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sentix economic index: further improved expectations signal trend reversal

- The composite index for Euroland rises in October from -23.2 to -22.2 points. This is the second rise in a row. For the third time in a row, 6-months economic expectations improve – that usually confirms a new trend.
- The German composite index increases from 4.4 to 6.4 points. This development is driven especially by private investors whose expectations index shows a strong rise. Institutional investors, on the other hand, consolidate their optimism of the past months, their expectations have dropped slightly, for the time being.
- For the global aggregate, both the composite and the expectations index rise – the latter also for the third time in a row. There are a number of reasons for this: China is pushing its economy, the large central banks have again done their part. And investors actually think that this will help the economy – globally!

Statistics

Survey time: **04.10.-06.10.2012**

survey participants: **887**

sentix indications for upcoming market events

Here you can find valuable information on important upcoming market events and the expectations that can be derived from already published sentix data.

16.10.2012 - ZEW economic expectations - rising

24.10.2012 - Eurozone and China Flash PMIs - manufacturing sector upwards

24.10.2012 - ifo index: improvement of economic expectations overdue

01.11.2012 - ISM-index (USA) - subdued increase ahead of the elections

Table of the **October 2012** results for the Euroland economy

Euro area	May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12
Overall Index	-24.5	-28.9	-29.6	-30.3	-23.2	-22.2
Headline Index						
- Current situation	-31.5	-35.0	-35.0	-37.0	-34.8	-34.5
- Expectations	-17.3	-22.5	-24.0	-23.3	-10.8	-9.0

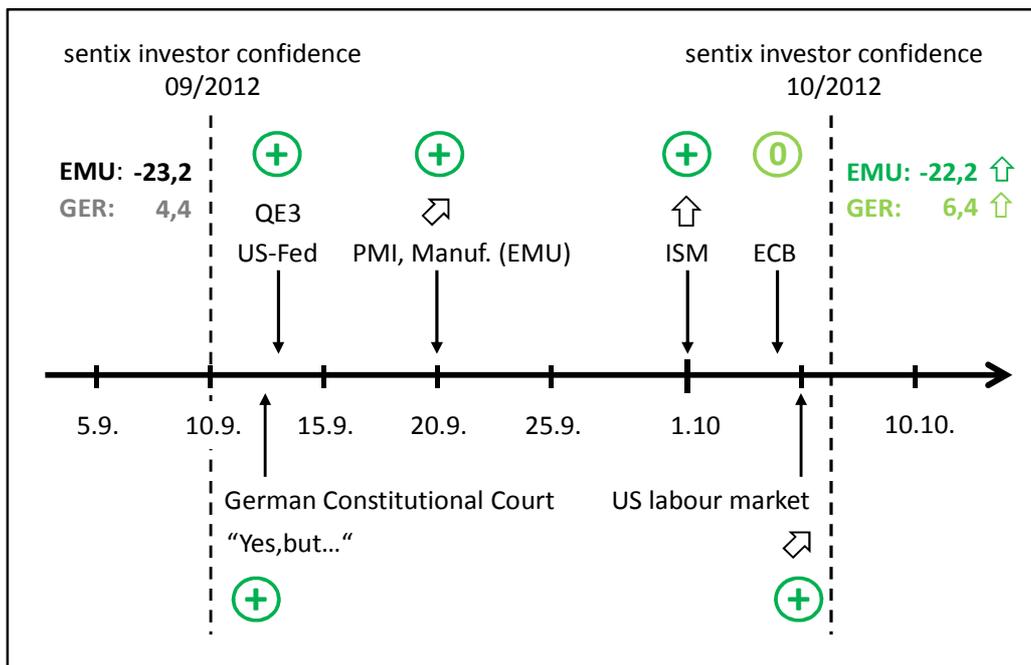


Commentary on the survey results of October 2012

Further improved expectations signal trend reversal

The composite index for Euroland rises in October for the second time in a row. Once again, the positive development in expectations is the supporting pillar for the improvement in the composite index. Expectations have even risen for a third time in a row, signaling a trend reversal. This pattern can also be found in the Global Index. For Germany, we find a special phenomenon: the doubters are currently the institutional investors, beforehand, they were to be found amongst private investors.

In October, the composite index for Euroland rises for the second time in a row. The one point increase to -22.2 is rather unspectacular - in September the index had jumped by more than seven points. While the assessment of the current economic situation hardly changes, expectations of participants surveyed by sentix improve for the third time in a row – this generally signals a trend turnaround. There are a number of reasons for this: the German Constitutional Court has green-lighted the ESM, the US Fed has put on the third quantitative easing programme and the Bank of Japan has also announced that it will purchase more securities. In addition, since the publication of the last sentix economic index most economic indicators, such as the Purchasing Managers' Index (PMI) of the manufacturing sector for Euroland (EU17) or the ISM index of the US industry as well as the report on the US labour market last Friday have positively surprised (see chart).

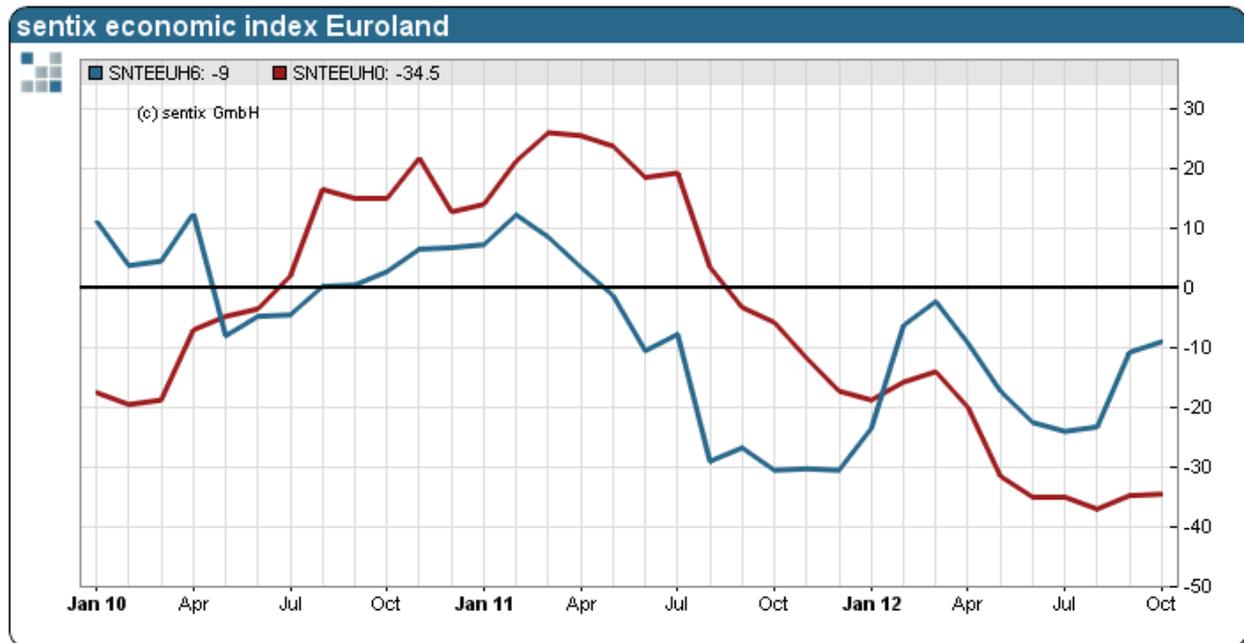


Economically relevant events since the publication of the last sentix economic index

That **this month's rise in expectations** for the **Euroland** economy with a plus of 1.8 points (after +12.5 points in September) was not as strong as before, is possibly based to a large extent on the fact that investors have been anticipating a great portion on the latest developments. This is especially true of those events that were relatively close to the publication of last month's sentix economic index. And these were the most important ones – the decision of the German Constitutional Court and the new QE programme by the US Fed. It seems that, although leading indicators (amongst them the sentix economic index) are in the meantime sending new tentative signs of rising dynamics, investors currently do not seem to take these for real. Are investors succumbing to a confirmation



bias – at least for Euroland and Germany? Do they simply not want to see the positive news, because these do not fit into their picture of a structural crisis which cannot be solved by the measures initiated by the European Central Bank?



sentix economic index Euroland: **situation** (red) and **expectations** (blue)

The numbers for **Germany** let such an interpretation seem quite plausible. In the German data sets, the doubts investors still have can be clearly seen. It is interesting to note that private and institutional investors seem to be playing ping-pong, here: while institutional investors reacted in a clearly positive fashion to ECB-president Draghi's decisions in August, private investors needed until the beginning of October to recognize the importance of his initiative for the Euro and the economy. The economic expectations of private investors for Germany rose in August and September by only 3.2 points – and now, in October, by 7.2 (see table below)! But now that private investors feel much more comfortable with Draghi's "well-conditioned bazooka", institutionals are sobering up: their expectations for the German economy drop in October by 1.3 points – after having climbed by 16.1 points in the past two months.

Side note: Based on behavioral psychology, this pattern demonstrated by institutional investors is not untypical of the phase after important events leading to a trend reversal. It is the phase of doubt which is currently seeping through the equity markets, too. This is usually followed by a phase of recognition – when confidence rises again and the first 'hard facts' push doubts aside. For this, we will especially need further impulses from politics supporting the Euro and further affirmations from economic indicators.

What does the drifting apart of economic expectations of private and institutional investors mean for the other leading indicators for Germany? According to our interpretation: both the ZEW economic expectations and the ifo index will rise in October! Why? In our study "sentix economic expectation: more than a first mover" we have shown that the sentix economic expectations for institutional investors are roughly one month ahead of the ZEW economic expectations. This means that the ZEW index still has to do some catching-up in October – just like private investors in their sentix economic expectations had some room to move upward this month. This development with private investors – who are closer to the pulse of companies outside of the financial sector – should at the same time be a



pointer for the ifo index. The reason: ifo is exclusively surveying companies in the 'real economy', and here an improvement in expectations is overdue.

Germany	May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12
Overall Index	16.0	9.1	2.2	1.3	4.4	6.4
Headline Index						
- Current situation	40.3	35.0	29.4	25.2	22.4	23.2
- Expectations	-5.8	-14.0	-21.8	-20.0	-12.2	-9.2
Institutional investor						
- Current situation	41.2	35.2	33.8	26.8	23.6	26.1
- Expectations	-6.4	-15.1	-24.4	-21.5	-8.3	-9.6
Individual investor						
- Current situation	39.3	34.8	25.0	23.7	21.2	20.4
- Expectations	-5.2	-12.9	-19.2	-18.5	-16.0	-8.8

USA – sideways, for the moment

The composite index for the **USA** has barely budged in October. This is mainly due to the deterioration of the assessment of the economic situation in comparison to last month. Meanwhile, the expectations index continues to point upward, even if September's strong rise could not be repeated. As mentioned above: last month, investors clearly already anticipated the US-Fed's step to further quantitative easing. That expectations continue to rise despite a looming "tax cliff" is noteworthy. Investors seem to assume that a solution will be found after the elections in November – a solution that will also create an environment to get rid of uncertainties and push forward the economic dynamic.

USA	May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12
Overall Index	7.7	-0.1	-6.1	-8.3	-1.3	-1.5
Headline Index						
- Current situation	14.0	6.3	0.8	-4.0	-0.5	-1.8
- Expectations	1.5	-6.3	-12.8	-12.5	-2.0	-1.3



Ray of light from Asia

For **Asia ex Japan**, the composite index continues to rise. While the economic situation is seen as slightly worse by investors in comparison to last month, their expectations for the next 6 months have palpably risen – here, we also see the third rise in a row. The surveyed investors will have sympathetically taken note of the fact that the western world's central banks have increased their degree of expansion. The fact that China – the heavyweight of the region – will further boost its economy through infrastructure programmes will have been even more important, though. China's measures became known shortly before the end of the survey for the sentix economic index in September. But only in the last two weeks the prices for iron ore and the freight rates for bulk cargo, measured by the Baltic Dry Index, have risen significantly. With the third and rather clear rise in economic expectations for Asia ex Japan – both by private and institutional investors – it becomes clear: investors seem to no longer harbor doubts about further economic dynamics in the Far East.

Asia ex Japan	May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12
Overall Index	22.4	12.7	9.8	10.8	12.1	13.2
Headline Index						
- Current situation	36.8	27.3	24.5	25.0	20.5	19.5
- Expectations	9.0	-1.0	-4.0	-2.5	4.0	7.0

Global Aggregate – the trend is pointing in the right direction

Finally, let us take a glance at the Global Index: here, also, the index for economic expectations rises for the third time in a row. The measures of the central banks of the western world, which do have the appearance of being coordinated, the latest political moves by Euroland governments and the economic policies in China have left their mark: **they have turned round expectations – globally!**

Global aggregate	May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12
Overall Index	5.7	-1.6	-4.9	-5.6	-1.4	-0.6
Headline Index						
- Current situation	11.7	4.6	2.0	-0.1	-0.8	-1.2
- Expectations	-0.2	-7.7	-11.6	-11.0	-2.0	0.0



Further data and charts

Japan	May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12
Overall Index	-1.8	-6.3	-10.8	-13.8	-14.9	-13.5
Headline Index						
- Current situation	-2.8	-6.0	-8.8	-12.5	-20.0	-20.3
- Expectations	-0.8	-6.5	-12.8	-15.0	-9.8	-6.5

Latin America	May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12
Overall Index	13.7	5.3	4.6	4.3	8.4	9.7
Headline Index						
- Current situation	25.8	15.0	16.3	13.8	13.3	14.3
- Expectations	2.3	-4.0	-6.5	-4.8	3.8	5.3

Eastern Europe	May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12
Overall Index	1.3	-3.8	-6.6	-7.1	-2.6	-0.5
Headline Index						
- Current situation	6.3	1.8	0.3	-1.0	-2.0	-0.5
- Expectations	-3.5	-9.3	-13.3	-13.0	-3.3	-0.5



Data availability

Bloomberg

FACTSET



Macrobond



sentix 
expertise in behavioral finance

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On a weekly basis, more than 3.700 registered investors (of which more than 780 are institutionals) supply us with their market assessment. Out of this data, sentix calculates sentiment indexes, which mirror the sentiment of equity markets (DAX, EuroSTOXX 50, Nikkei 225, S&P 500), bond markets (Bund-Future, US-Treasury-Future) and currencies (EUR/USD, USD/YEN). These sentiment indexes are setting the standard, held in high regard by many renowned financial players and are used by investment professionals in their analyses and investment processes. A history of more than eleven years and the simple access to data via reputable data providers as well as a website document the outstanding position of sentix as the leading independent sentiment data base.

Background, methodology and more

See <http://economics.sentix.de>



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