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ISLAMIC CAPITAL MARKET: GLOBAL DEVELOPMENT AND TRENDS

Abstract

The article examined trends in the global Islamic capital markets in 2018 using three main asset classes: sukuk, Islamic stocks and Islamic funds. It was noted that the world capital markets in 2018 were affected by a number of factors, including the slowdown in economic growth and ongoing geopolitical problems. Trade uncertainty came to the fore after the announcement that the US would impose tariffs on steel and aluminum imports, which weighed most on equity markets. Markets were also affected by higher interest rates by the US Federal Reserve and, as a result, tighter international liquidity conditions and rising borrowing costs. Oil prices also experienced volatility in 2018, starting the year with a prolonged rebound in prices but eventually falling sharply in the fourth quarter. The conducted studies allow to draw the following conclusions that the positive results recorded in the ICM are due to sovereign and multilateral sukuk issues in the key markets of Islamic Finance to support the relevant budget expenditures. During this period, there have been a number of debuts in the sovereign issues market, including green sovereign sukuk to finance environmentally friendly projects. There is a trend of a noticeable increase in the number of Islamic funds in 2018. But due to the deterioration of stock market performance in developed and emerging equity markets in 2018, the assets of Islamic funds showed a decrease of 8.5% compared to 2017.

Key words: Islamic finance, capital market, Islamic stocks, sukuk, Islamic funds, interest rates, liquidity.

The global capital markets in 2018 were affected by a number of factors, including a moderation in economic growth and continuing geopolitical challenges. Trade uncertainty came to the forefront following the announcement that the US would impose tariffs on steel and aluminium imports, which weighed most heavily on the equity markets. Markets were also affected by the hike in interest rates by the US Federal Reserve and the resulting tightening of international liquidity conditions and increase in cost of borrowing. Oil prices also experienced volatility in 2018, starting the year with a continued rebound in price, but eventually plummeted in the fourth quarter [1].

Next, we consider the events and trends in the global Islamic capital markets in 2018, through the three main classes of assets, sukuk, Islamic stocks and Islamic funds.

Sukuk. Amidst the more challenging global conditions, new sukuk issuances in 2018 reached USD 93 billion, demonstrating a growth of 1,7% from the previous year (Figure 1, p. 145). While growth was more subdued in 2018 compared to the double-digit growth observed in 2017 which was a result of large issuances, particularly from GCC sovereigns (2017 – 22,8%), several positive trends emerged in 2018, including a promising increase in corporate issuances.

Notably, conventional bond issuances also saw a decline in 2018 across a number of jurisdictions including the GCC, which suggests that the overall slowdown in both bond and sukuk issuances may also have been due in part, aside from the volatility in financial markets and tightening financing conditions, to the higher oil prices during the first nine months of 2018 which reduced the borrowing needs for some sovereigns.

Sovereign issuances once again accounted for the majority of issuances – specifically, 74% of total issuances – in 2018. However, total sukuk issuances by sovereigns dropped by 9% in 2018.

Corporate sukuk issuances saw a significant boost in 2018, amounting to a total of USD 24,4 billion in 2018, which represents a 55% increase from the previous year. Increases in corporate issuances were led by the large issuances from the UAE, as well as from three other jurisdictions, Malaysia, Saudi Arabia and Turkey [2].

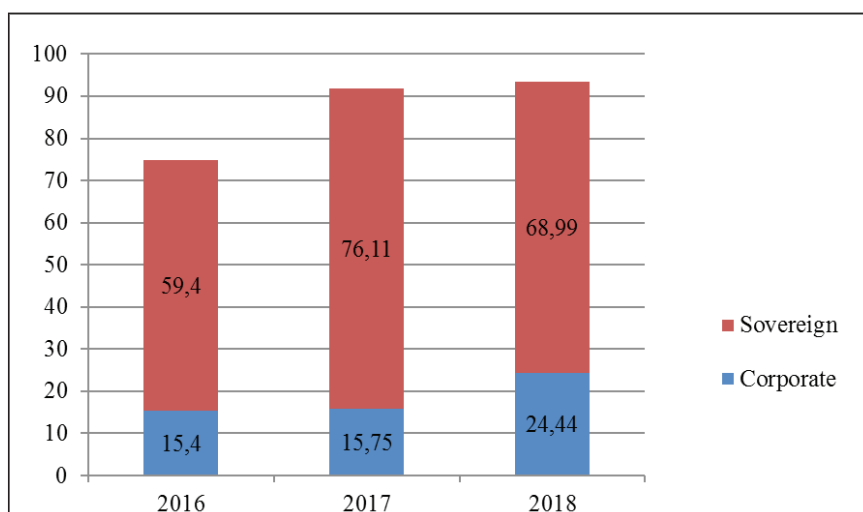


Figure 1 – Sukuk issuance trend (2016–2018), USD billion

Going into 2019, sukuk issuances are expected to continue to see robust growth given the lower levels of oil prices projected for the year and the increase in infrastructure spending, as well as the continuing need for deficit financing. Favourable developments in the sukuk sphere include the launch of a primary dealers’ programme for sovereign sukuk in Saudi Arabia in July 2018, as well as the commencement of sukuk trading on Borsa Istanbul via the Committed Transactions Market of sukuk (CTM). In other positive developments for the sukuk market, the inclusion of eligible sukuk in the JP Morgan Emerging Market Bond Index (EMBI) series from 2019 is noteworthy. This is likely to help boost the appeal of sukuk to more global investors, as well as contribute to increased liquidity of sukuk, potentially diversifying the investor base away from the buy-and-hold trend for sukuk.

Overall, the outlook for sukuk remains positive for 2019 as new jurisdictions such as Kazakhstan aim to issue sovereign sukuk in the near future, and the UK plans to reissue sovereign sukuk in 2019.

Islamic equities. The equity markets experienced extreme volatility in 2018, which saw a year of overall weak returns across global equity markets, including a 12,5% drop in the FTSE All-World index, the biggest percentage decline to date since the GFC in 2008 [2]. As discussed in the preceding section, markets were affected by the trade conflict between the United States and China, fears over rising interest rates, and continuing geopolitical uncertainties such as Brexit.

However, comparing Islamic indices with similar conventional indices, the Islamic equity markets did relatively better in 2018. Analysing the YTD returns of Islamic equity indices versus conventional indices as well as the total returns over three-year and five-year horizons, while there was a considerable drop in returns in 2018 for both the conventional and Sharia indices, the latter performed comparatively better across all indicators [3].

Table 1 – Total Returns of S&P Global 1200 Index vs. S&P Global 1200 Sharia Index (2018)

	S&P Global 1200 Index	S&P Global 1200 Sharia Index
2018	-8,17%	-4,79%
3 Yr	7,39%	8,64%
5 Yr	5,29%	6,76%
10 Yr	10,29%	11,11%

Looking at the longer-term trend, over a 10-year horizon from January 2009 to January 2019, the S&P Global 1200 Sharia Index also generated overall higher returns than its conventional benchmark at 11.11%, compared to 10.29% returns generated by S&P Global 1200 during the same period. A similar long-term trend was also observed between other comparable conventional and Islamic indices.

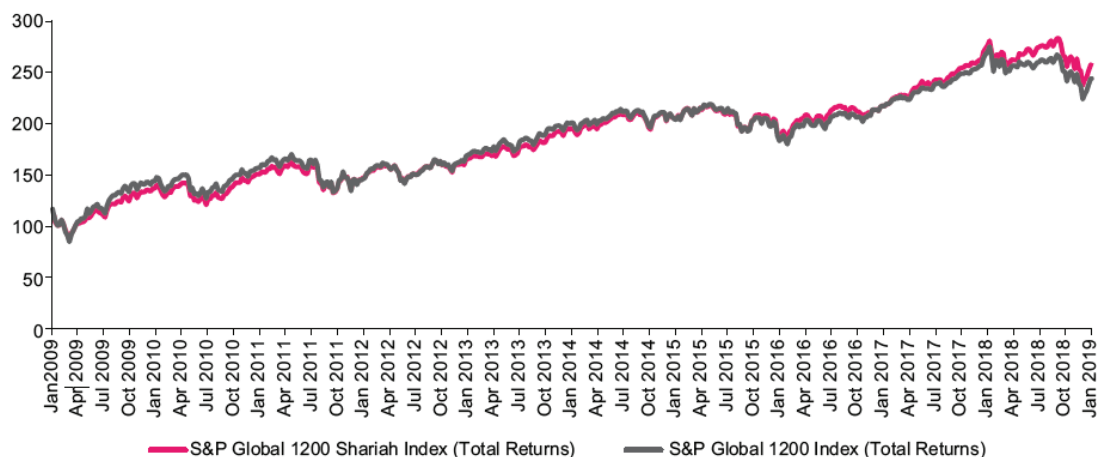


Figure 2 – Ten-year Historical Performance (2009–2019) [4]

Islamic funds. Islamic funds increased to a total of 1292 primary share funds (2017 – 1161 Islamic funds) holding about USD 67,4 billion of assets under management (AuM) as of end 2018. Notably, while the number of Islamic funds increased by 11% after a slight drop the previous year, the total AuM increased by a mere 1,0% indicating that the overall size of funds have not seen a significant increase. Out of the total number of Islamic funds, 860 funds are classified as active, holding about USD 61,5 billion AuM, indicating that while the number of Islamic funds has increased over the past year, the average size of funds has seen a contraction from USD 79,8 million in 2017 to USD 75,02 million as at the end of 2018.

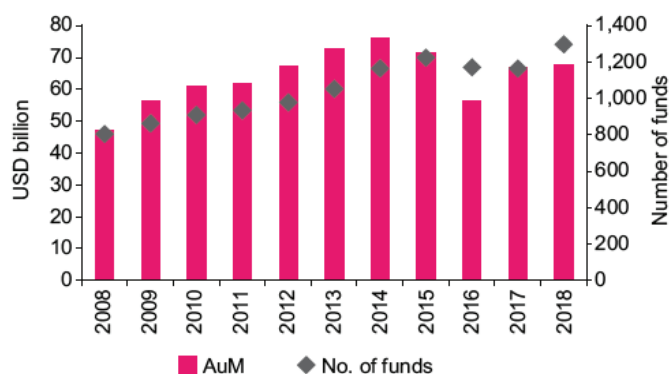


Figure 3 – Assets under Management and Number of Islamic Funds (2008–2018) [5]

Looking at the structure of global Islamic funds by asset classes (Figure 4, p. 147), the three major asset classes were equity, money market and commodities. The majority of funds were equity-focused (42%), with an increase in volume to USD 28.6 billion.

The volume of money market-based funds dropped slightly to 25%, totalling USD 17.03 billion AuM; while commodity-based funds increased to 15% share of total Islamic funds, making up USD 9.8 billion AuM. Other significant asset classes for Islamic funds include fixed income/sukuk funds (USD 6.4 billion) and mixed allocation funds (USD 4.9 billion) [6].

Summing up, we can draw the following conclusions that the positive performance recorded in the ICM is due to the sovereign and multilateral sukuk issuances in key Islamic finance markets to support respective budgetary expenditures. There were also a number market debuts of sovereign issuances, including green sovereign sukuk to finance eco-friendly environment projects.

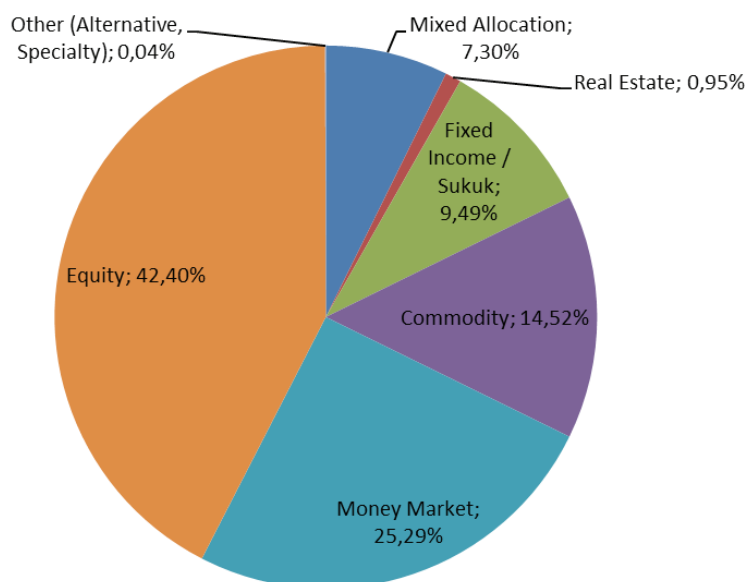


Figure 4 – Islamic Fund Assets by Asset Class (2018)

As a reflection of the deteriorating performance of equity markets in both advanced and emerging market equity indices in 2018, Islamic funds' assets also recorded a decrease of 8.5% compared to 2017. However, a notable increase is recorded in the number of Islamic funds in 2018 – to 1,292 (from 1,161 funds in 2017), of which 860 are active (821 in 2017).

LIST OF LITERATURE

- 1 Islamic Financial Services Board, 2019: <https://www.ifsb.org>.
- 2 Credit Suisse Global Investment Returns Yearbook 2018: <https://uncommonfinance.com>.
- 3 Gulf times. Daily Newspaper published by GPPC Doha, Qatar: <https://www.gulf-times.com/>.
- 4 IFSB Releases the 2019 Stability Report on Islamic Financial Services: <https://www.moodyanalytics.com/>.
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Аңдатпа

Мақалада 2018 жылы исламдық капиталдың әлемдік нарықтарындағы үш негізгі активтер кластарын: сукук, ислам акциялары мен ислам қорларын пайдалану үрдістері қарастырылды. Әлемдік капитал нарығына бірқатар факторлар әсер етті, оның ішінде экономикалық өсудің баяулауы және сақталып отырған геосаяси проблемалар. Сауда белгісіздігі АҚШ-тың болат пен алюминийдің импортына тарифтер енгізетіні туралы хабарлағаннан кейін алдыңғы жоспарға шықты, бұл шара акция нарықтарына әсер етті. Нарықтарға, сонымен қатар АҚШ Федералдық қорының пайыздық мөлшерлемелерінің артуы, соның салдарынан халықаралық өтімділік шарттарының қатаңдауы және қарыз алу құнының өсуі де ықпал етті. Мұнай бағасы да 2018 жылы өзгеріске ұшырап, жыл соңында, төртінші тоқсанда күрт төмендеді. Жүргізілген зерттеулер ІСМ-да тіркелген оң нәтижелердің тиісті бюджет шығыстарын қолдау үшін исламдық қаржыландырудың негізгі нарықтарындағы сукуктың егеменді және көпжақты шығарылымдарына негізделгенін көрсетті. Осы кезеңде егеменді шығарылымдар нарығында бірқатар дебюттер болды, оның ішінде экологиялық таза жобаларды қаржыландыру үшін жасыл егеменді сукук. 2018 жылы ислам қорлары санының ұлғаю үрдісі байқалады. Бірақ дамыған және дамушы акциялар нарықтарындағы қор нарықтары көрсеткіштерінің нашарлауына байланысты 2018 жылы ислам қорларының активтері 2017 жылмен салыстырғанда 8,5%-ға төмендегенін көрсетті.

Тірек сөздер: исламдық қаржыландыру, капитал нарығы, исламдық акциялар, сукук, исламдық қорлар, пайыздық мөлшерлемелер, өтімділік.

Аннотация

В статье рассмотрены тенденции на мировых рынках исламского капитала в 2018 г. с использованием трех основных классов активов: сукук, исламских акций и исламских фондов. Было отмечено, что на мировые рынки капитала повлиял ряд факторов, в том числе замедление экономического роста и сохраняющиеся геополитические проблемы. Торговая неопределенность вышла на передний план после объявления о том, что США введут тарифы на импорт стали и алюминия, что больше всего сказалось на рынках акций. Рынки также были затронуты повышением процентных ставок Федеральным резервом США и, как следствие, ужесточением условий международной ликвидности и ростом стоимости заимствований. Цены на нефть также испытали волатильность в 2018 г., начав год с продолжительного отскока цен, но в конечном итоге цены резко упали в четвертом квартале. Проведенные исследования позволяют сделать вывод о том, что положительные результаты, зафиксированные в ИСМ, обусловлены суверенными и многосторонними выпусками сукук на ключевых рынках исламского финансирования для поддержки соответствующих бюджетных расходов. За данный период произошел ряд дебютов на рынке суверенных выпусков, в том числе зеленый суверенный сукук для финансирования экологически чистых проектов. Прослеживается тенденция заметного увеличения количества исламских фондов в 2018 г. Но в связи с ухудшением показателей фондовых рынков на развитых и развивающихся рынках акций в 2018 г. активы исламских фондов показали снижение на 8,5% по сравнению с 2017 г.

Ключевые слова: исламские финансы, рынок капитала, исламские акции, сукук, исламские фонды, процентные ставки, ликвидность.