Benefit of FX Derivatives to Secure USD Revenue:

A Case Study of a Partly Export Firm

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ABSTRACT

The objective of this study is to examine how FX derivatives will help a company to reduce exposure to risk of USDTHB rate and to secure the USD revenue. The study suggests the best hedging instrument for a partly export firm. The study is conducted by a case study approach. We use the case of a listed manufacturing company whose income partly comes from export, mainly in USD. The study compares the performance of four hedging instruments; namely 1-month FX Forward (buy daily), 1-month FX Forward (buy monthly), Long 1-month Put Option and Short 1-month Call Option.

The result shows that FX hedging instruments can reduce FX risk exposure but not in all scenarios. However, the long position in 1-month Put Option obviously produces positive margin over unhedged position in most cases.