Malaysia External Trade - back to a single-digit trend

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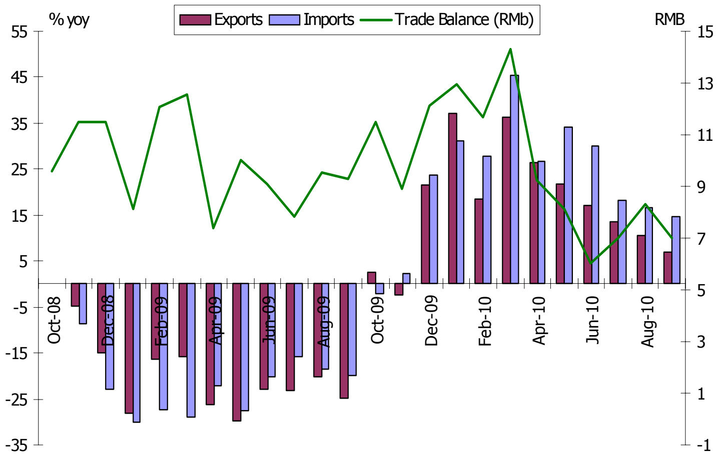
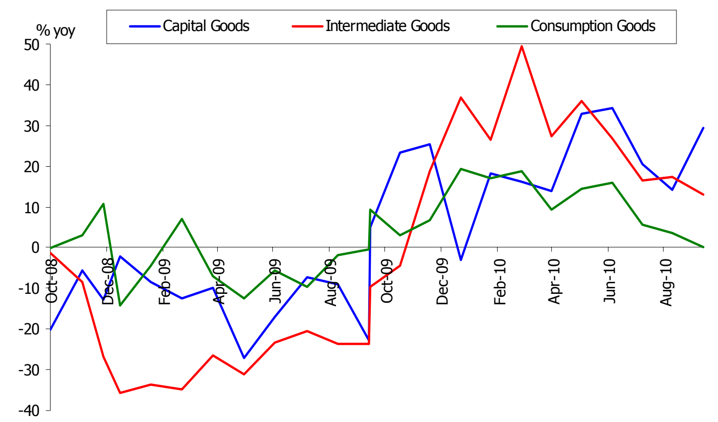
EXPORTS, IMPORTS & TRADE BALANCE



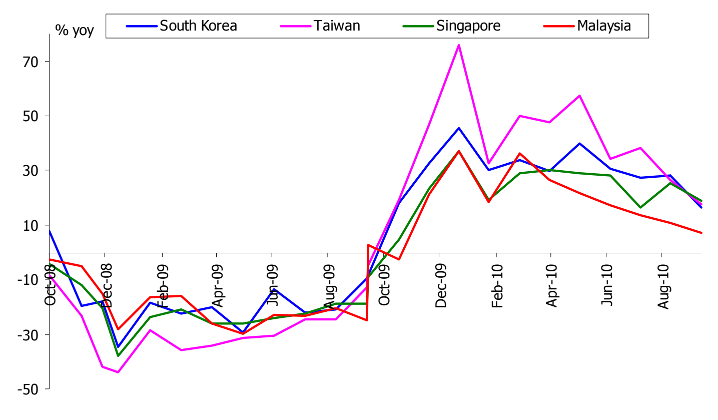
Source : MATRADE

IMPORTS BY COMPONENTS



Source : MATRADE

REGIONAL EXPORT PERFORMANCE



Source : MATRADE

September Exports

- In September, exports grew by 6.9% y-o-y, which was lower than our expectations of 15.2% and the consensus expectations of 10.1%. It was also lower than the 10.6% y-o-y gain charted in August and marked the first single-digit growth after expanding at a double-digit pace since Dec 09. On a m-o-m basis, exports continued to decline by 4.5% from -4.6% in August, underpinning the case of a sluggish demand for local products as the global activity weakens.

- The deceleration in exports was due to lower demand for electronic and electrical (E&E) products. Exports of E&E items contracted by 0.7% y-o-y, the first decline charted since September last year. The demand for E&E products, which accounts for almost 40% of total exports, charted a second consecutive monthly drop (Sept: -7.0%, Aug: -4.6%) as demand from the major trading partners faltered. To a certain extent, export growth to Singapore eased to 2.0% y-o-y (Aug: 5.6%) while demand from the US declined by 4.4% y-o-y (Aug: 0.5%) during September.

- Non-electronic exports also weakened in September, albeit moderately, on the back of a slower demand from the Asian countries. Exports of chemicals/chemical products, machinery/appliances, optical/scientific equipment and manufactures of metal moderated further in September. Nevertheless, the downtrend was cushioned by the strong growth in exports of commodity-related products mainly because of higher commodity prices. For instance, crude petroleum and liquefied natural gas continued to post strong double-digit growth 33.5% y-o-y and 67.4% y-o-y respectively, while palm oil products grew stronger by 13.0% y-o-y from 8.8% in the previous month.

- The overall non-electronic export growth moderated to 12.5% y-o-y from 15.7% y-o-y in August and easing from the 39.7% y-o-y peak level in March this year. The deceleration was reflected in the slower demand from China and Thailand.

September Imports

- September's imports posted a slower growth of 14.6% y-o-y compared to August' growth of 16.5% y-o-y. The easing in import growth was underpinned by slower demand for intermediate goods (Sept: 13.0% y-o-y, Aug: 17.3%) and consumption goods (Sept: 0.2% y-o-y, Aug: 3.6%). Intermediate goods imports decelerated further, suggesting slower future exports while consumption goods imports continued to ease as sentiment over future economic conditions remain weakened. Capital goods imports, on the other hand, grew sharply by 29.3% y-o-y from 14.1% y-o-y in August. The surge could have been due to base effects following the drop in domestic demand for capital goods during August.

3Q10 External Trade

- Exports increased by 10.4% y-o-y in the 3Q10, turning around from -22.4% in the same period last year. The pace of increase, however, was the weakest charted for this year. It gained 1.0% on a q-o-q basis, after contracting for two consecutive quarters (2Q: -1.0%, 1Q: -0.2%), mainly supported by higher demand from Asian countries as well as rising commodity prices.

- In line with exports, import growth weakened to 16.5% y-o-y in the 3Q from 30.3% in the 2Q. On a q-o-q basis, it grew at a slower rate of 2.0% from 11.6% in the 2Q, implying the softening in domestic demand mainly for intermediate and consumption products. The trade surplus narrowed to RM22.3 billion from RM23.4 billion (2Q) as the growth in imports outpaced export growth.

Analysis

- The faster than expected drop in export growth could suggest that GDP would probably grow at a more moderate pace during the 3Q period. Exports reached its highest growth level of 36.4% y-o-y in March and the growth pace decelerated due to slowing demand mainly from developed economies.

- The slowdown in exports, however, could have been cushioned by the sustained increase in domestic demand. Private consumption indicators such as sales and service taxes, the use of credit cards and consumption loans continued to record a strong growth, supporting a higher domestic demand. Thus, despite the faster than expected drop in September's exports and pending the announcement of the IPI on November 10, we expect the overall 3QGDP to grow at 5.9%, albeit lower than 8.9% in 2Q10, on the back of sustained domestic demand.

- Presently, the continued high unemployment rate in the US, the austerity measures in Europe and the appreciation of the Japanese yen continue to be the major factors affecting global growth, hence threatening local exports. There are also concerns over the slowing global economy following another round of tightening measures announced in China.

- The strengthening Ringgit could also have an adverse impact on local exports. The expectation of the Ringgit to appreciate further against the US dollar (after surging to a 13-year high on September 30) appears to affect the competitiveness of local exports. However, moderating factors such as high commodity prices of palm oil and global crude oil would likely cushion falling exports over the coming months.

- We estimate exports to decline by 6.0% y-o-y in October (its first negative growth for the year) before falling further, largely on account of a high base effect coupled with weak external conditions. In 4Q10, we expect exports to fall by 4.0% y-o-y, charting an overall export growth of 13.3% y-o-y. The weakening external demand will weigh down overall GDP growth for the 4Q10, which is projected at 4.6% y-o-y, resulting in a 7.4% y-o-y GDP growth for 2010.

EXTERNAL TRADE FIGURES

	September 2010			August 2010		
	RMB	% yoy	% mom	RMB	% yoy	% mom
External Trade						
Exports	50.5	6.9	-4.5	52.9	10.6	-4.6
Imports	43.5	14.6	-2.4	44.5	16.5	-8.0
Trade Balance	7.0			8.3		
Imports by Segments						
Intermediate Goods	30.6	13.0	-2.3	31.3	17.3	-5.2
Capital Goods	6.4	29.3	4.6	6.1	14.1	-14.7
Consumption Goods	2.6	0.2	-5.9	2.8	3.6	-9.5
Exports- Major Products						
Electrical & Electronics Products	19.9	-0.8	-7.0	21.4	3.8	-4.8
Crude Petroleum	2.6	33.5	-2.8	2.7	2.0	23.2
Chemicals & Chemical Products	3.3	11.2	-1.0	3.3	14.6	-1.5
Liquified Natural Gas	3.4	67.4	6.6	3.2	86.6	-2.1
Palm Oil	4.0	13.0	22.2	3.3	8.8	-20.5
Refined Petroleum Products	2.4	1.8	3.7	2.3	26.9	-10.7
Machinery, Appliances & Parts	1.6	-0.5	-8.6	1.7	18.3	-5.4
Optical & Scientific Equipment	1.5	28.6	-6.6	1.6	32.5	-11.5
Manufacturers of Metal	1.3	11.0	-13.8	1.5	22.3	-5.0
Exports- Major Markets						
Singapore	6.8	2.0	-0.5	6.9	5.6	-6.6
USA	4.6	-4.4	-10.8	5.1	0.5	-8.8
China	6.4	-3.8	-3.9	6.7	2.4	0.3
Japan	5.7	30.0	-2.0	5.8	28.4	9.5
Thailand	2.3	-3.9	-11.6	2.6	3.3	3.9
Hong Kong	2.7	7.2	0.1	2.6	-7.9	-7.6
Korea	2.0	48.1	16.5	1.7	31.7	-21.9
Commodity Prices						
Global Crude Oil (USD/bpd)	80.0	13.3	11.2	71.9	2.8	-8.9
Palm Oil (RM/tonne)	2722	25.2	-0.2	2728	11.1	5.2

Source : MATRADE, Bloomberg, Research Divison PNB