

# All for one in the currency stakes

IT MAY NOT HAVE BEEN AROUND VERY LONG BUT THE WORLD CURRENCY UNIT, OR WOCU, COULD BRING A LEVEL OF STABILITY TO INTERNATIONAL TRADING THAT THE MARKET MUST SURELY EMBRACE, SAYS **DON BROWNLOW.**

Officially launched in January 2010, the wocu, or World Currency Unit, is a unit of value created from a basket of the currencies of the world's top 20 national economies, as measured by GDP, and weighted by means of a GDP-based algorithm (see Cash Management Supplement, Winter 2009, http://tinyurl.com/3a6cezp). One obvious advantage of the wocu is that as a standard settlement currency for international trade it will help reduce uncertainty and risk. It will ensure that both parties have more certainty about the settlement value of the trade because it will not be affected by sudden changes in foreign exchange rates. For commodity exporters in the Middle East this settlement certainty will enable more accurate cash flow predictions which will help both short-term cash management and longer term profit planning. Equally, it will mean that long-term infrastructure projects will be less subject to exchange rate distortions during the life of the project. The Middle Eastern nations are leaders in the creation or funding of such infrastructure products.

By pricing and selling commodity exports in the wocu, the exporter then has an automatic reserve of the world's top 20 currencies that can be used for direct wocu sales or split into its component parts to be used directly as sovereign currencies. Economic and political dependence on the dollar will be reduced, although it will continue to be part of the basket of 20 currencies. This "stepping away from" but not outright abandonment of the dollar may be attractive to younger generation Middle Eastern traders or nations.

The neutrality and global make-up of the wocu will avoid any political apprehension that a company, or country, may have about dealing with a specific sovereign party.

Traders using the wocu will not need to be as concerned about hedging of foreign exchange positions as they are when using sovereign denominated currencies. The concept of preserving wealth is a key Shariah principle but the use of some of the hedging tools and instruments may be a sensitive issue in some Islamic financial institutions and indeed, countries.

**SYNTHETIC CURRENCY, REAL ASSETS** Although the wocu is a synthetic currency, it can be backed by real assets. A formal review of the wocu has yet to be completed by Shariah scholars, but by holding deposits in bank accounts (or other assets) denominated in the currencies of the 20 economies that constitute the wocu in a proportion equal to the weightings of the algorithm, the wocu would then take on the properties of a warrant that represents ownership of a basket of real assets. This would need debate by scholars but the potential for Shariah compliance is noteworthy. Additionally, the currency unit offers the desirable Shariah traits of reducing risk and uncertainty.

Sovereign wealth funds, a topic of considerable interest to some Middle Eastern participants, could also benefit from re-denomination of some of their assets into the wocu. Again, this would spread risk, reduce hedging needs and move away from total dependence of a single sovereign currency unit that is outside of the direct control of Middle Eastern political influence.

The international sukuk market (sometimes referred to as

Islamic bonds) may benefit from the wocu. New issues of sukuk may consider denomination in wocu in order to avoid problems of project earnings being continuously exchanged into dollars for repayment and profit distributions to its sukuk holders.

An announcement of bunker fuel being priced in wocu by Navitas Resources has recently made.

**WHY WE NEED THE WOCU** Recent FX currency market volatility and uncertainty has focused attention on the need for an apolitical, non sovereign balanced currency. Stories abound of large multinational companies losing very large sums of money on unsuccessful hedging strategies. Because it reduces volatility, the wocu will significantly reduce hedging risks and related hedging costs as less hedging will be required. A well respected financial engineer recently stated that reducing volatility by a factor of two will reduce hedging costs by a factor of four.

Like the wocu, the International Monetary Fund's special drawing rights instrument is also an international artificial basket currency, but one that is more political and less well balanced. It was created in 1969 to support the Bretton Woods fixed exchange rate system, but continued following the collapse of Bretton Woods. It is used for such things as international postage, international roaming charges for mobile telephone companies and in some areas of international shipping and transport.

However the IMF only reweights its special drawing rights every five years and it only contains four currencies (dollar, sterling yen and euro) so its ability to facilitate multinational trade through reduced volatility is limited. Special drawing rights could also be said to be open to political interference. Nor does the instrument reflect the world's rapidly emerging BRIC (Brazil, Russia, India, China) economies, nor the growth of other emerging economies.

In comparison, the wocu, as mentioned above, is reweighted and its constituents updated every six months. It has no political interference and simply reflects constituent countries' GDP. It is therefore very well suited to the conduct of international trade and the reduction of volatility and risk in the modern world

Other initiatives exist, for example, around the GCC area, but these are more regional and do not have the international self-dampening affect that will help control exchange rate volatility.

**DEVELOPMENT TOWARDS A TRADED INSTRUMENT** A number of major European banks are in discussions with the WDX Organisation and have expressed a willingness to settle both ends of a commodity trade conducted in wocus. They have indicated that over time they will support wocu denominated accounts and thus enable companies to hold wocus rather than simply settling trade in wocu. Multi-bank dealing system vendors have also indicated that as soon as the wocu is traded by major banks they will have it available on their systems.

The WDX Organisation is also in discussions with international exchanges and clearing houses to develop trade not only in wocu but also in futures, options and other derivative instruments. The pricing of bunker fuel in wocu by Navitas Resources has recently been announced.

### Example uses of the wocu by multinational companies

A company has a global product but the sales costs etc are in a domestic currency. It prices the product in wocu and either establishes a local price based against wocu (possibly set weekly, monthly whatever, based on unit price, market etc), but the sale is effected in local currency or a bank is asked to receive funds and FX into local currency based on a wocu amount (or receive a local amount based on a wocu exchange value).

A company has buyers in different countries and seller in different countries. It makes no sense to exchange wocus into local currency only then to convert it back to settle invoices. Better that a wocu account is maintained and used for the incoming and payment of funds to satisfy the buying and selling of the commodity. The only transaction into local currency will be for the "profit" element.

The wocu is unaffected by specific regulatory issues. The consensus among members of the WDX Institute and risk and regulatory management within manor consulting firms is that as the wocu is a basket of currencies it does not require specific regulatory approval.

The next steps are to work with corporate treasurers and banks to facilitate trade denominated in wocu, and with brokers, exchanges and clearing houses to ensure that the wocu rapidly becomes a tradable instrument.

It is clear that the time is right for the wocu. There has been much publicity recently about the desire of many commodity producing nations in the Middle East to move away from the US dollar as the de facto global reserve currency. The wocu answers this need in that it is apolitical, although it does not represent a total immediate move away from the US dollar as the dollar is a large component of the wocu basket.

For many of the Middle Eastern nations their commodity exports' pricing – their future generations' wealth – is at the moment tied to the uncertain value of the US dollar.

As emerging economies grow, their currencies can become part of the wocu by virtue of GDP growth rather than political manoeuvring. Over time corporate treasurers will work with their banks not only to price trade in wocu but also to hold assets in that currency. The wocu is an idea whose time has come.

An apolitical and less volatile instrument is needed as the global economy changes, as financial power moves east and the emerging economies take over from the leading financial powers of the last century.

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