

## **FIN3120D FOREIGN EXCHANGE TRADING**

Semester 2, 2015/16 (January – May, 2016)

Instructor: Adjunct Associate Professor Chew Loy Cheow

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Class hours: 11.00am – 2.00pm, Wednesdays (starting 13 January 2016 )

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 a fundamental element of international trade and global investing. FX trading has also become an important global trading market, the quintessential market for professional financial traders. This course will provide a good platform for understanding global financial markets, of which FX is an integral part. 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. The historical development of FX discussed in this course will provide lessons from the past as well as a perspective of current and future developments. In the rapidly evolving global financial activity 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. This 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 and evolve. 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, mutual learning through classroom discussion and IVLE, hands-on learning via Bloomberg, case method, learning 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	20%
IVLE participation	20%
Final test	30%
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 study

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

## Attendance

As this is a 13-week module, students must not miss more than two classes (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

Week	Week Starting	Topic and Activity	Reading
1	Jan 11	<p>Relevance of FX.            Current state of FX market: how we got here            The landscape: FX in the context of money market and other trading and investment markets.            Participants of the market: includes language of the street, how money is made or lost, market-making, trading, investing.            Market risk and other risks in FX transactions.</p>	Eun 2, 5, 11 Mishkin 1, 18
2	Jan 18	<p>Spot, forward, swap.            Interest rates and FX.            How positions are managed.            Identifying arbitrage opportunities.            Why most people lose money in FX.</p>	Eun 5, 6(a)
3	Jan 25	<p>Hands-on with Bloomberg (Bloomberg representative @ CAMRI Lab).            Familiarisation of FX spot, forward and swap using Bloomberg.</p>	
4	Feb 1	<p><u>FX Options</u>            Definition, language and basics            Factors affecting FX option pricing            Understanding the Greeks            Simple strategies            FX options and impact on FX market</p> <p><u>Monetary policy and function of central banks</u>            US Federal Reserve system            European Central Bank and ESCB            Bank of England            Bank of Japan            Monetary Authority of Singapore</p>	Eun 7 Derosa  Mishkin 13, 14,16
5	Feb 8	<p><u>Central banks in action</u>            Post-Nixon shock, 1971-1981            Plaza Accord, 1985            Louvre Accord, 1987            European Rate Mechanism, 1990's            Asian Financial Crisis, 1997            Global Financial Crisis, 2008            Swiss National Bank action, 2014</p>	Mishkin 16, 17

6	Feb 15	<u>Financial Futures</u> Origin of futures market. Hedgers, traders, speculators, scalpers. Standard contract specification, volume, open interest, long, short, daily settlement, mark-to-market, margin, margin call, delivery, cash settlement, daily price limit, clearing, clearing house, exchange, kerb trade, out trade resolution.  Briefing on case studies.	Eun 7
	Feb 22	Term Break	
7	Feb 29	Student assignment : Case study presentation – Hedging	Eun 8,9,10
8	Mar 7	Student assignment: Case study presentation – FX risk management in a corporation	Eun 8,9,10
9	Mar 14	Student assignment: Case study presentation – Macro Risk	Eun 11
10	Mar 21	Student assignment: Case study presentation – Another Financial Crisis  Summary of student presentations	Eun 11
11	Mar 28	<u>Technical analysis</u> – rationale and basics  Technical analysis as a tool in FX risk management Using Bloomberg for technical analysis  Elliot wave theory	Murphy or Pring  Frost
12	Apr 4	<u>Derivatives</u> The building blocks – swap and option. The case for and against derivatives. FX derivatives – dual currency deposit, non-deliverable forwards, etc.  Lessons from derivative-led crisis	Eun 14
13	Apr 11	<u>Gold and FX</u> Historical linkage Characteristics of gold vs FX Is gold a commodity or FX?  The era of electronic platforms	
14	Apr 18	Reading week	
15	Apr 25	Test  FX market: where do we go from here?	