

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
March 14, 2016

Economy

Azerbaijan plans to issue a US\$ 1.0bn bond

Depending on market conditions, the state-owned Southern Gas Corridor Company plans to raise US\$ 1.0bn in bond financing for its flagship project to deliver natural gas to Europe. In this regard, the government commenced a series of roadshows on March 10, 2016.

Deposit dollarization reached 82.5% in January 2016

Total deposits in Azerbaijan decreased 3.6% m/m to AZN 22.6bn (US\$ 14.1bn), as deposits fell in both AZN and FX terms (-6.8% m/m and -2.9% m/m, respectively). In FX deposit structure, households' time deposits and non-financial entities' demand deposits led the decline, while time deposits of financial entities were up. As the fall in AZN deposits was more pronounced, deposit dollarization inched up 0.6 pts m/m to 82.5% (+31.0 pts y/y).

NPL down 0.7 ppts m/m to 6.2% in January 2016

The banking sector loan portfolio contracted 2.4% m/m (+14.0% y/y) to AZN 21.2bn (US\$ 13.2bn), on the back of reduced lending to households and trade and services sector, while a positive contribution came from a AZN 312.2mn increase in the letter of credit portfolio. State banks increased their loan portfolio by AZN 417.7mn m/m (+5.7% m/m), while the loan portfolio of private banks fell by AZN 979.1mn m/m (-7.1% m/m).

Overdue loans decreased 12.9% m/m to AZN 1.3bn, driven by an improvement in AZN loan repayments. As a result, the NPL ratio fell 0.7 ppts m/m to 6.2%.

US\$ 168.1mn sold at FX auctions

The State Oil Fund sold US\$ 168.1mn (-35.3% w/w) in three FX auctions last week.

Key macro indicators

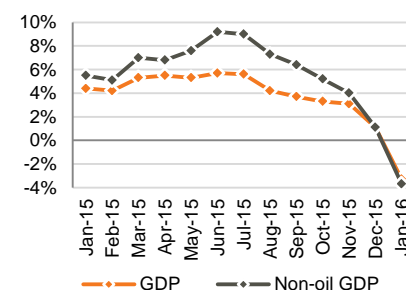
	1M16	2015	2014
GDP (% change)	-3.3%	1.1%	2.8%
NO* GDP (% change)	-3.7%	1.1%	7.0%
GDP per capita (ppp)	17,761
GDP per capita (US\$)	...	5,559	7,936
Population (mn)	9.7	9.7	9.6
Inflation (eop)	13.7%	7.7%	-0.1%
CAB (% of GDP)**	...	0.6%	13.9%
NO* CAB (% of NOGDP)**	...	-18.6%	-21.2%
Fiscal balance (% of GDP)	...	-5.3%	2.9%
NO* fiscal bal. (% of NOGDP)	...	-33.7%	-38.4%
Gross reserves (US\$ bn)	...	38.6	50.9

Source: Official data

*Non-oil

**As of 9M15.

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)

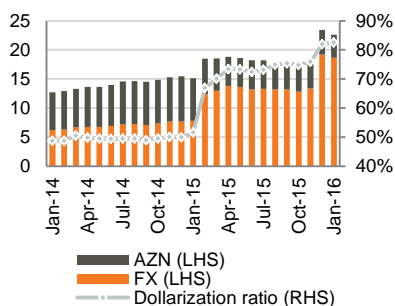
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

STANDARD & POOR'S BB+ Stable Jan-2016	Moody's INVESTORS SERVICE Ba1 Under review Feb-2016	Fitch Ratings BB+ Negative Feb-2016
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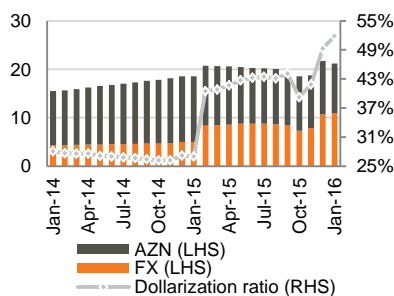
Source: Rating agencies

Banking sector deposits, AZN bn



Source: CBAR

Banking sector loans, AZN bn



Source: CBAR

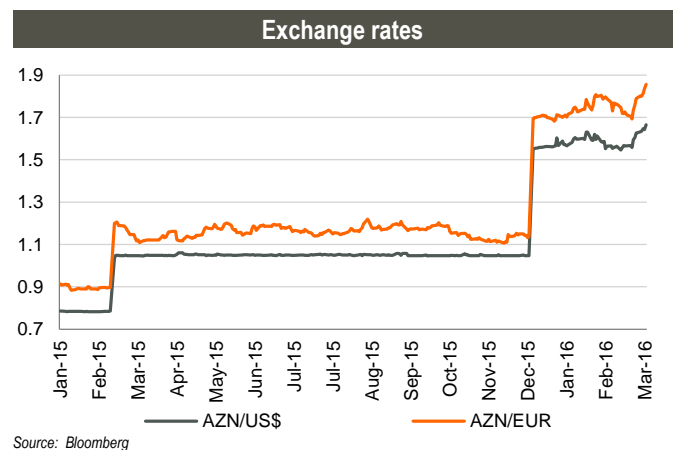
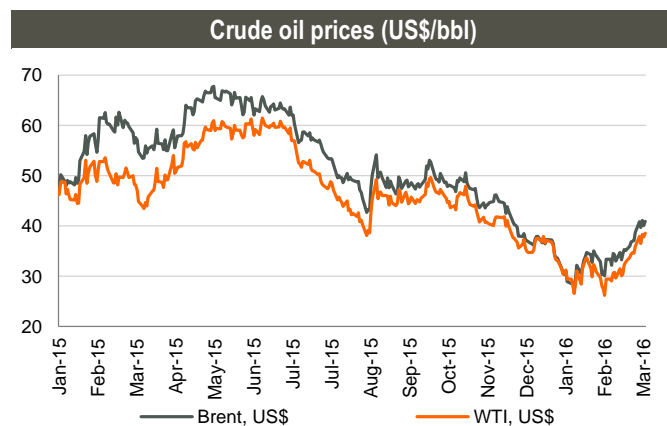


Oil prices and exchange rate

Oil price: Brent oil price was up 5.6% w/w to US\$ 40.9/bbl (down 29.0% y/y), while WTI oil price increased 7.3% w/w to US\$ 38.6/bbl (down 20.0% y/y). In AZN terms, Brent oil price was up 8.2% w/w to AZN 68.1 (up 13.0% y/y).

Exchange rate: On March 11, 2016, Central Bank set AZN/US\$ rate at 1.6456 (+2.7% w/w) and AZN/EUR at 1.8378 (+4.8% w/w). At Bloomberg AZN/US\$ was trading at 1.6655 (+2.5% w/w) while AZN/EUR was trading at 1.8554 (+3.7% w/w).

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



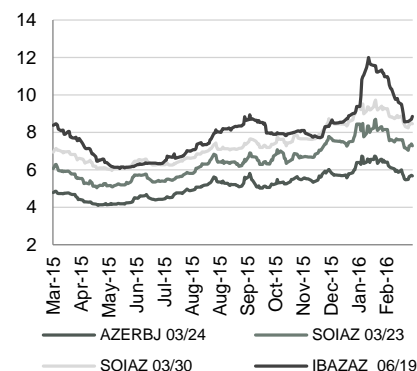


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 8.5% yield, trading at 87.7 (-1.3% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 91.1 (-0.7% w/w), yielding 8.9%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 94.1 (-1.3% w/w) at 5.7% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

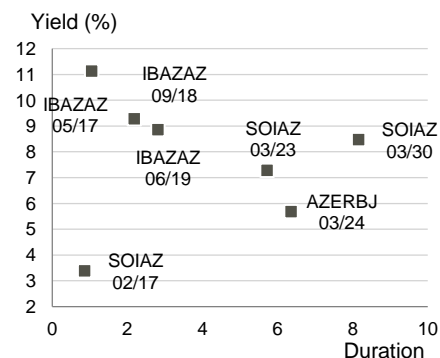


Source: Bloomberg

	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 /Ba1	BB-/Ba3	BB-/Ba3	BB /-/Ba3
Mid price, US\$	101.8	86.3	87.7	94.8	96.6	91.1
Mid yield, %	3.4	7.3	8.5	11.1	9.3	8.9
Z-spread, bps	288.7	586.5	650.7	954.2	824.8	777.9

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	94.1	5.7	399.7
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	106.4	5.4	395.0
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.3	1.1	-246.0
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	102.4	3.4	319.2
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	113.4	3.5	189.1
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	118.9	3.2	168.7
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	105.1	3.7	228.9
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	107.1	4.1	261.3
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	102.0	4.9	307.8

Source: Bloomberg



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