

ECONOMIC REVIEW | June 2016 External Trade

Exports Grew 3.4%yoy Above Median Market Estimate of -3.7%yoy Amid Strong E&E Output

- Exports expanded by 3.4% beating economists' median estimate which were expecting a contraction by 3.7%yoy, after briefly contracting by 0.9%yoy in May, while imports surged by 8.3%yoy, highest in seven months due to double digit growth in food products. On seasonally adjusted basis, exports surged 10.6%mom, the highest in 52 months.
- Exports of E&E products grew by 11.7%mom and 4.9%yoy in June, contributing 52.0% of year-on-year exports growth. The number came in as there will be a lot of new smart devices release in the month of August and September, leading to the higher activity of the E&E industry, which could also be seen in Korea's economic numbers.
- We are maintaining our exports and imports forecast for 2016 at -0.5% and 1.0% respectively as global trade outlook remains grim. Despite a stronger demand coming from the US, we remain cautious with future global trade activity outlook due to the Brexit vote.

Exports rose at the fastest pace in four month. Exports expanded by 3.4%yoy beating our forecast of 2.5%yoy growth and median economists' estimate which were expecting a contraction by 3.7%yoy, after briefly contracting by 0.9%yoy in May, while imports surged by 8.3%yoy, highest in seven months due to double digit growth in food products. On seasonally adjusted basis, exports surged 10.6%mom, the highest in 52 months. Year to date, exports growth improved to 1.2% from 0.8% last month but still below 2015 average of 1.5%. On the other hand, strong gain this month saw YTD imports back into positive territory, rising by 1.4% compared to a 0.1% contraction last month. YTD total trade passed the RM700 billion mark and growth improved further this month to 1.4% from 0.4% in June. Meanwhile, trade balance rebounded to RM5.52 billion in June from RM3.28 billion in May.

Table 1: Malaysia's External Trade Summary

	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jan-Jun 16
Exports (RMb)	56.7	66.9	61.3	59.9	66.4	372.9
% YoY	6.7	0.2	1.6	-0.9	3.4	1.2
%MoM	-8.3	17.4	-7.9	-2.3	10.9	
Imports (RMb)	49.4	55.4	52.3	56.7	60.9	326.6
% YoY	1.6	-5.5	-2.3	3.1	8.3	1.4
%MoM	-12.6	12.2	-5.6	8.4	7.5	
Total Trade	106.1	122.0	113.6	116.6	127.4	704.0
% YoY	4.2	-2.5	-0.2	1.0	5.7	1.3
%MoM	-10.3	15.0	-6.8	2.6	9.2	
Trade Balance (RMb)	7.4	11.2	9.1	3.2	5.5	41.8
Import Components						
Intermediate (RMb)	27.4	32.0	29.7	31.6	34.7	189.8
% YoY	-6.6	-8.3	-6.8	-0.2	5.7	-1.7
Capital (RMb)	7.0	7.4	7.0	9.3	8.2	45.9
% YoY	1.7	-22.2	0.0	17.2	12.8	-1.9
Consumption (RMb)	4.6	5.3	5.6	6.1	5.9	33.5
% YoY	17.9	21.9	15.3	13.6	1.8	16.4

Source: Department of Statistics, Malaysia; MIDF Research

Exports of petroleum product rebounded, while crude petroleum remained in the red. After exports of petroleum products experienced a sharp decline in May, it experienced a double digit growth in June, expanding by 22.7%mom and 14.5%yoy. However, performance of crude petroleum remained weak on year-on-year basis, contracting by 7.3%yoy despite rebounding by 41.1%mom. LNG continues to drag our year-on-year exports performance particularly to Japan, dropping by 29.2%yoy. All of the three products remained in the negative territory for the first half of 2016.

Electrical and electronics (E&E) experienced double digit growth in June relative to May. Exports of E&E products grew by 11.7%mom and 4.9%yoy in June, contributing 52.0% of year-on-year exports growth. The number came in as there will be a lot of new smart devices release in the month of August and September, leading to the higher activity of the E&E industry, which could also be seen in Korea's economic numbers. However, the production is one thing while the demand for the product is another. Amid the global economic slowdown, we remain cautious with the final demand of E&E products, hence the future global trade activity performance.

Table 2: Malaysia's Exports (%YoY)

	2015	Mar-16	Apr-16	May-16	Jun-16	1H16
Total Exports (RMb)	780.0	66.9	61.3	59.9	66.5	372.9
Exports by Key Country / Region						
China	10.0	(5.9)	(16.6)	(12.2)	(20.3)	(8.7)
USA	14.4	11.8	11.7	18.7	22.0	15.3
Hong Kong	(0.5)	(7.7)	8.5	(2.3)	2.5	(0.2)
Japan	(10.7)	(15.1)	(18.7)	(7.3)	2.4	(15.7)
India	(0.7)	3.5	7.6	2.4	(10.9)	0.9
Australia	(14.8)	9.4	(5.3)	(8.4)	22.7	(1.9)
EU	8.4	6.5	(5.3)	0.9	4.1	3.8
ASEAN	2.8	5.6	7.2	0.5	8.5	6.0
Selected ASEAN						
Singapore	(0.2)	3.0	15.4	(4.1)	12.7	5.3
Thailand	10.5	4.9	(12.4)	(5.9)	(1.4)	(0.3)
Indonesia	(8.4)	(7.7)	(10.1)	(5.7)	(27.2)	(7.2)
Vietnam	21.3	36.3	44.7	52.6	76.6	42.9
Philippines	9.4	5.1	14.4	6.8	7.5	13.2

Source: Department of Statistics, Malaysia; MIDF Research

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

	2015	Mar-16	Apr-16	May-16	Jun-16	1H16
E&E	8.5	0.4	2.1	3.2	4.9	3.5
Chemicals & Chemical Products	7.2	4.1	2.5	11.8	7.1	6.6
Petroleum Products	(22.5)	(3.4)	34.4	(13.8)	14.5	(0.8)
Machinery, Equipment & Parts	20.5	18.6	17.2	7.3	6.9	16.1
Palm Oil	(5.5)	7.6	9.4	(5.0)	(20.3)	(0.5)
LNG	(26.2)	(43.7)	(32.4)	(29.3)	(29.2)	(38.3)
Crude Petroleum	(20.3)	(9.1)	(25.8)	(40.3)	(7.3)	(22.8)

Source: Department of Statistics, Malaysia; MIDF Research

Exports to China contracted further by 20.3%yoy. Malaysia exports to China shrunk by 20.3%yoy, the lowest in 16 months. It should be noted that China has been experiencing contraction in its imports activity for 20th consecutive months, mostly due to the decline in its import prices while partly due to the slowdown in volume. However, the latest numbers are a cause to worry, as despite China's manufacturing activity has been performing relatively better recently, the E&E exports to China contracted by 20.3%yoy in June. The numbers may reflect China's plan to substitute its imported products to local production has been beginning to bear fruit.

Imports of consumption goods in June were slower than expected. We had expected a surge in imports particularly food products and non-durable goods in June as Eid celebration fell in the first week of July, hence a natural stockpiling activity beforehand and imports of clothes and fabrics to sell prior to the celebration. Note that this year's Eid celebration was 11 days earlier than 2015. However, the relatively weak imports of consumption goods are considered as a surprise, as it could reflect soft domestic demand due to relatively higher unemployment rate.

Intermediate goods imports rebounded in June, expanding by 5.7% after 4 successive months in decline. Intermediate goods imports expanded during the month, reversing the contractionary period experienced in the past 4 months. This month performance saw the decline in year-to-date imports of intermediate goods eased further to 1.7% from 3.3% last month. Imports of capital goods maintained double-digit the month albeit moderating from 17.2% in June to 12.8%. The rebound in these two items could suggest better domestic production in future but we believe it is too early to suggest such a call as the month of June is yet to reflect the impact of Brexit vote. Meanwhile, consumption imports growth slowed sharply, breaking its 14th months of double digit expansion.

We are maintaining our exports and imports forecast for 2016 at -0.5% and 1.0% respectively as global trade outlook remains grim. Despite a stronger demand coming from the US, we remain cautious with future global trade activity outlook due to the Brexit vote. We have previously highlighted that risk in the global trade activity remained elevated and that have yet to improve. China's imports were in contraction for the month of July, the 21st consecutive months since October 2014. 

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