



**DUKASCOPY**  
RESEARCH PRODUCTS

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**Dukascopy Bank Sentiment Index**

## Summary

- Mood among professors who took part in the December Sentiment index poll had brightened ahead of Christmas and New Year holiday season. All the regions saw their indexes of both six-month and three-year economic outlook rising in December, except for Asia-Pacific short term sentiment, which remained unchanged from the previous month.
- Europe's economic sentiment indexes inched up despite ongoing economic and political concerns in the continental economy, as well as possibility of a modest slowdown in the UK's growth rate going into 2015. In light of disappointing TLTRO in December and constantly falling inflation in the Euro zone, the ECB said it would assess whether its current measures are sufficient to bring consumer prices toward its official goal of below but close to 2% and revive growth. In case the bank decides its policies are not enough to end a period of disinflation, that would "imply altering the size, pace and composition of our measures."
- In North America, the US and Canada's economies grew more than expected, the recent data showed, with the US economy expanding at the strongest pace in more than decade in the third quarter. This upbeat data is reflected in professors' economic sentiment, which soared in December.
- Meanwhile, in Asia-Pacific region, China, the world's second biggest-economy, is set for a "hard landing", Japan's economy contracted more than expected in the third quarter, and Moody's downgraded Japan's rating. The RBA is seen cutting interest rates amid slowdown in the Australian economy, which showed the weakest growth since the beginning of 2013. Academia experts' assessment of the economic situation in the region in six month from now remained unchanged from the previous months, while long-term sentiment index climbed modestly in December.









Parameter/ Region	Global	Europe	North America	Asia-Pacific
Six-month economic outlook	 0.61 ↑(0.05)	 0.43 ↑(0.05)	 0.78 ↑(0.11)	 0.63 →(0.00)
Three-year economic outlook	 0.66 ↑(0.04)	 0.51 ↑(0.03)	 0.75 ↑(0.04)	 0.71 ↑(0.03)

Figure 1: Mood indicator

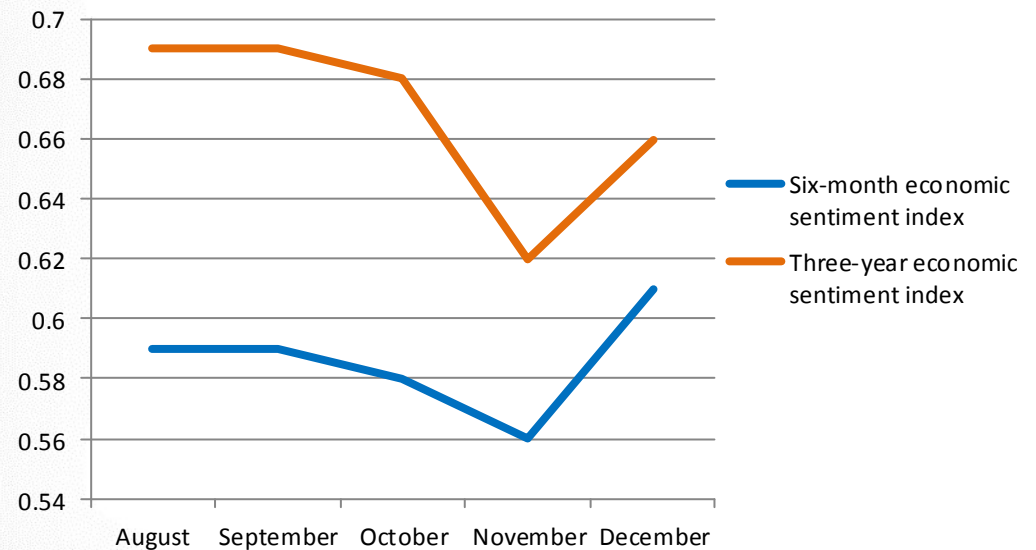


Figure 2: Global economic sentiment index



## Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.43 <b>↑(0.05)</b>	0.23%	0.78 <b>↑(0.11)</b>	2.60%	0.63 <b>→(0.00)</b>	3.47%
3-year economic outlook	0.51 <b>↑(0.03)</b>	0.80%	0.75 <b>↑(0.04)</b>	2.47%	0.71 <b>↑(0.03)</b>	3.73%

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.

Given the weak business activity, stubbornly low inflation in the Euro bloc and falling consumer prices in Britain where CPI slid to the lowest level in 12 years, as well as potential Grexit, overall region's growth is expected to remain dangerously fragile. The European economy is expected to crawl at a 0.23% pace in the near term, while the long-term growth outlook is slightly more positive, with a projected 0.80% growth rate.

The US and Canada's economies surprised to the upside, as both countries reported better-than-expected economic data in December. The US economy grew at the strongest pace in more than a decade during the third quarter, with GDP rising at an annual rate of 5.0% in the third quarter. The Fed estimates GDP growth of 2.6%-3% in 2015. Canada's economy grew 2.3% on annual basis in October; however, lower oil is estimated to slash about a third of a percentage point from Canada's GDP growth in 2015. Professors see an average growth of the region of 2.60% and 2.47% in the short and long term, respectively.

With all the leading economies in the Asia Pacific faltering due to global economic weakness as well as domestic problems, the region's economy is projected to grow modestly. In the six months from now the economy would expand at a 3.47% pace, while in three years the economy is likely to grow 3.73%.

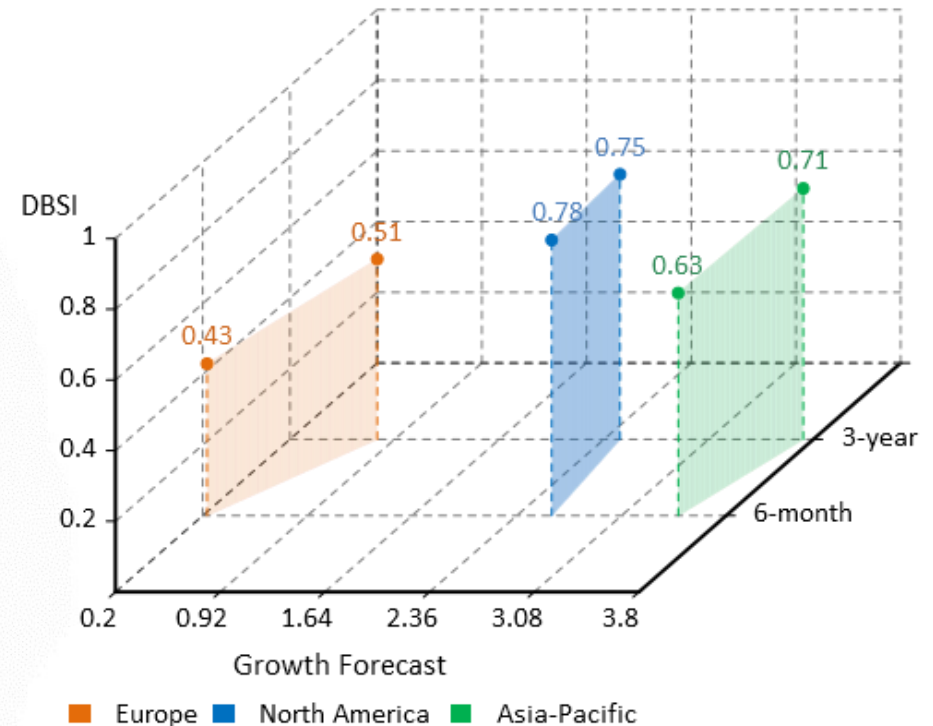


Figure 3: Global economic outlook (term structure)

## 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	7	1	4	4	3
Recessionary Trough	12	13	3	2	6	3
Expansion	5	10	26	22	17	22
Business Peak	0	0	0	2	3	2

### Real GDP

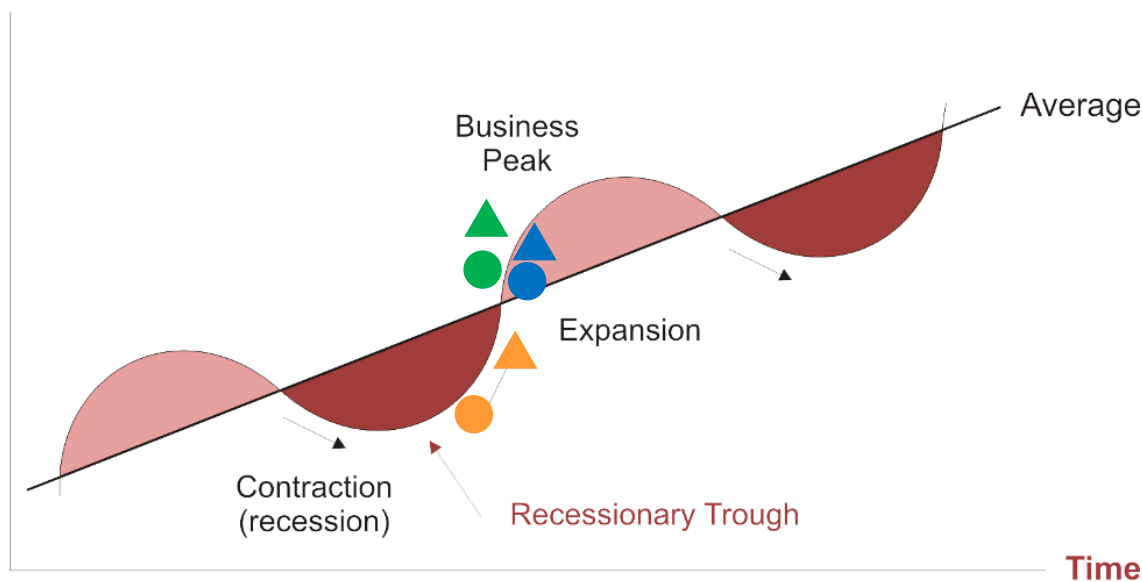


Figure 4: Business cycle

- 6-month EDS
- ▲ 3-year EDS

Despite improving economic sentiment for Europe, the majority of respondents see the region's economy in the red territory of the business cycle in the six months from now. However, when assessing the Europe's long term prospects, the number of optimists increases, as 10 professors expect the economy to enter the expansion phase in three-year time.

The overwhelming majority of academia experts believe the American economy is on a stable footing and continues to expand further. This sentiment also echoes in the recent economic data. The robust growth will persist in the coming three years, according to professors who participated in the poll.

Asia-Pacific economy is seen outperforming the American one, as three professors believe the economy will reach the business peak in the foreseeable future. The region's economy is expected to continue moving up along the business cycle curve in the long run.

## 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 <b>↑(0.05)</b>	0.43 <b>↑(0.05)</b>	0.78 <b>↑(0.11)</b>	0.63 <b>→(0.00)</b>
Mode	0.75	0.50	0.75	0.75
Standard Deviation	0.25 <b>→(0.00)</b>	0.18 <b>↓(0.01)</b>	0.23 <b>→(0.00)</b>	0.21 <b>↓(0.02)</b>

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

Dukascopy short term economic sentiment index for Europe rebounded in December from the lowest level in 19 months at 0.35 hit in October. Nevertheless, 36% of professors assess the economic situation in the region as negative, while half of those surveyed believe that the economy is balanced.

As to the North America, the overwhelming majority of professors who took part in the December poll share a positive outlook for the region's economy, which is also supported by recent strong fundamentals. The US economy will continue to stay at a firm footing, which will also be beneficial for its trading partner Canada.

Meanwhile, in Asia-Pacific concerns over economic growth are mounting, with China, the world's second biggest economy, poised to slow further in 2015. 57% of academia experts share a positive outlook for the short-term economic developments, while 30% remain indecisive.

Overall, global sentiment index rebounded from the lowest level of 2014, namely, 0.56 it hit in November. The index soared to 0.61 in the reported month, largely due to an upbeat outlook for the North American economy and improved sentiment of the European economy.

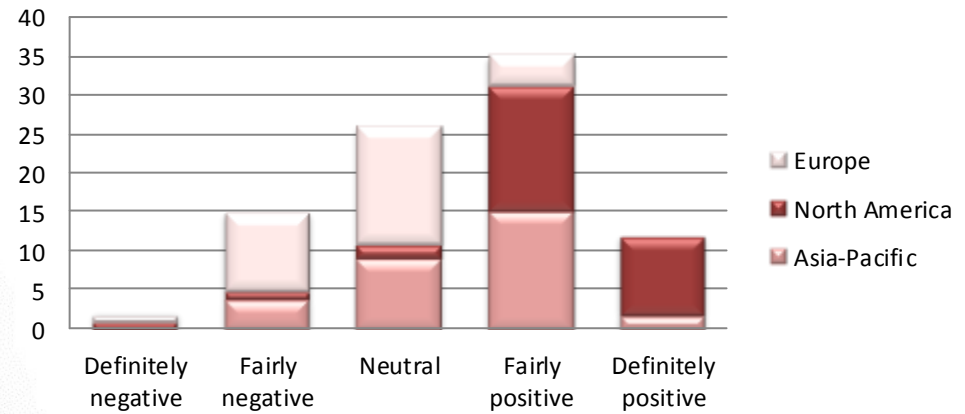


Figure 5: Six-month economic outlook

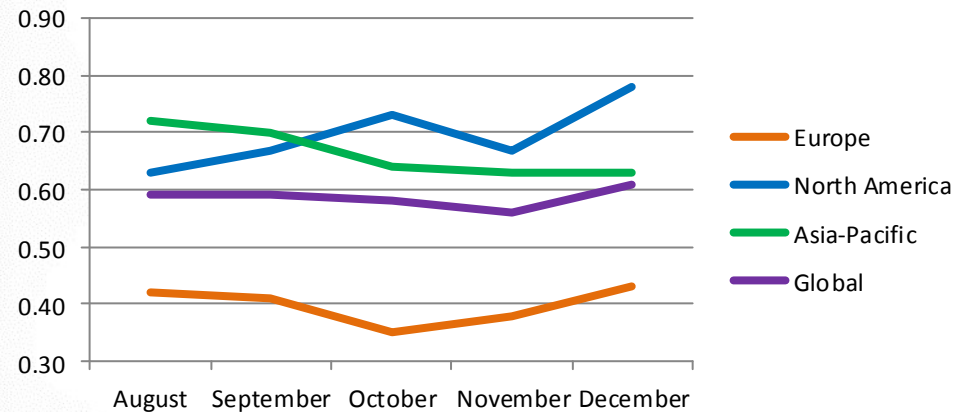


Figure 6: Six-month economic sentiment index



## 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 <b>↑(0.04)</b>	0.51 <b>↑(0.03)</b>	0.75 <b>↑(0.04)</b>	0.71 <b>↑(0.03)</b>
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.23 <b>↓(0.01)</b>	0.22 <b>↓(0.01)</b>	0.21 <b>↑(0.02)</b>	0.19 <b>↓(0.06)</b>

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

Concerning the long term economic perspectives in Europe, professors were divided almost equally between “negative”, “balanced” and “positive” assessments. Three-year economic sentiment index recovered from one-year low reached in the preceding month at 0.48. In December the gauge came in at 0.51.

The number of people who share an optimistic outlook for the US and Canadian economies is constantly increasing. In December, the overwhelming majority of professors (84%) are positive, whereas 10% remain less optimistic.

According to the average outlook of professors, the Asia-Pacific economy is set to be outperformed by the North America economy in the long term. 70% of those surveyed expect the regions’ economy to grow at a sustainable pace in the coming three years.

Compared to the previous month, when the index stood at this year's low of 0.62, the global economic sentiment index edged up in December to 0.66., ending 2014 on a positive note.

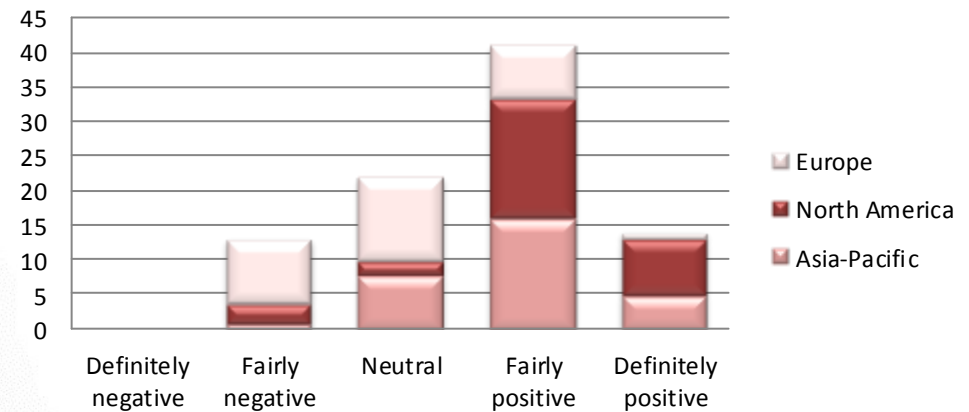


Figure 7: Three-year economic outlook

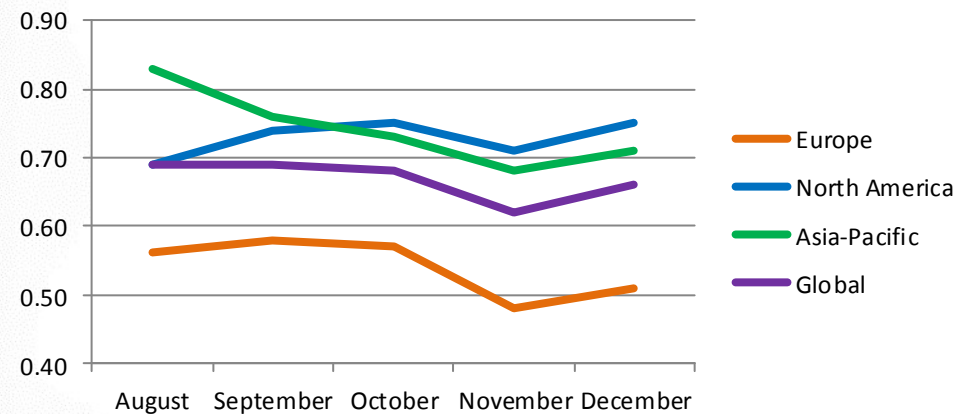


Figure 8: Three-year economic sentiment index

## 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	0.40	0.45	0.88	0.73	0.65	0.61
3-year economic outlook	0.48	0.53	0.80	0.73	0.70	0.71

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

Apparently, the never-ending streak of worse-than-expected economic data from the Euro zone member states seem weighing on local professors' sentiment more than on their colleagues from overseas. Even strengthening UK economy cannot blunt the negative effect the Euro zone fundamentals have on perception of the grim economic reality. The difference in both the six-month and three-year economic outlook was -0.05 in December.

In contrast, North America and Asian-Pacific academia experts are more optimistic over economic prospects of the regions they live in.

Discrepancy in views on the North American short term economic outlook rose to 0.15. The gap between local experts' outlook and their foreign colleagues' forecasts for economic development in three years from now was 0.07.

When assessing economic prospects, professors from Asia-Pacific region appeared to be slightly more reserved than Americans. The difference in short run economic outlook reached 0.04, while foreign experts' long term outlook was more upbeat.

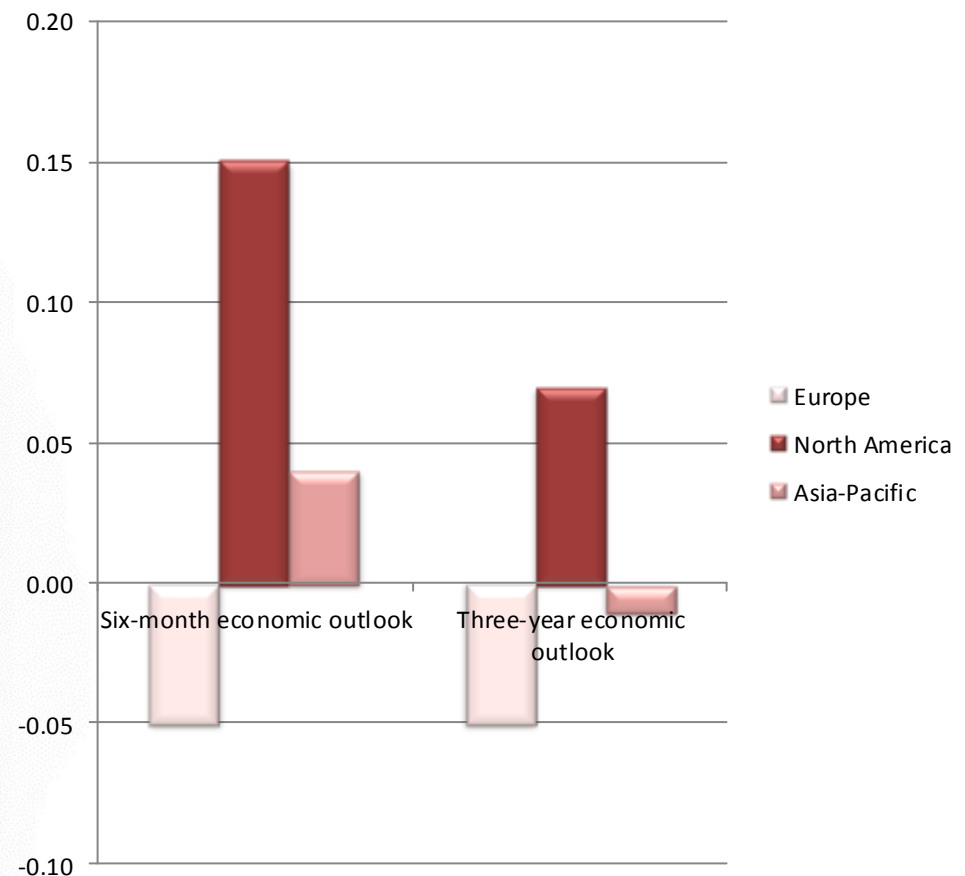


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (\*1)



## 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 December's poll:

University of Pittsburgh, Loyola University Chicago, Texas Christian University, Shippensburg University of Pennsylvania, West Virginia University, University of Toronto, Tulane University, University of Texas at Arlington, MacEwan University, ESSEC Business School, University of Parma, University of Messina, IBA International Business Academy, University of Limerick, Maynooth University, University of Cagliari, National University of Ireland Maynooth, Private College of Economic Studies in Znojmo, University of Lorraine, Paris Dauphine University, Friedrich Schiller University Jena, Second University of Naples, Institute of Developing Economies, Universiti Sains Malaysia, University of Dubai, Bond University, Al Ghurair University, Xiamen University





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