COMMENT BY PROXY P

Markets in general

Stock markets had a strong gain in October after US and China declared they will sign a trade agreement, called Phase 1, before the end of the year. No details were disclosed but the market seems to appreciate that just getting rid of the uncertainty surrounding the trade war is good news. Obviously, the market also realizes that without further tariff hikes there would probably not be any further depreciation of the Renminbi. Eventually this would be supportive for global trade which under normal circumstances benefits Industrial production and growth. Despite trade war optimism, The Federal Reserve cut rates from 1.75% (2.00%) to 1.50% (1.75%) in the end of the month. It was a hawkish cut and they were quite clear about their rather optimistic view on the US economy. They reassured that these recent three cuts have been “insurance cuts” in order to fine tune monetary policy in an uncertain global environment and there are no intensions of cutting further. As long as there is no recession risk, we don´t have to worry about FED not cutting, seems to be the market interpretation. In particular if a deal between US and China is closed in a near future.

Transition in energy markets

The renewable sector developed in line with global markets in October. The Royal Swedish Academy of Sciences announced the Nobel Prize in chemistry. It was awarded to John Goodenough, Stanley Whittingham and Akira Yoshino for their work developing the lithium-ion battery. In 1995 camcorders created the biggest source of demand for lithium-ion batteries. By year 2000 it was laptops, by 2005 it was mobile phones and by 2010 it was the smartphone. Last year battery volumes going to consumer electronics and electric vehicles were roughly the same. Next year batteries for EV market will be twice as large as the consumer electronic market. It’s a dramatic change underpinned by an 80% decline in battery costs. The most obvious reason is scale effects. Battery manufacturing capacity has increased more than 200 times in 15 years and there is far more expansion planned. Next year only, new capacity added will equal the total capacity back in 2016. By 2023 total capacity will have more than doubled. This reassure that the trend of falling cost is set to continue, eventually making EV’s cheaper and more efficient than all other alternatives.

IEA, International Energy Agency, published their yearly report on renewables during the month and perhaps not by coincidence their findings go hand in hand with the development in batteries. Global electricity capacity from renewables is set to grow by 50% over the next five years, an increase equivalent to adding the current total power capacity of the United States. Solar PV is expected to account for the majority as costs continue to fall. A big part of solar PV´s expansion will come from systems installed in industrial facilities, commercial buildings and homes. These applications outside the electricity providers are often an overlooked area of growth. In the next five years China accounts for 40% of renewable capacity expansion. EU is expected to come second as a result of higher planned auction volumes and faster distributed solar PV growth. US is also set to grow but wind and solar PV developers are rushing to complete projects before federal tax incentives end, while corporate PPAs and state-level policies contribute to growth. Onshore wind power capacity is expected to expand 57% in the next five years, while offshore capacity is expected to almost threefold during this period, led by European Union and China. Obviously, this spectacular growth is a base phenomenon, but it is important to stress the fact why it is happening right now, and it is because of LCOE for offshore wind is at an inflection point in certain markets and locations making it possible.

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