

Survey Summary

**Last Month's Positive Inflection In Near-Term Sentiment Holding Fast, But Will It Last?
Present Volumes Remain Weak**

Last month, the Stifel Logistics Confidence Index (LCI) saw a continuation of muted freight forwarding trends, whereby current volumes have recovered from the trough at the end of 2015/start of 2016, but growth has been slow from there. But last month also saw a sharp uptick in 6-month expectations. Diving deeper into the survey results, it appears that much of the optimism was tied to peak season, but some of it was also tied to improved global growth expectations. Results for July show stability in prior forecasts, even in the face of Brexit, which we believe should not have any meaningful impact on 2016 European inbound/outbound flows (other than potentially increasing UK exports and limit UK imports due to the pound's devaluation). We remain Hold-rated on Europe-based freight forwarding stocks, including DHL Global Forwarding (DPW.XE, EUR 25.63, Hold), DSV A/S (DSV-KO, DKK 279.20, Hold), Kuehne + Nagel (KNIN-SIX, CHF 136.60, Hold), and Panalpina (PWTN-SIX, CHF 116.30, Hold), as the quality companies are either fully valued (KNIN) or tied up in an integration (DSV), while DHL and Panalpina are still in turnaround mode. Our lone Buy-rated stock is U.S.-based Expeditors International of Washington (EXPD, \$50.08, Buy), because we believe it has above-market growth opportunities (in Europe) and is trading at a more attractive valuation than KNIN.

- **The overall LCI dipped 0.3 points from June's 49.0 to a reading of 48.7. It has now been in contraction territory for 10 consecutive months.** The July index is 3.3 points above the December 2015 trough, but we are still a long way from the 59.2 level seen in September 2014. Moreover, we note that current volumes have only improved 2.0 points off January 2016, as there has been more improvement in near-term sentiment than there has been in current volumes.
- **Airfreight results fell 1.0 points in July, back below the 50.0 threshold after flirting with positive territory for 2 months.** Both real-time volumes and 6-month expectations were pared back. On a lane-by-lane basis, only one lane grew current volumes in July—Europe to Asia, which rose 2.1 points to 43.9. Asia to Europe, Europe to U.S., and U.S. to Europe all lost ground. Europe to U.S. has decelerated sharply over the last 2 months, and all lanes have now roughly converged in terms of absolute confidence readings vs. normal seasonal volumes. 6-month expectations were also trimmed back this month, but are still at the second-highest level seen all year, perhaps suggesting some (but not a lot) of recovery into 2017.
- **On the ocean freight side, the Logistics Confidence Index saw a 0.3 point upward move, but as with the Total Freight Confidence Index, has been in contraction territory for the last 10 months.** First, on current volume trends, there was a 0.1 point upward, but this was driven entirely by improvement on the Europe-Asia trade, which has relinquished the title of weakest ocean lane to U.S.-Europe. On the expectations side, European export lanes improved, while European import lanes declined sequentially. Overall, optimism remains strongest for Asia-Europe and Europe-U.S.
- **Question of the month:** Last month, weak volumes continued, but there was a marked inflection to the upside when parsing the 6-month expectations data. As the timing of the data coincides with December 2016, we wanted to find out if the optimism among shippers and forwarders was due to more than simply the peak season bump. While our one-off question revealed that nearly 31% of respondents think it was just due to seasonality, Nearly 2/3 thought it was something more - and tied to improving economic conditions. Almost 27% of respondents believed the inflection due to an improving *global* market. Of the remainder, 20% of respondents thought the improvement came mostly for a better *European* market, 16% thought it would be growth outside Europe, and 6% attributed it to "other," like the results of the 2016 U.S. presidential election.

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- **Investment conclusions:** Economic uncertainty has characterized much of 2016, as global growth rates have muddled along, geopolitical instability abounds, and a new wave of protectionism sweeps the world—most notably with Brexit, the possibility of further dissolution in the EU, and the campaign success of Donald Trump in the U.S. presidential race. This uncertainty and the outlook for muted growth leads us to maintain Hold-ratings on most of the forwarding group, outside of U.S.-based Expeditors. However, our data shows some positive sentiment emerging for next year, and we will continue to pay close attention as the results unfold.

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

*Prices as of 7/18/2016 market close.

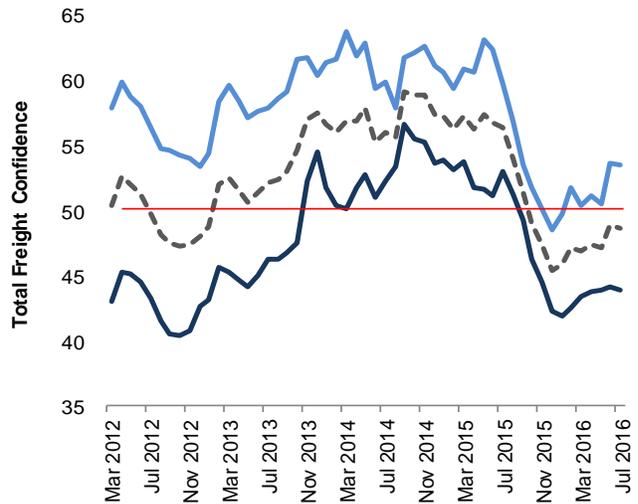
Overview – July 2016

The Stifel Logistics Confidence Index remained negative in July, edging down slightly (0.3 points) after a strong move up last month. The total Index sits 7.7 points below July 2015 and 7.4 points below July 2014.

Overall air freight turned negative in July, declining to 49.6 after a two-month brush with positive readings. Overall sea freight was also negative, but continues to creep up slowly—this month reaching 47.9.

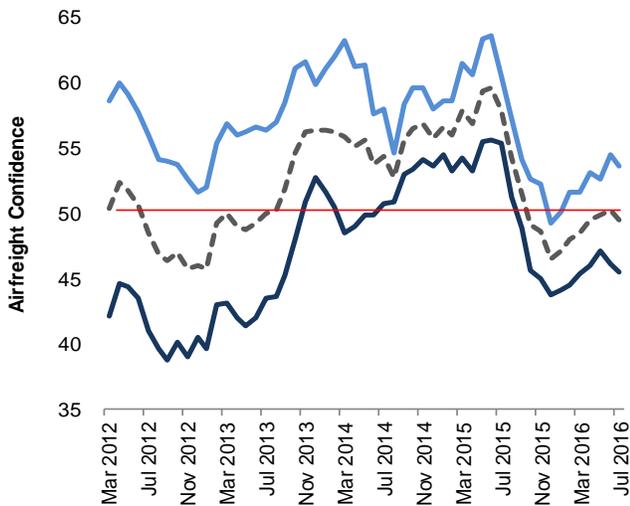
July's one-off question sought to understand the positive uptick in the near-term outlook from last month's results. The largest respondent group—about 31% of survey participants—said the outlook was good only because it coincided with 2016 holiday peak, while ~27% attributed the uptick to global market improvement, ~20% pointed specifically to European market improvement, and ~16% cited improvement in other markets, but not so much in Europe. A small group of about 6% asserted a range of alternative answers, including the 2016 US Presidential election.

Total Freight

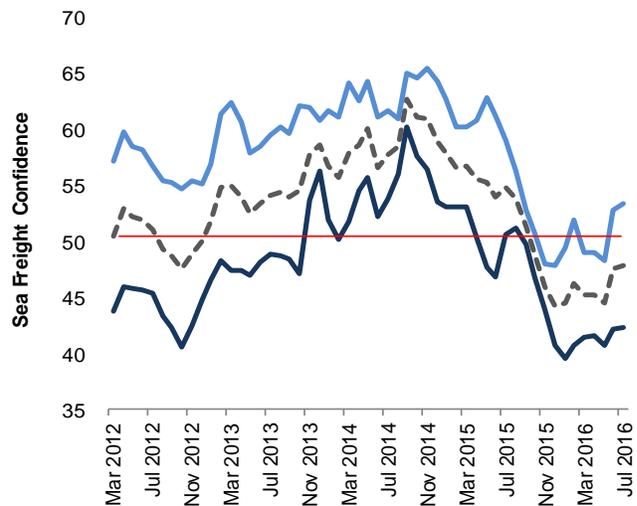


The logistics situation index illustrates current condition faced by forwarders, while the logistics expectations index shows how the situation is expected to develop over the next six months. The logistics confidence index, an average of both the present situation and expected situation indices, expresses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

Air Freight



Sea Freight



— Present Situation - - - Logistics Confidence — Expected Situation

	Present Situation	Expected Situation	Confidence
Mode	Jul 2016	Jan 2017	Average
Air Freight	45.5	53.7	49.6
Sea Freight	42.3	53.4	47.9
Total Freight	43.9	53.6	48.7

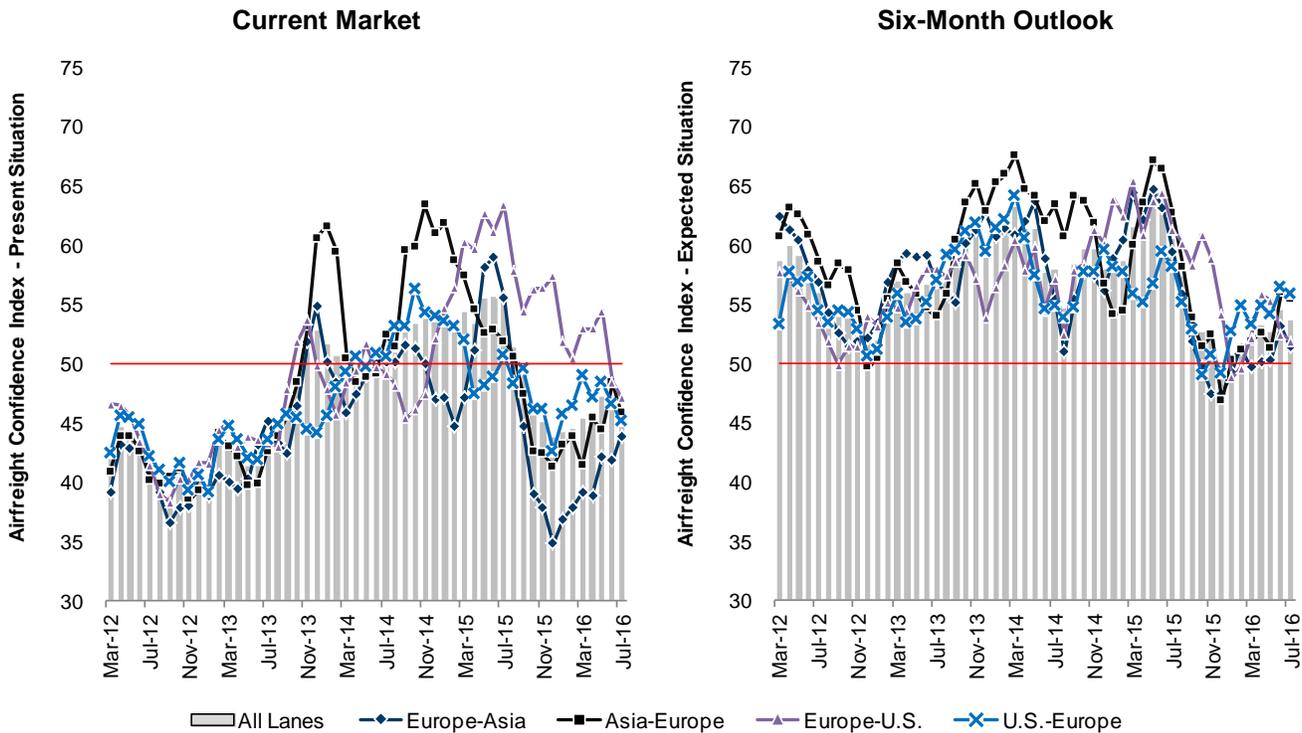
Source for all data and graphs: Stifel Logistics Confidence Index

Air Freight Confidence Index

Following a period of upward momentum, the air freight Index declined for the second month in a row. The Index fell by 0.8 points month-to-month, and by 8.4 points year-over-year. It is currently 4.8 points lower than it was in July 2014.

Breaking down the results by timeframe, current volumes fell by 0.7 points to 45.5. Three of the four lanes recorded month-on-month declines, with the exception being the Europe to Asia lane, which gained 2.1 points to 43.9. Asia to Europe lost 2.5 points to 45.9, while Europe to U.S. and U.S. to Europe lost 1.3 and 1.5 points, reaching an index level of 47.2 and 45.1, respectively.

The forward-looking air freight logistics expectations Index fell by 0.8 points to 53.7. Declines came across the board, although last month was admittedly a strong month (as explained in this month's one-off question, the increase last month was mostly due to a coincident peak period, although some did attribute the increase to a strengthening environment in both Europe and abroad). The greatest of the declines occurred in Europe to Asia, which fell by 1.6 points to 51.5. Europe to U.S. lost 0.6 points to 51.9. Asia to Europe and U.S. to Europe each lost 0.5 points, falling to 55.5 and 55.9 points, respectively.



Trade Lane	Air Freight		
	Jul 2016	Jan 2017	Confidence
Europe-Asia	43.9	51.5	47.7
Asia-Europe	45.9	55.5	50.7
Europe-U.S.	47.2	51.9	49.6
U.S.-Europe	45.1	55.9	50.5
Total Index	45.5	53.7	49.6

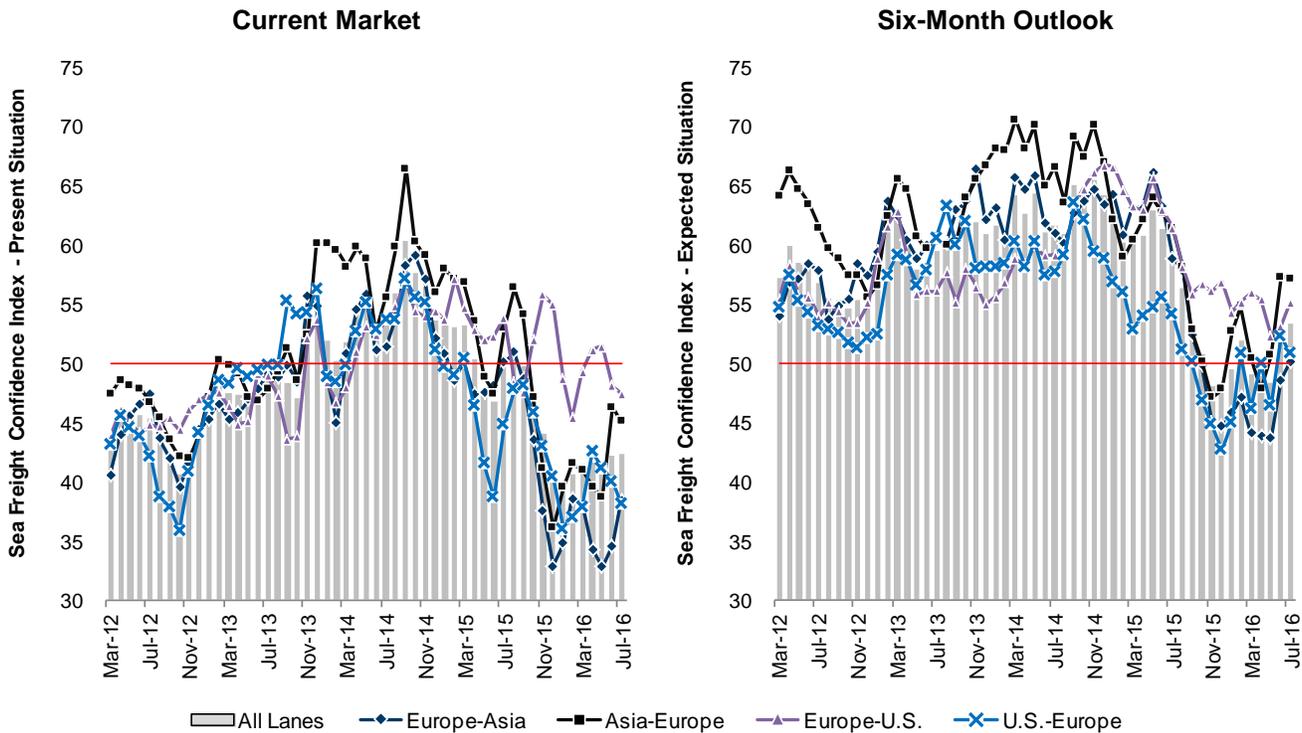
Source for all data and graphs: Stifel Logistics Confidence Index

Sea Freight Confidence Index

For July, the sea freight logistics confidence Index improved by 0.3 points to 47.9. This rise was chiefly explained by the significant increase in the expected situation Index, though the present Index also rose slightly.

At 42.3, the present sea freight Index remains squarely negative, suggesting that overall, current sea freight volumes remain well-below normal seasonal levels. All four of the measured lanes were consistent in this regard. And while the present index improved slightly, this was driven entirely by the Europe to Asia lane, which climbed 3.8 points in July to 38.4. The remaining 3 lanes actually decelerated sequentially—U.S. to Europe fell 1.8 points to 38.2, representing the lowest scoring lane surveyed, Asia to Europe fell 1.2 points to 45.1, and Europe to U.S. fell 0.6 points to 47.5.

The sea freight expected Index rose at a slightly greater rate of 0.5 points to 53.4, though the results across lanes were mixed. Europe to U.S. rose by 1.9 points to 55.1, and Europe to Asia gained 1.5 points to 50.1. In contrast, U.S. to Europe lost 1.5 points to total 50.8, and Asia to Europe contracted by 0.1 points to 57.2.



Sea Freight			
Trade Lane	Jul 2016	Jan 2017	Confidence
Europe-Asia	38.4	50.1	44.3
Asia-Europe	45.1	57.2	51.2
Europe-U.S.	47.5	55.1	51.3
U.S.-Europe	38.2	50.8	44.5
Total Index	42.3	53.4	47.9

Source for all data and graphs: Stifel Logistics Confidence Index

Methodology

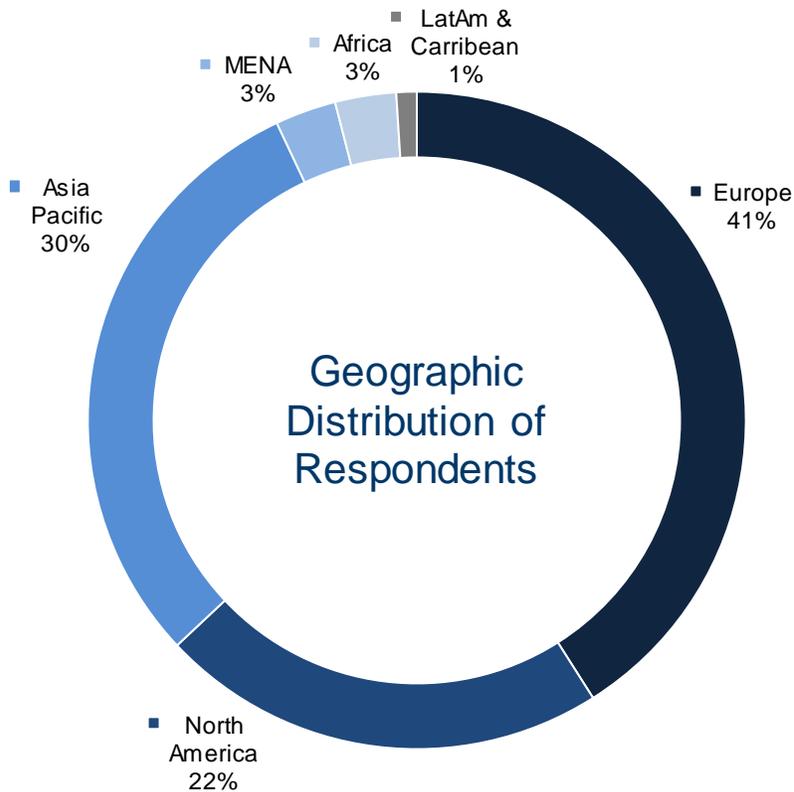
The Stifel Logistics Confidence Index is calculated based on approximately 200 responses from a monthly survey, administered and analyzed by a number of logistics professionals. The survey questions participants as to volumes that they are currently experiencing, relative to the time of year, as well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

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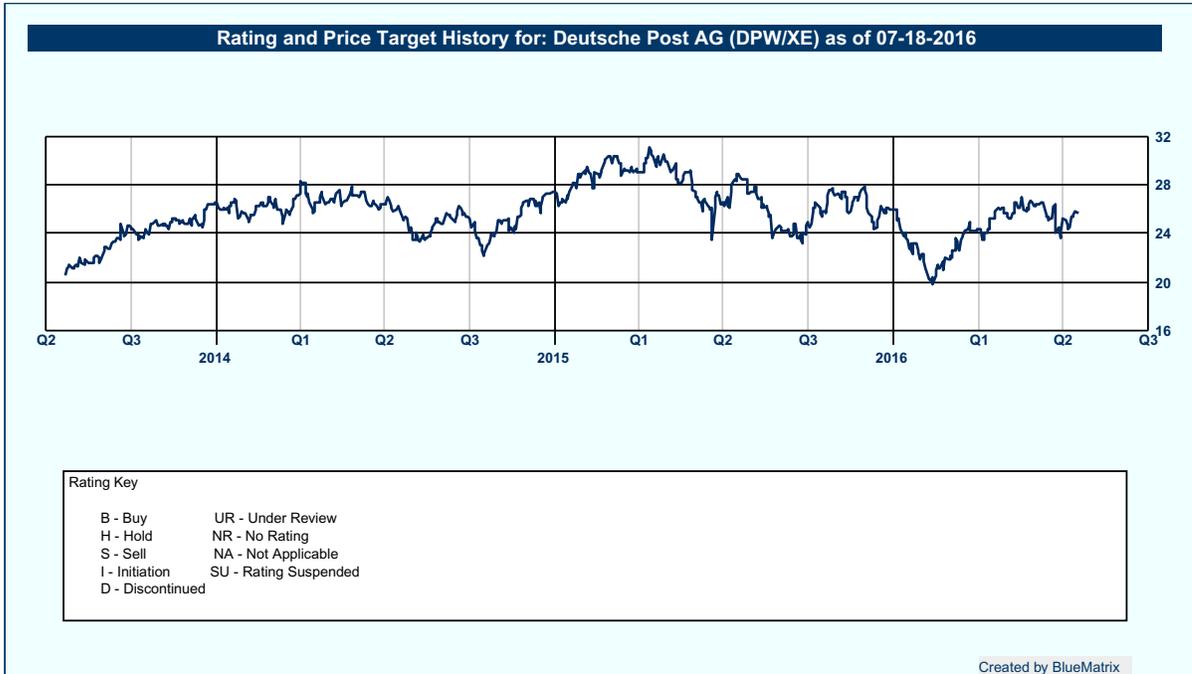
Geographic Distribution of Stifel LCI Respondents



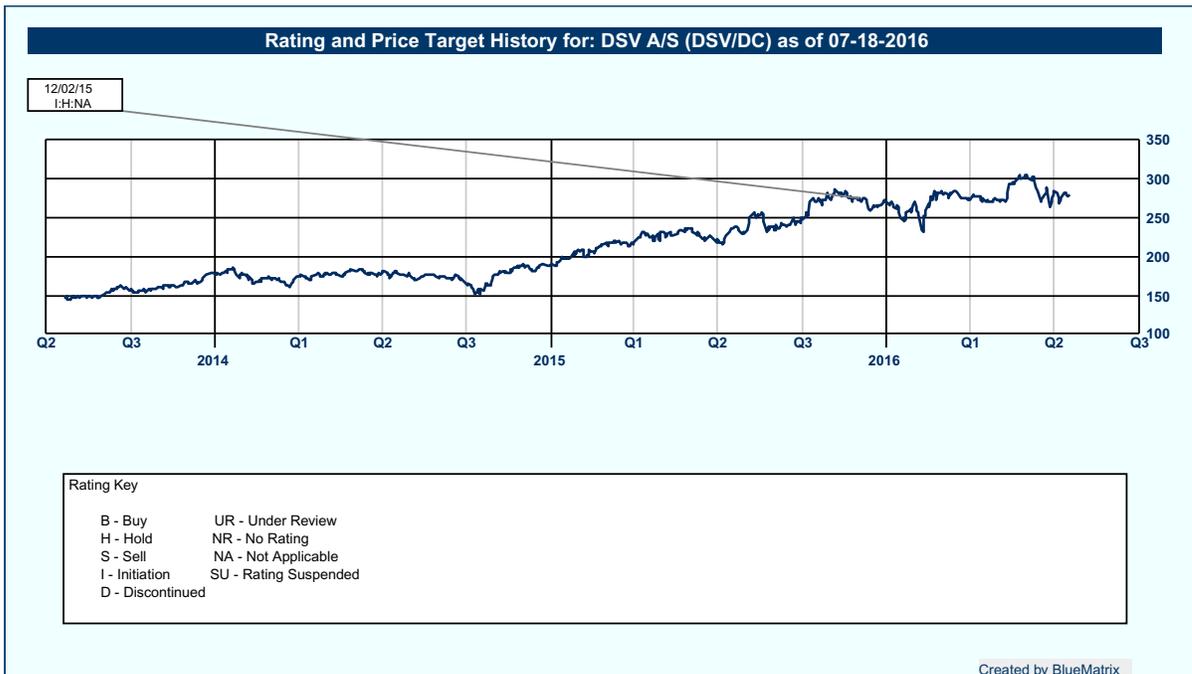
Source for all data and graphs: Stifel Logistics Confidence Index

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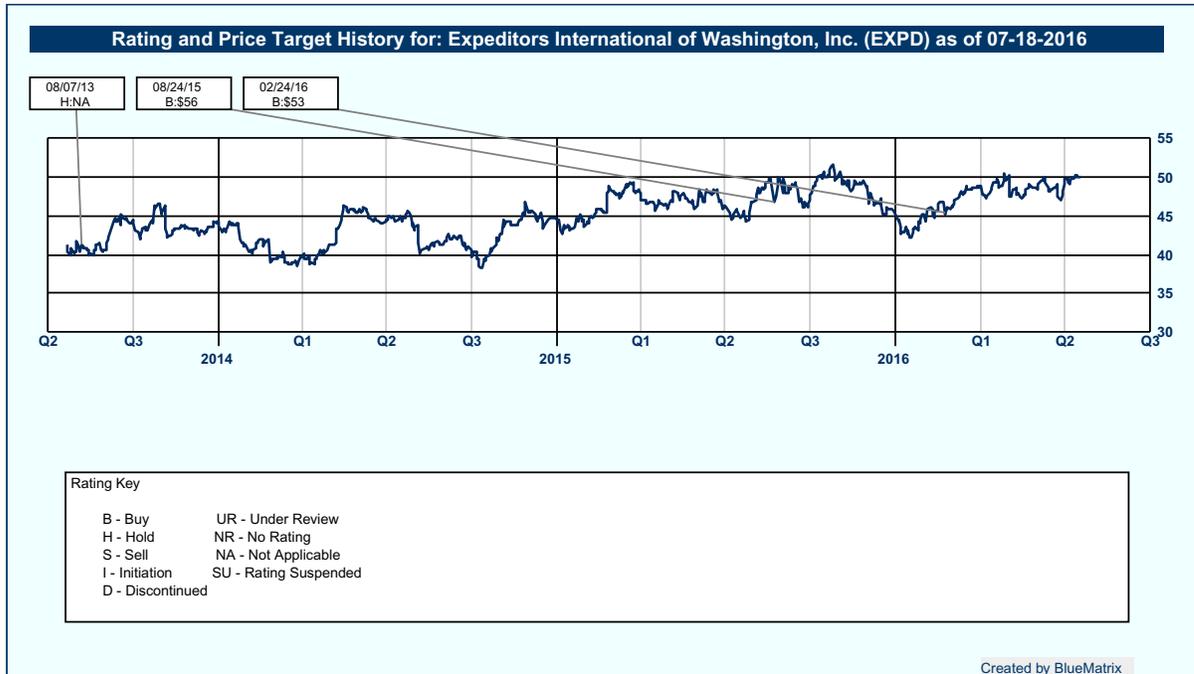
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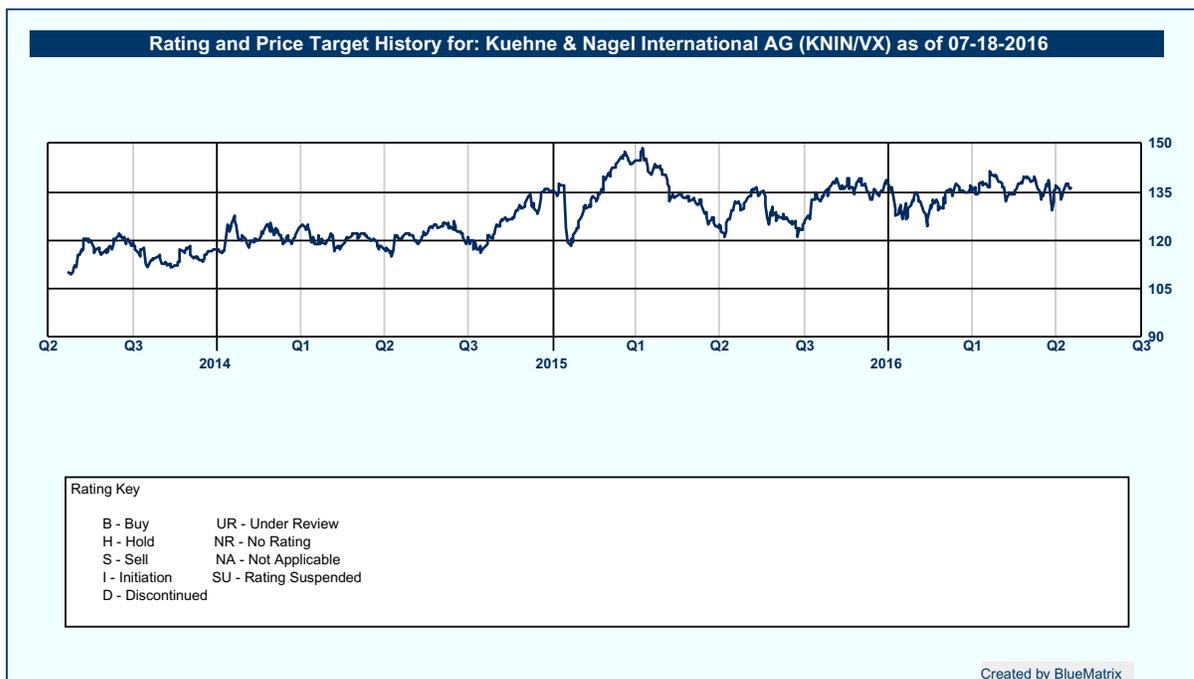
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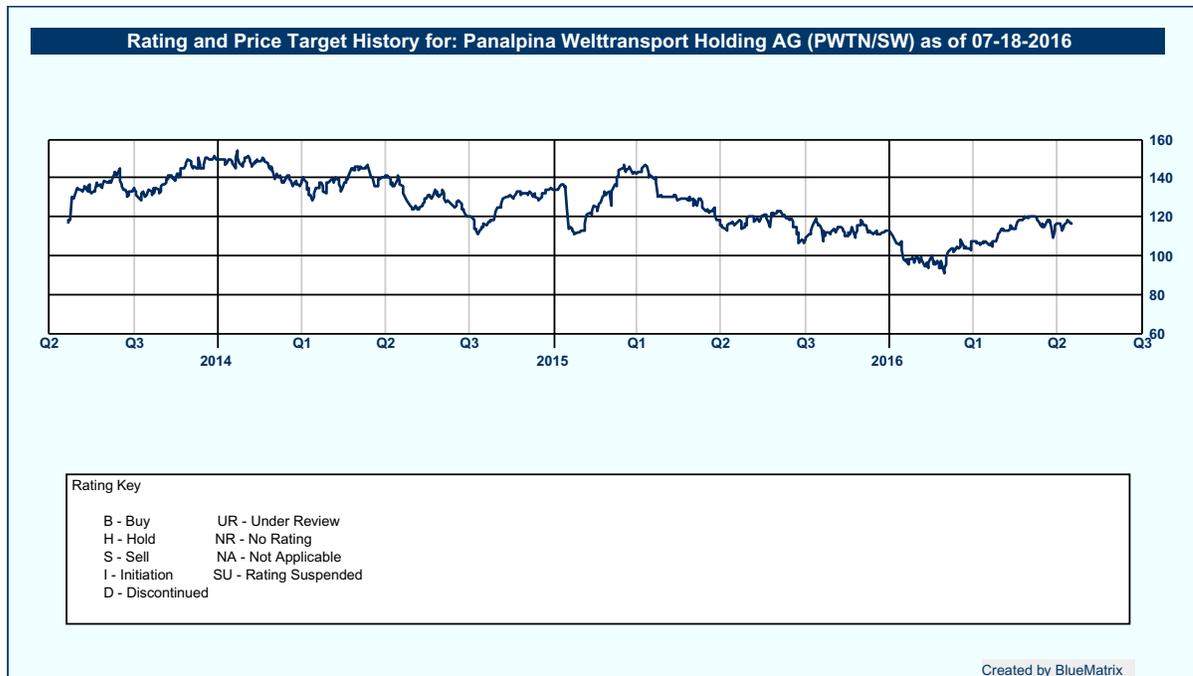
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