Proxy P *September 2019*

Proxy P monthly market review

Markets in general

September turned out to be a quite volatile month. Initially it recovered from a weak August but turned south after the FED meeting in the middle of the month. The trade war between US and China is having a negative effect on global growth due to falling global trade which is affecting industrial production and manufacturing negatively. The Federal Reserve acknowledged the problem with weak foreign growth and spillover effects on US manufacturing by cutting rates in their latest meeting. But at the same time they were quite hawkish from the perspective they feel comfortable with the current shape of the US economy and they see no risk of a looming recession. But the market does not seem to be as certain as FED. PMIs, not only in the US, are not improving from current very weak levels indicating a sustained weak economic activity. From that perspective the market would appreciate a stickier dovish central bank policy. It is important to highlight that current uncertainty is a result of the trade war. If we would have a trade agreement on the table the outlook and market reaction would be very different. That said, nobody expects a deal any time soon.

Transition in the Energy Markets

The renewable sector had a fairly stable development in September in line with global markets.

Germany has adopted the Climate Action Program 2030 to help achieve 55% emission reductions by 2030 compared to 1990 and net zero carbon emissions by 2050. In the energy sector this will be achieved through phasing out coal-fired power generation and boosting renewable power generation. Coal-fired generation assets are to generate 17 GW of electric power by 2030 and will be entirely phased out by 2038. To compensate, renewables will account for 65% of power consumption in 2030. The program establishes a national emissions trading system, ETS, as of 2021 for companies selling heating fuel and fuel for vehicles. The price will be set in advance and will start at EUR 10/tCO2 and rise to EUR 35 in 2025. Furthermore VAT on train tickets will be reduced from 19% to 7%. The government also committed a plan for developing the electric vehicle charging station infrastructure by 2025. A premium scheme for people buying electric or hybrid vehicles is to be continued and extended to cover vehicles costing less than EUR 40,000. Also first time registrations will be tax exempt until end 2025. Germany will also invest EUR 1 billion a year in developing public transport starting in 2021. The program also covers the building sector whit a subsidy that covers 40% of the costs when replacing oil and gas heating. Other energy efficiency measures will also be tax deductible. The program also includes measures related to agriculture and industry.

During the United Nations Climate Action Summit held in September, 65 countries and over 100 large cities committed to cut greenhouse gas emissions to net zero by 2050. Many smaller countries and less developed countries where among those that made the biggest pledges. The program of Germany is one of the most ambitious, which could be followed by a wider EU plan, and in turn could act as a blueprint for the rest of the world. From an Energy Transition perspective this is obviously promising news but as always we would like to stress the fact that this would not be possible unless the cost and attractiveness of renewables and energy technologies would be attractive enough and where the long term definition of cost is subsidy free. From that perspective we are also developing in the right direction.