

Malaysia poll sparks sell-off

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Country's share index tumbles 9.5%

Prime minister sees his support slump

By John Burton in Kuala Lumpur

Fears of new political instability sent Malaysia's share index tumbling yesterday.

The Malaysian share index fell 9.5 per cent as investors took fright after the ruling National Front government's biggest election setback since taking power in 1957.

The country's exchange was forced to halt trading for a hour in the afternoon to prevent panic selling.

The slide in the share index, which ended at 1173 points, was the steepest one-day decline in nearly 10 years. The sell-off was

sparked by the weekend election in which the National Front won 140 seats of 222 seats in parliament, compared with 199 of 219 in the outgoing house.

Three opposition parties won 82 seats compared with a previous 19.

Analysts blame the government's poor performance on public anger over corruption, crime, income disparity and racial fears among the Chinese and Indian minorities. Although some dismissed the market reaction as a "kneejerk" response to the government's poll slump, investors appeared concerned that state-led infrastructure projects which helped to support a recent market rally might be put on hold.

Foreign investors had favoured the Malaysian stock exchange, viewing it as a safe haven from financial problems in the US and Europe, buoyed by high palm oil

prices and state infrastructure spending. Abdullah Badawi, the prime minister, yesterday sought to convey an air of normality as he was sworn in for a second term, endorsed by senior leaders of the United Malays National Organisation, the coalition government's dominant party. But

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political analysts said Mr Abdullah faces testing times as he tries to form a new cabinet in the knowledge that he may face a leadership challenge at the Umno party elections later this year.

Mahathir Mohamad, the prime minister's long-serving predecessor, and his son Mukhriz Mahathir, a rising politician and a leader of the Umno youth wing, have called for Mr Abdullah to step down. Dr Mahathir has backed Najib Razak, the deputy prime minister.

The possible instability hit shares in state-controlled companies such as Sime Darby, a plantation and energy group, and UEM World, the country's biggest construction company, both of which suffered sharp losses.

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"economic growth" corridors proposed by the administration.

Bridget Welsh, a Malaysian political analyst at Johns Hopkins University in the US, predicted the infrastructure projects will be closely scrutinised by opposition-led state governments.

The opposition gained control of Penang and Selangor, two of Malaysia's most industrialised states, the local government of the capital Kuala Lumpur, and the rich agricultural states of Kedah and Perak.

The opposition party that will head the Penang government said yesterday it will review plans for a \$8bn property development project that has close links with central government.

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