

## ECONOMIC REVIEW | February 2017 External Trade

### Exports Growth Hits 7 Years High in February

- February exports growth on high note – nears 7 years high. The last time Malaysia's exports had an annual growth rate above 20%yoy was in 2010. Exports in February grew by 26.5% and our exports reached RM71.8 billion, higher than last year's average of RM65.5 billion.
- China demand surged – evident Exports growth to China grew at 47.6%. Exports growth to the US, EU and ASEAN increased significantly by 13.2%, 26.6% and 34% respectively, backed by strong performance in E&E, palm oil & related products, chemical products, refined and crude petroleum sectors..
- Trend of commodities prices is expected to rise further at a modest pace which could translate into higher exports of commodity-based products. Therefore, we opine that our external trade performance to perform better this year as compared to 2016 given key global economic indicators are reflecting positive signs.

**February exports growth on high note – nears 7 years high.** The last time Malaysia's exports had an annual growth rate above 20%yoy was in 2010. Exports in February grew by 26.5% and reached RM71.8 billion, higher than 2016's average of RM65.5 billion. Trade balance and total trade increased by 18.5% and 27.1% respectively last month. Notably, February exports were in the fourth consecutive months of which exports exceeded RM70 billion marks. These significant growth trajectories indicate that our external trade performance is on optimistic recovery pathways. Among others, gradual improvement in global demand and increased in global commodities prices have contributed towards this recovery.

**Table 1: Malaysia's External Trade Summary**

	2016	Nov-16	Dec-16	Jan-17	Feb-17	Jan-Feb 2017
<b>Exports (RMb)</b>	<b>785.9</b>	<b>72.8</b>	<b>75.6</b>	<b>70.3</b>	<b>71.8</b>	<b>142.1</b>
% YoY	1.1	7.8	10.7	13.6	26.5	19.8
%MoM	-	5.2	3.7	(7.0)	2.1	-
<b>Imports (RMb)</b>	<b>698.7</b>	<b>63.8</b>	<b>66.8</b>	<b>65.5</b>	<b>63.1</b>	<b>128.6</b>
% YoY	1.9	11.2	11.5	16.1	27.7	21.5
%MoM	-	7.3	4.8	(2.0)	(3.8)	-
<b>Total Trade</b>	<b>1,484.6</b>	<b>136.6</b>	<b>142.4</b>	<b>135.8</b>	<b>134.8</b>	<b>270.6</b>
% YoY	1.5	9.3	11.1	14.8	27.1	20.6
%MoM	-	6.2	4.2	(4.6)	(0.7)	-
<b>Trade Balance (RMb)</b>	<b>87.3</b>	<b>9.0</b>	<b>8.7</b>	<b>4.7</b>	<b>8.7</b>	<b>13.4</b>
<b>Import Components</b>						
<b>Intermediate (RMb)</b>	<b>399.1</b>	<b>35.5</b>	<b>35.8</b>	<b>38.4</b>	<b>38.5</b>	<b>76.9</b>
% YoY	(0.1)	11.3	9.8	10.4	39.9	23.5
<b>Capital (RMb)</b>	<b>100.2</b>	<b>9.2</b>	<b>9.0</b>	<b>9.6</b>	<b>7.3</b>	<b>16.9</b>
% YoY	4.9	13.1	11.8	35.2	5.6	20.5
<b>Consumption (RMb)</b>	<b>67.0</b>	<b>6.1</b>	<b>6.4</b>	<b>5.7</b>	<b>4.6</b>	<b>10.3</b>
% YoY	7.4	5.4	2.6	(1.6)	(0.6)	(1.2)

Source: Department of Statistics, Malaysia; MIDF Research

**Imports follow through.** Imports grew strongly, expanding by 27.7% supported by surging demand in intermediate and capital goods. In particular, the former could well signal further strengthening in domestic production after being in contraction for most of last's year second half. The imports performance registered in February commensurate with the expected increase in industrial output for the month. The industrial output figures scheduled to be released next week will give important gauge on the change in inventories for the quarter. On the other hand, imports of consumption goods declined 0.6% attributed to depreciation of Ringgit. With MYR hovering at this current level, imported goods for consumption will remain low for the upcoming months.

**China demand surged – evident** Exports growth to China grew at 47.6%. Exports growth to the US, EU and ASEAN increased significantly by 13.2%, 26.6% and 34% respectively, backed by strong performance in E&E, palm oil & related products, chemical products, refined and crude petroleum sectors. With the establishment of ASEAN Economic Community (AEC) in 2015, trade relationship between Malaysia and ASEAN has shown positive impacts. In February 2017, exports to ASEAN constitute about 30% of Malaysia's total exports higher than February 2016 which stood at 28.4%.

With firmer commodity price, exports of LNG which constitutes about 35% of exported goods to Japan expanded by 13.7% whereas exports of palm oil to India and EU improved by 30.3% and 81% respectively in February. We expect the trade performance with major economies to progress better this year as global economic activity is indicating affirmative signs.

**Table 2: Malaysia's Exports (%YoY)**

	2016	Nov-16	Dec-16	Jan-17	Feb-17	Jan-Feb 2017
<b>Total Exports (RMb)</b>	<b>785.9</b>	<b>72.8</b>	<b>75.6</b>	<b>70.3</b>	<b>71.8</b>	<b>142.1</b>
<b>Exports by Key Country / Region</b>						
China	(2.9)	12.0	22.2	31.6	47.6	39.6
USA	8.9	9.9	1.7	23.1	13.2	9.3
Japan	(12.9)	(1.4)	(7.5)	23.1	19.9	21.5
India	1.1	12.0	6.3	5.6	32.2	12.9
Hong Kong	2.1	10.9	6.4	4.9	7.2	6.0
Australia	(4.8)	2.1	27.0	43.5	(3.0)	21.0
EU	1.2	12.3	5.8	12.1	11.2	10.5
ASEAN	5.4	9.8	11.6	13.9	36.1	23.5
<b>Selected ASEAN</b>						
Singapore	5.6	14.9	13.5	18.8	25.9	17.6
Thailand	(0.6)	(0.6)	9.4	1.9	26.4	12.7
Indonesia	(5.0)	(1.1)	3.3	-2.1	74.7	47.5
Vietnam	36.7	44.1	28.0	44.1	54.2	43.9
Philippines	3.6	(10.4)	4.5	21.1	24.7	24.0

Source: Department of Statistics, Malaysia; MIDF Research


**Thanks to firmer global commodities prices.** Global crude oil prices and also crude palm oil prices rose more than 35% in February. As such, average Brent oil price in February 2016 was \$US32 per barrel while February 2017 was \$US54. Similar to palm oil price, February 2016 saw the price at RM2,436 per metric ton whereas last month the price was RM3,344. The huge jump in commodities prices has contributed towards improvement in Malaysia's external trade performance especially in the commodity-based exports products. Exports of palm oil and crude petroleum increase by 63.5% and 50.4% respectively in February. As for downstream activities, the rebound in oil prices added with improving global demand have resulted in higher exports growth in petroleum products as well as chemicals & chemical products last month.

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

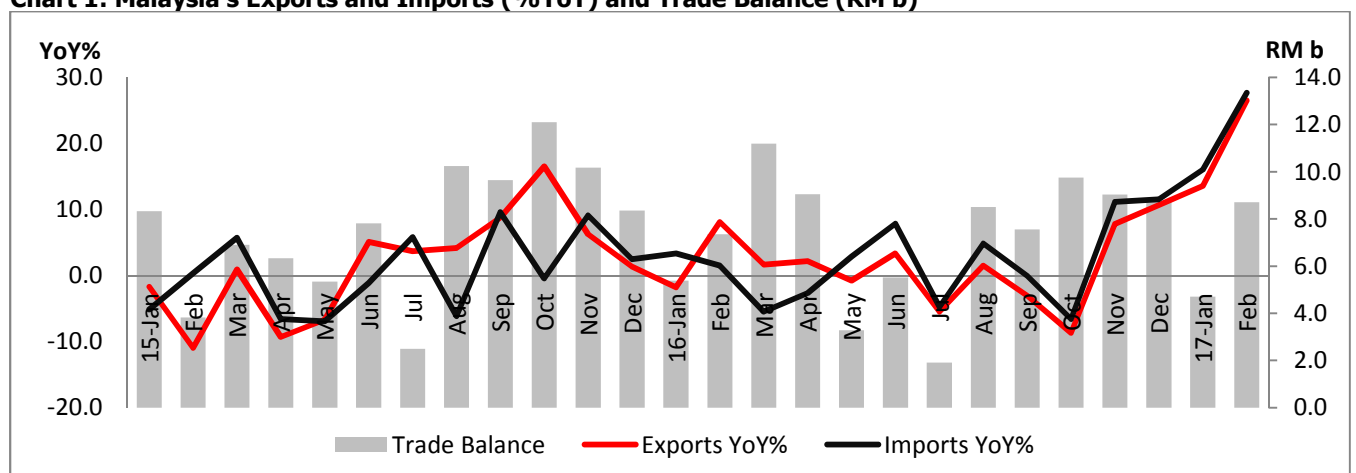
	2016	Nov-16	Dec-16	Jan-17	Feb-17	Jan-Feb 2017
E&E	3.5	13.2	9.0	11.4	22.4	16.6
Chemicals & Chemical Products	7.0	15.2	19.7	15.2	37.5	26.3
Petroleum Products	(0.1)	(12.5)	58.6	81.7	50.9	65.9
Machinery, Equipment & Parts	4.2	8.7	(10.9)	(7.6)	12.9	1.8
Palm Oil	5.9	28.4	19.8	21.7	63.5	40.9
LNG	(28.2)	(21.3)	(0.5)	2.8	2.1	2.4
Crude Petroleum	(14.6)	(6.1)	15.9	48.1	50.4	49.2

Source: Department of Statistics, Malaysia; MIDF Research

**Global economy is on modest recovery track.** The outlook of global economy this year seems promising and optimistic despite of protectionism threat. Progressive development among advanced and emerging economies is contributing towards better performance of global trade activity. Plus, gradual improvement in commodities prices, partly due to the initiative taken by OPEC and non-OPEC countries to limit oil production has indirectly assist commodity-based economies and supporting global demand firmer. In addition to that, commodities prices is predicted to rise higher as OPEC and non-OPEC countries are likely to prolong the oil production limit to support the oil price to rise. Based on latest figures, China's Non-Manufacturing and Manufacturing PMI performed higher in March at 51.8 and 55.1 points respectively as compared to February, 51.6 and 54.2 points. Across the globe, US consumer sentiment rose to 96.9 point in March beating previous month's record of 96.3 point. PMI of Manufacturing and Services of Euro Area indicate optimistic results in March by registering 0.8 and 1 points higher than February's records. Looking forward, economic indicators in major economies are signalling bright prospect in the coming months and most importantly, the trend is on upward path. We believe external trade of Malaysia to record solid growth this year given the environment of global economy is sanguine.

**We are revising up our exports growth forecast to 8.5% from 3.0% previously for 2017.** Even though protectionism threat remains as global challenges, major economies are experiencing gradual recovery in external trade performance. Trend of commodities prices is expected to rise further at a modest pace which could translate into higher exports of commodity-based products. Therefore, we opine that our external trade performance to perform better this year as compared to 2016 given key global economic indicators are reflecting positive signs. 

**Chart 1: Malaysia's Exports and Imports (%YoY) and Trade Balance (RM b)**



Source: Department of Statistics, Malaysia; MIDF Research

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