

ECONOMIC REVIEW | October 2017 External Trade

Rebound in Crude Petroleum Exports Boosts Trade Surplus to 19-Month High in October

- *Upbeat momentum in external trade continues. Exports expanded by 18.9%yoy in October, higher than previous month's record. It is the eleventh consecutive months of double-digit expansion in exports since December 2016. Trade surplus reached 19-month high at RM10.6 billion.*
- *Crude petroleum exports rebounded to six-month high. Due to the rising global oil prices, exports of crude petroleum expanded by 62.9%yoy, fastest since April 2017.*
- *We forecast exports growth to average 17.3% in 2017. Even though Malaysia's exports growth in the third quarter 2017 was still on a robust pace, we expect the growth rate to moderate in the final quarter due to unfavourable base effect.*

Upbeat momentum in external trade continues. Exports expanded by 18.9%yoy in October, higher than previous month's record. It is the eleventh consecutive months of double-digit expansion in exports since December 2016. Similarly, imports growth surged 20.9%yoy during the month. Trade surplus reached 19-month high at RM10.6 billion. Among others, strengthening demands in major economies and gradual rising in global commodity prices are key supporting factors for the robust trade performance in October 2017. Hence, we predict Malaysia's external trade performance to continue expanding until the end of the year, thus boosting economic growth for 4Q17.

Table 1: Malaysia's External Trade Summary

	2016	Jul-17	Aug-17	Sep-17	Oct-17	Jan-Oct 2017
Exports (RMb)	785.9	78.6	82.2	78.3	82.4	772.7
% YoY	1.1	30.9	21.5	14.8	18.9	21.1
% MoM	-	7.6	4.6	(4.9)	5.3	-
Imports (RMb)	698.7	70.8	72.4	69.7	71.9	568.1
% YoY	1.9	21.8	22.6	15.2	20.9	21.9
% MoM	-	11.7	2.5	(3.7)	3.2	-
Total Trade	1,484.6	149.2	154.6	147.9	154.3	1,206.3
% YoY	1.5	26.4	22.0	15.0	19.8	21.5
% MoM	-	9.5	3.6	(4.3)	4.3	-
Trade Balance (RMb)	87.3	8.03	10.0	8.60	10.6	70.1
Import Components						
Intermediate (RMb)	399.1	39.9	43.2	39.5	38.9	400.2
% YoY	(0.1)	24.2	25.5	13.7	14.8	23.1
Capital (RMb)	100.2	9.2	9.1	9.3	9.2	93.3
% YoY	4.9	(16.5)	12.7	10.4	5.1	13.7
Consumption (RMb)	67.0	6.0	6.2	5.7	5.9	58.3
% YoY	7.4	21.8	17.8	5.6	11.1	7.0

Note: MoM is non-seasonally adjusted figure

Source: DOSM; MIDFR

Imports growth driven by consumption and intermediate goods. Imports of consumption goods increased 11.1%yoy in October, partly due festive season namely the Deepavali celebration. We notice imports of processed food increase sharply by 27.7% on monthly basis during the month. On a flip side, industrial activity remains on positive momentum given that imports of intermediate and capital goods expanded by 14.8%yoy and 5.1%yoy respectively. Looking ahead, we foresee imports of industrial goods will rise further in November given the latest Malaysia's manufacturing PMI figure which came in at 52 points, a 43-month high.

Exports volume up by 13.1%yoy in October. Steady growth in exports volume was contributed by double-digit expansions in manufactured goods and machinery & transport equipment by 28.7%yoy and 16.6%yoy respectively. In line with global commodity price trend, exports volume of fuels, lubricants & related materials rebounded from a contraction in September to an 8.5%yoy expansion in October. At the same time, imports volume remains strong registering 15.1%yoy during the month. Overall, the robust trend in external trade volumes portends to another strong economic growth to be recorded in 4Q17.

Global demand to sustain in 4Q17. We opine the final lap of 2017 will see global trade activities to remain on upbeat momentum especially due to year-end sales, long holidays, rising commodity prices and receding protectionism threat. During the first month of 4Q17, exports to China decelerated slightly to 20.5%yoy, the slowest in eleven months. There are two possible factors, namely (i) less industrial production as Golden Week occurred during the month, and (ii) China's consumers postponed their shopping plans to Single's Day in November. However, the latest growth is still on a strong pace and we expect the momentum to continue until end of the year. Across the globe, exports to the US, EU and Japan grew steadily by 13.8%yoy, 20.4%yoy and 19.5%yoy respectively in October.

Table 2: Malaysia's Exports (YoY%)

	2016	Jul-17	Aug-17	Sep-17	Oct-17	Jan-Oct 2017
Total Exports (RMb)	785.9	78.6	82.2	78.3	82.4	772.7
Exports by Key Country / Region						
China	(2.9)	28.8	21.2	27.1	20.5	33.5
USA	8.9	14.4	14.5	10.7	13.8	11.7
Japan	(12.9)	25.5	18.0	6.9	20.4	20.1
India	1.1	33.5	4.9	(7.0)	(5.7)	10.8
Hong Kong	2.1	28.4	22.2	41.0	54.9	21.7
Australia	(4.8)	50.5	37.1	14.2	26.0	24.6
EU	1.2	33.8	21.6	16.2	19.5	20.1
ASEAN	5.4	34.1	16.4	12.7	9.3	21.1
Selected ASEAN						
Singapore	5.6	32.3	20.5	8.1	16.1	21.2
Thailand	(0.6)	31.4	7.4	7.0	30.2	16.4
Indonesia	(5.0)	30.7	18.4	42.9	21.9	27.0
Vietnam	36.7	46.4	15.8	16.3	12.9	16.2
Philippines	3.6	34.6	17.7	14.1	23.7	21.2

Source: DOSM, MIDFR

Crude petroleum exports rebounded to six-month high. Due to the rising global oil prices, exports of crude petroleum expanded by 62.9%yoy in October, fastest since April 2017. Brent oil price has been on an upward direction this year, rising from circa \$48 in June to \$63 in November. With OPEC and non-OPEC countries agreed to prolong oil cut extension until end of 2018, this will provide an extra boon for petroleum-related industries, including both upstream and downstream activities. Nonetheless, LNG exports growth declined further from 101.8%yoy high in August to 6.3%yoy in October due to lower demand from Japan. Meanwhile, outbound shipment of palm oil improved to 7.9%yoy in October, after two consecutive months of contraction. Hike in import duties by the Indian government and disputes with EU regarding palm oil standards remain as key global challenges for Malaysia's palm oil exports.

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

	2016	Jul-17	Aug-17	Sep-17	Oct-17	Jan-Oct 2017
E&E	3.5	28.3	20.1	17.7	16.9	20.4
Machinery, Equipment & Parts	4.2	27.3	7.9	7.3	14.3	7.6
Optical & Scientific Equipment	11.0	23.2	28.7	14.5	20.3	13.3
Petroleum Products	(0.1)	76.0	33.6	44.7	21.4	38.6
Crude Petroleum	(14.6)	(2.1)	0.0	(4.9)	62.9	32.2
LNG	(28.2)	50.8	101.8	8.2	6.3	28.6
Palm Oil	5.9	13.1	(8.9)	(1.7)	7.9	15.8

Source: DOSM, MIDFR

Sanguine outlook for 4Q17. Looking at our regional partners, South Korea and Vietnam registered exports growth of 9.6%yoy and 19.2%yoy respectively in November. Based on manufacturing conditions last month, manufacturing PMI number for Euro Area hit the second highest on record at 60.1 points while the US and China stayed on expansionary trajectory as both their PMI figures remain at above 50 points. Henceforth, we predict global trade activities in 4Q17 to remain on an upbeat momentum albeit at a moderating rate amid of unfavourable base effects.


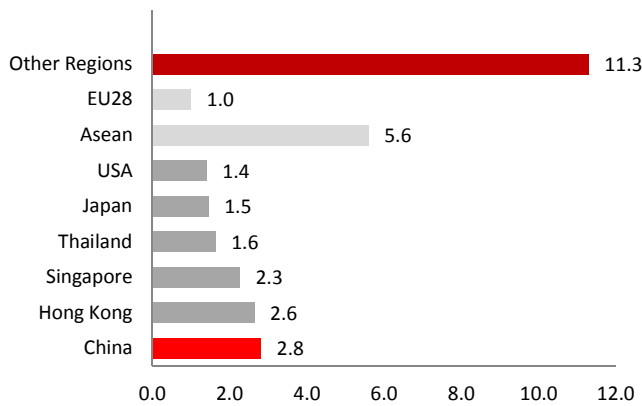
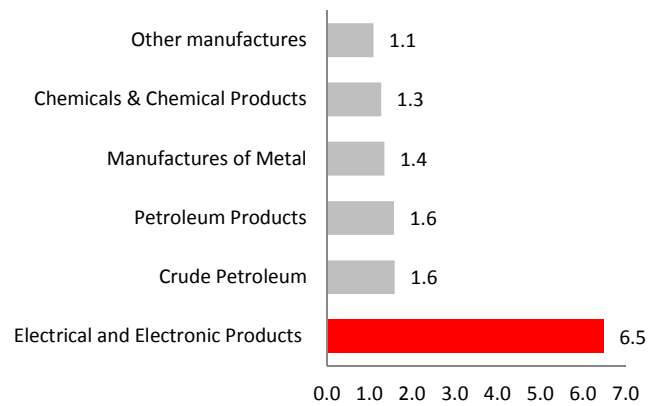
We forecast exports growth to average 17.3% in 2017. Even though Malaysia's exports growth in the third quarter of 2017 was still on a robust pace, we expect the growth rate to moderate in the final quarter due to unfavourable base effect. Going forward, continuous strengthening of global demand and modest recovery in commodity prices will support our trade performance. Nevertheless, protectionist threat, geopolitical tension, and policy uncertainties in developed countries remain as potential headwinds for global trade in the near term. 

Chart 1: % Contribution to Exports Growth by Destination



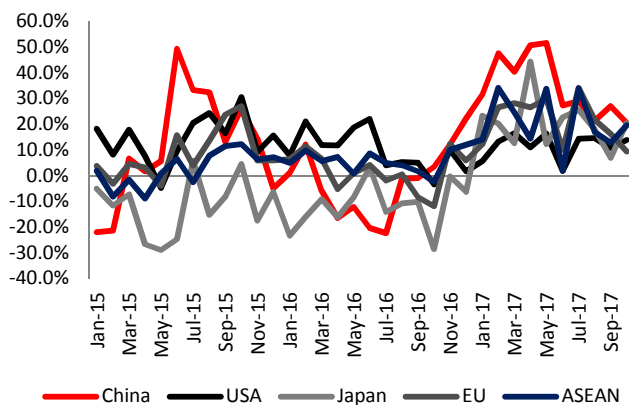
Source: DOSM; MIDFR

Chart 2: % Contribution to Exports Growth by Products



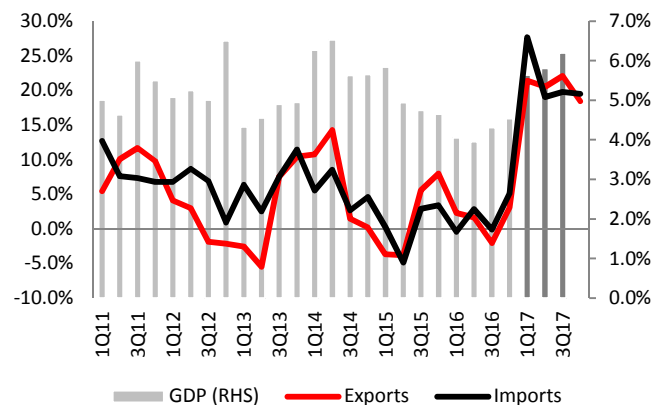
Source: DOSM; MIDFR

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



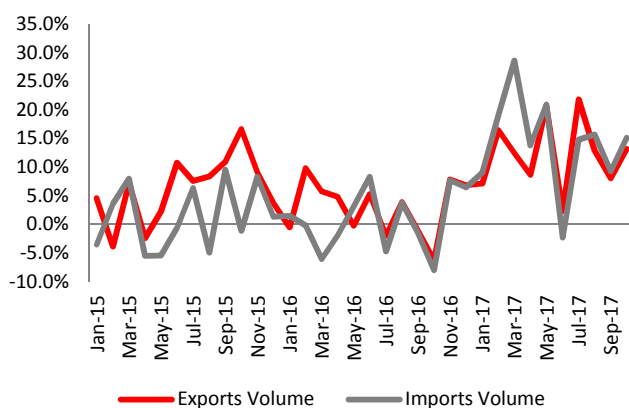
Source: DOSM; MIDFR

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



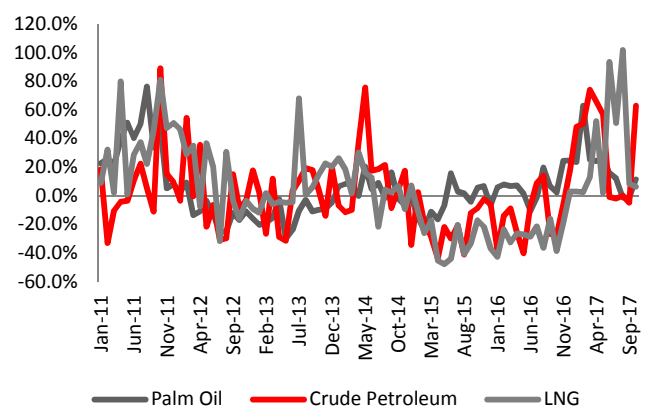
Source: DOSM; MIDFR

Chart 5: Exports vs Imports Volumes (YoY%)



Source: DOSM; MIDFR

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



Source: DOSM; MIDFR

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