



1. Market update

⇒ XDR

The USD weakened in November from XDRUSD1.283 to XDRUSD1.315. The strongest SDR component currency in the month was JPY, up over 8% against USD.

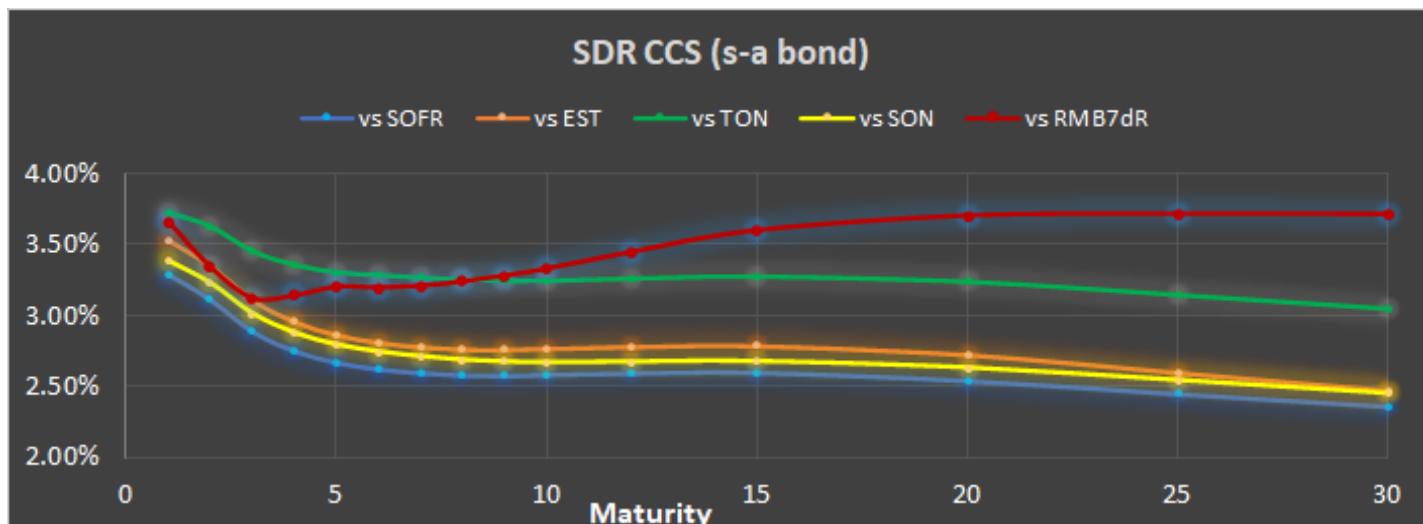
2. Product notes

⇒ FX Basket indices

GB Dragon will shortly be launching a proprietary FX basket index. The ways in which indices may be constructed are too many to list, but we adopted the following approach

- ◇ The index value is the reference/initial value plus or minus the P&L of a synthetic long of the currencies in the basket vs. short USD
- ◇ This P&L includes the theoretical positive or negative carry on the position, unlike a pure commodity index, say, or an stock index that ignores dividends or other corporate actions
- ◇ The weights of the currencies in the basket derive from relative trade weights based on annual value of trade, reflecting the international importance of the currency. This is consistent with the approach investment managers and advisors commonly take when conducting currency allocations for global portfolios. (We shall consider an alternative methodology using relative GDP weights, and possibly pricing GDP using purchasing power parity values, at a later stage if we think there is the demand.)
- ◇ The index design makes it easy to price and trade a cash-settled futures contract. Owing to the inclusion of carry costs and benefits in the index, the basis—the price difference between the cash index and the futures contract—will be close to zero, and the basis risk, is hence small. The lower the basis risk, the better the futures contract is as a hedge.

3. SDR cross-currency swap rates



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