

## International Trade Volumes Step Down After Good Holiday Season

January's Stifel Logistics Confidence Index reading maintained its positive footing, with results in both air and sea freight exceeding the 50.0 threshold. However, sequential readings for the present situation inflected from December's record levels. Prepared in conjunction with U.K.-based Transport Intelligence, the overall index is a survey-based measure of activity in major European import and export trade lanes. Results are a blended indicator of present conditions and six-month expectations in both airfreight and ocean freight volumes. Looking back, 12 months of above-50.0 readings indicates continued market confidence in the health of both air and sea freight forwarding, but the sequential pull-back suggests that the robustness seen as we got near the end of 2013 was largely seasonal, in our view.

- **Overall Logistics Confidence**—a composite of the current situation and the six-month outlook for both intercontinental modes—was 16.0% above last year's 48.8 reading, showing that market sentiment continues to be much more favorable now than it was at the beginning of 2013. However, the 1.5% sequential decline might suggest that further improvement will be measured. For the present situation, volumes in Europe-based lanes were down 5.0% sequentially, erasing December's gain, but holding fast in positive territory for a third month in a row. These results reaffirm our belief that near-term growth in the European forwarding market should be positive but modest.
- **In sea freight, sentiment for the current environment dipped markedly from last month on all four monitored lanes, although absolute levels remained within normal seasonal expectations for a third straight month.** The decline in the present situation index could be attributed to ongoing attempts to raise rates in an excess-capacity environment. In late November, member liners of the Transpacific Stabilization Agreement announced a round of rate hikes. The first of the two-stage rate increase was enacted in mid-December for shipping lines operating from Asia to the U.S. for late holiday season shipments. Another increase is planned January 15, affecting the Chinese New Year season. By the first week of January, rates had been increased on not just the Asia-to-U.S. trade lane, but all surveyed lanes. Still, shippers/forwarders continue to exhibit increasing optimistic for the six-month outlook, suggesting a stronger 2H14.
- **Results for the present situation in air also dipped sequentially but not as much as in sea freight. Trade lane data was mixed, with increases on Europe-bound lanes, but decreases on lanes from Europe to the U.S. and to Asia.** The mixed data suggests that while the global economy continues to improve, some caution is still evident. IATA's latest monthly data (November), indicated a strong month for European carriers, as demand increased 8.0% y/y, likely due to new high-tech product launches, in our view, but the organization likewise expects recovery in the Eurozone to remain slow and fragile with growth varying across the region by country.
- **With the beginning of the New Year, survey respondents were asked if they expected significant improvements in 2014. The majority of respondents (45.0%) indicated yes while 39.5% indicated no and 15.5% were unsure.** Commentary detail suggested that U.S. is likely to lead global economic growth for the year, and that overall market growth would be on par with that 2013 until second quarter, and then 2H14 should see a meaningful uptick.
- **Investment Conclusions:** We see continued positive index readings as reassuring, with a three-month pattern now established in the present situation. However, both industry and economic growth remains slow, margins for the public carriers and forwarders remain challenged, and valuation remains fair to lofty, in our view. As such, we maintain our Hold rating on common shares of the large European-based forwarders under our coverage: Deutsche Post DHL (DPW, EUR 26.34, Hold), Kuehne + Nagel (KNIN-SIX, CHF 124.30, Hold), and Panalpina (PWTN-SIX, CHF 148.50,

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Hold).

*Prices are U.S. market close, 1/16/2014.*

- ***\* 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/janfeb14>***



## Logistics Confidence Index

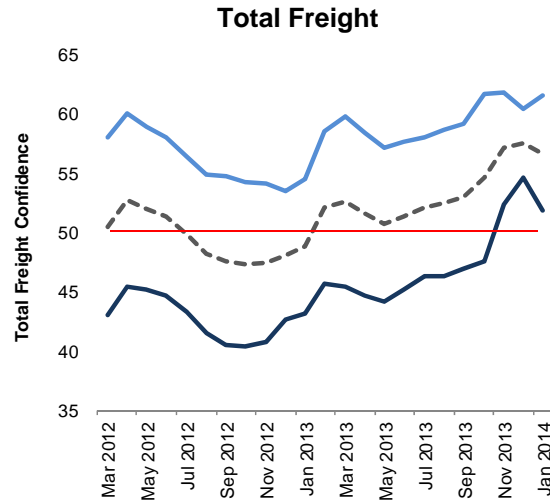
### Overview – January 2014

January results started 2014 on a positive note, with the present situation for both air and sea freight registering above the threshold 50 mark. However, sequential results slipped from the December 2013 record high.

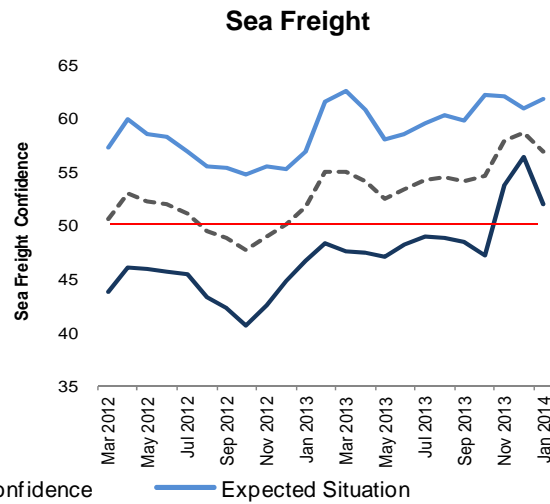
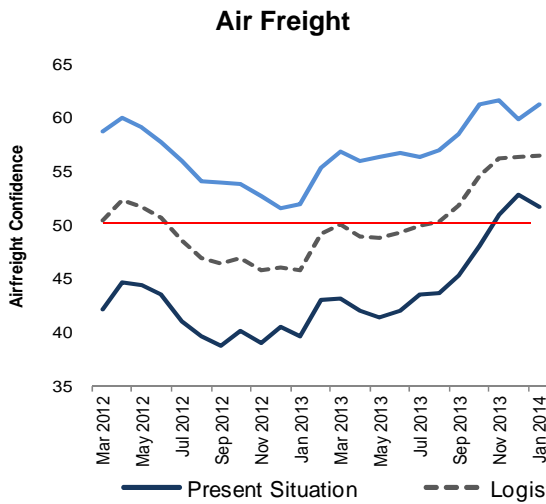
Despite a 0.9 point fall from the record high of 57.5 recorded in December 2013, the Logistics Confidence Index score of 56.6 recorded in January 2014 saw the index remain above the neutral 50-mark for a twelfth consecutive month.

In terms of the present situation, the total freight index declined 2.8 points to 51.8 in January. The index for sea freight fell 4.4 points from December to 51.9. Meanwhile, the airfreight index decreased 1.1 points to 51.7 for the month. Regarding the six-month outlook, the expected situation index for total freight rose 1.1 index points to 61.5.

In this month's one off question, we asked survey participants whether they anticipated significant improvements in the global economy during 2014. Some 45.0% of respondents indicated yes, while 39.5% said no and 15.5% were unsure.



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.



	Present Situation	Expected Situation	Confidence
Mode	Jan 2014	Jul 2014	Average
Air Freight	51.7	61.2	56.5
Sea Freight	51.9	61.7	56.8
<b>Total Freight</b>	<b>51.8</b>	<b>61.5</b>	<b>56.6</b>

Source for all data and graphs: Stifel Logistics Confidence Index



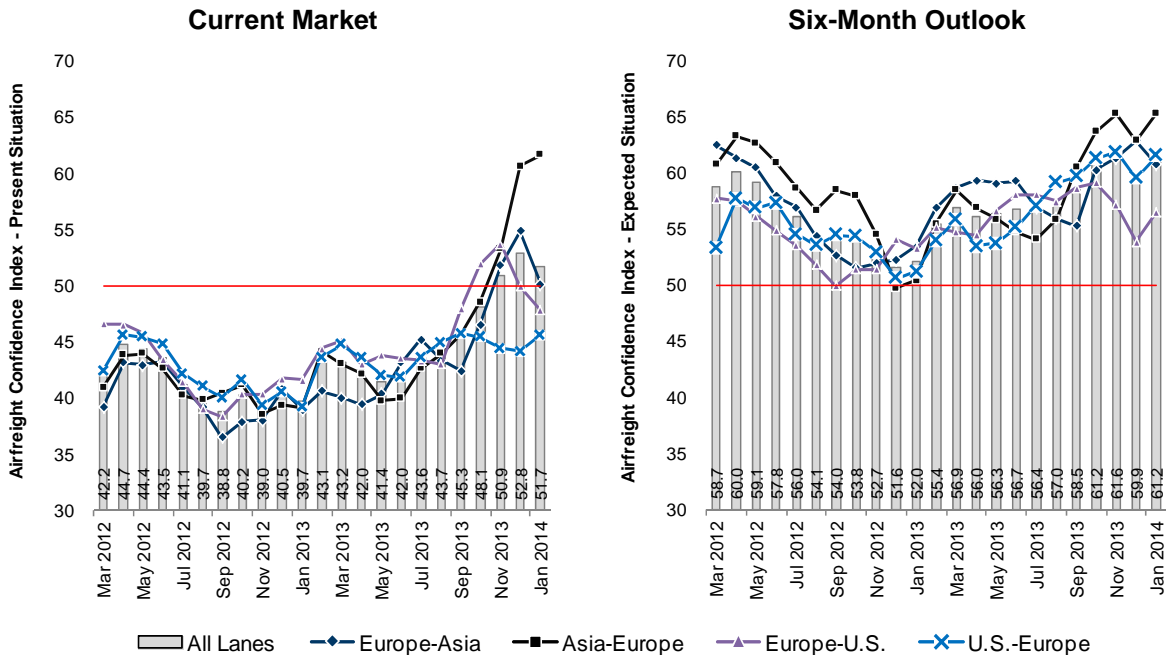
## Logistics Confidence Index

### Air Freight Confidence Index

The logistics confidence index for airfreight increased slightly by 0.1 points to 56.5 in January 2014. When compared with January 2013, the index was 10.6 points higher.

In terms of the present situation, the total air index registered 51.7 for the month, compared with 52.8 in December 2013. Changes among the lanes were again mixed for the month. The U.S. to Europe lane gained 1.5 points, rising to 45.6. The Europe to Asia route fell 4.7 points to 50.1, Asia to Europe increased 1.0 index points to 61.6 and the Europe to U.S. lane declined 2.1 index points to 47.8.

Looking ahead six months, the expected situation index for total airfreight increased 1.3 points to 61.2 in January. By lane, the index for Europe to Asia declined 2.1 points to 60.7 for the month, while the Asia to Europe lane grew 2.5 points to 65.3. The Europe to U.S. lane noted a 2.7 point gain to 56.5 as the U.S. to Europe lane saw an increase of 2.0 points to 61.5. Each lane remained above 50 in January, with three seeing index scores in excess of 60 points, indicating that forwarders' continue to see reasons for optimism in the airfreight market over the next six months.



Trade Lane	Air Freight		
	Jan 2014	Jul 2014	Confidence
Europe-Asia	50.1	60.7	55.4
Asia-Europe	61.6	65.3	63.5
Europe-U.S.	47.8	56.5	52.2
U.S.-Europe	45.6	61.5	53.6
<b>Total Index</b>	<b>51.7</b>	<b>61.2</b>	<b>56.5</b>

Source for all data and graphs: Stifel Logistics Confidence Index

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## Logistics Confidence Index

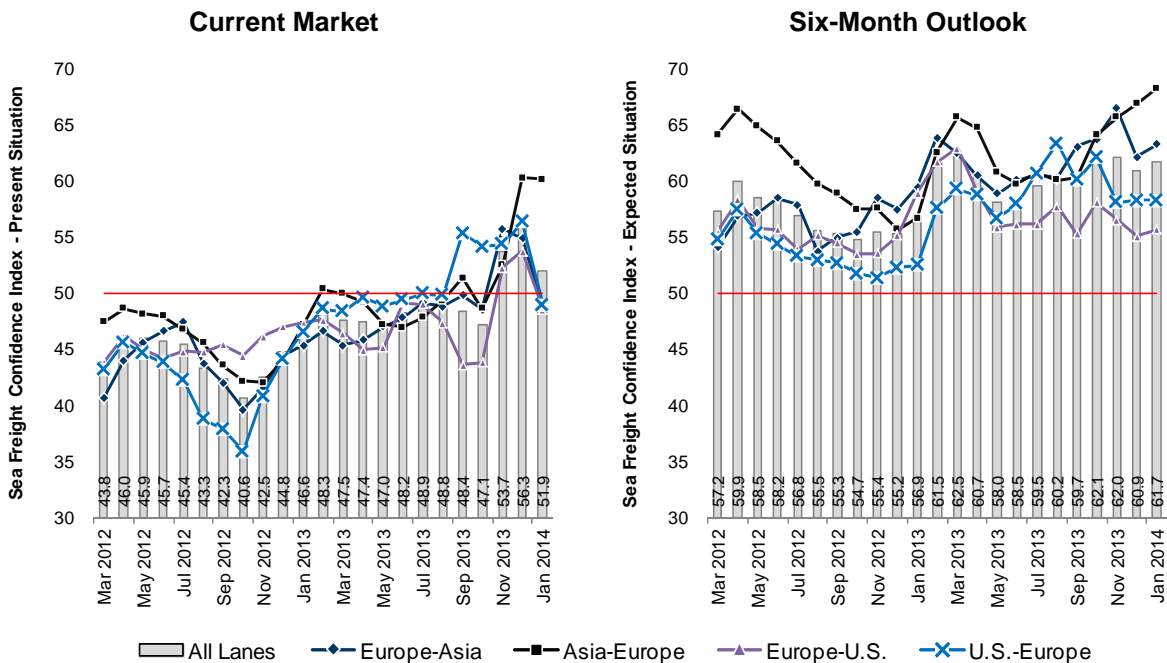
### Sea Freight Confidence Index

For sea freight, the logistics confidence index decreased 1.8 points to 56.8 in January. Compared with the same month in 2012, the index was 5.0 points higher.

For the present situation, the index noted declines across all lanes. The Asia to Europe performed best, recording a fall of just 0.1 index points to 60.1 in January, while the Europe to Asia lane fell more sharply, down 5.9 points to 48.9. The Europe to U.S. route decreased 5.2 index points to 48.5, while the U.S. to Europe lane saw a larger decrease of 7.4 points, leaving the index at 48.9 in January.

Sea forwarders were optimistic about the next six months with no lane recording a fall; the expected situation index for sea freight grew 0.8 points to 61.7 in January as a result.

The Europe to Asia lane increased 1.1 points to 63.2 for the month. Forwarders on the Asia to Europe lane noted an increase of 1.4 points to 68.2. Meanwhile, the Europe to U.S. lane increased 0.6 points to 55.6, while the U.S. to Europe lane remained unchanged at 58.2.



Trade Lane	Sea Freight		
	Jan 2014	Jul 2014	Confidence
Europe-Asia	48.9	63.2	56.1
Asia-Europe	60.1	68.2	64.2
Europe-U.S.	48.5	55.6	52.1
U.S.-Europe	48.9	58.2	53.6
<b>Total Index</b>	<b>51.9</b>	<b>61.7</b>	<b>56.8</b>

Source for all data and graphs: Stifel Logistics Confidence Index

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## Logistics Confidence Index

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### 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:

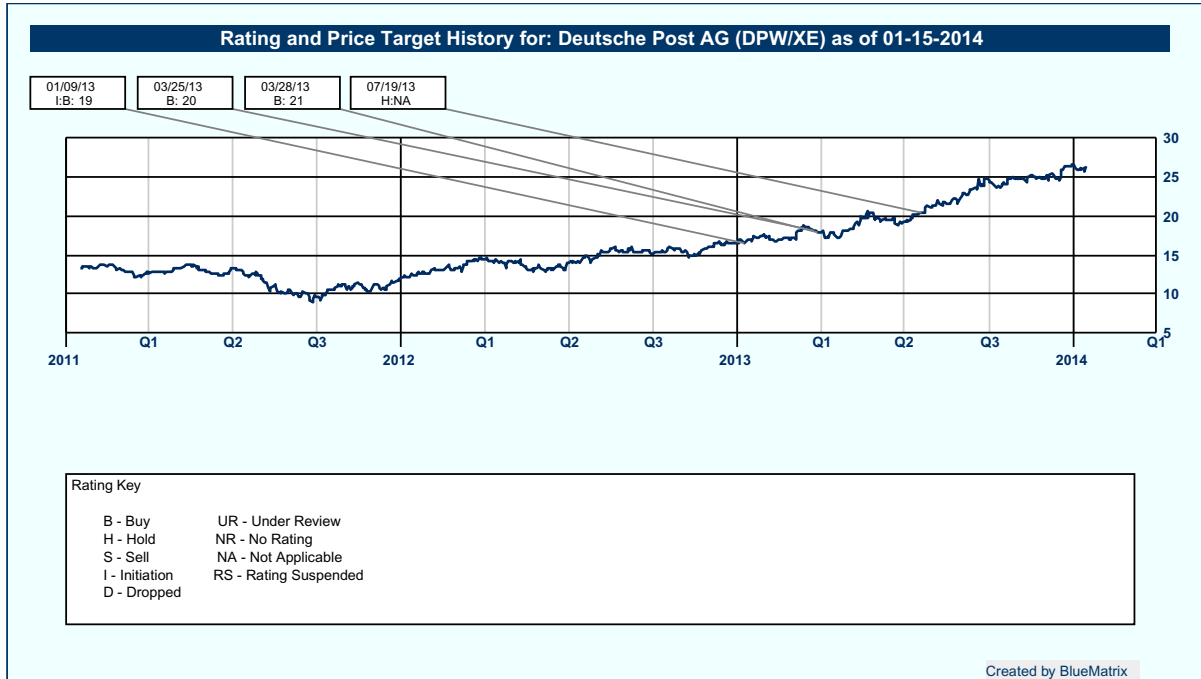
- Europe to Asia
- Asia to Europe
- Europe to U.S.
- U.S. to Europe

These trade lanes form four sub-indices, from which an overall index for both the airfreight 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.

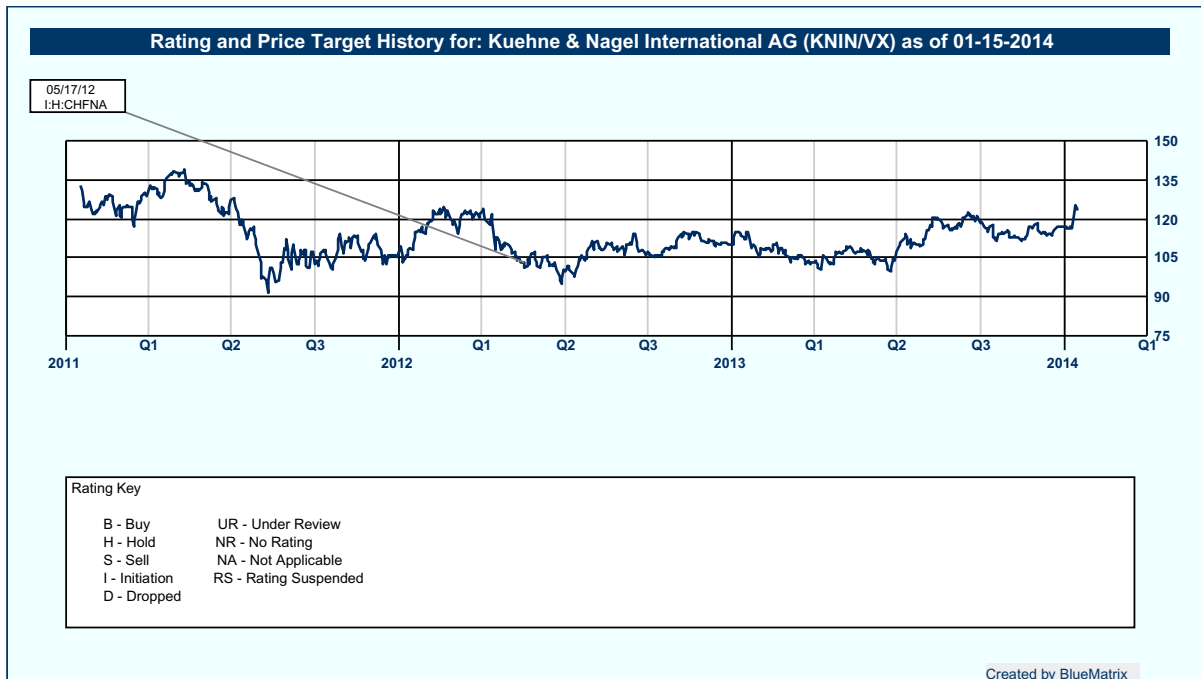
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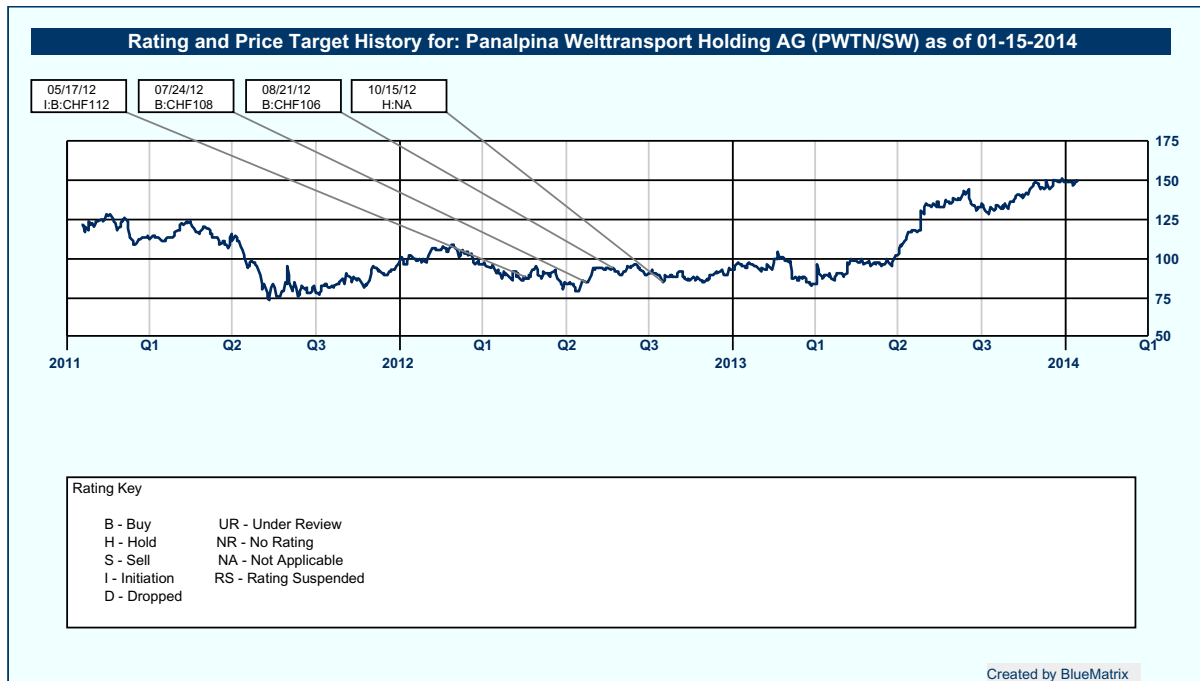
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