OCBC TREASURY RESEARCH

Malaysia

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That's so 2019

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Malaysia's Nov19 exports bore trade war impacts

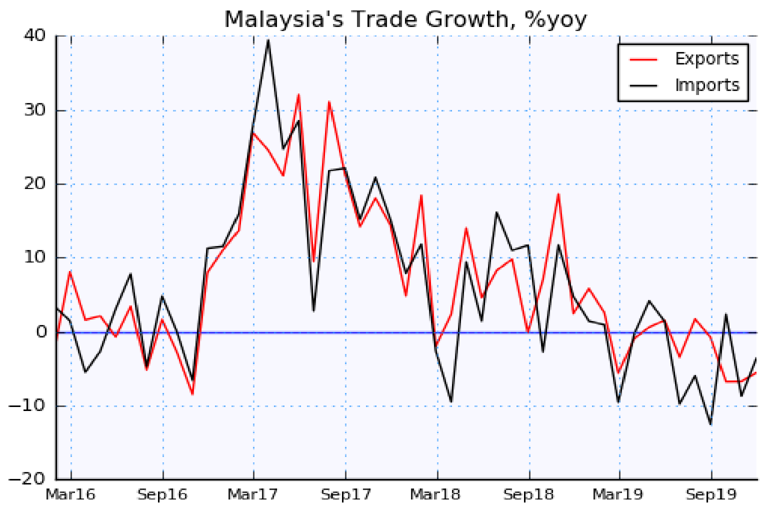
- Malaysia's trade prints fell short of expectations. Market saw year-on-year growth of Nov 2019 exports at flat zero; actual one contracted by 5.5%. Imports shrank by less than anticipated. Hence, trade surplus came thin.
- Shipment of electronics was relatively lacklustre at MYR27.6bn, lowest in at least half a year, bearing imprint of a time when the question of US-China trade negotiation's outcome loomed larger.
- With greater hope now that global trade flows may pick up, however gingerly, we see a shooting chance for exports to grow at an overall rate of 4-5% this year. That should buy BNM a bit more time to assess the situation.

Hope for a better year

As if to remind us at the start of 2020 that life is about give and take, Malaysia's November trade figures surprised on the downside considerably, following an upside beat the month before.

The latest exports print showed that value of shipments contracted by 5.5% yoy, compared to market expectation for a flat growth of 0%. In seasonally adjusted terms, the data showed a sequential contraction of 11.2% through the month of November, compared to an outsized uptick of 13.2% prior.

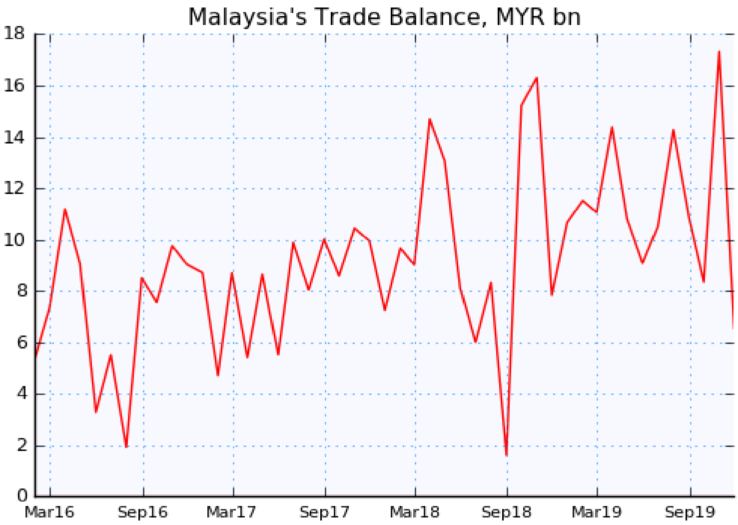
The swing appears to be primary driven by the about-turn in the shipment of electrical and electronic products, which make up more than a third of total exports. It swung from a sequential positive growth of 28.8% in non-seasonally adjusted terms in October, to a contraction of 26.2% in the latest data, swamping the pick-up in exports of petroleum products.



Source: OCBC, Bloomberg.

Meanwhile, imports shrank less than expected. Instead of printing -5.0%yoy growth that market expected, it came in at -3.6%. The sub-readings showed a pick-up in capital goods imports, which came in at MYR9.8bn compared to an average of 8.1bn in the prior three months. If the uptick sustains itself in the coming months, it should bode well for investment activities cycle.

Trade surplus came in at MYR6.4bn, the lowest since September 2018. Again, a 'payback' perhaps for the fact that the prior month's print marked the highest monthly surplus since at least 1990, at 17.3bn.



Source: OCBC, Bloomberg.

Overall, given the relatively backward-looking nature of the November trade figures – reflecting a time when the question of whether there would be an escalation in US-China trade conflicts loomed large – we doubt that Bank Negara will be rushed into concluding that the prospect for Malaysia's exports in 2020 is an irredeemably gloomy one.

Indeed, on our end, as much as our fingers are still crossed, we see the recent détente allowing some recovery in global trade flows, which would be enough to allow exports to grow 4-5% this year in nominal terms, compared to -2% that we are likely to see for full-year 2019.

Hence, as much as we think that BNM may cut up to 50bps this year, the next meeting on January 24th will likely still see a stay on the OPR, as it awaits Q4 GDP data due out on February 14th.

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