July 2023

Financial Markets Review

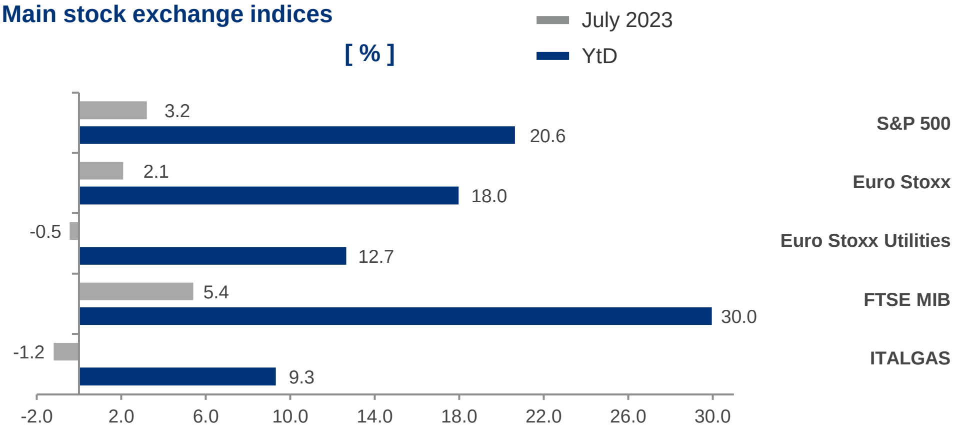
Global equities extended the upward trend, supported by growing evidence of approaching the end of rate hikes after a more dovish than expected outcome of the FED and the ECB meetings, in a context characterized by further deceleration of inflation and resilience of the economy

Financial Markets

EQUITY: Global equities extended the upwards trend, supported by growing evidence of approaching the end of rate hikes after the outcome of the FED and the ECB meetings was more dovish than expected, in a context characterized by further deceleration of inflation and overall resilience of the economy. The Euro Stoxx and the FTSE Mib (+2% and +5% respectively) updated their historic highs, when adjusted for dividends. The Italian index, in particular, benefited from the strong appreciation of Stellantis (+16%), on better-than-expected results/outlook, and from the high exposure to banks, among the best performers of the month (Eurozone sector index +6%) thanks to the improved outlook (increased probability of a soft-landing scenario instead of a severe recession) and to better-than-expected results from the main operators in the sector (Intesa and Unicredit). Adjusted for currencies, the S&P 500 (up around 3% in USD terms) performed in line with the eurozone benchmark.

BONDS: Marginal increase for the 10y core sovereign yields (UST +12 bps, Bund +6 bps adjusted for the extension of the benchmark maturity (from 15/02 to 15/08 2033), which generated a positive discontinuity of 4 bps), as a result of the recovery of the component related to

Main stock exchange indices



Source: Italgas' elaborations on Bloomberg data

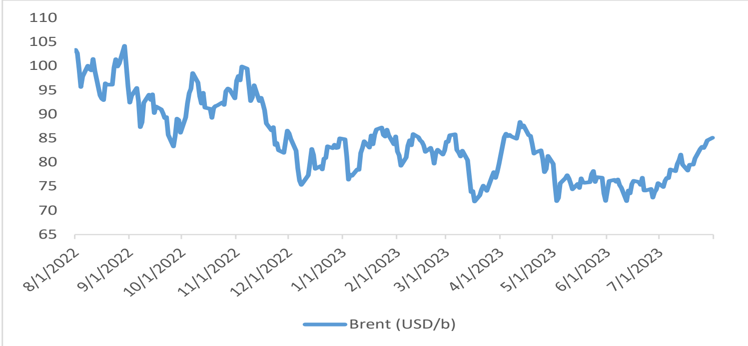
inflationary expectations (breakeven inflation) induced by the rise in oil prices and the improved outlook. As expected, both the FED and the ECB raised rates by 25 bps, but both central bankers provided dovish comments. The chairman of the FED indicated that the next decisions will be linked to the evolution of macro data, thus questioning the further rate hike by the end of the year proposed by the board at the June meeting. The ECB president opened to a pause in the rate hike path at the September meeting, declaring that she does not expect there is still a long way to go to bring inflation back in line with targets. Supported by mitigated expectations of a further monetary tightening, the peripheral spreads extended the recent decline. Adjusted for the extension of the benchmark maturity of the Bund, the Italian spread closed 11 bps lower.

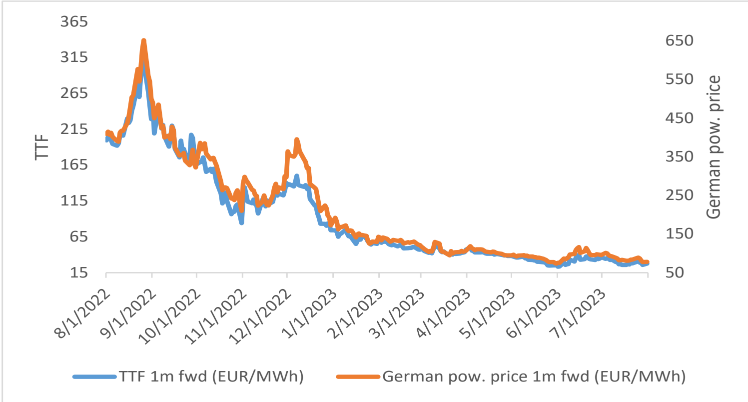
CURRENCIES: Despite a better-than-expected US Q2 GDP growth, the EUR/USD was up 0.8% on improved risk appetite and the inverse correlation between the dollar and oil prices. On the other hand, the EUR/GBP was overall stable (-0.3%), fluctuating around the graphic support represented by the lows developed at the end of 2022.

The oil&gas market

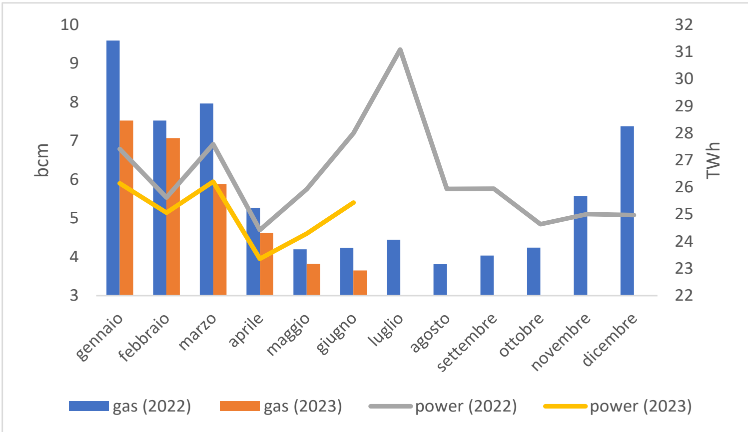
OIL MARKET: Significant rise (+12% to 85 USD/b) for the Brent, to its highest level since mid-April, reflecting various factors: 1) Saudi Arabia's decision to extend to August the unilateral 1 mbd production cut initially planned for July, and Russia's decision to double, limited to the month of August, the 0.5 mbd production cut, expected until the end of the year in response to the embargo on its own oil products applied by the G7 countries; 2) a significant contraction of Russian exports by sea (near the minimum since the beginning of the year); 3) the improved outlook mentioned in the stock market section; 4) the driving season, which normally represents the most significant driver for oil consumption in the US and in Europe (where the peak in demand is actually recorded in Q3).

GAS MARKET: After the recovery in June, the TTF price fell again (-25% to 27 EUR/MWh) due to the gradual recovery of Norwegian output (which, following the contraction in supplies from Russia, has become the main source of supply for Europe) after the peak in scheduled maintenance. The average filling level of European storage continued to rise (86.1% at the end of the month vs 77.3% at the end of June, i.e. +2 pp on average per week), and this implies that the EU minimum filling target of 90% (required to be reached by 01/11) will be reached before the end of August, while the complete filling could in theory occur by the end of September, with consequent implications for the purchased volumes due to the lack of further storage capacity.





Italy: gas and power demand



Key news energy sector July 2023

1. **OIL:** decision by Saudi Arabia to extend the unilateral 1 mbd production cut initially planned for July also into August, and by Russia to double, limited to the month of August, the 0.5 mbd production cut planned until the end of the year in response to the embargo on its own petroleum products applied by the G7 countries
2. **OIL:** the IEA has revised downwards (-220 kbd) the global demand estimates for 2023, to reflect the economic slowdown induced by monetary tightening
3. **OIL:** shale oil production in the Canadian province of Alberta fell to a 7-year low (2.7 mbd) due to an extensive maintenance cycle
4. **ELECTRICITY DEMAND IN ITALY:** -9% y/y in June, with net production -8% and net imports -17%
5. **GAS DEMAND IN ITALY:** -14% y/y in June, with net imports -14%, national production -13% and inventories change -15%

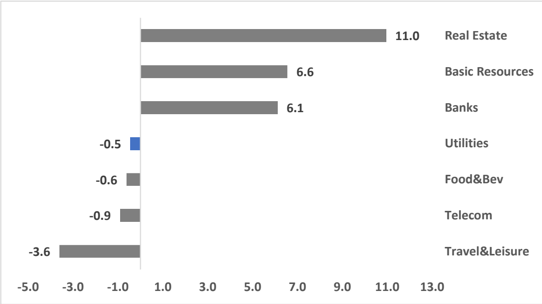
Performance by sector

Due to the improved outlook, the performance by sector saw an overall advantage for more cyclicals vs defensives on the opposite side

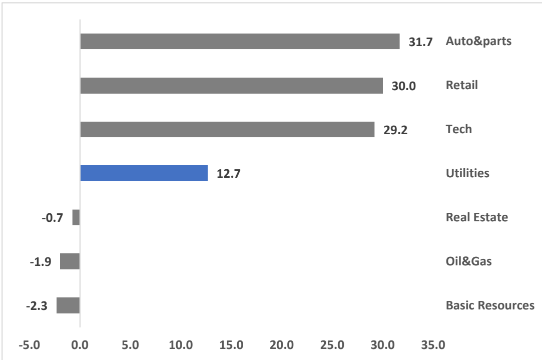
Due to the improved outlook resulting from the elements described in the section on the stock market, as well as the Chinese government's openness to a new stimulus package to support domestic demand, the sector performance saw an overall advantage for cyclicals vs defensives on the opposite side. The real estate sector was an exception to this trend, mitigating the significant underperformance developed since the beginning of the year due to the more selective conditions to credit access following the monetary tightening, which according to market expectations is now coming to an end. Basic resources/mining and banks followed, in line with their cyclical profile. On the opposite side, in addition to food&beverage and telecoms (markedly anti-cyclical sectors), the travel&leisure sector was the worst performer, with airlines under pressure due to the rise in oil prices.

Sector performance; utilities e 3 main ups/downs

July 2023 [%]



YTD 2023 [%]



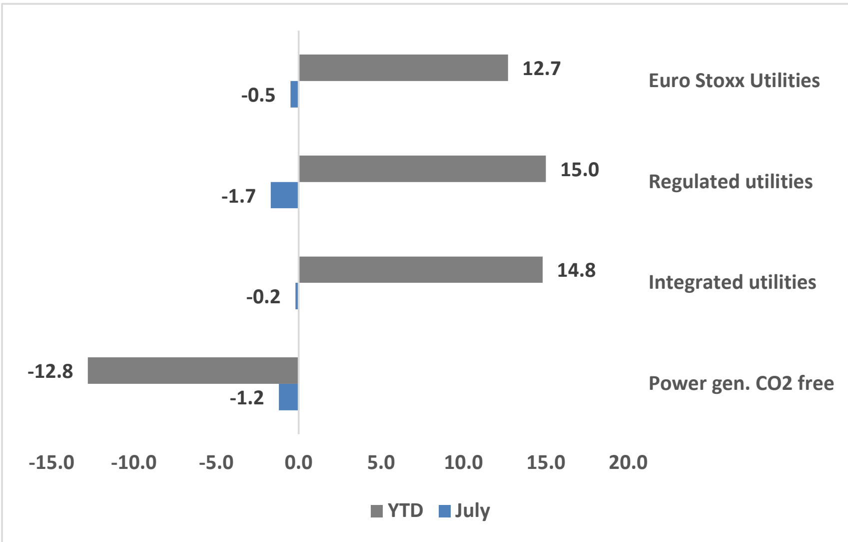
Source: Italgas' elaborations on Bloomberg data

The utilities sector (-0.5%) underperforms the general index due to a rotation from defensives to cyclicals driven by the improved outlook

Utilities sector performance

Down by half a percentage point, the utilities sector consistently underperformed the Eurozone broader index due to the overall portfolio rotation from defensives to cyclicals driven by the improved outlook. As a consequence, with a drop of around 2%, regulated operators were the worst performer within the sector index, followed by those most exposed to renewables (-1%) due to lower electricity prices. Integrated operators (unchanged overall) were supported by Enel's +5% after better-than-expected Q2 results, driven by the recovery of integrated margins thanks to the renegotiation of sales prices and a greater contribution from renewable sources, to replace the more expensive thermoelectric production and purchases on the market.

Utilities sector and subsectors **[%]**

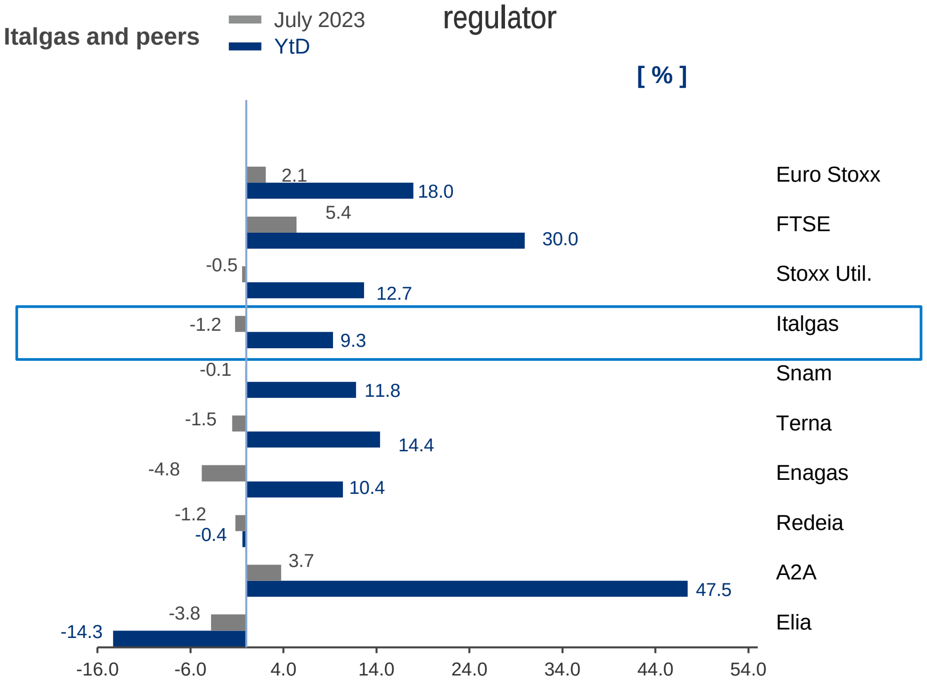


Source: Italgas' elaborations on Bloomberg data
Veolia included amongst integrated operators

Italgas and its peers

Italgas outperforms by 1 pp the average of the regulated peers of the panel thanks to better-than-expected Q2 results and allowed return defined by the Greek regulator

Italgas was down by approximately 1% (at 5.36 euro). The stock was impacted by the overall portfolio rotation from defensives to cyclicals like to the Eurozone sector index. However, Italgas outperformed the average of its regulated peers in the panel by approximately 1 percentage point, reflecting: 1) Q2 results higher than expected due to lower opex; 2) allowed return for gas distribution defined by the Greek regulator for 2023 higher than market expectations. With a drop of around 5%, Enagas was the worst performer within the panel of regulated peers, reabsorbing the opposite trend recorded in the first half, as despite the investments planned from 2026 for the development of the Spanish hydrogen backbone, the company continues to show an expected RAB growth lower than that one of its peers.



Source: Italgas' elaborations on Bloomberg data

Agenda

Corporate events

24 October	BoD consolidated results Q3/9M
25 October	Press release and Conference Call

Links to Corporate News

Italgas: 2023 return for Greek DSOs set at 8.57% 13 july 2023

Italgas: consolidated results as at 30 june 2023 approved 25 july 2023

The Italgas stock has been confirmed for the seventh consecutive year in the FTSE4Good Index Series 27 july 2023

Italgas SpA
Via Carlo Bo 11 - 20143 Milano (MI) Italia
www.italgas.it investor.relations@italgas.it
tel: +39 02 81872175 - 2031