

Foreign exchange (FX) risk is the exposure to potential loss due to fluctuations in currency exchange rates. Common strategies include:

1. Forward Contracts
2. Currency Options
3. Natural Hedging
4. Netting

FX volatility often increases during inflation, geopolitical instability, or monetary policy shifts.

Example: A US company paying a European supplier in euros can lock in exchange rates via a 90-day forward contract.