

ECONOMIC REVIEW | March 2018 External Trade

1Q18 Trade Balance Surged to 8-Year High Due to Solid Demand from Non-Major Markets

- Exports surge to new record high at RM84.5 billion. Exports in Mar-18 rebounded by 2.2%yoy to RM84.5 billion, the highest monthly figure ever recorded driven by higher exports to non-major markets such as Hong Kong and South Africa, among others.
- Steady Stance for 2Q18. Looking at our regional partner's trade performance such as Vietnam, exports in Apr-18 increased by 4.1%yoy. Meanwhile, exports from South Korea decreased by 1.5%yoy in the same month due to a high base of comparison in Apr-17.
- We forecast exports growth to average 9.3% in 2018. Underpinned by optimistic signs of key global indicators and gradual recovery in commodities prices, we foresee Malaysia's exports will expand by 9.3% this year.

Exports surge to new record high at RM84.5 billion. Exports in Mar-18 rebounded by 2.2%yoy to RM84.5 billion, the highest monthly figure ever recorded driven by higher exports to non-major markets such as Hong Kong and South Africa, among others. In contrast, imports continue to fall by 9.6%yoy to RM69.8 billion which widened the trade balance to RM14.7 billion, highest since Oct-08. Meanwhile, for 1Q18, exports expanded by 5.8% to RM237.6 billion while imports decreased by 0.8% to RM204.3 billion. We foresee Malaysia's external trade performance will continue expanding at a steady pace in 2018, buoyed by gradual rise in commodity prices on top of fading protectionism threat.

Table 1: Malaysia's External Trade Summary

	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
Exports (RMb)	82.4	83.5	79.3	82.9	70.3	84.5
% YoY	18.9	14.4	4.7	17.9	(2.0)	2.2
% MoM	5.3	1.5	(5.0)	4.4	(15.1)	20.1
Imports (RMb)	71.9	73.6	72.1	73.2	61.3	69.8
% YoY	20.9	15.2	7.9	11.6	(2.8)	(9.6)
% MoM	3.2	2.4	(2.0)	1.5	(16.2)	13.8
Total Trade	154.3	157.1	151.4	156.0	131.7	154.2
% YoY	19.8	14.8	6.2	14.9	(2.4)	(3.5)
% MoM	4.3	1.9	(3.6)	3.0	(15.6)	17.1
Trade Balance (RMb)	10.6	9.9	7.3	9.7	9.0	14.7
Import Components						
Intermediate (RMb)	38.9	40.4	38.3	37.7	32.8	36.9
% YoY	14.8	13.8	(0.7)	(1.7)	(14.7)	(14.4)
Capital (RMb)	9.2	10.3	12.1	9.3	7.7	9.4
% YoY	5.1	12.2	35.2	(3.1)	6.0	(30.5)
Consumption (RMb)	5.9	6.6	6.2	6.3	5.2	5.3
% YoY	11.1	6.6	(2.6)	9.8	12.6	(12.4)

Note: MoM is non-seasonally adjusted figure
Source: CIEC, MIDFR

Imports went down as intermediate and capital goods fell hard. Imports of intermediate goods fell for fourth consecutive months by 14.4%yoy due to lower imports of electrical machinery, equipment and parts. Similarly, capital goods and consumption goods decreased by 30.5%yoy and 12.4%yoy respectively from positive growth registered in the previous month. While decreasing imports of consumption goods suggest that country's demands were fulfilled by domestic producers, the fall in intermediate and capital goods in particular point at declining activity and confidence in the manufacturing industry. The drop was in tandem with falling PMI to 49.5 points in Mar-18. Reduction in capital spending by manufacturers signals unsteady demand for its products which could affect future growth.

Exports to India grew by double digit. Malaysia's exports to India rose by a double digit growth of 10.3%yoy in Mar-18 from single digit growth recorded in a month earlier mainly driven by exports of palm oil and palm oil based agriculture products despite high import tax on both crude and refined palm oil in India. Besides Malaysia's continuous export duty suspension on crude palm oil, Indian's deficit in soybean production which demanded palm oil imports as a substitute could be the reasons for India's exports surge. On the other hand, exports to China and Japan continue to decline for third consecutive month on the back of lower exports of petroleum products and E&E products. Similarly, exports to the US decreased marginally by 0.1% mainly owing to lower exports of E&E products and crude petroleum, among others. By region, exports to EU grew by 5.3%yoy while decreased by 2.7%yoy for ASEAN. Nevertheless, we believe various trade integrations such as Regional Comprehensive Economic Partnership (RCEP) and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will improvise global cooperation and largely benefits Malaysia.

Table 2: Malaysia's Exports (YoY%)

	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
Total Exports (RMb)	82.4	83.5	79.3	82.9	70.3	84.5
Exports by Key Country / Region						
China	20.5	3.3	12.8	17.9	(9.7)	(4.7)
USA	13.8	13.4	(3.1)	8.7	3.3	(0.1)
Japan	20.4	6.7	5.8	3.3	(17.2)	(3.5)
India	(5.7)	(4.1)	(6.1)	19.1	1.1	10.3
Hong Kong	54.9	56.4	43.2	129.9	61.2	62.1
Australia	26.0	22.0	(9.6)	(19.6)	15.8	(11.8)
EU	19.5	12.4	11.4	13.6	(3.0)	5.3
ASEAN	9.3	18.3	(0.5)	15.6	(5.8)	(2.7)
Selected ASEAN						
Singapore	16.1	16.8	(3.3)	8.5	(6.0)	(4.3)
Thailand	30.2	18.2	(3.9)	16.8	(3.1)	9.5
Indonesia	21.9	34.8	(6.8)	25.7	(26.4)	(5.5)
Vietnam	12.9	5.0	27.4	64.5	24.8	(3.6)
Philippines	23.7	41.2	4.2	7.1	(5.1)	(10.4)

Source: CIEC, MIDFR

Crude petroleum drove exports growth. Exports of crude petroleum recorded a double digit growth at 18.4%yoy in Mar-18 from 3% registered in a month earlier amid rising crude oil prices. Meanwhile, exports of LNG continue to decline however at a slower pace of 3.3%yoy partly due to competition with LNG hub in Wheatstone, Australia. However, we foresee export performance of LNG to improve further in upcoming months as Petronas has secured rights of 20.9% in a joint venture with other partners such as Santos and KOGAS to explore gas in Bowen Basin, Australia on top of contracts secured with India. 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 plus with the recovery in commodity prices.

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

	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
E&E	16.9	21.0	6.2	27.1	(0.1)	8.7
Machinery, Equipment & Parts	14.3	8.5	4.8	11.5	(6.1)	4.9
Optical & Scientific Equipment	20.3	15.2	5.5	18.0	11.7	(0.2)
Petroleum Products	13.4	0.2	(6.2)	2.1	57.7	5.7
Crude Petroleum	62.9	(3.1)	6.9	0.1	3.0	18.4
LNG	6.3	7.5	4.8	14.0	(11.8)	(3.3)
Palm Oil	7.9	(5.2)	(8.6)	9.4	(24.0)	(7.5)

Source: CIEC, MIDFR

Steady Stance for 2Q18. Looking at our regional partner's trade performance such as Vietnam, exports in Apr-18 increased by 4.1%yoy. Meanwhile, exports from South Korea decreased by 1.5%yoy in the same month due to a high base of comparison in Apr-17. Based on manufacturing condition and activity, global manufacturing PMI figures increased to 53.5 points while it maintain on expansionary trend at 51.3 points for emerging economies. For instance, PMI of USA stood at its strongest pace since Sep-14 at 56.5 points. Similarly, manufacturing PMI of China and Japan went up to 51.1 and 53.8 respectively. Henceforth, we predict global trade activities in 1Q18 to remain on an upbeat momentum albeit at a moderating rate amid of unfavourable base effects. Nevertheless, protectionism threat remains as global downside risks.


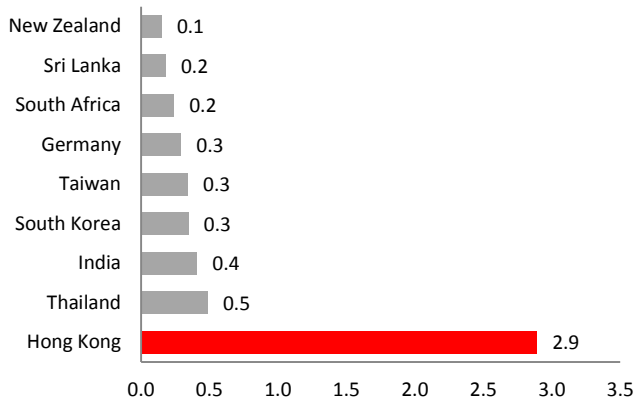
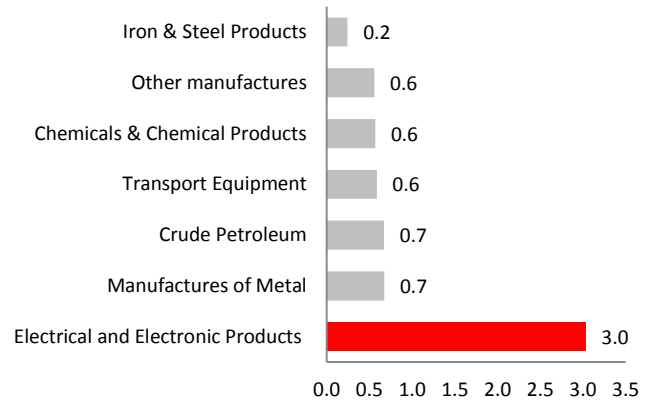
We forecast exports growth to average 9.3% in 2018. Underpinned by optimistic signs of key global indicators and gradual recovery in commodities prices, we foresee Malaysia's exports will expand by 9.3% this year. The moderating pace is mainly due to unfavourable base effect and in tandem with the expectation of slight slowdown in overall business performance. Nevertheless, protectionist threat as well as escalating geopolitical tension could be a headwind to global trade including Malaysia. 

Chart 1: % Contribution to Exports Growth by Destination



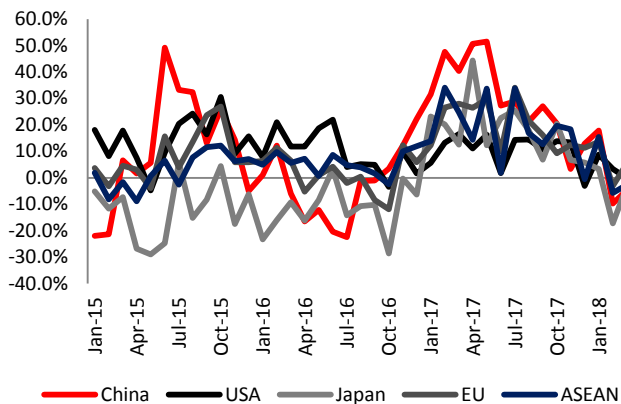
Source: CEIC; MIDFR

Chart 2: % Contribution to Exports Growth by Products



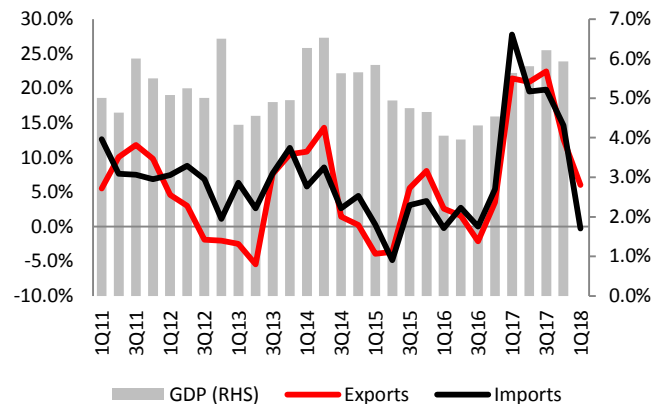
Source: CEIC; MIDFR

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



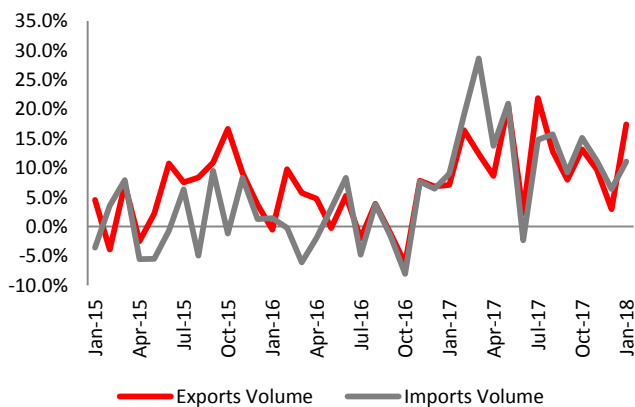
Source: CEIC; MIDFR

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



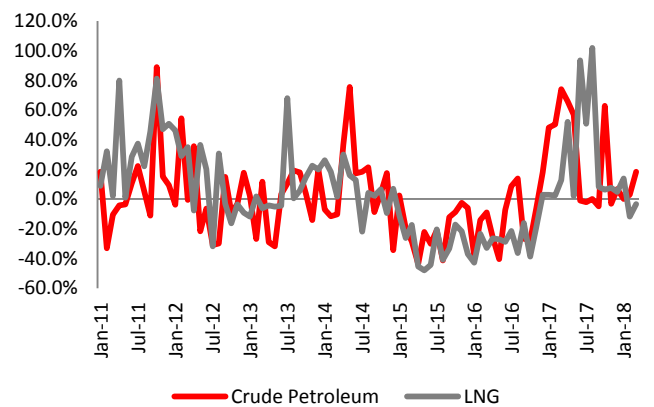
Source: CEIC; MIDFR

Chart 5: Exports vs Imports Volumes (YoY%)



Source: CEIC; MIDFR

Chart 6: Exports Growth (YoY%) by Commodity Product



Source: CEIC; MIDFR

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