Economic Insight

AMB
Amanah Mutual Berhad

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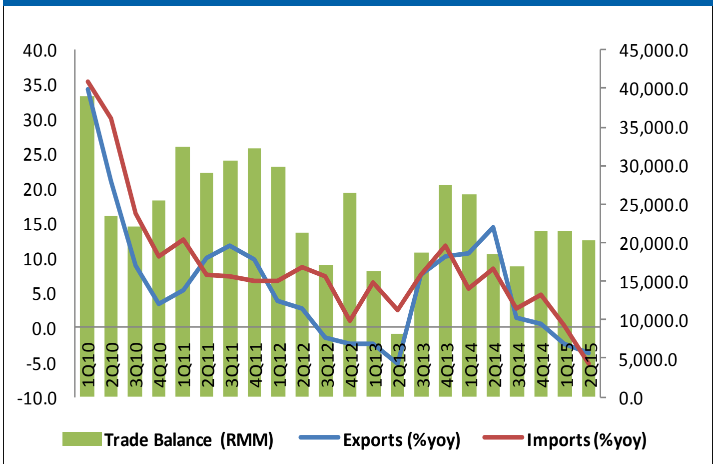
Malaysia: Exports recovery to be short-lived?

CHART 1: EXTERNAL TRADE PERFORMANCE

	June '15		May '15	
	%yoy	%mom	%yoy	%mom
External Trade				
Exports	5.0	6.3	-6.7	0.1
Imports	-1.5	2.4	-7.2	2.7
Intermediate Goods	*-2.4*	*3.5*	*-8.4*	*-0.5*
Capital Goods	*-16.5*	*-8.4*	*-5.0*	*13.7*
Consumption Goods	*36.8*	*7.6*	*27.2*	*11.3*
Trade Balance (RMbil)	8.0		5.5	
Exports-Major Products				
Electrical/Electronics Products	13.5	9.8	-0.6	0.2
Crude Petroleum	-34.1	-11.1	-20.4	19.0
Chemicals/Chemicals Products	15.1	8.7	-1.2	-6.6
Liquefied Natural Gas	-45.2	7.7	-47.9	-17.4
Palm Oil	21.6	17.2	-5.1	24.6
Exports- Major Market				
Singapore	3.8	-1.1	-1.0	11.4
USA	9.5	7.3	-4.8	-9.3
China	49.3	19.6	5.7	-0.3
Japan	-25.1	4.3	-30.4	-15.3

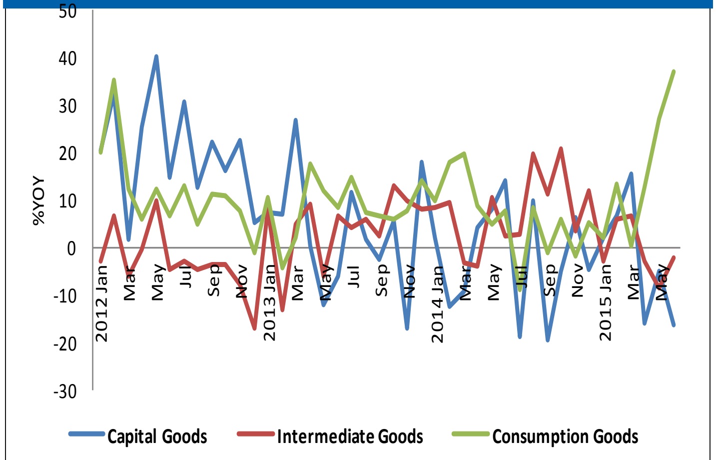
Source: Bloomberg, DOSM

CHART 2: TRADE BALANCE STAYED IN SURPLUS POSITION



Source: DOSM

CHART 3: CONSUMPTION GOODS' IMPORTS ROSE SIGNIFICANTLY



Source: DOSM

- In line with our expectation, exports growth rebounded in June by 5.0% yoy, after it contracted for two consecutive months (May: -6.7% yoy; Apr: -8.8% yoy). This contrasted with market expectation of a decline by 2.2% yoy, sending a wave of positivity in the economy amidst the volatility in the financial sector.

- Overall 2Q15 exports thus contracted by 3.7% yoy (1Q15: -2.4% yoy), slightly exaggerated by the high base in 2Q14 (+14.4% yoy). Nevertheless, we still view this as positive to the economy given the better-than-expected exports growth in June and wider trade surplus to RM8.0 bil during the month vs RM5.5 bil in May (2Q15: RM20.4 bil; 1Q15: RM21.4 bil).

- Exports growth during the month was largely supported by the increase in exports primarily to China, thanks to the rise in demand for CPO due to Ramadhan and Eid festivities (Note: Exports to India also grew by 11.3% yoy in June, in tandem with the growing demand for CPO). Also, consistent with our expectation that the recovery in the U.S. chiefly on the housing starts would augur well for our exports market, exports growth expanded by 9.5% yoy to the U.S. in June (May: -4.8% yoy). The recovery in the U.S. economy had assisted E&E exports performance, aside from the stronger USD and weaker ringgit position (Note: Ringgit stood at RM3.8777 against the USD as at 5 Aug).

- There is also a possibility of a J-curve effect, considering the lagged effect of the depreciation in ringgit on exports expansion which had started since Apr.'15. (Note: J-curve theory suggests that demand remains price inelastic in short term. Thus, any change in price would not prompt an immediate reaction in terms of an increase/decrease in demand in the short term. Only in the long term would we then see demand to move resulting from the price change). Following the ringgit devaluation by 8.5% yoy since Apr. '15 to date, we see little changes in the trade balance during 2Q15 as it declined 5.1% qoq. According to the J-curve, demand for more expensive items would remain rather inelastic. We believe that the desired effect of cheaper ringgit would only materialise in the upcoming months as consumers turn to cheaper alternatives, as seen in June. Hence, following the J-curve theory, we believe trade balance position could be expected to improve thenceforward, as well as current account balance correspondingly.

- On imports side, we noticed that consumption goods' imports expansion remained significant in June as it grew by 36.8% yoy, positively pointing to a healthy consumption appetite in the economy post-GST. Aside from this, other indicators (i.e: passenger car sales, credit card spending and consumption credit growth) showed favourable developments, suggesting that recovery in consumer spending is potentially underway post-GST. This, and the recovery in exports sector would definitely augur well with our expectation of 4.5%-5.0% overall GDP growth in 2015.

- However, there is a possibility that exports recovery in June (possibly to extend till July) to be short-lived since it is seasonal, owing to Ramadhan and Eid festivities mainly. China's slowdown and the U.S. Fed rate hike might derail Malaysia's economic growth potentials via trade and financial channels. Also, liquefied natural gas (LNG) posed a huge drag to the trade balance given LNG exports contracted by a large 45.2% yoy in June (May: -47.9% yoy), as demand from Japan dwindled. We assume that Japan is on its track to reboot its energy industry after the Fukushima meltdown tragedy. To date, spot LNG prices slumped to $7.6/MMBtu from $15.3/MMBtu at end-Oct.'14. If Japan becomes less reliant on our LNG, the current double-digit contraction in exports to Japan (June: -25.1% yoy; Apr: -30.2% yoy) could be exacerbated. Thus, at this juncture, we remain cautious of the challenging external realm and its consequences on Malaysia's economic growth outlook this year.