



**DUKASCOPY**  
RESEARCH PRODUCTS

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# Dukascopy Bank Sentiment Index

## Summary

- Although February is the shortest month of the year, it was full of economics and politics related news from all over the world. Given such a slew of data, it barely had a significant impact on global short and long term economic outlook of academia experts. Dukascopy Sentiment Index, measuring global economic prospects during the next six months, remained unchanged from January, while the three-year economic sentiment index rose slightly by 0.02 points to 0.68.
- Tepid economic growth in the Euro zone, slowing pace of expansion in the UK, disinflation concerns as well as difficult negotiation between Eurogroup and Greece over the country's bailout programme further dimmed experts' mood. Thus, short-term economic sentiment index edged lower to 0.39, moving further away from the 50-mark threshold, which separates optimism from pessimism. However, professors appeared to be more upbeat about the region's economic future in three years from now than in January.
- While Canada is being hit by falling commodities prices, US growth has been undermined by slowdown elsewhere, as it weighs on demand for US-made products. Besides, threat of falling inflation is also chasing the region, which is also affecting the Fed's decision on the timing of the first rate hike. Thus, the short term index retreated to 0.73 from January, while the three-year gauge remained intact.
- There also a number of significant headwinds in Asia Pacific, including slowing growth, falling inflation; still, both six-month and three-year economic sentiment indexes rose in February. This indicates professors anticipated better economic conditions in the region in the foreseeable future.

Parameter/ Region	Global	Europe	North America	Asia- Pacific
Six-month economic outlook	 0.61 →(0.00)	 0.39 ↓(0.02)	 0.73 ↓(0.04)	 0.70 ↑(0.04)
Three-year economic outlook	 0.68 ↑(0.02)	 0.53 ↑(0.01)	 0.73 →(0.00)	 0.78 ↑(0.04)

Figure 1: Mood indicator

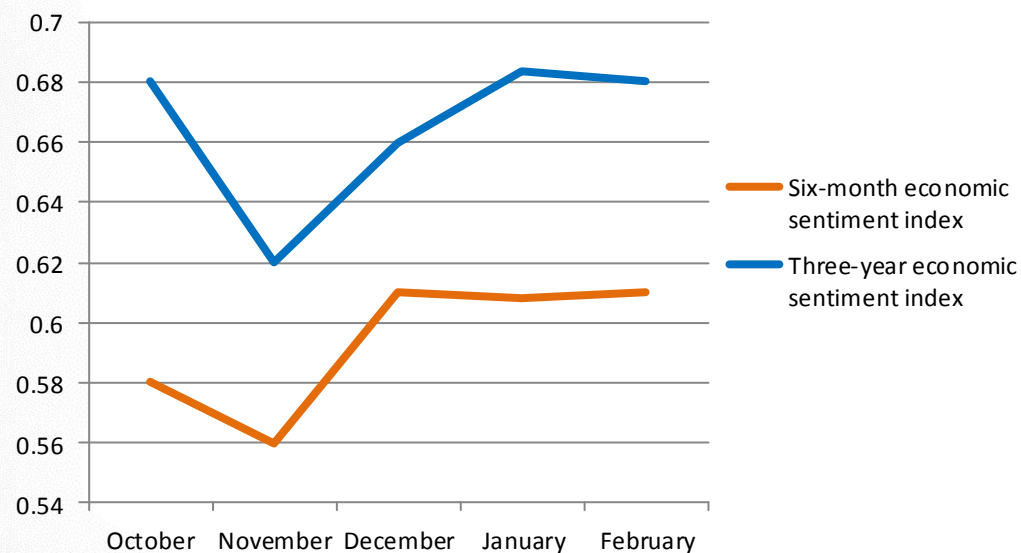


Figure 2: Global economic sentiment index

## Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.39 ↓(0.02)	0.27%	0.73 ↓(0.04)	2.00%	0.70 ↑(0.04)	3.13%
3-year economic outlook	0.53 ↑(0.01)	1.00%	0.73 →(0.00)	2.10%	0.78 ↑(0.04)	3.60%

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 UK economy is set to slow down, while fears of Euro zone break up reemerged and rose to their highest level in two years in February; coupled with the deflation threat, the European economy is seen barely growing in the nearest future. In February, median short-term growth forecast stood at 0.27% compared with 0.60% a month earlier. In three years from now, however, experts expected improved economic performance, with GDP growing 1.0%.

The world's number one economy slowed its pace of growth in the fourth quarter of 2014, despite the solid hiring and falling gasoline prices. The Canadian economy also shrank unexpectedly in November amid weaker manufacturing, mining, oil and gas extraction, recording the first contraction in almost a year. Thus, in the short term, a slower pace of growth of 2.0% is expected in the North America, compared with January's forecast of 2.60%. In the long run, the region's economy is seen expanding 2.10%.

Professors also expected a slight deceleration of growth in Asia-Pacific's economy. The six-month economic growth forecast stood at 3.13% in February, while in 2018 the economy is predicted to reach 3.60% growth pace.

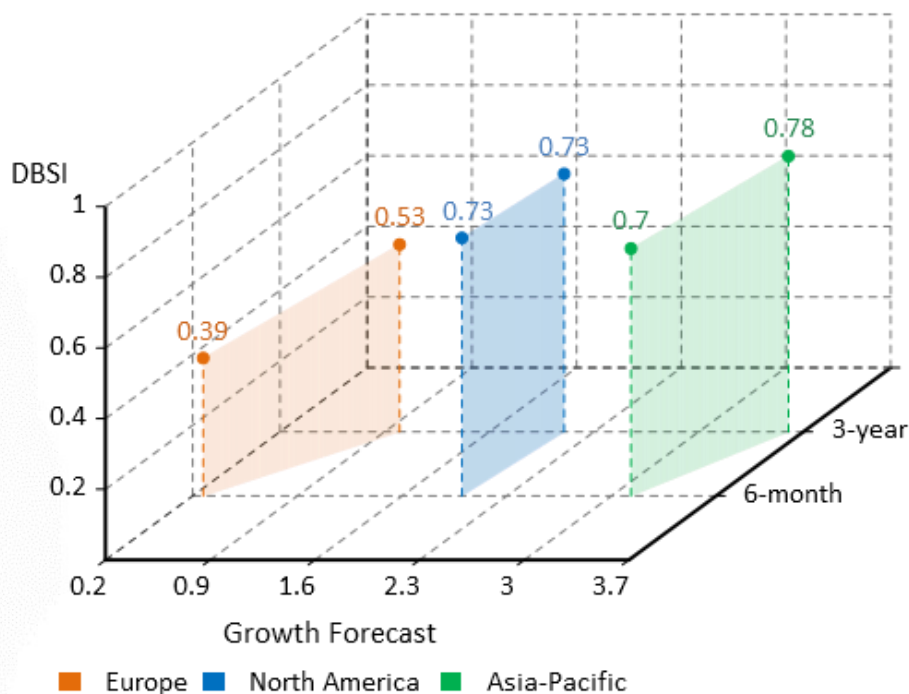


Figure 3: Global economic outlook (term structure)

## 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	4	1	1	1	0
Recessionary Trough	16	7	1	0	3	1
Expansion	5	19	27	27	26	27
Business Peak	0	0	1	2	0	2

Real GDP

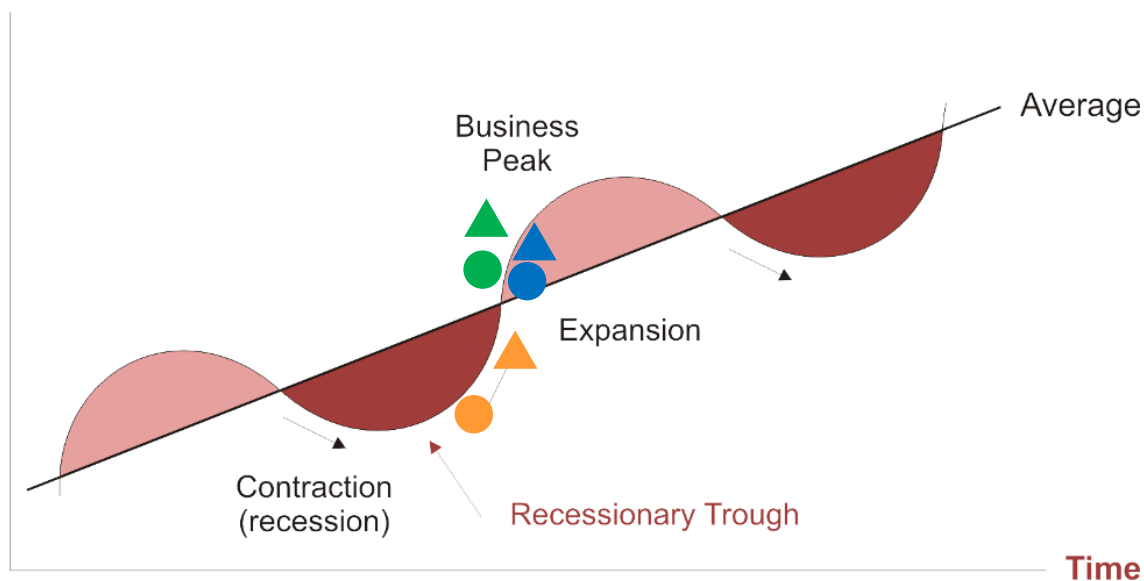


Figure 4: Business cycle

- 6-month EDS
- 3-year EDS

In the short term, the majority of experts saw the European economy struggling and remaining in contraction territory amid a number of economic challenges and political instability in the region. Yet, in 2018 the economy was expected to rebound and finally enter the expansion phase.

Meanwhile, the North America's economy was seen gradually paving its ways to sustainable growth both in the short and long term. The economy was predicted to move to the expansion stage in the foreseeable future. Nevertheless, business peak was still being out of reach in the coming three years.

Asia-Pacific economy seemed to keep up with the North America, as the region also strives for expansion phase in the coming six months, as well as in the three years from now. However, just like for the North American economy, business peak was still far beyond the sight for the Asia-Pacific economy, according to professors' expectations.

## Six-month economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.50	0.75	0.75
Mean (DBSI)	0.61 →(0.00)	0.39 ↓(0.02)	0.73 ↓(0.04)	0.70 ↑(0.04)
Mode	0.75	0.50	0.75	0.75
Standard Deviation	0.26 ↑(0.03)	0.20 →(0.00)	0.22 ↑(0.06)	0.20 ↑(0.02)

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

Europe's short-term economic sentiment continued to decline in February, moving further away from the crucial 50-mark threshold, meaning pessimists outnumbered optimists. Indeed, the share of respondents whose forecast for the region's six-month economic performance was negative, rose to 50% in the reported month. 37% called for a neutral outlook, while the rest saw some glimmers of light in the months ahead. Even relatively robust economic growth in the UK was not enough to offset dull economic output in the continent, leaving Europe lagging behind other advanced economies.

The paramount majority of those surveyed (83%) shared positive outlook for the North American economy. Lower energy prices should free up cash for Americans to spend, which would in turn boost the US economy. Consequently, Canada's economy would significantly benefit from a stronger growth in the US, which is Canada's top trading partner.

The Asian-Pacific economy continues to struggle, with key region's economies, namely China, Australia, and Japan slowing. New Zealand, in contrast, is set for a solid economic growth this year. Thus, the majority of experts (70%) agreed on a positive outlook for the region's economic perspectives in the coming six months.

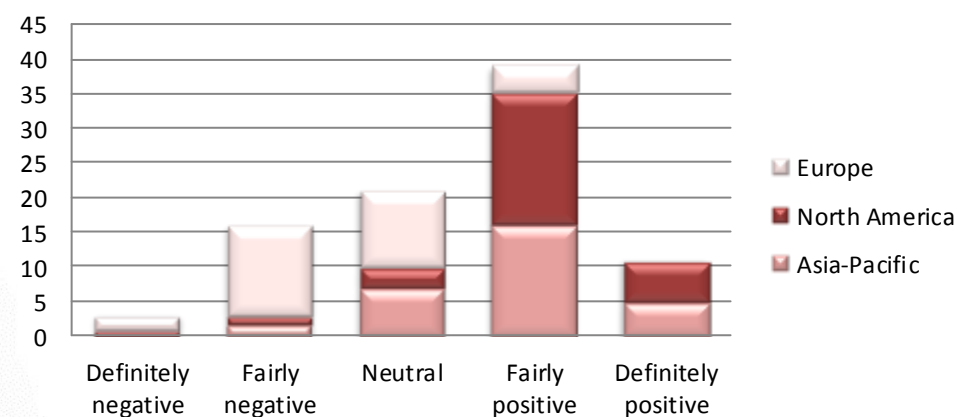


Figure 5: Six-month economic outlook

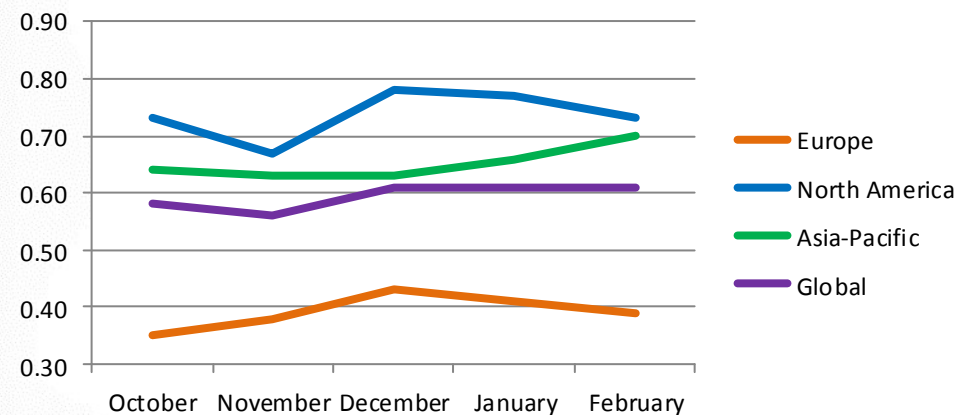


Figure 6: Six-month economic sentiment index

## Three-year economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.68 <span>↑(0.02)</span>	0.53 <span>↑(0.01)</span>	0.73 <span>→(0.00)</span>	0.78 <span>↑(0.04)</span>
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.21 <span>↓(0.01)</span>	0.20 <span>↓(0.03)</span>	0.18 <span>→(0.00)</span>	0.16 <span>↑(0.04)</span>

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

While in the short-term Europe is expected to face a lot of headwind which may considerably derail economic recovery, the region's economy may gain momentum in the long run as those troubles start to wind down. 37% of academia experts were positive on the economic development in the region three years from now, pushing the sentiment index further above the 50-mark.

Although the Dukascopy Sentiment Index for North America stayed at the relatively high level of 0.73 in February, it was still far away from the all-time high of 0.80 reached in January last year. Nevertheless, 84% of professors predicted that the region's economy would gather steam in 2018, paving its way to business peak.

In February, the sentiment index for the Asian-Pacific economy reached the highest level since August, when it hit 0.83. As the region's economy is set to slow, the three-year outlook of professors is slightly clouded, compared to their predictions back in August. Yet, 87% still shared an optimistic outlook in February, while only 13% decided to remain neutral when assessing the economy's growth potential in three years from now.

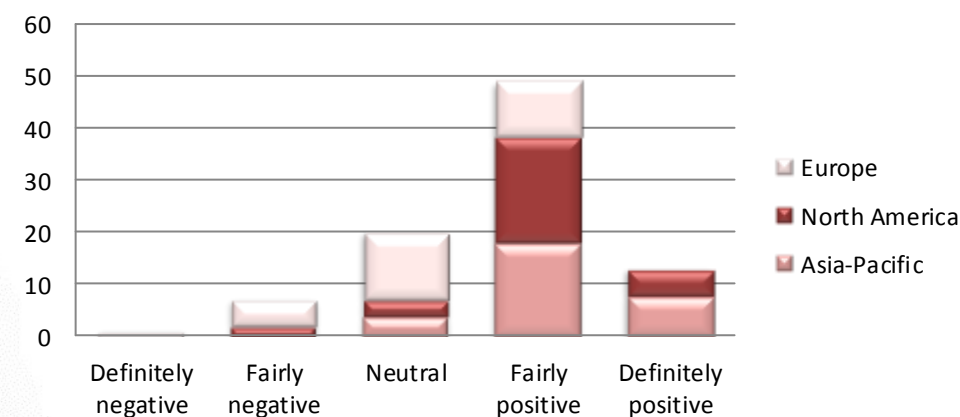


Figure 7: Three-year economic outlook

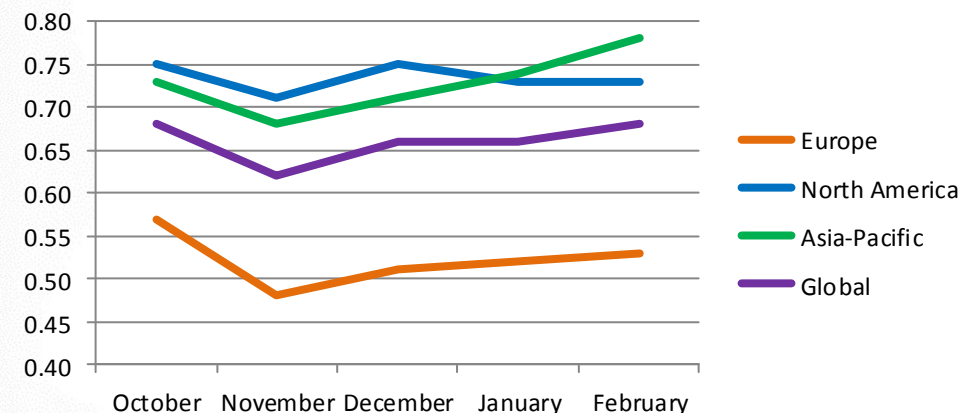


Figure 8: Three-year economic sentiment index

## 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	0.43	0.38	0.83	0.69	0.78	0.66
3-year economic outlook	0.58	0.51	0.78	0.71	0.85	0.75

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

In February, local professors appeared to be more optimistic when assessing region's economy than their overseas colleagues.

The gap in views on economic outlook among European experts and foreign ones appeared to be the smallest when compared to other regions. Discrepancy in expectations for economic prospects in the coming six month came in at 0.05. However, professors appeared to disagree more concerning the regions' long-term economic future, as the difference increased to 0.07.

North-America saw the widest gap in views on the six-month economic outlook. Discrepancy reached 0.14 points in February, while the difference in forecast for the region's economic output in 2018 was 0.07.

In Asia-Pacific local experts were also more upbeat about the region's six-month economic prospects than their colleagues from overseas. The gap in views widened by 0.12 points. Moreover, Asia-Pacific professors appeared to share a stronger belief in the region's resilient long-term economic performance.

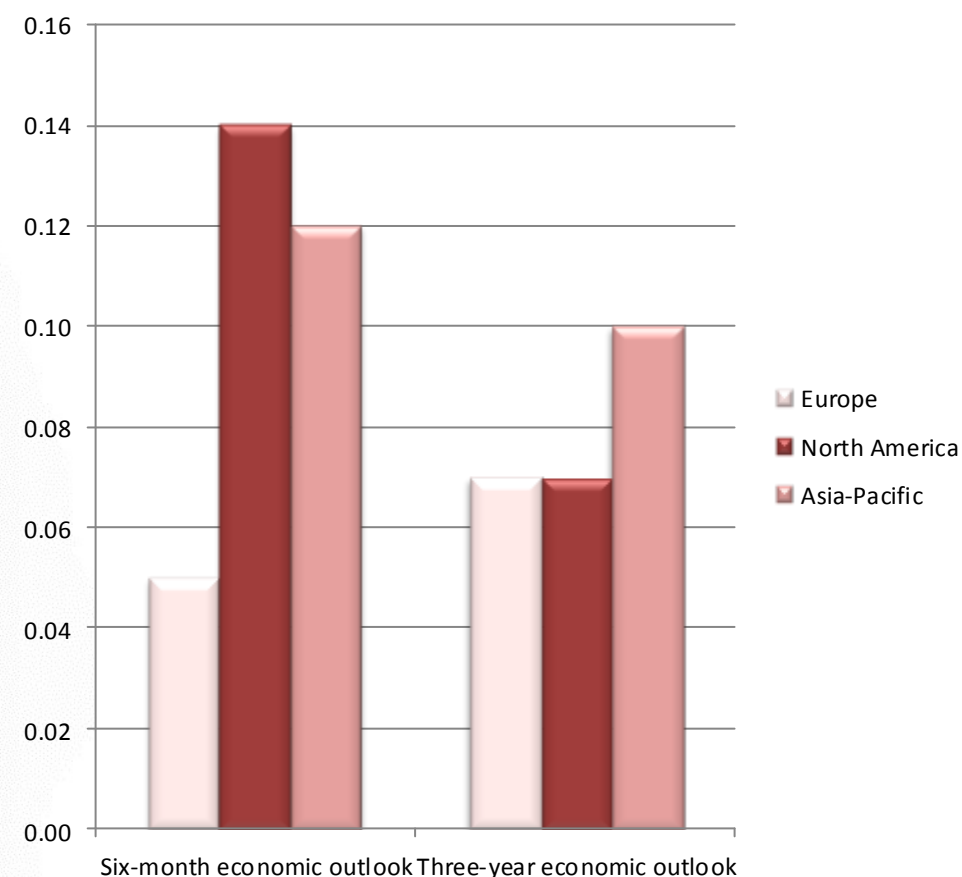


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (\*1)

## 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 February's poll:

Second University of Naples, University of Latvia, Riga International School of Economics and Business Administration, University of Naples Federico II, University of West Hungary, Dublin Institute of Technology, Waterford Institute of Technology, Free University of Bozen-Bolzano, University of Arkansas, Pepperdine University, University of North Carolina at Charlotte, University of Tennessee, Michigan State University, University of Parma, University of Pavia, University of Palermo, Grenoble Ecole de Management, University of Auvergne, Hong Kong Shue Yan University, American University in the Emirates, University of Western Australia, University of Dubai, Carmel Academic Center, Universiti Sains Malaysia, Hebrew University of Jerusalem



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