

Survey Summary

European Trade Volumes Still Down in June, But Expectations Positive for 4Q16

For the last several months, results for the Stifel Logistics Confidence Index have been rather dour and uninspired: the market has risen off the bottom, but current freight levels and near-term expectations remain stuck in a rut of stagnation, with growth generally below normal seasonal expectations. In June, present volumes were no different, in our view. Some lanes improved, some lanes deteriorated. Air was a little worse, sea was a little better. But overall, we are still significantly below where we were in mid-2015. In contrast, the near-term outlook shows signs of life. In June, six-month expectations inflected sharply positive in a departure from previous months in both modes and across most lanes. This result suggests that the current soft patch in Europe-based forwarding volumes could be ending this year, and that as we move through peak and into 2017, better times could be ahead. For now, we remain Hold-rated on European-based freight forwarding stocks, including DHL Global Forwarding (DPW.XE, EUR 25.88, Hold), DSV AIS (DSV-KO, DKK 282.60, Hold), Kuehne + Nagel (KNIN-SIX, CHF 137.20, Hold), and Panalpina (PWTN-SIX, CHF 117.70, Hold) as we try to determine if this month's expectations results were just an anomaly or the first indication of a stronger freight environment ahead. We remain Buy-rated on U.S.-based Expeditors International of Washington (EXPD, \$48.53, Buy), as we believe it has secular growth opportunities (in Europe) that are available independent of improved market conditions.

- **The overall LCI improved 1.8 points from May to 49.0—still below the 50.0 threshold for growth, but only just.** We believe it is important to note, though, that much of the improvement was driven by an improved outlook as opposed to a significantly improved present situation. The June index is 3.6 points above December 2015 trough, widening the gap with the last trough, but we are still a long way from the 59.2 level seen in September 2014.
- **Airfreight results were up another 0.4 points in June, marking the second month above the 50.0 threshold after seven months in contraction.** However, the increase was driven entirely by an improved outlook, as *present volumes moved backwards* by 1.0 index points this month. On a lane-by-lane basis, current volumes on Europe-U.S. fell a significant 6.0 points, dipping to 48.5, which was the first time that lane has been negative since November 2014. This result was a bit surprising, since that lane had previously been the strongest of the four that we measure. Of the remainder, U.S.-Europe was down 1.8 points, and Europe-Asia fell 0.3 points. The only lane to improve was Asia-Europe, which climbed 4 points to a still-negative 48.4. Reiterating our earlier point, though, the 6-month outlook in air was a marked departure from present freight results, with every lane but U.S.-Europe seeing a solid improvement.
- **On the ocean freight side, half of the measured lanes saw an improved present situation, but all of them saw a nice inflection to the upside on the six-month outlook.** First on current volume trends, Europe-Asia saw a slight bump, but remains the weakest overall as it continues to bounce along the bottom. Asia-Europe, though, increased at a much more significant rate, gaining 7.6 points over May, but remains below 50.0. Transatlantic lanes moved backwards in June, with Europe-U.S. down 3.4 points, and U.S.-Europe down 1.2 points. On the expectations side, improvement was universal, and in most cases, rather substantial. In previous reports, we had called for a muted 2016, and it seems the market still believes that to be the case. December could, however, offer a preview for a better environment in 2017.
- **Question of the month:** will value-added services be the key to freight forwarding profitability going forward? Of those surveyed, 23% saw these services as the next area of development for the market, 47% thought they were only one of several paths to improved forwarder profitability, 24% believed that things like technology are more important, and only 6% of respondents stated that they did not see the market turning to forwarders for value added services at all.

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- **Investment conclusions:** Economic and trade uncertainty remain in terms of the current freight market. The possibility of Brexit, uncertainty in the U.S. presidential race and variations in trade policy platforms across the candidates, and a general atmosphere of muted demand continue to weigh on volumes. However, the six-month expectations index for this month finally offer some signs of hope. We do not yet know if these expectations are just an anomaly and just more reflective of hope than reality, but we will continue to monitor the data closely for a pattern of improvement. We remain Hold-rated on the majority of the forwarding group, with the sole exception of U.S.-based Expeditors.

To participate in next month's survey, and in order to receive an advanced copy of the results, please visit <https://www.surveymonkey.co.uk/r/Ju16>.

*Prices as of 6/22/2016 market close.

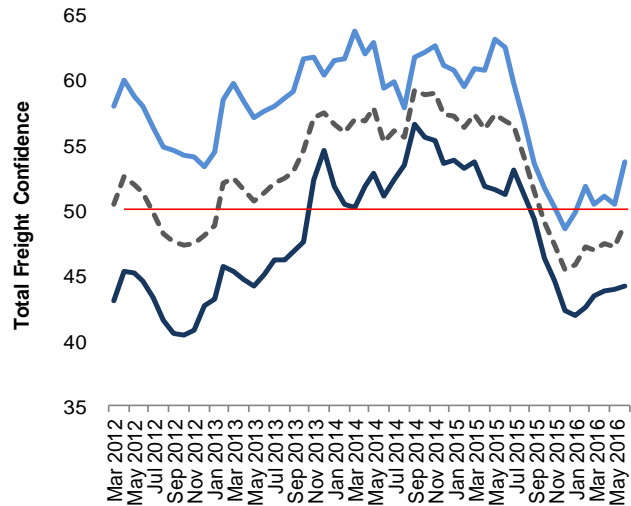
Overview – June 2016

The overall logistics confidence index remained negative in June, though it edged 1.8 points higher from last month, but that is still 7.8 points below June 2015 and 6.2 points lower than in June 2014.

Present volumes were roughly flat, but expectations for end-of-year volumes inflected noticeably upward, suggesting that respondents anticipate a stronger peak season. These results were consistent across both air and sea freight, although sea freight fared slightly better, reaching its highest point in 8 months.

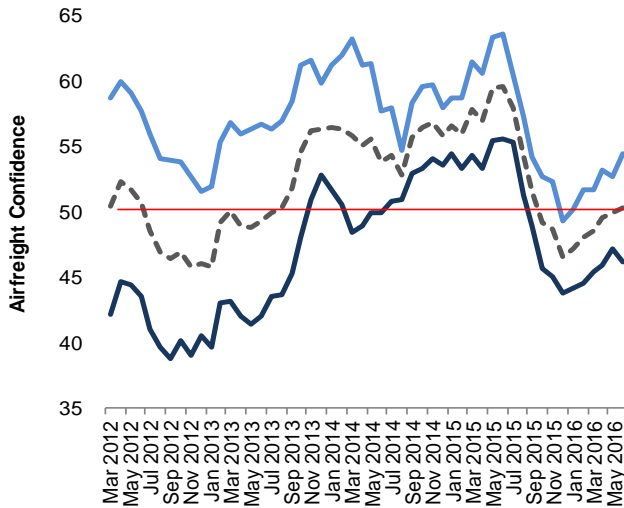
The monthly one-off question asked if respondents believed value-added services to be the key to freight forwarding profitability going forward. Of those surveyed, 23% saw these services as the next area of development for the market, though 47% thought they were only one of several paths to improved forwarder profitability. Of the remainder, 24% believed that areas like technology were more important for forwarders to focus on in their efforts to increase profitability. Only 6% of respondents stated that they did not see the market turning to forwarders for value added services.

Total Freight

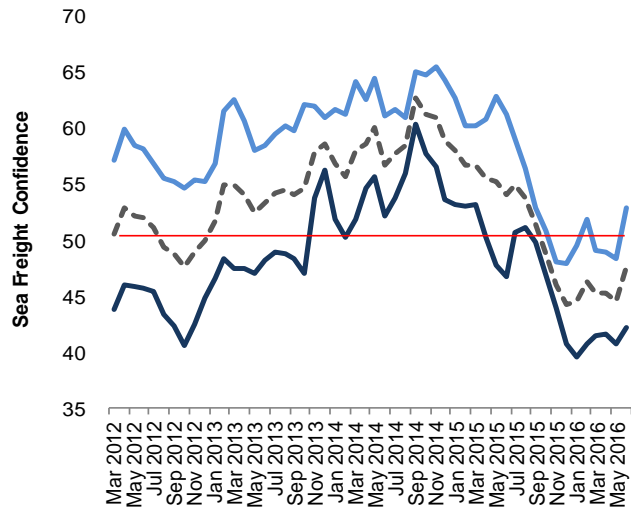


The logistics situation index illustrates current condition faced by forwarders, while the logistics expectations index shows how the situation is expected to develop over the next six months. The logistics confidence index, an average of both the present situation and expected situation indices, expresses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

Air Freight



Sea Freight



— Present Situation - - - Logistics Confidence — Expected Situation

	Present Situation	Expected Situation	Confidence
Mode	Jun 2016	Dec 2016	Average
Air Freight	46.2	54.5	50.4
Sea Freight	42.2	52.9	47.6
Total Freight	44.2	53.7	49.0

Source for all data and graphs: Stifel Logistics Confidence Index

Air Freight Confidence Index

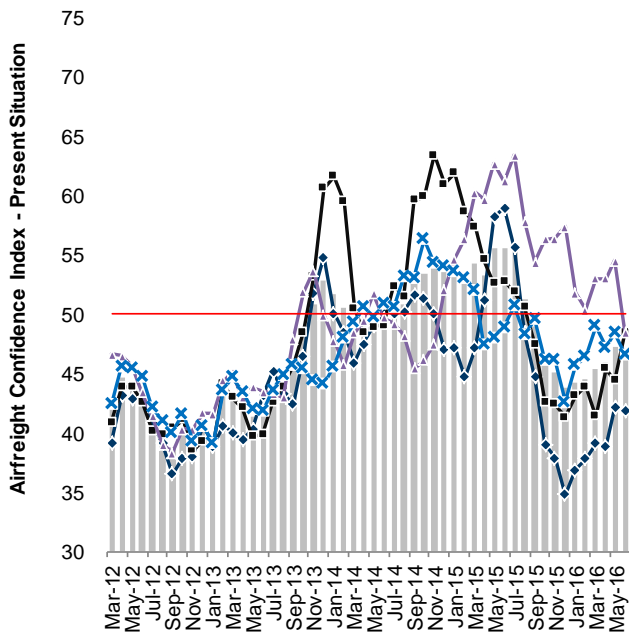
The Air Freight Logistics Confidence Index nudged up another 0.4 points to 50.4 for June 2016. This reading is the second, consecutive month above 50 after seven months in contraction, but the value is still 9.2 points lower than in June 2015 and 3.4 points beneath June 2014.

Present situation results fell by 1.0 points to 46.2, indicating that the current environment is still murky. The sequential dip was principally the result of a 6.0 point fall in the Europe to U.S. lane, which at 48.5, fell below the 50 point mark for the first time since November 2014. This result was somewhat surprising to us, because Europe to U.S. had hitherto been the strongest lane of the four measured lanes. Is it inventory destock? Moderating Dollar strength? Or something more?

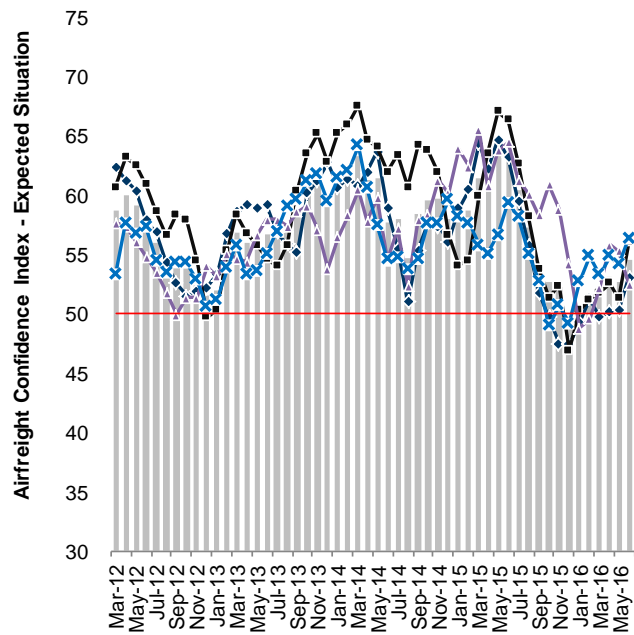
Of the remaining lanes, current volumes on the U.S. to Europe trade declined by 1.8 points to 46.6, and the Europe to Asia lane also contracted slightly, with a 0.3 point fall to 41.8. The only lane to post an increase was Asia to Europe, which rose by 4.0 points to 48.4.

In a marked contrast to the present environment, the Air Freight Logistics Expectations Index rose by 1.8 points to 54.5. A 2.8 decline on the U.S. to Europe lane was the only contraction recorded. The U.S. to Europe lane improved by 2.2 points to 56.4, whilst the Europe to Asia lane increased 2.8 points to 53.1. The greatest improvement was in the Asia to Europe lane, which rose by 4.7 points to 56.0. At least for now, it seems that the market expects an improved climate around peak season.

Current Market



Six-Month Outlook



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

Trade Lane	Air Freight		
	Jun 2016	Dec 2016	Confidence
Europe-Asia	41.8	53.1	47.5
Asia-Europe	48.4	56.0	52.2
Europe-U.S.	48.5	52.5	50.5
U.S.-Europe	46.6	56.4	51.5
Total Index	46.2	54.5	50.4

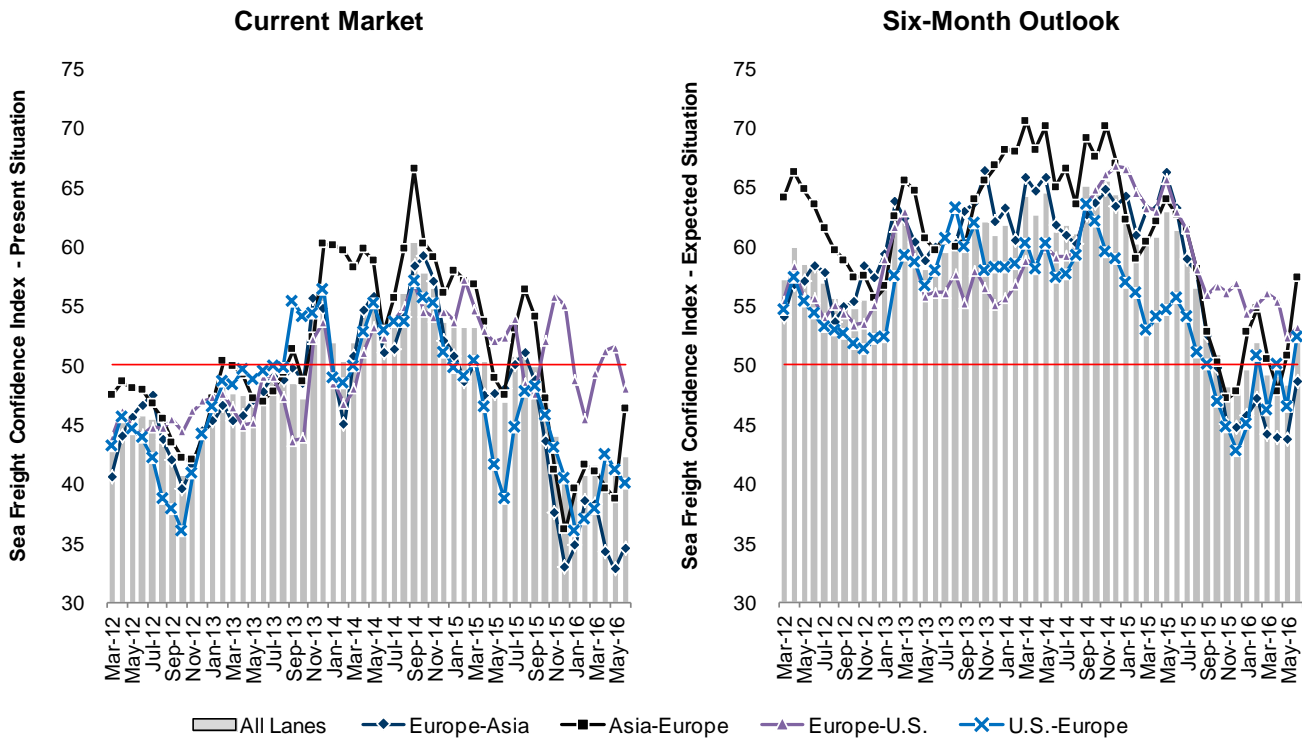
Source for all data and graphs: Stifel Logistics Confidence Index

Sea Freight Confidence Index

For June, the sea freight logistics confidence index improved by 3.1 points to 47.6. This rise was precipitated by an improvement of 1.5 in the present situation index, and growth of 4.6 points in the expected situation index.

Standing at 42.2, the present sea freight index was still negative, as were all four individual lanes surveyed. Europe to Asia remains the softest and is still bouncing along the bottom, but it did manage to improve by 1.8 points from May to 34.6 this month. The reverse Asia to Europe lane also increased, but at a much more significant rate, strengthening 7.6 points over May to 46.3. Transatlantic lanes went backwards in June, as the Europe to U.S. lane fell by 3.4 points to 48.1 and the U.S. to Europe lane declined by 1.2 points to 40.0.

As with air freight, the growth in the sea freight expectations index was more pronounced. Gains were seen across the board, led by a 6.6 point improvement to 57.3 on the Asia to Europe lane, a 5.9 point gain to 52.3 for the U.S. to Europe lane, and a 4.9 point increase to 48.6 on the Europe to Asia lane. The most minimal increase was registered on the Europe to U.S. lane, which improved by 0.9 points, to 53.2.



Legend: All Lanes (grey square), Europe-Asia (blue diamond), Asia-Europe (black square), Europe-U.S. (purple triangle), U.S.-Europe (light blue cross)

Sea Freight			
Trade Lane	Jun 2016	Dec 2016	Confidence
Europe-Asia	34.6	48.6	41.6
Asia-Europe	46.3	57.3	51.8
Europe-U.S.	48.1	53.2	50.7
U.S.-Europe	40.0	52.3	46.2
Total Index	42.2	52.9	47.6

Source for all data and graphs: Stifel Logistics Confidence Index

Methodology

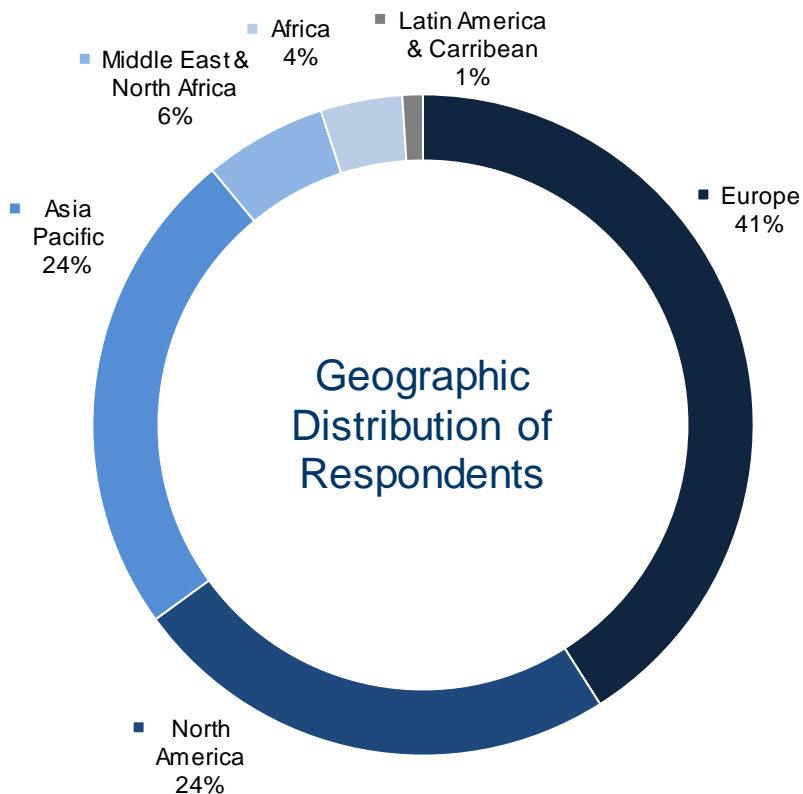
The Stifel Logistics Confidence Index is calculated based on approximately 200 responses from a monthly survey, administered and analyzed by a number of logistics professionals. The survey questions participants as to volumes that they are currently experiencing, relative to the time of year, as well 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.co.uk/r/Ju16>

Geographic Distribution of Stifel LCI Respondents



Source for all data and graphs: Stifel Logistics Confidence Index

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