December 2022

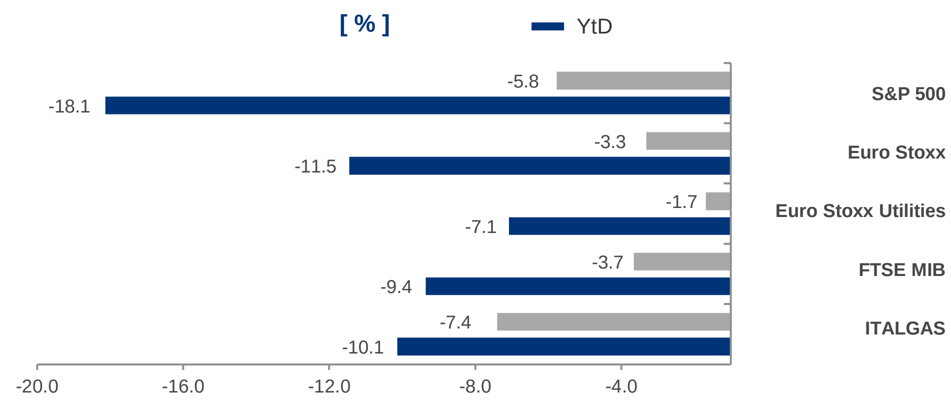
Financial Markets Review

Sharp correction for global equities following less accommodating than expected ECB/FED meetings, with a large rise in bond yields and in the BTP-Bund spread. The Euro Stoxx extended its recent outperformance vs US equities due to further decline in energy commodity prices

Financial Markets

EQUITY: Sharp correction in December for global equities as a consequence of less accommodating than expected central banks meetings (FED and ECB). Although, in both cases, the increase in rates (+50 bps) was in line with the expectations, the indications provided to bring inflation back in line with medium-term targets highlighted a more intense future monetary tightening compared to market assumptions. The Euro Stoxx and the FTSE Mib lost between 3% and 4% vs -6% for the S&P500. Adjusted for the currency dynamics, the gap between the 2 benchmarks rose to 6 percentage points, probably due to the further decline in energy commodities prices - which represented the main source of underperformance for eurozone equities during their sharp rise - as a consequence of the area's greater dependence on energy supplies from abroad.

Main stock exchange indices



Source: Italgas' elaborations on Bloomberg data

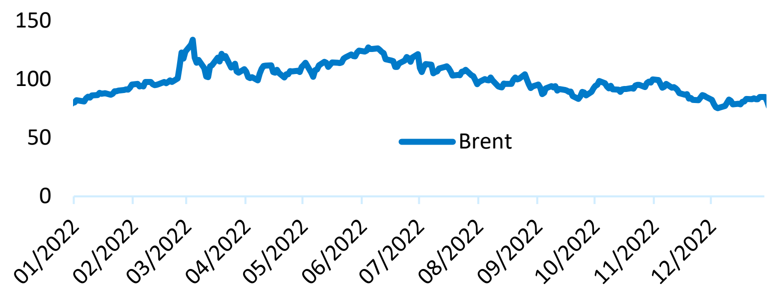
BONDS: Large rise in sovereign core yields, entirely induced by the real component, based on the aforementioned outcomes of the central banks meetings. The Bund was up 64 bps to 2.57%, above its previous peak of October and at its highest since July 2011 vs +27 bps for the UST at 3.87%. The significant difference in the magnitude of the increase has reflected the respective macro data: ISM and manufacturing PMI below expectations (the latter 2 dropped below 50 for the first time since 06/2020) for the US, while in the eurozone the composite PMI and the November inflation came above expectations. As a consequence of an announced monetary tightening more intense than expected, the Italian spread rose by 20 bps (to 214 bps) in the month, also because the EU, despite providing a positive opinion on the budget law, raised some observations on certain aspects, such as the tax amnesty, the increase from 2 to 5 thousand euros of the ceiling for cash payments and the end of the obligation to accept electronic payments under 60 euros.

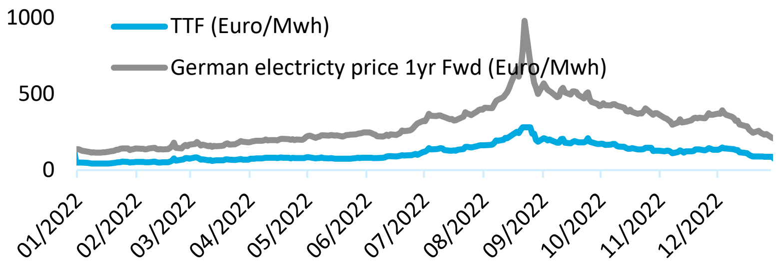
CURRENCIES: The EUR/USD rose 2.9% (to 1.08) in December; although both the ECB and the FED showed a more hawkish approach than expected, the dynamics reflected the divergence in the respective macro data. Similar rise for the EUR/GBP (+2.6%, to 0.89) reflecting the outcome of the BoE meeting, which despite raising rates by 50 bps (as expected) showed divisions within the board, with 2 components out of 9 in favor of stable rates (on inflation expectations already at the peak), with the consequent possibility that the next increases will be lower than what the market assumes.

The oil&gas market

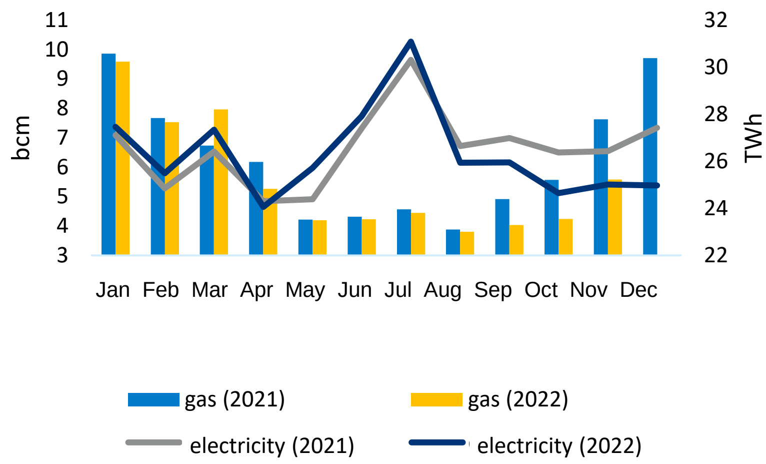
OIL MARKET: Extension of the bearish trend for oil price, down 2% to 85 USD/b, after reaching its lowest since December 2021 at the beginning of the month. The dynamics essentially reflected the re-emergence of the risk-off phase due to the expectations on the central banks, with a consequent rise in bond yields. The EIA also increased its estimates of the global oil surplus for both 2022 and 2023, mainly due to higher production levels. These factors offset the upward pressures induced by the unavailability, due to leaks, of the Keystone Pipeline, a 0.6 mbd pipeline system carrying oil from Canada to the United States, as well as the announcement by the Department of Energy (DoE) of a plan to start rebuilding the strategic oil inventories after the release of 180 mboe made between April and October to reduce market prices.

GAS MARKET: Extension of the bearish phase for TTF price also (-47% to 74 EUR/MWh, its lowest since February) due to higher-than-average temperatures in large part of Europe, with the average level of storage which, although declining compared to the figure at the end of November, remains well above the historical average at the end of December, also due to the recovery of wind power generation in central-northern Europe. It should also be considered that US LNG exports have returned to levels prior to the accident at the Freeport Texan liquefaction plant.





Italy: gas and power demand



Key news energy sector December 2022

1. **Oil:** the G7 countries approved a price cap of 60 USD/b for Russian oil. The price cap also represent also the price limit at which European shippers can offer transport and insurance services on this crude oil sold globally. Russia envisaged the interruption of sales to those countries applying the price cap.
2. **Oil:** extension of the unavailability of the Keystone Pipeline, a 0.6 mbd pipeline system that carries oil from Canada to the United States.
3. **Gas:** introduction by the EU of a 1-year price cap starting from February 15. The price cap will be activated if the gas price and the difference vs the LNG prices are respectively higher than 180 EUR/MWh and 35 EUR/MWh for 3 consecutive days. If activated, the cap will remain in operation for at least 20 days. Also in this case, Russia envisaged the interruption of residual supplies to the EU in the event of effective application of the cap.

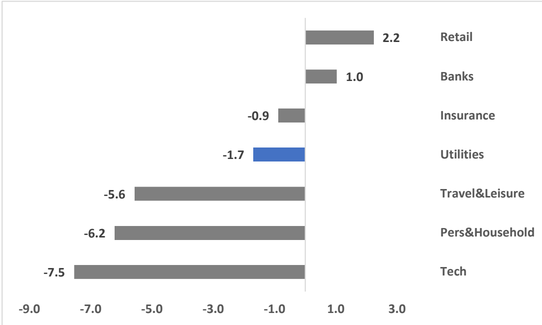
Performance by sector

Financials among best performers with rising bond yields; bond-proxy and defensive stocks on the opposite side

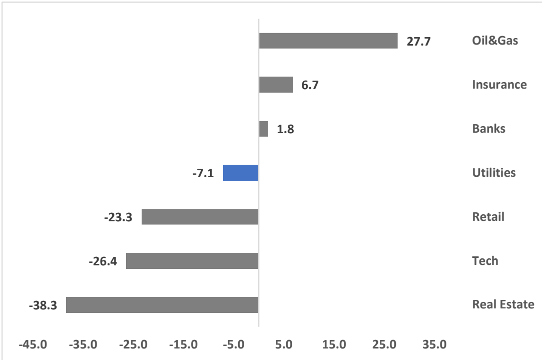
Thanks to the further rise in bond yields, financials (banking +1%, insurance -1%) are among the best performers together with the retail sector, the latter driven by operators most exposed to China based on expectations of easing of the Covid restrictive measures. Consistently with the described macroeconomic framework, techs and personal goods are on the opposite side (-8% and -6% respectively). The former as a function of the inverse correlation to bond yields: given their "growth" profile, technological stocks tend to have positive cash flows that are particularly deferred over time, so that an increase in bond yields and therefore in discount rates have a larger negative impact on the valuation compared to more mature sectors. The latter because of their defensive profile.

Sector performance; utilities e 3 main ups/downs

Dec. 2022 [%]



YTD 2022 [%]



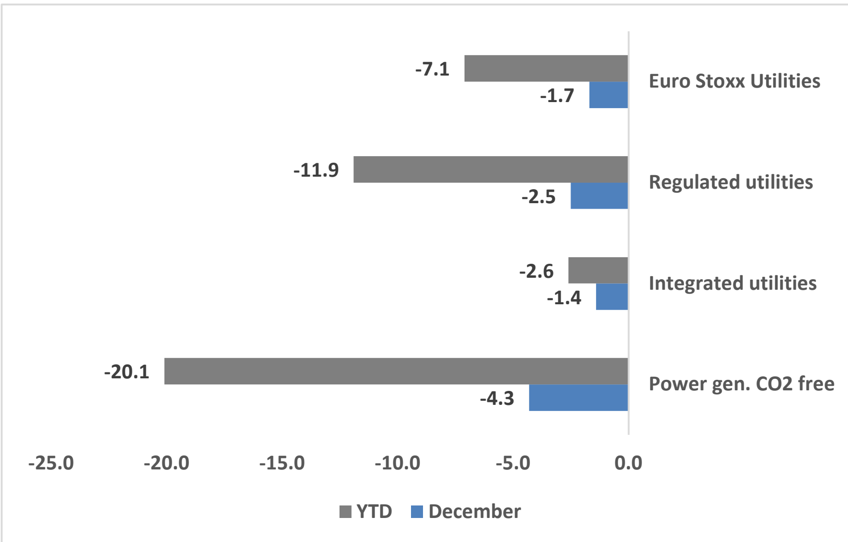
Source: Italgas' elaborations on Bloomberg data

Utilities sector -2%; overall outperformance of integrated operators with improved commercial margins due to gas price drop

Utilities sector performance

The utilities sector was down 2% in the month, marginally outperforming the Euro Stoxx and supported by integrated operators due to the improved commercial margins induced by the rapid decline in wholesale gas prices, which do not immediately translate on end-user prices. Renewable producers were the worst performers, probably due to the sharp contraction in electricity prices reflecting the drop in gas prices (page 2). Regulated operators suffered from their bond-proxy profile. In terms of individual stocks, Fortum (+2%) was among the best performers after defining with the German government the terms for the complete exit from Uniper. Fortum will receive approximately half a billion euro for its Uniper's equity stake and the full repayment of the 4 bn euro of existing intragroup loan.

Utilities sector and subsectors **[%]**



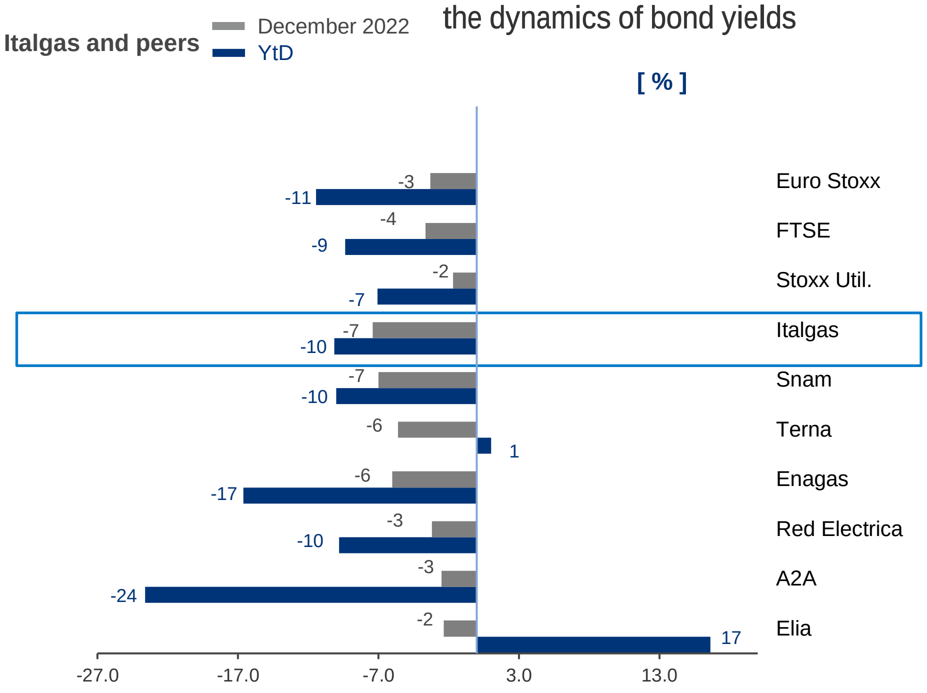
Source: Italgas' elaborations on Bloomberg data

Veolia included amongst integrated operators

Italgas and its peers

Italgas fell by 7% in December. In with the the average of its Eurozone peers, it underperformed the sector index due to the more accentuated bond-proxy profile in a context of significant rise in bond yields (page 1).

7% drop for Italgas, which, similarly to the average of regulated peers, underperformed the sector index due to the dynamics of bond yields



Source: Italgas' elaborations on Bloomberg data

Agenda
Corporate events

2023 financial calendar not published yet

Links to Corporate News

Italgas confirmed in the Dow Jones Sustainability Index Europe and in the Dow Jones Sustainability Index World 10 december 2022

Italgas recognized with 'A' score for transparency on climate change by CDP (Carbon Disclosure Project) 13 december 2022

Italgas completes the acquisition of the entire stake in Janagas S.r.l. from Fiamma 2000 Group 13 december 2022

Italgas: BoD approves the 2022-2028 Sustainable Value Creation Plan 14 december 2022

Depa Infrastructure (Italgas Group): completed the acquisition of the remaining 49% of EDA Thess 19 december 2022

Medea (Italgas Group) becomes a 49% shareholder of Energie Rete Gas 21 december 2022

Italgas: sale of a 10% minority stake in the holding company controlling Depa Infrastructure 22 december 2022

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