

# Malaysian shares suffer 9.5% plunge

TWSJ - 11/3/2008

*Election outcome  
raises policy doubts;  
cut in fuel subsidies?*

BY LAURA SANTINI

Malaysian shares plunged 9.5% yesterday after the country's ruling coalition suffered its biggest election setback, leaving investors uncertain about the government's policies including plans for infrastructure spending and fuel-subsidy cuts.

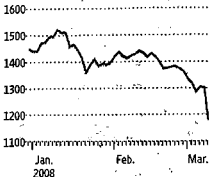
Selling pushed Malaysia's bellwether stock index down more than 10% during the day, the magnitude needed to trigger a one-hour trading halt on the Kuala Lumpur exchange. It was the first time the so-called limit-down rule went into effect since its introduction in the wake of the 1997-98 Asian financial crisis.

The election outcome is likely to create turbulence in Malaysian stocks over the next few weeks, as "the market seeks clarity in terms of what the dramatic shift in the political landscape means and how it will

DAILY INDEX PERFORMANCE

**Kuala Lumpur  
Composite Index**

Yesterday's close: **1173.22**, down 9.5%



Source: Reuters

play out," says Deyi Tan, an analyst at Morgan Stanley.

The Malaysian currency, the ringgit—which has been one of the best-performing currencies in Asia—yesterday fell about 1% against the U.S. dollar.

The market rout came as Prime Minister Abdullah Ahmad Badawi

*Please turn to page 2*

# Malaysian stocks slide 9.5% on policy fears after election

*Continued from first page*

was sworn in for a new five-year term, despite calls for his resignation from some politicians—notably his predecessor and onetime patron Mahathir Mohamad, who has demanded that Mr. Abdullah “take responsibility” for the ruling National Front’s big losses in Saturday’s voting.

Anger over rising inflation, widespread corruption, decades-long affirmative action favoring the Malay community, and lackluster leadership contributed to a strong protest vote against Mr. Abdullah’s government. The National Front failed to hang on to an expected two-thirds parliamentary majority, losing 82 of 222 seats. The ruling coalition also lost five of the country’s 13 state governments to the opposition. Before the election, the opposition controlled just one state and 20 seats in the national Parliament.

Elsewhere in Asia, stocks sank yesterday as investors continued to unload risky assets amid a weakening U.S. economy and tighter global credit market. On Friday, the U.S. Department of Labor issued employment data that was surprisingly negative, reporting that 63,000 non-farm jobs had disappeared in February, after 22,000 were lost the month before.

Indonesia’s benchmark index tumbled 4.8%; in Seoul, shares fell 2.3%; in Manila, 4%; in Bangkok, 1.8%; and in Taipei, 2.7%. The Shanghai Composite Index of mainland-listed equities dropped 3.6%. Mumbai closed down 0.3%, while shares in Sydney and Singapore gave up 1.6% and 1%, respectively.

In Japan, the Nikkei Stock Average of 225 companies slid 2%. Hong Kong’s Hang Seng Index reversed early losses to close up 0.9%, representing a gain of about 2.7% in the final 90 minutes of trading.

Investors say some of yesterday’s selling may have been exacerbated by the scramble to get out of the Malaysian market, which is generally less liquid than others in Asia. Hedge funds, which try to juice returns by buying stocks with borrowed money, likely faced margin calls from their brokers as Malaysian

stocks declined, forcing the funds to raise capital quickly by selling shares in other markets.

Until now, investors had viewed Malaysia as a place to hide while other Asian markets were rolled by the global financial turmoil. While its significant reliance on exports to the U.S. is a concern, Malaysia’s economy has benefited greatly from rising commodity prices. Palm-oil producers make up about 20% of the country’s main stock index, the Kuala Lumpur Composite, while domestic financial institutions represent around 23%. Malaysian banks have little to zero exposure to U.S. subprime debt, analysts say.

Rising domestic consumption and infrastructure spending also have supported Malaysian companies, as has further diversification of exports to new markets, such as

China and India. Analysts were expecting fuel subsidies to be trimmed shortly after the election, a measure that they championed as giving Malaysian companies an incentive to become more efficient. Given that the position is strongly against fuel-subsidy reductions, the timing and extent of the cuts are now “in doubt,” Goldman Sachs analyst Michael Buchanan wrote Sunday in a note on the election results.

Analysts worry about delays in planned infrastructure spending as outlined in the prime minister’s economic blueprint, the Ninth Malaysia Plan. Among its promises are improve-

ments in urban public transportation, a reduction of traffic congestion and air pollution, and better facilities to ensure clean water supplies in rural areas.

In his research note, Mr. Buchanan mentioned that the election results could improve the country’s image of poor governance. He noted that the Democratic Action Party, a member of the opposition coalition that won power in Penang—a center of industry and a big recipient of foreign investment—has said it will require that government contracts be subject to an open bidding process.

Diehard investors remain enthusiastic about Malaysian shares,



*Abdullah Ahmad  
Badawi*

even more so after yesterday’s declines have made them cheaper, says Gerald Ambrose, a fund manager at Aberdeen Asset Management, a significant investor in the market. “I don’t see the [election] news as being negative,” he says.

Several construction and property stocks, which tend to be more vulnerable to shifts in government policy, were mauled in yesterday’s trading. Malaysian Resources Corp. plunged 34%, while property developer Equine Capital Bhd. fell 50% and infrastructure and utility firm Kumpulan Perangsang Selangor Bhd. dropped 51%.

Currency analysts still expect the ringgit to appreciate against the dollar, because the government favors a stronger currency to fight inflation.

—*Eliffie Chew*  
contributed to this article.