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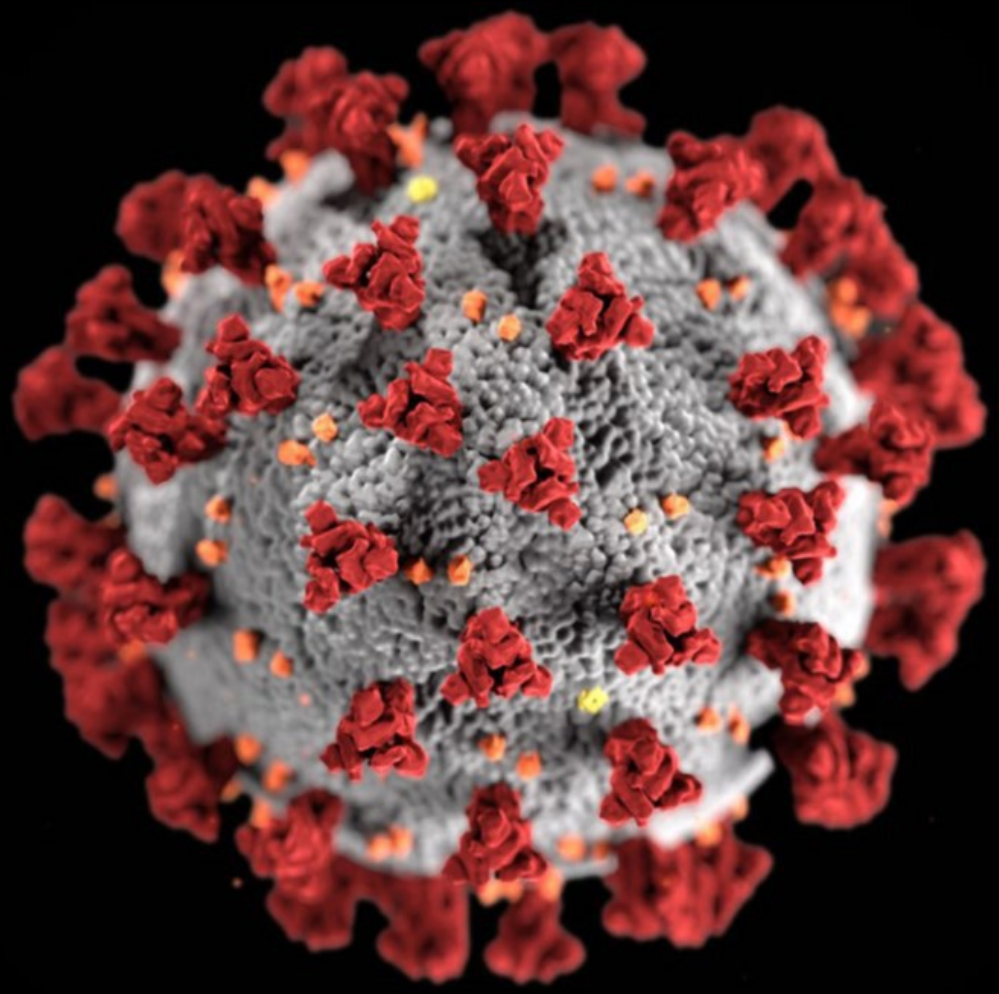


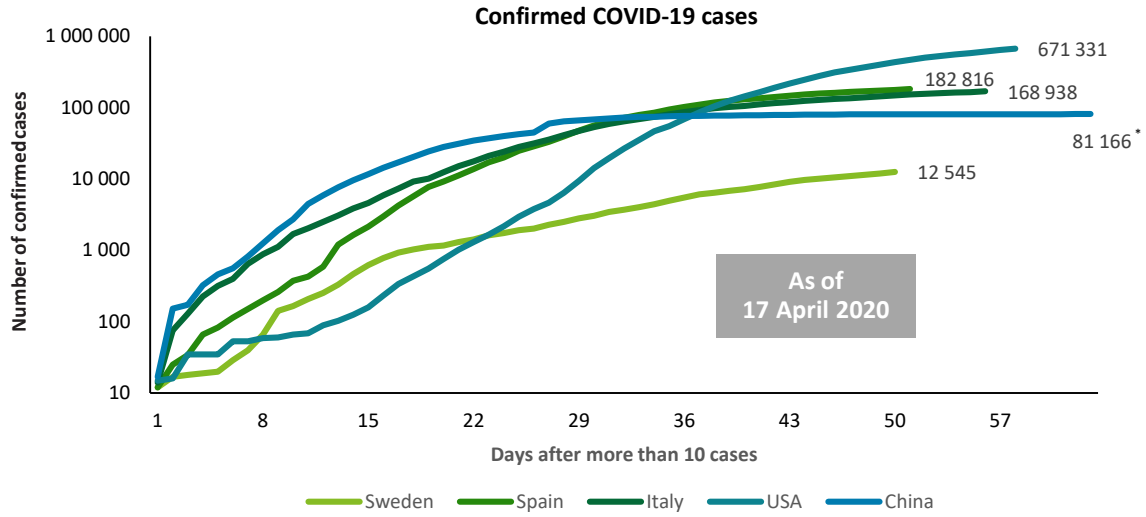
# Coronavirus impact monitor

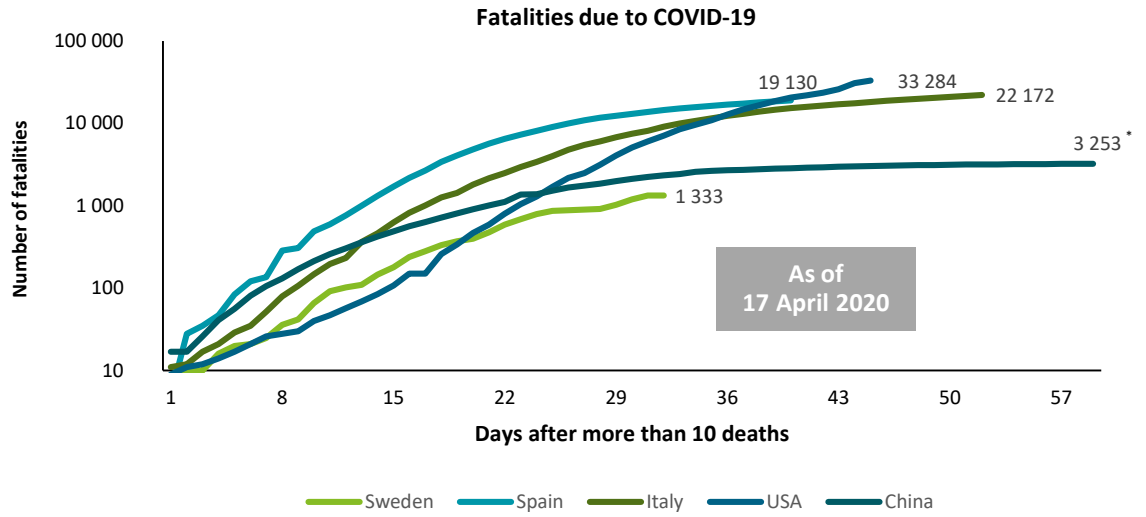
17 April 2020

# Slowdown in transmission in Europe with the US becoming the centre of the pandemic, no post-Easter peak in Sweden

- Since the publication of the previous edition of the Coronavirus impact monitor the number of confirmed cases of COVID-19 globally has increased from 1,392,000 to 2,114,000, mainly driven by the U.S.
- Sweden did not see a post-Easter peak in new cases, as the authorities initially feared. Current data indicate a peak in new cases before the Easter holidays, with the rate of transmission coming down since then. The number of confirmed cases as of 17 April is 12,545, having been only 13 on 1 March. However, these figures are underestimates of actual numbers as testing is reserved for health care staff and those in need of care.
- Several countries seem to have turned a corner with the number of daily new cases now in decline. In Italy and Spain new confirmed cases have begun falling. The US now has the highest number of new cases globally, while China has seen only roughly 2,500 new cases since 20 March.

- In Sweden the number of COVID-19 fatalities as of 17 April is 1,333, having risen from 10 as of 19 March. However, the peak in new fatalities seems to have been achieved, with the number of new fatalities stabilising in the past few days compared with early April.
- Having far surpassed China, the number of fatalities in Spain and Italy has begun to plateau, while the US still seems to be in the acceleration phase. China saw only 93 new fatalities between 20 March and 16 April, although 1,290 new fatalities were added to the total on 17 April as city authorities in Wuhan, ground zero for the pandemic, checked online data against information gathered in person from hospitals, funeral homes and other sources, bringing the total death toll in China to 4,636.



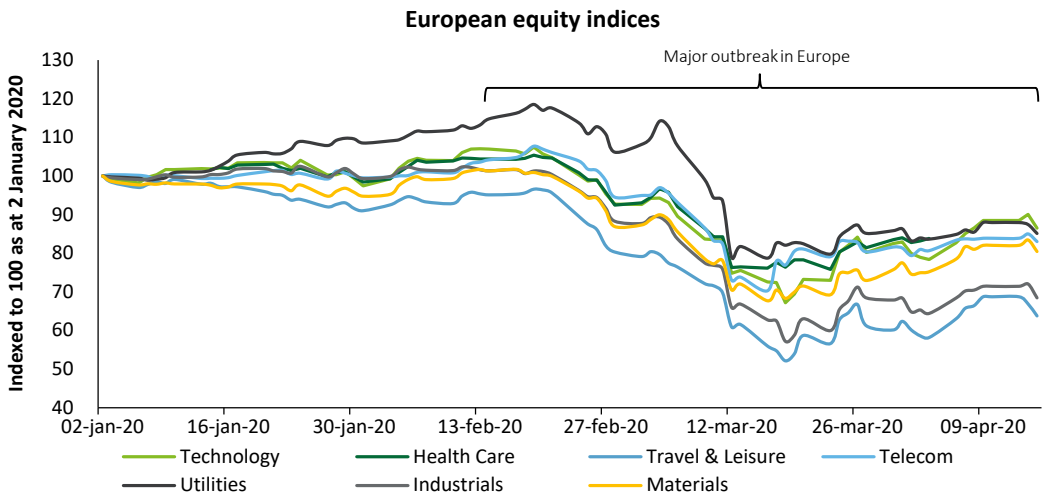

Source: European Centre for Disease Prevention and Control

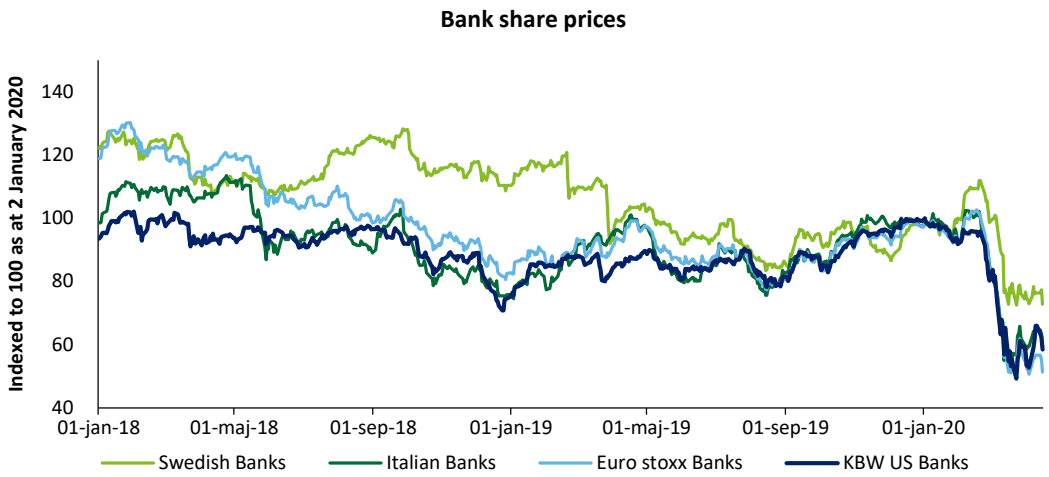
* As of 20 March 2020

Impact on financial markets

# European equity markets suffering major losses from the outbreak of COVID-19

- European equity indices suffered material declines at the outbreak of COVID-19 on the continent.
- However, recent weeks have seen signs of stabilisation with most sectors seeing broad based share price recoveries.
- Travel and leisure together with the industrial sector continues to be among the most affected sectors as judged by equity market developments.
- The EURO STOXX Travel & Leisure remains down by close to 40% since the beginning of January 2020 while Industrials have seen declines of around 30%.
- Having initially outperformed other sectors, Utilities have following the initial sharp declines moved largely in tandem with other sectors.
- No material outperformance can be seen for the Health Care sector overall albeit certain individual companies have fared relatively well, including the Swedish Large Cap company Getinge whose operations include the manufacturing of ventilators.
- Credit losses are seen mounting at Swedish financial institutions but share prices of its major financial institutions have stabilised in the most recent period in line with what have been seen in other regions.
- The major Swedish banks have overall seen less severe declines in their share prices compared to European and American peers.



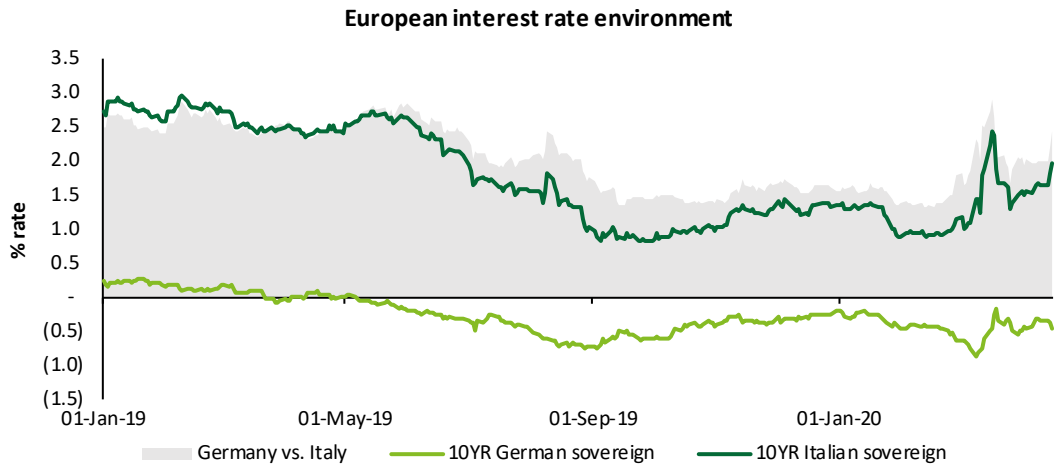



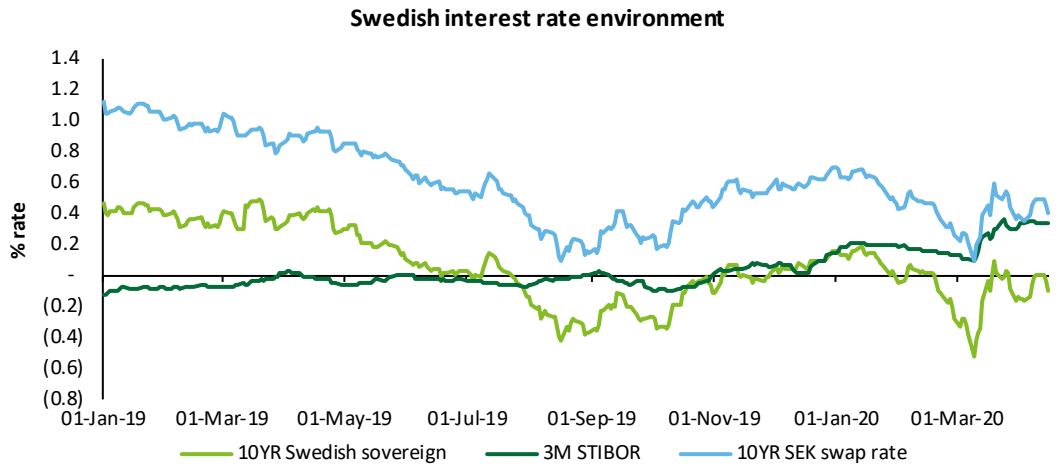

Note: 1) EURO STOXX indices for Technology, Health Care, Travel & Leisure, Telecommunications, Utilities, Industrial Goods & Services, Materials, and Banks.
2) Swedish and Italian bank indices reflecting an equal weighted portfolio of the largest four banks by market capitalisation in each respective country. Source: S&P Capital IQ

Impact on financial markets

# European rate and credit markets also affected by the outbreak of COVID-19

- Amid a flight to safety and scramble for liquidity, interest rates across Europe rose at the outbreak of COVID-19.
- However, for the most highly rated countries, and supported by intervention from monetary authorities, rates have now stabilised.
- Nevertheless, a certain change in sentiment can be seen in the wider spread between the German and Italian government bond yields following an extended period of contraction.
- While the spread moderated after an initial spike, the yield difference has now again started to increase.
- In Sweden, the yield on ten year government bonds has jumped from deeply negative up to a around 0% but subsequently stabilised.
- Interbank and swap rates have also been on the rise but now seen signs of levelling out.
- Given that a considerable portion of Swedish companies fund themselves at floating rates or with short interest fixing periods – particularly within the real estate sector – higher interbank rates have the potential to translate into increased borrowing costs.
- A sharp drop in demand has already put pressure on credit profiles of major European companies, with transportation and travel heavily affected.
- Rating agencies have begun downgrading a large number of major issuers of debt in the European market, and the speculative / high yield segment has seen a considerable portion of ratings being cut.
- The rating agency Moody's now expects default rates globally to jump from 3.5% in March 2020 to 11.3% by next year March 2021. This expectation reflects an assumption of an economic recovery that begins to take hold towards the end of 2020.



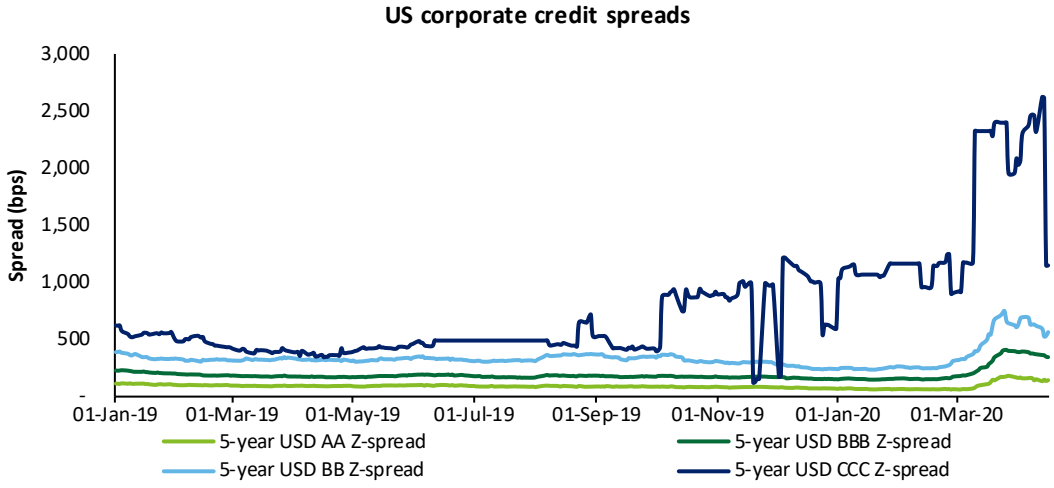



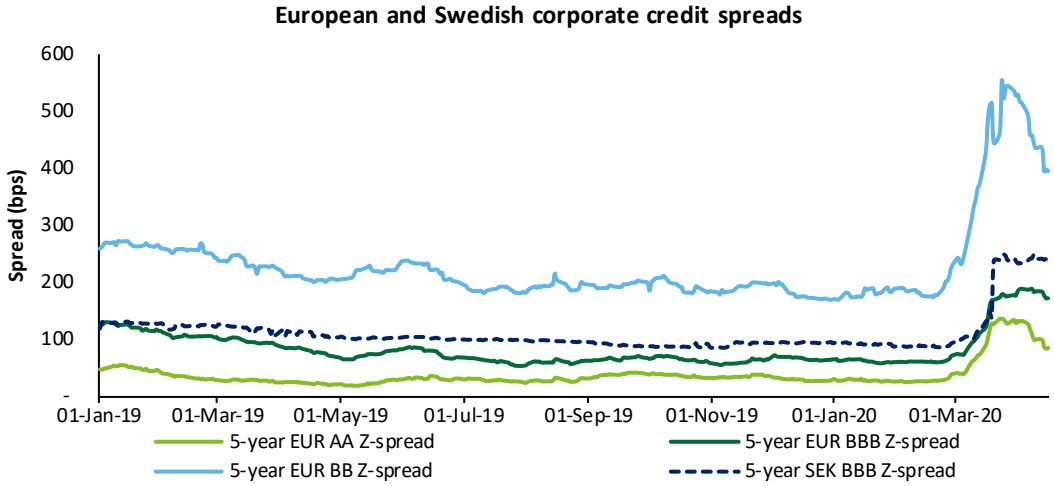

Source: S&P Capital IQ, Moody's Investors Service

Impact on financial markets

# US credit markets experiencing major disruptions from the outbreak of COVID-19

- US credit markets experienced considerable disruptions at the outbreak of the COVID-19.
- Credit spreads initially jumped with notable spread widenings particularly for the most sensitive non-investment grade borrowers (“high yield”).
- The impact of the virus prompted the Federal Reserve to launch what many analysts have considered to be unprecedented interventions to stabilise markets.
- The interventions range from purchasing not only government and asset-backed securities, but also corporate debt.
- The Federal Reserve has also committed to support the US commercial paper and municipal bond markets, as well as the functioning of money market funds, the latter a key funding source for US corporates.
- Supported by such interventions, credit spreads have started to moderate, and within the high yield segment in a rather material way.
- Similar to US and European corporates, Swedish investment grade companies have also seen increased cost of funding as reflected in widening spreads.
- However, as seen in other markets, spreads for SEK issuers have stabilised following intervention of central banks and other monetary authorities, albeit at significantly higher levels than seen in recent times before the virus outbreak.

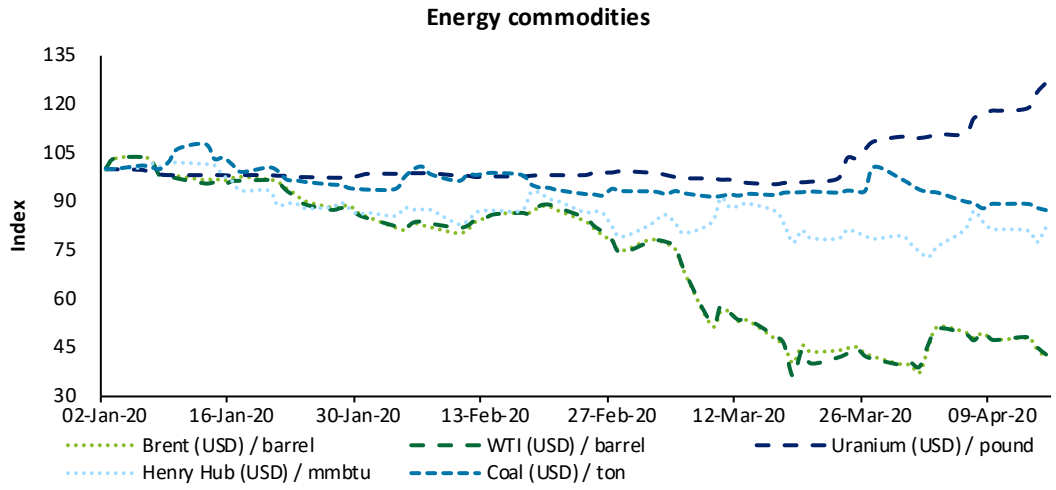


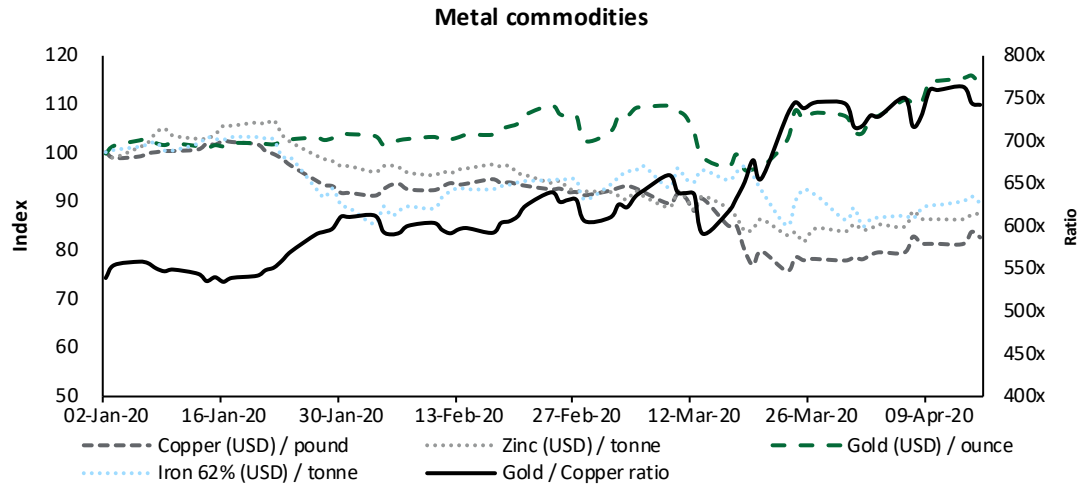




Source: Thomson Eikon

# Sharply lower oil prices affected by both demand and supply disruptions with metals still relatively steady

- The dual impacts of sharply lower demand from the COVID-19 outbreak and increased Saudi supply have been clearly visible in oil markets.
- Since the beginning of 2020, crude prices are down by around 60%.
- While other energy commodities have held steady, albeit in the case of natural gas and uranium at already depressed levels, there was initially little respite seen in the persistent decline in the oil price which continued even as financial markets saw some stabilisation.
- However, in the beginning of April 2020, oil prices experience a sharp move upwards on speculation of coordinated production curtailments by producers such as Saudi Arabia, and Russia.
- However, since the production curtailments were subsequently announced by a large number of major oil producing countries, the price development for oil has been lacklustre.
- Contrary to the oil market, both cyclical metals such as copper and zinc, and safe-haven precious metals such as gold have seen comparatively resilient prices since the COVID-19 outbreak.
- However, the price picture for base metals was subdued already at the outset with marginal operations struggling to achieve break-even.
- An increasing ratio of cyclical copper to safe-haven gold continues to suggest a cautious outlook among investors and consumers of metals.
- The stability in iron ore, for which China is the key importer and Sweden a major supplier via LKAB, has surprised analysts.
- While the iron ore price has been supported by expectations of Chinese infrastructure investments to support a restart of its economy, commodity analysts point to still plentiful supply and a long way to go from current price levels in the USD 80 / tonne range, down to estimated break-even levels around USD 50 / tonne.



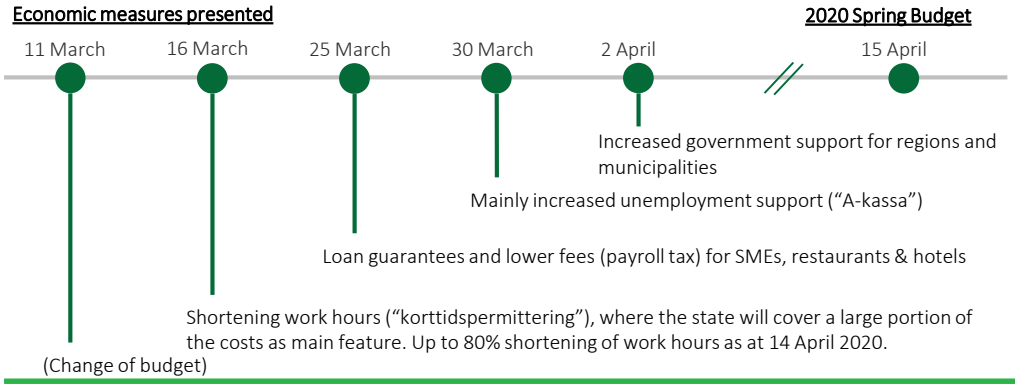



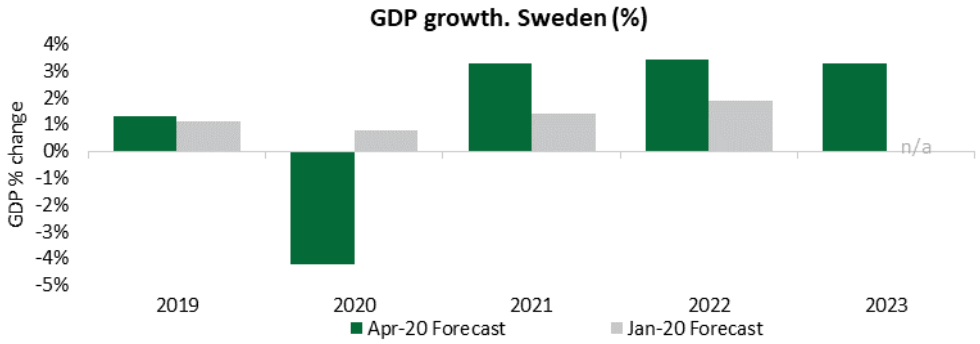

Note: 1) Henry Hub represents natural gas delivered at the Henry Hub in Louisiana, USA . Coal represents coal delivered to the Newcastle port, Australia.
Source: S&P CapitalIQ

Real economic impact

# The Swedish government presents Corona-influenced 2020 Spring Amending Budget

**High economic uncertainty reflected in the 2020 Spring Budget, signs of severe slowdown and expected recession**



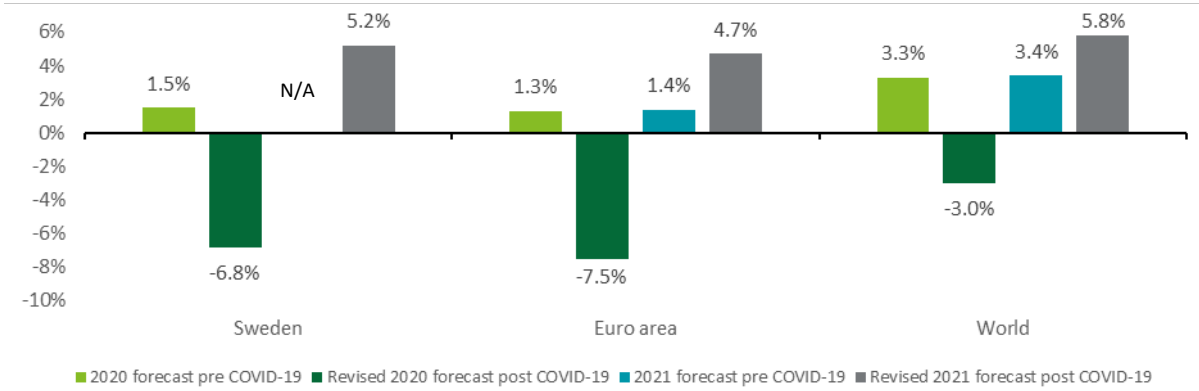

- The COVID-19 outbreak has pushed both the global and Swedish economy into unchartered territory. As per 15 April 2020, the Swedish government presented the 2020 Amended Spring Budget – heavily influenced by the Coronavirus pandemic. Briefly, the 2020 Spring Budget is a summary of the previously announced support packages aimed at mitigating the economic impact of the virus, illustrated in the timeline above.
- The Swedish government has also proposed to raise the level of the expenditure ceiling in 2020 by SEK 350bn, given the high level of uncertainty of its forecast, which is dependent on the future spread of the virus.
- The Swedish Central Bank has introduced a facility of up to SEK 500 bn for banks to support lending to corporates at favourable rates. Additionally the Central Bank has decided to extend its bond purchases this year to maintain credit supply to Swedish companies and continue to offer loans to banks in USD against collateral.
- As mentioned in the 2nd edition, termination notices and temporary layoffs have increased markedly during March, especially with restaurants, hotels and manufacturing. The development has continued in April, where the number of temporary layoffs as at 10 April 2020 far exceeds the full April 2019 number.
- However, both Volvo Cars and Scania (who previously sent home their staff in March) has announced that production will be restarted in week 17.
- The high number of bankruptcies and restructurings reported in March 2020 and predicted in April 2020 indicates a significantly weaker labour market for a foreseeable future, where the recovery phase is expected to continue for several years.
- Due to containment measures restaurants & hotels have been affected most severely, where the number of bankruptcy filings are predicted to increase by some 197% in April 2020 as compared to April 2019. In the retail sector, bankruptcy filings are predicted to increase by 74%. A prominent example is the listed fashion retailer MQ, that on April 16 2020 filed for bankruptcy due to the effects of the corona crisis. Overall a large number of companies are predicted to file for bankruptcy in April according to the Swedish business and credit reference agency UC.
- According to the Swedish government, the Swedish economy is headed towards a recession with strongly negative GDP growth in 2020. As a base case (*worst case*) GDP is expected to decline with around 4% (*10%*) and unemployment rates are expected at 9% (*13.5%*). For comparison, note that GDP growth for 2020 as per January 2020 was expected at 0.8% and the unemployment rate as at 2019 was around 6.8%.
- Sweden's low government debt at around 38.8% of GDP makes the capacity to mitigate negative economic effects and deal with a potential recession following the COVID-19 outbreak via further support measures less constrained compared to many other countries with higher government debt, for example Italy.

Notes: Based on public data from Arbetsförmedlingen, Eurostat , UC and the public domain.
Sources: Arbetsförmedlingen, Eurostat, The Government of Sweden, Ministry of Finance Sweden, UC, Deloitte analysis

# Economic Outlook: Deloitte survey

## Sharp drop in GDP across the world in 2020 means return to pre-virus levels only after 2021

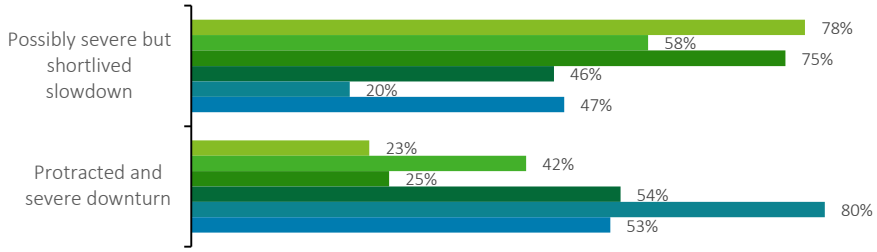
### Economic growth projections



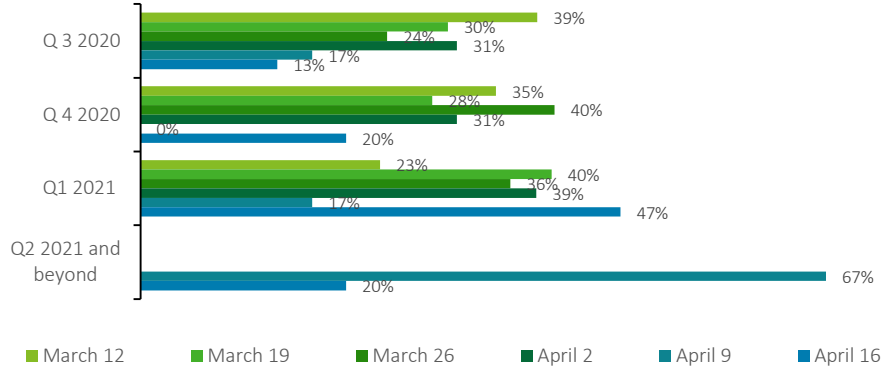

- The IMF released its spring economic forecasts on 14 April, in which it expects the global economy to see the worst contraction since the 1930s with global output down 3.0% in 2020, worse than during the financial crisis when global GDP decreased by 0.1% in 2009.
- The fund sees a partial recovery in 2021, with global growth above trend growth at 5.8%. Nevertheless, the level of GDP will remain below pre-virus trends.
- Advanced economies are set to take large hits in 2020, with the euro area seeing negative growth of 7.5%. Sweden will also see a sharp drop of 6.8%, despite the more relaxed public health measures imposed by the government.
- Compared with the forecasts in the Swedish spring budget, the IMF expects a bigger drop in 2020 with a stronger rebound in 2021, leaving the Swedish 2021 GDP level relatively similar.
- SBAB and SEB also released updated forecasts this week. Both see a sharper drop in Swedish GDP in 2020 than the government, with SBAB at -5.0% and SEB at -6.9%. For 2021 SEB sees a larger rebound, with GDP growth at 5.0% compared with SBAB's view of 3.0%.
- Responses from nearly 2,000 participants in a Deloitte Economics global webinar with colleagues and clients on 16 April show that the respondents think the policymakers are implementing adequate to forceful measures against the economic effects of the virus. Especially strong actions are the policies towards jobs and income with 59% support from the participants.

### Results of Deloitte surveys

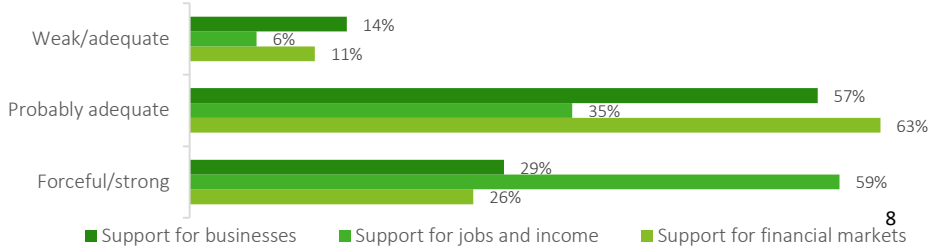
**What will be the ultimate impact on economic growth of COVID-19?**




**When do you think activity will rebound in your economy?**




**A sharp contraction in GDP is inevitable as a result of a freezing activity caused by the lockdown. Policymakers are aiming to sustain the economic capacity through the downturn. How would you rate the response of policymakers in following area:**




1) Deloitte surveys conducted on 12, 19 and 26 March and 2, 9 and 16 April 2020, involving about 2,000 colleagues and clients globally.
Sources: International Monetary Fund, Swedish Ministry of Finance, SBAB, SEB, Deloitte surveys

Key messages

# The global economic slowdown is set to hit the Swedish economy, but strong public support has been announced by the government

- The number of new confirmed COVID-19 cases in Sweden is showing signs of slowing down, having peaked before Easter. The number of cases currently stands at 12,545, with the number of fatalities at 1,333.
- COVID-19 has caused severe damage on the world economy. The equity markets have suffered major losses, and equity market volatility has spiked to levels not experienced since the global financial crisis. Supply chain disruptions and negative demand shocks have spread from China to the rest of the world.
- In Sweden, the high number of bankruptcies and restructurings reported in March 2020 and predicted in April 2020 indicates a significantly weaker labour market for a foreseeable future, where the recovery phase is expected to continue for several years.
- To counter the effects on the real economy, the Swedish government has announced a series of relatively ambitious support measures over the past couple of weeks, while proposing to raise the expenditure ceiling in its spring budget. Sweden heads into the downturn with a comparatively large degree of fiscal space with debt to GDP at 38.8%. However, Swedish public finances are also know to be highly sensitive to economic downturns.
- According to a Global Deloitte Economics survey among 2,000 colleagues and clients from all over the world on 16 April 2020, expectations are that the economic slowdown will be deep and last throughout 2020.
- Deloitte Sweden will continue monitoring the impact of the Coronavirus in Sweden and globally.

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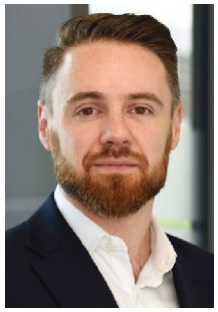


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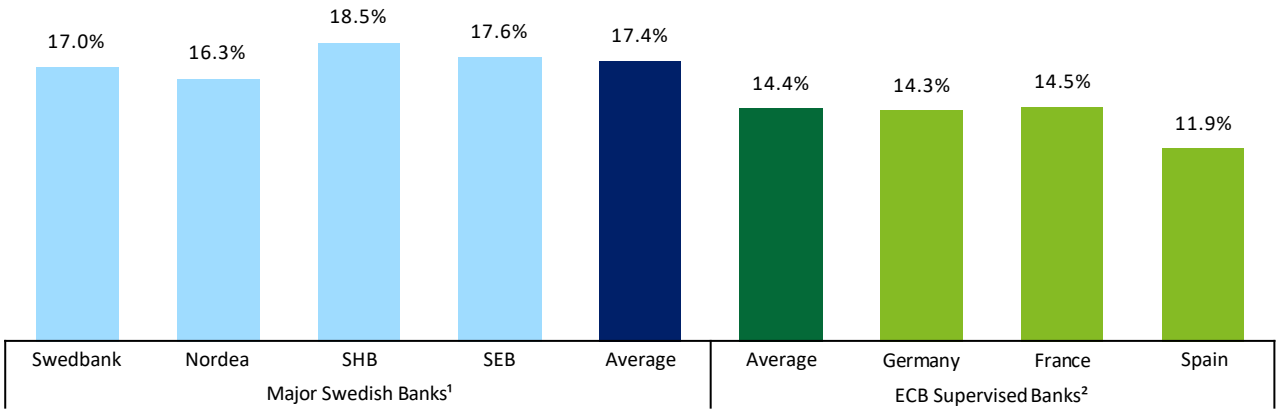
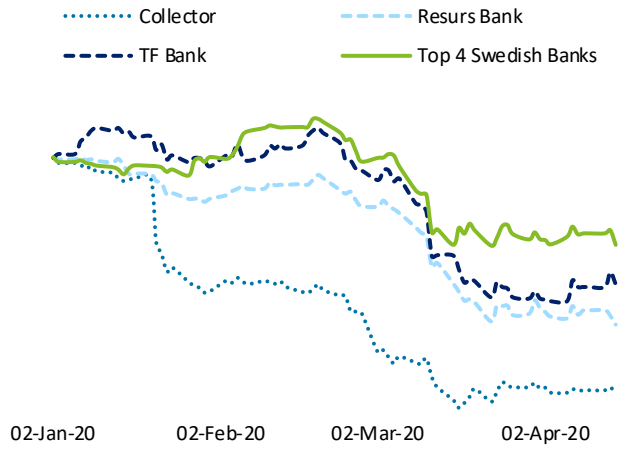
# Appendix

# Major Swedish banks maintaining comfortable capital positions and seeing regulatory support

**Core equity tier 1 capital ratios**




**Consumer bank share prices³**




## Banking

- Leading Swedish banks maintain comparatively strong capital positions in a European context at the outset of the COVID-19 outbreak.
- The capacity of Swedish banks to continue lending during the virus outbreak and its aftermaths has also seen support from the Swedish FSA who has reduced the contracyclical capital requirement from 2.5% down to 0%.
- Bank liquidity will be further underpinned by interventions from the Central Bank, notably a decision to broaden the pool of covered bonds eligible as collateral.
- The covered bond market and its smooth functioning is a vital component of the Swedish financial sector as it represents a key funding source for the nation's banks.
- Covered bonds are also a highly rated, key asset class for Swedish institutional investors such as insurers and pension funds.
- The Central Bank has provided certain indirect support to banks through its decision to now also include bonds issued by non-financial companies in its ongoing SEK 300bn of security purchases.
- In a scenario where companies would otherwise have been unable to roll over outstanding bonds amid a loss of confidence among fixed income investors, they would likely have had initial recourse to their committed bank facilities, thus increasing risk exposures among banks.
- Cognizant of the heightened degree of uncertainty, all four major Swedish banks have put dividends on hold.

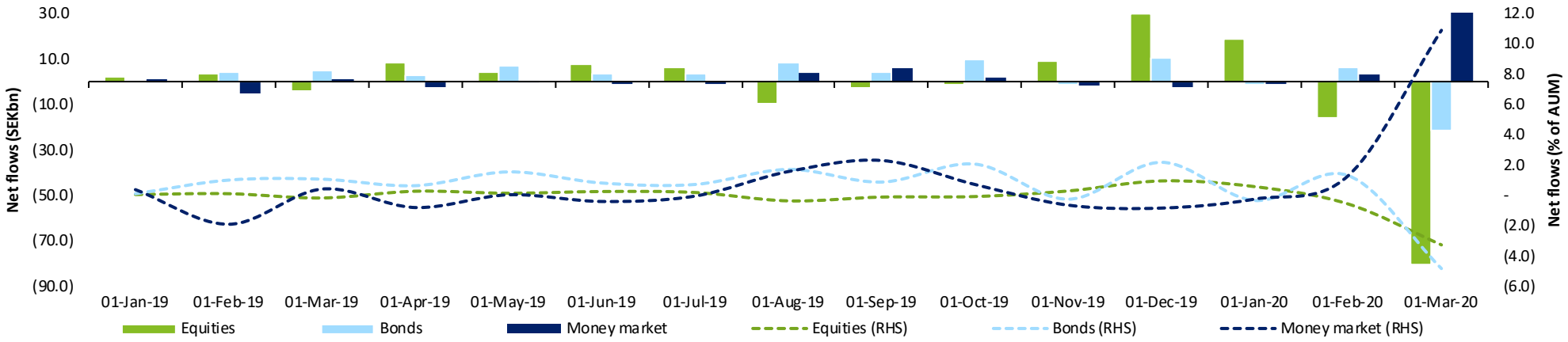
## Consumer finance

- Already under pressure from rising loan losses prior to COVID-19, Swedish consumer banks have until now fared less well compared to their larger, more diversified major bank peers.
- Rising unemployment rates due to virus containment measures may put further pressure on this segment as new loan volumes fall and loan loss provisions rise.

Note: 1) Nordea is domiciled in Finland but retains significant operations in Sweden. 2) Institutions in the Euro Zone directly supervised by the European Central Bank and categorised as a "Significant Entity". 3) Share prices indexed to 2 January 2020. Top 4 Swedish banks represent a basket equally weighted across the shares prices of SEB, SHB, Swedbank, and Nordea. Source: Company reports, Riksbanken, ECB, Finansinspektionen, Fondbolagens Förening, S&P Capital IQ.

# Low liquidity in bond markets see some Swedish mutual funds freeze redemptions while equity funds experience large outflows

**Net new money flows for Swedish mutual funds**



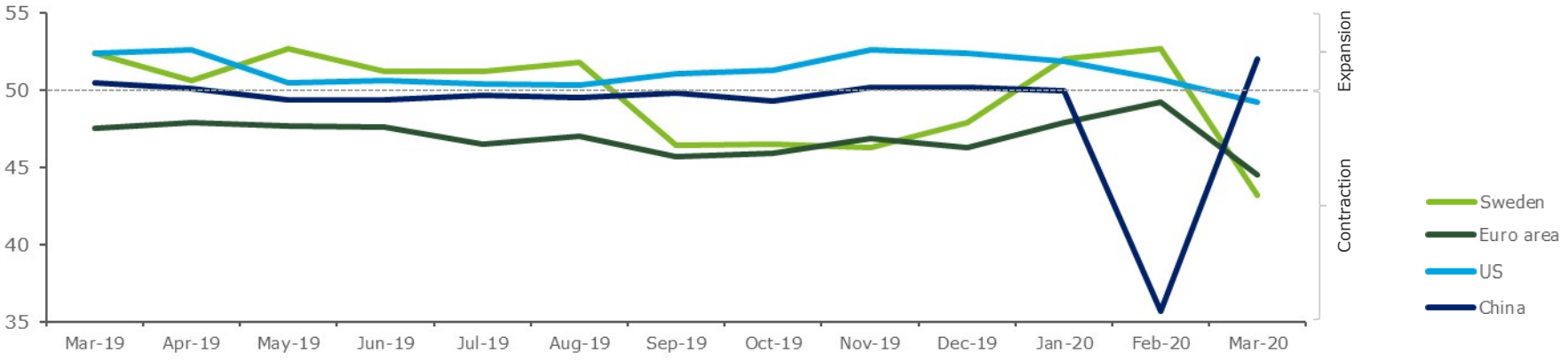

## Asset management

- Reminiscent of the financial crisis, when global asset managers were forced to limit redemptions as markets in asset-backed securities froze, a number of Swedish asset managers have recently restricted fund withdrawals.
- The freeze in redemptions have not only affected individuals, but also institutional investors, as well as investment products invested in the funds.
- The majority of freezes have been for funds targeting corporate bonds, a segment that has seen steady growth in recent years amid low interest rates, but that remains a relatively small and illiquid market segment.
- With lower AUMs[1] and the possibility of reduced confidence among investors, already compressed margins on the back of relentless shifts into passive investment vehicles could translate into further pressure on industry profitability.
- Looking at net new money flows across Swedish mutual funds, strong inflows into equity products at the end of 2019 and briefly into 2020 reversed sharply during March amid massive outflows corresponding to around 3% of AUMs.
- As a share of AUM, bond funds experienced even larger redemptions.
- As a sign of the flight to safety, money market funds instead saw large inflows.

Note: 1) AUM: assets under management. Source: FondbolagensFörening.

# Efforts to contain COVID-19 impact short-term manufacturing output and demand

**Manufacturing PMI Index as of 1 April 2020**




## Industry impact

- Swedish manufacturing PMI saw the largest drop on record in March, plummeting with 9.5 points to 43.2. This represents a major disruption in the production plans of Swedish manufacturers.
- After a record drop in February due to efforts to contain COVID-19, Chinese manufacturing PMI rose to 52.0, reflecting the reopening of many Chinese factories. However, this does not mean a return to normal economic operations.
- For the euro area, PMI dropped to levels not seen since 2013. This fall was led by Italy, with France, Ireland and Spain also recording multi-year lows.
- Lead times have markedly deteriorated as manufacturers face significant obstacles in securing supplies.
- Factory jobs have been cut globally at the fastest rate since August 2009, as companies scale back production capacity in line with falling demand and reduced supply.

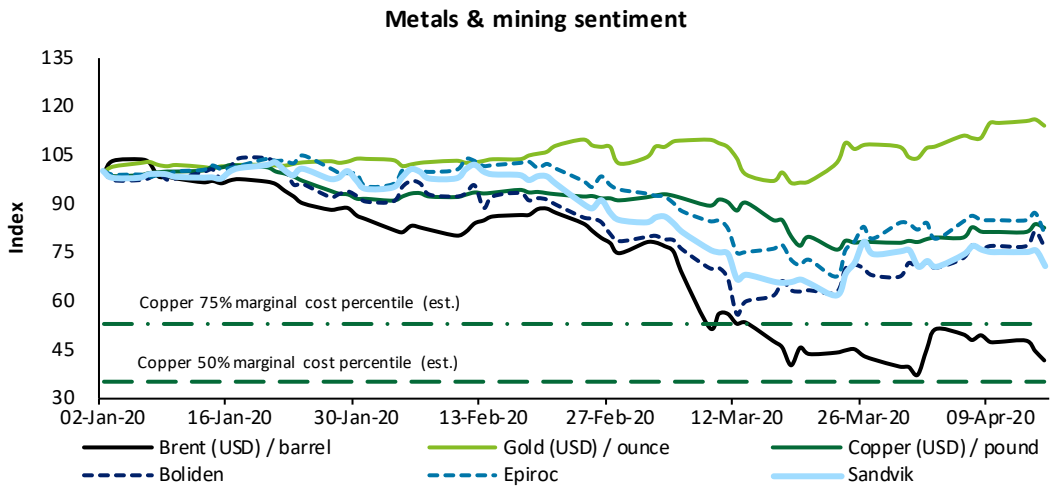
## Economic outlook

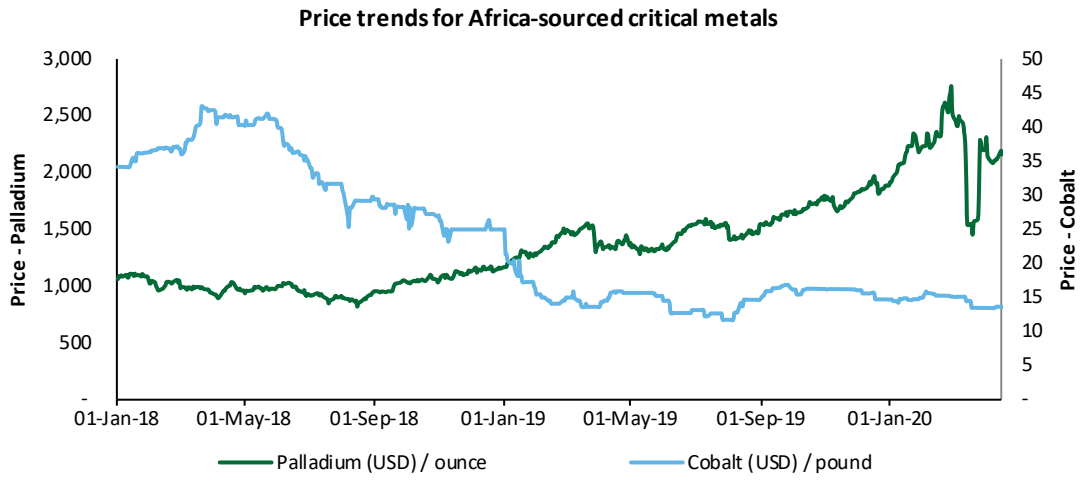
- Coronavirus continues to be a critical supply chain risk for many European companies, as closed factories and transport restrictions increase average delivery times. Some relief can be expected from the gradual reopening of factories in China, decreasing the supply chain risks for European companies.
- Top priorities for manufacturers are to reduce operating costs, review spend, ensure that financing remains viable and secure continued supply.
- Many European factories will remain shut down or running on less capacity until the COVID-19 spread in Europe has stabilised.

Source: Swedbank/Silf, IHS Markit, Chinese National Bureau of Statistics.

# Suppliers to the mining industry likely to experience lower demand even as metal prices hold steady

- While Sweden boasts few mining companies, Swedish firms feature among leading global suppliers to the industry.
- Having seen sharp declines in early March, share prices of both Boliden (major EU base metals producer) and leading mining equipment and consumables suppliers Epiroc and Sandvik have regained ground and begun converging back to the price performance for the underlying metals.
- Despite a stable price picture, operational risks that could materially affect suppliers to the mining industry are nonetheless now crystalizing in a material way.
- Major mine closures began to gain momentum in South America but have now spread across the entire globe with mining operations from Africa to North America seeing reduced output or even being put on care and maintenance.
- Altogether, developments to date continue to suggest that while metal prices may hold steady, operational disruptions are likely to depress production rates, thus in turn translating into lower equipment and consumables demand for suppliers.

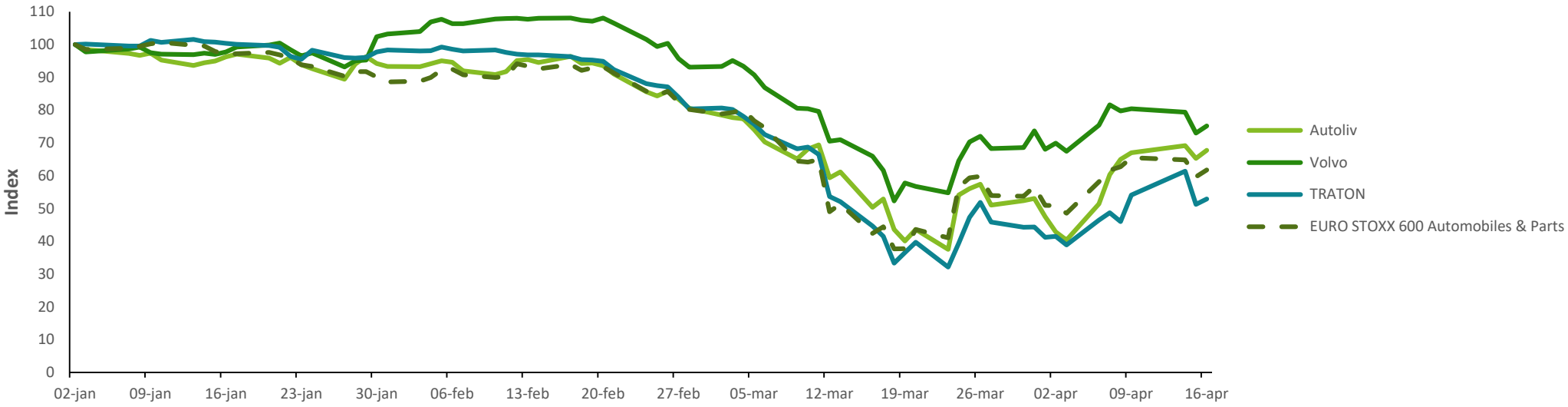



Source: S&P Capital IQ, Wood Mackenzie, Deloitte estimates.
Note: Index set to 100 at 1 January 2020.

# The Automotive industry plunges due to severe supply chain issues

**European automotive company share prices**



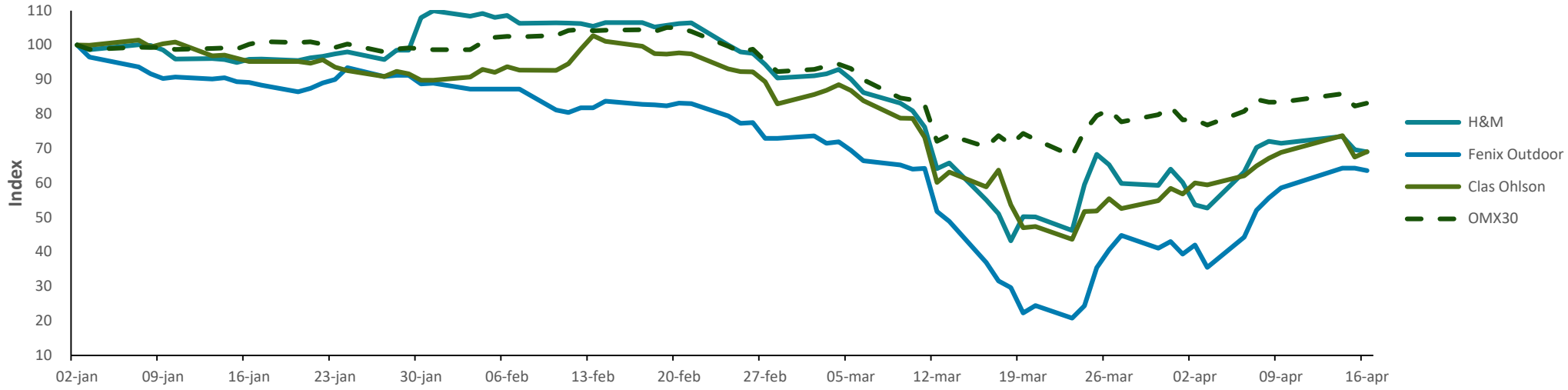

- The impact of COVID-19 on today's globally integrated automotive sector has been swift and significant.
- On the supply side, initial concerns over a disruption in Chinese parts exports quickly pivoted to large-scale manufacturing interruptions across Europe, with assembly plant closures in the US adding to the intense pressure on an increasingly distressed global supply base. This leaves companies at risk of defaulting on covenants, potentially requiring banks to step in.
- In Europe, demand has collapsed, with new car registrations in March in Italy, France, Spain and the UK down 85%, 72%, 69% and 44% respectively, compared with March 2019. This represents a steeper drop than during the 2009 financial crisis.
- In Sweden, Volvo and Scania have announced their intention to start production again in week 17, having shut down their plants in March, while Autoliv withdrew its planned dividend. The share prices of Swedish automotive companies have been performing largely in line with their Europeans peers since the pandemic outbreak.
- The exogenous shock of the pandemic exacerbates an existing downshift in global demand that will likely lead to increased M&A activity as opportunities for sector consolidation emerge for private equity players.
- The potential long-term impact may include auto companies being forced to divert capital to shore up continuing operations, starving R&D funding for advanced technology initiatives and other discretionary projects, while strategic decisions to exit unprofitable global markets and vehicle segments may be accelerated, significantly lowering output as manufacturing capacity is rationalized/consolidated.
- Suppliers facing liquidity issues may succumb to rapidly deteriorating market conditions, causing widespread disruption and potentially catastrophic consequences across the entire global automotive manufacturing ecosystem.
- A significant amount of restructuring may be expected in the auto retail sector as dealers are unable to pivot quickly enough to changing demand conditions.



Sources: Svenska Dagbladet, The Society of Motor Manufacturers and Traders in the UK
Note: Index set to 100 at 1 January 2020.

# Serious supply disruption, high consumer demand for certain product categories with sales moving online

**Swedish consumer products (non-food) company share prices**




- Because the COVID19 crisis started in China, the production hub of the world for electronics, footwear, apparel, and other non-food products, Consumer Products companies are facing serious disruption in the supply of raw materials, critical components, and finished products.
- The peak of COVID-19 in China was in parallel with Chinese New Year, and this has softened the impact as inventories had been built up because of the national holiday. Demand for electronics, hygiene, and specific sports categories is high, and consumers are shifting to online. Demand for luxury goods has fallen sharply.
- In Sweden, retail sales in the fashion sector are in a free fall. Figures show that in March shoe and clothes sales declined with 47% respectively 39% in comparison to last year. The e-commerce market indicates declining figures for all consumer products. However, data suggest that people consume to a larger degree online than previously.
- COVID-19 has already started putting companies out of business. Fashion retailers Joy and MQ have gone bankrupt while the sport chain Intersport has applied for restructuring.
- Clas Ohlson's sales declined with 17% in March, while their online sales went up with 50%. The same goes for H&M with -46% in total sales while online sales increased by 17%. As of 15 April 2020, 72% of H&M stores were closed. However, stores in China have started opening again since the easing off in disease transmission there.
- The potential impact for this sector is a short peak in consumer demand in certain categories once the situation starts to normalize. However, an economic recession looms as consumer spending is expected to decrease in the medium term. Consumers will continue to shift to online sales which will require Consumer Products companies to revisit their B2C strategies.
- Another likely impact is a backlog of orders waiting to be cleared by manufacturers when capacity returns to normal levels, putting further pressure on supply chains. As a result alternative sourcing options will need to be explored. Considering the impact of changing commodity prices and other costs-to-serve, as well as ways to increase demand, companies will be forced to revisit their pricing and promotion strategies.



Sources: Svensk handel, Postnord and Svenska Dagbladet
Note: Index set to 100 at 1 January 2020.

Deloitte.