

# Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan  
February 8, 2016

## Economy

### Moody's downgraded Azerbaijan from investment grade to Ba1

Following S&P's move last week, Moody's downgraded Azerbaijan's sovereign credit rating from Baa3 with a stable outlook, last affirmed on December 4, 2015, to Ba1 and placed the ratings on review for a further downgrade. Falling oil price and associated worsening of medium-term economic growth prospects, along with loss of confidence in the currency and deterioration of fiscal and external position, were the drivers behind this decision.

### Demand for FX fell to US\$ 66.0mn

In three FX auctions organized by the Central Bank over the last week, the regulator offered US\$ 600mn, while demand was limited to US\$ 66.0mn, which is 70.0% lower than in the previous week.

### M2/GDP ratio fell to 15.8% in December 2015

Central Bank data point to further monetary tightening in December 2015, with M2 falling to AZN 8.6bn (-50.6% y/y, -4.8% m/m). As a ratio to GDP, M2 fell from 29.5% in 2014 to 15.8% in 2015.

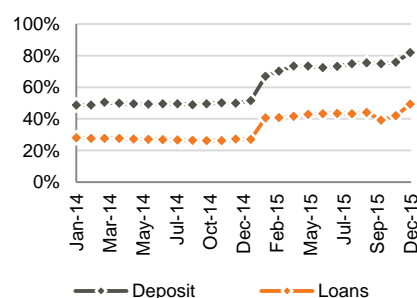
### Deposit dollarization reached 81.9% in December 2015

With revaluation of FX deposits and probably a further shift from AZN deposits to FX deposits, the deposit dollarization ratio surged to 81.9% in December 2015 (+6.0 ppts m/m, +32.1 ppts y/y).

### Crude oil exports are down 16.8% y/y in January 2016

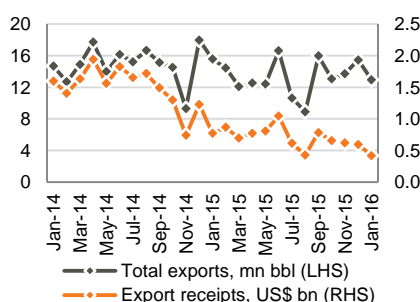
According to SOCAR statistics, Azerbaijan exported 1.8mn tons of crude oil in January 2016 (-16.8% y/y, -16.2% m/m). Azeri Light crude oil price fell further in January 2016 to US\$ 32.3/bbl (-34.7% y/y, -16.1% m/m). As a result, receipts from crude oil exports declined to US\$ 0.4bn (-45.7% y/y, -29.7% m/m).

Dollarization ratios



Source: CBAR

Crude oil exports



Source: SOCAR

### Key macro indicators

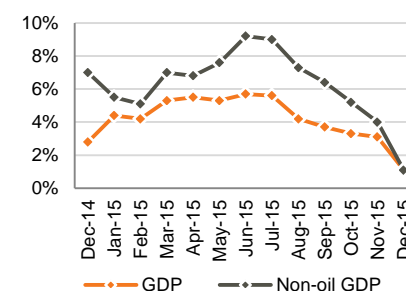
	2015	2014	2013
GDP (% change)	1.1%	2.8%	5.8%
NO* GDP (% change)	1.1%	7.0%	10.0%
GDP per capita (ppp)	...	17,761	17,135
GDP per capita (US\$)	5,559	7,936	7,934
Population (mn)	9.7	9.6	9.5
Inflation (eop)	7.7%	-0.1%	3.6%
CAB (% of GDP)**	0.6%	13.9%	16.6%
NO* CAB (% of NOGDP)**	-18.6%	-21.2%	-29.6%
Fiscal balance (% of GDP)	-5.3%	2.9%	1.8%
NO* fiscal bal. (% of NOGDP)**	-34.0%	-38.4%	-46.5%
Gross reserves (US\$ bn)***	41.8	50.9	50.0

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

 <b>BB+</b> Stable Jan-2016	 <b>Ba1</b> Under review Feb-2016	 <b>BBB-</b> Stable Affirmed Aug-2015
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Source: Rating agencies



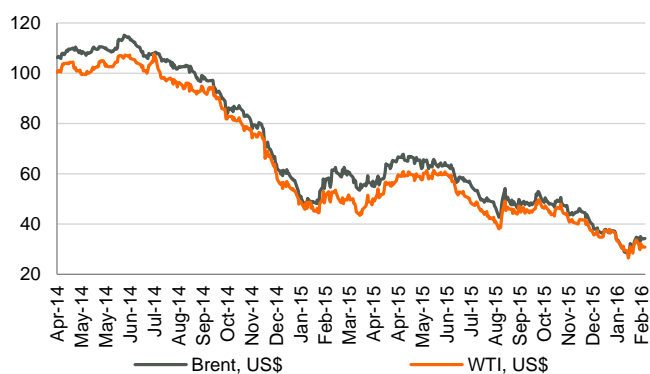
## Oil prices and exchange rate

**Oil price:** Brent oil price was down 2.0% w/w to US\$ 34.1/bbl (down 39.8% y/y), while WTI oil price decreased 8.1% w/w to US\$ 30.9/bbl (down 38.8% y/y). In AZN terms, Brent oil price was down 3.1% w/w to AZN 54.9 (up 24.0% y/y).

**Exchange rate:** On January 29, 2016, Central Bank set AZN/US\$ rate at 1.5853 (-1.0% w/w) and AZN/EUR at 1.7749 (+1.5% w/w). At Bloomberg AZN/US\$ was trading at 1.6120 (-1.2% w/w) while AZN/EUR was trading at 1.7979 (+1.8% w/w).

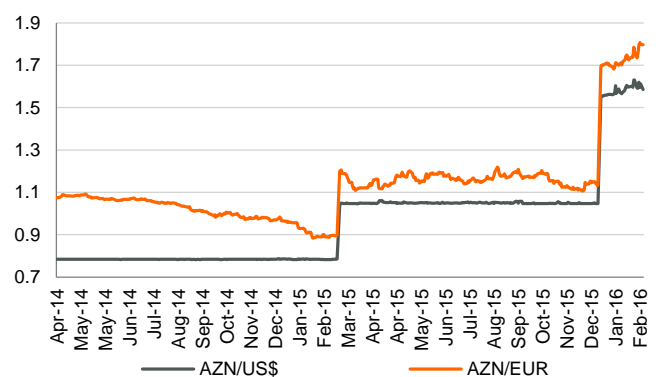
**Monetary policy rate:** Monetary policy rate remained unchanged at 3.0%.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



Source: Bloomberg

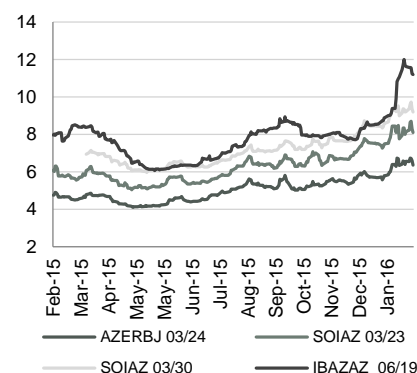


## Fixed income

**Corporate Eurobonds:** State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 9.2% yield, trading at 82.4 (+0.2% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 84.8 (+1.3% w/w), yielding 11.2%.

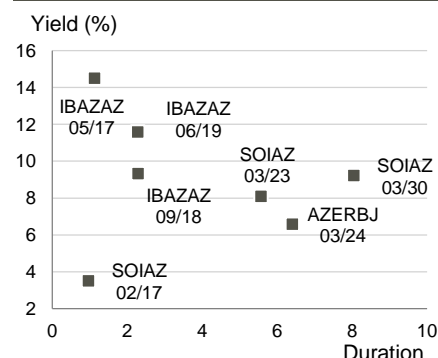
**Azerbaijan Sovereign Eurobonds** (AZERBJ 03/24) closed at 90.0 (+1.5% w/w) at 6.3% yield to maturity.

**Azerbaijan Eurobonds, YTM (%)**



Source: Bloomberg

**Azerbaijan Eurobond universe**



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\$	101.8	82.1	82.4	90.9	96.3	84.8
Mid yield, %	3.6	8.1	9.2	14.3	9.4	11.2
Z-spread, bps	291.8	728.1	726.9	1,208.7	803.6	1,040.7

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	BBB-/BB+/Ba1	90.0	6.3	470.1
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	104.6	5.8	446.8
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.5	1.1	-245.2
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	102.1	3.5	325.8
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	113.5	3.5	230.0
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	118.9	3.3	178.7
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	104.1	3.9	273.9
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	106.4	4.2	293.8
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB/Baa2	99.6	5.2	346.3

Source: Bloomberg

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