



Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
April 11, 2016

Economy

Consolidated budget surplus at AZN 1.1bn (US\$ 0.7bn) in 1Q16

Azerbaijan's consolidated budget posted AZN 1.1bn surplus in 1Q16, compared to AZN 0.6bn deficit in 1Q15, as revenues increased marginally (+2.4% y/y to AZN 4.5bn), while expenditures fell significantly (-32.6% y/y to AZN 3.3bn). The growth in revenues was driven by an increase in non-oil tax revenues (+3.6% y/y to AZN 1.2bn), customs committee receipts (+21.9% y/y to AZN 0.4bn), and non-state budget revenues (+3.6% y/y to AZN 2.5bn, including SOFAZ revenues). Oil tax revenues were down 39.0% y/y to AZN 0.3bn.

On the expenditure side, social spending was up 3.3% y/y to AZN 1.4bn, while other state budget (mainly capex) and non-state budget expenditures were down (-57.4% y/y to AZN 1.2bn and -6.8% y/y to AZN 0.7bn, respectively).

Central Bank reserves up 1.0% m/m in March 2016

Azerbaijan Central Bank reserves increased 1.0% m/m to US\$ 4.1bn in March 2016, the first increase in the last eight months. The Central Bank did not intervene on the FX market in March as demand was met by the State Oil Fund, which sold US\$ 482.3mn. On April 4, 2016, the Central Bank bought US\$ 0.4mn in the open auction.

Banking sector stats in the red in February 2016

In February 2016, banking sector assets in Azerbaijan fell 2.8% m/m to AZN 32.8bn (+14.7% y/y), as the loan portfolio contracted 4.2% m/m to AZN 19.7bn (-2.0% y/y) and non-loan items fell 0.6% m/m to AZN 13.1bn (+54.2% y/y). The downward trend in household deposits persisted in February, falling 6.5% m/m to AZN 8.1bn (+1.8% y/y). Banking sector gross capital contracted 0.2% m/m to AZN 3.6bn (-16.3% y/y).

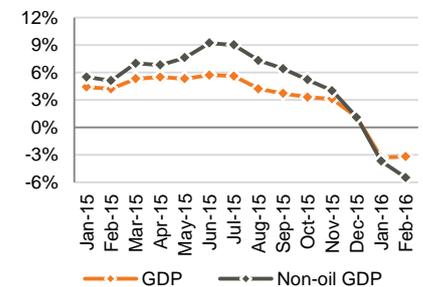
Key macro indicators

	2M16	2015	2014
GDP (% change)	-3.2%	1.1%	2.8%
NO* GDP (% change)	-5.5%	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)	9.8%	7.7%	-0.1%
CAB (% of GDP)	...	-0.4%	13.9%
NO* CAB (% of NOGDP)	...	-18.4%	-16.5%
Fiscal balance (% of GDP)	...	-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)

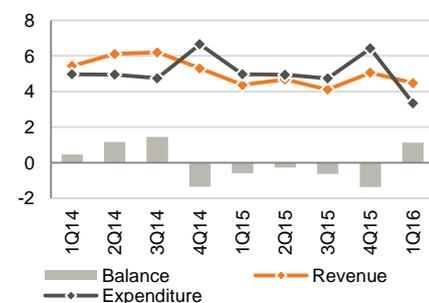
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

 BB+ Stable Jan-2016	 Ba1 Under review Feb-2016	 BB+ Negative Feb-2016
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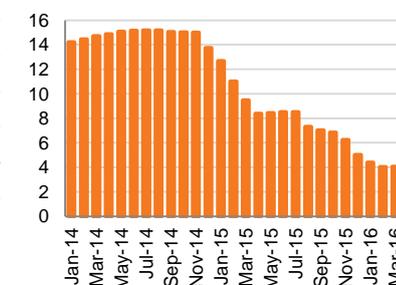
Source: Rating agencies

Consolidated budget, AZN bn



Source: Ministry of Finance

Central Bank reserves, US\$ bn



Source: CBAR



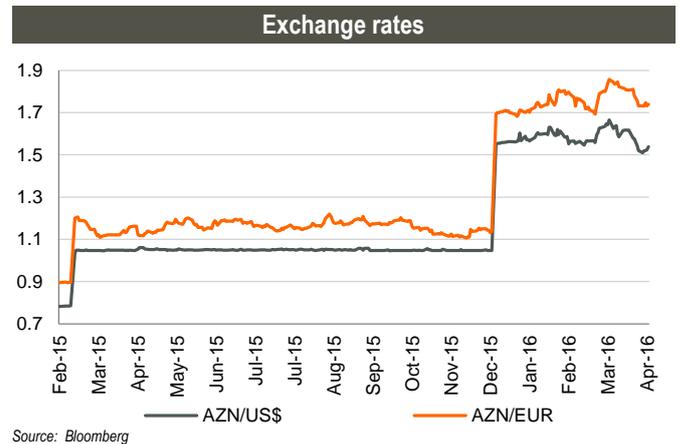
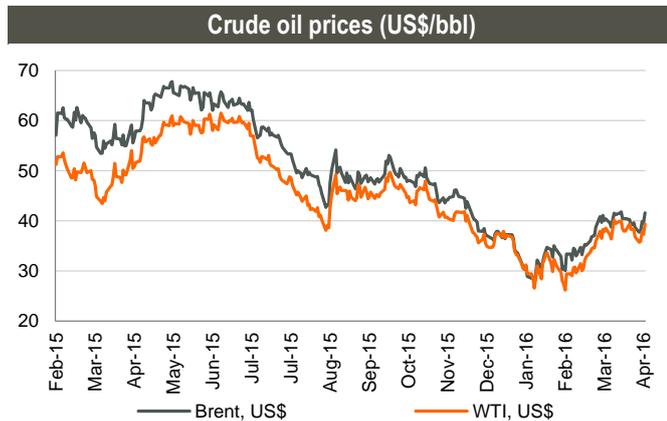
Oil prices and exchange rate

Oil price: Brent oil price was up 7.5% w/w to US\$ 41.6/bbl (down 25.1% y/y), while WTI oil price increased 7.0% w/w to US\$ 39.4/bbl (down 21.9% y/y). In AZN terms, Brent oil price was up 8.8% w/w to AZN 64.0 (up 9.7% y/y).

Exchange rate: On April 1, 2016, Central Bank set AZN/US\$ rate at 1.5231 (0.0% w/w) and AZN/EUR at 1.7309 (-0.1% w/w). At Bloomberg AZN/US\$ was trading at 1.5380 (+1.2% w/w) while AZN/EUR was trading at 1.7392 (+0.5% w/w).

Monetary policy rate: Monetary policy rate remained unchanged at 7.0%.

FX auctions: In two FX auctions organized by the Central Bank over the last week, State Oil Fund sold US\$ 100.0 mn.



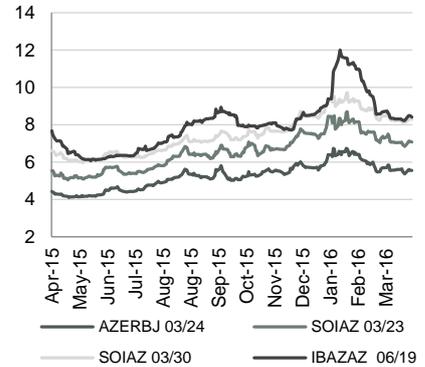


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 8.3% yield, trading at 89.1 (-1.4% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 92.4 (-0.5% w/w), yielding 8.4%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 94.9 (-1.2% w/w) at 5.6% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

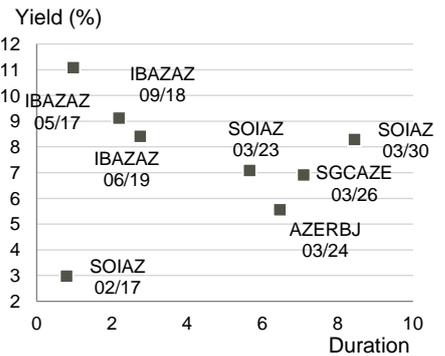


Source: Bloomberg

	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	87.4	89.1	95.1	97.0	92.4	94.9	99.8
Mid yield, %	3.0	7.1	8.3	11.1	9.1	8.4	5.6	6.9
Z-spread, bps	187.0	585.3	653.4	915.8	846.9	722.7	409.1	533.7

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	94.9	5.6	409.1
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	108.9	4.8	361.7
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.0	1.1	-238.4
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	103.0	3.3	318.9
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	113.8	3.3	207.5
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	118.9	3.2	193.7
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	105.3	3.6	245.4
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	108.1	3.8	263.3
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	103.7	4.6	307.9

Source: Bloomberg



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