Malaysia: Exports continue to defy global slump

Positive July export growth foreshadows steady GDP growth in the second half of 2019. Yet we believe the central bank will see through the present economic strength and cut rates again, as early as next week

Source: shutterstock

1.7% July export growth

Year-on-year

Better than expected

Electronics remains the key export driver

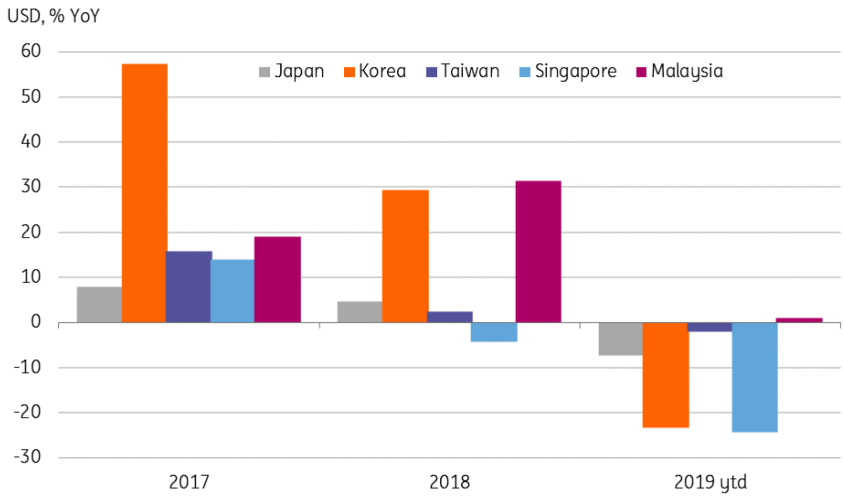
In yet another upside surprise, Malaysia's exports grew by 1.7% year-on-year in July compared to the consensus of a continued contraction by 2.5%. Denominated in local currency (Malaysian ringgit, or MYR), growth has been flipping between low single-digit positives and negatives this year. Growth contracted by 3.4% growth in June, revised from -3.1% in the initial report.

Electrical and electronics continue to be the key driver with growth accelerating to 4.5% in July from -6.0% in the previous month. And within that, semiconductors continued to lead the way with 10.3% growth, a sustained outperformance in Asia lending credence to the view that Malaysia is moving up the electronics value chain.

Strong electronics more than offset a sharp negative swing in the growth of commodity exports; the fuel cluster (crude petroleum, petroleum products, and liquefied natural gas) fell 5.5% from 13.0% growth, with palm oil down 9.9% from growth of 2.2%.

How is Malaysia bucking the global slowdown?

Asian semiconductor exports



Source: Bloomberg, CEIC, ING

Weak imports and wide trade surplus

Imports continued to be weak, though the 5.9% YoY contraction was still a better outcome than consensus of -7.0% and June's -9.8%. The import weakness is largely explained by the high base year effect rather than current weakness. However, this was enough to sustain the trade balance with a strong surplus.

The MYR 14.3 billion trade surplus in July was one of the strongest monthly inflows this year. This puts the cumulative trade surplus in the first seven months of the year at MYR 81.6 billion, which is MYR 11 billion wider on the year. The wider trade surplus will be reflected in the wider current account surplus. We see the 2019 current surplus equivalent to 2.8% of GDP, up from 2.1% in 2018.

No room to be relaxed just yet

While strong exports and the trade surplus should support Malaysia's GDP growth in the rest of the year, it would be challenging for the economy to continue bucking the global slowdown amid an increasingly unfriendly external trade environment.

With such potential headwinds to GDP growth, we believe the Bank Negara Malaysia, the central bank, will see through the present economic strength and foster a more accommodative policy environment in the rest of the year. We maintain our forecast of an additional 50 basis point rate cut to the BNM's overnight policy rate this year, of which 25bp is likely as early as next week at the 12 September meeting.

With persistently low inflation (0.3% year-to-date)- a trend which has a long way to run amid low commodity prices- the BNM will still be left with plenty of space for the future. The low in the BNM's policy rate was 2% reached during the 2009 global financial crisis.