



DUKASCOPY
RESEARCH PRODUCTS

September release



Dukascopy Bank Sentiment Index

Summary

- China's "Black Monday" crash on August 24 triggered a tornado which swept through the global economies and equity markets, sowing panic among investors, policy makers and ordinary people, but, as it faded, economic sentiment seemed to restore. September release of Dukascopy Bank Sentiment index revealed that all indices which show academia experts evaluation of regions' short and long-term economic prospects rebounded after precipitous declines in the preceding month.
- Nevertheless, fears continued to engross economists' and analysts' minds, particularly after central bankers around the world voiced concerns over the Chinese economy and the spill-over effect it might have on other economies.
- North America enjoyed the biggest bounce-back of its sentiment indices in September, compared to other regions. The rebound came even despite the fact that the Fed decided to delay the long-anticipated interest rate hike, suggesting the US economy was not robust enough to weather recent developments.
- Europe's and Asia-Pacific's sentiment indices recovered as well, but remained at historically low levels. The regions' short-term gauges remained in negative territory in September.









Parameter/ Region	Global	Europe	North America	Asia- Pacific
Six-month economic outlook	 0.54 ↑(0.05)	 0.41 ↑(0.02)	 0.73 ↑(0.07)	 0.49 ↑(0.07)
Three-year economic outlook	 0.66 ↑(0.04)	 0.56 ↑(0.05)	 0.75 ↑(0.07)	 0.67 →(0.00)

Figure 1: Mood indicator

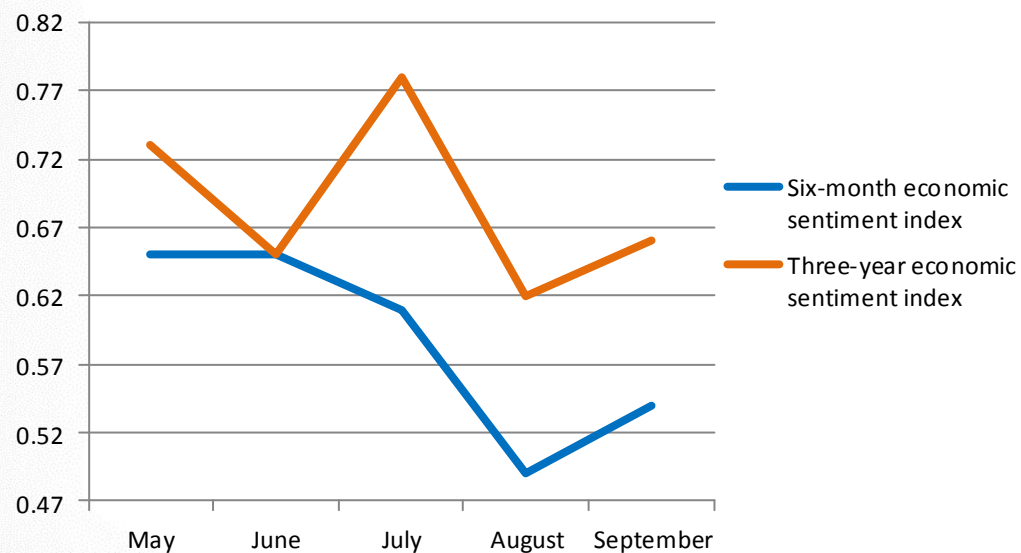


Figure 2: Global economic sentiment index

Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.39 ↓(0.09)	0.40%	0.66 ↓(0.04)	1.93%	0.42 ↓(0.22)	1.83%
3-year economic outlook	0.51 ↓(0.17)	1.00%	0.68 ↓(0.12)	2.53%	0.67 ↓(0.16)	2.67%

The European Central Bank downgraded Euro zone's growth outlook to 1.4% in 2015 from 1.5% in September. However, professors' economic outlook for the whole Europe appeared to be gloomier than the one of the central bank. The economy was projected to expand a meager 0.40% till the end of the year. The economy's growth was predicted to accelerate to 1.00% over the course of next three years.

While the Canadian economy slid into recession in the second quarter, Canada's economic activity is expected to recover with currency-sensitive export sectors regaining momentum. On top of that, the US economy continued to strengthen. Nevertheless, the recent developments forced professors to be cautious. Therefore, the median six-month forecast was 1.93%, whereas the long-term outlook stood at 2.53%.

The recent turmoil in China severely undermined professors' confidence in the health of the region's economy. While previously experts' median estimate stood above the 3% level, in September academia experts expected economic output to increase by 1.83% in the coming months. In three years from now, Asia-Pacific aggregate GDP was predicted to rise 2.67%.

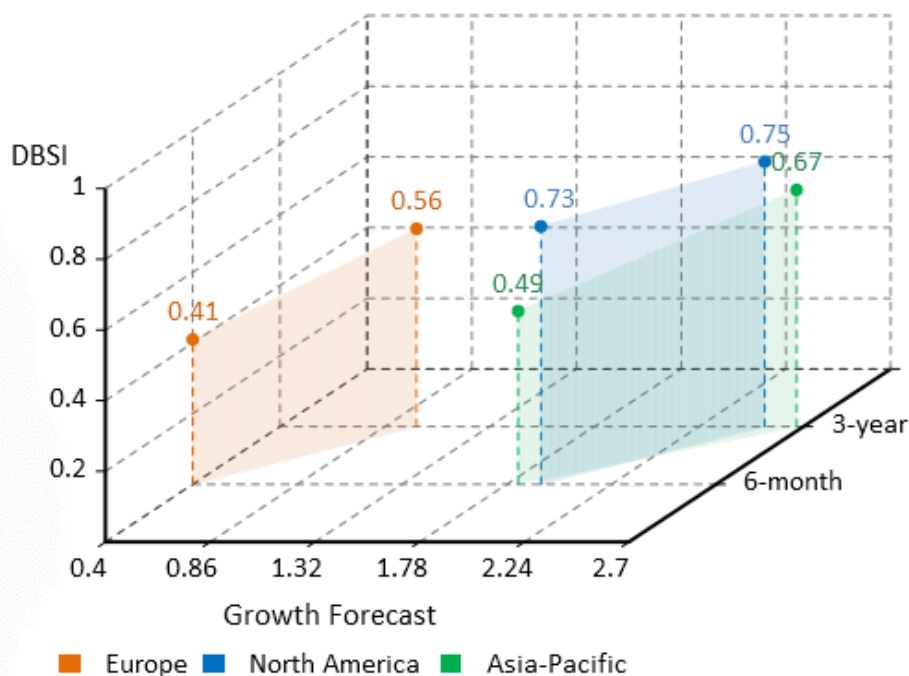


Figure 3: Global economic outlook (term structure)

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	8	3	4	2	12	8
Recessionary Trough	12	9	5	2	6	4
Expansion	10	17	19	19	9	14
Business Peak	0	1	2	7	3	4

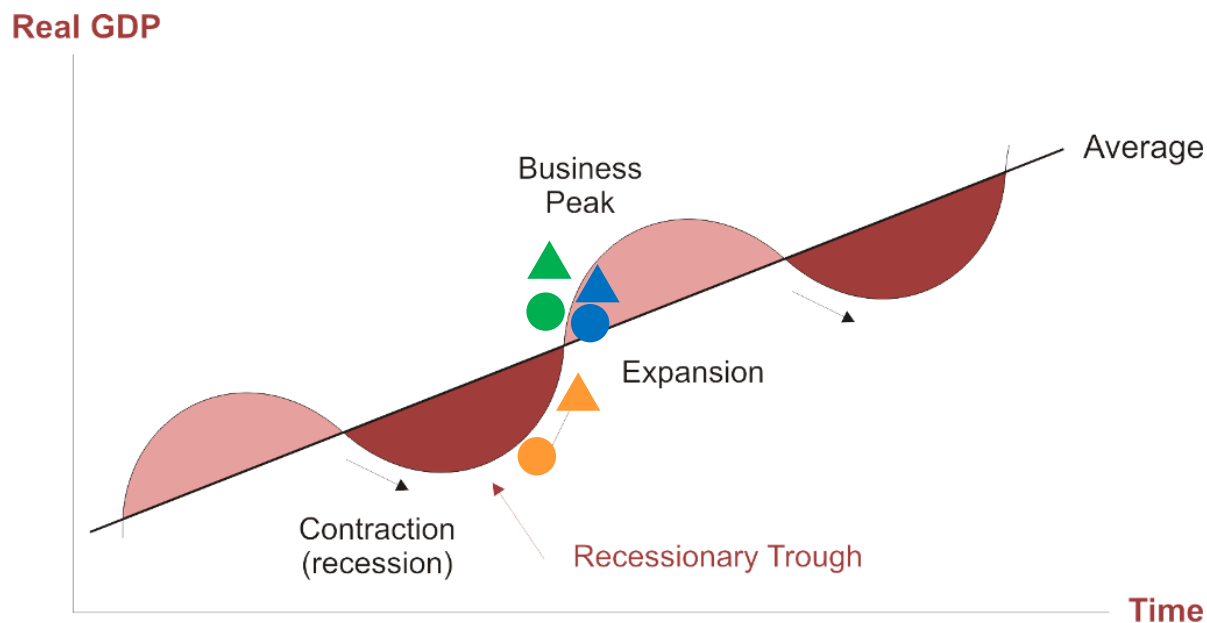


Figure 4: Business cycle

Professors were divided on the European economy's position on the business cycle curve in the short term. Nevertheless, the majority expected the economy to remain in the lower end of the curve. The region's economy was predicted to build up steam in the long run and move decisively towards the expansion phase by 2018.

The overwhelming majority of professors expected the North American economy to remain firmly in the expansion zone in the short term. In three years from now, the economy was estimated to start heading towards the business peak.

It seemed that academia experts could not define where the Asian-Pacific economy is headed in the coming six months. However, professors saw the economy gradually growing in the next three years.

Six-month economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.54 ↑(0.05)	0.41 ↑(0.02)	0.73 ↑(0.07)	0.49 ↑(0.07)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.26 ↓(0.02)	0.19 ↓(0.10)	0.17 ↓(0.03)	0.29 ↑(0.07)

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

While the recent acute turmoil in China faded, concerns remained in place, as the world's second biggest economy continued to release weaker than expected fundamentals. The latest run of soft economic data from China is likely to weigh on economists' sentiment and growth outlook in the remainder of the year.

Europe's short-term sentiment index climbed by 0.02 points in September, following a precipitous decline in the prior month. Nevertheless, the gain appeared insufficient to escape from red territory. The gauge remained below the key 50-mark threshold for the fifth consecutive month.

At the same time, the majority of economists who took part in September Dukascopy Sentiment Index poll shared a fairly positive outlook for the American economy in the coming six months. Hence, the short-term sentiment index recovered from a slump in August.

Even though the Asian-Pacific sentiment index rebounded by 0.07 points in the reported month, the gauge remained below 50, the level which separates pessimists from optimists, for the second month in a row.

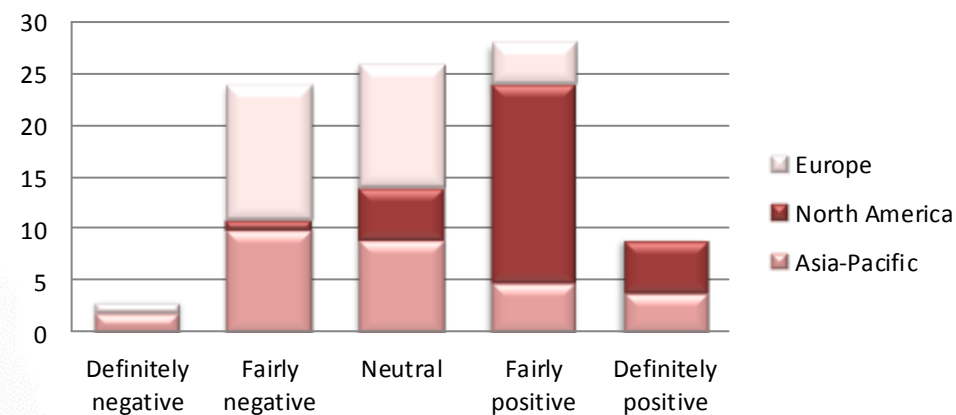


Figure 5: Six-month economic outlook

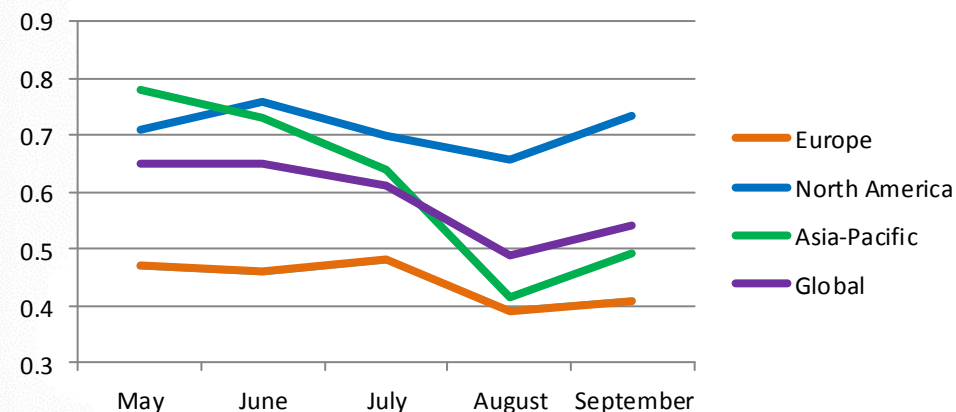


Figure 6: Six-month economic sentiment index

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 ↑(0.04)	0.56 ↑(0.05)	0.75 ↑(0.07)	0.67 →(0.00)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.22 ↓(0.02)	0.18 ↓(0.05)	0.19 ↓(0.02)	0.25 ↑(0.01)

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

North America, the US economy in particular, was expected to be the dominant power behind the global growth. With the three-year economic sentiment index surging by 0.07 points to 0.75 in September, it contributed the most to an increase of the global sentiment index in the reported month.

At the same time, professors predicted the European economy to linger behind the other two regions. The long-run economic sentiment index stood at 0.56 in the measured month, compared with 0.51 in August, considerably below the long-term average of 0.55.

Academia experts did not alter their three-year economic sentiment of the Asian-Pacific economy. The reading remained unchanged at 0.67 in September, compared to the average gauge this year of 0.75. Being the dominant economy in the region, the expected China economic slowdown in the foreseeable future dampened the outlook for the whole region in the years to come.

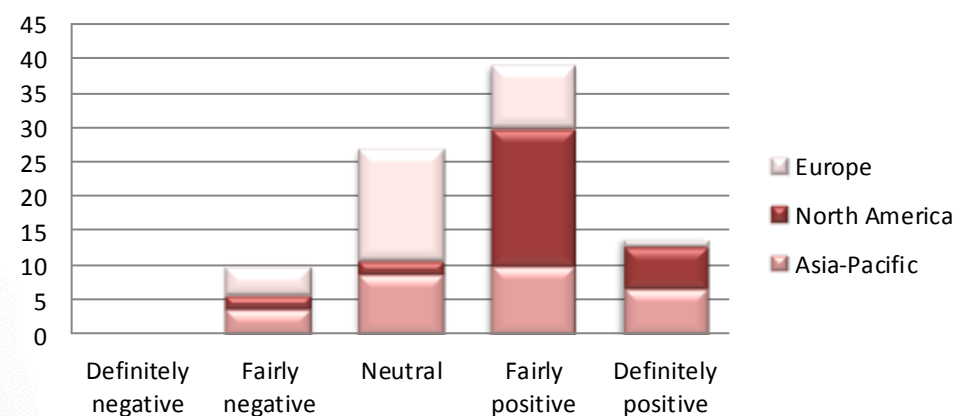


Figure 7: Three-year economic outlook

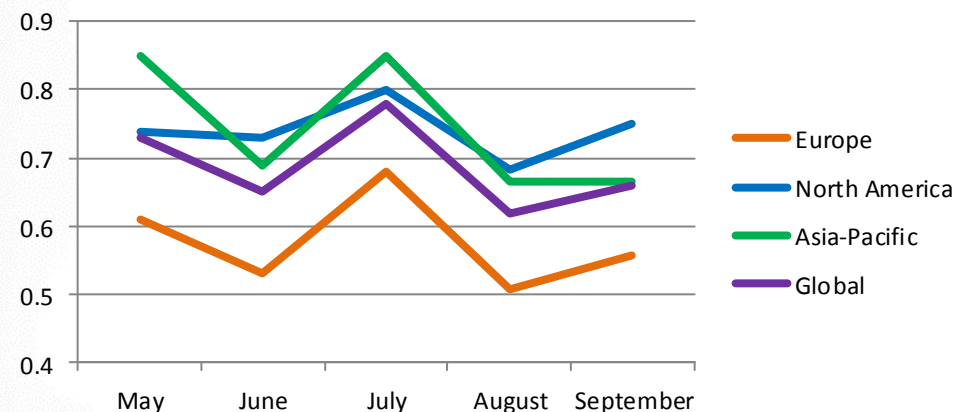


Figure 8: Three-year economic sentiment index

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	0.70	0.75	0.63	0.43
3-year economic outlook	0.55	0.57	0.73	0.76	0.75	0.63

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

Evaluating the European economy's future economic prospects, local experts' assessment appeared to be more optimistic when compared with professors from overseas. The gap in the views on economic outlook among Europeans and foreign experts was particularly wide when academia experts estimated the region's economic performance in the coming six months.

In contrast, Americans were less sanguine when they assessed the health of the region's economy over the course of next six month and three years.

Asia-Pacific's experts remained somewhat optimistic about the region's economic outlook. However, foreign experts did not share their point of view, offering downbeat projections on the economic performance in the near term and over the long run.

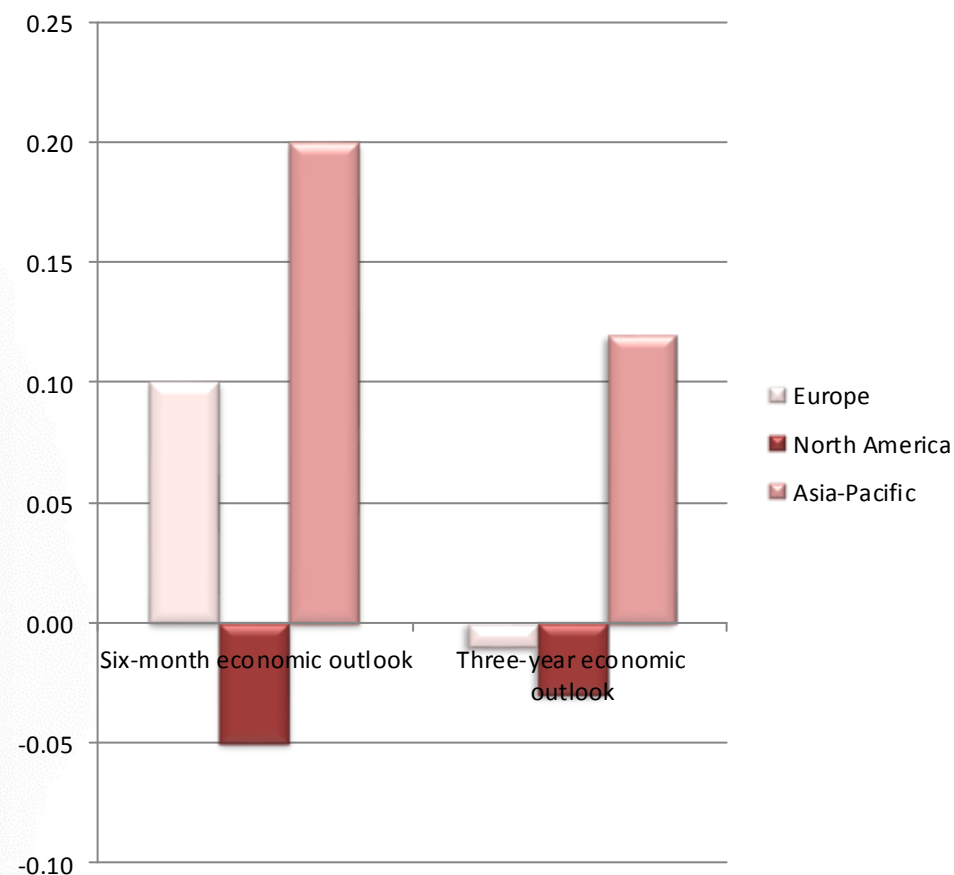


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (*1)

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 September's poll:

Wellesley College; Washington University in St. Louis; University of Arkansas; Gallaudet University; University of Virginia; Hong Kong Shue Yan University; Technical University of Ostrava; Kaunas University of Technology; Saints Cyril and Methodius University of Skopje; Nova School of Business and Economics; University of Split; University of Palermo; University of Management and Technology, Lahore; Daffodil International University; Westminster International University in Tashkent; S.Seifullin Kazakh Agro Technical University; Tohoku University; Hong Kong Baptist University; Bharathidasan University; Dow University of Health Sciences



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