



**DUKASCOPY**  
RESEARCH PRODUCTS

April release



# **Dukascopy Bank Sentiment Index**

## Summary

- All but one region faced a decline of professors' sentiment in April due to intense headwinds blowing in every part of the world. Yet, Europe appeared to be a bright spot, as its short-term economic outlook improved in the reported month, despite political and economic turmoil on the continent and British Isles. The North America was the biggest downside contributor to the global economic outlook, as the region saw the biggest deterioration in economic forecasts, as both six-month and three-year economic sentiment indexes fell dramatically.
- While in the UK growth has been supported by the services and manufacturing sectors, as well as robust consumer spending, in the Euro zone there were signs that a recently launched QE programme supported the Euro area's economic recovery. Yet, political uncertainty continues to weigh on region's leaders. Hence, short-term economic sentiment inched up last month, albeit to a limited extent. Long-term outlook, however, slightly worsened, according to academia experts' view.
- The recent data from the world's number one economy questions a possibility of the monetary policy normalization, which is considered to be a sign of sturdy economic performance. Meanwhile, in Canada the negative impact of lower oil prices on the nation's economy has yet to fade away, while the January rate cut has begun to help put the nation's economy back on track. The uneven economic performance of the region forced to trim professors' economic projections both for the upcoming six-month period and for the next three years.
- In the Asia-Pacific region worries are mounting over the Chinese economy, which saw the slowest quarterly growth pace in six years. In Japan, the world's third biggest economy, officials delayed the timing of hitting the price target. Consequently, professors' economic sentiment deteriorated in April compared to the previous month.







Parameter/ Region	Global	Europe	North America	Asia- Pacific
Six-month economic outlook	 0.61 ↓(0.02)	 0.52 ↑(0.03)	 0.68 ↓(0.06)	 0.65 ↓(0.02)
Three-year economic outlook	 0.66 ↓(0.05)	 0.58 ↓(0.01)	 0.69 ↓(0.09)	 0.71 ↓(0.05)

Figure 1: Mood indicator

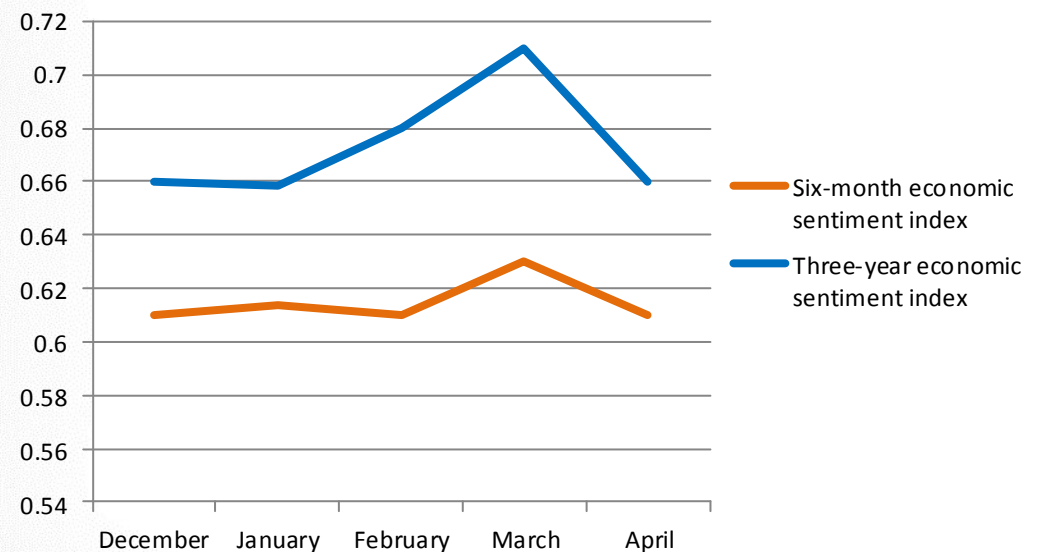


Figure 2: Global economic sentiment index

## Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.52 <b>↑(0.03)</b>	0.73%	0.68 <b>↓(0.06)</b>	1.97%	0.65 <b>↓(0.02)</b>	2.90%
3-year economic outlook	0.58 <b>↓(0.01)</b>	1.20%	0.69 <b>↓(0.09)</b>	2.03%	0.71 <b>↓(0.05)</b>	3.40%

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.

Mario Draghi, ECB President, admitted that there was an evidence that a recently launched quantitative easing programme supported the Euro zone economic recovery. Meanwhile, in the UK growth has been supported by the services sector, which accounts for 78% of the nation's GDP, as well as robust consumer spending, and the manufacturing sector. As a result, professors saw the upward trend to continue in the region, with aggregate economic output growing 0.73% in the coming six months, accelerating to 1.20% in three years from now.

In North America, growth is expected to slow slightly. The US central bank has been divided into two parts, with some policy makers insisting on lift-off in the federal funds rate already in June, while others believe the Fed should keep rates near zero until the second half of next year due to recent soft data. Canada, meanwhile, has started to recover after a devastating effect of plunging oil prices. Thus, professors trimmed their short and long-term economic growth forecasts.

Academia experts also revised downwards their outlook for the Asia Pacific's economic growth amid growing concerns over China's economy, and Japan's ability to reach inflation target, as well as Australia's recent soft fundamentals.

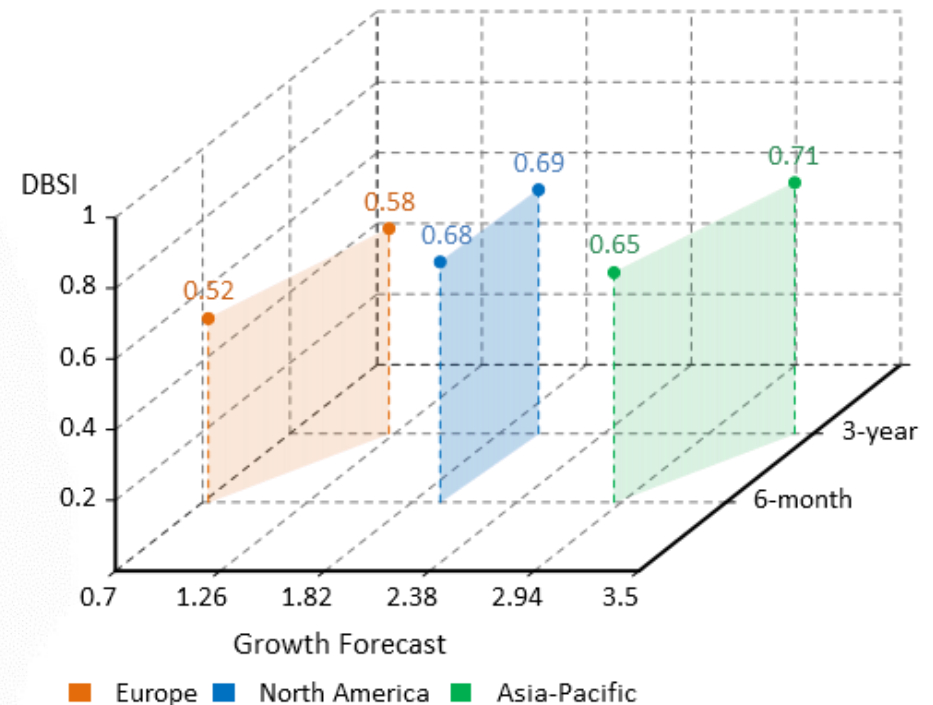


Figure 3: Global economic outlook (term structure)

## 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	5	5	4	3	2
Recessionary Trough	8	1	3	7	7	7
Expansion	14	18	19	17	18	17
Business Peak	1	6	3	2	2	4

### Real GDP

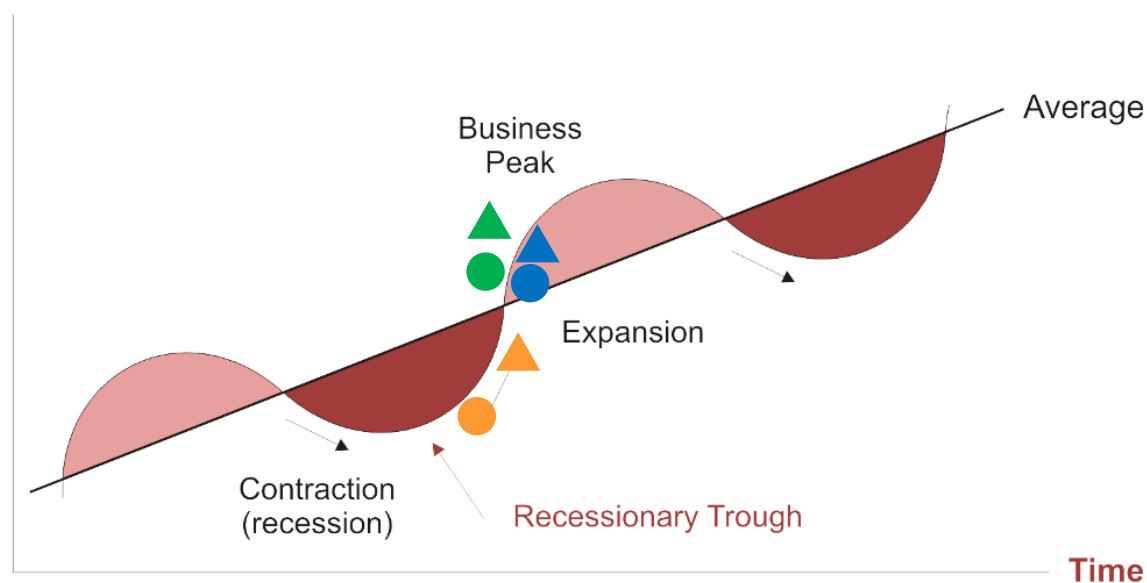


Figure 4: Business cycle

- 6-month EDS
- ▲ 3-year EDS

Despite the brightening outlook for the European economy, there were a number of experts who remained pessimistic about economic prospects. Yet, more and more professors saw the region's economy recovering and moving towards expansion, compared to the previous month data.

In contrast, professors scaled back expectations for the North American economic performance in the foreseeable future. While seven experts expected the economy to reach business peak by 2018 in the March survey, there were just two professors who predicted that in April.

Professors also were increasingly concerned about growth prospects in the Asian-Pacific region, compared with the previous month findings. The number of those who saw the economy reaching its full capacity by 2018 declined to four, down from seven in March.

## Six-month economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.61 ↓(0.02)	0.52 ↑(0.03)	0.68 ↓(0.06)	0.65 ↓(0.02)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.22 ↓(0.01)	0.23 ↑(0.01)	0.20 ↓(0.04)	0.20 ↓(0.01)

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

Europe appeared to be the only region, which saw an increase in the sentiment index in April. The gauge broke through the key 0.50-mark threshold, rising from 0.49 in the preceding month to 0.52 in April. Evidently, ECB President Mario Draghi's statement that QE programme started to bring a desired impact on the Euro zone's economy, as well as a sturdy economic performance in Britain led professors to revise their economic outlook to the upside in April.

The North America, on the contrary, saw the biggest decline in the headline index in the reported month. The measure slid by 0.06 points to 0.68 in April, breaking below the 0.70 level for the first time since December last year. Soft data out of the US has been mounting, which will have an impact on Canada's economy as well, as the US is the country's main trading partner.

In the Asia-Pacific region worries are mounting over the Chinese economy, which saw the slowest quarterly growth pace in six years. In Japan, the world's third biggest economy, officials delayed the timing of hitting the price target. Consequently, professors' economic sentiment deteriorated in April, compared to the previous month. The short-term sentiment index fell by 0.02 points to 0.65 in April.

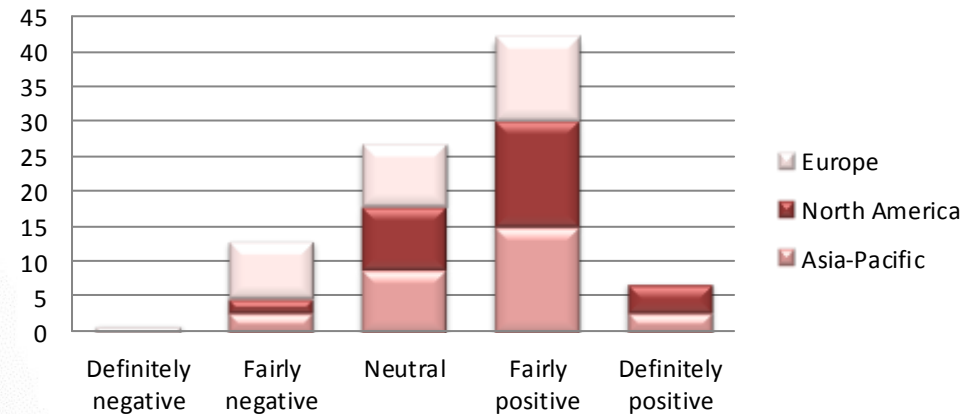


Figure 5: Six-month economic outlook

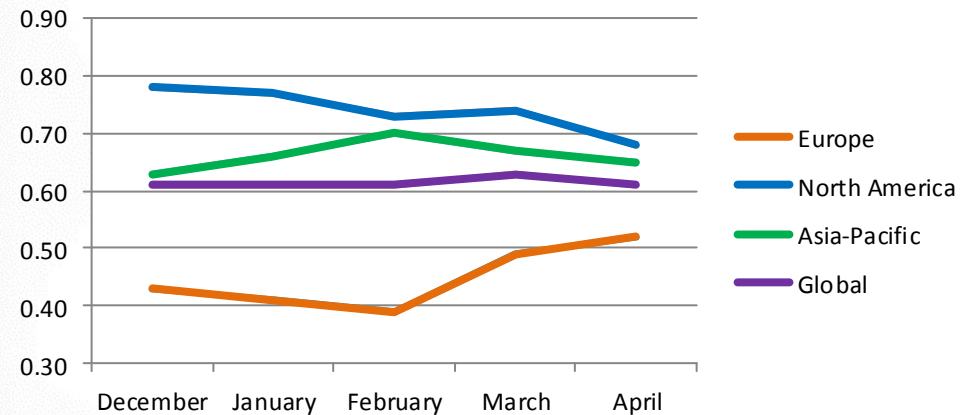


Figure 6: Six-month economic sentiment index

## 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 ↓(0.05)	0.58 ↓(0.01)	0.69 ↓(0.09)	0.71 ↓(0.04)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.22 ↓(0.01)	0.22 ↑(0.02)	0.18 ↓(0.02)	0.25 ↑(0.02)

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

While the short-term economic sentiment index for Europe surprised to the upside, the three-year sentiment index ticked lower in April. The gauge retreated to 0.58, down from 0.59 a month earlier.

The three-year economic sentiment index for the North America declined to the lowest level since August last year. However, the reading stayed comfortably above the 0.50-mark threshold, which shows optimists outnumber pessimists.

Asia-Pacific's three-year economic sentiment index also dropped in the reported month. The last time the index stood at 0.71 was in December last year.

As a result, drops in all regions' long term indexes led to a 0.05 point decrease in the global three-year economic sentiment index.

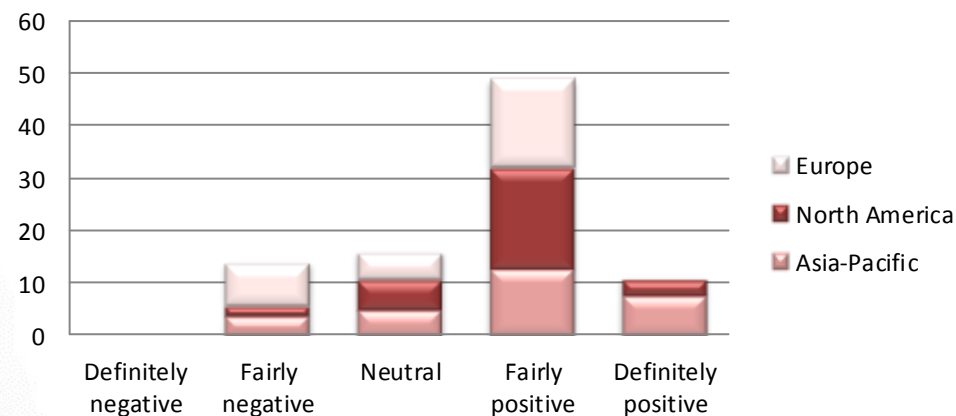


Figure 7: Three-year economic outlook

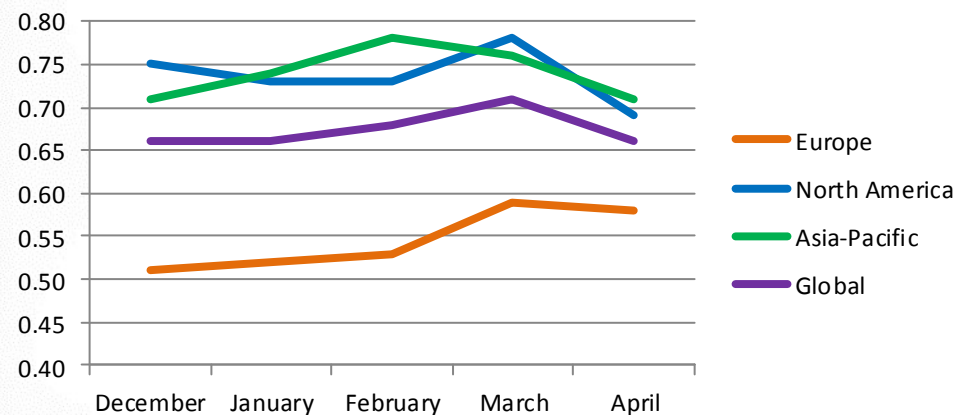


Figure 8: Three-year economic sentiment index

## 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	0.68	0.44	0.65	0.69	0.70	0.63
3-year economic outlook	0.68	0.53	0.68	0.70	0.65	0.74

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

The European Central Bank’s massive stimulus measures worth 60 billion euros a month seemed to have a positive effect on local professors’ mood. While Europeans were optimistic about the region’s economic prospects, their colleagues from overseas were not persuaded that the region’s economy was set to turn the corner.

On the contrary, foreign experts were slightly more optimistic about the North American economic future than Americans. While there was a minor disagreement on the region’s long-term economic prospects, discrepancy in views on the six-month outlook was particularly wide. This came as no surprise, as even the US Fed has been divided into two parts, when assessing US economy’s health. This divergence in opinions makes it difficult for Fed Chair Janet Yellen to navigate the monetary policy in the world's number one economy.

In Asia-Pacific, local professors appeared to be more upbeat than their colleagues from overseas, when assessing short-term prospects. However, foreigners shared a considerably brighter three-year outlook for the region’s economy, compared to local experts.

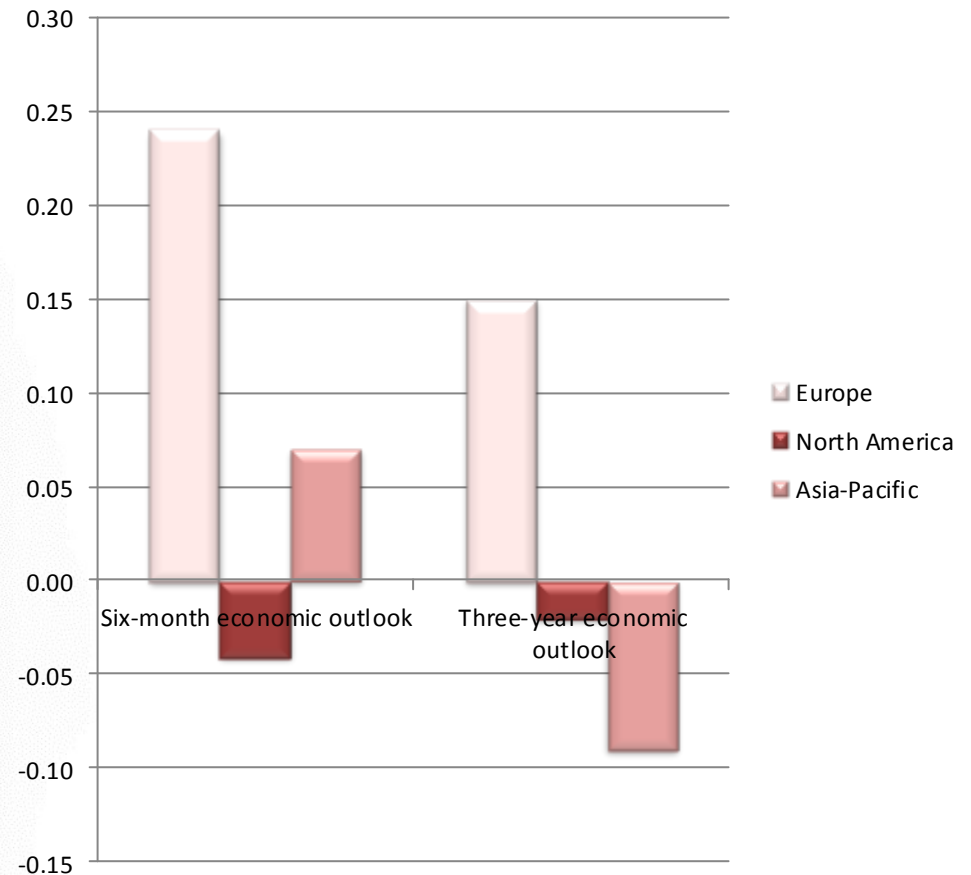


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (\*1)

## 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 April poll:

Nicholls State University, Ryerson University, MacEwan University, DePaul University, Université libre de Bruxelles, University of Portsmouth California State Polytechnic University, Pomona University of Wisconsin–Milwaukee, Aarhus University, Imperial College London, University of Applied Sciences and Arts of Southern Switzerland, University of Neuchâtel, University of Economics, Prague, Riga International School of Economics and Business Administration, University of Basilicata University of Palermo, University of Padua, University of Florence, Dakota State University, Indian Institute of Management Bangalore, Institute of Business Administration, Karachi, University of Hong Kong, Universiti Sains Malaysia, Lingnan University, Hong Kong Polytechnic University, University of Calcutta, Narsee Monjee Institute of Management Studies, Hong Kong Shue Yan University, Visva-Bharati University.





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