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Exports edged down by 0.5% in March

Facts:

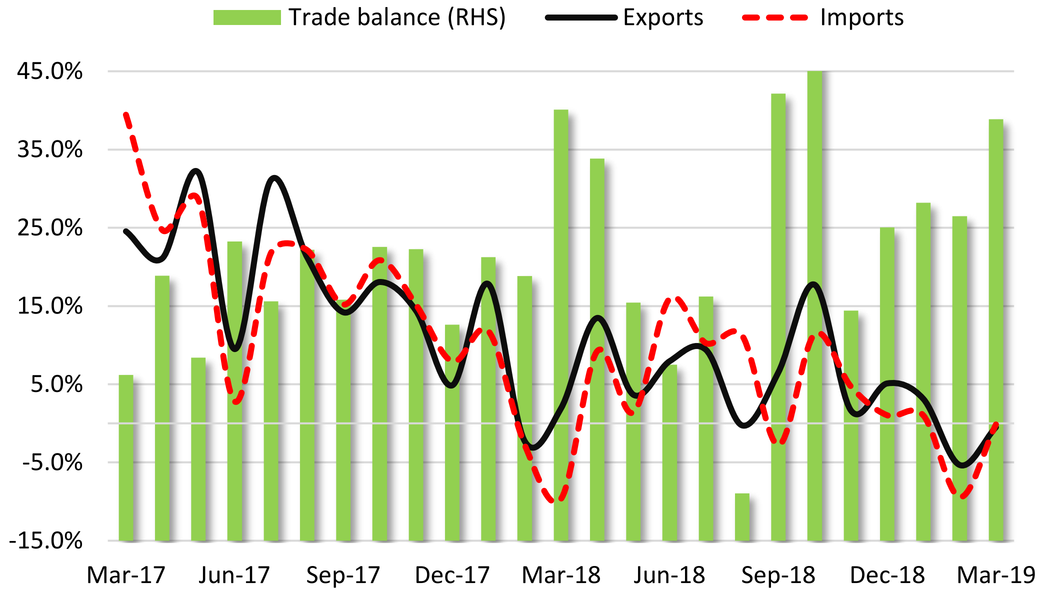
- Malaysian exports continued to record a negative growth of 0.5% year-on-year (y-o-y) in March albeit improving from -5.3% in the preceding month (Consensus: -3.4%, Bank Islam: -6.3%). Plummeting in the shipment of Crude Petroleum (March: -33.5% vs. Feb: -21.8%), Heating, Cooling Equipments & Parts (March: -22.4% vs. Feb: 0.0%), Palm Oil, Includes Crude & Processed (March: -10.2% vs. Feb: -13.4%) as well as Electrical & Electronic (E&E) Products (March: -1.9% vs. Feb: 4.9%) were the main drivers to the overall downturn in the exports activities.
- Nonetheless, Liquefied Natural Gas (LNG) and Petroleum Products have been able to offset such weaknesses with total export growth shot up to 17.2% (Feb: 8.6%) and 16.2% (Feb: -30.9%) respectively. Both products accounted for 10.5% of total exports.
- With regards to exports destination, export performance were mixed. Shipping to China, Thailand, Vietnam and Australia rebounded by 11.8% (Feb: -1.6%), 15.6% (Feb: -4.1%), 16.7% (Feb: -20.5%) and 2.9% (Feb: -0.4%) respectively in March. However, overseas shipment to the European Union (EU), the United States (US), Singapore, Japan and Germany registered a negative growth of 5.0% (Feb: 3.7%), 3.6% (Feb: -8.9%), 6.9% (Feb: -2.9%), 11.3% (Feb: -2.9%) and 13.5% (Feb: 1.1%) respectively.
- On a different note, Malaysian imports dipped marginally by 0.1% in March (Feb: -9.4%). Intermediate and Consumption goods imports have gained back its momentum during the month, growing positively by 3.2% (Feb: -2.8%) and 10.5% (Feb: -11.6%) respectively. Both items constituted for about 63.1% of total imports. However, imports of capital goods fell by 11.8% (Feb: 15.0%). As such, the trade surplus widened from RM11.1 billion in February to RM14.4 billion in March this year.
- Cumulatively, total exports contracted in the first three months of 2019 to -0.7% from 5.5% growth in the same period last year. Similarly, total imports slumped to 2.5% in 1Q2019 from 0.7% contraction in the same quarter last year. Given that, trade surplus balance widened from RM33.4 billion in 1Q2018 to RM36.9 billion in 1Q2019.

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

Y-o-Y (%)	Dec-18	Jan-19	Feb-19	Mar-19	1Q2018	1Q2019
Export	5.1%	3.1%	-5.3%	-0.5%	5.5%	-0.7%
Import	1.0%	1.0%	-9.4%	-0.1%	-0.7%	-2.5%
Trade Balance (RM billion)	10.7	11.5	11.1	14.4	33.4	36.9
Export by Product						
Machinery, Appliances and Parts	7.4%	-1.6%	-6.6%	-9.0%	2.4%	-6.0%
Electrical & Electronic Products	14.2%	8.2%	4.9%	-1.9%	11.8%	3.6%
Palm Oil, Includes Crude and Processed	-24.4%	-17.3%	-13.4%	-10.2%	-6.7%	-13.8%
Liquefied Natural Gas	-2.7%	37.5%	8.6%	17.2%	-4.8%	22.4%
Petroleum Products	-1.4%	-29.9%	-30.9%	16.2%	7.0%	-16.9%
Crude Petroleum	21.5%	1.1%	-21.8%	-33.5%	8.0%	-20.7%
Optical and Scientific Equipment	14.6%	6.9%	-17.4%	19.2%	9.1%	3.5%
Professional, Scientific & Controlling Instruments	18.2%	12.0%	-19.1%	21.9%	10.8%	5.5%
Rubber Gloves	20.6%	-3.3%	3.0%	-0.8%	4.1%	-0.4%
Heating and Cooling Equipment and Parts	-12.4%	-22.0%	0.0%	-22.4%	0.3%	-16.2%
Export by Country						
Singapore	12.4%	5.3%	-2.9%	-6.9%	-0.7%	-1.3%
China	-0.3%	9.1%	-1.6%	11.8%	0.2%	6.9%
European Union	-4.9%	4.3%	3.7%	-5.0%	5.2%	0.7%
United States	13.5%	9.4%	-8.9%	-3.6%	3.7%	-1.0%
Japan	-6.4%	-5.0%	-2.9%	-11.3%	-6.8%	-6.6%
Thailand	9.6%	17.1%	-4.1%	15.6%	7.6%	10.2%
Hong Kong	25.8%	-7.3%	-13.8%	-11.5%	82.8%	-10.5%
Australia	27.2%	-10.3%	-0.4%	2.9%	-7.7%	-2.7%
Germany	-10.6%	-1.2%	1.1%	-13.5%	9.9%	-5.1%
Vietnam	5.1%	-8.6%	-20.5%	16.7%	24.2%	-4.3%
Philppines	13.0%	-7.6%	3.4%	0.7%	-2.7%	-1.6%
Import by End-Use						
Capital Goods	-21.8%	-3.2%	-15.0%	-11.8%	-13.0%	-9.8%
Intermediate Goods	2.8%	-0.8%	-2.8%	3.2%	-10.5%	0.0%
Consumption Goods	5.7%	3.3%	-11.6%	10.5%	2.3%	1.1%

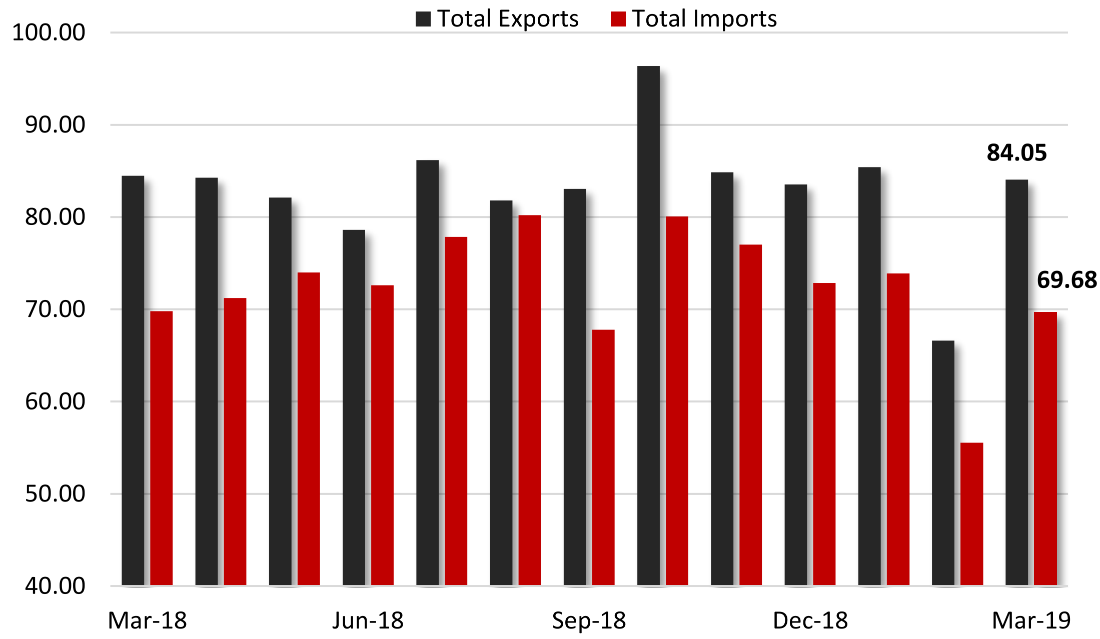
Source: CEIC

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 latest export print represents the second consecutive month of contraction in export growth. This happened despite ringgit has been weak with USDMYR averaging at RM4.0925 in the 1Q2019 versus RM3.9248 in the 1Q2018. At the same time, Crude Palm Oil (CPO) prices have also been on declining trend with average prices stands at RM2,011 per MT in the 1Q2019 against RM2,467 per MT in 1Q2018. At the same time, export volume growth for CPO has been moderating to 3.3% y-o-y to 1.62 million MT in March (see Table 2). As such, the contraction in CPO exports have also been compounded by lower export volume. On the same note, Brent crude prices averaged at USD63.7 per barrel in the 1Q2019 from USD67.3 per barrel in the same period last year. Therefore, commodities sector has dragged the overall export performance with the exception of LNG and petroleum products.

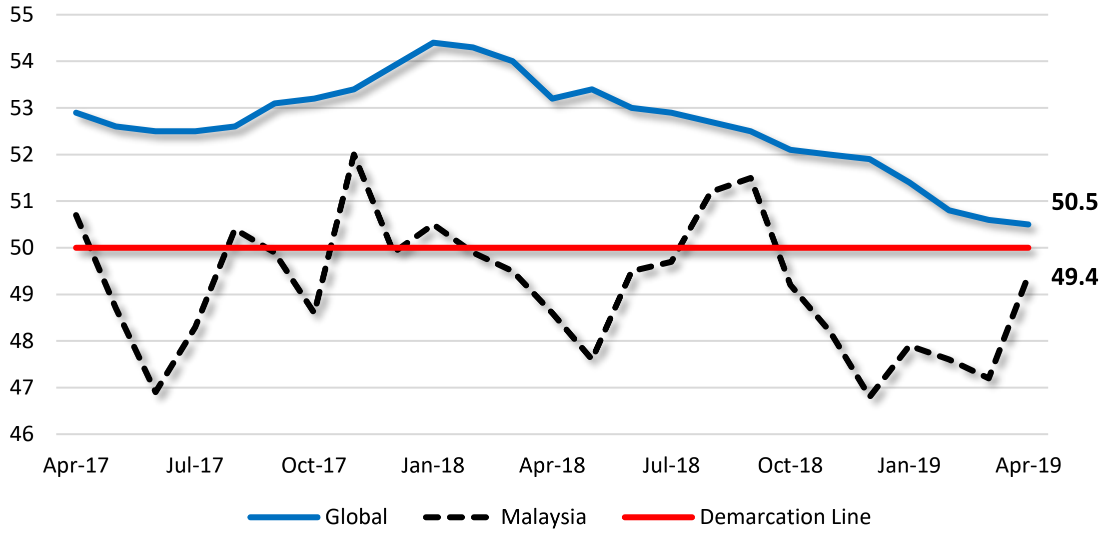
Table 2: Crude Palm Oil (CPO) Statistics

000 metric tonne	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
Opening stocks	**2,505**	**2,529**	**2,723**	**3,007**	**3,216**	**3,005**	**3,059**
Production	**1,854**	**1,965**	**1,845**	**1,808**	**1,737**	**1,545**	**1,672**
Y-o-Y	4.1%	-2.2%	-5.0%	-1.4%	9.5%	15.0%	6.2%
M-o-M	14.4%	6.0%	-6.1%	-2.0%	-3.9%	-11.1%	8.2%
Exports	**1,619**	**1,578**	**1,375**	**1,383**	**1,681**	**1,322**	**1,618**
Y-o-Y	6.6%	2.6%	1.4%	-2.8%	14.1%	6.3%	3.3%
M-o-M	47.2%	-2.5%	-12.9%	0.6%	21.5%	-21.3%	22.4%
Imports	**62**	**117**	**134**	**109**	**81**	**94**	**131**
Y-o-Y	49.6%	770.0%	345.0%	624.6%	134.0%	40.4%	231.2%
M-o-M	-23.2%	90.4%	14.6%	-19.2%	-25.0%	15.7%	39.2%
Consumption	**271**	**311**	**320**	**324**	**349**	**263**	**327**
Y-o-Y	19.2%	4.7%	20.1%	30.7%	5.2%	10.1%	77.9%
M-o-M	-17.2%	14.5%	2.9%	1.3%	7.8%	-24.8%	24.6%
Closing stocks	**2,529**	**2,723**	**3,007**	**3,216**	**3,005**	**3,059**	**2,917**
Y-o-Y	25.5%	23.6%	17.8%	17.7%	17.9%	23.5%	24.7%
M-o-M	1.0%	7.6%	10.4%	7.0%	-6.6%	1.8%	-4.6%
Stock-to-usage	**9.3**	**8.8**	**9.4**	**9.9**	**8.6**	**11.6**	**8.9**

Source: CEIC, Malaysian Palm Oil Board (MPOB)

Businesses sentiments were also weak as reflected by the JP Morgan Global Purchasing Managers Index (PMI) which has fallen to 50.3 points in April from 53.4 points a year ago. While Malaysia's PMI improved to 49.4 points in April (March: 47.2 points), business sentiments has remained in contractionary zone for seven consecutive months. In a nutshell, the supply-side of the economy is very cautious now.

Chart 3: Purchasing Manager's Index (PMI) for manufacturing



Sources: IHS Markit & Bloomberg

The decline in E&E related exports is in line with the latest data produced by the International Data Corporation (IDC) survey. According to the IDC, global shipment for smartphones slumped 6.6% year-on-year (y-o-y) in the 1Q2019 from 6.0% contraction in the preceding quarter. The latest print represents six quarters in a row of decline. In terms of volume, the total shipments declined from 332.7 million in 1Q2018 to 310.8 million in 3Q2019. This was led by the fall in Apple which dropped by 30.2% to 36.4 million units, followed by others (-21.5%, 72.1 million units), Xiaomi (-10.2%, 25.0 million units), Samsung (-8.1%, 71.9 million units) and OPPO (-6.0%, 23.1 million units). This indicates that the overall smartphones' prospects have become very challenging in 2019 amid heightened uncertainties and headwinds in the global market conditions. Notwithstanding, Huawei and Vivo still posted a stellar performance as the total shipment increased by 50.3% and 24.0% to 59.1 million units and 23.2 million units respectively.

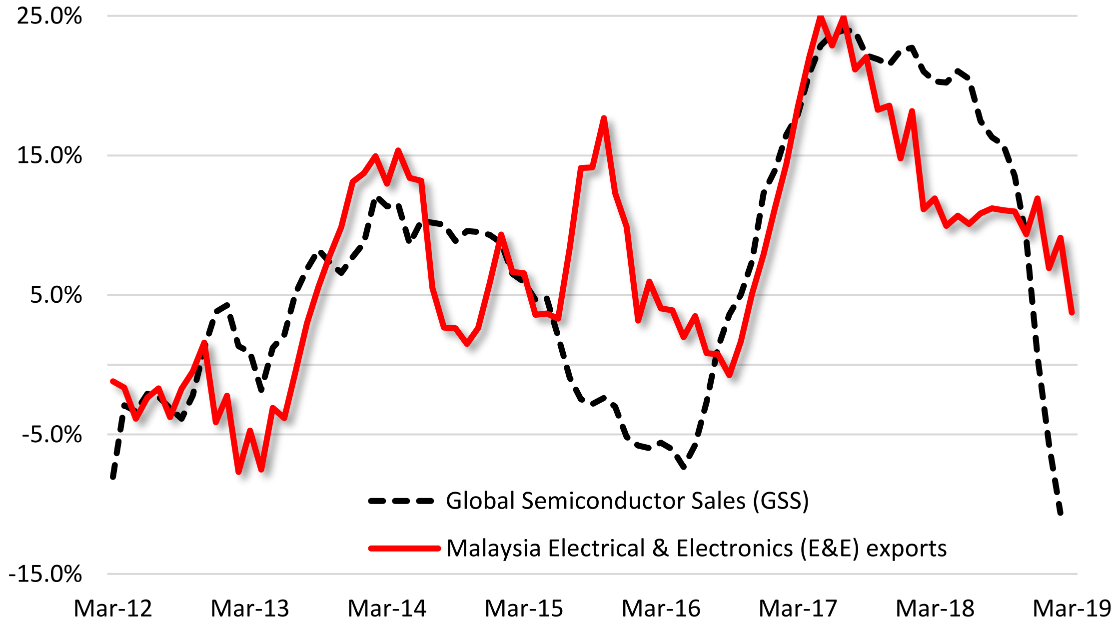
Table 3: Worldwide Quarterly Smartphone Top 5 Company Shipments, 1Q2019 and 1Q2018 (millions of units)

Company	1Q2019 Shipment Volumes	1Q2019 Market Share	1Q2018 Shipment Volumes	1Q2018 Market Share	Year-Over-Year (y-o-y) Change
Samsung	71.9	23.1%	78.2	23.5%	-8.1%
Huawei	59.1	19.0%	39.3	11.8%	50.3%
Apple	36.4	11.7%	52.2	15.7%	-30.2%
Xiaomi	25	8.0%	27.8	8.4%	-10.2%
Vivo	23.2	7.5%	18.7	5.6%	24.0%
OPPO	23.1	7.4%	24.6	7.4%	-6.0%
Others	72.1	23.2%	91.9	27.6%	-21.5%
Total	**310.8**	**100.0%**	**332.7**	**100.0%**	**-6.6%**

Source: IDC Quarterly Mobile Phone Tracker, April 30, 2019

In addition, the decline in the E&E sector could be explained by the Global Semiconductor Sales (GSS) performance. The GSS tumbled 10.6% y-o-y in February from 5.7% contraction in the previous month as the global industry continued to endure a period of slowing sales in 2019. Malaysia's E&E exports activities is positively correlated with the GSS at 76.8%. As such, whenever the GSS fall, Malaysia's E&E exports will follow suit.

Chart 4: Global Semiconductor Sales (GSS) vs. Malaysia's E&E exports 3 months moving average y-o-y%



Source: CEIC

Such notion is in line with the testaments from the industry players. For instance, Inari Amertron Berhad which is one of the main players in the semiconductor industries has anticipates a significant unevenness in their business growth for 2019. The company foresee some challenges in their overall business condition following the current geo-political and geo-economic uncertainties in 2019[1]. On the contrary, Globetronics remain optimistic with their FY2019 prospects. According to the company statements, the progress continues to be made in their light sensors business where a new generation is expected to be build this year and it will be adopted into the smart device of its customer by the second half of this year[2].

All in all, such narratives **have reinvigorated our conviction for the reduction in the Overnight Policy Rate (OPR) by 25 bps to 3.00%** in the upcoming Monetary Policy Committee (MPC) meeting on 7 May 2019.

[1] http://www.inariberhad.com/quarterly-report.asp
[2] http://www.globetronics.com.my/index.php?option=com_phocadownload&view=category&id=1&Itemid=103