

Macro Note

Malaysia: April Exports Fell 23.8%, First Trade Deficit Since 1997

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- Exports recorded a double-digit drop of 23.8% y/y in April (Mar: -4.7%) which came in weaker-than-market estimates (-12.8%) and ours (-18.5%). Imports fell 8.0% y/y (Mar: -2.7%). This pulled the monthly trade balance into deficit of MYR 3.5bn in April (Mar: +MYR 12.31bn), marking the first monthly trade deficit since 1997. Year-to-date exports fell 5.5% y/y in Jan-Apr.
- April's export drop were seen across manufactured (-23.4% y/y), agriculture (-13.8% y/y), and mining (-31.6% y/y). There were notable declines in electrical and electronics, petroleum products, chemicals, and LNG. However, exports of some products such as iron and steel, rubber gloves and transport equipment rose. Export shipments to all key trade partners contracted except China.
- A gradual reopening of major and regional economies alongside restart of most Malaysian business sectors since May provides hope of a modest rebound in trade activity over the coming months. Malaysia's manufacturing purchasing managers' index (PMI) showed signs of stabilisation in May though the sector continues to contract. As restrictions under the Movement Control Order (MCO) are gradually lifted, we expect demand and supply conditions to resume. For now, we maintain our estimate for exports to decline 10% in 2020 (2019: -1.7%).

April Exports Decline Most Since 2009

Gross exports fell into deeper contraction of 23.8% y/y in April (Mar: -4.7% y/y) which was in the second month of the Movement Control Order (MCO). The decline was much larger than market estimate (-12.8%) and ours (-18.5%). Export volumes fell 23.3% y/y against the fall in export unit values by 0.6% y/y.

April's export drop cut across manufactured (-23.4% y/y), agriculture (-13.8% y/y), and mining (-31.6% y/y). There were notable declines in electrical and electronics (-21.7%), petroleum products (-23.2%), chemical and chemical products (-18.2%), and LNG (-20.5%). However, exports of some products such as iron and steel (+21.5% y/y), rubber products (+11.7% y/y), and transport equipment (+21.8% y/y) rose.

Export shipments to all key trade partners contracted except for China (19% of total exports) which saw a 4.2% y/y and 10.2% m/m growth in April. The improved shipments to China were due to demand for iron and steel products, other manufactures (SSD), electrical and electronics, and crude petroleum. Meanwhile exports to the USA (8% of total exports) fell 31.1% y/y which was dragged lower by electrical and electronic products as well as optical and scientific equipment. However, there were higher exports of commodity-based products including rubber products and palm-oil based products to USA in April.

First Monthly Trade Deficit Since 1997

Gross imports fell by 8% in April (Mar: -2.7% y/y) on account of 5.2% y/y drop in import volumes and 2.9% decline in import unit values. The overall drop in imports was mainly due to steeper drop in intermediate imports of 30.6% y/y (Mar: +2.2% y/y) and consumer imports of 12% (Mar: +7.0% y/y). Meanwhile imports of capital goods jumped 68.9% y/y (Mar: -48.1% y/y) following six months of declines amid higher equipment orders particularly floating structures.

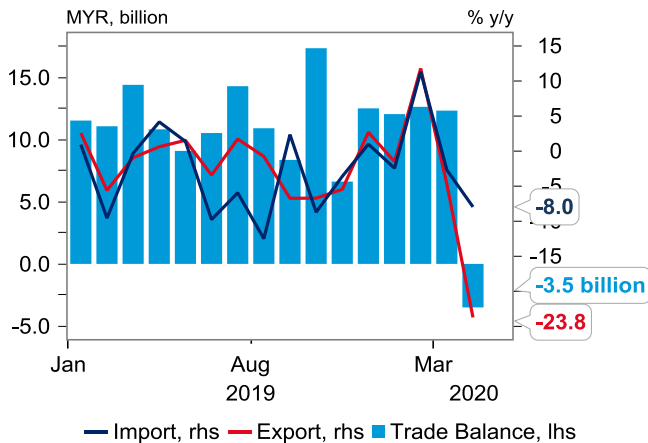
The steeper drop in exports relative to imports resulted in a trade deficit of MYR 3.5bn in April (Mar: +MYR 12.31bn), marking the first monthly trade deficit since 1997. The April trade deficit is expected to be temporary partly weighed by a spike in lumpy capital imports that should recede in coming months (see figure below).

May Manufacturing PMI Rebounds Hints Of Some Recovery

The latest IHS Markit's manufacturing PMI for Malaysia showed the index rising to 45.6 in May following a record low of 31.3 in April, which marks a trough in manufacturing activity. The manufacturing sector has come under intense pressure as countries globally enforced restrictions and lockdowns to contain the spread of the COVID-19 pandemic. Export demand is expected to remain weak in May. However, a gradual reopening of major and regional economies alongside restart of most Malaysian business sectors since May provides hope of a modest improvement in trade activity over the coming months. Commodity prices have also stabilised with Brent crude oil prices nearing its 3-month high of US\$ 39/ bbl and crude palm oil prices rising above MYR 2,400/ tonne. As restrictions under the Movement Control Order (MCO) are gradually lifted, we expect demand and supply conditions to resume. For now, we maintain our estimate for exports to decline 10% in 2020 (2019: -1.7%).

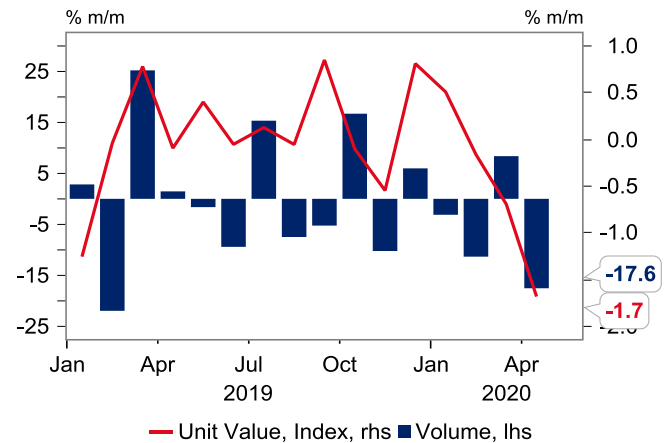
Exports And Imports Slump With Trade Deficit In Apr

Source: Macrobond, UOB Global Economics & Markets Research



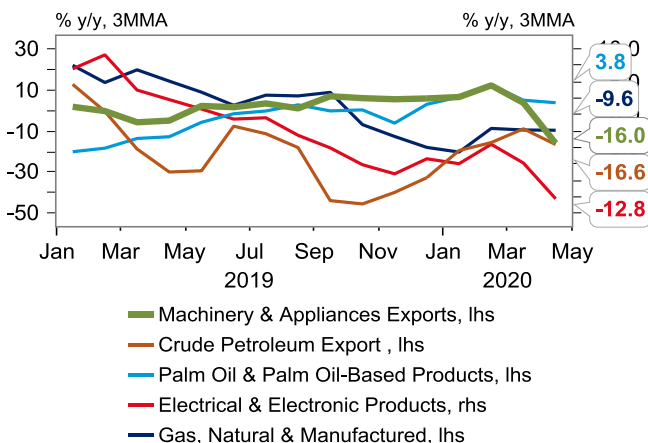
Exports By Volume And Prices

Source: Macrobond, UOB Global Economics & Markets Research



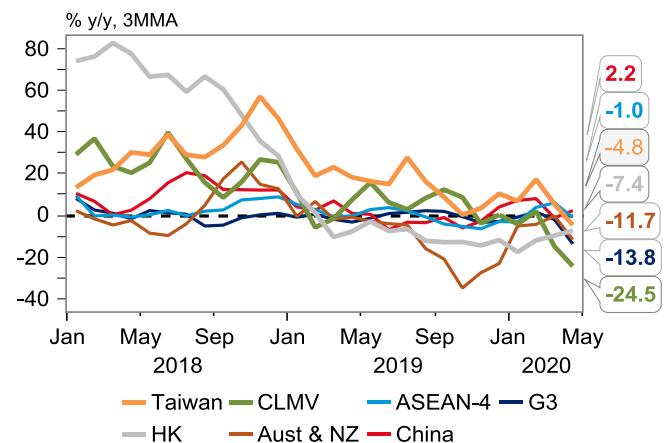
Exports By Product Category

Source: Macrobond, UOB Global Economics & Markets Research



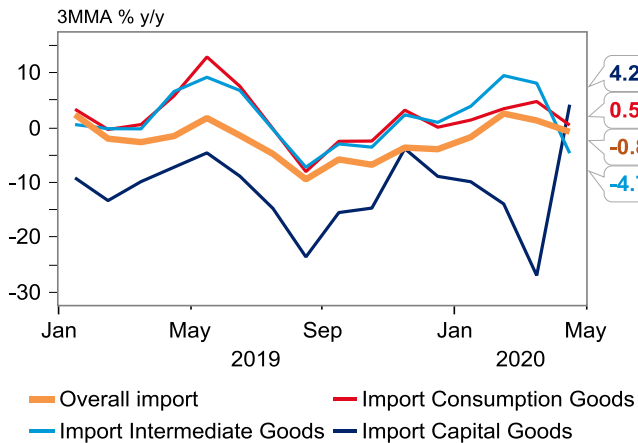
Malaysia Exports By Country

Source: Macrobond, UOB Global Economics & Markets Research



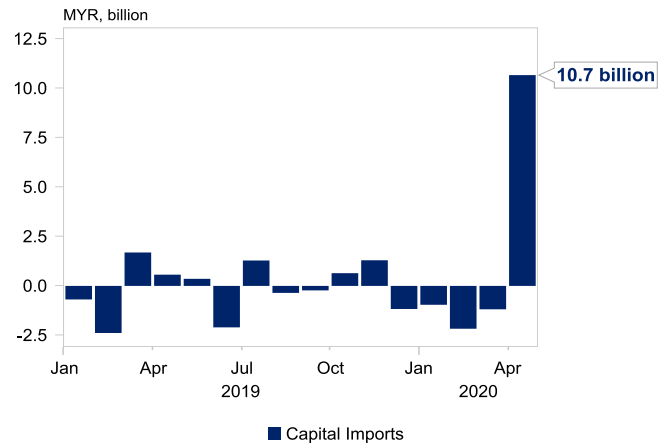
Breakdown Of Imports

Source: Macrobond, UOB Global Economics & Markets Research



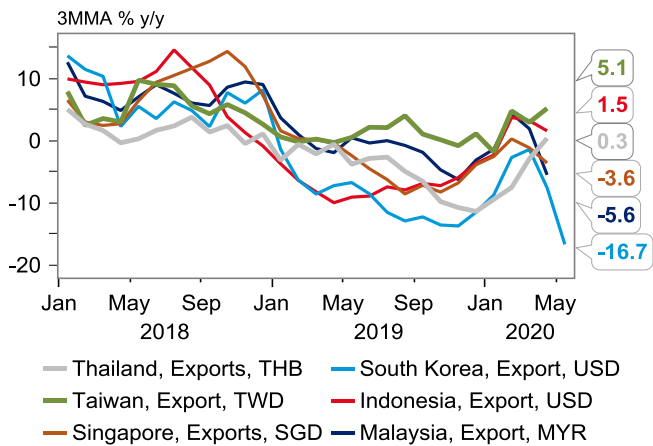
Spike In Lumpy Capital Imports In April

Source: Macrobond, UOB Global Economics & Markets Research



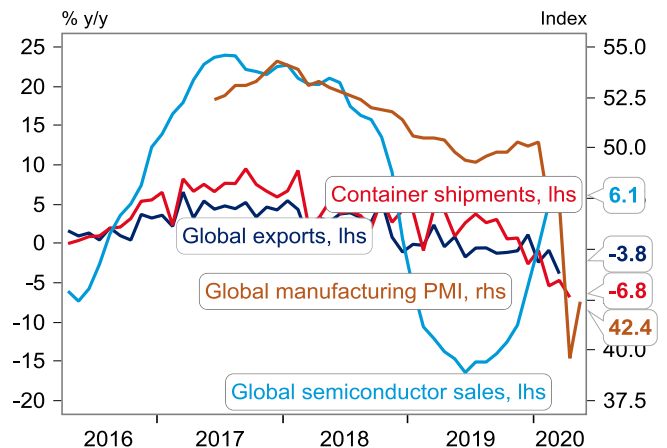
Regional Countries' Export Performance

Source: Macrobond, UOB Global Economics & Markets Research



Some Signs Of Recovery In PMI Albeit Modest

Source: Macrobond, UOB Global Economics & Markets Research



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