

Managing exchange rate risk (slp)

Business



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](http://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](http://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 <https://assignbuster.com/managing-exchange-rate-risk-slp/>

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

Oanda (2010), the Currency Site. Retrieved December, 2011, retrieved from [www. oanda. com/convert/fxhistory](http://www.oanda.com/convert/fxhistory)

Nobile, J (2010) “ Why Hedge Foreign Currency Risk” BNET Editorial

Assessing Exchange rate risk, (2007). Retrieved December, 2011 from [http://www. bnet. com/article/assessing-exchange-rate-risk/68748](http://www.bnet.com/article/assessing-exchange-rate-risk/68748)