A roadmap for writing a currency report

MPF_AIFI International Finance and Institutions

The aim of the currency report is to analyze and forecast the exchange rate for the chosen currency. The following guidelines provide general ideas and suggestions for the analysis and forecast with references to specific Thomson Reuters Refinitiv functions, which are useful for report writing. Keep in mind that these guidelines are not aiming to emphasize the necessary parts of the report, but only provide you with some ideas on how to approach the analysis and forecast in order to achieve the above-stated goal. The usage of any additional sources of information, ideas, and arguments to conclude your report is welcome and, in many cases, unavoidable. Before writing the report, state the date of your analysis, your name, and UČO. The report will consist of 2 parts. In the first part, describe and explain what affected examined exchange rate during the year 2022. In the second part, perform the FX forecast for the following six months (January-June 2023). The recommended length of each part is 2-3 pages. The report should tell a story on what factors move the exchange rate and conclude with specific predictions and recommendations for investors on how to manage the exchange rate risk. **State all the sources and hand out the report in MS word. Upload the currency report to IS by 25th December 2022.**

For the purposes of the report, consider the exchange rate of the selected currency against the US dollar. The main information on the studied currency might be discovered through the FX SPOT RATE Function, which is "currency abbreviation" plus "=" e.g., "EUR=", "GBP=", "JPY=" etc. On this page, you find three useful sections: (i) overview, (ii) chart, (iii) FX Polls. You can also use the Country menu. Having this, just write the name of the country to the search window, e.g., "Eurozone" and click on the country overview app. On this page, you will find central bank information and macroeconomic indicators. Another option is the FXG function, where you select examined currency in the upper left corner.

Try to determine which events and processes have influenced the most significant changes in the exchange rate (macroeconomic news (variables), central banks' decisions, political events). Describe the exchange rate system for the studied currency. Identify the role of the central bank in the price changes of the studied exchange rate. Analyze how the monetary policy influenced the FX rate in 2022 and what is expected for 2023.

For macroeconomic variables use the Macro Vitals app (MACROVIT). For the central bank information, just write the name of the central bank e.g., "ECB" in the search window and click on the central bank app. You can also use the FX POLL function for the foreign exchange rate forecast model. This function summarizes a collection of forecasts from individual analysts/forecast providers (consider the full texts of available forecasts as examples). Additional information could be found via the NEWS function.

Provide the exchange rate forecast based on parity conditions. Evaluate how the changes in interest rates (UIRP) and inflation (PPP) influence the studied exchange rate (you can demonstrate the relationships between fundamental variables and exchange rates on the chart). You can also add a forward rate to your analysis. The chart with forward rates is available in the FX POLL function. The other information about interest rates can be found in the app of the central bank (please read the paragraphs above).

The chosen currency might be examined through the price graph (chart). Consider technical analysis tools to forecast the studied exchange rate. Use any tools based on your personal preference and knowledge. Consider analyzing trends, support and resistance levels, head-and-shoulders patterns, and double-bottom or double-top patterns. Short-term technical analysis can be found via the FXBUZZ function.

Compare your forecasted exchange rates with the market-based forecast forward prices and predictions of professional analysts (FX POLL function). Forward prices and charts can also be found via

the FXG function (select analyzed currency in the top left corner) or write e.g., "EUR forward" in the search window.

Provide specific recommendations on the transaction exchange risk management opportunities including hedging (and specific instruments, if necessary).