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Article

Malaysia: Trade growth ends 2017 on weak note

Malaysia's December trade surprised on the downside but 2017 was still the best year for exports since 2011

Contents

- December trade growth misses expectations
- Positive terms of trade shock
- Widening external surpluses
- Outlook for 2018

December trade growth misses expectations

Malaysia's December trade surprised on the downside with Malaysian ringgit (MYR)-denominated export growth of 4.7% year-on-year and import growth of 7.9% against the consensus forecasts of 12.7% and 13.6% respectively. The high base effect has begun to affect the year-on-year trade growth. The trade surplus narrowed to MYR 7.3bn in December from MYR 9.9bn in the previous month. Electronics and oil-related products remained the main trade drivers.

15%

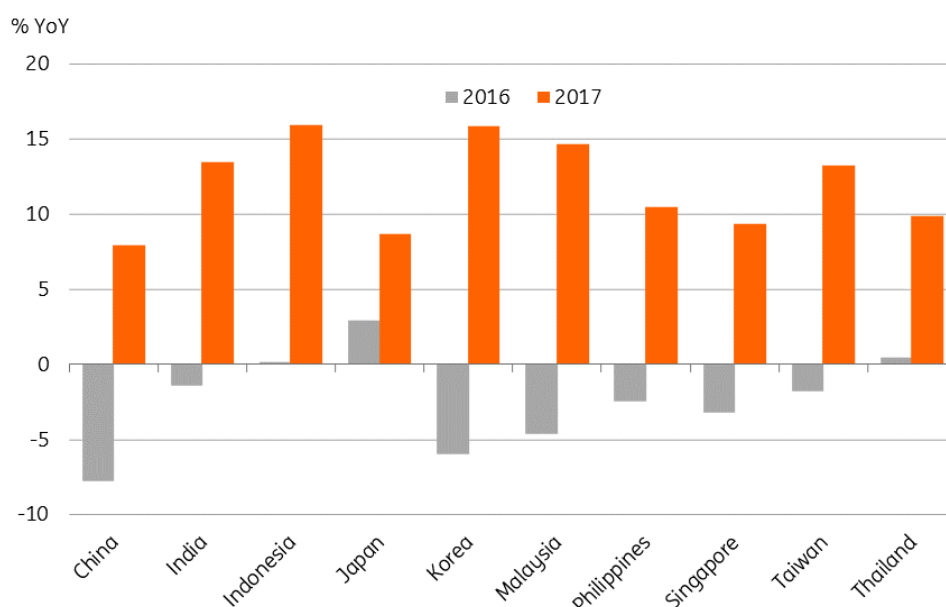
Export growth in 2017
Among best performers in Asia

Positive terms of trade shock

Despite weak December growth, 2017 was the best year for Malaysia's exports since 2011. Although 2017 export strength across regional countries was partly a function of 2016 weakness, the terms of trade were more favourable for Malaysia than for other Asian countries, thanks to a recovery in global oil prices, an upturn in the global electronics cycle and an undervalued MYR.

The 15% US dollar-denominated export growth was a big positive swing from -5% in 2016, the second best in Asia after Korea. However, unlike Korea whose export strength was narrowly based due to its concentration in semiconductor exports, Malaysia's export strength was broad-based. Non-oil exports contributed 12 percentage points to the 15% headline growth, of which semiconductor contribution was only three percentage points (in Korea, half of 16% total export growth was from semiconductor exports).

Asian export performance



Source: Bloomberg, ING

Widening external surpluses

The high import content of exports and strong domestic demand supported imports with USD-value growth of 16% in 2017, up from -4.2% in 2016. The annual trade surplus of USD 22.7bn was slightly wider than USD 21.3bn in 2016. The trade surplus drives the current account surplus and we forecast a current surplus of 2.9% of GDP in 2017, up from 2.1% in 2016 (consensus 2.7%).

Outlook for 2018

The recovery in global commodity prices should continue to support Malaysia's trade in 2018. While MYR's 10.8% appreciation against the USD in 2017 has it approaching fair value, Malaysia's strong economic fundamentals and weak USD environment mean the currency should remain on an uptrend this year. We forecast another 5% MYR appreciation against the USD this year to 3.72 by end-2018 (spot 3.91, consensus 3.85).

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