

Malaysia's exports stage strong rebound in September

The persistently large trade surplus serves as life support for the Malaysian ringgit at a time when escalated political uncertainty is dampening investor confidence in the economy. We maintain our end-year USD/MYR view of 4.18



Source: shutterstock

33%

Electronics export growth
year-on-year

Better than expected

Electronics-led bounce

Malaysia's exports surged by 12.4% month-on-month in September and 13.6% year-on-year.

The result was far better than our 7.0% YoY growth forecast, whereas the consensus was only 2%

growth. As it reversed much of August's 14.5% MoM fall, the September bounce boosted monthly exports, MYR 89 billion, well above their pre-Covid-level - MYR 84 billion in January.

The electronics-led recovery in Asian exports has gained momentum in recent months, and Malaysia is on this bandwagon too. Indeed, leading the surge in September was electronics with a 21.7% MoM and 33.0% YoY jump. Commodities - the other dominant export category, was a mixed bag. Palm oil and rubber exports posted strong growth but the fuel cluster (crude petroleum, petroleum products and liquefied natural gas) continued to reel under weak global demand and prices.

In terms of destinations, China and the US stood out with 42% YoY and 22% YoY growth respectively.

Large trade surplus

A 3.6% YoY import fall was in line with consensus and an improvement over -6.5% in August.

Pick-up in capital and consumer goods import is a promising sign of the post-Covid recovery. But a slowdown in intermediate goods imports wasn't good news given high import content of exports.

The Malaysian ringgit 22 billion trade surplus in the last month represents a significant widening over MYR 13.2 billion in August. This is the second-highest monthly surplus ever after MYR 25.2 billion in July this year. The cumulative surplus of MYR 125 billion in the first nine months of the year was MYR 16 billion higher than the year-ago period.

But politics weighs on the currency

The persistently large trade surplus acts like life support for the currency at a time when escalated political uncertainty is dampening investor confidence. The MYR is an Asian underperforming currency in October, although it's been firm around the 4.15 level against the USD.

All eyes are now on the 2021 federal budget next week - 6 November, which will be a key test of confidence in prime minister Muhyiddin Yassin's coalition government.

We think politics will continue to exert weakening pressure on the MYR. Therefore, we maintain our end-year USD/MYR forecast at 4.18.