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Exports gained its momentum, grew by 8.8% in June

Facts

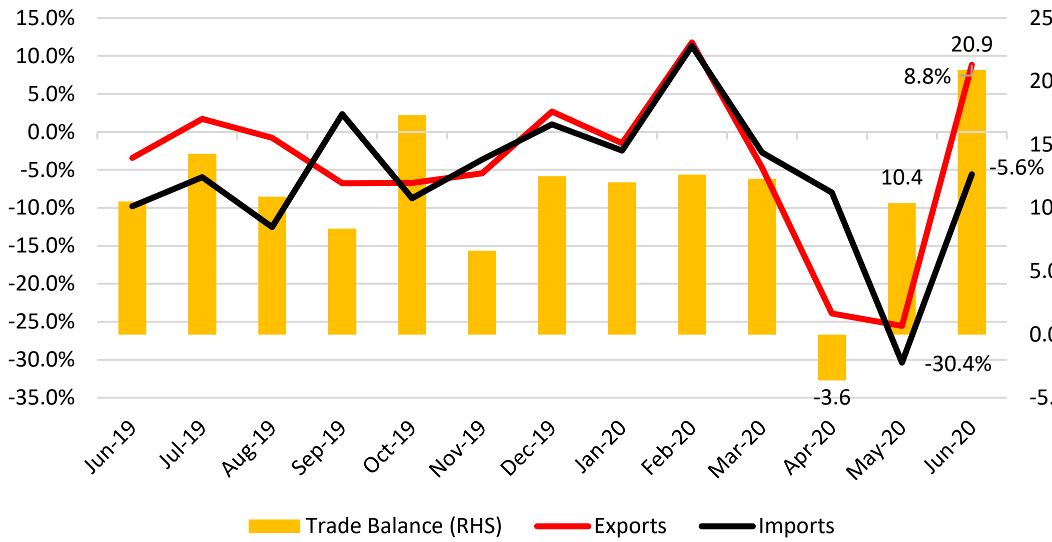
- ✓ Malaysia's exports rose by 8.8% year-on-year (y-o-y) in June, reversing its negative growth of -25.5% in the preceding month (Consensus: -10.0%, Bank Islam: -8.5%). Anchoring the growth were Agriculture and Manufacturing sectors which rebounded by 30.0% and 13.7% in June from -21.3% and -23.5% recorded in May. These formed sizeable share of 95.1% of total exports volume.
- ✓ Within the Agriculture sector, exports for Palm Oil & Palm-Based Products Seafood increased by 45.4% in June from -15.6% in May. Likewise exports for Seafood, Fresh, Chilled or Frozen and Sawlog increased significantly by 33.5% and 16.9% in June from 5.8% and -84.2% in May. On a similar note, within the Manufacturing components, shipment for Wood Products (June: 36.1% vs. May: -31.6%), Optical & Scientific Equipment (June: 35.6% vs. May: -11.3%), Machinery, Equipment & Parts (June: 29.4% vs. May: -29.6%), Electrical & Electronic (E&E) Products (June: 15.9% vs. May: -19.9%) and Rubber Products (June: 101.0% vs. May: 20.5%) skyrocketed during June, boosting the overall exports performance.
- ✓ Turning to the Mining sector, it remained in the negative territory at -45.6% in June from -49.1% in May. This was mainly weighed by decline in exports for Crude Petroleum and Liquefied Natural Gas which nosedived by 70.9% (May: -69.0%) and 24.5% (May: -30.7%) in June.
- ✓ On a different note, imports have registered slower contraction at -5.6% in June as compared to -30.4% in May. This was largely underpinned by imports of Intermediate Goods which fell by -10.8% (May: -27.8%) in June while imports of Capital and Consumption Goods edged up by 2.8% (May: -27.8%) and 9.0% (May: -21.9%). As such, the trade surplus widened to RM20.9 billion in June from RM10.4 billion in May.
- ✓ Exports by destination showed that overseas shipment to Switzerland, Saudi Arabia, China, Hong Kong and the US grew significantly at 130.1% (May: -37.7%), 60.1% (May: -7.8%), 46.8% (May: 4.5), 31.0% (May: -23.5%) and 27.6% (May: -9.3%) during June as lockdown measures were eased across the map.
- ✓ Total exports fell significantly by 14.3% during the 2Q2020 from a marginal growth of 1.1% in the preceding quarter. Similarly, total imports declined 15.1% during the June quarter from 1.3% growth in the 1Q2020. Consequently, the trade surplus balance narrowed to RM27.6 billion in the 2Q2020 from RM37.0 billion in the preceding quarter. Trade surplus balance also fell by 9.1% compared to the same period last year.
- ✓ Cumulatively, total exports plummeted by -6.8% during 1H2020 from -0.7% in the same period last year. Similarly, total imports slumped by 7.2% in 1H2020 from -2.0% in 1H2019. Consequently, the trade surplus balance narrowed to RM64.6 billion in 1H2020 from RM67.4 billion in 1H2019.

Table 1: External Trade (y-o-y %)

Sector and Sub-Sector	Value RM Million (FOB)					Value RM Million (FOB)		
	June 2019	May 2020	June 2020	Share (%)	Y-o-y%	1H2019	1H2020	Share (%)
Exports	76,143	62,650	82,867	100.0	8.8	481,499	448,987	100.0
Imports	65,631	52,263	61,975	100.0	(5.6)	414,147	384,376	100.0
Trade Balance	10,512	10,387	20,892	100.0	101.1	67,352	64,612	100.0
Export by Sector								
Manufacturing	63,763	54,208	72,483.6	87.5	13.7	403,962	383,838.7	85.5
Electrical & Electronic (E&E) Products	28,082	23,502	32,553	44.9	15.9	181,875	166,373	43.3
Petroleum Products	6,081	3,941	4,497	6.2	(26.0)	35,200	33,210	8.7
Chemical & Chemical Products	4,573	3,684	4,305	5.9	(5.9)	28,322	25,215	6.6
Machinery, Equipment & Parts	3,237	2,676	4,188	5.8	29.4	20,306	18,449	4.8
Optical & Scientific Equipment	2,793	2,684	3,787	5.2	35.6	17,916	18,193	4.7
Manufacture Of Metal	3,366	2,627	3,681	5.1	9.4	20,482	16,847	4.4
Rubber Products	1,774	2,705	3,567	4.9	101.0	12,472	15,608	4.1
Iron & Steel Products	1,530	1,676	1,893	2.6	23.7	9,014	11,595	3.0
Palm Oil-Based Manufactured Products	1,812	1,608	1,782	2.5	(1.6)	10,711	10,459	2.7
Transport Equipment	1,255	790	1,290	1.8	2.8	8,453	10,207	2.7
Processed Food	1,618	1,533	1,828	2.5	13.0	10,151	10,005	2.6
Wood Products	1,019	916	1,387	1.9	36.1	7,318	6,845	1.8
Manufacture Of Plastics	1,181	996	1,195	1.6	1.2	7,214	6,429	1.7
Textiles, Apparels & Footwear	1,212	824	1,098	1.5	(9.4)	7,646	6,270	1.6
Non-Metallic Mineral Products	673	449	624	0.9	(7.2)	3,979	3,781	1.0
Paper & Pulp Products	476	489	605	0.8	26.9	2,875	3,187	0.8
Jewellery	546	94	128	0.2	(76.5)	3,632	1,713	0.4
Beverages & Tobacco	253	163	203	0.3	(19.5)	1,752	1,214	0.3
Other Manufactures	2,282	2,851	3,873	5.3	69.7	14,643	18,239	4.8
Agriculture	4,822	4,936	6,271	7.6	30.0	32,139	31,692	7.1
Palm Oil & Palm-Based Products	3,220	3,605	4,682	74.7	45.4	21,294	22,567	71.2
Natural Rubber	344	196	213	3.4	(37.9)	1,845	1,514	4.8
Sawn Timber & Moulding	271	164	273	4.4	0.6	2,160	1,391	4.4
Other Vegetables Oil	205	246	219	3.5	7.0	1,457	1,296	4.1
Seafood, Fresh, Chilled or Frozen	156	197	209	3.3	33.5	1,040	1,106	3.5
Sawlog	34	16	39	0.6	16.9	408	239	0.8
Other Agriculture	592	512	634	10.1	7.2	3,935	3,578	11.3
Mining	6,962	3,215	3,785	4.6	(45.6)	41,903	31,232	7.0
Liquefied Natural Gas (LNG)	2,886	2,056	2,180	57.6	(24.5)	21,626	17,800	57.0
Crude Petroleum	3,128	770	912	24.1	(70.9)	14,275	9,114	29.2
Metalliferous Ores & Metal Scrap	564	136	447	11.8	(20.8)	3,244	2,533	8.1
Tin	98	159	122	3.2	25.0	999	687	2.2
Crude Fertilizers &Crude Minerals	96	57	86	2.3	(10.8)	553	573	1.8
Condensates & Other Petroleum Oil	189	36	36	0.9	(81.1)	1,201	515	1.6
Other Mining	0	1	2	0.0	411.5	5	10	0.0
Others	596	290	328	0.4	(45.0)	3,495	2,225	0.5
Import by End-Use								
Capital Goods	7,129	6,657	7,326	11.8	2.8	49,121	46,406	12.1
Consumption Goods	5,581	5,181	6,081	9.8	9.0	35,805	34,862	9.1
Intermediate Goods	38,195	30,797	34,086	55.0	(10.8)	228,929	209,225	54.4

Sources: DOSM

Chart 1: Exports (y-o-y %), Imports (y-o-y %) & Trade Balance (RM billion)



Sources: CEIC, Bank Islam

Our View

Malaysia's external trade performance has been improving despite other jurisdictions are struggling to export their products amid Covid-19 pandemic and movement restrictions. Countries like Japan, India, Thailand and South Korea continued to record double-digit negative growth in June as coronavirus has severely affected demand conditions and halted business activities. This indicates that Malaysia's international trade activities have bottomed out from the series of contraction previously as the government has lifted up the economy by introducing Recovery Movement Control Order (RMCO) since 10 June 2020. In a similar move, Singapore Non-Oil Domestic export (NODX) which account for about 82.8% of total export jumped to 16.1% y-o-y in June from a 4.6% contraction previously. The easing Circuit Breaker (CB) measures in early July has supported the nation economic activities and factory production during June.

Table 2: Export (y-o-y %)

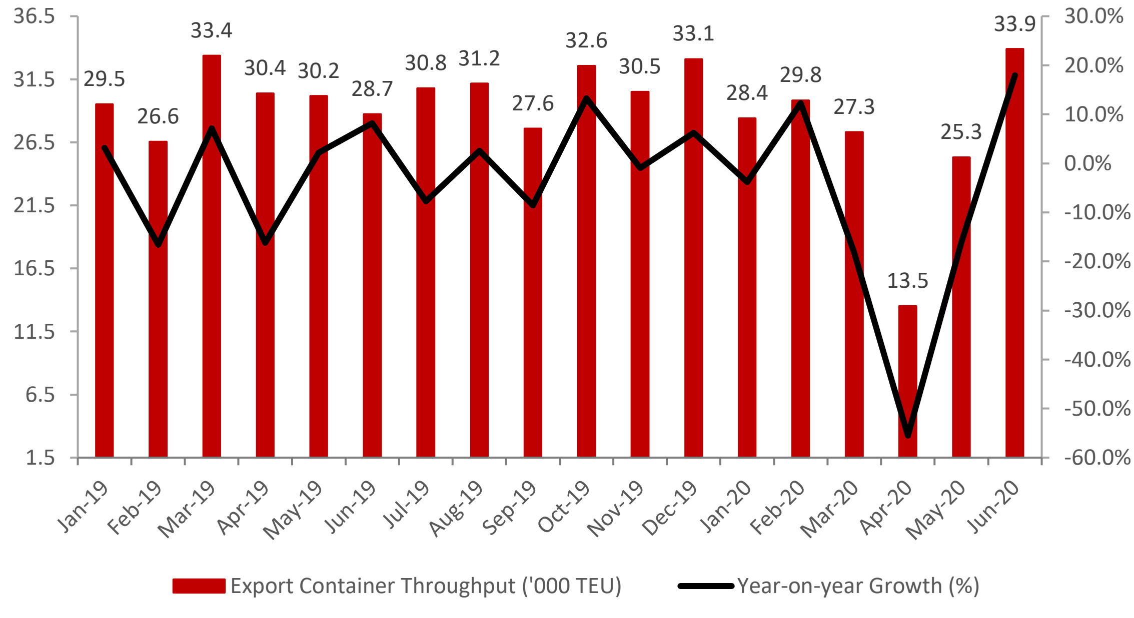
Exports	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
US	-3.7	-1.7	0.7	-1.3	-0.4	-9.0	-29.4	-34.9	n/a
China	2.1	1.1	9.0	n/a	n/a	-3.5	8.2	1.4	4.3
Japan	-9.2	-7.9	-6.3	-2.6	-1.0	-11.7	-21.9	-28.3	-26.2
Singapore	-12.5	-5.9	-9.2	-3.3	3.1	16.6	9.7	-4.6	16.1
India	-1.1	-0.3	-1.8	-1.7	2.9	-34.6	-60.3	-36.5	-12.4
Indonesia	-6.1	-6.1	1.1	-2.1	12.0	-0.4	-7.2	-29.5	2.3
Thailand	-4.6	-7.4	-1.2	3.4	-4.5	4.2	2.1	-22.5	-23.2
South Korea	-14.9	-14.4	-5.3	-6.3	3.8	-1.4	-25.5	-23.7	-10.9
Taiwan	-1.5	3.2	3.9	-7.6	24.9	-0.7	-1.3	-2.0	-3.8
Malaysia	-6.7	-5.5	2.7	-1.5	11.8	-4.7	-23.9	-25.5	8.8

Sources: CEIC, Bloomberg

On further scrutiny, manufacturing sector has also showed an encouraging sign of recovery in June. This was reflected by the IHS Markit Malaysia Manufacturing Purchasing Manager's Index (PMI) which rebounded to 51.0 points in June from 45.6 points in the previous month. According to the survey, output grew at a fastest rate as businesses have resumed operations and demand conditions have started to stabilize during June, suggesting better prospects for manufacturing industry in the next few months.

In relation to port operators such as MMC Corporation Berhad's Port of Tanjung Pelepas (PTP) that rely heavily on trade activities, its export container throughput for June 2020 jumped by 18.0% year-on-year (y-o-y) to 33,900 twenty-foot equivalent units (TEUs) from 30,800 TEUs in the previous year. As such, this pushed PTP's total gateway (export plus import) container throughput by 17.2% y-o-y in the same month to 52,400 TEUs in June 2020 from 44,7000 TEUs a year ago. Recall that exports container throughput at PTP plunged -55.5% y-o-y in April 2020 amid impact of the earlier phase of the Movement Control Order (MCO) and lockdowns in other parts of the world which led to container shipping companies increasing the amount of blank sailings during that month. Therefore, the rebound in gateway container throughput at PTP in June is in line with the signs of recovery reflected by economic data such as PMI mentioned above. With the worst likely over, we opine that port operators are poised to ride on the gradual recovery in global trade in the long run. Even in the wake of the re-escalation of US-China relations, ports in Malaysia have demonstrated resilience. For instance, Port Klang's Westports recorded a record high container throughput of 10.9 million TEUs in 2019 despite the series of trade tariffs imposed between the US and China.

Chart 2: Port of Tanjung Pelepas Monthly Export Container Throughput ('000 TEUs)



Source: Johor Port Authority

As for Malaysia's equity market, the share prices of port operators such as MMC Corporation Berhad and Westports Holding Berhad inched higher by 1.1% and 3.5% respectively on 28 July 2020. Investors have taken the cue that Malaysia's improving trade statistics will bode well for port operators in the second half of 2020. Meanwhile on a sectoral basis, the Bursa Malaysia Transportation Index which consists of logistics companies including port operators was up slightly by 0.2% on the same day.

Notwithstanding this, the 0.9% gain in the FBM KLCI to close above 1,600 points on Tuesday was driven primarily by Top Glove which rose 2.0% to a fresh record high of RM26.40 per share on Tuesday. Recall that only MISC Berhad is the only transportation related company among the 30 constituents of the FBM KLCI index. What drove the price of glove players such as Top Glove is that rubber products were the largest contributor to the expansion in June's exports value. In addition to the development progress of a Covid-19 vaccine, the market will look closely at the status of the latest US-China spat after China ordered the US to shut its Chengdu Consulate in retaliation for the US ordering the closure of China's consulate in Houston last week.

All in all, we envisage that the international trade activities would regain its momentum particularly in 2H2020 as more countries have reopened their economies starting in May. However, escalating tension between the US and China, as well as the rising concern over the resurgence of Covid-19 infections may further dampen the global demand and supply recovery moving forward. As such, we **maintained our exports forecast between -7.0% and -9.0% for this year (2019: -1.7%).**

As for the 2Q2020 GDP, we believe that it is on track to record our estimates of 7% contraction (1Q2020: 0.7%). To some degree, there could be a chance that the final outcome would beat our estimates. This was premised on the nominal trade surplus balance or the net exports which came in at RM27.6 billion during the 2Q2020. At this level, the extent of contraction was merely 9.1%. In real terms, it should be 20% contraction which is far lower from our estimates of 80% decline. However, the Covid-19 pandemic shocks are expected to have material impact to the consumer spending trend. Firms were also scaling back their investment. Therefore, the economy should hit the trough during the June quarter.