

Exports fell unexpectedly in August by 0.8%

Facts

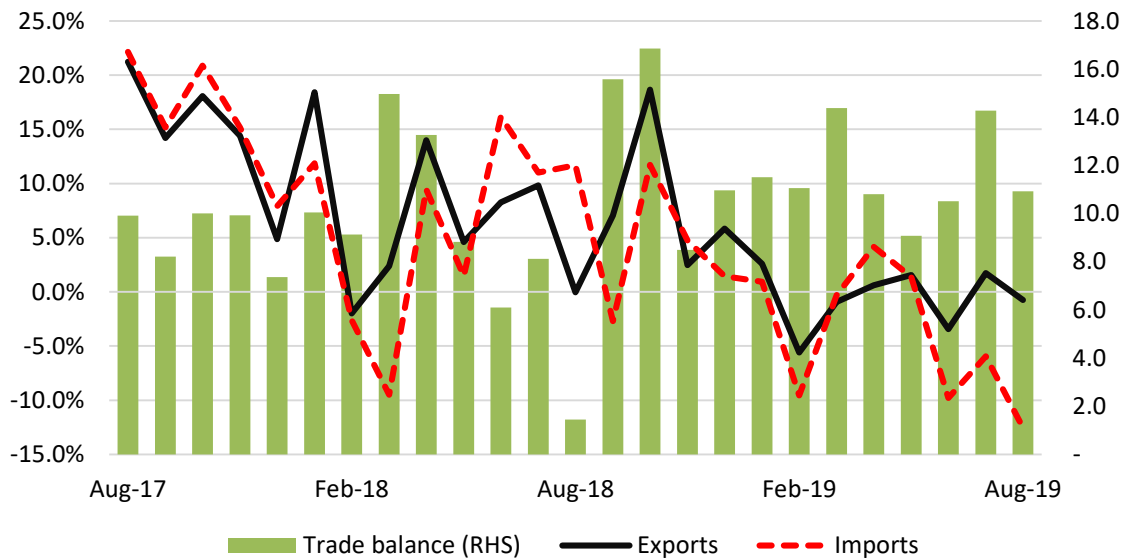
- ✓ Malaysian exports dropped by 0.8% year-on-year (y-o-y) in August from 1.7% growth in the preceding month (Consensus: 2.7%, Bank Islam: 1.2%). This was attributed by the slump in Electrical & Electronic (E&E) Products (August: -7.4% vs. July: 4.5%), Liquefied Natural Gas (August: -11.2% vs. July: 31.3%), Optical & Scientific Equipment (August: -12.3% vs. July: -2.3%), as well as Professional, Scientific & Controlling Instruments (August: -13.1% vs. July: -1.6%). These items accounted for 46.4% of the total exports.
- ✓ Within the E&E products, Thermionic Valves & Tubes, Photocells (August: -4.0% vs. July: 11.2%), Electronic Integrated Circuits (August: -5.9% vs. July: 10.3%), Piezo Electric Crystals & Parts (August: -4.9% vs. July: 28.5%) recorded a negative growth in August. In addition, Parts & Accessories for Office Machine continued to fall for a tenth straight month since November last year (August: -30.7% vs. July: -24.6%).
- ✓ Nonetheless, exports of Palm Oil, includes Crude & Processed rebounded to positive territory (August: 16.7% vs. July: -10.8%), while Petroleum Products (August: 7.7% vs. July: 3.2%) and Machinery, Appliances & Parts (August: 7.6% vs. July: 6.0%) edged up in August. As such, these have mitigated the overall downturn in export performance.
- ✓ With regards to the export's destination, shipments to Singapore, China, Hong Kong, Germany and Philippines declined in August, plummeting by -7.2% (July: -3.5%), -2.8% (July: 3.8%), -15.4% (July: 2.5%), -13.0% (July: 4.0%) and -1.8% (July: 17.0%) respectively. Meanwhile, export to the US softened from 7.9% in July to 6.8% in August.
- ✓ On imports, it contracted by a significant degree of 12.5% in August as compared to 6.0% decline previously. This was underpinned by contraction in imports of Capital (August: -31.0% vs. July: -14.0%), Intermediate (August: -13.9% vs. July: -3.4%) and Consumption Goods (August: -12.8% vs. July: -5.0%). Consequently, the trade surplus narrowed from RM14.3 billion in July to RM10.9 billion in August.
- ✓ Cumulatively, total exports plummeted by 0.4% in 8M2019 from a positive growth of 6.7% in 8M2018. Similarly, total imports deteriorated by 4.0% in 8M2019 from 5.9% growth in same period last year. Given that, the trade surplus balance widened from RM71.9 billion in 8M2018 to RM92.5 billion in 8M2019.

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

| Y-o-Y (%) | Apr-19 | May-19 | Jun-19 | Jul-19 | Aug-19 | 8M2018 | 8M2019 |
|--|--------|--------|--------|--------|--------|--------|--------|
| Export | 0.6% | 1.5% | -3.4% | 1.7% | -0.8% | 6.7% | -0.4% |
| Import | 4.2% | 1.4% | -9.8% | -6.0% | -12.5% | 5.9% | -4.0% |
| Trade Balance (RM billion) | 10.8 | 9.1 | 10.5 | 14.3 | 10.9 | 71.9 | 92.5 |
| Export by Product | | | | | | | |
| Machinery, Appliances and Parts | 0.7% | 14.8% | -10.9% | 6.0% | 7.6% | 0.4% | -0.1% |
| Electrical & Electronic Products | 3.9% | 0.6% | -6.5% | 4.5% | -7.4% | 11.4% | 0.7% |
| Palm Oil, Includes Crude and Processed | -14.8% | 7.8% | 2.2% | -10.8% | 16.7% | -11.6% | -5.7% |
| Liquefied Natural Gas | 23.6% | -10.0% | 6.1% | 31.3% | -11.2% | -9.0% | 11.1% |
| Petroleum Products | 22.3% | -15.5% | 6.9% | 3.2% | 7.7% | 11.0% | -3.7% |
| Crude Petroleum | -34.6% | -20.0% | 31.7% | -45.7% | -40.0% | 31.7% | -23.7% |
| Optical and Scientific Equipment | 17.8% | 3.7% | -5.2% | -2.3% | -12.3% | 12.5% | 0.9% |
| Professional, Scientific & Controlling Instruments | 19.7% | 3.5% | -4.4% | -1.6% | -13.1% | 14.8% | 1.9% |
| Rubber Gloves | 3.8% | 10.0% | -19.8% | -7.5% | -5.2% | 8.7% | -2.8% |
| Heating and Cooling Equipment and Parts | 3.6% | 23.4% | 1.1% | 20.0% | 17.4% | -12.0% | 0.0% |
| Export by Country | | | | | | | |
| Singapore | 9.1% | -2.7% | -1.2% | 3.5% | -7.2% | -0.6% | -0.7% |
| China | -6.8% | -1.6% | -10.7% | 3.8% | -2.8% | 10.7% | -0.1% |
| European Union | -8.6% | -6.2% | 0.7% | -2.8% | 5.3% | 5.5% | -1.4% |
| United States | 3.1% | 11.7% | 8.4% | 7.9% | 6.8% | 1.2% | 4.3% |
| Japan | 6.1% | 6.3% | -13.6% | -6.3% | 2.4% | -9.4% | -4.1% |
| Thailand | 0.8% | 7.3% | -4.4% | -2.4% | -8.3% | 13.6% | 2.8% |
| Hong Kong | -0.1% | 3.2% | -25.2% | 2.5% | -15.4% | 73.3% | -8.4% |
| Australia | 4.2% | -13.0% | -11.2% | -14.8% | -27.4% | -4.0% | -9.6% |
| Germany | 0.8% | -27.2% | -17.1% | 4.0% | -13.0% | 10.7% | -8.9% |
| Vietnam | 16.7% | 5.8% | -17.1% | 6.4% | 24.6% | 25.6% | 2.8% |
| Philippines | -0.8% | 39.9% | 50.8% | 17.0% | -1.8% | 0.3% | 11.5% |
| Import by End-Use | | | | | | | |
| Capital Goods | 5.5% | -6.1% | -24.5% | -14.0% | -31.0% | 2.6% | -13.3% |
| Intermediate Goods | 19.9% | 6.0% | -3.6% | -3.4% | -13.9% | -4.6% | 0.0% |
| Consumption Goods | 18.3% | 10.5% | -5.6% | -5.0% | -12.8% | 3.4% | 0.4% |

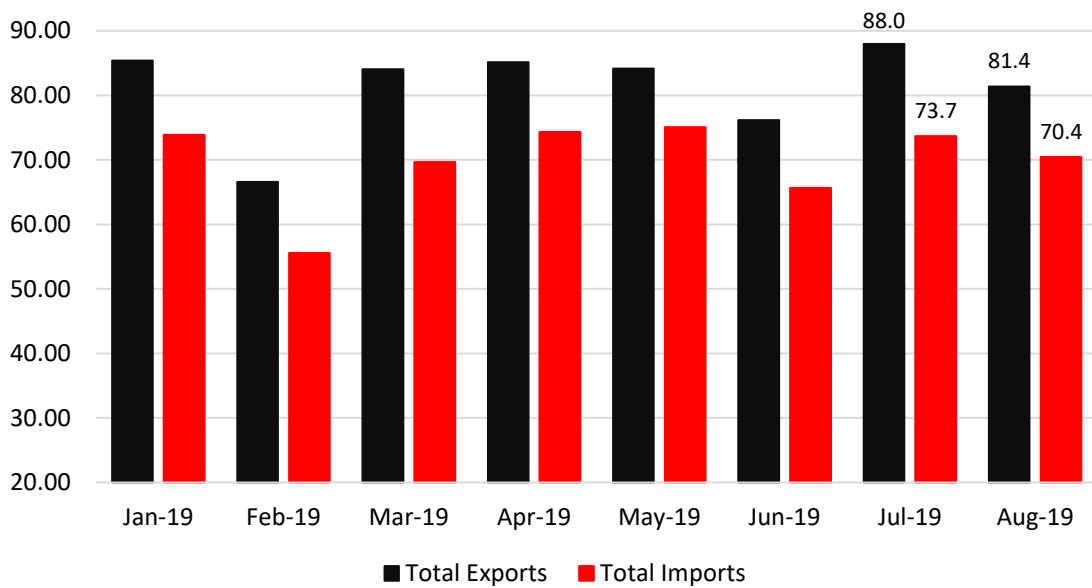
Sources: CEIC, DOSM

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



Source: CEIC

Chart 2: Exports and Imports (RM Billion)



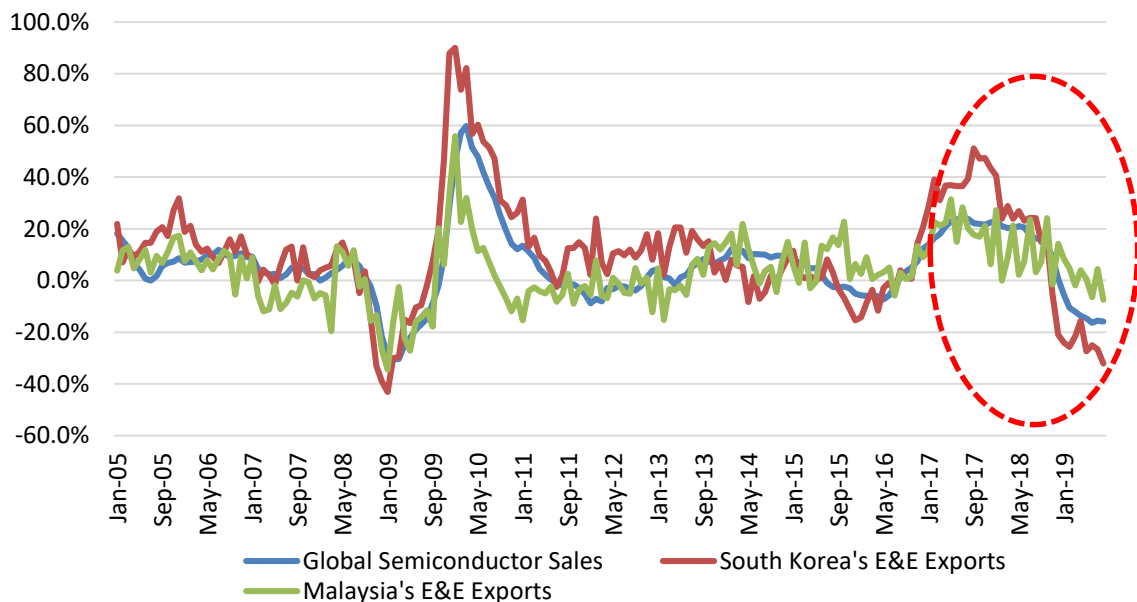
Source: CEIC

Our view

It was a dismal performance for Malaysia's international trade. The decline in E&E exports which is in tandem with the negative print in Global Semiconductor Sales (GSS) raises some eyebrow especially in the context of weak Purchasing Managers Index (PMI) globally. The GSS has been declining since January 2019 at a rate of 5.7% y-o-y all the way to August of -15.9%. This reflects the weaknesses in the semiconductor industries which has become pervasive amid rising trade tension. Apart from that, the looming crisis at the World Trade Organisation (WTO) could potentially exacerbate the trade conflict as dispute settlement mechanism would be effectively inoperable. This is due to the WTO's Appellate Body which would cease to function on 10 December 2019 unless the two new candidates of judges will be appointed in order to reach the necessary three-member quorum. Already, the US has imposed a 25.0% tariff on hundreds of European Union (EU) goods in retaliation for the EU's subsidies for Airbus aircraft manufacturers. This could potentially add more risks to the global economy and disrupt movement of goods and services along the supply chain.

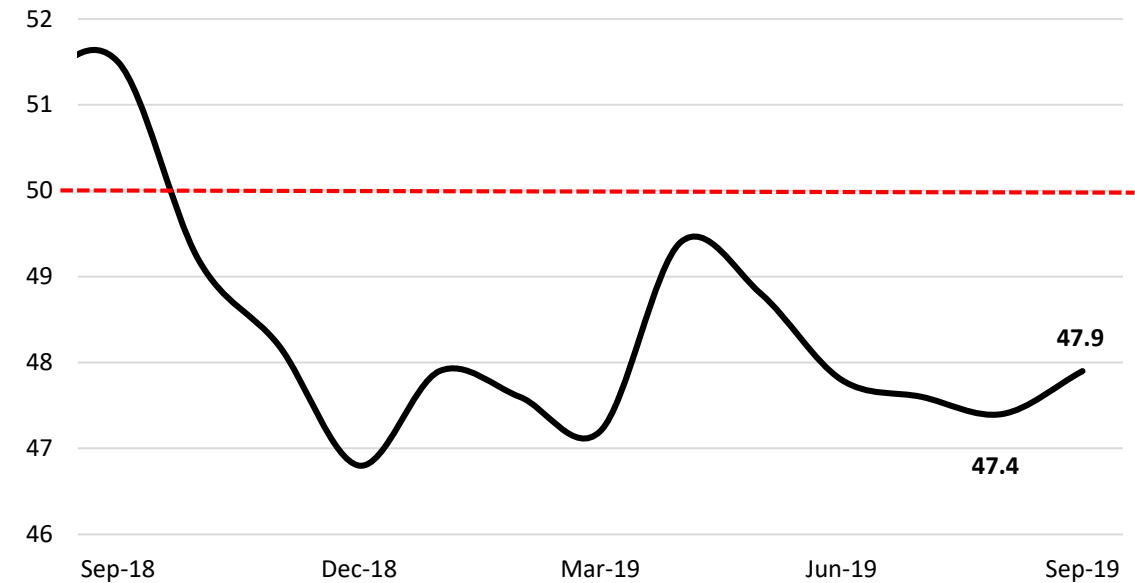
On the domestic front, the IHS Markit Malaysia Manufacturing Purchasing Manager's Index (PMI) remained in the negative territory for 12 straight months (September: 47.9 points vs. August: 47.4 points). This suggests the number of pessimist manufacturers have outnumbered the optimists persistently. All in all, **we maintained our exports growth projection for 2019 between 0.5% - 1.0% (2018: 7.3%).**

Chart 3: Global Semiconductor Sales vs. South Korea & Malaysia E&E Exports Growth (Y-o- Y%)



Source: CEIC, KOSIS, DOSM

Chart 4: Malaysia Manufacturing Purchasing Manager's Index (PMI), points



Sources: Bloomberg

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