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.

Bahrain, UAE and Oman markets have declined by 9.8%, 6% and 3% with the continued state of political unrest in these countries and worsening concerns over Euro-crisis. On the other hand, Kuwait, Saudi Arabia and Qatar markets have moved up owing to gains in crude oil.

Bahrain remains the riskiest and the most volatile market with VaR at -3% and volatility at 1%. While, the least risky market amongst the GCC is Oman with VaR at -0.9% and volatility at 0.4%.
Far Eastern markets have dropped markedly. Philippines is the worst hit, falling by 12.6%, closely followed by Indonesia, Singapore and Malaysia, which fell by 9%, 7.6% and 6.2%. Taiwan and Thailand markets also dipped by 4.8% and 4% respectively. Falling global confidence has led to the overall slump in the Far Eastern markets. Indonesia, which was considered the investors' haven, has also tumbled along with other markets in the region.

Indonesia was the riskiest and the most volatile market with VaR at -7% and volatility at 3%. Malaysia was the least risky market with VaR at -2% and volatility at 1%.
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.

Egypt fell by 6%, closely followed by Morocco at 4%. Jordan, Tunisia and Lebanon also fell by 2.5%, 2.3% and 2.1% respectively. With an already uncertain political scenario in Egypt, protests against Israel led to still further complications.

On the risk side, Morocco was the most risky market with Jordan the least volatile.
There seems to be a worldwide: markets have tumbled in China, falling by 13.6%; and South Korea, Hong Kong and India by 9.2%, 9.1%, and 7.8% respectively. Japan and South Africa also fell significantly.

Decreased consumer demand led the decline in the Chinese and Hong Kong markets. The US income levels have touched a two year low. Rising interest rates and tight monetary policy led the decline in the Indian market.

China, India and South Korea are among the most risky markets and Japan remains the least risky. In terms of volatility, South Korea comes first.

*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 (AAO¬IFI) 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 130.915 plunging down by 0.09% in its performance as compared to the previous months’ close of 132.189.

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 together with GCC based companies.

The lack luster Sukuk market is attributable to the threat of another global recession that has fueled the steepest surge in the region’s credit risk. Investors are avoiding the region’s riskier assets after slowing global economic growth crimps oil demand.

Source: Djindex.com, Bloomberg, Zawya.com
Commodity prices across the globe have fallen with concerns over an economic slump and the consequential decrease in demand for energy, metals and soft commodities.

**Crude Oil**

With falling confidence among investors on the economies in North America and the Europe, crude oil prices have greatly decreased. WTI prices fell by 9.3%. Brent remained high in terms of risk: VaR at -3% and volatility of 2%. WTI was less risky with a VaR at -1% and volatility at 3%.

**Natural Gas**

Gas prices fell by around 4% as an after effect in lower oil prices and also due to restored production. Gas had a VaR at -1% and volatility at 1%.

**Gold**

Gold prices have fallen by some 10%. This derives from the rush in selling to meet margin calls by investor and hedgers.

The volatility and VaR for Gold prices were 2.3% and -1%. Gold volatility is considered a sign of uncertainty and pessimism among investors.
Copper

Copper prices have declined markedly by 24%. A prime input in industries and construction, Copper is regarded as an indicator of economic growth. Risk indicators for copper show a volatility of 2.8% and VaR of -2.5%.

Palm Oil

Palm oil dipped by 8%. There have been some negative effects from the soybean and corn market. Risk indicators were VaR at -3.5% and volatility at 1%.

Sugar

A 14% dip in sugar prices, may have been due to the speculation of a surplus in production in the Northern hemisphere. Risk indicators show a VaR at -4% and volatility at 2%.

Source: FT, Bloomberg, Newark Post

Figure 7: Price evolution of important commodities. March 2011 - September 2011. Source: Datastream
Volatility Forecasts of the Major Players

The plots represent 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.

Of the GCC markets, UAE is forecasted to be the riskiest market to invest in, while Oman and Saudi Arabia are the safest.

In Far Eastern Markets, Indonesia is expected to be much more volatile and risky than other markets in this region with a volatility forecast of about 13%.

Tunisia is predicted to be the riskiest and the most volatile in the next 30 days in the MENA region with a volatility forecast of about 17% and Jordan is on the lower end with a volatility forecast of about 6%.

Elsewhere in the world, China and South Korea tops the list with a volatility forecast of about 14%. Japan is considered the least volatile.
Recent Developments in the Islamic Finance Industry

Gatehouse raises UK real estate portfolio to £280 million ($438 million)

Gatehouse Bank, has completed the £30 million ($47 million) acquisition of a new build student accommodation property in Glasgow, Scotland. The purchase represents a net initial yield of 7.06 per cent and delivers a cash yield of 8.0 per cent per annum. This development follows the acquisition of earlier student accommodation properties in Loughborough, Liverpool and Oxford, bringing the total value of Gatehouse Bank’s real estate portfolio to £280 million.

An inherent supply and demand imbalance in Scotland has consistently delivered close to 100 per cent occupancy rates and, with student numbers forecast to grow at 10 times the rate of new completions, we can expect to see sustaining rental growth as well as increasing capital values in the sector.

Purpose-built student accommodation is a well-established as a real estate sector in the UK worth approximately £6.5 billion ($10.14 billion). It is one of few asset classes to experience rental growth.

Source: Gulfbase.com

International links to boost Turkey’s Islamic banks?

Standard & Poor’s Ratings Service (S&P) claims Turkey’s Islamic banks could continue recent strong growth if they can cultivate stronger ties with their international owners and create a sustainable brand image.

Turkey’s Islamic banking sector has grown strongly over the past five years, with total sector assets accounting for about five per cent of total system assets as of year-end 2010 compared with 2.8 per cent in 2005. Other developments in this sector over the past 18 months included; a law conferring tax neutrality on Sukuk products; a $100 million debut Sukuk by Kuveyt Türk (not rated); the launch of several Shari’ah-compliant funds; and the creation of a domestic index of Shari’ah-compliant banks and companies by the Istanbul Stock Exchange.

However, the sector remains small in a domestic context and, according to S&P believes, suffers a lack of public awareness of its products. At present, there are only four players in Turkey: Bank Asya (not rated by S&P although the bank is rated by Moody’s and Fitch); Albaraka Turk (BB/Negative/B), Türkiye Finans (not rated); and Kuveyt Türk—in descending order of asset size as of year-end 2010.

In S&P’s view, additional drawbacks in-
clude a scarcity of Shari’ah-compliant domestic investable asset classes, as well as no near-term likelihood of sovereign Sukuk issuance. Moreover there are few options for Islamic banks to access liquidity at the central bank. Specifically, there is no Shari’ah-compliant mechanism replicating the repurchase agreements routinely available to conventional banks, as is increasingly the case in some Gulf countries.

Source: Standard and Poor’s

First ever offshore Renminbi Sukuk planned

Malaysian state-owned investor Khazanah Nasional will become the first issuer of offshore Renminbi denominated Islamic bond. The government investment arm has mandated BOC International, CIMB Bank and RBS to lead the first-ever Islamic financing in Hong Kong’s ‘Dim Sum’ market, according to International Financing Review. The Sukuk issue is unlikely to be very large. Reports claim Khazanah Nasional will issue CNH 500 million ($77.5 million) with a five-year tenor. Three public-sector firms in Hong Kong, MTR, Hong Kong Airport Authority and Hong Kong Mortgage Corp-are also said to be considering Sukuk issuance.

Source: www.halaltamweel.com

Russia’s AK Bars Bank closes debut Murabaha financing

Russia’s Kazan-headquartered AK Bars Bank has successfully closed a one-year syndicated Murabaha financing totaling $60 million. The Murabaha facility is the first international facility compliant with Shari’ah requirements arranged for a Russian financial institution and is in line with the Islamic finance initiative announced by Tatarstan Republic earlier this year. Financing was arranged by Citibank together with the Islamic Corporation for the Development of the Private Sector (ICD), acting as exclusive joint coordinating mandated lead arrangers and book runners. Citibank International Plc acted as Investment Agent. The syndicated Islamic financing facility will be available for AK BARS’s Shari’ah-compliant financing activities in Tatarstan and other regions of Russian Federation. The transaction attracted substantial interest among investors in the Middle East and raised the awareness of the Islamic investment community to Russia and specifically Tatarstan. ICD and Citibank believe that this is an important and strategic deal that will help further develop Islamic financing in the Region.

Source: www.tradefinancemagazine.com
Amana Takaful (Maldives) Rp 16 m IPO in the Maldives

Amana Takaful (Maldives) PLC has opened a Maldivian Rupiyaa 16 million (US$ 1.04 million) Initial Public Offer (IPO) in the Maldives, personifying cross border synergies in both capital market development and financial services. The IPO which started on September 20th will close on October 19. The share issue will be for 800,000 ordinary shares at Rupiyaa 16 (US$ 1.04) each.

This is the first instance of a Sri Lankan corporate launch of an overseas share issue. Amana Takaful (Maldives) PLC is a subsidiary of Amana Global Ltd. which, in turn, is a wholly owned subsidiary of Amana Takaful PLC which is listed on the Colombo Stock Exchange.

Source: http://aibim.com

Albaraka Türk secures $350 million dual currency syndicated Murabaha

ABC Islamic Bank, Emirates NBD, Noor Islamic Bank and Standard Chartered Bank (together the initial Mandated Lead Arrangers and Book runners) have announced the successful closure and signing of a $350 million equivalent dual-currency syndicated Murabaha financing facility for Albaraka Türk Katilim Bankası. Launched at $150 million, the facility was oversubscribed to close at $350 million with participation from 25 banks from across the globe. It is the largest Islamic structured Murabaha syndicated financing ever raised by any Turkish financial institution to date. The floating rate dual currency facility carries a profit rate of 150 basis points per year over the relevant benchmark. Proceeds from the facility will be used by Albaraka Türk to expand its financing activities in Turkey.

Source: Gulfbase.com

GCC

UAE

Emirates NBD Asset Management and Man Group, in Shariah fund tie-up

Emirates NBD’s asset management arm and Man Group have announced a tie-up which will see the hedge fund firm manage one of the lender’s Shariah-compliant funds.

Man Investments will take over the management of the Emirates Islamic Alternative Strategies Fund, with the assets allocated to the Man GLG Multi-Strategy Fund, as Emirates NBD Asset Management looks to grow the product. The Emirates Islamic Alternative Strategies Fund is currently worth $20 million (Dh73.44 million). Under the new agreement, Emirates Islamic Alternative Strategies Fund will track the performance of Man’s GLG Multi-Strategy Fund.

The fund will seek annual returns of be-
tween 3 per cent and 5 per cent over the London interbank offered rate (Libor). The Man GLG Multi-Strategy Fund Index has grown at a compound annual rate of 4.75 per cent since 2002 as against a 2.37 per cent growth of the HFRX Global Hedge Fund Index, according to a statement from Emirates NBD Asset Management.

Source: Reuters and Gulf News

**ADIB Diversified Basket Note offers 100 per cent capital protection**

New 100 per cent capital protected ADIB Diversified Basket Note offers a potential to profit from price gains in eight commodities. The Note offers an investment plan of three years in the equally weighted commodities of gold, oil, lead, nickel, aluminum, cotton, corn and sugar. The Shari’ah-compliant Murabaha based note allows investors to lower their portfolio risk through diversifying into commodities and profit from their expected strength. Subscription on a first come first served basis was open between 10th of September 2011 to 13th of October 2011, with a minimum subscription amount of US$30,000. Investors’ capital is fully protected in case of negative performance of the commodities. The investment is non-transferable but liquidity is available after an initial one year period.


**The National Bank of Abu Dhabi (NBAD) launches 100% Capital-protected Commodity Basket Investment product**

The NBAD 100% Capital protected 5-in-1 Commodity basket investment offers investors a unique opportunity to capture upside in the highly exciting commodity markets without exposing themselves to downside risk if held to maturity. The new product, developed by NBAD’s Asset Management Group (AMG), matures in three years and offers investors returns linked to the price of five commodities: Oil, Gold, Copper, Corn, and Sugar. The investors’ capital is guaranteed by NBAD against any losses from falls in the value of the commodity basket. This product enables investors to diversify their investments into commodities without physical delivery. At a time when investors are cautious about equity markets and real estate, the launch of a capital-protected commodity basket investment meets a vital and critical need in the market as investors’ appetites for commodities has increased steadily.

«We believe that investors should be given the opportunity to invest in commodities as part of a diversified portfolio. We have listened to our clients’ needs and are now offering a product that not only protects capital but also allows upside participation, all wrapped in a simple
mechanism that avoids the need for complex physical commodity delivery and storage costs,» said Mark Watts, the Head of Fixed Income and responsible for structured products at NBAD’s Asset Management Group.

Source: www.meed.com

Bahrain

Kuwait Finance House in Bahrain (KFH-Bahrain) leads efforts to merge three Islamic banks to establish $400 million entity

KFH-Bahrain revealed that it leads efforts to arrange the merging of three Bahraini Islamic banks, which will produce the biggest Islamic bank in Bahrain and one of the biggest in the region; thus serving as a platform for further merger operations in Bahraini and other markets in the area.

KFH-Bahrain’s CEO and Managing Director Abdul Hakim Al-Khayyat explained that this operation will result in a banking entity with capital of $400 million and assets that reach $500 million. He added that it is difficult to set an exact time frame for the merging operation, but said that it will probably take 6-9 months, in light of the enthusiasm of all concerned parties. He explained that KFH-Bahrain role is to serves as a coordinator and consultant for the operation.

Source: http://www.mubasher.info

Saudi Aramco launches inaugural Sukuk

The public offering of Sukuk certificates was made by Arabian Aramco Total Services Company (AATSC), a company especially established for the purpose of issuing the Sukuk on behalf of SATORP. The total offering size will be determined at a later stage by SATORP. Deutsche Securities Saudi Arabia, Samba Capital & Investment Management Company and Saudi Fransi Capital are acting as Joint Lead Managers and Joint Book runners. The proceeds of the issue of the Sukuk will be used to provide finance for, and procure the construction and delivery of, two petrochemical tank firms as part of the development of the SATORP refinery project, a project sponsored by Saudi Aramco and Total to build a 400,000 bpd refining and petrochemical complex, to be located in the Jubail Industrial City on the east coast of the Kingdom. The Sukuk is the first Shari’ah compliant project Sukuk instrument in the Kingdom of Saudi Arabia. The offering, sale and delivery of the Sukuk is limited solely to Saudi nationals and other legitimate persons with a permanent establishment in the Kingdom holding a current commercial registration number issued by the Ministry of Commerce and Industry. The Sukuk will be a Floating Rate Sukuk and will have a tenor of approximately 14 years. Investors will receive an expected return of 6 month SAIBOR plus a margin per annum to
be distributed semi-annually.

*Source: gulfbase.com*

**Malaysia**

**Sasana Kijang, Bank Negara Malaysia’s new knowledge centre inaugurated in Malaysia**

The Sasana Kijang centre was opened by the Malaysian prime minister last month. Sasana Kijang is also home to the Islamic Financial Services Board (IFSB). The SEACEN Centre, a regional learning and research Centre for Central Banks in Asia is also located in Sasana Kijang. The SEACEN Centre represents Malaysia’s commitment to training in areas including central banking, banking supervision, Islamic finance, executive learning as well as research and development.

Designed to be a nexus for thought, leadership and collaboration in central banking, Sasana Kijang hosts a learning centre with state-of-the-art training facilities for assisting structured programmes and high level seminars for local and foreign participants. It provides opportunities for the exchange of views and experience towards promoting capacity building in central banking to be better positioned in meeting future challenges.

*Source: www.cpifinancial.net*

**Malaysian groups form joint Insurance-Takaful Council**

Persatuan Insurans Am Malaysia (PIAM), the Life Insurance Association of Malaysia (LIAM) and Malaysian Takaful Association (MTA) issued a statement saying the Joint-Insurance Takaful Council (JTIC) would improve self-regulation, harmonization. The three Malaysian insurance associations said the JTIC would foster a higher level of self-regulation of the domestic industry, claiming that of the JTIC will pave the way for a unified approach in ensuring consistency in rules, regulations and guidelines across the three sectors and assist in dispute resolution. The PIAM, LIAM and MTA will each be represented by three nominees on the JTIC.

*Source: www.cpifinancial.net*
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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