

European Trade Growth Expectations Tempered; Ocean Freight Growth Decelerates

In June, the Stifel Logistics Confidence Index (LCI) declined sequentially, slipping 2.7 index points from May, but remains 3.8 above last year's reading (+7.4%). After positive results built into May, present volumes remained flat (airfreight) to down (ocean freight), while growth expectations were tempered in every measured lane across both modes. In our view, these results suggest that the current market is good but not great. Growth expectations for 2014 had been stronger earlier in the year perhaps due to easy comps in Europe (following the extended winter of 2013), but now the forecast is back to slow growth. 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 up y/y, as the Eurozone continues its recovery, but fell 2.7 points sequentially to 55.2** . While the market is ahead of where it was last year, it seems that early optimism this year, prompted by signs of global and European improvement, has moderated.
- **After two straight months of sequential improvement, airfreight volumes leveled off at 49.9 in June—unable to penetrate the 50.0 growth threshold only exceeded four months (Nov 2013-Feb 2014) in the last two years** . In our view, these last few readings hovering around growth/contraction reflect the lack of sizzle in the EU recovery. While there has been y/y improvement, we believe a significantly more robust recovery is unlikely this year. Underlying airfreight demand has been slow to rematerialize y/y, according to IATA's (International Air Transport Association) April report, despite modest improvements in traffic volumes. IATA reported that European airlines saw April demand for air cargo fall by 0.7% y/y, and Eurozone GDP growth was a scant 0.2% in 1Q14. In line with these developments, the Stifel LCI "expected situation" has decelerated across all airfreight lanes.
- **Sea freight better than airfreight, but index declined 3.4 points to 56.7 in June, a significant downward move, but still in growth territory, 3.3 points above June 2013**. Present and future expectations both saw declines in all measured trade lanes. The volume growth from here should be limited by consumer spending and shifting supply chains. In addition, the recently announced scuttling of P3 alliance ambitions, which many hoped would help soak up excess capacity, should mean continued rate volatility, limiting gross margin expansion for the freight forwarders to only those who manage the volatility best.
- **June's one-off question asked if respondents were using more, fewer, or the same forwarders versus last year. The majority—70.9%—indicated they were using the same number**, while 13.0% said more and 16.9% said fewer. Moreover, the accompanying comments suggested that customers are looking for more from providers, occasionally changing to forwarders that offer better procurement, better visibility, reduced transportation costs, and/or better technology. For most shippers we speak with, if there is a trend, it's toward consolidating the number of 3PL providers rather than expanding the number.
- **Investment Conclusions:** In our view, optimism emerging from robust early 2Q growth and signs of a stronger European/global recovery was likely premature. Sentiment for the rest of 2014 seems to be moderating as the reality of sluggish growth re-emerges. We continue to expect low-to-mid-single-digit market volume growth for air and sea freight for 2014. Overcapacity continues to be an issue in both modes—especially ocean, where the blocked P3 network will no longer be able to reduce capacity. We believe that global forwarder valuations remain full, in light of current trends and near-term expectations. We maintain our Hold ratings on DPW-XE (Deutsche Post DHL, EUR 26.30, Hold),

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KNIN-SIX (Kuehne + Nagel, CHF 120.00, Hold), and PWTN-SIX (Panalpina, CHF 140.50, Hold) due mainly to valuation.

Prices as of U.S. market close, 6/17/2014.

*** 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/G2BB93S>**

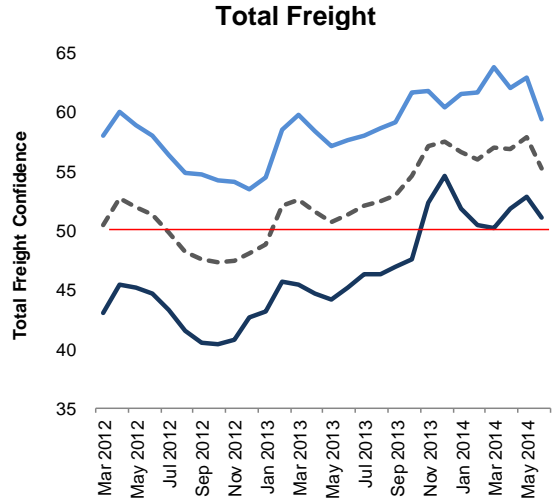
Overview – June 2014

The overall present situation remained static for air, but sea faltered. Expectations also slipped for both air and sea, producing a decline in the overall Logistics Confidence Index score for June 2014.

At 55.2, the Logistics Confidence Index score recorded in June was 2.7 index points lower than the score recorded in May, although the index remained above the 50-mark for a seventeenth consecutive month.

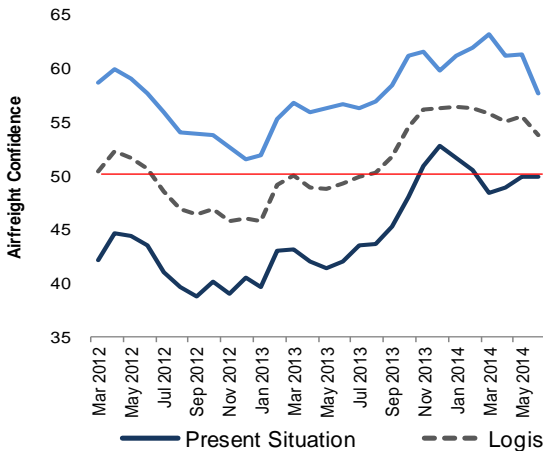
In terms of the present situation, the total freight index declined 1.7 points to 51.1 in June. The index for sea freight declined 3.5 points from May to 52.2, while the air freight index remained unchanged at 49.9. The expected situation index for total freight—accounting for both modes—declined 3.5 index points to 59.4.

In this month's one-off question, we asked survey participants whether they were using more, fewer, or the same number of forwarders than a year ago. Of the respondents, 13.0% indicated they were using more forwarders, 16.9% indicated fewer forwarders, and an overwhelming majority—some 70.1%—reported using the same number of forwarders.

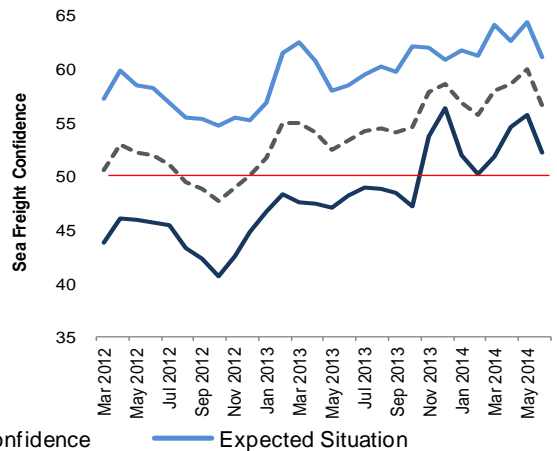


The logistics situation index illustrates current condition faced by forwarders, while the logistics expectations index shows how the situation is expected to develop over the next six months. The logistics confidence index, an average of both the present situation and expected situation indices, expresses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

Air Freight



Sea Freight



	Present Situation	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

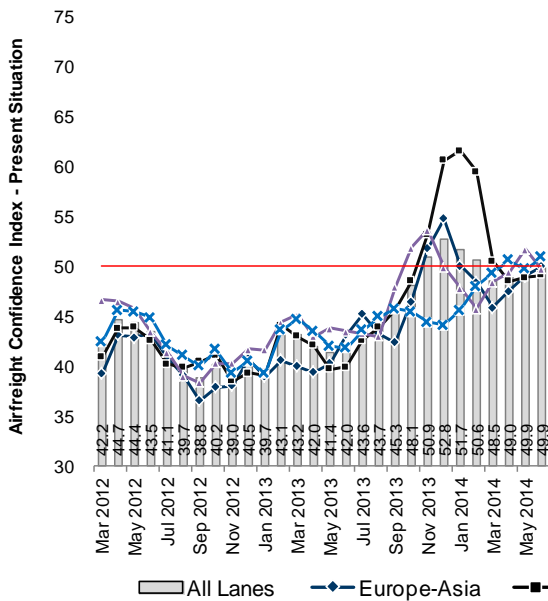
Last month's logistics confidence index for air freight brought the first sequential increase in four months, but that appears to have been the exception to the trend, with June results declining again, by 1.9 points to 53.8. Despite that sequential moderation, conditions are still better than June 2013, with a year-over-year gain of 4.4 index points.

Looking only at the present situation, the total air index registered 49.9 for the month, which was the same reading as in May. Breaking it down by lane, all routes saw increases except Europe-to-U.S., which declined 2.0 points to 49.7—enough to offset slight gains on the other measured trades.

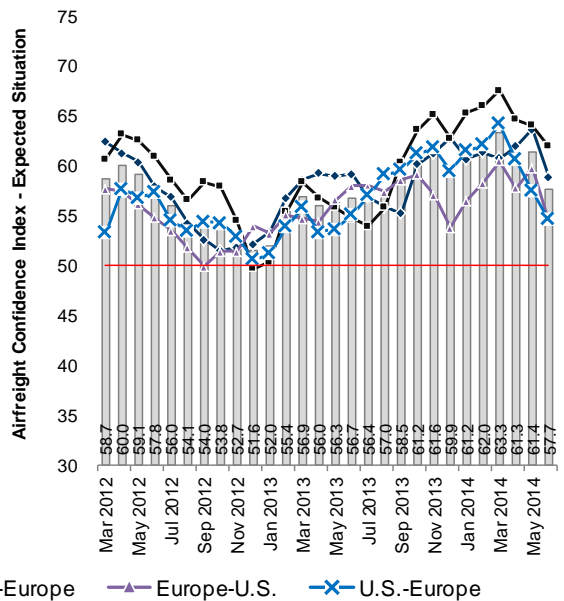
Speaking of the other measured trades, the U.S.-to-Europe route increased 1.2 points to 50.9, Asia-to-Europe increased 0.2 points to 49.1 while Europe-to-Asia increased 1.0 points to 50.0.

Looking ahead six months, the expected situation index for total air freight declined 3.7 points to 57.7 in June, indicating moderating, though still-positive, sentiment in the back-half. All trade lanes contributed to the decline, with Europe-to-Asia falling 4.8 points to 58.9, Europe-to-U.S. slipping 5.3 points to 54.5, Asia-to-Europe dropping 2.1 points to 62.0, and the U.S.-to-Europe lane declining 2.9 points to 54.6. Again, the six-month outlook remains one for growth, though expectations for the degree of growth have tempered.

Current Market



Six-Month Outlook



Air Freight			
Trade Lane	Jun 2014	Dec 2014	Confidence
Europe-Asia	50.0	58.9	54.5
Asia-Europe	49.1	62.0	55.6
Europe-U.S.	49.7	54.5	52.1
U.S.-Europe	50.9	54.6	52.8
Total Index	49.9	57.7	53.8

Source for all data and graphs: Stifel Logistics Confidence Index

Sea Freight Confidence Index

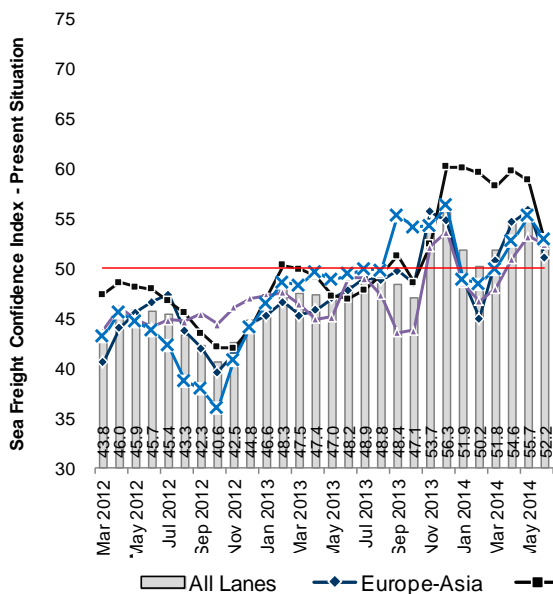
For sea freight, the logistics confidence index (blending present and future sentiment) declined 3.4 points to 56.7 in June. Compared with the same month in 2013, the index was 3.3 points higher.

For the present situation, the index registered declines on all lanes. The Asia-to-Europe lane decreased 6.1 points to 52.7 in June, and its obverse backhaul lane—Europe-to-Asia—recorded a decline of 4.7 index points to 51.1. The Europe-to-U.S. route declined 0.8 index points to 52.4, while the U.S.-to-Europe lane posted a decline of 2.3 points to 52.9.

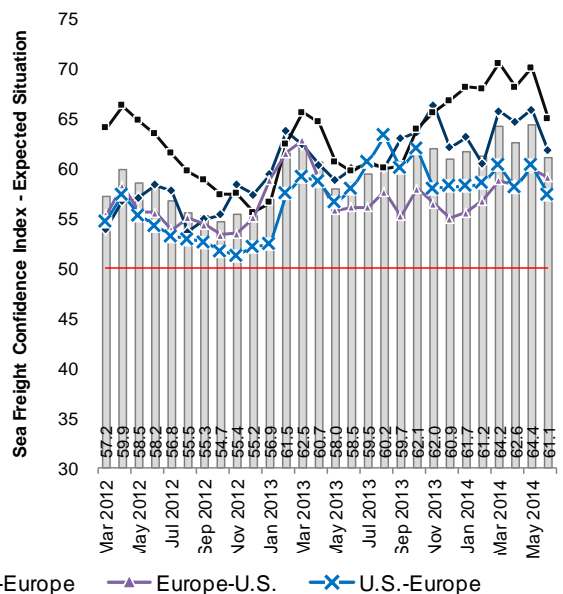
As for developments over the near-future, the expected situation index for sea freight also declined to 61.1, experiencing a 3.3 index points loss from May. As with air freight, all lanes contributed to the decline.

The Europe-to-Asia and Asia-to-Europe lanes lost 4.1 points and 5.1 points, settling in at still-very-robust readings of 61.8 and 65.0 for the month, respectively. Meanwhile on the other side of the world, the Europe-to-U.S. lane slipped 0.9 points to 59.1, and the U.S.-to-Europe lane was 2.9 points lower at 57.4.

Current Market



Six-Month Outlook



Sea Freight			
Trade Lane	Jun 2014	Dec 2014	Confidence
Europe-Asia	51.1	61.8	56.5
Asia-Europe	52.7	65.0	58.9
Europe-U.S.	52.4	59.1	55.8
U.S.-Europe	52.9	57.4	55.2
Total Index	52.2	61.1	56.7

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:

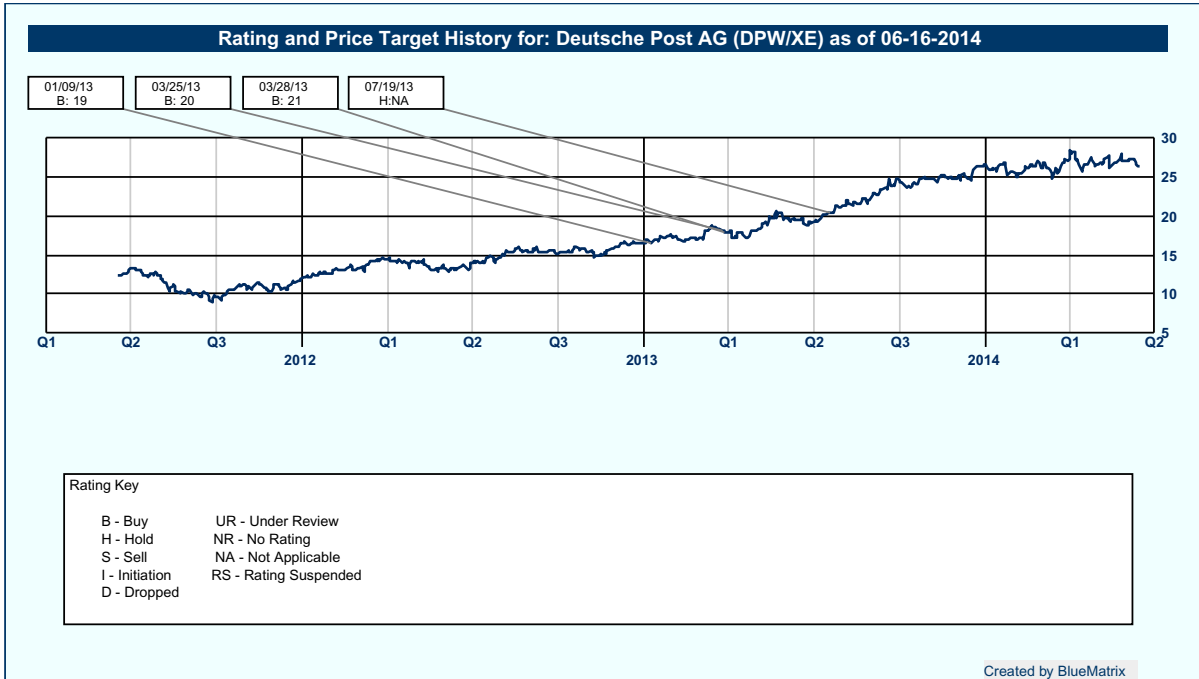
- Europe to Asia
- Asia to Europe
- Europe to U.S.
- U.S. to Europe

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.

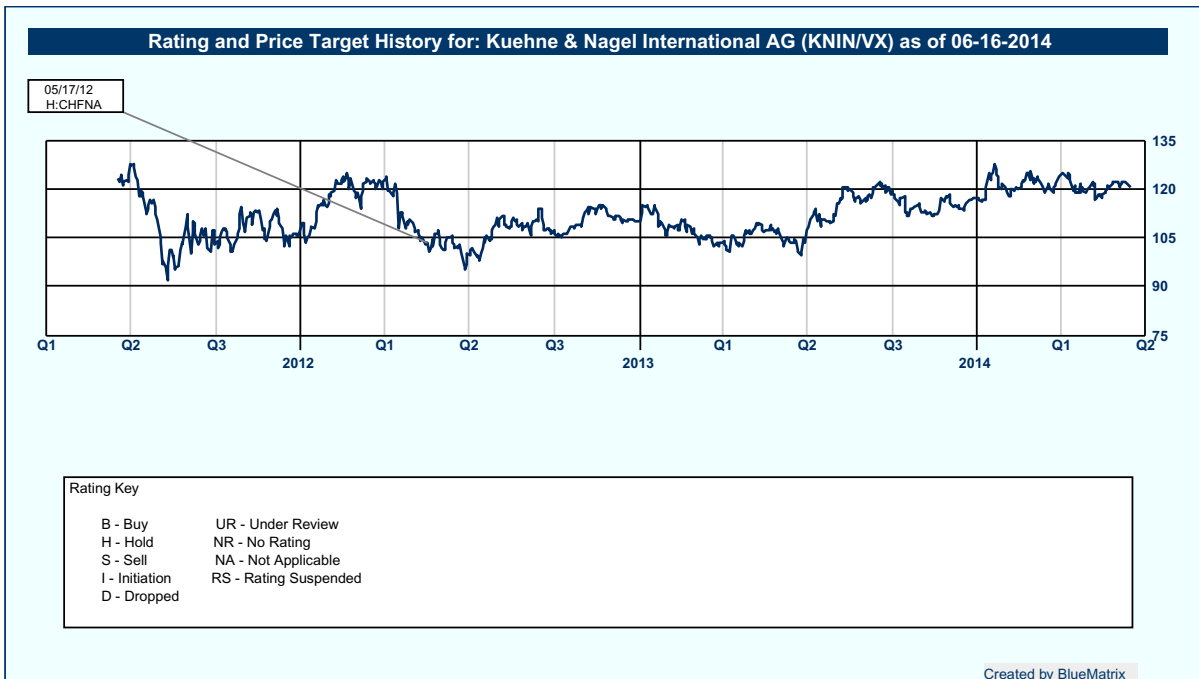
To participate in next month's survey, and in order to receive an advanced copy of the results, please use the following link: <https://www.surveymonkey.com/s/G2BB93S>

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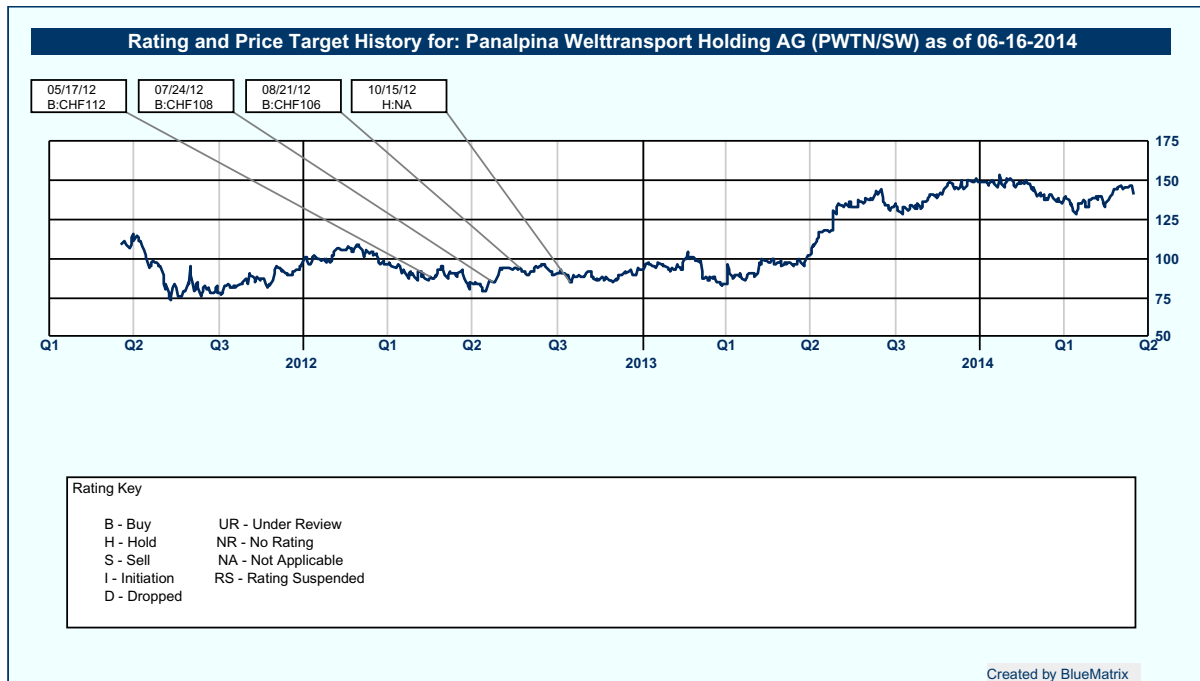
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