

## ECONOMIC REVIEW | May 2023 External Trade

### Smaller Decline in Exports in May-23 with Rebound in Shipments to US and China

- *Total trade improved but remained below last year. Malaysia's total trade rose back to above RM220b in May-23, but was -2%yoy lower than May-22 (Apr-23: -14.6%yoy).*
- *Exports only fell by -0.7%yoy. Following the monthly improvement, Malaysia's exports contracted at a much slower pace of -0.7%yoy in May-23, attributable to significantly slower fall in domestic exports (-2.5%yoy) and stronger re-exports (+6.4%yoy).*
- *Rebound in exports to US, China and Japan. Exports to most major markets fell further in May-23 with the exception of the US, China and Japan.*
- *Rebound in E&E and LNG exports and sustained rise for petroleum products. Based on breakdown by sector, manufactured goods exports rebounded to +1.8%yoy (Apr-23: -15.5%yoy), mainly due to continued rise in petroleum product exports and rebound in E&E exports.*
- *Keep 2023 growth forecast for exports and imports at -3.4% and -1.9%, respectively. We maintain our forecast that exports and imports will decline by -3.4% and -1.9%, respectively, this year. Taking into account expected slowdown in global growth, we foresee external demand to also weaken.*

**Total trade improved but remained below last year.** Malaysia's total trade rose back to above RM220b in May-23, but was -2%yoy lower than May-22 (Apr-23: -14.6%yoy). Both exports and imports registered a strong monthly increases of +13.7%mom and +12.6%mom, respectively. While the improvement was somewhat better than our expectations, we anticipated for May-23 to show better performance compared to Apr-23 which was affected by shorter working days because of Hari Raya holidays. Following the relatively sharper rise in exports, trade surplus rose to RM15.4b (Apr-23: RM12.6b), remaining below average monthly surplus of RM20.8b recorded during post-pandemic recovery i.e. since Jun-20. With relatively lower trade surplus, we opine that this could limit net exports' contribution to economic growth in 2QCY23.

**Exports only fell by -0.7%yoy.** Following the monthly improvement, Malaysia's exports contracted at a much slower pace of -0.7%yoy in May-23, a stark improvement from -17.6%yoy decline in Apr-23. The decline was smaller than our projection, and far better than market consensus (-11.2%yoy) due to significantly slower fall in domestic exports (-2.5%yoy; Apr-23: -22.5%yoy) and stronger re-exports (+6.4%yoy; Apr-23: +3.7%yoy). The decline in domestic exports showed continued drag from weak agriculture exports, especially palm oil & palm oil-based products, while exports of manufacturing and mining goods contributed positively during the month. To highlight, exports of processed petroleum products was the largest contributor (+1.1ppt) towards better export performance. On month-on-month basis, the +13.7%mom surge from Apr-23 was mainly driven by higher manufacturing exports (i.e. E&E, petroleum products, and chemicals & chemical products) as well as mining exports (i.e. LNG and crude petroleum). We view the sustained growth in exports of petroleum products was generally in line with our expectations. Pick-up in E&E and mining exports also supported Malaysia to perform

better against regional peers, in terms of external trade performance in May-23. Nevertheless, the weak external demand and subdued global manufacturing could limit growth outlook for external trade this year.

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

	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
<b>Exports (RMb)</b>	129.7	131.8	112.7	112.3	129.7	105.2	119.6
% YoY	15.1	5.9	1.4	9.8	(1.4)	(17.6)	(0.7)
% MoM	(1.5)	1.6	(14.5)	(0.3)	15.5	(18.9)	13.7
<b>Imports (RMb)</b>	107.9	103.6	94.5	92.7	103.0	92.6	104.2
% YoY	15.6	11.5	2.2	12.4	(1.8)	(11.1)	(3.3)
% MoM	(4.9)	(4.0)	(8.8)	(1.9)	11.1	(10.1)	12.6
<b>Total Trade (RMb)</b>	237.6	235.4	207.2	205.0	232.6	197.8	223.8
% YoY	15.3	8.3	1.8	11.0	(1.6)	(14.6)	(2.0)
% MoM	(3.1)	(0.9)	(12.0)	(1.1)	13.5	(15.0)	13.2
<b>Trade Balance (RMb)</b>	21.8	28.1	18.1	19.6	26.7	12.6	15.4
<b>Import Components</b>							
<b>Intermediate (RMb)</b>	59.3	54.4	48.4	48.8	53.6	45.4	55.3
% YoY	8.2	6.4	(4.2)	2.9	(9.0)	(24.1)	(12.3)
<b>Capital (RMb)</b>	9.8	9.9	9.7	7.9	9.7	10.1	9.9
% YoY	0.3	(9.4)	(16.4)	(11.0)	(1.8)	(10.4)	1.3
<b>Consumption (RMb)</b>	9.5	9.3	8.2	7.0	9.3	8.2	8.9
% YoY	23.9	16.2	(4.8)	1.0	6.4	(1.6)	4.5

Note: MoM is non-seasonally adjusted figure

Source: Macrobond, MIDFR

**Imports also fell at slower pace.** Imports registered slower -3.3%yoy decline (Apr-23: -11.1%yoy). The negative growth largely reflected reduced inward shipments of intermediate goods (-12.3%yoy), and rebound in imports of capital (-10.3%yoy) and consumption (-1.6%yoy) goods also contributed to the slower contraction. By sector, imports of mining goods rebounded to +16.3%yoy increase on strong surge in purchases of crude petroleum (more than half of the growth was sourced from Saudi Arabia). Continued but smaller decline in manufacturing imports was primarily attributable to reduced purchases of E&E products. We opine this was in line with weakness in global trade and manufacturing of E&E products, which also explained the reduced imports of intermediate goods. Agriculture goods imports also declined further by -10.6%yoy in May-23 (Apr-23: -11.4%yoy) due to lower imports of other vegetable oil and natural rubber. As we expected, the relatively lower commodity prices will keep imports of raw materials to be subdued. Nevertheless, the recovery in global and regional production activities will likely push companies to increase imports of intermediate goods. For now, we expect subdued global manufacturing will likely result in reduced imports as companies adjusted to more cautious view on the future sales outlook.

**Rebound in exports to US, China and Japan.** Exports to most major markets fell further in May-23 with the exception of the US, China and Japan. Strong rebound of shipments to the US +14.9%yoy was underpinned by higher exports of E&E and petroleum products. Meanwhile, increased shipments of commodities such as LNG,

metalliferous ores & metal scrap, and chemical products led to the recovery in exports to China, back to positive growth of +1.5%yoy after 5 months of contraction. Exports to Japan also recovered due to higher demand for crude petroleum and LNG. To other regions like EU and ASEAN, exports fell further albeit at slower rate at +6.1%yoy and 1.6%, respectively, due to lower exports of palm oil & palm oil-based products. In addition, reduced LNG exports was another downward drag which affected Malaysia's exports to ASEAN. We remained cautious on the prospects of growth for exports to major countries like the US and EU which may be affected by rising borrowing costs and still high inflation. On the contrary, we still expect the positive effect from China's economic recovery, although the progress was not as strong as initially anticipated. At least the recent policy easing by China's central bank will lend more support to the country's growth going forward.

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

	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
<b>Total Exports (RMb)</b>	<b>129.7</b>	<b>131.8</b>	<b>112.7</b>	<b>112.3</b>	<b>129.7</b>	<b>105.2</b>	<b>119.6</b>
Re-exports (RMb)	26.2	26.6	26.6	24.8	27.2	25.0	25.9
Domestic Exports (RMb)	103.5	105.2	86.0	87.4	102.4	80.2	93.7
<b>Exports by Key Country / Region</b>							
China	9.0	(12.1)	(11.9)	(6.0)	(6.2)	(20.4)	1.5
USA	8.4	7.8	(0.7)	18.7	7.5	(21.5)	14.9
Japan	31.6	13.7	13.2	8.3	(6.0)	(22.1)	2.1
India	(9.8)	(2.2)	(8.4)	(30.7)	(9.8)	0.9	(29.8)
Hong Kong	26.0	(3.6)	4.0	25.1	9.5	(4.3)	(8.5)
Australia	59.1	28.4	27.8	20.0	37.2	(14.4)	28.7
EU	16.3	20.1	1.4	(2.2)	(5.3)	(30.5)	(6.1)
ASEAN	16.9	12.7	10.7	14.8	(3.5)	(11.4)	(1.6)
Singapore	36.3	23.1	19.0	27.7	3.0	(1.4)	6.8
Thailand	23.3	3.4	8.3	6.5	(4.1)	(24.1)	(8.8)
Indonesia	9.9	1.6	(1.8)	13.3	17.9	8.5	(11.8)
Vietnam	(25.2)	3.3	(7.9)	(32.3)	(29.4)	(28.6)	(0.7)
Philippines	(2.1)	(7.2)	1.6	32.5	(18.3)	(27.2)	(21.5)

Source: Macrobond, MIDFR

**Rebound in E&E and LNG exports and sustained rise for petroleum products.** Based on breakdown by sector, continued fall in exports of palm oil & palm oil products (-36.2%yoy) for the 8th straight month since Oct-22 was the major cause for decline in agriculture exports (-30.9%yoy). Manufactured goods exports rebounded to grow at +1.8%yoy (Apr-23: -15.5%yoy), mainly due to continued rise in petroleum product exports and also mirroring the rebound in E&E exports. Despite the continued reduction in semiconductor exports, the pick-up in E&E exports was driven by higher shipments of diversified products such as electrical switcher & relays, telecommunication equipment & parts, and electrical power machinery & parts. Mining goods exports also registered a rebound to +5.9%yoy (Apr-23: -28.9%yoy) mainly because of rebound in LNG and metalliferous ores & metal scrap as well as slower fall in crude petroleum. Given the still weak global production activities as indicated in recent PMI survey, we anticipate a constrained outlook for exports of manufactured goods. For

commodity exports, we expect the lower prices to also affect growth in the coming months, especially for palm oil exports which has been on a decline.

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

	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
E&E	30.9	4.8	4.9	11.8	(4.4)	(6.5)	1.3
Machinery, Equipment & Parts	2.7	10.1	(12.5)	5.0	11.0	(29.0)	13.0
Optical & Scientific Equipment	18.1	11.0	3.6	6.6	11.7	(16.7)	11.5
Palm oil & palm oil-based products	(12.1)	(6.2)	(22.7)	(14.9)	(14.4)	(34.8)	(36.2)
Crude Petroleum	95.8	40.0	25.9	50.6	(4.8)	(45.7)	(5.5)
Petroleum Products	26.4	66.4	114.9	86.3	32.1	20.8	22.7
LNG	68.3	33.5	62.3	32.9	11.4	(16.3)	9.3
Rubber products	(46.5)	(42.1)	(44.9)	(35.5)	(29.5)	(51.7)	(20.9)

Source: Macrobond, MIDFR

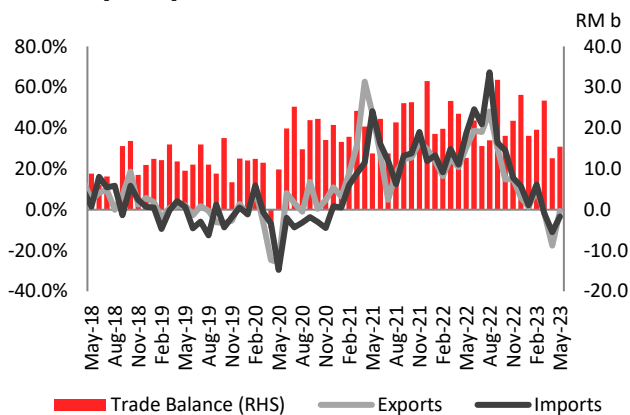
**Higher trade surplus for E&E and LNG.** Analysing the trade balance by sector, higher surplus (and stronger exports) in trade of E&E and LNG was the main contributor to larger surplus of RM15.4b in May-23 than prior month. Although sustained rise in petroleum product exports has been major positive contributor to overall exports, the trade surplus of petroleum product trade was rather small at RM0.8b in May-23, compared to -RM0.4b deficit in Apr-23. Despite the recent weakness in palm oil trade, trade surplus in trade of palm oil & palm oil-based products was generally stable at RM6.9b, little changed from Apr-23. On the other hand, we noticed reliance on imports led to wider deficits in trade of chemical & chemical products; machinery, equipment & parts; and, crude petroleum.

**Reduction in volume led to recent weakness.** Based on the available data, the weaker-than-expected external trade performance in Apr-23 was largely due to further fall in volume. When we breakdown the -17.6%yoy fall in Apr-23 exports, 95% of the decline was attributable to the -16.7%yoy reduction in export volume which cut across many export products such as crude materials, chemicals, manufactured goods and even foods. For imports, nearly 94% of the swing into a larger decline -11.1%yoy in Apr-23 was explained by -10.4%yoy fall in import volume, especially for crude materials, oils & fats, chemicals, manufactured goods and machinery & transport equipment. Given the sharp turnaround in May-23, with +13.7%mom jump in exports and +12.6%mom rise in imports from the lows in Apr-23, we opine the improvement was also driven by higher volume. Nevertheless, recent weakness in ringgit could add to further fall in unit price, in addition to current level of commodity prices remaining below last year; Brent hovering around USD75.69 (-32.4%yoy) and CPO prices averaging RM3,687.52 per tonne (-46.7%yoy) in May-23. Given the continued decline in volume and lower prices, we maintain our cautious outlook on external trade outlook in the coming months.

**Keep 2023 growth forecast for exports and imports at -3.4% and -1.9%, respectively.** We maintain our forecast that exports and imports will decline by -3.4% and -1.9%, respectively, this year. Taking into account expected slowdown in global growth, we foresee external demand to also weaken. Increased borrowing costs, for example, could constrain final demand from markets like the US and EU. Other downside risks to external trade

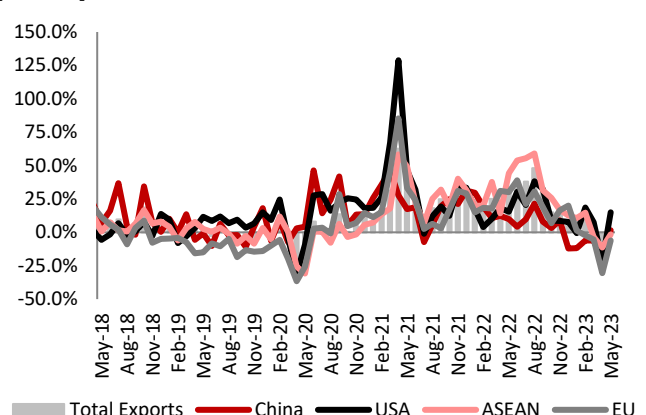
outlook include deterioration in geopolitical and trade tensions and more significant slowdown in global growth. On another note, we expect recovery in China's economy will be positive for trade of commodities, while the growth outlook for manufactured goods exports will be influenced by the recent weakness in global manufacturing. On the other hand, imports will be supported by continued expansion in domestic demand; while adjusting to weaker demand outlook thus far caused the reduction in intermediate goods imports. To a certain extent, the high base last year will also contribute to negative growth for external, in addition to slower global growth. 🇲🇾

**Chart 1: Exports & Imports (YoY%) vs Trade Balance (RM b)**



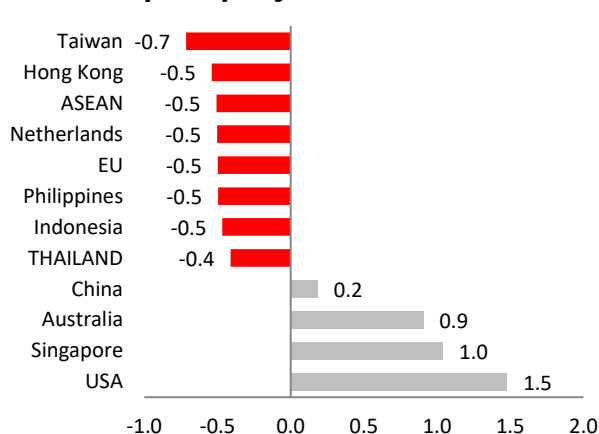
Source: Macrobond, MIDFR

**Chart 2: Exports Growth by Major Destination (YoY%)**



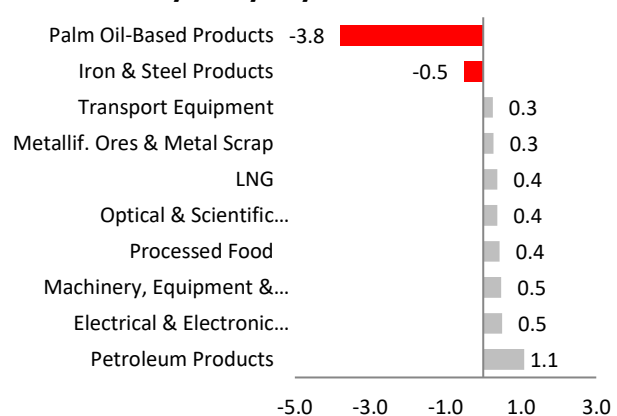
Source: Macrobond, MIDFR

**Chart 3: %-point Contribution to Total Exports Growth in May-23 by Major Destination**



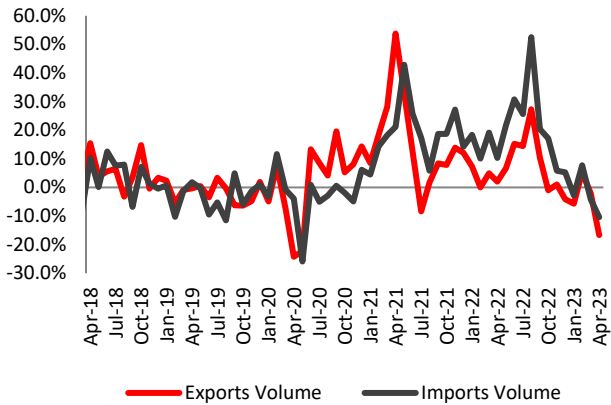
Source: Macrobond, MIDFR

**Chart 4: %-point Contribution to Total Exports Growth in May-23 by Key Products**



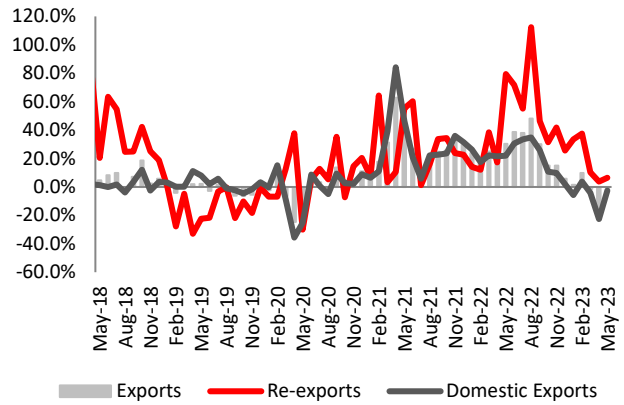
Source: Macrobond, MIDFR

**Chart 5: Exports vs Imports Volume (YoY%)**



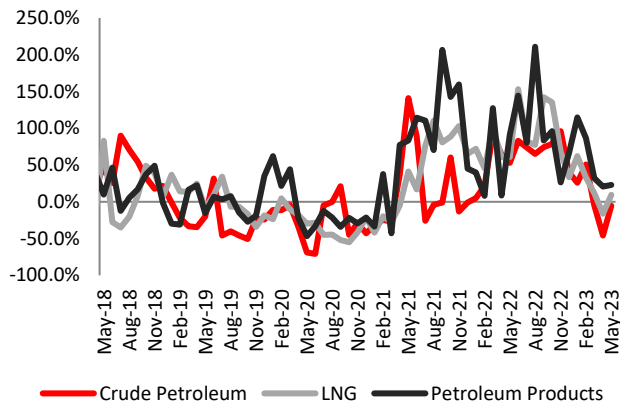
Note: Latest available data as of Apr-22  
Source: Macrobond, MIDFR

**Chart 6: Exports: Domestic vs Re-exports (YoY%)**



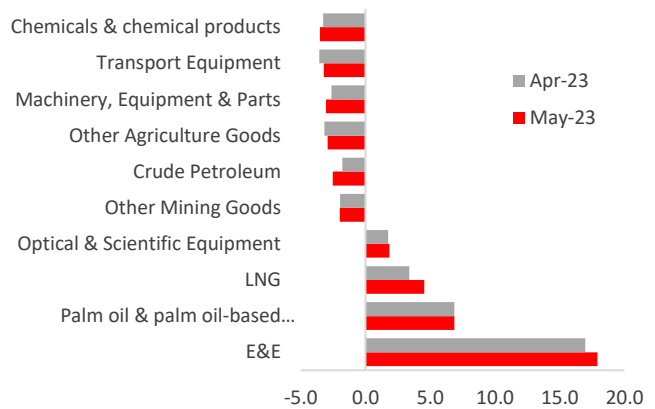
Source: Macrobond, MIDFR

**Chart 7: Exports of Mining Goods (YoY%)**



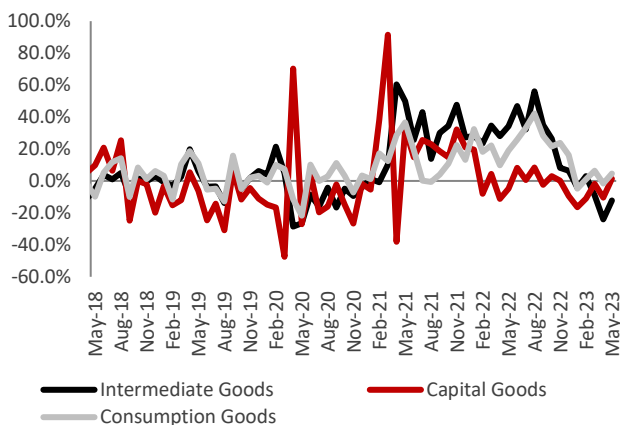
Source: Macrobond, MIDFR

**Chart 8: Trade Balance for Selected Products (RM b)**



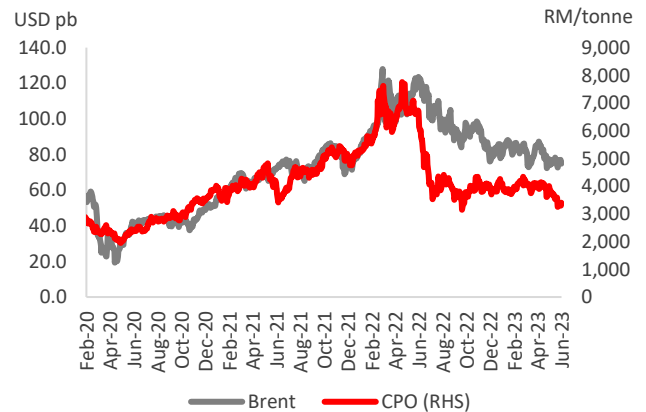
Source: Macrobond, MIDFR

**Chart 9: Imports of Goods by End Use (YoY%)**



Source: Macrobond, MIDFR

**Chart 10: Price of Brent Crude Oil and CPO**



Source: Bloomberg, MIDFR

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