Malaysia's trade ends 2019 on firmer note

If uncontained, the spread of the coronavirus poses a significant threat to trade, tourism, and the overall growth outlook in 2020

Source: shutterstock

2.7%

December export growth

Year-on-year

Better than expected

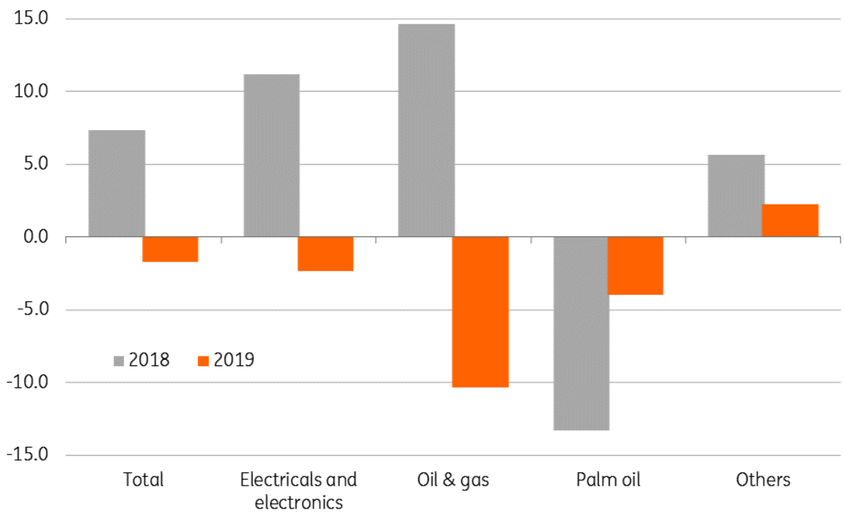
Trade ends 2019 on a firmer note

Malaysia's trade data for December revealed surprisingly strong export growth of 2.7% year-on-year. This was the first positive growth reading in five months, confounding the consensus for a 2.5% fall.

The improvement in the main export categories was pretty much across the board. Electricals and electronics remained the main driver, given the 38% weight in total exports. However, the outperformance of this sector earlier in the year, in the face of an electronics slump everywhere else, continued to erode towards the end of the year. In the end, the 2.3% annual contraction in exports from this sector was a partial reversal of the 11% surge in 2018. Reflecting firmer global crude prices, oil and gas exports improved towards the end of the year, though a full-year fall of 10% was a sharp swing from the 15% surge in 2018.

December import growth of 0.9% was slightly weaker than the 1.5% consensus but an acceleration over -3.6% in November. The trade surplus almost doubled to MYR 12.6 billion from MYR 6.6 billion in November, taking the annual surplus to MYR 137 billion, or 11% higher than the year before.

Annual export growth



Source: Bloomberg, CEIC, ING

But 2020 is off to a weaker start

The almost 20% fall in crude oil prices so far this year bodes ill for Malaysia’s commodity-driven trade growth coming into 2020. The outbreak of the coronavirus in China and its global spread means continued weak export growth ahead. And, just as in Thailand, the virus also poses a threat to Malaysia’s tourism sector. All this, in turn, means continued weak GDP growth this year.

The Bank Negara Malaysia’s surprising policy rate cut at the last meeting on 22 January, just around the time the coronavirus started to dominate headlines, tells us that the central bank is ahead of the curve in recognising the risk. We don’t rule out more BNM rate cuts this year if the global economic situation gets worse. Even so, proactive policy should sustain investor confidence in the Malaysian ringgit (MYR), which was Asia's most resilient currency in 2019 and should remain so this year.