



DUKASCOPY
RESEARCH PRODUCTS

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Dukascopy Bank Sentiment Index

Summary

- Professors' short and long term global economic outlooks were little changed in May, with the gauges hovering around the highest level seen this year at 0.73 and 0.66, respectively.
- While experts' optimism over Europe's economy in the foreseeable future increased to a new record high in 2014, the long-term prospects are believed to deteriorate, as the index fell 0.05 points from the level recorded a month earlier.
- Six-month index for the North American economy rose once again to 0.73, last time recorded in January, while the three-year economic outlook remained unchanged. It would be interesting to observe how the recent negative data concerning the fall of the U.S. GDP by 1% will be reflected in academia experts' assessment of the region's economy in the June release of the report.
- Asia-Pacific saw its short-term sentiment index decrease by 0.04 in May amidst a slowdown in China, the world's second-largest economy, which urged officials to consider further easing of monetary policy to kick-start the economy, and as the Japanese economy is sending mixed signals following the sales tax hike in April. The long-term sentiment index, however, jumped by 0.06 to the highest level this year at 0.79.



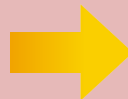


Parameter/ Region	Global	Europe	North America	Asia- Pacific
Six-month economic outlook	 0.65 ↓(0.01)	 0.58 ↑(0.01)	 0.73 ↑(0.01)	 0.65 ↓(0.04)
Three-year economic outlook	 0.71 →(0.00)	 0.59 ↓(0.05)	 0.75 →(0.00)	 0.79 ↑(0.06)

Figure 1: Mood indicator

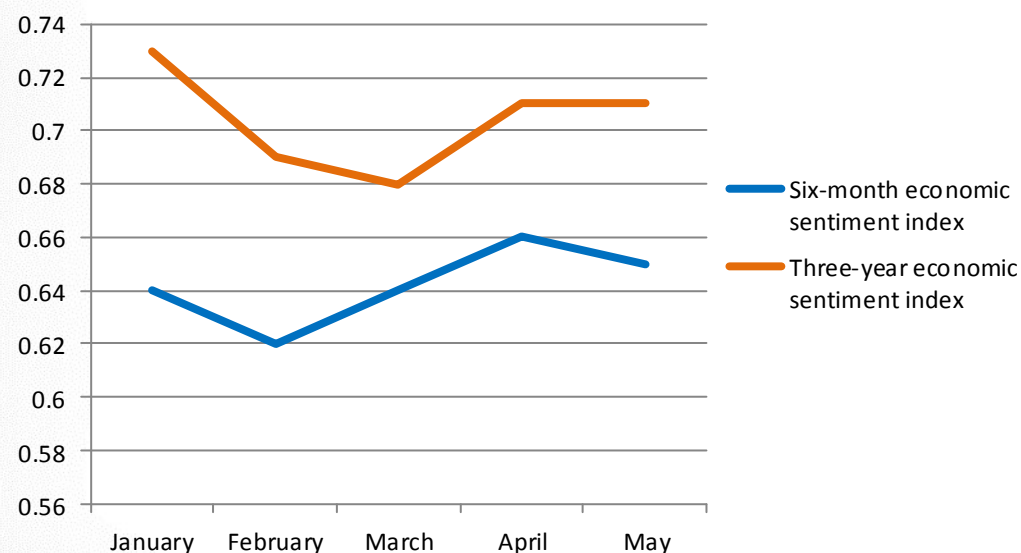


Figure 2: Global economic sentiment index

Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.58 ↑(0.01)	0.90%	0.73 ↑(0.01)	1.67%	0.65 ↓(0.04)	3.20%
3-year economic outlook	0.59 ↓(0.05)	1.47%	0.75 →(0.00)	2.33%	0.79 ↑(0.06)	4.00%

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.

The European economy is expected to grow an annualized 0.90% over the next six-month period amidst Bundesbank's projections that Germany, the European powerhouse, will grow at a slower pace in the coming months, while France's economic recovery is struggling to gain momentum. By 2017, the region's economy is seen reaching a 1.47% growth compared to 1.53% projected in the May report.

Even though the short-term economic sentiment index for North America rose, the expected rate of growth declined to 1.67% from 1.87% in the previous month. A recent report, which showed that the U.S. economy shrank for the first time in three years, may shape the professors' projections in the short run. Also, the Canadian GDP is predicted to outpace the U.S. GDP growth, but later in the year the U.S. will regain its leading position. In the long term, the region's economy is seen to grow at 2.33%.

As usual Asia-Pacific is expected to outpace Europe and North America in terms of GDP growth. Poll respondents forecast the economy to grow at annualized 3.20% in the near future and 4.00% over the long-term.

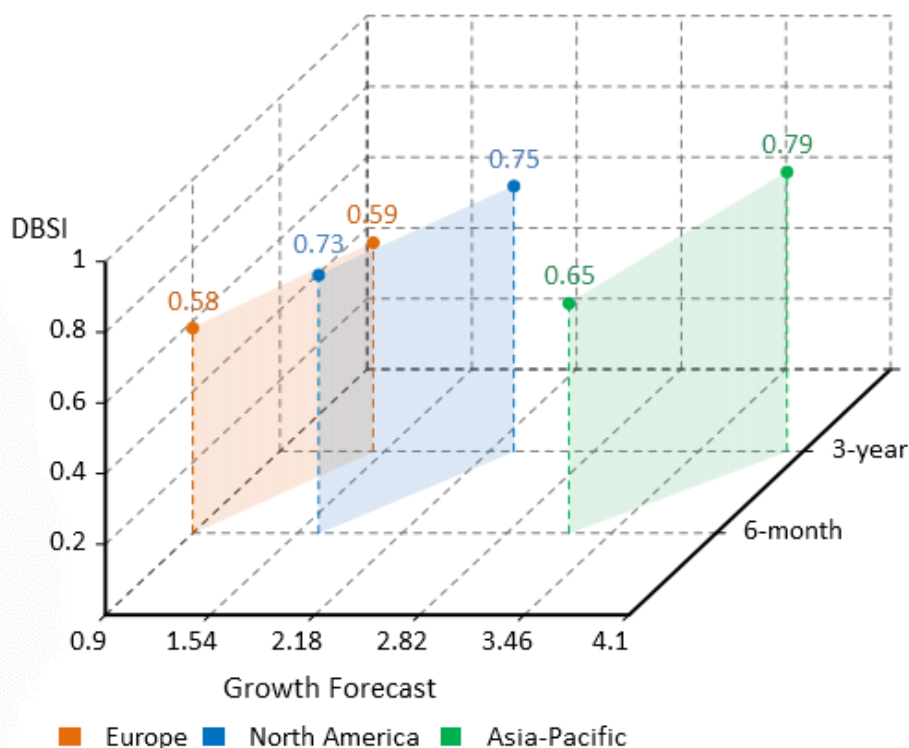


Figure 3: Global economic outlook (term structure)

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	4	2	0	1	3	1
Recessionary Trough	9	7	4	3	1	1
Expansion	17	21	26	25	25	25
Business Peak	0	0	0	1	1	3

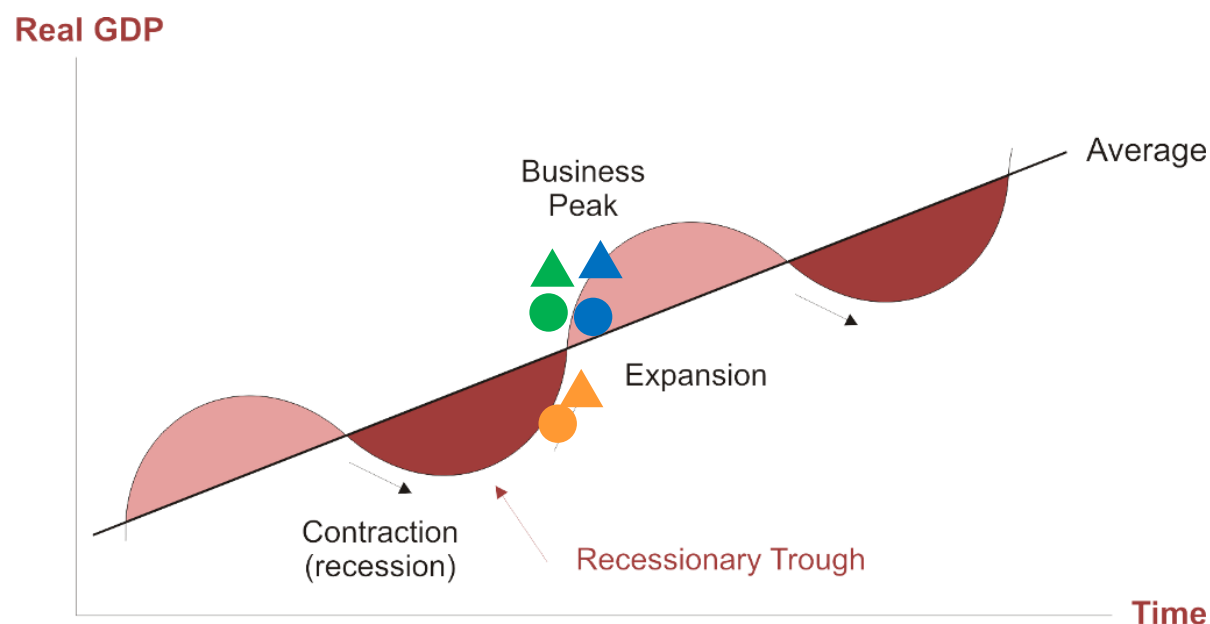


Figure 4: Business cycle

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).

17 respondents out of 30 believe that Europe will be in the “Expansion” phase in the next six-month period, while the rest still share a gloomy outlook on the European economy. In three years the economy is also seen to be expanding by the majority of the poll participants.

More and more professors start to believe that North America’s economy will gather steam in the foreseeable future, even despite the recent U.S. GDP data which fell for the first time in three years. In the long run the economy is expected to move closer to the “Business Peak”.

Nevertheless, the Asia-Pacific region is seen to outperform America both within the next six months and three years, as optimism about the region’s economy continues to grow.

● 6-month EDS
▲ 3-year EDS

Six-month economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.50	0.75	0.75
Mean (DBSI)	0.65 ↓(0.01)	0.58 ↑(0.01)	0.73 ↑(0.01)	0.65 ↓(0.04)
Mode	0.75	0.50	0.75	0.75
Standard Deviation	0.17 ↓(0.04)	0.16 ↓(0.07)	0.15 ↓(0.03)	0.17 ↓(0.03)

Figure 5 shows the six-month economic outlook for Europe, North America, and Asia-Pacific. The global six-month economic prospects fell slightly by 0.01 to 0.65 in May, as experts have become less optimistic about economic prospects in every single region.

For two straight months, no region has received a “definitely negative” outlook, while the number of survey participants who shared a “fairly negative” assessment declined in May.

Half of the respondents claim that the economic outlook for the European economy is balanced, while 40% share a “fairly positive” sentiment, which is buoyed by a slight increase in the economic outlook.

When having a look at the sentiment for the North American and Asia-Pacific economies, it appeared that experts are more optimistic about the former, as 87% shared a positive outlook compared to just 57% for the latter one. Also, figure 6 shows that the North American economy is set to continue gathering steam in the foreseeable future.

40% of the participants share a “neutral” outlook for Asia-Pacific, while only 3% are pessimistic about the economic prospects of the region.

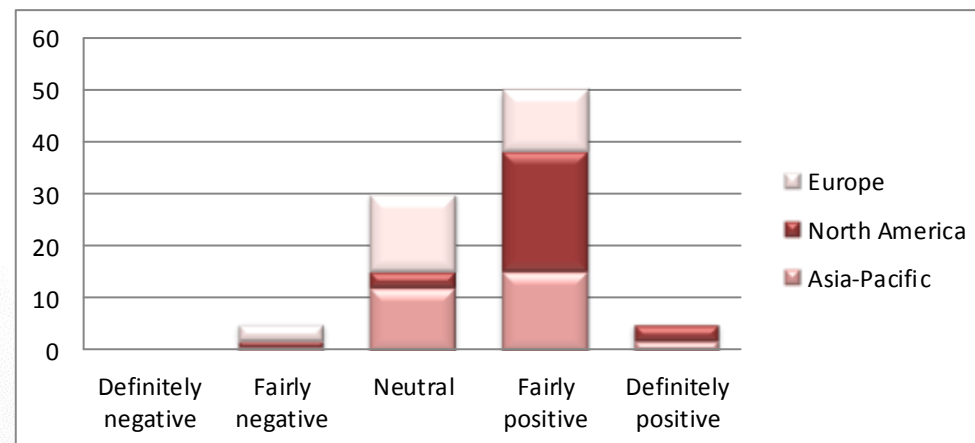


Figure 5: Six-month economic outlook

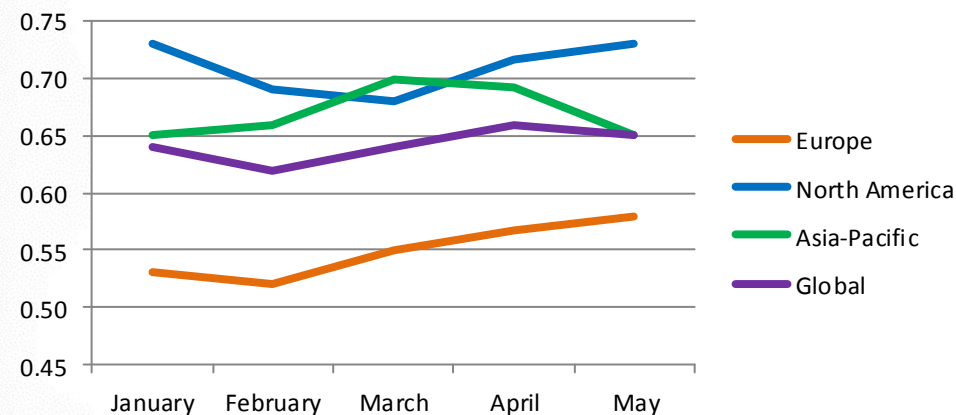


Figure 6: Six-month economic sentiment index

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 →(0.00)	0.59 ↓(0.05)	0.75 →(0.00)	0.79 ↑(0.06)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.21 →(0.00)	0.23 ↑(0.04)	0.15 ↓(0.02)	0.19 ↓(0.06)

Figure 7 presents the three-year economic outlook for Europe, North America, and Asia-Pacific. The three-year global economic outlook remained unchanged from the previous month at 0.71.

While 20% of the survey participants share a negative outlook on the European economy, 23% see the economy to balance and 56% are upbeat about the future of the region, compared to a 60% share a month earlier.

Despite the fact that three-year sentiment index for North-America remained unchanged from the previous month at 0.75, the number of people who share an upbeat economic sentiment declined to 84% from 90% in April. The rest assume that the three-year economic sentiment is “neutral”. Besides, North-America is the only region which avoided a negative assessment.

33% of those surveyed share a “definitely positive” view on the Asia-Pacific economy and 53% feel “fairly positive”, buoyed by a 0.06 increase to this year’s high in the economic sentiment index. However, 3% of the respondents were not optimistic about the region’s 2017 economic prospects, saying that the outlook is “fairly negative”, while 10% feel “neutral” about Asia-Pacific’s economy.

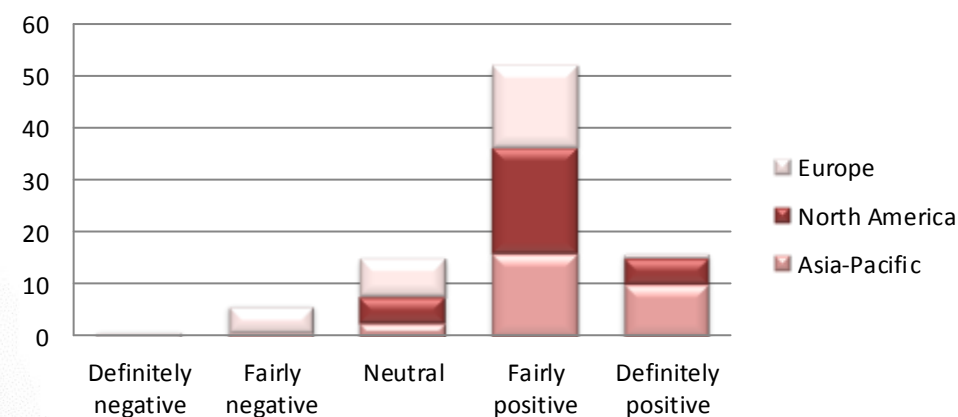


Figure 7: Three-year economic outlook

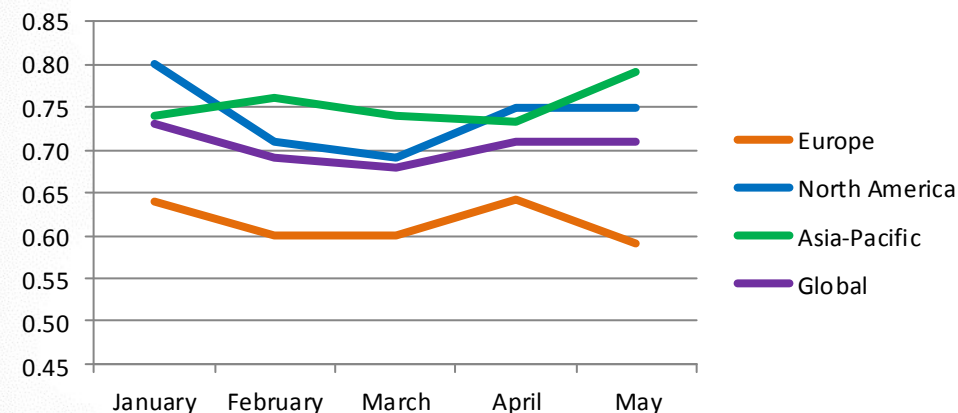


Figure 8: Three-year economic sentiment index

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	0.58	0.80	0.70	0.73	0.61
3-year economic outlook	0.58	0.60	0.83	0.71	0.83	0.78

Figure 9 presents a discrepancy in views on the economic outlook among the local and foreign experts. May poll results reveal that the local professors from North America and Asia-Pacific are more optimistic about the state of the respective economies compared to their foreign colleagues. The only issue where the professors are unequivocal is the European six-month economic outlook.

Europe: Both local and foreign academia experts appeared to agree when evaluating Europe's short-term economic prospects, but there is a slight difference in views concerning European economic future, with foreign respondents being more positive about the continent's economy.

North America: In May, the local respondents from North America were more optimistic about both the regional six-month and three-year outlooks, with the discrepancy in views rising to 0.10 and 0.12, respectively.

Asia-Pacific: The local experts have been more upbeat about their economic situation than their foreign colleagues for five months now. However, the discrepancy in views for the long term outlook contracted compared to the previous month, when it stood at 0.13.

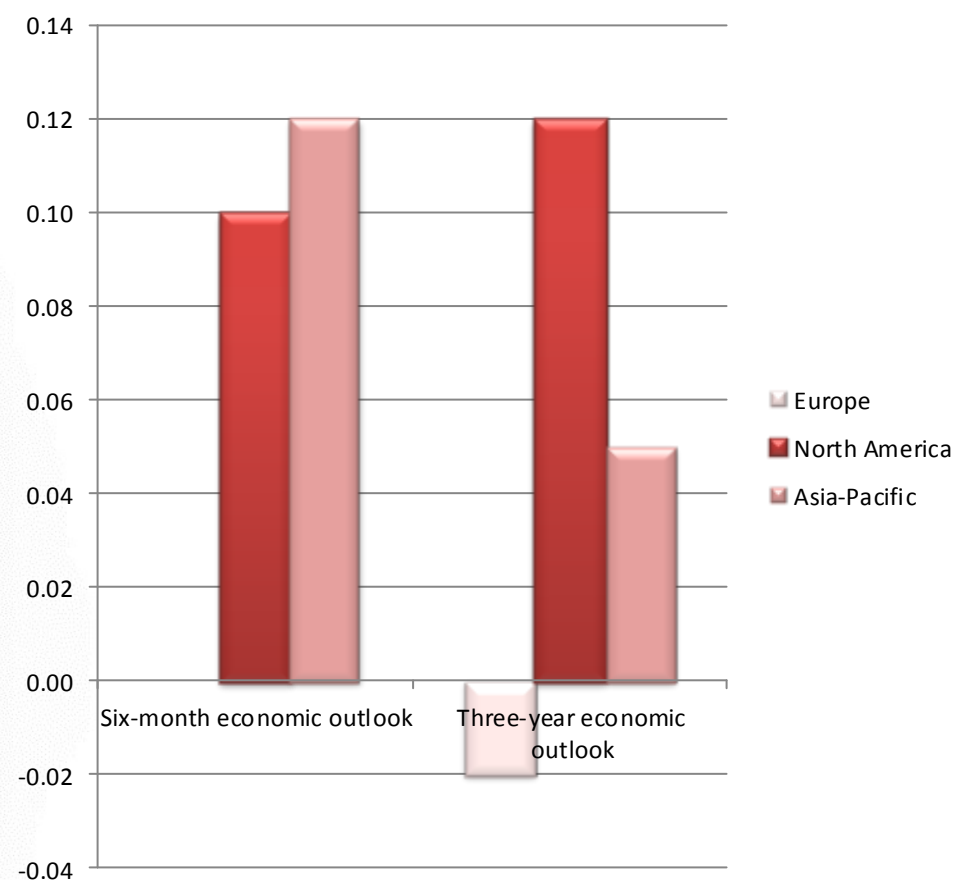


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (*1)

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 May's poll:

Central Michigan University, Cal Poly Pomona, University of Arkansas, University of Connecticut, Kozminski University, University of Nebraska-Lincoln, University of Florida, Boston College, University of Economics, Prague, Stockholm School of Economics, Friedrich-Schiller-Universität Jena, Philipps-Universität Marburg, University of Helsinki, Jönköping International Business School, University of Bamberg, RISEBA, Instituto Universitário da Maia, School of Accounting and Administration of Porto, Feng Chia University, UNSW Australia, Universiti Kebangsaan Malaysia, East China University of Science and Technology, Indian Institute of Management Bangalore, Universiti Malaysia Sarawak, Universiti Teknologi MARA, Universiti Sains Islam Malaysia, Banaras Hindu University, Varanasi, India.



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