

## **BNM keeps interest rates on hold whilst election results shock in a historic night**

Thursday, May 10, 2018

### **Highlights**

- Bank Negara Malaysia (BNM) kept interest rates on hold as expected at 3.25%.
- Pakatan Harapan (PH) defeated the incumbent Barisan Nasional (BN) in the 14th General election.
- Financial markets were calm prior to the election but there could be some risk of volatility in the short term.

**BNM kept the interest rate on hold as expected at 3.25%.** BNM also mentioned in their monetary policy statement that “domestic financial markets remained resilient”, “Malaysia’s economic fundamentals are strongly anchored” and “the domestic economic outlook remains positive”. The Central Bank also said that “at the current level of the OPR, the degree of the monetary accommodativeness is consistent with the policy stance to ensure that the domestic economy continues on a steady growth path amid lower inflation”. We expect BNM to keep interest rates on hold for the rest of this year as the Central bank has pre-emptively raised rates in January and would probably be on monitoring mode. The statement made no reference to the recent political developments.

**As a recap of the election results, PH together with Warisan and two other independent candidates won a total of 123 seats whilst the incumbent BN captured 79 seats.** The 92-year-old Mahathir Mohamad will be sworn in as Prime Minister later today. Wan Azizah has been named as the Deputy Prime Minister designate. Anwar Ibrahim has been declared as the Prime Minister in waiting. PH also captured the state governments of Selangor, Penang, Johor, Malacca and Negeri Sembilan. BN only won the state governments of Pahang and Perlis. The other opposition party - Parti Islam Se Malaysia (PAS) won Kelantan and Terengganu. Results in Kedah, Sabah and Perak led to hung parliaments in these states. Surprisingly, in what was also to be the BN safe deposit state of Sarawak, PH won 12 seats, up from 6 seats in the last election. UMNO’s major partners in Peninsular Malaysia were virtually decimated with the presidents of the Malaysian Chinese Association (MCA), Malaysian Indian Congress (MIC) and Gerakan all losing their seats. Other major leadership casualties of BN include the Minister of Finance 2 – Johari Abdul Ghani and Minister in the Prime Minister’s Department for Economic Planning - Abdul Rahman Dahlan, who lost their seats.

**Prior to the election, financial markets were rather calm, with wide expectations from many analysts that the incumbent government would prevail.** Hence, there would be some market volatility expected in the short term due to potential investor anxiety over policy uncertainty. The KLSE was closed on Election Day and it will only reopen on 14th May 2018. Immediate reactions in the market include the iShares MSCI

Malaysia ETF dropping by 6% and the one month MYR NDF rising by 2.23%. In the past, financial markets tended though to largely recover two months after an election such as in 2008.

**PH had previously promised scrapping GST, undertaking management buyouts of selected government owned companies and reviewing Chinese investments.** The coalition has pledged to abolish the GST in their first 100 days of government. With regards to Chinese investments, according to Bernama, Mahathir had said, “We will review the ECRL project, whether or not it is necessary. If it is not, then we will stop it where it has already been built”. Moving forward in the next few days, pay close attention to the key cabinet appointments as the incoming Prime Minister, Mahathir Mohamad creates his new team out of members from potentially five different political parties.

---

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W