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RESEARCH PRODUCTS

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Dukascopy Bank Sentiment Index

Summary

- Prospects of the global economy as seen by the participants of the Dukascopy Bank SA January poll became less attractive compared to the December poll's results as the six-month sentiment index decreased 0.02 to 0.64, while the three-year outlook stood unchanged at 0.73.
- European economic sentiment index was slightly down compared to the last month's reading. The January forecasts within the region showed 0.53 for the six-month time span and 0.64 for the three-year time span.
- The only region where poll participants expect an acceleration of the economic development in both the short and long terms is North-America, as the forecasts six months from now advanced 0.02 to 0.73 and experts' projections three years from now gained 0.03 to 0.80.
- The Asia-Pacific is expected to experience a slowdown as the six-month expectations retreated 0.07 to 0.65, while the three-year predictions fell 0.04 to 0.74.

Parameter/ Region	Global	Europe	North America	Asia- Pacific
Six-month economic outlook	 0.64 ↓(0.02)	 0.53 ↓(0.01)	 0.73 ↑(0.02)	 0.65 ↓(0.07)
Three-year economic outlook	 0.73 →(0.00)	 0.64 ↓(0.01)	 0.80 ↑(0.03)	 0.74 ↓(0.04)

Figure 1: Mood indicator

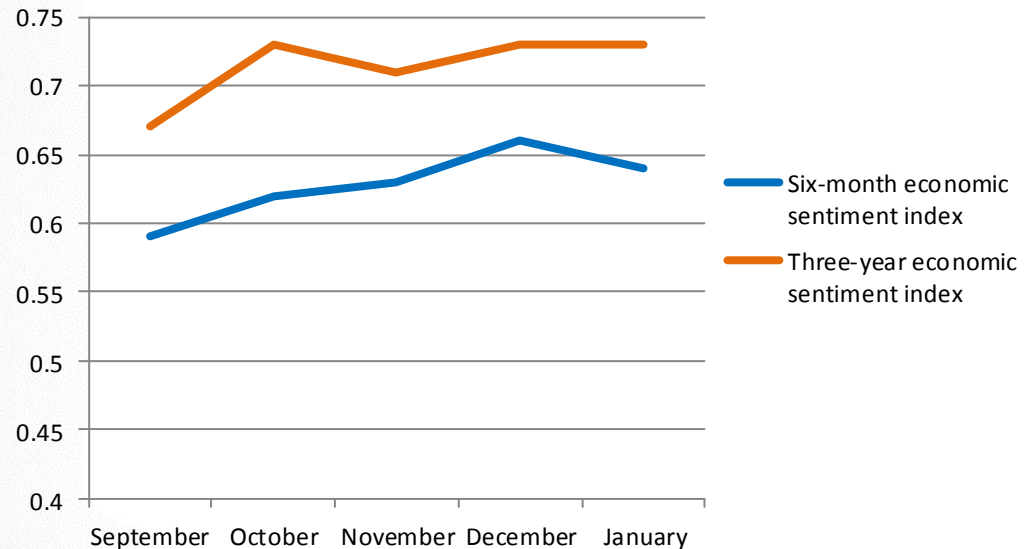


Figure 2: Global economic sentiment index

Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.53 ↓(0.01)	0.62%	0.73 ↑(0.02)	2.00%	0.65 ↓(0.07)	3.76%
3-year economic outlook	0.64 ↓(0.01)	1.17%	0.80 ↑(0.03)	2.53%	0.74 ↓(0.04)	4.00%

Figure 3 presents the term structure of the Dukascopy Bank Sentiment Index (Y-axis) mapped against 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.

Expected growth of the European region six months from now dropped to 0.62% in January from 0.80% prior month, while the economic expansion three years from now decreased by 0.7% to 1.17% during the month.

The six-month growth in the North-America decreased slightly to 2.00%, while the three-year forecast improved a little to the level of 2.53%.

The expectations regarding the Asia-Pacific economic development remained the strongest among the three regions despite the decrease of the indicators' values. Experts expect the region's economy to expand at 3.76% rate six months from now and 4.00% by the early 2017.

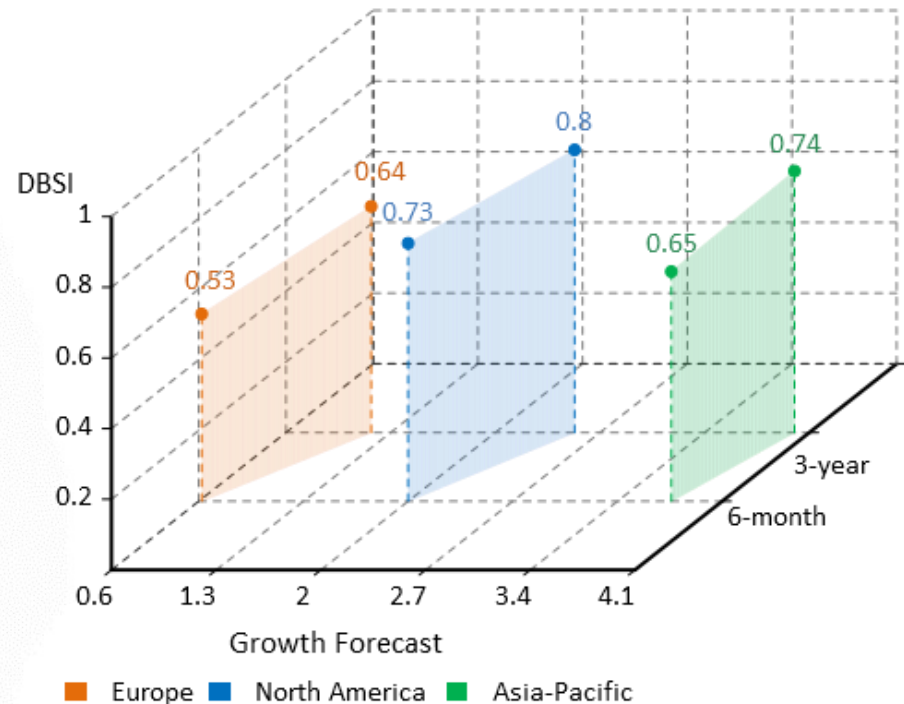


Figure 3: Global economic outlook (term structure)

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	7	2	0	1	3	4
Recessionary Trough	10	7	5	2	2	2
Expansion	13	20	25	25	24	20
Business Peak	0	1	0	2	1	4

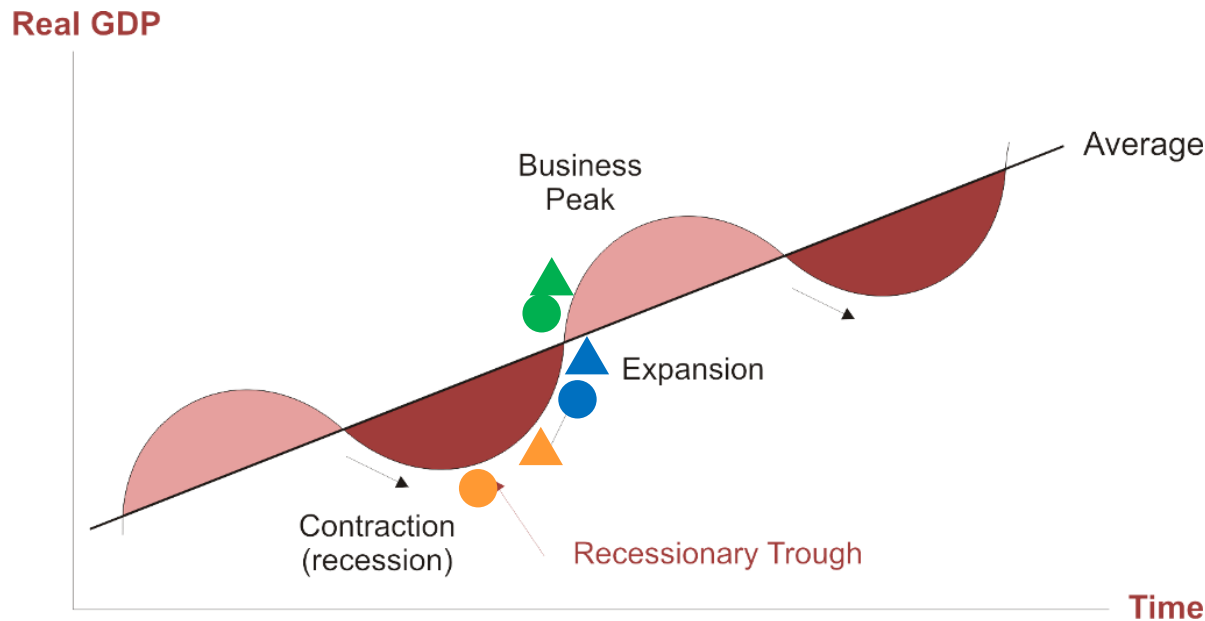


Figure 4: Business cycle

- 6-month EDS for North America
- ▲ 3-year EDS for North America

Figure 4 presents the business cycle and its phases: expansion (real GDP is increasing), peak (real GDP stops increasing and begins decreasing), contraction or recession (real GDP is decreasing), and trough (real GDP stops decreasing and begins increasing).

Seventeen experts believe that the European economy will reach the phase of recession or contraction in six-month time span, while thirteen expect the economy to expand by the middle of 2014. Poll respondents are more optimistic regarding the three-year economic development as twenty-one anticipate improvements and only nine forecast the downturn.

Twenty five poll respondents consider the North-American six-month EDS to stand at the 'Expansion' phase, while twenty seven believe economy to expand three years from now.

The Asia-Pacific economy is anticipated to improve both in the short and long term by majority of economists, while five consider the region's economy to contract six months from now and six expect it to slow down three years from now.

Six-month economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.50	0.75	0.63
Mean (DBSI)	0.64 ↓(0.02)	0.53 ↓(0.01)	0.73 ↑(0.02)	0.65 ↓(0.07)
Mode	0.50	0.50	0.75	0.50
Standard Deviation	0.21 ↑(0.04)	0.18 ↑(0.02)	0.22 ↑(0.07)	0.19 ↑(0.03)

Figure 5 shows the six-month economic outlook for Europe, North America, and Asia-Pacific, while the global six-month economic prospects fell 0.02 to 0.64 in January.

The six-month economic outlook retreated from the highest reading since the records began in 2011 to the level of 0.53. Four respondents (13%) are pessimistic about the economic outlook, seventeen (57%) say the outlook is “neutral” and the rest (30%) claim the outlook is “positive”, while none believe the prospects are “definitely positive”.

North America is the only region the poll respondents expect to grow six month from now buoyed by the 0.02 increase of the sentiment index to 0.73 in January. Twenty two experts (74%) claim the outlook is “fairly” or “definitely” positive and six (20%) suggest the economic outlook is “neutral”.

The Asia-Pacific economic sentiment declined for the first time since August 2013 and reached the July 2013 level of 0.65. Half of the respondents (50%) are either “fairly” or “definitely” positive about the six-month economic outlook, fourteen (47%) say the outlook is “neutral”, whereas one (3%) shares negative outlook on the region’s economy.

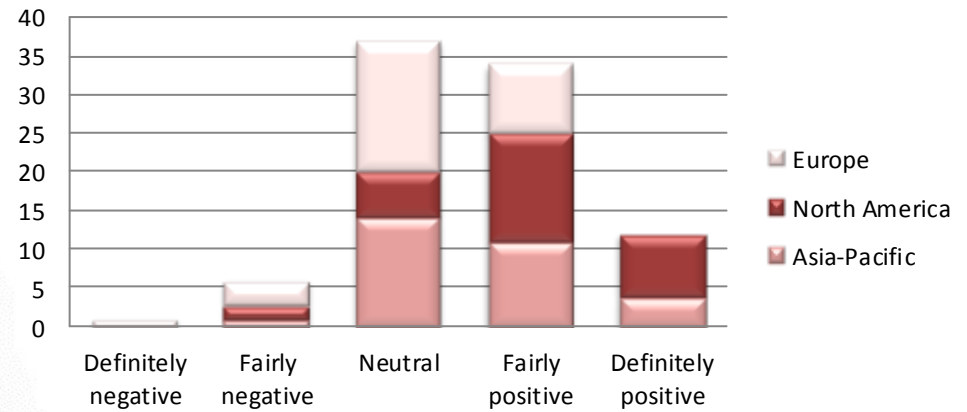


Figure 5: Six-month economic outlook

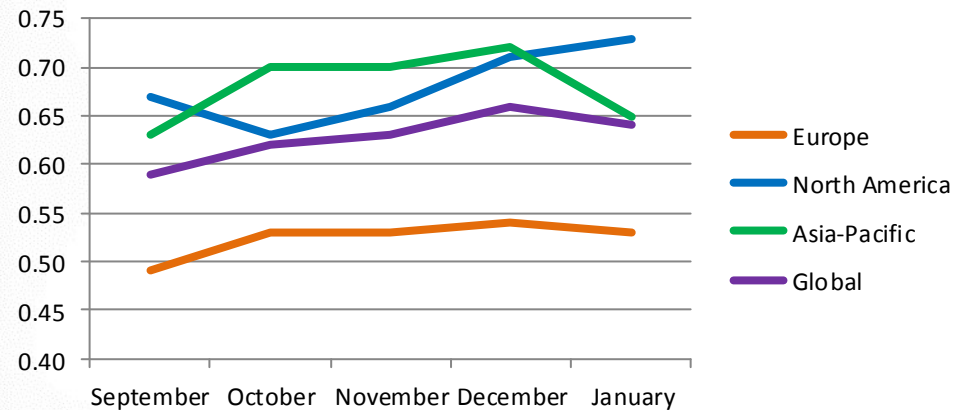


Figure 6: Six-month economic sentiment index

Three-year economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.73 →(0.00)	0.64 ↓(0.01)	0.80 ↑(0.03)	0.74 ↓(0.04)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.21 →(0.00)	0.19 ↓(0.01)	0.20 ↑(0.04)	0.22 ↓(0.01)

Figure 7 presents the three-year economic outlook for Europe, North America, and Asia-Pacific. The three-year global economic outlook stood unchanged at 0.73 after slight improvements last month.

European three-year economic sentiment index decreased to 0.64 in January from 0.65 in December 2013. The vast majority of respondents (60%) say the outlook is “fairly” or “definitely” positive; while nine experts (30%) claim that the three-year economic outlook is “neutral” and three (10%) say that the forecast is “fairly” negative.

The economic outlook for the North American region gained 0.03 from last month’s 0.77 level with twenty seven respondents (90%) saying the outlook is either “fairly” or “definitely” positive, one (3%) claiming it to be “neutral” and two participants (7%) considering the outlook “fairly” negative.

The Asia-Pacific economic forecast for early 2017 retreated to 0.74 in January from 0.78 the prior month. Twenty one experts (73%) say the prospects are either “fairly” or “definitely” positive and six (20%) claim the perspectives are “neutral”.

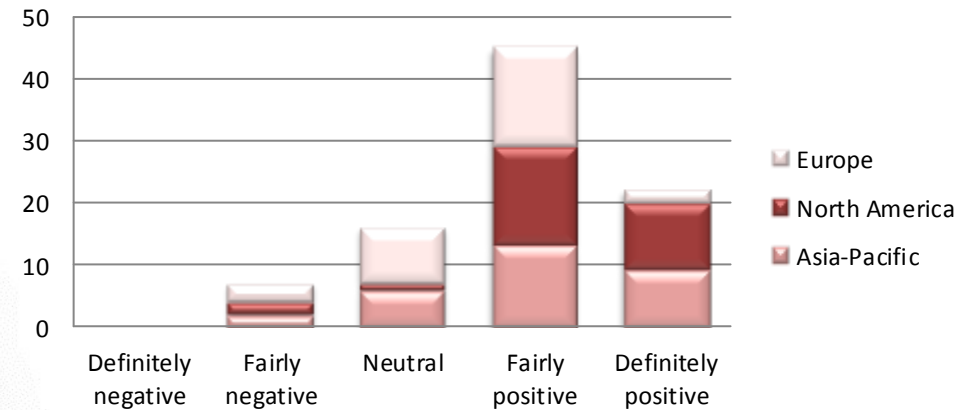


Figure 7: Three-year economic outlook

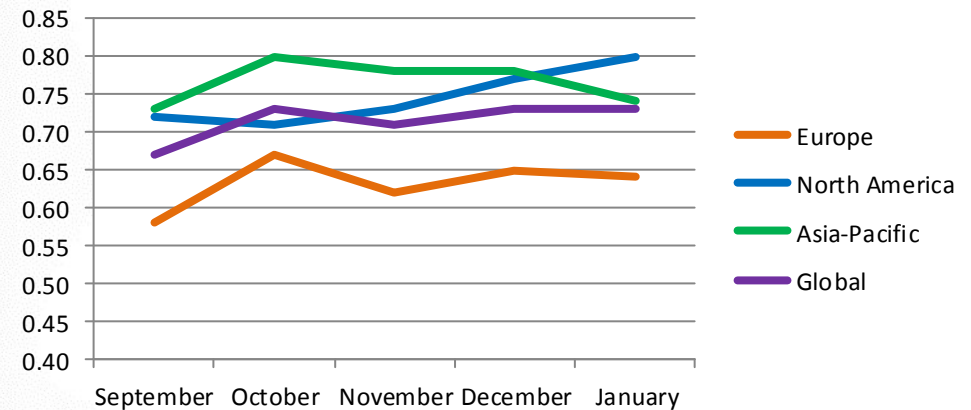


Figure 8: Three-year economic sentiment index

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	0.58	0.51	0.80	0.70	0.65	0.65
3-year economic outlook	0.58	0.68	0.83	0.79	0.80	0.71

Figure 9 presents a discrepancy in views on the economic outlook among the local and foreign experts. January poll results reveal that respondents from North-America are consistently more optimistic about the local economic outlook compared to their foreign colleagues.

Europe: Local experts have equal expectations of the region’s six-month and three-year development, yet foreign poll respondents are less optimistic regarding the economy six months from now. The discrepancy in the opinions between the groups reaches negative 0.10 for the three-year economic outlook.

North America: Respondents from the North American region are more confident in the region’s both six--month and three-year economic development than the foreign poll participants (0.80 vs. 0.70 and 0.83 vs. 0.79, respectively).

Asia-Pacific: Local respondents’ projections about the Asia-Pacific economic outlook by the middle of 2014 meet the foreign experts’ anticipations, while the discrepancy in views reaches the value of 0.09 for the three-year economic sentiment index.

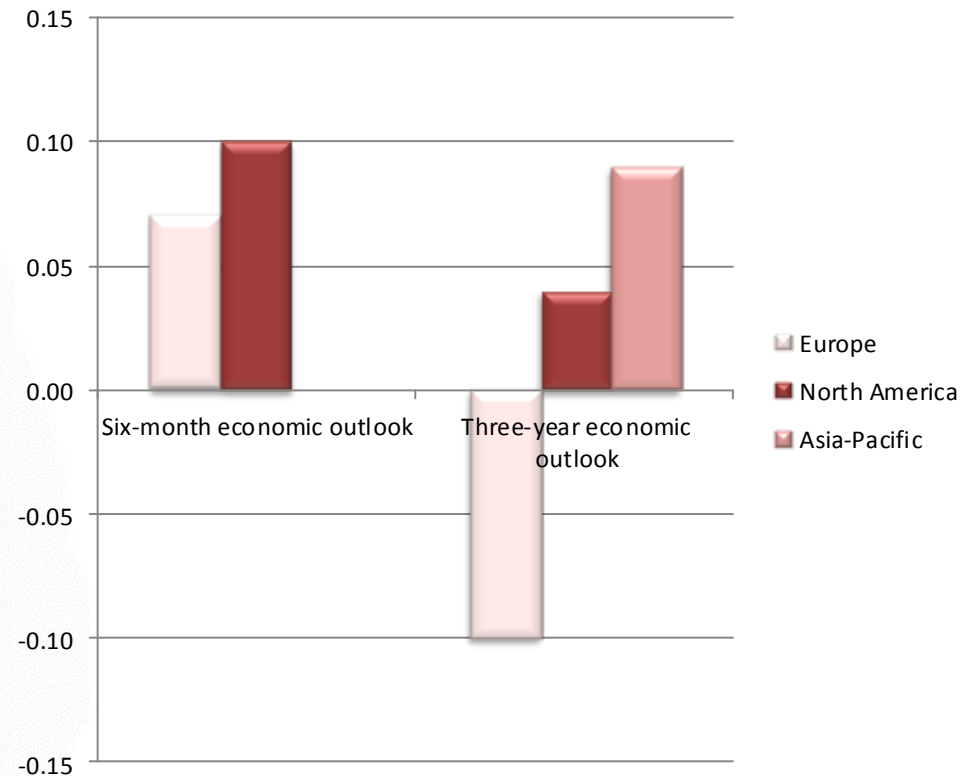


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (*1)

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	Extremely negative
0 – 0.5	Negative
0.5	Balanced
0.5 – 1	Positive
1	Extremely 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 January's poll

Michigan State University, Tufts University, MacEwan University, Pace University, Boston University, University of Kentucky, Seton Hall University, American University, City University of New York, Purdue University, University of Vienna, Imperial College London, University of Southern Denmark, Universitat Pompeu Fabra, University of Amsterdam, University of Finance and Administration, Warsaw School of Economics, University of Antwerp, Bangor University, California Lutheran University, California State University East Bay, University of Hawaii, Georgetown University, China Europe International Business School, Mohammad Ali Jinnah University, Chulalongkorn University, National Cheng Kung University, Air University Islamabad.



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