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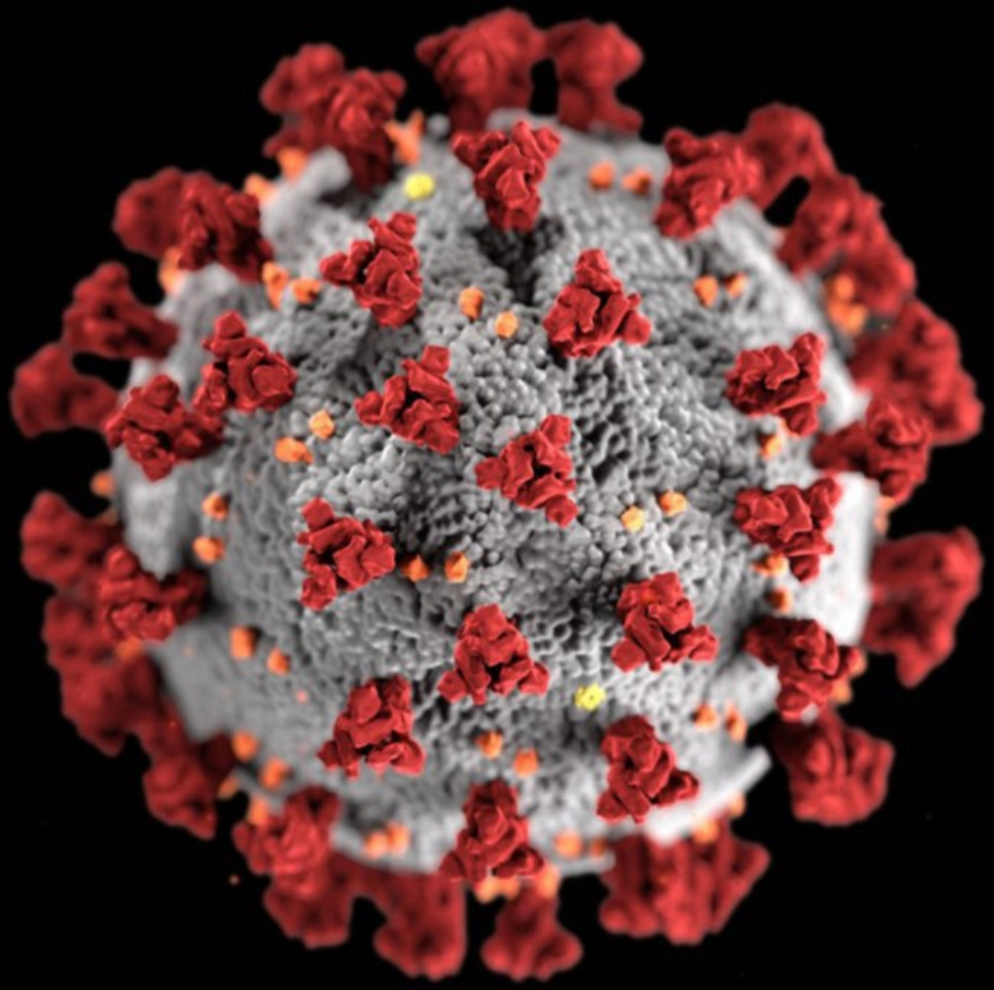


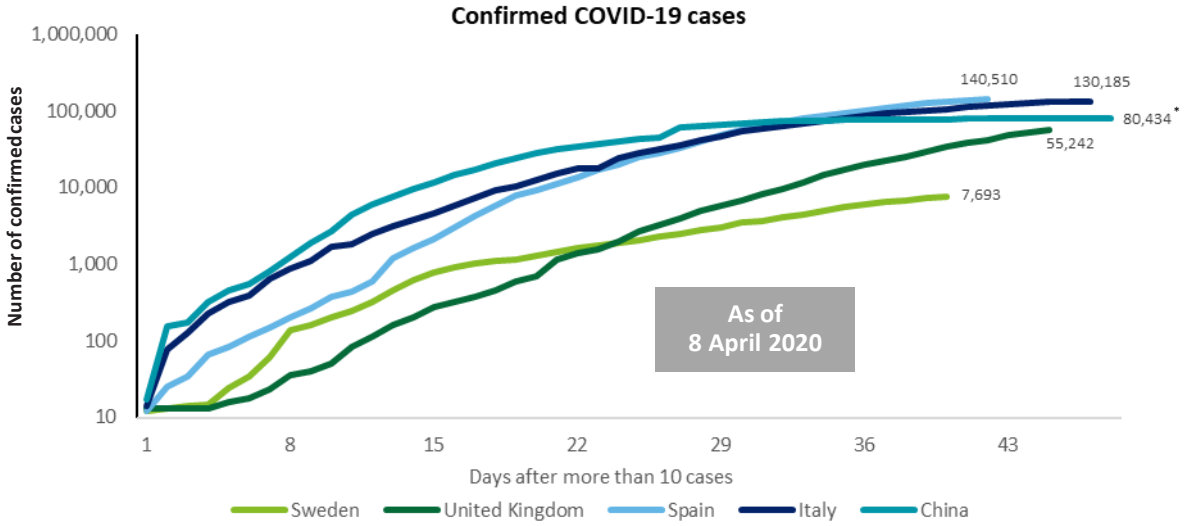
Coronavirus impact monitor

8 April 2020

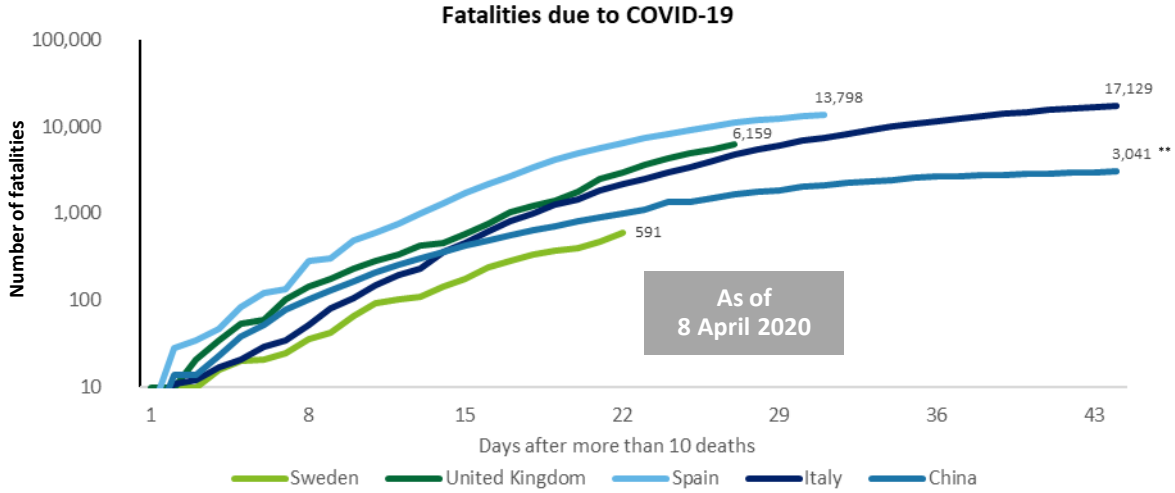
Corona virus outbreak

Rapid increase in the number of infections and fatalities

- Since the publication of the 1st edition of the Coronavirus impact monitor, the number of confirmed cases of COVID-19 globally of 528,000 has more than doubled to 1,392,000.
- The development is similar for Sweden, going from 2,806 cases as of 26 March to 7,693 as of 8 April 2020. The number of cases was only 13 on 1 March 2020. However, these figures are likely to be underestimates as testing is reserved for health care staff and those in need of care.
- The picture is similar in other major European countries, with the number of confirmed cases now exceeding that of China in Spain and Italy. The stringent social distancing measures imposed by the Chinese authorities seem to have halted the transmission of the disease and flattened the curve.



- The bottom chart displays the number of fatalities due to COVID-19. In Sweden, this measure has gone up from a total of 66 on the 26 March to 591 as of 8 April 2020.
- The total number of fatalities in Italy and Spain now far surpasses that of China, although the daily number of new fatalities for those two countries are finally beginning to plateau. In the UK, every day still more new deaths than the previous. In Sweden, the past seven days have seen an increase in the rate of new fatalities.



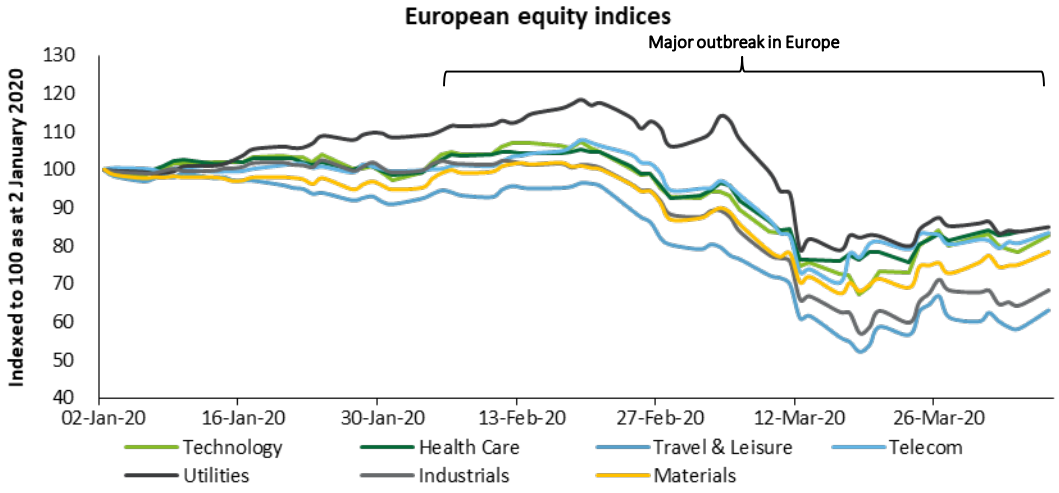
Source: European Centre for Disease Prevention and Control

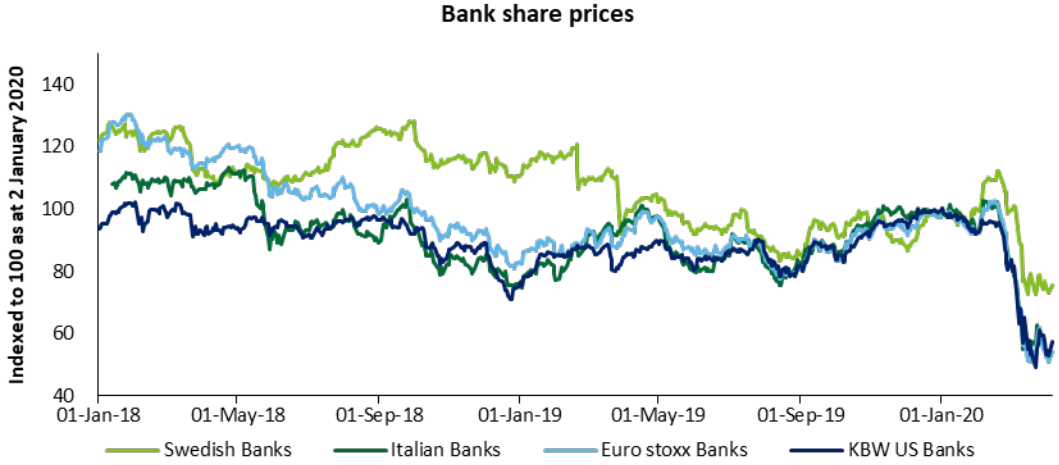
* As of 11 February 2020 ** As of 18 February 2020

Impact on financial markets

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

- European equity indices have suffered material declines following the COVID-19 outbreak.
- While Utilities held up for a period of time into the outbreak across the continent, even such traditionally defensive sector has since caught up to the broad based market correction.
- The travel industry has been particularly affected by the spread of the virus and its related travel bans.
- The EURO STOXX Travel & Leisure index is down by some 30% since the beginning of January 2020, driven by a material decline in passenger and visitor volumes.
- Despite increased demand for certain specialised medical equipment the Health Care sector has also been negatively impacted, albeit to less extent than cyclical sectors such as Industrials and Materials.
- Following years of weak performance compared to US peers, European banks have also seen large share price declines amid concerns for rising credit losses and funding challenges.
- Despite strong capital positions, Swedish banks have seen price declines in line with European bank indices.
- Notably, reflecting the broad-based sell off, share price declines for banks in relatively more stable financial systems, such as Sweden, have been similar to price corrections for banks in weaker systems that have been more affected by COVID-19, such as Italy.

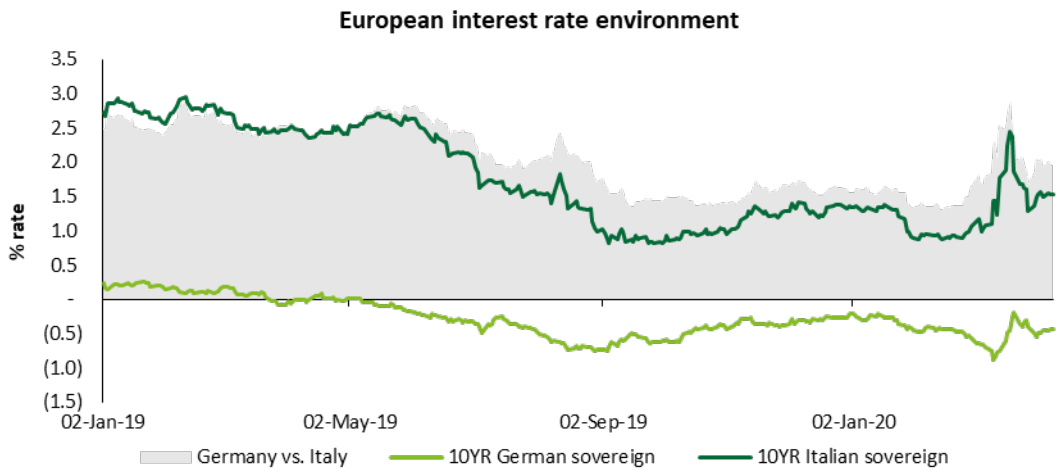


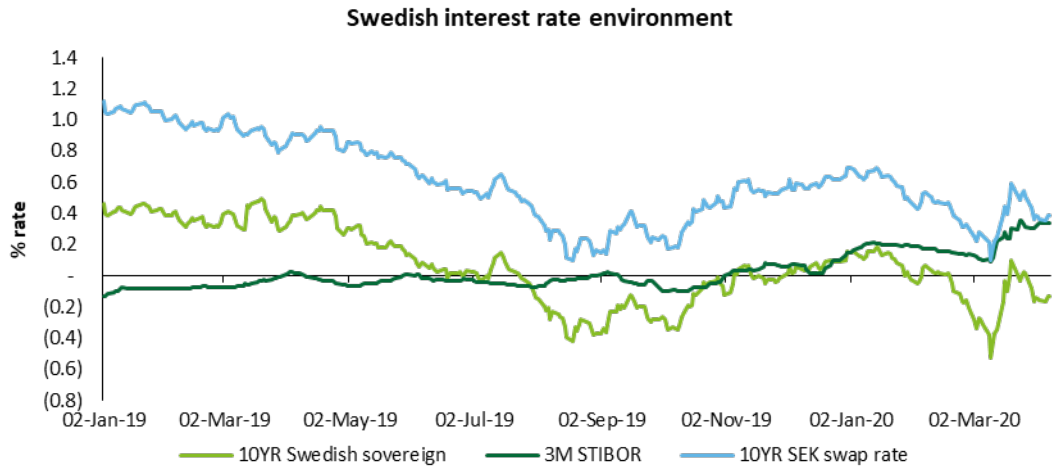


Note: 1) EURO STOXX indices for Technology, Health Care, Travel & Leisure, Telecommunications, Utilities, Industrial Goods & Services, Materials, and Banks.
2) Swedish and Italian bank indices reflecting an equal weighted portfolio of the largest four banks by market capitalisation in each respective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

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 have been increasing since the outbreak of COVID-19.
- The change in sentiment has been reflected in a widening spread between the German and Italian government bond yields following an extended period of contraction.
- In Sweden, the yield on ten year government bonds has jumped from deeply negative up to a around 0%.
- Interbank and swap rates have also been on the rise.
- 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 once again heavily affected.
- High profile credits that have seen ratings cut as a result of the COVID-19 outbreak include Lufthansa AG that saw its rating move from investment grade (Baa3) to speculative grade (Ba1) by Moody's.
- Apart from SAS, who has seen its ratings cut further into speculative territory, rating actions for other Swedish corporates have thus far been limited.

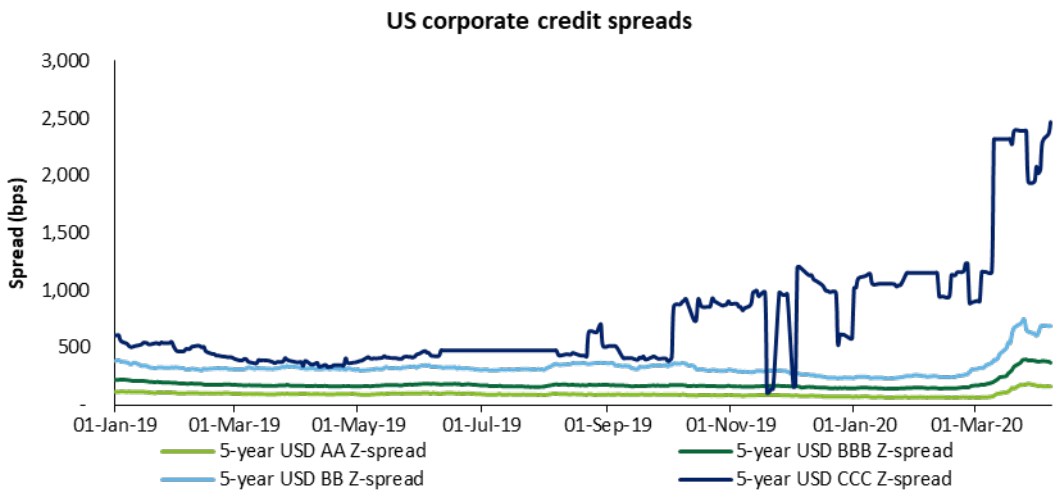


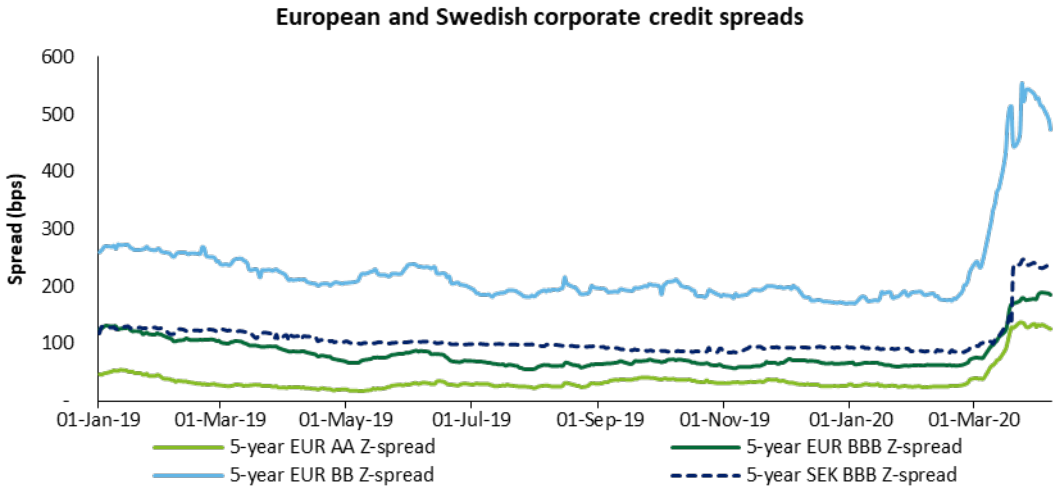


Source: S&P Capital IQ

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

- US credit markets have experienced considerable disruptions even as the COVID-19 virus has only just begun to affect the country.
- Credit spreads have jumped in recent weeks with notable spread widenings for the most sensitive non-investment grade borrowers ("high yield").
- However, also investment grade entities have seen spreads doubling or even tripling in recent days.
- There has also been reporting of challenges in the trading of US government bonds, a market considered to be the most liquid financial market in the world.
- The impact of the virus has prompted the Federal Reserve to launch what many analysts consider to be unprecedented interventions to stabilise markets.
- The interventions range from purchasing not only government and asset-backed securities, but also corporate debt. Plans are also made to support lending to small business.
- 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.
- Similar to US and European corporates, Swedish investment grade companies have also seen increased cost of funding as reflected in widening spreads.



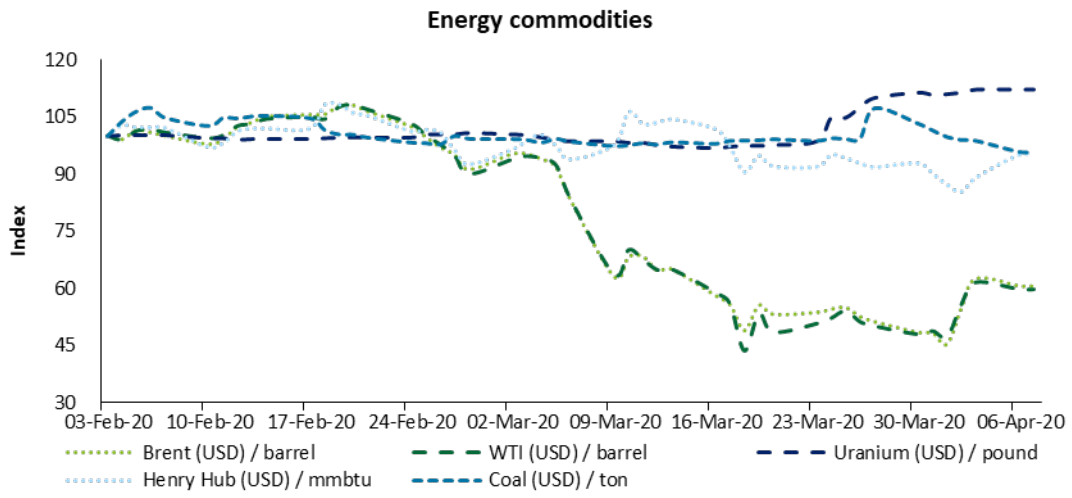


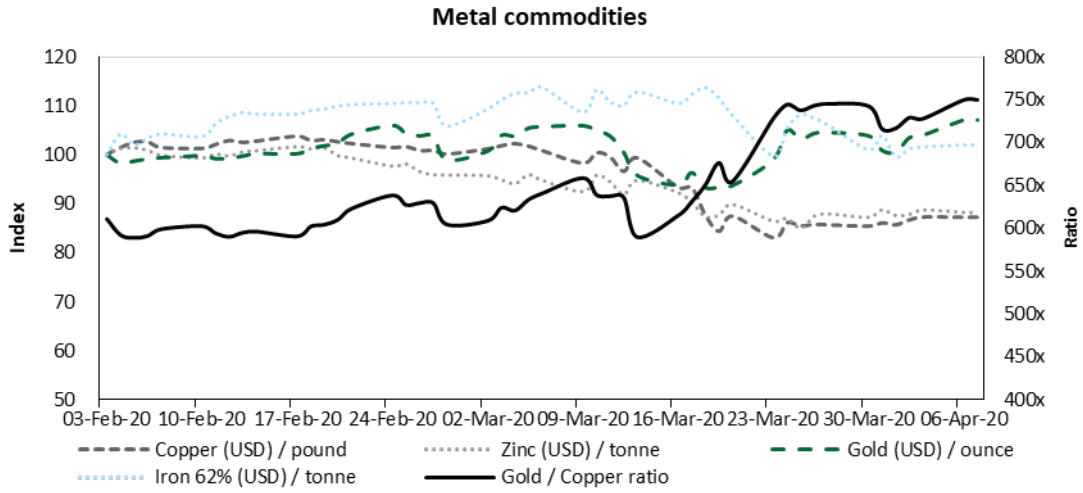
Source: Thomson Eikon

Impact on commodity markets

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 February 2020, both Brent and WTI crude were until recently down by around 40%.
- 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, on Thursday 3 April 2020, oil prices experience a sharp move upwards on speculation of coordinated production curtailments by Saudi Arabia, and Russia. The price recovery has since continued.
- 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, for base metals, the price picture was subdued already at the outset with marginal operations struggling to achieve break-even.
- An increasing ratio of cyclical copper to safe-haven gold also 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 some 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.





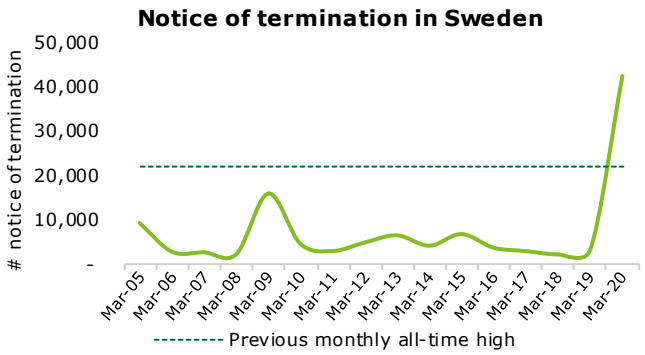
Note: 1) Henry Hub represents natural gas delivered at the Henry Hub in Louisiana, USA . Coal represents coal delivered to the Newcastle port, Australia.

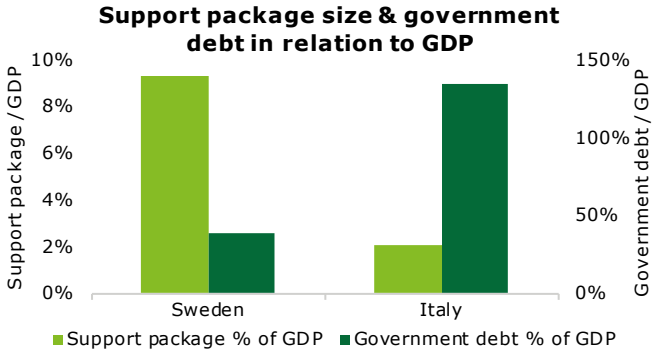
Source: S&P Capital IQ

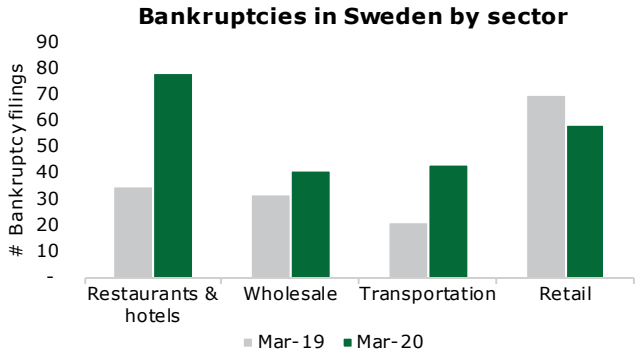
Real economic impact

Increased unemployment support, support to regions & municipalities and higher bankruptcy numbers

The number of notices of termination at all-time high, additional support packages and increased bankruptcy numbers







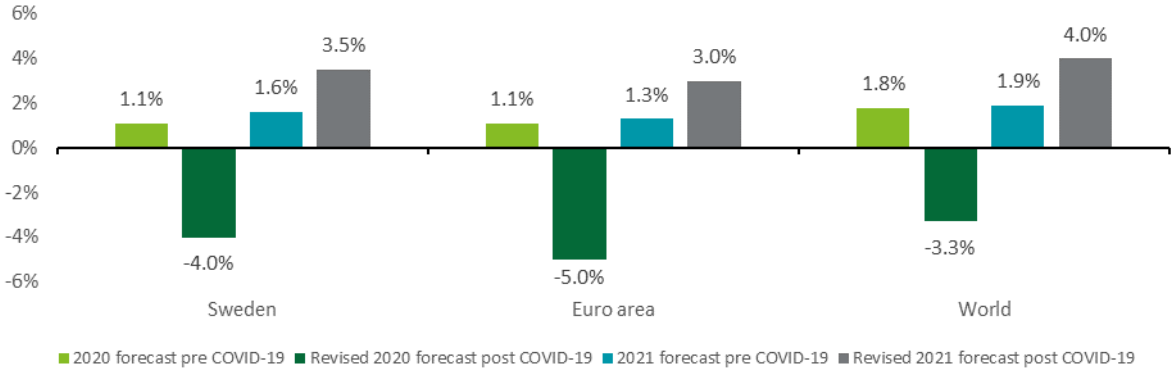
- The COVID-19 outbreak has pushed both the global and Swedish economy into unchartered territory. The Swedish government has thus far introduced support packages amounting to up to an estimated* SEK 480bn aimed at mitigating the economic impact of the virus. As at 2 April 2020, the following packages have been presented:
  - 11 March 2020: (Change of budget)
  - 16 March 2020: Shortening work hours ("korttidspermittering"), where the state will cover a large portion of the costs as main feature
  - 25 March 2020: Loan guarantees and lower fees (payroll tax) for SMEs, restaurants & hotels
  - 30 March 2020: Mainly increased unemployment support ("A-kassa")
  - 2 April 2020: Increased government support for regions and municipalities
- The Swedish Central Bank has also 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.
- Termination notices and temporary layoffs have increased markedly during March with restaurants, hotels and also manufacturing heavily affected. The current number of temporary layoffs are at all-time high.
- The more prominent examples include truck and construction equipment manufacturer AB Volvo who has shut down production in Sweden and sent home all its staff (c. 20,000). Other companies who have sent home their staff home include Volvo Cars (c. 25,000) and Scania (c. 19,000).
- As a share of GDP, the current estimated* value of the support packages announced by the Swedish government, corresponds to 9.3% of GDP as compared to Italy, Spain and the US (countries with most cases), where their respective packages corresponds to approximately 2.1%, 19.2% and 9.3% of GDP.
- Italy has announced plans for larger fiscal measures, which might be challenging to implement given the high government debt. Sweden on the contrary has low government debt at around 38.8% of GDP, which makes the capacity to mitigate negative economic effects from COVID-19 via further support measures less constrained.
- During March 2020 the number of bankruptcy filings in Sweden increased dramatically as compared to last year. Due to containment measures, Restaurants & hotels have been affected most severely, where the number of bankruptcy filings increased by some 123%. In the Transportation sector, bankruptcy filings increased by 105%.
- The number of restructurings has increased as well. In the middle of March 2020, approximately five companies per day were undergoing restructurings, as compared to 2019 where one company every third day were undergoing restructuring.

Notes: Based on public data from Arbetsförmedlingen, Eurostat , UC and the public domain. Sources: Arbetsförmedlingen, Eurostat, The Government of Sweden, UC, Deloitte analysis
*Estimated high-level fiscal response. Dependent on future development of the crisis.

Economic Outlook: Deloitte survey

Severe slowdown in the world economy throughout 2020

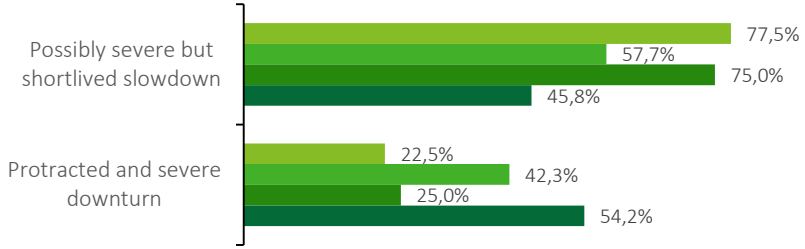
Economic growth projections



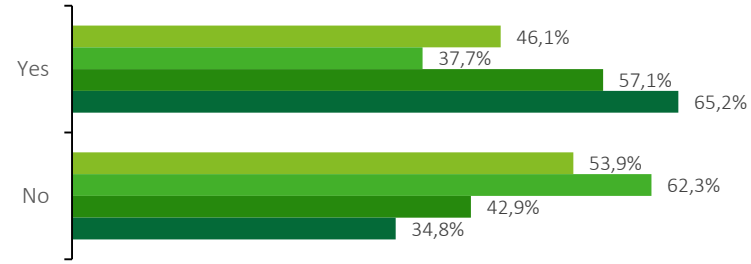
- The disruption of the global supply and demand chain, as well as financial markets translates into an adjustment of economic growth projections worldwide.
- On 31 March the Swedish Ministry of Finance presented their updated forecasts, projecting a sharp drop in Swedish GDP in 2020 of -4.0% , down from the growth of 1.1% expected still in January. Growth is expected to rebound in 2021 with 3.5%. However, the recovery to pre COVID-19 trend levels will take several years.
- These estimates are largely in line with those of the major Swedish banks, with SEB forecasting GDP growth of -2.7% in 2020 and 3.4% in 2021, Swedbank -4.3% (2020) and 3.7% (2021), and Danske Bank -2.6% (2020) and 2.4% (2021). The Swedish National Institute of Economic Research (NIER) forecasts equally sees growth plummeting in 2020 by -3.2% and rebounding in 2021 with 3.5%
- NIER published the latest Economic Tendency Indicator on 26 March, which fell to its lowest level since May 2013. The largest drops were seen in the service sector and consumer confidence, which sank to its lowest level since December 2012. This is likely to be an underestimate of economic sentiments, as a large part of those surveyed responded early in March, prior to the full onset of the pandemic.
- Responses from nearly 2,000 participants in a Deloitte Economics global webinar with colleagues and clients on 2 April show that about 54% expect a protracted and severe downturn, which is much more pessimistic than previously. Interestingly, respondents still thought that the government toolbox to fight the economic fallout is adequate.

Results of Deloitte surveys

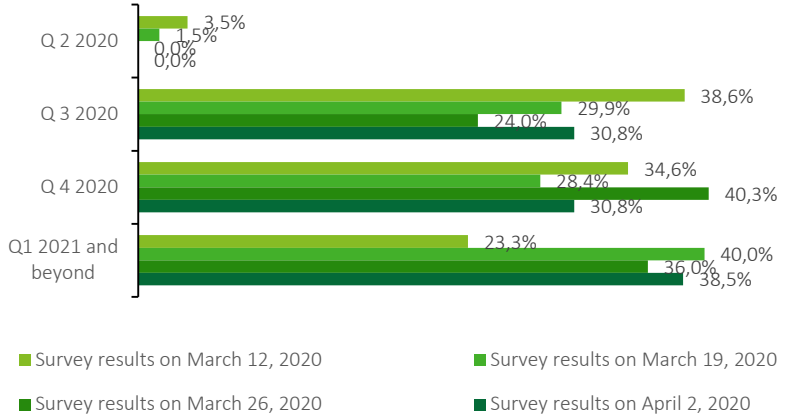
What will be the ultimate impact on economic growth of COVID-19?



Do policymakers have sufficient policy tools to cushion the economy from the COVID-19 shock?



When do you think activity will rebound in your economy?



1) Deloitte surveys conducted on 12, 19 and 26 March 2020, involving about 3,000 colleagues and clients from all over the world.

Sources: Deloitte surveys, Swedish Ministry of Finance, Swedish National Institute of Economic Research

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 confirmed COVID-19 cases in Sweden has risen rapidly, from only thirteen on 1 March 2020 to 7,693 as of 8 April 2020. However, as COVID-19 testing in Sweden now is reserved for those deemed in need of care and health care staff, the actual number of cases may be underestimated. Concurrently, the number of fatalities due to COVID-19 has also been on a steep upward trajectory.
- COVID-19 has caused severe damage on the world economy. The equity markets have suffered major losses, and volatility has spiked to levels not experienced since the global financial crisis. Interest rates, credit markets and oil have also seen major disruptions.
- In Sweden, notices of termination have ticked up markedly, as have the number of bankruptcies and restructurings, while economic sentiment has crashed. To counter the effects on the real economy, the Swedish government has announced a series of relatively ambitious support measures, amounting to 9.3% of GDP. 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 known to be highly sensitive to economic downturns.
- According to a Deloitte Economics global survey among 2,000 colleagues and clients from all over the world on 2 April, expectations are that the economic slowdown will be deep and last throughout 2020. However, confidence in the adequacy of government tools to fight the economic downturn remains high.
- However, governments all over the world, including Sweden, are introducing major aid packages to help companies and employees through the health crisis. This may ease the severe impact of COVID-19 on the world economy, but it will take years to reach pre COVID-19 trend levels again.
- Deloitte Sweden will continue monitoring the impact of the Coronavirus in Sweden and globally.

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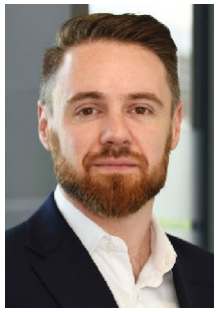

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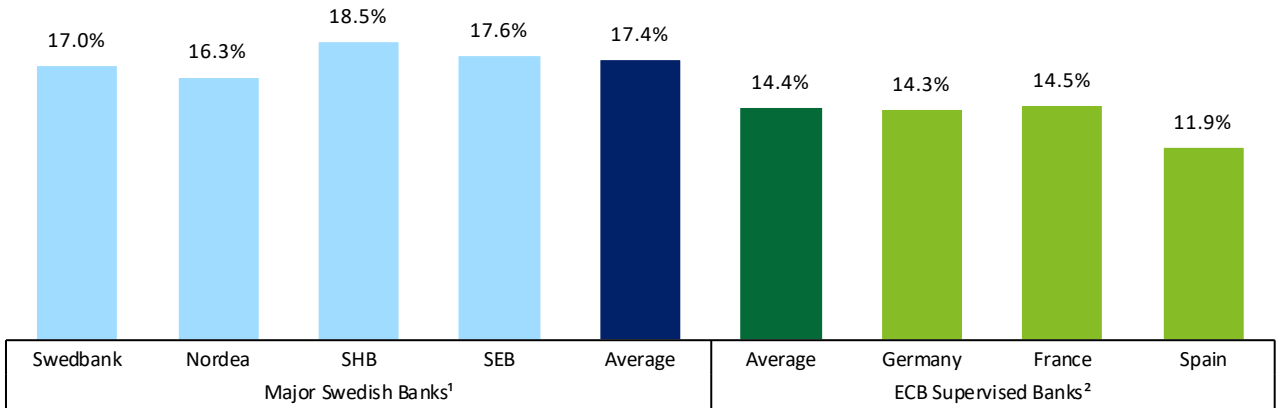
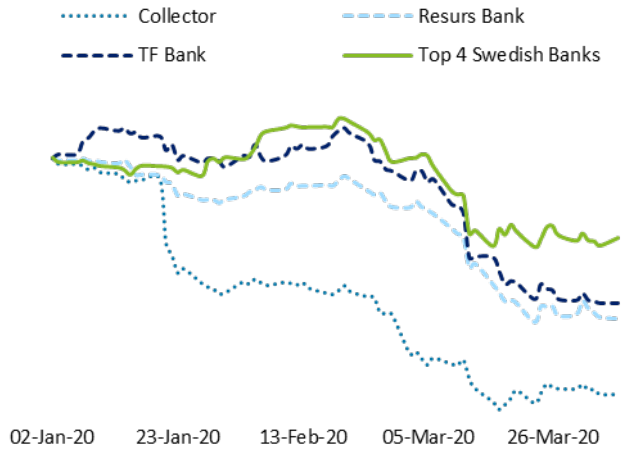
Appendix

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.

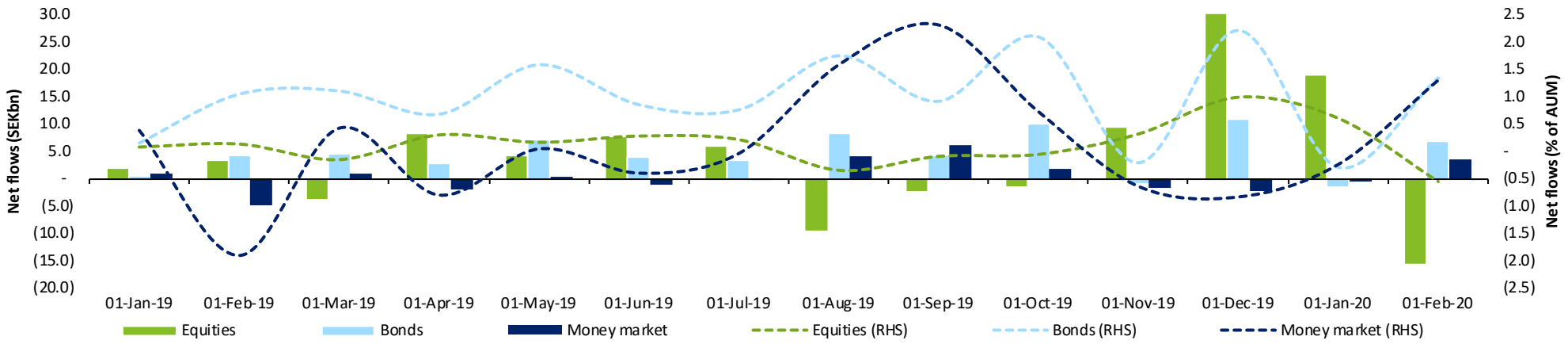
Consumer finance

- 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 corporate bond markets seeing some Swedish mutual funds freeze redemptions

Net new money flows for Swedish mutual funds



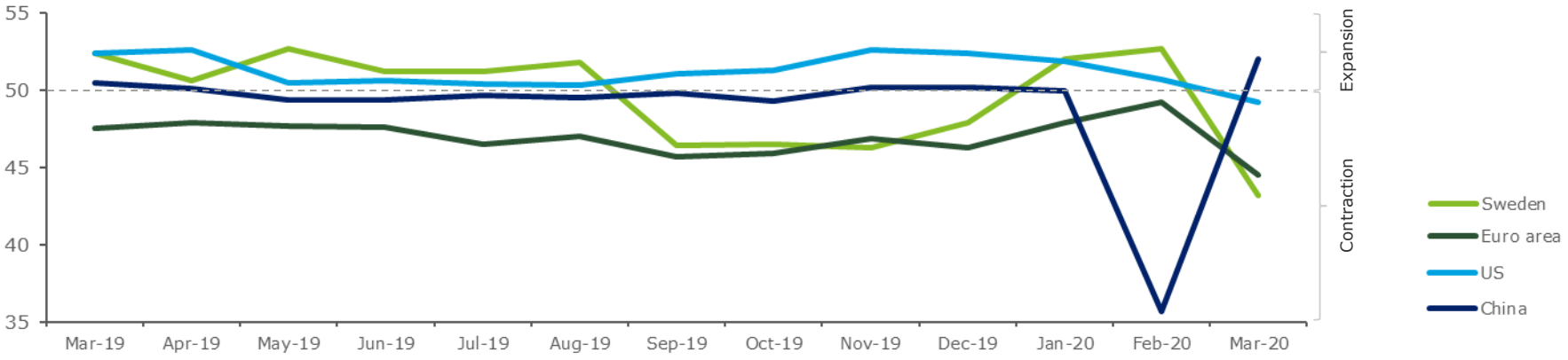
Asset management

- 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 appear to have reversed. Already prior to the wider COVID-19 outbreak on the European continent, net flows into equity funds turned sharply negative while more defensive bond and money market funds instead saw inflows.
- For money market funds, inflows were relatively large set against total fund assets at around 1.5%. For equity funds, the outflows represented approximately 2.0% of assets under management.
- Given developments in the Swedish bond market during March, statistics to be released on 10 April will reveal the extent of net flows experienced by investment funds, in particular for bond funds.

Note: 1) AUM: assets under management. Source: Fondbolagens Förening.

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.

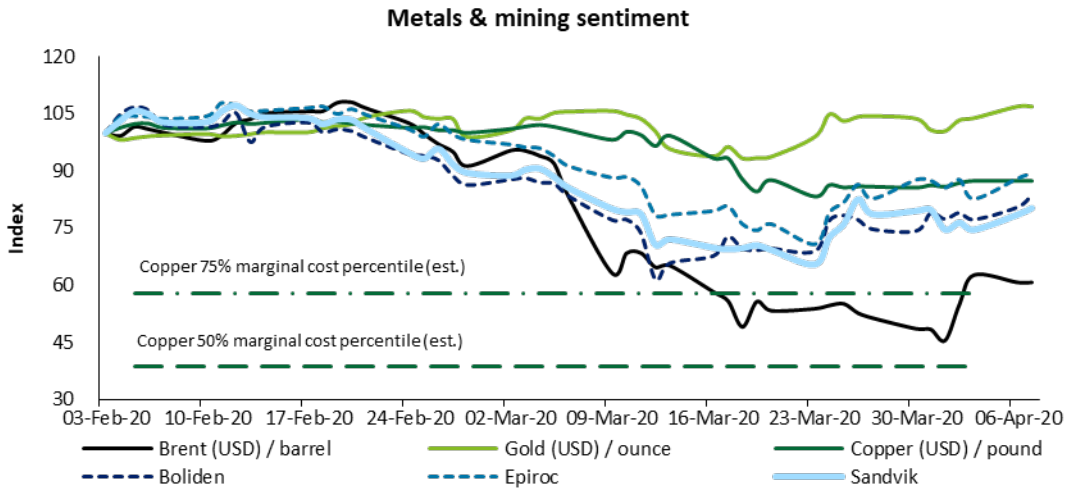
Economic outlook

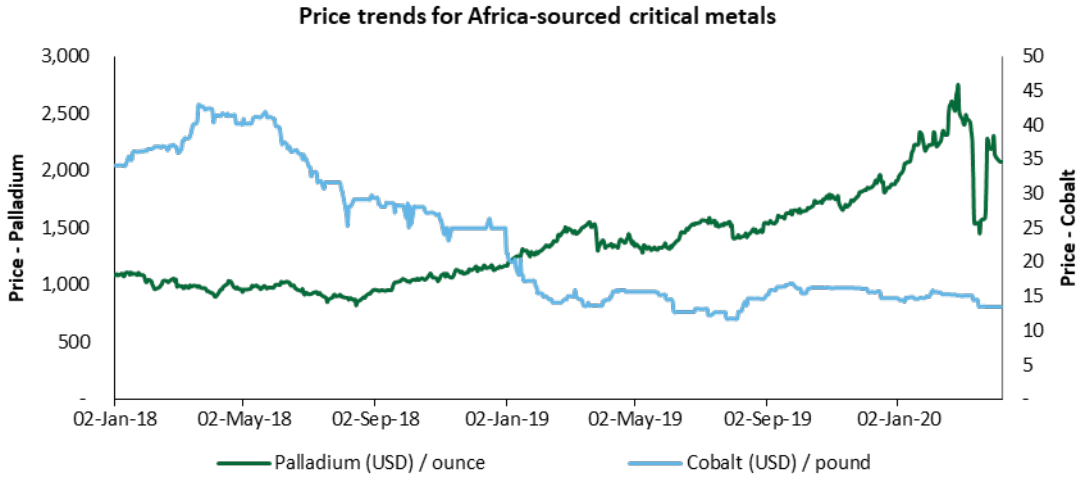
- Coronavirus continues to be a critical supply chain risk for many European companies, as closed factories and transport restrictions increase average delivery times. Some relief can be expected from the gradual reopening of factories in China, decreasing the supply chain risks for European companies.
- 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, notably in key base metal producing countries in South America.
- Following a 15-day state of emergency, Peru has now extended the emergency into April, causing several mines and processing units to shut down amid supply distributions for key consumables.
- In Europe, certain gold mines in Turkey have been closed on a precautionary basis, and in Portugal the major Canadian-Swedish miner Lundin Mining is putting its zinc expansion project on hold.
- In Switzerland, a key refinery location for gold, metal processing have largely come to a halt, thus limiting options for miners looking to deliver their ore production for conversion into metal.
- Africa has thus far seen limited impact from COVID-19. However, the region is a major supplier of battery, auto and technology metals such as cobalt and palladium. Apart from a brief drop for palladium, prices for these metals have yet seen little change.
- Altogether, developments to date 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 February 2020.

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