

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
December 26, 2016

Economy

TANAP project to receive US\$ 1.4 bn in IFI loans

The World Bank approved a US\$ 0.8bn loan for the Trans-Anatolian Natural Gas Pipeline (TANAP), which will transport gas from Azerbaijan's Shah-Deniz field to Turkey and further across the country to Europe. The loan will be allocated 50/50 to Turkey and Azerbaijan. In addition, Asian Infrastructure and Investment Bank (AIIB) approved a US\$ 0.6bn loan for TANAP. Earlier, Asian Development Bank approved US\$ 1.0bn in private and public sector assistance for the development of Shah-Deniz Stage 2.

Current account posted a US\$ 311.4mn deficit in 3Q16

Azerbaijan's current account posted a US\$ 311.4mn deficit in 3Q16, the fourth quarterly deficit in a row. The current account was in surplus (US\$ 177.3mn) in 3Q15. The deficit was driven by a 9.6% y/y decline in oil exports and a 12.3% y/y increase in non-oil imports, which led to a narrowing of the trade surplus from US\$ 1.5bn in 3Q15 to US\$ 1.0bn in 3Q16. Primary and secondary income balances also worsened. The tourism sector moved from a US\$ 140.6mn deficit in 3Q15 to a US\$ 239.3mn surplus in 3Q16, leading to the general service deficit narrowing from US\$ 1.0bn to US\$ 0.5bn. However, the improvement in the services balance was not enough to compensate for the deterioration in the other components of the current account balance.

Reserves increased in 3Q16

On the financing side, net FDI almost tripled in 3Q16 to US\$ 0.6bn, compared to the same quarter of the previous year, on the back of relatively strong non-oil FDI. Net outflows from portfolio and other investments (P&O) declined from US\$ 752.7mn in 3Q15 to US\$ 354.5mn in 3Q16 and there was an inflow of US\$ 166.8mn from net errors and omissions, compared to an outflow of US\$ 2.7bn in 3Q15. As a result of better financing flows, reserves increased marginally (+US\$ 62.5mn) in 3Q16, compared to a decline of US\$ 2.8bn in 3Q15.

Key macro indicators

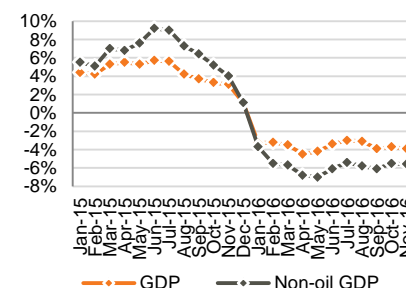
	10M16	2015	2014
GDP (% change)	-3.9%	1.1%	2.8%
NO* GDP (% change)	-5.6%	1.1%	7.0%
GDP per capita (ppp)	...	17,993	17,762
GDP per capita (US\$)	...	5,739	8,055
Population (mn)	...	9.7	9.6
Inflation (eop)	17.1%	7.7%	-0.1%
CAB (% of GDP)**	-4.0%	-0.4%	13.9%
NO* CAB (% of NOGDP)**	-22.7%	-18.4%	-16.5%
Fiscal balance (% of GDP)**	5.4%	-5.3%	2.9%
NO* fiscal bal. (% of NOGDP)**	-18.8%	-33.7%	-38.1%
Gross reserves (US\$ bn)**	40.0	38.6	50.9

Source: Official data

* Non-oil

**9M16

Real GDP growth, % (YTD)



Source: AzSTAT

International ranking of Azerbaijan

Ease of Doing Business # 65

Economic Freedom Index # 91 (moderately free)

Global Competitiveness Index # 37 (regional leader)

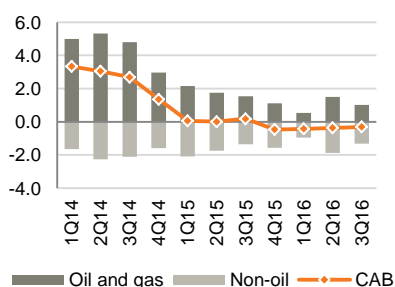
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

STANDARD & POOR'S BB+ Negative Jul-2016	Moody's INVESTORS SERVICE Ba1 Negative Apr-2016	FitchRatings BB+ Negative Aug-2016
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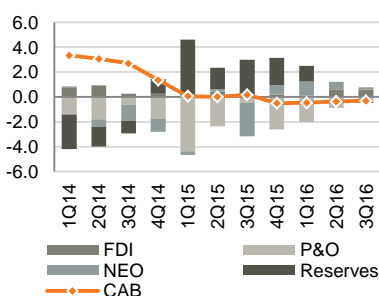
Source: Rating agencies

Current account balance (CAB), US\$ bn



Source: CBAR

Financial account, US\$ bn



Source: CBAR



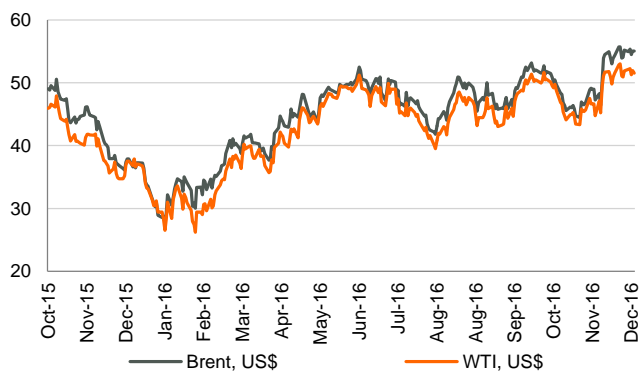
Oil prices and exchange rate

Oil price: Brent oil price was down 0.3% w/w to US\$ 55.1/bbl (up 47.4% y/y), while WTI oil price decreased 0.7% w/w to US\$ 51.5/bbl (up 39.7% y/y). In AZN terms, Brent oil price was up 2.0% w/w to AZN 94.1 (up 73.1% y/y).

Exchange rate: On December 23, 2016, Central Bank's AZN/US\$ rate was 1.7622 (+0.6% w/w) and AZN/EUR rate was 1.8412 (+0.7% w/w). At Bloomberg AZN/US\$ was trading at 1.8262 (+2.3% w/w) while AZN/EUR was trading at 1.8758 (+0.7% w/w).

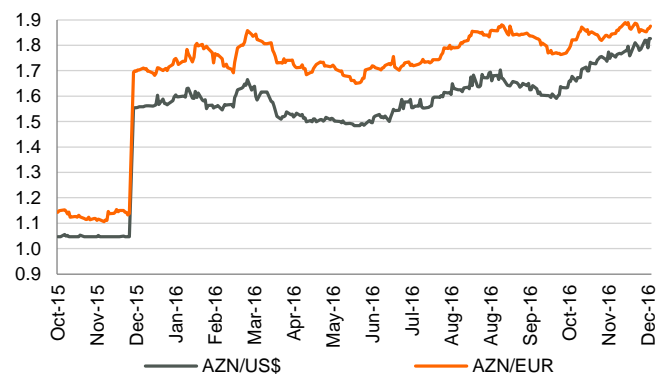
Monetary policy rate: Monetary policy rate was unchanged at 15.0%.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



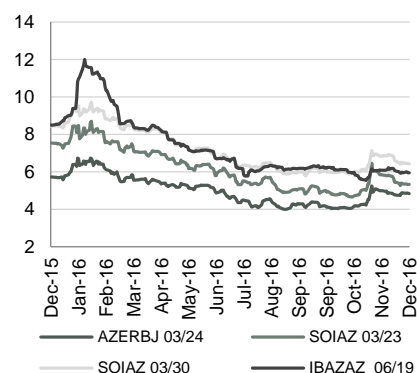
Source: Bloomberg

Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.4% yield, trading at 104.7 (+0.5% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 99.3 (+0.0% w/w), yielding 6.0%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 99.5 (+0.3% w/w) at 4.8% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

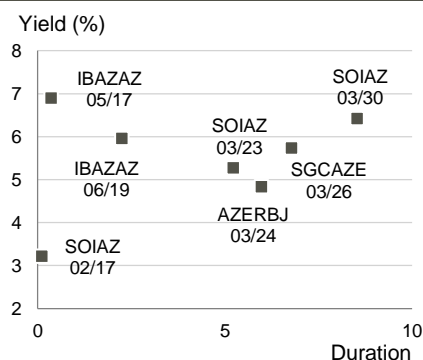


Source: Bloomberg

	Eurobonds						
	SOIAZ 02/17	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 06/19	SGCAZE 03/26	AZERBJ 03/24
Amount, US\$ mn	97.1	1000	750	100	500	1,000	1,250
Issue date	Feb-2012	Mar-2013	Mar-2015	May-2007	Jun-2014	Mar-16	Mar-14
Maturity date	Feb-2017	Mar-2023	Mar-2030	May-2017	Jun-2019	Mar-26	Mar-24
Coupon, %	5.450%	4.750%	6.950%	6.170%	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+/-/Ba1	BB+/-/Ba1
Mid price, US\$	100.2	97.2	104.7	99.7	99.3	108.1	99.5
Mid yield, %	3.2	5.3	6.4	6.9	6.0	5.7	4.8
Z-spread, bps	-80.3	308.3	392.9	488.4	416.6	335.3	252.3

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	99.5	4.8	252.3
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	109.7	4.4	233.0
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.3	0.5	-237.7
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	107.6	2.4	215.5
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	112.2	3.3	133.9
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	113.9	3.7	163.8
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	106.1	3.1	114.5
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Ba1	102.5	5.0	289.9
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	106.8	4.2	180.1

Source: Bloomberg

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