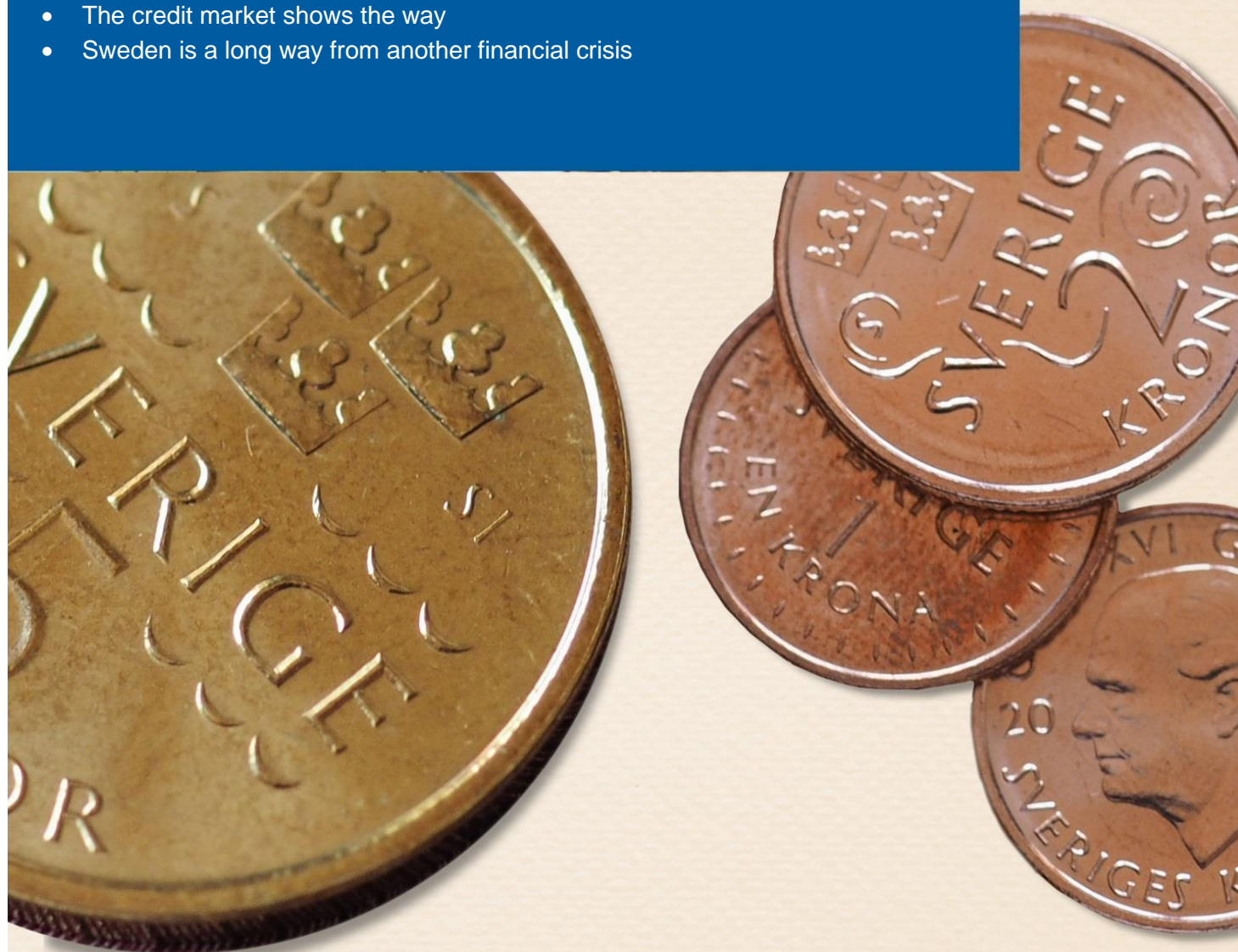


12 May 2023

FX Pilot

The krona takes on the real estate market again

- Renewed concern about SEK against real estate and banking backdrop
- Swedish real estate companies are so much more than just SBB
- The credit market shows the way
- Sweden is a long way from another financial crisis



In focus

A new test for the krona albeit on a familiar theme

Just in time for the Eurovision Song Contest, a familiar tune is being heard in the financial markets. Although the artists vary, the song remains the same. The events surrounding SBB have, once again, led to the market speculating about a Swedish financial crisis, with the problems burdening banks. It is easy to get lost in all the information and other figures that are being tossed around. Those who can make money by dragging down the krona again, point to the high aggregated debt figures that the Swedish real estate market encompasses, and paint a picture of Sweden heading into an economic abyss. The downgrading of SBB to junk status was far from unexpected, but in our view, the contagion to other companies will be limited, even though more downgrades are probably imminent. We do not see any risk of a deeper financial crisis driven by the real estate companies. We are still confident in our forecast that the krona will slowly appreciate, even though there may be some bumps in the road in the short term.

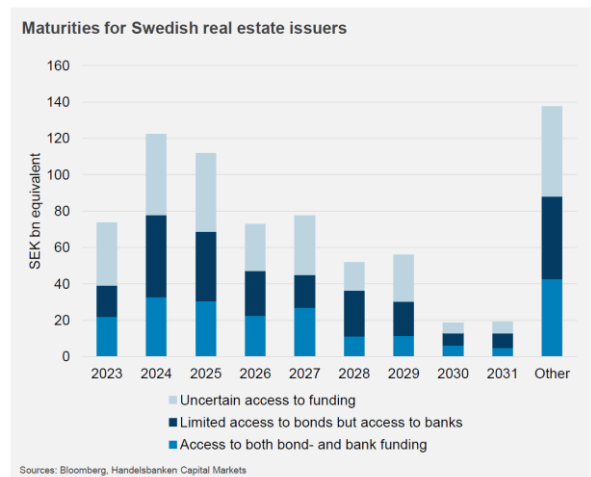
Large refinancing requirement – but not urgent

In the media, we are often confronted with enormous figures regarding the refinancing needs of Swedish real estate companies. Overall debts are, admittedly, enormous, but we should bear in mind that the asset values are more than twice as high. Moreover, the requirements are spread over the next few years, and the remaining maturities this year are a fairly limited sum. The sources of funding are, as we know, issuing new bonds or taking out bank loans. If a company does not succeed with these, its only alternative is to sell its assets, and there are still strong purchasers in the market, even though they would certainly wish to negotiate on price. For example, companies with strong owners behind them (such as pension funds and insurance companies) have completely different funding options open to them, and are a long way from being downgraded to junk status. At present, we believe that there are only a few real estate companies at risk of having their rating downgraded that far.

Will the currency market be more worried than the credit market?

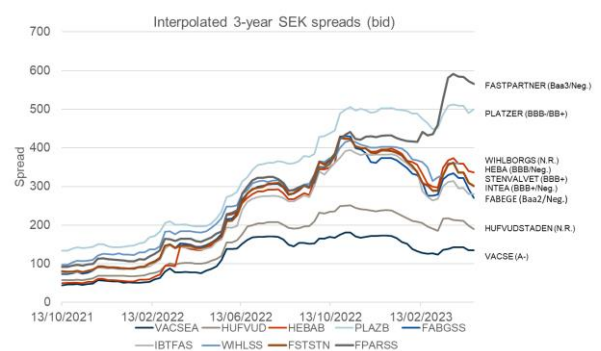
To be honest, the best way to dismiss the idea of selling the SEK, in the context of a crisis among real estate companies, is to look at how their bonds perform as a spread against the swaps. Between the end of 2021 and the start of this year, the spreads widened over time, reflecting higher yields and lower property values. But in parallel with the chaotic developments at SBB in recent weeks, the performance of other real estate companies' spreads has been very stable. The question is, why the currency market would interpret the situation for real estate companies in a different way from the credit market? The question also needs to be asked – which market can make the best assessment of the current situation for that particular market?

Figure 1: Bond maturities for Swedish real estate companies



Sources: Macrobond, Bloomberg

Figure 2: Real estate companies' spreads vs. swap



Effects on the business cycle to be expected

We do not believe that Swedish real estate companies are standing on the precipice, with a banking crisis to follow. Without doubt, however, times will remain tough for these companies, and many are likely to be downgraded by the rating agencies.

Nor do we intend to downplay the problems surrounding the Swedish real estate market at large, and have previously pointed out the negative economic effects of reduced household consumption, fewer building projects and the tightening of credit channels.

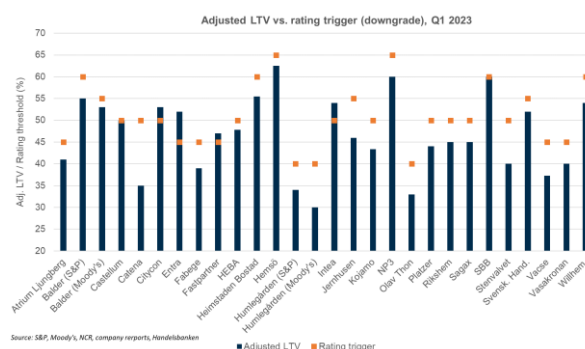
The krona should pass this test

In summary, we do not think those touting their doomsday theories (many of whom work at foreign research companies) should be listened to. It is reasonable to think that it should be more difficult for that idea to get a solid foothold now that it is being repeated.

We are comfortable with our EURSEK forecast and believe the krona will continue on its long and, at times, ponderous rise.

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Figure 3: Several valuations tolerate downside



Sources: Macrobond, Handelsbanken

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