

1. International Money Markets

An investor in foreign money market securities who holds the securities to maturity earns a yield as described in the following equation:

$$Y = (1 - i_f)(S^*/S) - 1 \quad (2)$$

see also eq. 3 in section 4.



2. Currency cocktail bonds

Currency cocktail bonds are denominated in a mix of currencies. Two well known units of account used to denominate currency cocktail bonds are Special Drawing Rights (SDRs) and the European Currency Unit (ECU).

2.1. Special Drawing Rights

The SDR represents a weighted average of the US dollar, German mark, Japanese yen, French franc and British pound. . .

2.2. European Currency Unit

The SDR represents a weighted average of European currencies.
Section 3 deals with stock markets.

3. Managing exchange rate risk

The exchange rate risk can be reduced by diversifying among stocks of different countries. See section 2 for details.

Table 1. Stock Exchanges on the Far-East

Stock exchange	%
Australia	60
New Zealand	30
Fiji	10

Investors...

4. Summary

The equation 2 can be rewritten as follows:

$$(Y + 1)/(1 - i_f) = (S^* / S) \quad (3)$$

see table 1 for more details on stocks traded in the Far-East

5. Index

bonds, 1

ECU, 1

exchange rate, 2

Fiji, 2

investor, 1, 2

market, 1

SDR, 1

stock, 1-3