# Malaysia’s weak trade report lifts odds of BNM rate cut

The electronic export vigour observed earlier in the year has ended. And with continued external headwinds, downside growth risks are rising. This is why we are bucking the consensus view of stable BNM policy. We expect a 25 basis point policy rate cut tomorrow


Source: shutterstock

-6.8% September export growth

Worse than expected

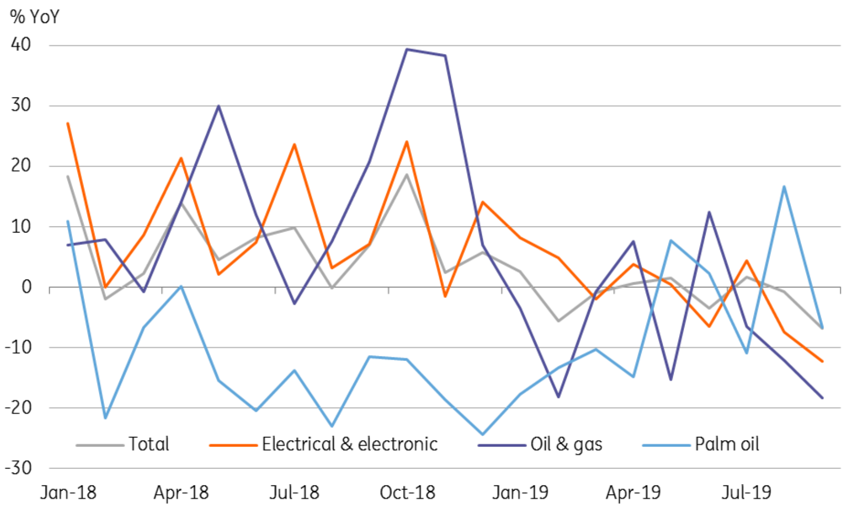
## Steepest export fall in three years

A second consecutive month of negative growth suggests to us that Malaysia's exports are finally feeling the global demand slump after their relative outperformance earlier this year.

A 6.8% year-on-year export fall was a big downside surprise for the consensus centred on zero growth. Following on from a 0.8% fall in August, this was the weakest print since October 2016. Although part of the steeper year-on-year export decline is the result of a high base year effect, the second straight month-on-month fall (-4.5% followed -7.5% in August) reinforced that the weak trend is really getting a grip on exports.

Just as electronics helped the overall export outperformance earlier this year, electronics are now leading the weakness. Electrical and electronics exports, accounting for about 38% of total exports, were down 12% YoY in September on the back of a 16% fall in semiconductor shipments. Commodities were also a drag, with an 18% fall in oil and gas and a 7% fall in palm oil exports.

## Export growth by key categories




Source: Bloomberg, CEIC, ING

## Firmer imports, narrower trade surplus

Imports were slightly better than expected, recording 2.4% YoY growth (consensus 1.4%). Don't be misled by a significant positive swing from -12.5% in August as reflecting any domestic demand strength. Instead, this too largely was the base year effect as monthly growth continued to be negative.

The confluence of weak export growth and firmer import growth produced a narrower trade surplus. At MYR 8.3 billion, the trade surplus was the lowest in a year, beating the consensus for a widening to MYR 14.2 billion from a surplus of MYR 10.9 billion in the previous month.

## What all this means for 3Q GDP growth ...

Aggregating the data for the third quarter of the year reveals that both export and import growth rates deteriorated in the last quarter. At -1.9% YoY, 3Q export growth was down from -0.4% in 2Q. The slump in imports was steeper to -5.8% from -1.4% in a sign that weakness in domestic demand gained momentum over these quarters.

Yet what we read from the MYR 8.4 billion widening of the trade surplus in 3Q from a year ago is that net trade likely sustained its positive contribution to GDP growth for the fourth straight quarter. Nonetheless, we are afraid this won't be enough for the economy to continue to buck the global growth slowdown after upside GDP growth surprises in the first half of 2019.

Look out for 3Q GDP data next week (15 November). We expect a slight dip in GDP growth to 4.8% from 4.9% in 2Q.

## … and for the central bank policy?

Bank Negara Malaysia's (BNM) Monetary Policy Committee has begun its two-day policy meeting today, the last meeting of the year. The policy decision is expected at around 3 pm local time tomorrow. The consensus has yet to come to terms with the need for one more 25 basis point BNM policy rate cut this year (the last cut was in May), which has been our call since August.

The electronic export vigour observed earlier in the year has ended. And with continued external headwinds, the downside growth risks are rising. This is why we are bucking the consensus view of stable BNM policy. We expect a 25bp BNM rate cut tomorrow.

Today's trade figures come as a timely boost to our BNM policy view.