

Exports unexpectedly increased in February

Facts

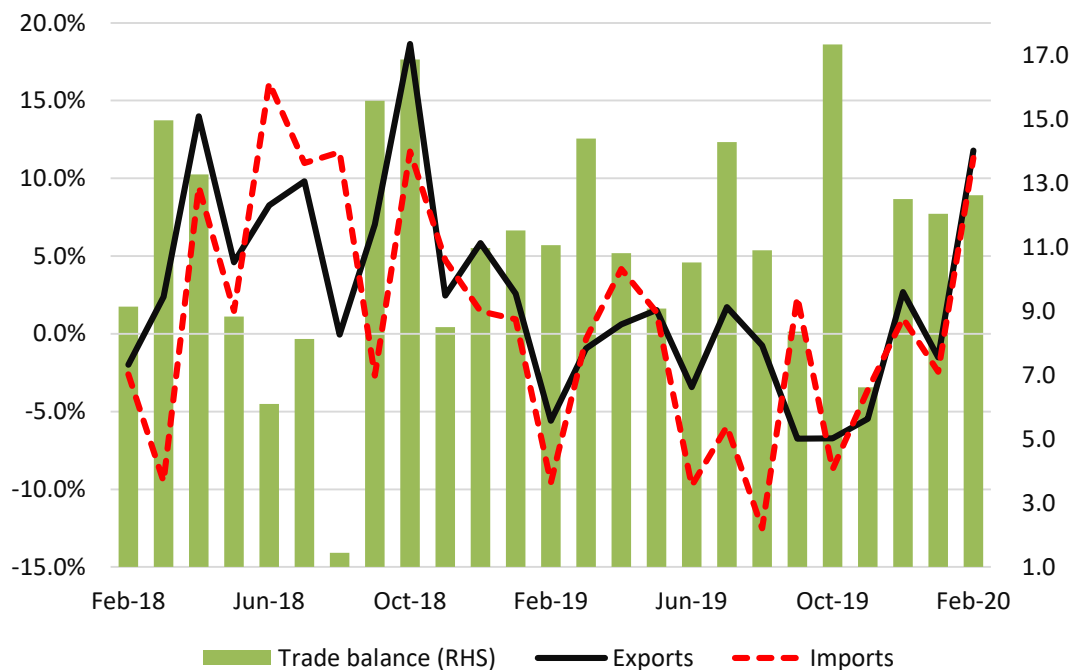
- ✓ Malaysia's exports surged by 11.8% year-on-year (y-o-y) in February from 1.5% contraction in the previous month (Consensus: 0.3% vs. Bank Islam: -2.4%). This was contributed by the stellar performance in Palm Oil, Includes Crude & Processed (February: 14.7% vs. January: 1.2%), Machinery, Appliances & Parts (February: 23.0% vs. January: 5.7%), Professional, Scientific & Controlling Instruments (February: 56.6% vs. January: 0.2%), Rubber Glove (February: 18.3% vs. January: 12.8%), as well as Heating & Cooling Equipment & Parts (February: 36.0% vs. January: 29.7%). Apart from that, Liquefied Natural Gas (February: 7.1% vs. January: -22.8%) and Optical & Scientific Equipment (February: 50.9% vs. January: -0.1%) rebounded strongly from contractionary zone during February. These items accounted for 28.1% of the total exports. Meanwhile, Electrical & Electronic (E&E) Products which constitutes for about 33.7% of total exports grew negatively albeit at a softer pace (February: -2.7% vs. January: -5.5%) in February.
- ✓ Exports performance by destination showed that shipments to Singapore, US and Philippines rose by 22.5% (January: 1.1%), 25.5% (January: 9.5%) and 34.3% (January: 7.8%) respectively in February. Moreover, export sales to China, Japan, Hong Kong and Vietnam rebounded by 11.0% (January: -5.6%), 3.7% (January: -1.6%), 1.0% (January: -14.0%) and 14.5% (January: -16.7%) during February. On the contrary, exports to European Union (EU), Thailand and Germany plummeted by 12.7%, 12.3%, and 7.8% in February from 7.3%, 19.8% and 10.3% contraction in the previous month.
- ✓ On imports, it rose by 11.3% in February from 2.4% decline in the preceding month. This was mainly contributed by the strong imports growth for Intermediate goods (February: 20.4% vs. January: 3.7%) and Consumption goods (February: 10.0% vs. January: -1.0%). However, Capital goods imports dropped by 16.9% in February, extending the 15.0% fall in the previous month. As such, the trade balance edged up from RM12.0 billion in January to RM12.6 billion in February.
- ✓ Cumulatively, total exports for 2M2020 improved by 4.3% after recorded -1.2% in the same period last year. Similarly, imports recovered by 3.5% in 2M2020 from -2.4% in 2M2019. Consequently, trade surplus widened from RM22.6 billion in 2M2019 to RM24.7 billion in 2M2020.

Table 1: External Trade (Y-o-Y %)

Y-o-Y%	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	2M2019	2M2020
Export	-6.7%	-5.5%	2.7%	-1.5%	11.8%	-1.2%	4.3%
Import	-8.7%	-3.6%	1.0%	-2.4%	11.3%	-3.9%	3.5%
Trade balance (RM billion)	17.3	6.6	12.5	12.0	12.6	22.6	24.7
Export by product							
Machinery, Appliances and Parts	3.5%	6.0%	6.9%	5.7%	23.0%	-4.0%	13.7%
Electrical & Electronic Products	-3.2%	-11.6%	-5.4%	-5.5%	-2.7%	6.8%	-4.3%
Palm Oil, Includes Crude & Processed	-9.3%	-2.6%	20.9%	1.2%	14.7%	-15.7%	7.5%
Liquefied Natural Gas	-17.1%	-35.9%	-21.3%	-22.8%	7.1%	20.7%	-11.5%
Petroleum Products	-27.2%	-19.0%	34.9%	62.0%	21.7%	-30.4%	42.0%
Crude Petroleum	-50.5%	-23.4%	-24.3%	-10.9%	-11.7%	-11.3%	-11.2%
Optical and Scientific Equipment	17.6%	11.9%	12.0%	-0.1%	50.9%	-5.4%	21.2%
Professional, Scientific & Controlling Instruments	19.7%	12.7%	12.6%	0.2%	56.6%	-3.9%	23.4%
Rubber Gloves	-14.1%	1.0%	7.4%	12.8%	18.3%	-0.2%	15.5%
Heating and Cooling Equipment and Parts	25.5%	5.2%	5.4%	29.7%	36.0%	-11.7%	33.0%
Export by country							
Singapore	4.1%	-11.9%	-2.7%	1.1%	22.5%	0.6%	10.3%
China	-11.0%	4.1%	17.8%	-5.6%	11.0%	4.0%	1.6%
European Union	-5.2%	-4.3%	-3.8%	-7.3%	-12.7%	4.0%	-9.8%
United States	2.7%	6.5%	15.1%	9.5%	25.5%	0.5%	16.6%
Japan	-20.1%	-16.0%	-13.9%	-1.6%	3.7%	-5.5%	0.8%
Thailand	-18.2%	-14.6%	-7.3%	-19.8%	-12.3%	7.0%	-16.7%
Hong Kong	0.1%	-21.1%	-18.1%	-14.0%	1.0%	-10.1%	-8.3%
Australia	-50.3%	-8.2%	-12.0%	7.8%	-6.8%	-5.6%	0.4%
Germany	-3.1%	-2.0%	-11.7%	-10.3%	-7.8%	-0.2%	-9.1%
Vietnam	-1.9%	-11.0%	12.2%	-16.7%	14.5%	-14.1%	-3.5%
Philippines	-2.3%	3.7%	1.4%	7.8%	34.3%	-2.8%	20.0%
Import by end-use							
Capital	-11.5%	-4.4%	-11.0%	-15.0%	-16.9%	-8.6%	-15.8%
Intermediate	-5.1%	1.8%	6.2%	3.7%	20.4%	-1.9%	11.4%
Consumption	-5.0%	1.9%	3.2%	-1.0%	10.0%	-3.7%	3.6%

Sources: CEIC, Bank Islam

Chart 1: Exports (y-o-y %), Imports (y-o-y %) & Trade Balance (RM million)



Sources: CEIC, Bank Islam

Our View

It was almost surreal that Malaysia's exports could grow by double digit pace at a time there was a steep fall in the PMI indices globally. The main pillar was none other than the manufacturing sector (February: 13.1% vs. January: 1.1%) which accounted for 84.8% of total exports. From the latest data, most of the products have posted significant increases except for E&E products (February: -2.7% vs. January: -5.5%). As the infection figure has been rising across the globe, demand for health related products such as the scientific supplies and rubber gloves have skyrocketed during February.

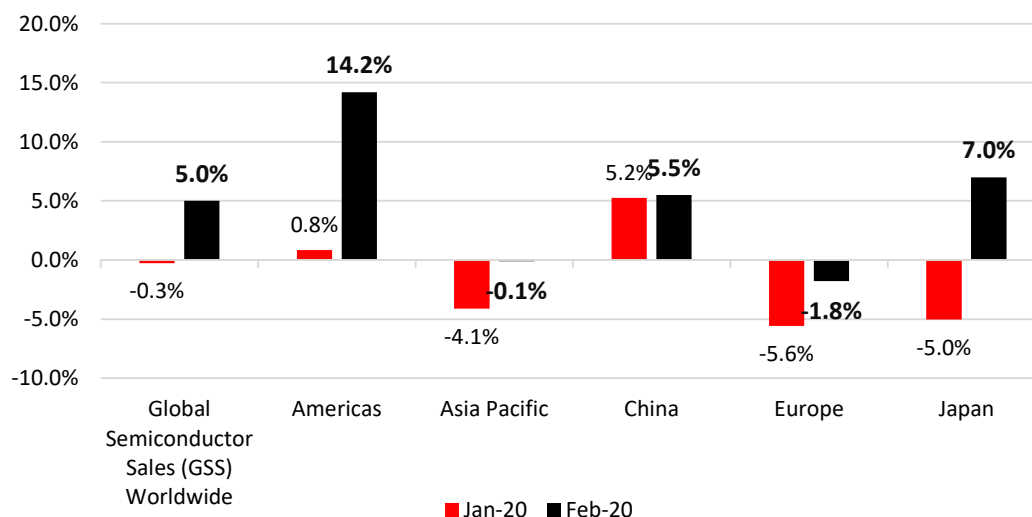
At the same time, Global Semiconductor Sales (GSS) has turned to 5.0% y-o-y (January: -0.3%) growth after 13 consecutive months of decline. GSS by economic region showed the American continents led the pack with growth of 14.2% (January: 0.8%) was recorded. This was followed by Japan and China, growing by 7.0% (January: -5.0%) and 5.5% (January: 5.2%) respectively. Despite that, the Semiconductor Industry Association (SIA) CEO and President, John Neuffer said that the full impact of Covid-19 has yet to be captured in the available sales number. This would mean the recent recovery could be tentative as most countries are operating below their normal capacity.

Chart 2: Global Semiconductor Sales, y-o-y%



Source: CEIC

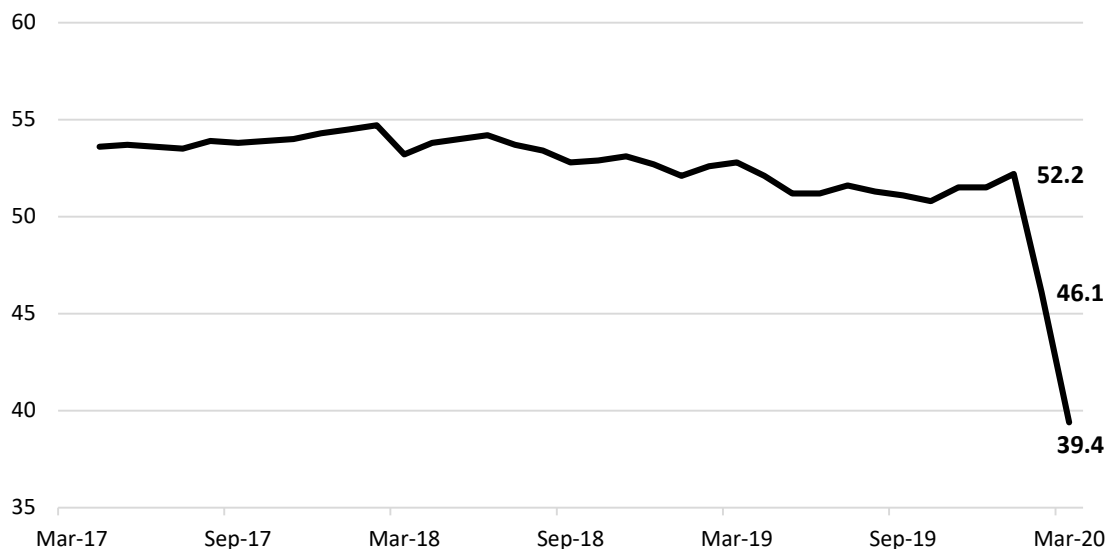
Chart 3: GSS by Country, y-o-y%



Source: CEIC

Against such a backdrop, the strong export growth during February could be transitory. The low base during February last year may have also played role, masking the underlying trend. Businesses may have front-loading their orders for fear of supply disruption.

Chart 4: J.P. Morgan Global Composite Index, points



Source: Bloomberg

The sharp decline in J.P. Morgan Global Composite Index to 39.4 points in March versus February's 46.1 points indicates that the business sentiments have plunged as Covid-19 cases soared. More importantly, all nations covered by the PMI survey have recorded sharp increase in job losses since June 2009 (March: 46.6 points vs. February: 49.8 points), reflecting the damaging effects from Covid-19 have become so apparent.

As the Covid-19 cases increased exponentially across countries, in particular the US and the EU (Global infection stood at 1.2 million cases as at 5 April), varying degrees of lockdown measures are being put in place. This has curtailed the economic activities as businesses are not able to operate normally. Similar features can also be found in Malaysia as indicated by Bank Negara Malaysia (BNM) whereby businesses have been operating at 45.0% of its total capacity while non-essential services (vehicle repair, construction & renovation, sports, cultural & social) are practically running at 0% rate. Following this, **we have revised our exports forecast from 0.8% - 1.0% to between -7.0% and -9.0% for this year.**

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