Proxy P

June 2019

Proxy P monthly market review

Markets in general

After some market turbulence in May, markets recovered quite strongly in June. Despite weak economic data and no progress in the trade talks between US and China, markets felt confident about central bankers guiding for a more expansionary monetary policy. As usual the US central bank, The Federal Reserve, took the first step. Since January this year, FED has been quite neutral in their policy stance by saying they are happy with current Federal funds rate at 2.25/2.50% given economic activity and inflation outlook. Now they turned more dovish by saying they are concerned about the risks, i.e. from stranded trade talks to the economic outlook and they are ready to cut rates if necessary. US rates fell on the news and the dollar depreciated. A weak dollar means a strong euro which is not what the ECB wants given current weak economic activity in the Euro area and Germany in particular. Therefore it didn´t come as a surprise when ECB also guided for rate cuts later this year if necessary. The big event was the G20-meeting in Japan in the end of the month. The market was focusing on the trade issue. The biggest fear was tariff hikes on the remaining 300 billion dollars of US imports and a depreciating Yuan. None of that happened, instead US and China announced they will resume trade talks.

Renewable sector

In June more than 400 leaders from over 50 countries gathered in Dublin for the Global Conference on Energy Efficiency, the IEA´s largest-ever gathering. Normally the debate on energy is focusing on renewable energy sources and where new production capacity should come from, but energy efficiency technologies are equally important in order to cope with power demand and decarbonization. IEA is optimistic about recent development but stress there is still a lot to be done. Last year global growth was 3.8 % but energy consumption only increased by 2.1 %. Energy density has been improving in the last couple of years due to many factors but efficiency technologies are an important contributor. Co2 emissions from the power sector made a record high last year which is a great concern from a climate point of view, but in terms of growth it *only* increased by 1.7 %. That is less than energy consumption and an improvement compared to last year. According to a report from IRENA. renewables are the cheapest energy sources for new power generation in most parts of the world today. Additionally IRENA estimates that the cost of new investments in renewables will drop below the marginal operating cost of *existing* coal-fired power plants next year. Still the issue with base load factor is not solved but the development is promising. According to the European Commission, 8 of the 28 member countries plan to phase out coal-fired power generation by 2030; France, Ireland, Italy, Denmark, Finland, the Netherlands, Spain and Portugal. But it is not only the euro area that has ambitious targets. Governments of UK and Japan commit to net zero emissions by 2050. South Korea government confirms the target of 35% share of renewable in the energy mix by 2040, up from 5% last year.

Oil and Natural Gas sector

The oil and gas sector also had a strong development in June supported by the oil price which increased from 64/54 to 67/59 dollar per barrel (Brent/Crude). In particular refineries had a strong development in the end of the month. Refineries took a big hit in May back on poor inventory data and the intensifying trade conflict. In June that trade reversed with improving inventory data and expectations of a trade truce between US and China. The G20 meeting overshadowed the OPEC plus Russia meeting in the end of the month partially because the market was quite certain about the outcome. OPEC and Russia confirmed market expectations that they will maintain current production levels for the remainder of the year in order to keep inventories tight and support the price of oil.