

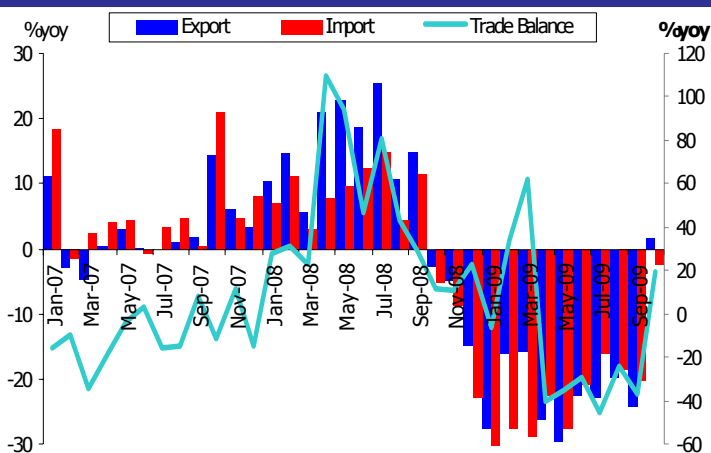
Malaysia External Trade : Upside surprise, positive 4Q09 curtain opener 8 DECEMBER 2009 2009/060

EXTERNAL TRADE

% YOY	Exports	Imports	Trade Balance (RMB)
2005	11.0	8.5	99.8
2006	10.3	10.8	108.2
2007	2.8	5.0	100.3
2008	9.6	3.3	142.0
Jul-09	-22.9	-16.2	7.8
Aug-09	-19.9	-18.7	9.6
Sep-09	-24.2	-20.2	9.3
Oct-09	-1.6	-2.3	11.5
4Q08	-7.5	-8.9	32.7
1Q09	-20.0	-29.0	34.3
2Q09	-26.3	-23.8	26.5
3Q09	-22.3	-18.3	26.7

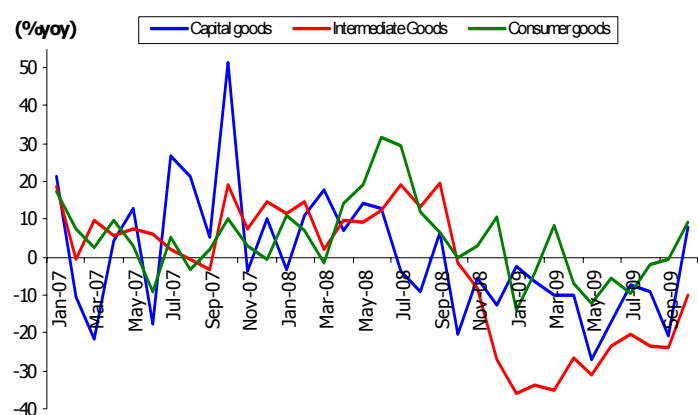
Source : MATRADE, Bank Negara Malaysia

EXPORTS, IMPORTS & TRADE BALANCE



Source : MATRADE, Bank Negara Malaysia

IMPORTS BY COMPONENTS



Source : MATRADE, Bank Negara Malaysia

- Malaysia's external trade performance turned around earlier than expected, hinting that cyclical recovery is finally gaining speed in the last quarter of 2009. Although barely forming a trend, the latest economic developments in Malaysia's major trading partners portend towards a stable demand growth for Malaysia's exports.

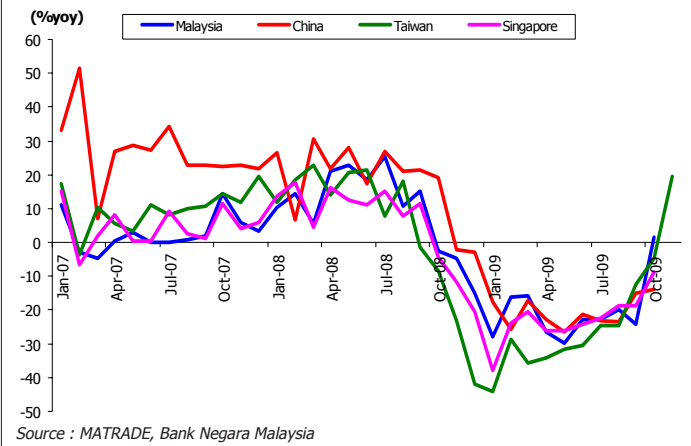
- Exports expanded on an annual basis for the first time since September 2008, growing by 1.6% in October (Sep: -24.2%, Aug: -19.9%), greatly outperforming consensus and our expectations of moderated declines of 10.5% and 11.4% respectively. While base effects were at play, the improvement was largely contributed by the fastest monthly growth since March 2007, of 14.9% from a 1.1% decline in September.

- Demand for the electrical and electronic products (E&E), which make up 43% of total exports, saw a significant 18.5% yoy jump in the month, the first annual increase since July 2008 (Sep: -19.2%). On a monthly basis, E&E exports reverted to a positive growth of 16.7% (Sep: -2.7) after two consecutive months of decline. The office machinery sub-sector also rose strongly by 14.5% yoy in October (Sep: -24.1%), while the telecommunication equipment sub-sector recovered with a positive growth of 3.7% yoy. On a monthly basis, both subsectors surged 21.2% and 24.2% respectively in October (Sep: -2.7% and -2.0% respectively).

- The exports of non-E&E sector continued to show annualised decline but moderated sharply to 8.3% in October from -27.6% in September, reflecting partly the waning impact of high commodity prices last year. Exports of Crude Petroleum (Oct: -29.4%, Sep: -53.3%), Chemicals/Chemical products (Oct: -2.8%, Sep: -17.6%), Palm Oil (Oct: -5.2%, Sep: -25.5%), and Manufactures of Metals (Oct: -3.4%, Sep: -36.1%) recorded significantly smaller declines in October.

- The broad-based recovery in final demand of developed economies is also a key factor contributing to the better Malaysia's export performance in October. By markets, the yearly expansion was led by exports to China (Oct: 39.2%, Sep: 9.7%), Hong Kong (Oct: 28.2%, Sep: -7.7%), and Thailand (Oct: 14.3%, Sep: -10.1%). Exports to the US (Oct: -7.7%, Sep: 35.3%), Japan (Oct: -15.3%, Sep: -24.1%) and Singapore (Oct: -2.9%, Sep: -30.9%) continued to chart contraction, but at a slower pace. On a monthly basis, however, exports to the US rose sharply by 24.5%, in response to the upcoming Christmas and New Year season.

REGIONAL EXPORT PERFORMANCE (%YOY)



- Imports continued to contract in October by 2.3% yoy, but moderating sharply from September's decline of 20.3%, outperforming consensus and our expectations of a 12.3% and 12.8% decline respectively. Imports improvement was broad-based with capital goods increasing 7.8% yoy (Sep: -20.9%) and consumption goods expanding 9.3% (Sep: -0.3%). The slower rate of decline in imports of intermediate goods (Oct: -10%, Sep: -23.9) also contributed to the better overall import position in October. On a m-o-m, imports rose significantly by 12.8%, suggesting growth of future output for exports and domestic demand as well as for the accumulation of inventory and equipment.
- On account of a better export performance relative to imports, Malaysia saw its trade surplus widened to RM11.46bn in October from RM9.27bn in September. This is the largest surplus seen since March 2009 (RM12.54bn).
- Overall, the October trade data provided some evidence of a cyclical catch up with the region, although the recent choppy pattern of exports suggests that recovery may not necessarily take place in a straight line going forward, as E&E exports could be plagued by supply bottlenecks. Malaysia now joins Indonesia, Korea and Taiwan as the few regional countries

to have recorded positive exports. Indonesia recorded an encouraging export growth of 10.1% yoy in October while South Korea and Taiwan posted a significantly faster expansion of 18.8% yoy and 19.4% yoy respectively in November.

- We continue to believe that Malaysia's export is set to benefit from the recovery of industrial activities in major trading partners given that almost 60% of Malaysia's exports are intermediate goods and primary commodities. A number of countries which experienced large inventory drawdown due to the economic crisis are now beginning to witness a significant slowdown in the contraction of their industrial production. The developing economies are also showing some signs of improvements. In the US, the unemployment rate declined to 10.0% in November from 10.2% in the prior month, while total job losses declined dramatically to 11,000 from 111,000 in October. Furthermore, the rate of decline in US retail sales had continued to narrow for the sixth month in October to 1.7%, indicating a possible turnaround in US consumption going forward, while boosting demand for exports from other countries. However, given the massive destruction of wealth in the developed countries and the still on-going deleveraging process, we believe the recovery may not be one of steep and straight line recuperation as global demand continues to be restrained.
- Exports growth in 4Q09 could average between 5.0% to 10.0% yoy, higher than our earlier estimate of 2.0% to 5.0% following the unexpected jump in October exports. This bodes well for the overall real GDP performance in 4Q09 and potentially can help a rise our 3.0% growth estimate for the quarter. Going into 2010, Malaysia's trade performance could continue to strengthen on improving external demand for electronics and electrical products although the pace could be slower compared with the pre-recession levels. Given the collapsing trade in 1H09, it would not be surprising to see a sharp rebound in yoy growth in 1H10 before normalising in 2H10. Thus, our forecast for export growth in 2010 remains between 4.0% to 5.0% to support overall GDP growth of 3.0% to 3.5%.

EXPORTS- MAJOR PRODUCTS & COUNTRIES

	RMB	October %yoy	%mom	RMB	September %yoy	%mom
Electrical & Electronic Products	23.4	18.4	16.7	20.0	-19.2	-2.7
Crude Petroleum	2.8	-29.4	40.2	2.0	-53.3	-25.7
Chemicals & Chemical Products	3.1	-2.8	6.2	3.0	-17.6	2.0
LNG	2.6	-40.7	29.6	2.0	-35.6	18.9
Palm Oil	3.5	-5.2	-0.7	3.5	-25.5	17.7
Refined Petroleum Products	2.5	21.9	4.7	2.4	-36.5	29.2
Machinery, Appliances & Parts	1.8	6.9	13.4	1.6	-8.9	8.6
Optical & Scientific Equipment	1.5	8.0	26.5	1.2	-11.8	-3.8
Manufactures Of Metal	1.5	-3.4	25.6	1.2	-36.1	-5.0
Singapore	7.616	-2.9	13.5	6.720	-30.7	3.2
USA	5.943	-7.7	24.5	4.775	-35.2	-6.2
China	6.783	39.2	1.2	6.705	9.8	2.3
Japan	5.087	-15.3	16.9	4.357	-24.0	-3.2
Thailand	2.846	14.3	17.0	2.432	-10.1	-5.0
Hong Kong	2.619	28.2	5.9	2.473	-7.7	-14.0

Source : MATRADE, Bank Negara Malaysia