



Cyprus
University of
Technology

Faculty of Management
and Economics

Doctoral Dissertation

“Foreign Exchange Risk in the Eurozone”

Mrs. Soteria Charalambous

Limassol, February 2025

Cyprus University of Technology

CYPRUS UNIVERSITY OF TECHNOLOGY
FACULTY OF MANAGEMENT AND ECONOMICS
DEPARTMENT OF FINANCE, ACCOUNTING AND MANAGEMENT
SCIENCE

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Supervisor:

Prof. Andreas Savvides

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Approval Form

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The approval of the dissertation by the Department of Finance, Accounting and Management Science does not necessarily imply the approval by the Department of the writer's views.

Acknowledgments

My heart is filled with joy, excitement, and gratitude as I complete my PhD. This journey was neither easy nor smooth but physically and mentally challenging. However, it was undoubtedly fruitful and full of valuable and priceless knowledge I will forever cherish.

I started my PhD in September 2017 with hopes and dreams that I can now begin making reality. Joining the Department of Finance, Accounting, and Management Science was a life choice for me since I found the support and guidance I needed to draw my research path and make important decisions for my professional development. This thesis focuses on the foreign exchange sensitivity and exposure of Eurozone corporations during the first twenty years since the introduction of the euro in international markets.

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ABSTRACT

This dissertation studies the ramifications of foreign exchange risk for Eurozone-listed public corporations. Through the estimation of popular asset pricing models and the application of rigorous testing, it provides evidence on the significance of foreign exchange risk in the determination of stock returns for Eurozone corporations. Chapter 1 documents a negative and statistically significant relationship between a firm's sensitivity to foreign exchange rate changes and its stock returns. This relationship persists even after controlling for various firm characteristics such as market beta, market capitalization, book-to-market ratio, momentum, and profitability. Chapter 1 also identifies two prominent asset pricing anomalies in the Eurozone: profitability and momentum but does not find evidence of size anomaly. Chapter 2 provides estimates of several well-known asset pricing factors that are Eurozone-specific. Subsequently, it extends the asset pricing models by introducing a foreign exchange sensitivity factor to evaluate whether foreign currency risk is systematic. It finds evidence of systematic pricing of foreign exchange risk in Eurozone stock returns. Chapter 3 focuses on Eurozone corporations' foreign (outside the Eurozone) sales as incorporated in the foreign asset turnover ratio (foreign sales relative to total assets). It documents a positive and statistically significant relationship between this ratio and stock returns during periods of euro depreciation. The positive relationship holds even after controlling for various firm characteristics.

Keywords: *foreign exchange risk, asset pricing anomalies, foreign sales, asset turnover, depreciation, appreciation, stock returns, Eurozone*