

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
April 18, 2016

Economy

Azerbaijan economy contracted 3.5% y/y in 1Q16, as non-oil GDP weighed on growth

In 1Q15, real GDP fell 3.5% y/y, with non-oil GDP down 5.7% y/y and oil GDP up 0.8% y/y. Contraction was driven by a strong decline in construction (-32.5% y/y) and transport and storage (-14.5% y/y), while trade (+3.4% y/y), manufacturing (+5.7% y/y), and mining (+0.7% y/y) contributed positively. Excluding construction, non-oil GDP contracted 1.1% y/y in 1Q16.

In nominal terms, GDP in 1Q16 increased 9.1% y/y to AZN 12.6bn, while in US\$ terms, it decreased 39.1% y/y to US\$ 7.9bn.

Inflation rate at 9.2% y/y and 0.4% m/m in March 2016

Annual CPI inflation rate retreated slightly to 9.2% in March 2016 from 9.8% in the previous month, according to AzSTAT. In March, food prices were up 10.2% y/y (-1.6ppts m/m), non-food prices were up 14.5% y/y (0.0ppts m/m), and service sector prices were up 3.7% y/y (+0.4ppts m/m).

On a monthly basis, inflation rate was 0.4% in March 2016. Food prices were up 0.3% (-0.3ppts m/m), non-food prices were up 0.5% y/y (-0.1ppts m/m), and service sector prices were up 0.5% (+0.4ppts m/m).

Deposit dollarization inched down to 80.4% in February 2016

Total deposits in Azerbaijan decreased 5.8% m/m to AZN 21.3bn (+15.1% y/y), as FX deposits fell 7.9% m/m, while AZN deposits increased 4.1% m/m. In FX deposit structure, households' and financial entities' time deposits led the decline, while time deposits of non-financial entities were up. Overall, higher AZN-denominated non-household deposits led to a fall in dollarization ratio to 80.4% (-1.9ppts m/m).

NPL up 0.3ppts m/m to 6.5% in February 2016

The banking sector loan portfolio fell 4.1% m/m (-1.8% y/y) to AZN 20.3bn, on the back of reduced lending to households, industry and a fall in letter of credit, while a positive contribution came from a AZN 35.5mn increase in loans to transportation and communication sectors. Loan portfolio was down in state banks as well as private banks.

Overdue loans increased 1.1% m/m to AZN 1.3bn, driven by an increase in AZN-denominated overdue loans. As a result, the NPL ratio increased 0.3 ppts m/m to 6.5%.

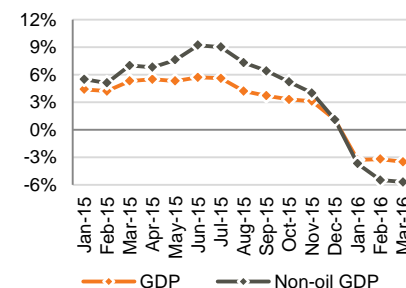
Key macro indicators

	1Q16	2015	2014
GDP (% change)	-3.5%	1.1%	2.8%
NO* GDP (% change)	-5.7%	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)	9.2%	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)	...	-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)

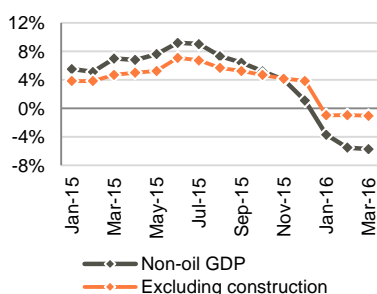
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

STANDARD & POOR'S BB+ Stable Jan-2016	MOODY'S INVESTORS SERVICE Ba1 Under review Feb-2016	Fitch Ratings BB+ Negative Feb-2016
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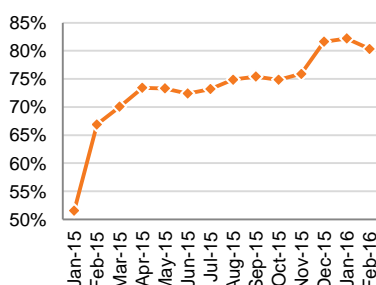
Source: Rating agencies

Non-oil GDP, y/y % change, YTD



Source: AzSTAT

Dollarization ratio of deposits, %



Source: CBAR

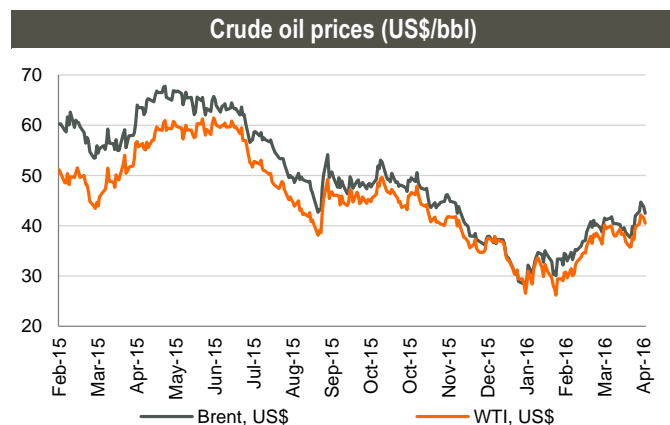
Oil prices and exchange rate

Oil price: Brent oil price was up 1.3% w/w to US\$ 42.5/bbl (down 29.6% y/y), while WTI oil price increased 1.9% w/w to US\$ 40.5/bbl (down 28.2% y/y). In AZN terms, Brent oil price was up 0.9% w/w to AZN 65.1 (up 2.5% y/y).

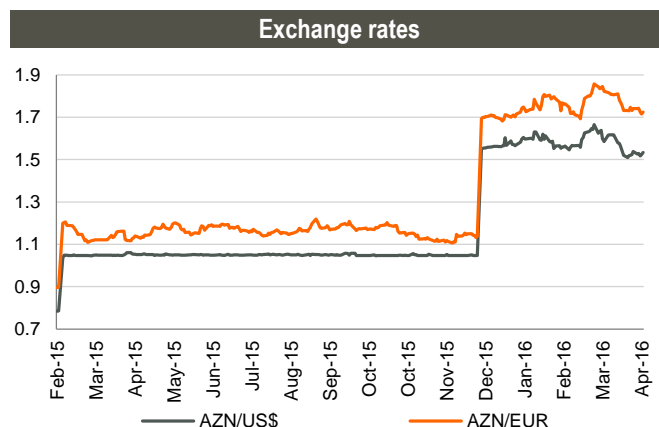
Exchange rate: On April 1, 2016, Central Bank set AZN/US\$ rate at 1.5167 (-0.1% w/w) and AZN/EUR at 1.7119 (-1.0% w/w). At Bloomberg AZN/US\$ was trading at 1.5328 (-0.3% w/w) while AZN/EUR was trading at 1.7234 (-1.0% w/w).

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 sold US\$ 102.4 mn.



Source: Bloomberg



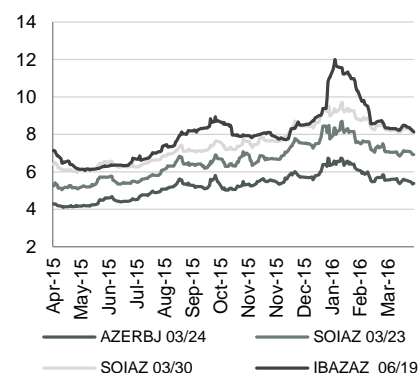
Source: Bloomberg

Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 8.1% yield, trading at 90.8 (+2.0% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 93.1 (+0.7% w/w), yielding 8.1%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 95.9 (+1.0% w/w) at 5.4% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

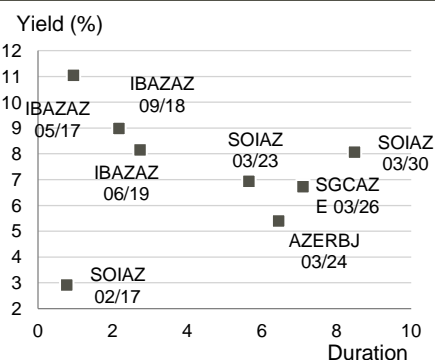


Source: Bloomberg

	Eurobonds							
	SOIAZ 02/17	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 09/18	IBAZAZ 06/19	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\$	102.0	88.2	90.8	95.3	97.3	93.1	95.9	101.1
Mid yield, %	2.9	6.9	8.1	11.0	9.0	8.1	5.4	6.7
Z-spread, bps	215.0	559.2	631.6	1080.7	847.3	736.1	390.3	511.6

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	95.9	5.4	390.3
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	109.6	4.7	342.7
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.0	1.1	-243.1
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	103.0	3.3	317.1
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	113.8	3.3	208.5
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	118.7	3.2	185.4
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	105.6	3.5	235.4
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	108.8	3.7	246.2
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	104.4	4.5	298.3

Source: Bloomberg

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