

# Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan  
January 18, 2016

## Economy

### Inflation at 7.7% y/y and 4.4% m/m in December 2015

Annual CPI inflation rate increased to 7.7% y/y in December, compared to 3.7% y/y in the previous month, according to Azerbaijan State Statistics Committee. Prices of non-food goods increased 11.1% y/y (+7.4ppts compared to the previous month), of food products 9.4% y/y (+3.6ppts) and of services 2.3% y/y (+1.8ppts).

Annual average inflation increased from 1.4% in 2014 to 4.0% in 2015, highest level for the last 4 years. Annual average inflation in 2015 was driven by increases in food (+6.1% y/y) and non-food goods (+3.9% y/y) prices, while price level in services was just 1.1% higher y/y.

### Non-oil revenues up 3.0% in 2015 compared to the original budget

According to the minister of finance, Azerbaijan state budget revenues and expenditures were below the budgeted amount in 2015, down 11.6% and 15.0% respectively. Shortfall on the revenue side was due to lower transfers from the Oil Fund. Non-oil revenues, on the other hand, were up 3.0% compared to the originally planned AZN 6.8bn.

### US\$ 500mn sold at two auctions

Along with the Central Bank, State Oil Fund of Azerbaijan started selling FX reserves in open auctions organized by the Central Bank. Last week, Central Bank sold US\$ 100mn, while the Oil Fund sold US\$ 400mn. Rough calculations indicate that US\$ 400mn sold at two auctions by the Oil Fund generated AZN 631.5mn, corresponding to 10.5% of the budgeted transfers from the Fund to the state budget.

### SOCAR paid AZN 1.5bn taxes in 2015

State Oil Company of Azerbaijan paid AZN 75.3mn (-49.2% y/y) in December 2015. Overall, in 2015 SOCAR paid AZN 1.5bn taxes to the state budget (-20.2% y/y).

### Key macro indicators

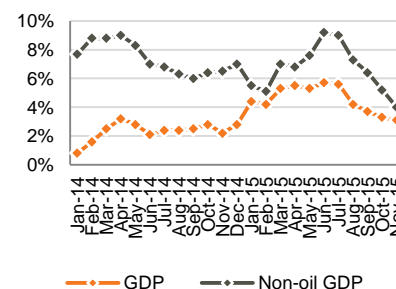
	11M15	2014	2013
GDP (% change)	3.1%	2.8%	5.8%
NO* GDP (% change)	4.0%	7.0%	10.0%
GDP per capita (ppp)	...	17,761	17,135
GDP per capita (US\$)	...	7,936	7,934
Population (mn)	9.7	9.6	9.5
Inflation (eop)	3.7%	-0.1%	3.6%
CAB (% of GDP)**	0.6%	13.9%	16.6%
NO* CAB (% of NOGDP)**	-18.6%	-21.2%	-29.6%
Fiscal 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 9M15, \*\*\*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)

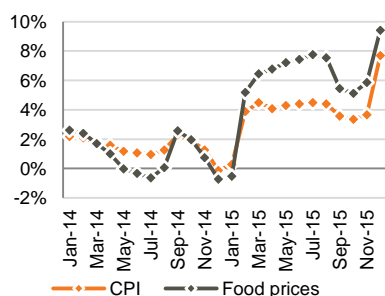
Source: World Bank, Heritage Foundation and World Economic Forum

### Azerbaijan sovereign credit ratings

<b>STANDARD &amp; POOR'S</b>  <b>BBB-</b> Negative Affirmed Jul-2015	<b>MOODY'S</b> INVESTORS SERVICE  <b>Baa3</b> Stable Affirmed Dec-2015	<b>FitchRatings</b>  <b>BBB-</b> Stable Affirmed Aug-2015
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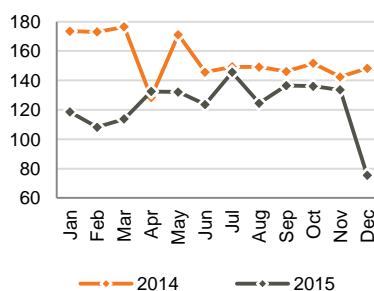
Source: Rating agencies

### Inflation, y/y



Source: AzSTAT

### SOCAR's tax payments, AZN mn



Source: SOCAR



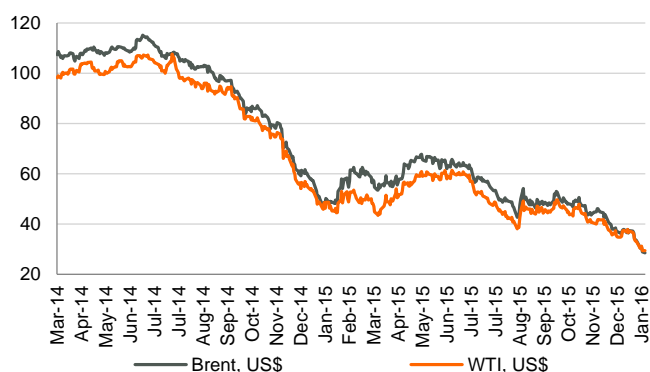
## Oil prices and exchange rate

**Oil price:** Brent oil price was down 13.7% w/w to US\$ 28.9/bbl (down 39.3% y/y), while WTI oil price fell 11.3% w/w to US\$ 29.4/bbl (down 36.4% y/y). In AZN terms, Brent oil price was down 13.5% w/w to AZN 45.5 (up 21.4% y/y).

**Exchange rate:** On January 15, 2016, Central Bank set AZN/US\$ rate at 1.5706 (+0.4% w/w) and AZN/EUR at 1.7097 (+0.5% w/w). At Bloomberg AZN/US\$ was trading at 1.5704 (+0.2% w/w) while AZN/EUR was trading at 1.7144 (+0.2% w/w).

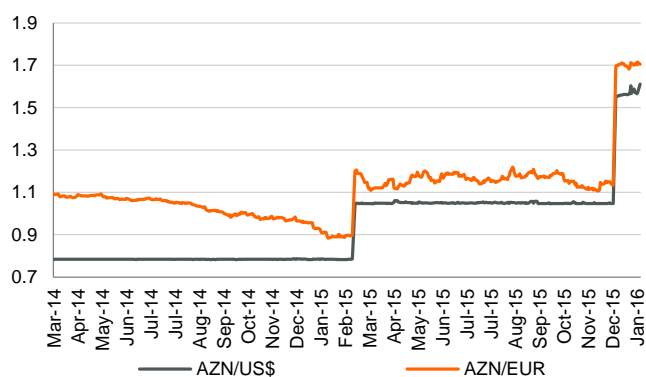
**Monetary policy rate:** Monetary policy rate remained unchanged at 3.0%.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



Source: Bloomberg

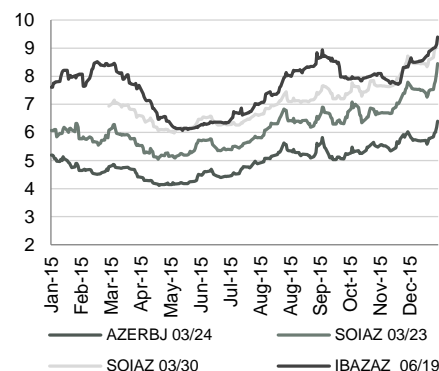


## Fixed income

**Corporate Eurobonds:** State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 9.3% yield, trading at 81.5 (-5.8% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 89.3 (-1.4% w/w), yielding 9.4%.

**Azerbaijan Sovereign Eurobonds** (AZERBJ 03/24) closed at 89.6 (-3.9% w/w) at 6.4% yield to maturity.

**Azerbaijan Eurobonds, YTM (%)**

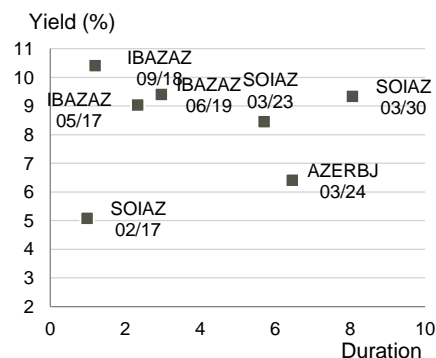


Source: Bloomberg

	Eurobonds					
	SOIAZ 02/17	SOIAZ 03/23	SOIAZ 03/30	IBAZAZ 05/17	IBAZAZ 09/18	IBAZAZ 06/19
Amount, US\$ mn	500	1000	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\$	100.4	80.4	81.5	94.9	96.9	89.3
Mid yield, %	5.1	8.5	9.3	10.4	9.0	9.4
Z-spread, bps	341.9	592.8	727.5	880.5	789.6	779.7

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	89.6	6.4	455.4
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	102.9	6.2	470.7
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.4	1.2	-246.2
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	101.5	3.6	315.7
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	113.1	3.6	204.8
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	117.7	3.5	195.2
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	101.6	4.6	324.7
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Baa3	105.2	4.5	306.3
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	96.4	5.6	378.4

Source: Bloomberg

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