

## Exports still decent in May

### Facts

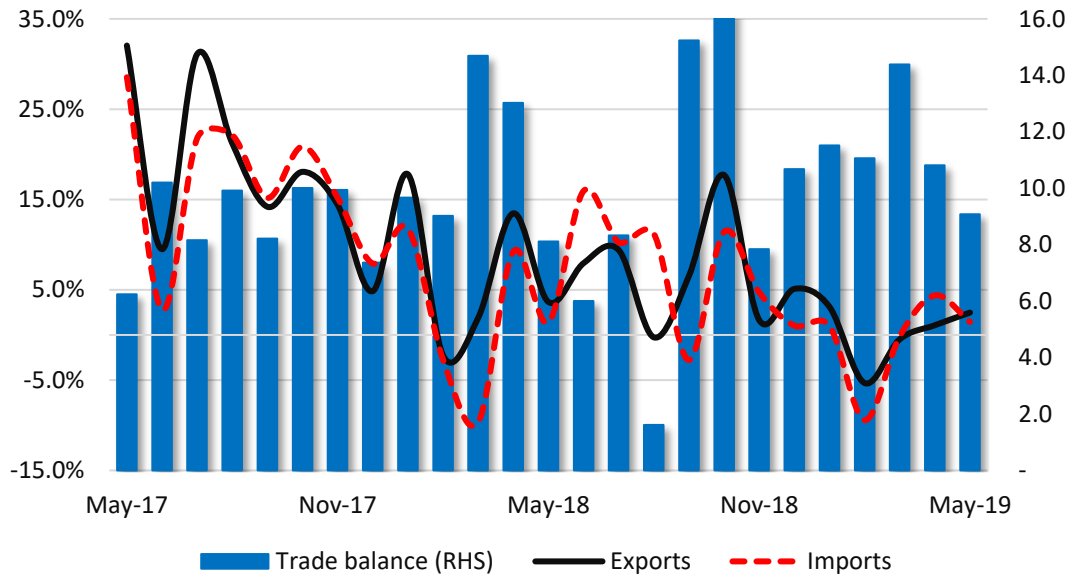
- ✓ Malaysian exports expanded by 2.5% year-on-year (y-o-y) in May, higher than 1.1% growth in the preceding month (Consensus: 2.2%, Bank Islam: 0.7%). Higher export growth in Machinery, Appliances & Parts (May: 14.9% vs. April: 0.8%), Palm Oil, Includes Crude & Processed (May: 7.6% vs. April: -14.8%), Rubber Gloves (May: 10.0% vs. April: 3.8%), as well as Heating & Cooling Equipment & Parts (May: 23.4% vs. April: 3.6%) were the key drivers. These items accounted for 14.4% of total exports.
- ✓ Meanwhile, exports of Electrical & Electronic (E&E) Products, Professional, Scientific & Controlling Instruments and Optical & Scientific Equipment grew moderately by 0.5% (April: 3.9%), 3.6% (April: 21.5%) and 3.8% (April: 19.5%) respectively.
- ✓ On the other hand, Liquefied Natural Gas (May: -5.2% vs. April: 26.3%), Petroleum Products (May: -15.5% vs. April: 22.3%), as well as Crude Petroleum (May: -20.0% vs. April: -34.6%) fell into a contractionary zone during the month May.
- ✓ With regards to the export's destination, products shipment to Philippines, US and Thailand shot up by 39.9% (April: -0.7%), 11.7% (April: 3.1%) and 7.3% (April: 1.2%) respectively in May. However, overseas sales to Germany and Australia contracted by 27.2% (April: 0.8%) and 13.0% (April: 4.2%) respectively.
- ✓ On imports, it grew at a modest pace of 1.4% in May as compared to 4.4% in April. This was mainly underpinned by Intermediate and Consumption Goods which grew by 6.4% (April: 20.3%) and 10.9% (April: 18.9%) respectively. Conversely, import of Capital Goods posted a negative growth of 5.9% in May (April: 5.7%) has weighed on the overall imports. Following this, the trade surplus narrowed from RM10.8 billion in April to RM9.1 billion in May.
- ✓ On cumulative basis, the total exports softened by 0.3% in the first five months of 2019 from 6.7% growth in the same period last year. Meanwhile, the total imports fell by 0.3% in 5M2019 from a positive growth of 1.6% in 5M2018. As such, the trade surplus balance widened to RM56.8 billion in 5M2019 from RM54.5 billion in 5M2018.

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

Y-o-Y (%)	Jan-19	Feb-19	Mar-19	Apr-19	May-19	5M2018	5M2019
Export	3.1%	-5.3%	-0.5%	1.1%	2.5%	6.7%	0.3%
Import	1.0%	-9.4%	-0.1%	4.4%	1.4%	1.6%	-0.3%
Trade Balance (RM billion)	11.5	11.1	14.4	10.8	9.1	54.5	56.8
<b>Export by Product</b>							
Machinery, Appliances and Parts	-1.6%	-6.6%	-9.1%	0.8%	14.9%	-0.5%	-0.6%
Electrical & Electronic Products	8.2%	4.9%	-1.9%	3.9%	0.5%	11.6%	3.1%
Palm Oil, Includes Crude and Processed	-17.3%	-13.4%	-10.2%	-14.8%	7.6%	-7.3%	-9.9%
Liquefied Natural Gas	37.5%	8.6%	17.2%	26.3%	-5.2%	0.8%	17.7%
Petroleum Products	-29.9%	-30.9%	16.2%	22.3%	-15.5%	12.8%	-9.0%
Crude Petroleum	1.1%	-21.8%	-33.5%	-34.6%	-20.0%	17.3%	-23.3%
Optical and Scientific Equipment	6.9%	-17.4%	18.9%	19.5%	3.8%	9.7%	6.7%
Professional, Scientific & Controlling Instruments	12.0%	-19.1%	21.5%	21.5%	3.6%	11.4%	8.2%
Rubber Gloves	-3.3%	3.0%	-0.8%	3.8%	10.0%	3.5%	2.5%
Heating and Cooling Equipment and Parts	-22.0%	0.0%	-22.4%	3.6%	23.4%	-11.5%	-5.7%
<b>Export by Country</b>							
Singapore	5.3%	-2.9%	-6.8%	11.3%	2.6%	-2.0%	2.0%
China	9.1%	-1.6%	11.8%	-6.9%	-2.2%	6.2%	1.7%
European Union	4.3%	3.7%	-5.0%	-8.6%	-6.3%	9.2%	-2.7%
United States	9.4%	-8.9%	-3.6%	3.1%	11.7%	1.4%	2.3%
Japan	-5.0%	-2.9%	-11.3%	7.7%	7.5%	-6.7%	-1.5%
Thailand	17.1%	-4.1%	15.6%	1.2%	7.3%	14.4%	7.6%
Hong Kong	-7.3%	-13.8%	-11.5%	0.1%	3.4%	77.2%	-5.7%
Australia	-10.3%	-0.4%	2.9%	4.2%	-13.0%	-8.8%	-3.9%
Germany	-1.2%	1.1%	-13.5%	0.8%	-27.2%	16.7%	-9.0%
Vietnam	-8.6%	-20.5%	16.7%	16.9%	5.8%	31.3%	2.2%
Philippines	-7.6%	3.4%	0.7%	-0.7%	39.9%	0.2%	6.5%
<b>Import by End-Use</b>							
Capital Goods	-3.2%	-15.0%	-11.9%	5.7%	-5.9%	-2.5%	-6.1%
Intermediate Goods	-0.8%	-2.8%	3.2%	20.3%	6.4%	-9.6%	5.3%
Consumption Goods	3.3%	-11.6%	10.5%	18.9%	10.9%	-0.4%	6.4%

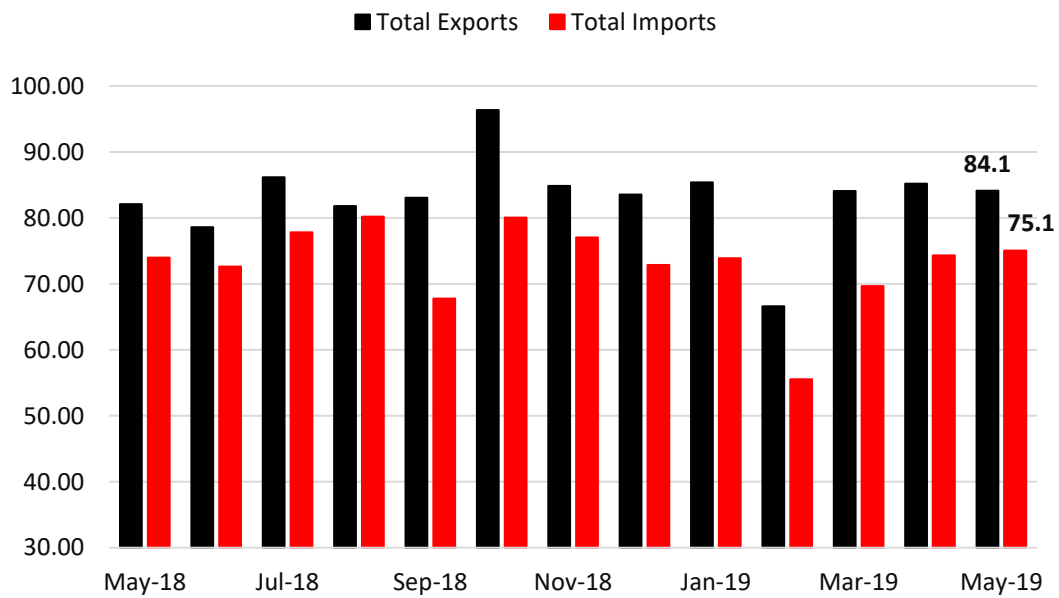
Source: CEIC

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



Source: CEIC

**Chart 2: Exports and Imports (RM Billion)**



Source: CEIC

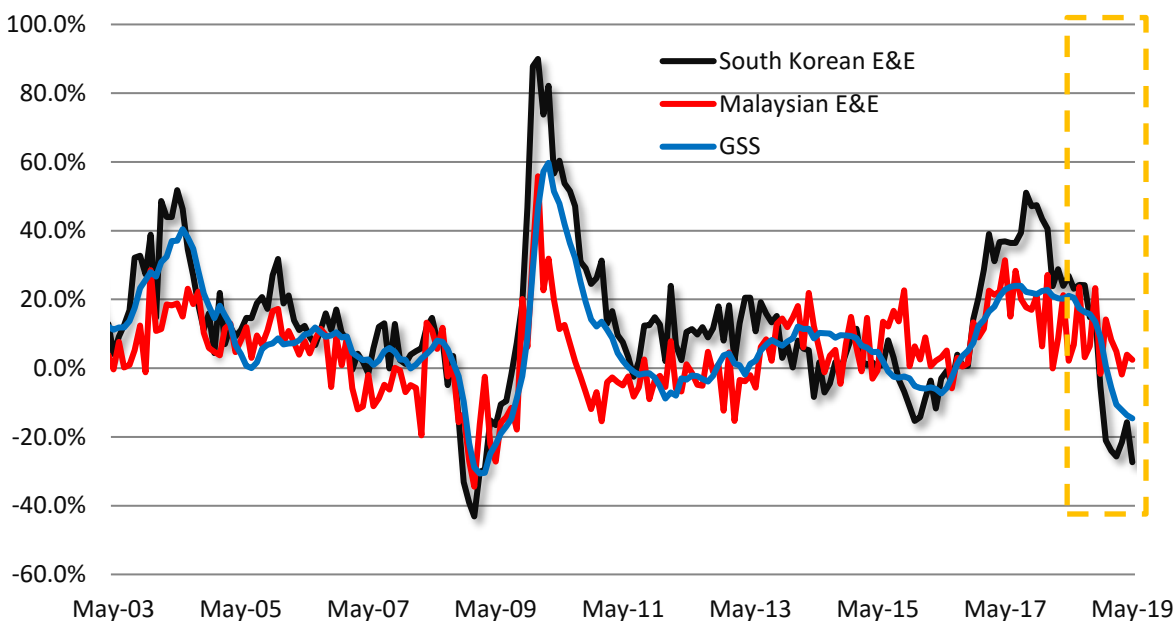
### Our view

The latest export print suggests that Malaysia’s trading activities have been fairly decent despite the ongoing trade disputes between the US and China amidst softer demand conditions in the global market. This would mean production among the manufacturers in particular would continue to record steady growth, perhaps in the immediate terms.

Notwithstanding that, business sentiments have weakened as reflected by the JP Morgan Global Purchasing Manager’s Index (PMI) which continued to fall from 49.8 points in May to 49.4 points in June. Similarly, Malaysia’s Manufacturing (PMI) declined to 47.8 points in June from 48.8 points in the preceding month, indicating manufacturing activities have been deteriorating for 9 months in a row since October last year. According to the IHS Markit survey, modest manufacturing activities was due to lower demand, as well as few new orders especially from the international clients.

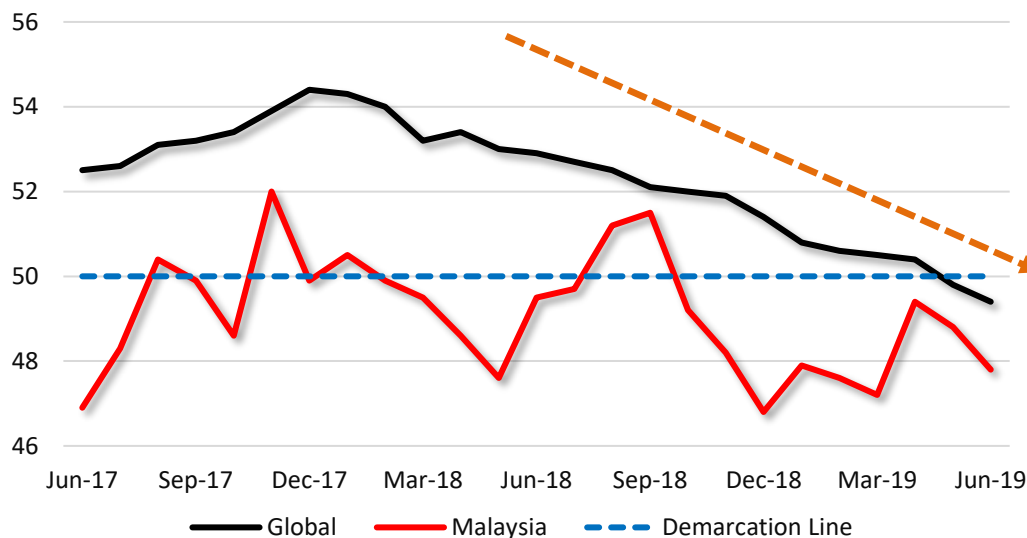
In addition, the modest growth in the E&E sector could be explained by the Global Semiconductor Sales (GSS) performance as both variables are positively correlated at 76.0%. The GSS plunged by 14.6% y-o-y in May from 13.7% contraction in the previous month as the players continued to experience a slower demand condition in 2019. We opine that E&E industry will remain lethargic for the next few months. This was premised on the slump in the South Korea’s E&E exports for 7 consecutive months since November last year (May: -27.4 vs. April: -15.7%). South Korea could be perceived as the barometer for the technology industries in view of its strong hold in the sector.

**Chart 3: Global Semiconductor Sales (GSS) vs. Malaysia’s and South Korea’s E&E y-o-y%**



Sources: CEIC & Statistics Korea (KOSIS)

Chart 4: Purchasing Manager's Index (PMI) for manufacturing, points



Sources: IHS Markit & Bloomberg

All in all, we anticipate that Malaysia's export activities will be modest this year following the trade frictions between the US and China which have yet to reach conclusive resolution. While Malaysia would be deemed as one of the main beneficiaries of trade diversion, reaching the right economies of scale and critical mass would take some time to materialize especially in arrears relating to labour skill and the industries eco system (Global Value Chain). As such, **we maintained our export growth projection for 2019 at 4.0% (2018: 6.7%).**

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