

ECONOMIC REVIEW | August 2016 External Trade

August 1.5% Rebound Beats Market Consensus

- Exports performance beat market consensus, expanding by 1.5%yoy in August. Estimates made by analysts from Bloomberg survey were wide but the median came in at -2.3%. Hence, this month's export figure beat the market consensus but fell slightly short of our forecast. We had expected exports to expand by 2.2%yoy following strong trade rebound observed in the region except for Taiwan. Trade balance bounced 21 months low recorded last month to reach RM8.5b in August.
- Rebound in intermediate goods imports points to possible future increase in domestic production. However, despite the improvement, YTD imports of intermediate goods are still in the red at 2.4%yoy and still need some time to establish a strong upward momentum. Capital imports soften to 8.3% from 11.0% in July while consumption goods imports growth was back in the black, expanding double digit by 10.4%.
- We maintain our exports forecast at 0.5% contraction for 2016. August's much improved exports figure is welcome but it owes hugely to the global trade activity rebound during the month. We notice both Taiwan and Korea have seen exports figure return into the red in September. These countries are often a good proxy to China's trade activity due to their high exposure to the world largest second economy.

Exports performance beat market consensus, expanding by 1.5%yoy in August. Estimates made by analysts from Bloomberg survey were wide but the median came in at -2.3%. Hence, this month's export figure beat the market consensus but fell slightly short of our forecast. We had expected exports to expand by 2.2%yoy following strong trade rebound observed in the region except for Taiwan. In particular, Korea broke the 19 successive months of exports contraction after registering 2.6% growth during the month. Meanwhile, imports by grew 4.9% despite having gained only 1.9%mom due to low base effect (Aug 15': -6.1%yoy). Trade balance bounced 21 months low recorded last month to reach RM8.5b in August.

Table 1: Malaysia's External Trade Summary

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	YTD
Exports (RMb)	61.3	59.9	66.4	59.9	67.6	500.3
% YoY	1.6	(0.9)	3.4	(5.3)	1.5	0.9
%MoM	(7.9)	(2.3)	10.9	(9.9)	12.9	-
Imports (RMb)	52.3	56.7	60.9	57.9	59.1	448.1
% YoY	(2.3)	3.1	8.3	(4.8)	4.9	0.9
%MoM	(5.6)	8.4	7.5	(4.9)	1.9	-
Total Trade	113.6	116.6	127.4	117.8	126.7	948.4
% YoY	(0.2)	1.0	5.7	(5.1)	3.0	0.9
%MoM	(6.8)	2.6	9.2	(7.5)	7.5	-
Trade Balance (RMb)	9.1	3.2	5.5	1.9	8.5	52.2
Import Components						
Intermediate (RMb)	29.7	31.6	34.7	32.1	34.5	256.4
% YoY	(6.8)	(0.2)	5.7	(11.8)	6.1	(2.4)
Capital (RMb)	7.0	9.3	8.2	11.0	8.3	64.9
% YoY	0.0	17.2	12.8	46.6	9.0	5.6
Consumption (RMb)	5.6	6.1	5.9	4.9	5.3	43.7
% YoY	15.3	13.6	1.8	(6.8)	10.4	12.5

Source: Department of Statistics, Malaysia; MIDF Research

Rebound in intermediate goods imports points to possible future increase in domestic production.

Intermediate goods imports are often good indicator for future domestic production. In August, imports of this good rebounded, increasing by 6.1%yoy after contracting by double-digit in July. However, despite the improvement, YTD imports of intermediate goods are still in the red at 2.4%yoy and still need some time to establish a strong upward momentum. Capital imports soften to 8.3% from 11.0% in July while consumption goods imports growth was back in the black, expanding double digit by 10.4%.

Exports to India rose at the fastest pace in 17-month as Deepavali looms. Exports to India surged by 31.2% year-on-year or RM3.3 billion, reversing the sharp contraction observed in the prior 2 months. India's festival driven demand saw exports of palm-oil and crude petroleum to the country skyrocketed by 51.1%yoy and 107.3%yoy. We believe August mark the start of India's stockpiling in preparation for Diwali festival in October. Hence, we expect exports to India to maintain current growth trajectory at least until September's data.

Positive comeback from E&E sector while LNG continues to wane. Demand for E&E exports was positive in August as demand from China recovered significantly while Singapore and the US continued to source from Malaysia. E&E exports to China grew 41.5%mom which helps to narrow the overall year-on-year contraction of exports to China to only 1.3% from 22.3% in prior month. LNG remains a lost cause, falling by 38.9%yoy due to huge decline in demand from Japan. Exports of LNG to Japan plunged by almost 42% in August as the country buyers took the step to reshape the LNG market. LNG buyers from Japan was reported to be paying premium over its EU and US counterparts as contracts were usually entered for the long haul hence they had been efforts to renegotiate the terms especially commodity prices were low.

Table 2: Malaysia's Exports (%YoY)

	2015	May-16	Jun-16	Jul-16	Aug-16	YTD
Total Exports (RMb)	780.0	59.9	66.5	59.9	67.6	500.3
Exports by Key Country / Region						
China	10.0	(12.2)	(20.3)	(22.3)	(1.3)	(9.6)
USA	14.4	18.7	22.0	4.1	5.2	12.4
Japan	(10.7)	(7.3)	2.4	(14.5)	(11.8)	(13.0)
India	(0.7)	2.4	(10.9)	(22.4)	31.2	1.2
Hong Kong	(0.5)	(2.3)	2.5	(6.2)	5.1	(0.3)
Australia	(14.8)	(8.4)	22.7	(16.8)	(0.5)	(3.5)
EU	8.4	0.9	4.1	(2.0)	0.5	2.7
ASEAN	2.8	0.5	8.5	4.7	4.0	5.6
Selected ASEAN						
Singapore	(0.2)	(4.1)	12.7	5.9	3.2	5.1
Thailand	10.5	(5.9)	(1.4)	11.1	(11.3)	(0.6)
Indonesia	(8.4)	(5.7)	(27.2)	(11.2)	4.5	(6.2)
Vietnam	21.3	52.6	76.6	24.7	40.7	40.2
Philippines	9.4	6.8	7.5	(14.2)	7.8	8.5

Source: Department of Statistics, Malaysia; MIDF Research


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

	2015	May-16	Jun-16	Jul-16	Aug-16	YTD
E&E	8.5	3.2	4.9	(6.0)	3.0	2.2
Chemicals & Chemical Products	7.2	11.8	7.1	0.0	11.8	6.4
Petroleum Products	(22.5)	(13.8)	14.5	(7.4)	(15.7)	(3.6)
Machinery, Equipment & Parts	20.5	7.3	6.9	(2.0)	7.3	20.5
Palm Oil	(5.5)	(5.0)	(20.3)	(5.4)	21.3	1.9
LNG	(26.2)	(29.3)	(29.2)	(25.0)	(38.9)	(31.9)
Crude Petroleum	(20.3)	(40.3)	(7.3)	8.7	13.9	(16.1)

Source: Department of Statistics, Malaysia; MIDF Research

US remain the fastest growing market amongst the Top 5 destination in 2016. In the past two years, exports to the US had been increasing by double-digit growth. August marked the second months that the US exports grew only by single digit, expanding by 5.2%yoy. However, this is not a concern considering it is largely affected by high base effect (Aug 15: 24.2%). Exports to the country should sustain its momentum as long as the US government policy remains accommodative to the renewable energy market.

Exports to EU expanded by 0.5% in August, proving the contraction recorded last month was transient while Vietnam maintains its position as the fastest growing market for Malaysia in the region. Exports to the country again grew rose 40.7%yoy, the third months it had past above 40% growth this year. Surge in petroleum products demand were the major factor of exports to the country and Vietnam is already Malaysia's third biggest customer for the item behind China and Singapore. Vietnam could supersede China by end of the year if 1) it maintains its current growth trajectory 2) Demand of petroleum products to China continues to wane.

We maintain our exports forecast at 0.5% contraction for 2016. August's much improved exports figure is welcome but it owes hugely to the global trade activity rebound during the month. We notice both Taiwan and Korea have seen exports figure return into the red in September. These countries are often a good proxy to China's trade activity due to their high exposure to the world largest second economy. 

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