

## ECONOMIC REVIEW | June 2015 External Trade

### Rebound in Exports Reflects Malaysia's Resilience

- Malaysia's June trade balance was the highest in 5 months period, contributed by higher exports and lower imports YoY. Exports surged to RM64.3 billion, the highest in second quarter with 5.0% YoY growth while imports contracted by 1.5% YoY to RM56.3 billion.
- For the first half of 2015, exports contracted by 3.1% YoY due to falling O&G price. Second quarter exports performed relatively better by 1.0% than the first quarter but still declined on YoY basis by 3.7%.
- E&E sector lead the gains in exports and imports with 13.5% and 6.8% on YoY basis respectively. The semiconductor industry which consists of 50.8% from the E&E sector grew by 20.6% YoY.
- Despite the decline in O&G price, Malaysia's total exports still experienced a positive comeback in June on YoY basis. This reflects that the Malaysia's economy is resilient towards external economic volatility and is no longer dependent on O&G sector.

**Malaysia trade balance highest in 5 months period.** Our trade statistics experienced a positive surprise in June with our trade balance improved from RM5.5 billion in May to RM8.0 billion. The value is the highest for the past 5 months since the global trade activity entered into a slump February this year. The high trade balance is thanks to our higher exports growth by 5.0% YoY, which is the highest increment YTD. Imports in June had a slight decline by 1.5% YoY, with capital goods fell by 16.5% for the same period.

**First half exports contracted by 3.1% YoY due to falling O&G price.** Second quarter performance is relatively better than the first quarter by 1.0% QoQ but still experienced a downturn on YoY basis by 3.7%. Petroleum products, crude petroleum and LNG led the decline with a contraction of 28.9%, 23.5% and 25.5% on YoY basis respectively. E&E industry head the first half increment in exports with RM6.1 billion (4.0%) increase YoY. By taking the petroleum products, crude petroleum and LNG out of the equation, Malaysia's exports actually improved by 4.0% for the first half of 2015. For the period, the three products made up 17.3% of Malaysia's total exports.

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

	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	2Q15	1H15
<b>Exports (RMb)</b>	67.7	63.6	53.2	66.5	60.4	60.5	64.3	185.1	368.3
% YoY	2.7	(0.6)	(9.7)	2.3	(8.8)	(6.7)	5.0	(3.7)	(3.1)
% MoM/QoQ/HoH	6.2	(6.0)	(16.4)	25.0	(9.2)	0.1	6.3	1.0	(4.6)
<b>Imports (RMb)</b>	58.5	54.6	48.6	58.6	53.5	55.0	56.3	164.7	326.6
% YoY	4.2	(5.3)	0.3	5.8	(7.0)	(7.2)	(1.5)	(5.2)	(2.6)
% MoM/QoQ/HoH	11.1	(6.5)	(11.0)	20.6	(8.8)	2.7	2.4	1.7	(6.0)
<b>Total Trade</b>	126.2	118.2	101.8	125.1	113.9	115.4	120.5	349.8	695.0
% YoY	3.4	(2.7)	(5.2)	3.9	(8.0)	(6.9)	1.9	(4.4)	(2.9)
% MoM/QoQ/HoH	8.5	(6.3)	(13.9)	22.9	(9.0)	1.3	4.5	1.4	(5.3)
<b>Trade Balance (RMb)</b>	9.2	9.0	4.6	7.8	6.9	5.5	8.0	20.4	41.7
<b>Import Components</b>									
<b>Consumption (RMb)</b>	4.6	4.4	3.9	4.4	4.9	5.4	5.8	16.1	28.8
% YoY	4.5	2.0	13.2	0.4	12.4	27.2	36.8	25.4	15.2
<b>Capital (RMb)</b>	9.6	8.1	6.9	9.5	7.0	8.0	7.3	22.2	46.8
% YoY	(2.7)	2.1	6.6	15.6	(16.0)	(5.0)	(16.5)	(12.5)	(2.6)
<b>Intermediate (RMb)</b>	33.6	33.1	29.3	34.5	31.8	31.7	32.8	96.3	193.2
% YoY	11.8	(3.0)	5.9	6.7	(3.0)	(8.4)	(2.4)	(4.6)	(0.9)

Source: Department of Statistics, Malaysia; MIDF Research

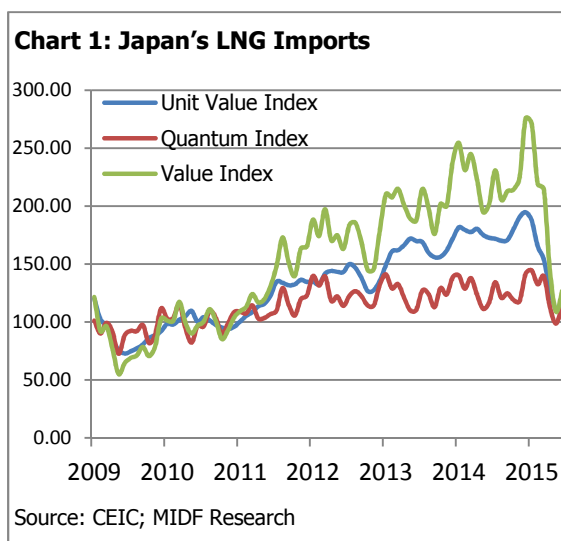
**Exports to China boost by 49.3% YoY.** China's exports surged to RM9.7 billion in June 2015, the highest value since January 2014. However the huge gap relative to last year was partly due to the lower exports value to China in June 2014, which was the lowest for year 2014 at RM6.5 billion. The two sectors which contribute the highest growth value are petroleum products (+RM1.1 billion, +671.6% YoY) and E&E products (+RM0.77 billion, +23.3%). The MoM exports to China improved by RM1.6 billion (23.0%), mostly conducted by increase in E&E exports by RM1.0 billion (32.5%).

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

	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15
<b>Total Exports (RMb)</b>	67.7	63.6	53.2	66.5	60.4	60.5	64.3
<b>Exports by Key Country / Region</b>							
China	(14.9)	(21.9)	(21.3)	6.6	1.9	5.7	49.3
Hong Kong	1.1	0.1	(5.1)	25.6	(20.2)	(6.2)	4.3
USA	28.0	18.1	8.2	17.8	7.6	(4.8)	9.5
Japan	2.6	(0.9)	(6.2)	(0.3)	(24.9)	(30.4)	(25.1)
India	18.5	14.7	(13.8)	43.7	(16.1)	(16.1)	11.3
Australia	(26.8)	(14.5)	(10.9)	(23.2)	(6.4)	(3.9)	(29.9)
EU	21.4	3.7	(3.2)	4.5	3.1	(4.0)	15.6
ASEAN	0.2	1.8	(8.2)	(1.6)	(8.9)	(0.7)	6.4
<b>Selected ASEAN</b>							
Singapore	5.8	0.9	(4.9)	(3.3)	(14.9)	(1.0)	3.8
Thailand	(0.1)	12.5	0.1	0.5	(0.2)	17.3	11.9
Indonesia	(29.9)	(19.4)	(28.7)	(17.8)	1.5	(16.5)	(7.6)
Philippines	43.2	33.3	(15.7)	23.4	(31.1)	(14.6)	10.6
Vietnam	23.9	26.0	0.4	20.2	17.2	36.8	33.1

Source: Department of Statistics, Malaysia; MIDF Research

**E&E sector lead the gains in exports and imports.** E&E sector increased by RM2.8 billion (13.5%) on YoY basis and RM2.1 billion (9.8%) on MoM basis. For the first half of 2015, E&E sector contributes approximately 35.2% of total exports. Semiconductor, which is the main component in E&E sector with 50.8% share, grew by 20.6% YoY. On the other hand, despite the overall imports experienced a decline on YoY basis, the E&E imports increased by RM1.0 billion (6.8%). According to the report by Semiconductor Industry Association (SIA), the global semiconductor sales have recovered from its recent slowdown (February – April) in May and we expect the industry to continue its growth momentum in the coming months. As a side note, we believe the launching of a few major smartphone models in August and September partly contribute to the boost of E&E industry in May and June.



**Japan's LNG exports continue its downtrend.** Exports to Japan fell by 25.1% YoY in June which is again led by falling LNG exports. LNG exports to Japan experienced a decline by RM1.7 billion, corresponds to 54.9% drop on YoY basis. However by looking at the MoM difference, albeit there is still a decline by 2.8%, it is significantly better than MoM drop in May by 30.5%. The fall in LNG exports was mainly due to the lower LNG price particularly caused by lower demand for LNG by Japan, the main consumer of global LNG market. Japan's demand for LNG peaked in January 2015 and ever since then plunged to the lowest point in May with a decline of 31.8% relative to January. Although the demand makes a slight recovery in June, as mentioned in our previous report Japan is currently looking at alternative energy such as nuclear, biomass and wind energy. As such we would expect the fall in LNG price and demand would be perennial and will continue to affect our exports figure negatively on YoY basis until 2016.

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

	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15
E&E	13.8	7.6	(0.3)	14.6	(3.0)	(0.6)	13.5
Chemicals & Chemical Products	19.2	8.0	(6.2)	6.5	2.4	(1.2)	15.1
Crude Petroleum	(35.7)	1.3	(20.9)	(28.3)	(44.3)	(21.9)	(34.1)
LNG	5.1	0.3	(5.5)	15.5	(40.1)	(47.9)	(45.2)
Palm Oil	0.1	(11.3)	(22.6)	(7.0)	(19.8)	(5.0)	21.6
Petroleum Products	(33.4)	(42.2)	(27.3)	(30.8)	(36.6)	(21.9)	(9.6)

Source: Department of Statistics, Malaysia; MIDF Research

**Malaysia's economic resilience supported the decline in O&G.** Petroleum products and crude petroleum experienced slower demand in June relative to May, as the market corrected itself from May hike. On MoM basis, the crude petroleum fell by 11.1% while petroleum products fell by 7.1%. On YoY basis, our total exports for crude petroleum and petroleum products continue to be in the red due to lower price. Despite that, Malaysia's overall exports experienced a substantial gain in June, reflecting that Malaysia's economy has become more diverse and resilient towards external economic volatility. Additionally, palm oil sector experienced a significant comeback in June, partly due to the higher demand from Pakistan and India for the incoming fasting month and Eid festival.

**Imports of consumption goods at record high.** Imports of consumption goods continuously reached its all-time high for three consecutive months beginning from April to June this year. This reflects that the domestic buying power is still ample in facing domestic and global economic challenges. We believe that the increase in imports of consumption goods, which is considered as luxurious goods compared to the domestic products, are partly influenced by higher price since April and weaker Ringgit. The increase in value despite a possibly higher price means that Malaysian consumers have a strong preference towards imported goods.



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