



DUKASCOPY
RESEARCH PRODUCTS

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Dukascopy Bank Sentiment Index

Summary

- One of the biggest stories on the global economic arena remains the weakness in commodity prices, particularly oil. Precipitous decline in crude oil over the past several months has been expected to be a net positive for many developed and emerging countries including the US, Europe, India, and China, which are net oil importers. However, oil and commodity exporters such as Canada and Australia have already been severely hit by decline in commodities. Adding to this diverging monetary policy around the world, we get a two-speed global economic recovery. Yet, both short and long term outlook continues to improve, as findings of Dukascopy Sentiment Index survey showed in March.
- Professors' sentiment towards Europe's six month economic outlook skyrocketed in March, jumping to 0.49 up from 0.39 in the preceding month. It appears the the short and long term economic expectations have brightened as ECB has launched its massive 1 trillion QE programme on March 5 and Governor Mario Draghi's has stated a sustained economic recovery is finally taking hold in the currency bloc thanks to the central bank's stimulus as well as cheaper oil prices.
- While uncertainty remains over the timing of US interest rate hike and Canada suffers from plunging oil prices, professors were confident in the region's economic future. Both six-month and three-year economic outlook improved in March.
- Central banks in China, Australia, Japan and New Zealand decided to maintain their accommodative monetary policy stance in March to support their economies, further indicating that the region's economy has been struggling due to a number of international and domestic headwinds. Thus, six-month and three-year economic sentiment index declined in March, reflecting professors' concerns over the Asian-Pacific economy's health.

Parameter/ Region	Global	Europe	North America	Asia- Pacific
Six-month economic outlook	 0.63 ↑(0.02)	 0.49 ↑(0.10)	 0.74 ↑(0.01)	 0.67 ↓(0.03)
Three-year economic outlook	 0.71 ↑(0.03)	 0.59 ↑(0.06)	 0.78 ↑(0.05)	 0.76 ↓(0.02)

Figure 1: Mood indicator

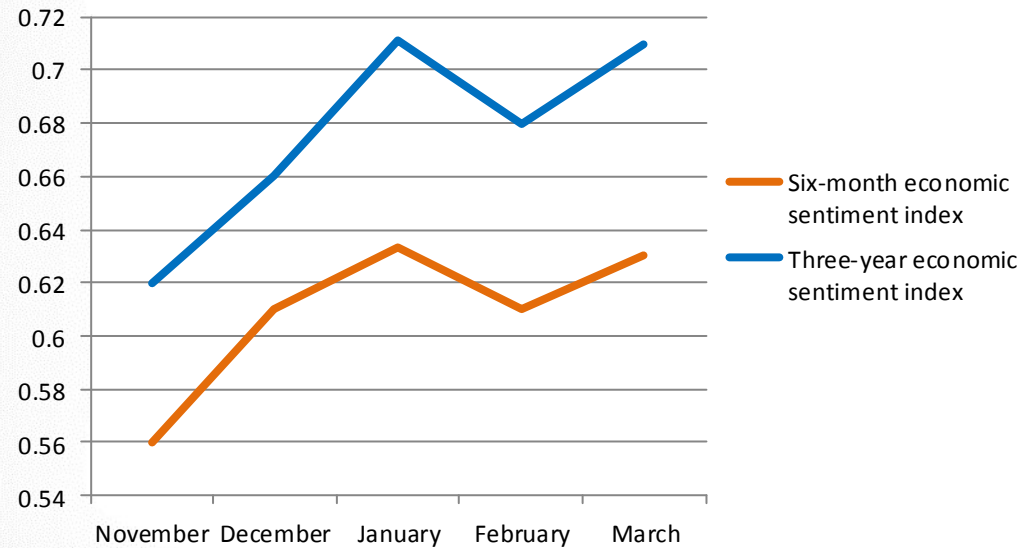


Figure 2: Global economic sentiment index

Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.49 ↑(0.10)	0.40%	0.74 ↑(0.01)	2.07%	0.67 ↓(0.03)	3.13%
3-year economic outlook	0.59 ↑(0.06)	0.70%	0.78 ↑(0.05)	2.30%	0.76 ↓(0.02)	3.87%

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.

According to professors' median growth outlook, the European economy would continue to grow modestly in the coming six months, despite a sharp increase in short-term economic sentiment index. In March, academia experts projected a 0.40% expansion in the short run, while the three-year growth forecast stood at 0.70%.

While the US economy continues to gather momentum, the Bank of Canada expected the worst yet to come in the economic landscape, with the majority of the devastating impact from lower oil to be reflected in the first half of 2015. The combined economic growth of the countries would remain more than 2% both in the short and long run.

Asia-Pacific's six-month economic growth remained unchanged in March at a strong 3.13%, while GDP growth in long term outlook was expected to accelerate to 3.87%, up from the preceding month when experts had anticipated the 3.60% rate of growth.

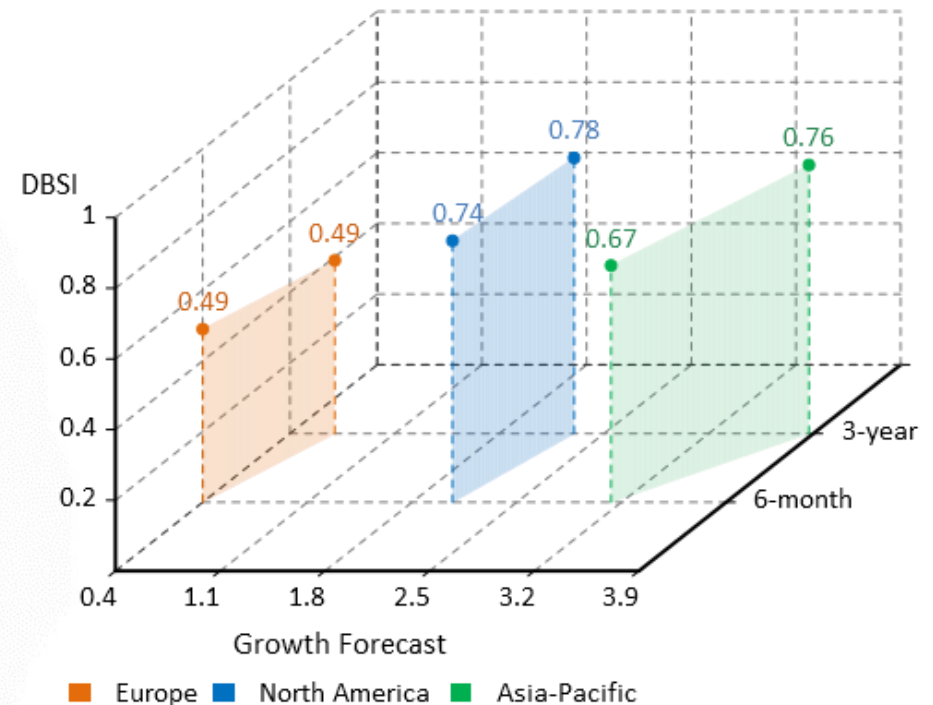


Figure 3: Global economic outlook (term structure)

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	7	0	1	3	0
Recessionary Trough	9	2	4	1	5	2
Expansion	12	21	25	21	22	21
Business Peak	1	0	1	7	0	7

Real GDP

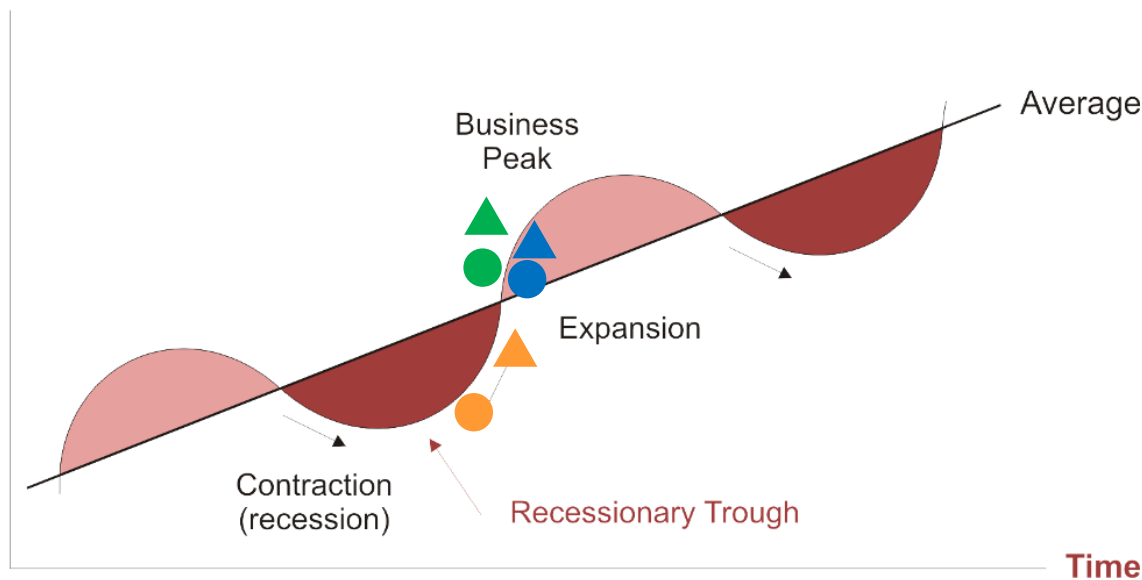


Figure 4: Business cycle

- 6-month EDS
- ▲ 3-year EDS

Professors seemed to be indecisive about where the European economy was heading in the coming six months. Some believed the economy would remain in the contraction territory, while others predicted expansion. However, in the long term, the region's economy was believed to gather steam, as the great majority anticipated a sustained expansion.

According to experts' outlook in March, North America's economy would continue to strengthen. As many as seven professors predicted the economy to reach a business peak by 2018.

Asia-Pacific would not lag behind, as professors continued to expect a strong economic performance in the region both in the short and long term. The economy was expected to enter the business peak phase in three years, according to seven professors.

Six-month 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)	0.49 ↑(0.10)	0.74 ↑(0.01)	0.67 ↓(0.03)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.24 ↑(0.03)	0.22 ↑(0.02)	0.21 ↑(0.03)	0.21 ↑(0.05)

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

A dramatic increase in Europe's six-month outlook, a modest gain in North American sentiment index and a decline in confidence in Asia-Pacific short-term economic prospects translated into a modest rise in the six-month global economic outlook. The corresponding gauge inched up to 0.63 in March, up from 0.61 in the preceding month.

Even though Europe's six-month economic sentiment index soared by 0.10 points in March from the previous month, the gauge remained below the crucial 0.50-mark threshold. This indicates that pessimists continued to outweigh optimists last month. Yet, as the ECB proceeds with its asset-buying programme, confidence in the European economy would continue to strengthen in the months ahead.

North America saw a slight improvement in the sentiment index as the reading ticked up by 0.01 point in the reported month. The US posted somewhat softer fundamentals in March, including weaker-than-expected jobs market data, putting June's interest rate hike into question. Canada, being oil exporter, continued to struggling due to falling crude prices.

Asia-Pacific six-month economic sentiment index retreated slightly in March, falling to 0.67 down from five-month high at 0.70 in the previous month.

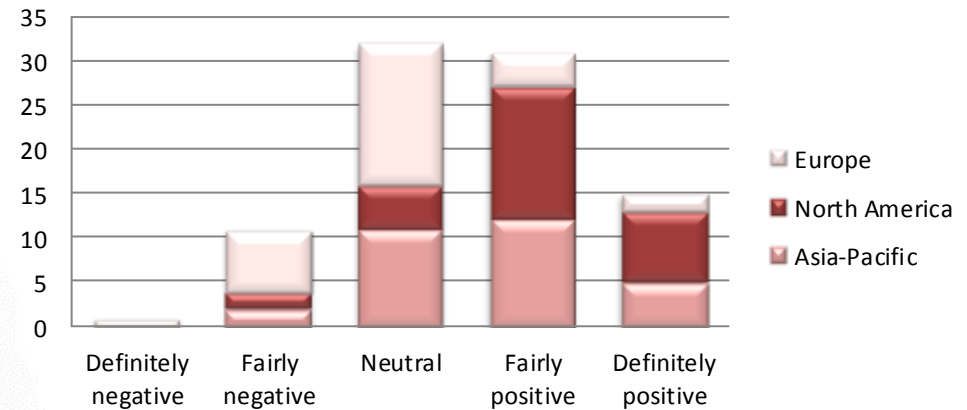


Figure 5: Six-month economic outlook

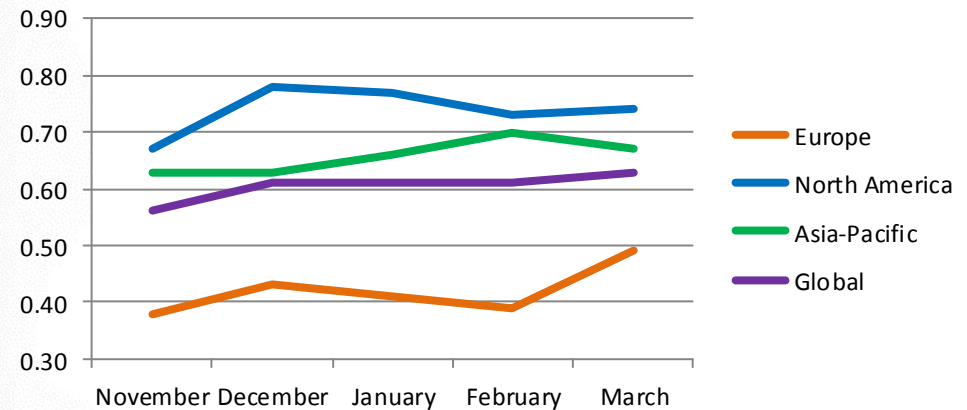


Figure 6: Six-month economic sentiment index

Three-year economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.71 ↑(0.03)	0.59 ↑(0.06)	0.78 ↑(0.05)	0.76 ↓(0.02)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.23 ↓(0.01)	0.21 ↓(0.01)	0.20 ↓(0.01)	0.23 ↑(0.02)

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

Global three-year economic sentiment index rose to the highest level in ten months in March, thanks to an upbeat outlook for Europe and North America.

Professors' confidence in Europe's three-year economic performance continued to increase in March, reaching an eight-month high. The ECB's quantitative easing programme, designed to underpin economic growth in the Euro zone will last until at least September 2016. Therefore, the Euro area's economy will be supported in the coming years. Yet, compared with other regions, experts' outlook for the European economy was modest.

The three-year economic sentiment index for the North American economy climbed to 0.78 in March, the level last seen in June 2014. Expectations have been mounting for the Fed to hike interest rates later this year, meaning the economy will have fully recovered after the Great Recession. Canada will continue to benefit from strengthening US economy.

Asia-Pacific sentiment index slightly retreated in March, falling by 0.02 points to 0.76. Nevertheless, the index remained firmly above the threshold, which separates positive and negative outlook.

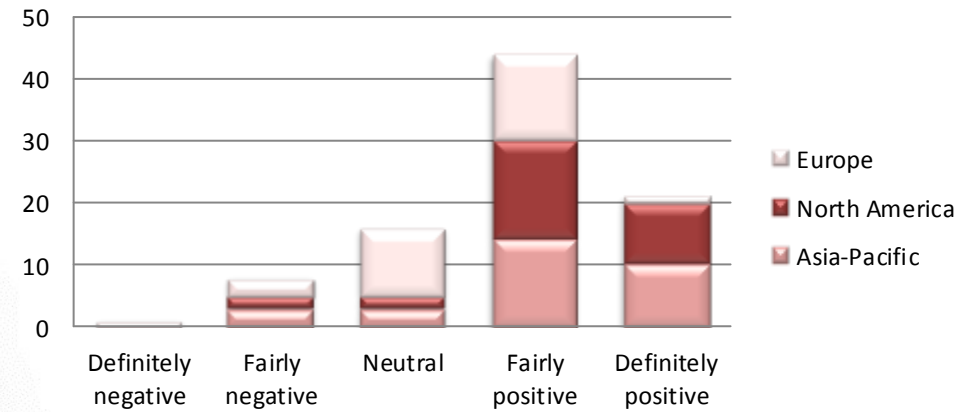


Figure 7: Three-year economic outlook

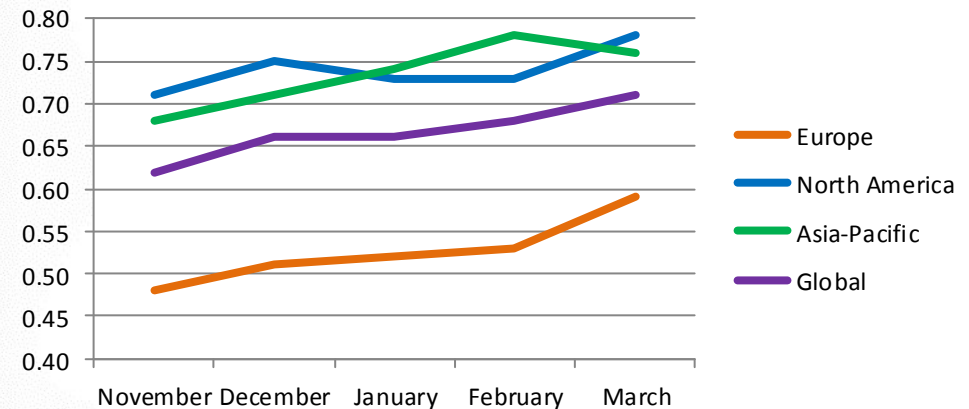


Figure 8: Three-year economic sentiment index

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	0.50	0.49	0.73	0.75	0.73	0.64
3-year economic outlook	0.68	0.55	0.80	0.78	0.78	0.75

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

Evaluating Europe's short term economic prospects, European and foreign professors appeared to be almost unequivocal. Yet, local experts were slightly more optimistic than their colleagues from North America and Asia-Pacific. As to the long-term economic outlook, European optimism towards the three-year outlook was greater compared to the sentiment of foreign academia experts.

Foreign experts gave a more sanguine assessment on the North American economic future in the coming six months than Americans. However, local professors appeared to be more confident in the economic performance over the course of the next three years whereas foreign experts shared a conservative estimate.

While experts in Asia-Pacific were confident in the economic health in the coming six months, foreign specialists appeared to be more cautious when giving their assessment of the region's short term economic outlook. Nevertheless, the gap in views on the outlook shrank, as all professors became more upbeat about the region's long-term economic prospects.

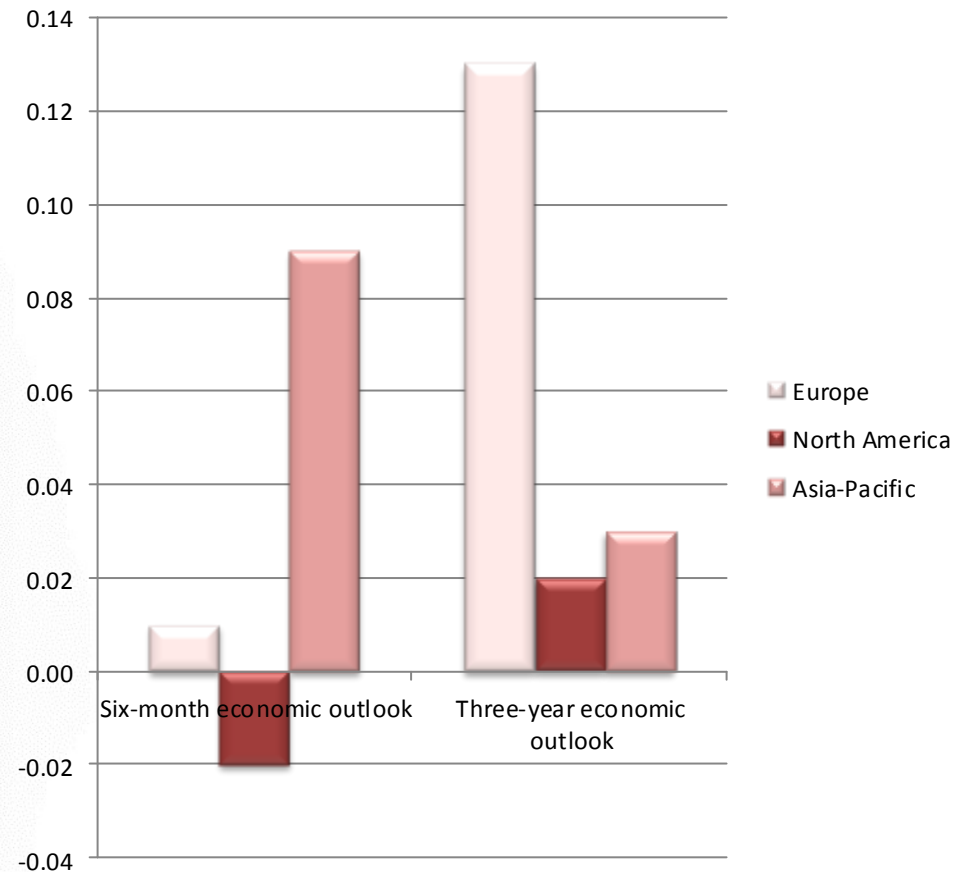


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (*1)

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 March poll:

University of Illinois at Chicago, Nicholls State University, Ryerson University, MacEwan University, DePaul University, William Paterson University of New Jersey, Paris Dauphine University, Free University of Bozen-Bolzano, University of Cagliari, University of East Anglia, University of Palermo, University of Glasgow, University of Padua, Robert Gordon University, SBS Swiss Business School, EBS Oestrich-Winkel, Tel Aviv University, Ukrainian Institute of Arts and Sciences, Nanyang Technological University, Savitribai Phule Pune University, University of Western Australia, University of West Hungary, University of Edinburgh, Lund University, Indian Institute of Management Bangalore



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