# OCBC TREASURY RESEARCH

## Malaysia

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# Back in October


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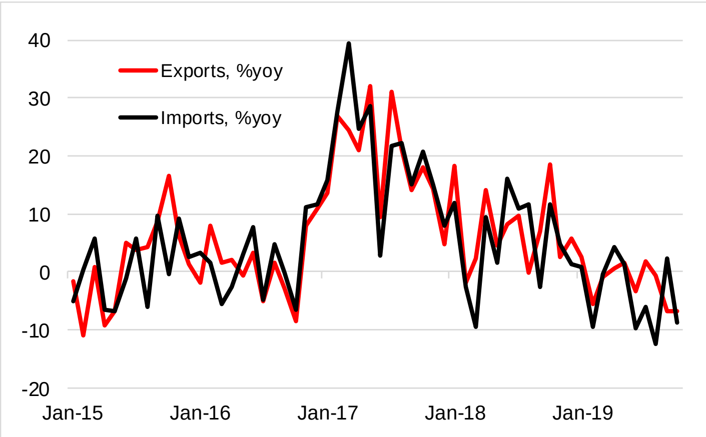
**Malaysia posted encouraging external trade figures**

- Exports print for October came in better than market expected, contracting by 6.7% yoy against consensus expectation of a 12.3% drop.
- With another month of shrinking imports, trade balance was strongly in the black, posting a surplus of MYR17.3bn – the highest print since at least 1990.
- The October data is encouraging to be sure but may be reflecting the mini bounce in global trade sentiment that is looking increasingly threatened now.

### Good to have

With year-end holiday season around the corner, the upside surprise in Malaysia's exports print is to be especially welcomed. While market was pencilling in a drop of as much as 12.3%yoy, the October print came in considerably stronger. Even though it is still on a year-on-year contraction mode, the degree is a lot smaller than expected, at 6.7% drop, in line with the shrinkage of the previous month. In nominal terms, the exports receipts of MYR 90.6bn is also the highest in the past 12 months.

In terms of exports destination, shipments to the key markets of Singapore and US saw year-on-year increase of up to 4%, although those to China decline by 11% yoy. Details on products breakdown are still patchy, and official numbers on the all-important electrical and electronic products are still missing, but we surmise that the strong overall exports would not have been possible without a robust round of shipment of these goods, as well.

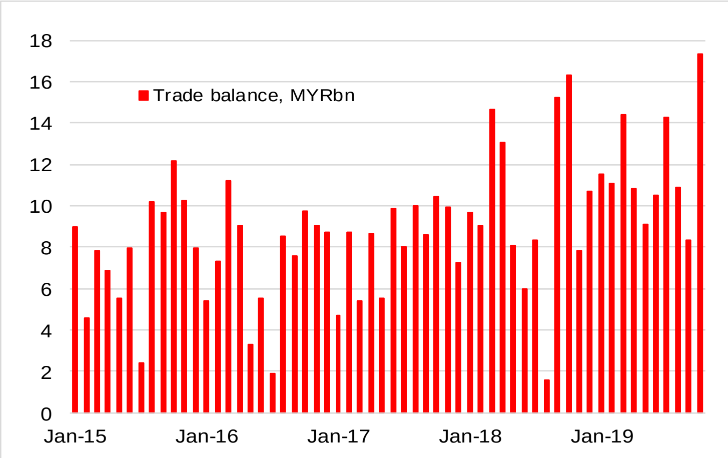



*Source: OCBC, Bloomberg.*

Meanwhile, imports shrank more than expected, at a rate of 8.7% versus 7.0% yoy shrinkage that market had in mind. There was a sequential pullback in imports of intermediate goods to MYR37.5bn in October compared to close to 40bn the month before. Capital goods imports saw a slight uptick to

MYR8.5bn, compared to 7.9bn of September, in a relatively encouraging print in relation to investment activities, which have been rather lacklustre of late.

In terms of net trade balance, Malaysia posted a surplus of MYR17.3bn in October, courtesy of strong exports and weak imports. In nominal terms, that marks the highest monthly surplus since at least 1990.




*Source: OCBC, Bloomberg.*

What does this all mean for Malaysia's growth and policy outlook?

At the broadest level, as much as we are encouraged by the relatively strong exports print, the October data is very much lagging, with Malaysia's external trade data being one of the last in the region to be announced. Hence, it might well be reflecting the mini bounce in global trade sentiment that is no longer as robust.

Recall that October was when Liu He and Donald Trump shook hands in the Oval Office on "Phase 1" deal, with just some minor details that need to be sorted out before an official deal signing in Chile in mid-November. Alas, a few things have happened since then, including the latest suggestion by Trump that there might not be any deal until after the US election in November 2020.

Hence, we are still of the view that there will be relatively little support coming from the exports sector for Malaysia's growth in 2020 and are a lot more comfortable with our 4.2% yoy GDP forecast than the 4.8% that the government is envisioning.

When it comes to Bank Negara, what the latest exports data does is to give the central bank some further room to weigh its options heading into the new year. It is unlikely to rush into cutting its policy rate in the very first meeting of 2020 on January 24$^{th}$ but would wait for more clarity on the trade talks and also growth momentum assessment coming from Q4 GDP data release on February 14$^{th}$. We see the potential for up to 50bps cut in 2020. However, unless the global situation warrants it – perhaps because of new rounds of tariffs imposition – the cuts will not come in a fast and furious fashion.

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