Exports slowed to 10% yoy in June

Economic Update

Malaysia-Trade

Slower growth of E&E exports partly affected by seasonal factor

Growth in gross exports slowed sharply from 32.5% yoy in May to 10% in June, but sustaining double-digit yoy growth since December 2016. This was significantly lower than market expectations of 18%, attributed partly to slower increases in both exports of electrical and electronic (E&E) products and other non-commodity products. We believe the sharp slowdown in exports was attributed partly to seasonality due to the Eid al-fitr festival in late June 2017.

Exports of E&E products, which account for 38.3% of total exports, although slowing down from 31.4% yoy in May to 15.1% in June, remained supported by healthy demand for semiconductors from advanced economies. This was also reflected in the latest statistics on global semiconductor sales, which rose by 23.7% yoy to US$32.6bn in June, where the Semiconductor Industry Association (SIA) also noted that "*conditions are favourable for continued market growth in the months ahead*." However, other non-commodity products, such as exports of chemicals and chemical products, slowed sharply from 21% yoy in May to 4.5% in June, reflecting slower demand from US.

Among the commodity groups, exports of liquefied natural gas (LNG) rose sharply by 97.3% yoy in June, higher than 3.8% in May, due to a sharp rebound in demand from countries such as Japan, Korea and China. However, other commodity products such as crude petroleum and refined petroleum products registered declines during the month.

Fig 1: Major export products (June 2017)

	Share of total (%)	% yoy				% mom			
		Mar-17	Apr-17	May-17	Jun-17	Mar-17	Apr-17	May-17	Jun-17
Electrical/Electronic Products	38.3	21.3	22.3	31.4	15.1	18.9	-10.3	8.8	-2.2
Crude Petroleum	2.6	74.1	65.7	56.8	-1.0	29.1	-22.8	-9.7	-10.9
Chemicals/Chemical products	7.1	20.6	18.0	21.0	4.5	3.7	-10.4	4.5	-10.0
Liquefied Natural Gas	5.4	11.5	50.2	3.8	97.3	4.0	-4.8	-40.2	104.8
Palm Oil/Palm-Based Agri products	5.8	22.9	20.8	27.5	16.0	-7.5	-4.9	13.6	-11.0
Refined petroleum products	6.4	52.6	5.0	88.6	-9.5	25.4	-16.6	45.3	-41.1
Machinery/Appliances	4.5	7.8	-4.5	15.5	0.1	18.9	-13.5	12.1	-12.0
Optical/Scientific equipment	3.1	15.3	10.5	14.7	-7.0	22.5	-10.3	-1.8	-13.0
Manufactures of metal	3.8	-6.1	17.3	12.9	-13.3	17.5	2.7	-8.6	-7.3
Exports	**100.0**	**24.1**	**20.4**	**32.5**	**10.0**	**15.1**	**-10.6**	**7.5**	**-8.0**

Source: Department of Statistics (DoS), MITI

As for the other agriculture sector, exports of palm oil & palm oil based agriculture products, which contributed about 6% of total exports, slowed from 27.5% yoy in May to 16% in June, albeit slower but still posted double-digit growth for the eight consecutive month. Slower demand for palm oil products from China was offset by higher demand from Japan, US and EU countries during the month.

Lower demand from all major economies, except Japan

By destination, exports to Japan turned around strongly and continued to increase from 12.8% yoy in May to 24.3% in June, mainly on higher demand for LNG and other products such as E&E, iron and steel products as well as palm oil and palm oil-based agriculture product. However, exports to other major economies, including the EU as well as the US, trended lower in July, by 10% and 1.8% yoy respectively during the month. Similarly, exports to Asean countries slowed significantly by 1.9% yoy in June (33.7% in May) as demand from Singapore, Indonesia, Philippines and Thailand trended lower.

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Likewise, exports to China, Malaysia's largest trading partners, slowed from 51.5% yoy in May to 27.3% in June, trended lower for the first time in three months, attributed to lower exports of E&E products and other non-commodity products. Going into 2H2017, we believe the strength of China's economy will remain a major factor driving Malaysia's exports, which will likely be reflected in demand for palm oil and other commodity products. However, the seasonally adjusted Caixin China PMI remained healthy, rising higher to 51.1 in July, against 50.4 in June.

Fig 2: Major export markets (June 2017)

	Share of total (%)	% yoy				% mom			
		Mar-17	Apr-17	May-17	Jun-17	Mar-17	Apr-17	May-17	Jun-17
US	9.8	16.5	11.0	16.3	1.8	18.1	-7.1	0.8	-3.5
EU	9.9	28.1	26.5	29.7	10.0	12.7	-13.2	7.1	-9.4
Japan	8.3	12.0	44.7	12.8	24.3	2.9	-7.7	-24.7	26.9
China	13.4	40.3	50.6	51.5	27.3	14.5	-7.3	5.6	-8.8
ASEAN	27.9	24.8	14.4	33.7	1.9	11.0	-12.1	14.6	-15.5
Exports	**100.0**	**24.1**	**20.4**	**32.5**	**10.0**	**15.1**	**-10.6**	**7.5**	**-8.0**

Source: DOS

Imports slowed sharply by 3.7% yoy on falling consumption goods

Growth in gross imports slowed sharply from 30.4% yoy in May to 3.7% in June, attributed mainly to decline in imports of consumption goods, from 8.3% to -5.2% during the same period. Similarly, imports of intermediate and capital goods, which collectively accounts for about 73% of total imports, slowed by 10.3% yoy and 0.6% respectively, during the month. As a result, with the sharp slowdown in imports, trade balance widened to RM9.9bn in June (RM5.5bn in May).

For 2Q16, trade surplus amounted to RM24.1bn (RM18.9bn in 1Q17), with export rising by 20.6% yoy and import by 19.1% during the same quarter. We believe contribution of net exports to Malaysia's GDP growth is likely to be slightly higher for 2Q17, providing some support for some slowdown in domestic demand.

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

	Share of total (%)	% yoy				% mom			
		Mar-17	Apr-17	May-17	Jun-17	Mar-17	Apr-17	May-17	Jun-17
Intermediate goods	60.5	36.3	29.2	33.8	10.3	11.9	-10.9	10.2	-9.6
Capital goods	13.0	82.4	14.8	6.6	0.6	85.5	-40.9	23.6	-16.8
Consumption goods	8.9	14.1	1.1	8.3	-5.2	33.3	-7.0	17.6	-15.6
Imports	**100.0**	**39.4**	**24.7**	**30.4**	**3.7**	**22.5**	**-15.6**	**13.3**	**-14.5**

Source: DOS

On a cumulative basis, the country's trade surplus widened to RM42.9bn in Jan-June 2017, as compared to RM41.8bn in the corresponding period of 2016. We are maintaining our trade surplus forecast to narrow to around RM85bn in 2017, slightly lower than the RM87.3bn surplus in 2016. Based on GDP by expenditure component, we expect exports of goods and services to expand by 7% in 2017 (1.1% in 2016), and imports of goods and services to expand by 9.1% in 2017 (1.1% in 2016).

On the external environment, with the global manufacturing PMI improving further from 52.6 in June to 52.7 in July, it may suggest that manufacturers will remain positive on new orders and international trade, supported by favourable global economic conditions. In 2H17, we believe Malaysia's economic growth will still be supported by positive contribution of net exports as well as steady domestic demand (higher tourist arrivals in 2H17 due to the 2017 SEA Games), where we are maintaining the country's real GDP growth forecast at 5.2% for 2017 as a whole (4.2% in 2016).

Focus Charts

Outthink. Outperform.

Chart 1: Trade growth

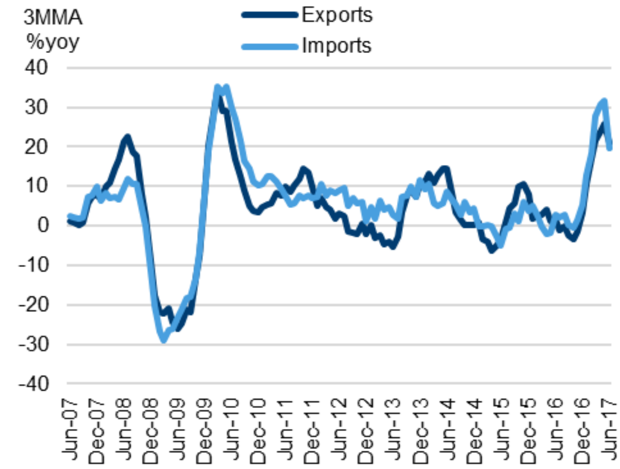


Chart 2: Export commodity and total comparison

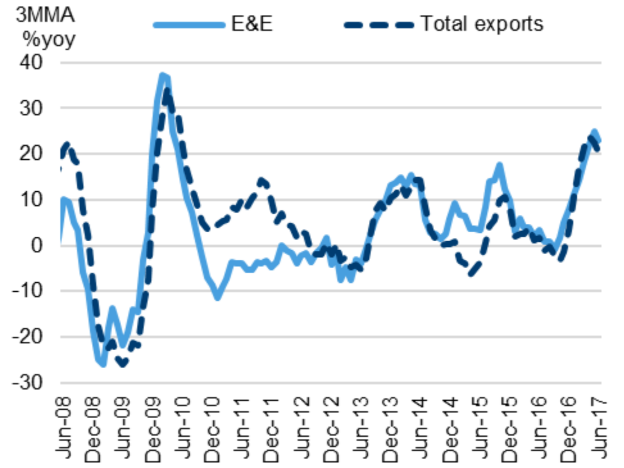


Chart 3: Export commodity comparison

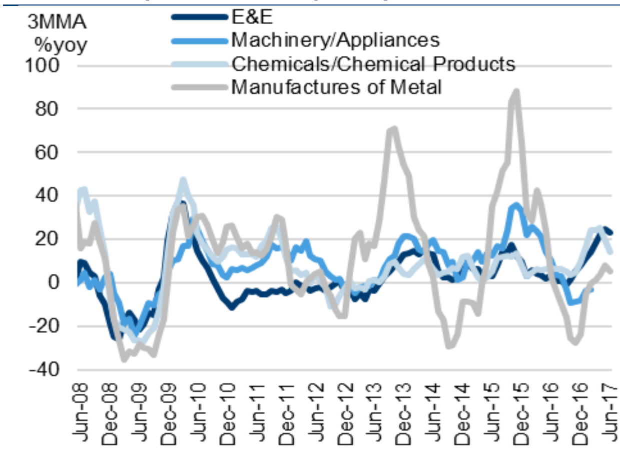


Chart 4: Share of Exports

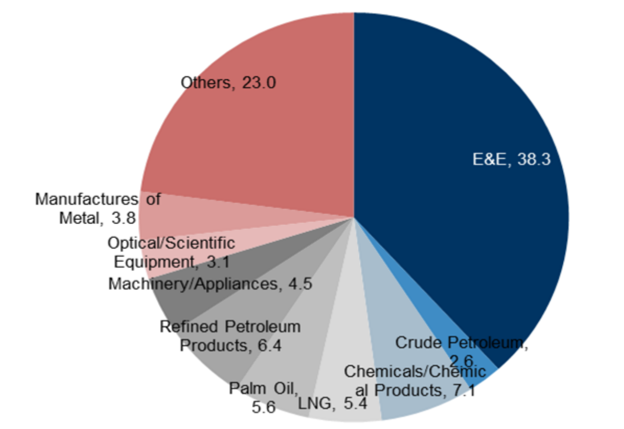


Chart 5: Export commodity comparison (2)

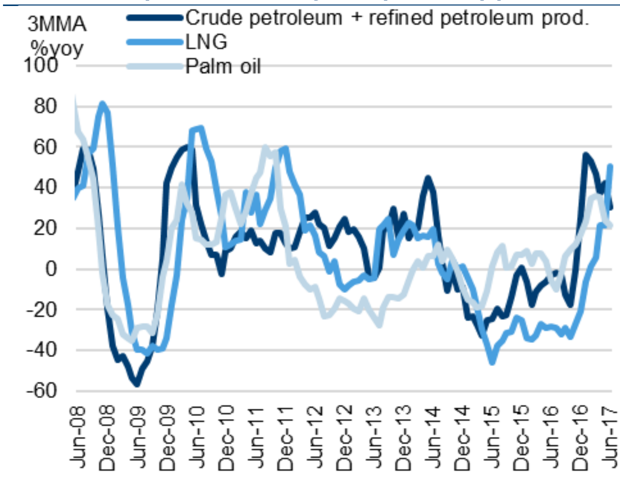
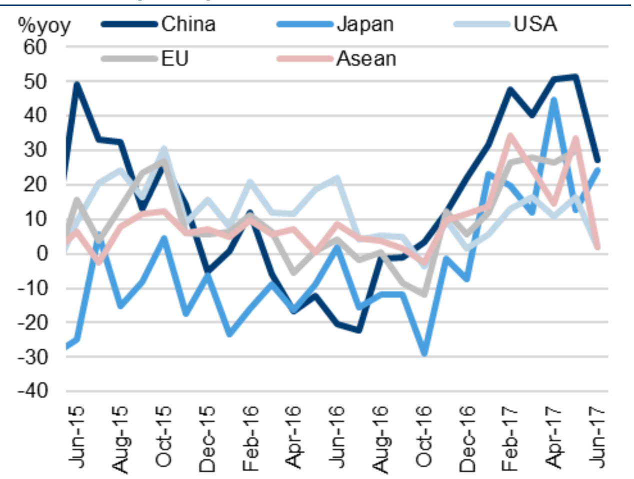


Chart 6: Export by countries



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

Equity Rating Structure and Definitions

Out**think.** Out**perform.**

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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