

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
May 23, 2016

Economy

Azerbaijan economy contracted 4.5% y/y in 4M16

In 4M16, real GDP fell 4.5% y/y, with non-oil GDP down 6.8% y/y and oil GDP flat. The contraction was driven by a strong decline in construction (-35.5% y/y) and transport and storage (-14.2% y/y), while positive contribution to growth came from trade (+2.7% y/y), information and communication (+11.0% y/y), mining (+0.5% y/y), manufacturing (+2.6% y/y), agriculture (+3.5% y/y), and tourism (+3.5% y/y). Excluding construction, non-oil GDP contracted 1.4% y/y in 4M16.

In nominal terms, GDP in 4M16 increased 5.9% y/y to AZN 16.9bn, while in US\$ terms, output decreased 36.9% y/y to US\$ 10.8bn.

Investments down 13.5% y/y in April 2016

Investments in April 2016 declined 13.5% y/y to AZN 1.4bn (-40.1% y/y to US\$ 0.9bn), with domestic investments driving the decline. Foreign investments increased 60.5% y/y and were mainly directed to the oil sector, as investments in the oil sector were up 39.3% y/y while non-oil investments declined 41.8% y/y.

Total investments were down 11.9% y/y to AZN 4.3bn (-46.0% y/y to US\$ 2.7bn) in 4M16.

Oil and gas extraction down

According to SOCAR, oil and natural gas extraction in Azerbaijan was down 2.2% y/y and 0.3% y/y, respectively, in April 2016 (-1.7% y/y and -0.8% y/y, respectively, in 4M16). The drop in SOCAR's output was the main drag on oil and gas production in April 2016.

Key macro indicators

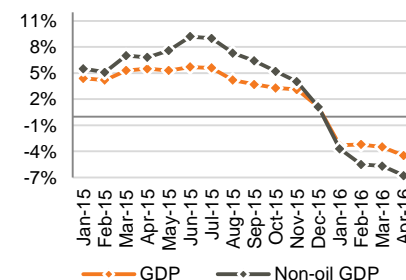
	4M16	2015	2014
GDP (% change)	-4.5%	1.1%	2.8%
NO* GDP (% change)	-6.8%	1.1%	7.0%
GDP per capita (ppp)	...	17,993	17,762
GDP per capita (US\$)	...	5,739	8,055
Population (mn)	...	9.7	9.6
Inflation (eop)	9.7%	7.7%	-0.1%
CAB (% of GDP)	...	-0.4%	13.9%
NO* CAB (% of NOGDP)	...	-18.4%	-16.5%
Fiscal balance (% of GDP)**	8.9%	-5.3%	2.9%
NO** fiscal bal. (% of NOGDP)**	-14.9%	-33.7%	-38.1%
Gross reserves (US\$ bn)**	38.3	38.6	50.9

Source: Official data

* Non-oil

**1Q16I

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)

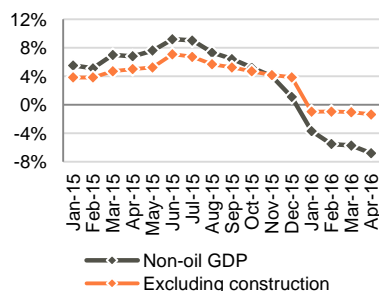
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

STANDARD & POORS BB+ Stable Jan-2016	Moody's INVESTORS SERVICE Ba1 Negative Apr-2016	FitchRatings BB+ Negative Feb-2016
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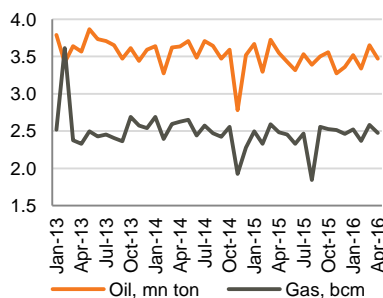
Source: Rating agencies

Non-oil GDP, y/y % change, YTD



Source: AzSTAT

Oil and gas extraction



Source: SOCAR



Oil prices and exchange rate

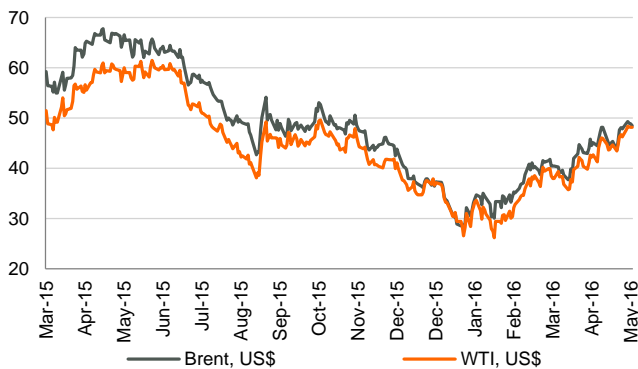
Oil price: Brent oil price was up 1.3% w/w to US\$ 48.5/bbl (down 25.5% y/y), while WTI oil price increased 4.2% w/w to US\$ 48.1/bbl (down 17.7% y/y). In AZN terms, Brent oil price was up 0.6% w/w to AZN 72.3 (up 5.9% y/y).

Exchange rate: On May 20, 2016, Central Bank set AZN/US\$ rate at 1.4987 (-0.7% w/w) and AZN/EUR at 1.6787 (-2.2% w/w). At Bloomberg AZN/US\$ was trading at 1.4915 (-0.7% w/w) while AZN/EUR was trading at 1.6814 (-1.4% w/w).

Monetary policy rate: Monetary policy rate remained unchanged at 7.0%.

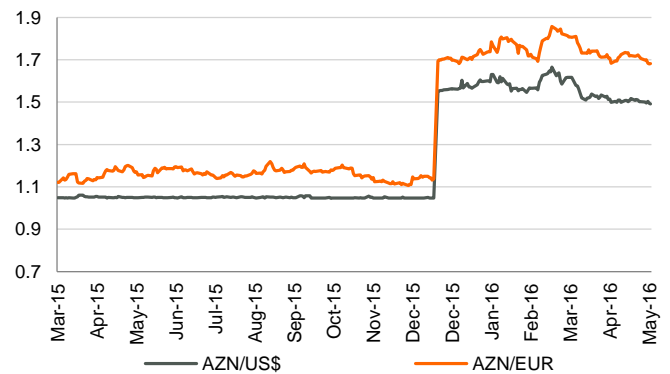
FX auctions: In two FX auctions organized by the Central Bank over the last week, State Oil Fund sold US\$ 97.4mn, of which US\$ 22.0mn was bought by CBAR and the rest by commercial banks.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



Source: Bloomberg

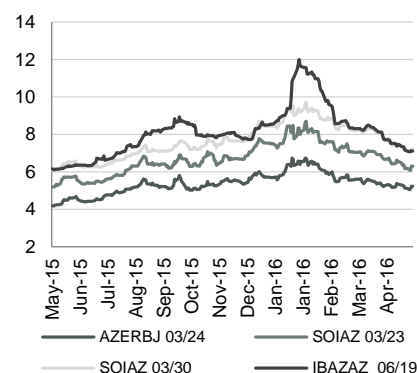


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 7.2% yield, trading at 97.6 (-0.4% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 96.0 (+0.1% w/w), yielding 7.1%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 96.9 (-0.6% w/w) at 5.2% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

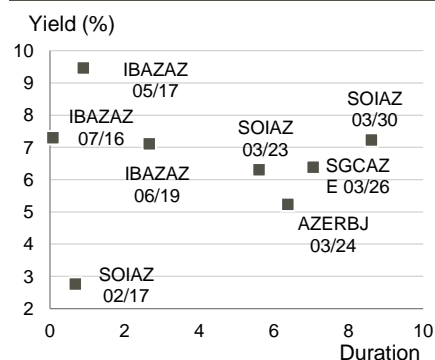


Source: Bloomberg

	Eurobonds							
	SOIAZ 02/17	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 07/16	IBAZAZ 06/19	SGCAZE 03/26	AZERBJ 03/24
Amount, US\$ mn	97.1	1000	750	100	198	500	1,000	1,250
Issue date	Feb-2012	Mar-2013	Mar-2015	May-2007	Sep-2013	Jun-2014	Mar-16	Mar-14
Maturity date	Feb-2017	Mar-2023	Mar-2030	May-2017	Jul-2016	Jun-2019	Mar-26	Mar-24
Coupon, %	5.450%	4.750%	6.950%	6.170%	7.750%	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-/Ba3	BB+/-/Ba1	BB+/-/Ba1
Mid price, US\$	101.9	91.5	97.6	97.0	100.1	96.0	103.6	96.9
Mid yield, %	2.8	6.3	7.2	9.5	7.3	7.1	6.4	5.2
Z-spread, bps	175.0	484.1	536.7	955.0	NA	615.0	469.3	362.4

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	BB+/BB+/Ba1	96.9	5.2	362.4
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	110.8	4.4	301.9
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.2	1.1	-245.1
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	102.9	3.3	317.4
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	113.6	3.3	191.9
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	118.1	3.2	182.8
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	105.6	3.5	215.3
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	107.0	4.0	265.5
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	105.2	4.4	275.7

Source: Bloomberg

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