

Malaysia 3Q22 Balance of Payments

CA surplus expanded sharply in 3Q22 on solid exports and weak ringgit

- The current account (CA) surplus of the balance of payments increased sharply to RM14.1b (3.1% of GDP) in 3Q22 (2Q22: RM4.4b, 1.0% of GDP)

- The robust performance of CA surplus in 3Q22 was mainly driven by higher goods surplus amid better-than-expected export performance and lower deficits in the services accounts despite the full reopening of economic activities and resumption of international tourism.

- o **Goods (RM43.0b; 2Q22: RM34.0b): expanded to a three-quarter high on greater export growth amid weaker ringgit**

- Exports expanded by 7.7% on QoQ (2Q22: 11.7%), albeit moderating, but far above the increase in imports which recorded 4.4% (2Q22: 14.3 QoQ%). This resulted in a sharp rebound in goods surplus during the quarter (53.3% QoQ; 2Q22: -14.9%). The higher exports' receipts reflected a resilient external demand backed by elevated commodity prices, a weaker ringgit ((average 3Q22: 4.48/USD; 2Q22: 4.35) and sustained demand for manufactured products, particularly E&E products.

- o **Services (-RM9.6b; 2Q22: -RM12.3b): smaller deficit due to higher travel receipts and sustained manufacturing services**

- The expansion was mainly driven by a surplus in travel services (RM0.8b; 2Q22: -RM0.5b), the first time since 1Q20 amid the reopening of international borders and the resumption of international tourism.

- o **Primary income (-RM17.2b; 2Q22: -RM14.7b): deficit widened**

- This is mainly due to lower investment income from Malaysian firms investing abroad (RM22.7b; 2Q22: RM25.3b).

- o **Secondary income (-RM2.1b; 2Q22: -RM2.6b): deficit narrowed**

- Attributable to an increase in foreign receipts (RM7.0b; 2Q22: RM5.7b) but partially capped by higher foreign workers (RM9.1b; 2Q22: RM8.3b) remittance.

- The financial account of the balance of payments posted a higher net outflow of RM14.9b in 3Q22 (2Q22: RM0.2b), its highest outflow since 3Q20 (-RM31.9b)

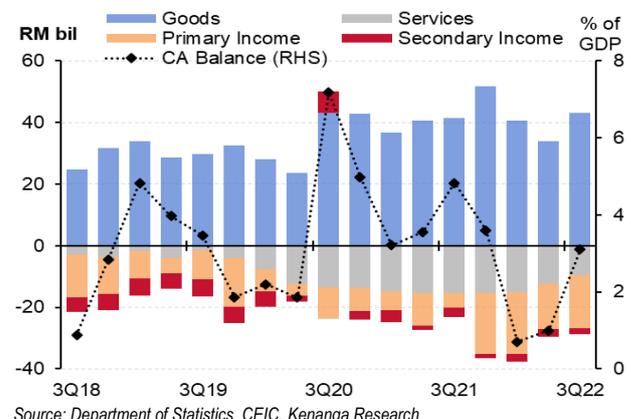
- **Direct investment (RM2.0b; 2Q22: RM2.6b):** decline to its lowest level since 1Q21 (RM1.8b), mainly attributable to lower net inflows of FDI (RM12.3b; 2Q22: RM17.3b). This, however, was partially mitigated by lower outflows of direct investment abroad (DIA) (-RM10.3b; 2Q22: -RM14.7b)

- **Other investment (-RM16.6b; 2Q22: RM12.5b):** registered a larger net outflow.

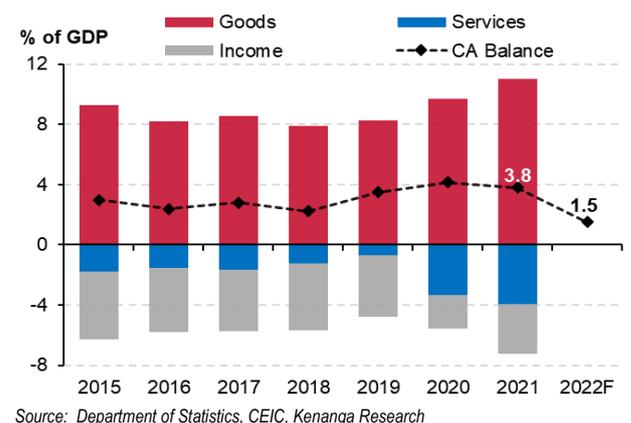
- **Portfolio investment (RM0.1b; 2Q22: -RM14.7b):** turned into net inflow driven by greater net inflows from residents' liquidation of investments in equities and debt securities abroad (RM2.6b; 2Q22: -RM4.4b).

- 2022 CA balance forecast retained at 1.5% of GDP (2021: 3.8%), the lowest since 1998

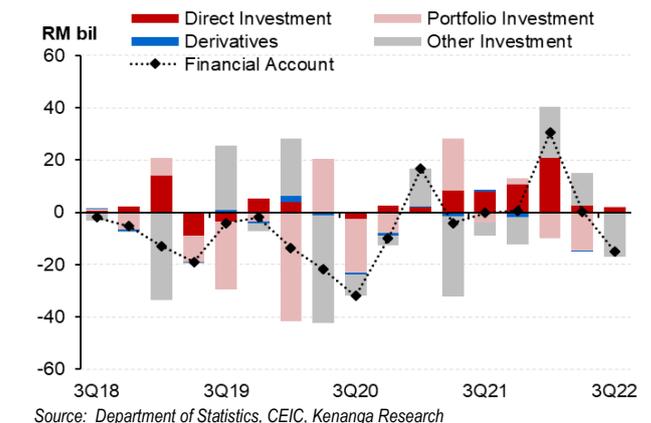
Graph 1: Current Account Trend



Graph 2: Current Account Annual Trend & Forecast



Graph 3: Financial Account Trend



14 November 2022

- Year to date, the CA surplus registered at RM21.5b or 1.6% of GDP, attributable to a strong recovery in domestic demand that saw higher imports while external demand eased. Going forward, we still expect domestic demand to remain resilient as the nation shift to endemicity, while the prospect of a global economic slowdown may weighed on goods surplus. Therefore, we forecast the 2H22 CA surplus forecast at 2.2% (1H22: 0.9% of GDP) following higher-than-expected 3Q22 numbers, with the 2022 CA balance to settle at 1.5% of GDP, the lowest since 1998.
- **USDMYR:** The ringgit may continue to be pressured in the near term largely due to volatility in the financial market amid a bleak global economic outlook which tends to benefit the safe-haven dollar, continued monetary policy tightening among advanced economies to combat inflation as well as rising political risk premium ahead of 15th General Election (GE15). Nonetheless, the ringgit may find some relief amid expectations that the Fed may slow the pace of rate hikes following a cooler-than-expected inflation reading in October. Against this backdrop, we project the USDMYR year-end target to settle at 4.57 (2021: 4.17). In 2023, the local note is expected to gain further momentum, with the year-end target at 4.39 on the expectation of political stability post GE15 while the US Fed may pivot away from its hawkish stance.
- **BNM OPR:** We still believe Bank Negara Malaysia (BNM) will maintain its hawkish stance in the near term amid elevated inflationary pressures as core inflation reading is expected to trend higher, reflecting a strong and resilient domestic demand going forward. Nevertheless, the imminent prospect of a global economic slowdown amid China's prolonged zero-COVID policy and the risk of a recession in Europe, UK, and the US may gradually bring BNM to relax its tightening bias and eventually pause. With that said, we expect BNM will hike its OPR by another 25 bps at its January 18-19 Monetary Policy Committee meeting, ending the policy rate at 3.00% in 2023.

Table 1: Balance of Payments

RM billion	2020	2021	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Current Account	59.1	58.7	11.9	13.2	18.2	15.3	3.0	4.4	14.1
% of GDP	4.2	3.8	3.2	3.6	4.8	3.6	0.7	1.0	3.1
Merchandise Balance	137.5	170.6	36.7	40.7	41.5	51.8	40.5	34.0	43.0
Exports fob	780.5	977.1	225.6	243.9	236.3	271.3	268.9	295.8	313.2
Imports fob	643.0	806.5	188.9	203.3	194.8	219.5	228.4	261.7	270.2
Services Balance	-47.2	-60.7	-14.8	-15.2	-15.3	-15.4	-15.0	-12.3	-9.6
Primary Income	-28.5	-41.6	-6.3	-10.8	-4.8	-19.6	-20.1	-14.7	-17.2
Transfers/Secondary Income	-2.7	-9.6	-3.7	-1.4	-3.1	-1.4	-2.4	-2.6	-2.1
Capital Account	-0.4	-0.6	-0.1	-0.1	-0.1	-0.3	-0.1	-0.1	-0.2
Financial Account	-77.4	13.0	16.6	-4.1	-0.2	0.7	30.4	0.2	-14.9
Direct Investment	3.1	28.5	1.81	8.2	8.0	10.5	20.8	2.6	2.0
Abroad	-10.2	-19.7	-6.7	-3.5	-1.5	-7.9	-3.6	-14.7	-10.3
In Malaysia	13.3	48.1	8.5	11.7	9.5	18.5	24.4	17.3	12.3
Portfolio Investment	-49.6	18.8	-0.2	20.1	-3.7	2.6	-10.1	-14.7	0.1
Financial Derivative	0.4	-2.3	0.3	-1.5	0.7	-1.8	0.2	-0.2	-0.4
Other Investment	-31.3	-32.0	14.7	-30.9	-5.2	-10.6	19.6	12.5	-16.5
Reserve Assets	19.3	-45.7	-17.1	-4.7	-21.3	-2.6	-12.8	-4.9	-13.2
Errors & Omissions	-0.6	-25.5	-11.3	-4.4	3.4	-13.1	-20.6	0.3	14.1

Source: Department of Statistics, CEIC, Kenanga Research

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