

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
February 20, 2017

Economy

Azerbaijan economy up 0.8% y/y in 1M17

In 1M17, real GDP increased 0.8% y/y, compared to the 3.3% y/y contraction recorded in 1M16. Non-oil GDP was up 1.5% y/y, compared to the 3.7% y/y decline in 1M16, while oil GDP was down 0.5% y/y. The main drag on growth continued to be the construction sector, down 6.4% y/y in 1M17. Excluding the construction sector, non-oil GDP was up 2.3% y/y in 1M17.

Inflation rate at 11.9% y/y in January 2017

Annual CPI inflation rate retreated from 15.5% in the previous month to 11.9% in January 2017. In January, food prices were up 14.5% y/y (-6.5ppts m/m), non-food prices were up 12.3% y/y (-4.0ppts m/m), and service sector prices were up 8.0% y/y (+0.0ppts m/m).

Non-mineral fuel exports up 46.7% y/y in January 2017

According to preliminary data for January 2017 from the Customs Committee, non-mineral fuel (N-MF) exports were up 46.7% y/y to US\$ 83.7mn while total imports were up 3.6% y/y to US\$ 450.1mn.

Growth in N-MF exports in January 2017 was driven by exports of vegetables (+45.2% y/y), textiles (+203.0% y/y), plastics (+67.6% y/y) and metals (+29.6% y/y), while lower exports of stone/glass (-21.5% y/y) exerted downward pressure. Imports growth in January 2017 were driven by mineral fuels (+305.5% y/y), foodstuffs (+63.6% y/y), and textiles imports (+213.8% y/y), while imports of machinery (-30.9% y/y) and metals (-37.2% y/y) were down.

SOFAZ reserves down 1.3% y/y in 2016 to US\$ 33.1bn

In 2016 State Oil Fund of Azerbaijan Republic (SOFAZ) posted AZN 0.4bn budget surplus, thanks to 21.9% y/y increase in its revenue and 1.8% y/y decline in expenditures in AZN terms. In US\$ terms, however, revenues were down 21.8% y/y to US\$ 5.9bn while expenditures were down 37.0% y/y to US\$ 5.6bn resulting in US\$ 0.2bn surplus. However, SOFAZ reserves were down 1.3% y/y in 2016 to US\$ 33.1bn due to depreciation of some currencies against US\$ in which SOFAZ holds investments.

Key macro indicators

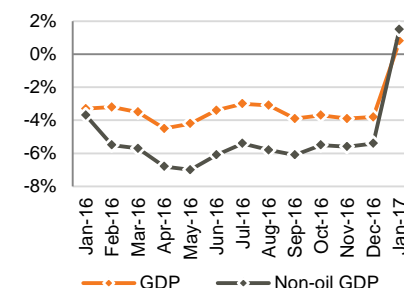
	1M16	2016	2015
GDP (% change)	0.8%	-3.8%	1.1%
NO* GDP (% change)	1.5%	-5.4%	1.1%
GDP per capita (ppp)	17,993
GDP per capita (US\$)	...	3,897	5,559
Population (mn)	...	9.8	9.7
Inflation (eop)	11.9%	15.5%	7.7%
CAB (% of GDP)**	-4.0%	...	-0.4%
NO* CAB (% of NOGDP)**	-22.7%	...	-18.4%
Fiscal balance (% of GDP)	...	0.3%	-5.3%
NO* fiscal bal. (% of NOGDP)	...	-14.5%	-33.7%
Gross reserves (US\$ bn)	...	37.1	38.6

Source: Official data

* Non-oil

** 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)

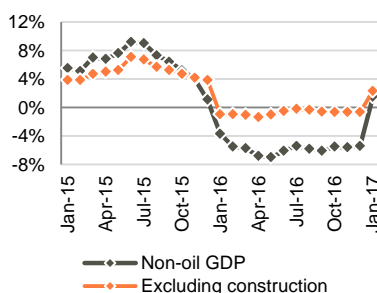
Source: World Bank, Heritage Foundation and World Economic Forum

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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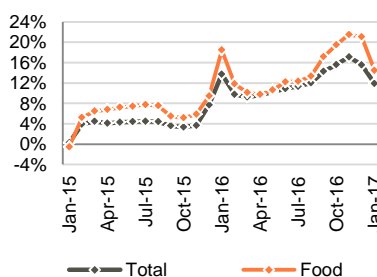
Source: Rating agencies

GDP, y/y % change, YTD



Source: AzSTAT

Inflation, y/y % change



Source: AzSTAT



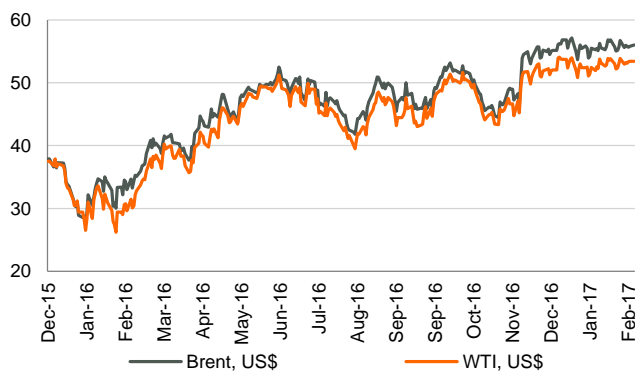
Oil prices and exchange rate

Oil price: Brent oil price was down 1.6% w/w to US\$ 55.8/bbl (up 61.8% y/y), while WTI oil price decreased 0.9% w/w to US\$ 53.4/bbl (up 74.2% y/y). In AZN terms, Brent oil price was up 0.6% w/w to AZN 99.6 (up 85.1% y/y).

Exchange rate: On February 17, 2016, Central Bank's AZN/US\$ rate was 1.7352 (+0.3% w/w) and AZN/EUR rate was 1.8522 (+0.4% w/w). At Bloomberg AZN/US\$ was trading at 1.7837 (+2.2% w/w) while AZN/EUR was trading at 1.8971 (+2.1% w/w).

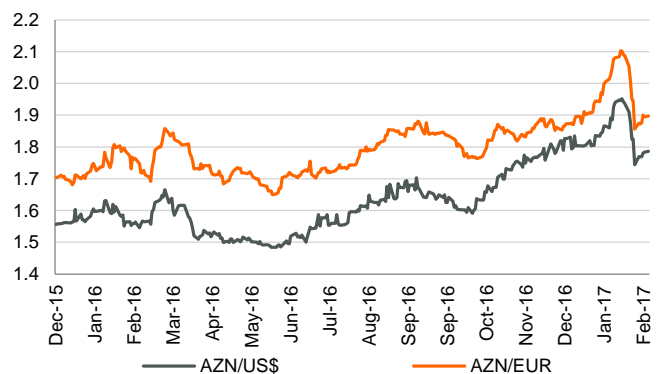
Monetary policy rate: Monetary policy rate was unchanged at 15.0%.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



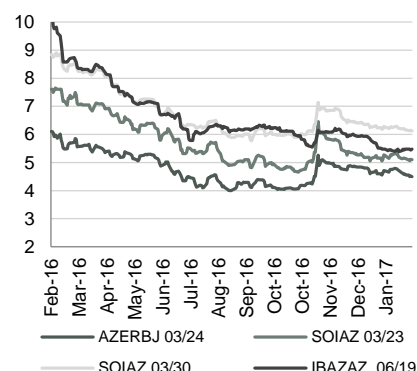
Source: Bloomberg

Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.1% yield, trading at 107.3 (+0.2% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 100.4 (+0.1% w/w), yielding 5.4%.

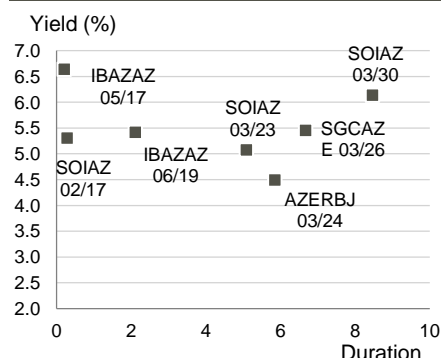
Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 101.5 (+0.3% w/w) at 4.5% yield to maturity.

Azerbaijan Eurobonds, YTM (%)



Source: Bloomberg

Azerbaijan Eurobond universe



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-12	Mar-13	Mar-15	May-07	Jun-14	Mar-16	Mar-14
Maturity date	Feb-17	Mar-23	Mar-30	May-17	Jun-19	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+/BB-/Ba1
Mid price, US\$	100.0	98.3	107.3	99.9	100.4	110.1	101.5
Mid yield, %	5.3	5.1	6.1	6.6	5.4	5.5	4.5
Z-spread, bps	-9,999.0	291.4	367.3	394.0	363.4	311.6	227

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	101.5	4.5	227.0
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	111.5	3.8	188.0
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	120.1	0.4	-235.7
Croatia	1,250	3.875%	5/30/2022	BB/BB/Baa2	108.4	2.2	197.8
Hungary	3,000	6.375%	3/29/2021	BBB-/BBB-/Baa3	112.2	3.2	120.0
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	115.1	3.4	137.0
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	107.7	2.5	62.7
Turkey	2,000	5.625%	3/30/2021	BB+/BB/Ba1	104.2	4.5	253.2
Kazakhstan	2,500	5.125%	7/21/2025	BBB/BBB-/Baa3	108.6	3.9	162.4

Source: Bloomberg

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