at 19.9% which demonstrates that for every RM1 value of exports, approximately 20 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 mounting protectionism measures against its key global partners, we foresee that Malaysia's re-exports is likely to continue increasing as the country could be used to avoid that sanctions.

Exports to China declined. Malaysia's exports to China dropped by tepid 0.6%yoy in Sep-18, the first drop in six months due to larger plunge in agriculture (Sep-18: -48%yoy vs Aug-18: -19.3%yoy), mainly driven by palm oil products which declined 66.6%yoy. On the other hand, exports to the US recovered to a positive 0.1%yoy growth (-2%yoy in Aug-18). By region, exports improved for both the EU (3.1%yoy) and ASEAN (6.2%yoy). Among ASEAN countries, outbound shipments expanded to almost all major countries except Indonesia. Exports to Indonesia fell 1.8%yoy in Sep-18 however improved compared to double digit drop in the previous month, in line with our expectations as the country imposed import tariffs on 1k-plus goods to support rupiah.

Table 2: Malaysia's Exports (YoY%)

	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Total Exports (RMb)	84.5	84.2	82.1	78.7	86.1	81.8	83.0
Re-exports (RMb)	16.1	20.1	16.3	15.7	18.7	13.5	16.5
Domestic Exports (RMb)	68.4	64.1	65.6	62.9	67.5	68.3	66.5
Exports by Key Country / Region							
China	(4.7)	22.0	7.4	16.9	37.5	4.5	(0.6)
USA	(0.1)	1.7	(5.6)	(1.9)	6.7	(2.0)	0.1
Japan	(3.5)	(21.4)	16.0	(14.5)	(17.1)	(22.9)	(10.6)
India	10.3	4.9	(3.9)	(7.9)	16.3	(11.3)	1.2
Hong Kong	62.1	113.8	34.8	64.4	80.8	55.8	48.7
Australia	(11.8)	(14.5)	(6.9)	(4.7)	6.3	11.4	23.0
EU	5.3	19.5	11.4	5.6	2.2	(8.9)	3.1
ASEAN	(2.7)	13.6	(1.9)	7.4	1.2	0.6	6.2
Selected ASEAN							
Singapore	(4.3)	3.7	(9.8)	(0.3)	(2.0)	(2.2)	8.7
Thailand	9.5	32.4	18.4	13.2	6.0	15.6	7.5
Indonesia	(5.5)	2.1	(20.1)	24.0	4.2	(12.5)	(1.8)
Vietnam	(3.6)	44.2	41.3	30.6	12.8	6.9	7.5
Philippines	(10.4)	13.6	(4.1)	(9.3)	4.3	4.9	5.1

Source: CIEC, MIDFR

E&E products propelled exports growth. Exports of E&E products which constituted 38% of total exports rose by 6.5%yoy to RM32.9b in Sep-18 compared to 3.2%yoy growth in the previous month. In addition, outbound shipments of LNG recorded a positive growth of 1.8%yoy in Sep-18 after three consecutive months of double digit negative growth. Meanwhile, palm oil shipments continued to post negative growth at 16.5%yoy in Sep-18 as lower palm oil exports to China offset the improvement in shipments to India. 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%)

	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18
E&E	8.7	21.2	2.1	6.9	23.6	3.2	6.5
Machinery, Equipment & Parts	4.9	6.2	(11.5)	10.4	2.0	(7.1)	1.8
Optical & Scientific Equipment	(0.2)	7.7	13.4	30.9	9.1	7.9	16.9
Petroleum Products	5.7	16.7	1.7	33.9	(13.0)	18.0	6.8
Crude Petroleum	18.4	22.7	45.8	25.3	90.1	70.8	54.5
LNG	(3.3)	(12.5)	61.0	(31.2)	(38.4)	(20.4)	1.8
Palm Oil	(7.5)	(0.8)	(24.7)	(26.8)	(22.2)	(27.0)	(16.5)

Source: CIEC, MIDFR

Better outlook for 4Q18. Exports growth for 3Q18 is averaged at 5.3%yoy, moderated from 8.4%yoy in 2Q18 and the lowest gain in seven quarters. However, looking ahead for 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 Oct-18, exports growth of South Korea rebounded sharply to 22.7%yoy, recovering from a 8.2%yoy fall in the previous month and above market expectations of a 17%yoy gain. In addition, Vietnam exports grew 2.3%yoy in the same month. Hence, it could provide similar waves to Malaysia's upcoming trade numbers for Oct-18. In regards to manufacturing condition and activity, global manufacturing PMI edged down to 52.1 points while those of emerging economies inched up to 50.5 points in Oct-18, both maintain on expansionary trend. On a side note, protracted trade rows between the two largest economies remains global downside risks.


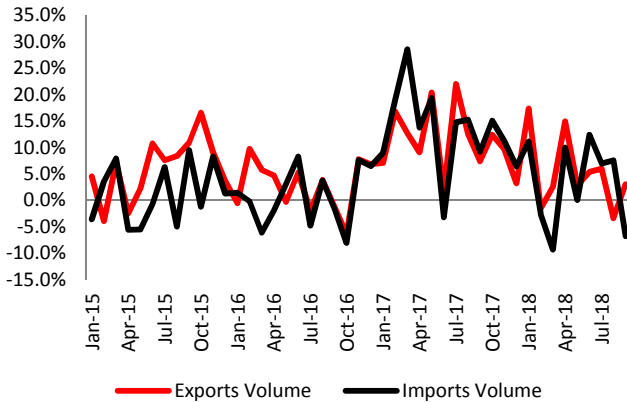
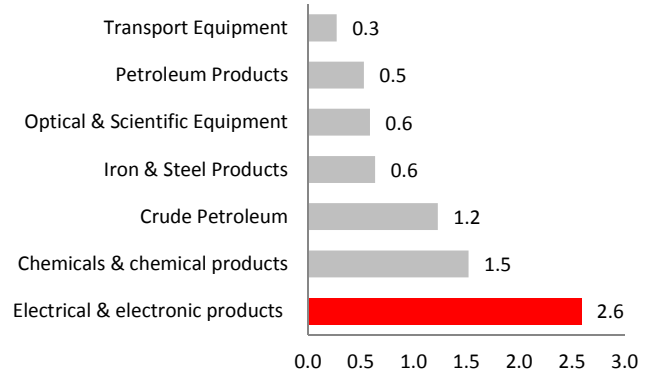
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Chart 1: Exports & Imports Volume (YoY%)



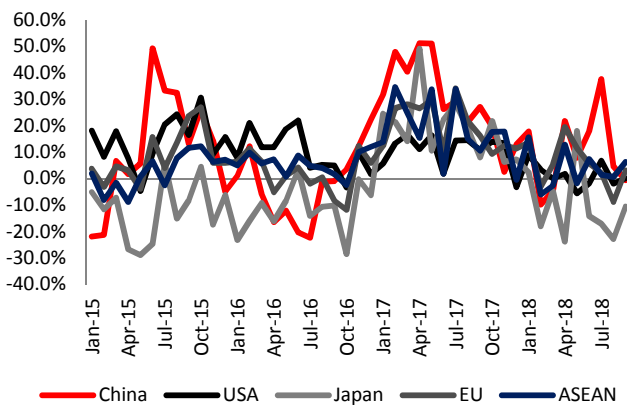
Source: CEIC; MIDFR

Chart 2: % Contribution to Exports Growth by Products



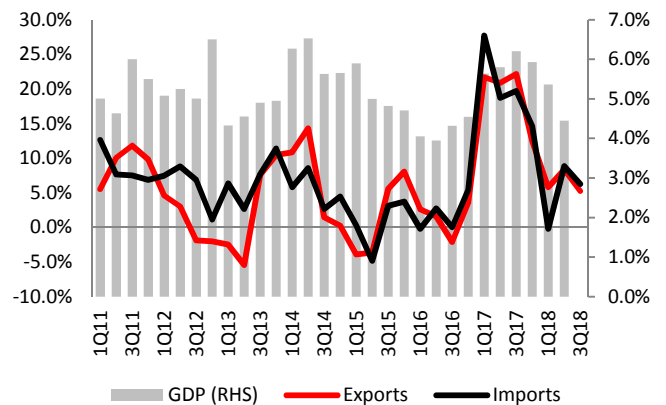
Source: CEIC; MIDFR

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



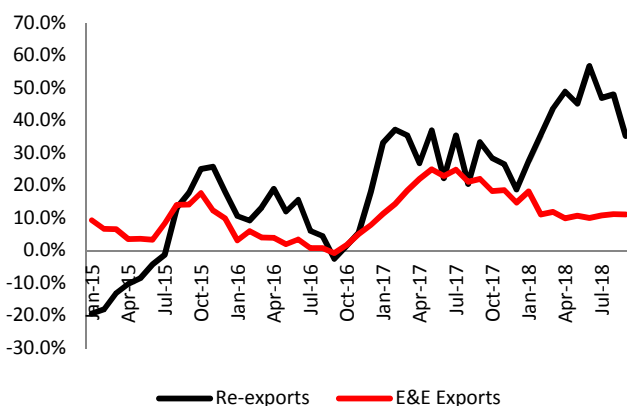
Source: CEIC; MIDFR

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



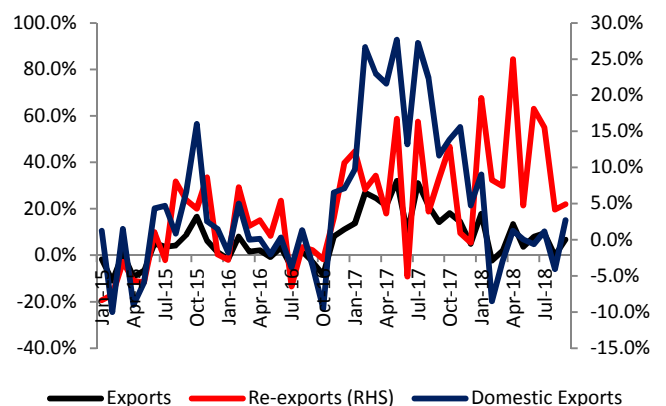
Source: CEIC; MIDFR

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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