

ECONOMIC REVIEW | June 2017 External Trade

Exports Grew Faster Than Imports in 2 Consecutive Months While Trade Balance Highest in 14-Months

- *Export growth outpacing import growth for two consecutive months. Despite of slowdown in growth, export beat import in June 2017 by 10%yoy vs 3.7%yoy respectively. In our previous report, we already expect the slowdown in export growth due to high base effect. June's export number is 10%yoy, higher by 1.8% points from our 11.8% estimated export growth.*
- *Bright outlook for global economy. IMF recently maintained its global growth forecast at 3.5%. Most recently, EU and Japan agreed to sign a trade deal in July, indirectly putting a slap on protectionism threat. IMF predicts world trade volume to rise by 4%yoy and 3.9%yoy for this year and 2018.*
- *We maintain our 2017 exports growth forecast at 14.5%. In line with our estimate, exports will remain growing at solid pace this year. Synchronized economic performance in both major and emerging economies is a boost for trade.*

Export growth outpacing import growth for two consecutive months. Despite of slowdown in growth, export beat import in June 2017 by 10%yoy vs 3.7%yoy respectively. In our previous report, we already expect the slowdown in export growth due to high base effect. June's export number is 10%yoy, higher by 1.8% points from our 11.8% estimated export growth. While the consensus estimate for export growth stands at 18.3.%yoy. On monthly basis, both export and import shrank by 8% and 14.5% respectively during the month. In spite of this, trade balance recorded surplus at RM9.87 billion, highest since April 2016. Looking ahead, Malaysia's external trade performance will remain upbeat albeit moderating in the second half of the year due to favorable global market condition and modest recovery in commodity prices.

Table 1: Malaysia's External Trade Summary

| | 2016 | Mac-17 | Apr-17 | May-17 | Jun-17 | Jan-Jun 2017 |
|----------------------------|----------------|--------------|--------------|--------------|--------------|--------------|
| Exports (RMb) | 785.9 | 82.6 | 74.0 | 79.4 | 73.1 | 451.0 |
| % YoY | 1.1 | 24.1 | 20.6 | 32.5 | 10.0 | 21.0 |
| % MoM | - | 15.1 | (10.5) | 7.5 | (8.0) | - |
| Imports (RMb) | 698.7 | 77.2 | 65.2 | 73.9 | 63.2 | 408.1 |
| % YoY | 1.9 | 39.4 | 24.7 | 30.4 | 3.7 | 23.3 |
| % MoM | - | 22.5 | (15.6) | 13.3 | (14.5) | - |
| Total Trade | 1,484.6 | 159.9 | 139.2 | 153.3 | 136.3 | 859.2 |
| % YoY | 1.5 | 31.1 | 22.5 | 31.5 | 7.0 | 22.0 |
| % MoM | - | 18.5 | (12.9) | 10.2 | (11.1) | - |
| Trade Balance (RMb) | 87.3 | 5.40 | 8.75 | 5.49 | 9.87 | 42.9 |
| Import Components | | | | | | |
| Intermediate (RMb) | 399.1 | 43.1 | 38.4 | 42.3 | 38.2 | 289.9 |
| % YoY | (0.1) | 36.3 | 29.2 | 33.8 | 10.3 | 25.8 |
| Capital (RMb) | 100.2 | 13.5 | 8.0 | 9.9 | 8.6 | 56.6 |
| % YoY | 4.9 | 82.4 | 14.8 | 6.6 | 0.6 | 23.3 |
| Consumption (RMb) | 67.0 | 6.1 | 5.7 | 6.7 | 5.2 | 34.4 |
| % YoY | 7.4 | 14.0 | 1.0 | 8.3 | (5.2) | 2.7 |

Note: MoM is non-seasonally adjusted figure

Source: DOSM; MIDFR

Import dragged down by consumption goods. Import of consumption goods shrank by 5.2%yoy while import growth of intermediate and capital decelerate to 10.3%yoy and 0.6%yoy respectively. The contraction in consumption goods was due to substitution effects as consumers spend more on local goods for Eid-festival preparation. Shrank in the import of intermediate goods was in tandem with the decline in export growth for June. Comparatively, export of manufactured goods declined from 32.7% in May to 7.4% in June. Notably, some of the sector such as E&E has high import contents and the moderating export growth in June in tandem with declined in imports of intermediate goods. Additionally, Malaysia's Nikkei Manufacturing PMI registered at 46.9 points, the lowest in five years which pointed to a slowdown in manufacturing activities.

Export to China and Japan expanded by 41.5%yoy and 22.8%yoy for 1H17. Among others, the surge in export growth to both destinations is a factor of low base effect. For the first half of 2016, export growth to China and Japan contracted by 7%yoy and 11.9%yoy respectively. In June 2017, export to Japan improved by 24.3%yoy as compared to the growth in the previous month at 12.8%yoy. This was mainly supported by the export of LNG and E&E products which represent 55.1% of Malaysia's total export to Japan. Both LNG and E&E products which exported to Japan increase significantly by 61.8%yoy and 24.1%yoy during the month.

GST imposition fuels demand from India. Export growth to India rose by 21.3%yoy in June, rebounding from tepid growth in May at only 4.8%yoy. The key drivers are export of palm oil, E&E products and manufactures of metal which upsurge by 81.7%yoy, 56.6%yoy and 21.6%yoy respectively in June. We believe the strong demand from India is due to implementation of GST in the economy on the 1st July 2017. Prior to July, India's consumers as well as businesses ramp up spending on goods and services in order to have better shield from expected higher cost in July.

Export growth to ASEAN slowest in three months. Export to ASEAN grew by 10%yoy in June. The slowdown was driven by the contraction of Malaysia's export to Indonesia and Vietnam by 0.6%yoy and 22.3%yoy respectively. As of June, export growth to Vietnam has been contracting for three consecutive months. By products, shrinkage in export of petroleum and chemical & chemicals products by 17.2%yoy and 8.4%yoy were reasons dragging down Malaysia's export to ASEAN countries. However, we foresee the slowdown as temporary and trade activities in the region will remain growing at steady pace given that improving business optimism in the region as well as continuous expansion in China's economy.

Table 2: Malaysia's Exports (YoY%)

| | 2016 | Mac-17 | Apr-17 | May-17 | Jun-17 | Jan-Jun 2017 |
|--|--------------|-------------|-------------|-------------|-------------|--------------|
| Total Exports (RMb) | 785.9 | 82.6 | 74.0 | 79.0 | 73.1 | 451.0 |
| Exports by Key Country / Region | | | | | | |
| China | (2.9) | 40.3 | 50.6 | 51.5 | 27.3 | 41.2 |
| USA | 8.9 | 16.5 | 11.0 | 16.3 | 1.8 | 10.6 |
| Japan | (12.9) | 12.0 | 44.7 | 12.8 | 24.3 | 22.2 |
| India | 1.1 | 15.2 | 23.6 | 4.8 | 21.3 | 15.0 |
| Hong Kong | 2.1 | 16.6 | (4.0) | 32.0 | 10.3 | 11.2 |
| Australia | (4.8) | 14.4 | 7.4 | 61.9 | 7.3 | 20.8 |
| EU | 1.2 | 28.1 | 14.9 | 29.7 | 1.9 | 19.9 |
| ASEAN | 5.4 | 24.8 | 26.5 | 33.7 | 10.0 | 22.0 |
| Selected ASEAN | | | | | | |
| Singapore | 5.6 | 25.9 | 15.8 | 45.0 | 9.1 | 22.9 |
| Thailand | (0.6) | 16.6 | 22.1 | 19.3 | 2.5 | 14.6 |
| Indonesia | (5.0) | 32.5 | 13.0 | 45.7 | (0.6) | 26.4 |
| Vietnam | 36.7 | 36.3 | (4.6) | (0.5) | (22.3) | 12.1 |
| Philippines | 3.6 | 25.5 | 30.7 | 23.6 | 18.5 | 20.5 |

Source: DOSM; MIDFR

LNG export surged by 97.3%yoy, highest in 7-years. Export of LNG expanded strongly in June, in particular caused by strong demand from Japan. As for crude petroleum, the mining product export shrank by 1%yoy during the month, due to negative price growth in Brent oil price. The oil prices decline by 3.5%yoy in June amid global supply glut. Looking ahead, we expect the export of crude petroleum to record solid growth as price growth for Brent in July recorded at 24%yoy. In addition, IMF in its latest report forecast oil price to grow only by 0.1%yoy for 2018.

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

| | 2016 | Mac-17 | Apr-17 | May-17 | Jun-17 | Jan-Jun 2017 |
|-------------------------------|--------|--------|--------|--------|--------|--------------|
| E&E | 3.5 | 21.2 | 22.2 | 31.3 | 15.1 | 20.5 |
| Chemicals & Chemical Products | 7.0 | 20.6 | 18.0 | 21.0 | 4.5 | 19.1 |
| Petroleum Products | (0.1) | 52.8 | 5.4 | 88.2 | (9.5) | 40.0 |
| Machinery, Equipment & Parts | 4.2 | 8.4 | (1.2) | 17.1 | 0.1 | 3.4 |
| Palm Oil | 5.9 | 22.9 | 20.8 | 27.5 | 16.0 | 27.7 |
| LNG | (28.2) | 11.5 | 50.2 | 3.8 | 97.3 | 23.4 |
| Crude Petroleum | (14.6) | 74.1 | 65.7 | 56.8 | (1.0) | 47.3 |

Source: DOSM; MIDFR

Bright outlook for global economy. IMF recently maintained its global growth forecast at 3.5%. The international body is optimistic with the current global development in particular global trade activities. Most recently, EU and Japan agreed to sign a trade deal in July, indirectly putting a slap on protectionism threat. IMF predicts world trade volume to rise by 4%yoy and 3.9%yoy for this year and 2018. Based on current trade performances, we would expect Malaysia's export growth for July to remain sanguine as global demand as well regional are seen continuing on uptrend momentum. Regionally, export growth of South Korea, Vietnam and Thailand registered double digit rate in July 2017, at 19.5%, 17.9% and 12% respectively.

Global trade risks reemerge from US. The Trump-led administration last week passed the bill sanctioning Russia over its interference in the US 2016 election and military operations in Ukraine. The sanction however being opposed by most of EU leaders as it could affect EU energy-companies that involve in Russia's oil industry. We opine if political instabilities between the US, EU and Russia prolong, it could posed major risk factors to global growth. On the other hand, the US may impose broader sanctions on Venezuela due to its sham election in July. In the short term, sanction threat on Venezuela indirectly push up global oil price above \$50 per barrel last month and thus we foresee the increase in the price will benefit Malaysia via higher value of petroleum-related exports for the month of July.


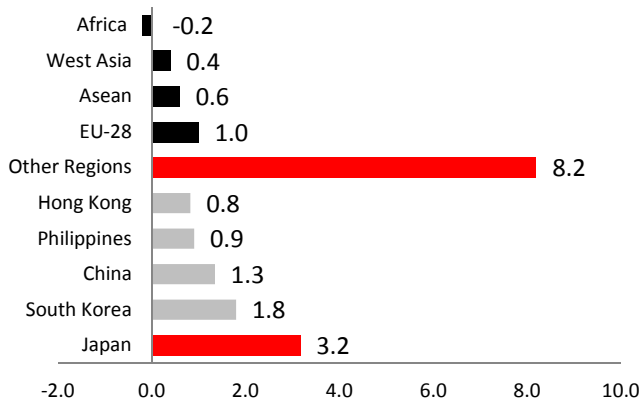
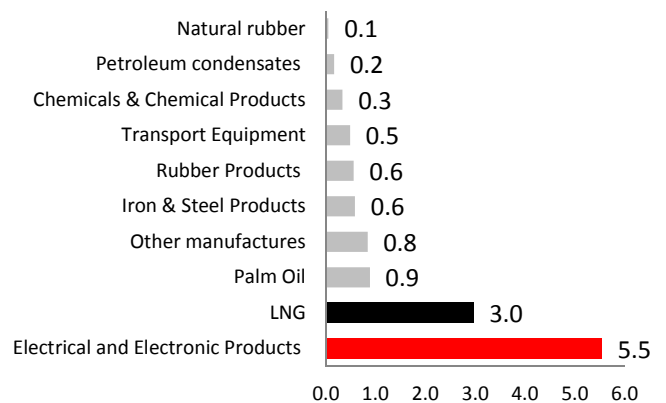
We maintain our 2017 exports growth forecast at 14.5%. In line with our estimate, exports will remain growing at solid pace this year. Synchronized economic performance in both major and emerging economies is a boost for trade. Gradual improvement and stability in commodities prices is another positive catalyst that will elevate Malaysia's trade performance in 2017. 

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



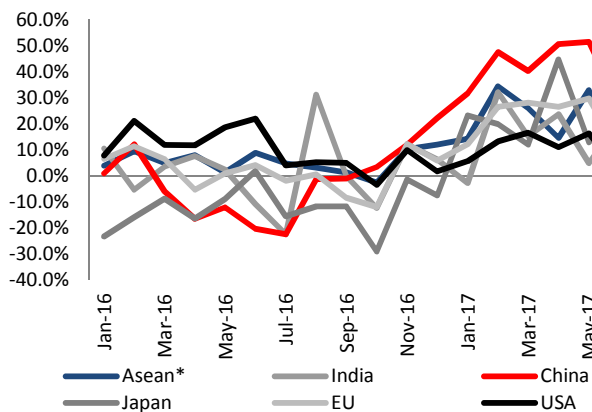
Source: DOSM; MIDFR

Chart 2: % Contribution to Exports Growth by Products



Source: DOSM; MIDFR

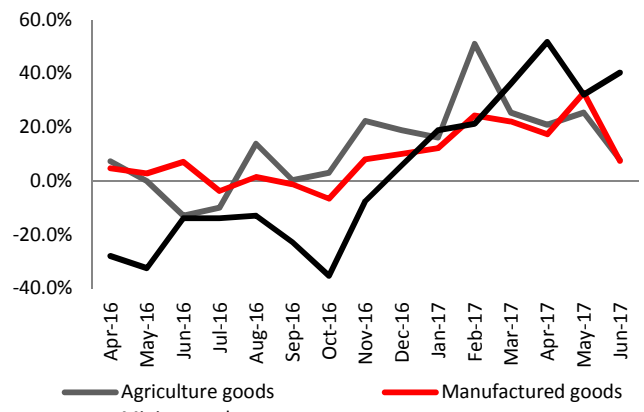
Chart 3: Exports Growth (YoY%) by Selected Major Destinations



Source: DOSM; MIDFR

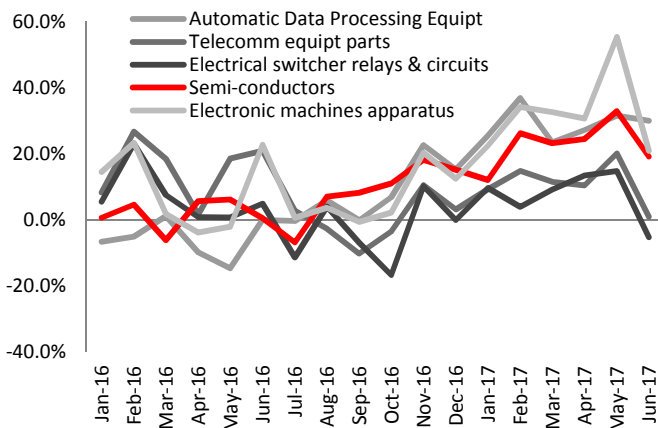
*Referring to Indonesia, Singapore, Philippines, Thailand & Vietnam

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



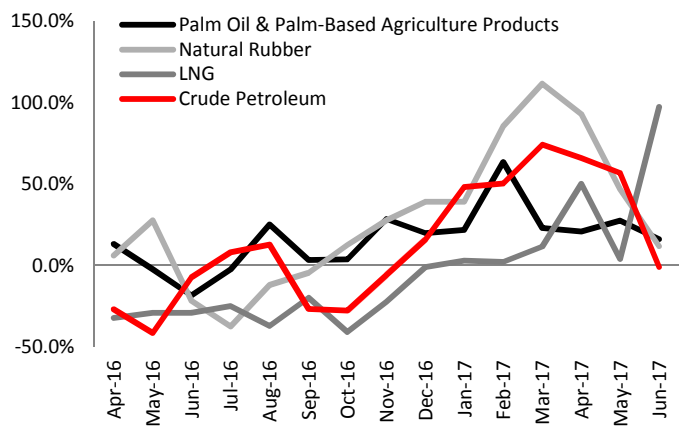
Source: DOSM; MIDFR

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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