

# Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan  
March 7, 2016

## Economy

### Oil Fund reserves down 9.5% y/y to US\$ 33.6bn in 2015

Due to lower oil prices, State Oil Fund of Azerbaijan's revenues in 2015 fell 39.4% y/y to AZN 7.7bn (US\$ 7.5bn, -53.5% y/y). As expenditures had not been fully adjusted to balance the revenue shortfall, the Oil Fund recorded a deficit of AZN 1.5bn (US\$ 1.4bn). As a result, fund reserves declined from US\$ 37.1bn in 2014 to US\$ 33.6bn in 2015.

Combined SOFAZ and CBAR reserves were down to US\$ 38.6bn as of end-2015 (-24.1% y/y). However, these reserves stood at 72.7% of GDP in 2015, up from 67.6% of GDP in 2014, due to the contraction in nominal GDP in US\$ terms.

### Central Bank reserves down to US\$ 4.0bn in February 2016

Central Bank reserves declined further in February 2016 to US\$ 4.0bn (-8.5% m/m), the lowest level since 2008. Overall, the Central Bank lost US\$ 1.0bn in 2016 and US\$ 11.2bn since the peak in July 2014.

### Refinancing rate up 200bps to 7.0%

On March 4, 2016, Central Bank of Azerbaijan increased its refinancing rate by 200bps to 7.0%. This was the second rate hike this year, as CBAR increased the rate from 3.0% to 5.0% on February 15, 2016. At the same time, CBAR has widened the interest rate corridor, keeping the lower band at 2.0% while increasing the upper band from 10.0% to 17.0%.

### US\$ 260mn sold at FX auctions

The Central Bank and the State Oil Fund sold US\$ 260mn in FX auctions last week.

### Key macro indicators

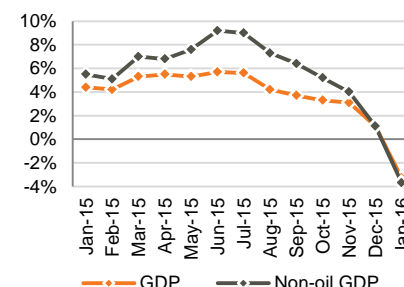
	1M16	2015	2014
GDP (% change)	-3.3%	1.1%	2.8%
NO* GDP (% change)	-3.7%	1.1%	7.0%
GDP per capita (ppp)	...	...	17,761
GDP per capita (US\$)	...	5,559	7,936
Population (mn)	9.7	9.7	9.6
Inflation (eop)	13.7%	7.7%	-0.1%
CAB (% of GDP)**	...	0.6%	13.9%
NO* CAB (% of NOGDP)**	...	-18.6%	-21.2%
Fiscal balance (% of GDP)	...	-5.3%	2.9%
NO* fiscal bal. (% of NOGDP)	...	-33.7%	-38.4%
Gross reserves (US\$ bn)	...	38.6	50.9

Source: Official data

\*Non-oil

\*\*As of 9M15.

### Real GDP growth, % (YTD)



Source: AzSTAT

### International ranking of Azerbaijan

Ease of Doing Business # 63

Economic Freedom Index # 85 (moderately free)

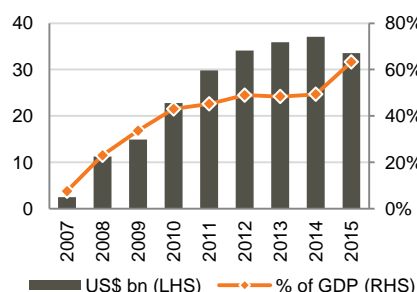
Global Competitiveness Index # 40 (regional leader)

Source: World Bank, Heritage Foundation and World Economic Forum

### Azerbaijan sovereign credit ratings

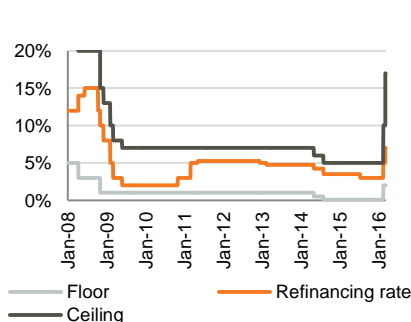
 <b>BB+</b> Stable Jan-2016	 <b>Ba1</b> Under review Feb-2016	 <b>BB+</b> Negative Feb-2016
---	---	---

### SOFAZ reserves



Source: SOFAZ, AzSTAT

### Refinancing rate, %



Source: CBAR

Source: Rating agencies

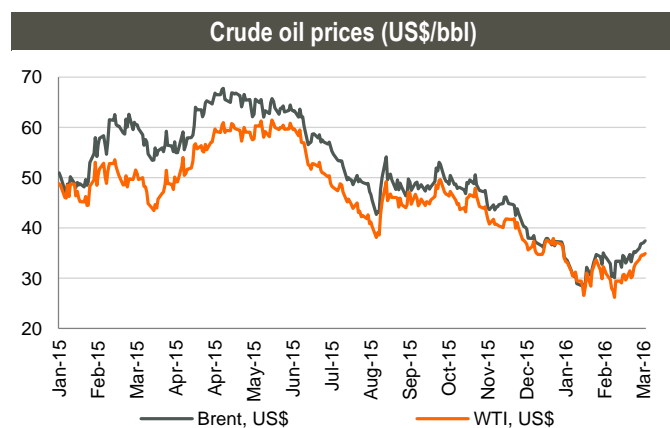


## Oil prices and exchange rate

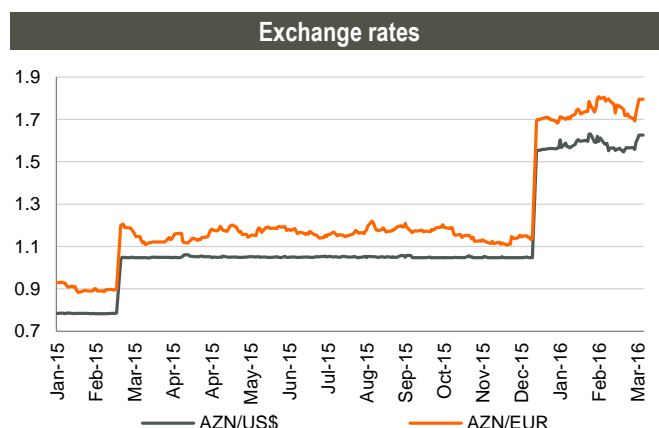
**Oil price:** Brent oil price was up 6.6% w/w to US\$ 37.4/bbl (down 38.2% y/y), while WTI oil price increased 6.5% w/w to US\$ 34.9/bbl (down 32.3% y/y). In AZN terms, Brent oil price was up 10.7% w/w to AZN 60.8 (down 4.1% y/y).

**Exchange rate:** On February 19, 2016, Central Bank set AZN/US\$ rate at 1.6019 (+2.5% w/w) and AZN/EUR at 1.7536 (+1.5% w/w). At Bloomberg AZN/US\$ was trading at 1.6250 (+3.8% w/w) while AZN/EUR was trading at 1.7945 (+4.8% w/w).

**Monetary policy rate:** Monetary policy rate was increased from 5.0% to 7.0%.



Source: Bloomberg



Source: Bloomberg

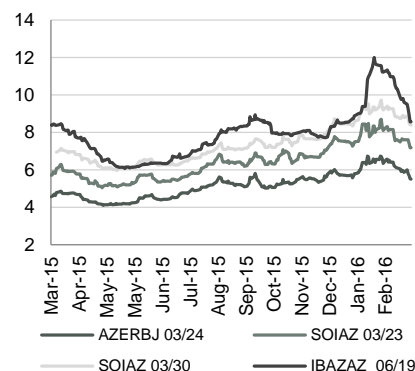


## Fixed income

**Corporate Eurobonds:** State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 8.4% yield, trading at 88.3 (+3.4% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 91.8 (+3.1% w/w), yielding 8.6%.

**Azerbaijan Sovereign Eurobonds** (AZERBJ 03/24) closed at 95.1 (+2.3% w/w) at 5.5% yield to maturity.

**Azerbaijan Eurobonds, YTM (%)**

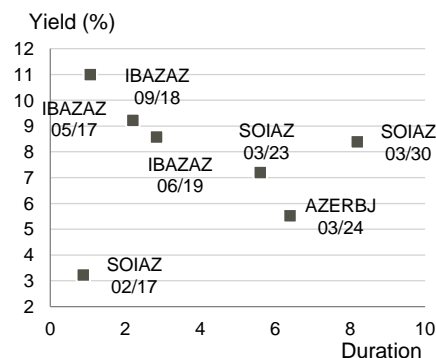


Source: Bloomberg

	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 /Ba1	BB-/Ba3	BB-/Ba3	BB /-/Ba3
Mid price, US\$	102.0	86.8	88.3	94.8	96.7	91.8
Mid yield, %	3.2	7.2	8.4	11.0	9.2	8.6
Z-spread, bps	296.3	568.7	651.6	928.3	809.6	758.3

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	95.1	5.5	390.1
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	105.9	5.5	415.2
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.3	1.1	-244.3
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	102.1	3.5	330.6
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	113.6	3.4	198.9
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	119.1	3.2	169.2
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	104.9	3.7	244.8
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	106.6	4.2	308.2
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	101.9	4.9	318.0

Source: Bloomberg

# Disclaimer

This document is strictly confidential and has been prepared by JSC Galt & Taggart ("Galt & Taggart"), a member of JSC Bank of Georgia group ("Group") solely for informational purposes and independently of the respective companies mentioned herein. This document does not constitute or form part of, and should not be construed as, an offer or solicitation or invitation of an offer to buy, sell or subscribe for any securities or assets and nothing contained herein shall form the basis of any contract or commitment whatsoever or shall be considered as a recommendation to take any such actions.

Galt & Taggart is authorized to perform professional activities on the Georgian market. The distribution of this document in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by Galt & Taggart to inform themselves about and to observe any and all restrictions applicable to them. This document is not directed to, or intended for distribution, directly or indirectly, to, or use by, any person or entity that is a citizen or resident located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

Investments (or any short-term transactions) in emerging markets involve significant risk and volatility and may not be suitable for everyone. The recipients of this document must make their own investment decisions as they believe appropriate based on their specific objectives and financial situation. When doing so, such recipients should be sure to make their own assessment of the risks inherent in emerging market investments, including potential political and economic instability, other political risks including without limitation changes to laws and tariffs, and nationalization of assets, and currency exchange risk.

No representation, warranty or undertaking, express or implied, is or will be made by Galt & Taggart or any other member of the Group or their respective directors, employees, affiliates, advisers or agents or any other person as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of this document and the information contained herein (and whether any information has been omitted from this document) and no reliance should be placed on it. This document should not be considered as a complete description of the markets, industries and/or companies referred to herein. Nothing contained in this document is, is to be construed as, or shall be relied on as legal, investment, business or tax advice, whether relating to the past or the future, by Galt & Taggart any other member of the Group or any of their respective directors, employees, affiliates, advisers or agents in any respect. Recipients are required to make their own independent investigation and appraisal of the matters discussed herein. Any investment decision should be made at the investor's sole discretion. To the extent permitted by law, Galt & Taggart, any other member of the Group and their respective directors, employees, affiliates, advisers and agents disclaim all liability whatsoever (in negligence or otherwise) for any loss or damages however arising, directly or indirectly, from any use of this document or its contents or otherwise arising in connection with this document, or for any act, or failure to act, by any party, on the basis of this document.

The information in this document is subject to verification, completion and change without notice and Galt & Taggart is not under any obligation to update or keep current the information contained herein. The delivery of this document shall not, under any circumstances, create any implication that there has been no change in the information since the date hereof or the date upon which this document has been most recently updated, or that the information contained in this document is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. No representation or warranty, expressed or implied, is made by Galt & Taggart or any other member of the Group, or any of their respective directors, employees, affiliates, advisers or agents with respect to the accuracy or completeness of such information.

The information provided and opinions expressed in this document are based on the information available as of the issue date and are solely those of Galt & Taggart as part of its internal research coverage. Opinions, forecasts and estimates contained herein are based on information obtained from third party sources believed to be reliable and in good faith, and may change without notice. Third party publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. Accordingly, undue reliance should not be placed on any such data contained in this document. Neither Galt & Taggart, any other member of the Group, nor their respective directors, employees, affiliates, advisers or agents make any representation or warranty, express or implied, of this document's usefulness in predicting the future performance, or in estimating the current or future value, of any security or asset.

Galt & Taggart does, and seeks to do, and any other member of the Group may or seek to do business with companies covered in its research. As a result, investors should be aware of a potential conflict of interest that may affect the objectivity of the information contained in this document.

This document is confidential to clients of Galt & Taggart. Unauthorized copying, distribution, publication or retransmission of all or any part of this document by any medium or in any form for any purpose is strictly prohibited.

The recipients of this document are responsible for protecting against viruses and other destructive items. Receipt of the electronic transmission is at risk of the recipient and it is his/her responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

## **Galt & Taggart**

**Address:** 79 D. Agmashenebeli Avenue, Tbilisi 0102, Georgia

**Tel:** + (995) 32 2401 111

**Email:** gt@gt.ge