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Financial Market Report CEE

Volume 2 · June 2008

International Finance Market Data: Assessments and Expectations
ZEW Economic Sentiment Indicator for Central and Eastern Europe, Supported by Erste Bank

ZEW, the Centre for European Economic Research, Mannheim, and Erste Bank der oesterreichischen Sparkassen, Vienna, carry out a monthly survey for Central and Eastern Europe, Austria, as well as the Eurozone asking financial market experts for their assessments and expectations with regard to economic and financial market data. The results of the present survey conducted between 29 April 2008 and 19 May 2008 are published in the June 2008 issue of the "Financial Market Report CEE". In this month's survey 82 financial market experts participated.

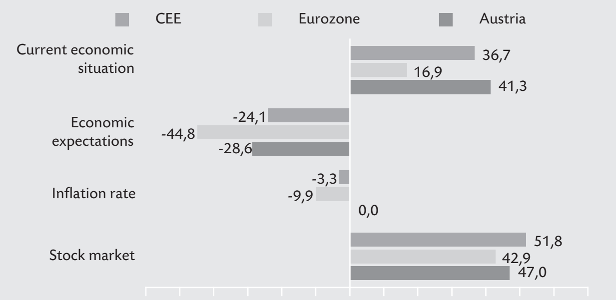
Experts are more cautious in their economic expectations for Central and Eastern Europe

After a continuous improvement of the economic expectations for Central and Eastern Europe (CEE) during the last three months, experts appear to be more cautious in May. The CEE indicator declines by 11.6 points to minus 24.1 points. Nevertheless, the majority of analysts expect the economic development to remain unchanged. Despite a slight decrease of 3.3 points, the current economic situation is still assessed as positive with a balance of 36.7 points. The vast majority of finance experts, mostly more than 60.0 percent, predict an increase of the local stock market indices in the following six months. Similarly to April, the expectations for the CEE index (NTX), which has a balance of 51.8 points, are the most strongly shaped by optimism.

Economic outlook for CEE countries, Austria and the Eurozone

The CEE indicator, which is calculated monthly by the Centre for European Economic Research (ZEW), Mannheim, supported by the Erste Bank der oesterreichischen Sparkassen AG, Vienna, as the balance of the positive and negative expectations for the economic development in the CEE region for a time period of six months, declines by 11.6 points to minus 24.1 points in May. The economic expectations of the analysts have worsened also for Austria and the Eurozone, considering the possible consequences of the international financial market crisis. The indicator for Austria drops by 9.5 points to minus 28.6 points and for the Eurozone declines by 10.1 points to minus 44.8 points. In contrast to the expectations, the current economic situation is still characterised by a positive balance for the CEE region (36.7 points), Austria (41.3 points) and the Eurozone (16.9 points). 36.7 percent of the participants evaluate the situation in the CEE region as "good", 63.3 percent as "normal", and not one single expert considers the current situation to be bad.

Indicators for CEE, Austria and the Eurozone (balances)



Balance of positive and negative assessment category chosen by respondents of the Financial Market Survey CEE
Source: ZEW

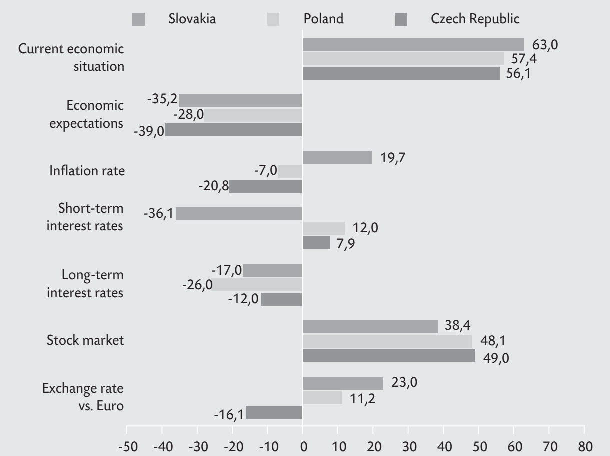
The inflation expectations of the CEE experts convey a heterogeneous picture. While 30.0 percent of the analysts anticipate an increasing and 33.3 percent anticipate a decreasing inflation rate, 36.7 percent expect the inflation to remain unchanged in the next six months. The balance, which increases by 8.7 points, amounts to minus 3.3 points in May. In spite of the fact that the ECB highlights the risk of inflation in the Eurozone again and again, the corresponding balance in the current survey recedes by 5.9 points to minus 9.9 points. Accordingly, the balance for the short-term interest rates in the Eurozone decreases by 3.1 points to minus 37.9 points. Just like in the previous month the majority of the analysts expect unchanged interest rates. 43.1 percent expect the ECB to cut the interest rates within the next six months, while merely 5.2 percent predict an increase in interest rates.

The inflation predictions for Austria are well balanced with 30.0 percent of the participants expecting a rise and a fall, respectively, in the inflation rate. 40 percent do not expect any change of inflation.

The balances for the CEE index (NTX), Austrian index (ATX) and for the EuroStoxx 50 fall slightly in May but stay at a high positive level. Similarly to April, the expectations for the CEE index (NTX), which has a balance of 51.8 points, are the most strongly shaped by optimism.

Czech Republic, Slovakia, Poland: good current situation; weaker economic expectations

Indicators for the Czech Republic, Poland, and Slovakia



Balance of positive and negative assessment category chosen by respondents of the Financial Market Survey CEE — Source: ZEW

Like in the previous months, the financial experts look favourably upon the current economic situation in the Czech Republic, Slovakia and Poland. The Slovak balance improves by 3.4 points to 63.0 points, the best rating observed this month. The balance for Poland remains nearly unchanged, showing a marginal increase by 2.1 points to 57.4 points. The financial experts' view on the Czech economy has not changed much, either. The decline of 6.4 points to 56.1 points reflects a slightly growing proportion of the participants who consider the current state to be "acceptable".

The upward trend of the economic expectations does not last, though. All three indicators decrease by double-digits. The balance for the Czech Republic drops most strongly by 20.3 points to minus 39.0 points. Slovakia's indicator decreases by 17.8 points to minus 35.2 points and Poland's indicator by 17.4 points to minus 28.0 points.

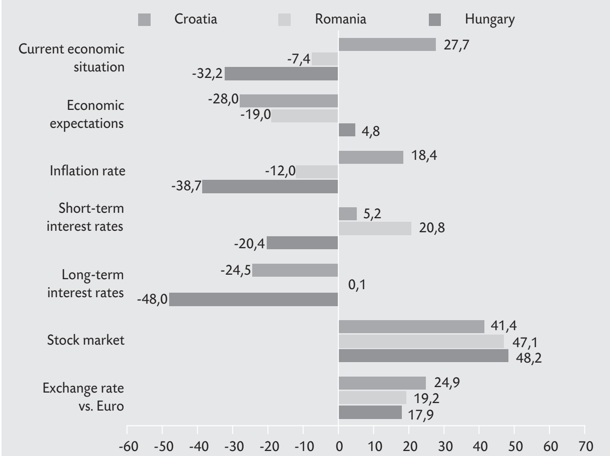
A growing number of financial experts perceive higher risk of price increases in Poland and Slovakia and a decreasing number of experts expect a lower inflation rate in the Czech Republic. This becomes apparent in rising balances for all three countries. Nonetheless, the balances for Poland (minus 7.0 points) and the Czech Republic (minus 20.8 points) remain negative. Although Slovakia has fulfilled all of the conditions for the introduction of the Euro on January 1, 2009, the surveyed experts have doubts concerning the sustainability of the low inflation rate. The balance for the inflation rate increases by 10.6 points to 19.7 points. This is the highest value among the analysed countries.

Despite the expectations towards price increases in Slovakia, a growing proportion of respondents (55.3 percent) anticipate no change in the short-term interest rates within the next six months.

With regard to stock market expectations, the financial experts remain optimistic, which can be derived from the three balances staying almost constant at high positive levels.

Hungary, Romania, Croatia: current situation recovers; currency appreciations over the Euro expected

Indicators for Croatia, Hungary, and Romania



Balance of positive and negative assessment category chosen by respondents of the Financial Market Survey CEE — Source: ZEW

According to the financial experts' assessment, the current economic situation in Hungary and Romania improves considerably. Although, these two countries remain the only ones with negative balances in the survey (minus 32.2 points and minus 7.4 points respectively). The evaluation for the current state of Croatia's economy rests nearly unchanged at 27.7 points, losing 1.2 points.

Compared to the results in April, the economic expectations change substantially in Croatia. After the upward trend last month, the respondents' assessment for the Croatian economy slides 18.9 points to minus 28.0 points in May, due to a growing proportion of participants who believe in an economic slow-down. The balance for Romania remained in the "red", losing 2.1 points and now standing at minus 19.0 points. The financial experts' view of the Hungarian economy recovers by 6.8 points up to 4.8 points.

With regard to the expected inflation rate, the assessments for Romania are most striking. The corresponding balance decreases by 22.9 points to minus 12.0 points. This should be a result of the tight monetary policy of Romania's central bank that raised the monetary policy rate to 9.75 percent per annum from 9.5 percent starting May 7, 2008 in an effort to stem inflation and currency pressures. Consequently, the majority of experts expect that the inflation rate will decrease in the next six months. Croatia's indicator increases by 8.4 points to 18.4 points and in the case of Hungary the majority of the experts still forecast a decreasing inflation rate with a balance of minus 38.7 points.

Regarding the stock market estimations for Croatia, Romania and Hungary, the optimistic view of the experts has not changed. All three balances remain at high positive values above the value of 40 and, therefore, rising stock prices are to be expected. Like in the previous month, all three currencies are supposed to appreciate over the Euro, as all three indicators gained in value.

Special Question: Commodity markets (Part 1)

Within the last years, commodity prices rose continuously, mainly due to the growing demand from emerging markets in Asia and increasing speculation. Even the financial market crisis with its consequences on property, stocks and bonds could not stop the commodity prices from reaching new record levels. Will it go on like this?

The financial experts are asked in the frame of the special question in May to assess the medium- and long-term performance potential of certain commodities, especially oil and gold.

In the first part of the special question the financial experts were asked to estimate the medium-term (six months) trend of the oil price (spot price North Sea Brent). Nearly half (48 percent) of the respondents anticipate a decrease of the oil price, compared to only 27 percent of the participants expecting a rise. The financial experts predict an average price of 113 USD/Barrel. 45 percent of the respondents anticipate an oil price below the “magical barrier” of 100 USD/Barrel, whereas 17 percent expect it to climb above 130 USD/Barrel. Figure B shows the medium-term oil price estimations of the financial experts questioned in the survey.

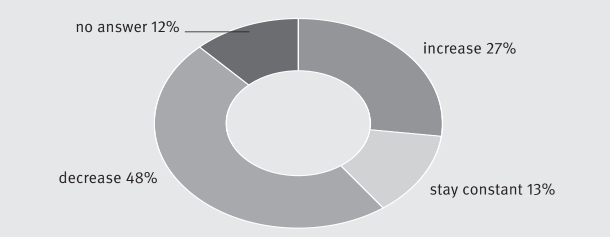
The results of the answers of survey participants concerning the gold price expectations after six months show a heterogeneous picture. 32 percent believe that the gold price will stay constant in the medium-term, followed by 25 percent of the respondents who expect it to decline and 21 percent anticipate an increasing gold price. According to the “average participant”, the gold price would stand at about 900 USD/t oz. in the medium-term.

A majority of 63 percent expect the gold price to be lower than 900 USD/t oz. (see Figure D). Only 11 percent predict the price to climb above 1,000 USD/t oz.

Furthermore, we were interested in the financial experts’ assessment on the long-term performance pote ntial of commodities over the next five years. The majority of the respondents anticipate rising prices for oil (67 percent), gold (54 percent) and agricultural goods (79 percent) in the long run. Only 13 percent of all experts predict decreasing prices for agricultural goods, followed by 17 percent in the case of oil and 26 percent in the case of gold. Moreover, the financial experts quantify the rise in prices for each commodity. Agricultural goods bear the highest performance potential, followed by oil and gold. 35 percent of the experts believe that the price of agricultural goods will rise strongly by more than 40 percent in the long run. 22 percent attribute a similar performance potential to oil. 11 percent think that the gold price will increase comparably.

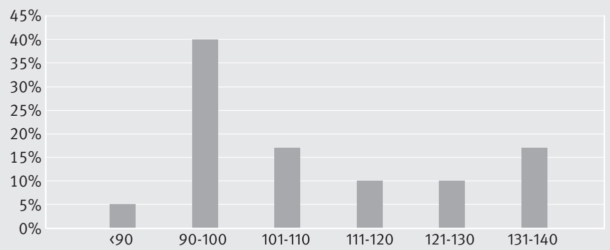
The survey results regarding the expected price development of selected commodities as wheat, rice, coffee and soybean in the long-term will be presented in the July issue of the Financial Market Report CEE. Furthermore, we analyzed the factors that affect the sharp rise in commodity prices as for example tight markets, global weather warming or speculations, which will be also exposed in the next issue of the CEE report.

Figure A: In the medium-term (6 months) the oil price (spot price North Sea Brent) will ...



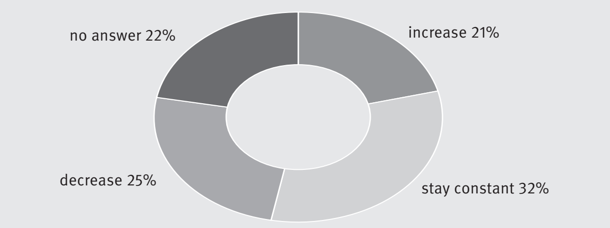
Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure B: Oil price expectations (6 months)



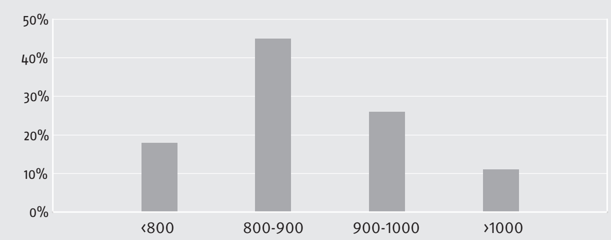
Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure C: In the medium-term (6 months) the gold price will ...



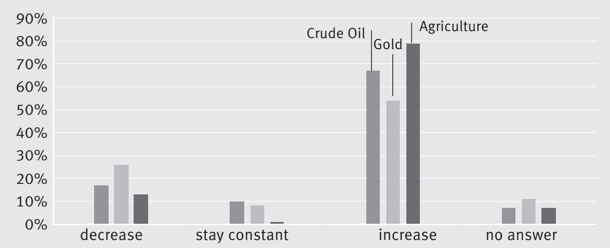
Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure D: Gold price expectations (6 months)



Answers of the participants of the Financial Market Survey CEE Source: ZEW

Figure E: In the long-term (5 years) the prices of the following commodities will ...



Answers of the participants of the Financial Market Survey CEE Source: ZEW

ZEW-Financial Market Survey: May 2008

Current economic situation	good		acceptable (normal)		bad		balance	
Austria	41,3	(+2,3)	58,7	(-2,3)	0,0	(+/-0,0)	41,3	(+2,3)
Croatia	29,8	(-1,3)	68,1	(+1,4)	2,1	(-0,1)	27,7	(-1,2)
Czech Republic	56,1	(-6,4)	43,9	(+6,4)	0,0	(+/-0,0)	56,1	(-6,4)
Hungary	3,4	(-0,6)	61,0	(+11,0)	35,6	(-10,4)	-32,2	(+9,8)
Poland	57,4	(+2,1)	42,6	(-2,1)	0,0	(+/-0,0)	57,4	(+2,1)
Romania	18,5	(+5,7)	55,6	(+6,7)	25,9	(-12,4)	-7,4	(+18,1)
Slovakia	66,7	(+5,0)	29,6	(-6,6)	3,7	(+1,6)	63,0	(+3,4)
CEE	36,7	(-5,3)	63,3	(+7,3)	0,0	(-2,0)	36,7	(-3,3)
Eurozone	22,0	(+/-0,0)	72,9	(-1,1)	5,1	(+1,1)	16,9	(-1,1)

Economic expectations	improve		no change		worsen		balance	
Austria	10,2	(-1,7)	51,0	(-6,1)	38,8	(+7,8)	-28,6	(-9,5)
Croatia	8,0	(-7,9)	56,0	(-3,1)	36,0	(+11,0)	-28,0	(-18,9)
Czech Republic	3,4	(-11,2)	54,2	(+2,1)	42,4	(+9,1)	-39,0	(-20,3)
Hungary	25,8	(-0,2)	53,2	(+7,2)	21,0	(-7,0)	4,8	(+6,8)
Poland	8,8	(-6,1)	54,4	(-5,2)	36,8	(+11,3)	-28,0	(-17,4)
Romania	17,2	(+0,1)	46,6	(-2,3)	36,2	(+2,2)	-19,0	(-2,1)
Slovakia	5,2	(-3,5)	54,4	(-10,8)	40,4	(+14,3)	-35,2	(-17,8)
CEE	13,8	(+1,3)	48,3	(-14,2)	37,9	(+12,9)	-24,1	(-11,6)
Eurozone	6,9	(-3,3)	41,4	(-3,5)	51,7	(+6,8)	-44,8	(-10,1)

Inflation rate	increase		no change		decrease		balance	
Austria	30,0	(+0,7)	40,0	(-11,2)	30,0	(+10,5)	0,0	(-9,8)
Croatia	44,9	(+14,9)	28,6	(-21,4)	26,5	(+6,5)	18,4	(+8,4)
Czech Republic	25,8	(+0,3)	27,6	(+6,3)	46,6	(-6,6)	-20,8	(+6,9)
Hungary	14,5	(-3,9)	32,3	(+11,9)	53,2	(-8,0)	-38,7	(+4,1)
Poland	31,6	(+5,5)	29,8	(+3,7)	38,6	(-9,2)	-7,0	(+14,7)
Romania	32,8	(-8,5)	22,4	(-5,9)	44,8	(+14,4)	-12,0	(-22,9)
Slovakia	42,9	(+8,8)	33,9	(-7,0)	23,2	(-1,8)	19,7	(+10,6)
CEE	30,0	(+4,0)	36,7	(+0,7)	33,3	(-4,7)	-3,3	(+8,7)
Eurozone	28,4	(+0,4)	33,3	(-6,7)	38,3	(+6,3)	-9,9	(-5,9)

Short-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	18,4	(-5,1)	38,9	(-0,5)	68,4	(+6,6)	52,8	(+4,3)	13,2	(-1,5)	8,3	(-3,8)	5,2	(-3,6)	30,6	(+3,3)
Czech Republic	21,6	(-18,9)	37,0	(-14,3)	64,7	(+14,7)	50,0	(+15,9)	13,7	(+4,2)	13,0	(-1,6)	7,9	(-23,1)	24,0	(-12,7)
Hungary	18,5	(-11,9)	20,4	(-19,6)	42,6	(+7,8)	38,8	(+12,1)	38,9	(+4,1)	40,8	(+7,5)	-20,4	(-16,0)	-20,4	(-27,1)
Poland	24,0	(-21,4)	51,0	(-5,1)	64,0	(+27,6)	42,6	(+13,3)	12,0	(-6,2)	6,4	(-8,2)	12,0	(-15,2)	44,6	(+3,1)
Romania	45,8	(-12,4)	61,3	(-2,1)	29,2	(+8,3)	18,2	(-1,3)	25,0	(+4,1)	20,5	(+3,4)	20,8	(-16,5)	40,8	(-5,5)
Slovakia	4,3	(-10,3)	25,0	(-8,3)	55,3	(+11,4)	43,2	(+7,3)	40,4	(-1,1)	31,8	(+1,0)	-36,1	(-9,2)	-6,8	(-9,3)
Eurozone	5,2	(-2,9)			51,7	(+2,7)			43,1	(+0,2)			-37,9	(-3,1)		

Long-term interest rates	increase				no change				decrease				balance			
	[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]		[abs.]		[rel.]	
Croatia	17,0	(-4,2)	19,0	(-9,1)	41,5	(-7,0)	40,5	(-0,1)	41,5	(+11,2)	40,5	(+9,2)	-24,5	(-15,4)	-21,5	(-18,3)
Czech Republic	20,0	(+1,4)	14,9	(+0,2)	48,0	(+3,8)	44,7	(-1,6)	32,0	(-5,2)	40,4	(+1,4)	-12,0	(+6,6)	-25,5	(-1,2)
Hungary	11,6	(-6,2)	12,0	(-3,9)	28,8	(+8,8)	24,0	(+3,5)	59,6	(-2,6)	64,0	(+0,4)	-48,0	(-3,6)	-52	(-4,3)
Poland	16,0	(-14,2)	19,6	(-2,4)	42,0	(+4,8)	41,3	(+2,3)	42,0	(+9,4)	39,1	(+0,1)	-26,0	(-23,6)	-19,5	(-2,5)
Romania	30,5	(-3,7)	41,9	(-5,2)	39,1	(-5,6)	30,2	(+0,8)	30,4	(+9,3)	27,9	(+4,4)	0,1	(-13,0)	14	(-9,6)
Slovakia	14,9	(-5,1)	9,5	(+1,4)	53,2	(+3,2)	50,0	(-6,8)	31,9	(+1,9)	40,5	(+5,4)	-17,0	(-7,0)	-31	(-4,0)
Germany	24,1	(-5,0)			48,3	(+8,7)			27,6	(-3,7)			-3,5	(-1,3)		

Stock market indices	increase		no change		decrease		balance	
EURO STOXX 50	62,5	(+2,1)	17,9	(-7,1)	19,6	(+5,0)	42,9	(-2,9)
ATX (Austria)	63,3	(+2,4)	20,4	(-8,9)	16,3	(+6,5)	47,0	(-4,1)
NTX (CEE)	68,5	(-4,8)	14,8	(+3,7)	16,7	(+1,1)	51,8	(-5,9)
CROBEX (Croatia)	63,1	(+0,4)	15,2	(-8,1)	21,7	(+7,7)	41,4	(-7,3)
PX 50 (Czech Rep.)	66,0	(-0,6)	17,0	(-0,8)	17,0	(+1,4)	49,0	(-2,0)
BUX (Hungary)	60,3	(-4,3)	27,6	(+6,8)	12,1	(-2,5)	48,2	(-1,8)
WIG (Poland)	64,8	(+0,4)	18,5	(+2,9)	16,7	(-3,3)	48,1	(+3,7)
BET (Romania)	64,1	(+6,6)	18,9	(-6,1)	17,0	(-0,5)	47,1	(+7,1)
SAX (Slovakia)	57,5	(-0,4)	23,4	(-0,3)	19,1	(+0,7)	38,4	(-1,1)
SBI 20 (Slovenia)	56,8	(+3,9)	22,7	(-12,6)	20,5	(+8,7)	36,3	(-4,8)

Exchange rates (vs. Euro)	appreciate		no change		depreciate		balance	
Kuna (Croatia)	31,2	(+5,0)	62,5	(-4,2)	6,3	(-0,8)	24,9	(+5,8)
Koruna (Czech Rep.)	23,2	(+16,6)	37,5	(-18,1)	39,3	(+1,5)	-16,1	(+15,1)
Forint (Hungary)	37,5	(+6,8)	42,9	(-4,0)	19,6	(-2,8)	17,9	(+9,6)
Zloty (Poland)	32,0	(-15,7)	47,2	(+4,0)	20,8	(+11,7)	11,2	(-27,4)
Lei (Romania)	36,5	(+4,6)	46,2	(+5,8)	17,3	(-10,4)	19,2	(+15,0)
Koruna (Slovakia)	28,8	(+17,2)	65,4	(-18,3)	5,8	(+1,1)	23,0	(+16,1)
US-Dollar	64,9	(+8,9)	21,1	(-8,9)	14,0	(+/-0,0)	50,9	(+8,9)

Note: 82 Financial experts participated in the May survey which was conducted during the period 04/29/08-05/19/08. Analysts were asked about their expectations for the next 6 months. Numbers displayed are percentages (month-over-month percentage point changes compared to the survey in April in parentheses). Balances refer to the differences between positive and negative assessments.

I M P R I N T

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