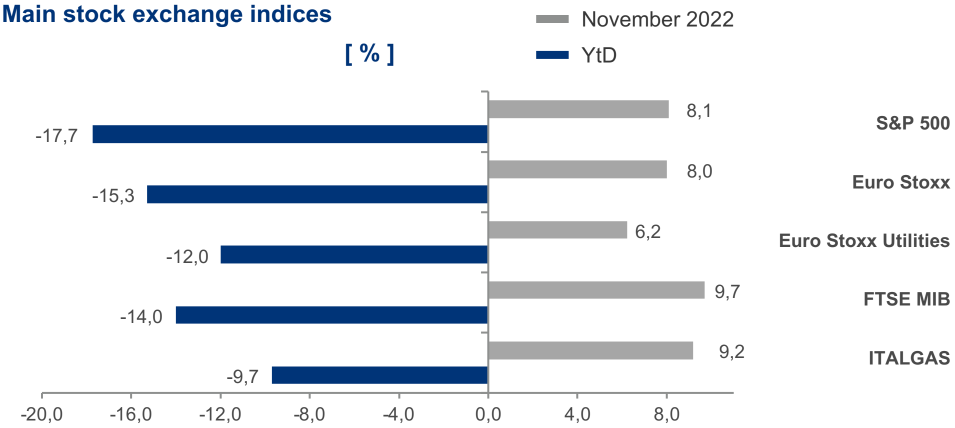
Financial Markets Review

Large rise for global equities as expectations of monetary tightening mitigated due to the overall reduction of energy prices and some macro data below expectations. Consequent decline in bond yields and peripheral spreads

Financial Markets

EQUITY: Global equities rallied largely on mitigated expectations of monetary tightening following some weaker-than-expected US and Eurozone macro data (for US: October inflation, initial jobless claims, manufacturing/composite PMI; for eurozone: preliminary inflation report of November) and an improved outlook induced by the overall reduction in the prices of energy commodities. The Euro Stoxx is up 8% (FTSE Mib +9%) vs around 6% for the S&P 500, but adjusted for currency dynamics, the Eurozone outperforms the US by 7 percentage points, benefiting from the improved economic prospects on the basis of the overall reduction in the prices of energy commodities (between July and August the prices of European gas reached 8 times the level of US prices) compared to the peaks of the previous months.

Main stock exchange indices



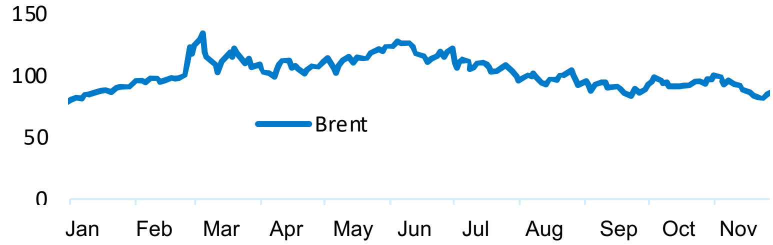
Source: Italgas' elaborations on Bloomberg data

BONDS: The US Treasury yield contracted by 44 bps (3.61%), the German by 21 bps (1.93%). The significant decline in core sovereign yields reflects mitigated expectations of monetary tightening, and is induced by the real component, accompanied by an equivalent trend in peripheral spreads (-21 bps for Italy (195 bps, to the lowest since July, and -25 bps for Greece (222 bps)). The outcome of the FED meeting at the beginning of the month was overall in line with expectations; the US central bank increased rates by 75 bps for the 4th time in a row, at the same time providing, similarly to the ECB meeting in October, signs of monetary policy easing. The related press release in fact indicated that in deciding the magnitude of future rate hikes, the FED will take into consideration not only the level of monetary restriction (probably also including the QT) adopted so far, but also the time delay with which the restrictive measures make an impact on the level of economic activity and inflation.

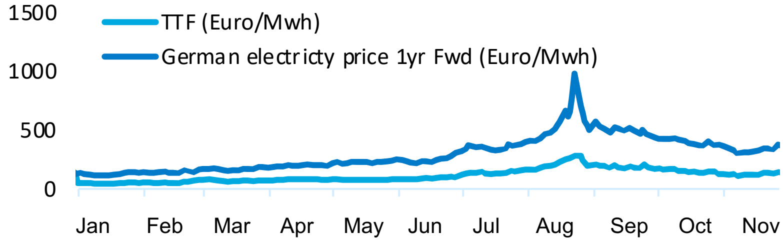
CURRENCIES: EUR/USD rose sharply (+5% to 1.04), back above the parity, reflecting the improved risk appetite (underlying the equity rally) and the aforementioned weaker-than-expected US macro data. On the other hand, the EUR/GBP (0.86) was overall stable. The upwards pressure induced by the outcome of the BoE meeting, which despite a 75 bps increase in rates, in order to avoid a deep recession of the UK economy indicated that the next rate hike evolution will be softer than what implied by the market, was offset by diverging macro data: wages and UK composite/manufacturing PMI higher than expected vs November eurozone headline inflation lower than expected.

The oil&gas market

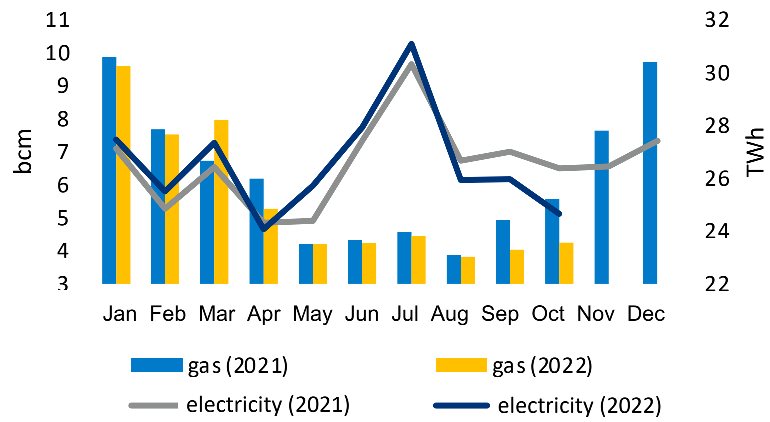
OIL MARKET: extension of the downward trend for oil prices (-7% to 87 USD/b) reflecting mitigated fears about the lack of availability of Russian crude oil following the embargo adopted by the EU. On the eve of the sanctions (valid with effect from 5 December), which prohibit EU shippers from providing transport, maritime and insurance services on Russian oil sold at a price above the cap, Russian crude oil exports by sea reached their highest at least since 2017 (3.2 mbd). In addition, India has signaled that it will continue to import crude oil from Russia due to the significant discounts offered by the latter.



GAS MARKET: recovery, instead, for TTF prices (+67% to 140 EUR/MWh), after reaching the previous month their lowest since June. The dynamic was induced by: 1) a delay in the recovery of the Texan liquefaction plant in Freeport, which accounts for 15% of US exports, and which has been shut down since June due to an accident following the high load factor, together with the reduced availability of the liquefaction terminal of Sabine Pass (Louisiana) due to maintenance of the pipelines that supply the plant; 2) European temperatures falling below the seasonal average at the end of the month, and expected to remain so in December, although the level of gas storage remains on average at 93%, slightly below the 95% at the end of October; 3) supplies from Libya falling to zero (from over 10 mcm/d in previous weeks) due to unscheduled maintenance of the Greenstream; 4) reduction of supplies from Norway due to accidents reported by 2 extraction plants.



Italy: gas and power demand



Key news energy sector November 2022

1. **Gas:** EU proposal to set a price cap of 275 EUR/MWh if certain conditions are met; proposal harshly criticized by several countries as based on unsustainable quotations, which could therefore be subject to revision
2. **Gas:** confirmed delay in the restart of the Freeport Texan liquefaction plant. The new mid-December date is one month after the previously given deadline. Facility expected to be fully operational in March
3. **COP27:** US Presidency announces new measures to reduce the climate change. EU Commission Vice President anticipates EU emissions reduction target could rise to 57%
4. **Electricity:** extension of maintenance on some reactors by EdF (Flamanville 2, Cruas 2, Dampierre 2)
5. **Italy:** the Government has approved an Update Note to the 2022 Economic and Financial Document (NADEF), which frees up resources of around 30 bn euro to combat high energy prices. Aid Decree modifies Superbonus rules
6. **Italy:** approval of Ravenna FSRU project, which should be operational from the third quarter of 2024. Value of the planned works approximately 0.5 bn euro
7. **Italy:** gross domestic gas consumption in October -24.2%, not seasonally adjusted for the climate; year to date -5.2%, data not seasonally adjusted for the climate (data: Ministry of Ecological Transition)

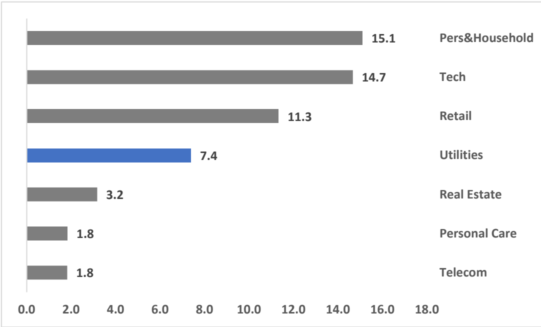
Performance by sector

Overall absence of underlying sector dynamics, as a further contraction in bond yields was accompanied by extension of the risk-on phase

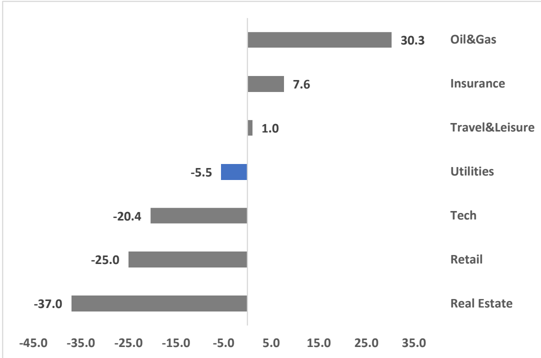
Overall absence of underlying sector dynamics, as the further contraction in bond yields was accompanied by an extension of the risk-on phase. The best performers include retail and consumer goods (respectively +11% and +15%), supported by the operators most exposed to China due to expectations of an easing of the Covid restrictive measures in order to calm some protests and riots following the extension of the same restrictions. The technology sector (+15%) also outperformed, reflecting quarterly results of Infineon (+28%) higher than expected, with a simultaneous increase in profitability targets for 2023. Telecoms (+2%) were on the opposite side, probably reflecting the mitigation of the outperformance achieved until October (when they were the 3rd best performer).

Sector performance; utilities e 3 main ups/downs

Nov. 2022 [%]



YTD 2022 [%]



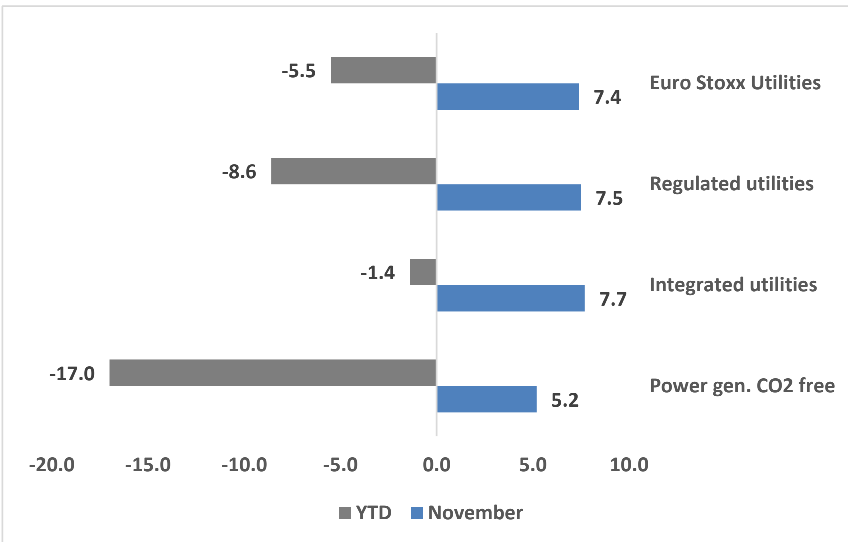
Source: Italgas' elaborations on Bloomberg data

Utilities up 7%; overall alignment between integrated and regulated operators

Utilities sector performance

Utilities sector was up 7%, overall in line with the Euro Stoxx, with substantial alignment between integrated and regulated operators, and a marginal underperformance of renewable producers, which despite the recovery in electricity prices remain exposed to the dynamics of national regulations concerning caps on the prices and taxation of extra profits. Among the main integrated operators, Enel (+14%) and Engie (+10%) reported the largest increase, respectively as a function of: 1) the guidance of the new business plan well above the consensus despite the asset disposal program aimed at reducing the leverage; 2) quarterly results higher than expected with an increase in net profit guidance for the current year due to higher electricity prices.

Utilities sector and subsectors **[%]**

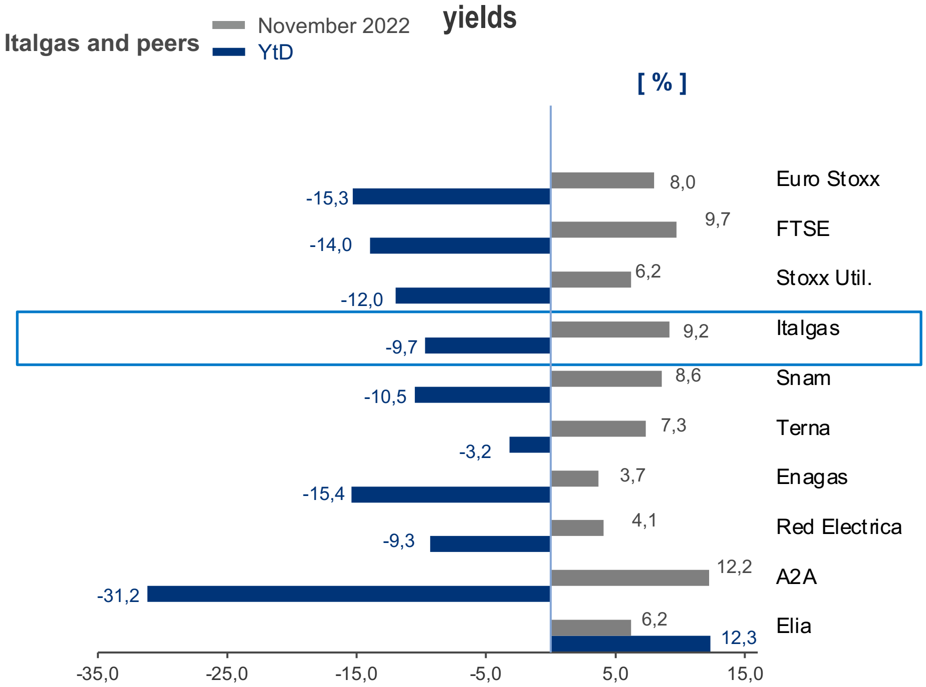


Source: Italgas' elaborations on Bloomberg data
Veolia included amongst integrated operators

Italgas and its peers

Italgas was up 7.5%; like the other regulated operators, the stock was supported by further contraction in bond yields

Italgas was up 7.5% (5.605 euro), in line with the sector index; like the other regulated operators, the stock benefited from the further contraction in sovereign yields. Terna (+11%) is the best performer among regulated peers after an upward revision of the Ebitda and net profit guidance for the entire year as a function of a structural increase in the expected output-based incentives (resolution of infra-zone congestions and reduction of the cost of dispatching service and other ancillary services). A2A (+14%) is the best performer within the entire panel, thanks to higher than expected Q3 results, although the M/L term targets (to 2030) of the business plan, communicated after the results, have been revised downwards compared to the previous one.



Source: Italgas' elaborations on Bloomberg data

Agenda

Corporate events

2023 financial calendar not published yet

Links to Corporate News

Italgas is awarded the management of the natural gas distribution service in the Atem area "La Spezia" 29 november 2022

Fitch Ratings ("Fitch") affirms Italgas at 'BBB+', Stable Outlook 29 november 2022

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