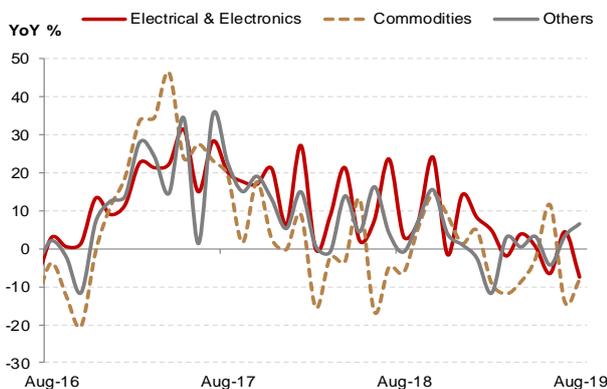


# Malaysia External Trade

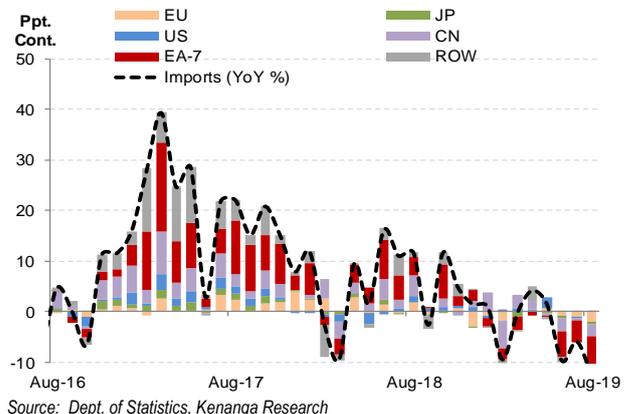
Exports surprisingly down in August on weak E&E demand

- August export growth surprisingly fell by 0.8% YoY (Jul: +1.7%),** as house and consensus estimate were expecting a positive growth of 1.1% and 2.7% respectively. On a MoM basis, exports fell even sharper at 7.5% (Jul: +15.5%). The decline was attributed to weak demand from China, Hong Kong, Taiwan and Singapore as well as a decline in shipment for electrical & electronics (E&E). Similarly, **imports declined by 12.5% (Jul: -6.0%),** beating house and consensus estimate of -11.6% and -8.0% respectively. Consequently, **trade surplus shrank to RM10.9b (Jul: RM14.3b).** Year-to-date, exports fell by 0.4% (Jan-Aug 2018: +6.7%), while imports recorded an even bigger drop of 4.0% (Jan-Aug 2018: +5.9%), resulting in an enlarged trade surplus of RM92.5b (Jan-Aug 2018: RM71.9b). **Overall, total trade fell by 6.6% YoY in August (Jul: -1.9%) signalling a lacklustre demand in both domestic and overseas market.**
- Product-wise, lower shipments were mainly recorded for E&E and commodities products.** Exports of E&E dropped by 7.4% YoY (Jul: +4.5%), mainly due to lower demand for thermionic valves & tubes (-4.0%; Jul: +11.2%), parts and accessories for office machine (-30.7%; Jul: -24.6%) and other (-17.7%; Jul: -11.3%) on the back of the tech down cycle and the impact of a prolonged trade war. Similarly, exports of crude petroleum continued to fall for the second consecutive month albeit lesser (-40.0%; Jul: -45.7%), as average Brent crude oil price dropped by 18.6% YoY to USD59.04/barrel from USD72.53/barrel a year ago. Recent unfavourable developments surrounding the US-China trade talks and the fall of average Brent crude oil price by as much as 20.4% YoY in September would weigh on crude petroleum exports in the near term. Bucking the trend, exports of palm oil-based products sharply rebounded by 16.7% (Jul: -10.8%), thanks to the higher export value of palm oil which was supported by an increase in average price of crude palm oil during the month (RM2,067/MT; Jul: RM1,879/MT).
- By destination, the fall in exports was led by weak demand from Hong Kong, followed by Singapore, Taiwan and China.** Exports to Hong Kong dropped sharply by 15.4% YoY (Jul: +2.5%) dragging overall exports growth by 1.1 percentage points (ppt) (Jul: 0.2 ppt) amid escalating public protest in Hong Kong's, disrupting commercial flights. Similarly, exports to Singapore fell by 7.2% YoY (Jul: +3.5%) dragging 1.0 ppt to the overall growth. Of note, Singapore's export has been declining for six straight months mainly due to the unsettled US-China trade dispute and an increasingly challenging external environment. Meanwhile, exports to Taiwan and China fell by 21.3% and 2.8% YoY respectively (Jul: +50.3% and +3.8% respectively), collectively dragging 1.3 ppt to overall exports growth. Meanwhile, exports to the US grew by 6.8% YoY (Jul: 7.9%) though moderating for the third straight month.
- Tracking a similar trend, **imports declined for the third straight month, led by the capital goods** segment (-31.0%; Jul: -14.0%), followed by intermediate goods (-13.9%; Jul: -3.4%) and consumption goods (-12.8%; Jul: -5.0%). The sluggish import growth was attributable to the retained imports category (-15.0%; Jul: -6.6%), while re-exports category fall by less (-0.3%; Jul: -3.9%) signalling weakness in both domestic and external demand going forward.
- Global headwinds, arising from the growth slowdown in major markets namely China and the EU, as well as the impact of a prolonged US-China trade feud, are factors that would weigh on Malaysia's trade performance in the near term. Hence, **we are revising exports growth to contract by 0.3% YoY in 2019 (2018: 7.3%)** from our initial projection of positive 1.0%-2.0%. This would likely **weigh on GDP growth in 2H19 which is projected to moderate to 4.2% from 4.7% in 1H19, bringing our full-year growth projection to 4.5% (2018: 4.7%).** As the outlook on external sector remains bleak, this may prompt Bank Negara Malaysia to embark on another 25-basis point rate cut in its last policy meeting this year in November. Furthermore, we expect the government to pump prime the domestic economy via its 2020 budget slated to be tabled this Friday.

Graph 1: Exports by Product



Graph 2: Exports by Destination



07 October 2019

Table 1: Malaysia External Trade Growth Trend

		2016	2017	2018	Aug -18	Apr -19	May -19	Jun -19	Jul -19	Aug -19
Total Trade	%YoY	1.5	19.2	6.3	5.4	2.2	1.5	-6.5	-1.9	-6.6
Trade Balance	RM bil	88.1	98.5	123.8	1.4	10.8	9.1	10.5	14.3	10.9
Exports	%YoY	1.2	18.8	7.3	-0.1	0.6	1.5	-3.4	1.7	-0.8
	%MoM				-5.2	1.3	-1.2	-9.5	15.5	-7.5
E&E	%YoY	3.6	19.2	11.0	3.2	3.9	0.6	-6.0	4.5	-7.4
	Shr	36.6	36.7	37.9	39.1	38.9	34.9	36.9	41.0	36.5
Commodities	%YoY	-12.5	19.4	-1.6	-6.3	-8.1	-1.0	11.4	-12.4	-8.2
	Shr	13.6	13.7	12.5	12.5	11.1	12.1	12.5	10.0	11.5
Others	%YoY	4.0	18.4	7.1	-0.9	0.3	2.8	-4.6	2.9	6.5
	Shr	49.8	49.6	49.5	48.4	50.0	53.0	50.6	49.0	52.0
Imports	%YoY	1.9	19.7	5.2	11.7	4.2	1.4	-9.8	-5.9	-12.5
	%MoM				2.8	6.7	1.0	-12.6	12.3	-4.4
Capital	%YoY	4.9	15.3	-3.3	25.5	5.5	-6.1	-24.5	-14.0	-31.0
	Shr	14.3	13.8	12.7	14.5	11.9	12.3	10.9	11.4	11.4
Intermediate	%YoY	-0.1	20.0	-3.9	5.1	19.9	6.0	-3.6	-3.4	-13.9
	Shr	57.1	57.3	52.4	56.3	54.8	56.8	58.2	52.8	55.4
Consumption	%YoY	7.3	6.1	2.5	14.3	18.3	10.5	-5.6	-5.0	-12.8
	Shr	9.6	8.5	8.3	8.8	8.9	8.8	8.5	8.6	8.8

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](mailto:wansuhaimi@kenanga.com.my)

**Atiqa Noor Azlan**  
Economist  
[atiqa.noorazlan@kenanga.com.my](mailto:atiqa.noorazlan@kenanga.com.my)

**Muhammad Saifuddin Sapuan**  
Economist  
[saifuddin.sapuan@kenanga.com.my](mailto: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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)