

## SUKUK 201 | GLOBAL

# Sukuk Liquidity Trends

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- 2013 sukuk issuance fell 13%.
- The liquidity of the sukuk market rose slightly in 2013.
- How long each sukuk has been outstanding affects its liquidity.
- The par amount of each sukuk makes a difference in its secondary market liquidity.

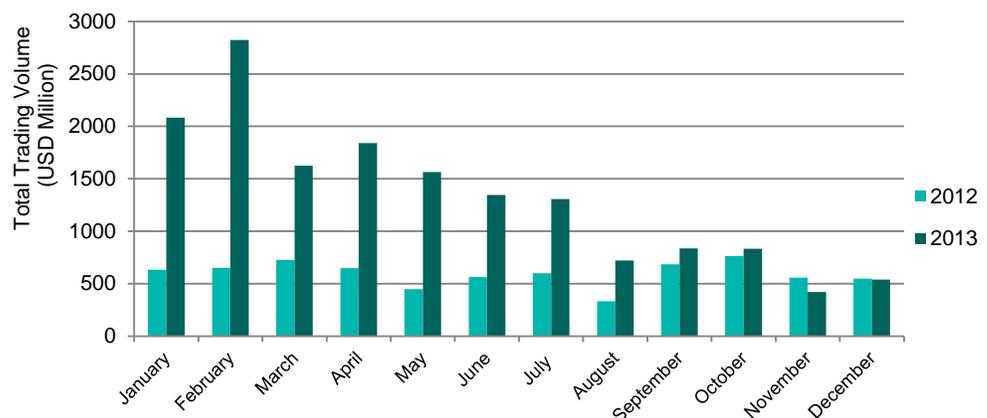
Islamic finance posted robust growth in recent years amid a challenging global environment. Continuous demand for Shariah-compliant investment products, particularly in Asia and the Middle East has driven this growth. The global sukuk market, comprised of Shariah-compliant securities, has also expanded rapidly. While global sukuk issuance declined by 13% in 2013, the liquidity of the sukuk market, as tracked by the Dow Jones Sukuk Index, showed a slight improvement in the same period. As we studied sukuk liquidity by issuance year, we found evidence that new issues were more active than vintage sukuk. Additionally, the size of the outstanding par amount was often an eligible indicator of an issue's liquidity.

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### Index Liquidity

The Dow Jones Sukuk Index is designed to measure the performance of the U.S.-dollar-denominated, investment-grade sukuk issues in the global market. As of Dec. 30, 2011, there were 23 constituents in the Dow Jones Sukuk Index. The average monthly trading volume of 15 of those 23 constituents in 2012 was USD 40 million, par amount<sup>1</sup>. The total trading volume, shown in Exhibit 1, was relatively stable in 2012.

### Exhibit 1: Total Trading Volume of the Dow Jones Sukuk Index Constituents



Source: S&P Dow Jones Indices and MarketAxess. Data as of Dec. 31, 2013. Charts and graphs are provided for illustrative purposes. Past performance is no guarantee of future results. The index liquidity depicts the volume in 2012 for the portfolio as of December 2011 and the volume in 2013 for the portfolio as of December 2012. Note that it did not capture the new issues' trading volume within 2012.

<sup>1</sup> The number of the constituents considered in the index liquidity was limited to the availability of liquidity data.

As of Dec. 31, 2012, there were 39 constituents in the index. The average monthly trading volume of 32 of the 39 constituents was USD 43 million, par amount, in 2013<sup>2</sup>, a 5.69% increase over the previous year. Additionally, according to the Dow Jones Sukuk Index, there was a decrease in total trading volume in 2013, as shown in Exhibit 1. This trend was in line with tighter liquidity conditions seen in global markets.

### Liquidity: New vs. Old Issues

New sukuk were more active than the vintage sukuk issued in prior years, and the new issues dominated the market volume.

We then studied the liquidity of the 45 sukuk by issuance year, 2010 to 2013. Exhibit 2 shows the average monthly trading volumes<sup>3</sup> of sukuk in 2012 and 2013. The first observation from the data was that new issues were more active than vintage sukuk (those issued in prior years) and dominated the market volume (which is generally the case for most fixed income products.) Of note, this trend was consistent in 2012 and 2013. Since the trading volume at the new launch of an issue may be volatile, we considered data that excluded trading volume during the month of issue for new sukuk. This data is shown in columns 6-9 in Exhibit 2 and similarly demonstrates that vintage sukuk were less active than the new issues.

Exhibit 2: Average Sukuk Monthly Trading Volume by Issuance Year								
Issuance Year	2012 (USD Mil.)	% of Total Sukuk Volume	2013 (USD Mil.)	% of Total Sukuk Volume	2012* (USD Mil.)	% of Total Sukuk Volume	2013* (USD Mil.)	% of Total Sukuk Volume
2010	32.5	8	23.0	7	32.5	22	23.0	13
2011	42.8	11	48.6	16	42.8	29	48.6	28
2012	309.9	80	38.5	12	73.7	49	38.5	22
2013	-	-	198.3	64	-	-	62.5	36

Source: S&P Dow Jones Indices and MarketAxess. Data as of Dec 31, 2013. Charts and graphs are provided for illustrative purposes. Past performance is no guarantee of future results. \*The data excluded the trading volume during the month of issue for new sukuk. Highlighted cells indicate trend of new constituent's substantial percentage of total trading volume of 45 sukuk.

Generally, outstanding sukuk trading activity declined as newer issues were brought to market. The sukuk issued in 2010 and 2012 saw their volume drop significantly from 2012 to 2013. While the data show that there was a pickup in volume for the sukuk issued in 2011, this increase was predominately contributed by one sovereign sukuk issued by Indonesia with a large outstanding par amount. In summary, new sukuk were more liquid than vintage sukuk.

### Sukuk Size and Liquidity

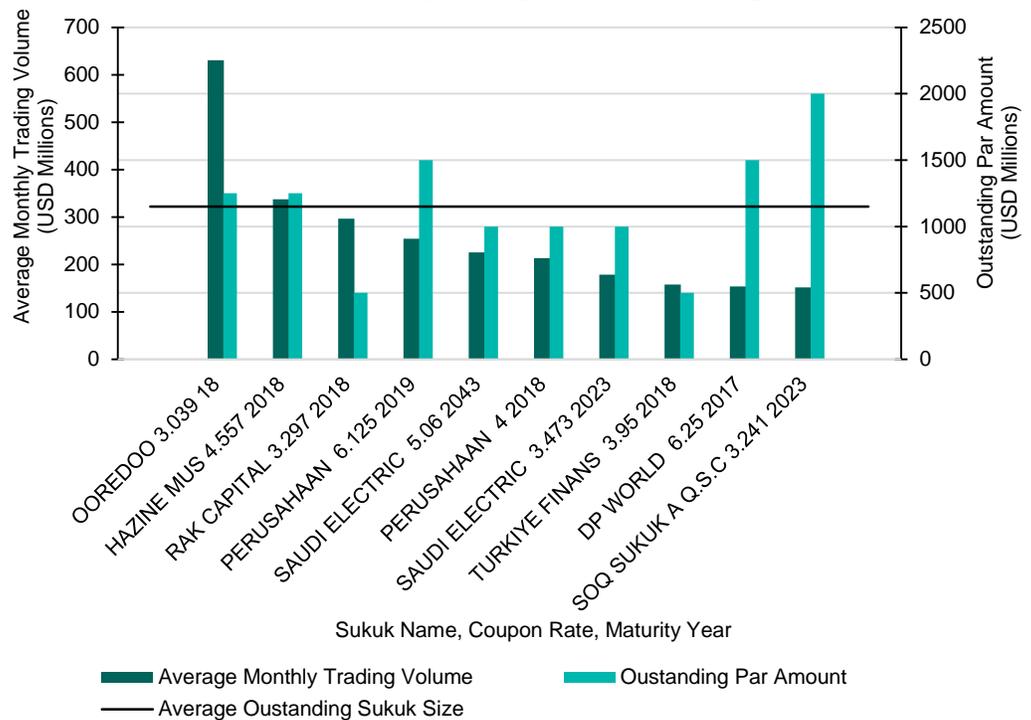
We ranked the 45 existing sukuk by their average monthly trading volume. It was observed that the larger the issue size (i.e. the larger the outstanding par amount), the more active the sukuk. Looking at the 10 most-liquid sukuk (Exhibit 3), eight of the 10 issues have an outstanding par amount of at least USD 1 billion.

<sup>2</sup> The number of the constituents considered in the index liquidity was limited to the availability of liquidity data.

<sup>3</sup> In this paper, the average monthly trading volume was computed as the total trading volume divided by the number of months that the sukuk was traded in that particular year.

**Exhibit 3: 10 Most-Liquid Sukuk by Average Monthly Trading Volume**

The data demonstrates that new sukuk are substantially more liquid than vintage sukuk and that the most-liquid sukuk tend to have a larger outstanding par amount.



Source: S&P Dow Jones Indices and MarketAxess. Data as of Dec 31, 2013. Charts and graphs are provided for illustrative purposes. Past performance is no guarantee of future results.

We took a closer look at the relationship between sukuk liquidity and size by focusing on the average monthly trading volume of 10 new sukuk issues added in 2013. While the trading volume of the new issues was generally lower than the previous year’s new issues’ volume, it was observed that, for the most part, the more-active sukuk were the ones with larger outstanding par amounts. Some of the biggest issues did not always have the largest trading volumes. This is due to other factors that affect liquidity such as the issuer’s industry, credit risks and ratings

**Conclusion**

In conclusion, sukuk liquidity remained relatively stable in 2013 despite the challenging global environment. The data demonstrates that new sukuk are substantially more liquid than vintage sukuk and have dominated the total market volume. Additionally, the most liquid sukuk tend to have a larger outstanding par amount and the USD 1 billion outstanding par amount seems to be a threshold for better liquidity.

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