

# Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan  
October 10, 2016

## Economy

### CBAR reserves down US\$ 59.8mn m/m in September 2016

Reserves of the Central Bank of Azerbaijan decreased 1.4% m/m (-41.1% y/y) in September 2016 to US\$ 4.1bn.

### New currency auction rules introduced

CBAR announced a new mechanism for currency auctions, effective October 5, 2016. Under this mechanism, commercial banks can buy and sell FX in the auctions and the final weighted average exchange rate is announced at the end of the auction day.

### SOCAR crude oil exports down 36.3% y/y in September 2016

SOCAR exported 1.4mn tons of crude oil in September 2016, down 36.3% y/y (-9.4% m/m). In 9M16, crude oil exports were down 7.1% y/y to 15.1mn tons. Monthly average price of BTC FOB Ceyhan crude was down 0.2% m/m (-3.5% y/y) to US\$ 47.3/bbl.

SOCAR exports crude oil belonging to the company as well as to the Azerbaijan state.

### Tax revenues slightly above the budgeted level

According to the Ministry of Taxes, its tax revenues in 9M16 stood at AZN 4.9bn, or 100.2% of the budgeted figure. However, compared to 9M15, revenues are down 3.3% y/y. In monthly terms, revenues in August 2016 were up 8.6% y/y to AZN 574.2mn.

### NPL ratio up to 9.5% in August 2016

Non-performing loans were up 5.9% m/m (+19.4% y/y) to AZN1.6bn in August 2016, corresponding to 9.5% of the total loan portfolio, a record high level. In the same month, commercial banks' loan portfolio was up 0.8% m/m (-16.2% y/y) to AZN 16.8bn, driven by a 6.8% m/m increase in mortgage loans.

### Deposit dollarization slightly up

Compared to the previous month, the deposit dollarization ratio was up 1.0ppts to 81.0%, while the loan dollarization ratio was down 0.3ppts to 48.0% in August 2016. Excluding deposits of non-residents and the central government, the deposit dollarization ratio was up 1.3ppts to 73.4%.

### Key macro indicators

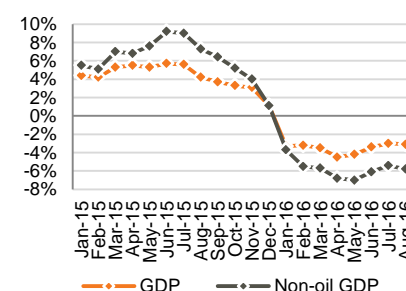
	7M16	2015	2014
GDP (% change)	-3.1%	1.1%	2.8%
NO* GDP (% change)	-5.8%	1.1%	7.0%
GDP per capita (ppp)	...	17,993	17,762
GDP per capita (US\$)	...	5,739	8,055
Population (mn)	...	9.7	9.6
Inflation (eop)	12.0%	7.7%	-0.1%
CAB (% of GDP)**	-4.6%	-0.4%	13.9%
NO* CAB (% of NOGDP)**	-24.9%	-18.4%	-16.5%
Fiscal balance (% of GDP)**	3.8%	-5.3%	2.9%
NO* fiscal bal. (% of NOGDP)**	-20.8%	-33.7%	-38.1%
Gross reserves (US\$ bn)**	39.4	38.6	50.9

Source: Official data

\* Non-oil

\*\*1H16

### Real GDP growth, % (YTD)



Source: AzSTAT

### International ranking of Azerbaijan

Ease of Doing Business # 63

Economic Freedom Index # 91 (moderately free)

Global Competitiveness Index # 37 (regional leader)

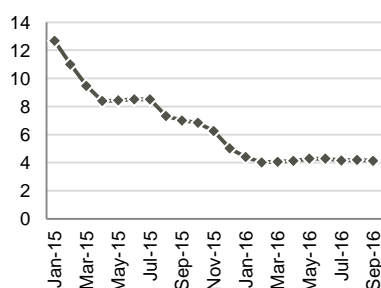
Source: World Bank, Heritage Foundation and World Economic Forum

### Azerbaijan sovereign credit ratings

<b>STANDARD &amp; POOR'S</b>  <b>BB+</b> Negative Jul-2016	<b>Moody's</b> INVESTORS SERVICE  <b>Ba1</b> Negative Apr-2016	<b>FitchRatings</b>  <b>BB+</b> Negative Aug-2016
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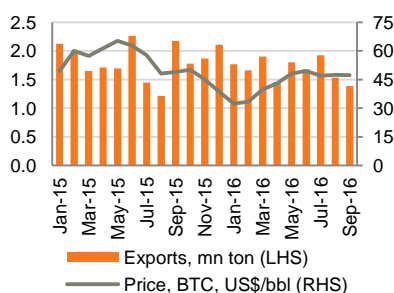
Source: Rating agencies

### CBAR reserves US\$ bn



Source: CBAR

### Oil exports and price



Source: SOCAR



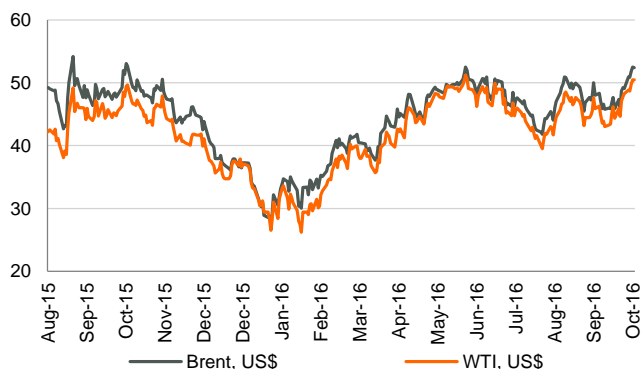
## Oil prices and exchange rate

**Oil price:** Brent oil price was up 6.8% w/w to US\$ 52.4/bbl (up 2.1% y/y), while WTI oil price increased 4.6% w/w to US\$ 50.5/bbl (up 5.5% y/y). In AZN terms, Brent oil price was up 4.3% w/w to AZN 84.0 (up 56.4% y/y).

**Exchange rate:** On October 7, 2016, Central Bank set AZN/US\$ rate at 1.6036 (-1.1% w/w) and AZN/EUR at 1.7827 (-2.0% w/w). At Bloomberg AZN/US\$ was trading at 1.6028 (-1.6% w/w) while AZN/EUR was trading at 1.8057 (-1.1% w/w).

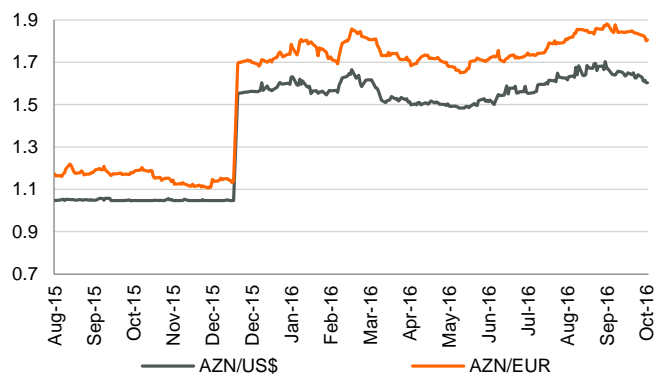
**Monetary policy rate:** Monetary policy rate was unchanged at 15.0%.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



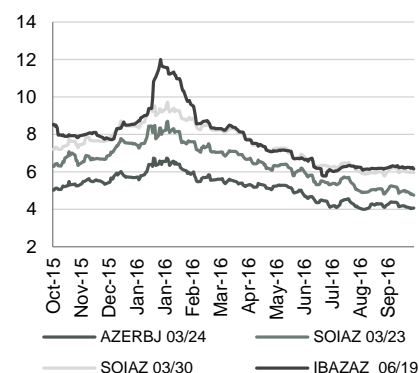
Source: Bloomberg

# Fixed income

**Corporate Eurobonds:** State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.0% yield, trading at 109.0 (+0.3% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 98.7 (+0.2% w/w), yielding 6.2%.

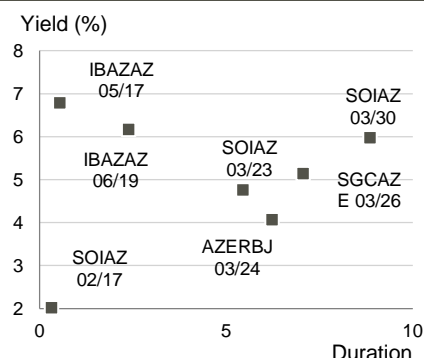
**Azerbaijan Sovereign Eurobonds** (AZERBJ 03/24) closed at 104.3 (+0.3% w/w) at 4.1% yield to maturity.

**Azerbaijan Eurobonds, YTM (%)**



Source: Bloomberg

**Azerbaijan Eurobond universe**



Source: Bloomberg

	Eurobonds						
	SOIAZ 02/17	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 06/19	SGCAZE 03/26	AZERBJ 03/24
Amount, US\$ mn	97.1	1000	750	100	500	1,000	1,250
Issue date	Feb-2012	Mar-2013	Mar-2015	May-2007	Jun-2014	Mar-16	Mar-14
Maturity date	Feb-2017	Mar-2023	Mar-2030	May-2017	Jun-2019	Mar-26	Mar-24
Coupon, %	5.450%	4.750%	6.950%	6.170%	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+/-/Ba1	BB+/-/Ba1
Mid price, US\$	101.1	99.9	109.0	99.7	98.7	112.9	104.3
Mid yield, %	2.0	4.8	6.0	6.8	6.2	5.1	4.1
Z-spread, bps	-85.3	340.6	428.3	432.8	509.1	358.1	258.8

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	104.3	4.1	258.8
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	112.1	3.9	256.2
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	121.1	0.5	-234.2
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	107.4	2.5	245.8
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	115.0	2.8	148.6
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	119.5	2.8	145.9
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	107.8	2.7	141.6
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Ba1	107.1	3.9	255.6
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	112.8	3.4	189.5

Source: Bloomberg

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