

ECONOMIC REVIEW | December 2017 External Trade

2017 Exports Soar 18.9% - Highest Since 2005

- Exports growth in 2017, fastest in 12-years. For the whole of 2017, Malaysia's exports advanced by 18.9%yoy, higher than our initial forecast of 14.5%yoy. Trade surplus in 2017 widened by 10.3% to RM97.25 billion, the highest surplus recorded since 2012.
- Capital goods drove imports growth. Capital imports grew strongly by 35.2%yoy in December, fastest in 9-months which led to 15.4%yoy growth for the full year of 2017 following higher imports of parts of machinery and mechanical appliances.
- We forecast exports growth to average 9.3% in 2018. Underpinned by continuous buoyant momentum in global trade activities, further recovery in commodities prices and receding protectionism threat, we foresee Malaysia's exports will expand by 9.3% this year.

Exports growth in 2017, fastest in 12-years. For the whole of 2017, Malaysia's exports advanced by 18.9%yoy, higher than our initial forecast of 14.5%yoy. Trade surplus in 2017 widened by 10.3% to RM97.25 billion, the highest surplus recorded since 2012. However, Malaysia's outbound shipments expanded at slower pace in the final month of 2017 by 4.7%yoy. It is the slowest in 14-months and fell to single digit rate after 12-consecutive months of double digit speed. Similarly, imports rose by 7.9%yoy during the same month, lowest since mid-2017. The deceleration in December 2017 is mainly due to unfavorable base effects. On a flip side, similar to 2017, we foresee upbeat momentum in global trade activities will continue and supported with gradual rise in commodity prices as well as receding of protectionism threat. Hence, we are optimistic that Malaysia's external trade performance will continue expanding at steady pace in 2018.

Table 1: Malaysia's External Trade Summary

	2016	Sep-17	Oct-17	Nov-17	Dec-17	2017
Exports (RMb)	787.0	78.3	82.4	83.5	79.3	935.4
% YoY	1.1	14.8	18.9	14.4	4.7	18.9
% MoM	-	(4.9)	5.3	1.5	(5.0)	-
Imports (RMb)	698.8	69.7	71.9	73.6	72.1	838.1
% YoY	1.9	15.2	20.9	15.2	7.9	19.9
% MoM	-	(3.7)	3.2	2.4	(2.0)	-
Total Trade	1,485.8	147.9	154.3	157.1	151.4	1773.5
% YoY	1.5	15.0	19.8	14.8	6.2	19.4
% MoM	-	(4.3)	4.3	1.9	(3.6)	-
Trade Balance (RMb)	88.1	8.60	10.6	9.9	7.3	97.2
Import Components						
Intermediate (RMb)	399.1	39.5	38.9	40.4	38.2	478.8
% YoY	(0.1)	13.5	14.8	13.8	(0.7)	20.0
Capital (RMb)	100.2	9.3	9.2	10.3	12.2	115.7
% YoY	4.9	10.8	5.1	12.2	35.2	15.4
Consumption (RMb)	67.0	5.7	5.9	6.6	6.2	71.0
% YoY	7.4	5.7	11.1	6.6	(2.6)	6.1

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

Capital goods drove imports growth. Capital imports grew strongly by 35.2%yoy in December, fastest in 9-months which led to 15.4%yoy growth for the full year of 2017 following higher imports of parts of machinery and mechanical appliances. Meanwhile, intermediate imports decreased by 0.7%yoy in December, the lowest since November 2016 but increased by 20%yoy for the whole year of 2017. The firm uptrends in imports of capital and intermediate goods are in line with the optimistic sign reflected in Malaysia's manufacturing PMI in 4Q17 of 50.2 points (3Q17: 49.5, 2Q17: 48.8). On a flip side, imports of consumption goods shrank by 2.6%yoy in December but rose by 6.1%yoy on annual basis. Moving forward, we foresee Malaysia's economy to stay on upward trajectory in 2018 amid of rising industrial goods imports and optimistic business confidence.

Positive spillover effects of global demand. Exports to China grew by tepid pace of 4.7%yoy in December, slowest growth in 14-months. For full year 2017, Malaysia's exports to China increased by 28% to RM126.15 billion. On the other hand, Singapore remains to be the largest exports market in ASEAN with exports to Singapore expanded by 18.5% to RM135.59 billion in 2017. Across the globe, exports to the US and EU grew by 10.4% and 19.4% respectively in 2017. As for 2018, we view recent and possible upcoming protectionist moves by Trump's administration will not give severe impacts on global trade activities as well as global demand on Malaysia's external trade performance. In fact, we believe the initiative led by China's One Belt One Road will attract major economies such as EU, Japan, Russia and other Asian economies to further improve global cooperation and market integration in which possibly adding supports on global trade activities.

Table 2: Malaysia's Exports (YoY%)

	2016	Sep-17	Oct-17	Nov-17	Dec-17	2017
Total Exports (RMb)	787.0	78.3	82.4	83.5	79.3	935.4
Exports by Key Country / Region						
China	(2.9)	27.1	20.5	3.3	12.8	28.0
USA	8.9	10.7	13.8	13.4	(3.1)	10.5
Japan	(12.9)	6.9	20.4	6.7	5.8	17.5
India	1.1	(7.0)	(5.7)	(4.1)	(6.1)	8.0
Hong Kong	2.1	41.0	54.9	56.4	43.2	26.8
Australia	(4.8)	14.2	26.0	22.0	(9.6)	20.8
EU	1.2	16.2	19.5	12.4	11.4	19.4
ASEAN	5.4	12.7	9.3	18.3	(0.5)	18.0
Selected ASEAN						
Singapore	5.6	8.1	16.1	16.8	(3.3)	18.5
Thailand	(0.6)	7.0	30.2	18.2	(3.9)	14.6
Indonesia	(5.0)	42.9	21.9	34.8	(6.8)	24.5
Vietnam	36.7	16.3	12.9	5.0	27.4	16.1
Philippines	3.6	14.1	23.7	41.2	4.2	21.2

Source: DOSM, MIDFR

Major products registered double-digit growth in 2017. Thanks to robust global demand and improving commodity prices, exports of key products expanded by double-digit growth in 2017. However, we notice there is a deceleration in exports growth of the major products during the final month of last year. For instance, palm oil exports contracted by 8.6%yoy underpin by shrinking prices and tariff barriers imposition by India. Other than that, exports of crude petroleum and manufactured goods slowdown to moderate pace during the month due to unfavorable base effect factor. In spite of this, we maintain our view exports 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%)

	2016	Sep-17	Oct-17	Nov-17	Dec-17	2017
E&E	3.5	17.7	16.9	21.0	6.2	19.2
Machinery, Equipment & Parts	4.2	7.3	14.3	8.5	4.8	7.2
Optical & Scientific Equipment	11.0	14.5	20.3	15.2	5.5	12.8
Petroleum Products	(0.1)	13.2	13.4	20.4	6.2	31.7
Crude Petroleum	(14.6)	(4.9)	62.9	(3.1)	6.9	25.3
LNG	(28.2)	8.2	6.3	7.5	4.8	23.7
Palm Oil	5.9	(1.7)	7.9	(5.2)	(8.6)	11.5

Source: DOSM, MIDFR

Optimistic outlook for 1Q18. Looking at our regional partners, South Korea and Vietnam registered sturdy exports growth of 22.2%yoy and 32.5yoy respectively in January. Based on manufacturing condition and activity, global and ASEAN manufacturing PMI figures still indicate expansionary trend as both hit 54.4 and 50.2 points. For instance, manufacturing PMI of US registered at 55.5 points in January, the strongest growth since March 2015 while China and Philippines still maintain above expansionary-line in January, 51.5 points and 51.7 points respectively. Henceforth, we predict global trade activities in 1Q18 to remain on an upbeat momentum albeit at a moderating rate amid of unfavourable base effects.


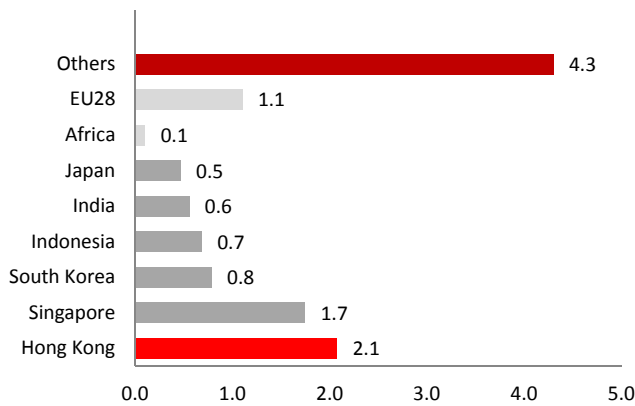
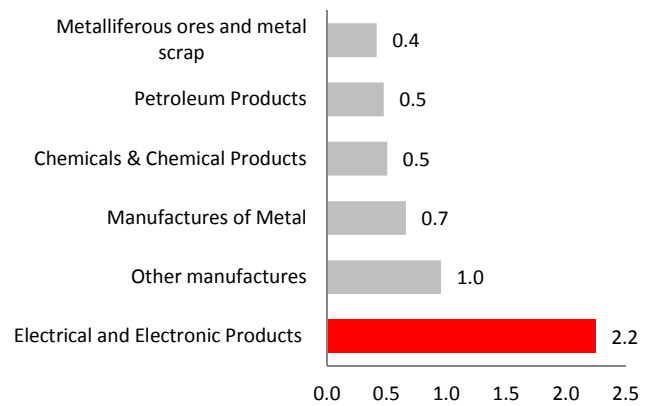
We forecast exports growth to average 9.3% in 2018. Underpinned by continuous buoyant momentum in global trade activities, further recovery in commodities prices and receding protectionism threat, we foresee Malaysia's exports will expand by 9.3% this year. The moderating pace is mainly due to unfavourable base effect. Nevertheless, downside risks on global trade as well as Malaysia's external front remains especially on protectionist threat, geopolitical tension, and downward change in commodities prices as well as policy uncertainties in developed countries. 

Chart 1: % Contribution to Exports Growth by Destination



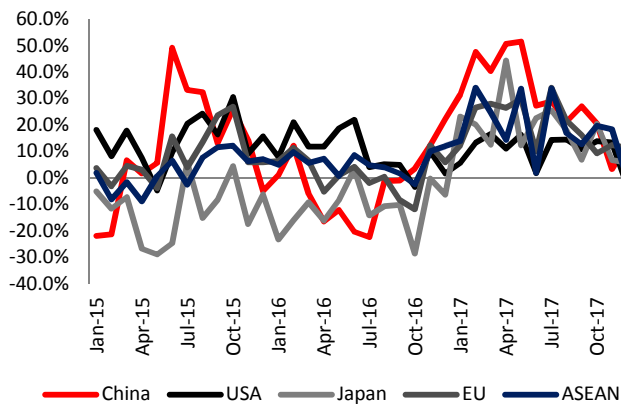
Source: DOSM; MIDFR

Chart 2: % Contribution to Exports Growth by Products



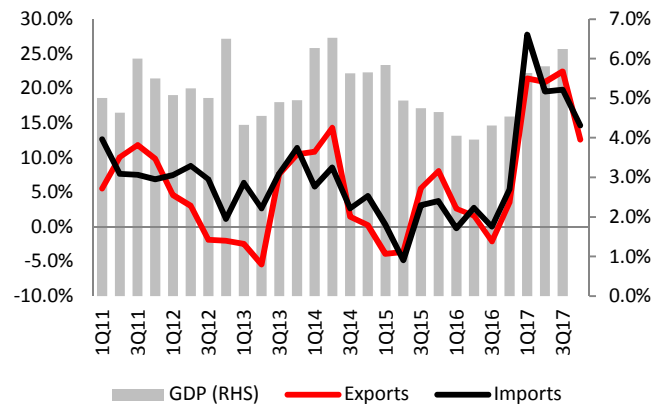
Source: DOSM; MIDFR

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



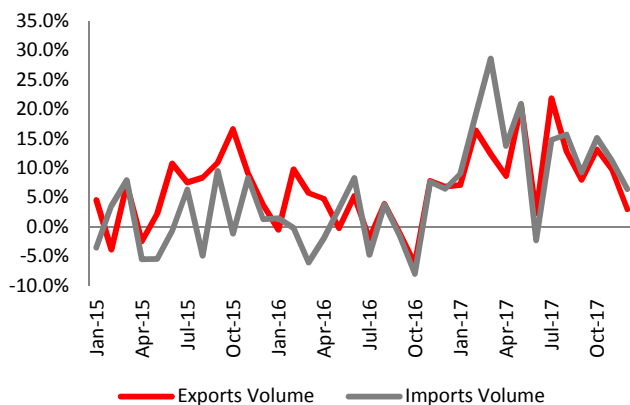
Source: DOSM; MIDFR

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



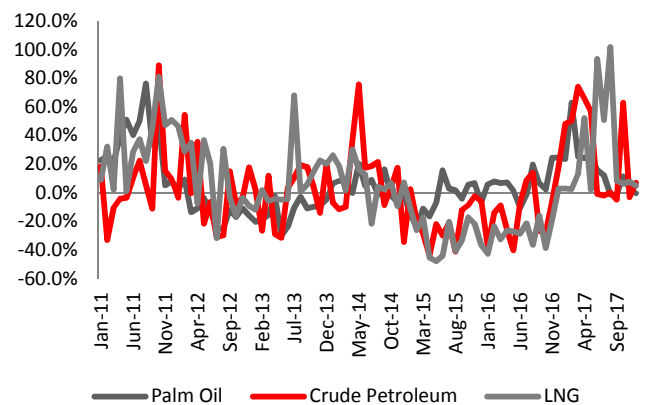
Source: DOSM; MIDFR

Chart 5: Exports vs Imports Volumes (YoY%)



Source: DOSM; MIDFR

Chart 6: Exports Growth (YoY%) by Commodity Product



Source: DOSM; MIDFR

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