



**DUKASCOPY**  
RESEARCH PRODUCTS

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# Dukascopy Bank Sentiment Index

## Summary

- August was full of economic events from all around the globe which definitely have had an impact on professors' perception of economic situation in the world. Experts' six-month economic outlook continued its downward trend, reaching the lowest level since September 2013. In contrast, longer term sentiment index rebounded from the 12-month low reached in July, pointing to renewed optimism in the world economic strength three years from now.
- While the U.K. expanded in a more rapid pace than previously estimated in the second quarter, outperforming the U.S., Japan, as well as European countries, the Euro zone leading economies have been losing steam, recording disappointing fundamentals in August. This in turn has translated into professors' dimmed short and long term outlook for the region's economy, as both indexes fell considerably in August.
- Across the Atlantic, the index, designed to measure short-term economic expectations, stood unchanged from the previous month, while three-year sentiment index recovered from an unexpected slide in July.
- Asia-Pacific continues to outperform other regions, as its six-month economic outlook reached the highest level this year, while three-year sentiment index hit the second highest point this year.

| Parameter/<br>Region           | Global           | Europe           | North<br>America | Asia-<br>Pacific |
|--------------------------------|------------------|------------------|------------------|------------------|
| Six-month<br>economic outlook  | <br>0.59 ↓(0.02) | <br>0.42 ↓(0.09) | <br>0.63 →(0.00) | <br>0.72 ↑(0.02) |
| Three-year<br>economic outlook | <br>0.69 ↑(0.03) | <br>0.56 ↓(0.5)  | <br>0.69 ↑(0.02) | <br>0.83 ↑(0.11) |

Figure 1: Mood indicator

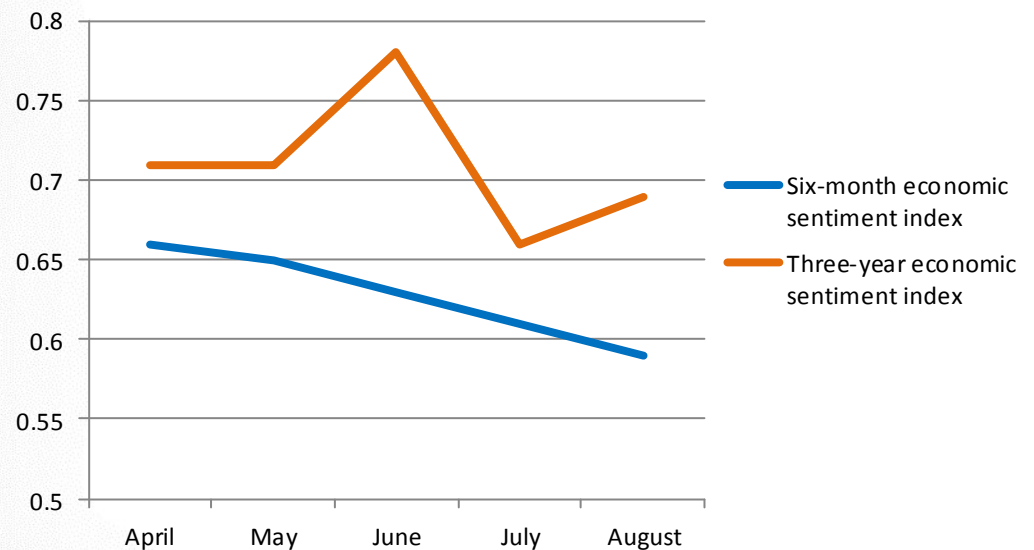


Figure 2: Global economic sentiment index

## Economic outlook (term structure)

| Parameter/Region         | Europe       |           | North America |           | Asia-Pacific |           |
|--------------------------|--------------|-----------|---------------|-----------|--------------|-----------|
|                          | DBSI         | Growth f. | DBSI          | Growth f. | DBSI         | Growth f. |
| 6-month economic outlook | 0.42 ↓(0.09) | 0.40%     | 0.63 →(0.00)  | 1.73%     | 0.72 ↑(0.02) | 3.63%     |
| 3-year economic outlook  | 0.56 ↓(0.05) | 1.20%     | 0.69 ↑(0.02)  | 2.40%     | 0.83 ↑(0.11) | 4.30%     |

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.

While the Euro zone economy continues to struggle and deflationary threats are mounting, experts increase their pressure on the ECB to embark on more stimulus to boost growth in the region. Currently, the economy is expected to grow at a 0.40% pace in the coming months, while its three-year growth has been revised upwards from 0.90% in the previous month to 1.20%.

In North America, the expected growth rate keeps on accelerating as the U.S. Economy, along with its labor market is strengthening, prompting the Fed officials to consider normalizing its monetary policy and lifting its benchmark interest rate as soon as the next year, while Canada tends to benefit from improving U.S. economy, which is the country's main trading partner.

Although the Asia-Pacific region paints a spotty economic picture, with Japan posting bigger-than-expected contraction in the second quarter, and other countries releasing mixed growth-related data, respondents see the region to grow at a 3.63% pace in the coming six-month period. Three-year growth rate is forecast to reach 4.3%, expanding at the fastest pace recorded this year.

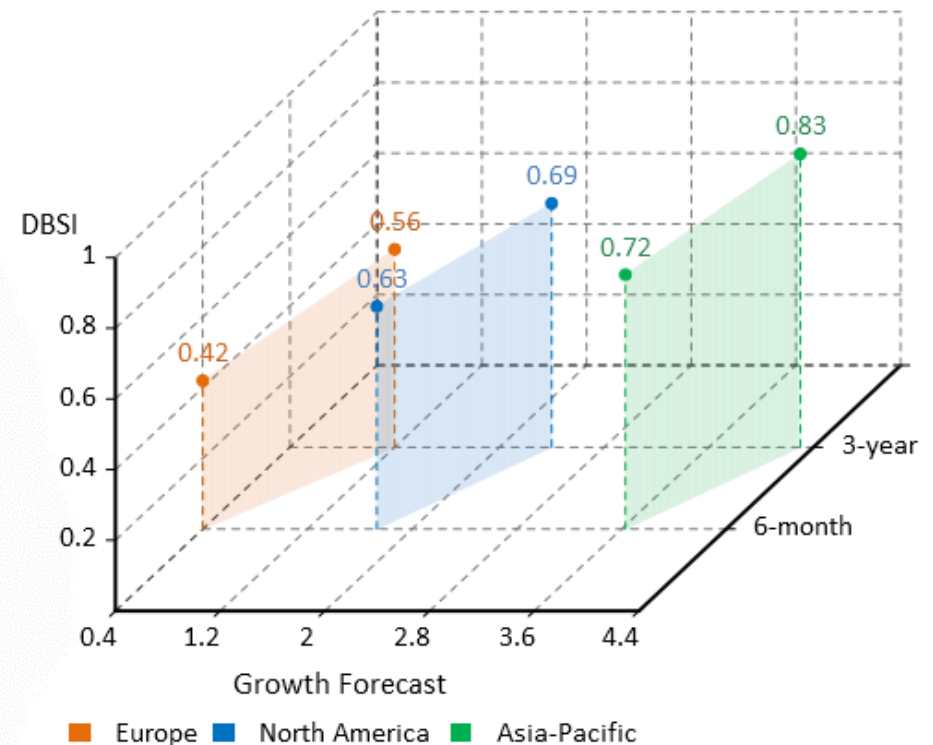


Figure 3: Global economic outlook (term structure)

## 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         | 8           | 4          | 3             | 3          | 1            | 2          |
| Recessionary Trough | 16          | 10         | 4             | 1          | 1            | 0          |
| Expansion           | 6           | 16         | 23            | 23         | 27           | 19         |
| Business Peak       | 0           | 0          | 0             | 3          | 1            | 9          |

### Real GDP

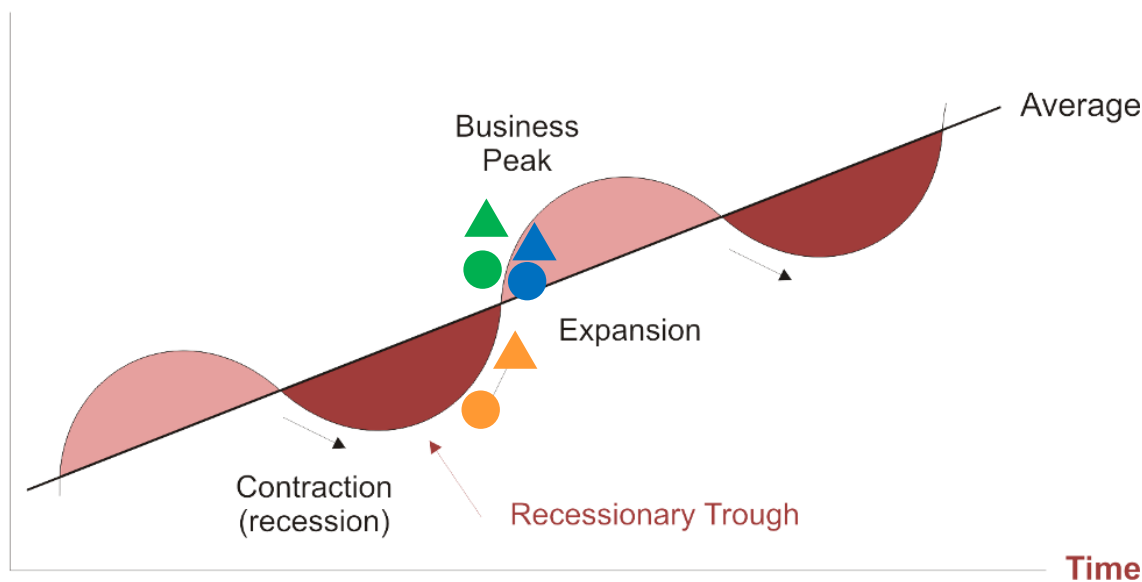


Figure 4: Business cycle

- 6-month EDS
- ▲ 3-year EDS

Compared to the previous month, when 10 professors expected the European economy to move closer to the expansion phase, in August this number falls to 6, whereas even more experts now see the economy to retreat to a recessionary trough or even contraction. In three years 16 professors forecast expansion, down from 22 in July's report.

The number of people who see the North American economy in the expansion phase in coming months remained unchanged from a month earlier, while looking ahead, the number of those who forecast the economy to move closer to business peak increases.

Asia-Pacific region is seen by the majority of respondents (27) in the expansion phase six months from now, while in three years the region economy is expected to reach a business peak, according to 9 professors.

## Six-month economic outlook

| Parameter/Region   | Global       | Europe       | North America | Asia-Pacific |
|--------------------|--------------|--------------|---------------|--------------|
| Median             | 0.75         | 0.50         | 0.75          | 0.75         |
| Mean (DBSI)        | 0.59 ↓(0.02) | 0.42 ↓(0.09) | 0.63 →(0.00)  | 0.72 ↑(0.02) |
| Mode               | 0.75         | 0.50         | 0.75          | 0.75         |
| Standard Deviation | 0.23 →(0.00) | 0.21 ↓(0.01) | 0.18 ↓(0.02)  | 0.19 ↓(0.04) |

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

As it is seen from the Figure 6, the global economic sentiment index has been gradually falling, as apparently positive news from strengthening economies are not able to offset the disappointing data coming from Europe and Japan, which raises concerns over sustainable economic prospects in the near term.

Only 20% of those surveyed share a fairly positive view on the European economy, while majority have lost their faith, with 50% being negative on the outlook. 30%, however, remain indecisive.

While the sentiment index for American economy remained intact, the overwhelming majority (60%) are positive when assessing the region's future. 30% are neutral, while there are 10% of respondents who share a gloomy outlook.

With the sentiment index for the Asia-Pacific region rising, so does the share of those who expect a positive economic performance in the foreseeable future. 70% are absolutely upbeat in their economic assessment, while there are just 3% who still share negative outlook. Such a positive mood among professors allows the Asian-Pacific economy to stand out against other region's background.

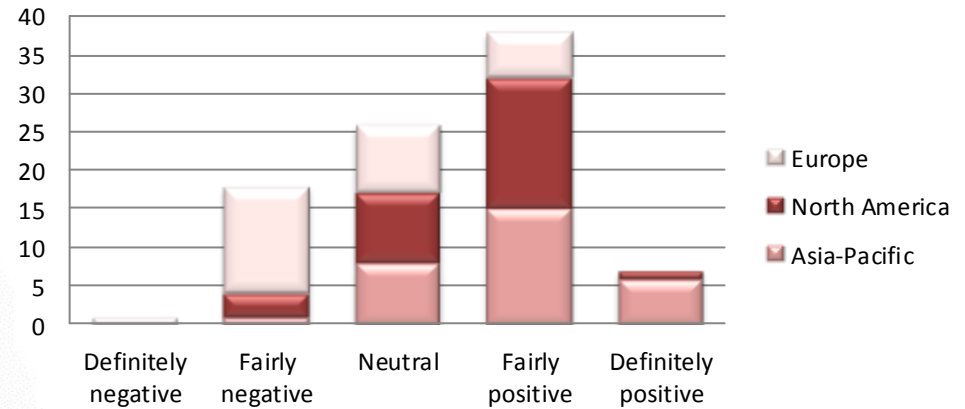


Figure 5: Six-month economic outlook

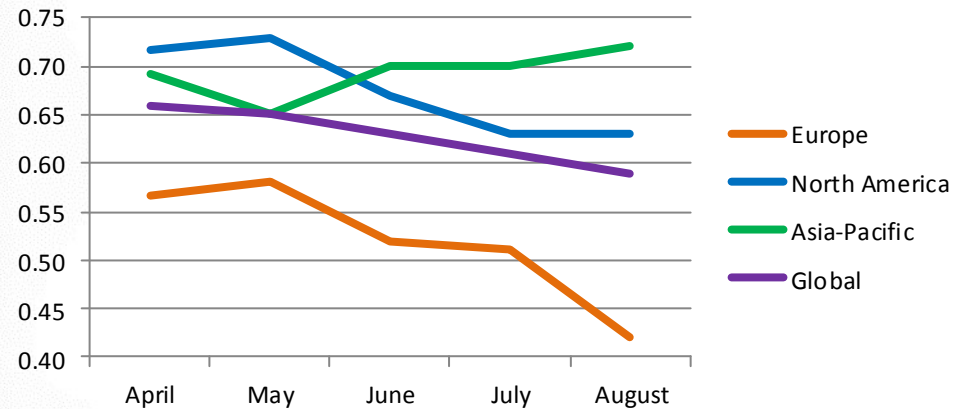


Figure 6: Six-month economic sentiment index

## Three-year economic outlook

| Parameter/Region   | Global              | Europe              | North America       | Asia-Pacific        |
|--------------------|---------------------|---------------------|---------------------|---------------------|
| Median             | 0.75                | 0.75                | 0.75                | 0.75                |
| Mean (DBSI)        | 0.69 <b>↑(0.03)</b> | 0.56 <b>↓(0.05)</b> | 0.69 <b>↑(0.02)</b> | 0.83 <b>↑(0.11)</b> |
| Mode               | 0.75                | 0.75                | 0.75                | 0.75                |
| Standard Deviation | 0.23 <b>→(0.00)</b> | 0.19 <b>↓(0.04)</b> | 0.19 <b>↓(0.01)</b> | 0.21 <b>↓(0.05)</b> |

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

As Europe has been experiencing ups and downs in recent years, professors are very cautious when assessing its long-term economic future. While the share of those who feel negative about long-term economic prospects in Europe shrinks compared to the region's short-term outlook, there are still 13% feeling pessimistic. However, 40% of those surveyed think that Europe will show improving economic conditions in the years to come.

77% of respondents paint a bright economic picture for the North American region, whereas there are around 10% of non-believers who are sceptical about the region's economic performance in the three years ahead.

Although the paramount majority (93%) of those taking part in the August survey strongly believe that the Asia-Pacific will expand at a sustainable pace in the coming years, there are some 3% of sceptics left who questions region's ability to show spectacular economic performance.

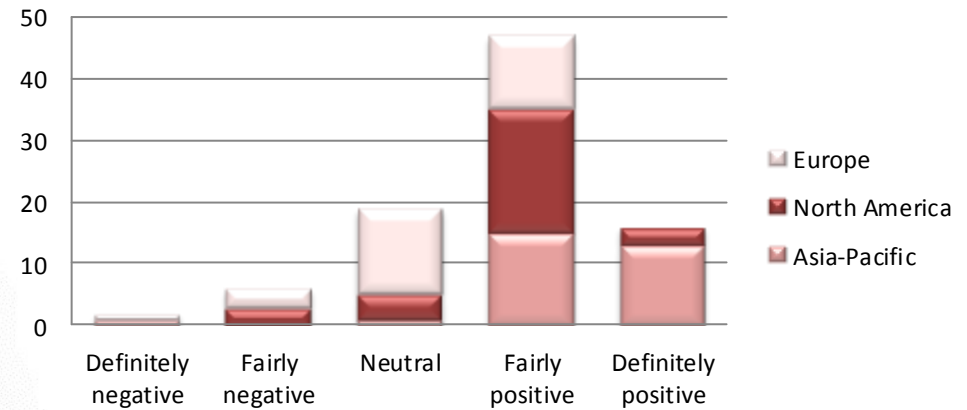


Figure 7: Three-year economic outlook

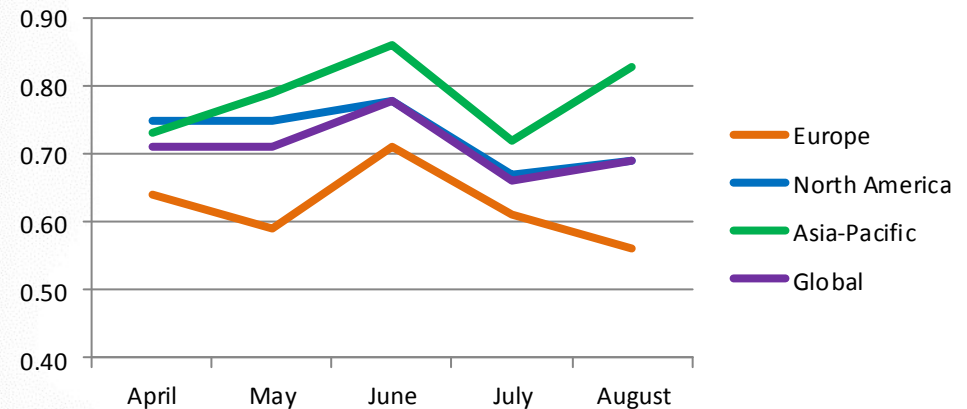


Figure 8: Three-year economic sentiment index

## 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 | 0.33          | 0.46            | 0.73          | 0.59            | 0.83          | 0.66            |
| 3-year economic outlook  | 0.48          | 0.60            | 0.73          | 0.68            | 0.90          | 0.79            |

Figure 9 presents a discrepancy in views on the economic outlook among the local and foreign experts.

While local respondents from North America and Asia-Pacific appeared to be more optimistic than their foreign colleagues, Europeans appeared to be less confident concerning the economic prospects of the region. Thus, the discrepancy in views over the short-term outlook for Europe reaches  $-0.13$  in August, while the difference in the three-year economic outlook is  $-0.12$ .

In North America, in contrast, academia experts share brighter economic outlook for their region compared to professors from other countries. Hence, difference in the short-term economic views widens to  $0.14$ , whereas the gap in the assessment of the longer-term prospects appears to be smaller—  $0.05$ .

With regards to Asia-Pacific, the difference is even bigger compared to the North America region. Analyzing the historic data of the Dukascopy Sentiment Index, it seems that professors from Asia-Pacific tend to be more optimistic than their colleagues from overseas. August was not an exception, as the discrepancy rose to  $0.17$  and  $0.11$  for six-month and three-year economic assessment, respectively.

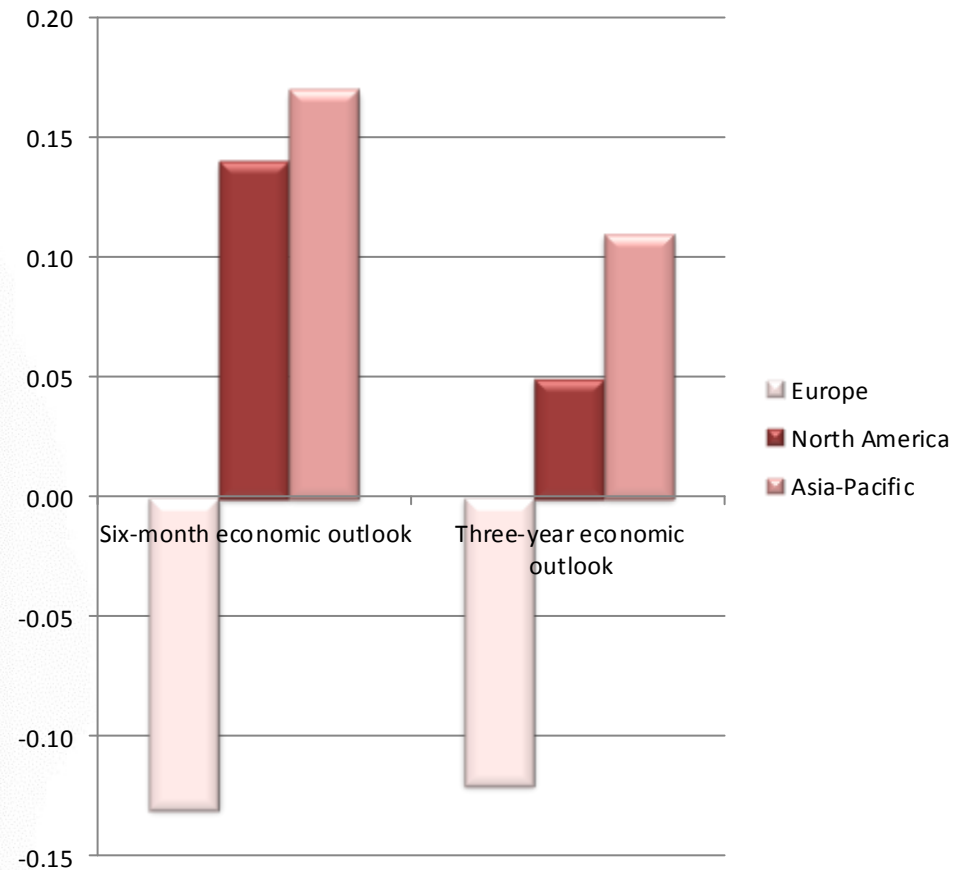


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (\*1)

## 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 August's poll:

Clemson University, Bradley University, University of Tennessee, Duquesne University, University of Washington, Willamette University, University of Jyväskylä, University of Palermo, University of Brescia, University of Florence, University of Bologna, University of Padova, University of Cagliari, Free University of Bozen-Bolzano, University of Basilicata, KEDGE Business School, University Paris 1 Panthéon- Sorbonne, Wittenborg University, IMT Lucca, Amrita University, Birla Global Institute, University of Western Australia, Victoria University, National Taiwan University





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