



# Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan  
December 7, 2015

## Economy

### Azerbaijan's investment rating confirmed

Moody's confirmed Azerbaijan's Baa3 rating on December 4, 2015, keeping the outlook stable. The rating agency cited Azerbaijan's large reserves along with the employment of a flexible exchange rate in the light of low oil prices as supporting its rating decision. In a separate move, Standard & Poor's removed SOCAR from CreditWatch negative and affirmed its rating at BB+ with a negative outlook.

### Central Bank reserves down to US\$ 6.2bn

In November 2015, Azerbaijan's Central Bank (CBAR) reserves declined by US\$ 589.0mn m/m to US\$ 6.2bn, the lowest level since December 2010. Since the peak level of reserves in August 2014 (US\$ 15.2bn), reserves fell 58.9%, corresponding to a US\$ 8.9bn loss. However, at 4.0x months of goods and services imports, reserves are still above the threshold of 3.0x imports.

### Oil and gas production down 0.9% y/y and 1.2% y/y in October 2015

Oil extraction in Azerbaijan decreased 0.9% y/y in October 2015. 10M15 oil output was down 2.3% y/y, with SOCAR's extraction falling 1.5% y/y and others' production falling 2.5% y/y. On a month-to-month basis, total oil production was up 1.6% in October 2015.

Gas production also fell in October 2015, decreasing 1.2% y/y, following a surge of 38.6% m/m in September 2015. 10M15 gas production is down 5.3% y/y.

### Oil exports up 47.5% y/y in November 2015 due to last year's low base

Azerbaijan exported 1.9mn tons of crude oil in November 2015 (+47.5% y/y, +5.0% m/m), slightly less than the monthly average of 2.0mn tons in 2014. Our calculations indicate that, with the monthly average BTC Ceyhan crude oil price at US\$ 45.2/bbl (-43.3% y/y), export revenues in November 2015 amounted to US\$ 618.8mn (-16.4% y/y).

Oil exports are down 9.3% y/y to 19.9mn tons in 11M15, corresponding to an estimated 52.2% y/y fall in US\$ terms due to the falling oil prices.

### Key macro indicators

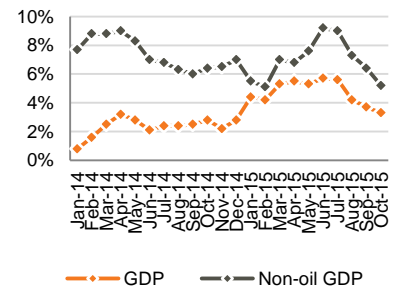
	10M15	2014	2013
GDP (% change)	3.3%	2.8%	5.8%
NO* GDP (% change)	5.2%	7.0%	10.0%
GDP per capita (ppp)	...	17,761	17,135
GDP per capita (US\$)	...	7,936	7,934
Population (mn)	9.7	9.6	9.5
Inflation (eop)	3.4%	-0.1%	3.6%
CAB (% of GDP)**	0.2%	13.9%	16.6%
NO* CAB (% of NOGDP)**	-21.8%	-21.2%	-29.6%
Fiscal balance (% of GDP)**	-3.3%	2.9%	1.8%
NO* fiscal bal. (% of NOGDP)**	-34.0%	-38.4%	-46.5%
Gross reserves (US\$ bn)***	41.8	50.9	50.0

Source: Official data

\*Non-oil

\*\*As of 1H15, \*\*\*As of 3Q15

### Real GDP growth, % (YTD)



Source: AzSTAT

### International ranking of Azerbaijan

Ease of Doing Business # 63  
Economic Freedom Index # 85 (moderately free)  
Global Competitiveness Index # 40 (regional leader)

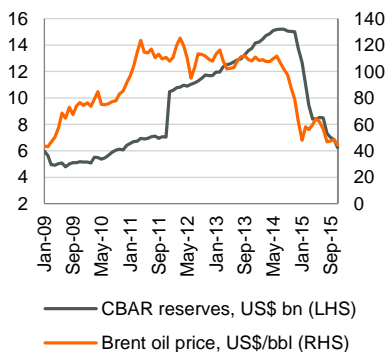
Source: World Bank, Heritage Foundation and World Economic Forum

### Azerbaijan sovereign credit ratings

 <b>BBB-</b> Negative Affirmed Jul-2015	 <b>Baa3</b> Stable Affirmed Dec-2015	 <b>BBB-</b> Stable Affirmed Aug-2015
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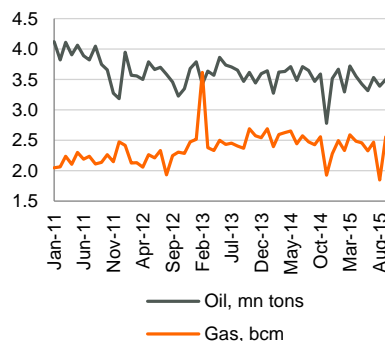
Source: Rating agencies

### CBAR reserves and oil price



Source: CBAR, SOCAR

### Oil and gas extraction



Source: SOCAR

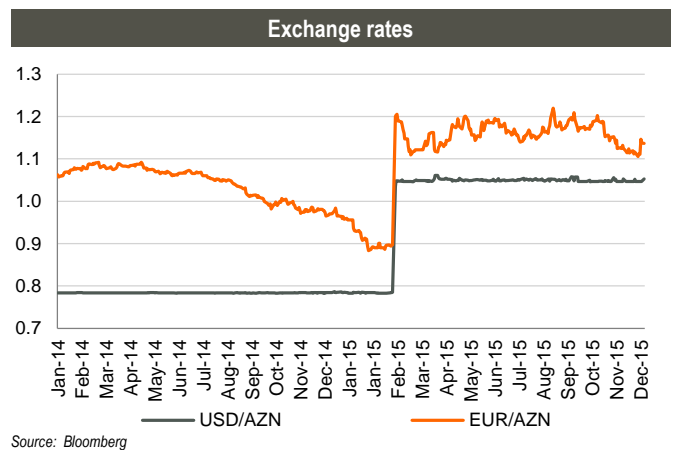
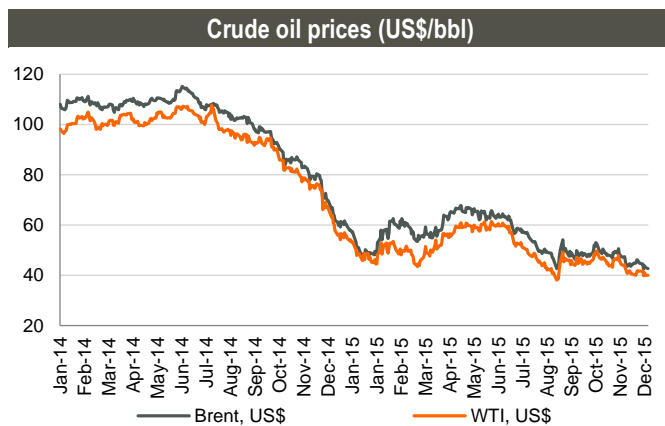


## Oil prices and exchange rate

**Oil price:** Brent oil price was down 4.1% w/w to US\$ 43.0/bbl (down 38.3% y/y), while WTI oil price was down 4.2% w/w to US\$ 40.0/bbl (down 40.2% y/y). In AZN terms, Brent oil price was down 4.1% w/w to AZN 45.0 (down 17.5% y/y).

**Exchange rate:** Remaining committed to the implicit peg of a basket of US\$ (95%) and Euro (5%), the Central Bank set US\$/AZN rate at 1.0495 (-0.2% w/w) and EUR/AZN at 1.1482 (+3.0% w/w). At Bloomberg US\$/AZN was flat at 1.01465 while EUR/AZN was trading at 1.1378 (+2.1% w/w).

**Monetary policy rate:** Monetary policy rate remained unchanged at 3.0%.



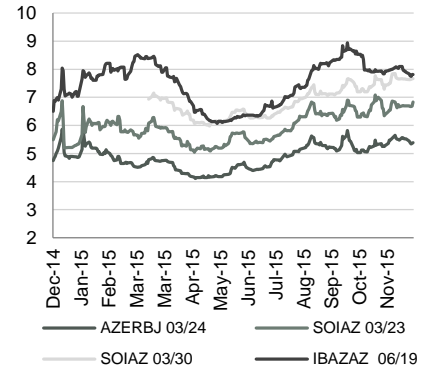


# Fixed income

**Corporate Eurobonds:** State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 7.7% yield, trading at 93.8 (-0.2% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 93.4 (+0.3% w/w), yielding 7.8%.

**Azerbaijan Sovereign Eurobonds (AZERBJ 03/24)** closed at 93.4 (+1.0% w/w), at 5.4% yield to maturity.

**Azerbaijan Eurobonds, YTM (%)**

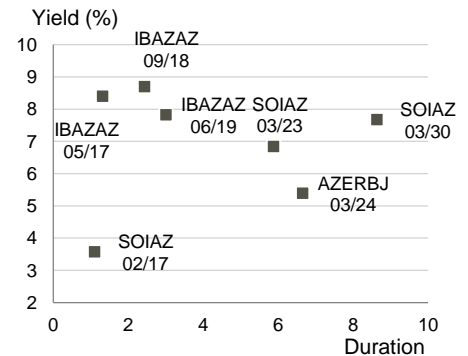


Source: Bloomberg

	Eurobonds					
	SOIAZ 02/17	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 09/18	IBAZAZ 06/19
Amount, US\$ mn	500	1,000	750	100	198	500
Issue date	Feb-2012	Mar-2013	Mar-2015	May-2007	Sep-2013	Jun-2014
Maturity date	Feb-2017	Mar-2023	Mar-2030	May-2017	Sep-2018	Jun-2019
Coupon, %	5.450%	4.750%	6.950%	6.170%	7.750%	5.625%
Fitch/S&P/Moody's	BBB-/BB+ /Ba1	BBB-/BB+ /Ba1	BBB-/BB+ /-	-/-B1	-/-Ba3	BB -/Ba3
Mid price, US\$	102.1	88.2	93.8	97.1	97.6	93.4
Mid yield, %	3.6	6.8	7.7	8.4	8.7	7.8
Z-spread, bps	222.6	475.9	534.8	678.4	814.6	621.2

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	BBB-/BBB-/Baa3	95.8	5.4	331.1
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	106.6	5.4	365.0
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.1	1.4	-248.2
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	100.7	3.7	318.6
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	114.3	3.4	157.8
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	118.2	3.4	156.0
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	104.7	3.8	218.4
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	106.4	4.3	252.0
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB/Baa2	101.2	5.0	281.3

Source: Bloomberg



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