

# Weekly Credit Update

## Summary

- It has been a relatively quiet week in the credit market and spreads are largely unchanged.
- The Swedish FSA published a stress test of Swedish banks that indicated that the banks can withstand the economic crisis in the Baltics

## Headlines from the credit market this week

In spite of a good equity rally, CDS indices are virtually unchanged compared to last week. The investment grade index, iTraxx Europe, currently trades at 108 basis points, which is on a par with last week. The high yield index, iTraxx Crossover trades at 682bp were slightly up from 680bp last week. Apart from yesterday, where markets were muted by various national holidays, new issuance activity has continued to be at a very high level. Subsequent performance in the secondary markets also continues to be supportive. This week's benchmark issues Bord Gáis and ThyssenKrupp are some 32bp and 55bp tighter respectively.

Table 1. Selected new issues during the week

Name	Rating	Coupon	Maturity	Currency	Size	Bond spread on issue date, ASW (bp)*
Bord Gáis	A2/A-	Fixed	5Y	EUR	0.55bn	275
ThyssenKrupp	Baa3/BBB-	Fixed	5Y	EUR	1.0bn	Gov +537
Citigroup	A3/A	Fixed	5Y	EUR	1.5bn	Gov +460
RWE	A1/A	Fixed	2Y	EUR	1.5bn	94

Note: Ratings are Moody's and S&P. \* Mid-Swaps for Fixed, Discount Margin for floating

Source: Danske Markets & Bloomberg

## The Swedish FSA has stress tested the four large Swedish banks

A new set of stress tests has been published by the Swedish FSA. The main finding – that the Swedish banks remain solvent even in stressed scenarios – was hardly unexpected taking into consideration last weeks' stress tests by the Swedish central bank.

According to the Swedish FSA (Finansinspektionen – FI), loan-losses will peak in 2010 and in total FI in its base case scenario expects loan-losses of SEK203bn through 2011. Under this scenario no bank will record a Tier 1 ratio of below 9% at any stage. In our view, the base scenario is quite optimistic as it operates with accumulated losses in the period 2009-11 of 1.5% in Sweden, 2.7% in the other Nordic countries, 38% in the Ukraine, 15% in the Baltics and 2.2% in the remaining countries (primarily Germany and the UK). We expect losses to be significantly higher – in the Baltics in particular and to a lesser degree in Sweden.

FI also performs two stress scenarios the first being a more severe downturn in eastern Europe and the latter adding a poor development in western Europe. Under these scenarios losses are SEK296bn and SEK350bn respectively. Interestingly, the stress scenarios do not take into account the risk of a devaluation of the Baltic currencies, which would make losses more front-loaded. Under the stress scenario the Tier 1 ratios remain well above the regulatory requirement of 4% (Swedbank falls just below 6%).

## iTraxx Europe (5Y CDS)



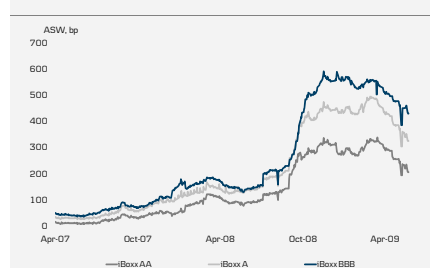
Source: Markit

## iTraxx Crossover (5Y CDS)



Source: Markit

## Cash indices



Source: iBoxx

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On an individual bank level the stress test revealed no real surprises compared to our view of the credit quality of the Swedish banks – namely that Handelsbanken is the strongest followed by Nordea, SEB and Swedbank. We would still be very cautious on subordinated exposure toward Swedbank while we are more comfortable on senior exposure due to our expectation of high probability of government support.

On another note, it was revealed that the Swedish Central Bank has borrowed EUR3bn from the ECB. As Sweden operates under a floating exchange rate regime the loan is probably not for currency purposes. Rather, the reason for the loan is likely to be based on Riksbanken's wish to be prepared for a worst case scenario in the Baltics spilling over to the Swedish banks.

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