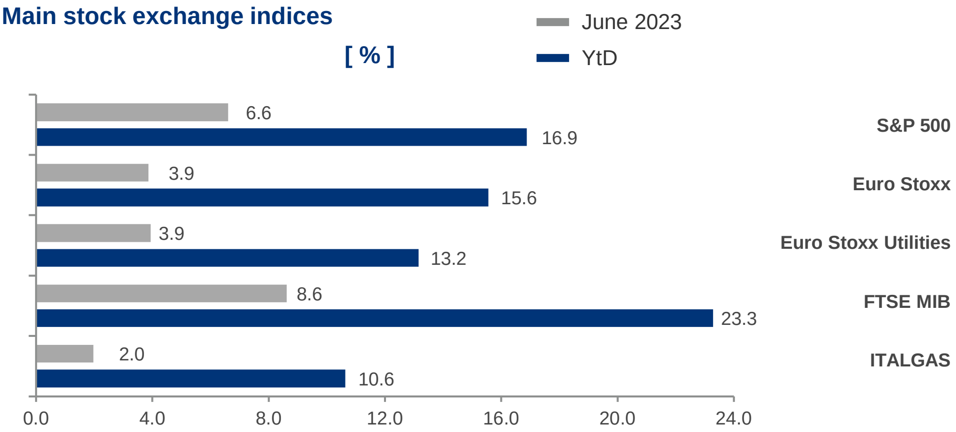
June 2023

Financial Markets Review

Global equities were consistently up in June, supported by expectations of proximity to the end of rate hikes in a context that confirmed the resilience of the economy. Large outperformance for the FTSE Mib, reflecting the lower sovereign spread

Financial Markets

EQUITY: Global equities were consistently up in June, recovering the drop posted in the previous month. Although in a markedly volatile context, the trend was supported by expectations of proximity to the end of rate hike phase due to the overall decline of inflation (the Eurozone inflation and the core personal consumption deflator in the US (the main reference for the FED in assessing the evolution of price dynamics) were below the expectations), despite the macro data overall confirmed a remarkable resilience of the economy (in the US, Q1 GDP grew 2% in annualized terms, and durable goods orders and the consumer confidence were stronger than expected). Additionally, the market was also supported by the green light from the US House and Senate to the agreement that suspended the debt ceiling, avoiding the repercussions otherwise linked to the block of payments and activity by the federal authorities. The Euro Stoxx advanced 4% and the S&P 500 by 6.6%, although adjusted for currencies the 2 benchmarks were aligned. Remarkable outperformance for the FTSE Mib (+8.6%), reflecting the reduction of the sovereign spread, to the lowest since April 2022.



Source: Italgas' elaborations on Bloomberg data

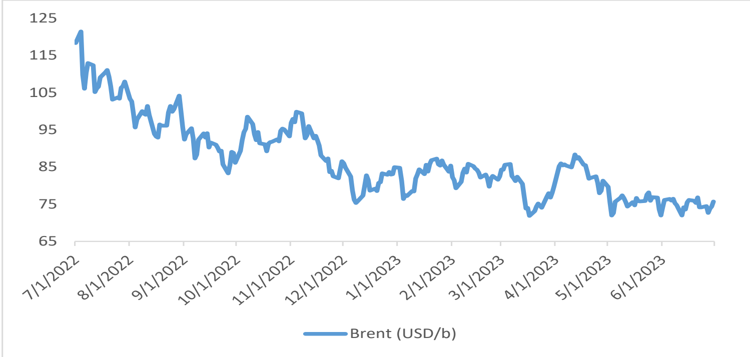
BONDS: Core sovereign yields (10y Bund +11 bps, UST +19 bps) posted a moderate increase, with the upward pressure induced by the resilience of macro data offset by the deceleration of inflation, which however remains well above the targets of the central banks. The FED left rates unchanged, but to realign the price dynamics to its objectives, the median of the estimates elaborated by the FOMC components envisaged 2 further net hikes of 25 bps each by the end of the year, followed by 4 cuts in 2024. Instead, the ECB further increased rates by 25 bps, noting that the inflation remains too high and that it will probably proceed with a further increase in July. Adjusted for the discontinuity induced by the extension of the benchmark maturity, the Italian spread is down by 21 bps (to 168 bps), reflecting the final reading of Q1 GDP above the expectations.

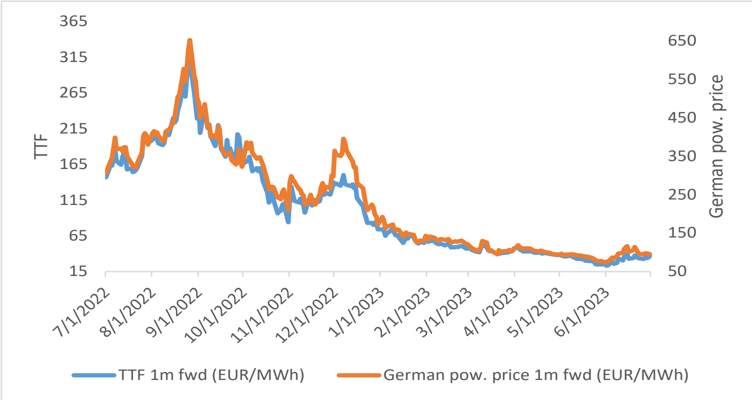
CURRENCIES: The EUR/USD was up 2%, with the downward pressure induced by the strong US macro data offset by expectations of proximity to the end of rate hikes by the FED. The EUR/GBP was stable, instead, with the higher-than-expected rate hike by the BoE – following the strong UK CPI in May – offset by the survey conducted by the British Retail Consortium, which in June reported a slowdown in price dynamics compared to the previous month.

The oil&gas market

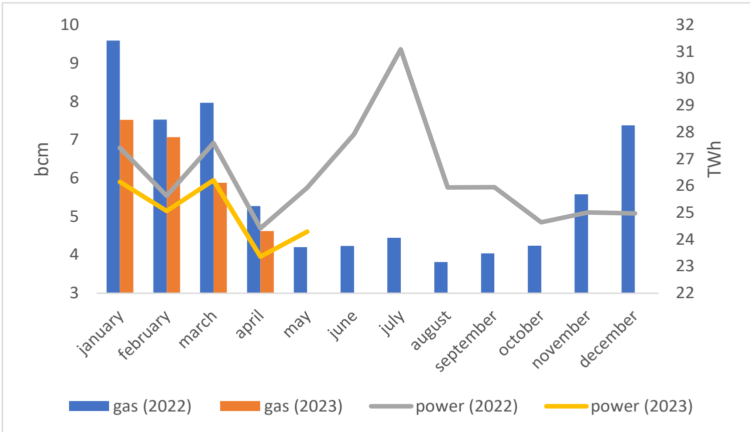
OIL MARKET: The oil price posted a moderate increase (+5%) due to: 1) the decision by Saudi Arabia to unilaterally cut the output by 1 mbd in July to counterbalance a post-pandemic Chinese demand less robust than expected. Such move could be extended to the coming months. At the same time, the other OPEC+ countries have committed to prolong the current production levels (which, compared to April, imply an overall cut of around 1.2 mbd, or 1.7 mbd also including the extension of the reduction operated by Russia) across 2024; 2) the risk-on sentiment induced by the expectations of approaching the end of the rate hikes cycle; 3) the inverse correlation between oil and the dollar. These factors have been mitigated by expectations of a resumption of US-Iran nuclear talks, which could lead to greater exports from Iran.

GAS MARKET: After a decline of 9 consecutive weeks, the most extended negative series since 2007, which led prices to their lowest since May 2021, the TTF rose by 44% (37 EUR/MWh), supported by: 1) the extension of scheduled (and not) maintenance at certain liquefaction plants in Norway; 2) high temperatures in central-northern Europe, with a consequent increase in electricity demand for air conditioning; 3) the intention of the Dutch government to permanently close the Groningen field (the largest in the country) by October; 4) skepticism by the Ukrainian energy minister about the possibility to renew the transport agreement with Russia, which expires at the end of 2024.





Italy: gas and power demand



Key news energy sector June 2023

1. **OIL:** Saudi Arabia has pledged to unilaterally cut the output by 1 mbd in July, a move that could be potentially extended to the following months, while the other OPEC+ countries have pledged to extend the current production levels across 2024
2. **GAS:** in its "Renewable Energy Market Update" of June 1st, the International Energy Agency estimates that the increase in installed renewable capacity worldwide could rise by about 1/3 y/y during 2023, to 440 GW, and that the total installed renewable capacity worldwide will stand at 4.5 TW next year, equivalent to the combined total installed electricity capacity of China and the US
3. **GAS:** intention by the Dutch government to permanently close the Groningen field (the largest in the country) by October, i.e. 1 year in advance. Although the field is already operating at an extremely low capacity (only 2.8 bcm expected from the beginning of the year by October) due to the seismicity generated in the area, it still remains an important buffer in case of need
4. **ELECTRICITY DEMAND IN ITALY:** -6% y/y in May, with net production -7% and net imports -5%

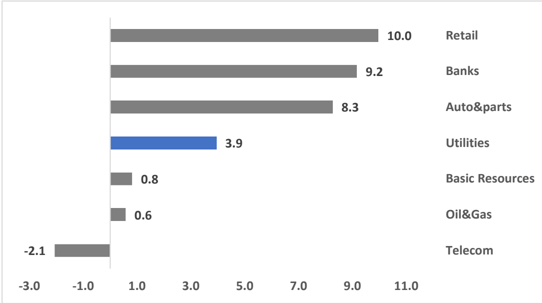
Performance by sector

Due to the improved outlook resulting from expectations of proximity to the end of rate hikes, cyclicals and industrials were overall the best performers

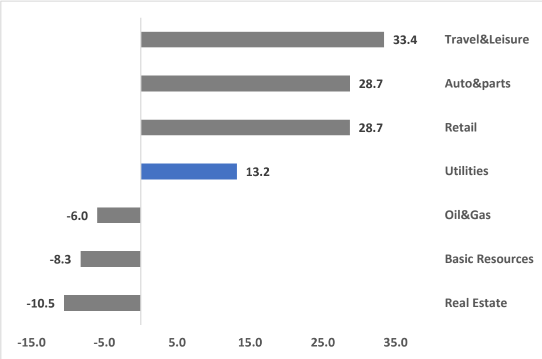
Due to the improved outlook resulting from expectations of proximity to the end of rate hikes, cyclicals and industrials were the best performers, overall. With a 10% increase, the retail sector was the absolute best performer thanks to: 1) additional measures to stimulate the economy (including the reduction of short-term interest rates) adopted by China (main reference market for several operators) ; 2) higher than expected results for Inditex and H&M. Banking and automotive followed, respectively reflecting the US lenders passing the stress test annually managed by the FED and an upward revision of the net profit guidance by Renault. On the opposite side, telecoms were penalized by expectations of further deterioration in the competitive scenario after Amazon was reported to potentially enter the US mobile business, with an almost free offer to its Prime customers.

Sector performance; utilities e 3 main ups/downs

June 2023 [%]



YTD 2023 [%]



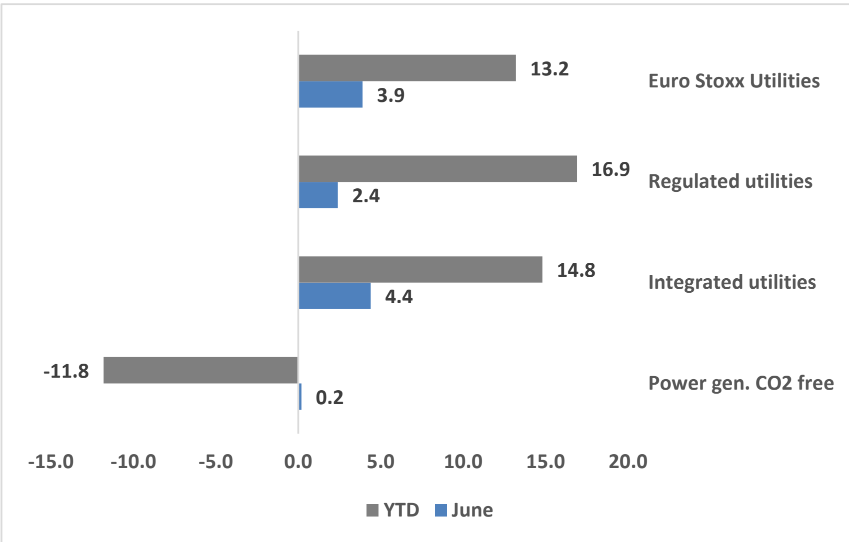
Source: Italgas' elaborations on Bloomberg data

Utilities sector aligned to the general index, supported by integrated operators due to their more cyclical profile

Utilities sector performance

The utilities sector was 4% higher, in line with the general Eurozone index, mainly supported by integrated operators thanks to their lower bond-proxy profile in a context characterized by an improved outlook. Engie posted an 8% increase, reflecting: 1) the agreement with the Belgian government for a 10-year extension of the activity of some nuclear reactors; 2) a significant upgrade of the guidance for the year due to the normalization of market conditions. Despite the recovery in gas and electricity prices, the operators most exposed to renewables continue to underperform the sector index, although with large differences between stocks, as EDP Renovaveis and Fortum were down between 1 and 2% after a downgrade by JP Morgan, while Verbund increased 4% following an upgrade by Kepler Cheuvreux and an improvement of the outlook by Moody's.

Utilities sector and subsectors **[%]**

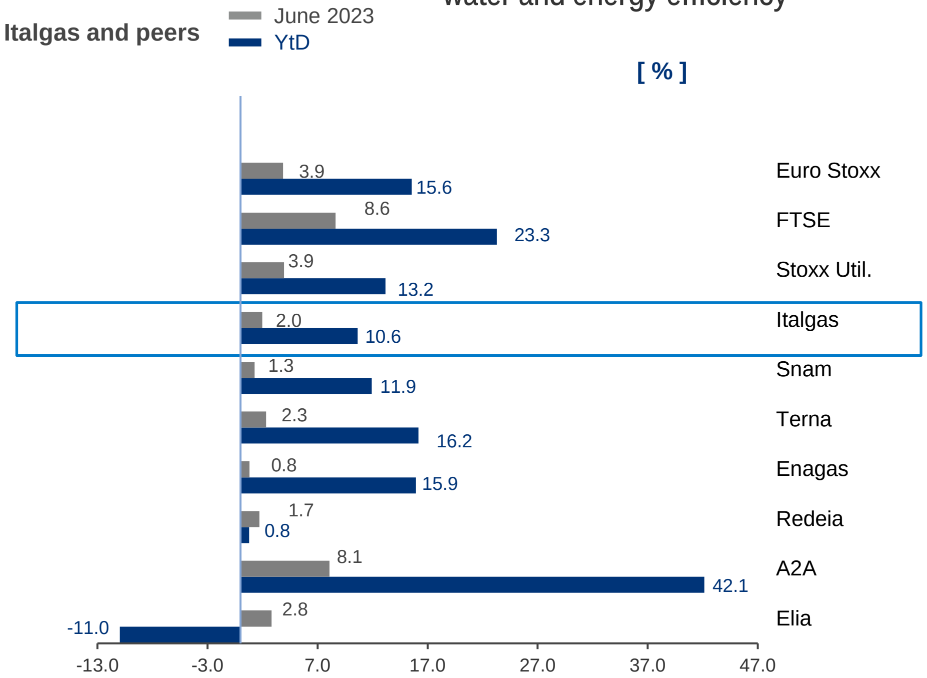


Source: Italgas' elaborations on Bloomberg data
Veolia included amongst integrated operators

Italgas and its peers

Italgas was up 2%, in line with the average of Eurozone regulated peers. Brokers appreciated the diversification strategy in water and energy efficiency

Italgas was up 2% (to 5.425 euro), overall in line with the average of Eurozone regulated peers. Regarding the update of the industrial plan, all the brokers highlighted: 1) the validity of the diversification strategy in energy efficiency and water, with the possibility, in relation to the latter sector, to capitalize on the considerable experience gained in terms of assets digitization, which can provide a significant contribution in containing network losses; 2) the level of multiples at which the stock trades, lower than the peers' one. With an increase of approximately 3%, the Belgian electricity TSO Elia was the best performer among regulated peers, after the German regulator BNetzA proposed to increase the allowed Ke from the current 5.07% to 7.09% for investments developed starting from 2024 in order to support the energy transition.



Source: Italgas' elaborations on Bloomberg data

Agenda

Corporate events

25 July Consolidated results Q2/H1
BoD, press release and conference call

Links to Corporate News

Italgas: 500 million euros fixed rate bond issue successfully completed 01 June 2023

Italgas: significant strengthening in the water sector thanks to the agreement reached with Veolia for the acquisition of stakes of three companies in the regions of Lazio, Campania and Sicily 09 June 2023

Italgas presents the Strategic Plan 2023-2029 15 June 2023

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