From the Editor

In terms of market perspectives, February was essentially a quiet month. Investors were prepared to pursue equities on the basis of momentum, backed by continuing liquidity injections from the US Federal Reserve, even though subject now to a tapering process.

Meanwhile, fundamental trends in the world economy were not so strong as to remove nervousness, and bonds were lifted both by the absence of inflationary impetus and some degree of risk aversion, particularly as the Ukraine crisis developed through March.

Much sideways movement was therefore witnessed, while emerging markets regained some composure from the capital flight previously seen, and commodities presented a mixed bag of trends.

Gold’s unexpected revival continued, while oil prices showed softness, unconvinced by international economic recovery. Copper in particular exhibited grave doubts about the health of rebound, particularly as regards China and its reverberating impact across the globe.

Egypt’s markets were noticeably buoyed by the relative political stability established, albeit masking considerable tensions still within the country.

This month’s edition otherwise focuses on the current condition of the Islamic finance sector, with both an account of the proceedings at the annual Global Forum led by COMSATS in Lahore, and a summary of the latest annual review by the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank, based in Jeddah, Saudi Arabia. In combination, these items should offer a rounded flavour of the industry and its medium-term outlook.

In addition, we present another ‘report card’ in our series of features on Islamic finance in key countries and regions around the world. Much in the news these days, Turkey is the subject this time, another significant source of the growth and potential of the sector.

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Annual Review: Islamic finance has made significant strides in its market growth with official encouragement, but there remains a host of measures that might still be taken to develop its capabilities and promote customer awareness. The Islamic Development Bank’s IRTI division provides a comprehensive insight into the current state of play in the industry at global level, and recommendations for its future development and reach.

Global Forum: The second GFIF event in the now annual series of conferences, held by COMSATS in Lahore, Pakistan in coordination with Lancaster University, featured a range of speakers and delegates from different sides of the Islamic finance sector, enabling a continuing, productive dialogue between researchers in the field and industry practitioners. Discussion highlighted matters of collaboration, competition and institutional support for the sector.

Turkey: Perceptions of this regional power and crossing point between East and West have been dominated recently by political and economic turbulence, and the geopolitical concerns of the Middle East. Yet underlying those headlines is another story of the country’s financial evolution, including a significant niche for Islamic finance as part of the hopes for Istanbul especially to further enhance its reputation as a commercial hub.
Dubai planning first Shariah-compliant eximbank

Dubai is mulling the creation of an export and import bank based on Islamic finance principles. The bank would assist businesses in the UAE to grow their trade flows by providing risk mitigation, financing and market access. According to Dubai’s Department of Economic Development (DED), Noor Investment Group is conducting a feasibility study for the project. The proposed bank would focus on enhancing Dubai’s international trade in the run-up to Expo 2020. It would also help in bolstering the emirate’s flourishing global non-oil trade which showed a jump of Dh94 billion in 2013.

Source: Khaleej Times, March 20th

GOLCER finds that this initiative, if completed, would add substantially to the future growth of the Islamic finance industry. It would be the first entity of its kind in the world to be Shariah-compliant. It would also engage directly with international bodies, helping to promote UAE trade as well as enhance co-operation with local authorities and regulators.

Malaysia plans ethical sukuk guidelines

Malaysia’s Securities Commission is planning to introduce guidelines for the issuance of “socially responsible” sukuk. The initiative was announced by the country’s prime minister, without elaboration on how ‘SRI’ sukuk would work. In 2013 Malaysia accounted for 58.8% of global sukuk outstanding and 69% of issuance. It also became the first country in the region to develop a sukuk issue designed to comply with the global (Basel III) capital adequacy standards for banks.

Source: Reuters, March 12th

GOLCER interprets Malaysia’s attempts as locating the country a step further from the existing standards, developing formal guidelines to cover an additional dimension currently missing from conventional bonds, namely social responsibility. To date, global sukuk standards introduced by regulators and scholars have focused on ensuring that the structures of the sukuk have assets backing them applying Islamic principles. To create guidelines similar to traditional SRI concepts is very challenging, as it is not clear how novice investors would evaluate the risk profile of such issuances.

Advisory body scrutinises sukuk plan in Luxembourg

Luxembourg recently planned an Islamic bond, attempting to securitise assets to back the transaction. It was scrutinised by the Council of State, which advises the national legislature. The Council still has doubts about the economic rationale for issuing sukuk, as well as tax treatment. The bill proposed would allow the securitisation of three properties, to support a sukuk issue worth 200 million euros ($275 million). During 2010 Luxembourg tax authorities clarified the tax treatment of Islamic finance transactions, expected to ensure that the tax treatment of sukuk is similar to that of conventional bonds.

Source: Reuters, March 13th

GOLCER finds that Luxembourg is following the line of the UK in its ambitions to lead the way as a Western country issuing sovereign sukuk. No doubt both countries’ initiatives will boost their Islamic finance credentials, liable to attract more investments from oil-rich Gulf countries in particular.
Hong Kong to support sukuk issuance

Hong Kong lawmakers are currently advancing a bill to allow the AAA-rated government to raise around US$500m through sukuk issuance, which would boost the special administrative region’s city district as a financial centre between mainland China and Islamic investors. The proposed issuance is larger than debut sovereign issues planned by other countries such as Luxembourg and Britain. The proceeds are to be placed with the territory’s Exchange Fund to be managed by the Hong Kong Monetary Authority.

Source: Reuters, March 20th

GOLCER perceives this issuance as an advisable step, given the increased competition among centres of Islamic finance in South-east Asia and the Middle East. This initiative also reflects an obvious interest by one of the world’s important trading countries. Substantial challenges still await the industry in Hong Kong, though, given the limited size of the Islamic finance industry in the country so far, which might be expected to impede the sector’s rate of development.

Qatar’s Islamic banks’ growth in retreat

The asset growth rates of Islamic banks in Qatar has shown a sharp fall, steeper than among conventional peers, even after the central bank in 2011 announced that conventional banks would no longer be allowed to run Islamic windows. Islamic banking assets in the country grew 20.9% in 2012, from 35.1% in 2011. Conventional lenders have experienced not dissimilar trend, posting growth in assets of 17.9% in 2012, from 23.4% in 2011.

Source: ArabianBusiness.com, March 20th

GOLCER suggests that the effect of a regulatory ban on Islamic windows seems to be fading in Qatar, while it seems that the banking industry generally has been impacted by the government’s decision. The country’s fully-fledged Islamic banks have failed to meet expectations of attracting enough funds as compared to the precedent of conventional banks’ windows.

Russian Islamic finance on its way

The Russian government is currently studying opportunities to trade in Islamic banking. Several Russian banks have made attempts to complete certain Islamic finance deals, sometimes quite successfully. For example, Ak Bars Bank succeeded in commodity Murabaha deals twice, in 2011 and now in 2014, while interest-free debit cards have been issued by AFbank in Bashkortostan. The absence of an existing regulatory framework for Islamic banks in the country has prompted regulators instead to find other legal forms to deal with the sector. In 2010 a working group for Shariah-compliant instruments was established. However, Islamic finance companies are still created in the form of a trustee partnership or other formats as exist in the Civil Code of Russia.

Source Khaleej Times, March 20th

GOLCER deduces that it is necessary for Russia to initiate the legislating of a proper framework to govern Islamic finance companies. This should not occur in isolation, but as a regulatory process in harmony with the policies of the government. To date the Bahrain-based Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has had some role in promoting Islamic finance development in Russia, and Islamic finance standards are now translated officially into the Russian language.

IDB sukuk listing in Dubai

In February the Islamic Development Bank (IDB) announced its listing of a $1bn sukuk on Nasdaq
Dubai. IDB has recently been working on expanding its capital-raising programme to fund activities across the Islamic world. Listing in Dubai seeks to provide additional financial resources to support the institution’s expansion plans, while promoting further the establishment of a flourishing Islamic finance platform within the UAE.

Source Khaleej Times, February 27th

GOLCER finds this to be an eminent initiative by a large institutional body to support the emergence of the putative global capital of the Islamic economy. The UAE’s Shariah financing projects announced earlier this year, alongside world-class regulatory provision and an open market, seem to provide both the IDB and investors with an ideal environment for listing. Notably, the UAE is one of the main founders of the IDB, accounting for 1.36bn Islamic Dinars (special units of account) of the IDB’s capital.

Launch of Islamic banking in Kenya

This month Kenya has announced the launch of an Islamic banking venture, under the brand name of Saadiq. The provider, Standard Chartered Bank, thereby enters its first African market with its Islamic banking offering. The Islamic banking industry is beginning to expand rapidly in Kenya, counting for 2% of the total banking business in the country.

Source: ArabianBusiness.com, March 19th

GOLCER sees this as a clear example of the interest of African countries in Islamic finance, and of those looking to bring such services to new and vibrant markets. Kenya’s foray into the sector represents a high-growth opportunity for Islamic banking products and their originators.

Oman bank reviewing Islamic finance

In Oman Islamic finance is relatively late in accessing additional sources of funds from the money market that are Shariah-compliant. This is the case despite the central bank having introduced a sovereign sukuk. The central bank has also granted Islamic banks a one-year relaxation of the limits on the amount of their foreign assets. The main objective is to give more time for Islamic financial instruments to be developed domestically. In addition to Oman’s two fully-fledged Islamic institutions, Bank Nizwa and Al Izz Islamic Bank, several conventional banks have launched Shariah-compliant products through Islamic windows.

Source: Reuters, March 12th
Islamic Finance’s outlook in 2014
by Hylmur Izhar and Yahya A. Rehman

The world financial markets continue to examine relentlessly the fundamental pillars of global and domestic banks in the wake of the perpetually changing international economic and political environment.

Islamic financial institutions (IFIs), on the contrary, are demonstrating resilience. The test, however, will be the way in which the Islamic finance (IF) industry prepares itself for the opportunities and challenges thrown up by such rapid change.

The industry witnessed its assets rising for the seventh consecutive year since it began collecting data in 2006, to $1.3 trillion in 2013, 8.7% year-on-year, and a compound 16% annually. The latest total breaks down by category as follows: $985bn for commercial banking, $251bn for sukuk (bonds), $44bn for Islamic funds and $26bn for takaful (insurance). In addition, an estimated $628m of Islamic microfinance assets is also a growing segment, although only representing about 0.8% of the estimated global total.

The eastward shift in the world’s economic ‘centre of gravity’ has accelerated, and the Group of 20 now includes three IDB and OIC member countries (Indonesia, Turkey and Saudi Arabia). That shift creates numerous opportunities for the IF industry, including (a) managing the savings and wealth being created, (b) supporting ongoing economic growth by providing financing, and (c) exercising increased influence in global forums and decision-making bodies.

Recurrent financial crises have prompted a re-questioning of the conventional financial system, and created an unprecedented opportunity for the IF industry to contribute to a global dialogue – in which some observers say it has not yet played an active enough role – as a robust and resilient financial system which would, hopefully, generate a developmental impact on society.

Current standing

After more than four decades since its inception, the IF industry consists of four main sectors, namely Islamic banking, Islamic capital markets, takaful and retakaful, and non-bank financial institutions (such as investment banks, asset management companies, securities firms, leasing companies, etc.) and microfinance institutions.

Collectively, they are currently characterized by the following factors --

a) Considerably higher cost of transactions

Some would say that this happens due to the economics of scale that the industry has not yet attained. Others might contend it is because of lack of legal and regulatory harmonization which have contributed to an uneven playing field. A solid solution is required, particularly in the area of home financing, which is ubiquitous in many Muslim countries and also for the Muslim communities living in non-Muslim countries.

b) Limited options of risk management instruments, mitigation techniques and
quantitative measurement models

Despite the prominent initiatives by the Islamic Financial Services Board (IFSB) in issuing guidelines relating to risk management, stress testing and a capital adequacy standard, more detailed technical guidance is required.

The limited liquidity instruments for Islamic capital markets is another challenge. In response, recently International Islamic Liquidity Management (IILM) has successfully launched ‘Golden Triangle Sukuk’ featuring a connection between financial stability, economic development, and debt management.

c) Restricted legal and regulatory framework

A daunting task for the IF industry stakeholders is not only to establish regulatory harmonization between different jurisdictions, but also to conform with the standards and guidance set out by international standard-setting bodies such as BCBS, IOSCO and IFRS. ‘One size fits all’ is surely not viable, as different countries have different institutional and regulatory frameworks.

d) Lack of Islamic monetary policies

At the macro level, the availability of Islamic monetary instruments is indispensable; also for the purpose of liquidity management. While some countries have initiated the creation of such instruments (Indonesia, Malaysia), more efforts need to be undertaken to also allow inter-jurisdictional transactions and liquidity management.

e) Financial inclusion gap

Two distinct features which characterize the concept of financial inclusion from an Islamic perspective are: i) the notion of risk-sharing, and ii) the redistribution of wealth. The strong demand for Islamic microfinance services in OIC countries is not yet met by supply. A study by Mohieldin et al. (2010) shows that although OIC countries have more microfinance deposits and accounts per thousand adults as compared to non-OIC countries, the values of MFI deposits and loans as percentages of GDP are still much lower. There is a gap also in terms of the lack of relevant regulation in OIC countries.

f) Lack of human capital enhancement

The continuing growth and intensified competition among market players in the IF industry has posed quantitative and qualitative human resource problems. More and better-qualified personnel are needed, requiring policies and initiatives such as recommendation no.5 of the “10-Year Framework and Strategies for Islamic Financial Services Industry Development” (see box), calling for specialized, competent and high-calibre human capital.

g) Perceptions about Islamic finance

Many still think that Islamic finance is basically an industry designed by and offered solely to Muslims. Although it appears to be partially the case, nonetheless the key spirit of Islamic finance is more profound, with the example that prohibition of interest (riba) is shared with Judaism, Christianity, Buddhism, Hinduism, and many other faiths and philosophies.

Future trends

Islamic Finance seems to have become mainstream, and is here to stay and grow. Renewed interest is being witnessed from the West, as can be seen from the recent announcement by the UK of a sovereign sukuk. Multiple cities, in the Gulf and Asia, seek to position themselves as global hubs of the industry.

In the case of Dubai, the declared intention to shift from mere banking and finance to the broader Islamic or Halal Economy is interesting. It has not only expanded the size of opportunity manifold, but also proposes to create a link between IF and the real
economy, including sectors as diverse as hospitality, media, clothing, food and lifestyle.

Meanwhile, the most encouraging signs of the sector’s proliferation are coming from Turkey, Africa, and Central Asia, where emerging and transition economies are embracing IF as a means of raising capital for infrastructure projects and for mainstream retail banking, finance and insurance.

A trend that can be expected to endure in the short to medium term is the variation of performance across sectors. Banking and sukuk will continue to dominate the industry in terms of size. Islamic funds and takaful, on the other hand, while growing steadily, remaining modest in terms of the overall share, though becoming more pronounced as these sectors become more prominent.

Another very positive development is the reorientation towards social objectives and financial inclusion. This is driven by both ‘push’ and ‘pull’ factors.

On one side, a need is being felt to respond to the criticism that IF has failed to deliver on its promises on fairness and equity and inclusion. On the other, in the wake of the Arab Spring and global recession innovation may be redirected towards services and products that create more economic opportunities, jobs and financial inclusion for those who hitherto have been on the sidelines of the IF revolution.

Islamic microfinance, crowd-funding, SME finance, etc. are the buzzwords at Islamic conferences and symposia. Competitions, grants and awards are being established to incentivize the brightest minds to take up the challenge. This trend bodes well for the realignment of Islamic finance with the Maqasid Al Shari’ah, a critical link that many deem was broken as IF emulated a permissible version of conventional finance with little attention to the broader purpose and objectives of an Islamic economy.

With the above trends poised to continue, two associated factors will be critical. First, product innovation, which now needs to go beyond tweaking and juxtaposing of existing contracts to look at newer and more imaginative ways of delivering what is being demanded by the market. Second, harmonization of Shari’ah, legal and regulatory rules will become even more critical, so that cross-border transaction costs are low and the industry is able to be efficient and competitive. Governments and regulators need to think less in terms of competition and more on the lines of collaboration and cooperation.

The areas which necessitate particular consideration in the years to come are as follows:

a) Promoting equity-based finance and strengthening the linkage between real and financial sector

IF so far has constrained itself mostly to debt-like instruments derived mainly from trade-based contracts such as Murabaha, Ijarah, Iistisna and Salam. With the maturity of the market, institutions and players, the need now is to embrace the true spirit of sharing risk and rewards and move to more equity-based finance.

b) Enhancing financial inclusion

Innovative, diversified microfinance products need to be created and enhanced to allow the underprivileged in society to benefit, and enable equitable distribution. It also makes a lot of sense to couple those with the development of the takaful and microtakaful sectors as part of the cushion component of the IF industry.

c) Promoting the revitalization of Zakat and Awqaf

In recent times Zakat and Awqaf have been seen as institutions that have outlived their utility and failed to deliver to their beneficiaries. Visionary policies
and solid initiatives need to be set out to foster a stronger collaboration among countries and international strategic stakeholders to promote an institutionalization of these redistributive instruments.

d) Harmonizing legal, regulatory framework & monetary policies

At the macro and governmental level, there is now more than ever the need to create an enabling environment to support the growth of IF. Government measures are important to make the playing field level and conducive in terms of fiscal and monetary policies, tax rules, and supervision and reporting -- infrastructures that will pave the way for the possibility of cross-border transactions and liquidity management.

e) Conducting a periodic assessment of IF industry and its impact on society

As a fast-growing industry, the question for IF arises of its interconnection and interdependence between sectors within the industry, and its impact on society at large. Different jurisdictions might develop at different rates, and the various sectors grow at different speeds. Through comprehensive and methodical assessments, the right set of policies and initiatives may be formulated to further drive the transformation of the industry.

f) Rebranding Islamic finance

The fundamental essence of Islam is the fact that it transcends time, place and people -- in its true form a financial ideology grounded in the principles of justice, fairness, compassion, honesty, equity, sharing and inclusion. The need therefore is to highlight not the exclusivity of Islamic finance but the universality of its appeal as an ethical and socially-responsible system.

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important centres of growth as the global economy has stumbled. Political developments in recent years have also made several member countries more open to Islamic financial services. Technological innovations such as branchless financial services are now available, and can allow the industry to broaden its future reach.

(iii) The development of the industry has varied by sector, while estimates of its total asset size and growth rate vary significantly (either near or well above USD 1 trillion). As a key example, Islamic microfinance has transitioned from a concept with isolated case studies to a fledgling sector across multiple markets. Moreover, although the market values of certain Shariah-compliant instruments have shown mixed performance due to overall capital market challenges, and Shariah-related challenges remain, the breadth and sophistication of such instruments has improved.

The 13 Framework Recommendations proposed in the Ten-Year Framework and Strategies Report remain pertinent, though now grouped under three themes: (a) Enablement -- fostering conditions for the industry to thrive; (b) Performance -- enhancing the effectiveness of institutions active in the industry; and (c) Reach -- expanding the set of potential beneficiaries of the industry.

Progress made on the original Recommendations has been mixed. For instance, many countries have adopted international standards specific to Islamic financial services; however, many have not yet fully done so. At this mid-term juncture, most Recommendations require greater focus from member countries in order to reach the aspirations envisioned. Metrics for tracking progress were generally not originally articulated, but are crucial for assessing progress. Consequently, the MTR proposes a set of Key Performance Indicators (KPIs), for which member countries are urged to set national targets. A stronger implementation plan has also been proposed.

Even so, member countries are a diverse group of nations, spanning a range of regions, cultures and stages of economic development. They adopt a range of Islamic law, common law, and civil law jurisdictions. The report’s sponsors and the Review Committee appreciate that expectations must vary from country to country.

While diversity is appreciated, however, a key underlying theme is that a supportive public policy stance is essential for enabling the industry to reach its full potential. The report does urge that well-considered strategies be formed, so that the Islamic financial services that offer benefits to the people and economies of member countries may best be utilised.
The Global Forum on Islamic Finance (GFIF) 2014, organized by COMSATS Institute of Information Technology in partnership with Lancaster University, and held in Lahore, Pakistan earlier this month, brought together an extensive range of representatives and their variety of experience and presented topics.

The second in an annual series, this event benefited not only from the breadth of the offering but also from the exchange of ideas from different segments of the sector, namely researchers, regulators, and those engaged in the business of Islamic finance itself.

All such opportunities for concerted discussion, viewing the subject through the distinct prisms of observation of international delegates, surely has to be welcomed, since these diverse sources of knowledge and opinion presumably need to interact to overcome the restraints that still impede the sector’s advancement in global markets.

Collaboration indeed was a keyword to be digested by the gathering, inevitably considering the sheer scale of the possibilities among a range of audiences and customers, and the necessity of interconnectedness of the industry on a cross-border basis.

Anyone attending with only limited awareness of the subject would have had their understanding considerably enhanced by the occasion, given the plethora of insights offered by those taking part on behalf of academia, practising institutions and advisory bodies.

Yet, it was clear that some core issues continue to exercise the minds of participants searching for ways to spread recognition of the sector, its founding precepts, and its obvious scope to offer a worthy and viable alternative to traditional banking, whose reputation has suffered by way of operational and ethical drawbacks since the global financial crisis.

As to the growth of the industry in Pakistan itself, regular readers would have been updated on that story by last month’s edition of the bulletin, featuring a country review.

With the world’s second largest Muslim population, Pakistan has emerged since the turn of the century as one of the foremost nations looking to embrace the tenets of Shariah-compliant banking and finance. Potentially, that could be instrumental in not only establishing and growing the sector domestically but enabling greater participation within the community that may come together to give it the critical mass for success internationally as well.

Having previously made only modest ground in developing Islamic finance in the 1990s, Pakistan’s efforts in this field have recently been redoubled, with steps taken in tandem by both government and the central bank.

A cornerstone of the official outlook is to help deliver the industry’s potential for supporting the unbanked, poorer groups in society, and SMEs. Microfinance has become an increasingly established theme in this respect.

Turning to the global picture, some panellists spoke of the need to clarify confusions that may still prevail as to how the Islamic economy should operate and promote its appeal. Several gave their learned and sincere testimonies on the need for Islamic finance to
push itself forward to gain due notice. Others sought to emphasize the merits of risk-sharing by contrast with the excesses that have been exposed in conventional banking.

Indeed, while some of the ideas were conceptual, it was a basic concern of the assembly to identify the strategic steps the industry has to take to gain a stronger foothold on the world stage.

That brought the idea of marketing to the fore, probably a twofold project, insofar as Islamic bankers will look to capture the attention of potential customers in the market, while the responsible authorities provide the enabling infrastructural environment. It was suggested that governments would surely have to lead the way in this endeavour, and, in doing so, would best serve the aspirations of Islamic finance by leaving national pride to one side.

Trust and confidence are critical characteristics to maintain, it was stressed, and will boost differentiation. Equally, while greed has to be avoided, profitability is integral to the sustainability of the industry. While one speaker alluded to the requirement of co-operation and generosity on the one hand, as principles to adhere to, another suggested that, for the sake of customer-centric service, competition is fine, but must be complemented by qualities of transparency and fairness.

On regulation, relatedly, the argument was put during discussion that Islamic finance needs to function on a level playing-field with conventional finance, and potential users of its products be educated as to the availability of choice.

Indeed, with globalized trade and standards a given aspect to absorb, that call was not only repeated at this particular event, but has been heard recurrently at successive conferences around the world.

From the podium it was made clear that some outstanding matters remain. There is a need, for example, for stronger research capacity, to overcome lingering scepticism about the sector. The availability and comparability of relevant data also need more work. And, as ever, the academic fraternity has to take the opportunity to engage with the commercial scene.

Overall, GFIF pointed to the learning of lessons and knowledge to be gained, but most importantly gave the chance for all present to do precisely those things.
News headlines on Turkey these days tend to be focused on political tensions, as the premiership comes under pressure from allegations of corruption, robustly denied. A struggle over the country’s direction and leadership has arisen since street demonstrations last year, and the economy has encountered much turbulence, reflected in a significantly weakened currency.

With a predominantly secular administrative identity for most of the past century, but an overwhelmingly Muslim population and a faith-based element to the ruling party of the past decade or so, certain conflicts of expectation and policy may have been inevitable, unfortunately compromising the fortunes of one of the largest and most promising of emerging markets.

So much so, of course, that Turkey’s mixed identity, and location at the boundary of East and West, has been at the same time problematic but enticing for the European Union, which has held out the possibility of membership for quite some time, subject to institutional reforms that continue to present a considerable challenge.

At the same time, Turkey’s strategic relevance and capacity to play an important role in the geopolitical whirlpool of the Middle East has also been prominently on display, not least recently in connection with the conflict in Syria. Like Egypt, the country’s profile and size bears markedly on the regional imagination and tussles for power.

Against this feverish and complicated background, the development of an Islamic finance sector is a topic tucked away from the limelight, with a dimension that is related to local sensitivities, but with a rate of progress and a positioning in terms of priorities that is necessarily subject to the other stresses preoccupying government.

That said, an extensive study recently by Thomson Reuters saw Turkey as “one of the fastest-growing markets for Islamic banking outside of the GCC region.”

Although the banking sector is competitive and traditionally dominated by conventional banks, both official and popular attitudes toward Islamic finance have changed favourably. The sector has further benefited from a growing search for alternatives in response to the global economic crisis, as elsewhere. The increasingly notable economic ties with the Middle East have provided further stimulus, especially as many Gulf investors favour the Sharia-compliant asset class, while Turkey’s need for inward investment amid rapid population growth is undoubted.

Turkey’s Islamic banks are known locally as participation banks, owing to historic, cultural issues in the republic. Yet the surrounding concern as to the religious aspect has declined in recent years, helped by growth of the sector in Western economies.

For some years Turkish regulators were cautious about allowing new entrants into the banking industry, since over-expansion during the 1980s and 1990s was followed by a banking crisis and the closure of thirty institutions. Participation banking, however, has been perceived as having emerged stronger than traditional players from periods of financial volatility.

The current government’s intention is to turn its cosmopolitan metropolis Istanbul into a leading financial centre, and includes an Islamic niche. The industry nationally is being reshaped as banks extend their product range and new competitors prepare to enter
the market, according to Thomson Reuters. Its collective assets have grown sixfold in the past ten years, with a branch network that has tripled in that time.

In its latest world Islamic banking competitiveness report, Ernst & Young estimated that Turkey will have 11 million households with an income of $30,000 or more by 2030 (the same as Canada today). That represents a tremendous catchment to be tapped, besides the determination of the state to advance the process of financial inclusion among the poorer elements of society. The consultancy foresaw the Islamic sector growing, in terms of assets, from $39bn in 2012 to $121bn by 2018, at a CAGR of 21%, driven mainly by the retail and SME portions.

Although Islamic banks have been present in Turkey since the 1980s, their activities were limited until they were incorporated into the country’s banking law in 2005. Since then, while inflation and other crisis have hampered a settled environment, the participation sector, hitherto comprising four banks (whose business has clearly outpaced that of their conventional counterparts for a number of years) has grown to represent over some 6% of banking assets today.

With a strategic roadmap that has regard for its own budgetary needs as well as planned investment projects, the present government has set a target for that ratio of 15% by 2023, and intends to support that objective through regulation as well as encouraging rural residents to open accounts with Islamic lenders. In terms of driving demand, advisors point to the need for customer awareness programmes to take care of the sizable gap that is said to exist among the broader populace.

Sukuk issuance in Turkey was pioneered in 2010 with a successful $100m 3-year offering by Kuveyt Türk. The bank returned to the market the following year with a $350m 5-year sukuk, with a tighter yield than those of bonds of the leading Turkish conventional banks. The two issues are listed on the London Stock Exchange.

In September 2012 the Turkish Treasury initiated sovereign sukuk issuance with a landmark US$1.5bn offering which was almost five times oversubscribed as investors flocked to the Turkish growth story. The government returned to the market in October 2012 with its maiden Lira-denominated sukuk, roughly 100% oversubscribed.

Sukuk hold considerable potential for Turkish participation banks for a number of reasons, with respect to financing, regulation and business growth (see box).

Takaful (Islamic insurance) is expected to appeal increasingly, including to non-participation bank customers. Security and pension investment funds, a substantial element in the financial landscape in Turkey, are also thought likely to develop in the Islamic space. Another line of activity is so-called ‘gold banking’, drawing personal holdings of the safe-haven metal into the banking system, for use as funding.

A series of developments favouring the Islamic finance sector’s development has been seen within the past year.

In March 2013 the deputy prime minister announced that two state-owned banks would be able to offer
participation banking services, adding to the supply side of the industry’s impetus. They will have to establish operations separate from the parent, since Islamic windows are not allowed in Turkey. Operations may commence this year. The increased competition implied is anticipated to improve services to customers, and spark job creation for both young and mature professionals, and nurture talent that currently is described as relatively scarce.

In May and June 2013 Turkey’s Capital Markets Board promulgated regulations to boost the Islamic capital market, specifying five new types of Islamic bond, designed to allow corporates as well as banks and the government access to a global pool of liquidity. The Istisna, Murabaha, Mudaraba, Musharaka and Wakala instruments are aimed particularly at attracting funding from the Gulf, where appetite for Islamic products far outstrips supply.

In October 2013 the World Bank inaugurated its Global Centre for Islamic Finance, in partnership with the Turkish government. It is envisaged as a knowledge hub for developing the industry globally, conducting research and training, and providing technical assistance and advisory services.

Earlier this month, the head of Borsa Istanbul reiterated Turkey’s commitment to grow Islamic finance, at a conference organized by the exchange and held in the city. Clearly, another key player is decisively entering this growing, internationally-dispersed field.

Sources: Thomson Reuters, The Banker, World Bank, Ernst & Young, World Finance magazine, Bloomberg, Global Islamic Finance magazine

The attraction of sukuk

Shariah-compliant lenders in Turkey have historically depended for their funding on retail deposits and syndicated murabaha loan facilities. That reliance has imparted risk in terms of mismatches between assets and liabilities. The growth of the banks’ asset portfolios has made sukuk issuance an increasingly viable possibility, promising longer maturities and lower costs. Such issuance also carries appeal for reason of regulatory pressures. For instance, subordinated sukuk can be counted toward tier-2 capital in Turkey. That will probably be an important driver of sukuk issuance by banks in the immediate future, with Basel 3 standards being phased in this year, provoking banks to enhance their capital adequacy ratios.

Sukuk could also benefit from the growth horizons of the Turkish participation banks. Bank Asya, for example, is looking both to Africa and potentially to India for a presence. Kuveyt Türk plans to increase its capital by over 100% and develop branches in Iraq and Qatar. It is also seeking a licence to operate in Germany.

Particularly in the Middle East, in recent years sukuk have tended to benefit from lower risk perceptions as the industry has matured, and yields have consequently tended to drop relative to conventional issuance, in fact to levels below, partly reflecting significant pent-up demand.

Although several planned issues by Turkish participation banks were cancelled or postponed in recent years, the situation changed last year with a succession of issues, such as Türkiye Finans’s five-year offering worth $500 million in April. A number of applications are currently pending with the Capital Markets Board.

While sukuk issuance has the potential to be snarled by the country’s track record of volatile inflation, price pressures should diminish upon the tightening of policy settings. As a further factor promoting these instruments, Turkish pension funds are likely to raise their investment share.
Stock Markets

GCC
Against a basically helpful international backdrop, Gulf markets prospered in February, but then continued upward into March, led by the continuing resurgence of Dubai. Almost all the region’s constituent indices performed well, backed by the improving trend in real economic growth, as well as a generally positive corporate earnings season. Kuwait’s bourse, however, retreated marginally upon mixed results emerging. Dubai’s DFM index substantially outperformed its peers, extending gains in the year to date to 25%, among the highest advances worldwide. Double-digit increases were recorded in the related real estate and financial services sectors in February, while telecoms actually retreated. The Saudi Tadawal measure meanwhile progressed modestly across each of its key segments.

Egypt / MENA
Mena stocks overall have been dragged down during this first quarter by the fallout in the Turkish market, suffering both from the retreat of emerging markets generally since the US Fed initiated its tempering phase, and the domestic difficulties of a politically fractious environment. The corruption allegations around prime minister Erdogan, and his vigorous response, have highlighted economic uncertainty and a somewhat divided society. Meanwhile, following the traumas which Egypt has experienced in recent times, which have continued in terms of political tension if not outright conflict, Cairo’s index has surged, to the point where stock valuations either match or even exceed those in the Gulf. It has been described as a liquidity rally, however, based mainly on local investors pleased by the prospect of stable, military-backed rule.

South East Asia
Sentiment improved among Asian stock markets as investors reconsidered exposure to emerging markets, previously heavily sold. While economic data releases and policy expectations out of China and the US continued to provide most guidance (with steady but uncertain trends about them), local bourses were otherwise motivated by domestic concerns. Thailand benefited from the lifting of Bangkok’s state
of emergency. The Philippines regained confidence from the return of foreign buying. Indonesia’s index responded to improved current account figures, and political news. Events in Ukraine damped confidence across the region momentarily, while Malaysian shares were ultimately hit by the saga of the disappeared aircraft.

Rest of the World

The uptrend of key global indices progressed well enough in the recent period, despite the drama of Russia’s incursion in Ukraine, with US monetary policy well set to remain accommodative, alongside strengthening manufacturing and production data. US indices again probed record highs. Still, while European markets maintained their buoyancy, underlying activity remained subdued, with high unemployment and low inflation. Japan already presented a doubtful picture, ahead of the imposition of its consumption tax in April, although the market was supported by anticipation of a pick-up later in the year. China too has struggled, with credit growth management its key conundrum. Other emerging markets found some degree of recovery, having lagged in previous months.

Sources: GIC, Global Investment House, Bank Audi, Bloomberg, Reuters, broker reports
Islamic or 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.

### Islamic Stock Indices

<table>
<thead>
<tr>
<th>Country</th>
<th>Index</th>
<th>Price</th>
<th>MTM Change (%)</th>
<th>Volatility (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>S&amp;P Bahrain Shariah</td>
<td>420.17</td>
<td>7.24</td>
<td>1.01</td>
</tr>
<tr>
<td>Kuwait</td>
<td>S&amp;P Kuwait Shariah</td>
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<td>0.27</td>
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<td>Oman</td>
<td>S&amp;P Oman Shariah</td>
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<td>0.30</td>
</tr>
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<td>Qatar</td>
<td>FTSE Nasdaq Dubai Qatar 10 Shariah</td>
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<td>0.99</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>S&amp;P Saudi Arabia Shariah</td>
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<tr>
<td>Thailand</td>
<td>SPGI BMI Thailand Shariah</td>
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<td>Taiwan</td>
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</tr>
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<td>SPGI BMI Singapore</td>
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<td>SPGI BMI Philippines</td>
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</tr>
<tr>
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<td>Jakarta SE Islamic</td>
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<td>3.90</td>
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<tr>
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<td>Malaysia (E)</td>
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<tr>
<td>South Korea</td>
<td>SPGI BMI Republic of Korea Shariah</td>
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<tr>
<td>Japan</td>
<td>S&amp;P Japon 500 Shariah</td>
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<td>South Africa</td>
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<td>FTSE Shariah China</td>
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<td>1.96</td>
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<td>DJ Islamic</td>
<td>DJ Islamic</td>
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<tr>
<td>FTSE World</td>
<td>FTSE Shariah World</td>
<td>2,098.36</td>
<td>5.07</td>
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</table>

Evolution of Islamic Stock Markets in February 2014 for GCC, Far East, Middle East North Africa (MENA) and Rest of the World markets. Prices represent the closing price of the respective index at 28/2/2014. Percentage Month-to-Month (MTM) Change and percentage Volatility. Source: Datastream

### Conventional Stock Indices

<table>
<thead>
<tr>
<th>Country</th>
<th>Index</th>
<th>Price</th>
<th>MTM Change (%)</th>
<th>Volatility (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>All Share Index</td>
<td>1,370.37</td>
<td>5.95</td>
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<tr>
<td>Kuwait</td>
<td>Dow Jones Kuwait Titans 30</td>
<td>202.83</td>
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<tr>
<td>Oman</td>
<td>Muscat Securities Market</td>
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<tr>
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<td>MSCI Qatar</td>
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<td>6.24</td>
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<tr>
<td>Saudi Arabia</td>
<td>S&amp;P Saudi Arabia</td>
<td>356.21</td>
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<tr>
<td>UAE</td>
<td>S&amp;P UAE BMI</td>
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<td>0.87</td>
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<tr>
<td>Egypt</td>
<td>Egypt Hermes Financial</td>
<td>794.73</td>
<td>7.57</td>
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<tr>
<td>Tunisia</td>
<td>Tunisian TUNINDEX</td>
<td>4,713.72</td>
<td>4.08</td>
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<tr>
<td>Turkey</td>
<td>MSCI Turkey</td>
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<tr>
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<td>Amman Financial Market</td>
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<tr>
<td>Lebanon</td>
<td>Lebanon Blom</td>
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<tr>
<td>Thailand</td>
<td>Bangkok SET</td>
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<td>Taiwan</td>
<td>Taiwan SE Weighted</td>
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<td>Straits Times Index</td>
<td>3,110.78</td>
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</tr>
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<td>PSE</td>
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<td>6.16</td>
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<td>Indonesia</td>
<td>IDX Composite</td>
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<td>Korea SE Composite (KOSPI)</td>
<td>1,079.99</td>
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<td>Japan</td>
<td>NIKKEI 225</td>
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<tr>
<td>South Africa</td>
<td>FTSE/SE All Share</td>
<td>47,328.92</td>
<td>4.75</td>
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<tr>
<td>Hong Kong</td>
<td>HANG SENG</td>
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<td>1.13</td>
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<tr>
<td>India</td>
<td>BSE 100 (NATIONAL)</td>
<td>6,235.99</td>
<td>2.68</td>
<td>0.55</td>
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<tr>
<td>China</td>
<td>Shanghai SE A Share</td>
<td>2,153.90</td>
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<tr>
<td>US</td>
<td>S&amp;P 500</td>
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<td>UK</td>
<td>FTSE 100</td>
<td>6,809.70</td>
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<td>0.56</td>
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<tr>
<td>France</td>
<td>CAC 40</td>
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<td>0.51</td>
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<td>Germany</td>
<td>DAX 30</td>
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<td>0.72</td>
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<td>Portugal</td>
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<td>9.71</td>
<td>0.93</td>
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<td>Italy</td>
<td>FTSE MIB</td>
<td>20,442.41</td>
<td>5.14</td>
<td>0.73</td>
</tr>
<tr>
<td>Greece</td>
<td>Athens Composite</td>
<td>1,130.41</td>
<td>1.074</td>
<td>1.50</td>
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</tbody>
</table>

Evolution of Stock Markets in February 2014 for GCC, Far East, Middle East North Africa (MENA) and Rest of the World markets. Price represent the closing price of the respective index at 28/2/2014. Percentage Month-to-Month (MTM) Change and percentage Volatility. Source: Datastream

Volatility is a measure of uncertainty of market returns. It is calculated as the standard deviation of the returns in the reported month. The formula for the standard deviation is: 

\[ \sigma = \sqrt{\text{E}[(X-\mu)^2]} \]
Commodities

Oil

Both Brent and WTI crudes advanced during February, driven by production cuts, geopolitical factors and severe US weather conditions. Libyan output dropped again upon further domestic protests, while Iran, Syria and South Sudan remained on the radar, joined by Ukraine, and the potential disruption to European gas supply. Demand trends meanwhile remained steady, with mixed signals from China alongside rising economic data in the US. Into March, however, IEA projections of Iraqi output suggested a softening price environment. WTI slipped as refinery utilization rates fell and oil stockpiles surged.

Gold/Precious Metals

Defying expectations, gold maintained an upward trend through February and into March, seemingly benefiting on a precautionary basis from the idea that the tapering of US monetary policy would be cautious, also China nearing a credit crunch, but additionally from the crisis over Ukraine, sparking safe-haven appeal. Net ETF inflows were recorded for the first time in over a year. Analysts suggested higher prices indicated gold was overbought, however, with Asian jewellery demand easing. The Fed’s persistence with trimming its bond-buying programme further tempered support.

Copper/Base Metals

Hurt especially by news of a surprise slowdown in Chinese exports, a corporate default, and loan restrictions by banks signalling slippage in economic growth, copper prices were pummelled in the period reviewed by fear of China’s downturn. Inventory data served to consolidate that concern, as did a retreat in the yuan renminbi, as the authorities widened the exchange band it defends. Financing deals involving copper as collateral are turning sour. A global surplus is anticipated this year, with global economic recovery presenting some doubt, and risk assets starting to show fragility.

Sources: OPEC, Reuters, Bloomberg
Bonds and CDS markets

GCC

Gulf bonds were affected by slight international volatility during February, but tended to a firmer level, and spreads tightened across the asset space, with relatively low correlation seen against US benchmarks. In mid-month most names were well bid, with confidence seeping back towards emerging markets. Investors were nevertheless focused on deriving yield. As the month wore on, greater acceptance of risk was perceived, and the positive sentiment continued into March, with regional demand far outstripping supply, to the point where financial entities were favoured as if in pre-crisis mode. A blip was thereupon seen, motivated by international accounts, on Qatar credits upon a diplomatic spat with the rest of the GCC. Unrest in the Ukraine sparked nervousness late in the period covered.

Egypt / MENA

Against a reasonably favourable international backdrop, Egyptian bonds continued on their upward track, increasingly convinced that the degree of political stability established in recent months, and liable to prevail under a military-backed administration, would allow the country’s finances and economic recovery to be bolstered. Local banks have been able to employ liquidity generated by increasing deposits that have not found a home in business lending, amid residual uncertainty. The pound also continued a relatively stable path.

Malaysia / South East Asia

The regaining of some poise by emerging markets was amply represented in the Asian space, given the sanguine lead given to global fixed income by US Treasuries. That said, minor disturbances were felt following the Federal Reserve’s further tapering of the rate of monthly bond purchases, and indications of interest rate hikes in the foreseeable future, albeit restricted, with the knock-on effect
on regional currencies versus the dollar. Malaysia also announced its economic growth prospects for the current year needed to be trimmed. A certain defensiveness remained in the market upon rising inflation data, while the widening of China’s currency band introduced another element of exchange rate fluctuation.

Global Benchmarks

Key bond markets were relatively stable last month, given modestly strong economic statistics in the developed markets, without any suggestion of noticeable inflationary pressure. Spreads on high-yields and European peripherals continued to tighten. Risk aversion upon events in Ukraine gave additional support. Testimony by Fed chair Yellen created ripples initially, but did little overall to affect expectations. The JGB market was similarly neutral in the face of doubts over both government economic strategy and the pace of recovery. China’s uncertain outlook only added to the general lack of direction.

Source: GIC, Invest AD, Bloomberg, Bank Audi, ADB online, broker reports

### Sovereign Bond Markets

<table>
<thead>
<tr>
<th>Country</th>
<th>Price</th>
<th>MTM Change (%)</th>
<th>Yield (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>147.83</td>
<td>▲</td>
<td>3.28</td>
</tr>
<tr>
<td>Qatar</td>
<td>365.07</td>
<td>▲</td>
<td>1.97</td>
</tr>
<tr>
<td>Egypt</td>
<td>244.99</td>
<td>▲</td>
<td>2.08</td>
</tr>
<tr>
<td>Tunisia</td>
<td>249.78</td>
<td>▲</td>
<td>5.75</td>
</tr>
<tr>
<td>Jordan</td>
<td>100.29</td>
<td>▲</td>
<td>0.38</td>
</tr>
<tr>
<td>Lebanon</td>
<td>548.90</td>
<td>▲</td>
<td>1.26</td>
</tr>
<tr>
<td>Thailand</td>
<td>185.31</td>
<td>▲</td>
<td>2.63</td>
</tr>
<tr>
<td>Taiwan</td>
<td>189.17</td>
<td>▲</td>
<td>0.42</td>
</tr>
<tr>
<td>Singapore</td>
<td>224.26</td>
<td>▲</td>
<td>1.20</td>
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<tr>
<td>Indonesia</td>
<td>213.88</td>
<td>▲</td>
<td>8.97</td>
</tr>
<tr>
<td>Malaysia</td>
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<td>▲</td>
<td>0.53</td>
</tr>
<tr>
<td>India</td>
<td>268.93</td>
<td>▲</td>
<td>1.37</td>
</tr>
<tr>
<td>China</td>
<td>189.91</td>
<td>▲</td>
<td>-0.32</td>
</tr>
<tr>
<td>Turkey</td>
<td>184.94</td>
<td>▲</td>
<td>3.26</td>
</tr>
<tr>
<td>Italy</td>
<td>455.61</td>
<td>▲</td>
<td>4.05</td>
</tr>
<tr>
<td>Portugal</td>
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<tr>
<td>Spain</td>
<td>413.97</td>
<td>▲</td>
<td>3.73</td>
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<tr>
<td>France</td>
<td>1207.66</td>
<td>▲</td>
<td>2.55</td>
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<tr>
<td>Germany</td>
<td>902.37</td>
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<td>2.52</td>
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<tr>
<td>UK</td>
<td>1107.99</td>
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<td>2.10</td>
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<tr>
<td>US</td>
<td>145.39</td>
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<tr>
<td>Japan</td>
<td>158.89</td>
<td>▲</td>
<td>0.36</td>
</tr>
</tbody>
</table>

Evolution of Bond Markets in February 2014 relative to the previous month. The table reports the price index on which the MTM Change is calculated (month-to-month) and the Yield of sovereign bond maturities typically between 6 months and 25 years. Data as at 28/1/2014.

### Credit Default Swap Markets

<table>
<thead>
<tr>
<th>Country</th>
<th>CDS Spread (bp)</th>
<th>MTM Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>221.44</td>
<td>▼</td>
</tr>
<tr>
<td>Qatar</td>
<td>58.77</td>
<td>▼</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>58.28</td>
<td>▼</td>
</tr>
<tr>
<td>Dubai</td>
<td>199.19</td>
<td>▼</td>
</tr>
<tr>
<td>Abu Dhabi</td>
<td>99.29</td>
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<tr>
<td>Egypt</td>
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<td>▼</td>
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<tr>
<td>Thailand</td>
<td>144.82</td>
<td>▼</td>
</tr>
<tr>
<td>Indonesia</td>
<td>182.52</td>
<td>▼</td>
</tr>
<tr>
<td>Malaysia</td>
<td>103.43</td>
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</tr>
<tr>
<td>India</td>
<td>266.81</td>
<td>▼</td>
</tr>
<tr>
<td>China</td>
<td>145.90</td>
<td>▲</td>
</tr>
<tr>
<td>Italy</td>
<td>146.17</td>
<td>▼</td>
</tr>
<tr>
<td>Portugal</td>
<td>225.61</td>
<td>▼</td>
</tr>
<tr>
<td>Spain</td>
<td>125.09</td>
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<td>France</td>
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<tr>
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<td>24.75</td>
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<td>UK</td>
<td>27.01</td>
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Evolution of CDS Spreads in February 2014 relative to the previous month. The index reported here represents the average basis points (bp) of a 5-year CDS for protection against sovereign bonds. Data as at 28/2/2014. MTM Change refers to the change relative to the previous month.
Islamic Bonds (Sukuk)

Trading in the sukuk secondary market was similarly quiet to the activity in conventional bonds through February, which is to say generally firm but showing signs of defensiveness in the face of geopolitical tension and profit-taking.

With limited trading liquidity in these instruments, investors remain tuned especially to the pipeline for new issuance, given a continuing appetite in the Gulf region especially for paper backed by strong regional metrics and carrying attractive yield. The primary market was active in both local and reserve currency.

The Islamic Development Bank (IDB) came with a further $1.5bn offering, tightly-priced, under its ongoing, $10bn MTN programme. The 5-yr issue was very well received.

Saudi Electricity Co raised 4.5bn riyal ($1.2bn), priced at 70bps over 3m Saibor, while Dubai Investment Park debuted with a $300m 5-yr offering paying 4.296%. The sukuk recorded a final order book of some $4bn, hugely oversubscribed. Following an initial round of selling, buyers stepped in and spreads tightened.

National Commercial Bank also successfully placed an upsized 5.08bn riyal tier 2 sukuk, the largest issuance by a financial institution in Saudi Arabia, and largest ever subordinated debt instrument issued by a financial institution in the MENA region. The investor response was described as overwhelming.

It was reported that Abu Dhabi’s First Gulf Bank has set up a 3.5bn ringgit ($1.07bn) sukuk programme, following the precedent of National Bank of Abu Dhabi, which has issued ringgit-denominated sukuk in the past.

Meanwhile, the Malaysia-based International Islamic Liquidity Management Corp (IILM) reissued $490m in maturing 3mth sukuk to nine primary dealers in Asia, the Middle East and Europe.

Malaysia’s state-owned Syarikat Prasarana Negara Bhd raised 2bn ringgit ($609m) through sukuk for general capital purposes to finance the country’s public transport network. The total consisted of 5-yr 1.5bn and 10-yr 500m ringgit tranches, carrying semi-annual profit rates of 4.08% pa and 4.67% pa respectively. A bid-to-cover ratio of over three times was recorded for the 10yr.

Sources: GIC, Thomson Reuters, The Star, Gulf Business

Sukuk is the Arabic name for financial certificates, but commonly refers to the Islamic equivalent of bonds. Since fixed income, interest bearing bonds are not permissible in Islam, Sukuk securities are structured to comply with the Islamic law and its investment principles, which prohibits the charging, or paying of interest. Financial assets that comply with the Islamic law can be classified in accordance with their tradability and non-tradability in the secondary markets.
CALL FOR PAPERS

4th Islamic Banking and Finance Conference (IBF 2014)

23rd to 24th June 2014
Venue: Lancaster University Management School

Keynote Speaker
Thorsten Beck
Professor of Banking and Finance, Cass Business School

The constraints applied by Islamic banks rendered them more resilient in the recent financial crisis compared to their conventional counterparts. This has attracted the attention of market participants and researchers to their liquidity buffers, leverage ratios, managerial efficiency and bespoke financial products. Islamic banking products are now offered in more than twenty countries and their expanding suite includes bonds, equity indices and insurance. The sector is estimated to exceed $1trillion in value, while growing at about 15% per annum. Among many issues still subject to debate is the purity of Islamic finance in practice, given the need to compete and to cooperate with customers whose expectations have been formed by conventional banking practices.

EIBF centre at Aston Business School in collaboration with GOLSER Lancaster University Management School is organising a conference on Islamic Banking and Finance. The conference aims to provide a forum for an exchange of views on recent developments and to identify key issues/challenges underlying the paradigm of Islamic Banking and Finance in the 21st century.

Original contributions are invited on any of the listed topics:
- Financial risk and stability
- Transparency, governance and corporate social responsibility
- Earnings management and impression management
- Performance, efficiency and convergence
- Mutual funds
- Risk Management, Accountability and auditing
- Competition
- Microfinance and SMEs
- Behavioural finance

Conference Organisers: Dr Omneya Abdelsalam (Aston University), Dr Merwan Izzeldin (Lancaster University)

Special Issue
Journal of Economic Behaviour and Organisation (JEBO)
Ana Timberlake Best paper Research Award: £500

Co-editors for the JEBO Special Issue
Omneya Abdelsalam, Aston University
Mohammed El-Komi, American University of Cairo
Ana-Maria Fuertes, Cass Business School
Stergios Larentzis, International Hellenic University
Gerald Steele, Lancaster University

Scientific committee
Omneya Abdelsalam (Aston University), Nathan Berg (University of Otago), Rachel Creson (University of Texas at Dallas), Mahmoud El-Gamal (Rice University), Mohamed El-Komi (American University Cairo), Maryem Fatih (Lancaster University), Ana-Maria Fuertes (Cass Business School), Mohamed Shahid Ibrahim (Bangor University), Merwan Izzeldin (Lancaster University), Ali Johns (Lancaster University), Stergios Larentzis (International Hellenic University), Kurt Mathias (Cardiff Business School), Khelifa Mazouz (Bradford Business School), Philip Molyneux (University of Bangor), Andrew Mullineux (University of Bournemouth), Steven Osenga (University of Zurich), Vassilis Pappas (Lancaster University), Mohammed Shaban (Lancaster University), Mushfiqur Shadid (Leeds University), Gerald Steele (Lancaster University), Emilie Trestian-Asenc (Leicester University), Mike Tsonias (Lancaster University)

For paper submissions please email Marwa Elbash: islanficfinance@aston.ac.uk

Important Dates

<table>
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<tr>
<th>Conference Abstract Submission</th>
<th>Conference Full Paper Submission</th>
<th>Submission for JEBO Special Issue</th>
<th>Special Issue Publication</th>
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<td>31st March 2014</td>
<td>27th April 2014</td>
<td>1st October 2014</td>
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