

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
June 6, 2016

Economy

IMF revised Azerbaijan's growth forecast for 2016 from -3.0% to -2.4%

Azerbaijan's economy is forecast to contract 2.4% in 2016 and return to growth in 2017, according to the IMF. Over the medium term, the IMF expects a 2.5-2.8% growth rate, but believes that implementation of strong structural reforms can increase growth potential to 4-5%.

Moody's maintains a negative outlook on Azerbaijan's banking sector

According to the rating agency, low oil prices, depreciation, and the economic recession will continue to have a negative effect on the banking sector, given the high level of outstanding foreign currency loans. As a result, Moody's maintained its negative outlook on the banking sector for the next 12-18 months.

CBAR reserves up 4.0% m/m to US\$ 4.3bn

Central Bank of Azerbaijan Republic bought US\$ 162.0mn over the ten auctions held in May 2016. The market interventions, along with revaluation of assets, led to m/m increases in reserves for the third month in a row. In May 2016, reserves were up by US\$ 163.7mn m/m (+4.0% m/m) to US\$ 4.3bn, while on an annual basis, reserves were down 49.2% y/y.

SOCAR crude oil exports up 6.4% y/y in May 2016

In May 2016, SOCAR exported 1.8mn tons of crude oil (+6.4% y/y), the highest level in the last five months. The average monthly price for BTC FOB Ceyhan oil was up 11.8% m/m to US\$ 48.1/bbl in May 2016 and up 48.8% from the January low.

Key macro indicators

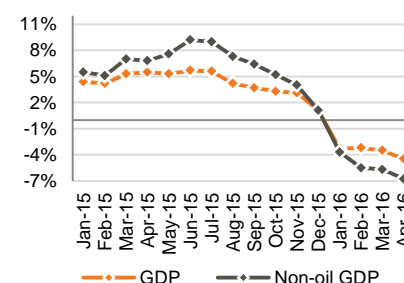
	4M16	2015	2014
GDP (% change)	-4.5%	1.1%	2.8%
NO* GDP (% change)	-6.8%	1.1%	7.0%
GDP per capita (ppp)	...	17,993	17,762
GDP per capita (US\$)	...	5,739	8,055
Population (mn)	...	9.7	9.6
Inflation (eop)	9.7%	7.7%	-0.1%
CAB (% of GDP)	...	-0.4%	13.9%
NO* CAB (% of NOGDP)	...	-18.4%	-16.5%
Fiscal balance (% 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

**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)

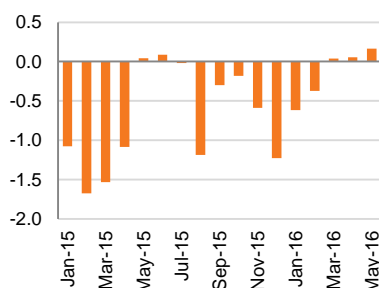
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

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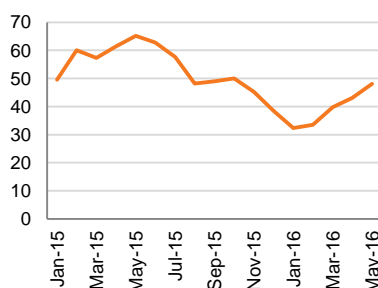
Source: Rating agencies

Change in CBAR reserves, US\$ bn



Source: CBAR

BTC FOB Ceyhan oil price, US\$/bbl



Source: SOCAR



Oil prices and exchange rate

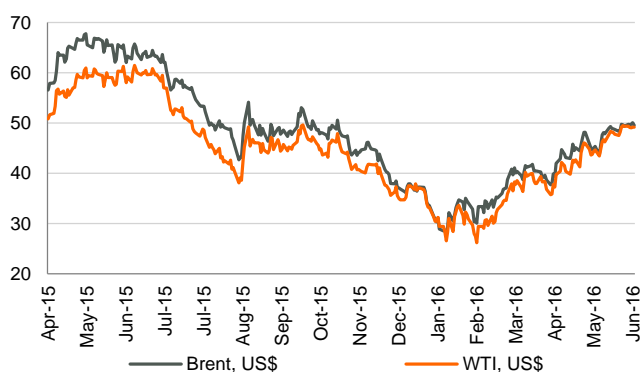
Oil price: Brent oil price was up 0.4% w/w to US\$ 49.5/bbl (down 22.4% y/y), while WTI oil price decreased 0.4% w/w to US\$ 49.1/bbl (down 17.6% y/y). In AZN terms, Brent oil price was up 0.9% w/w to AZN 73.8 (up 10.1% y/y).

Exchange rate: On June 3, 2016, Central Bank set AZN/US\$ rate at 1.4964 (+0.4% w/w) and AZN/EUR at 1.6695 (+0.1% w/w). At Bloomberg AZN/US\$ was trading at 1.4905 (+0.4% w/w) while AZN/EUR was trading at 1.7000 (+3.1% w/w).

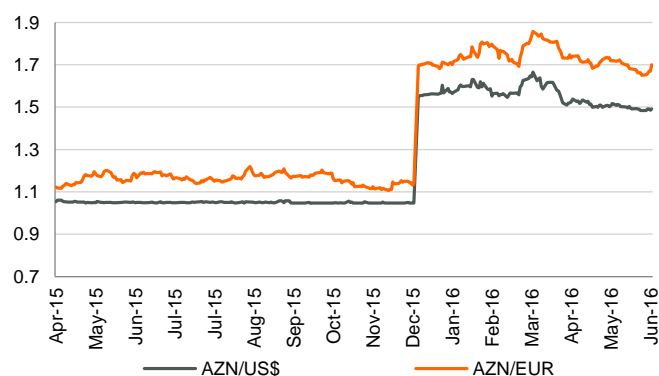
Monetary policy rate: Monetary policy rate remained unchanged at 7.0%.

FX auctions: In two FX auctions organized by the Central Bank over the last week, State Oil Fund sold US\$ 100.0mn, of which US\$ 10.0mn was bought by CBAR and the rest by commercial banks.

Crude oil prices (US\$/bbl)



Exchange rates



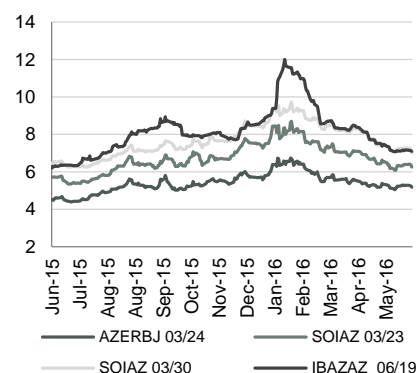


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 7.0% yield, trading at 99.5 (+2.2% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 96.1 (+0.2% w/w), yielding 7.1%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 97.2 (+0.7% w/w) at 5.2% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

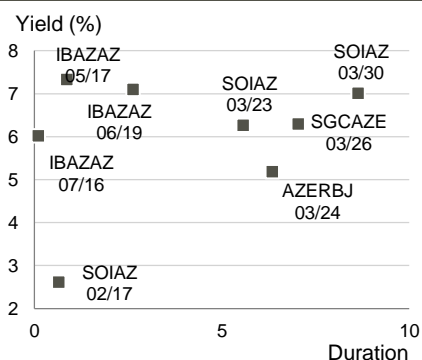


Source: Bloomberg

	Eurobonds							
	SOIAZ 02/17	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 07/16	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	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\$	101.9	91.8	99.5	99.0	100.2	96.1	104.2	97.2
Mid yield, %	2.6	6.3	7.0	7.3	6.0	7.1	6.3	5.2
Z-spread, bps	223.5	501.8	532.4	978.7	NA	611.5	474.1	371.8

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	97.2	5.2	371.8
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	110.5	4.4	312.3
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.1	1.1	-216.8
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	102.8	3.4	324.4
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	114.0	3.2	208.3
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	118.4	3.2	191.1
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	106.0	3.3	216.0
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	107.7	3.9	263.4
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	106.7	4.2	274.4

Source: Bloomberg

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