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Risk must beat reward in post-pandemic supply chains

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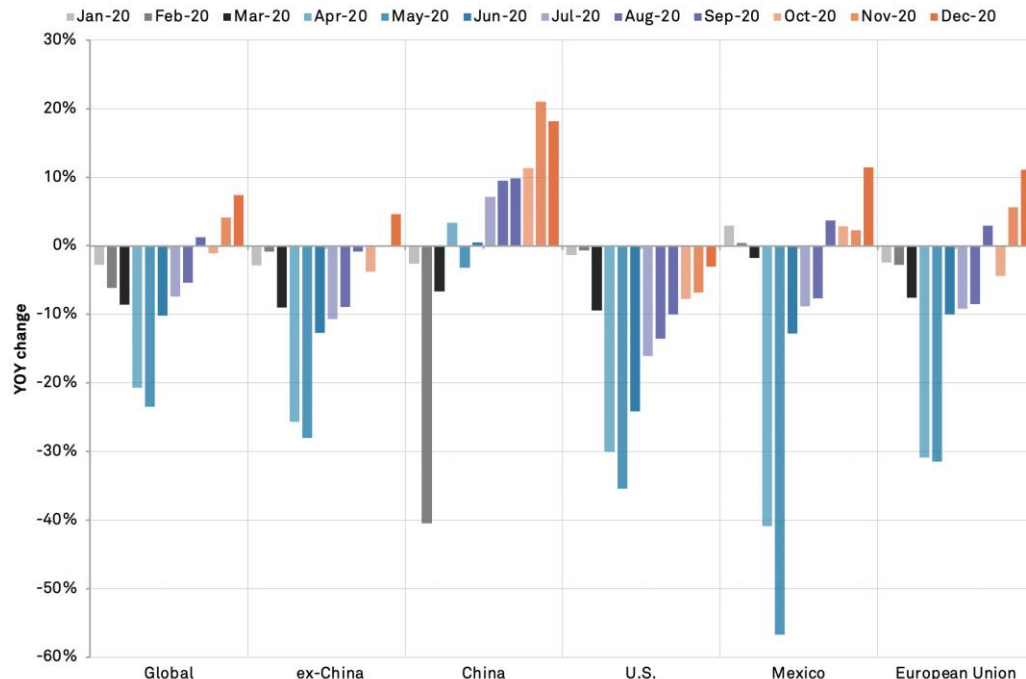
- Supply chain decision makers must continue to focus on mitigating risk in 2021, not maximising growth.
- Logistics disruptions, competition for components and viral mutations overshadow the first half.
- Further ahead, political risks outbalance opportunities as China flexes its power in Asia, the Biden administration applies what still amounts to an America-first approach, carbon- and digital-taxes abound and new trade deals lead to stronger competition across manufacturing industries.

Seven reasons why risk must beat reward in 2021 and beyond

How did we get here?

- EVA = RoIC - WACC
- Globalization and the Great Financial Crisis led to cost minimization / returns maximization
- Four stages of pandemic shows risk mitigation more important than thought
 - Initial disruptions
 - Demand destruction
 - Uneven reopening
 - Rebuilding with resilience
- ~~The way the decisions were made~~
- The way they need to be made

China rapidly recovers, U.S. still not there



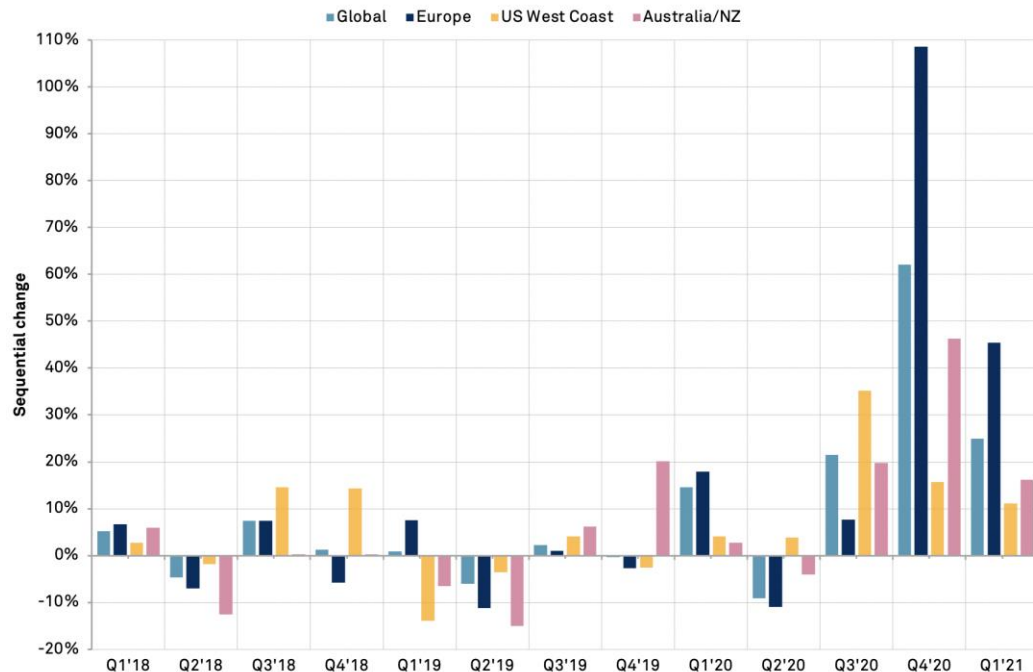
Source: S&P Global Market Intelligence. Data as of December 31 2020. Charts are for illustrative purposes only. Chart segments global exports by origin. Source: Panjiva

Seven reasons why risk must beat reward (1)

~~Cheap shipping~~ congested containers

- Consumer demand boom
- Liners discovered capacity discipline
- Stevedore sickness, equipment shortages limit offloading
- Higher priced fixed term contracts needed for future

Unprecedented surge in shipping rates has yet to abate



Source: S&P Global Market Intelligence. Data as of January 31, 2021. Charts are for illustrative purposes only.

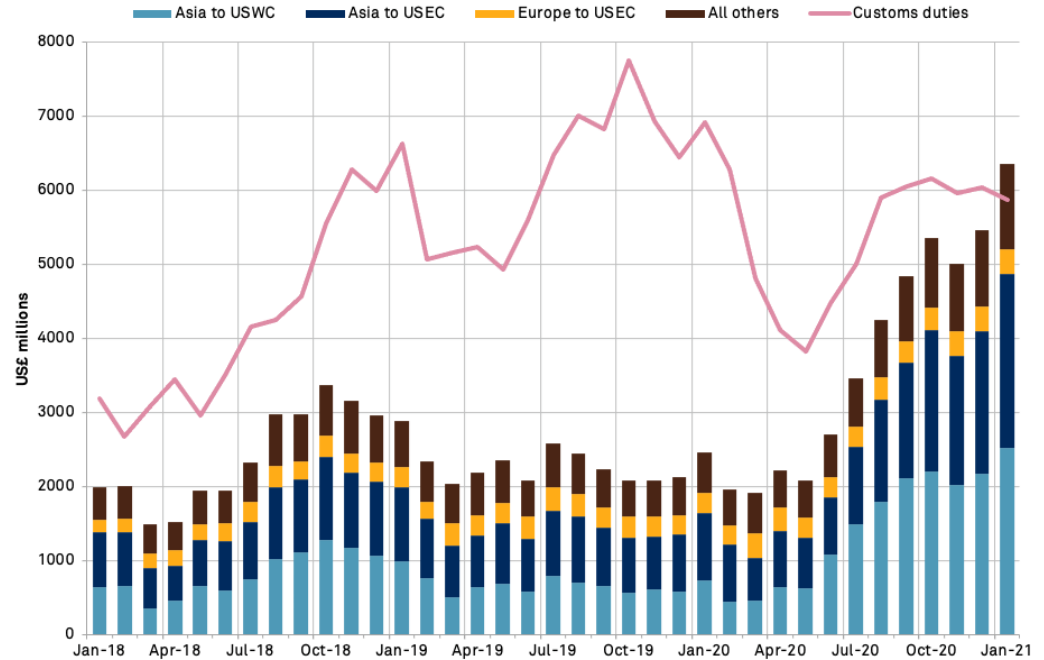
Chart segments change in China outbound shipping rates by destination. Calculations based on Shanghai Shipping Exchange data. Source: Panjiva

Seven reasons why risk must beat reward (2)

Dead inflation Corporate cost increases

- Logistics costs more than duties
- Widespread commodity cost increases
- 25% of firms discussing freight...
- ... few discussing mitigation

Logistics costs as big a problem as the trade war



Source: S&P Global Market Intelligence. Data as of January 31, 2021. Charts are for illustrative purposes only.

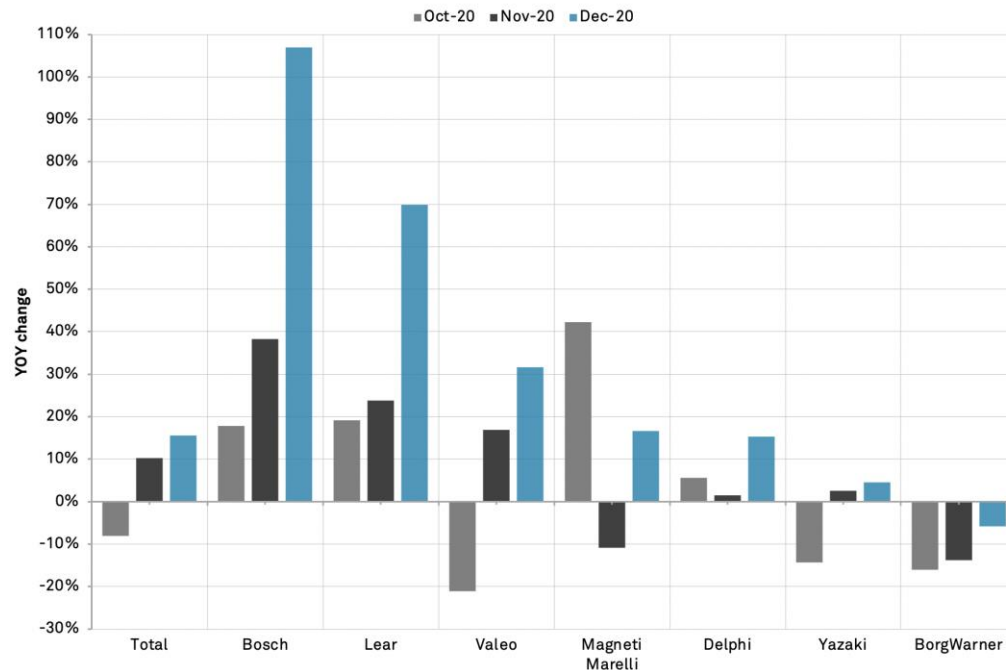
Chart compares imputed cost of shipping into U.S. seaports (bars) to total U.S. customs duties (line). Calculations include S&P Global Platts and U.S. Treasury Department data. Source: Panjiva

Seven reasons why risk must beat reward (3)

Cutting the fat Competition for components

- Autos / semiconductors a classic short-term costs vs. long term planning challenge
- Shows competition for components across industries
- Increased inventories one reaction
- Knock-on effect throughout supply chains, throwing another spanner in the works

Auto component recovery accelerating, running into chip shortage



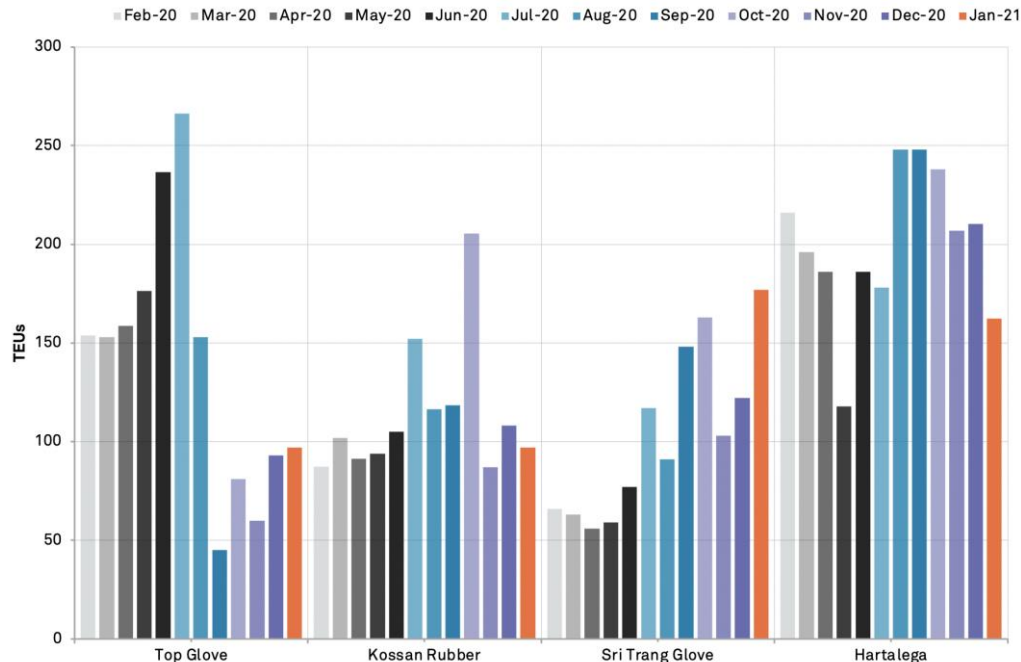
Source: S&P Global Market Intelligence. Data as of December 31, 2020. Charts are for illustrative purposes only. Chart segments Mexican exports of automotive electrical components by shipper. Source: Panjiva

Seven reasons why risk must beat reward (4)

~~Recovery rebound~~ Rebuild requirements

- Vaccine rollout changes consumer spending again
- Comes during peak planning season
- Medical supply chains proving volatile
- Risks from tariffs to labor issues

Rubber glove imports prove volatile on global demand, customs orders



Source: S&P Global Market Intelligence. Data as of January 31, 2021. Charts are for illustrative purposes only.

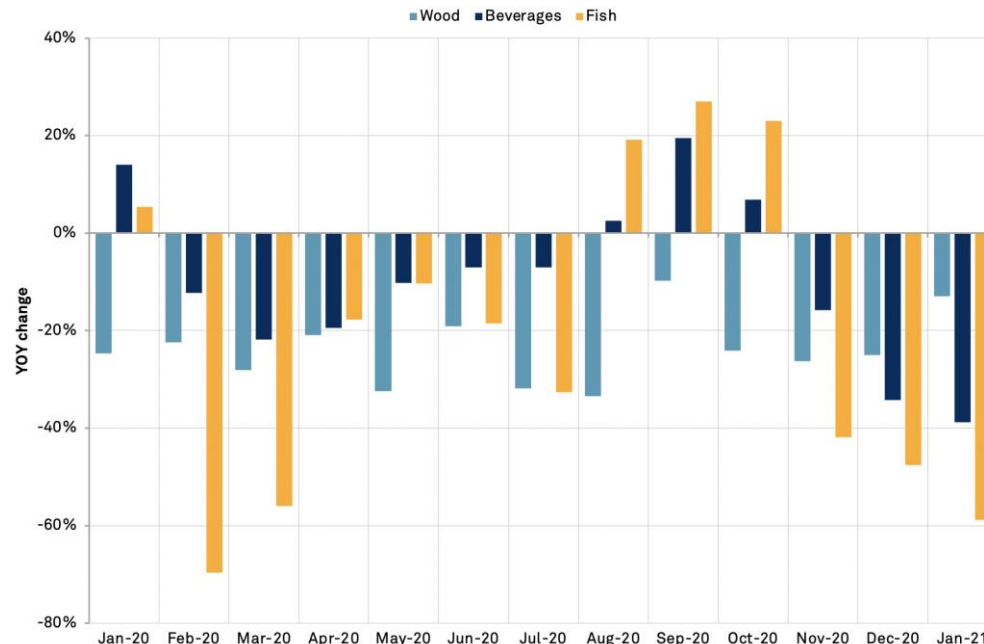
Chart segments U.S. seaborne imports of rubber gloves by shipper. Source: Panjiva

Seven reasons why risk must beat reward (5)

~~China growth engine~~ Newly muscular China

- Once a source of low cost goods, now a source of geopolitical risks
- Australia and Canada have learned this to their cost
- U.K. faces uncertainty
- U.S. – China relations remain paramount for supply chain planning

Australian food, drink exports suffer after China's tariff actions



Source: S&P Global Market Intelligence. Data as of January 31, 2021. Charts are for illustrative purposes only.

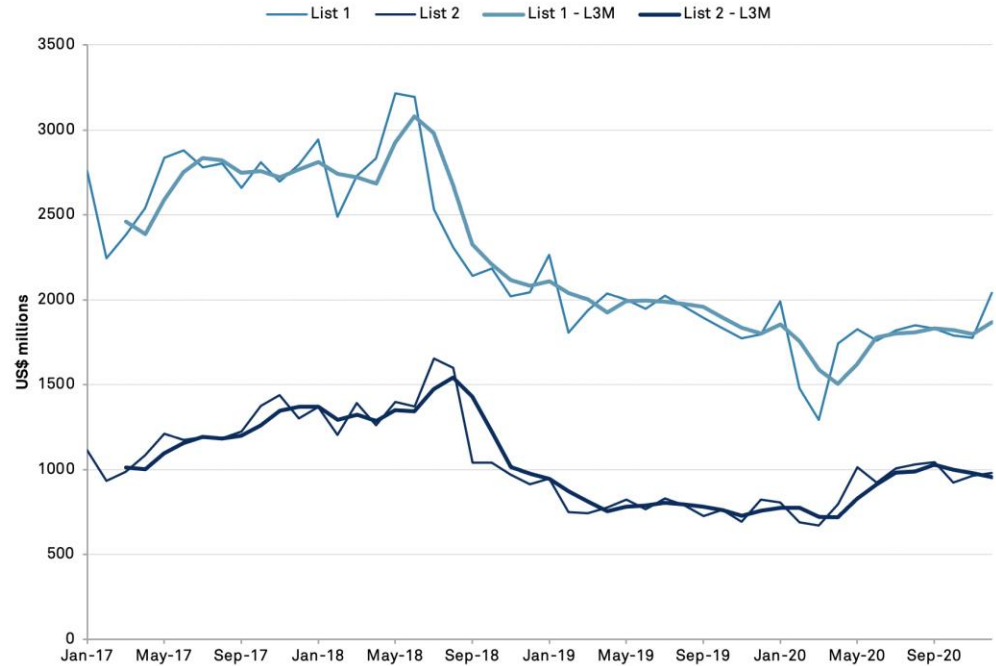
Chart segments Australian exports by product. Calculations based on Australian Bureau of Statistics data. Source: Panjiva

Seven reasons why risk must beat reward (6)

~~America first unilateralism~~ America first multilateralism

- Trump's tariffs show little can be taken for granted, have had a lasting effect
- Biden in no rush to remove them
- Supply chain Executive Order brings further shakes up cost-vs-risk equation
- Reshoring, onshoring and friendshoring all options

Trump's China tariff damage proves persistent



Source: S&P Global Market Intelligence. Data as of December 31, 2020. Charts are for illustrative purposes only. Chart segments U.S. imports from China by section 301 tariff list. Source: Panjiva

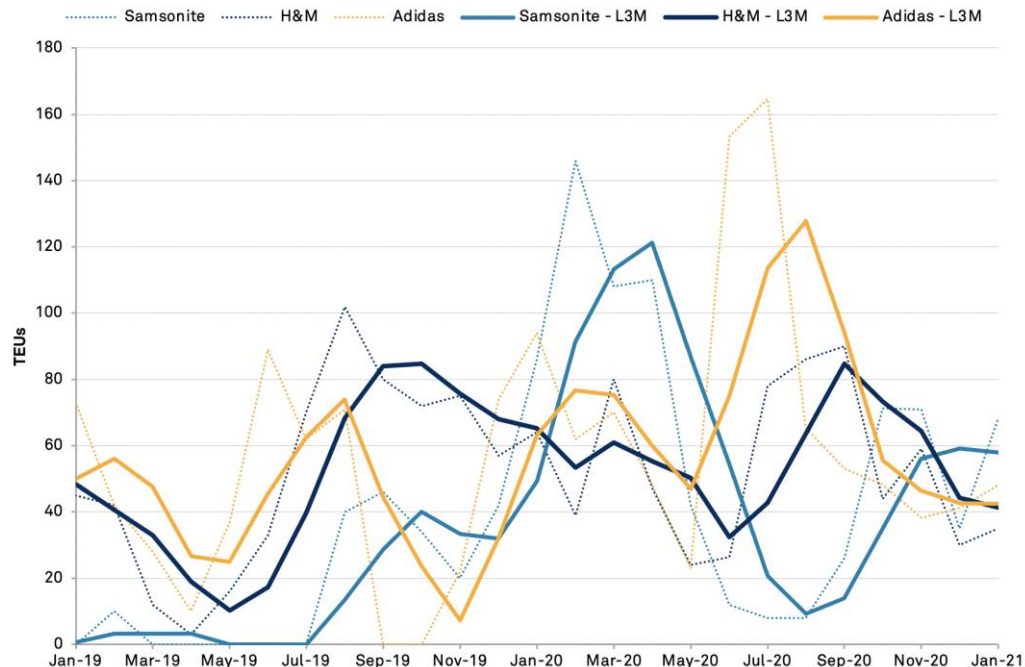
Seven reasons why risk must beat reward (7)

~~Max returns, react to risk~~ Manage risk, optimize returns

- Environmental risks shown by Texas
- Political risks shown by Myanmar
- Logistics risks shown by ONE Apus

- Robust, visible, low risk BUT higher cost supply chains needed for the future

Myanmar provides seasonal supplies in apparel, luggage



Source: S&P Global Market Intelligence. Data as of January 31, 2021. Charts are for illustrative purposes only.

Chart segments U.S. seaborne imports of apparel and luggage from Myanmar. Source: Panjiva

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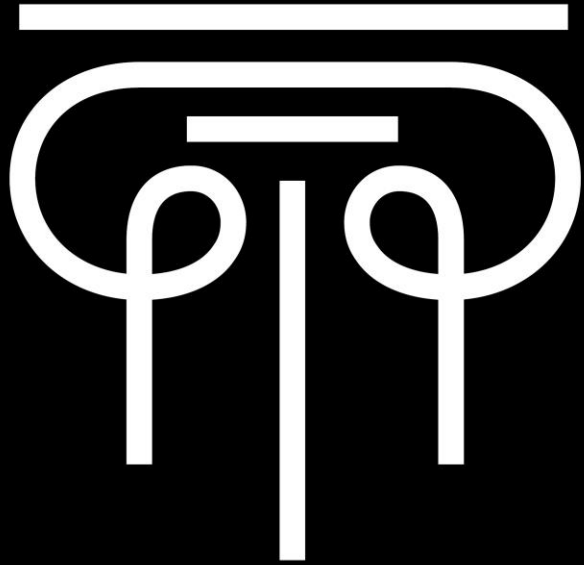
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