

ECONOMIC REPORT | Balance of Payment

Current Account Surplus at near 4-Year High Driven by Improved Trade Surplus Performance

- *Malaysia's current account surplus hit near 4-year high. Current account balance soared to RM15 billion in 1Q18, largest surplus since 2Q14. The figure is also higher than previous quarter's reading of RM12.9 billion.*
- *Largest 1Q net inflow of financial account since 2009. For 1Q18, the financial accounts posted a net inflow of RM15.2 billion from a net outflow of -RM8.3 billion in 1Q17 and also the largest 1Q net inflow since 2009.*
- *We forecast current account surplus to register RM39.6 billion in 2018. Due to positive global demand and modest recovery in commodity prices, we expect Malaysia's economy to continue expanding in 2018.*

Malaysia's current account surplus hit near 4-year high. Current account balance soared to RM15 billion in 1Q18, largest surplus since 2Q14. The figure is also higher than previous quarter's reading of RM12.9 billion. The surge was mainly due to sharp increase in goods account at RM35.7 billion compared to RM25.3 billion registered in 1Q17. Simultaneously, the services account deficit narrowed to RM5.9 billion from RM6.2 billion in the same comparable period. 8-year highest trade surplus at RM33.4 billion has contributed significantly towards our current account surplus.

Transportation lowered deficit in overall services account. Lower services account deficit in 1Q18 was driven by lesser outflow in transportation at -RM6.7 billion compared to -RM7.3 billion in 1Q17. Besides that, deficit also narrowed for insurance & pension and other businesses at -RM2 billion and -RM0.9 billion respectively. Meanwhile, construction declined further to -RM3 billion due to increasing usage of foreign-owned construction services compared to domestic-owned, particularly for mega projects including MRT, Tun Razak Exchange and Forest City. In contrast, tourism activities continued to demonstrate positive value in 1Q18 however slowed to RM6.8 billion compared to RM7.6 billion in 1Q17. We foresee tourism activity will continue to be in upbeat momentum throughout the year in conjunction to many upcoming events such as PATA Travel Mart and The Peking Man Exhibition (a joint venture between Malaysia and China).

Primary and secondary income account continued to deteriorate. Primary income account continued to display higher deficit at -RM10.2 billion compared to 1Q17. Breaking down the figure, investments deficit narrowed to -RM8.6 billion however not significant enough to offset weaker performance of compensation of employees. Similarly, secondary income deficit widened further to -RM4.7 billion from -RM3.9 billion registered in 1Q17. Moving ahead, we anticipate Malaysia current account surplus in full year of 2018 to narrow due to high base effect.

Table 1: Summary of Current Account (RM Billion)

	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18
Current Account	3.1	7.7	12.8	4.8	8.8	12.8	13.9	15.0
Goods	20.0	27.2	31.6	25.0	26.0	31.7	34.1	35.7
Services	(3.7)	(4.2)	(5.4)	(6.2)	(4.8)	(4.8)	(7.0)	(5.8)
<i>Manufacturing Services</i>	2.2	2.4	2.4	2.4	2.5	2.6	2.8	2.7
<i>Maintenance & Repair</i>	(0.0)	(0.1)	(0.1)	(0.1)	(0.0)	0.0	0.0	0.0
<i>Transportation</i>	(5.7)	(5.8)	(6.7)	(7.3)	(7.6)	(7.4)	(7.3)	(6.7)
<i>Travel</i>	8.3	8.2	7.6	7.6	8.5	9.2	7.7	6.8
<i>Construction</i>	(1.3)	(1.9)	(2.3)	(2.7)	(2.5)	(3.3)	(4.3)	(3.0)
<i>Insurance & Pension</i>	(2.0)	(1.9)	(2.1)	(2.3)	(2.1)	(2.2)	(2.3)	(2.0)
<i>Financial</i>	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
<i>Charges of Intellectual's use</i>	(1.2)	(1.3)	(1.3)	(1.5)	(1.7)	(1.7)	(1.7)	(1.6)
<i>Telecom, Computer & Info</i>	(0.8)	(0.6)	(0.2)	(0.3)	(0.5)	(0.4)	(0.4)	(0.5)
<i>Cultural & Recreational</i>	(2.8)	(2.2)	(2.2)	(1.3)	(0.8)	(0.9)	(0.7)	(0.9)
<i>Government Goods & Services</i>	(0.1)	(0.7)	(0.3)	(0.4)	(0.3)	(0.5)	(0.2)	(0.3)
<i>Other Business Services</i>	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.4)	(0.5)	(0.3)
Primary Income	(8.2)	(10.7)	(9.2)	(10.1)	(8.2)	(9.6)	(8.4)	(10.2)
<i>Compensation of Employees</i>	(1.3)	(1.3)	(1.3)	(1.2)	(1.2)	(1.1)	(1.2)	(1.6)
<i>Direct Investment</i>	(7.9)	(10.2)	(6.9)	(10.8)	(6.6)	(9.2)	(6.7)	(8.4)
<i>Portfolio Investment</i>	(3.2)	(3.2)	(3.8)	(2.5)	(3.9)	(2.0)	(3.1)	(3.9)
<i>Other Investment</i>	4.1	4.0	2.8	4.4	3.6	2.7	2.6	3.7
Secondary Income	(5.0)	(4.6)	(4.1)	(3.9)	(4.2)	(4.4)	(4.8)	(4.7)

Source: CIEC, MIDFR

Largest 1Q net inflow of financial account since 2009. For 1Q18, the financial accounts posted a net inflow of RM15.2 billion from a net outflow of -RM8.3 billion in 1Q17 and also the largest 1Q net inflow since 2009. This huge reversal of investment flow was largely due to the portfolio investment recording an impressive improvement from -RM32.4 billion deficit in 1Q17 to just -RM2.6 billion. On top of that, direct investments surplus continued to increase to RM10.7 billion. The turnaround elevated BOP overall performances, owing to sentiment improvement in the equity market.

Table 2: Summary of Capital and Financial Account (RM Billion)

	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18
Capital Account	0.1	(0.0)	(0.0)	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Financial Account	11.1	(5.1)	(15.3)	(8.3)	9.0	(2.8)	6.0	15.2
<i>Direct Investment</i>	6.6	2.7	1.0	9.2	(7.1)	8.8	5.3	10.7
<i>Portfolio Investment</i>	0.1	(9.8)	(20.1)	(32.4)	17.5	(9.1)	11.6	(2.6)
<i>Financial Derivatives</i>	0.0	(0.1)	(1.2)	0.6	(0.3)	1.0	(1.5)	0.8
<i>Other Investment</i>	4.5	2.1	5.0	14.2	(1.1)	(3.5)	(9.5)	6.4
Net Errors & Omissions	(10.0)	(1.2)	0.3	1.3	(7.5)	(3.8)	(17.7)	(12.0)

Source: CIEC, MIDFR

*Capital Account; 0.0=Less than RM50 million

Bad start for Indonesia and China. Unlike Malaysia, current account to GDP ratio of Indonesia and China recorded at -2.1% and -0.9%. This downward trend could be a result of rising concerns over trade tensions between US and China. Looking ahead, we view global trade activities will moderate as protectionist threat, geopolitical tension and policy uncertainties in developed countries remains.

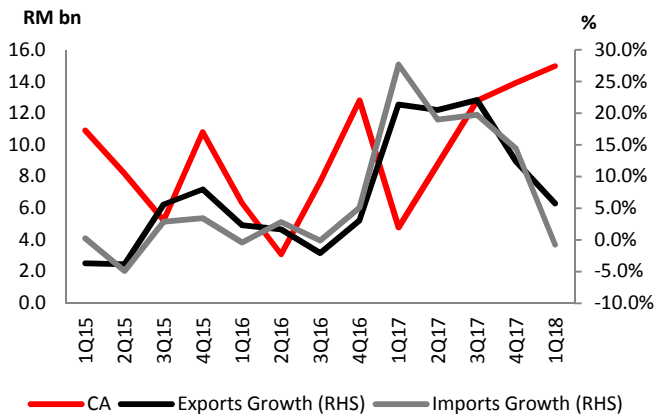
Table 3: Current Account to GDP by Selected Economies (%)

	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18
Malaysia	1.0	2.3	3.8	1.6	2.9	3.7	3.6	4.4
Indonesia	(2.4)	(2.0)	(0.7)	(0.9)	(1.9)	(1.8)	(2.3)	(2.1)
Singapore	21.4	23.0	16.4	19.2	18.7	22.5	15.1	
Australia	(3.5)	(4.1)	(1.3)	(1.2)	(2.1)	(2.9)	(3.1)	
China	2.4	2.6	0.5	0.6	1.8	1.1	1.8	(0.9)
EU	1.2	1.6	2.3	0.6	0.6	2.2	2.3	
United States	(2.5)	(2.7)	(2.4)	(1.9)	(2.8)	(2.3)	(2.6)	
Korea	6.1	4.8	6.0	4.2	4.2	4.6	3.7	
Japan	4.0	3.7	2.9	5.0	4.2	4.3	2.4	

Source: CEIC, MIDFR

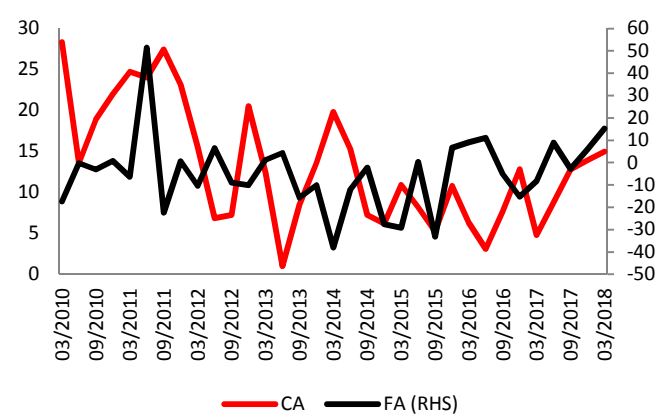
We forecast current account surplus to register RM39.6 billion in 2018. Due to positive global demand and modest recovery in commodity prices, we expect Malaysia's economy to continue expanding in 2018. Via the channel of strong exports demand, improving market confidences and optimistic tourism activity, we opine a continuous surplus in current account this year at RM39.6 billion, slightly below 2017's RM 40.3 billion amid of unfavourable base effects. 

Chart 1: Current Account Balance vs External Trade



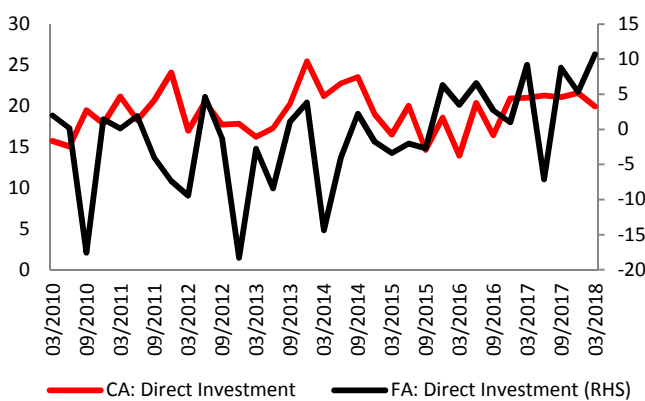
Source: CIEC, MIDFR

Chart 2: CA vs FA (RM Billion)



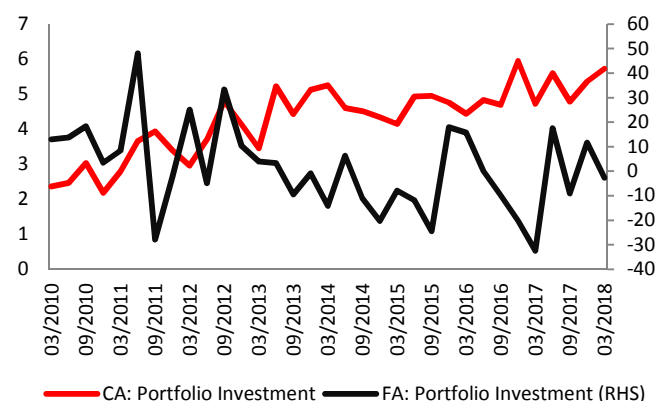
Source: CIEC, MIDFR

Chart 3: Direct Investment (RM Billion)



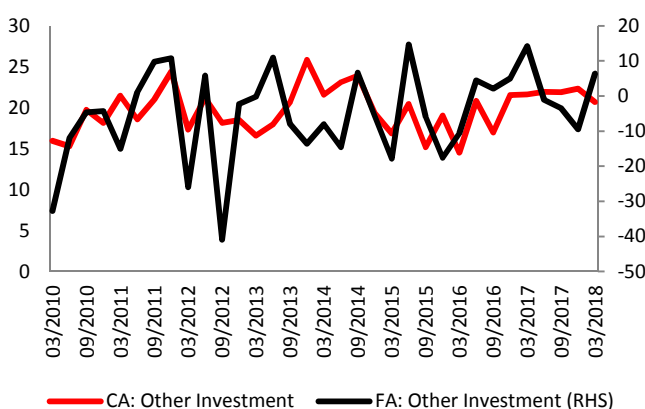
Source: CIEC, MIDFR

Chart 4: Portfolio Investment (RM Billion)



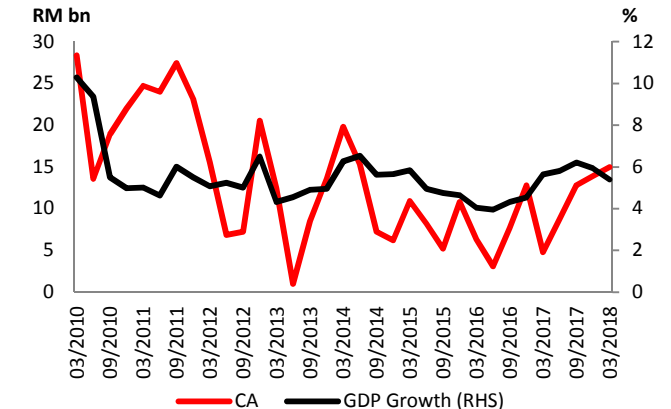
Source: CIEC, MIDFR

Chart 5: Other Investment (RM Billion)



Source: CIEC, MIDFR

Chart 6: Current Account vs GDP Growth



Source: CIEC, MIDFR

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