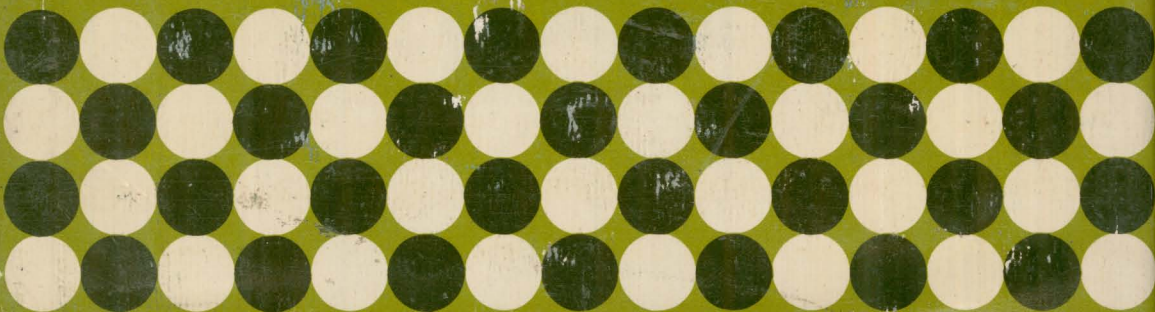


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FOREIGN EXCHANGE MARKETS

A Guide to Foreign
Currency Operations

by HEINZ RIEHL
and RITA M. RODRIGUEZ



Foreign exchange markets

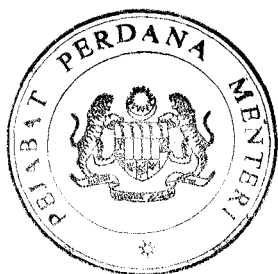
A guide to foreign
currency operations

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Preface

Foreign exchange markets have long ceased to be the concern of only a few people whose dealings in international trade required exchanging one currency for another. The spread of the multinational enterprise and the growing interdependence among nations have made foreign exchange markets the concern of almost everyone.

In spite of the growing importance of exchange markets, the interested reader will find only two major sources of information. One source is provided by economists; the other, by exchange traders. The economists with a theoretical approach and generalized conclusions are likely to leave the uninitiated with a general sense of bewilderment. At the other extreme, the exchange trader, who encapsules his or her general understanding of prevailing market conditions into a single number, without providing any further explanation, will leave most people fully mystified.

The object of this book is to bridge the gap between the camps of the economist and the trader. We intend to provide a practical, down-to-earth understanding of the nature of exchange markets and their close relationship to money markets. After dissecting the links among participants and segments of the market, this generalized knowledge is used to discuss extensively many specific problems encountered in exchange market operations. This approach should enable the reader to operate in international financial markets with an understanding of the situation—including the risks involved.

The presentation does not assume any background in the field; we want the book to be accessible to those who do not have any previous acquaintance with financial markets. Therefore, it begins with essentials that probably will be familiar to many readers. This is particularly true in Chapter 1. The reader who feels some of the introductory section to be

too elementary will be well advised to skip these sections. However, it should be noted that the discussion moves quickly from these essentials to more specialized areas. For example, even though we start Chapter 1 with a discussion of the nature of interest rates and how they are expressed in percentage terms, by the end of the chapter we have moved the discussion to the field of Eurodollar markets.

We wish to apologize to the non-U.S. Americans for our use of the word "American" to refer to the United States. Since the United States is the largest financial market on the American continents, the use of "American" to refer to the United States is very prevalent in practice, and we have followed this practice here. On the other hand, to make the discussion more accessible to the reader, the language of the book departs at times from common trading-room usage when it involves specialized trading jargon. Although all specialized terminology is discussed in detail, some of the jargon peculiar to trading rooms has been avoided.

It should also be kept in mind that the examples presented in the text use rates that can vary widely. Therefore, no effort was made to use current rates, which might well change before the reader sees this book. However, the points made by these examples remain valid regardless of the prevailing rates.

We wish to express our deepest appreciation to Adam Blistein, hereby named "honorary editor" of this book. Although ostensibly only a secretary who impatiently typed and retyped an unending number of drafts of the manuscript, he did much more. He saw to it that the traces of German and Spanish in the authors' English were properly translated to make a coherent manuscript. He also made sure that even a Ph.D. candidate in Classics, such as himself, could understand the content of the book. This book is proof that Classical Greek and Latin have a contribution to make in the modern world.

Special thanks are given to Mr. Hugh Conway, Staff Member of the Board of Governors of the Federal Reserve Bank, to David Darst, of Goldman, Sachs & Co., to Dr. Yoon S. Park, of the World Bank, and to Edwin L. Pomeroy, of Citibank in New York, for valuable comments on the manuscript.

Mr. Riehl wishes to thank Citibank in New York for the encouragement it provided in the preparation of this book. In particular, he wishes to thank Mr. Freeman H. Huntington, Senior Vice President, for his continuous support of the project. Both authors wish to thank Citibank for granting permission to adapt slides from its videotaped presentations on foreign exchange markets.

Finally, Ms. Rosemarie Bou of Citibank typed portions of the manuscript. We thank her for this job as well as for working as a courier between the authors—something which at times required her performing above and beyond the call of duty.

Heinz Riehl

Rita M. Rodriguez