

Azerbaijan Weekly Market Watch

 Weekly Market Watch | Azerbaijan
 April 4, 2016

Economy

Current account deficit at US\$ 0.2bn (0.4% of GDP) in 2015

Azerbaijan's current account balance went from a surplus of US\$ 177.3mn in 3Q15 to a deficit of US\$ 463.0mn in 4Q15. In annual terms, the current account posted a US\$ 0.2bn deficit (0.4% of GDP) in 2015, after a surplus of US\$ 10.4bn (13.9% of GDP) in 2014.

The non-oil current account deficit narrowed 1.7% y/y to US\$ 1.6bn in 4Q15 and 11.1% y/y to US\$ 6.8bn in 2015. However, due to two manat devaluations in 2015, the non-oil current account deficit as a share of non-oil GDP widened from 16.5% in 2014 to 18.4% in 2015.

Net FDI at US\$ 0.2bn in 4Q15 and US\$ 0.8bn in 2015

In 4Q15, FDI inflows to Azerbaijan, net of investment repatriations, declined to US\$ 0.8bn, down from US\$ 1.1bn in 3Q15. Outward investments from Azerbaijan also fell to US\$ 0.6bn in 4Q15 from US\$ 0.9bn in 3Q15. As a result, net FDI was up 21.4% q/q to US\$ 0.2bn in 4Q15.

In annual terms, FDI inflows were down 8.3% y/y to US\$ 4.0bn in 2015, while outward FDI was up 47.6% to US\$ 3.3bn, resulting in net FDI falling 64.3% to US\$ 0.8bn.

Non-oil FDI inflows decreased 36.1% y/y in 2015 to US\$ 0.8bn, while outbound FDI increased 99.7% to US\$ 1.5bn, resulting in negative net FDI in non-oil sectors (US\$ 0.6bn) in 2015.

Net capital outflows at US\$ 9.8bn in 2015

Net capital outflows, measured by portfolio and other investments flows, increased to US\$2.6bn in 4Q15, up from US\$ 0.5bn in 3Q15 and US\$ 1.8bn in 4Q14. In annual terms, net capital outflows increased 74.0% y/y to US\$ 9.8bn in 2015.

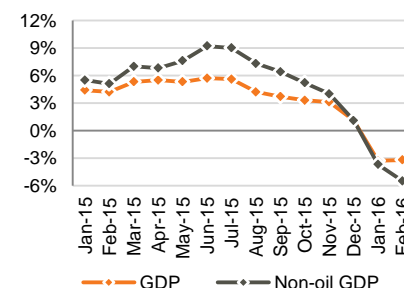
Key macro indicators

	2M16	2015	2014
GDP (% change)	-3.2%	1.1%	2.8%
NO* GDP (% change)	-5.5%	1.1%	7.0%
GDP per capita (ppp)	17,761
GDP per capita (US\$)	...	5,559	7,936
Population (mn)	9.7	9.7	9.6
Inflation (eop)	9.8%	7.7%	-0.1%
CAB (% of GDP)	...	-0.4%	13.9%
NO* CAB (% of NOGDP)	...	-18.4%	-16.5%
Fiscal balance (% of GDP)	...	-5.3%	2.9%
NO* fiscal bal. (% of NOGDP)	...	-33.7%	-38.1%
Gross reserves (US\$ bn)	...	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)

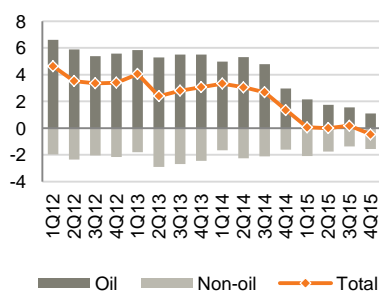
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

STANDARD & POOR'S BB+ Stable Jan-2016	Moody's INVESTORS SERVICE Ba1 Under review Feb-2016	FitchRatings BB+ Negative Feb-2016
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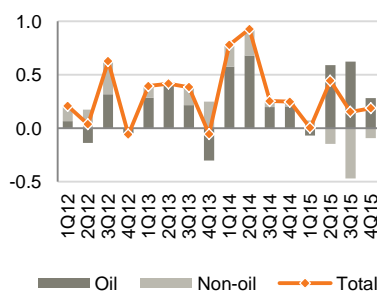
Source: Rating agencies

Current account balance, US\$ bn



Source: CBAR

Net FDI, US\$ bn



Source: CBAR



Oil prices and exchange rate

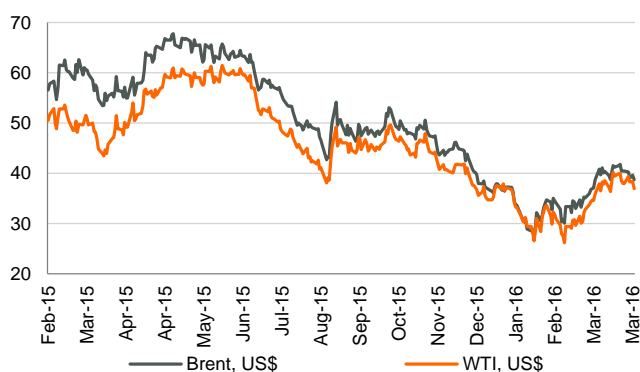
Oil price: Brent oil price was down 4.2% w/w to US\$ 38.7/bbl (down 32.2% y/y), while WTI oil price decreased 2.6% w/w to US\$ 37.0/bbl (down 26.2% y/y). In AZN terms, Brent oil price was down 9.9% w/w to AZN 58.9 (down 1.6% y/y).

Exchange rate: On April 1, 2016, Central Bank set AZN/US\$ rate at 1.5238 (-4.6% w/w) and AZN/EUR at 1.7331 (-4.1% w/w). At Bloomberg AZN/US\$ was trading at 1.5200 (-6.0% w/w) while AZN/EUR was trading at 1.7282 (-4.3% w/w).

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

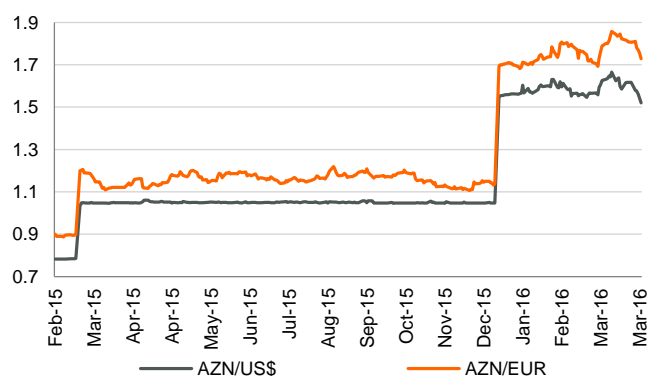
FX auctions: In three FX auctions organized by the Central Bank over the last week, State Oil Fund offered US\$ 300mn, while demand was limited to US\$ 29.9mn, which is 65.0% lower than in the previous week.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



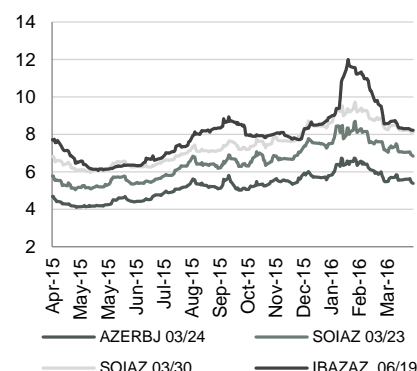
Source: Bloomberg

Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 8.1% yield, trading at 90.3 (+0.9% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 92.8 (+0.3% w/w), yielding 8.2%.

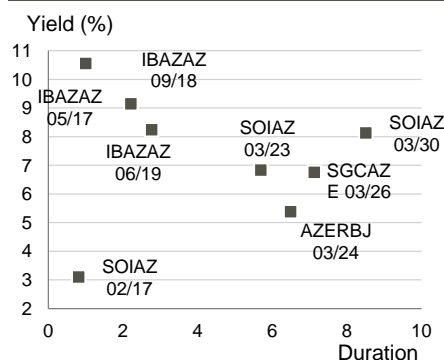
Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 96.0 (+1.6% w/w) at 5.4% yield to maturity.

Azerbaijan Eurobonds, YTM (%)



Source: Bloomberg

Azerbaijan Eurobond universe



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	88.6	90.3	95.6	96.9	92.8	100.9	96.0
Mid yield, %	3.1	6.8	8.1	10.5	9.1	8.2	6.8	5.4
Z-spread, bps	172.0	548.4	629.5	818.8	841.5	712.4	512.0	384.6

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	96.0	5.4	384.6
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	108.3	5.0	367.4
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.7	1.2	-238.4
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	102.7	3.4	320.0
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	113.8	3.3	208.2
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	118.7	3.2	189.4
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	105.2	3.6	244.5
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	108.2	3.8	254.9
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	103.4	4.7	304.3

Source: Bloomberg

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