

ECONOMIC REPORT | Balance of Payment

Current Account Surplus Jumped to RM9.6bn in 2Q17

- Malaysia's current account balance surged to almost RM10 billion. In the second quarter of 2017, Malaysia's current account performed well recording RM9.6 billion worth of balance of payment an upwardly revised figure compared to previous quarter of RM5.3 billion.
- Financial account sees a turnaround. In the second quarter of 2017, the financial account experienced a turnaround from a net outflow of RM8.8 billion in 1Q17 to a net inflow of up to RM7.3 billion. This huge reversal of investment flow was largely due to the portfolio investment recording an impressive net inflow of RM16 billion.
- We forecast current account surplus to register RM32.3 billion in 2017. Due to favourable global demand and modest recovery in commodity prices, we expect Malaysia's economy to grow stronger this year as compared to 2016.

Malaysia's current account balance surged to almost RM10 billion. In the second quarter of 2017, Malaysia's current account performed well recording RM9.6 billion worth of balance of payment an upwardly revised figure compared to previous quarter of RM5.3 billion. Boost in the current account was spurred by surplus in net goods at RM27 billion, performing well above the RM20 billion mark since the third quarter of 2013. Strong exports performance for the first half of 2017 has contributed significantly towards our current account surplus.

Primary income shows slim improvement. Primary income and services account displayed lower deficits compared to previous quarter at RM8.2 billion and RM5 billion respectively. In addition, better performances in compensation of employees and direct investment with lower deficits are main pull factors supporting the primary income account in 2Q17. Looking ahead, we believe further improvement in business environment and external trade activities will boost current account surplus higher in 2017 as compared to previous year.

Table 1: Summary of Current Account (RM Billion)

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Current Account	6.2	3.1	7.3	12.5	5.3	9.6
Goods	23.3	20.1	26.8	31.2	25.3	27.0
Services	(5.7)	(3.8)	(4.2)	(5.4)	(6.2)	(5.0)
Primary Income	(6.4)	(8.3)	(10.7)	(9.2)	(9.9)	(8.2)
<i>Compensation of Employees</i>	(1.6)	(1.3)	(1.3)	(1.3)	(1.3)	(1.2)
<i>Direct Investment</i>	(5.2)	(7.9)	(10.2)	(6.9)	(10.5)	(6.7)
<i>Portfolio Investment</i>	(3.2)	(3.2)	(3.2)	(3.8)	(2.5)	(3.9)
<i>Other Investment</i>	3.6	4.1	4.0	2.8	4.3	3.6
Secondary Income	(4.9)	(5.0)	(4.6)	(4.1)	(3.9)	(4.2)

Source: DOSM, MIDFR

Upbeat tourism activity help to lower deficit in services account. The services account saw a shed in its balance leaving a deficit of RM5.0 billion, an improvement compared to previous quarter of RM6.2 billion deficit. Despite the shortfall in the services account, travel services have contributed the most in reducing the deficit by recording a surplus of RM8.2 billion. In conjunction with the SEA Games 2017, we could expect number of tourist arrival to increase sharply in 3Q17. Towards 4Q17, year-end shopping promotions as well as long holidays globally will attract tourist to Malaysia. Therefore, we foresee lower deficits in services account will give extra boost in expanding our current account surplus.

Table 2: Summary of Net Services (RM Billion)

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Services	(5.7)	(3.8)	(4.2)	(5.4)	(6.2)	(5.0)
<i>Manufacturing Services</i>	2.1	2.2	2.4	2.4	2.4	2.5
<i>Maintenance & Repair</i>	0.0	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
<i>Transportation</i>	(5.2)	(5.7)	(5.8)	(6.7)	(7.4)	(7.6)
<i>Travel</i>	7.4	8.3	8.2	7.6	7.6	8.2
<i>Construction</i>	(2.5)	(1.3)	(2.0)	(2.3)	(2.7)	(2.4)
<i>Insurance & Pension</i>	(1.8)	(2.1)	(2.0)	(2.1)	(2.3)	(2.1)
<i>Financial</i>	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
<i>Charges of Intellectual's use</i>	(1.3)	(1.2)	(1.3)	(1.3)	(1.6)	(1.7)
<i>Telecom, Computer & Info</i>	(1.2)	(0.8)	(0.6)	(0.2)	(0.3)	(0.5)
<i>Cultural & Recreational</i>	(0.5)	(0.1)	(0.7)	(0.3)	(0.4)	(0.8)
<i>Government Goods & Services</i>	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)
<i>Other Business Services</i>	(2.4)	(2.8)	(2.3)	(2.2)	(1.4)	(0.3)

Source: DOSM, MIDFR

Financial account sees a turnaround. In the second quarter of 2017, the financial account experienced a turnaround from a net outflow of RM8.8 billion in 1Q17 to a net inflow of up to RM7.3 billion. This huge reversal of investment flow was largely due to the portfolio investment recording an impressive net inflow of RM16 billion. The huge reversal in portfolio investment is possibly due to upbeat momentum in the financial market as reflected in the upward trends in KLCI since early this year.

Table 3: Summary of Capital and Financial Account (RM Billion)

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Capital Account	0.0	0.1	(0.0)	(0.0)	0.0	0.0
Financial Account	7.8	11.1	(5.8)	(14.2)	(8.8)	7.3
<i>Direct Investment</i>	3.8	6.6	2.7	1.0	8.3	(7.1)
<i>Portfolio Investment</i>	14.1	0.1	(10.6)	(19.1)	(31.9)	16.0
<i>Financial Derivatives</i>	0.5	0.0	(0.1)	(1.2)	0.6	(0.3)
<i>Other Investment</i>	(10.7)	4.5	2.1	5.0	14.2	(1.3)
Net Errors & Omissions	(41.6)	(5.5)	13.2	20.7	1.7	(14.3)

Source: DOSM, MIDFR

*Capital Account; 0.0=Less than RM50 million

Singapore and China posted better results in 2Q17. Same wave with Malaysia, current account to GDP ratio of Singapore and China recorded at 20% and 1.8%, highest since 4Q16. We notice the overall performance in the first half of 2017 has been on upward trends, supported by optimistic business and consumer sentiments globally which translate into greater movements of goods and capitals. Looking ahead, we view global trade activities will stay on healthy course given that threat of protectionism is receding.

Table 4: Current Account to GDP by Selected Economies (%)

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Malaysia	2.1	1.0	2.3	3.8	1.6	2.9
Indonesia	(2.2)	(2.2)	(2.0)	(0.8)	(1.0)	(2.0)
Singapore	15.8	21.0	22.5	16.9	19.0	20.0
Australia	(3.6)	(2.9)	(3.3)	(0.9)	(0.8)	
South Korea	6.5	6.4	5.2	6.0	4.8	
Japan	4.4	3.4	4.4	2.9	4.4	3.4
China	1.8	2.4	2.6	0.4	0.7	1.8
EU	1.3	1.7	1.8	1.9	1.0	
United States	(2.2)	(2.5)	(2.7)	(2.4)	(2.0)	

Source: CEIC, MIDFR


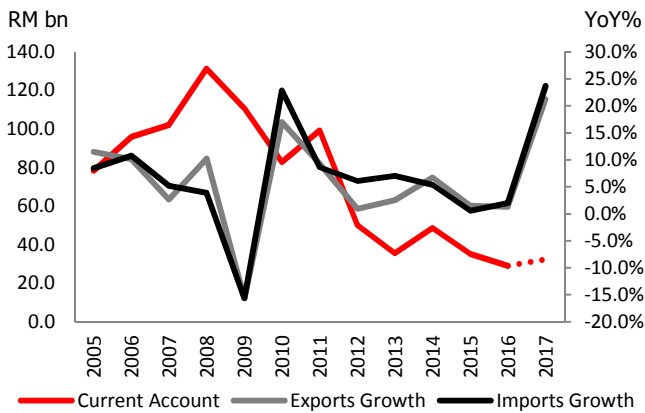
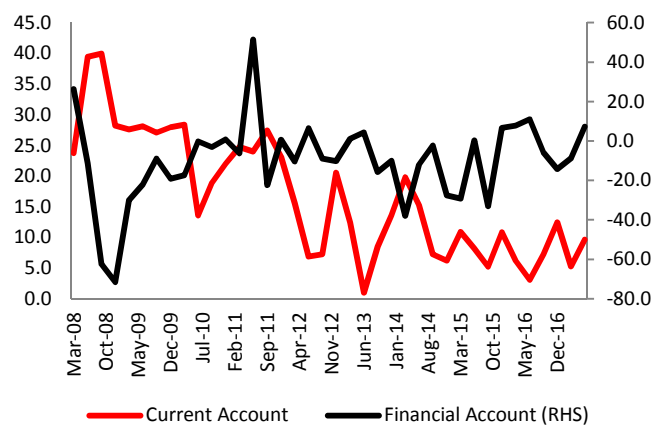
We forecast current account surplus to register RM32.3 billion in 2017. Due to favourable global demand and modest recovery in commodity prices, we expect Malaysia's economy to grow stronger this year as compared to 2016. Via the channel of strong exports demand, improving market confidences and optimistic tourism activity, we opine current account surplus to widen this year at RM32.3 billion, beating 2016's RM29 billion. 

Chart 1: Current Account Balance vs External Trade



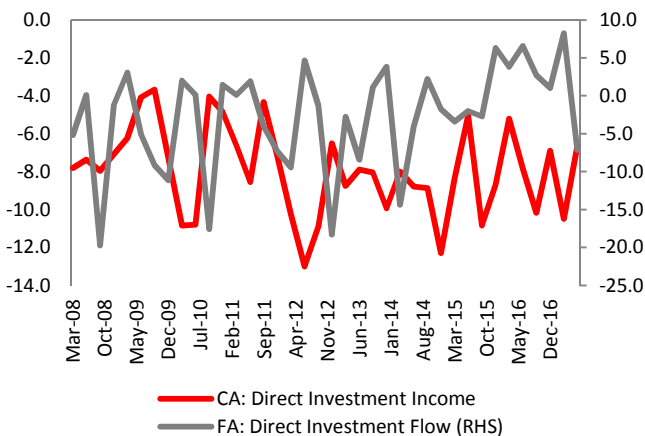
Source: DOSM, MIDFR
*Exports & Imports Growths: Average for the 1H17

Chart 2: CA vs FA (RM Billion)



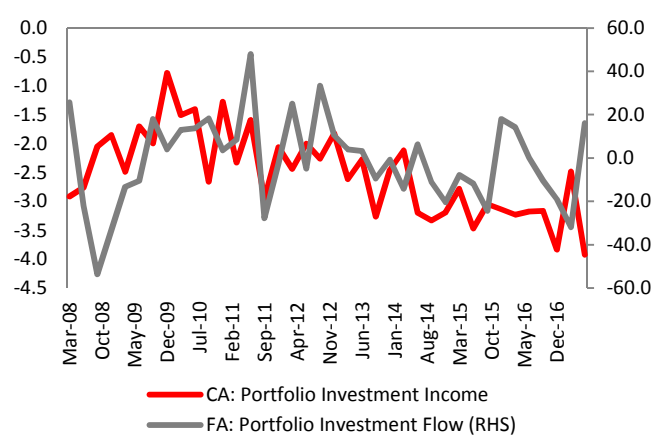
Source: DOSM, MIDFR

Chart 3: Direct Investment (RM Billion)



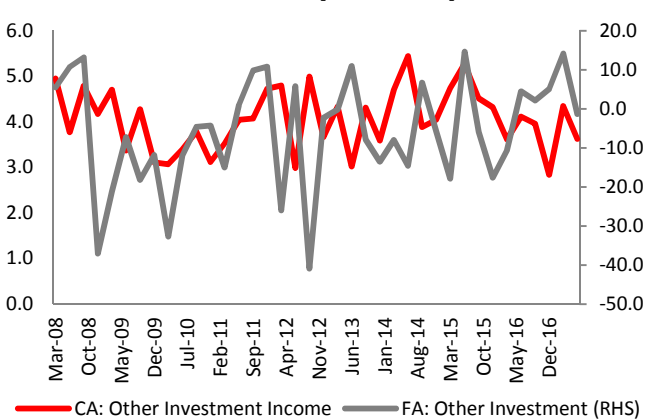
Source: DOSM, MIDFR

Chart 4: Portfolio Investment (RM Billion)



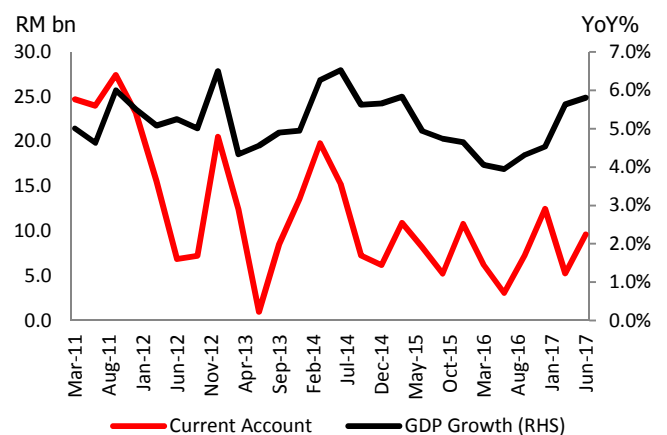
Source: DOSM, MIDFR

Chart 5: Other Investment (RM Billion)



Source: DOSM, MIDFR

Chart 6: Current Account vs GDP Growth



Source: DOSM, MIDFR

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