

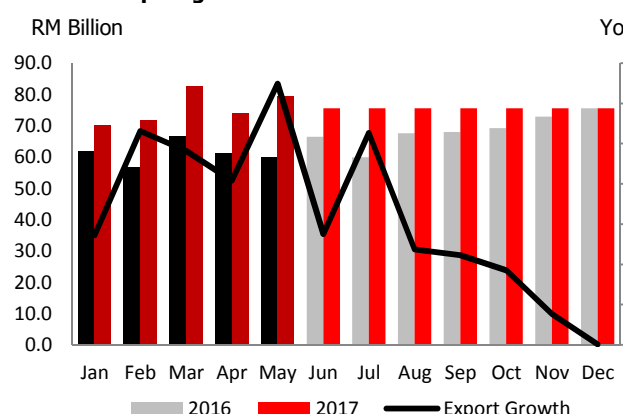
**ECONOMIC REPORT | External Trade Outlook**

**Rebounding Trade to Fuel Economic Growth**

- Exports and imports growths to moderate in the second half. Moving forward, we anticipate the growth pace in export and import to moderate as low-base factor would not be in play anymore. Based on current momentum, average export value for the past five months in 2017 is RM75.6 billion while import averaging at RM69 billion per month.
- Drop in commodities prices pose downside risks. We foresee a decline in commodities prices especially crude petroleum price may drag Malaysia’s export growth for the second half of 2017. The decline may affect exports performances of both crude petroleum and palm oil.
- GDP and export maintain at 5.1% and 14.5% respectively in 2017. With strong trade performance and resilience domestic sector, we believe that GDP and export will hit our forecast of 5.1% and 14.5% respectively in 2017.

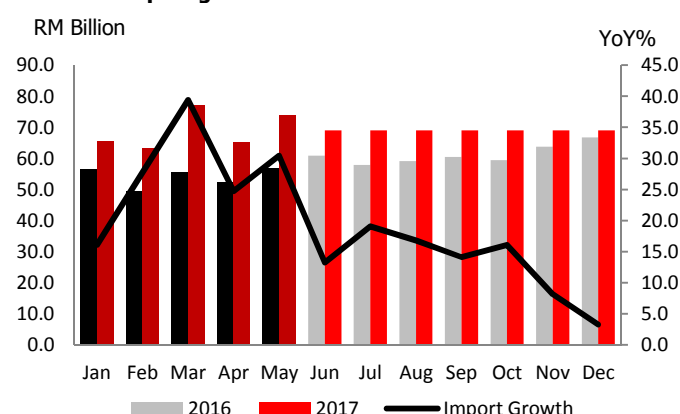
**Exports and imports growths to moderate in the second half.** Moving forward, we anticipate the growth pace in export and import to moderate as low-base factor would not be in play anymore. Based on current momentum, average export value for the past five months in 2017 is RM75.6 billion while import averaging at RM69 billion per month. Both exports and imports averages are higher than 2016’s average, RM75.6 billion vs RM65.5 billion for exports and RM69 billion vs RM58.2 billion for imports.

**Chart 1: Export growth**



Source: DOSM, MIDFR  
 Notes: Scenario Analysis - Jun –Dec 2017 exports and imports figures are derived from the monthly average of the past five months of 2017.

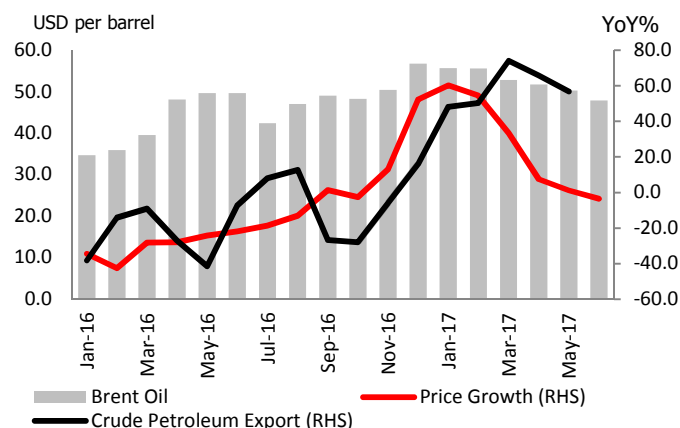
**Chart 2: Import growth**



Source: DOSM, MIDFR

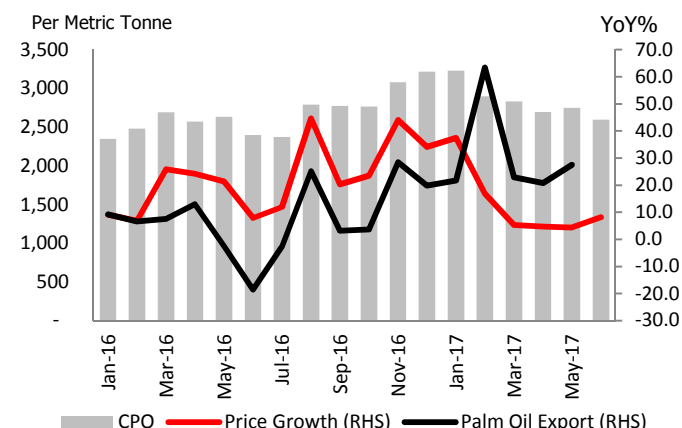
**Drop in commodities prices pose downside risks.** We foresee a decline in commodities prices especially crude petroleum price may drag Malaysia’s export growth for the second half of 2017. The decline may affect exports performances of both crude petroleum and palm oil. In June, price of Brent oil shrank by 3.5%yoy to \$47.9 per barrel amid OPEC and non-OPEC agreed to extend oil production limit until March 2018.

**Chart 3: Brent Crude Oil Price Trend**



Source: Bloomberg, MIDFR

**Chart 4: Crude Palm Oil Price Trend**



Source: Bloomberg, MIDFR


**Spillover effects robust trade via backward and forward linkages.** Based on our estimate, double-digits growth in Malaysia’s exports would lead to positive spillover effects to various sectors. With exports expected to grow by 14.5% this year, we anticipate that mining & quarrying, manufacturing and agriculture to benefit by expanding at 11.1%, 10.5% and 8.1% respectively in 2017. Apart from that, other sectors such as distributive trade, and transport & communication may gain indirectly from the exports boon.

**Commodity-based sectors growth fueled by exports expansion.** Improved external demand coupled with rising commodity prices are recipes for boosting commodity-based sector performance. With the expectation of export to grow by 14.5%, we anticipate economic activity of palm oil and crude oil & natural gas to expand steadily by 9.2% and 11.5% respectively. Besides palm oil, rubber and forestry logging sectors are also to benefit by growing at 13.7% and 10.8% respectively.

**Table 1: Impact Assessment of Export Growth of 14.5% on Gross Value Added by Sectors**

| Sectors                                                       | % Change |
|---------------------------------------------------------------|----------|
| Agriculture                                                   | 8.1      |
| Mining & Quarrying                                            | 11.1     |
| Manufacturing                                                 | 10.5     |
| Utilities                                                     | 4.8      |
| Construction                                                  | 1.8      |
| Wholesale & Retail Trade & Motor Vehicle (Distributive Trade) | 7.5      |
| Hotel & Restaurant                                            | 1.2      |
| Transport & Communication                                     | 6.0      |
| Finance & Insurance                                           | 4.5      |
| Real Estate & Ownership of Dwellings                          | 1.9      |
| Business & Private Services                                   | 5.9      |
| Government Services                                           | 0.1      |

Source: MIDFR

**GDP and export maintain at 5.1% and 14.5% respectively in 2017.** With strong trade performance and resilience domestic sector, we believe that GDP and export will hit our forecast of 5.1% and 14.5% respectively in 2017. Further drop in commodities prices, rising global geopolitical conflicts and protectionism are some of the major risks that could affect Malaysia's economic growth and trade performance in 2017. 

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