7 April 2014

MALAYSIA

February trade – E&E surge dampened by commodity and resource-based, China has yet to pull back

Exports growth was flat in February at 12.3% (Jan: 12.2%); close to our call of 12% but disappointing the consensus expectation of 14.7%. Imports rose faster by 9.5% (Jan: 7.2%) and beat ours (7%) and consensus expectation (7.2%). Despite the stronger imports; trade balance jumped 27.2% to RM10.44bn – the highest in almost 2 years. Trade with China continued to be brisk and trade deficit with that country narrowed significantly. We believe the E&E exports growth is nearing its peak and would moderate going forward on the back of stabilizing recovery in the US and the slowdown in China. Imports need to taper off to ensure trade surplus maintained above the 2012-2013 monthly average of RM6 – 8bn if Current Account Surplus were to improve meaningfully from last year's 3.9% of GNI record.

Exports of electrical & electronics goods (E&E) surged ahead despite the slowdown in key markets. Exports of E&E rose by 18.1% YoY during the month – the fastest since May 2010 despite the weak manufacturing activities in the US and China during the first two months of the year. During the first 2 months of the year, exports of E&E rose by 16.4% YoY. E&E which accounts for about 31.6% of total exports contributed about 26.4% or 5.4p.p;. to growth in exports in February. However, on MoM basis, exports of E&E declined by 9.5%. It has been declining MoM since September 2013.

Exports performance increasingly characterized by commodities and resource-based The mixed performance in exports fo commodities, where LNG continuing to show robust growth (18.8% vs 26.6% in Jan), palm oil exports still struggling to recover (3.1% vs 4.5%) and the decline in exports of crude petroleum (-8.25 vs -2.6%) had offset the surge in E&E, hence the flattish growth in total exports for the month. On resource-based, petroleum products that has always been volatile, contracted by 6.3% after slowing down sharply in January. Meanwhile, exports fo chemical & chemical products picked up to rise by 10% (Jan: 4.0%). The volatility of exports of commodity and resource-based products many times had overwhelmed the trend in other manufacturing exports items, hence the still unclear trajectory of exports growth thus far. That indicates, predicting future direction of exports is more challenging as exports becoming more inclined towards resource-based products and less towards E&E.

Forward-looking indicators showed that exports of E&E may have little more leg to run but peak is near. Our leading indicator pointed towards a slight acceleration in exports led by E&E that would lift IPI in the months ahead but the pace may be rather moderate. That is in line with US ISM index performance as well as the book-to-bill ratio, nonetheless, data from China is signalling that a slowdown could be on the cards. China is now our largest export market for E&E.

On imports side, imports signals moderate pick up in exports going forward and upbeat domestic consumption Imports of capital goods contracted again after 2 months of positive growth, declining by 12.1% during the month (Jan: 2.5%) reflecting more of its historical trend of being lumpy and cyclical in nature as opposed to the strong surges in 2012 – 2013 when the economy was gearing up for ETP and other infrastructure-related projects. It is also an indication of infrastructure projects plateuing. Meanwhile, imports of intermediate goods picked up slightly to 9.4% (Jan: 8.2%) in line with the improved prospects for exports coming from the US. Surprisingly, contrary to many beliefs that consumers are feeling the pain from the higher cost of living, imports of consumption goods rebounded strongly again, growing by 17.9% (Jan: 9.9%).

China factor for now, not yet negative. Total trade with China expanded by 14.2% YoY in the first 2 months of the year, compared to 12.5% for the whole of 2013. That was on the back of stronger exports of 26.1% during the period (2013: 9.2%), leading to the trade deficits with China narrowing markedly from RM3.2bn at the end of 2013 to RM710 mn in the first 2 months of the year. That ensures China remaining as our largest trading partner, although Singapore is still ahead as the largest export market. Having said that, most of our major export items are going to China and thus, a marked growth slowdown in China would badly affect our exports performance.

Chart 1: Trade performance on monthly basis

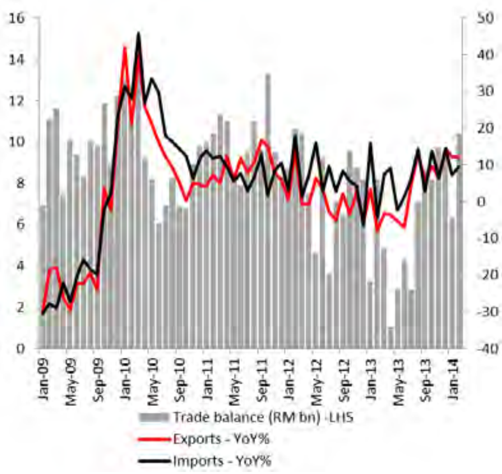

Chart 2: Broader-based pick up in exports perfromance in December

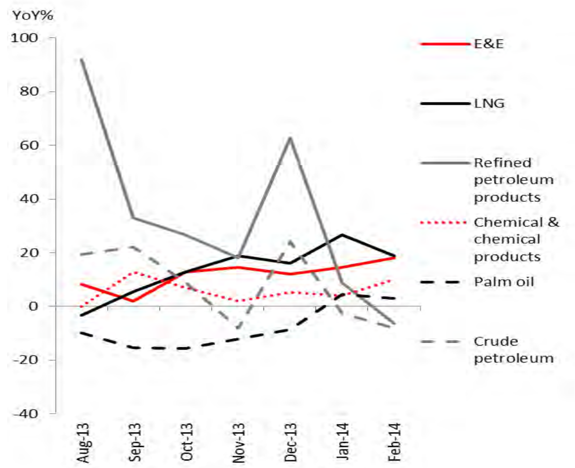

Chart 3: Exports increasingly dicttaed by commodities & natural resource-based

Chart 4: Exports Manufactured goods

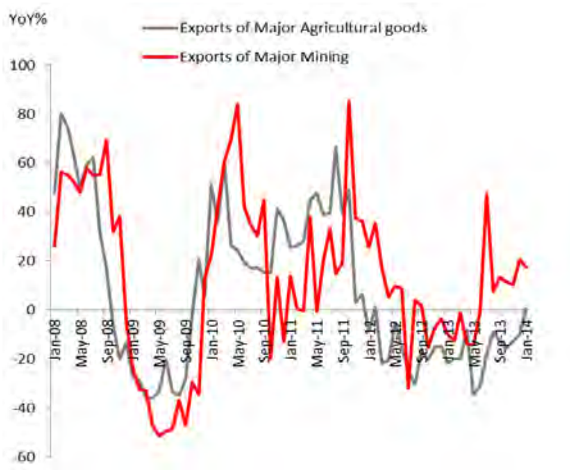

Chart 5: Trade with major partners

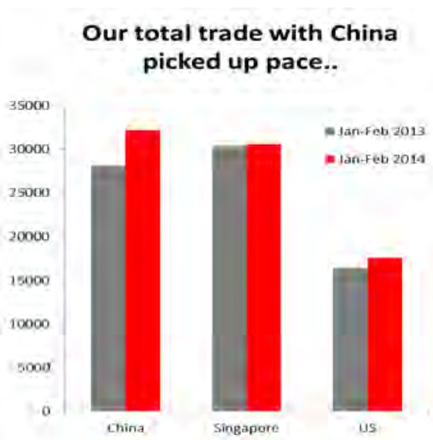

Chart 6: Exports to major markets

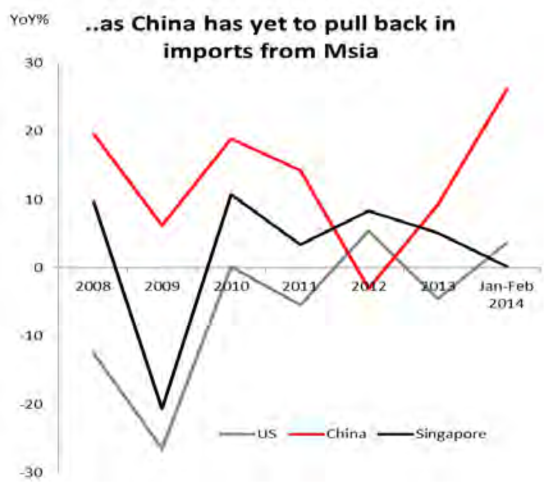

Chart 7: But bigger trade with China may entail bigger deficits

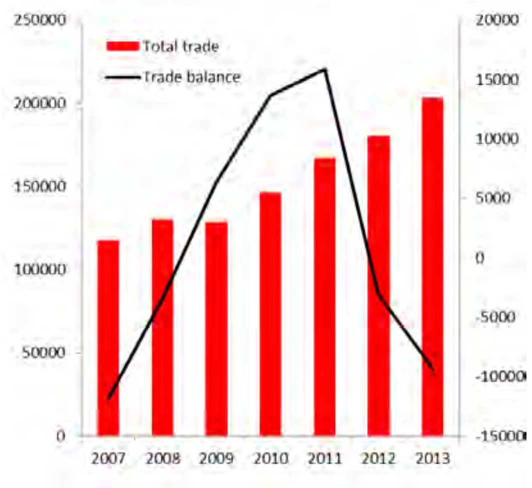

Chart 8: Though the deficits were smaller recently

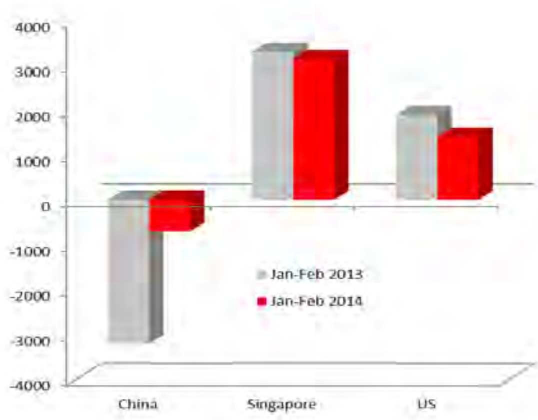

Table 1: Major export markets and what goes to China

Major Export Markets			**Major Exports to China**		
	RM bn	**% share**		**% market share**	**Rank**
Singapore	16.84	13.7	**Manufactured goods**	14.0	2
China	15.20	12.8	Electronics	20.6	1
Japan	15.04	12.2	Electricals	4.8	8
US	9.50	7.7	Chemical & Chemical Products	20.7	1
Thailand	6.43	5.2			
			Commodities		
			Palm oil	20.6	1
			Rubber	46.3	1
			Crude oil	3.0	7

Source for all charts: DoS, BNM

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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* 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	*Negative* total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* 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.