

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
November 21, 2016

Economy

Second draft of the 2017 budget published

Ministry of Finance of Azerbaijan Republic (MoF) published a second draft of the 2017 budget. Revenues were kept at the same level, while several re-allocations were made on the expenditure side, with total expenditures remaining intact. According to the document, current expenditures are set at AZN 9.7bn, or 12.8% less than in the first draft, while capital expenditures are up 42.6% to AZN 5.2bn. By functional classification, the allocation of expenditure increased significantly for defense (+63.6%) and capital investments (+34.5%), while allocations were cut significantly for 'services not related to other categories' (-30.5%) and 'culture, sports, art, etc.' (-44.9%).

Azerbaijan economy contracted 3.7% y/y in 10M16

In 10M16, real GDP declined 3.7% y/y, less than the 3.9% y/y contraction recorded in 9M16. Non-oil GDP was down 5.5% y/y, compared to a 6.1% y/y decline in 9M16, while oil GDP was up 0.3% y/y. The main drag on growth continued to be the construction sector, down 27.4% y/y in 10M16. Excluding the construction sector, non-oil GDP was down 0.7% y/y.

In nominal AZN terms, GDP was up 9.6% y/y in 10M16, while in nominal US\$ terms, it was down 30.0% y/y.

Oil and gas production down in October 2016

Oil production was down for the second month in a row in October 2016, declining 4.3% y/y to 3.5mn tons. Gross gas production was down 10.9% y/y to 2.6bcm, according to AzSTAT. Commercially available gas was down 12.6% y/y to 1.7bcm.

In 10M16, oil production was down 0.9% y/y to 34.7mn tons, while gross gas production was up 0.3% y/y to 24.6bcm. However, commercially available gas volume was down 5.5% y/y to 15.5bcm in 10M16.

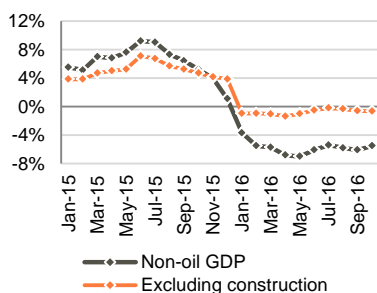
Inflation rate at 15.6% y/y in October 2016

Annual CPI inflation rate accelerated further from 14.2% in the previous month to 15.6% in October 2016. In October, food prices were up 19.5% y/y (+2.3ppts m/m), non-food prices were up 19.6% y/y (+1.2ppts m/m), and service sector prices were up 7.2% y/y (+0.2ppts m/m).

Customs Committee tax receipts up 36.4% y/y in October 2016

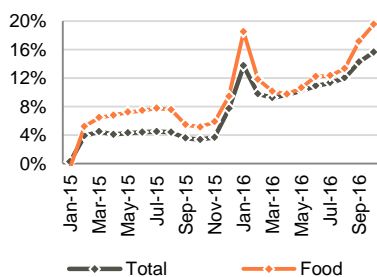
According to the Customs Committee, tax receipts in October 2016 were up 36.4% y/y to AZN 183.1mn, while in US\$ terms, receipts were down 11.3% y/y to US\$ 113.7mn. In 10M16, customs receipts were up 46.0% y/y to AZN 1.8bn.

Non-oil GDP y/y change, YTD, %



Source: AzSTAT, Galt & Taggart Research

Inflation, y/y, %



Source: AzSTAT

Key macro indicators

	10M16	2015	2014
GDP (% change)	-3.7%	1.1%	2.8%
NO* GDP (% change)	-5.5%	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)	15.6%	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

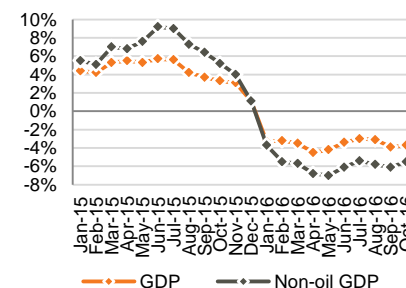
Source: Official data

* Non-oil

**1H16

***9M16

Real GDP growth, % (YTD)



Source: AzSTAT

International ranking of Azerbaijan

Ease of Doing Business # 65

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

STANDARD & POOR'S BB+ Negative Jul-2016	Moody's INVESTORS SERVICE Ba1 Negative Apr-2016	FitchRatings BB+ Negative Aug-2016
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Source: Rating agencies



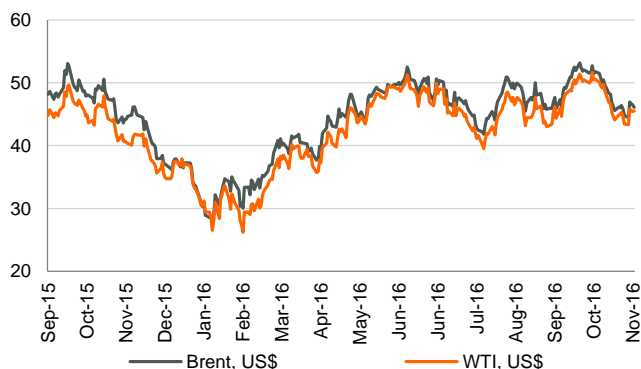
Oil prices and exchange rate

Oil price: Brent oil price was up 3.0% w/w to US\$ 46.1/bbl (up 4.4% y/y), while WTI oil price increased 4.9% w/w to US\$ 45.5/bbl (up 11.7% y/y). In AZN terms, Brent oil price was up 4.5% w/w to AZN 80.9 (up 75.2% y/y).

Exchange rate: On November 18, 2016, Central Bank's AZN/US\$ rate was 1.7091 (+1.3% w/w) and AZN/EUR rate was 1.8128 (-1.5% w/w). At Bloomberg AZN/US\$ was trading at 1.7556 (+1.5% w/w) while AZN/EUR was trading at 1.8195 (-1.8% w/w).

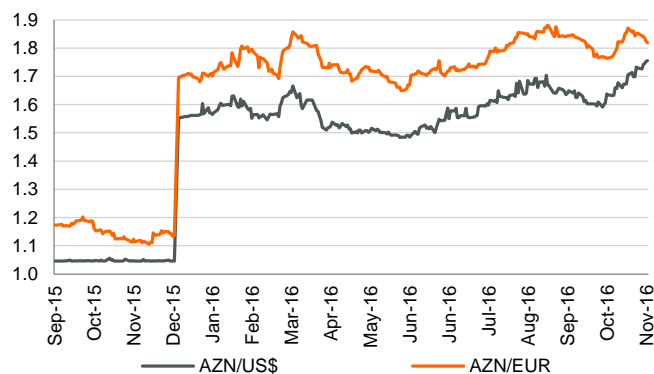
Monetary policy rate: Monetary policy rate was unchanged at 15.0%.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



Source: Bloomberg

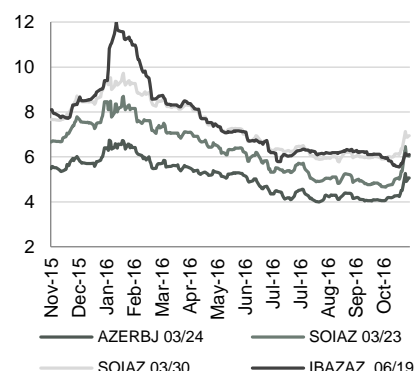


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.9% yield, trading at 100.0 (-5.0% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 98.9 (-0.9% w/w), yielding 6.1%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 98.1 (-3.4% w/w) at 5.1% yield to maturity.

Azerbaijan Eurobonds, YTM (%)

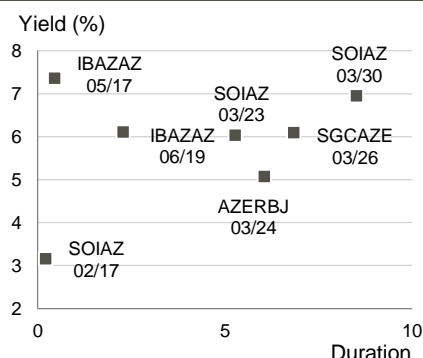


Source: Bloomberg

	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\$	100.5	93.3	100.0	99.5	98.9	105.5	98.1
Mid yield, %	3.2	6.0	6.9	7.4	6.1	6.1	5.1
Z-spread, bps	-85.6	413.1	465.3	548.8	457.0	393.1	304.1

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	98.1	5.1	304.1
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	108.4	4.7	292.5
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.5	0.7	-216.6
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	106.7	2.6	233.3
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	112.4	3.3	153.4
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	115.0	3.6	180.9
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	105.4	3.3	168.1
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Ba1	102.8	4.9	316.2
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	106.1	4.3	215.5

Source: Bloomberg

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