

## ECONOMIC REVIEW | September 2016 External Trade

### Exports Activity Retreated As Expected in September

- Exports came in below expectation, contracting by 3.0%yoy in September. Analysts polled by Bloomberg forecasts a median projection of 2.0% contraction for the month. Hence, this month's export figure was below the market consensus but match almost exactly our forecast (forecast: -3.1%).
- Double digit growth of E&E exports to China delivers hope for global rebound in E&E sector. E&E exports to China surged by 15.2% year-on-year basis, fueling expectation that the E&E sector to make a rebound from thereafter. However, we believe it's better to remain cautious on this front as the World Semiconductor Trade Statistics (WSTS) body keeps a lid on its sober 2016 forecast i.e a 3.2% contraction.
- The next two months will prove to be the acid test for Malaysia's trade performance. Malaysia enjoyed a good run in its trade activity during last year September – November period. Our forecast for 2016 remains unchanged for exports and imports, both are expected to decline slightly by 0.5% and 0.1% respectively.

**Exports came in below expectation, contracting by 3.0%yoy in September.** Analysts polled by Bloomberg forecasts a median projection of 2.0% contraction for the month. Hence, this month's export figure was below the market consensus but match almost exactly our forecast (forecast: -3.1%). We had expected exports to decline following reversal in trade activity observed in the region where China saw exports falling by 10%, Korea by 6.0% and Indonesia returned to red after being in black for the first time in 22 months. On the other hand, imports also declined albeit only marginally at 0.1%yoy, and 2.4%mom on seasonally adjusted basis. As a result, trade balance narrows to RM7.6b compared to RM8.5b in prior month.

**Table 1: Malaysia's External Trade Summary**

	May-16	Jun-16	Jul-16	Aug-16	Sep-16	YTD
<b>Exports (RMb)</b>	<b>59.9</b>	<b>66.4</b>	<b>59.9</b>	<b>67.6</b>	<b>68.0</b>	<b>568.4</b>
% YoY	(0.9)	3.4	(5.3)	1.5	-3.0	0.5
%MoM	(2.3)	10.9	(9.9)	12.9	0.7	-
<b>Imports (RMb)</b>	<b>56.7</b>	<b>60.9</b>	<b>57.9</b>	<b>59.1</b>	<b>60.5</b>	<b>508.6</b>
% YoY	3.1	8.3	(4.8)	4.9	-0.1	0.7
%MoM	8.4	7.5	(4.9)	1.9	2.4	-
<b>Total Trade</b>	<b>116.6</b>	<b>127.4</b>	<b>117.8</b>	<b>126.7</b>	<b>130.7</b>	<b>1,077.0</b>
% YoY	1.0	5.7	(5.1)	3.0	-1.6	0.6
%MoM	2.6	9.2	(7.5)	7.5	1.5	-
<b>Trade Balance (RMb)</b>	<b>3.2</b>	<b>5.5</b>	<b>1.9</b>	<b>8.5</b>	<b>7.6</b>	<b>59.7</b>
<b>Import Components</b>						
<b>Intermediate (RMb)</b>	<b>31.6</b>	<b>34.7</b>	<b>32.1</b>	<b>34.5</b>	<b>34.8</b>	<b>291.2</b>
% YoY	(0.2)	5.7	(11.8)	6.1	6.2	(1.5)
<b>Capital (RMb)</b>	<b>9.3</b>	<b>8.2</b>	<b>11.0</b>	<b>8.3</b>	<b>8.4</b>	<b>73.3</b>
% YoY	17.2	12.8	46.6	9.0	(5.6)	4.3
<b>Consumption (RMb)</b>	<b>6.1</b>	<b>5.9</b>	<b>4.9</b>	<b>5.3</b>	<b>5.4</b>	<b>49.1</b>
% YoY	13.6	1.8	(6.8)	10.4	(4.8)	10.3

Source: Department of Statistics, Malaysia; MIDF Research

**Intermediate goods record growth for two consecutive months but capital and consumption imports declined in September.** This is certainly mixed-news as momentum in the intermediate import could suggest higher local production in the future but at same time capital imports suffered contraction after 5 months of successive growth. However, high base effect has largely played its part (September 15': 28.6%). Meanwhile, consumption goods dropped by 4.8%, basically in line with weaker demand domestically as tepid employment market could reduce the aggregate consumer spending power.

**Double digit growth of E&E exports to China delivers hope for global rebound in E&E sector.** E&E exports to China surged by 15.2% year-on-year basis, fuelling expectation that the E&E sector to make a rebound from thereafter. However, we believe it's better to remain cautious on this front as the World Semiconductor Trade Statistics (WSTS) body keeps a lid on its sober 2016 forecast i.e a 3.2% contraction.

**Mining sector still a huge drag but structural change in Korea could be a silver lining.** Mining exports declined by 22.8% in September, pulled by LNG and crude petroleum. Compared to the previous year, exports of both items fell by 20.0% and 26.8% respectively. In particular, for LNG, huge decline in demand from Japan was the main cause. It is worth reiterating that Malaysia might need to refocus its LNG exports, shifting away from Japan as the source of demand due to long-term seemingly commitment by Japan to re-start its nuclear power plant to supply future electricity demand. On the flipside, we think South Korea could fill the demand gap and potentially be a source of future growth for LNG. In a move to combat deteriorating air quality and carbon emission, the South Korean government plans to run LNG generators in place of coal-fired grids to power the nation. Notably, the South Korean government is expected to propose the relevant bill this coming Thursday which might positively impacted the future demand for LNG in the near future.

**Table 2: Malaysia's Exports (%YoY)**


	2015	Jun-16	Jul-16	Aug-16	Sep-16	YTD
<b>Total Exports (RMb)</b>	<b>780.0</b>	<b>66.5</b>	<b>59.9</b>	<b>67.6</b>	<b>68.0</b>	<b>568.4</b>
<b>Exports by Key Country / Region</b>						
China	10.0	(20.3)	(22.3)	(1.3)	(1.0)	(8.5)
USA	14.4	22.0	4.1	5.2	5.0	11.5
Japan	(10.7)	2.4	(14.5)	(11.8)	(11.7)	(12.8)
India	(0.7)	(10.9)	(22.4)	31.2	0.0	1.1
Hong Kong	(0.5)	2.5	(6.2)	5.1	(2.8)	(0.6)
Australia	(14.8)	22.7	(16.8)	(0.5)	1.9	(2.9)
EU	8.4	4.1	(2.0)	0.5	(8.4)	1.2
ASEAN	2.8	8.5	4.7	4.0	1.4	5.1
<b>Selected ASEAN</b>						
Singapore	(0.2)	12.7	5.9	3.2	6.3	5.3
Thailand	10.5	(1.4)	11.1	(11.3)	(2.6)	(0.8)
Indonesia	(8.4)	(27.2)	(11.2)	4.5	(17.3)	(7.6)
Vietnam	21.3	76.6	24.7	40.7	27.0	38.5
Philippines	9.4	7.5	(14.2)	7.8	(17.1)	4.6

Source: Department of Statistics, Malaysia; MIDF Research

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

	2015	Jun-16	Jul-16	Aug-16	Sep-16	YTD
E&E	8.5	4.9	(6.0)	3.0	0.3	2.0
Chemicals & Chemical Products	7.2	7.1	0.0	11.8	4.2	6.2
Petroleum Products	(22.5)	14.5	(7.4)	(15.7)	5.5	(2.5)
Machinery, Equipment & Parts	20.5	6.9	(2.0)	7.3	(10.3)	9.7
Palm Oil	(5.5)	(20.3)	(5.4)	21.3	3.2	2.1
LNG	(26.2)	(29.2)	(25.0)	(38.9)	(20.0)	(30.6)
Crude Petroleum	(20.3)	(7.3)	8.7	13.9	(26.8)	(17.6)

Source: Department of Statistics, Malaysia; MIDF Research

**The next two months will prove to be the acid test for Malaysia's trade performance.** Malaysia enjoyed a good run in its trade activity during last year September – November period. Exports expanded by 8.8%, 16.5% and 6.2% respectively for the three months period from September to November. Weak Ringgit played a role in boosting exports competitiveness as well translating into more attractive revenue as trade contracts is mostly settled in dollar terms. With global trade volume remain in plateau and in fact declines slightly in January and July this year according to data from the CPB Netherlands bureau, we maintain our 2016 forecast of 0.5% contraction for exports and 0.1% for imports. 

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