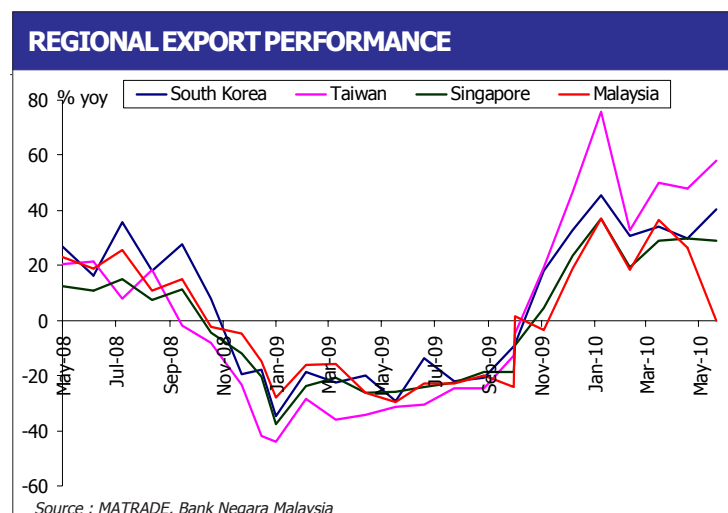
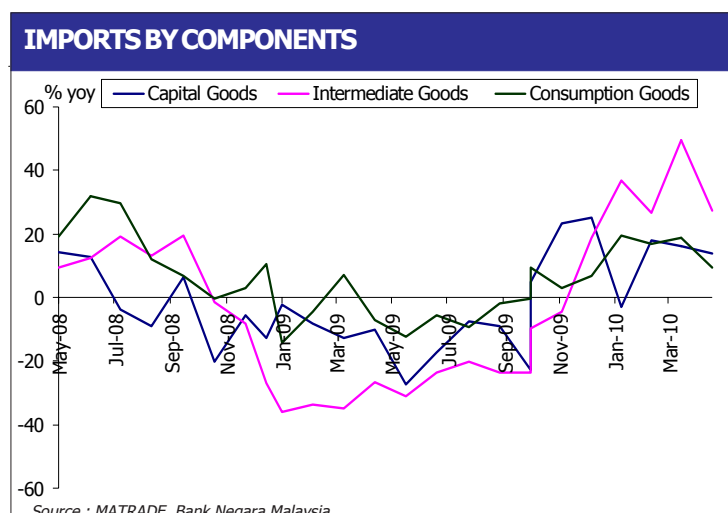
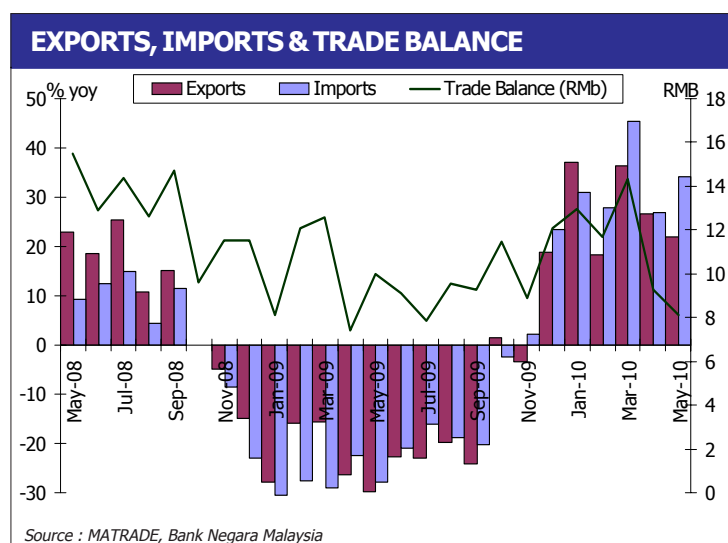


Malaysia External Trade : constrained by lower E&E..

4 JULY 2010
2010/025



- Malaysia's exports grew at a slower pace of 21.9% yoy in May, missed our and consensus estimations of 24.9% and 26.6%, from 26.6% in April. The slower than expected growth indicates that the weakening in global recovery pace has begun to weigh down the export sector. However, we believe exports will continue to sustain its double-digit growth at least until the third quarter of this year, but to stay below the trend seen in the first quarter.**
- On a mom basis, exports showed a growth of 0.5% in May, reverting from a decline 12.4% in April. The expansion however remained below the 4.0%-10.0% rates seen in the same month during 2006-2009, reflecting a slowing recovery momentum. The moderation also showed that exports had reached its peak in January when it grew by 37.0% yoy.
- Overall export growth was spurred by a sustained increase in commodity products, led by LNG. Exports of LNG charted an increase of 92% yoy, the strongest growth since Dec 08. This was followed by crude petroleum and refined petroleum products which also charted a strong growth of 71.9% yoy and 45.2% yoy respectively.
- Similarly, palm oil exports rose at a faster rate of 17.9% yoy from 15.7% in April. Given crude oil and palm oil prices had dropped during the month, we believe that the positive trend in exports of commodity products in May was contributed by improvement in demand after incurring the worse than expected drop in April.
- The major drag however came from electrical and electronics (E&E) items. Exports of E&E products dropped 2.8% on mom, bringing down the yoy expansion to 12.8% from 21.6% in April and 55.6% in January. The downtrend may also suggest the beginning of a down cycle in the electronics sector amid the slowing recovery in the developed countries.
- By countries, exports to Singapore and the US moderated sharply in May, mainly dragged by the slowdown in exports of E&E items. However, exports to China showed a stable performance, charting an increase of 28% yoy similar to the pace charted in April. Exports to Japan on the other hand grew stronger at 49.6% yoy from 38.4% in April.
- Contrary to exports, import growth accelerated to 34.2% yoy (Apr: +26.8%), underpinned by strong growth in purchase of intermediate goods (+35.9%) and capital goods (32.7%). The rise in monthly intermediate goods imports could support higher future production, thus exports, while the sustained increase in imports of capital goods indicates capital expansion by manufacturers to meet the rising global

orders. Meanwhile, imports of consumption goods continued its monthly decline, indicating private spending would moderate during the second quarter of this year.

- At this juncture, economic recovery seems to be uneven. Recent indicators such as the weak than expected global manufacturing data suggest further softening in the global economic activities over the coming months, hence putting a downward pressure on the local exports. However, we expect exports for

the second quarter to continue registering double-digit growth of 22%-25%, supporting our view for a still strong 2Q GDP growth of between 8.0-8.5% yoy.

- We are projecting exports to sustain double-digit expansions until September, but at a pace slower compared with the preceding two quarters as the growth momentum in global demand slows. In term of monetary policy, we believe Bank Negara will opt to hold the OPR at 2.50% on July 8 (in conjunction with the announcement for May IPI) on concerns of the slowing global recovery.

EXTERNAL TRADE FIGURES

	RMB	May 2010		RMB	April 2010	
		% yoy	% mom		% yoy	% mom
External Trade						
Exports	52.3	21.9	0.5	52.0	26.6	-12.4
Imports	44.2	34.2	3.3	42.8	26.8	-5.2
Trade Balance	8.1			9.3		
Imports by Segments						
Intermediate Goods	30.7	35.9	4.8	29.3	27.4	-4.7
Capital Goods	6.4	32.7	3.8	6.1	14.0	3.7
Consumption Goods	2.8	14.7	-2.9	2.8	9.2	-8.5
Exports- Major Products						
Electrical & Electronics Products	20.1	12.8	-2.8	20.7	21.6	-7.3
Crude Petroleum	3.2	71.9	15.8	2.8	93.0	-7.3
Chemicals & Chemical Products	3.4	23.0	0.2	3.4	26.2	-14.0
Liquefied Natural Gas	3.3	92.0	26.2	2.6	33.2	-35.2
Palm Oil	3.6	17.9	3.1	3.5	15.7	-21.7
Refined Petroleum Products	2.3	45.2	18.1	1.9	50.4	-10.9
Machinery, Appliances & Parts	1.9	33.1	1.3	1.9	23.2	-11.0
Optical & Scientific Equipment	1.4	53.3	-1.6	1.5	45.1	-8.1
Manufacturers of Metal	1.5	35.4	0.3	1.5	17.7	-4.6
Exports- Major Markets						
Singapore	6.9	12.5	-2.3	7.1	26.3	-6.4
USA	5.1	3.7	-1.5	5.2	6.4	-9.8
China	6.4	28.7	-2.5	6.5	28.0	-18.1
Japan	5.2	49.6	2.7	5.0	38.4	-12.9
Europe	n.a	n.a	n.a	n.a	n.a	n.a
Thailand	3.2	34.9	15.4	2.8	22.0	-24.9
Hong Kong	2.7	21.1	-5.9	2.9	26.0	6.2
Commodity Prices						
Global Crude Oil (USD/bpd)	73.97	11.6	-14.1	86.2	68.5	2.9
Palm Oil (RM/tonne)	2535	-2.8	-1.0	2561	-5.5	-0.7

Source : MATRADE, Bloomberg, Research Divison PNB