

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
September 19, 2016

Economy

SOCAR to issue US\$-denominated domestic bonds

SOCAR has announced an upcoming US\$ 100mn dollar-denominated bond issuance in Azerbaijan for Azerbaijan citizens. The five-year bonds will be placed on September 20, 2016, with a 5.0% annual coupon rate.

Azerbaijan economy contracted 3.1% y/y in 8M16

In 8M16, real GDP declined 3.1% y/y, vs the 3.0% y/y contraction recorded in 7M16. Non-oil GDP was down 5.8% y/y, compared to a 5.4% y/y decline in 7M16, while oil GDP was up 2.5% y/y. The main drag on growth continued to be the construction sector, which was down 32.3% y/y in 8M16. Excluding the construction sector, non-oil GDP was down 0.3% y/y, with trade and agriculture contributing positively, manufacturing neutral, and other services having a negative impact.

US\$ 801.9mn current account deficit in 1H16

Azerbaijan's current account posted a US\$ 801.9mn (4.6% of GDP) deficit in 1H16, compared to a US\$ 63.3mn (0.2% of GDP) surplus in 1H15.

On a quarterly basis, the current account deficit retreated from US\$ 432.2mn in 1Q16 to US\$ 369.7mn in 2Q16, driven by an improved oil sector surplus, but hampered by the worsening non-oil deficit. With the recovery in oil prices, oil exports increased 46.0% q/q, while oil imports decreased 38.2% q/q. In the non-oil sectors, however, imports increased 65.7% q/q in 2Q16, while exports were up only 38.3% q/q.

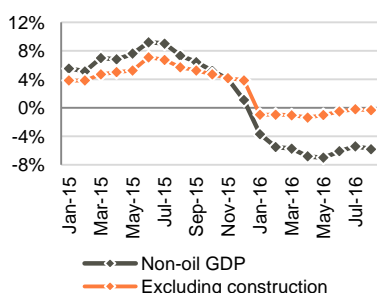
FDI and undetermined inflows cover all outflows and add to reserves

Net capital outflow eased in 2Q16, retreating from US\$2.6bn in 1Q16 to US\$0.8bn, while portfolio flows switched from an inflow of US\$ 602.7mn in 1Q16 to an outflow of US\$ 30.5mn. However, net FDI of US\$ 562.3mn and net inflow from net errors and omissions at US\$ 639.8mn were more than enough to cover all outflows, while also adding to reserves.

Inflation rate at 12.0% y/y in August 2016

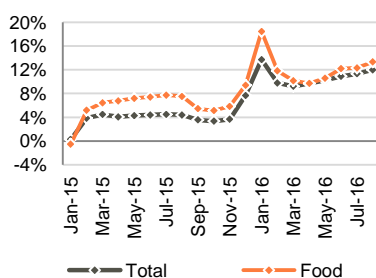
Annual CPI inflation rate inched up further to 12.0% in August 2016 from 11.3% in the previous month, according to AzSTAT. In August, food prices were up 13.3% y/y (+1.0ppts m/m), non-food prices were up 16.7% y/y (+0.5ppts m/m), and service sector prices were up 6.3% y/y (+0.5ppts m/m).

Non-oil GDP, % change, YTD



Source: AzSTAT

Annual inflation, y/y, %



Source: AzSTAT

Key macro indicators

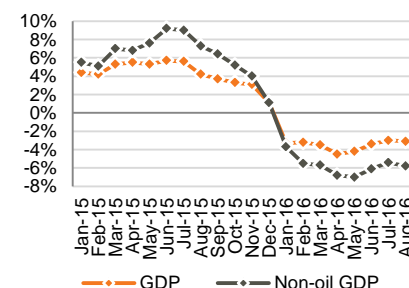
	7M16	2015	2014
GDP (% change)	-3.1%	1.1%	2.8%
NO* GDP (% change)	-5.8%	1.1%	7.0%
GDP per capita (ppp)	...	17,993	17,762
GDP per capita (US\$)	...	5,739	8,055
Population (mn)	...	9.7	9.6
Inflation (eop)	12.0%	7.7%	-0.1%
CAB (% of GDP)**	-4.6%	-0.4%	13.9%
NO* CAB (% of NOGDP)**	-24.9%	-18.4%	-16.5%
Fiscal balance (% of GDP)**	3.8%	-5.3%	2.9%
NO* fiscal bal. (% of NOGDP)**	-20.8%	-33.7%	-38.1%
Gross reserves (US\$ bn)**	39.4	38.6	50.9

Source: Official data

* Non-oil

**1H16

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

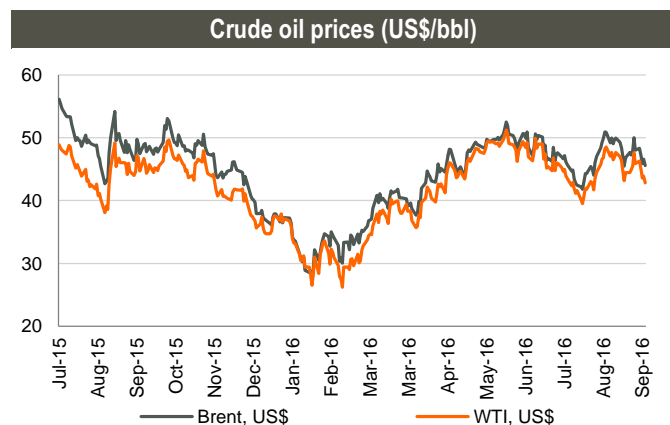
Oil prices and exchange rate

Oil price: Brent oil price was down 5.0% w/w to US\$ 45.6/bbl (down 8.4% y/y), while WTI oil price decreased 6.6% w/w to US\$ 42.8/bbl (down 9.1% y/y). In AZN terms, Brent oil price was down 5.6% w/w to AZN 75.6 (up 43.8% y/y).

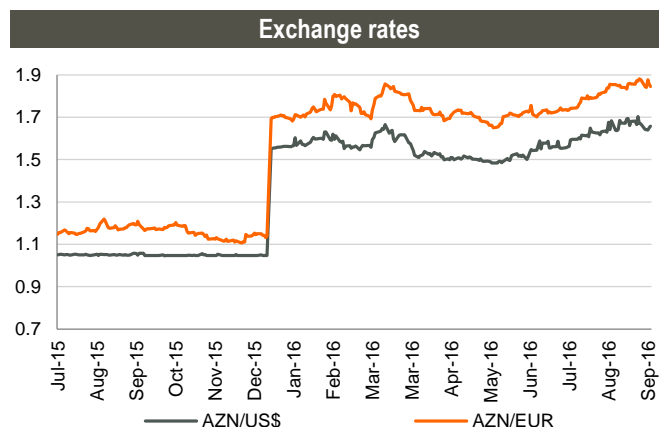
Exchange rate: On September 16, 2016, Central Bank set AZN/US\$ rate at 1.6375 (-0.2% w/w) and AZN/EUR at 1.8406 (-0.5% w/w). At Bloomberg AZN/US\$ was trading at 1.6580 (-0.6% w/w) while AZN/EUR was trading at 1.8453 (-1.6% w/w).

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

FX auctions: In FX auction organized by the Central Bank over the last week, State Oil Fund sold US\$ 78.0mn to commercial banks.



Source: Bloomberg



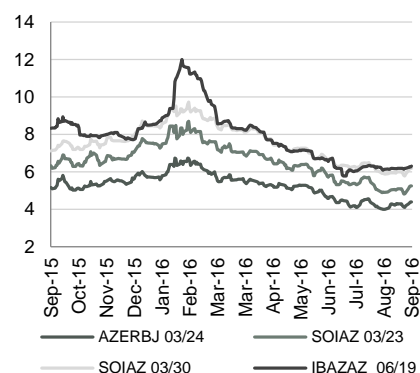
Source: Bloomberg

Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.2% yield, trading at 106.8 (-2.8% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 98.3 (-0.3% w/w), yielding 6.3%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 102.3 (-1.3% w/w) at 4.4% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

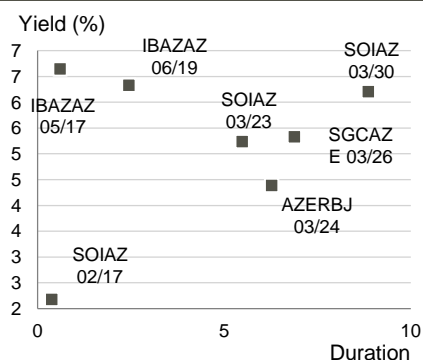


Source: Bloomberg

	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\$	101.3	97.4	106.8	99.7	98.3	111.4	102.3
Mid yield, %	2.2	5.2	6.2	6.6	6.3	5.3	4.4
Z-spread, bps	n/a	392.6	455.8	526.8	511.7	382.5	297.4

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	102.3	4.4	297.4
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	112.2	3.9	266.9
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	121.1	0.6	-236.3
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	107.7	2.4	243.6
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	115.0	2.8	160.4
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	120.5	2.6	138.3
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	107.7	2.7	156.2
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	107.2	3.9	265.2
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	111.8	3.6	209.5

Source: Bloomberg

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