Malaysia: Downside trade surprise

The forthcoming trade war clouds the outlook for Malaysia's economy and currency. We have revised our USD/MYR forecast for end-2018 for further weakness to 4.35 from 4.05

Source: shutterstock

3.4% Export growth in May

year-on-year

Worse than expected

A downside export surprise

Malaysia's exports in May grew by 3.4% year-on-year, slower than the consensus forecast of 6.4%, while import growth of 0.1% was in line with expectations. These growth rates are down from 14% and 9% respectively in April. The high base effect explains some of the slowdown: both export and import growth peaked above 30% in May 2017. Commodities and electronics continue to dominate the overall trade picture, both posting a sharp growth slowdown in May.

The year-to-date export growth of 6.9% YoY and import growth of 1.3% have both slowed sharply from 23% and 28% respectively a year ago. But the trade surplus of MYR 54.5bn in the first five months was still wider than MYR 33bn surplus in the same period of 2017.

The trade war clouds outlook

The trade war clouds the outlook for Malaysia's trade and GDP growth for the rest of the year. We expect the pass-through of weakening global trade to commodity prices, and then to Malaysia's export weakness, to shift the MYR from being Asia's outperformer to being one of its underperformers in the rest of the year (see Asian foreign exchange in tariff tantrum). We have revised our USD/MYR forecast for end-2018 for further weakness to 4.35 from 4.05 (spot 4.05).