ABSTRACT

The profitability of any foreign investment could be altered dramatically by exchange rates movement. With the strengthening of the Singapore dollar (SGD) and the increasing instability of the global financial markets, effective management of foreign exchange (forex) rates risk is crucial to the success of any overseas venture.

The author’s informal investigation shows that most Singaporean investors do not take into account fully the forex factor in their capital budgeting decisions. A case study is adopted to highlight the effects of forex risk on the returns of a proposed commercial real estate investment in Australia. The effectiveness of forward contracts, futures contracts and currency options in hedging forex risk is also examined. A more strategic approach (such as using leverage and currency cocktail) is recommended to handle long-term forex risk exposure arising from international real estate investment.

Keywords: currency, foreign exchange risk, hedging instruments, international real estate investment, forex risk management.