

ECONOMIC REVIEW | February 2018 External Trade

Trade Balance Stays Above RM9bn Mark Despite of the 1st Contractions in 16-Month

- Trade surplus maintained above RM9 billion. Trade balance was registered at RM9 billion in Feb-18, however lower than RM9.7 billion posted in the preceding month. Both exports and imports fell for the first time since Nov-16 by 2%yoy and 2.8%yoy.
- Optimistic outlook for 1Q18. Based on manufacturing condition and activity, global and emerging economies manufacturing PMI figures still indicate expansionary trend as it hit 53.4 points and 51.3 points respectively in Mar-18.
- 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.

Trade surplus maintained above RM9 billion. Trade balance was registered at RM9 billion in Feb-18, however lower than RM9.7 billion posted in the preceding month. Both exports and imports fell for the first time since Nov-16 by -2%yoy and -2.8%yoy respectively, mainly due to shorter working days and high base effect amid Lunar festival. The exports growth is way lower than market estimates of 8%yoy. Similarly, exports and imports declined by 15.1% and 16.2% on monthly basis. Despite the fall, we opine Malaysia's external trade performance will rebound in upcoming months, leading to an overall easing path in 2018 amid upbeat momentum in global trade activities. However escalating trade tension between US and China could pose a serious trade to global trade.

Table 1: Malaysia's External Trade Summary

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
Exports (RMb)	78.3	82.4	83.5	79.3	82.9	70.3
% YoY	14.8	18.9	14.4	4.7	17.9	(2.0)
% MoM	(4.9)	5.3	1.5	(5.0)	4.4	(15.1)
Imports (RMb)	69.7	71.9	73.6	72.1	73.2	61.3
% YoY	15.2	20.9	15.2	7.9	11.6	(2.8)
% MoM	(3.7)	3.2	2.4	(2.0)	1.5	(16.2)
Total Trade	147.9	154.3	157.1	151.4	156.0	131.7
% YoY	15.0	19.8	14.8	6.2	14.9	(2.4)
% MoM	(4.3)	4.3	1.9	(3.6)	3.0	(15.6)
Trade Balance (RMb)	8.60	10.6	9.9	7.3	9.7	9.0
Import Components						
Intermediate (RMb)	39.5	38.9	40.4	38.3	37.7	32.8
% YoY	13.5	14.8	13.8	(0.7)	(1.7)	(14.7)
Capital (RMb)	9.3	9.2	10.3	12.1	9.3	7.7
% YoY	10.8	5.1	12.2	35.2	(3.1)	6.0
Consumption (RMb)	5.7	5.9	6.6	6.2	6.3	5.2
% YoY	5.7	11.1	6.6	(2.6)	9.8	12.6

Note: MoM is non-seasonally adjusted figure

Source: CEIC, MIDFR

Imports growth largely driven by consumption goods. Imports of consumption goods continue to expand by 12.6%yoy in Feb-18 from 9.8%yoy recorded in the prior month. This was due to higher imports of semi-durables mainly apparel and clothing, knitted and crocheted for Lunar New Year celebrations as wearing new clothes during the festival is a tradition. Meanwhile, capital goods rebounded by 6%yoy in the same month following higher imports of industrial transport equipment, particularly aircraft and parts which indicate rising activity and confidence in the tourism industry. In contrast, intermediate goods declined by 14.7%yoy as a result of lower imports of primary fuel and lubricants suggesting that most of the country's demands for intermediate goods were fulfilled by domestic suppliers.

Exports to Australia recovered. Malaysia's exports to Australia rebounded by a double digit growth of 15.8%yoy in Feb-18 from two consecutive months of negative growth. This robust performance is likely to continue in upcoming months following the implementation of Regional Comprehensive Economic Partnership (RCEP) and Progressive Agreement for Trans-Pacific Partnership (CPTPP). On the other hand, exports to other countries such as China and Japan contracted by 9.7%yoy and 17.2%yoy respectively mainly attributed to LNG and E&E products. Similarly, by region, exports to both EU and ASEAN fell by 3%yoy and 5.8%yoy respectively. Nevertheless, we believe various trade initiatives such China's One Belt One Road will improve global cooperation and largely benefits Malaysia. In addition, we opine the global trade recovery of 2017 still prevail to the 1Q18 at least, in tandem with sanguine WTO outlook for second quarter of 2Q18 which suggests an above-trend of global trade growth.

Table 2: Malaysia's Exports (YoY%)

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
Total Exports (RMb)	78.3	82.4	83.5	79.3	82.9	70.3
Exports by Key Country / Region						
China	27.1	20.5	3.3	12.8	17.9	(9.7)
USA	10.7	13.8	13.4	(3.1)	8.7	3.3
Japan	6.9	20.4	6.7	5.8	3.3	(17.2)
India	(7.0)	(5.7)	(4.1)	(6.1)	19.1	1.1
Hong Kong	41.0	54.9	56.4	43.2	129.9	61.2
Australia	14.2	26.0	22.0	(9.6)	(19.6)	15.8
EU	16.2	19.5	12.4	11.4	13.6	(3.0)
ASEAN	12.7	9.3	18.3	(0.5)	15.6	(5.8)
Selected ASEAN						
Singapore	8.1	16.1	16.8	(3.3)	8.5	(6.0)
Thailand	7.0	30.2	18.2	(3.9)	16.8	(3.1)
Indonesia	42.9	21.9	34.8	(6.8)	25.7	(26.4)
Vietnam	16.3	12.9	5.0	27.4	64.5	24.8
Philippines	14.1	23.7	41.2	4.2	7.1	(5.1)

Source: CEIC, MIDFR

Petroleum products impelled exports growth. Exports of petroleum products recorded a double digit growth at 22.5%yoy in Feb-18 from 2.1% registered in a month earlier amid gradual recovery in crude oil prices. In contrast, exports of LNG fell by 24%yoy from a gain of 9.4%yoy in the previous month probably due to rising competition with Wheatstone, Australia’s first LNG hub, on top of supply disruption following gas leak at Sabah-Sarawak Gas Pipeline. However, export performance of LNG is likely to recover in upcoming months following new foreign contracts secured such as with India. Looking ahead, we opine that export 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%)

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
E&E	17.7	16.9	21.0	6.2	27.1	(0.1)
Machinery, Equipment & Parts	7.3	14.3	8.5	4.8	11.5	(6.1)
Optical & Scientific Equipment	14.5	20.3	15.2	5.5	18.0	11.7
Petroleum Products	13.2	13.4	0.2	(6.2)	2.1	22.5
Crude Petroleum	(4.9)	62.9	(3.1)	6.9	0.1	3.0
LNG	8.2	6.3	7.5	4.8	14.0	(11.8)
Palm Oil	(1.7)	7.9	(5.2)	(8.6)	9.4	(24.0)

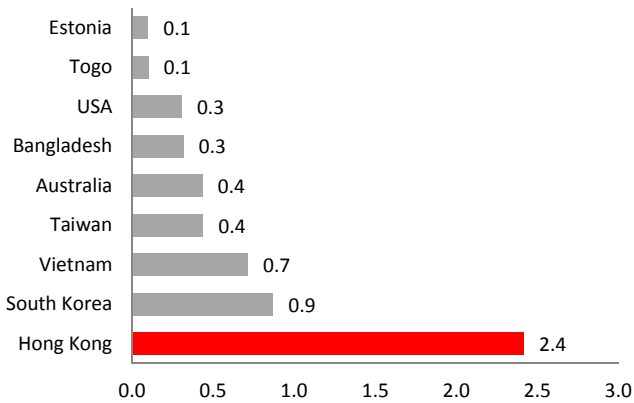
Source: CEIC, MIDFR

Optimistic outlook for 1Q18. Looking at our regional partner’s trade performance, South Korea registered higher exports growth of 6.1%yoy and 15.4%yoy respectively in Mar-18. Based on manufacturing condition and activity, global and emerging economies manufacturing PMI figures still indicate expansionary trend as it hit 53.4 points and 51.3 points respectively in Mar-18. For instance, manufacturing PMI of USA registered at 51.6 points, the strongest pace of expansion since Mar-15. Similarly, PMI of Philippines went up to 51.5 points while Japan and China still maintain above expansionary-line, 53.1 points, and 51.0 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.

Protectionism threat remains as global downside risks. Trump’s administration is expected to impose tariff hike on steel and aluminium industries. As promised by Trump, “Make America Great Again” campaign is to attract US-based companies to relocate to the US and providing more jobs to the local Americans. Therefore, we foresee further protectionism moves to be made by the US government in order to ‘protect’ its economy. On the other hand, such moves would spur market uncertainties, drop in business confidence, affect commodity prices and to the extent could drag down global growth in the medium term.

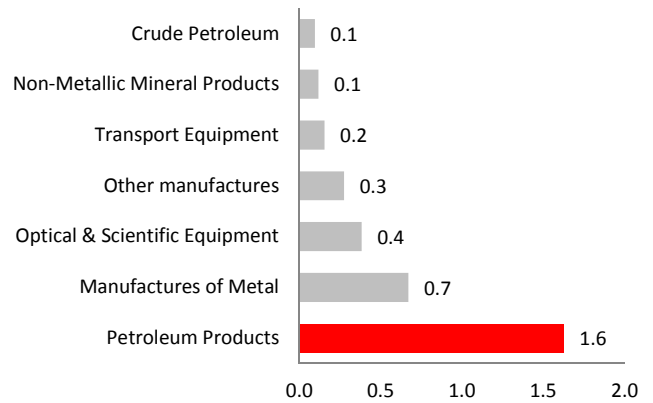
We forecast exports growth to average 9.3% in 2018. Underpinned by optimistic signs of key global indicators and gradual recovery in commodities prices, we foresee Malaysia’s exports will expand by 9.3% this year. The moderating pace is mainly due to unfavourable base effect and in tandem with the expectation of slight slowdown in overall business performance. Nevertheless, protectionist threat as well as geopolitical tension could be a headwind to global market including Malaysia. 

Chart 1: % Contribution to Exports Growth by Destination



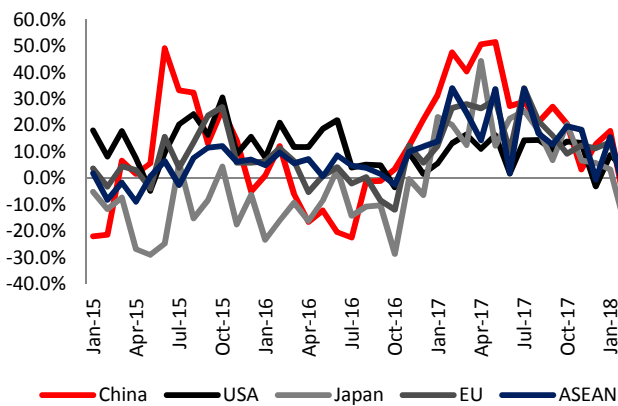
Source: CEIC; MIDFR

Chart 2: % Contribution to Exports Growth by Products



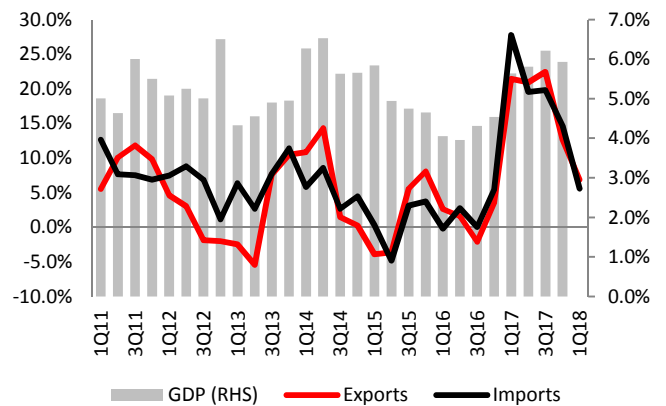
Source: CEIC; MIDFR

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



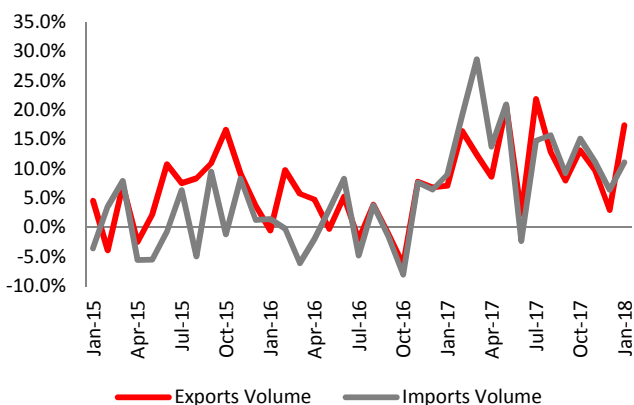
Source: CEIC; MIDFR

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



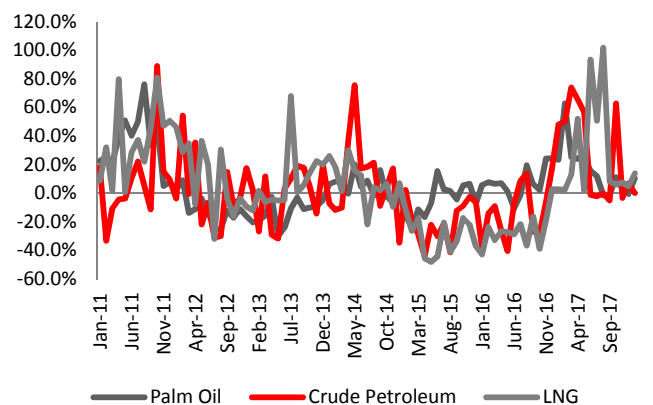
Source: CEIC; MIDFR

Chart 5: Exports vs Imports Volumes (YoY%)



Source: CEIC; MIDFR

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



Source: CEIC; MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.