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Islamic Indices

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.

Most markets in the GCC region fell drastically in the last month. The worst hit was the Kuwait market which dropped by 9.9%. This was closely followed by Bahrain, UAE and Oman, where the markets fell by 5.7%, 5.6% and 4.6%. The trend was followed in Qatar as well, where the market dipped by 2.6%. The Saudi market was the only one that showed positive returns, up by 0.5%.

Kuwait continued to be the riskiest market with a VaR at -2.3% and a volatility of 0.8%; following Kuwait was UAE and Qatar, with VaRs at -2.2% and -1.8% and volatilities at 1% and 0.9%. Saudi Arabia, Bahrain and Oman had VaRs at -1.3%, -1.1% and -1% and each of them had a volatility of 0.4% respectively.


Volatility is a measure of trading activity. Higher volatility is observed during periods of financial crisis. Higher volatility is also associated with speculative trading. Value at Risk (VaR) estimates the worst possible return that can happen tomorrow with a given confidence (here 95%).

Source: Datastream
Positive trends continued in this region with the exception of Taiwan where the market dipped by 1.1%. Philippines showed the highest gains, up by 3.1%. Thailand showed positive returns of 2.3%. Malaysia, Indonesia and Singapore went up by 1%, 0.5%, and 0.4% respectively.

The Far Eastern markets were comparatively less risky than the other markets. Philippines were the riskiest with a VaR at -1.8% and volatility at 1.2%. Indonesia and Singapore showed volatilities of 0.9% and 0.6% and VaRs were at -1.7% and -1.3%. Thailand, Taiwan and Malaysia had volatilities of 1%, 0.6% and 0.4% and VaRs at -0.9%, -0.9% and -0.7% respectively.
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.

The markets have again gained momentum; Morocco and Egypt markets showed massive gains of 7.4% and 5.7%. Jordan, Tunisia and Lebanon dipped slightly by 2.3%, 1.2% and 0.7%.

Morocco continued to be the riskiest market with VaR at -2.8% and volatility at 1.8%, closely followed by Tunisia and Lebanon where the VaRs were at -2.5% and -2.1% and volatilities at 1.6% and 0.8%. Egypt and Jordan were at almost the same risk levels with VaRs at -1.4% and volatilities at 1.1% and 0.7%.

The markets elsewhere showed negative returns. India was the worst hit, falling by 5.3%. Japan, Korea and South Africa also fell by 3.3%, 2.7% and 2.4%. China and India showed negative returns of 2.2% and 1.2%. The worldwide Islamic indices also went down by about 4%.

The risk indicators in the region showed that Korea was the riskiest market in the last month with a VaR of -2.3% and volatility of 1.6%, closely followed by China with a VaR at -2.2% and volatility of 1.2%. India, South Africa, Japan and Hong Kong had VaRs at -2%, -1.6%, -1.4% and -1% and volatilities of 1.3%, 1.1%, 0.8%, and 0.6% respectively.

Figure 4: Rest of the World Indices, May 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 Shariah-compliant fixed-income investments, the index shares design criteria and calculation assumptions with broader Citigroup fixed-income indexes, and screens for Shariah compliance consistent with the Dow Jones Islamic Market (DJIM) Indexes. Bond issues within 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 agencies.

The Dow Jones Citigroup Sukuk Index closed at 130.1224 showing a surge in performance over the previous months’ close of 128.642. 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 the uncertain regional political risks in the region, Dow Jones Sukuk Index has rallied because of the presence of Dubai and UAE based constituents. This is because investors have identified the emirate as a safe haven in the region.
Oil prices have fallen compared to the previous month due to increased inventories. During mid May, the price had gone to a low of USD 100 per barrel. Also, few of the major economies had started to slow down, hence putting a pressure on the oil price rise. In spite of the bearish trend this month, forecasts say that prices would continue to rise in the rest of the year.

Natural Gas prices have slightly dropped after the US Government announced an unexpected increase in the supply. It was also due to a fall in its demand which was because of the moderate weather conditions in the US.

With growing tensions over the economic slowdown in the US and the weakening of the US dollar, there was pressure on the equity and commodity markets forcing prices to drop. Gold, as a result had returned to USD 1522 per ounce at a certain point in the month of May.

Copper has dropped again owing to the slower manufacturing process in China and thus import of copper to China fell drastically.

Palm oil prices rose by the end of May as there were planting delays for Soybeans in US due to rains and floods and thereby bringing worries of reduced supply.

Raw cane sugar prices had shown a slight decrease due to the step up in its supply in Brazil. Although, it is said that, prices would rise again in the coming month.

Source: Bloomberg, FT, CNN news

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

FTSE launches Shariah-compliant physical industrial metals index series

FTSE Group and Dubai International Financial Centre for Investments (DIFCI), together with Merit Commodity Partners, have launched the world’s first investible, Shariah-compliant physical industrial metals index series.

The FTSE physical industrial metals index series will provide investors with a means of researching, benchmarking and managing exposure to industrial metals. The FTSE physical industrial metals index series comprises four individual indices, covering aluminium, copper, zinc and nickel, as well as a benchmark index containing all four metals.

The index series has been developed with DIFCI subsidiary Global Commodity Finance (GCF), and will be co-managed with Merit Commodity Partners, a specialist commodity advisory and investment management firm based in Switzerland. Investor interest in the metals asset class is growing as continued emerging market development and government investment in infrastructure fuel global consumption.

Source: Metal Bulletin

BLME launches first Islamic fund to invest in sustainable property

Bank of London and The Middle East (BLME) has launched its Light Industrial Building Fund (LIBF), a Shariah-compliant UK real estate fund which invests in sustainable property assets. The LIBF, which targets institutional investors, invests in carefully selected light industrial buildings across the UK. The target yield is 8% - 10% per annum, with quarterly cash dividends paid to investors. Target IRR (Internal Rate of Return) is 15 per cent for the five-year duration of this closed-ended fund. The target close for the fund is between £50 million ($81.2 million) and £100 million ($162.4 million) in equity, which will be leveraged to create a portfolio of up to £200 million ($324.9 million) of assets. The UK multi-let light industrial building sector currently covers over £30 billion ($48.7 billion) of properties, located in approximately 6,000 industrial estates across the UK. These are typically low technology, low obsolescence buildings constructed of concrete, brick or steel, and are used for light manufacturing, assembly, storage, warehousing and distribution activities.

The fund is available to both UK resident and non-UK resident investors. The fund is a compartment of the BLME Shariah Umbrella Fund SICAV-SIF, which is domiciled in Luxembourg.

Source: www.BLME.com

UK’s Gatehouse bank performs well as student accommodation strengths

Gatehouse Bank has delivered an additional windfall for its investors, after successfully completing The Watkin Jones portfolio in the UK for £30 million ($48.5 million), in April 2010. The two student accommodation properties located in Loughborough and Liverpool, UK have achieved the maxi-
Global Developments

Australia opens its door to Islamic finance

A notable development to pave way for Islamic finance in Australia was the submission of the final report that goes to the Board of Taxation, one of the aims of which is to help create “a level playing field” for Islamic finance from a tax perspective. The Australian government has long paid lip service to accommodating Islamic finance and many feel that the first real steps can only take place once the new tax initiatives are in place. The government has been vocally proclaiming that its intention is to secure a “level playing field” for Islamic finance development: in other words developing an infrastructure that does not penalise Shariah compliant institutions or products in any way.

The conclusion seems to be that the putative forthcoming tax changes are necessary for Australia to make significant inroads into becoming a serious Islamic finance player and that the only real opportunity is at the whole-sale investment banking level.

Source: The Islamic Globe Newspaper

GCC

Bahrain

Bahrain’s Khaleeji Commercial Bank leads the way in consumer banking

Khaleeji Commercial Bank, a leading Bahrain-based Islamic retail and investment bank

mum five per cent rental increase against a forecast 3.5 per cent increase, at the recent annual rent review. Kuwaiti investors have benefitted from the performance with a higher dividend of 9.7% return.

Recognising the importance of the student accommodation sector as an excellent asset class for investment, Gatehouse has carved out a niche for itself in the UK real estate investment sector.

Gatehouse continues to build a track record by having acquired more than £200 million ($323.7 million) in real estate acquisitions in the last 18 months. Based in London, the Gatehouse team offers expertise and knowledge of UK market fundamentals to enrich the investment offering. As a result GCC investors have been rewarded with consistently strong distributions from long-income type transactions in a quality-end investment product.

According to analysis by global real estate agents Knight Frank, student applications for university rose by 34% in the last five years in the UK, with student accommodation in short supply and under pressure to meet growth. Changes to government policy for higher education will increasingly drive universities to view options that will maximise revenues through disposal of their property to the private sector at improved values.

Source: www.cpifinancial.net
Recent Developments

Global Developments

www.lums.lancs.ac.uk/research/centres/golcer/

launched its new Visa Credit Card, navigating forward in the creation of pioneering retail banking products for the Kingdom of Bahrain. Advertised as the “Add Value” card, the new Visa credit card also offers high security features, travel insurance and is accepted worldwide.

Source: www.islamicfinance.de

Arcapita revamps its strategy in an attempt to climb up

Arcapita, formerly First Islamic Investment Bank of Bahrain, has completed the acquisition of a majority stake in J. Jill, a multi-channel specialty retailer of women’s apparel based in the US. J. Jill has 225 retail stores across the US and also has an e-commerce and catalogue-driven direct sales business. The business achieved revenues of $390 million in fiscal 2010. Arcapita acquired its interest in J. Jill from Golden Gate Capital, which retains a minority stake in the business. Golden Gate acquired J. Jill in 2009.

Source: www.theIslamic globe.com

Standard Chartered Bahrain launches enhanced priority banking offerings

Standard Chartered Bank Bahrain continues to serve its priority banking customers in the Kingdom exclusively by reaffirming its commitment to focus on high net worth customers. Designed specifically for those who appreciate only the finest things in life, Priority Banking offers the very highest levels of personalised banking.

Source: Al Hilal Group

Bahraini Ithmaar Bank to expand branch network

Bahrain-based Islamic investment bank Ithmaar Bank will open three branches in Bahrain by the end of 2011. The branches will be located in Sanad, Budaiya and Bab Al Bahrain.

Besides into the local market, Ithmaar Bank also plans to expand its operations in the Gulf Cooperation Council (GCC) countries.

Source: Al Hilal Group

Bahrain lists Government’s Ijarah Sukuk

The Central Bank of Bahrain issued BD200 million ($530.4 million) Government Islamic Leasing Sukuk on behalf of the government. The issue has been listed on the Bahrain Bourse. The five-year Sukuk matures on April 7, 2016 and pays an annual fixed interest rate of 5.5% payable every six months on October 7 and April 7 during the issuance period.

Source: IFIS
KUWAIT

Gulf Bank goes live with Path Solutions’ Investment product

Path Solutions, a leading provider of technology solutions to the global financial services industry announced today that Gulf Bank, one of the largest commercial banks in Kuwait has been launched in just three weeks with Path Solutions’ investment product for its fund administration and transfer agency operations.

Path Solutions’ groundbreaking technology allows fund administrators with operations in several countries to meet their registry and distribution requirements through its unique combination of multi-currency, multilingual, multi-entity and multi-instance functions. It enables financial institutions to design innovative products with either simple or complex fund structures and helps them stay ahead of the competition.

Source: www.meed.com

Kuwait’s Aayan secures USD 743.6 million debt restructuring deal

Kuwaiti Islamic firm Aayan Leasing and Investment Company has signed a KWD 205mn (USD 743.6mn) debt restructuring deal with nine of its creditors. Under the deal, which accounts for 62% of the company’s total debts, Aayan’s creditors agreed to cancel 10% of the KWD 205mn owed. Seven out of the nine creditors are local lenders, including Kuwait Finance House, Burgan Bank and Gulf Bank. Aayan also said that 15% of the debt will be transferred into shares. The company’s capital will be raised by KWD 10mn to KWD 73.8mn via a rights issue for current shareholders and the company will pay KWD 51mn in cash for part of the debt. The remaining debt will be rescheduled over a period of five years. Aayan Leasing and Investment provides leasing and financing services primarily in Kuwait, and other MENA countries according to the Islamic law. It is also involved in real estate investment, development, financing, and trading operations.

Source: Reuters

Boubyan Bank launches Kuwaiti dinar (KWD) money market fund

Boubyan Bank is going to initiate an open-ended Kuwaiti dinar money market fund which invests in Shariah-compliant short and medium-term instruments available in the financial markets. The fund’s objective is to offer competitive Shariah-compliant returns by increasing the value of its assets while offering a high level of liquidity to investors.

Source: IFIS
QATAR:

HSBC to shutter Islamic banking unit in Qatar by year-end

HSBC Holdings will close its Islamic banking unit HSBC Amanah in Qatar by the end of the year. Staff working at HSBC Amanah will be “absorbed” into the conventional business with no job cuts predicted. The move follows a ruling by Qatar’s Central Bank in February that asked mainstream lenders to close down their Shariah-compliant operations amid worries of overlap between the two.

The order gave lenders a grace period until end of December 2011 to shut operations but did not provide clarity on whether banks can apply for separate Islamic banking licences or sell assets to Qatar’s wholly-Islamic banks. The edict was seen as a windfall for standalone Islamic banks, which will benefit from a much larger customer base once the ruling comes into effect.

Source: Arabian Business

Qatar First Investment Bank and Gulfmena launch Tebyan Asset Management Ltd

Qatar First Investment Bank (QFIB) and Gulfmena Investments have established Tebyan Asset Management, a fully integrated Shariah-compliant asset management company, which will soon launch a fund focusing primarily on the Arab-Indo-China region. Tebyan, which aims to tap into the growing Shariah asset management space and to cater to international and regional investors seeking traditional and alternative strategies, is expected to be licensed by the Qatar Financial Regulatory Authority. It will primarily serve Islamic institutions, family offices, large family money, ultra high net worth individuals and high net worth individuals, whose assets are often allocated to Mena/GCC with some global investment allocations spread over. Tebyan has been uniquely positioned by combining asset management with wealth management, which will bridge the gaps in today’s Islamic investment. As part of its objective to bridge gaps in Islamic investment offering, Tebyan will be launching the first-of-its-kind “New Silk Route” long-term fund focusing primarily on the Arab-Indo-China region.

Source: Gulf Times

Islamic Chamber of Commerce Pakistan to set up office in Doha

The Pakistan-based Islamic Chamber of Commerce (ICC) is to set up an office in Doha which will become its permanent headquarters within a year. The decision to move to Doha was taken at the ICC’s board meeting held in Amman, Jordan recently. It was also resolved to close down the offices in Egypt and Saudi Arabia and make Doha as the main headquarters for the ICC. The proposal to make Doha as the headquarters for the ICC has been in the offing for more than 2 years.

Source: Gulf Times
Zain Saudi Arabia signs refinancing deal

Saudi Arabia’s third mobile operator, Zain, has signed a two-year Islamic refinancing. The agreement is worth SR 2.25 bn and the funds will be used to help its capital projects and meet previous obligations. The agreement was signed with Saudi banks including Arab National Bank and Banque Saudi Fransi, it said in a statement.

Source: IFIS - Islamic Finance Weekly

AlBilad Investment & Saudi Integrated Telecom Company (SITC), sign IPO agreement

AlBilad Investment, an Islamic investment banking firm, signed an agreement according to which AlBilad will be the IPO manager and the main underwriter for SITC’s initial public offering. SITC will offer 35mn shares representing 35% of its share capital worth SR350mn (USD93.63mn) and a total number of 5mn shares will be allocated to the General Organisation for Social Insurance (GOSI).

Source: IFIS

STC Indonesia unit secures US$ 1.2bn funding

Saudi Telecom Company (STC), said its Indonesian unit Axis has secured USD1.2 bn in financing to help fund its expansion and growth strategies for the next five years. The finance deal, with a tenor of seven and a half years, involves several local and international financial institutions and all facilities have been structured in a Shariah-compliant manner. It comprises three facilities - a USD450mn Murabaha facility, arranged by Deutsche Bank and HSBC and underwritten by DB and Saudi British Bank; a USD400mn facility for equipment purchases from Huawei, underwritten by China Development Bank; and a USD350 mn facility for equipment purchases from Ericsson, arranged by HSBC and backed by EKN, the Swedish Export Credit Agency.

Source: IFIS

Al Khodari Company gets $355 million Murabaha financing from Banque Saudi Fransi and Samba Financial Group

Saudi construction and civil engineering company Abdullah A.M. Al Khodari Sons signed agreements with Saudi-based commercial banks Banque Saudi Fransi and Samba Financial Group for two Murabaha Islamic credit facilities worth a total SAR 1.3 bn (USD355mn). The agreement with Banque Saudi Fransi is for SAR 688mn, while the credit facility from SAMBA is worth SAR 664mn. Al Khodari will use the funds to finance its capital requirements and working capital for ongoing and future projects. The facilities include securitisation, invoice discounting, multi-purpose guarantee, documentary credit and Murabaha finance.

Source: All Data Processing ADP News
OMAN

Oman opens door to Islamic banks to curb fund outflows

Oman will finally open the door to Islamic banking and let conventional lenders run Shariah compliant operations in a bid to keep investment funds in the Gulf state and grab a share of the rapidly growing industry. Oman is the only Gulf Arab state which until now has not set up a bank specifically offering products and services complying with Islamic law. The move aims to tap into demand for Shariah-compliant products and services currently being met elsewhere in the Gulf, analysts said. Conventional lenders in Oman will gain from operating Islamic windows as it will provide means to diversify revenue and potential volume growth. Moreover, local banks’ ties to regional banks-such as BankMuscat’s association with BMI Bank in Bahrain and NBO leveraging on the expertise of major shareholder Commercial Bank of Qatar - which already offer Islamic finance products will mean they could easily introduce new products into the market.

Source: Gulf Times

UAE

Sharjah Islamic Bank plans USD 400mn 5-year Sukuk

UAE’s lender Sharjah Islamic Bank (SIB), formerly known as the National Bank of Sharjah, plans to issue a five-year USD 400mn Sukuk which will soon be listed in the London Stock Exchange. Order books are above USD 2bn with pricing expected to be 287.5 bps above mid-swaps. The bank has hired HSBC Holdings and Standard Chartered to manage the sale of the Islamic bonds.

Source: ISI – IntelliNews

National Bonds Launches ‘USD-Dirham Linked Sukuk’

National Bonds Corporation has announced its latest innovative product, the ‘USD -Dirham Linked Sukuk’. The saving scheme is aimed at customers who already allocate a portion of their investments in US dollars or are planning to do so in future with the option to reap Dirham returns. The Sukuk are available to UAE residents, non-residents and corporations with a minimum investment amount of $5,000 and a lock-in period of 90 days.

Source: IFIS - Islamic Finance Weekly

Takaful Emarat launches new life plans

Takaful Emarat, the UAE’s first dedicated life and health Takaful (Islamic Insurance) provider, has strengthened its offering with the launch of a suite of individual life saving plans. The personalised protection and saving plans offer customers flexible terms of protection as well as access to a wide range of Shariah-compliant investment funds managed by renowned global fund managers. The introduction of individual life saving plans endorses Takaful Emarat’s intent to grow its market share in the UAE and contribute to the accelerated growth of the industry in the region.

Source: Khaleej Times
UBL launches new bancassurance product

United Bank Limited announced the launch of its bank insurance product under the brand name UBL Baraka. In the initial phase of the launch, UBL will offer Shariah-compliant insurance products through Noor Takaful, the Islamic insurance arm of Noor Investment Group, to Emiratis and expatriates based in the UAE.

UBL will be offering three Shariah-compliant insurance products namely UBL Secure, UBL Secure Plus and UBL Smart Save that will be distributed through its network of eight branches in, Abu Dhabi, Dubai, Sharjah and Al Ain.

Source: Khaleef Times

FAR-EAST

Malaysian healthcare provider KPJ Healthcare unveils ICP/IMTN programme

Malaysian healthcare provider KPJ Healthcare, a member of Johor Corporation with a network of 20 hospitals in Malaysia, has just launched an Islamic commercial paper/ Islamic medium-term notes programme to raise RM500mn ($167mn), which it will use to finance hospital and healthcare projects. Affin Investment Bank has been appointed as principal adviser and lead arranger for the programme by Point Zone, a wholly-owned subsidiary of KPJ.

Source: The Islamic Globe Newspaper

Malaysia: Mitsui Sumitomo buys Hong Leong stake

Japanese insurance giant Mitsui Sumitomo Insurance has acquired 35% of Hong Leong Financial Group’s Takaful assets in the hope of growing local Takaful business. The all-cash deal was for RM33.6mn ($11mn) and will create a new Takaful company that will carry the name of Hong Leong MSIG Takaful.

Source: The Islamic Globe Newspaper

Indonesia Stock Exchange unveils its first Shariah equities index

The Indonesia Stock Exchange (IDX) officially launched a new equities index in a move expected to boost liquidity and widen the investor base amid a growing interest in equities in the world’s biggest Muslim majority country. The Indonesia Shariah Stock Index (ISSI), which comprises 214 Indonesian stocks, allows investors to buy stocks without violating Islamic investment guidelines which have been screened by the Indonesia Ulema Council. The index excludes stocks of banking, and cigarette and alcohol firms, among others. The Shariah index includes blue chip stocks such as top automotive company Astra International; instant noodle giant Indofood CBP Sukses Makmur and number one telephone company Telekomunikasi Indonesia. The Shariah-compliant index accounts for 44% of the exchange’s total market capitalization of the broader stock exchange, which comprises 428 stocks with a total market capitalization of Rp 3,400 trillion.

Source: The Jakarta Post
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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