

Application of technical analysis in the rupiah dollar exchange rate forecasting in order for companies to be in a better position to hedge payables and receivables in US dollar

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Deskripsi Lengkap: <https://lib.ui.ac.id/detail?id=20510064&lokasi=lokal>

Abstrak

The purpose of this study is to provide corporate treasurers and policymakers with a better understanding of the technical analysis as a legitimate approach for forecasting the future trend of foreign exchange rates in order to be in a better position to hedge payables and receivables. An understanding of how this analysis is applied to exchange rate forecasting strategy should help market participants in terms of making more informed decisions regarding exchange risk management and in terms of formulating currency hedging strategies. Fundamental analysis is also overviewed concisely to provide market participants with a basic of fundamental based model of exchange rate forecasting. Although fundamental based models may perform relatively well over longer run time periods many market participants may be unwilling to risk significant amounts of Capital on the basis of long-term forecasts since their performance tends to be evaluated over relatively short time spans. Given that exchange rates may deviate considerably from their long-run equilibrium path over short- and medium-term periods many market participants will view it as simply too risky to take large long or short positions on the basis of forecasts that may take too long to pan out. That is a major reason why so many market participants now turn to technical analysis to help them formulate foreign-exchange management decisions particularly over short- to medium term horizons. Indeed a strong case can be made for using technical analysis over short- to medium-term horizons since the overwhelming body of empirical evidence indicates that a variety of trend-following techniques would have offered significant risk adjusted advantages had they been followed in the past. In this study Indonesian currency rupiah is taken as the object of application of technical analysis for currency forecasting. The free floating of rupiah value started from August 97 necessitate Indonesian companies operating on worldwide basis and having payables and receivables in US dollar as well as multinational companies operating in Indonesia to exercise an exchange rate forecasting in order to cover their exposure against the volatility of rupiah. Regarding that fact the next purpose of this study is to demonstrate that technical approach is applicable for forecasting the possible future trend of IDR value vis a vis US dollar. A reliance on fundamental analysis alone can get corporate policymaker into trouble since historical data of the IDR versus USD reflects highly volatile manner that can't be explained by fundamental approach. Bringing technical analysis into the currency decision-making process is more appropriate for the purpose of short- to medium term forecasting that corporate needs. The briefs of techniques that will be employed are as follows: Trend analysis. In a general sense the trend is simply the direction of market which way it is moving. This analysis is performed through the use of sets of trendlines. Channel. A channel is a parallel line that can be traced against the trend line. Cycles. Cycles are the propensity for events to repeat themselves at roughly the same frequency. Support and Resistance Levels. These levels are useful for taking a position in order to hedge. Moving Averages. This technique is a trend following indicator that works best in a trending environment. Momentum Oscillators. This tool is very useful in non-trending markets where prices fluctuate in a horizontal band. The Fibonacci ratios percentage retracement are ratios that help to determine price objectives in both impulse and

corrective waves by analysis of retracement of the previous moves. A composite approach to formulating exchange rates forecasting strategy would work in the following manner. First, the market participant will exercise a combination of trend following techniques to assess whether a currency's short- to medium-term trend is bullish, bearish, or neutral. At the same time, based on analysis of the fundamental forces driving a currency's value over a long term horizon, the market participant will determine the equilibrium path that a currency should take over time. This exercise should be considered as an accompanying opinion to the technical analysis. After a thorough analysis, it is recommended in this study that technical analysis is applicable for the IDR versus USD exchange rate forecasting and the technical factors do lead the known fundamentals.