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2MEOGA

Part 2: Recession and Low Sales Looming. How to Make 2MEOGA Companies Recession-Proof to Reduce the Scorching Impact- Situations and Actions

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When the US economy sneezes, the world catches cold - Anonymous

Part 2 (Continued in Part 1, published in the last issue)

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1.0 How Low Sales and Recession will Impact the 2MEOGA Market

The announcement and likelihood of recession bear from the low sales - moving in a small range, not to create enthusiasm for new investment - and the stubborn unemployment-signalling overall purchasing power diminished with only necessary purchasing across the board. It is supposed to change short-term customer behaviour. For example, such situations prompt the players and the people to move purchases from shares to gold and other precious metals, from share and mutual funds to fixed deposits. For 2MEOGA commodities, some sectors will grow, and some will stagnate[1,2,11,12].

Let us examine how the situation is likely to unfold from now till about 2 years.

1.1 Base Metals

The base metals market includes copper, zinc, nickel, tin, lead, aluminium, and iron and steel. Base metals are already in for a subdued 2024 with weak demand damping any bullish supply pressures, judging by the latest sentiments from the market. Only copper and aluminium are expected to see average higher prices this year and expected gains relative to 2023 are highly modest at 2.8% and 2.1% respectively.

Zinc, lead and tin are all expected to decline in price, albeit to an equally modest degree. Beyond 2024, the longer-term view on zinc prices remains below 2022 levels. The forecast is for zinc prices to average USD 2,580/tonne over 2024-2028. Nickel is the stand-out. It probably boasts the strongest demand profile thanks to its use in electric vehicle batteries but is being swamped by a wave of new production from Indonesia.

1.2 Copper

As of July 26, 2024, copper prices fell below $9,000 a ton for the first time since early April due to a global stock market selloff and rising pessimism about demand in China and elsewhere. The industrial metal has dropped by about 20% since its mid-May record high, driven by concerns over increasing inventories and weak conditions in the global spot market. The falling copper prices are further worsened by a significant selloff in global technology stocks and doubts about the growth of the artificial intelligence industry. The AI industry had previously boosted copper prices due to anticipated surges in data centre use and power infrastructure. Gong Ming, an analyst at Jinrui Futures Co., noted that global growth concerns could drive copper prices lower, although prices might find support around $8,900 due to potential supply risks (Figure 1).

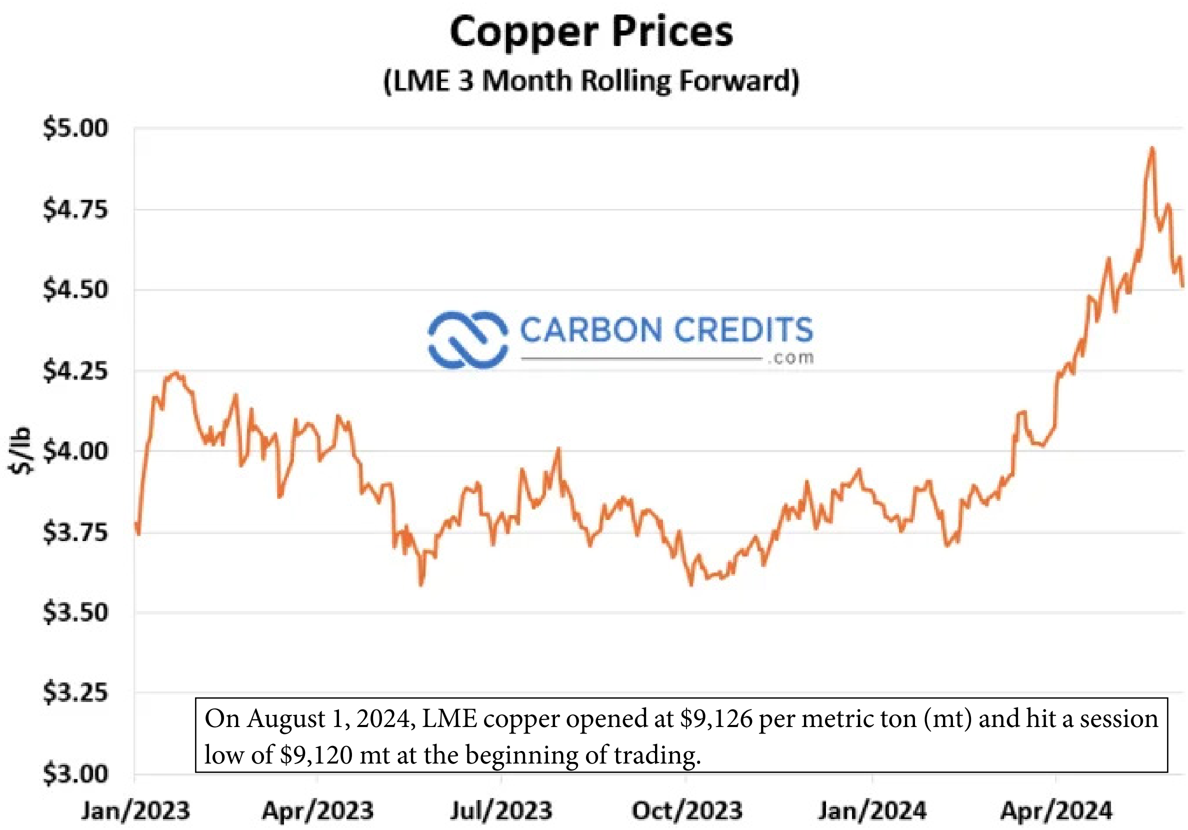


Figure 1. The price movement of copper in the London metal exchange[1].

1.3 Oil and Gas

Crude oil prices lost over 15% in early Q2 24, as macroeconomic developments have been failing to provide meaningful support for oil, which has its problems to deal with (for example, Russia overproducing in April despite commitments to slash production along with other OPEC+ members).

On June 4, 2024, Brent crude prices fell to $76/b, while West Texas Intermediate (WTI) prices to $72/b following the OPEC+ meeting on June 2, when the group announced that 2.2 million barrels per day (b/d) of voluntary cuts would gradually be unwound beginning in the fourth quarter of 2024 (4Q24). Prices fell following this announcement as market participants assessed that unwinding production cuts could cause a significant increase in global oil inventories. However, crude oil prices bounced back from six-month lows to average $82 (Brent) and $79 (WTI) per barrel in June[1,11,12]. The oil market's outlook for Q3 is likely to depend quite a lot on whether there's any sign that demand can sustainably pick up to match what looks like a very ample and increasing supply. So far, those signs are hard to spot. According to the latest crude oil forecast, prices may continue to increase for the remaining 2024. Oil price prediction for 2024 indicates the market should gradually return to moderate inventory builds in 2025 after the expiration of voluntary OPEC+ supply cuts in 4Q24 and after forecast supply growth from countries outside of OPEC+ begins to offset growth in global oil demand. EIA forecast Brent crude oil prices will average $89/b for the remainder of 2024 and $91/b in 1Q25. Oil price prediction for the next 5 years and beyond: some expect demand for fossil fuels could fall in the medium-to-long-term, leading to a lower oil price in 5-10 years (Figure 2). EIA expects the average Brent crude prices at $61/bbl in 2025 and $73/bbl in 2030[2].

1.4 LNG

The global LNG market now connects 20 exporting with 51 importing markets, while supply is currently the primary limiting factor on growth. After two years

Figure 2. The price is trading between the 200-day and 50-day moving averages.
Courtesy: WTI Oil Weekly Chart - Source: CAPEX WebTrader.

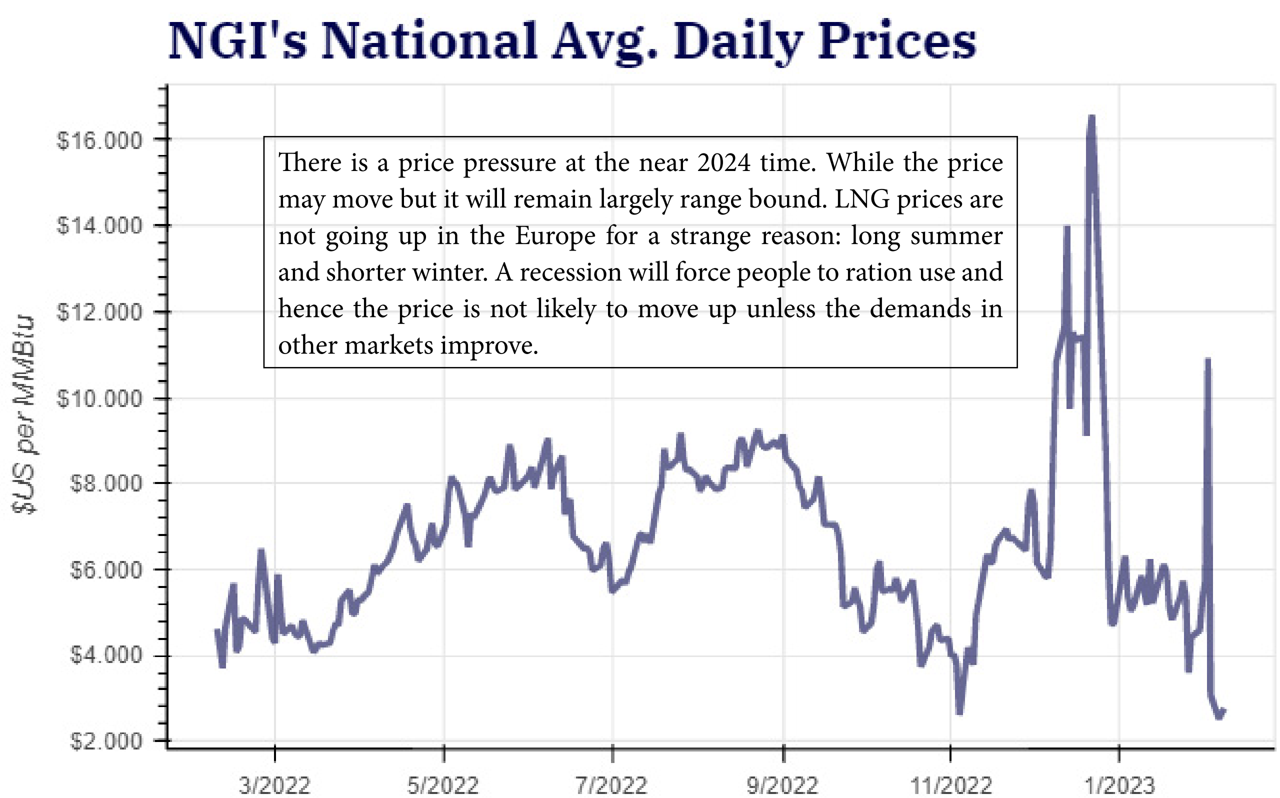


Figure 3. Natural gas futures closed near flat after gyrating on both sides of even 3rd August 24 as a race between hot summer demand and rising production continued to play out in setting market balances.

of severe turbulence, the LNG market has a newfound but fragile equilibrium, given the lack of spare supply in the near term. LNG receiving capacity growth has been shaping market development over the past 24 months, as it reached an impressive 1,029.9 MTPA at the end of February 2024, adding almost 70 MTPA in 2023 and making it the highest year of new additions since 2010. The global LNG market continues to rapidly evolve as it responds to growing gas demand in emerging markets, the increasing number and diversification of market participants, and the acceleration of technology development and innovation. However, several major uncertainties confront the supply-constrained market, contributing to the fragility of its current equilibrium.

1.5 Energy Market

If we consider the US energy sector as the bellwether for the energy sector of the world we get some critical insights. In 2024, the stock market's energy sector is off to a solid start, its performance ranking in the top half of the SandP 500 sectors. The energy sector's 13.75% return (through July 18, 2024) still lags that of the index (+17.13%) but reflects improved prospects for energy companies in 2024. Energy stocks were particularly strong at the start of 2024, as investors responded favourably to an uptick in oil prices[9]. Oil prices levelled off since, and energy stock performance moderated as well. Energy prices often tend to drive the direction of energy stocks. Energy sector performance soared in 2021 and 2022, a response to higher oil prices. But in 2023, oil prices were flat to lower, and energy stocks followed suit. Higher 2024 oil prices likely contributed to the initial boost for energy stocks, but natural gas and heating oil prices continued to decline. Prices for all key energy products remain significantly lower than 2022 peaks (please see Table 1).

All prices are published by the U.S. Energy Information Administration. Crude oil price per barrel: West Texas Intermediate (WTI) – Cushing, Oklahoma. Gasoline: U.S. regular all formulations. Natural Gas: Henry Hub natural gas spot price. Heating Oil: No. 2 Heating Oil Prices: New York Harbor. Recent prices are the latest prices reported as of March 1 to 11, 2024. All data was retrieved from FRED, Federal Reserve Bank of St. Louis.

The managers will face cost pressure, no doubt. The U.S. oil production is high, but OPEC-plus (Organization of Petroleum Exporting) countries are capping output. While oil prices are well down from their 2022 peak, the oil industry remains well positioned. "The key for drilling companies is that the cost of production remains lower than crude oil's market price. That continues to make the business profitable for well-managed companies."

1.6 Aggregates Market

The market makers paint a rosy picture for the aggregates. The global aggregates market was valued at US $359660 million in 2023 and is projected to reach US $483180 million by 2030, at a CAGR of 3.9% during the forecast period. The USA market for global aggregates market is estimated to increase from USD million in 2022 to reach USD million by 2030, at a CAGR during the forecast period of 2023 through 2030. The China market for global aggregates market is estimated to increase from USD million in 2022 to reach USD million by 2030, at a CAGR during the forecast period of 2023 through 2030[3].

Typically, in recessions, the demand for houses declines and as a result house prices will fall. This was the case in the last recession back in 2008 when the housing bubble burst and the recession began. The money either holds the project together or allows it to fall apart. The success of any construction project depends on the cash flow. During the time of economic slowdown investors lose faith in the economy and due to divestment, the capitalization of

Table 1. The recent energy price slump and the guidance by the author

Category	2022 Peak Price	2023 End Price	Recent Price	% Change from Peak	% Change Year-to-Date	Recession related Guidance
Crude Oil (barrel)	$123.64	$71.89	$83.22	-32.7%	+15.8%	US price may come down by 5-10%
Gasoline (gallon)	$5.01	$3.12	$3.50	-30.1%	+12.2%	US price may come down by 4-8%
Natural Gas (mil. Btu)	$9.48	$2.53	$2.10	-78.7%	-17.0%	Industrial activity remains subdued, the prices will remain under pressure.
Heating Oil (gallon)	$5.15	$2.44	$2.38	-53.8%	-2.5%	Dependent majorly on the spread of the winter, prices will remain under pressure.

Figure 4. Treat the information in the figure with caution; recession will unsettle it.

the construction firm declines. With a smaller number of investors, the firm needs to sell the property/flats at less value and thus their profit margin shrinks. Moody's Analytics predicts that if an economic recession hits, the result will be a 0% house growth, year-over-year for the country, and 15-20 % house price cuts for areas where the housing markets are overvalued. As a result of the decrease in demand for housing, the construction of new homes will also slow down dramatically. Consumers tend to spend less during a recession, so home prices may drop with demand[4].

2.0 Recession Proof Strategies

In addition to choosing a recession-proof industry, businesses can also try to be more resilient and adaptable during an economic downturn. Some strategies include:

- Diversifying revenue streams
- Maintaining strong customer relationships
- Building a cash reserve
- Leveraging technology
- Planning for the worst
- Boosting online presence
- Keeping costs under control
- Adapting to changing market needs
- Investing and re-assigning team functions
- Investing in soft marketing in unknown territories
- Rationalizing ongoing investment
- Building stocks for a better price
- Innovate from the competition and solve the challenges that prevent you from reaching your ambitions

2.1 Zero-Based Transformation (ZBT)

ZBT is a rigorous budgeting and resource allocation process that challenges every expense, regardless of its historical precedent. Unlike traditional cost-cutting, which often involves across-the-board reductions, ZBT is a more surgical approach that aims to optimize every aspect of the organization. ZBT originated in the 1970s and has been periodically embraced by companies facing economic downturns. In recent years, its popularity has surged.

The core principles of ZBT include a focus on strategic alignment, rigorous cost scrutiny, data-driven decision-making, and continuous improvement. A successful ZBT initiative involves a thorough analysis of all expenses, the identification of non-value-adding activities, and the reallocation of resources to support the organization's strategic goals.

ZBT is the "methodology" for companies intending to strengthen their long-term performance and pivot in new directions. Derived from the well-known Zero-Based Budgeting (ZBB) approach, ZBT resets ways of working by looking across the entire organization to find and eliminate waste, create design choices with initiatives that balance costs and sustainability, and discover opportunities for resource conservation.

One of the most significant areas where ZBT brings tremendous results is marketing and sales – and I am thinking of driving efficiency in marketing and sales and not cutting marketing or sales. The typical concern of the CEO is: 'How can I identify my working marketing spending from non-working marketing spending? And how do I turn my non-working marketing into working marketing?" Zero Based Transformation allows them to make fact-based decisions. Companies can more efficiently analyze material costs: supply chain, manufacturing, or maintenance.

3.0 Production Strategies in the 2MEOGA Industries

Historically, production has been more susceptible to recessionary forces than other sectors of the economy—but it's also worth noting the industry has experienced faster recovery periods, as well[5].

2MEOGA producers must adjust and navigate through recessions. One must prepare their teams for recessions, do much better and emerge more quickly from these downturns. Downturns are a natural part of the market cycle, and the more prepared a company can be heading into a downturn, the more likely it will survive and thrive during the recovery.

4.0 Things Producers Can Do Differently

Conventional wisdom would lead companies to cut back during a recession by scaling back investments

Figure 5. Risk tolerance. (Courtesy: https://www.netsuite.com/portal/resource/articles/business-strategy/recession-proof-your-business.shtml)

and restructuring staff. Innovations are more effective; innovating in the face of adversity can give producers a competitive advantage, positioning them for greater growth when the economy warms back up. Whereas remaining stagnant further stalls growth.

Companies that focus on improving productivity through better use of talent and equipment and optimizing operations by investing in technologies that increase efficiency and productivity, can improve their ability to compete, both in the short and long run. This makes producers more resilient and responsive to the needs of customers, helping them build loyalty and gain market share.

5.0 Two Ways Resilient Producers Position Their Organization

5.1 Invest in the Future

According to an analysis by Deloitte, a basic instinct is to cut back on capital investments and wait for the recession out. But for companies that invested in technology during the years leading up to a recession, the analysis reports, “These manufacturers observed much higher revenue growth in the recovery following a manufacturing downturn.”

Industry experts suggest adding Industry 4.0 technologies and investing in process improvements and critical employees. Digital transformation can also help improve organizational resilience and responsiveness to customers. For example, Augmented Reality (AR) stands out as an innovative technology that has been proven to deliver a 90% improvement in quality and a 50% improvement in throughput across many industries and applications. Producers who implement process improvement technologies can now expect short-term gains in quality, efficiency, and productivity that have long-term dividends[5,6].

5.2 Enhance Supply Chain

When it comes to strengthening the supply chain, resilient manufacturers are focused on[7]:

1) Diversifying supply chains
2) Maintaining leaner, more efficient inventories

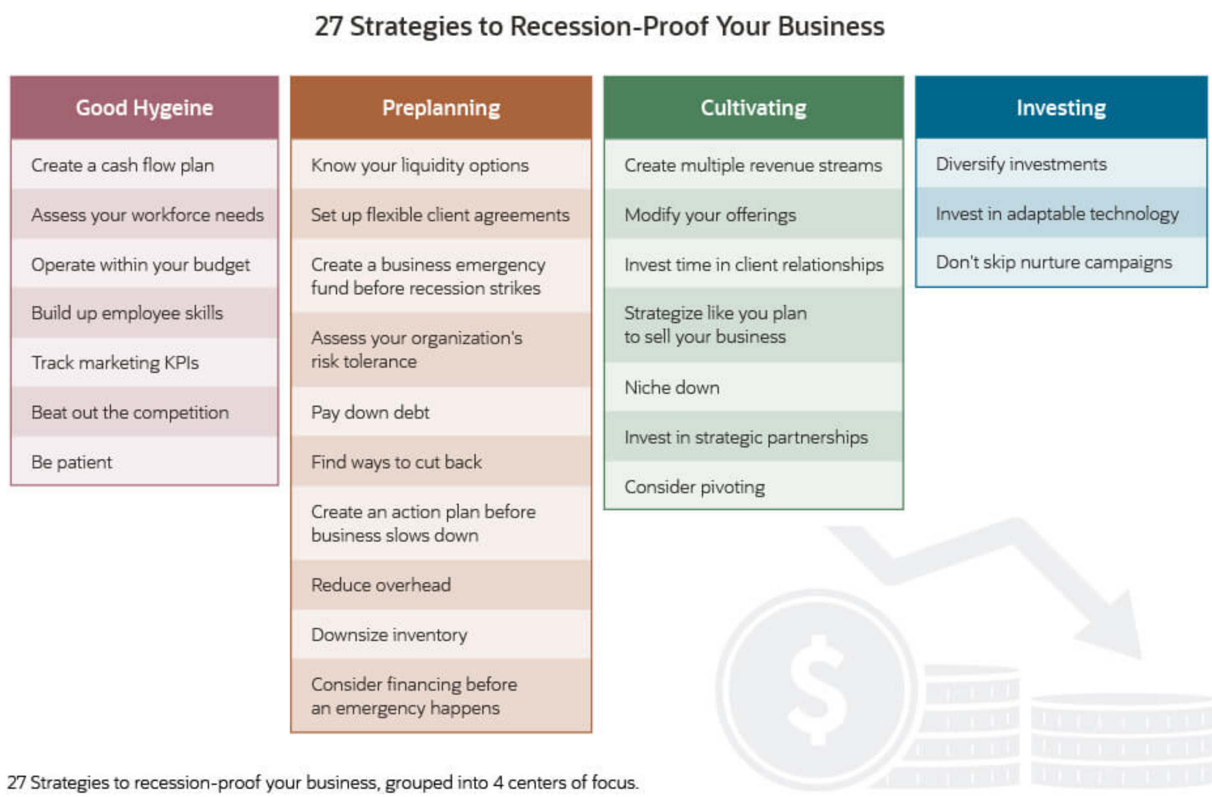


Figure 6. Strategies for recession proofing. (Image courtesy: https://www.netsuite.com/portal/resource/articles/business-strategy/recession-proof-your-business.shtml)

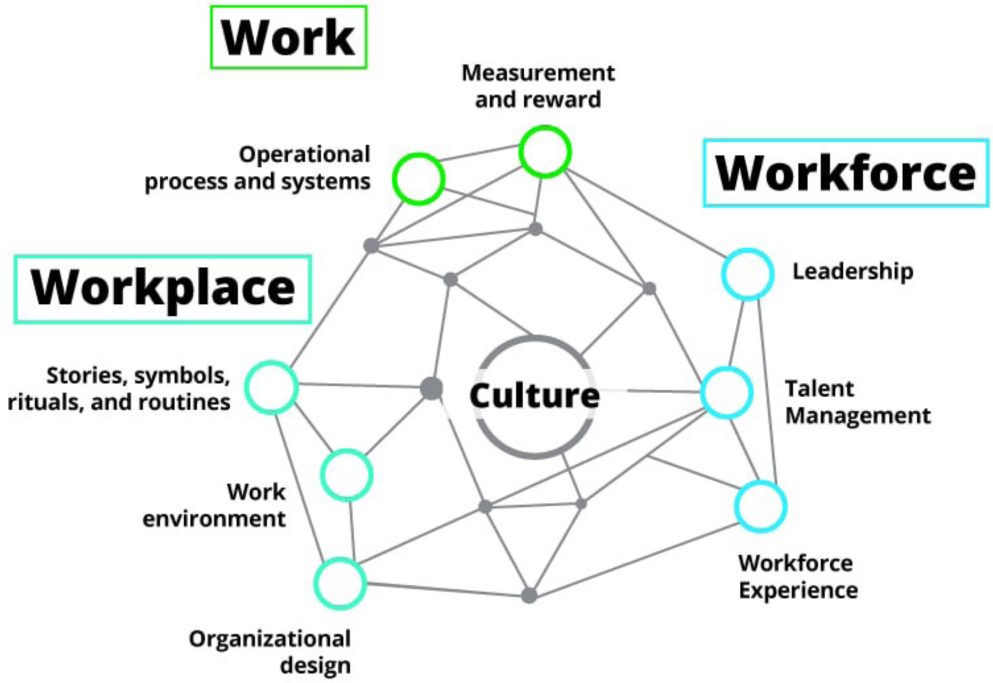


Figure 7. Recession-proofing change management and leadership. (Courtesy: https://www.google.com/url?sa=iandurl=https%3A%2F%2Fwww2.deloitte.com%2Fus%2Fen%2Fblog%2Fhuman-capital-blog%2F2023%2Fchange-leadership-during-recession.htmlandpsig=AOvVaw1ZXtFFAd0jtOZE25VDZUSuandust=1722857436114000andsource=imagesandcd=vfeandopi=89978449andved=0CBEQjRxqFwoTCJCVhKee24cDFQAAAAAdAAAAABAQ)

3) Optimizing production operations to generate more and waste less

By allocating resources to build new supply chains, manufacturers can better handle the risks of international supply disruptions and drive economic growth in their communities. A recession is also a good time to develop “smart partnerships” with reliable companies to deliver mission-critical services that help lower costs and maintain or improve reliability. These partnerships can range from modern technology to a partner that directly optimizes operations or an external partner that helps with the logistics and transportation of goods.

It’s important to establish connections with partners that do their due diligence to prevent challenges (especially related to supply chain issues) by investing in process improvements and technologies. For example, augmented technologies, such as projected AR, can be used to standardize and streamline processes for increased productivity and quality to guarantee the delivery of goods on time, within budget, and to standard[10].

6.0 Organizational Change

6.1 Change Management to Shape Organizational Culture

During periods of uncertainty, the organizational levers can be used to combat the ambiguity and disengagement many employees experience while driving clarity of purpose and value. Culture is rooted in sustained behaviour patterns that are supported by an organization’s shared experiences, values, and beliefs. Culture transforms individual employees into a collective, cohesive whole and is continually reinforced over time as an organization makes business decisions, confronts challenges, and implements new processes[7].

6.2 Developing Transformation Leadership Acumen

Leading through change has never been easy. In the current landscape of stalled economic growth and heightened talent expectations, coupled with organizations undertaking large, complex, and global transformations, effective leaders must embody agility and resilience, and need to possess exceptional "transformation leadership acumen."[7] Three things to do[11]:

i. What is changing — Direction
ii. How to change — Execution
iii. Who is changing — People

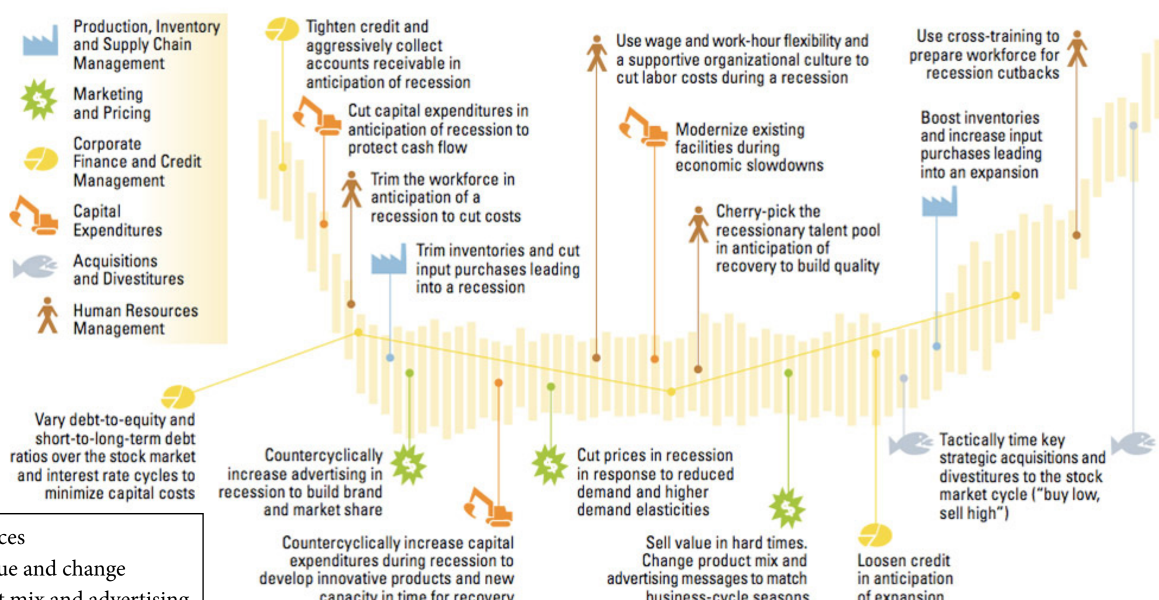
6.3 Strategically Designing and Delivering Training

To enable transformational change in today's economic landscape, training and upskilling must focus on providing the information needed, when it's needed, and prioritizing user experience[7]. When training is integrated seamlessly with a new system or ways of working, learners can "learn" and "do" in real-time, productivity is preserved, and employees are empowered and confident in taking on the new ways of working. In addition to training, Digital Adoption Platforms (DAP) offer in-app guidance to seamlessly support employees in navigating and engaging with new systems and processes from day 1. Today's employees expect and even demand intuitive systems and seamless, on-demand resources.

7.0 Final Words

As with the anticipation of the 2024 recession, the yield curve inverted well in advance of the downturn, now for more than 6 months. As an equally clear recessionary warning, the stock market has been showing a clear downward trend. The point is that any organization with a strong business-cycle orientation that has deployed appropriate forecasting capabilities should see trouble brewing. Organizations caught by surprise would learn a painful lesson: A recessionary economy can damage a company far more than any 10 competitors.

For managers, the most enduring lessons of the earlier recession and recessionary tendencies may well be that they must develop a much more comprehensive view of the business cycle and learn how to recession-proof their organizations. Senior management cannot delegate business-cycle management responsibilities to others in their organizations. All managers must become their economic forecasters, learn how to apply appropriate strategies and tactics throughout the business cycle and, over time, build their organizations with a strong business-cycle orientation and an appropriate structure and culture. Organizations that master the business cycle are made, not born.



1. Cut prices
2. Sell value and change product mix and advertising
3. Loosen credit rationally.
4. Strategic Acquisitions.

Figure 8. Comprehensive organization recession-proofing[8].

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