

Has Malaysia's political standoff really ended?

The King ended the political deadlock, but it's not done from Mahathir's perspective just yet. We expect investors to stay on the sidelines until the political dust settles completely



A surprising political turn - Muhyiddin, new prime minister

A week-long power struggle between former Prime Minister Mahathir Mohamad and his named successor Anwar Ibrahim ended in frustration for the rivals. Just as they renewed their alliance (again?) and put their claim for the new government, the King declared Muhyiddin Yassin, former interior minister and president of Parti Pribumi Bersatu Malaysia (Bersatu, the party of Mahathir), as new prime minister.

Muhyiddin Yassin was sworn in as Malaysia's eighth prime minister on Sunday (1 March).

How did this happen?

Muhyiddin sidelined Mahathir and joined forces with a defector faction of Anwar's Parti Keadilan Rakyat (PKR or People's Justice Party) led by former economy minister Azmin Ali to form the new government with the support from two main opposition parties, Malays National Organisation (UMNO) and Parti Islam SeMalaysia (PAS).

And, Malaysia's King decided that Muhyiddin had enough members of parliament (112 required of 222 total MPs) on his side to form the government. The new coalition is dubbed as National Alliance.

Are we at the end of it?

The political crisis may seem to have ended, though we are likely to see some more uncertainty ahead as the political scene still remains split. Just ahead of the swearing-in of Muhyiddin, Mahathir, with the backing from Anwar's party has laid claim for power with the support of more than the required number of MPs to return as prime minister for the third time.

Mahathir has called for an urgent parliament session to test Muhyiddin's claim of majority support, or to prove his own standing. The next session of the parliament is scheduled on 9 March and anything could happen from now until then – possibly Mahathir losing some MPs on his side to the new coalition.

What does all this mean for markets?

We consider Malaysia's political crisis far from over as we are dealing with yet another fragile coalition here. And this is not positive for investors and markets. We expect investors to stay on the sidelines until the political dust settles completely, which may take weeks or maybe months.

If at all it survives the confidence vote called by Mahathir, we think the most pressing task for the Muhyiddin administration would be to put in place all of the needed stimulus for the economy, which is facing onslaughts of the Covid-19 outbreak via trade and tourism. Just ahead of the political climax, Mahathir rushed to announce an MYR 20 billion (~1.3% of GDP) stimulus package for the sectors affected by the virus. That package now stands as good as nothing, let alone its implementation.

Meanwhile, given the continued uncertainty about fiscal stimulus, Bank Negara Malaysia will have to do all the heavy-lifting to support the economy in the global turmoil. We are now more convinced that the central bank will cut the overnight policy rate by 25 basis points to 2.50% at the meeting on Tuesday (3 March). A rate cut may rather come as a confidence booster for the new government, but this also accelerates the depreciation pressure on the Malaysian ringgit in the ongoing emerging market sell-off due to Covid-19.