

Hedging is too Expensive for This Insurer

<http://harbourfronttechnologies.blogspot.com/2017/04/hedging-is-too-expensive-for-this.html>

Early this week, we provided further examples as why economic hedging is important for corporations

### [More Examples as Why Hedging is Important](#)

One of the examples was Mitsui Life, a Japanese insurer who bought foreign bonds and then proceeded to hedge the currency risks. However, as Tomo Uetake reported yesterday, another Japanese insurer thinks that FX hedging is too expensive and decided not to hedge:

*Japan's biggest private life insurer Nippon Life Insurance Co [NPNLI.UL] plans to boost foreign bond holdings without currency hedging in an effort to counter low domestic interest rates, senior company officials said on Wednesday.*

*Japanese insurers have been shifting into foreign assets in search of higher yields, but the biggest challenge has been how to secure sufficient returns after hedging against currency swings.*

*"When appropriate, we plan to buy foreign bonds without currency hedging this fiscal year (to March 2018), as we expect the dollar to strengthen gradually," Naoki Akiyama, general manager for Nippon Life's investment planning, told reporters. [Read more](#)*

On the other hand, as pointed out by Adriana Barrera et al., Mexican state-owned oil company Pemex still thinks that hedging to ensure price stability is important:

*Mexican state-owned oil company Pemex will consider repeating a recently instituted hedging program in future years, as it looks to firm up its balance sheet and avoid the need for surprise budget cuts, a top executive said late on Tuesday.*

*Petroleos Mexicanos [PEMX.UL], as the company is officially known, reported on Tuesday that it has hedged its output through December, the first time it has done so in 11 years, as an insurance policy against volatile oil prices.*

*The oil hedging program, which will run from May to December and guarantees a price of \$42 per barrel for up to 409,000 barrels per day, will cost the company \$133.5 million. [Read more](#)*

So what do you think?

via Derivative Valuation, Risk Management, Volatility Trading

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