

# Financial Markets Review



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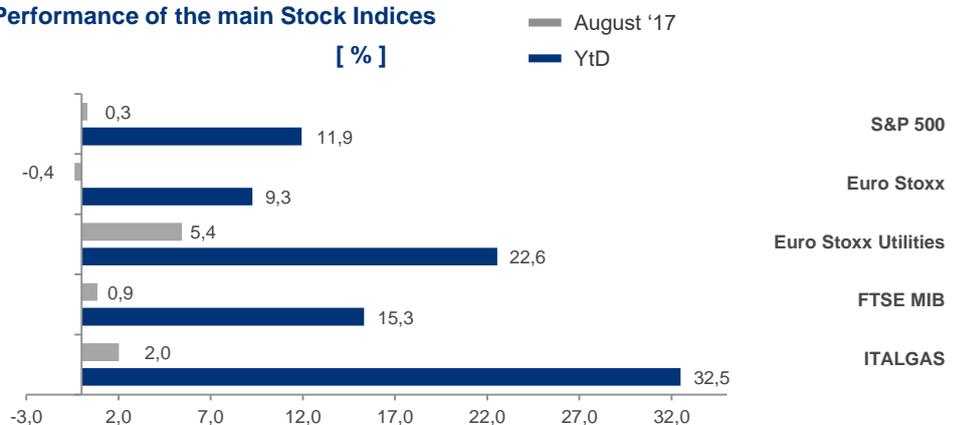


**Eurozone shares changed little; geopolitical tensions compensated robust macroeconomic data. Core sovereign yields down due to geopolitical risk and greater strength of the Euro**

## Financial markets

Eurozone stocks changed little overall in August; after an initial stage boosted by robust macroeconomic data from China and the USA (manufacturing PMI and creation of new non-farm payroll employment, respectively), indices dropped mid-month due to the re-emergence of geopolitical tensions between North Korea and the USA, the fall in political support for Trump after racial clashes in Virginia and the new yearly highs recorded by the EUR/USD exchange rate. Euro Stoxx fell by 0.4%, while the FTSE Mib rose by 0.9%, boosted by the rally of the FCA (+24%), which benefited from rumours about company restructuring and potential interest from other auto groups, as well as the rise in certain bank stocks due to good quarterly results. Wall Street continued to hit new all-time highs (S&P 500 +0.3%), outperforming the Eurozone indices thanks to the weak dollar, at its lowest since January 2015 against the other main currencies. On the fixed income side, core Eurozone sovereign yields dropped almost continuously (10y Bund -18 bps), reflecting the drop in inflation pressures due to the

**Performance of the main Stock Indices**  
[ % ]



**Source:** Italgas processing of Bloomberg data

strengthening of the Euro and the re-emergence of geopolitical tensions. Peripheral spreads were up (BTP-Bund +13 bps) due to investors' preference for safer assets in light of the re-emergence of geopolitical risk, the closure of carry trades in view of the speech by the ECB President in Jackson Hole and the recovery of sovereign bonds in September. In terms of currencies,

the EUR/USD exchange rate reached new 2+-year highs (+0.6%) due to fears about the implementation of Trump's economic program and Draghi not taking a position on the strength of the Euro. The EUR/GBP exchange rate was also up (+2.8%) due to this latter factor as well as to the drop in forecasts for UK GDP growth and the increase in the number of BoE members wanting to keep rates at current all-time lows.

## The Oil Market

Oil prices were volatile but essentially stable in August (Dated Brent at 51-52 USD/b). The negative impact generated by the re-emergence of geopolitical tensions and lower demand for crude oil initially associated with the arrival of Hurricane Harvey (closure of

refinery capacity higher than closure of extraction plant capacity) was compensated for by the subsequent recovery in crude demand caused by the gap in the US in gasoline supply and the widening of the relative refinery margin, as well as the large

drop in US crude inventories which, at the end of the month, returned to the lows of January 2016.



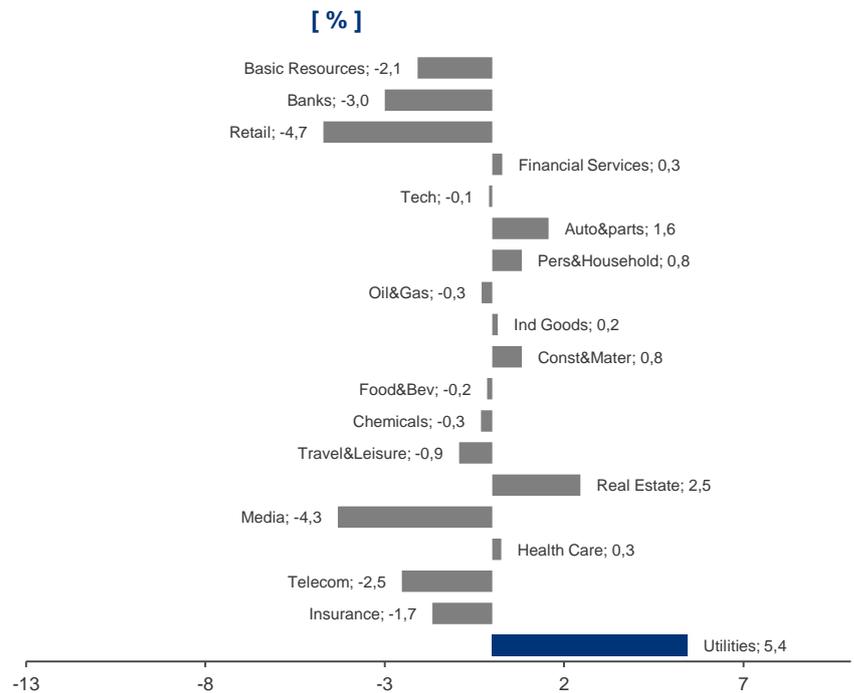
## Sector trends

The re-emergence of geopolitical tensions and the drop in sovereign yields altered the sector background with respect to the dynamics of previous months. The defensive sectors and those with a negative correlation to bond yields generally out-performed the cyclicals. The utilities sector was the best performer due to both the drop in bond yields (which the real estate sector also benefited from) and the rally in German integrated securities, supported by robust quarterly results and an improvement in dividend guidance; this was also due to the retroactive elimination of the tax on nuclear fuel. On the other side we have cyclicals and securities with a positive correlation to interest rates (media and banks, respectively), while the retail sector was affected by profit warnings.



Defensive sectors and those with a negative correlation to bond yields out-performed cyclicals

Main Sector Trends, August 2017



Source: Italgas processing of Bloomberg data



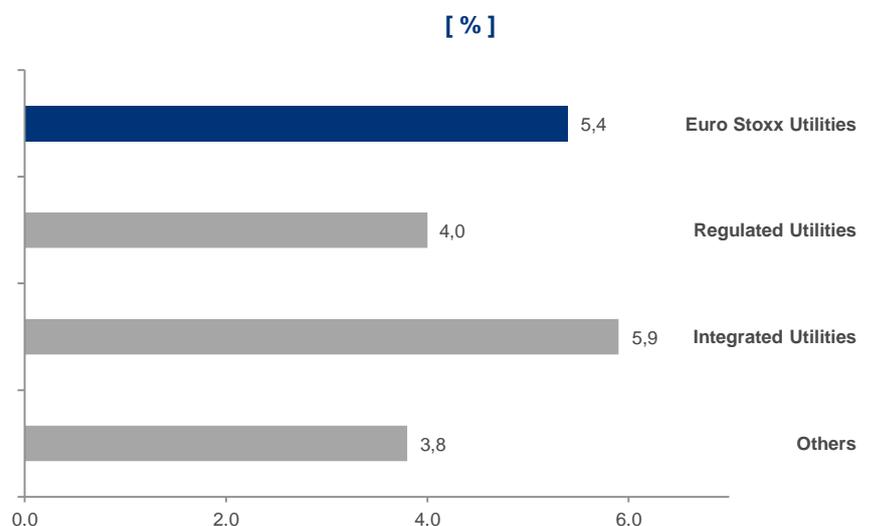
Utilities Sector best performer with German integrated utilities operators



## Utilities Sector Trends

The utilities sector posted an increase of over 5% and was the best performer in August. The sector mainly benefited from quarterly results that were above expectations for German integrated utilities firms, with an associated improvement in the dividend policy, also due to the refunding of the nuclear fuel tax. Support also came from the rise in electricity prices in Central Europe due to the possible shut-down of French nuclear power and a rise in CO2 prices, as well as the drop in sovereign yields. Overall, integrated utilities operators' share prices out-performed regulated utilities.

August 2017 - Sector and Sub-Sector Trends



Source: Italgas processing of Bloomberg data



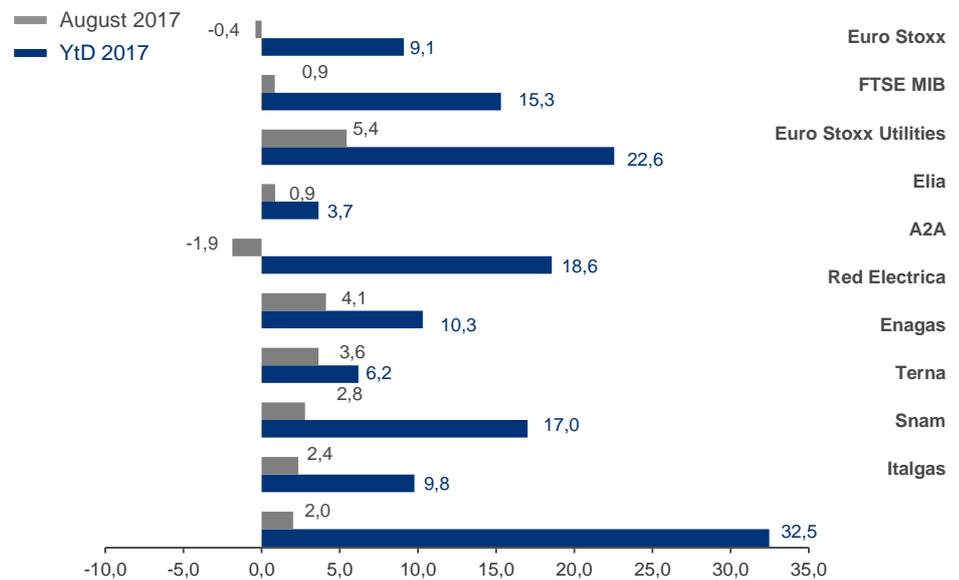
## Italgas shares and its peers on the Stock Market

The price rise for Italgas continues (+2.0%). On 8 August, it reached new all-time highs since its listing (4.868 Euro). Among fully-regulated securities, we note the performance of Red Electrica and Enagas, which are the most sensitive to bond yield dynamics due to the higher residual term of the regulatory period and the remuneration based on nominal instead of real yields, unlike Italian firms. On the other hand, we note A2A which was more strongly affected by the correction in markets due to geopolitical tensions and because of its greater exposure to non-regulated assets. The average number of daily trades in Italgas shares was 1.2 million shares, a further drop on the previous month (1.7 million) due to the summer break.



The rise in the Italgas share price continues (+2%); Spanish regulated securities in evidence due to their greater sensitivity to rates  
[ % ]

### Italgas and peers



Source: Italgas processing of Bloomberg data



## Agenda

Corporate events

**23 October**

Board of Directors - interim report as at 30 September

**24 October**

Press release & Conference call



## Corporate News

### Fitch confirms Italgas rating 'BBB+', Outlook Stable

On 04 August, Fitch confirmed Italgas' long-term credit rating (BBB+), judged its outlook stable, and confirmed the unsecured senior debt of Italgas.

The confirmation of the rating reflects the updating of Italgas's 2017-2023 Strategic Plan which defined the group's medium-term strategic and financial objectives.

Fitch emphasises that the current positioning of Italgas, with respect to its rating, is better than last year as a result of the significant cash generation capacity and the gradual implementation by management of the operating efficiency plan announced to the market. Italgas has also been able to construct its debt structure at a competitive cost, also

thanks to favourable market conditions.

### Italgas share price on the FTSE4Good Index

Just a few months after its return to the Stock Market, the Italgas share price was included in the FTSE4Good Index series. The Company has been valued within the review of June 2017 and complied with the rigorous criteria of the independent FTSE methodology in the Environmental, Social and Governance (ESG) area. The results are testament to Italgas's commitment to sustainable growth based on the firm's leadership in interactions with the social context of reference. FTSE4Good is a series of Stock Indices created by FTSE Russell to favour investments in companies which comply with globally recognised standards on social responsibility.



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