Corporate Risk Stance and Exchange Rate Pass-Through into Yen Export Prices (Pricing to Market)

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This paper examines how Japanese exporters' exchange rate risk stance is associated with pass-through into yen export prices, interpreted as a home currency price response that is informative about pricing to market. Using the Business Risks and Management Discussion and Analysis sections of Japanese securities reports, I construct a firm-level text index of how strongly a firm recognizes and manages exchange rate risk. I then remove the part of this index explained by import intensity, market share, and firm size, and relate the resulting residual stance to industry-level, time-varying estimates of pass-through into yen export prices.

The linear results show that firms disclosing exchange rate risk more strongly than their structure predicts are associated with higher pass-through into yen export prices. Nonlinear specifications show that this association is driven by the negative side of the residual stance: firms that disclose unusually little exchange rate risk have systematically low pass-through, whereas firms with disclosure stronger than predicted show no clear additional relationship.

This pattern is consistent with the idea that yen invoicing or low exposure firms have less reason to emphasize exchange rate risk in disclosure, while their yen export prices respond less to exchange rate movements. The analysis is associational rather than causal. In particular, the positive linear relationship cannot be distinguished from disclosure simply reflecting the realized exposure of firms that invoice in foreign currency. The paper therefore contributes by measuring a managerial stance that is hard to observe toward exchange rate risk and showing that it is systematically related to heterogeneity in pricing to market among Japanese exporters.

Keywords: exchange rate pass-through; exchange rate risk stance; exchange rate risk management; text analysis

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