

8 September 2014

## MALAYSIA

### External Trade July 14 – Trade momentum decelerating

The pace of export growth slowed to only **+0.6% in July 2014** (June 14: +7.9% YoY; Consensus; +7.1% YoY) while imports decelerate to -0.7% YoY (June 14: +9.2% YoY; Consensus; +7.0% YoY), resulting a lower trade surplus of RM3.6b (June 2014: RM4.0b). In terms of monthly growth, exports recorded the 3<sup>rd</sup> straight month of decline at -0.2% MoM (June 14: -5.7% MoM), whilst imports rebounded to +0.4% MoM (June 14: -3.3% MoM).

**Total trade for the period between January to July 2014 was up by +8.4% YoY** due to due to double digit growth of exports at 10.7% (YTD 2013: -2.8% YoY) while imports rose +5.9% YoY (YTD 2013: +4.7% YoY), which led to a trade surplus of RM48.4b (YTD 2013: RM27.4b).

The YTD performance was bolstered by strong growth of manufactured goods which increased by 11.4% YoY to RM337.2b due to higher exports of E&E products, and by 10.6% YoY or RM13.8b of primarily electronic integrated circuits. Other manufactured goods that registered increases during the period were petroleum products, optical and scientific equipment, machinery, appliances and parts, as well as chemicals and chemical products. Other contributing to the strong export growth were exports of mining goods which rose to 12.5% YoY to RM60.1b due to high exports of LNG (11.2% YoY) and crude petroleum (+16.5% YoY). Agricultural goods exports increased by 3.7% YoY to RM40.0b on the back of higher exports of palm oil which increased by 5.7% YoY, contributed mainly by higher prices and quantities.

**Table 1: Malaysia-External Trade Summary**

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	YTD 2014	2013
<b>Exports (MYRb)</b>	<b>64.0</b>	<b>58.9</b>	<b>65.0</b>	<b>66.2</b>	<b>64.9</b>	<b>61.2</b>	<b>61.1</b>	<b>441.4</b>	<b>719.8</b>
% YoY	12.2	12.3	8.3	18.7	16.3	7.9	0.6	10.7	2.4
% MoM	(2.7)	(7.9)	10.3	2.0	(2.0)	(5.7)	(0.2)		
<b>Imports (MYRb)</b>	<b>57.6</b>	<b>48.5</b>	<b>55.4</b>	<b>57.5</b>	<b>59.2</b>	<b>57.3</b>	<b>57.5</b>	<b>393.0</b>	<b>649.1</b>
% YoY	7.2	9.5	0.5	5.0	11.9	9.2	(0.7)	5.9	7
% MoM	2.6	(15.9)	14.4	3.7	2.9	(3.3)	0.4		
<b>Total Trade (MYRb)</b>	<b>121.6</b>	<b>107.4</b>	<b>120.4</b>	<b>123.7</b>	<b>124.1</b>	<b>118.5</b>	<b>118.6</b>	<b>834.3</b>	<b>1368.9</b>
% YoY	9.8	11.0	4.6	11.9	14.2	8.5	0.0	8.4	4.5
% MoM	(0.2)	(11.7)	12.1	2.8	0.3	(4.5)	0.1		
<b>Trade Balance (MYRb)</b>	<b>6.4</b>	<b>10.4</b>	<b>9.5</b>	<b>8.9</b>	<b>5.7</b>	<b>4.0</b>	<b>3.6</b>	<b>48.4</b>	<b>70.7</b>
<b>Import Components</b>									
<b>Consumption (MYRb)</b>	<b>4.3</b>	<b>3.5</b>	<b>4.4</b>	<b>4.3</b>	<b>4.2</b>	<b>4.3</b>	<b>4.2</b>	<b>29.2</b>	<b>47.5</b>
% YoY	10.0	18.0	19.8	8.9	4.9	7.6	(9.0)		8.7
<b>Capital</b>	<b>8.0</b>	<b>6.5</b>	<b>8.3</b>	<b>8.3</b>	<b>8.4</b>	<b>8.8</b>	<b>7.4</b>	<b>55.5</b>	<b>98.8</b>
% YoY	1.9	(12.4)	(9.2)	4.3	8.5	15.1	(17.9)		2.8
<b>Intermediate</b>	<b>34.1</b>	<b>27.7</b>	<b>32.3</b>	<b>32.8</b>	<b>34.6</b>	<b>33.7</b>	<b>34.6</b>	<b>229.8</b>	<b>379.2</b>
% YoY	8.4	9.6	(3.3)	(3.9)	10.4	2.7	2.6		4.3

Source: DOS, MIDFR

**Asean is still the top export destination accounting for 29.1%** of total exports in July 2014, followed by China (+11.6%) and the EU at 9.8%. Exports to Asean inched slowly to only +1.7% YoY (Jun 2014: +9.6% YoY) the fourth straight month of deceleration. The modest expansion was contributed by exports of petroleum products; crude petroleum, palm oil and transport equipment. Lower exports were recorded to Indonesia and Thailand due to slowdown in economic activities in the former and after effects of political unrest in the latter.

**Table 2: Malaysia-Exports on selected Asean Countries**

	May-14		Jun -14		Jul-14	
	Value-RMb	% YoY	Value-RMb	% YoY	Value-RMb	% YoY
<b>Singapore</b>	<b>8.9</b>	<b>8.2</b>	<b>8.4</b>	<b>6.5</b>	<b>9.9</b>	<b>16.6</b>
<b>Thailand</b>	<b>3.1</b>	<b>10.5</b>	<b>3.4</b>	<b>13.1</b>	<b>2.9</b>	<b>(16.2)</b>
<b>Indonesia</b>	<b>2.9</b>	<b>28.2</b>	<b>2.8</b>	<b>4.7</b>	<b>2.1</b>	<b>(34.6)</b>
<b>Phillipines</b>	<b>1.2</b>	<b>59.5</b>	<b>0.9</b>	<b>9.1</b>	<b>1.3</b>	<b>56.6</b>
<b>Vietnam</b>	<b>1.0</b>	<b>2.6</b>	<b>1.1</b>	<b>29.6</b>	<b>1.1</b>	<b>0.6</b>

Source: DOS, MIDFR

**Exports to the major economies were mixed, with China's appetite of Malaysian goods decreased by -14.4% YoY (June 2014: -1.9% YoY) the 3<sup>rd</sup> straight month of decline.** Exports to Japan also contracted by -22.1% from a year ago mainly of lower exports of LNG and crude petroleum. Exports to the EU surprisingly expanded by +8.9% YoY (June 2014: +3.9% YoY) contributed mainly by increases in exports of palm oil, E&E products, primarily electronic integrated circuits as well as optical and scientific equipment. All major markets recorded increases in exports except France. **Exports to the USA** increased by 4.5% YoY (June 2014: 9.5% YoY) to RM5.1b in July 2014 due to higher exports of E&E products (apparatus for transmission or reception of voices, images and other data), optical and scientific equipment as well as chemicals and chemical products.

**Table 3: Malaysia-Exports (% YoY)**

	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14
<b>Total Exports</b>	<b>62.2</b>	<b>65.7</b>	<b>64.0</b>	<b>58.9</b>	<b>65.0</b>	<b>66.2</b>	<b>64.9</b>	<b>61.2</b>	<b>61.1</b>
<b>Exports by Key Country/Region</b>									
ASEAN	4.2	14.9	(4.8)	5.7	10.9	17.5	14.2	9.6	1.7
USA	(2.1)	1.6	(0.3)	8.4	5.2	17.1	13.8	9.5	4.5
EU	14.6	7.9	26.1	15.8	14.1	20.7	23.4	3.9	8.9
Japan	7.1	3.5	12.2	17.5	(0.9)	16.5	11.4	(2.6)	(22.1)
China	31.2	37.3	28.5	23.6	(1.8)	13.1	(0.4)	(1.9)	(14.4)
Hong Kong	31.0	30.6	52.3	41.9	15.5	58.5	40.3	27.0	18.0
Indonesia	0.0	23.5	11.7	(19.8)	9.2	11.7	28.2	4.7	(34.6)
Australia	15.9	25.3	53.7	13.1	46.0	28.0	58.8	11.1	16.7
India	(45.3)	10.7	9.0	18.9	(1.6)	4.8	41.5	13.9	36.2
Taiwan	(1.9)	35.8	(0.8)	46.2	41.6	44.6	24.7	70.7	23.0
<b>Exports by Major Products</b>									
E&E	14.5	12.0	14.6	18.1	6.2	22.0	12.4	5.5	(1.0)
Chemicals & Chemical Prod.	8.5	12.3	15.2	12.0	11.0	(8.5)	9.0	(6.3)	(7.0)
Crude Petroleum	(8.2)	24.2	(2.6)	(8.2)	(6.6)	37.1	73.4	24.5	26.2
LNG	24.2	20.6	26.6	18.8	3.2	31.8	17.3	11.2	(22.9)
Palm Oil	(17.6)	11.9	(23.8)	21.8	(7.3)	40.1	17.1	150.0	10.9
Petroleum Products	18.7	69.2	10.0	(6.5)	35.2	40.9	50	12.3	31.2

Source: DOS, CEIC

**By products, exports of manufactured goods increased by 2.1% YoY** to RM47.8b and agricultural products by +3.5% YoY. The increase in exports of manufactured goods was contributed mainly by higher exports of petroleum products by RM1.5b; optical and scientific equipment (instruments and apparatus specially designed for telecommunications), iron and steel products (line pipes for oil and gas) as well as chemicals and chemical products. Higher exports of palm oil due to higher prices contributed the increase in agricultural exports.

**Imports showed decline**, with consumption and capital goods registered contraction of -9.0% YoY (June 2014: +7.6%) and -17.9% YoY (June 2014: +15.1% YoY) respectively. Imports of intermediate products showed deceleration in momentum with +2.6% YoY for July 2014. (June 2014: 2.7% YoY).

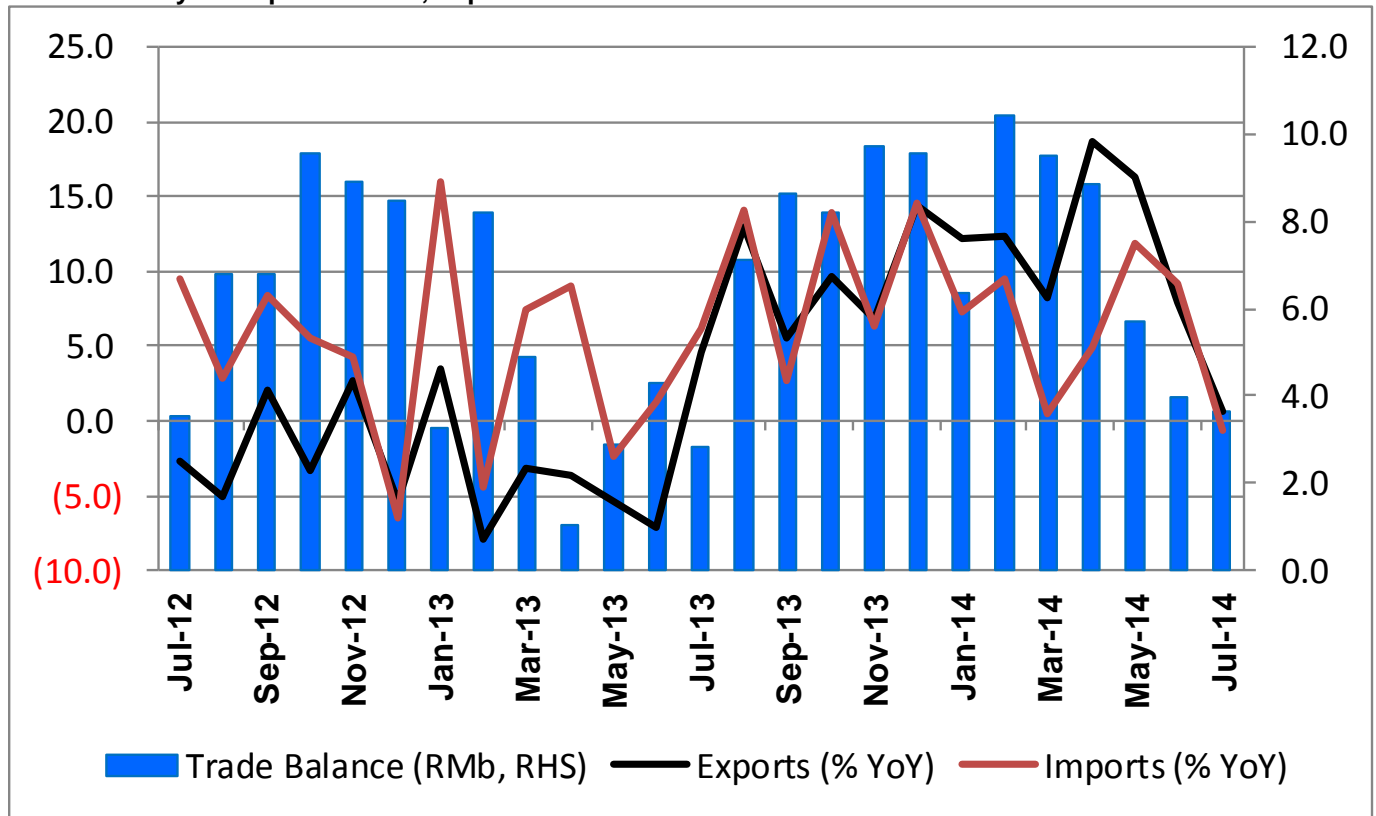
**Global manufacturing-hence trade-** growth momentum remains positive for major economies although the dynamics continued to be uneven. Purchasing managers index for the USA and Japan are expanding but for the EU and China slowing down. Industrial production seemed to be heading south in China, Japan and EU while the USA seemed to be rising. With uneven dynamics in the global trade, Malaysia's trade momentum seemed to be slowing down since the 2Q of this year and heading south for 2H of 2014.

**Table 4: Economic activity on selected global economies**

	Jun-14	Jul-14		Aug-14
	Industrial Production Index % YoY	Industrial Production Index % YoY	Markit PMI	Markit PMI
<b>USA</b>	4.0	5.3	55.8	57.9
<b>China</b>	9.2	9.0	51.7	50.2
<b>EU</b>	0.0	-	51.8	50.7
<b>Japan</b>	3.1	-0.9	50.5	52.2

Source: Bloomberg, MIDFR

**Chart 1: Malaysia-Export Growth, Import Growth & Trade Balance**



Source: DOS, MIDFR

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## MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.