

ECONOMIC REVIEW | November 2017 External Trade

3Q2017 Exports Volume Surged Highest on Record amid Moderating Exports Growth in September

- Exports growth lower than market expectations. Exports expanded by 14.8%yoy in September, well below market expectations of 20%. It is the tenth consecutive months of double digit expansion in exports since December 2016.
- Exports volume surged highest on record. Malaysia's exports volume expanded by 7.9%yoy in September, thus resulting 14.2%yoy growth for the third quarter of 2017.
- We maintain our 2017 exports growth forecast at 14.5%. Even though exports growth in the third quarter of 2017 still on robust speed, we view that Malaysia's exports to moderate in the final quarter due to unfavorable base effect.

Exports growth lower than market expectations. Exports expanded by 14.8%yoy in September, well below market expectations of 20%. It is the tenth consecutive months of double digit expansion in exports since December 2016. Similarly, imports growth is moderating and registered at 15.2%yoy during the month. Trade surplus slightly lower than August, reaching RM8.6 billion. Among others, high base effect is a key factor for the deceleration in both exports and imports. On a flip side, exports and imports grew by 22%yoy and 19.8%yoy respectively in the third quarter of 2017. Moreover, trade surplus amounted to RM26.5 billion during the third quarter, the highest ever in 2017. Therefore, we can expect Malaysia's GDP growth to reach above 5% due to robust external trade performance during the quarter.

Table 1: Malaysia's External Trade Summary

	2016	Jun-17	Jul-17	Aug-17	Sep-17	Jan-Sep 2017
Exports (RMb)	785.9	73.1	78.6	82.2	78.3	690.3
% YoY	1.1	10.0	30.9	21.5	14.8	21.3
% MoM	-	(8.0)	7.6	4.6	(4.9)	-
Imports (RMb)	698.7	63.2	70.8	72.4	69.7	620.7
% YoY	1.9	3.7	21.8	22.6	15.2	22.0
% MoM	-	(14.5)	11.7	2.5	(3.7)	-
Total Trade	1,484.6	136.3	149.2	154.6	147.9	1,310.9
% YoY	1.5	7.0	26.4	22.0	15.0	21.7
% MoM	-	(11.1)	9.5	3.6	(4.3)	-
Trade Balance (RMb)	87.3	9.87	8.03	10.0	8.60	69.6
Import Components						
Intermediate (RMb)	399.1	38.2	39.9	43.2	39.5	361.3
% YoY	(0.1)	10.3	24.2	25.5	13.7	24.1
Capital (RMb)	100.2	8.6	9.2	9.1	9.3	84.0
% YoY	4.9	0.6	(16.5)	12.7	10.4	14.6
Consumption (RMb)	67.0	5.2	6.0	6.2	5.7	52.3
% YoY	7.4	(5.2)	21.8	17.8	5.6	6.5

Note: MoM is non-seasonally adjusted figure
Source: DOSM; MIDFR

Tone down in imports as manufacturing PMI dip below 50 points. Malaysia's Nikkei manufacturing PMI stood at 49.9 points in September, missed 0.01 points to threshold level. Above 50 points reflect expansionary while below 50 tells contractionary. Weakness in domestic and international orders added with inflationary pressure are major reasons pushing down optimism among Malaysia's manufacturing activity. Hence, we saw imports major components grew at slower pace as compared to previous month. Intermediate and capital goods increase by 13.7%yoy and 10.4%yoy respectively. Besides, imports of consumption goods grew modestly by 5.6%yoy during the month.

Exports volume surged highest on record. Malaysia's exports volume expanded by 7.9%yoy in September, thus resulting 14.2%yoy growth for the third quarter of 2017. In September, steady growth in exports volume is contributed by double digit expansion in manufactured goods and machinery & transport equipment by 13.7%yoy and 15.7%yoy respectively. However, exports volume of mineral fuel-related and chemical contracted by 5.7%yoy and 6.6%yoy respectively. Overall, the robust trend in exports volume indicates for another strong economic growth to be recorded in the third quarter of 2017.

Global demand show signs of moderation. We noticed global demand momentum is moderating and start to lose its steam. For instance, Malaysia's exports to China are growing at decelerating pace from peak of 51.5%yoy in May to 27.1%yoy in September. Similar patterns were observed with other exports destinations such as US, Hong Kong, Australia and ASEAN. Among others, unfavorable base effect, geopolitical risks and market uncertainties are major dragging factors on global demand. In spite of this, we foresee towards the end of year global demand will remain on upward bias given that year-end sales, uptick in tourism activity and launches of new electronic devices will occur during the months. Zooming into China, Mooncake Festival and Golden Week which befall in October will lead to higher exports demand from the world's second largest economy. We can expect exports to China and Hong Kong will rise strongly in October due to these two events.

Hike in India's import tariff bites palm oil exports. In order to protect India's local oilseed farmers, India raised import tax on refined palm oil by 25% and crude palm oil by 15% officially in August. Palm oil constitutes about 12.3% out of total Malaysia's exports products to India. We saw that September is the worst month for Malaysia-India trade activities as exports to India shrank by 7%yoy, largest contraction in almost a year. Most notably, palm oil exports to India contracted by 59.9%yoy during the month, many thanks to the hike import tariff. Moreover, Modi-led administration just introduced GST in July as part of his reforms agenda. Therefore, we view the shock derived from GST will have temporary slowdown effect on India's domestic economic activity. Looking ahead, we expect external trade performance between Malaysia and India will slowdown in this short term due to its structural reform program.

Table 2: Malaysia's Exports (YoY%)

	2016	Jun-17	Jul-17	Aug-17	Sep-17	Jan-Sep 2017
Total Exports (RMb)	785.9	73.1	78.6	82.2	78.3	690.3
Exports by Key Country / Region						
China	(2.9)	27.3	28.8	21.2	27.1	35.3
USA	8.9	1.8	14.4	14.5	10.7	11.5
Japan	(12.9)	24.3	25.5	18.0	6.9	20.1
India	1.1	21.3	33.5	4.9	(7.0)	12.8
Hong Kong	2.1	10.3	28.4	22.2	41.0	17.7
Australia	(4.8)	7.3	50.5	37.1	14.2	24.5
EU	1.2	1.9	33.8	21.6	16.2	22.5
ASEAN	5.4	10.0	34.1	16.4	12.7	20.1
Selected ASEAN						
Singapore	5.6	9.1	32.3	20.5	8.1	21.8
Thailand	(0.6)	2.5	31.4	7.4	7.0	14.8
Indonesia	(5.0)	(0.6)	30.7	18.4	42.9	27.7
Vietnam	36.7	(22.3)	46.4	15.8	16.3	16.6
Philippines	3.6	18.5	34.6	17.7	14.1	20.8

Source: DOSM, MIDFR

Weak performance by commodity-based products. Despite of strong recovery in global oil prices to \$55 per barrel, crude petroleum exports performance remains sluggish since June. Latest, the commodity exports shrank by 4.9%yoy, largest contractions since November 2016. On the other hand, LNG exports growth declined from 101.8%yoy high in August to 8.2%yoy in September. Despite of the decline, exports of LNG is expected to stay on steady momentum due to additional production platform namely the Petronas Floating LNG Satu. Moving forward, we anticipate crude petroleum exports to rebound in the final quarter of this year given that global oil prices have been hovering above \$55 since late September. In fact, Brent oil price touched \$60.5 on 2nd November 2017.

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

	2016	Jun-17	Jul-17	Aug-17	Sep-17	Jan-Sep 2017
E&E	3.5	15.1	28.3	20.1	17.7	20.9
Machinery, Equipment & Parts	4.2	0.1	27.3	7.9	7.3	6.9
Optical & Scientific Equipment	11.0	(7.0)	23.2	28.7	14.5	12.5
Petroleum Products	(0.1)	(9.5)	76.0	33.6	44.7	40.9
Crude Petroleum	(14.6)	(1.0)	(2.1)	0.0	(4.9)	28.7
LNG	(28.2)	97.3	50.8	101.8	8.2	31.3
Palm Oil	5.9	16.0	13.1	(8.9)	(1.7)	16.8

Source: DOSM, MIDFR

Moderating momentum in global economy for the fourth quarter. Looking at South Korea trade performance as a lead, its exports increase by 7.1%yoy in October, decelerated from 35%yoy in the previous month. On a flip side, China's Caixin manufacturing PMI flat lined at 51 points for September and October. In addition, China's non-manufacturing PMI dropped from 55.4 to 54.3 points in October. Across the globe, manufacturing PMI for Euro Area and the US indicate sanguine picture as both results stand at 58.5 and 54.6 points respectively, higher than previous month records. Henceforth, we can expect global trade growth in October to moderate given that external demand from Asia region is seen softening and less-robust industrial activity amid of inflationary pressure.


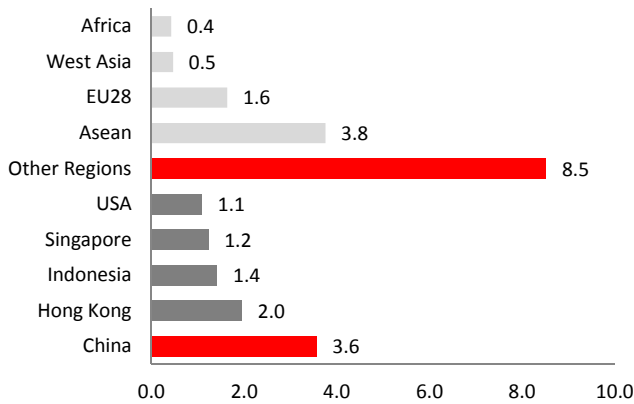
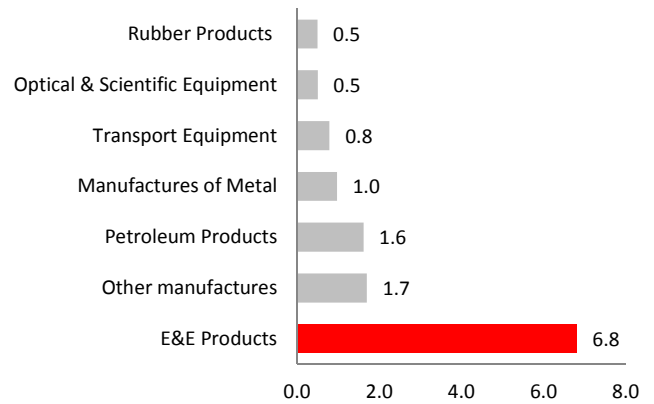
We maintain our 2017 exports growth forecast at 14.5%. Even though exports growth in the third quarter of 2017 still on robust speed, we view that Malaysia's exports to moderate in the final quarter due to unfavourable base effect. In spite of this, continuous strengthening global demand and modest recovery in commodity price will support our trade performance this year. Protectionist threat, geopolitical tension and policy uncertainties in developed countries remains headwinds for global trade in the near term. 

Chart 1: % Contribution to Exports Growth by Destination



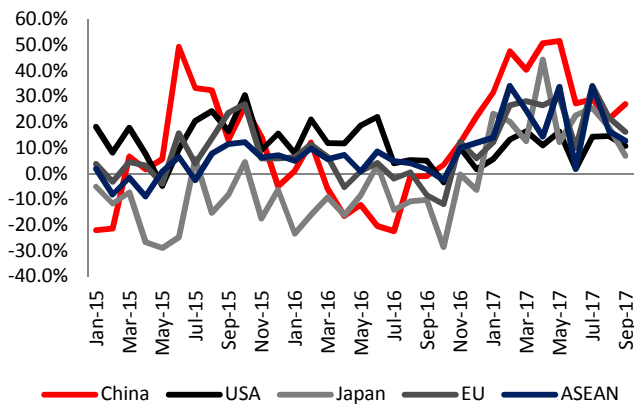
Source: DOSM; MIDFR

Chart 2: % Contribution to Exports Growth by Products



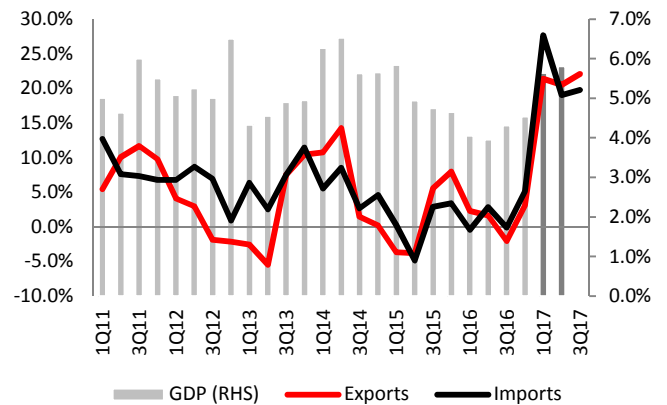
Source: DOSM; MIDFR

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



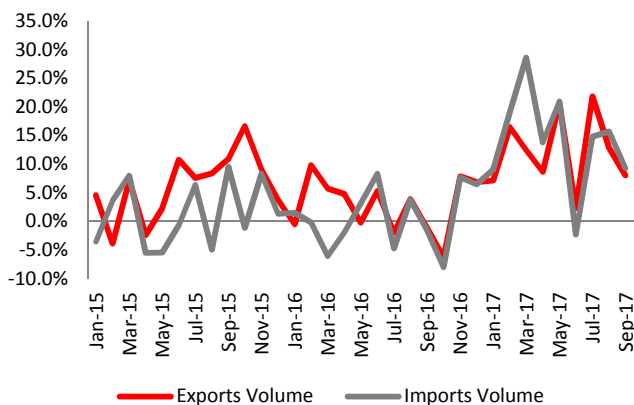
Source: DOSM; MIDFR

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



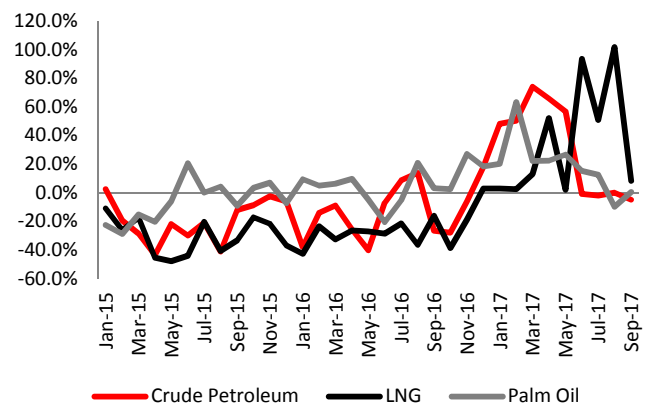
Source: DOSM; MIDFR

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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