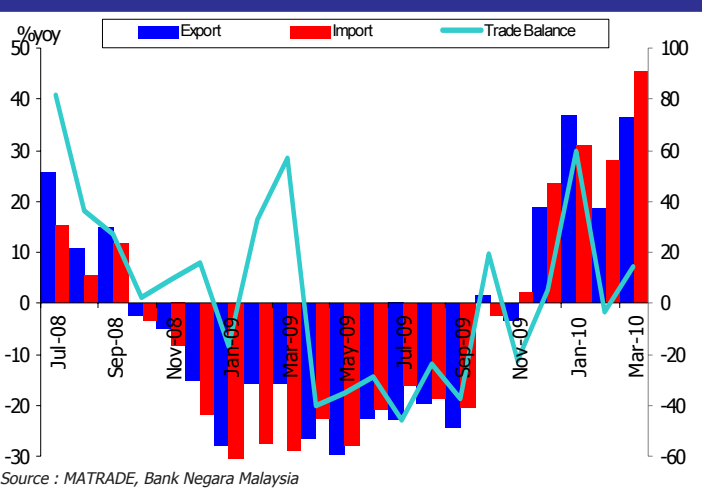


Malaysia External Trade : Back on track!

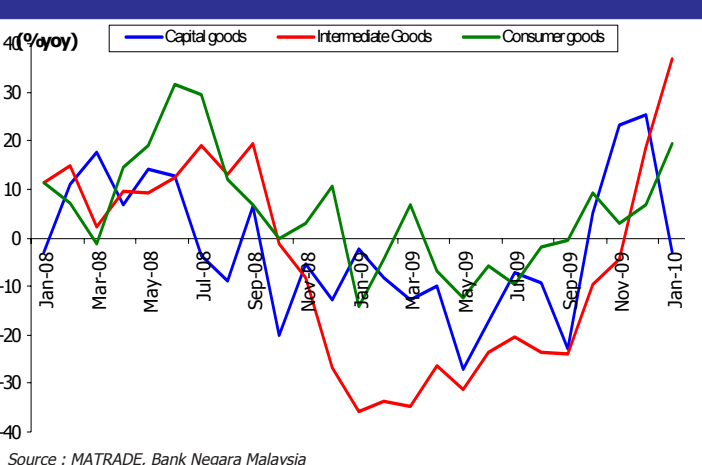
5 MAY 2010
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EXPORTS, IMPORTS & TRADE BALANCE



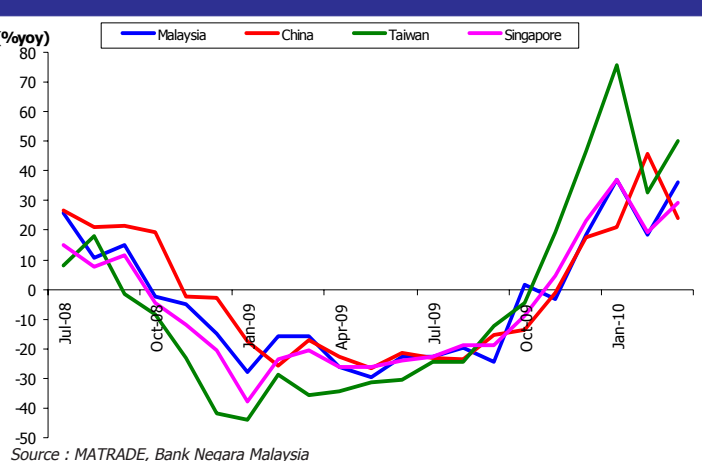
- Exports surged strongly in March by 36.4% yoy following the unexpected drop of 18.4% in February. The pace of exports outperformed consensus and our expectations of 22.4% and 33.2% respectively, signaling sustained global recovery momentum and prompting an upward revision to our 1Q10 GDP growth estimate to a range of 9.5% to 10.0%. The double-digit growth trend in exports is expected to continue throughout the year as global demand continues to recover but the pace will moderate in 2H10 as the low base factor normalises.

IMPORTS BY COMPONENTS



- On a monthly basis, exports rose 26.9% after declining for two consecutive months in February and January by 10.7% and 4.1% respectively. The big jump in March cushioned the overall quarterly decline in 1Q10 to 0.2% resulting in an accelerated annual growth rate of 30.1% from 5.1% in 4Q09 due to low base effect. Export levels are now just 6.1% shy of the July 2008 peak, after having declined 34% peak-to-trough and we expect it to surpass this level by September this year.

REGIONAL EXPORT PERFORMANCE



- All major export products saw a double-digit annual expansion, led by a surge in optical/scientific equipment and chemicals exports. Commodity exports such as crude petroleum and palm oil were also boosted by higher prices from a year ago. More encouragingly is the 31.2% jump in exports of electrical and electronic products after slowing to 23.5% in February, indicating a possible uptrend in manufacturing output and overall industrial production after experiencing a decline in February.

- Exports to major trading partners also recorded strong double-digit growth, led by China. The 40.3% monthly gain in exports to China has therefore repositioned China as Malaysia's largest trade partner after trailing Singapore in February. It is also important to note the substantial increase in exports to the US, gaining 26.5% yoy from 2.5% in February, was aligned with the strong jump in E&E exports and signaling a continuous improvement in demand from the US.

- Growth in imports continued to lead export, accelerating to 45.3% yoy in March from 27.9% in February. This was mostly contributed by a 49.4% jump in imports of intermediate goods from 26.4% in the previous month, pointing to a sustained improvement in domestic demand and exports in the months ahead. Imports of consumption goods also showed another strong month possibly helped by a stronger purchasing power from ringgit appreciation, while the double-digit gains in imports of capital goods could point to improving private investments. For the whole of 1Q10, imports surged faster than exports at 35.1% yoy from 6.7% in 4Q09.

- The trade surplus widened to RM14.4B in March, from RM11.7B in February. The cumulative trade surplus for 1Q10 also widened to RM39.0B from RM32.5B in 4Q09 or a 19.0% gain from a year ago.
- Recovery in exports is expected to continue throughout the year on the back of sustained global economic recovery, strong intra-regional trade and also higher commodity prices. However, with the pick-up in economic activities, imports could rise at a faster pace than exports and resulted into a smaller trade surplus for the whole 2010.
- The stronger than expected external trade performance has also prompted us to revise upward our GDP growth estimate to a range of 9.5% to 10.0% from 8.0% to 8.5%, pending the official production figure due to be released on 11 May. We believe the trend would mirror the trend

strong upward trend of exports as manufacturers boosted ramped up production to meet rising external demand and replenish depleted stocks. Subsequently, we are also raising projection for the whole of 2010 to 7.0% to 7.5% from 6.0% to 6.5%.

- On the monetary policy front, the strength in 1Q10 economic activities reaffirms our view that BNM will hike the OPR by another 25bps in next week's MPC meeting. At this juncture, we only expect another 25bps increase in September after pausing in July, taking the year end OPR target to 2.75%. However, with the continuing strong trade performance and overall economic growth, there is an upside risk to our target as BNM will have the flexibility to 'normalise' the benchmark interest rate further with a further 25 bps hike in July.

EXTERNAL TRADE FIGURES

	RMB	March 2010		RMB	February 2010	
		% yoy	% mom		% yoy	% mom
External Trade						
Exports	59.4	37.0	-4.1	46.8	18.4	-10.7
Imports	45.1	31.0	-7.2	35.2	27.9	-11.0
Trade Balance	14.4			11.7		
Imports by Segments						
Intermediate Goods	30.7	36.7	-3.6	23.5	26.4	-13.7
Capital Goods	5.9	-2.9	-20.7	5.0	18.1	-5.1
Consumption Goods	3.1	19.7	-8.4	2.4	17.1	-15.0
Exports- Major Products						
Electrical & Electronics Products	22.3	31.2	-5.8	18.1	23.5	-15.3
Crude Petroleum	3.0	35.5	-23.8	3.4	125.2	38.8
Chemicals & Chemical Products	3.9	50.0	1.0	3.1	32.9	-1.9
Liquified Natural Gas	4.0	-18.7	2.8	2.7	-31.5	-22.1
Palm Oil	4.4	43.8	15.7	3.4	31.0	-14.3
Refined Petroleum Products	2.1	60.4	-18.7	2.0	8.9	4.8
Machinery, Appliances & Parts	2.1	21.7	-14.7	1.5	-5.7	-9.7
Optical & Scientific Equipment	1.6	59.9	13.9	1.2	-10.0	-18.2
Manufacturers of Metal	1.6	65.4	12.5	1.2	20.4	-24.8
Exports- Major Markets						
Singapore	7.6	37.5	-7.6	6.0	13.4	611.8
USA	5.8	2.4	-9.9	4.2	2.5	-13.6
China	8.0	137.3	-3.1	5.7	38.7	-19.8
Japan	5.8	17.4	5.0	4.8	-3.7	-18.7
Europe	5.8	35.2	-4.1	5.1	25.8	-8.5
Thailand	3.7	44.9	-3.2	3.3	60.1	16.2
Hong Kong	2.7	92.2	1.3	2.1	15.2	-25.4
Commodity Prices						
Global Crude Oil (USD/bpd)	83.76	68.7	5.2	79.66	78.0	9.3
Palm Oil (RM/tonne)	2580	21.9	-0.8	2600	35.2	6.7

Source : MATRADE, Bloomberg, Research Division PNB