Economy

AMB

Malaysia: External Trade – Downside surprise, better outlook ahead

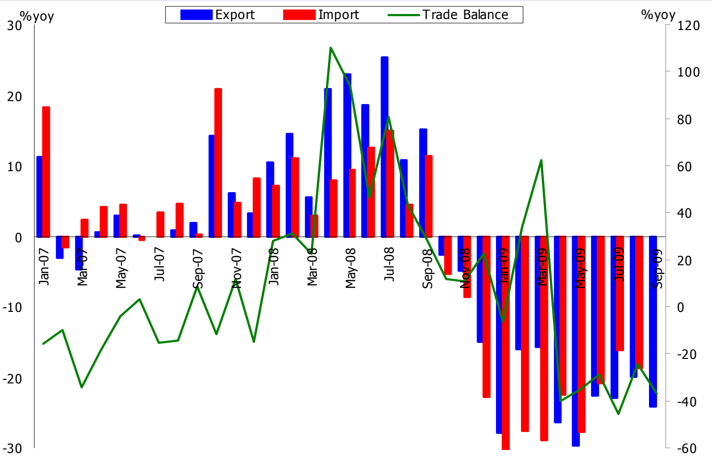
5 NOVEMBER 2009
2009/055

EXTERNALTRADE

% 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
Jun-09	-22.7	-20.9	9.1
Jul-09	-22.9	-16.2	7.8
Aug-09	-19.9	-18.7	9.6
Sep-09	-24.2	-20.2	9.3
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

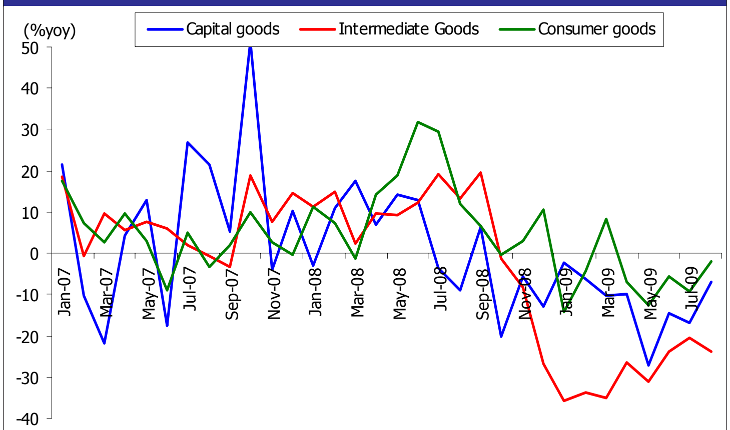
Source : MATRADE, Bank Negara Malaysia

EXPORTS, IMPORTS & TRADE BALANCE



Source : MATRADE, Bank Negara Malaysia

IMPORTS BY COMPONENTS



Source : MATRADE, Bank Negara Malaysia

- **Malaysia's trade performance continued to be patchy, reaffirming our view of a subtle trade recovery as economic condition in major trade partners remained weak. However, given the commencement of the global inventory cycle, export performance is set to improve moderately going forward.**

- The export contraction in September deepened to -24.2% y-o-y from the revised August fall of 19.9%, disappointing consensus and our expectations of a slower pace of decline of 21.0% and 20.1% respectively. On a monthly basis, the export decline slowed to 1.1% from -2.1% seen in August, potentially pointing towards a cyclical recovery in the remaining months of the year.

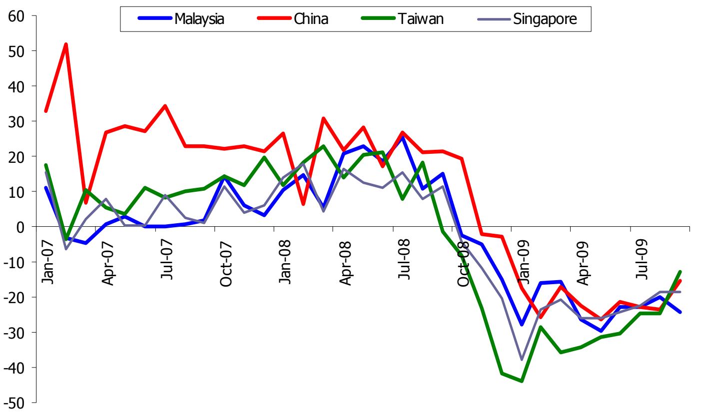
- Exports worsened on the back of sharper annual declines in Electrical & Electronics (Sep: -19.4%, Aug: -13.1%), Crude Petroleum (Sep: -53.3%, Aug: -24.2%), Manufacturers of Metal and Optical (Sep: -36.1%, Aug: -33.9%) & Scientific Equipment (Sep: -11.9%, Aug: -13.9%). Base effects probably weighed on the annual figures for Crude Petroleum given lower commodity prices compared with a year ago.

- Nonetheless, exports of other product categories showed improving trend. Chemicals/Chemical Products (Sep: -16.5%, Aug: -19.5%), Liquefied Natural Gas (Sep: -35.6%, Aug: -47.6%), Palm Oil (Sep:-25.55, Aug: -35.3%), Refined Petroleum Products (Sep: -36.3%, Aug: -39.3%) and Machinery/Appliances (Sep: -8.7%, Aug: -13.2%) posted smaller annual declines.

- The weaker exports in September also reflected the less favourable demand from main trading partners such as Singapore (Sep: -30.7% yoy, Aug: -25.9%) and the US (Sep: -30.7% yoy, Aug: -25.9%). China however bucked the overall trend, posting a faster annual growth of 9.8% following a 0.9% increase in August.

- Similarly, imports fell 20.2% y-o-y following August's 18.7% drop,more than consensus and our expectations of a 17.2% decline. Imports of intermediate goods continued to fall by a high double digit of 23.94% in September (Aug: 23.88%), but the annual decline of consumption goods imports narrowed significantly to 0.32% (Aug: -1.94%), supported by stronger consumption spending due to Ramadhan and Eidul Fitri. However, capital goods imports fell significantly faster at 20.86% in September from -6.78% in August.

REGIONAL EXPORTS PERFORMANCE (%yoy)



Source : MATRADE, Bank Negara Malaysia, Bloomberg LP

- For the whole 3Q09, both exports and imports posted smaller annual contractions to reflect improvements in both external and domestic demand. Exports declined by -22.3% yoy in 3Q09 from -26.3% in 2Q09 following a quarterly growth of 11.4% in 3Q09. Imports on the other hand recorded an 18.3% drop in the last quarter after declining by 23.8% in 2Q09 and a quarterly gain of 14.2%. The slower annual contractions in external trade were in line with an expected improvement of overall GDP growth, estimated to contract by -2.6% in 3Q09 from -3.9% in 4Q09.

- As a result of weaker export performance compared to imports, the trade surplus narrowed to RM9.27bn in September from RM9.56bn in August. For the whole 3Q09, the net exports rose slightly to RM26.7 billion from RM26.5 billion in the previous quarter. However, the overall trade surplus in 3Q09 is much smaller than the RM34.3 billion recorded in 1Q09.

- Going forward, we believe Malaysia's export is set to benefit from the encouraging 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. China and Singapore have been reported to record expansion in industrial activity as businesses began to replenish stocks in response to some improvement in global demand.

- Furthermore, Malaysia's export growth had been lagging the performance of other regional economies such as Taiwan and Singapore and likely to see improvement in coming months. Overall, we expect export growth to pick up in 4Q09 as stronger US demand could prop up emerging markets' exports and to be supported by strengthening commodity prices.

- We estimate export growth to average between 2.0% to -2.0% yoy in 4Q09, with December export to chart an increase due to the dissipating base effect. However, as imports is expected to continue outpacing exports due to the domestic restocking activities, trade balance would narrow further in the final quarter of the year to an estimated RM25.0 billion.

- The high unemployment rates in developed countries signify a risk to the overall external trade recovery. While economic conditions are improving, the recovery may not be one of steep and straight line recuperation as global demand continues to be restrained. 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

	September			August		
	RMB	%yoy	%mom	RMB	%yoy	%mom
Electrical & Electronic Products	19.98	-19.4	-2.9	20.57	-13.1	-0.3
Crude Petroleum	1.96	-53.3	-25.7	2.64	-24.2	43.5
Chemicals & Chemical Products	2.99	-16.5	3.4	2.91	-19.0	-2.2
LNG	2.01	-35.6	18.9	1.69	-47.6	-16.1
Palm Oil	3.51	-25.5	17.7	2.98	-35.3	-16.3
Refined Petroleum Products	2.38	-36.3	29.6	1.84	-39.3	-4.7
Machinery, Appliances & Parts	1.59	-8.7	8.8	1.48	-12.3	-13.4
Optical & Scientific Equipment	1.15	-11.5	-3.5	1.19	-13.9	-0.9
Manufactures Of Metal	1.15	-36.1	-5.0	1.21	-33.7	-0.9

Source : MATRADE, Bank Negara Malaysia

EXPORTS- MAJOR COUNTRIES

	September			August		
	RMB	%yoy	%mom	RMB	%yoy	%mom
Singapore	6.720	-30.7	3.2	6.515	-25.9	-7.7
USA	4.775	-35.2	-6.2	5.093	-26.7	-7.7
China	6.705	9.8	2.3	6.553	0.9	10.3
Japan	4.357	-24.0	-3.2	4.515	-25.0	9.2
Thailand	2.432	-10.1	-5.0	2.56	-10.7	1.0
Hong Kong	2.473	-7.7	-14.0	2.879	13.2	1.4

Source : MATRADE, Bank Negara Malaysia