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ECONOMIC REPORT | Balance of Payment

Highest Portfolio Investment Outflow Since GFC 2009 Reflects Deteriorating Investors' Confidence

- *An uptick in current account surplus. Malaysia's current account surplus increased to RM9.5b (or 2.6% of the GDP) in 1Q20 from RM7.5b in 4Q19, breaking the sequential moderation started in 2Q19. The increase was mainly due to smaller deficit in primary income and continuous surplus in goods account. Primary income deficit narrowed to RM6b (4Q19: RM15.2b) as foreign companies in Malaysia earned lower income due to economic uncertainty in the quarter while goods account recorded surplus of RM28.9b (4Q19: RM32.3b).*
- *Tourism dragged down services account. We observed significant decrease in tourism activities as reflected in travel account which recorded lower surplus of RM2.1b, the lowest level recorded so far in the BPM6 edition. In line, airport passenger movement growth plunged to negative territory of -26.8%yoy in 1Q20 from 6.7%yoy in the preceding quarter.*
- *End-2020 Ringgit target at RM4.25 against the USD. In the immediate term, the Covid-19 pandemic is a downside risk to the Ringgit as it results in global supply chain disruption and induces a flight to safety. The nosedive movement in oil prices due to the oil price war between Saudi Arabia, Russia and the US has caused Ringgit to breach the USD/MYR4.40 level. Other downside risks will be the review by FTSE Russell of Malaysia's position in its FTSE World Government Bond Index (WGBI) watch list, lower interest rates resulting from OPR cuts, and moving towards the end of this year, the potential re-election of President Trump may boost the green back.*
- *We forecast current account surplus at 2.0% of GDP in 2020. Via the channel of trade surplus supported by diversified export products and markets, we opine a continuous surplus in current account for 2020. However, we foresee a lower current account surplus of 2.0% of the GDP compared to 3.3% in 2019 due to falling net exports and that tourism and manufacturing activities will be attenuated by Covid-19.*

An uptick in current account surplus. Malaysia's current account surplus increased to RM9.5b (or 2.6% of the GDP) in 1Q20 from RM7.5b in 4Q19, breaking the sequential moderation started in 2Q19. The increase was mainly due to smaller deficit in primary income and continuous surplus in goods account. Primary income deficit narrowed to RM6b (4Q19: RM15.2b) as foreign companies in Malaysia earned lower income due to economic uncertainty in the quarter while goods account recorded surplus of RM28.9b (4Q19: RM32.3b). Trade surplus was marginally higher in 1Q20 at RM37b (4Q19: RM36.4b). Similarly, secondary income managed to record slightly lower deficit of RM5.4b compared to RM5.5b in the previous quarter. In contrast, services account continued declining to RM8b due to lower tourism activities. In overall, Malaysia is positioned as a net domestic saver built up from a record of current account surpluses.

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Table 1: Summary of Current Account (RM Billion)

	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Current Account	3.4	3.3	10.7	16.9	14.3	12.1	7.5	9.5
Goods	24.6	24.8	31.7	33.4	28.3	29.4	32.3	28.9
Services	(5.5)	(2.8)	(3.5)	(1.7)	(3.4)	(1.8)	(4.0)	(8.0)
Manufacturing Services	2.6	2.9	2.9	2.6	2.9	2.9	2.9	2.8
Maintenance & Repair	0.0	0.1	0.0	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Transportation	(6.8)	(7.1)	(7.1)	(6.0)	(6.6)	(6.6)	(6.8)	(6.8)
Travel	7.4	8.5	7.7	7.9	7.1	9.3	6.4	2.1
Construction	(3.2)	(1.3)	(0.9)	(0.8)	(0.8)	(0.9)	(0.4)	(0.2)
Insurance & Pension	(2.2)	(2.2)	(2.2)	(2.0)	(2.2)	(2.1)	(2.0)	(1.8)
Financial	(0.0)	(0.0)	(0.1)	0.0	(0.1)	(0.0)	(0.0)	0.0
Charges of Intellectual's use	(1.7)	(1.8)	(2.0)	(1.7)	(1.9)	(2.3)	(2.3)	(2.2)
Telecom, Computer & Info	(0.3)	(0.5)	(0.4)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)
Cultural & Recreational	(0.8)	(0.9)	(1.1)	(0.9)	(0.8)	(1.1)	(0.8)	(0.8)
Government Goods & Services	(0.3)	(0.4)	(0.3)	(0.3)	(0.2)	(0.2)	(0.2)	(0.1)
Other Business Services	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Primary Income	(10.7)	(14.0)	(12.0)	(9.2)	(5.9)	(9.9)	(15.2)	(6.0)
Compensation of Employees	(1.7)	(2.0)	(2.4)	(2.4)	(2.1)	(2.2)	(2.4)	(2.3)
Direct Investment	(8.9)	(10.7)	(6.6)	(7.1)	(4.5)	(7.9)	(10.3)	(5.3)
Portfolio Investment	(3.4)	(3.2)	(5.7)	(2.6)	(2.4)	(3.6)	(4.2)	(3.4)
Other Investment	3.3	1.9	2.7	3.0	3.1	3.7	1.6	5.0
Secondary Income	(5.0)	(4.7)	(5.3)	(5.6)	(4.7)	(5.5)	(5.5)	(5.4)

Source: CIEC, MIDFR

Net outflow in financial accounts at 3-quarter high. Continuous improvement in the financial account for the past two quarters was put on end when the latest data showed higher net outflow of RM 13.3b compared to just RM0.1b in 4Q19. It was largely due to outflow of portfolio investment amounted to RM41.3b, the highest since GFC 2009 resulting from redemption upon maturity and selling off by non-residents. Declining portfolio investment reflects deteriorating investors' confidence following the Covid-19 outbreak along with domestic political turmoil. In addition, net inflow of direct investment declined to RM3.4b from RM4.4b in the prior quarter. Direct Investment Abroad (DIA) recorded higher net outflow of RM3b (4Q19: RM1.1b) while Foreign Direct Investment (FDI) registered higher net inflow of RM6.4b (4Q19: RM5.4b). Covid-19 is a downside risk to the capital inflows to the emerging markets as it induces flight to safety despite record low interest rate in the US.

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

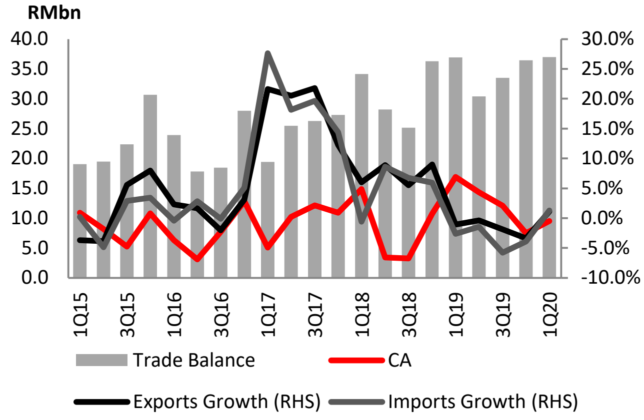
	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
Capital Account	(0.0)	(0.0)	(0.0)	0.0	(0.0)	(0.0)	0.3	(0.1)
Financial Account	9.8	(2.0)	(5.3)	(13.3)	(18.9)	(1.5)	(0.1)	(13.3)
Direct Investment	(1.1)	0.4	2.2	13.9	(9.2)	(3.4)	4.4	3.4
Portfolio Investment	(40.2)	0.9	(6.5)	6.5	(10.6)	(23.6)	(1.3)	(41.3)
Financial Derivatives	0.8	0.0	(0.7)	(0.2)	(0.5)	0.8	(0.6)	2.5
Other Investment	50.3	(3.3)	(0.2)	(33.4)	1.4	24.7	(2.5)	22.1
Net Errors & Omissions	(14.1)	(4.7)	(11.5)	1.9	3.2	(4.1)	(9.9)	(4.7)

Source: CIEC, MIDFR
*Capital Account; 0.0=Less than RM50 million

End-2020 Ringgit target at RM4.25 against the USD. In the immediate term, the Covid-19 pandemic is a downside risk to the Ringgit as it results in global supply chain disruption and induces a flight to safety. The nosedive movement in oil prices due to the oil price war between Saudi Arabia, Russia and the US has caused Ringgit to breach the USD/MYR4.40 level. Other downside risks will be the review by FTSE Russell of Malaysia's position in its FTSE World Government Bond Index (WGBI) watch list, lower interest rates resulting from OPR cuts, and moving towards the end of this year, the potential re-election of President Trump may boost the green back. Despite all this, we are sanguine on the oil production cut deal among world's major oil-producers nations and that the Covid-19 will be contained. Based on available data on Covid-19, we foresee the effects of the fears will wane in 2H20 given that recovery rate is on improving trend. Factoring all that, we foresee Ringgit at USD/RM4.25 (2019: USD/RM4.09) by year-end of 2020 and average at USD/RM4.22 (2019: USD/MYR4.14).

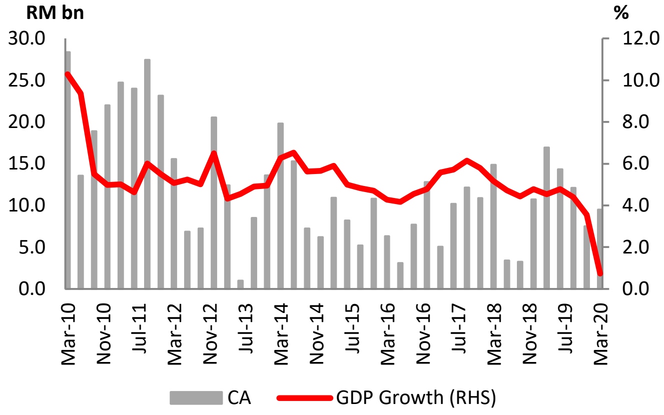
We forecast current account surplus at 2.0% of GDP in 2020. Via the channel of trade surplus supported by diversified export products and markets, we opine a continuous surplus in current account for 2020. However, we foresee a lower current account surplus of 2.0% of the GDP compared to 3.3% in 2019 due to falling net exports and that tourism and manufacturing activities will be attenuated by Covid-19. As the net exporter of oil, the recent oil price war will also contribute to the narrowing current account surplus.

Chart 1: Current Account Balance vs External Trade



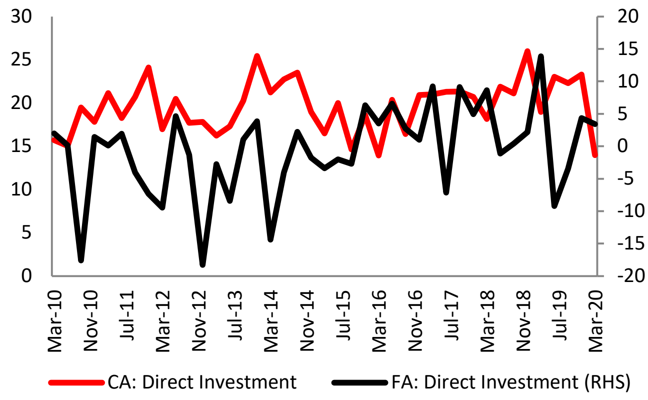
Source: CIEC, MIDFR

Chart 2: Current Account vs GDP Growth



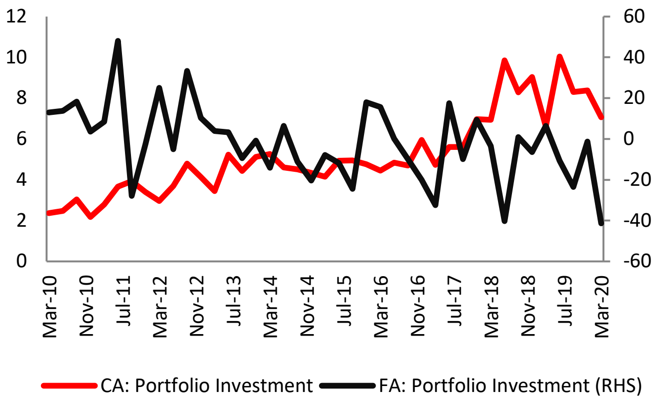
Source: CIEC, MIDFR

Chart 3: Direct Investment (RM Billion)



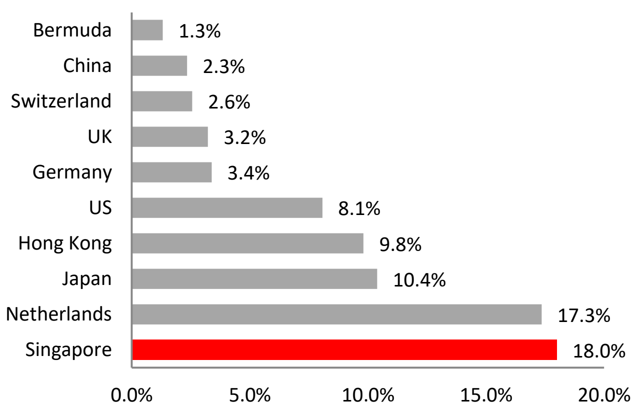
Source: CIEC, MIDFR

Chart 4: Portfolio Investment (RM Billion)



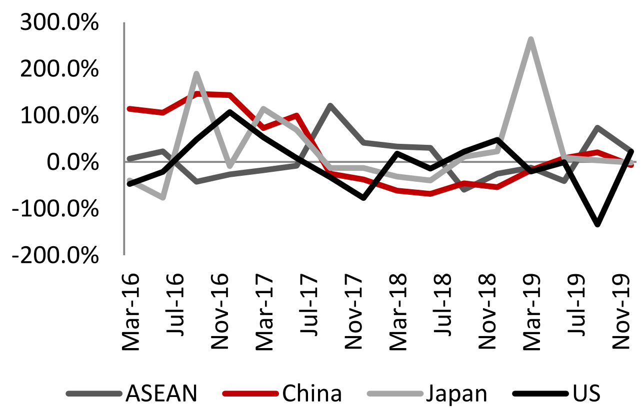
Source: CIEC, MIDFR

Chart 5: FDI Inflow by Country in 4Q19 (Share %)



Source: CIEC, MIDFR

Chart 6: FDI Inflow by Country (YoY %)



Source: CIEC, MIDFR

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