



DUKASCOPY
RESEARCH PRODUCTS

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Dukascopy Bank Sentiment Index

Summary

- Dukascopy Sentiment Index shows that academic experts have become more optimistic about the short and long term outlooks for Europe, North America as well as the global economy, with the corresponding gauges inching higher. However, professors lost some of their faith in the Asia-Pacific region even despite brighter economic prospects for New Zealand and Australia. This might be due to the fact that China's economy has been slowing further, while Japan decided to hike sales tax, which is estimated to significantly affect the fragile economic recovery in the world's third-largest economy.
- Professors appeared to be even more upbeat when assessing the North American economy compared to the previous month's results, as the economy shrugged off the harsh winter. Six-month outlook rose 0.04 to 0.72, while the three-year sentiment advanced 0.06, posting the biggest increase amidst other regions.
- The measure of Europe's outlook continues to move in the uptrend which started in March, following a decrease in the first months of the year.
- As seen in Figure 2, both the six-month and three-year sentiment indices are poised for a rebound, after a slowdown during the winter months.

Parameter/ Region	Global	Europe	North America	Asia- Pacific
Six-month economic outlook	 0.66 ↑(0.02)	 0.57 ↑(0.02)	 0.72 ↑(0.04)	 0.69 ↓(0.01)
Three-year economic outlook	 0.71 ↑(0.03)	 0.64 ↑(0.04)	 0.75 ↑(0.06)	 0.73 ↓(0.01)

Figure 1: Mood indicator

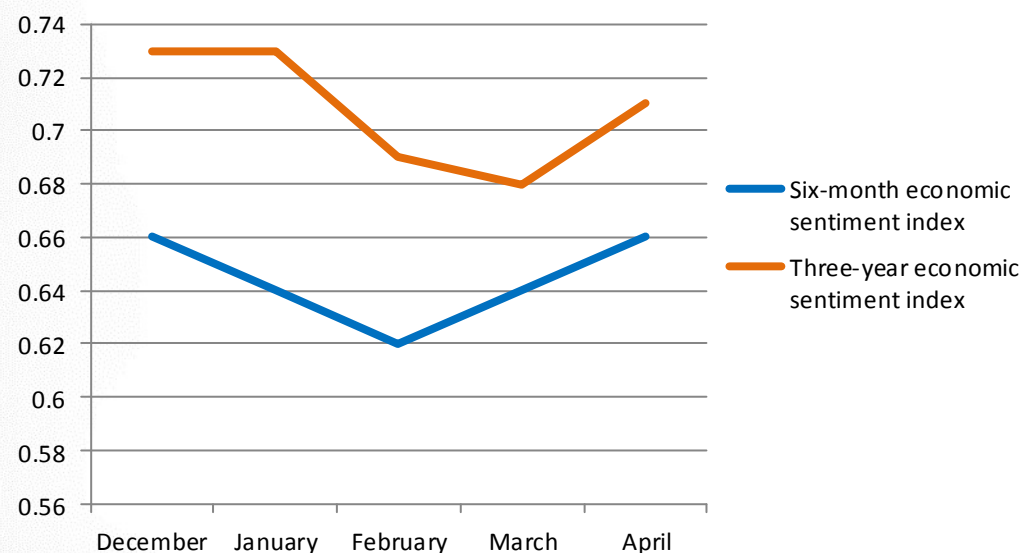


Figure 2: Global economic sentiment index

Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.57 ↑(0.02)	0.93%	0.72 ↑(0.04)	1.87%	0.69 ↓(0.01)	3.23%
3-year economic outlook	0.64 ↑(0.04)	1.53%	0.75 ↑(0.06)	2.13%	0.73 ↓(0.01)	3.53%

Figure 3 represents the term structure of 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 for the European economy six months from now surged to 0.93% from 0.77% in the previous month, reaching the highest level this year. The same applies to the three-year growth outlook, with the corresponding measure increasing to 1.53% compared to the March figure of 1%.

Experts revised upwards their six-month economic outlook for North America, expecting the region's economy to expand 1.87% in October 2014, up from 1.83% growth rate predicted in the March report. As to the three-year growth outlook, it appears that professors were more upbeat during the winter months, anticipating 2.53% and 2.27% expansion in January and February, respectively. As spring has come, they have become less confident concerning the growth of the U.S. and Canada, with the anticipated growth rate standing at 2.13% in the April report.

Asia-Pacific economic growth is expected to post slightly lower figures both in the medium and long term. Since the beginning of the year there have been fluctuations in professors' expectations. In April, their forecasts were not that optimistic compared to the prior month. Thus, they saw the region's economy growing at 3.23% pace in six months and at 3.53% in three years.

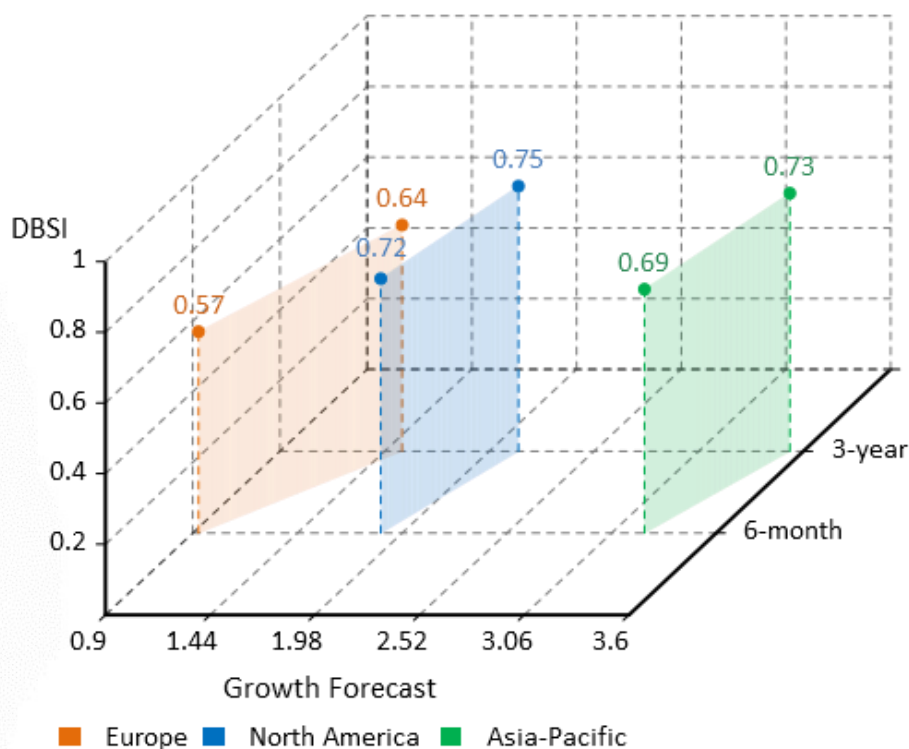


Figure 3: Global economic outlook (term structure)

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	6	3	2	2	2	2
Recessionary Trough	9	5	1	0	3	6
Expansion	15	20	27	23	20	18
Business Peak	0	2	0	5	5	4

Real GDP

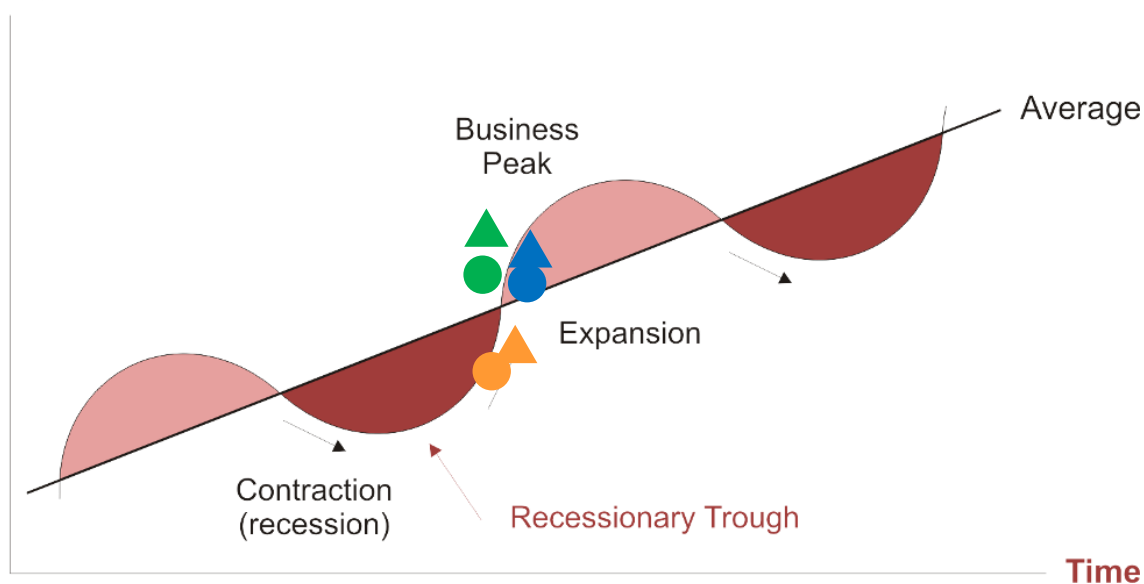


Figure 4: Business cycle

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).

The number of respondents who predict the European economy will move up along the business cycle curve in the near and long term increased in April, with 15 of those surveyed expecting the economy to reach the expansion phase six months from now, while 22 professors see the economy moving further away from the recessionary territory.

The same picture is seen in North America, where the majority (27) of respondents anticipates the economy to enter the expansion phase in the short term. 3-year EDS also speaks in favour of further movement to the Business Peak territory.

More and more people expect the Asia-Pacific region to reach the Business Peak, with the corresponding number having increased to from 1 seen in March. However, the 3-year EDS seems less optimistic compared to March findings.

Six-month economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.63	0.75	0.75
Mean (DBSI)	0.66 ↑(0.02)	0.57 ↑(0.02)	0.72 ↑(0.04)	0.69 ↓(0.01)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.21 →(0.00)	0.23 ↑(0.03)	0.18 ↓(0.03)	0.20 ↑(0.01)

Figure 5 shows the six-month economic outlook for Europe, North America, and Asia-Pacific. The global six-month economic prospects improved by 0.02 to 0.66 in April, buoyed by an increase in experts' faith in every single region.

What became interesting this month is the fact that none of the respondents shared a "definitely negative" outlook for any of the regions, adding to signs that economies around the world keep on strengthening.

The majority of professors feel positive when assessing Europe's economy, with 47% sharing "fairly positive" sentiment, while 3% are "definitely positive" about the six-month economic prospects. This upbeat mood about Europe's economy has contributed to the six-month European sentiment index rising to 0.57.

Comparing the sentiment for North America and Asia-Pacific, it appears the experts feel more optimistic about the American economy, as 57% share "fairly positive" view compared to 50% for the Asian-Pacific region, while the same number of poll participants claim the outlook is "definitely positive" for both regions. Also, some professors seemed to be concerned about the stability of the Asia-Pacific region, with 7% being pessimistic in contrast to 3% for the American economy.

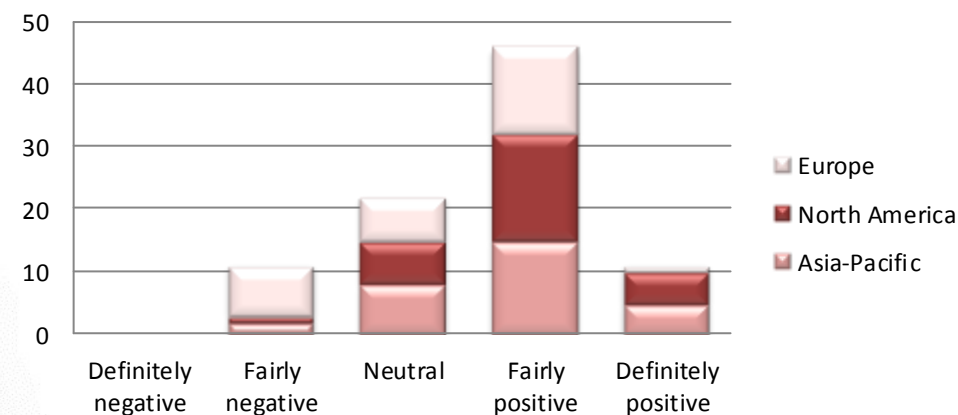


Figure 5: Six-month economic outlook

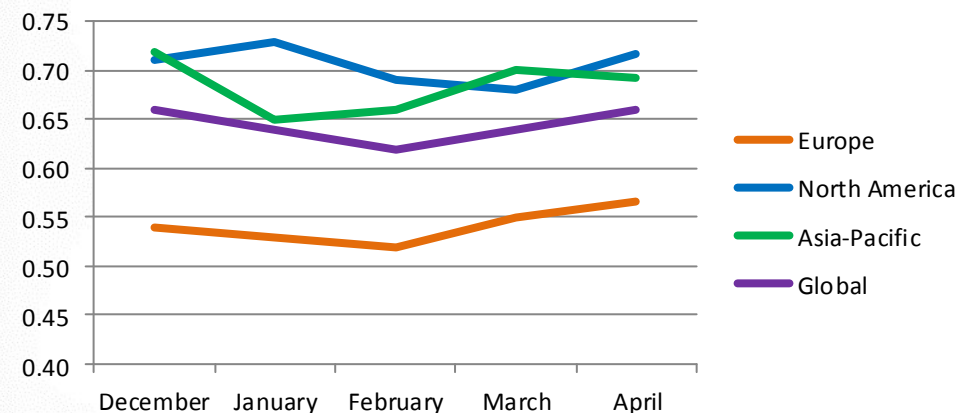


Figure 6: Six-month economic sentiment index

Three-year economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.71 ↑(0.03)	0.64 ↑(0.04)	0.75 ↑(0.06)	0.73 ↓(0.01)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.21 →(0.00)	0.19 ↓(0.01)	0.17 ↓(0.02)	0.25 ↑(0.03)

Figure 7 presents the three-year economic outlook for Europe, North America, and Asia-Pacific. The three-year global economic outlook jumped 0.03 points to 0.71 from 0.68 seen in March.

The long run experts' outlook for all the regions becomes even brighter. The majority of participants (60%) feel either "fairly" or "definitely" positive concerning the European economy, whereas only 10% are pessimistic about the region's long term economic prospects.

The overwhelming majority (90%) shares an upbeat economic sentiment for the North American economy, compared to 64% of professors who took part in the survey a month ago. This contributed to a 0.06-point surge in 2017 economic sentiment index to the 0.75 level in April.

Asia-Pacific was the only region which saw a decline in experts' positive outlook, with the corresponding index falling to 0.73 compared with 0.74 in the previous month. 20% of participants assume that the three-year economic sentiment is "neutral", whereas 73% feel optimistic about the region's 2017 economic prospects.

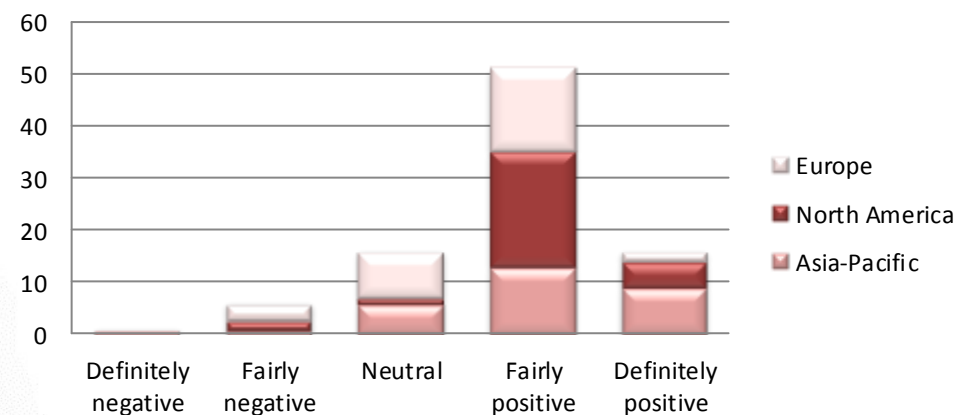


Figure 7: Three-year economic outlook

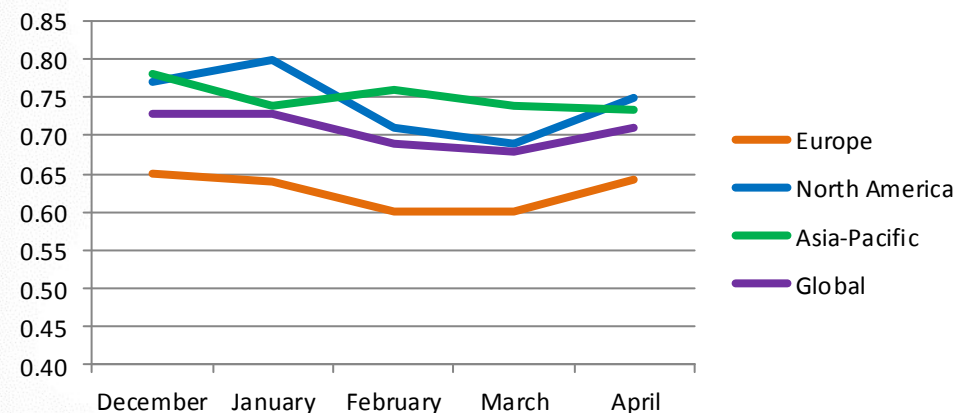


Figure 8: Three-year economic sentiment index

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	0.60	0.55	0.73	0.71	0.83	0.63
3-year economic outlook	0.63	0.65	0.75	0.75	0.9	0.65

Figure 9 presents a discrepancy in views on the economic outlook among the local and foreign experts. April poll results reveal that respondents from Europe are more optimistic about the local six-month economic outlook compared to their foreign colleagues. The same is true for the Asia-Pacific and North American regions. However, the picture is quite different when comparing professors' long-run economic assessment.

Europe: While local experts evaluate the region's economy more positively over the next six months, with the discrepancy in opinions being 0.05, they seem to underestimate European economy over the long term period, as foreign experts feel more upbeat when assessing three-year economic prospects (0.63 vs. 0.65).

North America: Local respondents from North America are more optimistic about the regional six-month outlook (0.73 vs. 0.71); however, it appears that both local and foreign professors are unanimous when it comes to the three-year growth prospects.

Asia-Pacific: Local experts constantly tend to be more upbeat about their economic situation than their foreign colleagues over the past four months. In April the discrepancy in views rose to the record of 0.2 for the short term outlook and 0.25 for the tree-year sentiment.

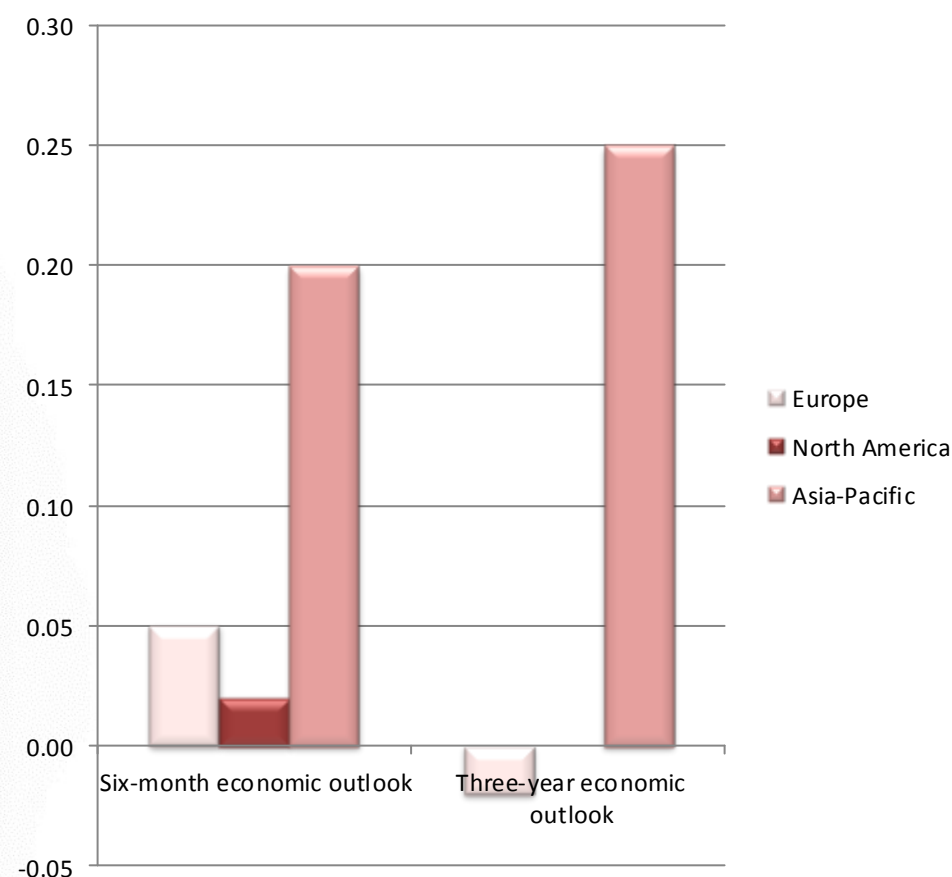


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (*1)

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 March's poll

Radford University, Loyola University Chicago, University of Missouri–St. Louis, University of Illinois at Chicago, University of South Carolina, University of North Carolina-Charlotte, University of Nebraska-Lincoln, University of Florida, Boston College, IESE Business School, University of Lugano, University of Barcelona, Lund University, University of Glasgow, Cardiff University, University of Hertfordshire, University of Bayreuth, Cardiff University, University of Leeds, Al Ain University of Science and Technology, Shanghai Jiao Tong University, Institute of Management Technology, Ghaziabad, Universiti Teknologi MARA, Universiti Sains Islam Malaysia, Banaras Hindu University, Indian Institute of Management Indore, Hitotsubashi University, Institute of Developing Economies, Academia Sinica.



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