



DUKASCOPY
RESEARCH PRODUCTS

January release



Dukascopy Bank Sentiment Index

Summary

- The global economy entered into 2016 on a wobbly footing, with China sending jitters around the world. China's economy in 2015 grew 6.9%, the slowest pace in 25 years. The world's second biggest economy saw a difficult start to the current year, which included financial markets closure on two occasions as steep declines of more than 7% triggered market circuit breakers and a halt to trading. These developments had a devastating impact on business and consumer sentiment in January.
- It came as no surprise that the Asia-Pacific region experienced massive declines in both short and long term sentiment indexes, with the three-year gauge plummeting to the lowest level since records began in November 2011. Given the weight the Chinese economy has on the global economic arena, future development in the world's second biggest economy will continue to determine central banks' monetary policy decisions, and effect market participants' risk appetite, business and consumer confidence.
- Europe, in contrast, was a bright spot in Dukascopy Bank January report, as both readings climbed in the measured month.
- North America saw mixed results in January, as the six-month sentiment index inched down slightly, while the three-year measure rebounded.

Parameter/ Region	Global	Europe	North America	Asia- Pacific
Six-month economic outlook	 0.54 ↓(0.05)	 0.46 ↑(0.03)	 0.72 ↓(0.01)	 0.43 ↓(0.18)
Three-year economic outlook	 0.63 ↓(0.02)	 0.56 ↑(0.03)	 0.73 ↑(0.02)	 0.58 ↓(0.13)

Figure 1: Mood indicator

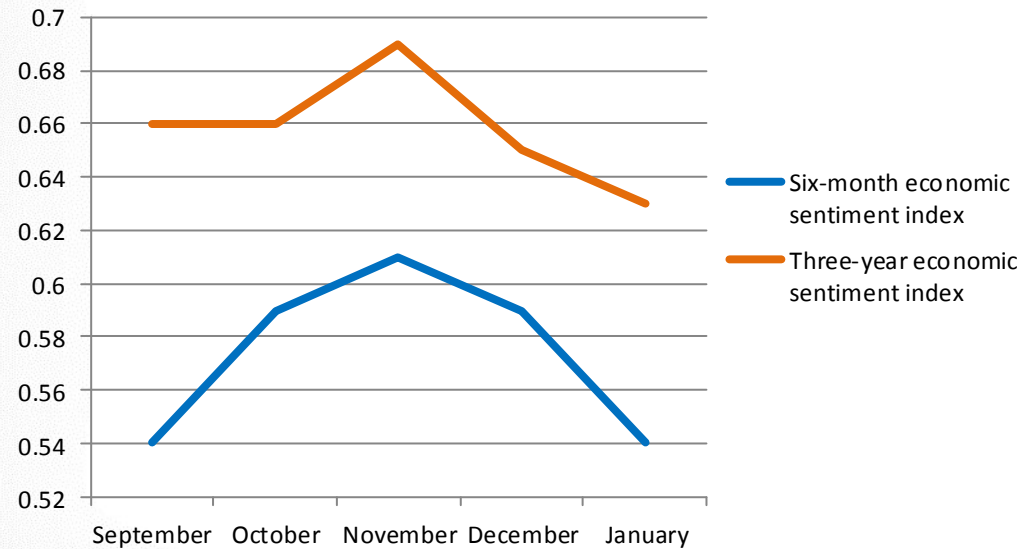


Figure 2: Global economic sentiment index

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 ↑(0.03)	0.53%	0.73 →(0.00)	2.00%	0.61 ↓(0.07)	1.67%
3-year economic outlook	0.56 ↑(0.03)	1.27%	0.71 ↓(0.02)	2.60%	0.71 ↓(0.05)	1.97%

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.

Professors downgraded their economic growth outlook for Europe in January. Experts expected the region's economy to expand at an annualized 0.53% rate in the coming months, compared with December's forecast for a 0.87% growth. In three years from now, economists saw the economy to expand 1.27% on year.

Furthermore, academia experts were less optimistic about the North America's growth potential in the six-month period. Professors revised downwards North America's short-term growth outlook from 2.13% to 2.00%. However, the region's economy was expected to gather momentum in three years, with GDP increasing 2.60%. Evidently, the recent financial market turmoil around the globe, which might force the Fed to take a cautious approach on interest rate hikes this year, also weighed on professors' assessment of economic conditions.

With the Bank of Japan joining the European counterparts in introducing negative interest rates, slow growth in China and money market volatility, it was no wonder that the Asian-Pacific growth outlook was downgraded sharply in January. While the economy was previously expected to grow at a 3.00% pace, in January professors brought the expected expansion pace below 2%.

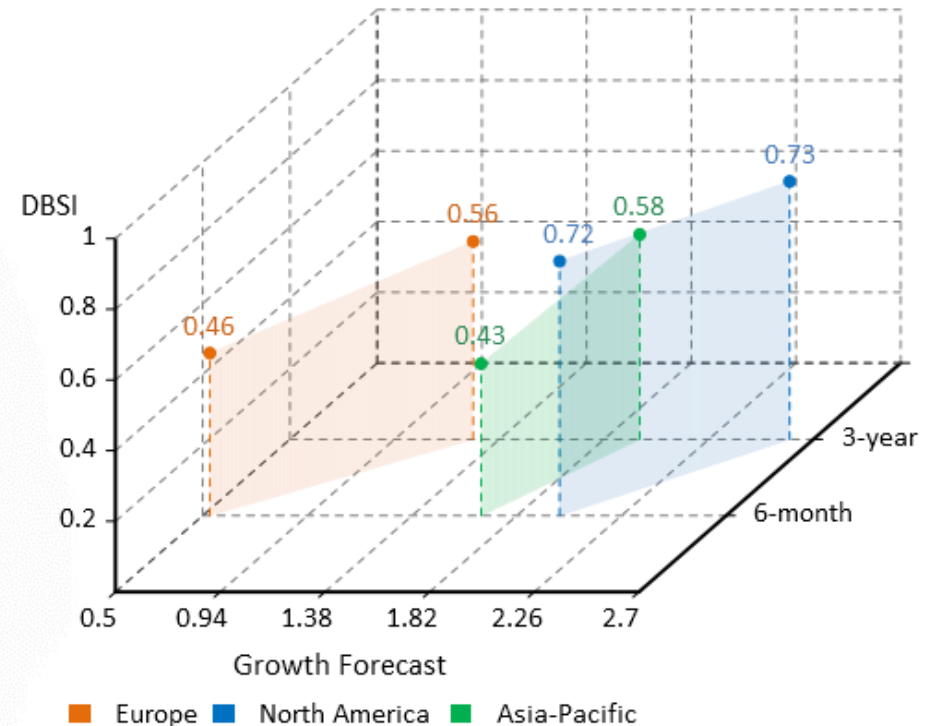


Figure 3: Global economic outlook (term structure)

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	2	3	1	15	7
Recessionary Trough	11	9	3	1	7	2
Expansion	11	19	22	25	6	19
Business Peak	0	0	2	3	2	2

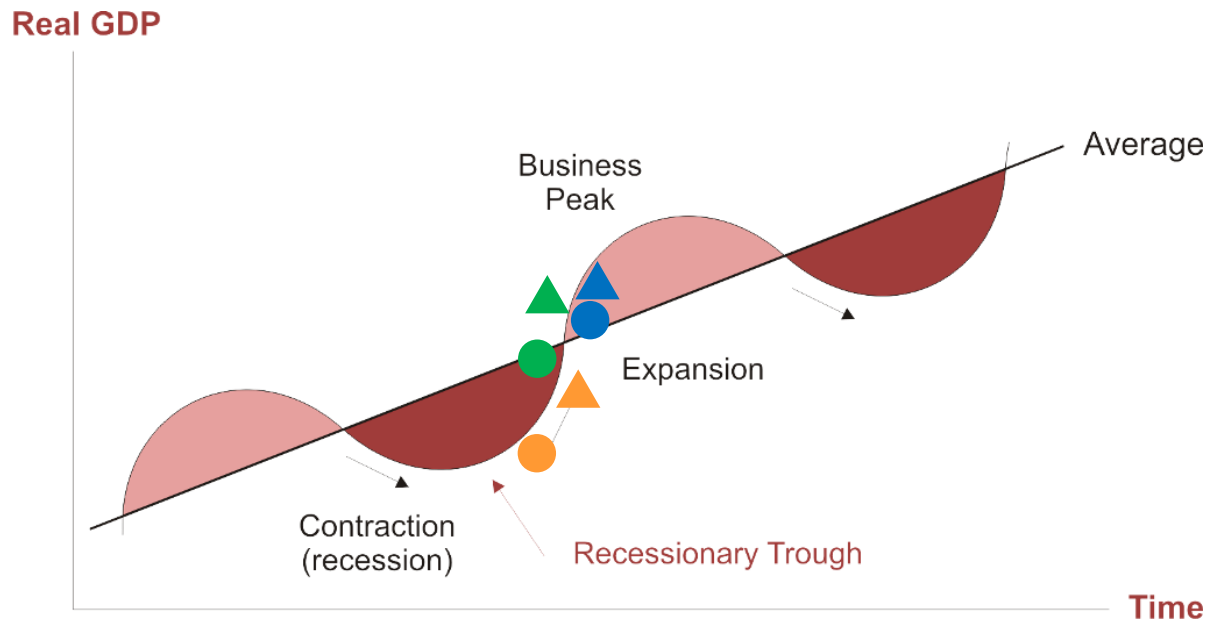


Figure 4: Business cycle

- 6-month EDS
- ▲ 3-year EDS

Professors' assessment of Europe's economic future continues to point to persistent sluggish growth, as the overwhelming majority saw the economy in the lower end of the business cycle curve. However, the majority of economists predicted the economy to expand in three years.

The North America continued to pave the way towards the business peak, according to experts' outlook. Nevertheless, the business peak seemed to be out of reach in the coming three years.

The overwhelming majority of experts predicted the Asian-Pacific economy to slide down along the business cycle curve amid ongoing slowdown in emerging markets and concerns about Japan's economy. As a result, the region's economy was expected to recover gradually after the retreat in the coming 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)	0.46 ↑(0.03)	0.72 ↓(0.01)	0.43 ↓(0.18)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.22 ↓(0.01)	0.19 ↓(0.03)	0.14 ↑(0.04)	0.22 ↓(0.02)

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

The six-month economic sentiment index for Europe rebounded in January, rising by 0.03 points from the prior month. The ECB tried to persuade investors and economists that the central bank had tools to stimulate growth and inflation in the currency bloc. At the same time, the UK's economy continued to grow at the fastest pace among major economies.

While the short-term gauge for the North America slipped last month, still as many as 77% of professors that took part in January's poll gave a fairly positive assessment of the economy.

Asia-Pacific faced the steepest plunge in confidence since records began in November 2011, with the corresponding gauge plummeting by 0.18 points in January from December. The decline came in light of slowdown in emerging markets, particularly in China, the world's second largest economy.

As the result, the global sentiment index slid by 0.05 points to 0.54, the lowest level since September 2015.

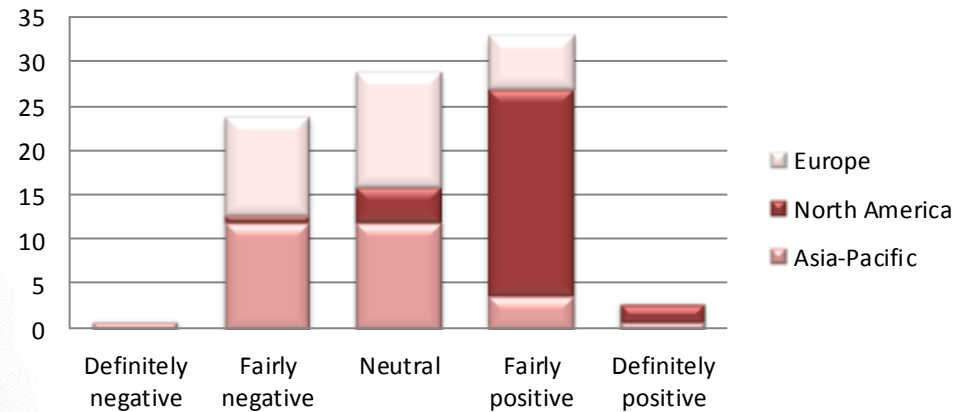


Figure 5: Six-month economic outlook

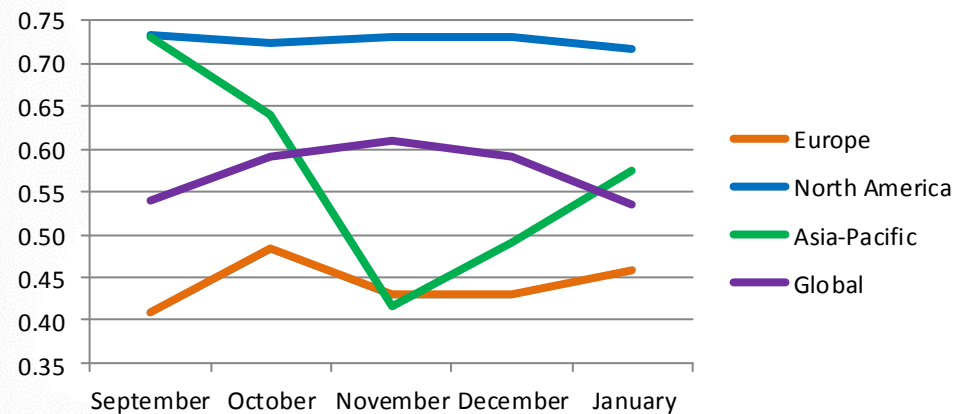


Figure 6: Six-month economic sentiment index

Three-year economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.63 ↓(0.02)	0.56 ↑(0.03)	0.73 ↑(0.02)	0.58 ↓(0.13)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.23 ↑(0.02)	0.18 ↑(0.06)	0.15 ↓(0.04)	0.27 ↑(0.06)

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

Over the course of next three years professors felt that economic situation would continue to improve in both Europe and North America.

It appeared that the recent developments had such a devastating effect on professors' confidence, that the three-year economic sentiment index tumbled by 0.13 points.

Increases in European and North-American three-year sentiment indexes did not manage to offset a sharp fall in Asia-Pacific's gauge. As a result, the global long-term sentiment index dropped slightly in January.

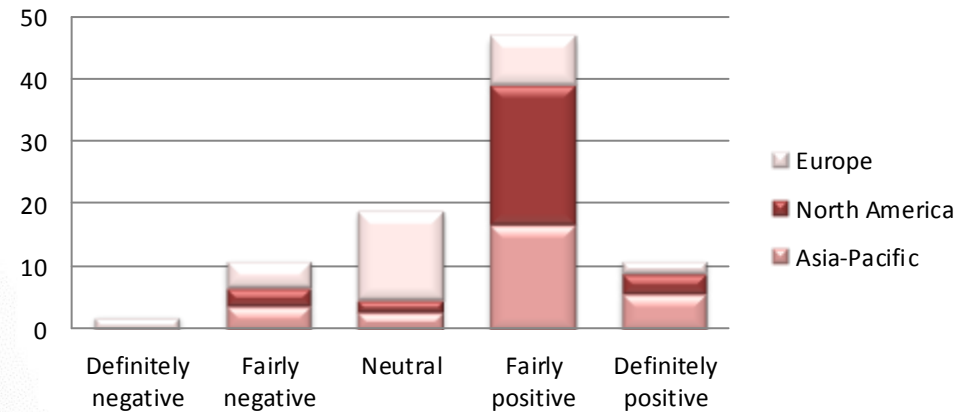


Figure 7: Three-year economic outlook

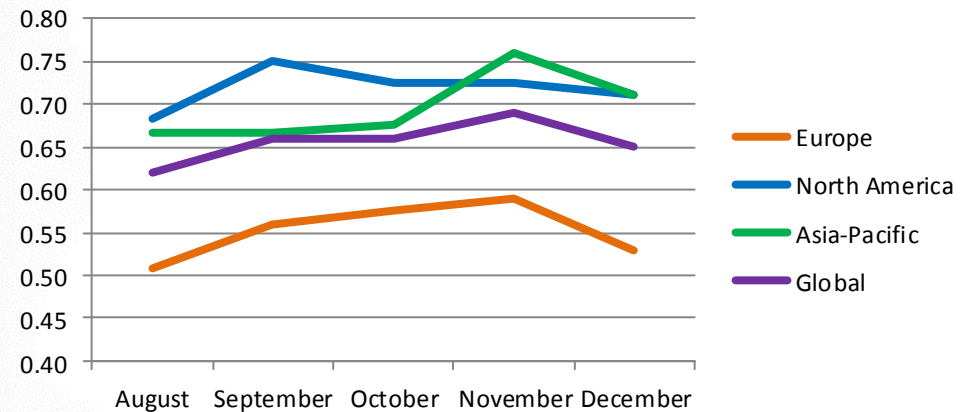


Figure 8: Three-year economic sentiment index

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	0.80	0.68	0.43	0.44
3-year economic outlook	0.50	0.59	0.78	0.71	0.58	0.59

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

While European professors were more optimistic about the region's short term economic developments, their confidence ebbed when it came to assessment of Europe's economy growth prospects in three-year time. Foreign experts, in contrast, voiced more optimism about the three-year economic outlook.

In North America, economists shared a markedly more buoyant outlook for the economy both in the short and long term. However, their colleagues from overseas voiced a more cautious optimism on the growth forecast.

The recent adverse developments in Asia-Pacific hit professors' sentiment hard. Both local and foreign experts were rather skeptical about the future economic health in the region.

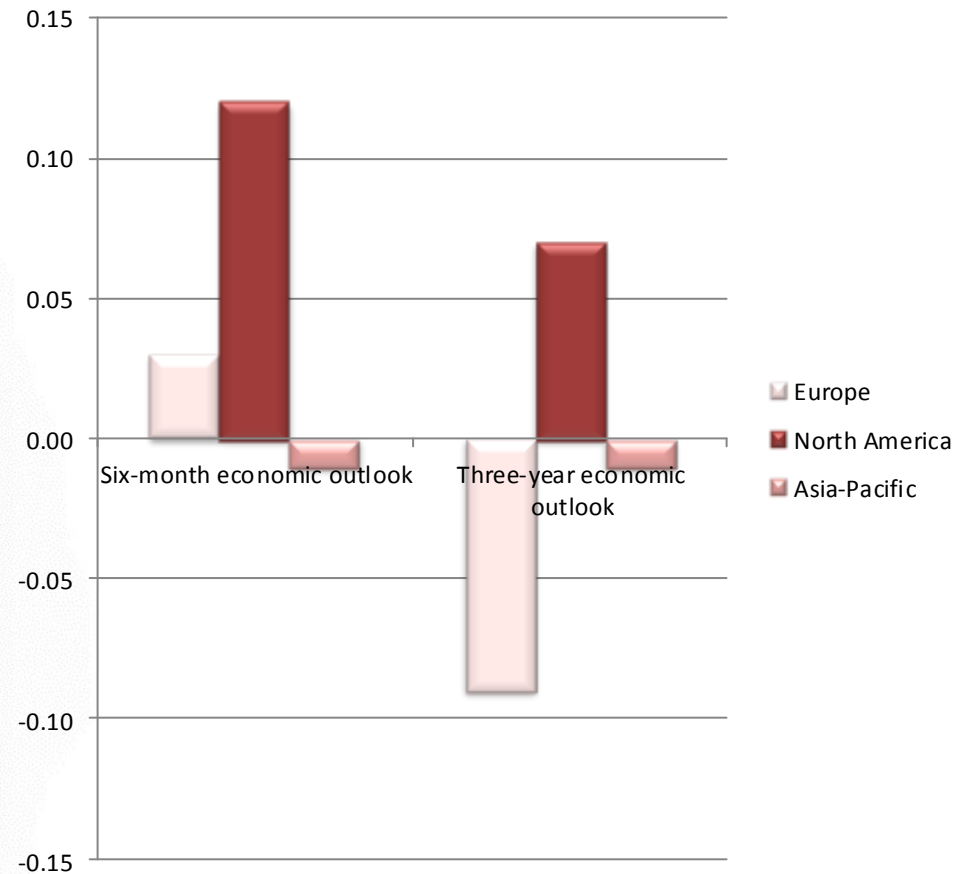


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (*1)

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	Definitely negative
0 – 0.5	Fairly negative
0.5	Neutral
0.5 – 1	Fairly positive
1	Definitely 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:

University of Oxford; University of York; Scuola Superiore Sant'Anna di Pisa; University of Latvia; RISEBA; Lund University; Brescia University; University of Bari Aldo Moro; University of Pavia; University of Bergamo; University of Palermo; Vrije Universiteit Amsterdam; University of Lugano; University of Bonn; EBS Universität für Wirtschaft und Recht; University of Portsmouth; University of Economics in Bratislava; University of Auvergne; Université des Sciences Economiques et de Gestion de Tunis; Instituto Superior da Maia; University of Turin; Indira Gandhi National Open University; University of South Australia



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