

# Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan  
February 1, 2016

## Economy

### Azerbaijan downgraded from investment grade to BB+

Weaker growth and continuing pressures from the lower oil price were the main reasons for S&P's decision to cut Azerbaijan's investment grade rating, last affirmed on July 31, 2015, to BB+ with a stable outlook. S&P expects Azerbaijani economy to contract 1.0% y/y in 2016 and the budget to remain in deficit in 2016 and 2017 after the 2015 budget deficit came in at 5.2% of GDP. Albeit, it expects the current account balance to remain in surplus, as the expected fall in domestic demand will contract imports.

### 2016 budget revised with oil price taken at US\$ 25/bbl

According to Ministry of Finance, Azerbaijan has corrected its 2016 budget in light of falling oil prices and due to the need to account for new social obligations. Oil price is taken at US\$ 25/bbl, down from US\$ 50/bbl in the original document. At the same time, government is increasing spending from the state budget to meet recent wage and social payments increases. Both spending and revenues have been increased by AZN 2.0bn, resulting in AZN 1.7bn deficit for the state budget, which will be covered by tapping the government deposit in the treasury account (at AZN 1.4bn at end-2015), privatization proceeds, and bond issuance.

### Commercial banks' demand for US\$ below the offered amount

In three FX auctions organized by the Central Bank over the last week, the regulator offered US\$ 600.0mn, while demand was limited to US\$ 219.8mn.

### Key macro indicators

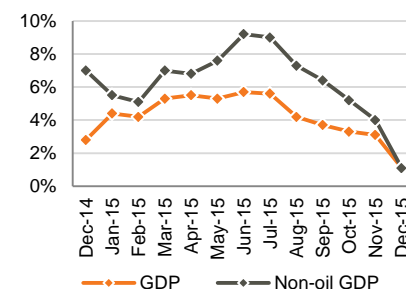
	2015	2014	2013
GDP (% change)	1.1%	2.8%	5.8%
NO* GDP (% change)	1.1%	7.0%	10.0%
GDP per capita (ppp)	...	17,761	17,135
GDP per capita (US\$)	5,559	7,936	7,934
Population (mn)	9.7	9.6	9.5
Inflation (eop)	7.7%	-0.1%	3.6%
CAB (% of GDP)**	0.6%	13.9%	16.6%
NO* CAB (% of NOGDP)**	-18.6%	-21.2%	-29.6%
Fiscal balance (% of GDP)	-5.3%	2.9%	1.8%
NO* fiscal bal. (% of NOGDP)**	-34.0%	-38.4%	-46.5%
Gross reserves (US\$ bn)***	41.8	50.9	50.0

Source: Official data

\*Non-oil

\*\*As of 9M15, \*\*\*As of 3Q15

### Real GDP growth, % (YTD)



Source: AzSTAT

### International ranking of Azerbaijan

Ease of Doing Business # 63

Economic Freedom Index # 85 (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 Affirmed Jan-2016	<b>MOODY'S</b> INVESTORS SERVICE  <b>Baa3</b> Stable Affirmed Dec-2015	<b>FitchRatings</b>  <b>BBB-</b> Stable Affirmed Aug-2015
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Source: Rating agencies



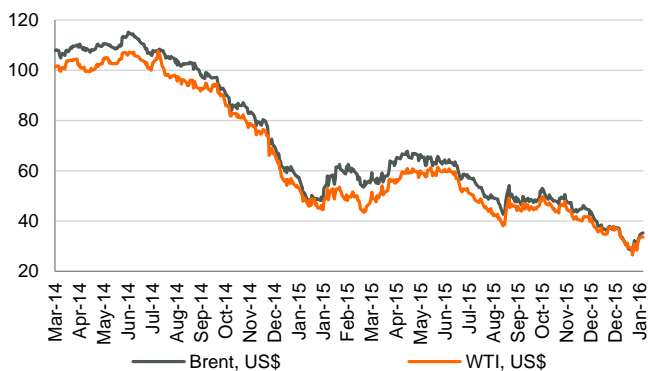
## Oil prices and exchange rate

**Oil price:** Brent oil price was up 8.0% w/w to US\$ 34.7/bbl (down 29.3% y/y), while WTI oil price increased 8.5% w/w to US\$ 33.6/bbl (down 24.5% y/y). In AZN terms, Brent oil price was up 10.2% w/w to AZN 57.6 (up 47.0% y/y).

**Exchange rate:** On January 29, 2016, Central Bank set AZN/US\$ rate at 1.6008 (-0.1% w/w) and AZN/EUR at 1.7495 (+0.7% w/w). At Bloomberg AZN/US\$ was trading at 1.6308 (+2.1% w/w) while AZN/EUR was trading at 1.7667 (+2.4% w/w).

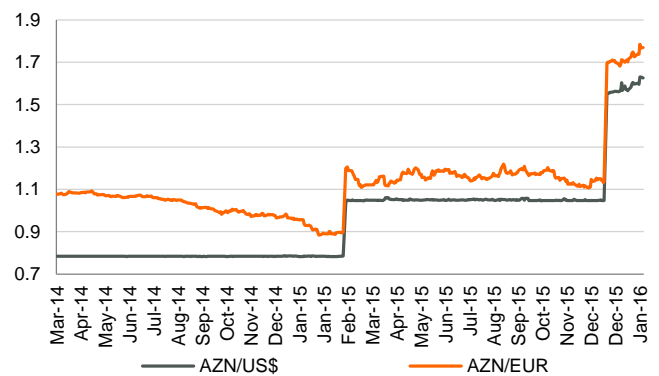
**Monetary policy rate:** Monetary policy rate remained unchanged at 3.0%.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



Source: Bloomberg

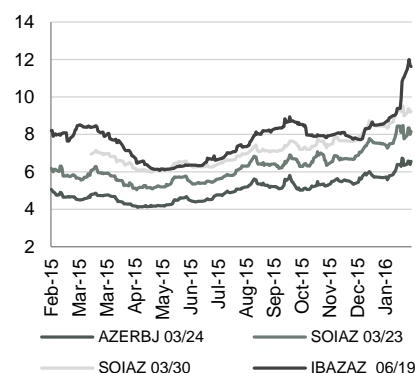


## Fixed income

**Corporate Eurobonds:** State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 9.2% yield, trading at 82.3 (-1.9% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 83.8 (-1.4% w/w), yielding 11.6%.

**Azerbaijan Sovereign Eurobonds** (AZERBJ 03/24) closed at 88.7 (-1.4% w/w) at 6.3% yield to maturity.

**Azerbaijan Eurobonds, YTM (%)**

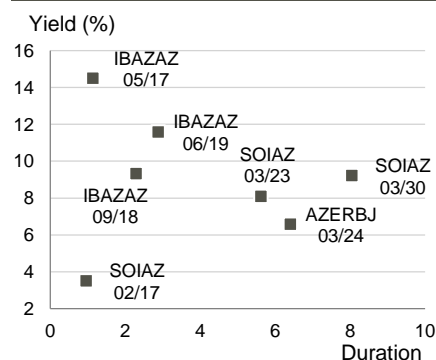


Source: Bloomberg

	Eurobonds					
	SOIAZ 02/17	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 09/18	IBAZAZ 06/19
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+ /-	-/-/B1	-/-/Ba3	BB /-/Ba3
Mid price, US\$	101.9	82.2	82.3	90.6	96.3	83.8
Mid yield, %	3.5	8.1	9.2	14.5	9.3	11.6
Z-spread, bps	278.4	668.6	729.7	1,246.0	799.3	1,040.7

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	BBB-/BB+/Baa3	88.7	6.6	480.7
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	104.1	6.0	455.9
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.0	1.2	-227.7
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	102.0	3.5	322.5
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	113.5	3.5	208.6
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	118.2	3.4	185.2
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	104.0	4.0	271.4
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	106.6	4.2	284.2
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB/Baa2	99.7	5.2	341.1

Source: Bloomberg

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