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# Carry Trade and Momentum in Currency Markets

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## Abstract

We examine the empirical properties of the payoffs to two popular currency speculation strategies: the carry trade and momentum. We review three possible explanations for the apparent profitability of these strategies. The first is that speculators are being compensated for bearing risk. The second is that these strategies are vulnerable to rare disasters or peso problems. The third is that there is price pressure in currency markets.

**Keyword(s):** currency speculation (/search?value1=%22currency+speculation%22&option1=pub_keyword), exchange rates (/search?value1=%22exchange+rates%22&option1=pub_keyword), peso problem (/search?value1=%22peso+problem%22&option1=pub_keyword), price pressure (/search?value1=%22price+pressure%22&option1=pub_keyword), rare disaster (/search?value1=%22rare+disaster%22&option1=pub_keyword), uncovered interest parity (/search?value1=%22uncovered+interest+parity%22&option1=pub_keyword)

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