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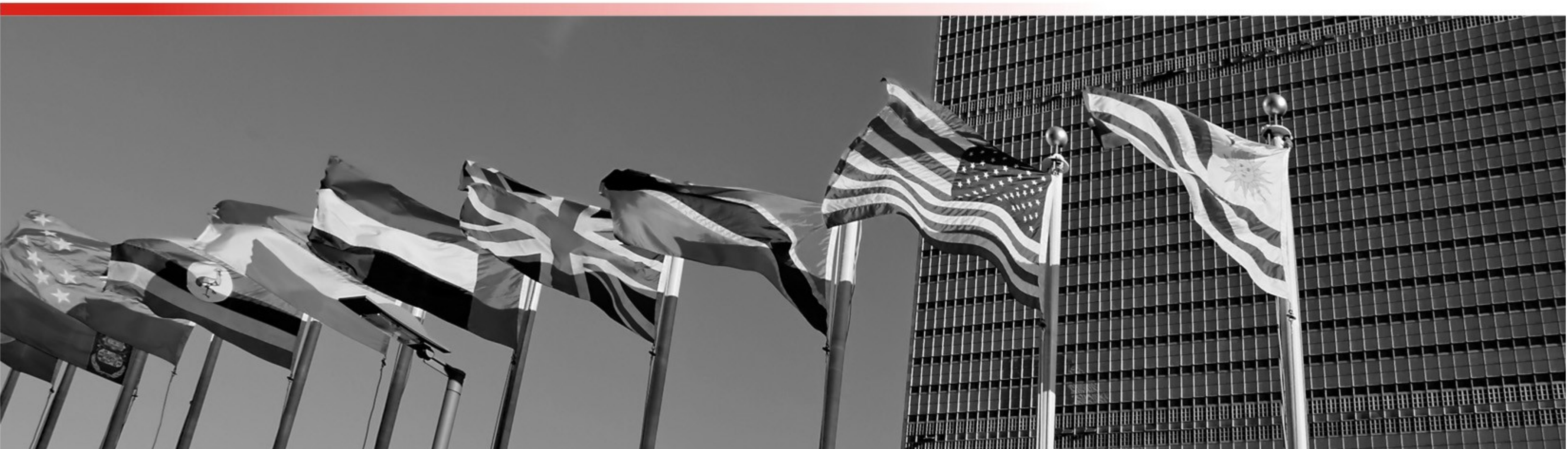
RESEARCH PRODUCTS

May release



Dukascopy Bank Sentiment Index

Summary

- The global economy expanded at its slowest pace in nearly three years in the first quarter of 2016 as a result of less resilient financial conditions mainly in the emerging markets, while the growth in the developed countries also remained sluggish. The major headwinds determining the global economic scene last month were the Fed's rate hike expectations, latest updates from Chinese officials, indications that Japanese government and the BoJ could introduce further fiscal and monetary easing in the months to come and a steady rise in commodity prices. In the wake of these developments, professors' sentiment seems to have run out of steam over the observed month.

- Rising nationalistic political moods around the Euro area along with a number of other economic challenges including worries about Britain's potential exit from the European Union and uncertainty over the 'Grexit' saga seem to have somewhat shaken economists' confidence in the bloc, while important growth indicators signaled a rather slow recovery, with the composite PMI hitting an over-one-year low in the observed month. The latter has sent both short and long term sentiment gauges significantly lower in May.

- While the Federal Reserve maintained a more hawkish stance, eyeing a summer rate hike on the back of incontrovertibly strong private consumption, North America still saw mixed results in May, as the six-month sentiment inched down slightly, while the three-year measure proved to continue its positive trend.

- The Asia-Pacific region kept performing below its potential during the prior month, with lingering domestic and external challenges putting a dent on the overall economic growth, as both short- and long-run sentiment indices slipped in the measured month.

Parameter/ Region	Global	Europe	North America	Asia-Pacific
Six-month economic outlook	0.53 ↓(0.04)	0.40 ↓(0.09)	0.66 ↓(0.01)	0.52 ↓(0.04)
Three-year economic outlook	0.63↓(0.04)	0.54 ↓(0.07)	0.71 ↑(0.01)	0.64 ↓(0.05)

Figure 1: Mood indicator

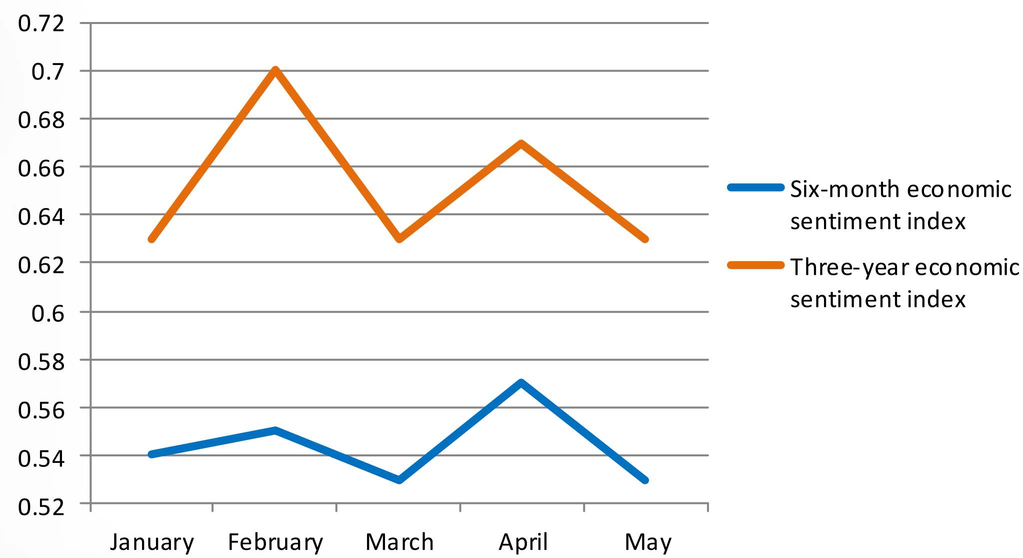


Figure 2: Global economic sentiment index

Economic outlook (term structure)

Parameter/Region	Europe		North America		Asia-Pacific	
	DBSI	Growth f.	DBSI	Growth f.	DBSI	Growth f.
6-month economic outlook	0.40↓(0.09)	0.50%	0.66 ↓(0.01)	1.40%	0.52 ↓(0.04)	2.33%
3-year economic outlook	0.54 ↓(0.07)	1.20%	0.71 ↑(0.01)	2.06%	0.64 ↓(0.05)	2.93%

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 were far less positive on economic growth outlook for the European region over the last month. In the course of April, the near-term sentiment index stood at 0.49 points, indicating a fairly negative Europe's economic performance due to a number of economic and political factors, compared to the data registered in May, which saw the six-month gauge slumping back to 0.40 points, a mark registered in March. In a longer term, experts also became a lot more pessimistic, revising downwards their three-year economic outlook.

Professors downgraded their outlook on North America's growth potential in the upcoming six months, as the respective gauge slid modest 0.01 points to 0.66 in May. Despite a slight downtick in the near-term sentiment, the region's economy was expected to gain momentum in three years, with GDP rising 2.06% according to the experts surveyed. Nevertheless, the overall confidence still rather shaky amid uncertainty over the timing of the US rate hike cycle.

Ongoing pessimism over the state of Chinese economy and other EM countries has dampened experts' expectations for growth in the Asia-Pacific region, as both near and long term gauges plunged in May, seeing a decline to 0.52 and 0.64 points respectively.

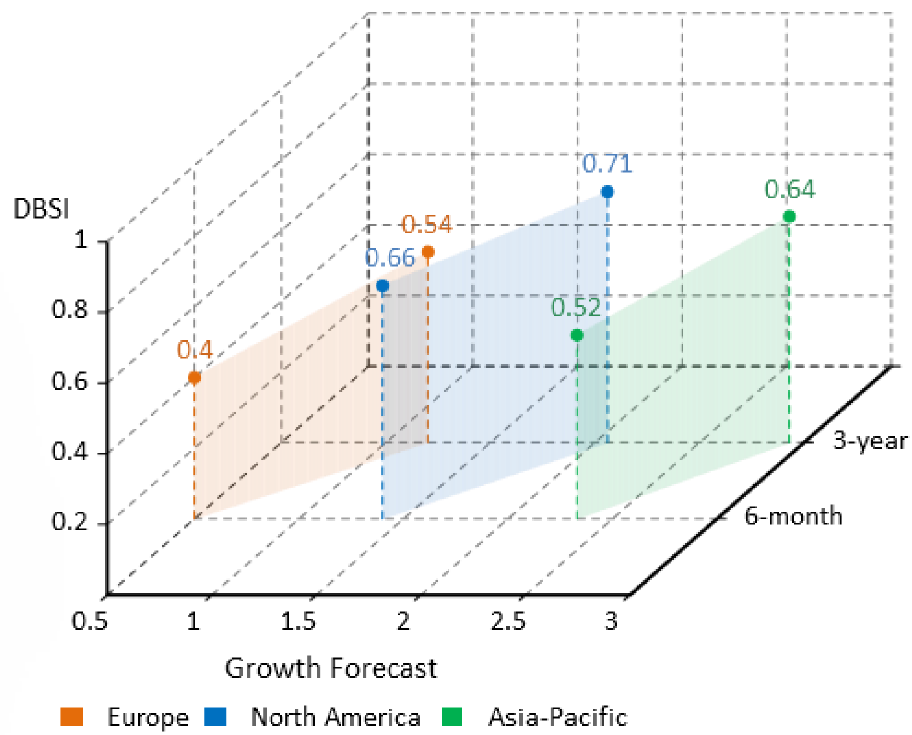


Figure 3: Global economic outlook (term structure)

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	6	4	1	3	8	2
Recessionary Trough	9	7	2	1	6	1
Expansion	15	19	24	23	13	23
Business Peak	0	0	3	3	3	4

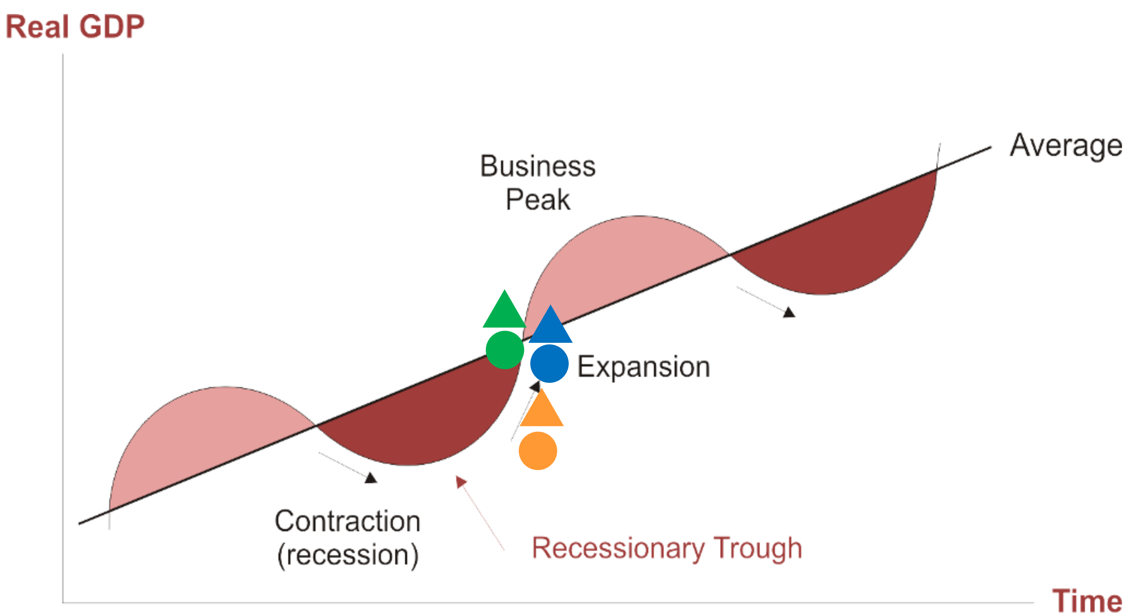
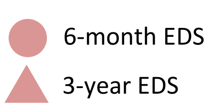


Figure 4: Business cycle



Professors' view of Europe's economic performance saw the region having hard time for the fourth consecutive month. Nevertheless, the vast majority of experts predicted the economy to slowly crawl out of the lower end of the business cycle curve and expand at a moderate pace in the next six months. In a longer term most of the economists remained firmly positive, as the best part of professors expected the economy to grow in three years from now, while 7 out of 30 experts still remained negative, anticipating the situation in Europe to hit the bottom in three years from now.

According to the professors surveyed, North America continued its expansion, nearing the business peak in both short and long terms, as the overwhelming majority of professors remained strongly confident on the growth prospects in the region, while 3 out of 30 survey participants saw the economy at the top end of the business cycle curve in the years to come.

Experts' sentiment towards the Asia-Pacific region became more optimistic, as the preponderance of experts saw the economy expanding in the nearest future, while 8 out of 30 professors still predicted the situation to worsen most probably on the back of weak EM performance and other external and domestic factors. Nevertheless, the region's performance was still expected to gain strong momentum 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)	0.57↑(0.00)	0.48↓(0.02)	0.67↑(0.01)	0.55↓(0.01)
Mode	0.75	0.50	0.75	0.50
Standard Deviation	0.23↓(0.00)	0.25↑(0.01)	0.19↓(0.01)	0.22↑(0.01)

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 reversed in the previous month after having risen as much as 0.10 points in April. It came as a surprise that the recent progress on one of the region's most worrying issues, namely, the approval of a €10.3 billion cash lifeline to Greece, did not manage to boost the sentiment. On the contrary, 'Brexit' concerns paired with the refugee crisis and weak region's composite PMI numbers continued to cast a pall upon the forecast for Europe's economic performance among the professors surveyed, as they saw Europe's economy in a fairly negative state in the months to come.

The general outlook for North America's economic performance in the coming six months remained fairly positive according to the experts that took part in the last month's poll, as the Fed kept rather hawkish stance on the matter of lifting rates this summer. The sentiment index managed to tick up slightly even despite Canada's economy taking another hit in May, with oil industry experiencing big damage, as forest fires shot through Northern Alberta.

The Asia-Pacific region registered quite undecided results over the last month, as the majority of the professors surveyed saw the near-term economic performance being neutral rather than positive or negative, despite sluggish global demand and weak growth in emerging markets.

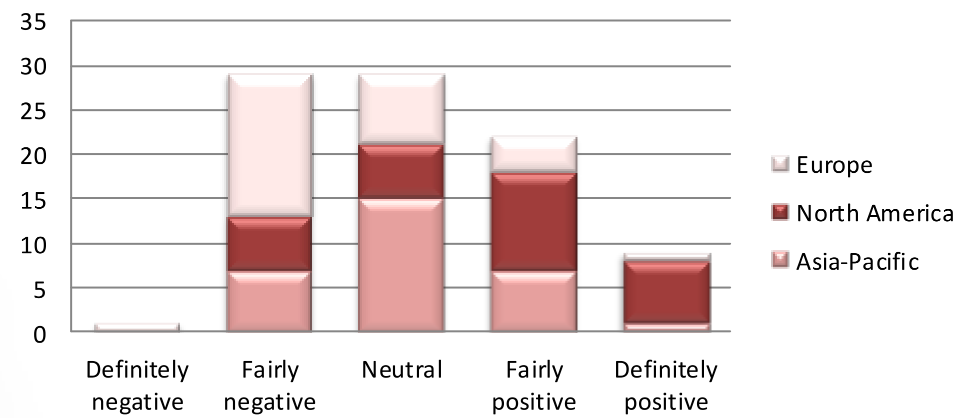


Figure 5: Six-month economic outlook

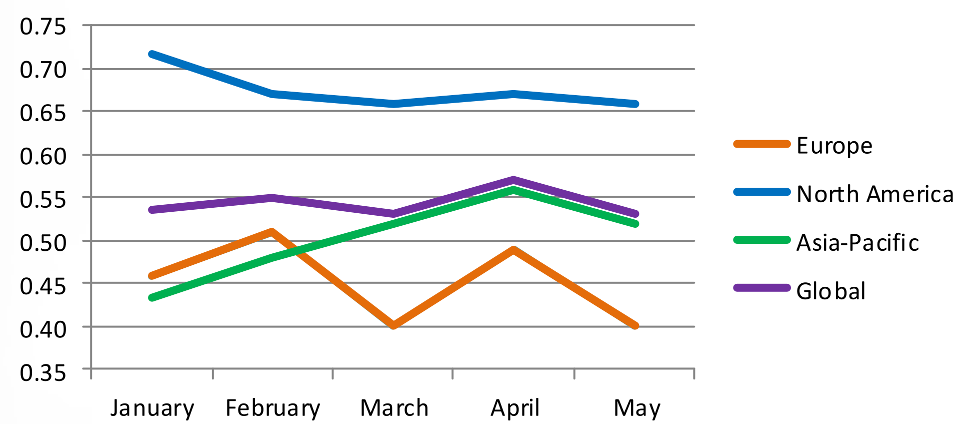


Figure 6: Six-month economic sentiment index

Three-year economic outlook

Parameter/Region	Global	Europe	North America	Asia-Pacific
Median	0.75	0.75	0.75	0.75
Mean (DBSI)	0.72↑(0.05)	0.59↓(0.02)	0.72↑(0.02)	0.65↓(0.04)
Mode	0.75	0.75	0.75	0.75
Standard Deviation	0.20↓(0.01)	0.22↑(0.01)	0.20↓(0.01)	0.24↑(0.05)

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

In three years from now, experts saw the economic situation worsening in all observed regions except North America, bringing the global three-year economic forecast 0.05 points higher compared April's data, when we saw the professors' sentiment standing at 0.67 points.

A potential devastating effect of the 'Brexit' on overall performance of the European economic area was expected to remain persistent in the next three years from now. Still, the overall sentiment was undecided, as the experts' view on the 'Brexit' issue divided almost equally. The 'leave' camp proponents said they would see the economic performance of the region being fairly positive in a longer term, while those supporting the 'stay' campaign saw the situation worsening significantly in case Britons decide to exit the EU on the upcoming referendum.

It came as no surprise that the experts saw the economic performance of North America still being fairly positive in three years from now, as market participants prepared to see higher interest rates in the US.

It appeared that concerns over sluggish growth in emerging markets has drastically dampened professors' assessment of Asia- Pacific economy, as the three-year outlook plummeted another 0.04 points in May. Still, professors saw the situation in the region being fairly positive.

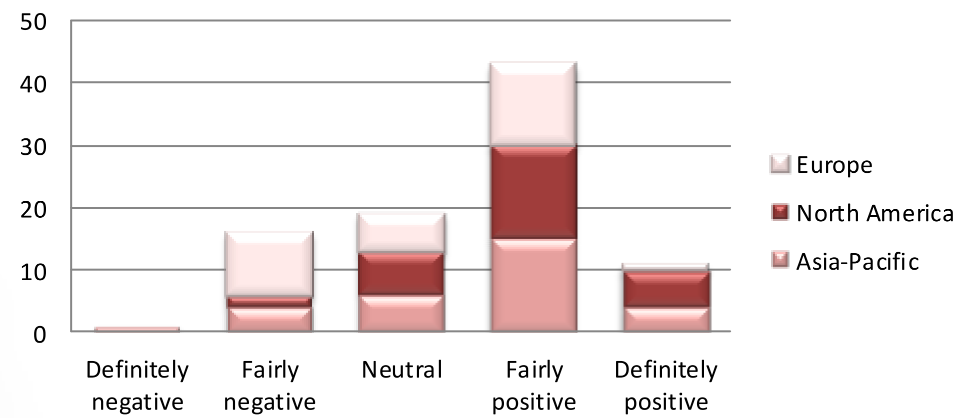


Figure 7: Three-year economic outlook

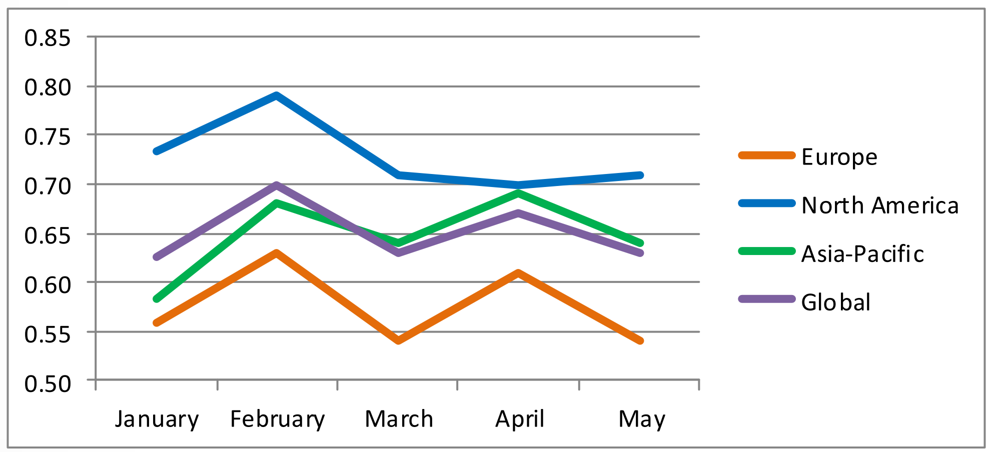


Figure 8: Three-year economic sentiment index

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	0.55	0.45	0.55	0.72	0.50	0.57
3-year economic outlook	0.62	0.57	0.67	0.73	0.55	0.70

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 slightly more optimistic about the region's near-term economic performance, while foreign experts' confidence, on the contrary, ran out of steam. Concerning the long-term outlook, last month's poll showed visibly worse result in confidence, as both local and overseas experts appeared to see the European economy as weakening, voicing far less optimism about the three-year gauge.

In North America, overall, professors shared mixed outlook for the economy in the foreseeable future, with the six-month sentiment index jumping substantially among foreign experts, while local professors downgraded their view on the region's economy significantly. Concerning the long-term outlook, domestic economists appeared to be more sceptic than foreign experts. Nevertheless, confidence among both still remained in the positive territory in the observed month.

Recent economic developments in the Asia-Pacific region seem to have weighed on experts' opinions, as the vast majority of professors at home and overseas stepped away from being vividly optimistic on future economic health in the region in both short and long term runs.

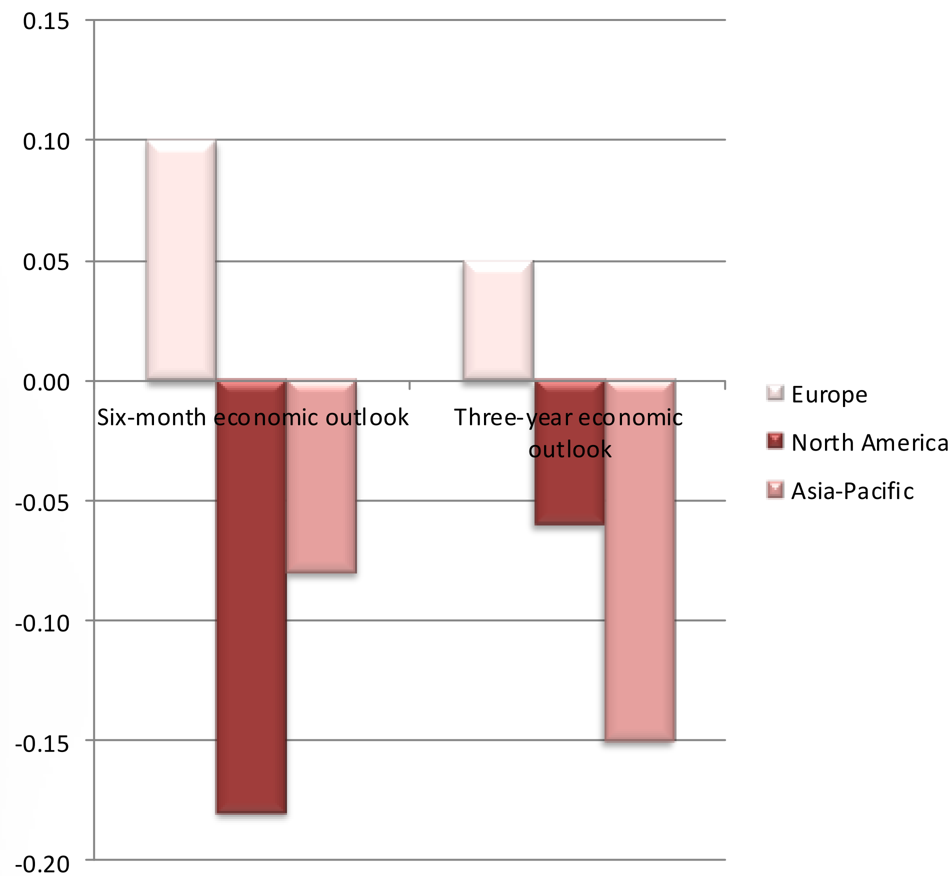


Figure 9: Discrepancy in views on economic outlook among local and foreign experts (*1)

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 May's poll:

University of Notre Dame; Tufts University; Fairleigh Dickinson University; Elmira College; DePaul University; Dartmouth College; Michigan State University; University of Oxford; University of York; University of Lausanne; SBS Swiss Business School; Riga International School of Economics and Business Administration (RISEBA); University of New England; Hong Kong Baptist University; Asia Pacific University of Technology & Innovation; ISMA; University of Latvia.

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