

05 August 2019

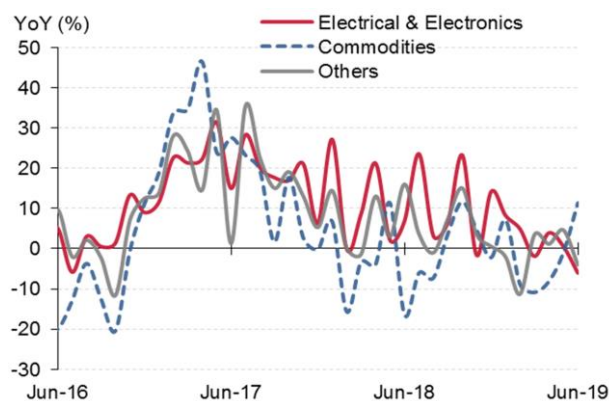
# Malaysia External Trade

Exports slip in June on weak E&E shipments as trade war bites

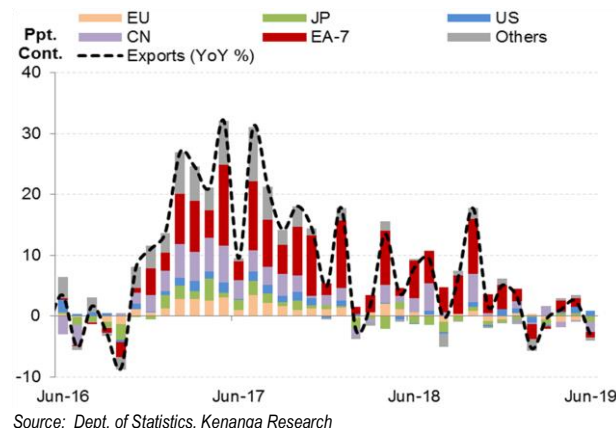
## OVERVIEW

- June exports fell 3.1% YoY (May: +2.5%),** a 4-month low amid growing uncertainties and the impact of the global trade war. It was below consensus and house estimate of 1.9% and 1.7%, respectively. On a MoM basis, it fell sharply by 9.5% (May: -1.2%). The poor YoY performance was mainly due to sluggish demand from China, Japan and Hong Kong, and a big drop in export value for electrical & electronics (E&E) and other products. On a quarterly basis, exports rebounded albeit marginally to 0.2% YoY in 2Q19 (1Q19: -0.7%). Meanwhile, **imports recorded a bigger fall, down 9.2% YoY (May: +1.4%)** on weak domestic demand. As the decline in imports far outpaced exports the **trade surplus expanded to RM10.3b (May: RM9.1b)**. In the 1H19, exports fell by 0.2% YoY (1H18: +6.9%), while imports dropped by 1.8% (1H18: +3.8%), resulting in an enlarged trade surplus of RM67.1b (1H18: RM60.5b). This is expected to contribute to a healthy current account balance.
- Product-wise, exports of commodities registered an improvement, while E&E is at its lowest since July 2013.** Exports of crude petroleum rebounded sharply to 31.7% YoY (May: -20.0%), though average Brent crude oil price dropped to USD64.2/barrel from USD71.2/barrel in May. We foresee exports growth of crude oil to sustain following OPEC's decision to extend output curbs until March 2020. Meanwhile, exports of palm oil in value terms grew by 7.9% YoY albeit slower than the 20.8% recorded in the preceding month, as falling stockpiles continued to support the average prices in June at RM1,968 (May: RM1,947), while Ringgit against the USD strengthened to 4.16 from 4.17 in May. Meanwhile, exports of E&E contracted by 6.0% YoY (May: +0.6%), weighed mainly by lower demand for thermionic valves and tubes, parts and accessories for office machines, and others.
- By destination, demand for Malaysia's exports remained positive in the US and EU but ousted by weak demand in Asia.** Exports to the US grew by 8.8% YoY albeit slower (May: +11.7%), while a slight rebound was recorded in the EU (1.0%; May: -6.2%). Collectively, its contribution to overall exports growth edged up to 0.9 percentage point (ppt) (May: +0.3 ppt). Meanwhile, weaker exports were recorded in destination to Asia led by Hong Kong, China and Japan which fell by 25.0%, 12.0% and 13.5% YoY respectively (May: +3.4%, -2.2% and +7.5% respectively), dragging -4.6 ppt to overall export growth. Meanwhile, exports to the Philippines and Taiwan increased sharply by 51.2% and 26.7% YoY respectively (May: +39.9% and +8.5% respectively), with their contribution to export growth collectively edged up to 1.6 ppt (May: +0.9 ppt). Of note, exports to Singapore fell by 0.9% (May: +2.4%) due to a cyclical slowdown in the E&E sector, with its contribution to overall growth fell by 0.1 ppt.
- In a similar trend, imports weakened in June, led by a broad-based decline in capital, intermediate and consumption goods.** Capital goods fell sharply by 23.6% YoY (May: -6.2%), followed by declines in purchases of consumption (-5.4%; May: +10.9%) and intermediate goods (-2.5%; May: +6.5%). Furthermore, imports for re-exports contracted by 22.3% YoY, while retained imports representing 81.4% of share in total imports, fell 5.6% YoY (May: +8.3%) suggesting a weak domestic demand.
- Overall, total trade fell by 1.0% YoY in 1H19 versus 5.4% recorded in 1H18 as global trade war and growth slowdown in key export markets continued to weigh on Malaysia's trade performance. Hence, **we retain our view that trade performance would remain lacklustre going forward**, and cautiously optimistic whether the so called trade diversion to Malaysia would have made a big positive impact. Other major downsides would mainly be due to the prevailing uncertainty in the US-China trade negotiations as well as the escalating Japan-South Korea trade war threatening the global supply chain for smartphones and electronic devices.
- Against this backdrop, **we forecast exports growth to hit our lower-end range of 1.0-2.0% in 2019 (2018: 6.8%)** should 2H19 exports performance rebounded and gain from the trade diversion. Meanwhile, we expect **GDP growth to likely extend its slowdown in the 2Q19 to 4.3% from 4.5% in 1Q19. With global growth to remain weak and uncertain in the 2H19, we are projecting a slower GDP growth of 4.5% for 2019 (2018: 4.7%).**

Graph 1: Exports by Product



Graph 2: Exports by Destination



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**Table 1: Malaysia External Trade Growth Trend**

		2016	2017	2018	Jun -18	Feb -19	Mar -19	Apr -19	May -19	Jun -19
Total Trade	%YoY	1.5	19.2	5.9	11.6	-7.2	-0.3	2.6	2.0	-6.0
Trade Balance	RM bil	88.1	98.5	120.5	6.0	11.1	14.4	10.8	9.1	10.3
Exports	%YoY	1.2	18.8	6.8	7.9	-5.3	-0.5	1.1	2.5	-3.1
	%MoM				-4.3	-22.0	26.2	1.3	-1.2	-9.5
E&E	%YoY	3.6	19.2	11.0	6.8	4.9	-1.9	3.9	0.6	-6.0
	Shr	36.6	36.7	38.1	38.0	38.8	37.2	38.9	34.9	36.9
Commodities	%YoY	-12.5	19.4	-1.6	-16.4	-8.9	-10.9	-8.1	-1.0	11.4
	Shr	13.6	13.7	12.6	10.9	12.5	12.1	11.1	12.1	12.5
Others	%YoY	4.0	18.4	5.9	16.0	-11.3	3.5	1.2	4.6	-4.0
	Shr	49.8	49.6	49.3	51.1	48.8	50.7	50.0	53.0	50.6
Imports	%YoY	1.9	19.7	4.9	15.9	-9.4	-0.1	4.4	1.4	-9.2
	%MoM				-1.9	-24.8	25.5	6.7	1.0	-12.2
Capital	%YoY	4.9	15.3	-3.3	20.7	-15.0	-11.9	5.7	-6.2	-23.6
	Shr	14.3	13.8	12.7	13.0	11.9	11.9	11.9	12.3	10.9
Intermediate	%YoY	-0.1	20.0	-3.9	3.1	-2.8	3.2	20.3	6.5	-2.5
	Shr	57.1	57.3	52.4	54.2	57.4	54.6	54.8	56.8	58.3
Consumption	%YoY	7.3	6.1	2.5	4.9	-11.6	10.5	18.9	10.9	-5.4
	Shr	9.6	8.5	8.3	8.1	8.2	8.5	8.9	8.8	8.5

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

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