Proxy P

April 2019

Proxy P monthly market review

Markets in general

Global markets resumed the positive trend in April after facing some turbulence in March. The lagging hard economic data haven't improved much. The global economy is still experiencing some form of soft patch, but leading indicators are not deteriorating anymore. In China manufacturing PMIs have been stabilizing along with other "green shots" making the market comfortable that recent stimulus measures, approximately 6% of GDP in size, are actually working. In the US the Federal Reserve has been convincing the markets that rates will remain low and stable for longer without any risk of recession. Together with stronger than expected 1Q19 results, this has been supportive for the market. The well-being of Europe is dependent on two factors, strong demand from Asia and supportive exchange rate. The slowdown we are witnessing today is a result of the side effects of the euro appreciation from 2017 until spring 2018 in combination with weaker demand from Asia. Despite the challenges, the European markets have done quite well. The reason being a dovish ECB, a not too strong euro and if the US and Asian growth picks up, so will Europe.

Renewable sector

The Renewable Energy sector performed very well in April. According to an EIA published report about the development in the US power sector in 2018, 31 GW of power generation capacity was added last year. About 62% came from gas-fired plants and the rest, some 38%, from renewables, 50/50 wind and solar PV. 19 GW of capacity was retired, mostly old coal fired plants. According to EIA, wind and solar power generation increased by 550% between 2008 and 2018. However, Wind and Solar PV still only represent 8.7% of the total power mix. The trend is supportive for the sector and is set to continue and even intensify along with further price reductions in Solar PV and off-shore wind. From a de-carbonization perspective it is positive that coal generated power is being replaced by renewables and natural gas, but since power demand is increasing, the reduction in CO2 emissions will be limited. Therefore it is crucial that energy saving technologies is being supported from all perspectives.

The development in China is mixed. In 2018 the Chinese government cut back on subsidies for Renewables. The move was rational given the over-investments in capacity. It is also important for authorities, not only in China, to actively contribute to further price reductions. By cutting back on subsidies they are forcing developers and equipment manufacturers to be even more efficient. It is however a delicate balance and therefore we have seen some relaxation of policies lately. They are for instance restricting new coal-fired power projects in 8 regions, which is within the aim to reduce coal-fired power generation by 109 GW by 2020 and at the same time give priority to subsidy-free wind and solar projects. Total installed capacity is expected to reach 2000 GW in 2019, representing a total increase of more than 100 GW compared to 2018. Around 62 GW will come from Renewable generation capacity. On top of that China will launch their first program on the long-awaited national emission trading scheme in 2020. They began with a pilot trading platform in 2013 but it is not until now a full scale national ETS is ready to take place.

Oil and Natural Gas sector

The oil and gas sector also had a positive development in April with oil prices reaching USD 73/64 per barrel (Brent/Crude). President Trump pushed OPEC, like last year, to increase exports, but this time it seems like the Saudis have a different agenda now focusing on keeping global oil inventories tight in order to support prices. It is however a slow process. Despite issues in Venezuela, Libya and others, inventories are actually climbing in the US, so OPEC is set for indefinite lower exports to cure the problem with over supplied markets.

The State controlled Saudi Aramco had a large bond issue during the month which was heavily oversubscribed, in particular the 30 years issue. Chevron was bidding for a takeover of Anadarko Petroleum and shortly after Occidental Petroleum, supported by Warren Buffett, showed up with a higher bid. These activities made the market more comfortable about the outlook of the sector, and perhaps more aware of the attractive valuations.