

## **FIN3120D FOREIGN EXCHANGE TRADING**

Semester 1, 2014/15 (August 2014 – November 2014)

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Class hours: 5.00 – 8.00pm, Mondays (starting 11 August 2014) except for week 3

Consultation: on request

Prerequisites: Finance (FIN2004) or equivalent, Financial Markets (FIN3103)

### **Recommended Textbook**

Cheol S.Eun, Bruce G. Resnick, and Sanjiv Sabherwal. *International Finance*. McGraw-Hill. 6th edition, Global Edition.

Frederic S. Mishkin, Kent Matthews & Massimo Giulodori, *The Economics of Money, Banking and Financial Markets*, Pearson, 10<sup>th</sup> edition, Global Edition.

John Murphy *Technical Analysis of the Financial Markets*, New York Institute of Finance, January 1999.

David F. Derosa, *Options on Foreign Exchange*, Wiley 3rd edition August 2011.

### **Supplementary material**

A.J. Frost and Robert R. Prechter. *Elliot Wave Principle: Key to Market Behavior*, New Classics Library, 2012 edition.

Robert D. Edwards and John Magee. *Technical Analysis of Stock Trends*, CRC Press 10th Edition November 2012.

Edwin Lefevre. *Reminiscences of a Stock Operator*, Wiley Revised edition January 2006.

Jack D. Swager, Wiley, *Market Wizards: Interviews with Top Traders*, January 2012.

Buying of textbook is optional.

Copies of recommended textbooks and supplementary books have been requisitioned by Hon Sui Sen Memorial Library.

## **Course Description**

Foreign Exchange (FX) is an essential element of international trade. It has also become an important global trading market, the quintessential market for professional financial traders. The course will provide a good platform for understanding global financial markets, of which FX is an integral part of. This will be illustrated through learning about FX's linkage to activities of key institutions such as banks, brokers and central banks, its linkage to interest rates and its role in the development of financial instruments. In the rapidly evolving global financial landscape, FX is at the forefront of usage, thanks to its relative ease of entry and the advent of speedy computers. With uncertainty in geo-political developments, and the ready volatility of foreign exchange rates, foreign exchange trading and hedging are inseparable essentials of financial market risk management. The course will help to de-mystify the FX market including the inculcation of an understanding of the risks, reward and costs that the market has.

## **Course Objective**

The objective of this course is to provide a practical framework for students to understand the global foreign exchange market. It will arm them with the necessary knowledge, competence and confidence to continue to understand and engage FX and global financial markets, even as these markets continue to change. The emphasis throughout the course is the application of theory to the market place.

## **Course Format**

The pedagogy involves lecture, self-learning through reading and research, hands-on learning via Bloomberg, case method, lessons gained from recent historic events and discussion of current issues and events. At the end of the course, students will sit for a short test to affirm their understanding (or lack of) of the subject.

Students will be encouraged to keep abreast of current affairs via reading of financial newspapers and digital media such as Wall Street Journal, Financial Times, CNBC, Reuters, Bloomberg, etc. It is hoped that such habits thus developed, will generate interest and sustain passion for the subject as well as develop global financial markets cognizance.

Class participation is an integral part of the learning process. Aside from being assessed on routine class participation and IVLE forums, students will form groups to tackle assigned cases. This will enhance their learning through shared resource and discussion as well as to be open to critique as they present their findings to the class.

## Grading

The student's course grade is based on the overall performance along the following weightage:

Components	
Class participation	30%
Final test	40%
Case summary reports	30%
Total assessment	100%

The final test comprises a section of multiple-choice questions and a section of non multiple-choice questions.

Financial calculators are needed in the test as well as in class.

## Groups and case work

Groups of students will be formed for the purpose of case study work. Group assignment will be done on Week 3.

## Attendance

As this is a 6-week module, students must not miss more than one class (absence on medical grounds supported by medical certificate or compassionate reasons, not counting). Perpetrators risk failing the entire module. Students who miss the final test will receive zero marks for that component of grading. Absentees due to medical (supported by medical certificate) or compassionate reasons may be given a substitute form of assessment.

**Lesson Schedule (Tentative):**

<b>Week</b>	<b>Week Starting</b>	<b>Topic and Activity</b>	<b>Chapters</b>
1	Aug 11	<p>Current state of FX market: how we got here</p> <p>Language of the street</p> <p>Participants of the market</p> <p>Trading vs investment. Trading vs Gambling</p> <p>Market risk and other risks</p>	Eun 2, 5, 11
2	Aug 18	<p>Spot, forward, swap and options</p> <p>Interest rates and FX</p> <p>How positions are managed</p> <p>Identifying arbitrage opportunities</p> <p>Why most people lose money in FX</p>	<p>Eun 5, 6, 7</p> <p>Derosa</p>
3	Aug 21 or 22*	<p>Using Bloomberg (Bloomberg representative)</p> <p>Monetary policy and central bank action</p> <p>Plaza Accord and Louvre Accord</p> <p>From Alan Greenspan to "Helicopter" Ben to Abenomics</p> <p>(Briefing on student assignments)</p>	
4	Sep 1	<p>Student assignment presentation: Hedging FX Risk</p> <p>Groups 1, 2 &amp; 3</p> <p>Margin trading</p> <p>Currency Futures</p>	<p>Eun 8, 9, 10</p> <p>Eun 7</p>

5	Sep 8	<p>Student assignment presentation:</p> <p>Groups 4, 5 &amp; 6</p> <p>Technical Analysis – Rationale and Basics</p> <p>Technical Analysis as a Tool in FX Risk Management</p>	Murphy
6	Sep 15	<p>Test</p> <p>Elliot Wave principle</p> <p>Learning from recent events:</p> <ul style="list-style-type: none"> <li>■ Asian Financial (Currency) Crisis 1997</li> <li>■ Global Financial Crisis 2008</li> </ul> <p>Gold market</p> <p>FX market: Where do we go from here?</p>	Frost
	Sep 22	<b><i>Term Break</i></b>	

\*This will be conducted at CAMRI Lab