GB Dragon

The SDR/FX Newsletter

January 2023

1. Market update

⇒ **XDR**

The USD continued its recent trend, in January falling from XDRUSD1.3308 to XDRUSD1.3485. EUR and GBP both rose 3% against USD, but JPY remained largely unchanged and RMB declined by 2%.

2. Product notes

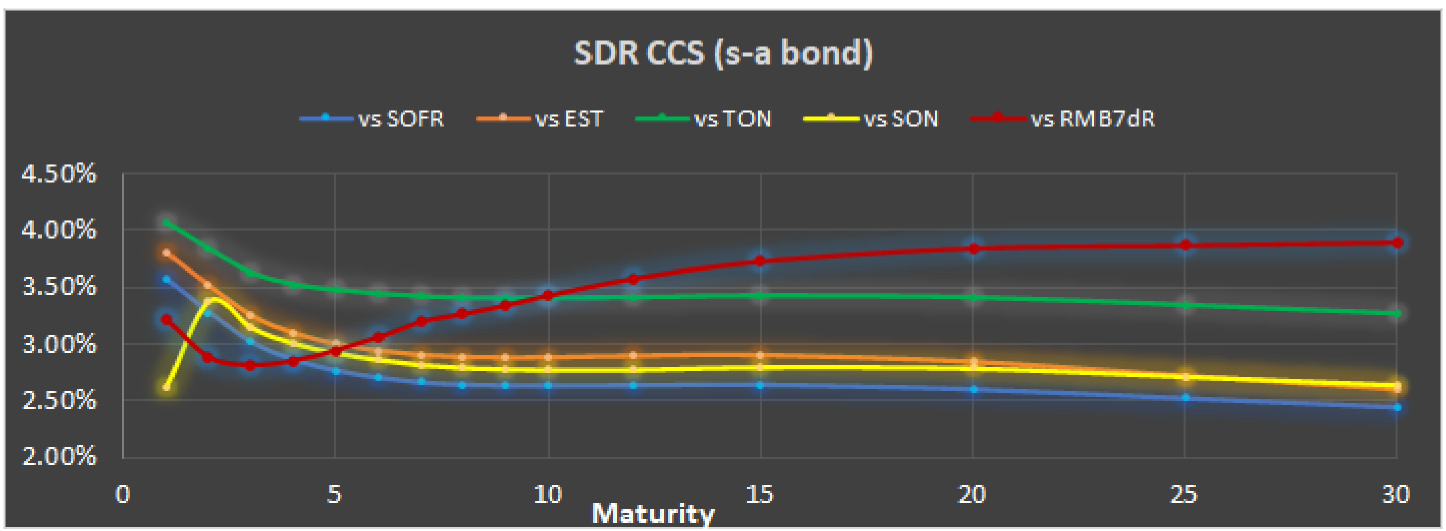
⇒ **Thoughts on SDR bond issuance**

◊ A recent article in the *Financial Times* suggested that the World Bank issue another SDR-denominated bond, the thinking being that many SDR holders were themselves reluctant to use their SDRs but a World Bank bond could attract these holders, and the World Bank could then itself invest the proceeds in the usual manner.

◊ From our perspective, the article falls short in considering the capital markets possibilities of such an issue.

- First, why not issue with multiple tenors? While liquidity is unlikely to be particularly relevant for many potential buyers of such bonds, a market with XDR1bn 2yr, XDR2bn 3yr, XDR1bn 5yr and XDR1bn 7yr, for example, will be more liquid than one with say a single XDR5bn 3y bond, and regardless of how restricted the market might be, few buyers of financial assets, whether governments or private entities, object to liquidity.
- Second, the government and agency buyers would not be required to commit to having an SDR asset as the cross-currency swap market would allow them to swap the WB issue into any major currency they wished.
- Third, why restrict such an issue to a fixed coupon? There are no great philosophical reasons why the WB could not issue a floating-rate note (FRN) and it is not hard to think that, particularly when rising inflation is still a concern, an FRN may be more attractive than a fixed-rate issue. The reference rate could be some simple arithmetical function based on the weights and reference rates of component currencies.

3. SDR cross-currency swap rates



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