The Determinants of Forward Premium
Thai Baht Against Japanese Yen

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Abstract

The main objective of study investigates the factor that influence change in forward premium in Thailand forward exchange market in case of Thai Baht against Japanese Yen under managed- float regime. This study will useful for all of business in the future market and who participate transaction in international to reduce the exchange rate risk. Before adopts the regression analysis Ordinary Least Square (OLS) the study must be sure that all the data series to be entered for the analysis will not the spurious regression.

The result of study are as follow: the different of Thai baht and Japanese yen real interest rate are the major factor affecting forward premium, the different of Thailand inflation rate and Japan inflation rate, forward premium previous time 1 month, exchange rate previous time 1 month can clearly explain the change in forward premium with statistic significance.

This research is recommended that risk premium and expected future spot rate which are the main factors to determine forward premium. Hence people who transaction in the forward foreign exchange market should understand what factor that influence forward premium in case of Thai Baht against Japanese yen in order to make decision in the right option and get more benefit before decide to enter in the market.

Keywords : *Expect future spot rate, Forward rate, Future spot rate, Forward premium, Risk premium*