INTESA SANPAOLO

Macroeconomic Analysis

Goldilocks is not feeling too well

The 2021-22 macroeconomic outlook

13 October 2021

Agenda

Supply bottlenecks will not kill the global recovery

US: the name of the game is excess demand, not stagflation

Euro area: the recovery is past its peak

Italy: encouraging news from the economic cycle and public finance

Global rates: it's not all about inflation

Yesterday's war already?

"The ECB's monetary policy strategy statement", 8 July 2021

"An inflation buffer above zero per cent provides monetary policy with space for interest rate cuts in the event of adverse developments and a **safety margin against the risk of deflation** through its positive impact on the trend level of nominal interest rates. The experience gained since 2003 has reinforced the macroeconomic importance of an inflation buffer. […]

When the economy is close to the lower bound, this requires **especially forceful or persistent monetary policy measures to avoid negative deviations from the inflation target becoming entrenched**."

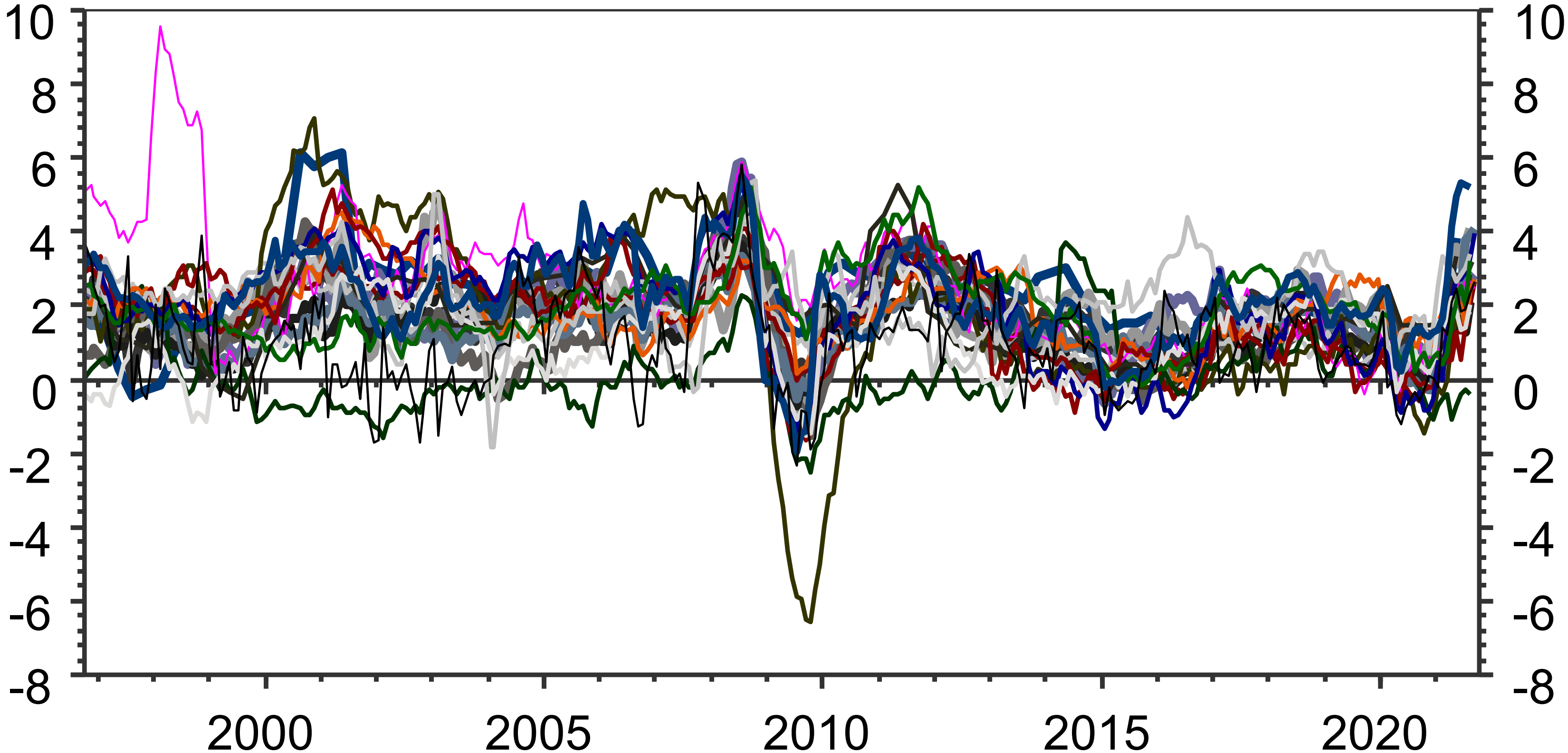
"Statement on Longer-Run Goals and Monetary Policy Strategy", 26 January 2021

"Owing in part to the proximity of interest rates to the effective lower bound, the Committee judges that **downward risks to employment and inflation have increased**. The Committee is prepared to use its full range of tools to achieve its maximum employment and price stability goals. […]

The Committee judges that **longer-term inflation expectations that are well anchored at 2 percent foster price stability and moderate long-term interest rates** and enhance the Committee's ability to promote maximum employment in the face of significant economic disturbances."

Inflation bounces back, globally and quickly

CPI, y/y % change in 21 countries in the last 25 years



Source: Refinitiv Datastream. Note: the countries included in the plot are: U.S., Japan, Germany, France, UK, Italy, Canada, Austria, Australia, Belgium, Denmark Finland, Ireland, Netherlands, New Zealand, Norway, Portugal, Spain, South Korea, Sweden, Taiwan.

The official view: ‘hump-shaped’ path, temporary increase (with nuances)

Monetary policy statement, 9 September 2021

“We expect inflation to rise further this autumn but to decline next year. This **temporary upswing in inflation** mainly reflects the strong increase in oil prices since around the middle of last year, the reversal of the temporary VAT reduction in Germany, delayed summer sales in 2020 and cost pressures that stem from temporary shortages of materials and equipment. **In the course of 2022 these factors should ease or will fall out of the year-on-year inflation calculation**.”

“Underlying inflation pressures have edged up. As the economy recovers further, and supported by our monetary policy measures, **we expect underlying inflation to rise over the medium term**. This increase is expected to be only **gradual**, since it will take time for the economy to return to operating at full capacity, and therefore **wages are expected to grow only moderately**. Measures of **longer-term inflation expectations have continued to increase**, **but these remain some distance from our two per cent target**."

Chair Powell’s press conference, transcript, 22 September 2021

“**Inflation is elevated and will likely remain so in coming months before moderating**. As the economy continues to reopen and spending rebounds, we are seeing upward pressure on prices, particularly because **supply bottlenecks** in some sectors have limited how quickly production can respond in the near term. These bottleneck effects have been larger and longer lasting than anticipated, leading to upward revisions to participants inflation projections for this year. **While these supply effects are prominent for now, they will abate, and as they do inflation is expected to drop back toward our longer-run goal**. The median inflation projection from FOMC participants falls from 4.2 percent this year to 2.2 percent next year. “

“**Indicators of longer-term inflation expectations appear broadly consistent with our longer-run inflation goal of 2 percent**. If sustained higher inflation were to become a serious concern, we would certainly respond and use our tools to assure that inflation runs at levels that are consistent with our goal”

How long is temporary?

Shock	Relevance for inflation	Outlook	Areas affected
Energy repricing	Very high	Impact to fade in 2022 and turn negative	Global (more intense in EA for methane)
Supply bottlenecks (container shipping, microchips, scarcity of truck drivers…)	Direct (transportation costs: small Indirect (scarcity): high	Some improvement for microchips. For container shipping: 2023?	Global, but more significant for U.S. and Europe
Reopening effect on high-contact sectors	Significant	Impact to fade in the coming months	Local, timing differs
VAT effect	High but totally short term	Not relevant	Germany and EA

INTESA SANPAOLO

Energy: inflationary impact expected to fade and revert in 2022

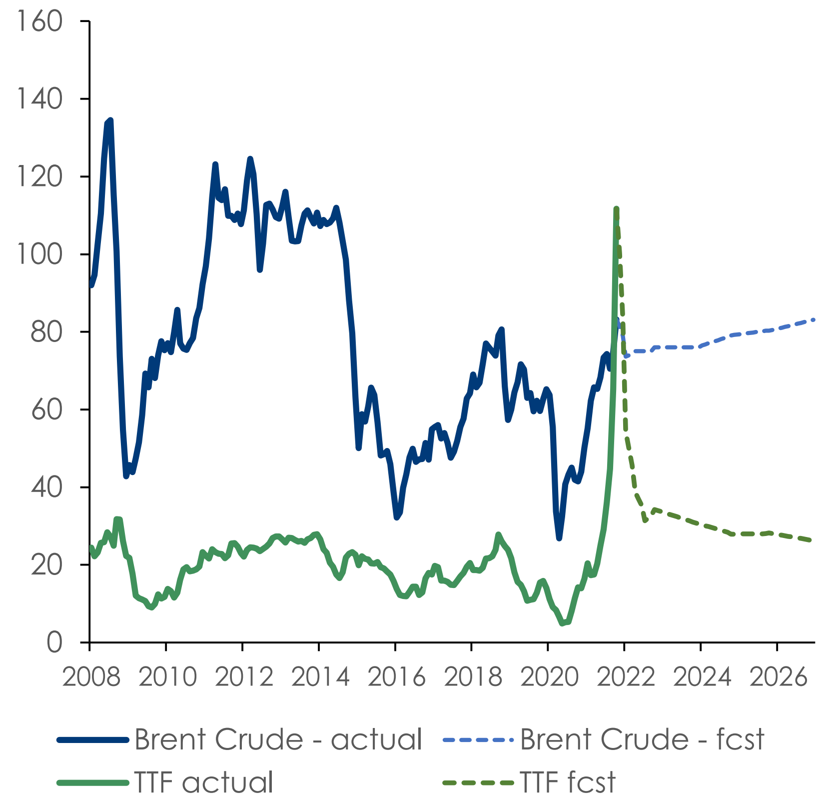
Crude oil: cautiously positive. The market should be close to balance in 4Q21 and 1Q22, but it will probably come back into surplus in 2022.

Energy markets: winter risk. In Europe, underfilled gas storages are rising doubts about the stability of the system in the event of a cold winter, which would amplify gas demand for heating

Industrial metals: still bullish, despite short-term headwinds.

Agricultural commodities: volatility and climate change. Most agricultural goods should decline amid expectations of easing supply tightness. However, weather concerns could fuel volatility

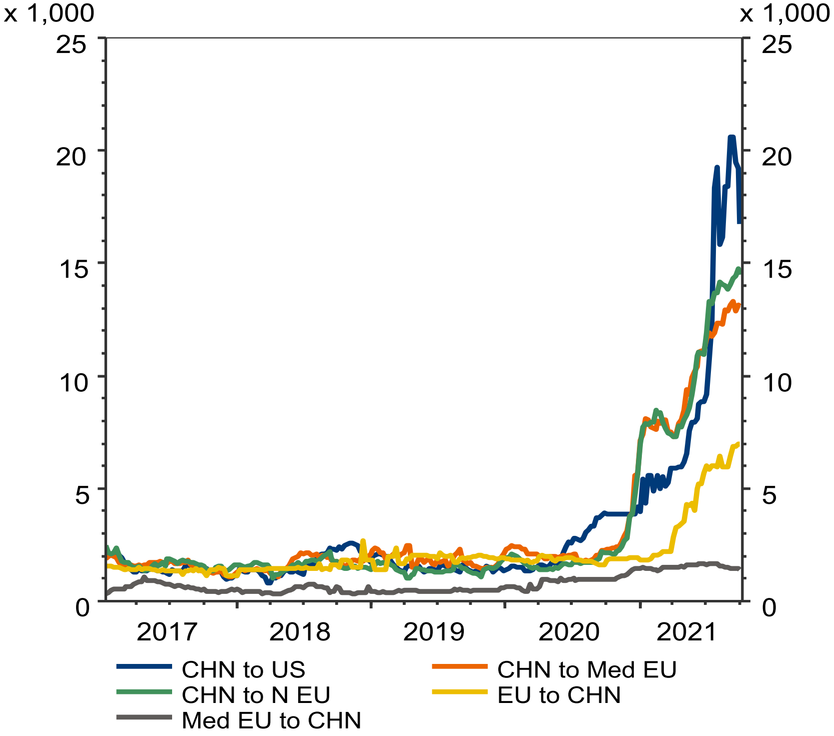
Inflationary impact of crude oil and natural gas to fade from 2022Q2



Source: Intesa Sanpaolo projections.

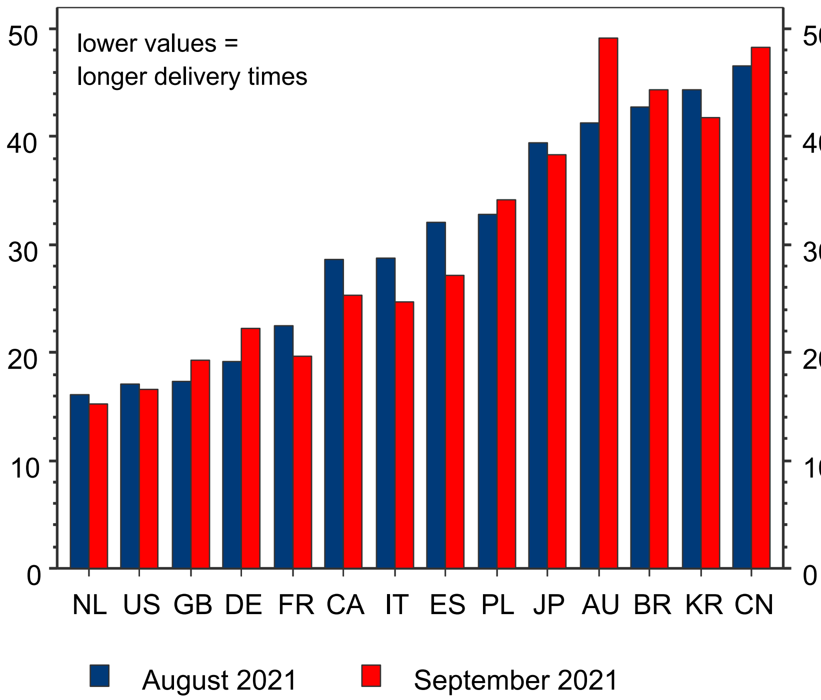
The clogging of supply chains: no respite yet…

The cost of moving containers by sea is still rising…



Source: Freightos, Refinitiv Datastream

… but what matters most is the disruption to supply chains, which is felt the most in U.S. and Europe

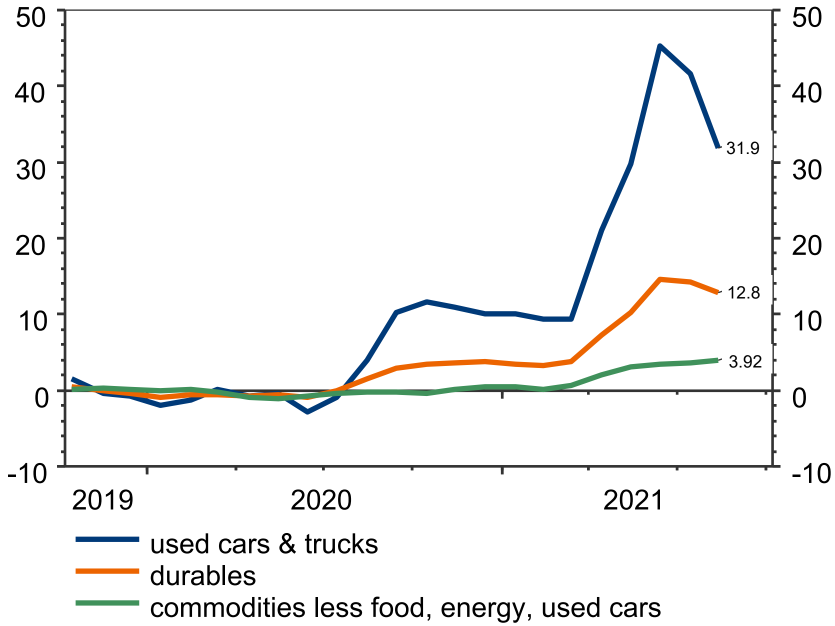


Source: IHS Markit

…with a domino effect on the prices of manufactured goods…

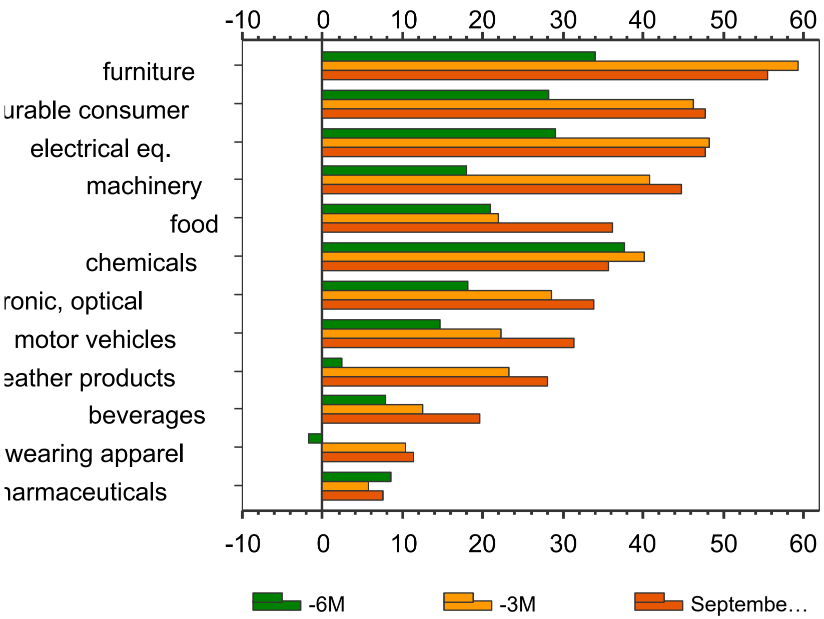
Low inventories of finished goods, unreliable deliveries of intermediate goods, failure to keep up with demand increases: all lead to widespread pressures on the prices of manufactured goods.

Bottlenecks affect prices by creating demand-supply mismatches: the striking case of used cars in the U.S.



Source: BLS

Euro Area: selling price expectations of manufacturing firms show a broad-based increase



Source: European Commission, business sentiment survey

…but both supply and demand are adjusting

- Record order book for container ships (>20% of the fleet in order according to IHS Markit). 5.3m TEU of capacity to be added from 2023.
- Diversification and shortening of supply chains (for instance, from Asia to the Mediterranean)
- Big U.S. retailers are investing in ships, to bypass the cartel of big shipping companies
- Some trade from Asia to Europe is moving from sea to rail.
- Higher prices may restrain trade volumes.

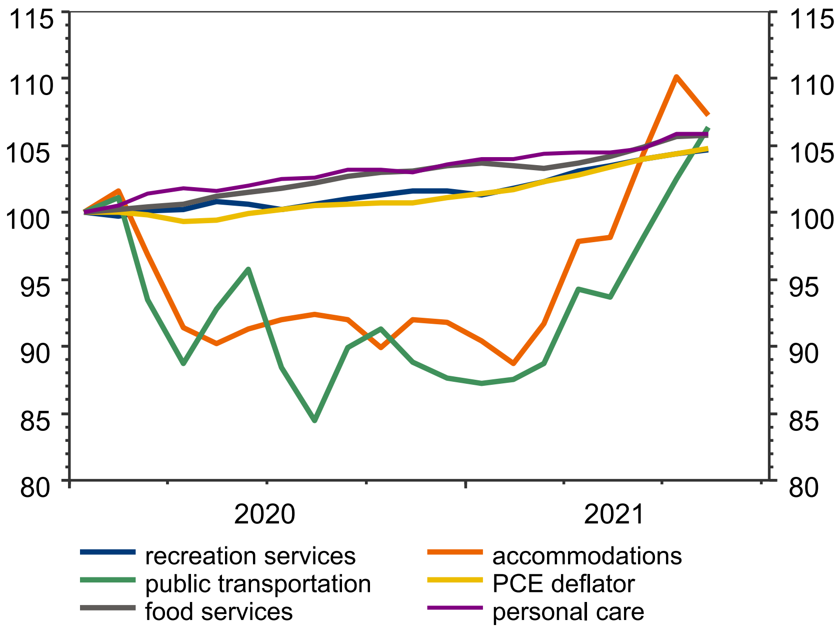
Even assuming that prices do not fall, the y/y change in transportation cost would become negligible by late 2022…

…however, bottlenecks may extend **until 2023**, unless demand drops

Reopening effect: significant but not huge, and temporary

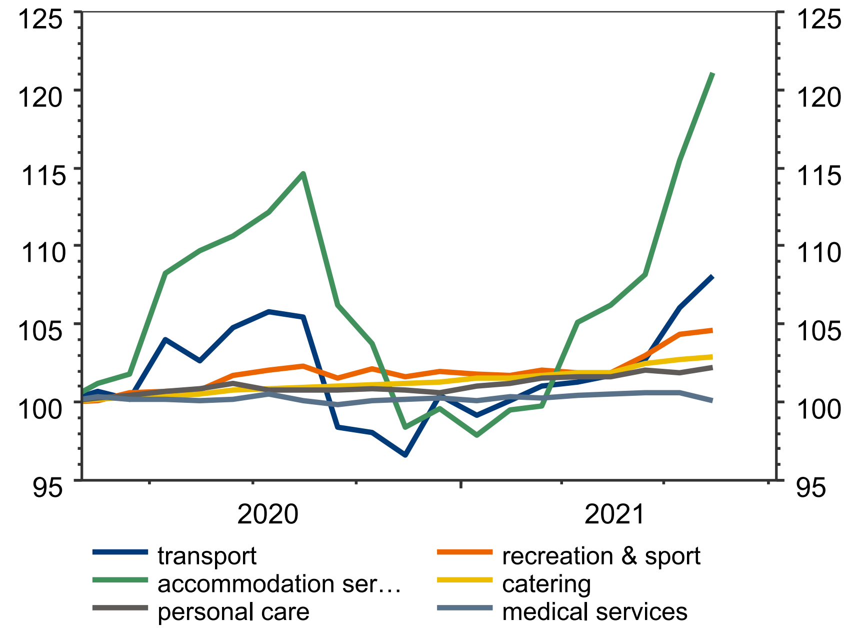
In the U.S., the rebound in high-contact services is large, but it explains less than 20% of the overall price increase since February. The impact on inflation will become neutral from 2023.

In the U.S., the reopening effect was more significant in accommodation services and public transportation



Source: BEA

In the euro area, accommodation services and transport services have been very volatile, too

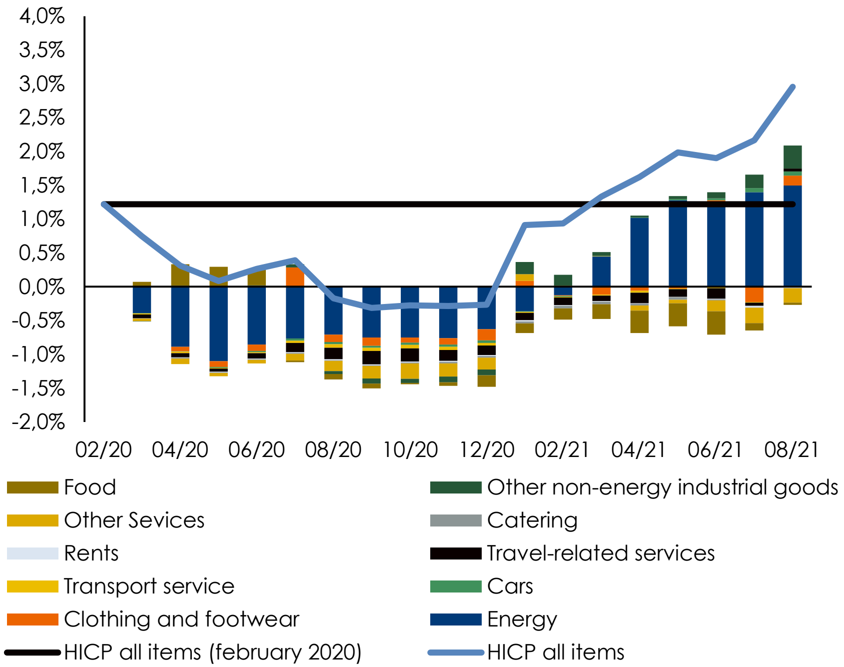


Source: Eurostat

The 2021 inflation spike was still a relative price shock

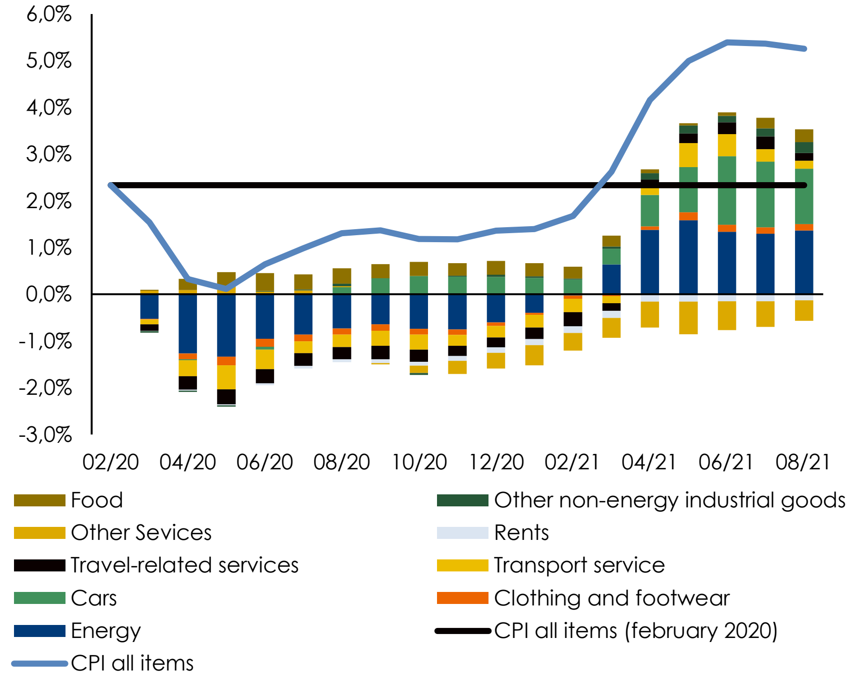
In the euro area, the increase in inflation versus the months before the pandemic is almost entirely due to energy. In the U.S., to energy and used cars – despite higher diffusion indexes. The contribution of other non-energy industrial goods is positive but small.

Euro area: determinants of the inflation excess relative to February 2020



Source: Eurostat data on HICP and Intesa Sanpaolo calculations

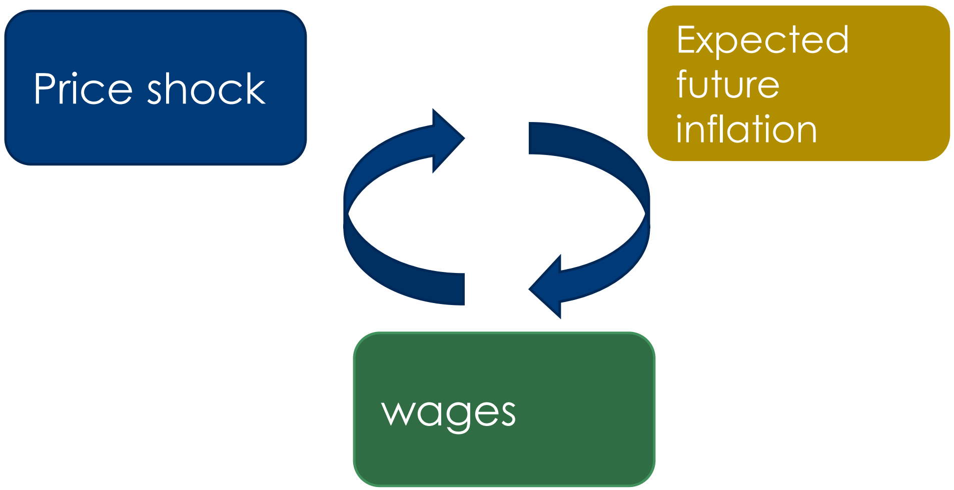
United States: determinants of the inflation excess relative to February 2020



Source: BLS data and Intesa Sanpaolo calculations

What can turn inflation from temporary into persistent?

In the standard analytical framework of central banks, price shocks need to be supported by wage growth and a shift in expectations, in order to bring about a persistent shift in inflation



"Since the services sector constitutes a large share of the overall price level and since wages (adjusting for productivity) are the principal component in the price of services, the persistent component in wage dynamics plays a central role in the determination of underlying inflation"
(P. Lane, 11 October 2021)

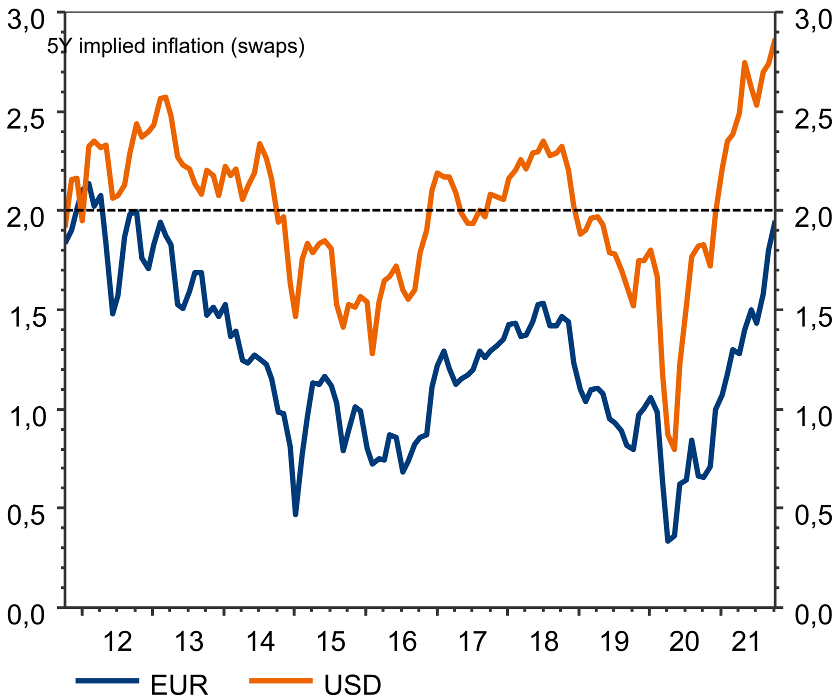
"The standard prescription for monetary policy is to "look through" temporary supply-side shocks and to only take policy action if inflation expectations and wage bargaining give rise to second-round effects posing a threat to price stability. The difficulty with this prescription is that aggregate inflation expectations are unobservable, requiring policymakers to employ various proxy measures.

[…] higher inflation expectations reinforce the degree of policy accommodation in an environment of low nominal yields"

(I. Schnabel, 7 October 2021)

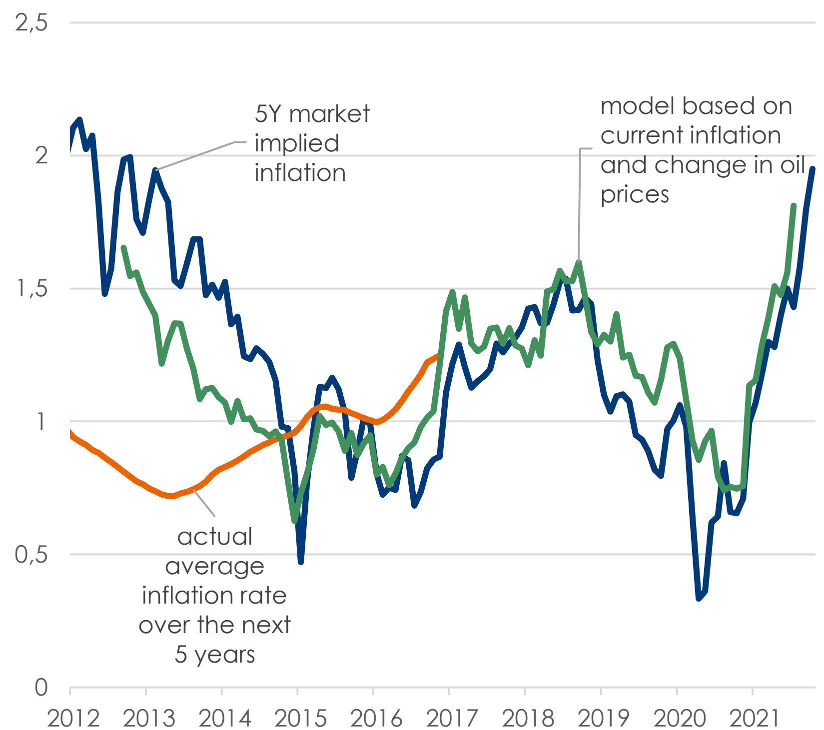
Expectations: do they really matter?

5-year market implied inflation



Source: Refinitiv Datastream

But market implied inflation is well explained by current inflation and changes in oil prices



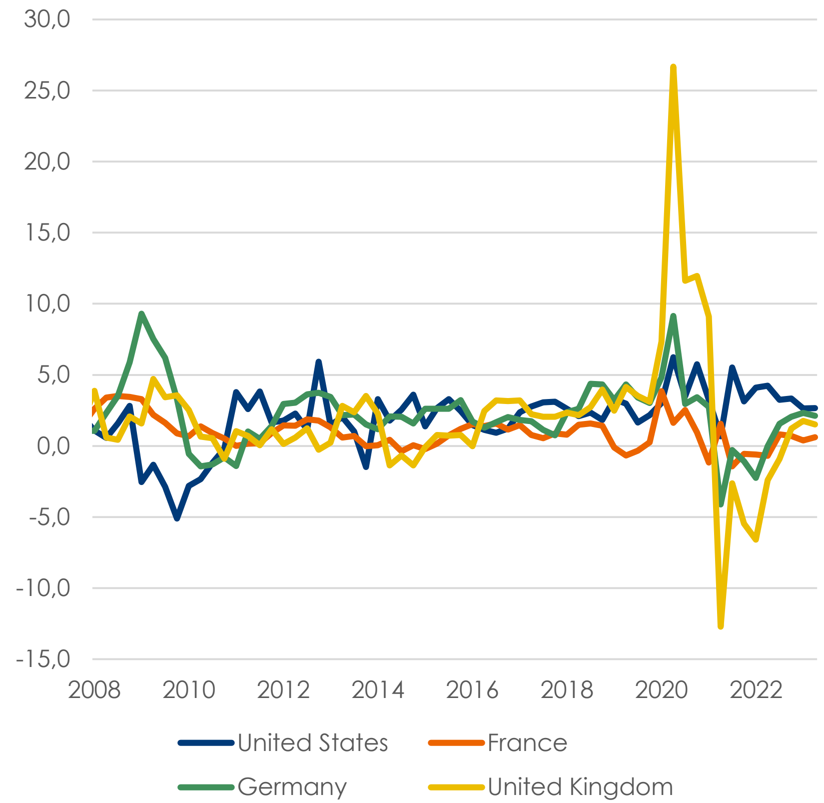
Source: Refinitiv Datastream and Intesa Sanpaolo estimates

Wages: developments will depend on local conditions

- Will wages react to higher inflation?
- Wage adjustment: one-off adjustment or persistent?
- Will productivity gains offset the wage increase?
- Will participation rates recover?

The answers may differ in relation to local labour market conditions and institutions.

A lot of pandemic-related volatility in unit labour costs



Source: Intesa Sanpaolo calculations and projections

Global GDP growth: slower in 2022, driven by services

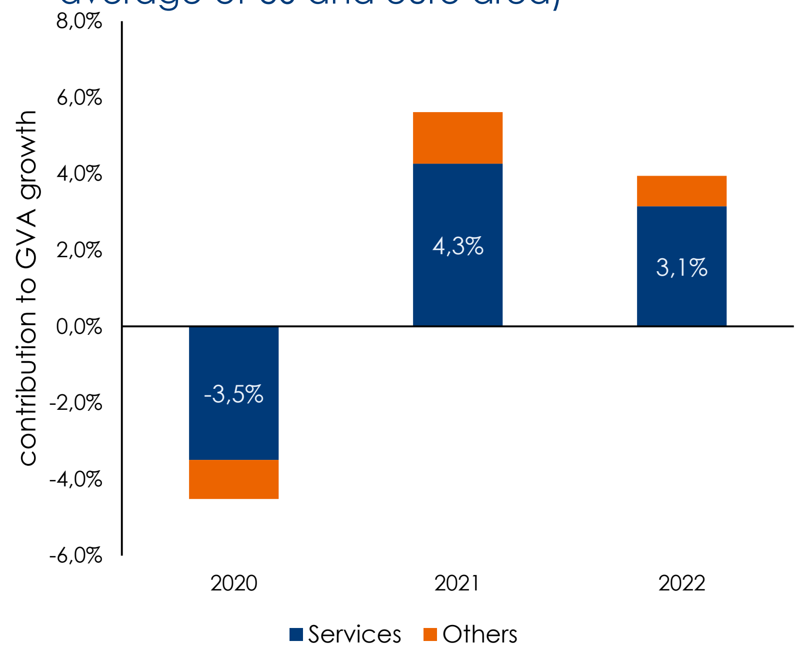
The post-pandemic rebound is gradually fading. Supply bottlenecks will probably restrain growth in manufacturing, but GDP growth will be driven by services. This is why «stagflation» is unlikely.

Real GDP growth rates, %

	2019	2020	2021f	2022f	2023f
United States	**2.3**	**-3.4**	**6.0**	**3.9**	**2.1**
Euro Area	**1.5**	**-6.5**	**5.1**	**4.6**	**2.4**
Germany	1.1	-4.9	2.7	4.9	2.6
France	1.8	-8.0	6.2	4.4	2.3
Italy	0.3	-8.9	5.7	4.0	2.3
Spain	2.1	-10.8	5.3	6.3	2.9
OPEC	**-1.5**	**-5.2**	**3.3**	**4.9**	**4.2**
Eastern Europe	**3.0**	**-3.1**	**4.8**	**4.0**	**3.3**
Latin America	**1.3**	**-6.4**	**6.5**	**2.8**	**2.7**
Japan	**0.0**	**-4.7**	**2.4**	**2.8**	**1.4**
China	**6.0**	**2.3**	**8.2**	**5.5**	**5.6**
India	4.8	-7.0	8.2	7.0	6.2
World	**2.8**	**-3.3**	**5.9**	**4.6**	**3.7**

Source: Intesa Sanpaolo projections

Growth to be driven by services, not manufacturing (GVA growth, weighted average of US and euro area)



Source: Intesa Sanpaolo calculations and projections

Goldilocks is not seriously ill, but she needs to be cautious

Economic recovery will face 4 threats in 2022:

Supply bottlenecks

- Slower manufacturing growth
- Infrastructural projects may be hampered by cost increases

Uncertainty on inflation outlook

- More pass-through to final prices
- Second-round effects are more likely, if tensions persist
- Diversification of value-chains may lead to further adjustment

Less monetary stimulus

- Quicker withdrawal of stimulus?
- Less fiscal space
- …but central banks will be reactive, rather than proactive

Risk of more financial instability

- Over time, highly leveraged firms and governments may suffer
- Asset repricing (including real estate)
- Currency and BoP tensions (in countries with large external debt denominated in foreign currency, or with overvalued exchange rates)

Agenda

Supply bottlenecks will not kill the global recovery

US: the name of the game is excess demand, not stagflation

Euro area: the recovery is past its peak

Italy: encouraging news from the economic cycle and public finance

Global rates: it's not all about inflation

Euro area

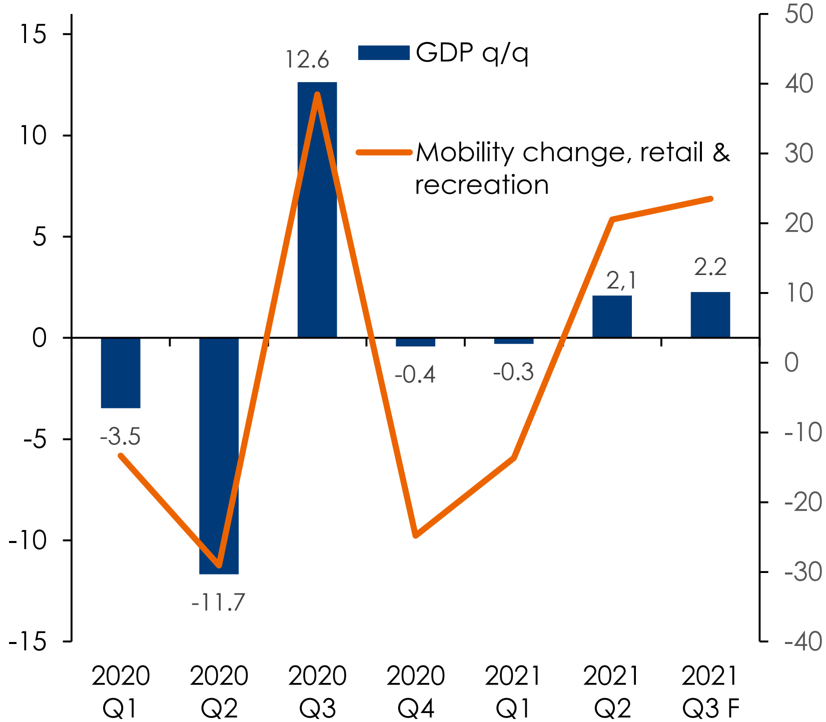
- The Eurozone economy looks less vulnerable to a new Covid wave but supply chain bottlenecks and soaring energy prices pose downside risks to the outlook in the short term.
- The peak of the recovery may have already been reached but the expansion should remain solid in the quarters ahead driven by consumption and investments.
- We forecast GDP growing by 5.1% in 2021 and 4.6% in 2022.
- The rise of inflation should prove transitory but not short lived. The balance of risks is tilted to the upside.

	2020	2021f	2022f	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2
GDP (constant prices, y/y)	-6.5	5.1	4.6	-4.0	-4.4	-1.2	14.1	3.6	5.1	6.4	5.1
- q/q change				12.6	-0.4	-0.3	2.1	2.2	1.1	0.9	0.8
Private consumption	-8.0	3.9	7.1	14.4	-3.1	-2.1	3.7	3.8	2.0	1.2	1.0
Fixed investment	-7.6	5.0	5.4	13.9	2.8	-0.2	1.1	2.2	1.6	1.3	1.0
Government consumption	1.4	3.1	1.2	5.6	0.7	-0.5	1.2	0.1	0.3	0.3	0.2
Export	-9.4	9.2	5.3	16.6	4.1	0.7	2.2	1.8	1.5	1.1	1.1
Import	-9.2	6.7	5.7	11.8	4.8	0.4	2.3	1.8	1.6	1.3	1.2
Stockbuilding (% contr. to GDP)	-0.4	-0.1	-0.6	-1.6	0.6	0.8	-0.4	-0.3	-0.5	0.0	0.0
Current account (% of GDP)	2.1	2.6	2.7								
Deficit (% of GDP)	-7.2	-6.8	-4.0								
Debt (% of GDP)	97.8	99.9	98.2								
CPI (y/y)	0.3	2.3	2.1	0.0	-0.3	1.1	1.8	2.8	3.7	2.8	2.4
Industrial production (y/y)	-8.6	7.4	1.6	-6.8	-1.6	3.5	22.3	5.6	0.9	0.1	1.1
Unemployment (%)	7.9	7.8	7.4	8.5	8.2	8.1	8.0	7.4	7.5	7.4	7.4
3-month Euribor	-0.4	-0.55	-0.53	-0.47	-0.52	-0.54	-0.54	-0.55	-0.55	-0.54	-0.53

Source: Intesa Sanpaolo forecasts

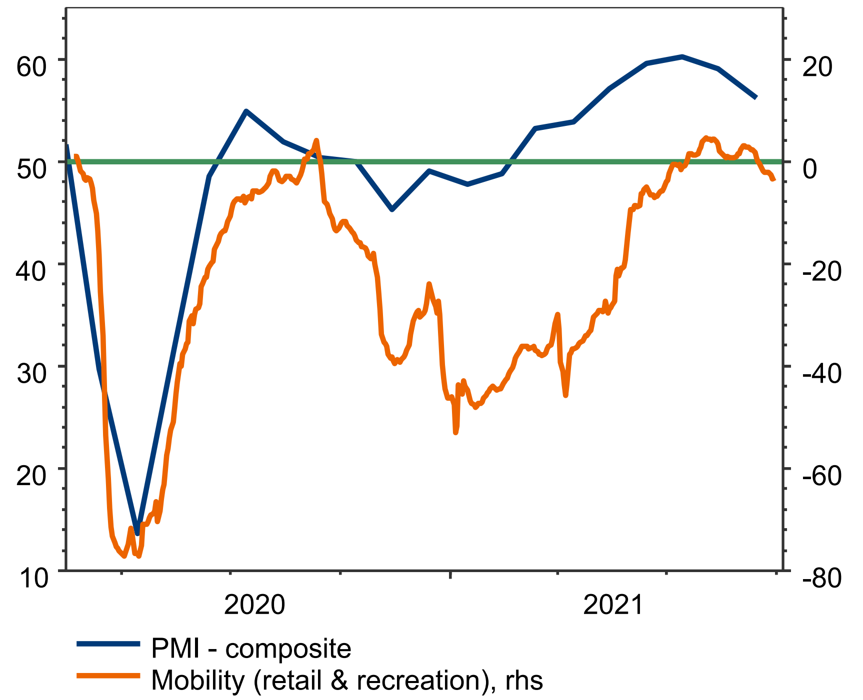
The recovery is past its peak

The easing of restrictions supported the recovery during the spring and the summer quarters



Source: Google, Eurostat, Intesa Sanpaolo forecasts

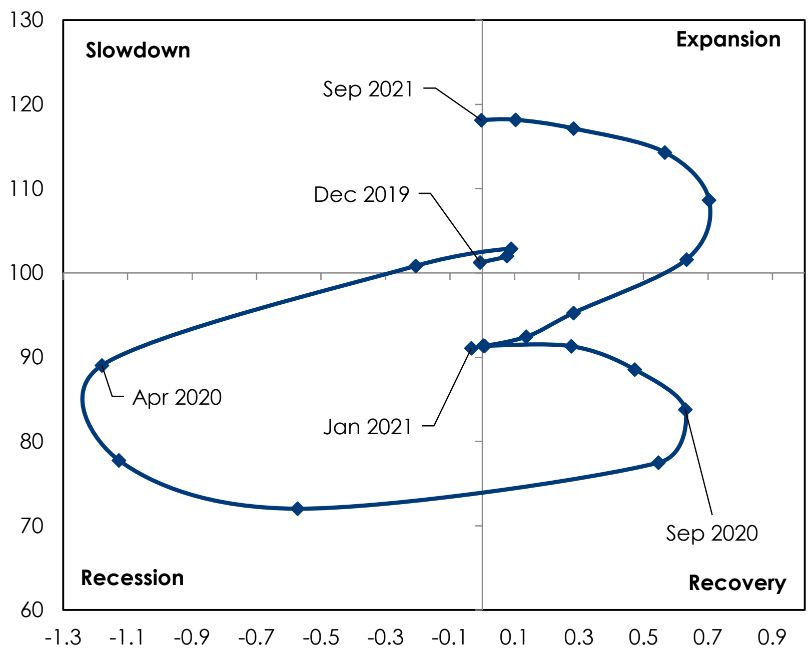
With most of the re-openings behind us the expansion is now gradually decelerating



Source: Intesa Sanpaolo, Refinitiv-Datastream

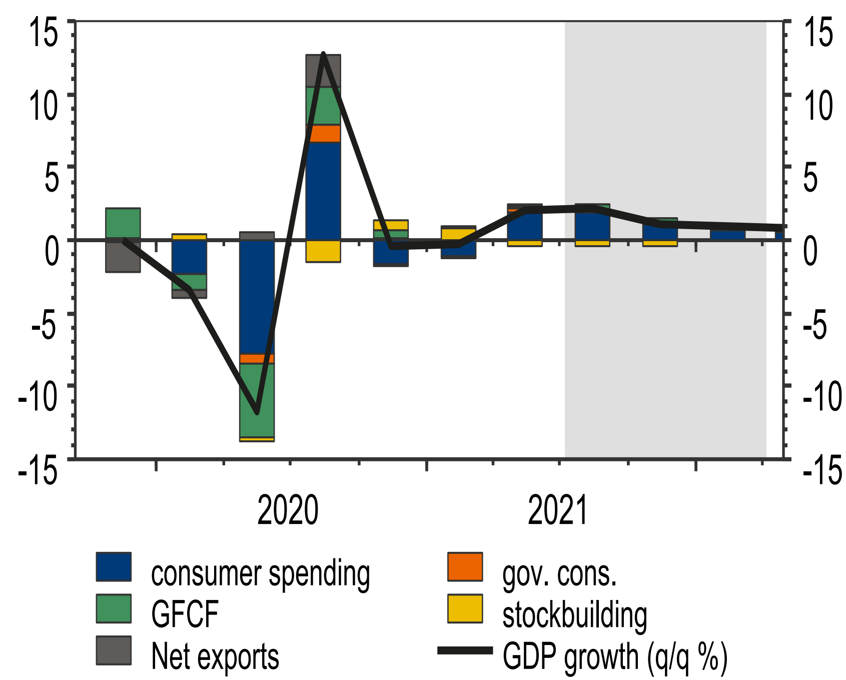
… but it will remain fairly robust in 2022

Surveys consistent with a moderation of the recovery…



Note: level (y axis) and monthly change (x axis) of the ESI index (3 months moving average). Source: Intesa Sanpaolo, European Commission

… the economy should be able to maintain a solid pace of growth in 2022

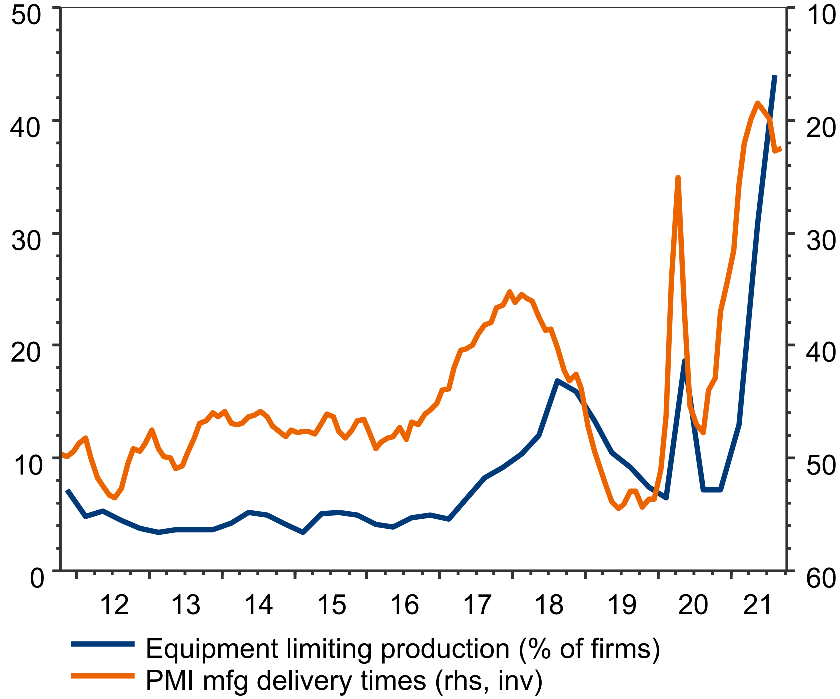


Note: contributions to GDP growth Source: Refinitiv-Datastream, Intesa Sanpaolo forecasts

INTESA SANPAOLO

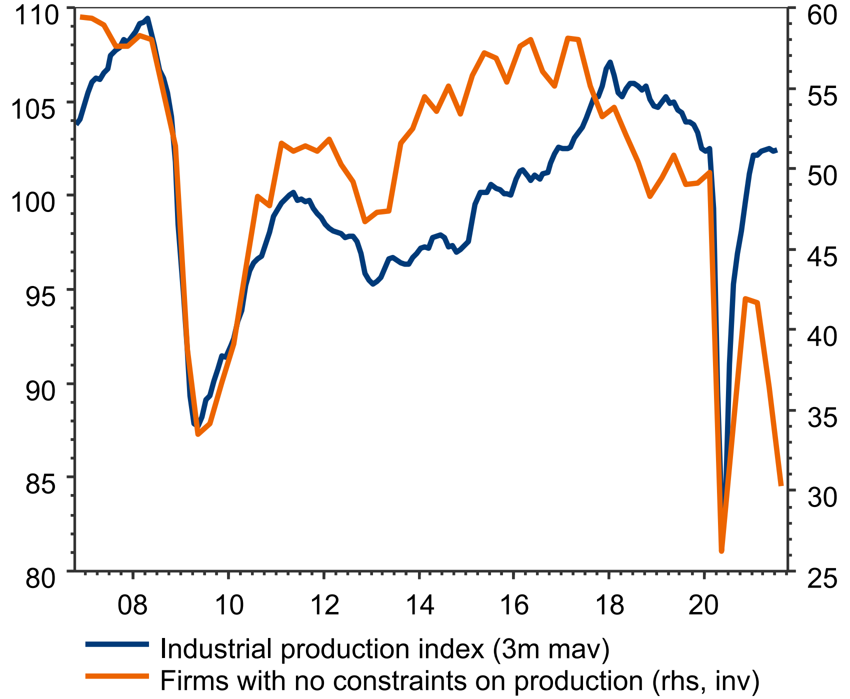
Industry constrained by supply chain bottlenecks…

Delivery times and equipment scarcity



Note: equipment/material as a factor limiting industrial production (% of firms). Source: Intesa Sanpaolo, Refinitiv-Datastream

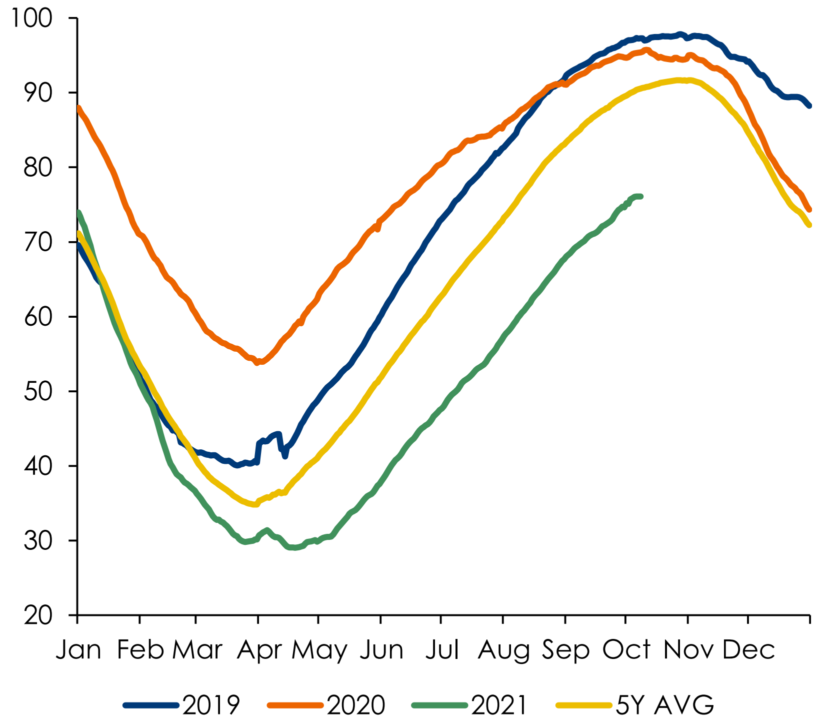
In the months ahead industrial activity should be penalised by supply chain bottlenecks and rising commodity prices



Source: Intesa Sanpaolo, Refinitiv-Datastream

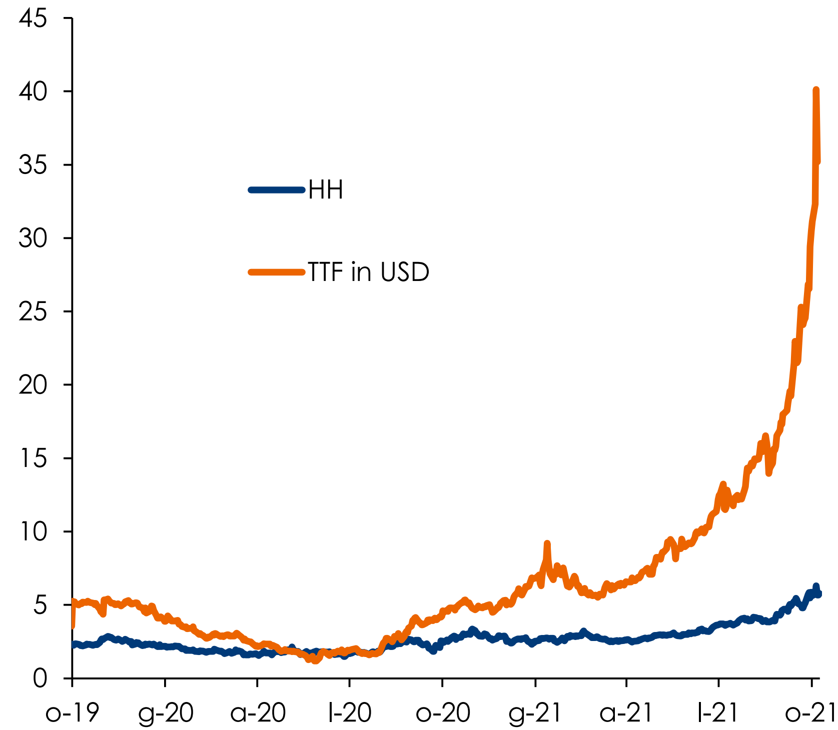
… downside risks from soaring gas prices

Natural gas stocks in the EU are 15% below their 5-yr average



Source: natural gas stocks, % full. Source: Intesa Sanpaolo, Gas Infrastructure Europe

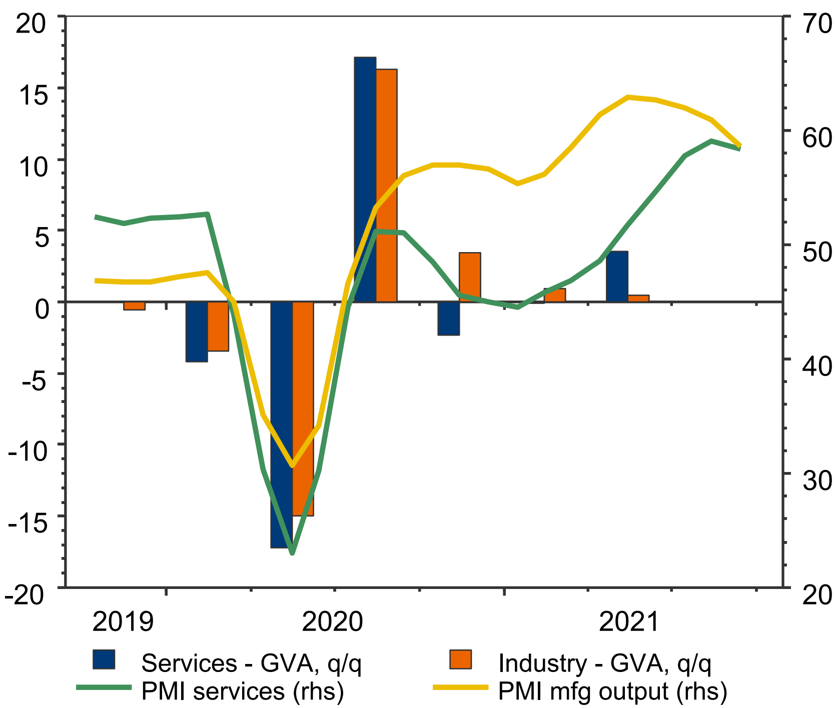
Rising european prices could limit output in the most energy-intensive industries



Source: Intesa Sanpaolo, Bloomberg Finance LP

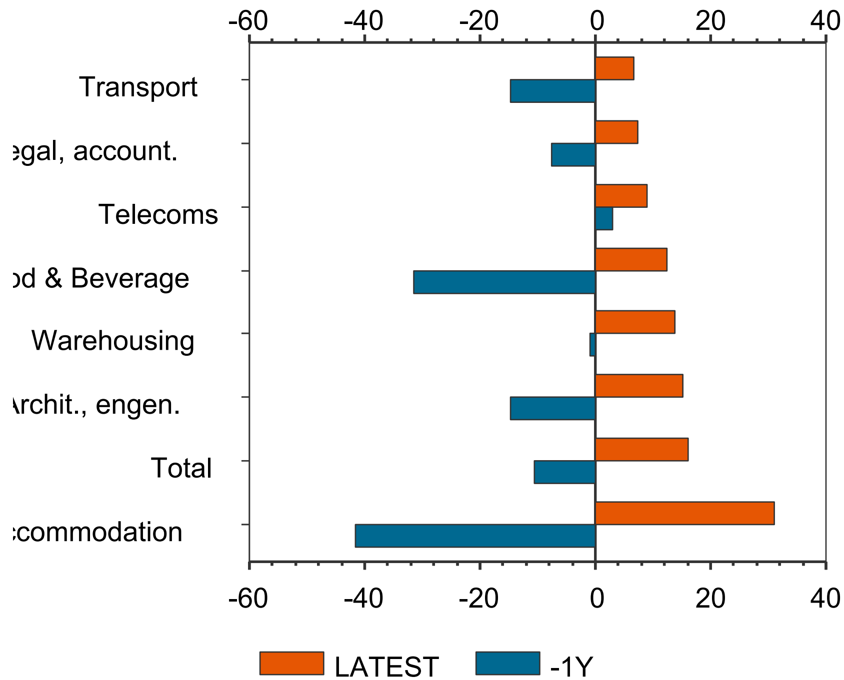
The recovery will be driven by services

Strength in services should offset weaker industrial activity



Source: Intesa Sanpaolo, Refinitiv-Datastream

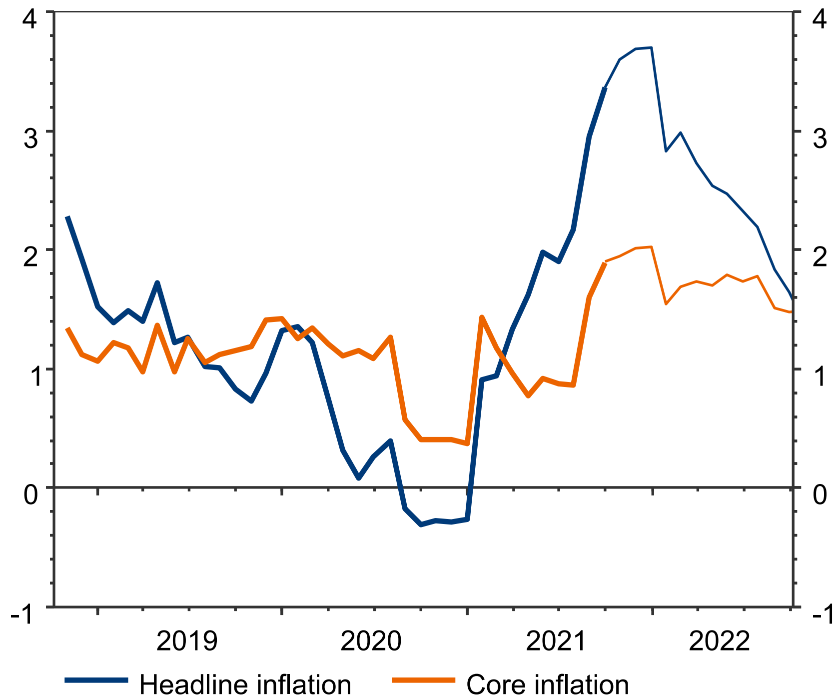
Thanks to the sectors with the biggest catch up potential



Note: demand in the last 3 months. Source: Intesa Sanpaolo, European Commission

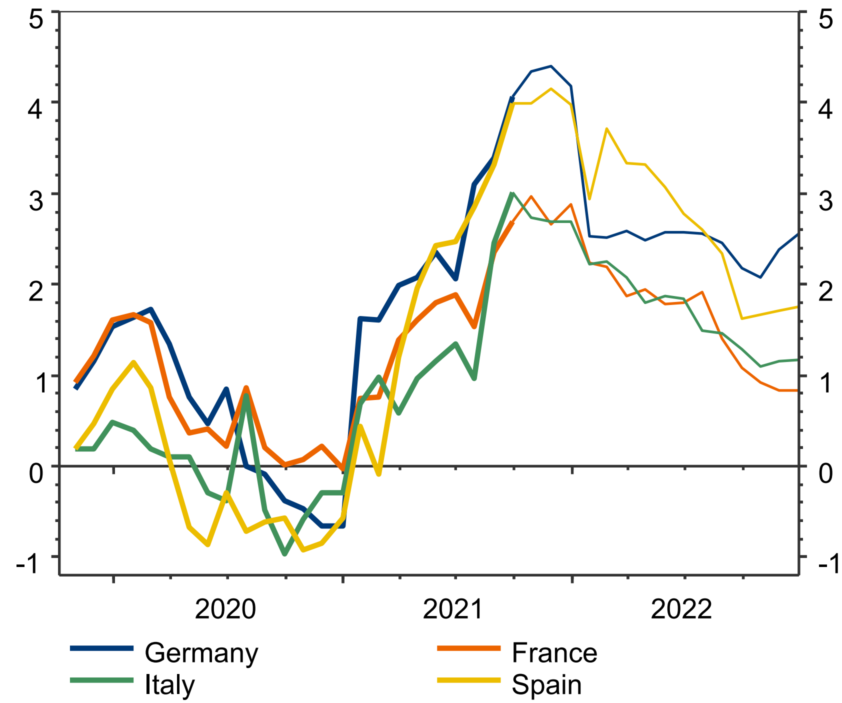
Inflation: transitory rise but not short lived

Headline inflation should reach a peak at the end of 2021 but it might not return below 2% until next Summer



Source: Refinitiv-Datastream, Intesa Sanpaolo forecasts

Germany in the spotlights. Italian inflation below the Eurozone average

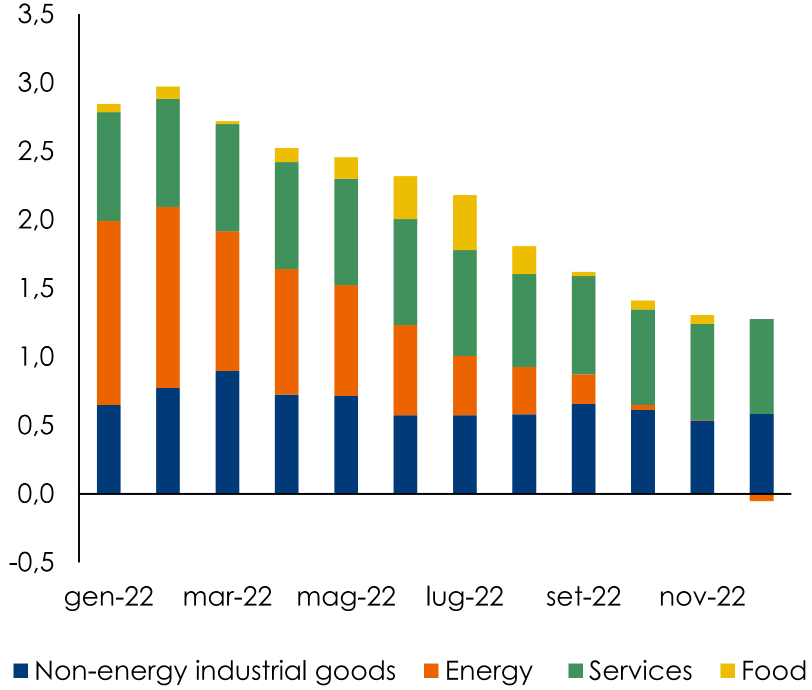


Source: Refinitiv-Datastream, Intesa Sanpaolo forecasts

INTESA SANPAOLO

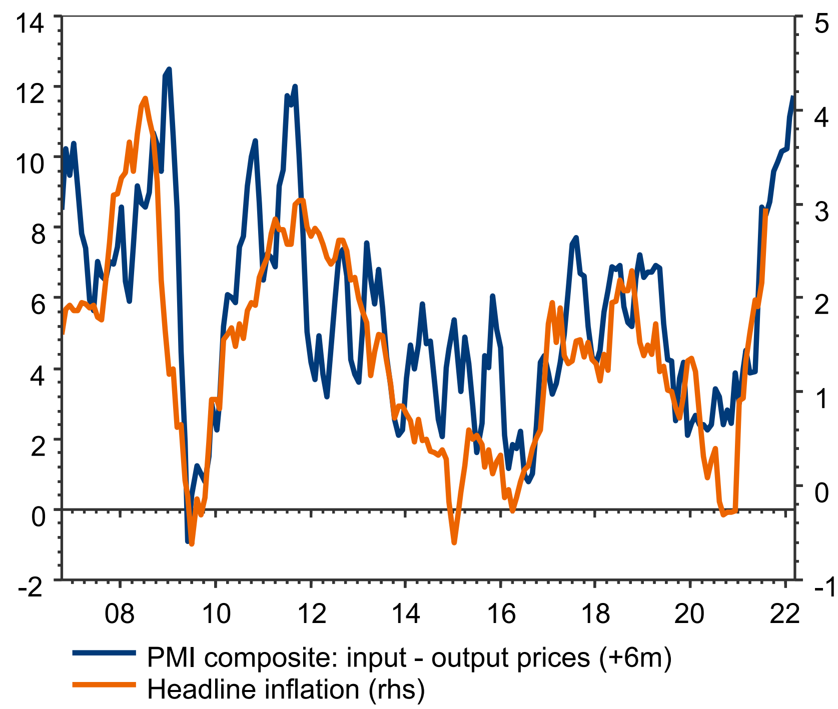
Risks skewed to the upside

The impact of growing energy prices will still be relevant even in 1H 2022 when the lagged effect of supply chain bottlenecks on industrial goods prices might also reach a peak



Note: contributions to headline inflation. Source: Intesa Sanpaolo, Refinitiv-Datastream

The balance of risks is weighted towards more inflationary pressures



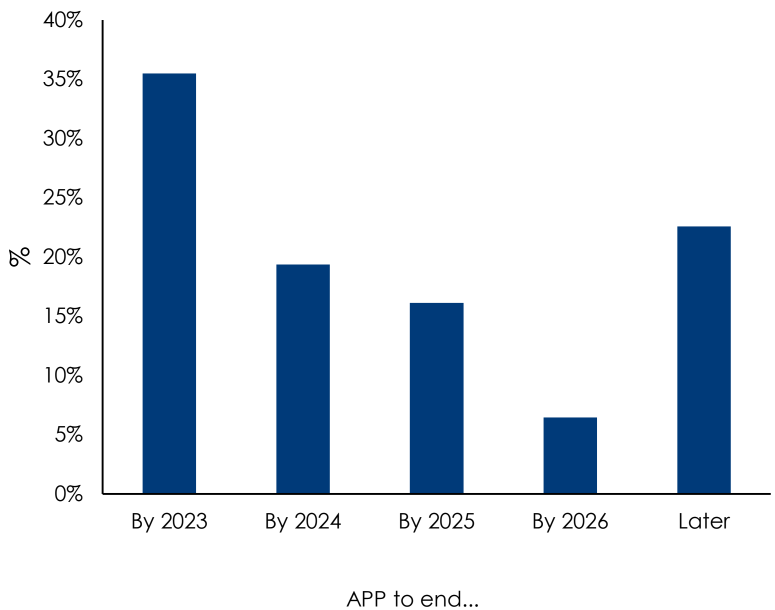
Source: Intesa Sanpaolo, Refinitiv-Datastream

ECB: edging towards a withdrawal of monetary stimulus in 2022

The ECB is preparing to close PEPP in March 2022 but APP purchases will continue, maybe until 2023 included.

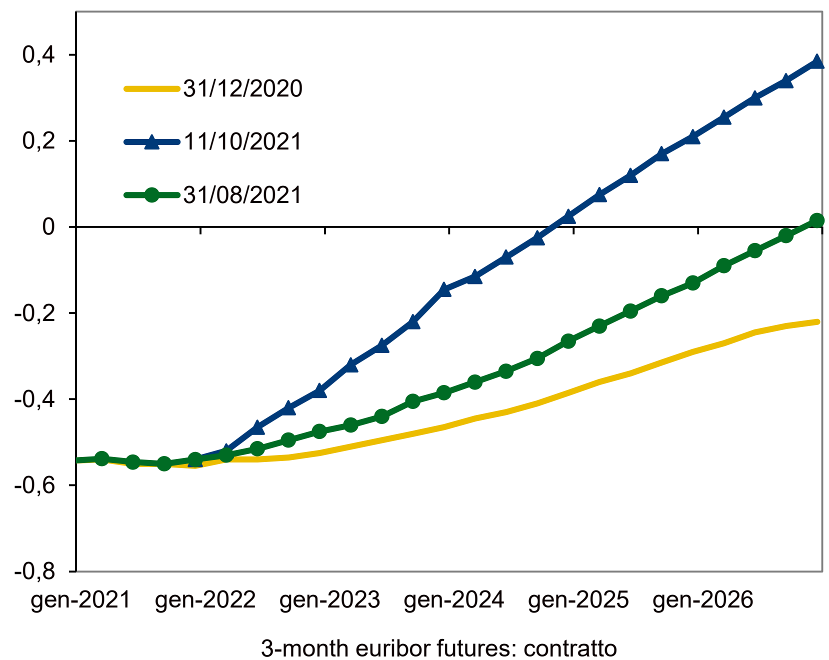
Financial markets are pricing in a probability of rate hike in 2022: too early, considering the twin conditions set by the ECB on future headline inflation and current trends in underlying inflation.

APP should continue until 2023



Source: Reuters, pre-meeting ECB survey.

Rate hikes are now priced too early by Euribor futures



Source: Refinitiv Datastream

Agenda

Supply bottlenecks will not kill the global recovery

US: the name of the game is excess demand, not stagflation

Euro area: the recovery is past its peak

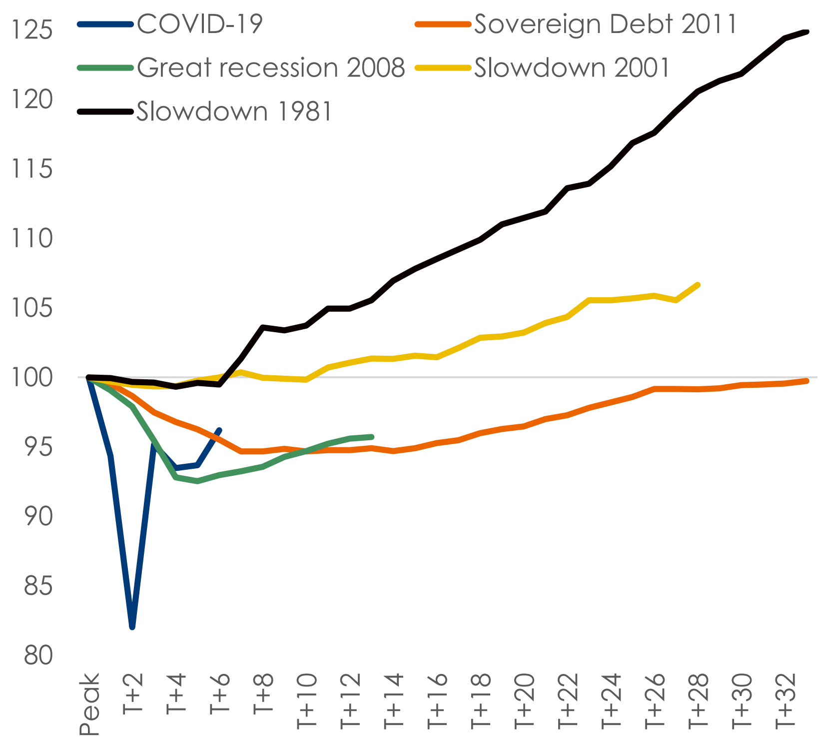
Italy: encouraging news from the economic cycle and public finance

Global rates: it's not all about inflation

The Covid shock has taken its toll on Italian GDP

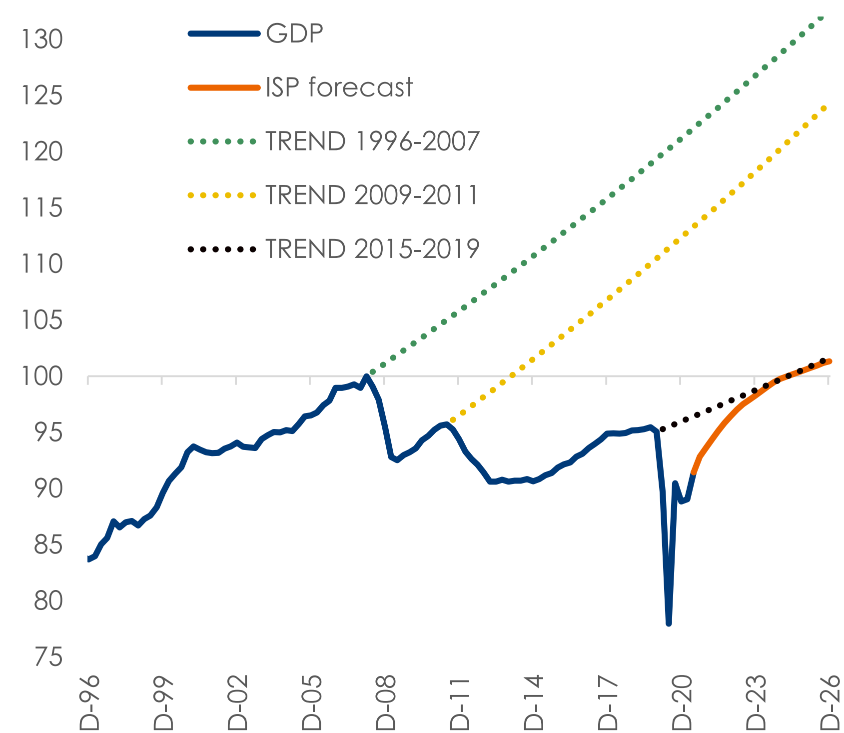
The GDP collapse was unprecedented, but recovery was faster than in the two previous recessions. GDP is set to recover pre-COVID levels by Q3 2022, but the pre-pandemic (poor) trend will be reached only by Q3 2024.

Italian recessions in the period 1980Q1-2021Q2: peaks and troughs



Note: GDP=100 in the starting quarter of each recessionary episode. Source: Intesa Sanpaolo calculations on Istat data

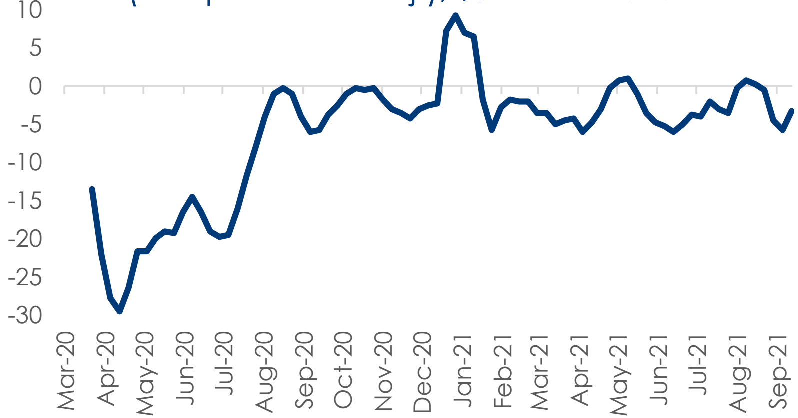
GDP is set to recover its pre-pandemic trend by 2024



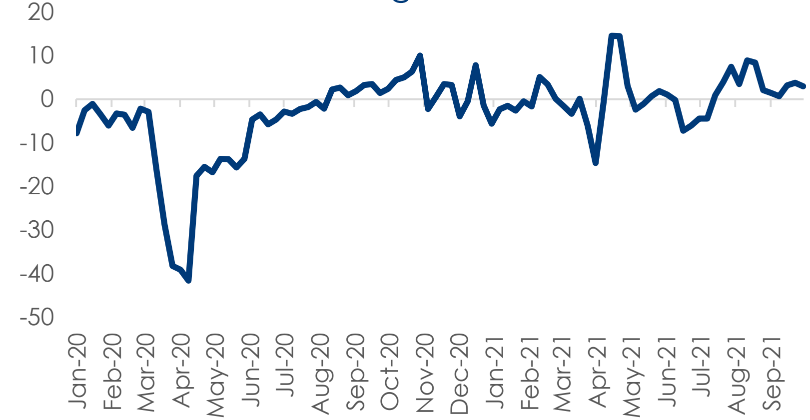
Note: GDP 1Q08=110. Source: Intesa Sanpaolo calculations on Istat data

High frequency cyclical indicators: mind the gap

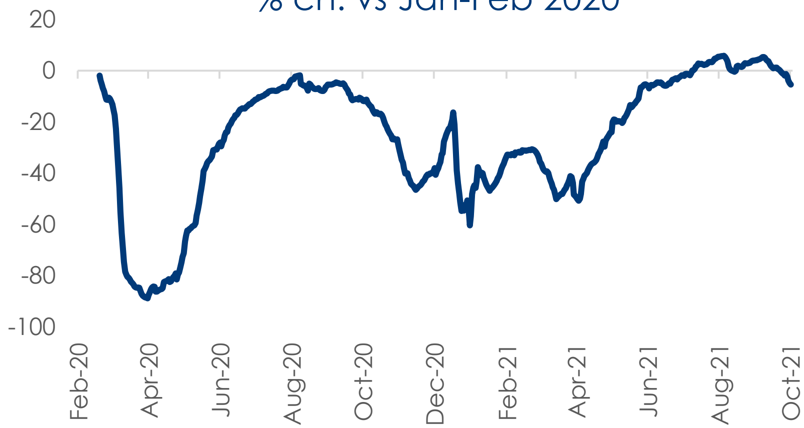
Electricity consumption
(temperature-adj.), % ch. vs 2019



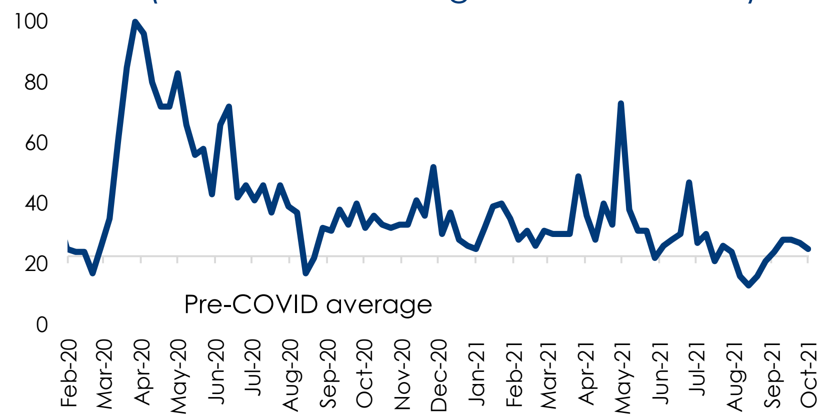
Gas (industrial use),
% change vs 2019



Mobility towards retail & recreation,
% ch. vs Jan-Feb 2020



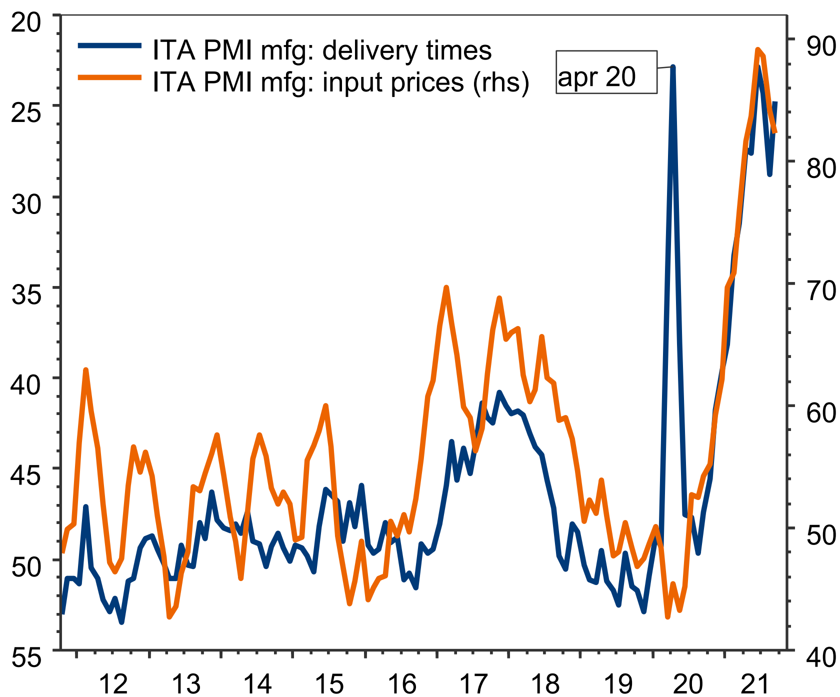
Google Trends Searches of the term "CIG"
(% of week with highest occurrence)



Source: ISP calculations from Entso-e & Bruegel Institute, Snam and Google data

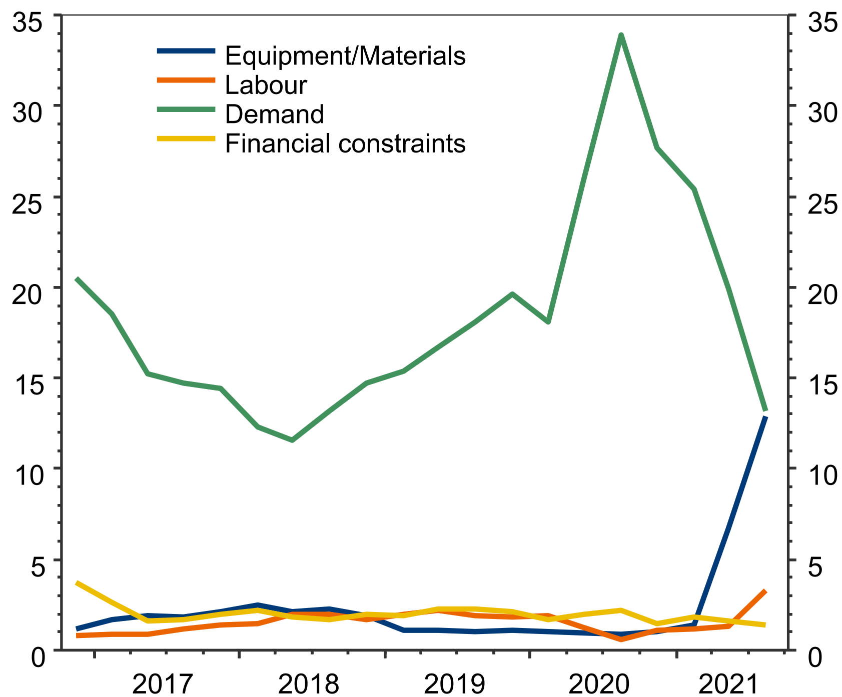
Bottlenecks are starting to bite in industry…

Supply-side bottlenecks are causing longer delivery times and higher input prices



Source: IHS Markit, Refinitiv Datastream

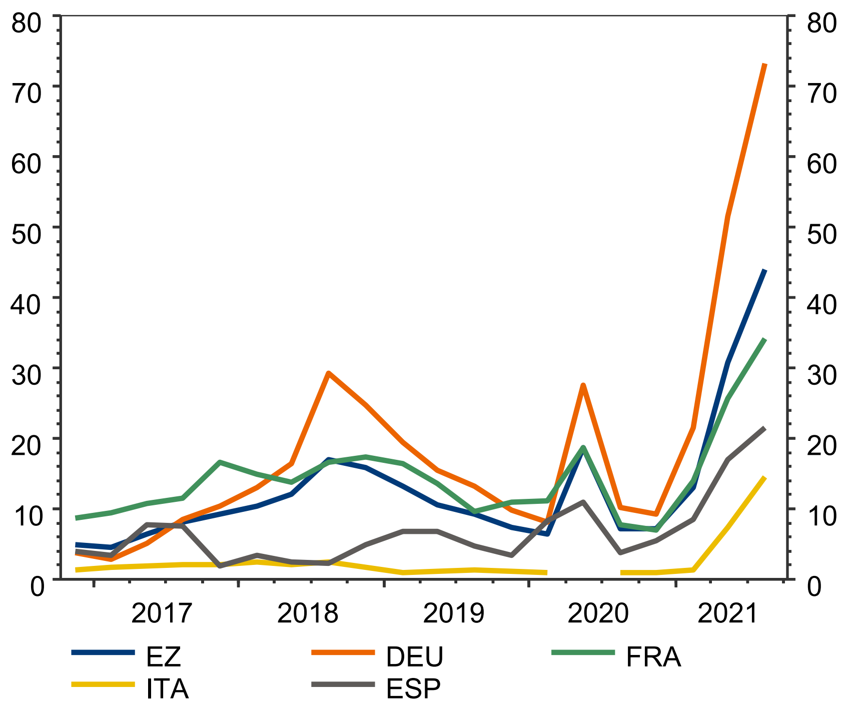
Shortages of equipment or materials are today as relevant as demand in limiting production



Note: factors limiting production (as a % of total), from quarterly survey on manufacturing businesses. Source: EU Commission, Refinitiv Datastream

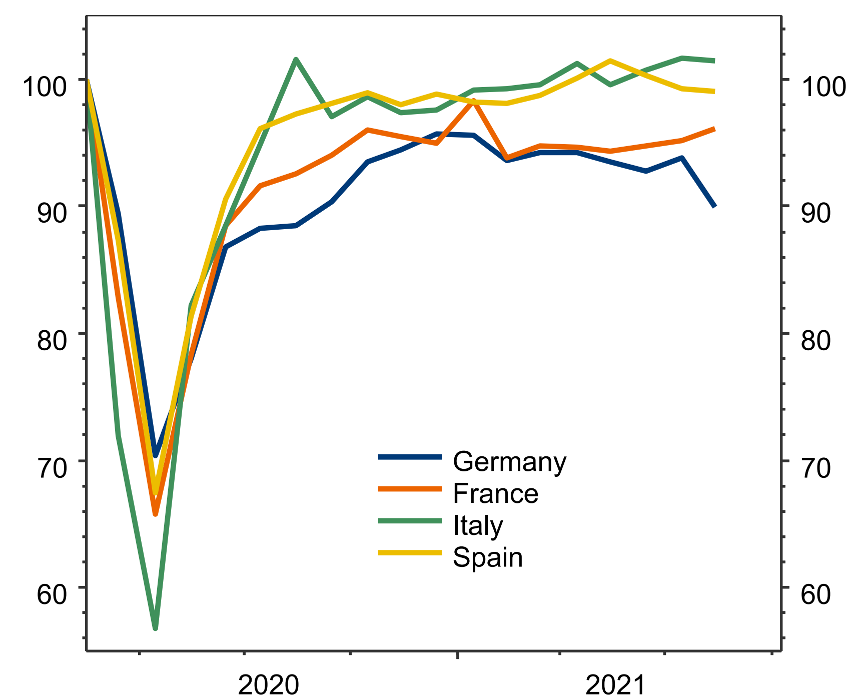
…albeit less severely than in other eurozone countries…

Shortages of materials/equipment look less dramatic in Italy than elsewhere in the eurozone



Note: % of respondents indicating shortages of equipment/materials as a factor limiting production, from quarterly survey on manufacturing businesses. Source: EU Commission, Refinitiv Datastream

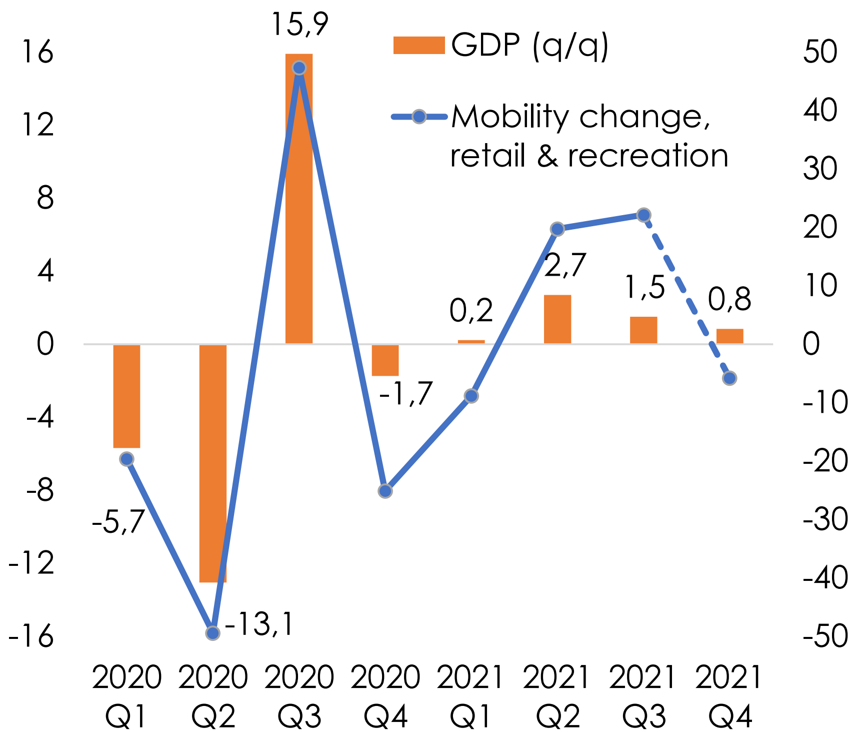
This may help to explain why IP is proving more resilient than in the other main EZ countries



Note: February 2020=100. Source: Refinitiv Datastream, Eurostat, Intesa Sanpaolo calculations

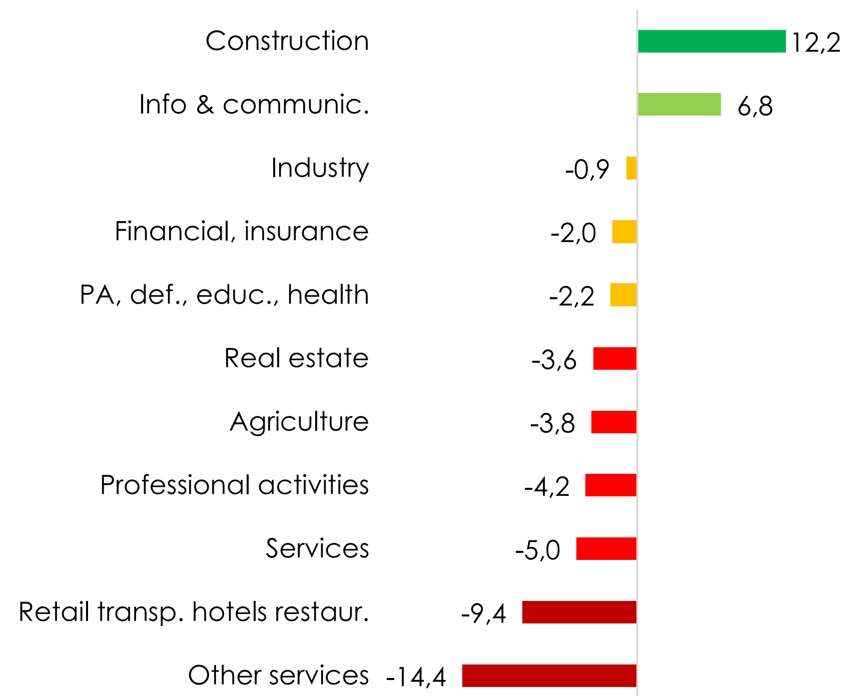
…but the baton of recovery has passed to services

The trend of mobility towards services activities is signaling upside risks to our GDP growth forecasts in Q3, but downward risks on Q4



Source: Google Mobility Indicators, Intesa Sanpaolo forecasts on Istat GDP data

In any case, services hardest hit by the pandemic still have plenty of room to recover

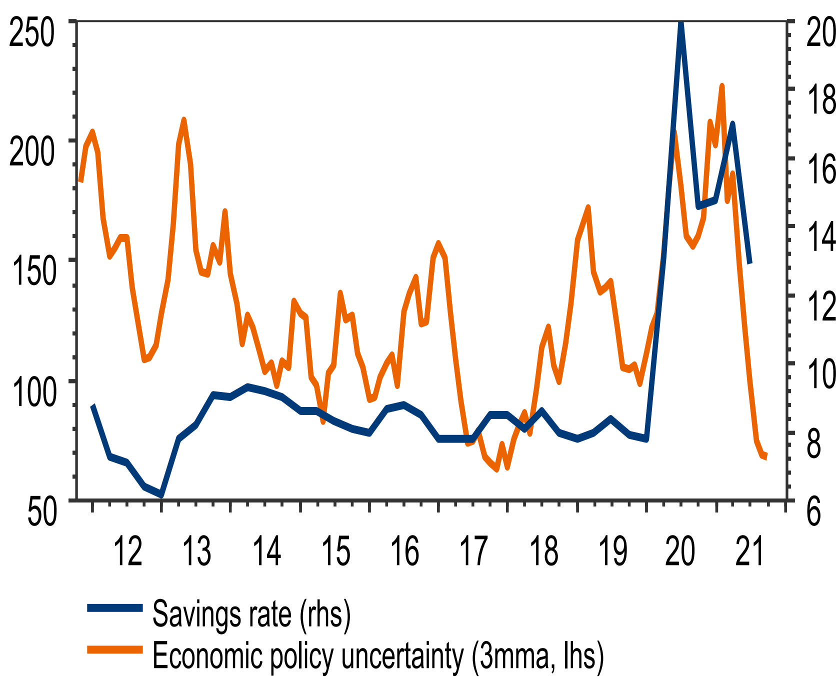


Note: % change in VA in Q2 2021 vs Q4 2019. Source: Intesa Sanpaolo calculations on Istat data

INTESA SANPAOLO

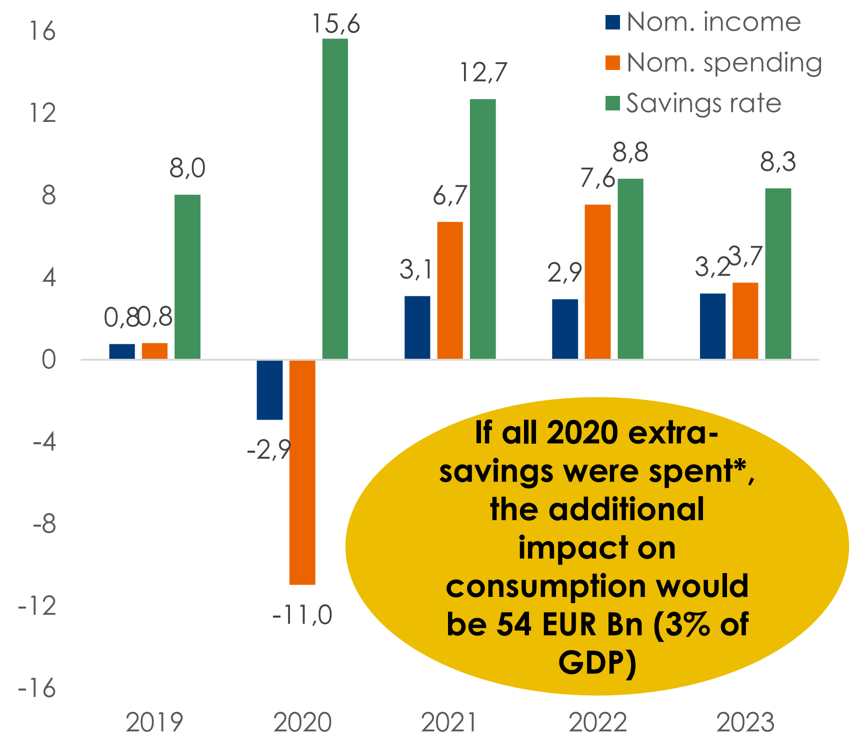
The jump in the savings rate is being reabsorbed

The savings rate is expected to drop further as uncertainty on the health and economic picture is easing



Source: Intesa Sanpaolo calculations on Istat data and www.policyuncertainty.com , Refinitiv Datastream

The impact will be not full and gradual, but has the potential to boost consumption for a couple of years

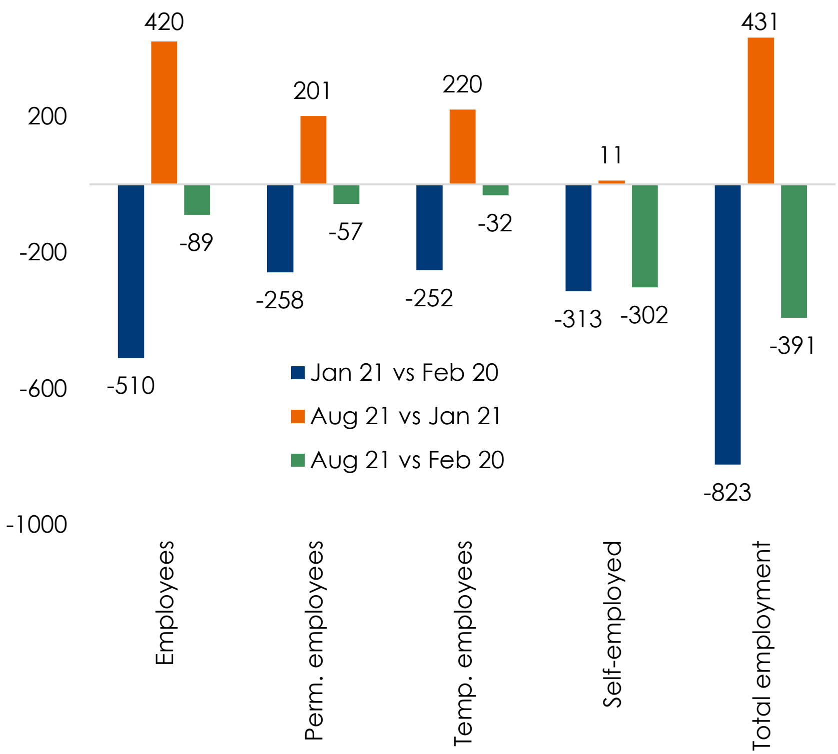


** If the savings rate in 2021 goes back to 2019 level. % y/y change in households' income and spending in current prices, savings rate as a % of disposable income. Source: Intesa Sanpaolo calculations and forecasts on Istat data*

The recovery of the labour market is uneven

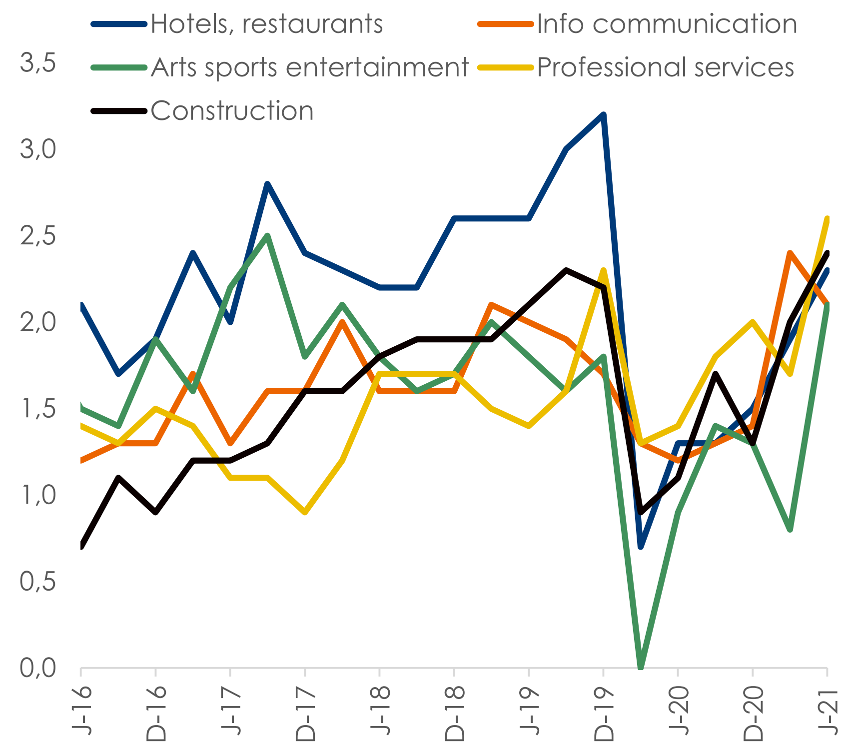
We see the UR little changed in the next 6-12m. Hiring should intensify, albeit dragged by shortages in some sectors. Lay-offs may resume, but the net balance on employment should remain positive. Yet, it will be offset by rise in participation.

Job losses mainly hit self-employed people. The recent recovery is led by temporary contracts



Note: changes in employment (thousand units). Source: Intesa Sanpaolo calculations on Istat data

Job vacancy rates are peaking in several sectors



Source: Intesa Sanpaolo calculations on Istat data

Upside risks on the growth outlook

- One month ago, we revised our forecast for Italian GDP this year, to 5.7%. This call is becoming increasingly cautious.
- Growth could gradually slow, but remain far above potential, in the following years.
- Consumption will be sustained by the post-COVID rebound in services, and by extra-savings accumulated since March 2020. Investments will benefit from the effects of the NRRP.
- Risks on the growth outlook seem to be tilted to the upside.

	2020	2021f	2022f	2020				2021				2022	
				1	2	3	4	1	2	3	4	1	2
GDP (constant prices, y/y)	**-9.0**	5.7	4.0	**-5.8**	**-18.2**	**-5.4**	**-6.6**	**-0.8**	**17.2**	2.6	5.3	6.0	4.0
- q/q change				**-5.7**	**-13.1**	**15.9**	**-1.7**	**0.2**	**2.7**	1.5	0.8	0.8	0.8
Private consumption	**-10.8**	5.3	5.8	**-7.2**	**-11.9**	**13.3**	**-2.7**	**-1.0**	**5.0**	2.8	1.2	1.0	0.9
Fixed investment	**-9.4**	15.2	6.5	**-8.4**	**-16.7**	**29.2**	**-0.1**	**4.1**	**2.6**	0.4	1.7	1.9	1.6
Government consumption	**1.9**	0.6	-0.2	**1.4**	**-1.0**	**1.0**	**2.3**	**-0.5**	**-0.8**	-0.5	0.0	0.1	0.1
Export	**-14.7**	12.1	5.3	**-8.3**	**-25.2**	**31.5**	**1.6**	**1.1**	**3.2**	1.4	1.3	1.2	1.1
Import	**-13.4**	14.0	7.1	**-6.2**	**-19.0**	**15.7**	**6.2**	**3.5**	**2.4**	2.5	2.0	1.8	1.4
Stockbuilding (% contrib. to GDP)	**-0.3**	0.0	-0.2	**0.8**	**-0.5**	**-1.4**	**0.6**	**0.8**	**-0.8**	0.2	0.0	0.0	0.0
Current account (% of GDP)	**3.4**	1.9	1.6										
Government Balance (% of GDP)	**-9.6**	-8.8	-5.3										
Government Debt (% of GDP)	**155.6**	153.6	150.3										
HICP (y/y)	**-0.1**	1.7	1.6	**0.2**	**-0.2**	**-0.2**	**-0.4**	**0.7**	**1.2**	2.1	2.7	2.2	1.8
Industrial production (y/y)	**-11.0**	11.0	2.7	**-11.3**	**-26.0**	**-4.3**	**-2.4**	**9.0**	**32.7**	3.4	3.7	3.0	2.5
Unemployment (%)	**9.3**	9.6	9.3	**8.9**	**8.4**	**10.0**	**9.8**	**10.1**	**9.8**	9.3	9.4	9.4	9.4

Note: y/y growth rate calculated from seasonally and calendar adjusted series. Source: Intesa Sanpaolo – Research Department

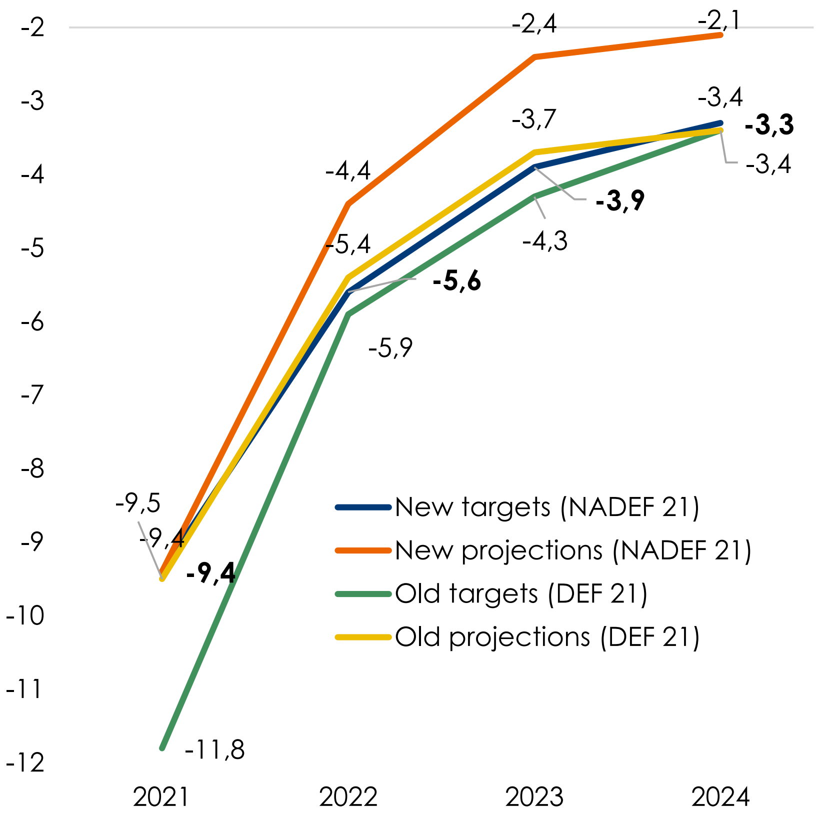
Our view on the main industrial sectors

Industry	September 2021
Healthcare equipment	Very Positive
Software and IT services	Very Positive
Transportation - Manufacturing	Very Positive
Technology Hardware and Semiconductor	Very Positive
Machinery and other equipment - Wholesale	Very Positive
Building and construction	Very Positive
Telecommunications	Positive
Pharmaceuticals and Biotechnology - Manufacturing	Positive
Power generation	Positive
Infrastructure	Positive
Electrical Components & Equipment	Positive
Construction Materials	Positive
Machinery - General Purpose	Positive
Food and beverage - Manufacturing	Positive
Pharmaceuticals and Biotechnology - Distribution	Positive
Household durables - Manufacturing	Neutral/Positive
Health Care Providers & Services	Neutral/Positive
Chemicals, Rubber and Plastic	Neutral/Positive
Manufacture of fabricated metal products	Neutral/Positive
Paper and wood	Neutral/Positive
Waste	Neutral/Positive
Agriculture, fishery, livestock, Forestry	Neutral/Positive
Automotive - Manufacturing	Neutral/Negative
Mining	Neutral/Negative
Machinery - Special Purpose	Neutral/Negative
Other Services	Neutral/Negative
Household durables - Distribution	Neutral/Negative
Metals	Neutral/Negative
Large scale food retailers	Neutral/Negative
Utilities	Neutral/Negative
Media	Negative
Transportation - Services	Negative
Textiles, apparel and luxury goods - Manufacturing	Negative
Wholesale	Negative
Tourism - Restaurants and food and beverage service activities	Negative
Real estate activities	Negative
Food and beverage - Distribution	Negative
Oil and Gas	Negative
Retail - Other	Very Negative
Leisure Services	Very Negative
Other consumer goods	Very Negative
Tourism - Accomodation and Tour operator	Very Negative
Textiles, apparel and luxury goods - Distribution	Very Negative
Automotive - Distribution	Very Negative

Note: courtesy of Stefania Trenti, Industry Office, Industry & Banking SubDepartment, Research Department Intesa Sanpaolo

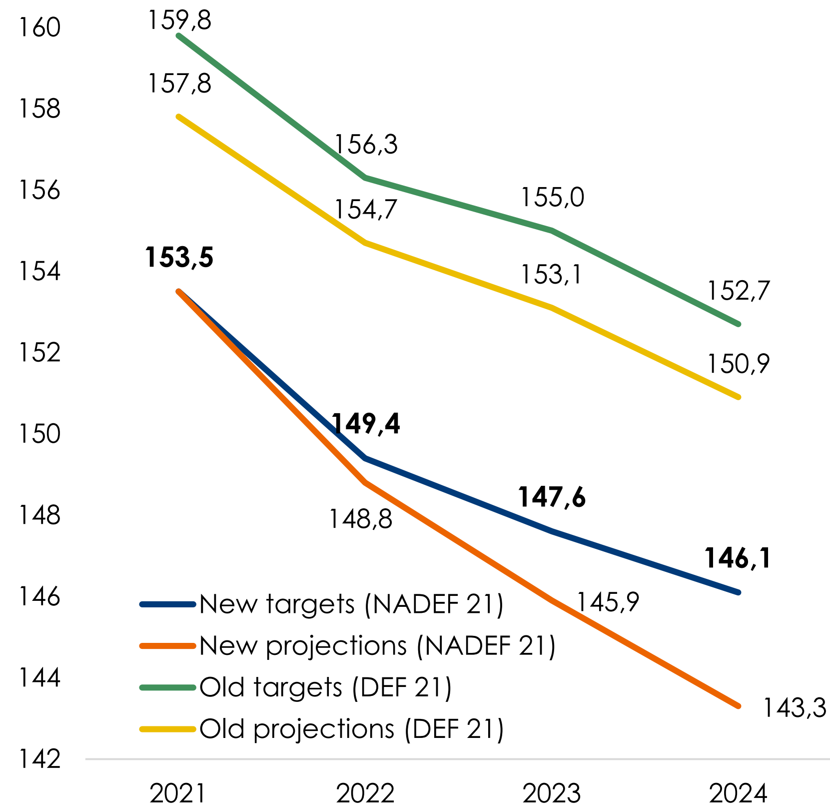
Deficit and debt far better than expected this year

Deficit/GDP ratio: policy framework targets and projections (NADEF vs. DEF)



Source: NADEF 2021, DEF 2021

Debt/GDP ratio: policy framework targets and projections (NADEF vs DEF)

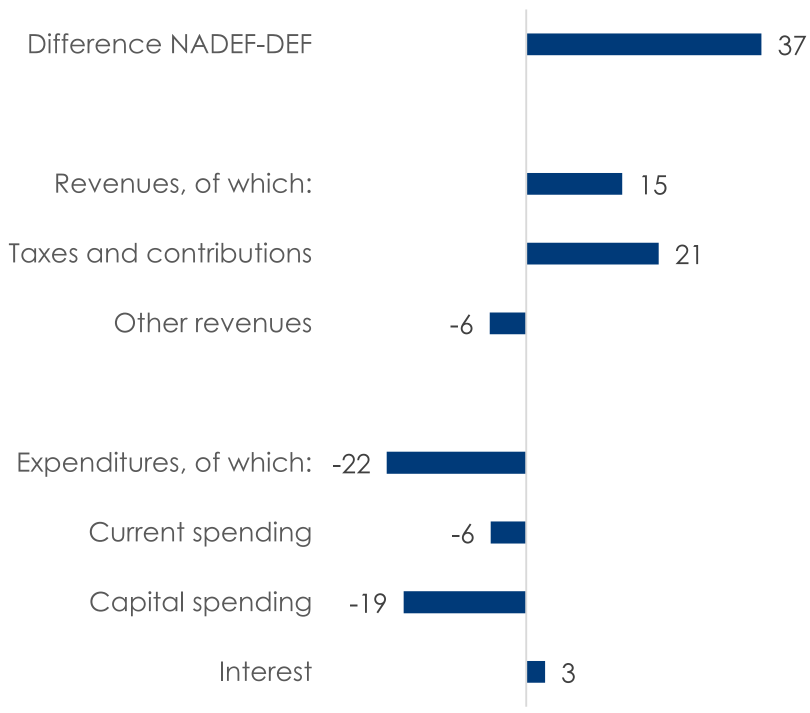


Source: NADEF 2021, DEF 2021

The positive surprise came not just from GDP growth

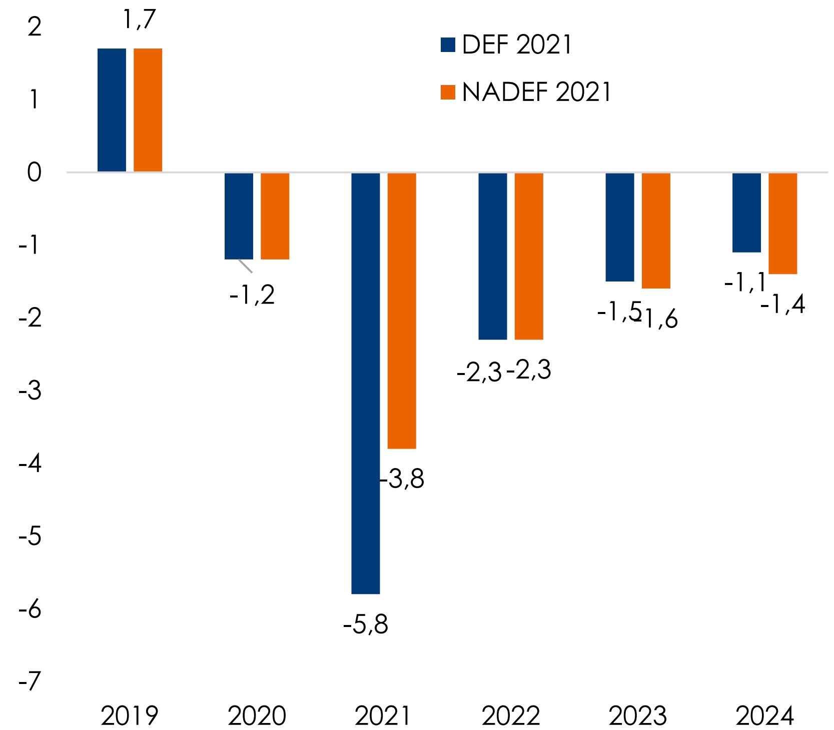
Part (but not all) of the improvement in 2021 deficit is due to stronger GDP growth (revised from 4.5% to 6%).

Difference in main revenues and spending (Sep NADEF vs Apr DEF, EUR Bn)



Source: Intesa Sanpaolo calculations on Italian Govt data

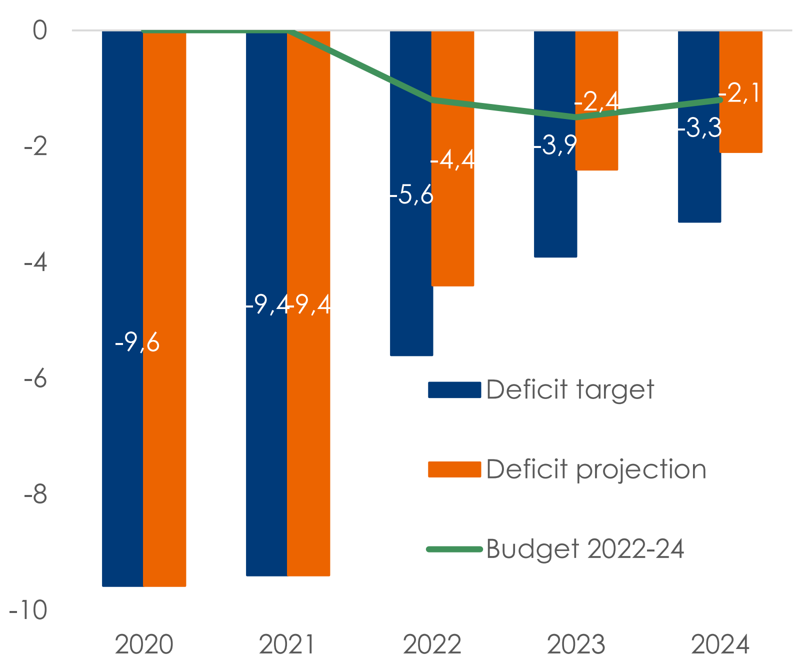
Cyclically-adjusted primary surplus (% of potential GDP)



Source: Intesa Sanpaolo calculations on Italian Govt data

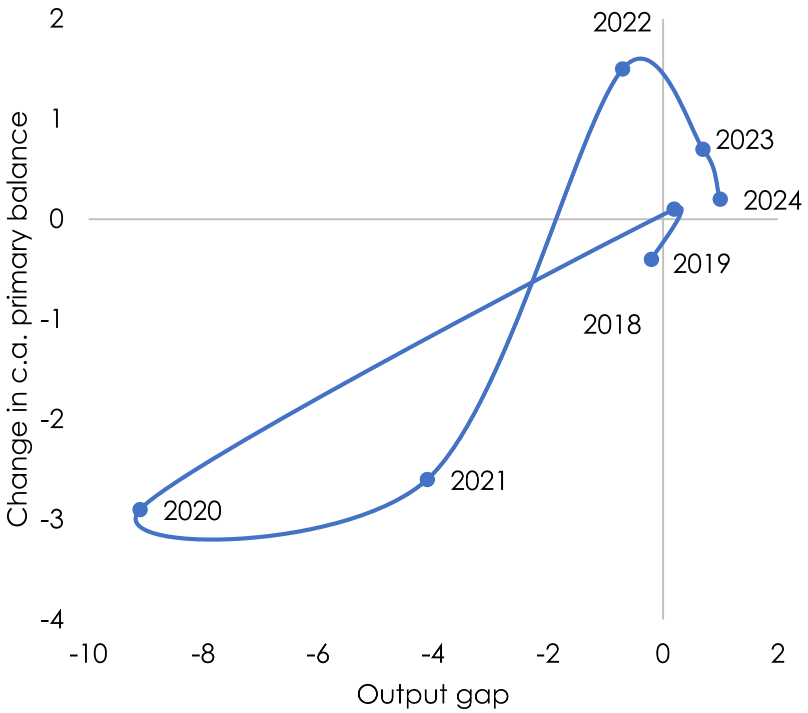
The Govt decided to use fiscal space to support GDP

The net budget for 2022 is worth 1.2% of GDP…



Source: Intesa Sanpaolo calculations on NADEF 2021 data

…which makes the fiscal «correction» next year less marked

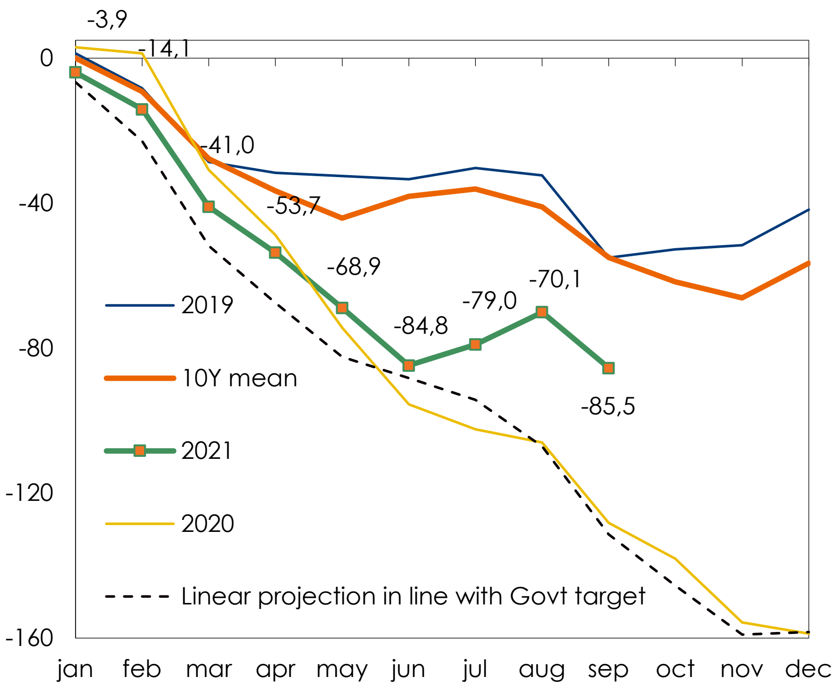


Source: Intesa Sanpaolo calculations on NADEF 2021 data

We are more confident than the Govt on 2021 deficit…

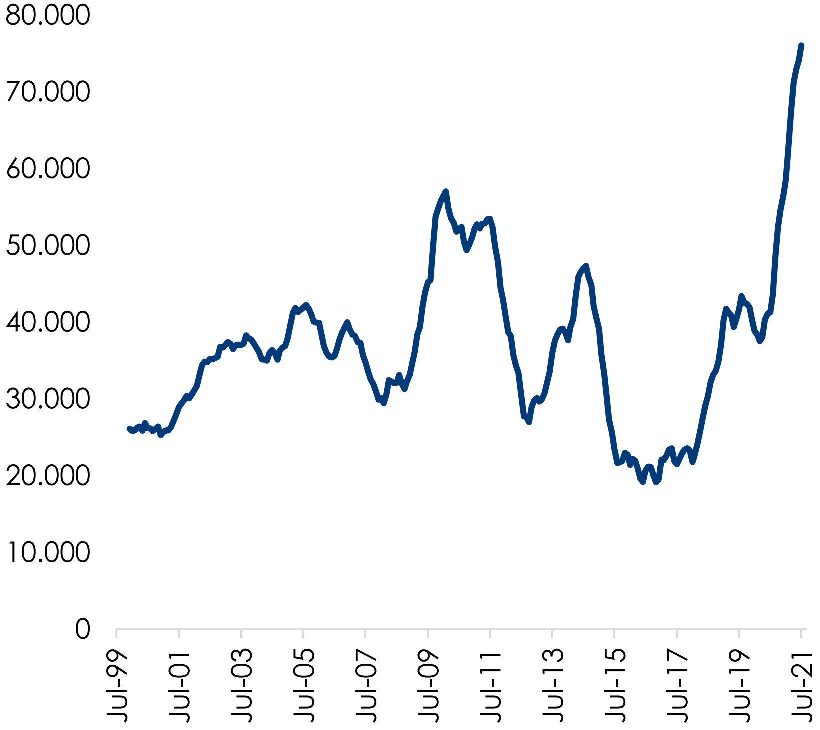
In the first 9 months of 2021, the State Sector working balance is estimated at EUR 85.5 Bn (+42.8 Bn vs 2020). In August, the improvement was mainly due to the 13% advance payment received by the EU for Recovery Fund grants.

Data on the Central Government cash requirements in the opening 9 months of the year were much stronger than expected



Source: Intesa Sanpaolo calculations on Italian Government data

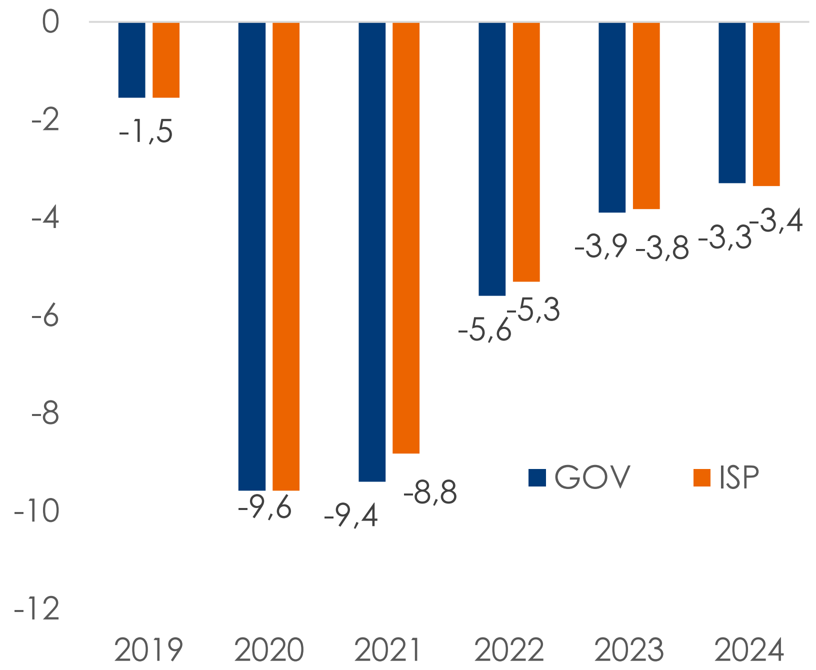
Liquidity available to the Italian Treasury at historically high levels



Note: Treasury deposits with the Bank of Italy (12mma).
Source: Bank of Italy, Intesa Sanpaolo calculations

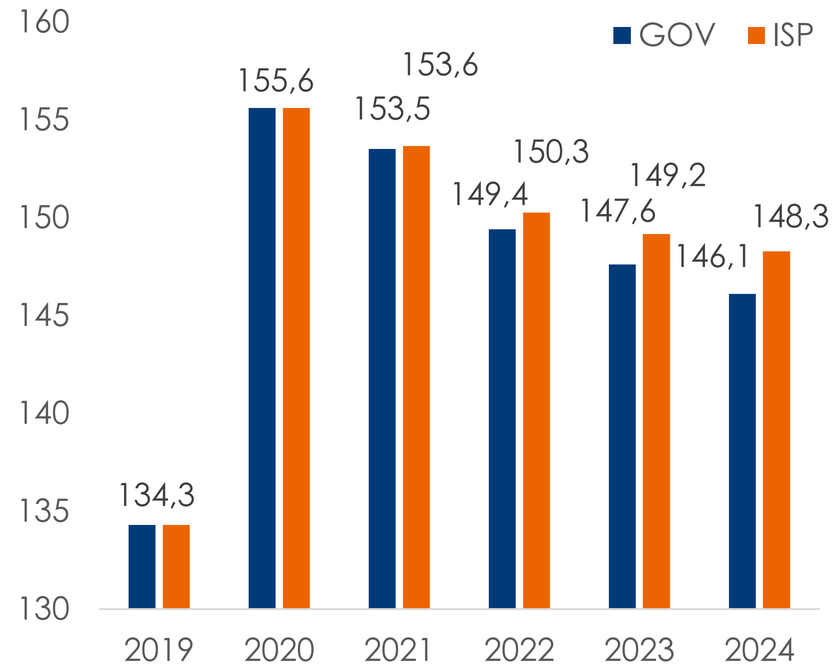
…while are more cautious on debt in the mid term

Deficit/GDP: Intesa Sanpaolo forecasts and Govt April's official targets



Source: Intesa Sanpaolo forecasts, Italian Government targets (NADEF 2021)

Debt/GDP: Intesa Sanpaolo forecasts and Govt April's official targets



Source: Intesa Sanpaolo forecasts, Italian Government targets (NADEF 2021)

The Italian NRRP absorbs 74% of EU loans (RRF)

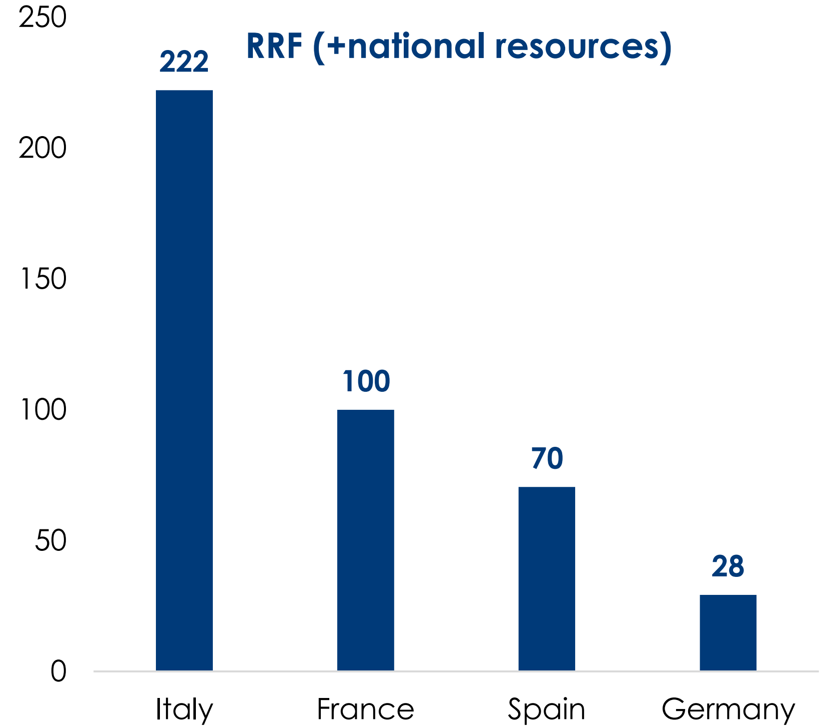
The Italian request for the RRF is worth **37.2%** of the total requests of the Member States: the **grants** component (68.9 billion from the RRF) is equal to **21%** of the requests submitted, **loans** amount to **73.9%** of what requested by Member States.

The Italian NRRP in figures (EUR Bn)

RRF	191.5
Grants	68.9
Loans	122.6
of which: additional	*53.5*
of which: replacement	*69.1*
National resources	30.6
Additional resources RRF+national	**153.0**
React-EU	13.5
Total additional resources	**166.5**
Total replacement resources	69.1
Total	**235.6**

Source: Intesa Sanpaolo calculations on Italian Govt data

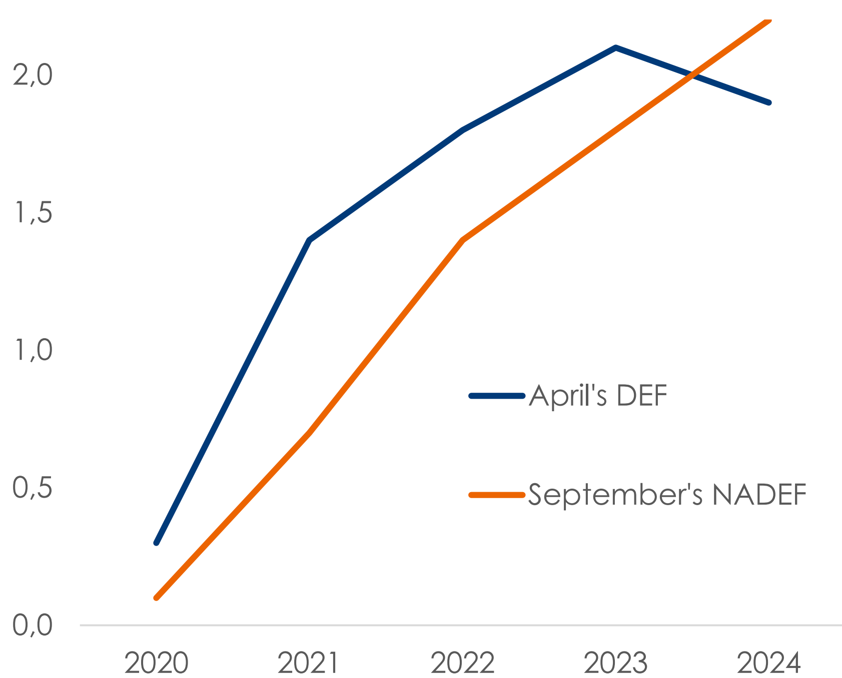
NRRPs in the main Eurozone countries (EUR Bn)



Source: Intesa Sanpaolo calculations on NRRPs

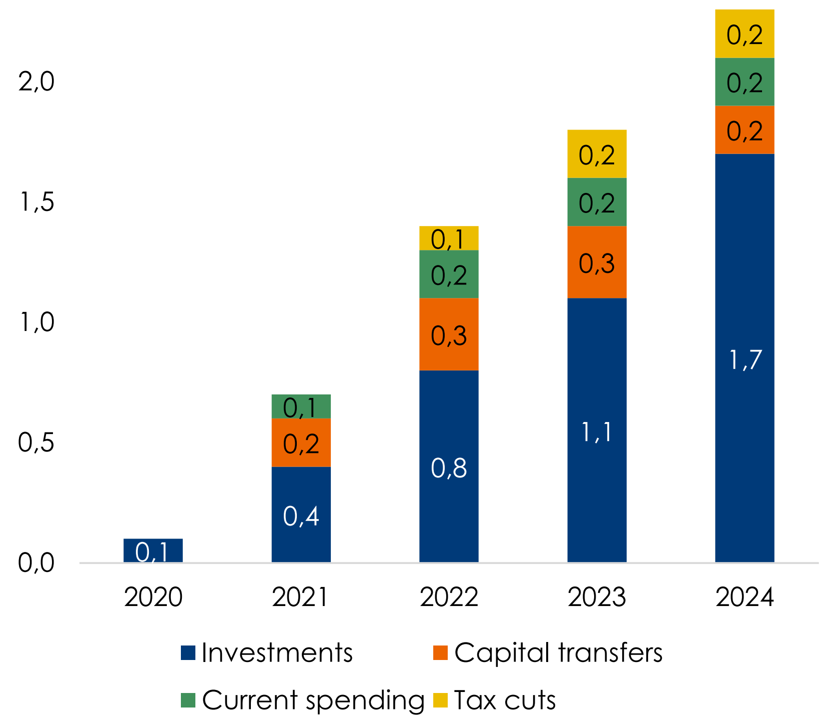
The Govt postponed part of the capital spending related to the RRF

RRF-financed Govt interventions
(grants+loans, % of GDP)



Source: Intesa Sanpaolo calculations on Italian Govt data

RRF-financed Govt interventions
(grants+loans, % of GDP)

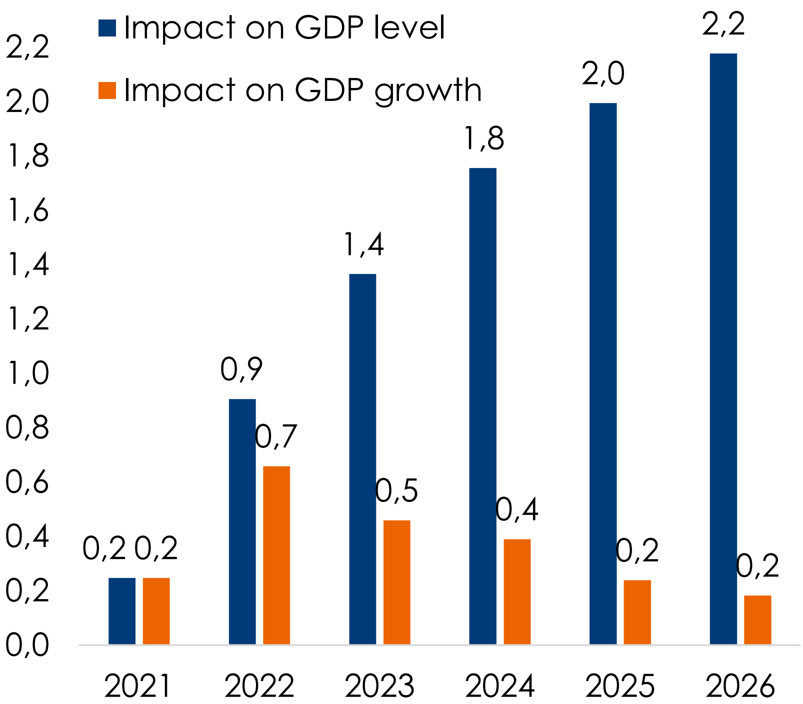


Source: Intesa Sanpaolo calculations on Italian Govt data

INTESA SANPAOLO

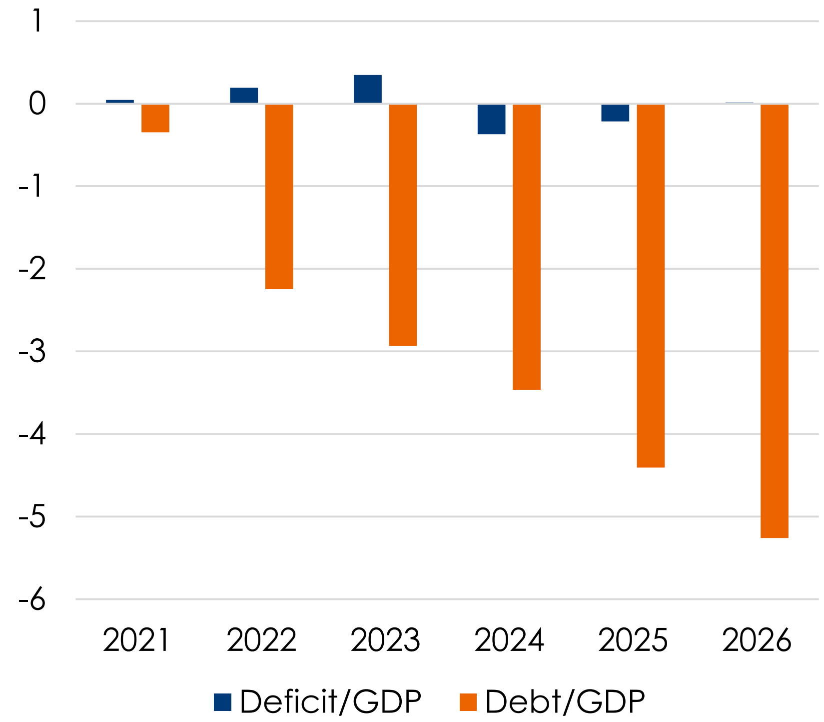
The impact on GDP growth will peak in 2022-23

The Govt estimates an impact of the NRRP of 3.6% on GDP at regime



Source: Italian NRRP, Intesa Sanpaolo calculations

Impact of the NRRP on the deficit/GDP and debt/GDP ratios (percentage deviations from the baseline scenario)



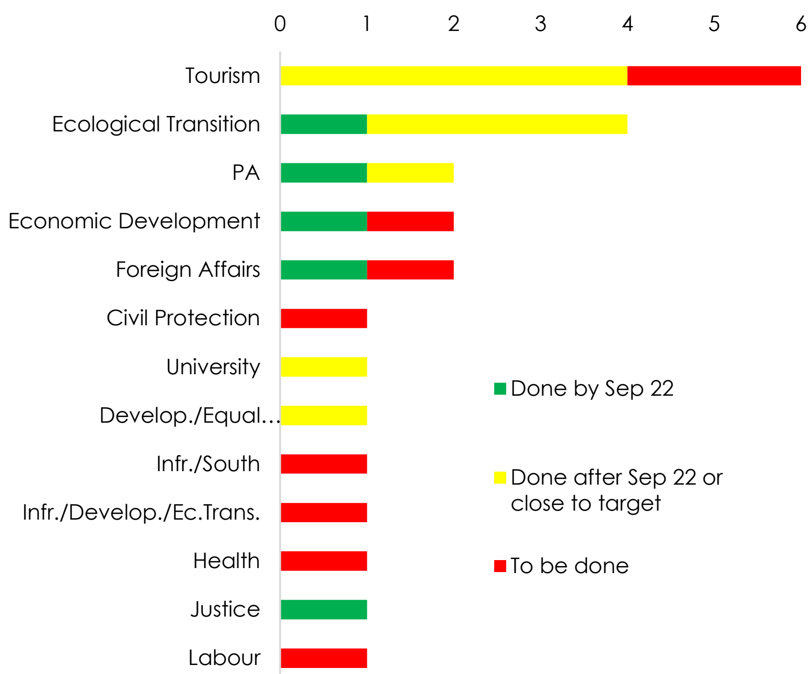
Source: Intesa Sanpaolo calculations

INTESA SANPAOLO

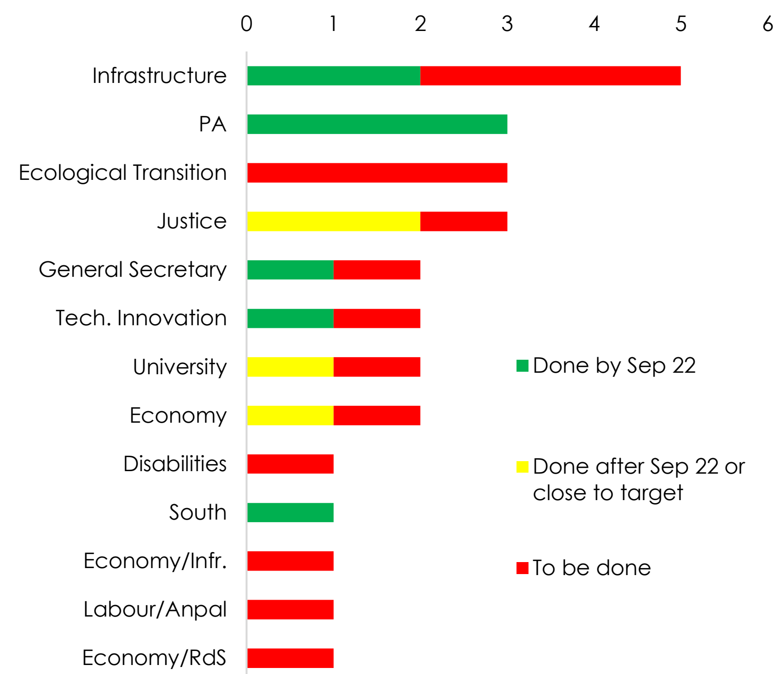
The big challenge is implementation…

Last Sept 22, the Government made a first assessment on the implementation of milestones and targets included in the NRRP. Of 51 conditions to be met by end-2021 (mainly milestones), 13 had been delivered, while 38 were "under way".

Number of milestones or targets to be met by end-2021, regarding investments



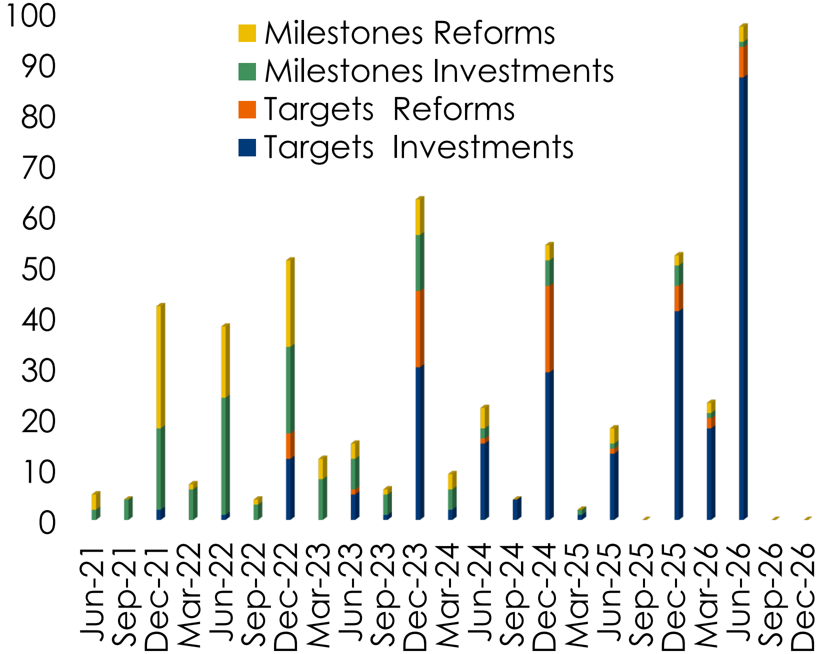
Number of milestones or targets to be met by end-2021, regarding reforms



Source: Italian Government, Intesa Sanpaolo

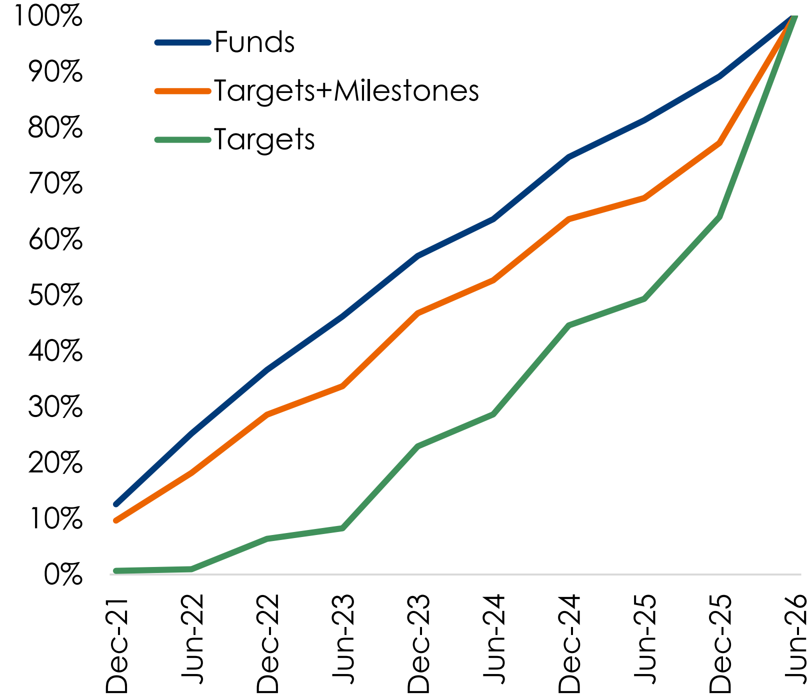
…but the risk of suspension of payments looks limited

“Targets” and “Milestones” indicated in the Italian NRRP (number of conditions per quarter)



Source: Intesa Sanpaolo calculations on NRRP

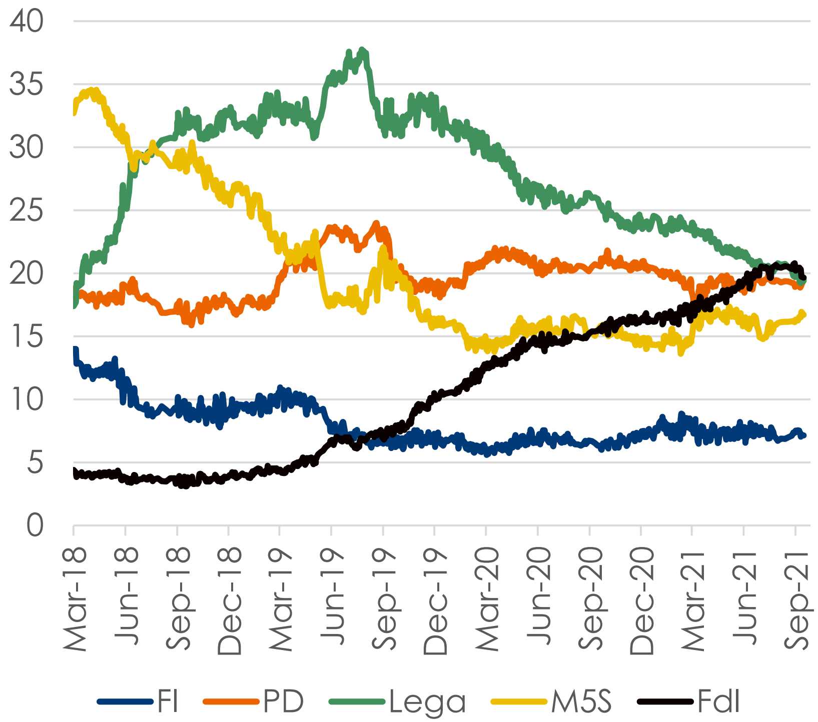
# of conditions (targets+milestones, or only targets) to be met at the end of each semester (% of total), compared to the progression of funds to be issued to Italy (% of total)



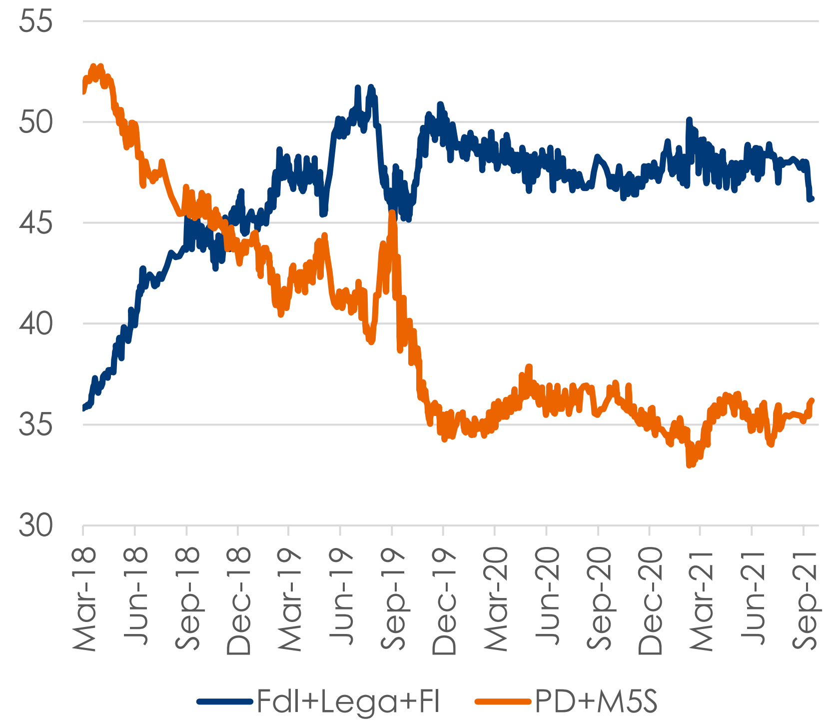
Source: Intesa Sanpaolo calculations on NRRP

During Draghi's truce, something is changing

Voting intentions for main parties (% of total)

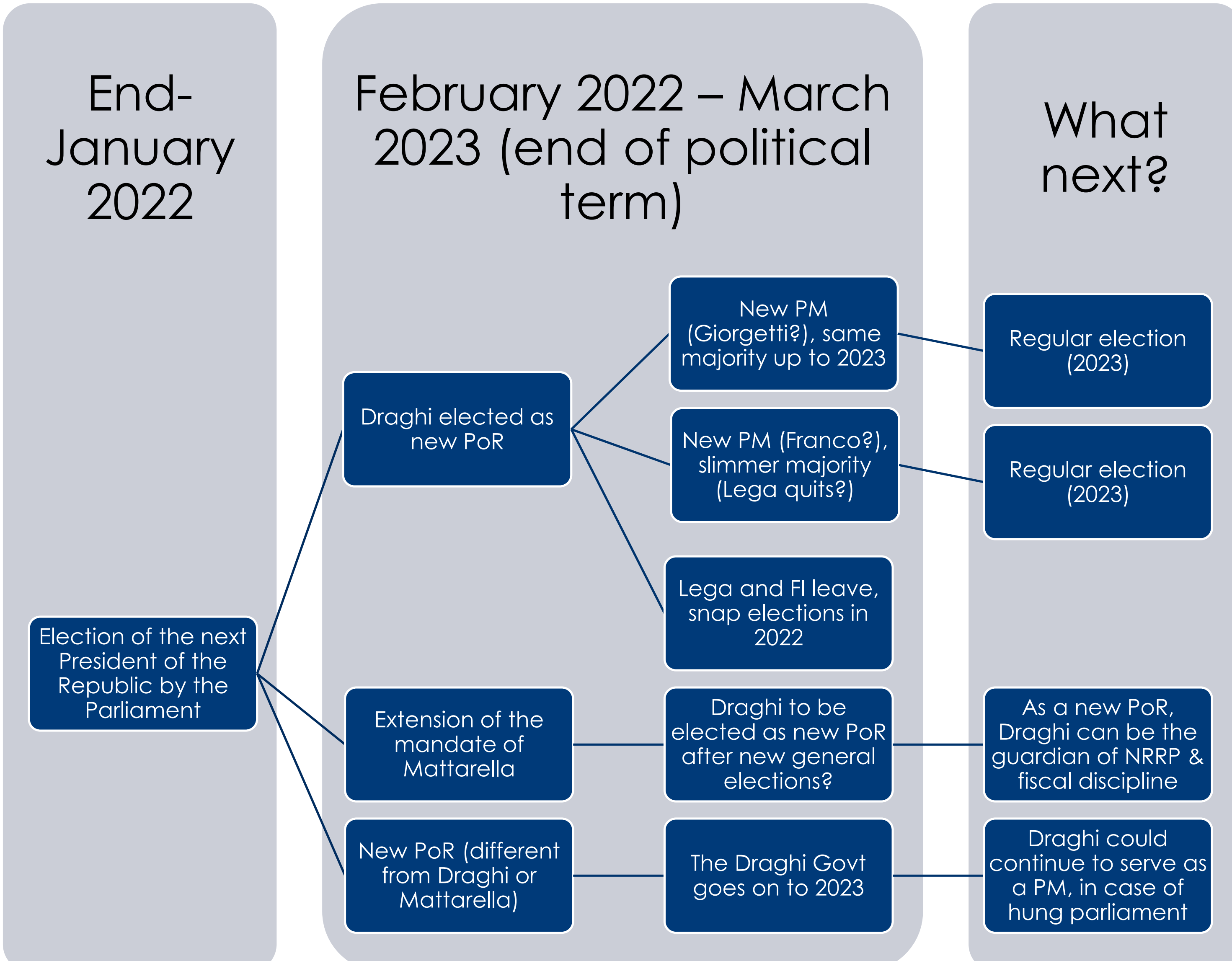


Sum of voting intentions for parties possibly forming coalitions (% of total)



Note: average of latest 5 polls. Source: BiDiMedia, Ixè, Termometro Politico, Noto, EMG, Euromedia, SWG, Tecnè, Ipsos, Demos & Pi, Lab2101, Demopolis, Quorum – YouTrend, Index, Demoskopea, Piepoli, Format Research, Winpoll, Analisi Politica, CISE, EP Election, Eumetra, GFP, IZI, MG Research, Lorien, Intesa Sanpaolo calculations

Election of the new President: a crossroads for Draghi



Agenda

Supply bottlenecks will not kill the global recovery

US: the name of the game is excess demand, not stagflation

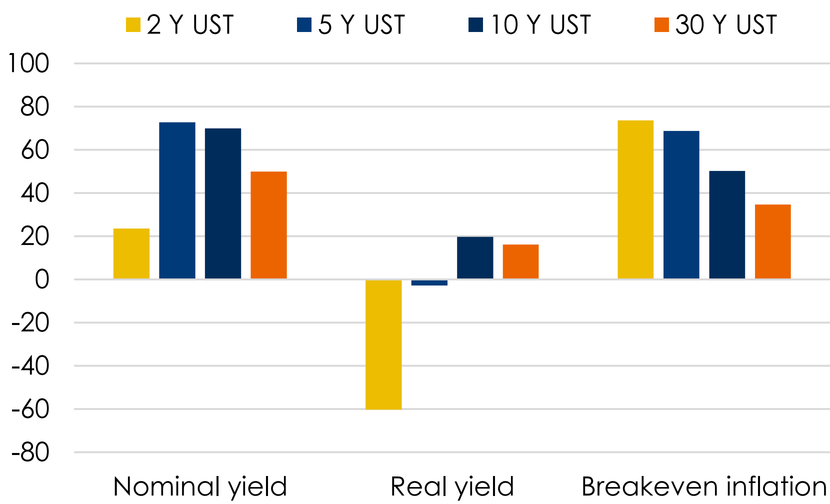
Euro area: the recovery is past its peak

Italy: encouraging news from the economic cycle and public finance

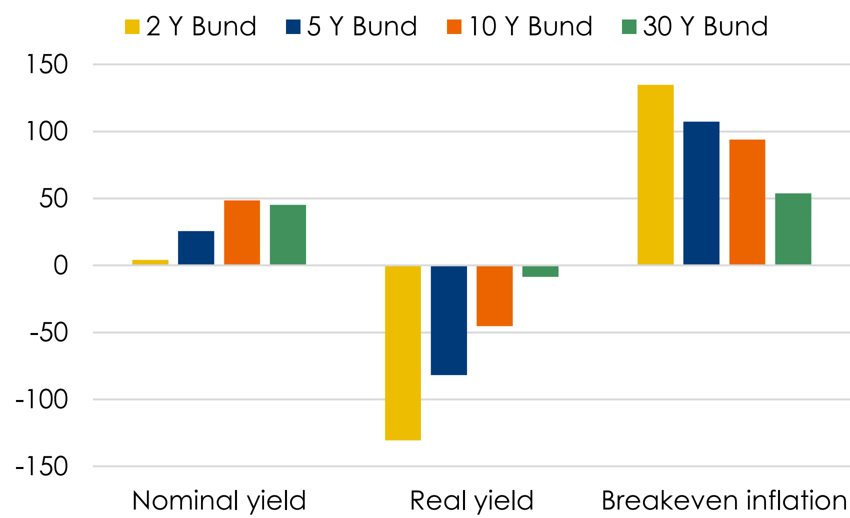
Global rates: it's not all about inflation

YTD overperformance of inflation linked bonds vs nominals has been impressive

US Treasury: YTD benchmark yield changes (bp)



Bund: YTD benchmark yield changes (bp)



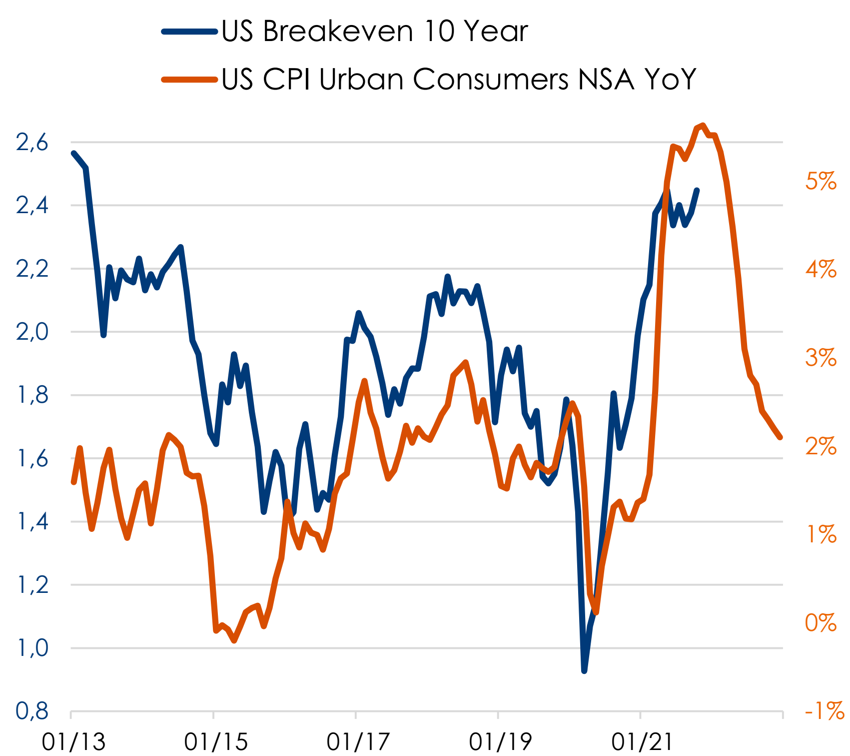
YTD Total return unhedged (holding period %)

Nominal Bond	TTR YTD	Inflation Linker Bond	TRR YTD	YTD TRR difference linker vs nominal
T 0 5/8 08/15/30	-4.06	TII 0 1/8 07/15/30	3.74	7.80
DBR 0 02/15/30	-2.82	DBRI 0 1/2 04/15/30	6.10	8.91
BTPS 1.35 04/01/30	-1.87	BTPS 0.4 05/15/30	7.64	9.51
FRTR 0 11/25/30	-3.91	FRTR 0.7 07/25/30	5.23	9.13

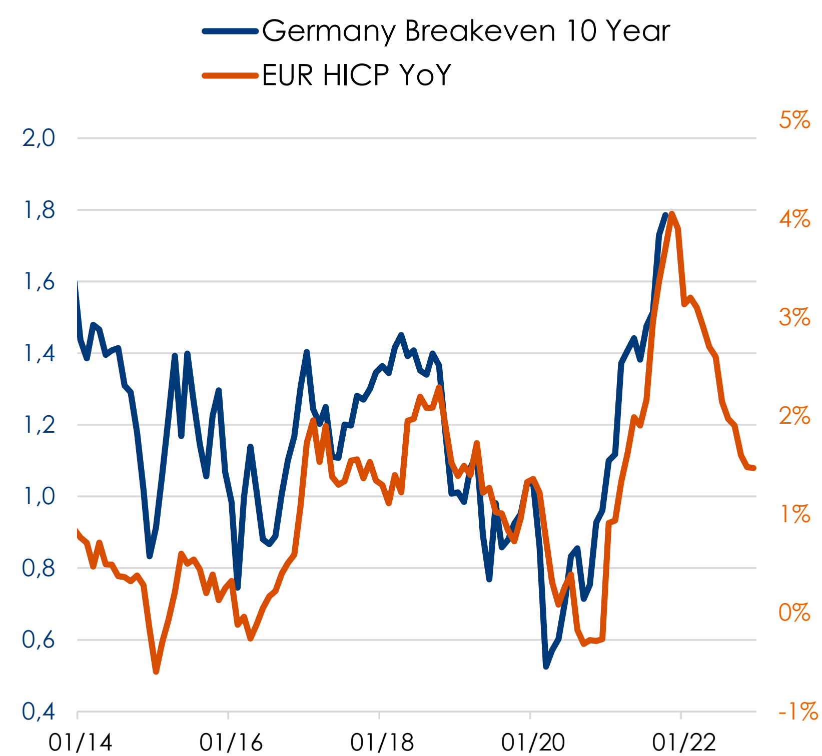
Source: Bloomberg, Intesa Sanpaolo

Our negative bias on market inflation in the medium-term is driven by the high beta between BEIs and yoy inflation

US TIPS inflation breakeven and inflation



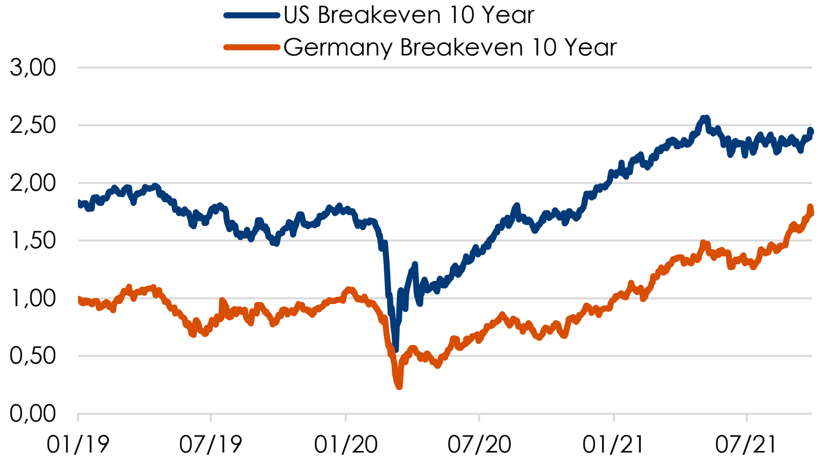
DBRei inflation breakeven and Eurozone inflation



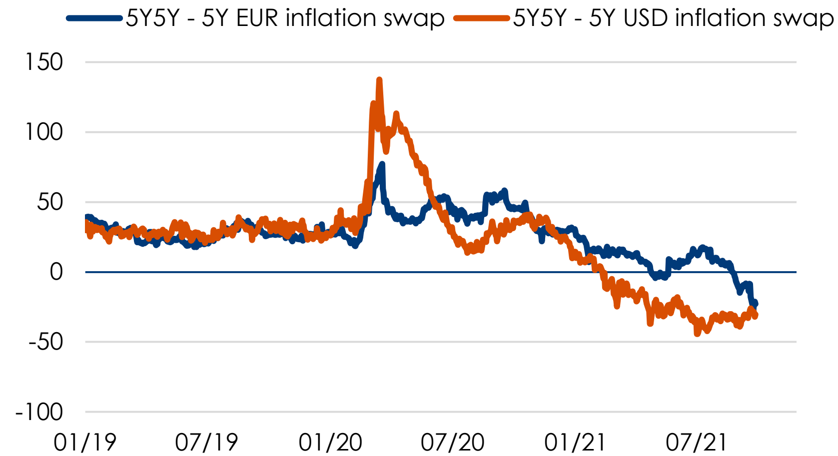
Source: Bloomberg, Intesa Sanpaolo

Markets already price the inflation spike as transitory

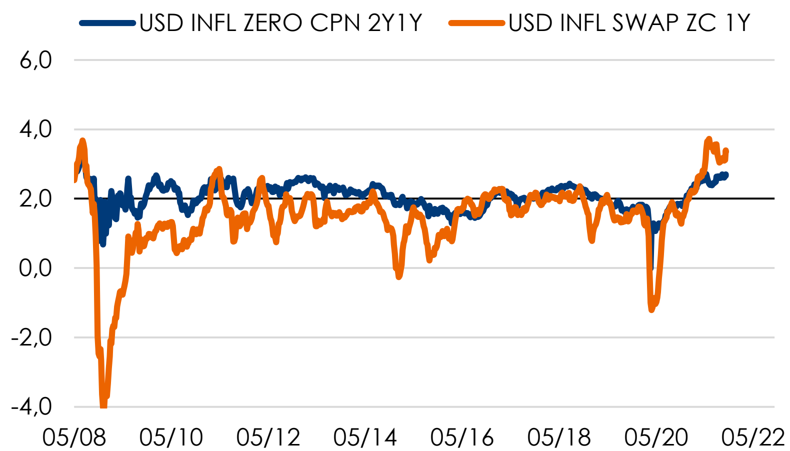
10Y inflation breakevens (%)



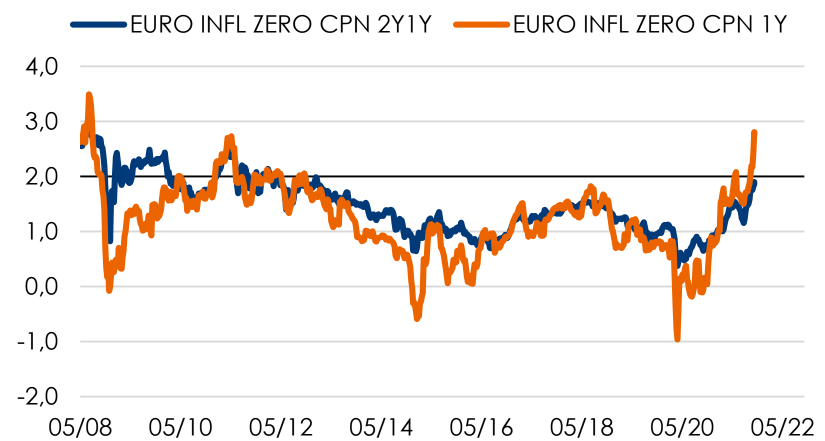
5Y ZC swap inflation: spot vs 5Y forward



1Y USD swap inflation: spot vs 2Y forward (%)



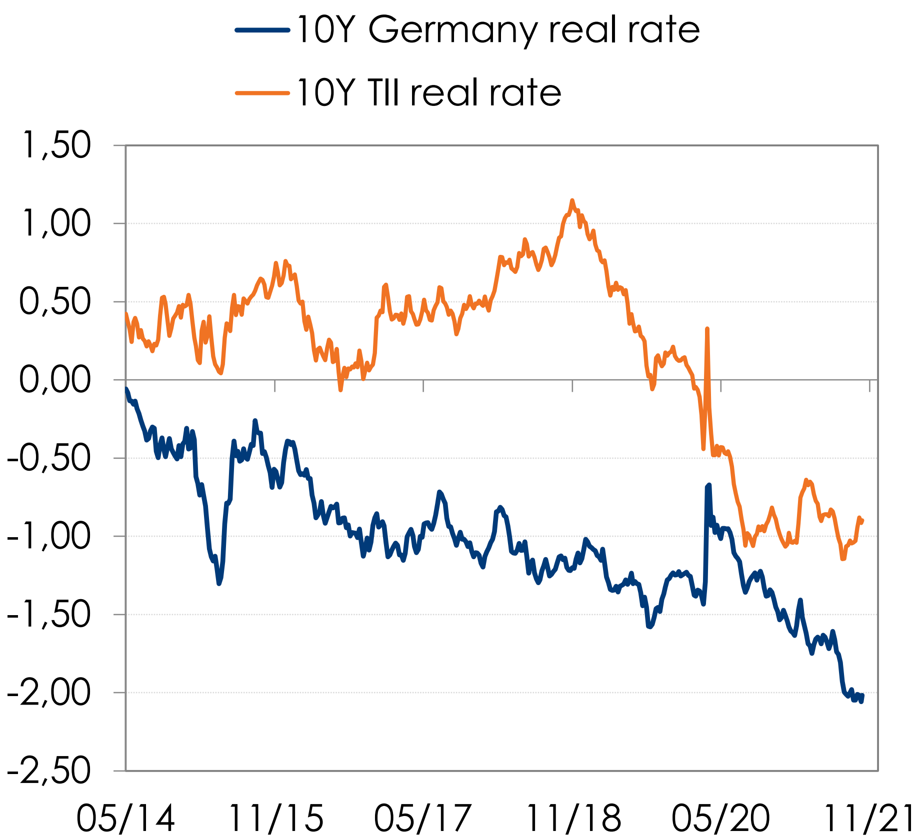
1Y EUR swap inflation: spot vs 2Y forward (%)



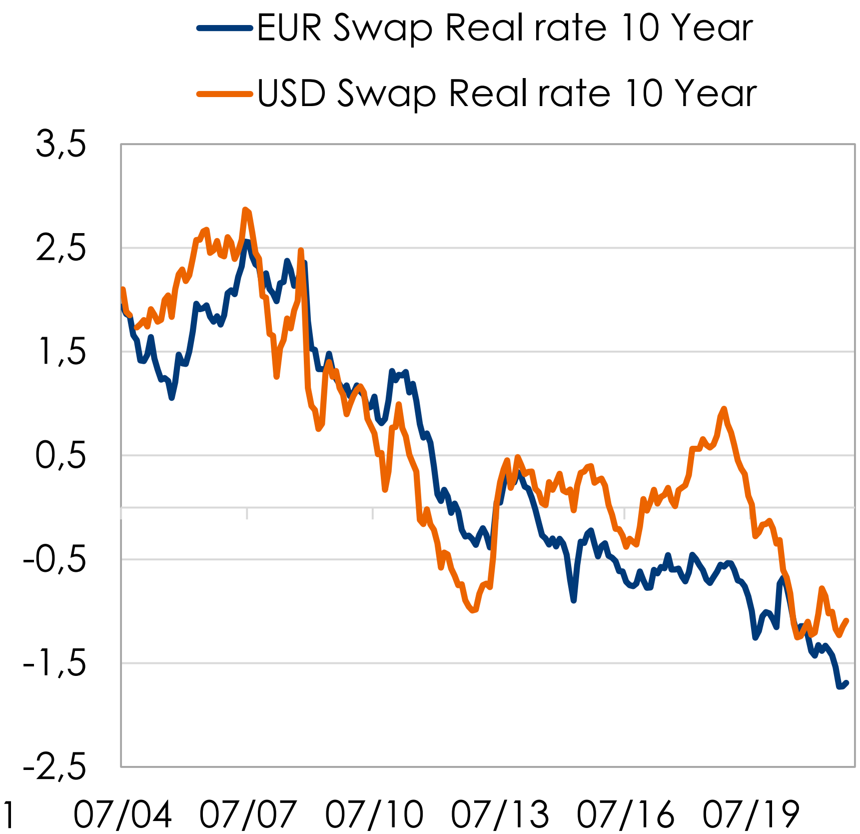
Source: Bloomberg, Intesa Sanpaolo

Real yields have not participated in this sell-off

Inflation linked bonds (YTM%)



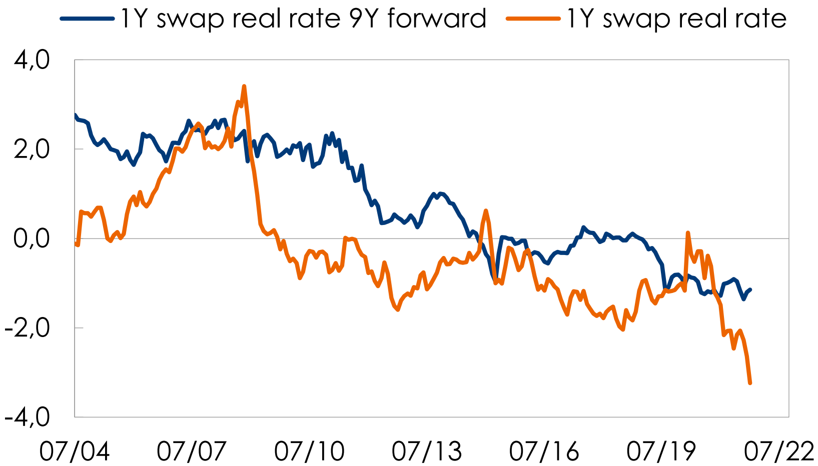
Real swap rates (%)

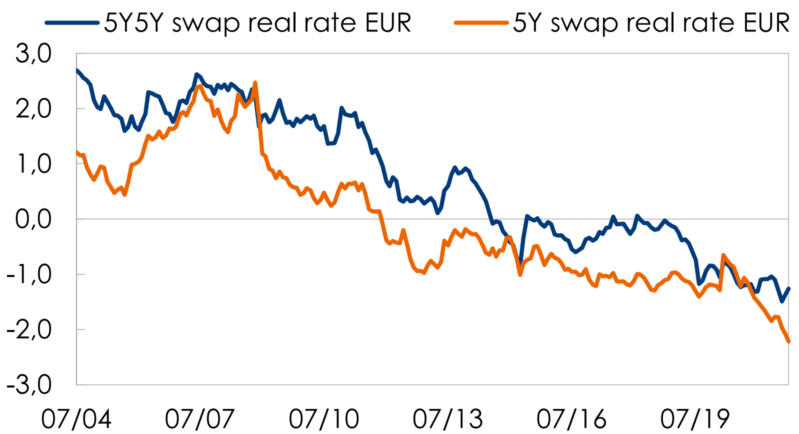


Source: Bloomberg, Intesa Sanpaolo

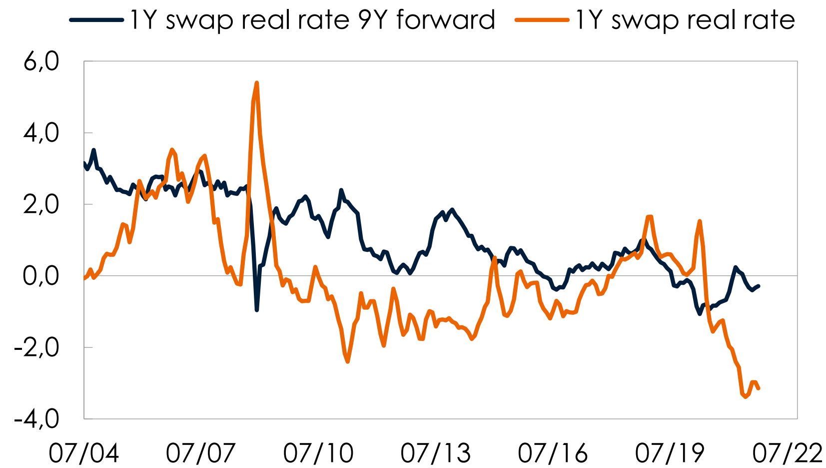
Forward real rates are still at rich levels, in particular on the long-end

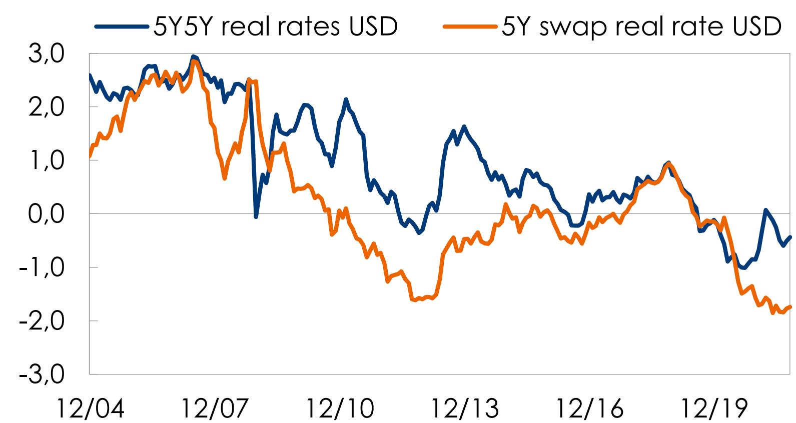
EUR swap real rates (%)





USD swap real rates (%)

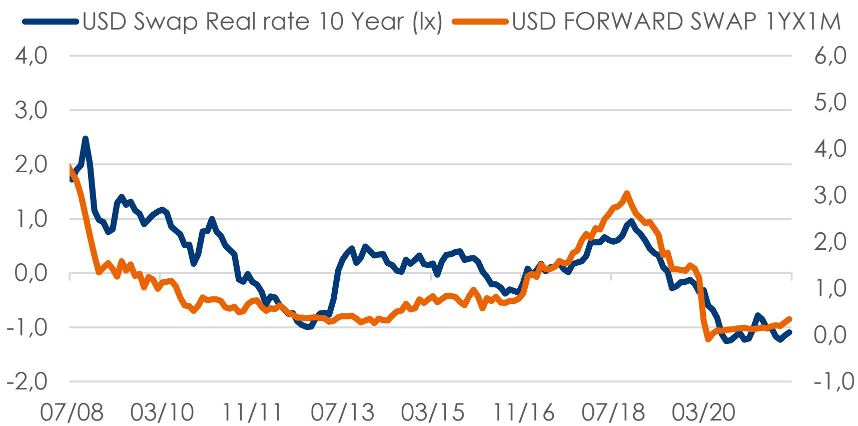




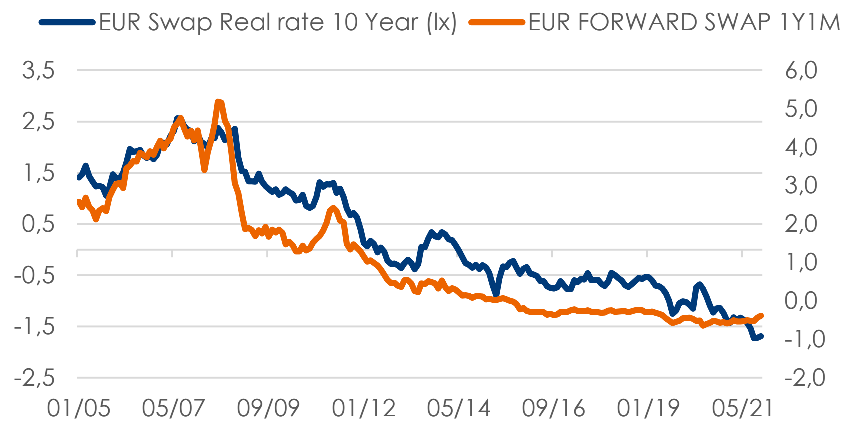
Source: Bloomberg, Intesa Sanpaolo

Real rates are linked to monetary policy expectations and CB balance sheet

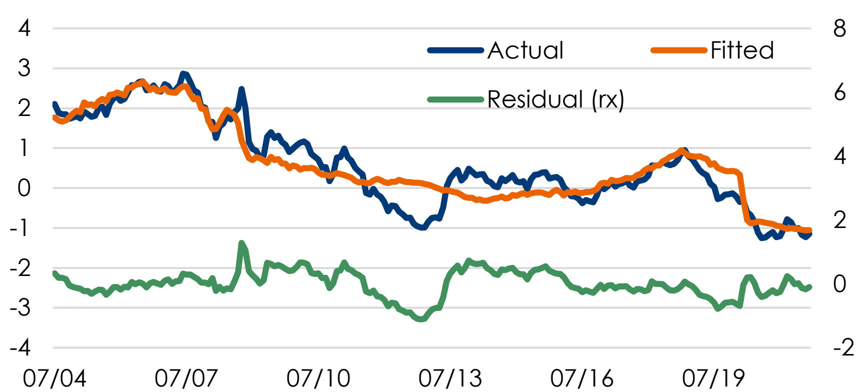
10Y USD swap real rates and 1Y1M expectations



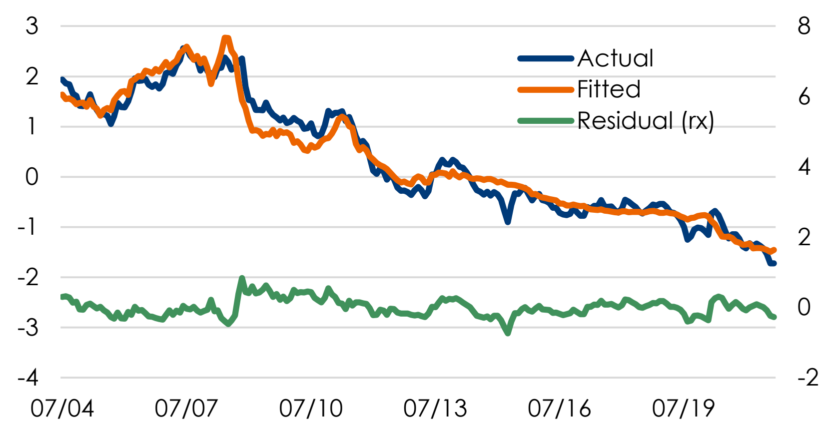
10Y EUR swap real rates and 1Y1M expectations



Low frequency model of 10Y USD real swap yield
(10Y Real Rate regressed on 1Y1M USD & Fed balance %GDP, bp)



Low frequency model of 10Y EUR real swap yield
(bp, 10Y rate regressed on 1Y1M EUR & ECB balance %GDP)



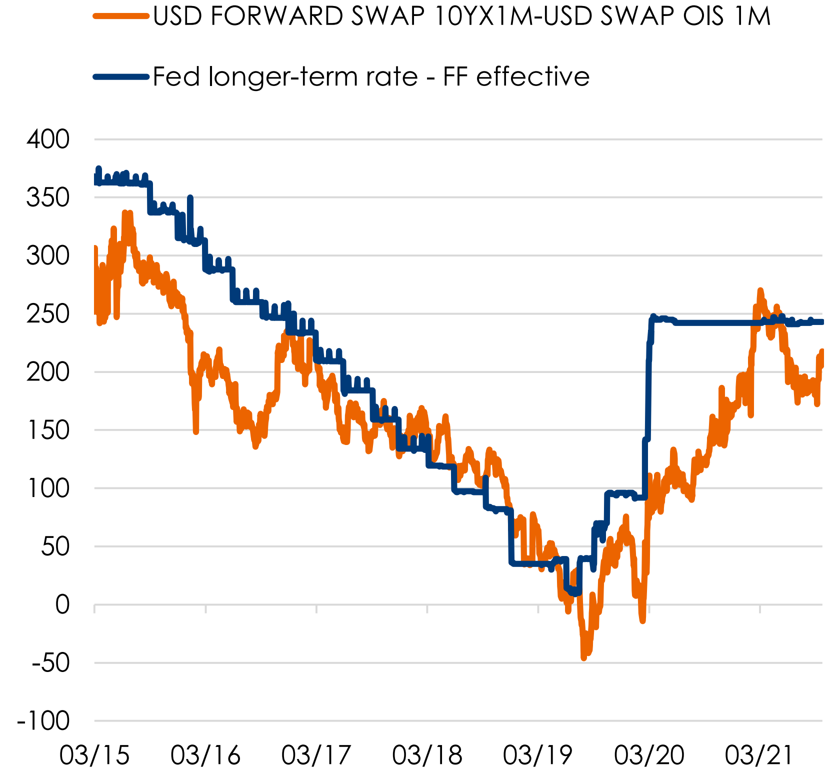
Source: Bloomberg, Intesa Sanpaolo

After the end of the tapering of QE, USD money market prices a gradual pace of normalisation overall

Eurodollar future calendar spreads 17th/1st

(bp, actual contracts are Dec'25/Dec'21)

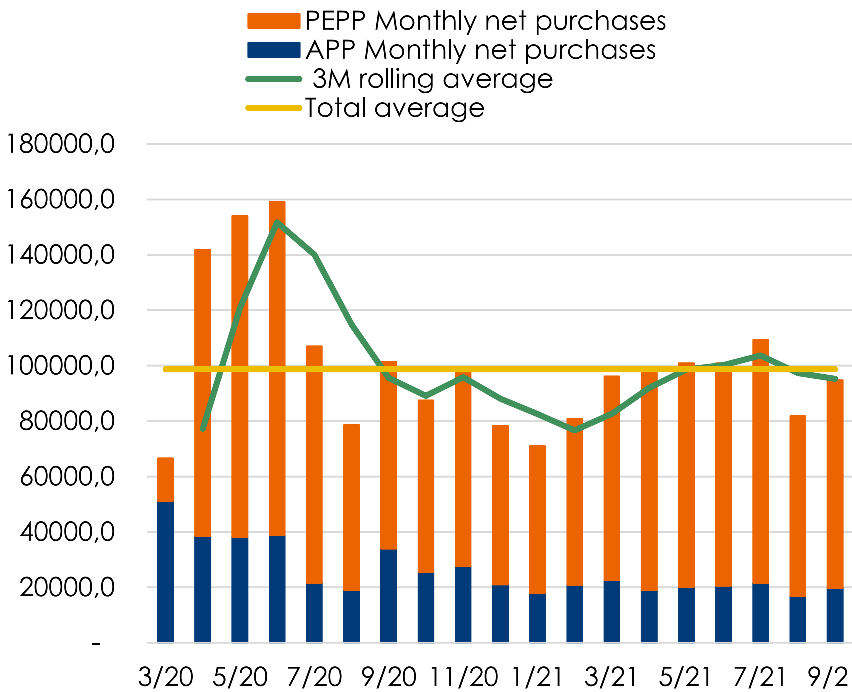
Market rates have approached the long-term level signaled by the Fed



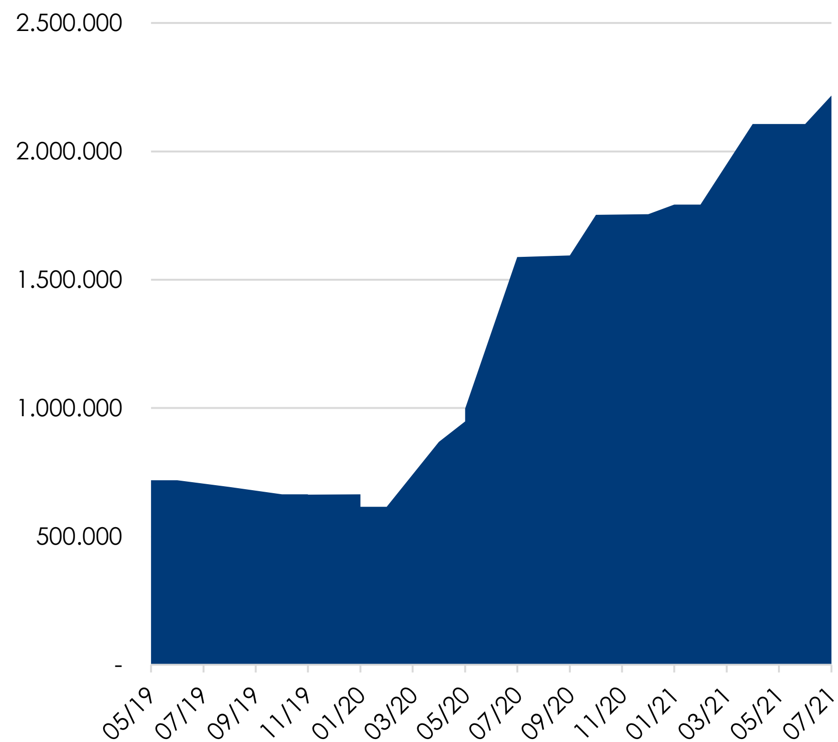
Source: Bloomberg, Intesa Sanpaolo

In December, the ECB is expected to clarify the exit path from QE and TLTRO III

Monthly net purchases under APP & PEPP (EUR mln)



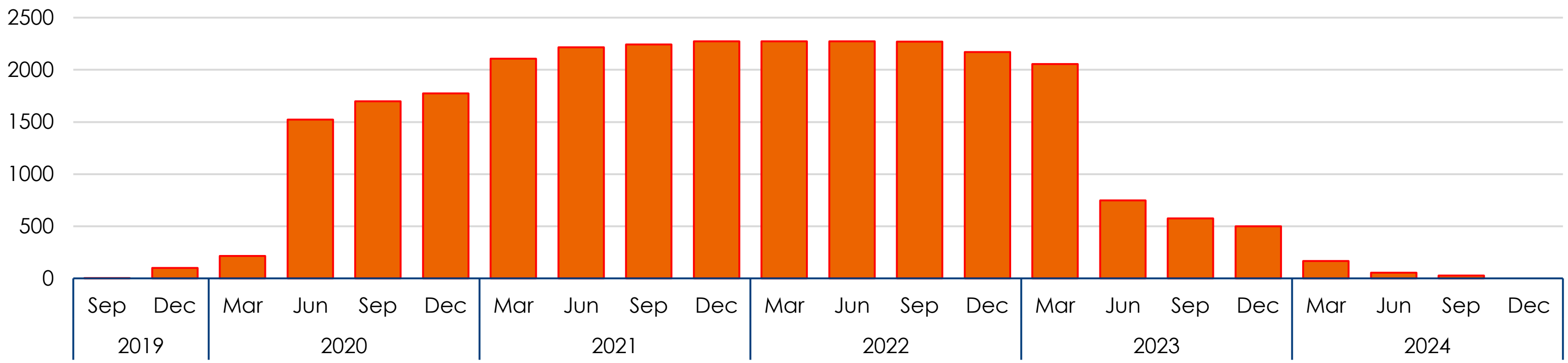
ECB Liabilities- Longer-term refinancing operations (EUR Bn)



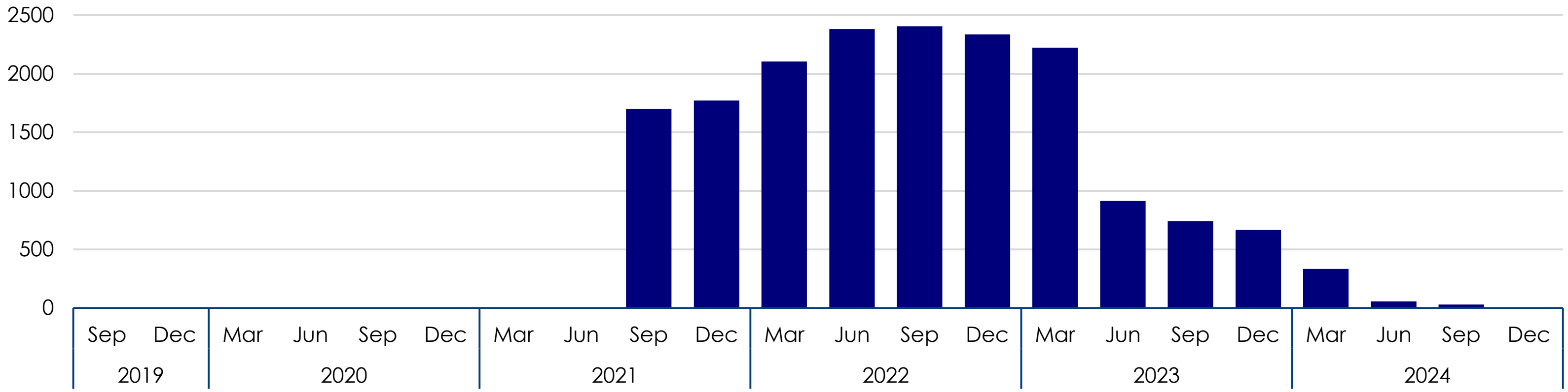
Source: Bloomberg, Intesa Sanpaolo

The potential liquidity cliff related the option of early repayments of TLTRO III worth EUR 2 trillion on average in 2022

TLTROs III outstanding amount without early repayments (EUR Bn)



TLTROs III – Cumulative eligible early-repayments (EUR Bn)

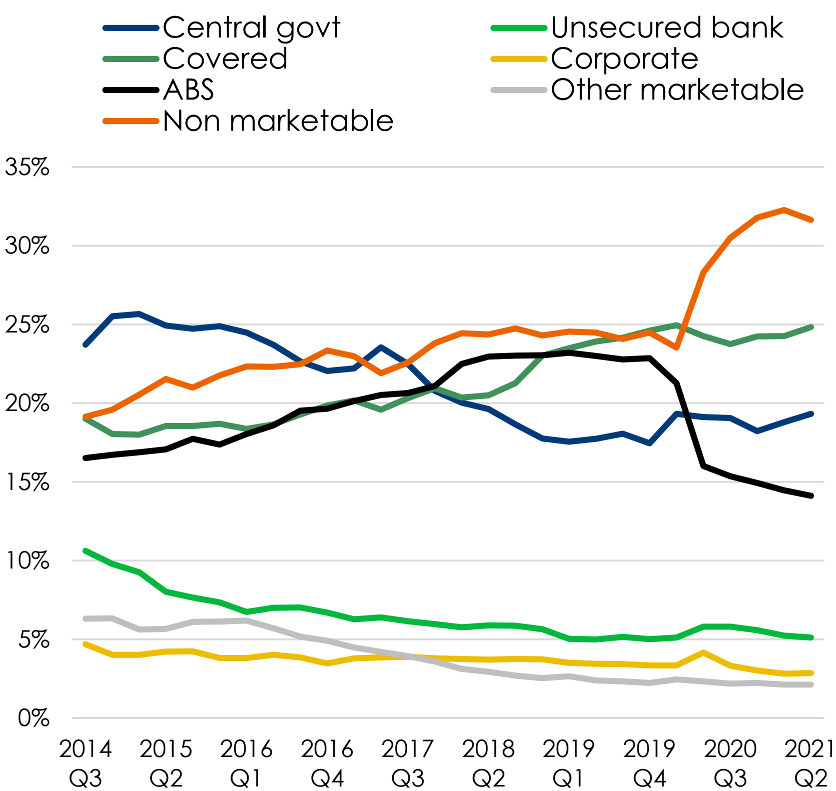


NOTE: We assume a cumulative EUR 56Bn net take-up at TLTRO.9 and TLTRO.10
Source: Bloomberg, Intesa Sanpaolo

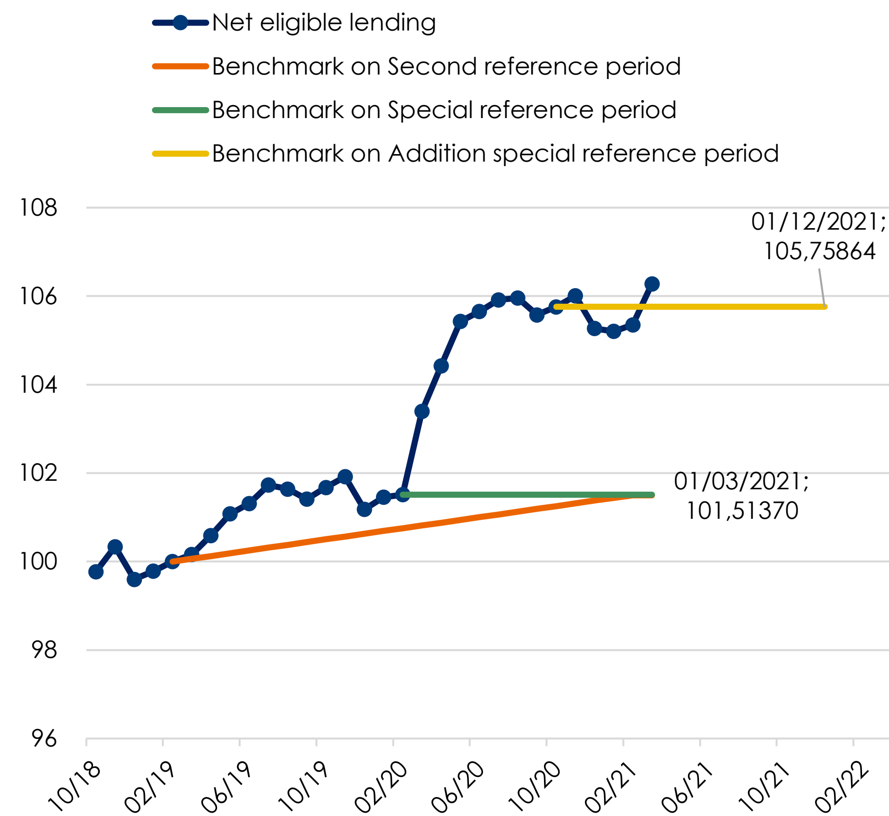
INTESA SANPAOLO

The end of the special minimum rate period on TLTRO in June 2022 coincides with the expiry of the collateral easing measures

Pledged collateral at the ECB by asset class (% total eligible assets , as of 4Q 2020)



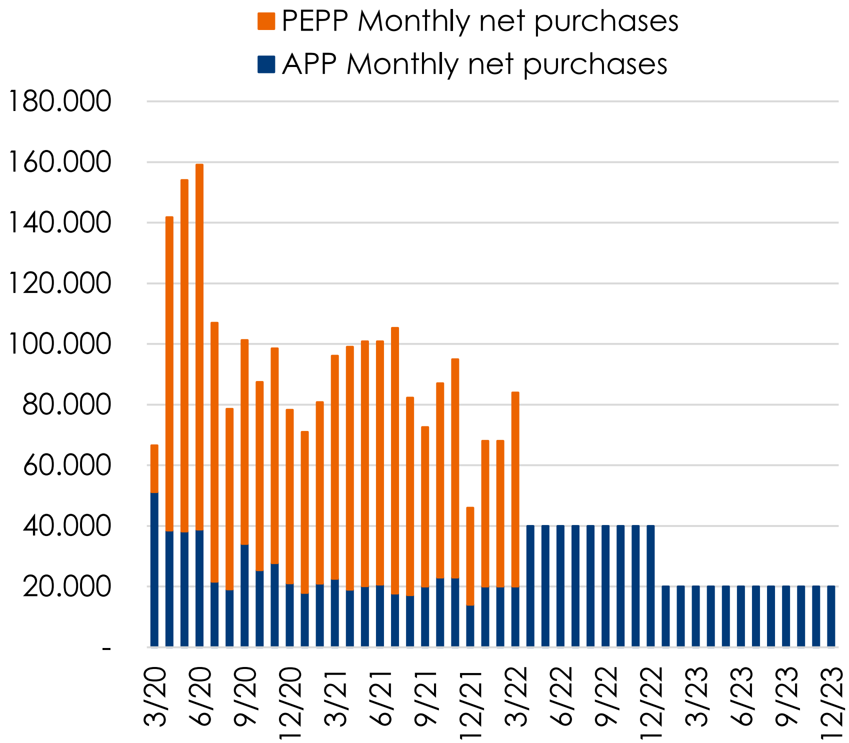
TLTROs III – Benchmarks on net lending for the aggregate Eurozone



Source: ECB, Bloomberg, Intesa Sanpaolo

The ECB should reduce its support to the sovereign bond market in 2022 and 2023

2022-2023 tapering scenario - Monthly purchases under APP and PEPP (EUR Bn)



Source: Bloomberg, Intesa Sanpaolo

Net and gross issuance net official purchases under a tapering scenario in 2022-2023 (ISP forecasts, EUR Bn)

	2021	2022	2023
Bond redemptions	658	738	717
Deficit	820	493	364
RRF loans	18	24	26
Net Issuance	551	446	339
Gross Issuance	1209	1183	1056
ECB net purchases	687	479	171
Net supply net QE	-136	-33	167
EU gross issuance	140	78	85

Note: RRF grants are not considered a funding source as directly included in the budget as a revenues.

INTESA SANPAOLO

EGB: net issuance net ECB close to zero next year…

Net and gross issuance net official purchases under 56bn average purchases in 2022 (ISP forecasts, EUR Bn)

	Gross issuance	Net issuance	ECB purchases	RRF Loans	Net issuance net ECB net purchases	Rollover of PSPP redemptions	Gross issuance net ECB purch.&rollover
	a	b	c	d	e=b-c-d	f	g=a-c-d-f
AT	39	13	13	-	0	8	18
BE	53	25	18	-	8	9	26
CY	1	0	1	0.3	-1	1	-1
DE	263	95	131	-	-36	68	63
EE	1	1	2	-	-1	1	-1
ES	131	68	55	-	13	31	45
FI	16	5	9	-	-4	5	2
FR	291	143	96	-	46	53	142
IE	24	12	8	-	4	4	12
IT	297	67	80	22.0	-35	44	152
LT	4	3	3	-	0	1	0
LU	1	0	2	-	-2	1	-1
LV	1	1	2	-	-1	1	-2
MT	0	0	0	-	0	0	0
NL	46	16	27	-	-11	15	4
PT	20	8	10	0.4	-3	6	3
SI	5	3	2	-	0	1	1
SK	4	4	6	-	-1	3	-4
GR (*)	10	6	12	1.8	-8	6	-10
Total	**1208**	**470**	**479**	**24**	**-33**	**259**	**471**

Note: RRF grants are not considered a funding source as directly included in the budget as a revenues.

Source: Bloomberg, Intesa Sanpaolo

… and finally positive in 2023

Net and gross issuance net official purchases under 20bn average purchases in 2023 (ISP forecasts, EUR Bn)

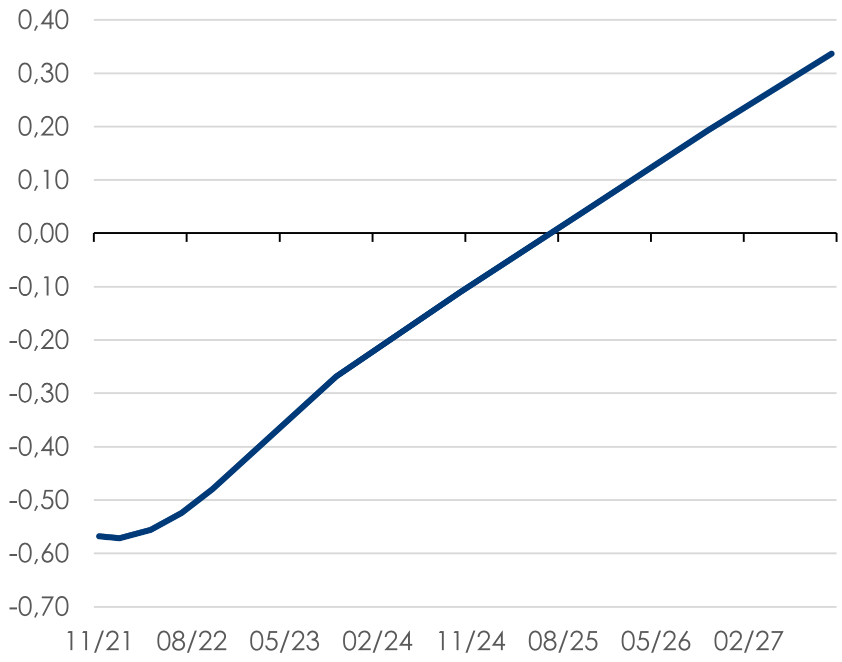
	Gross issuance	Net issuance	ECB purchases	RRF Loans	Net issuance net ECB net purchases	Rollover of PSPP redemptions	Gross issuance net ECB purch.&rollover
	a	b	c	d	e=b-c-d	f	g=a-c-d-f
AT	39	11	5	-	6	8	27
BE	23	16	6	-	10	10	7
CY	0	0	0	0.2	-1	1	-1
DE	121	55	47	-	8	69	4
EE	1	1	1	-	0	1	-1
ES	152	61	20	-	42	31	101
FI	16	5	3	-	2	5	8
FR	283	108	35	-	74	54	195
IE	12	5	3	-	2	4	5
IT	354	78	29	23.0	26	45	258
LT	3	2	1	-	1	2	0
LU	2	0	1	-	-1	1	1
LV	1	0	1	-	-1	1	-1
MT	0	0	0	-	0	0	0
NL	39	9	10	-	-1	15	14
PT	15	4	4	0.5	0	6	5
SI	4	2	1	-	1	1	2
SK	9	4	2	-	2	3	4
GR (*)	7	2	4	1.8	-4	7	-6
Total	**1081**	**364**	**171**	**26**	**167**	**264**	**647**

Note: RRF grants are not considered a funding source as directly included in the budget as a revenues.

Source: Bloomberg, Intesa Sanpaolo

And last but not least, the ECB should manage to keep EUR money market rates volatility subdued

1M €STR OIS forward (%)



Euribor future calendar spreads 17th/1st (bp, actual contracts are Dec'25/Dec'21)

Source: Bloomberg, ECB, Intesa Sanpaolo

BTPs: State Sector deficit better than planned this year and down to 5.3% of GDP in 2022

Italy – Public finance outlook in the new NADEF (% GDP)

		2020	2021	2022	2023	2024
General Govt Deficit		9.5%	9.4%	5.6%	3.9%	3.3%
	EUR Bn	157	167	105	76	67
State Sector Deficit		**9.6%**	**8.9%**	**5.3%**	**4.8%**	**3.9%**
	EUR Bn	**159**	**158**	**100**	**94**	**79**
Public Debt		155.8%	153.5%	149.4%	147.6%	146.1%
	EUR Bn	2,576	2,744	2,843	2,937	2,959
Real GDP %		-8.9%	6.0%	4.2%	2.6%	1.9%
GDP Deflator %		1.2%	1.5%	1.6%	1.4%	1.5%
Nominal GDP Eur Bn		1,654	1,779	1,883	1,960	2,025

Source: MEF, Bloomberg, Intesa Sanpaolo

BTPs: a benign supply scenario in 2022

2022 issuance (ISP fcst, EUR Bn)

	1Q	2Q	3Q	4Q	Total
Redemptions	**60**	**117**	**126**	**90**	**393**
BOT	39	41	43	39	162
CTZ	0	16	14	15	46
CCTeu	0	15	0	13	28
BTP	21	34	67	21	144
BTP inflation	0	10	0	2	12
Eurobond	0	0	1	0	1
Gross Issuance	**132**	**134**	**101**	**93**	**460**
BOT	47	42	42	32	162
CTZ	12	7	9	5	32
CCTeu	6	7	7	6	25
BTP	61	58	39	48	205
BTP inflation	6	17	4	3	30
Eurobond	0	5	0	0	5
Net Issuance	**72**	**17**	**-25**	**3**	**67**
BOT	8	0	-2	-6	0
CTZ/BTP st	12	-10	-6	-11	-13
CCTeu	6	-8	7	-8	-3
BTP	40	23	-28	26	62
BTP inflation	6	6	4	1	18
Eurobond	0	5	-1	0	4

2021 issuance (ISP fcst, EUR Bn)

	1Q	2Q	3Q	4Q	Total
Redemptions	**72**	**108**	**104**	**97**	**380**
BOT	45	41	42	39	167
CTZ	0	13	0	15	28
CCTeu	0	0	0	0	0
BTP	24	47	45	43	159
BTP inflation	0	0	17	0	17
Eurobond	3	6	0	0	9
Gross Issuance	**138**	**152**	**97**	**89**	**476**
BOT	46	42	43	32	162
CTZ	10	11	10	5	35
CCTeu	3	11	3	5	22
BTP	73	81	39	41	233
BTP inflation	7	4	2	7	20
Eurobond	0	3	0	0	3
Net Issuance	**66**	**44**	**-7**	**-9**	**95**
BOT	1	0	1	-8	-5
CTZ	10	-2	10	-11	7
CCTeu	3	11	3	5	22
BTP	48	34	-7	-2	74
BTP inflation	7	4	-15	7	3
Eurobond	-3	-3	0	0	-6

Source: MEF, Bloomberg, Intesa Sanpaolo

Our yield forecasts

US Treasury

	11/10/21	12/21	03/22	06/22	09/22
2Y Forecast	**0.34**	**0.40**	**0.50**	**0.70**	**0.90**
Forward		0.45	0.59	0.71	0.84
5Y Forecast	**1.06**	**1.10**	**1.20**	**1.40**	**1.60**
Forward		1.15	1.26	1.37	1.47
10Y Forecast	**1.59**	**1.60**	**1.70**	**1.80**	**1.90**
Forward		1.65	1.72	1.78	1.85
30Y Forecast	**2.12**	**2.20**	**2.30**	**2.30**	**2.40**
Forward		2.15	2.17	2.20	2.22

Slope

2/10Y	**125**	**120**	**120**	**110**	**100**
Forward		120	113	107	101
2/5Y	**73**	**70**	**70**	**70**	**70**
Forward		70	67	65	63
10/30Y	**53**	**57**	**56**	**55**	**52**
Forward		49	45	41	37

Bund

	11/10/21	12/21	03/22	06/22	09/22
2Y Forecast	**-0.67**	**-0.70**	**-0.70**	**-0.60**	**-0.50**
Forward		-0.68	-0.67	-0.66	-0.66
5Y Forecast	**-0.49**	**-0.54**	**-0.50**	**-0.40**	**-0.20**
Forward		-0.48	-0.45	-0.42	-0.39
10Y Forecast	**-0.11**	**-0.20**	**-0.20**	**-0.10**	**0.20**
Forward		-0.09	-0.06	-0.03	0.01
30Y Forecast	**0.36**	**0.30**	**0.32**	**0.40**	**0.60**
Forward		0.36	0.37	0.39	0.40

Slope

2/10Y	**56**	**50**	**50**	**50**	**70**
Forward		59	61	64	67
2/5Y	**18**	**16**	**20**	**20**	**30**
Forward		20	22	25	28
10/30Y	**47**	**52**	**52**	**50**	**45**
Forward		45	43	41	39

US Treasury-Bund Spread

	12/10/21	12/21	03/22	06/22	09/22
2Y	101	110	120	130	140
5Y	155	164	170	180	180
10Y	170	180	190	190	170
30Y	176	190	198	190	180

OAT-Bund Spread

	12/10/21	12/21	03/22	06/22	09/22
2Y	0	5	5	10	10
5Y	21	18	18	25	25
10Y	34	30	30	40	40
30Y	62	59	59	65	65

BTP-Bund Spread

	12/10/21	12/21	03/22	06/22	09/22
2Y	20	20	30	40	40
5Y	59	70	75	90	90
10Y	102	110	110	120	120
30Y	150	160	155	165	165

Bonos-Bund Spread

	12/10/21	12/21	03/22	06/22	09/22
2Y	8	15	15	20	20
5Y	22	30	40	55	55
10Y	62	70	70	80	80
30Y	102	110	105	115	115

Source: Bloomberg, Intesa Sanpaolo

Important Information

Analyst Certification and Other Important Disclosures

The analysts drafting this report state that the opinions, forecasts, and estimates contained herein are the result of independent and subjective evaluation of the data and information obtained and no part of their compensation has been, is, or will be directly or indirectly linked to the views expressed.

This research has been prepared by Intesa Sanpaolo S.p.A. and distributed by Intesa Sanpaolo SpA-London Branch (a member of the London Stock Exchange) and Intesa Sanpaolo IMI Securities Corp (a member of the NYSE and FINRA). Intesa Sanpaolo S.p.A. accepts full responsibility for the contents of this report. Please also note that Intesa Sanpaolo S.p.A. reserves the right to issue this document to its own clients. Intesa Sanpaolo S.p.A. is authorised by the Banca d'Italia and is regulated by the Financial Conduct Authority in the conduct of designated investment business in the UK and by the SEC for the conduct of US business.

Opinions and estimates in this research are as at the date of this material and are subject to change without notice to the recipient. Information and opinions have been obtained from sources believed to be reliable, but no representation or warranty is made as to their accuracy or correctness.

This report has been prepared solely for information purposes and is not intended as an offer or solicitation with respect to the purchase or sale of any financial products. It should not be regarded as a substitute for the exercise of the recipient's own judgement.

No Intesa Sanpaolo S.p.A. entity accepts any liability whatsoever for any direct, consequential or indirect loss arising from any use of material contained in this report.

This document may only be reproduced or published with the name of Intesa Sanpaolo S.p.A..

This document has been prepared and issued for, and thereof is intended for use by, Companies which have suitable knowledge of financial markets, which are exposed to the volatility of interest rates, exchange rates and commodity prices and which are capable of evaluating risks independently.

Therefore, such materials may not be suitable for all investors and recipients are urged to seek the advice of their relationship manager/independent financial advisor for any necessary explanation of the contents thereof.

Person and residents in the UK: this document is not for distribution in the United Kingdom to persons who would be defined as private customers under rules of the FCA.

US persons: this document is intended for distribution in the United States only to Major US Institutional Investors as defined in SEC Rule 15a-6. US Customers wishing to effect a transaction should do so only by contacting a representative at Intesa Sanpaolo IMI Securities Corp. in the US (see contact details below).

Intesa Sanpaolo S.p.A. issues and circulates research to Major Institutional Investors in the USA only through Intesa Sanpaolo IMI Securities Corp., 1 William Street, New York, NY 10004, USA, Tel: (1) 212 326 1199.

Inducements in relation to research

Pursuant to the provisions of Delegated Directive (EU) 2017/593, this document can be qualified as an acceptable minor non-monetary benefit as it is:

- macro-economic analysis or Fixed Income, Currencies and Commodities material made openly available to the general public on the Bank's website - Q&A on Investor Protection topics - ESMA 35-43-349, Question 8 & 9.

Method of distribution

This document is for the exclusive use of the recipient with whom it is shared by Intesa Sanpaolo and may not be reproduced, redistributed, directly or indirectly, to third parties or published, in whole or in part, for any reason, without prior consent expressed by Intesa Sanpaolo. The copyright and all other intellectual property rights on the data, information, opinions and assessments referred to in this information document are the exclusive domain of the Intesa Sanpaolo banking group, unless otherwise indicated. Such data, information, opinions and assessments cannot be the subject of further distribution or reproduction in any form and using any technique, even partially, except with express written consent by Intesa Sanpaolo.

Persons who receive this document are obliged to comply with the above indications

.

Valuation Methodology

Comments on macroeconomic data are prepared based on macroeconomic and market news and data available via information providers such as Bloomberg and Refinitiv-Datastream. Macroeconomic, exchange rates and interest rate forecasts are prepared by the Intesa Sanpaolo Research Department, using dedicated econometric models. Forecasts are obtained using analyses of historical statistical data series made available by the leading data providers and also on the basis of consensus data, taking account of appropriate connections between them.

Disclosure of potential conflicts of interest

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (jointly also the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Organisational, management and control model" pursuant to Legislative Decree 8 June, 2001 no. 231 (available at the Intesa Sanpaolo website, webpage https://group.intesasanpaolo.com/en/governance/leg-decree-231-2001) setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the description of the measures taken to manage interest and conflicts of interest – related to Articles 5 and 6 of the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest as subsequently amended and supplemented, the FINRA Rule 2241, as well as the FCA Conduct of Business Sourcebook rules COBS 12.4 - between the Intesa Sanpaolo Banking Group and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Intesa Sanpaolo S.p.A. is available in the "Rules for Research " and in the extract of the "Corporate model on the management of inside information and conflicts of interest" published on the website of Intesa Sanpaolo S.p.A., webpage https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures. This documentation is available to the recipient of this research upon making a written request to the Compliance Department, Intesa San Paolo S.p.A., Via Hoepli, 10 – 20121 Milan – Italy.

Furthermore, in accordance with the aforesaid regulations, the disclosures of the Intesa Sanpaolo Banking Group's interests and conflicts of interest are available through webpage https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest. The conflicts of interest published on the internet site are updated to at least the day before the publishing date of this report. We highlight that disclosures are also available to the recipient of this report upon making a written request to Intesa Sanpaolo S.p.A. – Macroeconomic Analysis, Via Romagnosi, 5 - 20121 Milan - Italy.

Intesa Sanpaolo acts as market maker in the wholesale markets for the government securities of the main European countries and also acts as Government Bond Specialist, or in comparable roles, for the government securities issued by the Republic of Italy, by the Federal Republic of

Germany, by the Hellenic Republic, by the European Stability Mechanism and by the European Financial Stability Facility.

Report prepared by:
Sergio Capaldi, Paolo Mameli, Chiara Manenti, Luca Mezzomo, Giovanna Mossetti, Andrea Volpi (*Macroeconomic Analysis, Direzione Studi e Ricerche, Intesa Sanpaolo)*

INTESA SANPAOLO