



DUKASCOPY
RESEARCH PRODUCTS

September release 09/10/2014



Dukascopy Bank Sentiment Index

Summary

- September's release of Dukascopy Sentiment Index report shows that professors around the world remain pat on the global sentiment, as the corresponding short and long-term gauges were unchanged from the previous month. The index stayed at 0.59 and 0.69 for the six-month and three-year outlooks, respectively. The major economies continue to combat slowing inflation, the malaise which has been spreading among such countries as the US, UK, the Euro zone members, Japan etc. On top of that, political instability continues to weigh on experts' outlook.
- Not only business climate and consumer morale continued to deteriorate in the Euro bloc: experts who participated in the September's poll have also been losing faith. The short-term outlook has been clouded by dangerously low inflation, historically high unemployment rate, and ongoing geopolitical crisis in Ukraine, which has jeopardized economic growth in the Europe's number one economy. The ECB was forced to act again in September to save the flagging economy. However, the long term outlook improved slightly.
- Sentiment index for the North American economy rebounded from the last month, with both indexes increasing. The US economy continues to show moderate pace of expansion and remains the leader in the region, while Canada's economy unexpectedly stalled in July, suggesting the pace of the country's recovery might have eased in the third quarter.
- While China is experiencing bumpy business activity in both manufacturing and services sectors, as well as property slump, and Australia's economy is seen to remain weak this year, New Zealand continues to surprise economists with its sound economic growth, and officials in Japan remain upbeat on the economy. Experts also were upbeat on the region's short and long term prospects.









Parameter/ Region	Global	Europe	North America	Asia- Pacific
Six-month economic outlook	 0.59 →(0.00)	 0.41 ↓(0.01)	 0.67 ↑(0.04)	 0.70 ↓(0.02)
Three-year economic outlook	 0.69 →(0.00)	 0.58 ↑(0.02)	 0.74 ↑(0.05)	 0.74 ↓(0.07)

Figure 1: Mood indicator

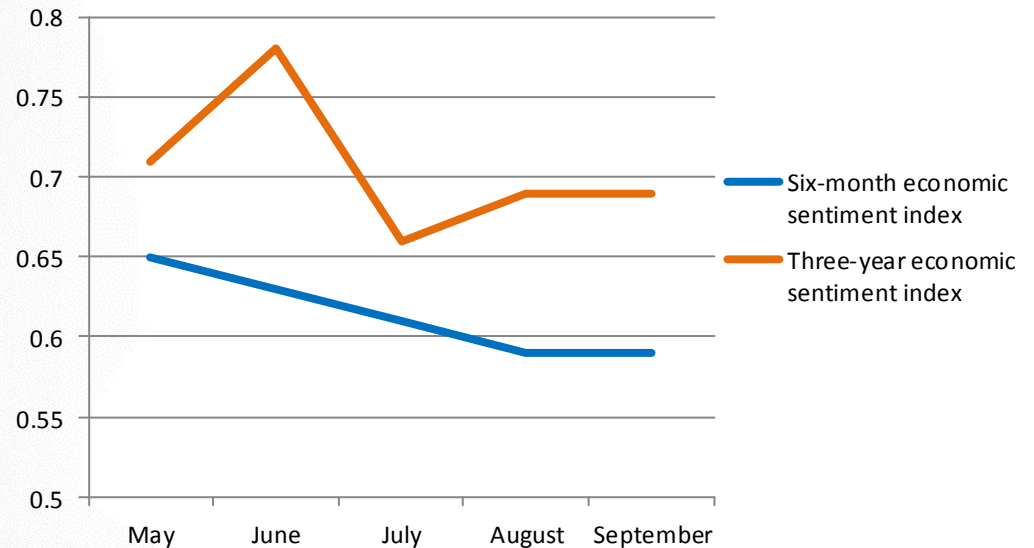


Figure 2: Global economic sentiment index

Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.41 ↓(0.01)	0.50%	0.67 ↑(0.04)	1.60%	0.70 ↓(0.02)	3.27%
3-year economic outlook	0.58 ↑(0.02)	1.23%	0.74 ↑(0.05)	2.27%	0.76 ↓(0.07)	3.53%

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.

Recently Christine Lagarde, the Managing Director of International Monetary Fund, admitted that the economic rebound is weaker than the thinktank envisioned six months ago, and the world's economy could be stuck in a sluggish growth pace for a long time.

Europe is projected to enjoy a moderate growth pace in the coming six months, with the region's economy expanding 0.50%, slightly better than the August's prediction of 0.40%. By 2017 the economy might reach 1.23% growth pace, according to the consensus forecasts of academia experts.

While the US job market continues to improve and the Fed is considering the timing of the first rate hike, which is expected to take place in the first half of 2015, GDP is seen growing 1.60% in the foreseeable future and 2.27% three years from now.

Professors expect the Asia-Pacific economy expanding at a healthy rate of 3.27%. However, the long term outlook has been revised substantially downwards in September, as the economy was predicted to grow 3.53%, down from 4.30% recorded in August.

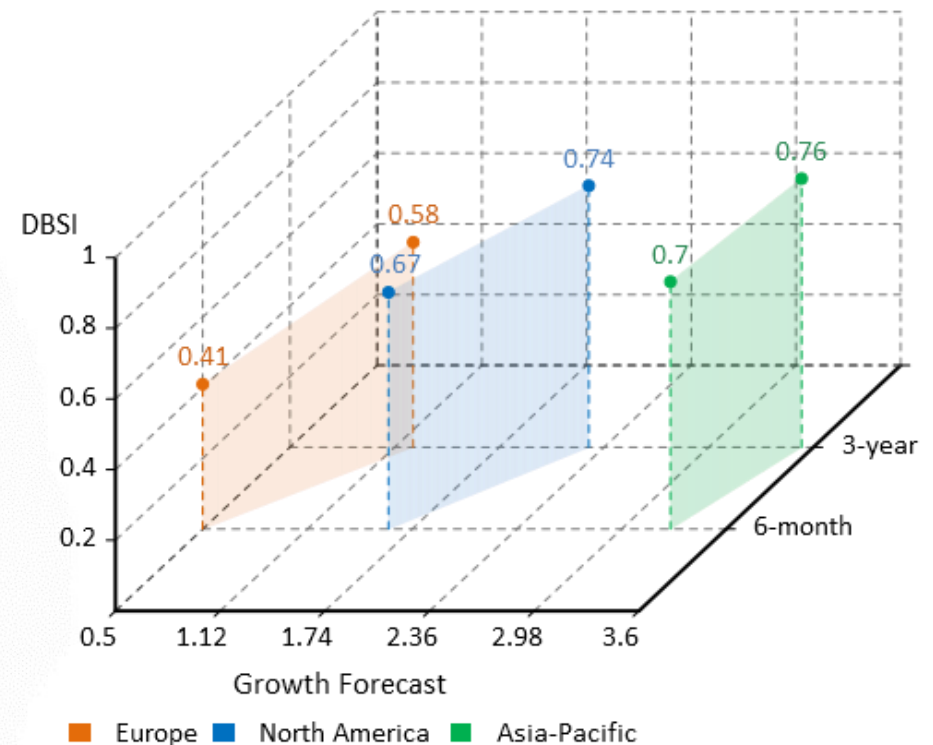


Figure 3: Global economic outlook (term structure)

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	11	3	4	0	3	1
Recessionary Trough	10	11	2	5	4	1
Expansion	9	15	23	23	21	24
Business Peak	0	1	1	2	2	4

Real GDP

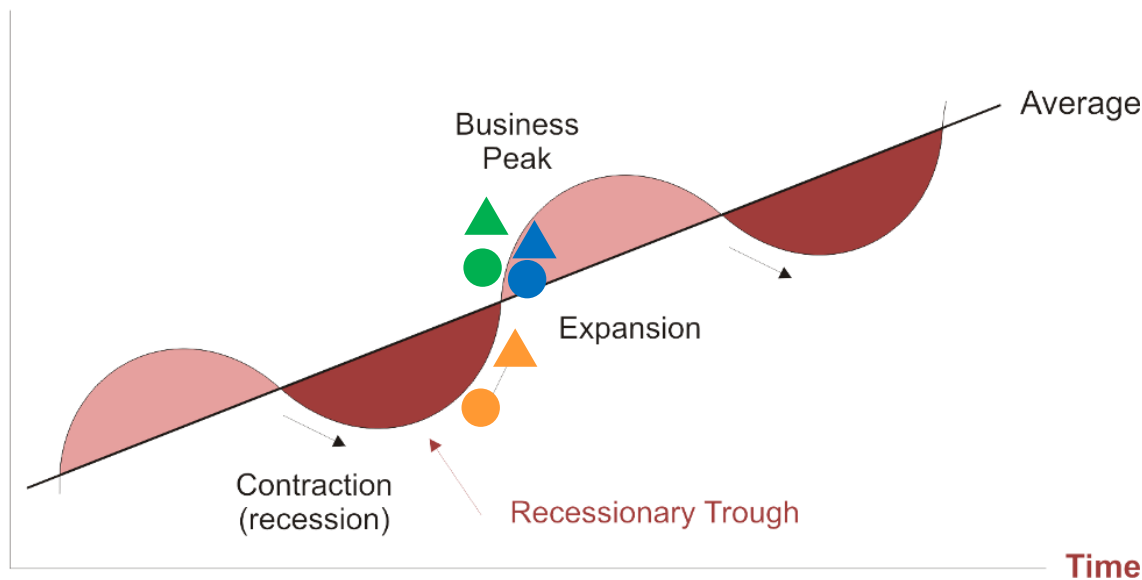


Figure 4: Business cycle

- 6-month EDS
- ▲ 3-year EDS

While short term sentiment for Europe slightly deteriorated in September, the number of professors who see the economy in the contraction or recessionary trough zone falls. Currently 9 experts believe Europe will reach expansion phase in the coming six months, up from 6 in August. However, the long term projections appeared to be unchanged from the previous month.

The North American economy is seen gradually growing and moving towards the business peak. While only two experts expects to see the region's economy at the highest point of the business cycle, majority of those surveyed believe the economy remain in the expansion phase.

Unexpectedly, the number of those forecasting Asia-Pacific's economy contracting increased from the previous month, as the short-term outlook deteriorated. However, the long-term forecast that the economy will move to business peak remains intact.

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 →(0.00)	0.41 ↓(0.01)	0.67 ↑(0.04)	0.70 ↓(0.02)
Mode	0.75	0.50	0.75	0.75
Standard Deviation	0.26 ↑(0.03)	0.21 →(0.00)	0.22 ↑(0.04)	0.24 ↑(0.05)

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

Six-month economic sentiment index for Europe has been caught in the downwardly moving spiral since May 2014. The gauge declined to 0.41 in September, the lowest level since June 2013. More than 50% of respondents were negative on the short term prospects for the region, while only 20% shared optimistic outlook.

Meanwhile, the overwhelming majority (66%) believes in the North American economy, while 13% still remained sceptical. This translated into improved sentiment index compared to the previous month, as September's gauge rose by 0.04 points to reach the 0.67 level.

The short-term confidence index for Asia-Pacific continues to remain at a healthy level of 0.70 despite a slight decrease from the August reading of 0.72. 64% of those surveyed predict robust economic expansion in the coming months, whereas 10% were in a pessimistic mood.

Overall, the gauge, which measure experts' sentiment of the global economy, remained unchanged from a month earlier, as number of factors continue to weigh on the world's economy, including uneven economic situation in the Euro zone, political instability, and further divergence in leading central banks' monetary stance and interest rates movement.

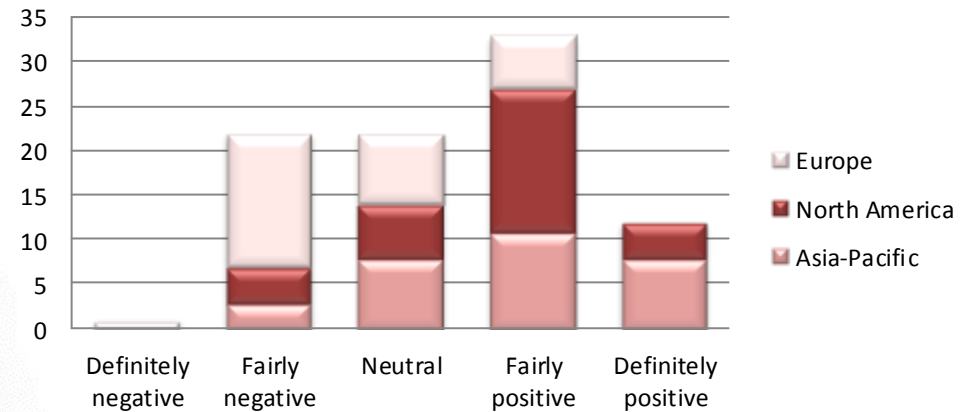


Figure 5: Six-month economic outlook

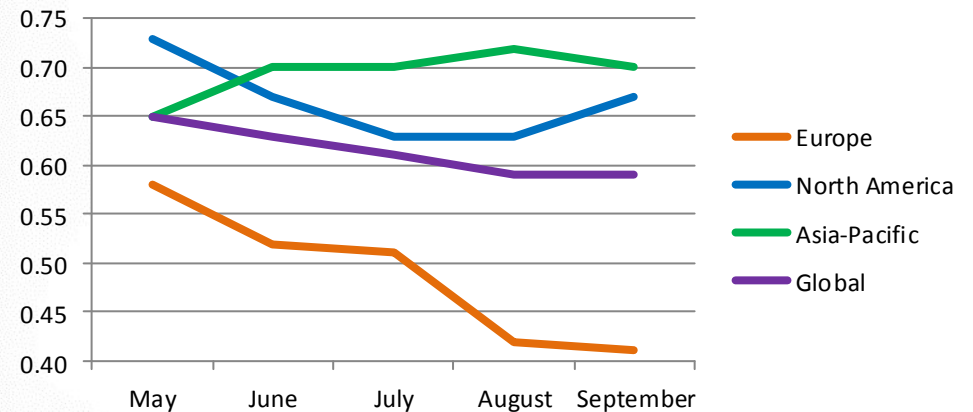


Figure 6: Six-month economic sentiment index

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 →(0.00)	0.58 ↑(0.02)	0.74 ↑(0.05)	0.76 ↓(0.07)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.20 ↓(0.03)	0.20 ↑(0.01)	0.15 ↓(0.04)	0.19 ↓(0.02)

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

The long-term sentiment index for Europe rebounded from the 14-months low reached last month, but it still lags behind other economies. While 47% of professors who took part in the September survey were neutral on the economic prospects, 43% felt positive.

In the meantime, professors became more optimistic when assessing North America's growth prospects, as the sentiment index gained 0.05 points from the previous month. 80% of respondents shared positive outlook, while 20% remained indecisive.

Asia-Pacific unexpectedly saw a decline in its gauge of sentiment, as the index slipped 0.07 points from August to hit 0.76. Nevertheless, there were 80% of those who share a positive outlook in the long term.

Although the sentiment indexes for Europe and North America rose in September, Asia-Pacific experienced a decline in professors' morale, the global outlook remain unchanged from the previous month at 0.69.

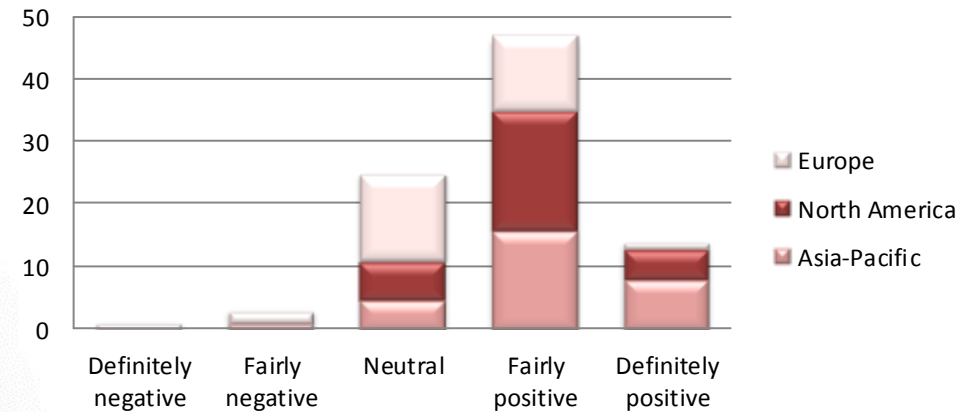


Figure 7: Three-year economic outlook

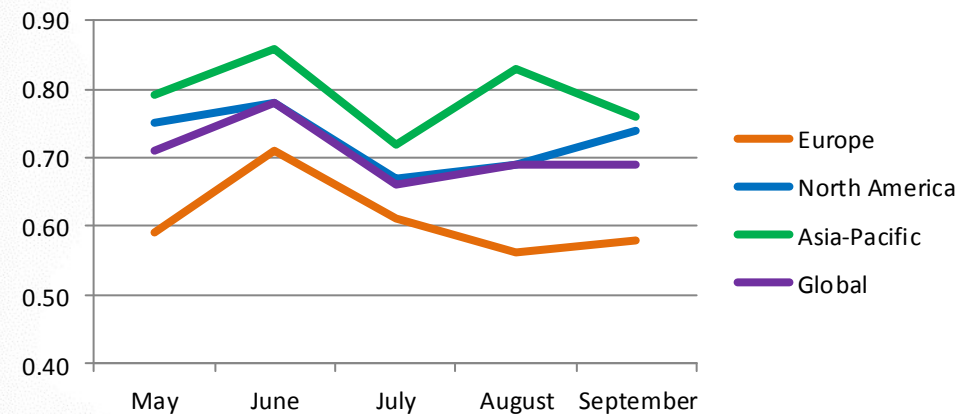


Figure 8: Three-year economic sentiment index

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	0.35	0.44	0.75	0.63	0.73	0.69
3-year economic outlook	0.53	0.61	0.83	0.70	0.68	0.80

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

In Europe local experts' short and long-run economic outlook continues to be cloudy, while their foreign colleagues' assessment of economic situation is more sanguine. The six-month outlook gap widens to -0.09 points, while discrepancy in views on economic outlook for 2017 falls to -0.08 from the previous month.

In contrast, Americans appeared to be more optimistic over the region's economic development in the foreseeable future compared to professors from Europe and Asia-Pacific. Although both parties revised their outlook for North America upwards, the gap in assessment slightly shrank compared to the previous month. Currently, difference in the short-term expectations stands at 0.12 compared to 0.14 in August, while discrepancy in three-year outlook increases to 0.13 from 0.05.

In Asia-Pacific local experts are more confident in the short-term economic growth than economists from overseas, while they become less optimistic over the long run prospects. Thus, discrepancy in three-year outlook hits -0.12.

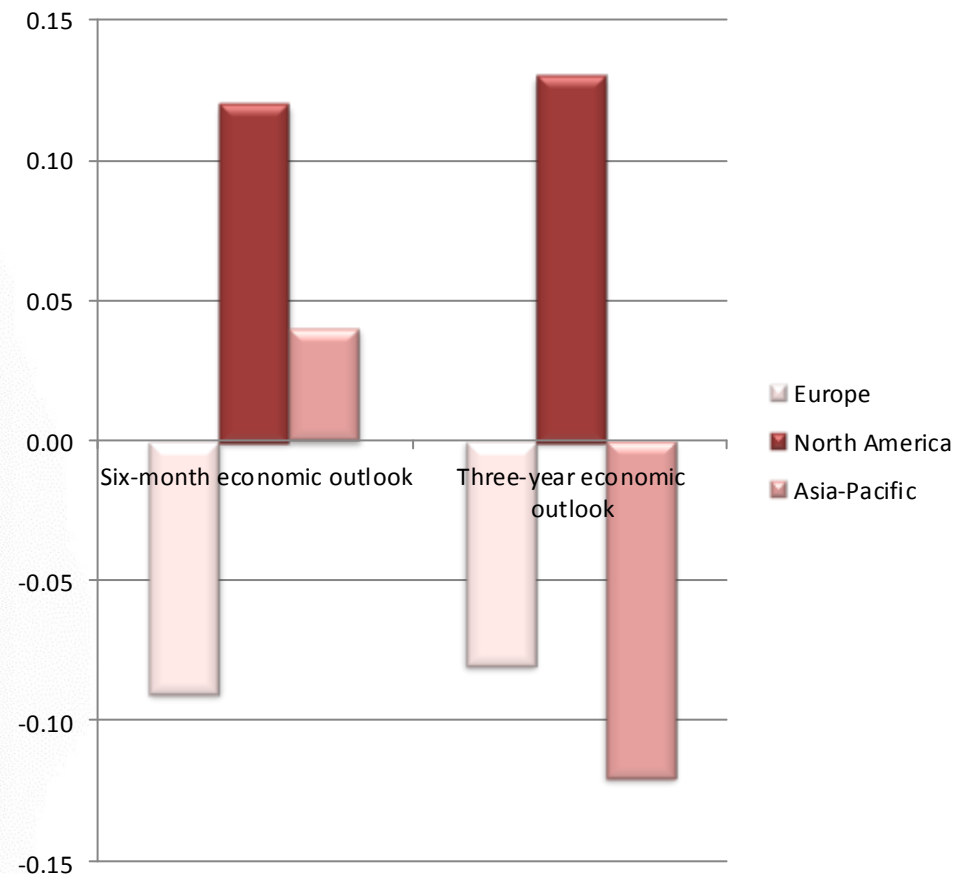


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (*1)

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 September's poll:

University of Oregon, Miami University, Illinois Institute of Technology, University of Missouri - St. Louis, Mississippi College, St. Francis Xavier University, Missouri State University, University of St. Thomas, University of Florida, Willamette University, Università degli Studi di Padova, University of Calabria, Sapienza University of Rome, University of Brescia, London Business School, University of Naples Federico II, University of Bologna, Flinders University, University of Western Australia Victoria University, National Taiwan University, Kyiv National Linguistic University, University of Latvia



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