

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
December 28, 2015

Economy

Exports continued to fall, imports up 0.6% y/y in November 2015

In November 2015, exports decreased 43.7% y/y to US\$ 854.3mn, while imports increased 0.6% y/y to US\$ 756.2mn, with the trade surplus decreasing 87.2% y/y to US\$ 98.1mn, according to the Customs Committee. Excluding minerals, exports decreased 6.1% y/y to US\$ 131.9mn and the non-mineral trade deficit widened by 2.1% to US\$ 623.4mn. The growth in imports was mainly driven by a 37.4% y/y increase in imports of machinery and a 39.1% y/y increase in imports of metals, while decreases in imports of cars, vegetables and foodstuff drove imports down.

In volume terms, oil exports decreased 8.4% y/y to 2.0mn tons and gas exports increased 3.1% y/y to 0.8bcm in November 2015. Car imports, a widely followed indicator, while increasing 9.5% m/m, declined 68.2% y/y to 1,428 units in November 2015.

In 11M15, total exports declined 48.7% y/y to US\$ 10.6bn, while imports were up 1.0% y/y to US\$ 8.2bn, leading to an 80.8% y/y decrease in the trade surplus to US\$ 2.4bn. Non-mineral exports fell 6.1% y/y in 11M15 to US\$ 1.4bn, resulting in the non-mineral trade deficit widening 2.7% y/y to US\$ 6.8bn.

Decision to float protects reserves but negatively impacts the banking sector

According to Fitch Ratings, the recent decision to float the manat will help protect Azerbaijan's external buffers by preserving reserves. While acknowledging the negative impact on the banking sector, Fitch Ratings believes that its small size (with assets at 50% of GDP in 2015) allows the government to provide support as needed. Moreover, the rating agency maintained International Bank of Azerbaijan's BB rating on Rating Watch Positive, noting that it is ready to upgrade it once the last tranche of support from the government is provided (by the end of 2015) and "upon confirmation of the bank's solvency and capital ratios remaining at reasonable levels."

Key macro indicators

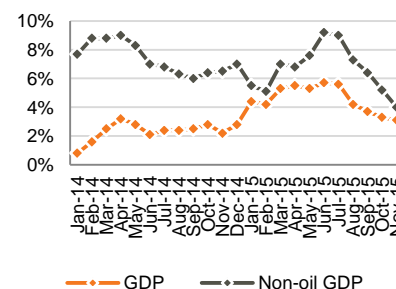
	11M15	2014	2013
GDP (% change)	3.1%	2.8%	5.8%
NO* GDP (% change)	4.0%	7.0%	10.0%
GDP per capita (ppp)	...	17,761	17,135
GDP per capita (US\$)	...	7,936	7,934
Population (mn)	9.7	9.6	9.5
Inflation (eop)	3.7%	-0.1%	3.6%
CAB (% of GDP)**	0.6%	13.9%	16.6%
NO* CAB (% of NOGDP)**	-18.6%	-21.2%	-29.6%
Fiscal balance (% of GDP)***	-3.3%	2.9%	1.8%
NO* fiscal bal. (% of NOGDP)**	-34.0%	-38.4%	-46.5%
Gross reserves (US\$ bn)****	41.8	50.9	50.0

Source: Official data

*Non-oil

As of 9M15, *As of 1H15, ****As of 3Q15

Real GDP growth, % (YTD)



Source: AzSTAT

International ranking of Azerbaijan

Ease of Doing Business # 63
 Economic Freedom Index # 85 (moderately free)
 Global Competitiveness Index # 40 (regional leader)

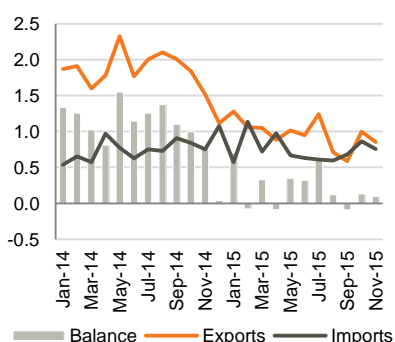
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

STANDARD & POOR'S BBB- Negative Affirmed Jul-2015	Moody's INVESTORS SERVICE Baa3 Stable Affirmed Dec-2015	FitchRatings BBB- Stable Affirmed Aug-2015
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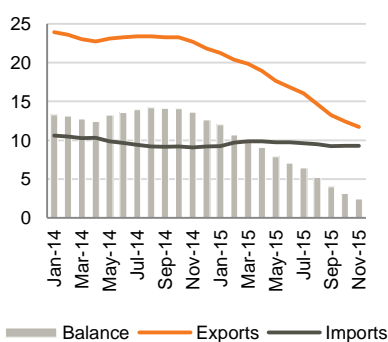
Source: Rating agencies

Contributions to growth, 11M15



Source: Customs Committee

Current account balance



Source: Customs Committee

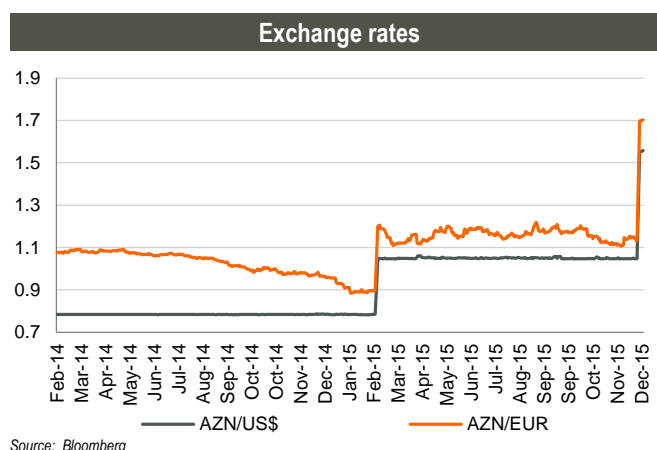
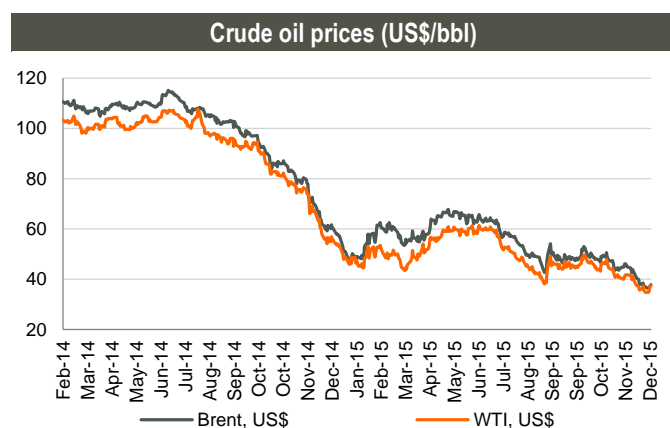


Oil prices and exchange rate

Oil price: Brent oil price was up 2.7% w/w to US\$ 39.9/bbl (down 37.1% y/y), while WTI oil price increased 8.0% w/w to US\$ 37.5/bbl (down 32.6% y/y). In AZN terms, Brent oil price was up 52.7% w/w to AZN 58.9 (up 24.7% y/y) due to the December 21 devaluation.

Exchange rate: Following the decision to move to a floating exchange rate on December 21, 2015, the official AZN/US\$ rate increased from 1.05 AZN/US\$ to 1.55 AZN/US\$ (+47.6%). AZN/EUR rate increased 47.9% to 1.685. During 21-25 December period (following the devaluation), AZN/US\$ exchange rate was up 0.3% to 1.554 while AZN/EUR was up 1.1% to 1.704.

Monetary policy rate: Monetary policy rate remained unchanged at 3.0%.



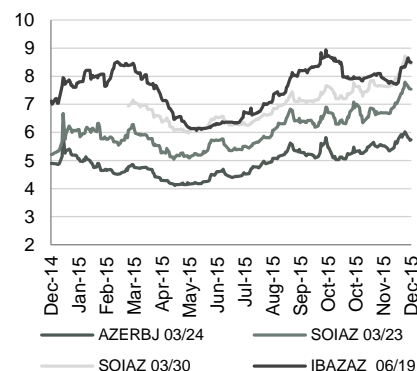


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 8.5% yield, trading at 87.7 (+2.3% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 91.6 (-0.5% w/w), yielding 8.5%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 93.6 (+2.0% w/w) at 5.7% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

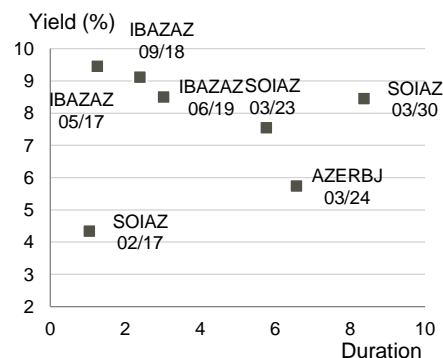


Source: Bloomberg

	Eurobonds					
	SOIAZ 02/17	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 09/18	IBAZAZ 06/19
Amount, US\$ mn	500	1000	750	100	198	500
Issue date	Feb-2012	Mar-2013	Mar-2015	May-2007	Sep-2013	Jun-2014
Maturity date	Feb-2017	Mar-2023	Mar-2030	May-2017	Sep-2018	Jun-2019
Coupon, %	5.450%	4.750%	6.950%	6.170%	7.750%	5.625%
Fitch/S&P/Moody's	BBB-/BB+/Ba1	BBB-/BB+/Ba1	BBB-/BB+/-	-/-B1	-/-Ba3	BB -/Ba3
Mid price, US\$	101.2	84.7	87.7	95.9	96.7	91.6
Mid yield, %	4.3	7.5	8.5	9.5	9.1	8.5
Z-spread, bps	336.2	556.5	608.7	769.7	759.9	710.2

Source: Bloomberg

Azerbaijan Eurobond universe



Source: Bloomberg

Eastern European sovereign 10-year bond performance

Issuer	Amount, US\$ mn	Coupon, %	Maturity date	Ratings (Fitch/S&P/Moody)	Mid price, US\$	Mid yield, %	Z-spread, bps
Azerbaijan	1,250	4.750%	3/18/2024	BBB-/BBB-/Baa3	93.6	5.7	362.3
Georgia	500	6.875%	4/12/2021	BB-/BB-/Baa3	104.1	5.9	412.1
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.1	1.3	-257.0
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	100.0	3.9	327.1
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	113.9	3.5	165.6
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	117.6	3.5	166.4
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	103.1	4.2	254.1
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	106.1	4.3	255.1
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	82.1	13.5	311.9

Source: Bloomberg

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