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GLOBAL MARKETS

Supply chain chaos: Disruptions aplenty, but wrapping up for Xmas?

DIGITAL ENGAGEMENT TEAM

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TRADING MATTERS SERIES: NEWS FOCUS

The summary and impact of a major news event

Why were supply chains the talk of the town?

What happened?

Long story short... it seemed like at one point the world ran out of well, everything.[1] From empty grocery store shelves in the US,[2] to empty gas stations in the UK,[3] a common theme came into focus in recent months: disruptions and shortages across the global supply chain.[4,5]

To be sure, this theme was certainly not a new one. Experts had been discussing about this topic more than a year ago,[6] tracing the issue back to its roots since the pandemic began.[4,5] But how did it get to the point where governments were turning to their militaries to help ease the crisis?[7,8] And now several months in, are experts seeing signs of this crisis ending in the near future?

Here are some major factors that led us to this point:

Uncertainty from the pandemic

Without a doubt, the uncertainty caused by the pandemic put immense strain on the global supply chain.[5] Factories were forced to shut early on in the pandemic due to lockdowns, yet contrary to the expectations of many, demand skyrocketed rather than fell. As people upgraded their homes to also become offices and gyms, companies responded to the surge in demand and initial shortages by overordering extra items, exacerbating the problem and supply chain crisis.[5]

Containers crunch

There was a shortage of containers where and when they were needed the most.[4] Ocean cargo rates spiked ten-fold from a year earlier, and the pandemic threw the system into chaos – Some carriers returned containers to Asia empty rather than waiting for them to be filled with US exports.[4] Empty containers were also stuck and piling up elsewhere in West Africa and South Asia, in places China shipped protective gear to early in the pandemic that don't really send much product back.[5]

Just-In-Time, not in time

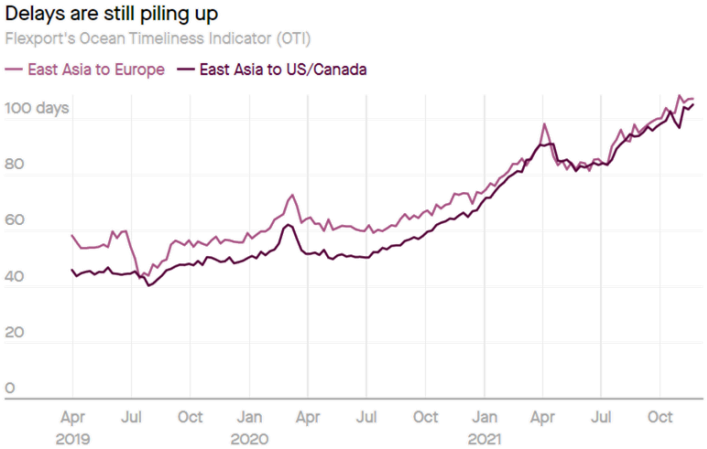
Pioneered by Toyota, Just-In-Time manufacturing revolutionized the business world by allowing businesses to stay nimble, cut costs, and reduce stockpiles and inventory.[1] In doing so however, this left some industries vulnerable to any disruption to their long and globalized supply chains.[1,9] A computer assembled in China may require chips from Taiwan, displays from South Korea, and dozens of electronics drawn from around the world.[5] Any disruptions along the supply chain would have effects on the rest of it.[1]

What about now, as we enter the holiday season?

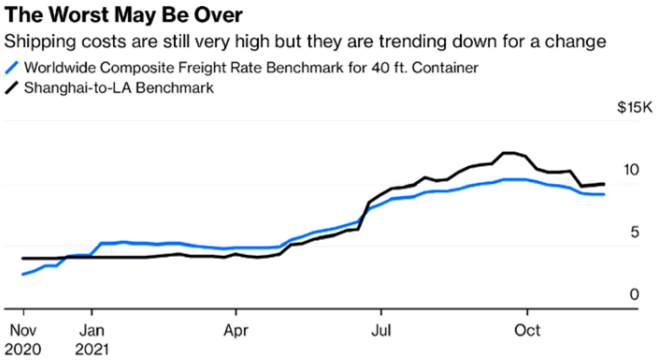
Is the crisis easing? And what kind of impact is this crisis having?

Effects of the crisis continue to be felt even as we enter into the Christmas holiday season.

Ocean freight rates remain elevated on a historical basis, with the global benchmark rate up more than 200% year-on-year.[10] Port congestion is still a problem, and there are bottlenecks up the rest of the supply chain—at warehouses, distribution centers, and in long-haul trucking—that haven't been fixed.[11] Knock-on inflation effects are being felt from car rentals to commodities.[12] Some indicators are also showing delays continuing to rise, with cargo now taking more than 100 days to arrive.[11]



Source: Flexport, Quartz as of 14 Dec 2021



Source: Drewry, Bloomberg, as of 14 Dec 2021

Still, there is a glimmer of hope that the crunch may finally be easing, even if slightly. Though historically elevated, these global ocean freight rates have actually started to decline for eight straight weeks. Prices for the busy Shanghai-to-Los Angeles trade route is down about 19% from its Sep 2021 peak.[10] Meanwhile, the number of containers lingering for longer than nine days at the Port of Los Angeles has dropped by about a third since October.[10] Data suggests the worst could be over, and that the gap between supply and demand is starting to close.[13]

Manufacturers are picking up the pace, and companies are ordering less from factories, hinting at a rebound in inventories.[13] Some companies have stockpiled goods to counter supply-chain issues,[14] while manufacturing has picked up in China and Southeast Asia.[14] Risks to the global supply chain still remain in the form of Omicron,[15] and the declining freight prices could also be due to seasonal factors instead of other meaningful progress.[11] There are however signs that the supply chain stresses may have peaked several months ago, and that while supply streams are still historically elevated, they're not quite as high as they were coming into the end of the third quarter of 2021.[16]

From a sector & stock-specific perspective:

Some sectors are more sensitive to supply chain issues than others. Here's what some in the market are saying regarding the supply chain:

Retail

Big retailers with the global heft and sophistication to adapt may be rewarded,[17] with CBRE highlighting their clout with suppliers in acquiring products in advance,[18] and Mizuho highlighting their logistics capabilities and ability to reroute profits to make sure they get delivery compared to smaller institutions.[18]

Transportation/Logistics

Analysts say the biggest gainers from the supply chain issues could be ocean-liner, trucking and logistics companies that have sat squarely at the crossroads of lean capacity and rabid demand, benefiting from soaring shipping rates.[17] Jefferies highlights record profitability for these firms,[19] while JPMorgan highlights the shortage of containers and vessels not resolving any time soon.[19]

Retail

Below are the top companies based on Market Cap in their respective industries globally, in the US or Hong Kong

Amazon Inc (AMZN US)

- Largest retail company globally by market cap (Companies Market Cap)
- Amazon is making its own containers and bypassing supply chain chaos with chartered ships and long-haul planes (04 Dec 2021, CNBC)
- Amazon reportedly plans to expand its grocery delivery business (14 Dec 2021, Engadget)

Market Cap (USD)	1,715.09 Billion
Analysts' 12M Target Price	4,114.71
Current Price	3,381.83

Home Depot (HD US)

- 2nd largest retail company globally by market cap (Companies Market Cap)
- Home Depot stock surges toward a record after Oppenheimer's Nagel becomes the Street's most bullish analyst (06 Dec 2021, MarketWatch)
- Home Depot earnings top estimates fueled by 9.8% jump in sales as consumers fix up homes (16 Nov 2021, CNBC)

Market Cap (USD)	419.99 Billion
Analysts' 12M Target Price	405.81
Current Price	402.2

Walmart (WMT US)

- 3rd largest retail company globally by market cap (Companies Market Cap); largest by revenue (National Retail Federation)
- Softbank SPAC taking supply chain AI company Symbiotic public with Walmart backing (13 Dec 2021, MarketWatch)
- Walmart beats expectations amid supply chain woes (16 Nov 2021, NY Times)

Market Cap (USD)	402.05 Billion
Analysts' 12M Target Price	168.22
Current Price	144.94

Alibaba Group (9988 HK)

- 4th largest retail company globally, largest in China by market cap (Companies Market Cap)
- Chinese supermarket chain T11 bags $100m in Alibaba-led Series B round (14 Dec 2021, DealStreetAsia)
- Alibaba overhauls e-commerce businesses, names new CFO (06 Dec 2021, Reuters)

Market Cap (USD)	336.36 Billion
Analysts' 12M Target Price	207.50
Current Price	121.00

Transportation & Logistics

Below are the top companies based on Market Cap in their respective industries globally, in the US or Hong Kong

Union Pacific Corp (UNP US)

- World's largest railway company by market cap (Companies Market Cap)
- Union Pacific slashes its volume growth guidance once again as a supply chain environment seems to hurt shipments across the industry. The company still expects a 2021 record financial performance (01 Dec 2021, Seeking Alpha)
- Ex-dividend on 17 Dec 2021, payment of US$1.18 per share scheduled on 30 Dec 2021 (10.3% increase from prior dividend). Dividend yield at 1.72% (Nasdaq)

Market Cap (USD)	157.25 Billion
Analysts' 12M Target Price	253.83
Current Price	244.61

ZIM Integrated Shipping Services (ZIM US)

- Largest container shipping company by market cap listed in the US (Companies Market Cap)
- There's little sign of near-term improvement in the global supply-chain crisis, according to ZIM. ZIM has benefited from container shipping rates, and posted net income of US$1.46 billion in 3Q 2021, up tenfold from a year earlier (19 Nov 2021, Bloomberg)
- Ex-dividend on 15 Dec 2021, payment of US$2.5 per share scheduled on 27 Dec 2021. Dividend yield at 5.05% (14 Dec 2021, Nasdaq)

Market Cap (USD)	5.72 Billion
Analysts' 12M Target Price	73.33
Current Price	48.20

Cosco Shipping Holdings (1919 HK)

- Largest container shipping company by market cap listed in HK (Companies Market Cap)
- Cosco Shipping shares were higher after the shipping company unveiled new leadership and plans to buy back shares. Shares have now more than doubled from a year earlier during elevated shipping rates worldwide (06 Dec 2021, MarketWatch)

Market Cap (USD)	42.70 Billion
Analysts' 12M Target Price	19.81
Current Price	14.42

Orient Overseas International Ltd (316 HK)

- 2nd largest container shipping company by market cap listed in HK (Companies Market Cap)
- Orient Overseas International Ltd is a subsidiary of Cosco Shipping Holdings
- Shipping stocks jump in Asia as Omicron variant threatens supply chains (29 Nov 2021, Hellenic Shipping News)

Market Cap (USD)	14.38 Billion
Analysts' 12M Target Price	205.63
Current Price	169.9

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