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The Study of Foreign Exchange Exposure of Vietnamese' Companies

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ABSTRACT: Most of previous studies about exchange rate exposure focus on big international and trading companies in developed markets that are proved to exist. This paper uses Vietnam as a developing market and examines a sample of domestic companies to see whether they are influenced by exchange rate risks. As expected, Vietnamese domestic companies are influenced by exchange rate exposure with the fluctuations of USD, EUR and JPY during the period 2011-2018 with significant relationship with EUR, JPY and no relationship with USD.No industry effect is shown in this study. The results have useful implications for individual investors, domesticcompany managers and policy makers.

KEYWORDS: Exchange Rate Exposure; Vietnamese Companies; Currency Risks

1. INTRODUCTION

Globalization has been a big trend worldwide. It includes economics, culture, literature, and so on. All aspects of our life are affected by this phenomenon. Despite being domestic-oriented before, all countries' economy is leaning towards globalization and gradually integrates into each other's. Movement of capital, goods and services,and labor can be defined as part of globalization. Over the last 20-30 years, with WTO and many FTAs signed, this trend develops even much faster. Taxes and quota are also being reduced.

Foreign ownership is proved to be statistically significant. It plays a positive effect on the financial performance of the samples according to Kuntluru et al. (2008), compared to a domestic one. In Vietnam, exporting and trading companies are opened very fast. Choi and Prasad (1995), Jorion (1990) or Gentry and Bodnar (1993) found exchange rate movement does not affect big and transnational companies, especially production companies in the US while Aggarwal and Harper (2010), or John et al. (2003) believe that there is great exchange rate sensitivity. Taking this into consideration, this study in the context of Vietnam is carried outin order to understand more such question.

The research by Aggarwal and Harper (2010) studied the exchange rate exposure faced by domestic corporations and its implications for financial performance and risk management. This thesis aims to contributeto the field by studying the same topic in the context of Vietnamese companies. The study can inform policy makers on the need for exchange rate stability and help Vietnamese companies make informed decisions about international trade and investment. The result of this research can provide valuable insights into the impact of exchange rate fluctuations for individuals, businesses and authorities in Vietnam.

2. DATA AND RESEARCH METHOD

This research studies 53 non-financial firms listed on the Vietnam Stock Exchange operating in various sectors such as materials, FMCG, agriculture, forestry, aquaculture, services, manufacturing, processing, real estate, andenergy to investigate the impact of exchange rates on domestic firm's return. The data were collected on a monthly basis over a period of 8 years (2011-2018) and the exchange rate sensitivity was calculated using the following methods: the stock prices of the sample were obtained from HOSE database, the market index (VN- index) was obtained from the Ho Chi Minh Stock Exchange, and the USD/VND, EUR/VND, JPY/VND pairs were derived from Vietcombank database.

3. EMPIRICAL ANALYSIS

Table 1 shows that the p values for the model with EUR/VND and JPY/VND are .000 and .010, which are greatlyless than 0.05 while the p value for the model with USD/VND is .344, which is not statistically significant. Therefore, for 53 companies studied, there are exchange rate exposure to EUR and JPY and no significant exposure to USD.

Table 1 – Estimates of Parameters

Currency	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1									
(constant)	.001	.002		.623	.533	-.002	.004		
RMI	.589	.030	.275	19.529	.000	.530	.648	.922	1.084
USD/VND	-.173	.183	-.013	-.947	.344	-.532	.185	.922	1.084
2									
(constant)	.000	.002		.261	.794	-.003	.004		
RMI	.621	.030	.290	20.796	.000	.562	.680	.939	1.065
EUR/VND	-.223	.068	-.046	-3.264	.001	-.356	-.089	.939	1.065
3									
(constant)	.001	.002		.749	.454	-.002	.004		
RMI	.585	.029	.273	19.935	.000	.539	.652	.974	1.027
JPY/VND	.039	.015	.035	2.576	.010	.000	.000	.974	1.027

Source: From this Research

In addition, there is no collinearity between RMI (a measure of return on investment) and the exchange rates of USD/VND, EUR/VND, or JPY/VND, as all tolerance values are greater than 0.2 and VIFs are all less than 10. It is interesting to note that although USD is an important currency in the Vietnamese market, the USD/VND variable coefficient is not statistically significant. This can be explained by the predicted variation ofthe exchange rate, Vietnam government's policy against USD, and the fact that the Vietnam dong is pegged to USD, allowing investors and companies to evaluate the market situation based on adjustments from the US side,such as the FED.

Table 2 – Multiple Regression with Three Exchange Rates

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.001	.002		.733	.464
	RMI	.609	.032	.285	19.054	.000
	EX	-.032	.190	-.002	-.168	.867
	EUR	-.282	.073	-.058	-3.862	.000
	JPY	.056	.016	.050	3.525	.000

a. Dependent Variable: Return

Source: From this Research

From Table 2, RMI has a correlation with all three currency pairs. Therefore, the VN-index in particularand listed firms in Vietnam in general are affected by the fluctuation of these three currencies. It is noticeable that USD/VND, EUR/VND and JPY/VND do have correlation with each other, indicating a relatively similar pattern among the world's strongest currencies.

The USD/VND rate increased steadily over the 8-year period from 2011 to 2018, and it was relatively easy to predict, with other factors such as the VND being pegged to the USD and government policies also playing a role. As a result, fluctuations in this exchange rate are unlikely to have a significant impact on the performance or returns of domestic companies. However, this may not be the case for the EUR/VND and JPY/VND rates, which could have a greater impact as Europe and Japan are important trading partners for Vietnam. As a result, there is a positive correlation between returns and JPY/VND rate.

Table 3 – ANOVA

Return	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.082	6	.014	.981	.436
Within Groups	69.782	5028	.014		
Total	69.864	5034			

Source: From this Research

From Table 3, the ANOVA analysis shows that industry is not a factor that may affect company's returnand return mean values are equal among different industries. This result can be because that the course of eight years starting from 2011 was a relatively stable and well-managed economy period and that industries performedsimilarly. It can also indicate that there is no significant industry effect because the data may not show enough variability between the industries to detect a significant effect or because effects that are more complex.

4. CONCLUSION

This study analyzes exchange rate exposure and its impact on the financial performance of companies in Vietnam.Using the two-factor model, the study confirms that exchange rate exposure significantly affects stock returns. The study highlights the correlation between companies' returns and the US dollar and Japanese yen due to strong economic ties with these countries. The findings recommend caution when using the US dollar with the two- factor model and suggest that there is no industry effect on exchange rate exposure. This research provides valuable insights into exchange rate exposure for businesses and investors operating in Vietnam.

This paper has several contributions to the field of exchange rate exposure, including providing statistical evidence of its existence and collecting current methods used by firms to hedge risks. The results benefit domesticcompanies, business owners, and investors, helping them understand the impact of exchange rate fluctuations ontheir financial performance and investments. The study also helps governments understand how exchange rate fluctuations can affect their economies, industries, and businesses, and how they can develop policies and laws to stabilize their currency and improve their overall economic performance. By improving their financial health,countries become more attractive to investors from other countries.

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