



From the Desk
of the
Chief Economist

BANK ISLAM

MALAYSIA'S EXPORTS DECLINED IN AUGUST

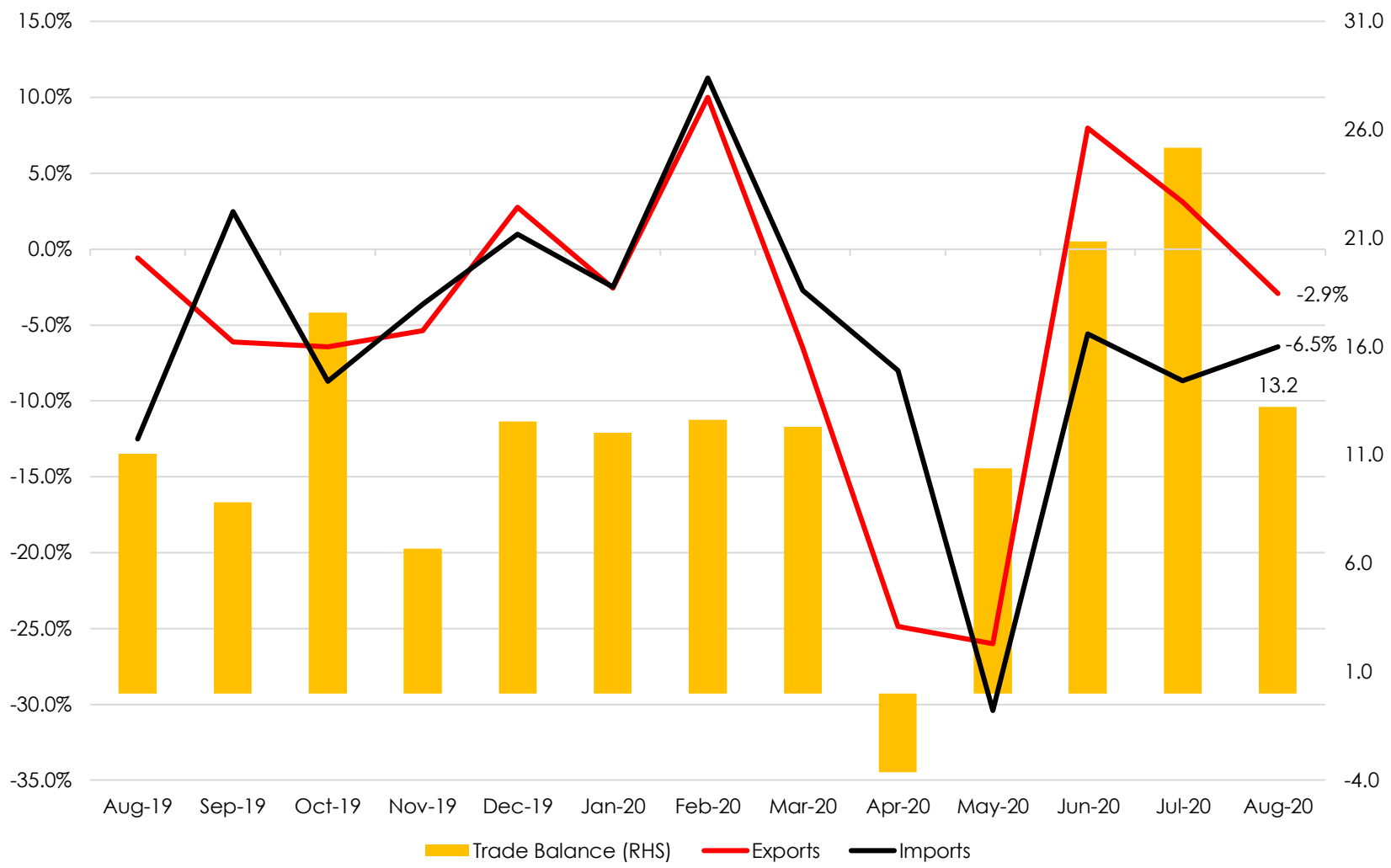
28 SEPTEMBER 2020

ECONOMIC RESEARCH

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- ✓ Malaysia's exports fell by 2.9% year-on-year (y-o-y) in August, following a positive growth of 3.1% recorded previously (Consensus: 4.9%, Bank Islam: 1.8%). It was a broad-based downturn largely weighed by Mining sector which slumped by 25.9% in August (July: -30.2%). On a similar note, the Agriculture and Manufacturing also decreased by 4.5% (July: 30.4%) and 0.1% (July: 4.7%) in August.
- ✓ Within the Mining sector, exports for Liquefied Natural Gas (LNG) posted the largest drop at 49.1% in August, extending the 47.6% fall in July.
- ✓ As for the Manufacturing sector, exports for Jewellery (August: -38.4% vs. July: -55.3%), Manufacture of Metal (August: -30.7% vs. July: -5.9%), Beverages & Tobacco (August: -28.5% vs. July: -11.8%) and Manufacture of Plastics (August: -25.1% vs. July: -16.9%) remained in the negative territory during August. Nonetheless, shipment of Optical & Scientific Equipment (August: 28.6% vs. July: 9.9%), Iron & Steel Products (August: 23.3% vs. July: 9.1%) and Rubber Products (August: 66.8% vs. July: 93.9%) grew at a double digit pace in August.
- ✓ Apart from that, the contraction in Natural Rubber (August: -32.9% vs. July: -41.1%) and Sawn Timber & Mouldings (August: -39.2% vs. July: -8.6%) have heavily impinged on the Agriculture sector.
- ✓ For imports, it shrank by 6.5% in August from -8.7% as imports of Capital Goods and Intermediate Goods registered softer fall at 15.5% (July: -19.8%) and 5.6% (July: -17.3%) while Consumption Goods were higher by 2.9% in August (July: 0.1%). Therefore, the trade surplus narrowed to RM13.2 billion in August from RM25.2 billion in July.
- ✓ Cumulatively, the exports were down by 5.8% during 8M2020 after expanding by 0.8% in the same period last year. Similarly, imports plummeted by 7.3% in 8M2020 from -4.0% in 8M2019. As such, the trade surplus widened from RM100.0 billion in 8M2019 to RM103.0 billion in 8M2020.

EXTERNAL TRADE (Y-O-Y%)



EXTERNAL TRADE (Y-O-Y%)

Y-o-Y%	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	8M2019	8M2020
Exports	-2.6%	10.0%	-6.5%	-24.9%	-26.0%	8.0%	3.1%	-2.9%	0.8%	-5.8%
Imports	-2.5%	11.3%	-2.7%	-8.0%	-30.4%	-5.6%	-8.7%	-6.5%	-4.0%	-7.3%
Trade balance (RM billion)	12.0	12.6	12.3	-3.6	10.4	20.9	25.2	13.2	100.0	103.0
Export by sector										
Manufacturing	0.4%	11.6%	-6.2%	-24.4%	-23.8%	13.1%	4.7%	-0.1%	1.8%	-3.7%
Electrical & Electronic Products	-5.5%	-2.7%	-13.9%	-21.7%	-19.9%	15.9%	9.2%	7.6%	0.9%	-4.0%
Chemical & Chemical Products	-18.5%	7.3%	-4.5%	-19.7%	-25.1%	-8.1%	-23.2%	-23.4%	-0.1%	-14.9%
Machinery, Equipment & Parts	5.6%	23.0%	-17.6%	-53.2%	-29.4%	29.7%	-4.5%	-11.3%	0.7%	-8.7%
Petroleum Products	46.2%	16.9%	22.6%	-25.0%	-42.7%	-26.2%	-6.5%	-15.9%	-4.8%	-7.0%
Manufacture of Metal	-2.6%	13.3%	-22.2%	-54.2%	-35.4%	9.4%	-5.9%	-30.7%	-7.6%	-18.0%
Transport Equipment	11.0%	21.1%	112.4%	21.8%	-51.7%	2.8%	-5.5%	-19.9%	-4.2%	11.3%
Optical & Scientific Equipment	-0.5%	49.6%	-9.6%	-35.2%	-11.8%	33.8%	9.9%	28.6%	5.3%	5.4%
Processed Food	7.4%	30.8%	-8.7%	-19.7%	-19.5%	13.0%	-1.1%	-7.0%	11.1%	-2.2%
Textiles, Apparels & Footwear	1.6%	13.7%	-16.4%	-51.1%	-40.2%	-9.4%	-10.2%	-12.2%	5.0%	-16.2%
Iron & Steel Products	17.2%	45.2%	1.0%	-7.4%	-20.0%	16.3%	9.1%	23.3%	47.6%	8.5%
Manufacture of Plastics	-9.8%	16.4%	-13.6%	-32.1%	-20.9%	1.2%	-16.9%	-25.1%	4.0%	-13.6%
Paper & Pulp Products	18.2%	42.6%	12.8%	-14.3%	-10.8%	26.9%	-15.2%	-15.5%	29.1%	3.0%
Rubber Products	10.7%	16.8%	3.4%	11.7%	20.5%	101.0%	93.9%	66.8%	-3.6%	39.2%
Palm Oil-Based Manufactured Products	-5.5%	3.9%	-32.2%	-10.9%	-24.2%	-4.8%	-17.7%	-10.2%	5.4%	-14.1%
Non-Metallic Mineral Products	26.8%	51.4%	-4.4%	-40.7%	-40.6%	-8.0%	-19.9%	-21.3%	19.9%	-9.8%
Beverages & Tobacco	-16.3%	-6.3%	-42.9%	-43.2%	-49.1%	-19.5%	-11.8%	-28.5%	5.5%	-28.4%
Jewellery	-12.2%	34.9%	-49.4%	-88.0%	-86.8%	-76.5%	-55.3%	-38.4%	13.8%	-51.5%
Wood Products	-2.9%	43.4%	-21.1%	-45.5%	-31.6%	36.0%	13.6%	1.4%	-2.7%	-2.6%
Agriculture	-6.2%	12.4%	-9.0%	-17.1%	-23.7%	26.0%	30.4%	-4.5%	-1.6%	-0.6%
Natural Rubber	-0.5%	33.2%	-9.7%	-27.2%	-44.3%	-37.9%	-41.1%	-32.9%	1.5%	-23.6%
Saw log	-37.1%	-0.8%	8.7%	-63.8%	-84.2%	16.9%	-24.7%	-6.9%	-19.9%	-35.0%
Sawn Timber & Mouldings	-37.6%	22.7%	-29.3%	-75.8%	-59.6%	0.7%	-8.6%	-39.2%	-2.2%	-33.0%
Mining	-22.7%	-6.4%	-5.5%	-32.3%	-49.7%	-46.4%	-30.2%	-25.9%	-0.5%	-27.2%
Tin	-57.1%	-22.6%	-59.2%	-36.3%	14.8%	25.0%	-27.9%	0.0%	-9.0%	-27.7%
Crude Petroleum	-10.9%	-11.7%	-4.2%	-33.8%	-69.0%	-70.9%	-4.9%	0.0%	-23.8%	-28.7%
Liquefied Natural Gas	-26.5%	1.1%	-14.5%	-21.1%	-31.8%	-26.6%	-47.6%	-49.1%	18.6%	-26.5%
Others	-8.6%	6.6%	-27.8%	-74.6%	-58.0%	-49.1%	-51.9%	-57.9%	-11.3%	-42.5%
Import by End-Use										
Capital Goods	-14.8%	-16.7%	-48.1%	69.1%	-27.8%	2.8%	-19.8%	-15.5%	-13.4%	-8.5%
Consumption Goods	-1.2%	9.7%	6.8%	-12.2%	-22.2%	8.9%	0.1%	2.9%	0.6%	-1.7%
Intermediate Goods	3.6%	20.5%	2.5%	-30.6%	-27.8%	-10.7%	-17.3%	-5.6%	-0.1%	-9.3%

EXPORTS ROSE THE MOST FOR RUBBER PRODUCTS AND OPTICAL & SCIENTIFIC EQUIPMENT

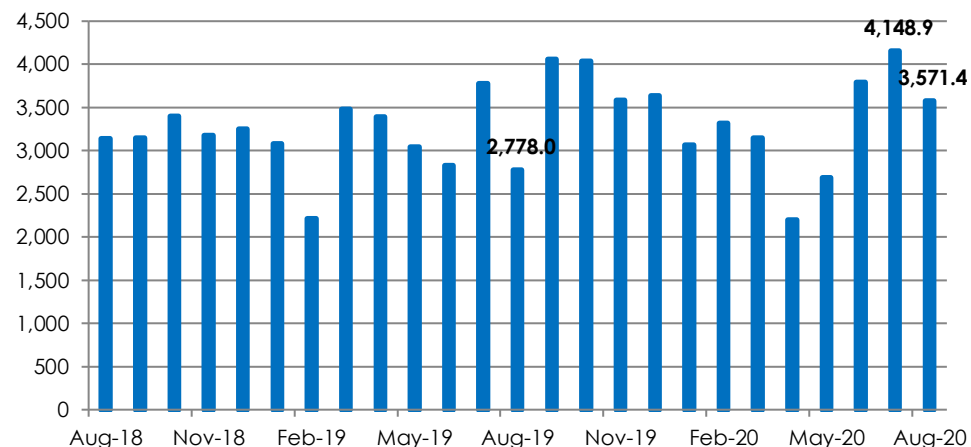
- ✓ As highlighted earlier, exports of rubber products were the highest during August at 66.8% y-o-y. This was no surprise as the demand for rubber gloves remains high amid the resurgence of Covid-19 cases including Malaysia.
- ✓ If we look at the capacity expansion for the glove makers in isolation, the situation looks overwhelming. Nevertheless, if we juxtapose the annual demand growth against new pandemic-led demand, the additional capacity is not a concern. Based on our analysis, the total new supply of gloves in Malaysia is still below Malaysia's share of incremental global demand for gloves in 2020 and 2021. In fact, the estimated new yearly capacity may not actually start as scheduled and hence the supply shortage will continue to be acute in 2021.
- ✓ Therefore, we still foresee that the demand for rubber gloves will continue to contribute strongly to the exports of rubber products in the immediate term.
- ✓ In line with the increase in exports of rubber products, exports of optical and scientific equipment also jumped by 28.6% y-o-y in August. Although the number of exports were lower than the previous month by 13.9%, it has been increasing on a y-o-y basis for three consecutive months. We opine that the Covid-19 vaccine currently being developed by many parties worldwide has led to the increased usage of optical and scientific equipment.

Table 2: Estimated new supply from Malaysia versus new world demand in 2020 and 2021

Year	2020	2021
Estimated global demand for gloves (billion pieces)	330.0	396.0
Estimated incremental global demand compared to previous year (billion pieces)	60.0	66.0
Malaysia's share (65%) of incremental global demand for gloves (billion pieces)	39.0	42.9
Incremental capacity from Big 4 Glove Makers (billion pieces)	28.3	29.0
Estimated total new supply of gloves in Malaysia (assume that Big 4 glove makers account for an estimated 80.0% of total production) (billion pieces)	34.0	34.8

Sources: Malaysia Rubber Glove Manufacturers Association (MARGMA), Bank Islam

Chart 2: Exports of Optical & Scientific Equipment (RM Million)



Sources: CEIC

LIQUEFIED NATURAL GAS WAS A MAJOR DRAG ON OVERALL EXPORTS

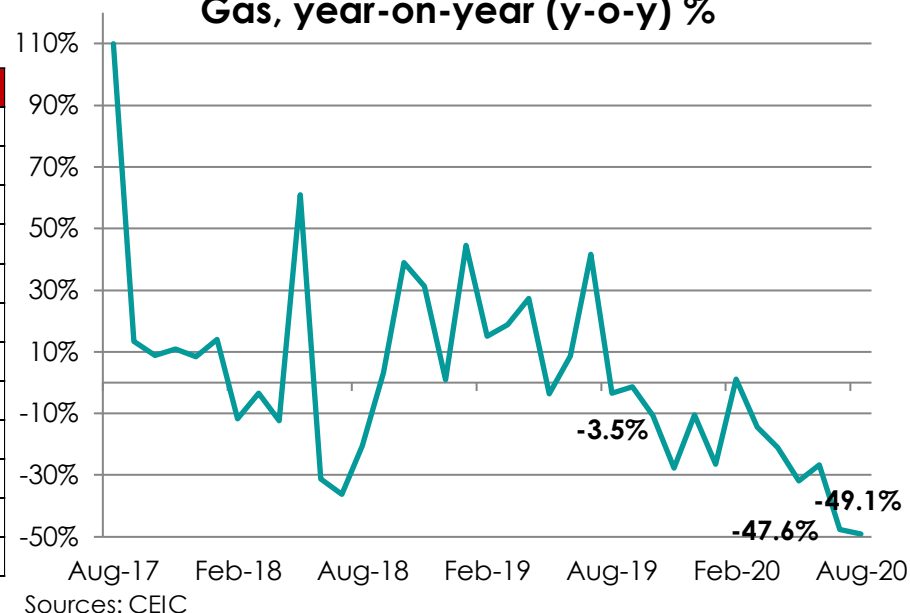
- ✓ On the other hand, Malaysia's total exports in August 2020 was mainly dragged by the exports in LNG which declined substantially by 49.1% y-o-y. This was the largest drop ever recorded since the data was made available in November 2015.
- ✓ Despite a sharp rise in liquefaction capacity, global LNG supply this year should be similar to 2019 at about 361 million tonnes, as exporters reduce utilization to match volume with Covid-19-induced demand weakness according to data from Bloomberg Intelligence.
- ✓ As such, there have been delays in final investment decisions (FID) due to weak market conditions and the pandemic. This includes proposed US LNG projects by companies such as Energy Transfer, NextDecade and Tellurian with total annual capacity about 130 million tons.
- ✓ Supply could increase by about 3.6% in 2021, driven mostly by a full year of operations at multiple US facilities that came online in 2020 and were put on hold due to the pandemic.

Table 3: Post-Final Investment Decision (FID) Only Global LNG Supply Forecast (Million Tonnes Per Annum (Mtpa))

Post-FID only	2017	2018	2019	2020E	2021E	2022E	2023E
Qatar	78	79	79	80	80	80	80
Australia	56	69	76	76	76	77	82
US	14	22	38	46	57	66	74
Russia	11	19	29	29	30	29	29
Malaysia	26	24	26	22	23	25	28
Indonesia	19	18	16	15	16	18	19
West Africa	28	28	30	30	30	30	30
North Africa	13	12	16	12	14	15	14
Mozambique	0	0	0	0	0	0	2
Canada	0	0	0	0	0	0	0
Others	47	50	50	51	48	49	52
Total (Mtpa)	292	321	360	361	374	389	410

Sources: Bloomberg Intelligence

Chart 3: Exports of Liquefied Natural Gas, year-on-year (y-o-y) %



- ✓ Malaysia's external trade performance registered a contraction for the first time in 2H2020, suggesting that the recovery period would take quite sometime amid rising number of coronavirus infections particularly in Sabah state.
- ✓ However, other jurisdictions also faced similar fate. Countries like Japan (August: -14.8% vs. July: -19.2%), India (August: -12.7% vs. July: -10.2%) and South Korea (August: -10.1% vs. July: -7.1%) continued to record double-digit negative growth in August as Covid-19 has severely affected demand conditions and halted business activities.
- ✓ Meanwhile, Singapore Non-Oil Domestic export (NODX) which account for about 82.1% of total export increased to 7.7% y-o-y in August from 5.9% growth previously. This was mainly driven by non-electronic product sales which rose by 8.3% in August from 6.9% expansion in the preceding month. Thus far, the government of Singapore revised up its projection for NODX to grow between 3.0% and 5.0% in 2020 as compared to an earlier forecast for a 1.0% to 4.0% fall. This was due to better-than-expected performance for specific products, such as non-monetary gold, pharmaceuticals and electronics.

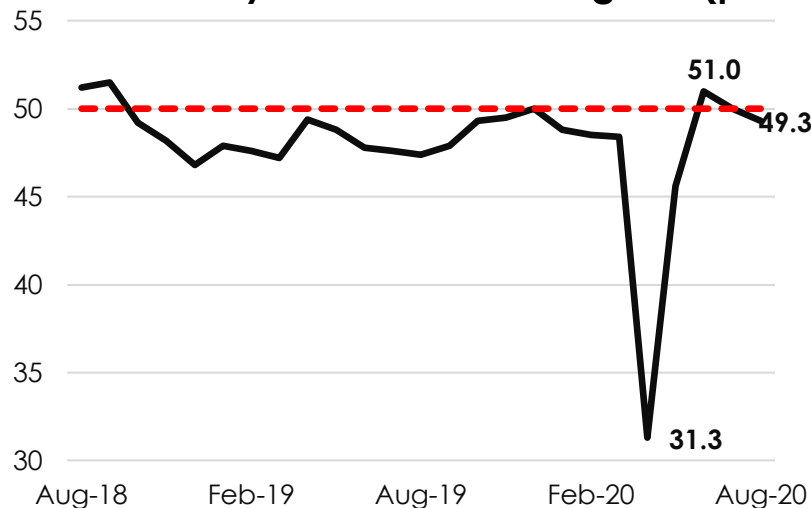
Table 4: Exports growth in various countries (y-o-y,%)

Exports	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
US	-3.7	-1.7	0.7	-1.3	-0.4	-9.0	-29.4	-35.0	-23.7	-15.7	n/a
China	2.1	1.1	9.0	n/a	n/a	-3.5	8.2	1.4	4.3	10.4	11.6
Japan	-9.2	-7.9	-6.3	-2.6	-1.0	-11.7	-21.9	-28.3	-26.2	-19.2	-14.8
Singapore	-12.5	-5.9	-9.2	-3.3	3.1	16.6	9.7	-4.6	13.9	5.9	7.7
India	-1.1	-0.3	-1.8	-1.7	2.9	-34.6	-60.3	-36.5	-12.4	-10.2	-12.7
Indonesia	-6.1	-6.1	1.1	-2.1	12.0	-0.4	-7.2	-29.1	2.1	-10.1	-8.4
Thailand	-4.6	-7.4	-1.2	3.4	-4.5	4.2	2.1	-22.5	-23.2	-11.3	-7.9
South Korea	-15.0	-14.5	-5.3	-6.6	3.6	-1.7	-25.6	-23.8	-10.8	-7.1	-10.1
Taiwan	-1.5	3.2	3.9	-7.6	24.9	-0.7	-1.3	-2.0	-3.8	0.4	8.3
Malaysia	-6.5	-5.4	2.8	-2.6	10.0	-6.5	-24.9	-26.0	8.0	3.1	-2.9

Sources: CEIC, Bloomberg

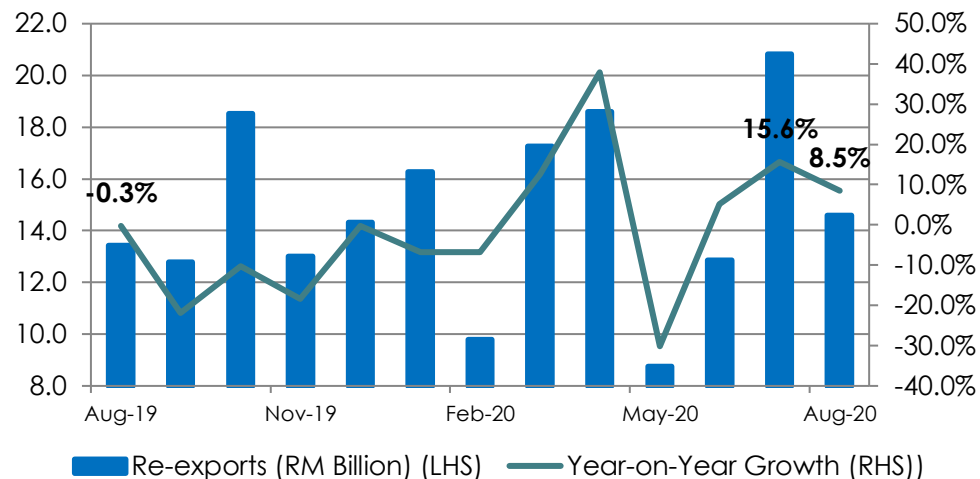
- ✓ The poor performance in the external trading activities could also be explained by the weaker business sentiment among the manufacturers. This can be reflected from Malaysia's Manufacturing Purchasing Manager's Index (PMI) which dropped to 49.3 points in August from 50.0 points in the previous month. According to the IHS Markit survey, new orders and total new business continued to deteriorate amid ongoing restrictions in export markets.
- ✓ Such trend is also in line with other economies which have been below than 50-point threshold for more than five months such as Japan (August: 47.2 points vs. July: 45.2 points), Philippines (August: 47.3 points vs. July: 48.4 points), South Korea (August: 48.5 points vs. July: 46.9 points), as well as Thailand (August: 49.7 points vs. July: 45.9 points).
- ✓ Nonetheless, it is worthwhile to note that Malaysia's re-exports were valued at RM14.6 billion in August 2020, registering an increase of 8.5% y-o-y and accounted for 18.4% of total exports. Re-exports activities are expected to remain strong in the long run especially if trade tensions between the US and China persist, causing trade diversion to ASEAN including Malaysia. Multinational Companies (MNCs) have seen Malaysia as a strategic location to place their distribution hubs (for re-export activities) especially in Selangor, Penang and Johor Bahru due to infrastructure which are conducive combined with connectivity to ports and airports.

Chart 4: Malaysia's Manufacturing PMI (points)



Source: Bloomberg
ECONOMIC RESEARCH

Chart 5: Re-Exports



Source: CEIC

- ✓ All-in-all, we view August's decline as a temporary blip and expect an overall improving trend for the remainder of the year in line with resumption of activities globally. For instance, demand for E&E products is likely to continue increasing at a gradual manner buoyed by certain segments such as memory chips that facilitate the new norm of working from home using cloud computing software.
- ✓ Furthermore, Implementation of social distancing measures accelerates the need for automated processes to reduce dependency on human labour. Key beneficiaries are automation solutions providers that develop and produce the system, machinery and equipment for its customers' manufacturing processes. Higher demands for automation will also sustain the need for other E&E products.
- ✓ China's industrial profit which grew for the fourth uninterrupted month in August at 19.1% y-o-y serves as a ground for better economic growth as the country is our largest trading partner. In fact, Malaysia's exports to China increased by 20.9% y-o-y in August 2020 compared to a 2.8% y-o-y contraction a year ago. This indicates that a strong recovery in China's economy will likely have a strong spill-over effect towards Malaysia's goods in terms of demand
- ✓ Notwithstanding this, multiple downside risks continue to linger such as geopolitical risks stemming from the US Presidential Election which will influence bilateral relations between US and China and the reimposed lockdowns in UK and France which could lead to a slowdown in business activities.
- ✓ Taking all of the above scenarios into consideration, we have **maintained our exports growth forecast to be between -4.0% and -6.0% for this year (2019:-1.7%).**

THANK YOU

Bank Islam ensures that social and environmental considerations are consistently its top priority governed by the Bank's core values and Shariah principles. More initiatives will be developed by the Bank as the Bank strives to make a positive difference for its financial and social performance.

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