

Export rebounded 6.7% in September

Facts

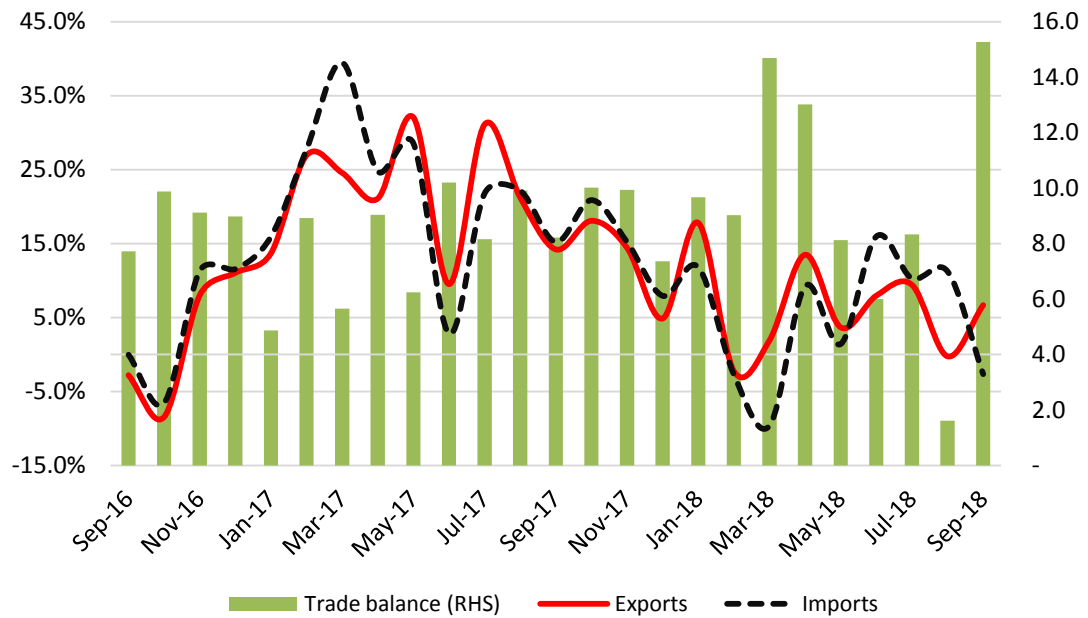
- Malaysia's export regained its momentum by 6.7% y-o-y (Bank Islam: 9.1%) valued at RM83.05 billion in September after declining 0.3% (August: RM81.81 billion) in previous month. The expansion was quite broad based with the exception to Palm Oil (Sept: -11.5% vs. August:-22.9%) and Heating, Cooling Equipment & Parts (Sept:-16.2% vs. August: -22.7%).
- Electrical and electronic (E&E) products constitutes for 39.6% of total exports rose from 3.2% in August to 6.5% in September. The expansion was largely underpinned by the increased in Thermionic Valves & Tubes (Sept: 15.1% vs. Aug: 11.9%) and Parts and Accessories for Office Machines (Sept: 4.1% vs. Aug: 2.4%). Telecommunications Equipment, Parts & Accessories also increased by 3.1% after declining by 10.7% from the preceding month.
- Meanwhile, petroleum and optical continue to grow in September at 20.5% (August: 5.4%) and 16.9% (August: 7.9%) respectively. Both products accounted for 10.6% of total exports. Moreover, professional, science and controlling instruments jumped from 11.6% in August to 24.2% in September.
- As for our main trading partners, there were an expansion in exports to Hong Kong (48.7% in Sept vs. 55.7% in Aug), Singapore (8.7% in Sept vs. -2.2% in Aug) and Australia (23.0% in Sept vs. 11.4% in Aug). On the other hand, exports to China were declined by 0.6% (previously expanded at 4.5% in August) and Germany (-7.0% in Sept vs. -4.2% in Aug).
- Conversely, total imports declined by 2.7% y-o-y in September, reversing its earlier gains of 6.7% in the previous month. Imports of Capital, Intermediate as well as Consumption goods declined to 9.3% (August: 25.8%), 25.2% (August: 4.4%) and 10.0% (August: 13.8%) respectively. As such, trade balance widened significantly from RM1.6 billion in August to RM 15.3 billion in September.
- Moreover, total exports expanded by 5.3% y-o-y for the 3Q2018, lower from the previous quarter which posted 8.4% growth. Similarly, total imports recorded 6.3% growth in the 3Q2018, slower from 8.9% growth in the previous quarter. Consequently, trade balance narrowed slightly from RM27.1 billion in the 2Q2018 to RM25.2 billion in the 3Q2018.
- Cumulatively, total exports and imports recorded 6.5% and 5.0% growth in the first nine months of 2018. However, this is slower against 21.6% and 22.4% growth in the same period last year. Trade surplus balance widened from RM69.6 billion in 9M2017 to RM85.7 billion in 9M2018).

Table 1: External Trade

Y-o-Y%	Jul-18	Aug-18	Sep-18	1Q 2018	2Q 2018	3Q 2018
Export	9.4%	-0.3%	6.7%	5.8%	8.4%	5.3%
Import	10.3%	11.2%	-2.7%	-0.2%	8.9%	6.3%
Trade balance (RM bn)	8.3	1.6	15.3	33.4	27.1	25.2
Export by product						
Electrical & Electronic Products	23.6%	3.2%	6.5%	11.9%	10.1%	11.1%
Palm Oil	-13.7%	-22.9%	-11.5%	-5.9%	-11.9%	-16.1%
Liquefied Natural Gas	-36.2%	-20.4%	3.2%	-0.4%	5.8%	-17.8%
Petroleum Products	-12.3%	5.4%	20.5%	7.5%	29.8%	4.5%
Machinery, Appliances and Parts	2.0%	-7.1%	1.8%	2.5%	0.7%	-1.1%
Crude Petroleum	90.1%	70.8%	54.5%	7.2%	31.3%	71.8%
Optical and Scientific Equipment	9.1%	7.9%	16.9%	9.8%	17.4%	11.3%
Professional, Sci. & Controlling Inst.	9.9%	11.6%	24.2%	11.5%	20.6%	15.2%
Rubber Gloves	10.5%	16.3%	14.6%	4.5%	9.8%	13.8%
Heating and Cooling Equi.& Parts	-9.0%	-22.7%	-16.2%	-0.3%	-19.7%	-16.0%
Export by country						
Singapore	-2.0%	-2.2%	8.7%	-0.7%	-2.4%	1.5%
China	37.5%	4.5%	-0.6%	1.0%	15.8%	13.8%
EU	2.2%	-8.9%	3.1%	5.3%	12.1%	-1.2%
US	6.7%	-2.0%	0.1%	4.0%	-2.0%	1.6%
Japan	-17.1%	-22.9%	-10.6%	-6.9%	-6.7%	-16.9%
Thailand	6.0%	15.6%	7.5%	7.7%	21.4%	9.7%
Hong Kong	80.8%	55.8%	48.7%	84.4%	71.0%	61.8%
Australia	6.3%	11.4%	23.0%	-5.0%	-8.7%	13.6%
Germany	1.7%	-4.2%	-7.0%	10.0%	19.7%	-3.2%
Vietnam	12.8%	6.9%	7.5%	28.6%	38.7%	9.1%
Philippines	4.3%	4.9%	5.1%	-2.6%	0.1%	4.8%
Import by end-use						
Capital	4.7%	25.3%	-9.3%	-9.0%	11.8%	6.9%
Intermediate	-0.1%	4.3%	-25.2%	-10.3%	-4.7%	-7.0%
Consumption	11.1%	14.2%	-10.0%	3.3%	-2.3%	5.1%

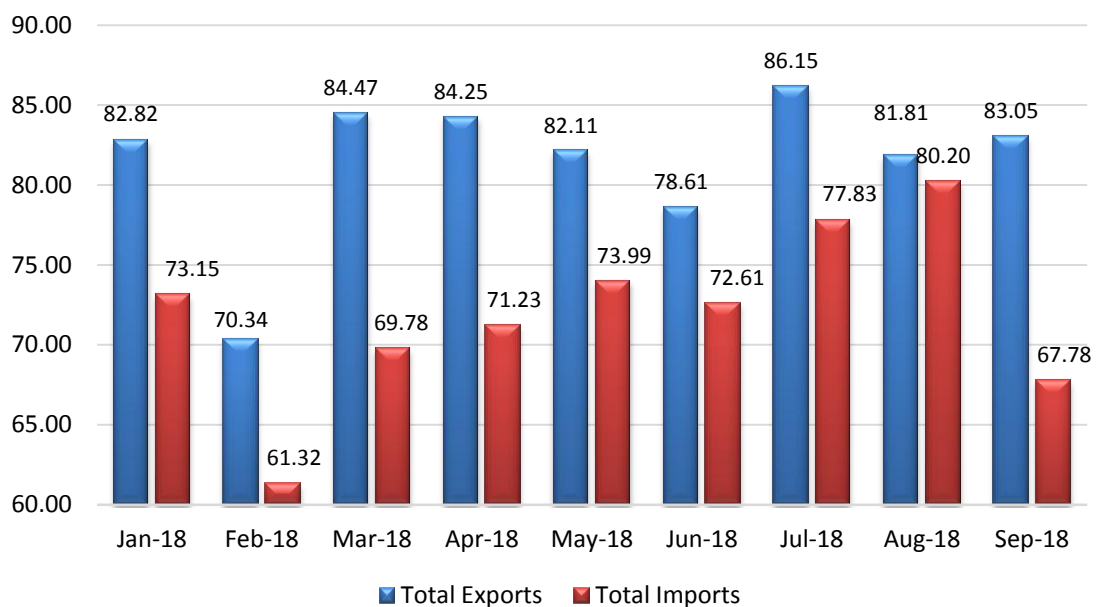
SSource: CEIC and DOS, Malaysia

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



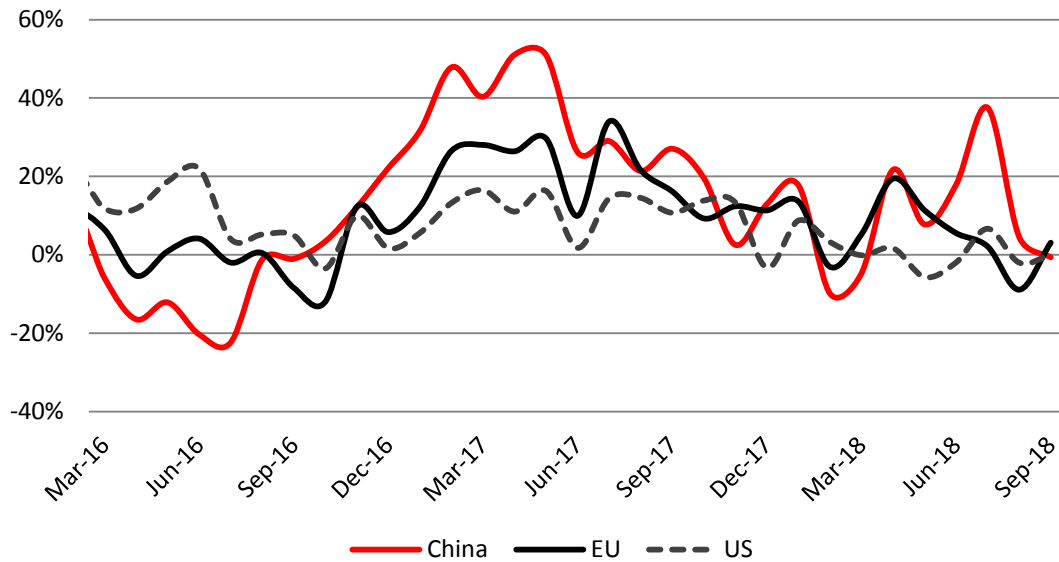
Source: CEIC

Chart 2: Exports and Imports (RM Billion)



Source: CEIC

Chart 3: Export by Destination % (y-o-y)



Source: CEIC

Our view

The latest outturn suggests that Malaysia's external sector is still fairly decent despite the ongoing trade tension between the US and China. This was reflected in higher growth of E&E as well as petroleum related exports. There was also a rebound in LNG exports, suggesting the supply-side shocks may have abated. It was reported in the news on 8th August 2018, Sabah Oil and Gas terminal to 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. While the pipeline has been repaired, Petronas is still awaiting the necessary approval from the authorities to resume operations at the pipeline.¹ Despite that, contraction in the imports of intermediate goods indicates challenging prospect for the external demand. Such notion was in tandem with the decline in the Malaysia's Nikkei Purchasing Manager Index (PMI) for the manufacturing sector from 51.5 points in September to 49.2 points in October. Clearly business sentiments especially those who are involved in the export-oriented industries have become increasingly wary. According to the PMI survey, the deterioration in operating conditions was largely driven by a marked reduction in total new sales.

¹ <https://www.freemalaysiatoday.com/category/nation/2018/08/08/malaysia-lng-exports-hit-4-year-low-on-pipeline-issues/>

Additionally, volatile exchange rate movements, rising raw material prices and the implementation of Sales & Services Tax (SST) have been indicated as the sources of cost pressures in October.

Against such backdrop, economic growth is expected to soften in the 2H2018. The recent budget announcement appears to have vindicated such view with the latest GDP forecast is likely to be below 5% in 2018 and 2019.

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