

Azerbaijan Weekly Market Watch

Weekly Market Watch | Azerbaijan
October 31, 2016

Economy

Slight improvements in Azerbaijan's Doing Business indicators

According to the latest Doing Business 2017 report, Azerbaijan has moved from a revised 61st position to 65th position. While retreating in the global ranking, its distance to frontier (DTF) score has slightly improved from 67.84% to 67.99%. Improvements were recorded in "Trading Across Borders" (from 71.48% to 72.28%), "Getting Electricity" (from 64.10% to 64.83%), and "Paying Taxes" (from 83.08% to 83.52%).

Azerbaijan's DTF score retreated in "Dealing with Construction Permits" from 64.13% to 63.63%.

Key macro indicators

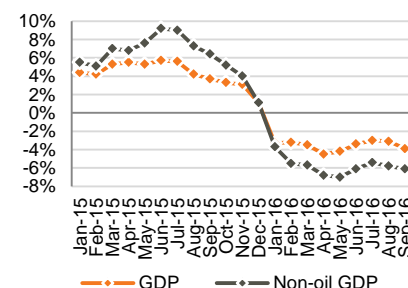
| | 9M16 | 2015 | 2014 |
|------------------------------|--------|--------|--------|
| GDP (% change) | -3.9% | 1.1% | 2.8% |
| NO** GDP (% change) | -6.1% | 1.1% | 7.0% |
| GDP per capita (ppp) | ... | 17,993 | 17,762 |
| GDP per capita (US\$) | ... | 5,739 | 8,055 |
| Population (mn) | ... | 9.7 | 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 # 65

Economic Freedom Index # 91 (moderately free)

Global Competitiveness Index # 37 (regional leader)

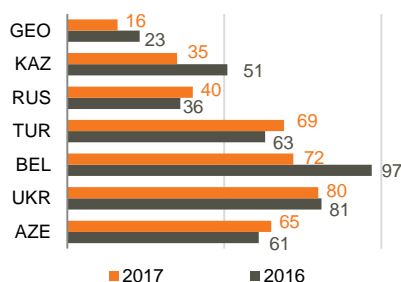
Source: World Bank, Heritage Foundation and World Economic Forum

Azerbaijan sovereign credit ratings

| | | |
|---|---|---|
|  BB+ Negative Jul-2016 |  Ba1 Negative Apr-2016 |  BB+ Negative Aug-2016 |
|---|---|---|

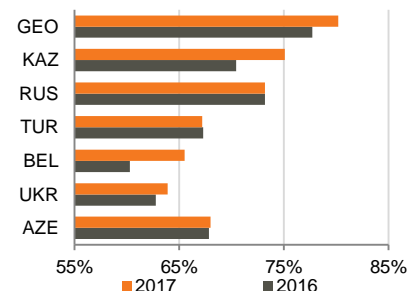
Source: Rating agencies

Doing business, rank



Source: WB Doing Business 2017

Doing business, DTF score, %



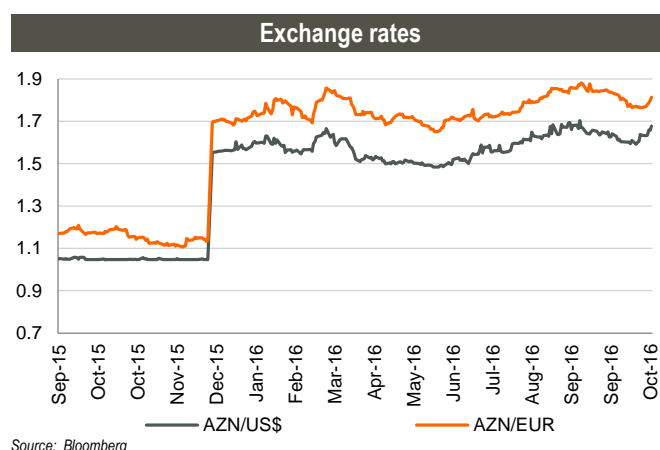
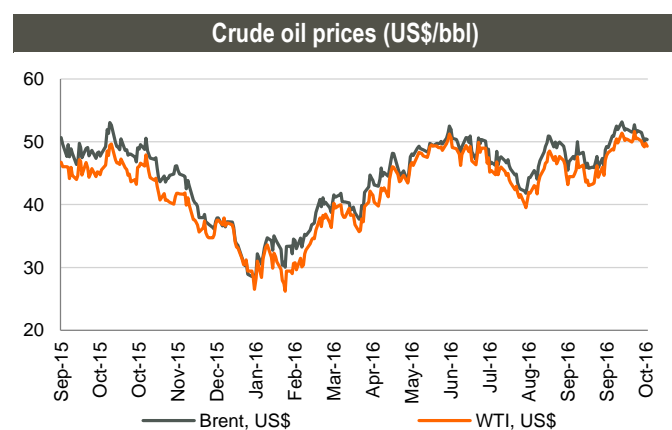
Source: WB Doing Business 2017

Oil prices and exchange rate

Oil price: Brent oil price was down 2.7% w/w to US\$ 50.4/bbl (up 2.7% y/y), while WTI oil price decreased 2.5% w/w to US\$ 49.3/bbl (up 7.3% y/y). In AZN terms, Brent oil price was down 0.1% w/w to AZN 82.7 (up 64.7% y/y).

Exchange rate: On October 28, 2016, Central Bank's AZN/US\$ rate was 1.6381 (+1.8% w/w) and AZN/EUR rate was 1.7863 (+1.8% w/w). At Bloomberg AZN/US\$ was trading at 1.6778 (+2.7% w/w) while AZN/EUR was trading at 1.8126 (+2.8% w/w).

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

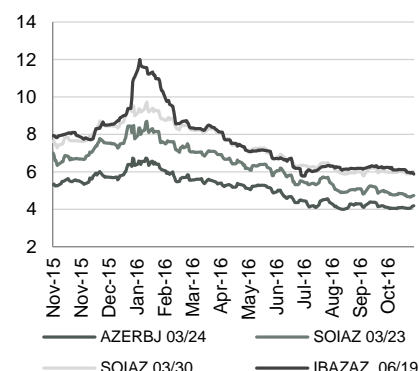


Fixed income

Corporate Eurobonds: State Oil Company of Azerbaijan (SOCAR) Eurobond (SOIAZ 03/30) closed at 6.0% yield, trading at 108.5 (-1.1% w/w). International Bank of Azerbaijan Eurobonds (IBAZAZ 06/19) were trading at 99.4 (+0.3% w/w), yielding 5.9%.

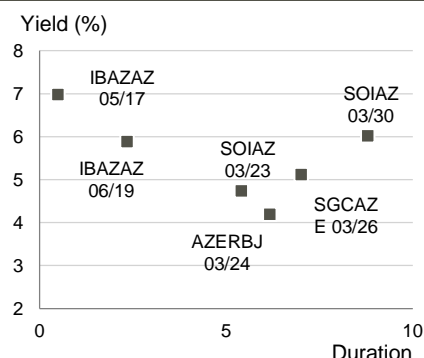
Azerbaijan Sovereign Eurobonds (AZERBJ 03/24) closed at 103.5 (-0.9% w/w) at 4.2% yield to maturity.

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-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\$ | 100.9 | 100.1 | 108.5 | 99.6 | 99.4 | 113.0 | 103.5 |
| Mid yield, % | 2.0 | 4.7 | 6.0 | 7.0 | 5.9 | 5.1 | 4.2 |
| Z-spread, bps | -25.6 | 323.4 | 418.7 | 513.0 | 454.7 | 344.0 | 261.7 |

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 | 103.5 | 4.2 | 261.7 |
| Georgia | 500 | 6.875% | 4/12/2021 | BB-/BB-/Ba3 | 112.0 | 3.9 | 250.8 |
| Bulgaria | 323 | 5.000% | 7/19/2021 | BBB-/BB+/Baa2 | 121.1 | 0.5 | -221.4 |
| Croatia | 1,250 | 3.875% | 5/30/2022 | BB/BB/Ba1 | 108.2 | 2.3 | 219.1 |
| Hungary | 3,000 | 6.375% | 3/29/2021 | BB+/BB+/Ba1 | 115.2 | 2.7 | 138.2 |
| Romania | 2,250 | 6.750% | 2/7/2022 | BBB-/BBB-/Baa3 | 118.8 | 2.9 | 146.7 |
| Russia | 3,500 | 5.000% | 4/29/2020 | BBB-/BB+/Ba1 | 106.8 | 2.9 | 162.3 |
| Turkey | 2,000 | 5.625% | 3/30/2021 | BBB-/BB+/Ba1 | 106.1 | 4.1 | 279.1 |
| Kazakhstan | 2,500 | 5.125% | 7/21/2025 | BBB+/BBB-/Baa2 | 111.0 | 3.6 | 200.2 |

Source: Bloomberg

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