Economic Research, Strategic Management

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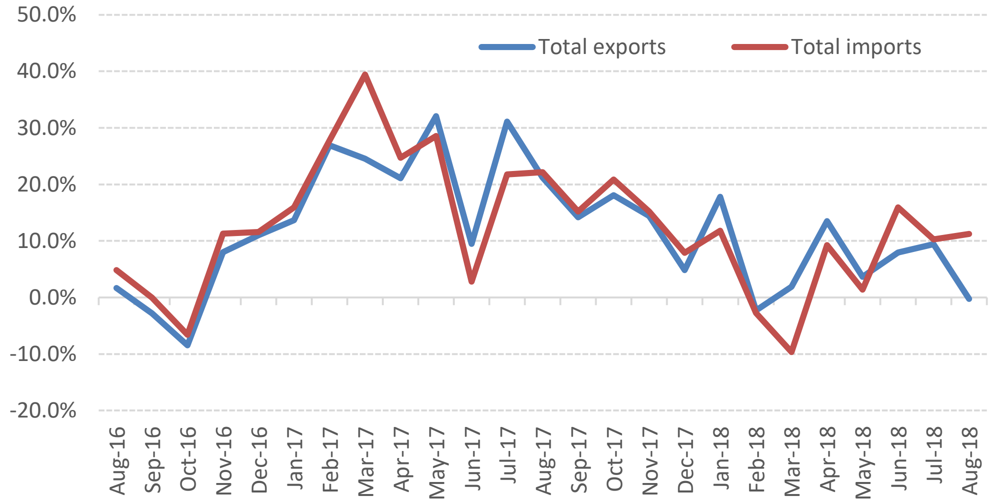
Dr. Mohd Afzanizam Abdul Rashid | Chief Economist | 03-2088 8075 | afzanizam@bankislam.com.my
Shafiz Jamaluddin | Economic Analyst| 03-2088 8075 | shafiz@bankislam.com.my
Nor Jannah Abdullah| Economic Analyst| 03-2088 8075 | norjannah@bankislam.com.my

# Exports fell 0.3% in August

## Commodities related exports were the key factors

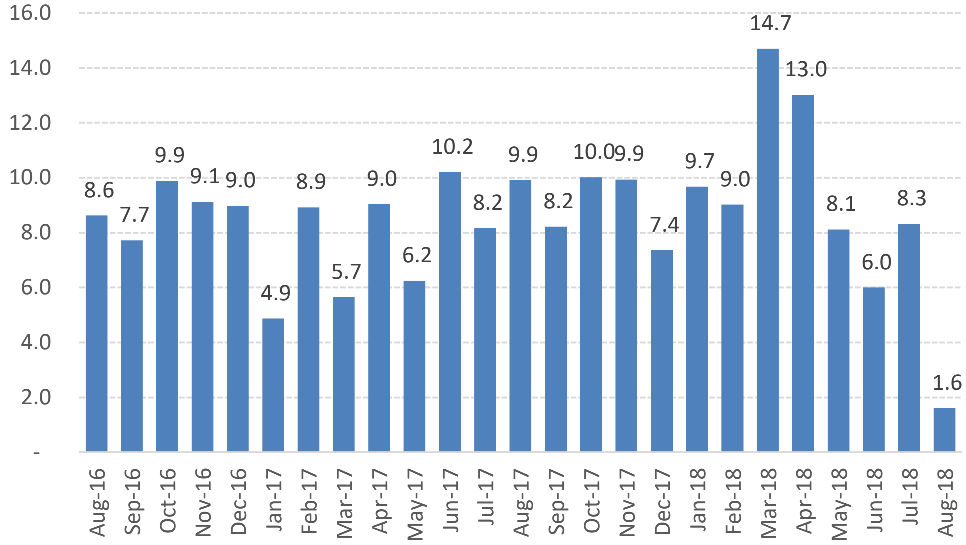
- Malaysia's exports declined 0.3% y-o-y in August to RM81.8 billion, reversing its earlier gains of 9.4% in the preceding month. Contraction in Palm Oil and Liquefied Natural Gas (LNG) were the main underpinning factors when both products fell 22.9% (Jul: -13.7%) and 20.4% (Jul: 36.2%) respectively. Both products accounted for 10.1% of total exports in August.
- At the same time, exports of Electrical & Electronics (E&E) posted a moderate growth of 3.2% in August after surging 23.6% in the previous month. This was due to the drop in Telecommunication Equipment, Parts & Accessories (Aug: -10.7% vs. Jul: -7.7%) and Electrical Apparatus & Parts (Aug: -2.3% vs. Jul: 6.0%) while Electronic Integrated Circuits continue to record double digit growth of 21.0% albeit at slower rate compared to 71.6% in the preceding month.
- Conversely, total imports rose from 10.3% in July to 11.2% in August. Imports of Capital Goods jumped to 25.3% from 4.7% previously owing to strong growth in transport equipment and industrial of 180.2% and capital goods (except transport equipment) of 13.1%. Similarly, imports of Consumption and Intermediate Goods expanded to 14.2% (Jul: 11.1%) and 4.3% (Jul: -0.1%) respectively. Consequently, trade surplus narrowed from RM8.3 billion to RM1.6 billion.
- For the first eight months, total exports and imports recorded 6.3% and 5.6% growth. This is slower against 22.3% and 22.5% growth in the same period last year. Trade surplus on the other hand widened from RM63.0 billion to 70.5 billion.

**Chart 1: Exports and imports y-o-y%**




Source: CEIC

**Chart 2: Trade balance (RM billion)**




Source: CEIC

## Our view

Disruption in the LNG supplies remained persistent and to date, its total exports contracted by 8.2% for the first eight month this year (8M2017: 27.2%). It was reported in the press that Natural gas supply from the Sabah Oil and Gas terminal to the Petronas LNG Complex in Bintulu was cut in January following a gas leak in the 500 kilometre pipeline which transports gas from Kimanis in Sabah to the Bintulu plant in Sarawak for processing[1]. On the same note, the decline in CPO exports have been contributed by lower production and lower Average Selling Price (ASP). In addition, palm oil buyers would also want to wait for the zero percent crude palm oil export duty rate which become effective in September. The Malaysian Palm Oil Board (MPOB), in its latest announcement also indicated that CPO prices below RM2,250 per MT will be granted zero percent export duty between 1 and 31 October.

While supply side shocks may have affected some of the industries in Malaysia, the rise in imports of capital goods suggests that private investment activities are still fairly resilient. This would mean private sector production capacity will be enhanced and they are able to fulfil customer's orders in a more efficient manner. Firms would gain economies of scale and perhaps, would reduce their unit costs produced. However, higher imports of consumption goods would mean imported inflation may have been transmitted to the local prices. This is in view of the weakening of USDMYR which has been hovering around RM4.13 to RM4.15 in the most of part of September and early October. As such, we should expect inflation rate to gradually increase from the month of September (CPI in August stands at 0.2% y-o-y. **All in all, we maintain our 2018 nominal exports forecast of 6% (2017: 18.8%) premised on the expected moderation in external demand.**

[1] https://uk.reuters.com/article/malaysia-lng-exports/malaysia-lng-exports-hit-4-yr-low-on-pipeline-issues-sources-idUKL4N1UY3RV

**Table 1: External trade**

| Y-o-Y% | May-18 | Jun-18 | Jul-18 | Aug-18 | 8M 2017 | 8M 2018 |
|---|---|---|---|---|---|---|
| Export | 3.7% | 7.9% | 9.4% | -0.3% | 22.3% | 6.3% |
| Import | 1.4% | 15.9% | 10.3% | 11.2% | 22.5% | 5.6% |
| Trade balance (RM bn) | 8.1 | 6.0 | 8.3 | 1.6 | 63.0 | 70.5 |
| **Export by product** | | | | | | |
| Electrical & Electronic Products | 2.1% | 6.8% | 23.6% | 3.2% | 21.6% | 12.6% |
| Palm Oil | -15.4% | -20.4% | -13.7% | -22.9% | 26.1% | -10.0% |
| Liquefied Natural Gas | 61.0% | -31.2% | -36.2% | -20.4% | 27.2% | -8.2% |
| Petroleum Products | 10.0% | 40.6% | -12.3% | 5.4% | 34.6% | 10.9% |
| Machinery, Appliances and Parts | -12.1% | 10.4% | 2.0% | -7.1% | 6.6% | 1.4% |
| Crude Petroleum | 45.8% | 25.3% | 90.1% | 70.8% | 38.7% | 27.2% |
| Optical and Scientific Equipment | 13.4% | 31.2% | 9.1% | 7.9% | 10.0% | 12.3% |
| Professional, Sci. & Controlling Inst. | 15.7% | 36.8% | 9.9% | 11.6% | 10.0% | 14.3% |
| Rubber Gloves | 2.4% | 24.1% | 10.5% | 16.3% | 24.7% | 7.2% |
| Heating and Cooling Equi.& Parts | -34.7% | -6.2% | -9.0% | -22.7% | -6.3% | -10.7% |
| **Export by country** | | | | | | |
| Singapore | -9.8% | -0.5% | -2.0% | -2.2% | 24.3% | -1.7% |
| China | 7.8% | 17.9% | 37.5% | 4.5% | 39.4% | 12.0% |
| EU | 11.4% | 5.6% | 2.2% | -8.9% | 23.6% | 7.7% |
| US | -5.6% | -1.9% | 6.7% | -2.0% | 11.1% | 1.7% |
| Japan | 17.9% | -14.2% | -17.1% | -22.9% | 22.4% | -8.2% |
| Thailand | 18.4% | 13.3% | 6.0% | 15.6% | 17.0% | 12.9% |
| Hong Kong | 34.8% | 64.4% | 80.8% | 55.8% | 24.5% | 13.0% |
| Australia | -6.9% | -4.8% | 6.3% | 11.4% | 16.8% | 28.0% |
| Germany | 34.9% | 4.9% | 1.7% | -4.2% | 22.4% | -0.6% |
| Vietnam | 41.3% | 30.6% | 12.8% | 6.9% | 13.5% | 75.8% |
| Philippines | -4.1% | -9.3% | 4.3% | 4.9% | 24.2% | -6.2% |
| **Import by end-use** | | | | | | |
| Capital | 9.8% | 20.7% | 4.7% | 25.8% | 16.1% | 4.8% |
| Intermediate | -5.3% | 3.1% | -0.1% | 4.4% | 26.1% | -5.1% |
| Consumption | -10.2% | 4.9% | 11.1% | 13.8% | 7.0% | 3.5% |

Source: CEIC