Islamic Finance Monthly Bulletin

December 2010

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GCC Markets

Shariah compliant indices exclude industries whose lines of business incorporate forbidden goods or where debt/asset ratios exceed 33%. The increasing popularity of Islamic finance has led to the establishment of Shariah compliant stock indices in many stock markets across the world, even where local Muslim populations are relatively small, such as in China and Japan.

In November, the GCC region’s stock markets continued the negative trend from the previous month with UAE, Oman, Saudi Arabia and Bahrain recording significant negative returns. The UAE stock market which was the best performer last month fell by 6.9% followed by Oman, down 0.6%, Bahrain, down 0.5% and Saudi Arabia, down 0.1%. Kuwait recorded gains of 0.6%, slightly below that of the previous month. And the most significant positive return was recorded by Qatar which rose by 6%.

On the risk side, Kuwait continues to be the riskiest market with volatility of 1% and VaR at -3.3%; but it is joined by UAE with a volatility of 1.1% and VaR at -3.2%. Qatar had a volatility of 0.9% and VaR was at -0.6%. Saudi Arabia and Oman were equal in volatility at 0.6% with VaRs at -1.1% and -0.7% respectively. Bahrain remained the least volatile with a volatility of 0.3% and VaR of -1.2%.
Far East Markets

In November, the Philippines stock markets fell drastically by 12.3% after a 2-month high. Thailand, Indonesia and Malaysia Emas Shariah also fell by 0.8%, 0.5% and 0.4%. Only Taiwan and Singapore recorded gains respectively of 2.8% and 2.3%.

Risk indicators in this region show the Philippines as the most risky, with a volatility of 1.8% and VaR at -3.2%. Indonesia, Singapore and Thailand had volatilities of 1.3%, 1.2% and 1.1% with VaRs at -1.9%, -1.8% and -1.9% respectively. Comparatively less risky markets in the region were those of Taiwan and Malaysia with volatilities of 0.8% and 0.6% and VaRs at -1.2% and -1% respectively.

Figure 2: Far East Stock Markets, November 2010. Malaysia: FTSE Bursa Malaysia Emas, FTSE Bursa Malaysia Hijrah; Indonesia: Jakarta SE Islamic; Philippines: SPGI BMI Philippines Shariah; Singapore: SPGI BMI Singapore Shariah; Taiwan: SPGI BMI Taiwan Shariah; Thailand: SPGI BMI Thailand Shariah. Source: Datastream
MENA Region Markets

Middle East and North Africa (MENA) region markets are less developed than GCC and some Far East markets. However, good investment opportunities do exist, particularly for investors willing to take extra risk.

Egypt continues to record positive returns this month, also rising by 2.3%. This is followed by Tunisia which showed a significant recovery by showing gains of 0.3%. By contrast, Morocco and Jordan which showed significant gains last month have declined by 2.3% and 0.4% respectively. These are followed by Lebanon, where the fall was 1%.

In November, Lebanon was the riskiest market (with a volatility of 1.2% and VaR at -2.8%), closely followed by Egypt, Tunisia and Morocco with volatilities of 0.9%, 0.7% and 0.7% and VaRs at -1.2%, -1.1% and -2% respectively. Jordan was by far the least risky and least volatile with volatility of 0.4% and VaR at 0.9%.

Figure 3: MENA Region Stock Markets, November 2010. Egypt: MSCI Egypt Islamic; Tunisia: S&P Tunisia Shariah; Morocco: S&P Morocco Shariah; Lebanon: S&P Lebanon Shariah; Jordan: S&P Jordan Shariah. Source: Datastream
Rest of the World

Growth elsewhere generally, remained positive with the exception of India where the fall was 7.2%. Japan has recovered from last month’s negative returns, rising by 6.8%. This was closely followed by South Korea and South Africa, rising respectively by 4.3% and 3%. Hong Kong, China and the two worldwide Shariah indices all recorded positive returns of 1.1%, 0.4% and 1.1%.

On the risk side, the Chinese stock market was the most volatile with volatility of 1.8% and VaR at -3.3%. This was closely followed by India and South Korea with volatilities of 1.3% and 1.2% and equal VaRs at -2.8%. The others that include the two worldwide stock markets, Hong Kong, South Africa, and Japan were almost at par with volatilities of 1%, 1%, 1.1%, and 1% and VaRs at -1.8%, -1.7%, -1.9% and -1.2% respectively.
Sukuk Market Review

The Dow Jones Citigroup Sukuk Index (DJCSI) index was launched by Dow Jones Indexes and Citigroup Index LLC in 2006 and measures the performance of global bonds that comply with Islamic investment guidelines. The index is made up of investment-grade, US dollar-denominated Islamic bonds—also known as Sukuk. The index was created as a benchmark for investors seeking exposure to Shariah-compliant fixed-income investments. The index shares design criteria and calculation assumptions with the broader Citigroup fixed-income index family, and its screens for Shariah compliance are consistent with the Dow Jones Islamic Market (DJIM) Indexes. Bond issues included in the index must comply with Shariah Law and the Bahrain-based Auditing & Accounting Organization of Islamic Financial Institutions (AAOIFI) standards for tradable Sukuk. Bond issues must also have a minimum maturity of one year, a minimum issue size of $200 million, and an explicit or implicit rating of at least BBB-/Baa3 by leading rating agencies.

The Dow Jones Citigroup Sukuk Index closed at 126.175 on November 30th 2010, showing an increase of just 0.195% compared with a 1.04% month-on-month change of the previous month. The lackluster Sukuk market is attributable to several reasons: the abundance of liquidity in the non-Islamic debt market; the enforceability of investors’ rights in defaults; and the extra cost associated with Islamic bond documentation.

Moreover, Issuance of Islamic bonds from the six-nation Gulf Cooperation Council dropped 28% in 2010 to $4.5 billion after debt restructuring, defaults and tumbling property prices hurt investor confidence. This contrasts with a drop of less than 1 percent to $26.8 billion in non-Islamic bond issues this year, with fourth-quarter sales of $8 billion.

Source: Bloomberg.com, Sukuk.me

Figure 5 (top): The Dow Jones Citigroup Sukuk Index (DJCSI) measuring the performance of sukuk bonds around the world. Source: Djindexes
Commodities

Oil price increased 3% in comparison to last month’s closing price touching a two year high on November 11. The month started with a 5% increase, as the U.S. dollar weakened following a second round of quantitative easing by the Federal Reserve. Fed announced that it would buy $75 billion of U.S. Treasury bonds each month until June 2011, giving a total of $600 billion. A new crude oil price record was achieved after OPEC raised its 2011 oil demand forecast. As the U.S. dollar rose against the Euro, due to concern over financial stability in the EU, the oil price fell in the second part of November. However, better than anticipated news about the U.S. economy expanding at an annual rate of 2.5% in third quarter together with inventories declining led to an increase in the price of the crude oil. (Bloomberg, November 24).

Gold price closed 1.9% higher in November touching an all time record slightly in excess of $1400 per ounce. Gold climbed steadily, as the U.S. dollar depreciated and reversed as a result of strengthening dollar. Irish sovereign debt problems towards the end of the month increased gold price, as investors sought to diversify risk. Nevertheless good U.S. GDP data with strong dollar caused gold to fall back towards the end of the month. (Bloomberg, November 24)

Palm Oil surged by 7.2%, as with concerns about adverse weather in Indonesia and Malaysia. World palm oil prices declined after the announcement that price-controls on commodities might have been implemented by China. (Business Week, November 16).
Gas prices in November advanced by 13.9% after a significant fall in October. The price surged by 16% at the start of the month on the forecasted colder-than-normal temperatures. However, it fell back significantly to a previous level after U.S. Energy Department announced an increase in gas inventories to a new record level. New colder-than usual forecasts and a higher than expected rise of 1.2% in October U.S. retail sales boosted the price of gas. (Bloomberg, November 15)

Copper rose by 2.4%. As with other commodities, the prices of copper rose as investors sought alternatives to the weakening dollar and also as concerns were raised about supplies from Chile, the world’s main producer. The rise in price was followed by a fall, due to the conflict between North and South Korea as well as European debt issues (Bloomberg, November 29)

Even though sugar dipped 7%, it touched 29 year high at the middle of the month on the concern that India may set a cap on its exports to increase the national supply. However, there was a biggest one-day sugar sell-off in 30 years after India’s agriculture minister announced that a high sugar surplus could be anticipated in 2010-11 (Financial Times, November 11)
Global Developments

SWIFT (Society for Worldwide Interbank Financial Telecommunication) issues Shariah-compliant certificate for Murabaha

ISO (International standard organization) 15022 message standards for the processing of treasury Murabaha transactions have been certified compliant with the international Islamic finance standards issued by AAOIFI (Accounting and Auditing Organisation for Islamic Financial Institutions).

SWIFT says the certification paves the way towards the automated processing of Murabaha treasury transactions, which reportedly represent 60 per cent of all Islamic financing. Murabaha includes a money transfer and a commodity trade. SWIFT has carried the money transfer for many years, whilst the commodity trade has been completed manually, usually by fax without any globally agreed standard. SWIFT’s solution uses the ISO 15022 message standards within the guidelines of a Murabaha Standards Rulebook. “AAOIFI is responsible for global Islamic finance industry standards and we establish best practices for the industry,” said Dr. Mohamad Nedal Alchaar, Secretary General of AAOIFI. “Our collaboration with SWIFT aims to build a well-structured and well-regulated international Islamic finance infrastructure”.

The use of ISO 15022 messages over SWIFT do not change the current process between banks, their customers and brokers. However, the data defined in the schedules under the terms of the Master Murabaha Agreement are now exchanged using standardized messages via SWIFT as opposed to bilaterally agreed confirmations exchanged manually. Participants involved in Murabaha will benefit from a globally agreed electronic standard, automation which will lead to a reduction in costs and risk, and an audit trail for Shariah compliance.

Source: www.cpifinancial.net

Sabana REIT to raise $491 million in Singapore IPO

The Sabana Shariah Compliant REIT, which owns industrial properties in Singapore, has priced its IPO at SGD 1.05 a share, the midpoint of an indicative range, to raise $491 million. The REIT (real estate investment trust) is the first Islamic REIT in Singapore and the largest Shariah-compliant property trust in the world. It is not the first in the region; three small Islamic REITS are trading in Kuala Lumpur. Sabana is reported to have chosen to adopt a strict interpretation of Shariah compliance so as to appeal to the Islamic investment community in the Middle East as well as that in Malaysia.

With an average lease term to expiry of 3.8 years, Sabana controls 15 industrial properties in Singapore with an aggregate floor area of about 3.3 million square feet. Most of the properties are located near industrial zones and key transport links such as Changi Airport, shipping ports and major expressways.

The manager of the REIT had forecast in a draft prospectus a distribution yield of 8.45 per cent for 2011 and 8.48 per cent for 2012 based on the minimum offer price of SGD 1.00. At the indicated price the yield for 2011 is 8.22 per cent. FIL Investment Management Hong Kong, a unit of US fund manager Fidelity, and Bahrain’s al-Salam Bank are among the cornerstone investors in the IPO. HSBC is the sole financial adviser for the IPO and is joint global coordinator, bookrunner and underwriter with United Overseas Bank and Daiwa.

Source: Reuters and cpifinancial.net
Gatehouse Bank completes $52.3 million acquisition of InterContinental Hotels Global HQ

In association with GSH Kuwait, Gatehouse has acquired the InterContinental Hotels Group headquarters building, a 97,340 sq. ft. The $52.3 million acquisition of the InterContinental Hotels Group Global Headquarters in Denham, Greater London, brings Gatehouse’s total property acquisition value to more than $256.4 million. Gatehouse bank has completed high profile property transactions in eleven months to secure more than £160 million in assets within its property portfolio.

Source: cpifinancial.net

Tata Targets Gulf in India Shariah Stock Fund

Tata Group’s investment unit is seeking to attract about $100 million within three years to India’s first Shariah-compliant fund aimed at global investors, targeting equities in a country that lacks regulations for establishing an Islamic debt market.

The Tata Indian Shariah Equity Fund has $3 million after being set up in June to tap investment mainly from the Middle East. India has no Islamic finance policies, restricting sales of Shariah-compliant bonds in a nation with a population of 157 million Muslims.

Source: businessweek.com

Bahrain, Qatar and UAE

IFAAS advisory services launches in Bahrain

Islamic Finance Advisory & Assurance Services (IFAAS) has opened a Gulf office in Bahrain to serve the growing demand for Islamic finance expertise and knowledge with European service standards.

IFAAS, the European Islamic finance consultancy, has announced the opening of its Gulf office in Manama, Bahrain. The new office is located in Manama’s Bahrain Financial Harbour.

With offices already in the UK and France, IFAAS opened its third office in the Gulf region following increasing local demand for its services. Local businesses have expressed interest in its Shariah consultancy services based on its experience in Islamic finance operations with services incorporating European standards. By working with IFAAS, businesses in the Gulf have direct access to international Islamic finance expertise and IFAAS’s ability to facilitate transactions between Middle Eastern investors looking to develop opportunities with European corporations.

Source: ameinfo.com

BMI Bank, Tamkeen launch new Shariah-compliant financing scheme

Bahrain-based BMI Bank and Tamkeen have launched a Shariah-compliant financing scheme for enterprises within the local private sector to bolster the segment within the country. Created in partnership with Tamkeen, the scheme will offer a suite of Shariah-compliant financial products under the umbrella of the Islamic Financial Services division within the bank. Under the Subsidised scheme from BMI Bank in partnership with Tamkeen, financing shall be available at a profit rate of 4 per cent per annum. As part of the agreement, Tamkeen will guarantee 50 per cent of the total financing amount as well as subsidise 50 per cent of the profit payments due from customers. Through this financing scheme, enterprises within the private sector will
be eligible to receive financing ranging from BHD 10,000 ($26,560) to BHD 500,000 ($1.3 million).

Source: www.ameinfo.com

Mashreq Al Islami launches personal finance for retail customers

UAE based Mashreq Al Islami bank has announced the launch of its new specialist ‘Islamic Personal Finance’ products which are tailored to suit the financial needs of customers looking for Shariah-compliant personal finance.

The new products are available under three Islamic concepts: Goods Murabaha, Service Ijarah (Manfa’) and Tawarruq. These products cater to the needs of those customers seeking Shari’ah-compliant banking personal finance and are available to both UAE Nationals and expatriates. Through Murabaha, customers will be able to buy personal products such as furniture or a car. On the other hand, Service Ijarah (Manfa’) will provide funds to customers who are looking to finance services such as a holiday or education, while Tawarruq is a cash lending facility for those looking for Shari’ah-compliant personal finance.

Source: www.khaleejtimes.com

Dubai Islamic Bank opens three new branches in UAE

Dubai Islamic Bank (DIB) has increased its UAE network to a total of 66 branches, including 14 in Abu Dhabi and expects countrywide network to reach 74 by end-2010

Two new branches in Dubai are located in Al Quais and Al Lisaili areas while the new Abu Dhabi branch is based in Shahama. All three branches will offer customers the full range of DIB’s products and services. Due to a high demand for ladies-only banking, the Shahama branch will also include a dedicated Johara section (section for females).

Source: www.ameinfo.com

QIB Launches its New Visa Infinite Card

Qatar Islamic Bank (QIB) is adding the Visa Infinite card to its range of products. The new card will be available by invitation only. QIB’s Infinite Card is accentuated with a real diamond and customers will receive a certificate to authenticate the card. Visa Infinite is geared towards the bank’s high end clientele, who will value the extensive travel, shopping, dining and lifestyle privileges.

Each Visa Infinite customer will have access to a worldwide, complimentary concierge service available 24 hours a day.

Source: www.meed.com

QInvest’s Shariah-compliant Enhanced Yield Note oversubscribed

QInvest, Qatar’s leading investment bank launched a Shariah-compliant enhanced Yield Note which was met with great enthusiasm by investors, with the bank raising significantly more than expected.

The note is one of a series of Islamic investment products QInvest is planning to bring to the market in the coming months, and demonstrates QInvest’s strong Islamic structuring capabilities and commitment to meeting client needs.

Source: www.thepeninsulaqatar.com

Alliance Bank and American International Assurance Bhd (AIA) in Joint Venture for Family Takaful Business

Alliance Financial Group Bhd (AFGB)’s subsidiary Alliance Bank Malaysia Bhd entered into an agreement with American International Assurance Bhd (AIA) to setup a joint-venture company to be known as AIA AFG Taka-
ful Bhd. Alliance Bank has 30 per cent equity in the joint venture to carry out family Takaful business while AIA has 70 per cent. The joint-venture company will be incorporated with an authorized share capital of $64 million (RM200 million) divided into 200 million ordinary shares of RM1.00 each and an issued and paid-up capital of RM100 million comprising 100 million ordinary shares of $.32(RM1.00) each fully paid.

Source: Reuters

Public Mutual to launch two Islamic funds

Public Mutual Bhd will launch two Islamic funds with potentially higher returns. The two funds are Public Islamic Alpha-40 Growth Fund (PIA40GF) and Public Islamic Infrastructure Bond Fund (PIINFBF). PIA40GF would adopt a more focused investment strategy and would be able to achieve the returns over the medium to long term as it would concentrate investments in a portfolio of not more than 40 stocks. The equity fund seeks to achieve capital growth by investing up to a maximum of 40 selected shariah-compliant blue-chip stocks, index stocks and growth stocks listed primarily on Bursa Securities and regional markets.

PIINFBF is a bond fund that seeks to provide annual income to investors through investments in sukuk issued by companies in the infrastructure sector.

88 per cent of the securities listed on Bursa Malaysia (the Malaysian stock exchange) are Shari'aah compliant and these listed securities represent two-thirds of the market capitalisation.

The equity exposure of PIA40GF will range between 75 per cent and 98 per cent of its net asset value (NAV). To achieve increased diversification, the fund will invest up to 30 per cent of its NAV in selected foreign markets. These will include Singapore, Taiwan, South Korea, Japan, Australia, New Zealand, Hong Kong, China, Thailand, Indonesia and the Philippines.

Source: Themalaysiainsider.com
The Gulf One Lancaster Centre for Economic Research (GOLCER) was established in May 2008 by Lancaster University Management School and Gulf One Investment Bank. The centre is funded by a donation from Gulf One Bank.

The main purpose of the Centre is to conduct empirical research focused on key economic and financial developments in the Middle East and North Africa (MENA) region, with special emphasis on the Gulf region. This region includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates, countries that form the Gulf Cooperation Council.

GOLCER’s research agenda will include, as primary topics, energy economics, Islamic banking and finance, telecommunication and infrastructure economics. Recent developments in these fields will be assessed in the light of their impact on the economy of the Gulf region.

In addition to its research activities, GOLCER will provide tailored training courses in specialised areas, including quantitative methods and applications of state-of-the-art econometric and statistical software packages to economic and financial phenomena. GOLCER will also provide consultancy services.

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