

Malaysia: Mahathir returns, uncertainty lingers

The lingering political and economic uncertainty ahead leads us to revise our end-2018 USD/MYR forecast to 4.05 from 3.84 previously



4.05

ING forecast of USD/MYR at end-2018

Revised up from 3.84

The best of MYR appreciation may be over

The markets were counting on the return of the former government of Najib Razak for continued economic and political stability. So, an initial negative market reaction to the surprising election results seems probable, though that will not be until Monday, 14 May when the market opens after the election holiday. But that's not all.

The lingering political and economic risks as we outline below will weigh on investor confidence and performance of local markets, especially the Malaysian ringgit (MYR) for some time, probably through the end of this year. The MYR has lost 2.2% of its value against the US dollar since early April. Besides the increase in political noise since the announcement of elections in early April, the return of the USD's strength was also responsible as reflected in across-the-board weakness in Asian currencies since. We now

see USD/MYR breaching the 4.00 level within the next three months and ending the year above that level. Accordingly, our end-2018 USD/MYR forecast is revised to 4.05 from 3.84 earlier (spot 3.95, consensus 3.81, market forward 4.00).

113

Parliamentary seats for Pakatan Harapan coalition

Out of total 222, a clear win

Better than expected

A clear victory but muddled future

A decisive victory by the Pakatan Harapan (PH) coalition led by Mahathir Mohamad may not mean an end to election-related political uncertainty. On the contrary, we can think of more political jitters, if the former ruling coalition Barisan Nasional (BN) and their supporters fail to digest the election defeat that ended over six decades of BN rule. An absence of any untoward incidences in coming days and a smooth transition of power from BN to PH may be positive for markets in the near term. But it doesn't end there.

This election result was one of the three possible scenarios we painted in our election preview note, where we also noted that a new government of Mahathir inherits a strong economy, which he will use to consolidate his power for the future, possibly paving the way for his son, Mukhriz Mahathir, to be his successor.

Having ruled the country for two decades under the BN banner, Mahathir may provide strong leadership, to begin with. However, Mahathir's old age (92 years) and potential political cracks with key allies, especially his former foe Anwar Ibrahim, whose Peoples Justice Party (PKR) is the dominant member of the PH coalition, could cast a shadow on the stability of the Mahathir administration. The test of this will be as early as June, when Anwar is expected to be released from jail on a royal amnesty.

And more economic risks ahead

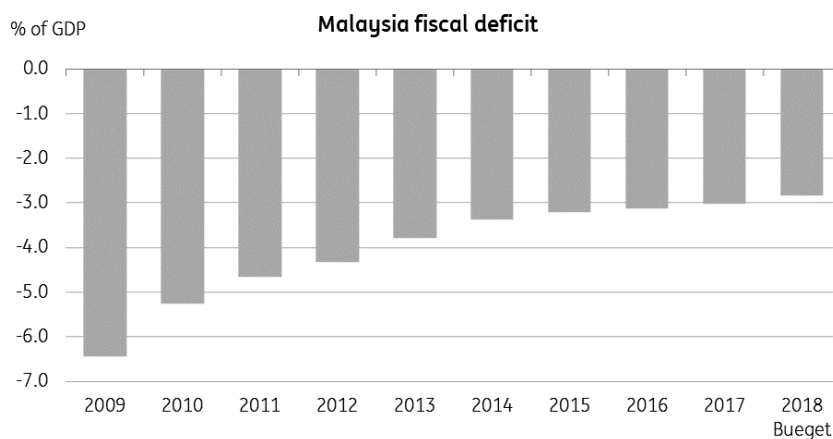
The Malaysian economy has been doing well and local financial markets have been outperforming their emerging market counterparts since last year. The sustainability of these trends hinges on the continuity of current economic policies under the new administration.

Among Mahathir's main elections promises were a scrapping of the 6% Goods and Services Tax introduced by the previous administration in April 2015. The fiscal reforms including the launch of GST and dismantling of fuel subsidies were instrumental in the consolidation of Malaysia's public finances, evident in a more than halving of the budget deficit from over 6% of GDP in 2009 to about 3% in the last year (see chart). Any reversal of these reforms by the new administration will be a setback for investors. No wonder, Moody's was quick to react to the election outcome by painting a credit negative scenario. Moody's rates sovereign at A3, on par with S&P and Fitch, with stable outlook.

Some campaign promises, if implemented without any other adjustments, would be credit negative for Malaysia's sovereign bonds. –Moody's statement.

Among other economic risks, one could anticipate Mahathir reassessing a multitude of foreign investment projects launched by the previous administration, as well as reopening the investigation of the 1MDB corruption scandal in which former PM Najib was allegedly involved. Moreover, the previous Mahathir regime was known for restrictive economic policies, prohibiting free flow of capital to and from Malaysia in the aftermath of the 1997 Asian crisis.

Steady fiscal consolidation



Source: CEIC, Malaysia Ministry of Finance forecast

But some positives

The economy has been doing well since last year and local financial markets have outperformed relative to their emerging market counterparts, for which we credit a positive terms of trade shock from rising global commodity prices, particularly the price of oil. Considering recent geopolitical developments, the upward oil price trend is your friend.

Barring any unfriendly policy shifts, Malaysia's sound economic fundamentals should sustain as the main positive for investors and markets. We reiterate our forecast of only a modest slowdown in Malaysia's GDP growth this year to 5.5% from 5.9% in 2017 (consensus 5.4%, government 5.5-6.0%). The test of this will be the release of GDP data for the first quarter next week (17 May), for which our forecast is 5.6% year-on-year growth.

However, likely negative sentiment toward the MYR strengthens our conviction that the Malaysian central bank (BNM) will continue on the normalisation path for monetary policy with one more 25bp hike in the overnight policy rate in the third quarter.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro
amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz
Senior Economist, Poland
mateusz.sutowicz@ing.pl

Alissa Lefebre
Economist
alissa.lefebvre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com