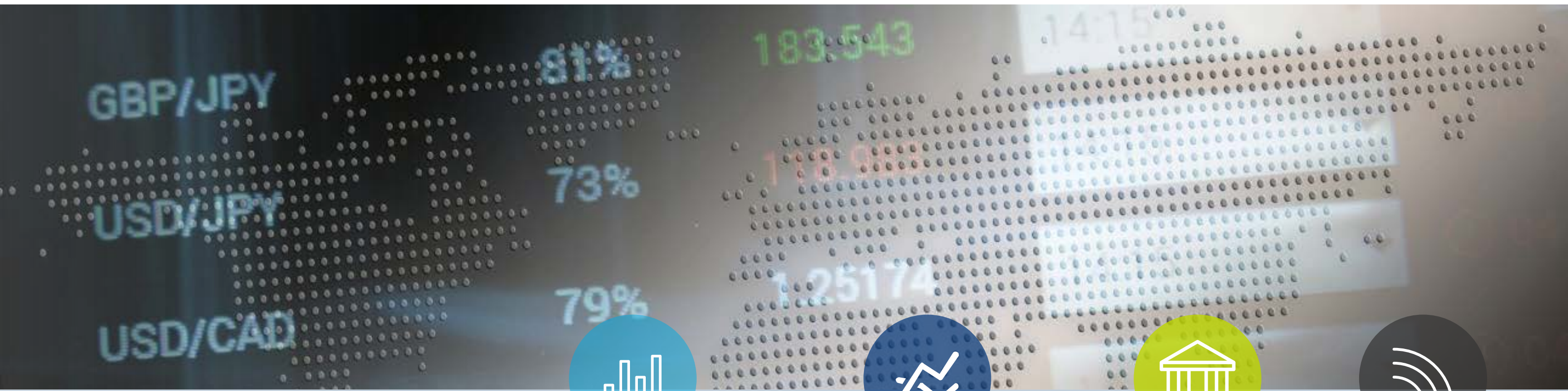
September 2022

Financial Markets Review

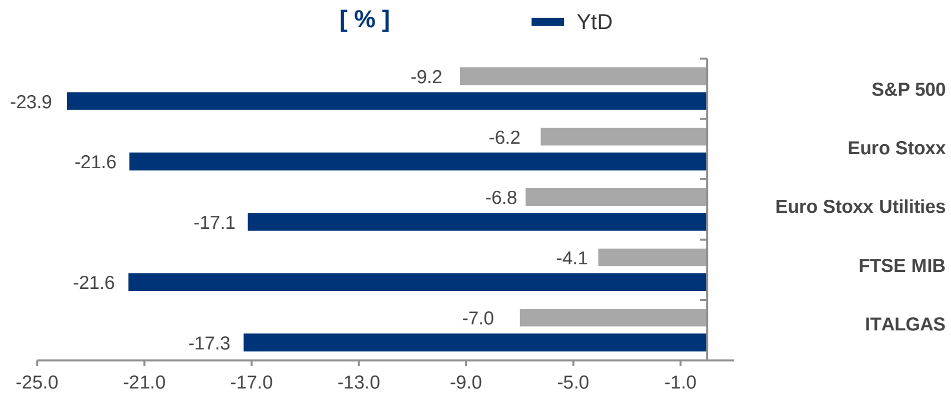


Large decline in global equities with a more hawkish-than-expected outcome of the FED meeting. Core sovereign yields extend their multi-year highs, and the EUR/USD returns to 20-year lows

Financial Markets

EQUITY: Significant decline for global equities, which updated their lows from 11/2020 (not adjusted for dividends), reflecting the further worsening of the outlook after: 1) a more hawkish than expected outcome of the FED meeting, with consequent extension of multi-year highs of bond yields, also reflecting US and German inflations above expectations; 2) potential escalation of the conflict in Ukraine after Russia announced the partial mobilization of the army and called a referendum for the annexation of the Russian-speaking south-eastern regions of Ukraine. In addition to the impact in terms of overall slowdown of the economy, the increase in bond yields negatively affects share prices also due to the reduction of the differential between dividend yield and sovereign yields, which the market tends to restore through an equivalent increase in dividend yields (a decline in share prices). The Euro Stoxx fell by 6% vs -9% for the S&P 500, with the difference explained by the further depreciation of the EUR/USD. Moderate outperformance for the FTSE Mib (-4%) mainly thanks to the exposure to banks, which, due to the dynamics of bond yields, were the best performers.

Main stock exchange indices



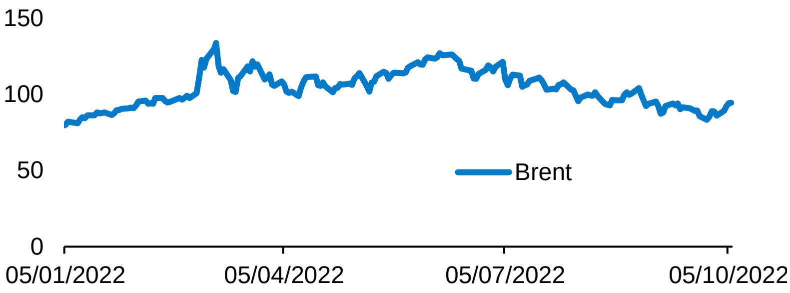
Source: Italgas' elaborations on Bloomberg data

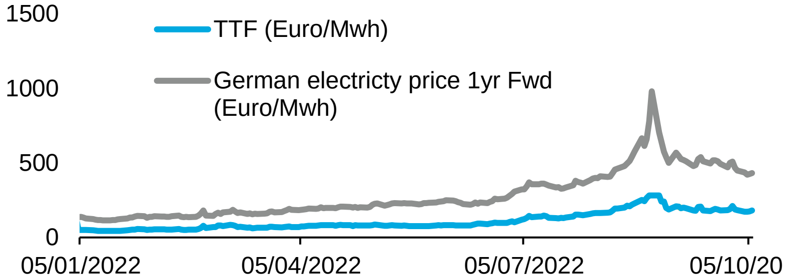
BONDS: strong rise in core sovereign yields (around +60 bps for both the Bund and the UST, at 2.11% and 3.83%), which near the end of the month updated their highs respectively from 11/2011 and 04/2010. The FED raised rates by 75 bps, in line with the consensus, but provided an indication of rates at 4.4% at the end of 2022, 4.6% at the end of 2023 and 3.9% at the end of 2024, corresponding to 5 further increases, 1 increase in 2023 and 3 net decreases in 2024. Before the meeting, the consensus was expecting 4 further increases (in addition to the 3 decided in the meeting itself) by December. Moderate growth in peripheral spreads (Italian +6 bps at 241 bps, Greek +19 bps at 275 bps) due to the growing risk aversion.

CURRENCIES: the EUR/USD declined by 2.5% (0.98, on a 20-year low), affected by the outcome of the FED meeting and increased risk aversion. Despite the Bank of England raised rates by 50 bps, in line with expectations, the EUR/GBP advanced 1.4%, to the highest since January 2021, after the UK government announced an expansionary fiscal policy intervention, with consequent expected increase in public debt, as well as lower than expected consumer confidence and UK composite PMI.

The oil&gas market

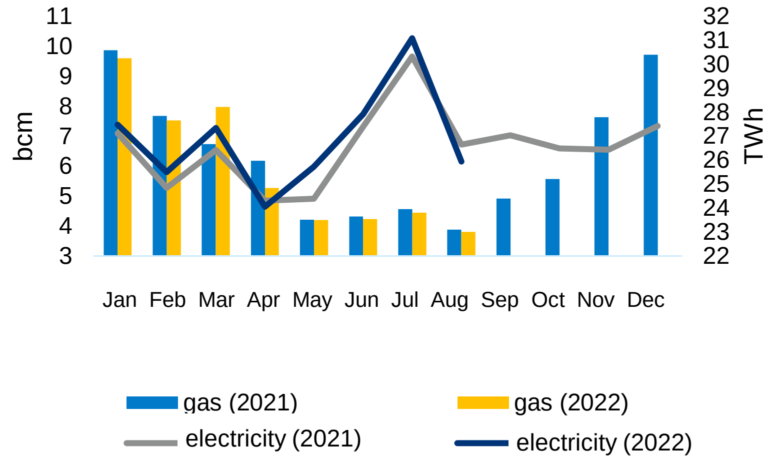
OIL MARKET: the oil price declined by 9% (86 USD/b), at its lowest since January, due to the general deterioration of the economic outlook, together with the indications of the US Department of Energy regarding the placing on the market of further 10 mboe of crude oil in November in addition to the 180 mboe release plan expiring at the end of October, as well as the Saudi output at its highest level since April 2020. The downward pressure was mitigated by the expected reaction of the OPEC+, which at the meeting on 5 October could decide for production cuts of between 0.5 and 1.0 mbd in addition to the symbolic one (100 kbd) approved in the meeting at the beginning of September, as well as tropical storms strengthening in the Gulf of Mexico, which forced the closure of some production plants.





GAS MARKET: the TTF price declined by 28% (165 EUR/MWh). Gazprom's decision to indefinitely stop the residual supplies through Nord Stream 1 (subject later to an accident, together with Nord Stream 2), and the growing tensions between Azerbaijan and Armenia, which could affect the South Caucasus Pipeline, that leads to Turkey the gas from the Azerbaijani fields on the Caspian Sea, were offset by a series of factors, first of all the growing level of European storage (89% vs 80% at the beginning of the month) and the strengthened commitment of the EU in terms of measures aimed at reducing the winter fuel demand, including consumption rationing plans and the maximization of the load factor of nuclear and coal plants.

Italy: gas and power demand



Key news energy sector September 2022

1. EU: voluntary target to reduce electricity consumption by 10%
2. EU: mandatory target of 5% reduction in electricity consumption during peak hours
3. EU: introduction of a price cap on electricity production from "infra-marginal" technologies (ie other than gas) of 180 EUR/MWh
4. EU: additional tax of 33% on profits made in the oil&gas, coal and refining sector on the share of profits that exceeds the average achieved in the 4 previous years 2018-2021 by more than 20%
5. EU: the Czech presidency of the EU Commission has re-proposed renewable financing through the sale of ETS accumulated in the Market Stability Reserve
6. Russia/Ukraine: potential dispute between Gazprom and Neftogaz, which could lead to closure of gas transit via Ukraine
7. Italy: announcement of Q4 electricity price for protected market: +59% vs Q3
8. Germany: nationalization of Uniper, with the same program also for VNG and SEFE (former Gazprom Germania)
9. Germany: decision to keep in stand-by 2 nuclear plants, which were otherwise expected to close by the end of 2022
10. Germany: introduction of price-caps on energy bills for end users (not a cap on producers). The measure, which does not support the reduction of consumption, while reducing the risk of insolvency for suppliers, is worth 200 bn euros until spring 2024, about 3% of the German GDP
11. Norway/Poland: Baltic Pipe entered into operation, a 10 bcm/y pipeline connecting Norway to Poland
12. Russia/Germany: serious accidents on the Nord Stream 1 and 2 pipelines
13. Netherlands: start-up of 2 FSRUs with a combined capacity of 8 bcm/y

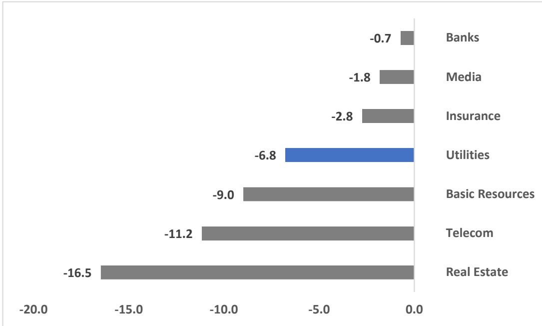
Performance by sector

The sector performance reflected the large increase in bond yields; financials are best performers vs bond-proxy on the opposite side

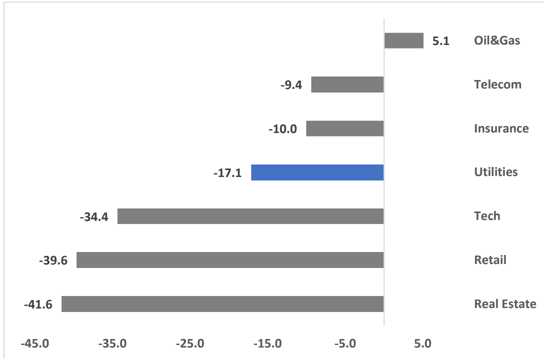
Consistently with the sharp rise in bond yields, supported by the expansion of the unit interest margin (spread between return on assets and cost of funding), financials (banking -1%, insurance -3%) are among the best performers, although with a dynamic mitigated by the deterioration of the economic outlook. Among the best performers (-2%) there are also the media, thanks to the +3% of Wolters Kluwer, the second largest operator in the sector, due to the progression of the share buy-back, with the cancellation of the shares acquired. Overall, bond-proxy and defensive (real estate -16%, telecoms -11%) are on the opposite side, with the real estate penalized in particular by the higher cost of mortgages and telecoms affected by profit taking after the YTD outperformance essentially supported by M&A and consequent expected reduction of the competitive pressure.

Sector performance; utilities e 3 main ups/downs

Sept. 2022 [%]



YTD 2022 [%]



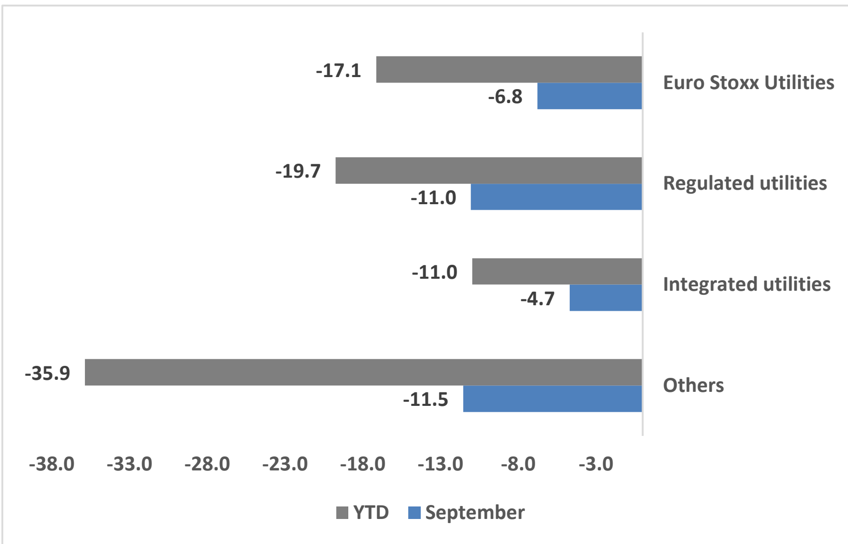
Source: Italgas' elaborations on Bloomberg data

Utilities penalized by regulated companies with bond yields dynamic; integrated limited losses with higher-than-expected EU cap on electricity prices

Utilities sector performance

With a 7% decline, the utilities sector marginally underperformed the eurozone benchmark. The sector was burdened by regulated operators, who, due to the bond-proxy profile, were negatively affected by the sharp rise in sovereign yields. The integrated operators, on the other hand, have significantly limited the losses, supported by the introduction of a cap of 180 EUR/MWh, higher than market expectations, on the price of electricity generated by non-gas-fired plants. The best stocks were Fortum (+34%), Engie and EDF (unchanged). In particular, Fortum was pushed upwards by the German government's decision to nationalize the subsidiary (78%) Uniper, allowing it to obtain the repayment of a 4 bn euro intercompany loan and the release from further guarantees for an equivalent amount.

Utilities sector and subsectors **[%]**

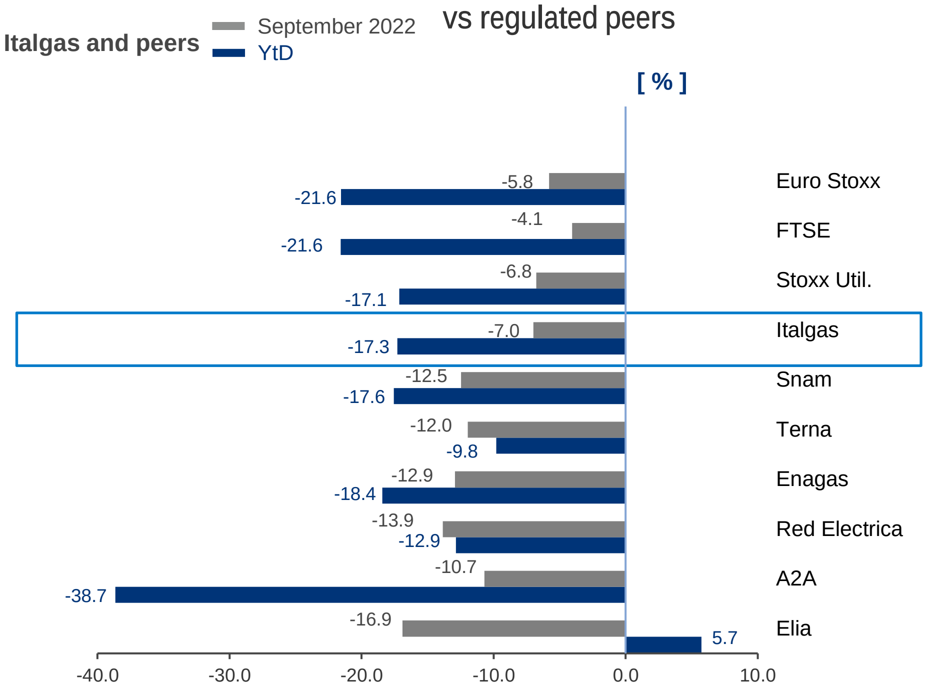


Source: Italgas' elaborations on Bloomberg data

Italgas and its peers

Italgas (-7%) penalized by extended multi-year highs of bond yields; the stock recovers the underperformance of August vs regulated peers

Decline of 7% for Italgas, which, similarly to the other eurozone regulated peers, was affected by the rise in sovereign yields to new multi-year highs. In relative terms, Italgas and the Italian regulated utilities benefited from the expectations of upwards revision of the allowed return starting from 2024, a possibility instead absent in the regulations of Spain (Red Electrica and Enagas), Belgium and Germany (Elia). Thanks also to the cheaper multiples, Italgas recovered the underperformance recorded in August, closing on average with an advantage of about 6.5 percentage points compared to its fully regulated peers.



Source: Italgas' elaborations on Bloomberg data

Agenda

Corporate events

26 October	BoD on Q3/9M consolidated results
27 October	Press release & conference call

Links a Corporate News

Italgas: completed the acquisition of 100% of Depa Infrastructure S.A. 01 september 2022

Depa Infrastructure: Shareholders' Meeting appoints Chairman and new Board of Directors 01 september 2022

Italgas opens a brand-new Innovation Antenna in Silicon Valley 13 september 2022

Italgas' Board of Directors approves the renewal of the EMTN programme 15 september 2022

Italy: 150 million euros from the EIB to Italgas to promote energy efficiency 20 september 2022

Italgas: Moody's Investors Service (Moody's) affirms Rating and Outlook 23 september 2022

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