

FIN3120D FOREIGN EXCHANGE

Semester 2, 2017/18 (January – May, 2018)

Instructor: Adjunct Associate Professor Chew Loy Cheow

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Class hours: 11.00am – 2.00pm, Tuesdays (starting 16 January 2018)

Consultation: on request

Prerequisites: Finance (FIN2004) or equivalent, Financial Markets (FIN3103)

Recommended Textbook

Cheol S.Eun and Bruce G. Resnick. *International Finance*. McGraw-Hill. 7th Global Edition.

Frederic S. Mishkin, Kent Matthews & Massimo Giulodori, *The Economics of Money, Banking and Financial Markets*, Pearson, 11th edition, Global Edition.

John Murphy *Technical Analysis of the Financial Markets*, New York Institute of Finance, January 1999.

David F. Derosa, *Options on Foreign Exchange*, Wiley 3rd edition August 2011.

Sheldon Natenberg, *Option Volatility and Pricing: Advanced Trading*, McGraw-Hill Education 2nd Revised Edition.

Supplementary material

A.J. Frost and Robert R. Prechter. *Elliot Wave Principle: Key to Market Behavior*, New Classics Library, 2012 edition.

B.C. Low, *Integrating Technical Analysis for the Investor*, www.taconsultancy.biz.

Robert D. Edwards and John Magee. *Technical Analysis of Stock Trends*, CRC Press 10th Edition November 2012.

Edwin Lefevre. *Reminiscences of a Stock Operator*, Wiley Revised edition January 2006.

Jack D. Swager, Wiley, *Market Wizards: Interviews with Top Traders*, January 2012.

Buying of textbook is optional.

Copies of recommended textbooks and supplementary books have been requisitioned by Hon Sui Sen Memorial Library.

Course Description

Foreign Exchange (FX) is a fundamental element of international trade and global investing. FX trading has also become an important global trading market, the quintessential market for professional financial traders. This course will provide a good platform for understanding global financial markets, of which FX is an integral part. This will be illustrated through learning about FX's linkage to activities of key institutions such as banks, brokers and central banks, its linkage to interest rates and its role in the development of financial instruments. The historical development of FX discussed in this course will provide lessons from the past as well as a perspective of current and future developments. In the rapidly evolving global financial activity landscape, FX is at the forefront of usage, thanks to its relative ease of entry and the advent of speedy computers. With uncertainty in geo-political developments, and the ready volatility of foreign exchange rates, foreign exchange trading and hedging are inseparable essentials of financial market risk management. This course will help to de-mystify the FX market including the inculcation of an understanding of the risks, reward and costs that the market has.

Course Objective

The objective of this course is to provide a practical framework for students to understand the global foreign exchange market. It will arm them with the necessary knowledge, competence and confidence to continue to understand and engage FX and global financial markets, even as these markets continue to change and evolve. The emphasis throughout the course is the application of theory to the market place.

Course Format

The pedagogy involves lecture, self-learning through reading and research, mutual learning through classroom discussion and IVLE, hands-on learning via Bloomberg, case method, learning lessons gained from recent historic events and discussion of current issues and events. Towards the end of the course, students will sit for a short test to affirm their understanding (or lack of) of the subject.

Students will be encouraged to keep abreast of current affairs via reading of financial newspapers and digital media such as Wall Street Journal, Financial Times, CNBC, Reuters, Bloomberg, etc. It is hoped that such habits thus developed, will generate interest and sustain passion for the subject as well as develop global financial markets cognizance.

Class participation is an integral part of the learning process. Aside from being assessed on routine class participation and IVLE forums, students will form groups to tackle assigned cases. This will enhance their learning through shared resource and discussion as well as to be open to critique as they present their findings to the class.

Grading

The student's course grade is based on the overall performance along the following weightage:

| Components | |
|----------------------------------|-----------------------|
| Class participation | 20% |
| IVLE participation | 20% |
| Final test | 30% |
| Case study report & presentation | 30% |
| | Total assessment 100% |

The final test comprises a section of multiple-choice questions and a section of non multiple-choice questions.

Financial calculators are needed in the test as well as in class.

Groups and case study

Groups of students will be formed for the purpose of case study work. Group assignment will be done after Week 3.

Attendance

As this is a 13-week module, students must not miss more than two classes (absence on medical grounds supported by medical certificate or compassionate reasons, not counting). Perpetrators risk failing the entire course. Students who miss the final test will receive zero marks for that component of grading. Absentees due to medical (supported by medical certificate) or compassionate reasons may be given a substitute form of assessment.

Lesson Schedule

| Week | Date | Topic and Activity | Chapters |
|------|--------|---|----------|
| 1 | Jan 16 | <p><u>Introduction and overview</u></p> <p>Relevance and importance of FX in today's context</p> <p>Current state of FX market: how we got here</p> <p>(includes a historical development of the market from gold standard to present)</p> <p>The landscape: FX in the context of money market and other trading and investment markets</p> | Eun 2 |
| 2 | Jan 23 | <p><u>Practical FX</u></p> <p>International trade & FX</p> <p>Payment and settlement</p> <p>Government & FX</p> <p>Reserve currency & seigniorage</p> <p>Market risk and other risks</p> <p>Participants of the market</p> <p>Language of the street</p> <p>How money is made or lost</p> | Eun 5 |
| 3 | Jan 30 | <p><u>FX Maths</u></p> <p>Spot, forward, swap</p> <p>Interest rates and FX</p> <p>How positions are managed</p> <p>Identifying arbitrage opportunities</p> | Eun 5, 6 |

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| 4 | Feb 6 or Feb 9 | <u>Introduction to Bloomberg *</u> Use of Bloomberg in FX market. | |
| 5 | Feb 13 | <u>FX options</u> Definition, language and basics Factors affecting FX option pricing Understanding the Greeks Simple strategies FX options and impact on FX market <u>Monetary policy and function of central banks</u> US Federal Reserve system European Central Bank and ESCB Bank of England Bank of Japan Monetary Authority of Singapore | Eun 7 Derosa 1, 4, 6 or Natenberg1,2, 4 Mishkin13,14,15 |
| 6 | Feb 20 | <u>Central banks in action</u> European Rate Mechanism,1990s Plaza Accord, 1985 Louvre Accord, 1987 Global Financial Crisis, 2008 and beyond Quantitative easing Swiss National Bank action, 2014 (Briefing on student assignments) | Mishkin 16, 18 |
| | Feb24-Mar4 | Recess week | |

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| 7 | Mar 6 | <p><u>Student assignment</u> (case study) presentations: Hedging FX Risk in companies.</p> <p>Margin trading</p> | <p>Eun 8, 9,10</p> <p>Eun 7</p> |
| 8 | Mar 13 | <p><u>Student assignment</u> (case study) presentations : FX risk management issues.</p> <p>Currency futures</p> | <p>Eun 8,9,10</p> <p>Eun 7</p> |
| 9 | Mar 20 | <p><u>Student assignment</u> (case study) presentations : Macro risks/ financial crises.</p> <p>Non-deliverable Forwards (NDFs)</p> | <p>Mishkin 9</p> <p>Eun 2</p> |
| 10 | Mar 27 | <p><u>Student assignment</u> (case study) presentations : FX risk management for investors and funds.</p> <p>Gold : FX or commodity?</p> | <p>Mishkin 9</p> <p>Eun 15</p> |
| 11 | Apr 3 | GIC visit: FX risk management in a multi-asset, multi-currency environment | |
| 12 | Apr 10 | Test | |

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|----|-------------|--|-------------------------------|
| 13 | Apr 17 | <u>Technical Analysis</u> Technical Analysis as a Tool in FX Risk Management and Investment (Guest speaker, B.C.Low) | Murphy or Pring; Low |
| | Apr21-Apr27 | Reading week | |

*This will be conducted at CAMRI Lab