

ECONOMIC REVIEW | July 2018 External Trade**Exports Growth Beats Market Estimates as Value Hits New High of RM86.1b**

- *Exports growth at 6-month high. Exports expanded by 9.4%yoy in Jul-18 to a new high of RM86.1b, improved further from 7.6%yoy gain registered in the preceding month. The expansion was primarily driven by continuous growth in manufactured goods (12.6%yoy vs 12.7%yoy in Jun-18) and rebound in mining goods (7.1%yoy vs -10.9%yoy).*
- *Significant exports growth to China. Malaysia's exports to China jumped by 37.5%yoy to RM12.9b in Jul-18, the highest growth since Jun-17. It is the second consecutive months of double digit growth driven by higher shipments of E&E products, chemicals & chemical products, LNG, petroleum products and crude petroleum.*
- *We forecast exports growth to average 9.3% in 2018. Underpinned by sanguine signs of key global indicators and gradual recovery in commodities prices, we foresee Malaysia's exports will expand by 9.3% this year (18.9% in 2017).*

Exports growth at 6-month high. Exports expanded by 9.4%yoy in Jul-18 to a new high of RM86.1b, improved further from 7.6%yoy gain registered in the preceding month. The expansion was primarily driven by continuous growth in manufactured goods (12.6%yoy vs 12.7%yoy in Jun-18) and rebound in mining goods (7.1%yoy vs -10.9%yoy). In addition, lesser drop in agriculture goods (-14.5%yoy vs -18.7%yoy) also contributed to the performance. Meanwhile, imports growth moderated to 10.3%yoy in Jul-18 from 14.9%yoy registered in the prior month however still outperformed exports. Trade surplus recorded at RM8.3b, higher than RM6b posted in Jun-18. In upcoming month, we anticipate Malaysia's exports to remain optimistic on the back of tax holiday period and stable retail fuel price. Nevertheless, concerns on global trade spat remained.

Intermediate goods caused imports growth to ease. Imports of intermediate goods fell by 0.1%yoy in Jul-18 following a positive gain of 3.1%yoy in the previous month. In contrast, inbound shipments of capital goods increased by 4.7%yoy however slowed from a double digit growth of 14.1%yoy recorded in Jun-18. The drop in intermediate goods and a slowdown in capital goods suggest rising demand for raw materials and capital goods among domestic manufacturers amid zero-rated GST and tax holiday period. Plus, industrial production and manufacturing sales also signal expansions. For 1H18, IPI and manufacturing sales registered an average growth of 3.4%yoy and 6.8%yoy respectively. Meanwhile, consumption goods posted a double digit growth in imports at 11.1%yoy which indicates strengthening purchasing power and household consumption.

Table 1: Malaysia's External Trade Summary

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Exports (RMb)	82.9	70.3	84.5	84.2	82.1	78.7	86.1
% YoY	17.9	(2.0)	2.2	14.0	3.4	7.6	9.4
% MoM	4.4	(15.1)	20.1	(0.3)	(2.5)	(4.2)	9.6
Imports (RMb)	73.2	61.3	69.8	71.2	74.0	72.6	77.8
% YoY	11.6	(2.8)	(9.6)	9.1	0.1	14.9	10.3
% MoM	1.5	(16.2)	13.8	2.0	3.9	(1.9)	7.2
Total Trade	156.0	131.7	154.2	155.4	156.1	151.3	164.0
% YoY	14.9	(2.4)	(3.5)	11.7	1.8	11.0	9.8
% MoM	3.0	(15.6)	17.1	0.8	0.4	(3.1)	8.4
Trade Balance (RMb)	9.7	9.0	14.7	13.1	8.1	6.0	8.3
Import Components							
Intermediate (RMb)	37.7	32.8	36.9	33.8	40.1	39.4	39.9
% YoY	(1.7)	(14.7)	(14.4)	(11.9)	(5.3)	3.1	(0.1)
Capital (RMb)	9.3	7.7	9.4	8.4	9.8	9.4	9.6
% YoY	(3.1)	6.0	(30.5)	4.8	(0.7)	14.1	4.7
Consumption (RMb)	6.3	5.2	5.3	5.6	6.0	5.9	6.7
% YoY	9.8	12.6	(12.4)	(1.8)	(10.2)	4.9	11.1

Note: MoM is non-seasonally adjusted figure

Source: CIEC, MIDFR

Re-exports continued to grow. In Jul-18, re-exports continued to surge by 55.1%yoy to RM18.7b with ratio of re-exports to total exports recorded at 21.7%. This demonstrates that for every RM1 value of exports, approximately 22 cents of it is re-exports. It reflects the growing importance of Malaysia in global value chain and trade activities. Meanwhile, domestic exports rebounded by 1.3%yoy in Jul-18 after two-consecutive months of contraction. Moving forward, we foresee re-exports to continue expanding, buoyed by increasing activities of regional distribution hubs based in Malaysia such as Broadcom, BMW and IKEA.

Significant exports growth to China. Malaysia's exports to China jumped by 37.5%yoy to RM12.9b in Jul-18, the highest growth since Jun-17. It is the second consecutive months of double digit growth driven by higher shipments of E&E products, chemicals & chemical products, LNG, petroleum products and crude petroleum. Similarly, exports to both USA and India rebounded by 6.7%yoy and 16.3%yoy respectively from negative territory in the prior month. By region, exports expanded to both EU and ASEAN by 2.2%yoy and 1.2%yoy respectively however slowed compared to previous month's gain. Among ASEAN countries, outbound shipments moderated to all key countries except Philippines. The latest second-round trade tensions between the two biggest economies (China and US) pose a bigger concern to Malaysian trade performance besides indecisive trade integrations such Regional Comprehensive Economic Partnership (RCEP) and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Table 2: Malaysia's Exports (YoY%)

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Total Exports (RMb)	82.9	70.3	84.5	84.2	82.1	78.7	86.1
Re-exports (RMb)	17.4	14.5	16.1	20.1	16.3	15.7	18.7
Domestic Exports (RMb)	65.4	55.8	68.4	64.1	65.6	62.9	67.5
Exports by Key Country / Region							
China	17.9	(9.7)	(4.7)	22.0	7.4	16.9	37.5
USA	8.7	3.3	(0.1)	1.7	(5.6)	(1.9)	6.7
Japan	3.3	(17.2)	(3.5)	(21.4)	16.0	(14.5)	(17.1)
India	19.1	1.1	10.3	4.9	(3.9)	(7.9)	16.3
Hong Kong	129.9	61.2	62.1	113.8	34.8	64.4	80.8
Australia	(19.6)	15.8	(11.8)	(14.5)	(6.9)	(4.7)	6.3
EU	13.6	(3.0)	5.3	19.5	11.4	5.6	2.2
ASEAN	15.6	(5.8)	(2.7)	13.6	(1.9)	7.4	1.2
Selected ASEAN							
Singapore	8.5	(6.0)	(4.3)	3.7	(9.8)	(0.3)	(2.0)
Thailand	16.8	(3.1)	9.5	32.4	18.4	13.2	6.0
Indonesia	25.7	(26.4)	(5.5)	2.1	(20.1)	24.0	4.2
Vietnam	64.5	24.8	(3.6)	44.2	41.3	30.6	12.8
Philippines	7.1	(5.1)	(10.4)	13.6	(4.1)	(9.3)	4.3

Source: CIEC, MIDFR

E&E products and crude petroleum drove exports growth. Exports of E&E products which constituted 40.1% of total exports rose by 23.6%yoy to RM34.5b in Jul-18 from a single digit growth of 6.9%yoy in the previous month. The 6-month highest rate is partly due to higher shipment to ASEAN countries such as Vietnam and Thailand. Likewise, outbound shipments of crude petroleum registered an enormous double digit growth of 90.1%yoy in Jul-18, following 25.3%yoy in Jun-18 due to higher Average Unit Value (AUV). Meanwhile, LNG shipments continued to post larger negative growth at 38.4%yoy in Jul-18 largely due to supply-side issues which resulted in sharp decline in exports to Japan despite robust demand from the country due to sweltering weather. Looking ahead, we believe 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.

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

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
E&E	27.1	(0.1)	8.7	21.2	2.1	6.9	23.6
Machinery, Equipment & Parts	11.5	(6.1)	4.9	6.2	(11.5)	10.4	2.0
Optical & Scientific Equipment	18.0	11.7	(0.2)	7.7	13.4	30.9	9.1
Petroleum Products	2.1	57.7	5.7	16.7	1.7	33.9	(13.0)
Crude Petroleum	0.1	3.0	18.4	22.7	45.8	25.3	90.1
LNG	14.0	(11.8)	(3.3)	(12.5)	61.0	(31.2)	(38.4)
Palm Oil	9.4	(24.0)	(7.5)	(0.8)	(24.7)	(26.8)	(22.2)

Source: CIEC, MIDFR

Positive outlook for 3Q18. Looking at our regional partner's, exports of Vietnam and South Korea in Aug-18 continued to expand by 5.5%yoy and 8.7%yoy respectively. This could provide similar waves to Malaysia's upcoming trade numbers for Aug-18. Based on manufacturing condition and activity, both global and emerging economies manufacturing PMI still maintain on expansionary trend at 52.5 points and 50.8 points in Aug-18. For instance, PMI of USA went down to 54.7 points in Aug-18 which pointed to the slowest expansions in factory activity since Nov-18 as output and new order growth rate eased although remained solid. Similarly, PMI of China inched down to 50.6 points while edged up to 52.5 points for Japan during the same month. However, all readings are above 50 which signal an expansion in the sector. We predict global trade activities in 3Q18 to remain on an upbeat momentum albeit at a moderating pace, in tandem with easing global manufacturing PMI. In addition, protectionism threat remains as global downside risks.


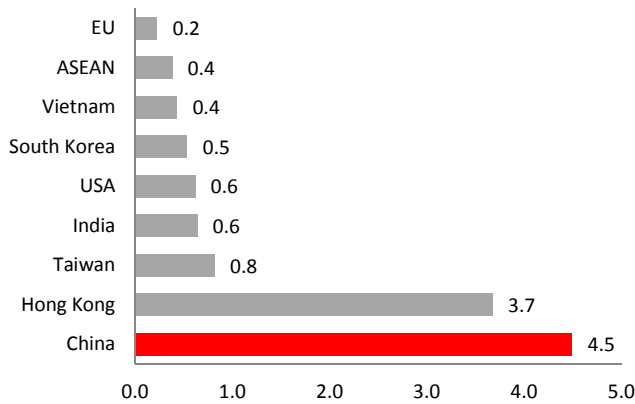
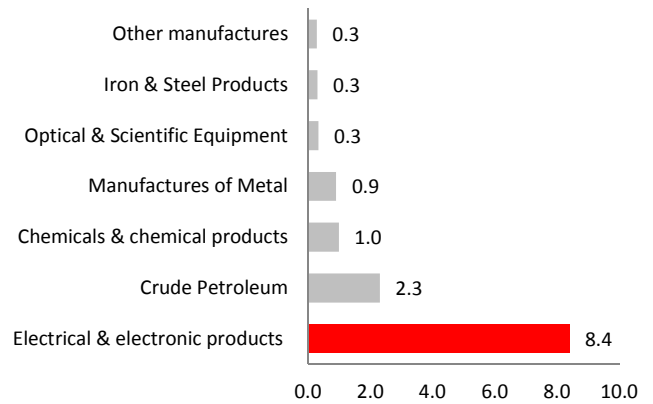
We forecast exports growth to average 9.3% in 2018. Underpinned by sanguine signs of key global indicators and gradual recovery in commodities prices, we foresee Malaysia's exports will expand by 9.3% this year (18.9% in 2017). In fact, for the first seven months of 2018, exports growth is recorded at 7.3%yoy which is far lower than 22.6%yoy registered in the same period last year. The moderating pace is mainly due to higher base effect and in tandem with the expectation of slight slowdown in overall business performance. Nevertheless, brewing trade tensions between the U.S and a number of countries on top of escalating geopolitical tension could be a headwind to global trade including Malaysia. 

Chart 1: % Contribution to Exports Growth by Destination



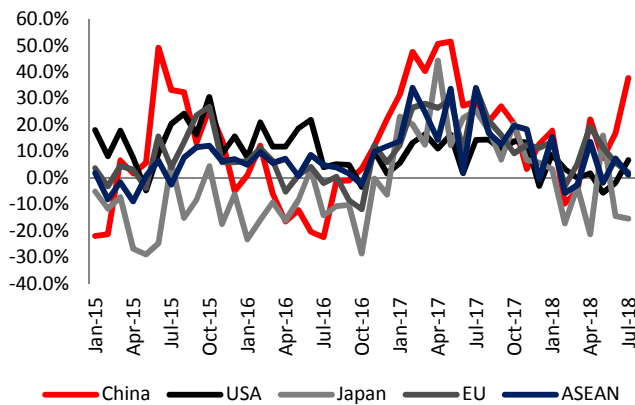
Source: CEIC; MIDFR

Chart 2: % Contribution to Exports Growth by Products



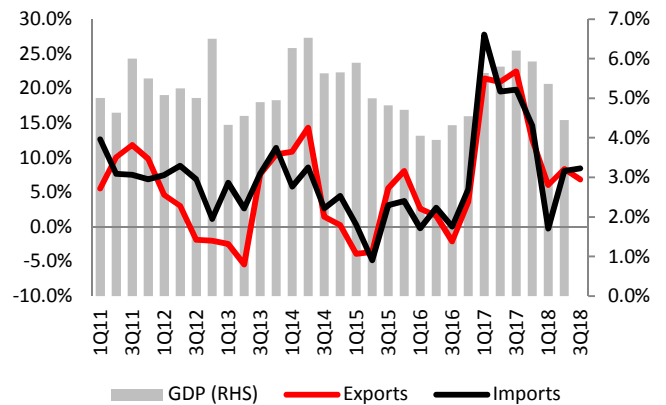
Source: CEIC; MIDFR

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



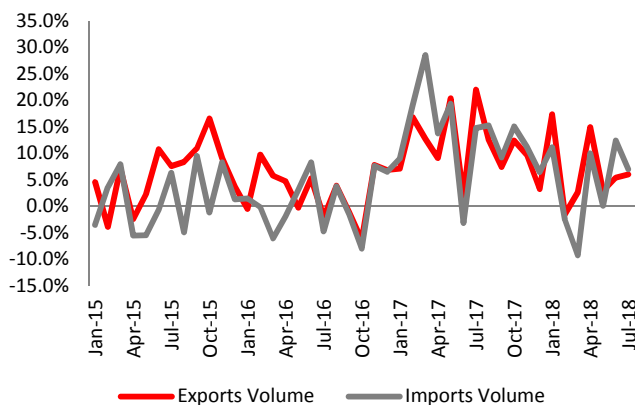
Source: CEIC; MIDFR

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



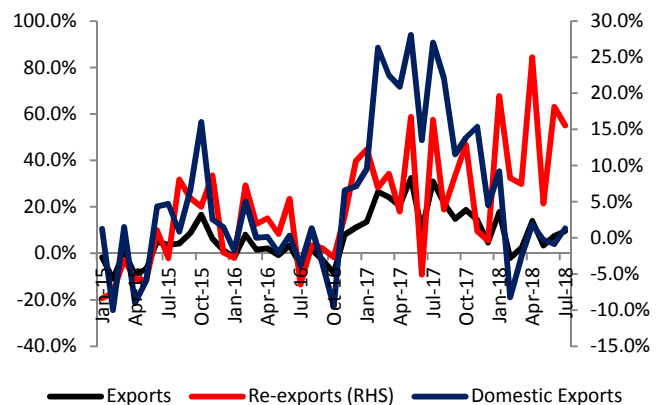
Source: CEIC; MIDFR

Chart 5: Exports vs Imports Volumes (YoY%)



Source: CEIC; MIDFR

Chart 6: Total Exports: Domestic vs Re-exports (YoY%)



Source: CEIC; MIDFR

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