

# [Managing exchange rate risk (slp)](https://assignbuster.com/managing-exchange-rate-risk-slp/)

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RUNNING HEAD: MANAGING FOREIGN EXCHANGE RISK Managing Foreign Exchange Risk of the of the Managing Foreign Exchange Risk
Purpose
The purpose of this paper is to mark out significant impact of fluctuations of foreign currencies on the investment portfolio of an individual or a company. Furthermore a decision is to be made about the extent of hedging the currency, which is again an integral part of foreign exchange risk management.
Discussion
With respect to the proposed questions, taking Euro as the country’s currency and converting $90000 into Euro at the present rate. The present rate is USD/Euro = 0. 7452, which gives Euro 67068 on the ongoing rate.
Dec 6, 2011
Dec5, 2011
Dec 4, 2011
Dec 3, 2011
Dec 2, 2011
Dec 1, 2011
Nov30, 2011
Euro0. 7446 per $1
Euro0. 7463 per $1
Euro0. 7463 per $1
Euro0. 7430 per $1
Euro0. 7428 per $1
Euro0. 7484 per $1
Euro0. 7498 per $1
Dec31, 2010
Dec30, 2010
Dec29, 2010
Dec28, 2010
Dec27, 2010
Dec26, 2010
Dec25, 2010
Euro0. 7545 per $1
Euro 0. 7609 per $1
Euro 0. 7578 per $1
Euro0. 7612 per $1
Euro 0. 7618 per $1
Euro 0. 7618 per $1
Euro 0. 7620 per $1
Dec 31, 2009
Dec 30, 2009
Dec 29, 2009
Dec28, 2009
Dec27, 2009
Dec26, 2009
Dec25, 2009
Euro 0. 6977 per $1
Euro 0. 6950 per $1
Euro 0. 6949 per $1
Euro0. 6948 per $1
Euro 0. 6945 per $1
Euro 0. 6950 per $1
Euro 0. 6963 per $1
There is a mixed trend of exchange rate, initially a decreasing trend from Nov30, 2011 to Dec2, 2011 then an increasing trend but still not close to what it was in the beginning of the week. It clearly shows volatility in the rates. When comparing daily values for the last week of December 2010, a clear decreasing trend is shown (www. oanda. com/convert/fxhistory, 2010). It is reflecting the weakness of dollar value and the need to hedge the risk of losing value. While analyzing the trend in the last week of Dec 2009, it can be observed that there is a similar decreasing trend in the rates but an increase on the last day of the year.
Hedging of Foreign exchange risk depends on the volatility in the exchange rates value of the currency with which the company is doing business. A company working in Europe has to clearly identify the past trends of the USD/Euro in order to see the significant impact on its investment. After going through the trends and the decreasing value of dollar, the company is very much prone to foreign exchange risk. The company should definitely hedge its currency to cover itself from negative fluctuations which might impact its financials (www. bnet. com, 2007).
When a company operates internationally it is exposed to fluctuation in the exchange rates and it needs to hedge itself against it. When profit is to be exchanged in the domestic currency of operations, the negative changes in exchange rate impacts the profit (Nobile, 2010).
Similarly when dealing with foreign exchange transaction and portfolio, an individual or a company is exposed to foreign exchange risk. In the above case, the trends clearly show that the company operating in Europe needs to hedge its currency in order to minimize the impact of exchange rate fluctuations.
Conclusion
Risk of any kind is vulnerable until it is effectively and efficiently managed. Risk management should be done in order to minimize its impact. It has to be kept in mind that risk cannot be eliminated; it can only be minimized through various procedures. Any Business operating in a foreign country with a fluctuating exchange rate is exposed to foreign exchange risk.
References
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