

Malaysia's exports stage strong rebound in June

We view trade strength in June as transitory, which together with weak tourism-related inflows and political uncertainty suggest the Malaysian ringgit will remain an Asian underperformer for the rest of the year



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8.8%

June export growth

Year-on-year

Higher than expected

Low base, easing of MCO boosts trade

Released today, Malaysia's trade figures for June showed the country's exports staging a surprisingly strong bounce, by 8.8% year-on-year. This compares with the consensus of a 10% YoY contraction, which in itself was a marked improvement from a 25.5% YoY crash in May.

There were two things at work in driving such a strong trade performance. First, a favourable base year effect boosted the year-on-year growth rate. Second, a clawback from the slump during the Covid-19 movement control order (MCO), which was further relaxed in June. As such, there was also a strong month-on-month surge in exports, by 32%.

By main export sectors, electrical and electronic exports outperformed with 16% YoY and 38% MoM growth rates. These account for about one-third of total exports. Another big one, machinery and appliances also posted strong gains, at 29% YoY and 56% MoM. On the downside, the oil cluster (liquefied natural gas and petroleum products) fell 21% YoY, reflecting lower crude price inflation, even as exports were up 11% on the month. By destination, shipments to key markets of the US, China and Japan had a strong run on both a year-on-year and month-on-month basis.

As with exports, the base effect and easing of the MCO assisted the sharp improvement in import performance in June, to -5.6% YoY from -30.4% in the previous month (consensus -13.1%). They were up 19% MoM.

Trade strength looks transitory

We view trade strength in June as transitory and likely to be reversed in July. While the second wave of Covid-19 cases will continue to weigh on exports, the base effect is poised to become unfavourable. This is likely to cause a sharply negative turn in export growth. The same can be expected for imports, as these largely feed into processing for imports, while domestic demand continues to take a beating from the virus.

The trade surplus doubled to MYR 20.9 billion in June from MYR 10.4 billion in May. This is the largest-ever monthly trade surplus. However, the cumulative surplus in the first half of the year, MYR 64.6 billion was still MYR 2.7 billion lower than a year ago, supporting the narrowing trend in play for the year. As noted earlier, the resumption of export weakness in July should reinforce this trend further.

A falling trade surplus, the absence of tourism-related inflows, and political uncertainty are behind the MYR's 3.8% year-to-date depreciation. We expect it to remain an Asian underperformer over the remainder of the year.

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