

ANNUAL REBALANCE: CONTINUING EVOLUTION OF THE BLOOMBERG DOLLAR SPOT INDEX

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As we noted in a previous [blog post](#), answering the question of what the U.S. dollar is worth can be a particularly tricky exercise. Through our research we came to the conclusion that comparing the value of the dollar against the currencies of America's largest trading partners plus the most frequently traded currencies in the global foreign exchange (FX) markets provided a dynamic and intuitive approach to addressing this question. As we start 2014, we thought it appropriate to discuss the changes that occurred in the [Bloomberg Dollar Spot Index \(BBDXY\)](#) during its most recent year-end rebalance. • For 2014, BBDXY adds the Brazilian real, removes the Singapore dollar and sees the euro and Japanese yen swap a portion of their respective market share. • The distinction between the Bloomberg Dollar Spot Index and the [ICE U.S. Dollar Index \(DXY\)](#) grows as the global economy evolves, with weights to the Americas and Asia increasing in BBDXY versus the euro-dominated DXY. • The currencies in BBDXY comprise 81% of overall trade with the U.S. and 93.7% of the daily FX volume, compared to 42% and 79.7%, respectively, for DXY¹. Looking back at our previous [blog post](#) on global FX trading, the relative trading growth of the euro (15%) has lagged the overall growth in foreign exchange volume (35%)². However, trading in the yen has increased dramatically, growing 60% over the same period, as investors showed renewed interest in the Japanese economy. The euro remains the prominent currency in the basket, but its influence has declined from 34.3% to 31.3% for the coming year. Additionally, the Brazilian real will enter the index with a weight of 2.15%. The inclusion of the Brazilian real—a higher-[carry](#) currency—will likely increase the negative drag of interest rate differentials in the total return index (20 [basis points](#)) and provide an increase in index [volatility](#)³. The Brazilian real joins the Mexican peso and the Canadian dollar as an additional currency from the Americas in the basket. As shown in the table below, the regional composition of the basket has shifted slightly, with an increase in weight to currencies from the Americas and Asia and a small decrease in European currencies. • The real was bolstered by relative growth in trade and an increased share in foreign exchange transaction volume. • The Singapore dollar slipped to 11th place in the most recent trade volume survey. Its 13th place in foreign exchange volume fails to rank it in the top 10 of either trade partners or foreign exchange transaction volume. **Bloomberg Dollar Spot**

Currency	Rank	FX Rank	Index	Weight	Difference
Euro	2	1	31.4%	34.3%	-3.0%
Japanese yen	5	2	19.1%	16.2%	3.0%
Canadian dollar	3	6	11.4%	12.0%	-0.5%
Pound sterling	7	3	9.5%	10.0%	-0.5%
Mexican peso	4	7	9.6%	8.5%	1.1%
Australian dollar	14	4	6.2%	5.5%	0.7%
Swiss franc	12	5	4.2%	4.9%	-0.7%
Korean won	6	15	3.3%	3.6%	-0.2%
Chinese yuan	1	8	3.0%	3.0%	0.0%
Singapore dollar	11	13	0.0%	2.2%	-2.2%
Brazilian real	9	17	2.2%	0.0%	2.2%
Indian rupee	10	18			
Swedish krona	20	10			
			100%	100%	

Taiwan ranked 8th in Trade, but 21st in FX;
 New Zealand ranked 9th in FX, but did not rank in the top 30 for Trade

Region	2014		2013		Difference
	Trade Rank	FX Rank	Index Weight	Weight	
Americas	26.5%	8.2%	23.2%	20.4%	2.8%
Europe	21.2%	50.4%	45.1%	49.2%	-4.1%
Asia	33.6%	35.1%	31.7%	30.4%	1.3%

Sources: Bloomberg, WisdomTree, as of 12/31/13. Subject to change.

Index weights for 2014

A Broader, More Representative Approach The countries whose currencies are included in the BBDXY basket represent 81% of the overall trade with the United States. By another measure, the currencies included in the Bloomberg Dollar Spot Index comprise 93.7% of the \$5.3 trillion traded each day in the foreign exchange market. By comparison, the six components of the ICE U.S. Dollar Index represent only 42% of the trade with the U.S. and barely 80% of the daily FX volume. From our perspective, when investors ask themselves what the U.S. dollar is worth, we believe this more comprehensive assessment of the dollar provides a more intuitive approach. **Bloomberg Dollar Spot Index (BBDXY) vs. ICE U.S. Dollar Index (DXY)** Even after the most recent rebalance, BBDXY remains more broadly differentiated than DXY. In our view, a dynamic measure of the U.S. dollar provides a more representative approach to measuring the role the U.S. dollar plays in the global economy. ¹Source: Bloomberg, WisdomTree, as of 12/31/13. ²Source: Bank for International Settlements (BIS), Triennial Survey, April 2013. ³Sources: Bloomberg, WisdomTree, as of 12/31/13.

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DEFINITIONS

Bloomberg Dollar Spot Index (BBDXY): Tracks the performance of a basket of ten leading global currencies versus the U.S. dollar. Each currency in the basket and their weight is determined annually based on their share of international trade and FX liquidity.

ICE U.S. Dollar Index (DXY): a geometrically- averaged calculation of six currencies weighted against the U.S. dollar. Current exposures include the euro, Japanese yen, British pound, Canadian dollar, Swedish krona and, & Swiss franc.

Carry: The amount of return that accrues from investing in fixed income or currency forward contracts.

Basis point: 1/100th of 1 percent.

volatility: A measure of the dispersion of actual returns around a particular average level.