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ECONOMICS

In this report:

Malaysia – Return of negative exports may impact MYR adversely

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Malaysia

Return of negative exports may impact MYR adversely

Following two consecutive months of positive growth in June and July that helped lift the economy from the lockdown, exports in August fell by 2.9% y/y while m/m, it shrank by 14.8%, which partially reduced the 48% gains over June and July.

All major export products reported m/m drop with large declines in electronics and petroleum products. And without a favourable base effect, it could have been even worse. There was also an across-the-board fall in shipments to the main destinations. Meanwhile, weak domestic demand continued to weigh down on imports in August. As with exports, electronics and petroleum products were the weak spots in imports.

Against all odds – a record GDP plunge, narrowing current surplus, modest global oil prices and domestic political uncertainty – the Malaysian ringgit has been performing well in a broad emerging market rally since June.

However, the rally lost a little steam in September, dented by a strong USD sentiment so far this month. The MYR was a little disturbed last week by political risk in the run-up to the Sabah state election over the weekend, and FTSE Russell's decision on whether to exclude the Malaysian government securities from its global bond index. Both events turned favourable. However, the return of negative export growth is a setback for the currency.

- Following two consecutive months of positive growth in June and July that helped lift the economy from the lockdown, exports in August fell by 2.9% y/y. On a m/m basis, it shrank by 14.8%, which partially reduced the 48% gains over June and July. This brings the first eight-month average to -5.2% y/y.
- All major export products reported m/m drop. But large declines in electronics and petroleum products, by 19% m/m and 24%, respectively, were glaring. And without a favourable base effect, it could have been even worse. There was also an across-the-board fall in shipments to the main destinations.
- Weak domestic demand continued to weigh down on imports in August, which were down 2.2% from July and 6.5% from a year ago. As with exports, electronics and petroleum products were the weak spots in imports.
- Hence, imports slipped for the sixth consecutive month, by 6.5% y/y from -8.7% y/y in July. Both capital and intermediate imports shrank by 15.6% y/y and 5.6% y/y from -19.8% y/y and -17.3% y/y, respectively. Meanwhile, consumption goods climbed by 2.9% y/y in August from 0.1% y/y in July.

- Trade surplus narrowed sharply to RM13.2 billion from RM25.2 billion in July. The RM103 billion cumulative surplus in the first eight months of 2020, is RM3 billion wider on the year.
- Despite a steady goods surplus, continued net outflows on the service account, resulting from standstill tourism, should keep the overall current account surplus on a narrowing trend over the remainder of the year. The current surplus almost halved to RM17.1 billion in 1H 2020 from RM31.3 billion a year ago. Our forecast for the full-year 2020 current surplus as a proportion of GDP is 1.5%, down from 3.4% in 2019.
- Against all odds – a record GDP plunge, narrowing current surplus, modest global oil prices, and domestic political uncertainty – the Malaysian ringgit has been performing well in a broad emerging market rally since June.
- However, the rally lost a little steam in September, dented by a strong USD sentiment so far this month. The MYR was a little disturbed last week by political risk in the run-up to the Sabah state election over the weekend. A clear win for the state coalition (Gabungan Rakyat Sabah) backed by Prime Minister Tan Sri Muhyiddin Yassin was a relief for markets as this further strengthened an otherwise shaky ruling coalition at the national level.
- Another overhang was FTSE Russell's decision on whether to exclude the Malaysian government securities from its global bond index, which in the end passed as a non-event last week.
- However, the return of negative export growth is a setback for the currency.

Table 1: Key External Trade Data YoY (%)

	Aug'19	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr	May	Jun	Jul	Aug
X y/y (RM)	-0.6	-6.1	-6.4	-5.4	2.8	-2.6	10.0	-6.5	-24.9	-26.0	8.0	3.1	-2.9
M y/y (RM)	-12.5	2.5	-8.7	-3.6	1.0	-2.5	11.3	-2.7	-8.0	-30.4	-5.6	-8.7	-6.5
X y/y (USD)	-2.8	-7.1	-7.1	-4.8	3.3	-1.7	7.7	-11.3	-29.0	-28.9	5.1	-0.2	-2.9
M y/y (USD)	-14.5	1.4	-9.4	-3.0	1.5	-1.6	9.0	-7.6	-13.0	-33.1	-8.1	-11.7	-6.4
X-M RMbn	11.1	8.8	17.6	6.7	12.6	12.0	12.6	12.3	-3.6	10.4	20.9	25.2	13.2
X-M US\$bn	2.6	2.1	4.2	1.6	3.0	3.0	3.0	2.9	-0.8	2.4	4.9	5.9	3.2

Source: CEIC/AmBank Research

Table 2: Imports by End Use YoY (%)

	Aug'19	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr	May	Jun	Jul	Aug
Imports	-12.5	2.5	-8.7	-3.6	1.0	-2.5	11.3	-2.7	-8.0	-30.4	-5.6	-8.7	-6.5
Capital Import	-30.9	6.6	-11.5	-4.5	-11.1	-14.8	-16.7	-48.1	69.1	-27.8	2.8	-19.8	-15.5
Intermediate Import	-13.8	11.1	-5.1	1.8	6.2	3.6	20.5	2.5	-30.6	-27.8	-10.7	-17.3	-5.6
Consumption Import	-12.8	15.7	-5.0	1.9	3.2	-1.2	9.7	6.8	-12.2	-22.2	8.9	0.1	2.9
Re-exports	-0.3	-21.9	-10.2	-18.4	-0.3	-6.7	-6.8	12.6	37.9	-30.1	5.2	15.6	8.5

Source: DOS/CEIC/AmBank Research

Table 3: Major Exports Markets YoY (%)

	Aug'19	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr	May	Jun	Jul	Aug
China	-2.3	-2.0	-10.9	4.3	18.2	-6.6	8.9	-7.5	2.8	3.7	46.1	13.9	20.9
Singapore	-7.2	-11.5	4.1	-11.9	-2.7	1.1	22.3	7.7	-17.4	-22.0	3.5	4.1	0.8
US	6.8	9.5	3.5	6.5	15.1	9.3	24.6	-4.4	-31.2	-9.4	27.5	28.6	13.6
Hong Kong	-15.4	-26.2	0.1	-21.1	-18.1	-14.0	1.0	-12.6	-8.3	-23.6	30.9	1.5	-0.6
Japan	3.3	-2.9	-18.9	-15.3	-12.8	-4.1	1.6	-1.8	-28.9	-33.2	9.1	-2.8	-13.8
Thailand	-8.3	-4.0	-18.2	-14.7	-7.3	-21.4	-15.4	-38.8	-38.2	-40.1	-10.2	-9.4	-23.0
Taiwan	-21.2	8.8	10.5	-11.3	27.3	3.9	20.5	-1.5	-23.4	-27.5	-0.6	-4.6	-12.0
ROK	-8.0	1.5	-4.9	-17.0	2.2	1.0	48.5	9.4	-4.7	-6.9	-3.7	11.3	1.5
Vietnam	24.7	-5.3	-1.9	-11.0	12.2	-17.4	9.9	-34.1	-40.0	-35.2	18.0	-4.9	-6.4
India	18.4	12.5	-12.2	-1.4	-13.6	-0.4	-13.5	-42.5	-71.6	-81.9	-42.3	-7.4	-20.1

Source: CEIC/DOS/AmBank Research

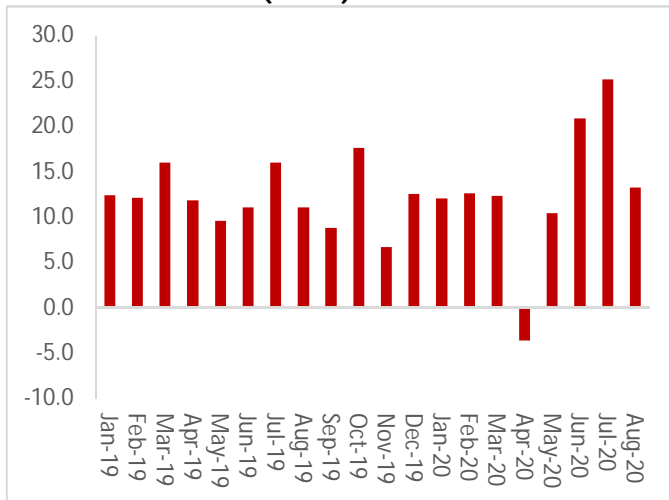
Table 4: Exports by Sector and Sub-Sector (RM million)

Sector and Sub-Sector	Value RM Million (FOB)			Share (%)	Annual Change (%)		Value RM Million (FOB)		
	Aug 2019	Jul 2020	Aug 2020		Val RM Million (FOB)	%	Jan-Aug 2019	Jan-Aug 2020	Share (%)
MANUFACTURING	68,652	80,979	68,569.2	86.6	(83.3)	(0.1)	553,834	533,378.0	85.9
Electrical & Electronic Products (E&E)	29,667	39,540	31,933	46.6	2,266.5	7.6	247,757	237,847	44.6
Petroleum Products	5,431	6,004	4,569	6.7	(862.4)	(15.9)	47,072	43,774	8.2
Chemical And Chemical Products	4,767	3,846	3,652	5.3	(1,115.4)	(23.4)	38,458	32,712	6.1
Optical & Scientific Equipment	2,778	4,149	3,571	5.2	793.4	28.6	24,592	25,914	4.9
Machinery, Equipment And Parts	3,461	3,792	3,070	4.5	(390.7)	(11.3)	27,723	25,310	4.7
Rubber Products	2,240	4,008	3,736	5.4	1,495.9	66.8	16,779	23,351	4.4
Manufacture Of Metal	3,965	3,381	2,750	4.0	(1,215.2)	(30.7)	28,034	22,978	4.3
Iron And Steel Products	1,687	2,031	2,080	3.0	393.7	23.3	14,472	15,706	2.9
Palm Oil-Based Manufactured Products	1,825	1,671	1,639	2.4	(186.8)	(10.2)	16,020	13,769	2.6
Processed Food	1,924	1,925	1,789	2.6	(135.0)	(7.0)	14,024	13,719	2.6
Transport Equipment	1,683	1,509	1,348	2.0	(335.4)	(19.9)	11,733	13,064	2.4
Wood Products	1,408	1,563	1,428	2.1	19.7	1.4	10,101	9,836	1.8
Textiles, Apparels And Footwear	1,381	1,238	1,212	1.8	(168.5)	(12.2)	10,406	8,721	1.6
Manufacture Of Plastics	1,348	1,115	1,010	1.5	(338.5)	(25.1)	9,905	8,554	1.6
Non-Metallic Mineral Products	827	649	651	0.9	(176.0)	(21.3)	5,633	5,081	1.0
Paper & Pulp Products	568	528	480	0.7	(88.3)	(15.5)	4,071	4,195	0.8
Jewellery	535	243	329	0.5	(205.6)	(38.4)	4,712	2,286	0.4
Beverages & Tobacco	277	217	198	0.3	(79.0)	(28.5)	2,274	1,629	0.3
Other Manufactures	2,881	3,569	3,125	4.6	244.4	8.5	20,067	24,933	4.7
AGRICULTURE	5,982	6,568	5,713	7.2	(268.1)	(4.5)	44,212	43,960	7.1
Palm Oil and Palm-Based Products	4,080	4,756	4,098	71.7	18.1	0.4	29,570	31,421	71.5
Natural Rubber	350	248	235	4.1	(114.9)	(32.9)	2,615	1,997	4.5
Sawn Timber & Moulding	412	307	251	4.4	(161.7)	(39.2)	2,909	1,949	4.4
Other Vegetables Oil	197	344	229	4.0	31.3	15.9	1,903	1,869	4.3
Seafood, fresh, chilled or frozen	211	209	195	3.4	(16.7)	(7.9)	1,434	1,509	3.4
Sawlog	65	54	61	1.1	(4.5)	(6.9)	545	354	0.8
Other Agriculture	666	650	646	11.3	(19.7)	(3.0)	5,235	4,861	11.1
MINING	6,145	4,680	4,551	5.8	(1,593.7)	(25.9)	55,591	40,463	6.5

Liquefied Natural Gas (LNG)	3,052	1,795	1,552	34.1	(1,499.5)	(49.1)	28,764	21,148	52.3
Crude Petroleum	1,969	1,974	1,968	43.2	(0.2)	(0.0)	18,320	13,056	32.3
Metalliferous Ores and Metal Scrap	516	707	664	14.6	148.2	28.7	4,767	3,905	9.7
Tin	127	89	127	2.8	(0.0)	(0.0)	1,250	904	2.2
Crude Fertilizers And Crude Minerals	122	114	96	2.1	(25.9)	(21.2)	823	783	1.9
Condensates and other petroleum oil	357	-	141	3.1	(216.6)	(60.6)	1,656	656	1.6
Other Mining	1	1	2	0.0	0.3	22.8	12	12	0.0
Others	734	333	309	0.4	(424.8)	(57.9)	4,940	2,841	0.5
Total Exports	81,513	92,559	79,143	100.0	(2,369.9)	(2.9)	658,576	620,642	100.0

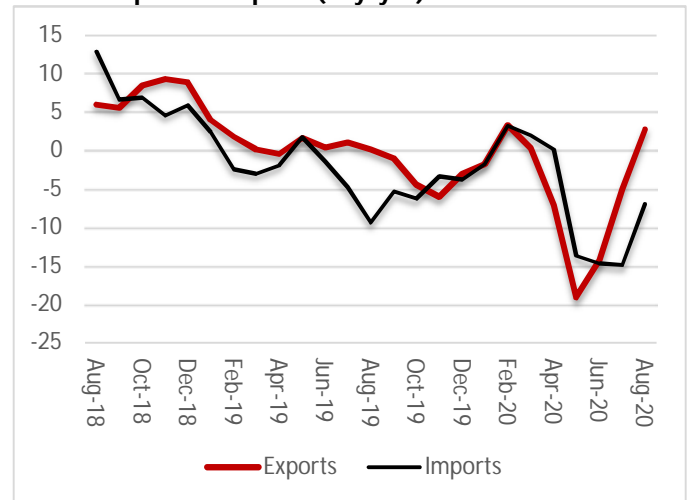
Source: DOS/AmBank Research

Chart 1: Trade Balance (RM bil)



Source: CEIC/AmBank Research

Chart 2: Exports & Imports (sa y/y %)



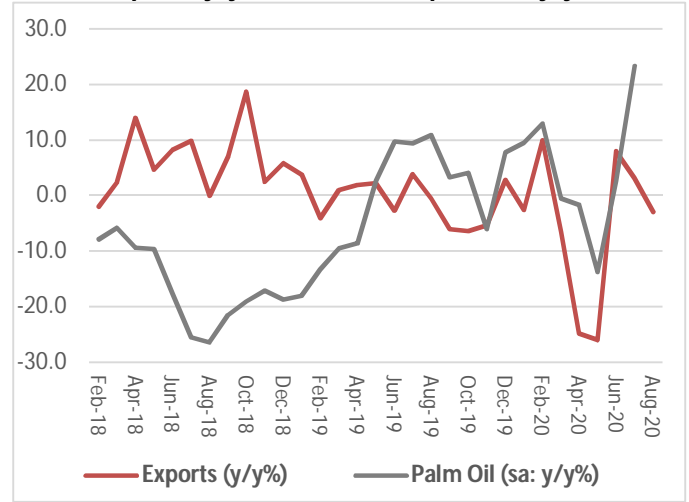
Source: CEIC/AmBank Research

Chart 3: Exports to US & China (sa: y/y %)



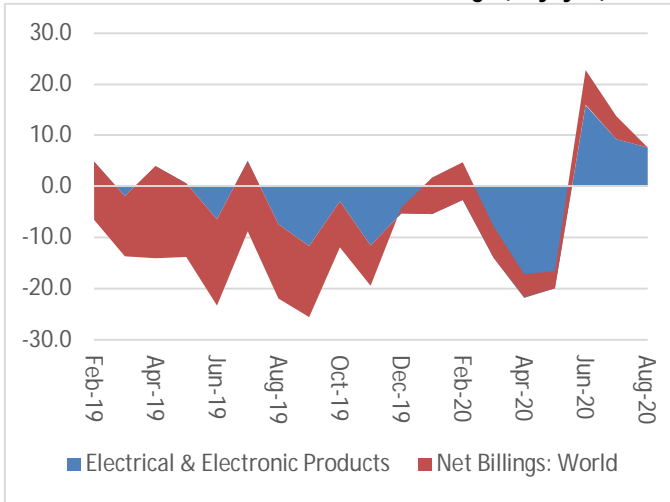
Source: CEIC/AmBank Research

Chart 4: Exports (y/y %) & Palm Oil Exports (sa: y/y%)



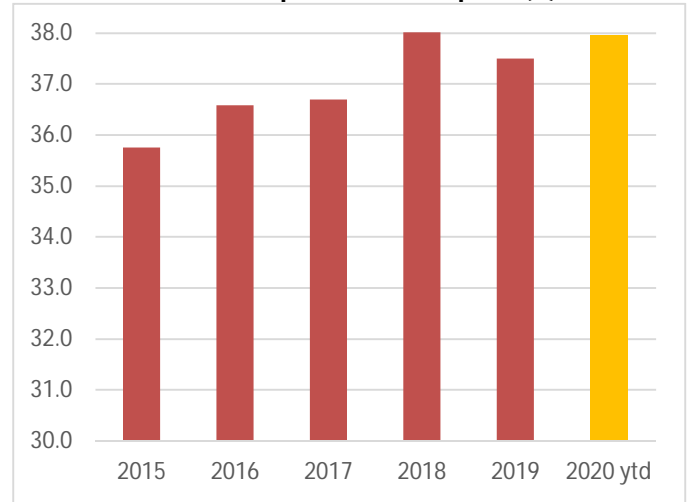
Source: CEIC/AmBank Research

Chart 5: E&E and Semiconductor Net Billings (sa: y/y %)



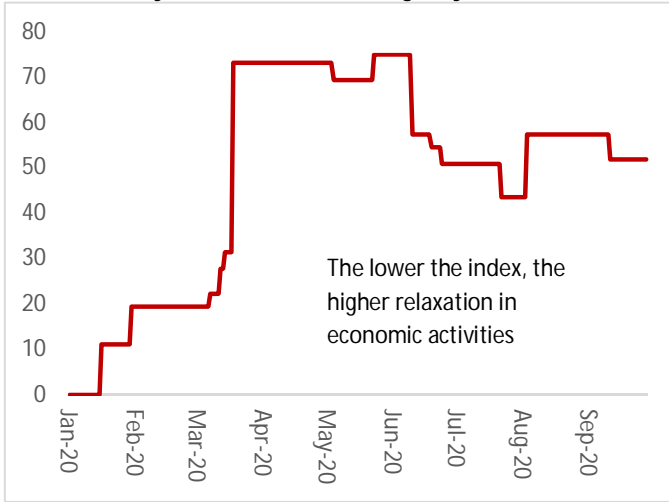
Source: CEIC/AmBank Research

Chart 6: Share of E&E exports to total exports (%)



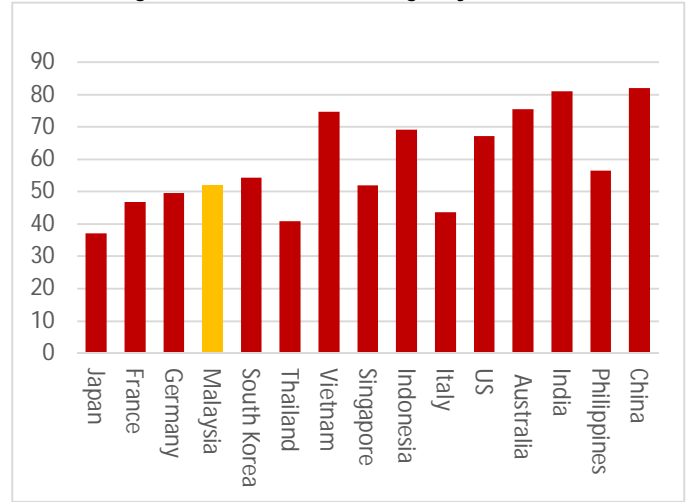
Source: CEIC/AmBank Research

Chart 7: Malaysia Government Stringency Index



Source: CEIC/AmBank Research

Chart 8: Regional Government Stringency Index



Source: CEIC/AmBank Research;
Data as at 28 Sept 2020.

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