



Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
June 20, 2016

Economy

Azerbaijan economy contracted 4.2% y/y in 5M16

In 5M16, real GDP declined 4.2% y/y, with non-oil GDP down 7.0% y/y and oil GDP up 1.0% y/y. The construction sector, which contracted 37.0% y/y, continued to weigh on overall growth, followed by transportation and storage (-9.5% y/y). Excluding the construction sector, the fall in non-oil GDP moderated from 1.4% y/y in 4M16 to 1.0% y/y in 5M16. Positive contribution came from trade (+1.9% y/y), agriculture (+5.8% y/y), and manufacturing (2.3% y/y).

In nominal terms, GDP increased 5.6% y/y to AZN 21.5bn in 5M16, while in US\$ terms, output decreased 35.7% y/y to US\$ 13.9bn.

NPLs at 7.4% in April 2016

An increase in non-performing loans in AZN terms (+4.1% m/m) and a fall in the total loan portfolio (-4.7% m/m) resulted in NPLs going up from 6.7% in March 2016 to 7.4% in April 2016, the highest level since 2004. The contraction in the loan portfolio in April was driven mainly by a 9.2% m/m contraction in the state banks' loan portfolio (-16.8% y/y). Foreign currency loans decreased 6.4% m/m in April 2016, while the loan portfolio in local currency was down 3.1% m/m. At sectoral level, the fall in the loan portfolio was driven by reduced lending to households (-5.2% m/m), construction and real estate (-6.8% m/m), industry (-11.7% m/m), and trade and services (-4.4% m/m).

Deposit dollarization inched down to 80.8% in April 2016

As deposits decreased in both local and foreign currencies, total deposits retreated to AZN 22.6bn (-2.4% m/m) in April 2016. However, as the decrease in FX deposits was higher, the deposit dollarization ratio retreated slightly to 80.8% in March (-0.2ppts m/m).

Oil and gas extraction up in May 2016

According to SOCAR, oil and natural gas extraction in Azerbaijan was up 4.1% y/y and 2.7% y/y, respectively, in May 2016 (-0.6% y/y and +0.9% y/y, respectively, in 5M16). While SOCAR's output of oil and gas declined, an increase in the output of other producers was more than enough to bring overall production to positive territory.

Azerbaijan's external public debt up 8.0% q/q in 1Q16

Azerbaijan's external public debt increased 8.0% q/q to US\$ 7.4bn in 1Q16. A bulk (US\$ 6.1bn) of this debt is owed to international financial institutions and only 17.7% (US\$ 1.3bn) is issued in the form of Eurobonds on international capital markets.

Key macro indicators

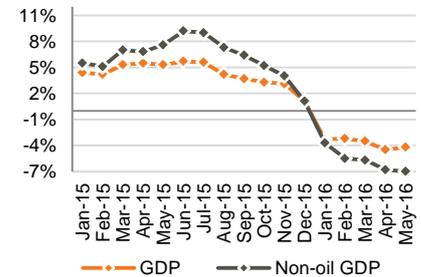
	4M16	2015	2014
GDP (% change)	-4.2%	1.1%	2.8%
NO* GDP (% change)	-7.0%	1.1%	7.0%
GDP per capita (ppp)	...	17,993	17,762
GDP per capita (US\$)	...	5,739	8,055
Population (mn)	...	9.7	9.6
Inflation (eop)	10.2%	7.7%	-0.1%
CAB (% of GDP)	...	-0.4%	13.9%
NO* CAB (% of NOGDP)	...	-18.4%	-16.5%
Fiscal balance (% of GDP)**	8.9%	-5.3%	2.9%
NO* fiscal bal. (% of NOGDP)**	-14.9%	-33.7%	-38.1%
Gross reserves (US\$ bn)**	38.3	38.6	50.9

Source: Official data

* Non-oil

**1Q16

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)

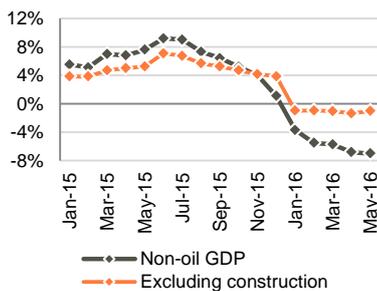
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

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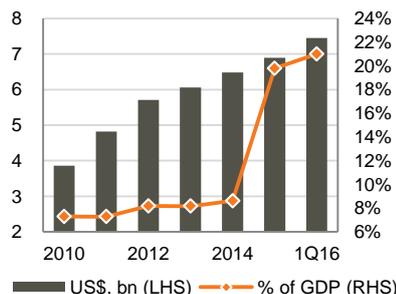
Source: Rating agencies

Non-oil GDP, YTD y/y % change



Source: AzSTAT

External public debt



Source: Ministry of Finance



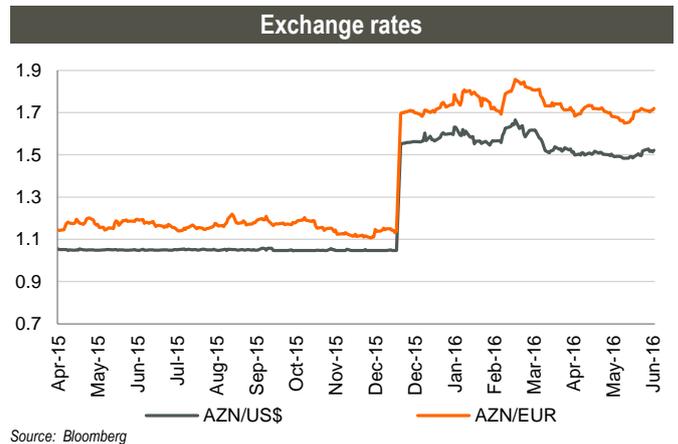
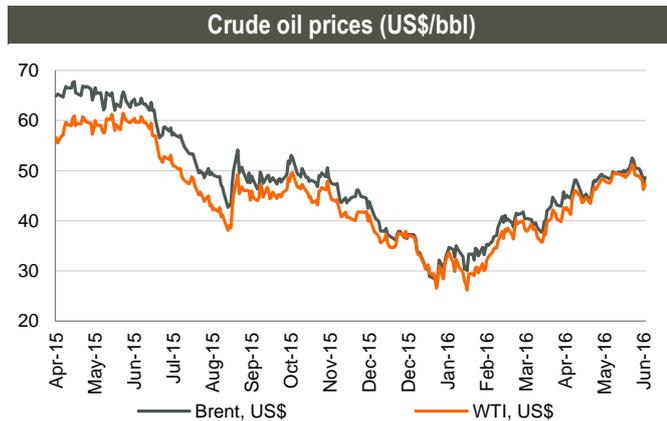
Oil prices and exchange rate

Oil price: Brent oil price was down 3.7% w/w to US\$ 48.7/bbl (down 23.8% y/y), while WTI oil price decreased 3.8% w/w to US\$ 47.2/bbl (down 21.2% y/y). In AZN terms, Brent oil price was down 3.7% w/w to AZN 74.0 (up 10.6% y/y).

Exchange rate: On June 17, 2016, Central Bank set AZN/US\$ rate at 1.518 (+0.4% w/w) and AZN/EUR at 1.7074 (+0.0% w/w). At Bloomberg AZN/US\$ was trading at 1.5220 (+0.1% w/w) while AZN/EUR was trading at 1.7196 (+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\$ 100.0mn to commercial banks.



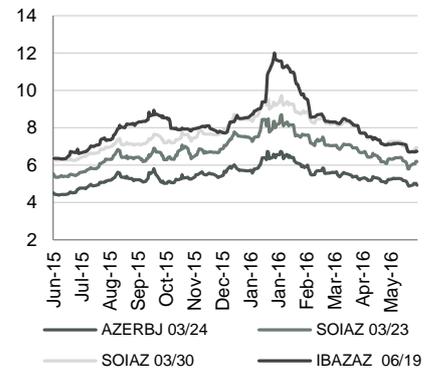


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.9% yield, trading at 100.3 (-1.8% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 97.1 (-0.1% w/w), yielding 6.7%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 98.8 (-0.2% w/w) at 4.9% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

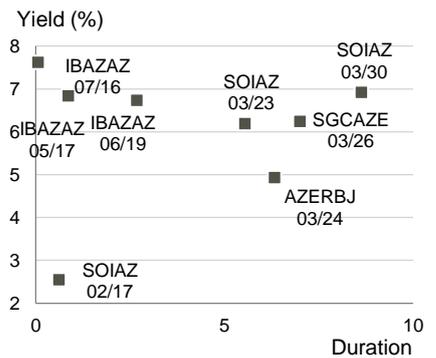


Source: Bloomberg

	Eurobonds							
	SOIAZ 02/17	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 07/16	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	Jul-2016	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\$	101.8	92.2	100.3	99.4	100.0	97.1	104.6	98.8
Mid yield, %	2.5	6.2	6.9	6.8	7.6	6.7	6.2	4.9
Z-spread, bps	192.4	489.7	530.3	577.5	NA	586.9	479.0	362.3

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	98.8	4.9	362.3
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	110.5	4.4	322.8
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.1	1.1	-229.5
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	102.3	3.4	336.3
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	114.1	3.2	216.7
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	117.9	3.2	206.3
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	106.3	3.3	217.0
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	108.1	3.8	262.9
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	106.9	4.2	276.4

Source: Bloomberg



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Galt & Taggart

Address: 79 D. Agmashenebeli Avenue, Tbilisi 0102, Georgia

Tel: + (995) 32 2401 111

Email: gt@gt.ge