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DAILY NEW COVID-19 CASES, THE MOVEMENT CONTROL ORDER, AND MALAYSIAN STOCK MARKET RETURNS

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ABSTRACT

The Movement Control Order (MCO) not only restricts movement of human being, it also reduces firms' financial profits and brings significant impact to stock returns. The objective of this study is to examine the relation between Malaysian stock market returns and variables related to the novel Coronavirus (COVID-19) pandemic outbreak. The FTSE Bursa Malaysia KLCI Index and eight selected main indices from 2 January 2020 to April 30, 2020, which includes the first three MCOs, are considered in this study. The results show that daily new confirmed COVID-19 cases and deaths had negative but insignificant impact on the returns on indices. Interestingly, MCO had significant and positive impact on all the indices' returns while oversea financial risks had negative impact on these returns. Furthermore, it is found that the degree of impacts of MCO and oversea financial risks varied positively with the firm size of the indices' constituent companies. China's decision on unchanged loan prime rate on the 20 February 2020 was a favorable news to the Malaysia stock markets as indicated by the positive returns on all the indices. Similarly, the degree of impact of the China interest policy also varied positively with the firms' characteristics. These findings are useful for investors in the Bursa Malaysia to manage their investment portfolios based on their appetites for risk.

Keywords: COVID-19; Movement control order; Pandemic outbreak; Bursa Malaysia.

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1. INTRODUCTION

The novel Coronavirus (COVID-19) pandemic outbreak has created a social risk that has impacted the financial growth of firms and the economic growth of Malaysia. Malaysian economic growth has hit as 10-year low as fears loom about COVID-19. Malaysia's economic growth has slowed from its rate of 4.3% in 2019, as The Central Bank of Malaysia has announced that the COVID-19 outbreak will affect Malaysia's rate of economic growth for Q1 2020. Moreover, due in large part to the COVID-19 pandemic, the World Bank has revised down Malaysia's GDP growth rate from

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4.5% to -0.1% for 2020. The main sources for the economic damage in Malaysia come from both external and internal factors. First, Malaysia is expected to feel the knock-on effect of the impacts of the coronavirus abroad. Singapore and China, which are among Malaysia's biggest trading partners, are also dealing with damage to their economies and industrial productivity from the COVID-19 outbreak. Any disruption to the industrial productivity of China could have a grave impact on domestic manufacturers in Malaysia, which are dependent on Chinese raw materials. Apart from trade, China is also Malaysia's top source of tourists, exceeding that of the ASEAN group. Travel, tourism, and related sectors such as hotels and other accommodations are expected to be among the most affected sectors in Malaysia due to the travel band on China tourists.

Second, the economic slowdown is also due to domestic factors such as the movement control measures put in place because of COVID-19. On a macro level, the closure of businesses and services, as well as the impacts on travel and the controls put over movement, will have outsized impacts on the levels of domestic consumption and business investment. Individuals and businesses affected by the temporary closures, especially small-and-medium enterprises (SMEs) and other vulnerable groups, will face a liquidity squeeze in terms of their cash flow as their earnings dwindle. This could leave the entire economy with higher levels of businesses insolvency and individual bankruptcies, while the financial system as a whole will be saddled with non-performing loans.

Malaysia joined the list of countries with the coronavirus when the first case of infection was confirmed for a Wuhan tourist on January 25, 2020. The total number of confirmed COVID-19 cases surged to 428 cases on March 15, 2020, when there were 190 cases that were detected in that single day alone (a daily increment of 73.9%). The Malaysian government announced a nation-wide lock-down that started as of March 18, 2020, to control the spread of this infectious disease. Under the so-called Movement Control Order (MCO), all private and government offices, business premises, and places of worship, except those of these that were considered essential services, were closed. Soon after the implementation of the MCO, the number of daily confirmed new cases peaked on March 16, with 235 cases, and the number of cases per day started to decline gradually after that. The MCO was extended trice until May 3, 2020. The Conditional MCO (CMCO) was implemented the next day and was put in force until June 9, 2020. The CMCO allows for the majority of businesses to operate, though only if certain precautionary steps were strictly observed. As of May 13, 2020, there were altogether 6,779 confirmed COVID-19 cases, 5,281 cases of those who had recovered from the coronavirus (77.9%), and 111 deaths from the coronavirus (1.64%).

Many negative thoughts and panic come to the minds of investors whenever this global, dangerous infectious disease is mentioned. The Malaysian stock market has also taken a hit from the COVID-19 pandemic. As of March 27, 2020, the Bursa had sunk to its lowest numbers in a decade, having fallen 20.52% since the start of the year. Airlines stocks were among some of the most battered stocks this year, and other blue chip stocks in banking and consumer goods were not spared. There were a few who gained, however, from the COVID-19 outbreak, including healthcare stocks and, especially, manufacturers of gloves.

Numerous empirical studies had provided evidences that Malaysian stock returns are effected by investor sentiments (Chia, 2019). To the best of our knowledge, the relation between Malaysian stock returns and investor sentiments that are driven by a fear of dangerous infectious diseases has not been investigated, except by Ali, Alam and Rizvi (2010). Ali et al. (2010) found in the