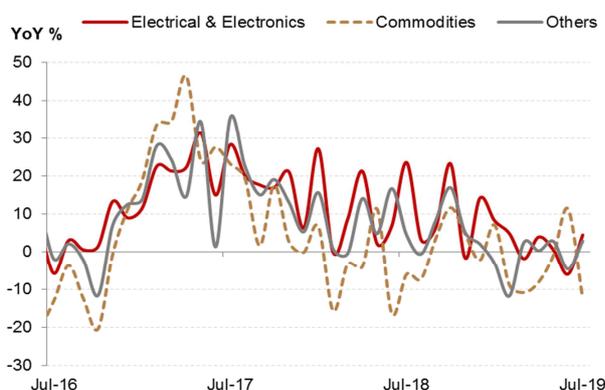


Malaysia External Trade

Exports rebound in July on stronger E&E shipments

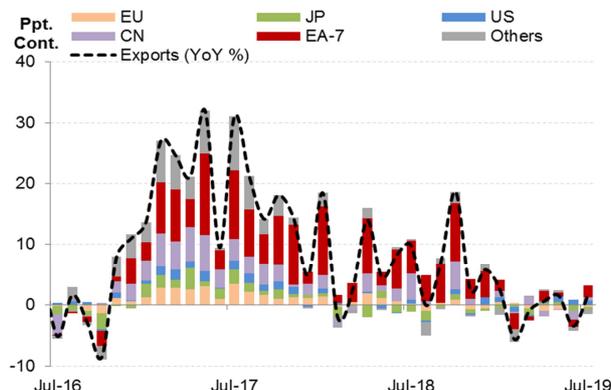
- July export growth rebounded to a six-month high of 1.7% YoY (Jun: -3.4%),** slightly higher than house estimate of 1.4% but far above consensus call of -4.2%. On a MoM basis, the turnaround was even sharper at 15.5% (Jun: -9.5%). The stronger YoY performance was mainly driven by improved demand from China and Hong Kong, and larger export value for electrical & electronics (E&E). Similarly, **imports deceleration eased to -5.9% (Jun: -9.8%),** outpacing consensus and house estimate of -7.4%. As exports grew at a faster pace compared to imports on a MoM basis, the **trade surplus widened to a four-month high of RM14.3b (Jun: RM10.5b).** Year-to-date, exports contracted by 0.4% (2018: +7.8%), while imports dropped by 2.6% (2018: +5.0%), resulting in an enlarged trade surplus of RM81.6b (2018: RM70.5b).
- Product-wise, improvement in shipments of E&E offset lower shipments of commodities, specifically crude petroleum and palm oil.** Exports of E&E rebounded to 4.5% (Jun:-6.0%), propelled by increased demand for electronic integrated circuits, defying the down cycle of the semiconductor industry. This has outweighed the steep contraction in shipments of crude petroleum (-45.7%; Jun: +31.7%), as the growth in the average Brent crude oil price dropped further by 13.9% (Jun: +7.9%) to USD63.9/barrel. In the immediate term, crude petroleum exports will likely remain pressured by the recent unfavourable developments surrounding the US-China trade talks. Similarly, exports of palm oil fell markedly by 14.2% (Jun: +7.9%), reflecting the lower average price of crude palm oil during the month (RM1,879/MT; Jun: RM1,968/MT). Nonetheless, we foresee improved palm oil exports in the near term as China halted imports of agriculture products from the US.
- By destination, the better exports figure was led by rising demand from China, followed by Hong Kong, and Singapore.** Exports to China marked a positive turnaround, expanding by 3.8% (Jun: -10.7%) with its contribution to export growth edged up to 0.6 percentage points (ppt) (Jun: -1.5 ppt.), in part lifted by front-loading of US-bound exports amid the temporary-nature of the trade truce achieved post-G20 summit in July. Of note, exports to Singapore returned to an expansion (3.1%; Jun: -1.2%), contributing 0.4 ppt to the overall growth. Meanwhile, weaker exports were recorded to the US (0.7%; Jun: 0.8%) and the EU (-0.3%; Jun: +0.1%).
- Tracking a similar direction, imports declined by less in July, led by the capital goods segment (-12.4%; Jun: -24.4%),** followed by intermediate goods (-2.4%; Jun: -3.0%) and consumption goods (-4.5%; Jun: -5.3%). Notably, the bulk of the higher import growth was attributable to the re-exports category (-4.1%; Jun: -22.3%), while retained imports improved by a smaller margin (-5.7%; Jun: -6.1%), suggesting continued weakness in domestic demand.
- Overall, we retain our view that trade performance would remain subdued,** premising upon the prevailing uncertainty surrounding the US-China trade feud, faltering economic growth in major global markets, including China and the EU, as well as the escalating Japan-South Korea trade war, jeopardizing the global supply chain for smartphones and electronic devices. As such, **we foresee export growth to meet the lower-end of our forecast range of 1.0%-2.0% in 2019 (2018: 7.3%),** as a rebound resulting from trade diversion may be observed in the 2H19. Coupled with soft domestic demand, **GDP growth will likely extend its slowdown into the 3Q19 to 4.4% from 4.9% in 2Q19, adding to our whole year projection of a slower growth of 4.5% (2018: 4.7%).**

Graph 1: Exports by Product



Source: Dept. of Statistics, Kenanga Research

Graph 2: Exports by Destination



Source: Dept. of Statistics, Kenanga Research

05 September 2019

Table 1: Malaysia External Trade Growth Trend

		2016	2017	2018	Jul -18	Mar -19	Apr -19	May -19	Jun -19	Jul -19
Total Trade	%YoY	1.5	19.2	6.3	10.4	-0.7	2.2	1.5	-6.5	-1.9
Trade Balance	RM bil	88.1	98.5	123.8	8.1	14.4	10.8	9.1	10.5	14.3
Exports	%YoY	1.2	18.8	7.3	9.8	-0.9	0.6	1.5	-3.4	1.7
	%MoM				9.7	26.2	1.3	-1.2	-9.5	15.5
E&E	%YoY	3.6	19.2	11.0	23.6	-1.9	3.9	0.6	-6.0	4.5
	Shr	36.6	36.7	37.9	39.9	37.2	38.9	34.9	36.9	41.0
Commodities	%YoY	-12.5	19.4	-1.6	-6.1	-10.9	-8.1	-1.0	11.4	-12.4
	Shr	13.6	13.7	12.5	11.7	12.1	11.1	12.1	12.5	10.1
Others	%YoY	4.0	18.4	7.1	4.5	2.5	0.3	2.8	-4.6	2.9
	Shr	49.8	49.6	49.5	48.4	50.7	50.0	53.0	50.6	48.9
Imports	%YoY	1.9	19.7	5.2	11.0	-0.3	4.2	1.4	-9.8	-5.9
	%MoM				7.7	25.5	6.7	1.0	-12.6	12.3
Capital	%YoY	4.9	15.3	-3.3	4.6	-11.9	5.7	-6.2	-24.4	-12.4
	Shr	14.3	13.8	12.7	12.3	11.9	11.9	12.3	10.9	11.4
Intermediate	%YoY	-0.1	20.0	-3.9	-0.1	3.2	20.3	6.5	-3.0	-2.4
	Shr	57.1	57.3	52.4	51.2	54.6	54.8	56.8	58.2	52.8
Consumption	%YoY	7.3	6.1	2.5	11.1	10.5	18.9	10.9	-5.3	-4.5
	Shr	9.6	8.5	8.3	8.6	8.5	8.9	8.8	8.5	8.6

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

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Atiqa Noor Azlan
Economist
atiqa.noorazlan@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my