

Survey Summary

Index Sees First (Slight) Improvement In Six Months, But Sentiment Remains Weak

To get a better view of global air and ocean trade, we partnered with Transport Intelligence Ltd (a UK-based research firm specializing in global logistics) to develop and maintain the Stifel Nicolaus Logistics Confidence Index (LCI)—a monthly survey of international shippers and forwarders that measures freight activity across several European-based trade lanes. This index is a timely and effective indicator of shipper expectations, in our view, and an important barometer for the health and trajectory of international freight movements. In November, the Stifel Logistics Confidence Index, which measures freight forwarding confidence for all European trade lanes, saw its first positive gain after six consecutive months of sequential decline. Despite the modest positive traction, sentiment continues to underperform normal expectations for this time of year. A more detailed analysis of survey results can be found on pages 3-6.

- **The overall Stifel Confidence Index rose in November for the first time since its inception in March, 2012.** Results reflected continued weakness in Airfreight, set against improvement in Ocean freight. Survey respondents also indicated offsetting improvements in the current outlook versus continued softening of the future outlook. Though forwarders believe that current market volumes remain *below* the seasonal norm, they continue to expect the picture to be *better* than the seasonal norm six months from now (as indicated by an index reading above 50.0).
- **Economic uncertainty in Europe continues to manifest itself in Airfreight volumes, which experience greater demand elasticity than their oceangoing counterparts.** Amongst the European export lanes, U.S. bound volumes were sequentially flat, while current volumes and expectations for future volumes both rose in Asia-bound lanes. By contrast, present and expected volumes fell in both European import lanes, down 6.3% and 5.9% from Asia, and down 5.5% and 2.6% from the U.S., respectively.
- **In November, current and expected Ocean freight volumes saw improvement in almost every lane.** Current volumes continue to be strongest from Europe to the U.S. and weakest along the opposing trade, although U.S.-to-Europe saw a significant improvement of 13.6% over the prior month. Expectations for ocean volumes in May, 2013 were again weakest in U.S.-to-Europe routes, and strongest in Europe-to-Asia routes.
- **Airfreight volumes continue to lag ocean freight volumes, and an overwhelming majority of survey respondents (81%) acknowledge an emerging trade-down between the two modes.** It is unclear how much of this trade-down is a result of temporary shipper caution, and how much will stick, but such a trend may pose at least some degree of long-run structural challenge to airfreight-biased forwarders

Investment Conclusions:

- Continued weakness in the airfreight market seems to confirm our suggestion last month that an uptick in the index was the likely result of episodic tech product launches. Over the near term, we believe certain events could bolster volumes, including a strong inventory restocking push in the first half of 2013, a more general positive economic surprise, and the materialization of an ILA port strike, which remains a possibility, in our view. Longer-term though, structural challenges, such as market share encroachment from air express on one side and ocean freight on the other, as well as miniaturization of technology, nearshoring, and supply chain regionalization will likely continue to pressure margins, in our view.
- In terms of Ocean, the time for peak season ordering has passed, but restocking, improvement in the Eurozone, and a resumption of global trade as a multiple of global GDP would all be positive catalysts for the market. However, severe overcapacity, mounting debt, and the need to reduce operating costs amongst the containership lines will continue, in

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All relevant disclosures and certifications appear on pages 7 - 9 of this report.

our view, to drive them to push through rate increases, causing margin pressure for the forwarders on the upswing.

- Given the foregoing, we continue to favor companies like FedEx (FDX, \$90.08, Buy) over carriers and forwarders with greater European exposure. We also recommend UTi Worldwide (UTIW, \$13.62, Buy) on valuation and potential margin benefits from its ongoing reorganization. (prices as of 11/12/12 close)

**** 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/TiNovDec>***



Logistics Confidence Index

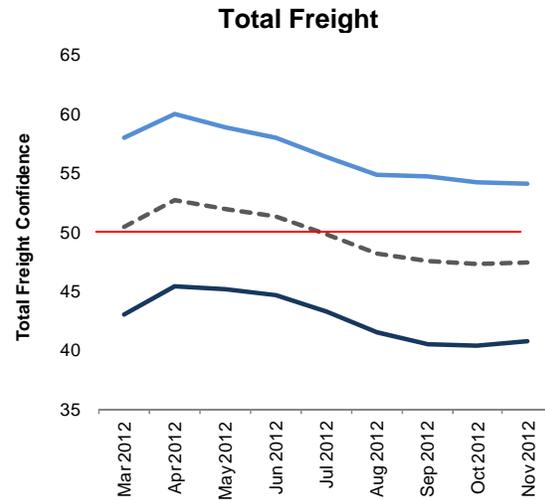
Overview – November 2012

Absence of Peak Shipping Season Prevails

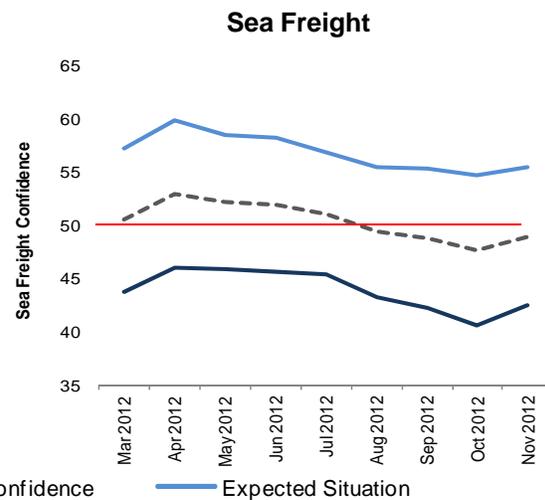
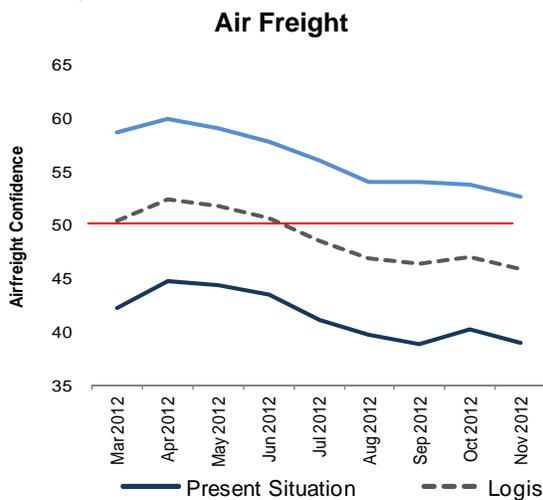
Confidence among forwarders showed little change in November when compared with October. The Stifel Nicolaus Logistics Confidence Index rose 0.1 points to 47.4 in November from 47.3 in October. This marginal increase follows six consecutive months of decline.

In terms of the current situation, the index increased 0.4 index points to 40.8 in November. However, at significantly below the 50 threshold this still indicates significantly weaker volumes relative to the time of year. Meanwhile, the index for logistics expectations fell 0.2 index points to 54.1 this month.

Air forwarders have continued to indicate weaker conditions in comparison to sea forwarders since the index began in March 2012. In the one-off question this month, we questioned survey participants as to whether a trend is emerging for moving cargo previously shipped by air to the lower priced sea freight option. The overwhelming majority (81%) agreed that this trend is occurring, while only a minor proportion (6%) disagreed. The remaining 13% neither agreed nor disagreed.



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	Nov 2012	May 2013	Average
Air Freight	39.0	52.7	45.9
Sea Freight	42.5	55.4	49.0
Total Freight	40.8	54.1	47.4

Source for all data and graphs: Stifel Nicolaus Logistics Confidence Index



Logistics Confidence Index

Air Freight Confidence Index

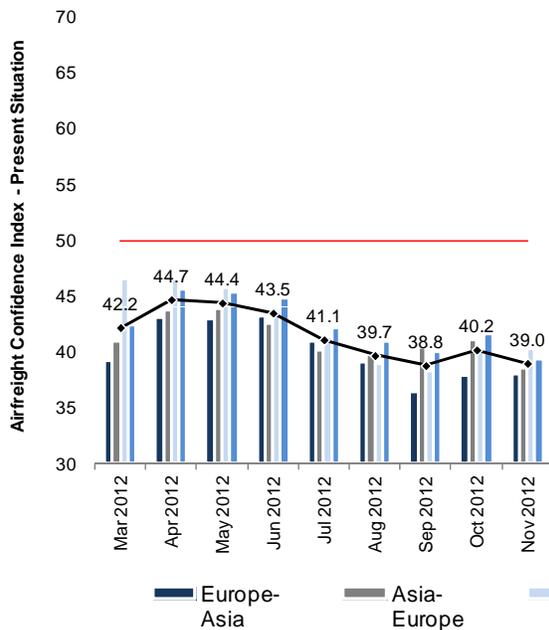
The slight upturn in air freight in October appears to have been temporary as the index continued on a downward trend in November. The overall index for logistics confidence (an average of the current and expected situation) fell to 45.9 in November, its lowest level since the index began.

In terms of the current situation faced by forwarders, the index fell to 39.0 from 40.2 in October. Both European import lanes, Asia to Europe and US to Europe, recorded declines with the indices down 2.6 and 2.3 index points respectively.

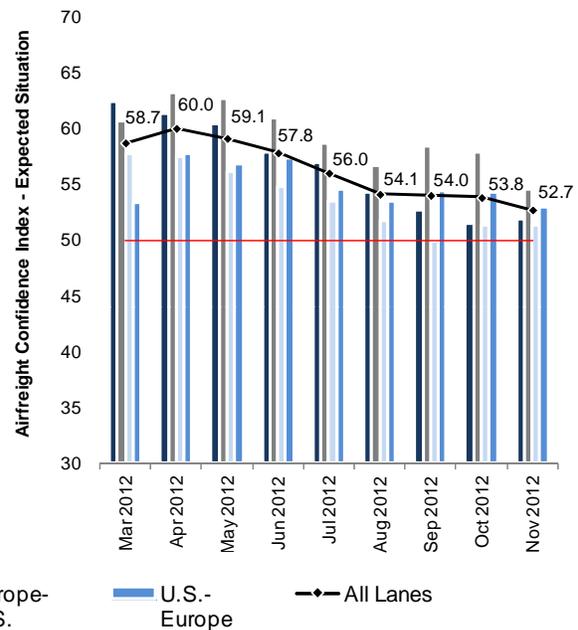
Meanwhile, the index for the Europe to US remained flat at 40.3, whilst the Europe to Asia lane was up 0.1 index points at 38.0.

The index for logistics expectations fell to 52.7 in November from 53.8 in October, indicating weaker sentiment in terms of the six-month outlook. The Asia to Europe lane saw the greatest decline with the index falling 3.4 index points to 54.5 in November. Meanwhile, confidence on the Europe to Asia route was up, with the index rising 0.4 points to 51.9 in November.

Current Market



Six-Month Outlook



Trade Lane	Air Freight		
	Nov 2012	May 2013	Confidence
Europe-Asia	38.0	51.9	45.0
Asia-Europe	38.5	54.5	46.5
Europe-U.S.	40.3	51.4	45.9
U.S.-Europe	39.3	52.9	46.1
Total Index	39.0	52.7	45.9

Source for all data and graphs: Stifel Nicolaus Logistics Confidence Index



Logistics Confidence Index

Sea Freight Confidence Index

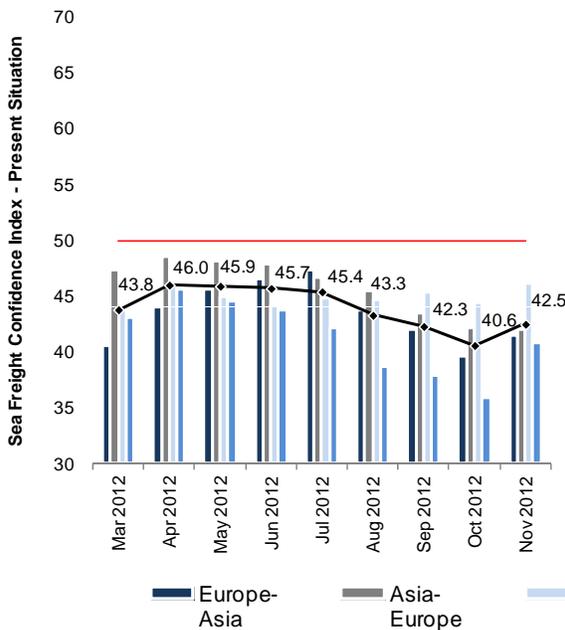
In November, the current market index increased for the first time in six months, up 1.9 points to 42.5. However, at significantly below 50, the index still indicated weaker volumes relative to the time of year.

A breakdown by individual trade lanes indicates that improvements were recorded on the majority of routes. The Asia to Europe lane was, however, an exception with the index remaining almost flat (down 0.1 index points). The greatest increase was recorded on the US to Europe route, which rose 4.9 index points to 40.8 in November. However, the trade lane still indicated weaker confidence levels than other lanes.

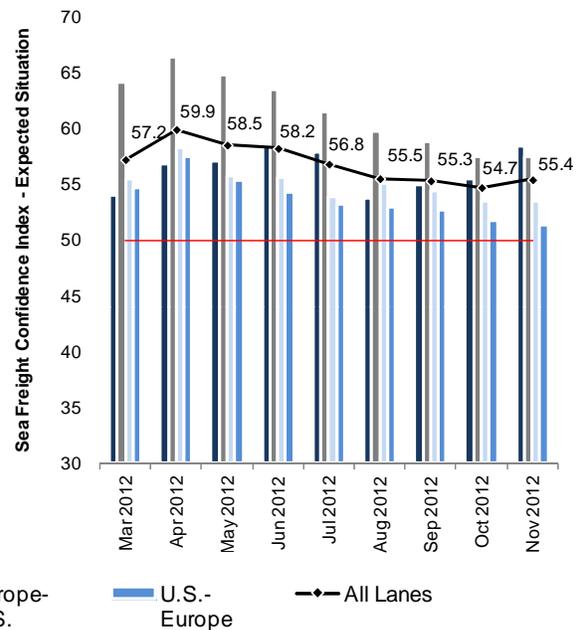
In terms of outlook for the next six months, the index increased 0.7 index points to 55.4. At above 50, the index indicates that sea forwarders remain optimistic despite weaker current conditions.

An increase in confidence regarding prospects on the Europe to Asia lane drove the increase (the index for this lane was up 3.0 index points at 58.4). Only minor changes were recorded among other lanes, with the indices remaining almost flat compared with October.

Current Market



Six-Month Outlook



Trade Lane	Sea Freight		
	Nov 2012	May 2013	Confidence
Europe-Asia	41.5	58.4	50.0
Asia-Europe	42.0	57.5	49.8
Europe-U.S.	46.1	58.3	52.2
U.S.-Europe	40.8	51.3	46.1
Total Index	42.5	55.4	49.0

Source for all data and graphs: Stifel Nicolaus Logistics Confidence Index



Logistics Confidence Index

Methodology

The Stifel Nicolaus 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:

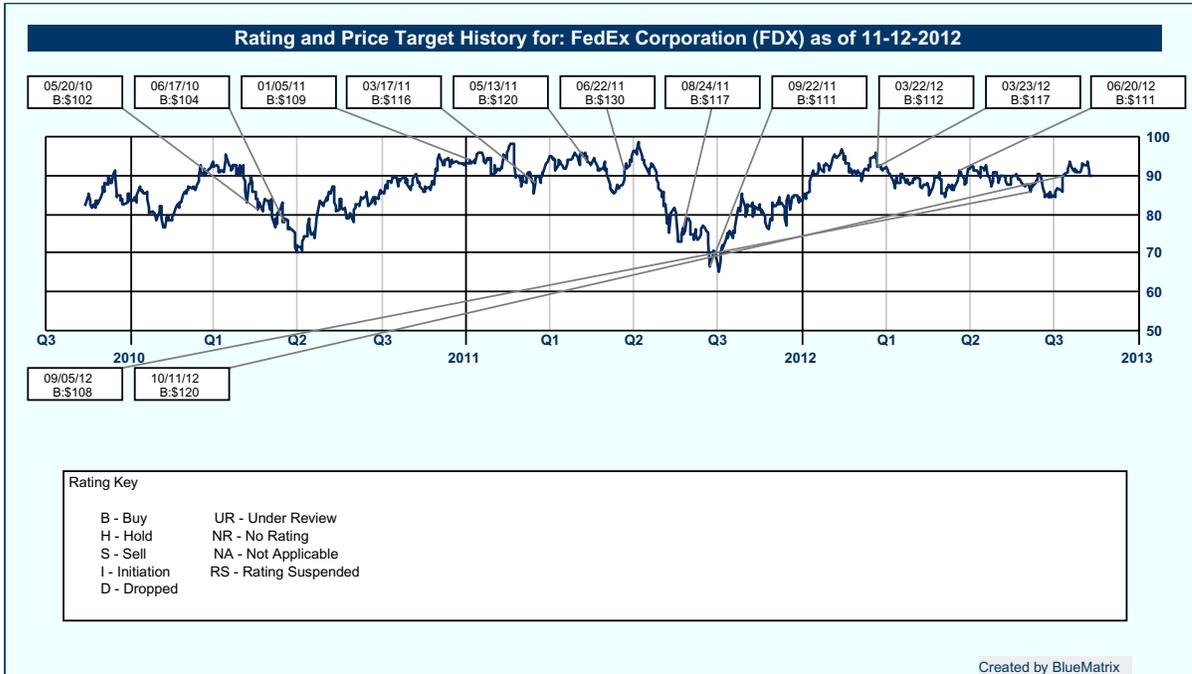
- Europe to Asia
- Asia to Europe
- Europe to US
- US to Europe

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.

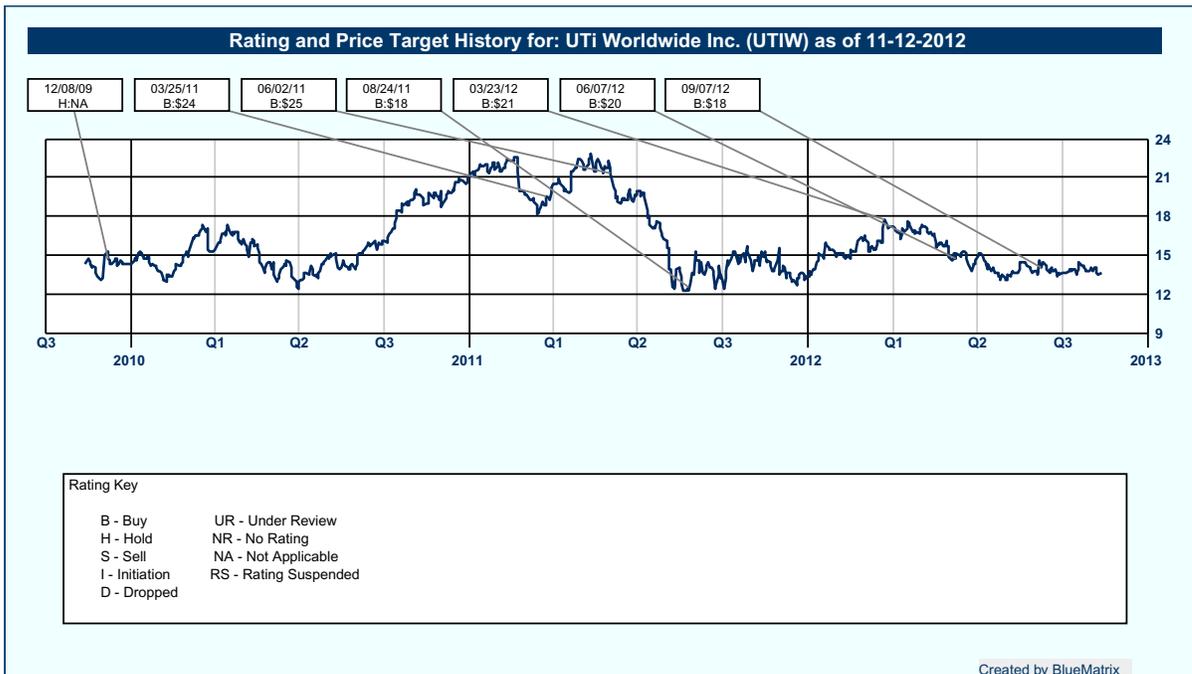
To participate in next month's survey, and in order to receive an advanced copy of the results, please use the following link: <https://www.surveymonkey.com/s/OcNo2012>

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