

Survey Summary

Sequential Decline Continues After Strong 2H14 Results; Absolute Volumes Still Ok

Results for the Stifel Logistics Confidence Index (LCI) continued to soften in February, following January's sequential decline from a strong 2H14. Absolute levels remain in healthy territory for the overall market, but some lanes have begun to dip below seasonal norms in both airfreight and ocean. We reiterate that this is a European-based survey, so results do not reflect the U.S. West Coast Port congestion and labor challenges, which have been dominating headlines. Instead, we believe results may be manifestations of budding concerns over slowing growth in European and Asian end market demand, while currency dynamics are playing a role in U.S.-Europe and Europe-U.S. results. Interestingly, though, expectations over the next six months remain strong, reflecting optimism in a difficult market. While U.S. port congestion may be a near-term tailwind for some forwarders—especially those with heavy Asia-U.S. exposure—longer-term, sluggish international trade, competition for above-market growth among large players, and persistent carrier overcapacity should continue to dampen profitability. In light of these facts and current valuation, we maintain our Hold rating on the group.

- At 56.3, the overall LCI remains above 50, which suggests that global forwarding volumes are still healthy, at least between Europe and the U.S. and Europe and Asia. Anecdotally, there have been some concerns about recession and deflationary fears in both Asia and Europe—these fears may be having an impact on certain trades, but so far, such impact has not been consistent, and has yet to drag down the global picture.
- At 53.3, the current airfreight environment showed positive results in February for an eighth, consecutive month. The Europe to Asia lane continues to be the weakest lane, with negative, sub-50 growth for a third, consecutive month, while the headhaul Asia to Europe lane remains the fastest growing. Europe to the U.S. and the U.S. to Europe lanes both remain positive, although growth continues to accelerate in the former and decelerate in the latter, spurred in part by the strong dollar, in our view. The six-month outlook remains favorable for all lanes, with expectations sequentially flat versus last month's 58.7.
- As with air, growth in seafreight decelerated again for February but remained positive with a 53.1 reading for the present situation. Both the U.S. to Europe and Europe to Asia lanes reported a sub-50 index score, indicating contraction relative to the seasonal norm, but we do not see cause for alarm, given the fact that the six-month outlook remains solid across the board.
- Question of the month - "What are inventory levels like right now in Europe relative to the norm?" - more than half of respondents—that is, 51.1%—said that inventory levels were the same, while 24.4% suggested that inventories were higher than normal, and an equivalent 24.4% suggested that inventories were lower than normal. In our view, this result is a case of "no news is good news," and suggests that significant volume changes from inventory shifts are unlikely.
- Investment conclusions: Read-through of these survey results most affects those with significant European exposure, like Kuehne + Nagel (KNIN-SIX; CHF134.50, Hold), reporting 4Q14 earnings 2/25/15, Panalpina (PWTN-SIX; CHF126.50, Hold), reporting 3/4/15, and DHL (DPW.XE; EU29.21, Hold), reporting 3/11/15. Given the strong Stifel LCI results seen in 4Q14, we believe these carriers will post strong top-line figures but with varying margin levels. Furthermore, as some concerns over slowing global growth emerge, and as LCI growth decelerates sequentially through 1Q15, the robustness seen at the end of last year may fizzle out. *Prices are as of 2/19/15 market close.

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/StifelMarch>

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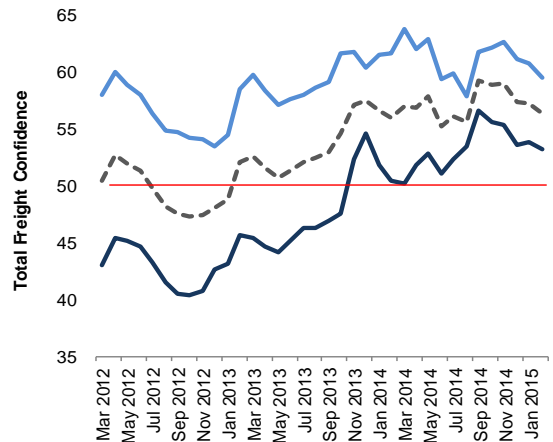
Overview – February 2015

The Overall Stifel Logistics Confidence Index slid sequentially by 1.0 points in February to 56.3 as both the present and expected situations declined for air and sea markets. The overall index remains slightly ahead of February 2014 with a 0.3 point lead. Combining January and February to account for the impact of Chinese New Year, the 2015 period was up by 0.5 points, on average, over 2014.

The overall airfreight index fell 0.6 points to 56.0 for the current month. The present situation declined 1.2 points and the expected situation remained the same. Meanwhile, the overall index for sea freight declined 1.3 points from January to 56.7. The present situation slipped 0.1 points while the expected situation declined 2.5 points.

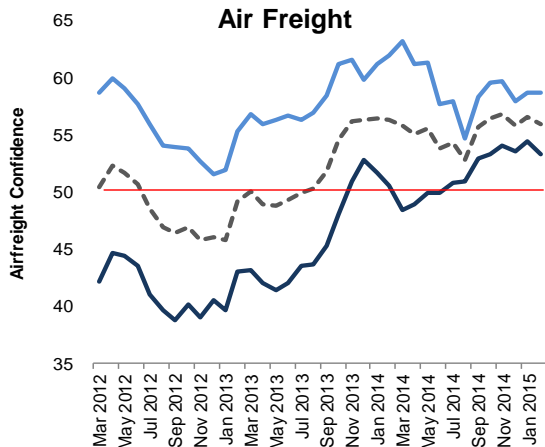
For the February one off question, we asked survey participants what inventory levels were like now relative to the norm. Some 24.4% noted higher than normal levels, with the same percentage noting lower than normal levels. However, the majority, at 51.1%, indicated that inventory levels remained the same.

Total Freight

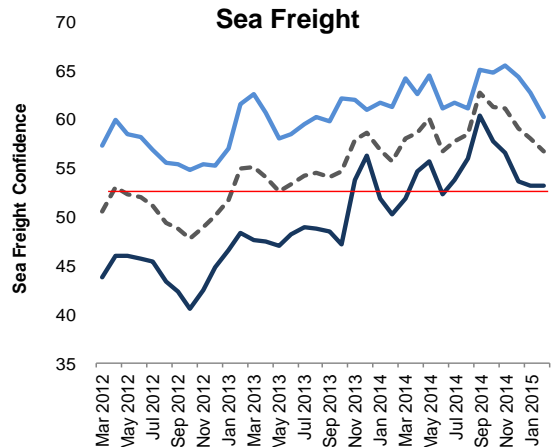


The logistics situation index illustrates current condition faced by forwarders, while the logistics expectations index shows how the situation is expected to develop over the next six months. The logistics confidence index, an average of both the present situation and expected situation indices, expresses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

Air Freight



Sea Freight



— Present Situation - - - Logistics Confidence — Expected Situation

	Present Situation	Expected Situation	Confidence
Mode	Feb 2015	Aug 2015	Average
Air Freight	53.3	58.7	56.0
Sea Freight	53.1	60.2	56.7
Total Freight	53.2	59.5	56.3

Source for all data and graphs: Stifel Logistics Confidence Index

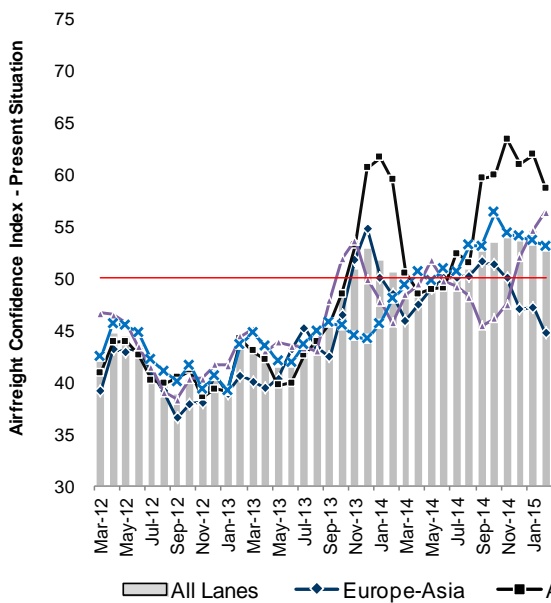
Air Freight Confidence Index

The total airfreight logistics confidence index declined 0.6 points to 56.0 in February 2015. Compared with February 2014, the index is 0.3 points lower and 6.8 points higher than February 2013.

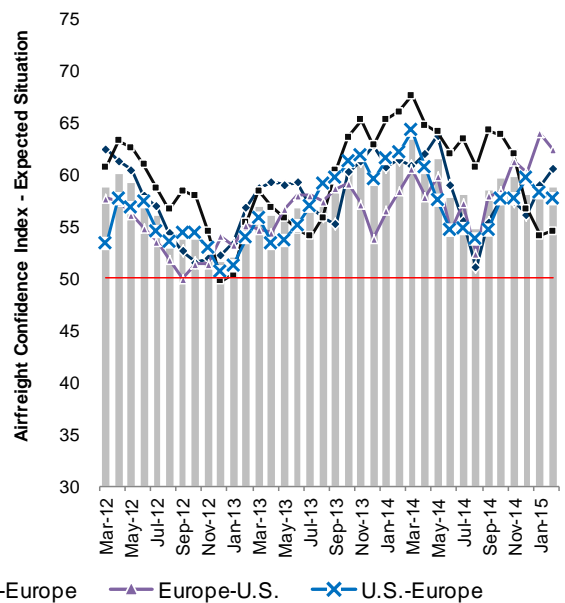
In terms of the present situation, the airfreight index registered 53.3 for the month. Most lanes noted losses except one—Europe to U.S. which was higher by 1.7 points to 56.4. However, U.S. to Europe dropped 0.5 points to 53.1. Europe to Asia declined 2.5 points to 44.7 and Asia to Europe fell 3.2 points to 58.7.

Looking ahead six months, the expected situation index for total airfreight remained unchanged in February from the previous month. Two lanes declined: Europe to U.S. was down 1.5 points to 62.4, and U.S. to Europe was down 0.5 points to 57.7. Europe to Asia was up 1.6 points to 60.5, while Asia to Europe was up 0.4 points to 54.5.

Current Market



Six-Month Outlook



Air Freight			
Trade Lane	Feb 2015	Aug 2015	Confidence
Europe-Asia	44.7	60.5	52.6
Asia-Europe	58.7	54.5	56.6
Europe-U.S.	56.4	62.4	59.4
U.S.-Europe	53.1	57.7	55.4
Total Index	53.3	58.7	56.0

Source for all data and graphs: Stifel Logistics Confidence Index

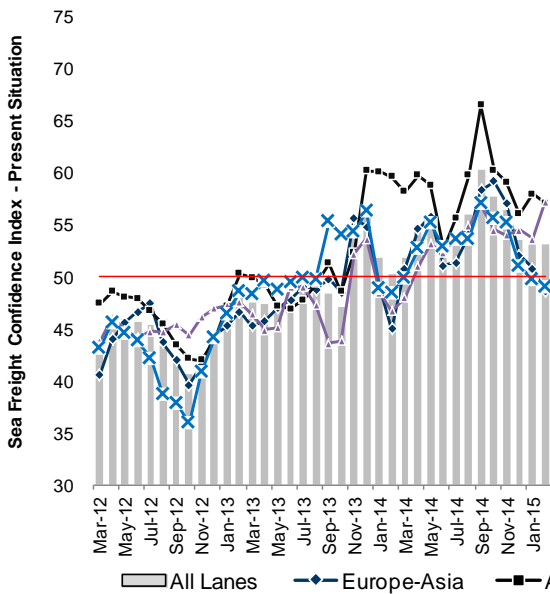
Sea Freight Confidence Index

For sea freight, the logistics confidence index declined 1.3 points to 56.7 in February. Compared with the same month in 2014, the index was 1.0 points higher, and up 1.8 points compared to February 2013.

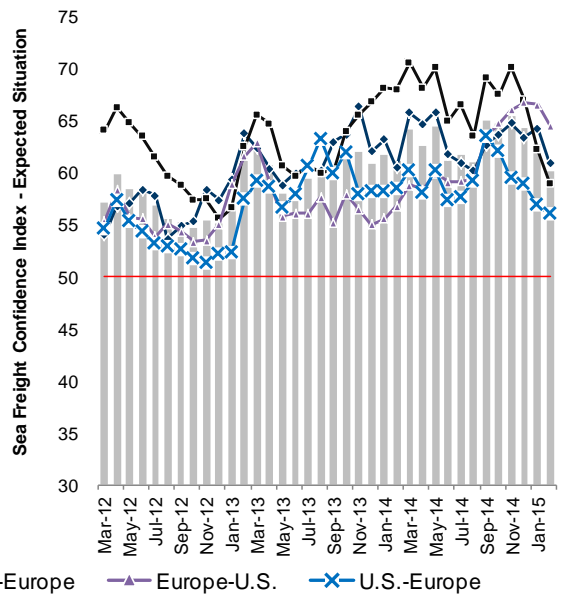
For the present situation, the index slipped 0.1 points to 53.1. All but one lane fell, with Europe to U.S. as the only lane to note a positive growth figure—up 3.5 points to 57.2. The Europe to Asia lane fell below the 50-level, declining 2.2 points to 48.6. This is the first time since February 2014 that this lane has registered below 50. Asia to Europe declined 0.9 points to 57.1. U.S. to Europe posted a 0.7 point slip to 49.0, taking that lane deeper into contraction territory.

The expected situation index for sea freight fell 2.5 points to 60.2. All lanes recorded month-to-month declines. Europe to Asia declined 3.4 points to 60.9. Asia to Europe fell 3.2 points to 59.0, while Europe to the U.S. and U.S. to Europe fell 2.0 and 0.9 points to 64.6 and 56.0, respectively for the month.

Current Market



Six-Month Outlook



Sea Freight			
Trade Lane	Feb 2015	Aug 2015	Confidence
Europe-Asia	48.6	60.9	54.8
Asia-Europe	57.1	59.0	58.1
Europe-U.S.	57.2	64.6	60.9
U.S.-Europe	49.0	56.0	52.5
Total Index	53.1	60.2	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:

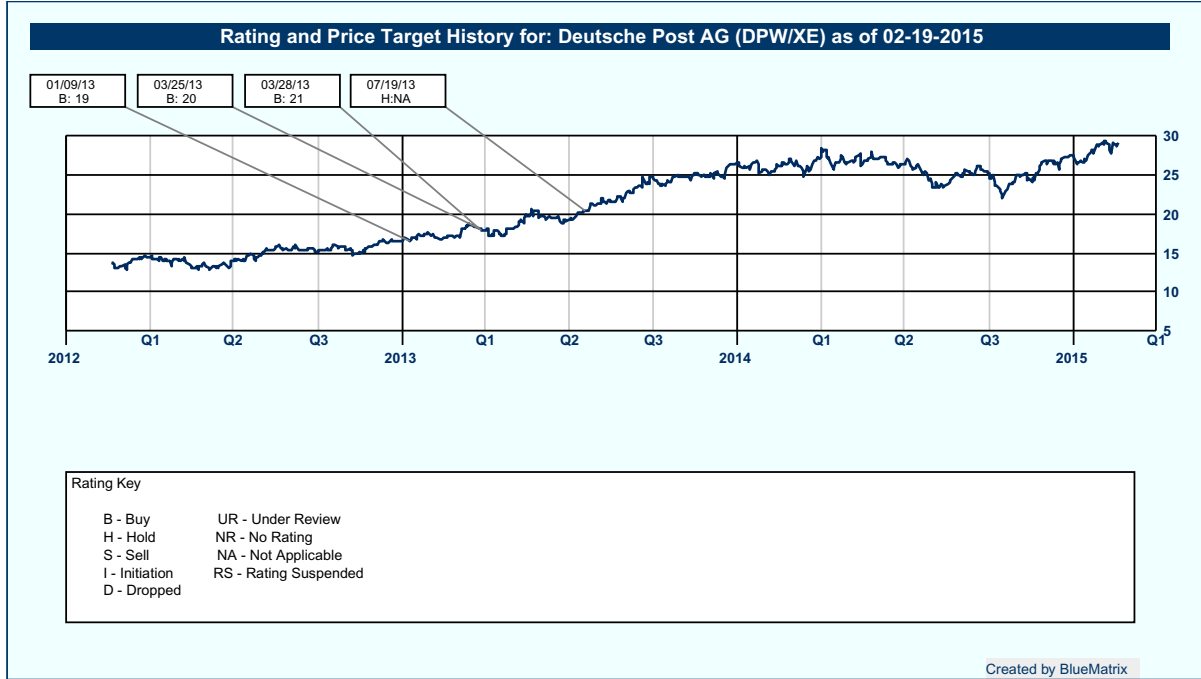
- Europe to Asia
- Asia to Europe
- Europe to U.S.
- U.S. to Europe

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.

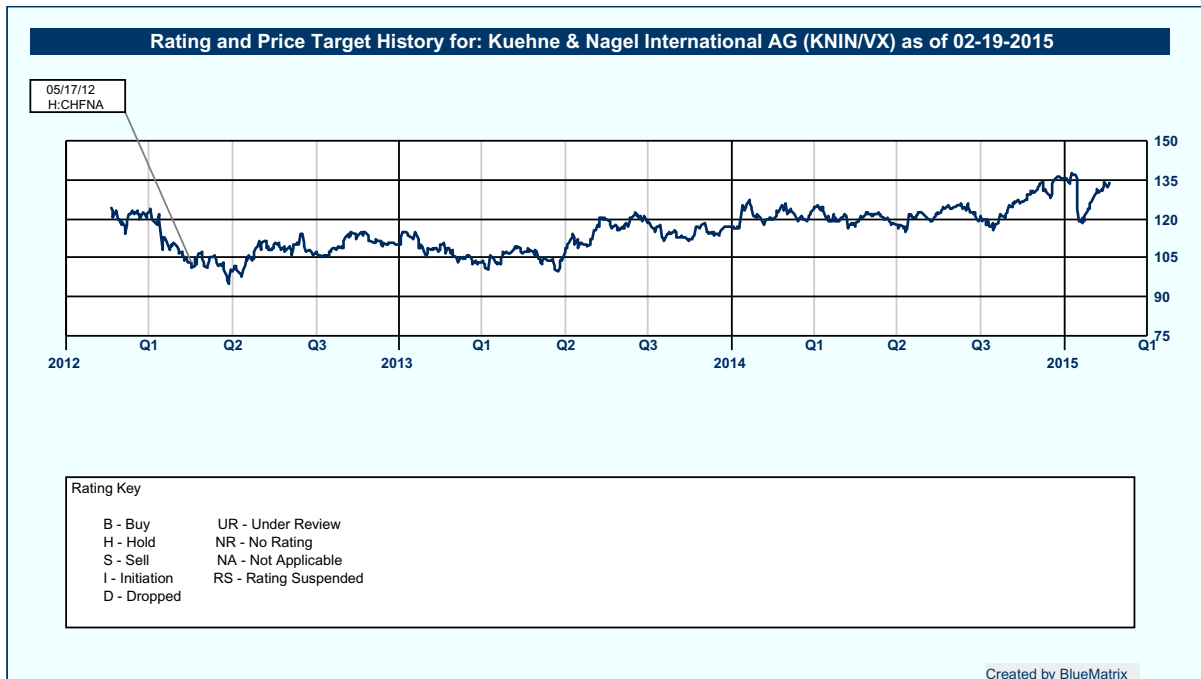
To participate in next month's survey, and in order to receive an advanced copy of the results, please use the following link: <https://www.surveymonkey.com/s/StifelMarch>

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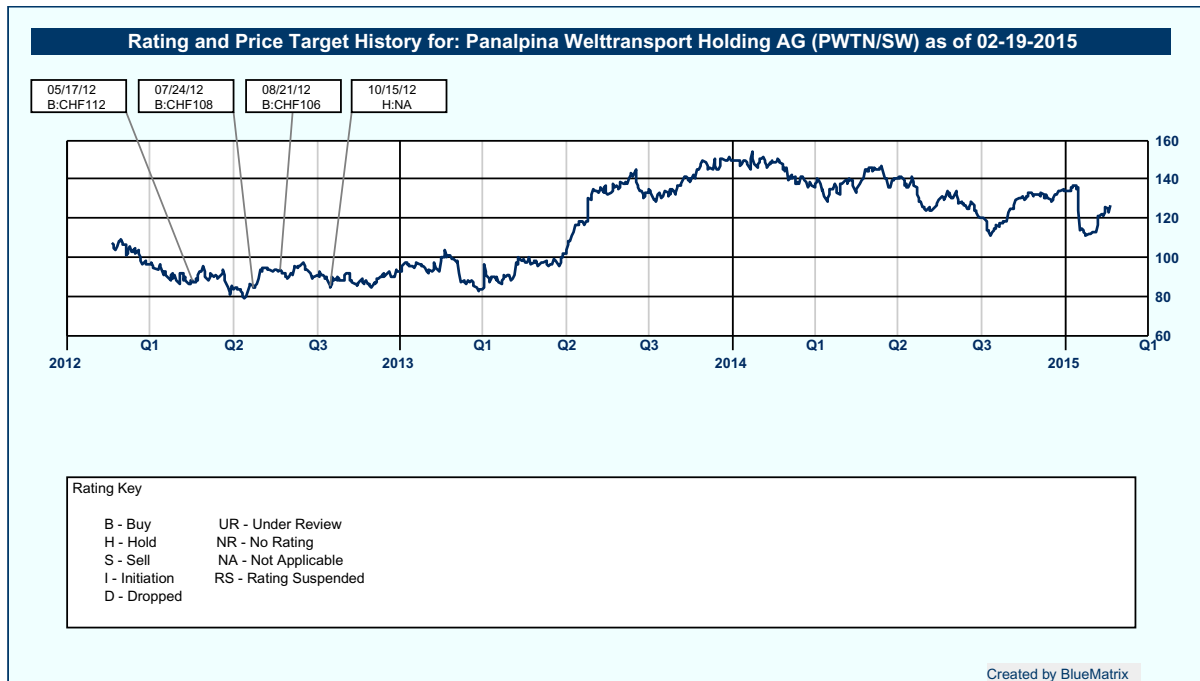
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