



**DUKASCOPY**  
RESEARCH PRODUCTS

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# **Dukascopy Bank Sentiment Index**

## Summary

- The beginning of a new year was marked by unexpected decisions and moves from major central banks all around the world, which were triggered by the latest economic data and developments in global financial markets. However, the impact of the unexpected rhetoric of some central banks on short-term and long-term economic sentiment appeared to be limited. Both six-month and three-year global economic sentiment indexes were unchanged in January from the previous month, remaining in the green territory, which indicates improving conditions going forward.
- Europe's six-month economic sentiment index, which came in at 0.41 in the reported month, pointed to the fact that the number of pessimists outweighed optimists. Thus, in the coming months, recovery in the regions was questioned. However, as ECB decided to deploy full-blow QE programme, the decision might help push the index higher. Experts expected slightly brighter long-term economic prospects, as the corresponding index climbed to 0.52. Yet, professors were likely to remain concerned about the European economic future, as the index hovered just slightly above the 50-mark threshold, which separates pessimism from optimism.
- Apparently concerns over low inflation worldwide, including the world's number one economy, as well as plunging oil prices, which affected Canada's economy, weighed on professors' economic forecasts. Both short and long run sentiment indexes ticked slightly lower in January, but firmly remained in a positive area.
- Asia-Pacific six-month and three-year economic sentiment indexes rebounded in January after four consecutive declines in the previous months. Economic growth in the region remained patchy, with China's economy, the world's second biggest, slowing, while still expanding at a solid pace, compared to other countries









Parameter/ Region	Global	Europe	North America	Asia- Pacific
Six-month economic outlook	 0.61 →(0.00)	 0.41 ↓(0.02)	 0.77 ↓(0.01)	 0.66 ↑(0.03)
Three-year economic outlook	 0.66 →(0.00)	 0.52 ↑(0.01)	 0.73 ↓(0.02)	 0.74 ↑(0.03)

Figure 1: Mood indicator

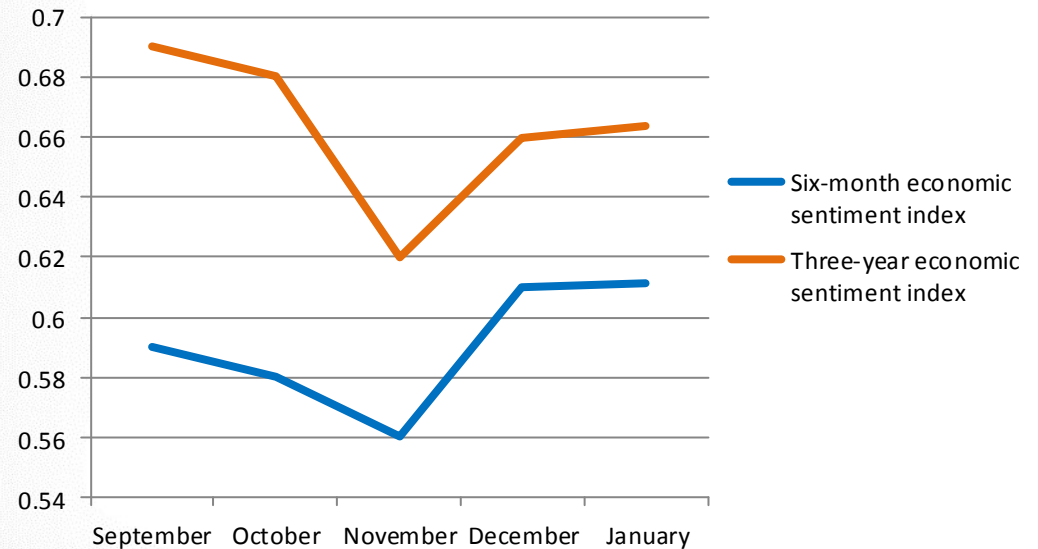


Figure 2: Global economic sentiment index



## Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.41 ↓(0.02)	0.60%	0.77 ↓(0.01)	2.60%	0.66 ↑(0.03)	3.40%
3-year economic outlook	0.52 ↑(0.01)	0.93%	0.73 ↓(0.02)	2.53%	0.74 ↑(0.03)	3.70%

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 slid into a dangerous deflationary spiral, which could negatively affect the overall growth, and the UK economy's growth decelerated in the recent months, the region's economy is predicted to grow at 0.60% pace in the first two quarters of 2015. Afterwards, professors expect the economic output to expand by an annual 0.93% rate.

The composite growth on the US and Canada is seen at 2.60%, which is the highest rate since records began in March 2012. However, going forward, expansion of economic output may start to slow somewhat to a 2.53% rate, which still remains the highest since January 2014.

Asia-Pacific's economy is seen growing at 3.40% in the coming months, while in the long run the growth might accelerate to 3.70%, according to professors' predictions made in January. This comes in light of the Chinese officials accepting 'a new normal' levels of growth in the world's second biggest economy, Japan's policy makers struggling to keep their promise to revive the economy, while Pacific countries are being hit by plunging commodities prices and decelerating growth in China.

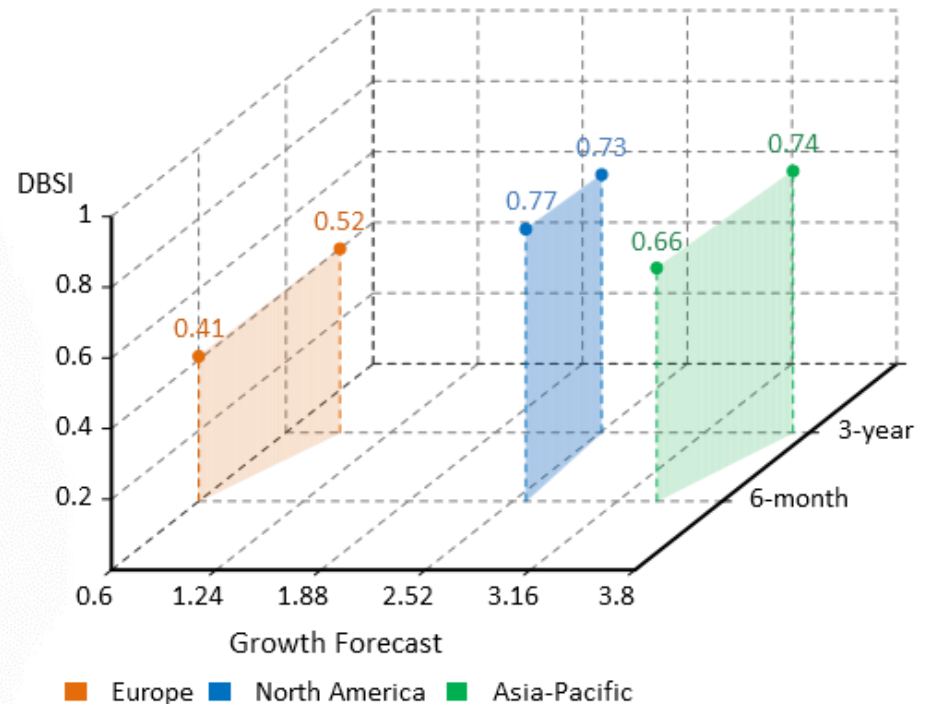


Figure 3: Global economic outlook (term structure)

## 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	12	7	2	4	2	3
Recessionary Trough	12	9	0	1	4	2
Expansion	6	14	27	22	24	21
Business Peak	0	0	1	3	0	4

### Real GDP

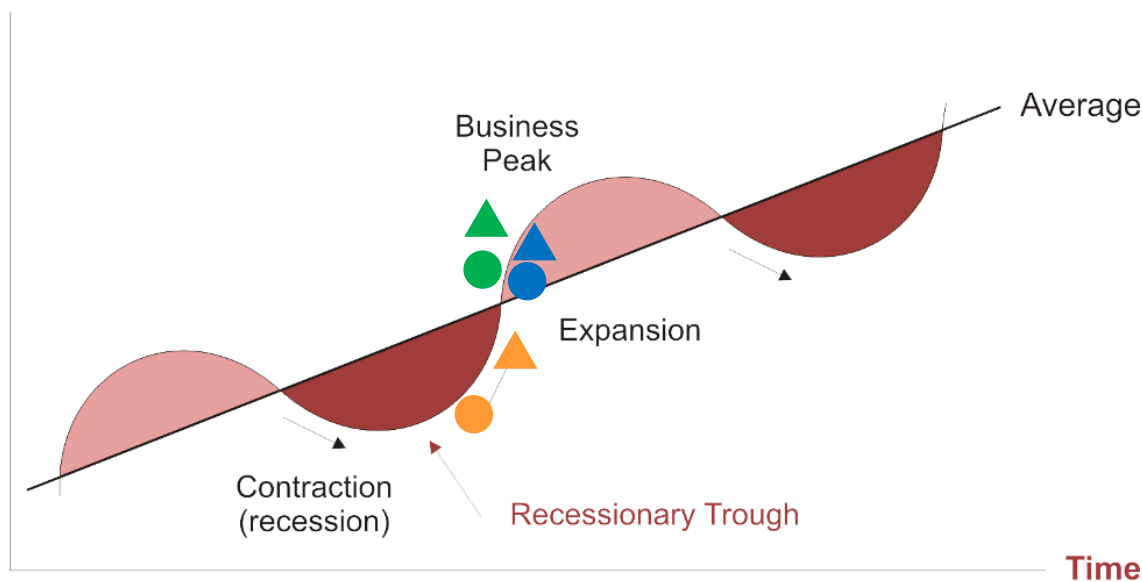


Figure 4: Business cycle

- 6-month EDS
- ▲ 3-year EDS

While Europe is battling tepid growth and cooling inflation, professors expected that the economy would remain in the red territory of the business cycle, and only six experts predict expansion in the first half of the year. In three years, however, economists expect the economy to rebound, as their economic outlook for 2018 brightened.

The overwhelming majority of respondents see the American economy on the firmer footing in the first two quarters, while in the long term the growth engine is expected to lose some steam.

Asia-Pacific economy was predicted to perform strongly in the beginning of 2015, as 24 economists see the economy in the expansion phase. By 2018, the economy is seen paving the way towards the business peak, according to four experts. Thus, solid growth is expected in the region in the coming three years.

## 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 →(0.00)	0.41 ↓(0.02)	0.77 ↓(0.01)	0.66 ↑(0.03)
Mode	0.75	0.50	0.75	0.75
Standard Deviation	0.23 ↓(0.02)	0.20 ↑(0.02)	0.16 ↓(0.07)	0.18 ↓(0.03)

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

While short-term indexes, measuring economic prospects in Europe and North America, dropped slightly in January, increase in Asia-Pacific index compensated for the declines. As a result, the composite index remained unchanged from December.

The number of pessimists continued to outweigh optimists when assessing short-term performance of the European economy, as the index held below the 0.50 mark threshold for the sixth month in a row. The clouded outlook was also reinforced by political instability in the region, given the ongoing crisis in Ukraine and tensions with Russia, anti-austerity Syriza's victory in the Greek election, as well as poor fundamentals, which showed the 19-nation currency bloc slid into deflation.

While the US is set to become world's growth engine and Canada's growth will also accelerate, as the economy is dependent on its neighbour, the economic sentiment index pointed to solid economic growth in the coming months.

Leading economies in Asia-Pacific region, while still growing, are prone to slowdown, triggered by falling commodities prices and decelerating global economic growth. Nevertheless, experts remained optimistic on economic prospects, despite index falling from 0.70s seen in the middle of last year.

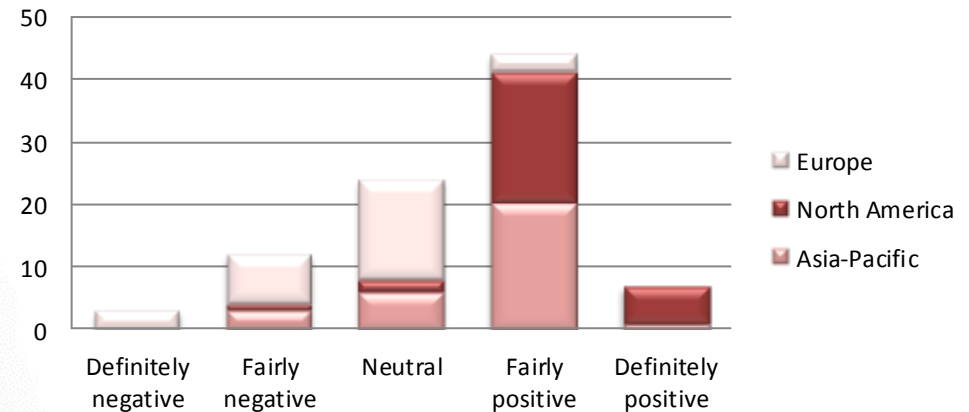


Figure 5: Six-month economic outlook

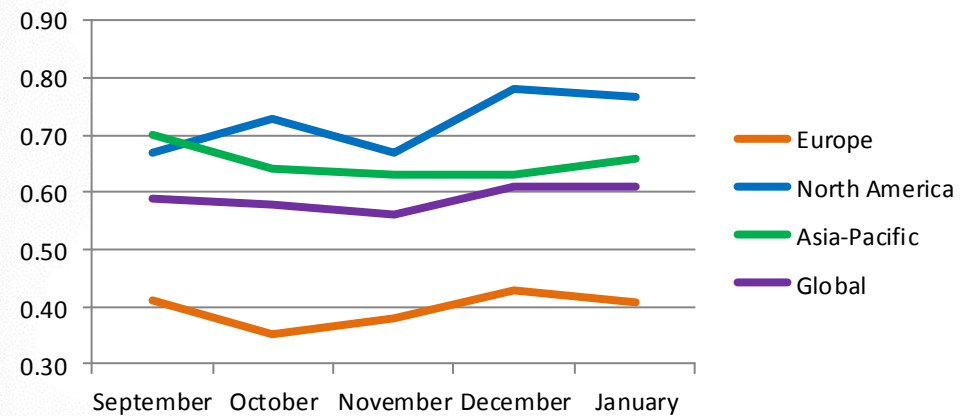


Figure 6: Six-month economic sentiment index



## 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 →(0.00)	0.52 ↑(0.01)	0.73 ↓(0.02)	0.74 ↑(0.03)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.22 ↓(0.01)	0.23 ↑(0.01)	0.18 ↓(0.03)	0.12 ↓(0.02)

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

The three-year global economic sentiment index remained unchanged in January from the previous month at 0.66, as the global economy continued to experience two-speed economic growth, with headwinds outweighing tailwinds.

Professors' confidence in Europe's economy continued to rebound in January, after the sharp decline in November last year, when the corresponding index fell to 0.48, the lowest level in more than a year. While economic outlook brightened, experts still remained concerned about growth prospects, as confidence remained weak early this year.

The index, measuring economic confidence in the North American economy over the course of the next three years, ticked lower in January, but remained at elevated levels. The large majority of those surveyed (77%) shared a positive outlook for the region's economy, expecting the economy to grow at a sustainable pace, reaching full capacity in the long run.

Asia-Pacific region saw its long-term sentiment index improving in the beginning of the first quarter, as 84% of those who took part in the January Dukascopy Sentiment Index poll shared a positive outlook for the economy.

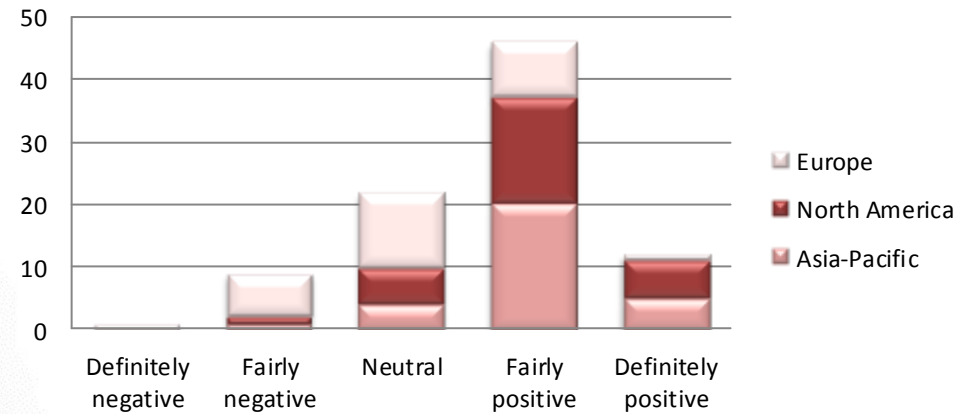


Figure 7: Three-year economic outlook

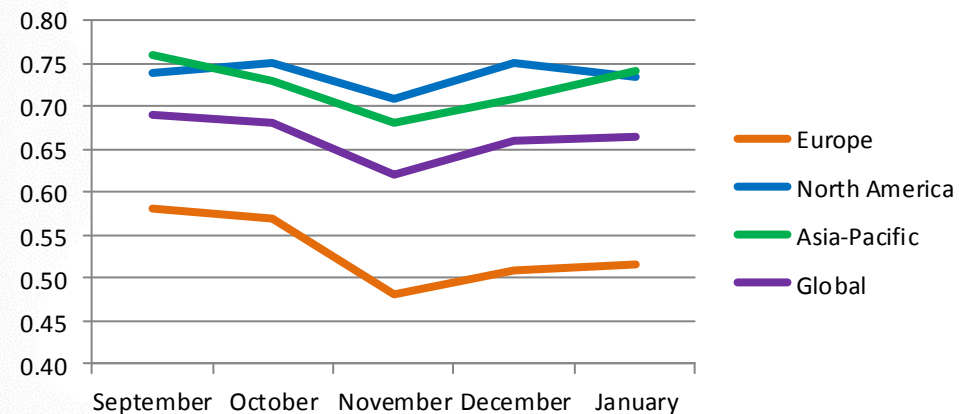


Figure 8: Three-year economic sentiment index

## 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	0.48	0.38	0.80	0.75	0.70	0.64
3-year economic outlook	0.58	0.49	0.78	0.71	0.78	0.73

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

Surprisingly, in the beginning of the year professors from the three regions appeared to be more optimistic when assessing economic growth prospects of their regions than their foreign colleagues.

In Europe, experts believed the upcoming six months will bring some positive economic data. Professors from North America and Asia-Pacific, however, were more cautious concerning the short-term economic performance of the region, especially in light of the recent fundamentals, national central banks and the ECB's decisions, as well as political instability and upcoming general elections in the UK, Portugal and Spain later this year. European residents are also more optimistic on the three-year economic outlook than foreigners. Also, gap in views on the European economic forecasts is greater compared with other regions.

In the North America, the situation is the same, as local experts were in the firmer belief that the local economy would continue growing at a rapid pace both in the short and long term.

Asia-Pacific economists also saw a greater potential of the economic growth in the region, whereas foreign experts were less confident about the Asian-Pacific economy.

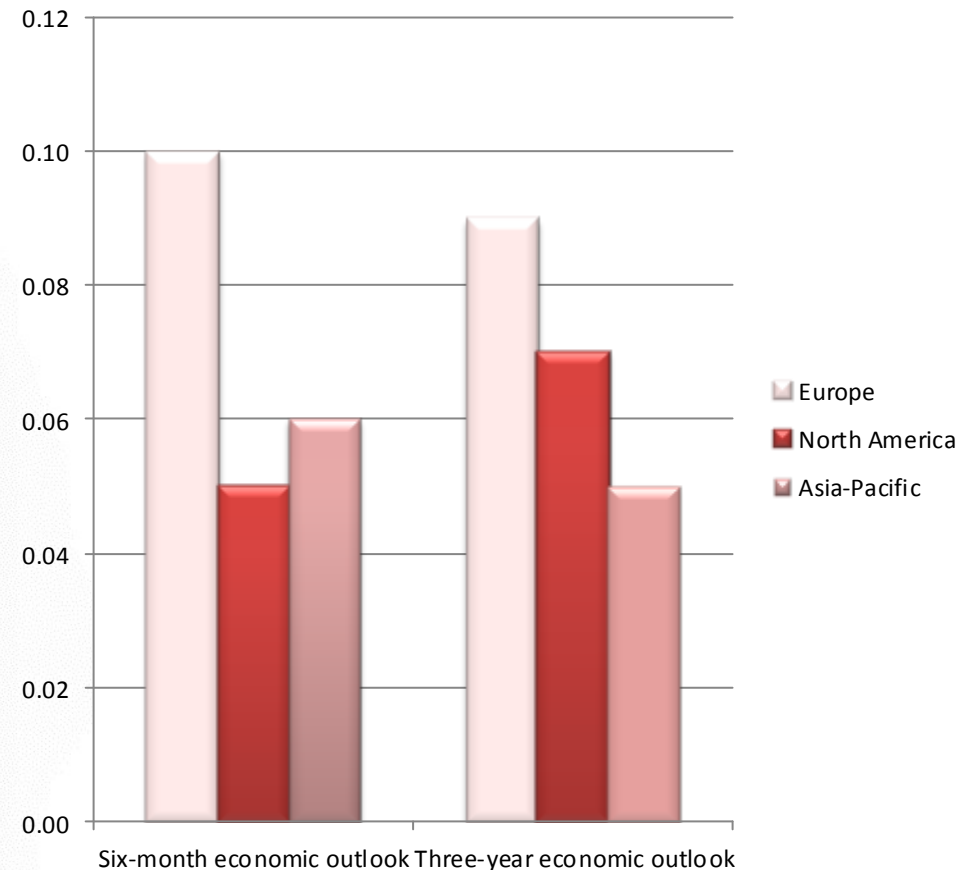


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (\*1)



## 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 January's poll:

Pepperdine University, University of Tennessee, Michigan State University, Carnegie Mellon University, University of Alberta, Coastal Carolina University, American University, Tennessee Technological University, University of Tennessee, University of Cincinnati, University of Leeds, Philipp University of Marburg, University of Cagliari, University of Padua, University of Padova, University of Bologna, University of Modena and Reggio Emilia, Sapienza University of Rome, Marche Polytechnic University, University of Bologna, Ulster University, University of Pisa, Universiti Sains Malaysia, Hebrew University of Jerusalem, Birla Institute of Management & Technology, Goa Institute of Management, La Trobe University, Goa Institute of Management





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