Proxy P

July 2019

Proxy P monthly market review

Markets in general

After a turbulent May and a strong June markets had a somewhat more stable development in July. Markets felt happy about the trade truce between US and China after the G20 meeting in Japan and started to focus on the FED meeting in July. FED was expected to cut rates as a result of a more insecure global outlook. They had acknowledged slowing global trade as a consequence of the trade conflict and a particular weak Europe and Asia in terms of growth. But they have also highlighted some domestic issues. Less than a year ago they thought they could raise rates to above 3% without having any major impact on the economy. But after hiking nine times they have realized that the neutral rate is far from that high. The fact that US growth has declined from roughly 3% to 2% on an annual basis, core inflation slipping down to 1.6% and job creation being below 200k per month on average instead of above 200k, is supporting this view. In the end of July FED cut rates by 25 bps from 2.25 (2.50) to 2.00 (2.25). Markets were fully expecting and discounting the cut. ECB also announced some dovish intentions as a result of how FED is behaving. They have to. Otherwise the euro would appreciate making it even harder for European exporters and making a bleak European outlook even worse.

Renewable sector

The renewable sector had a fairly stable development in July in line with global markets. A lot of companies have been publishing their 1H19 results. The business activity in 2019 is in general stronger than in 2018, but lately they have felt the consequences of the global slow down and the decline in global trade. They picture a relatively cautious outlook for the remainder of the year, but they still feel rather optimistic about next year expecting a pickup in growth. The solar PV sector has had a stellar performance this year exceeding all expectations thanks to falling prices making installations more affordable. The wind sector is rather optimistic about top line sales, back on good intake of new orders. At the same time they feel a margin pressure holding back earnings growth. In the energy tech sector Efficiency companies are having a quite stable development back on solid demand. On the contrary, the storage sector is facing some headwinds back on slower sales of EVs and falling prices on batteries and battery materials such as lithium. This is a short term problem. The reason why EV sales has not been as strong as expected is due to the global slowdown and the simple reason that the cars are still too expensive because batteries are not cheap enough. But lithium prices are falling, 30% in the last 12 months, and with them batteries. This is a function of lower demand but more importantly the significant ramp up in supply. Just recently there were six new mines opened in Australia, while Chile will double their production in 4 years. Short term this is creating a pressure for the companies, but longer term it creates the foundation for the real paradigm shift. A shift when volumes outpace falling prices resulting in strong growth in the sector.

Oil and Natural Gas sector

The oil and gas sector had a fairly stable development in July in line with global markets and supported by a stable oil price. Despite the OPEC+ meeting last month which resulted in an agreement on holding back production levels in order to keep inventories tight, the market seems to be worried about their ability to be successful. The incident in the Strait of Hormuz were an oil tanker was attacked would normally have a significant impact on oil prices. But not this time. Saudi Arabia has been cutting exports to US but at the same time they increased their shipments to Asia. So from a global inventory point of view the inventories are still maintained. At the same time there is a concern about future demand due to trade conflict and whether it continues to have a negative effect on global trade and industrial production.

Past performance is no guarantee of future results. Investments involve varying degrees of risk and there can be no assurance that an investment will be profitable.