

## MALAYSIA

### January 2015 External Trade – Off to a slow start

- Trade balance narrowed to RM9.01b in January (Dec 14: RM9.2b) due to persistent weakness in exports.
- Exports declined 0.6%yoy on the back of the slump in commodity and commodity related or resource-based export items.
- Due to its continued economic slowdown, China is no longer our second largest exports market with Japan taking over the spot (Singapore remained at the top) as exports China continue to place a drag on Malaysia's overall exports performance.
- Going forward, while we expect exports of commodities to continue to be weak, that of manufactured goods will pick up as lower energy prices boosted demand in advanced economies. Exports to the US already posted double-digit growth for the 3<sup>rd</sup> consecutive month.

**Off to a slow start.** January's export declined by 0.6%yoy (Dec 14: +2.7%yoy) while imports declined by 5.3%yoy (December 14: +4.2%yoy). Despite the sharper decline in imports, trade balance came in lower still relative to December's level, as exports performance had remained depressed for many months now. However, on year-on-year basis, trade balance increased significantly by +41.8%, despite the higher base registered last year (January 2014: +89.4%yoy). On a month-on-month basis, exports declined by 6.0% (Dec 14: +6.2%mom) whilst imports declined by 6.6% (Dec 14: +11.2%mom).

**Table 1. Malaysia external trade summary**

	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15
<b>Exports (RMb)</b>	61.1	63.9	64.5	65.1	63.7	67.7	63.6
% YoY	0.6	1.6	2.0	(3.2)	2.1	2.7	(0.6)
% MoM	(0.2)	4.5	1.0	0.8	(2.0)	6.2	(6.0)
<b>Imports (RMb)</b>	57.5	60	55.2	63.9	52.6	58.5	54.6
% YoY	(0.7)	7.6	1.1	9.1	0.1	4.2	(5.3)
% MoM	0.6	4.4	(8.0)	15.8	(17.7)	11.2	(6.6)
<b>Total Trade (RMb)</b>	118.6	123.9	119.7	129	116.3	126.2	118.2
% YoY	0.0	4.4	1.6	2.5	1.2	3.4	(2.8)
% MoM	0.2	4.5	(3.4)	7.7	(9.8)	8.5	(6.3)
<b>Trade Balance (RMb)</b>	3.6	3.9	9.3	1.1	11.1	9.2	9.0
<b>Import Components</b>							
<b>Consumption (RMb)</b>	4.2	4.2	4	4.3	4.0	4.6	4.4
% YoY	(8.9)	8.5	(1.0)	5.9	1.7	4.5	2.0
<b>Capital</b>	7.3	8.6	6.9	7.7	8.0	9.6	8.1
% YoY	(18.7)	9.7	(19.4)	(1.7)	6.0	(2.7)	2.1
<b>Intermediate</b>	34.7	37.6	35	41.1	31.4	33.6	33.1
% YoY	2.8	19.8	11.2	21.2	3.5	11.8	(3.0)

Source: DOSM, MIDFR

**Malaysia's export performance dragged down by slump in commodity market.** Exports of agricultural goods declined by 13.4%yoy, especially with the decline in exports of palm oil (-21.4%yoy) and crude natural rubber (-31.2%yoy). Concurrently, exports for other commodity and commodity related items has also contracted, namely petroleum products (-41.5%yoy), tin (-31.4%yoy) as well as manufactures of metal (-22.4%yoy). On a month-on-month basis, exports of agricultural goods declined by 13.6% attributed mainly to the decline of palm oil (-21.1%mom) and exports of manufactured goods

declined by 6.8% due to the decline in exports of chemicals & chemical products (-10.9%mom) and petroleum products (-26.4%mom).

**On the bright side, exports of E&E products registers 3<sup>rd</sup> month of consecutive growth.** E&E exports expanded by +6.0%yoy in January (Nov 14: +7.1%yoy, Dec 14: +14.9%yoy), contributed by the increase in exports of telecommunication equipment parts (+16.9%yoy), electric distributing equipment (+11.3%yoy), electro-medical, x-ray equipment (+11.1%yoy) and semi-conductors (+5.3%yoy). E&E exports to major trading partners expanded, namely to China (+11.8%yoy), US (+18.2%yoy), Singapore (+16.4%yoy) and Japan (+6.0%yoy).

**Continued weak demand from China...**Exports to China declined by 22.7%yoy in January. The decline in exports to the world's second largest economy was attributed to the decline in exports of palm oil (-37.8%yoy), crude natural rubber (-34.2%yoy), petroleum products (-82.5%yoy), manufactures of steel (-83.4%yoy) and iron & steel products (-93.4%yoy). However, export of mining goods supported export growth, expanding by 7.1%yoy, contributed to the increase in exports of LNG (+21.5%yoy) and tin (127.1%yoy).

**Table 2. Malaysia-Exports (% YoY)**

	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15
<b>Total Exports (RMb)</b>	<b>61.1</b>	<b>63.9</b>	<b>64.5</b>	<b>65.1</b>	<b>63.7</b>	<b>67.7</b>	<b>63.6</b>
<b>Exports by Key Country/Region</b>							
ASEAN	1.7	1.2	3.3	0.9	13.3	0.2	1.8
USA	4.5	6.3	16.2	7.5	16	28	18.1
EU	8.9	5.7	2.2	(3.8)	8.60	21.4	3.7
Japan	(22.1)	9.9	(1.6)	(4.7)	9.6	0.9	(0.9)
China	(14.4)	(21.8)	(8.4)	(17.9)	(14.6)	(14.9)	(22.7)
Hong Kong	18	14.9	4.2	(8.0)	(4.8)	1.1	0.1
Indonesia	(34.6)	(21.3)	12	(8.9)	6.6	(29.9)	(19.4)
Australia	16.7	7.5	10.8	(14.4)	(2.7)	(26.8)	(14.5)
India	36.2	63.1	56.2	1	31.7	18.5	14.7
Taiwan	23	(12.1)	(4.6)	12.2	(6.5)	11.1	34.2
South Korea	(0.8)	9.1	(7.4)	10.4	(36.4)	41.8	(10.3)
<b>Exports by Major Products</b>							
E&E	(1.0)	3.9	5.5	(4.3)	7.1	14.9	6.0
Chemicals & Chemical Prod.	(7.0)	1.4	(7.0)	(3.4)	10.5	19.3	7.5
Crude Petroleum	26.2	21.4	(9.0)	2.5	12.5	(35.7)	1.3
LNG	(22.9)	1.9	2.7	9.7	(7.2)	12.9	(0.1)
Palm oil	16.7	(0.8)	22.1	(0.3)	(13.2)	(6.7)	(21.4)
Petroleum Products	31.2	(24.7)	(5.3)	(11.4)	(6.1)	(34.1)	(41.5)

Source: DOSM, MIDFR

**...but partially offset by the improvement in exports to US and EU.** Exports to the US continue to be strong amid its economic revival, registering 3<sup>rd</sup> consecutive double digit growth of 18.1%yoy (Nov 14: +16%yoy, Dec 14: +28.0%yoy). Stronger demand for manufactured goods underpins the strong export growth to the US. Exports for manufactured goods expanded by +21.4%yoy, especially with increase in exports of optical & scientific equipment (+30.5%yoy), E&E products (+16.4%yoy) and machinery, appliances & parts (+64.3%yoy). Similarly, exports to the EU continue to expand in January albeit at a slower pace of +3.7%yoy, compared to the previous 2 months (Nov 14: 8.6%yoy, Dec 14: 21.4%yoy). Export growth to the EU was contributed mainly by the increase in exports of manufactured goods by +8.6%yoy, especially the increase in exports of E&E products (+12.9%yoy).

**Exports to ASEAN grew marginally in January.** Export growth to ASEAN improved marginally by 1.8%yoy (Dec 14: +0.2%yoy) dragged down by decline in exports of petroleum products by -38.5%yoy (Dec 14: -27.3%yoy). However, exports of agricultural goods increased by +11.4%yoy (Dec 14: +2.4%yoy). Export growth to ASEAN was underpinned by the growth in exports to Thailand (+12.5%) and Vietnam (+26%yoy) while exports to Indonesia declines for 2 consecutive months (Dec 14: -29.9%yoy, Jan 15: -19.45yoy).

**Table 3. Malaysia-Exports to selected ASEAN Countries**

		Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15
Singapore	RMb	9.9	9.3	9	9.4	8.9	9.5	8.7
	% YoY	16.6	7.5	8.7	2.0	18	5.8	0.9
	% MoM	17.3	(5.8)	(3.5)	4.1	(4.8)	7.2	(8.8)
Thailand	RMb	2.9	3.6	3.2	3.5	3.6	3.4	3.8
	% YoY	(16.2)	4.8	(14.1)	0.9	18.4	(0.1)	12.5
	% MoM	(13.5)	23.2	(11.8)	9.5	2.0	(6.1)	13.7
Indonesia	RMb	2.1	2.5	3.0	2.7	2.7	2.3	2.4
	% YoY	(34.6)	(21.3)	17	(8.9)	6.6	(29.9)	(19.4)
	% MoM	(27.4)	22.6	18	(10.4)	0.9	(16.3)	7.0
Philippines	RMb	1.3	0.9	0.9	1.0	0.8	1.0	0.9
	% YoY	56.6	35.2	1.5	25.1	(10.0)	43.2	33.3
	% MoM	42.7	(29.9)	(4.8)	15.4	(16.3)	19.5	(4.9)
Vietnam	RMb	1.1	1.1	1.3	1.3	1.5	1.5	1.2
	% YoY	0.6	(3.0)	(11.8)	1.4	18.4	23.9	26
	% MoM	(1.4)	(5.5)	19.2	(0.6)	19.3	0.4	(19.2)

Source: DOSM; MIDFR

**Decline in domestic demand for mining and manufactured goods contributed to contraction in imports.** Contraction of imports in January was due to the decline in imports of manufactured goods by 1.3%yoy and mining goods by 46.1%yoy. However, import for agriculture goods expanded by +4.4%yoy. The pullback in imports of manufactured goods was contributed mainly by the decline in imports of petroleum products (-52.6%yoy) and transport equipment (-10.3%yoy). Where else the decline in imports of crude petroleum by 54.4%yoy and LNG by 71.4%yoy caused the contraction in imports for mining goods.

**Malaysia's trade prospects to be hampered by commodity slump and uneven global growth.** Moving forward, we expect Malaysia's total exports to moderate in 2015 unless commodity prices rebound significantly. With China set to rebalance its economy, which means sustained periods of slower growth, this will unfold into a structural shift in trade patterns among regional economies and is a matter that needs to be addressed if Malaysia wants to remain competitive. However, while exports growth may continue to be weak, we do not expect Malaysia's trade surplus to narrow significantly this year despite bearish conditions in the commodity market as manufactured exports will continue to expand on the back of a US economic revival and to some extent the weaker ringgit. 

**Table 4. Real GDP forecast for selected major economies (%)**

	2014	2015	2016	2017
US	2.4	3.1	2.8	2.7
Eurozone	0.9	1.2	1.6	1.5
Japan	0.03	1	1.4	1.4
China	7.4	7	6.7	6.5

Source: Bloomberg; MIDFR

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