Economic & Market Report- Newsletter – July Edition 2018

- **Exchange Rates:**

Currency 19th Apr. 18–19th Jun.18	3 Month Low	3 Month High	3 Month Average	Actual Trading Price: 19th Jul. 2018
Euro-to-US Dollar (€1)	USD 1.1534	USD 1.2382	USD 1.1790	USD 1.1601
Euro-to-Rupee (€1)	INR 78.31	INR 81.60	INR 79.84	INR 80.03
Euro-to-Yuan (€1)	CNY 7.4174	CNY 7.8359	CNY 7.6126	CNY 7.8871
Euro-to-GBP (€1)	GBP 0.8697	GBP 0.8911	GBP 0.8790	GBP 0.8923
Euro-to-AUD (€1)	AUD 1.5311	AUD 1.6118	AUD 1.5716	AUD 1.5782
Euro-to-BRL (€1)	BRL 4.1892	BRL 4.6279	BRL 4.3695	BRL 4.4645
Euro-to-ZAR (€1)	ZAR 14.4979	ZAR 16.0710	ZAR 15.2726	ZAR 15.6005

(Source: European Central Bank: http://www.ecb.int)

- **Interest Rates**

Country	Current Rate	Previous Rate	Last Change
Australia	1.50%	1.75%	08/2016
Brazil	6.50%	6.75%	03/2018
China	4.35%	4.60%	10/2015
European Monetary Union	0.00%	0.05%	03/2016
India	6.25%	6.00%	06/2018
South Africa	6.50%	6.75%	03/2018
United Kingdom	0.50%	0.25%	11/2017
United States	2.00%	1.75%	06/2018

(Source: http://de.global-rates.com/zinssatze/zentralbanken/zentralbanken.aspx)

- **Oil Prices**

ICE Brent Crude (Sep'18) (@LCO.1:Intercontinental Exchange Europe)

*Data is delayed | USD

+ WATCHLIST

Last | 2:23:02 PM BST

72.57 -0.33 (-0.45%)

Volume

81,036

1D 5D 1M 3M 6M YTD 1Y 5Y ALL

+ Comparison 1D Display Studies

SUMMARY NEWS

KEY STATS

Day High	73.08	Day Low	71.83	10D Avg Vol	322,626.7
YTD % Chg	12.45	1 Year % Chg	40.02	Exp Date	2018-07-31
Open Interest	305,344				

Crude Oil	2 Year	1 Year	3 Month	1 Month	Trading Price Jul.19th.
	USD 46.81	USD 48.64	USD 78.93	USD 75.28	USD 72.57

(Source: CNBC Market Data, https://www.cnbc.com/quotes/?symbol=%40LCO.1 19thJul. 2018)

- **Gross Domestic Product (% year)**

Country	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018 Forecast	2018 Forecast	2020 Forecast
Australia	1,70%	1,80%	2.50%	2,40%	3,20%	3,10%	2,90%	2,90%
Brazil	-0,40%	0,40%	2.30%	2,10%	1,20%	1,20%	1,70%	2,30%
China	6,90%	6,90%	6,60%	6,80%	6,80%	6,80%	6,60%	6,50%
Euro Area	2,10%	2,40%	2,40%	2,80%	2,50%	2,50%	2,50%	1,80%
France	1,10%	1,80%	2,00%	2,80%	2,50%	2,20%	2,20%	0,70%
Germany	2,00%	2,30%	2,80%	2,70%	2,50%	2,30%	2,40%	2,40%
India	7,00%	5,70%	6,70%	7,00%	7,70%	7,70%	7,20%	7,00%
South Africa	1,00%	1,30%	1,30%	1,50%	0,90%	0,80%	1,70%	1,60%
South Korea	2,90%	2,70%	2,90%	2,80%	2,80%	2,80%	2,80%	2,70%
United Arab Emirates	3,40%	3,40%	3,90%	3,00%	1,50%	0,80%	2,50%	3,20%
United Kingdom	2,00%	1,50%	1,40%	1,40%	1,30%	1,20%	1,40%	1,30%
United States	2,00%	2,20%	2,20%	2,60%	2,60%	2,80%	2,50%	2,50%

(Sources: HSBC Global Research – Key Economic Forecast
http: //https://tradingeconomics.com/forecast/gdp-annual-growth-rate

▪ JP Morgan Global Manufacturing Purchasing Managers Index (PMI) – June 2018

	Apr.	May	Jun.	Summary, Rate of Change
Global PMI	53.5	53.1	53.0	Expanding, slower rate
Output	53.9	53.4	53.2	Expanding, slower rate
New Orders	53.8	53.4	52.9	Expanding, slower rate
Australia	58.3	57.5	57.4	Expanding, slower rate
Brazil	52.3	50.7	49.8	Contracting, change of direction
China	51.1	51.1	51.0	Expanding, slower rate
Euro Area	56.2	55.5	54.9	Expanding, slower rate
France	53.8	54.4	52.5	Expanding, slower rate
Germany	58.1	56.9	55.9	Expanding, slower rate
India	51.6	51.2	53.1	Expanding, faster rate
United Kingdom	53.9	54.3	54.4	Expanding, faster rate

Source: https://www.markiteconomics.com/Survey/PressRelease.mvc/45c687ba560f4cd899b8150677bc7f60

Global manufacturing growth at 11-month low in June
The upturn in the global manufacturing sector lost further momentum in June, as output and new order growth slowed and the rate of increase in new export business slipped close to stagnation. Concerns about international trade were also a factor underlying a drop-off in business optimism to a 19- month low.

Full Document available: https://www.markiteconomics.com/Survey/PressRelease.mvc/45c687ba560f4cd899b8150677bc7f60

JPMorgan Global Manufacturing PMI™-a composite index* produced by JPMorgan and Markit in association with ISM and IFPSM – posted 48.9, up slightly from August's 38-month low of 48.1, but below the neutral 50.0 mark for the fourth month running.
The key figure for PMI is 50. A reading of 50 or higher generally indicates that the industry is expanding. If manufacturing is expanding, the general economy should be doing likewise. As such, it is considered a good indicator of future GDP levels. Many economists will adjust their GDP estimates after reading the PMI report. Another useful figure to remember is 42. An index level higher than 42%, over time, is considered the benchmark for economic (GDP) expansion. The different levels between 42 and 50 speak to the strength of that.

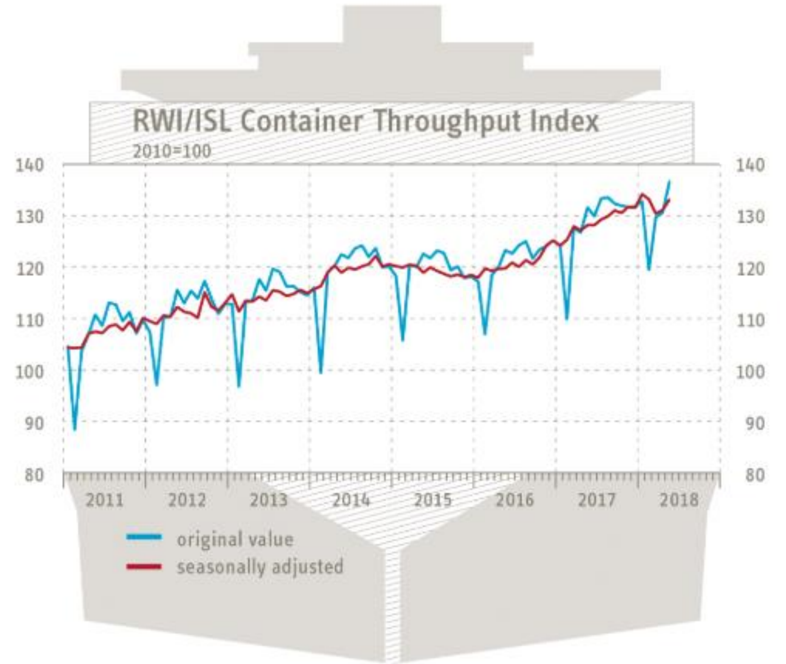
▪ Market Inflation Rate

Country	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018 Forecast	2018 Forecast	2020 Forecast
Australia	2,10%	1,90%	1,80%	1,80%	1,90%	1,90%	2,20%	2,50%
Brazil	2,71%	2,54%	2,95%	2,84%	2,86%	3,7%	3,90%	5,00%
China	1,50%	1,60%	1,80%	2,90%	1,90%	2,00%	2,80%	2,70%
Euro Area	1,30%	1.80%	1.40%	1,30%	2,00%	1,90%	1,80%	2,10%
France	0,70%	1,10%	1,20%	1,60%	2,00%	1,80%	1,70%	2,30%
Germany	1,70%	1,60%	1,70%	1,60%	2,10%	1,80%	2,00%	2,30%
India	1,54%	3,28%	4,88%	4,44%	5,00%	5,10%	4,70%	4,40%
South Africa	5,10%	5.10%	4.60%	4,00%	4,40%	4,80%	4,90%	5,10%
South Korea	2,20%	1,80%	1,50%	1,30%	1,50%	1,70%	1,90%	2,25%
United Arab Emirates	1,90%	1,15%	1,70%	4,50%	3,50%	3,60%	3,70%	3,00%
United Kingdom	2,60%	3,00%	3,10%	2,70%	2,40%	2,40%	2,20%	2,10%
United States	1,60%	2,20%	2,20%	2,20%	2,90%	3,00%	2,50%	2,50%

(Source: https://tradingeconomics.com/country-list/inflation-rate)

RWI/ISL Container Throughput Index still showing upwards

The Container Throughput Index of RWI – Leibniz Institute for Economic Research and ISL – Institute of Shipping Economics and Logistics continues its upward trend despite growing trade policy conflicts. In May 2018, it increased from a (revised) 131.1 points to 133.1 points. However, it is still slightly below its record value reached in January this year..



RWI/ISL computations based on data provided by 88 ports. May 2018: flash estimate.

The index is based on data continuously collected from world container ports by ISL as part of its market monitoring. Because large parts of international merchandise trade are transported by ship, the development of port handling is a good indicator for world trade. As many ports release information about their activities only two weeks after the end of the respective month, the RWI/ISL Container Throughput Index is a reliable early indicator for the development of international merchandise trade and hence for the activity of the global economy. As of 2018, the index is compiled based on data of 88 ports. Together these ports account for about 60% of worldwide container handling. The flash estimate for May is based on data reported by 39 ports, accounting for approximately 70% of the total index volume. There was only a minor revision of the April value compared with last month's flash estimate

Background Information: Construction of the RWI/ISL-Container Throughput Index

The Container Throughput Index is a joint project of RWI with the Institute of Shipping Economics and Logistics (ISL). It aims at providing timely information on short term trends in international trade. The index is based on the consideration that containers have become the most important means of transporting processed products. Therefore, the global container throughput and international trade can be expected to be highly correlated.

Hitherto, the RWI/ISL-Container Throughput Index shows a close correlation with world trade. The index provides valuable input into business cycles analyses, since it is available 3 to 4 months in advance of data on world trade published by international organizations, and one month in advance of the first estimates of world trade volumes.

Source https://www.isl.org/en/containerindex/may-2018

Air Freight Indicators:

- **Airfreight Market Analysis**

Air freight volumes look to have resumed a modest uptrend

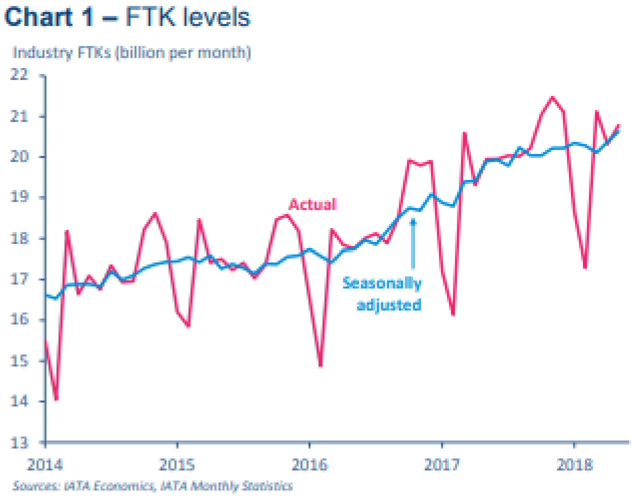
- Annual growth in industry-wide freight tonne kilometres (FTKs) slowed to 4.2% in May, from 5.2% in April, although the upward trend in freight demand has recovered in recent months from a weak start to the year..
- The best of the upturn in air freight demand is well behind us, and the underlying world trade backdrop looks to be weakening. However, after a very strong 2017, we still expect FTKs to increase by around 4% in 2018.
- Annual growth in freight capacity exceeded that of demand in May once again, driving a decline in the load factor.

Annual FTK growth falls below its 5-year average…

Year-on-year growth in industry-wide FTKs slowed to 4.2% in May, from 5.2% in April. In a clear sign of the recent moderation in the upward demand trend, May was just the second month in two years in which annual FTK growth has lagged behind its five-year average pace (currently 5.1%).

…although volumes have picked up in SA terms

Having said that, seasonally adjusted (SA) FTKs picked up in month-on-month terms for the second consecutive month in May. (Note that the slowdown in the year-on-year growth rate in May is due to the comparison with an even larger month-on-month increase this time last year.) SA FTKs are now broadly in line with where they would have been had the moderate upward trend in late-2017 been sustained. (See Chart 1.)



We will monitor closely as to whether this marks the start of a new upward trend in demand. However, as we have noted before, the key point is that demand momentum is currently much weaker than it was a year ago. Indeed, FTKs have risen at an annualized rate of around 4% over the past six months or so – around one-third as fast as the pace seen during mid-2017.

Air freight market overview - May 2018

	World share[1]	May 2018 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt)[2]	FLF (level)[3]	FTK	AFTK	FLF (%-pt)[2]	FLF (level)[3]
TOTAL MARKET	**100.0%**	**4.2%**	**6.2%**	**-0.9%**	**44.6%**	**5.3%**	**6.2%**	**-0.4%**	**44.5%**
International	87.5%	4.2%	6.5%	-1.1%	48.1%	5.7%	6.9%	-0.5%	48.2%

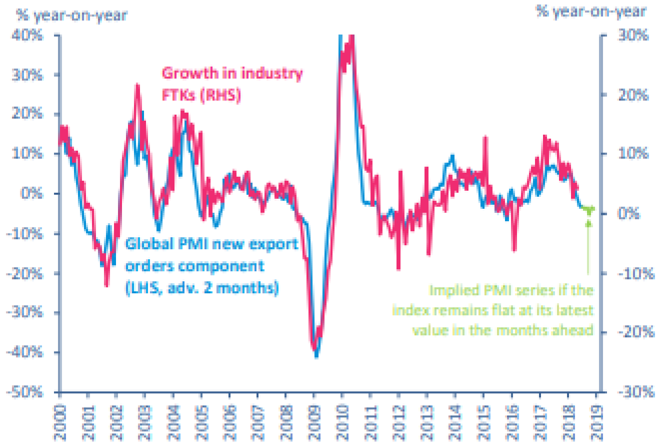
[1]% of industry FTKs in 2017 [2]Year-on-year change in load factor [3]Load factor level

The drivers of air freight demand have softened…

This moderation in air freight demand momentum largely reflects the fact that the inventory re-stocking cycle has now run its course. The inventory-to-sales ratio in the US – a key indicator of the inventory cycle – bottomed out in December 2017 and has trended upwards modestly since.

The loss of momentum is also evident in the new export orders component of the global manufacturing Purchasing Managers' Index (PMI) too, which is a very good leading indicator for air freight. While the series remains just above the 50-mark that is consistent with growing export order books, it recently fell to a 21- month low, and is currently consistent with annual FTK growth slowing further into Q3 2018. (See Chart 2.)

Chart 2 – FTK growth vs. global new export orders

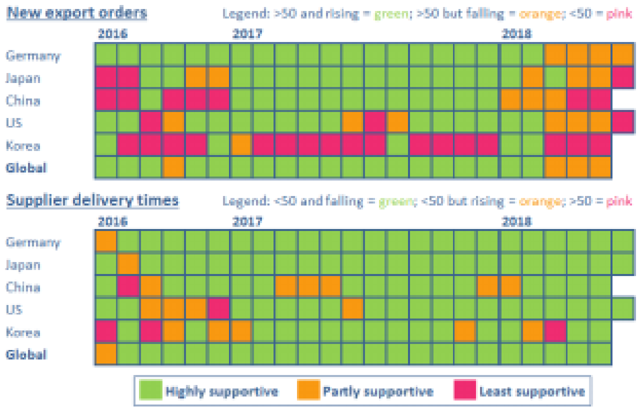


Sources: IATA Economics, IATA Monthly Statistics, Markit

…alongside signs of weakness in world trade

The moderation in manufacturing export orders has been broad-based across the major trading nations and points to a structural slowdown in underlying trade conditions rather than a blip. (See Chart 3.)

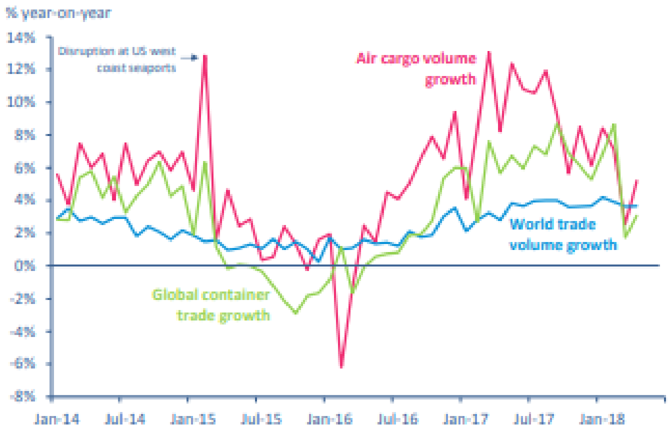
Chart 3 – FTK demand heat-map (monthly data from manufacturing PMIs, selected countries)



Sources: IATA, Markit, Thomson Reuters Datastream

Indeed, the fact that growth in global containerized trade has also slowed suggests that world trade conditions may be weakening in the face of the recent pick-up in protectionist measures. (See Chart 4.)

Chart 4 – Selected trade indicators



Sources: IATA Monthly Statistics, Netherlands CPB, RWI/ISL

Solid FTK growth still expected in 2018 as a whole

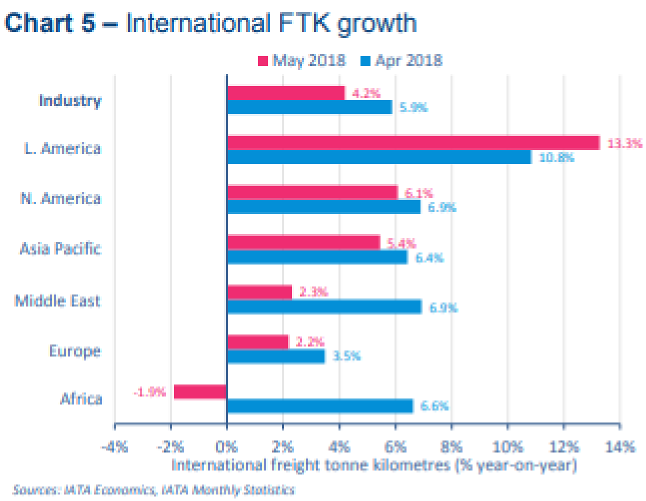
On balance, we continue to expect industry-wide FTKs to grow in the region of 4% in 2018 as a whole, helped in part by ongoing signs of bottlenecks in supply chains. (Again, see Chart 3.) Nonetheless, this outlook will require FTKs to continue to trend upwards broadly in line with their current annualized rate. All told, we judge the risks to our forecast to lie slightly on the downside.

Capacity is growing faster than demand

Available freight tonne kilometres (AFTKs) grew by 6.2% year-on-year in May, broadly unchanged from 6.1% in the previous month. The annual pace of capacity growth has now exceeded that of demand for four months in a row, and the industry-wide load factor fell by 0.9 percentage points relative to May 2017.

Slowdown in international FTK growth

Year-on-year growth in industry-wide international FTKs slowed to 4.2% in May, from 5.9% in April. (See Chart 5)



The recovery in Latin America has continued

Annual growth in international FTKs flown by carriers based in Latin America accelerated to 13.3% in May from 10.8% in April. As a result, the region topped the annual growth chart for the third month in a row. The recovery in freight volumes over the past 18 months or so has come alongside an improvement in economic conditions in the continent's largest economy, Brazil (notwithstanding the economic disruption seen in the country during May). In SA terms, FTKs finally surpassed the May 2014-peak this month.

Tentative upward trend in Asia Pacific volumes…

As the largest air freight-carrying region, Asia Pacific is most exposed to any risks of rising global protectionism or trade wars. That said, while annua growth in international FTKs for the region's carriers slowed to 5.4% in May, there are tentative signs that the upward trend in traffic is accelerating again. We will continue to monitor developments closely in the coming months

…amid similar signs for North American airlines

It is a similar picture for airlines based in North America. International FTK growth slowed to 6.1% year-on-year in May, from 6.9% in April, but the upward trend in SA terms looks to be picking up.

There are signs that momentum in the US economy and the stronger US dollar are boosting inbound air shipments. According to the US Census Bureau, year-on-year growth in import volumes to the US by air accelerated to 12.0% in April 2018 from 2.4% in March.

The trend has slowed in the Middle East…

Annual growth in international FTKs flown by Middle Eastern carriers dropped to 2.3% in May, down from 6.9% in April. However, as was the case with last month's acceleration in growth, the slowdown in the annual growth rate in May mainly reflects the shape of developments a year ago rather than any substantial change in the current traffic trend. Indeed, the key point is that international FTK volumes have continued to trend upwards at a comparatively modest pace by the past standards of the region (around one-third of the five-year average pace, for example). All told, this lends support to wider signs of a moderation in global trade conditions.

…and remains moderate for European airlines

European airlines flew 2.2% more international FTKs in May 2018 than they did in the same month a year ago – well down on the five-year average annual FTK growth rate (5.6%).

FTKs have risen in SA terms over the past two months, but the bigger picture is that they have still only risen at a 1.5% annualized rate over the past six months. This performance is echoed in slowdowns in the upward trends on key markets to/from Asia and North America.

African freight volumes continue downward trend

Having surged by 25% in 2017 as a whole, international FTKs flown by African airlines fell in annual terms in May for just the second time in 22 months. SA FTKs have now trended downwards at an annualized pace of 15% over the past six months, which mainly reflects a softening in demand on the markets to/from Asia and the Middle East.

Air freight market detail - May 2018

	World share[1]	May 2018 (% year-on-year)				% year-to-date			
		FTK	AFTK	FLF (%-pt)[2]	FLF (level)[3]	FTK	AFTK	FLF (%-pt)[2]	FLF (level)[3]
TOTAL MARKET	***100.0%***	**4.2%**	**6.2%**	**-0.9%**	**44.6%**	**5.3%**	**6.2%**	**-0.4%**	**44.5%**
Africa	*1.9%*	-2.0%	20.4%	-4.8%	21.2%	5.2%	24.6%	-4.0%	21.7%
Asia Pacific	*36.9%*	4.9%	7.4%	-1.3%	55.3%	5.6%	7.1%	-0.8%	53.8%
Europe	*24.2%*	2.3%	6.0%	-1.6%	44.5%	4.5%	5.1%	-0.3%	46.5%
Latin America	*2.7%*	11.4%	1.5%	3.3%	37.3%	10.9%	3.6%	2.3%	35.0%
Middle East	*13.7%*	2.4%	3.3%	-0.4%	44.9%	4.3%	5.3%	-0.4%	44.0%
North America	*20.6%*	5.9%	5.4%	0.2%	36.3%	5.8%	4.8%	0.3%	36.4%
International	***87.5%***	**4.2%**	**6.5%**	**-1.1%**	**48.1%**	**5.7%**	**6.9%**	**-0.5%**	**48.2%**
Africa	*1.8%*	-1.9%	22.9%	-5.4%	21.3%	5.1%	27.1%	-4.6%	21.8%
Asia Pacific	*33.1%*	5.4%	8.3%	-1.6%	59.2%	6.4%	7.8%	-0.8%	58.1%
Europe	*23.7%*	2.2%	5.9%	-1.7%	46.0%	4.5%	5.4%	-0.4%	48.0%
Latin America	*2.3%*	13.3%	1.2%	4.6%	42.9%	12.0%	4.1%	2.9%	41.2%
Middle East	*13.7%*	2.3%	3.4%	-0.5%	44.9%	4.3%	5.3%	-0.5%	44.1%
North America	*12.8%*	6.1%	4.3%	0.7%	42.5%	7.0%	5.1%	0.8%	43.1%

[1]% of industry FTKs in 2017 [2]Year-on-year change in load factor [3]Load factor level

Note: the total industry and regional grow th rates are based on a constant sample of airlines combining reported data and estimates for missing observations. Airline traffic is allocated according to the region in w hich the carrier is registered; it should not be considered as regional traffic. Historical statistics are subject to revision.

Source: IATA-Air Transport Market Analysis May 2018 published on:
https://www.iata.org/publications/economics/Reports/freight-monthly-analysis/freight-analysis-may-2018.pdf

The Agility Emerging Markets Logistics Index 2018

The Agility Emerging Markets Logistics Index uses three metrics to assess and rank 50 emerging markets. The metrics measure the countries':

Market Size & Growth Attractiveness (50% of overall Index score)

Market Compatibility (25% of score)

Market Connectedness (25% of score).

Market Size & Growth Attractiveness (MSGA) rates a country's economic output, its projected growth rate, financial stability and population size..

Market Compatibility rates emerging markets according to their market accessibility and business regulation, foreign direct investment (FDI), market risk and security threats, as well as the level of likely demand for logistics services based on the country's economic development

Market Compatibility is a blend of:

• A country's development through the importance of its service sector – indicative of the level of outsourcing of logistics services

• Urbanisation of population – a driver of manufacturers' centralised distribution strategies and the likely consolidation of retailing

• Distribution of wealth throughout the population – indicative of the widespread need for higher value goods often produced by international manufacturers, as measured by the Gini Index.

• Foreign Direct Investment (FDI) – an indicator of the penetration of an economy by international companies

• Market accessibility – how easy it is for foreign companies to enter the market and deal with existing bureaucracy and regulation

• Security – this measures the risk to companies' operations from threats such as theft, piracy and terrorism.

Market Connectedness assesses a country's domestic and international transport infrastructure and how well they connect

Specifically, this involves:

• The frequency and range of destinations of its liner shipping connections

• The level of airport infrastructure relative to the market's size

• A rating of its overall transport infrastructure

• A rating of the efficiency of its customs and border controls.

Overview & Outlook

Entering 2018, the global economy is clearly in an upswing; some may even call it a boom. And despite continued upward revisions throughout 2017, measures of global activity are continuing to overshoot expectations. US and Eurozone growth are looking healthy, and Japanese growth is also running above trend. This favourable international backdrop is particularly helpful for emerging market exports.

Nevertheless, the global economy remains vulnerable to a range of downside risks. These include a faster and greater tightening of global financial conditions, which may well transpire if the US Federal Reserve increases its base rate sooner than expected or by more than anticipated. Possible financial turmoil may also arise if China fails to counter risks associated with its expansion of credit. If a shock occurs that causes a growth slowdown in China, this would have adverse consequences for other economies through weaker trade, commodity prices and confidence.

The IMF also asserts that there is a chance that a shift towards more protectionist policies would reduce trade and cross-border investment flows, harming global growth.

Agility and Transport Intelligence's own research suggests that emerging markets are in a period of relative stability. The Index is a broad gauge of competitiveness in terms of market size and growth, business climate, infrastructure and transport connections. Of the 50 emerging markets measured, the scores of just 22 changed significantly (by more than 0.10). The corresponding figure for the previous year was 30.

Though just as the global economy looks vulnerable to various shocks, many crucial storylines in emerging markets have not yet played out or have had just a partial impact on the data that would alter their Index scores.

Even putting ongoing political and economic developments to one side, the logistics industry itself is being reshaped by various innovations. Typically, new technologies impact advanced economies first and then steadily trickle down to emerging markets. This however does not apply for many of the innovations affecting the logistics industry.

This arguably reflects a belief that the opportunity for grabbing a greater share of the market is higher in these markets compared to advanced economies.

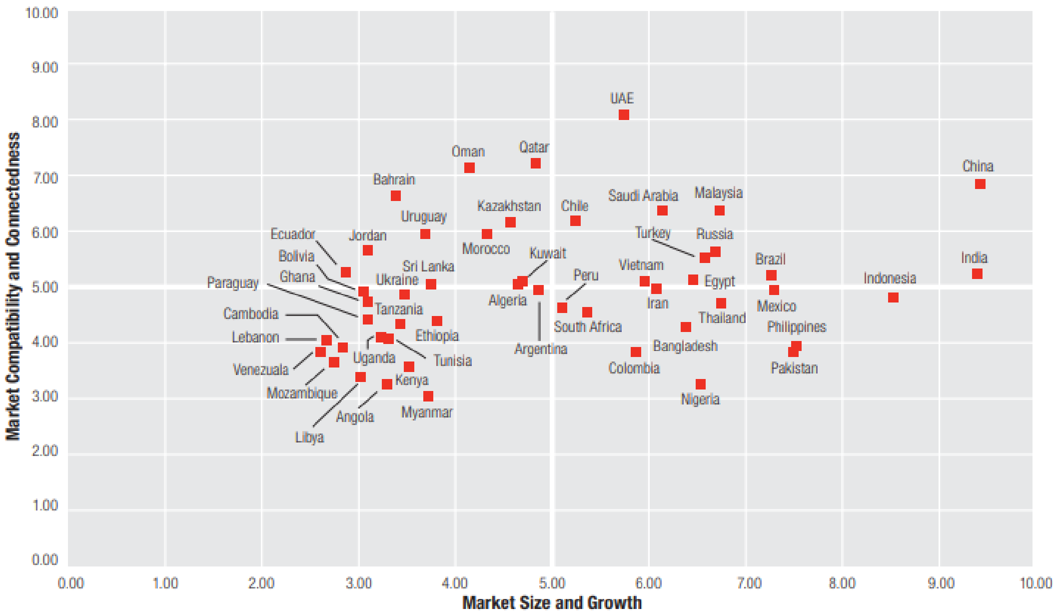
The biggest threat of all is probably tech-driven 'deglobalisation'.

The logic goes that technologies such as improved automation, computerisation and 3D printing will undermine the economics of manufacturing in emerging markets. In future, many companies will instead produce as close to end markets as possible.

Emerging Markets Quadrant

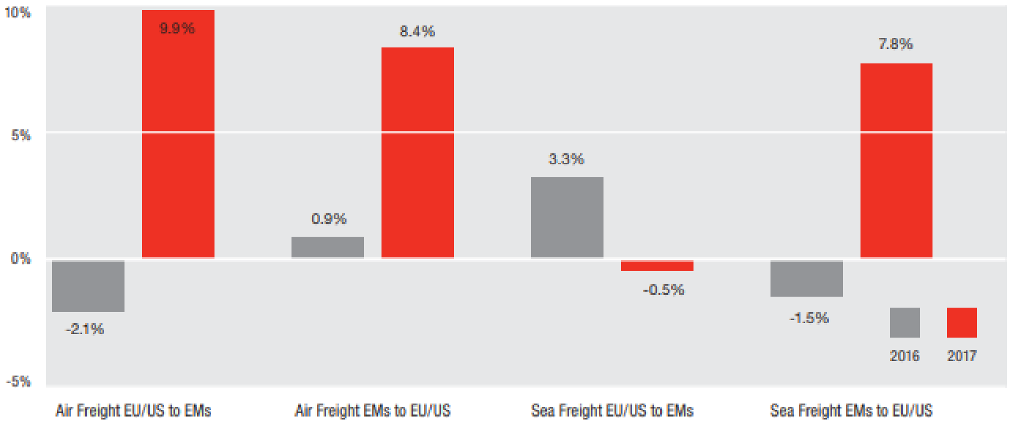
The emerging markets quadrant displays the relative positions of the countries in the Index. The chart is divided into four areas based on size and potential barriers to entry (an average of Market Compatibility and Market Connectedness). Countries in the top right quartile, such as China, represent those which have strong Market Size & Growth scores and are the easiest markets to operate in. In the top left quartile are those countries that represent smaller opportunities, but are easily penetrated, such as Oman and Bahrain. Countries in the bottom half have more significant barriers to entry and are associated with greater operational difficulties. Nigeria (a larger market in the bottom right quartile) and Kenya (a smaller market in the bottom left quartile) are examples of these types of opportunities.

Emerging Markets Quadrant



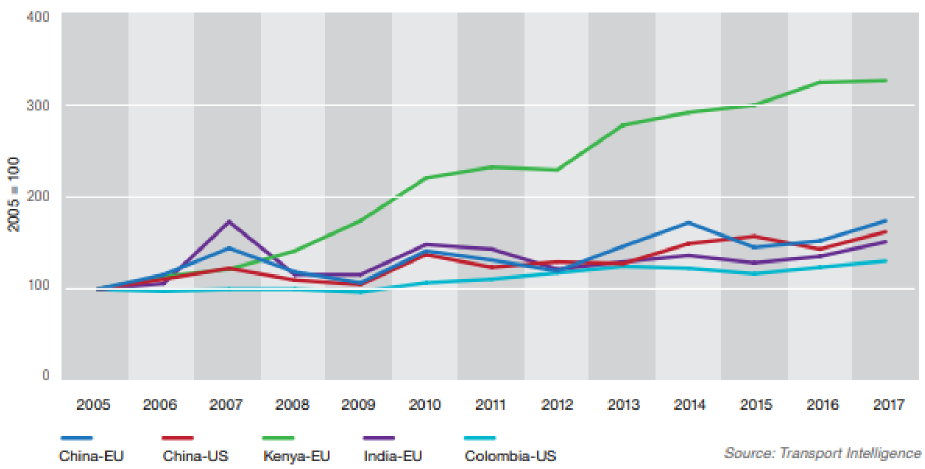
Source: Transport Intelligence

Emerging market air and sea freight trade lane growth



Source: Transport Intelligences

Air Freight Emerging Markets to EU/US Top 5 Trade Lanes 2005-2017 Growth



Source: Transport Intelligence

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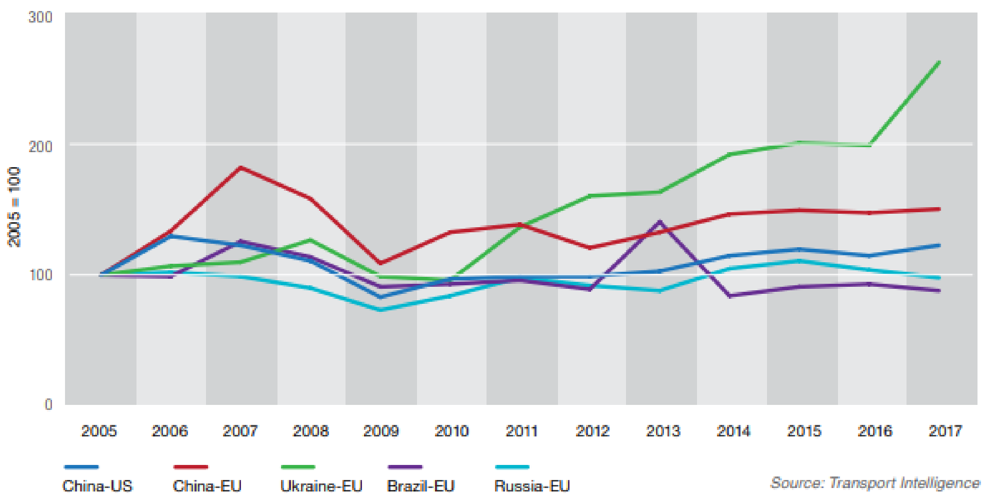
Sea Freight Emerging Market to EU/US Top 5 Trade Lanes 2005-2017 Growth



Source: Transport Intelligence

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Source: http://www.ti-insight.com/wp-content/uploads/2018/01/AEM-Index-2018-1.pdf

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