



Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
August 15, 2016

Economy

Oil and gas production up for the third consecutive month

With oil extraction up 2.9% y/y and gas production up 3.0% y/y, oil and gas production, in annual terms, increased in Azerbaijan for the third consecutive month in July 2016. Growth in oil and gas production was driven by private producers, while SOCAR's output was down. In 7M16, oil production was up 0.8% y/y to 10.7mn tons and gas production was up 1.9% y/y to 17.5 bcm.

SOCAR tax payments down 12.7% y/y in July 2016

In July 2016, SOCAR paid AZN 127.1mn (-12.7% y/y) in taxes to the state budget and AZN 12.1mn (+8.1% y/y) to State Social Protection Fund of Azerbaijan Republic (SSPF). In 7M16, tax payments to the state budget amounted to AZN 788.9mn (-9.8% y/y), while payments to the SSPF amounted to AZN 81.6mn (+0.8% y/y).

Inflation rate at 11.3% y/y in July 2016

Annual CPI inflation rate inched up to 11.3% in July 2016 from 10.9% in the previous month, according to AzSTAT. In July, food prices were up 12.3% y/y (+0.1ppts m/m), non-food prices were up 16.2% y/y (+0.2ppts m/m), and service sector prices were up 5.8% y/y (+1.0ppts m/m).

Banks foreign assets continued falling in June 2016

Commercial banks' gross foreign assets continued to decline for the third month in a row in June 2016. After 34.8% m/m decrease in May 2016, foreign assets were down 14.7% m/m, to US\$ 3.2bn. Markedly, foreign liabilities were also down 4.2% m/m to US\$ 4.3bn.

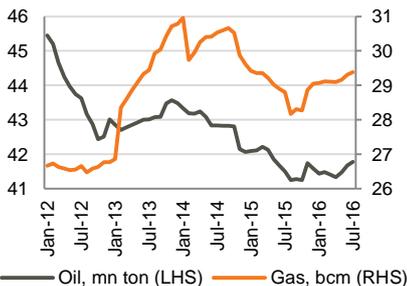
FX loans fed total loan portfolio growth

Commercial banks loan portfolio was up 1.3% m/m (-9.1% y/y) in June 2016 to AZN 18.4bn, driven by 4.0% m/m increase in FX loans, following removal of partial restrictions on FX loans. Local currency loans, however, were down 1.1% m/m. As a result, dollarization ratio of the loan portfolio increased from 46.8% in May 2016, the lowest level of 2016, to 48.1% in June 2016. Despite this pick up compared to the previous month, dollarization ratio was still below the record high of 51.9% in January 2016.

NPL ratio up to 8.4% in June 2016

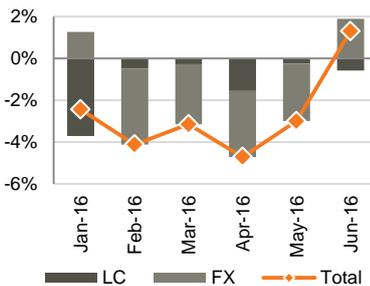
Non-performing loans were up 1.7% m/m in June 2016 to AZN 1.5bn, driven by 3.3% m/m increase in problematic FX loans. As a result, NPL ratio was further up to 8.4% in June 2016, beating previous high level of 8.3% in May 2016.

Oil and gas production, 12 month moving sum



Source: SOCAR

Change in loan portfolio, m/m, %



Source: CBAR

Key macro indicators

	6M16	2015	2014
GDP (% change)	-3.4%	1.1%	2.8%
NO* GDP (% change)	-6.1%	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

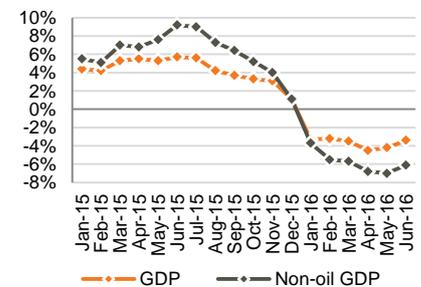
Source: Official data

* Non-oil

** July 2016

***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



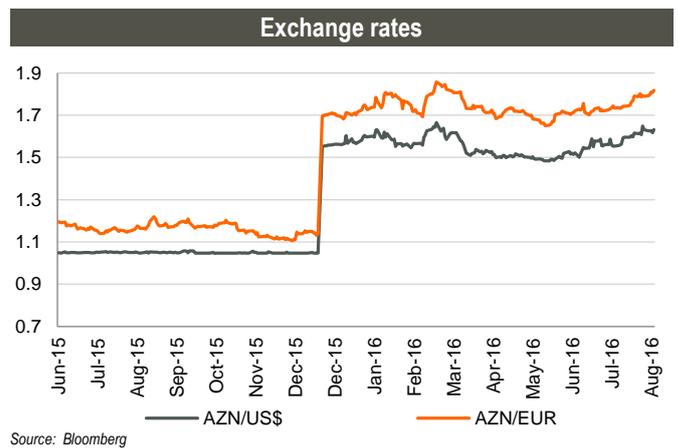
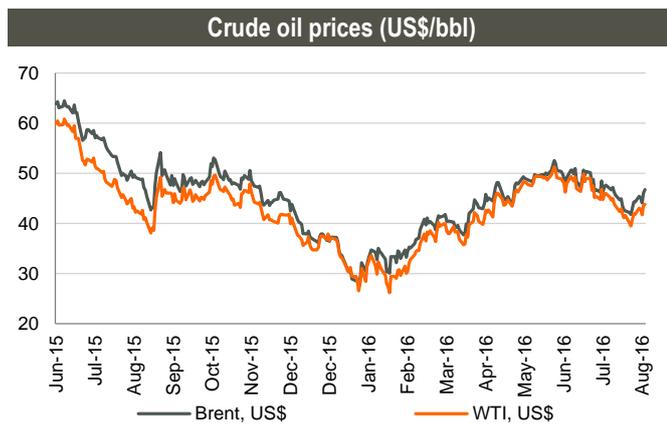
Oil prices and exchange rate

Oil price: Brent oil price was up 5.6% w/w to US\$ 46.8/bbl (down 5.8% y/y), while WTI oil price increased 4.8% w/w to US\$ 43.8/bbl (up 1.2% y/y). In AZN terms, Brent oil price was up 5.8% w/w to AZN 76.3 (up 46.4% y/y).

Exchange rate: On August 12, 2016, Central Bank set AZN/US\$ rate at 1.6102 (+0.8% w/w) and AZN/EUR at 1.7936 (+0.8% w/w). At Bloomberg AZN/US\$ was trading at 1.6318 (+0.1% w/w) while AZN/EUR was trading at 1.8180 (+1.6% w/w).

Monetary policy rate: Monetary policy rate was unchanged at 7.0% to 9.5% effective from August 8, 2016.

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.



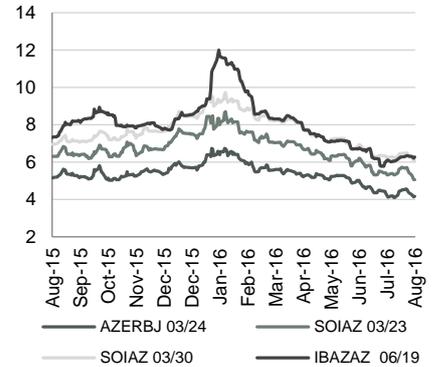


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.1% yield, trading at 108.3 (+2.9% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 98.4 (+0.1% w/w), yielding 6.3%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 104.1 (+1.6% w/w) at 4.1% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

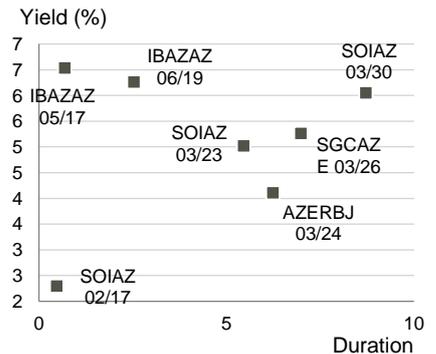


Source: Bloomberg

	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	BB+ /Ba1
Mid price, US\$	101.5	98.5	108.3	99.7	98.4	112.1	104.1	
Mid yield, %	2.3	5.0	6.1	6.5	6.3	5.3	4.1	
Z-spread, bps	91.1	388.7	455.5	570.9	534.8	389.6	282.3	

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	104.1	4.1	282.3
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	111.9	4.0	289.3
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.1	0.8	-241.4
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	106.4	2.7	272.8
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	115.4	2.8	167.9
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	120.4	2.7	155.8
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	107.2	2.9	182.1
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	107.5	3.8	271.0
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	112.3	3.5	217.8

Source: Bloomberg

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