



# Market Update

August 2020

-----

- Supply Chain Risk
- The Rise of Fintech
- Currency Volatility
- Can Manufacturing Return?
  - Mining

For more market reports, visit [www.jigsawtm.com](http://www.jigsawtm.com)

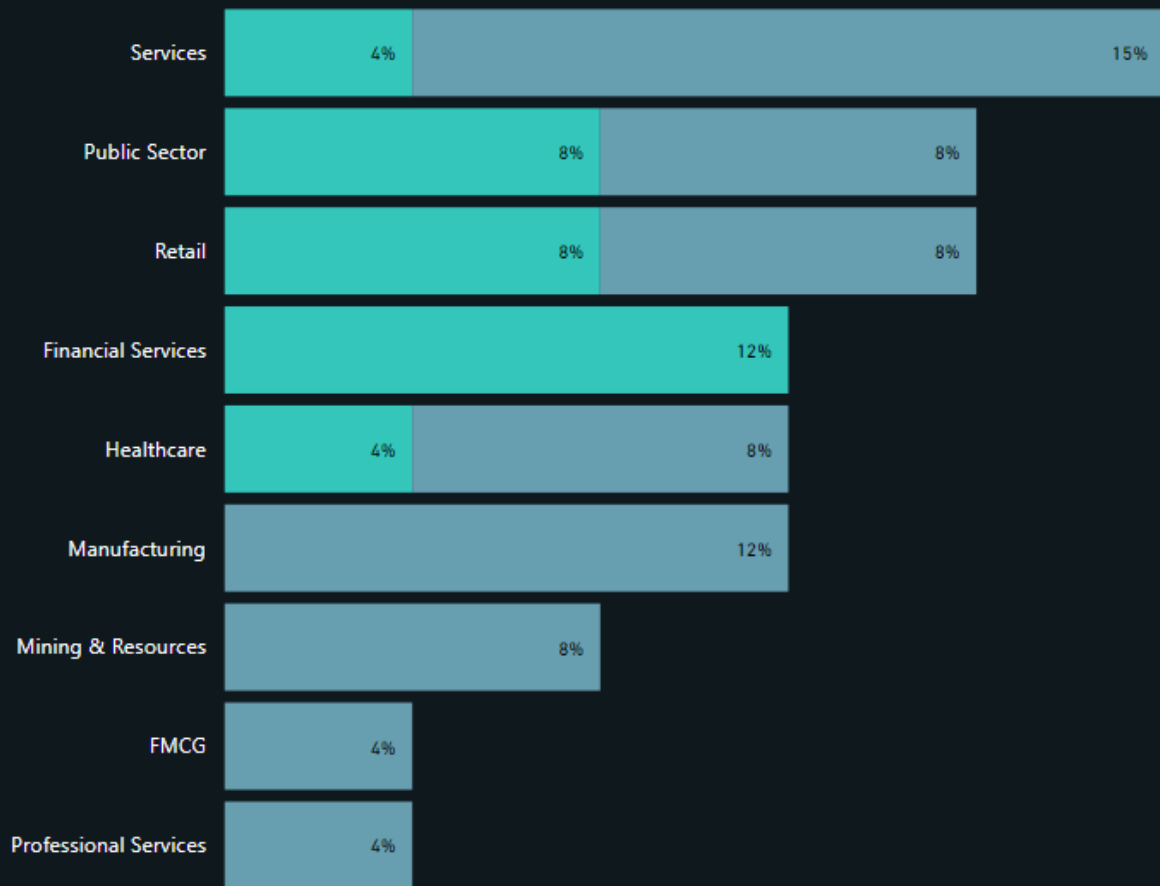


# Jigsaw Talent Management

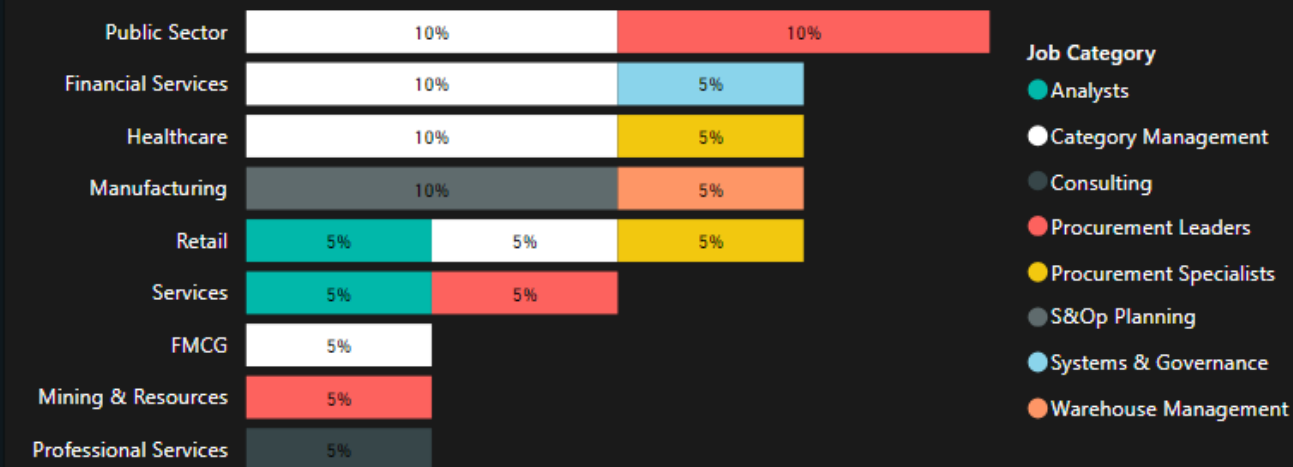
## Current Market Demand - August 2020

### Live Roles by Industry

Type ● Contract ● Permanent



### Live Roles by Industry & Job Category

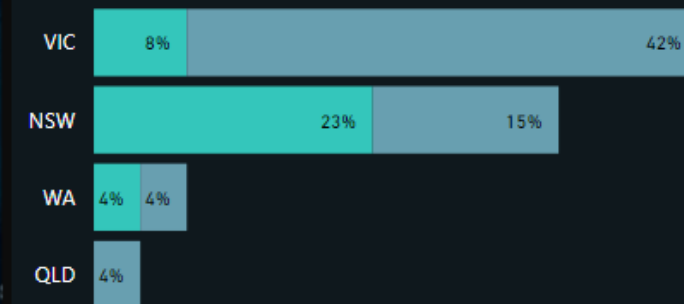


### Live Roles by State



### Live Roles by State & Job Type

Type ● Contract ● Permanent



## High Level Overview – Market Snapshot

We are 4 weeks into the new fiscal year, so, where are we at? The US \$ is at a 10 year low, it is likely 20% of Australian businesses are insolvent, the liberal government are now at a point where they are reminiscing re the Thatcher years (79 – 90) and CommSec is the new TAB. Not so good. How about Supply Chain?

Post COVID-19, supply chain risk is going to be critical. Jigsaw forecast that companies will need to better understand risk and create a risk culture. Typically, businesses have to contend with supply shock. Typical risks associated with this include supplier insolvency, volcano's, tornado's and changes in policy of foreign countries. Looking forward, businesses will have the added complexity of demand shock, where new behavioural patterns and broken supply chains will add further complexity to evaluating business risk and prior to understanding this, an increase in waste will be a reality. Pro-active management of risk will be more critical than ever as businesses adapt. Value chain visibility will be both challenging and necessary to protect customer retention and revenues. Procurement typically has multi-tiered suppliers who also use multi-tiered suppliers downstream. The web of trade is long and complex. As developed nations and businesses outsourced inflation post the 2001 dot.com bubble, key costs to curb for greater profits included land and labour. This ever increasing demand for cheaper products produced faster at scale, placed cost pressure through to the suppliers of the suppliers etc. Each finished product imported to western consumers has multiple SKU's that are of critical importance and it is questionable how much real visibility and understanding primary producers have of the downstream value chains. In addition to this complex value chain of production re materials, there is also the ongoing issue of slave labour to contend with. No doubt, slave labour and minimal corporate regulations were key to some businesses achieving such large profit margins over the past 20 years. Of course, steps are/have been taken to make sure slave labour etc is not factored into modern supply chains, but the task is a big one. Western businesses who still have production in China could still be supporting a country that is taking steps to remove freedoms from certain citizens who have beliefs that fall outside of the CCP such as Hong Kong citizens and the Uighurs. I guess action will depend on both the flexibility of the definition of slavery and practicality and velocity of the supply chain pivot. Does the recent actions of China fall under the umbrella of modern slavery? At Jigsaw, we are certain it will be open to debate. What is key for mature businesses who have exploited the benefits of globalisation is that organic growth will be potentially un-achievable in a world of divergence, at least in the short to medium term. ROA and ROCE will be more critical than ever to drive business returns and attract investors capital, and growth may only come via acquisition of smaller competing businesses, mergers for scale and economy or exploring new verticals to attract new customers.

This month, Jigsaw have explored 4 key sectors of the Australian economy to see how the future of these sectors may materialise and how procurement can play a significant role. We explore the rise of Fintech and how the finance sector will evolve, the current state of fiat currencies, especially the US \$, the reality of manufacturing in Australia and of course, the market golden child, mining and how it will assist Australia retain economic relevance. At Jigsaw, we hope you enjoy our content and we welcome your opinions and feedback.





## Financial Services

COVID-19 has accelerated the finance sectors digital strategy, and this is one of the few silver linings of late for the sector. As bank balance sheets come under critical pressure due to asset values, low interest rates, impaired loans and more directly, over capitalisation of land and labour, a new digital age of banking should revolutionise the sector. COVID-19 has created erosion of revenue across all sectors of retail banking and insurance, and resetting the cost base will be critical moving forward. The future of banking will no doubt be leaner, with far more emphasis on partnering to achieve operational scale and innovation. Procurement will be playing a key part in demand controls, re-structuring and re-modelling outsource arrangements and enabling the future of cloud adoption and fintech partnering. As old school banking operations contract, and branches close, these changes can now be viewed as an enabler for customers that are keen to move out of central locations to explore value in terms of wealth and living standards.

The insurance sector has been hit re cost of re-insurance, cheaper premiums and increased claims. Combined with immature supply chains, overly complex claims processes and heavily analogue operations, digital transformation is much needed to contain costs and drive customer innovation. As with manufacturing, there are some cost benefits that have organically surfaced in this ever changing economy, with travel, catering, marketing and facility/utility costs contracting as natural demand for these opex based services contracts. These opex cost reductions, although welcome, are nowhere near substantial enough to counter the wider revenue risks associated with property and debt exposure.

New regulations will open up Australia's banking sector to Fintech companies. There is strong debate as to whether this new business model will create direct competition with the finance sector or create a business eco system of partnering and innovation where both entities benefit symbiotically. Jigsaw predict business partnering will be most opportunistic for both sectors. A potential problem for fintech firms partnering with banks will be the difference in cultures and operational models. The banking sector is a low velocity, highly political, heavily regulated environment. SME technology businesses are high velocity, non-political (compared to banks and government) and non-regulated. With more emphasis on ICT stacking, cloud and SAAS, robustness of contracts and security will be critical. Some functions may need to be in-sourced if partnerships with fintech's are to succeed across certain operations. Key risks will be tracking risk such as money laundering operations etc. In Europe, this has been a big issue for the sector.

There are potential benefits to both the fintech's and the banks if strong partnerships can be forged. Banks may adopt fintech's advancements in processes and systems, whilst the fintech businesses gain greater exposure to a wide customer base. As the ratio between banks and fintech's will be vast, the creation of micro APIs (Application Programming Interface) in the cloud will allow multiple partnerships to take place. This will enable seamless engagement across multiple interactions. API standards and regulation will be a key element of making this possible.

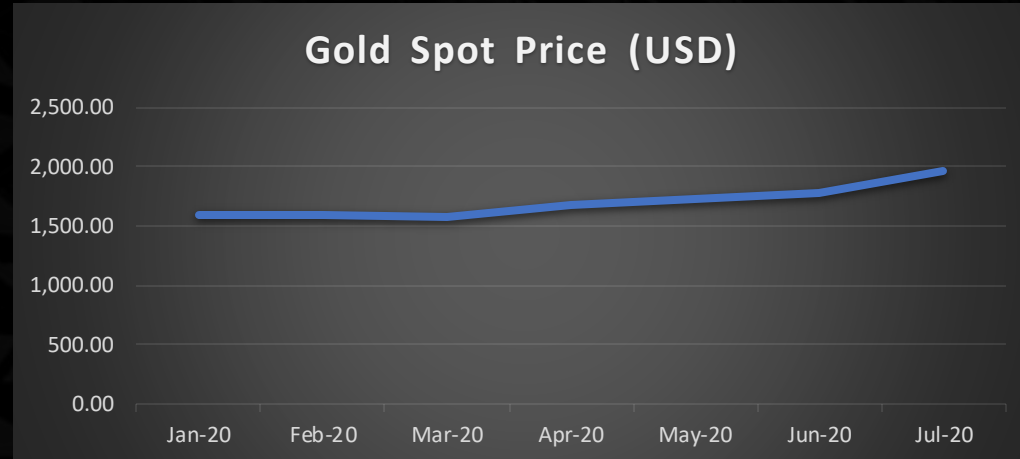
Procurement will likely be a key player in the adoption of the fintech space. The solution, relevant stakeholders (strategy, budget holder, interface), development, security (cyber risks), innovation will be key issues facing procurement teams when the Banks want to enter a partnership arrangement with fintech businesses. Procurement mindset will likely need to change from how it manages new suppliers. Greater understanding will be required of procurement to deep dive into the banking needs and customer requirements so entrepreneurial solutions can be considered and entertained. Procurement could act as a key positioner of solutions of innovative fintech players, understanding who is the most likely audience for such solutions and being the catalyst for discussion and innovation. In addition to the sourcing and screening, partnering will be critical. If the Fintech play takes off, it could be a force to drive customer retention and attraction. Branding, customer experience and data management will be key factors of successful solution implementation. Best outcomes will stem from deep understanding between players on business values, solution benefits to customer, bank and fintech partner and collaboration will be a force for success.



Without doubt the banking sector will want to do things better, faster and safer (security) and solution strategy and how to execute will likely vary between fintech and bank. Procurement may also extend its role in driving solution symmetry. As fintech will likely be better positioned to identify real world customer issues and in turn, provide solutions to these problems, eco systems will be a key bridge to this flow of information so that a meeting of innovation and cost modelling can be accurately factored in.

## The Global Currency

Australia has fixed its cash rate and 3-year debt yield to 0.25%. According to the “Economist”, in a world in which interest rates around the world are near zero, the exchange rate will be a key factor in managing local economies, in turn leading to currency volatility. Typically, short terms interest rate yield makes borrowing easy and attractive for the creditor. This process allows deficits to be bolstered by overseas borrowing. As the world lowers the cost of currency, with only Indonesia in Asia having interest rates at circa 4%, capital flows will rely more on government regulation, the attractiveness of key assets for investment and the openness of the economy to foreign investment.



Month	AUD Change (%)	EUR Change (%)	GBP Change (%)	JPY Change (%)
Jul-20	1.3932 -3.83%	0.849 -4.63%	0.7703 -4.47%	105.03 -2.70%
Jun-20	1.4487 -3.42%	0.8903 -1.19%	0.8064 -0.44%	107.93 0.14%
May-20	1.5 -2.34%	0.901 -1.28%	0.8099 2.00%	107.79 0.56%
Apr-20	1.5359 -5.76%	0.9126 0.67%	0.794 -1.38%	107.18 -0.33%
Mar-20	1.6298 6.10%	0.9065 -0.04%	0.8052 3.23%	107.54 -0.50%
Feb-20	1.5361 2.80%	0.9069 0.61%	0.78 2.97%	108.08 -0.29%
Jan-20	1.4943 4.92%	0.9014 1.07%	0.7575 0.52%	108.39 -0.21%

The US dollar is currently under pressure and is losing value in correlation to not just gold and silver, but also the Australian dollar. Like copper, the US dollar is a key metric to understanding economic changes globally. At present it is testing the bottom of its 4-year range. The weakness in the US dollar is heavily correlated to FED policy. As it seems the Central Banks around the world will do literally anything to prop up markets, only a change in policy (tightening) will change the currencies course of de-valuation. Alternatives to the US dollar re investment over the next quarter include the Australian dollar and the Japanese Yen. As the European Central Bank (ECB) are continuing open market operations, the Euro will likely not appreciate until Q1 of 2021. Other factors that will heavily affect the US currency include China, the election and the lasting impacts of COVID-19. Without doubt, US policy and leadership will have a flow on effect re China’s policies as the cold war escalates. China will likely continue to export deflation as long as it can, with its manufacturing (factory gate) pricing and production volumes under significant pressure as global demand for Chinese products decreases.





Predictable Government policy and whether the FED balance sheet will ease or tighten is significant. It seems of late, the US was starting to reduce its open market operations, yet on the flip side, Jigsaw cannot see the US heading towards an election and not doing everything in its power to continue providing stimulus to the un-employed and financial markets. Trumps success or failure could heavily depend on the matrix that is the US fiscal markets and currency situation.

In March, the US dollar peaked as US\$12 trillion of non-domestic debt obligations created a \$ shortage and swap lines were engineered to provide liquidity in an effort to prevent assets, including US treasuries being dumped for liquidity. Long term yield control is critical to global fiscal stabilisation and this will likely be the case for the next decade, such is the mess of global markets. Fractional reserve banking and the ability for banks to create currency out of thin air (supply does create demand) is the issue as the flow of credit reverses. Key to understanding how the global debt issue will impact international markets that rely heavily on US \$ transaction will be whether the issue is one of liquidity or insolvency. US dollar denominated debt and its ability to create a solvency crisis will depend on a countries balance sheet. If a country has invested heavily in US assets, then it will be a liquidity issue and swap lines can greatly assist at the expense of further currency devaluation. If, for instance you are a country like Turkey, where there is only debt and no US assets to counterbalance the liabilities, then insolvency is the core issue.

## **Manufacturing**

Jigsaw's procurement networks across manufacturing have reported to us they will be combating the economic downturn by optimising operational cash flow, de-rationalising the supply base of critical categories, focussing on waste reduction and drive further demand management with greater upstream sponsorship. Some manufacturers reported that procurement view the landscape as opportune to drive new agreements (further price reductions), whilst others within our manufacturing network view cost increases across raw materials as a given due to inflationary forces across a broad spectrum of raw material inputs. Jigsaw's view is procurement should tread cautiously on over stressing suppliers' ability to generate reasonable profits in these times, as direct input costs will certainly rise in conjunction with reduced overall market demand. Aside from BAU operations, many businesses will have the added cost of re-modelling operations to meet the changing economic conditions with future operations becoming more dependent on analytics and automation. Supplier solvency and sustainability will be key to prevent future supply chain disruption, with greater cost reductions coming organically from reduced real estate, travel, catering, marketing and increased productivity coming from operational transformation and the virtual workforce, which in many cases, will also contract in some cases by 30%. According to many of our clients, retained employees are thriving in stay at home conditions with benefits such as travel stress and expense being converted to business productivity, improved family balance, wellbeing and reduced living expenses.

Manufacturing in Australia now accounts for only 6% of GDP, which for a developed nation is very low. Back in the 70's, manufacturing in Australia accounted for at least 30% of GDP. Over the years, manufacturing decreased as a result of tariff policies, exports breaching anti-dumping rules and the commodity boom. The boom in commodities increased Australia's income by 15%-20%, but as a negative, it increased the value of the currency and made it challenging for Australian exports to compete with emerging markets. At the same time as Australia was experiencing a soaring demand for iron ore, China was quickly becoming the manufacturing hub of the world, reclaiming its economic relevance. In 1000AD, China contributed over 50% to the world GDP. While Europe was still believing in the existence of witches, China was already a sophisticated economy. In 1970, China was a far cry from its historic dominance and after the death of Mao, was in stagflation. In 1979, China opened up to foreign trade and became one of the world's fastest developing economies. With the development of key economic zones and the maturation of cheap ocean freight, China has emerged as an economic power house, contributing to over 30%+ (90% electronics in Shenzhen) of world manufacturing. Cheap currency (manipulated by government), labour, transport, energy and food combined with low regulations have been key factors in China's production dominance.



Australia, as has been highlighted previously, cannot compete on cost and scale with China or other emerging markets. Land, energy, labour and regulation are all factors working against us. No doubt, Australia has serious gaps in its supply chain capability and our economic complexity is lagging according to OECD. A solution for Australia is to invest its way out. With developments in digital automation and analytics and some government attention (think passive tax across commodity exports), there is a chance we can develop a respectable manufacturing capability. Future consumers want customisation, speed and quality, with products that are intuitive to how we live. If the government, universities and businesses come together and truly collaborate, manufacturing can get off the ground once more. Proximity is something we can learn from China. Its dedicated manufacturing zones greatly improve speed of development, the overall value chain and information flow (word of mouth). Close proximity of plants and students could increase innovation, drive forward new start-ups and support the growth of SME's. Information on product demand, complimentary products, aggregated sourcing, distribution etc could materialise and go some way to countering the inflationary cost of local supply. Innovative products that are unique could create new exports markets. The success of future production outside of China will rely on optimising productivity, safety, waste and communication.

Over 200,000 manufacturing jobs were lost in Australia since 2008. If Australia managed its commodity boom with vision and its citizens in mind, options were available for it to leverage its commodity exports to benefit the wider economy and drastically improve the government's budget deficit. Norway for example, developed a sovereign wealth fund, also known as the oil fund. Established in 1990, it was created to invest surplus revenues from the sale of its nation's oil. To date, it has generated over \$1 trillion in assets and owns 1.4% of global shares/stocks. It has a value per capita of circa \$200k. As the fund is not connected to the economy of Norway, it plays a key role in de-risking the country. It is linked to over 9000 companies across 70 countries. Whether its exposure in overseas investments and fiscal products adds alternative risks, is a fair question, but the concept seems solid, strategic and allows Norway to maximise on its natural resources and invest in any number of key issues for the country's future, from pensions, R&D, NPD and other initiatives that benefit the people.

Another option is for Australia to create zones across its land mass that locate all manufacturing and industrial focussed universities (design and engineering) together? There is nothing wrong in mirroring key elements that make Chinese production have high velocity, productivity and efficiency. Couldn't the Australian government offer tax breaks, as well as mandate public procurement to allocate 30% of public spending to these organisations at full terms for a period of time to assist with operational cashflows? With time and maturity, Start Ups and SME manufacturing operations would thrive domestically and soon find export markets such as Indonesia etc. These are just ideas and we in Jigsaw admit, this is not true capitalism, but it is a far better use of taxpayers revenues than supporting zombie companies that make no profit or overseas businesses that contribute little to taxes. In fact, why can't we take a leaf out of Norway's thinking and fund this movement with a sovereign wealth fund? Both options are complimentary to each other.





## Mining

Mining is a mixed segment at present. If you are in the game of mining precious metals, uranium or strategic metals, or even copper (up 25%), then you are in a bull cycle that could last 5 – 10 years. If you are in the space of coal or alumina, then the markets are somewhat more adverse. For certain raw materials the surge in price increases are more to do with reckless monetary policy than supply bottle necks. Silver for instance, although used as an industrial metal with obvious supply issues forecasted, also doubles up as a monetary equivalent, in some cases exceed gold (China and India as examples). The combination of supply shortages, a surge in retail investor discovery of the metal and it being a well-supported safe haven asset when confidence in fiat money is low, will ensure the current \$30 per ounce price point will triple. On the flip side, Alumina, has been impacted by reduced production of the automotive sector. Japan, a key customer for Australian exports (\$840m in 2019 of Alumina) to support its car sector, has placed pressure on the price of alumina, settling on \$79 per tonne for the 3rd qtr. In May, demand slipped to an 11 year low for rolled products.

China is quickly needing to transition from investing in infrastructure using huge amounts of leverage to consumption. This does not explain why China's steel mills are at max capacity or the surge in Iron Ore prices, which Jigsaw forecast are not sustainable and will dip prior to Xmas, have gone from \$80 to over a \$100 per tonne. Brazil and the impacts of COVID-19 explain some of the price inflation, and as viewed by "The Economist" China's default response to economic stress is to build bridges and buildings (The US response is to buy stocks and bonds). According to JP Morgan, overall demand for Ore is weakening and the current surge is due to depleting inventories at the ports, and by Sept 2020, these inventories will be re-stocked and Vale in Brazil will be the primary dealer moving forward.

Copper is probably one of the greatest markers for economic health. If you ever feel the media or your financial planner are giving you mis-leading advice, a deep dive into copper demand can often give a clearer line of sight to the state of the economy. Copper is used across such a wide range of industries and utilities and can be supplied by multiple countries, it touches most of the tangible non service sectors from telecoms, manufacturing, mining and electronics. Coppers usage is 50% weighted to buildings, 20% to infrastructure and the remaining demand covers transport, consumer items and industrials. If demand for the metal decreases globally, then production demand is weakening across most sectors. Copper prices are forecasted to increase over the coming years and demand will likely double, as China and more importantly India, create huge surges of demand for the base metal for the production of modern technologies, infrastructure development and supporting an ever maturing base of newly created localised market sectors. India, although often seen as an alternative market for capital outside of China, will be a complex proposition for western markets. India is keen to ring fence its own economy and be far less reliant on outside forces. As a result, companies seeking to enter this market will be exposed to huge risks as policies and regulations are volatile for international companies in India, as their agenda is to support National entities. This will/has resulted to large international companies preferring to own minor share holdings (non-controlling) in already established Indian businesses that are primed for growth, where returns can be gained with less exposure to regulatory risk. This National mind set of India, although common and maturing across many Nations, may not provide India with the best outcome long term if it is keen to exploit the global alienation of China. More interesting will be how the demand for copper will play off re the demand for environmental integrity. Copper extraction will create huge demands of energy and land destruction. Copper has unique properties, which means substitutes are hard to find.





The future of mining supply chains seems overall to be exciting. Historical issues that impact the supply chain include human safety, efficiency and production. Automation of drilling and loading are two examples that can greatly increase human safety whilst optimising commercial impacts. For example, the old school truck and shovel model is terribly inefficient. There is huge supply chain down time as HME attempts to load raw material to be distributed across the project site. Fluctuating loads, wear and tear, human safety, swing motion, vehicle utilisation can all be drastically improved with automation, digital cameras, RFID etc. ROCE will be much higher in future, lowering the cost of production via optimisation of safety, efficiency, production and reduced capex.

As touched on in our manufacturing sector, Australia needs to better manage its strengths (exporting materials to Asia) with developing new markets to protect its economy. With rising demand for exports, high cost players enter the market, this then impacts the currency, pushing it adversely higher. This higher currency increase labour costs and other economic inputs, this then places further pressure on other industry sectors who are competing for talent or attempting to produce complex products.

