



### 1. Market update

#### ⇒ XDR

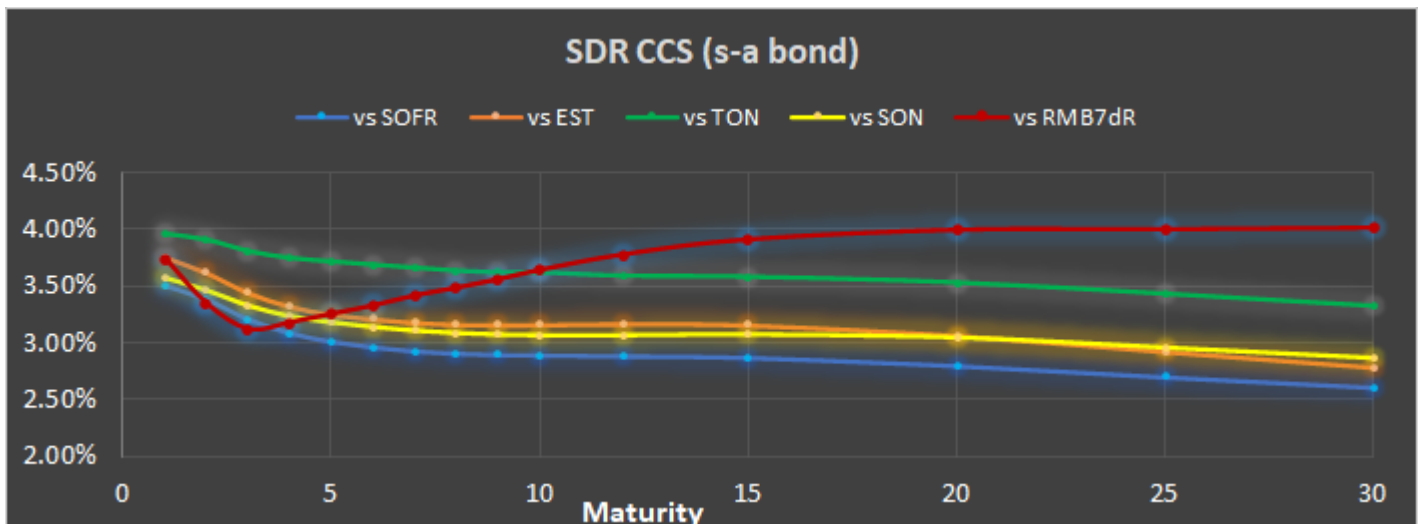
The USD weakened further in December from XDRUSD1.315 to XDRUSD1.3308. As in November, the strongest SDR component currency in the month was JPY, up 5.8% against USD. Indeed, only GBP failed to appreciate against USD.

### 2. Product notes

#### ⇒ FX Basket indices II—cash-settled futures

- ◇ As noted in November's newsletter, the design of GB Dragon's index is intended to make the pricing and hence trading of a cash-settled futures contract.
- ◇ The essence of a cash-settled futures contract is that there is no deliverable on expiration, no transfer of pork bellies, US treasury bonds, nor foreign currency. Instead, the same mark-to-market process that applies daily through the life of the contract applies to the final day and then the contract is terminated.
  - ◆ The mark-to-market process means that, excluding external costs, you will earn a profit or loss exactly equal to the difference between the price at which you bought or sold the contract,, and the price of the contract on termination
  - ◆ Hence if you bought a futures contract on a basket index at 100 pts, and a month later it terminates at 105 pts, you will make 5pts on the contract, even if during the month the contract fluctuated 5 to 10 points a day. (There is a possible expense due to any variation margin.)
- ◇ The advantage of a cash-settled futures contract over a traditional deliverable or a forward is that it's more convenient when you want to hedge a position but don't necessarily want to eliminate it. For example, where you actually want to hold physical currency or currency basket, but hedged, you won't deliver the currency basket and then buy it back in the FX market in order to maintain your original position. You just roll over the futures contract.

### 3. SDR cross-currency swap rates



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