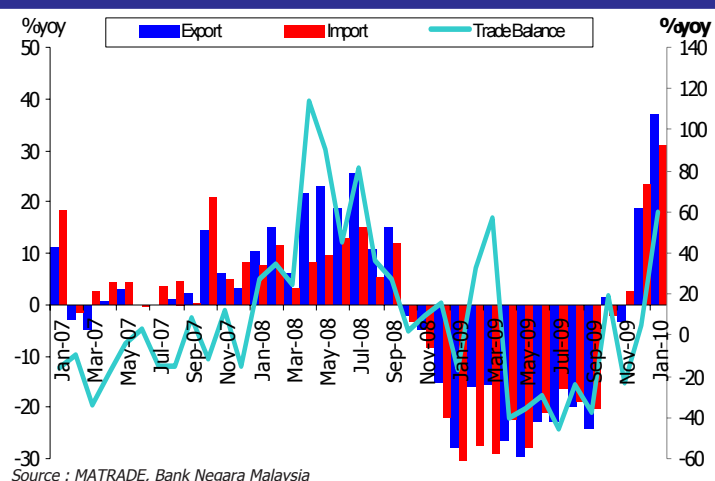


Malaysia External Trade : Initiating a double-digit trend

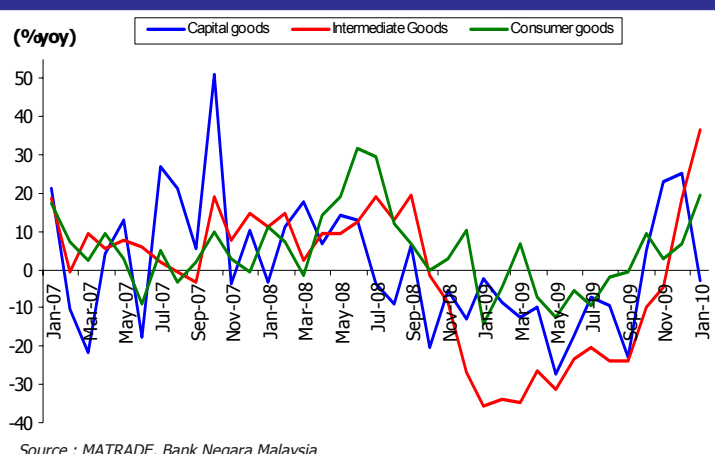
10 MARCH 2010
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EXPORTS, IMPORTS & TRADE BALANCE



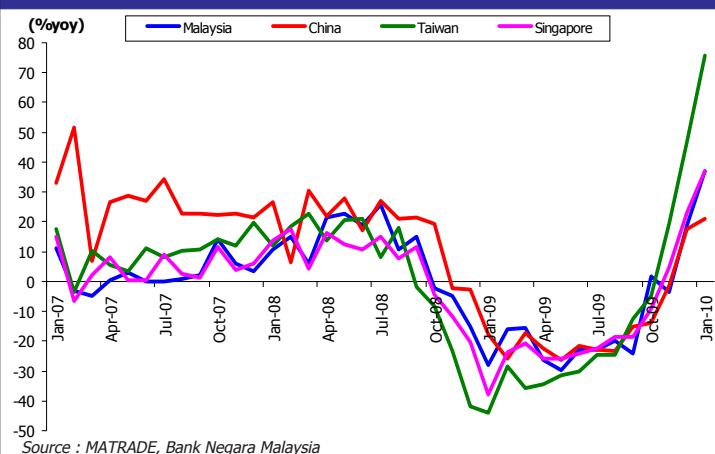
- Malaysia's exports in January surged by 37.0% y.o.y, kicking-off the year faster than consensus estimate of 33.3%. The outperformance during the month principally signifies by the effect of low base, but some improvements in demand for electronics and commodity-based products had also helped the overall export expansion. We are expecting the double digit trend to ensue throughout 1H10.
- The export recovery momentum persisted in January, as the rate of monthly decline slowed to 4.1% from -16.9% in January 2009. In the preceding month, exports rose 9.2% m.o.m against -11.0% a year ago.
- Regionally, Malaysia tracked the performance of neighboring countries which recorded double-digit growth following stabilising global demand, amidst depressed base. Singapore and Taiwan saw their exports rose by 37.1% and 75.8% respectively in January, while China's exports climbed by 21.0%.

IMPORTS BY COMPONENTS



- In terms of products, exports of electrical and electronic products (E&E) led the overall gain by 55.6%, marking the fourth consecutive increase following higher global demand for consumer electronics. This was also in-line with the continued expansion of global chip sales, by 47.2% in January as reported by Semiconductor Industry Association. Sluggish demand from the US however prevented Malaysia's E&E exports to accelerate at a higher pace as exports to the US fell by 9.9% m.o.m after declining by 4.3% in the preceding month.
- Similarly, exports of non-E&E products showed an accelerated trend, expanding by 26.6% yoy in January from 10.1% in December on higher external demand for commodity and commodity-related products, especially from China, and supported by higher prices. Among all, shipments of crude palm oil (CPO) surged the fastest by 43.8% in January from -2.9% in December. CPO exports also gained on monthly terms, underpinned by strong demand from China and other countries in the region.
- China's demand for Malaysia's products continued to pick up the slack left by developed economies, particularly the US and Europe, as its US\$586 billion stimulus package continues to propel domestic demand. In January, China had taken over Singapore as Malaysia's largest export destination after recording a growth of 137.3%, while shipments to the US continued to decline and is now the fourth largest after Japan.
- In line with the substantially stronger exports, imports also surged in January by 31.0% y.o.y from 23.3% in the

REGIONAL EXPORT PERFORMANCE



preceding month, led by the intermediate goods. As it was the case for exports, the annualised growth in imports was also amplified by the low base recorded last year. On a monthly basis however, imports declined by 7.2%, led by capital and consumer goods which contracted by 20.7% and 8.4% respectively. Subsequently, capital imports posted an annualised contraction of 2.9% in January this year from the 25.3% gain in the preceding month. This sharp declines underscored our concerns of the persistent weakness in domestic demand, particularly investment spending.

- Thus far, both exports and imports have displayed consistent recovery trend after bottoming in May 2009 following stabilising global demand and trade activities. However, measured in absolute terms, the value of both exports and imports remained 19.2% and 17.2% below the highs reached in July 2008. On the basis of 3.0% to 3.5% monthly rise, the value of exports would be fully recovered in the final quarter of this year. However, the ongoing uncertainties on the outlook of the developed economies and waning effect of the global stimulus packages could prolong the export recovery process.
- At this juncture, the risk to growth in 1H10 is fairly limited as countries continue with their stimulative fiscal and monetary policies to support economic recovery. The reversal in global inventory cycle and firming demand from China would also help sustain international trade and Malaysia's exports during 1H09. Thus, export growth could

average between 20% to 25% for the coming months in 1H10. This is supportive of our GDP growth forecast of 8.0% to 8.5% for the six month period of this year.

- The challenge however will emerge in 2H10, especially towards the final quarter, as the base effect will start to fade and global demand could slow as major economies start to withdraw the stimulus measures, amidst escalating fiscal deficits. Coupled with the high unemployment rates in developed countries, the global growth momentum could decelerate and slows Malaysia's export growth to between 8% to 13%. As domestic demand is expected to continue growing modestly, Malaysia's GDP growth could similarly ease to 4.5% to 5.0% in 2H10.
- Overall, the economic performance of Malaysia in 2010 would continue to be uneven whereby growth in the first half of this year would be substantially strong while the second half may see a sharp deceleration similar to the trend of 2008, but the reverse of the 2009. However, on average, economic growth in 2010 will show an encouraging uptrend and range between 6.0%-6.5%, the upper end of the current consensus forecast and significantly higher than the earlier official forecast of 3.0%. In terms of monetary policy, the strong data in the first half of the year provide a greater flexibility for Bank Negara to normalise interest rate by another 25 bps in its next meeting in May, and potentially a further 25 bps in its September meeting.

EXTERNAL TRADE FIGURES

	RMB	January 2010		RMB	December 2010	
		% yoy	% mom		% yoy	% mom
External Trade						
Exports	52.5	37.0	-4.1	54.7	18.7	9.2
Imports	39.5	31.0	-7.2	42.6	23.3	3.4
Trade Balance	12.9			12.1		
Imports by Segments						
Intermediate Goods	27.3	36.7	-3.6	28.3	18.8	1.4
Capital Goods	5.3	-2.9	-20.7	6.7	25.2	-1.64
Consumption Goods	2.8	19.7	-8.4	3.1	6.8	15.0
Exports- Major Products						
Electrical & Electronics Products	21.4	55.6	-5.8	22.7	33.3	4.3
Crude Petroleum	2.5	35.5	-23.8	3.2	77.2	25.3
Chemicals & Chemical Products	3.2	50.0	1.0	3.1	31.6	8.2
Liquified Natural Gas	3.4	-18.7	2.8	3.3	-36.2	33.9
Palm Oil	4.0	43.8	15.7	3.4	-2.9	-1.3
Refined Petroleum Products	1.9	60.4	-18.7	2.3	37.5	22.8
Machinery, Appliances & Parts	1.7	21.7	-14.7	1.9	13.1	23.7
Optical & Scientific Equipment	1.4	59.9	13.9	1.3	21.3	5.0
Manufacturers of Metal	1.6	65.4	12.5	1.4	16.6	9.9
Exports- Major Markets						
Singapore	7.0	37.5	-7.6	7.5	20.2	2.2
USA	4.9	2.4	-9.9	5.5	-0.5	-0.3
China	7.1	137.3	-3.1	7.3	99.3	16.3
Japan	5.9	17.4	5.0	5.6	-33.3	12.8
Europe	5.8	35.2	-4.1	6.1	6.6	12.0
Thailand	2.8	44.9	-3.2	2.9	64.0	-6.1
Hong Kong	2.9	92.2	1.3	2.8	49.9	1.7
Commodity Prices						
Global Crude Oil (USD/bpd)	72.89	74.9	-8.2	79.36	77.9	2.7
Palm Oil (RM/tonne)	2436	38.4	-6.0	2590	59.0	6.7

Source : MATRADE, Bloomberg, Research Division PNB