Shariah compliant indices exclude industries whose lines of business incorporate forbidden goods or where debts/assets 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.

The GCC markets have continued to drop. UAE has dropped further by 6.4%. Bahrain, closely followed, falling by 4.5%. Saudi Arabia, Qatar, Kuwait and Oman fell by almost the same levels: 1.8%, 1.2% 1.2% and 1% respectively.

Bahrain, Qatar, Saudi Arabia and UAE were equally volatile at 0.8%. While, Kuwait and Oman remained comparatively less volatile with volatilities of 0.5% and 0.4%. The VaRs indicated that Bahrain was the riskiest market with a VaR of -2% and Oman was the least risky with a VaR of -0.6%. The other markets discussed above were at almost the same risk levels.
The markets in this region had mixed movements. On one hand, Philippines, Indonesia and Malaysia stock markets showed gains while on the other hand, Taiwan, Thailand and Singapore markets dipped. Philippines market went up the most, moving up by 5.3% and the worst performer was Taiwan, falling by 4.9%.

On the risk side, Philippines were the most risky market with VaR at -2.2% and volatility at 1.6%. The least risky was Malaysia with VaR at -0.4% and volatility at 0.3%. Taiwan had a VaR at -1.9% and volatility at 0.9%. Indonesia and Singapore had VaRs at -1% and volatilities at 0.8% and 0.7%. Thailand had a VaR at -1.4% and volatility at 1.1%.
Middle East and North Africa (MENA) region markets are less developed than GCC and some Far East markets. Nevertheless, good investment opportunities do exist, particularly for investors willing to take extra risk.

Tunisia went up by 6.6% and this was closely followed by Morocco that also moved up by 4.9%. Whereas, the Egypt market fell drastically, by 5.8%. Lebanon and Jordan markets also fell but by a lesser level of 1.1% and 0.4% respectively.

Morocco, Egypt and Lebanon remained the most risky markets with VaRs at -2.8%, -2.4% and -2.1% and volatilities at 1.7%, 0.9% and 0.9% respectively. Tunisia had a VaR at -1.6% and volatility at 1% and Jordan had a VaR at -0.9% and volatility at 0.7%.

Elsewhere in the world, the markets were down except in India and Japan where the markets moved up by 0.5% and 0.2%. The worst hit was China, where the market fell by 3.4%. This was closely followed by Hong Kong, South Africa and Korea where the markets declined by 2.9%, 2.5% and 2.6%.

The VaRs and volatilities show that almost all of the above mentioned markets were at the same level with respect to their value of VaRs which ranged between -1.3% and -1.8%. And the volatilities were also approximately at about 1%.

Figure 4: Rest of the World Indices, June 2011. Korea: SPGI BMI Republic of Korea Shariah; Japan: S&P Japan 500 Shariah; South Africa: FTSE South Africa Shariah; Hong Kong: SPGI Hong Kong Shariah; India: FTSE Shariah India; China: FTSE Shariah China; Global: DJ Islamic Average; FTSE Shariah All World. Source: Datastream
The Dow Jones Citigroup Sukuk Index (DJCSI) index, which was launched in 2006, 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 (Sukuk). Created as a benchmark for investors seeking exposure to Sharia’ah-compliant fixed-income investments, the index shares design criteria and calculation assumptions with broader Citigroup fixed income indexes, and screens for Sharia’ah compliance consistent with the Dow Jones Islamic Market (DJIM) Indexes. Bond issues within the index must comply with Sharia’ah 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 USD200 million, and an explicit or implicit rating of at least BBB-/Baa3 by leading agencies.

The Dow Jones Citigroup Sukuk Index closed at 130.085, remaining at approximately the same level as the previous month. Only dollar-denominated Sukuk which are rated investment grade can be included in this index. Components include the General Electric (GE) Capital Sukuk Ltd and the Islamic Development Bank (IDB) Trust Services Ltd and other GCC based companies as well, mostly from Dubai and UAE.

Despite fears of a debt contagion contaminating financial Europe, the outlook for Sukuk market remained stable. The fundamentals for Sukuk issuance are once again becoming more favourable as they are well positioned to serve as a bridge between the large pools of capital in the Gulf and the massive infrastructure investment requirements.
Oil prices drop to a four month low and this may be due to a speculation on a weakening global economy and Greece’s debt crisis. Analysts mention that oil prices are always a reflection of the economic environment and hence this fall in prices may be preceding a slowdown in the global economy. Bloomberg reports that the prices have gone below the Bollinger Band which is a technical indicator signaling that the market has dipped far too much.

Natural Gas prices, unlike crude oil prices are not truly globalised as of now due to the different prices in different parts of the world. The prices have gone down this period. This may be due to the sudden increase in supply of Natural Gas by the US. Although, the Cheniere project of the US is said to globalise the natural gas prices and push it up in the coming times.

Gold prices have hit a six week low, owing to several reasons such as the austerity measures in Greece and the second round of QE2 coming to an end in the US. The precious metal has dipped 8.8% in the past two weeks as some very rich countries have decided to release strategic reserves.

With China encouraging investors to return to the market, copper prices have soared high in June.

Palm oil prices have declined owing to increase in stock in Malaysia. Although, analysts say that, lack of a substitute can bring up the prices in the future.

Au contraire to the previous month, speculation on decreased production of Sugar in Brazil have pushed the sugar prices up to a 3 month high.

Figure 6: Price evolution of important commodities. January 2011 - June 2011. Source: Datastream

www.lums.lancs.ac.uk/research/centres/golcer/
Recent Developments in the Islamic Finance Industry

BLME launches Shari’ah high yield fund.

Bank of London and The Middle East (BLME) has launched the BLME High Yield Fund, a Sharia’ah-compliant fund which targets institutional and high net worth investors seeking higher returns than the BLME’s Income Fund. The BLME High Yield Fund, targets a net return of 3 month US$ Libor +5% per annum by investing up to 85% in Sukuk (often referred to as Islamic bonds) and 15% in Ijara (a lease contract on an asset). The Sukuk market has become more liquid and diversified and provides the fund with the opportunity for strong returns. The BLME High Yield Fund is an open-ended fund, with a minimum investment of USD250,000 with sterling and euro share classes also available. The fund is part of BLME’s existing SICAV and is domiciled in Luxembourg. The fund has been launched with USD 10m of seed capital.

Source: Zawya.com

SNR Denton advises on multiple Sukuk issuances.

Law firm SNR Denton’s Islamic Finance practice has been simultaneously advising on a number of Sukuk (Islamic bond) issuances from the Middle East region. The deals include the USD400 million trust certificates due 2016 issued by SIB Sukuk Company II Limited on behalf of Sharjah Islamic Bank (SNR Denton acted for HSBC, Standard Chartered and Liquidity House as Joint Lead Managers); the USD750 million Trust Certificates are due in 2016 issued by IDB Trust Services Limited on behalf of Islamic Development Bank.

Source: Zawya.com

Russian interest in Sukuk runs ahead of regulators

Gasprombank, the financial arm of Russia’s gas exporting monopoly Gazprom, is building support for Sukuk but Russian legislation lags. Bloomberg reports Alexander Kazakov, director of structured and syndicated finance at the bank, speaking in Jakarta as claiming up to five companies were interested in Sukuk issuance. Separately, Kuala Lumpur-based AmanahRaya says it is working on a dollar-denominated Sukuk for Tatarstan. AmanahRaya is also working to establish Kaz Haj, a pilgrimage fund, along with Kazakhstan’s Islamic asset management company, Fattah Finance.

Source: Bloomberg

BLME launches first Shari’ah-compliant online FX trading platform for Kuwait investors

Bank of London and The Middle East (BLME) have announced the launch of BLMEFX, a web-based FX trading platform to provide clients in Kuwait with direct access to multiple currencies for overseas transactions. In a Shari’ah-compliant environment, currency trading is used to support cross-border transactions rather than to realise a profit. Through BLMEFX, corporate and private clients have instant access to a large number of currencies as easily as if they were using a conventional system, thereby making the process much simpler and more cost effective, according to the bank. BLMEFX, is available over the internet and uses industry standard secure sockets layer (SSL) technology to deliver the functionality to its clients. BLMEFX has been designed with the emphasis on ease of use. Once a client has been permitted access they can trade on the platform using any major internet browser.
The trading platform, which is fully approved by BLME’s Shari’ah Supervisory Board, is non-commission based. Clients can trade without paying commission and receive the full amount of funds purchased directly into their BLME account. BLMEFX can also be easily white-labelled for financial institutions wishing to provide their own Shari’ah-compliant FX trading facility to their own clients.

*Source: www.cpifinancial.net*

**GCC**

**Bahrian**

KFH-Bahrain signs financing deal with Saar Central

Kuwait Finance House-Bahrain (KFH-Bahrain) announced the signing of an agreement with Saar Central, Capivest’s premier real estate project to provide a competitive home financing scheme to their potential home purchasers. The Shari’ah compliant scheme will provide attractive rates for financing Saar Central villas. Saar Central, is located in the popular Saar area of Bahrain and offers a mix of 82 high quality villas of varying sizes spread over an area of 65,000 sq m.

*Source: Zawya.com*

Gulf Finance House deal to develop Mumbai project

Gulf Finance House (GFH) signed a partnership agreement with Indian developer Wadhwa Group on core infrastructure for Energy City Navi Mumbai (ECNM) and Mumbai IT & Telecom City (MITTIC) – together with the Mumbai Economic Development Zone. The Bahrain-based Islamic investment bank says the two will develop integrated homes, affordable housing, hotels and malls on the two sites, which holds a strategic location on the outskirts of Mumbai.

Launched by GFH in 2007 and 2008 respectively, the ECNM and MITTIC projects cover 1,250 acres of prime development land at Navi Mumbai in the Indian state of Maharashtra. The two developments form core components of the wider Mumbai Economic Development Zone, a mixed use development located close to Mumbai International Airport.

*Source: Gulf Finance House*

Khaleeji Commercial Bank launches new auto financing

Khaleeji Commercial Bank (KHCB) unveiled Shari’ah-compliant auto financing scheme in Bahrain offering up to 100 per cent on loans up to BHD 50,000 (USD 132,600) for nationals. It is also available to expatriate and self-employed residents of the Kingdom of Bahrain with a minimum salary of BHD 250 (USD 663).

*Source: AME Info*

Investcorp USD40 million acquisition in Los Angeles

Bahrain-based Investcorp has acquired Residence Inn Manhattan Beach, a 176-room Marriott hotel in Los Angeles, California. Residence Inn is the Marriott hotel group’s brand of extended stay hotels, a type of lodging that has more home-like amenities and is popular with business travellers on extended assignments or undergoing re-location. In-
vestcorp has agreed a new franchise agreement with Marriott, and will embark on a capital investment plan to renovate and upgrade the property. The total consideration for the acquisition was approximately USD 40 million including the reserve for this renovation and the purchase has been structured to be Shari’ah-compliant.

Source: Gulf Base

UAE

Dar Al Sharia, German Islamic Institute of Islamic Banking and Finance sign agreement Dubai-based Dar Al Sharia Legal & Financial Consultancy has signed a collaboration agreement with the German Institute of Islamic Banking and Finance (IFIBAF). The relationship between these two organisations originates from a highly successful Islamic Finance Trade Mission to Europe conducted by Dubai Exports, an agency of the Dubai Department of Economic Development.

The Islamic Finance Trade Mission sought to increase the awareness of Islamic financial service providers and institutions from the UAE in the European markets. Dar Al Sharia and IFIBAF intend to work more close especially in the field of capital market transaction for retail and institutional business. Bringing in local market expertise in legal and regulatory requirements combined with Shari’ah-compliant product solutions, IFIBAF will benefit from the expertise of Dar Al Sharia, especially in the area of Shari’ah advisory and Shari’ah auditing.

IFIBAF is a German based consultancy that is developing Islamic banking and finance in the German speaking nations and Europe.

IFIBAF serves clients in Shari’ah-compliant transactions and offers a full chain of services as an on shop system. IFIBAF was established in order to be a provider of Islamic finance knowledge and expertise to the largest Muslim population in Europe of 4.6 million with an estimated wealth in excess of EUR 35 billion.

Source: Meed

Dubai SME teams up with Noor Takaful

Dubai SME, the agency of the Department of Economic Development which is mandated to develop the small and medium enterprise (SEM) sector, has launched a partnership with Noor Takaful to attract more UAE national entrepreneurs into the insurance industry offering them flexible business start-up options. According to a memorandum of understanding (MoU) signed between Dubai SME and Noor Takaful, the insurance company will offer franchises to UAE nationals to sell Noor Takaful branded products across the UAE. Dubai SME and Noor Takaful will organise awareness programmes for community members, presenting all aspects of the franchise business model including opportunities in the franchise, income potential and roles and responsibilities.

Source: Gulfbase

Central Bank of the UAE offers Collateralised Murabaha Facility

The Central Bank of the UAE is offering a Collateralised Murabaha Facility (CMF) to banks in the UAE. The Shari’ah-compliant Facility, which accepts the Central Bank’s Islamic Certificates of Deposits (CDs) as collateral, has been introduced to provide a source of liquidity to banks. The CBUAE launched auctions of Islamic CDs last November. Any bank wishing...
to avail the facility would be required to sign a Collateralised Murabaha Facility Agreement with the Central Bank of the UAE.

Murabaha is a sale and deferred-payment agreement based on an asset in which the cost and profit margin are agreed in advance between a bank and its customer. The CMF is being introduced to provide a source of liquidity to Islamic banks in the UAE. It would also be a monetary policy tool for the CBUAE. The CMF would be structured based on a Murabaha concept where the underlying asset would be commodity. The agreement has been approved by the UAE Shari’ah Coordination Committee.

The facility is denominated in AED with minimum amounts of AED 1 million (USD 272,248.10), rising in multiples of AED 1 million. The minimum tenor is overnight and the maximum is three months. Under normal circumstances settlement will be T+1 although at the CBUAE’s discretion this may be set at T+0. The maturity of the Islamic CD that is used for collateral must be longer than the CMF.

Source: Gulfbase

DIB, Prudential offer Shari’ah-compliant Asia Pacific Equity Fund

Dubai Islamic Bank (DIB) offers investors’ access to Prudential Shari’ah Opportunities – Asia Pacific Equity Fund, benchmarked against DJIM Asia Pacific ex-Japan Index. The Prudential Shari’ah Opportunities – Asia Pacific Equity Fund endeavours to provide medium to long-term capital appreciation by investing in Shari’ah-compliant companies within the Asia Pacific region (excluding Japan). Capitalising on the sustained economic growth and increasing wealth across the APAC region, the fund is offered by Prudential Asset Management Limited, based at DIFC.

Source: Gulfbase

Saudi Arabia

Saudi National Shipping secures USD 219.3 million Murabaha loan to finance purchase of ships

The National Shipping Company of Saudi Arabia (NSCSA) has signed a SAR 822.6 million (USD 219.3 million) Murabaha financing agreement with local banks to finance the purchase of four new ships from South Korea’s Hyundai Mipo Dockyard. The banks include Saudi British Bank (SABB) and the National Commercial Bank. The financing tenor will be 12 years and will be repaid in equal quarterly instalments. The NSCSA has recently signed a SAR 1.5bn (USD 400 million) deal with Hyundai Mipo Dockyard for the construction of four general cargo ships with a capacity of 26,000 tons that will replace four other vessels from NSCSA’s current fleet. The contract also includes the option for two additional ships. The four ships are expected to be delivered in the period from 2012 to 2014.

Source: Arab News

Saudi Arabia’s Nama Chemicals signs USD 90.4 million Islamic financing agreement

Saudi Arabia’s Nama Chemicals signed a SAR 339 million (USD 90.4 million) Islamic financing agreement with local lender Al Jazira Bank. A total SAR 263 million (USD 70.133 million) of the facility would be used to repay outstanding Murabaha loans. Another SAR 70 million (USD 18.667 million) would be invested in a new administrative building of the company, while the remaining SAR 6 million
would be used to service credit facilities, the company said. The sum allocated for paying up Murabaha loan will have to be repaid in five years with a grace period of two years and the money allocated for the new building will have to be paid in three years with a 24-month grace period.

Source: IFIS

Samba Capital launches Al Ataa fund

Al Ataa fund, described as the first of its kind in the local market, will distribute a cash dividend of up to 2.5 percent every six months or around 5 percent per year, suggestive of the expected positive investment returns of the fund’s performance. Samba capital defined the minimum subscription amount for the Al Ataa fund, which will only invest in fundamentally strong Shari’ah compliant Saudi listed companies, at SR 5,000 (USD 1333).

Source: Arab News

Malaysia and Indonesia

MIGA covers Murabaha Facility for Indonesia telecoms expansion

The Multilateral Investment Guarantee Agency (MIGA), the political risk insurance arm of the World Bank Group, has provided USD 450 million in investment guarantees to support the expansion of telecommunications services in Indonesia. MIGA’s guarantees are backing a USD 450 million Murabaha financing facility underwritten by Deutsche Bank and Saudi British Bank (SABB). The MIGA-backed Islamic finance facility is part of a larger USD 1.2 billion financing package for the expansion of Indonesian telecom company PT Natrindo Telepon Seluler (NTS), known by the brand ‘Axis’. Axis is a GSM and 3G cellular service provider offering wireless communication services in more than 400 cities across Indonesia. The new financing will help the company increase network quality, expand coverage, and build more network capacity. In particular, it will allow Axis to reach lower-income segments of the market as well as remote islands of the archipelago, where telecommunications is a particular challenge.

Source: www.cpifinancial.net

Elaf Bank receives Islamic banking licence in Malaysia

Bank Negara Malaysia says the Minister of Finance has granted an approval to Bahrain’s Elaf Bank to conduct an international Islamic banking business in Malaysia pursuant to Islamic Banking Act 1983. Elaf Bank is allowed to conduct a wide array of Islamic banking business in international currencies other than MYR. Elaf Bank has paid-up capital of USD 200 million. The bank encompasses the full spectrum of wholesale Islamic banking and is also working towards developing the Sukuk secondary market to act as a market maker. Elaf Bank provides a wide range of financial services to clients involving investment banking (fund-raising advisory, mergers and acquisitions and asset management), and treasury and capital markets (liquidity management, foreign exchange, investment, structured products and derivatives.

Source: Reuters.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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