



**DUKASCOPY**  
RESEARCH PRODUCTS

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# **Dukascopy Bank Sentiment Index**

## Summary

- Intensifying blow of disinflation winds, with major world economies experiencing slowing inflation rate, never-ending streak of negative news from the Euro zone, slowing growth in China, the world's second biggest economy, and recent volatility in financial markets seemed to be the main reasons behind experts' gloomier outlook for the global economy in October. Both short and long term world's economic sentiment indexes fell marginally from the previous month.
- While the continental Europe continues to post uneven economic indicators, concerns are rising about health of the leading Euro area's economies, including Germany and France, in the UK debates among Bank of England rate-setters get hotter, as they weigh when to start tightening cycle by raising interest rates amid rapidly improving economic conditions in the country. Nevertheless, upbeat news from Britain was not able to offset the effect which the Euro zone disappointing data had on academic experts. As a result, both sentiment indexes dropped in October.
- In the US, economic performance is improving at a rapid pace, which is definitely beneficial for its neighbor Canada. The Fed has finally completed its six-year old quantitative easing programme despite the recent turbulence in financial markets as well as global economic woes. Professors' faith in the North American region strengthened in the month of October, as both six-month and three-year sentiment indexes climbed.
- Asia-Pacific saw its sentiment gauges falling in October, as China's economy slows somewhat, Japan reaps the fruits of sales tax hike, central bankers in Australia and New Zealand monitor economic developments vigorously to understand the risk from falling commodity prices to the economy.









Parameter/ Region	Global	Europe	North America	Asia-Pacific
Six-month economic outlook	 0.58 ↓(0.01)	 0.35 ↓(0.06)	 0.73 ↑(0.06)	 0.64 ↓(0.06)
Three-year economic outlook	 0.68 ↓(0.01)	 0.57 ↓(0.01)	 0.75 ↑(0.01)	 0.73 ↓(0.03)

Figure 1: Mood indicator

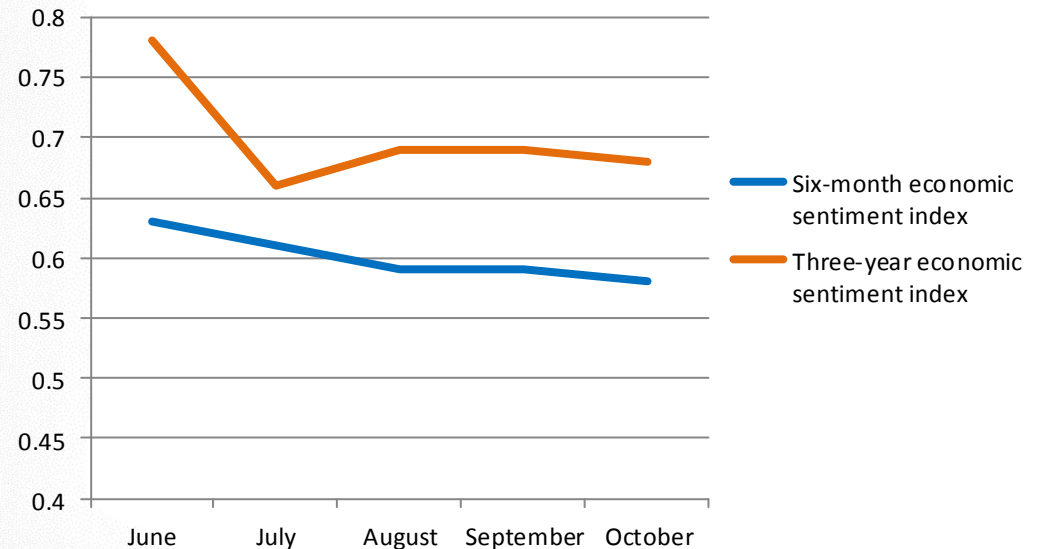


Figure 2: Global economic sentiment index

## Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.35 ↓(0.06)	0.06%	0.73 ↑(0.06)	2.13%	0.64 ↓(0.06)	3.13%
3-year economic outlook	0.57 ↓(0.01)	0.80%	0.75 ↑(0.01)	2.33%	0.73 ↓(0.03)	3.60%

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.

The Euro zone's economy remains fragile and risks of additional setbacks persist. As a result, the ECB decided to embark on additional stimulus measures to prop up the economic growth. Meanwhile, Britain's economy continues to grow at slightly above the UK's long-term average. In the coming months, professors see a very timid growth of 0.06%, the slowest pace since August 2013, while in the long term the rate of growth will reach 0.8%, according to experts' consensus estimation, the slowest rate in 15 months.

While the US continues to grow at a healthy pace, Canada's gross domestic product could be hit by falling oil prices. Therefore, professors' GDP forecasts are rather reserved. North America is seen expanding at a 2.13% pace in the near future, while in the three years to come the economy will be growing 2.33%.

There is an uneven economic growth picture in the Asia-Pacific, as China continues to grow at a strong by international standards annualized rate 7.3%, though it is the slowest in six years. Japan's economy is hit by sales tax hike effect, New Zealand's economy strengthens, while its neighbor continue's to struggle to make transition from the mining boom. Overall, the region's economic growth pace is expected to reach 3.13% and 3.60% in the short and long run, respectively.

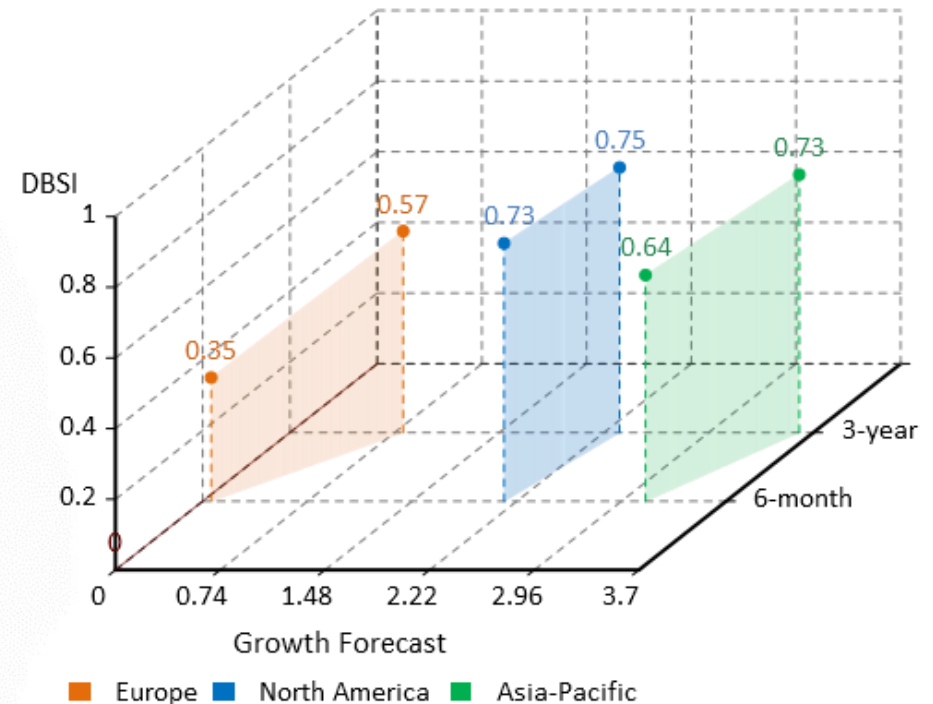


Figure 3: Global economic outlook (term structure)

## 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	7	0	2	3	3	2
Recessionary Trough	18	1	2	7	2	2
Expansion	5	27	25	20	24	22
Business Peak	0	2	1	0	1	4

### Real GDP

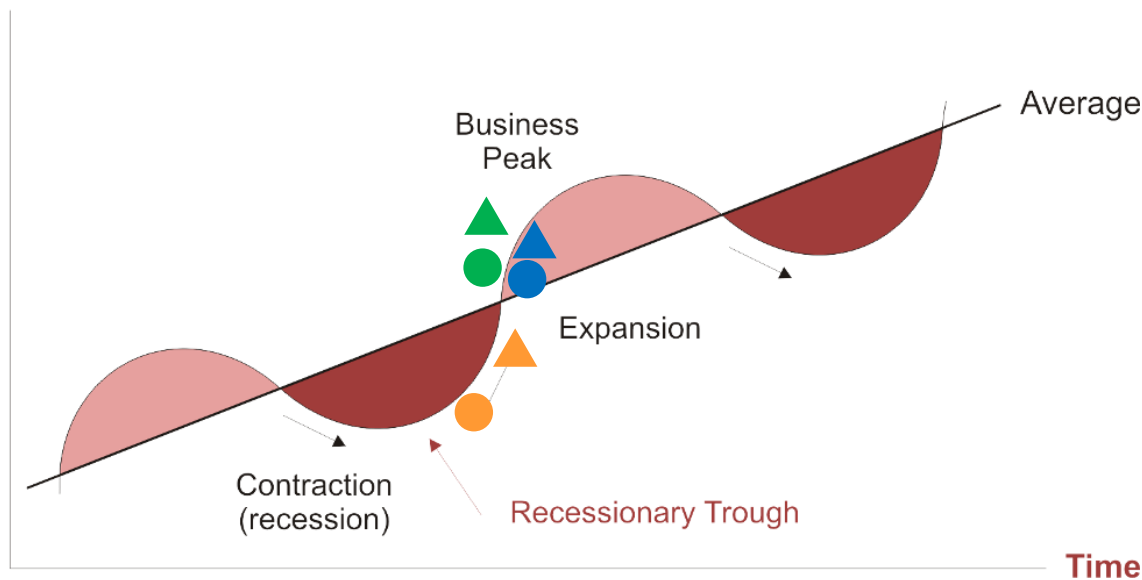


Figure 4: Business cycle

- 6-month EDS
- ▲ 3-year EDS

Things are evidently getting worse in Europe despite the ECB's efforts to support fragile economy, while robust economic growth in Britain cannot offset negative effect of the Euro zone's slowdown. Thus, the number of those surveyed who envision Europe in the recessionary trough rose to 18 from 10 last month. Nevertheless, by 2017 economic performance is seen improving, with 27 professors expecting Europe to see in the expansion phase.

North America's economy, in contrast, is firmly in the expansion zone, according to the majority of forecasters. Nevertheless, in the long run, the region's economy may lose steam, and economic growth may slow somewhat.

The Asia-Pacific economy is also seen expanding in the coming six month period, though a number of disbelievers in the economic growth of the region persist. The long-term prospects remain bright for Asia-Pacific, with four professors expecting the economy to reach the business peak.

## Six-month economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.50	0.75	0.75
Mean (DBSI)	0.58 ↓(0.01)	0.35 ↓(0.06)	0.73 ↑(0.06)	0.64 ↓(0.06)
Mode	0.75	0.50	0.75	0.75
Standard Deviation	0.24 ↓(0.02)	0.16 ↓(0.05)	0.15 ↓(0.07)	0.21 ↓(0.03)

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

Slowing global economy raises concerns about its growth prospects, as China, the world's second-biggest economy, saw its GDP falling, representing a drag for the global economy. On top of that, worrisome economic situation in the Euro zone contributes to a slower world economic growth. All this resulted in the six-month sentiment index declining further. In October, though, the corresponding measure fell marginally by 0.01 point to 0.58.

Sentiment index for Europe plummeted to its lowest level since March 2013, as the majority of those who took part in the October poll felt fairly negative about near-term economic conditions in the region, whereas only 7% were fairly upbeat.

In contrast, six-month economic sentiment index for North America advanced to 0.73, the level last time seen in May, as 87% of respondents were upbeat about the regions' economic future.

The sentiment index for Asia-Pacific has been falling for a second consecutive month. In October the gauge dropped to 0.64, down from 0.70 in September, as professors felt mixed about short term projections. 17% appeared to be fairly negative, while 67% were upbeat about six-month outlook. 17% remained undecided.

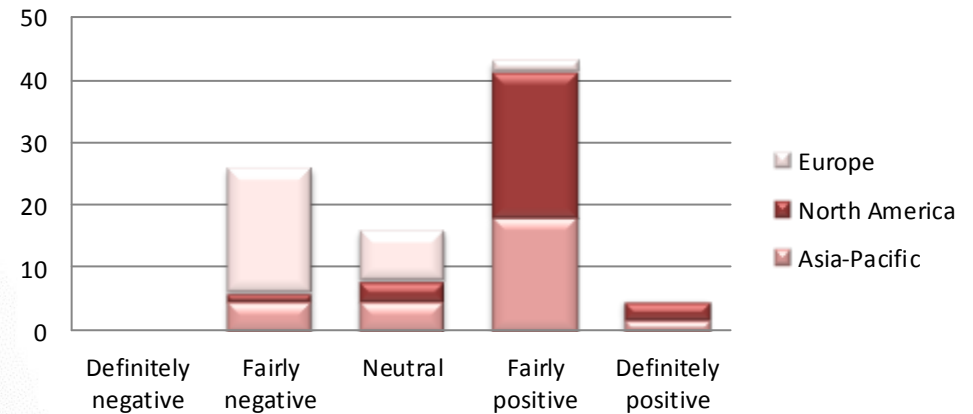


Figure 5: Six-month economic outlook

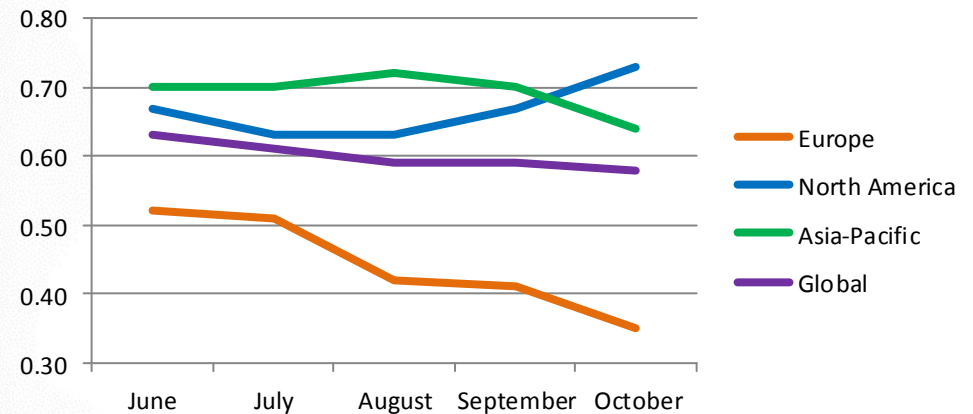


Figure 6: Six-month economic sentiment index

## Three-year economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.68 ↓(0.01)	0.57 ↓(0.01)	0.75 ↑(0.01)	0.73 ↓(0.03)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.19 ↓(0.01)	0.17 ↓(0.03)	0.16 ↑(0.01)	0.20 ↑(0.01)

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

The long-term economic sentiment for the global economy has been sliding since June, when it reached the highest level this year of 0.78.

Only 40% of professors shared a bright economic outlook for the European economy, whereas 13% remained pessimistic. However, the majority decided to stick to neutral stance. This translated into a slight decline of the three-month economic sentiment, with the respective indicator falling to 0.57, down from 0.58 a month earlier.

The overwhelming majority of the survey participants (80%) appeared to be confident in a bright economic outlook and prosperity of the North American region. Nevertheless, the sentiment index inched higher by only 0.01 point to 0.75 in October.

While the majority still shared a positive sentiment for the Asia-Pacific economy, the index nudged lower by 0.03 points to 0.73 from September. This was the second lowest reading this year so far.

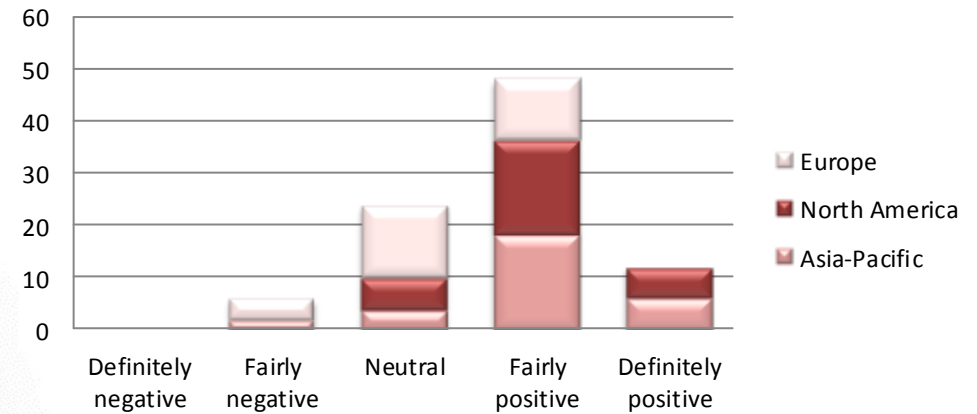


Figure 7: Three-year economic outlook

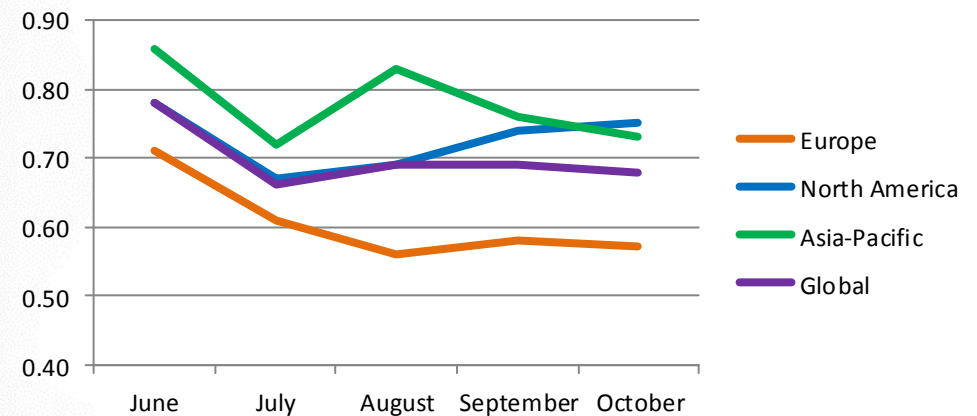


Figure 8: Three-year economic sentiment index

## 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	0.28	0.39	0.78	0.71	0.63	0.65
3-year economic outlook	0.53	0.59	0.80	0.73	0.73	0.74

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

The ongoing economic concerns in Europe appeared to have a larger effect on local experts than on their overseas colleagues. Europeans are particularly downbeat about short-term economic prospects in the region, whereas discrepancy in views on long-term outlook shrinks, meaning local economists and professors from outside Europe share more or less the same sentiment.

Americans are very proud of the pace their economy is developing at, as Dukascopy October survey results showed that they are more positive about six-month and three-year economic outlooks than their colleagues from Europe and Asia-Pacific. The difference in views reaches 0.07 points for both periods.

In the Asia-Pacific region, just like in Europe, professors seemed to be more reserved, when evaluating economic prospects of the regions' economy, than overseas experts. Nevertheless, the discrepancy appeared to be marginal of 0.02 points and 0.01 point for the short-term and long-run forecasts, respectively.

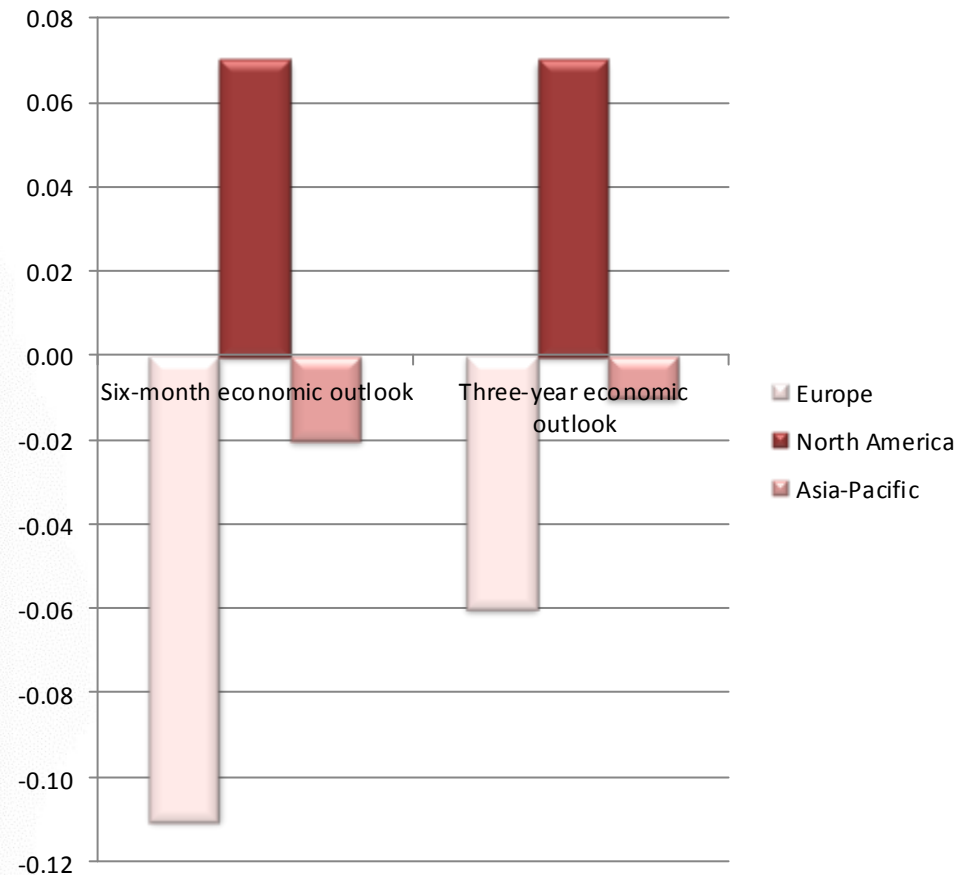


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (\*1)

## 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 October's poll:

Georgetown University, University of Brescia, Thompson Rivers University, American University, Fairleigh Dickinson University, University of Cagliari University of Illinois, Bradley University, Kent State University, University of Palermo, San Diego State University, University of Parma, Roma Tre University, University of Milano-Bicocca, University of Bari Aldo Moro, University of New Mexico, Indian Institute of Foreign Trade, University of Genoa, Scuola Superiore Sant'Anna di Pisa, University of Pisa, Kyiv National Linguistic University, LA Trobe University





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