

ECONOMIC REVIEW | August 2015 External Trade

Highest Trade Balance for Year 2015 in August

- Malaysia's trade balance surged to RM10.2 billion in August due to both higher exports and lower imports for the month. E&E sector continues to become the main driver of our exports with China and US became the main contributor for our exports growth.
- Even though currently there is an overall decline in industrial production globally, it has yet to affect the E&E sector significantly. This is believed due to the fact that the sector still possesses a relatively high demand, causing the sector to be resilient from global economic volatility.
- Crude petroleum and petroleum products imports came in low this month, reflecting that the July's increase was due to strategic reason rather than a decline in our petroleum production.
- We maintain our exports forecast for year 2015 at 0.0-1.0%.

Trade balance surged to RM10.2 billion in August. Malaysia's trade balance climbed to the highest level year-to-date at RM10.2 billion in August, after having the lowest level for the year in July at RM2.4 billion. The high trade balance was contributed by both higher exports and lower imports for the month. Malaysia's real effective exchange rate was down by 5.3% in August relative to July, partly contributing to the higher trade balance in August.

Exports to China and United States continue to become the main driver. Exports to China and US increased by RM2.3 billion (32.4%) and RM1.3 billion (24.2%) respectively on year-on-year basis. The continuous increase of our exports to the countries are believed caused by the strong consumer demand in the countries, as most of our exports to the two countries are for consumer products. Moreover, our exports to Singapore has rebounded by RM04 billion (4.3%) on year-on-year basis and RM1.1 billion (12.3%) on month-on-month basis. The recovery of the demand for Singapore's exports may be a good indicator of a rebound for global economy.

Table 1: Malaysia's External Trade Summary

	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Jan-Aug 15
Exports (RMb)	53.2	66.5	60.4	60.5	64.3	63.2	66.5	498.1
% YoY	(9.7)	2.3	(8.8)	(6.7)	5.0	3.5	4.1	(1.4)
%MoM	(16.4)	25.0	(9.2)	0.1	6.3	(1.6)	5.2	-
Imports (RMb)	48.6	58.6	53.5	55.0	56.3	60.9	56.3	443.8
% YoY	0.3	5.8	(7.0)	(7.2)	(1.5)	5.9	(6.1)	(2.0)
% MoM	(11.0)	20.6	(8.8)	2.7	2.4	8.1	(7.4)	-
Total Trade	101.8	125.1	113.9	115.4	120.5	124.1	122.9	941.9
% YoY	(5.2)	3.9	(8.0)	(6.9)	1.9	4.6	(0.8)	(1.7)
% MoM	(13.9)	22.9	(9.0)	1.3	4.5	2.9	(1.0)	-
Trade Balance (RMb)	4.6	7.8	6.9	5.5	8.0	2.4	10.2	54.2
Import Components								
Consumption (RMb)	3.9	4.4	4.9	5.4	5.8	5.3	4.8	38.8
% YoY	13.2	0.4	12.4	27.2	36.8	25.7	13.7	16.4
Capital (RMb)	6.9	9.5	7.0	8.0	7.3	7.5	7.4	61.7
% YoY	6.6	15.6	(16.0)	(5.0)	(16.5)	3.2	(13.9)	(3.6)
Intermediate (RMb)	29.3	34.5	31.8	31.7	32.8	36.7	32.5	262.4
% YoY	5.9	6.7	(3.0)	(8.4)	(2.4)	5.7	(13.7)	(1.8)

Source: Department of Statistics, Malaysia; MIDF Research

E&E sector remains healthy despite global economic slowdown. Even though the global economy is slowing due to the slowdown in industrial sector led by China's economy, exports of E&E sector for Malaysia has been steadily growing. E&E sector continues to grow by 16.7%yoy and 8.6%mom, with the semiconductor industry contributed 56.6% of the year-on-year increment. Currently there are no signs of E&E sector being affected significantly by the global economic slowdown, as there is still relatively high demand for the products. However, it should be noted that the growth in exports for E&E sector is slower than we had initially expected.

Low commodity prices are still dragging down our exports. Both crude petroleum and LNG pushed down our exports figure significantly, with a decline of RM1.2 billion (-40.6%yoy) and RM2.2 billion (-42.3%yoy) respectively. Despite the decline, not even once has Malaysia fallen into a trade deficit, reflecting the resilience of Malaysia's economy towards economic uncertainties. The lower oil price had caused a decline in Ringgit which eventually leads to higher value for our exports, while at the same time reducing our imports due to the relatively higher price compared to local products. As a result, although we are having lower exports from the decline in oil price, we are still having a relatively stable trade balance due to the self-correcting mechanism of the market.

Table 2: Malaysia's Exports (%YoY)

	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
Total Exports (RMb)	53.2	66.5	60.4	60.5	64.3	63.2	66.5
Exports by Key Country / Region							
China	(21.3)	6.6	1.9	5.7	49.3	32.7	32.4
Hong Kong	(5.1)	25.6	(20.2)	(6.2)	4.3	(5.5)	0.0
USA	8.2	17.8	7.6	(4.8)	9.5	20.2	24.2
Japan	(6.2)	(0.3)	(24.9)	(30.4)	(25.1)	4.4	(16.2)
India	(13.8)	43.7	(16.1)	(16.1)	11.3	1.7	(22.3)
Australia	(10.9)	(23.2)	(6.4)	(3.9)	(29.9)	(7.7)	(36.8)
EU	(3.2)	4.5	3.1	(4.0)	15.6	3.9	13.5
ASEAN	(8.2)	(1.6)	(8.9)	(0.7)	6.4	(2.6)	7.9
Selected ASEAN							
Singapore	(4.9)	(3.3)	(14.9)	(1.0)	3.8	(12.5)	4.3
Thailand	0.1	0.5	(0.2)	17.3	11.9	9.5	16.1
Indonesia	(28.7)	(17.8)	1.5	(16.5)	(7.6)	13.5	(5.3)
Philippines	(15.7)	23.4	(31.1)	(14.6)	10.6	(7.7)	24.6
Vietnam	0.4	20.2	17.2	36.8	33.1	28.6	28.1

Source: Department of Statistics, Malaysia; MIDF Research

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

	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
E&E	(0.3)	14.6	(3.0)	(0.6)	13.5	12.1	16.7
Chemicals & Chemical Products	(6.2)	6.5	2.4	(1.2)	15.1	19.9	0.7
Crude Petroleum	(20.9)	(28.3)	(44.3)	(21.9)	(34.1)	(25.4)	(40.6)
LNG	(5.5)	15.5	(40.1)	(47.9)	(45.2)	(23.6)	(42.3)
Palm Oil	(22.6)	(7.0)	(19.8)	(5.0)	21.6	0.2	4.0
Petroleum Products	(27.3)	(30.8)	(36.6)	(21.9)	(9.6)	(34.4)	(7.1)

Source: Department of Statistics, Malaysia; MIDF Research

Higher petroleum imports in July was for strategic reason. The higher imports for both crude petroleum and petroleum products which caused the year-to-date record low trade balance in July was indeed due to strategic reason, rather than caused by a decline in domestic petroleum production. Imports for crude petroleum and petroleum products contracted by 57.7% and 15.7% in August on year-on-year basis.

Imports for consumption and intermediate goods declined in August. Imports of consumption goods continue to decline in August to RM4.8 billion from its all time high of RM5.8 billion in June. Despite that, the year-on-year growth is still significant at 13.7%yoy, although down from 25.7%yoy in the previous month. On the other hand, intermediate goods are experiencing a double digit year-on-year contraction in August, particularly due to the correction from high petroleum imports in July.

We maintain our exports growth forecast of 0.0-1.0% for year 2015. We maintain our expectation that the weaker Ringgit will help to offset the negative exports growth in the first half of 2015. Malaysia's exports is expected to continue its positive growth for the rest of the year, lead by the E&E sector and stronger US economy.



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