

Weekly Market Watch

Weekly Market Watch | Georgia
February 8, 2016

Economy

Inflation rate at 5.6% y/y and 0.9% m/m in January 2016

Annual CPI inflation rate was recorded at 5.6% in January 2016, up from 4.9% in the previous month, according to GeoStat. Overall prices changes were driven by price increases in food and non-alcoholic beverages (+5.1% y/y, +1.61ppts), health (+11.0% y/y, +1.04ppts), and housing, water, electricity, gas and other fuels (+8.4% y/y, +0.71ppts). Meanwhile, prices in the transport category decreased (-1.6% y/y, -0.20ppts) due to lower prices on fuel.

On a monthly basis, inflation rate was at 0.9% in January 2016. Price increases in food and non-alcoholic beverages (+2.6% m/m, +0.80ppts) and health (+1.3% m/m, +0.14ppts) and price decreases in the transport category (-1.2% m/m, -0.14ppts) were the major drivers of the monthly price dynamics.

International arrivals up 4.4% y/y in January 2016

Tourist arrivals posted another growth of 4.4% y/y to 0.32mn persons in January 2016, according to the Ministry of Internal Affairs. Increased arrivals from Azerbaijan (+16.1% y/y, 33.4% of total), Russia (+10.2% y/y, 13.7% of total), and Ukraine (+8.4% y/y, 2.5% of total) contributed the most to the growth and were more than sufficient to compensate drops from Turkey (-5.6% y/y) and Armenia (-12.4% y/y). Arrivals from the EU increased 11.1% y/y, with a strong upward trend from Germany, Poland, and Italy.

Gross international reserves stood at US\$ 2.4bn as of end-Jan 2016

Gross international reserves decreased 2.9% m/m (-US\$73.1mn) to US\$ 2.4bn as of end-January 2016, according to NBG. On an annual basis, gross reserves fell 6.2% (-US\$ 162.6mn). Net foreign assets of NBG stood at US\$ 2.2bn (-3.2% m/m and -6.0% y/y). The fall in reserves was attributed to NBG's FX interventions and/or government FX operations and asset revaluation.

NBG keeps its policy rate unchanged at 8.0%

At its meeting on February 3, 2016, NBG's monetary policy committee decided to keep the policy rate unchanged at 8.0%. NBG cited that monetary tightening in 2015 resulted in higher interest rates on lari denominated loans and as a result growth of credit portfolio slowed. This will weaken aggregate demand further and put downward pressure on prices, along with the falling world prices of oil and food products. NBG expects that inflation will slightly exceed the target level of 5.0% in the beginning of 2016 and then decline below but close to the target.

NBG also noted that the impact of the external shock on the exchange rate (the major reason driving the increase in inflation expectations) has been exhausted on the back of the adjustment in imports. This enabled the central bank to restrain from additional monetary tightening. The next committee meeting is scheduled for March 9, 2016.

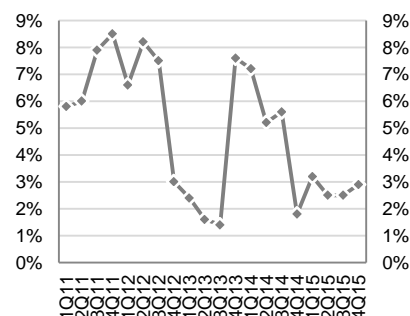
Key macro indicators

	1M16	2015E	2014
GDP (% change)	...	2.8%	4.6%
GDP per capita (ppp)*	...	9,566	9,209
GDP per capita (US\$)	...	3,765	3,676
Population (mn)	3.7*	3.7*	4.5
Inflation (eop)	5.6%	4.9%	2.0%
Gross reserves (US\$ bn)	2.4	2.5	2.7
CAD (% of GDP)	10.7%	10.6%
Fiscal deficit (% of GDP)	3.0%
Total public debt (% of GDP)	...	41.1%	35.5%

Source: Official data, IMF, G&T

*Preliminary results of census, previous data is subject to recalculation

Real GDP growth, %



Source: GeoStat

Note: 4Q15 figure based on rapid estimates

International ranking of Georgia, 2016

Ease of Doing Business # 24 (regional leader)
 Economic Freedom Index # 23 (mostly free)
 Global Competitiveness Index # 66 (improving trend)

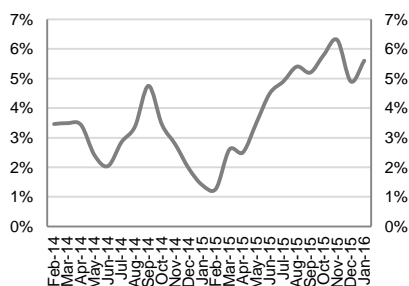
Source: World Bank, Heritage Foundation and World Economic Forum

Georgia sovereign credit ratings

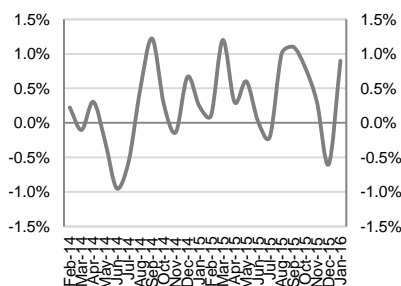
STANDARD & POOR'S BB- Stable Affirmed Nov-2015	MOODY'S INVESTORS SERVICE Ba3 Positive Affirmed Mar-2015	FitchRatings BB- Stable Affirmed Oct-2015
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Source: Rating agencies

Annual CPI inflation (% change y/y)



Monthly CPI inflation (% change m/m)



Source: GeoStat



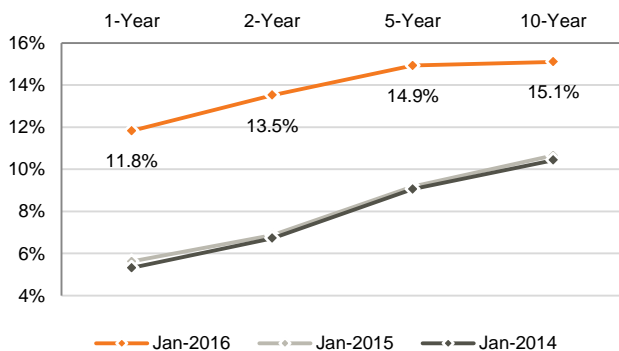
Money market

Refinancing loans: National Bank of Georgia (NBG) issued 7-day refinancing loans of GEL 700mn (US\$ 280.7mn).

Certificates of deposit: NBG sold 91-day, GEL 20mn (US\$ 8.0mn) certificates of deposit, with an average yield of 9.87% (down by 35bps from previous issue).

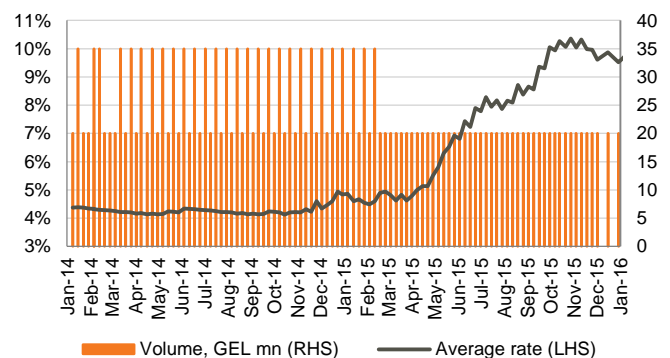
Ministry of Finance Treasury Notes: 1-year GEL 40.0mn (US\$ 16.0mn) T-Bills of Ministry of Finance were sold at the auction held at NBG on January 27, 2016. The weighted average yield was fixed at 11.790%. The nearest treasury securities auction is scheduled for February 10, 2016, where GEL 40mn nominal value 2-year T-Notes will be sold.

T-bills / T-notes, yield curve



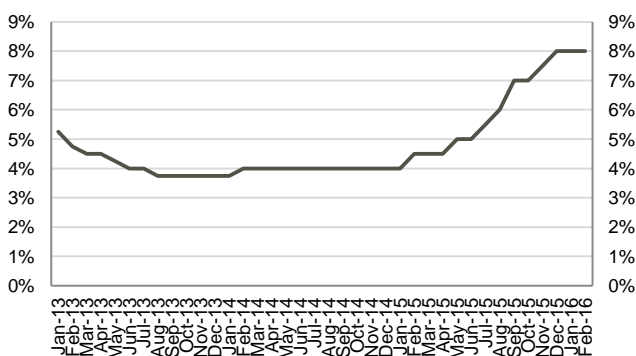
Source: NBG
*As of latest auction

Certificates of Deposits (weighted average rate)



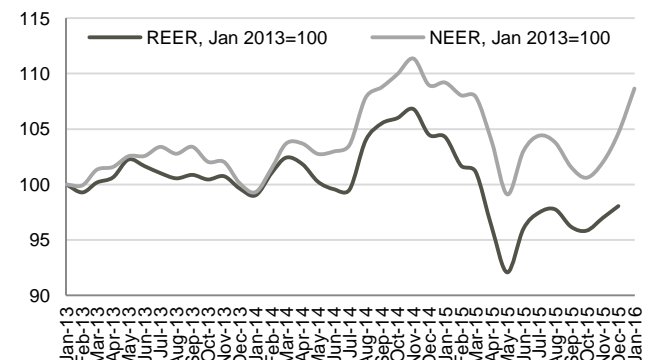
Source: NBG

Monetary policy rate



Source: NBG

Nominal Effective Exchange Rate and Real Effective Exchange Rate



Source: NBG

Note: Index growth means appreciation of exchange rate, decline means depreciation of exchange rate

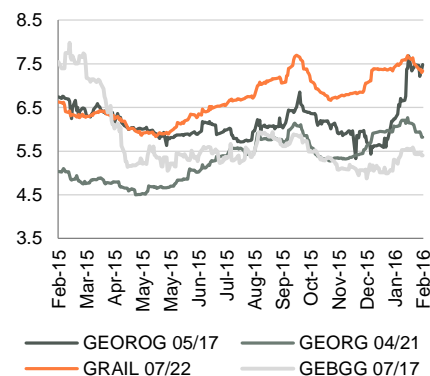


Fixed income

Corporate Eurobonds: Bank of Georgia Eurobonds (GEBGG) closed at 5.4% yield, trading at 103.1 (unchanged w/w). GOGC Eurobonds (GEOROG) were trading at 99.8 (+0.6% w/w), yielding 7.1%. Georgian Railway Eurobonds (GRAIL) traded at a premium at 102.1 (+0.9% w/w), yielding 7.3%.

Georgian Sovereign Eurobonds (GEORG) closed at 104.6 (+0.5% w/w) at 5.8% yield to maturity.

Georgia Eurobonds, YTM (%)



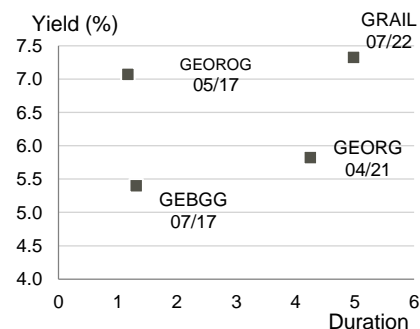
	Local bonds				Eurobonds			
	GWP 11/17	M2RE 03/17	EVEX 05/17	GLC 09/17	GEOROG 05/17	GEBGG 07/17	GEORG 04/21	GRAIL 07/22
Amount, US\$ mn	6*	20	15	10	250	400	500	500
Issue date	11/15	03/15	05/15	09/14	May-2012	Jul-2012	Apr-2011	Jul-2012
Maturity date	11/17	03/17	05/17	09/17	May-2017	Jul-2017	Apr-2021	Jul-2022
Coupon, %	15.000**	9.500	9.500	8.750	6.875%	7.750%	6.875%	7.750%
Fitch/S&P/Moody's	BB-/B+	-/-	-/-	-/-	BB-/B+	BB-/BB-/Ba3	BB-/BB-/Ba3	BB-/BB-/
Mid price, US\$	100.0*	99.0	100	98.0	99.8	103.1	104.6	102.1
Mid yield, %	15.0	10.1	9.5	9.7	7.1	5.4	5.8	7.3
Z-spread, bps	n/a	n/a	n/a	n/a	654.4	456.3	446.8	599.3

Source: Bloomberg

*GWP 11/17 bonds are in Georgian lari

**Floating rate with 7.5% over the NBG's refinancing rate

Georgian Eurobond universe



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
Georgia	500	6.875%	12/04/2021	BB-/BB-/Ba3	104.6	5.8	446.8
Azerbaijan	1,250	4.750%	18/03/2024	BBB-/Baa3	89.9	6.4	470.1
Bulgaria	323	5.000%	19/07/2021	BBB-/B+	120.5	1.1	-245.2
Croatia	1,250	3.875%	30/05/2022	BB/BB/Baa1	102.1	3.5	325.8
Hungary	3,000	6.375%	29/03/2021	BB+/BB+/Baa1	113.4	3.5	230.0
Romania	2,250	6.750%	07/02/2022	BBB-/BBB-/Baa3	118.8	3.3	178.7
Russia	3,500	5.000%	29/04/2020	BBB-/BB+/Baa1	104.1	3.9	273.9
Turkey	2,000	5.625%	30/03/2021	BBB-/NR/Baa3	106.4	4.2	293.8

Source: Bloomberg

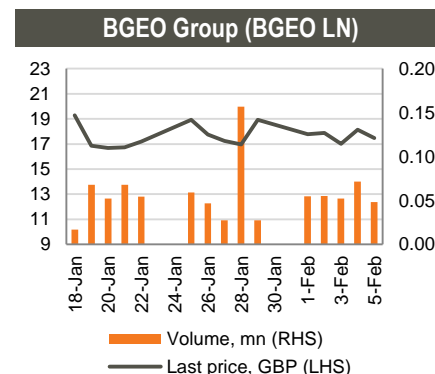
Equities

BGEO Group (BGEO LN) shares closed at GBP 17.48/share (-1.52% w/w and -4.48% m/m). More than 282k shares traded in the range of GBP 16.87 – 18.36/share. Average daily traded volume was 51k in the last 4 weeks, more than in the previous month. FTSE 250 Index, of which BOGH is a constituent, lost 1.20% w/w and lost 6.99% m/m, respectively. The volume of BOGH shares traded was at 0.71% of its capitalization.

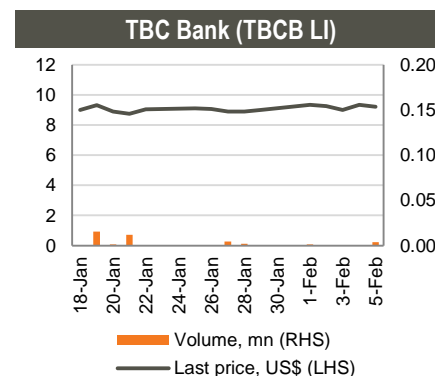
TBC Bank (TBCB LI) closed the week at US\$ 9.21 (+2.33 w/w and -9.71% m/m). More than 5k GDRs changed hands in the range of US\$ 9.00 – 9.49/GDR. Average daily traded volume was 3k in the last 4 weeks, less than in the previous month.

Georgia Healthcare Group (GHG LN) shares closed at GBP 1.80/share (+3.52% w/w and +15.94% m/m). More than 73k shares were traded in the range of GBP 1.73 – 1.88/share. Average daily traded volume was 74k in the last 4 weeks. The volume of GHG shares traded was at 0.06% of its capitalization.

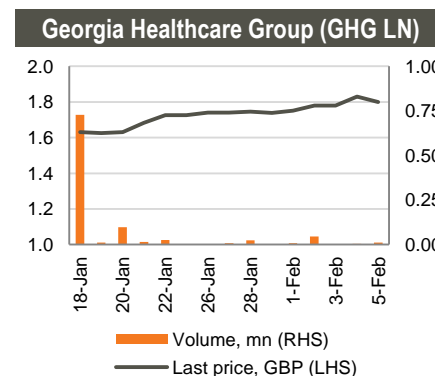
On the Georgian stock exchange: There were no trades. As a result, the G&T Index remained at 885.86 (unchanged w/w).



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

Eastern European banks

Eastern European Banks								
	Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg
	BGEO*	25.28	999	-5.8%	-12.7%	-16.4%	-21.8%	-22.0%
	TBC	9.21	451	-9.7%	8.4%	-7.4%	-26.9%	-31.8%
	Halyk Bank	4.05	1,105	-17.3%	-34.7%	-48.2%	-52.4%	-35.7%
	KKB	0.90	359	0.0%	-68.9%	-70.0%	-76.3%	-72.0%
	VTB Bank	1.81	11,697	-10.0%	-23.2%	-18.5%	-21.5%	-12.8%
	Vozrozhdenie Bank	6.72	160	-19.2%	-30.0%	-20.1%	-8.9%	19.7%
	Sberbank	5.40	29,126	-4.1%	-18.3%	10.1%	33.3%	34.3%

Source: Bloomberg

Note: * BGEO is traded in GBP and is shown in US\$ equivalent

Healthcare sector peers

Ticker	Share price, US\$	MCap, US\$ mn	1M, chg	3M, chg	6M, chg	YTD, chg	1Y, chg
GHG*	GHG	2.60	334	14.4%	nm	nm	nm
Mouwasat	MOUWASAT	31.65	1,582	-6.5%	1.9%	-15.1%	-3.8%
Fortis	FORH	2.48	1,149	-9.4%	0.2%	-17.8%	41.3%
Raffles	RFMD	2.96	1,705	2.8%	-2.8%	-12.6%	0.9%
IHH	IHH	1.59	13,061	6.7%	3.9%	1.1%	15.4%
Bangkok Chain	BCH	0.25	613	-3.5%	29.6%	23.5%	2.3%
Netcare	NTC	2.13	3,110	0.4%	-23.4%	-33.3%	-35.2%

Source: Bloomberg

Note: * GHG is traded in GBP and is shown in US\$ equivalent

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Galt & Taggart

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

Tel: + (995) 32 2401 111

Email: gt@gt.ge