

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
August 22, 2016

Economy

Azerbaijan economy contracted 3.0% y/y in 7M16

In 7M16, real GDP declined 3.0% y/y, less than the 3.4% y/y contraction recorded in 1H16. Non-oil GDP was down 5.4% y/y, compared to a 6.1% y/y decline in 1H16, while oil GDP was up 2.0% y/y. The main drag on growth continued to be construction sector, which was down 30.7% y/y in 7M16. Excluding the construction sector, non-oil GDP was almost flat, indicating relative improvement compared to the 1.4% y/y contraction in 4M16.

Trade balance in surplus in July 2016

According to the Customs Committee of Azerbaijan, in July 2016 exports were down 38.1% y/y to US\$ 768.3mn, while imports were up 16.8% y/y to US\$ 710.0mn, resulting in a US\$ 58.4mn surplus

In 7M16, however, trade balance was negative at US\$ 167.5mn, as exports were down 38.6% y/y, and imports were down 10.5% y/y. Customs Committee export figures exclude non-declared oil exports which are included in Statistics Committee exports figures. According to the Statistics Committee, trade balance posted US\$ 2.2bn surplus in 1H16, down 50.3% y/y.

Non-mineral exports were down 28.0% y/y in July 2016 and down 33.2% y/y in 7M16. The decline in July was driven by a 69.8% y/y fall in exports of foodstuff and a 47.5% y/y fall in exports of vegetable products. Positive contribution to exports came from a 62.9% y/y increase in metal exports and a 162.5% y/y increase in plastics exports. The growth in imports in July 2016 was driven by increases in imports of machinery (+14.8% y/y), textiles (+235.5% y/y) and vegetables (+50.1% y/y).

Key macro indicators

	7M16	2015	2014
GDP (% change)	-3.0%	1.1%	2.8%
NO* GDP (% change)	-5.4%	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)	11.3%	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

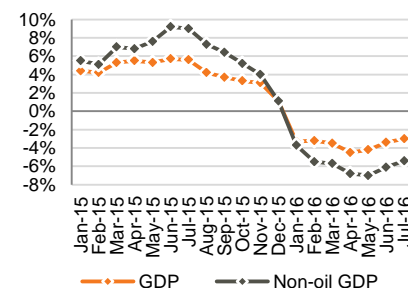
Source: Official data

* Non-oil

**1Q16

***1H16

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)

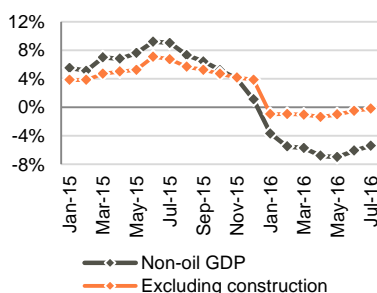
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

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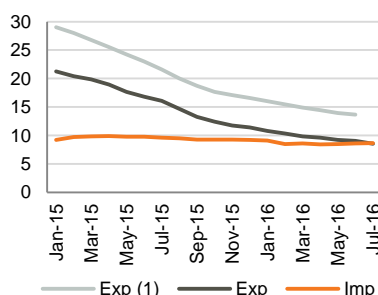
Source: Rating agencies

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



Source: AzSTAT

Trade, 12 month moving sum, US\$ bn



(1) Exports including non-declared oil exports
Source: Customs Committee, AzSTAT

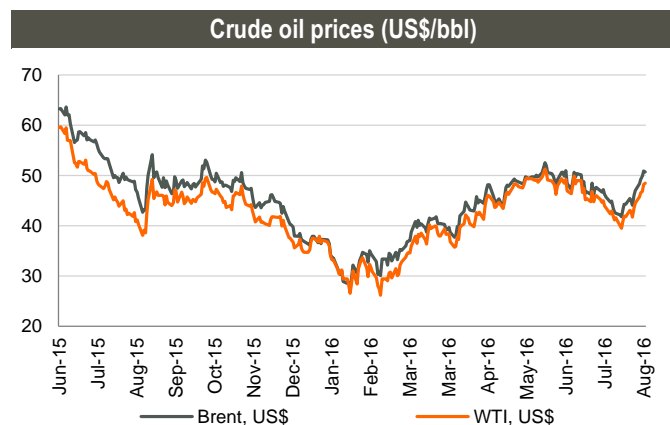
Oil prices and exchange rate

Oil price: Brent oil price was up 7.9% w/w to US\$ 50.7/bbl (up 7.5% y/y), while WTI oil price increased 8.9% w/w to US\$ 48.4/bbl (up 18.7% y/y). In AZN terms, Brent oil price was up 8.9% w/w to AZN 81.5 (up 71.8% y/y).

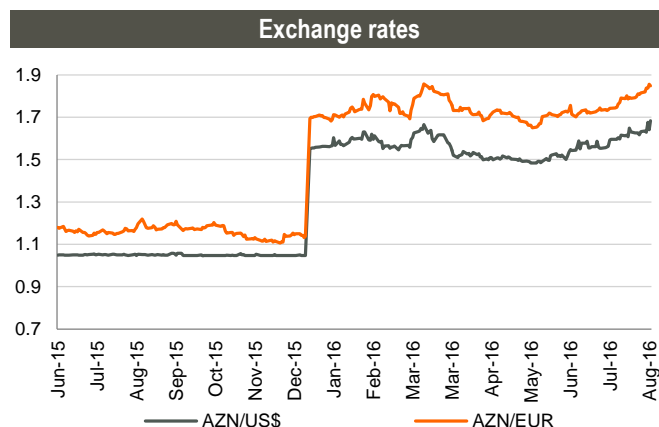
Exchange rate: On August 19, 2016, Central Bank set AZN/US\$ rate at 1.6204 (+0.6% w/w) and AZN/EUR at 1.8370 (+2.4% w/w). At Bloomberg AZN/US\$ was trading at 1.6825 (+3.1% w/w) while AZN/EUR was trading at 1.8472 (+1.8% w/w).

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

FX auctions: In two FX auctions organized by the Central Bank over the last week, State Oil Fund sold US\$ 100.0mn to commercial banks.



Source: Bloomberg



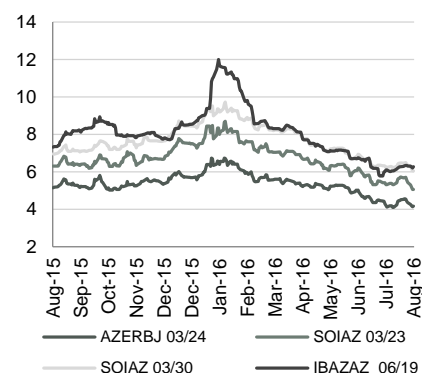
Source: Bloomberg

Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 5.9% yield, trading at 109.7 (+1.4% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 98.8 (+0.4% w/w), yielding 6.1%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 104.8 (+0.7% w/w) at 4.0% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

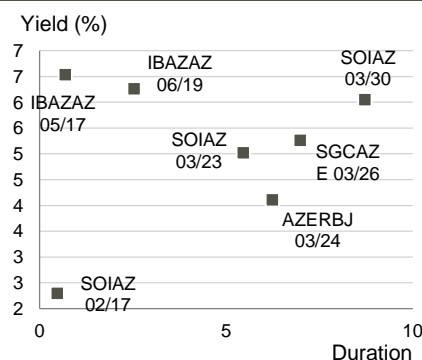


Source: Bloomberg

	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+/-/Ba1
Mid price, US\$	101.5	99.2	109.7	99.8	98.8	113.4	104.8
Mid yield, %	2.2	4.9	5.9	6.5	6.1	5.1	4.0
Z-spread, bps	73.6	366.5	436.5	381.0	528.6	367.2	266.5

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	104.8	4.0	266.5
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	112.0	4.0	280.8
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.3	0.8	-236.7
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	106.3	2.7	269.6
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	115.5	2.8	155.5
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	120.7	2.6	136.6
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	107.1	2.9	173.9
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	107.2	3.9	268.4
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	113.1	3.4	199.3

Source: Bloomberg

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