

Financial Markets Review



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Eurozone equities generally unchanged; marginal recovery for FTSE Mib with mitigation of sovereign spread. Core yields up with new period highs for oil prices

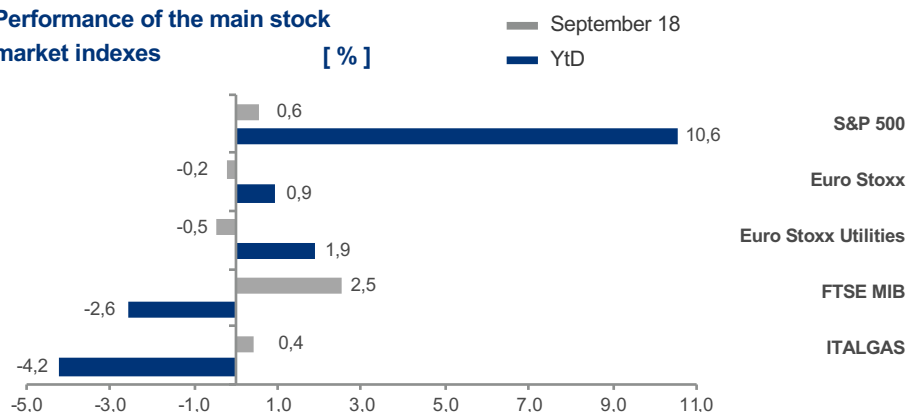
The financial markets

Generally little change in core equities in September. Following an initial drop caused by the ongoing currency crisis in the emerging markets, with Chinese PMI composite and services below expectations, list prices recovered, supported by the mitigated peripheral risk and the new rally by oil prices, recording their highest levels in almost 4 years, as well as by expectations of the recommencement of US/China commercial negotiations, after the latter softened its response to the US decision to introduce new customs duties. Euro Stoxx -0.2%, while the S&P 500 (+0.6%) updated the all-time highs, reflecting a better economic picture and macro data above expectations. By contrast, the FTSE Mib closed up by 2.5%, recovering part of the significant underperformance of the 4 previous months based on reduced debt fears after Government representatives confirmed the gradual implementation of the planned fiscal measures. Core yields up, with 10y Treasury +20 bps (highs from May and in 7 years) based on the new rally by oil prices, robust macro data and expectations of an acceleration of increases in FED rates, which proceeded with the third rise of 2018,

The oil market

Increase in dated Brent prices continues (+8%), which, after 4 years, returned to above 80 USD/b, with the scenario remaining heavily influenced by supply-crunch fears. More specifically, the prices have reflected the reduction in Iranian exports due to the

Performance of the main stock market indexes [%]



Source: Italgas processing of Bloomberg data

confirming the expectations of a further rise in December and 3 hikes in 2019. Notwithstanding return of capitals on BTPs, the increase in the 10y Bund yield was more contained (+14 bps), reflecting the reduction in the estimates of Eurozone GDP growth by the ECB and confirmation of the unchanged rates until the summer of 2019, as well as weaker macro data. Corrected for extension of BTP maturity benchmark, the BTP-Bund spread is down by 40 bps due to the aforementioned

mitigation of fears of a fiscal relaxation. The downgrade of the sovereign outlook by Fitch is in line with the expectations. The EUR/USD closed unchanged, with the reduction in GDP estimates by the ECB and robust US macro data offset by reduced fears over the peripheral Eurozone and inverse correlation between oil prices and the dollar. EUR/GBP - 0.6% based on the progress of Brexit negotiations and UK macro data above expectations.

impending US sanctions and the US communication that it will not use strategic reserves to mitigate said supply reduction, as well as the decision by the OPEC+ group not to go ahead with automatic increases in output to offset the Iranian gap, a further drop

in US oil stocks and, generally speaking, the persistent contraction in Venezuelan production and the periodic interruptions in production recorded in Libya.



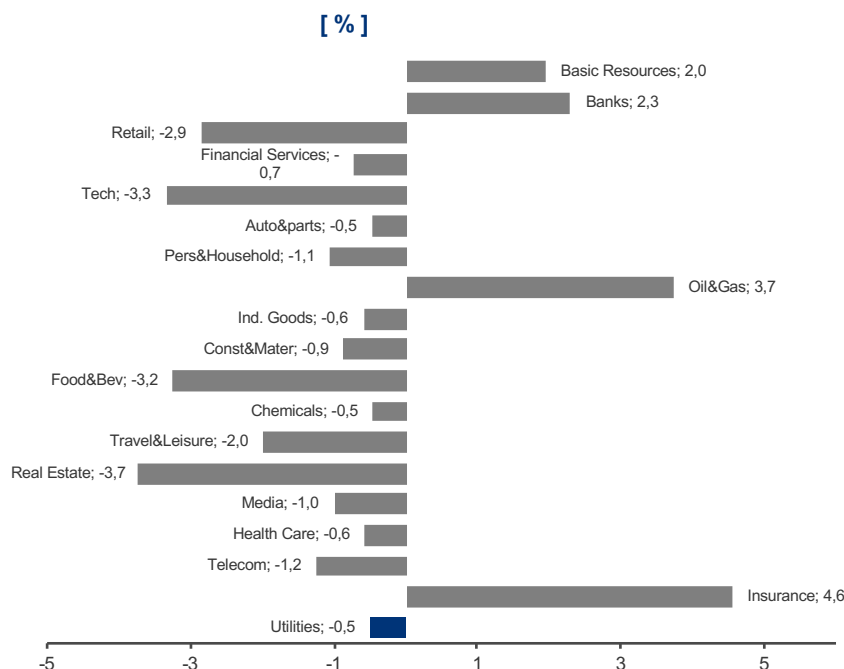
Sector performance

The sector trend reflected the new period highs in commodity prices and the increase in core yields, combined with the drop in oil spreads. Financials (banking and insurance), oil and mining/iron and steel are consequently the best performers; as regards banking, note should be taken, in particular, of Italian operators which, due to the exposure to sovereign debt, were particularly hard hit in the previous month. By contrast, on the other hand, we have the defensive sectors, in particular real estate and foodstuffs, while the technology sectors continue to feel the effects of the strong rally in the previous quarters, in the presence of fears of growth in demand below expectations and consequent greater competitive pressure on sale prices.



The sector trend reflected the period highs in commodity prices and increase in core yields with contraction in peripheral spreads

Performance of the main sectors, September 2018



Source: Italgas processing of Bloomberg data



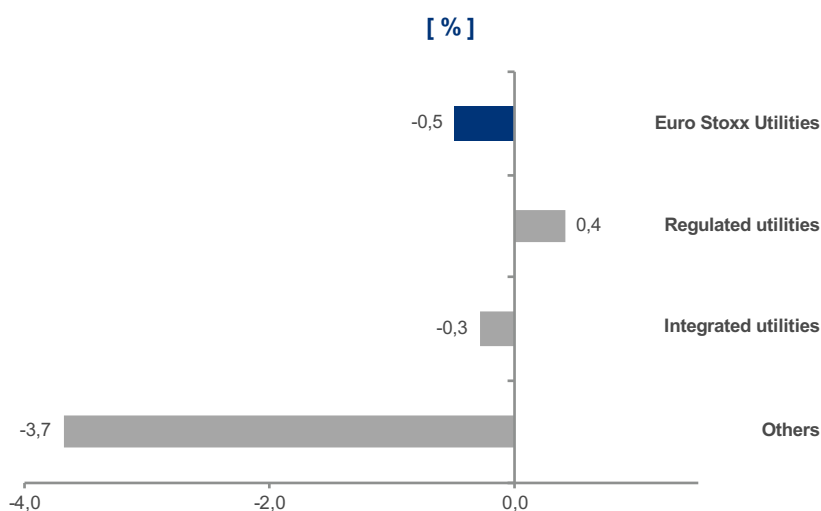
Utilities sector unchanged; outperformance of Italian securities with spread trend



Utilities sector performance

Utilities sector generally unchanged and in line with the Euro Stoxx. Within the integrated securities segment, the decrease in the operators exposed to the UK market (EON and RWE in particular) after the SSE's profit warning brought about by the reduction in renewable output and drop in gas sale margins, was offset by Enel's increase, which, supported by the contraction in the spread, partially recovered the August decrease. Marginal outperformance of regulated sectors, essentially guided by Italian securities due to the spread trend. The water and environmental segment saw the continuation of the decrease of Veolia caused by the weakness of emerging markets and planned increase in the waste disposal tax in France.

September 2018 - Sector and sub-sector performance



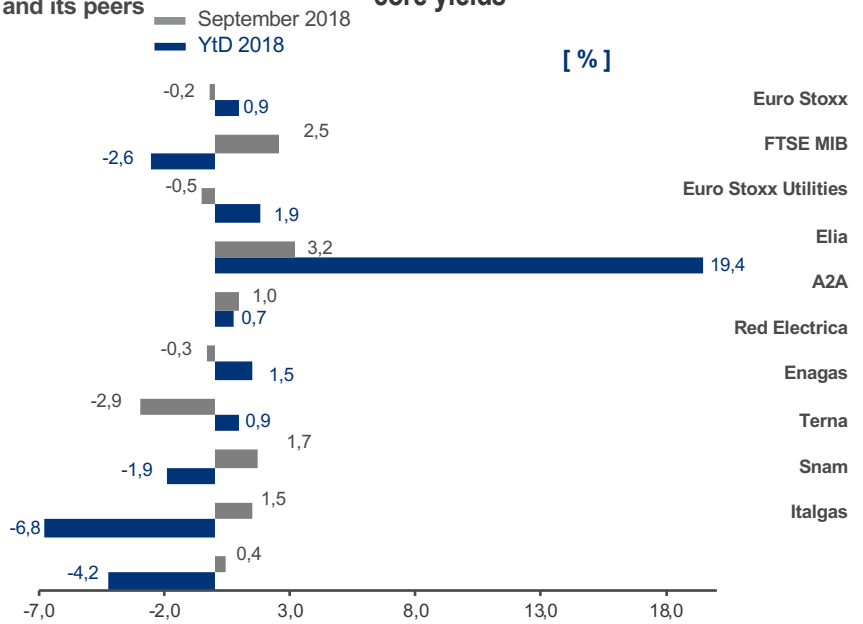
Source: Italgas processing of Bloomberg data



The Italgas share and its Stock market peers

Marginal increase for Italgas (+0.4%), with upside deriving from the contraction of the sovereign spread, mitigated by the increase in core yields brought about by the new period highs for oil and expectations of a ramping up of the monetary restriction by the FED. Marginal underperformance of the share with respect to regulated Italian peers based on normal volatility. By contrast, Spanish operators were negative because, due to a smaller decrease in the sovereign spread, they felt more of an impact from the rise in core yields. The TSO Elia continues to go up, which benefitted from the tensions in the Belgium electricity system as a result of the delayed entry into operation of the Engie nuclear power plants.

Italgas and its peers



Source: Italgas processing of Bloomberg data



Agenda

Corporate events

5 November

BoD Q3 results, press release and conference call



Corporate News

No price sensitive Corporate News in the month



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