

SUKUK PRICING FACTORS: AN ECONOMETRIC STUDY

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Abstract. The goal of this paper is to investigate unique pricing factors of Islamic bonds. For the purpose of the study we have conducted an econometric analysis on the time-series sample of three currently tradable sukuk issuances originated in Malaysia. Our findings confirmed the positive relationship between the sukuk price and price for underlying asset. Moreover, we have determined the positive relationship between sukuk price and conventional bonds' price of the same issuer. LIBOR was found to be insignificant. Results of this analysis confirm the linkage of sukuk to real economic activities, as the prices of bonds are correlated with underlying assets. Furthermore, findings showed that the independence of Islamic bonds from interest-based markets is proved, since sukuk prices are not linked to LIBOR.

Keywords. Bonds, sukuk, Islamic finance, pricing, risks, diversification.