

Survey Summary

European Forwarding Volumes Get A Stocking Full Of Coal As Index Hits New Lows

The Stifel Logistics Confidence Index (LCI) fell for a seventh consecutive month, reaching a new, all-time low of 45.4—the third sub-50 reading in a row, indicating that the market is squarely in contraction. In fact, this month's result was 1.9 index points below the previous all-time low in October 2012, when the market was in the depths of the European Sovereign Debt Crisis. Year-over-year declines are well into double-digits across air and sea freight for the current trends, and for the 6-month expected outlook, and in almost every measured Europe-based trade lane. As in previous months, the only lane to be spared from reckoning was the Europe-U.S. route, which has been boosted by the strong U.S. dollar. Interestingly, when compared to the prior all-time low in 2012, present volumes actually fared better in December. However, the six-month outlook was materially worse than six months ago, which may suggest that this volume lull will be with us for at least the next couple quarters. Stock valuations on European-based forwarders like DHL Global Forwarding (DPWXE, EUR 26.05, Hold), DSV AIS (DSV-KO, DKK 265.70, Hold), Kuehne and Nagel (KNIN-SIX, CHF 135.50, Hold), and Panalpina (PWTN-SIX, CHF 111.90, Hold) have come down through 2015, but there is further to go before becoming attractive, in our view. We remain cautious in the current environment, as the market attempts to find a bottom and maintain our Hold rating on shares for the group.

- **In December**, the overall LCI dropped another 2.0 index points from last month, falling to a reading of 45.4. This result marked the third consecutive reading below 50, indicating market contraction, the fourth double-digit year-over-year decline, the seventh month of consecutive sequential decline, and the lowest absolute level in the history of the index (which was started in March 2012).
- **On a y/y basis, the Air Freight Confidence Index continued its double-digit slide**. All lanes decelerated on both a y/y basis and a sequential basis, in terms of both present volumes and the six-month outlook. On an absolute basis, all lanes are now firmly in sub-50 market contraction territory, with the one exception being Europe to U.S., which continues to benefit from positive currency tailwinds. Passenger belly space continues to increase, exacerbating what IATA has called "a tough global economic environment and feeble world trade".
- **The ocean freight markets did not fare much better—overcapacity there continues to be a long-term problem, although Maersk has made moves to address it by laying up one of its largest flagship vessels**. Other container lines are also moving to address the capacity situation, through tactical operational changes or M&A (e.g. CMA CGM acquiring NOL). The effects of those actions have not yet manifested themselves in current, or even the expected volume index, though, as, like airfreight, all trade lanes, except Europe to U.S., are firmly in contraction territory.
- **Question of the month — will carriers remove ocean freight capacity?** We asked respondents whether they believed that other shipping lines would follow Maersk's lead in laying up one of its flagship 18,000 TEU vessels in addressing the overcapacity issue. An overwhelming majority, 71%, answered YES, while 18% responded NO, and 11% were unsure. Of those respondents who believed other lines would take similar measures to mitigate overcapacity, 86% thought they would remove capacity for more than four weeks, covering much of the year's peak season, while 10% expected the removal to last between 3-4 weeks, and just 4% believed it would last less than 3 weeks.
- **Investment conclusions:** 2015 has been a challenging year for global trade. International freight forwarders saw some temporary benefits to net revenue margins as carrier capacity imbalances drove favorable buy-rates, and we believe this situation could persist for another quarter or two, as carriers attempt to rein in the overcapacity situation, but demand-softness should continue to be an albatross for carrier and forward top-line growth alike. *In this environment, and absent any signs of a bottom or an inflection point in trade volumes, we remain Hold-rated on the*

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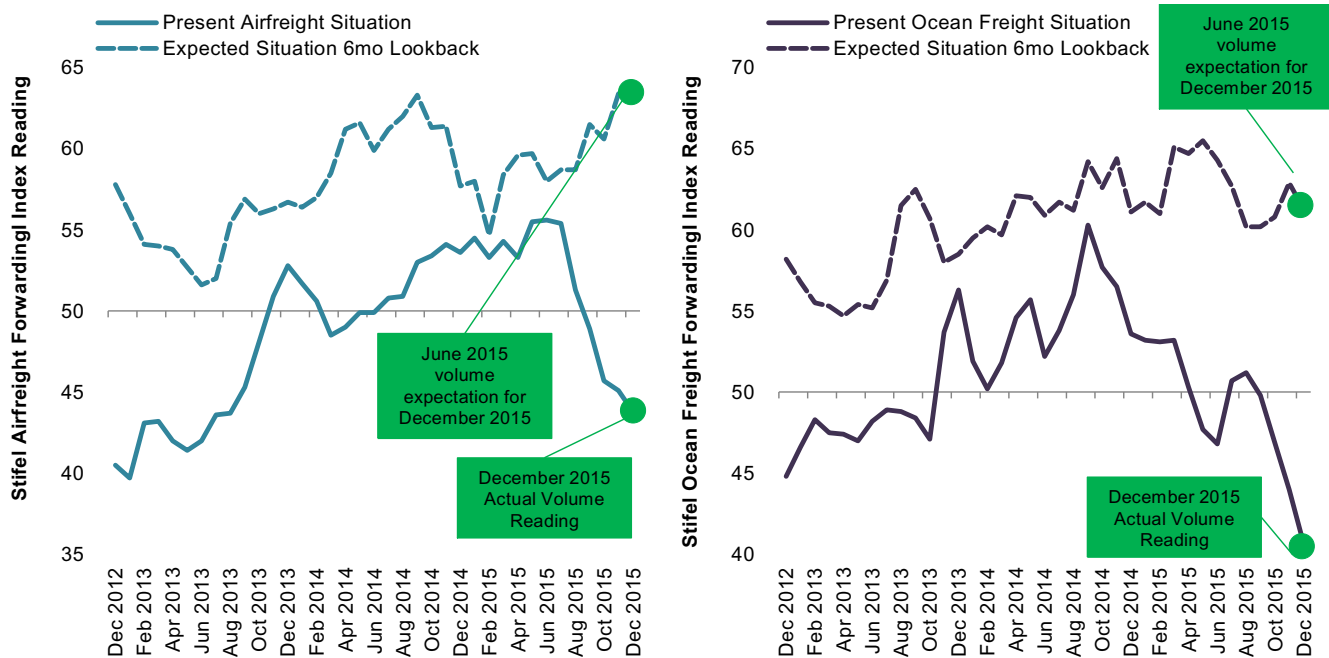
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European forwarding group, including Deutsche Post DHL (includes DHL Global Forwarding), DSV AIS, Kuehne & Nagel, and Panalpina. However, we do see opportunity for Buy-rated, U.S.-based Expeditors International (EXPD, Buy, \$45.83) to outperform the group, because we believe the company should take share and grow independent from market dynamics, especially in Europe (off its low base), and should continue to be profitable share-gainers, in our view.

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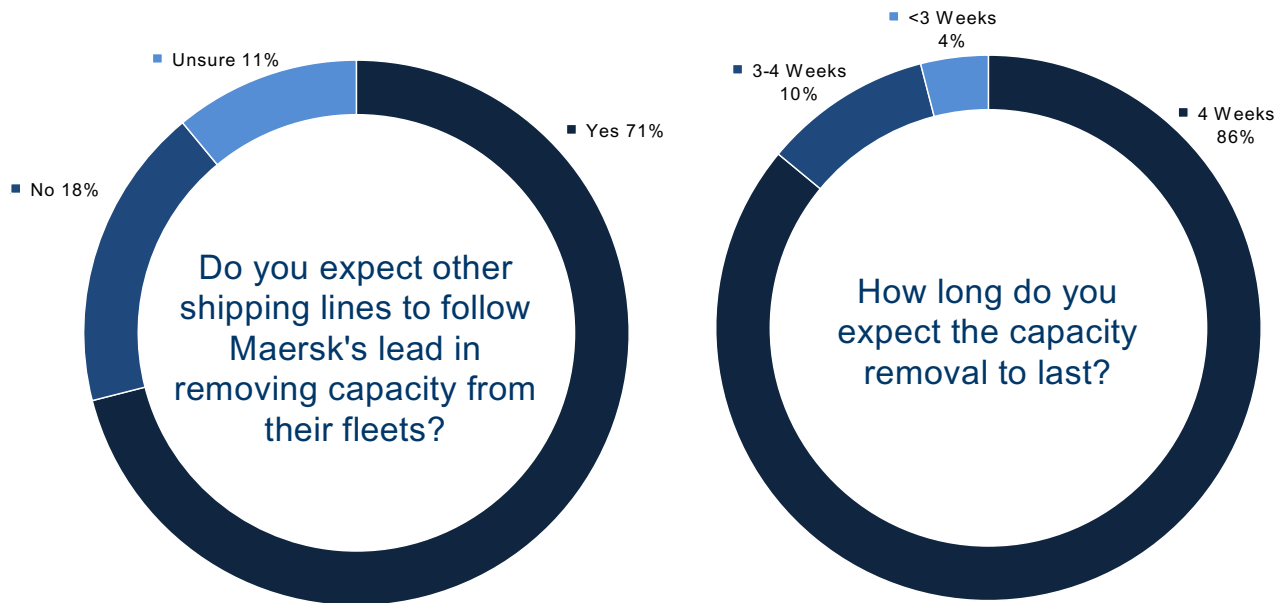
Prices are as of the close, December 23, 2015.

Exhibit 1: The 6-month expected volume index for both airfreight and seafreight has been too optimistic when matched with actual industry volumes. This is mildly concerning, in our view, given that the expected volume index continues to approach all-time lows for air, and has hit new all-time lows in ocean.



Source: Stifel Logistics Confidence Index

Exhibit 2: The December monthly question indicates that a vast majority of respondents expect other carriers to follow Maersk's lead in removing vessel capacity from their fleets, and of that group, most expect the removals to last for more than 4 weeks



Source: Stifel Logistics Confidence Index

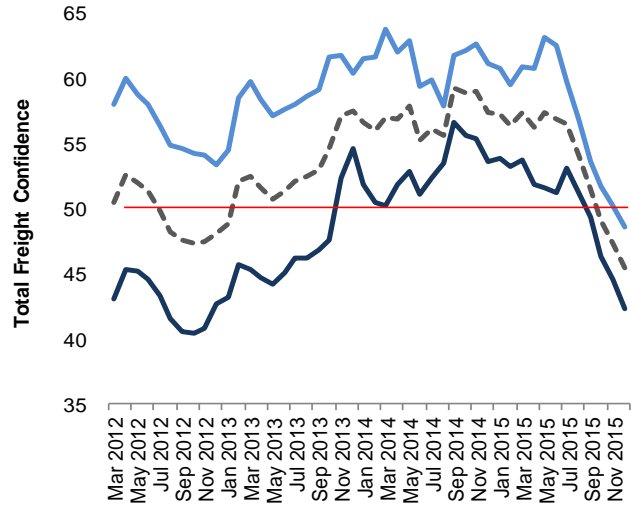
Overview – December 2015

In December, the Stifel Logistics Confidence Index reached lowest ever score, with the overall Index declining 2.0 points sequentially, and 12.0 points year-over-year. The reading was also 12.1 points lower than in December 2013.

The overall air freight Index saw its monthly decline accelerate once again—down 2.3 points sequentially to 46.6 this month. The present situation fell by 1.6 points and the expected situation lost 3.0 points. The overall sea freight Index totaled 44.3 after losing 1.8 points sequentially. In this case, the present situation showed a 3.3 point fall, though the expected situation was down by just 0.2 points.

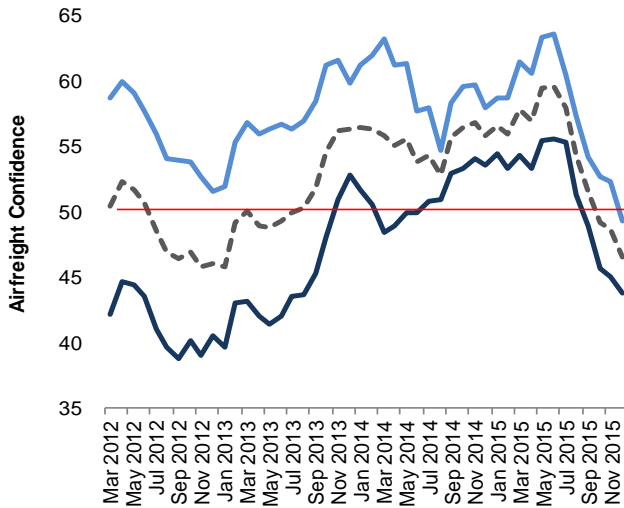
The December one-off question asked if respondents believed other shipping lines would follow Maersk's lead in laying-up one of its flagship 18,000 TEU vessels, removing more capacity from the market. A 71% majority answered yes versus 18% responding no (11% were unsure). Of those that responded "yes", 86% though the lay up would last 4 weeks or longer, 10% expect it to last 3-4 weeks, and the remaining 4% replied that it would last less than 3 weeks.

Total Freight

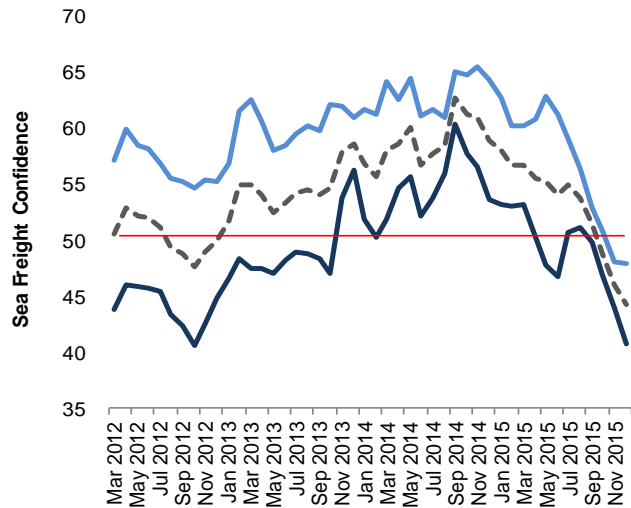


The logistics situation index illustrates current condition faced by forwarders, while the logistics expectations index shows how the situation is expected to develop over the next six months. The logistics confidence index, an average of both the present situation and expected situation indices, expresses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

Air Freight



Sea Freight



— Present Situation - - - Logistics Confidence — Expected Situation

	Present Situation	Expected Situation	Confidence
Mode	Dec 2015	Jun 2016	Average
Air Freight	43.8	49.3	46.6
Sea Freight	40.7	47.9	44.3
Total Freight	42.3	48.6	45.4

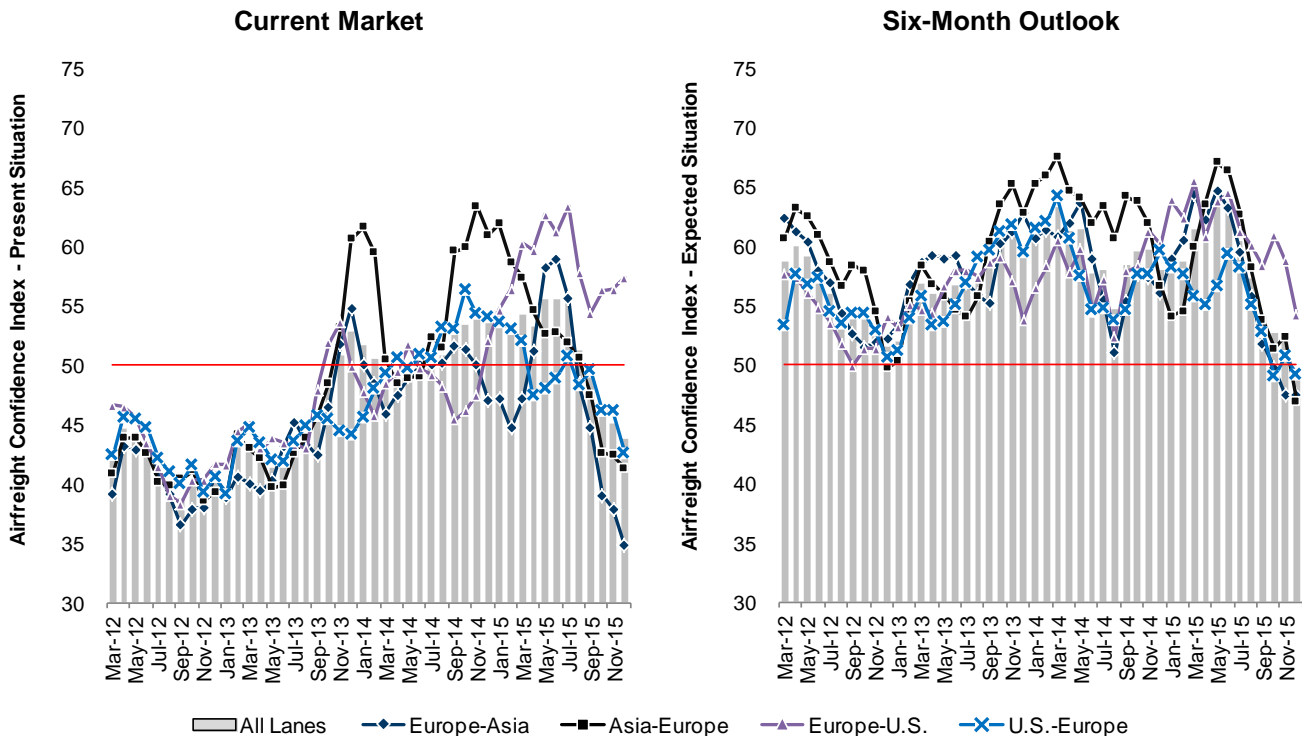
Source for all data and graphs: Stifel Logistics Confidence Index

Air Freight Confidence Index

The total air freight logistics confidence Index contracted by 2.3 points in December 2015, amounting to 46.6. The Index is 9.2 points lower than in December 2014, and 9.8 points lower than in December 2013.

Regarding the present situation, the air freight Index fell by 1.6 points to 43.8. Following a now well-established pattern, all lanes posted month on month declines with the exception of Europe to U.S., which gained 1.0 points to reach 57.4. By contrast, U.S. to Europe stood at 42.6 after losing 3.5 points, whilst Asia to Europe and Europe to Asia lost 1.1 and 3.1 points respectively, totaling 41.3 and 34.8.

In the expected outlook, there were no exceptions to the pattern of decline. Europe to Asia recorded the slightest change out of the four lanes, having fallen by 0.1 points to 47.4. Next in line was U.S. to Europe, which was down 1.5 points to 49.2. Europe to U.S. stood out once more as the only lane in expansion territory at 54.2 points, but the sequential pattern was still one of deceleration, with a month on month decline of 4.6 points. Worse still was the core Asia to Europe lane, which, at 46.9, has now fallen below the 50 point mark for the first time since December 2012, losing 5.5 index points from last month.



Trade Lane	Air Freight		
	Dec 2015	Jun 2016	Confidence
Europe-Asia	34.8	47.4	41.1
Asia-Europe	41.3	46.9	44.1
Europe-U.S.	57.4	54.2	55.8
U.S.-Europe	42.6	49.2	45.9
Total Index	43.8	49.3	46.6

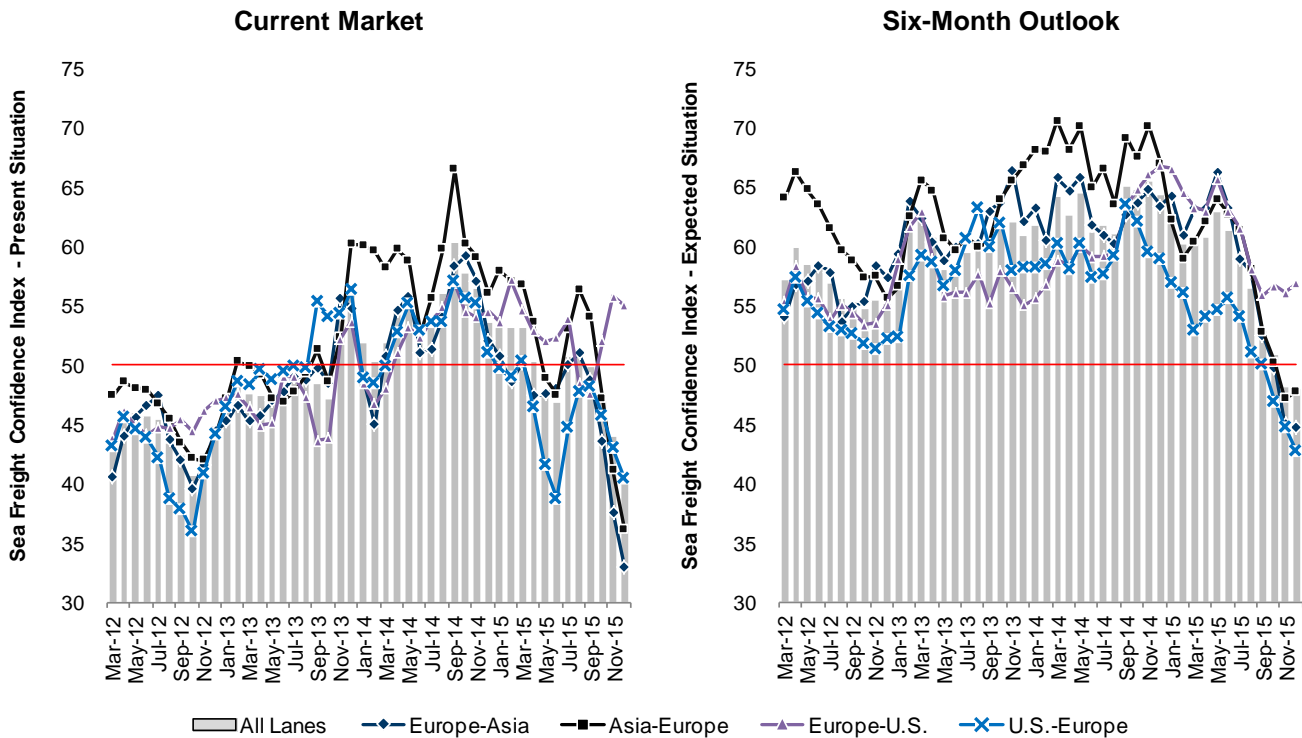
Source for all data and graphs: Stifel Logistics Confidence Index

Sea Freight Confidence Index

The logistics confidence Index for sea freight declined by 1.8 points to 44.3. Compared with the same month in 2014, the Index is 14.7 points lower, and it is also 14.3 points lower than in December 2013.

For the present situation, the Index fell 3.3 points to 40.7. All lanes noted declines in December, though Europe to U.S. lost only 0.8 points. On an absolute basis, that lane remains in a stronger position than the others at 55.0—the only measured lane currently in expansion territory. Having declined by 4.7 points from November, Europe to Asia was the weakest of the lanes, and recorded a points total of 32.9. Asia to Europe noted an even greater decline of 5.0 points, and stood at 36.1. U.S. to Europe recorded a moderate loss of 2.6 points, which brought it to 40.4 overall.

The expected situation Index for sea freight was more positive than the present situation, with mixed results producing an aggregate 0.2 point decline. Europe to U.S. saw the most positive result, gaining 0.8 points to 56.9, whilst Asia to Europe similarly gained 0.7 points to score 47.8. Europe to Asia saw a 0.3 point decline to 44.7, but U.S. to Europe was down 2.1 points to 42.7.



Legend: All Lanes (grey square), Europe-Asia (blue diamond), Asia-Europe (black square), Europe-U.S. (purple triangle), U.S.-Europe (blue cross)

Sea Freight			
Trade Lane	Dec 2015	Jun 2016	Confidence
Europe-Asia	32.9	44.7	38.8
Asia-Europe	36.1	47.8	42.0
Europe-U.S.	55.0	56.9	56.0
U.S.-Europe	40.4	42.7	41.6
Total Index	40.7	47.9	44.3

Source for all data and graphs: Stifel Logistics Confidence Index

Methodology

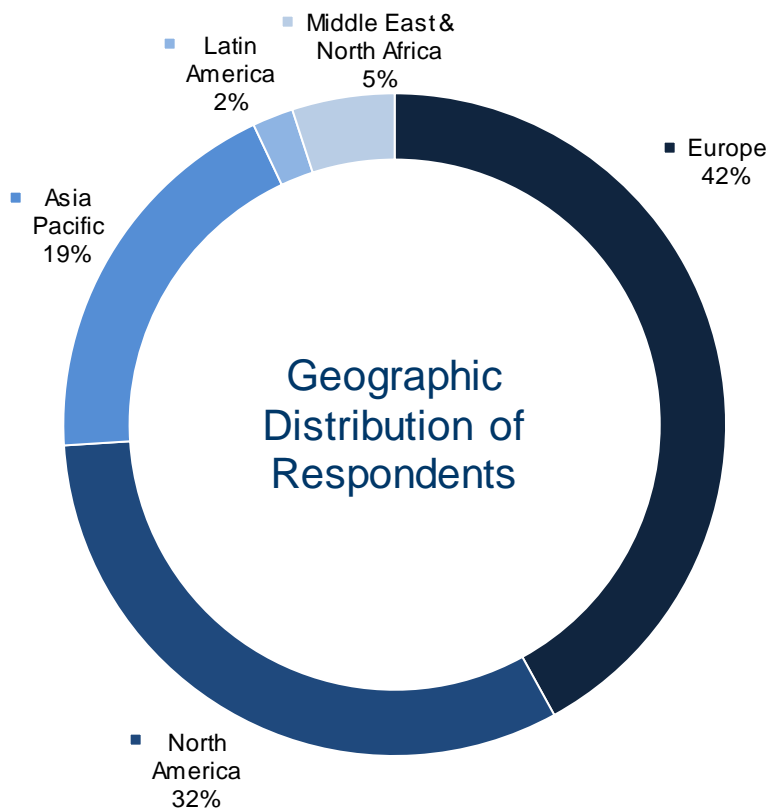
The Stifel Logistics Confidence Index is calculated based on approximately 200 responses from a monthly survey, administered and analyzed by a number of logistics professionals. The survey questions participants as to volumes that they are currently experiencing, relative to the time of year, as well 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.co.uk/r/StifelDecJan16>

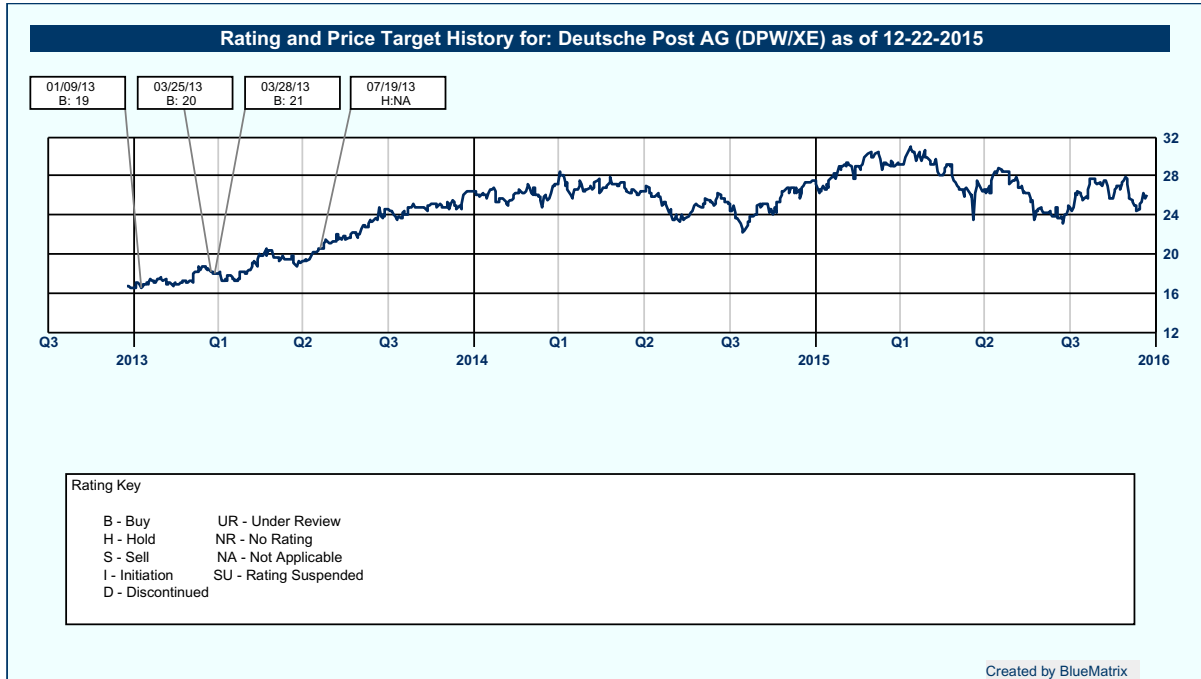
Geographic distribution of Stifel Logistics Confidence Index survey respondents:



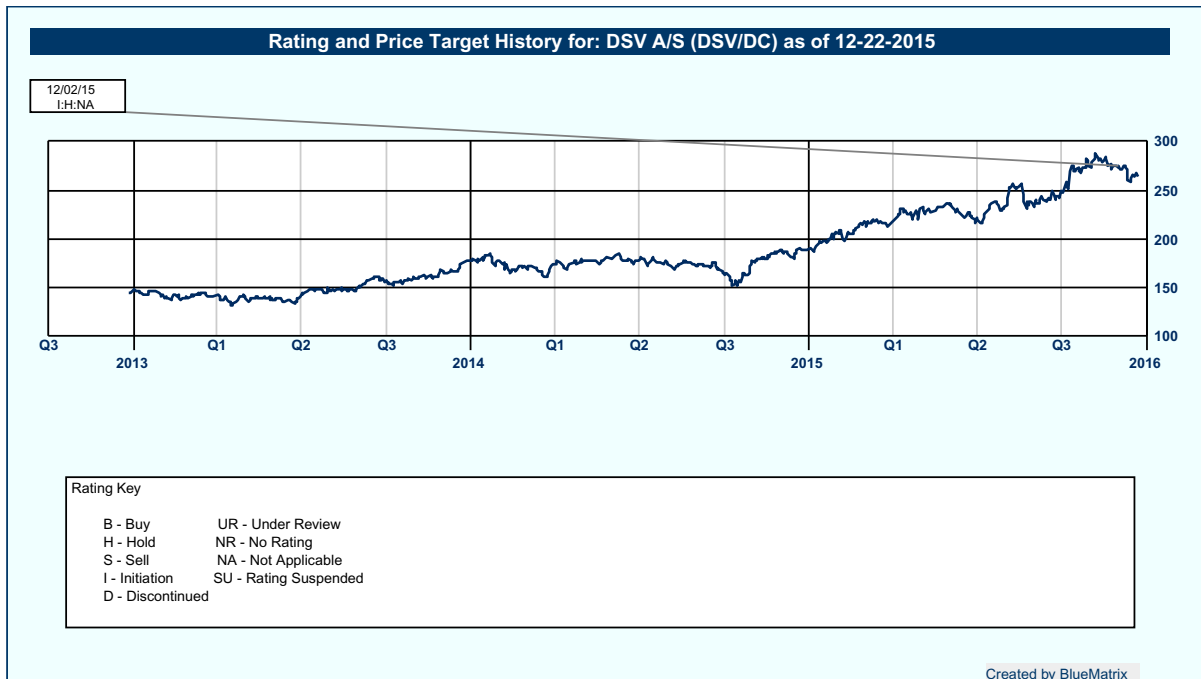
Source for all data and graphs: Stifel Logistics Confidence Index

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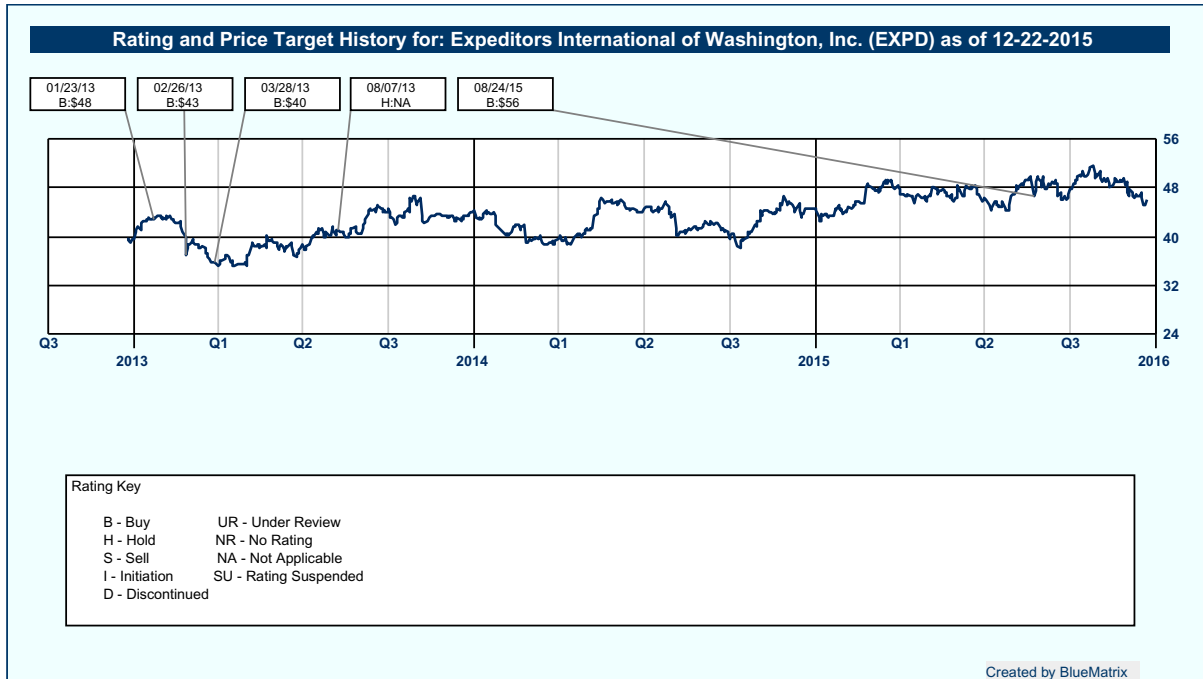
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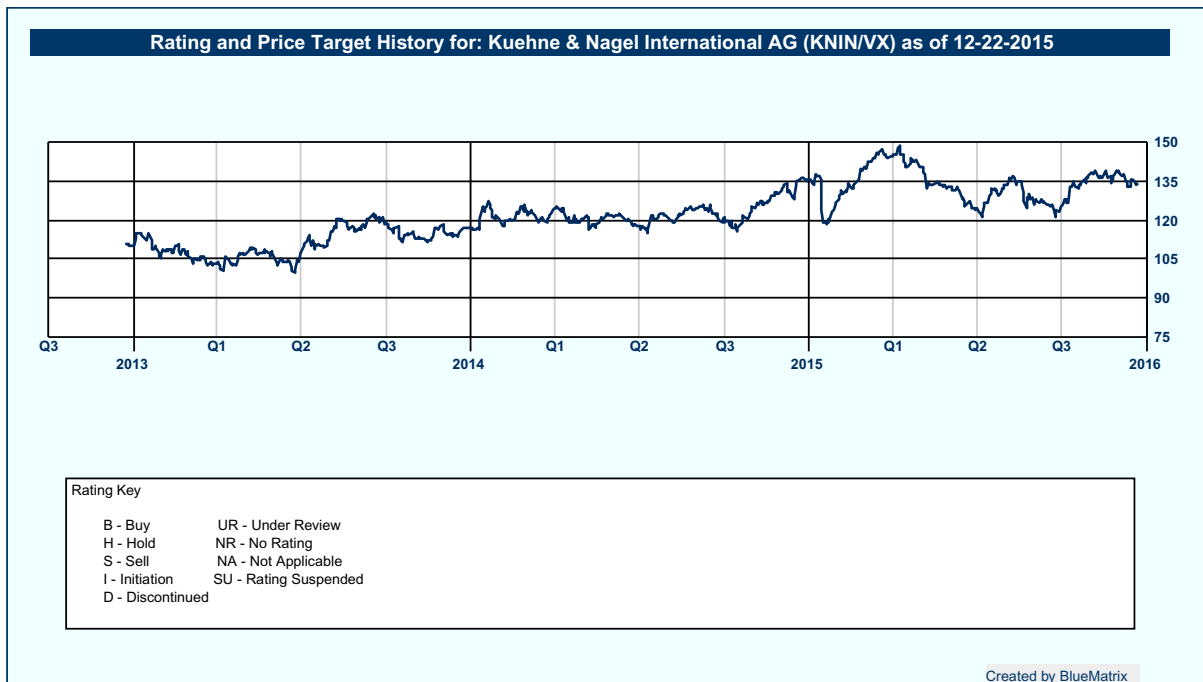
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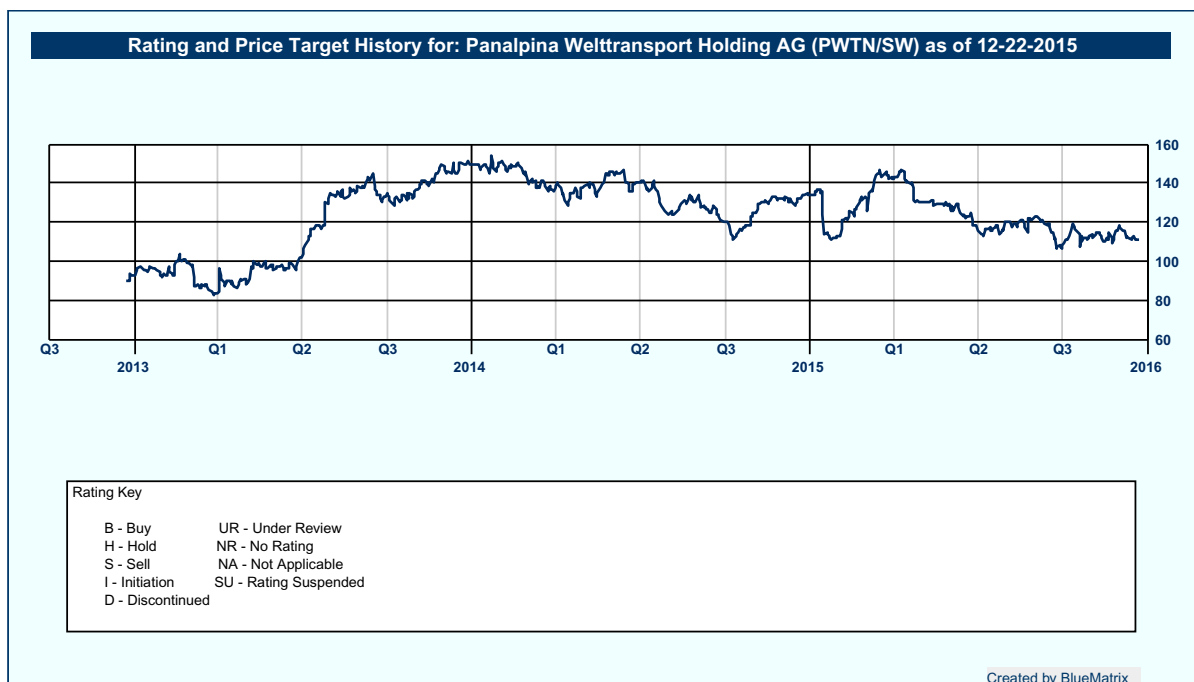
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