

The Multi-horizon Exchange Rate Exposure of Consumer Products and Services Sector in Malaysia

Hishamuddin Abdul Wahab ^a, Nurul Afaaf Mohd. Nasir ^b

^{ab}Universiti Sains Islam Malaysia, Bandar Baru Nilai, Malaysia

[https://doi.org/10.35609/gcbssproceeding.2022.2\(17\)](https://doi.org/10.35609/gcbssproceeding.2022.2(17))

ABSTRACT

After the abolishment of fixed exchange regime under the Bretton Woods System in 1970s, the issue of foreign exchange risk especially among multinational corporations operating under small and open economies of Malaysia remains relevant till today. According to Abdul Wahab et al. (2017) and Adler and Dumas (1984), exchange rate exposure refers to the extent of firm's sensitivity to exchange rate fluctuations. While there has been growing interest in examining foreign exchange risk incidence under Malaysia market, however limited studies have been focusing on single sector of consumer products and services in Malaysia. Under Bursa Malaysia, the sector consists of several sub-fields including agricultural products, automotive, food and beverages, household goods, personal goods, retailers and travel and leisure services. Given the wide range of products and services, the corporations under the sector have been involved in vigorous cross-border trading activities. The consumer products and services equities become the second largest sector in Bursa Malaysia which constitutes 15.89% of total stocks in main market of Bursa Malaysia in July 2021 with a 265.02 billion of total market capitalization. In terms of methodological issue, the study addresses on the bias in exchange risk pricing in previous studies. Specifically, majority of past studies assume homogeneity of exchange risk across time domains which seems to be unrealistic. Capital market contains wide range of participants with heterogenous investment holdings and expectations. To address time domain bias, the study adopts Maximal Overlap Discrete Wavelet Transformation (MODWT) in foreign exchange risk pricing to decompose a single time domain series into multiple time domains. Given this, the primary objective of the study is to examine the extent of multi-horizon foreign exchange exposure of consumer products and services sector in Malaysia from January 2000 till December 2020.

Keywords: Currency Exposure, Wavelet Technique, MODWT, Malaysian Consumer Sector