

Market Commentary/Strategy

Airfreight Remains Aloft, But Worsening Sea Freight Volumes Weigh On Overall Index Improvement

Results for the Stifel Logistics Confidence Index (LCI) declined slightly in June, with a slight improvement in airfreight results being insufficient to bolster further deterioration in sea freight demand. On the one hand, aggregate present volumes and near-term expectations improved in airfreight, reaching record levels with support from good core demand. On the other hand, currency headwinds and economic uncertainty tempered sea freight demand on Europe-based trade lanes. Given this month's results, we maintain our general expectations for a constructive airfreight environment, which we believe should outpace ocean freight growth for the remainder of the year. But with tepid global growth, yield pressure from persistent carrier overcapacity (especially in ocean), and full valuation at current levels, we remain neutral on common shares of the Europe-based freight forwarders in our coverage.

- In June, the overall LCI decreased sequentially by 0.6 index points to a reading of 56.8, oscillating around 57.0 as it has done since late last year. As has also been the case since the beginning of the year, gradually improving airfreight results have been countered by gradually deteriorating sea freight results, and a steady decline in the present situation has been offset by a modest strengthening in the six-month outlook. Overall, we anticipate a strong airfreight backdrop for the remainder of the year, but the slide in sea freight performance is somewhat disconcerting, and LCI results over the next few months will show whether the declines in sentiment begin to reverse themselves, as currency differentials begin to even out.
- At 55.6, June's indicator for current airfreight volumes marks the 12th consecutive month of expansion, and the index has reached a new record high. Europe-Asia, Asia-Europe, and U.S.-Europe all experienced sequential and y/y upticks. The Europe-U.S. lane was the only one to decrease sequentially, but it remains the strongest on an absolute basis at 61.2, and was up 23.1% y/y—year-over-year increases have been in comfortably in the double digit range for the entire year. Regarding the six-month outlook, all U.S.-based lanes improved, while Asia-based lanes saw a slight sequential taper.
- On the ocean side, current demand levels declined sequentially from May by 0.9 index points across all lanes. The negative result was led by European import lanes, with inbound from the U.S. dropping precipitously by 2.8 points to 38.7—its lowest level since October 2012. European export lanes fared slightly better with modest sequential growth, but we note that all lanes, excluding Europe to the U.S. are reporting volume demand levels below normal seasonal levels. Even the normally sanguine six-month outlook showed signs of cracking this month, as results declined sequentially in every lane but U.S.-Europe, although respondents still expect the market to improve from current levels.
- Question of the month - "Has container reliability changed over the past year?" Results were mixed, with 38.6% of respondents saying that reliability has worsened, 31.7% saying that it has improved, and 29.7% seeing no change.
- **Investment conclusions:** Among the Europe-based forwarders that we cover, Panalpina (PWTN-SIX, CHF 124.30, Hold) is most likely to benefit from a robust relative airfreight environment in our view, but full valuation and slow progress with internal IT/personnel restructuring have us to maintain our Hold Rating. Likewise, we remain Hold rated on Kuehne + Nagel (KNIN-SIX, CHF 128.90) and DHL (DPW.XE, EUR 26.24) given slow European growth, continued currency headwinds, and what we feel to be full-to-fair valuation. To characterize these companies further, we feel that Kuehne + Nagel is the most stable and highest-quality forwarding operation amongst the three, Panalpina has the most long-term opportunity for margin expansion/capital appreciation, and DHL is best poised to benefit from material

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improvements in European economic growth.

Prices as of 6/16/15 close.

To participate in next month's survey and receive an advanced copy of the results, please use the following link:

<https://www.surveymonkey.com/s/FJB2NZR>

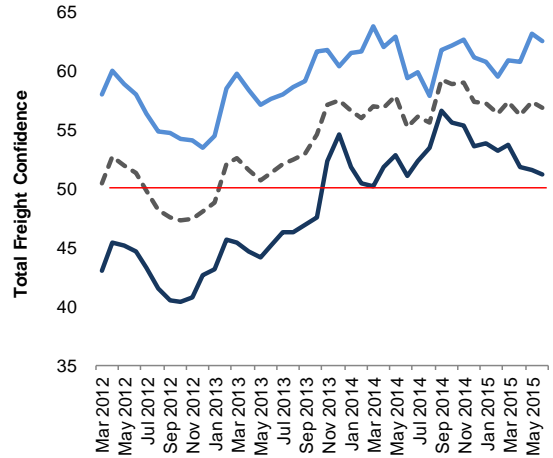
Overview – June 2015

The June Logistics Confidence Index fell 0.5 points to 56.8 from May as sea freight declined across the board. Airfreight increased slightly from last month and remains strong on absolute levels, but was not enough to offset the decline in ocean. Relative to history, the overall index was 1.6 points above June 2014, and 5.5 points higher than June 2013.

The overall airfreight index improved marginally, rising sequentially by 0.1 points to 59.6 in June. The present situation also increased 0.1 points while the expected situation improved 0.2 points. The overall sea freight index slipped 1.2 points, with a 0.9 point decline in the present situation and a 1.6 point decline in the expected situation.

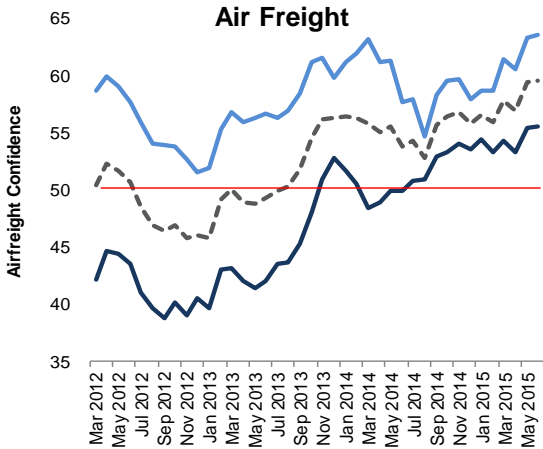
For the June question of the month, we asked if container reliability had changed over the past year. Results were mixed, with 38.6% seeing decreased reliability, 31.7% seeing an increase, and 29.7% seeing no change. For the year ahead, 51.5% expect an improvement, 15.8% think reliability will degrade, and 32.7% expect it to be unchanged.

Total Freight

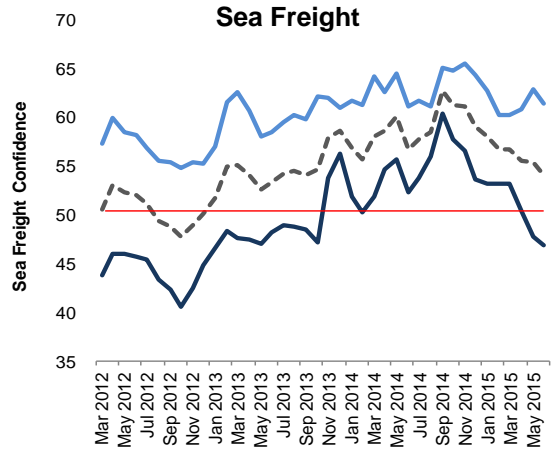


The logistics situation index illustrates current condition faced by forwarders, while the logistics expectations index shows how the situation is expected to develop over the next six months. The logistics confidence index, an average of both the present situation and expected situation indices, expresses overall confidence in the market.

Air Freight



Sea Freight



— Present Situation - - - Logistics Confidence — Expected Situation

	Present Situation	Expected Situation	Confidence
Mode	May 2015	Nov 2015	Average
Air Freight	55.5	63.4	59.5
Sea Freight	47.7	62.9	55.3
Total Freight	51.6	63.2	57.4

Source for all data and graphs: Stifel Logistics Confidence Index

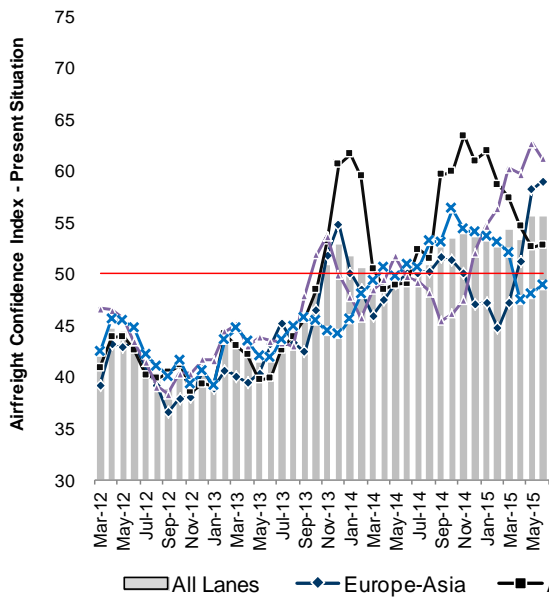
Air Freight Confidence Index

The total airfreight logistics confidence index increased 0.1 point to 59.6 in June. Compared with the same month last year, the index was 5.8 points higher, and compared to June 2013, it was 10.2 points higher.

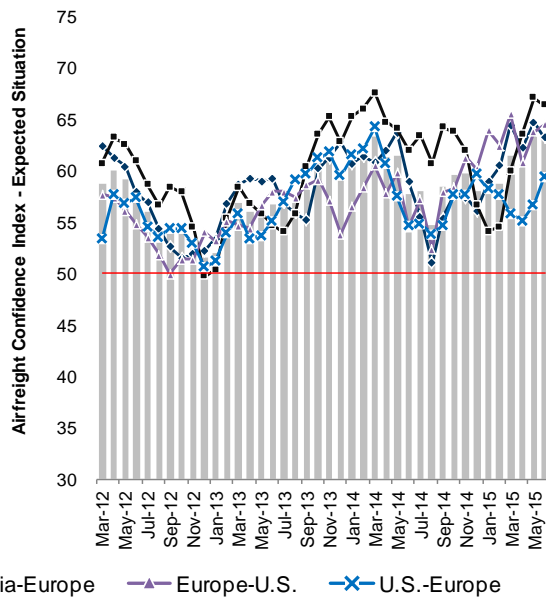
In terms of the present situation, the airfreight index registered a 0.1 point gain, remaining stable at a solid 55.6 in June. Most lanes improved this the month, including both on the Asia trade. Europe to Asia saw a 0.8 point rise to 59.0 and Asia to Europe increased 0.2 points to 52.8. The U.S. to Europe also climbed 0.8 points, but still rests at a suboptimal 48.9, indicating lower volumes than the seasonal norm. Europe to the U.S. was the only lane to decline, sinking 1.5 points but remaining at a healthy absolute level of 61.2.

For the six month outlook, the expected situation index for total airfreight increased 0.2 points to 63.6. Asia to Europe fell 0.7 points to 66.4. Europe to Asia also fell, declining 1.5 points to 63.2. U.S. trades fared better, with Europe to the U.S. increasing 0.7 points to 64.5 and the U.S. to Europe rising 2.7 points to 59.4.

Current Market



Six-Month Outlook



All Lanes
 Europe-Asia
 Asia-Europe
 Europe-U.S.
 U.S.-Europe

Trade Lane	Air Freight		
	Jun 2015	Dec 2015	Confidence
Europe-Asia	59.0	63.2	61.1
Asia-Europe	52.8	66.4	59.6
Europe-U.S.	61.2	64.5	62.9
U.S.-Europe	48.9	59.4	54.2
Total Index	55.6	63.6	59.6

Source for all data and graphs: Stifel Logistics Confidence Index

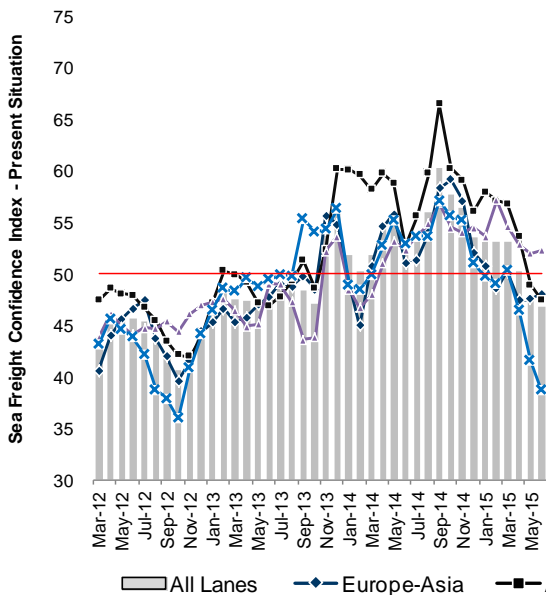
Sea Freight Confidence Index

For sea freight, the logistics confidence index fell 1.2 points to 54.1. Compared with the same month in 2014, the index is 2.6 points lower, but up 0.7 points compared to June 2013.

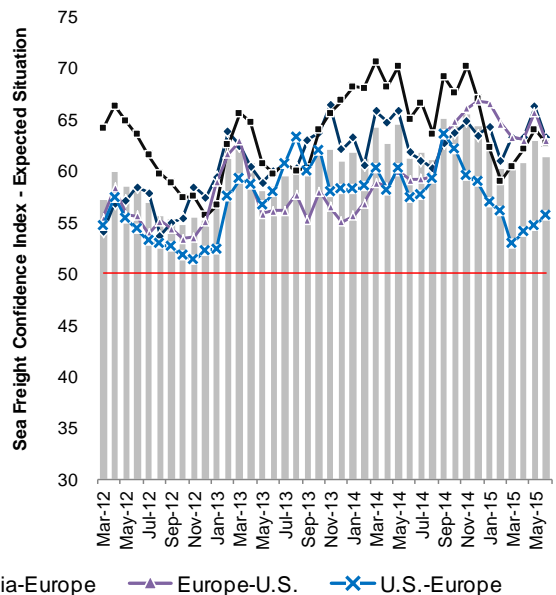
For the present situation, the index fell 0.9 points to 46.8. Results for the lanes were mixed, and it seems that currency is still having an effect on European imports. U.S. to Europe volumes noted the biggest decline at 2.8 points to 38.7, while Asia to Europe fell 1.4 points to 47.5. Europe outbound did better, with Europe to Asia inching up 0.5 points to 48.1, while Europe to the U.S. saw an incremental 0.3 point gain to reach 52.3.

The expected situation index for sea freight decreased 1.6 points to 61.3. Only one lane—U.S. to Europe—saw growth, with a 0.9 point increase to 55.6. Among the remainder, Asia to Europe was down 1.3 points to 62.7, Europe to Asia fell 2.9 points to 63.3, and Europe to the U.S. slipped 2.7 points to 63.0.

Current Market



Six-Month Outlook



Sea Freight			
Trade Lane	Jun 2015	Dec 2015	Confidence
Europe-Asia	48.1	63.3	55.7
Asia-Europe	47.5	62.7	55.1
Europe-U.S.	52.3	63.0	57.7
U.S.-Europe	38.7	55.6	47.2
Total Index	46.8	61.3	54.1

Source for all data and graphs: Stifel Logistics Confidence Index

Methodology

The Stifel Logistics Confidence Index is calculated based on responses from a monthly survey, completed by a number of logistics professionals. The survey questions participants as to volumes that they are currently experiencing, relative to the time of year, as well as how they expect volumes to develop over the next six months. The total index covers four European based trade lanes, including:

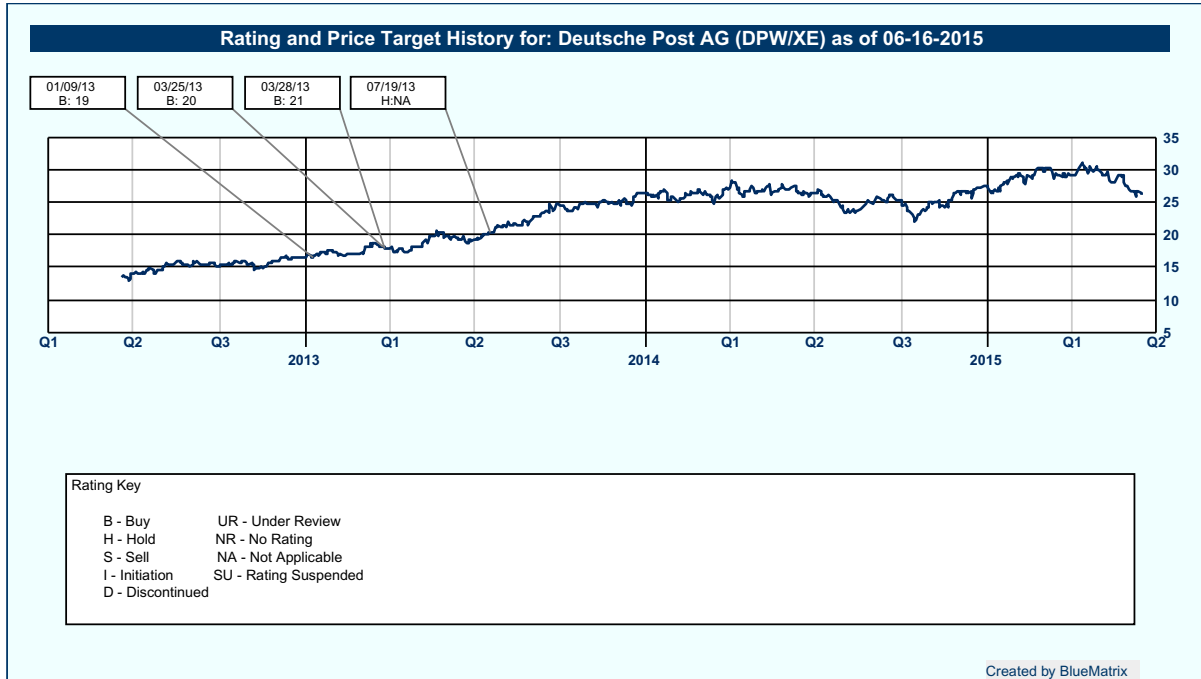
- Europe to Asia
- Asia to Europe
- Europe to U.S.
- U.S. to Europe

These trade lanes form four sub-indices, from which an overall index for both the air freight industry and sea freight industry is calculated. An index value of 50 indicates no change in the volumes of partaking logistics companies; above 50 indicates higher volumes, while below 50 indicates lower volumes.

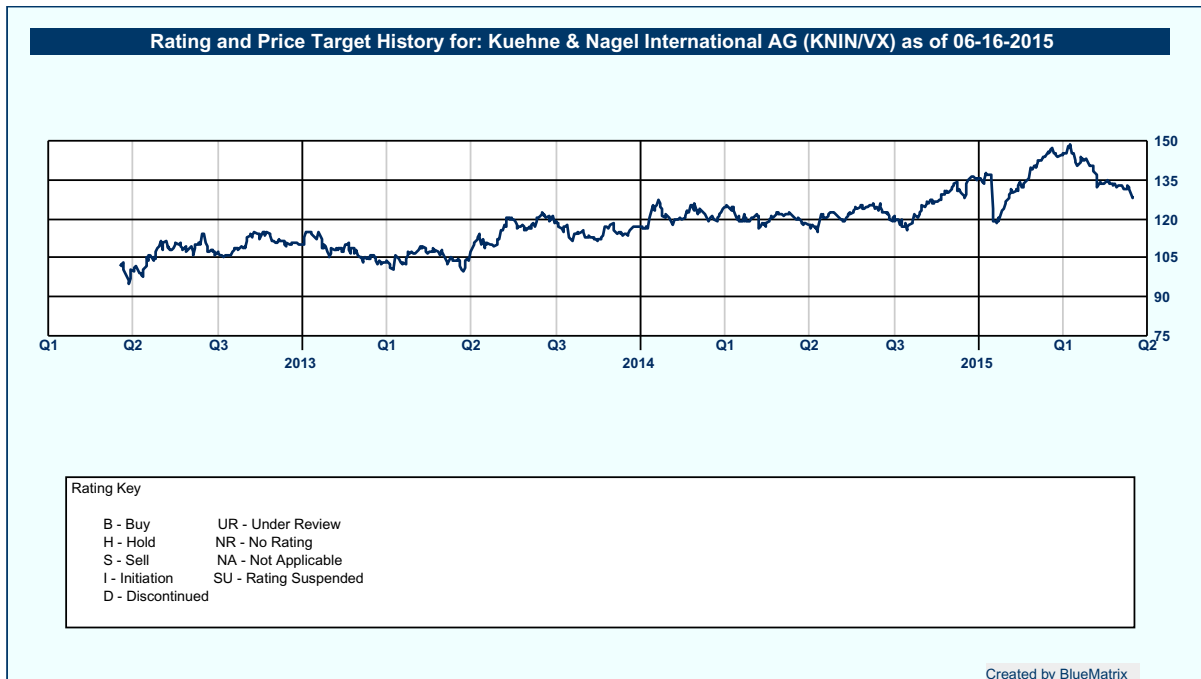
To participate in next month's survey, and in order to receive an advanced copy of the results, please use the following link: <https://www.surveymonkey.com/s/FJB2NZR>

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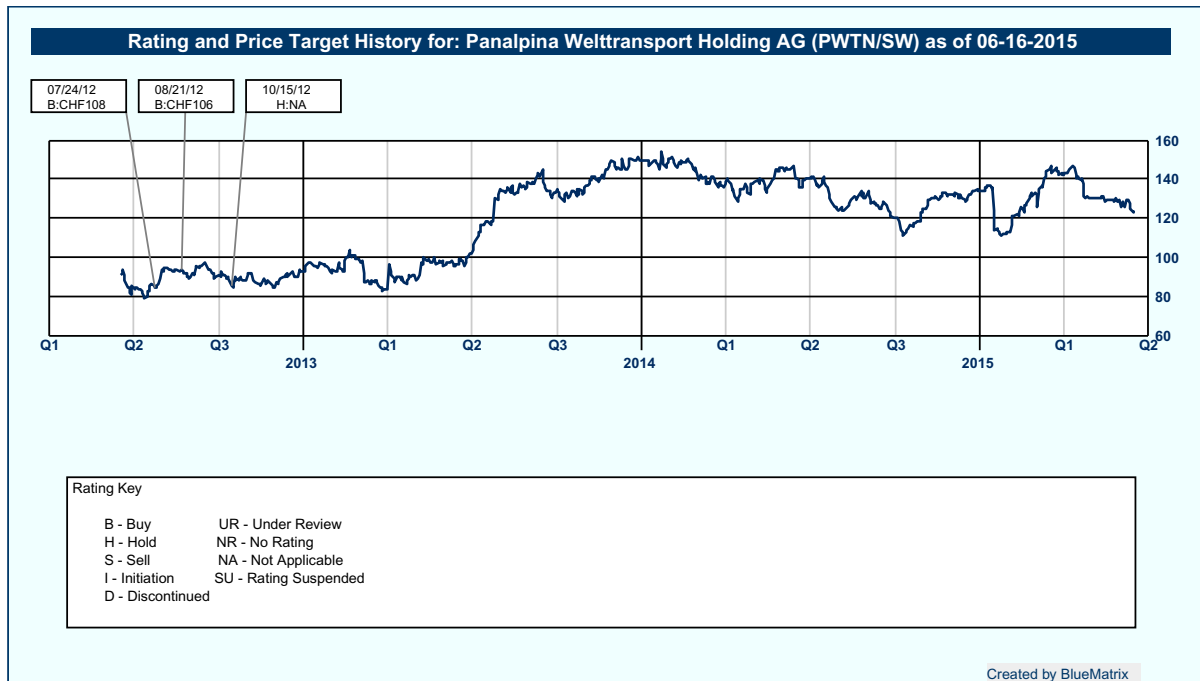
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