

Exchange Rate Exposure and Exchange Rate Risk Management the case of Japanese exporting firms

Takatoshi Ito, University of Tokyo

Satoshi Koibuchi, Chuo University

Kiyotaka Sato, Yokohama National University

Junko Shimizu, Gakushuin University

Abstract

It is often said that a strong yen causes a big influence on both the business performances of the Japanese firms in the short term and the corporate strategies including the placement of the production base in the medium to long term. The degree of these influences might depend on each firm's exchange rate exposure and exchange rate risk management. Japanese firms utilize a combination of financial hedges and operational hedges to manage their currency exposure. While the financial hedges are conducted to hedge their currency exposure by using foreign exchange derivatives in foreign exchange market, operational hedges are utilized among the firm's international subsidiaries to reduce their foreign exchange exposure. In addition, Japanese exporting firms have promoted the transfer of production bases overseas, or increase capacity of existing overseas bases, and increase the proportion of imported components from overseas and other measures to ensure the benefits.

In this paper, we estimate Japanese firms' foreign exchange exposure and investigate the impact of Japanese firms' exchange rate risk management on them. By using the results of the questionnaires survey sent to all Tokyo Stock Exchange listed firms in 2009, we conduct the empirical analysis to investigate whether each risk management tool, financial and operational hedging, the choice of invoice currency and the price revision strategy (pass-through), specifically affects their foreign exchange exposure. As a result, we confirm the following characteristics; First, firms with larger dependency to foreign market have larger foreign exchange exposure. Second, the higher is the US dollar invoicing share, the larger is the foreign exchange exposure, but it is reduced by using both financial and operational hedging. Third, Yen invoicing itself reduce the foreign exchange exposure. These findings indicate that Japanese firms utilize operational and financial hedging strategies and price revision policy depending on their own choice of invoicing currency.