

# Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan  
October 24, 2016

## Economy

### Azerbaijan economy contracted 3.9% y/y in 9M16

In 9M16, real GDP declined 3.9% y/y, more than the 3.1% y/y contraction recorded in 8M16. Non-oil GDP was down 6.1% y/y, compared to a 5.8% y/y decline in 1H16, while oil GDP was up 0.9% y/y. The main drag on growth continued to be the construction sector, down 32.0% y/y in 9M16. Excluding the construction sector, non-oil GDP was down 0.6% y/y.

### Consolidated budget surplus at 5.4% of GDP

Higher than budgeted revenues and lower expenditures resulted in AZN 1.3bn surplus, corresponding to 5.4% of GDP, compared to a 3.7% deficit in 9M15. Non-oil deficit narrowed from a 31.5% of non-oil GDP in 9M15 to 18.8% of non-oil GDP in 9M16.

### Oil and gas production down in September 2016

Oil production was down 11.4% y/y to 3.1mn tons in September 2016, while gross gas production was down 11.4% y/y to 2.3bcm, according to AzSTAT. Commercially available gas was down 11.7% y/y to 1.4bcm.

In 9M16, oil production was down 0.5% y/y to 31.3mn tons, while gross gas production was up 1.7% y/y to 22.1bcm. However, commercially available gas volume was down 4.5% y/y to 13.8bcm in 9M16.

### Non-mineral exports and total imports down in September 2016

According to Customs Committee's figures, non-mineral exports were down 3.3% y/y to US\$ 93.1mn in September 2016, while total imports were down 1.3% y/y to US\$ 672.7mn. Contraction in non-mineral exports was driven by a 44.7% decline in foodstuff exports. Strong positive contribution came from a 140.5% y/y increase in metals exports. Imports were contained due to major declines in metal (53.1% y/y) and machinery (36.0% y/y) imports, while significant increases in vegetable (160.1% y/y), mineral product (124.0% y/y), and foodstuff (42.7% y/y) imports had the opposite impact.

In 9M16, non-mineral exports were down 28.7% y/y to US\$ 0.8bn, while imports were down 4.9% y/y to US\$ 6.3bn.

### Key macro indicators

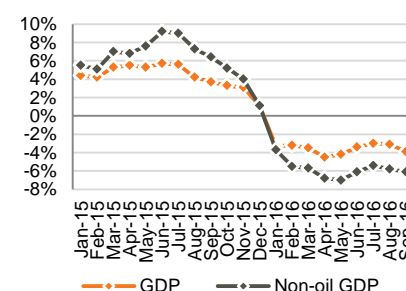
	9M16	2015	2014
GDP (% change)	-3.9%	1.1%	2.8%
NO** GDP (% change)	-6.1%	1.1%	7.0%
GDP per capita (ppp)	...	17,993	17,762
GDP per capita (US\$)	...	5,739	8,055
Population (mn)	...	9.7	9.6
Inflation (eop)	14.2%	7.7%	-0.1%
CAB (% of GDP)*	-4.6%	-0.4%	13.9%
NO* CAB (% of NOGDP)**	-24.9%	-18.4%	-16.5%
Fiscal balance (% of GDP)	5.4%	-5.3%	2.9%
NO* fiscal bal. (% of NOGDP)	-18.8%	-33.7%	-38.1%
Gross reserves (US\$ bn)	40.0	38.6	50.9

Source: Official data

\* Non-oil

\*\*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 # 37 (regional leader)

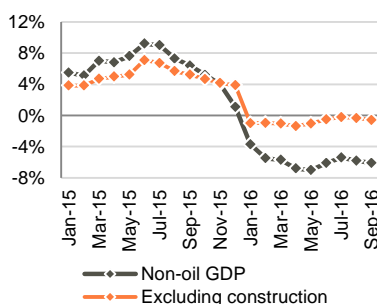
Source: World Bank, Heritage Foundation and World Economic Forum

### Azerbaijan sovereign credit ratings

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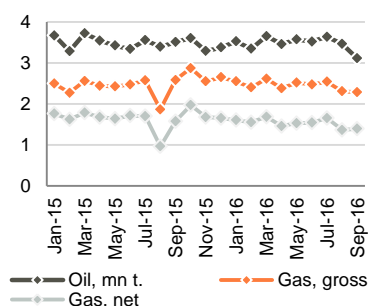
Source: Rating agencies

### GDP, YTD y/y % change



Source: Ministry of Finance

### Oil and gas production



Source: SOFAZ



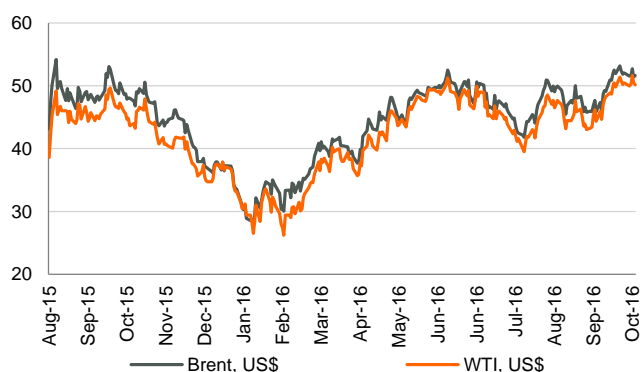
## Oil prices and exchange rate

**Oil price:** Brent oil price was down 0.6% w/w to US\$ 51.6/bbl (up 7.9% y/y), while WTI oil price decreased 0.4% w/w to US\$ 50.2/bbl (up 12.3% y/y). In AZN terms, Brent oil price was up 0.9% w/w to AZN 84.4 (up 68.5% y/y).

**Exchange rate:** On October 21, 2016, Central Bank's AZN/US\$ rate was 1.6091 (+0.8% w/w) and AZN/EUR rate was 1.7543 (-0.4% w/w). At Bloomberg AZN/US\$ was trading at 1.6338 (+1.5% w/w) while AZN/EUR was trading at 1.7627 (-0.2% w/w).

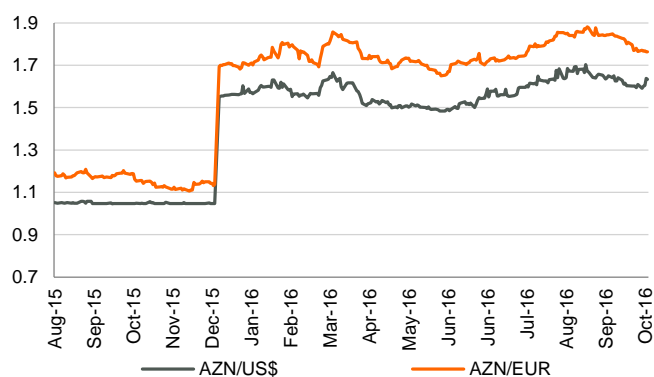
**Monetary policy rate:** Monetary policy rate was unchanged at 15.0%.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



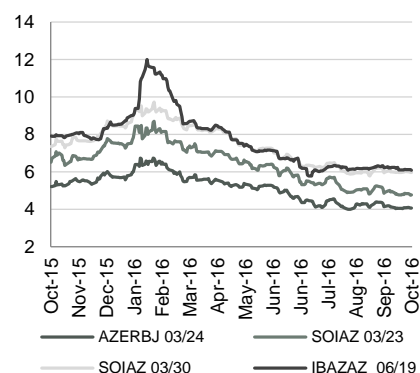
Source: Bloomberg

## Fixed income

**Corporate Eurobonds:** State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 5.9% yield, trading at 109.5 (+1.0% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 99.1 (+0.3% w/w), yielding 6.0%.

**Azerbaijan Sovereign Eurobonds** (AZERBJ 03/24) closed at 104.4 (+0.2% w/w) at 4.1% yield to maturity.

**Azerbaijan Eurobonds, YTM (%)**

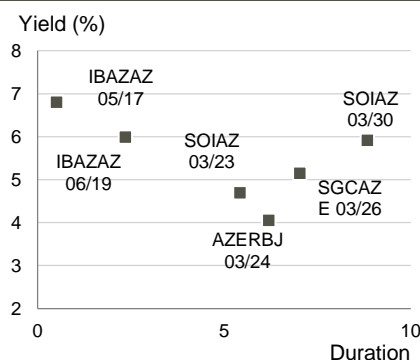


Source: Bloomberg

	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
Mid price, US\$	101.0	100.3	109.5	99.7	99.1	112.8	104.4
Mid yield, %	1.8	4.7	5.9	6.8	6.0	5.1	4.1
Z-spread, bps	-41.6	326.7	420.9	434.5	471.5	355.0	258.4

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	104.4	4.1	258.4
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	112.1	3.9	258.9
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	121.2	0.5	-232.1
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	108.1	2.3	228.9
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	115.1	2.7	149.8
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	119.1	2.8	147.3
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	107.1	2.9	161.0
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Ba1	106.6	4.0	270.1
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	112.2	3.5	196.9

Source: Bloomberg

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