**BAFI1019 Assessment**

**Due Date:** This assessment will be released at 1pm on 16 December 2022 (Singapore Time) and is due by 1pm 23 December 2022 (Singapore time).

**Word Count:** 1500 words

You work for firm PremiumM situated in Germany, and your boss has become concerned about the current economic environment, especially how it is related to the different types of exposure that your firm may face in the near future. You are asked to provide a report, which evaluates your firm’s exposure, the risk management implications for your firm, and possible hedging strategies for the next 6 months. You are also required to provide a recommendation for what your firm should do.

Information about Firm PremiumM:

1. Firm PremiumM is a machinery manufacturer located in Germany.
2. The firm imports parts to Germany from foreign suppliers in Japan, South Korea and France.
3. The firm exports machines to Australia, the United States, UK and Norway.
4. The firm has a payment of 50,000,000 JPY due in 1 months and a payment of 50,000,000JPY due in 6 months to their Supplier in Japan, a payment of 5,000,000 USD due in 3 months to their Supplier in South Korea, and three payments of 2,000,000 EUR to their Supplier in France due in 1 month, 3 months and in 6 months, respectively.
5. The firm is due to receive 5,000,000 AUD and 5,000,000 EUR from their customer in Australia in 3 months, 6,000,000 USD from their customer in US in 3 months, 6,000,000 GBP from their customer in UK in 6 months and 60,000,000 NOK from their customer in Norway in 3 months.
6. The firm is concerned about the impacts of the high inflation rate globally on their business.
7. The firm is also concerned about the impacts of a series of interest rate rises globally on the firm.

***You are required to prepare a report, which should contain the following information:***

* 1. List the future spot exchange rates that directly affect your firm and form a forecast for each of these exchange rates. You need to briefly analyse the factors affecting these exchange rates and then form your forecasts.
  2. Discuss and evaluate the types of exposure your firm may face as well as the other main concerns for your firm. In your discussion, you should consider the effects of the current economic environment on the foreign exchange market and the competitiveness of the products produced in Germany,and relate this to how this may impact the firm. Particularly, you need to discuss the potential impacts of high inflation and interest rate hikes on the firm’s business.
  3. Please design hedging strategies for the firm. You need to explain why your chosen hedging strategies are better than the other strategies by evaluating the hedging outcomes – what will the outcomes be if exposures are hedged using your hedging strategies and what will the outcomes be if exposures are not hedged or using other hedging strategies. Please also discuss the impacts of hedging currency exposure on the firm’s cost of capital and firm value.
  4. You need to consider the interlinkages between local, national and global dynamics when conducting your analysis.
  5. You need to navigate the digital landscape and use appropriate digital tools, for example, EIKON, to find relevant information and data to complete the tasks. You need to provide the sources of data used in your report.

# Allocation of Marks

The total marks are 40 marks. This assessment will measure your ability to:

* Analyse factors affecting exchange rate (10 marks)
* Evaluate foreign exchange exposure (10 marks)
* Manage foreign exchange exposure (10 marks)
* Evaluate risk management outcomes (10 marks)

# General Instructions

* This is an individual assessment task. Each student should work independently on this assignment. Working together with other students on this assignment is not permitted.
* Each student is required to submit a project report, including all the supporting analysis and materials by the due date. The report should be no longer than 1500 words (excluding reference, tables and appendices). Citation and referencing should be provided where necessary. Students should follow the Harvard referencing style.
* All report submissions must be made electronically to Turnitin. The report must be using 1.5 or 2.0 spacing and 12 point Times New Roman font.
* Unless extension is granted, severe penalties apply for late submission (please refer to the course guide for details).