Effect of Foreign Exchange Volatility on Share Prices of Firms Listed on Nairobi Securities Exchange

Gitau, R. M[1], Cherono, I. [2]

[1]Kirinyaga University, Kenya 2 Jomo Kenyatta University of Agriculture and Technology, Kenya

Correspondence: rmuigai@kyu.ac.ke

Abstract

Since 1993 when the floating exchange rate regime was established in Kenya, the country has experienced significant exchange rate volatility. This continuous fluctuation has increased foreign exchange risk exposure which in turn has raised transaction costs of companies. Higher transaction costs naturally result in lower profitability and subsequently affect market prices of the traded stocks. Appreciation of stock prices represent capital returns expected by investors from a given security. Thus changes in stock prices and the trend of these changes are of great interest to capital market players and analysts due to their effect on the stock market stability and strategies adopted by investors. During the period 2008 to 2017, the Kenyan currency market experienced significantly high volatilities which in return affected performance of Nairobi Securities Exchange. This study seeks to examine the interaction between foreign exchange market and the stock market in Kenya effects of exchange rate, daily and monthly mean exchange rates of share prices will be determined. The study will be anchored on the Flow-oriented theory of exchange rate, the Stock-oriented theory of exchange rates, the Efficient Market Hypothesis and the Capital Asset Pricing Model. The study will employ an explanatory non-experimental research design to take census of all the 61 companies listed in the Nairobi Securities Exchange. Monthly secondary data for the period of 120 months from January 2008 to December 2017 will be used. The relevant diagnostic tests for classical linear regression analysis will be conducted to determine suitability of the collected data for the study. Multiple regression analysis will be performed to determine existence of statistical significance of the coefficients of the independent variables on the dependent variable. Results of the study will be presented using tables, graphs and charts and the findings will form a basis for making appropriate recommendations.

Key words: Foreign Exchange, Foreign Exchange risk, Share prices,