



DUKASCOPY
RESEARCH PRODUCTS

July release



Dukascopy Bank Sentiment Index

Summary

- Summertime sadness appeared to dominate among academia experts, as professors' mood darkened in July amid worries over the Greek debt crisis and the country's future within the Euro zone as well as China's stock rout. However, the three-year economic sentiment indexes for all regions surged in the reported month, signaling economists' confidence that the world economy will strengthen in the long-run.
- While the six-month economic outlook for the global economy deteriorated in July, with the corresponding index declining by 0.04 points, the three-year sentiment index rose sharply.
- After the Greek parliament approved a raft of painful austerity measures to unlock a third bailout package worth 86 billion euros, and the BoE Governor hinted that UK interest rates could rise "at the turn of the year", professors' concerns were alleviated. Moreover, the three-year sentiment index soared to 0.68, the highest level since June 2014.
- North American economy saw the gauge measuring professors' economic expectations over the course of next six month falling by 0.06 points. Nevertheless, professors were increasingly confident that the region's economy would build momentum in the long-run.
- Experts were less optimistic about the Asian-Pacific short term economic future in light of the recent Chinese stock market rout and the government's vain attempt to support the financial system. However, the three-year sentiment index hit a one-year peak.

Parameter/ Region	Global	Europe	North America	Asia- Pacific
Six-month economic outlook	 0.61 ↓(0.04)	 0.48 ↑(0.02)	 0.70 ↓(0.06)	 0.64 ↓(0.09)
Three-year economic outlook	 0.78 ↑(0.13)	 0.68 ↑(0.15)	 0.80 ↑(0.07)	 0.85 ↑(0.16)

Figure 1: Mood indicator

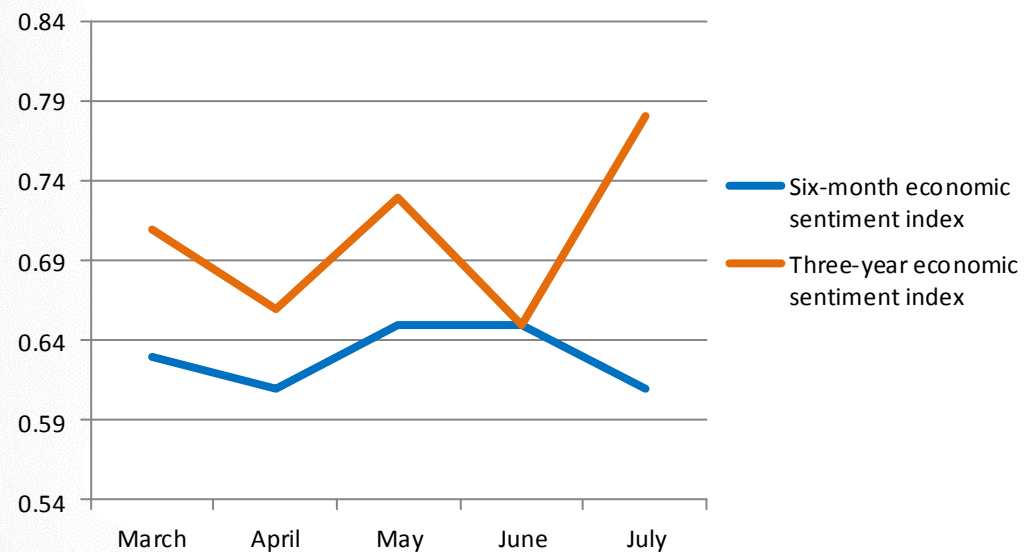


Figure 2: Global economic sentiment index

Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.48 ↑(0.02)	0.87%	0.70 ↓(0.06)	2.03%	0.64 ↓(0.09)	3.27%
3-year economic outlook	0.68 ↑(0.15)	1.30%	0.80 ↑(0.07)	2.67%	0.85 ↑(0.16)	3.67%

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.

After the Greek government officially asked for the third bailout package, everyone sighed with relief, as the worst-case scenario was avoided. Moreover, the BoE signalled a possible interest rate hike at the turn of the year. Hence, economists revised their economic outlook and growth forecast upwards. Over the course of next six months, the region's economy was seen growing at an annual 0.87% pace, accelerating to a 1.30% rate by 2018.

While the Fed remained on the course to hike interest rates this year, the Bank of Canada cut its base rate to 0.50% in July amid a stronger-than-expected effect of the sharp drop in oil prices and a weak recovery in non-energy sector. The central bank also downgraded its growth estimate compared to its April projection. As a result, the short-term outlook deteriorated. However, economic conditions were predicted to improve over the course of next three years.

The short-term sentiment index for Asia-Pacific's economy plummeted in July amid the recent Chinese stock market rout and Beijing's unsuccessful attempts to stabilize situation. On top of that, the RBNZ cut its OCR as the economy expanded below its potential due to falling commodity prices and low consumer inflation. Yet, the growth forecasts remained firmly above 3% in July.

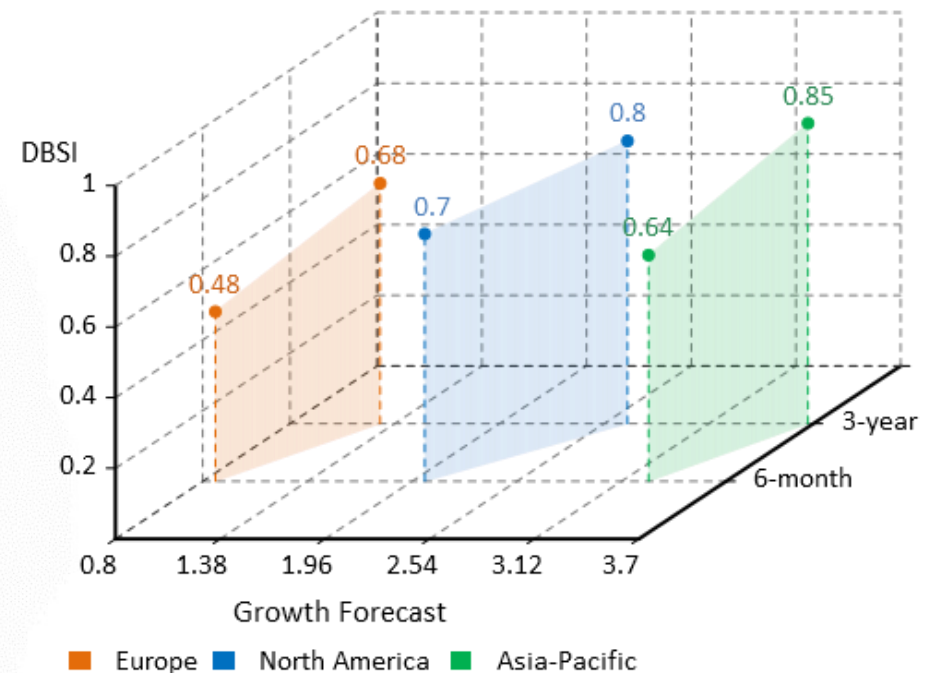


Figure 3: Global economic outlook (term structure)

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	10	2	3	1	2	0
Recessionary Trough	6	7	0	2	7	1
Expansion	13	19	27	24	20	23
Business Peak	1	2	0	3	1	6

Real GDP

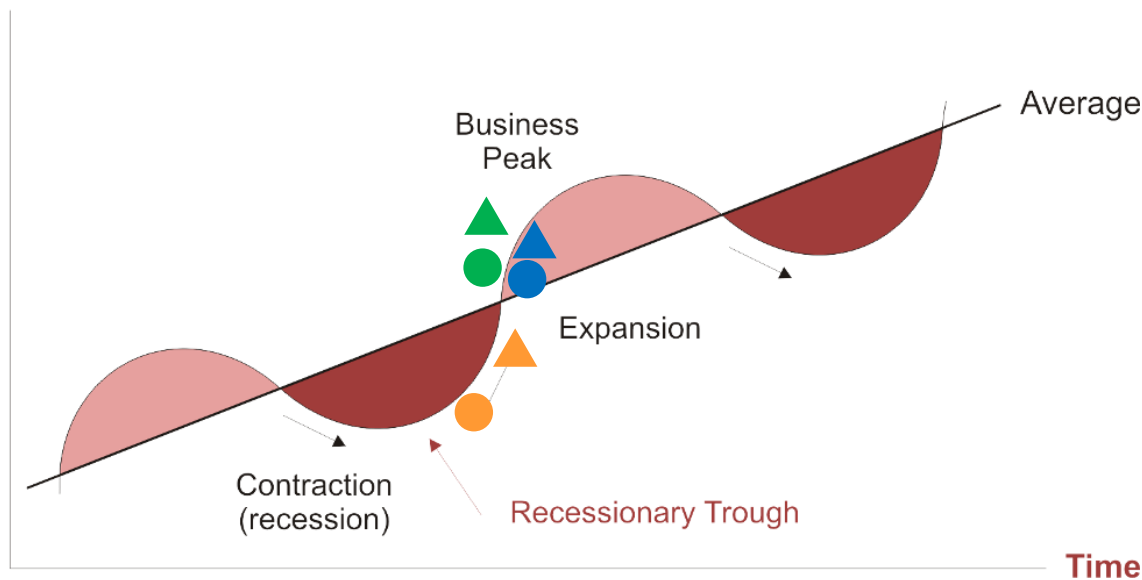


Figure 4: Business cycle

- 6-month EDS
- ▲ 3-year EDS

The number of professors who thought the European economy was to remain in the lower-end of the business cycle curve in the short term rose slightly in July. Nevertheless, the majority believed the economy would continue to expand down the road.

Experts saw the North American economy to remain firmly in the expansion phase both in the short run and over the course of the next three years.

The Asian Pacific economy was predicted to outperform North American economy, according to professors' consensus forecast. In the second half of this year, the region's economy was likely to stay in the expansion zone, whereas it will gradually move towards the business peak by 2018, experts forecast.

Six-month economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.61 ↓(0.04)	0.48 ↑(0.02)	0.70 ↓(0.06)	0.64 ↓(0.09)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.24 →(0.00)	0.24 ↑(0.01)	0.18 ↑(0.04)	0.24 ↑(0.03)

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

After the Greek parliament approved a raft of painful austerity measures to unlock a third bailout package worth EUR 86 billion and the BoE Governor hinted that UK interest rates could rise "at the turn of the year", professors' concerns were alleviated. As a result, the six-month economic sentiment index rose slightly in July. Nevertheless, economists appeared to be divided when evaluating the economic conditions in the region. While there were 34% of those who gave a negative economic outlook, 26% were positive and 40% said that the outlook remained balanced.

While the US economy has been performing robustly and in line with expectations of the Fed officials, Canada has continued to feel a fall-out of the sharp drop in oil prices and experienced a weak recovery in non-energy sector. Nevertheless, July's survey revealed that majority of professors were inclined to give a positive assessment to the region's economic performance in the next six months.

Experts were less optimistic about the Asian-Pacific short term economic future in light of the recent Chinese stock market rout and the government's unsuccessful attempt to support the financial system, as well as the rate cut by the RBNZ. The sentiment index plunged by 0.09 point in the measured month.

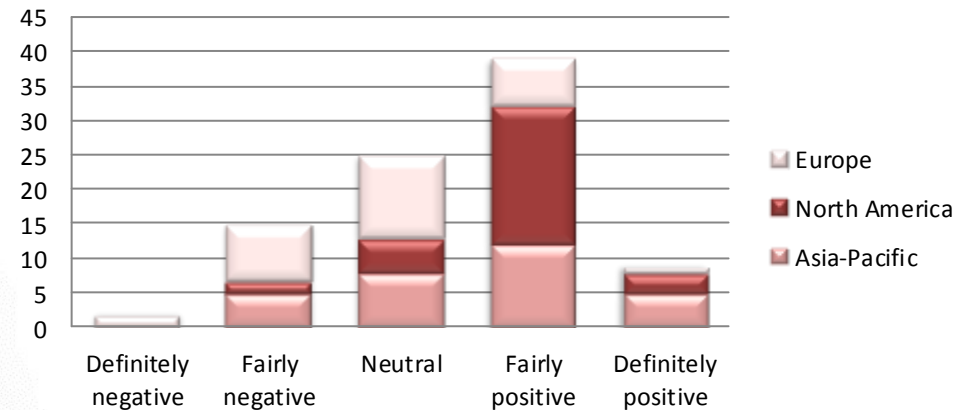


Figure 5: Six-month economic outlook

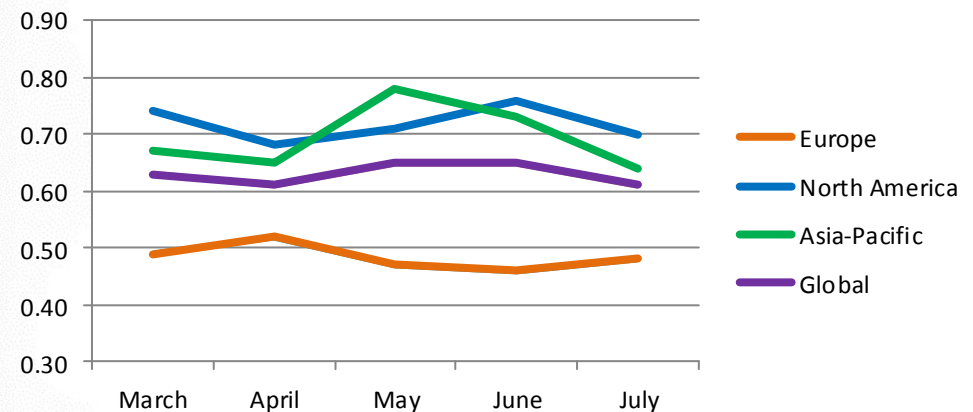


Figure 6: Six-month economic sentiment index

Three-year economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.78 ↑(0.13)	0.68 ↑(0.15)	0.80 ↑(0.07)	0.85 ↑(0.16)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.20 ↓(0.03)	0.21 ↑(0.03)	0.18 ↑(0.01)	0.18 ↓(0.10)

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

Economic conditions were set to improve throughout the next three years, according to economists' predictions in July. The long term sentiment index for the world's economy soared by 0.13 points to 0.78.

The overwhelming majority (77%) of professors shared a positive outlook for the European economic performance over the course of next three years. Such an upbeat assessment contributed to a sharp jump in the region's three-year economic sentiment, which hit a one-year high in July.

The three-year economic sentiment index rose to the highest level since January 2014, as the US, the world's number one economy, was expected to grow robustly in the years to come. At the same time, Canada's economy will benefit from strengthening US economy, which is the top destination for Canadian exports.

The Asia-Pacific region saw its three-year economic sentiment index skyrocket by 0.16 points in July to reach a level not seen since June 2014. This was due to the fact that the share of professors who voiced a positive economic outlook for the region's economy reached 93%.

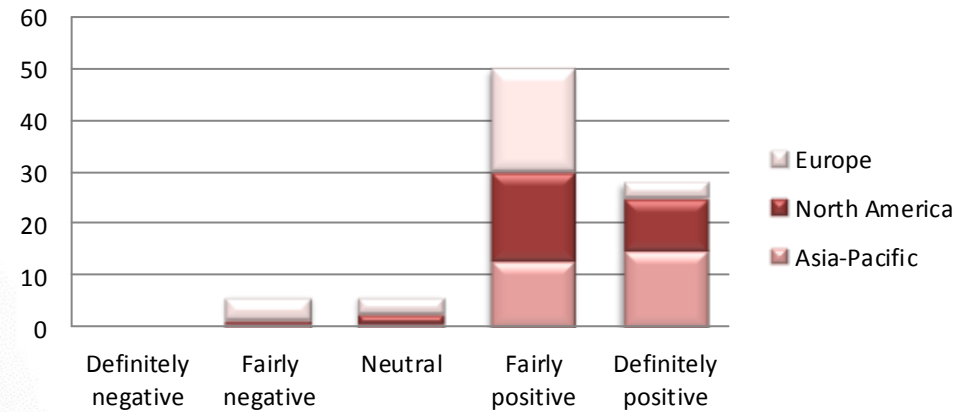


Figure 7: Three-year economic outlook

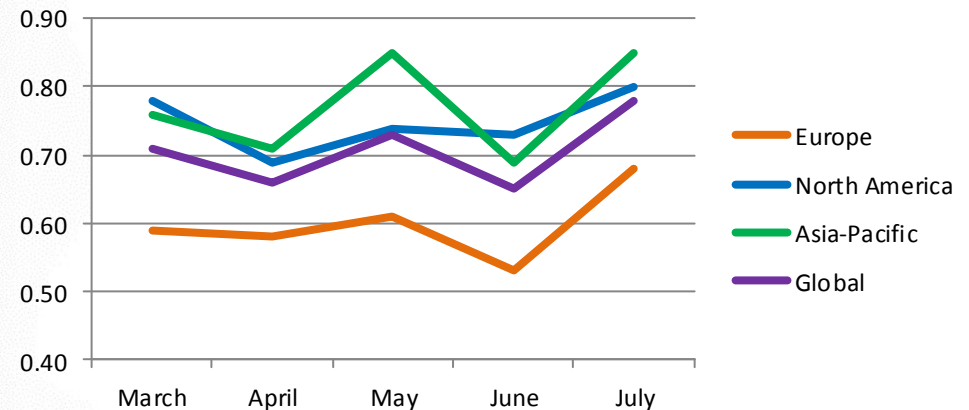


Figure 8: Three-year economic sentiment index

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	0.45	0.49	0.70	0.70	0.73	0.60
3-year economic outlook	0.70	0.68	0.80	0.80	0.93	0.81

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

Europeans appeared to be more skeptical about the region's economic conditions in the short term compared to the assessment of their overseas colleagues. Nevertheless, local experts were more upbeat about the economic prospects in the years to come.

Surprisingly, there was no discrepancy in views on North American six-month as well as three-year economic outlook among the local and foreign experts in July.

However, there was a wide gap in views on Asia-Pacific's region economic forecast. Local professors appeared to be much more positive when assessing the economy's short and long-term economic prospects. In contrast, economists from abroad were less optimistic.

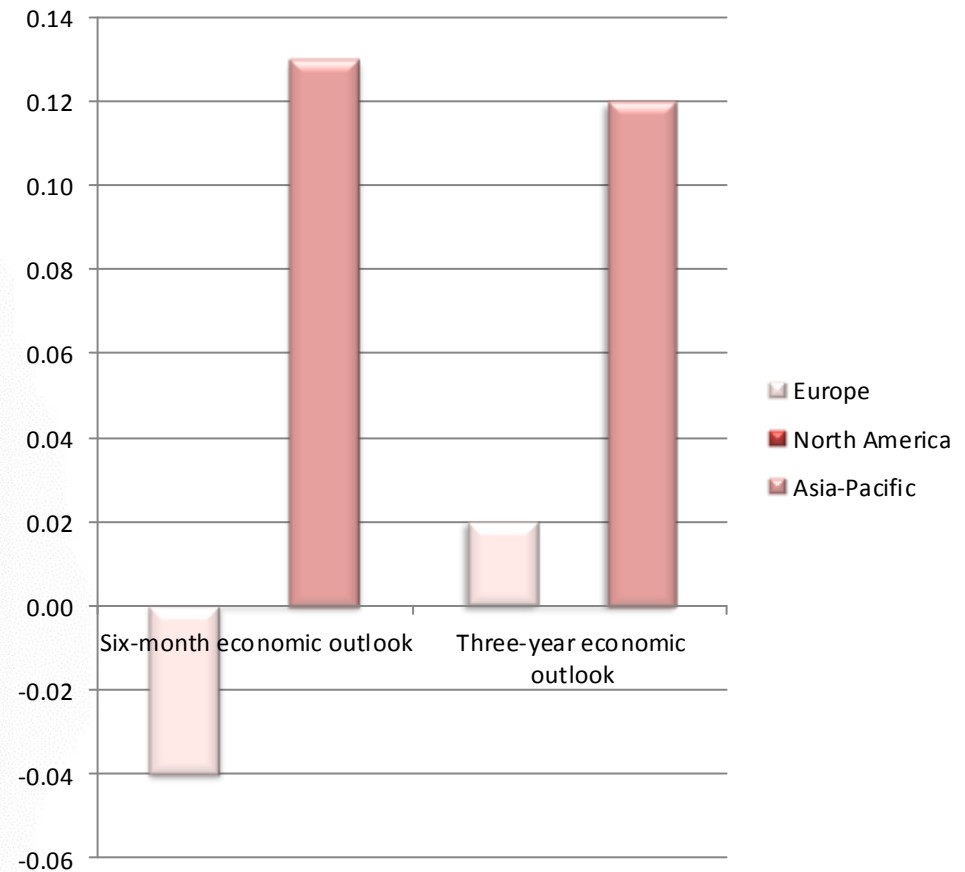


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (*1)

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 July's poll:

University of Pittsburgh, Arizona State University, University of Alabama at Birmingham, Shippensburg University of Pennsylvania, University of Missouri, DePaul University, Saint Louis University, West Virginia University, Central University of Gujarat, University of Southampton, University of Salford, Central European University, Libera Università Internazionale degli Studi Sociali "Guido Carli", Birkbeck, University of London, Université libre de Bruxelles, University of St Andrews, University of Kent, University of Oxford, Central University of Gujarat in Gandhinagar, Forman Christian College University of Management and Technology, University of Barisal Quaid-i-Azam, University Islamabad, International University of Business Agriculture and Technology, Caspian State University of Technologies and Engineering, Indira Gandhi National Open University



Newest releases and archive:

- Fundamental Analysis
- Technical Analysis
- Press Review
- Market Research
- Expert Commentary
- Dukascopy Sentiment Index
- Trade Pattern Ideas
- Global Stock Market Review
- Commodity Overview
- Economic Research
- Quarterly Report
- Aggregate Technical Indicator

Additional information:

- Dukascopy Group Home Page
- Market News & Research
- FXSpider
- Live Webinars
- Dukascopy TV
- Daily Pivot Point Levels
- Economic Calendar
- Daily Highs/Lows
- SWFX Sentiment Index
- Movers & Shakers FX
- Forex Calculators
- Currency Converter
- Currency Index
- CoT Charts

Social networks:



Disclaimer

Everything in this article, including opinions and figures, is provided for informational purposes only and may not be interpreted as financial advice or solicitation of products. Dukascopy group assume no responsibility for the completeness or the accuracy of any data contained in this article. Financial figures indicated in this article have not been verified by the Dukascopy group. Views, opinions and analyses are those of the author of the article, and are not endorsed by the Dukascopy group.

Dukascopy group waive any and all warranties, express or implied, regarding, but without limitation to, warranties of the merchantability or the fitness for a particular purpose, with respect to all information in this article. Dukascopy group shall under no circumstances be responsible for any direct, indirect, consequential, contingent or any other damages sustained in connection with the use of this article.