Morgan Stanley Cuts Emerging Stocks Target, Raises Cash

By Saeromi Shin - Aug 16, 2012

Morgan Stanley (MS) cut its 2012 forecast for emerging-market stocks amid concern the global economy will grow less than estimated and after the benchmark gauge rallied as much as 11 percent from this year's low in June.

Morgan Stanley reduced its year-end estimate for the MSCI Emerging Markets Index by 7 percent to 1,130, compared with 1,210 previously. The target still implies a gain of about 16 percent from the current level. The brokerage also cut its targets for the MSCI Asia Pacific excluding Japan Index by 6 percent to 500, and the Hang Seng China Enterprises Index by 9 percent to 12,200.

The MSCI Emerging Markets Index rose to a three-month high of 979.28 on Aug. 9, an increase of about 11 percent from the gauge's June 4 low, amid optimism that central banks will introduce new stimulus measures. The gauge fell 0.1 percent to 973.08 as of 1:50 p.m. in Hong Kong today.

“We take some profits after the recent rally and scale back our fully invested overweight equities position, raising cash from zero to 4 percent,” Morgan Stanley analysts led by Jonathan Garner wrote in a report today. The brokerage recently cut its 2012 and 2013 growth estimates for China and South Korea along with major advanced and emerging economies.

The MSCI Emerging Markets Index has advanced 6.2 percent this year, compared with an 8.1 percent gain by the MSCI World Index (MXWO) of developed countries. The emerging-markets gauge trades at 10.8 times estimated earnings, compared with 13 for the developed-nations measure, data compiled by Bloomberg show.

Morgan Stanley this week cut its 2012 growth forecast for China to 8 percent from 8.5 percent previously, and 2013 estimate to 8.6 percent from 9.0 percent, citing stronger “headwinds” from external demand. It also lowered its 2012 growth estimate for South Korea to 2.8 percent from 3.2 percent.

Europe, Food Risk

Government data last week showed that Chinese exports grew 1 percent in July, missing the 8 percent median estimate of economists surveyed by Bloomberg. Foreign direct investment in China dropped 8.7 percent last month from a year earlier to $7.58 billion, the Ministry of Commerce said today in Beijing.

Morgan Stanley said it's concerned about “event risk” in September as Germany's Constitutional Court is set to rule on the future European bailout fund on Sept. 12 as well as rising risks from global food prices. The 21 nations in the MSCI Emerging Markets Index send about 30 percent of their exports to the European Union on average, data compiled by the World Trade Organization show.

A global food crisis may “hit us very soon” as a drought ravages corn crops in the U.S., the world's largest grower, the International Food Policy Research Institute said. The price of corn, used in everything from food to livestock feed to sweeteners, surged to a record $8.49 a bushel on Aug. 10.

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