

A Case Study:

An effective hedging instrument of foreign currency deposit

ABSTRACT

Commercial banks in Thailand have been allowed to service foreign currency deposit (FCD) for residents since 2001. This study investigates how bank shall manage all financial risks incurred from the service via the case study approach. The study suggests that the current practice applied by the bank to use only the IRS is not enough to cover the risks. Taking the default and early withdrawal risks into consideration, the CDS and FRA shall be used to mitigate the risk while the bank still maintain the profit margin of around 0.7%.