Morgan Stanley | RESEARCH

IDEA

September 24, 2018 09:49 AM GMT

EM Strategy Update | Global

Closing the Short

We remove our bearish call on EM fixed income and FX. We think this remains a difficult world for EM but we've likely adjusted enough for now. Most investors expect trade issues to escalate and so this is priced in to an extent. The policy response has picked up and DXY should weaken. UST is a risk.

Calling time on the sell-off: EM assets rallied strongly last week and we think this marks the beginning of a period of stability and range-bound markets for EM. We turn neutral on EM local markets and credit and increase our exposure to a number of high yielders.

Global risks moderate: One key risk for EM has been our expectation for DM assets to come under growing pressure. Our equity strategists see a lower chance of US stocks dropping now and risks of a move to 3000, so the 'rolling bear market' is on hold. The move in global markets last week suggested that high risk premia for trade issues are embedded in EM assets. To be sure, we expect trade tensions to continue escalating and the US could announce its intention to put tariffs on the remaining US$267 billion of goods imports from China soon, but this should not be a surprise. The bigger risk is UST yields.

EM risks recede, while the policy response picks up: We previously highlighted a number of idiosyncratic risks in EM that could pose a challenge for EM over September. Risks have receded here at the margin but Brazil's election is probably the primary concern. The timetable for additional sanctions against Russia looks tight while the timetable for South African land reform has been pushed back, a market positive. The policy response from EM central banks has also picked up.

In local markets, we increase our exposure to high-yielding FX by raising Argentina, Indonesia and Russia to like, and removing the dislike on Brazil. In local rates, we move Mexico rates to like and remove the dislike from Argentina, Brazil and Russia. We recommend short MXNRUB, KRWIDR and USDCLP positions. Overall, we see the case for local markets as stronger than credit, considering better positioning, valuations that are more consistently cheap across countries and expected USD weakness.

In sovereign credit, we expect spreads to tighten in the coming weeks even if already somewhat rich IG spreads and the potential for increased supply are likely to limit the extent of any rally. Amid a still broad-based preference for IG, we nonetheless increase the beta in our portfolio. We recommend rotating out of Qatar into the higher-beta Oman, recommend adding risk in Mexico via Pemex and think Argentine spreads can tighten further. We also still like Russia, Colombia and Chile and think South Africa can tighten further. New trades are sell Qatar 26 vs. Mexico 26, buy Pemex 2047 vs. Mexico 2047, buy Argentina 2026 vs. Argentina 2048 and sell Brazil 5Y CDS-bond basis via Brazil 2025.

MORGAN STANLEY & CO. INTERNATIONAL PLC+

James K Lord
STRATEGIST
James.Lord@morganstanley.com +44 20 7677-3254

Min Dai
STRATEGIST
Min.Dai@morganstanley.com +44 20 7425-4381

Jaiparan S Khurana
STRATEGIST
Jaiparan.Khurana@morganstanley.com +44 20 7677-6671

MORGAN STANLEY & CO. LLC

Simon Waever
STRATEGIST
Simon.Waever@morganstanley.com +1 212 296-8101

Andres Jaime
STRATEGIST
Andres.Jaime@morganstanley.com +1 212 296-5570

Ioana Zamfir
STRATEGIST
Ioana.Zamfir@morganstanley.com +1 212 761-4012

Gilberto A Hernandez-Gomez
STRATEGIST
Gilberto.Hernandez-Gomez@morganstanley.com +1 212 296-8940

MORGAN STANLEY ASIA LIMITED+

Chun Him Cheung
STRATEGIST
Chun.Him.Cheung@morganstanley.com +852 2239-1261

Belle Chang
STRATEGIST
Belle.Chang@morganstanley.com +852 3963-0668

Turning neutral

After a significant sell-off, we close our bearish view on EM and shift into neutral gear. We can see the case for some temporary stability after a six-month bear market. Valuations are depressed, positioning has adjusted and we expect USD weakness. A number of idiosyncratic issues in EM have become less concerning at the margin as well, while the policy response by officials to shore up market confidence has picked up too. Meanwhile, our equity strategists have called for a year-end rally in the S&P. Expectations for further escalation on trade appear built in for now. However, more material escalatory risks over the medium term mean that this issue should re-emerge as a strong headwind in time and so we do not see the case to move bullish. A break out higher in US Treasury yields would probably question our decision to switch too.

We turn neutral across FX, rates and credit. Despite months of pressure from EM weakness, global risk assets have continued to rally. With the policy response from EM authorities picking up and few new trade tariffs likely to be *implemented* any time soon, it's looking less likely that DM assets will be brought down by EM in the near future. The rolling bear market we have described is on hold. We think that the case for removing the bearish view in EM is stronger for local markets than for credit, on account of valuations and positioning. Yet if local markets stabilise, we are unlikely to see much in the way of outflows from credit, and the asset class should stabilise too. We also remain firmly in the camp of DXY weakness (see FX Pulse: More USD Losses, September 20, 2018), which is key. A weaker USD invariably leads to better performance from EM.

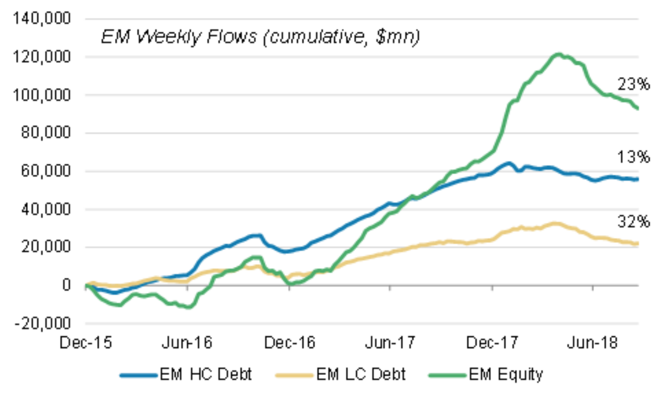
In Global EM Strategist: When Will it Stop? September 4, 2018, we outlined various risks that could keep EM on the back foot. A number of them have eased back recently to justify a switch in our view, and we outline why below.

Trade tensions priced in? The positive market reaction last week to the announcement of additional tariffs on US-China trade suggested that more punitive tariffs were expected and that sufficient risk premia had already been embedded into EM assets. The US could well announce its intention to put tariffs on the remaining US$267 billion of imports from China, but this should not be a surprise to markets, given President Trump's commitment to take such a step in the event that China responded to the most recent US tariffs, which Beijing has done. That talks between China and the US have been cancelled should not be a surprise either. Media reports suggest that Beijing is waiting for the US mid-term elections to pass before negotiations can begin.

While China has responded to US tariffs with its own, it has also reinforced investor sentiment by committing to prevent a devaluation of its currency, pledging to cut VAT and import tariffs while sending reassuring messages to the foreign investor community (attracting capital will be increasingly important as China's current account continues to deteriorate). This is helping to slow the escalatory cycle.

To be clear, rhetoric around trade issues will likely remain negative and a headwind for markets, but additional escalatory policies look likely to wait until after the US mid-term elections. Further pressure on asset prices may have to wait until those policies are closer to implementation and the economic impact of them and those already in place takes effect through weaker corporate margins and higher short-term inflation, not to mention slower global trade and weaker corporate investment.

Exhibit 1: Flows from LC have been larger than HC



Source: EPFR, Morgan Stanley Research

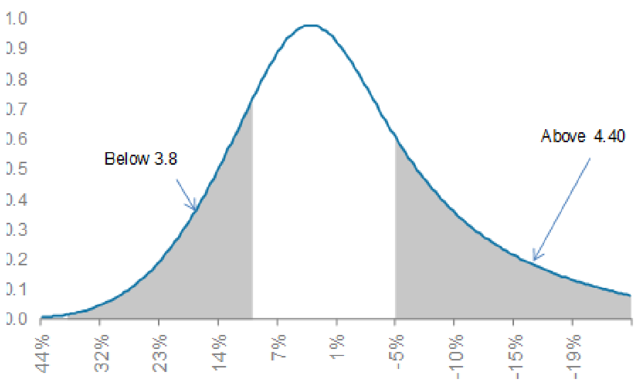
Real money flow: This has been a much discussed risk for EM investors. With significant weakness in EM assets, fund outflows are to be expected. The flow picture across both hard and local currency in total does not suggest that much de-risking has taken place. Net flows for 2018 have been more or less flat, with large inflows seen from 2017 largely in the red. However, there is a significant difference between local markets and EM credit, as discussed in Global EM Strategist: How Cheap Is EM Really? September 17, 2018. Outflows from local market funds have reached 32% of the cumulative inflow since January 2016 (the beginning of a rally lasting to early 2018). In credit, the figure is closer to 13%.

In addition, flows have also now started to return to the asset class. Last week saw the first inflows into local and hard currency funds since July. There exists a significant discount now between EM and DM, across all the various asset classes, whether fixed income, FX or equity markets. Implied volatility in FX also shows that the risk premium attached to EM currencies remains very high compared to DM currencies. With valuation support, investors are unlikely to withdraw money from EM to buy expensive assets in DM. One risk that could have led to more EM outflows was a broader spillover of volatility in EM to DM assets, affecting US credit and equity markets. Indeed, this was previously our base case and one reason for expecting more pain for EM. In this scenario, outflows from both EM and DM risk assets would have led to a flight to safety. However, our DM strategists have become less concerned and see a growing risk of the S&P trading to their bull case target of 3,000 in the near term.

Coming into September, we also think that real money positioning in local markets had turned significantly more defensive after an August of very high volatility and poor returns. Investors have been increasing exposure to low yielders and cutting overall FX risk (see Local strategy implications).

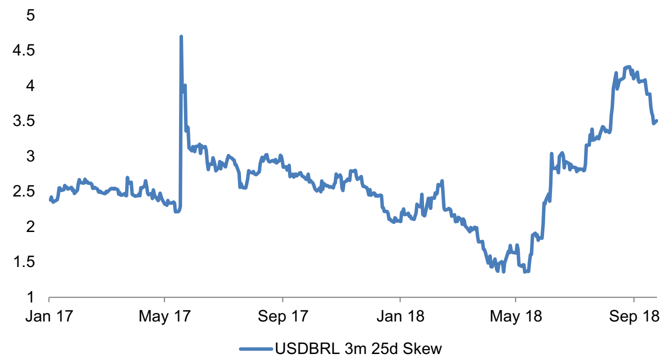
Idiosyncratic risks: We highlighted Brazil's election, Russian sanctions and South Africa's land reform debate that could potentially weigh on investor confidence over the coming weeks. Brazil's elections remain the largest of these three risks and we continue to hold a long EURBRL position. However, even in this case the market has done a good job of pricing in some additional risk premium as it has become clearer that candidates supporting orthodox policies have started to fall behind in the polls. Assuming our conditional estimates of USDBRL for 2018 ahead of the election (see Brazil Economics and Strategy: Looking Back to Look Ahead: A Defining Vote, September 4, 2018) and using option-implied probabilities in 3m USDBRL, we estimate that the market is pricing in around a 60% versus 40% chance of an unorthodox versus orthodox candidate winning the election.

Exhibit 2: Market pricing a greater chance of a higher USDBRL



Source: Bloomberg, Morgan Stanley Research

Exhibit 3: Risk reversals showing BRL risk premium

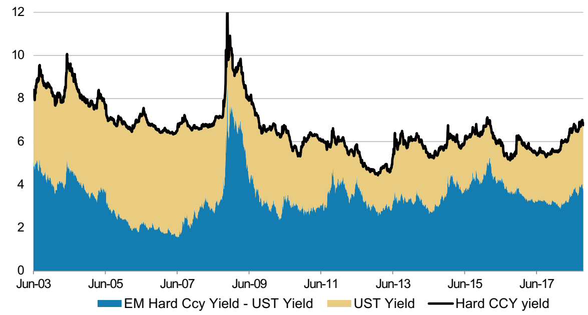


Source: Bloomberg, Morgan Stanley Research

As for Russia, we remain concerned about the prospect for additional sanctions. Yet the legislative calender looks tight for Congress to pass anything ahead of the US mid-term elections. Other risks for Russia, such as the heavy issuance calender into year-end and the USD purchase programme related to excess oil revenues, have moderated as a result of the central bank's decision to halt USD purchases until end-2018 and the central bank's rate hike. Recent OFZ auctions have also been cancelled to support the market. In South Africa, the recent panel appointed by President Ramaphosa should go some way towards alleviating concerns that radical versions of land reform proposals might be implemented. Meanwhile, the parliamentary constitutional review committee has sought an extension to its September 28 deadline to present its findings. Media reports suggest that this means any legislative decisions may have to wait until after the 2019 election. While the lingering uncertainty on this topic is not good, investors have generally come to expect market-unfriendly headlines on this topic. Kicking the can down the road means that markets can reduce the level of concern temporarily and is probably a short-term positive. Recent news about mining sector reform has also been positive.

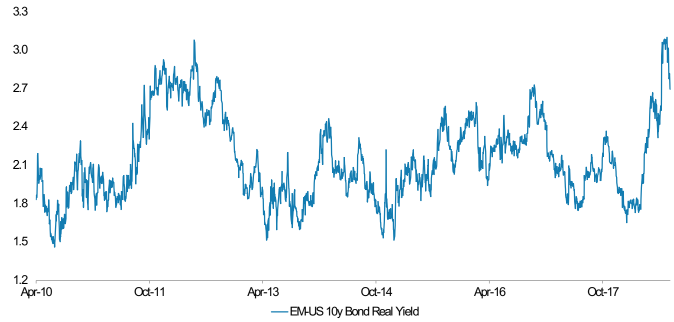
Valuations: For the bulls, this box has been ticked for a long time. We remain concerned about the higher-than-normal diversity of performance within EM, which means that only certain parts of the index look cheap and not a broad set of countries in the asset class. We discussed this point in Global EM Strategist: How Cheap Is EM Really? However, valuations across local markets look better than in credit, as there is less diversity of performance compared to credit, while when taken at face value the local markets index of FX and bond yields is at historically cheaper levels than for credit. However, EM credit should also see increased demand, helped by the outright level of yields that are now back to the wides since 2009 (Exhibit 4).

Exhibit 4: EM sovereign credit valuations cheaper, with outright yields in particularly attractive



Source: Datastream, Bloomberg, Morgan Stanley Research. Index used is the EMBIG.

Exhibit 5: EM-US 10y real yield differential*



Source: Bloomberg, Morgan Stanley Research; *EM = GBI-weighted 10y nominal - 12m fwd CPI expectations. US = 10y TIPS.

The big risk – Treasuries: Perhaps the biggest risk to our call for EM to stabilise temporarily is the possibility another move higher in 10-year US Treasury yields. So far the impact of the +30bp move in nominal 10-year US rates has been benign for EM. This is all the more impressive considering that it has been driven by real yields, with the term premium also moving higher, which typically affects EM more negatively compared to a breakeven-driven rise in yields. One reason why could be linked to better valuations. Work we did earlier in the year showed that EM tends to perform better when yield differentials versus the US are wide. This is particularly the case for EM local markets. We refreshed the analysis and again found similar results.

Exhibit 6: Better EM local markets valuations suggest lower sensitivity to rising US yields

Prior month EM valuation	Sensitivity of EM yields to US yields (beta)	R-squared
Cheap	0.51	0.09
Neutral	0.61	0.18
Rich	0.83	0.53

Source: Bloomberg, Morgan Stanley Research;. Note: Results show sensitivity of changes in EM real yields to changes in US real yields. We ran linear regressions on weekly data from 2010-present. EM valuation is based on differential between 10y EM real yields and US real yields. Cheap = 250bp or higher, Rich = 200bp or lower.

We analysed the sensitivity of EM real yields to US real yields, conditional on prior month EM valuations, which we labelled as rich, neutral or cheap. We use a GBI-EM-weighted 10y EM real yield and compare this to 10y US TIPS. The differential between these two is also shown in Exhibit 5. By dividing our data into three subgroups of rich, neutral and cheap we could run separate linear regressions on each (Exhibit 6). We found that the cheaper the prior month EM valuation, the lower the sensitivity of EM yields to US yields and the lower the explanatory power of the model (R^2). For example, if differentials were wide a month ago, a 100bp move in US yields today would translate into a 51bp move in EM yields. However, in this case, our model would only explain ~9% of the variability in EM yields (versus 53% if valuations were rich a month ago).

With EM bond yields still trading at a wide differential to 10y real rates, we think that these results suggest there is still a cushion to absorb some additional increases in US yields without a significant impact. However, this would be risky for EM and the asset class would not be entirely immune. Fortunately, the Morgan Stanley base case is for yields to top out, with our US rates team remaining bullish on duration. If yields can remain at the year-to-date peak of 3.12% in the wake of the FOMC, then the team believes this would likely indicate that the highs for the year in yield terms are in place.

The policy responses

The policy responses from EM authorities have also picked up in intensity recently. Exhibit 7 shows the variety of measures taken by central bank and government officials in response to currency volatility. Rate hikes, FX intervention, import restrictions, FX trading restrictions and various other measures have been taken in an effort to backstop exchange rates. In general we believe that measures by individual countries are unlikely to turn the tide on their own and that changes in the global backdrop would be needed, which, as explained above, we believe is starting to occur. Recent measures have included a commitment by China to not devalue RMB in response to trade tensions, an introduction of the countercyclical factor in China, a larger-than-expected rate hike from Turkey, a surprise hike from Russia with a reversal in previous commitments to accumulate foreign currency, FX restrictions and import tariffs in Indonesia and measures to encourage some capital inflows in India, among others. Policy-makers are highly attentive of FX weakness and stand ready to do more as needed. Again, this does not signal a turning point on its own, in our view, but is supportive of the asset class nonetheless.

Exhibit 7: The policy response from EM central banks and governments has picked up

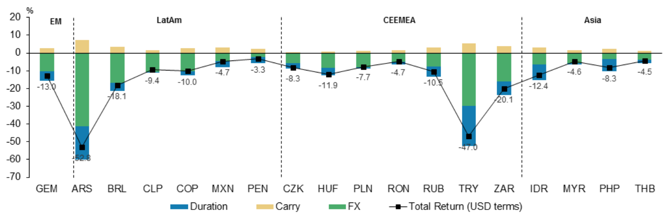
Country	Spot change in FX Apr 2 - Sep 14 (%)	# of Rate Hikes (bps of Hikes)	Rate Hike Date	Current Rate (%)	FX Reserve chg Mar - Aug	Macroprudential or other FX restrictive measures	Comments from central bank or Ministry of Finance
China	-8.55	-20bps in 7D repo		2.62 (7D repo)	-1.10%	- 20% required reserves on long USDCNY forwards - Restrictions on offshore RMB lending , forcing CNH Hibor to rise and raise cost of shorting CNH - PBOC re-introduces the use of the countercyclical factor to fight against the "pro-cyclical" sentiment in the FX market	PBOC: There should be "bottom line logic" to the exchange rate framework. This implies the PBOC would not allow the RMB TWI to fall uncontrollably and we will likely see the CFETS RMB Index stabilise towards end-2018
Indonesia	-7.12	3 (125bps)	May 17 (25bps) May 30 (25bps) Jun 29 (50bps) Aug 15 (25bps)	5.50	-6.30%	Measures announced: - Raised import taxes on some non-crucial imports - FX swap hedging facility 1M, 3M, 6M, 9M - New overnight interbank bm rate (Indonia) since Aug 1 - Removed SDBI and re-introduce SBI to allow foreign investor participation in CD - Reduced minimum value of FX swap transactions to $2mn from $10mn - Planned to introduce OIS, IRS	
India	-9.29	2 (50bps)	Jun 20 (25bps) Aug 01 (25bps)	6.50	-5.7%	- Exempted withholding tax on Masala bonds issued in F19. Will remove restriction on Indian banks' market-making and underwriting in masala bonds - Will review exposure limits – 20% of an FPI's corporate bond portfolio in a single corporate group and 50% of any issue of corporate bonds - Will review the mandatory hedging conditions for infrastructure loans - Lowered maturity for overseas borrowing up to $50m for manufacturing firms to 1y from 3y. - Possible limits/taxes on imports of non-essential items and measures to boost exports	Finance Minister reiterating its commitment to achieving its fiscal deficit target RBI to bring inflation closer to target (target is 4% +- 2%, Aug CPI 3.69%Y)
Philippines	-3.63	2 (100bps)	May 10 (25bps) Jun 20 (25bps) Aug 09 (50bps)	4.00	-2.70%	- BSP is introducing a binding "FX Code of Conduct" to prevent trade that destabilises the FX market and help with transparency and price discovery - The BSP is also returning to using the Currency Rate Risk Protection Program. The program increases USD liquidity via the BSP's balance sheet and its aim is to prevent excessive swings in PHP	BSP Governor expresses for "strong monetary action" in the Sept meeting and that CRRPP is intended to "ease the demand pressures" on USD
Malaysia	-6.68	0	0	3.25	-2.80%	No explicit policies to control FX weakness; however, a noticeable decline in FX reserves triggered BNM taking short forward positions following the May elections. The BNM position may be to counter the recent increase in foreign outflows	BNM expressed the need to increase monitoring of narrowing rate differentials against DM but has not actively voiced measures to push against FX weakness
Thailand	-4.31	0	0	1.50	-5.10%	Due to a declining but still large current account surplus and high level of FX reserves, BoT has not been overly worried about THB weakness. Inflows into THB debt have been strong as regional investors increasingly see THB FX and rates as a local "safe haven" due to Thailand's strong external position.	BoT has commented that THB remains volatile and is an item it will monitor closely.
Korea	-5.38	0	0	1.50	1.00%	No direct FX control measure. But 10y and 30y FX Stabilization Bonds were issued on Sep 14 - not for direct short-term FX control but more for longer-term purpose and to help lower benchmark yield rate (and to lower external debt costs)	Keeping an accommodative monetary policy given the sluggish employment conditions
Taiwan	-5.26	0	0	1.38	0.6% (Foreign Reserve)	No. The CBC does prefer a weaker TWD, in our view. In addition, TWD had appreciated a lot in 2017 so there is little need for stabilising measures	Keeping a loose monetary policy stance given the remaining weak inflation and growth
Singapore	-4.50	NA	NA	NA	0.8% (Foreign Reserve)	MAS increased slightly the S$NEER slope from a 0% appreciation slope to a modest and gradual appreciation slope (MS estimate from 0% to 0.5%) in Apr	
Czech	-5.86	2 (50bps)	Jun 28 (25bps) Aug 03 (25bps)	1.25	-16.60%	The CNB is not happy with the fact that CZK appreciated less than its forecast and committed to hike rate to tighten monetary conditions	
Hungary	-9.05	(17bp)		0.21	-0.5%	The NBH is forced to abandon its dovish tone and let the Bubor fixing (de facto policy rate) to move higher	
Israel	-1.50	0	0	0.10	-0.10%		
Poland	-7.58	0	0	1.50	-5.5%		
Russia	-15.56	1 (25bps)	Sep 14 (25bps)	7.50	1.6%	The MinFin stopped FX purchases a couple of times when the market volatility rose and cancelled a few bond auctions	"The Bank of Russia will consider the necessity of further increases in the key rate, taking into account inflation and economic dynamics against the forecast, as well as risks posed by external conditions and the reaction of financial markets."
Turkey	-35.61	3 (16%)	May 28 (8.50%) Jun 07 (1.25%) Sep 13 (6.25%)	24.00	-7.7%	- The CBT announced that the size of all the TRY=>USD swap that Turkish banks had vs offshore banks must not exceed 25% of banks capital, which effectively tightened offshore liquidity for TRY - The government increased the TRY deposit tax rate while decreased the USD deposit tax rate discourage USD demand - The CBT cut RRR for both FX and TRY to increase market liquidity	"Inflation expectations, pricing behaviour, lagged impact of recent monetary policy decisions, contribution of fiscal policy to rebalancing process, and other factors affecting inflation will be closely monitored and, if needed, further monetary tightening will be delivered."
Ukraine	-6.94	2 (100bps)	Jul 12 (50bps) Sep 06 (50bps)	18.00	2.6%		
South Africa	-20.65	0	0	6.50	0.8%	The ANC pledged to announce new growth measures to support growth	
Argentina	-49.39	5 (32.75%)	Apr 27 (3%) May 03 (3%) May 04 (6.75%) Aug 13 (5%) Aug 30 (15%)	60.00	-15%	- New policy rate: 7D LELIQ; - Substantial hikes - Increased focus on monetary aggregates - FX market interventions using reserves and swaps - Increased reserve requirement ratios - IMF agreement	Government remains committed to stabilising the economy and complying with IMF targets.
Brazil	-20.67	0	0	6.50	0.5%	Discretionary interventions through FX swaps – outstanding amount increased from ~$23bn to ~$70bn (mid-May to present)	CB to provide liquidity to FX market as necessary. CB willing to go past ~$115bn swap maximum reached in 2015 and even use reserves if needed.
Chile	-11.94	0	0	2.50	-3.0%	CB recently more hawkish, but because the economy has been well-behaved (inflation converging to target – no financial stability considerations). It could hike in Dec/Jan in line with MS expectations	CB has not voiced any concern on FX stability
Colombia	-7.72	1 (-25bps)	Apr 28 (-25bps)	4.25	-0.1%	n/a	CB not concerned by FX depreciation. No intervention plans for now and sees no hike into year-end
Mexico	-3.40	1 (25bps)	Jun 21 (25bps)	7.75	0.0%	n/a	n/a
Peru	-2.49	0	0	2.75	-2.7%	CB has been doing daily FX interventions since 2007 to limit the currency's volatility	n/a

Source: Local central banks, various media sources, Morgan Stanley Research

Local strategy implications

Local markets have suffered heavily this year, with the index down 10% year-to-date, driven primarily by currency losses. Since the bear market got under way in mid-April, total returns have hit -13%, driven by the high yielders.

Exhibit 8: ARS, TRY, ZAR and BRL have underperformed

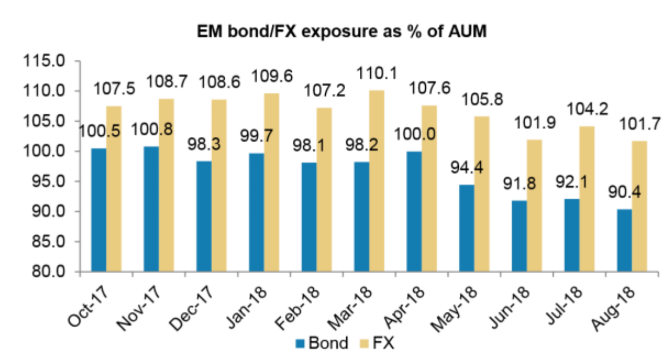


Source: Datastream, Morgan Stanley Research

As we explain in Turning neutral, we think the case is there for some temporary stabilisation which should allow high yielders to stop underperforming. However, we do not expect that this is the beginning of a bull market, and carry will be an important reason why high yielders should do better.

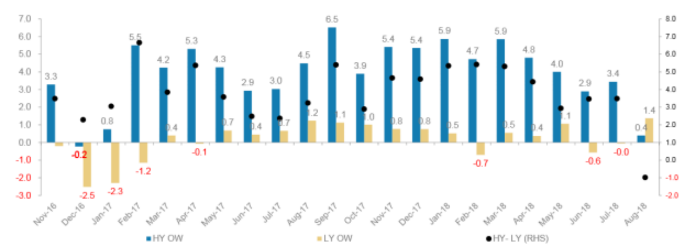
In addition to factors mentioned in Turning neutral, another positive for local markets is that positioning had become cleaner coming into September, on our estimates at least. Real money investors brought their EM exposure to the lowest level since at least last October, while duration exposure is around the benchmark. Not only is the overall positioning low, but investors also rotated out of high yielders and moved into low-beta low yielders. We estimate that real money funds are now more overweight low-yielding currencies relative to high yield than at any time since late 2016, and by a considerable margin relative to the average HY versus LY positioning seen in this period (see The GBI-EM Investors' Lowdown, September 21, 2018). The rally over the past week likely means that investors have started to shed their preference for low yielders, but considering the starting point this is unlikely to have run its course.

Exhibit 9: EMFX exposure at a year-to-date low



Source: Company websites, Morgan Stanley Research

Exhibit 10: High yield OW smaller than low yield OW

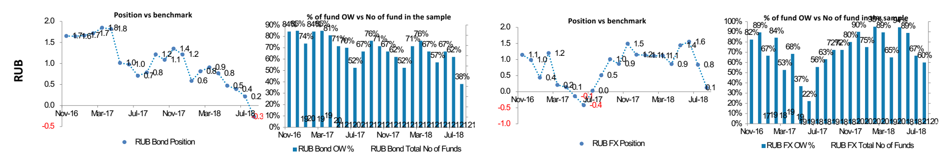


Source: Company websites, Morgan Stanley Research

What allocation changes or trades do we recommend?

In CEEMEA, we move Russia FX to like and enter a short MXNRUB position. We also turn neutral on OFZs, after being bearish since August. The Central Bank of Russia's surprise rate hike should continue to be supportive of the currency, while its decision to stop purchasing foreign currency as part of the Ministry of Finance's intervention programme until 2019 removed one of the factors that drove RUB weakness in the past few months. This should mean that the currency's correlation with oil prices will increase. The oil market remains tight in the view of our oil strategists and they see risks skewed to higher prices, which should be RUB-supportive. While we remain concerned about the impact of potential future sanctions on Russia, the legislative calendar for action to be taken ahead of the US mid-term elections looks tight, which should mean that any measures against sovereign debt are unlikely any time soon. After almost a 100bp sell-off in OFZs in the past few weeks, OFZs are now pricing in another one or two rate hikes. Positioning in OFZs is much cleaner than four months ago (Exhibit 11). **We keep TRY at neutral** and do not see enough of a reason to take a more bullish view at this stage, while we **keep a bearish stance on TURKGBs** as we think that real money investors, who have been holding onto TURKGBs positions, could sell into the rally (see EM Strategy Update: TURKGBs Investors' Dilemma, August 1, 2018). Lastly, **we keep our bearish view on ZAR and SAGBs** as we believe that lower growth could weigh on the fiscal balance and the long-end risk premium should increase. We would like to keep our bearish stance into the medium-term budget update in late October (see South Africa Economics and Strategy: Downgrade Unlikely, but Too Early to Buy, September 7, 2018).

Exhibit 11: Russia positioning



Source: Company websites, Morgan Stanley Research

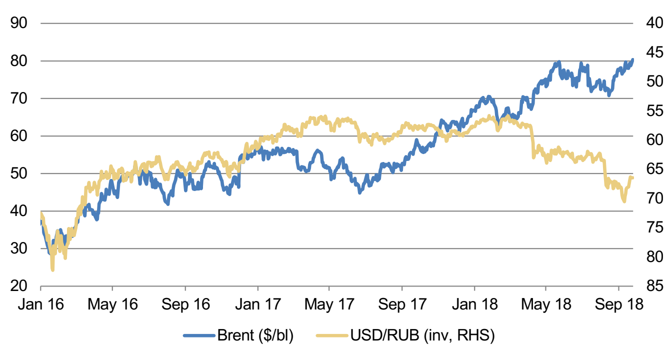
In Asia, we add a short KRWIDR position as we see IDR a good carry trade. Recently, BI has revealed a list of measures such as placing an import tax on consumer goods to narrow the current account deficit, which should put less strain on IDR. BI is scheduled to conduct its meeting this week and our economists have pencilled in an on hold decision with the policy rate at 5.50%; however, this is against the market consensus for a 25bp hike. Should BI hike against our economists' expectation, this can lead to further IDR strength than we have currently pencilled in. The authorities also allow USD supply to foreigners, improving market sentiment. Elsewhere in Asia, we stick to our bearish view on MYR due to widening rate differentials and remain neutral on THB and TWD as better risk sentiment towards EM may reduce the 'safe appeal' of these two currencies temporarily. We see the CNH TWI staying relatively stable after the Chinese Premier promised not to use FX as a tool in trade negotiations and INR remaining offered as high oil prices may widen India's current account deficit further.

In LatAm, we remove our dislike on Argentina local assets and turn bullish on ARS: Year-to-date, the currency has depreciated by approximately 40% in REER terms, reaching levels not seen since the end of the convertibility era. When adjusting by external imbalances, the currency now looks more attractive in PPP terms, as recent macroeconomic events have already been reflected in the price (see Argentina: What you need to know ahead of the adjustment, September 6, 2018). While we maintain a more cautious view on ARS in the medium term, we think that, over the coming weeks, the currency could benefit from receding external headwinds (see Turning neutral) as well as from potentially favourable news regarding the renegotiation of the IMF agreement. **We maintain our bullish view on low-yielders, expressed most recently via a short USDCLP position,** in addition to our existing Chile and Peru local rates trade recommendations. **In Mexico, we turn bullish on local rates,** whose risk premium should begin to decline, given the current EM reprieve coupled with a temporary stabilisation in the investment narrative. However, we do expect MXN to be more sensitive to lingering risks regarding the new administration's potential policies, as its valuation is already looking stretched and less likely to provide cushioning (Exhibit 13). We therefore remain neutral on the currency, which should benefit less than other EM peers from the current global backdrop. **Finally, we remove our dislike on Brazil local rates,** as there is currently a significant risk premium embedded in the curve and a potentially more stable USDBRL should limit its potential to steepen further.

New trade recommendations

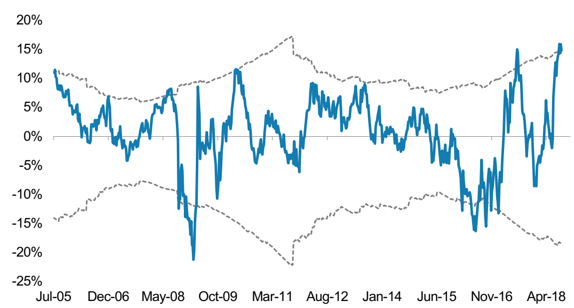
Short MXNRUB: As mentioned above, we believe that rate hikes, changes to the FX intervention programme and reduced near-term risks relating to sanctions suggest outperformance for RUB in the context of further gains in oil prices. MXN has been one of the best-performing EM currencies this quarter, appreciating by ~5.7% versus USD. In our view, the currency's outperformance was driven by a combination of factors, including positive NAFTA headlines, a more moderate tone from the incoming administration and high real rates. Our two-factor model suggests that the MXN risk premium is now significantly low on a historical basis (Exhibit 13). Against this backdrop, with most positive catalysts this year already in the price and given some uncertainty regarding the new administration's policies, we expect that MXN will benefit less than other EM currencies from a temporary reprieve in risk appetite. Risks to this trade include an escalation in US sanctions on Russia, or weaker oil prices.

Exhibit 12: Rising oil could benefit RUB more



Source: Bloomberg, Morgan Stanley Research

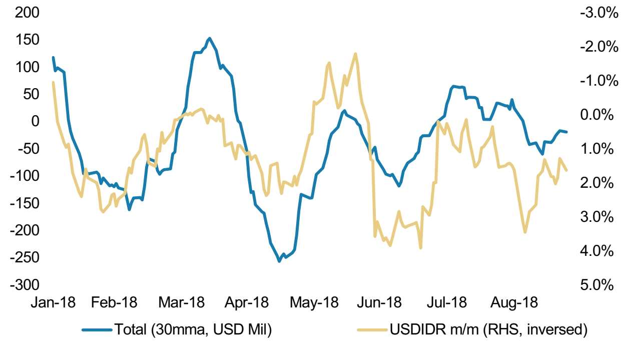
Exhibit 13: MXN risk premium remains historically very low



Source: Morgan Stanley Research; Note: Chart shows MXN 6m cumulative idiosyncratic risk premium. Dashed lines represent 5% and 90% assuming a normal distribution, standard deviation of the two-factor model and a mean equal to zero.

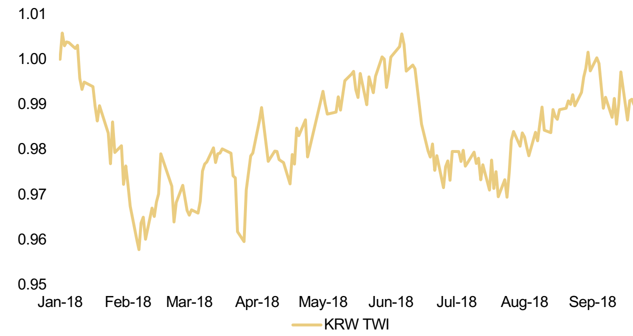
Short KRWIDR 3m NDF: We believe that IDR is the best high-yielding currency in Asia to add back some exposure against a more stable EM backdrop. BI has taken a variety of steps to shore up confidence in the currency and we expect that it will rebound in a period of USD weakness, with the forwards in particular showing a lower degree of risk premium. Until the mid-terms are finished, our base case remains for trade tensions to take a back seat in driving FX valuations in the region. However, to hedge against the off-chance that we are incorrect in this view, we believe that it would be prudent to pair our long IDR position by selling KRW. Despite the material increase in global trade tensions since June, KRW TWI remains at a high level, suggesting potential over-valuation, especially as our economists are pencilling in a more shallow rate hike cycle from the BoK. Lastly, the wide interest rate differental between Korea and Indonesia makes KRW a relatively cheap funding currency to implement this view. Risks to our trade include a spike in UST yields.

Exhibit 14: We see inflows into IDR stabilising, which should support the currency



Source: Bloomberg, Morgan Stanley Research

Exhibit 15: KRW TWI remains not far from its June high before the acceleration in global trade tensions



Source: Bloomberg, Morgan Stanley Research

Credit strategy implications

With a more supportive external backdrop (see Turning neutral) and valuations that strongly favour EM versus DM, we close our bearish stance, turn neutral and make the following recommendations:

- Valuations are cheaper. EM is cheap versus US credit and index yields are near the highs since 2010. While a large part of this is driven by HY credits as opposed to IG, this should see EM credit outperform US credit and deliver outright positive returns in the coming weeks.

- In spread terms, we got close to our 3Q18 index (EMBIG) spread forecast of 420bp but think that spreads will now move tighter in the coming weeks. We stick with our longer-term forecast of 380bp into 2019.

- A neutral view, as opposed to being bullish, factors in that the index cheapness is largely driven by HY credits, meaning that caution and selectivity is still needed when adding back risk.

- Expectations for supply to pick up are also likely to contain the spread tightening, particularly given that many existing bonds are now trading at low cash prices. Indonesia, Pakistan, Turkey, Ukraine, Tunisia and Ecuador are all places where this applies. Pemex is also on the supply list but, given recent underperformance, we think that this is in the price.

- We maintain a preference for IG over HY, including having likes in Colombia, Chile and Russia.

- However, in order to add beta, we replace our current like in Qatar, which has outperformed significantly, with the much wider-trading Oman. We also remove our dislike on Mexico and specifically recommend adding risk via Pemex, including the long end. This leaves us recommending to **sell Qatar 2026 versus Mexico 2026** and also to **buy Pemex 2047 versus Mexico 2047**.

- South Africa spreads should also do well, given its high beta and as the parliamentary panel report on land expropriation is likely delayed. However, we remain neutral on the credit as spreads are already 45bp tighter from recent wides. In other SSA sovereigns, we have a marginal preference for Angola over Ghana.

- Indonesia and Brazil are two credits that we think will lag the rally. Supply risks should see Indonesian spreads widen while we think that the recent rally in Brazilian spreads will fade as we get closer to the elections in October. That said, the CDS has lagged the rally to leave the basis very positive, and we recommend **selling the Brazil 5Y CDS-bond basis** (5Y CDS versus Brazil 2025). The risk/reward in Turkey is also not attractive enough to justify a bullish stance, given the recent rally, and we remain neutral. However, we look for the curve to steepen, with the 5y outperforming the 30y.

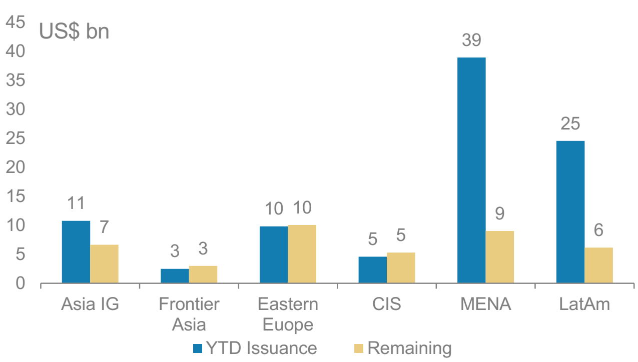
- Within single B credits, we would stick with fundamentally improving and liquid curves. Egypt remains our preferred pick. With investor positioning in local markets getting cleaner, the technicals for external bonds should also improve. Argentina should also continue to outperform, given its still cheap valuations, even if the rally should slow from here, and we thus return it to a like stance. As the curve steepens, we recommend **buying Argentina 2026 versus 2048.** Ukraine should see spreads tighter in case a new IMF deal is announced yet risk/reward does not look attractive enough to have a bullish view.

- Lebanon and Pakistan remain vulnerable, given their large external financing requirements and net oil importer status. We would look to reduce Lebanon further into any strength and would reassess our stance on Pakistan on the back of news flow after the IMF visit to the country at the end of September. We think that an IMF programme will likely materialise but negotiations may take longer than market expectations, given the upfront fiscal adjustment that would be needed.

Supply to limit spread tightening across many curves

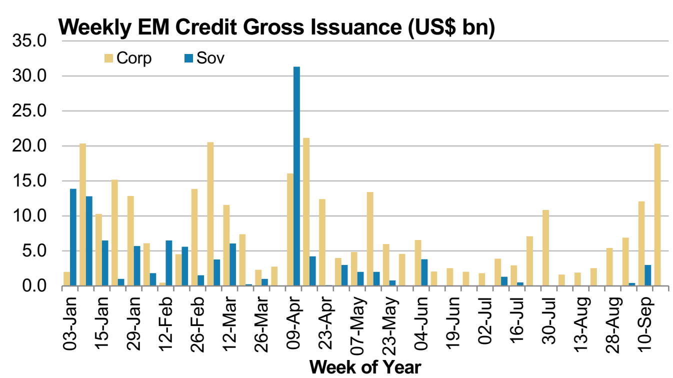
We have pencilled in US$40 billion of EM sovereign supply for the remainder of 2018. While the supply estimates may look a bit high at first glance, we think that there is likely to be some pent-up funding needs as EM sovereigns haven't issued much since mid-June. We think that if inflows into EM credit don't pick up materially, the impending supply would limit the spread tightening. We have already seen this in select Asia and GCC curves which lagged broader EM as corporate issuance surged in those regions in September as spreads stabilised.

Exhibit 16: 2018 sovereign supply is not over yet



Source: Bond Radar, Morgan Stanley Research

Exhibit 17: Corporate issuance has already picked up



Source: Bond Radar, Morgan Stanley Research

In Asia, we expect large external issuance from Indonesia Inc. over the next six months, given the US$5.5 billion worth of G3 bond redemptions until end-2019 and as supply is likely to be front-loaded – even pre-funded in 2018 – given the elections in 2Q19. With the sovereign potentially losing over 40bp in index weight if the EMBI rebalancing goes ahead, the supply would have to come at a discount. Among HY, Pakistan also needs to issue, which will likely act as a overhang on its spreads.

In CEEMEA, we think that supply risk is most acute for Turkey, where net issuance in 2018 has been small at just US$250 million. The macro backdrop notwithstanding, the sovereign may have to offer a pick-up over the secondary curve just to account for the cash price differentials, assuming new issuance gets priced at par, over the seasoned bonds which are well below par. In HY, Ukraine and Tunisia are both under pressure to issue in the markets and we think that spreads will remain wide to account for this.

In LatAm, Ecuador remains the sovereign under most pressure to issue. While 2018 remaining funding needs have now fallen to US$1.2 billion according to the authorities, which may be covered outside of bond markets, 2019 funding needs remain high enough to make opportunistic issuance likely if the markets remain strong. Other possible sovereign issuance includes Brazil (US$1.5 billion remains of our 2018 forecast), Mexico (US$1.3 billion), Peru (US$1.4 billion) and even Colombia on an opportunistic basis even if no external issuance was planned. That said, Pemex is likely to be among the first issuers in this space, issuing US$2.5-4 billion in bonds, although given the underperformance since elections we think that this is largely priced in now. Finally, corporate issuance in LatAm is also likely to pick up, with the exception of Brazil, where supply is likely to depend on the election outcome in October.

Where do we add risk?

Adding beta in Mexico: While our preference for Mexcat over Pemex has played out, our broader cautious view on Mexico credit has not, with sovereign spreads tighter since the election outcome. The main driver has been the incoming administration that has been more orthodox than we anticipated, in turn raising the probability of policy continuity. As reviewed by our economist, we agree with the view of policy continuity now holding for the early part of the six-year term, potentially even extending beyond 2019 (see Mexico: Revisiting the Policy Continuity Debate, September 21, 2018). Adding the supportive external factors of strong US growth and a significant reduction of NAFTA tail risks suggests that a neutral view is more appropriate at this point, meaning that we remove our current dislike. On the sovereign curve, we like the 10y sector due to the relatively flat 10s30s while overall the Pemex long end offers the most attractive valuations (see below).

Argentina rally to slow but likely to extend further: The rally in the past week suggests that the market has become more comfortable that an updated IMF package will bridge any funding concerns until at least end-2019, which has in part also been helped by the progress made on the 2019 budget negotiations with the opposition. Calling the end of the Argentine sell-off has proven to be a risky call so far this year, yet as we discussed in Argentina: What You Need to Know Ahead of the Adjustment, September 6, 2018, we expect the bulk of the weakness to be behind us. Adding that the risk of EM outflows has reduced, which is important due to the persistent investor overweight in Argentina, while broad risk should also rally, we think that the rally in Argentina spreads can continue and thus move Argentina back to a like stance. While any further rally is set to be at a much slower pace than in the past week, the fact that Argentina still trades significantly cheap to its rating should see continued demand, including from locals. The price action in the currency is also encouraging, contrasting sharply to earlier in the year when the Lebac unwinds led to sharp moves weaker in the currency due to the liquidity released. The Lebac stock is now just ARS 340 billion compared to ARS 1.29 trillion at its high in April 2018.

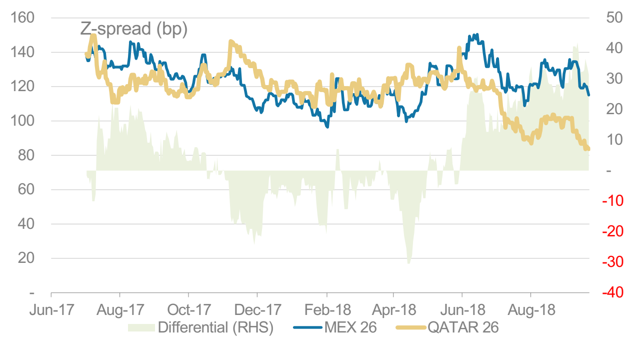
Moving Oman to a like stance: In CEEMEA, we add Oman to our like list. We have been recommending to add Oman 30y on any dips but, with continued fiscal consolidation and strength in global oil prices, we turn outright bullish. The sovereign has indeed outperformed EMBI in the past few months but valuations are still cheap compared to 2017 levels, investor positioning is still underweight and the supply overhang has faded as the authorities have mentioned that they won't issue another US$ bond in 2018. With

Oman as our preferred pick in GCC, we remove our like stance on the Qatar sovereign, which has outperformed KSA significantly in September.

Asia less attractive: We are not looking to add risk in the Asian sovereigns, given that it's a low-beta space. Within Asia, Sri Lanka is the only sovereign which has underperformed EM peers significantly, but we think that it was justified on back of the LKR weakness which impacts the sovereign's leverage metrics.

New trade recommendations

Exhibit 18: Buy Mexico 2026 versus Qatar 2026

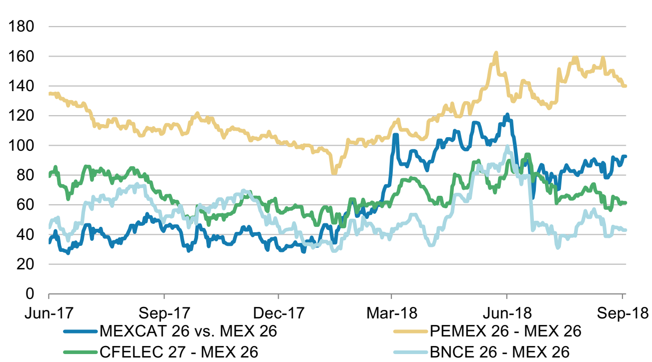


Source: Bloomberg, Morgan Stanley Research

Buy Mexico 2026 versus Qatar 2026: In line with the aforementioned change in stances, we put on a new trade to buy Mexico 26 versus Qatar 26. Mexico has underperformed Qatar significantly in 2018, initially due to election risk and later as Qatar benefitted from a supportive technical backdrop on news flow about potential EMBI inclusion. With concerns about policy continuity fading in Mexico and with Qatar closing the valuation gap with A rated credits, we look for spread compression between the two, given our change in stance on EM credit spreads. We target a spread differential of 5bp and set a stop-loss of 50bp. The risk to the trade would be announcements on fiscal expansion in Mexico. **We also close our buy Colombia 2045 versus Mexico 2048** trade recommendation. We think that Colombia should continue to trade through Mexico yet it will struggle to reach our earlier target of 25bp, given the lack of negative catalysts for Mexico.

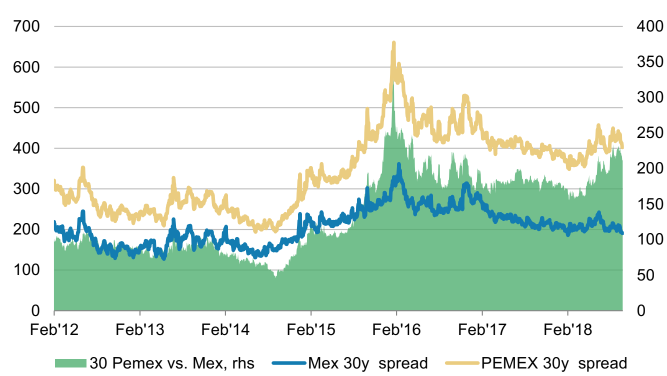
Buy Pemex 2047 versus Mexico 2047: While both fundamental and supply risks remain, we think that current valuations account for this. Having underperformed in the Mexico complex since the elections, the spread over sovereign at 220bp is in its 90th percentile. This spread over sovereign in particular stands out when factoring in the tighter levels that the sovereign is trading at. Specifically, regressing the relationship between Pemex 30y and Mexico 30y from 2012 to end-2017 and applying the relationship to Mexico 30y spreads in 2018 suggests that Pemex 30y spreads are currently 100bp cheap, much wider than the 50bp cheap reached in 2016.

Exhibit 19: Pemex has underperformed in the Mexico quasi-sovereign complex...



Source: Bloomberg, Morgan Stanley Research

Exhibit 20: ...with Pemex 30y bonds cheap, in particular given where the sovereign spreads are

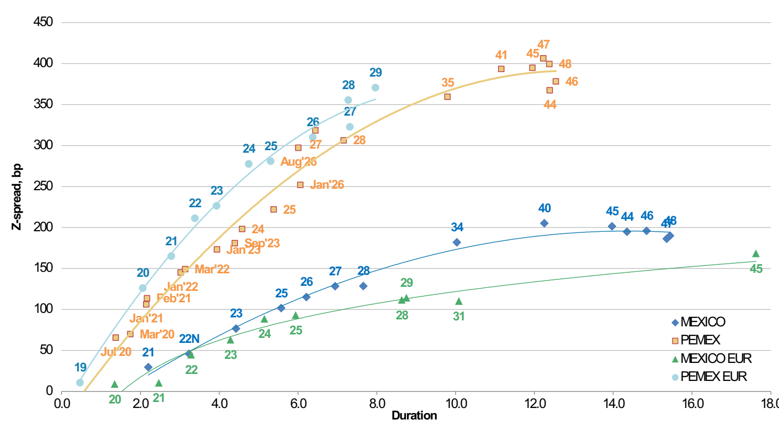


Source: Bloomberg, Morgan Stanley Research

Clearly fundamental risks are higher given the new administration's focus on the energy sector. However, first, we see the fundamental weakening as contained in the near term. In line with our view of policy continuity (see Mexico: Revisiting the Policy Continuity Debate), we expect foreign companies to be allowed to continue operating while promises to build new refineries are being scaled back. Another argument is that if the administration takes an adverse decision on Pemex, this should also be reflected in the sovereign spreads, given how connected the two entities are, perhaps even more so under the new administration. Finally, we now think that supply should be well absorbed. It has been well flagged, spreads have widened and we suspect that there will be demand both from crossover investors due to it being a large and liquid IG issuer while EM investors may switch from the sovereign into Pemex. Finally, looking back historically, there is no evidence that supply has a sustained impact on spreads.

For the trade, we pick the long end since the Pemex curve is much steeper than the sovereign. The 2047s are not the lowest cash price bonds but are still below 100 and have lagged recently to leave spreads wider. From current spreads, we target 175bp with a stop at 260bp. Note that Pemex also looks attractive in the EUR space, where the 2029s now provide a pick-up of 260bp versus the sovereign, which is still near the YTD wides. This is in part caused by the Pemex EUR curve trading wide to the Pemex USD curve, while the Mexico EUR curve trades inside the Mexico USD curve. The risk to the trade is negative announcements regarding the future opening of the Mexican oil sector to foreign investment.

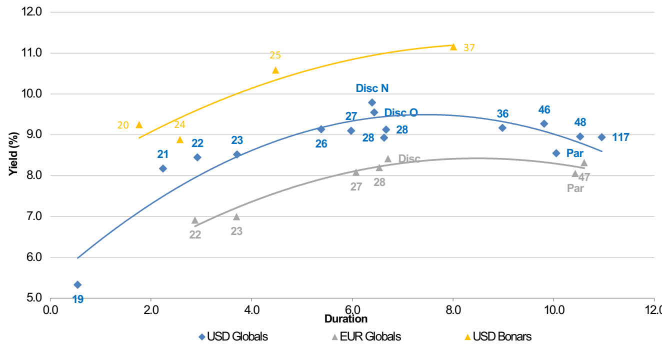
Exhibit 21: Pemex USD long end and EUR 10y sector look attractive



Source: Bloomberg, Morgan Stanley Research

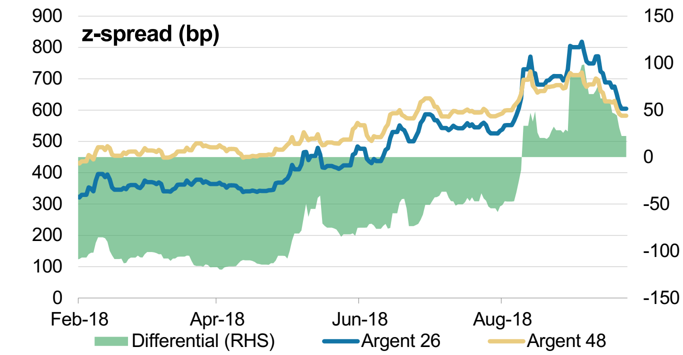
Buy Argentina 2026 versus 2048: In line with our move of Argentina to a like stance, we expect the curve to keep normalising. We previously had ARGENT 2021 as the most attractive bond on the dollar curve. However, as the front end of the curve has now normalised, we think that the 10y sector of the curve looks more attractive. Specifically, we like the ARGENT 2026 bond. Expecting the long end of the curve to steepen further, we recommend buying ARGENT 2026 versus ARGENT 2048 on a DV01-neutral basis. From current still inverted levels of -22bp, we target a curve that steepens to 50bp with a stop at -70bp. Carry is positive and can absorb a curve flattening of 7bp per month. The risk to the trade is renewed currency weakness requiring FX interventions and use of FX reserves, which would again question the sustainability of the balance of payments flows. The Bonar curve has lagged and now looks attractive unlike when it was trading tight to the external bond curve.

Exhibit 22: We expect Argentina's curve to steepen further



Source: Bloomberg, Morgan Stanley Research

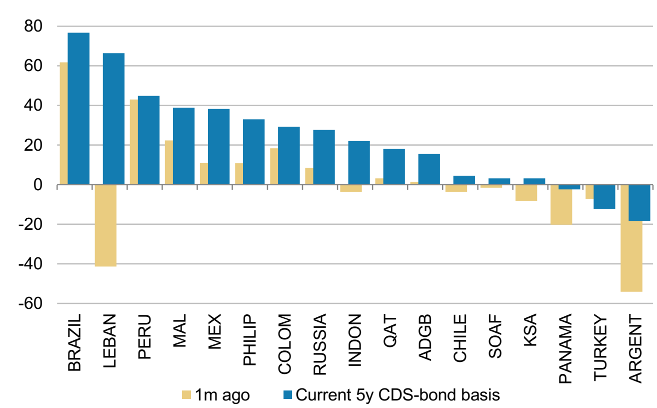
Exhibit 23: Buy ARGENT 2026 versus ARGENT 2048



Source: Bloomberg, Morgan Stanley Research

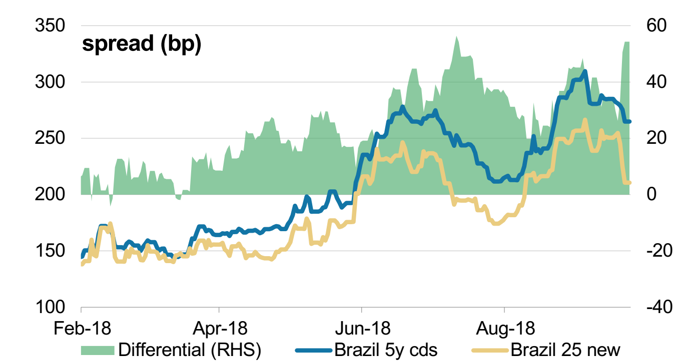
Sell Brazil CDS-bond basis (5Y CDS versus Brazil 2025): While we maintain a more cautious outlook on Brazil ahead of the elections, we think that the CDS is the credit asset which still prices in most of this uncertainty and should therefore outperform in a positive scenario. At a CDS-bond basis of nearly 80bp (maturity-matched), Brazil has the most positive CDS-bond basis in EM. Some of this apparent CDS cheapness has been driven by the recent CDS roll in which Brazil had among the steepest curves, to leave the roll at 18bp; however, even excluding this the basis stood out beforehand. Additionally, in the past, the impact of the roll has not been sustained as it optically makes the CDS look cheaper and brings in sellers of protection. Finally, with a weaker dollar call, USDBRL could head lower, which historically is positive for CDS due to a high correlation. From current levels, we target 20bp with a stop at 85bp. The risk to this trade is local sentiment deteriorating significantly as it may lead to increasing hedging of Brazil risk, which historically has been done via CDS.

Exhibit 24: Brazil has the most positive CDS-bond in EM



Source: Bloomberg, Morgan Stanley Research

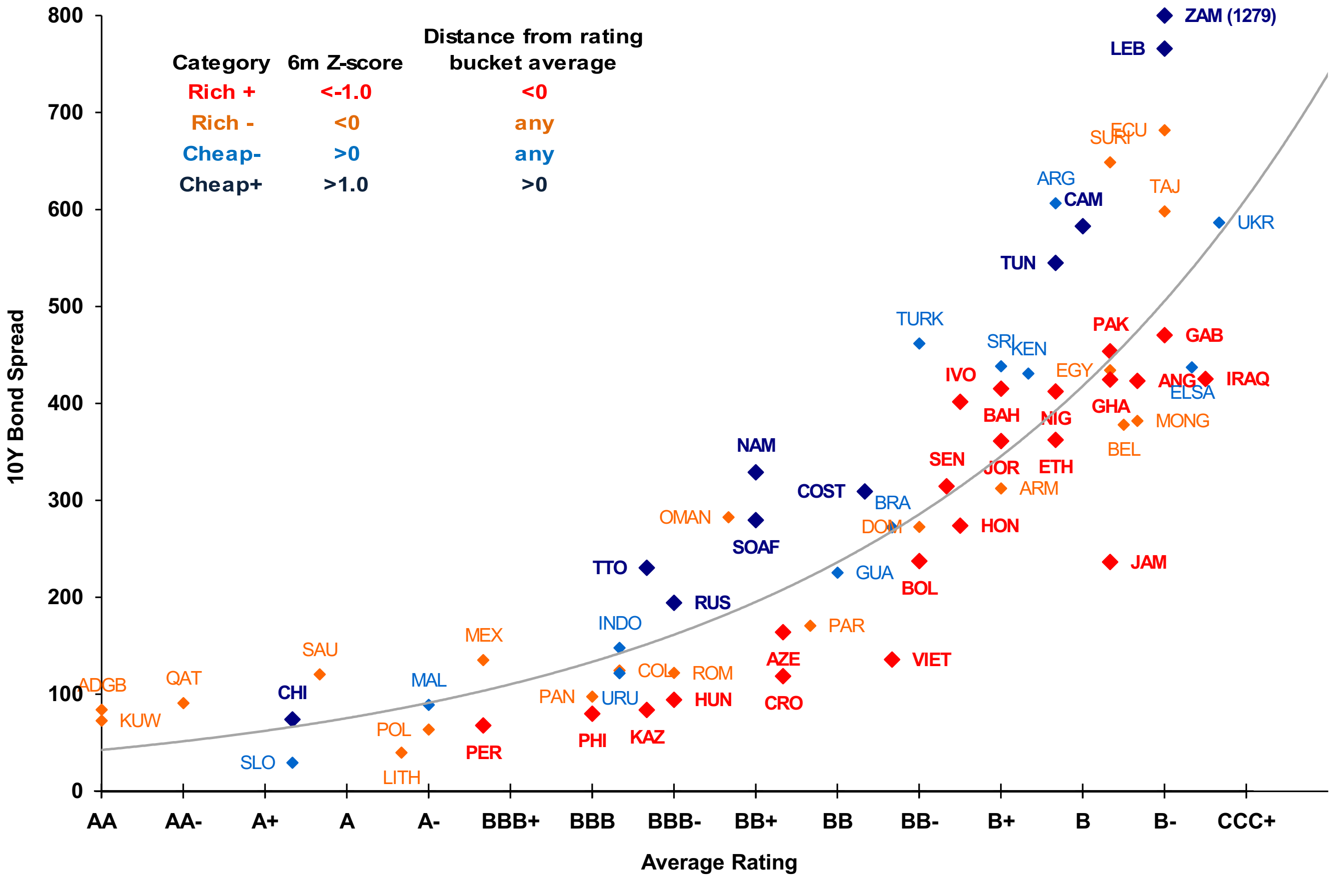
Exhibit 25: Sell 5y CDS-bond basis (5y CDS versus Brazil 2025)



Source: Bloomberg, Morgan Stanley Research

Sovereign credit valuations snapshot

Exhibit 26: 10y sovereign credit spreads versus ratings



Source: Bloomberg, Morgan Stanley Research

Asset allocation

Asset Class	FX	Rates	Credit
Stance	Neutral	Neutral	Neutral
Likes	**FX**	**Rates**	**Credit**
	Argentina	Chile	Argentina
	Chile	Korea	Chile
	Czech Republic	Mexico	Colombia
	Indonesia	Peru	Egypt
	Peru		Oman
	Russia		Russia
Dislikes	**FX**	**Rates**	**Credit**
	India	Hong Kong	Brazil
	Korea	South Africa	Indonesia
	Malaysia	Turkey	Lebanon
	Philippines		Pakistan
	South Africa		

Trades overview

Exhibit 27:

	Trade	Status	Entry Date	Entry Level	Current	Target	Stop	Notional ($m or k DV01*)	Gross P&L bp	Gross P&L US$k
SOVEREIGN CREDIT										
Country RV	Buy Saudi Arabia 2049 vs. Indonesia 2048 (z-spread)		21-Aug-18	30	373	-10	55	10x10	(343)	66
	Buy Mexico 2026 vs. Qatar 2026	New	24-Sep-18	At publication	201	5	50	10x9.7	-	-
	Buy Pemex 2047 vs. Mexico 2047	New	24-Sep-18	At publication	596	175	260	10x8.2	-	-
	Buy Ghana 2030 vs. Ghana 2026 (z-spread)		21-Aug-18	9	843	-50	40	10x10	(834)	148
Curve RV	Buy Argentina 2026 vs. 2048 (DV01 neutral)	New	24-Sep-18	At publication	-1186	50	-70	10x10	-	-
	Sell Brazil 5y CDS-bond basis (Brazil 2025)	New	24-Sep-18	At publication	57	20	85	10x10	-	-
LOCAL RATES										
Directional	Long PeruGB 23, FX-Unhedged		15-Aug-18	4.41	4.43	4.10	4.55	10	(2)	64
	Pay 5y HKD		17-Sep-18	2.88	2.98	3.10	2.75	10	10	95
Curve RV	India NDOIS 2s5s flattener		11-Jun-18	25	11	-10	40	10	14	202
	Chile 1s5s10s CLPxCAM Butterfly		11-Jun-18	33	25	12	40	10	8	41
	5s10s TIIE Steepener		15-Aug-18	23	25	50	10	10	2	8
CURRENCIES										
Directional	Long EUR/BRL 3m NDF		22-Aug-18	4.71	4.81	5.28	4.70	10	-	120
	Short USD/CLP 3m NDF		13-Sep-18	680.00	664.13	651.00	710.00	10	-	121
	Long USD/INR 3m NDF Limit Order		n/a	71.00	73.64	74.60	69.00	10	-	-
	Short MXN/RUB	New	24-Sep-18	At publication	3.50	3.30	3.64	10	-	-
	Short KRW/IDR 3m NDF	New	24-Sep-18	At publication	13.56	13.15	13.75	10	-	-
Closed Trades										
Closed Long USD/MYR 3m NDF at 4.1350 on 20-Sept-2018, Closed Short RUB/JPY at 1.67 19-Sept 2018.										

Source: Morgan Stanley Research, Note: Hold to Maturity (HTM)

Live trades: Rationale and risks

Exhibit 28: Trades

Trade	Date	Entry Level	Target	Stop	Rationale	Risks
Rates						
Chile 1s5s10s Butterfly	11-Jun-18	33	12	40	We favour the belly relative to the rest of the curve. Excess term premium in 1s5s CLPXCAM has become elevated on a historical basis. We see value in 5y swaps relative to the average rate between 2yr and 10yr swaps.	Continued underperformance of 5yr swap rates due to external rate pressures. China slowdown as a result of deleveraging or trade tensions with the US.
INR NDOIS 2s5s flattener	11-Jun-18	25	-10	40	Our economists forecast different measures of inflation to moderate, and we estimate the real policy rate to increase to slightly over 200bp from the current level of ~160bp. In this environment, we expect the NDOIS curve to flatten as front-end rates rise and while the belly and the back end of the curve underperform relatively.	Risks to the trade include an acceleration in inflation leading to lower real yields and a steeper curve.
5s10s TIIE Steepener	15-Aug-18	23	50	10	We believe that there is a higher premium in the short/belly part of the curve created by a historically tight monetary policy stance. Therefore, we prefer to focus on the belly of the curve as a higher USD would likely push Banxico to pull the trigger again, keeping longer tenors anchored. In addition, increased risk sentiment paired with a higher volatility regime should increase risk premium on the curve.	USD strengthening beyond our forecasts, prompting the market to price in additional hikes, or an improvement in risk sentiment that would bring a lower volatility regime.
Long PeruGB 23, FX Un-hedged	15-Aug-18	4.41	4.10	4.55	We still prefer bonds in the belly of the Soberanos curve (5y) given elevated carry and roll-down. Due to illiquidity in the short end, local financial entities' have increased their demand for 2020s as a proxy for short-term local rates.	Inflation expectations accelerate to the upside along with growth expectations, forcing the BCRP to increase its long-term neutral rate or start the hiking cycle earlier than 1Q19.
Pay 5y HKD	17-Sep-18	2.88	3.10	2.75	The rise in US interest rates is filtering into the HK economy as the HKMA continues to defend USDHKD at the 7.85 level. With our equity strategists downgrading the HSI, we see outflows from HK continuing and Hibor remaining on an upward trend.	Stronger Hang Seng performance and a more dovish Fed.
Trade	**Date**	**Entry Level**	**Target**	**Stop**	**Rationale**	**Risks**
Buy Mexico 2026 vs. Qatar 2026	24-Sep-18	At publication	5	50	Potential index inclusion is fully priced in for Qatar, leaving little upside. In Mexico, we anticipate policy continuity in the years ahead, leaving Mexico to benefit from strong US growth and NAFTA uncertainty fading.	The risk to the trade would be announcements on fiscal expansion in Mexico.
Buy Pemex 2047 vs. Mexico 2047	24-Sep-18	At publication	175	260	Pemex is trading cheap, accounting for fundamental risk and potential supply. Our base case sees no unwinding of reforms.	The risk to the trade is negative announcements regarding the future opening of the Mexican oil sector to foreign investment.
Buy Argentina 2026 vs. 2048 (DV01 neutral)	24-Sep-18	At publication	50	-70	A more supportive external backdrop and manageable funding needs should see Argentina spreads rally further, given they're still cheap, and the curve should also steepen further.	The risk to the trade is renewed currency weakness requiring FX interventions and use of FX reserves, which would again question the sustainability of the balance of payment flows.
Sell Brazil 5y CDS-bond basis (Brazil 2025)	24-Sep-18	At publication	20	85	CDS is cheap in Brazil, both relative to its own history and when compared to the rest of EM. USDBRL moving lower should see CDS tighten as well.	The risk to this trade is local sentiment deteriorating significantly as it may lead to increasing hedging of Brazil risk, which historically has been done via CDS.
Buy KSA 2049 vs. Indonesia 2048	21-Aug-18	30	-10	55	KSA long end trades wider than INDON long end, unlike the 5y space, despite its higher credit rating. We expect the differentials to normalise if Saudi Arabia is included in EMBI.	Higher-than-expected issuance from Saudi Arabia sovereign and quasi-sovereigns in the 30y space, and pick-up in geopolitical tensions in Middle East.
Buy Ghana 2030 vs. Ghana 2026	21-Aug-18	9	-50	40	We think the downside of GHANA 30 could be protected compared to the GHANA 26 given the partial World Bank guarantee.	Any liability management by Ghana is likely to benefit the GHANA 26 more than the GHANA 30.

Source: Morgan Stanley Research

Exhibit 29: Likes/dislikes

Trade	Date	Entry Level	Target	Stop	Rationale	Risks
Like Mexico Local Rates	24-Sep-18	NA	NA	NA	Risk premia in local rates should begin to decline, given the current EM reprieve, coupled with a temporary stabilisation in the investment narrative.	A negative shift in broader EM sentiment.
Dislike Hong Kong Local Rates	24-Sep-18	NA	NA	NA	The rise in US interest rates is filtering into the HK economy as the HKMA continues to defend USDHKD at the 7.85 level. With our equity strategists downgrading the HSI, we see outflows from HK continuing and Hibor remaining on an upward trend.	Stronger Hang Seng performance and a more dovish Fed.
Dislike South Africa Local Rates	07-Sep-18	NA	NA	NA	The recent weaker-than-expected GDP print raises concerns about South Africa's sovereign rating and the subsequent risk of position reduction in SAGBs adds to this negative backdrop for South Africa local markets. We highlight that foreign real money investors are already very long SAGBs in their portfolio and, even though a downgrade is unlikely, the potential implications of forced selling mean that markets may build in some additional risk premium in the near term.	Stabilisation of broader sentiment towards EM.
Dislike Turkey Local rates	25-Jun-18	NA	NA	NA	Our economist believes that the CBT could continue to keep a tight monetary policy but the market could question the durability of it, given the government's pro-growth stance. Turkey's fiscal policy has been a historical source of stability for the economy. Should the government increase its fiscal deficit and should local banks not be able to step up purchases due to high loan growth, a lack of foreign buying of TURKGBs could keep pressure on local bond yields. Position isn't as light as peoples' perception. We believe that any rally should be faded, especially in the front end.	A risk to this trade would be a rally in EM.
Like Peru Local Rates	27-Feb-18	NA	NA	NA	Economic activity has surprised to the upside resulting from increased public and private investment, while inflation risks remain benign. In addition, tax revenues have also picked up. Political risks have also reduced substantially for now and we think these factors will support Peruvian local assets in the long run. We prefer bonds in the belly of the curve (5yr-7yr).	Risks include further escalation of political uncertainty; such a scenario could potentially increase longer-term yields as some outflows would increase term premia and the macro anchor could be somewhat loosened. On the other hand, a sharper increase in investment could lead to a less accommodative stance than currently envisaged, leading to higher rates and firmer inflation.
Like Chile Local Rates	15-Aug-18	NA	NA	NA	The 1s/5s/10s butterfly and the excess term premium in 1s5s CLPXCAM trade more than 2 standard deviations above their respective five-year averages. Through this we conclude that the five-year tenor on the curve is cheap on a relative basis. Therefore we would expect defensive inflows into local rates to focus on the five-year point.	Inflation expectations accelerating to the upside along with growth expectations, forcing the BCCh to increase its long-term neutral rate.
Like Korea Local Rates	15-May-18	NA	NA	NA	Buying KRW-denominated assets and FX-hedging into USD has become increasingly attractive as a result of the widening of the KRW cross-currency basis as well as the widening of US-Korea interest rate differentials.	Earlier-than-expected BoK hikes and a widening of the KRW cross-currency basis.
Like Chile Hard Currency Bonds	15-Aug-18	NA	NA	NA	Chile now trades cheap for its rating, being wide to the Philippines, Poland and Peru, despite credit metrics still being stronger. We expect copper prices to rebound from here yet limited further falls are also manageable.	A significant sell-off in UST yields or large fall in copper prices.
Like Russia Hard Currency Bonds	25-Jun-18	NA	NA	NA	Stable and slowly improving macro, higher oil prices and reduced positioning should help Russia outperform in a more challenging external backdrop. Russia also trades cheap to BBB, having underperformed recently.	Falling oil prices, new sanctions.
Like Colombia Hard Currency Bonds	26-Nov-17	NA	NA	NA	We think growth has troughed and with now higher oil prices the fiscals also look more realistic over the coming year, which should give Colombia adequate breathing space from the rating agencies. We expect policy continuation following elections	A fall in the oil price, new unknown candidates in the election.
Like Oman Hard Currency Bonds	24-Sep-18	NA	NA	NA	Continued fiscal consolidation and higher oil prices should see Oman outperform, particularly given it's one of the cheaper trading IG credits	Fall in oil prices or signs that recent fiscal consolidation is unwinding, for instance via the re-instatement of year-end bonuses
Like Argentina Hard Currency Bonds	24-Sep-18	NA	NA	NA	A more supportive external backdrop and manageable funding needs should see Argentina spreads rally further given they're still cheap, and the curve should also steepen further	The risk to the trade is renewed currency weakness requiring FX interventions and use of FX reserves, which would again question the sustainability of the balance of payment flows
Like Egypt Hard Currency Bonds	15-May-18	NA	NA	NA	Egypt's twin deficits are consolidating and reforms under the IMF programme remain on track. The sovereign has also completed its planned 2018 global bond issues.	Portfolio outflows from local bond markets could widen the external financing gap.
Dislike Brazil Hard Currency Bonds	15-Aug-18	NA	NA	NA	Brazil cash now trades in line with a BB average, having been up to 50bp cheap in the past two months, thus offering little compensation for upcoming political risks.	Increased chances of a market-friendly candidate winning.
Dislike Indonesia Hard Currency Bonds	15-Aug-18	NA	NA	NA	Still wide double deficits and low reserve coverage leave Indonesia vulnerable to increasing EM risk-off sentiment.	Strong push for tighter fiscal policy.
Dislike Pakistan Hard Currency Bonds	25-Jun-18	NA	NA	NA	FX reserves are moderate compared to total external funding needs. Higher oil prices are also negative for the current account position. Large sovereign supply in 2H18 is also likely.	An IMF programme, if it materialises, will be seen as positive for credit spreads by the markets.
Dislike Lebanon Hard Currency Bonds	9-Apr-18	NA	NA	NA	We think Lebanon valuations are not attractive versus peers, and the benefits of the CEDRE conference will only be over the medium term.	Large concessionary funding in the near term and decline in global oil prices.

Source: Morgan Stanley Research

Exhibit 30: History of recommendations for EM stances

History of recommendations for Colombia Hard Currency Bonds		
Trade	**Entry Date**	**Exit Date**
Dislike Colombia Hard Currency Bonds	23-Jun-17	04-Oct-17

History of recommendations for Russia Hard Currency Bonds		
Trade	**Entry Date**	**Exit Date**
Like Russia Hard Currency Bonds	22-Aug-17	09-Apr-18

History of recommendations for Brazil Hard Currency Bonds		
Trade	**Entry Date**	**Exit Date**
Dislike Brazil Hard Currency Bonds	22-Aug-17	12-Feb-18
Dislike Brazil Hard Currency Bonds	13-May-18	14-Jul-18

History of recommendations for Argentina Hard Currency Bonds		
Trade	**Entry Date**	**Exit Date**
Like Argentina Hard Currency Bonds	14-Jul-16	25-Jun-18

History of recommendations for Oman Hard Currency Bonds		
Trade	**Entry Date**	**Exit Date**
Dislike Oman Hard Currency Bonds	13-Nov-17	30-Apr-18

History of recommendations for Turkey Local Currency Bonds		
Trade	**Entry Date**	**Exit Date**
Like Turkey Local Currency Bonds	4-Jun-17	4-Oct-17
Like Turkey Local Currency Bonds	29-Jan-18	12-Mar-18
Like Turkey Local Currency Bonds	23-Apr-18	01-May-18

History of recommendations for South Africa Local Currency Bonds		
Trade	**Entry Date**	**Exit Date**
Dislike South Africa Local Currency Bonds	31-Mar-17	31-Oct-17
Like South Africa Local Currency Bonds	18-Dec-17	15-Aug-18

Source: Morgan Stanley Research

Exhibit 31: History of recommendations for EM trades

History of recommendations for Buy Mexico 2026 vs. Qatar 2026												
Instrument	**Maturity**	**Trade**	**Entry Date**	**Entry Level**	**Exit Date**	**Exit Level**	**Target/ Objective**	**Stop/Re-assess**	**Size of Trade or Unit/Notional**	**CUSIP/ISIN/ BLOOMBERG**	**Gross P&L BP**	**Gross P&L US$K**
MEX 4.125 01/21/2026	21-Jan-26	Buy Mexico 2026 vs Peru 2027	17-Jul-17	53bp	9-Oct-17	50bp	15bp	75bp	USD12.2mn	US91086QBG29	3bp	35k
PERU 4.125 08/25/2027	25-Aug-27	Buy Mexico 2026 vs Peru 2027	17-Jul-17	53bp	9-Oct-17	50bp	15bp	75bp	USD10mn	US715638BU55	3bp	35k
QATAR 3.250 06/02/2026	2-Jun-26	Switch out of MEX 26 into QATAR 26	27-Nov-17	18.00	29-May-18	0.00	-25.00	45.00	$10mx$10m	XS1405782159	18	169
MEX 4.125 01/21/2026	21-Jan-26	Switch out of MEX 26 into QATAR 26	27-Nov-17	18.00	29-May-18	0.00	-25.00	45.00	$10mx$10m	US91086QBG29	18	169

History of recommendations for Sell Brazil 5y CDS-bond basis (Brazil 2025)												
Instrument	**Maturity**	**Trade**	**Entry Date**	**Entry Level**	**Exit Date**	**Exit Level**	**Target/ Objective**	**Stop/Re-assess**	**Size of Trade or Unit/Notional**	**CUSIP/ISIN/ BLOOMBERG**	**Gross P&L BP**	**Gross P&L US$K**
SOAF 5.875 09/16/2025	16-Sep-25	Buy South Africa 2025 vs. Brazil 2025	31-Oct-17	86bp	1-Feb-18	30bp	40bp	110bp	USD10mn	US836205AR58	59	411
BRAZIL 4.250 01/07/2025	7-Jan-25	Buy South Africa 2025 vs. Brazil 2025	31-Oct-17	86bp	1-Feb-18	30bp	40bp	110bp	USD10mn	US105756BV13	59	411
REPSOU CDS USD SR 5Y D14	5y	Sell South Africa 5y CDS vs. Brazil 5y CDS	21-Aug-18	-22	28-Aug-18	-89	-70	10	$10m	EPSOU CDS USD SR 5Y D	67	259
BRAZIL CDS USD SR 5Y D14	5y	Sell South Africa 5y CDS vs. Brazil 5y CDS	21-Aug-18	-22	28-Aug-18	-89	-70	10	$10m	RAZIL CDS USD SR 5Y D1	67	259

Source: Morgan Stanley Research

Exhibit 32: History of recommendations for FX trades

Long EUR/BRL 3m NDF												
Instrument	**Maturity**	**Trade**	**Entry Date**	**Entry Level**	**Exit Date**	**Exit Level**	**Target/ Objective**	**Stop/Re-assess**	**Size of Trade or Unit/Notional**	**CUSIP/ISIN/ BLOOMBERG**	**Gross P&L BP**	**Gross P&L US$K**
EUR/BRL	3m	Long EUR/BRL 3m NDF	25-Jul-18	4.40	21-Aug-18	4.70	4.70	4.30	$10M	EURUSD Curncy, BCN+3M Curncy		570.7

Buy USD/INR 3m NDF												
Instrument	**Maturity**	**Trade**	**Entry Date**	**Entry Level**	**Exit Date**	**Exit Level**	**Target/ Objective**	**Stop/Re-assess**	**Size of Trade or Unit/Notional**	**CUSIP/ISIN/ BLOOMBERG**	**Gross P&L BP**	**Gross P&L US$K**
USD/INR	3m	Sell USD/INR 3m NDF	28-Sep-17	67.00	02-Jan-18	64.00	64.00	67.70	$10m	IRN+3M Curncy		
USD/INR	1m	Sell USD/INR 1m NDF	4-Jun-18	67.27	21-Jun-18	68.11	63.00	68.80	10m	IRN+1M Curncy		

Sell USD/CLP 3m NDF												
Instrument	**Maturity**	**Trade**	**Entry Date**	**Entry Level**	**Exit Date**	**Exit Level**	**Target/ Objective**	**Stop/Re-assess**	**Size of Trade or Unit/Notional**	**CUSIP/ISIN/ BLOOMBERG**	**Gross P&L BP**	**Gross P&L US$K**
USD/CLP	3m	Sell USD/CLP 3m NDF	4-Oct-17	641.00	30-Nov-17	645.00	615.00	645.00	$10m	CHN+3m Curncy		

Source: Morgan Stanley Research

Important note regarding economic sanctions: Russia is a country which is generally the subject of targeted sanctions programs administered or enforced by the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC"), the European Union and/or by other countries and multi-national bodies. Users of this report are solely responsible for ensuring that their investment activities in relation to any sanctioned companies or other Russia-related investments are carried out in compliance with applicable sanctions.

Definition of terms

Buy/Long: The analyst expects the total or excess return (depending on the nature of the recommendation) of the instrument or issuer that is the subject of the investment recommendation to be positive over the relevant time period.

Sell/Short: The analyst expects the total or excess return (depending on the nature of the recommendation) of the instrument or issuer that is the subject of the investment recommendation to be negative over the relevant time period.

Selling Protection or Buying Risk: The analyst expects that the price of protection against the event occurring will decrease over the relevant time period.

Buying Protection or Selling Risk: The analyst expects the price of protection against the event occurring will increase over the relevant time period.

Pay: The analyst expects that over the specified time period the variable rate underlying the swap agreement that is the subject of the investment recommendation will increase.

Receive: The analyst expects that over the specified time period the variable rate underlying the swap agreement that is the subject of the investment recommendation will decrease.

Like: Based on current market conditions as of the date of this report the analyst expects that the relevant securities of the issuer that is subject of the recommendation will perform favorably over the relevant time period as compared to the overall market of comparable securities by other issuers. This is not intended to be, nor should it be interpreted as a formal fundamental rating of the issuer or its creditworthiness.

Dislike: Based on current market conditions as of the date of this report the analyst expects that the relevant securities of the issuer that is subject of the recommendation will perform favorably over the relevant time period as compared to the overall market of comparable securities by other issuers. This is not intended to be, nor should it be interpreted as a formal fundamental rating of the issuer or its creditworthiness.

Unless otherwise specified, the time frame for recommendations included in the Morgan Stanley Fixed Income Research reports is 1 - 3 months and the price of financial instruments mentioned in the recommendation is as at of the date and time of publication of the recommendation.

When more than one issuer or instrument is included in a recommendation, the analyst expects one part of the trade to outperform the other trade or combination of other trades included in the recommendation on a relative basis.

For important disclosures related to the proportion of all investment recommendations over the past 12 months that fit each of the categories defined above, and the proportion of issuers corresponding to each of those categories to which Morgan Stanley has supplied material services, please see the Morgan Stanley disclosure at https://ny.matrix.ms.com/eqr/article/webapp/71555080-a169-11e8-9127-dec90f3f74a4?ch=rpint&sch=ar

Disclosure Section

The information and opinions in Morgan Stanley Research were prepared or are disseminated by Morgan Stanley & Co. LLC and/or Morgan Stanley C.T.V.M. S.A. and/or Morgan Stanley México, Casa de Bolsa, S.A. de C.V. and/or Morgan Stanley Canada Limited and/or Morgan Stanley & Co. International plc and/or RMB Morgan Stanley Proprietary Limited and/or Morgan Stanley MUFG Securities Co., Ltd. and/or Morgan Stanley Capital Group Japan Co., Ltd. and/or Morgan Stanley Asia Limited and/or Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research) and/or Morgan Stanley Taiwan Limited and/or Morgan Stanley & Co International plc, Seoul Branch, and/or Morgan Stanley Australia Limited (A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents), and/or Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents), and/or Morgan Stanley India Company Private Limited, regulated by the Securities and Exchange Board of India (“SEBI”) and holder of licenses as a Research Analyst (SEBI Registration No. INH000001105), Stock Broker (BSE Registration No. INB011054237 and NSE Registration No. INB/INF231054231), Merchant Banker (SEBI Registration No. INM000011203), and depository participant with National Securities Depository Limited (SEBI Registration No. IN-DP-NSDL-372-2014) which accepts the responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research, and/or PT. Morgan Stanley Sekuritas Indonesia and their affiliates (collectively, "Morgan Stanley").
For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.
For valuation methodology and risks associated with any recommendation, rating or price target referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-6836-9000. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA.

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Belle Chang; Chun Him Cheung; Min Dai; Gilberto A Hernandez-Gomez; Andres Jaime; Jaiparan S Khurana; James K Lord; Simon Waever; Ioana Zamfir.
Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictpolicies.

Important US Regulatory Disclosures on Subject Companies

Within the last 12 months, Morgan Stanley managed or co-managed a public offering (or 144A offering) of securities of Brazil, Egypt, Mexico, Saudi Arabia.
Within the last 12 months, Morgan Stanley has received compensation for investment banking services from STATE OF QATAR, Brazil, Mexico, Saudi Arabia.
In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from PETROLEOS MEXICANOS, STATE OF QATAR, Argentina, Brazil, Chile, Colombia, Hong Kong, India, Indonesia, Mexico, Peru, Russia, Saudi Arabia, South Korea, Turkey, Ukraine.
Within the last 12 months, Morgan Stanley has received compensation for products and services other than investment banking services from PETROLEOS MEXICANOS, STATE OF QATAR, SULTANATE OF OMAN, Brazil.
Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: PETROLEOS MEXICANOS, STATE OF QATAR, Argentina, Brazil, Chile, Colombia, Egypt, Hong Kong, India, Indonesia, Mexico, Peru, Russia, Saudi Arabia, South Korea, Turkey, Ukraine.
Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: PETROLEOS MEXICANOS, STATE OF QATAR, SULTANATE OF OMAN, Brazil, Egypt, Mexico.
The equity research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues. Equity Research analysts' or strategists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.
Morgan Stanley and its affiliates do business that relates to companies/instruments covered in Morgan Stanley Research, including market making, providing liquidity, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis. Morgan Stanley may have a position in the debt of the Company or instruments discussed in this report. Morgan Stanley trades or may trade as principal in the debt securities (or in related derivatives) that are the subject of the debt research report.
Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of August 31, 2018)
The Stock Ratings described below apply to Morgan Stanley's Fundamental Equity Research and do not apply to Debt Research produced by the Firm.
For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

STOCK RATING CATEGORY	COVERAGE UNIVERSE COUNT	COVERAGE UNIVERSE % OF TOTAL	INVESTMENT BANKING CLIENTS (IBC) COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC) COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	**1156**	**37%**	**296**	**40%**	**26%**	**546**	**39%**
Equal-weight/Hold	**1363**	**44%**	**348**	**48%**	**26%**	**635**	**45%**
Not-Rated/Hold	**50**	**2%**	**5**	**1%**	**10%**	**7**	**0%**
Underweight/Sell	**553**	**18%**	**82**	**11%**	**15%**	**223**	**16%**
TOTAL	**3,122**		**731**			**1411**	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.
Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.
Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers

Important disclosures regarding the relationship between the companies that are the subject of Morgan Stanley Research and Morgan Stanley Smith Barney LLC or Morgan Stanley or any of their affiliates, are available on the Morgan Stanley Wealth Management disclosure website at www.morganstanley.com/online/researchdisclosures. For Morgan Stanley specific disclosures, you may refer to www.morganstanley.com/researchdisclosures.
Each Morgan Stanley Equity Research report is reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval is conducted by the same person who reviews the Equity Research report on behalf of Morgan Stanley. This could create a conflict of interest.

Other Important Disclosures

Morgan Stanley & Co. International PLC and its affiliates have a significant financial interest in the debt securities of ISLAMIC REPUBLIC OF PAKISTAN, MEXICO CITY AIRPORT TRUST, PETROLEOS MEXICANOS, REPUBLIC OF ANGOLA, REPUBLIC OF LEBANON, STATE OF QATAR, SULTANATE OF OMAN, Argentina, Brazil, Chile, Colombia, Egypt, Ghana, Hong Kong, India, Indonesia, Mexico, Peru, Russia, Saudi Arabia, South Africa, South Korea, Turkey, Ukraine.Morgan Stanley Research policy is to update research reports as and when the Research Analyst and Research Management deem appropriate, based on developments with the issuer, the sector, or the market that may have a material impact on the research views or opinions stated therein. In addition, certain Research publications are intended to be updated on a regular periodic basis (weekly/monthly/quarterly/annual) and will ordinarily be updated with that frequency, unless the Research Analyst and Research Management determine that a different publication schedule is appropriate based on current conditions.
Morgan Stanley is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.
Morgan Stanley produces an equity research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Matrix at http://www.morganstanley.com/matrix.
Morgan Stanley Research is provided to our clients through our proprietary research portal on Matrix and also distributed electronically by Morgan Stanley to clients. Certain, but not all, Morgan Stanley Research products are also made available to clients through third-party vendors or redistributed to clients through alternate electronic means as a convenience. For access to all available Morgan Stanley Research, please contact your sales representative or go to Matrix at http://www.morganstanley.com/matrix.
Any access and/or use of Morgan Stanley Research is subject to Morgan Stanley's Terms of Use (http://www.morganstanley.com/terms.html). By accessing and/or using Morgan Stanley Research, you are indicating that you have read and agree to be bound by our Terms of Use (http://www.morganstanley.com/terms.html). In addition you consent to Morgan Stanley processing your personal data and using cookies in accordance with our Privacy Policy and our Global Cookies Policy (http://www.morganstanley.com/privacy_pledge.html), including for the purposes of setting your preferences and to collect readership data so that we can deliver better and more personalized service and products to you. To find out more information about how Morgan Stanley processes personal data, how we use cookies and how to reject cookies see our Privacy Policy and our Global Cookies Policy

(http://www.morganstanley.com/privacy_pledge.html).
If you do not agree to our Terms of Use and/or if you do not wish to provide your consent to Morgan Stanley processing your personal data or using cookies please do not access our research.
Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.
The fixed income research analysts, strategists or economists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.
The "Important US Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common equity securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities/instruments or derivatives of securities/instruments of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons.
With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.
Morgan Stanley Research personnel may participate in company events such as site visits and are generally prohibited from accepting payment by the company of associated expenses unless pre-approved by authorized members of Research management.
Morgan Stanley may make investment decisions that are inconsistent with the recommendations or views in this report.
To our readers based in Taiwan or trading in Taiwan securities/instruments: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Any non-customer reader within the scope of Article 7-1 of the Taiwan Stock Exchange Recommendation Regulations accessing and/or receiving Morgan Stanley Research is not permitted to provide Morgan Stanley Research to any third party (including but not limited to related parties, affiliated companies and any other third parties) or engage in any activities regarding Morgan Stanley Research which may create or give the appearance of creating a conflict of interest. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.
Certain information in Morgan Stanley Research was sourced by employees of the Shanghai Representative Office of Morgan Stanley Asia Limited for the use of Morgan Stanley Asia Limited.
Morgan Stanley is not incorporated under PRC law and the research in relation to this report is conducted outside the PRC. Morgan Stanley Research does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves. Neither this report nor any part of it is intended as, or shall constitute, provision of any consultancy or advisory service of securities investment as defined under PRC law. Such information is provided for your reference only.
Morgan Stanley Research is disseminated in Brazil by Morgan Stanley C.T.V.M. S.A.; in Mexico by Morgan Stanley México, Casa de Bolsa, S.A. de C.V which is regulated by Comision Nacional Bancaria y de Valores. Paseo de los Tamarindos 90, Torre 1, Col. Bosques de las Lomas Floor 29, 05120 Mexico City; in Japan by Morgan Stanley MUFG Securities Co., Ltd. and, for Commodities related research reports only, Morgan Stanley Capital Group Japan Co., Ltd; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents) and by Morgan Stanley Asia International Limited, Hong Kong Branch; in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research) and by Morgan Stanley Asia International Limited, Singapore Branch (Registration number T11FC0207F); in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Indonesia by PT. Morgan Stanley Sekuritas Indonesia; in Canada by Morgan Stanley Canada Limited, which has approved of and takes responsibility for its contents in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main and Morgan Stanley Private Wealth Management Limited, Niederlassung Deutschland, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the US by Morgan Stanley & Co. LLC, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority and the Prudential Regulatory Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. RMB Morgan Stanley Proprietary Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley Proprietary Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited. The information in Morgan Stanley Research is being disseminated by Morgan Stanley Saudi Arabia, regulated by the Capital Market Authority in the Kingdom of Saudi Arabia , and is directed at Sophisticated investors only.
The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at Professional Clients only, as defined by the DFSA. The financial products or financial services to