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## External Trade: August 2006

### 14.8%yoy, decelerates compared to July but much higher than expectation

**August exports pace much higher than market consensus:** Malaysia's August exports rose 14.8%yoy to RM53.5b, decelerating from July's revised exports growth of 15.9%, but was much higher than consensus estimate of 11.0% (Bloomberg). Compared to July, exports increased by 5.9% in August, a positive forward indication. Imports growth also accelerated to 17.7%yoy ( RM43.4b) in August compared to 10.2% in July, and consequently the trade surplus increased to RM10.1b.

**Impact of US slowdown may only be more pronounced in 1H07.** It is quite clear that in the US, the latest economic data portends slower economic growth. The US GDP growth decelerated significantly to only 2.6% annualised growth in 2Q06 compared to 5.6% in 1Q06, below market expectation of 3.0%. As the US is Malaysia's main exporting country, it is logical that Malaysia's exports growth may slow down in the coming months. However, Malaysia's exports to US accelerated in August to 10.0%yoy and 11.5%mom compared to in July of a contraction of -0.7%yoy. However, there may be a lag effect as US mortgage refinancing only slowed down significantly in 2Q06, and therefore, the impact on US consumer spending may only be pronounced from 1H07. This might explain the still strong exports growth to US.

On the components side, Malaysia's exports growth is being supported by higher exports to the following countries: i) EU (+11.7%yoy), ii) China (+56.2%) and iii) Asean (+13.3%). In terms of the components of exports, Malaysia's exports of electronics and electricals (e&e) accelerated to 11.4%yoy from 8.9%yoy in July while commodity exports continued to be strong as follows: i) LNG (24.2% vs 10.9%yoy in

**Table 1: External trade statistics (%yoy)**

	Aug	July	Jun	2004	2005	2006
Exports fob (RM'b)	53.5	50.6	49.61	480.7	533.8	595.2
%yoy	14.8	16.0	11.4	20.8	10.9	11.5
Imports cif (RM'b)	43.4	41.5	40.99	400.1	434.0	488.3
%yoy	17.7	10.2	11.4	26.4	8.5	12.5
Trade balance (RM'b)	10.1	9.1	8.6	80.6	99.8	106.9
E'trical & e'tronics 1 (RM'b)	25.5	24.0	24.5	257.1	264.7	305.7
Chemical & cheml. prods.	2.8	2.55	2.3	27.8	26.3	30.9
Palm oil (RM'b)	2.5	2.2	2.0	20.0	-	20.1
Crude petroleum (RM'b)	2.6	3.0	2.7	21.4	-	32.5
Exports to US (RM'b)	10.7	9.6	10.0	89.0	82.0	102.5
Exports to S'pore (RM'b)	-	-	-	71.5	-	-
Exports to Japan (RM'b)	4.8	4.3	4.1	48.3	-	-
Imports:						
Intermediate goods (RM'b)	31.1	29.2	27.7	284.9	309.3	-
Capital goods (RM'b)	5.3	5.3	6.3	55.1	59.7	-
Consumption goods (RM'b)	2.6	2.4	2.3	23.1	-	-

*1 Includes machinery and appliances*  
*e Estimates based on Bank Negara definition as opposed to DOS' definition*

Source: Department of Statistics

**Table 2: Malaysia's exports of electronic and electrical goods (%yoy)**

	semiconductors	e&e parts	consumer e&e	industrial e&e	machinery e&e	household e&e	Total e&e
Sep04	10.4	25.8	19.2	34.4	20.6	66.3	20.3
Oct	-2.2	20.9	5.4	15.0	12.3	23.1	10.0
Nov	2.9	10.4	-5.9	9.9	10.3	51.1	6.3
Dec04	-4.9	7.5	0.2	26.1	34.7	37.1	5.9
Jan05	2.7	-2.8	4.4	29.1	10.5	50.3	3.6
Feb	12.6	8.7	10.6	15.2	20.4	67.7	12.2
Mar	4.9	23.9	8.6	0.8	23.2	47.0	13.2
Apr	-5.4	17.4	7.5	-10.2	11.5	7.4	5.3
May	1.8	16.7	7.2	-1.5	13.1	12.1	8.5
Jun	-5.9	30.9	2.9	15.5	19.1	1.6	12.1
Jul	-11.9	17.4	-3.4	4.2	8.1	-28.5	3.1
Aug	-2.7	27.2	-7.3	6.2	12.5	-13.4	10.4
Sep	1.1	14.3	-1.9	4.6	18.9	-1.6	7.3
Oct	4.0	20.4	-2.6	12.1	19.5	-6.6	11.7
Nov	3.5	25.6	-0.9	38.2	21.1	-23.8	15.9
Dec	7.5	28.3	4.3	20.6	6.4	6.1	16.8
Jan06	-6.7	29.3	-20.7	13.6	17.4	16.0	10.3
Feb	3.3	22.9	-20.4	16.7	6.5	-17.5	10.2
Mar	2.0	16.3	-19.8	21.6	6.5	-10.9	7.4
Apr	-1.1	7.3	-17.1	26.3	7.4	-2.7	4.4
May	2.2	14.5	-20.5	25.2	17.5	-4.0	8.5

Source: BNM, DOS, Maybansec, e = estimate

July), ii) CPO (27.8% vs 31.6% in July), and iii) refined petroleum products (15.8% vs 66.9% in July). The drag on exports is being caused by exports of crude oil which contracted 10.0%yoy in August due to the almost 5.0% fall in crude oil prices in August.

**Pace of exports of electronics and electrical (e&e) goods may hold up in coming months.** As exports of e&e accelerated in August compared to July, the local indicators are pointing to the pace holding up in the next couple of months. Intermediate goods imports accelerated to 17.7%yoy from 7.7% in July while import of capital goods rebounded to 39% from a contraction in July.

**External economy slowing down.** The OECD leading indicator for Group of Seven (G7) advanced economies based on six-month percentage change fell to only 0.77 in July from 1.64 in June and 3.28 in April (this indicator has a high correlation with the US GDP growth at 0.64 coefficient). The OECD leading indicator historically leads US GDP growth by between 3-5 months and this indicates that although 2Q06 US GDP growth had already decelerated, it may decelerate further in 4Q06. Although most of the G7 countries are Malaysia's main export markets, Japan and US are Malaysia's first and third largest exports markets.

The IMF also forecasts World GDP growth to decelerate to 4.9% in 2007 from 5.1% in 2006 and expects the US GDP growth to slow down to 2.9% in 2007 from 3.4% in 2006. The US Institute of Supply Management (ISM) Purchasing Managers Index

has also fallen to 54.5 points in August from 54.7 in July. Historically and by correlation, manufacturing activity in the US impacts Malaysia with 2 to 3 months lag and longest at 6 months.

**Global semiconductor still healthy but coming off the boil.** Worldwide semiconductor sales pace decelerated to 10.5%yoy in August from 11.5%yoy and 1.8%mom in July (Chart 1). The forward looking Semiconductor Book-to-Bill ratio for the North American Semiconductors Equipment Manufacturers Industry (SEMI) also fell to only 1.0 in August from 1.14 in June (Chart 2), indicating worsening expectations by manufacturers in the coming months.

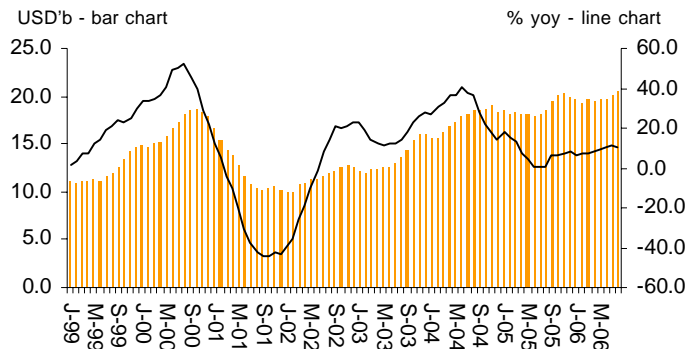
**Malaysia drops from sixth to seventh in the regional exports league.** Despite the stronger than expected August exports pace, Malaysia's position in the regional exports league dropped to seventh in August from sixth in July (Table 4). IMF had also earlier forecast that global trade growth will accelerate in 2006 to 7.0% compared to 6.2% in 2005. Therefore, exports growth in 2H06 for Malaysia may outperform most expectations.

**Table 3: Malaysia's import of investment goods**

	intermediate goods (RM'b)	%yoy	capital goods (RM'b)	%yoy
J04	20.0	13.3	3.4	-1.4
F	20.3	21.4	4.1	15.1
M	23.6	22.6	4.8	23.4
A	23.8	24.3	4.2	22.2
M	23.3	24.9	4.5	24.2
J	25.2	38.2	4.7	34.2
J	25.1	24.0	4.7	10.9
A	24.7	26.9	4.2	26.7
S	26.3	25.8	5.4	84.7
O	25.6	15.6	5.5	26.9
N	23.3	18.7	5.0	40.8
D	26.0-	-	5.4	-
J05	22.6	7.1	3.9	11.4
F	21.4	11.5	3.9	2.6
M	26.1	11.1	4.7	-6.1
A	25.0	2.5	5.0	-2.4
M	25.7	10.3	5.5	22.2
J	26.1	3.6	5.2	10.6
J	27.1	8.0	5.4	14.9
A	26.5	7.3	5.1	21.4
S	27.4	4.2	6.2	14.8
O	27.5	7.4	5.2	-5.5
D	28.4	9.2	5.4	0
J06	24.6	8.8	4.7	20.5
M	28.1	19.1	6.5	35.4
A	27.0	13.4	5.5	30.9
M	27.8	19.3	5.2	15.6
J	27.7	6.1	6.3	21.2
J	29.2	7.7	5.3	-1.9
A	31.1	17.4	5.3	3.9

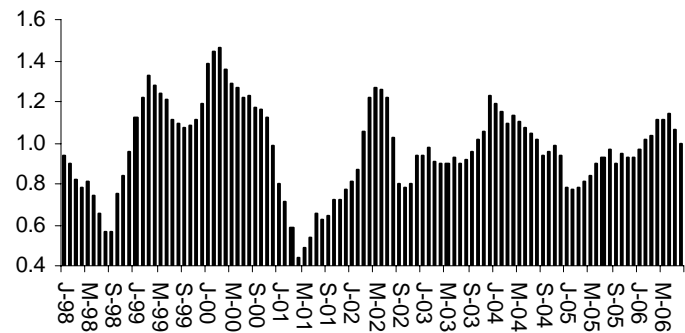
Source: BNM

**Chart 1: Global semiconductor sales**



Source: Semiconductor Industry Association

**Chart 2: SEMI Book-to-Bill ratio**



Source: SEMI

**Table 4: Exports: regional comparison - Aug (%yoy)**

Country	Exports
Indonesia	34.5
China	32.8
South Korea	17.6
Japan	17.6
Thailand	17.0
Taiwan	16.6
Malaysia	14.8
Philippines	12.9
United States	12.6 (Jul)
Hong Kong	9.9
Singapore (NODX)	2.6

Source: Official statistics via Datastream

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adex = advertising expenditure	FCF = free cashflow	PE = price earnings
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CAGR = compounded annual growth rate	FY = financial year	PER = PE ratio
capex = capital expenditure	FYE = financial year end	qoq = quarter-on-quarter
CY = calendar year	mom = month-on-month	ROA = return on asset
DCF = discounted cashflow	NAV = net asset value	ROE = return on equity
DPS = dividend per share	NTA = net tangible asset	ROSF = return on shareholders' funds
EBIT = Earnings before interest and tax	P = price	WACC = weighted average cost of capital
EBITDA = EBIT, depreciation and amortisation	p.a. = per annum	yoy = year-on-year
EPS = earnings per share	PAT = Profit after tax	ytd = year-to-date
EV = enterprise value	PBT = Profit before tax	

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