

Azerbaijan Weekly Market Watch

 Weekly Market Watch | Azerbaijan
 July 25, 2016

Economy

Consolidated budget posts surplus at 3.8% of GDP in 1H16

Helped by non-oil taxes and customs receipts, consolidated budget revenues in Azerbaijan in 1H16 were up 2.5% y/y to AZN 9.3bn, while expenditures were down 17.0% y/y to AZN 8.2bn. As a result, consolidated budget posted a surplus of AZN 1.0bn or 3.8% of GDP (from a deficit of AZN 0.9bn or 3.4% of GDP in 1H15). Non-oil revenues were up 17.3% y/y to AZN 4.6bn, resulting in a non-oil budget deficit of AZN 3.7bn or 20.8% of non-oil GDP in 1H16.

In quarterly terms, consolidated revenues were up 2.6% y/y in 2Q16, while expenditures were down 1.3% y/y, leading to a deficit of AZN 0.1bn or 0.6% of GDP. Non-oil revenues were up 16.7% y/y in 2Q16, leading to a deficit of AZN 2.4bn or 26.0% of non-oil GDP, compared to a deficit of 30.5% of non-oil GDP in 2Q15.

SOFAZ budget posted a surplus of AZN 1.7bn

State Oil Fund (SOFAZ) revenues were slightly down (-1.6% y/y) in 1H16 to AZN 4.0bn, while expenditures were down 44.2% y/y to AZN 2.3bn, leading to an AZN 1.7bn surplus. In quarterly terms, SOFAZ revenues were down 2.9% to AZN 2.0bn, while expenditures plunged 81.8% y/y to AZN 0.3bn due to a significant drop in transfers to the state budget (from AZN 1.6bn in 2Q15 to AZN 0.1bn in 2Q16).

SOFAZ reserves up 2.5% q/q to US\$ 35.1bn

While SOFAZ reserves were slightly down (-1.9% y/y) in 2Q16 in annual terms, recent surpluses in its budget lead to a growth in reserves compared to 1Q16. At US\$ 35.1bn, SOFAZ reserves were up 2.5% q/q and up 4.6% since the end of 2015.

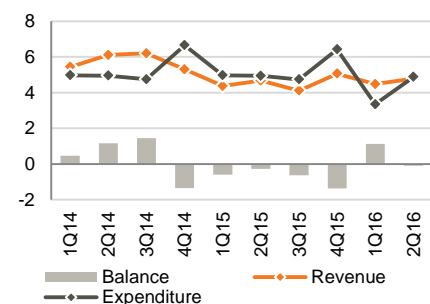
Trade balance in surplus in June 2016 following three months of deficit

In June 2016, exports from Azerbaijan were down 18.6% y/y to US\$ 772.5mn, while imports were up 13.1% y/y to US\$ 716.0mn, resulting in a US\$ 56.5mn surplus after three consecutive months of deficit. In 1H16, however, exports were down 38.7% y/y, and imports were down 14.0% y/y, resulting in a US\$ 225.8mn deficit.

Non-mineral exports were down 9.0% y/y in June 2016 and down 33.8% y/y in 1H16. The decline in June was driven by a 16.0% y/y fall in exports of vegetable products and a 37.3% y/y fall in exports of foodstuff. Positive contribution to exports came from a 46.9% y/y increase in metal exports and a 27.5% y/y increase in chemical exports.

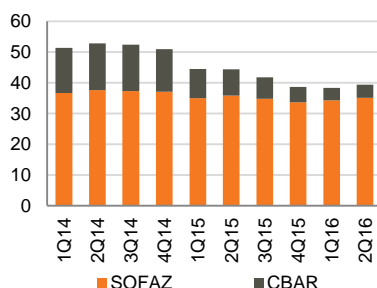
The growth in imports in June 2016 was driven by increases in imports of vegetable products (+183.4% y/y), mineral products (+226.7% y/y), plastics (+116.1% y/y) and textiles (+318.0% y/y).

Consolidated budget, AZN bn



Source: Ministry of Finance

International reserves, US\$ bn



Source: SOFAZ, CBAR

Key macro indicators

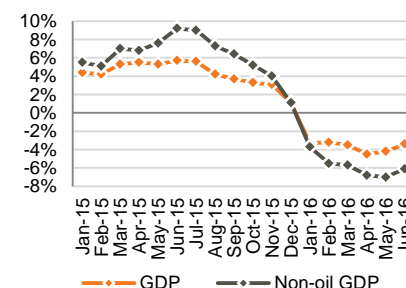
	6M16	2015	2014
GDP (% change)	-3.4%	1.1%	2.8%
NO* GDP (% change)	-6.1%	1.1%	7.0%
GDP per capita (ppp)	...	17,993	17,762
GDP per capita (US\$)	...	5,739	8,055
Population (mn)	...	9.7	9.6
Inflation (eop)	10.9%	7.7%	-0.1%
CAB (% of GDP)**	-5.4%	-0.4%	13.9%
NO* CAB (% of NOGDP)**	-18.4%	-18.4%	-16.5%
Fiscal 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

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

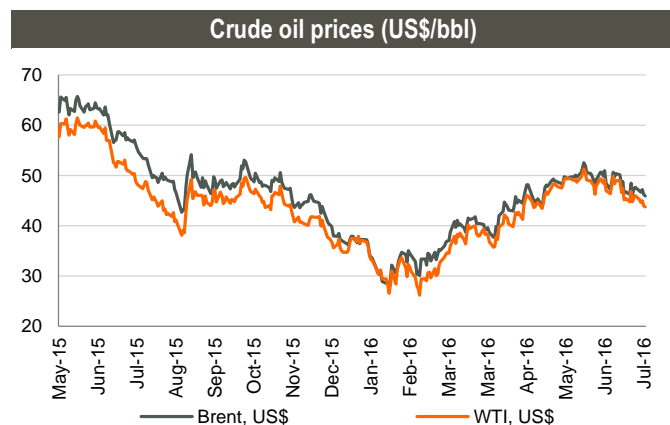
Oil prices and exchange rate

Oil price: Brent oil price was down 3.5% w/w to US\$ 45.9/bbl (down 18.2% y/y), while WTI oil price decreased 4.7% w/w to US\$ 43.8/bbl (down 10.4% y/y). In AZN terms, Brent oil price was down 0.9% w/w to AZN 73.3 (up 24.4% y/y).

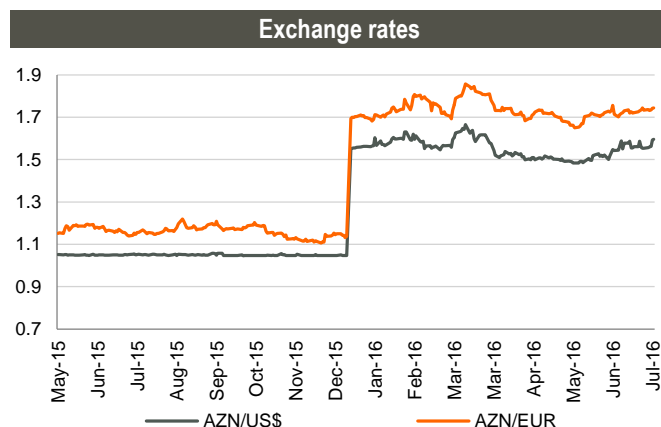
Exchange rate: On July 22, 2016, Central Bank set AZN/US\$ rate at 1.5724 (+0.9% w/w) and AZN/EUR at 1.7345 (+0.1% w/w). At Bloomberg AZN/US\$ was trading at 1.5955 (+2.7% w/w) while AZN/EUR was trading at 1.7438 (+0.6% w/w).

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\$ 100.0mn to commercial banks.



Source: Bloomberg



Source: Bloomberg

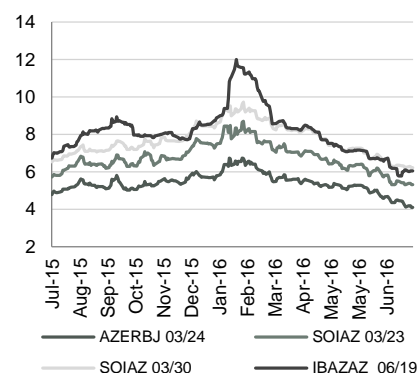


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.2% yield, trading at 106.6 (+0.1% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 98.9 (+0.1% w/w), yielding 6.1%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 104.1 (+0.1% w/w) at 4.1% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

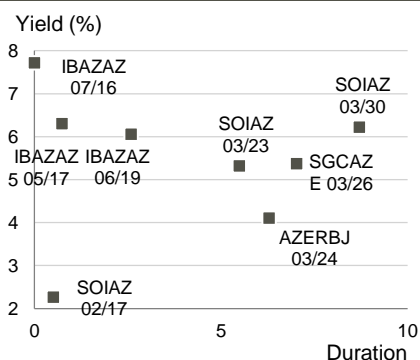


Source: Bloomberg

	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\$	101.7	96.9	106.6	99.9	100.0	98.9	111.3	104.2
Mid yield, %	2.3	5.3	6.2	6.3	7.7	6.1	5.4	4.1
Z-spread, bps	133.2	406.9	464.5	570.5	n/a	517.7	390.2	274.3

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	104.2	4.1	274.3
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	111.5	4.2	292.9
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.9	0.9	-237.2
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	104.2	3.1	308.2
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	114.6	3.0	183.3
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	119.5	2.9	180.7
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	107.3	2.9	176.9
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	106.7	4.0	279.9
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	111.1	3.7	222.5

Source: Bloomberg

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Galt & Taggart

Address: 79 D. Agmashenebeli Avenue, Tbilisi 0102, Georgia

Tel: + (995) 32 2401 111

Email: gt@gt.ge