

Back in Black: Airfreight Leads Return of European Trade Growth After 15 Soft Months

*It's been too long, and we're glad to be back: despite a challenging year for global freight markets, 2016 finished on a more positive note, with the overall Stifel Logistics Confidence Index hitting its first positive reading in 15 months. But we're not yet loose from the noose that's kept us hanging about: at 50.3, the reading only just eclipsed the 50.0 benchmark for growth. The ascent from the December 2015 trough has been slow, and this month's total weighted index score was influenced by what we believe to be a pronounced air freight peak on the Asia-Europe lane. Still growth in December was sufficiently broad-based, and the longer-term trend has been upward (see **Exhibit 1** on p.2). Thus, we expect well-oiled European forwarders like DSV A/S (DSV-KO, DKK 320.00, Hold) and Kuehne + Nagel (KNIN-SIX, CHF 135.60, Hold) to finally catch some market tailwinds in 2017, even if slight, while others that are in transformational stages like DHL Global Forwarding (DPWXE, EUR 31.62, Hold) and Panalpina (PWTN-SIX, CHF 126.60, Hold) must continue to focus on operations and will not be ready to take advantage of market tailwinds as much as the others. We remain Hold-rated on the group due to slow growth, long-term trade policy uncertainty, and valuation.*

- The overall Logistics Confidence Index seeks to balance freight volume sentiment in both airfreight and sea freight, averaged between current levels, and six-month market expectations. **In December, European forwarding activity surged from November levels, particularly in Asia-based lanes. At 50.3, this month's reading was the best it has been in over a year—and the first indication of growth in 15 months—but is by no means a blockbuster figure when viewed in a multi-year historical context.**
- **European airfreight saw good growth in December, with the Airfreight Index flipping back to growth after 5 months of contraction. The perception of current volumes is still below normal seasonal levels but saw the most improvement, helped by peak imports from Asia (which rose to their highest level in 21 months), as well as exports to Asia. Current volumes on U.S. inbound and outbound lanes did not fare quite as well, dropping slightly from November's levels. As for the six-month forward outlook in airfreight, sentiment again improved on Asian lanes, while coming-in slightly on U.S.-based lanes.**
- **Overall sea freight results saw some healthy, broad-based growth, but remains pretty weak on an absolute basis.** Seafreight Logistics Confidence remains below normal seasonal levels—where it's been for the last 15 months—although only just. Present sea freight volumes climbed across the board, rising the most in the Europe-Asia trade with a 6 point gain (though that was partially offset by last month's 3.3 point loss). Sea freight expectations improved in all lanes except Asia-Europe, but they remain healthy there on an absolute basis.
- **Question of the month: *What effect will the Trump Presidency have on global trade volumes?*** *There was no majority response group, but 27.8% of respondents believed that Trump will be a negative for global trade volumes, nearly 2x as many (16.5%) who thought his presidency would be positive for trade. Still, many feel it is just too early to tell, with 25.3% taking a wait-and-see approach. Another 17.7% see neutral or de minimis effect, while 11.4% thought that a general global trend toward protectionism was more of an issue than just the Trump presidency.*
- **Investment conclusion:** *2016 finished strong, so 4Q16 could be a good quarter for the European-based forwarders. As we get past the back half of 2017, however, there are some secular headwinds that may begin to challenge market growth. These include the increasingly protectionist attitudes toward international trade, potentially leading to higher tariffs and increased trade barriers, and the localization/regionalization of supply chains. Specific to airfreight, e-commerce has negatively impacted yields and mix, and we see a secular shift from traditional airfreight into air express on the top end of the service ladder and to ocean freight on the bottom end. As for ocean freight, that industry continues to suffer from overcapacity, causing volatile and non-compensatory low rates that filter through to the forwarders, pinching margins. We believe the shift will continue to favor larger forwarders, with the capital, IT, and*

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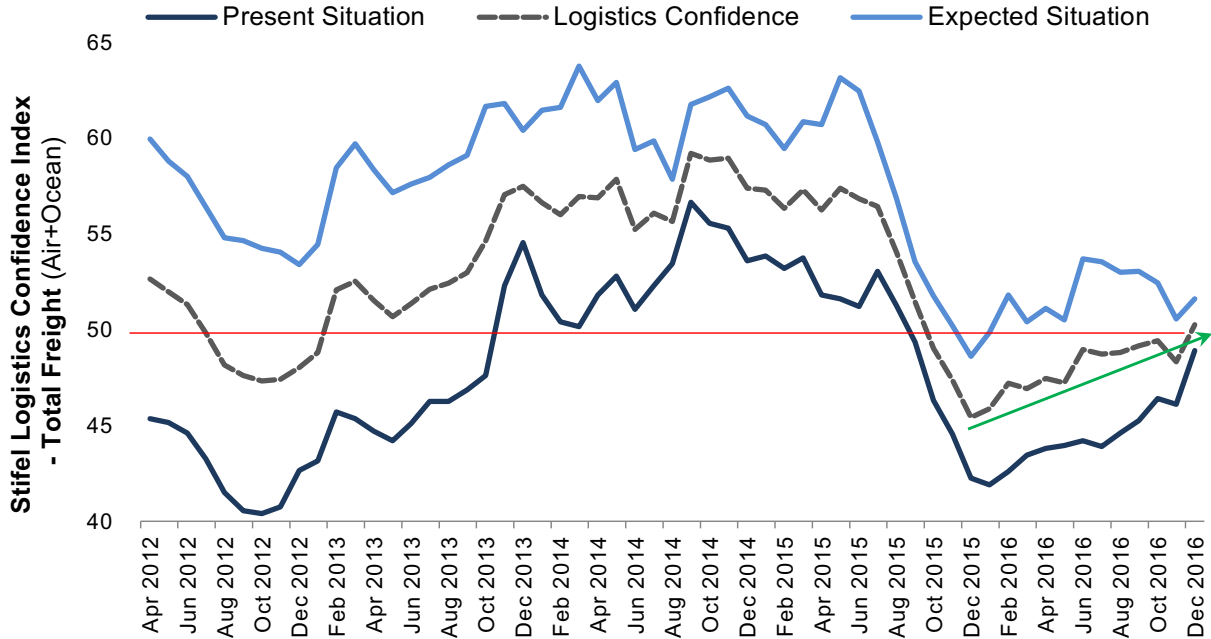


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volumes necessary to meet mounting industry challenges. Within this group, operational execution will be the key to outperforming the market. We remain Hold rated on Kuehne + Nagel, Panalpina, Deutsche Post DHL, and DSV AIS, as well as U.S.-based Expeditors International due mainly to valuation.

Exhibit 1: The Overall Stifel Logistics Confidence Index (grey dotted line) has been ascending steadily, albeit slowly, from its December 2015 trough; at least part of the very favorable inflection in December 2016, though, was due to a more pronounced airfreight peak, in our view.



Source: Stifel Logistics Confidence Index

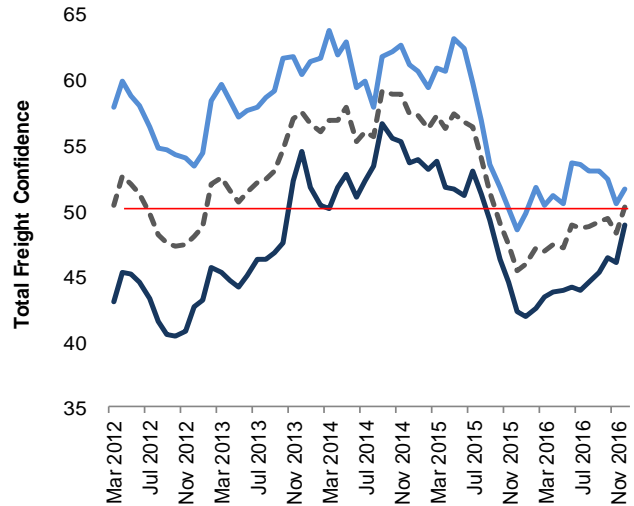
Overview – December 2016

The Logistics Confidence Index recorded its first positive score of the year in December, reaching 50.3. That result was 2.0 points higher than November, 4.9 points above December 2015, but still 7.1 points below December 2014.

The improvement in the overall Index was supported by broad gains, especially in the Present Situation. December airfreight on the Asia-Europe lane rose 14% sequentially and 34% y/y, largely driven by peak, in our view. This result marked the first positive reading in 16 months, and the highest level since March 2015.

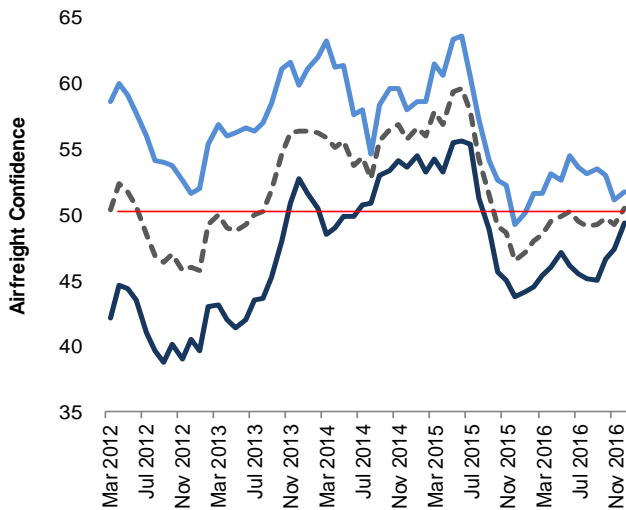
The December one-off question asked about the effect of a Trump Presidency on global trade volumes. At 28%, more respondents viewed Trump as a negative for global trade volumes, while 16.5% expect him to have a positive impact on trade volumes. However, 25% of respondents still think it is too early to draw conclusions. Of the remainder, 18% said little impact on trade volumes, and 11% cite the trend toward protectionism—not just Trump—as the primary drag on trade.

Total Freight

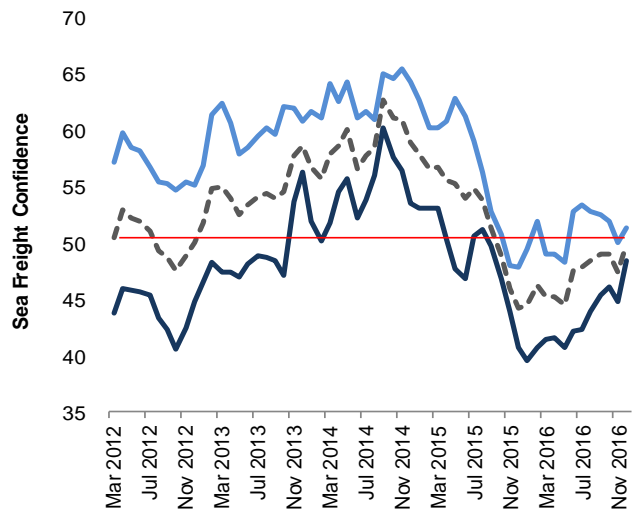


The logistics situation index illustrates current condition faced by forwarders, while the logistics expectations index shows how the situation is expected to develop over the next six months. The logistics confidence index, an average of both the present situation and expected situation indices, expresses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

Air Freight



Sea Freight



— Present Situation - - - Logistics Confidence — Expected Situation

	Present Situation	Expected Situation	Confidence
Mode	Dec 2016	Jun 2017	Average
Air Freight	49.4	51.8	50.6
Sea Freight	48.4	51.4	49.9
Total Freight	48.9	51.6	50.3

Source for all data and graphs: Stifel Logistics Confidence Index

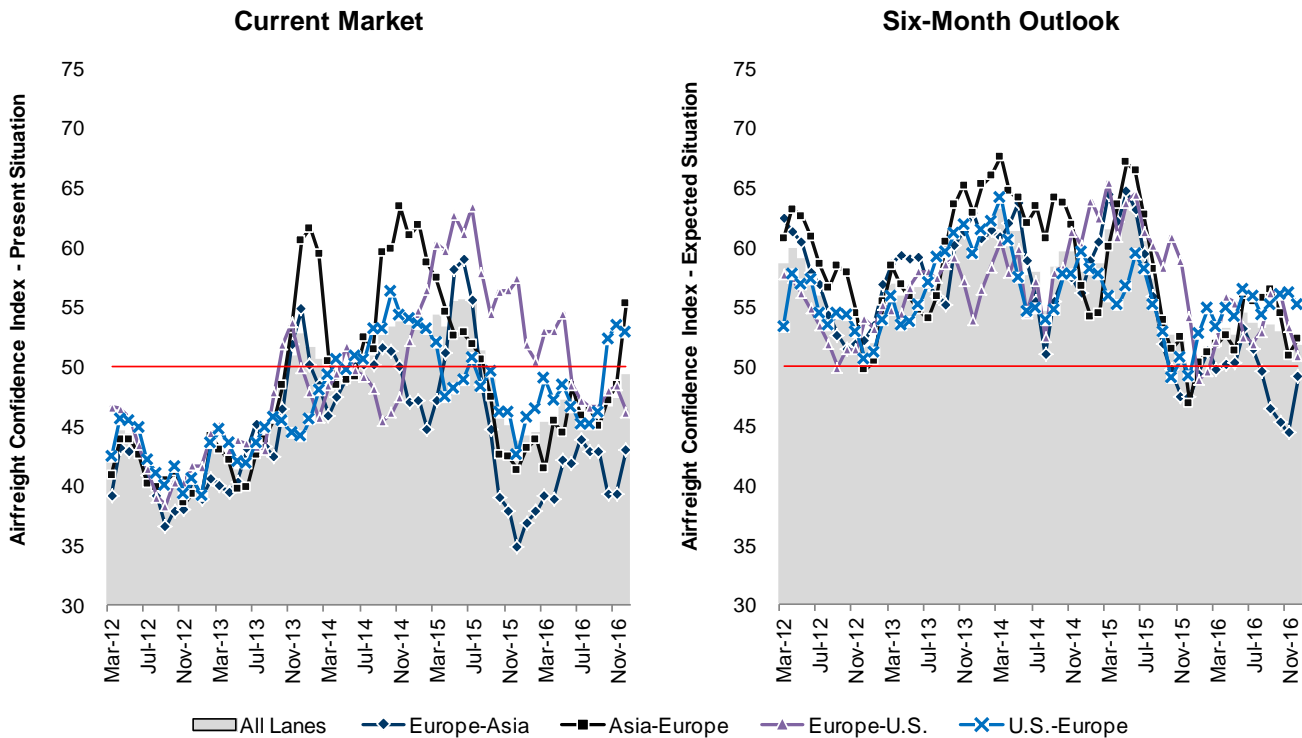
Air Freight Confidence Index

At 50.6, the December Air Freight Index score represented a sequential increase of 1.3 points. The Index score was 4.0 points greater than in December 2015, but 5.2 points lesser than the score registered in December 2014.

The Current Air Freight Market Index improved by 2.0 points from November, to total 49.4, which is the closest to par that the index has come since turning negative in August 2015. The performances of two trade lanes were decisive in producing this outcome. Europe to Asia increased by 3.7 points month-on-month to 43.0, and Asia to Europe increased by 6.9 points to 55.3, suggesting a pronounced peak, and marking the first positive score on this lane in over a year.

European lanes touching the U.S. were not as successful. Europe to U.S. declined by 2.2 points, to 46.2. U.S. to Europe was also down slightly, decelerating 0.6 points, to reach 52.9.

The Air Freight Logistics Expectations Index score was similarly driven by improvements on the trade lanes between Europe and Asia, and Asia to Europe. The former demonstrated a 4.7 point increase to 49.1 for December, whilst the latter gained 1.4 points to 52.3. Meanwhile, Europe to U.S. declined by 2.4 points to 50.9, while U.S. to Europe fell 0.9 points to 55.2.



Air Freight			
Trade Lane	Dec 2016	Jun 2017	Confidence
Europe-Asia	43.0	49.1	46.1
Asia-Europe	55.3	52.3	53.8
Europe-U.S.	46.2	50.9	48.6
U.S.-Europe	52.9	55.2	54.1
Total Index	49.4	51.8	50.6

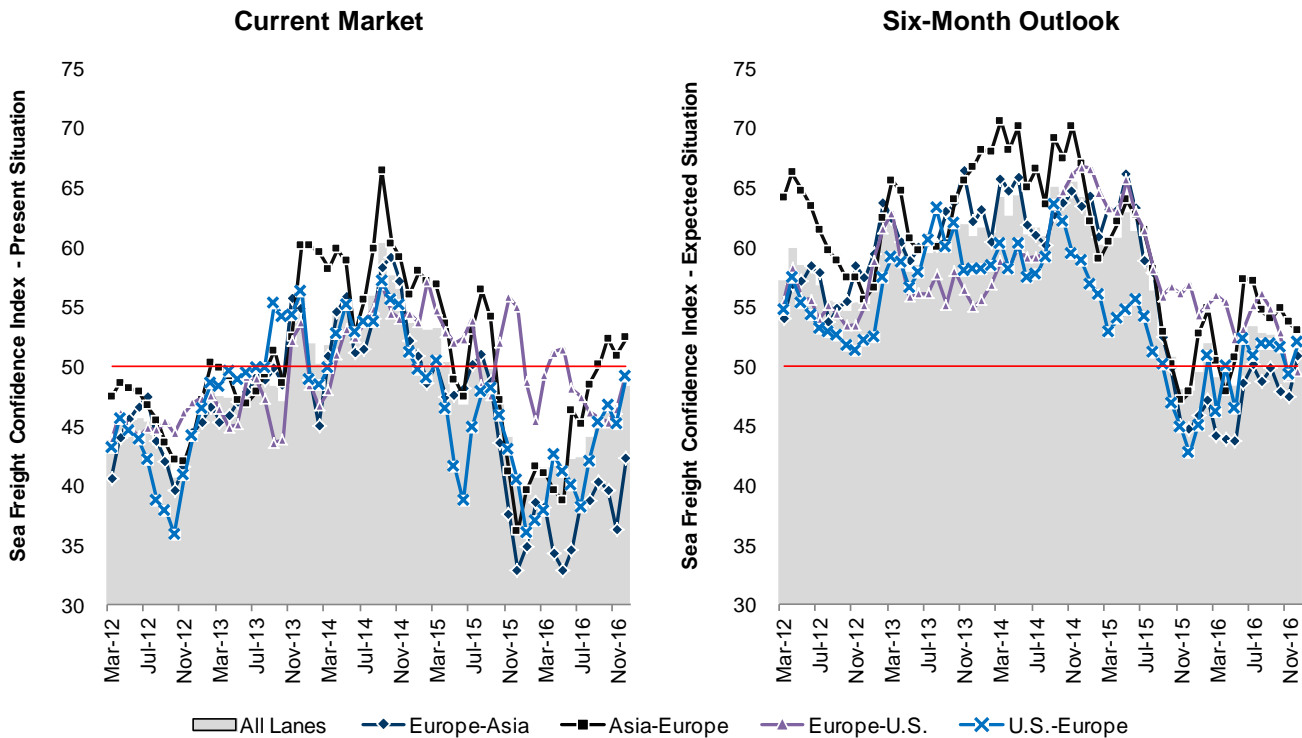
Source for all data and graphs: Stifel Logistics Confidence Index

Sea Freight Confidence Index

For December, the Sea Freight Logistics Confidence Index recorded a score of 49.9 points. This represented a gain of 2.5 points against the previous month, and a gain of 5.6 points against December of the previous year, but the result was still 9.1 points below the score of 59.0 registered in December 2014.

The Current Sea Freight Market Index stood at 48.4, having increased by 3.6 points over November. All lanes contributed to this growth. Though the lane score remains well below 50.0, Europe to Asia reported a substantial month-on-month improvement of 6.0 points, which brought it to 42.3. In terms of incremental improvement, this lane was followed by U.S. to Europe, which rose by 4.0 points to 49.2, Europe to U.S., which gained 3.1 points to 49.5, and Asia to Europe, which increased by 1.5 points to 52.4.

The Sea Freight Logistics Expectations Index score rose by 1.4 points from November to total 51.4. Three of the four lanes recorded improvements over this timeframe. Europe to Asia noted the greatest month-on-month increase of the four lanes, improving by 3.5 points to 50.9. Similarly, U.S. to Europe gained 2.7 points to 52.0. Europe to U.S. was the other lane to record an improvement, with a rise of 0.4 points taking it to 49.6 for the month. Declining by 0.7 points, Asia to Europe nonetheless retained a positive score of 53.0.



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 2016	Jun 2017	Confidence
Europe-Asia	42.3	50.9	46.6
Asia-Europe	52.4	53.0	52.7
Europe-U.S.	49.5	49.6	49.6
U.S.-Europe	49.2	52.0	50.6
Total Index	48.4	51.4	49.9

Source for all data and graphs: Stifel Logistics Confidence Index

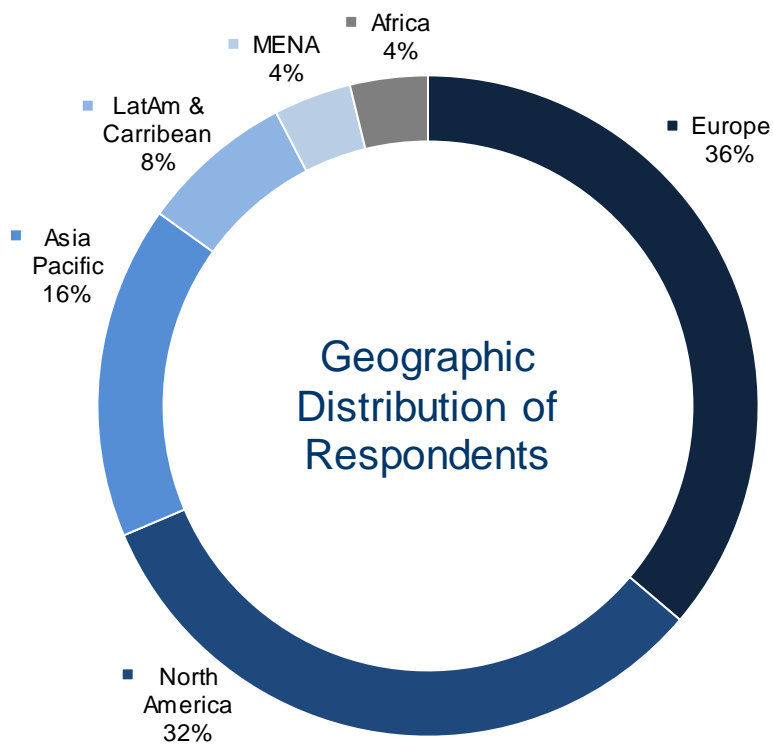
Methodology

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.

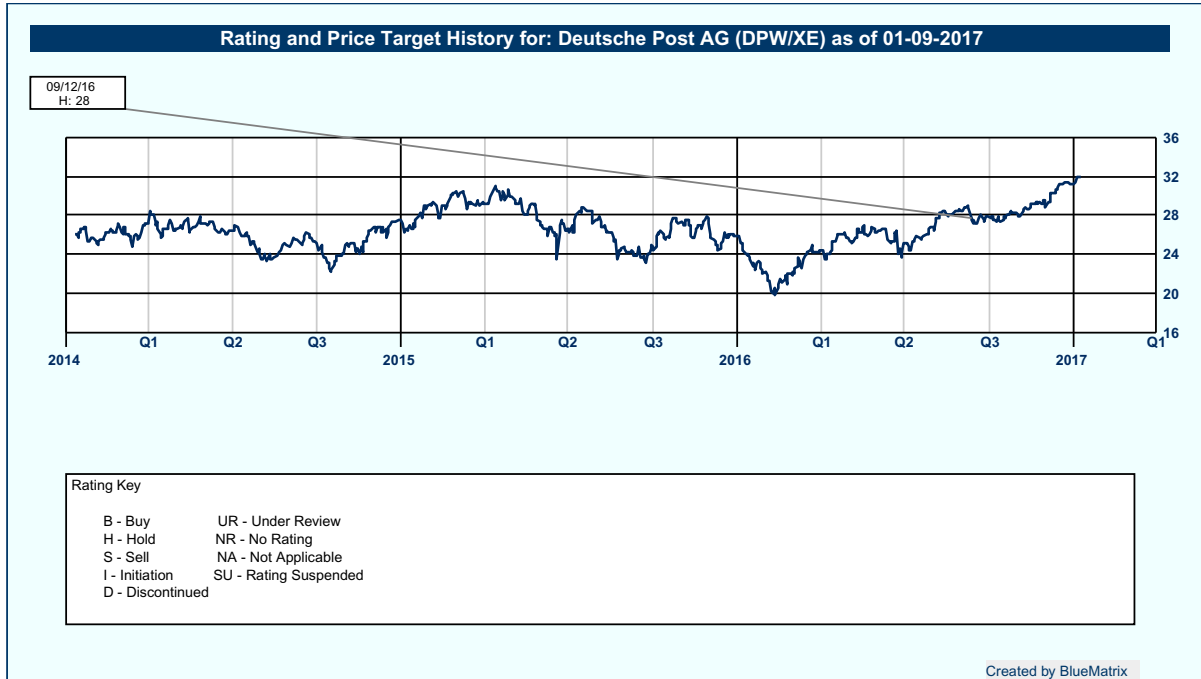
Geographic Distribution of Stifel LCI Respondents



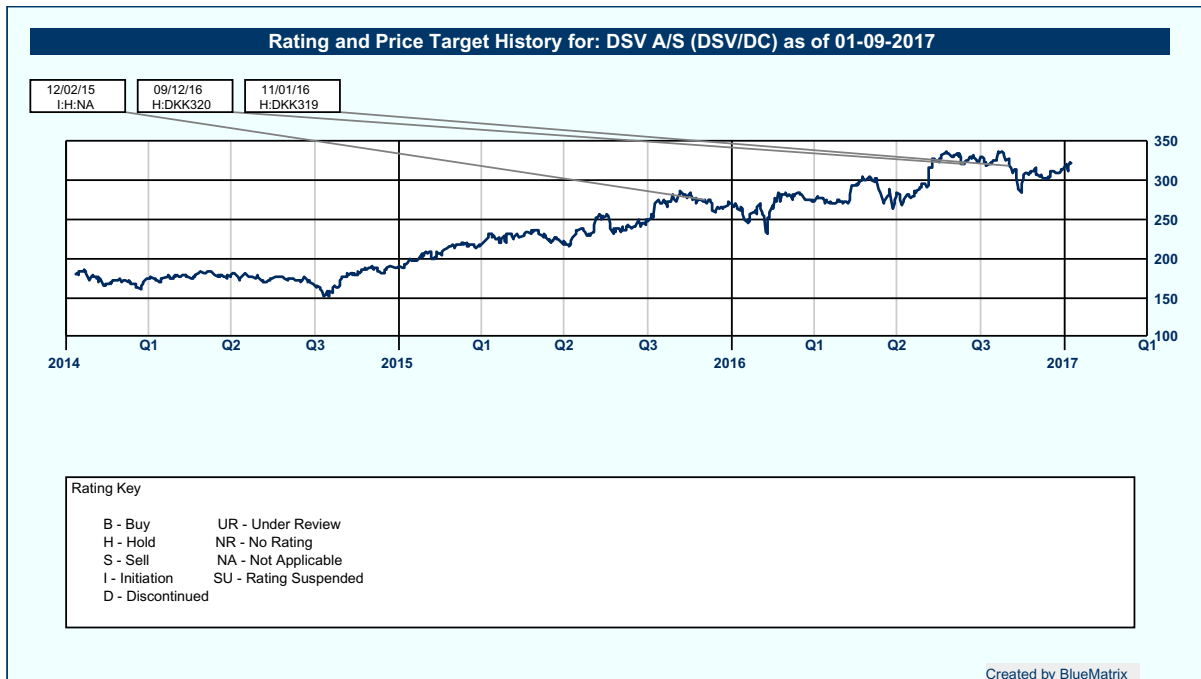
Source for all data and graphs: Stifel Logistics Confidence Index

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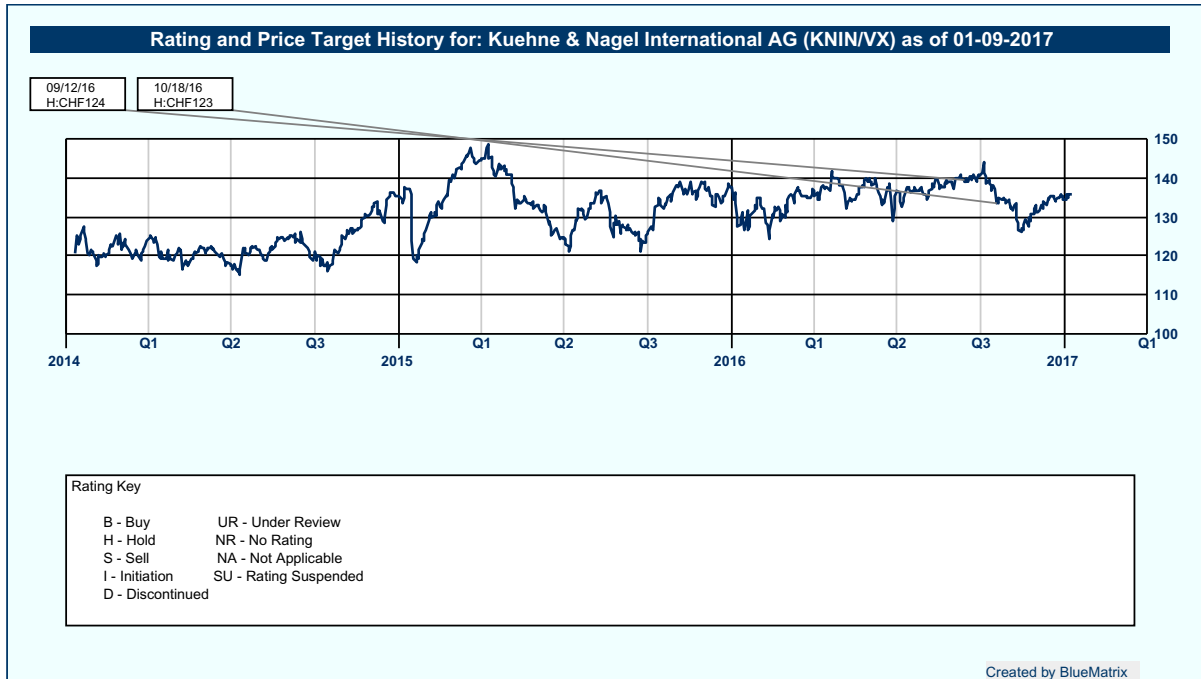
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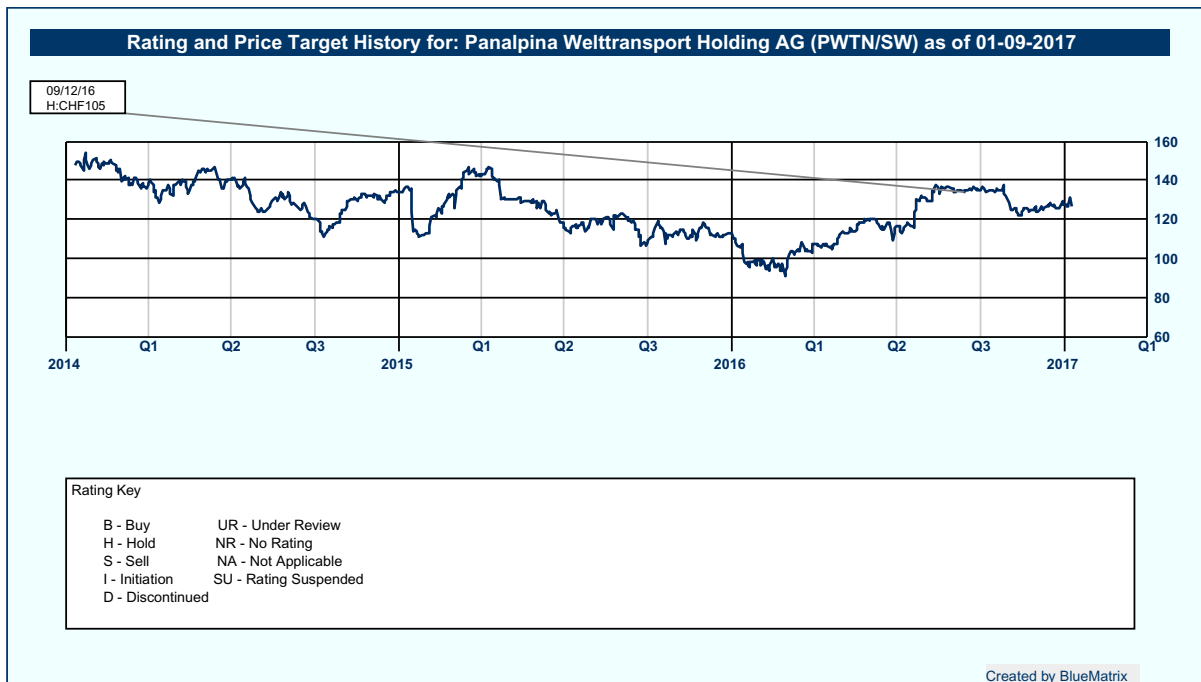
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