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# Financial Crisis Report

**Written and Edited by David M. Miyoshi**

## Advancing in a Time of Crisis

**Words of Financial Wisdom: "Never believe anything until it has been officially denied" Claud Cockburn, British journalist**

**Inside this issue:**



**Except for the Great Depression, we are experiencing the most economically unstable period in the history of the modern world. This period will be marked with extreme fluctuations in the stock, commodity and currency markets accompanied by severe and sometimes violent social disruptions. As is typical of such times, many fortunes will be made and lost during this period. After talking with many business owners, executives, professionals and government officials from around the world, the writer believes that for the financially astute investor, this is a time of unprecedented opportunity given the global trade unbalances and distortions in the commodity and currency markets. The *Financial Crisis Report* is a free compilation of the opinions of David Miyoshi as well as of those advisors he himself subscribes to (with appropriate credits given) on how to benefit during this time of crisis. The writer receives no compensation of any kind from any advisors whose articles or ideas may appear in this report. The reader is welcomed to check on all sources of information mentioned herein. Because the opinions and observations of this writer and other advisors are provided herein without charge, the reader is asked to make his/her own judgment on the contents.**

## What Is The Real Cause of Terrorism?

Since 9/11, the world has been plagued with ever rising events of terrorism. We viewed with horror the recent carnage at the Charlie Hebdo offices, and the more recent bloody attack at the Corinthia Hotel in Tripoli Libya and we wonder what motivates these people to commit such atrocious acts. President Obama likes to call these acts as extremist terrorism but refuses to say they are caused by "Islamic" extremists. Whether he sympathizes with Muslims is a good question. But we know that extremists of some kind are perpetrating these acts of terror. And if you can't acknowledge an enemy exists, then you can't defeat them. But aside from that basic issue, there is the question what really drives these individuals to commit these heinous acts of bloodshed?

Since Osama bin Laden's holy warriors carried out the attacks, some decided that Islam was clearly to blame. Others -- especially the New Atheists who found a wide audience after 9/11 -- didn't stop at Islam and instead said that all religions are bad because they all inspire senseless violence.

In the decade since 9/11, however, experts in religion and terrorism have elaborated more complex theories for the role religion plays in global violence.

In general, scholars have concluded that religion -- be it Islam or any other faith -- is neither the chicken nor the egg when it comes to creating terrorists. Rather, religion is one of many factors in the explosive brew of politics, culture and psychology that leads fanatics to target innocents -- and take their own lives in the process. But no one mentions economics as being the cause.

Jessica Stern, author of "*Terror in the Name of God: Why Religious Militants Kill*," has come at it a different way. Stern argues that for many Muslim youths, the idea of terrorism under the guise of "jihad" became a "global fad" akin to gangsta rap. In short, it's less a religious phenomenon than "a cool way of expressing dissatisfaction with a power elite."

"Jihad has become a millenarian movement with mass appeal, similar, in many ways, to earlier global movements such as the anarchists of the 19th century or even the peace movement of the 1960s and '70s," Stern wrote in 2006. "But today's radical youth are expressing their dissatisfaction with the status quo by making war, not love." But what is this status quo they are rebelling against?

Harry Dent, a fellow student at Harvard

# What Is The Real Cause of Terrorism?

Business School and author of *Economy and Markets Daily*, takes a closer look at what's happening here. Dent argues that the root cause of the rebellion is the same as the income and wealth inequality crisis in developed countries, like in the U.S. Income inequality, the world over, is at high levels between the rich and poor countries, just as it is for the population within developed countries.

*Oxfam* just came out with a report that shows that the top 1% in the world have controlled between 46% and 48% of the wealth since 2000, almost as extreme as in the U.S. at 51%. Both of these trends have been rising since 2008 due to quantitative easing (QE) policies.

The top 80 billionaires control as much wealth as the bottom 50% or about 3.5 billion people. It is this staggering inequality that is proving to be a powerful catalyst to the current power struggle that's playing out globally.

We may call it Islam versus the West but Dent would call it the poor versus the rich… and it's the same all over the world.

The greatest terror insurgencies come from countries that have a very high percentage of Muslim population and are poorer than $5,000 GDP per capita (adjusted for purchasing power or PPP).

One can argue that the Middle East has older cultural values and are slow to change due to a certain lack of economic progress. But it just seems unfair to them that the western countries are so darned rich at $40,000 plus per capita incomes compared to $2,000 to $5,000 or lower — up to 20 times or more!

If you've ever been to any of the emerging countries, you'll see that many work much harder than we do for much less gain, because they have less infrastructure and have, more often than not, a corrupt government and economic system that favors the few (even more than our more democratic and free market system does).

They don't just hate us because of our freedom and values, they hate us because they work so hard and yet are still poor and disadvantaged… and yes, since their cultures have been slower to change, they will continue to live so by sheer momentum alone.

Dent has presciently observed that technologies change faster than cultures, and cultures change faster than genes…
That's what creates this dynamic of change and differences between cultural sectors between countries and within countries around the world.

At a stage in technological change, there is a breaking point where individuals and cultures revolt against the extreme income and wealth inequality that results at times like this.

It's no accident that the terror revolt is coming from the Middle East, Northern Africa and parts of Sub-Saharan Africa, like Somalia and Nigeria. It's not coming from South Africa that has fared better economically or from Indonesia where you find the largest of the world's Islamic population at 12.7%. Or even in the U.S. where the Muslim population is better integrated into our culture as we are a country made up of immigrants.

But there is another aspect to this terrorist revolution from Al-Qaeda to ISIS and others that may be evolving. It is extremely bottoms-up.

This poor and small insurgency cannot compete head-on with the top-down intelligence and militaries of the richest countries in the Western world that they've been attacking. So, they've been forced to go for the guerrilla model, like the Swamp Fox, Francis Marion, considered one of the fathers of modern guerrilla warfare from the Revolutionary War.

They increasingly organize into very decentralized "terror cells" that have their own missions. That makes it harder to track them and defeat them.

We keep taking down their central leaders like Osama bin Laden and others, and think they'll weaken. But they keep coming back like cockroaches.

In his latest book *The Demographic Cliff,* Dent argues that we could learn from the extremists in their bottoms-up network model that he espouses for companies and developed countries in the new Internet and network world.

# The Putinization of Uranium

Dent believes that we'll only finally thwart these extremists by fighting them at the bottoms-up network level through greater intelligence, as we have already started to learn to do — and *not* confronting them directly in their own backyard as this tactic has already failed in both Iraq and Afghanistan.

For now, Dent warns not to expect the geopolitical environment to get better until 2020. And until then, don't invest in such afflicted countries from Israel to Iraq to Nigeria as falling commodity prices will only add insult to injury and accelerate the civil wars and conflicts in these poorer countries.

Just as the poor and disadvantaged in America are learning how to vote themselves benefits from the public treasury, the poor and disadvantage of the world are now learning how to wage war to take the benefits from the advantaged populace.

D. Miyoshi

# The Putinization of Uranium

The following short article is written by Marin Katusa, author of the best-selling book *The Colder War* which takes an interesting look at how Vladimir Putin is rebuilding the Russian empire by controlling key natural resources. Katusa contends that the Russian president's ultimate goal is the death of the petrodollar and the subsequent end of American global economic power. Katusa claims Putin and his allies in China, India, and Brazil are aligning to loosen America's grip on international finance and seize control of the global energy sector. Should they win, Katusa believes it could cost the average American dearly and crush the retirement accounts of millions. Controlling in-the-ground resources is just part of Putin's plan to make Russia the dominant player in the global energy market.

One of these prime resources is uranium. Putin plans to use this resource to help secure his global energy empire. But this commodity will also provide financial opportunities for us all.

The world is constantly changing and we must be vigilant to locate financial opportunities such as this to keep us one step ahead.

D. Miyoshi

On Friday, March 11, 2011, nature struck.

A monster, magnitude 9.0 earthquake grabbed the seabed 40 miles northeast of Honshu, in Japan. It tossed the entire island eight feet eastward and shifted the earth's axis by more than four inches.

The shock generated tsunami waves that reached elevations of 130 feet and inundated areas six miles inland. Hundreds of thousands of people fled. Nearly 16,000 bodies were recovered and another 2,500 still are missing.

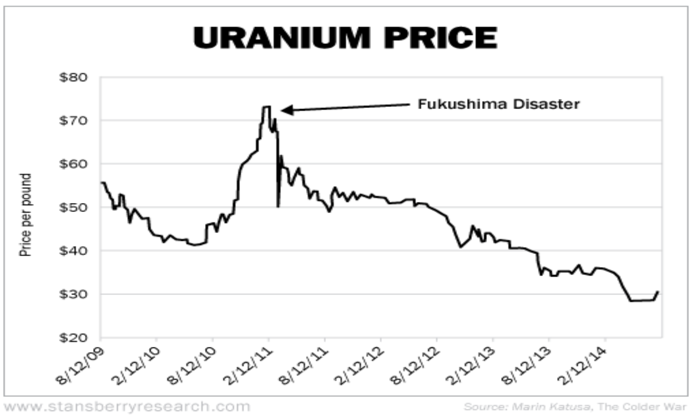
Lying in the tsunami's path were generators that fed the Fukushima Daiichi nuclear power plant's cooling system. They were disabled, and the cooling system stopped. Reactor core meltdowns followed. On the International Nuclear and Radiological Event Scale, it was a Level 7 disaster, matched only by Chernobyl.

In the aftermath of Fukushima – the cleanup of which will take decades – the spot price of uranium yellowcake has dropped more than 60%, to $28 per pound, and the stock prices of uranium miners have plunged between 60% and 85%.

Japan shut down all 52 of its other reactors for safety evaluations. South Korea followed suit for its 23 reactors – although most have now

# The Putinization of Uranium

been returned to service.




Fukushima rousted antinuclear protestors out of bed around the world. For them, the earthquake revealed nuclear power to the world for the terrible idea it had been all along.

Germany announced it would shut down all 17 of its reactors, permanently, by 2022. It seemed that many other countries – perhaps all of them – would be closing their nuclear power plants as well.

Well, not so fast.

No one followed Germany's lead. Today, 71 new plants are under construction in more than a dozen countries, with another 163 planned and 329 proposed.

Many countries without nuclear power soon will build their first reactor, including Turkey, Kazakhstan, Indonesia, Vietnam, Egypt, Saudi Arabia, and several of the Gulf emirates.

Many countries with nuclear power plants declared a time-out to reassess safety practices. But almost all are staying with what they have. **Uranium is still the only fuel that can produce base-load electricity economically and without exhaling greenhouse gases and other unwelcome hydrocarbons**.

In the United States, which hasn't opened a nuclear power plant since 1977, six new units are scheduled to come online by 2020, four from license applications made since mid-2007.

The U.S. is the world's biggest producer of nuclear energy, accounting for more than 30% of the worldwide total. Its 65 nuclear plants (housing 100 reactors) generate 20% of U.S. electricity.

France is the country most dependent on uranium… 75% of its electricity comes from nuclear power. China, whose urban residents are choking on pollution from coal-fired plants, is now on a nuclear-construction fast track.

It already has 17 reactors in operation, and 29 more are being built. The country wants a fourfold capacity increase by 2020. India has 20 plants and is adding seven more. Several countries in Africa, where more than 90% of the population goes without electricity, have begun to explore the possibility.

New facilities are going to be safer, too, especially after Fukushima exposed the vulnerabilities of older designs. Though the containment systems at Fukushima were far more robust than the buckets that held the Chernobyl reactors, they were 40 years old, several generations behind today's containment engineering and materials. Fukushima would soon have been a candidate for decommissioning.

**Long-Term Shortage**

Germany *may* be able to get by without nuclear power plants (although its carbon footprint is spreading, and it's already fudging by importing nuclear-generated electricity from France). But none of the other countries using or readying for nuclear power can. There's just no alternative.

# The Putinization of Uranium

**That means the demand for uranium will rise as both the world's economy and its discomfort over fossil fuels grow**. And that means profits and political leverage for any country that might dominate the uranium industry – like Russia.

The World Nuclear Association predicts demand growth of 33% from 2010 to 2020 and similar growth in the 10 years that follow. In 2011, the world consumed 160 million pounds of yellowcake uranium.
By 2024, just 10 years from now, it will be chewing through 200 million pounds annually – if it's available.

At the same time, a supply crunch is building. In 2012, the world consumed 25% more uranium than came out of its mines, a short-fall of 40 million pounds (at current long-term prices, about $1.8 billion worth). The deficit is likely to rise to 55 million pounds by 2020.

Uranium mines are few and far between. Only 20 countries have even one, and half of global production comes from just 10 mines in six countries.

In the United States, 100 reactors are burning fuel from 43 million pounds of uranium per year to produce electricity. Supply from U.S. mines is about 4 million pounds, or only 9% of what's needed to keep those plants running.

Here's another way of looking at it: The estimated needs of U.S. nuclear power plants between now and 2021 come in at around 275 million pounds of yellowcake. *The country's entire inventory* amounts to only 120 million pounds.

In the long run, more mining is the only answer. But a new uranium mine is more difficult to bring into production than any other kind of resource. Given the engineering challenges, environmental and safety requirements, and strict permitting, it takes 10 years, minimum, to get from decision to production.

New mines are not coming online quickly enough to meet expected growth in consumption. And the world *already* is using more than it digs out of the ground. In fact, it has been doing so for the past 20 years.

If every uranium mine proposed in the past decade were approved, built, and commissioned on schedule, supplies *might* be able to keep up. But current uranium prices are too low to entice any company to build those potential mines, and any risk taker that might decide to gamble on rising prices would face the separate risk of regulatory delay.

Getting the permits to build a uranium mine is not like standing in line for an hour at the Department of Motor Vehicles. You have to stand in many lines for many years while you wait for decision makers to find the courage to confront the radiation bogeyman.

A shortage is coming. Putin is preparing to turn it into a cash register and make controlling in-the-ground resources a tool.

Putin is a shrewd politician who is always scheming to convert economic advantage to political power. For the average investor, that economic advantage can mean substantial and legitimate profits simply by structuring things properly.

Here is to your proper structuring of investing in commodities.

D. Miyoshi

# 12 Charts on the Destruction of the U.S. Economy

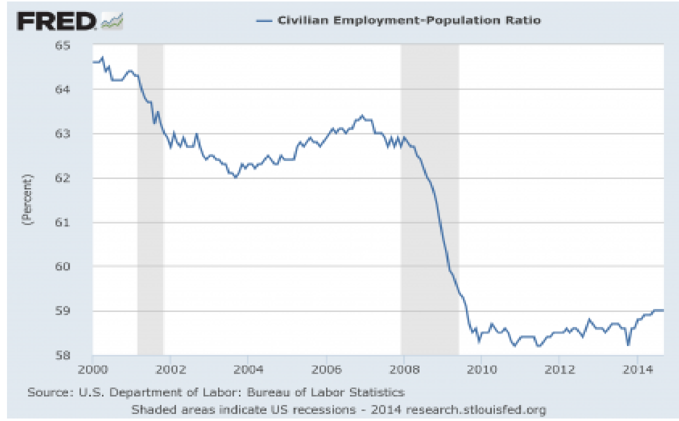
## 12 Charts on the Destruction of the U.S. Economy

The following article is by Michael Snyder. It is a graphic expose on the permanent destruction that is now happening to the U.S. Economy.

Most people that discuss the "economic collapse" focus on what is coming in the future. And without a doubt, we are on the verge of some incredibly hard times. But what often gets neglected is the immense permanent damage that has been done to the U.S. economy by the long-term economic collapse that we are already experiencing. In this article I am going to share with you 12 economic charts that show that we are in much, much worse shape than we were five or ten years ago. The long-term problems that are eating away at the foundations of our economy like cancer have not been fixed. In fact, many of them continue to get even worse year after year. But because unprecedented levels of government debt and reckless money printing by the Federal Reserve have bought us a very short window of relative stability, most Americans don't seem too concerned about our long-term problems. They seem to have faith that our "leaders" will be able to find a way to muddle through whatever challenges are ahead. Hopefully this article will be a wake-up call. The last major wave of the economic collapse did a colossal amount of damage to our economic foundations, and now the next major wave of the economic collapse is rapidly approaching.

### #1 Employment

The mainstream media is constantly telling us about the "employment recovery" that is happening in the United States, but the truth is that it is just an illusion. As the chart below demonstrates, just prior to the last recession about 63 percent of all working age Americans had a job. During the last wave of the economic collapse, that number dropped to below 59 percent and stayed there for a very long time. In the past few months we have finally seen the employment-population ratio tick back up to 59 percent, but we are still far, far below where we used to be. To call the tiny little bump at the end of this chart a "recovery" is really an insult to our intelligence...



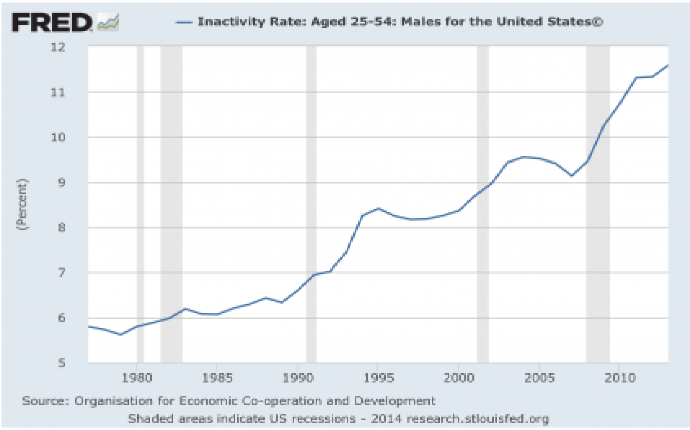

### #2 The Labor Force Participation Rate

The percentage of Americans that are either employed or currently looking for a job started to fall during the last recession and it has not stopped falling since then. The labor force participation rate has now fallen to a 36 year low, and this is a sign of a very, very sick economy…


### #3 The Inactivity Rate For Men In Their Prime Years

Some blame the decline in the labor force participation rate on the aging of our population. But it isn't just elderly people that are dropping out of the labor force. In fact, the inactivity rate for men in their prime working years (25 to 54) continues to rise and is now at the highest level that has ever been recorded...

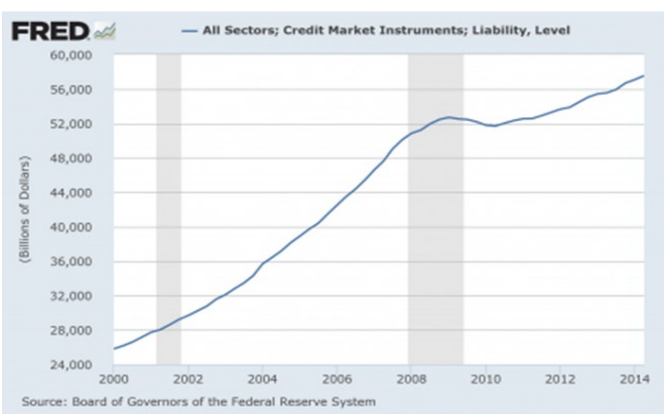
# 12 Charts on the Destruction of the U.S. Economy





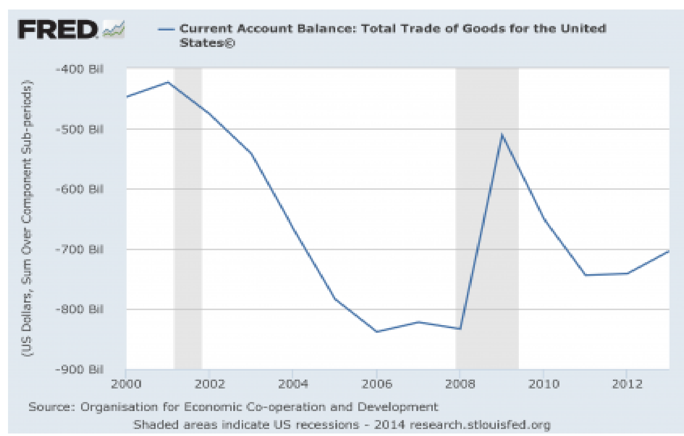
### #4 Manufacturing Employees

Once upon a time in America, anyone that was reliable and willing to work hard could easily find a manufacturing job somewhere. But we have stood by and allowed millions upon millions of good paying manufacturing jobs to be shipped out of the country, and now many of our formerly great manufacturing cities have been transformed into ghost towns. Over the past few years, there has been a slight "recovery", but we are still well below where we were at just previous to the last recession...




### #5 Our Current Account Balance

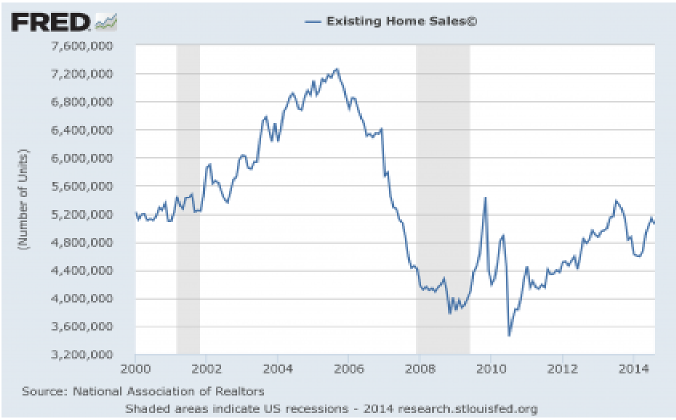
As a nation, we buy far more from the rest of the world than they buy from us. In other words, we perpetually consume far more wealth than we produce. This is a recipe for national economic suicide. Our current account balance soared to obscene levels just prior to the last recession, and now we have almost gotten back to those levels...




### #6 Existing Home Sales

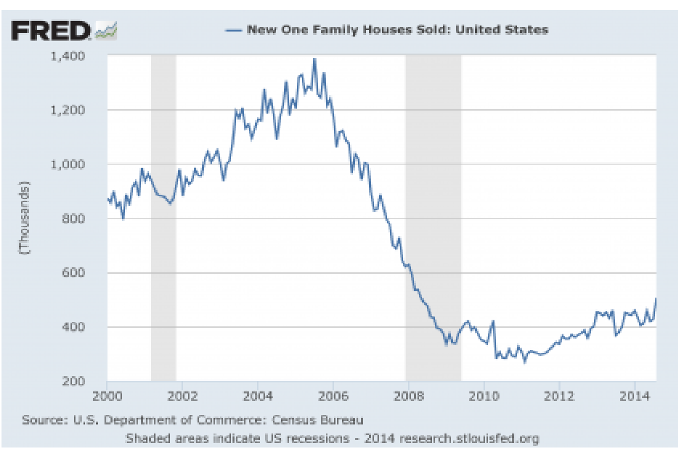
Our economy has never fully recovered from the housing crash of 2007-2008. As you can see from the chart below, the number of existing home sales is still far below the level that we hit back in 2006. At this point we are just getting back to the level we were at in 2000, but our population today is far larger than it was back then...

# 12 Charts on the Destruction of the U.S. Economy




### #7 New Home Sales

Things are even more dramatic when you look at new home sales. This is an industry that has been absolutely emasculated. The number of new home sales in the United States is just a little more than half of what it was back in 2000, and it isn't even worth comparing to what we experienced during the peak of 2006.

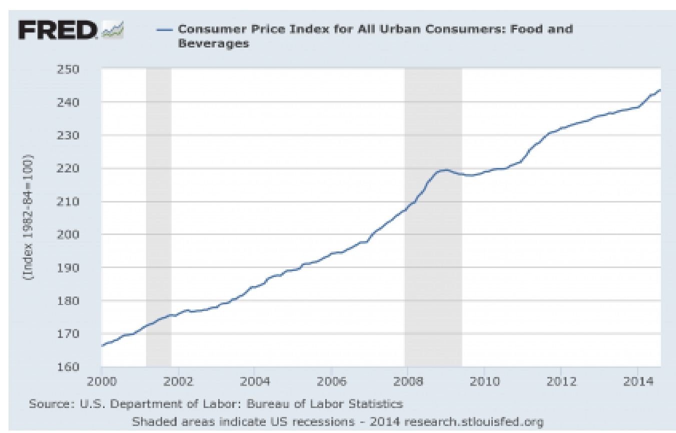



### #8 The Monetary Base

In a desperate attempt to get the economy going again, the Federal Reserve has been wildly printing money. It has been so reckless that it is hard to put it into words. When I look at this chart, the phrase "Weimar Republic" comes to mind...


### #9 Food Inflation

Thankfully, much of the money that the Federal Reserve has been injecting into the system has not made it into the real economy. But enough of it has gotten into the system to force food prices significantly higher. For example, my wife went to the store today and paid just a shade under 10 bucks for just four pieces of chicken. And as you can see from the chart below, food prices have been steadily going up in America for a very long time...

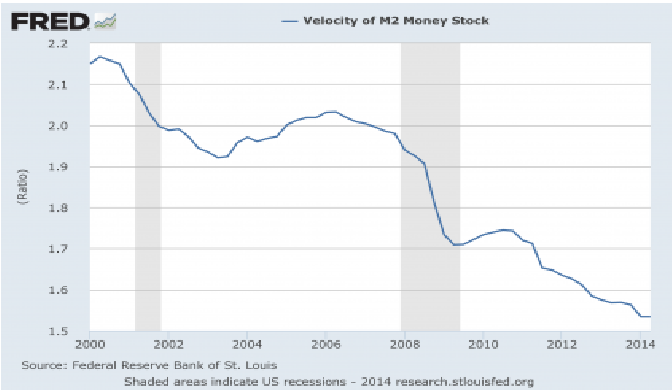



### #10 The Velocity Of Money

One of the reasons why we have not seen even more inflation is because the velocity of money is extraordinarily low. In general, when an economy is healthy money tends to flow through the system rapidly. People are buying and selling and money changes hands frequently. But when an economy is sick, money tends to stagnate. And that is exactly what is happening in the United States right now. In

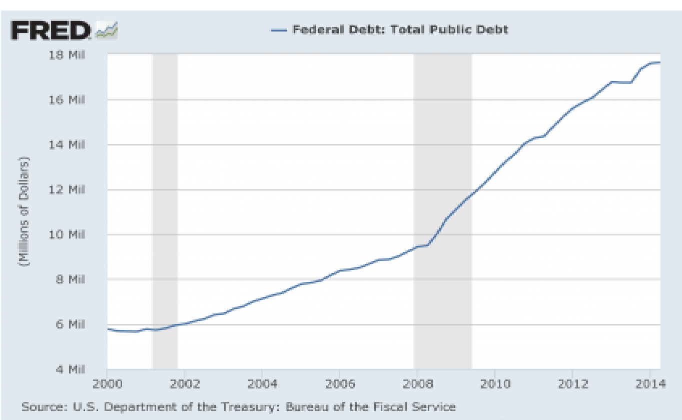
# Eight Key Words of Successful Investors

fact, at this point the velocity of the M2 money stock has dropped to the lowest level ever recorded...




**#11 The National Debt**

As our economic fundamentals have deteriorated, our politicians have attempted to prop up our standard of living by borrowing from the future. The U.S. national debt is on pace to approximately double during the Obama years, and it increased by more than a trillion dollars in fiscal year 2014 alone. Despite assurances that "the deficit is under control", the federal government borrows about a trillion dollars a year to fund new spending in addition to borrowing about 7 trillion dollars to pay off old debt that is coming due. What we are doing to future generations of Americans is absolutely criminal, and it is just a matter of time before this Ponzi scheme totally collapses…




**#12 Total Debt**

Of course it is not just the federal government that is gorging on debt. When you add up all forms of debt in our society (government, business, consumer, etc.) it comes to a grand total of more than 57 trillion dollars. This total has more than doubled since the year 2000…

If you know anyone that believes that we are in good economic shape, just show them these charts.

And of course the next major financial crisis could strike at any time. U.S. stocks just experienced their worst week in three years, and if there is a terrorist strike any where in our country (or for that matter any major crisis) the fear that would cause could collapse our economy all by itself.

The debt-fueled prosperity that we are enjoying today is not real. We are living on the fumes of our past, and every single day our long-term problems get even worse.

Sadly, most Americans will continue to deny the truth until it is far too late.

The Financial Crisis this newsletter portends looms ahead.

D. Miyoshi

# Eight Key Words of Successful Investors

"Buy when there is blood in the streets." – Nathan Rothschild

Back in his day, Nathan Rothschild was like Warren Buffett and Alan Greenspan rolled into one.

Nathan was one of the founding members of the greatest banking dynasty in history. He and his family bankrolled wars, giant gold purchases, governments, and anything else that could pay them interest. Even kings couldn't match Nathan's power and influence. He's considered the man who financed Napoleon's final defeat at Waterloo in 1815.

# The Globalization of Islamic Finance

Today, many estimate the Rothschild fortune totals billions or even trillions. (The family has always managed their accounts the right way: So nobody knows how large they are.)

Despite the enormous wealth he accumulated, Nathan is best known by the classic contrarian investment quote above.

"Blood in the streets" has become a cliché, but for good reason: To make extraordinary gains, you must buy an asset near the point of maximum pessimism.

In Nathan's day, in 19th century Europe, folks had plenty of chances to buy when blood literally soaked city streets and battlefields. The developing nations fought hideous wars at least once a generation. In today's age of relative peace, however, it's tougher to follow Nathan's lead.

I can't tell you to hop on a plane and scout rental properties or stock investments in a war zone. So here's the main thing to take away from "blood in the streets"… Great investors and traders are like bird dogs for news of disaster and despondency. They don't wince at headlines like "Gambling industry bankrupt," or "Indian stock market crashes for seventh day in a row." They get excited.

They know desperate situations create incredible values and incredible extremes in sentiment. They are always on the hunt for places where "things can't get any worse"… When things "can't get any worse," they can only get better.

It's only when things can't get any worse that you can buy world-class businesses for just four or five times annual profits… or safe bonds yielding 18%… or trophy properties for 80% below their highs. And despite what your emotions tell you, dark and gloomy situations have a way of working themselves out.

Note that in March 2009, most folks believed the Great Depression II was in the cards. There was plenty of blood on the balance sheets of bankrupt businesses and homeowners. The average stock climbed 60% in six months after the pessimism blew over. Many stocks climbed 200% and 300%.

So turn your completely normal, knee-jerk reaction to good news on its head. Don't rush out to buy a stock, a piece of land, or a commodity based on some bullish headline like "Analysts all agree… crude oil is going higher." Instead, hunt for headlines like, "Uranium prices sink to historic low… industry desperate for money," or "Argentina suffers currency crisis." Both of these headlines preceded huge gains in the past decade.

Like many great trading ideas, Nathan's quote has been "repeated" by other skilled investors: Warren Buffett tells us, "Be greedy when others are fearful and fearful when others are greedy." Steve Sjuggerud says, "You make triple-digit gains not when things go from bad to good, but when things go from bad to less bad."

However it's phrased, the idea behind "blood in the streets" is the same: Be on the lookout for desperate, blown-out sectors, commodities, and countries. This is where you'll find extraordinary deals. It has been the surest way to triple-digit profits for hundreds of years.

It will be the surest way for hundreds more. We know because we follow it ourselves.

Wishing you good trading,

D. Miyoshi

# The Globalization of Islamic Finance

In my dealings with international investors and financial entities in the Mideast, including Dubai, Abu Dhabi, and Malaysia, I have had to deal with various projects involving Islamic Finance. These projects present unique issues that challenge the financial concepts and models that we are used to working with in the West. This form of finance is now becoming mainstream and you will see more and more major projects throughout the world using it. My business associate in Tokyo, Mr. Yojiro Kitamura is himself a renowned expert on Islamic Finance. The following is an interesting and informative article on Islamic Finance written by Mr. Ankur Shah, Contributing Editor of the *World Money Analyst* and a graduate of Harvard Business School.

D. Miyoshi

# The Globalization of Islamic Finance

Islamic finance remains one of the bright spots in the global financial industry post the 2008 financial crisis. Despite two decades of strong growth, the industry is now finally poised to break into conventional financial markets in the West.

Islamic finance is comprised of instruments, infrastructure, institutions, and markets that apply Sharia rules and principles. You might be wondering how Islamic finance impacts you, if you're based in a non-Muslim country. Increasingly it's being viewed as an avenue of growth for global banks, as the industry caters to the world's 1.6 billion Muslims.

The advent of Islamic finance allowed devout Muslims the ability to access financial products and services without compromising on their beliefs. As a result, total global Islamic banking assets are projected to surpass US$2 trillion in 2014.

The Islamic finance sector is primarily comprised of Islamic Banking, Sukuk (Islamic Bonds), Takaful (Islamic Insurance), and Islamic Mutual Funds. The geographic centers of Islamic finance are primarily in Asia (Malaysia and Indonesia) and the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates).

At its core, Islamic finance is governed by fundamental principles outlined in Sharia law. The main distinction between conventional finance and Islamic finance is that the latter prohibits riba (usury/interest). Thus, virtually all Islamic finance products are based on the principle of risk sharing as opposed to risk transfer.

For example, an Islamic mortgage transaction would entail the bank purchasing a property and then reselling it to the homebuyer at a fixed profit. The buyer would then have the option to make the payments in installments. However, due to the concept of risk sharing, the bank could not charge additional penalties for late payments but would retain ownership until the loan was paid off.

**Global Investors and Islamic Finance**

For global investors, the sukuk (Islamic bond) market is probably the area of greatest interest within Islamic finance. The sukuk is an asset-backed security, which represents ownership in a tangible asset. With a sukuk the initial face value of the bond isn't guaranteed. Unlike a conventional bondholder, a sukuk investor shares the risk from the underlying asset.

In practice, some sukuks are issued with repurchase guarantees, which would result in the investor receiving face value at maturity, much like a conventional bondholder. However, not all Sharia scholars agree this structure is Sharia compliant.

Traditionally, governments and government-related entities in Asia and the Gulf Cooperation Council (GCC) issued sukuks denominated in the local currency to domestic investors. However, increased demand from global investors has led to increased cross-border issuance from non-traditional sources.

Last September, rating agency Moody's observed,

The year 2014 has become a landmark year for sovereign sukuk, with the UK issuing its inaugural sukuk, and with Hong Kong and South Africa expecting to conclude sales in September 2014. All three are major non-Islamic countries, and the transactions indicate a significant change in the potential size, depth, and liquidity of this market.

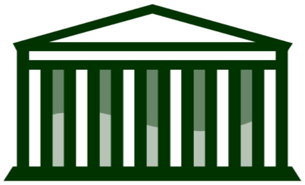
This move into sukuk finance by countries with populations that are not predominately Muslim marks a shift in the long-held perception that Islamic finance is the domain of Muslim countries.

In an effort to assist countries that seek to issue sukuk, Islamic institutions like the Islamic Corporation for the Development of the Private Sector offer help with the structure of sovereign sukuk finance.

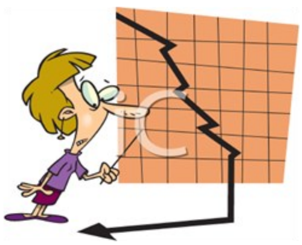
**Malaysian Dominance**

Malaysia dominates the sukuk finance sector both on a new issuance and outstanding basis, as shown in the following charts.

# The Globalization of Islamic Finance



Advancing in a Time of Crisis



Financial Crisis Report

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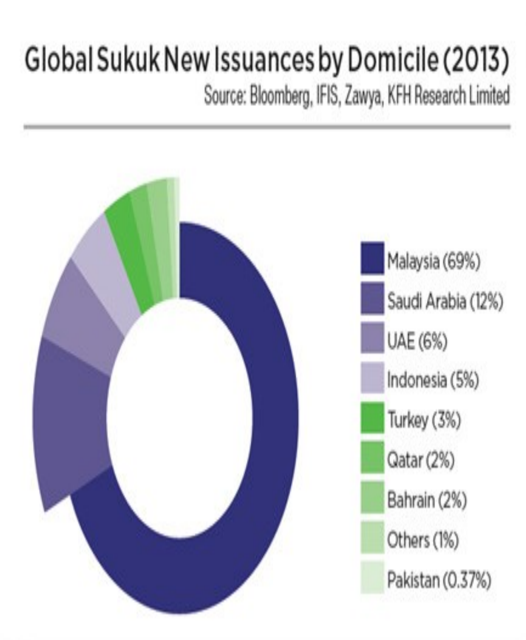


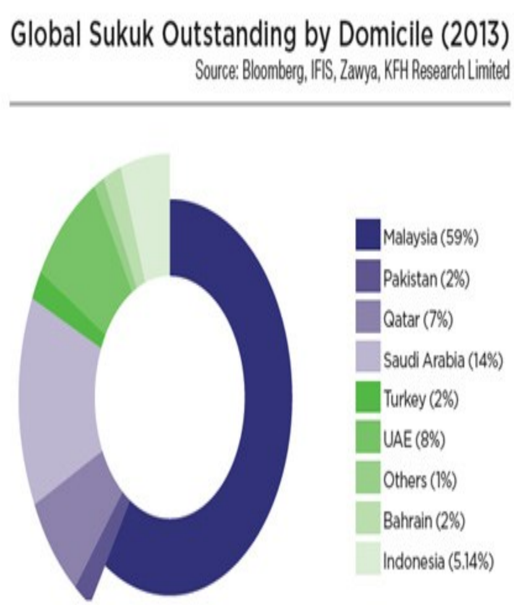


As mentioned above, sukuks are typically denominated in the currency of the issuing country. No surprise, then, that Malaysian ringgit-denominated sukuks accounted for 63% of total issue value for 2013.

What might surprise is that 15% of total issue value in 2013—US$28 billion—was sukuks denominated in US dollars, up from 13.9% in 2012. If the US Fed continues to make good on its promise to taper its QE program, and if US interest rates indeed rise, the dollar should continue to strengthen and benefit US dollar-denominated sukuks.

Total sukuk issuance is estimated to reach US$70 billion in 2014, according to Moody's. The governments and government-related entities in the GCC will be the main drivers of sukuk issuance going forward. Being based in Dubai, I can say anecdotally that it is once again on track to become the construction-crane capital of the world. With the real estate market rebounding strongly, development activity has started up across the entire city. In addition, a number of large-scale projects that were put on hold are now moving forward. Many of these new projects will be funded through sukuk issuance.

The Dubai government has the explicit ambition to become the center of the Islamic economy. One potential way to profit from this growth will be the sukuk issuances from high-quality sovereign and government-related entities in the United Arab Emirates and other GCC countries.

**Past issues of the *Financial Crisis Report* can be found at the company website www.miyoshicapital.com**

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