



**DUKASCOPY**  
RESEARCH PRODUCTS

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# Dukascopy Bank Sentiment Index

## Summary

- July Dukascopy Bank Sentiment Index findings appeared to be the most pessimistic. The report revealed that while short-term global economic sentiment index fell moderately, three-year index plummeted by 0.12 points, the biggest decline since records began. This sharp fall may be attributed to geopolitical tensions in the Middle East and Ukraine, as well as uneven economic picture in the world. On top of that, all the regions also posted falls in their both short and long term economic outlook.
- Europe saw both indexes dropping in July, with three-year economic outlook falling at the fastest pace since February 2013. This might be due to the fact that on 5 June the ECB launched unprecedented stimulus, by bringing deposit rate to the negative territory. Unfortunately, stimulus has not brought desired results yet, as fundamentals are still weak in the Euro bloc while economists lose faith in the ECB as central bank is running out of tools. Therefore, any additional easing will be highly unlikely even in case of further deteriorating fundamentals.
- While North America posted a slight decline in its six-month outlook, the index measuring the economic prospects of the region within next three years slumped by 0.11, the sharpest fall on record.
- Asia-Pacific was the only region which saw no change in the short-term sentiment. Nevertheless, a 0.14 point fall in three-year economic outlook was the most dramatic decline from the record-high level seen last month.









Parameter/ Region	Global	Europe	North America	Asia- Pacific
Six-month economic outlook	 0.61 ↓(0.02)	 0.51 ↓(0.01)	 0.63 ↓(0.04)	 0.70 →(0.00)
Three-year economic outlook	 0.66 ↓(0.12)	 0.61 ↓(0.10)	 0.67 ↓(0.11)	 0.72 ↓(0.14)

Figure 1: Mood indicator

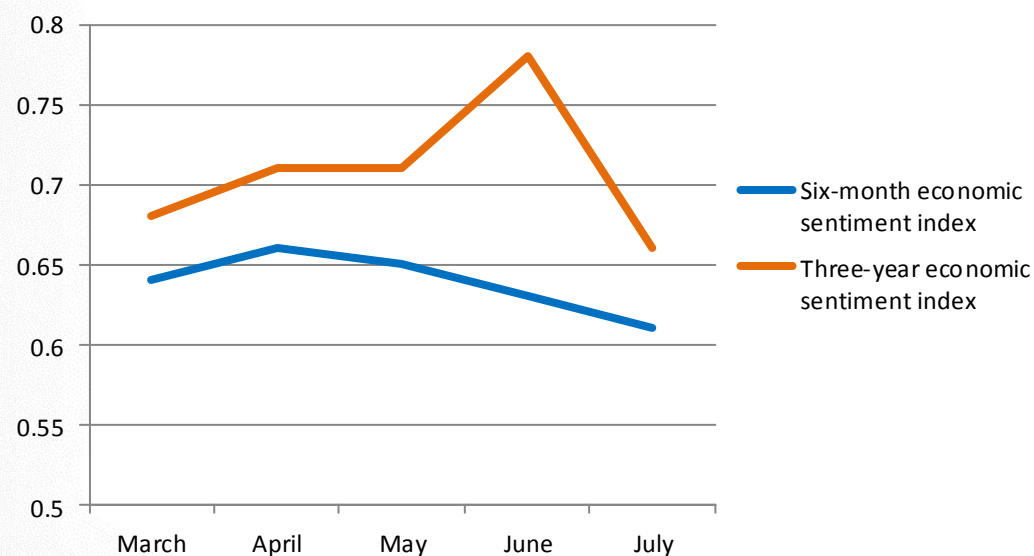


Figure 2: Global economic sentiment index



## Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.51 ↓(0.01)	0.83%	0.63 ↓(0.04)	1.60%	0.70 →(0.00)	2.93%
3-year economic outlook	0.61 ↓(0.10)	0.90%	0.67 ↓(0.11)	1.60%	0.72 ↓(0.14)	2.87%

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.

Along with decline in sentiment indexes, long-term growth prospects appeared to be significantly lower than a month earlier. Academia experts were especially pessimistic over Asia-Pacific region, where GDP is expected to drop in the coming six months towards 2.93% down from 3.80% in June, and plummet to 2.87% by 2017 compared to 4.13% in May. The main reason behind such a dramatic fall in the expected growth rate is geopolitical tensions in the Middle East and Ukraine, which weigh on experts' sentiment.

In the meantime, the U.S. growth rate is seen to remain unchanged at 1.60% in the short and long term. This is amid the fact that the labour market continues to strengthen, with the jobless rate falling to 6.1%, while QE is expected to be completely winded down by October 2014 and interest rate hike is projected to occur sooner than previously thought. All this economic data adds to evidence that the world's number one economy is gaining steam.

Europe's GDP is seen growing at 0.83% during six months from now, up from 0.33% in June. An increase in expected GDP may be attributed to the ECB actions, which might provide some boost to the region's economy. In the long term the Euro economy projected to expand at 0.90% rate.

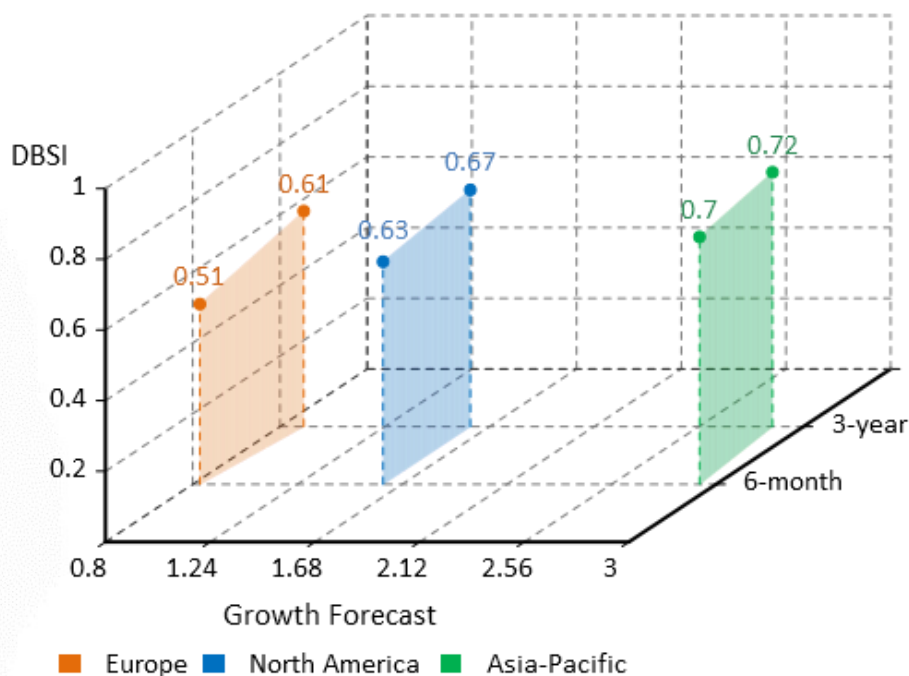


Figure 3: Global economic outlook (term structure)

## 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	5	3	1	5	4	3
Recessionary Trough	15	5	5	4	2	2
Expansion	10	22	23	19	24	23
Business Peak	0	0	1	2	0	2

Real GDP

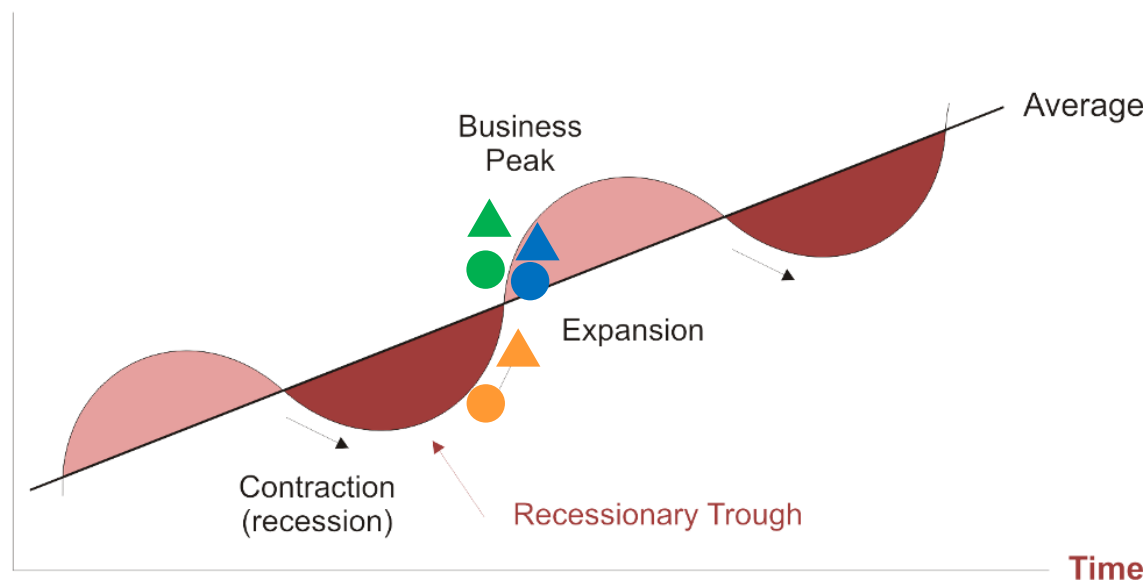
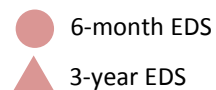


Figure 4: Business cycle



Proportion of those who see the European economy in the recessionary trough in the short-term rose in July to 15 from 10 seen last month. However, in the long term, more and more professors expect the economy to reach the expansion phase. Even though the number of experts who foresee the economy expanding in the foreseeable future increases, still no one expects business peak to be reached within next three years.

As to the North America, it appears that professors have not changed their opinion as to how the economy will evolve in the years to come. Nevertheless, the number of those surveyed who project the economy to slip to the contraction area rises to 5, up from 1 a month earlier.

Meanwhile, the Asia-Pacific region is seen to continue its steady path towards the business peak phase, even though the number of professors that expect the economy to reach this level declines from 6 to 2 in July.

## Six-month economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.50	0.75	0.75
Mean (DBSI)	0.61 ↓(0.02)	0.51 ↓(0.01)	0.63 ↓(0.04)	0.70 →(0.00)
Mode	0.75	0.50	0.75	0.75
Standard Deviation	0.23 ↑(0.02)	0.22 ↑(0.02)	0.20 ↑(0.01)	0.23 ↑(0.03)

Figure 5 shows the six-month economic outlook for Europe, North America, and Asia-Pacific. The global six-month sentiment index continues falling for three consecutive months, further slipping 0.02 in July. The main drag came from a fall in confidence in Europe's and North America's economic future, while the reading which measures short-term sentiment index of the Asia-Pacific region remained unchanged from the previous month.

Europe saw its gauge for economic confidence declining for the second month in a row, reaching the lowest level since September 2013. 23% of those surveyed believe Europe is still in a danger zone, while 34% argue that the region is already in a positive territory. 53%, however, remain neutral. The uneven picture of professors' outlook point to the fact that the region's economy has not gained steady footing yet and some headwinds can be expected going forward.

Sentiment index for the North America also surprised to the downside, as the reading slid 0.04 in July, recording the second straight decline in a row. Previously the level of 0.63 was touched back in October 2013. Unlike the prior month, when 63% of professors felt fairly positive, in July this proportion shrank to 43%, while 10% remain absolutely optimistic.

There was no change recorded in experts' attitude towards the Asia-Pacific region, as the corresponding gauge remained steady compared to the previous month.

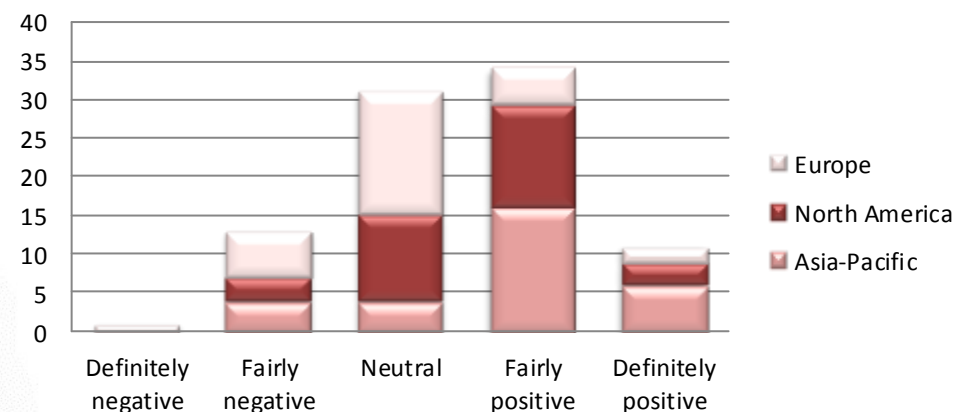


Figure 5: Six-month economic outlook

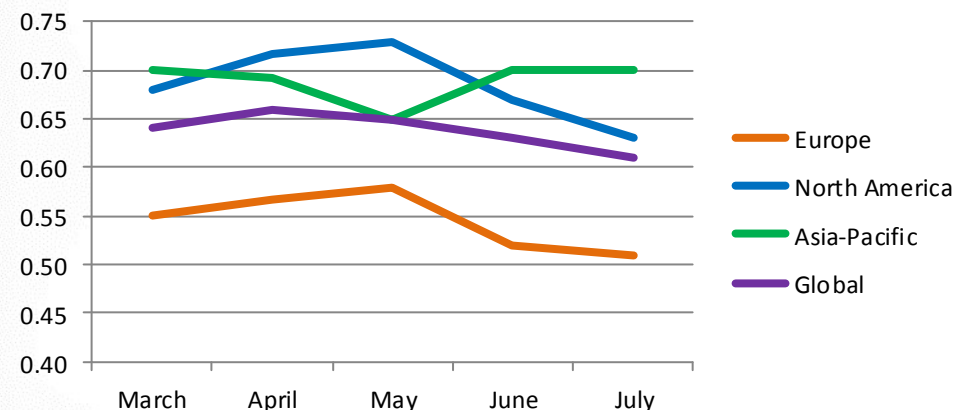


Figure 6: Six-month economic sentiment index



## Three-year economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.66 ↓(0.12)	0.61 ↓(0.10)	0.67 ↓(0.11)	0.72 ↓(0.14)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.23 ↑(0.03)	0.23 ↑(0.02)	0.20 ↑(0.02)	0.26 ↑(0.08)

Figure 7 presents the three-year economic outlook for Europe, North America, and Asia-Pacific. The three-year global economic outlook plummeted 0.12 points to 0.66 from the previous month at 0.78, with the corresponding readings sharply falling in each region.

Professors continue to be concerned about Europe's economic prospects in the coming three years, as no one is absolutely positive about the region's outlook, while 60% of those who participated in the survey are fairly positive. 13% are pessimistic, while 27% of professors are indecisive.

North America was also hit by a dramatic fall in its sentiment index, which plunged by 0.11 points in July to 0.61, the lowest level since October 2012. The fall in the index came even despite strengthening labour data in the U.S. and better-than-expected GDP growth rate in Canada.

Asia-Pacific saw the biggest decline among the regions, with the corresponding index diving 0.14 points to 0.72, the lowest level in two years. Nevertheless, the overwhelming majority (73%) of professors foresee bright economic prospects for the region, compared with 17% who are less optimistic.

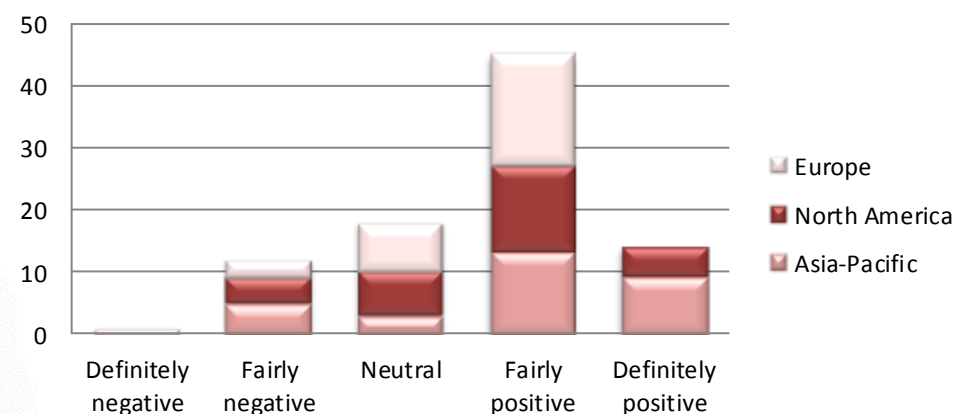


Figure 7: Three-year economic outlook

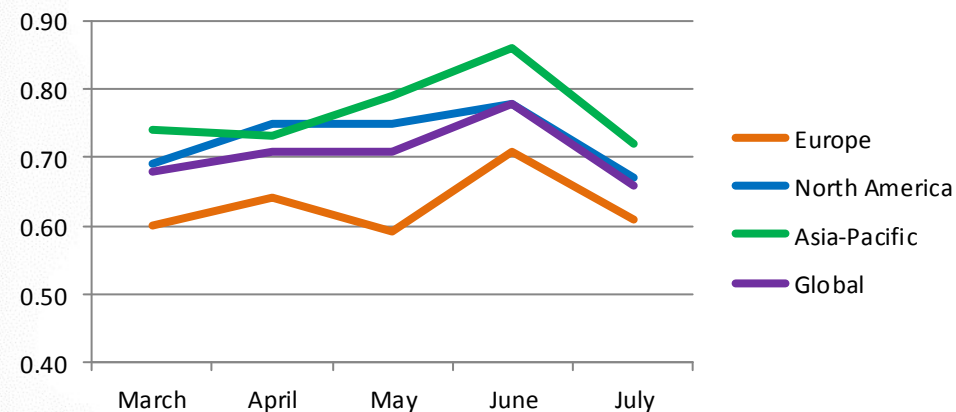


Figure 8: Three-year economic sentiment index

## 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	0.48	0.53	0.58	0.66	0.75	0.68
3-year economic outlook	0.68	0.58	0.63	0.69	0.63	0.76

Figure 9 presents a discrepancy in views on the economic outlook among the local and foreign experts. In July, just like a month before, the local and foreign professors disagree on every region's economic stance in the short and long term.

When comparing Europe's six-month economic outlook, it appeared that foreigners are more upbeat than Europeans, with discrepancy in views reaching 0.05. However, when it comes to long-term, local professor's morale is much higher than their overseas colleagues, as difference in opinions rise to 0.10.

Meanwhile, North American respondents seem to be not that optimistic about their region's economic prospects. Experts outside the region are more convinced that the economy has fuel to ensure strong and sustained growth. The discrepancy in the short and long term forecasts reaches 0.08 and 0.06 points, respectively.

While experts in Asia-Pacific share a more positive outlook for the region's future economic stance than their foreign colleagues, in the long-term they feel less confident compared to professors outside the region, with the discrepancy increasing 0.13 points.

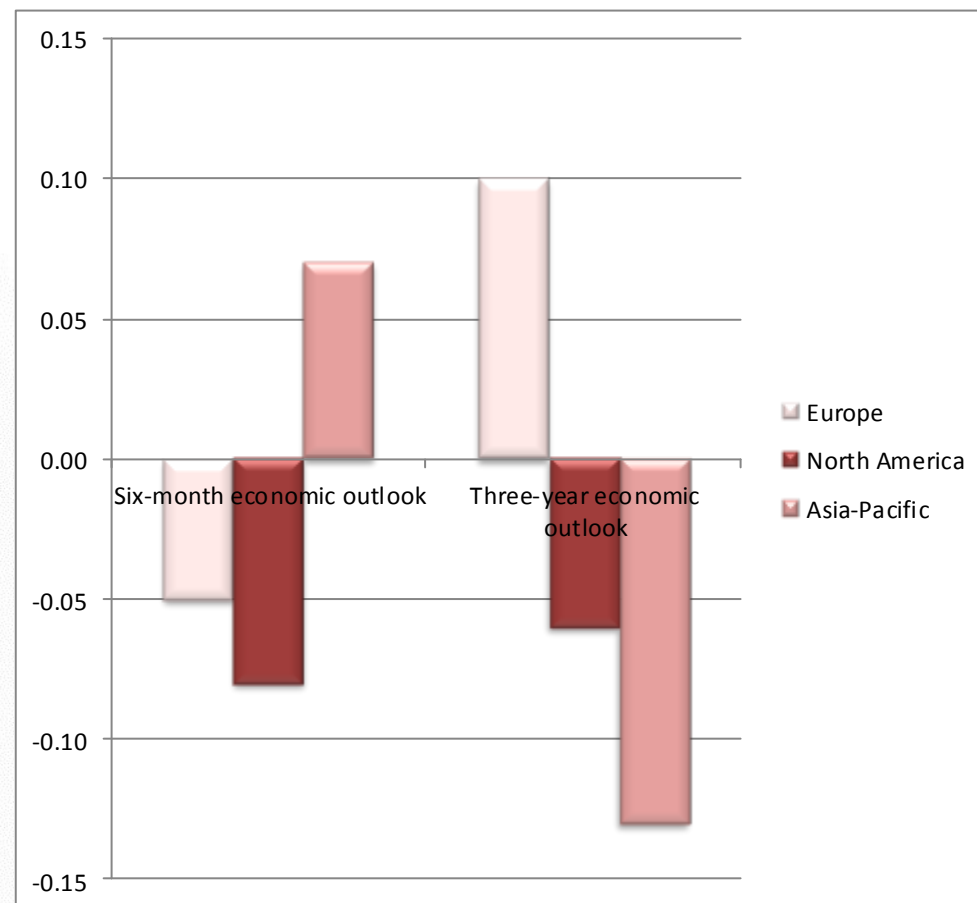


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (\*1)



## 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 June's poll:

University of Illinois at Urbana-Champaign, University of Toronto, University of Pittsburgh, Belmont University, Copenhagen Business School, ICN Business School, Hult International Business School, Universiti Putra Malaysia, Stockholm School of Economics Riga, University of Bologna, University of Rome Tor Vergata, Roma Tre University, Università Politecnica Delle Marche, University of Padova, University of Bergamo, University of Florence, University of Dubai, Skyline University College, American University in the Emirates, University of Sydney





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