Financial Markets Review

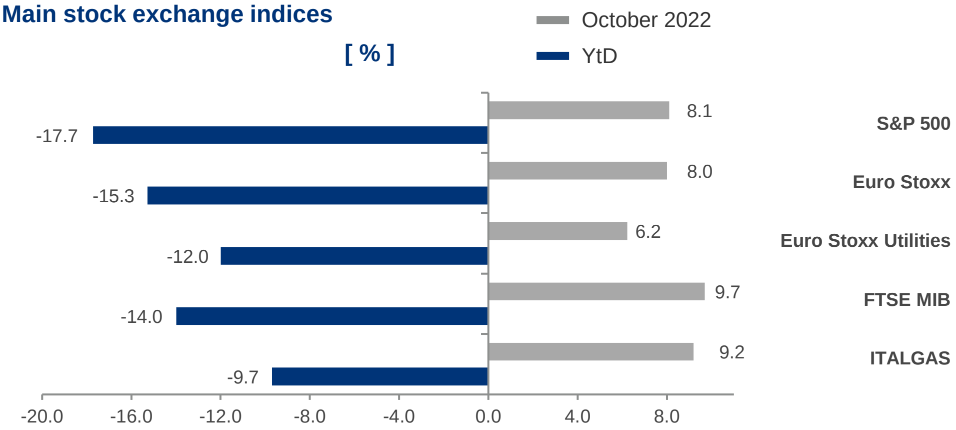
Global equities broadly recovered as monetary tightening expectations eased with moderating energy commodity prices. After updating its multi-year highs, the German yield remained overall unchanged

Financial Markets

EQUITY: Strong recovery of global equities essentially induced by 1) mitigated expectations of monetary tightening following the overall moderation of energy commodity prices and the ECB revision of the guidance in terms of future rate hikes, 2) physiological covering after price lows since November 2020 and 3) an oversold market (Relative Strength Index < 30). The Euro Stoxx and the S&P 500 advanced by 8%, against a moderate outperformance of the FTSE Mib (+10%) supported by the contraction of the sovereign spread.

BONDS: Moderate divergence between core sovereign yields depending on the trend in energy commodity prices and the approach of central banks. After updating its highs since August 2011, the German government yield closed overall unchanged (+3 bps to 2.14%), reflecting the overall reduction in expectations of monetary tightening following: 1) eased inflationary pressures due to the sharp contraction of TTF price; 2) mitigated ECB guidance in terms of future rate hikes. In fact, while in September the ECB indicated its intention to raise interest rates "over the next several meetings", in the press release of the October meeting the guidance was weakened by indicating a generic intention "to raise interest rates further".

Main stock exchange indices



Source: Italgas' elaborations on Bloomberg data

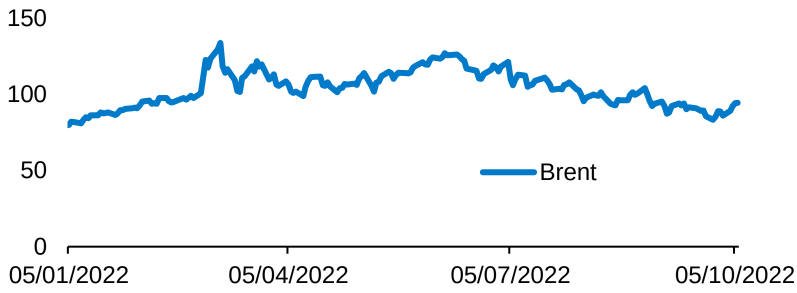
Consistently with expectations of moderation in monetary tightening, peripheral spreads dropped significantly, with the BTP-Bund -25 bps to 216 bps. On the other hand, the US government yield increased by 22 bps, which, unlike the Bund, only partially benefited from the changed ECB guidance and the reduction in gas prices.

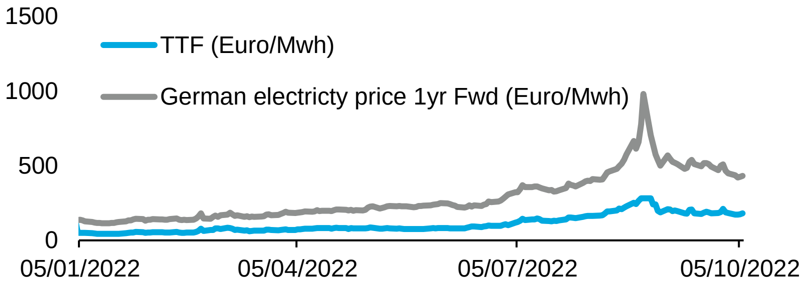
CURRENCIES: Despite the milder ECB monetary tightening outlook, the EUR/USD is up 0.8% (to 0.99) reflecting improved sentiment underlying the equity rally and improved EU economic outlook induced by the gas price reduction. The EUR/GBP is down 1.8% (to 0.86) after its highs reached in September, initially reflecting the revision of the fiscal stimulus plan proposed by Prime Minister Liz Truss, with the reinstatement of the corporate tax rate increase to 25%, as well as his subsequent resignation and the appointment of Rishi Sunak as head of government, with an end to the phase of political uncertainty.

The oil&gas market

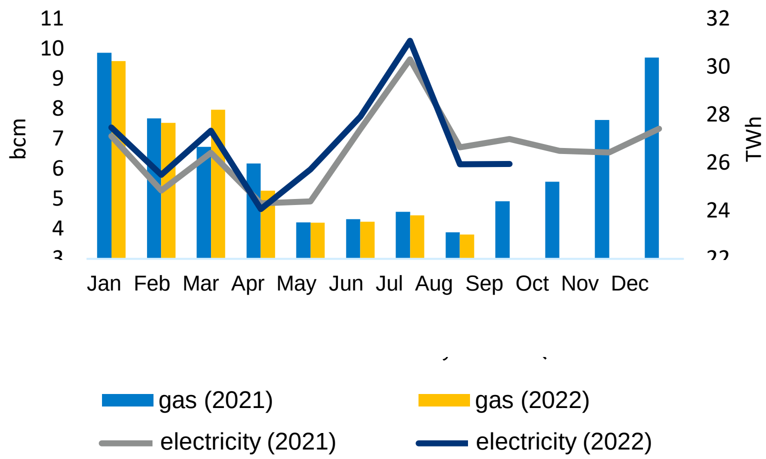
OIL MARKET: after the significant contraction of the previous 3 months, oil prices are up 8% to 93 USD/b after OPEC+ announced a production cut of 2 mbd starting in November. It should be noted that the reduction is applied not to the actual production, but to the (higher) theoretical quotas, with a consequent significantly mitigated impact. In addition, prices were impacted by the improved market sentiment underlying the equity rally and the EU's ruling that prohibits member countries' shipping companies from carrying Russian oil traded at prices above the cap, a measure which could lead to an increase in the global supply deficit.

GAS MARKET: extension of the bearish phase, instead, for the TTF, down by 49% to 84 EUR/MWh essentially due to European storage, which grew to 95% vs 89% at the end of September, and the low consumption in the residential sector induced by temperatures above the seasonal average. In addition, the European Commission supported initiatives aimed at containing prices, including the agreement on the introduction of a temporary dynamic corridor to smooth price peaks and the establishment of a new benchmark index, replacing the TTF, to price the LNG, as well as the creation of a common mandatory purchase platform for volumes equal to 15% of what is required to fill the storage. Furthermore, EU negotiations continue for the introduction of a cap, although temporary, on the price of gas used in thermoelectric generation.





Italy: gas and power demand



Key news energy sector October 2022

1. World: OPEC+ approves 2 mbd cut in oil production starting in November
2. EU: 6 October Adoption of the regulation on emergency intervention to deal with high energy prices (EU 2022/1854); 18 October Further Commission proposals to combat high energy prices and ensure security of supply, including introduction of a temporary dynamic corridor to smooth gas price spikes; continuation of negotiations for the introduction of a cap, although temporary, on the price of gas used in thermoelectric generation
3. EU: general approach agreed on proposed revision of the Energy Performance of Buildings Directive (EPBD)
4. EU: published the final recommendations for the application of the minimum safeguard criteria of the European Taxonomy by the Platform for sustainable finance
5. Italy: authorization signed for the installation of Snam's 5 bcm/y FRSU in the port of Piombino
6. Italy: electricity demand -3.9% y/y in September, +1.3% since the beginning of the year. Electricity production +2.2% y/y, with hydroelectric -37.6%, offset by thermal and renewables
7. Spain-France gas pipeline: agreement signed in Brussels for the new Barcelona-Marseille gas pipeline which should be ready in 4-5 years. The deal follows the cancellation of Midcat
8. France: downward revision of EdF's 2022 nuclear output guidance (now in the low end of the 280-300 TWh range)

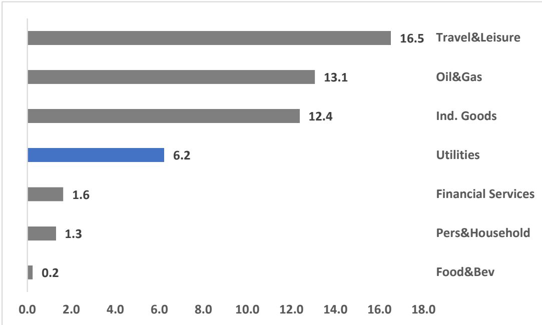
Performance by sector

Lack of underlying sector dynamics as eurozone core yields were little changed; oil companies among the best performers with the recovery in commodity prices

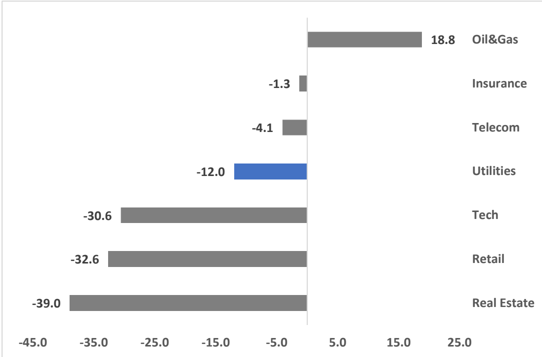
Unlike the previous months, the dynamics of the sectors in October mainly reflected the specific newsflow, also considering the broadly stable Eurozone sovereign yields.
The travel&leisure sector was the best performer driven by the +19% of Flutter Entertainment, the main operator in the sector active in online gambling, on expectations of positive outcome of a dispute over the sale price of a share in a US subsidiary, and by the +16% of Sodexo after better-than-expected 2021/22 results and robust outlook for the next two years. Oil&gas +13% due to the consistent recovery of the commodity after the production cuts announced by OPEC+.
Food&beverages and personal goods were on the opposite side, essentially due to quarterly results below expectations.

Sector performance; utilities e 3 main ups/downs

Oct. 2022 [%]



YTD 2022 [%]



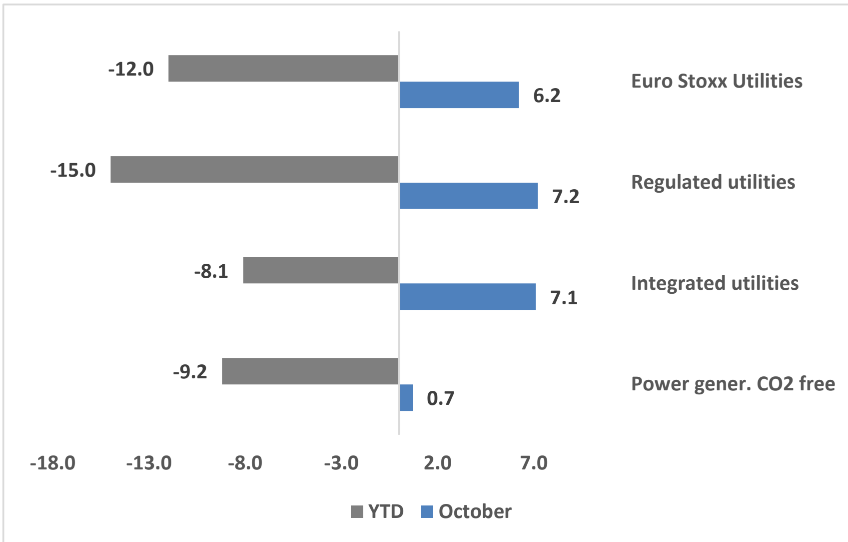
Source: Italgas' elaborations on Bloomberg data

Utilities sector penalized by operators exposed to renewables as power prices fell

Utilities sector performance

The utilities sector was 6% up, moderately underperforming the Euro Stoxx (+8%) due to the weakness of operators most exposed to renewables (+1%) following the drop of electricity prices as a consequence of lower gas prices. It should be noted that the cap adopted by the EU on production from non-gas-fired plants remains well below market prices. Among the integrated operators, the main outperformers were: 1) Veolia (+15%) on the basis of physiological covering after a large YTD underperformance (at the end of September the stock was down 36% from the beginning of the year) and the absence of further findings from the UK Antitrust (CMA) in relation to the takeover on Suez; 2) Engie (+11%), supported by better-than-expected Q3 preliminary operating data and contraction in gas prices, with a positive impact on trading margins.

Utilities sector and subsectors **[%]**



Source: Italgas' elaborations on Bloomberg data
Veolia included amongst integrated operators

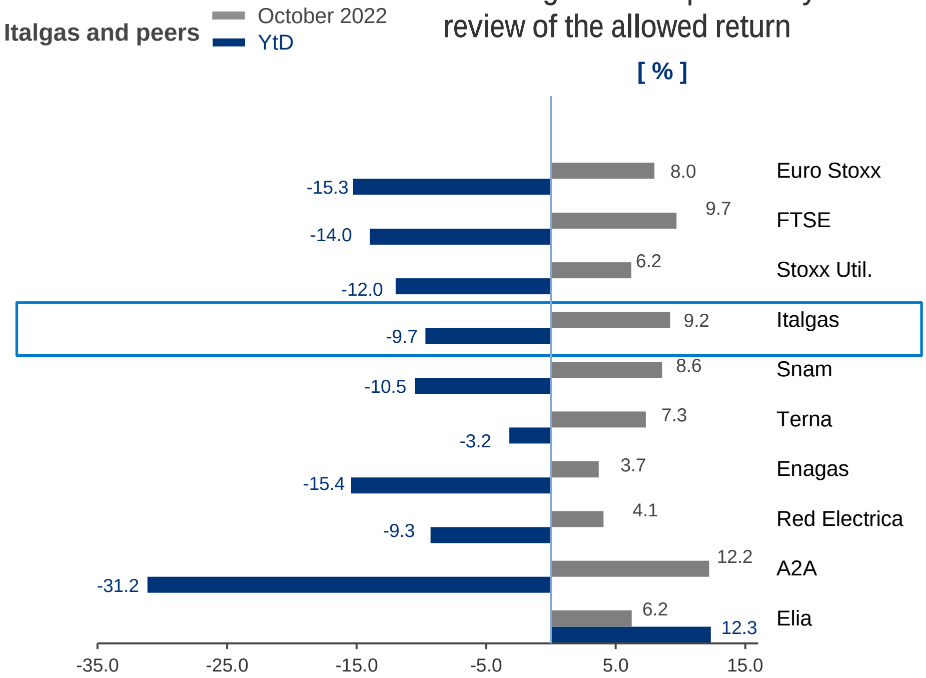
Italgas and its peers

Italgas (+9%) best performer among regulated peers with Q3 results above expectations; Italian operators confirm the advantage with the possibility of annual review of the allowed return

Italgas was 9% up (5.215 euros).

In line with the previous month, Italian operators continued to outperform their Eurozone peers, mainly benefiting from expectations of upward revision of the allowed return starting from 2024, which mitigates the high level of bond yields. This possibility is absent, instead, in the regulations of Spain (Red Electrica and Enagas), Belgium and Germany (Elia).

Italgas was the best performer among regulated peers, supported by better-than-expected Q3 results (Q3 net profit up 3% vs consensus, driven by growth in energy efficiency related activities) and cheaper levels of multiples.



Source: Italgas' elaborations on Bloomberg data

Agenda
Corporate events

2023 financial calendar not published yet

Links to Corporate News

Depa Infrastructure (Italgas Group): signed a new Bond Loan with Eurobank for a total amount of up to 580 million euros 03 october 2022

Italgas: Consolidated results for the first nine months and third quarter of 2022 approved 27 october 2022

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