Islamic Stock Markets

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The Bahrain Financial Harbour (BFH) in Manama, Bahrain. The Financial centre of the country where headquarters of investment, commercial and Islamic banks are located. The complex also offers accommodation, leisure and entertainment.

Year of construction: 2009
Height: 260m
Coordinates: 26°14'16"N, 50°34'24"E
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 performed better than the previous month. Except for Bahrain and UAE markets, the rest have shown positive returns. Qatar performed the best moving up by 2%. Bahrain and UAE dropped by 3% and 0.5%. The turmoil that has been going on in Bahrain seems to be curtailing its economic growth.

On the risk side, Saudi Arabia was the riskiest market with VaR at -2.9% and volatility at 1.4%. Volatility forecasts* for the region show that UAE continues to be the riskiest market to invest in, while Oman and Bahrain are the safest.

Source: FT, Bloomberg

*Volatility forecasts

Figure 1: GCC Stock Markets, June 2011. Bahrain: S&P Bahrain Shariah; Kuwait: S&P Kuwait Shariah; Oman: S&P Oman Shariah; Qatar: FTSE Nasdaq Dubai Qatar 10 Shariah; Saudi Arabia: S&P Saudi Arabia Shariah; UAE: FTSE Nasdaq Dubai UAE 20. Percentage Month-to-Month (MTM) Returns, Percentage Volatility, Percentage Value-at-Risk (VaR). 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%). 30-Day ahead volatility forecast for the GCC markets. The 30 day period starts on the 1st day of the bulletin’s month. The plot represents the standard deviation of returns expected if you hold the indices for the next 30 days. Source: Datastream
The markets in the Far East have shown huge gains over the last month. Singapore had the highest return of 9.6%, closely followed by Indonesia, Malaysia and Philippines, where the markets moved up by 7.8%, 7.2% and 6.3% respectively. Thailand and Taiwan markets also showed positive returns of 3.7% and 1.7%. Most Asian stocks rose after announcements on Europe’s debt deal was made. The discussions over the deal have boosted exporters’ confidence. The concerns over the Euro crisis have plagued these markets for a very long time. The Asian currencies are said to have risen most since 2009.

Indonesia was the riskiest market in the region with VaR at 2.2% and volatility at 1.9%. On the other hand, Philippines was the least risky market in terms of VaR and volatility as it had a VaR at -0.8% and volatility at 1%.

Volatility forecasts for the Far East Markets show that Indonesia is the riskiest market to invest in with a forecast value of 9%. Malaysia is predicted to be the least risky with a forecast value of 5%.

Source: FT, Bloomberg
Middle East and North Africa (MENA) regional markets are less developed than those in the GCC and some Far Eastern markets. Nevertheless, good investment opportunities do exist, particularly for investors willing to take extra risk.

Except Lebanon, where the markets dipped by 2.8%, the MENA markets have shown signs of growth. Jordan had the highest returns, moving up by 3.8%, closely followed by Morocco, with a positive return of 2.9%. The elections in Tunisia can be the reason for the slight growth in its economy.

Jordan market was the most volatile with volatility of 2.2% and in terms of VaR, Morocco came first, with VaR at -2%. Tunisia continues to be the most risky market to invest in for the next 30 days with volatility forecasts at 15%. Safest market in the MENA region would be Jordan with a volatility forecast of less than 6%.

*Source: FT, Bloomberg*

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**MENA Region (MTM Return)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Return</th>
</tr>
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<tbody>
<tr>
<td>Egypt</td>
<td>-3.00%</td>
</tr>
<tr>
<td>Tunisia</td>
<td>-2.00%</td>
</tr>
<tr>
<td>Morocco</td>
<td>-1.00%</td>
</tr>
<tr>
<td>Jordan</td>
<td>0.00%</td>
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<tr>
<td>Lebanon</td>
<td>1.00%</td>
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**MENA Markets (VaR)**

<table>
<thead>
<tr>
<th>Country</th>
<th>VaR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>-2.50%</td>
</tr>
<tr>
<td>Tunisia</td>
<td>-2.00%</td>
</tr>
<tr>
<td>Morocco</td>
<td>-1.50%</td>
</tr>
<tr>
<td>Jordan</td>
<td>-1.00%</td>
</tr>
<tr>
<td>Lebanon</td>
<td>-0.50%</td>
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**MENA Markets (Volatility)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Volatility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>0.00%</td>
</tr>
<tr>
<td>Tunisia</td>
<td>0.50%</td>
</tr>
<tr>
<td>Morocco</td>
<td>1.00%</td>
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<tr>
<td>Jordan</td>
<td>1.50%</td>
</tr>
<tr>
<td>Lebanon</td>
<td>2.00%</td>
</tr>
</tbody>
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Figure 3: MENA Region Stock Markets, June 2011. Egypt: MSCI Egypt Islamic; Tunisia: S&P Tunisia Shariah; Morocco: S&P Morocco Shariah; Lebanon: S&P Lebanon Shariah; Jordan: S&P Jordan Shariah. Percentage Month-to-Month (MTM) Returns, Percentage Volatility, Percentage Value-at-Risk (VaR), 30-Day ahead volatility forecast for the MENA markets. The 30 day period starts on the 1st day of the bulletin’s month. The plot represents the standard deviation of returns expected if you hold the indices for the next 30 days. The value on the 30th day is the volatility forecast of the expected return if you purchased the indices on the first day and held it for 30 days. Source: Datastream
Elsewhere in the world markets have shown positive returns. China rose hugely by 13.5% -The Chinese markets rose after its Government amended the country’s’ economic policies by cutting interest rates as inflation slows down in the country. The results from the Euro Crisis settlement have also helped in boosting its growth. This ease in the monetary policy has owed to the rise in Hong Kong’s stock market. As the Euro crisis became less intense, stocks in South Korea and South Africa soared high by 10.6% and 10.2%.

In terms of risk, China topped the list with a volatility of 3% and VaR at -4%. Volatility Forecasts show that China would be the most risky market to invest in and Japan, on the other hand can be the safest market with a forecast value less than 1%. Compared to the other regions, the volatility forecasts show that it would be safest to invest in Asian stocks in the coming month as markets in India, South Korea, South Africa, China, and Hong Kong have volatility forecast values that are less than 1%.

Source: FT, Bloomberg
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 132.941 showing a surge in performance over the previous month’s close of 130.915. The index had been hovering around the same level of 132 preceding the volatile global markets in the month of September. This shows that the Sukuk markets are back on track due to the resilience shown by the markets in the GCC region in the face of the global financial crises. This has been largely due to the healthy banking sectors, petro-dollar income, macroeconomic stability and huge government reserves- factors and resources- which provided support to the region in times of uncertainty.

*Source: Djindex.com, Gulfbase.com*
Commodities

There has been a sudden twist in the world commodity markets when investors moved from being pessimistic about the global economy to have started riding on optimism as leaders in the Euro Zone settled the deal.

Crude Oil

Oil prices (WTI) have advanced in the last period by about 17% as investors believe that there would be an increased demand as there has been signal of recovery owing to the settlement over the Greek crisis. WTI had a volatility of 2.5% and VaR at -0.6%.

Natural Gas

The gas prices have plummeted yet again by 1.7%. Even though oil prices have gone up, gas prices have not been able to pick up. Natural gas had volatility at 2.4% and VaR at -0.9%

Gold

Investors seem to have rekindled their interest in Gold as the precious metal jumps by 6.6%. From being termed a risky asset in September, Gold has now been considered a safe investment. Gold had a VaR at -2.9% and volatility at 1.3%.

Figure 6: Commodity MTM Returns, Volatilities and VaRs for September 2011. Percentage Month-to-Month (MTM) Returns, Percentage Volatility, Percentage Value-at-Risk (VaR). Source: Datastream
Copper

The Euro leaders striking a fair deal on the Greek debt crisis has led to a slight increase in copper prices, moving up by 1.5%. An increased production in one of the Chilean mines has also contributed to the rise. Copper is one of the most risky commodities with a VaR at -2.2% and volatility at 3.8%.

Palm Oil

Decreased exports and high production in Malaysia owes to the rise in Palm Oil prices. There are reports on an increased demand for Palm oil in India, its biggest exporter due to upcoming festivals in the nation. On the risk side, palm oil had volatility at 0.9% and VaR at -1.1%.

Sugar

Sugar prices seem to have risen as China, the second largest consumer in the world is expected to increase its imports in the near future. There has been a 2.4% increase in the prices. Sugar showed a volatility of 0.9% and VaR was at -1.7%.

Source: FT, Bloomberg.
Recent Developments in the Islamic Finance Industry

New Islamic Financial Services Board (IFSB) liquidity guidelines to be credit-positive for Islamic banks

IFSB created the International Islamic Liquidity Management Corporation (IILM) for Islamic Financial Institutes (IFIs) to address the issue of liquidity management practices, which has been a major constraint on their stand-alone creditworthiness. IILM is supported by 12 central banks and its mission is to issue short-term Sukuk (fixed-income certificates compliant with the ethical investment guidelines of Islam) in global reserve currencies. IILM’s first issuance is expected by year-end. This money market initiative along with the IFSB guiding principles for liquidity management will help IFIs in closing the qualitative gap with their conventional peers in terms of liquidity management.

Source: Moodys.com

Goldman Sachs, JPMorgan issue over $2 billion in Islamic bonds

Goldman Sachs and JPMorgan have both issued over $2 billion in new long-term bonds, looking to take advantage of a window of positive market sentiment. JPMorgan sold ten-year notes worth $1.75 billion, reopening an offering sold at the beginning of August. Goldman issued 50-year bonds, priced at $25 and a yield of 6.5 per cent to retail investors. It also unveiled plans for its first sukuk bond, the report said, as it looks to diversify its sources of funding. The bank plans to sell a $2 billion Islamic bond through the Irish Stock Exchange.

Source: Financial Times

Crescent Wealth launches Australia’s first Islamic investment option

Crescent Wealth is planning to launch a further three funds – international equities, property, and income funds – which together will form Australia’s first Islamic superannuation option. The Crescent Australian Equity Fund (CAEF), with an initial $5.5 million in funds under management and advice, offers all Shariah compliant investment to all Australians and is aimed at investors who are seeking a socially responsible alternative option. Crescent Wealth estimates the Islamic funds to grow as much as $13 billion in funds under management by 2019 from a potential investable universe of as much as $8 billion today.

Source: Gulfbase.com

Kuwait Finance House (KFH) partners with Grosvenor to invest in US healthcare real estate

KFH has formed an investment partner-
ship with Grosvenor Investment Management US (GIM), to invest in up to $600 million of US healthcare-related real estate. This is KFH’s second investment partnership with GIM. GIM is the North American subsidiary of London-based Grosvenor Fund Management (GFM). The partnership will target the acquisition and development of private-pay senior living facilities and medical office buildings in the US. GIM will oversee all investment activities, including sourcing, underwriting, structuring, financing, closing, asset managing, and exiting the partnership’s investments, all of which will comply with Shariah.

*Source: Ameinfo.com*

**Cameroon Halal Microfinance replicates Farz methodology**

Islamic Saving & Credit Cooperative of Cameroon is the third Islamic microfinance organization to implement Farz methodology, following the NGO World Foundation and AAS Foundation Bahawal Nagar Pakistan. Farz Foundation is providing these organizations with technical assistance and Shariah-compliant poverty alleviation services. Islamic Saving & Credit Cooperative of Cameroon is committed to reach out to the poor of Cameroon through Islamic financial products developed by Farz Foundation.

*Source: Islamicfinance.de*

**UAE, Qatar and Saudi Arabia**

**First close for Etqaan Shariah fund**

Etqaan Shariah Capital Partners, a private equity joint venture between the National Investor (TNI), a leading Abu Dhabi based Investment Company, and KIPCO Asset Management Company K.S.C.(KAMCO) launched the Etqaan Shariah Fund in the month of October. The two companies are seeding the fund with $20 million, and will invest between $20 million and $40 million in six to eight portfolio companies in the MENA region, targeting companies with sound business fundamentals, facing short-term financial pressures. Investment strategies include primary and secondary buyouts, recapitalizations and other special situations. The Fund aims to provide a dividend yield of up to five per cent (5%) and targets a gross internal rate of return in excess of 30 per cent a year.

*Source: Ameinfo.com*

**Shuaa Capital and National Bonds ink strategic alliance**

Shuaa Capital and National Bonds sign a cooperation agreement for financial advisory and investment management services. SHUAA Capital, the leading financial services institution in the GCC, and National Bonds Corporation PJSC, the UAE’s leading Shariah-compliant savings scheme with over $ 1.36 billion (AED 5 billion) under management have signed a mem-
orandum of understanding to establish a strategic alliance. Under the terms of the agreement, SHUAA Capital and its associated companies will provide financial advisory, brokerage, and investment management services to National Bonds in the UAE and the broader MENA region to promote the culture of savings in the UAE and wider GCC.

Source: Khaleejtimes.com

Dubai Islamic Bank (DIB) launches Al-Islami Emerging Cappuccino Certificate

DIB has announced the launch of the Al-Islami Emerging Cappuccino Certificate, a four-year Islamic certificate backed by Shariah-compliant assets. The certificate is linked to indices in Brazil, China, Singapore and Taiwan – offering medium to long-term investors, an opportunity to profit from the future growth of these economies. The Al-Islami Emerging Cappuccino Certificate is issued by The Royal Bank of Scotland (RBS) and will be solely distributed by DIB in the UAE. The certificate offers annual profit distribution of up to 9 per cent, backed by 90 per cent capital protection at maturity. It is denominated in US dollars with a minimum investment of $25,000.

Source: Gulfbase.com

Strong demand for QInvest Shariah-compliant ‘Equity Protected Note’

QInvest, launched the ‘Qatar Equity Protected Note’ to replicate the movements of the most liquid Shariah-compliant equities on the Qatar Exchange with full capital protection after witnessing an overwhelming response from the market as investors look to maximise returns whilst maintaining capital protection. Nader Shenouda, Head of Placement & Wealth Management, said, “Clients’ positive reactions indicate that they were attracted by the risk return ratio the note offered. With interest rates at historical lows, the note is a much more rewarding alternative to cash deposits.”

Source: Qatar-tribune.com

Linklaters advised the underwriters on a landmark Islamic Project bond (Sukuk) for the Jubail refinery in Saudi Arabia

Jubail refinery’s landmark Islamic project represents the first ever Shariah-compliant greenfield project Sukuk, which is listed on the Saudi Stock Exchange (Tadawul). Linklaters has advised Deutsche Securities Saudi Arabia, Samba Capital & Investment Management Company and Saudi Fransi Capital as joint lead managers and joint bookrunners on the issuance of SAR 3.749 billion (approximately $1 billion) Sukuk certificates by Arabian Aramco Total Services Company (AATSC). The Sukuk transaction forms part of the wider multi-source financing for a 400,000 barrel per day refinery and petrochemical project at the Jubail Industrial City in Saudi Arabia, which has an estimated construction cost of over $14 billion.

Source: Ameinfo.com
Malaysia and Indonesia

Ohad Trust and Elaf Bank’s joint venture in Malaysia

The Labuan Financial Services Authorities (LFSA) has granted a “trust” license under the name Ohad Trust (Labuan) Bhd (Ohad Labuan) to allow the joint venture to work on trust, foundations, fund administration, registrar and custody assignments in Malaysia. Elaf Bank has been actively sourcing and developing business in the two strong and well regulated Islamic Finance hubs, Bahrain and Malaysia. The venture aims to become a leader in the administration and custody work of the increasingly important Labuan Islamic Investment Funds market.

Source: Ameinfo.com

Thomson Reuters and BPA Malaysia launch co-branded Sukuk and bond Indices

Thomson Reuters and Bond Pricing Agency (BPA Malaysia) launched a family suite of indices across a range of Islamic instruments. The new family of indices include 108 Malaysian Ringgit Sukuk and bond indices comprising 36 Thomson Reuters-BPAM Malaysian Sukuk Indices, 36 Thomson Reuters-BPAM Malaysian Bond Indices and 36 Thomson Reuters-BPAM All Bond and Sukuk Indices covering 778 issues. The Indices cover six bond classes, are archived back to 2007 and have total market capitalization of MYR 583.6 billion ($182 billion) and the infrastructure in place accesses all public information, conversation with traders, and news about a given Sukuk or bond issue to determine best available pricing.

Source: Reuters.com

Tax incentives for Sukuk in Malaysia

Malaysia’s 2012 budget is to offer incentives to boost Islamic finance, extending tax breaks on Sukuk issuance for a further three-year period. Prime Minister Datuk Seri Najib said a tax deduction on expenses incurred for Sukuk Wakala will be given for a three-year period from 2012 to encourage more Sukuk issuances. The Malaysian PM also revealed that I-VCAP, a subsidiary of Valuecap Sdn Bhd, will provide MYR 200 million ($63.4 million) as seed money for Shariah-compliant exchange traded funds (ETFs) which will see the fund provide a matching loan subject to a maximum of MYR 20 million ($6.34 million).

Source: Gulfbase.com

Indonesia to go ahead with issuance of Sovereign Sukuk

Indonesia, the country with the largest population of Muslims and hence the largest market for Islamic finance is planning the launch its proposed benchmark global Islamic trust certificates (sukuk) which will be issued by Perusahaan Penerbit SBSN Indonesia II (PPSI II), a special purpose vehicle (SPV) on behalf of the Ministry of Finance of Indonesia. The issuance, which has been assigned a “BB+” long-term foreign currency issue rating by Standard and Poor’s and a provisional rating of Ba1 by Moody’s Investors Service, was subject to the right market conditions, especially pricing.

Source: Arabnews.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.

**Professor David Peel**  
*General Director, GOLCER*  
d.peel@lancaster.ac.uk

**Dr Marwan Izzeldin**  
*Executive Director, GOLCER*  
m.izzeldin@lancaster.ac.uk

**Research Team**

**Mr Vasileios Pappas**  
*PhD Student (GOLCER)*  
v.pappas@lancaster.ac.uk

**Ms Momna Saeed**  
*PhD Student (GOLCER)*  
saeedm@exchange.lancs.ac.uk

**Ms Rhea George**  
*PhD Student (GOLCER)*  
r.george@lancaster.ac.uk

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