From the Editor

Just as there is reversion to the mean in statistics and investment, so this month we have opted for the streamlined version of the product, in line in fact with quieter conditions in the markets.

A kind of limbo was reached between stocks, bonds and commodities, in modestly see-saw conditions, as the world economy and investor sentiment hovered between abandoning the risk-off/risk-on pivot trading pattern and wondering aloud whether global recovery was in fact properly under way.

Events in Europe since have endorsed the notion that sometimes it can be too quiet out there, and in that sense testimony during February on the mixed feelings about economic data and the sustainability of assets overly driven by central-bank liquidity may have provided some kind of predictive evidence! Certainly there were enough participants unsure of what would happen next.

Instruments of Islamic finance, most obviously sukuk, were caught up in that uncertainty, demonstrating ironically their becoming mainstream in nature. As wariness about the direction of fixed-income (treasuries) grew, Islamic counterparts modestly outperformed, but showed signs of listlessness in diminished volumes. Notable primary issues well priced but subsequently traded below par.

In the meantime, institutional developments in Islamic finance have continued steadily around the world, for instance regulatory steps in Africa, and we document those in our monthly digest. Both London and Dubai made announcements seeking attention as potential hubs in the global industry.
**Highlights**

**Egypt:** While remaining in the news for the wrong reasons, namely a continuation of political unrest and uncertainty, as well as financial pressure, Egypt made progress on advancing its first Islamic bonds, later this year. A draft law was passed, with projects identified to back the sales, while work continues on accounting standards to be Shariah-compliant. In the markets, risk premia in bonds steadily widened, and stocks retreated. The central bank’s auctioning of foreign exchange reserves curbed their decline, but has implications for imports of food and fuel, which might return to further damage confidence. (p. 4)

**Africa:** Elsewhere in Africa a clutch of stories underpin the idea that the continent is gradually gearing up its development of the Islamic finance sector, in pockets of development, country by country. For example, the Central Bank of Nigeria (CBN) has launched liquidity management instruments, a reflection of the growth in the sector’s customer base, assets and branch network. Morocco has begun talks with scholars for a board to oversee the industry, and will soon present a bill to regulate Islamic banks. Meanwhile, plans for the merger of public and private efforts towards SMEs have been moved forward in Tunisia. (p. 5, 15)

**Financial Hubs:** International financial centres remain very much in competition to grab a share of the burgeoning Islamic sector, particularly as liquidity remains a key concern in developed markets. Dubai too has made another marketing pitch for this business, following a benchmark sukuk for its pioneering Emirates airline, aiming to position itself with upgraded, harmonized regulations. Equally, in Europe London has been promoted again with a British government campaign to attract investment, creating a task force to spread the message abroad. The lead set by Kuala Lumpur, however, seems set to remain intact. (p. 4)
Recent Developments in the Islamic Finance Industry

Egypt targeting $1 billion from debut sukuk

This year Egypt plans to raise $1 billion, by June, from the sale of its first Islamic bonds, with hopes that a return to political stability will soften the blow of five credit rating cuts. A draft law to allow sukuk sales has now been passed incorporating revisions by the ruling party and Shariah scholars. Officials have compiled a list of about 25 projects that could be used as assets to back future sales, and are working to amend national accounting standards to comply with those set by the Bahrain-based AAOIFI. GOLCER notes that the presence of violence and political instability have disrupted Egypt’s transition to democracy, bringing delay to the current attempts to boost the Shariah-compliant financial industry in the most populous Arab country. Most of the gains in Egyptian bonds since the revolution have been erased since President Mursi’s election in June. On the macro level, the poor state of the economy and especially its finances, with dwindling hard currency reserves and the pound under pressure, mean that Egypt will have to pay more when issuing the sukuk.

Source: Global Islamic Finance magazine, February 26th

London to advance its Islamic finance credentials

Early this month the British government launched a campaign to promote London as a centre for Islamic finance. The main objectives are: (1) to attract foreign investment to Britain by facilitating Islamic financial business, including investment in British infrastructure by Islamic sovereign wealth funds, as well as (2) to counter growing competition in that industry from rising centres such as Dubai and Kuala Lumpur. A task force including Britain’s Financial Secretary to the Treasury Greg Clark, ministers of state and private sector executives will advertise London around the world. Over the past few years London has attracted a large amount of Islamic business; over $34 billion worth of sukuk have been issued through the London Stock Exchange. In 2009 Britain also introduced legislation facilitating Islamic finance, issuing Europe’s first sovereign sukuk. GOLCER argues that the level of competition means it is not easy to draw funds away from cities where the Islamic sector originated, such as Malaysia’s capital Kuala Lumpur, which has already established itself as a centre for Islamic finance -- also Dubai, which made a recent announcement of its ambitions, and which has revised regulations to attract global funding through sukuk. In addition, it seems to us also that the British government is concerned to boost the expansion of this industry, given slow accumulation so far in the monies attracted, also the complexity of required regulations, and relatively limited acceptance by the local market and public.

Source: The Arabian Business News, March 11th

Dubai set to lead sukuk market in 2013

With the massive expansion of the Islamic economy, Emirates airline’s sukuk issued last month provides further evidence of Dubai’s standing as a centre for issuing, listing and trading of Islamic capital-raising securities. The listing has been accompanied by the launch of an initiative [Dubai the Centre of Sukuk] by the UAE’s Vice-President and Prime Minister of the UAE. Compared to global sukuk issuance of $140 billion in 2012, representing a 64% increase from the $85 billion in 2011, issuers in the UAE were responsible for more than $6 billion. Dubai aims to position itself as the capital of the Islamic economy globally. The money raised through the sukuk is to be directed to fund new
aircraft, due to be announced in coming months. Also during this month Dubai Electricity and Water Authority (Dewa) listed a $1 billion sukuk on Nasdaq Dubai. Moreover, Dubai Islamic Bank launched a $1 billion hybrid sukuk last week, and Etisalat Sukuk Company and Al Hilal Bank are also expected to issue $1 billion sukuk each this year.

GOLCER perceives these developments as testifying to the continuing and significant expansion of the sukuk market in Middle East North Africa Region (MENA), demonstrating Dubai's particular attraction for issuers from both around the world as well as the Gulf region.

Source: Khaleej Times, March 21st

Islamic banking in Africa: the example of Nigeria

The Central Bank of Nigeria (CBN) has launched liquidity management Instruments for Islamic banking. That move reflects a growth in the sector’s customer base, assets and branch network. Confidence in the viability of the non-interest banking model in Nigeria is still in development, however. Setting a clear example for the fast growth of Islamic finance in Africa, Nigeria’s first Islamic bank, Ja‘iz bank, was opened in 2011. That was followed by several attempts to establish further institutions. Today Ja‘iz bank operates with ten branches, intending to double that number by year-end 2013.

GOLCER perceives that Sub-Saharan Africa offers a tempting growth opportunity for Islamic banking. That prospect is clear post-Mubarak and post-Gaddafi eras, with Egypt and Libya currently moving towards Shariah-compliant banking. Tunisia is undertaking new Islamic banking regulations, while Kenya is emerging as the Islamic finance gateway of East Africa, according to the 2011-2012 World Islamic Banking Competitiveness report. These shifts are all in addition to those countries -- Sudan and South Africa -- that have well-established Islamic banking systems.

Source: Global Islamic Finance magazine, March 1st

Aiding Tunisia through Islamic Banking

Existing plans in Tunisia aim to provide Islamic financing to small and medium-sized enterprises (SMEs) through a merger between public and private sector offerings. The Tunis-based Bank of Financing small and medium enterprises (BFPM) has agreed with the Jeddah-based Islamic Corporation for the Development of the Private Sector (ICD), a private investment institute of the Islamic Development Bank, to aid smaller companies in Tunisia. The plans include a 50 million dinar ($32.3 million) Shariah-compliant fund, which will serve to increase foreign direct investment and further develop Islamic banking in the country.

GOLCER finds that the Tunisian experience would serve as a model for other Arab states to try to repair their economies after political turmoil and restore public confidence in the banking system.

Source: Reuters, February 14th

Dubai Islamic Bank boosts regulatory capital through sukuk

Dubai Islamic Bank (DIB), the emirate’s largest Shariah-compliant lender, plans to boost its capital through a Shariah-compliant debt instrument, namely sukuk. It will be classified as deeply subordinated, as the proceeds will be used to strengthen the bank’s Tier 1 (core) capital (a key measure of a bank’s financial strength), rather than booked as a liability on its balance sheet. The potential sale is being arranged by Emirates NBD, HSBC Holdings, National Bank of Abu Dhabi, Standard Chartered and the bank itself. The sukuk is callable at year six, and carries a fixed profit rate of six-year mid-swaps over the initial margin.

GOLCER views this attempt as consistent with conventional bank efforts to comply with tighter Basel III global standards for core capital during this year.

Source: The Arabian Business News, March 5th
Markets were rather subdued in February. The momentum from the previous month’s earnings season petered out, and investors adopted a ‘wait-and-see’ approach towards US budget sequestration, with some growth concerns about China and the eurozone. Caution prevailed as oil prices eased, with only selective stock selection and dampened speculative activity.

Abu Dhabi’s bourse was best-performing, while Saudi Arabia’s index slipped back below 7000 as investors awaited further triggers after healthy corporate results and an expansionary budget. Petrochemicals, construction and banking stocks fell sharply, weighing overall. Abu Dhabi’s ADX measure responded to generous dividend payouts in the banking sector, and renewed buoyancy in real estate.

Dubai’s DFM was lifted by a strong advance of 18% in telecoms. Kuwait’s index edged down, although the oil & gas sector gained 10%, and Qatar’s dipped gently upon profit-taking and as heavyweights went ex-dividend. Oman’s market benefited from strength in industrials, while Bahrain’s rose modestly, amid the generally luck-lustre conditions.

MENA

Movements across Mena markets were downbeat, overshadowed again by circumstances in Egypt, where the stock index retreated, though only fractionally amid bullishness among the global benchmarks.

Political uncertainty resurfaced in the country as the main opposition party announced its intention to boycott the parliamentary elections which President Mursi has scheduled for April. The National Salvation Front also rejected his call for dialogue. This political schism, again accompanied by street protests, has hampered perceptions of the economic outlook, adding to the urgency of the government’s negotiation of a $4.8 billion IMF loan. The decline in Cairo’s index also owed to weak earnings weighing on sentiment.

More broadly for the region, in line with the theme of investors rotating from bonds into equities, some feeling emerged that funds may be attracted into Mena equities, known to offer some of the highest dividend yields available.
Far East

Rising emerging markets were led by Asian bourses, particularly among the ASEAN countries, which continued their impressive runs, boosted by consumer demand and infrastructure investment.

With that positive backdrop, both Indonesia and the Philippines reached record levels after US Fed chairman Bernanke reaffirmed the central bank’s commitment to strong stimulus, implying a sustained impetus to international demand.

Indonesia’s index was best-performing, its surge driven by the financial sector and reports of robust credit growth. Investors in the Philippines were encouraged too by hopes of a sovereign rating upgrade.

Asian equities otherwise were quieter, as optimism over China’s rebound receded, and profit-taking followed the strong uptrend of recent months. Hong Kong eased slightly, whereas Taiwan was fractionally up. Korea rebounded with better news on exports, having suffered upon competitiveness concerns of the won versus the depreciating Japanese yen.

Rest of the World

Global equity markets continued higher during February, driven by corporate releases in the US and Europe, and American jobs, housing and manufacturing numbers. The possibility of automatic spending cuts in the US dropped away, and the Dow Jones Industrial Average reached a record high.

Yet risk aversion reappeared to take the edge off performance, as the suspicion grew that the Fed might curtail quantitative easing. Doubts also arose upon the elections in Italy, which left a virtual stalemate and threatened to dislodge the sense of calm having been restored in the eurozone. The contraction of the region’s growth in Q4 did not help sentiment.

The Japanese market remain in the ascendant, particularly as new prime minister Abe nominated ADB president Kuroda as the next Bank of Japan governor, encouraging the idea of determined monetary reflation in the offing, and a weakening currency.

China’s data remained positive, notably in its trade figures, though the stock market was relatively unmoved, as the authorities appeared ready to dampen real estate speculation. In India a further decline in the government’s growth forecasts weighed on the market, besides the impact of inflationary pressure and outbursts of strike action.

Sources: GIC, Markaz, Emirates NBD, Reuters, Bloomberg, Zawya
Islamic Stock Indices

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.

Conventional Stock Indices

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:

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

Oil

Oil prices rose in the first half of February, spurred by positive economic sentiment, output glitches, and expectations of higher global demand growth in 2013. However, momentum expired and the mood shifted, as part of a generalized switch towards a ‘risk-off’ market trading environment. In the second half worries about the world economy returned sufficiently to wipe out the earlier climb. Doubt as to the US Fed’s commitment to quantitative easing combined with some weaker than expected European economic data, and investors moved to take profits. Analysts perceived the turnaround as a justified correction. Meanwhile, the WTI/Brent discount widened again to over $20 a barrel, from the recent dip below $15. The spread had been expected to narrow, owing to progress on the US mid-West’s Seaway pipeline, but volumes in fact disappointed.

Natural Gas

Initially in February data on stocks surprised the market, suggesting that storage levels were high enough to maintain downward pressure. However, bucking the trend versus other key commodities, natural gas prices showed their first monthly increase since October, primarily upon a clutch of weather reports indicating colder conditions imminently to come, boosting the demand for heating. Episodes of cold had helped reduce US inventories reach an all-time high last November. Last year being the warmest on record for mainland US had been dominating the inventory backdrop.

Gold

Copper went into sharp sell-off in late February, having blazed a trail with other commodities in line with hopes for global rebound. Besides the common factors of Chinese growth, a stronger dollar, and commentary from the Fed, other factors specific to copper were in play. Analysts said that that market had got ahead of itself, and economic data had yet to filter through to physical demand. Also, the annual festivities of the Lunar New Year put pressure on prices, as many firms closed operations, especially in China. Chinese manufacturing data trailed economists’ forecasts, signalling that recovery by metals’ largest user might be losing steam.

Copper/Base Metals

Gold prices fell 5% in February, prolonging the longest string of monthly declines since 1996. Bullion holdings in gold-backed ETFs also posted another sharp monthly loss,
with participants continuing to digest discussions of US budgetary retrenchment and Europe’s apparent drift into calmer waters away from crisis. Continued net fund redemptions presented substantial downside risk to prices, analysts suggested. Some investors were turning to equity markets instead, caving in to the momentum surge of the re-emerging ‘risk-on’ mood. The sell-off in the precious metal followed comments by top Fed officials that the US central bank could reduce its bond-buying activity, that has made inflation-fearing investors switch to gold, wary equally of systemic financial risk. Gold tumbled to its lowest levels since July, more than $300 down from its record high in excess of $1900 per ounce in 2011.

Sugar/Agriculturals

Sugar prices remained under pressure on the month, with harvests worldwide exceeding demand for a fourth year, according to industry research. Rates have plunged by 50% from a three-decade high two years ago, as producers such as Russia and Thailand boosted plantings, making sugar the worst-performing raw product in the past year. Speculators assembled massive net short positions, allowing the possibility of turnaround. The slump has led to the idea that Brazilian millers will be spurred to make more bio-fuel and less of the raw sweetener from cane.

Vegetable Oils

Palm oil fell for eighth sessions running last month, the worst run in almost seven years, upon speculation that declining exports would keep inventories near a record high in Malaysia, the largest producer after Indonesia. Prices were down nearly 30% on the year because of global stockpiles and diminished demand. Traders were concerned that Malaysia’s palm exports would decline further with the imposition of a 4.5% tax on the crude grade this month. The edible oil’s losses tracked those in the soybean oil market, hit by improving South American weather boosting the supply outlook, potentially a bumper crop.

Sources: OPEC, Financial Times, Reuters, Bloomberg, Banco Itau
Bonds and CDS markets

GCC

Conventional fixed-income ended steady in the Gulf’s secondary market, with a widening of spreads. Among CDS sovereigns, investment grade fared better than the high-volatility names. Analysis suggested that the credit market was leaning towards being overpriced, and certainly that past double-digit total returns were unlikely to be repeated, even though fundamental and technical indicators remained supportive. Following the strong rally of recent times, valuations seemed stretched. Focus instead remained towards the primary market, where Abu Dhabi Commercial Bank and DEWA were bringing new bonds. ADCB issued a dual-tranche $1.5bn offering late in February. The 10-year subordinated bond traded well, but the 5-year suffered relatively upon tight pricing. Interest in new issues, from both regional and international investors, has stayed very strong, with the region interpreted as a stable investment destination, although there was some sign of waning institutional appetite. Given continued uncertainty as to global economic growth, and the outlook for benchmark US Treasuries, issuers are expected to take advantage of any stable period to raise capital.

Egypt / MENA

The spread between Egypt’s benchmark dollar-denominated bonds due April 2020 and US Treasuries widened to 582 basis points, the highest since last June, through accumulated market nervousness as the country’s economic and financial prospects in the shorter term became increasingly unconvincing. The risk premium investors demanded rose six days in succession after the broadest opposition bloc said it would boycott parliamentary elections in April. The Egyptian pound and dollar bonds headed for their third monthly declines as increased political instability weakened the platform upon which to secure a $4.8 billion IMF loan, which is seen as critical in preventing an uncontrolled currency depreciation. The slide in foreign exchange reserves has been contained by the central bank’s policy of limiting dollars at auction, but that hits businesses bidding for imports, on which the country depends for food and fuel, which it makes available on a heavily-subsidised basis to its 80 million citizenry. Rising inflation would then be expected to spark further popular discontent.

Malaysia / Far East

A positive tone was retained among Asian bonds, although trading became fairly technically-driven as accounts sought ways to profit in an otherwise relatively sideways market. Special interest was reported in Korean paper, also new issues, where an
Indian bank’s offering was well-received. By contrast, Indonesia’s market was suppressed by looming supply, with the sovereign initiating roadshows for a dual-tranche deal that might reach $4bn, according to market talk. Chinese names attracted interest, and Philippines CDS tightened fractionally. High yield was less favoured. The backdrop has remained encouraging, owing to a combination of factors. Asian emerging markets not only show higher economic growth and lower debt levels relative to the developed world, but increasingly are playing an important part in investor portfolios in their international hunt for yield. Moreover, any resulting upward pressure on local currencies could drive additional routes to profit.

**Global Benchmarks**

The prospect of the $85 billion sequestration spending cuts due to apply from the beginning of March maintained investor nervousness throughout February. Minutes from the latest Fed meeting, revealing concern about the ongoing efficacy of quantitative easing, also created concern. Even so, bond markets improved marginally upon US Fed comments that the central bank is potentially years away still from ceasing its committed, accommodative monetary stance. It also decided to sell its mortgage-backed securities more slowly than previously planned, weakening supply pressure, and might even avoid selling them altogether, and allow them instead to mature. The other key motivator was Europe. Treasury yields fell particularly upon the Italian elections, which provided an inconclusive result, denying imminently stable government. The uncertainty and political deadlock that ensued impacted sentiment, leading to increased demand for the perceived safe havens of Germany and to some extent UK gilts. Italian bond yields moved sharply upwards, while German bund yields fell steadily during the month.

**Sources:** GIC, Invest AD, Bloomberg, Reuters
Islamic Bonds (Sukuk)

Amid a sideways secondary bond market trend overall, sukuk (+0.66%) outperformed conventional (+0.13%) instruments in the Gulf in February.

The focus was on new issuance, but even the primary market was subdued except for DEWA’s appearance late in the month. Dubai’s electricity and water authority launched a $1 billion sukuk at a profit rate of 3 per cent. It was priced at the lower end of earlier guidance, indicating strong investor appetite for the deal.

Mandated joint bookrunners were Standard Chartered, Citigroup, RBS, and local lenders Emirates NBD, Dubai Islamic Bank and Abu Dhabi Islamic Bank.

Order books were reported at over $5.5bn, and the price was bid higher in the grey market. The scarcity of a regional utility issuing bonds, combined with DEWA’s BBB, investment-grade rating, as well as the pick-up in Dubai’s fortunes, not only prompted heavy oversubscription but helped bring down yields on existing debt.

Yet, both bond and sukuk issues from the Gulf had in preceding weeks drawn very large order books but then performed poorly in the secondary market, an indication of flakier appetite underneath. Institutional investors are said to have bid for larger amounts than they actually wanted, assuming there would be reduced allocations.

A resultant tightening of pricing means the bonds are liable to drop in the secondary market when it becomes apparent that underlying demand is not so fulsome by comparison. It has been an acute phenomenon recently in the Gulf during recent weeks.

The Dubai government’s $750 million, 10-year sukuk issued in January drew an order book of $11 billion, was priced inside guidance of 4
per cent, and an average 15 basis points inside Dubai’s outstanding 2022 sukuk. Yet it has since traded below par.

Local investors are flush with cash. At the same time, the outlook for bond markets worldwide has weakened. The change in mood means trading volumes in the Gulf’s secondary debt market, which surged last year, have since declined, according to anecdotal evidence.

Meanwhile, Malaysia’s 10-year sukuk have sustained their rally despite quickening inflation and a pending general election, reflecting a flood of savings into Islamic banks. Sukuk yields have declined as investors remain confident in the administration’s economic policies, including a $444 billion development plan, whatever the outcome of the poll, to be held by end-June.

The yield premium on Malaysian sukuk over regular sovereign notes is apparently attracting overseas funds. Investors are hoping also that the ringgit will appreciate this year, reversing a slight drop in 2013.

Still, sales of Shariah-compliant corporate bonds in the world’s biggest sukuk market have slumped in 2013, by some 60 per cent, following a record level in 2012.

Sources: Invest AD, Financial Times, Reuters, Bloomberg

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.
Morocco central bank plans central Shariah board

Morocco’s central bank has this month started talks with a body of Islamic scholars on establishing a central Shariah board with the purpose of overseeing the overall Islamic finance industry in the country. Expectations are that the creation of this board would be a step towards establishing fully-fledged Islamic banks.

In April the government plans to submit to parliament a bill regulating Islamic banks. In late January parliament approved legislation allowing the government and companies to issue sukuk. That bill covers equities, deposits and sukuk as sources of liquidity for participative banks, but does not address interbank money market trading.

GOLCER believes that Islamic finance in Morocco has flourished after the new government took power -- notably with the issuance of sukuk to attract funds from wealthy Islamic funds in the Gulf -- particularly after the budget deficit struggle.

Source: Reuters, March 15th

Islamic finance body heading for sukuk issue

Backed by a group of central banks located in Asia and the Middle East, the International Islamic Liquidity Management (ILM) Corp. is moving towards issuing its first sukuk. The ILM, established in 2010, aims to issue a short-term sukuk to help Islamic banks manage liquidity, and create a liquid cross-border market for Islamic instruments. The shareholders of this corporation, located in Malaysia, are in the process of supplying the underlying assets, and have hired primary dealers for the distribution. The issuance has been delayed twice, as the ILM faces a major challenge in ensuring compliance with laws in all twelve member countries. They include monetary authorities in Indonesia, Iran, Kuwait, Luxembourg, Malaysia, Mauritius, Nigeria, Qatar, Saudi Arabia, Sudan, Turkey and the United Arab Emirates, as well as the Islamic Development Bank and the Islamic Corporation for the Development of the Private Sector.

Source: Reuters, March 20th

Malaysian reforms well under way

Regulatory reforms are in progress in Malaysia’s Islamic banking industry to support further growth of the sector. Malaysia now aims to reach out to the international market, with an ambitious target of a 40% share of Islamic domestic financing by the year 2020, according to the country’s master plan for capital markets development. To achieve that objective, regulators have introduced new rules over the last two years, and are preparing to release a new legal framework for Islamic finance this year. Further, they are actively promoting the concept of creating a very large, stand-alone Islamic bank, and have even created a specific licence for such a ‘mega’ bank. It would be defined as having paid-up capital of $1 billion, compared to 300 million ringgit for a regular banking licence. In theory, such an entity would be able to compete successfully given its size, and also because it would be able to choose its strategy independently from a conventional parent. Still, however, there has been limited interest in the financial community to establish this bank.

Source: Reuters, February 21st

Central Islamic finance regulatory board in Dubai

Dubai plans to set up a central Shariah board to oversee all Islamic financial products used in the emirate, and will encourage government-linked entities to issue sukuk. The main objective is to reduce confusion over standards in Dubai’s Islamic finance industry, helping it to attract sukuk. The government announced in January that it seeks to become a global centre for Islamic finance, and has since reaffirmed its commitment.

Source: The Arabian Business News, February 27th
It's often said that what goes up must come down. In financial markets there's a certain truth about that, although for equities the expectation might be that trends in underlying economic growth will send prices higher over the longer term. The short-term bumps may then just be the ups and downs on what still turns out to be an escalating ride.

For fixed-income instruments, though, there is some kind of arithmetic limit on the progress they can make, assuming there is a registerable yield, if only a sliver, required by the investor. Although in exceptional circumstances even negative interest may be tolerated (when all other assets present even greater risk relative to reward), generally bonds may hit a limit.

It might be argued that the benchmark set by US Treasuries market, fuelled very substantially by the Fed's liquid propulsion, has approached that barrier closely enough that market nerves have set in. In particular, if you believe global recovery is truly under way -- crises over -- it could have been time to return to normalized investment patterns.

Whether that's really so is debatable, as the events in Europe over Cyprus have most recently shown. European banking in particular, and the fate of the eurozone, are so uncertain that investors across markets could still take fright.

As to the sukuk market, as the Financial Times noted in recent coverage, the momentum has noticeably lapsed. Generally, reports about liquidity, in both domestic and international markets, are mixed. With supply still well short of investor demand, issues are heavily oversubscribed, but are then often held rather than traded.

Within the GCC, whose cash-rich investors are very much oriented to local stock, Reuters has reported that institutional investors are bidding for larger amounts than they actually want, then finding that pricing reflected a degree of froth, with reduced allocations then trading under par.

For instance, the order book for Dubai Islamic Bank's $1 billion perpetual, hybrid sukuk was “massive”, but it has performed “sluggishly”, outstripped by other emerging market bonds.

Still, a rotation out of bonds and into equities at a global level may be the predominant factor. In any case, volumes in secondary market paper have declined, anecdotally according to traders.

Meanwhile in Malaysia a continuing savings boom has been behind a steady impetus to Shariah-compliant debt. Notwithstanding the political overhang of an election by mid-year, or even rising inflation, the level of cash circulating in the banking system has meant that yields have maintained their downtrend, Bloomberg has said.

In that particular case, confidence evidently is high, and localized conditions may trump the global lead. Whether it remains that way will be one to watch.
Diary of Events

June: 10-11, 2013
Aix-en-Provence, France
Infinity Conference on International Finance
The 11th INFINITI Conference on International Finance: “The Financial Crisis, Integration and Contagion”, is organised by SciencesPo Aix, Trinity College Dublin and Euromed Management Marseille, in coordination with the Aix-Marseille School of Economics.
Keynote Speakers:
René M Stulz, The Ohio State University, USA
Geert Bekaert, Columbia University, USA
Contact: Linda Soriton: infinityconference@gmail.com
More information: http://www.infinityconference.com/

June: 26-28, 2013
Nottingham, UK
5th International IFABS Conference
This year, IFABS will be celebrating its 5th Anniversary in Nottingham at the East Midlands Conference Centre. From the 26th -28th June, experts from over 60 countries around the world will come together in this historic city to consider, collaborate and create ideas and solutions for the coming years. More information and a call for papers (deadline is March 15) can be found online.
Contact: Ms Sandra Hopkins: IFABS2013@le.ac.uk

July: 1-5, 2013
Durham, UK
Islamic Finance Summer School
The intensive five-day programme, organised annually, will enhance and develop your knowledge and skills to help place you in an advantageous position for entering and working in the Islamic financial sector.
More information: if.dtc@durham.ac.uk
Register now at: http://www.durham.ac.uk/dchief/ifss

Training Courses:
GOLCER Training Courses in Finance, Management and Statistics:
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