



**DUKASCOPY**  
RESEARCH PRODUCTS

August release



# Dukascopy Bank Sentiment Index

## Summary

- China's "Black Monday" crash on August 24 not only triggered panic among investors all around the world, but also significantly undermined professors' sentiment as all indexes plunged sharply. A near 9% decline in the Shanghai Composite index, the biggest one-day decrease since 2007, reverberated around global markets, sending other stock exchanges from Sydney to Wall Street tumbling. As worries go well beyond China's immature stock market, signs are mounting that the world's second largest economy is slowing at an even faster pace than Beijing estimated, fuelling fears the global economy heads for a renewed crisis. After growing 7.4% last year, there are doubts that the Chinese economy can reach this year's lower target of 7%. Despite a string of interventions by Beijing, including an unexpected devaluation of the Yuan this month, the world's growth engine appears to be spluttering.
- Now everyone is left with the question "What does the turmoil in China mean for the rest of the world? To what extent the recent adverse developments in China will impact other economies? And will central banks adjust their monetary policy to cushion economies and ensure sustainable growth?"
- Meanwhile, professors who took part in August Dukascopy Sentiment Index poll appeared to be increasingly concerned about the world's leading economies, as their both short and long term economic outlook darkened.









Parameter/ Region	Global	Europe	North America	Asia- Pacific
Six-month economic outlook	 0.49 ↓(0.12)	 0.39 ↓(0.09)	 0.66 ↓(0.04)	 0.42 ↓(0.22)
Three-year economic outlook	 0.62 ↓(0.16)	 0.51 ↓(0.17)	 0.68 ↓(0.12)	 0.67 ↓(0.18)

Figure 1: Mood indicator

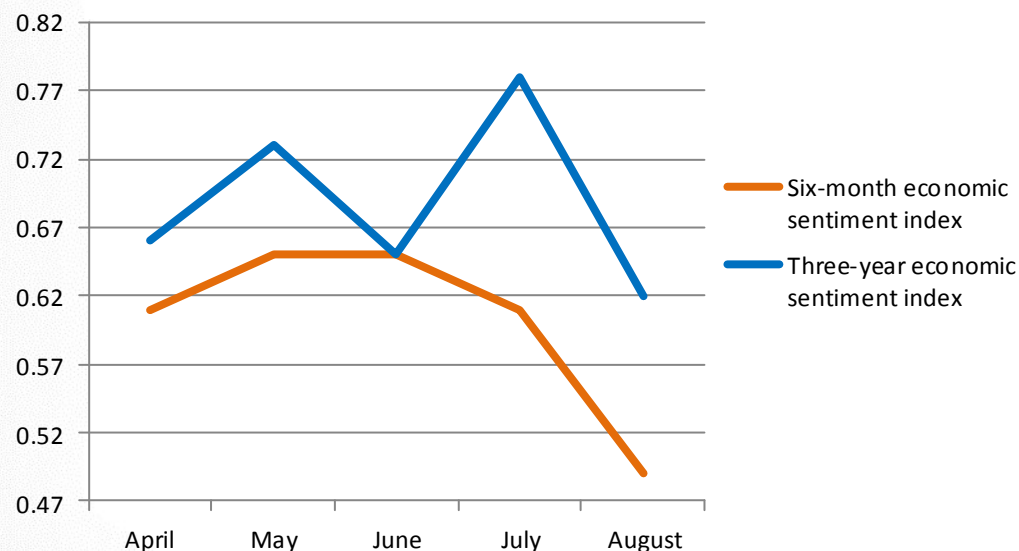


Figure 2: Global economic sentiment index

## 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 ↓(0.09)	0.20%	0.66 ↓(0.04)	1.93%	0.42 ↓(0.22)	3.30%
3-year economic outlook	0.51 ↓(0.17)	0.57%	0.68 ↓(0.12)	1.97%	0.67 ↓(0.16)	4.03%

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.

As confidence in Europe's economy declined sharply in August, so did the growth outlook. Academia experts revised downwards their short-term economy growth forecast from 0.87% in July to 0.20% last month. At the same time, the region's economy was expected to expand 0.57% over the next three years, compared with 1.30% predicted in the prior month.

North America's economic output was estimated to grow at the slowest pace this year, as the median short-term forecast stood at 1.93%. Moreover, the three-year growth outlook appeared to be the worst in over a year, as the consensus slid below the 2% threshold for the first time since July 2014.

Even though the Asian-Pacific region triggered turmoil on the global financial arena, experts kept their growth outlook surprisingly unchanged. While the short term growth outlook was marginally upgraded from 3.27% in July to 3.30% in the reported month, the three-year growth was revised sharply upwards to 4.03%, compared with 3.67% in the prior month.

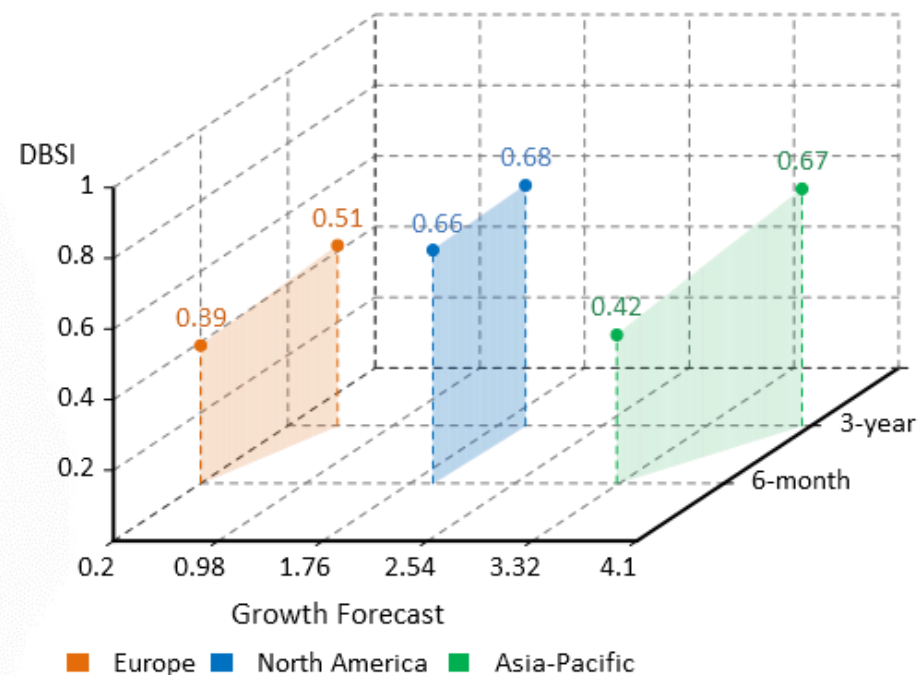


Figure 3: Global economic outlook (term structure)

## 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	12	7	5	2	10	4
Recessionary Trough	11	10	3	2	10	4
Expansion	6	13	22	23	10	21
Business Peak	1	0	0	3	0	1

Real GDP

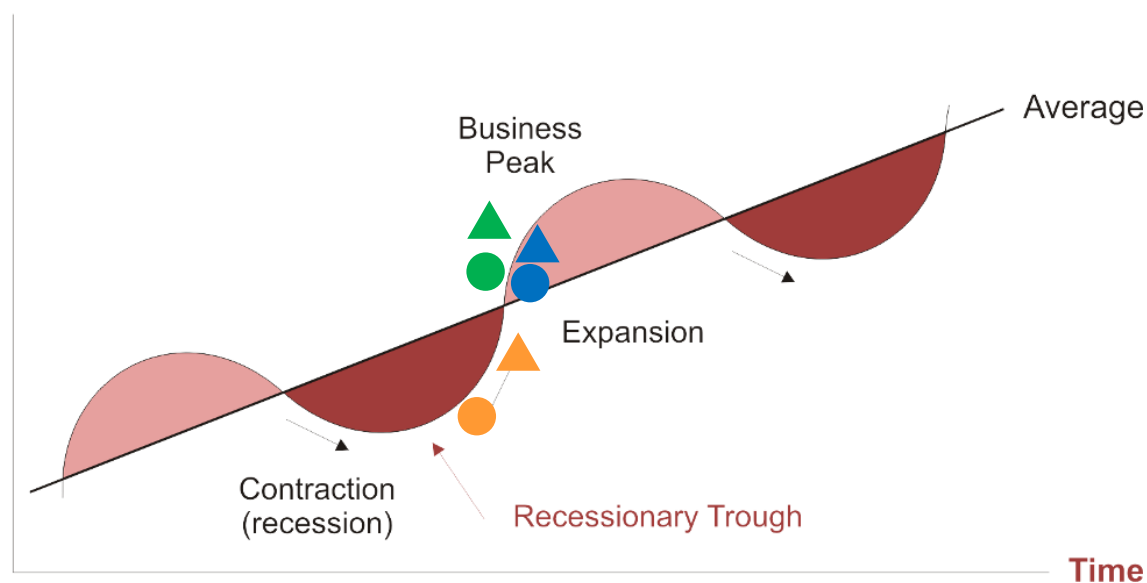


Figure 4: Business cycle

- 6-month EDS
- 3-year EDS

The European economy was expected to remain in the lower-end of the business cycle curve in the next six months, the majority of professors predicted. However, the economy was set to gather some steam and move towards the expansion phase by 2018.

Even though both North America's short and long term sentiment significantly deteriorated last month, experts believed that the economy had enough momentum to keep its upside trend in the months ahead.

Professors appeared to be evenly split when determining the Asian-Pacific economy's phase in the business cycle. Still, the majority put the economy in red territory. However, long-term economic outlook remained virtually unchanged, with the economy gradually moving towards the business peak.

## Six-month economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.49 ↓(0.12)	0.39 ↓(0.09)	0.66 ↓(0.04)	0.42 ↓(0.22)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.27 ↑(0.03)	0.29 ↑(0.05)	0.20 ↑(0.02)	0.22 ↓(0.02)

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

Concerns over the Greek debt crisis have slowly faded as former Prime Minister Alexis Tsipras won the approval for the third bailout package worth 86 billion EUR and announced that he resigned and called for early parliamentary elections. However, China's equity market collapse spurred jitters all around the world. As a result, six-month economic sentiment index plunged to the lowest level this year, snapping a gradual rebound in the previous month.

The North America experienced the smallest decline in the sentiment index in August compared to other regions, as the US economic landscape, the world's number one growth engine, continues to improve. Nevertheless, the long-anticipated September interest rate hike by the Fed might be delayed due to turmoil caused by China. America's six-month sentiment index slid to 0.66 in August, hitting a one-year low.

As the Asian region was the initiator of the global market turbulence; consequently, its short-term sentiment index plunged the most when compared to other economies' indexes. The gauge nosedived by 0.22 points in August to hit the lowest level on records dating back to November 2011. It appeared to be the biggest contributor to a sharp decrease in the global six-month sentiment index, which plummeted by 0.12 points to 0.49.

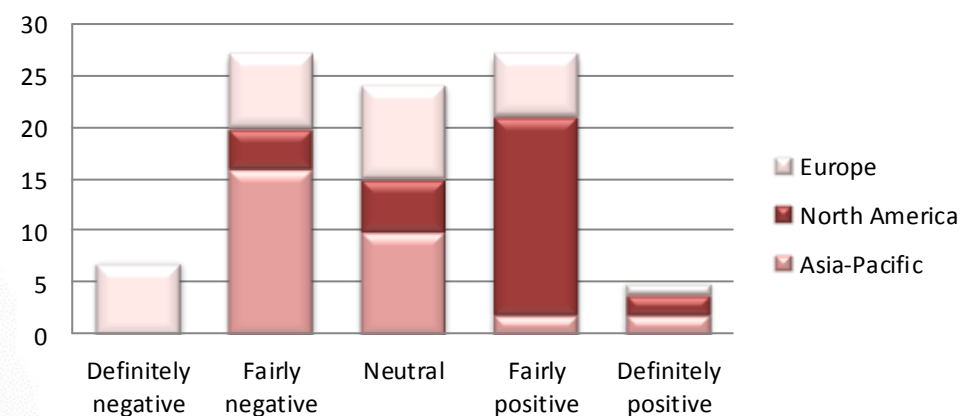


Figure 5: Six-month economic outlook

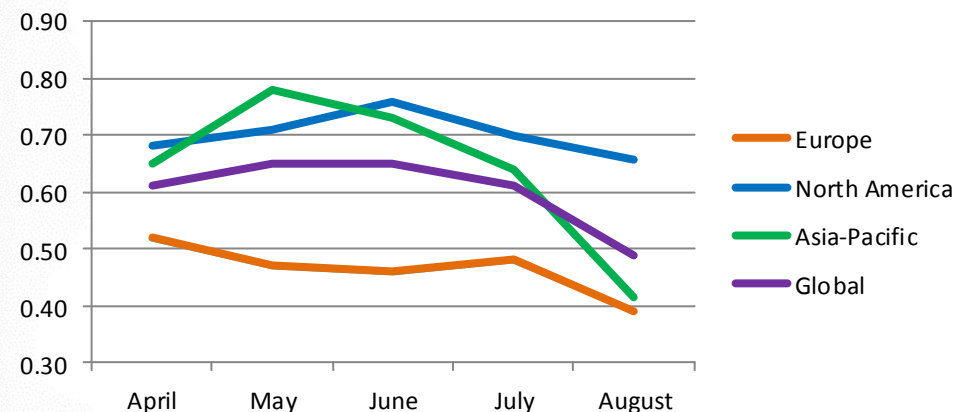


Figure 6: Six-month economic sentiment index

## Three-year economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.62 ↓(0.16)	0.51 ↓(0.17)	0.68 ↓(0.12)	0.67 ↓(0.18)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.24 ↑(0.04)	0.23 ↑(0.02)	0.24 ↑(0.06)	0.24 ↑(0.06)

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

All the regions were expected to show a poorer growth momentum over the course of next three years. However, the next two years will be crucial in the monetary policy history, as two giants, the Fed and the BoE, are set to start normalizing their policies by lifting interest rates from all-time low. Those decisions will shape the global economic arena, as well as may set a new normality.

After recovering strongly in June, Europe's three-week sentiment index slid to 0.51, the lowest level in eight months. Europe continues to face a number of domestic and international headwinds, political debates, as well as deep structural problems.

Professors have been getting cautious concerning the North America's long term outlook, particularly as the Fed is moving closer to interest rate hike. However, the recent collapse of China's equity market and a slowdown of the world's second biggest economy may force policy makers to postpone the decision towards the end of the year.

The Asian-Pacific three-year outlook was hit hard in August, as the region was a center of the recent turbulence. Such a steep decline in three-year sentiment index could be explained by loss in confidence in China's economy growth potential.

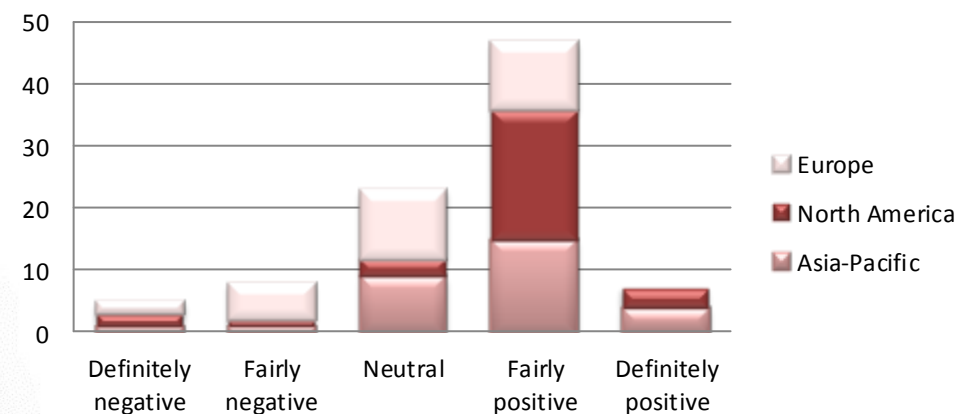


Figure 7: Three-year economic outlook

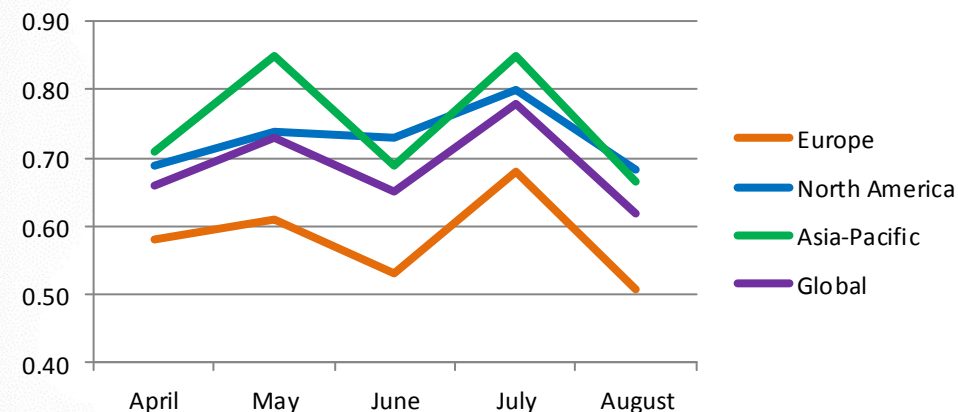


Figure 8: Three-year economic sentiment index

## 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	0.35	0.65	0.66	0.43	0.41
3-year economic outlook	0.58	0.48	0.63	0.71	0.65	0.68

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

In August, European professors appeared to be more optimistic about Europe's growth potential both in the short term and over the course of next three years. Discrepancy in views was particularly large when academia experts evaluated the region's six-month growth momentum.

In contrast, American economists were rather reserved when assessing America's future economic performance, while their colleagues from overseas painted a brighter picture of growth in August.

There was a mixed interpretation as to where the Asian-Pacific economy was heading. Local experts displayed slightly more optimistic sentiment for the economy's short-term trajectory, compared with their colleagues from overseas. However, when assessing the long-term economic prospects, foreign experts sounded more upbeat.

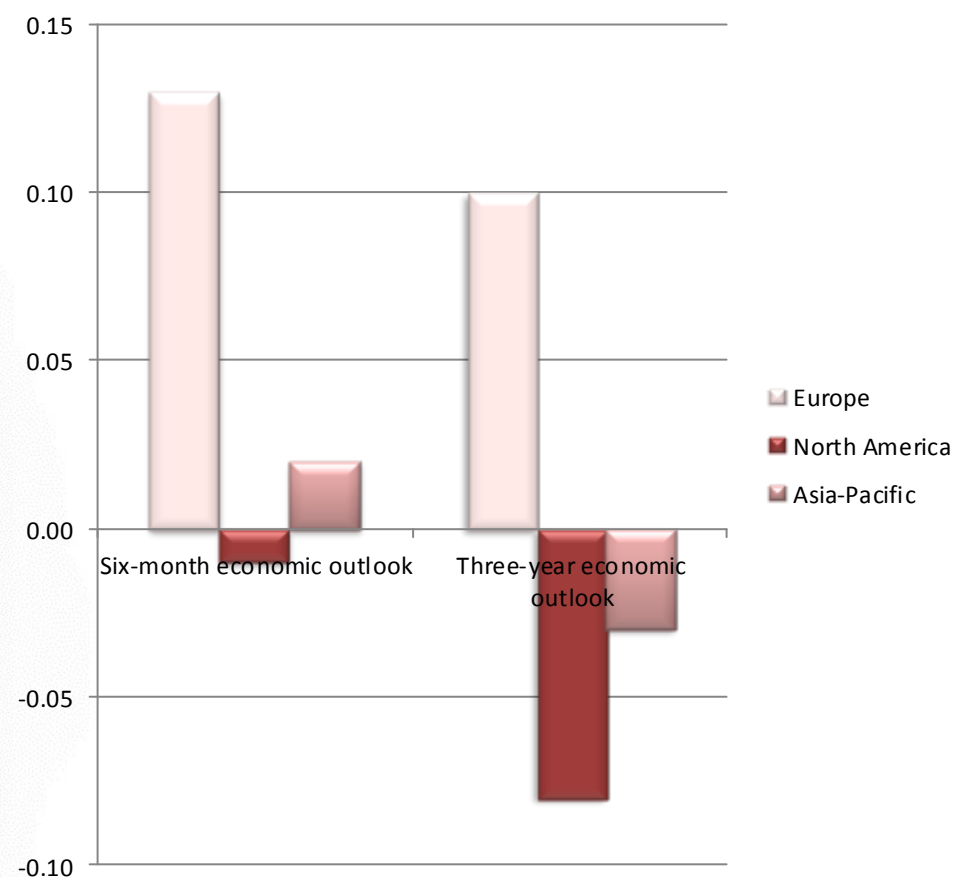


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (\*1)

## 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 August's poll:

Golden Gate University; University of Pennsylvania; Columbia University; University of Arkansas; San Francisco State University; Institute of Business Administration, Karachi; University of Kalyani; Hang Seng Management College; London School of Economics and Political Science; Marche Polytechnic University; Johannes Kepler University Linz; University of Burgundy; Second University of Naples; University of Parma; Belgorod State Technological University BSTU; Hong Kong Baptist University; University of Calcutta; University of Kalyani; Tongji University; Institute of Business Administration, Karachi; Wuhan University ;Eastern University; S.Seifullin Kazakh AgroTechnical University



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