



THE RISE IN DEMAND OF SUKUK

**FAID BIN ABD. RAHMALI
2010162009**

**Submitted in Partial Fulfillment of the Requirement for the
Bachelor of Business Administration (Hons) Islamic Banking**

**FACULTY OF BUSINESS MANAGEMENT
MARA UNIVERSITY OF TECHNOLOGY
JOHOR**

(14TH JUNE 2013)

ACKNOWLEDGEMENT

All praises to almighty ALLAH, the most merciful and the most benevolent for giving me the opportunities in completing this research paper. It would be impossible for me to spent time to complete this study without the grace and help of ALLAH S.W.T.

I am greatly indebted to Puan Rabiatal Alawiyah binti Zainal Abidin and Dr. Norashikin bt. Ismail whose excellence in supervision and plays a big role in inspired my work. Without her untiring encouragement, suggestions, ideas and comments throughout this study and this research could not be completed.

I dedicate this research to my beloved parents and for their endless support and understanding and also to the rest of my families for their help and encouragement. Beyond a simple thank you, I want them to know that I really appreciate what they had done to me.

I wish to express my deepest gratitude to all my friends, who shared their valuable experience, time and commitment. Without their patience, this study cannot be complete.

Last but not least, I would like to thank to everyone that involved directly or indirectly for their contribution, invaluable support and encouragement they have place on me. Without everyone continued support, this study would not been the same as presented here.

Thank you.

TABLE OF CONTENTS

	PAGE
TITLE PAGE	i
DECLARATION OF ORIGINAL WORK	ii
LETTER OF TRANSMITTAL	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
ABSTRACT	vii
1. INTRODUCTION	
1.1 BACKGROUND	1-8
1.2 PROBLEM STATEMENT	9
1.3 OBJECTIVE	10
1.4 RESEARCH QUESTION	10
1.5 THEORITICAL FRAMEWORK	10
1.6 HYPOTHESIS	11
1.7 SIGNIFICANCE OF STUDY	11-12
1.8 SCOPE OF STUDY	12
1.9 LIMITATIONS.....	13
2. LITERATURE REVIEW	
2.1 GROSS DOMESTIC PRODUCT (GDP)	14
2.2 FOREIGN EXCHANGE RATE STABILITY (FOREX)	15
2.3 MARKET LIQUIDITY (LIQ)	16
3. RESEARCH METHODOLOGY AND DESIGN	
3.1 INTRODUCTION	17
3.2 RESEARCH DESIGN	17
3.3 DATA COLLECTION METHOD	18-22
4. FINDING AND DATA ANALYSIS	23-27
5. CONCLUSION AND RECOMMENDATION.....	28-29
REFERENCES	
APPENDICES	

ABSTRACT

The demand for sukuk in Malaysia has been grown remarkably in the last couple of years since the first issuance in the early 1990s by a foreign owned non-islamic company, Shell MDS, known as World's first ringgit sukuk. Up until now, sukuk had not shown any sign of slowing down except when it faces the global financial crisis.

The study objective of this paper is going to foresee the rise in demand of sukuk issuance with the economics factors in Malaysian Capital Market.

This paper will analyze three independent variables related to the rise in the demand of sukuk for the period 1990 to 2011. Whereby, it consists of (i) Gross Domestic Product (GDP), (ii) Foreign Exchange Rate (FOREX), and (iii) Market Liquidity (LIQ). Otherwise, the dependent variable would expect to be the growth rate of sukuk issuance.

The methodology use is model estimation of ordinary least square regression method (OLS) by using multiple regressions. Thus, the results shows that sukuk issuance in Malaysia reckon only two variables consist of GDP and FOREX as major factor contribute to the rise in demand of sukuk. While, for market liquidity the result show slightly insignificant due to the liquidation of other Islamic products that give negative effect to the sukuk issuance likewise demand for commodity murabahah or tawarruq.

Keywords : Sukuk, and Malaysian capital market.

CHAPTER 1 : INTRODUCTION

1.1 BACKGROUND

In this section, the researcher starts by defining “sukuk” and then followed by sukuk as an alternative source of financing. Thereafter, the researcher will view the development of sukuk issuance in Malaysian capital market.

1.1.1 Overview of sukuk

Islamic finance industry has grown massively in response to a profusion of investment products, which has been fuelled by an increasing demand for investments that comply with Islamic law. The world has witnessed a strong growth in global sukuk issuance in recent years as it has been enjoying tremendous growth since its debut in 1970s. Of all the rapidly growing Islamic capital market securities none are gaining in popularity as much as sukuk, which in some respects has a different underlying structure compared to the conventional models.

Considering the recent financial crisis that has had a strong impact on global financial sector including Islamic finance industry, this study attempts to investigate the sustainability of sukuk during the recent financial crisis. This study focuses solely on Malaysia’s debt market, taking into account unique features of