

Major Europe-Based Trade Lanes Weaken For Sixth Straight Month

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 October, the Stifel Logistics Confidence Index, which measures freight forwarding confidence for all European trade lanes, saw its sixth consecutive sequential decline. The most recent reading came in at 47.3, a scant 0.6% below September's figure, but still indicative of decline, and still underperforming versus normal expectations for this time of year. A more detailed analysis of survey results can be found on pages 3-6.

- **In October, total shipper confidence fell for a sixth consecutive month.** Survey respondents indicated that current international trade volumes remain poor relative to normal seasonal expectations, as suggested by an indexed reading of 40.4 vs. the benchmark of 50.0, and as compared with last month's 40.6. The deceleration was less than in previous months, but, perhaps more importantly, the six-month outlook for Air and Ocean Freight volumes continued to worsen.
- **On a positive note, current sentiment in airfreight saw sequential improvement for the first time since March 2012.** The improvement was reflected in each of the four European trade lanes monitored by our survey. However, it is unclear yet if this uptick will be the first of several or just a bounce off the bottom. Persistent deterioration in the expected airfreight environment may suggest the latter to be true. In either case, one should note that total current airfreight sentiment remains well below benchmark.
- **Ocean freight volumes continued to demonstrate weak demand across the board currently.** Volumes fell in most trade lanes, as they pertain to the expected climate, with the only improvement seen on the Europe-Asia route. However, the index for the six-month outlook remains above 50.0, suggesting that forwarders still have some confidence (if slightly less so than in previous months) that things will get better.

Investment Conclusions:

- 2Q12 highlighted the ongoing challenges for freight forwarders, as uncertainty and demand pull-backs in key import markets continued to pressure volumes, particularly in airfreight. Early indications, including Panalpina's negative preannouncement on Friday (10/12/12), suggest that those challenges have continued to be an issue.
- Over the short term, and as we suggested in previous LCI updates, peak season looks increasingly unlikely to materialize in any significant way, absent the mild effect of certain consumer electronics product launches. We will be paying close attention to successive data points in order to determine if October's uptick was sustainable, or just a blip. The next catalyst (at least in the Europe-U.S. lane) could be a breakdown in the ILA labor situation at U.S. East Coast and Gulf Coast ports (contract recently extended by 90 days into late December), which could potentially increase demand for airfreight and other forwarder solutions, if ocean cargo is delayed or not making it off the ship.
- A secular trend hurting traditional airfreight is the loss of modal share to ocean freight and air express. A reversal of this share loss could happen if there were to be a demand-driven tightening in capacity, improvement or increased certainty in the global economy, and a resumption of the historical trend of global trade growing at a multiple of global GDP. Given the current state of the forwarding markets, continued underperformance in empirical Stifel LCI results, market share pressure from global integrators, and leverage of the integrators to improving economic conditions, our favorite name amongst the truly global players under our coverage is FedEx (FDX, \$90.40, Buy).

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- Relative top-line exposure to Europe for the forwarders in our coverage group include KNIN (CHF 106; Hold) at ~60%, PWTN (CHF 89.35, Hold) at ~47% (EMEA), UTIW (\$13.87, Buy) at ~26% (EMENA), and EXPD (\$34.78, Hold) at ~14%.

* *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>*



Logistics Confidence Index

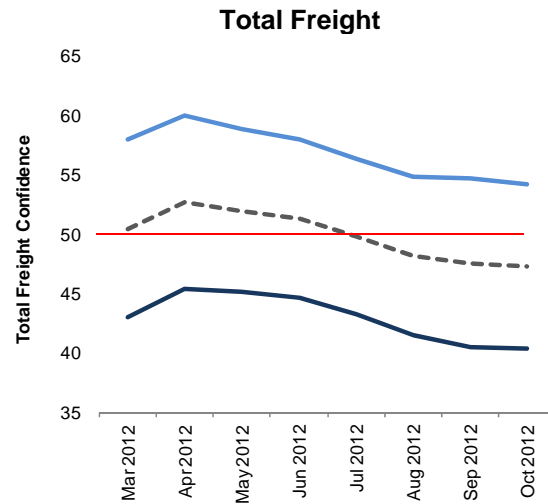
Overview – October 2012

Total Index Declines for Sixth Consecutive Month

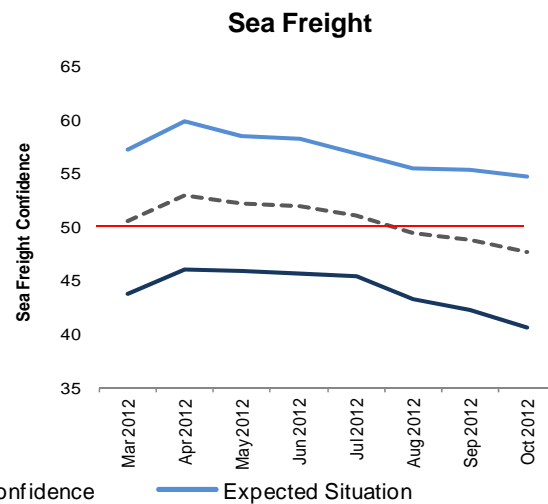
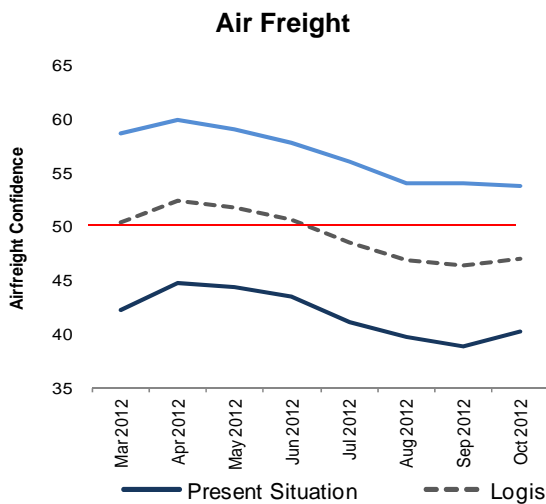
Forwarders' confidence fell for the sixth consecutive month in October. The overall index- which averages the current and expected situation- registered 47.3 compared with 47.6 in September. Whilst the index for sea freight continued to decline in October, the index for air freight actually increased for the first time since April.

In terms of the current logistics situation, air freight forwarders continued to indicate weaker volumes relative to the time of year, however at 40.2 the index was up from 38.8 the previous month. It is possible that the launch of new electronic products at the end of September drove this increase as air forwarders benefitted from a slight pick-up in demand. Results for sea freight, however, fell further in October, with the index down to 40.6 from 42.3 in September. Overall expectations for the next six months remain hopeful; although the index for air and sea combined fell slightly to 54.3 in October from 54.7 the previous month.

This month, in a one-off question, we asked survey participants if they believe that shipping lines are losing or gaining market share from freight forwarders. The majority of respondents (46%) believe that this share is not changing. Of the remainder, 28% believe shipping lines are losing market share, while 26% indicated a gain market share from shipping lines. We believe the variation in perspectives results from different levels of profitability among the lines.



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 | Oct 2012 | Apr 2013 | Average |
| Air Freight | 40.2 | 53.8 | 47.0 |
| Sea Freight | 40.6 | 54.7 | 47.7 |
| Total Freight | 40.4 | 54.3 | 47.3 |

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



Logistics Confidence Index

Air Freight Confidence Index

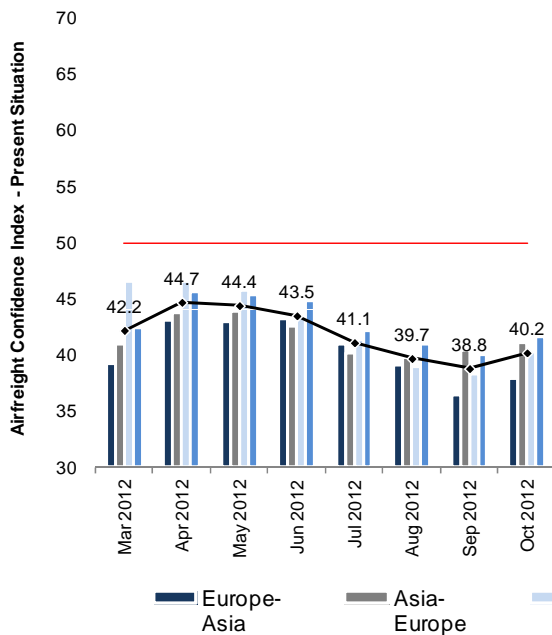
Following five consecutive months of decline, the index for air freight increased in October. The upward trend was consistent across all trade routes.

The Europe to US lane recorded the greatest increase, with the index up two points to 40.3 in October. Meanwhile, forwarders on the Europe to Asia lane continued to indicate the weakest conditions; although the index still increased 1.4 points from September.

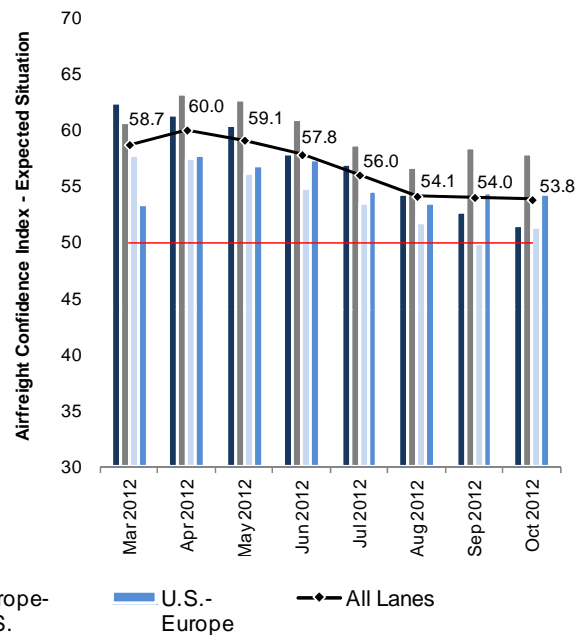
While there appeared to be some improvement in air freight demand for the month, volumes were still significantly weaker relative to the time of year.

In terms of the six-month outlook, forwarders were slightly less positive compared with last month. The overall index for logistics expectations registered a minor decline at 53.8 in October, from 54.0 in September. Looking at individual routes, Europe to US was the only lane to record an increase in the index, up at 51.4 from 49.9 in September.

Current Market



Six-Month Outlook



| Trade Lane | Air Freight | | |
|--------------------|-------------|-------------|-------------|
| | Oct 2012 | Apr 2013 | Confidence |
| Europe-Asia | 37.9 | 51.5 | 44.7 |
| Asia-Europe | 41.1 | 57.9 | 49.5 |
| Europe-U.S. | 40.3 | 51.4 | 45.9 |
| U.S.-Europe | 41.6 | 54.3 | 48.0 |
| Total Index | 40.2 | 53.8 | 47.0 |

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



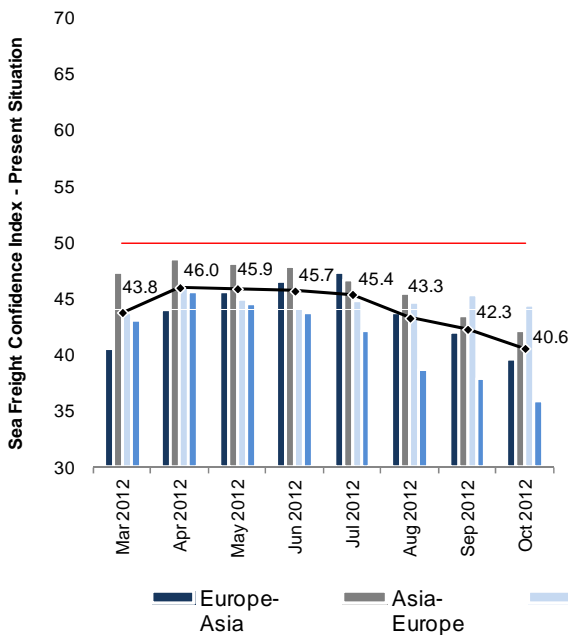
Logistics Confidence Index

Sea Freight Confidence Index

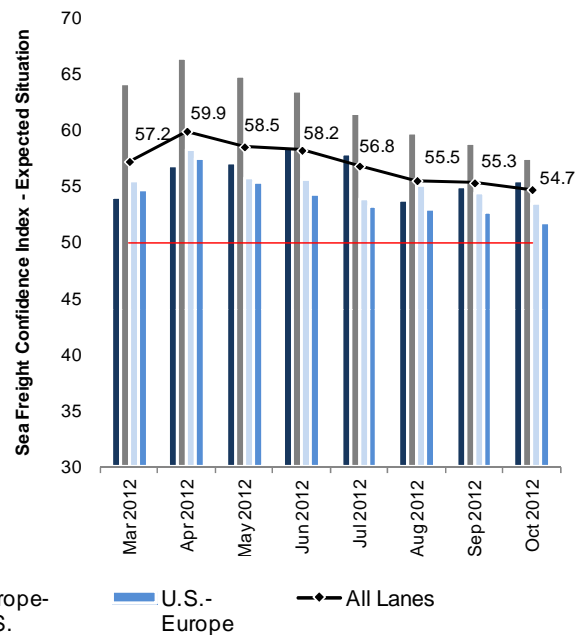
For sea freight, the current logistics situation deteriorated for the sixth consecutive month in October, with declines registered on all trade routes. Sentiment continued to be weakest on the US to Europe lane with the index falling to 35.9. The situation on the Europe to Asia route was also less than positive, with the index down 2.4 points to 39.6 in October. In contrast, the Europe to US route registered the highest value at 44.4; although still indicating weaker volumes relative to the time of year.

Forwarders' prospects for the next six months also weakened in October. The index for logistics expectations showed a marginal decline, falling to 54.7 from 55.3 in September. In terms of individual trade lanes, the only route to see an improvement in outlook was Europe to Asia; with the index for this lane up at 55.4 from 54.9 in September. Despite a continued weakening in current volumes, forwarders still expect volumes to pick-up in the coming months.

Current Market



Six-Month Outlook



| Trade Lane | Sea Freight | | Confidence |
|--------------------|-------------|-------------|-------------|
| | Oct 2012 | Apr 2013 | |
| Europe-Asia | 39.6 | 55.4 | 47.5 |
| Asia-Europe | 42.1 | 57.4 | 49.8 |
| Europe-U.S. | 44.4 | 53.4 | 48.9 |
| U.S.-Europe | 35.9 | 51.7 | 43.8 |
| Total Index | 40.6 | 54.7 | 47.7 |

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:

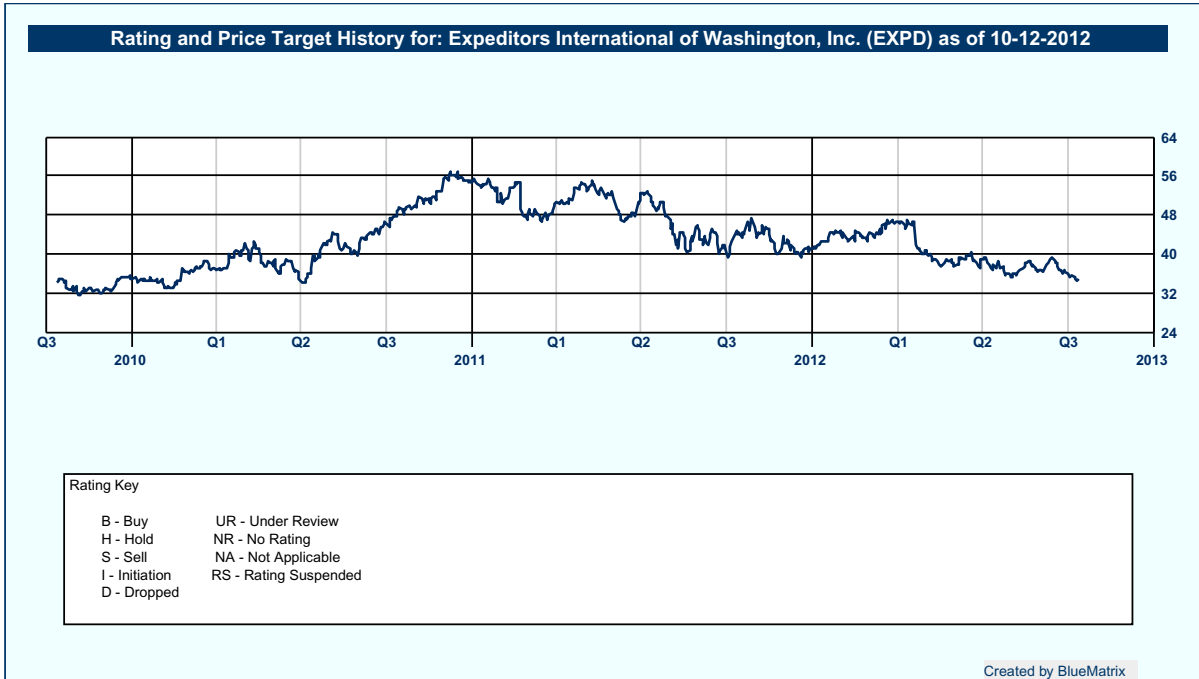
- Europe to Asia
- Asia to Europe
- Europe to US
- US to Europe

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.

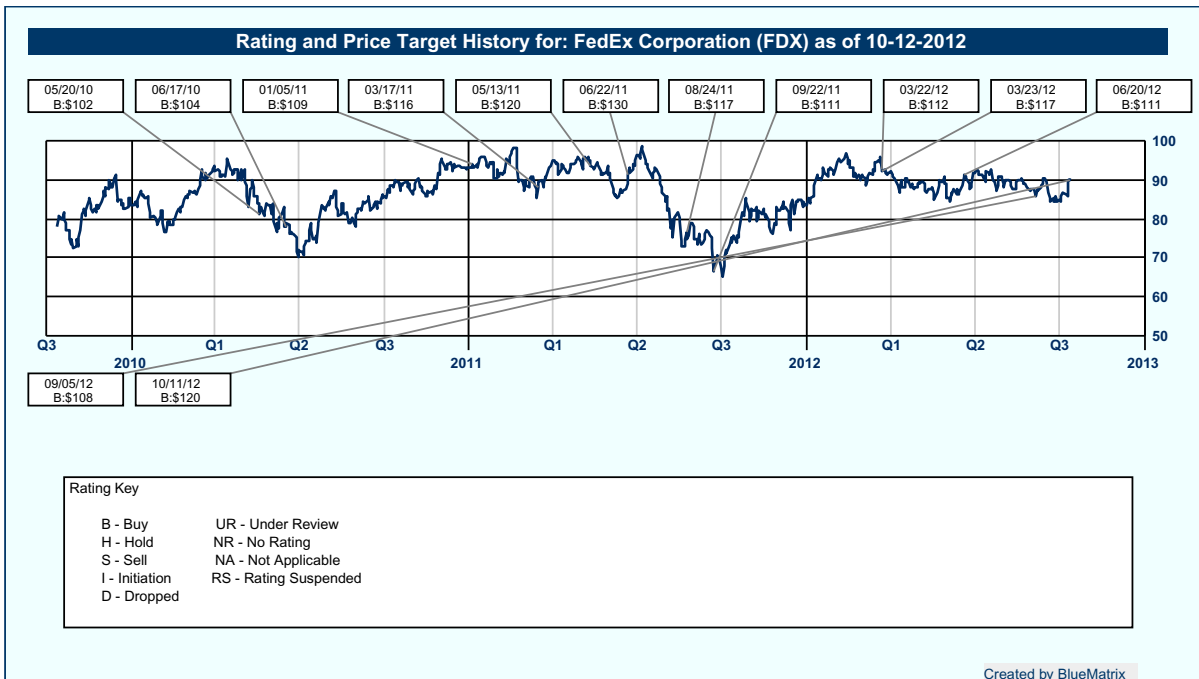
To participate in next month's survey, and in order to receive an advanced copy of the results, please use the following link: <https://www.surveymonkey.com/s/OcNo2012>

Important Disclosures and Certifications

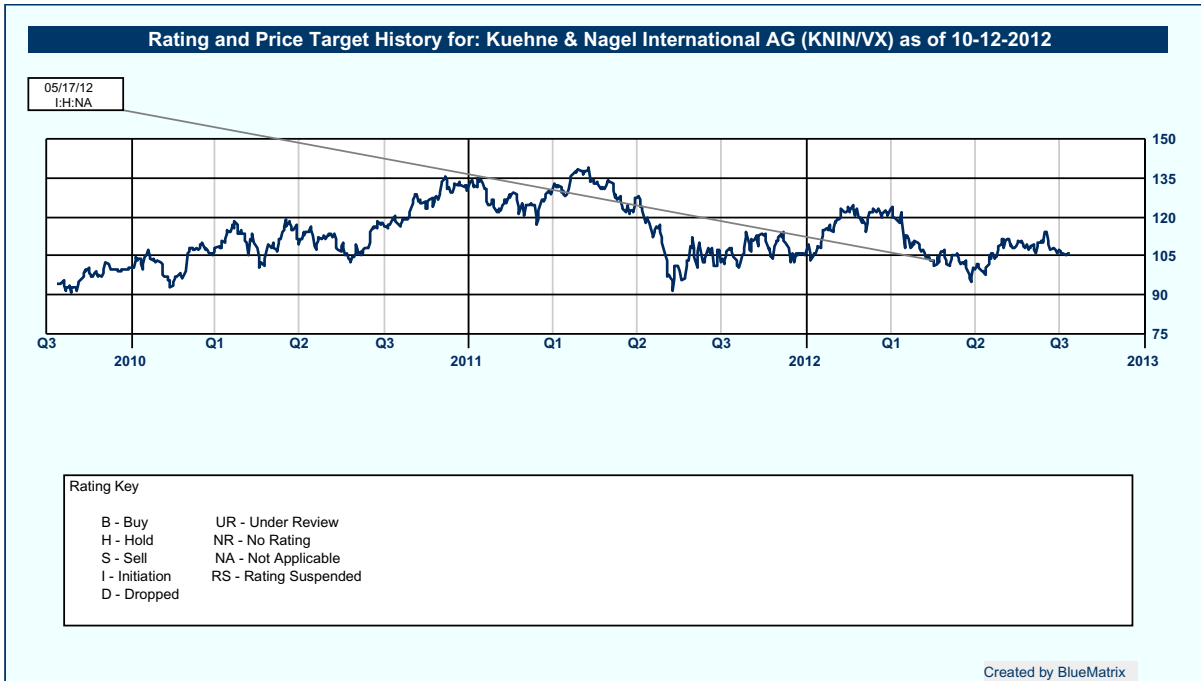
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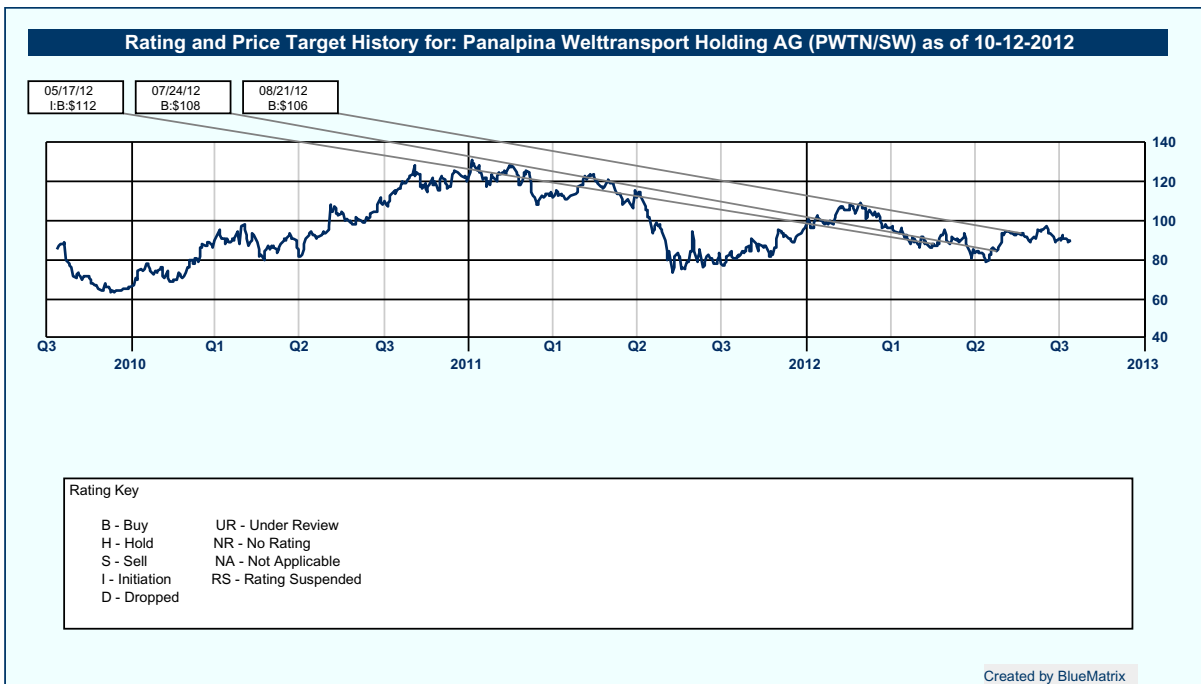
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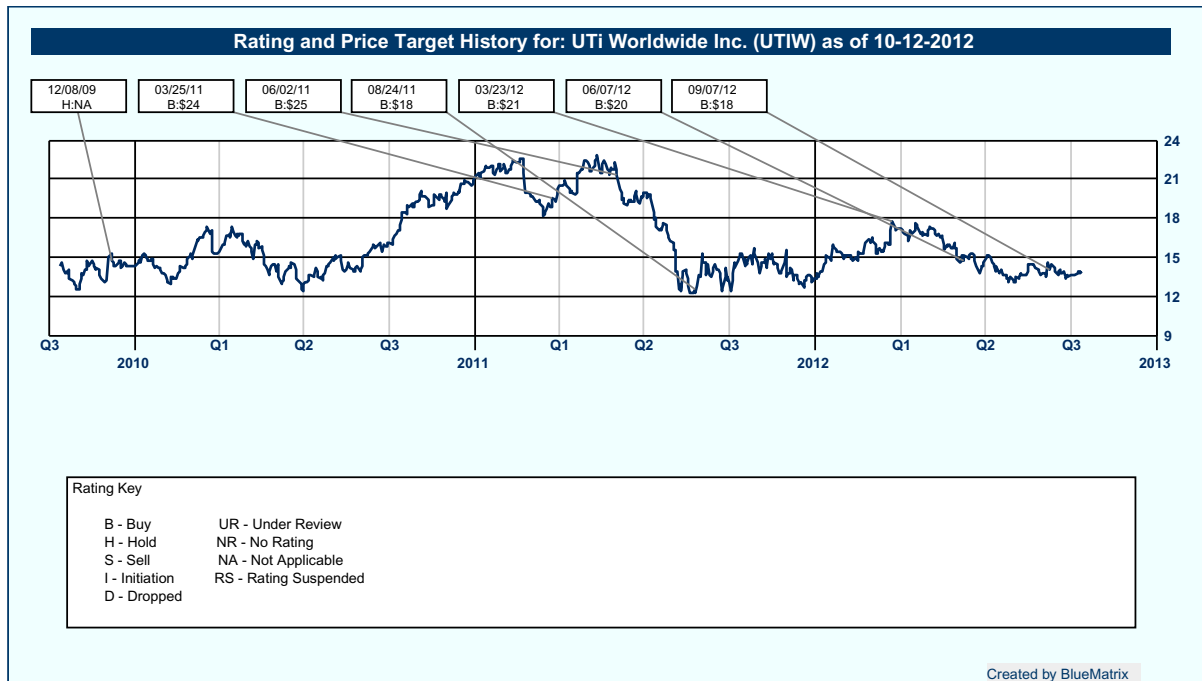
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