ABSTARCT

Kenya being a net importer of oil, the Oil marketing companies (OMC's**)** are exposed to foreign exchange transactions while purchasing the products either locally from other OMC's or while importing **the** whole parcel to sell to other importers. In finance literature, many methods are **available** to manage **the** currency exposure. How **effective** are these methods in managing the currency exposure? This study focused **on** establishing how various methods which are available in financial literature have been used to manage the effect of foreign currency exposure. Specific objectives were to evaluate how each of the three techniques of managing foreign currency exposure, namely external hedging, internal hedging and finally money market hedges have effectively been able to manage the exposure. This study was **expected** to be of benefit to many stakeholders, including but not limited to oil marketing companies, the government and academicians. The study **is** supported by various theories that relate the price of goods to changes of exchange rate**,** these are purchasing power parity, interest rate parity and International fisher effect theory. This study adopted a descriptive survey research design. The study population was finance managers of **all the** 36 oil marketing firms. The population is in three strata i.e. 3 large, 17 medium and 16 small companies. A census study was adopted since the population is small. Data was collected using a closed **ended** questionnaire which will be administered using a trained research assistant by dropping it and picking later. The descriptive statistics used included percentages, means, standard deviations and frequencies while correlation was used to measure **the** association between **the** variables. The information was then displayed by use of bar charts, graphs, pie charts. Content analysis was used to analyze data that was qualitative in nature or aspect of the data collected from the **open** ended questions. The study established that the most popular method of currency exposure management was risk sharing, followed by leading and lagging and in the third place was currency diversification. Incidentally, the first three methods were all internal hedging techniques. The least effective method of currency risk management was uncovered money market hedges. This study therefore concludes that the management of oil marketing firms are exposed to currency exposure and it is affecting their performance. The study recommended that the risk management function should be given to an office or a department that is dedicated to risk management.