X-token (name pending): **Precise exposure for your protection**

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Abstract. A digital token designed to algorithmically maintain a precise correlation with underlying commodity assets to which various risks millions of SMEs globally are exposed without access to the same hedging strategies as other, larger companies with vastly more resources to allocate to the efforts of mitigating those risks. By taking advantage of the blockchain technology, a state of the art pricing engine, and an accessible trading platform we hope to be able to see those Businesses gain access to those risk management tools and techniques, that were previously unavailable for regulatory reasons or simply too expensive.

Introduction

SMEs are frequently exposed to the same types of risks in the commodities market like big trading firms, . Risks such as, but not limited to:

- Credit Risk
- Counterparty Risk
- Market Risks
- Liquidity Risks

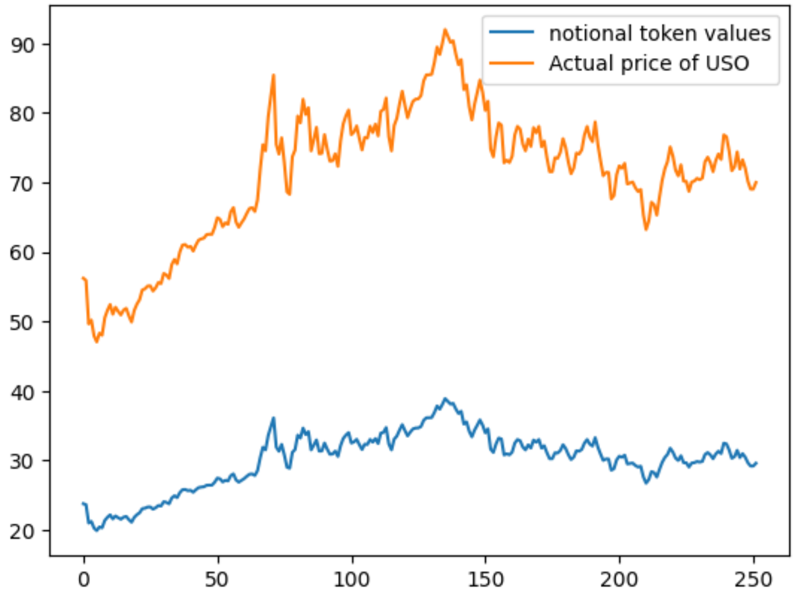
Traditionally the default instrument used to vet price risk was entering a Forward Contract.
And it is certainly a useful tool that is easily accessible and is affordable.
It does also come with it a number of downsides, such as the opportunity cost (it takes away any intermediate cash flows before settlement. It is highly susceptible to default risk and are generally not easy to exit, especially if the volatility in the underlying market has increased significantly.

My study has concluded that the reason for the apparent lack of interest of exploring more sophisticated means of tackling those problems, fall into one of the three categories:

- Financial
- Perceived inaccessibility
- Lack of awareness (Education)

Solution

We have found that one of the easiest ways to maintain a synthetic portfolio with the correlation coefficient with the underlying asset higher than 99%



The above figure shows a clear correlation of the actual price movements of the United States Oil Fund (USO) versus our portfolio.

How is our portfolio constructed

Our portfolio seeks to replicate *daily* returns of the underlying commodity index, futures contract by replicating its price movements using Total Return Swaps or rolling Contracts for Difference.

A payoff formula for a CFD is as follows:

$$ROI = (p_c - p_o) * S$$

Where pc is the price of the underlying at the time of contracts close;
po is the price of the underlying at the time of entering the position;
And S is the number of CFD shares in this position