

Survey Summary

Index rises 1.5% sequentially and 7.6 y/y, as European imports outpace exports

In July, the Stifel Logistics Confidence Index (LCI) rose to 54.4, up from 50.0 in July 2013 and 54.0 last month, as airfreight and ocean freight both showed positive readings for the first time since February. It didn't surprise us today when we saw a good growth out of China either, as it was Asia to Europe growth that led the way this month in air and sea. Furthermore, Kuehne + Nagel reported earlier this week that Asia exports performed well in its forwarding business in 2Q14. Our main conclusion is that European import/export trade continues to grow, indicating a still-recovering global economy, and it appears better today than just a month ago. 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, blending present conditions and six-month expectations for both airfreight and ocean freight volumes.

- **Overall LCI index moves higher, continuing to reflect growth in major European international trade lanes since 2Q13.** While the market is ahead of where it was last year, optimism about the growth ahead has moderated somewhat since 1Q14, as the "Expected Situation" reading came in at 60.7 for 2Q14 vs. 62.4 in 1Q14.
- **Asia-to-Europe traffic ticked up, pushing the airfreight index to its first positive reading of the present situation since February and only the fifth positive reading in the last 29.** European exports were essentially flat, so the growth came from imports, with Asia imports growing faster than U.S. imports. And while the Asia-Europe lane leads growth today, it is also expected to see the most growth from now through year-end, indicating the Chinese economy may continue to see solid export demand.
- **Sea freight index rose to 57.8 in July, up 6.5% y/y.** Without the headwinds facing the airfreight sector (modal shift from air to ocean, shrinking average shipment sizes, and stability in global supply chains), sea freight tends to be a better indicator of economic activity and is certainly reflective of the European economy growing again (even if the IMF just did revise down its 2014 Eurozone growth rate from 1.1% to 1.0%). Unlike airfreight, all lanes are showing growth in sea freight, led by Asia-Europe and then trans-Atlantic trade, consistent with Kuehne + Nagel management's comments on Monday's earnings call.
- **July's one-off question asked, "have you switched freight forwarding providers in the past 12 months?"** Most of the respondents (72%) said they had not, indicating a fairly stable market share picture. The churn is isolated to just over a quarter of the market and may be due to core forwarder consolidation as much as anything, in our view.
- **Investment Conclusions:** Even as the LCI index accelerated in the most recent month and Kuehne + Nagel raised its expectation for global ocean freight and airfreight volume growth in 2014 earlier this week, the growth ahead still falls in-line with our low-to-mid-single-digit market volume growth forecast. Overcapacity continues to be an issue in both modes—especially ocean, even though the new M2 alliance should begin to rationalize some capacity. We believe that global forwarder valuations remain full, in light of current trends and near-term expectations. We maintain our Hold ratings on those most exposed to European forwarding markets, DPW-XE (Deutsche Post DHL, EUR 26.31, Hold), KNIN-SIX (Kuehne + Nagel, CHF 121.90, Hold), and PWTN-SIX (Panalpina, CHF 140.90, Hold), due mainly to valuation.

Prices as of U.S. market close, 7/16/2014.

* **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/2LRQ9YN>

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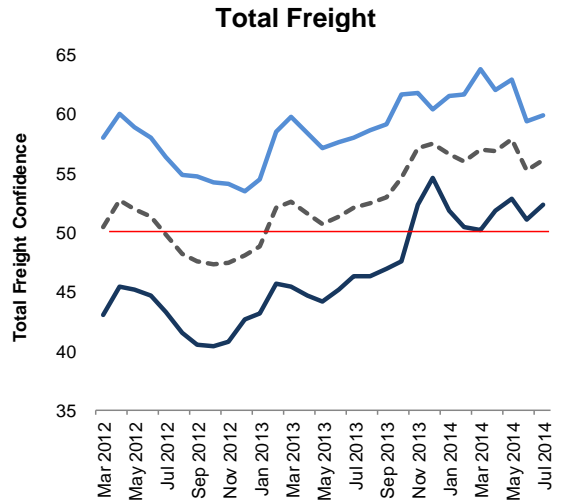
Overview – July 2014

Survey results for the overall present situation edged higher in July as both air freight and sea freight volumes made positive gains. Expectations for the next six months also improved for both modes, resulting in an increase in the overall Logistics Confidence Index score for July 2014.

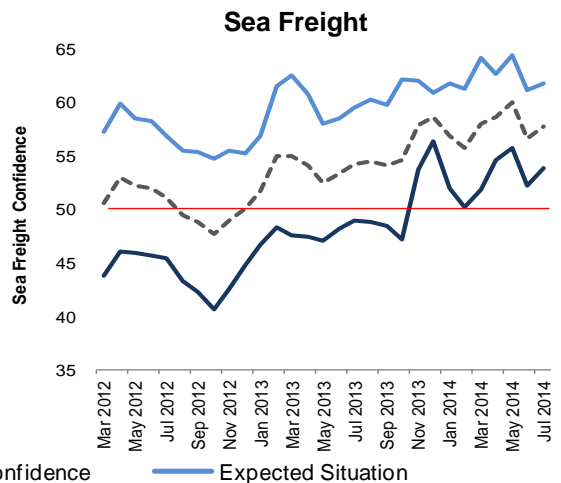
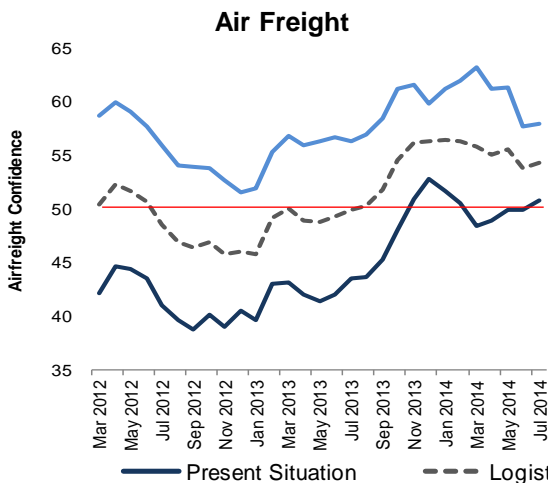
At 56.1, the overall Logistics Confidence Index score recorded in July was 0.9 index points higher than the score recorded in June, remaining above the 50.0 growth threshold for an eighteenth consecutive month.

In terms of the present situation, the total freight index increased 1.2 points to 52.3 in July. The constituent sea freight increased 1.6 points from June to 53.8, while the air freight index increased 0.9 points to 50.8. The six-month outlook index for both combined modes nudged upward by 0.5 index points to 59.9.

July's one off question asked survey participants if they had switched freight forwarding providers in the past twelve months. Only 28% answered in the affirmative, while the remaining majority—72% of respondents—said they had not switched providers.



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 | Jun 2014 | Dec 2014 | Average |
| Air Freight | 49.9 | 57.7 | 53.8 |
| Sea Freight | 52.2 | 61.1 | 56.7 |
| Total Freight | 51.1 | 59.4 | 55.2 |

Source for all data and graphs: Stifel Logistics Confidence Index

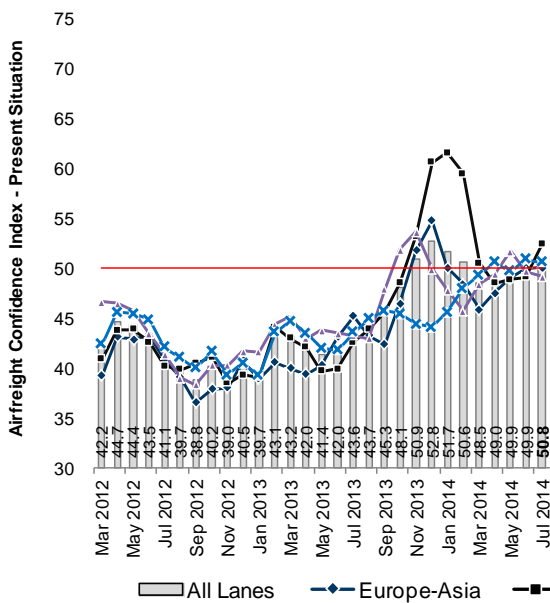
Air Freight Confidence Index

After last month saw the first sequential decline for this year, the overall air freight logistics confidence index increased 0.6 points from June to reach 54.4. Compared with July 2013, the July 2014 index was 4.4 points higher.

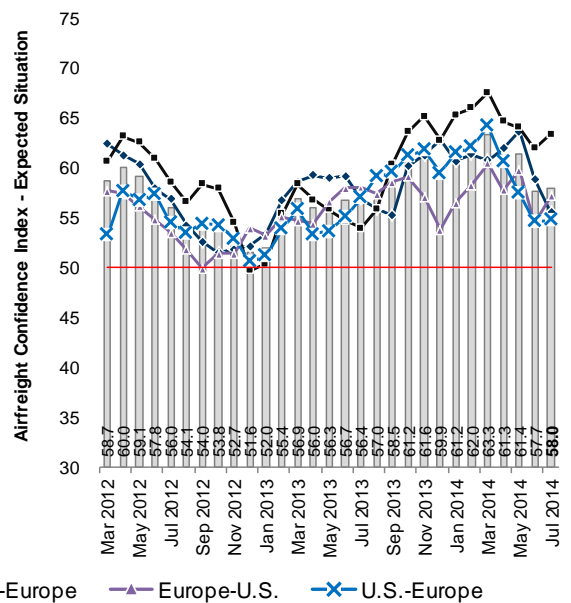
In terms of the present situation, the total air freight index registered 50.8 for the month. Lanes were mixed, with Asia to Europe gaining the most with a 3.3 point rise from June to 52.4. Europe to Asia increased only 0.1 points to 50.1. On the Transatlantic, Europe to U.S. declined 0.5 points to 49.2 while U.S. to Europe slipped 0.3 points to 50.6.

Looking ahead six months, the expected situation index for total air freight was up only 0.3 points to 58.0 in July. Most lanes experienced improving conditions from June, except Europe to Asia, which fell 3.4 points to 55.5 points. Asia to Europe increased 1.4 points to 63.4 points while the Europe to U.S. and U.S. to Europe lanes posted gains of 2.7 and 0.2 points to 57.2 and 54.8 respectively.

Current Market



Six-Month Outlook



| Air Freight | | | |
|--------------------|-------------|-------------|-------------|
| Trade Lane | Jul 2014 | Jan 2015 | Confidence |
| Europe-Asia | 50.1 | 55.5 | 52.8 |
| Asia-Europe | 52.4 | 63.4 | 57.9 |
| Europe-U.S. | 49.2 | 57.2 | 53.2 |
| U.S.-Europe | 50.6 | 54.8 | 52.7 |
| Total Index | 50.8 | 58.0 | 54.4 |

Source for all data and graphs: Stifel Logistics Confidence Index

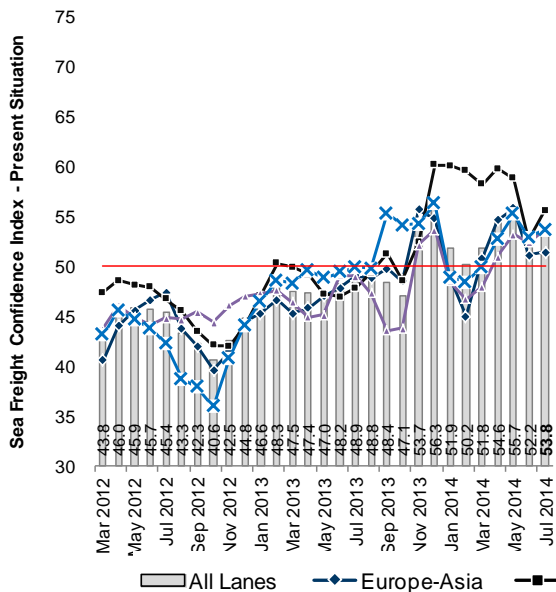
Sea Freight Confidence Index

For sea freight, the logistics confidence index climbed 1.1 points to 57.8 in July. Compared with the same month in 2013, the index was 3.6 points higher.

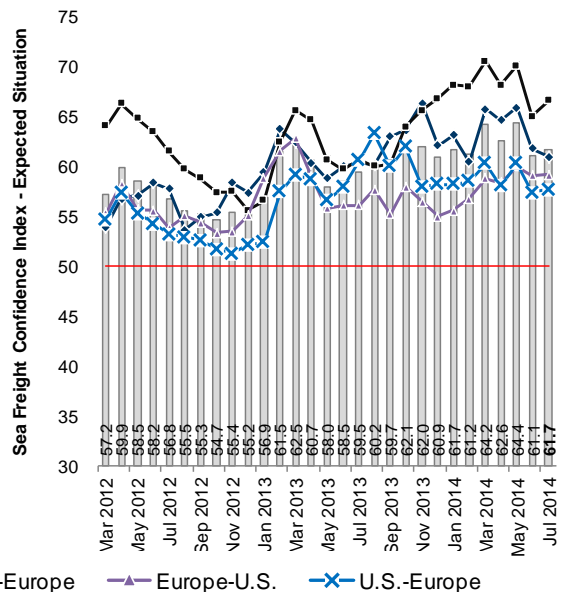
For the present situation, the index climbed 1.6 points to 53.8. All trade lanes improved after declining in June. The Asia to Europe lane increased 2.9 points to 55.6, the Europe to Asia lane recorded a 0.3 point boost to 51.4 in July, the Europe to U.S. route rose 1.3 index points to 53.7, and the U.S. to Europe lane experienced a 0.8 point increase to 53.7.

The expected situation index for sea freight increased 0.6 points to 61.7. All lanes saw improvement except Europe to Asia, which declined 0.8 points to 61.0 and marking the second consecutive month of decline for this lane. The Asia to Europe lane saw a respectable increase of 1.6 points to 66.6, the Europe to U.S. lane climbed marginally by 0.1 points to 59.2, and the U.S. to Europe lane rose 0.3 points to 57.7.

Current Market



Six-Month Outlook



| Sea Freight | | | |
|--------------------|-------------|-------------|-------------|
| Trade Lane | Jul 2014 | Jan 2015 | Confidence |
| Europe-Asia | 51.4 | 61.0 | 56.2 |
| Asia-Europe | 55.6 | 66.6 | 61.1 |
| Europe-U.S. | 53.7 | 59.2 | 56.5 |
| U.S.-Europe | 53.7 | 57.7 | 55.7 |
| Total Index | 53.8 | 61.7 | 57.8 |

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:

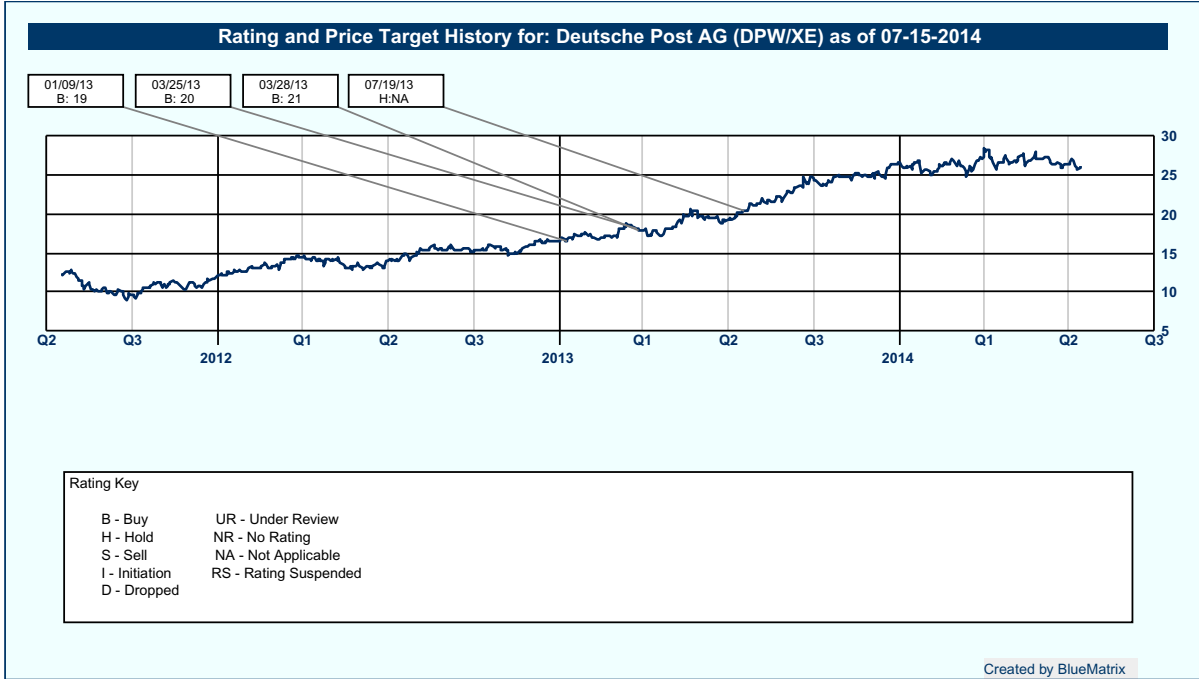
- Europe to Asia
- Asia to Europe
- Europe to U.S.
- U.S. to Europe

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.

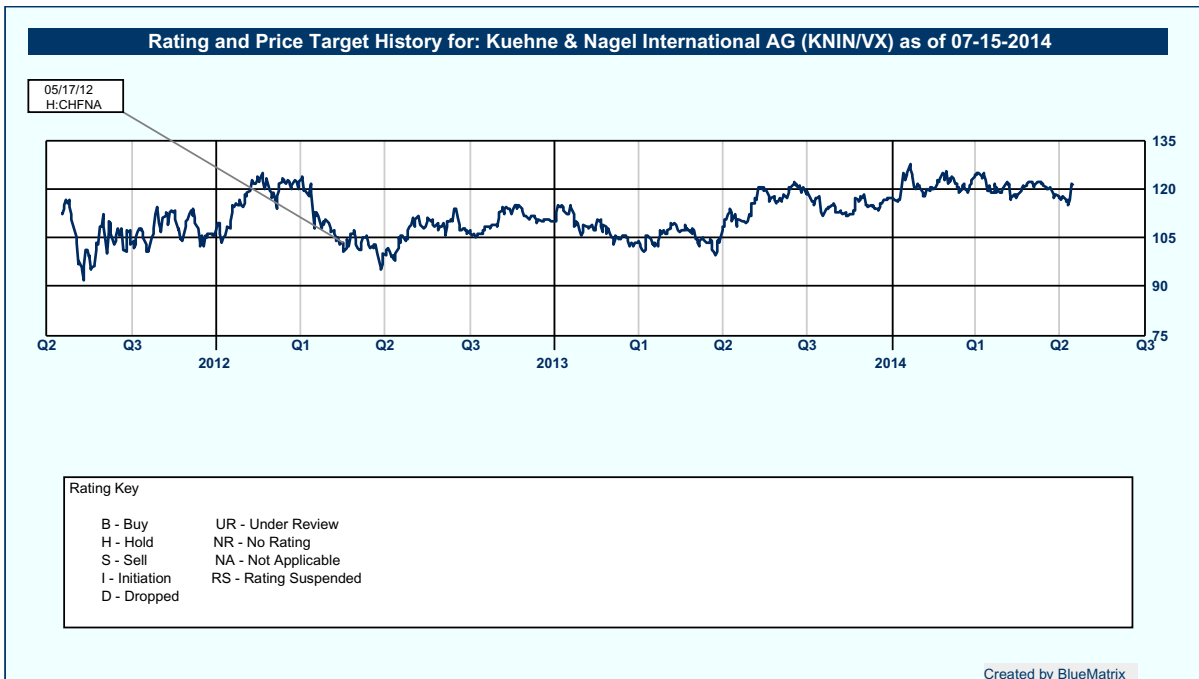
To participate in next month's survey, and in order to receive an advanced copy of the results, please use the following link: <https://www.surveymonkey.com/s/2LRQ9YN>

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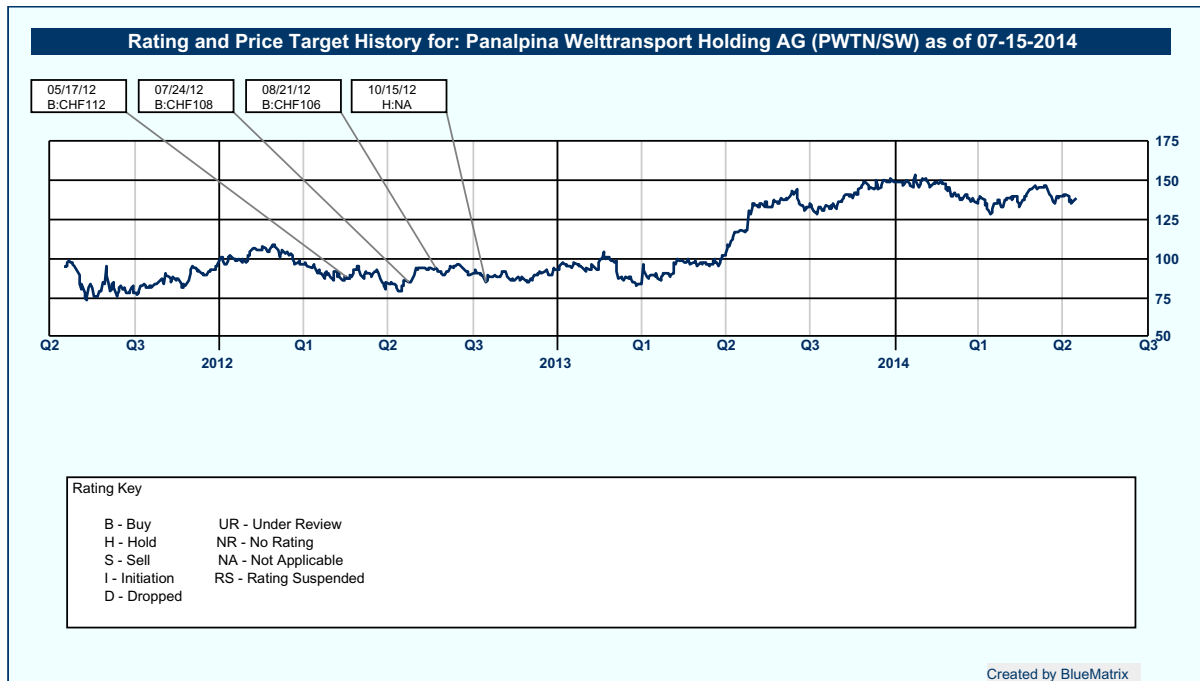
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