THE MANAGEMENT OF FOREIGN EXCHANGE RISK WITH FUTURES AGREEMENTS IN CORPORATIONS: A DERIVATIVE MARKET PRACTICE

ABSTRACTS

Globalization has started to influence our world faster than ever in the beginning of 21st century. With globalization, corporations have faced with a lot of different risks. At top of these risks are devaluation and parity risks. The main goal of this study is to evaluate sensitiveness of corporations' financial structures against devaluation and parity, determine foreign exchange rate and parity risk, and hedge corporation by using appropriate derivative market products.

In this paper, assets and liability cash flow model has been prepared for risk management, which was done by tracking trading movements. After that, foreign exchange risk management model has been made. Open and close position have been defined by examining strategic and net foreign exchange position. In addition, devaluation and parity risks- the two main exchange rate risks- have been observed, which sensitive to corporations' trading movements.

In the final section of this paper, the model has been practiced on 27 textile companies, the results investigated, and brought up a general result about managing exchange rate risk in textile sector. Finally, we have suggested these corporations to hedge themselves against exchange rate risk by using futures agreements.

Key words: risk management, derivative markets, devaluation and parity risk