

Dr. Latha Lavanya

Associate Professor, MEASI Institute of Management

Sujai.R

IInd year MBA, MEASI Institute of Management

ABSTRACT

INTRODUCTION:

The Foreign exchange market is an international market for exchanging countrywide currencies. Because of the worldwide attain of trade, commerce, and finance, foreign exchange markets have a tendency to be the largest and maximum liquid asset markets in the world. Currencies alternate in opposition to every different as alternate charge pairs. In Foreign exchange market currency derivatives are top most operational hedging strategy to manage foreign exchange risk. This scenario is different in developed and emerging markets as turnover of derivatives is growing swiftly in emerging markets and uses of currency derivatives is common but lower in comparison to the interest rate derivatives. The study is aims at understanding Forex management and to get to know about the various types of risk the tools and techniques used in hedging to control the risk to explore role of SME in Forex and involution of bank Institutions

PROPOSE OF THIS STUDY:

Motive of this study is to determine what are all associated with Forex management and to know about the types of risk faced in Forex trading and types of hedging tools and techniques with are used to control the risk in faced Forex trading

METHODOLOGY:

This article is condensed by exploratory research and the methods applied are literature Disruptive survey and analysis of examples with specific use cases and tests conducted were reliability analysis, factor analysis, chi- square test, t-test, ANOVA, correlation and regression. Correlation analysis was used to determine if there was a relationship between the variables that were taken for the study. The relationship between Forex management and risk management, Hedging tools and techniques, SME and Banks in Forex was analyzed using step wise multiple regression analysis.

MAIN FINDINGS:

In general Forex market is Unpredictable because of the fluctuating rates in currency's in the market and it is noticed all the dependent variable are significantly associated between independent in this study . Tests like chi- square, t-test, ANOVA, Correlation and regression alternative Hypothesis shows that there is association between the implementation of independent and dependent variable

APPLICATIONS OF THIS STUDY:

Any investor who is willing to invest in Foreign exchange must be conscious of risks in Foreign exchange market .they are transaction risk, translation risk and economic risk. By using hedging tools and techniques there is Possibility of reducing the risk involved in Forex trading

NOVELTY/ORIGINALITY OF THIS STUDY:

Conceptual framework presented in this research and this study on policy analysis to form a composite framework for the study of Forex management

KEYWORDS: Forex management, risk management, Hedging tools, SME, Banks

1. INTRODUCTION

The term “Forex market” refers to any or all of the institutions around the world that exchange or trade currency. The exchange market is also partially over the counter (OTC), implying that no central exchange or clearinghouse exists where orders are matched. (Lien2009) Forex dealers and market makers all over the globe are connected 24 hours on a daily basis, seven days per week via Phone, online links, and fax, forming one market. Without a doubt, we've got an inclination to be living in an Olympian world where all of the elemental economic functions of consumption, production, trade, and investment are heavily globalized. Brazil, Thailand, Guatemala, and Spain are among the countries that India imports sugar and sugar confectionery from.

The exchange of currencies takes place at regular intervals within the exchange market, which is one among the world's largest financial marketplaces; with trade centers in every a part of the world (Krugman,Obstfeld, And Melitz, 2012). The rate of exchange is that the value of a remote currency in reference to a domestic currency

1.1 FOREIGNEXCHANGE RISK MANAGEMENT

Foreign exchange risk is the exposure of business to movements in foreign exchange rates. Foreign exchange risk arises, where currency mismatches in an institution’s assets and liabilities and currency cash flow mismatches. This risk may arise from a variety of sources such as foreign currency retail cash transactions, retail accounts, investments in foreign currencies and investments in foreign companies. The amount at risk involved is a result of the change in the magnitude of potential exchange rate and the size and duration of the foreign currency exposure.

TYPES OF FOREIGN EXCHANGE RISK

Foreign Exchange exposure is classified into three types:

TRANSACTION EXPOSURE

Business Company has transaction exposure whenever it has contractual cash flows (receivables and payables) whose values are subject to unexpected changes in exchange rates due to a contract being denominated in a foreign currency

ECONOMIC EXPOSURE

A firm has economic exposure also called forecast risk to the degree that its market value is influenced by unexpected exchange rate fluctuations. Such exchange rate adjustments can rigorously affect the firm's market share position with regards to its competitors, the firm's future cash flows, and finally the firm's value. Economic exposure can affect the present value of future cash flows

TRANSLATION EXPOSURE

A firm's translation exposure is the extent to which its financial reporting is affected by exchange rate movements. As all companies generally must prepare consolidated financial statements for reporting

purposes, the consolidation process for multinationals entails translating foreign assets and liabilities or the financial statements of foreign subsidiaries from foreign to domestic currency.

TOOLS AND TECHNIQUES FOR THE MANAGEMENT OF FOREIGN EXCHANGE RISK

Hedging exposures, sometimes called risk management, is widely resorted to by financial directors, corporate treasurers and portfolio managers. The practice of covering exposure is designed to reduce the volatility of a firm's profits and or cash management and it presumably follows that this will reduce the volatility of the value of the firm. There are a wide range of methods available to minimize foreign exchange risk which are classified as internal and external techniques of exposure management

TOOLS FOR FOREIGN EXCHANGE RISK MANAGEMNT DERIVATIVES

Contracts can buy or sell foreign currencies at a future date. The table summarizes the relevant characteristics of three types of FOREX derivatives: forward contracts, futures contracts, and options. Because the types of FOREX derivatives closely correspond to the identity of the FOREX market participant, the table is based on the derivative type-market participant relationship.

FORWARD EXCHANGE CONTRACT

A forward exchange contract is a system that ensures the value of one currency must be equal to the value of another by establishing the foreign exchange rate in advance for a transaction that will take place at a later date.

ARBITRAGE EXCHANGE CONTRACT

Is the technique of taking advantage of a price differential between two or more markets as a chance to acquire an asset at a low price and instantly sell it on a separate market for a higher price, allowing an investor to make a risk-free profit at zero or little cost.

OPTION EXCHANGE CONTRACT

A contract gives the buyer the fundamental right, but not the obligation, to acquire (or sell) a certain asset at a predefined or agreed-upon price at any time throughout the contract's life. Offers the seller the right to buy or sell an asset at any point in the future.

FUTURES EXCHANGE CONTRACT

The buyer has the duty to purchase a certain asset, and the seller must have obligation to sell and deliver that item on a specific future date, as long as the holder does not close the position before it expires.

2. REVIEW OF LITERATURE

B. Sudhakar Reddy (March 2020)

The purpose of this text was to know the history and concept of exchange transactions in an improved way and to urged understanding about the numerous kinds of risks which were pending to banks linked with exchange transactions and, how these commercial banks delay that risk by modifying or reducing the loss. It mainly focuses on the various varieties of risks that the banks faced and what were the ways by which these commercial banks could prevent those risks associated with the exchange. Then with relation to two Indian banks- one private and one government, it had been briefly discussed that how banks in India prefer or rather, how a particular kind of risk management technique was more applicable to Indian banks as compared to the remainder.

The pre-tested survey was administered on a judgment sample of 501 business enterprises, located in numerous parts of the country correlation and technique the study found it started with discussing very well, what the distant conversation marketplace was and therefore the way it was evolved over the years, the varied styles of transactions- future and short term that happened, the function that banks played in it and the way they managed the varied risks related to exchange transactions when the exchange rates of a currency pair keep changing by the minute.

Source:

Author: B. Sudhakar Reddy (March 2020) Title: Foreign Exchange and Risk Management in Indian Banks Journal title: INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT) Volume:8 Issue: 3 Page no:680

Prakash Basanna, K. R. Pundareeka Vittala (April, 2019)

The current article aims at learned numerous FERM techniques employed within the Indian pharmaceutical business and their impact on exchange gained/losses. For this purpose, exchange money flowed arising out of imports and exports and exchange gained/losses of corporations the businesses throughout 2010–2017 of ten sample companies chosen from the drug company business square measure used. The person of science had used numerous techniques liked the analysis of variances (ANOVA), multiple regression-based prophetic analysis models, and f-test descriptive statistics tools, and studied relies on secondary information collected from the annual reports it was determined from the studied that solely 2 currencies USD and EUR hold commanded within the Forex market and different currencies square measured getting used minimally.

It's additionally noted that their unit many currency derivatives offered to the business corporations liked forwards, futures, options, and swaps for hedging currency exposure. However, among those techniques, a forward contract was taken under consideration have been an efficient hedging tool and easier to know

Source:

Author: Prakash Basanna, K. R. Pundareeka Vittala (April, 2019) Title: An Analysis of Foreign Exchange Risk Management: Techniques Employed in Indian Pharma Industry Journal title: Jindal Journal of Business Research Volume: 8 Issue: 1 Page no:92-107

3. LIMITATIONS OF THE STUDY

- Lack of awareness about foreign exchange risk management in public it Data cannot be generalized Time constraints has prohibited from going depth in to the subjects
- The information obtained or the collection of data is limited
- The inexperience makes analysis less precise compared to professional analysis
- The geographical limit of the study

4. OBJECTIVES:

- To examine the significant difference between Forex management and SME Risk
- To identify the significant difference between Forex management and Banking in Forex
- To evaluate the significant difference between the dimension of the independent variable and challenges faced in implementing Forex management in order to understand the need
- To identify the variables affecting the Forex Management

5. RESEARCH METHODOLOGY

The methodology adopted in this study relates to data collection and questionnaire. The sampling plan used for the final study is discussed in detail along with the data collection procedures and data analysis Procedure used in pretest, and final study.

6.1. Sampling Plan and Data Collection

It is a non-probability sampling in which samples are drawn from special group. It is used in solving every day business problem and making public decision.

e) Sample Size: A total of 61 -respondents were chosen for the study

6. 2Study Area

The study area taken up by the research in Chennai.

6.3. Period of the Study

The study is conducted over the period of 2 months from 1st August2021 to 30th September 2021.

6.4. RESEARCH INSTRUMENT

The questionnaire comprises of 3 parts:

- Part I – Demographic variables (including age, occupation, level of education)
- Part II – Comprises 12 statements that represent the basic expectations of investor when they invest Forex market . The respondents have been asked to rate how these expectations were met during at time of investing against a 5-point scale.

6.5. Data Collection

Data collection comprise of primary data and secondary data. The primary data has been collected through questionnaire and secondary data from related journals and publications.

7.6. TOOLS FOR ANALYSIS

The primary data collected has been analysed using various statistical tools as under mentioned:

- **CORRELATION METHOD**
- **STEPWISE MULTIPLE REGRESSION**

HYPOTHESIS:

MULTIPLE REGRESSION ANALYSIS OF FOREX MANAGEMENT

Null Hypothesis (Ho) –There is no significance difference among the dimensions of independent variables as predictors of challenges faced in Forex management Alternative Hypothesis (H1) - There is a significance difference among the dimensions of independent variables as predictors of challenges faced in Forex management

8. DATA ANALYSIS AND INTERPRETATION

MULTIPLE REGRESSION HYPOTHESIS

Null Hypothesis (H0)- There is no significance difference among the dimensions of independent variables as predictors of challenges faced in Forex management

Alternative Hypothesis (H1)- There is a significance difference among the dimensions of independent variables as predictors of challenges faced in Forex management

TABLE 4.6.1 Model Summaryc

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	0.30	0.09	0.07	0.22	0.09	5.89	1	58	0.01	1.07
2	0.40	0.16	0.13	0.22	0.06	4.61	1	57	0.03	

Source: Primary Data

INFERENCE

The above regression table summarizes the model. Where, R represents the multiple correlation coefficient with a range lies between -1 and +1. Since the R 0.304, value is, it means Forex management has a positive relationship with Risk management, Hedging tools and technique, SME in Forex, SEM Risk management and Banks in Forex management. R square represents the coefficient of determination and ranges between 0 and 1. Since the R square value is 0.092, 0.160that is 70 per cent of the variation in Forex management percentage is enhanced by Risk management, Hedging tools and technique, SME in Forex, SEM Risk management and Banks in Forex management.

ANOVA

TABLE 4. 7.1 ANOVA^a

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	0.30	0.09	0.07	0.22	0.09	5.89	1	58	0.01	1.07
2	0.40	0.16	0.13	0.22	0.06	4.61	1	57	0.03	

Source- Primary Data

INFERENCE:

From the above ANOVA table F value is significant (sig value is less than 0.05) it means Dependent variable of Forex management percentage is reliable.

COEFFICIENTS:TABLE 4.8.1 Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.766	0.103		17.105	0.000
SMER	0.116	0.048	0.304	2.428	0.018
(Constant)	1.498	0.160		9.358	0.000
SMER	0.137	0.047	0.359	2.896	0.005
BFM	0.081	0.038	0.267	2.149	0.036

a. Dependent Variable: FMRT

b. Dependent Variable:

a. Predictors in the Model: (Constant),SMERT

b. Predictors in the Model: (Constant),BFM

The above table shows that under model the independent variables Forex management

Regression Equation:

$$Y = a(x) + b$$

$$Y = 1.76 + 0.116x_1 \dots \quad (1)$$

$$Y = 1.498 + 0.137x_1 + 0.081x_2 \dots \quad (2)$$

Here X1 is the base

H₀: There is no significant difference among the dimensions of the study variables as predictors in explaining Forex risk management

H₁: There is significant difference among the dimensions of the study variables as predictors in explaining Forex risk management

CORRELATION:

TABLE 4.9.1 SHOWING CORRELATION

Factors		FMR	RM	HTT	SME	SMER	BFM
Pearson	FMR	1					
Correlation	R	0.087	1				
	HT	0.011	0.267	1			

SME	0.170	0.126	0.193	1		
SMER	0.304	0.142	0.267	0.555	1	
BFM	0.192	0.043	0.002	0.283	0.209	
						1

INFERENCE

The intercorrelation for all the constricts of Forex management had positive correlation With Risk management,, Hedging tools and technique ,SME ,SME in Forex And Bank in Forex which is statistically significant at 0.000 has a positive correlation

9. SUMMARY OF FINDINGS

OBJECTIVES	Hypothesis	ANALYSIS	FINDINGS
To evaluate the significant difference between the dimension of the independent variable and challenges faced in implementing Forex management in order to understand the need	Null Hypothesis (Ho)- There is no significance difference among the dimensions of independent variables as predictors of challenges faced in Forex riskmanagement Alternative Hypothesis (H1)- There is a significance difference among the dimensions of independent variables as predictors of challenges faced in Forex risk management	Multiple Regression Analysis	There is a significant difference between the dimension of the independent variables challenges faced in implementing Forex management

10. SUGGESTIONS

Several undisciplined and inexperienced traders have suffered large losses as a result of foreign exchange over the years. To make a profit in trading, investor must first recognize the market. To be able to spot markets, investor must first know and identify market risk. The first step in developing self-awareness is to ensure that investor's tolerance capital allocation to Forex and trading is not excessive or deficient. An analytical trading approach does not begin with fundamental and technical price trend analysis or the

development of trading strategies. It starts with the first dollar placed in an open position and the first errors in calculation and trading methods.

11. SCOPE FOR FUTURE RESEARCH

The study extends scope for mapping research in Electronic Broking Services (EBS) the future researchers can explore this gray area. Due to the time constrain less variables were considered, but the researcher can focus on Forex services, analyzing variables such as straight-through processing, improving speed of transactions and reduced errors. Models of foreign exchange market microstructure research, examine the determination and behavior of spot exchange rates in Indian environment that replicates the key features of trading in the foreign exchange (FX) market.

These Micro-based model research, examines how information relevant to the pricing of foreign currency becomes reflected in the spot exchange rate via the trading process. These research aims to provide the micro foundations of the exchange rate dynamics that have been missing in general equilibrium macro models. The study considered the effect of hedging tool in FM, analyzing the Impact of efficient hedging tool can also be considered

12. CONCLUSION

The Forex markets have become the world's most liquid and continuous markets with trillions of dollars being traded daily. Whether trading in the spot market, the futures markets, or the options markets, speculators and hedgers can find an instrument and the leverage that meet their needs. Study will contribute to the stated financial experts that risk is the quantified uncertainty about the unwanted changes in the value of a financial commitment. Every investor must identify and classify risks, as well as develop the necessary technical and managerial expertise to manage interchange risks. The review of literature has revealed that the firm the review of literature has revealed that firms uses derivatives as a hedge rather than taking a position in the interchange market. Forward and future contracts have the highest preference. The financial officers of the various companies are aware of their transaction, translation, and economic exposure; however, non-users of derivatives cited confused perceptions of the derivatives. Derivatives use and the fear of high derivative costs are reasons for not using derivatives. To manage the risk of loss due to changes in exchange rates, investors use hedging tools, but other practices such as l/c, currency trading, bullion trading, derivatives, advance payment, and escalation clauses are also used to reduce their exchange risk. However, the majority of exporters believe that forecasting and risk estimation are more important than hedging, and that factors such as profitability, sales growth, and leverage have a greater impact on the choices to mitigate interchange risk. The study is especially important because banks' Forex exposure is evergreen. The findings will be useful to bankers and investor in developing their Forex risk management policies.

13. REFERENCE

1. B. Sudhakar Reddy (March 2020) -Foreign Exchange and Risk Management in Indian Banks, International Journal Of Creative research Thoughts (IJCRT)Volume: 8 Issue: 3 Pageno:68
2. Bredin, D., & Hyde, S. (2004). FOREX Risk: Measurement and evaluation using value at risk. Journal of Business Finance & Accounting, 31(9-10),1389-1417.
3. Brown, G. W. (2001). Managing foreign exchange risk with derivatives. Journal of Financial Economics, 60(2),401-448.
4. Chugh, A., Sharma, R., & Mehta, K. (2017). Forex Risk Management by SMEs and Unlisted Non-financial Firms: A LiteratureSurvey.

5. DenizParlakHüseyinİlhan (2016) -Foreign Exchange Risk And Financial Performance: The Case Of Turkey International Review of Economic Management Volume: 4 Issue: NO 2 Page no:1-15
6. DR. S. NAGARAJU (2018)A Research Study On Foreign Exchange And Its Risk 14 Management,International Journal of Management, Technology and Engineering Volume: 8 Issue: 7 Page no:116
7. Madhuchandrika N.(2019) Foreign Exchange Risk Management in Indian Commercial Banks: Perspectives of Bankers and Customers vol 4 issue178-82
8. Michael Papaioannou(2006) Exchange Rate Risk Measurement and Management: Issues and Approaches for Firms International MonetaryFund
9. O. S. Deol (2018) -Foreign Exchange Exposure Management In Reliance Industries Limited, International Journal of Research in Humanities, Arts and Literature Volume: 6 Issue:8 Page no:509
10. Prakash Basanna, K. R. PundareekaVittala (April, 2019) - An Analysis of Foreign Exchange Risk Management: Techniques Employed in Indian Parma Industry, Jindal Journal of Business Research Volume: 8 Issue: 1 Page no:92-107
11. Sanjeev Gupta (2018)-An Empirical Study on Dynamics of Foreign Exchange, Dharamshala of Accounting & Finance School of Business & Management Studies Central University of Himachal25-256
12. Varshney S C; Kalpana (Gupta2017) -Forex -Risk Management Practices - A Study in Indian Scenario (International Journal of Research in Management and Social Science International Journal of Research in Management And Social Science Volume: 5 Issue: 1 Page no:20
13. Westerhoff, F. (2003). Anchoring and psychological barriers in foreign exchange markets.The Journal of Behavioral Finance, 4(2),65-70.