March 2023

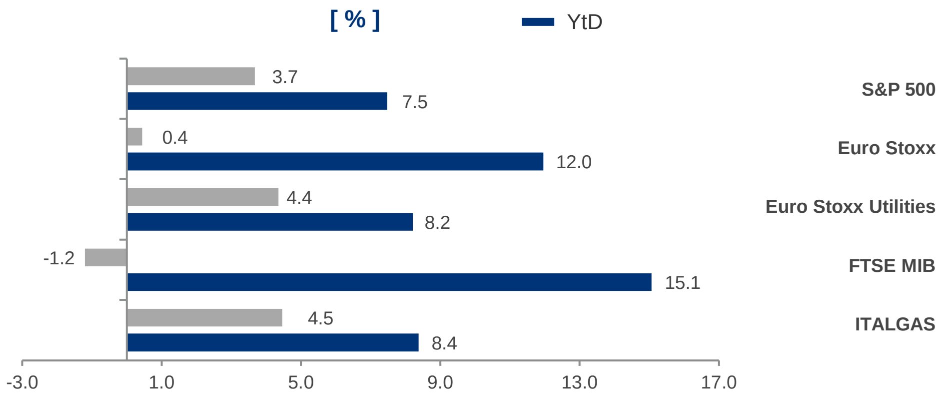
Financial Markets Review

High volatility for global equities, which, after a significant decline induced by the liquidity crisis triggered by some bankruptcies in the US banking sector, posted an overall recovery mainly thanks to the rescue of Credit Suisse. Sovereign yields fell, reflecting the worsening outlook

Financial Markets

EQUITY: In March, high volatility for global equities, which suffered an initial decline reflecting the liquidity crisis induced by the increased funds withdrawal by depositors following the failure of Silicon Valley Bank, due to the misalignment of assets vs liabilities maturities, transferred to other US regional lenders and culminated with the Credit Suisse crisis, with subsequent need for a bailout. After losing 6% on average compared to the highs recorded at the beginning of the month, stock markets recovered also thanks to the rescue solution adopted for Credit Suisse. This solution appeared preferable to the market compared to the hypothesis of nationalization, although the bank was taken over by UBS at a significant discount compared to the price immediately preceding the agreement, with an associated write-down of the subordinated AT1 bonds. The Euro Stoxx closed overall unchanged vs the S&P 500 up 4%; even adjusted for currency dynamics, the US benchmark remained ahead of the Eurozone's one by around 1 percentage point due to its higher exposure to tech stocks, among the best performers thanks to the inverse correlation to bond yields. On the other hand, the FTSE Mib declined by 1% due to its exposure to banks.

Main stock exchange indices



Source: Italgas' elaborations on Bloomberg data

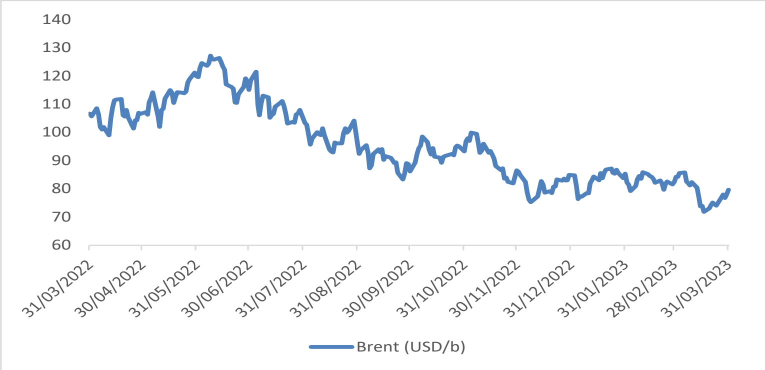
BONDS: Despite the FED meeting turned out more hawkish than expected, and the Eurozone inflation slowed less than expected, bond yields showed a significant contraction (-45 bps for the US and -36 bps for the German one) reflecting expectations of monetary tightening anticipated termination in order not to exacerbate the economic slowdown induced by the system's liquidity crisis. For the end of the year, the market estimates 2 net cuts by the FED vs 2 net hikes estimated at the end of February. Overall stability for the Italian spread (at 181 bps), with increased risk aversion offset by growing expectations of a monetary policy reversal.

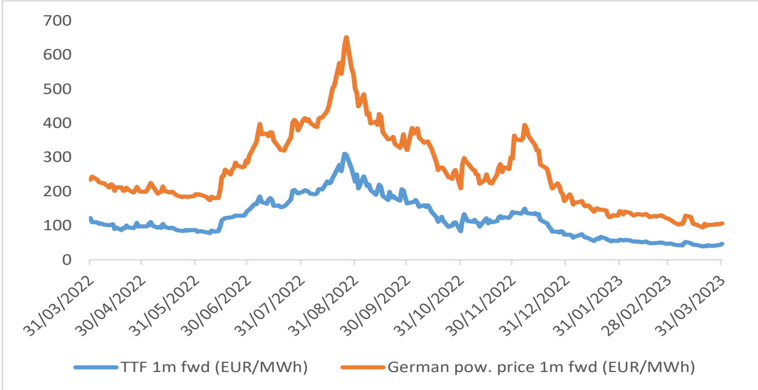
CURRENCIES: EUR/USD +2.5% due to: 1) divergence of macro data, with core US personal consumption deflator below expectations vs slower than expected deceleration of Eurozone inflation and German IFO index above expectations both in the current and in the perspective sections; 2) expectations of an early end and reversal of the rate hike phase for the FED compared to the ECB, with the US central bank which, having started monetary tightening first, is ahead of the eurozone. Overall stability for the EUR/GBP, with the aforementioned Eurozone macro data offset by the Q4 GDP and the UK construction PMI above expectations, the latter returned well above the 50 threshold, the highest since last May.

The oil&gas market

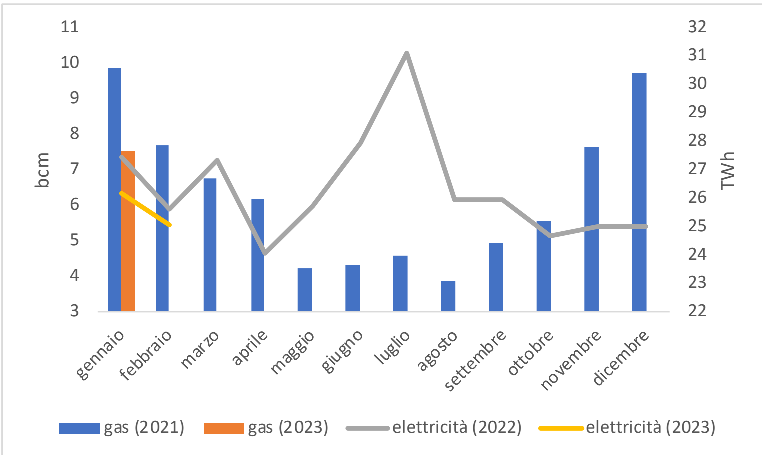
OIL MARKET: Despite (1) Russia communicated its intention to extend until the end of June the 0.5 mbd cut already approved for March in response to the embargo on its oil products applied by the G7 countries, and (2) the interruption of flows (about 450 kbd, however with limited impact, as it occurred only at the end of the month) from the autonomous Iraqi region of Kurdistan following an arbitration which established that the export of Kurdish crude oil through the Turkish Ceyhan terminal is subject to the approval of Iraqi federal government, oil prices dropped 3% (to 80 USD/b) reflecting the overall worsening of the economic scenario, and US inventories which remain at their highest levels since May 2021.

GAS MARKET: Overall stability for TTF price, which after returning below 40 EUR/MWh for the first time since July 2021, as a consequence of temperatures above the seasonal average, with stabilization of the European storages around 56%, or 21 percentage points more than the previous 5-year average for the end of March, posted an overall recovery due to: 1) interruption of the activity in the 4 French LNG import terminals as a result of the general strikes against the government reform aimed at increasing the retirement age; 2) a physiological rebound after an 87% drop from the historic highs of last August, also induced by the coal-to-gas switch as a result of CCGTs better profitability compared to coal-fired plants, as the latter were penalized by the persistence of high prices of CO2 (which, although down by 7%, still remained at 90 EUR/ton).





Italy: gas and power demand



Key news energy sector March 2023

1. **OIL:** Russia has decided to extend until the end of June the 0.5 mbd cut already approved for March in response to the embargo on its oil products applied by the G7 countries
2. **OIL:** interruption of flows (about 450 kbd) from the Iraqi autonomous region of Kurdistan following an arbitration which ruled that the export of Kurdish crude oil through the Turkish Ceyhan terminal is subject to the approval of the Iraqi federal government
3. **GAS:** interruption of activity in the 4 French LNG import terminals due to general strikes against the government reform aimed at increasing the retirement age. Consequently, the aggregate volume of LNG imports in France, the UK, Germany, Belgium and the Netherlands decreased by up to 46% during the month compared to the historical peak of 356 mcm/d achieved at the end of February
4. **GAS:** the EU has approved the extension for another year of the measures (otherwise expiring on 31 March) aimed at the voluntary reduction of gas consumption by 15% compared to the average of the previous 5 years, in order to be able to face the next winter with an adequate level of storage security (90% by 1 November)
5. **ELECTRICITY:** despite the new plant inspections ordered by the ASN due to further corrosion problems detected in the reactors cooling systems, EdF has communicated that the forecast of nuclear output for the current year will be maintained at 300-330 TWh (up compared to 279 TWh in 2022, which in any case represented the lowest production level since 1988)
6. **ELECTRICITY DEMAND IN ITALY:** -2.2% y/y in February, with net production -8.2% and net imports +33%. Demand YTD -3.5%

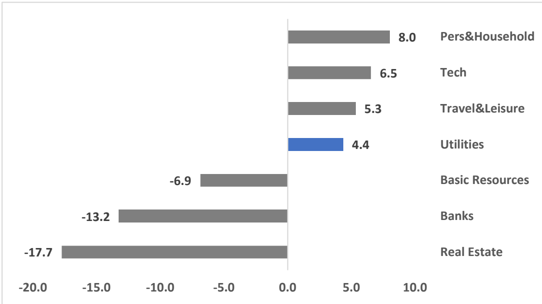
Performance by sector

Reflecting the worsening scenario and the consequent contraction of bond yields, the sector dynamics saw an overall advantage for defensives and bond-proxies vs cyclicals and financials on the opposite side

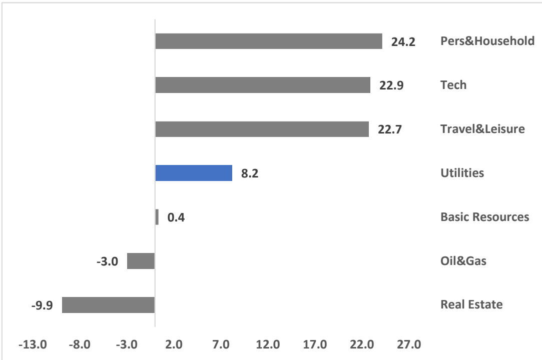
Reflecting the worsened scenario and the consequent contraction of bond yields, the sector dynamics saw an overall advantage for defensives and bond-proxies vs cyclicals and financials on the opposite side. The personal goods sector was the best performer, also supported by results well above expectations of the Swedish retailer H&M. Techs followed, based on: 1) improved outlook by Infineon and Micron Technology; 2) inverse correlation to bond yields. On the other hand, mining and banking were affected respectively by the cyclical profile and by the aforementioned sector shock, as well as by the direct correlation to bond yields. Despite the defensive profile, real estate closed at the bottom due to the aforementioned pressures on liquidity, which could lead banks to restrict access to credit, with a consequent impact on the real estate activity.

Sector performance; utilities e 3 main ups/downs

March 2023 [%]



YTD 2023 [%]



Source: Italgas' elaborations on Bloomberg data

The utilities sector (+4%) outperformed the general index due to its bond-proxy profile

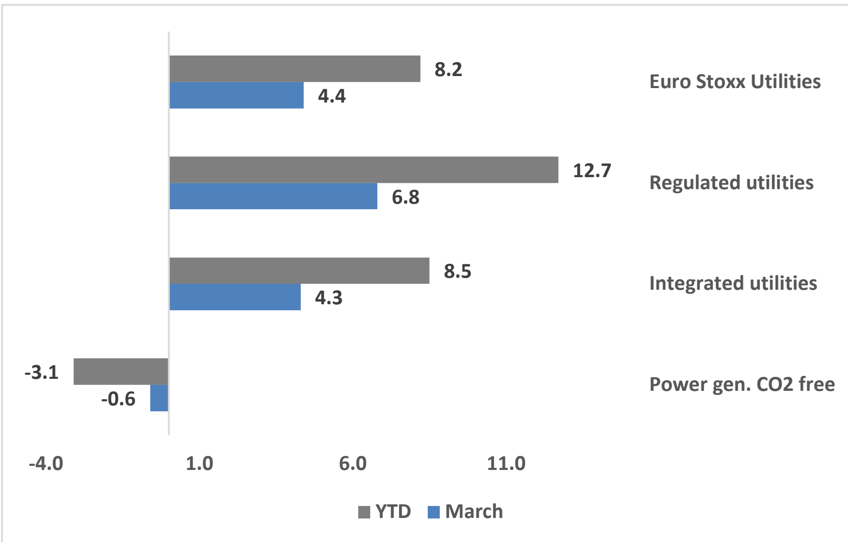
Utilities sector performance

The utilities sector was up 4%, largely outperforming the general Eurozone index based on the bond-proxy profile in a context characterized by a marked contraction of bond yields. Consistent with this scenario, the regulated operators were the best performers in the sector, supported by E.ON (+11%), the main group in the sector, after an upward revision of the five-year capex plan by 20% to facilitate the energy transition.

The operators most exposed to renewables are on the opposite side due to the overall decline in electricity prices.

Among the integrated operators, Naturgy was the top performer reflecting the expected improvement in commercial margins following the high volumes of gas sold on a forward basis at prices prevailing in the second half of 2022, close to the historical highs.

Utilities sector and subsectors **[%]**

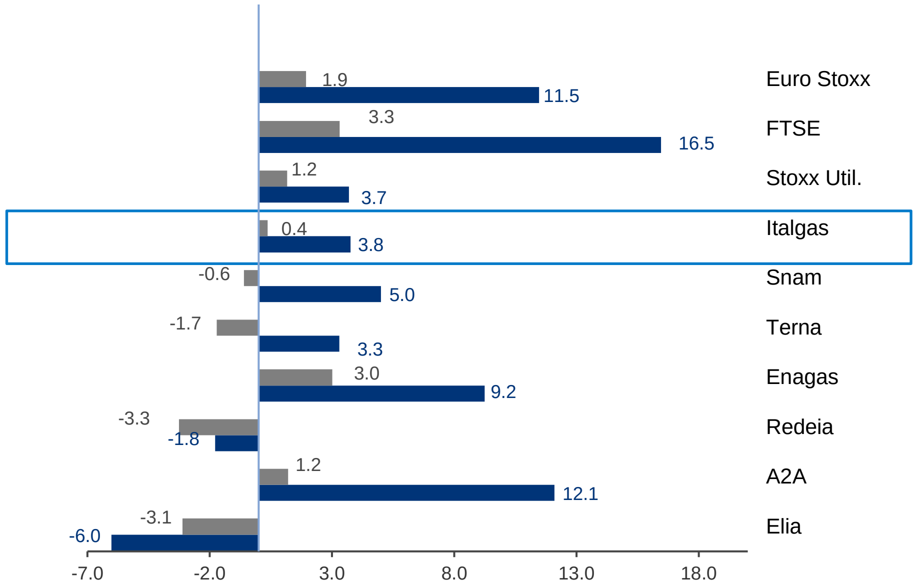


Source: Italgas' elaborations on Bloomberg data
Veolia included amongst integrated operators

Italgas and its peers

Italgas (+4.5%) supported by its bond-proxy profile and higher than expected 2022 DPS

Italgas rose by 4.5% (to 5.625 euros), overall in line with the Eurozone sector index. In addition to the contraction of bond yields, the stock benefited from the 2022 net profit, which stood 6% above the expectations, with a consequent positive impact in terms of DPS. In the month Italgas announced exclusive negotiations with Veolia to expand its presence in the water sector. Within the panel of peers, with an increase of 6% Terna was the best performer following the FY results and 2023 guidance higher than expected, supported by the evolution of output-based incentives. On the other hand, Elia (-3%) continued to be subject to profit-taking after the large outperformance achieved last year, with the stock testing the technical support represented by the double low of the February and October 2022 prices.



Source: Italgas' elaborations on Bloomberg data

Agenda

Corporate events

20 April Shareholders' Meeting on 2022FY results Press Release

Links to Corporate News

Italgas: Consolidated results as at 31 December 2022 approved 09 March 2023

Italgas: The Board of Directors convenes the Shareholders' Meeting on 20 April 2023 09 March 2023

Italgas: exclusive negotiations with Veolia for the potential acquisition of stakes in some companies active in the water sector in the regions of Lazio, Campania and Sicily 14 March 2023

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