

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
August 8, 2016

Economy

CBAR reserves down to US\$4.2bn in July 2016

Reserves of the Central Bank of Azerbaijan declined 2.8% m/m (-51.0% y/y) in July 2016 to US\$ 4.2bn. Decrease in reserves was primarily due to FX interventions as CBAR sold US\$ 150mn in the open auction in July 2016.

Refinancing rate up from 7.0% to 9.5%

Central Bank of Azerbaijan increased its key refinancing rate from 7.0% to 9.5% effective from August 8, 2016, while keeping floor (4.0%) and ceiling (15.0%) interest rates stable. With this move, CBAR has already raised rates for the third time in 2016, the first rate increase from 3.0% to 5.0% took place in February 2016 and the second one in March 2016 from 5.0% to 7.0%.

SOFAZ crude oil exports up 14.8% m/m in July 2016

SOCAR exported 1.9mn tons of crude oil in July 2016, up 14.8% m/m. In 7M16, however, crude oil exports were down 5.3% to 12.2mn tons. Monthly average price of BTC FOB Ceyhan crude was down 5.0% m/m (-18.5% y/y) to US\$ 47.0/bbl.

SOCAR reports crude oil exports of the company and Azerbaijan state.

Tax revenues slightly above the budgeted level

According to the Ministry of Taxes, its tax revenues stood at AZN 3.8bn in 7M16, corresponding to 100.4% of the budgeted figure. However, compared to 7M15, revenues are down 6.2% y/y. In monthly terms, revenues in July 2016 were down 12.9% y/y to AZN 0.7bn.

Key macro indicators

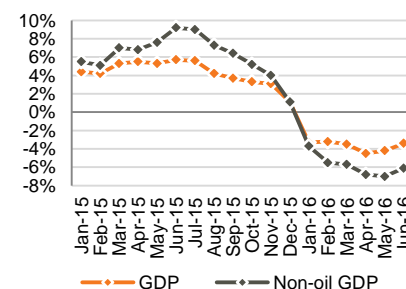
| | 6M16 | 2015 | 2014 |
|------------------------------|--------|--------|--------|
| GDP (% change) | -3.4% | 1.1% | 2.8% |
| NO* GDP (% change) | -6.1% | 1.1% | 7.0% |
| GDP per capita (ppp) | ... | 17,993 | 17,762 |
| GDP per capita (US\$) | ... | 5,739 | 8,055 |
| Population (mn) | ... | 9.7 | 9.6 |
| Inflation (eop) | 10.9% | 7.7% | -0.1% |
| CAB (% of GDP)** | -5.4% | -0.4% | 13.9% |
| NO* CAB (% of NOGDP)** | -18.4% | -18.4% | -16.5% |
| Fiscal balance (% of GDP) | 3.8% | -5.3% | 2.9% |
| NO* fiscal bal. (% of NOGDP) | -20.8% | -33.7% | -38.1% |
| Gross reserves (US\$ bn) | 39.4 | 38.6 | 50.9 |

Source: Official data

* Non-oil

**1Q16

Real GDP growth, % (YTD)



Source: AzSTAT

International ranking of Azerbaijan

Ease of Doing Business # 63

Economic Freedom Index # 91 (moderately free)

Global Competitiveness Index # 40 (regional leader)

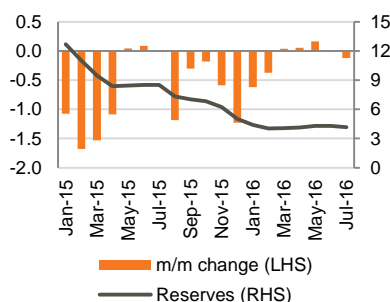
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

| | | |
|---|---|---|
|  BB+ Stable Jan-2016 |  Ba1 Negative Apr-2016 |  BB+ Negative Feb-2016 |
|---|---|---|

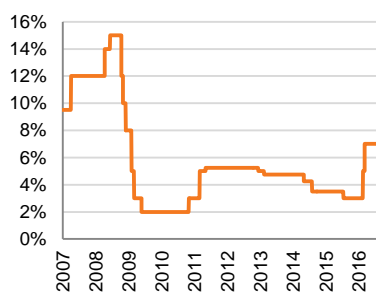
Source: Rating agencies

CBAR reserves, US\$ bn



Source: CBAR

CBAR refinancing rate, %



Source: CBAR



Oil prices and exchange rate

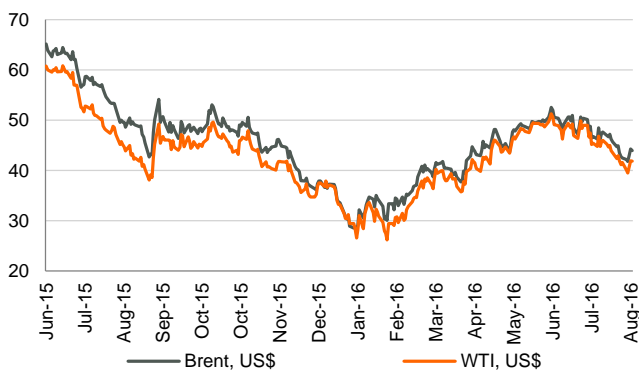
Oil price: Brent oil price was up 3.4% w/w to US\$ 43.9/bbl (down 11.4% y/y), while WTI oil price increased 0.6% w/w to US\$ 41.8/bbl (down 7.4% y/y). In AZN terms, Brent oil price was up 4.4% w/w to AZN 71.6 (up 37.3% y/y).

Exchange rate: On August 5, 2016, Central Bank set AZN/US\$ rate at 1.5980 (+0.8% w/w) and AZN/EUR at 1.7797 (+1.3% w/w). At Bloomberg AZN/US\$ was trading at 1.6295 (+0.9% w/w) while AZN/EUR was trading at 1.7865 (-0.2% w/w).

Monetary policy rate: Monetary policy rate was increased from 7.0% to 9.5% effective from August 8, 2016.

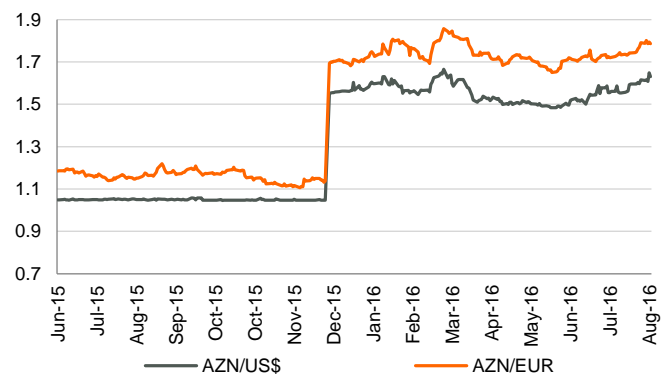
FX auctions: In two FX auctions organized by the Central Bank over the last week, State Oil Fund sold US\$ 98.5mn to commercial banks.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



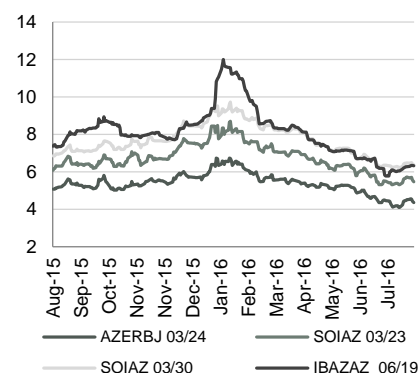
Source: Bloomberg

Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.4% yield, trading at 105.1 (+0.8% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 98.2 (-0.1% w/w), yielding 6.3%.

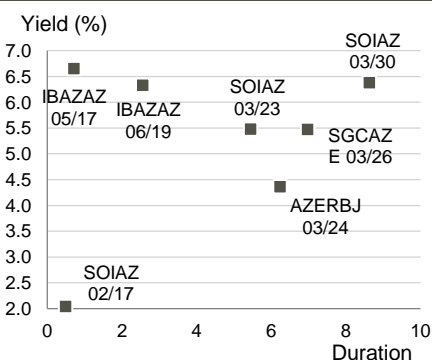
Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 102.5 (+0.9% w/w) at 4.4% yield to maturity.

Azerbaijan Eurobonds, YTM (%)



Source: Bloomberg

Azerbaijan Eurobond universe



Source: Bloomberg

| | Eurobonds | | | | | | |
|-------------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| | SOIAZ 02/17 | SOIAZ 03/23 | SOIAZ 03/30 | IBAZAZ 05/17 | IBAZAZ 06/19 | SGCAZE 03/26 | AZERBJ 03/24 |
| Amount, US\$ mn | 97.1 | 1000 | 750 | 100 | 500 | 1,000 | 1,250 |
| Issue date | Feb-2012 | Mar-2013 | Mar-2015 | May-2007 | Jun-2014 | Mar-16 | Mar-14 |
| Maturity date | Feb-2017 | Mar-2023 | Mar-2030 | May-2017 | Jun-2019 | Mar-26 | Mar-24 |
| Coupon, % | 5.450% | 4.750% | 6.950% | 6.170% | 5.625% | 6.875% | 4.750% |
| Fitch/S&P/Moody's | BB+/BB+/Ba1 | BB+/BB+/Ba1 | BB+/BB+/Ba1 | BB-/Ba3 | BB-/Ba3 | BB+/-/Ba1 | BB+/BB+/Ba1 |
| Mid price, US\$ | 101.7 | 96.0 | 105.1 | 99.6 | 98.2 | 110.4 | 102.5 |
| Mid yield, % | 2.0 | 5.5 | 6.4 | 6.7 | 6.3 | 5.5 | 4.4 |
| Z-spread, bps | 104.2 | 423.2 | 484.2 | 567.8 | 518.1 | 406.1 | 301 |

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 | BB+/BB+/Ba1 | 102.5 | 4.4 | 301.0 |
| Georgia | 500 | 6.875% | 4/12/2021 | BB-/BB-/Ba3 | 111.2 | 4.2 | 293.9 |
| Bulgaria | 323 | 5.000% | 7/19/2021 | BBB-/BB+/Baa2 | 120.3 | 0.8 | -238.3 |
| Croatia | 1,250 | 3.875% | 5/30/2022 | BB/BB/Ba1 | 105.5 | 2.8 | 285.8 |
| Hungary | 3,000 | 6.375% | 3/29/2021 | BB+/BB+/Ba1 | 114.7 | 3.0 | 177.7 |
| Romania | 2,250 | 6.750% | 2/7/2022 | BBB-/BBB-/Baa3 | 119.9 | 2.8 | 161.5 |
| Russia | 3,500 | 5.000% | 4/29/2020 | BBB-/BB+/Ba1 | 107.5 | 2.9 | 169.2 |
| Turkey | 2,000 | 5.625% | 3/30/2021 | BBB-/BB+/Baa3 | 106.7 | 4.0 | 281.0 |
| Kazakhstan | 2,500 | 5.125% | 7/21/2025 | BBB+/BBB-/Baa2 | 111.0 | 3.7 | 225.6 |

Source: Bloomberg

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