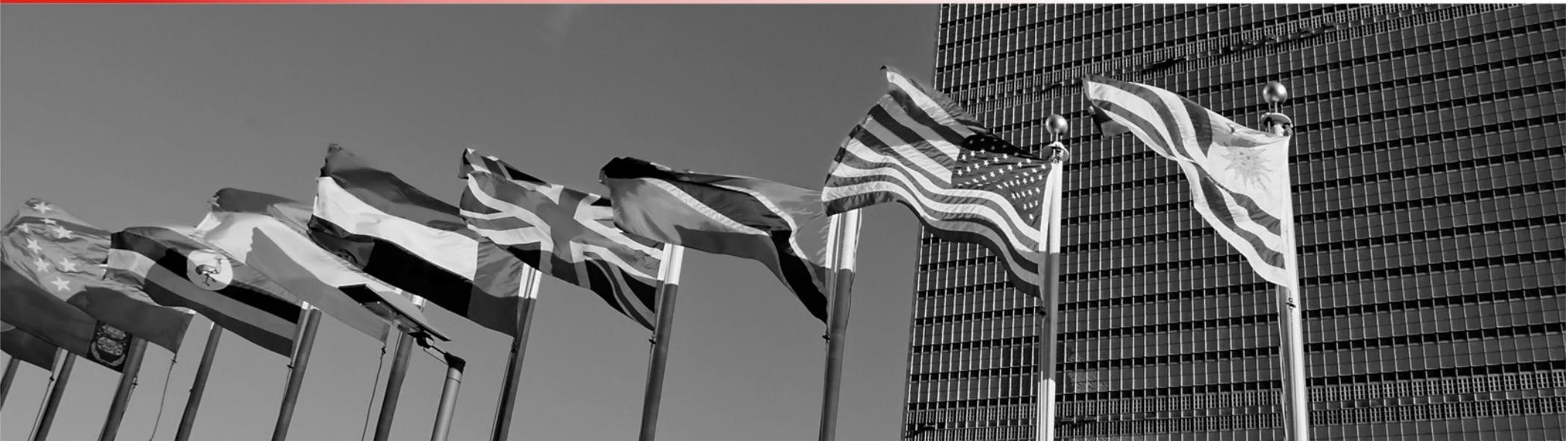




DUKASCOPY
RESEARCH PRODUCTS

June release



Dukascopy Bank Sentiment Index

Summary

- Having experienced a completely unexpected United Kingdom's vote to leave the European Union in the referendum that took place on June 23, the global economy is now even further from seeing a continuous upturn, especially in the wake of weak EM performance, economic and political challenges in Europe along with ongoing uncertainty over the upcoming elections in the United States. Nevertheless, despite a steep downgrade of projections for the UK on the back of the 'Brexit', professors' sentiment towards the performance of the world economy seems to have remained relatively unchanged over the observed month, though still indicating sluggish growth.
- Uncertainty over the 'Brexit' has been dominating the world economic arena for the past month to eventually see the UK divorcing the European Union, which has immediately shaken market volatility worldwide and cut down on economists' confidence in the bloc in the observed month. The latter has also sent both short and long term sentiment gauges significantly lower in June, indicating the possibility of slower recovery in the common-currency zone.
- While consumer spending, which remained pretty strong in the Q2, along with retail sales that expanded for the second straight month and better-than-expected non-farm payrolls reading managed to boost the US economy, overall, North America saw mixed results in June, as the six-month sentiment inched down slightly, while the three-year measure proved to continue its positive trend.
- The positive momentum in the Asia-Pacific region seems to have continued in June even despite soft global demand and signs that the Chinese investment-led recovery is coming to an end, as both short and long run sentiment indices soared in the measured month.

Parameter/ Region	Global	Europe	North America	Asia-Pacific
Six-month economic outlook	 0.54 ↑(0.01)	 0.38 ↓(0.02)	 0.66 ↓(0.01)	 0.59 ↑(0.07)
Three-year economic outlook	 0.67 ↑(0.04)	 0.51 ↓(0.03)	 0.75 ↑(0.04)	 0.76 ↑(0.12)

Figure 1: Mood indicator

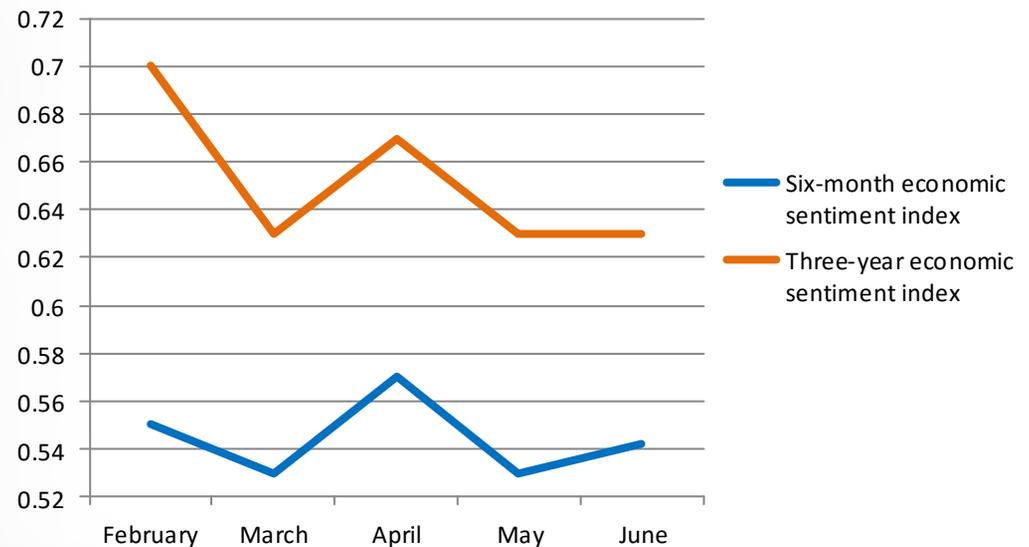


Figure 2: Global economic sentiment index

Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.38 ↓(0.02)	0.36%	0.66 ↓(0.01)	1.50%	0.59 ↑(0.05)	3.06%
3-year economic outlook	0.51 ↓(0.03)	0.73%	0.75 ↑(0.04)	1.96%	0.76 ↑(0.12)	3.46%

Figure 3 represents the term structure of Dukascopy Bank Sentiment Index (Y-axis) mapped against the GDP growth forecasts made by poll respondents (X-axis). Overall, DBSI values and GDP growth forecasts match directionally, suggesting the global economy will perform better three years from now.

University professors remained very pessimistic on economic growth outlook for the European region over the previous month. In the course of May, the near-term sentiment index stood at 0.41 points, indicating negative Europe's economic performance, as the world has been closely watching the possibility of the UK leaving the European Union. In June, academia experts downgraded their view even further, seeing the six-month gauge slumping below 0.40 points, at 0.38. In a longer term, experts also became a lot more pessimistic, revising downwards their three-year economic outlook.

Professors reviewed downwards their outlook on North America's growth potential in the upcoming six months, as the respective gauge slid modest 0.01 points to hit 0.66 in June. In spite of a slight downtick in the near-term sentiment, the region's economy was expected to gain momentum in three years according to the experts surveyed. Nevertheless, the overall confidence plummeted, as the GDP was said to expand at just 1.96% rate in three years from now amid revised timing of the US rate hike cycle.

Having expanded at a healthy pace in the Q2, Chinese economy managed to spur more optimism about growth prospects in the whole Asia-Pacific region, as both near and long term gauges jumped in June, seeing an increase to 0.59 and 0.76 points respectively.

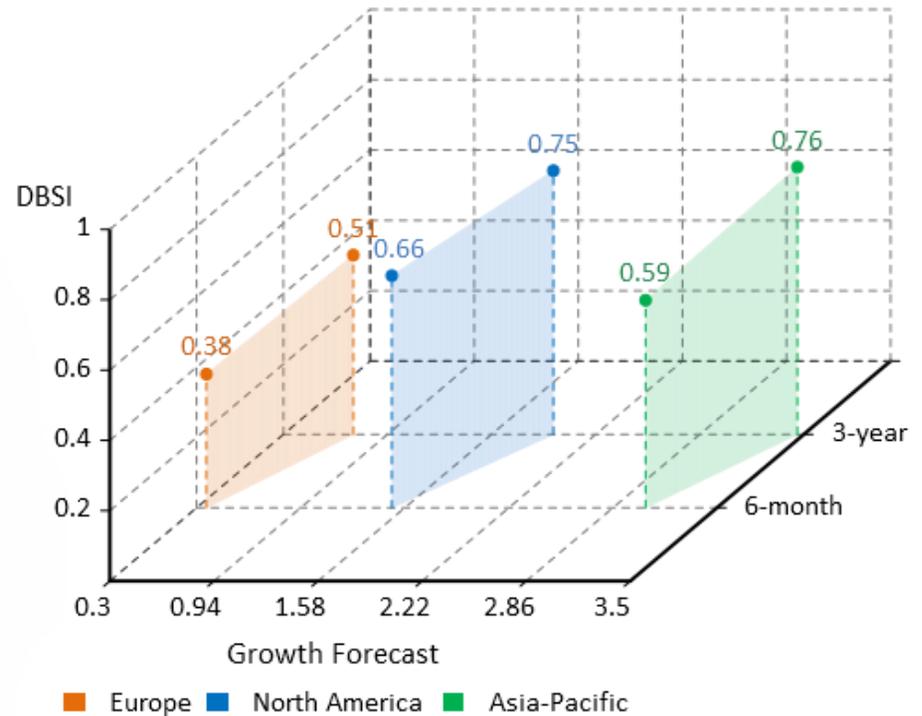


Figure 3: Global economic outlook (term structure)

Economic development stages

Parameter/Region	Europe		North America		Asia-Pacific	
	6-month EDS	3-year EDS	6-month EDS	3-year EDS	6-month EDS	3-year EDS
Contraction	15	7	2	0	5	2
Recessionary Trough	6	5	0	1	1	0
Expansion	9	18	27	27	24	25
Business Peak	0	0	1	2	0	3

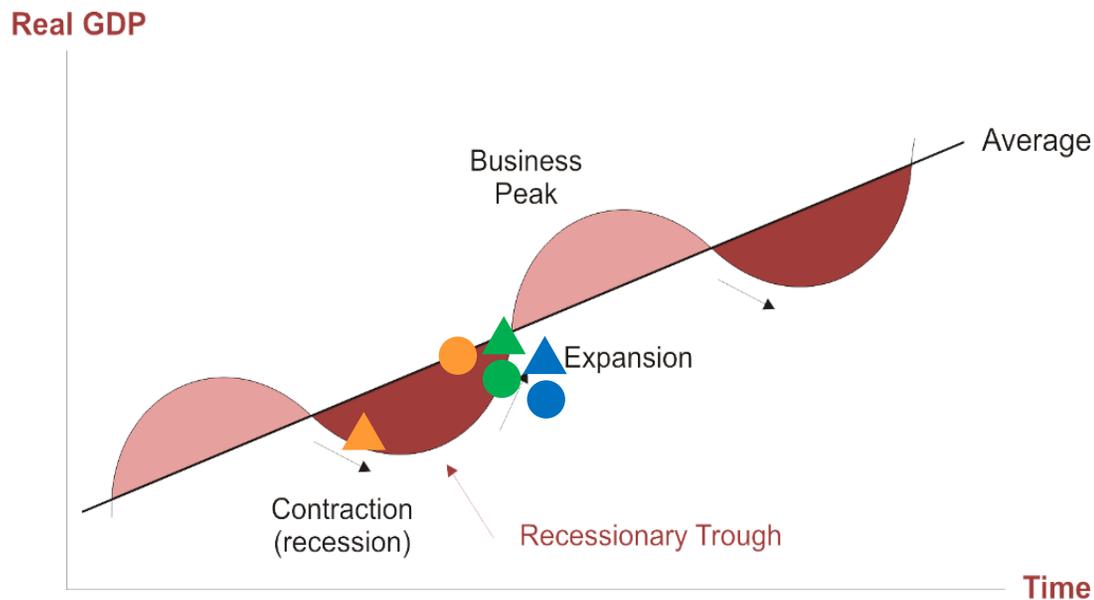


Figure 4: Business cycle

- 6-month EDS
- ▲ 3-year EDS

Professors' view of Europe's economic performance saw the region contracting in June after having had hard time for four straight months. The vast majority of experts predicted the economy to sharply reverse a slow but still stable growth and anticipated the region to be heading towards the lower end of the business cycle curve in the next six months. In a longer term, most of the economists remained firmly positive, as the best part of professors expected the economy to grow in three years from now, while 5 out of 30 experts still remained strongly negative, eyeing the situation in Europe to hit the bottom in three years from now.

According to the professors surveyed, North America continued its positive trend, nearing the business peak in both short and long terms, as the overwhelming majority of professors remained strongly confident on the growth prospects in the region, while the number of survey participants seeing the economy at the top end of the business cycle curve in the years to come declined compared to the data registered over the course of May.

Experts' sentiment towards the Asia-Pacific region became even more optimistic, as the preponderance of experts eyed the economy expanding in the nearest future, while just 5 out of 30 professors still predicted the situation to worsen most probably on the back of external and domestic factors weighing on the performance of the EMs. In the next three years, the region's performance was still expected to gain strong momentum.

Six-month economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.50	0.25	0.75	0.50
Mean (DBSI)	0.54 ↓(0.03)	0.38 ↓(0.10)	0.66 ↓(0.01)	0.59 ↑(0.04)
Mode	0.75	0.25	0.75	0.75
Standard Deviation	0.21 ↓(0.02)	0.22 ↓(0.03)	0.12 ↓(0.07)	0.17 ↓(0.05)

Figures 5 and 6 show the six-month economic outlook for Europe, North America, and Asia-Pacific.

Having faced a number of economic and political issues of high importance, namely, the 'Brexit' and the decision of the US Fed to take a relatively dovish stance, seeing just one rate hike in the course of this year, the global economy has shaken, which resulted in the drop in the short-term sentiment.

The near-term economic sentiment index for Europe slumped as much as 0.10 points in the previous month, seeing the economy in the region being fairly negative by the end of the year. It came as no surprise that the 'Brexit' vote and pessimism over the state of the banking sector in Italy caused the professors to reassess their outlook for growth in Europe in the months to come.

The general outlook for North America's economic performance in the coming six months remained fairly positive according to the experts that took part in the last month's poll, despite the fact that the Fed was much more dovish regarding the rates. Still, the sentiment index ticked down a modest 0.01 point in the wake of consequences of forest fires in Canada, which has substantially hit the economy of the whole region in May.

The Asia-Pacific region registered very promising results in June, as the majority of the professors surveyed saw the near-term economic performance being neutral-to-positive amid signs of recovery in China.

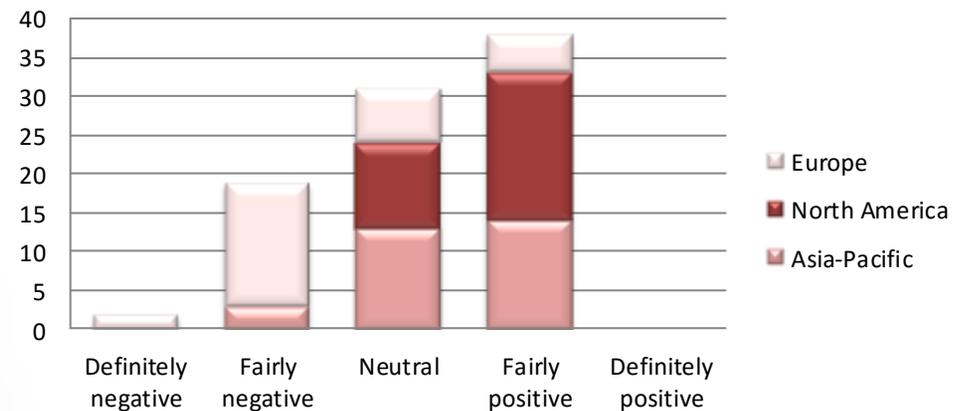


Figure 5: Six-month economic outlook

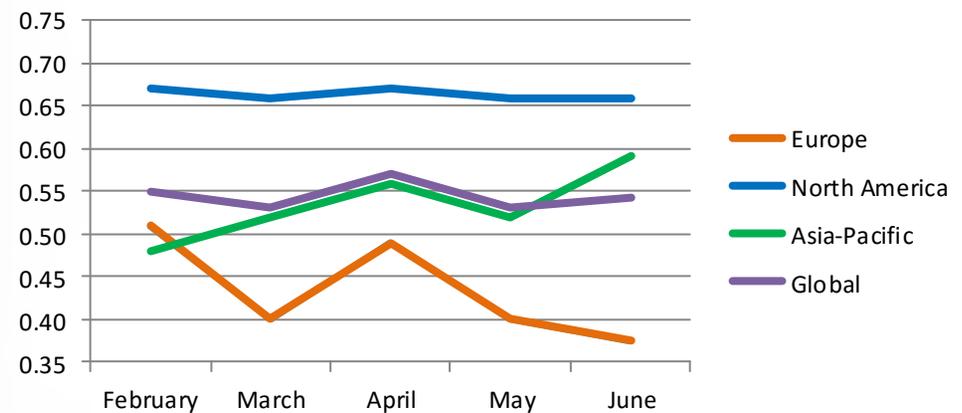


Figure 6: Six-month economic sentiment index

Three-year economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.50	0.75	0.75
Mean (DBSI)	0.67 ↓(0.05)	0.51 ↓(0.08)	0.75 ↑(0.03)	0.76 ↑(0.11)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.22 ↑(0.02)	0.22 ↑(0.01)	0.11 ↓(0.09)	0.20 ↓(0.04)

Figure 7 and 8 present the three-year economic outlook for Europe, North America, and Asia-Pacific.

In three years from now, experts saw the economic situation worsening in only one of the observed regions, though still bringing the global forecast 0.05 points lower compared to May's data, when we saw the professors' sentiment standing at 0.72 points.

The immediate destructive effect of the 'Brexit' on overall performance of the European economic area was set to remain persistent up to 2019, as the preponderance of the experts surveyed on the matter have downgraded their assessment of the potential economic situation within the bloc. In the meantime, the overall sentiment was undecided in June, with forecasts on the performance of the economy in the region ranging from being fairly negative to fairly positive in the next three years.

It came as no surprise that the experts saw the economic performance of North America still being fairly positive in three years from now, even despite a shocking slump in the number of jobs created in May in the US, which has turned most of the Federal Reserve's officials into 'doves' with regards to interest rates lift, while good numbers from Canada boosted market participants' optimism about potential growth in the region.

It appeared that signs of slow recovery in China have managed to shore up professors' assessment of Asia-Pacific economy, as the three-year outlook skyrocketed over the course of June.

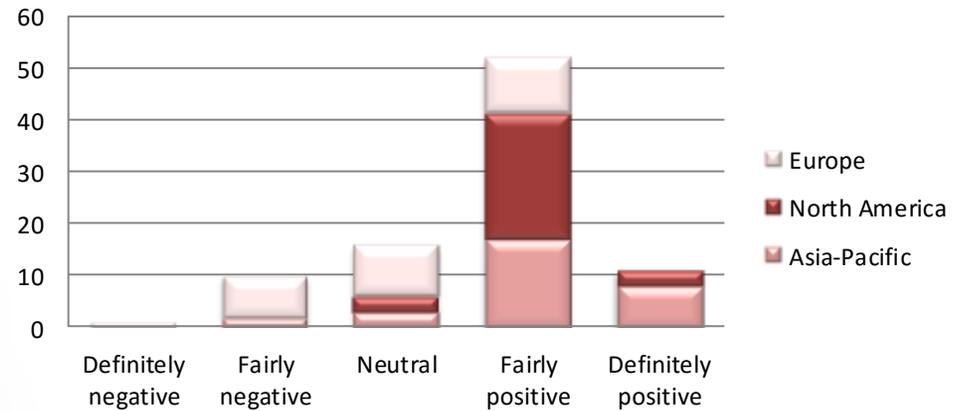


Figure 7: Three-year economic outlook

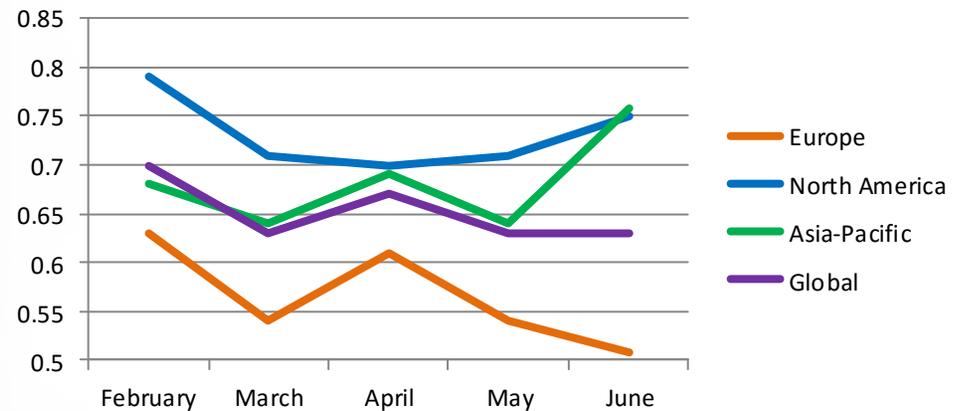


Figure 8: Three-year economic sentiment index

Economic outlook comparison

Parameter/Region	Europe		North America		Asia-Pacific	
	Local experts	Foreign experts	Local experts	Foreign experts	Local experts	Foreign experts
6-month economic outlook	0.45	0.34	0.70	0.64	0.57	0.60
3-year economic outlook	0.55	0.49	0.75	0.75	0.75	0.76

Figure 9 presents a discrepancy in views on the economic outlook of two time frames among the local and foreign professors.

Over the course of the prior month, both European and overseas professors became far less optimistic about the region's near-term economic performance. As concerns the long-term outlook, last month's poll yet again showed visibly worse result in confidence, as both local and foreign experts appeared to see the European economy weakening, voicing far less optimism about the three-year gauge.

In North America, overall, professors shared mixed outlook for the economy in the foreseeable future, with the six-month sentiment index jumping substantially among local experts, while foreign professors sharply downgraded their view on the region's economy. Concerning the long-term outlook, both domestic and overseas economists appeared to be equally positive in confidence, as both measures jumped in the observed month.

Recent economic developments in the Asia-Pacific region, namely the recovery in the Chinese economy coupled with expectations for the BoJ to loosen monetary policy in the nearest future, made both local and foreign experts revise their outlook upwards in both short and long runs, stepping away from being pessimistic about future economic health in the region.

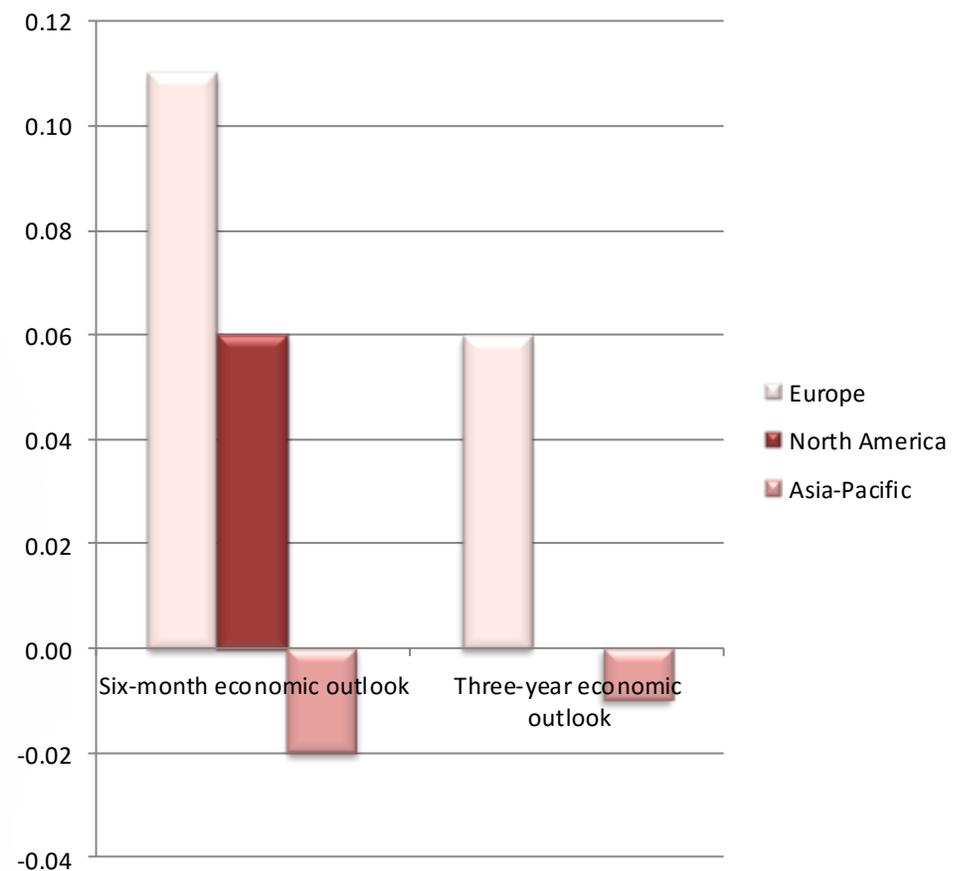


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (*1)

Explanations

Description

Starting from November 2011, Dukascopy Bank SA is publishing a monthly Dukascopy Bank Sentiment Index (DBSI). The index is based on a survey of 30 experts from academia (10 from every region in focus), who are asked to assess future (six-month and three-year) economic prospects of the three regions: Europe, North America and Asia-Pacific.

The DBSI can take values from 0 to 1 as outlined below.

Value	Outlook
0	Definitely negative
0 – 0.5	Fairly negative
0.5	Neutral
0.5 – 1	Fairly positive
1	Definitely positive

Parameters

- Median – the middle observation in a data set;
- Mean – the sum of the values divided by the number of values;
- Mode – the value that occurs most frequently in a data set;
- Standard deviation – the variation from the average (mean).

Calculations

(*1) – difference between local experts mean estimate and foreign experts mean estimate.

Universities that have participated in May's poll:

Ripon College; MTSU; University of Notre Dame; Northern Illinois University; Michigan State University; University of Georgia; Dartmouth College; University of Aberdeen; University of Oxford; ESSEC Business School; Riga International School of Economics and Business Administration (RISEBA); Hong Kong Baptist University; University of Newcastle in Australia; University of Waikato; Fudan University; FAU; Griffith University; Sejong University.



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