Economic Update

Malaysia-Trade

Strong export growth of 24.1% yoy in March

Sharp increase in exports of mining goods-related components

Malaysia's export growth rose strongly by 24.1% yoy in March, albeit slightly lower than 26.5% in February, but higher than market expectations of 20%. The better-than-expected export growth was due mainly to higher exports of mining goods-related components, including crude petroleum, refined petroleum products and liquefied natural gas (LNG), attributed from rising commodity prices and export volume. For instance, demand for crude petroleum continued to increase from 50.3% yoy in March to 74.1% in April, while refined petroleum products rose by 52.8% (51.6% in March).

Exports of liquefied natural gas (LNG) rose sharply by 11.5% yoy (2.1% in February), the 3rd consecutive month of positive growth, due to higher average unit values as well as increasing export volume on improved demand from Japan. As for agriculture goods, exports of palm oil/palm-based agriculture products slowed to 22.9% yoy during the month, after a sharp increase of 63.5% in the prior month. However, other component such as natural rubber rose sharply by 111.6% yoy in March (85.5% yoy in February), resulting from higher average unit value, as well as higher export volume.

As for exports of manufactured goods, exports of electrical & electronic (E&E) products slowed slightly but remained strong at 21.2% yoy in April (22.4% in March). Higher demand for electrical apparatuses and parts components (9.1%) was offset by lower demand for thermionic valves & tubes (23.1%), telecommunications equipment, parts & accessories (11.5%), as well as office machines parts & accessories (-1.4%). Other components under manufactured goods, which remained supportive of exports during the month, included chemicals/chemical products (20.6%), machinery & appliances (8.4%) and optical & scientific equipment (15.2%). Meanwhile, manufactures of metal contracted for the second consecutive month.

Fig 1: Major export products (March 2017)

	Share of total (%)	% yoy				% mom			
		Dec-16	Jan-17	Feb-17	Mar-17	Dec-16	Jan-17	Feb-17	Mar-17
Electrical/Electronic Products	35.4	9.0	11.4	22.6	21.2	3.2	-7.9	-1.1	18.8
Crude Petroleum	3.7	15.9	48.1	50.3	74.1	-0.7	-0.2	-4.9	29.1
Chemicals/Chemical products	7.4	19.7	15.2	37.5	20.6	7.8	-10.8	18.0	3.7
Liquefied Natural Gas	4.1	-0.5	2.8	2.1	11.5	20.0	-12.4	-0.3	4.0
Palm Oil/Palm-Based Agri products	5.4	19.8	21.8	63.5	22.9	-10.0	-4.9	13.9	-7.5
Refined petroleum products	8.0	58.6	81.2	51.6	52.8	10.2	6.4	-13.8	25.6
Machinery/Appliances	4.7	-11.3	-8.3	10.9	8.4	-2.8	-0.8	8.8	19.5
Optical/Scientific equipment	3.5	3.0	0.2	14.3	15.2	7.5	-9.5	-2.1	22.4
Manufactures of metal	3.9	-10.6	10.9	-0.4	-6.2	-3.5	-4.6	-2.3	17.4
Exports	**100.0**	**10.7**	**13.6**	**26.5**	**24.1**	**3.7**	**-7.0**	**2.1**	**15.1**

Source: Department of Statistics (DoS)

Strong demand from major trading partners in April, especially China

By destination, Malaysia's exports to the US rose by 16.5% yoy in March (13.2% in February), due to higher demand for manufactured goods, especially in E&E products and rubber products. Similarly, exports to the European Union (EU) also increased by 28.1% yoy in March (26.6% in February). Meanwhile, exports to China remained strong at 40.3% yoy in March, attributed to higher demand on petroleum products and rubber products, while demand on E&E products moderated slightly during the month. Nonetheless, exports to Japan and Asean countries slowed slightly by 12% and 24.8% respectively. However, on a month-to-month basis, demand from all major trading partners improved (see Fig 2).

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Fig 2: Major export markets (March 2017)

	Share of total (%)	% yoy				% mom			
		Dec-16	Jan-17	Feb-17	Mar-17	Dec-16	Jan-17	Feb-17	Mar-17
US	9.6	1.7	5.6	13.2	16.5	7.7	-6.8	0.4	18.1
EU	10.4	5.8	12.1	26.6	28.1	3.4	-1.9	3.6	12.7
Japan	8.4	-7.5	23.1	19.9	12.0	-1.1	13.5	-1.2	2.9
China	13.3	22.2	31.6	47.6	40.3	-6.5	-16.2	11.7	14.5
ASEAN	29.0	11.5	13.9	34.0	24.8	4.3	-3.9	3.0	11.0
Exports	**100.0**	**10.7**	**13.6**	**26.5**	**24.1**	**3.7**	**-7.0**	**2.1**	**15.1**

Source: DOS

Imports rose to the highest level in 7 years, supported by capital goods

Growth in gross imports rose sharply from 27.7% yoy in February to 39.4% in March. This was significantly higher than market expectations of 28.6%, and the highest growth level posted since March 2010. The better-than-expected import growth was due mainly to higher imports of capital goods, which increased from 5.6% yoy in February to 82.4% in March. More importantly, imports of intermediate goods, which are leading indicator of the performance of future exports and also the largest share in imports components, sustained its expansion of 36.3% yoy in March (39.9% in February). This was supported by higher orders for industrial supplies (34.5%), as well as parts & accessories of capital goods, which including transport equipment (28.9%). Imports of consumption goods, turned around from -0.6% yoy in February to 14% in March, as reflected in higher imports of non-industrial transport equipment, durable goods and semi-durable goods orders.

Fig 3: Imports by end-use (March 2017)

	Share of total (%)	% yoy				% mom			
		Dec-16	Jan-17	Feb-17	Mar-17	Dec-16	Jan-17	Feb-17	Mar-17
Intermediate goods	55.8	9.8	10.4	39.9	36.3	8.6	-0.4	0.3	12.0
Capital goods	17.5	11.8	35.2	5.6	82.4	-1.7	6.5	-24.0	85.4
Consumption goods	7.9	2.6	-1.6	-0.6	14.0	3.9	-10.1	-20.3	33.2
Imports	**100.0**	**11.5**	**16.1**	**27.7**	**39.4**	**4.8**	**-2.0**	**-3.8**	**22.5**

Source: DOS

In the first quarter of 2017, exports grew by an average of 21.4%, while imports grew by 27.7%. As a result, on a cumulative basis, the trade surplus narrowed but remained substantial at RM18.9bn in the first three months of the year (RM27.5bn in 4Q16). We expect the country's real GDP growth to recover strongly from 4.5% yoy in 4Q16 to above 5% in 1Q17, sharply higher than our earlier estimate of 4.7%. We believe the country's exports will continue to be supported by demand for manufactured goods, especially E&E products, with higher demand from advanced economies, such as the US and EU, as well as healthy demand from China on semiconductor products. This was reflected also in the latest released by IHS Markit on manufacturing Purchasing Managers' Index (PMI), where Malaysia's PMI rose above the 50-level for the first time since March 2015, indicating healthy growth momentum in the manufacturing sector on a higher number of export orders from overseas and production level. Likewise, according to Semiconductor Industry Association (SIA), global semiconductor sales growth continued to increase steadily from 16.5% yoy in February to 18.1% in March, the highest level since October 2010, with all major countries recording double-digit growth during the month.

In 2017, we expect the country's trade surplus to remain substantial at around RM85bn, slightly lower than RM87.3bn in 2016. Malaysia's exports of commodity products, especially palm oil and LNG, should also benefit from demand from China and Japan in the months ahead. As a result, based on GDP by expenditure component, we expect exports of goods and services to improve and expand by 2% in 2017 (0.1% in 2016), and imports of goods and services to expand by 1.9% in 2017 (0.4% in 2016).

Focus Charts

Chart 1: Quarterly trade growth

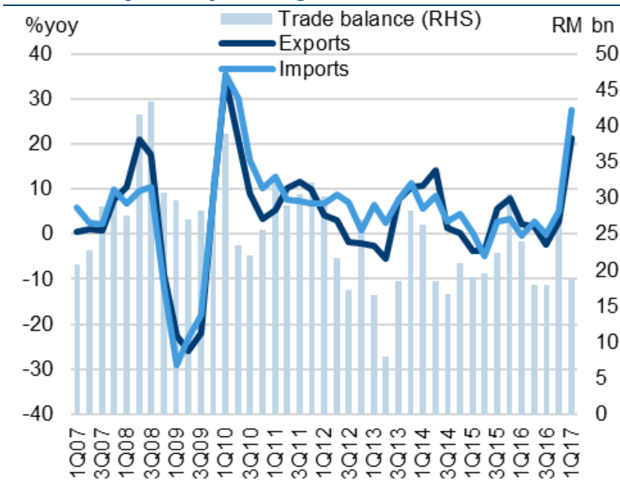


Chart 2: Imports by main components

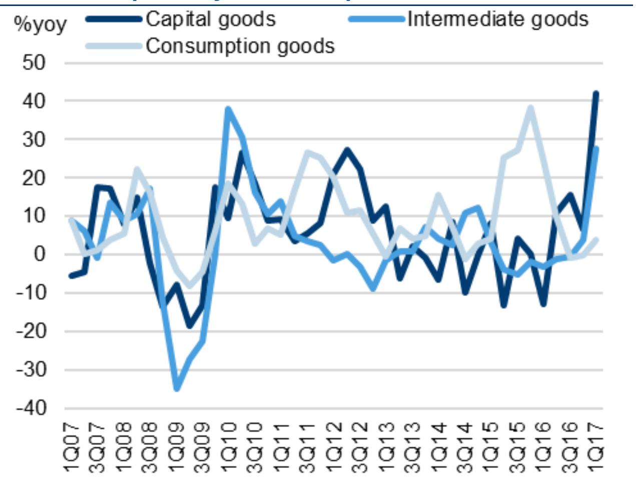


Chart 3: Main exports of mining goods

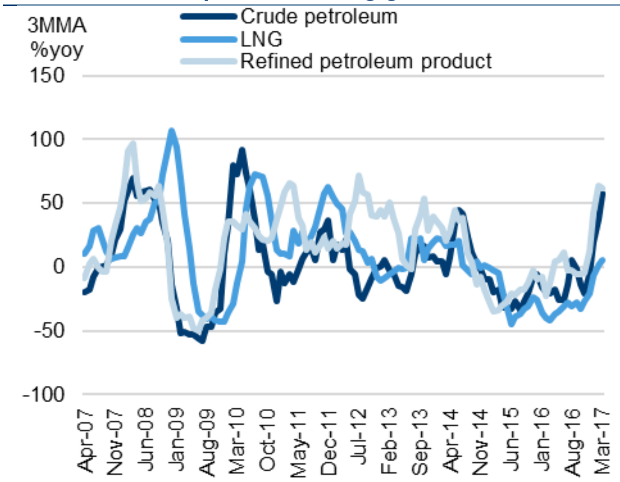


Chart 4: E&E exports vs manufacturing PMI

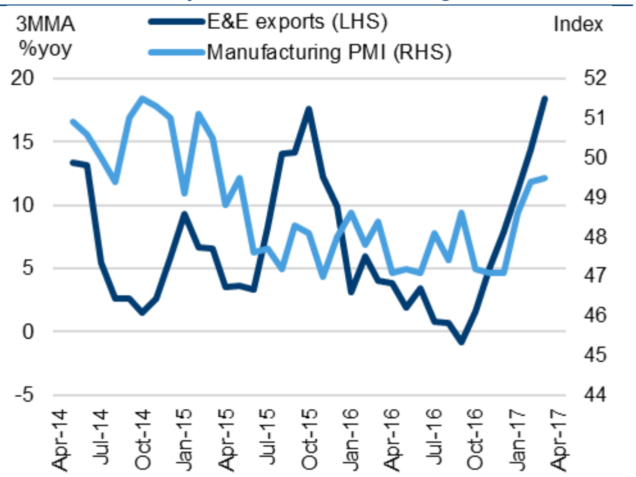


Chart 5: Exports by countries

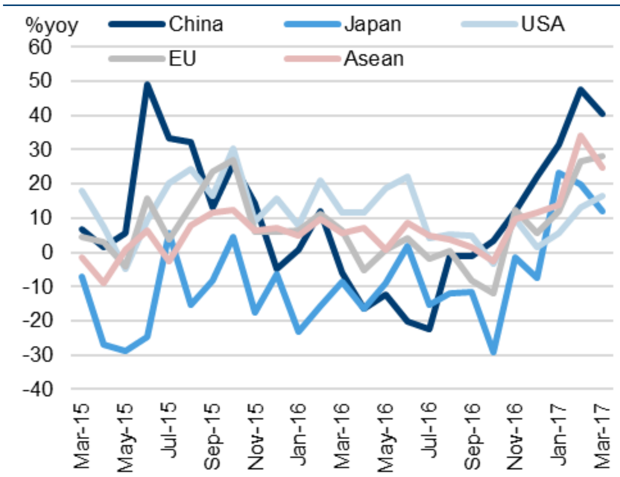
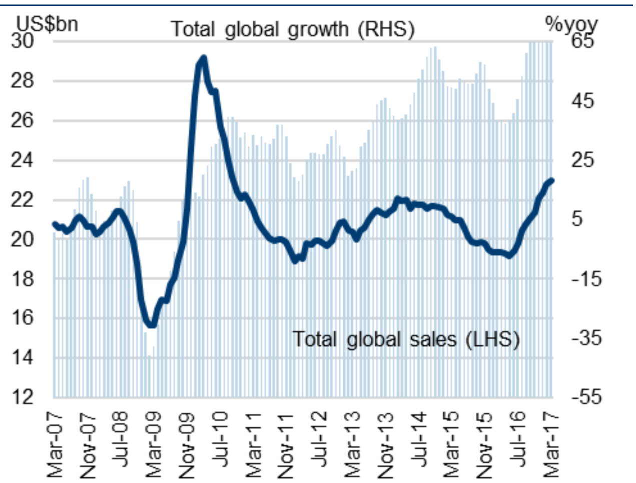


Chart 6: Global semiconductor sales



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

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