

Exports plummeted again by 6.7% in October

Facts

- ✓ Malaysian exports plunged at a sustained rate of 6.7% year-on-year (y-o-y) in October (September: -6.7%, Consensus: -12.3%, Bank Islam: -8.4%). This was predominantly driven by the contraction in major products such as Electrical & Electronic (E&E) products (October: -3.2% vs. September: -12.2%), Palm Oil, Includes Crude & Processed (October: -9.3% vs. September: -6.6%), as well as Petroleum Products (October: -27.2% vs. September: -14.7%). Apart from that, Liquefied Natural Gas (October: -17.1% vs. September: -1.8%), Crude Petroleum (October: -50.5% vs. September: -45.8%) and Rubber Gloves (October: -14.1% vs. September: -3.2%) dropped steeply as compared to the previous month. These items accounted for 60.4% to the total exports in October.
- ✓ Within the E&E products, export growth for Electrical Apparatus & Parts was flat at 0.0% in October from 0.6% in September. In addition, Parts & Accessories for Office Machines continued to fall, marking the twelfth months of decline though at a marginal pace (October: -0.7% vs. September: -18.7%). Meanwhile, the Thermionic Valves & Tubes which contributed the largest shares (64.0%) in E&E products recorded 1.0% growth in October (September: -11.9%), mitigating the overall reduction in the E&E exports. Upon further scrutiny, Piezo Electric Crystals & Parts exports have been decent, growing at 15.5% in October from 6.4% decline previously. Similarly, Electronic Integrated Circuits edged up by 0.4% in October from 15.8% fall in the preceding month.
- ✓ In contrast, Optical & Scientific Equipment (October: 17.6% vs. September: 12.8%), Professional, Scientific & Controlling Instruments (October: 19.7% vs. September: 15.4%), as well as Heating & Cooling Equipment & Parts (October: 25.5% vs. September: 5.4%) continued to record a positive growth in October. As such, these have cushioned the overall downturn in the export performance.
- ✓ With regards to the export's destination, shipments to China, Japan, Thailand and Australia declined at a significant degree by 11.0% (September: -3.0%), 20.1% (September: -1.7%), 18.2% (September: -4.3%) and 50.3% (September: -19.5%) respectively in October. On the other hand, exports to the United States (US) softened by 2.7% in October as compared to 6.6% in September.
- ✓ On imports, it declined by 8.7% in October after recorded a positive growth of 2.4% in the previous month. Import growth for capital, intermediate and consumption goods were all contracted by 11.5% (September: 7.0%), 5.1% (September: 11.1%) and 5.0% (September: 15.1%) respectively during October. As such, the trade surplus widened from RM8.4 billion in September to RM17.3 billion in October.

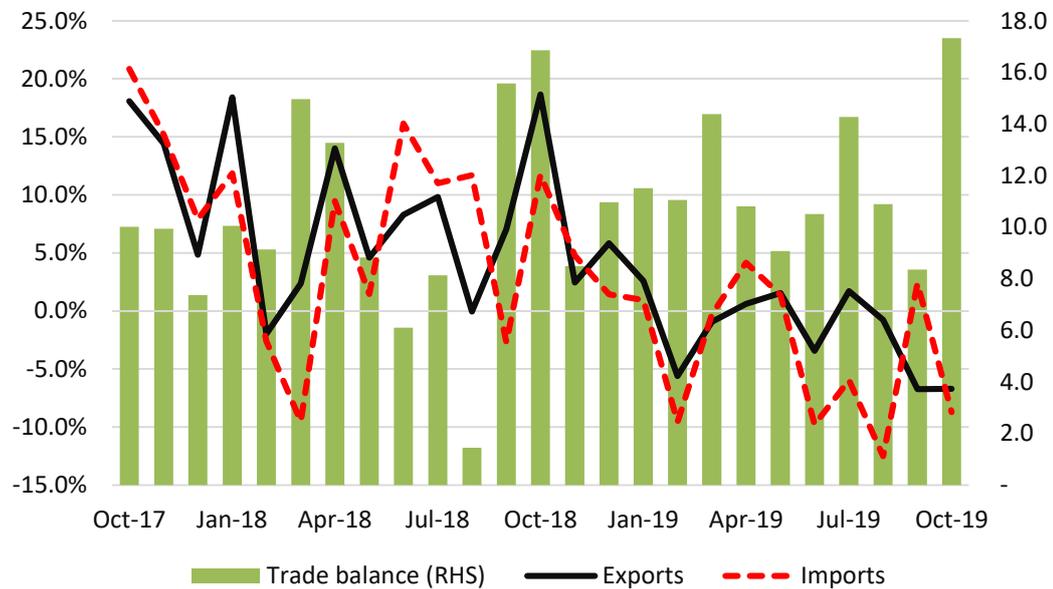
- ✓ Cumulatively, total exports recorded a negative growth in the first ten months of 2019 to -1.8% from 8.0% growth in the same period last year. By the same token, total imports slumped to -3.9% in 10M2019 from 5.6% expansion previously. Given that, the trade surplus balance has widened from RM104.3 billion in 10M2018 to RM118.2 billion in 10M2019.

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

Y-o-Y%	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	10M2018	10M2019
Export	-3.4%	1.7%	-0.8%	-6.7%	-6.7%	8.0%	-1.8%
Import	-9.8%	-6.0%	-12.5%	2.4%	-8.7%	5.6%	-3.9%
Trade balance (RM billion)	10.5	14.3	10.9	8.4	17.3	104.3	118.2
Export by product							
Machinery, Appliances and Parts	-10.9%	6.0%	7.6%	6.8%	3.6%	0.9%	0.8%
Electrical & Electronic Products	-6.5%	4.5%	-7.4%	-12.2%	-3.2%	12.3%	-1.1%
Palm Oil, Includes Crude & Processed	2.2%	-10.8%	16.7%	-6.6%	-9.3%	-11.6%	-6.2%
Liquefied Natural Gas	6.1%	31.3%	-11.2%	-1.8%	-17.1%	-2.3%	6.0%
Petroleum Products	6.9%	3.2%	7.7%	-14.7%	-27.2%	14.2%	-7.7%
Crude Petroleum	31.7%	-45.7%	-40.2%	-45.8%	-50.5%	33.6%	-29.0%
Optical and Scientific Equipment	-5.2%	-2.3%	-12.3%	12.8%	17.6%	12.8%	4.1%
Professional, Scientific & Controlling Instruments	-4.4%	-1.6%	-13.1%	15.4%	19.7%	15.9%	5.4%
Rubber Gloves	-19.8%	-7.5%	-5.0%	-3.2%	-14.1%	11.8%	-4.0%
Heating and Cooling Equipment and Parts	1.1%	20.0%	17.4%	5.4%	25.5%	-13.1%	2.4%
Export by country							
Singapore	-1.2%	3.5%	-7.2%	-11.6%	4.1%	2.2%	-1.3%
China	-10.7%	3.8%	-2.8%	-3.0%	-11.0%	11.9%	-1.8%
European Union	0.7%	-2.8%	5.3%	-10.8%	-5.2%	5.6%	-2.7%
United States	8.4%	7.9%	6.8%	6.6%	2.7%	1.9%	4.4%
Japan	-13.6%	-6.3%	2.5%	-1.7%	-20.1%	-7.0%	-5.7%
Thailand	-4.4%	-2.4%	-8.4%	-4.3%	-18.2%	14.2%	-0.5%
Hong Kong	-25.2%	2.5%	-15.4%	-26.5%	0.1%	66.4%	-9.4%
Australia	-11.2%	-14.8%	-27.4%	-19.5%	-50.3%	3.6%	-16.4%
Germany	-17.1%	4.0%	-13.0%	-6.1%	-3.1%	8.7%	-8.1%
Vietnam	-17.1%	6.4%	24.7%	-5.4%	-1.9%	25.1%	1.5%
Philippines	50.8%	17.0%	-1.8%	-4.2%	-2.3%	2.0%	8.2%
Import by end-use							
Capital	-24.5%	-14.0%	-30.9%	7.0%	-11.5%	-0.5%	-11.5%
Intermediate	-3.6%	-3.4%	-13.8%	11.1%	-5.1%	-4.4%	0.5%
Consumption	-5.6%	-5.0%	-12.8%	15.1%	-5.0%	2.6%	1.1%

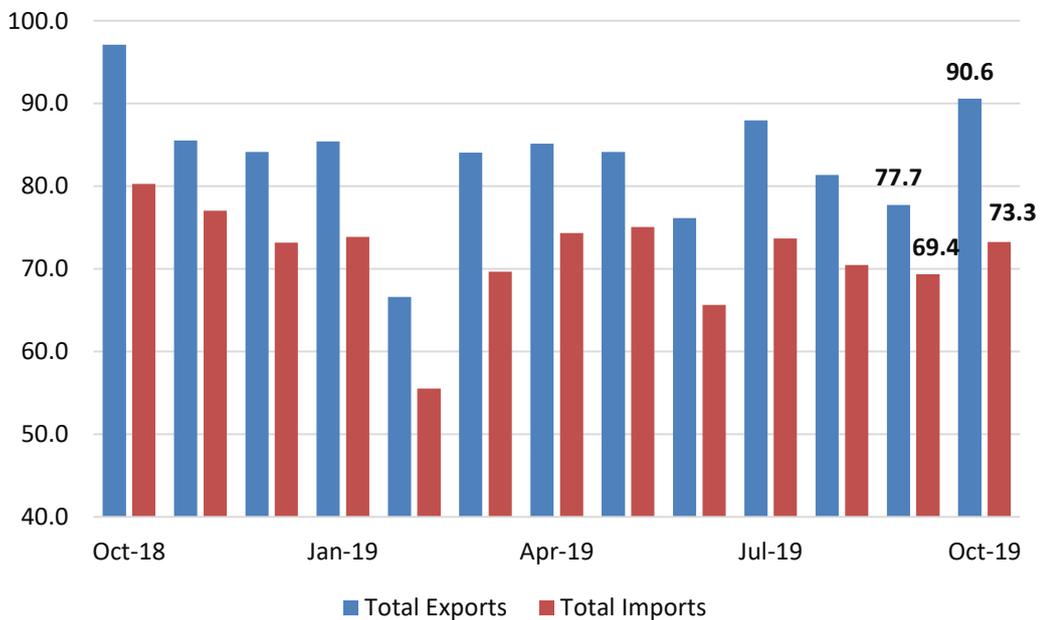
Sources: CEIC, DOSM

Chart 1: Exports and Imports (y-o-y %), Trade Balance (RM Billion)



Source: CEIC

Chart 2: Exports and Imports (RM Billion)

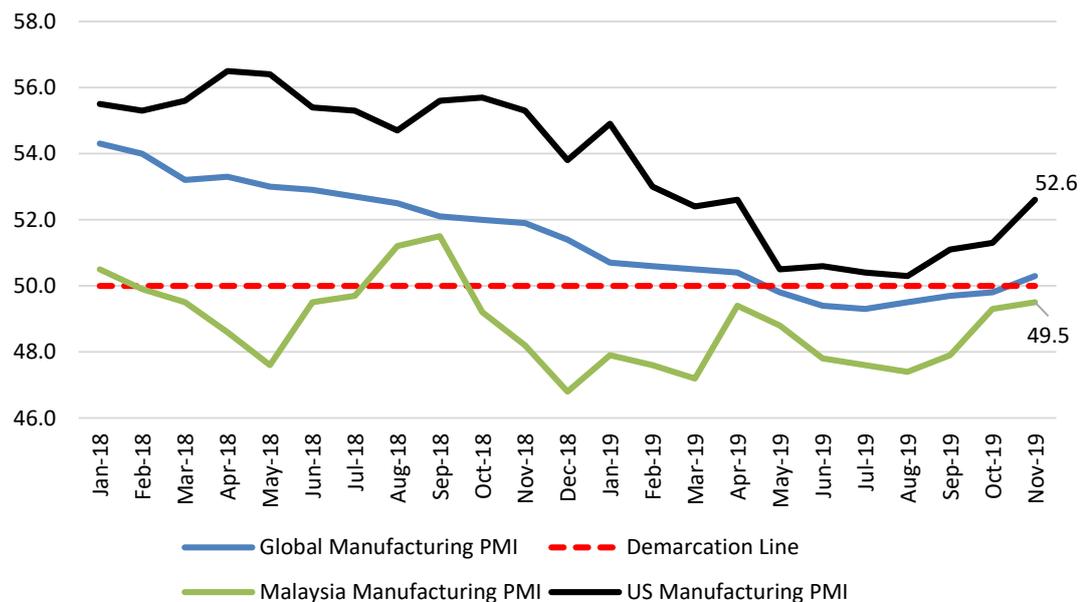


Source: CEIC

Our view

The global economy has been a mixed bag. On one hand, the trade negotiation between the US and China is progressing well and the next thing, the whole scenarios would change. Needless to say, the financial markets become very volatile. While the ongoing trade kerfuffle between the US and China would remain an unfinished business, there is also another problem brewing. The World Trade Organisation (WTO) would cease its function after 11 December as one of its final three remaining appellate body's members plan to quit¹ while the other member is due to retire on the same day. Consequently, this will jeopardize the dispute settlement system as countries can take unilateral action without WTO policing the international trade dispute. In the meantime, the clock is ticking towards the 15 December dateline as the US government is expected to impose 15% import tariff on USD156 billion worth of Chinese goods.

Chart 3: Global Manufacturing Purchasing Manager's Index (PMI), points



Sources: Bloomberg

Despite all the gloom and doom, there are signs of a bottoming out in the J.P. Morgan Global Manufacturing Purchasing Manager's Index (PMI). Finally, it has moved back above the 50.0 point line after remaining in contraction for 8 consecutive months since May 2019 (May: 49.8 points vs. November: 50.3 points). In addition, Malaysia's Manufacturing PMI has also improved from 49.3 points in October to 49.5 points in November. This has brought further pick up in the manufacturing due to improve in business conditions. Moreover, there seems to be a beam of light particularly for the E&E sectors. According to the International Data Corporation (IDC), worldwide smartphone shipments has rebounded by 0.8% y-o-y in

¹ <https://www.bloomberg.com/news/articles/2019-12-02/wto-faces-cliff-edge-crisis-next-week-as-mediator-eyes-departure>

3Q2019 after recorded negative growth for 7 straight quarters since 4Q2017 (4Q2017: -6.3% vs. 2Q2019: -2.3%). At the current juncture, the Global Semiconductor Sales (GSS) growth continue to decline but at gentler pace of 14.6% y-o-y in September. The recovery would be mostly propelled by the deployment of 5G technology.

All in all, we have revised our **2019 export growth forecast from a range of 0.5% - 1.0% to -1.5%**, taking into account the prevailing trend in global demand. As such, the case for lower Overnight Policy Rate (OPR) in 2020 is building up.

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