

What's Next?

A Reversal in Globalisation!

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The emerging Post COVID-19 world will be a very different business environment.

Core strategic question(s)	Outcome
1. How have social and institutional expectations changed?	Manage new stakeholder expectations and business models
2. How has the social contract with workers changed?	Support the workforce, empower productivity, work from home and less foreign workers
3. Do we have the right operating structures and alliances in place to deliver the plan?	Capital investment in automation and artificial intelligence
4. How can we move faster toward digital transformation?	Accelerate digital transformation at the workplace and online
5. What customer behaviour changes are likely to be permanent?	Recover, grow revenue, new revenue streams
6. Should we operate for cash or profit?	Optimize assets, liabilities, and liquidity
7. Should we manage for profit or resilience?	Increase margins and profitability

But, let me start by saying that commodities such as timber and increasingly wooden panels have been in a bear market for the last 5,000 years. A lot of people treat them like growth stocks, and just go long, expecting them to rise.

In fact, the price of commodities — whether we're talking agricultural, timber, energy or metals — have been falling, in real terms, since the dawn of civilization. And that trend will continue.

You need commodities to live — but they were rare and unprocessed. The whole path of civilization since the end of the last Ice Age, 12,000 years ago, has been about developing technologies to increase the amount — and lower the costs — of commodities. The Agricultural Revolution that marked the end of the Neolithic Age started the actual Ascent of Man. Commodities are the raw materials of civilization.

Starting with the Industrial Revolution in the 1800s, the amounts we could produce skyrocketed, and their costs plummeted. Both of those trends are going to accelerate—radically—because of things like genetic engineering, robotics,

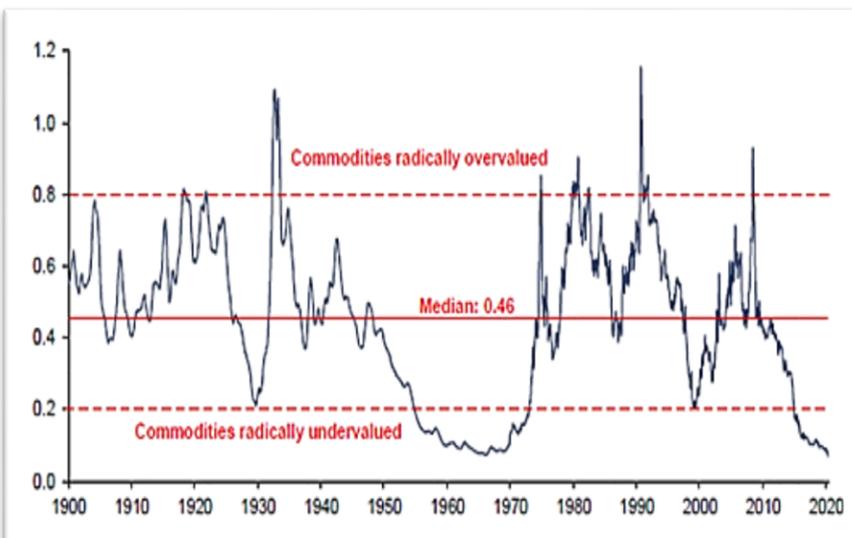


Figure 1: Commodity Index GSCI

artificial intelligence (AI), and space exploration. When nanotechnology—the creation of machines at a molecular level—is perfected and comes on stream over the next decade or so, commodity prices will fall to trivial levels. These new technologies are going to make raw materials superabundant and super cheap.

So why would anybody possibly want to be in commodities if they're in a perpetual bear market? It's seemingly a paradox. Right now, most commodity producers are just breaking, even at best. Most are losing money.

This can't continue for too long, or producers will go bust and production will collapse. As the building blocks of civilization, you need them to

survive. The world uses more of them every year. That's partly because the world's population is still growing, partly because it tends to get richer, and partly because new uses are found for most commodities every year. We are starting to see major corrections in commodity prices that have become "undervalued".

Take agricultural commodities for instance. The amount of palm oil, rice, or latex that can be grown per acre increases consistently with improvements in technology. That's not just true in agriculture, however—it's true of everything.

It's similar with most timbers. New fast-growing species will be grown on ever larger sustainable plantations as natural forests have become over exploited and are environmentally unacceptable as sources of raw timber.

Technology works to reduce the production costs of all commodities, not just timbers but all other agricultural products. That trend will continue as biotechnology improves and nanotechnology comes online. In addition, tech improvements mean commodities are used more efficiently. For example, recovery rates on sawn timbers were barely above 60%, about 50 years ago. Now nothing is wasted once a tree is harvested. The COVID-19 pandemic has decimated many supply chains. This has added costs in most cases. For example, in the U.S. Lumber prices have reach near all-time highs.

Housing starts in the US surged 22.6% to an annualized rate of 1,496,000 in July of 2020, above market forecasts of 1,240,000 and following an upwardly revised 1,220,000 in June. It is the highest reading since February, before the coronavirus crisis, and the biggest jump since October of 2016. Single-family housing starts jumped 8.2% to 940,000 and the volatile multi-family segment went up 56.7% to 547,000.

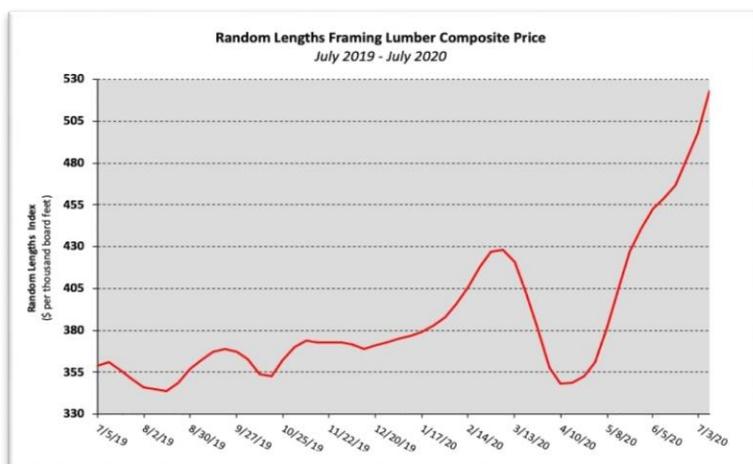
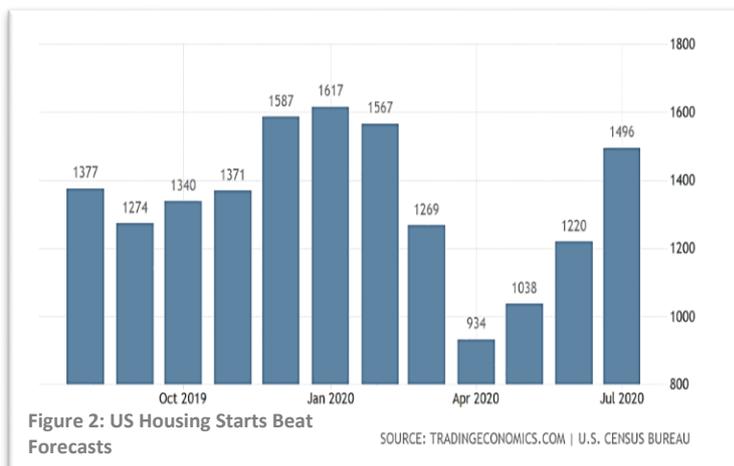


Figure 3: Random Lengths Framing Lumber Composite



The Institute for Supply Management's Purchasing Managers Index (PMI) in the US came in at 54.2 in June, up from 41.5 in April and 52.6 in May. A PMI above 50 signals a growing manufacturing sector. So that means US manufacturers are growing again.

The US - China trade war means that traditional supply chains from manufacturers in China shipped to consumers in the US are now not viable. As a result, the US is either producing the goods domestically or need to find alternative overseas suppliers. For Malaysian producers of furniture and panel products, this has been a boom in demand from America. Luckily this has come at a time when the demand has reduced significantly from other traditional markets.

The massive quantitative easing carried out by Central Banks to counter the pandemic has increased the amount of 'Cash' in circulation in the global economy.

My prediction is that we need to be ready to deal with an inflationary economy within the next 12 months, once the post COVID-19 recovery is underway. The only major commodity that is currently suppressing inflation is Energy (oil and gas). If this price begins to rise then an inflationary period will begin. Companies and businesses must be ready and will need to constantly review their business models to prepare for what is to come in the post COVID-19 business world!