

Financial Markets Review



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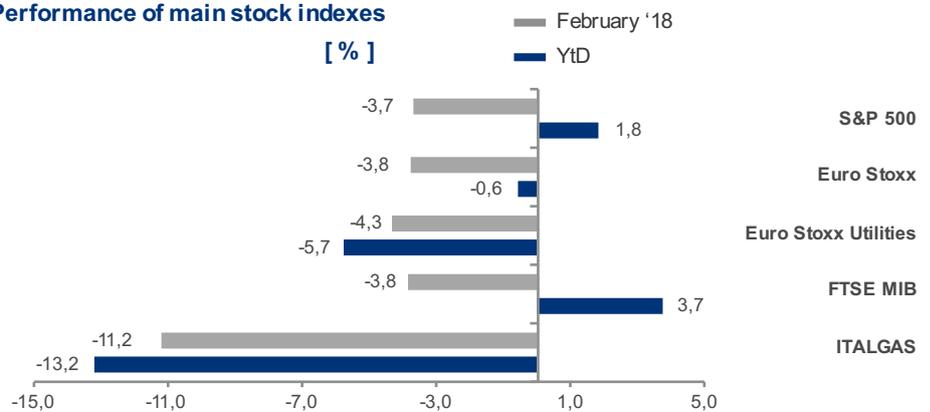


Widespread profit taking across the stocks due to fears of monetary normalisation and profit taking after large rally. Diverging revenues in the US and the eurozone

Financial Markets

There was widespread profit taking in February across all stocks, caused by fears of accelerating monetary normalisation policies implemented by the main central banks due to the improving economy and a lower inflation. In an extremely volatile backdrop, the correction has also been impacted by stocks reaching their record highs worldwide, after a continuous two-year rally. Towards the end of the month, the stocks were also impacted by Trump's custom duty introduction on US steel and aluminium importations, which led to fears of retaliation from other countries and trade wars. The Euro Stoxx and the FTSE Mib closed the month down almost 4%. The S&P 500 registered similar dynamics. Despite the stocks' contraction, the Treasury's ten-year behaviour increased by 16 bps (the maximum in over 4 years) due to expectations around the monetary policy normalisation, due to a stronger inflation, the recent dollar weakening and to robust macro markets (nonfarm payrolls and hourly wages, University of Michigan's sentiment index, industry orders) and to the FED statements which confirmed the intention to proceed with further rate increases.

Performance of main stock indexes



Source: Italgas analysis of Bloomberg data

The 10y Bund was instead balanced (-4 bps), due to internal disagreements in the BCE's board on the timings for the variation of the guidance on QE and taxes. The BTP-Bund spread was stable. The downward push from the agreement for the formation of the German government and speculations on a coalition between PD and Forza Italia was balanced by managed risks associated with falling stocks and by expectations around Germany's Weidman accessing the BCE presidency.

EUR/USD -1.8% due to the core sovereign yields dynamics; EUR/GBP +1.3% due to UK macro data below expectations (manufacturing PMI and industrial production).

The oil market

The Brent stocks were down 6% impacted by the exchange's negative performance and by expectations of a slow down in the economy due to the monetary policy normalisation, to the US Brent stock's positive performance and to new record highs reached by the US output

(almost 10.3 mbd). These conditions were worsened further by the Baker Hughes statistics, which showed a new consistent increase in active US drills, a record level in 3 years. Also to notice the strong volatility in gas prices, with stocks in the Dutch hub TTF

Reaching record highs thanks to an increase in demand due to the weather and to new trade disagreements between Russia and the Ukraine.



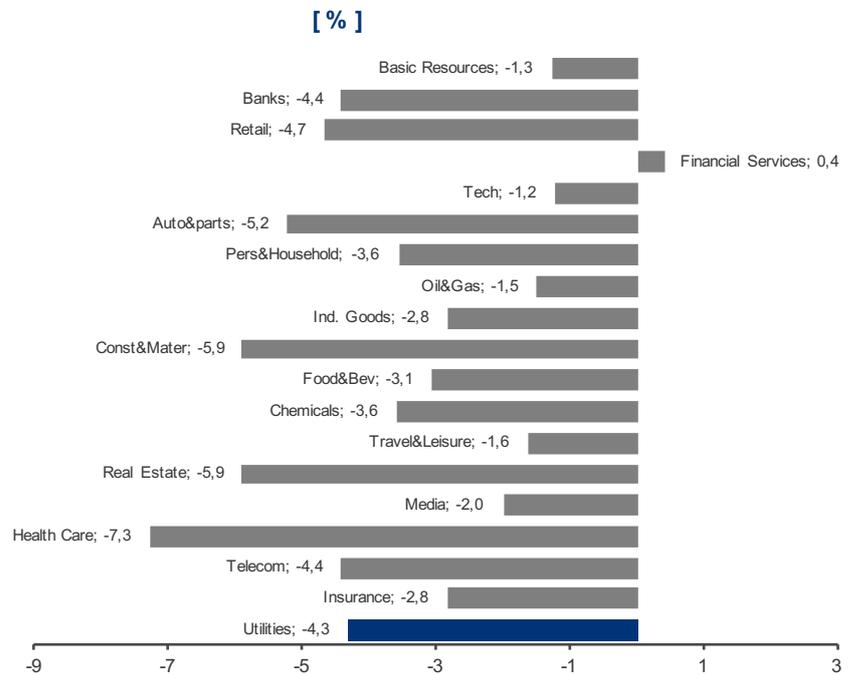
Sector trends

There are not any major noticeable trends in terms of sector performance. The defensive and bond proxy stocks were particularly impacted by fears around of an increase in bond yields. Differently, the banking sector was positively affected by the increase in bond yields, due to profit taking after the widespread outperformance in January. The pharmaceutical sector was amongst the worst performers (outlook below expectations for Recordati and concessions for Bayer following the green light to acquire Monstanto). The construction sector was also down, (ACS fall due to the offer on Abertis) and so was the real estate one. Differently, the financial sector registered a positive performance around growing business opportunities post Brexit. The mining and the technology sectors were positively impacted by the main players' annual results.



Defensive and bond-proxy stocks still impacted by expectations around a rate increase, but profit taking cross all sectors

Main sector trends, February 2018



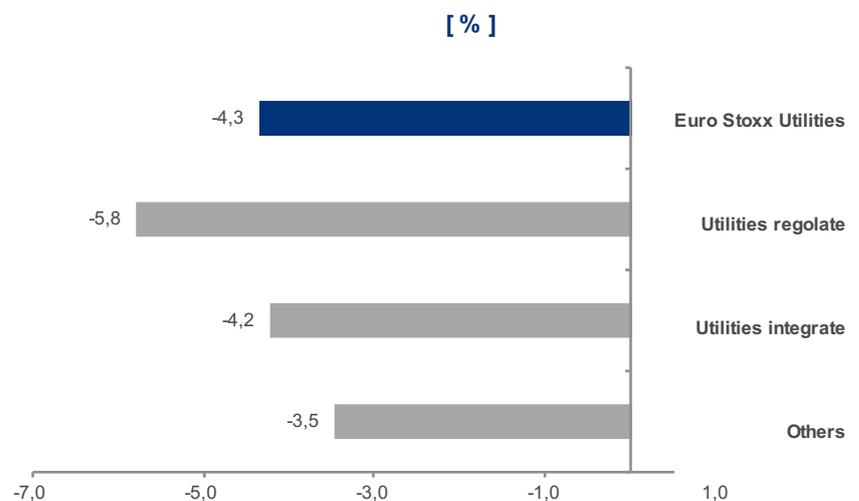
Source: Italgas analysis of Bloomberg data

Utilities – falls continue in February; regulated stocks continue to be the worst performers

Utilities Sector trends

After December and January, the utilities sector was down in February as well, however performing overall in line with the market. The integrated operators were affected by spare capacities in the UK and by a fall in commodities stocks, only partially offset by a further increase in German stocks still supported by M&A speculations (around Innogy and regarding EON and infrastructure funds). The regulated stocks continued to underperform due to an increasingly higher exposure to higher rates. The «others» sector performed in line with the larger sector, with Veolia outperforming thanks to the positive FY results and 2018 outlook.

February 2018 - Sector and sub-sector trends



Source: Italgas analysis of Bloomberg data

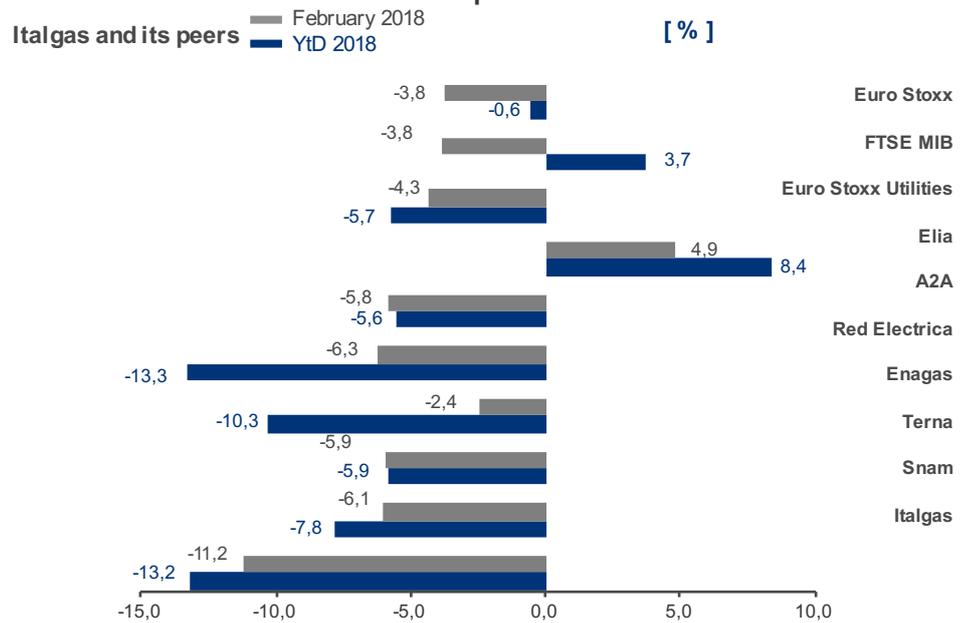


Italgas stock and its peers on the stock market

Italgas was February's worst performer with a 11% fall. Impacted by the same trends affecting the sector, the stock was likely further impacted by a reduced visibility on possibilities of a consolidation in the sector due to continuously delayed gas tenders which offset part of Italgas' 2017 outperformance. Elia outperformed, amongst the other stocks, continuing to benefit after the weak 2017 performance, also strengthened by FY results above expectations and by Enagas' performance, which limited the fall to about 2% after the Spanish government provided better information than what the press anticipated with regards to rate variations in the electric and gas sectors' regulated activities.



Italgas worst performer in February profit taking and reduced visibility on possible sector consolidation



Source: Italgas analysis of Bloomberg data



Agenda

Corporate events

19 April
7 May
8 May

Shareholders meeting on FY 2017 results
BoD on Q1 2018 results
Press release and conference call



Corporate News

No price sensitive corporate news this month



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