



DUKASCOPY
RESEARCH PRODUCTS

June release



Dukascopy Bank Sentiment Index

Summary

- Professors' confidence considerably deteriorated in June compared with the preceding month. While the global six-month economic sentiment index remained unchanged, the three-year outlook markedly worsened, led by a precipitous decline in the Asian-Pacific and European long-term sentiment indexes.
- Despite a breakdown in aid talks between Greece and its international creditors, the country's default on its loan repayment to the IMF and growing fears of Grexit, professors surprisingly remained calm. Europe's six-month economic sentiment index retreated just by 0.01 point, whereas its long-term gauge plunged to 0.53, down from 0.61 in May.
- The North America has finally started to recover after a wobbly start to the year. Consequently, professors felt much more optimistic about the region's economy and its performance in the short-run. However, their confidence appeared to be dispelled when they assessed the economy's long-term economic potential. The three-year economic sentiment index decreased by 0.08 points to 0.53, with the reading staying just slightly above the crucial 0.50 threshold.
- The Asian-Pacific economy appeared to be the worst performer in June. Its six-month economic sentiment index declined by 0.05 points in the reported month, while the long term index plummeted by 0.16 points to 0.69.





Parameter/ Region	Global	Europe	North America	Asia- Pacific
Six-month economic outlook	 0.65 →(0.00)	 0.46 ↓(0.01)	 0.76 ↑(0.05)	 0.73 ↓(0.05)
Three-year economic outlook	 0.65 ↓(0.08)	 0.53 ↓(0.08)	 0.73 ↓(0.01)	 0.69 ↓(0.16)

Figure 1: Mood indicator

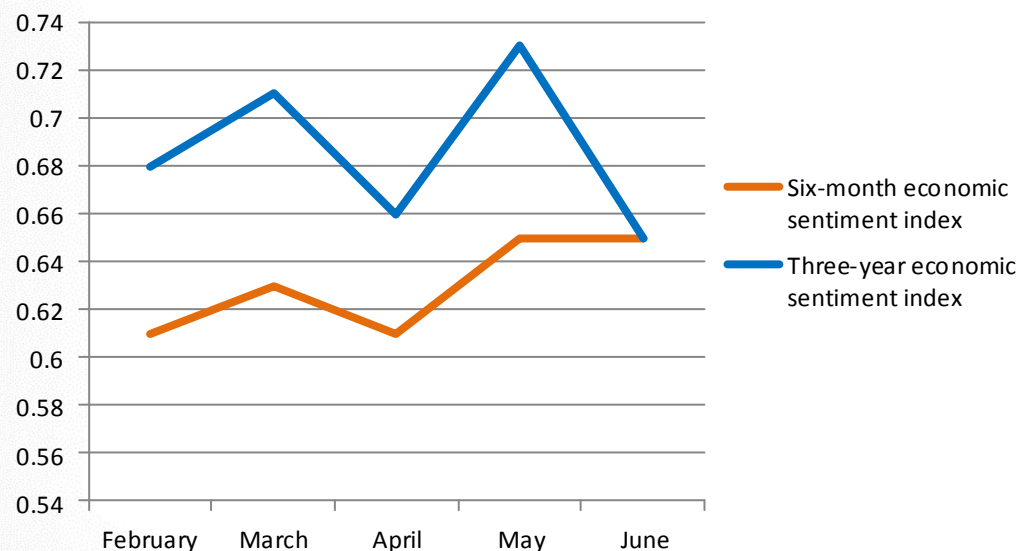


Figure 2: Global economic sentiment index

Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.46 ↓(0.01)	0.27%	0.76 ↑(0.05)	2.00%	0.73 ↓(0.05)	3.60%
3-year economic outlook	0.53 ↓(0.08)	0.67%	0.73 ↓(0.01)	2.27%	0.69 ↓(0.16)	3.57%

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 was expected to barely grow over the course of the next six months, the median forecast showed. Economic output was predicted to increase at a 0.27% pace in the foreseeable future. The expected long-term growth stood at 0.67% in June, marking the slowest pace of growth since December 2014.

As the North American economy has finally started to recover after economic doldrums at the beginning of 2015, the US and Canada's compound GDP was estimated to grow by 2.0% in the second half of the year. According to experts' expectations, the region's economy was likely to grow modestly in the long run.

As both the short and long term sentiment indexes for Asia-Pacific declined in June, so did the growth expectations. Academia experts revised downwards the six-month growth outlook from 4.13% in May to 3.60% in the reported month. The long-term growth forecast was also lower, compared to what professors had estimated in the previous month. In June, the region's economy was predicted to expand at a 3.57% pace, compared with a 3.60% rate predicted in May.

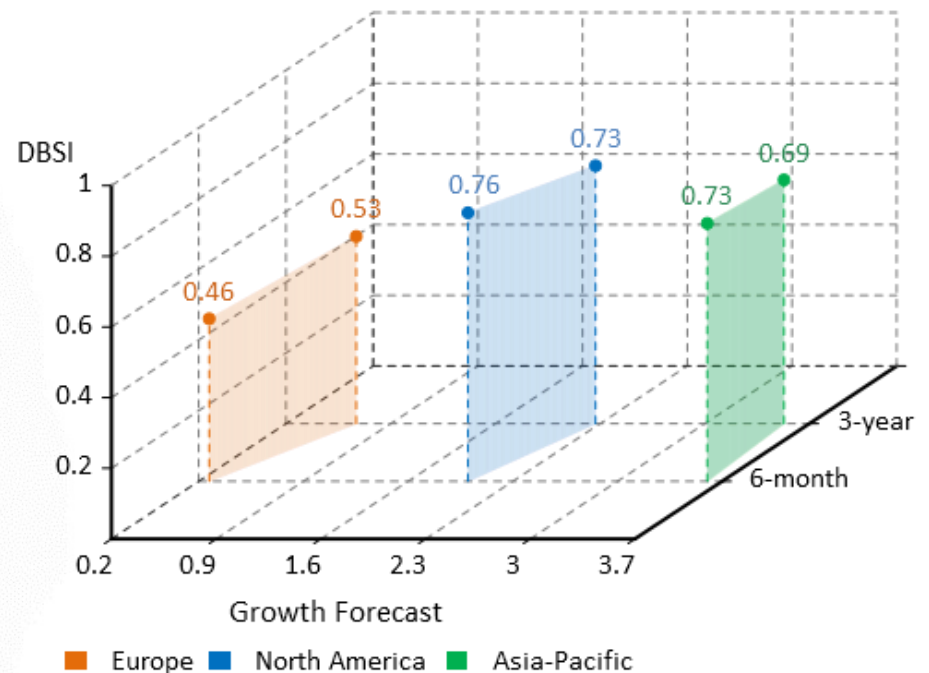


Figure 3: Global economic outlook (term structure)

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	9	0	1	6	5
Recessionary Trough	3	11	6	5	1	2
Expansion	10	9	22	23	21	19
Business Peak	5	1	2	1	2	4

Real GDP

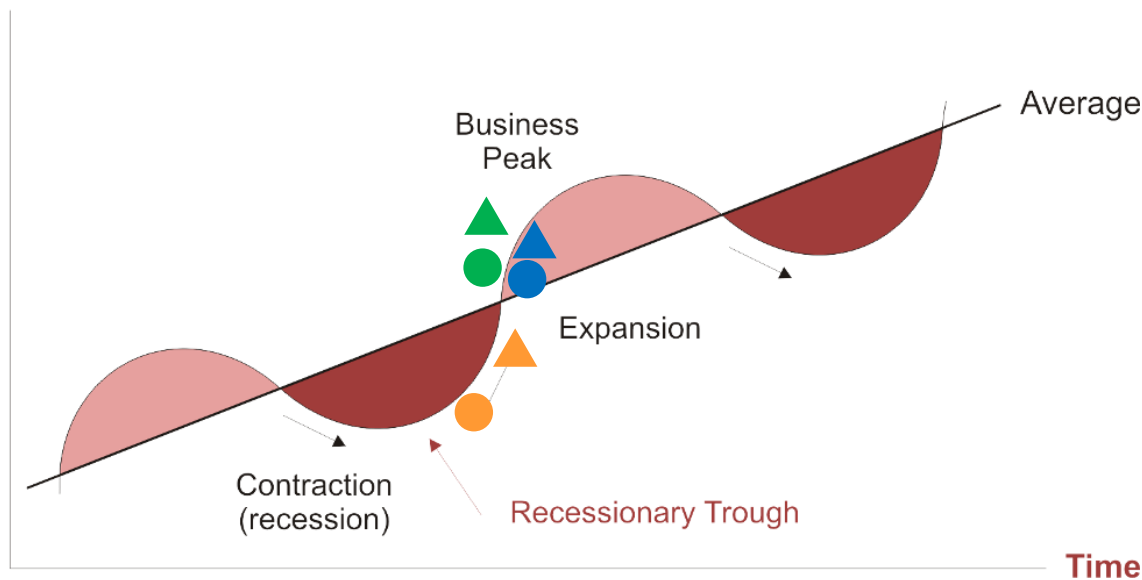


Figure 4: Business cycle

The breakdown of data showed that, even though Europe’s short-term sentiment index was little changed from May, the number of professors who think the economy would slide into contraction rose. Additionally, an increasing number of economists saw the economy deteriorating over the course of next three years.

Even though the share of experts who anticipated expansion in North-America’s economy fell in June, professors still saw brighter economic prospects in the region.

Economists grew cautious over the Asian-Pacific economy’s performance in the short and long run. Nevertheless, the overwhelming majority expected the economy to reach the expansion phase.

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 →(0.00)	0.46 ↓(0.01)	0.76 ↑(0.05)	0.73 ↓(0.05)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.24 ↑(0.01)	0.23 ↑(0.02)	0.14 ↓(0.03)	0.21 ↑(0.04)

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

The global six-month sentiment index remained unchanged in June from a month earlier, as declines in Europe's and Asia-Pacific's gauges were offset by a rise in North America's measure.

Despite Greece falling deeper into financial abyss and intensifying risks of the country's exit from the currency bloc, Europeans remained relatively calm in June. As a result, Europe's short-term economic sentiment index fell by 0.01 point in the reported month. The indicator stood in negative territory for the second consecutive month.

The recent data reinforced the view that both economies of the North American region have started to recover after a shaky start of the year. Academia experts expected this trend to continue over the course of the next six months. Moreover, expectations are growing that the US Fed will hike its interest rates in September, evidence that the world's number one economy has finally regained a stable footing after the devastating Great Recession.

In contrast, the Asian-Pacific economy saw its sentiment index falling in June by 0.05 points amid mounting concerns over hard landing of the Chinese economy.

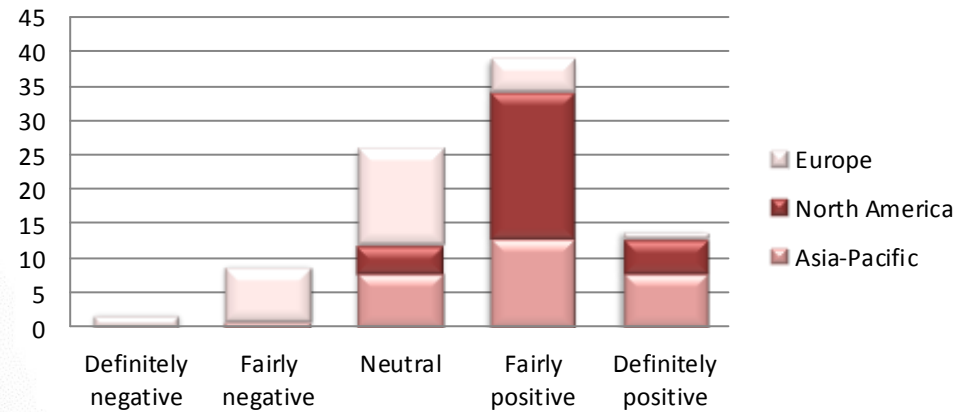


Figure 5: Six-month economic outlook

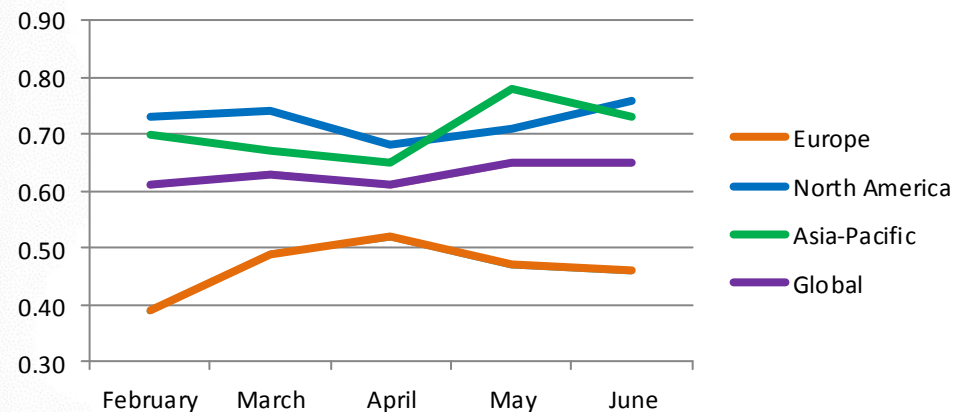


Figure 6: Six-month economic sentiment index

Three-year economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.65 ↓(0.08)	0.53 ↓(0.08)	0.73 ↓(0.01)	0.69 ↓(0.16)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.23 ↑(0.02)	0.19 ↓(0.03)	0.17 ↑(0.03)	0.28 ↑(0.09)

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

Upbeat mood seen in May appeared to be dispelled last month, as three-year economic sentiment indexes for all regions declined in the reported month.

The gauge, measuring economic prospects of the global economy in three years from now, slid by 0.08 points to 0.65 in May. The drop in the index was led by a sharp decline in the Asian-Pacific three-year economic sentiment index, which plunged by 0.16 points to 0.69, hitting the lowest level since August 2013.

Economists grew increasingly concerned over Europe's economic future, particularly in light of the recent development in Greece. The country is on the verge to leave the Euro zone due to its ongoing devastating debt crisis. If that happened, the move would create a disastrous precedent for other debt-stricken Euro zone members.

However, professors were confident in the North American economy. Even though the index retreated slightly, it remained at a historically high level in June.

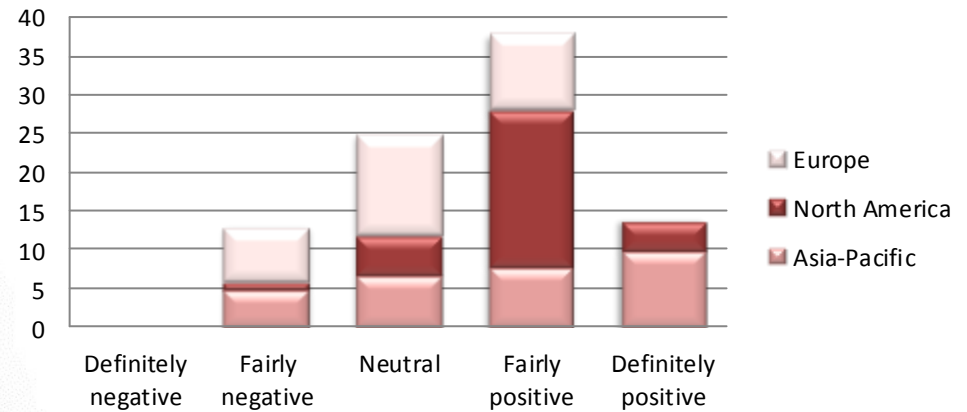


Figure 7: Three-year economic outlook

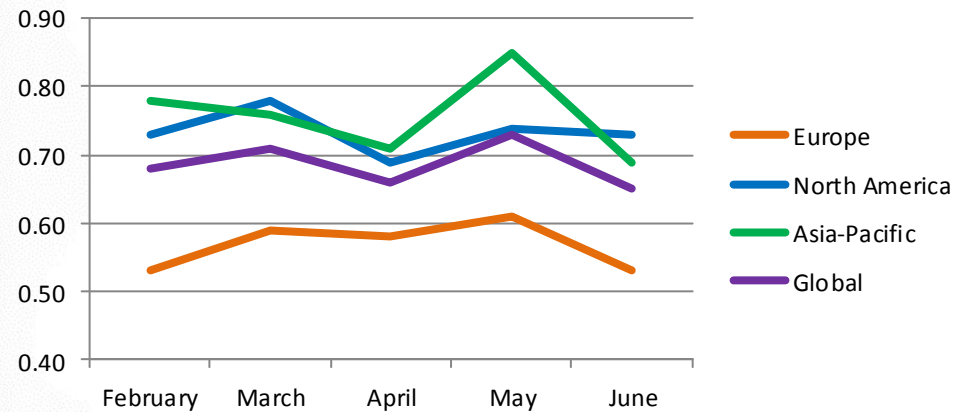


Figure 8: Three-year economic sentiment index

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	0.45	0.78	0.75	0.88	0.66
3-year economic outlook	0.58	0.50	0.73	0.73	0.75	0.66

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

In June, all regions saw their local professors assessing economic performance in the months ahead more positively than their overseas peers.

The widest gap in views was recorded among Asian-Pacific experts and their colleagues from Europe and North America. Local economists were markedly more sanguine about the region's short-term prospects compared to six-month economic outlook of Europeans and Americans. Discrepancy in views over the long-term economic activity appeared to be considerable as well.

While assessing the potential of economic output in North America in the second half of the year, local professors were slightly more bullish than academia experts from abroad. However, discrepancy in views disappeared when economists assessed the region's long-term economic prospects.

Europeans also felt the economic conditions on the continent would be better both in the short and long run. However, foreign professors appeared not to share the same view, particularly when it came to the region's three-year economic outlook.

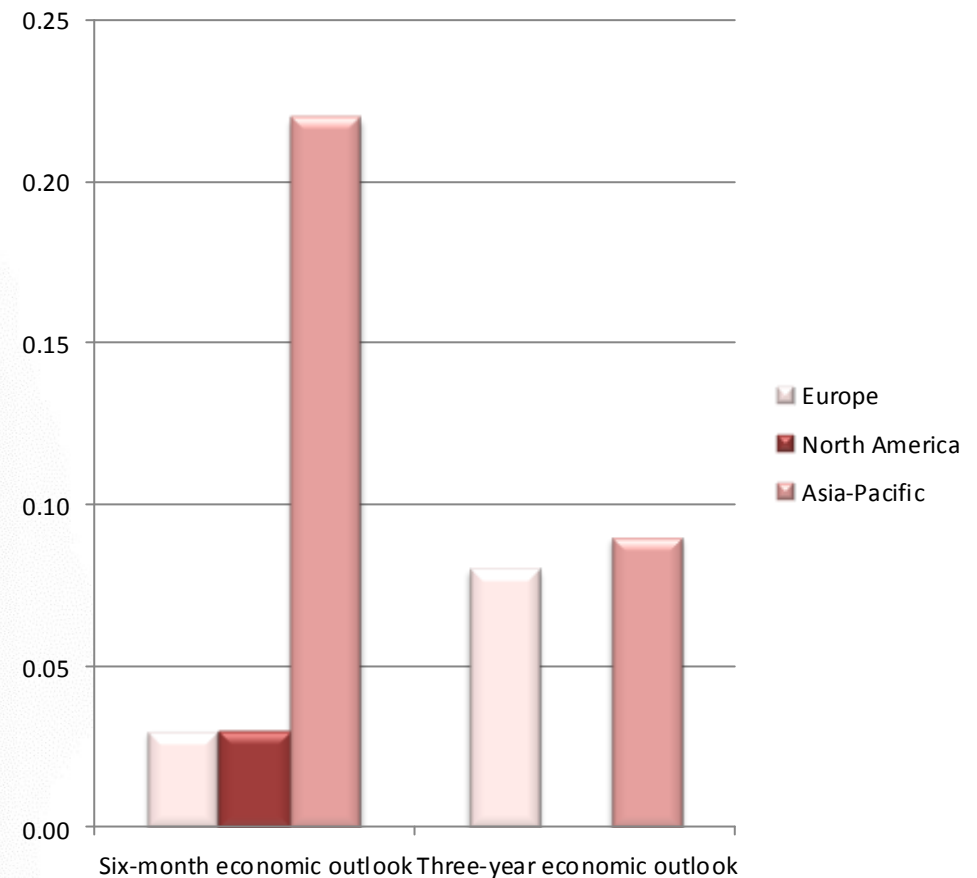


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (*1)

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 June poll:

Loyola University, Chicago Michigan State University, University of Pittsburgh, University of Notre Dame, DePaul University, Saint Louis University, West Virginia University, Tongji University, Tohoku University, Hang Seng Management College, University of Economics, Prague, University of West Hungary, NUI Galway, ETH Zurich, Birkbeck, University of London, University College London, University of Oxford, SBS Swiss Business School, University of Split, De La Salle University, Singapore Management University, Chonqqing University, Daffodil International University, Westminster International University in Tashkent, Gulf University for Science & Technology.



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