10 February 2014

MALAYSIA

December 2013 trade – Sustained recovery in E&E but sharp jump in natural resources and natural resources-based products led exports much higher

Both exports and imports surged significantly faster in December last year by 14.4% and 14.8% respectively (Nov: 6.7% and 6.4% respectively). Although the better performance can be attributed to the improved global demand in the developed countries, particularly the US, which helped the recovery in the E&E to be sustained, the big upward swings in major commodities (except Palm Oil and Rubber) and natural resource-based items, particularly the Petroleum products led overall exports much higher. On imports side, we were hoping for firming uptrend in Imports of Intermediate Goods as an indication of a sustained pick up in the exports of E&E - as exports of natural resources based is rather volatile and likely to slow down as China's growth engine expected to switch to lower mode this year - rather, the sharp turnaround in the imports of capital goods and significant acceleration in imports of consumption goods were the main drivers, though that indicates a better domestic demand growth. Trade surplus narrowed to RM9.5bn in December after surging higher to RM9.7bn in Nov (Oct: RM8.2bn).

Exports of electrical & electronics goods (E&E) continued to expand albeit at a slightly slower pace of 12.0% (Nov: 14.5%) in line with the moderation but stable expansion in the forward looking Manufacturing indicators, namely the US ISM index for Manufacturing as well as the Korean Leading Indicator. The E & E contributed 26.2% to overall exports growth for December, much smaller than 65.9% in the previous month as exports of other major items contributed bigger share while that of Palm Oil was of a much smaller drag this time around.

Exports were boosted much higher by stellar performance in oil-related exports. Exports of crude oil picked up significantly by 24.2% YoY as compared to 9.3% in November, adding 8.5% share to growth. LNG exports posted slightly slower growth but still at a robust pace of 16.2% (Nov: 18.9%) with contribution to exports growth of 9.2%, smaller than 25.8% previously. Nonetheless, the star performer was exports of Petroleum products, which rose by 69.2% YoY after a brief slowdown (Nov: 18.7%), driving the overall exports growth with contribution of 37.7% during the month.

Palm oil and palm-oil based products and Rubber continued to pose a drag, albeit smaller Exports of Palm oil and palm-oil based products and Rubber declined by 5.2%YoY and 3.7%YoY respectively (Nov: -9.3% and -1.2%, respectively) mainly on both fall in volume as well as exports unit prices. Exports of Palm oil and palm oil-based shaved off growth by 3.6% in December, smaller than the 13.3% drag it cast on exports growth last month.

On imports side, imports performance signals moderation in exports going forward but upbeat domestic demand expansion. Imports of capital goods turned around significantly by 17.8% in December after declining by 16.9% in November as domestic investment activities geared up for another expansion in 2014. Meanwhile, imports of consumption goods also picked up rather significantly by 14.2% during the month against 7.8% in November, despite the expected slowdown in consumer spending in the second half of the year on higher fuel prices as well as other administered items. Nonetheless, growth in imports of intermediate goods, a forward looking indicator for exports of manufactured goods, particularly the E & E, decelerated slightly to 8.1% from 9.9% in November.

For the whole of 2013, exports recorded a dismal growth of 2.4% but that was a rebound from a meagre growth of 0.6%; on the back of recovery in the second half of the year. The growth drivers continued to be Petroleum Products (28.6% YoY) and LNG (6.6% YoY), although growth was slightly lower as compared to that in 2012 (2012: 44.2% and 6.75 respectively). All the other 3 big commodities namely Palm Oil & Palm Oil-based, Crude Petroleum and Rubber posted YoY declines while E&E sharp turnaround in the 2H 2013 helped the commodity to record a aslight turnaround of 2.4% during the year (2012: -2.5%). Imports on the other hand, grew by a faster rate 7.0% in 2013 (2012: 5.8%) on the back of recovery in imports of intermediate goods (4.3% vs -3.4%). Growth in imports of capital goods slowed down sharply to 2.8% from 19.6% while and that of consumption goods decelerated to 8.7% from 10.7% in 2012. As a result of faster imports, trade surplus narrowed to RM70.6bn in 2013 from RM95.5bn in 2012.

Mixed signals but we remain confident of continuous recovery for E & E but we are a bit wary of the volatility nature of some natural resource-based items namely Petroleum products which mainly being exported to China. We were hoping for further uptrend in Imports of Intermediate Goods as an indication of a sustained pick up in the exports of E&E - as exports of natural resources based is rather volatile and likely to slow down as China's growth engine expected to switch to lower mode this year. While the forward looking indcators namely the ISM index and the Korean leading indicators which we track as a gauge of future direction for our exports of E & E are moderating and stabilising at a slightly llower levels, we expect the trend to firm up later this year as recoevry in the develoepd markets as well as Emerging Asia to improve further. The wild card remains China. A faster deceleration in growth in China would be negative for Malaysia as China is now our major export market for almost every major item.

Chart 1: Trade performance on monthly basis

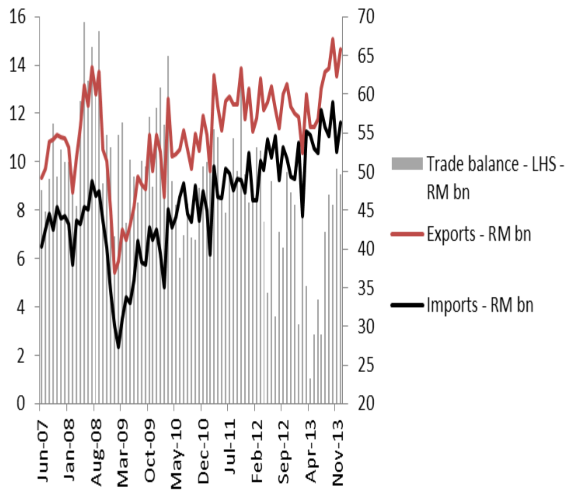


Chart 2: Broader-based pick up in exports performance in December

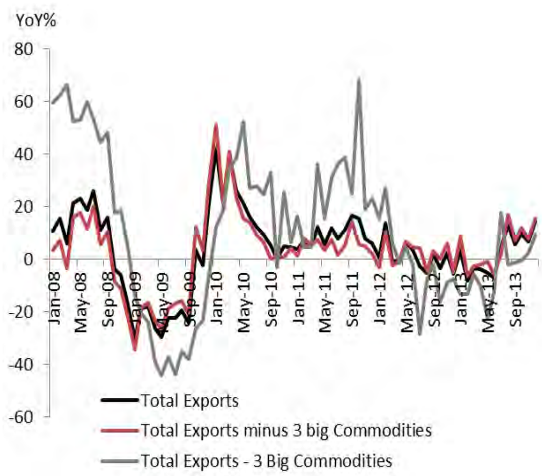


Chart 3: Contribution to exports growth

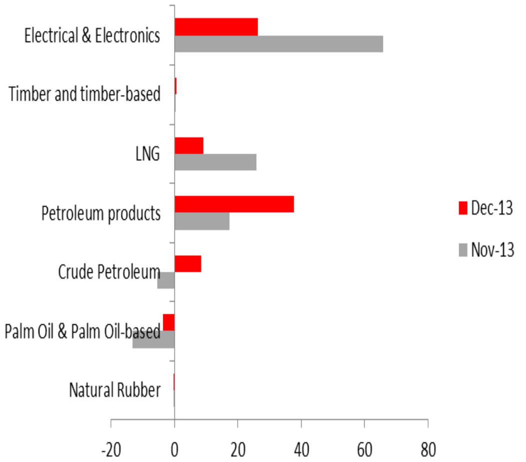


Chart 4: Exports of Petroleum products highly volatile

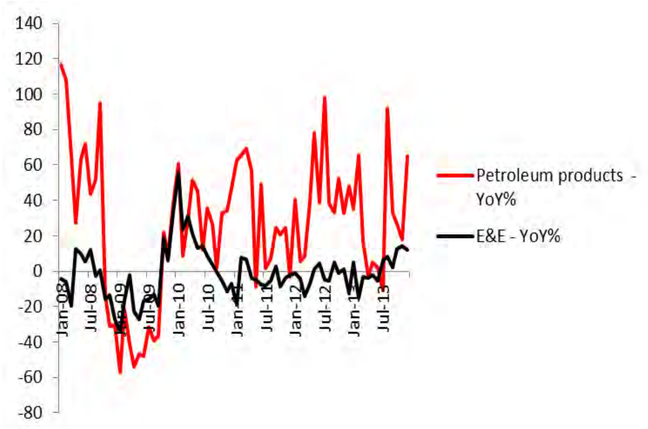


Chart 5: Trade performance - Annually

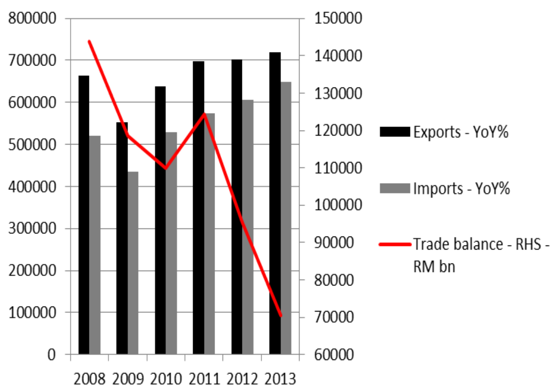
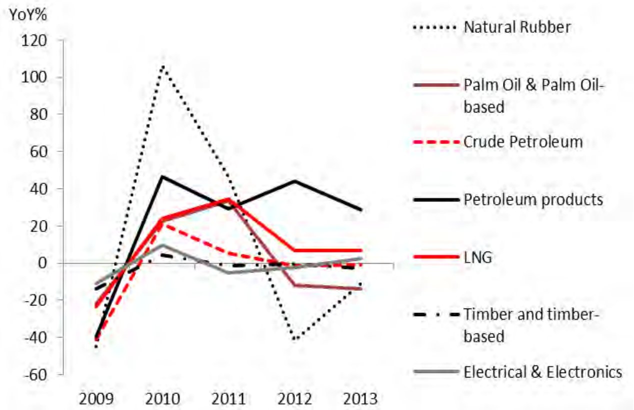


Chart 6: Exports by major commodities - Annually



Source for all charts: DoS, BNM

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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 *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.