

# Financial Markets Review

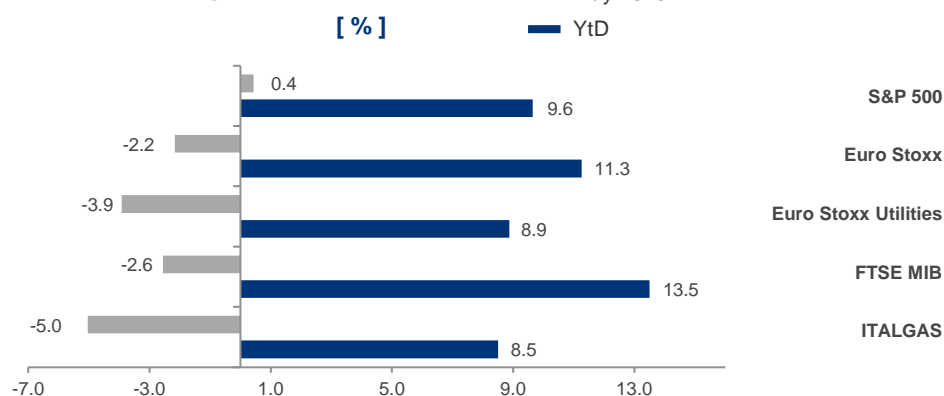


Adjusted for currencies, global equities showed significant divergence due to different macro data (weak in the eurozone and above the expectations in the US) and sector exposures. Bond yields and currency dynamics also reflected the divergence in macro data

## Financial Markets

**EQUITY:** Strong divergence for global equities in May reflecting the evolution of macro data (which in turn influenced the dynamics of fixed income and exchange rates) and different sector exposures. Adjusted for currency effect, the S&P 500 closed 4% up, due to: 1) the green light from the House and the Senate to the agreement that suspended the US debt ceiling; 2) high exposure to tech stocks, best performers due to artificial intelligence development prospects, the Euro Stoxx fell 2% due to German Q1 GDP below expectations, implying 2nd consecutive quarterly contraction and recession for the German economy. In comparison, adjusted for currencies, the Dow Jones, which is more similar to the Eurozone benchmark in terms of exposure to technology, was overall stable. The advantage achieved in the month by the US vs Eurozone index mitigates the opposite dynamics developed since the end of September (adjusted for currencies, the Euro Stoxx is still 17 percentage points ahead at the end of the month) due to the large contraction in energy commodity prices (with the Eurozone more dependent than the US on foreign supplies).

Main stock exchange indices



Source: Italgas' elaborations on Bloomberg data

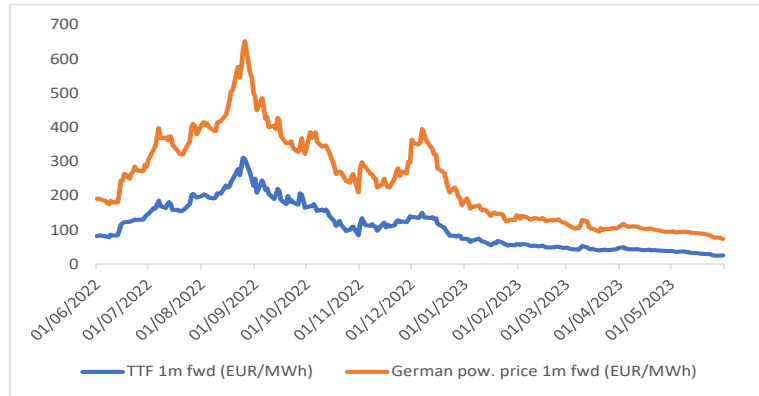
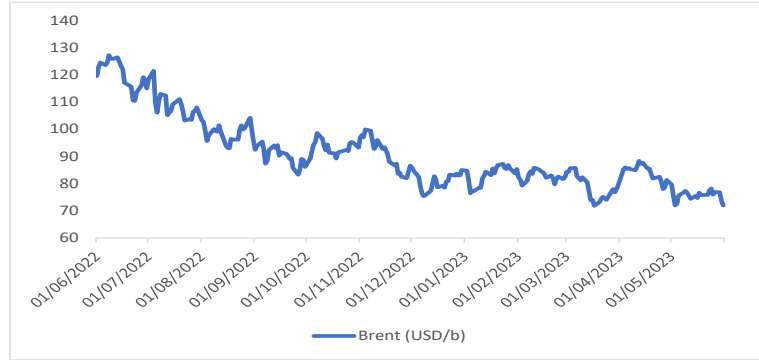
**BONDS:** As a result of German GDP and the inflations of Germany, France and Spain below expectations, in contrast to US GDP and core personal consumption deflator above expectations, the core sovereign yields showed wide divergence: stable the German one vs US equivalent up 22 bps due to the realignment of market assumptions to the FED indications, which do not envisage rate cuts already this year. Despite the ECB's decision to definitively interrupt, starting from July, the reinvestment of maturities deriving from ordinary QE (APP), the BTP-Bund spread decreases 7 bps (to 180 bps) driven by the sharp contraction of the Greek differential

(-38 bps). The latter was supported by the improvement in public finances and by the outcome of the first electoral round, which saw a large reconfirmation of confidence in outgoing premier Mitsotakis.

**CURRENCIES:** Sharp decline for the EUR/USD (-3.0%) reflecting the aforementioned divergence in macro data. Similarly, based on Eurozone data, the euro also fell 2% against the pound (to its lowest since December); as expected, the BoE raised rates by 25 bps, signaling, similarly to the ECB and the FED, that the evolution of monetary policy remains linked to macro data.

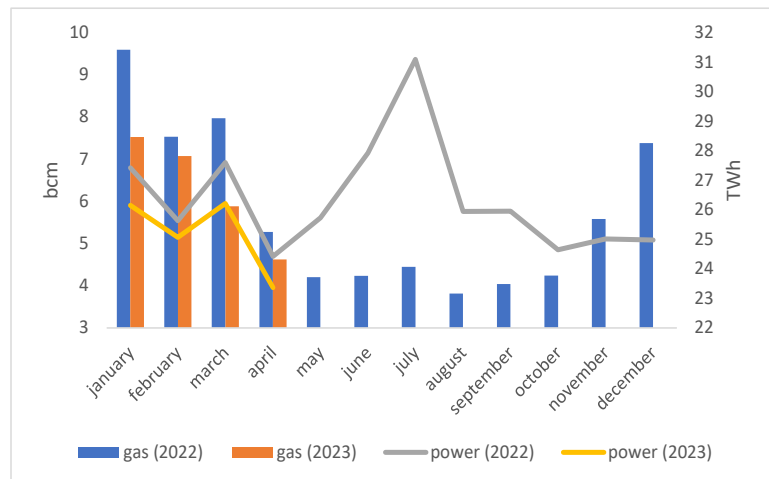
## The oil&gas market

**OIL MARKET:** Oil prices dropped significantly (Brent -11% to 72 USD/b), to their lowest since March, which correspond to the lowest since December 2021, reflecting several factors: 1) increase in Russian crude exports by sea, back above 4 mbd, at its highest since the start of the conflict in Ukraine, despite the 0.5 mbd production cut planned by the country until the end of the year; 2) resumption of exports of crude oil (about 450 kbd) from the autonomous Iraqi region of Kurdistan through the Turkish terminal of Ceyhan, which had been suspended since the end of March following an arbitration which required the approval of the Iraqi government for their reactivation; 3) strengthened expectations of a slowdown in the US economy after Powell did not envisage a reversal of monetary policy by the end of the year; 4) inverse correlation with the dollar.



Italy: gas and power demand

**GAS MARKET:** Strong decline for the TTF (-33% to 26 EUR/MWh, at its lowest level in 2 years) due to the general oversupply in Europe resulting from both abundant LNG supplies and a lower demand (the IEA estimates a 5% reduction of European gas consumption this year), which in turn reflected, among others, the growing role of renewables and the aforementioned contraction of the German GDP. Supported by the end of the thermal season, the average level of European storages grew by 9 pp in the month (from 60% to 69%, or 2 pp on average per week), with clear implications about the possibility to reach the EU target or refilling at least 90% well in advance of its November 1st deadline.



## Key news energy sector May 2023

- OIL:** the Iraqi state oil company SOMO has declared a resumption of exports of crude oil (about 450 kbd) from the Iraqi autonomous region of Kurdistan through the Turkish Ceyhan terminal, which had been suspended since the end of March following an arbitration that imposed the approval of the Iraqi government for their reactivation
- GAS:** expected contraction of 5% of European gas demand for this year by the International Energy Agency
- GAS:** statement by EdF about higher availability, quantified in 5-10 GW, of nuclear power plants expected this winter compared to last year, which offers greater safety margins against any unforeseen events in the plant inspection program following the problems of corrosion detected last year
- POWER DEMAND IN ITALY:** -4% y/y in April, with net production -12% and net imports +41%
- GAS DEMAND IN ITALY:** -12% y/y in April, with net imports -8%, national production -10% and inventory changes +13%



## Performance by sector

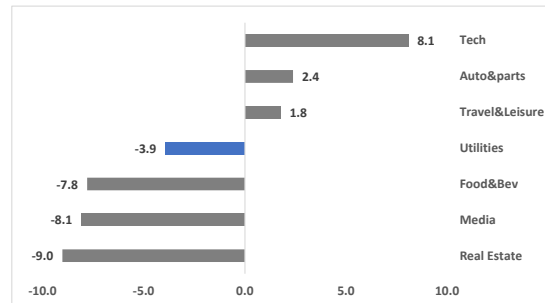


In a context characterized by a decline in equities without a reduction in bond yields, the performance of the sectors reflected specific topics, not a common underlying trend

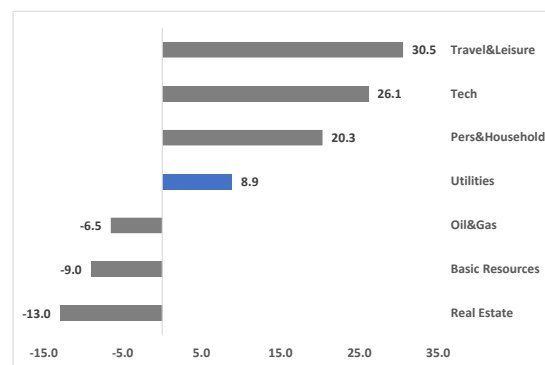
Due to the decline in equities without a corresponding reduction in core Eurozone sovereign yields, the performance of the sectors mainly reflected specific topics, not a common underlying trend. With an 8% increase, the technology sector was the best performer, pricing the potential developments of artificial intelligence. Automotive (+2%) followed, with April registrations in Europe up 16% y/y, up for the 9th consecutive month. On the other hand, real estate is once again the worst performer after S&P cut the rating of the Swedish operator SBB (one of the country's leading commercial real estate operators) to junk (BB+, negative outlook), with the consequent need to suspend the payment of the dividend, while also thwarting the attempt to increase the share capital due to the large stock price drop (-70%), which made the issue of new shares excessively dilutive.

### Sector performance; utilities e 3 main ups/downs

May 2023 [ % ]



YTD 2023 [ % ]



Source: Italgas' elaborations on Bloomberg data



## The utilities sector (-4%) underperforms the broader index as gas and electricity prices fell further

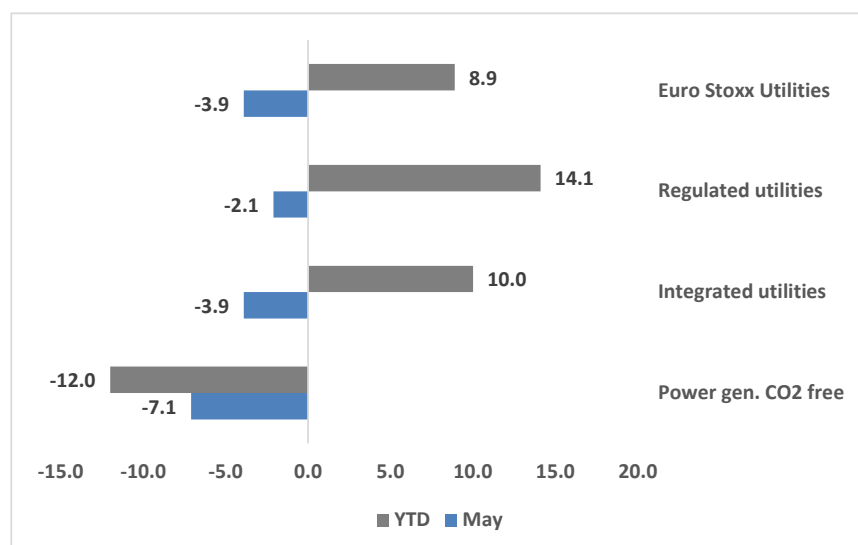


### Utilities sector performance

The utilities sector fell 4%, underperforming the general Eurozone index by almost 2 percentage points, essentially reflecting the further sharp contraction in gas and electricity prices, with a larger impact on the operators most exposed to renewables (-7%). In this space, Verbund declined 9%, also penalized by the Austrian government's proposal to lower from 140 to 120 EUR/MWh the price above which the windfall profits tax is applied, with the aim of forcing power producers to accelerate the transfer of lower energy commodity prices to the end customers. However, the trend also affected integrated operators (-4%), which have variable exposure to renewables; as a result, with a 2% drop, regulated operators were the best performers within the sector.

#### Utilities sector and subsectors

[ % ]



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

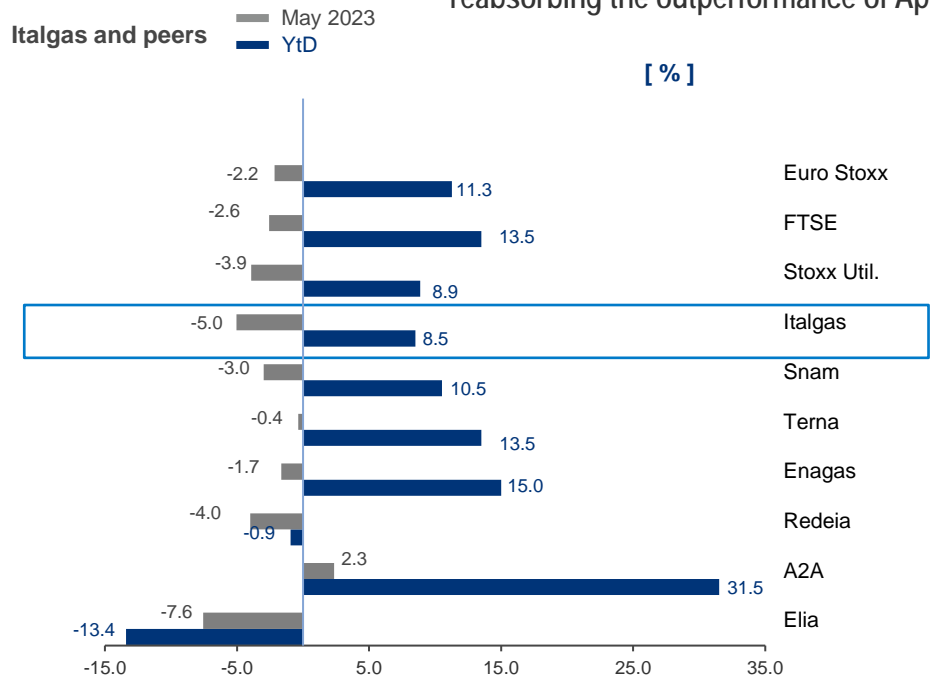


## Italgas and its peers

Italgas was down 5% (to 5.32 euros). Despite better-than-expected quarterly results (2% deviation in terms of Ebitda and net profit) and the stock going ex dividend, which normally represents a buying catalyst for investors who want to keep invested capital unchanged, the performance was probably driven by the reabsorption of the outperformance achieved in April. Terna is the best performer among the regulated peers due to the growth in Q1 profits, supported by output-based incentives mainly aimed at reducing system dispatching costs, while A2A is the best performer of the panel due to Q1 results and FY guidance upgrade. On the other hand, Elia continued to stand as the worst performer, reabsorbing last year's significant outperformance.



Despite better-than-expected quarterly results and the stock going ex dividend, Italgas contracted 5 percentage points, reabsorbing the outperformance of April



Source: Italgas' elaborations on Bloomberg data



## Agenda

Corporate events

15 June

Strategic Plan 2023-2029

BoD, press release and Strategy Presentation



## Links to Corporate News

[Italgas: consolidated results as at 31 march 2023 approved](#) 04 May 2023

[Appointment of the Officer Responsible](#) 04 May 2023

[Italgas: Note related to the offer presented to Veolia](#) 31 May 2023



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