

Malaysia: Dismal August export performance

The clawback of the MYR's recent underperformance relative to the oil price hinges on the trajectory Malaysia's exports and GDP growth take going forward, though today's weak export report doesn't bode well here. We maintain our end-year USD/MYR forecast of 4.25



-0.3% Malaysia August export growth

Worse than expected

Weak demand, not prices, driving export slowdown

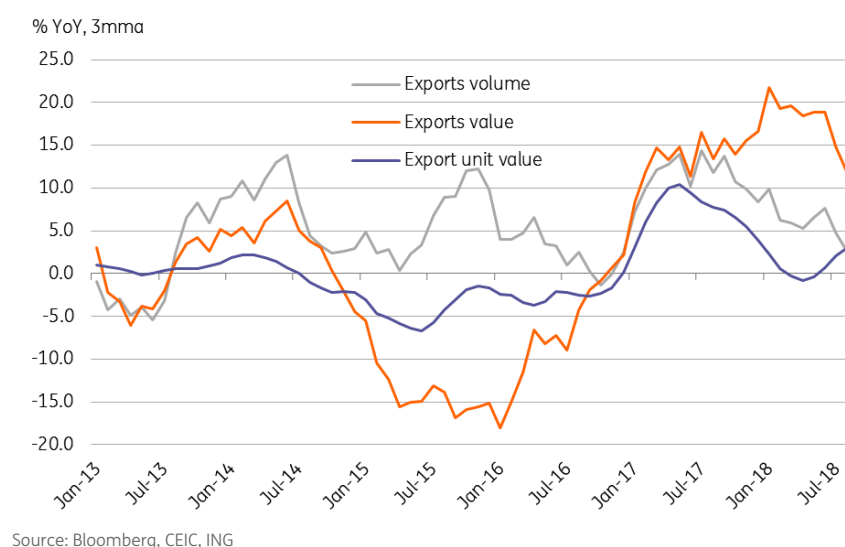
Beating the consensus of steady high single-digit growth, Malaysia's exports contracted by 0.3% year-on-year in August, down from 9.4% growth in July (consensus estimate 8.0%). This was the first negative print in two years, excluding the Chinese new year-related contraction in February this year. The authorities release data in local currency (MYR) terms, though that didn't make

much difference and the USD-value exports slowed too, albeit a 4.4% YoY growth in August.

The real culprit was demand, not the price, as reflected by a 3.4% YoY fall in the volume of exports in August, a sharp negative swing from 6% growth in the previous month. But the export unit value inflation quickened to 3.3% from 3.1% over the same months, while terms of trade improved too.

Looking at export products, commodities continued to be a weak spot with the third consecutive month of year-on-year decline. This was a bit odd because even the global oil price was softer in three months through August, it was still 50% above the year-ago level. Not only oil exports, but electricals and electronics exports also slowed.

Exports value, volume and unit price



Strong imports dent trade surplus

Imports, however, surprised on the upside in August with 11.2% growth (consensus 9.4%) and this was faster than 10.3% expansion in July. This caused a sharp narrowing of the trade surplus to MYR 1.6bn from MYR 8.3bn over the same months. Notwithstanding a sharp narrowing in August, the cumulative surplus of MYR 70.5bn in the first eight months of the year was still MYR 7.5bn wider on the year, which is positive for the MYR.

Also released today, Malaysia's foreign exchange reserves fell for the fourth straight month in September to \$103bn. The 1.3% month-on-month fall was the second-biggest after a 3.5% fall in June.

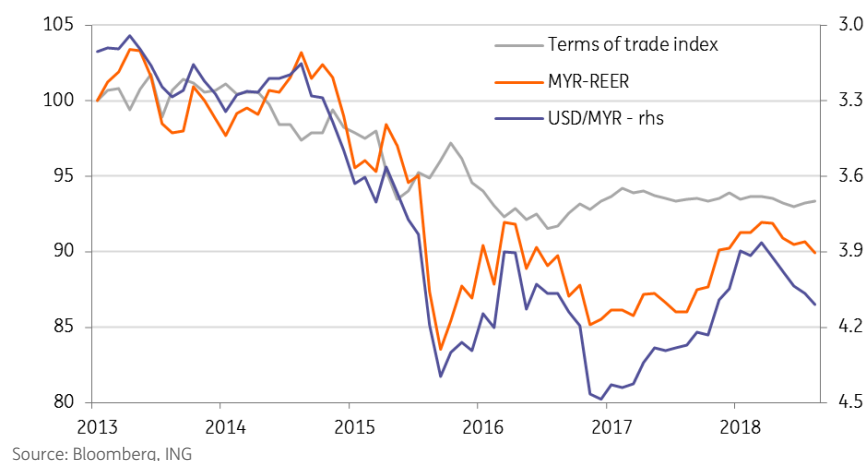
What does this mean for the MYR?

The MYR performance is positively correlated with the global oil price. However, the currency's shift from being a top-performing Asia ex-Japan currency in the first half of the year to the middle of the pack appears to be inconsistent with the firmer oil price and steady terms of trade (see figure).

The clawback of the MYR's recent underperformance relative to the oil price will hinge on the trajectory exports and GDP growth will now take, though today's weak export report doesn't bode well here. However, just based on continued positive terms of trade from the rising cost of crude,

we see scope for a reversal of some undervaluation going forward. That said, we maintain our end-year USD/MYR forecast of 4.25 (spot 4.15).

Increased MYR undervaluation relative to terms of trade



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