

## ECONOMIC REVIEW | July 2017 External Trade

### Strong Growth in Sales of Manufactured Goods Helps Exports Jump 30.9% in July

- *Export growth rebounded to 30.9%yoy in July. The rebound in exports and imports growths is expected due to low base effect. For three consecutive months, exports outpaced imports and bring trade balance surplus to RM8billion in July 2017.*
- *Moderating signs in commodity-based exports products. Slowdown in price recovery and growth imposed significant pressure for the commodity-based exports to maintain growth momentum.*
- *We maintain our 2017 exports growth forecast at 14.5%. Even though exports growth in July skyrocketed to above 30%yoy, we maintain our view that Malaysia's exports to moderate in the second half of 2017 due to high base effect.*

**Export growth rebounded to 30.9%yoy in July.** The rebound in exports and imports growths is expected due to low base effect. Apart from that, robust external trade activities are reflected during the month as proven by the strong month-on-month expansion, exports and imports grew by 7.6% and 11.7% respectively. For three consecutive months, exports outpaced imports and bring trade balance surplus to RM8billion in July 2017. Continuous uptick in global demand in particular manufactured goods and optimistic market environment are major factors contributing towards upbeat momentum in Malaysia's external trade performance.

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

	2016	Apr-17	May-17	Jun-17	Jul-17	Jan-Jul 2017
<b>Exports (RMb)</b>	<b>785.9</b>	<b>74.0</b>	<b>79.4</b>	<b>73.1</b>	<b>78.6</b>	<b>529.7</b>
% YoY	1.1	20.6	32.5	10.0	30.9	22.3
% MoM	-	(10.5)	7.5	(8.0)	7.6	-
<b>Imports (RMb)</b>	<b>698.7</b>	<b>65.2</b>	<b>73.9</b>	<b>63.2</b>	<b>70.8</b>	<b>478.7</b>
% YoY	1.9	24.7	30.4	3.7	21.8	23.0
% MoM	-	(15.6)	13.3	(14.5)	11.7	-
<b>Total Trade</b>	<b>1,484.6</b>	<b>139.2</b>	<b>153.3</b>	<b>136.3</b>	<b>149.2</b>	<b>1,008.4</b>
% YoY	1.5	22.5	31.5	7.0	26.4	22.7
% MoM	-	(12.9)	10.2	(11.1)	9.5	-
<b>Trade Balance (RMb)</b>	<b>87.3</b>	<b>8.75</b>	<b>5.49</b>	<b>9.87</b>	<b>8.03</b>	<b>51.0</b>
<b>Import Components</b>						
<b>Intermediate (RMb)</b>	<b>399.1</b>	<b>38.4</b>	<b>42.3</b>	<b>38.2</b>	<b>39.9</b>	<b>278.7</b>
% YoY	(0.1)	29.2	33.8	10.3	24.2	25.6
<b>Capital (RMb)</b>	<b>100.2</b>	<b>8.0</b>	<b>9.9</b>	<b>8.6</b>	<b>9.2</b>	<b>65.8</b>
% YoY	4.9	14.8	6.6	0.6	(16.5)	15.7
<b>Consumption (RMb)</b>	<b>67.0</b>	<b>5.7</b>	<b>6.7</b>	<b>5.2</b>	<b>6.0</b>	<b>40.3</b>
% YoY	7.4	1.0	8.3	(5.2)	21.8	5.1

Note: MoM is non-seasonally adjusted figure

Source: DOSM; MIDFR

**Imports growth underpinned by intermediate and consumption goods.** Imports of intermediate and consumption goods rose by 24.2%yoy and 21.8%yoy respectively in July. The surged in consumption goods were driven by solid imports growth in processed food, textiles and jewellery by 14.1%yoy, 8.4%yoy and 35.3%yoy respectively. However, capital goods imports shrank by 16.5%yoy, marking further deceleration from peak 82.4%yoy in March 2017. The slowdown is mainly dragged down by negative growth in transport equipment and thus giving a cue of slowing down in industrial production growth for the month of July.

**Thanks to robust global demand.** Approximately, 45% of our exports growth was contributed by economies in the Asia region including Australia. Export to China and Japan expanded by 28.8%yoy and 27.5%yoy respectively in the first month of the third quarter. The main export products to China are E&E and chemicals products which grew by 20.9%yoy and 22.3%yoy respectively. Exports to Japan expanded by double digit of 31.5%yoy in July. As for the US and EU, Malaysia's exports to these economies increased by 14.4%yoy and 34.1%yoy accordingly, mainly supported by the exports of E&E products. We opine that continuous improvement in domestic economic activity in major economies such as China, Japan, EU and the US indirectly translate into stronger external demand for Malaysia's products. Consumer confidence in China reached 20-year high at 114.6 points in July whereas Japan's consumer confidence index touched 43.8 points in the same month, highest in four months.

**Export growth to ASEAN highest in five months.** Export to ASEAN grew by 34%yoy in July. Malaysia's exports to major Asean economies namely Singapore, Indonesia, Thailand, Philippines and Vietnam posted well above 30%yoy growth. Exports to Vietnam recorded the fastest growth at 46.2%yoy during the month. Main exports products for the Asean region are E&E, petroleum and chemicals products. Exports of crude petroleum to Thailand which constitutes about 19.3% of total exports rose by 73%yoy. We noticed other Asean economies are also benefiting from the continuous upward trends in global trade activities and modest recovery in commodity prices.

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

	2016	Apr-17	May-17	Jun-17	Jul-17	Jan-Jul 2017
<b>Total Exports (RMb)</b>	<b>785.9</b>	<b>74.0</b>	<b>79.0</b>	<b>73.1</b>	<b>78.6</b>	<b>529.7</b>
<b>Exports by Key Country / Region</b>						
China	(2.9)	50.6	51.5	27.3	28.8	39.4
USA	8.9	11.0	16.3	1.8	14.4	11.1
Japan	(12.9)	44.7	12.8	24.3	25.5	22.4
India	1.1	23.6	4.8	21.3	33.5	17.4
Hong Kong	2.1	(4.0)	32.0	10.3	28.4	13.5
Australia	(4.8)	7.4	61.9	7.3	50.5	24.2
EU	1.2	14.9	29.7	1.9	33.8	21.8
ASEAN	5.4	26.5	33.7	10.0	34.1	23.6
<b>Selected ASEAN</b>						
Singapore	5.6	15.8	45.0	9.1	32.3	24.2
Thailand	(0.6)	22.1	19.3	2.5	31.4	17.0
Indonesia	(5.0)	13.0	45.7	(0.6)	30.7	26.4
Vietnam	36.7	(4.6)	(0.5)	(22.3)	46.4	16.8
Philippines	3.6	30.7	23.6	18.5	34.6	22.4

Source: DOSM, MIDFR

**Moderating signs in commodity-based exports products.** Export of LNG expanded strongly in July, in particular caused by strong demand from Japan. As for crude petroleum, it shrank further by 2.1%yoy while palm oil exports show decelerating pace since May 2017. Slowdown in price recovery and growth imposed significant pressure for the commodity-based exports to maintain growth momentum. Brent oil price, the main commodity price indicator started to grow by single digit rate since May. In August, the oil price increased by 9.2%yoy. Even though the crude prices are on the uptrend, it hovers between \$48 to \$53 per barrel in recent months. If the price persists at the same level until the end of year, we can expect further deceleration and maybe contraction in commodity-based exports performances due to high base effect.

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

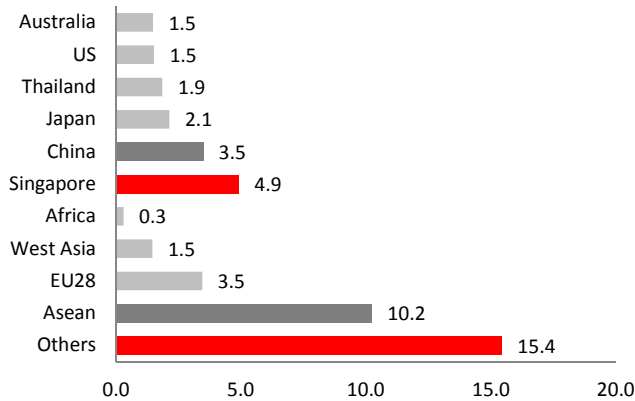
	2016	Apr-17	May-17	Jun-17	Jul-17	Jan-Jul 2017
E&E	3.5	22.2	31.3	15.1	28.3	21.6
Chemicals & Chemical Products	7.0	18.0	21.0	4.5	18.0	18.7
Petroleum Products	(0.1)	5.4	88.2	(9.5)	76.0	44.9
Machinery, Equipment & Parts	4.2	(1.2)	17.1	0.1	27.3	6.9
Palm Oil	5.9	20.8	27.5	16.0	13.1	25.3
LNG	(28.2)	50.2	3.8	97.3	50.8	27.2
Crude Petroleum	(14.6)	65.7	56.8	(1.0)	(2.1)	38.7

Source: DOSM, MIDFR

**Upbeat momentum in global economy to continue in the near term.** Looking ahead, we foresee Malaysia's external trade outlook for August to continue on the upward trend. Among others, economic developments in major economies namely the US, EU and China are displaying positive signs. For instance in August, IBD/TIPP economic optimism index in the US surged to 52.2 points, highest reading since March while China's Caixin manufacturing PMI rose to 51.6 points, fastest in five months. Encouraging developments in these two largest economies will have indirect positive spill over on Malaysia's products. Regionally, South Korea and Vietnam exports expanded by double digit in August 2017, 17.4%yoy and 13.1%yoy respectively. Henceforth, we opine global trade activities will continue expanding and this indicate promising cue for Malaysia's external trade performance in August.

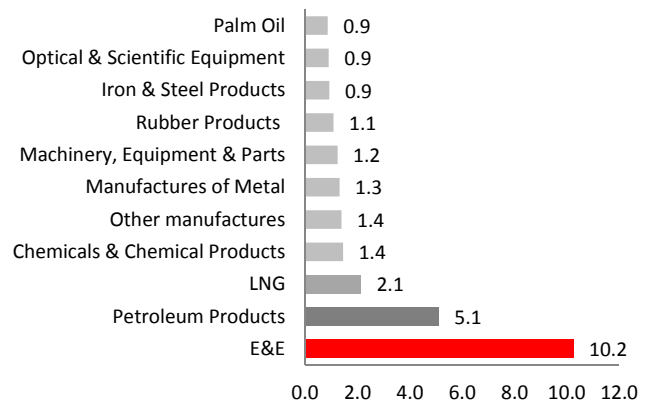
**We maintain our 2017 exports growth forecast at 14.5%.** Even though exports growth in July skyrocketed to above 30%yoy, we maintain our view that Malaysia's exports to moderate in the second half of 2017 due to high base effect. In spite of this, continuous strengthening global demand and modest recovery in commodity price will support our trade performance this year. Protectionist threat, geopolitical tension and policy uncertainties in developed countries remains headwinds for global trade in the near term. 

**Chart 1: % Contribution to Exports Growth by Country and Region**



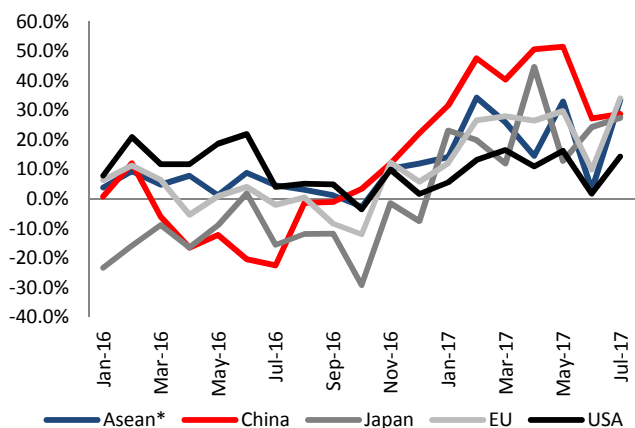
Source: DOSM; MIDFR

**Chart 2: % Contribution to Exports Growth by Products**



Source: DOSM; MIDFR

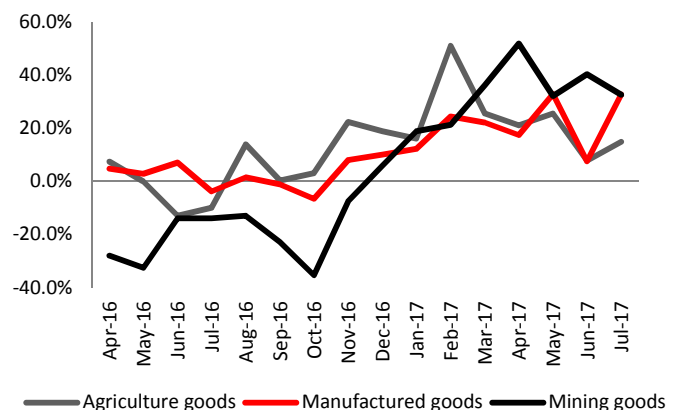
**Chart 3: Exports Growth (YoY%) by Selected Major Destinations**



Source: DOSM; MIDFR

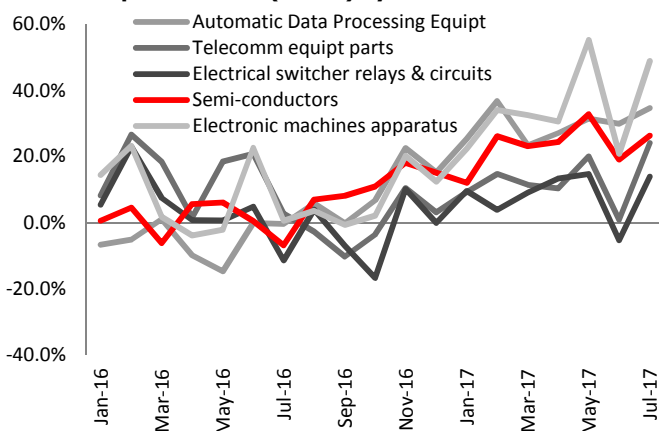
\*Referring to Indonesia, Singapore, Philippines, Thailand & Vietnam

**Chart 4: Exports Growth (YoY%) by Major Sectors**



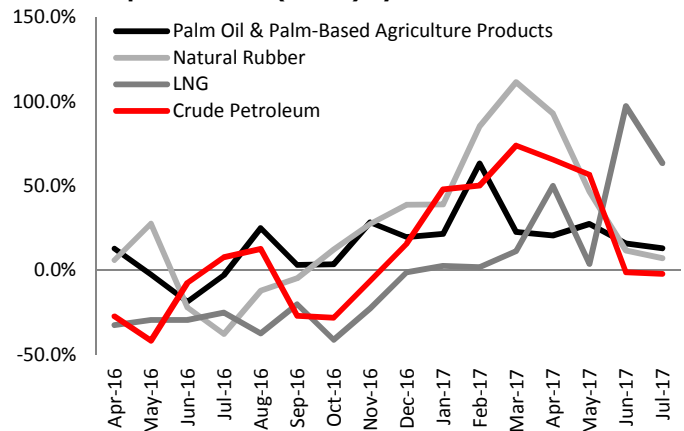
Source: DOSM; MIDFR

**Chart 5: Exports Growth (YoY%) by Selected E&E Products**



Source: DOSM; MIDFR

**Chart 6: Exports Growth (YoY%) by Commodities Products**



Source: DOSM; MIDFR

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