



DUKASCOPY
RESEARCH PRODUCTS

May release



Dukascopy Bank Sentiment Index

Summary

- As summer was approaching, professors' sentiment brightened in May. Europe remained a dark spot, as academia experts lost some confidence in the region's short-term economic performance. Nevertheless, a slight retreat in Europe's sentiment index was offset by a rise in the North American gauge and a sharp surge in Asia-Pacific's sentiment index. As a result, the global six month outlook edged higher by 0.04 points in May.
- Surprisingly, the global three-year economic outlook index soared by 0.13 points in May, with the major contributor to the increase being professors' optimistic outlook for Asia-Pacific's economy.
- As the Euro zone is being dragged down by the Greek debt crisis, professors' consensus expectations for the economic development in the foreseeable future deteriorated. Still, the experts foresee the region's economy to be out of woods.
- Both the short term and long-run economic sentiment index for the North-American economy rose a steady 0.03 in May, as the US, the world's number one economy, has been recovering following a weak start of the year, while the Canadian economy has been following its neighbour.
- The Asian-Pacific economy enjoyed a sharp increase in both the six-month and three-year economic sentiment index in May as Australia and Japan surprised with some positive economic growth data in the reported month, which appeared to contribute positively to the overall perception of the region's economic health.

Parameter/ Region	Global	Europe	North America	Asia- Pacific
Six-month economic outlook	 0.65 ↑(0.04)	 0.47 ↓(0.05)	 0.71 ↑(0.03)	 0.78 ↑(0.13)
Three-year economic outlook	 0.73 ↑(0.13)	 0.61 ↑(0.03)	 0.74 ↑(0.03)	 0.85 ↑(0.14)

Figure 1: Mood indicator

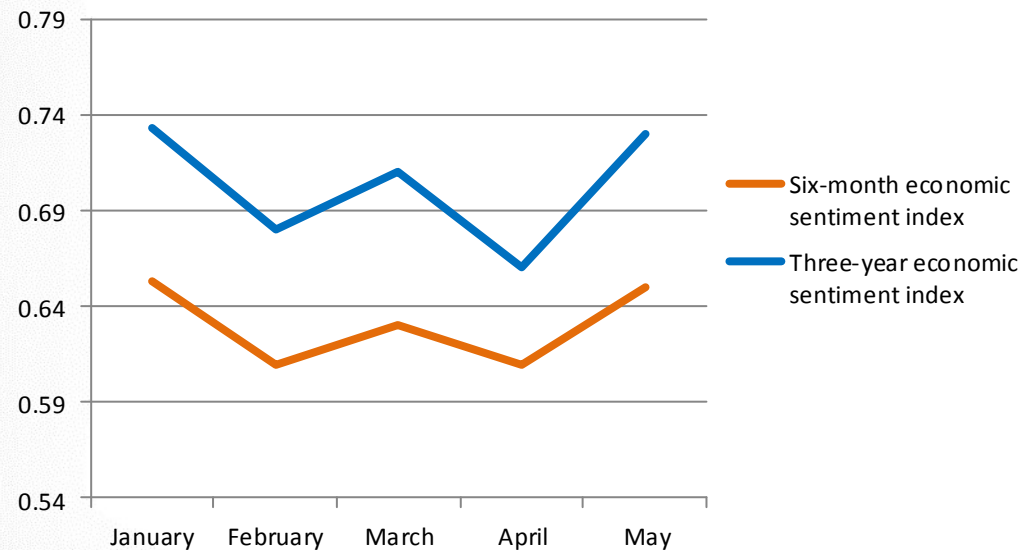


Figure 2: Global economic sentiment index

Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.47 ↓(0.05)	0.67%	0.71 ↑(0.03)	1.93%	0.78 ↑(0.13)	4.13%
3-year economic outlook	0.61 ↑(0.03)	1.40%	0.74 ↑(0.03)	2.33%	0.85 ↑(0.14)	4.27%

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 economic output rose 0.4% in the first quarter, faster than both the US and UK for the first time since the first quarter of 2011. Professors anticipated the overall European growth to accelerate to 0.67% in the upcoming two quarters, even though they remained cautious over short-term outlook. In the long-run, the region was expected to enjoy a healthy 1.40% growth rate.

Even though the North American economy stumbled in the first quarter due to harsh winter weather, the growth is likely to pick up in the upcoming months and reach a 1.93% pace, according to experts' view. Long term projection remained above 2% for nine months in a row in May.

Not only the Asian-Pacific region experienced a sharp increase in its short-term and long-term economic outlook indexes, but it also saw an upward revision of its growth rate. The economy is likely to grow by 4.13% in the foreseeable future and 4.27% in three years from now.

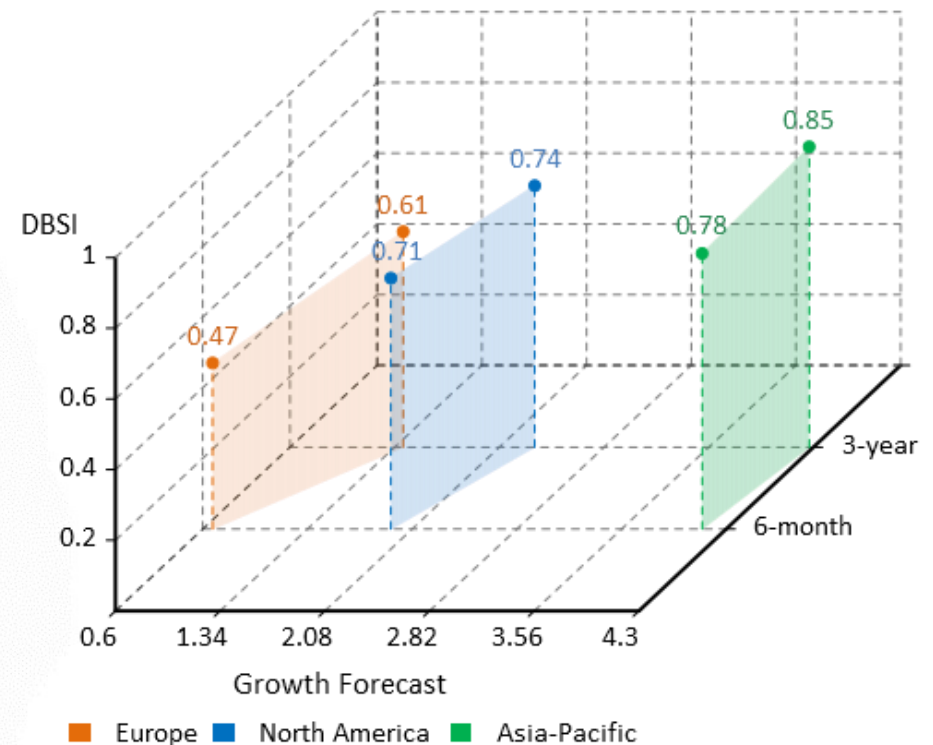


Figure 3: Global economic outlook (term structure)

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	4	0	2	0	1
Recessionary Trough	7	4	3	0	2	2
Expansion	16	22	26	24	26	22
Business Peak	0	0	1	4	2	5

Real GDP

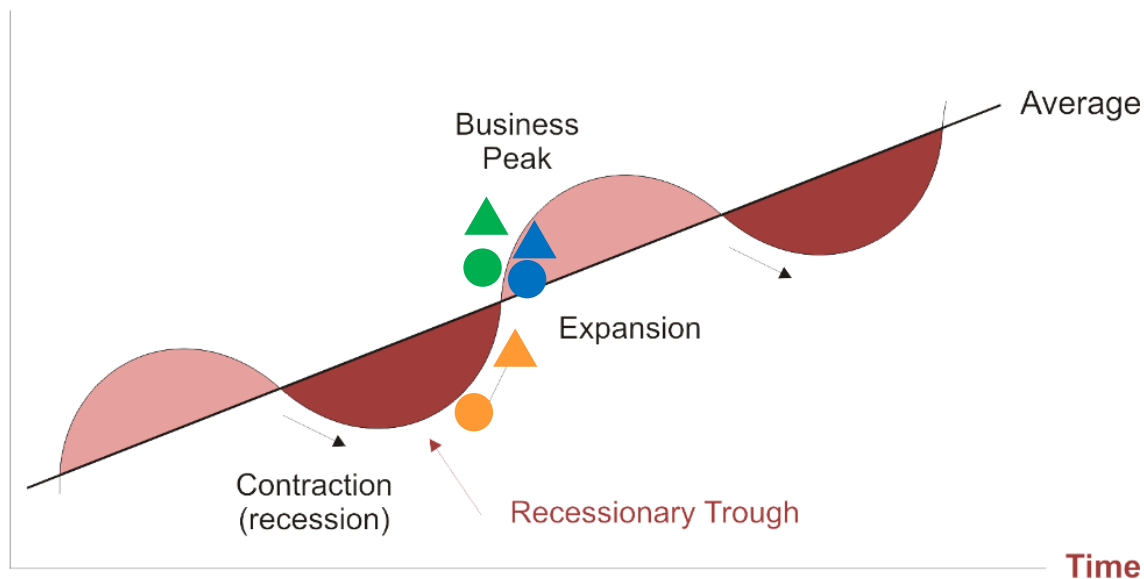
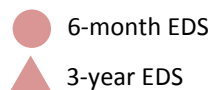


Figure 4: Business cycle



Professors remain divided as to where the European economy will stand on the business cycle curve in the short term. A slight majority expected the region to enter the expansion phase of development and remain there firmly in the coming three years.

The overwhelming majority strongly believed the American economy will be steadily expanding in the coming months. The economy is likely to gain momentum in three years from now, according to professors' view.

The Asian-Pacific economy was also seen on a firmer footing, as 87% of those surveyed said the economy would be in the expansion stage, gradually moving to the business peak in the long term.

Six-month economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.65 ↑(0.04)	0.47 ↓(0.05)	0.71 ↑(0.03)	0.78 ↑(0.13)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.23 ↑(0.01)	0.21 ↓(0.02)	0.17 ↓(0.03)	0.17 ↓(0.03)

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

While the standoff in resolving the Greek debt crisis continued to cause headache to European leaders, QE programme undertaken by the ECB fuelled optimism both among businesses and households in the Euro zone. As a result, Dukascopy short-term economic sentiment index slid slightly in May to 0.47 points.

In North America, where the US and Canada's economies finally turned the corner and started to recover after the dismal first quarter, the six-month sentiment index ticked up by 0.03 points to 0.71. Low inflationary pressures remain the main concern in the regions, with the corresponding indexes standing below the central banks' target levels.

Meanwhile, in Asia-Pacific, where Japanese officials grew confident in the Japanese economy's resilience and Australia posted a better-than-expected growth, the second-biggest economy continued to struggle. Nevertheless, Dukascopy six-month index soared by 0.13 points in May, hitting the highest level in more than two years. This increase contributed the most to the upside momentum of the short-term global index, which climbed 0.04 points to 0.65.

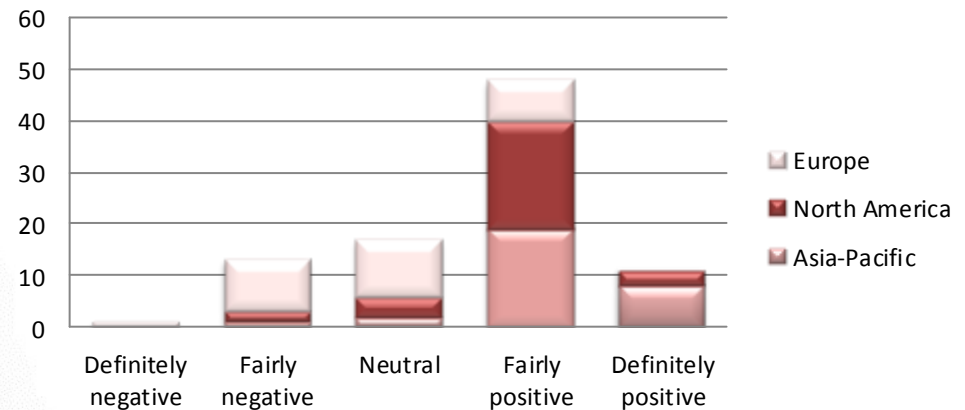


Figure 5: Six-month economic outlook

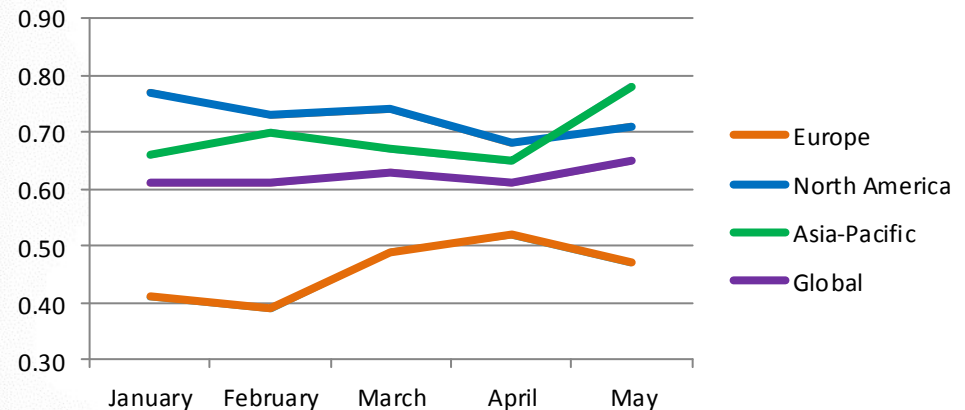


Figure 6: Six-month economic sentiment index

Three-year economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.73 ↑(0.13)	0.61 ↑(0.03)	0.74 ↑(0.03)	0.85 ↑(0.14)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.21 ↓(0.01)	0.22 ↑(0.02)	0.14 ↓(0.04)	0.19 ↓(0.06)

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

All indexes measuring professors' confidence in economies of regions under review rose in May. As a result, the aggregate global sentiment index surged by 0.07 points, reaching the highest level this year.

Europe enjoyed a modest increase in its three-year economic sentiment index, with the reading climbing timid 0.03 points. Nevertheless, the gauge marked the highest level since July last year.

Some 80% of those surveyed felt "fairly positive" about the American economy in three years from now, while as many as 10% gave a "definitely positive" evaluation. Therefore, North America's three-year economic sentiment index rose by 0.05 points to 0.74, the second highest this year.

Asia-Pacific was the one which enjoyed the fastest pace of its three-year economic sentiment index growth. The measure skyrocketed by 0.14 points, reaching 0.85, the highest level since June 2014. Majority of those surveyed (53%) evaluated the region's economy as "definitely positive" in May.

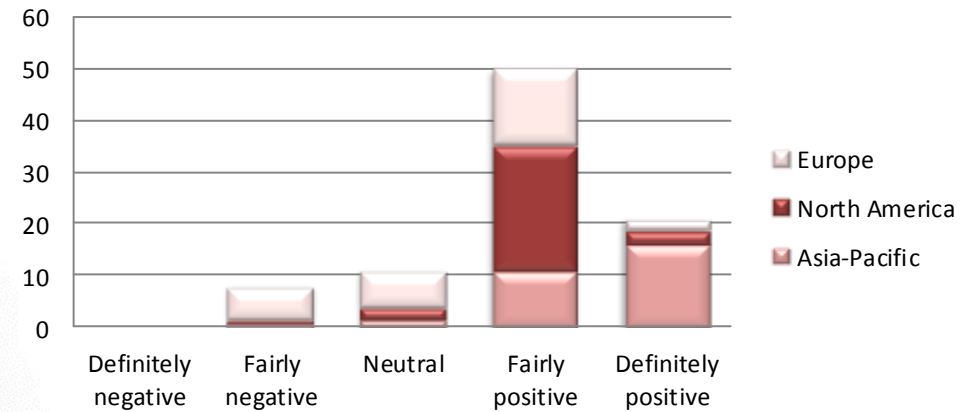


Figure 7: Three-year economic outlook

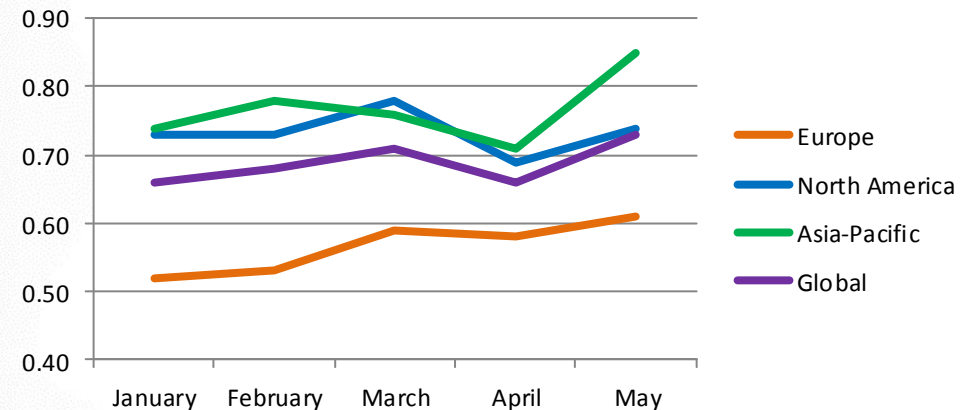


Figure 8: Three-year economic sentiment index

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	0.53	0.41	0.68	0.73	0.78	0.78
3-year economic outlook	0.63	0.59	0.78	0.73	0.85	0.84

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

The biggest discrepancy in views was seen among the European and foreign professors over Europe’s six-month economic outlook. Local professors felt much more upbeat than their colleagues from overseas, with the gap widening by 0.12 points. However, the discrepancy shrank to 0.04 points when academia experts assessed the region’s growth potential in the long run.

American economists felt less optimistic over economic growth prospects in the coming months compared to foreign experts. However, Americans were more confident in the long-term economic prospects.

With regards to Asia-Pacific’s economy, academia experts appeared to be unequivocal when assessing the economy’s stance in the short-run. The local professors felt slightly more optimistic over the three-year economic outlook.

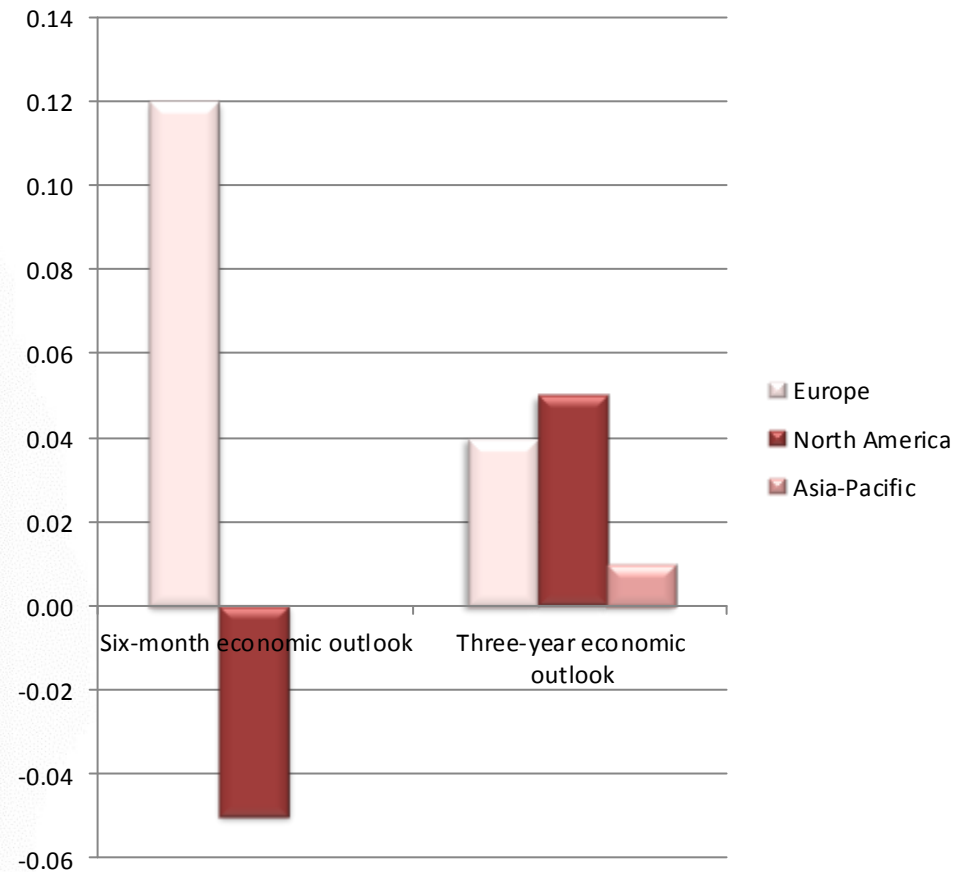


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (*1)

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 May poll:

Colorado State University, Nicholls State University, Ryerson University, MacEwan University, DePaul University, Vlerick Business School, University of Padova, University of Pardubice, University of Bologna, University of Economics, Prague Masaryk University, University College Dublin, University of Jyväskylä, Roskilde University, Imperial College London, University of St.Gallen, University of Portsmouth, Latvian Academy of Culture, Central University of Himachal Pradesh, Visva-Bharati University, University of New England, Universiti Malaysia Sarawak, University of Dubai, Skyline University College, University of Latvia



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