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sentix economic index: coup in Euroland!

- In December, the composite index for the eurozone rises by 9.4 to now -2.5 points.
- This increase is mainly driven by an extraordinary improvement in investors' 6-month expectations. For the euro area they show the third strongest increase since the introduction of the time series! This indicates that the euro area is abruptly leaving its recessionary phase behind and is now entering a recovery.
- The composite indices for the rest of the regions and countries improve, too. The exception is Japan for which investors assess the current situation much worse than last month. The composite index for the global aggregate nevertheless rises markedly from 9.7 to 12.8 points.

Statistics

Poll running: **04.12.-06.12.2014**

Survey participants: **954**

(of which institutional investors: **254**)

sentix indications for upcoming market events

Please find in this section valuable information on important upcoming market events and the expectations that can be derived from sentix data.

sentix – first mover advantage!

16.12.2014: **ZEW economic expectations** (Germany):
Very strong rise to over 40 points!

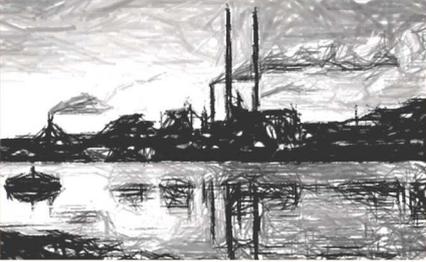
16.12.2014: **Flash PMIs (manufacturing)**:
Improvements for China, the euro area and the US

18.12.2014: **ifo business climate**:
Further increase to 107 points, mainly driven by expectations

08.01.2014: **Economic Sentiment** (euro zone):
Indicator should now improve more markedly than before

Table of the **December 2014** results for the euro-zone economy

Euro area	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14
Overall Index	10.1	2.7	-9.8	-13.7	-11.9	-2.5
Headline Index						
- Current situation	2.3	0.5	-16.8	-20.0	-21.3	-16.0
- Expectations	18.3	5.0	-2.5	-7.3	-2.0	12.0



Commentary on the survey results for December 2014

Coup in Euroland!

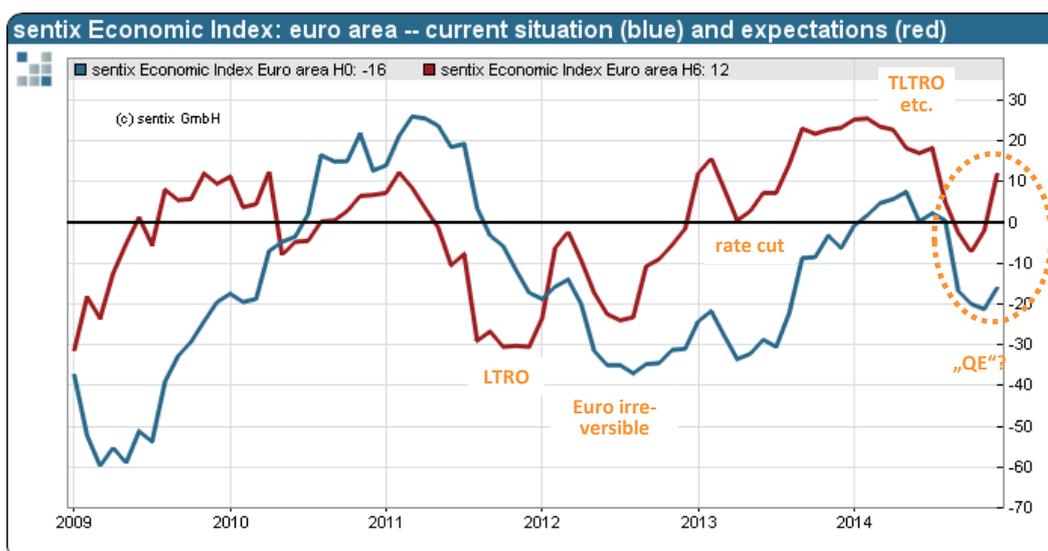
For the euro-area economy investors' 6-month expectations rise in December as strongly as only twice before in the history of the sentix Economic Index. Only in August 2005, ahead of German elections, and in February 2012, when the ECB was about to launch its second LTRO, more pronounced increases could be observed. Also, the assessment of the current situation improves which makes the composite index go up by 9.4 to now -2.5 points. With that, the sentix Economy Clock now points to an upswing for the euro zone!

For the remaining regions and countries the composite indices rise, too. The only exception is Japan. That the euro zone stands out so clearly this month should be due to the expectation that the ECB will start a large-scale asset-buying programme soon. In addition, the weak euro and the fallen price of oil are obviously perceived as economic boosters. And the low oil price does have positive effects not only in the euro zone!

Euro zone – back to the future

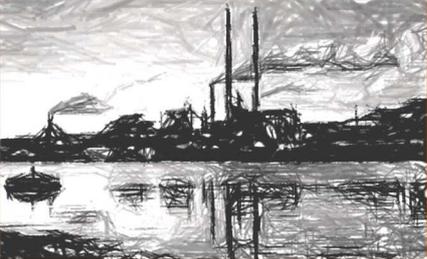
The composite index for the euro zone increases strongly in December. It climbs from -11.9 to 2.5 points. This increase is mainly driven by a strong improvement in investors 6-month expectations. But also the assessment of the current situation is better than last month. With this development the euro zone clearly sticks out among all sentix Economic Indices this month!

It is worth having a closer look at the investors' expectations. Their rise by 14 to now +12 points is extraordinarily strong! Thus the signal this improvement sends has to be taken very seriously. Only twice in the indicator's twelve-year history economic perspectives have brightened in a stronger manner for the euro area. The first time was in August 2005, just before important German general elections. This second time was February 2012 when the ECB was about to launch its second LTRO.



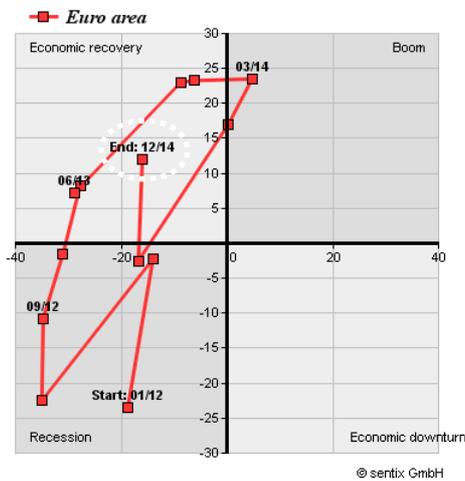
sentix Economic Index, euro zone: **assessment of the current situation (blue)**, **6-month expectations (red)**

Consequently, Mario Draghi once again has taken the perfectly right measures when it comes to influencing investors' economic expectations. His de-facto announcement of a large-scale asset-buying programme to fight deflationary tendencies should be the main reason behind the strong rise in investors' 6-month expectations – which now even have managed to enter positive territory! Resulting from the ever-more-expansive monetary policy is, among



other things, a **weaker euro**. This weakening of the common currency is probably also perceived as an important support for the euro-zone economy by investors.

sentix -EU- Economy Clock



Furthermore, the **oil price has fallen dramatically** over the last weeks. This, obviously is interpreted as an **additional stimulus** by investors, but this stimulus is also having positive effects in other countries and regions.

Quite remarkable is also that this month's increase in expectations is by no means a seasonality! One might derive such an assumption from the nature of stock markets where a so-called "year-end rally" can regularly be observed. Regarding economic developments investors might then also have the habit to hope for improvements in the new year when the old one – with all its flaws – can finally be left behind. But such a hypothesis has to be rejected when looking at the data: on average the sentix economic expectations for the euro zone have risen in December over the past eleven years only by 1.7 points. If one looks only at the data from 2007 on, when the financial crisis began, the "increase" is reduced to a very meagre 0.1 points. **As a result, the current rise in investors' 6-month expectations show all the**

more that something has changed fundamentally in investors' perceptions regarding the euro-zone economy.

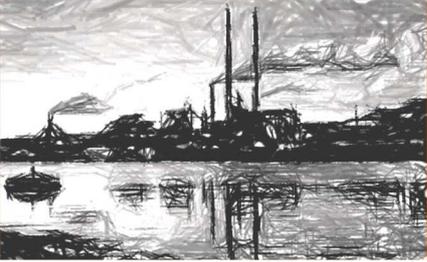
The strong increase in expectations makes the sentix Economy Clock turn into its "recovery area" (see graph above, on the left hand side) – **meaning that the euro-zone economy should be about to very abruptly leave its recessionary phase behind to enter a new upswing.**

Germany – the euro-zone's engine works again

For Germany, the composite index increases quite similar to the one for the euro zone. It now stands at **19.6 points and thus clearly in positive territory**. Consequently, Germany seems to be ready to once more assume its **role as engine for the euro area**. Here, it is investors' expectations which drive the development, too. The **weaker euro** clearly helps the "**world exports champion**" in a very special manner. The **lower oil price** has the same effect as a tax reduction – for consumers and companies. It may even act as the often-called-for "**fiscal stimulus**" – in Germany and in the euro zone as a whole, too.

Germany	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14
Overall Index	29.0	17.9	11.1	5.4	9.8	19.6
Headline Index						
- Current situation	47.5	38.9	26.4	19.5	19.1	23.9
- Expectations	11.8	-1.3	-3.1	-7.8	1.0	15.3

Highest since March 2014



Global Aggregate – a new harmony, only Japan on a different track

For all countries and regions the sentix composite indices improve in December as economic perspectives brighten. The exception is Japan where investors perceive the current situation as worse now that the country has officially re-entered recession. Also, expectations are a tad weaker this month as Japan is facing new parliamentary elections on December, 14th (see table on next page).

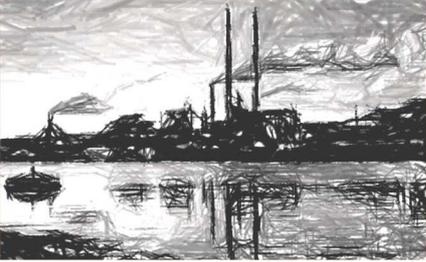
But the bottom line is that the composite index for the global aggregates increases markedly for the second month in a row. And expectations are about to again reach their healthy level of last summer. Thus, the world economy starts into the year 2015 with significant economic tailwinds!

Global Aggregate	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14
Overall Index	17.9	13.5	11.5	6.1	9.7	12.8
Headline Index						
- Current situation	19.0	18.5	15.1	11.3	13.2	13.2
- Expectations	16.8	8.5	7.8	1.1	6.3	12.3

Effects on financial markets

The sentix Economy Clock turns from “recession” to “recovery” for the euro zone. This a strong positive signal for the stock markets in the euro area. On the contrary, this is now not supposed to be an easy phase for bonds.

For the US and the world as a whole the sentix indices even point to a “boom”. One has to expect a positive equity performance in this phase of the cycle, too. But the performance will not be as strong as in a recovery. The total return for US bonds is during a boom slightly negative, according to our calculations.



More tables

USA	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14
Overall Index	29.3	26.5	25.7	21.0	27.1	29.4
Headline Index						
- Current situation	38.5	40.3	40.0	37.8	44.5	44.3
- Expectations	20.5	13.5	12.3	5.5	11.0	15.5

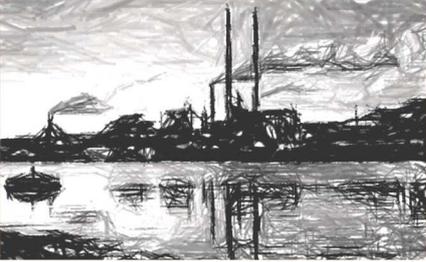
Japan	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14
Overall Index	9.6	4.7	2.5	-0.6	5.0	-0.5
Headline Index						
- Current situation	9.8	5.5	2.5	-0.5	1.3	-7.8
- Expectations	9.5	4.0	2.5	-0.8	8.8	7.0

Lowest since
March 2013

Asia ex Japan	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14
Overall Index	22.5	23.5	23.5	16.7	18.9	22.3
Headline Index						
- Current situation	26.5	30.8	30.3	25.3	25.5	26.5
- Expectations	18.5	16.5	17.0	8.5	12.5	18.3

Eastern Europe	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14
Overall Index	3.0	-12.0	-12.9	-16.3	-12.2	-11.2
Headline Index						
- Current situation	-3.5	-13.3	-17.8	-20.3	-17.8	-19.5
- Expectations	9.8	-10.8	-8.0	-12.3	-6.5	-2.5

Latin America	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14
Overall Index	4.9	-5.9	2.0	-7.6	-7.2	-6.2
Headline Index						
- Current situation	-0.5	-9.0	-1.8	-10.3	-12.3	-15.0
- Expectations	10.5	-2.8	5.8	-5.0	-2.0	3.0



Data availability

Bloomberg

FACTSET



Macrobond



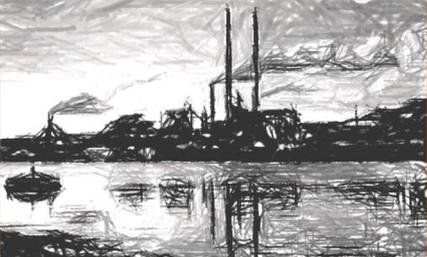
sentix 
expertise in behavioral finance

About sentix

On a weekly basis, almost 4.000 registered investors (of which about 900 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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