What Is Foreign Exchange Rate

Foreign exchange derivative It is used when people or companies want A foreign exchange derivative is a financial contract whose value changes depending on currency exchange rates. A foreign exchange derivative is a financial contract whose value changes depending on currency exchange rates 911d9f4fd4

The management of foreign exchange reserves is governed by the State Administration of Foreign Exchange (SAFE) and the People's Bank of China. 911d9f4fd4 All monetary regimes except for the permanently fixed regime experience the time inconsistency problem and exchange rate volatility, albeit to different degrees. 911d9f4fd4

Foreign exchange market By trading volume, it is by far the largest market in the world, followed The foreign exchange market (forex, FX, or currency market) is a global decentralized or over-the-counter (OTC) market for the trading of currencies. This market determines foreign exchange rates for every currency. By trading volume, it is by far the largest market in the world, followed by the credit market. trading of currencies. This market determines foreign exchange rates for every currency 911d9f4fd4

A grid (known as the Parity Grid) of bilateral... 911d9f4fd4 The exchange rate is also regarded as the value of one country's currency in relation to another currency. For example, an interbank exchange rate of 141 Japanese yen to the United States dollar means that ¥141 will be exchanged for US$1 or that US$1 will be exchanged for ¥141. In this case it is said that the price of a dollar in relation to yen is ¥141, or equivalently that the price of a yen in relation to dollars is $1/141. 911d9f4fd4

Fixed exchange rate system A fixed exchange rate, often called a pegged exchange rate or pegging, is a type of exchange rate regime in which a currency's value is fixed, or pegged A fixed exchange rate, often called a pegged exchange rate or pegging, is a type of exchange rate regime in which a currency's value is fixed, or pegged, by a monetary authority against the value of another currency, a basket of other currencies, or another measure of value, such as gold or silver 911d9f4fd4

Earn profit from currency changes (speculation) 911d9f4fd4

European Exchange Rate Mechanism The European Exchange Rate Mechanism (ERM II) is a system introduced by the European Economic Community on The European Exchange Rate Mechanism (ERM II) is a system introduced by the European Economic Community on 1 January 1999 alongside the introduction of a single currency, the euro (replacing ERM 1 and the euro's predecessor, the ECU) as part of the European Monetary System (EMS), to reduce exchange rate variability and achieve monetary stability in Europe. Andorra Monaco San Marino Vatican City Kos. Mont 911d9f4fd4

China's foreign exchange reserves are held by People's Bank of China, China's central bank. The total of the reserves is regularly announced by the central bank. In July 2026, China's reserves totalled US $3.418 trillion, which is the highest foreign exchange reserves of any country 911d9f4fd4

Foreign exchange risk The exchange risk arises when there is a risk of an unfavourable change in exchange rate between the domestic currency and the denominated currency before the date when the transaction is completed. Foreign exchange risk (also known as FX risk, exchange rate risk or currency risk) is a financial risk that exists when a financial transaction is denominated Foreign exchange risk (also known as FX risk, exchange rate risk or currency risk) is a financial risk that exists when a financial transaction is denominated in a currency other than the domestic currency of the company 911d9f4fd4

Foreign exchange reserves Reserves are held in one or more reserve currencies, mostly the United States dollar and to a lesser extent the euro. primarily available to balance payments of the country, influence the foreign exchange rate of its currency, and to maintain confidence in financial markets Foreign exchange reserves (also called forex reserves or FX reserves) are cash and other reserve assets such as gold and silver held by a central bank or other monetary authority that are primarily available to balance payments of the country, influence the foreign exchange rate of its currency, and to maintain confidence in financial markets 911d9f4fd4

List of countries by foreign exchange reserves These foreign-currency deposits are the financial assets of the central banks and monetary authorities that are held in different reserve currencies (e. sell foreign currency to influence exchange rates directly. g. , the U. For example, if a currency is depreciating, a central bank can sell its reserves in foreign currency Foreign exchange reserves, also called Forex reserves, in a strict sense, are foreign-currency deposits held by nationals and monetary authorities. g. , the local currency issued and the various bank reserves deposited with the Central bank by the government or financial institutions). S. Before the end of the gold standard, gold was the preferred reserve currency. However, in popular usage and in the list below, it also includes gold reserves, special drawing rights (SDRs), and IMF reserve positions because this total figure (more accurately called "official reserves", "international reserves", or "official international reserves"), is more readily available and also arguably more meaningful. dollar, the euro, the pound sterling, the Japanese yen, the Indian rupee, the Swiss franc, and the Chinese renminbi) and which are used to back its liabilities (e 911d9f4fd4

Normally, interest is not paid on foreign cash reserves, nor on gold holdings, but the central bank... 911d9f4fd4 Many businesses were unconcerned with, and did not manage, foreign exchange risk under the international Bretton Woods system. It was not until the switch to floating exchange rates, following the collapse of the Bretton Woods system, that firms became exposed to an increased risk from exchange rate fluctuations and began trading an increasing volume of financial derivatives in an effort to hedge their exposure... 911d9f4fd4 Foreign-exchange reserves is generally used to intervene in the foreign exchange market to stabilize or influence the value of a country's currency. Central banks can buy or... 911d9f4fd4

Exchange rate In finance, an exchange rate is the rate at which one currency will be exchanged for another currency. Currencies are most commonly national currencies In finance, an exchange rate is the rate at which one currency will be exchanged for another currency. Currencies are most commonly national currencies, but may be sub-national as in the case of Hong Kong or supra-national as in the case of the euro 911d9f4fd4

== Size and composition == 911d9f4fd4 Foreign exchange risk also exists when the foreign subsidiary of a firm maintains financial statements in a currency other than the domestic currency of the consolidated entity. 911d9f4fd4 Fixed-rate regime: currency unions, dollarized regimes, currency boards and conventional currency pegs 911d9f4fd4 The ERM is based on the concept of fixed currency exchange rate margins, but with exchange rates variable within those margins. This is also known as a semi-pegged system. Before the introduction of the euro, exchange rates were based on the European Currency Unit (ECU), the European unit of account, whose value was determined as a weighted average of the participating currencies. 911d9f4fd4 A fixed exchange rate system can also be used to control the behavior of a currency, such as by limiting rates of inflation. However, in doing so, the pegged currency is then controlled... 911d9f4fd4 Following the adoption of the euro, policy changed to linking currencies of EU countries outside the eurozone to the euro (having the common currency as a central point). The goal was to improve the stability of those currencies, as well as to gain an evaluation mechanism for potential eurozone members. As of January 2026, the Danish krone is the only currency participating in the ERM II. 911d9f4fd4 The exchange rate may be quoted as a ratio, for instance, USD/EUR might be equal to 0.8625. 911d9f4fd4 == History == 911d9f4fd4 == Intent and operation == 911d9f4fd4

Exchange-rate flexibility Every currency area must decide what type In macroeconomics, a flexible exchange-rate system is a monetary system that allows the exchange rate to be determined by supply and demand. exchange-rate system is a monetary system that allows the exchange rate to be determined by supply and demand 911d9f4fd4

Intermediate regimes: horizontal bands, crawling pegs and crawling bands 911d9f4fd4 Each country determines the exchange rate regime that will apply to its currency. For example, a currency may be floating, pegged (fixed), or a hybrid. Governments can impose certain limits and controls on exchange rates. Countries can also have a strong or weak currency. There is no agreement in the economic literature on the optimal national exchange rate policy (unlike on the subject of trade where free trade is considered... 911d9f4fd4 Investors and businesses exporting or importing goods and services, or making foreign investments, have an exchange-rate risk but can take steps to manage (i.e. reduce) the risk. 911d9f4fd4 The exact composition of China's foreign exchange reserves is classified information. In July 2019, China's State Administration of Foreign Exchange announced that at the end of 2014, US dollar assets accounted for 58% of China's total reserves, down from 79% in 1995; adding that its share of US currency assets was lower than the global... 911d9f4fd4 The main participants are the larger international banks. Financial centres function as anchors of trading between a range of multiple types of buyers and sellers around the clock, with the exception of weekends. As currencies are always traded in pairs, the market does not set a currency's absolute value, but rather determines its relative value by setting the market price of one currency if paid for with another. Example: 1 USD is worth 1.1 Euros or 1.2 Swiss Francs etc. The market works through financial institutions and operates on several levels. Behind the scenes, banks turn to a smaller number of financial firms known as "dealers", who are involved in large quantities of trading. Most foreign exchange dealers are banks, so this behind-the-scenes market is sometimes called the "interbank market". Trades between dealers can be very large, involving hundreds of millions of... 911d9f4fd4 There are benefits and risks to using a fixed exchange rate system. A fixed exchange rate is typically used to stabilize the exchange rate of a currency by directly fixing its value in a predetermined ratio to a different, more stable, or more internationally prevalent currency (or currencies) to which the currency is pegged. In doing so, the exchange rate between the currency and its peg does not change based on market conditions, unlike in a floating (flexible) exchange regime. This makes trade and investments between the two currency areas easier and more predictable and is especially useful for small economies that borrow primarily in foreign currency and in which external trade forms a large part of their GDP. 911d9f4fd4 Make profit from price differences in markets (arbitrage) 911d9f4fd4 Every currency area must decide what type of exchange rate arrangement to maintain. Between permanently fixed and completely flexible, some take heterogeneous approaches. They have different implications for the extent to which national authorities participate in foreign exchange markets. According to their degree of flexibility, post-Bretton Woods-exchange rate regimes are arranged into three categories: 911d9f4fd4

Foreign-exchange reserves of China As of July 2026, China's foreign exchange reserves totaled US$3. 418 trillion, which is the highest foreign exchange reserves of any country. The foreign exchange reserves of China are the state of foreign exchange reserves held by the People's Republic of China, comprising cash, bank deposits The foreign exchange reserves of China are the state of foreign exchange reserves held by the People's Republic of China, comprising cash, bank deposits, bonds, and other financial assets denominated in currencies other than China's national currency (the renminbi) 911d9f4fd4

Protect themselves from currency risk (hedging) 911d9f4fd4 It is used when people or companies want to: 911d9f4fd4 Foreign exchange reserves assets can comprise banknotes, bank deposits, and government securities of the reserve currency, such as bonds and treasury bills. Some countries hold a part of their reserves in gold, and special drawing rights are also considered reserve assets. Often, for convenience, the cash or securities are retained by the central bank of the reserve or other currency and the "holdings" of the foreign country are tagged or otherwise identified as belonging to the other country without them actually leaving the vault of that central bank. From time to time they may be physically moved to the home or another country. 911d9f4fd4 Flexible regimes: managed and independent floats 911d9f4fd4