

# Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan  
August 29, 2016

## Economy

### Azerbaijan's rating confirmed at BB+

Following the late February 2016 downgrade, Fitch Ratings confirmed Azerbaijan's rating at BB+ with a negative outlook on August 26, 2016. The rating agency revised its 2016 forecasts for budget deficit from 12.5% of GDP to 7.3% of GDP as oil prices in 1H16 were relatively higher than expected previously and due to government's conservative capital expenditures. Additionally, Fitch Ratings states that Azerbaijan has ample FX reserves to finance the deficit.

Weakness in the banking sector continues, however, according to the agency, potential recapitalization requirements would not be onerous for the sovereign.

### BP-led consortium increased oil production in 2Q16

The BP-led consortium in Azerbaijan increased oil production by 4.8% y/y to 8.7mn tons in 2Q16, according to British Petroleum. A 36.9% y/y increase in West Azeri field production and a 12.6% y/y increase in West Chirag field production were the main drivers of output growth, along with increased condensate production from the Shah-Deniz field.

A 3.8% y/y increase in gas production from the Shah-Deniz field was not enough to compensate a 31.6% y/y decline in associated gas production from Azer-Chirag-Gunashli fields, resulting in a 5.2% y/y decrease in overall gas output by the BP-led consortium in 2Q16.

### Capital and operating expenditures at major oil and gas fields down in 2Q16

Capital and operating expenditures by the BP-led consortium were down in 2Q16. Capex was down 16.8% y/y to US\$ 1.7bn (+5.1% q/q), driven by a 20.2% y/y fall in Shah-Deniz-related capex and a 9.8% y/y fall in Azer-Chirag-Gunashli-related capital spending.

A 38.2% y/y fall in operating expenses at Azeri-Chirag-Gunashli was the main driver of a 26.6% y/y decrease in total opex to US\$ 271.0mn.

### Key macro indicators

	7M16	2015	2014
GDP (% change)	-3.0%	1.1%	2.8%
NO* GDP (% change)	-5.4%	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)	11.3%	7.7%	-0.1%
CAB (% of GDP)**	-5.4%	-0.4%	13.9%
NO* CAB (% of NOGDP)***	-18.4%	-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

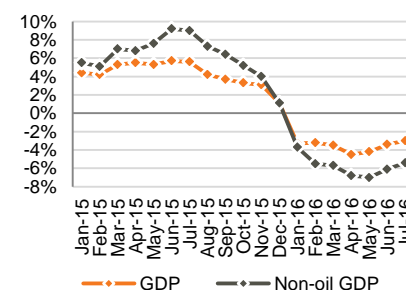
Source: Official data

\* Non-oil

\*\*1Q16

\*\*\*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 # 40 (regional leader)

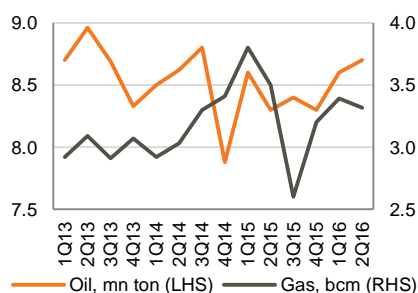
Source: World Bank, Heritage Foundation and World Economic Forum

### Azerbaijan sovereign credit ratings

<b>STANDARD &amp; POOR'S</b>  <b>BB+</b> Stable Jan-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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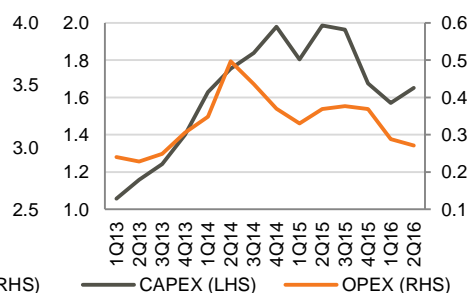
Source: Rating agencies

Oil and gas production by BP led consortium



Source: BP

CAPEX and OPEX by BP led consortium, US\$ bn



Source: BP

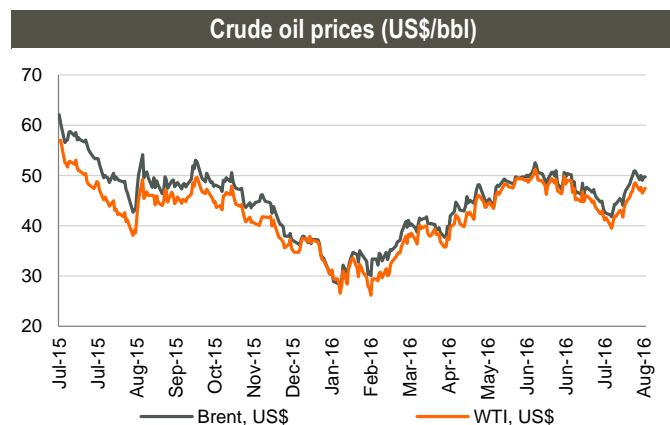
## Oil prices and exchange rate

**Oil price:** Brent oil price was down 2.2% w/w to US\$ 49.8/bbl (up 15.3% y/y), while WTI oil price decreased 2.2% w/w to US\$ 47.4/bbl (up 22.9% y/y). In AZN terms, Brent oil price was down 2.8% w/w to AZN 81.5 (up 83.4% y/y).

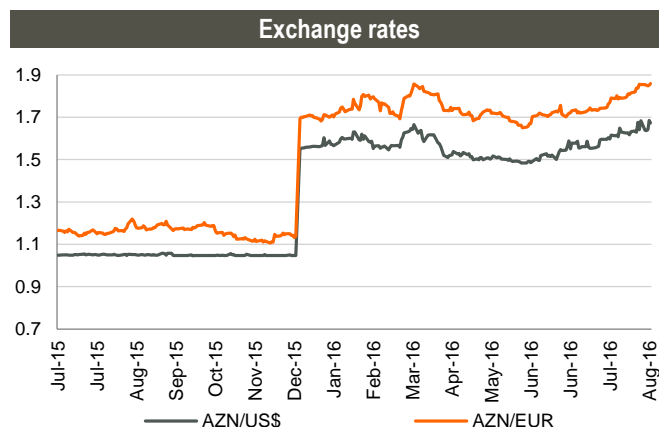
**Exchange rate:** On August 26, 2016, Central Bank set AZN/US\$ rate at 1.6280 (+0.5% w/w) and AZN/EUR at 1.8374 (+0.0% w/w). At Bloomberg AZN/US\$ was trading at 1.6725 (-0.6% w/w) while AZN/EUR was trading at 1.8580 (+0.2% w/w).

**Monetary policy rate:** Monetary policy rate was unchanged at 7.0%.

**FX auctions:** In two FX auctions organized by the Central Bank over the last week, State Oil Fund sold US\$ 96.0mn to commercial banks.



Source: Bloomberg



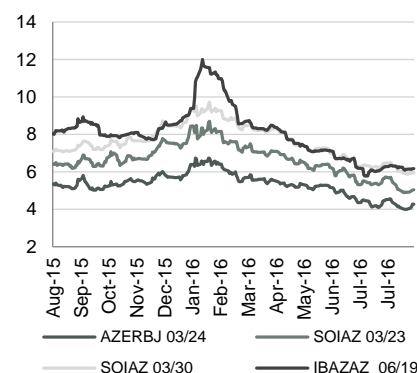
Source: Bloomberg

# Fixed income

**Corporate Eurobonds:** State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.0% yield, trading at 109.0 (-0.7% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 98.6 (-0.1% w/w), yielding 6.2%.

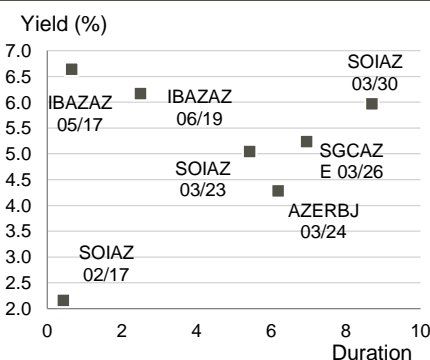
**Azerbaijan Sovereign Eurobonds** (AZERBJ 03/24) closed at 103.0 (-0.7% w/w) at 4.3% yield to maturity.

**Azerbaijan Eurobonds, YTM (%)**



Source: Bloomberg

**Azerbaijan Eurobond universe**



Source: Bloomberg

	Eurobonds						
	SOIAZ 02/17	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 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+/BB+/Ba1
Mid price, US\$	101.4	98.4	109.0	99.7	98.6	112.2	103.0
Mid yield, %	2.2	5.0	6.0	6.6	6.2	5.2	4.3
Z-spread, bps	55.9	370.0	441.7	452.4	526.1	379.4	290.7

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	BB+/BB+/Ba1	103.0	4.3	290.7
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	112.1	4.0	272.4
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.9	0.6	-235
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	106.4	2.7	267.5
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	115.5	2.8	156.0
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	121.2	2.5	128.4
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	107.4	2.8	165.0
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	107.8	3.8	252.9
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	112.4	3.5	207.7

Source: Bloomberg

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