

ECONOMIC REVIEW | October 2023 External Trade

External Trade Improved in Oct-23 as Declines in Exports and Imports Eased Further

- Exports contracted slower at -4.4%yoy. The decline in exports moderated to 5-month low of -4.4%yoy, but falling further due to reduced exports of E&E, palm oil, and rubber.
- Slower drop in E&E exports vis-à-vis weak mining exports. By sector, manufacturing exports decreased slower at -3.5%yoy in Oct-23 (Sep-23: -11.9%yoy), with slower contraction in E&E shipments and rebound in exports of machinery & equipment as well as optical & scientific equipment.
- No change to our 2023 projection. We maintain our forecast that exports and imports will fall by -6.4% and -6.9%, respectively, in 2023.

Exports contracted slower at -4.4%yoy. Malaysia's total trade declined further for the 8th straight month but at slower pace of -2.4%yoy in Oct-23, with total trade value reaching 12-month high at RM239.5b. The +6.8%mom in total trade was mainly due to strong surge in imports (+13.4%yoy), which also resulted in trade surplus shrinking to RM12.9b (Sep-23: RM24.4b), approximately -30.3%yoy lower than the surplus a year ago. The decline in exports also moderated to -4.4%yoy, the slowest contraction in 5 months. Although the improvement (i.e., the slower contraction) was anticipated, the pace of decline was in line with market consensus but not as steep as our estimate, because of the slower decline in, among others exports of E&E, palm oil, and rubber. Both domestic exports and re-exports also fell slower at -5%yoy and -2.2%yoy (Aug-23: -12.4%yoy and -18.3%yoy), respectively. Compared to the prior month, exports grew by +1.5%mom driven primarily by stronger exports of petroleum products (+28.6%mom), LNG (+16.5%), and palm oil & palm oil products (+5.6%mom). With the improvement in Oct-23 trade data signaling another month of recovering external demand, we believe the trade recovery will be supportive of economic growth in 4QCY23 onwards.

Table 1: Malaysia's External Trade Summary

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Exports (RMb)	105.2	119.5	124.0	116.8	115.0	124.3	126.2
% YoY	(17.5)	(0.9)	(14.1)	(13.0)	(18.7)	(13.8)	(4.4)
% MoM	(18.9)	13.6	3.7	(5.8)	(1.5)	8.1	1.5
Imports (RMb)	92.6	103.8	98.4	99.5	97.8	99.9	113.3
% YoY	(11.1)	(3.7)	(18.7)	(16.1)	(21.2)	(11.1)	(0.2)
% MoM	(10.1)	12.1	(5.2)	1.1	(1.6)	2.1	13.4
Total Trade (RMb)	197.8	223.3	222.4	216.3	212.9	224.2	239.5
% YoY	(14.6)	(2.2)	(16.2)	(14.5)	(19.9)	(12.6)	(2.4)
% MoM	(15.0)	12.9	(0.4)	(2.7)	(1.6)	5.3	6.8
Trade Balance (RMb)	12.6	15.7	25.5	17.4	17.2	24.4	12.9

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Import Components							
Intermediate (Rmb)	45.4	54.9	47.9	48.9	51.5	49.7	55.9
% YoY	(24.1)	(13.0)	(25.3)	(20.8)	(22.5)	(15.2)	(7.9)
Capital (Rmb)	10.1	9.9	9.7	10.5	10.7	10.8	12.7
% YoY	11.3	13.0	(12.6)	(4.3)	(16.1)	(24.2)	(19.9)
Consumption (Rmb)	8.2	8.9	8.2	8.7	8.5	8.8	9.4
% YoY	(1.6)	4.5	(11.9)	2.8	(5.5)	(0.5)	9.9

Note: MoM is non-seasonally adjusted figure

Source: Macrobond, MIDFR

Import decline slowed sharply to -0.2%yoy. Imports improved sharply in Oct-23 as the pace of decline slowed to a marginal drop of -0.2%yoy against Oct-22 (Sep-23: -11.1%yoy). This was underpinned mainly by the slower contraction in imports of *intermediate* goods (-7.9%yoy), the first single digit decline in 7 months, as firms increased their purchases of raw materials and inputs in anticipation of improving demand. Moreover, apart from the slower fall in capital goods imports (-19.9%yoy), we also noticed the rebound in consumption goods imports (+9.9%yoy) also contributed to the better imports in Oct-23 on the back of a sustained rise in domestic consumption. By sector, the slow import decline was due to increased imports of manufactured goods (+1.7%yoy), especially strong demand for petroleum products (+14.3%yoy), iron & steel (+41.6%yoy), and manufactures of metal (+15.8%yoy), in contrast to lower imports of E&E products (-10.2%yoy) and crude petroleum (-16.7%yoy). We believe the improved imports suggest local businesses increased purchases of parts & components and materials to support future production needs. This is in line with the findings from the PMI survey which continued to indicate better sentiment among local producers in anticipation of better demand.

Rebound in exports to the US vis-à-vis slower declines to ASEAN and China. By destination, export growth to major markets improved in Oct-23, underpinned by increased exports to the US, coupled with slower decreases recorded in shipments to ASEAN, China, and the EU. Exports to the US (share: 11.3% of Oct-23 exports) rose +4%yoy, rebounding from 2 months of contraction on increased exports of transport equipment, manufactures of metal and machinery & equipment. Exports to Hong Kong also rose by +7%yoy on higher demand for Malaysia's E&E products and crude petroleum. In contrast, Malaysia's exports to ASEAN dropped -5.7%yoy, the weakest decline since Jun-23, dragged down by lower exports of E&E and refined petroleum products. Meanwhile, exports to China dropped further but at slower pace of -7%yoy following reduced shipments of palm oil & palm oil-based products, LNG and E&E. To the EU, Malaysia's exports to the region improved, also falling at slower pace and almost the same level as last year, only -0.1%yoy less than Oct-22 because higher demand for E&E was offset by smaller shipments of refined petroleum products and iron & steel products. Meanwhile, exports to Japan remained frail, falling further at double-digit (-23.4%yoy) attributable to weak exports of LNG and E&E products. In general, we see better export performance to major markets in Oct-23 was backed by improved exports of manufactured goods. We foresee the recovery in exports to major markets will continue in the final quarter 2023, especially backed by resilient consumer spending in the US and continued recovery in China.

Table 2: Malaysia's Exports (YoY%)

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Total Exports (RMb)	105.2	119.5	124.0	116.8	115.0	124.3	126.2
Re-exports (RMb)	25.0	25.9	30.2	27.7	23.1	27.6	29.8
Domestic Exports (RMb)	80.2	93.6	93.8	89.1	91.9	96.7	96.4
Exports by Key Country / Region							
China	(20.4)	1.4	(8.0)	5.8	(20.3)	(17.3)	(7.0)
USA	(21.5)	15.3	(19.0)	2.2	(9.7)	(9.3)	4.0
Japan	(22.1)	2.1	(20.9)	(24.8)	(19.4)	(25.5)	(23.4)
India	(29.8)	(5.6)	(32.0)	(16.2)	(17.6)	(12.4)	4.6
Hong Kong	(4.3)	(7.8)	(11.2)	(3.8)	(33.4)	(12.0)	7.0
Australia	(14.4)	28.7	9.1	(0.1)	12.6	(26.2)	(8.2)
EU	(30.5)	(6.1)	(21.8)	(6.0)	(4.6)	(8.3)	0.7
ASEAN	(11.3)	(1.7)	(10.6)	(18.7)	(20.9)	(10.9)	(5.7)
Singapore	(1.4)	6.8	(0.9)	(19.6)	(19.4)	(12.0)	(8.1)
Thailand	(24.1)	(8.9)	(26.5)	(17.7)	(22.5)	4.8	(21.4)
Indonesia	8.5	(11.8)	(8.5)	(18.0)	(40.3)	(31.8)	(10.2)
Vietnam	(28.6)	13.0	(6.0)	0.2	23.4	12.1	11.6
Philippines	(27.2)	(21.5)	(9.5)	(30.9)	8.9	(11.1)	20.5

Source: Macrobond, MIDFR

Slower drop in E&E exports vis-à-vis weak mining exports. By sector, manufacturing exports (which covered 85.3% of total exports) decreased slower at -3.5%yoy in Oct-23 (Sep-23: -11.9%yoy), tracking the slower contraction in E&E shipments and rebound in exports of machinery & equipment as well as optical & scientific equipment. The slower fall in E&E exports (Oct-23: -2.3%yoy; Sep-23: -5.6%yoy), was mostly underpinned by supported by stronger exports of semiconductors (+2.5%yoy) and office machines (+33.5%yoy). Meanwhile, mining sector exports also registered a smaller decline of -21.9%yoy (Sep-23: -28.5%yoy), continued to be constrained largely by lower exports of LNG (-34.9%yoy) and crude petroleum (-22.3%yoy). Agriculture exports, on the other hand, rebounded to grow +3.3%yoy in Oct-23, the first expansion after 12 months of declines. The rebound mainly reflected higher exports of other agriculture goods (+39.2%yoy) and natural rubber (+26.2%yoy) which more than offset the decline in exports of palm oil-based agriculture products (-0.8%yoy). Combined with the palm oil-based manufactured goods, the overall palm oil exports remained below last year, falling further by -24.7%yoy. Looking at the stronger semiconductor exports, this supported improved global semiconductor sales which has bottomed out in 2QCY23. We expect improvement in E&E exports (share: 39% of Oct-23 exports) to be the main contributor to the external trade recovery in the coming months.

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

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
E&E	(6.5)	1.5	3.3	7.3	(15.5)	(5.6)	(2.3)
Machinery, Equipment & Parts	(29.0)	13.0	(17.6)	(21.0)	(11.5)	(5.2)	6.6
Optical & Scientific Equipment	(16.7)	11.5	(8.4)	(4.2)	(13.3)	(7.4)	1.2
Palm oil & palm-oil based products	(34.8)	(36.1)	(45.9)	(34.6)	(33.1)	(24.7)	(5.5)

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Crude Petroleum	(46.8)	(5.5)	(43.7)	(20.6)	(22.5)	(13.9)	(22.3)
Petroleum Products	30.1	13.8	(36.9)	(50.8)	(39.9)	(37.8)	(23.7)
LNG	(13.4)	6.7	(40.8)	(39.7)	(26.0)	(37.8)	(34.9)
Rubber products	(51.7)	(20.9)	(32.7)	(22.6)	(26.0)	(17.8)	(5.2)

Source: Macrobond, MIDFR

Volume declines also started to slow. Based on the latest available data for Sep-23, the continued weakness in external trade was mainly a result of lower volume. Export volume dropped further by -10.6%yoy in Sep-23 (Sep-23: -15.1%yoy), sharper than -3.4%yoy in export prices (Sep-23: -4%yoy). The decline in export volume was recorded across all categories, including crude materials, chemicals, mineral fuels & lubricants as well as manufactured goods. Meanwhile, the export price decline was mainly explained by lower crude oil & palm oil prices. Similarly, the decline in import volume (Sep-23: -11.5%yoy; Aug-23: -18.9%yoy) was persistently steeper than the decline import prices (Sep-23: -1.4%yoy; Aug-23: -2.7%yoy). The weak import volume was more significant in primary commodities such as mineral fuels & lubricants and oils & fats, while the price decline in imports mainly tracked lower crude oil prices, chemicals, and other crude materials. In line with our expectations that the volume change will play a greater influence on the trade changes. Going forward, we expect the improvement in trade volume to continue in line with the recovery in external demand.

The trade surplus declined mainly influenced by E&E trade. The decline in trade surplus to +RM12.9b in Oct-23 (Sep-23: +RM24.4b) was largely attributable to reduced surplus in E&E trade (Oct-23: +RM16.9b; Sep-23: +RM23.2b) as E&E exports fell -9.2%mom from previous month. In addition, deficits for trade of crude petroleum and refined petroleum products both widened to -RM3.9b and -RM2.0b (Sep-23: -RM0.4b and -RM0.7b), respectively. While this was the result of a strong monthly rise in petroleum imports on the back of strong US dollar and the temporary surge in crude oil prices following the escalation of geopolitical conflict in the Middle East during the month. Sectors which recorded higher trade surplus in Oct-23 were LNG (Oct-23: +RM4.3b; Sep-23: +3.5b) and palm oil (Oct-23: +RM8b; Sep-23: +RM7.6b). Although we expect E&E trade recovery to continue sustaining trade surplus, which typically accounted for the big share of the overall surplus, surpluses in LNG and palm oil trade will also help to limit the deficits in trade of other export products such as machinery & equipment, transport equipment, and even other agriculture goods.


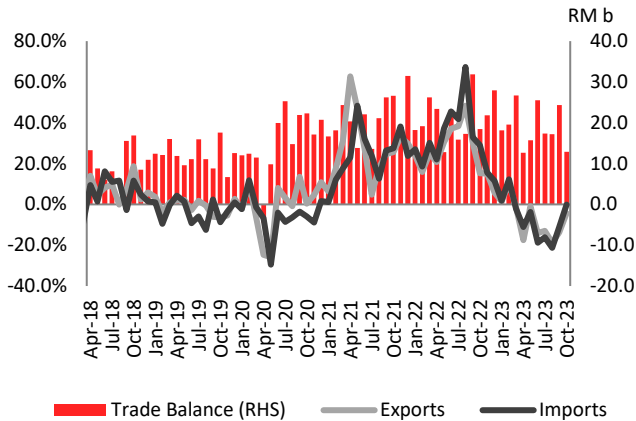
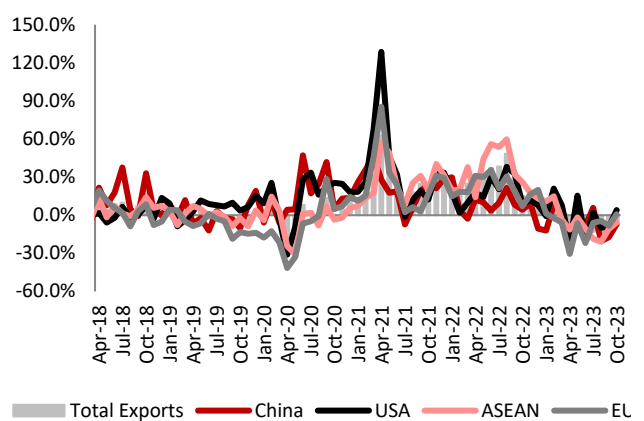
No change to our 2023 projection. We maintain our forecast that exports and imports will fall by -6.4% and -6.9%, respectively, in 2023. So far, the average growth for both exports and imports in first 10 months stood at -7.2%yoy and 7.0%yoy, respectively. With the expected improvement in the final quarter of 2023, there is an upside bias such as a stronger recovery in China and a better turnaround in E&E trade which will make the full-year decline not as steep as we estimated. Given the declines and the weak performance this year, we foresee external trade will continue to recover and this will support for exports and imports to rebound next year. On the other hand, factors which could weigh down on trade outlook among others are significant slowdown in the advanced economies and escalation of geopolitical and trade tensions, which could adversely affect stability of global trade flow and movement in global commodity prices. 

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



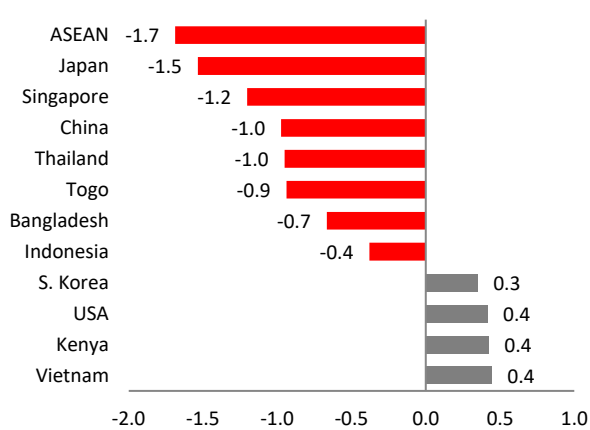
Source: Macrobond, MIDFR

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



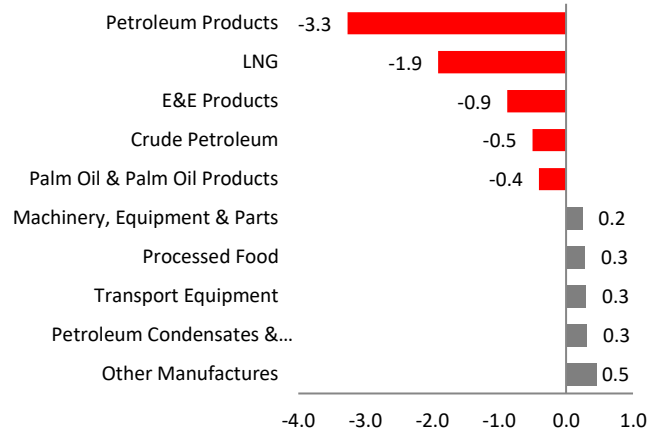
Source: Macrobond, MIDFR

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



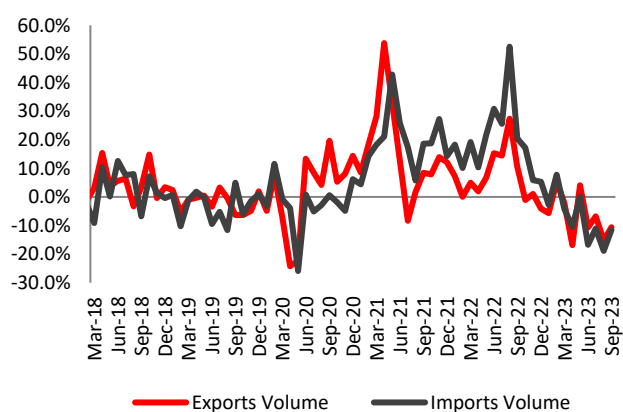
Source: Macrobond, MIDFR

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



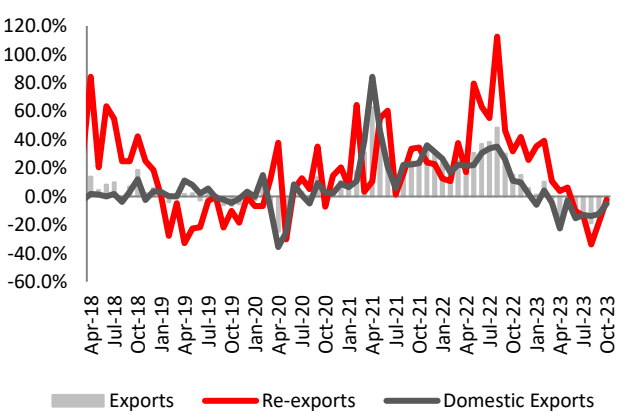
Source: Macrobond, MIDFR

Chart 5: Exports vs Imports Volume (YoY%)



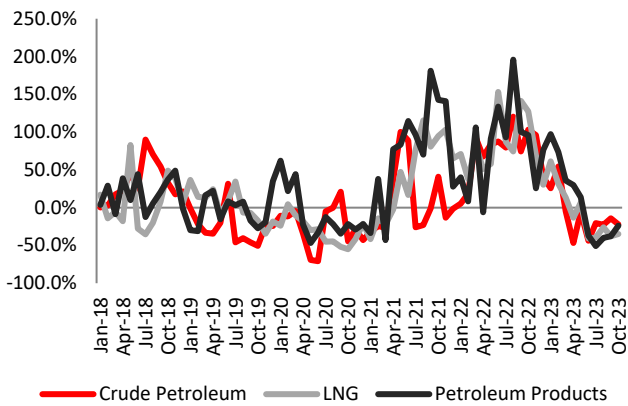
Note: Latest available data as of Sep-23
Source: Macrobond, MIDFR

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



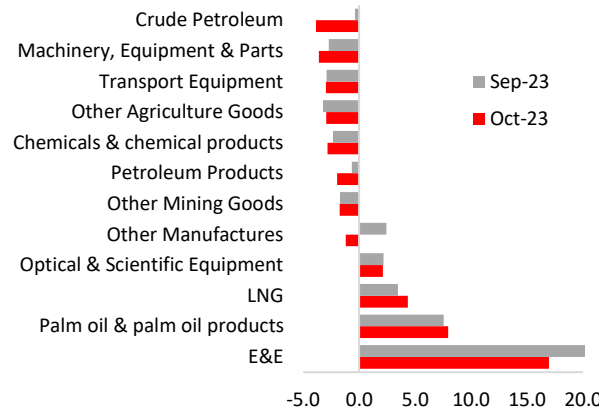
Source: Macrobond, MIDFR

Chart 7: Exports of Mining Goods (YoY%)



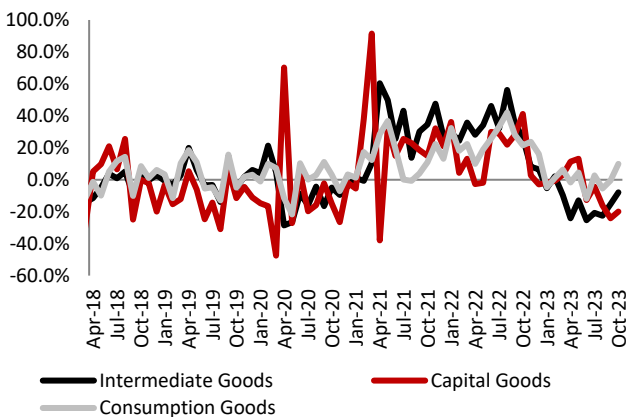
Source: Macrobond, MIDFR

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



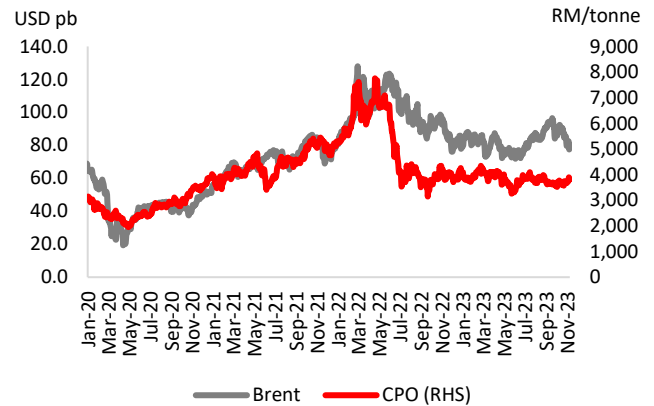
Source: Macrobond, MIDFR

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



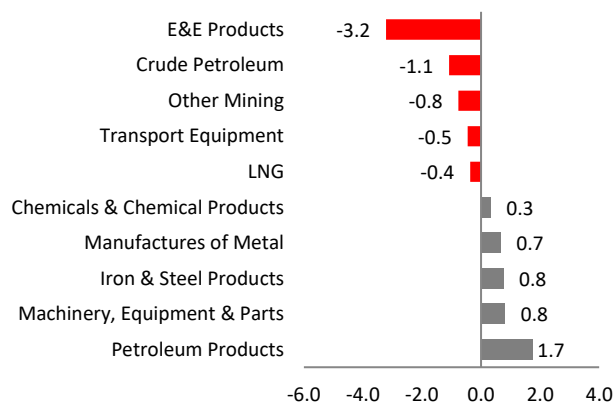
Source: Macrobond, MIDFR

Chart 10: Brent Crude Oil and CPO Prices



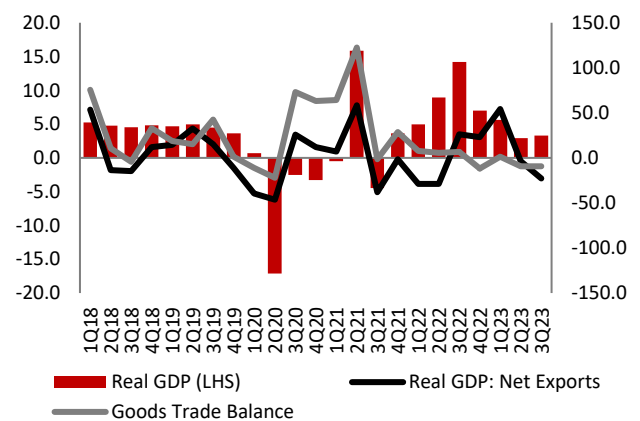
Source: Bloomberg, MIDFR

Chart 11: Contribution to Total Imports Growth in Oct-23 by Key Products (%-points)



Source: Macrobond, MIDFR

Chart 12: Trade Balance vs. Net Exports (YoY%)



Source: Macrobond, MIDFR

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