

BEHAVIOR IN BOND MARKET: CONVENTIONAL VS.
SUKUK BONDS



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DEDICATION

To my beloved mother and father

And

To my beloved sister

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First and Foremost, I would like to give my sincere thanks to Almighty Allah (SWT) who is most Merciful and Creator of this world. He showers His countless blessing upon me throughout this thesis work and gave me wisdom, courage and strength to complete this research successfully.

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ABSTRACT

The sukuk and conventional bonds have some characteristics that are similar to conventional bonds, so some people think both bonds behave or act the same way in the bond market. To examine the behavior of both bonds this study used the Malaysian bond market and Pakistan bond market with the comparison of sukuk and conventional bonds. Because both countries are Islamic countries and use Sukuk bonds as alternative debt instruments for generating funds. Secondary and daily time series data, bond prices are used in this study that consist of government treasury bonds (T-bonds) of 3 year, 5 year and 10 year and Shari'ah compliant sukuk bonds that include 3 year, 5 year and 10 year government Ijarah sukuk bonds of both countries Pakistan and Malaysia. The data on the Malaysian bond market was taken from the period 31st Dec, 2004 to 19th June 2020 and on the Pakistan bond market the data was taken from the period 21st Jan 2011 to 19th June 2020. The descriptive statistics were used to check the normality of data and the Augmented Dickey Fuller (ADF) method was used for stationarity. The Granger Causality test was used to examine whether the change in conventional bonds returns has an impact on sukuk bonds returns. And whether the change in sukuk returns has an impact on conventional bonds returns. The results conclude that the returns of conventional bonds did not Granger cause sukuk bonds returns. And sukuk bonds returns do not Granger cause conventional bonds returns. The change in returns of one type of bond does not affect and influence the other type of bond. They both behave differently in the bond market in terms of return. But the 5 year Pakistan Sukuk Ijarah and T bonds F statistic value is below 0.05 which indicates that the change in one's returns also impacts the change in the other but its probability is above 0.05 which indicates an insignificant relationship. However, the overall result is that both bonds do not impact each other and neither behaves the same way in a bond market.

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