

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
February 29, 2016

Economy

Parliament approved amended budget on February 23, 2016

In the amended budget document, oil price is set at US\$ 25/bbl, resulting in lower budgeted revenues. At the same time, expenditures were revised upward due to higher social spending, debt service and military spending. According to the document, consolidated budget revenues are set at AZN 15.7bn, down from AZN 16.7bn in the original document, while expenditures are revised up to AZN 24.6bn from AZN 19.9bn. Consolidated budget deficit is forecast to reach AZN 8.8bn (more than 10% of GDP), which will be mainly financed by tapping SOFAZ reserves.

Fitch downgraded Azerbaijan from investment grade to BB+

Following S&P and Moody's downgrade, Fitch lowered Azerbaijan's sovereign credit rating from BBB- and stable outlook to BB+ with negative outlook. Low oil price and associated fall in fiscal revenues were the main reason for this revision. Fitch expects budget deficit at 12.5% of GDP in 2016. Fitch also expects decline in SOFAZ reserves from US\$ 37.1bn in 3Q15 to US\$ 31.0bn by 2017.

Fitch forecasts that the economy will contract by 3.3% in 2016, with non-oil GDP contracting by 4.0%, on the back of lower government spending, freeze in bank lending and fall in confidence. Growth is expected to pick up in 2017 and accelerate in 2018 as Shah Deniz field comes on-stream.

FX demand increased to US\$ 487.2mn

Central bank lowered FX offering at the auctions, while demand from the commercial banks was up 4.6x w/w to US\$ 487.2mn last week, more than SOFAZ and the central bank combined offer.

Key macro indicators

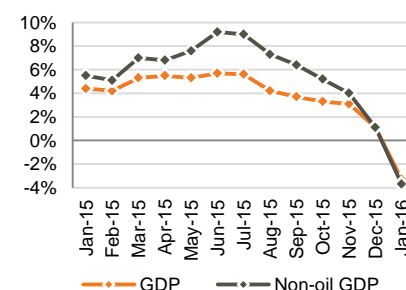
	1M16	2015	2014
GDP (% change)	-3.3%	1.1%	2.8%
NO* GDP (% change)	-3.7%	1.1%	7.0%
GDP per capita (ppp)	17,761
GDP per capita (US\$)	...	5,559	7,936
Population (mn)	9.7	9.7	9.6
Inflation (eop)	13.7%	7.7%	-0.1%
CAB (% of GDP)**	...	0.6%	13.9%
NO* CAB (% of NOGDP)**	...	-18.6%	-21.2%
Fiscal balance (% of GDP)	...	-5.3%	2.9%
NO* fiscal bal. (% of NOGDP)**	...	-34.0%	-38.4%
Gross reserves (US\$ bn)***	...	41.8	50.9

Source: Official data

*Non-oil

As of 9M15, *As of 3Q15

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)

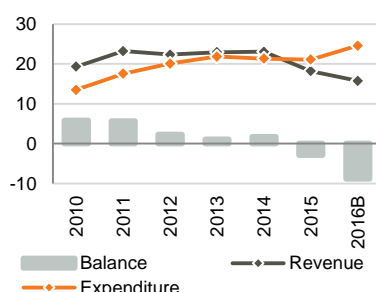
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

STANDARD & POOR'S BB+ Stable Jan-2016	Moody's INVESTORS SERVICE Ba1 Under review Feb-2016	FitchRatings BB+ Negative Feb-2016
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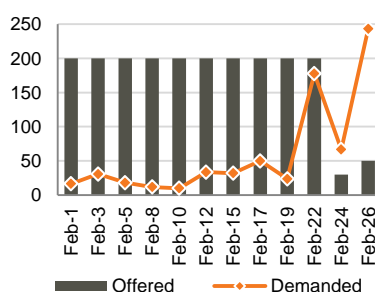
Source: Rating agencies

Consolidated budget, AZN bn



Source: Ministry of Finance

Trade, US\$ bn



Source: CBAR

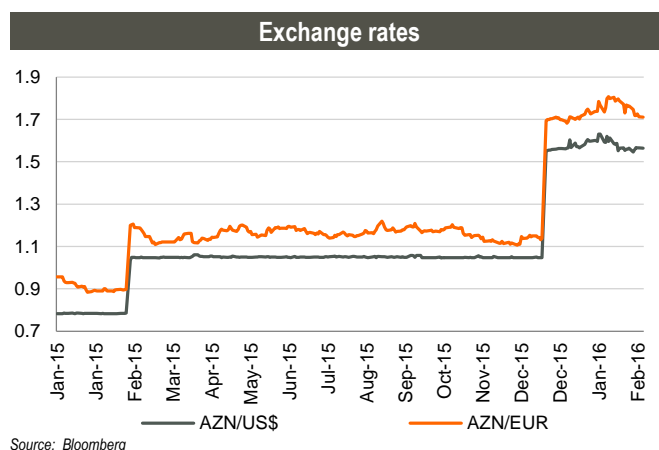
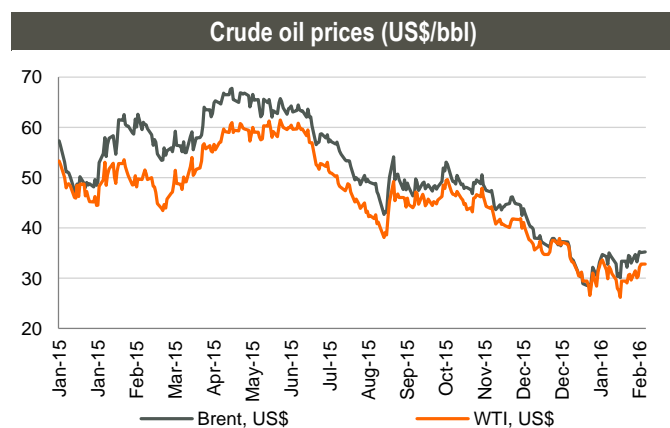


Oil prices and exchange rate

Oil price: Brent oil price was up 6.3% w/w to US\$ 35.1/bbl (down 41.5% y/y), while WTI oil price increased 10.6% w/w to US\$ 32.8/bbl (down 31.9% y/y). In AZN terms, Brent oil price was up 6.4% w/w to AZN 54.9 (down 12.7% y/y).

Exchange rate: On February 19, 2016, Central Bank set AZN/US\$ rate at 1.5624 (-0.1% w/w) and AZN/EUR at 1.7282 (-0.6% w/w). At Bloomberg AZN/US\$ was trading at 1.5650 (+0.1% w/w) while AZN/EUR was trading at 1.7116 (-3.0% w/w).

Monetary policy rate: Monetary policy rate remained unchanged at 5.0%.

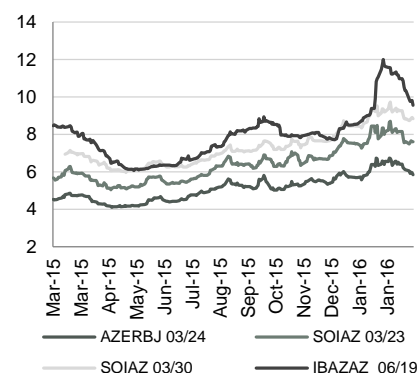


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 8.8% yield, trading at 84.9 (0.0% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 89.1 (+2.3% w/w), yielding 9.6%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 93.0 (+1.7% w/w) at 5.9% yield to maturity.

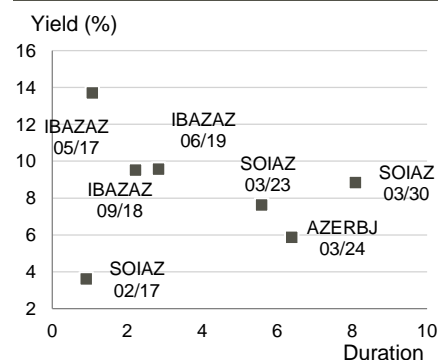
Azerbaijan Eurobonds, YTM (%)



	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\$	101.7	84.6	84.9	91.9	96.0	89.1
Mid yield, %	3.6	7.6	8.8	13.7	9.5	9.6
Z-spread, bps	301.6	634.4	706.5	1,176.6	818.3	893.9

Source: Bloomberg

Azerbaijan 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
Azerbaijan	1,250	4.750%	3/18/2024	BB+/BB+/Ba1	93.0	5.9	437.9
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	105.8	5.6	434.4
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.3	1.1	-238.8
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	102.0	3.5	334.0
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	113.7	3.4	230.3
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	119.3	3.2	192.2
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	104.5	3.8	268.8
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	106.0	4.3	308.2
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	101.4	4.9	339.4

Source: Bloomberg

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