



DUKASCOPY
RESEARCH PRODUCTS

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Dukascopy Bank Sentiment Index

Summary

- November was full of economic news which shaped economic sentiment of businesses and consumers all over the globe. While some economies, including the US and UK, have been expanding at full speed, others, such as the Euro zone, Japan, and China raise concerns over their ability to sustain growth and ensure there is no negative spillover effect on other economies. This two-speed global growth appeared to weigh on the sentiment of responders who took part in November's Dukascopy Sentiment Index survey, as the short-term outlook deteriorated to 0.56, while the long-term sentiment plunged by 0.06 points to 0.62, levels last seen in August 2013.
- The ECB is still determined to do whatever it takes, including unconventional measures, to bring inflation in the region to healthy levels as soon as possible. Persistent disinflationary trend in the Euro bloc has become a headache for policy makers and growing concerns for economists, as recently implemented fresh stimulus so far failed to provide visible effect. However, Germany, the European powerhouse which had been causing panic among economists due to softer fundamentals, managed to escape technical recession. Thus, the short term sentiment for Europe improved modestly, while the three-year economic mood continues to deteriorate.
- Despite a robust growth in the US and Canada, academia experts appeared to be less optimistic about the region's short-term and long-term economic perspectives, as both gauges fell in November, but remained at strong levels.
- Asia-Pacific also saw their sentiment indicators retreating in November, possibly due to growing concerns over Japan's and China's economic performance, as world's leading countries show worrying signs of slowing economic activity.

Parameter/ Region	Global	Europe	North America	Asia-Pacific
Six-month economic outlook	 0.56 ↓(0.02)	 0.38 ↑(0.03)	 0.67 ↓(0.06)	 0.63 ↓(0.01)
Three-year economic outlook	 0.62 ↓(0.06)	 0.48 ↓(0.09)	 0.71 ↓(0.04)	 0.68 ↓(0.05)

Figure 1: Mood indicator

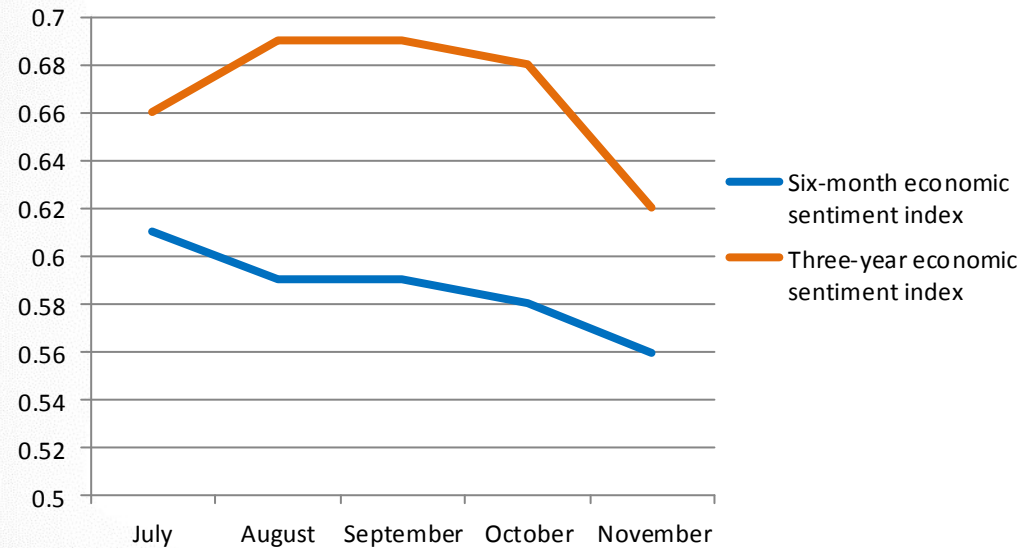


Figure 2: Global economic sentiment index

Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.38 ↑(0.03)	0.03%	0.67 ↓(0.06)	1.90%	0.63 ↓(0.01)	3.20%
3-year economic outlook	0.48 ↓(0.09)	0.50%	0.71 ↓(0.04)	2.03%	0.68 ↓(0.05)	3.07%

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 European economy's growth is on the brink of falling into a negative territory, as GDP is expected to average 0.03% in the near term, and rise modestly 0.5% in the three-year period, as economic troubles in the currency bloc are far from being over and are too strong to be offset by a brightening economic picture in the UK.

While concerns about overseas economies are mounting, the US continues to grow strongly, supported by American consumers and business. GDP rose at annualized rate of 3.5% in the July-September period. Canadian economy also gained some steam, expanding 2.8%. Overall, the region is seen growing at a 1.90% pace in the next six months, accelerating to 2.03% in the three years from now.

Asia-Pacific economy is expected to grow at a strong 3.20% pace in the beginning of 2015, while survey participants lowered their long-term growth outlook to 3.07%. Growth in China, the world's second biggest economy, slowed to 7.3% in the third quarter, the slowest pace since the global financial crisis. The risk that China might miss its official growth target of 7.5% this year for the first time in 15 years is growing. Meanwhile, Japan's economy slipped into recession in the third quarter as April's sales tax hike appeared to have a more prolonged and devastating impact on consumer spending and business investment. Australia and New Zealand remain resilient and quite immune to economic shocks coming from overseas.

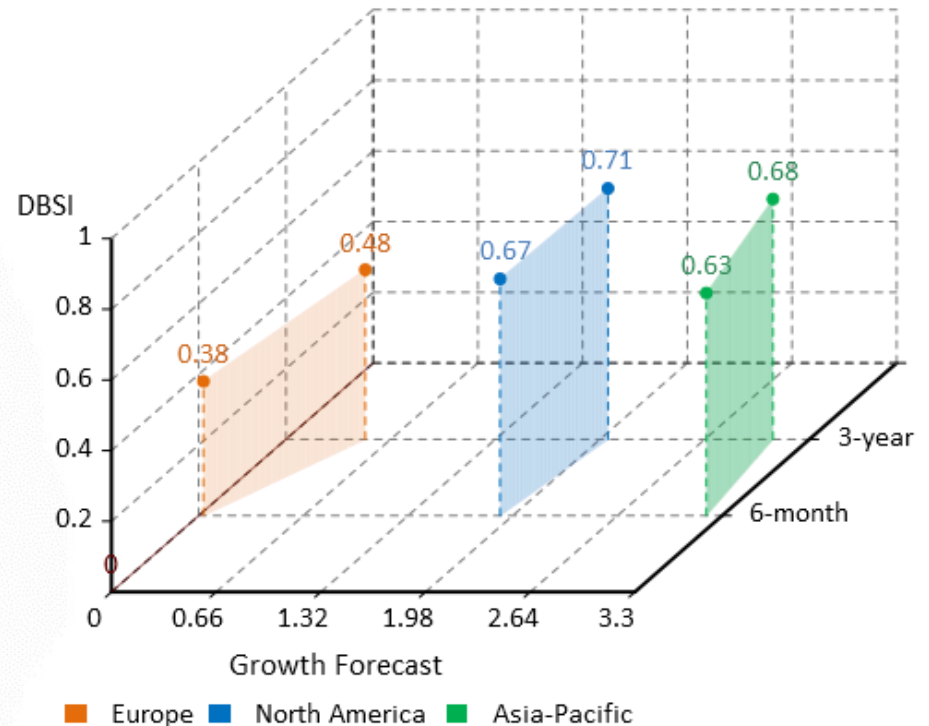


Figure 3: Global economic outlook (term structure)

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	13	1	0	8	5	2
Recessionary Trough	13	2	5	7	1	4
Expansion	4	25	25	15	23	23
Business Peak	0	2	0	0	1	1

Real GDP

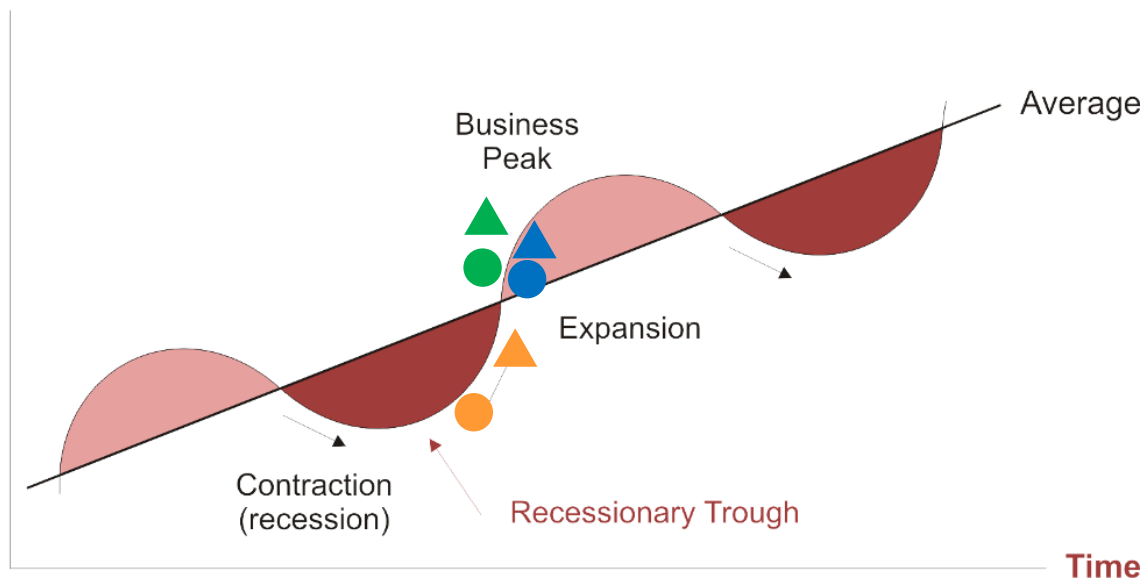


Figure 4: Business cycle

- 6-month EDS
- ▲ 3-year EDS

The European economy will continue to lag behind other regions, as the economy is seen falling back into the recessionary trough zone in the short term, according to professors' estimates. However, looking ahead, economic conditions are expected to improve, with the overwhelming majority seeing the economy expanding.

The North America's economy remained on a firm footing, with 25 professors forecasting the expansion phase to continue in the coming six months. However, experts see a bumpy road ahead for the economy, as some believe that the region's economy might lose some momentum by 2017.

While the majority of survey participants is confident about the Asian-Pacific relatively stable economic situation in the beginning of 2015 and in the long-term, there are some professors that remain skeptical.

Six-month economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.50	0.75	0.75
Mean (DBSI)	0.56 ↓(0.02)	0.38 ↑(0.03)	0.67 ↓(0.06)	0.63 ↓(0.01)
Mode	0.75	0.50	0.75	0.75
Standard Deviation	0.25 ↑(0.01)	0.19 ↑(0.03)	0.21 ↑(0.06)	0.23 ↑(0.02)

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

The majority of professors appeared to be fairly negative as there is an uneven picture of economic developments in Europe, with the UK is set to be the fastest growing economy among the G7 nations this year, while Germany, the Euro zone's growth engine, narrowly escaped technical recession and other core Euro bloc's economies have been combating severe economic troubles. Only 13% were optimistic about the region's six-month outlook.

The US GDP growth has been strong recently and Canada will continue to benefit from the elevated economic growth in the neighbouring economy, which is the top trading partner for Canada. This translated into professors' confidence of the region's steady growth in the short-term, with 63% sharing positive outlook.

Despite fears of "hard landing" in China and economic woes caused by sales tax hike in Japan, those who are positive on economic outlook substantially outnumber disbelievers. 57% forecast a bright economic future, while 17% are less optimistic, opting for a fairly negative outlook.

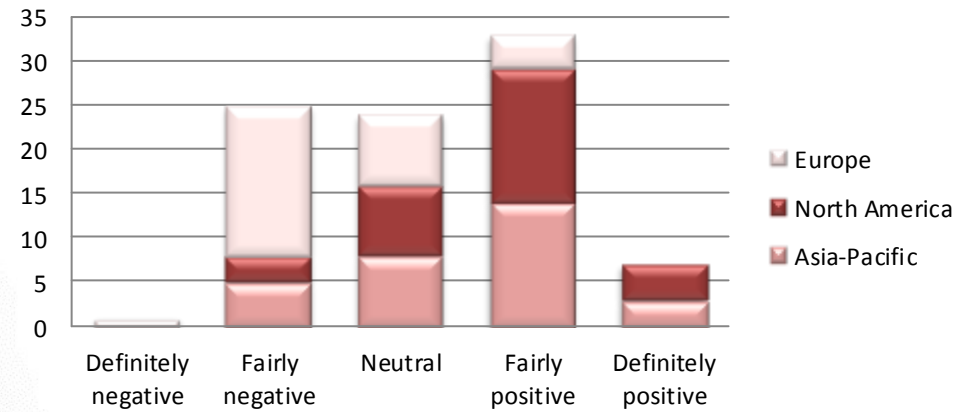


Figure 5: Six-month economic outlook

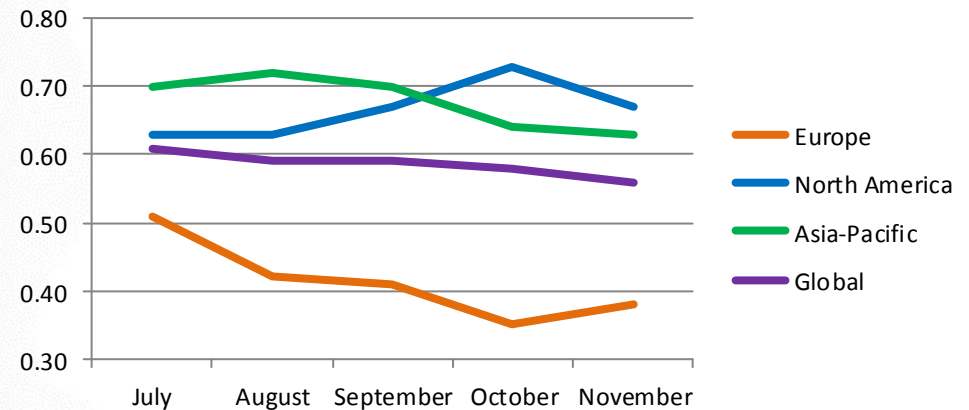


Figure 6: Six-month economic sentiment index

Three-year economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.62 ↓(0.06)	0.48 ↓(0.09)	0.71 ↓(0.04)	0.68 ↓(0.05)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.24 ↑(0.05)	0.23 ↑(0.06)	0.19 ↑(0.03)	0.25 ↑(0.05)

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

Professors' three-year economic sentiment fell in November, as the majority (40%) believes the European economy will not be able to fully recover and enjoy steady growth. Nevertheless, 33% of those surveyed are fairly optimistic about the region's growth prospects over the long term.

The overwhelming majority (70%) of academia experts believe the US and Canada's economy will be expanding in the coming years. The Fed is set to normalize its monetary policy amid improving economic conditions, while Canada is expected to follow the same pattern closely after.

Despite the fact that Asia-Pacific three-year economic sentiment dropped below the 70-mark threshold for the first time since August 2013, 70% of survey participants are still confident in the region's economic prospects. However, there were 13% who share a negative outlook in November, while 17% of professors remained indecisive.

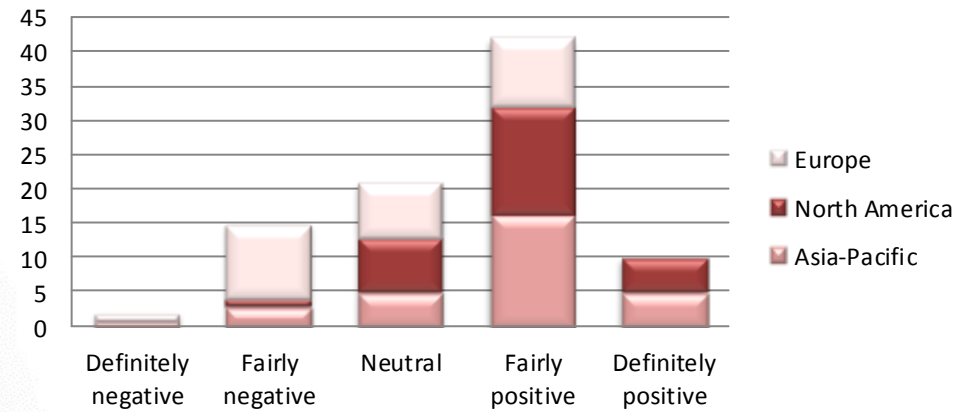


Figure 7: Three-year economic outlook

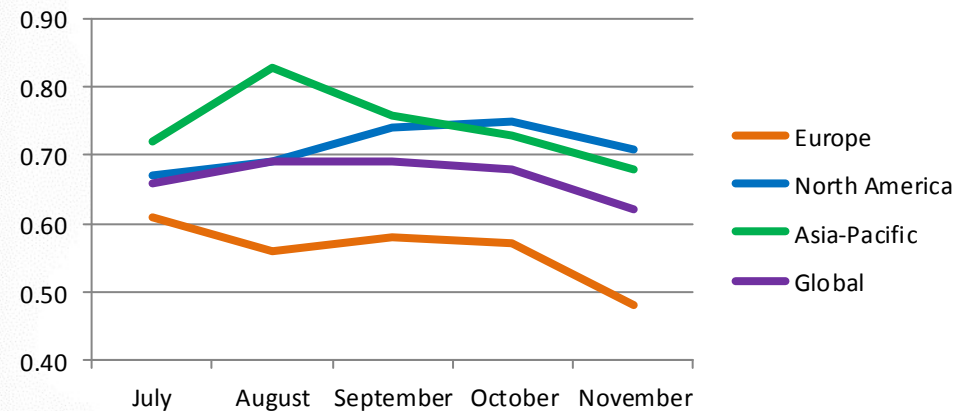


Figure 8: Three-year economic sentiment index

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	0.39	0.73	0.64	0.63	0.63
3-year economic outlook	0.48	0.48	0.70	0.71	0.63	0.70

Figure 9 presents a discrepancy in views on the economic outlook of two time frames among the local and foreign professors.

In November, European experts appeared to be more pessimistic about short-term growth prospects of the region than their colleagues from overseas. Discrepancy in views reached -0.04 , while professors were unequivocal about Europe's economic performance in three years from now.

In the North America, local professors assessed the region's economic conditions more positively than Europeans and Asians, as the difference in the economic outlooks expanded by 0.09 points in November. However, as for three-year economic outlook, locals seemed to be slightly less upbeat.

Views on economic development of the Asian-Pacific in the short-term appeared to coincide. Nevertheless, there was a substantial difference in projections of economic performance in three years from now. Foreign experts were more sanguine over long-term economic outlook, while local professors remain reserved.

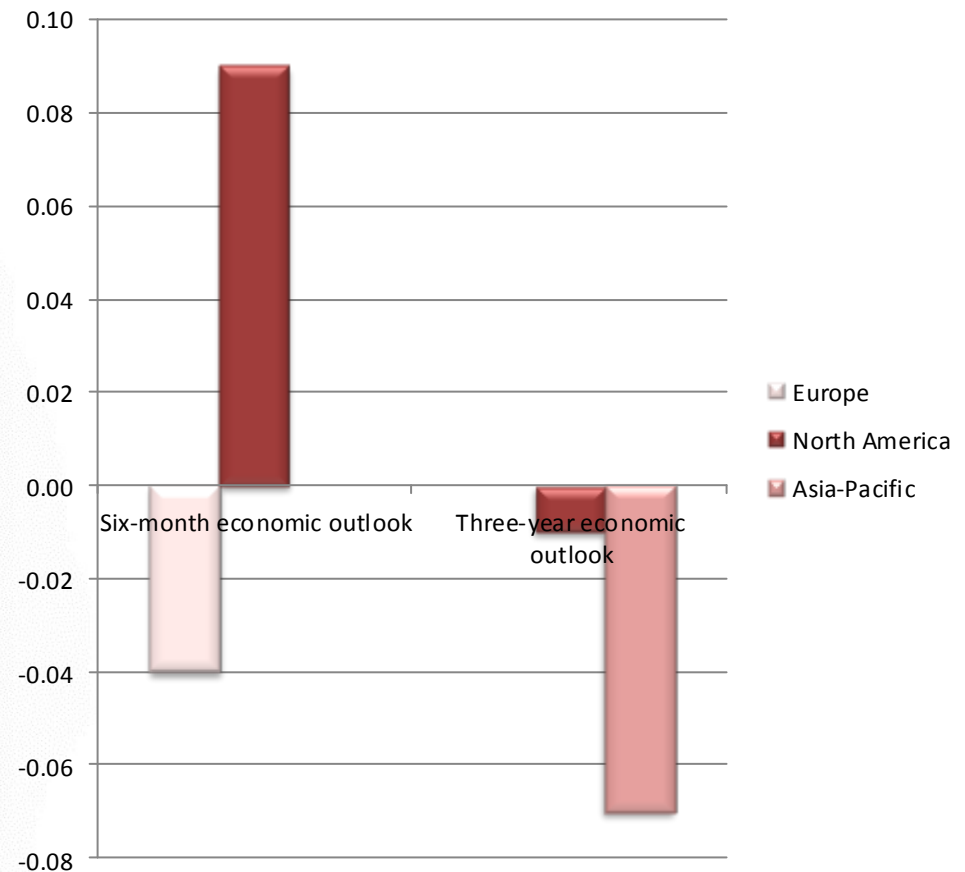


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (*1)

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 November's poll:

American University, University of New Brunswick at Fredericton, University of Hawaii, California State Polytechnic University Pomona, Lund University, University of Bath, University of Messina, Indiana University – Purdue University Fort Wayne, Fairleigh Dickinson University, University of Florence, Ludwig-Maximilians-Universität München, University of Ferrara, University of Genoa, University of Cagliari, European University Institute in Florence, Grenoble École de Management, Imperial College London, Indian Institute of Foreign Trade, Chinese University of Hong Kong, American University of Sharjah, University of New South Wales, Birla Institute of Management Technology, Institute of Business Administration, Karachi, BA School of Business and Finance, RISEBA, Stockholm School of Economics in Riga



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