

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

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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.

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