

Azerbaijan Weekly Market Watch

 Weekly Market Watch | Azerbaijan
 May 10, 2016

Economy

Total loans down 3.2% m/m in March 2016

The loan portfolio in AZN terms continued to contract in March 2016 for the 3rd month in a row. The 3.2% m/m decline (-4.6% y/y) in March was driven mainly by a 5.2% contraction in the state banks' loan portfolio (-8.7% y/y). Foreign currency loans decreased 5.7% m/m in March 2016, following a 7.0% m/m decline in February, while the loan portfolio in local currency was roughly flat (-0.6% m/m). Looking at the distribution by sector, almost 80% of the contraction is attributable to the industry (-20.5% m/m) and household (-2.0% m/m) loan portfolio.

Deposit dollarization up to 81.0% in March 2016

As deposits increased in both local and foreign currencies, total deposits reached AZN 23.1bn (+8.7% m/m) in March 2016. However, as the increase in FX deposits was higher, the deposit dollarization ratio inched up 0.6ppts m/m to 81.0% in March.

Loan-to-deposit ratio down to 85.1% in March 2016

With deposits on the rise and the loan portfolio contracting, the loan-to-deposit ratio fell to 85.1% in March 2016, down from 120.0% in December 2014 (pre-devaluation level). The ratio is significantly higher in local currency (227.9%) vs FX (51.6%).

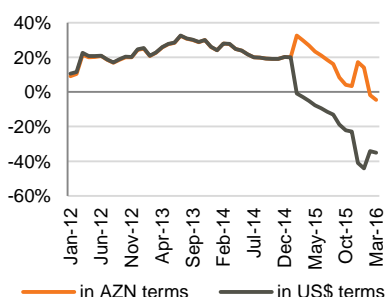
Net foreign assets of the banking sector up to AZN 1.9bn in March 2016

With gross foreign assets increasing and foreign liabilities flat, Azerbaijan's banking sector net foreign asset stayed in positive territory for the second month in a row, reaching AZN 1.9bn (US\$ 1.2bn) in March 2016.

Turnover on the Baku Stock Exchange down 11.1% m/m in March 2016

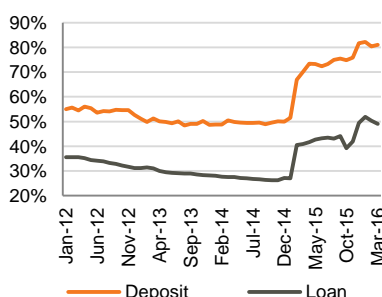
In March 2015, turnover on the Baku Stock Exchange was down 11.1% m/m (-81.2% y/y) to AZN 190.9mn on the back of reduced trade of debt instruments (-62.1% m/m to AZN 36.7mn). Overall, derivative instruments accounted for 80.7% of total turnover in March 2016. In US\$ terms, turnover declined to 119.3mn (-87.7% y/y and -12.6% m/m).

Loans, y/y % change



Source: CBAR

Dollarization ratio, %



Source: CBAR

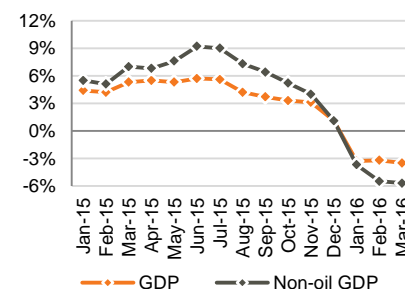
Key macro indicators

	1Q16	2015	2014
GDP (% change)	-3.5%	1.1%	2.8%
NO* GDP (% change)	-5.7%	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)	9.2%	7.7%	-0.1%
CAB (% of GDP)	...	-0.4%	13.9%
NO* CAB (% of NOGDP)	...	-18.4%	-16.5%
Fiscal balance (% of GDP)	8.9%	-5.3%	2.9%
NO* fiscal bal. (% of NOGDP)	-14.9%	-33.7%	-38.1%
Gross reserves (US\$ bn)	38.3	38.6	50.9

Source: Official data

*Non-oil

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

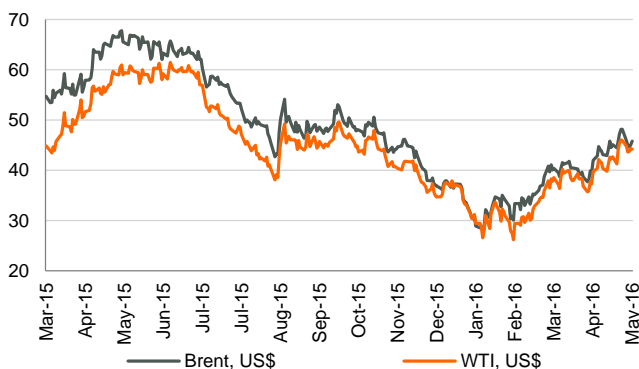
Oil price: Brent oil price was down 4.9% w/w to US\$ 45.8/bbl (down 32.4% y/y), while WTI oil price decreased 3.8% w/w to US\$ 44.2/bbl (down 27.5% y/y). In AZN terms, Brent oil price was down 3.8% w/w to AZN 69.4 (down 2.4% y/y).

Exchange rate: On April 28, 2016, Central Bank set AZN/US\$ rate at 1.5100 (+0.2% w/w) and AZN/EUR at 1.7220 (+0.3% w/w). At Bloomberg AZN/US\$ was trading at 1.5165 (+1.1% w/w) while AZN/EUR was trading at 1.7217 (-0.1% w/w).

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

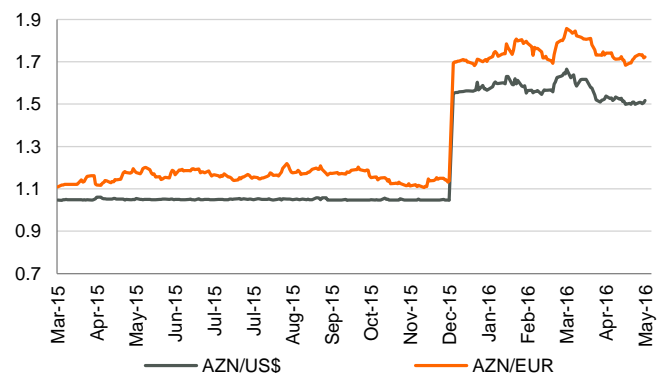
FX auctions: In two FX auctions organized by the Central Bank over the last week, State Oil Fund sold US\$ 77.3mn, of which US\$ 40.0mn was bought by CBAR and the rest by commercial banks.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



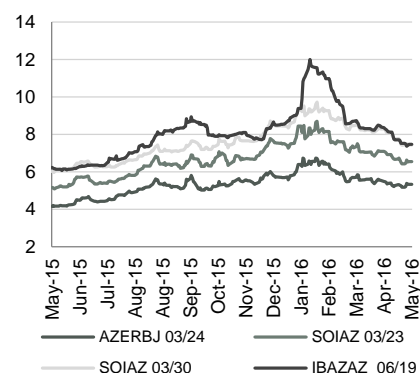
Source: Bloomberg

Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 7.4% yield, trading at 95.8 (-0.1% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 95.0 (+0.2% w/w), yielding 7.5%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 96.2 (-1.0% w/w) at 5.3% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

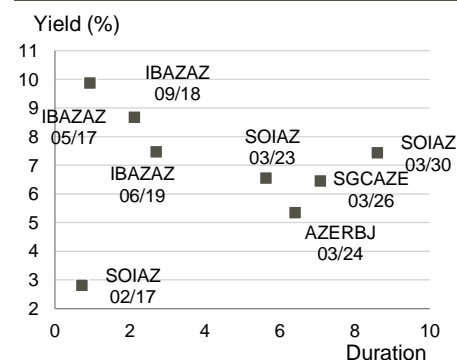


Source: Bloomberg

	Eurobonds							
	SOIAZ 02/17	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 09/18	IBAZAZ 06/19	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	Sep-2018	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\$	101.9	90.2	95.8	96.6	98.0	95.0	96.2	103.1
Mid yield, %	2.8	6.6	7.4	9.9	8.7	7.5	5.3	6.4
Z-spread, bps	201.0	517.1	568.1	952.4	851.8	636.4	386.5	487.5

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	96.2	5.3	386.5
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	110.4	4.5	324.3
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.4	1.1	-243.3
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	102.8	3.4	321.1
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	114.0	3.2	209.0
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	118.6	3.2	188.8
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	105.8	3.4	229.0
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	107.3	4.0	277.3
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	104.7	4.5	294.9

Source: Bloomberg

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