

Outlook for the Second Half of 2007

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The Vienna stock exchange departed from its trend of outperforming the international markets for the first time in six years this year (year-to-date performance +11.4%). In spite of the fact that the ATX briefly surpassed the 5,000 mark yesterday, the Viennese market's performance is in line with the average for the other European stock markets to date. The current valuation level on the Viennese exchange remains attractive, as on all other stock markets. The market is still being driven by business in Central and Eastern Europe and the high level of liquidity. The considerably higher return offered by Austrian equities than by long-term bonds (10-year yields) also speaks in favour of dividend-paying stocks.

International equity markets should provide support for the remainder of 2007. As economic growth began to slow in the USA, earnings growth also began to slow in 2006 and 2007. Profits for US companies are still increasing on a quarterly basis, but at slower rates than in previous quarters. The slowdown in Europe is not as significant, and growth rates will be robust at over 2.5% for 2006 and 2007 (currently forecast at 2.7% in both cases), though starting from lower past real GDP growth rates than in the USA. The pace of the ECB's interest rate hikes has been moderate to date, and should not have a negative impact on the equity markets. From a long-term perspective, periods of interest rate increases do not have a lasting effect on the stock exchanges. All in all, the majority of factors is clearly signalling positive though restrained growth on the international equity markets in 2007. The continuing higher yields that stocks are offering compared to 10-year bonds is also beneficial. In Europe, this is currently good for a positive spread for stocks of 260 basis points, and of 240 basis points in Austria.

Central and Eastern Europe (CEE) remains the driving force behind the Vienna stock exchange. This is confirmed by the "CEE Financial Market Report" that is published by the Centre for European Economic Research (ZEW) and Erste Bank. This report compiles macroeconomic indicators for the economic conditions (sentiment) in the CEE region at present and at the six-month horizon. This report is published on a monthly basis and also includes expectations on inflation, interest rates, currencies and equity markets. The ZEW/Erste Bank indicator has been calculated since May 2007 and serves as a benchmark for the markets. The last issue for June 2007 confirms the stable economic conditions in the CEE region, and the expectations for CEE for the next six months surpass the equivalent indicators for the eurozone and Austria by a wide margin.

Valuation level on the Vienna stock exchange still attractive. With the considerably higher returns being offered by stocks compared to bonds, a longer-lasting period of significant equity price corrections is unlikely. The P/E ratio is attractive in comparison to many other international markets at present (P/E ratio of 14 for 2007e and 12 for 2008e). However, the time will come for a slight correction or consolidation phase over the summer (July, August), in part due to a high level of overbuying. The projected earnings growth and above all the continued good liquidity as shown by sustained trading volume growth will bring further moderate price increases through to the end of 2007.

All in all, the outlook for the ATX is positive, though price increases are likely to be more moderate. The conditions remain positive on the key sales markets in Central and Eastern Europe, where many Austrian companies are enjoying considerable success. The main argument for the Vienna stock exchange remains the lucrative "business in the East". As we have seen recently, investors will be paying increased attention to the results achieved in CEE, and especially institutional investors will continue with their stock picking. The unbroken high stock liquidity will continue to provide support (average trading volume/day 2007 to date: EUR 730 mn; +43% over the same period in 2006).

	P/E			Earnings growth		
	06e	07e	08e	06e	07e	08e
Austria / ATX	15,1	14,4	12,4	30,1 %	4,8 %	15,9 %
Germany	16,3	14,3	12,7	23,2 %	14,2 %	12,2 %
Netherlands	13,3	12,8	11,9	6,9 %	4,1 %	7,7 %
France	14,8	14,0	12,6	6,9 %	6,0 %	10,9 %

U.K.	13,8	13,0	12,1	12,5 %	6,3 %	10,6 %
Swiss	16,3	14,8	13,4	27,4 %	10,0 %	7,1 %
Euro STOXX	15,7	14,3	12,8	13,7 %	9,6 %	11,6 %
USA	17,7	16,2	14,6	14,4 %	9,0 %	11,4 %

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