

# Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan  
March 21, 2016

## Economy

**Azerbaijan economy contracted 3.2% y/y in 2M16, with non-oil GDP down 5.5% y/y and oil GDP up 1.3% y/y.** The contraction was driven by a strong decline in construction (-32.4% y/y) and transport and storage (-14.6% y/y), while trade (+4.2% y/y), manufacturing (+6.4% y/y), and mining (+0.9% y/y) contributed positively.

In nominal terms, GDP in 2M16 increased 13.7% y/y to AZN 4.0bn, while in US\$ terms, it declined 41.0% y/y to US\$ 5.0bn.

### Inflation rate at 9.8% y/y and 0.4% m/m in February 2016

Annual CPI inflation rate retreated to 9.8% in February 2016 from 13.7% in the previous month, according to AzSTAT. In February, food prices were up 11.8% y/y (-6.7ppts m/m), non-food prices were up 14.5% y/y (-2.8ppts m/m), and service sector prices were up 3.3% y/y (-1.1ppts m/m).

On a monthly basis, inflation rate was 0.4% in February 2016. Food prices were up 0.6% (-8.1ppts m/m), non-food prices were up 0.6% y/y (-5.0ppts m/m), and service sector prices were up 0.1% (-2.0ppts m/m).

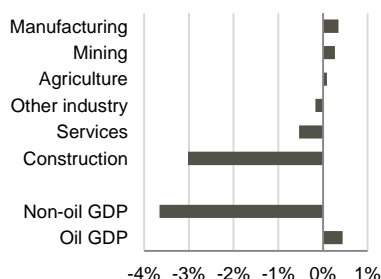
### Trade balance back to a surplus in February 2016

In February 2016, exports declined 46.4% y/y to US\$ 566.4mn while imports fell 52.7% y/y to US\$ 537.1mn, resulting in a trade surplus of US\$ 29.3mn compared to a US\$ 77.9mn deficit in February 2015. The fall in exports was broad-based, with mineral exports falling 45.3% y/y to US\$ 456.6mn and non-mineral exports falling 50.4% y/y to US\$ 109.8mn. On the import side, the decline was due to last year's high base (mostly one-offs), as well as major declines in transportation (-78.2% y/y), vegetable (-52.2% y/y), and foodstuff (-63.9% y/y) imports. The number of cars imported decreased 88.8% y/y to 384 units in February 2016.

### Reserve requirements for FX liabilities increased to 1.0%

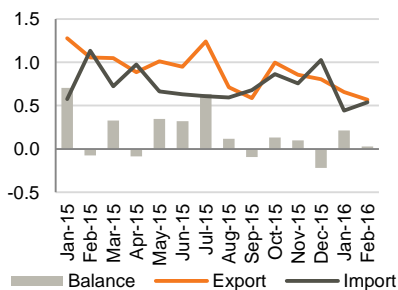
Effective May 1, 2016, with the objective of reducing dollarization, Central Bank of Azerbaijan increased the reserve requirement for FX liabilities of banks from 0.5% to 1.0%, while the requirement for local currency liabilities was kept at 0.5%. At the same time, the reserve requirements for non-resident financial sector liabilities and liabilities for settlement with international financial institutions were eliminated (previous 0.5%).

#### Contributions to growth



Source: AzSTAT

#### Trade, US\$ bn



Source: Customs Committee

#### Key macro indicators

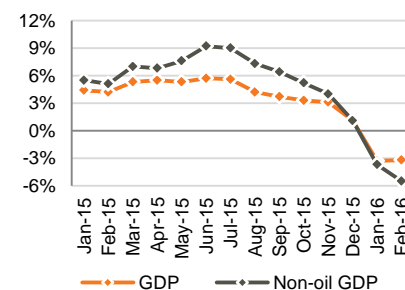
	2M16	2015	2014
GDP (% change)	-3.2%	1.1%	2.8%
NO* GDP (% change)	-5.5%	1.1%	7.0%
GDP per capita (ppp)	...	...	17,761
GDP per capita (US\$)	...	5,559	7,936
Population (mn)	9.7	9.7	9.6
Inflation (eop)	9.8%	7.7%	-0.1%
CAB (% of GDP)**	...	0.6%	13.9%
NO* CAB (% of NOGDP)**	...	-18.6%	-21.2%
Fiscal balance (% of GDP)	...	-5.3%	2.9%
NO* fiscal bal. (% of NOGDP)	...	-34.0%	-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 # 91 (moderately free)  
 Global Competitiveness Index # 40 (regional leader)

Source: World Bank, Heritage Foundation and World Economic Forum

#### Azerbaijan sovereign credit ratings

<b>STANDARD &amp; POOR'S</b>  <b>BB+</b> Stable Jan-2016	<b>Moody's</b> INVESTORS SERVICE  <b>Ba1</b> Under review Feb-2016	<b>FitchRatings</b>  <b>BB+</b> Negative Feb-2016
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Source: Rating agencies



## Oil prices and exchange rate

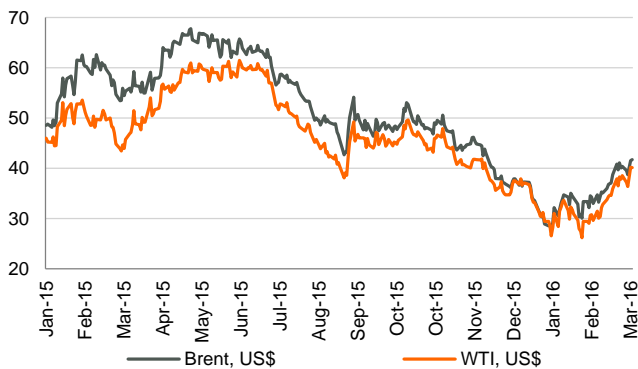
**Oil price:** Brent oil price was up 3.3% w/w to US\$ 41.7/bbl (down 25.3% y/y), while WTI oil price increased 4.3% w/w to US\$ 40.1/bbl (down 10.1% y/y). In AZN terms, Brent oil price was down 1.7% w/w to AZN 66.2 (up 12.8% y/y).

**Exchange rate:** On March 18, 2016, Central Bank set AZN/US\$ rate at 1.5971 (-2.9% w/w) and AZN/EUR at 1.8066 (-1.7% w/w). At Bloomberg AZN/US\$ was trading at 1.5850 (-4.8% w/w) while AZN/EUR was trading at 1.8256 (-1.7% w/w).

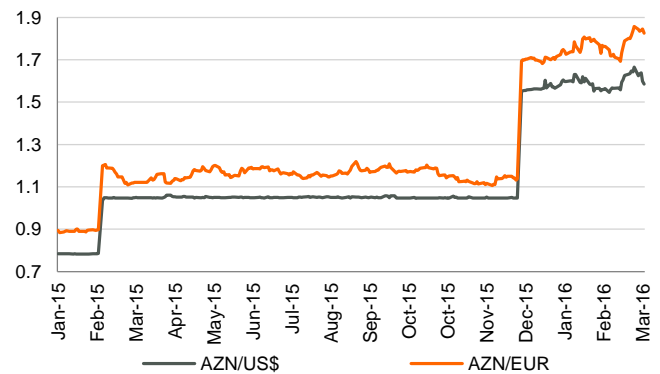
**Monetary policy rate:** Monetary policy rate remained unchanged at 7.0%.

**FX auctions:** In three FX auctions organized by the Central Bank over the last week, State Oil Fund offered US\$ 350mn, while demand was limited to US\$ 85.3mn, which is 49.3% lower than in the previous week and below the total offer.

Crude oil prices (US\$/bbl)



Exchange rates



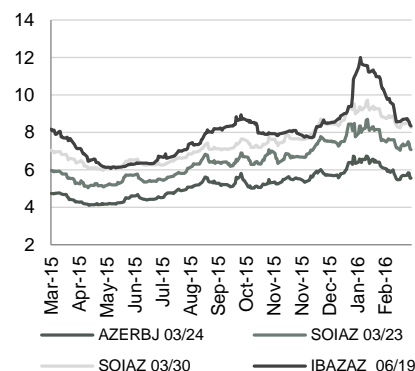


## Fixed income

**Corporate Eurobonds:** State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 8.3% yield, trading at 89.1 (+1.6% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 92.4 (+1.1% w/w), yielding 8.3%.

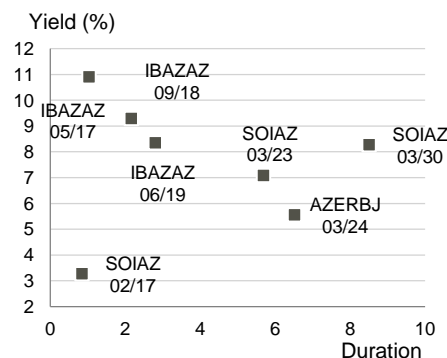
**Azerbaijan Sovereign Eurobonds** (AZERBJ 03/24) closed at 94.8 (+0.9% w/w) at 5.6% yield to maturity.

**Azerbaijan Eurobonds, YTM (%)**



Source: Bloomberg

**Azerbaijan Eurobond universe**



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\$	101.9	87.3	89.1	95.1	96.6	92.4
Mid yield, %	3.3	7.1	8.3	10.9	9.3	8.3
Z-spread, bps	289.6	609.5	640.6	892.8	835.3	771.1

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-/BB+/Ba1	94.8	5.6	396.4
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	107.3	5.2	384.9
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.8	1.1	-238.3
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	102.9	3.4	314.9
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	113.8	3.4	215.8
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	119.0	3.2	179.6
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	105.7	3.5	223.5
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	108.0	3.9	252.8
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	102.2	4.8	316.1

Source: Bloomberg

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