

August Stifel Forwarding Index Takes A Dip As European Airfreight Volumes Decelerate

In August, the Stifel Logistics Confidence Index (LCI) experienced its second-largest one-month decline ever, falling 4.2% from July to a reading of 54.1—its lowest level so far this year. Airfreight markets were undoubtedly strong at the end of 2014, but while many forwarders commented on volatility in 1Q15 and 2Q15, our airfreight index remained relatively stable, bolstering otherwise weak ocean freight results. In July, we began to see signs of deceleration in air, but that trend was particularly evident this month. Both present and 6-month expected airfreight volumes fell sharply, as did 6-month expected ocean volumes. Only current ocean volumes saw a modest increase. Slow global growth, fierce competition, and an outlook for volatility leads us to maintain our Hold ratings on common shares of the Europe-based freight forwarders in our coverage, including DHL Global Forwarding and Freight (DPW.XE, EUR 24.56, Hold), Kuehne and Nagel (KNIN-SIX, CHF 127.30, Hold), and Panalpina (PWTN-SIX, CHF 117.80, Hold).

- In July, the overall LCI decreased sequentially by 2.3 index points to a reading of 54.1, exiting the 55.0-60.0 index band that it has been trading between since November 2013. This month's reading registered 5.1 points below the September 2014 peak, and 6.8 points above the October 2012 trough. The conclusion, in our view, is that Europe-centric global trade growth remains challenged and markets remain volatile. Moderation in the Expected Situation Index indicates that growth in the back-half of 2015 will likely also be slow.
- By mode, **Airfreight tonnage growth continues to slow**. According to IATA, a tepid global economy and declining trade activity saw volumes increase at a rate of just 1.2% in June, a margin barely enough to repel claims of stagnation. Mirroring these results, the Present Situation Index for airfreight fell 4.1 points to 51.3, which is barely above the 50.0 growth threshold. All lanes decelerated, with European export lanes seeing the largest sequential slowing. Some lanes, including Europe to Asia and the U.S. to Europe even slid below the threshold 50 mark into contraction.
- The six-month outlook for **airfreight** also fell in all measured lanes, indicating that **the second half of 2015 is unlikely to see much improvement over current levels**.
- On the ocean side, a 0.5 point rise in the Present Situation Index was the only positive indication this month, with acceleration in all lanes but Europe-U.S., which fell 5.4 points into contraction territory after 16 consecutive months of expansion. On an absolute basis, the countervailing U.S.-Europe lane also remains at sub-50 contraction levels, as it has done since April of this year. Unfortunately, **a slowing in six-month sea freight expectations offset the mild improvement in the present situation**. Fundamentally, underlying ocean carrier overcapacity continues to weigh on the market, outpacing lethargic demand growth.
- Question of the month - In August, respondents were asked what proportion of the customs clearance and consulting/trade management services markets they believe are controlled by freight forwarders. The results show that freight forwarders are perceived to control ~48% of the customs clearance market and ~25% of the consultancy/trade management services market, with specialists, non-forwarding 3PLs, or non-outsourced functions making up the rest.
- **Investment conclusions:** Our research indicates that sea freight rates continue to hit new lows, partially as a result of capacity additions, and partially as a result of weak demand. Likewise, declines in airfreight volumes are likely to support lower buy rates. So, while most large, European forwarders are expected to experience soft, or perhaps even negative volume growth, yields should improve as carrier rates remain depressed. In our view, this type of environment is most advantageous for operators who are able to manage expenses well due to better technology, personnel efficiency, and scalable costs. Within our coverage, Kuehne + Nagel fits this description best, but we maintain our Hold rating on its shares, as well as those of DHL and Panalpina given slow European and global growth and a volatile rate environment.

Prices as of 8/21/15 close.

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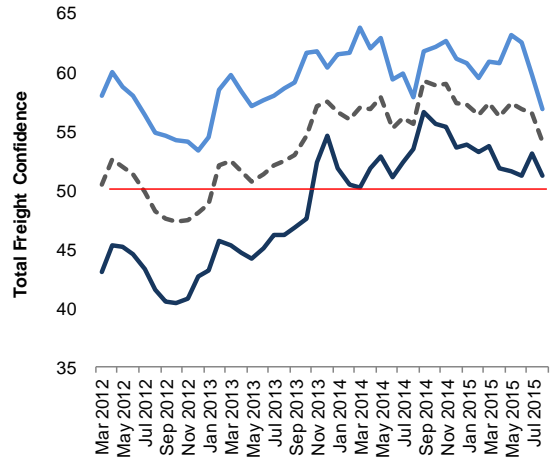
Overview – August 2015

In August, the Stifel Logistics Confidence Index fell to 54.1—2.4 points lower than July. Lower overall airfreight and sea freight logistics confidence contributed to the decline. Relative to August 2014, the overall index is 1.6 points lower, but it is 1.8 points higher than in August 2013.

The overall air freight index fell 3.7 points to 54.3 for the current month. The present and expected situations dipped 4.1 points and 3.2 points, respectively. Overall sea freight index slipped 1.1 points, with a 0.5 point increase in present volume offset by a 2.7 point decrease in the expected situation.

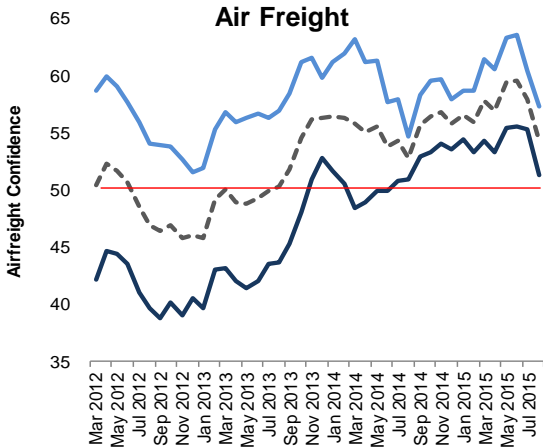
The August one-off question asked survey participants what proportion of the customs clearance and the consultancy/trade management markets they believed to be controlled by freight forwarders. Respondents indicated that they believe freight forwarders control 47.8% of the customs clearance market 25.4% of the consultancy/trade management market.

Total Freight

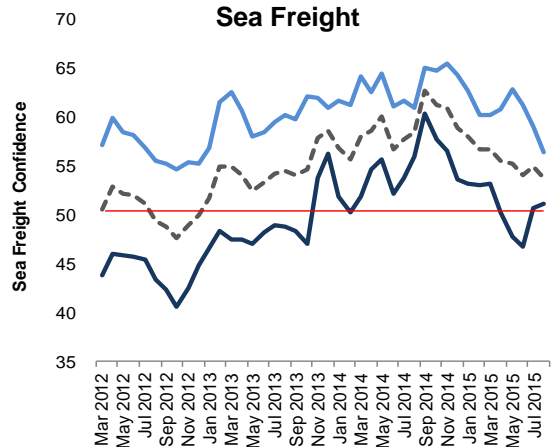


The logistics situation index illustrates current condition faced by forwarders, while the logistics expectations index shows how the situation is expected to develop over the next six months. The logistics confidence index, an average of both the present situation and expected situation indices, expresses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

Air Freight



Sea Freight



— Present Situation - - - Logistics Confidence — Expected Situation

	Present Situation	Expected Situation	Confidence
Mode	Aug 2015	Feb 2016	Average
Air Freight	51.3	57.3	54.3
Sea Freight	51.2	56.4	53.8
Total Freight	51.3	56.9	54.1

Source for all data and graphs: Stifel Logistics Confidence Index

Air Freight Confidence Index

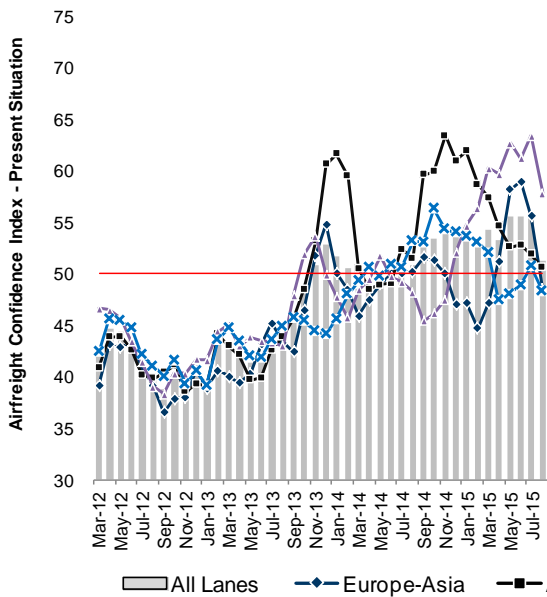
The total airfreight logistics confidence index decreased 3.7 points to 54.3 in August 2015, falling to its lowest level since August 2014. But compared with year-ago levels, the index is still 1.5 points higher. Compared to August 2013, the index is 4.0 points higher.

In terms of the present situation, the air freight index registered at 51.3—still positive, as the last time the index dipped into sub-50 contraction was June 2014. However, a sequential loss of 4.1 points was the greatest one-time contraction, month-to-month, in the history of the index, and highlighting what many public freight forwarders have called-out as a highly volatile airfreight environment.

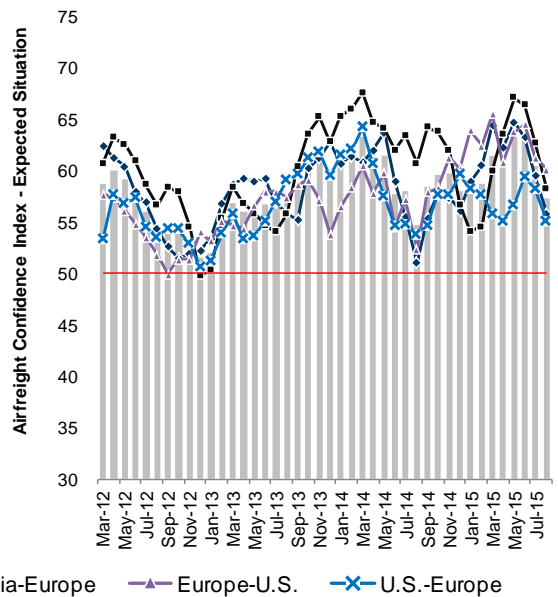
All lanes declined, with Europe-Asia experiencing the biggest fall—down 7.2 points to 48.4 and returning to sub-50 contraction after 4 months of growth. Economic uncertainty in China and a devalued Yuan were likely contributors. The Asia-Europe backhaul did not fare much better, down 1.3 points. Europe-U.S. remains the strongest absolute lane, but still fell 5.6 points to 57.8. The U.S. to Europe lane lost 2.4 points to 48.3.

For the six month outlook, the expected situation index for total air freight decreased 3.2 points to 57.3. All lanes fell, with Asia-Europe and Europe-Asia falling 4.5 and 3.7 points to 58.2 and 55.8, respectively. Europe-U.S. fell 1.2 points to 60.1, and U.S.-Europe was down 3.1 points to 55.1.

Current Market



Six-Month Outlook



All Lanes
 Europe-Asia
 Asia-Europe
 Europe-U.S.
 U.S.-Europe

Trade Lane	Air Freight		
	Aug 2015	Feb 2016	Confidence
Europe-Asia	48.4	55.8	52.1
Asia-Europe	50.6	58.2	54.4
Europe-U.S.	57.8	60.1	59.0
U.S.-Europe	48.3	55.1	51.7
Total Index	51.3	57.3	54.3

Source for all data and graphs: Stifel Logistics Confidence Index

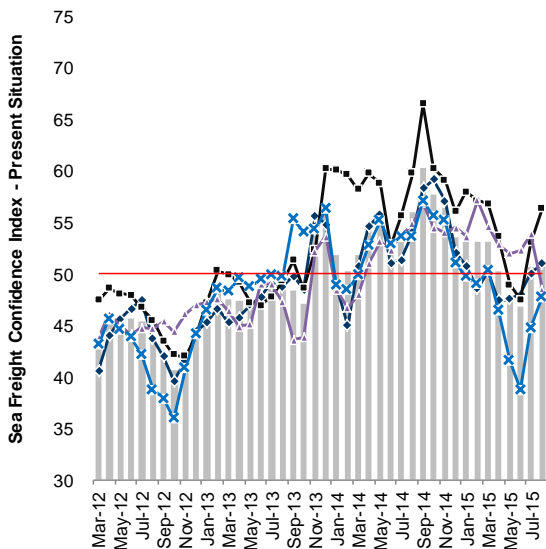
Sea Freight Confidence Index

For sea freight, the logistics confidence index fell 1.1 points to 53.8, with a mild improvement in the near-zero growth present situation offset by an abatement in the previously highly optimistic expected situation. The index is 4.7 points lower than it was in August 2014, and 0.4 points lower than in August 2013.

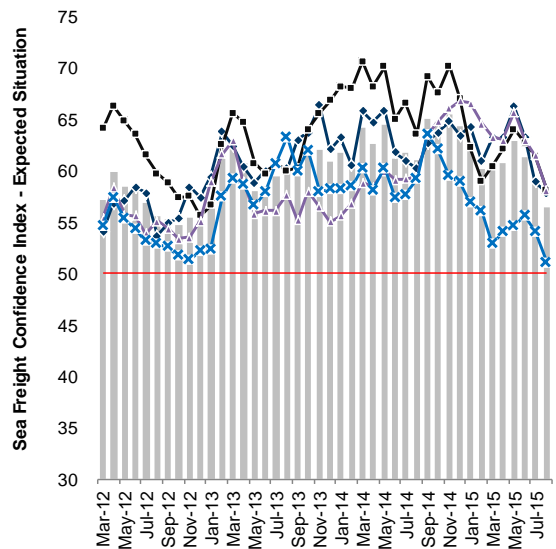
For the present situation, the index rose 0.5 points to 51.2. All lanes but one experienced improvements this month, with the exception being Europe-U.S., which fell 5.4 points to 48.5. The reverse trade, U.S.-Europe noted a 3.0 point gain to 47.8, whilst Europe-Asia rose 0.9 points to 51.0, and Asia to Europe gained 3.4 points to 56.4.

The expected situation index for sea freight decreased 2.7 points to 56.4, erasing any improvements in the overall sea freight picture afforded by the present situation, and then some. All lanes were negative with Europe-U.S. suffering the greatest decline—3.4 points to reach 58.1. Asia-Europe lost 3.3 points to 58.1, U.S.-Europe was down 3.0 points to 51.1, and Europe to Asia fell 1.1 points to 57.8.

Current Market



Six-Month Outlook



All Lanes
 Europe-Asia
 Asia-Europe
 Europe-U.S.
 U.S.-Europe

Sea Freight			
Trade Lane	Aug 2015	Feb 2016	Confidence
Europe-Asia	51.0	57.8	54.4
Asia-Europe	56.4	58.1	57.3
Europe-U.S.	48.5	58.1	53.3
U.S.-Europe	47.8	51.1	49.5
Total Index	51.2	56.4	53.8

Source for all data and graphs: Stifel Logistics Confidence Index

Methodology

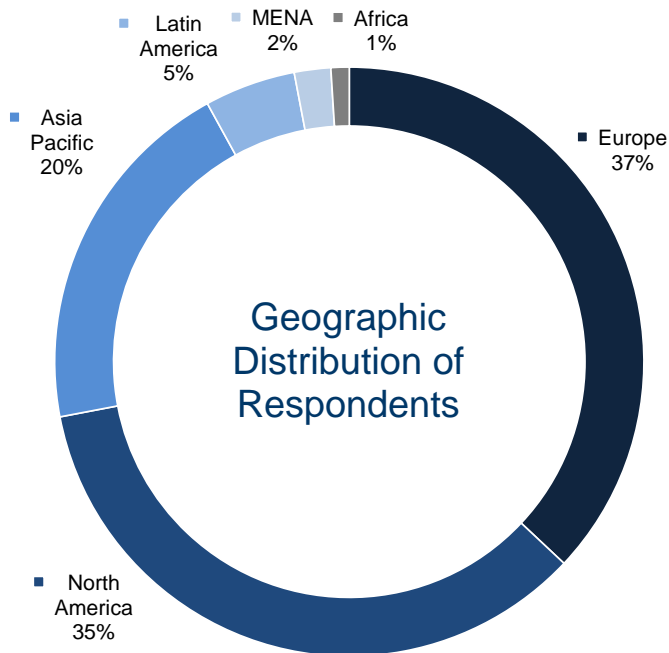
The Stifel Logistics Confidence Index is calculated based on approximately 200 responses from a monthly survey, administered and analyzed by a number of logistics professionals. The survey questions participants as to volumes that they are currently experiencing, relative to the time of year, as well 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.com/r/TH7ZWPN>

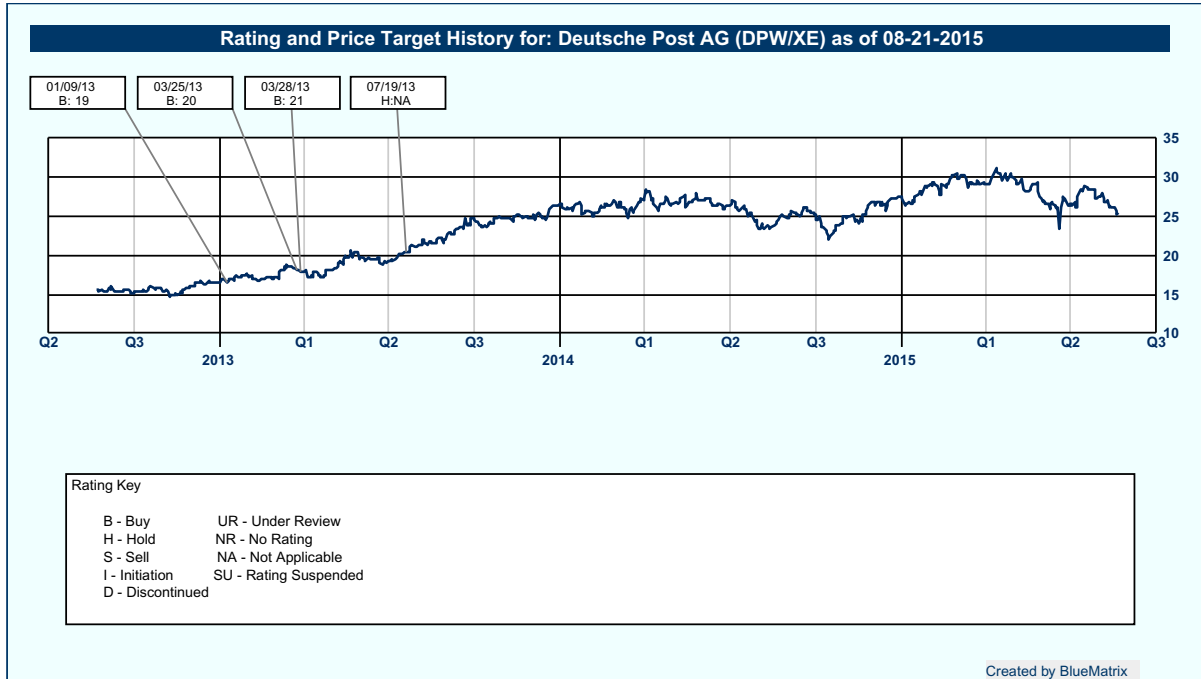
Approximate geographic distribution of respondents:



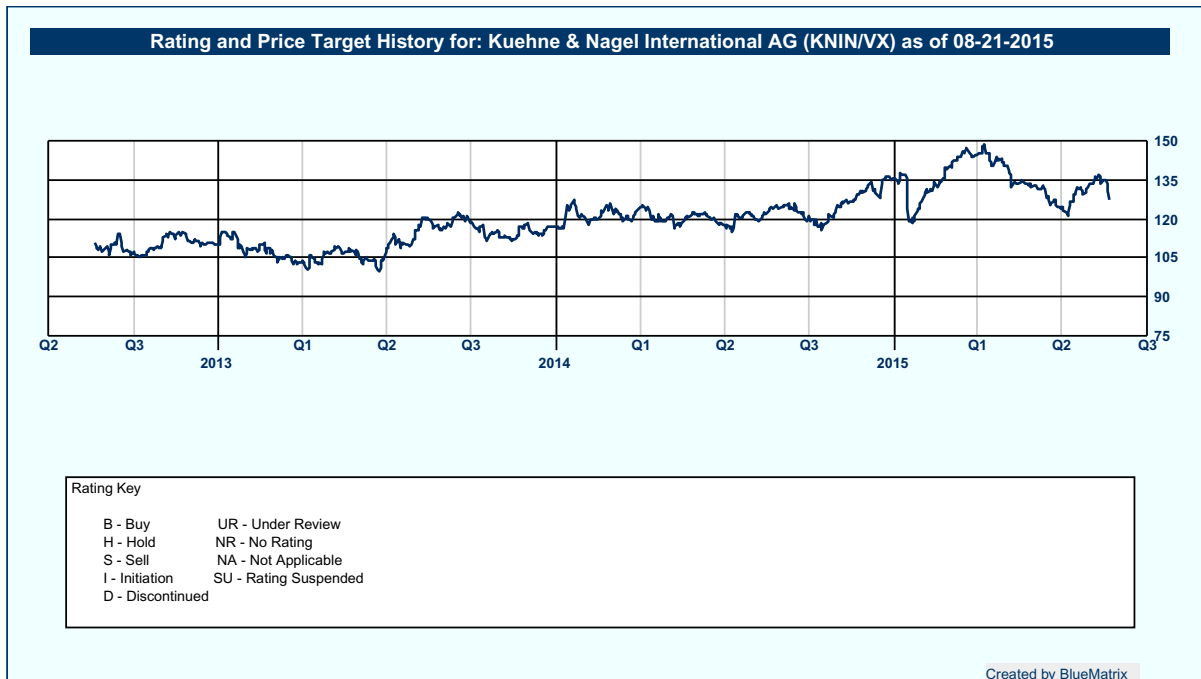
Source: Stifel Logistics Confidence Index

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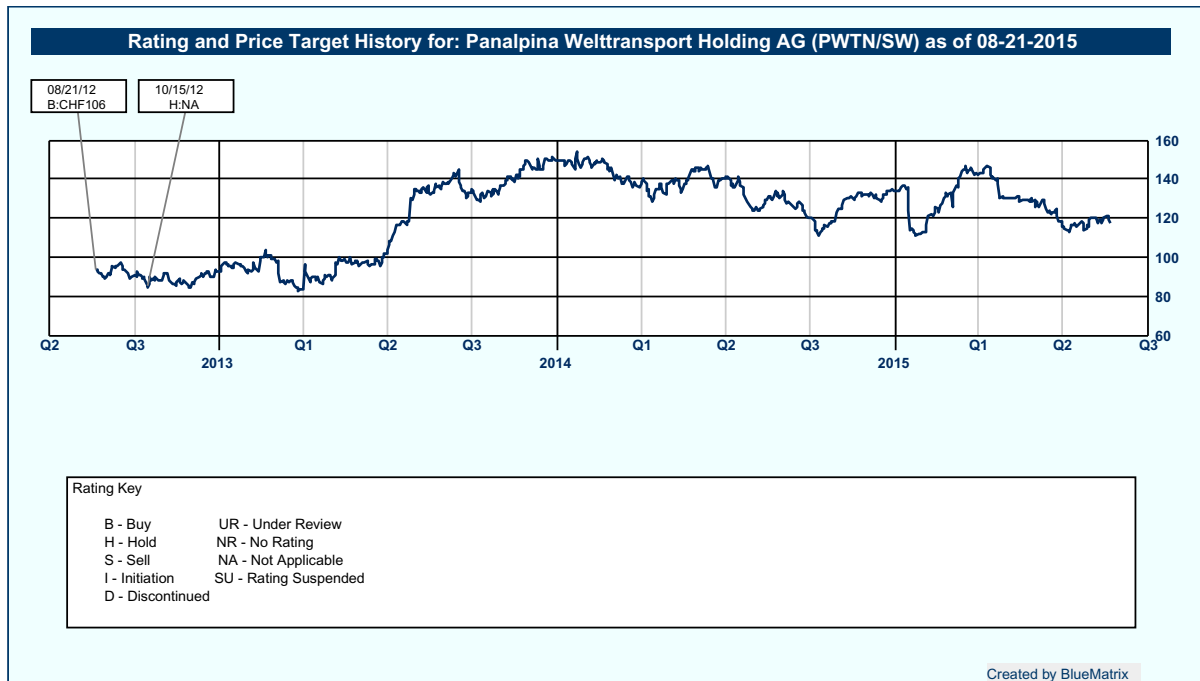
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