

Brexit Event Impact on Bursa Malaysia



ASSALAMUALIKUM AND GREETINGS FROM

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1.0 Introduction

- ❖ **Event:** The Brexit referendum results declared on 23rd June 2016
- ❖ **Decision:** UK to exit from European Union (Brexit)
- ❖ **Consequences:** Stock markets across the world crashed due to speculations and uncertainties
- ❖ **Malaysia's exposure to UK:** Limited and more specifically to construction industry
- ❖ **Objective:** To examine the behavior of stock in Bursa Malaysia surrounding Brexit through event study analysis

2.1 Literature Review – Brexit Impact

- ❖ Bianchetti, Galli, Ricci, Salvatori, and Scaringi (2016) used Johansen-Ledoit-Sornette model and found no bubble signals in equity and currency markets and concluded no crash or sharp rises in equity markets and currency markets.
- ❖ The central bank's Financial Market Committee (BNM, 2016) cautioned that the impact and volatility of Brexit could spill into the financial markets.
- ❖ Tielmann and Schiereck (2017) found an overall negative effect on logistic sectors where Logistic companies based on UK have relatively poorer performance than those based on Continental Europe
- ❖ Schiereck, Kiesel, and Kolaric (2016) speculated the stock market and Credit Default Swap (CDS) market short-run drop in around Brexit

No major studies seem to have been done for Brexit event on Malaysian economic context, more specifically for Bursa Malaysia.

Slide 3 of 8

2.2 Literature Review – Malaysian and UK Economy

- ❖ Malaysian economy is not susceptible to direct threats from Brexit, it may be affected by the indirect diversified effect that is not reflected by the markets and would ultimately pose a threat. Investors may watch the scenario for a long time without playing and be risk averter with Brexit outcome
- ❖ At most, the negotiation between Malaysia-EU free trade agreement could be paused and delayed but will eventually progress later
- ❖ Britain is not among the top ten significant trading partners of Malaysia.
- ❖ The number of Malaysian firms with exposure to UK were not very much.

3.0 Methodology

- ❖ **Method:** Event study method was applied for impact of Brexit event on stock prices by measuring abnormal return (the difference between actual and expected return).
- ❖ **Indication:** Positive difference would indicate Brexit event favorably by the markets and vice versa.
- ❖ **Time:** Return calculated for surrounding Brexit (23rd June 2016) – Daily return of May, June, July and August 2016.
- ❖ **Sample:** The KLCI Index was used for market return and first 9 publicly traded company (Maybank, Tenaga Nasional, Public Bank Berhad, CIMB Group Holdings, Petronas Chemicals, RHB Bank, Hong Leong Financial Group, Axiata Group and AmBank) were selected as proxy from the list based on the Forbes Global ranking for largest publicly traded companies in Malaysia.
- ❖ **Typical Calculation:** Difference between actual and expected return [$r_{jt} = R_{jt} - (\alpha + \beta R_{mt} + \varepsilon_{jt})$]

Slide 5 of 8

4.0 Analysis and Interpretation

- ❖ On the day of Brexit Referendum average abnormal returns increased to 0.54% from -0.39% on the day before announcement. This further reported to 0.37% on the day after announcement. Negative returns of -0.29% and -0.06% were observed 5 and 4 days respectively before day zero. In addition, the returns were again -0.16% after two days indicating some speculation.

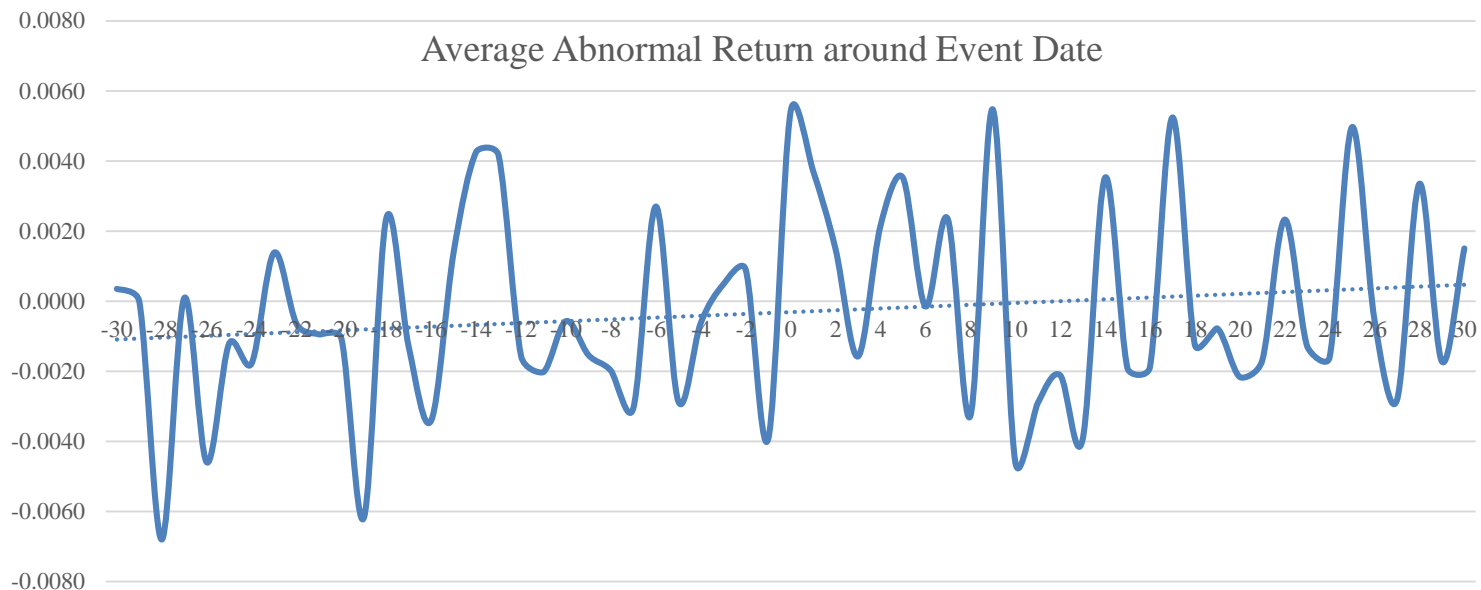
Daily Average Abnormal Returns					
DAY	Trading Date	AAR	SD	T	
-5	15-Jun-16	-0.0029	0.0087	-0.3285	
-4	16-Jun-16	-0.0006	0.0125	-0.0499	
-3	17-Jun-16	0.0005	0.0120	0.0397	
-2	20-Jun-16	0.0009	0.0061	0.1466	
-1	21-Jun-16	-0.0039	0.0082	-0.4820	
0	23-Jun-16	0.0054	0.0153	0.3525	
1	24-Jun-16	0.0037	0.0182	0.2044	
2	27-Jun-16	0.0015	0.0078	0.1902	
3	28-Jun-16	-0.0016	0.0077	-0.2056	
4	29-Jun-16	0.0021	0.0098	0.2190	
5	30-Jun-16	0.0035	0.0070	0.5005	

Slide 6 of 8



4.0 Analysis and Interpretation (Cont.)

- ❖ The AAR increased from -0.39% to 0.54% on the day of announcement. It was also observed that the AAR further reported to 0.37% one day after the announcement. Negative returns of -0.29% and -0.06% were observed on 5 and 4 days before the event and negative returns of -0.30%, -0.20%, -0.15%, -0.06%, and -0.20% were observed surrounding the event day. Some positive returns were also observed that make the pattern volatile.



5.0 Conclusion and Implication

- ❖ On the day of Brexit announcement, average abnormal return of stocks increased and further positive returns were observed in next two days.
- ❖ Negative returns were also observed surrounding the event.
- ❖ This probably indicates that there were some speculation surrounding the days ahead of the announcement.
- ❖ In general, stocks appear to have gain value in the few days around Brexit event.
- ❖ Overall, the market movement in the days around Brexit could be described as positive with relatively higher volatility.
- ❖ The prospective and current investors should be careful while making investment decisions during high impact events such as Brexit.

Thank you