Application of technical analysis in the rupiah dollar exchange rate forecasting in order for companies to be in a better position to hedge payables and receivables in US dollar

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Abstrak

The purpose of this study is to provide coroorate treasurers and pohcymakers with a better understandmg of the technical analysis as a legitimate approach for forecastmg the future trend of foreign exchange rates in order to be in a better position to hedge payables and receivables An understandmg of how this analysis is apphed to exchange rate forecastmg strategy should help market participants in terms of makmg more mformed decisions regarding exchange risk management and m terms of formulating currency hedgmg strategies Fundamental analysis is also overviewed concisely to provide market participants with a basic of fundamental based model of exchange rate forecastmg Although fundamental based models may perform relatively well over longer run time periods many market participants may be unwilling to nsk sigmficant amounts of Capital on the basis o f long-term forecasts smce their performance tends to be evaluated over relatively short time spans Given that exchange rates may deviate considerably from their long-run equilibrium path over short- and medium-term periods many market participants will view lt as simply too nsky to take large long or short positions on the basis of forecasts that may take too long to pan out That is a major reason why so many market participants now turn to technical analysis to help them formulate foreign-exchange management decisions particularly over short- to medium term horizons Indeed a strong case can be made for using technical analysis over short- to medium-term horizons since the overwhelming body of empirical evidence indicates that a variety of trend-following techmques would have offered significant nsk adjusted advantages had they been followed ui the past In tims study Indonesian currency rupiah is taken as the object of application of technical analysis for currency forecasting The free floating of rupiah value started from August 97 necessitate Indonesian compames operating on worldwide basis and having payables and receivables in US dollar as well as multinational compames operatmg m Indonesia to exercise an exchange rate forecastmg in order to cover their exposure agamst the volatihty of rupiah Regarding that fact the next purpose of this study is to demonstrate that techmcal approach is applicable for forecastmg the possible future trend of IDR value vis a vis US dollar A reliance on fundamental analysis alone can get corporate policymaker mto trouble smce historical data of the IDR versus USD reflects highly volatile manner that cant be explamed by fundamental approach Bringing technical analysis into the currency decision-making process is more appropnate for the purpose of short- to medium term forecasting that corporate needs The briefs of techniques that will be employed are as follows Trend analysis In a general sense the trend is simply the direction of market which way lt is moving This analysis is performed through the use of sets of trendlmes Channel A channel is a parallel line that can be traced against the trend line Cycles Cycles are the propensity for events to repeat themselves at roughly the same frequency Support and Resistance Levels These levels are useful for taking a position in order to hedge Moving Averages This technique is a trend following indicator that works best in a trending environment Momentum Oscillators This tool is verv usefiil in nontrendmg markets where prices fluctuate in a horizontal banci The Fibonacci ratios percentage retracement are ratios that help to determine price objectives in both impuise and

corrective waves by analysis of retracement of the previous moves A composite approach to formulating exchange rates forecastmg strategy would work in the following manner First the market participant will exercise a combination of trend following techniques to assess whether a currencys short- to medium-term trend is bullish bearish or neutral At the same time based on analysis of the fundamental forces drivrng a currency s value over a long term horizon, market participant will determme the equilibrium path that a currency should take over time This exercise should be considered as an accompanymg opinion to the techmcal analysis After a thorough analysis lt is recommended m this study that techmcal analysis is applicable for the IDR versus USD exchange rate forecastmg and the techmcal factors do lead the known fundamentals