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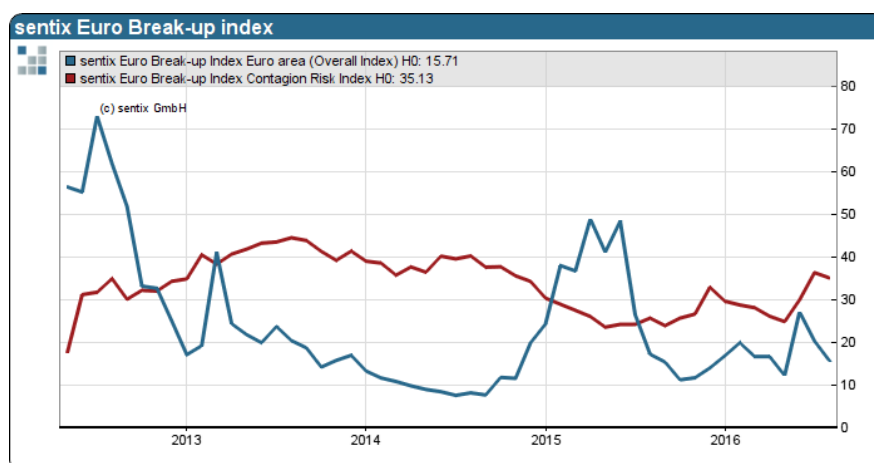
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Euro Break-up Index: Superficial ease of tensions

Tensions within the euro zone are easing in August. The sentix Euro Break-up Index (EBI) has fallen -4.6 points to 15.7 points, hence, significantly below the “magic” 20 points threshold. Overall, investors believe that the risk of the euro zone falling apart has decreased as risk sensitiveness for the euro periphery had fallen simultaneously. Only the continuously weak condition of the Italian banking industry, as well as lacklustre economic dynamic in Europe, emit risks.

Positive news first: the situation in the euro zone improves in comparison to the previous month, at least on the surface. The sentix Euro Break-up Index (EBI, blue line) which captures investors’ aggregate perception that at least one member state departs the currency block within the next 12 months, declines to 15.7 points in August, and therefore well below the 20 points threshold. Since the outbreak of the euro crisis, index values above 20 points have demonstrated a high correlation with news about a worsening of the crisis and emergency negotiations. Accordingly, based on the vote of investors this month, an immediate threat to the euro zone is not present anymore. A closer analysis of the respective country risk scores confirms our view: Especially the development of the Greece risk score is pleasant. Investors meanwhile interpret no news about Greece as good news. Correspondingly, the scepticism about Greece’s ability to find a pathway out of crisis has diminished. The EBI country risk index has fallen back to 8.6 points which mark the lowest reading since almost two years. In addition to Greece, risk scores for the Netherlands and Spain have likewise declined after June/July’s sudden jump. Investors perceived level of fear, ignited by the unexpected result of the Brexit referendum at the end of June, has almost entirely receded.

However, despite the positive development in overall risk levels, we still cannot give the all-clear signal. The sentix Contagion Risk Index (red line), which measures the sensitivity that a crisis in a member state could trigger a chain reaction, points towards persistent threats.



sentix Euro Break-up Index and sentix Contagion Risk Index



On the macroeconomic level, another issue is apparent: the current situation values of the sentix Economic Index have been consistently falling since the second half of 2015 (blue line), despite ultra-loose monetary policy and “quantitative easing”. We have observed an inverse relationship between investors’ macroeconomic evaluation of the current situation and the perceived EBI contagion risk (red line). The better investors judge the current condition in the euro zone the lower the level of anxiety that an isolated issue turns into a full-fledged crisis. The human immune system suits as an exemplification: while the immune system is healthy, we seldom get sick. If the immune system is weakened, contagion risks increase.





Background

The sentix Euro Breakup Index is published on a monthly basis and was launched in June 2012. Its poll is running for two days around the fourth Friday of each month. Results are regularly published on the following Tuesday morning. Survey participants may choose up to three euro-zone member states of which they think they will quit the currency union within the next twelve months. Further details on the sentix Euro Breakup Index can be found on <http://ebr.sentix.de>.

This month's reading of 15.7% means that currently, this percentage of all surveyed investors expect the euro to break up within the next twelve months. The EBI has reached its high at 73% in July 2012 and touched its low at 7.6% in July 2014.

The current poll in which 911 individual and institutional investors participated was conducted from 25-August to 27-August-2016.

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sentix surveys offer the rare combination of a vast number of participants, high quality and an outstanding speed with which information is gathered and passed on. All sentix indices are regularly accessible for sentix data clients just about one day after the close of each poll – via the sentix website or Bloomberg. sentix clients thus can use sentix data almost in real time to further improve performance.

sentix GmbH was founded in 2001 and today represents the basis for all the services the sentix group offers to its clients in the field of Behavioral Finance.



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