



Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
December 21, 2015

Economy

Azerbaijan moved to a floating exchange rate regime

On December 21, 2015, Azerbaijan Central Bank decided to move from the exchange rate peg to a floating exchange rate. US\$ value surged immediately from 1.05 US\$/AZN to 1.55 US\$/AZN (+47.6%).

Real GDP up 3.1% y/y in 11M15 with non-oil GDP expanding 4.0% y/y

Azerbaijan's real GDP grew 3.1% y/y in 11M15 (3.3% y/y in 10M15), with the oil sector expanding 1.8% y/y (0.5% y/y in 10M15) and non-oil GDP up 4.0% y/y (5.2% y/y in 10M15). A rebound in mining (+1.4% y/y), after being in the red in 10M15, along with trade (+11.1% y/y) and agriculture (6.7% y/y), were the main drivers of growth in 11M15. The construction sector (-0.8% y/y), posting double digit growth on the eve of the European Games in mid-2015, contracted and together with transportation (-0.9% y/y) had a negative contribution to growth.

Nominal GDP stood at US\$ 49.7bn (-27.8% y/y) or AZN 50.1bn (-7.2%y/y) in 11M15.

Inflation at 3.7% y/y and 0.4% m/m in November 2015

With a 0.4% m/m increase, annual inflation reached 3.7% in November 2015 (from 3.4% y/y in October 2015), driven by food prices (+5.9% y/y). Prices for non-food goods and services were up 3.7% y/y and 0.5% y/y, respectively, in November 2015.

External surplus at US\$ 177.3mn in 3Q15 and US\$ 240.5mn in 9M15

With the 2Q15 balance barely positive, the current account surplus increased slightly to US\$ 177.3mn in 3Q15 (1.3% of GDP). 9M15 current account surplus was US\$ 240.5mn (0.6% of GDP), down from US\$ 9.1bn in 9M14 (16.0% of GDP). Excluding the oil sector, which naturally suffered from the low oil prices, the non-oil current account deficit narrowed from US\$ 2.1bn (16.2% of non-oil GDP) in 3Q14 to US\$ 1.4bn (13.8% of non-oil GDP) in 3Q15.

Outflow of capital slowed

Capital outflow, which is measured by "acquisition of assets: other investments" in the Balance of Payments statistics and includes deposits, cash, loans and trade credit, fell below US\$ 0.2bn in 3Q15, following US\$ 5.2bn and US\$ 1.8bn outflows in 1Q15 and 2Q15, respectively.

Key macro indicators

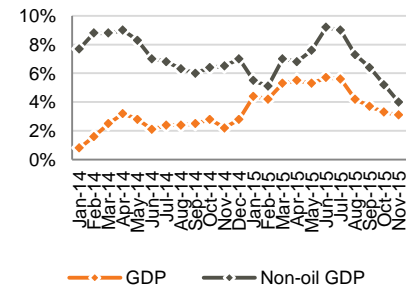
	11M15	2014	2013
GDP (% change)	3.1%	2.8%	5.8%
NO* GDP (% change)	4.0%	7.0%	10.0%
GDP per capita (ppp)	...	17,761	17,135
GDP per capita (US\$)	...	7,936	7,934
Population (mn)	9.7	9.6	9.5
Inflation (eop)	3.7%	-0.1%	3.6%
CAB (% of GDP)**	0.6%	13.9%	16.6%
NO* CAB (% of NOGDP)**	-18.6%	-21.2%	-29.6%
Fiscal 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)

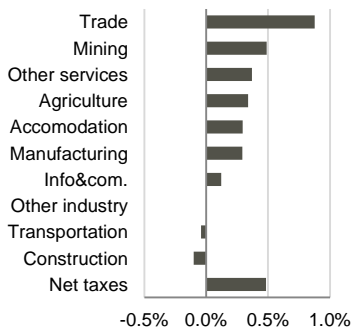
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

 BBB- Negative Affirmed Jul-2015	 Baa3 Stable Affirmed Dec-2015	 BBB- Stable Affirmed Aug-2015
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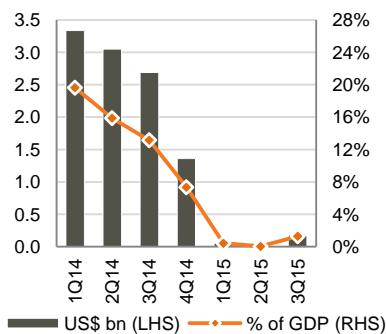
Source: Rating agencies

Contributions to growth, 11M15



Source: AzSTAT

Current account balance



Source: CBAR

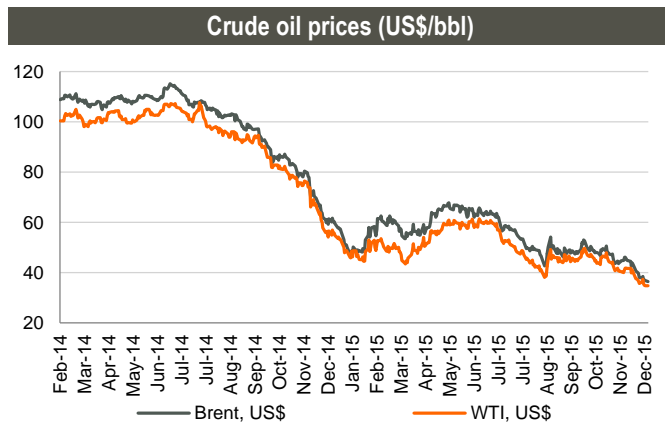


Oil prices and exchange rate

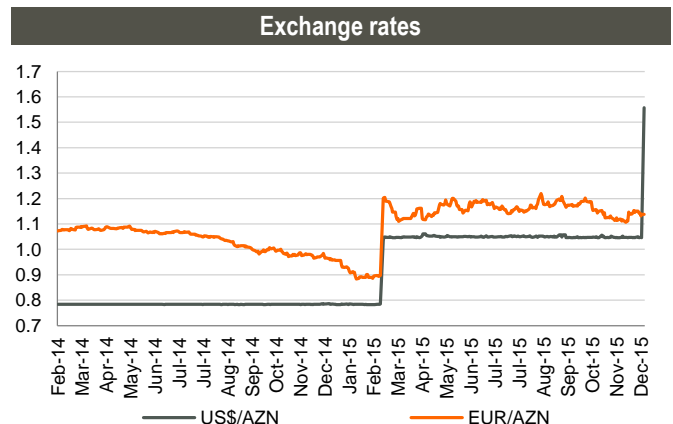
Oil price: Brent oil price was down 2.8% w/w to US\$ 36.9/bbl (down 37.8% y/y), while WTI oil price decreased 2.5% w/w to US\$ 34.7/bbl (down 35.8% y/y). In AZN terms, Brent oil price was down 2.8% w/w to AZN 38.6 (down 17.1% y/y). With the move to floating exchange rate on Monday, December 21, 2015, Brent oil price in AZN terms increased 46.9% to AZN 56.7/bbl since Friday, December 18.

Exchange rate: Following the decision to move to a floating exchange rate on December 21, 2015, the official US\$/AZN rate increased from 1.05 US\$/AZN to 1.55 US\$/AZN (+47.6%). EUR/AZN rate increased 47.9% to 1.685.

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



Source: Bloomberg



Source: Bloomberg

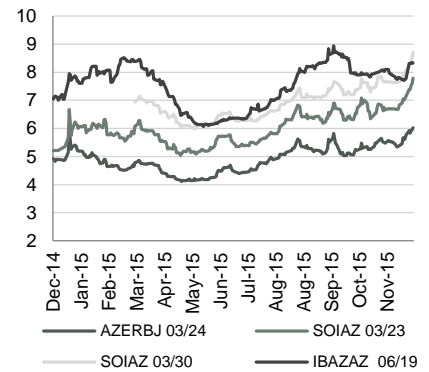


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 8.7% yield, trading at 85.8 (-5.5% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 92.0 (-1.7% w/w), yielding 8.3%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 91.8 (-1.8% w/w) at 6.0% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

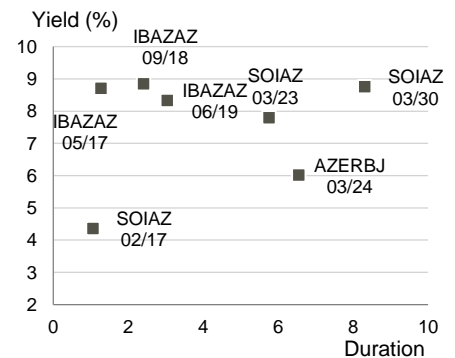


Source: Bloomberg

	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\$	101.1	83.4	85.8	96.8	97.4	92.0
Mid yield, %	4.5	7.8	8.7	8.7	8.8	8.3
Z-spread, bps	339.8	589.8	639.3	719.3	761.4	694.1

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	91.8	6.0	397.3
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	104.3	5.9	412.1
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.1	1.3	-225.3
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	100.0	3.9	337.3
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	114.1	3.4	157.7
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	117.7	3.5	168.4
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	103.5	4.1	247.4
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	106.1	4.3	256.9
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	98.9	5.3	315.2

Source: Bloomberg



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