



DUKASCOPY
RESEARCH PRODUCTS

March release



Dukascopy Bank Sentiment Index

Summary

- The global economy seems to have stabilized in the previous month, following a turbulent ride in the beginning of the year. The overall economic sentiment was mainly boosted by renewed optimism over the state of Chinese economy along with higher oil prices, which were, in turn, bolstered by expectations that the world's major producers could come to an agreement to freeze crude oil extraction. Despite that, the persistent economic uncertainty and recent political tensions, namely, the possibility of 'Brexit' and approaching elections in many countries, including the US, played a decisive role in determining professors' sentiment in March, seeing both gauges sliding in the observed month.
- Facing a number of threatening economic and political issues, including 'Brexit' fears, an extremely high refugee inflow as well as the recent terrorist attacks in Belgium, the confidence in the Euro bloc's performance has shaken over the measured month, with six-month outlook sliding 0.11 points, while the three-year sentiment plummeted 0.09 points in the measured month.
- With the Federal Reserve maintaining a more cautious stance regarding lifting rates in the coming months, North America saw disappointing results in March, as the six-month sentiment index inched down slightly, while the three-year measure shed 0.08 points.
- The positive sentiment for the Asia-Pacific region based on rising demand in China seems to have continued in March, as the short-term gauge soared 0.04 points in the observed month. However, with growing skepticism about the ability of Abenomics to rekindle Japan's economy, market participants' risk appetite, business and consumer confidence was somewhat dampened in the long term.

Parameter/ Region	Global	Europe	North America	Asia- Pacific
Six-month economic outlook	 0.53 ↓(0.02)	 0.40 ↓(0.11)	 0.66 ↓(0.01)	 0.52 ↑(0.04)
Three-year economic outlook	 0.63 ↓(0.07)	 0.54 ↓(0.09)	 0.71 ↓(0.08)	 0.64 ↓(0.04)

Figure 1: Mood indicator

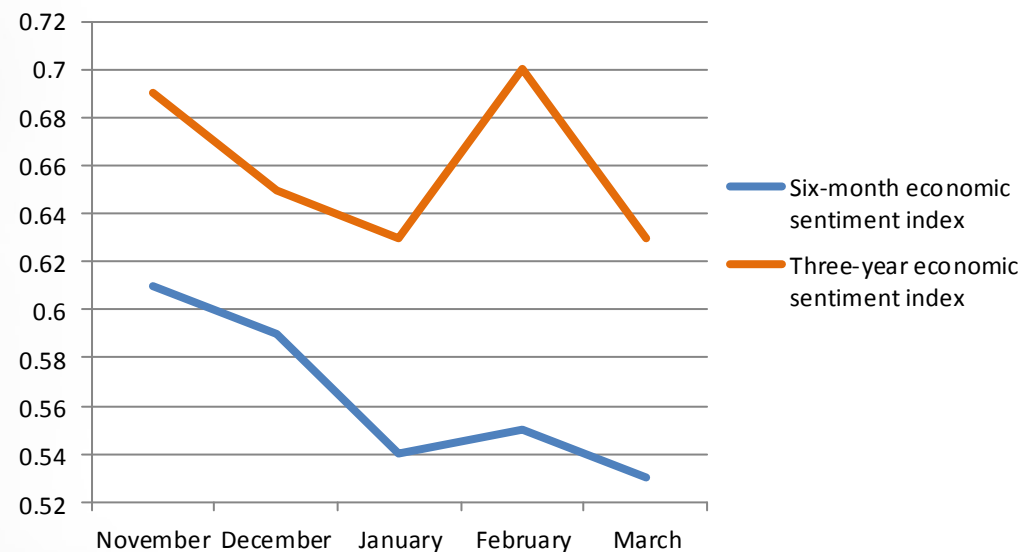


Figure 2: Global economic sentiment index

Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.40 ↓(0.11)	0.50%	0.66 ↓(0.01)	1.40%	0.52 ↑(0.04)	1.76%
3-year economic outlook	0.54 ↓(0.07)	1.36%	0.71 ↓(0.08)	2.33%	0.64 ↓(0.04)	2.26%

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.

Academia experts downgraded their economic growth outlook for the European region in March. In February, the near-term sentiment index stood at 0.51 points, indicating a relatively neutral Europe's economic performance, compared to the data registered in March, which saw the six-month gauge sliding to 0.40 points. In a longer term, experts remained fairly optimistic, though still revising downwards their three-year economic outlook.

Professors saw North America's growth potential worsening in the upcoming six months, with the respective gauge plummeting modest 0.01 points to 0.66 in March. In light of the slight drop in the near-term sentiment, the region's economy was expected to lose momentum in three years, with GDP rising 2.33% according to the experts surveyed, compared to the Federal Reserve's projected 1.8-2.1% growth rate in the long term, which was downgraded during the last FOMC meeting in March.

With persistent dim outlook for the state of Chinese economy, it came as a surprise that experts revised upwards their near term expectations for growth in the Asia-Pacific region for the second straight month in March, while the three-year gauge was expected to tick down 0.04 points.

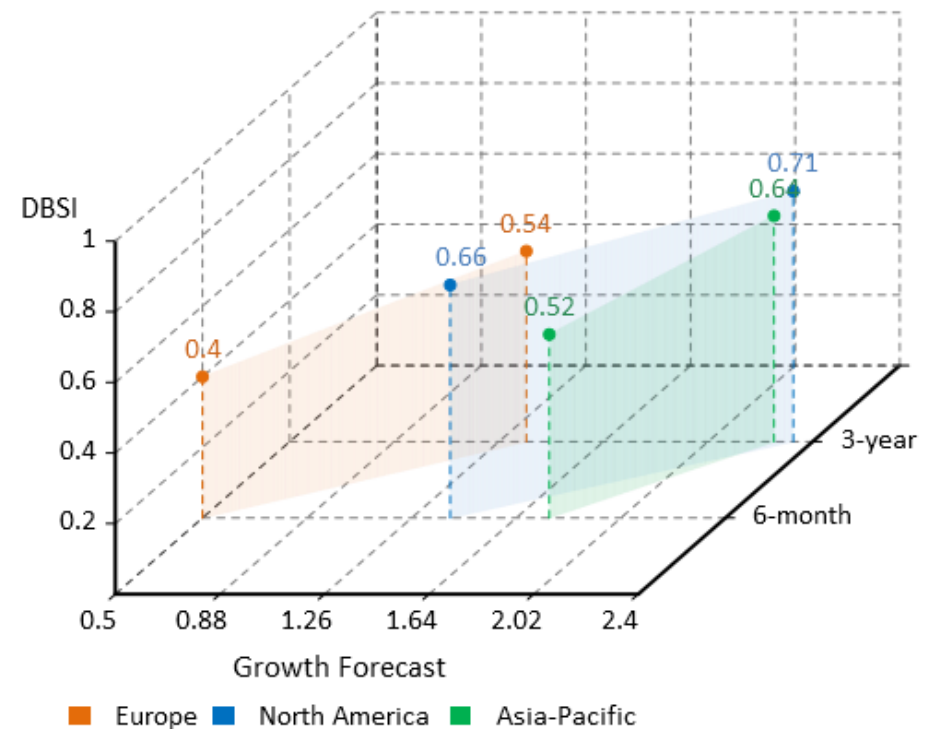


Figure 3: Global economic outlook (term structure)

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	9	5	7	5	8	3
Recessionary Trough	13	12	1	7	12	3
Expansion	6	13	14	17	9	21
Business Peak	2	0	8	1	1	3

Real GDP

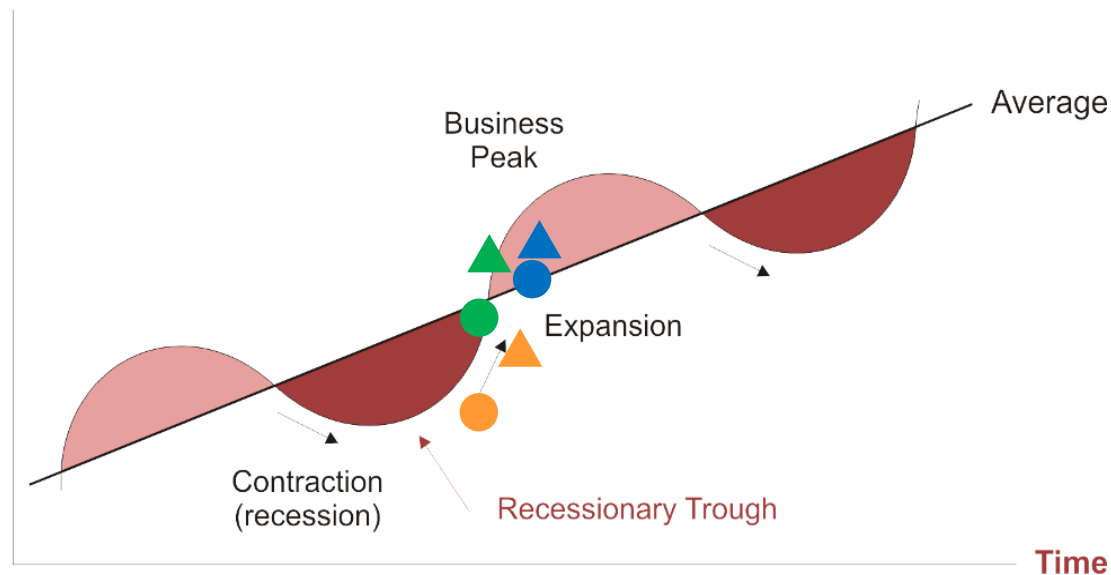


Figure 4: Business cycle

- 6-month EDS
- ▲ 3-year EDS

Professors' outlook on Europe's economic performance continued indicating that the region is having hard time at the moment, as the vast majority of experts saw the economy in the lower end of the business cycle curve in the next six months. Surprisingly as it is, but most of the economists remained relatively positive on a longer term outlook, as the best part of professors expected the economy to expand in three years from now, while 12 out of 30 experts anticipated the situation in Europe to hit the bottom in three years from now.

According to the experts surveyed, North America continued its expansion trend, heading towards the business peak in both short and long runs, as the overwhelming majority of professors remained strongly confident on the growth prospects in the region.

Professors' sentiment towards the Asia-Pacific region remained unclear, as the preponderance of experts saw the economy reaching the bottom of the business cycle curve, most probably on the back of China-led slowdown, overall financial instability and weak EM performance. Nevertheless, the region's economic performance was still expected to rebound, gaining strong momentum in the next three years.

Six-month economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.50	0.25	0.75	0.50
Mean (DBSI)	0.53 ↓(0.01)	0.40 ↓(0.11)	0.66 ↓(0.01)	0.52 ↑(0.04)
Mode	0.50	0.25	0.75	0.50
Standard Deviation	0.25 ↓(0.00)	0.22 ↓(0.01)	0.27 ↑(0.03)	0.20 ↓(0.05)

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

The near-term economic sentiment index for Europe sharply reversed its upward movement over the course of the previous month, slumping as much as 0.11 points from the rate observed in February. Overall, the most recent negative economic developments in Europe including 'Brexit' worries, refugee-crisis along with terrorist attacks, which took place in Brussels on March 22, casted a pall upon the forecast for Europe's economic performance among the professors surveyed on the matter.

The general outlook for North America's economic performance in the coming six months remained fairly positive according to the experts that took part in the last month's poll, despite the Federal Reserve's chair Janet Yellen keeping rather dovish stance on the rate increase matter, indicating that the global economic turmoil could have a devastating impact on the US economy, which would result in failing to bring the inflation to the Fed's target level of 2%.

The Asia-Pacific region registered sideways movement in confidence in March, as the majority of the professors surveyed saw the near-term economic performance being neutral rather than positive or negative. The uncertainty was mainly caused by the uptick in Chinese demand, while worries over the effectiveness of Abenomics might have somewhat dampened experts' outlook on growth in the given region.

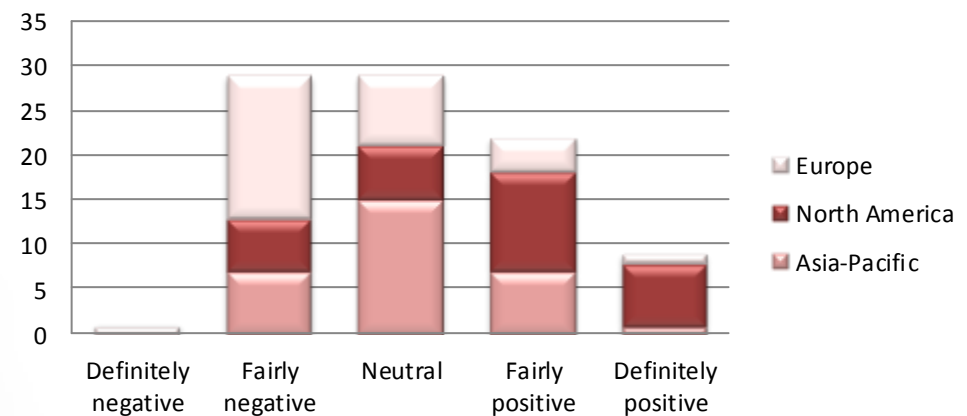


Figure 5: Six-month economic outlook

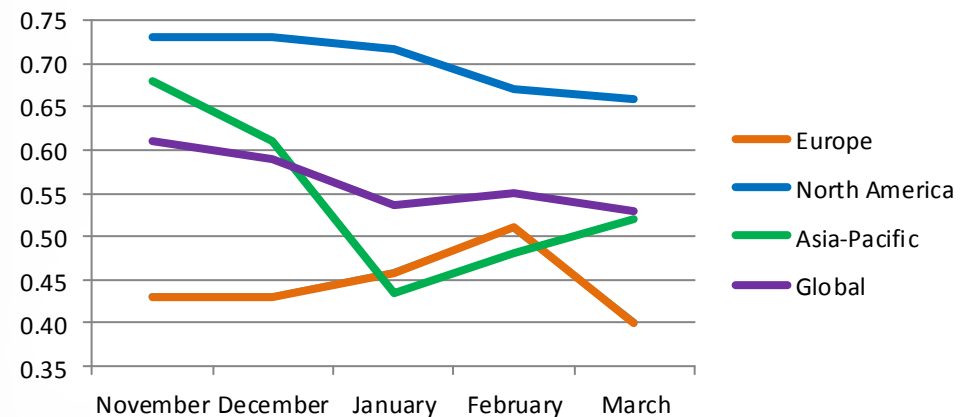


Figure 6: Six-month economic sentiment index

Three-year economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.50	0.75	0.75
Mean (DBSI)	0.63 ↓(0.07)	0.54 ↓(0.07)	0.71 ↓(0.08)	0.66 ↓(0.02)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.24 ↑(0.01)	0.24 ↑(0.01)	0.21 ↑(0.04)	0.25 ↓(0.03)

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

In the course of the next three years, experts saw the economic situation declining in all observed regions, bringing the global three-year economic forecast 0.07 points lower compared to the data registered in February, when we saw the professors' sentiment standing at 0.70 points.

The recent indications that the United Kingdom might leave the European Union, which would have an immediate devastating effect on the overall performance of the European economic area, as well as the aforementioned inflow of refugees in the EU weighed on professors' confidence dramatically, as the sentiment index shed 0.07 points last month.

It came as no surprise that the experts saw the economic performance of North America being fairly positive in three years from now, as the labour market recovered significantly and employment has returned to pre-crisis levels in the Q1 of 2016.

It appeared that concerns over sluggish growth in emerging markets as well as indications that shaky Chinese economy might put a lot of pressure on the whole region dampened professors' assessment of Asia-Pacific economy, as the three-year outlook dropped 0.02 points, according to the professors surveyed in March.

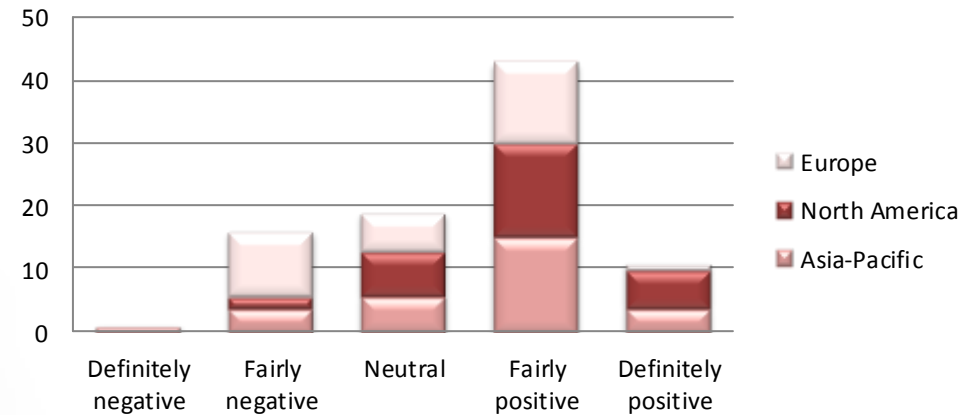


Figure 7: Three-year economic outlook

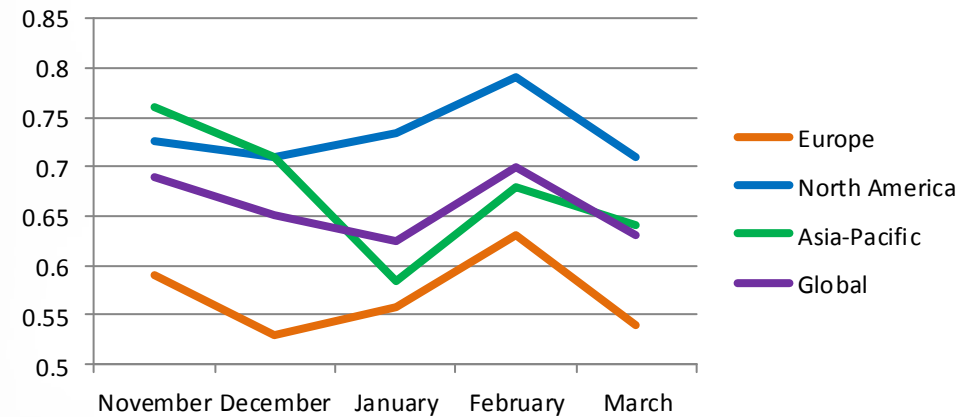


Figure 8: Three-year economic sentiment index

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	0.40	0.50	0.60	0.68	0.57	0.63
3-year economic outlook	0.62	0.75	0.62	0.75	0.65	0.78

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

Over the course of the prior month, both European and foreign professors became much more pessimistic about the region's near-term economic performance. As concerns the long-term outlook, last month's poll showed much stronger confidence, as both local and overseas experts appeared to see Europe's economy recovering, voicing a lot more optimism about the three-year gauge compared to the results registered in February.

In North America, professors shared less optimistic outlook for the economy in the foreseeable future, with the six-month sentiment index sliding 0.15 points among local experts, while overseas professors upgraded their view on the region's economy by 0.04 points compared to the previous month's index. As concerns the long-term outlook, both foreign and domestic economists' confidence slipped sharply, though still remaining in the positive territory in the observed month.

Recent economic developments in the Asia-Pacific region seem to have drastically weighed on experts' opinions, as the overwhelming majority of both overseas and local professors stepped away from being vividly optimistic on future economic health in the region.

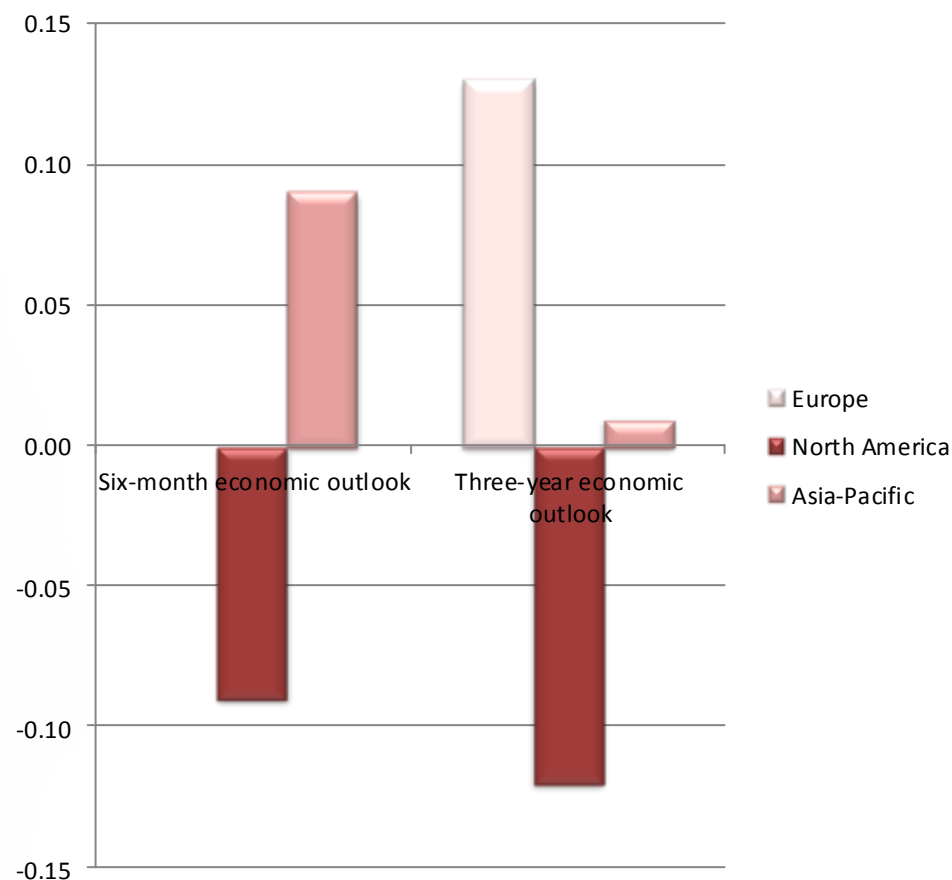


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (*1)

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 March's poll:

University of Tennessee; Pepperdine University; Golden Gate University; University of Latvia; RISEBA; University of South Alabama; University of Texas - Arlington; Oklahoma State University; Walsh University; IE University; Pepperdine University; MGU; Vilniaus Universiteto Kauno Humanitarinis Fakultetas; Princeton University; Seoul National University; University of Bergamo; University of Palermo; Universidad de Lima; University of Bari.



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