

Malaysia External Trade

Exports turned positive at 1.6% YoY after one year hiatus

Wan Suhaimie

Economist

wansuhaimi@kenanga.com.my

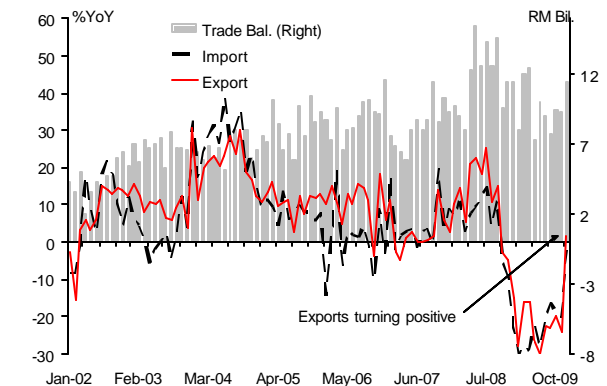
Tel: 603-2161 9657

HIGHLIGHTS

- **Exports rose unexpectedly for the first time in a year at 1.6% YoY in October as shipments of electronics and electrical (E&E) goods and major commodities increase.** It was well above the consensus' median estimate of -10.5% and our estimate of -11.2. On MoM-basis, it rose by 15.0%. Meanwhile, imports rose 12.9% MoM to yield a smaller contraction of 2.3%. As a result, the trade surplus widened to RM11.5b from RM9.3b in September.
- **The MoM increase in exports was largely attributed to bigger increases in E&E shipments as well as major commodities.** E&E exports surged 16.7% MoM, resulting in an enlarged YoY increase of 18.4%, the highest since September 2004. Meanwhile, non-E&E exports jumped 13.4% MoM which helped to reduce its YoY contraction to 8.3%, a significant improvement due mainly to increase in shipments of crude oil and machineries.
- The considerable improvements to imports were largely due to higher purchase of capital and intermediate goods. Large big ticket items help score capital goods' 27.6% MoM jump, while intermediate goods saw an increase of 7.4% MoM. Coupled with a steady 2.6% MoM growth in consumption goods grew, it signaled a healthy recovery trend for both domestic and external sector in the coming months.
- Overall, our expectations were met as we have anticipated a turn to positive in the 4Q09. Due to the lower base effect, the two remaining months is expected to remain positive for exports. This would bode well for GDP growth trajectory for the current and coming quarters. At this juncture, **we forecast our 4Q09 GDP to turn around to 2.8 % growth after four consecutive quarters of contraction which would bring our full year growth average at -2.1%.**

Surprise surprise. After a continuous streak of growth contraction that started in October last year, exports registered a surprising rebound in October. **Exports rose at way-bigger-than-expected pace of 1.6% YoY in October, as shipments of electronics and electrical (E&E) goods and major commodities increased.** According to *Bloomberg*, none of the economists' surveyed saw that coming.

Malaysia Exports and Imports Growth Trend (%YoY)



Source: Dept of Statistics, Kenanga Research

Its consensus median estimate for exports was -10.5% while our estimate was -11.2%. **The surprising rebound reaffirmed our expectation that Malaysia's economy would further improve and register a turn around in the final quarter of this year.** On MoM-basis, exports rose by 15.0%. Meanwhile, imports also rose 12.9% MoM to yield a small contraction of 2.3%. As a result, the trade surplus increased to RM11.5b from RM9.3b in September.

E&E demand surge help lift up exports. The MoM increase in exports was largely attributed to bigger increases in E&E shipments as well as major commodities. E&E exports surged 16.7% MoM, resulting in an enlarged YoY increase of 18.4%, the highest since September 2004. Meanwhile, non-E&E exports jumped 13.4% MoM which helped to reduce its YoY contraction to 8.3%, a significant improvement due mainly to increase in shipments of crude oil and machineries. In absolute terms, exports reached RM54.3b, its highest in a year, of which 43% of it derived from E&E receipts.

Exports to majors showed big improvement. Exports to China, now the second single largest export destination, rose 1.2% MoM. Meanwhile, exports to Japan, the fourth largest grew 16.9% MoM. Exports to US, which is third in line, surged 24.5% MoM, a significant improvement from a -6.3% in the preceding month.

Higher imports points to demand recovery. Signs of improvement in domestic and anticipated external demand improved as reflected in higher purchase of capital and intermediate goods. Large big ticket items scored capital goods 27.6% MoM jump, while

Table 1: Malaysia External Trade Growth Trend

		2006	2007	2008	Oct-08	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Jan-Oct-08	Jan-Oct-09
Total Trade	%YoY	10.5	3.8	6.8	-3.8	-24.6	-28.9	-21.9	-20.0	-19.3	-22.4	-0.2	10.9	-21.0
Trade Balance	RMBil.	108.2	100.4	142.0	9.6	7.4	10.0	9.1	7.8	9.6	9.3	11.5	118.8	97.3
Export	%YoY	10.3	2.7	9.6	-2.6	-26.3	-29.7	-22.7	-22.9	-19.8	-24.2	1.6	13.9	-20.7
E&E	%YoY	6.2	-5.5	-3.6	-15.6	-23.2	-28.1	-16.9	-15.8	-13.1	-23.2	18.4	0.1	-16.3
	Shr	47.7	43.6	38.5	36.9	41.3	41.5	41.2	42.2	43.0	42.3	43.0	38.7	40.9
Others	%YoY	14.4	10.9	19.5	7.0	-28.4	-31.4	-26.1	-27.8	-24.2	-24.9	-8.3	24.8	-23.5
	Shr	52.3	56.4	61.5	63.1	58.7	58.5	58.8	57.8	57.0	57.7	57.0	61.3	59.1
Import	%YoY	10.8	5.0	3.3	-5.3	-22.4	-27.8	-20.9	-16.2	-18.6	-20.2	-2.3	7.4	-21.4
Capital	%YoY	7.5	6.3	2.0	-19.0	2.6	-27.3	-14.6	-7.1	-7.6	-23.8	6.4	6.1	-11.4
	Shr	13.6	13.8	13.6	13.8	20.2	14.6	13.7	14.8	14.3	13.3	15.0	13.6	15.4
Intermediate	%YoY	8.9	6.9	5.6	-1.5	-26.8	-30.0	-23.5	-20.6	-23.7	-24.3	-9.8	10.9	-26.2
	Shr	69.8	71.0	72.6	73.3	67.9	68.7	70.3	68.7	69.4	71.0	67.7	73.0	68.5
Consumption	%YoY	13.4	3.3	11.2	0.5	-6.9	-12.0	-5.6	-9.2	-1.9	-0.5	8.5	13.6	-4.0
	Shr	5.8	5.7	6.1	5.7	7.7	7.3	7.3	7.2	7.1	7.0	6.3	6.0	7.3

Source: Dept of Statistics, Kenanga Research, Shr. = share to total exports or imports, E&E = Electronics & Electrical goods

intermediate goods saw an increase of 7.4% MoM. Coupled with a steady 2.6% MoM growth in consumption goods grew, it signaled a healthy recovery trend for both domestic and external sector in the coming months.

Outlook

GDP and exports to rebound in 4Q09. Overall, our expectations were met as we have anticipated a turn to positive in the 4Q09. Due to the lower base effect, the two remaining months is expected to remain positive for exports. This would bode well for GDP growth trajectory for the current and coming quarters. At this juncture, **we forecast our 4Q09 GDP to turn around to 2.8% growth after four consecutive quarters of contraction which would bring our full year growth average at -2.1%.**

Global recovery to spur exports in 2010. Going forward, Malaysia's exports would generally be supported by stronger global economic growth in 2010 albeit gradually. Though export revenue may receive a boost from higher global energy prices we do not expect the rate of growth to return prior to the 2008-09 global financial and economic crisis, given that demand is expected to recover only gradually in Malaysia's main export markets. Nonetheless,

stockbuilding is expected to gain momentum in 2010 after three consecutive years of destocking (from 2007 to 2009). Hence, **we expect the additional stocks will contribute positively towards headline GDP growth next year. Nonetheless, given the uncertainty and uneven growth recovery trend in most major economies, we expect Malaysia's GDP to grow by only 3.0-4.0% in 2010.**

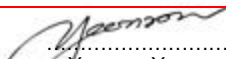
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Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia

Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenangaresearch.com


Yeonzon Yeow
Head of Research