

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
December 19, 2016

Economy

2017 budget approved by the Parliament

Azerbaijan Parliament approved the 2017 budget last week. Consolidated budget revenues are set at AZN 20.0bn (+1.5% compared to the original draft budget document), while expenditures are set at AZN 21.3bn (+1.4% compared to the original draft). Please see our [note from October 12, 2016](#) and [weekly from November 21, 2016](#) for detailed analyses of the original and second draft budget documents, respectively.

Azerbaijan economy contracted 3.9% y/y in 11M16

In 11M16, real GDP declined 3.9% y/y, compared to the 3.7% y/y contraction recorded in 10M16. Non-oil GDP was down 5.6% y/y, compared to the 5.5% y/y decline in 10M16, while oil GDP was down 0.1% y/y. The main drag on growth continued to be the construction sector, down 27.9% y/y in 11M16. Excluding the construction sector, non-oil GDP was down 0.7% y/y in 11M16.

Inflation rate at 17.1% y/y in November 2016

Annual CPI inflation rate accelerated further from 15.6% in the previous month to 17.1% in November 2016. In November, food prices were up 21.5% y/y (+2.0ppts m/m), non-food prices were up 21.9% y/y (+2.3ppts m/m), and service sector prices were up 7.5% y/y (+0.3ppts m/m).

Non-mineral fuel exports up 4.6% y/y in November 2016

Azerbaijan's exports declined 6.0% y/y in October 2016 to US\$ 1.3bn, while imports were down 12.3% y/y to US\$ 0.8bn resulting in a US\$ 0.5bn trade surplus (+5.2% y/y). According to preliminary data for November 2016 from the Customs Committee, non-mineral fuel (N-MF) exports were up 4.6% y/y to US\$ 137.9mn while total imports were up 2.0% y/y to US\$ 771.6mn.

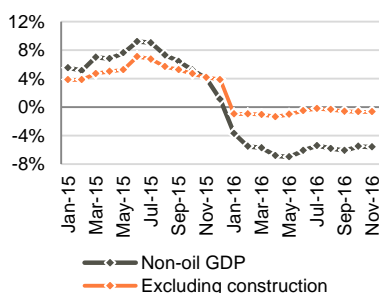
Growth in N-MF exports in November 2016 was driven by exports of metals (+91.8% y/y), plastics (+38.5% y/y), and transportation (+835.4% y/y), while lower exports of foodstuff (-39.9% y/y) and vegetables (-6.0% y/y) exerted downward pressure. Imports in November 2016, on the other hand, were driven by vegetables (+100.8% y/y), textile (+242.5% y/y), and plastics imports (+68.7% y/y), while declines in imports of machinery (-15.0% y/y) and metals (-22.9% y/y) acted as a drag.

Oil and gas production down in November 2016

Oil production was down for the third month in a row in November 2016, declining 8.9% y/y to 3.0mn tons. Gross gas production was down 10.5% y/y to 2.3bcm, according to AzSTAT. Commercially available gas was down 8.5% y/y to 1.5bcm.

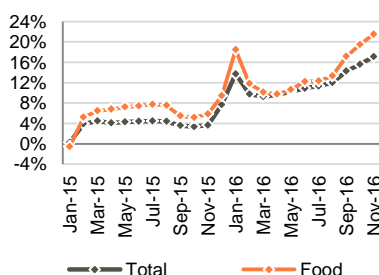
In 11M16, oil production was down 1.6% y/y to 37.7mn tons, and gross gas production was down 0.7% y/y to 26.9bcm. Commercially available gas volume was down 5.8% y/y to 17.0bcm.

Non-oil GDP, YTD y/y % change



Source: AzSTAT

Annual inflation, %



Source: AzSTAT

Key macro indicators

	10M16	2015	2014
GDP (% change)	-3.9%	1.1%	2.8%
NO* GDP (% change)	-5.6%	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)	17.1%	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

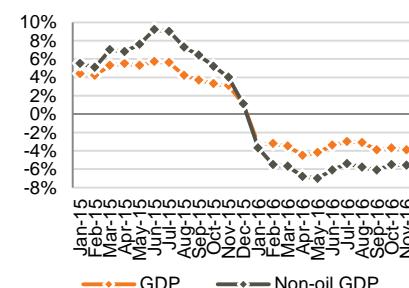
Source: Official data

* 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



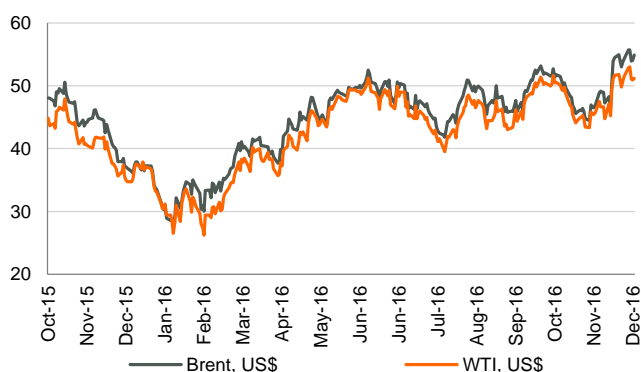
Oil prices and exchange rate

Oil price: Brent oil price was up 1.0% w/w to US\$ 54.9/bbl (up 47.6% y/y), while WTI oil price decreased 0.6% w/w to US\$ 51.2/bbl (up 44.1% y/y). In AZN terms, Brent oil price was up 2.0% w/w to AZN 98.0 (up 151.8% y/y).

Exchange rate: On December 16, 2016, Central Bank's AZN/US\$ rate was 1.7525 (+0.5% w/w) and AZN/EUR rate was 1.8277 (-1.1% w/w). At Bloomberg AZN/US\$ was trading at 1.7853 (+0.9% w/w) while AZN/EUR was trading at 1.8590 (-0.2% w/w).

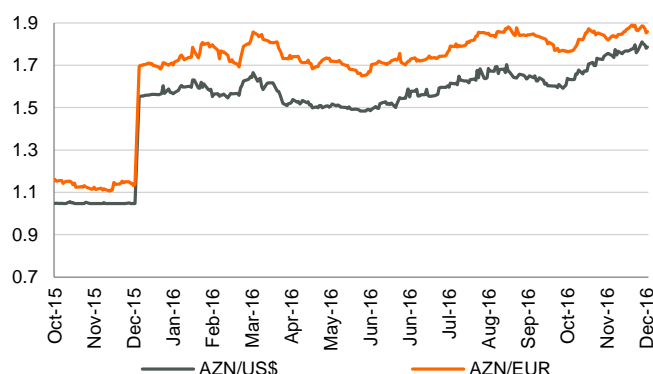
Monetary policy rate: Monetary policy rate was unchanged at 15.0%.

Crude oil prices (US\$/bbl)



Source: Bloomberg

Exchange rates



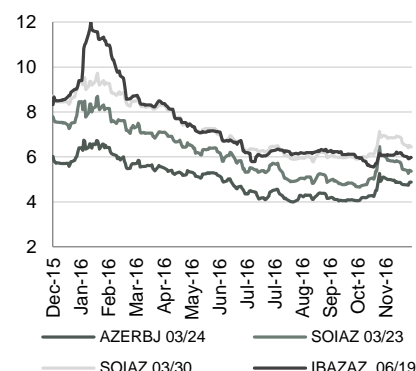
Source: Bloomberg

Fixed income

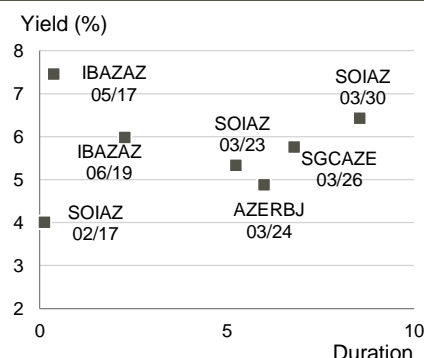
Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.4% yield, trading at 104.6 (+0.8% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 99.2 (+0.1% w/w), yielding 6.0%.

Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 99.2 (-0.7% w/w) at 4.9% yield to maturity.

Azerbaijan Eurobonds, YTM (%)



Azerbaijan Eurobond universe



	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\$	100.2	96.9	104.4	99.5	99.2	107.9	99.2
Mid yield, %	4.0	5.3	6.5	7.5	6.0	5.8	4.9
Z-spread, bps	-107.0	301.1	386.4	546.6	414.8	336.5	250

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	99.2	4.9	250
Georgia	500	6.875%	4/12/2021	BB-/BB-/Ba3	109.1	4.5	240.4
Bulgaria	323	5.000%	7/19/2021	BBB-/BB+/Baa2	119.9	0.6	-247.2
Croatia	1,250	3.875%	5/30/2022	BB/BB/Ba1	107.2	2.4	220.9
Hungary	3,000	6.375%	3/29/2021	BB+/BB+/Ba1	111.9	3.4	130.2
Romania	2,250	6.750%	2/7/2022	BBB-/BBB-/Baa3	113.6	3.8	166.2
Russia	3,500	5.000%	4/29/2020	BBB-/BB+/Ba1	105.8	3.2	123.2
Turkey	2,000	5.625%	3/30/2021	BBB-/BB+/Ba1	102.0	5.1	302.6
Kazakhstan	2,500	5.125%	7/21/2025	BBB+/BBB-/Baa2	106.4	4.2	178.3

Source: Bloomberg

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