

COMMENT BY PROXY P

Markets in general

Stock markets had another strong gain in November. There was plenty of news on how successful the Phase 1 negotiations between the US and China are developing, especially from the Trump administration. From an objective point of view the news hold very little details on the exact terms of an agreement. We also acknowledge that the Chinese currency, the Renminbi, has not appreciated during the month which would be expected in case the market really believed in a deal. From our perspective the market has been driven by a more optimistic view on the global economy and there are several reasons for that. The Federal Reserve told the market last month that they are comfortable with the outlook of the US economy and there are no intentions or need for further cuts. This is a strong signal translating into higher confidence by the market. We were also able to wrap up the corporate results from the third quarter and they were in total better than expected and did not result in negative revisions of FY19 or FY20. A year ago the market feared that we would be in a full-blown recession by now. This has been proven wrong so far. Now consensus is expecting to a higher degree a recovering economy next year backed by lower interest rates and election year in the US. On top of this, leading macro data, such as PMIs, has been resilient and in many cases showing early signs of turning upwards. Given the uncertainties surrounding the trade conflict this is all very promising.

Transition in energy markets

The European Investment Bank (EIB) unveiled its new climate strategy and lending policy. They will stop funding oil, natural gas and coal projects from the end of 2021 with the aim to become the first climate neutral continent. Gas projects are still eligible but would have to be based on new technologies such as carbon capture and storage, combining heat and power generation, or mixing in renewable gases. In addition, EIB will support EUR100 billion per year of investments in climate action and environmental sustainability from 2021 to 2030. Moreover, it will seek to boost investments in power grids to better integrate new sources such as wind and solar. This development is not only a high-level state phenomenon.

BNEF announced that total issuance of sustainable debt, basically green bonds, has surpassed USD1 trillion in a landmark moment for the market in November. Although it is an impressive figure, they argue that it could be even higher given the huge demand in the market. It is actually supply, and lack of investment opportunities, that is holding back the development of sustainable debt.

The government of China has decided to reduce renewable power subsidies by 30% in 2020. Around 52% of the subsidy will go to wind projects and 47% to solar parks. China is phasing out public support to renewables as the fall in costs is helping the projects achieving grid parity with coal-fired power plants and to compete with them. In a short-term perspective this is negative, but since it is creating further cost pressure it is actually supportive for energy transition in a longer-term perspective. Although subsidies are taking a less important role going forward, the Chinese government is still supporting the energy transition. Wind and solar projects will receive support in terms of access to land and financing. They are also implementing a nationwide Emission trading scheme (ETS) next year. Although it is initially a rather small scheme it is an important first step. The Chinese market for sustainable debt financing, or green bonds, was non-existent in 2015 but is currently the second largest in the world last year thanks to government support.

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