

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
April 25, 2016

Economy

SOFAZ reserves up 2.0% q/q to US\$ 34.2bn

Helped by manat devaluation, Azerbaijan State Oil Fund revenues reached AZN 2.0bn (-0.2% y/y) in 1Q16, while expenditures were down to AZN 1.9bn (-16.7% y/y), resulting in a minor surplus of AZN 76.4mn, compared to an AZN 307.6mn deficit in 1Q15. Due to the surplus and revaluation of assets, reserves increased 2.0% q/q to US\$ 34.2bn.

Non-oil fiscal balance down to 14.9% of non-oil GDP

In 1Q16 Azerbaijan's consolidated budget non-oil revenues increased 18.0% y/y, while total expenditures decreased 32.6% y/y, resulting in AZN 1.2bn non-oil deficit (-61.2% y/y). As a ratio to non-oil GDP, deficit was down from 41.4% in 1Q15 to 14.9% in 1Q16.

Trade deficit at recent highs

With mineral and non-mineral exports down 47.4% y/y and 43.2% y/y, respectively, total exports decreased 46.9% to US\$ 557.2mn in March 2016. Imports, on the other hand, increased 17.9% y/y to US\$ 851.7mn, resulting in a US\$ 294.6mn trade deficit, probably the highest since early 2000s.

The growth in imports was mainly driven by one-off imports of "ships, boats and floating structure," related to the oil and gas sector, which accounted for 71.5% of the growth.

Oil and gas production at highest level over the last 12 months

Azerbaijan produced 3.6mn tons of oil and 2.6 bcm of natural gas in March 2016, the highest monthly figure over the last 12 months, albeit 1.9% and 0.2% lower than in March 2015.

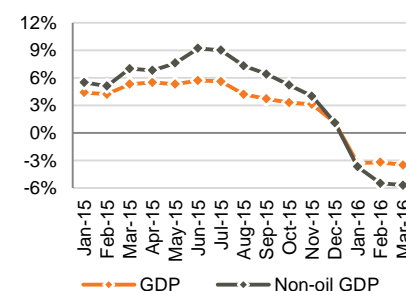
Key macro indicators

	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)

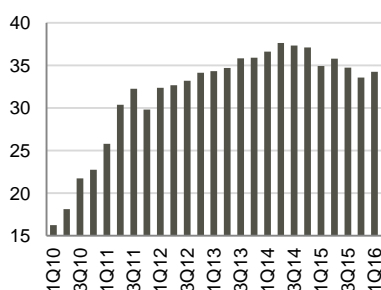
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

 BB+ Stable Jan-2016	 Ba1 Under review Feb-2016	 BB+ Negative Feb-2016
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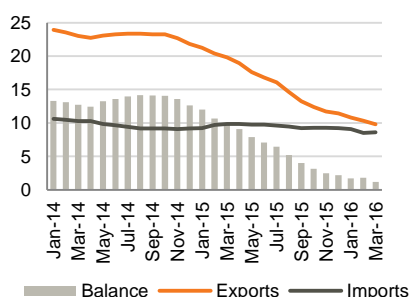
Source: Rating agencies

SOFAZ reserves, US\$ bn



Source: SOFAZ

Trade, 12-month moving sum, US\$ bn



Source: Customs Committee

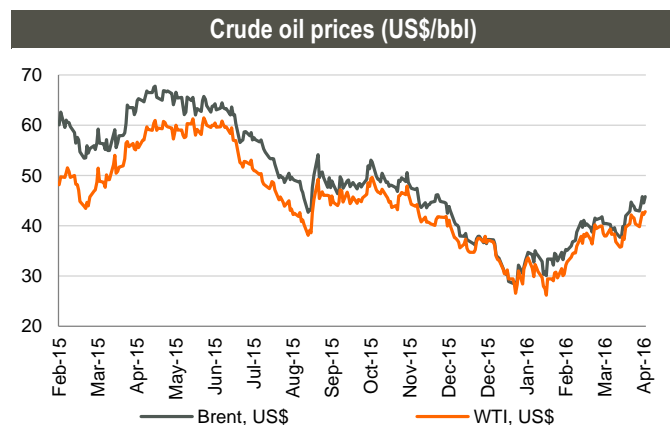
Oil prices and exchange rate

Oil price: Brent oil price was up 6.2% w/w to US\$ 45.8/bbl (down 27.1% y/y), while WTI oil price increased 6.1% w/w to US\$ 42.8/bbl (down 22.2% y/y). In AZN terms, Brent oil price was up 3.9% w/w to AZN 65.1 (up 3.8% y/y).

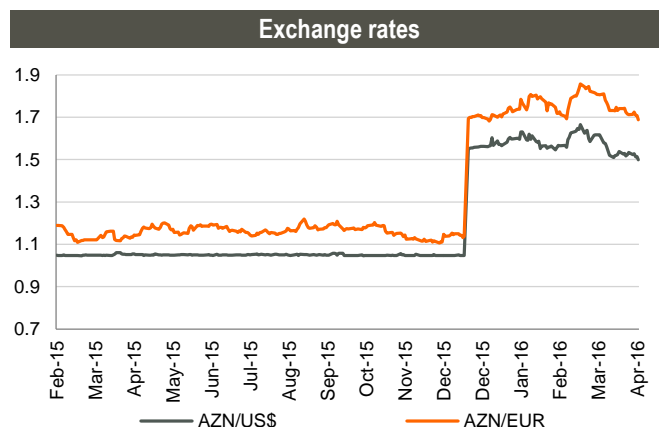
Exchange rate: On April 22, 2016, Central Bank set AZN/US\$ rate at 1.5074 (-0.9% w/w) and AZN/EUR at 1.7028 (-0.7% w/w). At Bloomberg AZN/US\$ was trading at 1.4995 (-2.2% w/w) while AZN/EUR was trading at 1.6878 (-1.4% w/w).

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\$ 22.8 mn.



Source: Bloomberg



Source: Bloomberg

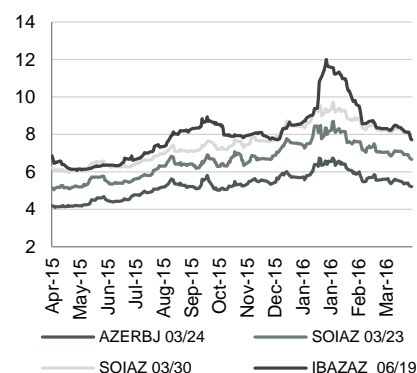


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 7.7% yield, trading at 93.4 (+3.0% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 94.3 (+1.3% w/w), yielding 7.7%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 97.0 (+1.1% w/w) at 5.2% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

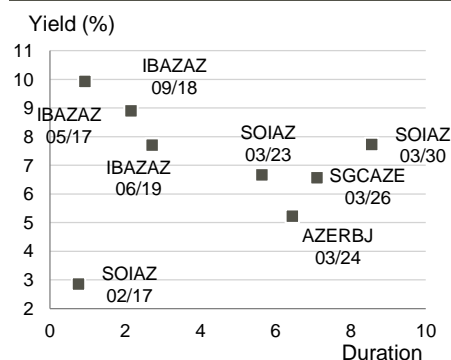


Source: Bloomberg

	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\$	102.0	89.6	93.4	96.4	97.5	94.3	97.0	102.3
Mid yield, %	2.9	6.7	7.7	9.9	8.9	7.7	5.2	6.6
Z-spread, bps	205.0	545.1	583.6	1085.8	837.4	700.7	360.3	483.6

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	97.0	5.2	360.3
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	110.8	4.4	303.5
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.6	1.1	-238.4
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	103.3	3.3	305.8
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	113.7	3.3	193.3
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	118.5	3.2	176.9
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	105.8	3.4	216.5
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	109.0	3.6	225.7
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	106.0	4.3	262.8

Source: Bloomberg

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