

Exporter’s misguided conclusion- We don’t hedge forex exposures as USDINR is always appreciating (Rupee depreciating) – Is it a myth or a fact? Analyse past 20 years data to understand facts.

Many exporters say that they don’t need to hedge forex exposures as the rupee is always depreciating and at the end of the day they will only gain. Well, this is not entirely true. No doubt that rupee has been weakening on a long term basis. Whenever an exporter hedges his dollar forward position, he receives a forward premium. To arrive at a fair conclusion, a comparison has to be made between USDINR forward premiums and rupee depreciation till the forward maturity.

Exporters can hedge their currency risk by booking forward contracts. A forward contract lets the exporter book a rate today, known as the forward rate, at which he will convert his future receivables. If the forward premium received on the forward contract is more than rupee’s depreciation till the forward maturity, the exporter will benefit from forward hedging.

An extensive data analysis was done by Myforexeye Research to do a long term analysis between USDINR forward premium and rupee depreciation till that maturity.



The Methodology:

- The Analysis is based on 3 months, 6 months and 1 year, 15 day rolling forward contracts of USDINR for a period of 20 years (2000 to 2020).
- The contracts were booked on the first working day of the month followed by another contract in a 15 days interval.
- For each of the forward contracts, a comparison was made between the rupee weakening in the given contract’s duration and the annualized premium earned for that period.
- Gains/Losses were computed by comparing the Forward Rate with Spot at Maturity.

The Result!:

	3 Months	6 Months	12 Months
Average Forward Premium (annualized)	4.40%	4.33%	4.02%
Average Rupee Weakening	2.79%	2.98%	2.82%
Average Gain	1.61%	1.35%	1.20%
Total Number of Observations	493	487	475
%age Successful Trades	64%	63%	64%



Conclusion

From the above analysis it was observed that Rupee weakened by not more than 3% annually on an average when position left opened. On the other hand, the premiums received by the exporter on forward booking were quite high - Almost greater than 4%.

**This implies that exporter’s benefited more if they completely hedged than keeping their position open.**