

Update: Malaysia linked assets show signs of stabilization after some initial downturn post elections

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Highlights

- Two days after elections, there are signs of stability regarding Malaysian linked assets.
- Mahathir has said that the new government will be “business-friendly”.
- There would be 10 ministers helming 10 core ministries.
- Our expectation of growth continues to stand at 5.5%, YoY for 2018.

Two days after polling day of 2018 elections, there are now some signs of stability regarding Malaysian linked assets. After jumping by 10.2% on Thursday, the 5Y Malaysian CDS is lower today. The iShares MSCI Malaysia ETF lost 6.03% on Wednesday but was 1.76% higher on Thursday. This comes after the swearing in of Mahathir and multiple press conferences by the new Prime Minister speaking on the new cabinet and the focus of the new government. Since his announcement of a Pakatan Harapan (PH) victory during election night itself, Mahathir has been constantly making mention that the new government only wants to “restore the rule of law”. He has made it clear that they are “not seeking revenge”.

Mahathir has said that the new government will be a “business-friendly government” and that “economy and finance are our main focus”. In particular, he said, “I would like to tell business people that they can push up the prices in the stock market”. When asked about Chinese investments, he stated, “we need to study all the things done by the previous government. It is not only about China, it’s about a lot of things within the country”. The Prime Minister was clearly not committing to scrap any project just immediately but rather looking to complete an analysis of them first. On the fiscal side, the new government though has committed to scrap GST within the first 100 days in office.

Administratively, the new Prime Minister has said that there would be 10 ministers helming 10 core ministries. The previous government had a total of 35 ministers. The 10 core ministries would be finance, home, education, defense, rural development, foreign affairs, public works, transport, economy, and multimedia & science. Mahathir has said, “We do not want to have a huge cabinet”. This gives some hints that a government streamlining may occur.

In his latest announcement, Mahathir stated that the new government will be investigating corruption. He said that the new government would “study” whether the MACC is fair or not. Mahathir has said that if there are officers who are bias, he would change them. He said that they would also look into Attorney-General (AG) Tan Sri Mohamed Apandi Ali and Election Commission (EC) chairman Tan Sri Mohd Hashim Abdullah. “Our intention is to go for people who have shown a tendency to be corrupt or who have committed known corrupt acts,” said the 92 year old.

Economic fundamentals remain strong with our expectations of growth standing at 5.5%, YoY for 2018. Inflation is moderate with the latest number for March being at 1.3%, YoY. The country has a thriving private sector and benefitted strongly from the global upturn in trade last year. However, in the longer term, measures to increase productivity growth would be important to ensure continued strong and stable growth. This could include addressing critical human capital and skills deficits. A pragmatic, focused and stable government would be able to address these constraints and further strengthen economic growth. Combined, a rationale reform minded government and a background of strong economic fundamentals can mean stronger market values. Earlier market concerns of significant negative knee jerk reactions when markets reopen on Monday may be exaggerated.

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