

Abstract

Thai financial market has highly interacted with the global financial market. One of many risks from the interaction is the exchange rate risk. In the market, derivatives were believed to reduce risks from the exchange rate, so the questions are posed on the number of firms that use currency derivatives and how they execute these tools.

There are many evidences identifying the relationship between company characteristics and the use of currency derivatives, so the underlying notion of this study is that company characteristics have a relationship with hedging instruments, maturity of hedging instruments, reason to use hedging instruments and frequency to use.

The purpose of this study is to explore the relationship between company characteristics and the use of currency derivatives in case of listed companies in Thailand. Pearson Chi-square technique was adopted in the study. The company characteristics include firm size, type of industry, degree of foreign exchange exposure and other types of derivatives used. The use of currency derivatives refer of hedging instruments, maturity of hedging instrument, reason to use hedging instrument and frequency to use. The proxy of firm size is capital registered, while the proxy of foreign exchange exposure is cost and revenue in foreign currency.

The result of hypothesis testing show that there is no relationship between firm size and hedging instrument; firm size and maturity of hedging instrument; firm size and reason to use hedging instrument; and firm size and frequency to use. The industry also has no relationship with hedging instrument, maturity of hedging instrument, reason to use hedging instruments, and frequency to use. There is some relationship between the degree of foreign exchange exposure and frequency to use, but no relationship between the degree of foreign exchange exposure and hedging instrument; the degree of foreign exchange exposure and maturity of hedging instrument; and foreign exchange exposure and reason to use hedging instrument. For the other types of derivatives used, they have no relationship with hedging instrument, maturity of hedging instrument, reason to use hedging instrument, and frequency to use.

Although there are some differences between the notion and the finding, this study should be considered useful in providing not only an overview of currency derivatives but also the attitude toward hedging techniques practiced in Thai market. This study also found that most firms were forced or convinced to use derivatives for hedging from other parties that have benefited from derivatives fee. Currency derivatives are not the best universal hedging technique. Most firms still had no idea about their own best hedging technique. According to the survey, only some huge firms can take advantage from currency derivatives hedge, because they have relatively high bargaining power. For further study, I recommended including companies not listed in stock market in order to strengthen this finding. The researchers may determine other factors especially the third party of currency derivatives exchange, because they have an influence in the market. Finally, It was recommended other types of derivatives especially commodity derivatives should be included, because Thailand's agricultural commodity future exchange is expected to begin in the next few years. This market may encourage in-depth study of derivatives. Should this become successful, it can be used as a model for other derivatives in the market.

