

FUNDAMENTAL FLASH

Newsflash | UMNO Withdraws Support for PN – Best Time to Strike?

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Prepared by Affin Hwang Asset Management

Political Rumblings

In an overnight broadcast, UMNO's party president Datuk Seri Ahmad Zahid Hamidi said that the UMNO Supreme Council has decided to withdraw support for the Perikatan Nasional (PN) coalition government with immediate effect.

The decision for UMNO to revoke its support was made despite the promotion of Datuk Seri Hishammuddin Hussein and Datuk Seri Ismail Sabri Yaakob as Senior Minister and Deputy Prime Minister respectively.

We discuss the implications of these political developments in our latest Fundamental Flash.

• How have markets reacted?

Malaysia's politics have been in a state of flux. Markets do not like uncertainty, but this has largely been priced-in already. So far, market reaction has been mildly negative. Markets have been fatigued from years of politicking and economic lockdown.

Flashpoints

- UMNO's Supreme Council has decided to withdraw support for the Perikatan Nasional (PN) coalition government despite the recent promotion of two ministers from UMNO.
- Market reaction was mildly negative with political risks largely priced-in already as political fatigue sets in.
- A change in government is unlikely at this juncture as no single party controls enough in Parliament. Though, the situation remains fluid.
- Even with a change in government, unstable coalition politics might still lead to disunity,
- More upside is seen for the local market as more parts of the economy reopen compared to further political changes.

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- **Why is this happening?**

Political changes happen when standing governments are weak. The best time to seize power is when there is leverage over incumbents or when it is backed up against the wall.

- **Will there be a change in government soon?**

We don't think so as the opposition is not overwhelming, even within UMNO. No one party controls enough to drive a change in government currently. We think the current administration will try to hang on as long as possible to ride the economic re-opening wave. This could happen by year end as vaccinations are ramped-up.

- **What would happen if there were a change in government?**

New government means another change in the apparatus of government. This will entail changes in heads of government-linked companies (GLCs), policy suspension, etc. This is clearly not good for markets as it prolongs the recovery and changes the policy direction which the markets might favour.

- **How stable would a new government be?**

The current government is composed of a coalition of 12 parties, while there is currently 6 opposition parties. Almost all the major parties have worked for and against one another at one point in time. Even with a clear majority of electoral votes, coalition politics will not be stable. We find it hard to view a stable governing coalition based on the current state of events.

- **How much more fiscal and monetary space does any new government have in stabilising the current economic lockdown?**

Not a lot. We are already past our debt ceiling and with a large part of government debt market funded by foreigners, it cannot afford any significantly larger issuances. Monetary policy is already loose and can't really stimulate the economy below a certain threshold.

75% of economist thinks there will be no change to interest rates. Government linked Investment Company (GLIC) funds has already been heavily tapped to support the general population. The risk going forward therefore lies in more national duty by government-controlled corporates if the economic slowdown continues.

- **How to navigate such flux?**

Fundamentally driven stocks have suffered a broad-based selloff this year due to rising COVID-19 cases and political overhang. We think a lot of the negatives are priced-in, but not a change in government.

We don't think that is a reality at this point in time although this is a low conviction view given how fluid politics can be. We think there is more upside from economic reopening than further political change.



Table 1: Political Coalitions in Malaysia

	Political Party	No of seats
	UMNO	38
	MCA	2
	MIC	1
	Bersatu	31
	PAS	18
	PBB (Sarawak)	13
	Independent	4
	Others	8
	TOTAL	115
Opposition:	PKR	35
	DAP	42
	Amanah	11
	Pejuang	4
	Warisan (Sabah)	8
	Independent	2
	Others	3
	TOTAL	105
Vacant		2

Source: CLSA

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