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Michael Schiltz analyses the efforts by nineteenth century banking to mitigate the effects of the depreciation of silver. He shows that strategies for hedging exchange rate risk were created earlier than traditionally thought, and explores the relationship between Great-Britain and its colonies in Asia, and the rise of Japan as a financial power. Using a unique dataset with information on the currency composition of firms' assets and liabilities in six Latin-American countries, I investigate how the choice of *exchange rate regime affects firms' foreign currency borrowing decisions and the associated currency mismatches in their balance sheets. I find that after countries switch from pegged to floating exchange rate regimes, firms reduce their levels of foreign currency exposures, in two ways. First, they reduce the share of debt contracted in foreign currency. Second, firms match more systematically their foreign currency liabilities with assets denominated in foreign currency and export revenues--effectively reducing their vulnerability to exchange rate shocks. More broadly, the study provides novel evidence on the impact of exchange rate regimes on the level of un-hedged foreign currency debt in the corporate sector and thus on aggregate financial stability. � Fully updated version of text formerly used for training by BPP � Diagrammatic representation of deal structures, pricing, and modeling � Full glossary of terms � International perspective, examples in US$ � Clear logical explanation of processes, markets, and products This manual explains the techniques for identifying and covering exposure to adverse movements in foreign exchange rates. It provides practical examples of transaction, translation, and economic risk and shows how a hedging strategy can be arrived at. The hedging strategy will depend upon whether the attitude to risk is adverse, seeking, or neutral. This book examines these attitudes in turn and compares these hedging methods through worked examples. Also included is an analysis of accounting and tax implications. This expansive new range of risk management texts has undergone extensive re-writing to give each book in the series an international perspective. Each explains and analyses core aspects of risk assessment and management in a way invaluable to students and useful to practitioners. All of these titles adopt a practical and clear approach to their subject. All are fully updated versions of a series of books previously produced by training experts at BPP. Chapter 11 proposes using foreign*

exchange rate currency options with different strike prices and maturities to capture both currency risks and expectations, for helping understand currency return dynamics. We show that currency returns, which are notoriously difficult to model empirically, are well-explained by the term structures of forward premia and options-based measures of FX expectations and risk. Although this finding is to be expected, expectations and risk have been largely ignored in empirical exchange-rate modeling. Using daily options data for six major currency pairs, we first show that currency options-implied standard deviation, skewness, and kurtosis consistently improve the explanatory power of quarterly currency returns than a standardized UIP regression. We then show that adding term structure information of options-implied moments further improves the explanatory power. Our results highlight the importance of expectations and risk in explaining currency returns and suggest that this information may be particularly useful during a crisis period. Chapter 2 studies the term structure of currency risk using FX options data, and finds it able to explain the cross-sectional variation of currency excess returns. With the tool of a new FX risk index, "FCX", I look into currency risk term structure and measure its shape by level and slope. I consistently find that for currencies paired by US dollars, the term structure of currency risk is flat at a low level prior to the 2008 crisis, upward-sloping after the crisis and peaks at a high level with a prominently negative slope during the crisis. This work is believed to be new in the currency research field. I then use this information to build trading strategies, earning a profit by longing currencies with the highest level or slope and shorting ones with the lowest level or slope. The profit by sorting slope is significantly high and robust to the 2008 crisis period, with a low correlation to the Carry Trade return, suggesting extra information in risk than the interest rate. Next, I extract global risk factors by level and slope to help

understand the currency excess return, a long-lasting puzzle. The global risk factor by level substantially improves the cross-sectional explanatory power in currency excess returns compared to Lustig et al. (2011). Furthermore, I show that there is certain high risk corresponding to a high level and low slope, and high interest rate currency earns returns co-varying negatively to this risk, implying that it is a risky asset and thus requires a high risk premium, which explains the Carry Trade return well. Chapter 32 explores the possible macroeconomic connection in currency markets through the channel of FX risk term structure. There is a consensus in the literature that exchange rates are empirically "disconnected" from fundamentals, but a possible theoretical insight is that macroeconomic volatility shocks induce time-varying risks in the exchange rates. This chapter empirically investigates the connection between macroeconomic fundamentals and time-varying currency risks captured by the FX risk term structure, following the main findings of chapters 1 and 2. This chapter use both a small dataset of directly observable, country-specific key macroeconomic and international variables implied by exchange rate structural modeling and a small number of macroeconomic factors constructed from a large dataset of 126 U.S. macroeconomic series by principal component analysis. We perform a VAR analysis to examine impulse responses of FX risk term structure to the shocks of macroeconomic events and find that production variables can generate a relatively consistent and systematic impact pattern, which suggests potential macroeconomic connection. We also perform a direct single regression, regressing the 126 macroeconomic series of eight different groups on the FX risk term structure and apply the group LASSO technique for variable selection. Variables among both macroeconomic fundamentals and financial series are commonly selected, which suggests that financial markets' co-movements also exist besides potential macroeconomic

connection. Measuring and managing exchange rate risk exposure is important for reducing a firm's vulnerabilities from major exchange rate movements, which could adversely affect profit margins and the value of assets. This paper reviews the traditional types of exchange rate risk faced by firms, namely transaction, translation and economic risks, presents the VaR approach as the currently predominant method of measuring a firm's exchange rate risk exposure, and examines the main advantages and disadvantages of various exchange rate risk management strategies, including tactical versus strategical and passive versus active hedging. In addition, it outlines a set of widely accepted best practices in managing currency risk and presents some of the main hedging instruments in the OTC and exchange-traded markets. The paper also provides some data on the use of financial derivatives instruments, and hedging practices by U.S. firms. The recent East Asian financial crisis provides a natural experiment for investigating foreign exchange risk management by nonfinancial corporations. During this period, the financial crisis exposed local firms to large depreciations in exchange rates and reduced access to foreign capital. The authors explore the exchange rate hedging practices of firms that hedged exposure to foreign debt in eight East Asian countries between 1996 and 1998. They identify and characterize East Asian companies that used foreign currency derivatives, documenting differences in size, financial characteristics, and exposure to domestic and foreign debt. They investigate the factors improtant in the use of foreign currency derivatives. Unlike studies of US firms, they find limited support for existing theories of optimal hedging. Instead, they find that firms use foreign earnings as a substitute for hedging with derivatives. And they find evidence that firms engage in "selective" hedging. They investigate the relative performance of hedgers during and after the crisis. They find no evidence that East Asian firms eliminated their foreign exchange exposure by

using derivatives. Firms that used derivatives before the crisis performed just as poorly as nonhedgers during the crisis. After the crisis, firms that hedged performed somewhat better than nonhedgers, but this result appears to be explained by a larger post-crisis currency exposure for hedgers (an exchange rate risk premium), which had limited access to derivatives during this period. Divides into 10 parts:framework of foreign exchange exposure management; currency risk and exposure; objectives and strategies; other elements of foreign exchange exposure management; markets and techniques; uses and applications; international accounting and disclosure; international taxation; management evaluation and control; and company profiles. Written for the corporate treasurer or finance director, Managing Currency Risk Using Foreign Exchange Options gives a clear perspective of how foreign exchange (FX) options are derived and a clear understanding of the benefits, cost, risks, and rewards associated with FX options strategies. The early chapters provide a gentle introduction, and the book gradually builds in complexity, covering hedging in three stages. The author concentrates on practical application of options as experienced in the real-world. He illustrates his point with examples drawn from the corporate world. A new statistical procedure is used to test for weak form efficiency in the foreign exchange futures markets. Using daily currency futures prices for the 1976-1990 period, we conclude that successive exchange rate changes have not been independent We examine the implications of this finding for two groups of investors: (1) return seeking investors considering foreign exchange as a separate asset class; (2) international portfolio investors deciding whether or not to currency hedge the foreign exchange rate exposures embedded in their non-dollar investments. Using the currency futures data and monthly data on 10-year dollar and non-dollar bonds, we conclude that active currency risk management, based on a simple application *of technical trading signals, can substantially improve the risk-return opportunities for both groups of investors in comparison to passive currency strategies. Integrates concepts such as transaction, translation, accounting risk, balance sheet risk, and economic risk into a logically consistent framework for the study of currency risk and its management. Presents the main techniques of risk management, discussing the problem of monitoring performance. Identifies the options of using aggressive and defensive postures and a lot or a little resource to manage currency risk. Includes practical examples to quantify the various lessons. The measurement and management of currency risks has become one of the main tasks of the financial managers in financial institutions and industrial corporations. In general, firms face two types of risks: business or operating risks and financial risks. Operating risks arise as a consequence of the competitive business environment that influences the financial situation of a firm. Movements of exogenous financial variables that influence the financial situation of a firm are defined as financial risks. Currency risk is one example of a financial risk. In this study, it is shown that there are clear differences in the way industrial corporations (should) measure and manage currency risks versus financial institutions. Financial risks can be managed by using the financial instruments available on the foreign exchange market. The primary reason to hedge financial risks is that by doing so firms can concentrate on seeking and managing exposure to those operating risks where they expect to have a competitive advantage. A model is presented to measure the market value impact of risk management decisions. To manage financial risks in practice a cash flow planning model is also derived. Assuming frictionless financial markets, the hedging decisions of financial institutions are not aimed at creating market value. Their main objective is to offer a distribution of returns that fits the preferences of their participants. It*

is shown how a financial institution can measure and manage the currency risks using such financial instruments as futures contracts and options. Control the number one cause of financial loss currency fluctuation With cross-border commerce now the global norm, companies must now face the greatest threat to their financial stability: financial losses due to currency fluctuations. Written by an international business and banking expert, Managing Currency Risk is an authoritative, accessible look at the variety of methods used to minimize currency risk. Written for the financial market novice, the book explains the nature and uses of a variety of financial instruments without complicated mathematical equations. Discussed in detail are all forms of currency derivatives, such as forward foreign exchange, OTC currency options, currency swaps, currency futures, and options which are illustrated with international examples and case studies. A practical guide on every aspect of currency risk, Managing Currency Risk also serves as a guide to navigating your firm through turbulent economic times. Readers will be empowered to implement their own effective currency hedging strategy; all those involved in investment will be able to participate in global markets regardless of their level of currency expertise. The Currency Risk Management series offers readers, researchers, and financial professional a time-tested training tool for understanding and working in the increasingly complex currency markets. This series breaks new ground in simplicity, clarity, and ease of application in risk management practice. Previous work on the exposure of firms to exchange-rate risk has primarily focused on U.S. firms and, surprisingly, found stock returns were not significantly affected by exchange-rate fluctuations. In this paper we conduct a comprehensive analysis that examines the relation between Japanese stock returns and unanticipated exchange-rate changes. In addition, we investigate whether exchange-rate risk is priced in the

equity market of Japan using a conditional testing procedure that allows risk premia to change through time in response to changes in macroeconomic conditions. We find a reliable relation between stock returns and unanticipated yen fluctuations. The exposure effect on multinationals and high-exporting firms, however, is found to be greater compared to low-exporting and domestic firms. Lagged-exchange rate changes on firm value are found to be statistically insignificant and without any predictive power for future stock returns based on the asset pricing tests. The co-movement between stock returns and the value of the yen is found to be positively associated with the degree of firm's foreign involvement. Our multi-period conditional asset pricing tests show that the foreign exchange-rate risk premium is a significant component of Japanese stock returns. Specifically, the results suggest that currency- risk exposure commands significant risk premium for multinationals and high-exporting Japanese firms. Finally, Japanese stock returns are found to be related to the relative distress, size and market factors, as shown by Fama and French (1995) for U.S. stocks above and beyond the covariation by the foreign currency factor. Seminar paper from the year 2011 in the subject Business economics - Banking, Stock Exchanges, Insurance, Accounting, grade: 81%, University of Westminster (Westminster Business School), language: English, abstract: This paper examines the role of currency futures contracts in risk management. The reader can find a brief introduction to the history of foreign exchange markets and under which cir-cumstances the markets appeared in 1970s. Furthermore, the question of why to use currency futures to hedge risk exposures is answered. A more in-depth analysis of how currency futures contracts are structured, especially their specifications and their advantages and limi-tations for the user. Moreover this paper addresses issue of how currency futures are used by participants. Finally, a brief use of currency futures is also *examined with a case study on the FX-market. This paper challenges the conventional view that foreign exchange risk premiums are small, not volatile, and unrelated to macroeconomic variables. For the Italian lira (1987-94), unconditional risk premiums—constructed using survey data to measure exchange rate expectations—are found to be sizable (relative to the dimension of the forward premium), highly volatile (relative to the variability of the forward bias), and predictable. Estimation of structural models of the risk premium suggests that anticipated fiscal contractions in Italy and lower uncertainty about the future path of fiscal policy are associated with a lower risk premium on lira-denominated assets. Seminar paper from the year 2006 in the subject Business economics - Banking, Stock Exchanges, Insurance, Accounting, grade: 1,0, Reutlingen University (sib - school of international business Reutlingen), course: International Financing, 45 entries in the bibliography, language: English, abstract: Risk management within companies is getting more and more important. The reasons for this development are varied. The most important factor is doubtless the internationalisation of companies. Acting on international markets offers on the one hand numerous chances for an enterprise but on the other hand it also holds an additional risk potential concerning losses. This negative aspect is mainly caused by a lack of information regarding political risk and exchange rate risk. Risk management is also necessary referring to change in interest rates. It is possible to limit, control and organize the interest rate risk as well as other risks of the company. As the financial outcome of a company gains importance risk management concerning interest rates and exchange rates is thus essential. To face these risks and other problems that derive of variations in stock markets, interest markets or exchange markets derivative instruments play a significant role. In April 2003 the International Swaps and Derivatives Association (ISDA) published a survey of derivatives usage*

by the world's 500 largest companies. According to this study 85% of the companies use derivatives to help manage interest rate risk and 78% of them use derivatives to help manage currency risk. Only 8% of the 500 largest companies do not use derivatives. There are many different kinds of financial instruments which are very complex in their function. This paper has its focus on interest rate and currency swaps. By using these instruments it is possible to hedge interest rate risks or currency risks. The first chapter gives an overview about existing derivatives and about the structure and function of swaps. Moreover the different kinds of traders with emphasis on hedging will be described. Afterwards the impact of interest risks on companies as well as OTC instruments that are used for hedging are explained. Subsequently the definition of an interest rate swap follows plus the application of this instrument with regard to hedging. In chapter five the currency risk management and types of exchange rate risks are illustrated. After that it will be explained how to hedge these exchange rate risks. The paper then gives a description of currency swaps and their application. Reasons for swaps in general as well as possible risks will also be pointed out. [...] Financial managers rarely find a one-stop source for a complete course in currency management. Expanding on his work, Currency Risk Management, Gary Shoup builds a practical foreign currency management program. This extensive text covers everything managers and their consultants need to implement a program, from trends in exchange rates to understanding pricing determinants. He discusses in detail the market for currencies, price forecasting, exposure and risk management, managing accounting exposure, and managing strategic exposure. Currency overlay is the management of the currency exposure inherent in cross-border institutional investments. Exposure to foreign currencies increases the volatility of their returns, without increasing the returns themselves and academics and

consultants recommended that the currency exposure should be stripped out of international portfolios and eliminated as far as practicable. This book provides a comprehensive description of currency overlay, its history and possible future developments and growth, the reason for its emergence, the debates and controversies, the different styles of currency management, and the industry's performance track record. This is a subject of international appeal and is an area of particular growth potential for institutional investors. Coverage includes: The theoretical case for eliminating currency risk in international portfolios The interplay between asset returns and currency returns, and the effect of this on hedging decisions Benchmarks - their construction and strategic role Least-cost passive overlay The structure of the currency market, and its 'inefficiencies' Active overlay styles Active overlay both restricted and unrestricted (currency alpha) Uses diagrams, charts, tables and explanatory boxes to explain concepts Currency Risk Management (CRM) is vital for any business engaging in international trade. Fluctuations and uncertainty within currency markets mean that businesses must seek to effectively manage and anticipate potential risks when striking international deals. In a rapidly changing and volatile global business environment, CRM is now more than ever of critical importance. However, what risks should businesses hedge – and how? With so many viable strategies for hedging currency exchange risk, it is crucial that businesses either outsource or have a specialized team to ensure effective and efficient management of currency exchange risks. But how does CRM operate in an emerging market? And what are the key factors that influence the chosen CRM strategies? Organized in association with Indian Bank, GITAM's national conference on CRM sought to highlight the trends, problems, and prospects of CRM in India. Taken from the conference proceedings, this book presents 9 innovative research papers that consider *differing CRM practices. From a comparative study of India and China to an assessment of CRM strategies used by commercial Indian banks, this book offers an invaluable insight into CRM from the perspective of an emerging market. As a whole, this book addresses India's shift to a market-determined exchange rate regime and the inevitable problems caused the by the high volatility of exchange rates. Aimed at students enrolled in commerce and management courses, this collection of research papers will also be of interest to researchers in international finance. Issues in debates about foreign currency exposure—the denomination of liabilities or assets in foreign currency. The foreign currency denomination of contracts in international transactions can lead to international currency exposure at the country level with important economic and policy implications. When debts are denominated in foreign currency and revenues in domestic currency, exchange rate fluctuations can result in balance sheet effects for countries with either net asset or liability positions. Moreover, currency mismatch between assets and liabilities can be a cause for crises in developing and emerging economies. This book looks at the issues surrounding foreign currency exposure in today's increasingly integrated world economy. The contributors draw on cross-country as well as country-specific data. They consider international currency risk after the Swiss franc ended its one-sided peg with the euro, for example, and the foreign exchange positions of firms in Turkey and Russia. Other contributors take macroeconomic perspectives, examining the potential effects of exchange rate realignment, the pressure to appreciate on countries with current account surpluses, and the currency exposure in international trade. Finally, contributors consider the issue from finance and political economy perspectives, addressing the phenomenon of the forward premium puzzle and discussing geopolitical aspects ascending currencies. Contributors Fatih Altunok,*

Huseyin Aytug, Agustín S. Bénétrix, Jörg Breitung, Paul De Grauwe, Eiji Fujii, Peter Garber, Juann H. Hung, Signe Krogstrup, Philip R. Lane, Katja Mann, Arif Oduncu, Gunther Schnabl, Maria V. Sokolova, Cédric Tille This book provides an overview of Chinese RMB exchange markets and its risk management strategies. The view that RMB is playing an increasingly international role has been widely accepted by practitioners as well as scholars worldwide. Moreover, the Chinese government is opening the control of RMB exchange market step by step. However, some related topics are under heated debate, such as how to manage and warn of the currency crisis, what the trend of RMB exchange rate in the future is, and how to hedge the exchange risk in the process of RMB internationalization. In this book, we will give distinct answers to the above questions. In this paper we test the hypotheses that previous studies fail to find a significant role for currency risk in industry returns because of methodological shortcomings or because of hedging. Using a Fama-French three-factor model augmented with an exchange rate factor in which both the factor exposures and risk premiums are time varying, we find that 35 of 36 U.S. industries are significantly exposed to a broad currency index (containing the currencies of developed and developing economies). In sharp contrast, only 14 industries display significant time-invariant exchange rate exposure using ordinary least squares. More important, the sample means of the time-varying exposures are economically large, with 27 (75%) being greater than 0.10. This resolves the puzzle that previous research finds significant exposure at the aggregate stock market level, but fail to identify the firm or industry level as the source of this aggregate exposure. In addition, currency risk premium is an economically large component of the cost of equity, with 21 industries having a mean currency premium of over 100 basis points per year. Compared to an average cost of equity of 15% per year, the annualized (absolute) currency risk premium is

2.10% for the average industry and is substantially more for some industries. Moreover, 31 of the 36 industries have a mean absolute currency risk premium that is at least one-tenth of the industry's total risk premium. Contrary to the above, an index of the currencies of the developed countries substantially understates the economic importance of currency risk premium. Overall, we find strong support for the methodological, but not the hedging, hypothesis. Large fundamental imbalances persist in the global economy, with potential exchange rate implications. This paper assesses whether exchange rate risk is priced across G-7 stock markets. Given the multitude of hedging instruments available, theory suggests that stock market investors should not be compensated for currency risk. However, data covering 33 industry portfolios across seven major stock markets suggest that not only is exchange rate risk priced in many markets, but that it is time-varying and sensitive to currency-specific shocks. With stock market investors typically exhibiting "home bias," this suggests that investors are using equity asset proxies to hedge the exchange rate risks to consumption. The definitive, practical guide to sound currency risk management. This paper examines the benefits from hedging the currency exposure of international investments in single- and multi-country equity and bond portfolios from the perspectives of German, Japanese, British and American investors. Over the period 1975 to 2009, hedging of currency risk substantially reduced the volatility of foreign investments at a quarterly investment horizon. Contrary to previous studies, the paper finds that at longer investment horizons of up to five years the case for hedging for risk reduction purposes remained strong.In addition to its impact on risk, hedging affected returns in economically meaningful magnitudes in some cases. The Currency Risk Management series offers readers, researchers, and financial professional a time-tested training tool for understanding *and working in the increasingly complex currency markets. This series breaks new ground in simplicity, clarity, and ease of application in risk management practice. With the advent of the World Trade Organization and NAFTA, foreign exchange now impacts the corporate world as never before. Hedging currency risk - usually through the interbank network - is now a routine treasury function. However, midsized companies (up to $100 million in annual sales) are often shut out of the interbank market because of cost and minimum size requirements. Currency Risk Management: A Handbook for Financial Managers, Brokers, and Their Consultants shows how to capture this business - from the basic concepts of foreign exchange to prospecting the corporate client. The author writes in an easy-to-read style and shows the finer points of foreign exchange and various exchange regimes recognized by the IMF. The reader will learn why exchange rates are a matter of government restrictions and controls as well as market price discovery. This book shows its reader how to get the right currency--and not how to get the currency right, thus avoiding substantial currency risk in the first place. This book demonstrates how exporters' decisions regarding choice of invoice currency can be influenced by many factors including firm size, product competitiveness, intra/inter-firm trades, and the geography of export destination. The aim is to enhance our understanding of exporters' behavior in terms of managing currency risk. It contains detailed research and insightful data focusing on Japanese exporters and shows how they face an important trade-off in choosing the invoice currency. If exports are invoiced in yen, then exchange rate fluctuations will pass through to retail prices ultimately affecting sales volumes. However, if they choose to invoice in the importer's currency, then sales volumes are largely unchanged. Books on complex hedging instruments are often more confusing than the instruments themselves. Hedging Instruments & Risk Management brings clarity to the topic, giving money*

managers the straightforward knowledge they need to employ hedging tools and techniques in four key markets—equity, currency, fixed income, and mortgage. Using real-world data and examples, this high-level book shows practitioners how to develop a common set of mathematical and statistical tools for hedging in various markets and then outlines several hedging strategies with the historical performance of each.