

Islamic bond rakes in bids

Sale described as a political decision

REUTERS

LONDON - Britain became the first Western country to sell an Islamic bond on Wednesday, attracting 2.3 billion pounds (\$3.9 billion) in orders, more than 10 times the amount it was looking to sell.

The government raised 200 million pounds from the five-year sukuk issue, part of an effort to boost London's position as a center for Islamic finance.

Finance Minister George Osborne said he hoped the deal would spur more corporate issuance of Islamic bonds, which cannot pay interest but instead offer a fixed profit stream based on underlying assets such as property.

"Today's issuance of Britain's first sovereign sukuk delivers on the government's commitment to become the Western hub of Islamic finance and is part of our plan to make Britain the undisputed centre of the global financial system," he said.

The Islamic bond was

priced to give a profit rate of 2.036 percent, the same as the yield on Britain's benchmark five-year government bond, or gilt. That is less than the premium of up to 2 basis points over the conventional bond that was initially indicated, reflecting bumper demand.

However, some analysts questioned whether the relatively small issue was enough to kick-start Britain's Islamic finance market.

Robert Stheeman, chief executive of the UK Debt Management Office, told Reuters that it had been hard to find suitable assets to structure the issue, which does not pay interest in the same way as a conventional bond.

"At this stage it's planned just to be a one-off," Stheeman said. "It has not proven easy to find sufficient assets either for bigger size or for a program of issuance. But we are pleased with the result."

The sukuk is underpinned by rents from three government buildings.

Earlier in the day, speaking at a Euromoney conference, Stheeman described the bond sale as an essentially political decision and not a way to meet core British funding needs.

The strong demand belies concern from some analysts that the low yield for the 2019 sukuk, and the use of sterling, might have dampened its appeal to overseas investors, who are used to higher yields and other currencies.

However Khalid Howladar, Moody's global head of Islamic finance, said that the "modest" 200 million pound sukuk issuance "really doesn't move the dial in terms of the \$60-65 billion in global sukuk issuance expected this year."

"Demand for high credit quality sukuk in the triple-A and double-A space far exceeds supply, particularly among the fast growing Islamic banks who need an increasing amount of high grade assets to address forthcoming Basel III liquidity requirements," he added.