

# Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan  
June 13, 2016

## Economy

### Inflation rate at 10.2% y/y and -0.1% m/m in May 2016

Annual CPI inflation rate inched up to 10.2% in May 2016 from 9.7% in the previous month, according to AzSTAT. In May, food prices were up 10.6% y/y (+0.9ppts m/m), non-food prices were up 15.6% y/y (+0.1ppts m/m), and service sector prices were up 4.8% y/y (+0.1ppts m/m).

On a monthly basis, inflation rate was -0.1% in May 2016. Food prices were down 0.7% (-0.8ppts m/m), non-food prices were up 0.3% y/y (-0.2ppts m/m), and service sector prices were up 0.2% (+0.2ppts m/m).

### World Bank revised Azerbaijan's growth forecast for 2016 from +0.8% to -1.9%

Azerbaijan's economy is forecast to contract 1.9% in 2016 and return to growth in 2017, according to the World Bank's Global Economic Prospects published in June 2016. GDP is forecast to grow 0.7% and 1.3% in 2017 and 2018 respectively.

### Customs Committee receipts up 45.4% y/y in May 2016

Helped by VAT receipts, Customs Committee revenues increased 45.4% y/y to AZN 206.3mn in May 2016 and 36.1% y/y to AZN 850.6mn in 5M16. However, in US\$ terms receipts increased 1.5% y/y to US\$ 137.3mn in May and were down 15.7% y/y to US\$ 550.1mn in 5M16.

### Ministry of Taxes' tax revenue in 5M16 was 3.2% above the budgeted level

Ministry of Tax revenues were down 0.5% y/y to AZN 0.5bn in May 2016 and down 5.8% y/y to AZN 2.7bn in 5M16. However, in 5M16 tax revenues were 3.2% above the budgeted level.

### Key macro indicators

|                                 | 4M16   | 2015   | 2014   |
|---------------------------------|--------|--------|--------|
| GDP (% change)                  | -4.5%  | 1.1%   | 2.8%   |
| NO* GDP (% change)              | -6.8%  | 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)**               | 10.2%  | 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   |

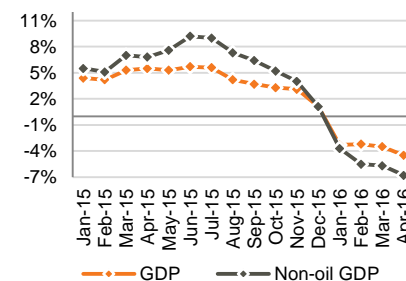
Source: Official data

\* Non-oil

\*\* May 2016

\*\*\*1Q16

### 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)

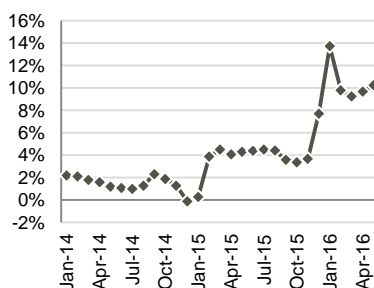
Source: World Bank, Heritage Foundation and World Economic Forum

### Azerbaijan sovereign credit ratings

|   |   |   |
|---|---|---|
| <br><b>BB+</b><br>Stable<br>Jan-2016 | <br><b>Ba1</b><br>Negative<br>Apr-2016 | <br><b>BB+</b><br>Negative<br>Feb-2016 |
|---|---|---|

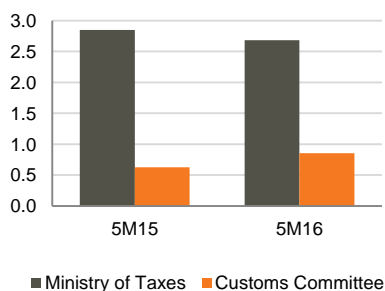
Source: Rating agencies

### Annual inflation



Source: AzSTAT

### Tax revenues, AZN bn



Source: Ministry of Taxes and Customs Committee

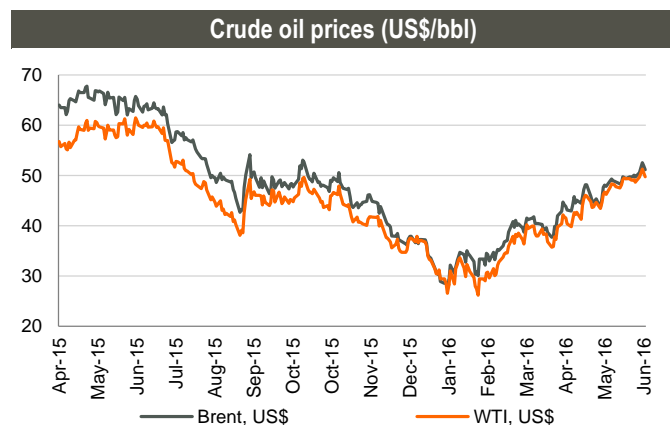
## Oil prices and exchange rate

**Oil price:** Brent oil price was up 3.0% w/w to US\$ 51.2/bbl (down 22.1% y/y), while WTI oil price increased 2.3% w/w to US\$ 49.7/bbl (down 19.0% y/y). In AZN terms, Brent oil price was up 5.2% w/w to AZN 75.6 (up 13.0% y/y).

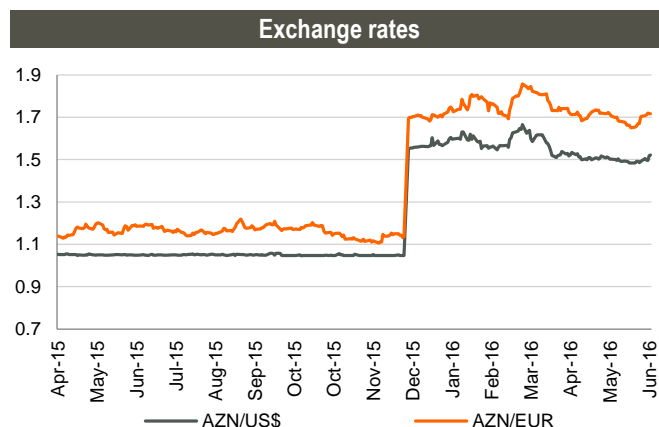
**Exchange rate:** On June 10, 2016, Central Bank set AZN/US\$ rate at 1.5114 (+0.8% w/w) and AZN/EUR at 1.7070 (+0.4% w/w). At Bloomberg AZN/US\$ was trading at 1.5210 (+2.0% w/w) while AZN/EUR was trading at 1.7168 (+0.8% w/w).

**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\$ 100.0mn to commercial banks.



Source: Bloomberg



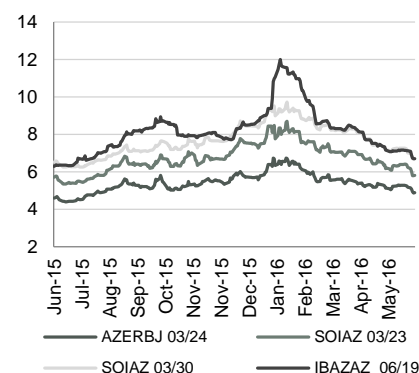
Source: Bloomberg

# Fixed income

**Corporate Eurobonds:** State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.7% yield, trading at 102.0 (+2.6% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 97.1 (+1.2% w/w), yielding 6.7%.

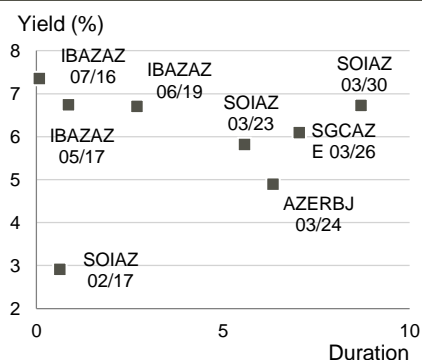
**Azerbaijan Sovereign Eurobonds** (AZERBJ 03/24) closed at 99.1 (+1.9% w/w) at 4.9% yield to maturity.

**Azerbaijan Eurobonds, YTM (%)**



Source: Bloomberg

**Azerbaijan Eurobond universe**



Source: Bloomberg

|                   | Eurobonds      |                |                |                 |                 |                 |                 |                 |
|-------------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                   | SOIAZ<br>02/17 | SOIAZ<br>03/23 | SOIAZ<br>03/30 | IBAZAZ<br>05/17 | IBAZAZ<br>07/16 | IBAZAZ<br>06/19 | SGCAZE<br>03/26 | AZERBJ<br>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        | Jul-2016        | 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\$   | 101.6          | 94.1           | 102.0          | 99.5            | 100.0           | 97.1            | 105.7           | 99.1            |
| Mid yield, %      | 2.9            | 5.8            | 6.7            | 6.7             | 7.3             | 6.7             | 6.1             | 4.9             |
| Z-spread, bps     | 218.8          | 458.1          | 507.1          | 547.5           | NA              | 569.8           | 460.8           | 351.9           |

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               | 99.1            | 4.9          | 351.9         |
| Georgia    | 500             | 6.875%    | 4/12/2021     | BB-/BB-/Ba3               | 111.1           | 4.3          | 308.6         |
| Bulgaria   | 323             | 5.000%    | 7/19/2021     | BBB-/BB+/Baa2             | 119.3           | 1.1          | -221.5        |
| Croatia    | 1,250           | 3.875%    | 5/30/2022     | BB/BB/Ba1                 | 103.1           | 3.3          | 320.4         |
| Hungary    | 3,000           | 6.375%    | 3/29/2021     | BB+/BB+/Ba1               | 114.3           | 3.1          | 196.5         |
| Romania    | 2,250           | 6.750%    | 2/7/2022      | BBB-/BBB-/Baa3            | 118.6           | 3.1          | 194.4         |
| Russia     | 3,500           | 5.000%    | 4/29/2020     | BBB-/BB+/Ba1              | 106.5           | 3.2          | 208.0         |
| Turkey     | 2,000           | 5.625%    | 3/30/2021     | BBB-/BB+/Baa3             | 108.0           | 3.8          | 261.7         |
| Kazakhstan | 2,500           | 5.125%    | 7/21/2025     | BBB+/BBB-/Baa2            | 107.6           | 4.1          | 266.6         |

Source: Bloomberg

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