January 2019

# Financial Markets Review

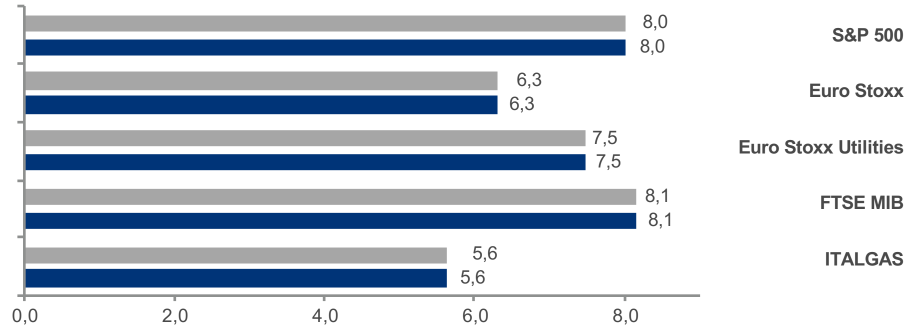



**Global equity market recovering at a fast pace with a more flexible FED approach and resumption of USA/China trade talks. Core yields still contracting, reflecting accommodating monetary policies and weak macro data**

## The financial markets

The global equity market fully recovered in January following a heavy decline in December. Even though the macro data were generally confirmed beneath expectations, with particular reference to Chinese export/import, the increased downturn in Eurozone industrial production for almost 3 years and the US manufacturing ISM at 2-year lows, the rally basically reflected: 1) an altered and more flexible FED approach as it declared itself willing to change the general lines of the monetary policy to hold the performance of the financial markets more in consideration, and confirmed rumours on a possible early interruption of the plan to reduce the budget; 2) resumption and positive developments in the USA/China trade negotiations; 3) hike in oil prices owing to closer compliance by OPEC+ after the heavy drops of the previous 2 months mainly caused by US exemptions to Iranian output sanctions. Euro Stoxx +6% vs S&P 500 and FTSE Mib +8%. Core yields fell despite the strong recovery in the equity market, reflecting the altered and more flexible FED approach, the cautious outlook of the ECB that cited greater risks moving downward for the Eurozone due to protectionist policies and volatility in the emerging markets, and mentioned macro data generally below expectations. UST -5 bps, whereas with the net benchmark maturity change the Bund yield closed down by 15 bps (minimum levels for over 2 years) due to the cited Eurozone macro data. Based on the heavy drop recorded in December (-40 bps), the BTP-Bund spread did not benefit from the risk-on phase with accommodating approach of the central banks, and with the net German maturity change it closed unaltered. EUR/USD changed little (-0.2%), with mitigated FED approach on rates trend and early interruptioin of the plan to reduce the budget offset by a more cautious ECB outlook. EUR/GBP -2.9% in spite of the Brexit agreement being rejected by the UK Parliament, reflecting PM May's reconfirmation and consequent possibilities to extend the Brexit deadline.

**Performance of the major Stock Exchange indexes** [ % ]




**Source:** Italgas processing of Bloomberg data

## The oil market

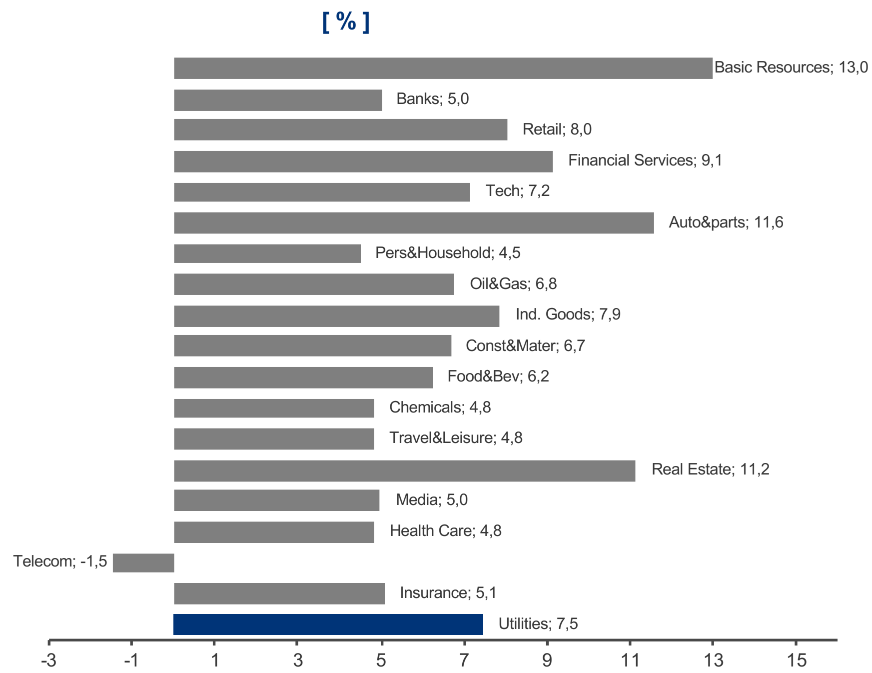
Brent up considerably (+15%) after having dropped to 15-month lows in December. The pattern reflected: 1) general recovery of the stock markets; 2) the US's levying of sanctions on the Venezuelan national oil company PDVsa in an attempt to speed up the solution to the country's domestic political crisis; heavier production drop announced by OPEC in the last 2 years, with the cartel that has already reached 80% of the cuts defined in the more extensive OPEC+ meeting in December (overall reduction of output amounting to 1.2 mbd); 4) statements made by Russia on acceleration of production cuts based on the OPEC+ agreements after the country had announced in December that it was expecting a new historic production record.

# Trend of the sectors

**General rallies in the sectors. Basic resources and automotive best performers backed by cyclical profile vs. telecoms penalised by a slowdown in M&A activity**

Rallies more or less widespread at the sector level due to the strong underlying trend of the general index. The best performers in any case included the mineral/iron and steel and automotive sectors because of the high cycling and recovery of heavy penalisation in the late 2018 bear phase. Likewise, although defensive, real estate recovered the December declines and benefited from the further drop in core yields. On the opposite side, banking underperformed because of the ECB's stricter approach on hedging NPLs and the mentioned further contraction of core yields. Only the telecoms were negative following a slowdown in M&A activity by Orange and Vodafone, regulatory obstacles to the spin-off of the landline network for Telecom Italia and persistent competitive pressure, above all by the low cost operators.

**Trend of the main sectors, January 2019**



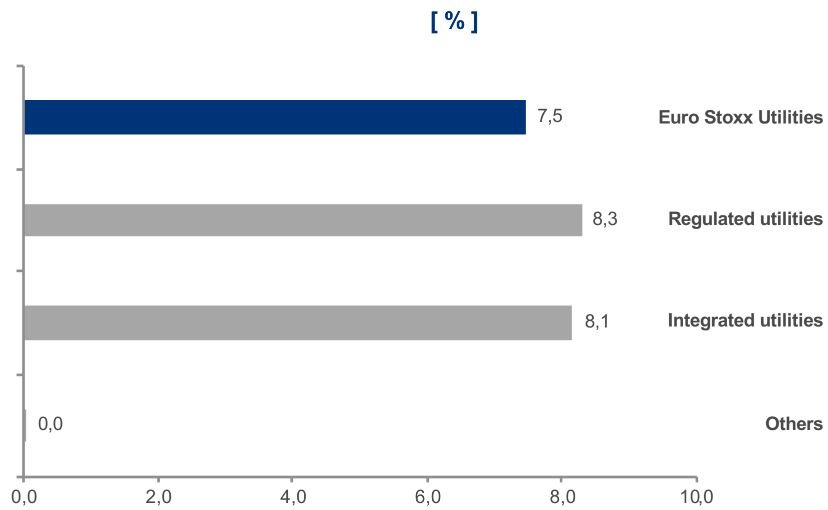

**Source:** Italgas processing of Bloomberg data

**Utilities +7% supported by further contraction of core yields and German operators**

# Trend of the Utilities sector

The utilities sector enjoyed a 7% hike without the risk-on phase having generated underperformance compared to the general index. Substantial alignment between regulated and integrated securities, with the former benefiting from the additional contraction of the core yields, while the latter were primarily supported by the German integrated operators (RWE +14%, EON +12%) on expectations of higher monetary compensations upon advance closing of the coal-fired power plants. The water and environmental sector continues to underperform, with Suez and Veolia having been downgraded by several brokers to the expectations of an economic slowdown.

**January 2019 - Trend of the sector and sub-sectors**

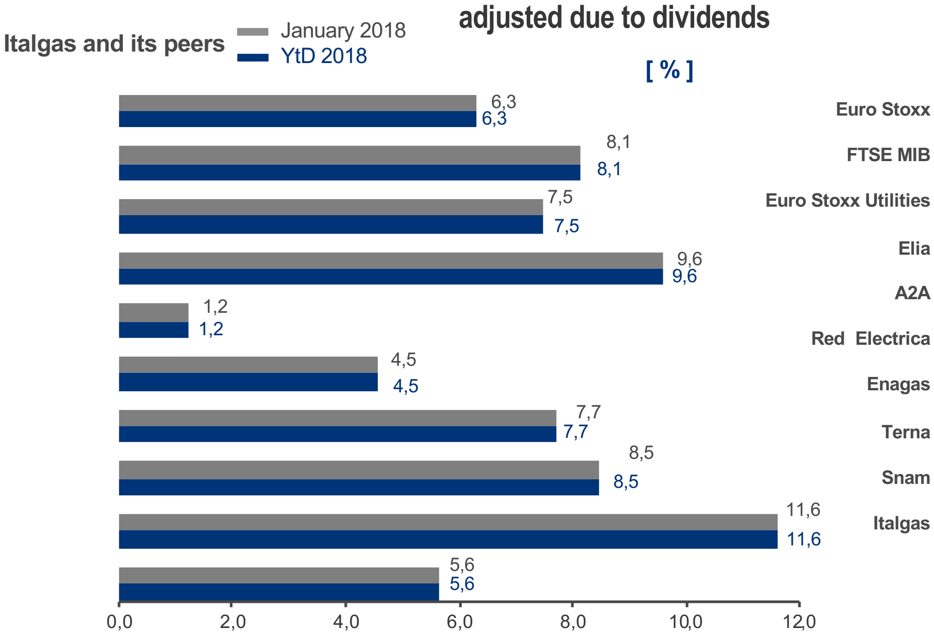



**Source:** Italgas processing of Bloomberg data

## The Italgas share and its peers

### Italgas (+6%) is updating its maximum price levels with series of prices adjusted due to dividends

Italgas went up approximately 6% after updating its maximum price levels with a series of prices adjusted due to detachment of dividends. The share underperformed its Italian regulated peers, probably due to reabsorption of the outperformance achieved in December and its downgrading by several brokers driven by TP attainment. Snam was best performer after being upgraded by some brokers based on valuation grounds and a partial recovery following its recent underperformance. Worst performer was A2A, penalised by the reorganisation of the hydroelectric concessions, with the relevant fee increased, and a drop in electricity prices owing to the decline in gas and CO2 prices.




**Source:** Italgas processing of Bloomberg data

## Agenda
Corporate events

**22 February** BoD Q4/FY results, press release and conference call

## Corporate News

**There are no price-sensitive Corporate News this month**

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