

Malaysia 2Q22 Balance of Payments

CA surplus edged up in 2Q22, on smaller services and primary income deficits

- **The current account (CA) surplus of the balance of payments increased to RM4.4b (1.0% of GDP) in 2Q22 (1Q22: RM3.0b, 0.7% of GDP)**

- The higher CA surplus in 2Q22 was driven by smaller deficits in the services and primary income accounts, whilst continuing to be led by the goods account despite a moderating surplus.

- o **Goods (RM34.0b; 1Q22: RM40.5b): narrowed to a 2-year low on greater imports growth**

- Imports expansion of 14.6% QoQ (1Q22: 4.0%) outpaced a return to growth for exports (10.0% QoQ; 1Q22: -0.9%). This was underpinned by a sustained recovery of domestic demand after COVID-19 restrictions were fully relaxed and Malaysia transitioned into endemicity. The higher imports were led by intermediate goods, followed by capital and consumption goods, mainly from China, Singapore, and Taiwan. The major export products were electrical & electronics, petroleum, and palm oil.

- o **Services (-RM12.3b; 1Q22: -RM15.0b): smaller deficit due to a lower travel deficit**

- Moderation was mainly driven by a lower travel services deficit (-RM0.5b; 1Q22: -RM4.0b), supported by higher travel receipts following the reopening of international borders in April.

- o **Primary income (-RM14.7b; 1Q22: -RM20.1b): smallest deficit since 3Q21**

- Primarily due to higher income generated from Malaysian firms investing abroad and the weaker ringgit (RM25.3b; 1Q22: RM15.3b).

- o **Secondary income (-RM2.6b; 1Q22: -RM2.4b): registered a marginally larger deficit**

- Mainly due to an increase in remittances from foreign workers (RM8.3b; 1Q22: RM7.8b), despite higher foreign receipts (RM5.7b; 1Q22: RM5.3b).

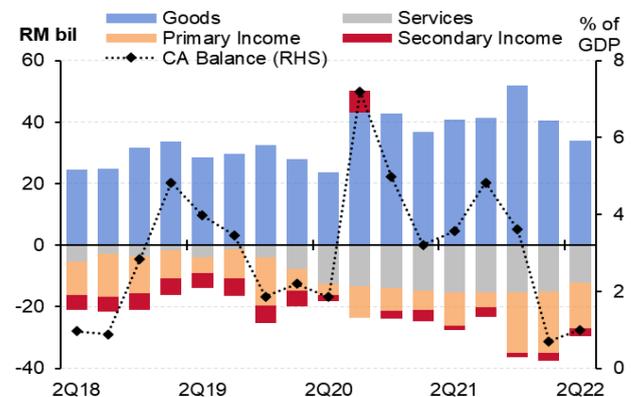
- **The financial account of the balance of payments a significantly lower net inflow of RM0.2b in 2Q22 (1Q22: RM30.4b), its lowest level since 3Q21 (-RM0.2b)**

- **Direct investment (RM2.6b; 1Q22: RM20.8b):** moderated to its lowest level since 1Q21 (RM1.8b), mainly attributable to softer net inflows of FDI (RM17.3b; 1Q22: RM24.4b) and net outflows of debt instruments (-RM3.2b; 1Q22: RM10.0b). Furthermore, direct investment abroad increased (-RM14.7b; 1Q22: -RM3.6b).

- **Other investment (RM12.5b; 1Q22: RM19.6b):** registered a smaller net inflow primarily due to interbank borrowing and the maturing of loans placed abroad by the domestic banking system.

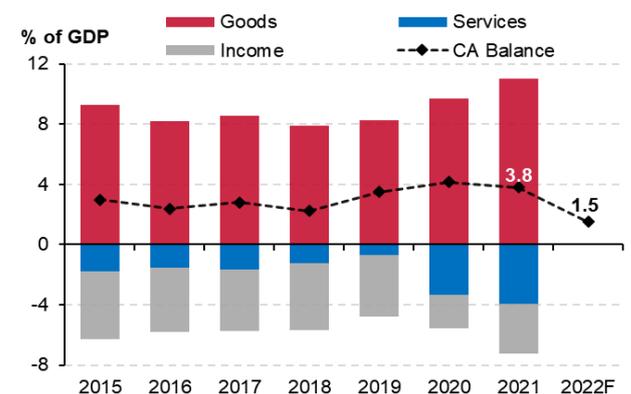
- **Portfolio investment (-RM14.7b; 1Q22: -RM10.1b):** predominantly driven by greater outflows of non-resident debt securities (-RM13.2b; 1Q22: -RM4.7b), attributable to weakening global risk-sentiment as major central banks aggressively tightened monetary policy.

Graph 1: Current Account Trend



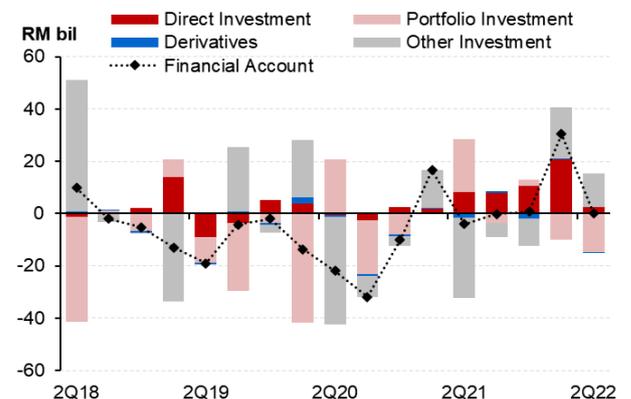
Source: Department of Statistics, CEIC, Kenanga Research

Graph 2: Current Account Annual Trend & Forecast



Source: Department of Statistics, CEIC, Kenanga Research

Graph 3: Financial Account Trend



Source: Department of Statistics, CEIC, Kenanga Research

15 August 2022

- **2022 CA balance forecast revised down to 1.5% of GDP from 3.9% previously (2021: 3.8%)**
 - We now expect a narrower CA surplus following the much smaller-than-expected surplus in 1H22 of 0.9% GDP (RM7.4b; 2H21: 4.2% GDP, RM33.5b), primarily attributable to a strong recovery in domestic demand that fuelled greater imports. With that said, the goods surplus is expected to widen slightly as exports gain momentum with the easing of supply chain disruptions and as China likely sustains economic reopening. Likewise, the services deficit will likely continue to narrow on higher foreign tourist arrivals following the reopening of international borders.
 - **USDMYR:** The ringgit may continue to face moderate pressure in the near-term amid lingering safe-haven demand for the dollar as global markets remain volatile. External risks remain heightened as recession is still a concern in Europe and the UK, US-China tensions have worsened, and the US Fed continues to tighten monetary policy. However, the ringgit has experienced some relief recently amid expectations that the Fed may slow the pace of rate hikes following a cooler-than-expected inflation reading. As such, we reckon the local note may gain momentum going into 4Q22, backed by expectations of stronger foreign investment flows into Malaysia and improved global risk sentiment. Therefore, we retain our USDMYR year-end target at 4.35 (2021: 4.17).
 - **BNM OPR:** Bank Negara Malaysia (BNM) is expected to maintain its hawkish stance, amid rising inflationary pressures, and hike the overnight policy rate (OPR) by 25bps at each of its two remaining meetings this year, bringing the year-end rate to 2.75%. The last rate hike for this cycle of another 25bps is expected to be at the beginning of next year. However, this remains subject to the health of the global economy and the lingering risk of a global recession, which may trigger BNM to pause and return to a dovish stance in the 2H23.

Table 1: Balance of Payments

RM billion	2020	2021	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
Current Account	59.1	58.7	26.5	18.9	11.9	13.2	18.2	15.3	3.0	4.4
% of GDP	4.2	3.8	7.2	5.0	3.2	3.6	4.8	3.6	0.7	1.0
Merchandise Balance	137.5	170.6	43.1	42.8	36.7	40.7	41.5	51.8	40.5	34.0
Exports fob	780.5	977.1	206.6	217.5	225.6	243.9	236.3	271.3	268.9	295.8
Imports fob	643.0	806.5	163.5	174.7	188.9	203.3	194.8	219.5	228.4	261.7
Services Balance	-47.2	-60.7	-13.4	-13.8	-14.8	-15.2	-15.3	-15.4	-15.0	-12.3
Primary Income	-28.5	-41.6	-10.3	-7.3	-6.3	-10.8	-4.8	-19.6	-20.1	-14.7
Transfers/Secondary Income	-2.7	-9.6	7.1	-2.8	-3.7	-1.4	-3.1	-1.4	-2.4	-2.6
Capital Account	-0.4	-0.6	-0.2	-0.1	-0.1	-0.1	-0.1	-0.3	-0.1	-0.1
Financial Account	-77.4	13.0	-31.9	-10.0	16.6	-4.1	-0.2	0.7	30.4	0.2
Direct Investment	3.1	28.5	-2.5	2.4	1.81	8.2	8.0	10.5	20.8	2.6
Abroad	-11.9	-7.0	-1.8	-5.2	-7.8	-3.5	-1.5	-7.9	-3.6	-14.7
In Malaysia	14.6	30.2	-0.3	6.8	9.1	11.7	9.5	18.5	24.4	17.3
Portfolio Investment	-49.6	18.8	-20.7	-7.8	-0.2	20.1	-3.7	2.6	-10.1	-14.7
Financial Derivative	0.4	-2.3	-0.5	-0.9	0.3	-1.5	0.7	-1.8	0.2	19.6
Other Investment	-31.3	-32.0	-8.1	-3.7	14.7	-30.9	-5.2	-10.6	19.6	12.5
Reserve Assets	19.3	-45.7	1.6	2.6	-17.1	-4.7	-21.3	-2.6	-12.8	-4.9
Errors & Omissions	-0.6	-25.5	3.9	-11.4	-11.3	-4.4	3.4	-13.1	-20.6	0.3

Source: Department of Statistics, CEIC, Kenanga Research

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