

5 July 2018

Malaysia

Exports Lose Steam In May

- ◆ **Malaysia's export growth decelerated to 3.4% YoY in May (below Bloomberg's 6.4% YoY) after climbing 14% in April. Imports ebbed to 0.1% YoY after rebounding 9.1% in April.**
- ◆ **Overall, May's weak trade numbers indicate that trade volumes have dampened since 1Q amid a slowdown in global economic activity and growing concerns over US-China trade tensions.**
- ◆ **Looking forward, we expect exports to grow 6.5%, albeit slowing from the 18.9% recorded in 2017.**

Economist

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Export growth in MYR terms decelerated to 3.4% YoY in May vs consensus estimates of 6.4%. This came after a 14% YoY spike in April and compared to +2.2% in March. In USD terms, export growth registered a slower clip of 12.5% YoY from +29.3% in April.

As it stands, electrical & electronics (E&E) exports slowed sharply to 2.1% YoY in May (April: +21.3%), undermined by broad-based deterioration in the exports of electrical machinery, office automation & data equipment, and telecommunication equipment and parts. Similarly, non-E&E shipments eased to 2.2% YoY (April: +12.1%), weighed by slower exports of chemicals while machinery & equipment contracted – only to be offset by a pick-up in the shipments of optical & scientific equipment. These were, however, partly mitigated by an acceleration in commodity exports to 13.8% YoY (April: +1.5%) as LNG and crude oil exports increased.

In terms of markets, the slowdown in exports was contributed by a moderation in shipments to China and the EU, while shipments to the US and ASEAN plunged. A rebound in shipments to Japan, however, provided some mitigation.

Likewise, imports in MYR terms ebbed to 0.1% YoY (USD terms: +9%) in May, after recovering to 9.2% in April (USD terms: +23.9%). This was led by declines in the importing of capital and consumption goods. As import growth rose on a MoM basis – while export growth shrank by a wider margin – the trade surplus narrowed to MYR8.1bn in May from MYR13bn in the previous month.

Overall, the deterioration in May's trade numbers indicate that trade volumes have dampened since 1Q amid a slowdown in global economic activity and growing concerns over US-China trade tensions. Looking forward, we expect exports to grow at a healthy pace of 6.5%, albeit slowing from the 18.9% recorded in 2017. This is on account of a slightly weaker global trade outlook and slowdown in demand from China for the country's exports.

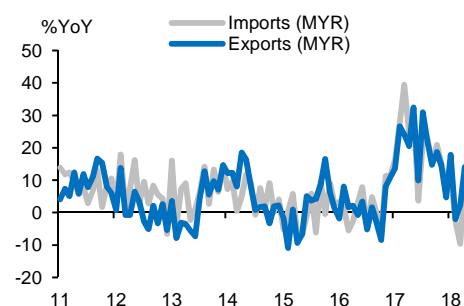
Looking ahead, we expect the current account surplus of the balance of payments to narrow slightly to MYR39.3bn, or 2.7% of GDP in 2018 from 3% of GDP in 2017. This will likely be driven, in our view, by higher deficits in the services, income and transfers accounts.

Malaysia's trade indicators

% YoY (in MYR terms)	2015	2016	2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018
Exports	1.6	1.2	18.9	17.9	-2.0	2.2	14.0	3.4
E&E exports	8.5	3.5	19.2	27.1	-0.1	8.8	21.3	2.1
Non-E&E exports	5.0	3.8	18.4	13.8	-0.4	-2.3	12.1	2.2
Commodity exports	-20.5	1.2	19.7	8.8	-13.1	2.6	1.5	13.8
Imports	0.4	1.9	19.9	11.6	-2.8	-9.6	9.1	0.1
Capital goods	-0.3	4.79	15.4	-3.1	6.5	-30.4	4.8	-0.7
Intermediate goods	-2.1	-0.1	20.0	-1.7	-14.8	-14.5	-11.9	-5.3
Consumer goods	24.1	7.3	6.1	9.8	-12.5	-12.5	-1.8	-10.2
Trade balance (MYRbn)	91.6	88.1	97.2	9.7	9.0	14.7	13.0	8.1

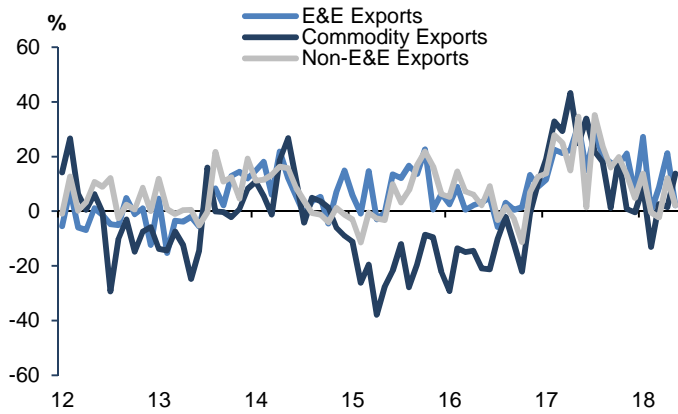
Source: Department of Statistics Malaysia (DOSM), RHB

Slowdown in both exports and imports



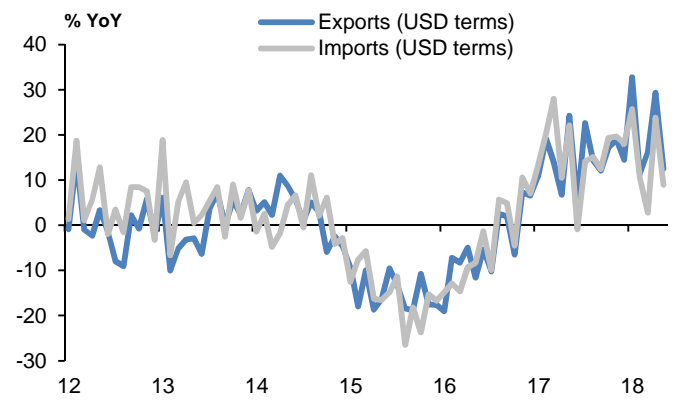
Source: DOSM, RHB

Figure 1: Slower exports mainly driven by the easing of E&E and non-E&E exports



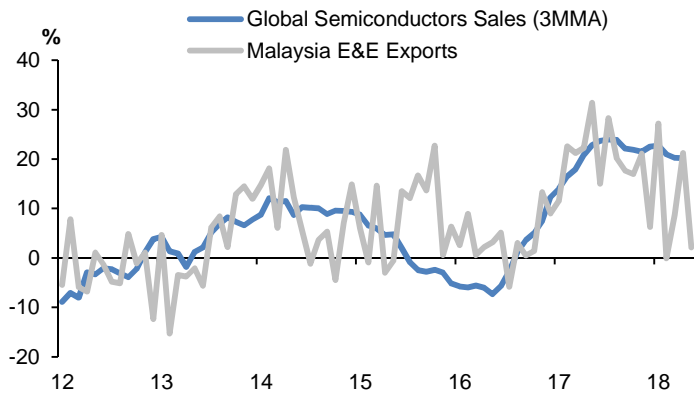
Source: DOSM, RHB

Figure 2: Exports and imports in USD terms also plummeted due to lower trade volumes



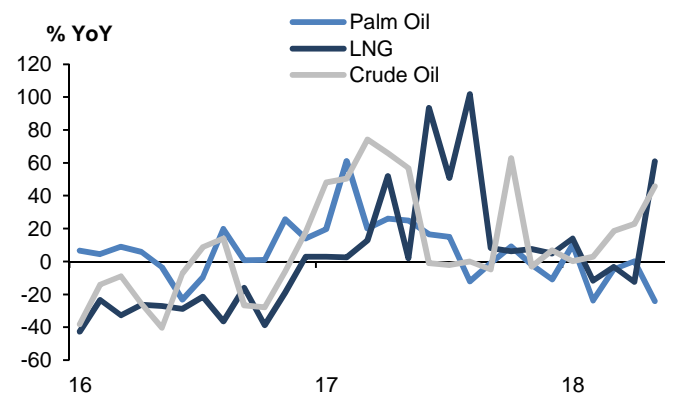
Source: DOSM, RHB

Figure 3: E&E exports slowed as global semiconductor sales begin to trend lower



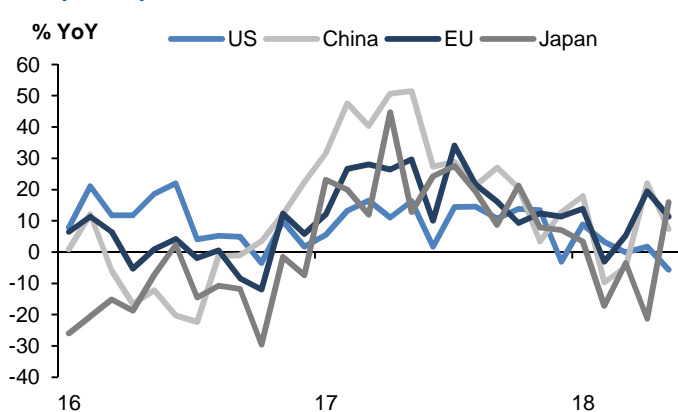
Source: Semiconductor International Association (SIA), DOSM, RHB

Figure 4: Commodity shipments higher on crude oil and LNG volumes, but offset by contracting palm oil exports



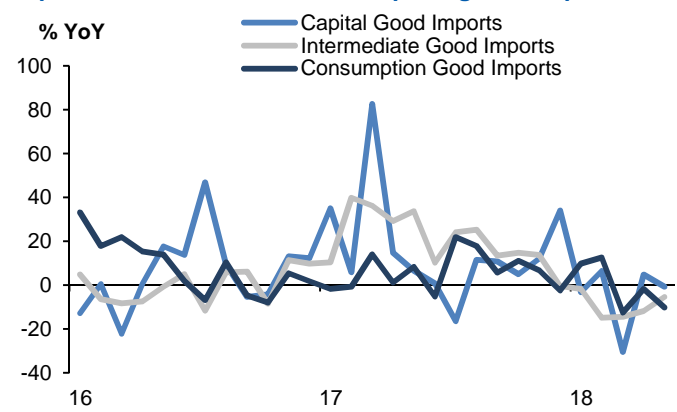
Source: DOSM, RHB

Figure 5: Out of the economic powerhouses, only shipments to Japan improved



Source: DOSM, RHB

Figure 6: Imports stalled, led by broad-based declines in capital, intermediate and consumption goods imports



Source: DOSM, RHB

Figure 7: Regional economic indicators

ASEAN & CHINA ECONOMIC INDICATORS																
Country	GDP growth (%)				Inflation (%)				Policy rate (end period,%)				Exchange rate (end period, vs. USD)			
	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F
Indonesia	5.0	5.1	5.3	5.3	3.5	3.8	3.4	3.5	4.75	4.25	5.75	5.75	13540	13588	14500	14200
Malaysia	4.2	5.9	5.2	5.0	2.1	3.7	1.9	2.0	3.00	3.00	3.50	3.50	4.49	4.06	4.10	4.02
Philippines	6.8	6.7	6.5	6.6	1.8	3.2	4.0	3.5	3.00	3.00	3.50	3.50	49.62	49.83	49.79	50.00
Singapore	2.4	3.6	3.0	2.8	-0.5	0.6	1.3	1.6	-	-	-	-	1.45	1.34	1.33	1.34
Thailand	3.2	3.9	4.2	3.7	0.2	0.7	1.2	1.4	1.50	1.50	1.50	1.50	35.85	32.57	32.20	32.50
Vietnam*	6.2	6.8	6.7	6.2	2.7	3.5	3.6	3.6	6.50	6.00	6.00	6.00	22770	22709	22700	22700
China**	6.7	6.9	6.6	6.4	2.0	1.6	2.5	2.6	4.35	4.35	4.35	4.35	6.95	6.51	6.45	6.50

*prime rate; **1-yr lending rate

Country	Exports growth (%)				Imports growth (%)				Industrial Production growth (%)				Unemployment rate (% labour force)			
	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F
Indonesia	-3.9	16.2	10.0	11.0	-4.9	15.6	11.0	12.0	5.0	5.1	5.3	5.6	5.6	5.5	5.4	5.3
Malaysia	1.1	18.9	6.5	4.7	1.9	19.9	6.2	5.1	3.8	5.2	4.5	3.8	3.5	3.4	3.3	3.2
Philippines	-2.4	9.5	8.0	9.0	18.3	10.2	9.0	10.0	6.4	6.2	3.6	6.2	5.5	5.7	5.6	5.5
Singapore	-4.4	8.5	6.7	5.2	-4.2	10.6	10.9	6.5	3.7	10.1	7.6	5.0	2.2	2.1	2.0	2.0
Thailand	0.5	9.9	7.0	5.4	-3.9	14.7	8.6	6.1	1.6	1.6	2.9	2.0	0.9	1.0	0.9	0.9
Vietnam	9.2	21.4	9.5	9.1	5.6	21.4	8.7	8.2	6.9	10.0	8.1	7.8	3.3	3.5	3.6	3.1
China	1.8	6.8	5.2	5.0	3.8	7.3	5.6	5.5	6.1	6.5	5.5	5.2	4.1	4.1	4.1	4.2

Country	Fiscal Balance (% GDP)				Current Acc. (% GDP)				Forex Reserves (USD bn)				External Debt (USD bn)			
	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018	2019F	2016	2017E	2018F	2019F
Indonesia	-2.5	-2.5	-2.5	-2.5	-1.8	-1.7	-2.3	-2.0	116	130	127	134	320	353	380	400
Malaysia	-3.1	-3.0	-2.8	-2.7	2.4	3.0	2.7	2.9	95	102	112	124	201	213	222	231
Philippines	-2.4	-2.2	-2.8	-2.8	-0.4	-0.8	-1.0	-0.7	81	82	83	83	75	73	71	70
Singapore	1.3	0.5	2.4	-0.1	19.0	18.8	17.8	16.7	247	280	265	312	-	-	-	-
Thailand	-2.6	-1.8	-2.9	-3.0	11.4	10.8	7.7	6.9	172	203	208	227	152	155	159	164
Vietnam	-5.0	-5.3	-5.2	-4.8	2.7	1.9	2.1	2.2	43	40	45	49	76	79	83	84
China	-3.5	-3.6	-3.3	-2.6	1.8	1.3	1.1	1.3	3010	3140	3000	3000	1400	1450	1400	1380

Country	Deposit Growth (%)				Loan Growth (%)				L/D Ratio (%)				Money Supply* (%)			
	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F
Indonesia	9.6	8.3	9.9	11.0	7.8	10.0	12.8	12.0	92.7	91.9	94.3	93.5	10.0	11.0	8.0	8.0
Malaysia	1.5	5.7	4.6	5.0	5.3	4.1	5.2	5.5	89.8	90.5	90.9	92.2	3.0	4.7	5.0	5.2
Philippines	14.3	11.9	11.8	12.0	16.1	18.1	18.0	18.5	70.7	74.1	74.1	78.7	12.8	11.9	10.0	11.0
Singapore	2.7	3.2	5.4	5.0	0.5	8.0	8.5	7.2	107.9	104.5	104.9	105.0	8.1	4.1	6.2	5.5
Thailand	3.8	4.1	5.3	5.0	3.6	4.1	5.1	4.8	93.3	93.1	92.9	93.0	4.2	5.2	5.3	5.0
Vietnam	15.0	10.0	11.2	10.8	18.0	15.0	13.5	12.9	79.6	81.0	83.0	83.5	16.0	17.0	18.0	17.2
China	11.0	10.7	9.6	8.5	13.5	12.1	10.5	9.5	70.8	71.7	72.2	73.0	11.3	8.2	8.0	7.5

Note: As at 03 July 2018

Note 2: *M2 is used for all countries except for Thailand M1 is used and Philippines M3 is used instead.

Note 3: **Starting 3 Jun 2016, the Philippines' policy rate was changed to purely Bangko Sentral ng Pilipinas' overnight reverse repurchase (RRP) facility at 3%

Source: International Monetary Fund (IMF), Oxford Economics, Various central banks, RHB

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