

ECONOMIC REVIEW | August 2017 External Trade

Exports Rise 21.5% Despite Contraction in Palm Oil Shipments

- Exports performance beat market expectations. Exports expanded by 21.5%yoy in August, outpacing market expectations of 20%. It is the ninth consecutive months of double digit expansion in exports since December 2016. Imports grew 22.6%yoy in August, the first time outpacing exports growth in 3 months.
- Palm oil exports hampered by India's new import tariff. In order to protect India's local oilseed farmers, India raised import tax on refined palm oil by 25% and crude palm oil by 15% officially in August. Palm oil constitutes about 14.2% out of total Malaysia's exports products to India. Palm oil exports contracted by 8.9%yoy on overall and specifically to India shrank by 50.7%yoy during the month.
- We maintain our 2017 exports growth forecast at 14.5%. Even though exports growth in August outpaced market expectations, we maintain our view that Malaysia's exports to moderate in the second half of 2017 due to unfavorable base effect.

Exports performance beat market expectations. Exports expanded by 21.5%yoy in August, outpacing market expectations of 20%. It is the ninth consecutive months of double digit expansion in exports since December 2016. Imports grew 22.6%yoy in August, the first time outpacing exports growth in 3 months. Trade surplus widen close to RM10 billion, underpinned by strong exports sales and improving commodity prices. We view the continuous upbeat momentum in global as well as regional demands are still in play sustaining global trade activities to remain robust.

Table 1: Malaysia's External Trade Summary

	2016	May-17	Jun-17	Jul-17	Aug-17	Jan-Aug 2017
Exports (RMb)	785.9	79.4	73.1	78.6	82.2	611.9
% YoY	1.1	32.5	10.0	30.9	21.5	22.2
% MoM	-	7.5	(8.0)	7.6	4.6	-
Imports (RMb)	698.7	73.9	63.2	70.8	72.4	551.1
% YoY	1.9	30.4	3.7	21.8	22.6	23.0
% MoM	-	13.3	(14.5)	11.7	2.5	-
Total Trade	1,484.6	153.3	136.3	149.2	154.6	1,163.0
% YoY	1.5	31.5	7.0	26.4	22.0	22.6
% MoM	-	10.2	(11.1)	9.5	3.6	-
Trade Balance (RMb)	87.3	5.49	9.87	8.03	9.87	60.8
Import Components						
Intermediate (RMb)	399.1	42.3	38.2	39.9	43.2	321.9
% YoY	(0.1)	33.8	10.3	24.2	25.5	25.6
Capital (RMb)	100.2	9.9	8.6	9.2	9.1	74.9
% YoY	4.9	6.6	0.6	(16.5)	12.7	15.3
Consumption (RMb)	67.0	6.7	5.2	6.0	6.2	46.6
% YoY	7.4	8.3	(5.2)	21.8	17.8	6.7

Note: MoM is non-seasonally adjusted figure

Source: DOSM; MIDFR

Imports surged amid optimism in manufacturing sector. Malaysia's Nikkei manufacturing PMI stood at 50.4 points in August, second time ever the PMI figure breached 50 points line. Above 50 points reflect expansionary while below 50 tells contractionary. In tandem with the optimism in manufacturing sector, imports grew firmly on the back of strong intermediate and capital goods. Both imports components increased by 25.5%yoy and 12.7%yoy respectively. We opine the surge in both imports components is influenced by launches of new smartphones in October. Apart from that, imports of consumption goods rose by 17.8%yoy, contributed by processed food & beverage which grew by 18.3%yoy during the month. Celebration of Eid-Adha is possibly among the reasons of the rise in food & beverage imports.

Global demand show signs of moderation. We noticed global demand momentum is moderating and start to lose its steam. For instance, Malaysia's exports to China is growing at decelerating speed from peak 51.5%yoy in May to 21.2%yoy in August. Similar patterns saw with exports to the US, Hong Kong, Australia and ASEAN. Among others, unfavorable base effect, geopolitical risks and market uncertainties are major dragging factors on global demand. In spite of this, we foresee towards the end of year global demand will remain on upward bias trend given that year-end sales, uptick in tourism activity and launches of new electronic devices will occur during the months. Zooming into China, Mooncake Festival and Golden Week which befall in October will lead to higher exports demand from the world's second largest economy. We can expect exports to China and Hong Kong will rise strongly in September and October due to these two events.

Palm oil exports hampered by India's new import tariff. In order to protect India's local oilseed farmers, India raised import tax on refined palm oil by 25% and crude palm oil by 15% officially in August. Palm oil constitutes about 14.2% out of total Malaysia's exports products to India. Palm oil exports contracted by 8.9%yoy on overall and specifically to India shrank by 50.7%yoy during the month. Moreover, Modi-led administration just introduced GST in July as part of his reforms agenda. Therefore, we view the shock derived from GST will have temporary slowdown effect on India's domestic economic activity. Looking ahead, we expect external trade performance between Malaysia and India will slowdown in this short term due to its structural reform program.

Table 2: Malaysia's Exports (YoY%)

	2016	May-17	Jun-17	Jul-17	Aug-17	Jan-Aug 2017
Total Exports (RMb)	785.9	79.0	73.1	78.6	82.2	611.9
Exports by Key Country / Region						
China	(2.9)	51.5	27.3	28.8	21.2	36.5
USA	8.9	16.3	1.8	14.4	14.5	11.6
Japan	(12.9)	12.8	24.3	25.5	18.0	21.9
India	1.1	4.8	21.3	33.5	4.9	15.4
Hong Kong	2.1	32.0	10.3	28.4	22.2	14.6
Australia	(4.8)	61.9	7.3	50.5	37.1	25.7
EU	1.2	29.7	1.9	33.8	21.6	23.4
ASEAN	5.4	33.7	10.0	34.1	16.4	21.1
Selected ASEAN						
Singapore	5.6	45.0	9.1	32.3	20.5	23.7
Thailand	(0.6)	19.3	2.5	31.4	7.4	15.7
Indonesia	(5.0)	45.7	(0.6)	30.7	18.4	25.3
Vietnam	36.7	(0.5)	(22.3)	46.4	15.8	16.6
Philippines	3.6	23.6	18.5	34.6	17.7	21.8

Source: DOSM, MIDFR

LNG fly high. Exports of LNG skyrocketed by 101.8%yoy in August. Comparing with other commodities, exports LNG continues growing at booming pace while exports of palm oil and crude petroleum expanded at slower speed since March this year. For example, crude petroleum exports increase by 50.4%yoy in March but in August, the commodity had zero growth. As for LNG, the commodity stayed on exponential line from 11.5%yoy in March to 101.8%yoy in August. Starting on April 2017, Petronas exports LNG from a floating production unit named the Petronas Floating LNG Satu. We believed the increase in Malaysia's LNG supplier boost the commodity exports performance and also exports to LNG-importer economies such as Japan, South Korea and China.

Bright outlook for commodity-based exports. Thanks to hurricanes Harvey and Irma, Brent oil price in particular surged by 17.4%yoy to USD55.3 per barrel in September. The oil price has been on improving path since June amid of market rebalancing by the OPEC and non-OPEC, hurricanes and geopolitical conflicts in Middle East as well as North Korea tension. We predict commodity-based exports such as crude petroleum and LNG will expand healthily in September due to the positive price recovery. However, volatility threat still remains haunting commodity-exporting economies given that supply glut factor remains stubbornly in radar.

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

	2016	May-17	Jun-17	Jul-17	Aug-17	Jan-Aug 2017
E&E	3.5	31.3	15.1	28.3	20.1	21.4
Chemicals & Chemical Products	7.0	21.0	4.5	18.0	15.7	18.3
Petroleum Products	(0.1)	88.2	(9.5)	76.0	33.6	43.6
Machinery, Equipment & Parts	4.2	17.1	0.1	27.3	7.9	6.9
Palm Oil	5.9	27.5	16.0	13.1	(8.9)	19.7
LNG	(28.2)	3.8	97.3	50.8	101.8	34.6
Crude Petroleum	(14.6)	56.8	(1.0)	(2.1)	0.0	33.2

Source: DOSM, MIDFR

Upbeat momentum in global economy to continue in the near term. Looking at South Korea and Vietnam trade performance as a lead, both exports surged by 35%yoy and 23.2%yoy respectively in September. The continuous soaring trends are possibly due to strong demand by China especially due to Mooncake Festival and Golden Week. Besides that, upward momentum coupled with expansionary policies in the US lead to optimistic outlook of the US economy and global economy landscape. Trump's proposed tax cut is expected to boost business activity and consumer spending in the US. On a flip coin, sanguine PMI figures of manufacturing and services across developed and emerging economies are cue for upward bias trends to stay on.


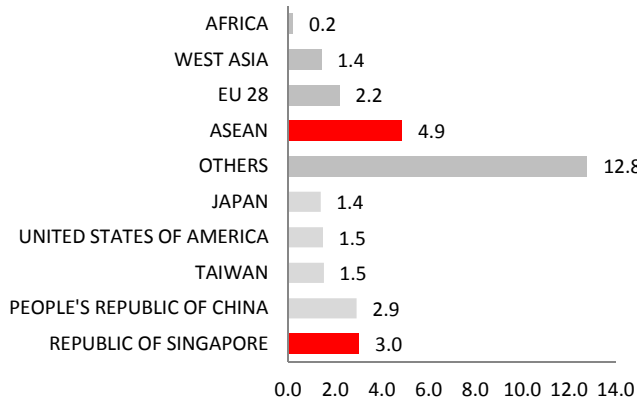
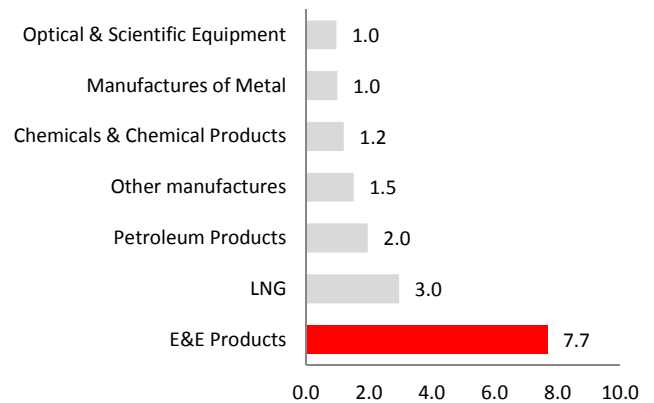
We maintain our 2017 exports growth forecast at 14.5%. Even though exports growth in August outpaced market expectations, we maintain our view that Malaysia's exports to moderate in the second half of 2017 due to unfavourable base effect. In spite of this, continuous strengthening global demand and modest recovery in commodity price will support our trade performance this year. Protectionist threat, geopolitical tension and policy uncertainties in developed countries remains headwinds for global trade in the near term. 

Chart 1: % Contribution to Exports Growth by Country and Region



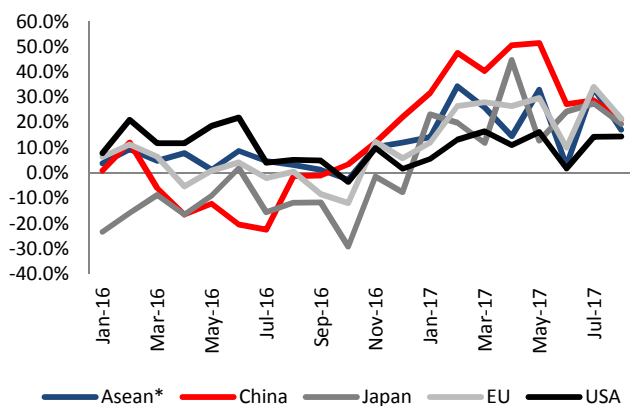
Source: DOSM; MIDFR

Chart 2: % Contribution to Exports Growth by Products



Source: DOSM; MIDFR

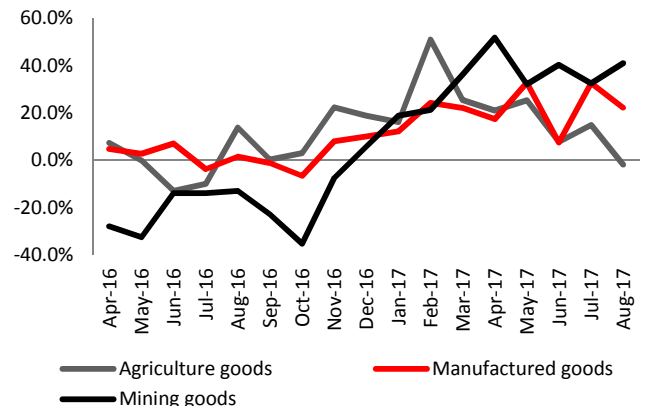
Chart 3: Exports Growth (YoY%) by Selected Major Destinations



Source: DOSM; MIDFR

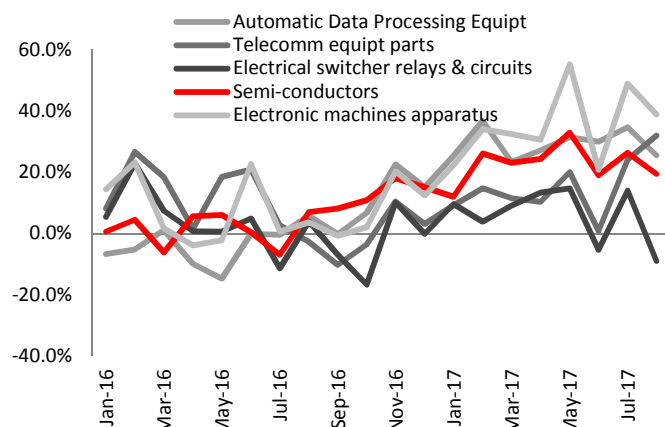
*Referring to Indonesia, Singapore, Philippines, Thailand & Vietnam

Chart 4: Exports Growth (YoY%) by Major Sectors



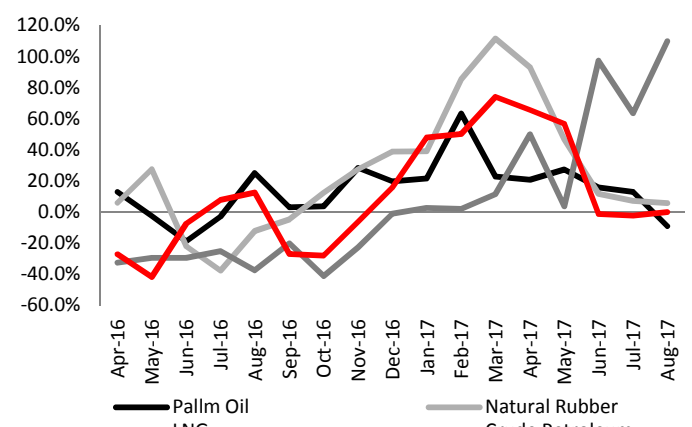
Source: DOSM; MIDFR

Chart 5: Exports Growth (YoY%) by Selected E&E Products



Source: DOSM; MIDFR

Chart 6: Exports Growth (YoY%) by Commodities Products



Source: DOSM; MIDFR

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