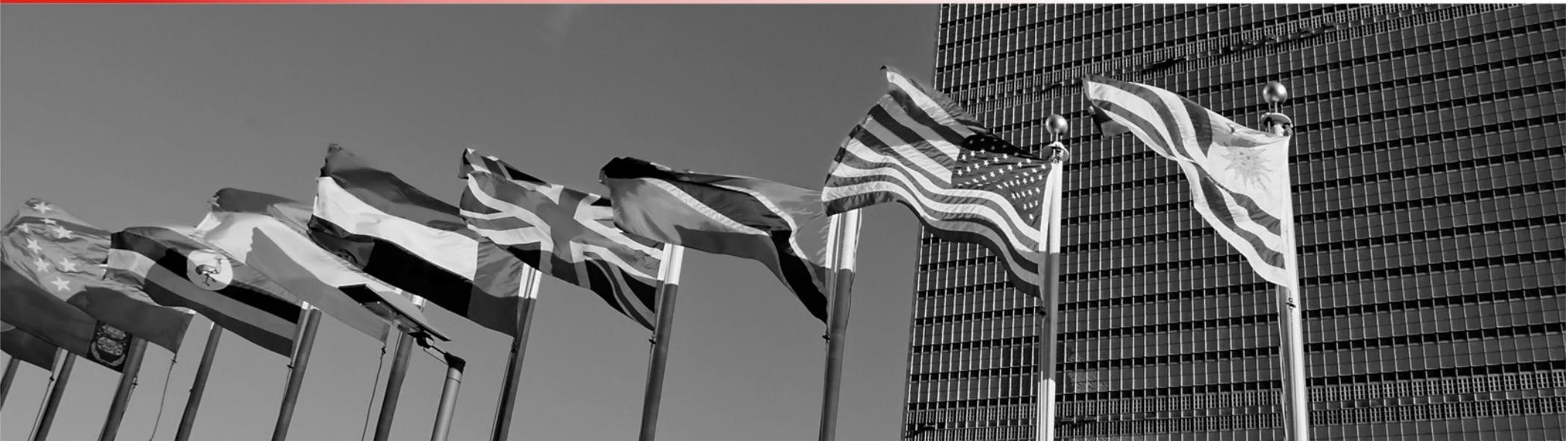




DUKASCOPY
RESEARCH PRODUCTS

February release



Dukascopy Bank Sentiment Index

Summary

- Having started the year on a disappointing note, seeing the weakest month-on-month growth for thirteen months in January, the global economy continued showing relatively weak performance over the last month. Concerns thrive over Chinese economic expansion prospects even with implementation of a new growth target range, while the possibility of 'Brexit' puts a shadow of doubt on the outlook for growth in Europe. Meanwhile, the effectiveness of negative interest rate regime, that is being introduced in many economies at the moment, has become questionable. However, despite these developments, business and consumer sentiment in February managed to climb modestly.
- The persistent turmoil in financial markets and a steep drop in February's Euro area's PMI did not manage to sharpen prospects for downside risks in the near term, with the six-month outlook jumping 0.05 points, while the three-year sentiment climbed 0.07 points in the measured month.
- North America saw mixed results in January, as the six-month sentiment index inched down slightly, while the three-year measure rebounded 0.06 points.
- The negative sentiment for the Asia-Pacific region observed throughout 2015 does not seem to have carried in the Q1, as the both short and long term gauge soared in February. Against China continuing to pose downside risks to growth in the entire region, looser monetary policies in many countries managed to shore up economic activity, determining market participants' risk appetite, business and consumer confidence.

Parameter/ Region	Global	Europe	North America	Asia- Pacific
Six-month economic outlook	 0.55 ↑(0.01)	 0.51 ↑(0.05)	 0.67 ↓(0.05)	 0.48 ↑(0.05)
Three-year economic outlook	 0.70 ↑(0.07)	 0.63 ↑(0.07)	 0.79 ↑(0.06)	 0.68 ↑(0.10)

Figure 1: Mood indicator

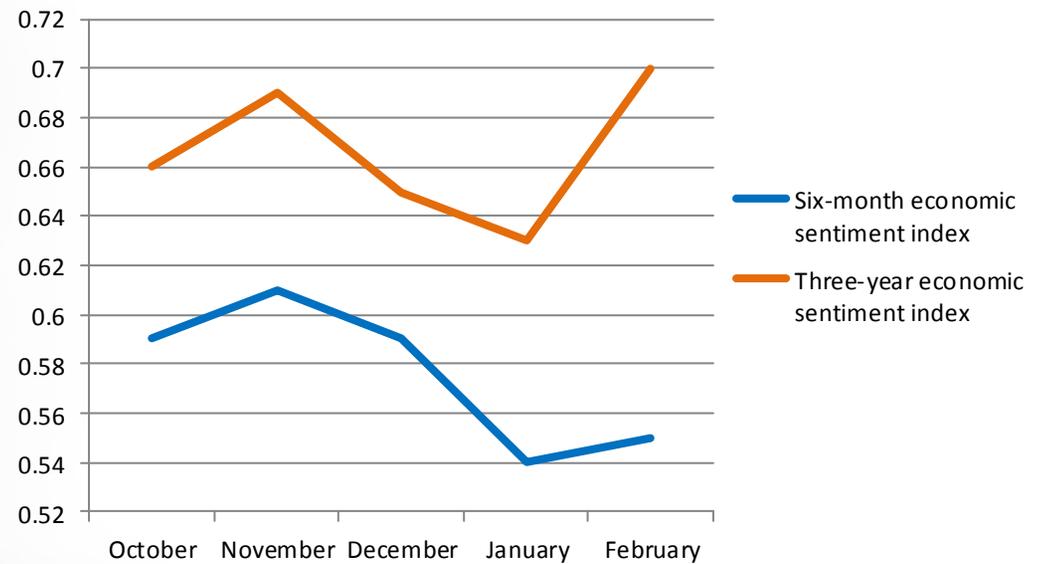


Figure 2: Global economic sentiment index

Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.51 ↑(0.05)	0.33%	0.67 ↓(0.05)	1.90%	0.48 ↑(0.05)	1.53%
3-year economic outlook	0.63 ↑(0.08)	1.13%	0.79 ↑(0.06)	2.26%	0.68 ↑(0.10)	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 revised downwards their economic growth outlook for the European region in February. In the previous month, professors anticipated Europe's economic performance to climb at an annualized pace of 0.33% in the foreseeable future compared to January's estimate for a 0.53% growth. In a longer term, experts remained relatively optimistic, upgrading their three-year economic outlook to 1.13%.

Professors saw North America's growth potential worsening in the upcoming six months, plummeting 0.05 points to a growth rate of 1.90%, down from 2.00% expansion expectations in January. 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 just 2.26% compared to the forecast of 2.60% growth registered last month. However, a broadly stronger US Dollar might have lifted professors' assessment of economic conditions in the observed region.

With persistent worries over the health of Chinese economy, it came as a surprise that experts revised upwards their near term expectations for growth in the Asia-Pacific region in February, while the three-year gauge jumped above 2%.

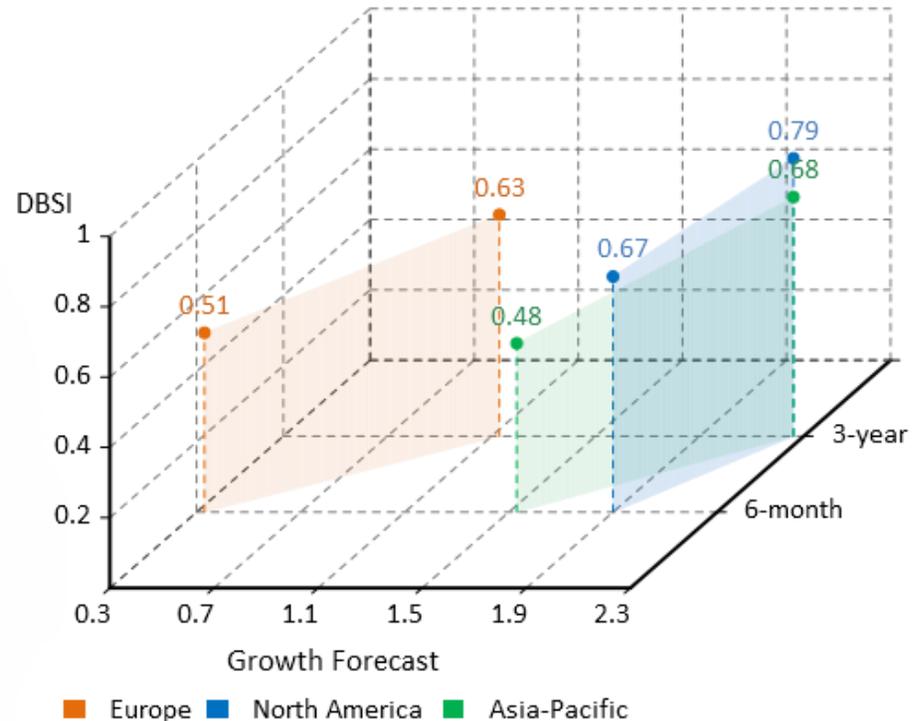


Figure 3: Global economic outlook (term structure)

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	7	4	7	0	15	5
Recessionary Trough	12	6	3	5	5	5
Expansion	10	20	20	22	8	16
Business Peak	1	0	0	3	2	4

Real GDP

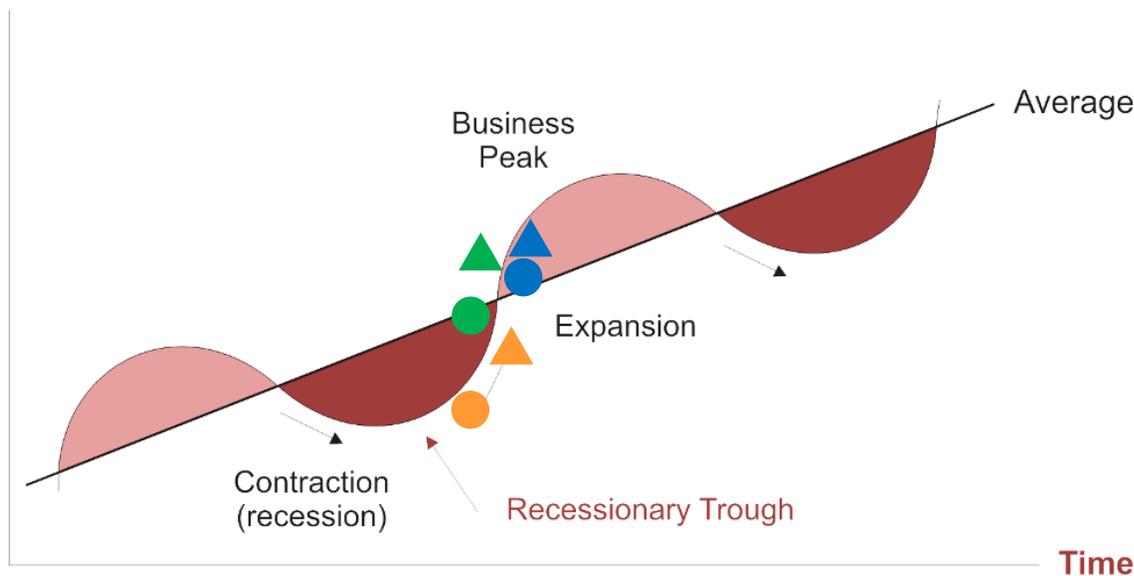


Figure 4: Business cycle

- 6-month EDS
- ▲ 3-year EDS

Professors' view of Europe's future economic performance continued indicating slow growth, as the vast majority of experts saw the economy in the lower end of the business cycle curve in the next six months. Nevertheless, most of the economists remained fairly positive on a longer term outlook, as the best part of professors expected the economy to expand in three years from now.

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

Professors' sentiment towards the Asia-Pacific region remained rather uncertain, as the preponderance of experts anticipated the economy to contract on the back of persistent worries over the state of China's economy and sluggish growth in emerging markets overall. However, given the possible outcome of these economic developments, the region's economic performance was expected to rebound after the retreat in the next three years.

Six-month economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.50	0.50	0.75	0.50
Mean (DBSI)	0.54 ↑(0.01)	0.51 ↑(0.05)	0.67 ↓(0.05)	0.48 ↑(0.05)
Mode	0.75	0.50	0.75	0.50
Standard Deviation	0.25 ↓(0.03)	0.23 ↑(0.04)	0.24 ↑(0.10)	0.25 ↑(0.03)

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 continued its upward movement over the course of the previous month, climbing 0.05 points from the rate observed in January. Despite 'Brexit' worries, which have been trending since Prime Minister David Cameron scheduled a referendum for June 23, along with the four major Central banks taking rates into negative territory, did not manage to cast a pall upon the outlook for Europe's economic growth among the professors surveyed.

The overall assessment of North America's economic performance in the coming six months remained fairly positive, according to the experts that took part in February's poll, as stronger-than-expected employment report indicated that the global economic slowdown would not be able to pull the US economy into recession.

The Asia-Pacific region reversed the plunge in confidence posted in January, with the corresponding gauge rising 0.05 points from the last month. The uptick was mainly driven by looser monetary policies in many countries, which will potentially shore up economic activity in the observed region.

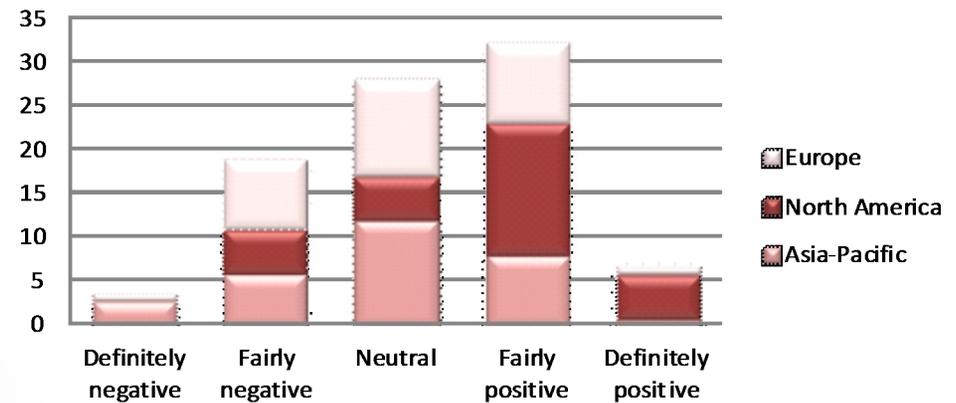


Figure 5: Six-month economic outlook

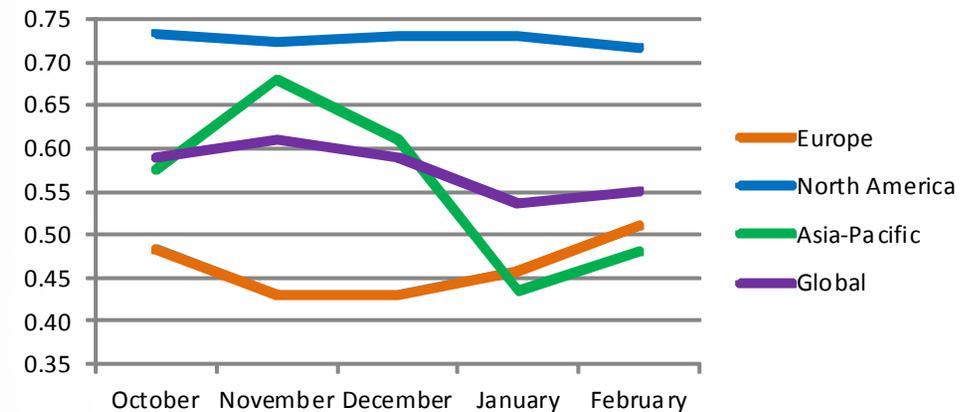


Figure 6: Six-month economic sentiment index

Three-year economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.63	0.75	0.75
Mean (DBSI)	0.70 ↑(0.07)	0.63 ↑(0.07)	0.79 ↑(0.06)	0.68 ↑(0.10)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.23 ↑(0.01)	0.23 ↑(0.05)	0.17 ↑(0.02)	0.28 ↑(0.01)

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

In the course of the following three years, experts saw the economic situation improving in all three regions observed, bringing the global three-year economic outlook 0.07 points up compared to the data registered in January.

The recent developments on the European economic arena, namely, the United Kingdom's potential exit from the European Union and zero interest rate policy, did not prove to have a devastating effect on professors' confidence, since the sentiment index rallied 0.07 points over the prior month.

It was not surprising that experts saw the economic performance of North America being fairly positive in three years from now, given consumer spending and domestic investment carried the load in the Q1 of 2016.

It appeared that concerns over the state of Chinese economy, which remains one of the key themes in 2016, did not manage to dampen professors' assessment of Asia-Pacific economy, as the three-year outlook surged 0.10 points, according to the professors surveyed on the matter.

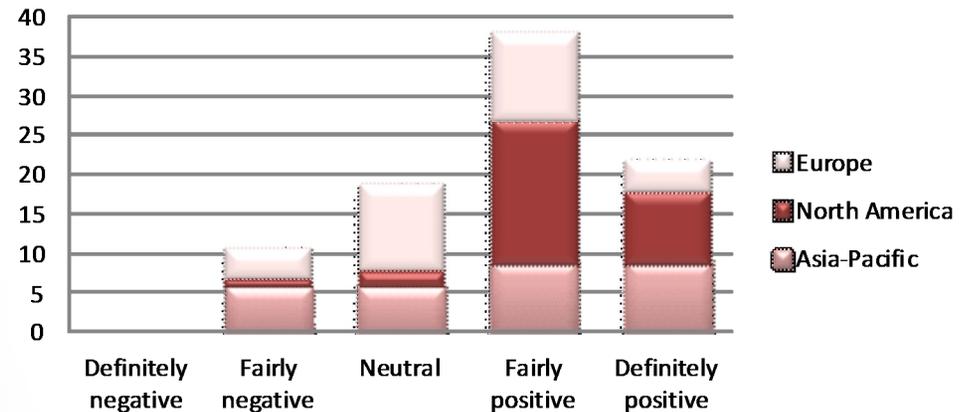


Figure 7: Three-year economic outlook

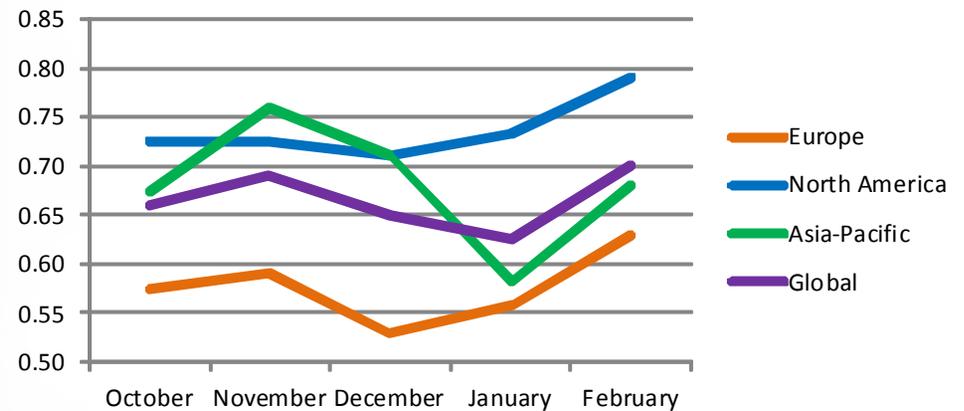


Figure 8: Three-year economic sentiment index

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	0.53	0.75	0.62	0.57	0.71
3-year economic outlook	0.53	0.67	0.80	0.78	0.80	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, European professors became much more pessimistic about the region's near term economic performance, while in a longer term their confidence slipped even further, with the three-year gauge plummeting sharply compared to the index registered in January. Foreign experts, on the contrary, appeared to see Europe's economy recovering, voicing a little bit more optimism about both six-month and three-year gauges.

In North America, experts shared a little bit less optimistic outlook for the economy in the foreseeable future, with the six-month sentiment index sliding 0.05 points among local experts, while overseas professors downgraded their view on the region's economy by 0.06 points. As concerns the long term outlook, both foreign and domestic economists' confidence slipped, though still remaining in the positive territory.

Recent economic developments in the Asia-Pacific region, namely, China worries and weak growth in emerging markets, did not seem to have a great impact on experts' opinions, as the overwhelming majority of both overseas and local professors stepped away from being skeptical about the future economic health in the region.

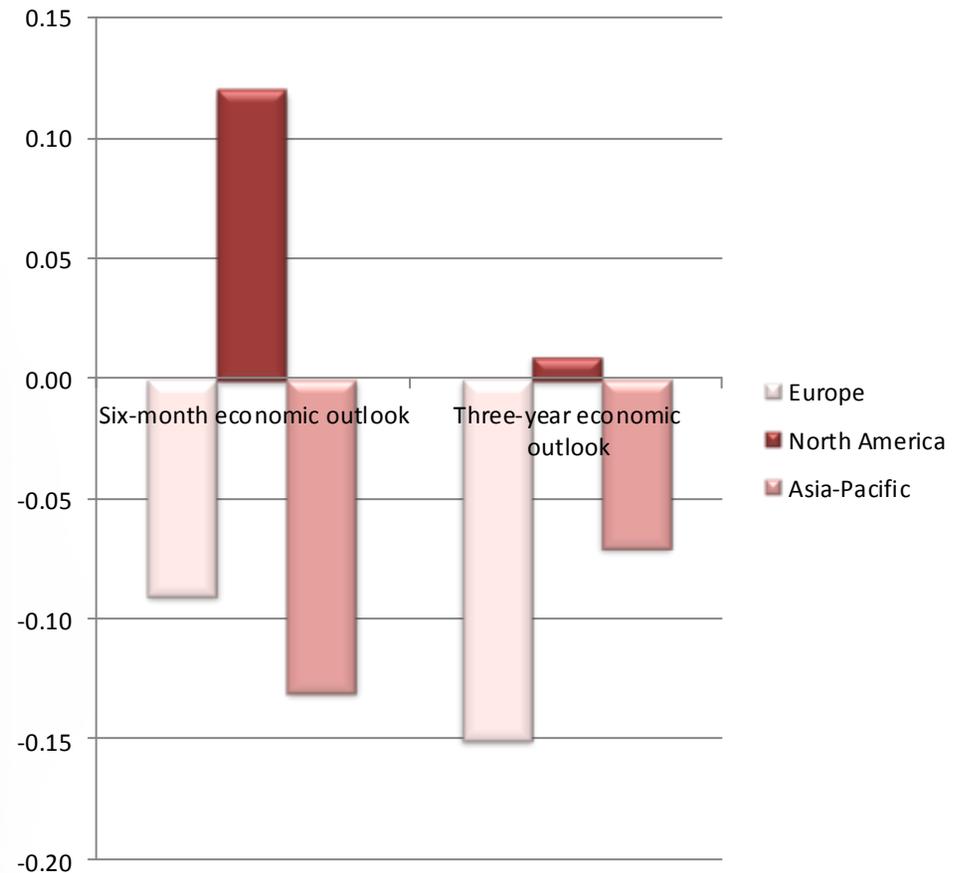


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (*1)

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 February's poll:

Carnegie Mellon University; University of Burgundy; DePaul University; University of Latvia; RISEBA; Webster University Geneva; University of Akron; WIUT; University of Applied Sciences Vienna; Nova School of Business and Economics; Ss. Cyril and Methodius, Skopje, Republic of Macedonia; Universidad de Nova de Lisboa; Vilniaus Universitetas; Princeton University; EBS Oestrich-Winkel; University of Asia and the Pacific; Financial University under the Government of Russian Federation; Universidad de Lima; York University, University of California Irvine.



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