

Міністерство освіти і науки України

Національний університет харчових технологій

**80 МІЖНАРОДНА НАУКОВА
КОНФЕРЕНЦІЯ
МОЛОДИХ УЧЕНИХ,
АСПІРАНТІВ І СТУДЕНТІВ**

*“Наукові здобутки молоді –
вирішенню проблем харчування людства
у ХХІ столітті”*

Частина 4

10–11 квітня 2014 р.

Київ НУХТ 2014

75. Management of currency risks

Natalia Malysheva

National University of Food Technologies

Introduction: Economic risk is defined as the probability of adverse effects of exchange rate changes on the economic situation of the company, for example, reducing the likelihood of turnover or changes in prices of factors of production and finished products as compared to other prices in the domestic market. The risk may be due to changes in the severity of competition both on the part of producers of similar goods, as well as from manufacturers of other products, as well as changes in consumers' commitment to a particular brand. The impact may also have other sources, such as the government's response to changes in exchange rates or wage restraint as a result of inflation caused by currency depreciation.

Resources and methods: Research online resources, professional magazines, papers, manuals.

Results: Currency risk is a form of risk that originates from changes in the relative valuation of currencies. These changes can result in unpredictable gains and losses when the profits or dividends from an investment are converted from the foreign currency into U.S. dollars. Investors can reduce currency risk by using hedges and other techniques designed to offset any currency-related gains or losses.

In the least degree of economic risk are companies that incur costs in local currency only, do not have alternative sources of production factors, which could affect the exchange rate. These companies sell their products only within the country and do not meet the competition from goods whose prices can become more prosperous as a result of the favorable exchange rate. However, even these companies are not fully protected because of exchange rate changes may have consequences which cannot escape any one firm.

Fluctuations in exchange rates may affect the degree of competition from other manufacturers, had an effect on the structure of their cost or their selling prices denominated in local currency. The company, which sells exclusively on the domestic market, with costs paid in national currency only to suffer from the appreciation of domestic currency, as the competitive imported goods will be cheaper, as well as goods of domestic producers, competitors, whose costs are paid partly in foreign currency.

Change the value of the currency of the country may have more importance for the company to list its subsidiary in that country in order to provide a cheap source of supply or on its domestic market or the markets of other countries' consumers.

The company cannot always choose the currency rates at their discretion, and even more difficult to predict the movement of the exchange rate. Most firms that manage foreign exchange risk are doing so to protect profit margins on export sales.

Protection's strategies of currency risks may include currency hedging, which involves reducing or aiming to remove the impact of currency movements on the value of the investment. It is a strategy that is generally used in an attempt to reduce the risk and impact of adverse currency movements to protect the value of the investment. As one of the protective measures against loss, you can use the simultaneous conclusion of export and import contracts in the same currency and with approximately the same maturity. In this case, the profits of the export contract and the loss of import are mutually compensated. But all gains and losses could be cut only when the balance of exports and imports. In practice, the enterprise is usually dominated by exports or imports. Then, in order to reduce risk are

encouraged to enter both the export and import contracts in different currencies, with opposite trends in the fluctuations.

A more reliable way to protect against currency losses is a currency clause. Its essence lies in the fact that the currency in which payment is made under a contract linked to a more stable currency and the amount of the payment is made dependent on changes in the course of a more stable currency. At the same payment currency may coincide or may not coincide with the currency rates.

Conclusions: The benefits of managing that risk are:

- Primary goal is to protect your business from the negative impact of exchange rate fluctuations, at the lowest possible cost.
- Because exchange rate volatility also provides opportunity for gains, a secondary goal is to strike a balance between risk and return.

If the payment currency is stable and the payment will be made after a short period from the date of the contract, this is not necessary. When installment payment on a long term reservation should be included as to predict the movement in exchange rates over a long period is impossible. And you must include, if the payment currency is unstable, even with a small gap between the time of payment and the term of the contract.

References

1. Adler M., and B. Dumas, 2005. Exposure to currency risk: Definition and measurement. *Financial Management* 13, 41-50.
2. Currency Risks and Their Classification [Electronic source] // Mode of access: <http://currencies-systems.blogspot.com>
3. Methods of Protection and Management of Currency Risks [Electronic source] // Mode of access: <http://currencies-systems.blogspot.com>

Scientific supervisor: Olga Nikitenko