

ECONOMIC REVIEW | August 2023 External Trade

Exports Fell Sharper in Aug-23 Due to Lower Exports of E&E and Petroleum Products

- *Total trade fell sharper due to high base effect. Malaysia's total trade continued to fall in Aug-23, registering faster decline of -19.8%yoy (Jul-23: -14.5%yoy).*
- *Exports fell by -18.6%yoy in Aug-23. Exports registered 6th straight month of decline, contracting sharper at -18.6%yoy in Aug-23 (Jul-23: -13.0%yoy). Slightly more than 75% of the decline was attributable to lower exports of E&E, crude and refined petroleum products and palm & oil and palm oil-based products.*
- *E&E exports contracted after 3 months of growth. E&E exports recorded the first decline of -15.3%yoy after 3 months of growth, attributable mainly to the decline in semiconductor exports.*
- *Maintain our projection for both exports and imports to contract in 2023. We maintain our projection that exports and imports will fall by -6.4% and -6.9%, respectively, this year. Despite upside risks from better growth in China and expected recovery in E&E exports, we remain cautious that weak demand from advanced markets will continue to adversely affect international trade outlook.*

Total trade fell sharper due to high base effect. Malaysia's total trade continued to fall in Aug-23, registering faster decline of -19.8%yoy (Jul-23: -14.5%yoy). Although the value of total trade remained above RM200b, the sharper year-on-year fall was due to the higher base in Aug-22. This also led to a sharper year-on-year decline in both exports and imports. Given the almost similar monthly contraction in exports (-1.4%mom) and imports (-1.6%mom), trade surplus was virtually unchanged at RM17.3b from prior month (Jul-23: RM17.4b). Reduced surplus in the trade of manufactured goods (especially *E&E products*) was offset by better mining goods trade, which turned to surplus due to higher trade surplus for *LNG* and smaller trade deficit for *crude petroleum*. Looking at the sharper-than-expected fall in external trade in Aug-23, we view this together with subdued growth for trade-oriented production as indication of continued weakness in the external demand. We noticed that the decline in external trade was also due to decline in both prices and trade volume.

Exports fell by -18.6%yoy in Aug-23. Exports registered the 6th straight month of decline, contracting sharper at -18.6%yoy in Aug-23 (Jul-23: -13.0%yoy). Although the decline was a deeper contraction vis-à-vis market consensus, it was generally in line with our expectations in view of the high base effect. Re-exports saw relatively sharper decline of -33.5%yoy (Jul-23: 13.3%yoy), falling for the 3rd month; while domestic exports contracted further at -13.8%yoy (Jul-23: 13.0%yoy). Slightly more than 75% of the decline in total exports in Aug-23 was attributable to the reduction in exports of *E&E, crude and refined petroleum products and palm & oil and palm oil-based products*. Compared to Jul-23, exports fell by -1.4%mom due to weaker exports of manufactured goods, particularly *E&E* and *optical & scientific equipment*. As exports fell further in Aug-23, we foresee the weakness in external trade will continue in 2HCY23.

Table 1: Malaysia's External Trade Summary

	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
Exports (RMb)	112.3	129.7	105.2	119.5	124.0	116.8	115.2
% YoY	10.3	(1.4)	(17.5)	(0.9)	(14.1)	(13.0)	(18.6)
% MoM	(0.3)	15.5	(18.9)	13.6	3.7	(5.8)	(1.4)
Imports (RMb)	92.7	103.0	92.6	103.8	98.4	99.5	97.9
% YoY	12.2	(2.2)	(11.1)	(3.7)	(18.7)	(16.1)	(21.2)
% MoM	(1.9)	11.1	(10.1)	12.1	(5.2)	1.1	(1.6)
Total Trade (RMb)	205.0	232.6	197.8	223.3	222.4	216.3	213.0
% YoY	11.2	(1.7)	(14.6)	(2.2)	(16.2)	(14.5)	(19.8)
% MoM	(1.1)	13.5	(15.0)	12.9	(0.4)	(2.7)	(1.5)
Trade Balance (RMb)	19.6	26.7	12.6	15.7	25.5	17.4	17.3
Import Components							
Intermediate (RMb)	48.8	53.6	45.4	54.9	47.9	48.9	51.5
% YoY	2.2	(9.7)	(24.1)	(13.0)	(25.3)	(20.8)	(22.6)
Capital (RMb)	7.9	9.7	10.1	9.9	9.7	10.5	10.7
% YoY	(0.7)	3.1	11.3	13.0	(12.6)	(4.3)	(16.0)
Consumption (RMb)	7.0	9.3	8.2	8.9	8.2	9.0	8.5
% YoY	1.1	6.4	(1.6)	4.5	(11.9)	5.9	(5.4)

Note: MoM is non-seasonally adjusted figure

Source: Macrobond, MIDFR

Imports fell even sharper at -21.2%yoy. The decline in Aug-23 imports was even sharper at -21.2%yoy (Jul-23: -16.1%yoy), with reduced purchases for all types of goods: *intermediate* (-22.6%yoy), *capital* (-16.0%yoy) and consumer goods (-5.4%yoy). We view the sharper fall was mainly because of the high base effect. This was because, on month-to-month basis, there was monthly improvements for imports of intermediate (+5.1%mom) and capital goods (+2.4%mom). By sector, lower imports of manufactured goods contributed about 76.2% of the decline in Aug-23, mainly due to decreased imports of *E&E products*, *petroleum products*, and *chemicals & chemical products*. Another 18.6% of the decline was from lower imports of mining goods imports which fell by -37.7%yoy, mainly explained by reduced imports of *crude petroleum*, *LNG*, and *other mining commodities*. On the back of softer global manufacturing activities, we foresee imports outlook will remain subdued in the near term. Local suppliers will continue to adopt cautious approach in terms of their production and investment planning amid uncertainty of future demand.

Decreased shipments to major markets. By destination, exports to most major markets, including the US and China, dropped in Aug-23. Lower exports of *E&E*, *petroleum products* and *machinery, equipment & parts* largely contributed to the -9.7%yoy decline in shipments to the US, while -20.3% decline in exports to China was due to lower demand for *E&E products*, *other manufactures* and *LNG*. Exports to Australia rebounded and grew strongly at +12.6%yoy (Jul-23: -0.1%yoy) driven mainly by higher shipments of *petroleum products*, both crude and refined. In terms of export performance by region, Malaysia's, exports to ASEAN continued to decline by -20.6%yoy due to lower shipments of *crude and refined petroleum products* and *E&E products*. Exports to EU

countries also declined further but the pace was slower at -4.6%yoy (Jul-23: -6.0%yoy), dragged down by lower exports of *refined petroleum products* and *palm oil & palm oil-based products*. We remain cautious that final demand will be impacted by slow recovery in China, and the possibility of softer demand from advanced markets like (the US and Europe) which will be constrained by high borrowing costs following aggressive monetary policy tightening.

Table 2: Malaysia's Exports (YoY%)

	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
Total Exports (RMb)	112.3	129.7	105.2	119.5	124.0	116.8	115.2
Re-exports (RMb)	24.8	27.2	25.0	25.9	30.2	27.7	23.2
Domestic Exports (RMb)	87.4	102.4	80.2	93.6	93.8	89.1	92.0
Exports by Key Country / Region							
China	8.0	6.7	(20.4)	1.4	(8.0)	5.8	(20.3)
USA	21.0	7.8	(21.5)	15.3	(19.0)	2.2	(9.7)
Japan	78.1	46.6	(22.1)	2.1	(20.9)	(24.8)	(18.6)
India	(30.7)	46.0	57.1	(29.8)	(5.6)	(32.0)	(16.2)
Hong Kong	26.3	10.5	(4.3)	(7.8)	(11.2)	(3.8)	(33.4)
Australia	27.9	53.4	(14.4)	28.7	9.1	(0.1)	12.6
EU	(2.3)	(5.7)	(30.5)	(6.1)	(21.8)	(6.0)	(4.6)
ASEAN	14.8	(3.4)	(11.3)	(1.7)	(10.6)	(18.7)	(20.6)
Singapore	29.4	3.8	(1.4)	6.8	(0.9)	(19.6)	(19.3)
Thailand	15.3	17.9	(24.1)	(8.9)	(26.5)	(17.7)	(22.3)
Indonesia	17.8	22.9	8.5	(11.8)	(8.5)	(18.0)	(40.3)
Vietnam	(26.1)	(19.2)	(28.6)	13.0	(6.0)	0.2	23.4
Philippines	74.5	(3.2)	(27.2)	(21.5)	(9.5)	(30.9)	12.6

Source: Macrobond, MIDFR

E&E exports contracted after 3 months of growth. Looking at export performance by sector, *E&E* exports recorded the first decline of -15.3%yoy after 3 months of growth. Together with the decline in exports of *petroleum products* (-38.6%yoy) and *other manufactures* (-28.5%yoy), all these contributed to the lower manufacturing sector exports (-17.7%yoy). Due to its size (64.4% of E&E exports), the -16.1%yoy decline in exports of *semiconductor* was the major contributor to the decline in *E&E* exports, followed by lower exports of *telecommunication equipment & parts* (-15.5%yoy). Palm oil exports remained a drag to overall exports, with sharp contraction of -29.7% which marked the 11th consecutive month of decline since Oct-22. Apart from weakness in palm oil exports, reduced exports of *other vegetable oil* and *natural rubber* also resulted in the -27.1%yoy decline in agricultural goods exports. Mining goods exports also decreased by -23.1%yoy in Aug-23, underpinned by reduced shipments of LNG (-26.0%yoy) and crude petroleum (-22.5%yoy). Once again we noticed the overall weakness in export performance by sector was due to the high base in Aug-22 as some export products like agriculture goods and mining goods recorded monthly increases of +0.7%mom and +15.3%mom, respectively. However, the monthly increases were unable to surpass the high performance last year.

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

	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
E&E	13.3	(4.4)	(6.5)	1.5	3.4	7.4	(15.3)
Machinery, Equipment & Parts	5.0	11.0	(29.0)	13.0	(17.6)	(22.3)	(9.9)
Optical & Scientific Equipment	6.6	11.7	(16.7)	11.5	(8.4)	(4.1)	(13.1)
Palm oil & palm-oil based products	(14.9)	(14.4)	(34.8)	(36.1)	(45.9)	(34.4)	(29.7)
Crude Petroleum	54.4	(4.8)	(46.8)	(5.5)	(43.7)	(20.6)	(22.5)
Petroleum Products	73.6	35.9	30.1	13.8	(36.9)	(46.1)	(38.6)
LNG	31.5	13.4	(13.4)	6.7	(40.8)	(39.7)	(26.0)
Rubber products	(35.5)	(29.5)	(51.7)	(20.9)	(32.7)	(22.6)	(22.7)

Source: Macrobond, MIDFR

Weak trade due to lower volume. The latest data up to Jul-23 continued to show the recent weakness in external trade was due to reduction in trade volume. Export volume dropped further by -7.0%yoy in Jul-23 (Jun-23: -9.6%yoy) due to lower volume for exports of *mineral fuels, lubricants & related materials, chemicals, manufactured goods, and food*. The slower decline in overall export volume was due to increased exports volume for *beverages & tobacco* and *oils & fats*. Import volume also fell further by -10.8%yoy in Jul-23 (Jun-23: -14.7%yoy), with double-digit contraction for imports of *oils & fats* and *machinery & transport equipment*. All other products registered reduced export volume, except *beverage & tobacco* which recorded a surge in import volume of +62.6%yoy, the fastest in 9 months.

Sharper fall in prices in Jul-23. Prices for both exports and imports declined faster by -6.5%yoy and -5.5%yoy, respectively, in Jul-23. Sharp fall in trade prices was recorded in the double-digit decline in prices of *mineral fuels, lubricants & related materials*, which reflected the lower crude oil prices. Despite the continued double-digit decline in prices for *oils & fats*, the pace of contraction was not much different than prior month. We believe this is an early sign of diminishing low base effect, in view of the trend in CPO prices. In Jul-23, CPO prices averaged at RM3,907.19/tonne, virtually the same level as in Aug-22. Although Brent crude oil prices averaged higher at USD80.16pb than the previous month (Jul-23: USD75.00pb), it was only -0.2% lower than a year ago. Going forward, we anticipate the drag from lower prices will gradually diminish in view of recent increases and the current levels which are more or less the same as a year ago.


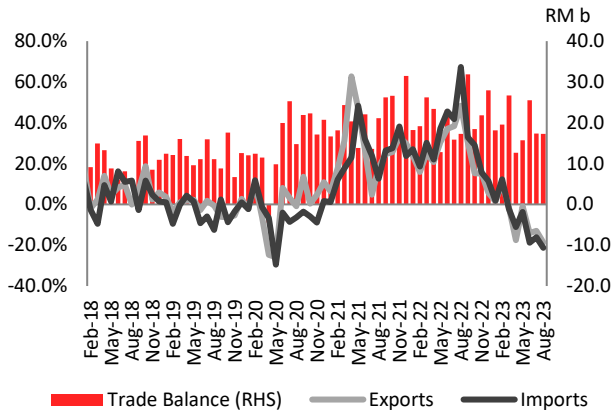
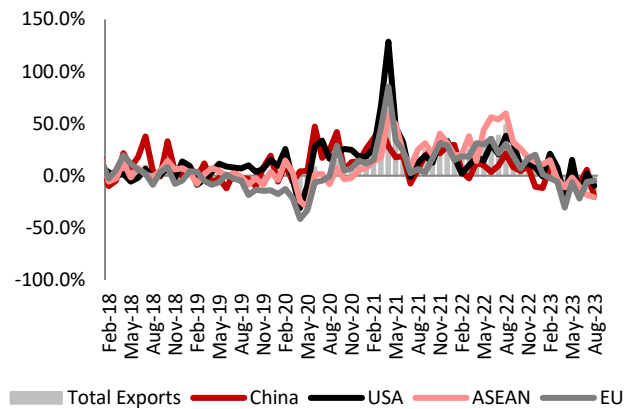
Maintain our projection for both exports and imports to contract in 2023. We maintain our projection that exports and imports to fall by -6.4% and -6.9%, respectively, this year. While the recent trade numbers suggest external demand is weaker than expected, we foresee possible upside risks to the international trade outlook from better growth in China and expected recovery in the E&E market towards the end of the year. Moreover, recent increases in commodity prices would reduce the negative price effect on external trade performance. On the other hand, we remain cautious that weaker-than-expected global demand particularly from the advanced markets will continue to adversely affect the international trade as final demand from these economies may be constrained by the high borrowing costs and tighter credit. Given the uncertainty in demand, we expect imports to fall as local producers slow down their purchases of inputs and raw materials. 

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



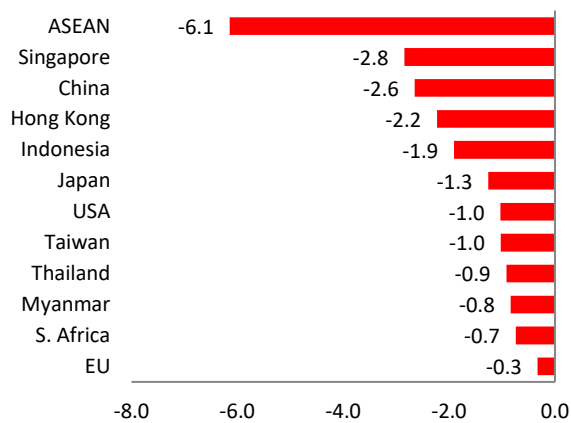
Source: Macrobond, MIDFR

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



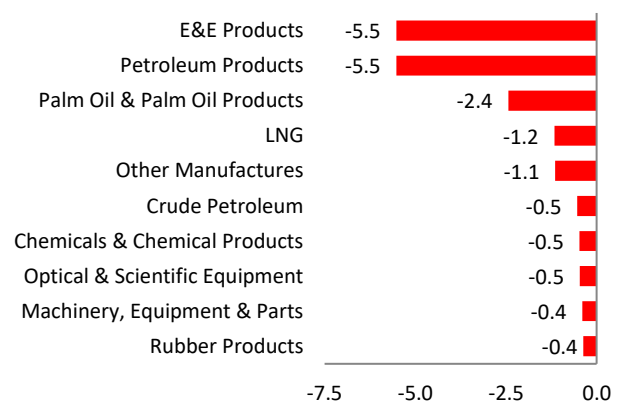
Source: Macrobond, MIDFR

Chart 3: Contribution to Total Exports Growth in Aug-23 by Destinations (%-points)



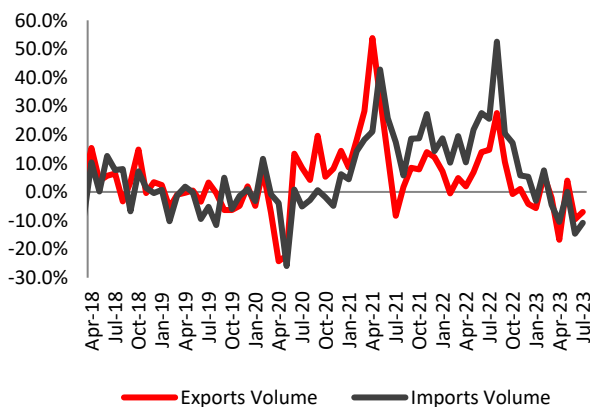
Source: Macrobond, MIDFR

Chart 4: Contribution to Total Exports Growth in Aug-23 by Key Products (%-points)



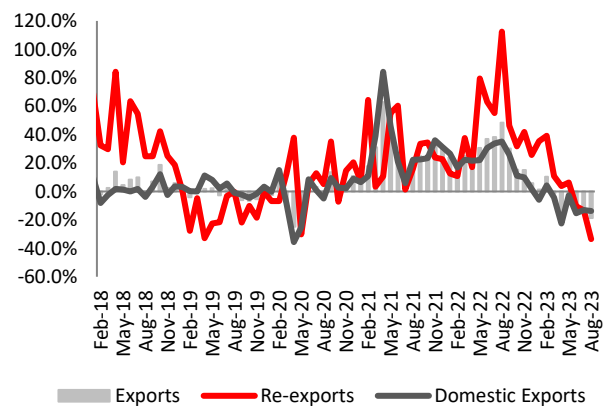
Source: Macrobond, MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



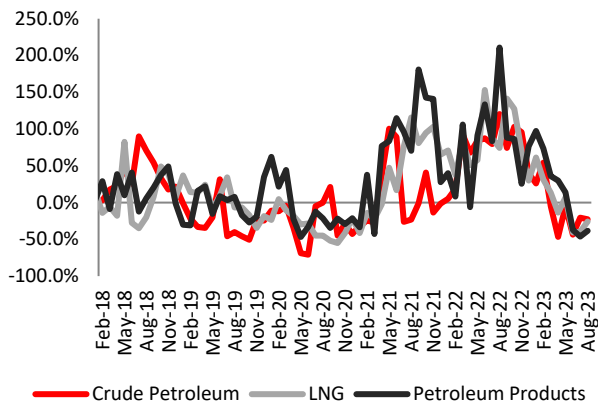
Note: Latest available data as of Jul-23
Source: Macrobond, MIDFR

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



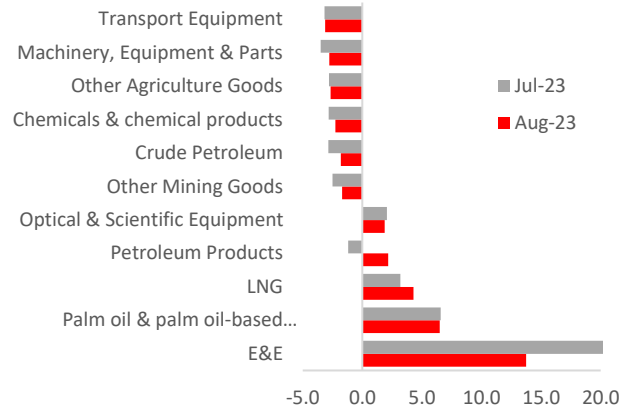
Source: Macrobond, MIDFR

Chart 7: Exports of Mining Goods (YoY%)



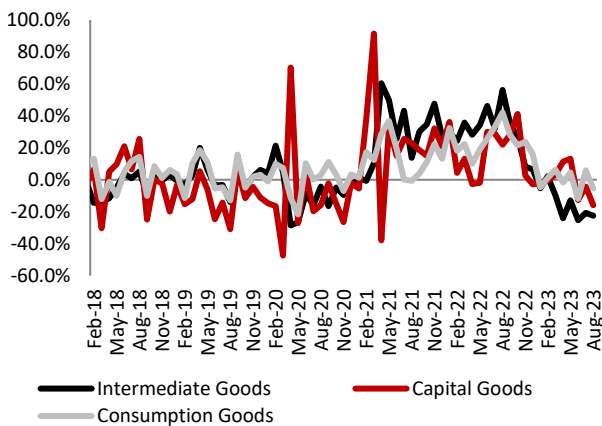
Source: Macrobond, MIDFR

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



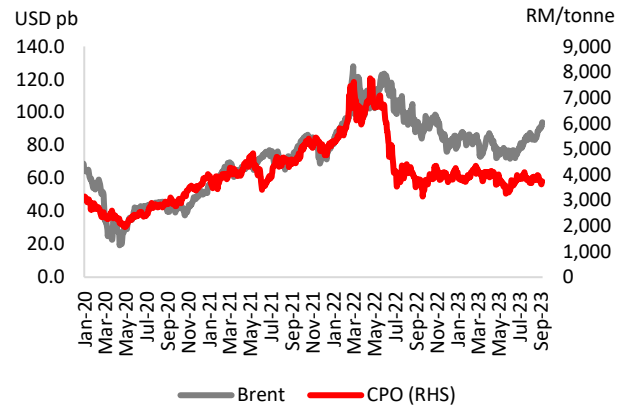
Source: Macrobond, MIDFR

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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