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Hedging Cuts Impact Of Currency Changes For Companies - Study

--Half of hedgers say they wouldn't be affected by a 10% home-currency devaluation

--Forwards are most popular currency hedge for companies

--Companies tend to hedge half their exposures; focus on current year

By Chana R. Schoenberger

Of DOW JONES NEWSWIRES

WASHINGTON -(Dow Jones)- Companies' currency hedging is usually successful in insulating the firms from changes in exchange rates, an academic study on companies' risk management found.

Of the firms answering questions on currency strategy, half said that a depreciation of their home currency by 10% would have no effect given their current hedging practices, suggesting that the companies' hedging strategies are working, the authors noted.

Asked why they are using foreign-exchange derivatives, 76% of companies in the survey said they hedge transactions for which they have commitments, such as accounts payable. For transactions expected to take place within a year, 70% of the respondents said they were using derivatives to hedge currency exposure.

The companies reported they are hedging about half their exposure in these and other areas. "Obviously, complete hedging is not a high priority for these firms," the authors wrote. "It would appear that hedging is done to reduce the exposure to a low enough level where it can be comfortably tolerated by the firm."

The most popular way to hedge is by using forward contracts, the study found, with 64% of companies reporting they use these instruments and three-quarters saying the forward is their most-used hedge. Other favored derivatives, each used by about a third of the companies in the survey, were cross-currency swaps, futures, and money market deposits.

The survey showed that companies are using both financial and operational hedges to get rid of their currency risk. The companies in the study said they were managing 31% of their FX risk through operational hedges like moving production to another country, and 37% of their risk by using derivatives. A tiny percentage of companies thought they could eliminate all their FX risk by using either just operational strategy (4%) or just derivatives (7%).

The most common operational fix companies use to hedge currency risk is changing the prices they charge, with 55% of firms reporting they use pricing strategies. Issuing debt denominated in a foreign currency was the second-most popular hedging strategy outside of derivatives, at 45%.

The professors who performed the research were Gordon Bodnar of Johns Hopkins, John Graham and Campbell Harvey of Duke, and Richard Marston of the Wharton School.

The draft paper, released in March, analyzed the results of a survey of companies' risk management practices conducted in 2010.

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