

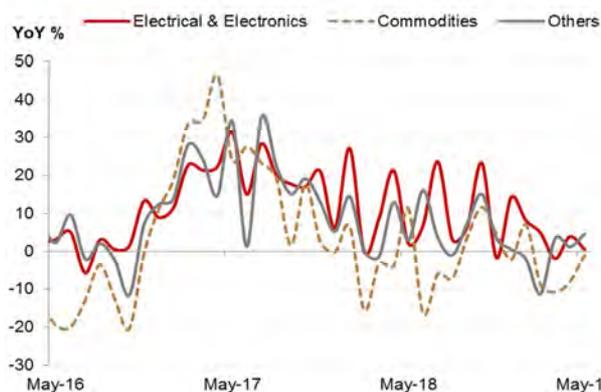
Malaysia External Trade

May exports expand on higher palm oil shipments, trade surplus narrows

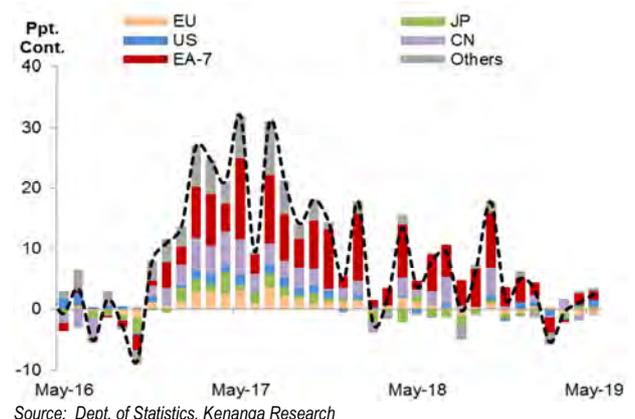
OVERVIEW

- May exports expanded by 2.5% YoY (Apr: 1.1%)**, remaining on an uptrend for the third successive month, but was below consensus and house estimate of 3.6% and 13.5%, respectively. On a MoM basis, it contracted by 1.2% (Apr: +1.3%). The stronger YoY performance was mainly driven by improved demand from the US, China and Philippines, and bigger export value for palm oil. Meanwhile, **imports softened to 1.4% (Apr: 4.4%)**, below consensus and above house estimate of +2.6% and -2.3%, respectively. As exports declined and imports expanded on a MoM basis, the **trade surplus narrowed to a 6-month low of RM9.1b (Apr: RM10.8b)**. Year-to-date, exports grew by 0.3% (2018: 6.7%), while imports dropped by 0.3% (2018: +1.6%), resulting in an enlarged trade surplus of RM56.8b (2018: RM54.5b).
- Product-wise, improvement in shipments of commodities, specifically palm oil, outpaced lower shipments of electrical & electronics (E&E)**. Exports of palm oil rebounded to 20.8% (Apr: -17.3), resulting in a 10-month low stockpiles of 2.4m tonnes (Apr: 2.7m tonnes), in spite of the increase in production (9.6% YoY; Apr: 5.8%). Shipments of crude petroleum also declined by less (-20.0%; Apr: -34.6%), as the average Brent crude oil price remained sustained at USD71.2/barrel, amid unfavourable development surrounding the US-China trade talks. After further deceleration in June (USD64.2/barrel), we foresee a strengthening of the crude oil price following OPEC's decision to extend the oil output curbs by 9 months up until March 2020. The aforementioned factors offset the sharply lower E&E shipments, (0.5% YoY, Apr: 39%), weighed mainly by lower demand for thermionic valves and tubes.
- By destination, demand for Malaysia's exports rebounded** in the US and the Philippines, while dropped by less in China. Exports to the US and Philippines increased sharply by 11.7% (Apr: 3.1%) and 39.9% (-0.7%), with their contribution to export growth edged up to 1.0 percentage points (ppt) and 0.6 ppt, respectively. Charting a slight improvement, demand from China contracted, albeit at a slower rate of 2.2% (Apr: -6.6%). Demand from China may be lifted temporarily in June, amid front-loading of exports to the US ahead of the proposed tariff hike, which has primarily been put off following the G20 summit. Of note, exports to Singapore slowed to 2.6% (Apr: 10.5%) on the back of cyclical slowdown in the electronics market, with its contribution to overall growth reduced to 0.3 ppt.
- Tracking an opposite direction, imports weakened in May, led by a negative turnaround in the capital goods segment** (-5.9%; Apr: 5.7%), followed by weaker purchases of intermediate (6.4%; Apr: 20.3%) and consumption goods (10.9%; Apr: 18.9%). Notably, the bulk of the lower import growth was attributable to softer retained imports (8.4%; Apr: 19.2%), suggesting weakness in domestic demand.
- Overall, **we retain our view that trade performance would remain lacklustre**, premising upon the looming uncertainty surrounding the US-China trade feud and faltering economic growth in major global markets, including China and the EU. Though more central banks have started to lean or fully adopt a dovish monetary policy stance, such as through benchmark rate cuts and injection of funds via the targeted medium-term lending facility, the intended positive outcome on the economy will need time to materialise. Against this backdrop, **we maintain our exports forecast of 1.0%-2.0% in 2019 (2018: 6.8%)**. Along with an expectation of slower domestic demand, **GDP growth will likely extend its slowdown into the 2Q19 to 4.3% from 4.5% in 1Q19, adding to our whole year projection of a slower growth of 4.5% (2018: 4.7%)**.

Graph 1: Exports by Product



Graph 2: Exports by Destination



05 July 2019

Table 1: Malaysia External Trade Growth Trend

		2016	2017	2018	May -18	Jan -19	Feb -19	Mar -19	Apr -19	May -19
Total Trade	%YoY	1.5	19.2	5.9	2.6	2.1	-7.2	-0.3	2.6	2.0
Trade Balance	RM bil	88.1	98.5	120.5	8.1	11.5	11.1	14.4	10.8	9.1
Exports	%YoY	1.2	18.8	6.8	3.7	3.1	-5.3	-0.5	1.1	2.5
	%MoM				-2.5	2.2	-22.0	26.2	1.3	-1.2
E&E	%YoY	3.6	19.2	11.0	2.1	8.2	4.9	-1.9	3.9	0.5
	Shr	36.6	36.7	38.1	35.5	40.2	38.8	37.2	38.9	34.9
Commodities	%YoY	-12.5	19.4	-1.6	11.3	7.1	-8.9	-10.9	-8.1	-1.0
	Shr	13.6	13.7	12.6	12.5	13.9	12.5	12.1	11.1	12.1
Others	%YoY	4.0	18.4	5.9	3.0	-2.0	-11.3	3.5	1.2	4.6
	Shr	49.8	49.6	49.3	51.9	45.9	48.8	50.7	50.0	53.0
Imports	%YoY	1.9	19.7	4.9	1.4	1.0	-9.4	-0.1	4.4	1.4
	%MoM				3.9	1.4	-24.8	25.5	6.7	1.0
Capital	%YoY	4.9	15.3	-3.3	9.8	-3.2	-15.0	-11.9	5.7	-5.9
	Shr	14.3	13.8	12.7	13.3	12.2	11.9	11.9	11.9	12.3
Intermediate	%YoY	-0.1	20.0	-3.9	-5.3	-0.8	-2.8	3.2	20.3	6.4
	Shr	57.1	57.3	52.4	54.1	50.7	57.4	54.6	54.8	56.8
Consumption	%YoY	7.3	6.1	2.5	-10.2	3.3	-11.6	10.5	18.9	10.9
	Shr	9.6	8.5	8.3	8.1	8.8	8.2	8.5	8.9	8.8

Source: Dept. of Statistics, CEIC, Kenanga Research, Shr. = share to total exports or imports, E&E = Electrical & Electronic products

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