Exports slowed sharply to 1.6% yoy in November

Economic Update

Malaysia-Trade

Export of key E&E products declined by 1.7% yoy in November

Malaysia's exports slowed sharply from 17.7% yoy in October to 1.6% in November, significantly lower than market expectations of a 6.6% increase. Exports of electrical & electronic (E&E) products, which accounted for 36.8% of total exports, fell into negative territory for the first time since March 2018, declining by 1.7% yoy in November (23.3% in October), its weakest growth rate since July 2016. The decline in exports of E&E was due to lower demand for parts and accessories for office machines (-21.9%) and electrical apparatus and parts (-1.8%), as well as slower growth in exports of thermionic valves & tubes and photocells (2.7%), and telecommunications equipment, parts and accessories (5.7%), and was in line with the slowdown in global semiconductor sales, which slowed to 9.8% yoy in November (from 12.8% in October) based on the latest report by the Semiconductor Industry Association (SIA).

Also weighing on manufactured goods were falls in exports of manufactures of metals (-3.5%) and machinery and appliances (-0.4%). However, export growth of manufactured goods, which registered positive increases, was reflected in refined petroleum products (41.2%), chemicals and chemical products (15.1%) and optical and scientific equipment (10.5%) in November.

Fig 1: Major export products (November 2018)

	Share of total (%)	% yoy				% mom			
		Aug-18	Sep-18	Oct-18	Nov-18	Aug-18	Sep-18	Oct-18	Nov-18
Electrical/Electronic Products	36.8	3.2	6.5	23.3	-1.7	-7.1	2.6	16.8	-18.8
Crude Petroleum	3.4	64.9	54.5	32.8	17.7	-13.8	-18.2	40.7	-24.5
Chemicals/Chemical products	5.9	22.6	31.7	36.5	15.1	4.1	-2.1	16.1	-11.3
Liquefied Natural Gas	5.4	-22.5	1.8	38.8	26.4	30.7	-0.7	29.5	12.1
Palm Oil/Palm-Based Agri products	4.4	-27.0	-16.5	-17.3	-21.1	-5.0	14.4	8.9	-10.1
Refined petroleum products	8.8	-3.3	5.5	31.2	41.2	-18.2	24.8	28.4	-8.2
Machinery/Appliances	3.9	-7.1	1.8	4.1	-0.4	-8.5	-4.4	8.2	-0.1
Optical/Scientific equipment	3.8	7.9	17.1	10.4	10.5	0.6	0.4	7.9	-6.4
Manufactures of metal	4.2	-1.8	-2.2	29.0	-3.5	-11.3	-4.3	37.7	-19.2
Exports	**100.0**	**-0.3**	**6.5**	**17.7**	**1.6**	**-5.0**	**1.4**	**16.2**	**-12.0**

Source: Department of Statistics (DoS), MITI

Supporting exports of mining goods was healthy demand for liquefied natural gas (LNG), which recorded a double-digit growth rate for the second consecutive month, by 26.4% yoy in November (38.8% in October). In addition, exports of crude petroleum also expanded but at a slower pace of 17.7% yoy in November (32.8% in October), supported by positive growth in average unit value (AUV).

Slower demand across the board by countries

Malaysia's exports to ASEAN countries slowed to 6.4% yoy in November, after a strong double-digit growth of 16% in October, supported mainly by healthy exports of crude petroleum, E&E products and petroleum products, while demand for other products remained weak. Export growth to China continued to be positive, albeit at a slower pace of 3.9% yoy in November, sharply lower than the 33% in October, dragged down by lower demand for E&E products, but cushioned by higher exports of chemicals and chemical products, petroleum products and LNG. Export growth to the US declined by 3.6% yoy in November, after two straight months of positive rises (7.7% in October), weighed down by weaker demand for manufactured goods, namely E&E products. Similarly, export growth to the EU also declined by 7.7% (+8.5% in October), due to lower demand for E&E products.

Malaysia's exports to Japan also declined by 8.9% yoy in November, after a strong growth of 10.1% in October, amid lower demand for manufactured goods, particularly E&E products, manufactures of metals, optical and scientific equipment, iron and steel products as well as palm oil-based manufactured products.

Fig 2: Major export markets (November 2018)

	Share of total (%)	% yoy				% mom			
		Aug-18	Sep-18	Oct-18	Nov-18	Aug-18	Sep-18	Oct-18	Nov-18
US	8.6	-2.0	0.1	7.7	-3.6	0.6	-1.4	12.4	-15.7
EU	8.9	-8.9	3.1	8.5	-7.7	-8.3	7.9	3.8	-12.1
Japan	7.0	-22.9	-10.7	10.1	-8.9	-10.5	9.9	25.6	-10.4
China	13.7	4.5	-0.6	33.0	3.9	-8.5	-4.3	33.5	-22.9
ASEAN	30.9	0.6	5.8	16.0	6.4	-6.0	1.7	15.9	-4.1
Exports	**100.0**	**-0.3**	**6.5**	**17.7**	**1.6**	**-5.0**	**1.4**	**16.2**	**-12.0**

Source: DOS

Imports growth slowed to 5% yoy in November

Gross imports slowed to 5% yoy in November, from a four-month high of 11.4% yoy in October, but exceeded market expectations of 4.1%. Slower growth of imports was due to the decline in imports of intermediate goods, by 0.3% yoy in November (1.1% in October), which is a good proxy of Malaysia's export performance, reflecting the modest export growth in the near term. Imports of consumption goods slowed to 0.9% yoy in November (7.7% in October), while imports of capital goods rebounded to 0.4% yoy (-1.8% in October), following two consecutive months of declines. With higher growth of imports relative to exports, the country's trade surplus narrowed to RM7.6bn in November, after reaching its widest surplus on record of RM16.3bn in October. However, Malaysia's trade surplus increased to RM109.6bn in January-November 2018, compared with RM91.1bn in the same period of 2017.

Fig 3: Imports by end-use (November 2018)

	Share of total (%)	% yoy				% mom			
		Aug-18	Sep-18	Oct-18	Nov-18	Aug-18	Sep-18	Oct-18	Nov-18
Intermediate goods	52.1	4.3	-9.5	1.1	-0.3	12.8	-20.6	10.1	2.3
Capital goods	13.6	25.1	-25.1	-1.8	0.4	21.1	-37.2	29.0	11.3
Consumption goods	8.6	14.2	-10.0	7.7	0.9	7.0	-27.7	24.3	3.2
Imports	**100.0**	**11.2**	**-2.8**	**11.4**	**5.0**	**3.0**	**-15.6**	**18.2**	**-3.5**

Source: DOS

Going into 2019, given that the global economic slowdown is not synchronised, we expect exports of non-commodity products to remain healthy from demand from advanced economies for E&E products in 2019, especially from the US. However, with global semiconductor sales expected to grow at a slower rate of around 2.6% yoy in 2019, after a strong double-digit growth of 15.9% estimated for 2018, we believe Malaysia's real exports of goods and services will be sustained at a modest growth rate of 1.6% for 2019, compared with 1.4% in 2018 (9.6% in 2017).

According to a study by Bank Negara Malaysia (BNM), Malaysia's E&E industry (as a result of the US-China trade war) will likely gain from some potential trade diversion of US imports from China, where E&E products such as electrical machines, electronic integrated circuits and semiconductors for solar panel cells are anticipated to benefit. We are maintaining our full-year trade surplus forecast of around RM120bn in 2018 followed by a surplus of about RM100bn projected for 2019. Nevertheless, protectionist trade measures (i.e., trade war and tariffs) implemented between the US and China, if they escalate, remain the downside risk.

Focus Charts

Chart 1: Trade performance

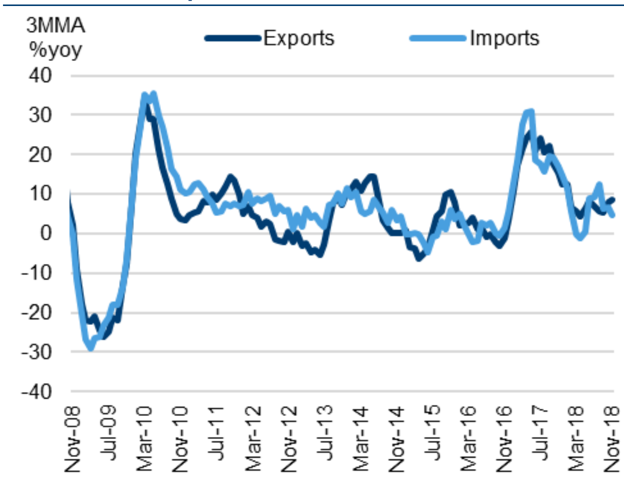


Chart 2: Breakdown in imports

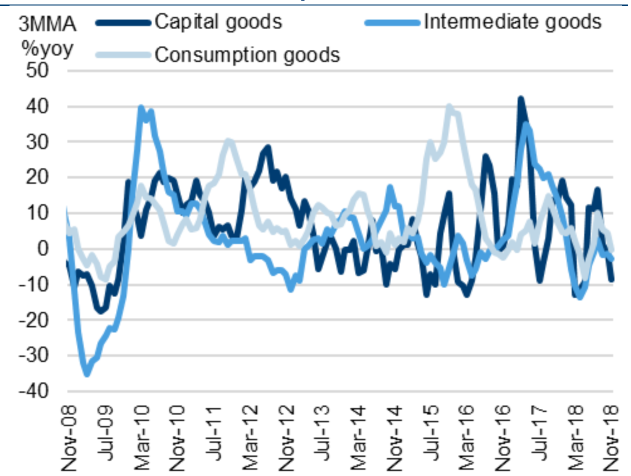


Chart 3: Breakdown in imports of intermediate goods

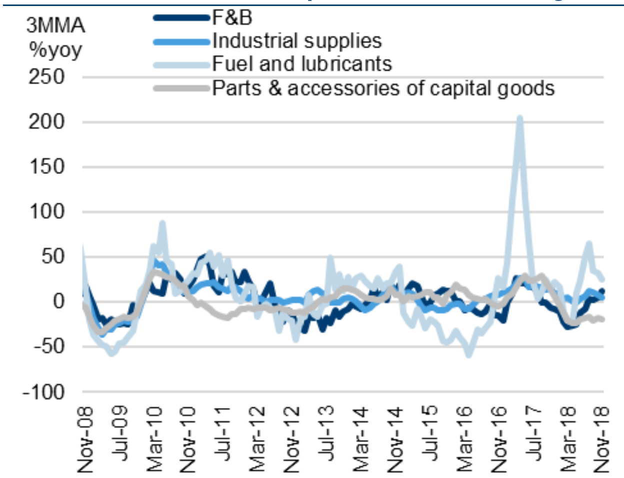


Chart 4: Breakdown in exports of E&E products

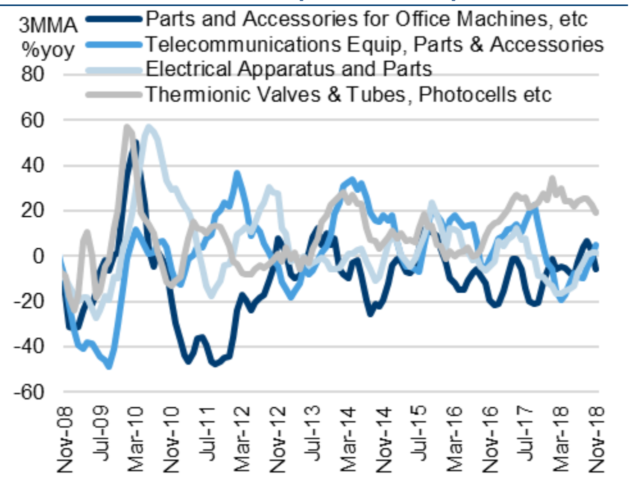


Chart 5: Breakdown in production

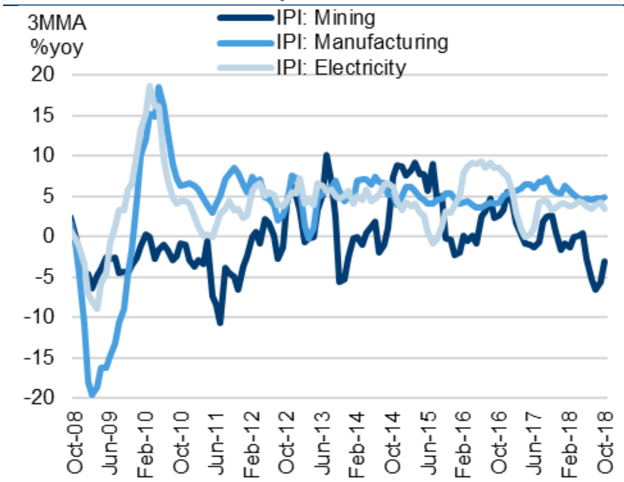
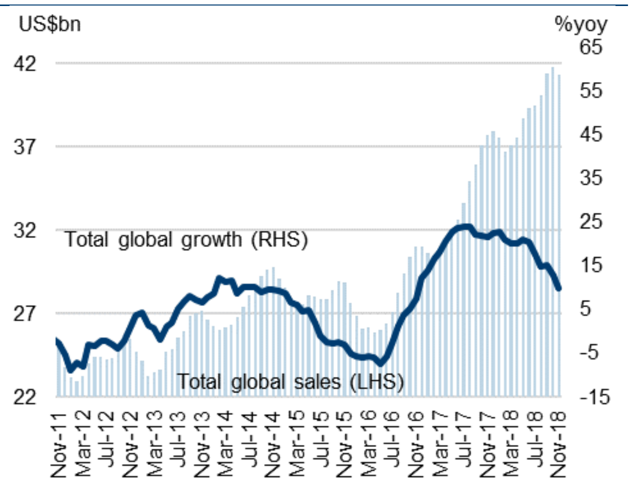


Chart 6: Global semiconductor sales



Source: All data for charts sourced from DoS, BIS, Affin Hwang

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com