



TURBULENT TIDES: SHIPPING & INFLATION RISKS FROM DROUGHT AND WAR

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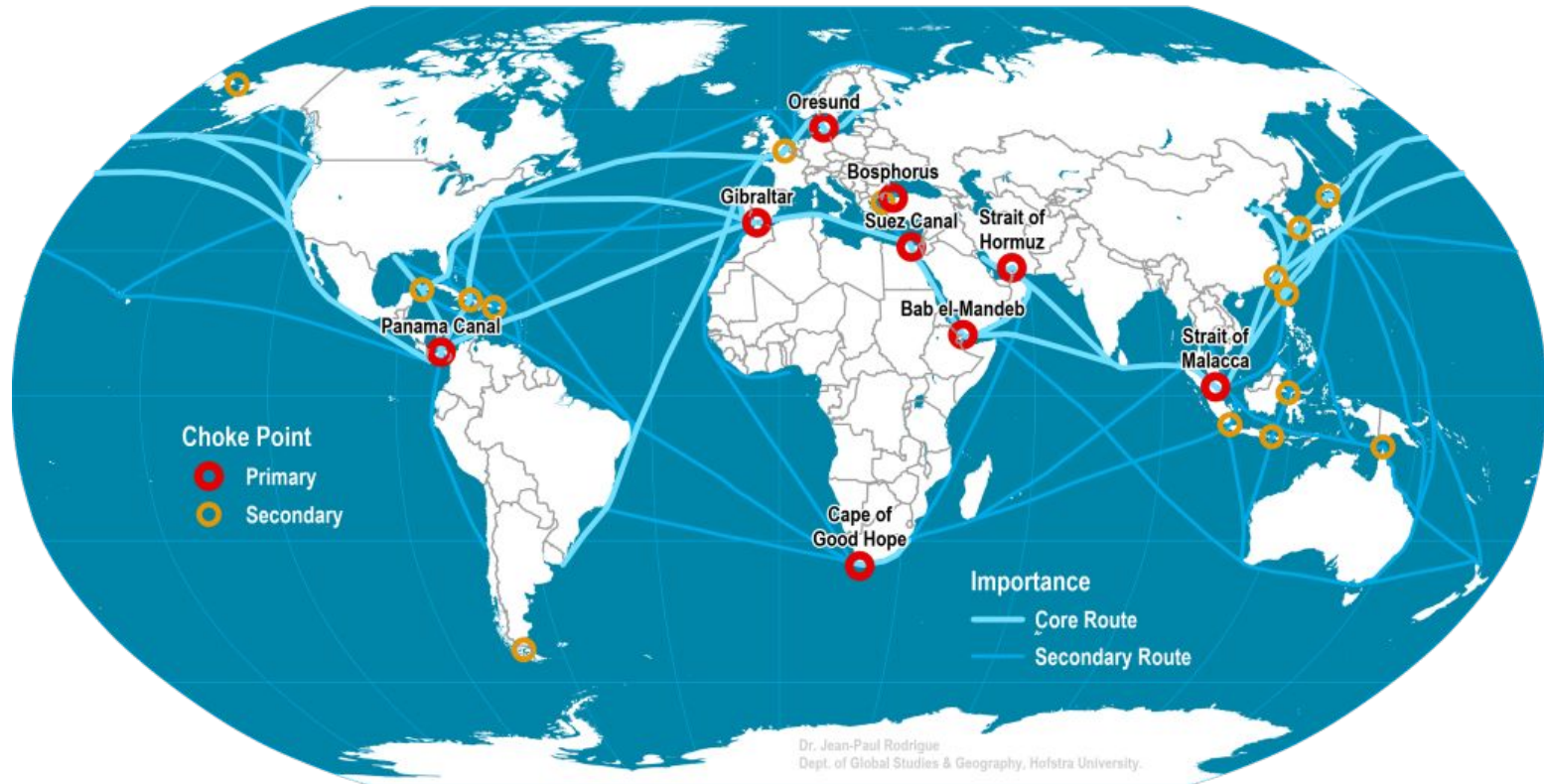
Agenda:

- Inflation risks rising?
- Red Sea shipping
- Panama drought
- Capacity
- Goods demand
- System flexibility
- Greedflation
- Inventory cycle
- Geopolitics

Last time the Suez was blocked:



Shipping choke points:



Red sea shipping:

- Houthis firing missiles, attacking
- Largest companies are avoiding
- Doesn't affect oil to asia. Does affect oil to Europe
- Asia/Europe trade goods most affected
- Can cost millions to go around. Note pay \$500k+ to get through

Panama:

- 24 ships vs 38 prior
- 3% global traffic
- \$4m to skip queue
- +2 weeks to shipping from US east coast to asia (roughly the same whichever way you go)
- LNG = \$2m extra. 5-10%

Back of the envelope:

- 1-5% to oil price (and this is only part of the price)
- 10-20% for containers (but transport only a small part of price)
- 5-10% for LNG. But maybe more about location
- Positive for oil demand (but OPEC+ furiously cutting production into falling prices)
- Takes 1 week longer for Asia to Europe. 2 weeks US east coast to asia
- Affects low value cargo more than high value
- Impetus to change. Eg US to Europe, Qatar to

Choose themes to screen from your portfolio away from (i.e. remove stocks)

Climate Change

War

Human Rights

Health

Vices

Animal Rights

Religion

Asset Class

Thematic

Climate Change

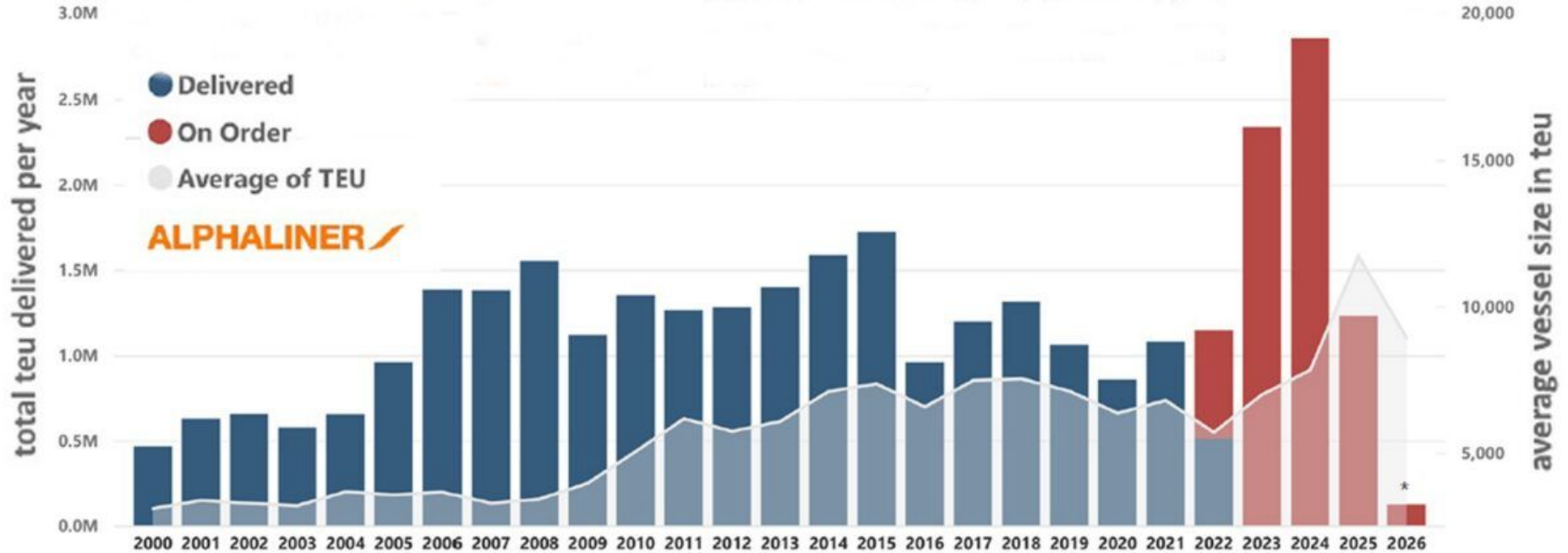
- No Fossil Fuels (Worst Offenders) 
- No Fossil Fuels (Any) 
- No Coal Seam Gas or Fracking 
- No Nuclear Power 
- No Old Growth Forest Logging 

Geopolitics:

- Iran escalate?

Capacity:

Actual and projected container ship deliveries from 2000 to 2026



Goods demand:

Global trade falls at fastest pace since early pandemic

Annual change in global trade volumes, %



Source: CPB

© FT

Typical Cycle:

Steady State

	Period 1	Period 2	Period 3
Retailer			
Sales	100	100	100
Inventory	150	150	150
Inventory / Sales	1.5	1.5	1.5
Wholesaler			
Sales		100	100
Inventory		150	150
Inventory / Sales		1.5	1.5
Manufacturer			
Sales			100

The retailer assumes they will keep selling 100 units. They want to keep their inventory at 1.5X sales and so orders another 100 units from the wholesaler

The wholesaler effectively does the same thing with the manufacturer.

Typical Cycle:

Drop in Sales

	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6
Retailer						
Sales	100	100	100	90	90	90
Inventory	150	150	150	160	135	135
Inventory / Sales	1.5	1.5	1.5	1.8	1.5	1.5

Sales drop to 90, so now inventory is 160. But the retailer only needs 135 of inventory (1.5×90 of sales)

Wholesaler						
Sales		100	100	100	65	90
Inventory		150	150	150	185	135
Inventory / Sales		1.5	1.5	1.5	2.8	1.5

So now the order is only 65 units, then back to 90

Manufacturer						
Sales			100	100	100	40

And the order for the Manufacturer is only 40

- Sales Growth**
- Retailer
 - Wholesaler
 - Manufacturer

	Period 4	Period 5	Period 6	
		-10%		
			-35%	
				-60%

The drop in sales gets exponentially larger the further down the supply chain

Typical Cycle:

Increase in Sales

	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10
Retailer										
Sales	100	100	100	90	90	90	100	100	100	100
Inventory	150	150	150	160	135	135	125	150	150	150
Inventory / Sales	1.5	1.5	1.5	1.8	1.5	1.5	1.3	1.5	1.5	1.5
Wholesaler										
Sales		100	100	100	65	90	90	125	100	100
Inventory		150	150	150	185	135	135	100	150	150
Inventory / Sales		1.5	1.5	1.5	2.8	1.5	1.5	0.8	1.5	1.5
Manufacturer										
Sales			100	100	100	40	90	90	150	100

Sales rise to 100 so now inventory is low and needs an extra big order to restock

Same for the wholesaler

And the Manufacturer booms

Sales Growth

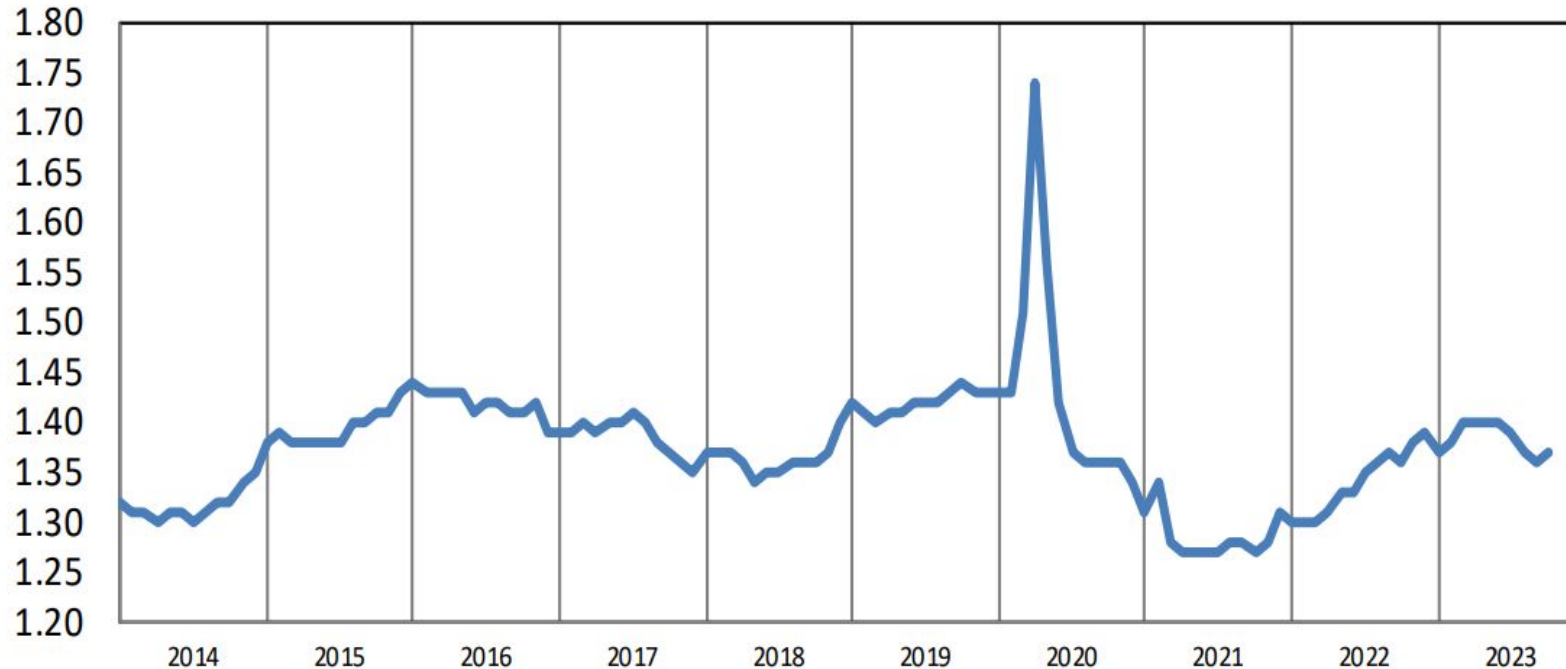
- Retailer
- Wholesaler
- Manufacturer

	Period 7	Period 8	Period 9
Retailer	11%		
Wholesaler		39%	-20%
Manufacturer			67%
Manufacturer (Total)			-33%

The rise in sales gets exponentially larger the further down the supply chain

Inventory cycle:

Total Business Inventories / Sales Ratios: 2014 to 2023



Source: U.S. Census Bureau, Manufacturing and Trade Inventories and Sales, December 14, 2023.
(Data adjusted for seasonal, holiday and trading day differences but not for price changes)

Inventory cycle:

- Destocking probably over

Personalise Your Portfolio

Screens

You can exclude the below to customise your portfolio

Climate Change	War	Human Rights	Health	Vices
Animal Rights	Religion	Asset Class	Thematic	

- No Fossil Fuels (Worst Offenders) ?
- No Fossil Fuels (Any) ?
- No Coal Seam Gas or Fracking ?
- No Nuclear Power ?
- No Old Growth Forest Logging ?

Tilts

You can add the below to customise your portfolio

Investment Style Factors	Climate Change	Technology	
Consumption	Commodities	Military	GICS Sectors

- Quality Stocks ?
- Value Stocks ?
- Growth Stocks ?
- Defensives ?



Personalise your portfolio now >



Build Your Portfolio

Need help with this page? Video Tutorial

- Account Selection
- Investment Choice
- Risk Profile
- Build Your Portfolio**
- Ethical Overlay
- Review
- Applicants
- Bank Details
- Compliance
- Final Review

Portfolio Tilts



Quality Stocks

Value Stocks

Growth Stocks

Oil & Gas Stocks

Gold Stocks

Agribusiness

Large Technology Stocks

Cloud Computing Stocks

Robotics/AI

Video Gaming

Cybersecurity

Clean Energy

Defensives

Battery Supply Chain

Nuclear Power

Defense Contractors

Travel

Luxury Goods

Logistics

Global Communication Services

Global Consumer Discretionary

Global Consumer Staples

Global Energy

Global Financials

Global Health Care

Global Industrials

Global Information Technology

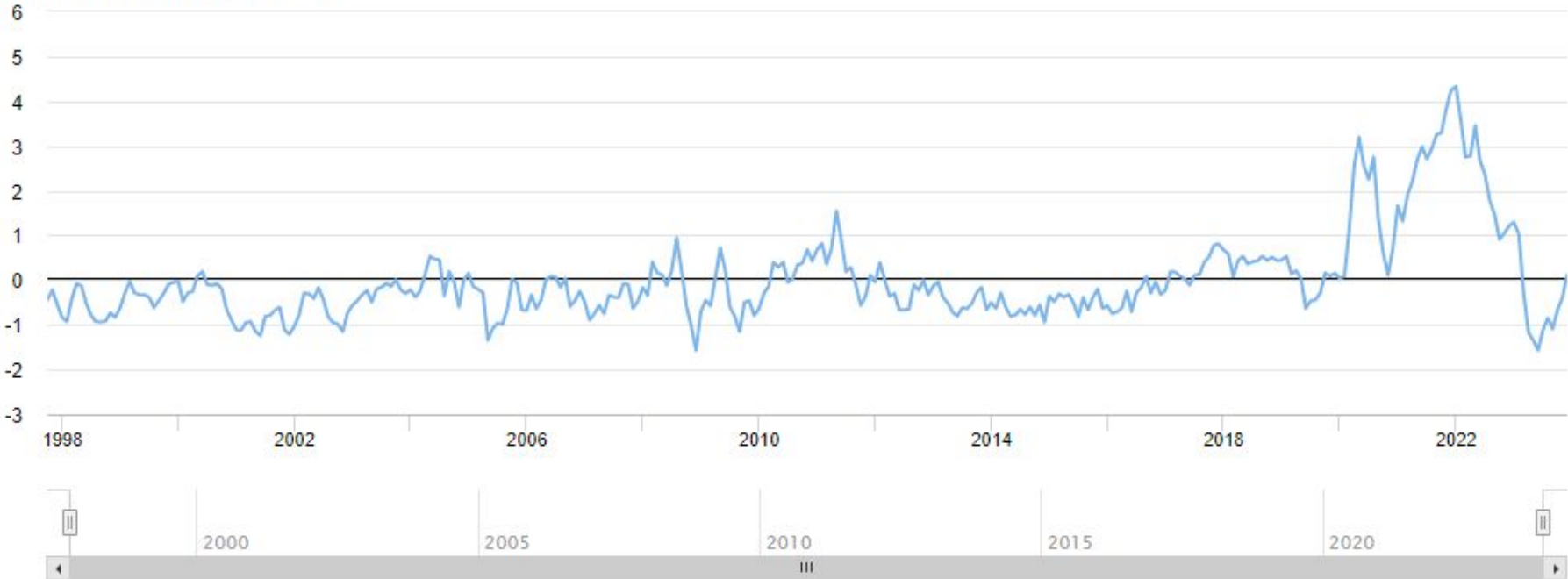
System flexibility:

- System flexibility
- Greedflation
- Geopolitics

Global Supply Chain Pressure Index (GSCPI):

Standard deviations from average value

From To



Viewer question of the week:

Are supply chains about to break again?

Drop your answers in the comments

Investment Outlook

- It is a concern. But last time this was the sprinkles on top of the icing on top of the cake.
- Maybe it is the start of something more concerning. But on its own, not going to cause the same problems that we saw last time

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