

SHARED RISK & REWARD

Issue 105 – July 8, 2012

My Reading List

- Indonesian fund managers see shortage in sukuk supply ([link](#))
- S. Africa names advisors for sukuk sale ([link](#)) ([link](#))
- IIFM – Towards a Global Standard for Sukuk – Issuance & Trading ([pdf](#))
- IIFM holds meeting on collateralized murabaha ([link](#))
- Turkey picks banks for sukuk sale ([link](#))
- Oman plans IF rules by year-end ([link](#))

Blog Posts This Week

- [Islamic Development Bank sukuk shows the buyers for future IILM sukuk](#)

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Progress in Sukuk Markets

I'm back this week after deciding to take a week off from the newsletter for the July 4th holiday. The sukuk market has been growing rapidly for several years, after falling sharply in the financial crisis and subsequent Dubai debt crisis.

Sukuk issuance growing both as a result of refinancing activity and new issuance to replace bank debt as European banks reduce lending in the GCC and pull back to their home markets. There remain concerns about whether sukuk are in short supply, and whether there is adequate secondary market liquidity.

In the process of researching this article, I ran across a presentation from 2005 where the head of IIFM, Ijlal Alvi ([PDF](#)) lays out a broad prediction for sukuk markets (with a few recent relevant news items added):

- Increasing demand from issuers to tap sukuk markets ([South Africa is planning to issue sovereign sukuk](#))
- IFIs want tradable sukuk with fixed income profile
- Development of sukuk funds followed by growing demand for sukuk, causing issuance to “surge exponentially” (Indonesian sukuk fund managers want to expand fund size, [but fear demand for](#)

[sukuk will outstrip supply](#).

This is also [true in Malaysia](#)).

- Sukuk will be used for liquidity management and as a money market instrument. ([IIFM held a meeting](#) on collateralized murabaha with sukuk as collateral, which is rapidly becoming the standard alternative for unsecured commodity murabaha in inter-bank lending markets)

The items for the sukuk market to develop laid out by Mr. Alvi 7 years ago seem to be falling into line quite well, after being interrupted by the financial crisis. There is however, a key item missing in the sukuk markets across the items above: tradability is possible, but it remains limited.

Liquidity in sukuk markets affects all the areas laid out above. If issuers do not sell into a liquid market, they will [have to pay a premium to conventional bonds](#). IFIs will tend to buy-and-hold if there is not a transparent source of replacement sukuk if they do sell. Sukuk funds will also “buy-and-hold” if they cannot get allocations in new issues. And [how narrow will the pool of acceptable collateral be](#) if only a limited number of sukuk are both highly rated and actively traded?

Until next week,

Blake Goud