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An In-Depth Look at the Dow Jones Sukuk Indices

The issuance in the U.S. dollar-denominated sukuk market [as tracked by the [Dow Jones Sukuk Total Return Index \(ex-Reinvestment\)](#)] continued to be robust in 2017. Sukuk issuance in 2017 has already outgrown the strong growth seen in 2016. The total issuance through September 2017 was USD 20.25 billion, representing a 20% increase from the year before. In fact, sukuk issuance has continued to record double-digit growth since the slump in 2015. In 2017 YTD,¹ we have seen the highest issuance since 2012.

Exhibit 1: Sukuk New Issuance Total Outstanding Par Amount

YEAR	TOTAL OUTSTANDING PAR AMOUNT (USD)	GROWTH YEAR-OVER-YEAR (%)
2013	11,550,000,000	-17
2014	14,100,000,000	22
2015	11,950,000,000	-15
2016	16,750,000,000	40
2017 YTD	20,250,000,000	20

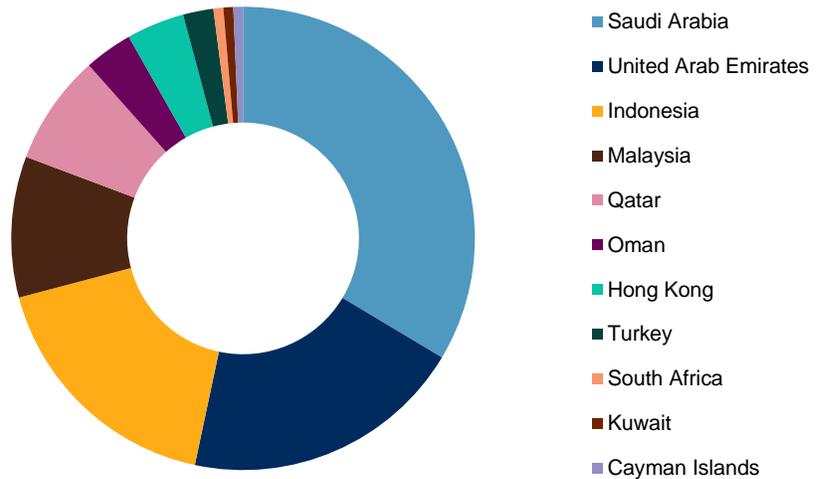
Source: S&P Dow Jones Indices LLC. Data as of Sept. 29, 2017. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

As tracked by the index, the Gulf Cooperation Council (GCC) countries continued to be the most active issuers of U.S. dollar-denominated sukuk and contributed over 80% of the new issuances. Saudi Arabia debuted its first U.S. dollar-denominated sukuk and attracted strong market participants demand; it raised USD 9 billion in sukuk, equally split into 5- and 10-year tranches. Other returning issuers like Indonesia and Oman raised USD 3 billion and USD 2 billion, respectively. Hong Kong also came back to the market and launched a 10-year sukuk, which extended the yield curve from its two previous five-year sukuk.

Looking at overall country exposure in the Dow Jones Sukuk Total Return Index (ex-Reinvestment), the GCC currently represents 65%, and among the GCC, Saudi Arabia has the largest exposure, at 34%, followed by United Arab Emirates, at 20%. Sukuk issued from Malaysia and Indonesia constitute around 10% and 17%, respectively.

¹ As of Sept. 29, 2017.

Exhibit 2: Country Exposure in the Dow Jones Sukuk Total Return Index (ex-Reinvestment)

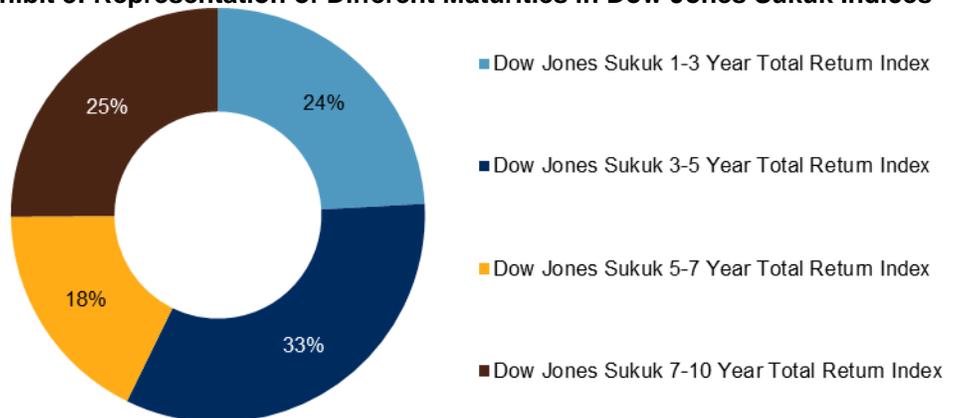


Source: S&P Dow Jones Indices LLC. Data as of Sept. 29, 2017. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

There are some perpetual sukuk issued in the market; while issuers aim to diversify their funding sources and expand their market shares, some issuers particularly try to utilize the additional Tier 1 capital to satisfy the Basel III requirement.

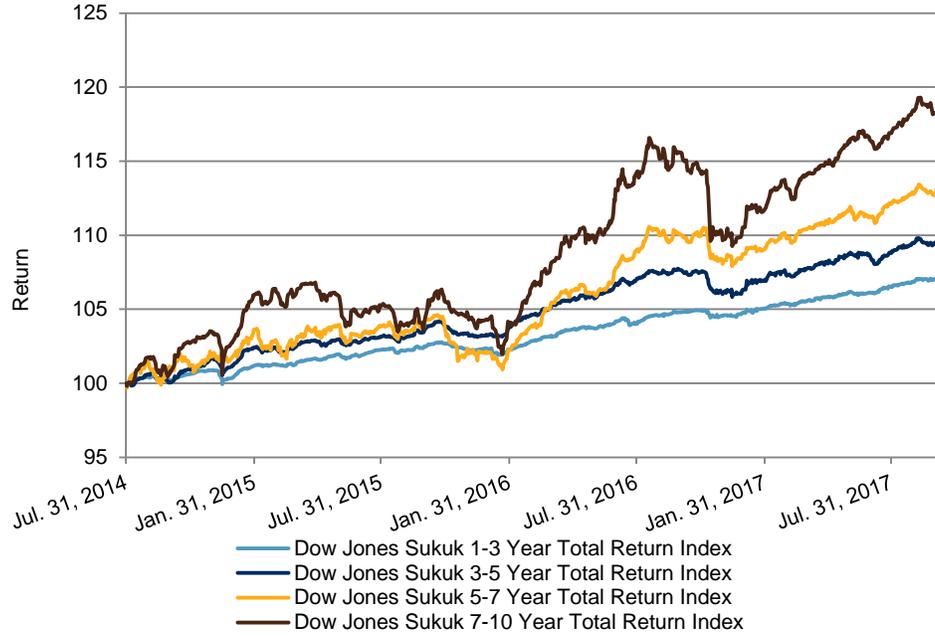
According to the maturity-based subindices, 57% of sukuk have less than five years to maturity, yet it is observed that the 5-7 year maturity range has continued to expand, increasing from 6% in 2015 to 18% as of September 2017. In fact, the [Dow Jones Sukuk 7-10 Year Total Return Index](#) has outperformed the shorter-tenor indices since 2014. There are some perpetual sukuk issued in the market; while issuers aim to diversify their funding sources and expand their market shares, some issuers particularly try to utilize the additional Tier 1 capital to satisfy the Basel III requirement. However, since those sukuk are not rated as investment grade, they are not eligible for inclusion in the index.

Exhibit 3: Representation of Different Maturities in Dow Jones Sukuk Indices



Source: S&P Dow Jones Indices LLC. Data as of Sept. 29, 2017. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

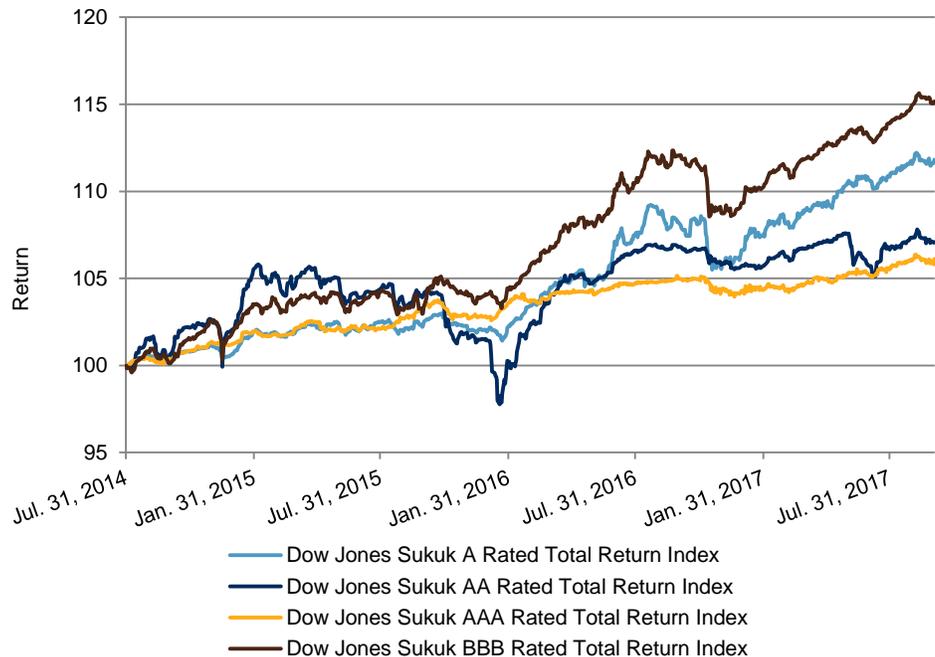
Exhibit 4: Performance of Maturity-Based Dow Jones Sukuk Total Return Indices



Source: S&P Dow Jones Indices LLC. Data as of Sept. 29, 2017. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

On the other hand, higher-yielding sukuk continue to outperform. Since 2014, the [Dow Jones Sukuk BBB Rated Total Return Index](#) rose 15%, followed by the [Dow Jones Sukuk AA Rated Total Return Index](#), which gained 11.6%.

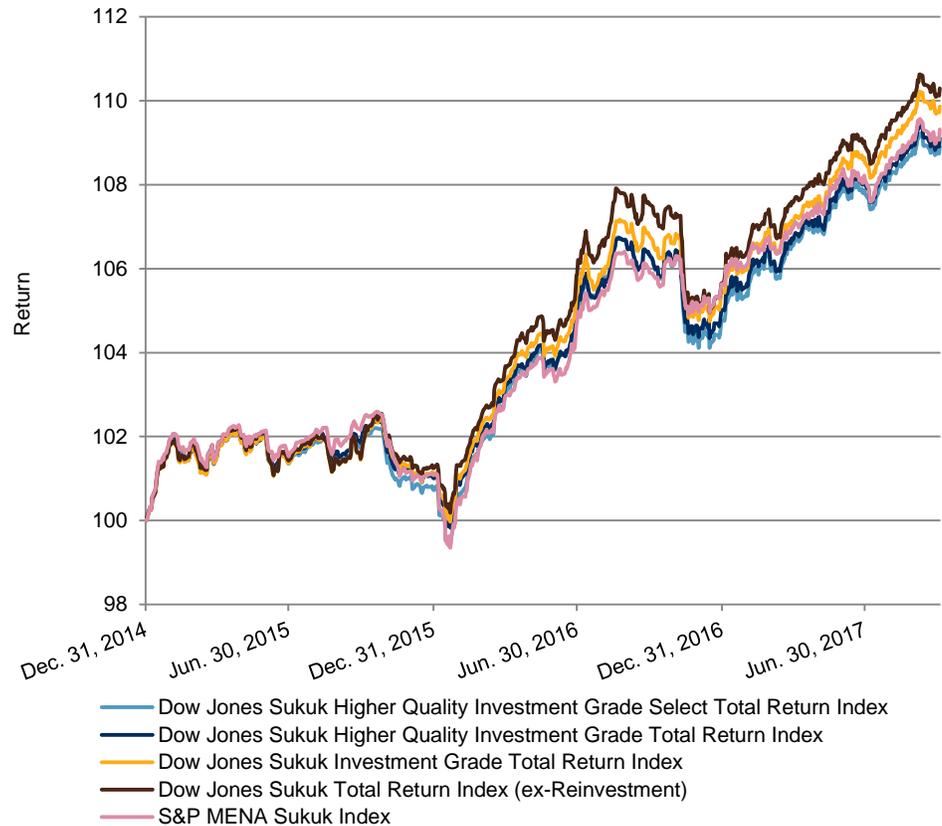
Exhibit 5: Performance of Rating-Based Dow Jones Sukuk Total Return Indices



Source: S&P Dow Jones Indices LLC. Data as of Sept. 29, 2017. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Looking at the 2017 YTD performance, the hunt-for-yield theme has continued. The [Dow Jones Sukuk Total Return Index \(ex-Reinvestment\)](#) outperformed the [Dow Jones Sukuk Higher Quality Investment Grade Total Return Index](#) and rose 4.26% as of Sept. 29, 2017. The [S&P MENA Sukuk Index](#), which seeks to track the performance of sukuk issued in the Middle East and North Africa, gained 3.30% in the same period.

Exhibit 6: 2017 YTD Performance for Sukuk Indices



The sukuk market continues to show positive signs of development, including growing market share and expanding issuer profiles.

Source: S&P Dow Jones Indices LLC. Data as of Sept. 29, 2017. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

In conclusion, the sukuk market continues to show positive signs of development, including growing market share and expanding issuer profiles. Market participant appetite for sukuk remains, and there is a tendency to favor higher-yielding and longer-tenor sukuk. Further growth may be driven by a wider investor base and supportive policies from the Islamic Financial Services Board.

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