Proxy P monthly market review

Markets in general

August turned out to be a quite stable month after some initial negative market reaction. President Trump introduced, unexpectedly of course, some additional tariffs on Chinese goods. As a direct consequence the Chinese Yuan depreciated and markets fell. During this trade war, China has devalued their currency in order to protect exports. This is obviously positive for the US consumer and Chinese manufacturing. On the other hand the purchase power of the Chinese consumer and importers is depreciating with a weaker currency. This is negative for countries with high exposure to China such as Germany. In aggregate the trade war is negative for global growth for the simple reason global trade has been declining. Trade is highly correlated to industrial production which in the end is affecting global growth negatively. But there is a flipside to it. Rates have been falling, in particular in the US, as a consequence and the cost of servicing debt will follow through. As long as business and consumer confidence remain at current high levels one could expect that this positive effect will filter down to the real economy with some lag. This will be highly stimulating for the US economy next year. Which is also, perhaps not by coincidence, election year.

Renewable sector

The renewable sector had a fairly stable development in August in line with global markets. The European Union is taking a pole position in energy transition by developing renewable energy capacity, implementing decarbonisation targets and supporting electrification and energy efficiency technologies. By 2050, the EU targets reducing greenhouse gas emissions by 80% to 95% compared to 1990 levels. In 2018 CO_2 emissions from the power sector fell by 6.4% thanks to decline in coal-fired power generation that is replaced by gas-fired and renewable power generation. The EU Emissions Trading System (ETS) caps the emissions of approximately 12,000 companies through a market based system. Recently they announced they will withdraw 24% of outstanding allowance in order to reduce total emission volume by 2.2% per year from 2021 and onwards, compared to 1.7% per year for 2013-2020. European Parliament also approved new CO_2 emission standards for new cars and vans in 2030. In 2030 emissions will have to be 37.5% lower for new cars and 31% lower for vans compared to 2021. From an energy transition point of view, Poland is one of the most challenging countries in EU to deal with. Therefore it was positive news when the European Commission announced that it has approved EUR 417 million to a Polish support plan designed to compensate energy intensive firms for indirect CO_2 emission costs.

Oil and Natural Gas sector

Due to the ongoing trade war and President Trump introducing yet more tariffs at the beginning of the month, energy and energy stocks declined markedly. The uncertainty for future oil demand weighs heavy when expectations on weaker global trade and industrial production increase. Efforts by oil producers to convince the market that export curtailments will decrease inventories were ignored. Demand woes rules, even in the longer perspective. Oil and natural gas producers underperformed the actual price of oil. Natural gas producers were hit especially hard with inventory brimming globally. If any bright spot for the sector, cash flow and steady revenue for many oil producers are starting to attract attention. Big oil major Shell for example yields seven plus percent, before buybacks. Another bright spot is the refineries which started to recover towards the end of the month due to improved margins.